Iowa. Taxation.

Major Sources of State Revenue

Iowa

LEGISLATIVE RESEARCH BUREAU

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IOWA LEGISLATIVE RESEARCH BUREAU
RESEARCH REPORT NO. 29
FEBRUARY, 1963

IOWA LEGISLATIVE RESEARCH BUREAU

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M A J O R S O U R C E S

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S T A T E R E V E N U E

LEGISLATIVE RESEARCH BUREAU

Report to the

60th IOWA GENERAL ASSEMBLY

Research Report No. 29
February, 1963

FOREWORD

<u>Major Sources of State Revenue</u> has been prepared in conjunction with the Legislative interim study on state revenue in Iowa. The study was initiated by the Legislative Research Committee which directed the Research Bureau to "undertake a study as to possible sources of additional state tax revenue." The Research Committee directive further stated that the revenue study "should be conducted under the supervision of a legislative advisory committee chosen from the Ways and Means Committees of each House" of the 59th General Assembly. An advisory committee consisting of the following membership was named in accordance with Sections 2.55 and 2.56 of the Iowa Code:

Senator Richard L. Stephens, Chairman
Representative Arthur C. Hanson, Vice Chairman
Senator Irving D. Long
Senator Charles S. Van Eaton
Senator Orval C. Walter
Representative Keith H. Dunton
Representative Chester O. Hougen

The Legislative Advisory Committee agreed that in studying Iowa revenue, Committee members should concentrate primarily on major sources of state revenue. During the interim, taxes considered by the Committee included the special taxes[1] of the State. Mr. William Hedlund of the Research Bureau staff assisted the Advisory Committee in conducting the research involved in this Study.

The Research Bureau in reporting on the sources of state revenue is following the study procedure outlined by the Advisory Committee. The taxes discussed in <u>Major Sources of State Revenue</u> are the personal income tax, corporate income tax, sales tax, and use tax. Mr. Patrick Brick of the Bureau staff conducted the research and wrote the chapters printed herein. A second report on other sources of state revenue in Iowa will be published at a later date.

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[1]Income tax (individual and corporation), sales and use taxes, insurance premium tax, inheritance tax, beer tax, and cigarette tax.

In compiling the information on state revenue, an effort has been made to show a comparison of revenue collected in Iowa from the personal and corporate income and the sales and use taxes with revenue collected from the four taxes in other states. Tables presenting this information have been inserted throughout the Report. Five additional tables which may be of interest are also being included. These tables are:

STATE AND LOCAL TOTAL AND PER CAPITA TAX COLLECTIONS BY STATE

ECONOMIC BURDEN OF PROPERTY TAX COLLECTIONS (1961)

ECONOMIC BURDEN OF STATE TAX COLLECTIONS (1962)

SOURCES OF STATE REVENUE (Estimates of the 1961-1963 Legislative Advisory Committee on State Revenue)

AMOUNTS NEEDED TO REPLACE OR IMPLEMENT PROGRAMS OF STATE AND LOCAL GOVERNMENTS (Estimates of the 1961-1963 Legislative Advisory Committee on State Revenue)

A factor which must be considered in writing a report on sources of state revenue is the possibility that some of the information will be dated before the report can be published. This situation is particularly true during periods that state legislatures are meeting and considering changes in state tax structures. One change that has come to the Bureau's attention is that the state of West Virginia recently amended the state income tax rate from 6% of the Federal income tax to rates ranging from 1.2% to 5.5% of taxable income listed within designated tax brackets. It is also quite possible that the Bureau has no knowledge of other states which may have recently changed tax rates listed in this Report.

The Bureau wishes to thank the following state agencies for the assistance that has been given in conducting the Revenue Study and writing this Report:

State Tax Commission
State Comptroller's Office
State Treasurer's Office
State Auditor's Office
Legislative Fiscal Analyst

A. E. REYHONS
Director

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I. INTRODUCTION

State legislatures have in recent years been periodically confronted with the problem of locating new or additional sources of revenue. This problem has emerged due to increased administrative costs of operating state governments and the demand for increasing and enlarging state services. States have also been asked to provide assistance in financing services administered by political subdivisions which has exerted an additional burden on state financing.

The growth of state spending is seen in comparing state expenditures of fifty years ago and today. Nationally, state spending fifty years ago amounted to approximately 17% of the total revenue expended by state and local governments.[1] In 1961, state expenditures accounted for approximately 52% of the total revenue expended by state and local governments.[2]

States found that as the burden of financing increased, methods of taxation which once provided adequate state revenue failed to raise the revenue needed. The property tax which was the states' major source of revenue at the turn of the Century now plays a very insignificant role in this field. In 1902, collections from property tax comprised 52.6% of state revenue throughout the United States. This same tax amounted to only 3.1% of total state collections in the Nation in 1962.[3] Personal and excise taxes have replaced the property tax as primary methods of taxation on the state level.

Iowa found it necessary during the Depression years to find new taxes to replace the property tax. Four taxes which were alien to Iowa were incorporated into the state tax structure during a four year period in the 1930's. Three of the four taxes--personal income, corporate income, and sales--were adopted in one Act by the Iowa General Assembly for the specific purpose of providing property tax relief. The use tax was adopted three years later.

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[1] Tax Foundation, Inc., _Facts and Figures on Governmental Finance_ (Englewood Cliffs: Prentis-Hall, Inc., 1963) 12th ed., Table 105, p. 139.

[2] _Ibid_.

[3] _Ibid_., Table 135, p. 182.

The personal income and sales taxes, supplemented by the corporate income and use taxes, have become major revenue producing sources in Iowa. In the past, the four taxes have produced well over half of the revenue deposited annually in the General Fund.[1] It is anticipated that during the 1963-1965 Legislative Biennium, revenue from the two income and the sales and use taxes will produce 65% of the General Fund revenue if the tax statutes remain unchanged.[2]

Due to the significance of the personal income tax, the corporate income tax, the sales tax, and the use tax as sources of Iowa revenue, an effort has been made to present factual information on the four taxes since their inception into the State tax structure. In discussing the taxes, a general outline has been followed with emphasis on the following categories: historical background; the tax in Iowa, National trends of the tax, and general arguments presented by opponents and proponents of the tax. Tables showing income from the taxes in Iowa, past and present, and income derived from the taxes in other states are also included throughout this Report.

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[1] Code of Iowa (1962), sec. 444.21 states: "The amount derived from taxes levied for state general revenue purposes, and all other sources which are available for appropriations for general state purposes, and all other money in the state treasury which is not by law otherwise segregated, shall be established as a general fund of this state."

[2] Iowa, State Budget (1963-1965) Budget Report for the Biennium beginning July 1, 1963 and ending June 30, 1965 to the Sixtieth General Assembly, Exhibit B.

II. THE PERSONAL INCOME TAX

A. Historical Background

"The personal income tax is one of the most important single sources of public revenues in the United States today,"[1] and has been described as ". . . a dominant feature of the American fiscal system, . . ."[2] This tax is the most important single source of federal tax revenue and ranks in importance only behind the sales tax and the motor fuel tax as a source of revenue for the states.[3]

Although the income tax is sometimes considered a recent economic innovation, in reality its use in the United States may be traced back to the 17th Century. In Colonial America, the concept of a direct tax on the individual first appeared in 1634 when Massachusetts Bay enacted a tax on each citizen "'according to his estate and with consideration of all other his abilityes [sic] whatsoever.'"[4] This reference seems to have been the first made to the "abilityes" of the taxpayer although the term "probably referred only to property ownership."[5]

In 1840, Pennsylvania inaugurated a form of income tax based on gross income but the tax was repealed in 1871. During this period, Alabama, Florida, Maryland, North Carolina, and Virginia also adopted forms of personal income tax laws which proved unsuccessful and were quickly repealed.[6]

The only real significance of these early income tax laws was their lack of importance in the States' total tax structure which was the result of ineffective administration and enforcement.

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[1] Reuben A. Zubrow, Robert L. Decker, E. H. Plank, Financing State and Local Government in Nevada, Nevada Legislative Tax Study Group, (Carson City: Nevada Legislative Counsel Bureau, 1960) Report No. 44, p. 526.

[2] Ibid.

[3] Tax Foundation, Inc., Facts and Figures on Government Finance, (Englewood Cliffs: Prentice-Hall, 1963), pp. 80 and 182.

[4] Oregon Legislative Interim Tax Study Committee, Development of State Income Taxes in the United States and Oregon, (1958), p. 12.

[5] Ibid.

[6] Ibid., pp. 13-14.

The insignificance of the income tax as a source of revenue in the States is illustrated by the fact that in 1843, Pennsylvania raised only $1,386.00 from this tax out of total state tax revenues of $910,000.00.[1]

The Federal Government first attempted to tax individual income as an emergency war measure in 1861. The first federal income tax as originally enacted in 1861 proved to be unworkable and no attempt was made to levy the tax until the law was subsequently revised in 1862.[2] The 1862 law featured slightly progressive tax "rates ranging from 3% on incomes between $600 and $10,000 to 5% on incomes in excess of $10,000. A personal exemption of $600 was allowed."[3] Due to constitutional limitations which prohibited the imposition by the Federal Government of a direct tax upon individuals, this tax was levied and imposed proportionally among the states.[4] The 1862 law proved to be very difficult to administer and was subsequently repealed in 1872.[5]

In 1894, attempt was again made to adopt a federal income tax law which imposed a flat 2% rate on both individual and corporate income and provided for liberal exemptions for both individuals and corporations.[6] However, before this law became effective, it was declared to be unconstitutional by the United States Supreme Court ". . . on the ground that it was a direct tax not apportioned according to population."[7] Soon after this decision, a movement began to amend the Constitution to allow the Federal Government to impose a tax directly upon individual income.

On February 25, 1913, the Sixteenth Amendment to the United States Constitution was ratified by the States allowing the Federal Government ". . . to lay and collect taxes on income, from whatever source derived. . . ." One month after ratification of the Amendment, an income tax law was adopted by Congress. The law

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[1] _Ibid._

[2] _Ibid._, p. 15

[3] _Ibid._

[4] _Ibid._

[5] _Ibid._

[6] _Ibid._

[7] _Pullock v. Farmers' Loan & Trust Co._, 157 U.S. 429 (1895); On Rehearing, 158 U.S. 601 (1895) as quoted in _Development of State Income Taxes in the United States and Oregon_, p. 15.

as originally adopted, imposed a flat rate of 1% on all incomes, with a surtax ranging from 1% to 6% on incomes in excess of $20,000, the top surtax rate of 6% being imposed on incomes in excess of $500,000. Personal exemptions of $3,000 for a single person and $4,000 for married couples were also allowed.[1] From this neophytic beginning has grown our modern federal income tax structure.

Wisconsin is generally given credit for initiating the first successful centrally administered state income tax in 1911. Since that time, thirty-four other states, including Iowa, have enacted similar personal income tax programs.

B. <u>The Personal Income Tax in Iowa</u>

1. <u>The 1934 Act</u>. Iowa's individual income tax, as well as the corporate income and retail sales tax, was enacted in the Extraordinary Session of the Forty-Fifth Iowa General Assembly which convened November 6, 1933 and adjourned March 12, 1934.[2] The main purpose of the 1934 Income, Sales, and Corporation Tax Act was to equalize taxation and to replace in part the tax on property by apportioning moneys received under the Act back to the credit of the individual taxpayer on the basis of the assessed valuation of his or her taxable property.[3]

The personal income tax became effective against Iowa residents on January 1, 1934. The tax, as originally adopted, was moderately progressive as shown by the schedule of rates described below.[4]

1% on the first $1,000 of taxable income, or any part thereof.

2% on the second $1,000 of taxable income, or any part thereof.

3% on the third $1,000 of taxable income, or any part thereof.

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[1] Kentucky Legislative Research Commission, <u>State-Federal Income Tax Conformity in Kentucky</u>, Research Report No. 8 (1961), p. 1.

[2] Iowa, <u>Acts of the Extraordinary Session</u>, 45th General Assembly (1933-34), c. 82.

[3] <u>Code of Iowa</u> (1962), sec. 422.2.

[4] Iowa, <u>Acts of the Extraordinary Session</u>, 45th General Assembly (1933-34), c. 82, sec. 5.

4% on the fourth $1,000 of taxable income, or any part thereof.

5% on the fifth $1,000 of taxable income, or any part thereof, and on all taxable income in excess of $5,000.

Effective January 1, 1937, the personal income tax was extended to income earned by nonresidents which is derived from any property, trust, or other source of income, including any business, trade, profession, or occupation within this State.

Although the original tax rate was not permanently reduced until 1953, the Iowa taxpayer was allowed relief in the form of reductions of a percentage of the total tax liability or temporary reductions of the tax rate during the period from 1944 through 1952. The Fifty-First General Assembly provided that 50% of the tax imposed on income earned in 1944 and 1945 should be accepted as payment in full for those years.[1] A similar reduction of the taxpayer's total tax liability was allowed by the Fifty-Second General Assembly on income earned in 1946.[2]

The Fifty-Second General Assembly, meeting in extraordinary session, also temporarily reduced the income tax rate on income earned in 1947 and 1948.[3] This reduction was subsequently extended by the Fifty-Third and Fifty-Fourth General Assemblies to apply to income earned during the period from 1949 through 1952.[4]

The Income Tax Act, as originally adopted, also allowed deductions from the computed tax in the amount of $6.00 for a single individual, $12.00 for a husband and wife or head of a family, and an additional $2.00 for each dependent.[5] The deduction provisions were subsequently revised in 1937, 1939, and 1941 so that immediately prior to the revisions which were made

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[1] Iowa, Acts of the Regular Session, 51st General Assembly (1945), c. 44.

[2] Iowa, Acts of the Regular Session, 52nd General Assembly (1947), c. 46.

[3] Iowa, Acts of the Extraordinary Session, 52nd General Assembly (1947), c. 1, sec. 1.

[4] Iowa, Acts of the Regular Session, 53rd General Assembly (1949), c. 41, sec. 1; Acts of the Regular Session, 54th General Assembly (1951), c. 41, sec. 1.

[5] Iowa, Acts of the Extraordinary Session, 45th General Assembly (1933-34), c. 82, sec. 12.

in 1953, deductions in the amount of $10.00 for single taxpayers, $20.00 for husband and wife or head of a family, and an additional $5.00 for each dependent were allowed.

2. Major 1953 Revisions. The Fifty-Fifth Iowa General Assembly in 1953 refused to follow the Nationwide trend of increasing state income taxes by lowering the Iowa personal income tax rates.[1] The amended rates, which are in effect at the present time, are as follows:

.75% on the first $1,000 of taxable income, or any part thereof.

1.5% on the second $1,000 of taxable income, or any part thereof.

2.25% on the third $1,000 of taxable income, or any part thereof.

3% on the fourth $1,000 of taxable income, or any part thereof.

3.75% on the fifth $1,000 of taxable income, or any part thereof and on all taxable income in excess of $5,000.

The Fifty-Fifth General Assembly also raised the allowable deductions from the computed tax as follows:[2]

For a single taxpayer, from $10.00 to $15.00.

For husband and wife, or head of family,[3] from $20.00 to $30.00.

For each dependent, from $5.00 to $7.50.

Iowa's dependency deductions, hereafter referred to as "personal tax credits," are relatively unique in that they are deducted from the computed tax and not from net taxable income as is done in the majority of the states. Only four states, Arkansas, Kentucky, Minnesota, and Iowa use this method. [See Table VI, pp. 29-30] For a taxpayer having a net taxable income of $3,000.00, the above stated personal tax credits are roughly equivalent to a $650.00 deduction from the net income

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[1] Iowa, Acts of the Regular Session, 55th General Assembly (1953), c. 204, sec. 1; Code of Iowa (1962), sec. 422.5.

[2] Iowa, Acts of the Regular Session, 55th General Assembly (1953), c. 204, sec. 2.

[3] The words "head of household" were substituted for "head of a family" by the 56th General Assembly; Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 208, sec. 10.

of the single taxpayer, a $1,500.00 deduction for a married taxpayer or the head of the family, and in the case of a married taxpayer having two children, a $750.00 deduction from the net income of the taxpayer for each child.

TABLE I

Comparative Effects of Personal Exemptions and Personal Tax Credits
(Based on Iowa Tax Rates)

Single Taxpayer

Tax Credit	(Net taxable income	$3,000	$10,000
	(Tax before credit	45	300
	(Credit	15	15
	(Tax Due.	30	285
Exemption from Net Income	(In order to derive approximately the same revenues using the exemption method, the exemption must be . .	$ 650	$ 375
	(which would leave a net taxable income of	$2,350	$ 9,625
	(Such income being subject to a tax of	$30.38	$285.94

(An exemption of $650 would be equivalent to the following "personal tax credits" deducted from the computed tax in Iowa:

Income	Credit
$1,000	$ 4.88
2,000	9.75
3,000	14.63
4,000	19.50
5,000	24.38

Table I shows that the use of the personal tax credit in lieu of an exemption from net income inserts an additional amount of progressivity into the personal income tax structure. A personal credit of $15.00 deducted from the computed tax is equivalent to a $650.00 exemption from the net income of an unmarried taxpayer having a net taxable income of $3,000.00, but is only equivalent to a $375.00 exemption to a single taxpayer having a net taxable income of $10,000.00 per year.

In contrast, an exemption deducted from net income will be more valuable to the taxpayer as his income is increased. For example, a single taxpayer earning a net income of $3,000.00 per year would enjoy a tax savings of approximately $15.00 if allowed a $650.00 exemption deducted from net income. However, the same exemption would allow a tax savings of $24.38 for the single taxpayer having a net income of $5,000.00 per year or more.

3. Major 1955 Revisions. Only two years after the 1953 rate reductions, the rate of the Iowa personal income tax was again temporarily amended by the Fifty-Sixth General Assembly. The 1955 amendment substituted the word "eight-tenths" for "three-fourths"; the words "one and six-tenths" for "one and one-half"; the words "two and four-tenths" for "two and one-fourth"; the words "three and two-tenths" for "three"; and the word "four" for the words "three and three-fourths."[1] The revised rates were used as a basis for computing the tax on income earned in 1955 and 1956 only.

The personal tax credits were also temporarily revised in the same year. The tax credits for single individuals and for husband and wife or head of household were reduced to $12.00 and $24.00 respectively, while the credit allowed for dependents was increased to $12.00.[2] These revisions were also used as a basis for computing the tax on income earned in 1955 and 1956 only.

The Fifty-Sixth General Assembly amended the definition of "net income" to conform to the Federal definition as defined by the Internal Revenue Code of 1954.[3] The constitutionality of this amendment was upheld in the case of City National Bank of Clinton v. Iowa State Tax Commission (1960)[4] which held that adopting the Federal definition did not violate the constitutional provision requiring that a tax may not be imposed by

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[1] Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 45, sec. 3.

[2] Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 45, sec. 1.

[3] Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 208, sec. 6.

[4] City National Bank of Clinton v. Iowa State Tax Commission, 102 NW 2d 381 (1960).

reference to any other law, since " . . . the object and amount of the tax are clearly set forth in other provisions of the (Iowa) law."[1]

The original income tax law was also amended by the Fifty-Sixth General Assembly to allow the present optional standard deduction of 5% of the taxpayer's net income, not to exceed $250 after deduction of the Federal income tax.[2] Thus, the taxpayer may either take the standard 5% deduction, not exceeding $250, or may compute his deduction based on the total of contributions, interest, taxes, medical expenses, child care expense, Federal income taxes paid, losses, and miscellaneous expenses deductible for Federal income tax purposes under the Internal Revenue Code of 1954. The taxpayer is allowed to use whichever deduction is the larger.

Although Iowa's maximum standard deduction ($250) is low compared with the maximum limits in the majority of states, Iowa also allows the Federal income tax to be deducted in addition to the standard deduction. Only eleven states, including Iowa, allow both of these deductions in computing taxable income. Thus, the Iowa taxpayer pays taxes on less of his income than do taxpayers in the majority of the states which impose an individual income tax. For information relating to this feature of the state income tax laws, see Table V, page 28.

C. The Personal Income Tax as a Source of Revenue in Iowa

The personal income tax in Iowa accounted for $41,485,571.86 in State revenues as of the 1962 fiscal year, or approximately 23% of the total revenues of the General Fund in that year.[3] As shown in the following table, the revenues from this source of taxation have more than doubled in the past ten years.

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[1] Ibid., p. 382.

[2] Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 208, sec. 8.

[3] Total General Fund revenues for the 1962 fiscal year were $177,795,812.03. Iowa State Budget (1963-1965), Schedule No. 4.

TABLE II

Receipts from the Personal Income Tax in Iowa
Occurring the Last Ten Years*

Year	Receipts
1962	$41,485,571.86
1961	37,276,780.51
1960	36,572,223.87
1959	35,617,082.33
1958	29,062,879.73
1957	28,773,868.75
1956	25,301,042.67
1955	21,955,673.01
1954	20,793,373.49
1953	18,326,561.35

*(Information obtained from the Research Division of the State Tax Commission.)

D. Personal Income Tax Trends Among the States

1. Rates. The personal income tax in Iowa has undergone numerous changes since enactment by the Forty-Fifth General Assembly. Many of the changes have made this tax less strenuous on the taxpayer. These modifications have taken the form of reduced rates, higher dependency deductions, and less stringent filing requirements. While twenty states have increased the personal income tax rate during the period from 1939 to 1961, only Iowa and eight other states have at any time reduced this tax. Five of these states have offset earlier reductions by subsequently enacting higher rates. [See Table III, p. 12]

West Virginia enacted an income tax law for the first time in 1961 and in this same year, New Jersey also adopted an income tax. The New Jersey tax is imposed on commuters between that State and New York.[1] Rates of existing personal income taxes were increased by five states during 1961[2] which made a total of twelve states increasing rates during the 1956 to 1961 period. [The following table gives a concise summary of trends in income tax rates among the states.]

[1] The Council of State Governments, The Book of the States, (1962-63) Vol. XIV, p. 225.

[2] Ibid., pp. 225-231. (Alaska, Minnesota, New Mexico, Wisconsin and Delaware.)

TABLE III

Trends in State Personal Income Taxation*
Increased Rates

	1939-1946	1947-1950	1951-1955	1956-1961
Alabama	x	x	x	x
Alaska	-	-	-	I
Arizona	x	x	I	x
Arkansas	x	R	x	x
California	R	I	x	I
Colorado	x	I	x	I
Connecticut	-	-	-	-
Delaware	x	N[a]	R	I
Florida	-	-	-	-
Georgia	x	x	R	x
Hawaii	-	-	-	x
Idaho	x	x	I	I
Illinois	-	-	-	-
Indiana	-	-	-	-
Iowa	x	R	R	R
Kansas	x	x	x	I
Kentucky	x	I	x	x
Louisiana	x	x	x	x
Maine	-	-	-	-
Maryland	R	I	x	I
Massachusetts	x	I	I	x
Michigan	-	-	-	-
Minnesota	x	I	I	I
Mississippi	R	x	I	x
Missouri	x	x	x	x
Montana	x	x	x	I
Nebraska	-	-	-	-
Nevada	-	-	-	-
New Hampshire[b]	x	x	x	x
New Jersey	-	-	-	N[c]
New Mexico	x	x	x	I
New York	R	I	I	I
North Carolina	x	x	x	x
North Dakota	x	x	R	x
Ohio	-	-	-	-
Oklahoma	x	R	x	x
Oregon	x	I	I	I
Pennsylvania	-	-	-	-
Rhode Island	-	-	-	-
South Carolina	x	x	x	I
South Dakota	G	-	-	-
Tennessee	x	x	x	x
Texas	-	-	-	-
Utah	x	x	x	x
Vermont	x	I	I	x
Virginia	x	I	I	x

Trends in State Personal Income Taxation*
Increased Rates

	1939-1946	1947-1950	1951-1955	1956-1961
Washington	-	-	-	-
West Virginia	-	-	-	N
Wisconsin	x	I	I	x
Wyoming	-	-	-	-

Symbols:

No change........x	Increased Rate...I	New Tax........N
No tax...........-	Reduced Rate.....R	Repealed tax...G

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[a]Gross tax substituted for net income tax.

[b]Personal Income Tax on interest and dividend income only.

[c]Applies to commuters only, New Jersey, New York areas.

*Tax Foundation, Inc., _Retail Sales and Individual Income Taxes in State Tax Structures_ (Jan. 1962), Table 5, p. 15.

2. _Federal Tax Base._ Several states in recent years have incorporated by reference provisions of the Federal Income Tax Act. Alaska imposes a rate of 16% of the taxpayers' Federal income tax liability, allowing residents the same deductions and exemptions as are allowed by the _Internal Revenue Code._[1] West Virginia has levied a tax at the rate of 6% of the Federal income tax on that amount of Federal taxable income which is also taxable in that State.[2] Thirteen states, including Iowa,[3] have adopted the Federal tax base in computing net income for state taxation purposes.[4]

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[1]_State Tax Review_, Commerce Clearing House (Jan. 4, 1962), Vol. 23, No. 1, p. 3.

[2]_The Book of the States_, p. 225. (See FORWARD, p. ii)

[3]The Iowa Attorney General has ruled that the State Constitution prevents the Iowa General Assembly from adopting a state income tax which would be a percentage of the Federal net income tax. In an Opinion dated October 18, 1962, the Attorney General stated: "It is clear that if the Iowa tax were fixed at a percentage of the Federal income tax there would be the immediate objection that the Legislature of Iowa was delegating its legislative authority to another body politic and further that the provision in the Iowa Constitution, Section 7, Article VII, quoted . . . would be violated."

[4]Hawaii, Idaho, Iowa, Kentucky, Minnesota, Montana, North Dakota, New Mexico, New Jersey, New York, Alaska, Vermont, and West Virginia use the Federal tax bases; _State Tax Review_, Commerce Clearing House, (Dec. 17, 1962), Vol. 23, No. 51, p. 4.

E. Withholding

A law providing for the withholding of income tax was first enacted by the Federal Government in 1943. The first state to enact such a law was Oregon in 1947. The Oregon statute provided that income tax be withheld from wages and salaries. During the period 1947-1957, ten states followed Oregon's lead. Between 1958 and 1962, fifteen additional states adopted withholding provisions. To date, twenty-six of the thirty-five states having a personal income tax have withholding laws.[1] [See Table IV, pp. 15-17]

As shown by Table IV, withholding laws have been generally successful in increasing the amount of personal income tax collections. The extent of increase due to the adoption of withholding in any given state would probably depend upon the degree of enforcement of the income tax law prior to withholding, the number of wage and salaried workers in the state as opposed to the number of individuals whose income would not be subject to withholding, and the burden of the tax or the incentive for income tax avoidance. It might be assumed that withholding would entrap a greater number of evaders in a state where the income tax rate is proportionately high than in a relatively low income tax state such as Iowa, where the incentive for tax avoidance is proportionally less. As shown by the following table, percentages of increase in revenue due to enactment of withholding vary from 15-25%, but in all states the increase in revenue due to withholding outweighs the additional administrative expense involved.

In computing the amount of tax to be withheld by the employer, several methods are used. The great majority of states furnish wage bracket tables to the employers which are designed to approximate annual liability. Some states deduct a fixed percentage of the amount withheld for Federal income purposes while other states withhold a flat percentage of the income paid. Table IV shows that in some states more than one of these methods is authorized.

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[1] Information obtained from the Arkansas Legislative Council, Withholding of State Income Taxes, Research Report, No. 108 (February, 1962), p. 1. (After the publication of the Arkansas Report, Virginia adopted withholding, effective Jan. 1, 1963.)

TABLE IV

Effect Of Withholding Among The States*

State [f]	Eff. Date of Law	Approx. Initial Cost of Estab- lishing W/H Systems	Increase in Annu- al Admin- is. Costs Attrib- uted to W/H	Personal Income Tax Collections: Yrs. Immed. Prior to W/H	Personal Income Tax Collections: Yrs. Immed. After W/H	Increase in Col- lection Attrib- uted to W/H	Withholding Method Used: Tab- les	Withholding Method Used: % of Fed. Tax	Withholding Method Used: Flat %
Alabama	1/1/56	$100,000	$100,000	$ 8,839,172.92 9,094,359.53	$ 24,940,589.37 25,956,845.38 24,351,665.92	95%	X		
Alaska	1/1/49	Withholding was part of the original tax law						16%	
Arizona	7/1/54	N.A. [f]	N.A.	4,840,862.58 4,272,813.70 4,837,130.96	6,170,481.46 6,325,726.37 6,342,400.05	"Withhold- ing was primary cause of increase"			½%
Colorado	7/1/54	50,000	60,000	20,255,643.83 [a] 19,173,261.47 20,889,413.42	27,316,500.72 28,458,531.04 31,258,924.07	7,156,000 or 24% of Collection	X		
Delaware	7/1/53	N.A.	N.A.	N.A.	N.A.	N.A.	X		
Georgia	5/1/60	45,000 [d]	125,000	27,410,000.00 29,299,000.00 36,683,000.00 [c]	54,863,000.00 [b]	2,500,000 [d]	X		
Hawaii	1/1/58	250,000	N.A.	N.A.	N.A.	N.A.			
Idaho	7/1/55	30,000	35,000	6,842,813.17 5,217,942.89 5,384,579.61	9,503,743.10 11,052,633.38 12,780,128.41	396,000		15%	
Indiana	1/1/63	N.A.	N.A.	New law - no experience					
Kentucky	1954	150,000 [e]	131,460	18,112,468.00 20,284,116.00 20,493,069.00	33,232,891.00 30,387,201.00 45,346,020.00	N.A.	X		
Louisiana	1/1/61	32,104	250,000	11,728,448.21 12,764,976.21	17,158,869.47 [b]	N.A.	X		1½%

Table IV (Cont.) Effect Of Withholding Among The States*

State(f)	Eff. Date of Law	Approx. Initial Cost of Establishing W/H Systems	Increase in Annual Adminis. Costs Attributed to W/H	Personal Income Tax Collections: Yrs. Immed. Prior to W/H	Personal Income Tax Collections: Yrs. Immed. After W/H	Increase in Collection Attributed to W/H	Withholding Method Used: Tables	Withholding Method Used: % of Fed. Tax	Withholding Method Used: Flat %
Maryland	7/1/55	N.A.	N.A	N.A.	N.A.	$3,600,000(c)	X		
Mass.	1959	$491,080	$433,480	$107,285,976.00 111,222,157.00 110,083,013.00	$155,020,556.00 151,728,332.00 155,844,083.00	18 to 20 Million	X		
Minnesota	10/1/61	150,000(c)	300,000	New Law -	No Experience	N.A.	X		
Missouri	7/1/61	512,685	800,000	42,000,000.00	77,000,000.00	7,000,000	X		
Montana	1955	50,730	"Minor"	5,327,609.00 4,896,064.00 4,923,016.00	5,307,600.00 7,577,259.00 5,939,621.00	10% to 15%	X		
N. Mexico	7/1/61			New Law -	No Experience		X		
N. York	4/1/59	N.A.		476,312,000.00 513,532,000.00 565,759,000.00	756,614,000.00 803,739,000.00	40,000,000	X		
N.Carolina	1960	110,000	150,000	52,872,610.00 55,108,422.00 60,724,401.00	91,814,072.00 93,755,721.00	9 to 14 Million	X		
Oklahoma	7/1/61	150,000	125,000	7,500,000.00	12,500,000.00	11%		5%	
Oregon	1948	22,650	156,000	12,027,037.00 15,908,409.00 21,203,202.00	39,734,815.00 32,927,907.00 30,053,193.00	10%	X		
S.Carolina	1/1/60	250,000	200,000	17,037,733.00 18,355,987.00 23,528,122.00	27,931,012.00	750,000	X		
Utah	7/1/59	N.A.	100,000	N.A.	N.A.	800,000		7%	
Vermont	1/1/51	N.A.	N.A.	2,183,157.49 3,056,594.15 3,540,450.39	7,042,216.80 6,040,085.80 5,411,631.84	"Impossible to determine"	X		
Virginia	1/1/63			New Law -	No Experience				

Table IV (Cont.) Effect of Withholding Among The States*

State (f)	Eff. Date of Law	Approx. Initial Cost of Estab-lishing W/H Systems	Increase in Annu-al Admin-is. Costs Attribu-uted to W/H	Personal Income Tax Collections: Yrs. Immed. Prior to W/H	Personal Income Tax Collections: Yrs. Immed. After W/H	Increase in Col-lection Attrib-uted to W/H	Withholding Method Used: Tab-les	Withholding Method Used: % of Fed. Tax	Withholding Method Used: Flat %
W.Virginia	4/1/61	Withholding part of tax law as enacted					X	6% (g)	
Wisconsin	2/1/62	New Law -		No Experience			X		

(a) Figures include corporate income tax receipts.

(b) Includes "windfall." ["Windfall" results from the "Collection of taxes for the preceding year plus the current collection under withholding and declaration and payment of estimated tax on income not subject to withholding", Arkansas Withholding of State Income Taxes, p. 4.]

(c) Estimates only.

(d) "Plus continuing rent on equipment."

(e) "Includes installation and administrative cost for first year."

(f) "N.A." indicates that no information is available.

(g) See FORWARD, p. ii.

*Arkansas Legislative Council, Withholding of State Income Taxes, Research Report No. 108 (February, 1962) Tables I and II, pp. 10-16; Federation of Tax Administrators, Tax Administrative News, (January, 1963), No. 1. Vol. 27, p. 5; Survey conducted by the Iowa Legislative Research Bureau.

1. Arguments For and Against Withholding. Withholding is said to serve three general purposes. "Withholding at the source serves as (1) a tax enforcement technique, (2) a means of automatic tax budgeting for the taxpayer . . . , (3) and a fiscal policy measure in the immediate tax collection of current income."[1] It is contended that withholding places the taxpayer on a "pay-as-you-go" basis, allowing him to budget his payments for public goods and services as he would for any other goods or services. Advocates argue that withholding minimizes the hardship where a lay-off occurs and tax liability remains.[2]

One group of critics of a state withholding tax law are employers who have been known to protest that such a law places an unfair and onerous burden on the employer due to the cost of maintaining records and withholding and remitting the tax to the state.[3] Three states, Louisiana, Massachusetts, and Missouri, have somewhat muted this argument by compensating the employer for his trouble by allowing him to retain a fixed percentage of the tax collected.[4] Advocates of withholding discount the employers argument by saying that "since employers are required to maintain a payroll accounting system for the withholding of federal income taxes, it would seem that the additional cost of state withholding would not be serious."[5]

Employers also argue that this system might increase wage costs " . . . because employees and their unions may bargain on the basis of take home pay rather than gross pay."[6] It is also contended that withholding may discriminate against wage and salary groups unless efforts are made to improve enforcement in the collection of nonwithheld income.[7]

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[1] The State Personal Income Tax, a Report prepared by the Rhode Island Legislative Council, Research Report No. 3, (1961), p. 9.

[2] Ibid., p. 10.

[3] Withholding of State Income Taxes, (Virginia), p. 7.

[4] Withholding of State Income Tax, (Arkansas), p. 6.

[5] Ibid.

[6] Ibid., pp. 5-6.

[7] The State Personal Income Tax, p. 11.

Finally, opponents argue that withholding decreases the taxpayer's "awareness" of his state tax burden, giving the legislature a freer rein to increase state spending.[1] Proponents counter this argument by stating that this "hidden tax" feature allows the income tax to compete on a more equal basis with other hidden taxes, such as the excise and sales taxes which might be considered undesirable taxes for the same reason.[2] Proponents also contend that withholding ordinarily improves the taxpayer's morale in that the honest taxpayer knows that the former evader will also be "brought into the fold."[3] Although proponents concede that withholding " . . . does not answer all the problems inherent in income tax collection,"[4] they nevertheless argue that it is " . . . the most effective system administratively as well as productive financially."[5] To substantiate their arguments, proponents state that "withholding, according to reports of states using it, is most satisfactory."[6]

2. Withholding in Iowa. Iowa law provides that an employer " . . . shall deduct and withhold in each calendar year four percent of all gross income, in excess of fifteen hundred dollars . . ."[7] which the employer pays to any nonresident during the calendar year. However, only two percent on incomes derived entirely from salaries not exceeding four thousand dollars need be deducted.[8]

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[1] Withholding of State Income Taxes, a Report prepared by the Virginia Advisory Legislative Council, (1957), p. 8.

[2] The State Personal Income Tax, p. 10.

[3] Ibid., p. 11.

[4] Ibid., p. 12.

[5] Ibid.

[6] Ibid., p. 17.

[7] Code of Iowa (1962), sec. 422.16.

[8] Ibid.

If the nonresident taxpayer wishes to avoid the above withholding provisions, he must execute a bond payable to the State of Iowa conditioned upon the payment of any tax, interest, and penalties which may become due during the tax year.[1] "In lieu of such bond, the nonresident may deposit with the commission securities . . ." which may be sold by the State, if necessary to recover any tax or penalties due.[2]

For the 1962 fiscal year, nonresident taxpayers enjoyed a net taxable income from State sources of $17,825,092.07, filed 5,640 returns, and paid income taxes to Iowa totaling $190,774.06.[3]

F. Arguments For and Against the Personal Income Tax

Proponents of the personal income tax argue that the generally accepted principle referred to as "fiscal fairness" dictates that the individual should be taxed in accordance with his economic well being, or "ability to pay." The income tax is generally considered to conform to this principle more closely than any other tax.[4] These same people hold that since an individual's personal worth or financial status generally varies in accordance to his income, the greater the personal income the more able the individual should be to support the cost of government goods and services.

The personal income tax does not perfectly reflect "ability to pay" since it does not take into account differences in saving or spending or accumulated wealth, and in most cases pays only slight homage to differences in family structure or responsibility.[5] Nevertheless, it is argued that in an " . . . industrialized economy such as ours in which approximately three-fourths of the nation's total personal

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[1] Code of Iowa (1962), sec. 422.17.

[2] Ibid.

[3] Iowa State Tax Commission, Annual Statistical Report for the Fiscal Year Ended June 30, 1962, Income Tax Division, Table XIV.

[4] Financing State and Local Government in Nevada, p. 531.

[5] For a thorough discussion of the rationale behind income taxation, see: Financing State and Local Government in Nevada, pp. 530-536.

income is received in the form of wages, salaries and nonproperty income . . . ,"[1] personal income more than any other single criterion most clearly reflects the taxpayer's actual "ability to pay."[2]

Proponents of the progressive feature of income taxation argue " . . . that the social utility of a marginal . . . dollar of income to a wealthy person is significantly less than that of a marginal dollar to a poor man . . ."[3] and that progressivity is required in order to apportion taxpaying burden to the respective ability to pay. Opponents of this feature argue that progressivity is unjust, discriminatory against the higher income groups, and stifles individual labor and incentive.

It should be noted that " . . . progressive state rates, . . . while imposing state tax burdens which rise with income also provide (federal tax) deductions which become more valuable the larger the income."[4] High progressive rates in the upper income brackets would increase state revenues in a much greater proportion than they would decrease disposable income. ["Disposable income" may be defined as the amount of income remaining after payment of social security, federal and state taxes.] For instance, a state tax of 10% which may be deducted from a bracket subject to a 75% federal tax rate is a tax of only 2 1/2% in terms of out-of-pocket payment by the taxpayer.[5] But if the tax is related to the individual's disposable income rather than to total income, the progressive tax is less innocuous than it appears from the above example. To cite another example, New York would receive approximately $8,190 (8.2% of the income) from a married couple having a taxable income

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[1] The State Personal Income Tax, p. 7.

[2] Ibid., p. 6.

[3] Financing State and Local Government in Nevada, p. 532.

[4] Tax Foundation Inc., Retail Sales and Individual Income Taxes in State Tax Structures, Project Note 48 (1962), p. 44.

[5] Ibid.

of $100,000. However, the out-of-pocket cost to this couple would only be $2,300, since their Federal income tax liability would have amounted to an additional $5,890.00 if the New York tax had not been deducted. The $2,300 tax figure would be only 2.3% of the couple's total income but their disposable income would be reduced by 5%.[1] This effect on disposable income must therefore also be considered.

The income tax also takes into consideration other economic factors which differ between individuals, such as differences in family size, physical infirmities, old age, blindness, and drains on income such as medical expenses. This tax is also said to be more flexible and responsive to changing economic conditions. During periods of employment and prosperity, " . . . the rise in personal income automatically provides an expanded income tax base and tax yield . . ." for the support of correspondingly " . . . increased governmental services and expenditures."[2]

G. Proposed Legislative Changes to Iowa Personal Income Tax Law

The major revisions of the original Iowa personal income tax law have been discussed in preceding sections. However, numerous bills to amend the law have been introduced into the Iowa General Assembly which have not been adopted. A survey of the legislation proposed within the last ten years reveals that the subject of the bills which have failed to be enacted into law have often been quite similar. Therefore, in discussing these proposals, the subject matter of the bills have been divided into seven categories: rate changes; deductions; computation of net income; exemptions; maximum income a person may earn before required to file a tax return; withholding; and repeal of the Iowa personal income tax.

Most of the legislation which was introduced since 1952 but never enacted has been concerned with amending more than one section of the Iowa personal income tax law. Thus, it has been necessary to discuss one section of a bill in one category and another section of the same bill in other categories.

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[1] Ibid.

[2] Financing State and Local Government in Nevada, p. 534.

1. Rate Changes. As discussed in previous sections of this chapter, the present rates of the Iowa personal income tax which were enacted in 1953 are established at 75% of the so-called 100% rate.[1] Since 1953, the following rate changes were proposed, but not adopted, by members of the General Assembly.

Bill Number	Year Introduced	Proposed Rate Changes
S.F. 398 S.F. 460 (amendment)	57th G.A.(1957) 57th G.A.(1957)	Increase to 80% of the 100% rate, and add a sixth bracket of 4.8% on all taxable income in excess of $6,000.
S.F. 6 S.F. 428	57th G.A.(1957) 57th G.A.(1957)	2% on first $2,000 4% on second $2,000 6% on third $2,000 8% on fourth $2,000 10% on all taxable income in excess of $8,000
S.F. 468 (amendment)	57th G.A.(1957) 58th G.A.(1959)	Increase rate to 100%, but top bracket of $5,000 deleted. All income in excess of $4,000 taxed at 4%
S.F. 286 as originally introduced	58th G.A.(1959)	
H.F. 683, as passed by the House	58th G.A.(1959)	Increase to 80% of the 100% rate
S.F. 286 as amended S.F. 444 S.F. 76	58th G.A.(1959) 58th G.A.(1959) 59th G.A.(1961)	Iowa rates for each taxpayer established a percentage of the Federal income tax paid by each taxpayer. (S.F. 286, S.F. 76--8%; S.F. 444--7%)

Five bills relating to "no pay" personal income tax returns have been introduced in the General Assembly since 1952. The proposed legislation would have required that the individual filing the tax return pay a minimum filing fee or that a minimum tax be paid upon filing. "No pay" returns refer to returns which the taxpayer is required to file even though no tax is owed the State.

[1] The 100% rate is considered the rate the State of Iowa taxed personal income under the income tax law as originally adopted, see pp. 5-6 of this chapter.

The bill numbers, the years introduced, and the proposed fee or tax are as follows:

Bill Number	Year Introduced	Minimum Amount
H.F. 436	56th G.A.(1955)	$10.00 - minimum tax
H.F. 432	56th G.A.(1955)	3.00 - minimum tax
S.F. 428	56th G.A.(1955)	10.00 - minimum tax
H.F. 522, as originally introduced	56th G.A.(1955)	3.00 - filing fee
H.F. 605	58th G.A.(1959)	2.50 - filing fee

2. Deductions. The present Iowa Code, as amended by the Fifty-Sixth General Assembly (1955), provides for an optional 5% standard deduction not to exceed $250 or an itemized deduction.[1]

Four bills to increase the optional standard deduction to 10% with a maximum allowable deduction of $500 have been introduced.[2] H.F. 462 which was introduced into the Fifty-Ninth General Assembly in 1961 provided that the taxpayer would be allowed a standard deduction of 10% or $1,000 whichever would be the lesser.

Several bills to provide additional itemized deductions have been introduced since 1955. It was proposed in 1957 that all medical expenses, including the cost of hospitalization insurance premiums if the taxpayer was not reimbursed by the insurance, not deductible for federal income tax purposes would be deductible for state income tax purposes.[3]

Bills to change the incidence of the cigarette tax from the distributor to the consumer were introduced in 1955 and 1959. The purpose of both bills was to allow cigarette taxes paid to be included in computing the itemized deductions.[4] In 1957, it was proposed that a maximum deduction of $1200 for the cost of educating mentally retarded and physically handicapped children be

[1] Code of Iowa (1962), sec. 422.9.

[2] 57th General Assembly (1957): S.F. 6, S.F. 428, S.F. 468; 58th General Assembly (1959): Amendment to H.F. 683 filed in the Senate.

[3] 57th General Assembly (1957): H.F. 238.

[4] 56th General Assembly (1955): H.F. 503; 58th General Assembly (1959): S.F. 102.

allowed in computing the itemized deduction.[1] H.F. 4, introduced into the Fifty-Ninth General Assembly in 1961, would have permitted the cost of room, board, and tuition of college students to be deducted by the student or the taxpayer supporting the student.

3. Computation of Net Income. Bills to allow a deduction from gross income of the compensation received by members of the armed forces or National Guard were filed in 1957, 1959, and 1961. H.F. 466, Fifty-Seventh General Assembly (1957), provided for a deduction from gross income of the first $2,000 compensation paid to members of the armed forces. Both H.F. 265, Fifty-Eighth General Assembly (1959), and H.F. 130, Fifty-Ninth General Assembly (1961), provided the first $1500 paid to members of the National Guard could be deducted from gross income.

4. Exemptions. The present allowable personal exemptions for Iowa income tax purposes are $15 for "a single individual," $30 for "husband and wife or head of household" and $7.50 for "each dependent."[2] The following changes in personal exemptions have been proposed since 1953.

Bill Number	Year Introduced	Proposed Change	
H.F. 432	56th G.A.(1955)[3]	Single exemption Head of Household	$10 $20
S.F. 398 S.F. 460	57th G.A.(1957) 57th G.A.(1957)	Single exemption Head of Household Dependent exemption	$12 $24 $12
H.F. 258	58th G.A.(1959)	Additional $7.50 exemption for persons over 65	
H.F. 400	59th G.A.(1961)	Additional $15 exemption for persons over 65 and blind persons	

[1] 57th General Assembly (1957): H.F. 408.

[2] Code of Iowa (1962), sec. 422.12.

[3] The personal exemptions were temporarily decreased by the 55th General Assembly from fifteen to twelve dollars for the single taxpayer and from thirty to twenty-four dollars for husband and wife or head of household; the exemption for each dependent was raised from seven to twelve dollars. These exemptions applied to all returns based on income earned in 1955 and 1956. Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 45, sec. 1.

Four bills to change the present Iowa method of computing exemptions to conform to the Federal $600 exemption system have been introduced since 1953.[1] With the exception of a $500 exemption under the Senate amendment to H.F. 683, all bills called for the $600 exemption allowance as provided in the United States Internal Revenue Code.

5. Maximum Income a Person May Earn Before Required to File a Tax Return. Present Iowa law provides that individuals with net incomes of more than $1,500, married individuals with net incomes of more than $2,350, and married couples with aggregate incomes of more than $2,000 shall file an Iowa income tax return.[2] The following changes in the Iowa filing requirements have been proposed but not enacted since 1953.

Bill Number	Year Introduced	Proposed Changes	
H.F. 432	56th G.A.(1955)[3]	Individual	$1,000
		Married Individual	$1,750
		Married Couples, aggregate income	$1,750
		Gross Income	$2,500
S.F. 456	56th G.A.(1955)	Individuals with gross incomes of $2,500 required to file.	
S.F. 6	57th G.A.(1957)	Individual-taxable income of $600 Married individual - taxable income of $1,200. Married couples - aggregate taxable income of $1,200. Persons over 65 - taxable income of $1,200.	

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[1] 57th General Assembly (1957): S.F. 6, S.F. 428, S.F. 468; 58th General Assembly (1959): Amendment to H.F. 683 filed in the Senate.

[2] Code of Iowa (1962), sec. 422.13.

[3] The income tax return filing requirements were temporarily decreased by the 56th General Assembly as follows: from $1,500 to $1,125 (single individual); $2,350 to $1,750 (married individual); $2,000 to $1,750 (married couples, aggregate income); and from $3,000 to $2,500 (gross income) respectively. This revision applied to returns based on income earned in 1955 and 1956 only. Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 45, sec. 2.

Bill Number	Year Introduced	Proposed Changes
S.F. 428 S.F. 468 S.F. 286	57th G.A.(1957) 57th G.A.(1957) 58th G.A.(1959)	In addition to first three filing requirements in S.F. 6: Single persons over 65 - taxable income of $1,200. Married couples, one spouse over 65 - taxable income of $1,800. Married couples, both over 65 - taxable income of $2,400.
H.F. 683 (amendment)	58th G.A.(1959)	Individual - net income of $500 Married individual - net income of $1,000. Married couples - aggregate net income of $1,000 Single and over 65 - net income of $1,000. Married, one spouse over 65 - net income of $1,500. Married, both over 65 - net income of $2,000.
S.F. 286, as amended	58th G.A.(1959)	Everyone required to file a federal return must file a state return.
S.F. 444	58th G.A.(1959)	Same as S.F. 286, except that: Married couples - aggregate income of $1,200. Married couples, one spouse over 65 - aggregate income of $1,200. Married couples, both over 65 - aggregate income of $2,400.

6. Withholding. Bills to adopt a resident withholding system were introduced in 1957 and 1961.[1] An amendment was filed to the 1961 bill to allow a discount of 2% on taxes withheld by employers if the amounts withheld were returned to the Tax Commission on or before the date prescribed.

7. Repeal of the Iowa Personal Income Tax. Proposals to repeal the Iowa Personal income tax statutes were introduced in 1957 and 1959.[2] The 1959 bill also provided for the repeal of the Homestead Tax Credit in order to offset the loss of state revenue which would have resulted from the repeal of the Iowa personal income tax.

[1] 57th General Assembly (1957): S.F. 6;
59th General Assembly (1961): S.F. 300.

[2] 57th General Assembly (1957): S.F. 377;
58th General Assembly (1959): H.F. 277.

TABLE V

Special Features of State Personal Income Tax Laws*

State	Fed. Tax Deductible?	Standard Deduction?		Max. Amount of Optional Standard Deduction
Alabama	Yes	Yes	or	$ 500(c)
Alaska	No	(g)		-
Arizona	Yes	Yes		1,000(f)
Arkansas	No	Yes		1,000
California	No	Yes		500
Colorado	Yes	Yes		1,000
Delaware	Yes(a)	Yes		500
Georgia	No	Yes		1,000
Hawaii	No	Yes		1,000
Idaho	Yes	Yes		500(f)
Indiana(b)	No	No		-
Iowa	Yes	Yes		250(f)
Kansas	Yes	Yes		400(f)
Kentucky	Yes	Yes		500(f)
Louisiana	Yes	Yes		500(f)
Maryland	No	Yes		500
Massachusetts	Yes(c)	No		-
Minnesota	Yes	Yes		1,000
Mississippi	No	Yes		500
Missouri	Yes	Yes		500(f)
Montana	Yes	Yes		500
New Hampshire	No(d)	No(d)		-
New Jersey	No	Yes		1,000
New Mexico	Yes	No		-
New York	No	Yes		1,000
North Carolina	No	Yes		500
North Dakota	Yes	Yes		500
Oklahoma	Yes	Yes		500(f)
Oregon	Yes	Yes		250(f)
South Carolina	Yes(e)	Yes		500
Tennessee(h)	No	No		-
Utah	Yes	Yes		1,000(f)
Vermont	No	Yes		1,000
Virginia	No	Yes		250
West Virginia	No	Yes		1,000
Wisconsin	No	Yes		1,000

(a) Limited to $300 per taxpayer.
(b) Gross income tax to 6/30/63; adjusted gross income tax, 7/1/63.
(c) Limited to tax paid on earned income and business income.
(d) The state income tax applies only to dividends and interest.
(e) Limited to $500 per taxpayer.
(f) Federal income tax deducted in addition to standard deduction.
(g) Federal standard deduction is applicable.
(h) Tax imposed on dividends and interest only.

*Information obtained from <u>State & Local Taxes</u>, Prentice-Hall (Jan. 22, 1963) Report Bulletin 27, Section 27.1.

TABLE VI

State Individual Net Income Tax Rates, Personal Exemptions and Revenues*
(As of September 1, 1962)

State	Lowest Bracket: Rate (Per-cent)	Lowest Bracket: To Net Income Of	Highest Bracket: Rate (Per-cent)	Highest Bracket: Income Above	Maximum Personal Exemption & Credit for Dependents: Single	Maximum Personal Exemption & Credit for Dependents: Married or Head of Family	Maximum Personal Exemption & Credit for Dependents: Each[a] Dependent	Total Income Tax Revenue (1962) (In Thousands)
Alabama	1.5%	$1,000	5%	$5,000	$1,500	$3,000	$300	$ 27,587
Alaska	------16% of Federal Tax-----				-	-	-	12,226
Arizona	1.0	1,000	4.5	7,000	1,000	2,000	600	14,500
Arkansas	1.0	3,000	5	25,000	17.50[f]	35[f]	6[f]	12,194
California	1.0	2,500	7	15,000	1,500	3,000	600	298,901
Colorado[b]	3	1,000	9	10,000	750	1,500	750	62,779
Delaware	1.5	1,000	11	100,000	600	1,200	600	34,624
Georgia	1.0	1,000	6	10,000	1,500	3,000	600	43,628
Hawaii	3.0	500	9	30,000	600	1,200	600	30,382
Idaho[c]	3	1,000	9.5	5,000	600	1,200	600	21,568
Iowa	.75	1,000	3.75	4,000	15.00[f]	30.00[f]	7.50[f]	41,628
Kansas	1.5	2,000	5.5	7,000	600	1,200	600	27,104
Kentucky	2.0	3,000	6	8,000	20[f]	40[f]	20[f]	36,969
Louisiana	2.0	10,000	6	50,000	2,500	5,000	400	18,833
Maryland[d]	3.0	All	Brackets		800	1,600	800	99,257
Massachusetts[e]	3.075[e]	All	Brackets		2,000	2,500[1]	400	178,045
Minnesota	1.0	500	10.5	20,000	10[f]	30[f]	15[f]	122,821
Mississippi	2.0	5,000	4.5	25,000	5,000	7,000	-	8,134
Missouri	1.0	1,000	4.0	9,000	1,200	2,400	400	71,756
Montana	1.0	1,000	7.0	7,000	600	1,200	600	14,209
New Hampshire[g]	4.25	All	Brackets		600	600		1,689
New Jersey[h]	2	1,000	10	15,000	600	1,200	600	6,473
New Mexico[i]	1.5	10,000	6.0	100,000	600	1,200	600	12,814
New York[j]	2.0	1,000	10	15,000	600[f]	1,200[f]	600[f]	989,590
North Carolina	3.0	2,000	7	10,000	1,000	2,000	300	95,454
North Dakota	1.0	3,000	11	15,000	600	1,500	600	6,470
Oklahoma	1.0	1,500	6.0	7,500	1,000	2,000	500	29,122
Oregon	3.0	500	9.5	8,000	600	1,200	600	90,475
South Carolina	2.0	2,000	7.0	10,000	800	1,600	800	27,409
Tennessee[k]	6	All	Brackets					6,450
Utah	1.0	1,000	5.0	4,000	600	1,200	600	16,925

Table VI (Cont.)

State Individual Net Income Tax Rates, Personal Exemptions and Revenues*
(As of September 1, 1962)

State	Lowest Bracket: Rate (Per-cent)	Lowest Bracket: To Net Income Of	Highest Bracket: Rate (Per-cent)	Highest Bracket: Income Above	Maximum Personal Exemption & Credit for Dependents: Single	Maximum Personal Exemption & Credit for Dependents: Married or Head of Family	Maximum Personal Exemption & Credit for Dependents: Each Dependent[(a)]	Total Income Tax Revenue (1962) (In Thousands)
Vermont	2.0%	-$1,000	7.5%	- $5,000	$ 500	$1,000	$500	$ 12,751
Virginia	2.0	- 3,000	5.0	- 5,000	1,000	2,000	200	91,573
West Virginia	-----6% of Federal Tax-------				(See FORWARD, p. ii)			20,959
Wisconsin	2.0	- 1,000	10	- 15,000	600[(m)]	1,200[(m)]	600[(m)]	144,412

(a) "A taxpayer with a 'head of family' status is generally disallowed deduction for one dependent."

(b) Colorado imposes a surtax of 2% on intangible income over $5,000.

(c) Idaho also imposes a filing fee of $10.

(d) Maryland imposes a 5% rate on net investment income over $500.

(e) "On income from professions, employments, trade or business. Includes an additional tax of 1% scheduled to expire June 30, 1963."

(f) "Amount deducted from tax in lieu of exemptions. New York allows tax credits of $25 for married couple and head of household and $10 for single taxpayer in addition to exemptions shown."

(g) New Hampshire imposes a tax on interest and dividends only.

(h) "Applies only to New York residents who derive income from New Jersey sources and vice versa."

(i) "After December 31, 1963 rates are scheduled to be reduced to 1% for lowest bracket, 4% for highest."

(j) "Unincorporated businesses taxed at 4%."

(k) Tennessee imposes tax only on bond interest income when over $25. A tax of 4% is imposed on stock from any corporation, 75% of whose property is taxable in Tennessee.

(l) "Applies only to income from professions, employments, trade or business." A maximum of $4,000 is allowed "in joint return when both have business income."

(m) Wisconsin allows additional tax credits of $20 for married couples and $10 for single taxpayers and dependents.

*Information obtained from: Tax Foundation, Inc., Facts and Figures on Government Finance, (1962-63) Tables 141 and 142, pp. 189-191.

III. The Corporate Income Tax

A. Historical Background

The concept of corporate income taxation was first introduced in the United States in 1909 when Congress enacted a law levying a 1% tax on net corporation income in excess of $5,000.[1] Although the Sixteenth Amendment[2] to the United States Constitution was not adopted until four years later, the constitutionality of this corporate income tax was upheld in 1911 by the United States Supreme Court in Flint v. Stone Tracy Co.[3] The court held that the tax was not a direct tax but an excise for the privilege of doing business in the United States.

The first state corporate income tax was enacted by the Wisconsin Legislature in 1911. The Wisconsin corporate income tax law, as originally adopted, imposed graduated rates ranging from ½% to a high of 6% on the return on capital investment.[4] Capital investment was defined " . . . as the ratio of net income to assessed value of (corporate) property."[5]

Due to the initial success of the corporate income tax in Wisconsin, thirty-six states and the District of Columbia have enacted some form of corporate income taxation. [See Table VIII, p.36]

The importance of this type of tax as a source of revenue among the states is illustrated by the fact that the tax accounted for a record $1,306,000,000 in state revenues during the 1962 fiscal year.[6] Although the revenues from the tax have steadily increased since the 1922 figure of $58,000,000 the relative importance of this corporate income tax in the tax structure of the states has

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[1] Kentucky Legislative Research Commission, State-Federal Income Tax Conformity in Kentucky, Research Report No. 8 (1961), p. 1.

[2] This Amendment, passed in 1913, allowed Congress to impose a tax on incomes " . . . from whatever source derived."

[3] Flint v. Stone Tracy Company, 220 U.S. 107 (1911).

[4] Oregon Legislative Interim Tax Study Committee, Development of State Income Taxes in the United States and Oregon, (1958), p. 19.

[5] Ibid.

[6] Tax Foundation Inc., Facts and Figures on Government Finance, (Englewood Cliffs: Prentice-Hall, Inc., 1963) Twelfth Edition, p. 181.

gradually decreased since 1944. In 1944, corporate income tax revenues accounted for 11% of total state revenue as opposed to only approximately 6% in 1962.[1] During the same period, the proportion of state revenues derived from the sales, use, and income tax has increased from a total of approximately 36% in 1944 to a high of approximately 44% of total state revenues in 1962.[2]

B. The Corporate Income Tax In Iowa

The corporate income tax was adopted in Iowa by the Forty-Fifth General Assembly in an extraordinary session, and became effective January 1, 1934. As was stated in the previous chapter, the Iowa sales and personal income taxes were also adopted during this session.

As the law was originally enacted, a tax of 2% was imposed upon the "net income" of each corporation organized under the laws of Iowa and upon every foreign corporation doing business in Iowa.[3] This rate was increased to the present 3%, effective July 4, 1959.[4]

Few revisions have been made in the Iowa corporate income tax law since its enactment in 1934. One of the changes in the law has been the definition of "net income." The present Iowa Code defines corporation "net income" as " . . . the taxable income less the net operating loss deduction, both as computed for Federal income tax purposes under the Internal Revenue Code of 1954, . . .,"[5] with certain specified adjustments, i.e., Federal income taxes paid or accrued may be deducted, but the Iowa tax, deducted in computing the Federal tax, must be added; the deductions for both the Federal tax paid and net operating loss may be used only to the extent that they are allocated to business carried on in Iowa; interest and dividends from Federal securities are not taxed, but other interest and dividends exempt from Federal tax must be included in computing the Iowa tax.[6]

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[1] Ibid., p. 182.

[2] Ibid.

[3] Iowa, Acts of the Extraordinary Session, 45th General Assembly (1933-34), c. 82, sec. 28.

[4] Iowa, Acts of the Regular Session, 58th General Assembly (1959), c. 300, sec. 1.

[5] Code of Iowa (1962), sec. 422.35.

[6] Ibid.

The corporations and organizations exempted from paying the tax are basically the same today as those exempted under the original Act. Iowa excludes the following associations from the corporate income tax:

"1. All state, national, private, co-operative and savings banks, credit unions, title insurance and trust companies, building and loan associations, corporations operating under the provisions of chapter 501, insurance companies and/or insurance associations, reciprocal or inter-insurance exchanges, fraternal beneficiary associations, now or hereafter organized or incorporated by or under the laws of this state or lawfully operating in the state.

2. Cemetery corporations, organizations and associations and corporations organized for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual.

3. Business leagues, chambers of commerce, labor unions and auxiliary organizations, or boards of trade not organized for profit, and no part of the net earnings of which inures to the benefit of any private stockholder or individual.

4. Civic leagues or organizations not organized for profit, but operated exclusively for the promotion of social welfare.

5. Clubs, organizations, or associations organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private stockholder or member.

6. Farmers associations and fruit growers associations, or like organizations organized and operated as sales agents for the purpose of marketing the products of members and turning back to them the proceeds of sales, less the necessary selling expense, on the basis of the quantity of produce furnished by them."[1]

As in 1934, only the income which is " . . . reasonably attributable to the trade or business within the state . . ."[2] is presently taxed. "Interest, dividends, rents, and royalties (less related expenses) received in connection with business . . ."[3] in

[1] Code of Iowa (1962), sec. 422.34.

[2] Code of Iowa (1962), sec. 422.33

[3] Ibid.

Iowa must also be allocated to this state.[1]

1. The Corporate Income Tax as a Source of Revenue. The corporate tax is not a major source of revenue in Iowa. During the fiscal year ending June 30, 1962, this tax accounted for only $4,279,342.16, or approximately 2.5% of total general fund revenues.

TABLE VII

Corporate Income Tax Receipts During the Past Ten Years*

Year	Receipts
1962	$4,279,342.16
1961	4,360,068.27
1960	3,712,853.86
1959	2,517,672.41
1958	3,132,821.75
1957	3,815,697.23
1956	3,173,621.30
1955	2,239,989.29
1954	2,193,817.03
1953	2,331,603.86

*(Information obtained from the Research Division of the Iowa State Tax Commission)

Only three states, Alaska, North Dakota, and Vermont, derived less revenue than Iowa from the corporate income tax in 1962. Although Missouri and New Jersey imposed a lower corporate tax rate, both states enjoyed substantially more revenue from this source than did Iowa. [See Table VIII, pp. 36-37] Alabama and New Mexico, as Iowa, imposed a 3% corporate tax rate; although Alabama derived approximately twice the amount of revenue from this source than did Iowa. No figure is available for New Mexico. [See Table VIII]

2. Low Yield of Income in Iowa. The three factors outlined in the 1956 Iowa Taxation Study Committee Report still account for Iowa's low yield of revenue due to this form of taxation.

> "Iowa is not a heavily industrialized state in which the corporate form of business organization and operation is dominant as . . ."[2] in

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[1] For methods of allocation, see Code of Iowa (1962), sec. 422.33.

[2] Iowa Taxation Study Committee, Iowa's Tax System--A Factual Survey, Committee appointed by authority of Senate Joint Resolution No. 7 of the 56th General Assembly, (1956) Part I, p. 58.

New York and Pennsylvania.

Only two states, Missouri and New Jersey, impose a lower rate of corporate taxation than does Iowa. The majority of states impose a higher rate or a progressive rate in which the top bracket is above the Iowa rate. [See Table VIII]

"The method used in allocating net income of multi-state businesses to Iowa for purposes of income taxation minimizes the Iowa Tax base."[1] The majority of states use a three factor formula in the allocation of net income (See, Three-Factor Formula, p.38) while Iowa relies upon merely one factor, i.e., " . . . the ratio of sales for delivery in Iowa to total sales for delivery in all states."[2]

C. Trends in the Corporate Income Tax

At the present time, thirty-seven states and the District of Columbia impose some type of corporate income tax. In 1962, this tax accounted for approximately $1,306,101,000 in state revenues.[3] The rate of tax imposed upon corporations in the various states ranges from graduated rates beginning at 1% to the Alaskan rate of 18% of the Federal tax. [See Table VIII] In 1962, state revenues collected from this tax ranged from approximately $1,766,000 in North Dakota to a high of $298,778,000 in New York.[4]

Although state corporate income tax revenues have risen substantially since the end of World War II, they have accounted for a gradually disminishing proportion of total state tax revenues. In fiscal year 1946, state corporate income taxes accounted for more than 53% of combined personal and corporate tax collections and almost one-tenth of total state tax revenue.[5] In 1962, taxes on corporate income yielded only about 33% of combined income tax revenues and 6.4% of total state tax collections.[6]

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[1] Ibid.

[2] Ibid.

[3] Facts and Figures on Government Finance, p. 192.

[4] Ibid., p. 192.

[5] Ibid., p. 182.

[6] Ibid.

Several states have recently raised their corporate income tax rates.[1] Rhode Island raised this tax from 5.5% to 6% in 1960. Connecticut, Minnesota, and New Mexico increased rates in 1961. Connecticut increased its corporate franchise tax rate from 3.75% to 5%, and raised an alternative tax rate on invested capital from 1.9 mills to 2.5 mills. Connecticut also raised the minimum tax from $20 to $25. Minnesota temporarily raised its primary and additional corporate tax rates by 10% and extended a temporary additional tax of 1.8% for the 1962 tax year. New Mexico also temporarily increased its corporate tax from 2% to 3% effective March 31, 1961, terminating December 31, 1963. In 1962, Pennsylvania extended indefinitely a " . . . 6% tax on corporate net income which had been scheduled to revert to 5%."[2]

Arkansas became the thirty-first state to adopt the <u>three-factor formula</u> for allocating interstate corporate income. The Arkansas three-factor formula is based on property, payroll, and sales components.

TABLE VIII

STATE CORPORATE NET INCOME RATES AND COLLECTIONS*
September 1, 1962

	Flat Rate or Lowest Bracket		Highest Bracket			
State[(a)]	Rate	To Net Income of	Rate	Net Income Over	Minimum Tax	Collections (Thousands)
Alabama	3%	All	-	-	-	$ 9,681
Alaska	18% of Federal tax payable upon net income derived from sources in state				-	1,816
Arizona	1	$ 1,000	5%	$ 6,000	-	5,574
Arkansas	1	3,000	5	25,000	-	10,340
California	5.5	All	-	-	$100	290,797
Colorado	5	All	-	-	-	14,726
Connecticut	5	All	-	-	25	38,533
Delaware	5	All	-	-	-	7,295
Georgia	4	All	-	-	-	24,880

[1] The Council of State Governments, <u>The Book of States</u>, (1962-63), XIV, 224-226.

[2] <u>Ibid</u>., p. 226.

STATE CORPORATE NET INCOME RATES AND COLLECTIONS*
September 1, 1962

	Flat Rate or Lowest Bracket		Highest Bracket			
State[a]	Rate	To Net Income of	Rate	Net Income Over	Minimum Tax	Collections (Thousands)
Hawaii	5%	$25,000	5.5%	$25,000	-	$ 7,303
Idaho	9.5[b]					
Iowa	3	All	-	-	-	4,369
Kansas	3.5	All	-	-	-	8,956
Kentucky	5	25,000	7	25,000	-	20,969
Louisiana	4	All		-	-	23,316
Maryland	5	All	-	-	-	19,822
Massachusetts	6.765	(c)	(c)	(c)	100	33,048
Minnesota	7.5	All	-	-	10	34,990
Mississippi	2	5,000	5[d]	25,000	-	13,074
Missouri	2	All	-	-	-	12,000
Montana	4.5	All	-	-	10	4,535
New Jersey	1.75[e]	All	-	-	-	25,250
New Mexico	3	All	-	-	-	Not Available
New York	5.5	All	-	-	25	298,778
N. Carolina	6	All	-	-	-	56,796
North Dakota	3	3,000	6	15,000	-	1,766
Oklahoma	4	All	-	-	-	14,575
Oregon	6	All	-	-	10	21,466
Pennsylvania	6	All	-	-	-	152,914
Rhode Island	6	All	-	-	10	9,483
S. Carolina	5	All	-	-	-	18,036
Tennessee	3.75	All	-	-	-	21,566
Utah	4	All	-	-	10	7,143
Vermont	5	All	-	-	25	2,502
Virginia	5	All	-	-	-	30,287
Wisconsin	2	1,000	7	6,000	-	53,825

(a) South Dakota is not listed. Presently this state imposes a 4.5% tax on banks only.

(b) In addition, a tax of $10 is required for each return filed.

(c) Includes surtaxes. The tax on net income is supplemented by a levy of $7.65 per $1,000 of tangible property not subject to local taxation. If greater, a levy of .0615% of gross receipts assignable to state plus 3.69% of net income applies.

(d) Rate now 4½%, effective 1963.

(e) All corporations pay an additional tax on net worth.

*Tax Foundation, Inc., <u>Facts and Figures on Government Finance</u>, (1962-63), Tables 143-144, pp. 192-193.

D. Three-Factor Formula

Since the majority of corporations do not confine their business activities within the borders of any one state, the problem of allocating for tax purposes the net income of interstate firms is often troublesome.

Three types of allocation methods used throughout the states are: " . . . (1) separate accounting, (2) allocation of particular classes of income to the state in which they may be said to have a taxable situs (location), and (3) apportionment by an allocation formula."[1] The separate accounting method is not practical for many corporations. However most states, including Iowa,[2] permit this method to be used whenever the corporation's accounts are such that the " . . . business attributable to the taxing state can be determined."[3] Allocating income according to the situs of the particular asset is practicable in the case of real estate, but " . . . there are many sources of income where allocation by this method cannot be achieved."[4] Due to these difficulties, all states permit some type of formula method.[5]

The formula most generally used, and recommended by the National Council of Commissioners on Uniform State Laws is composed of property, gross receipts [Sales], and payroll components. Some states substitute a cost factor for payrolls which may consist of " . . . manufacturing, selling, operating or all business costs."[6]

The constituent elements of each of the above factors are substantially similar throughout the states. The property factor generally includes all tangible property, rented or owned, which the corporation uses within the state for business purposes. The

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[1] *Financing State and Local Government in Nevada*, p. 567.

[2] Although Iowa used a statutory formula for apportioning net income, *Code of Iowa* (1962), sec. 422.33, the taxpayer may use any alternative method which in the estimation of the State Tax Commission best allocates and apportions the income reasonably attributable to business and services within the State.

[3] *Financing State and Local Government in Nevada*, p. 567.

[4] *Ibid.*

[5] *Ibid.*

[6] *Ibid.*

payroll factor usually consists of " . . . wages, salaries, commissions, or other payments made to employees, but the compensation of officers many times is not included."[1] "In a few states the sales factor also includes various types of non-operating income, such as rents and royalties."[2]

The application of the <u>three-factor formula</u> is as follows:

"1. <u>Property Factor</u>:

$$\frac{\text{Value of corporation's tangible property in (state)}}{\text{Value of corporation's tangible property everywhere}} \times 100$$

2. <u>Payroll Factor</u>:

$$\frac{\text{Payroll of the corporation in (state)}}{\text{Payroll of the corporation everywhere}} \times 100$$

3. <u>Receipts Factor</u>:

$$\frac{\text{Receipts of corporation attributable to (state)}}{\text{Receipts of corporation everywhere}} \times 100$$

4. Sum of above three factors divided by 3 = Allocation Percent."[3]

E. <u>Arguments For and Against the Corporate Income Tax</u>

The particular advantages of doing business under the corporate structure have been cited as a fundamental justification for taxing corporations as opposed to partnerships and other types of businesses. This theory is referred to as the special benefit or privilege theory.[4] "The fact that business is done in the corporate form, despite special corporation taxes, is a clear indication that the charter is worth something."[5] It is also argued that successful corporate enterprises have a responsibility to bear a

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[1] <u>Ibid</u>.

[2] <u>Ibid</u>.

[3] John F. Shy, <u>Tax Policies in Utah</u>, A Report submitted to His Excellency, Governor J. Bracken Lee and the Utah State Tax Commission and the Utah Legislative Council (Princeton Surveys, Princeton University, 1954), p. 116.

[4] <u>Financing Government In Colorado</u>, A Report of the Governor's Tax Study Group (1959), p. 326.

[5] Richard Goode, <u>The Corporation Income Tax</u> (New York: Wiley & Sons, Inc., 1951), p. 29, quoted in <u>Financing Government in Colorado</u>, p. 326.

share of the expense of maintaining a government which in turn has a concomitant obligation " . . . to maintain the kind of conditions under which free enterprises can flourish . . . ."[1] Proponents also contend that the corporate income tax inserts an additional element of progressivity into the federal and state tax structure " . . . to the extent that the corporate income tax burden is borne by the stockholders . . . ."[2]

Opponents of this type of tax contend (1) that the tax discriminates against the corporate form of doing business in favor of partnerships and other forms of unincorporated businesses; (2) that this tax in reality falls upon the stockholder in the form of double taxation, the laboring man in the form of reduced wages, and the consumer in the form of higher prices; and (3) this form of taxation tends to reduce a corporation's incentive to increase taxable income by increasing efficiency.[3]

Without deciding upon the merits of any of the above arguments, it should be noted that the impact and success of this type of taxation is best emphasized by its widespread use on the state and federal level in the United States today.

F. Proposed Legislative Changes to Iowa Corporate Income Tax Law

Not only is the Iowa corporate income tax law basically the same Act which was adopted by the 45th General Assembly, but few attempts have been made within recent times to change the law. The one major change in the provisions of the law affecting revenue was the 1% increase in the tax rate in 1959.[4]

Proposals to amend the Iowa corporate income statutes which have been introduced but not enacted since 1953 may be grouped into three general categories--rate changes, determining the net income earned by foreign corporations in Iowa, and proposals applicable to computing the net income of both Iowa and foreign corporations.

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[1] Financing Government In Colorado, p. 326.

[2] Ibid., p. 327.

[3] State and Local Finance, Nebraska, A Report Prepared by the Nebraska Legislative Council, (1962), pp. 310-12.

[4] Iowa, Acts of the Regular Session, 58th General Assembly (1959), c. 300.

1. Rate Changes. No rate changes in the Iowa corporate income tax have been proposed since the enactment of the present 3% rate by the Fifty-Eighth General Assembly (1959). A bill to eliminate corporate "no pay" returns by the imposition of a $50 minimum corporate income tax was introduced in 1955.[1]

2. Determining The Net Income Earned By Foreign Corporations in Iowa. The net income of foreign corporations which is subject to the Iowa corporate income tax is presently determined on the basis of the total sales of the corporation in Iowa.[2] A "foreign" corporation is a corporation not organized under the Iowa law.[3]

Five bills to adopt the "three-factor formula" in the computation of Iowa net income of foreign corporations have been introduced since 1955.[4] The "three-factor formula", as explained in Section D of this Chapter, refers to the use of three factors--sales (receipts), payroll, and the valuation of personal and real property--in the computation of the net income of foreign corporations allowable to a particular state.

The five proposals relating to the "three-factor formula" also contained the provision that foreign corporation sales made in Iowa by either resident or nonresident salesmen must be included in the computation of net income allowable to Iowa. This same provision was introduced as separate bills in 1957 and 1959.[5]

A bill was introduced in 1959 to prevent foreign corporations from deducting from net income, expenses not directly related to income earned and taxable in Iowa.[6]

3. Proposals Applicable to Both Iowa and Foreign Corporations. The 1956 Iowa Taxation Study Committee reported that income earned by foreign corporations from rents and royalties on

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[1] 53rd General Assembly (1955): H.F. 436

[2] Code of Iowa (1962), sec. 422.3

[3] Ibid., sec. 422.32

[4] 57th General Assembly (1957): S.F. 399, H.F.529;
58th General Assembly (1959): S.F. 415, S.F.506;
59th General Assembly (1961): S.F. 134

[5] 57th General Assembly (1957): S.F. 9
58th General Assembly (1959): Amendment to S.F. 451

[6] 58th General Assembly (1959): H.F. 668

tangible property located in Iowa is exempted from the Iowa corporate income tax if the income is " . . . not a result of the principal business of the corporation."[1] Legislation to correct the above situation was introduced in 1957.[2] The proposed bill provided that income earned by both Iowa and foreign corporations from rents and royalties, less expenses, on tangible property located in Iowa would be subject to the Iowa corporate income tax.

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[1] Report of the Iowa Taxation Study Committee, p. 18

[2] 57th General Assembly (1957): S.F. 9

IV. THE SALES TAX

A. Historical Background

Although West Virginia initiated a 2% sales tax in 1921, the majority of state sales tax laws were enacted in the middle 1930's as a result of the postwar depression.[1] The increasing demand for governmental services and financial aid at a time when formerly dependable sources of state revenue became inadequate caused state governments to begin to seek out new and more dependable methods of obtaining additional revenues.

Several states, namely Alabama, Arkansas, Missouri, North Carolina, North Dakota, Oklahoma, and Georgia, originally enacted sales tax laws as only temporary measures. All of these states, with the exception of Georgia and North Dakota, subsequently placed the sales tax on a permanent basis.[2]

The majority of the early sales tax laws applied only to sales on the retail level.[3] However, Arizona, Mississippi, New Mexico, North Carolina, and Washington enacted laws which imposed taxes upon the gross receipts of certain specified businesses in addition to retail sales transactions.[4] Supplemental taxes, imposed upon the use, storage, or consumption of goods purchased outside of the taxing state, were subsequently enacted as an additional enforcement technique by states which had imposed the sales tax. [For a more detailed discussion of this type of tax, the use tax, see the following chapter.]

The increasing importance of the sales, use, or gross receipts tax in state tax structures is evidenced by the fact that in 1932 receipts from these taxes represented only .4% of total state tax revenues, while in 1962 these same taxes accounted for 24.6% of total state tax receipts.[5]

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[1] Roy G. Blakey and Gladys C. Blakey, Sales Taxes and Other Excises, (Chicago: Public Administration Service, 1945), p. 2.

[2] Ibid., pp. 2-3.

[3] Reuben A. Zubrow, Robert L. Decker, E. H. Plank, Financing State and Local Government in Nevada, (Carson City: Nevada Legislative Counsel Bureau, 1960), p. 383.

[4] Ibid.

[5] Tax Foundation, Inc., Facts and Figures on Government Finance, (Englewood Cliffs: Prentice-Hall, 1963) 12th ed., Table 135, p. 182.

B. Types of Sales Taxes

Although the sales tax laws throughout the states have many common characteristics, such taxes can generally be divided into two distinct types.

The most common type, and the type used in Iowa, is the Retail Sales Tax. This tax is generally imposed at a fixed rate on the retail sale of tangible personal property, with goods purchased for resale or further processing ordinarily being exempt.[1] This type of tax appears as an addition to the price which must be paid by a person buying at retail. "Many laws require, and all permit, the firm selling at retail to quote the tax separately and to shift it to the buyer."[2]

The second type of tax may be termed a General Sales Tax. This tax is imposed over a much broader base, including " . . . wholesale transactions and sales of extractive and/or manufacturing industries."[3] Hotel room and other lodging rentals, as well as amusement receipts, personal services, printing and publishing may be subject to this tax, although often at varying rates.[4] Alaska, Hawaii, Michigan, New Mexico, Washington, and West Virginia employ the broadest tax base which includes " . . . retail, wholesale, manufacturing, extractive and specified other activities subject to the tax."[5]

C. The Sales Tax in Iowa

The sales tax in Iowa, which became effective as of April 1, 1934,[6] is imposed at a rate of 2% upon the gross receipts from all

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[1] Iowa Taxation Study Committee, Iowa's Tax System - A Factual Survey, Committee appointed by authority of Senate Joint Resolution No. 7 of the 56th General Assembly (1956), Part I, p. 48.

[2] Tax Foundation, Inc., Retail Sales and Individual Income Taxes in State Tax Structures, Project Note 48 (1962), p. 22.

[3] Iowa's Tax System - A Factual Survey, p. 48.

[4] Ibid.

[5] Financing State and Local Government in Nevada, p. 387.

[6] The Forty-Fifth General Assembly adopted the sales tax statute for a three year temporary period. Iowa, Acts of the Extraordinary Session, 45th General Assembly (1933-1934), c. 82, sec. 38. The Iowa sales tax became permanent April 1, 1937. Iowa, Acts of the Regular Session, 47th General Assembly (1937), c. 196, sec. 2.

sales of tangible personal property, with a few stated exemptions,[1] at retail in the State to consumers or users. A like rate of tax is imposed ". . . upon the gross receipts from the sales, furnishing or service of gas, electricity, water, heat, and communication service, . . . gross receipts from all sales of tickets or admissions to places of amusement and athletic events . . . ,"[2] as well as the receipts from the operation of slot operated devices such as pinball machines. The tax is also imposed on the receipts from vending machines selling merchandise not subject to the general sales tax.[3] Since the adoption of the sales tax law, the tax rate has remained at 2% except for a two year period in the 1950's.[4]

The tax is, in effect, a tax upon the consumer which is collected by the retailer. The retailer must add the tax to the sales price and may not advertise or hold out, directly or indirectly, that the tax or any part thereof will be assumed or absorbed by him and will not be considered as an element in the price to the consumer.[5] Retailers are required to collect the tax and remit it to the state, payable in quarterly installments, and are subject to a fine for failure to do so.[6]

As originally enacted, the law did not impose a sales tax on sales transactions involving tangible personal property upon which the state imposed a special tax, whether in the form of a license tax, stamp tax or otherwise. This provision of the law was amended in 1955, however, so as to not include the retail sale of beer and cigarettes.[7]

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[1] The exemptions are receipts from: (1) the sale of personal property which is exempt from taxation under the State or Federal Constitution, (2) transportation service, (3) state and local fairs and charitable activities, (4) property "traded-in" for other property, (5) sales of goods used for public purposes by the state and its subdivisions, and (6) goods purchased by contractors under contract with Iowa or its political subdivisions. Code of Iowa (1962), sec. 422.45.

[2] Code of Iowa (1962), sec. 422.43.

[3] Ibid.

[4] The 56th General Assembly imposed an additional tax of one-half percent for the period beginning July 1, 1955 and ending on June 30, 1957. Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 45, sec. 7.

[5] Code of Iowa (1962), secs. 422.48, 422.49.

[6] Code of Iowa (1962), secs. 422.52, 422.58.

[7] Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 213, sec. 1; Code of Iowa (1962), sec. 422.46.

The sales tax has proved to be a lucrative source of revenue in Iowa. During the fiscal year ending June 30, 1962, $69,088,090.62 in revenue from the sales tax was collected. This collection represents an increase in state sales tax revenues of over seventeen million dollars since 1953, although, with the exception of 1956 and 1957, the sales tax rate has remained the same.

TABLE IX

State Sales Tax Revenues During the Past Ten Years*

Year	Rate	Receipts
1962	2%	$69,088,090.62
1961	2	68,564,941.27
1960	2	68,209,103.55
1959	2	65,332,524.27
1958	2	64,662,220.12
1957	2.5	73,959,720.15
1956	2.5	68,813,390.46
1955	2	54,873,791.52
1954	2	52,860,994.39
1953	2	52,023,807.57

*(Information obtained from the Research Division of the Iowa State Tax Commission.)

All revenue collected from the Iowa sales tax is deposited in the General Fund of the State except for ". . . an amount equal to ten percent of the net revenues collected . . ."[1] which goes to the Road Use Tax Fund for the financing of highways.

The sales tax is unique in the fact that a relatively slight increase in the rate of the tax would account for a significant increase in state revenues. Based on the Iowa sales tax receipts for the 1962 fiscal year, the amount of state revenue which could be gained from a one-half or one percent sales tax rate increase could be considerable.

D. State Trends in Sales Taxation

The sales tax has become firmly entrenched in the fiscal structure of the majority of states, and accounted for over five billion dollars in state tax revenues in 1962.[2] Texas became the thirty-sixth state to adopt a sales and use tax by imposing a 2% rate, effective September 1, 1961, and Wisconsin the thirty-seventh by enacting a 3% selective sales and use tax in December, 1961.

[1] Code of Iowa (1962), sec. 312.1.

[2] Facts and Figures on Government Finance, p. 180.

effective February 1, 1962. Wisconsin's new law imposes a tax upon the sale, lease, or rental of the following selected items:

> " . . . malt beverages, intoxicating liquors; tobacco and tobacco products; motor vehicles; aircraft; radios, television sets, phonographs, recorders, records and sheet music; restaurant meals and beverages; recreational (except games and toys), sporting, hobby, and athletic goods and equipment; household and commercial furniture and furnishings, floor coverings, appliances . . . , jewelry and related items . . . (the) furnishing of transient lodging, the sale of admissions to motion pictures costing more than 75 cents, and the sale of intrastate telegraph and telephone service for business purposes."[1]

The Wisconsin law also allows the retailers to retain two percent of the total tax collected as compensation for costs of collection. Among the list of exemptions from the Texas general retail sales tax are " . . . food, prescription medicines, gas and electricity used in industrial processes, and work clothes selling for less than $10."[2]

Exempting food and medicines from the sales tax is a relatively modern innovation, with ten states presently not taxing food consumed off the premises,[3] and ten states exempting medicine from this tax.[4] [See Table XIV, pp. 60-61] Most of the sales tax exemptions were eliminated by North Carolina in 1961. Among the exemptions eliminated were food and drugs except for prescription medicines.[5] To date, North Carolina is the only known state which has eliminated the food and medicine exemptions from its sales tax law once the exemptions had been adopted.

Beer, cigarettes, oleomargarine, motor vehicle fuels, and other commodities subject to special excise taxes are generally exempt from the sales tax. However, there is an increasing tendency to remove these exemptions in the case of cigarettes and alcoholic

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[1] Federation of Tax Administrators, Tax Administrators News, (January 1962), Vol. 26, No. 1, p. 4.

[2] The Council of State Governments, The Book of the States, (1962-63), XIV, p. 226.

[3] These states are: California, Connecticut, Florida, Maine, Maryland, Ohio, Pennsylvania, Rhode Island, Texas, and Wisconsin.

[4] California, Connecticut, Maine, North Carolina, North Dakota, Ohio, and Pennsylvania exempt prescription medicines only.

[5] The Book of States, p. 227.

beverages, as was done in Iowa in 1955.[1] As mentioned below, Kansas also recently removed this exemption.

Although the sales tax rate prevailing in most states was 2% prior to World War II,[2] the majority of states now impose a higher rate. Currently, only eleven states impose a rate of 2%, with the majority of states employing a 3% tax. [See following table.] Only three states impose a 4% rate, although an additional five states impose a 4% state-local rate.[3]

TABLE X

Distribution of State Sales Tax Rates*

(As of January 1, 1963)

Rate[a] (Percent)	Number of Taxing States 1963	1961	1951
1	0	0	1
2[b] [c]	11	12	19
2.5	1	1	1
3	18	17	7
3.5	3	1	0
4	3	3	0
Total	37[d]	34	28

[a]Indiana adopted a 2% sales tax which will become effective July 1, 1963.

[b]Sales tax in North Dakota is levied at the rate of 2¼%.

[c]The Missouri sales tax rate has been increased to 3% but will not become effective until October 13, 1963.

[d]Total includes Indiana.

*Federation of Tax Administrators, Tax Administrators News, (January, 1963), Vol. 27, No. 1, p. 1. (Statistics for 1963 are taken from Table XIII, page 59.)

As an alternative to an increased sales tax rate, several states increased revenue through expansions in the sales tax base. In 1961, Illinois imposed a tax of 3.5% on the cost of Illinois property "transferred in the sale of service and on sales of building

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[1]Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 213, sec. 1.

[2]Iowa's Tax System - A Factual Survey, p. 48.

[3]The Book of the States, p. 227.

materials to construction contractors."[1] A tax of 3% was also imposed on hotel occupancy.[2] The sales tax rate was extended to the sale of beer and cigarettes in Kansas.[3] Maine included food sold on a "take out" or "to go" basis. Florida now taxes purchases by state and federal banks and "Wyoming added house trailers and other trailers to the sales tax base."[4]

E. Local Sales Taxation

Sales taxation on the local level is still the exception and not the rule, existing in only about twelve states. However, "the larger part of local nonproperty revenues is derived from consumer taxes and of these, the most important is the general sales tax."[5] Nationally, the local sales and gross receipts taxes accounted for approximately $1,432,000,000 in local revenues during 1961.[6]

Four states, California, Illinois, Mississippi, and Utah accounted for the majority of local sales tax collections in 1961. [See Table XI, p. 51]. In all four of these states, the local sales tax is collected and administered by the State in conjunction with its own sales tax, and then redistributed to the local taxing units. In the remaining states, with the exception of Alabama[7] and New Mexico[8], the collection and administration of the tax is left to the local taxing bodies.

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[1] Ibid.

[2] Ibid.

[3] Ibid.

[4] Ibid.

[5] Advisory Commission on Intergovernmental Relations, Local Nonproperty Taxes and the Coordinating Role of the State, (Washington, D. C., September, 1961), Report A-9, p. 33.

[6] Facts and Figures on Government Finance, Table 181, p. 239.

[7] The Alabama Department of Revenue collects the county taxes, but collection of the city tax is left to the cities; Commerce Clearing House, State Tax Guide, (2d ed.; 1962), Sec. 60-211.

[8] The New Mexico Bureau of Revenue collects the city sales tax; State Tax Guide, Sec. 60-677.

The authority of local jurisdiction to tax sales must be delegated by the legislature, which has the sole constitutional power of taxation.[1] The legislature must delegate the sales taxing power on a "logical and reasonable, rather than special or locality favoring basis . . ."[2] and such power may be limited as the legislature sees fit.

Local sales tax provisions vary among the states. Counties in Illinois are permitted to impose a sales tax rate " . . . of 1/2 of 1% in all unincorporated areas within the county."[3] A service occupation tax may be imposed at a like rate. Municipalities may also impose a sales tax and a service occupation tax of 1/2 of 1% in this State.[4] Uniform sales and use taxes may be imposed by the counties and cities in California at a rate of 1%. Retailers subject to both a city and county tax " . . . may credit the city tax against any such tax due the county, if the city has delegated collection of its tax to the State."[5] Los Angeles and Redwood City also impose a tax relating to special gross receipts.[6]

In Mississippi, the city sales taxes may vary in accordance with local option and may be either " . . . 1/2 of 1% or 1% on retail sales or gross income and 1/4 of 1% on sales of industrial gas and electricity."[7] Utah allows the county to impose uniform sales and use taxes " . . . at the rate of 1/2 of 1% of the sales price of tangible personal property, meals or services."[8] A special gross receipts tax is also imposed in Logan, Provo, and Salt Lake City, Utah.[9] For more detailed information on local sales tax rates, see the following table.

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[1] State and Local Taxes, All States Tax Guide, (Prentice-Hall, January, 1963), I, sec. 92.511.

[2] Ibid., sec. 92.630.

[3] State Tax Guide, sec. 60-405.

[4] Ibid.

[5] Ibid., sec. 60-270.

[6] Ibid.

[7] Ibid., sec. 60-571.

[8] Ibid., sec. 60-875.

[9] Ibid.

TABLE XI

LOCAL GENERAL SALES TAX RATES*

January 1, 1961

State[1]	State Tax Rate[2]	Local Tax Rates[2]				
		1/2%	3/4%	1%	2%	3%
Alabama	3%					
63 Municipalities		2	-	14	-	-
13 Counties		2	-	11	-	-
Alaska	-					
32 Municipalities		-	-	2	22	8
4 School Districts		-	-	2	2	-
Arizona	3					
6 Municipalities		3	1	2	-	-
California	3					
364 Municipalities		-	-	364	-	-
56 Counties		-	-	56	-	-
Colorado	2					
2 Municipalities		-	-	2	-	-
Illinois	3½					
1120 (approx.) Municipalities		1120	-	-	-	-
56 Counties		56	-	-	-	-
Louisiana	2					
10 Municipalities		-	-	10	-	-
3 Parishes		-	-	3	-	-
Mississippi	3					
99 Municipalities		74	-	25	-	-
New Mexico	2					
15 Municipalities		-	-	15	-	-
New York	-					
6 Municipalities		-	-	1	4	1
5 Counties		-	-	1	3	1
Utah	2½					
54 Municipalities		54	-	-	-	-
11 Counties		11	-	-	-	-
Virginia	-					
1 Municipality (Bristol)		-	-	-	-	1

[1]This tabulation includes only those local sales taxes about which authoritative information is available. The following cities with a population of 50,000 or more impose a sales tax: Albuquerque, Baton Rouge, Denver, Huntsville, Jackson, Mobile, Montgomery, New Orleans, New York, Niagara Falls, Phoenix, Pueblo, Salt Lake City, Syracuse, Tucson, and all cities of 50,000 or over in California and Illinois.

[2]The rates shown are those applicable to sales of tangible personal property at retail. The State rate shown for Illinois includes a 1% additional tax, effective July 1, 1961, through June 30, 1963.

*Source: Local Nonproperty Taxes And The Coordinating Role of The State, Advisory Commission on Intergovernmental Relations (Washington, D.C., September, 1961), Table 17, pp. 34-35.

F. Arguments For and Against the Sales Tax

As is the case with most taxes, the sales tax, as a means of obtaining state revenue, is favored by some and disliked by others. Those in favor of such a tax contend that it is the tax most convenient for the taxpayer and the tax most easily administered by the state.[1] The tax is generally paid in small, insignificant amounts, the burden of which is hardly noticed by the taxpayer as opposed to state income taxes, property, or licensing taxes which are generally paid in lump sum amounts. The administrative costs of such a tax, which generally amount to approximately one and one-half percent of total sales tax receipts, are low in proportion to the amount of revenues derived therefrom.[2]

The major argument offered by critics of the sales tax centers around one point--that the sales tax is regressive since the burden of the tax falls more heavily upon lower income groups.[3] As the lower income groups spend a larger proportion of their income on taxed items, i.e., food, clothing, medicine, etc., than do persons with higher incomes, the amount of sales tax paid, as a percentage of income, is higher in the former group. It is estimated that a 2% sales tax paid on purchases including food would represent approximately 2.2% of the net income of individuals earning less than $1,000.00 per year, while representing only about .9% of individual income in excess of $10,000.00 per year. [See Table XII, p. 53.]

It is claimed that a food exemption somewhat lessens the regressive feature of this tax.[4] However, when a food exemption is allowed, the tax base is reduced approximately 20% which generally makes it necessary to increase the tax rate. As shown by the following chart, a food exemption along with a 1% increase in the sales tax, would raise the percentage of taxed income in the lowest income

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[1] For a more thorough discussion of the arguments for and against this tax, see the following: Retail Sales and Individual Income Taxes in State Tax Structures, p. 60; Financing State and Local Government in Nevada, pp. 388-392.

[2] Retail Sales and Individual Income Taxes in State Tax Structures, p. 58.

[3] *Ibid.*, p. 33.

[4] *Ibid.*

group by .5 of one percent, while only increasing the percentage of taxed income in the highest group about .2 of one percent. Thus a food exemption accompanied by an increase in the sales tax rate, would have the effect of increasing the regressive feature of this form of taxation. It should be emphasized, however, that the percentages shown are only estimates, at best, and caution should be used in their interpretation.[1]

TABLE XII

Estimated Retail Sales Tax As A Percentage Of Income in 21 Large Cities*

	Tax As A Percentage of Net Income After Income Tax	
Income Class	Food Taxable[a] (2% Tax Rate)	Food Exempt[b] (3% Tax Rate)
Under $1,000	2.2%	2.7%
$1,000 - 2,000	1.5	1.5
$2,000 - 3,000	1.4	1.3
$3,000 - 4,000	1.4	1.3
$4,000 - 5,000	1.4	1.3
$5,000 - 6,000	1.4	1.3
$6,000 - 7,500	1.3	1.4
$7,500 -10,000	1.2	1.2
Over $10,000	.9	1.1

[a]Ten Cities

[b]Eleven Cities

*Tax Foundation, Inc., Retail Sales and Individual Income Taxes in State Tax Structures, (1962), Table 13, p. 31.

In justification of the regressive feature of the sales tax, proponents of this tax contend that lower income families receive a greater amount of benefits from government expenditures in

[1]Factors which must be considered for a fair appraisal of this table are the following: (1) "In any one year the lowest income group includes many families and individuals who are there only temporarily." During this period, the expenditures of these families will generally exceed earnings. Retired individuals may also be in the category where spending will exceed income, since they may "regularly draw upon past savings." (2) "In any one year the tax paid by a family can be substantially above or below the average over the years," and (3) "differences in figures beyond the decimal point represent few dollars. (A 0.2 percent difference at around $4,000 involves $8 a year in tax.)" Retail Sales and Individual Income Taxes in State Tax Structures, p. 30.

proportion to their income than do higher income families. Those in favor of this form of taxation also insist that ". . . throughout an income range which includes the great bulk of the population, the retail sales tax is essentially proportional in relation to income."[1]

Retailers generally dislike this type of tax because they must assume the costs of collection. It is estimated, however, that collection ". . . costs average only a small fraction of one percent of the expense of doing business; . . . (but) since all retailers in the same line of business must incur roughly the same relative expense, . . ."[2] the cost of collection may be passed on to the consumer as are other business expenses which are substantially similar in any given line of business.

G. <u>Proposed Legislative Changes to Iowa Sales Tax Law</u>

The Iowa sales tax law has undergone only relatively minor revisions since it was originally enacted in 1934. The most significant of these revisions was the temporary one-half percent increase in the sales tax rate for the period beginning July 1, 1955 and ending June 30, 1957.[3] However, numerous attempts have been made to amend the sales tax law since its original enactment. For the most part, these attempts proved to be unsuccessful.

It is the purpose of this section to summarize proposals to revise the sales tax law which were introduced into, but not adopted, by the General Assembly during the past decade.[4] A survey of the bills to amend the sales tax law which were introduced, but not adopted, during this period may be categorized as follows: rate revisions; alterations of the sales tax base; reallocation of sales tax receipts; local sales tax; and retail collection of sales tax.

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[1] <u>Retail Sales and Individual Income Taxes in State Tax Structures</u>, p. 33.

[2] <u>Ibid</u>.

[3] Iowa, <u>Acts of the Regular Session</u>, 56th General Assembly (1955), c. 45, sec. 7.

[4] The summary of proposed legislation does not include all bills introduced but only most of the proposals effecting the revenue provisions of the sales tax.

The following listing is similar to the comparable section found in Chapter II since one provision of a bill will be discussed in one category and other provisions of the same bill in another category.

1. Rate Changes.

Bill Number	Year Introduced	Proposed Changes
S.F. 237*	56th G.A. (1955)	Increase sales tax to 3% from July 1, 1955 to June 30, 1957, with many articles of food exempted from the added 1% tax.
S.F. 28*	57th G.A. (1957)	Abolish added ½% sales tax levy imposed by Chapter 45, sec. 7, Acts of 56th G.A. on March 31, 1957 instead of June 30, 1957.
H.F. 409*	57th G.A. (1957)	Increase sales tax rate to 3% from July 1, 1957 to June 30, 1958; return rate to 2% on July 1, 1958.
H.F. 406* S.F. 418*	57th G.A. (1957) 57th G.A. (1957)	Increase sales tax rate to 3% permanently.
S.F. 460*	57th G.A. (1957)	Increase sales tax rate to 2½% permanently.
(amendment*)		Continue sales tax rate at 2½% until December 31, 1957; rate then returns to 2% rate.
(compromise bill)		Extension of 2½% rate to June 30, 1959. Collection of additional ½% sales tax could be suspended at any time upon finding that $24 million or more General Fund balance would be probable on June 30, 1959.
(compromise bill vetoed by Governor)		Same as previous compromise bill except 2½% rate to continue to June 30, 1959 regardless. If General Fund balance on June 30, 1959 exceeded $24 million, the Comptroller was to distribute excess to school districts of the state on a per pupil basis.

*Asterisks indicate bills whose provisions also applied to the use tax, see Chapter V of this Report.

2. <u>Reallocation of Sales Tax Receipts</u>.

Bill Number	Year Introduced	Proposed Changes
H.F. 400	56th G.A.(1955)	Reduce allocation of sales tax receipts to Road Use Tax Fund from 10% to 5% of total sales tax receipts.
S.F. 24 S.F. 401 H.F. 528 S.F. 460 (amendment)	57th G.A.(1957) 57th G.A.(1957) 57th G.A.(1957) 57th G.A.(1957)	End statutory allocation of a fixed portion of sales tax receipts to Road Use Tax Fund.
H.F. 406*	57th G.A.(1957)	1% of a permanent 3% sales (and use) tax allocated for school aid and agriculture land tax credit.
S.F. 460 (amendment)	57th G.A.(1957)	Two-fifths of all revenue from permanent 2½% sales tax to go into "Property Tax Relief Fund," for payment of State school aid. Any unappropriated balance to pay agriculture land tax credit in full and remaining balance for Board of Regents capital improvements.
S.F. 179	57th G.A.(1957)	Ten percent allocation of sales tax receipts to roads to be mandatorily used: -7% for construction of 3rd ("creeper") lanes on hills along primary highways. -3% to cities and towns for streets.
S.F. 179 (amendment)	57th G.A.(1957)	Ten percent allocation of sales tax receipts to roads to be divided: -4% for all necessary expenses incident to building 3rd lanes on primary highways at hills, curves or other dangerous zones, or for "construction of multiple lanes of traffic." -3% for surfacing secondary roads. -3% to cities and towns.
H.F. 204	58th G.A.(1959)	Ten percent of sales tax receipts to be placed in a "state sales tax school aid fund," to be apportioned to counties on basis of sales tax collections in the counties, and divided among districts in each county on a per pupil basis.

*Asterisks indicate bills whose provisions also applied to the use tax, See Chapter V of this Report.

3. Alteration of Tax Base.

Bill Number	Year Introduced	Proposed Changes
S.F. 158	58th G.A.(1959)	Not less than 25% of any revenue collected from a 10% sales tax on "lawful" retail sales (other than sales made by the State of Iowa) of liquor to be allocated to school districts.
H.F. 151*	55th G.A.(1953)	Repeal sales tax exemption on "trade-in" items.
H.F. 152	55th G.A.(1953)	"Retail sale" or "sale by retail" redefined to broaden tax base by repealing sales tax exemption on commercial fertilizer and agricultural limestone.
H.F. 384* Amendment to S.F. 460, 57th G.A.(1957), withdrawn.	56th G.A.(1955)	Expand sales tax to cover services.
		Exempt sales tax on purchases made for appropriate purposes:
H.F. 499*	56th G.A.(1955)	By: "literary, scientific, charitable, benevolent, agricultural, and religious institutions and societies."
S.F. 44*	57th G.A.(1957)	By: "charitable, educational, and religious institutions and societies."
S.F. 30* H.F. 132*	58th G.A.(1959) 58th G.A.(1959)	By: "educational institutions."
H.F. 461*	56th G.A.(1955)	Remove sales tax exemption on purchases of electricity and other fuel used in the process of manufacturing.
H.F. 35*	57th G.A.(1957)	Apply Iowa sales tax to receipts from rent and lease of tangible personal property
S.F. 309	57th G.A.(1957)	Iowa sales tax rate, in any city or town not over five miles by "road or bridge" from any city or town in an adjoining state, not to exceed rate of sales tax collected in such neighboring out-of-state city or town.

*Asterisks indicate bills whose provisions also applied to the use tax, See Chapter V of this Report.

Bill Number	Year Introduced	Proposed Changes
S.F. 158	58th G.A.(1959)	Ten percent sales tax on "lawful" retail sales (other than sales made by the State of Iowa) of liquor.
S.F. 307 H.F. 429	59th G.A.(1961)	Exempt fuel used in drying or processing grain.
H.F. 376	59th G.A.(1961)	Exempt from tax that portion of the price of a new farm implement which is represented by a trade-in.

4. Local Sales Tax.

Bill Number	Year Introduced	Proposed Changes
H.F. 32	57th G.A.(1957)	Permit cities and towns to collect a sales tax of up to 1% in addition to state sales tax, provided voters of such city or town approve.

5. Retail Collection of Sales Tax.

Bill Number	Year Introduced	Proposed Changes
S.F. 250 H.F. 295	57th G.A.(1957) 57th G.A.(1957)	Allow retailers to retain 3% of total tax collected.
S.F. 156 H.F. 237	58th G.A.(1959) 58th G.A.(1959)	Allow retailers to retain 2% of total tax collected.

TABLE XIII

Sales and Use Tax Rates Among the States*

State	Sales	Use
Alabama	3%	3%
Arizona	3	3
Arkansas	3	3
California	3	3
Colorado	2	2
Connecticut	3½	3½
District of Columbia	3	3
Florida	3	3
Georgia	3	3
Hawaii	3½	3½
Illinois	3½	3½
Indiana	2[a]	2[a]
Iowa	2	2
Kansas	2½	2½
Kentucky	3	3
Louisiana	2	2
Maine	3	3
Maryland	3	3
Michigan	4	4
Mississippi	3	3
Missouri	3[b]	3[b]
Nevada	2	2
New Mexico	3	3
North Carolina	3	3
North Dakota	2¼	2¼
Ohio	3	3
Oklahoma	2	2
Pennsylvania	4	4
Rhode Island	3	3
South Carolina	3	3
South Dakota	2	2
Tennessee	3	3
Texas	2	2
Utah	3	3
Washington	4	4
West Virginia	2[c]	2[c]
Wisconsin	3	3
Wyoming	2	2

[a] Indiana adopted a 2% sales and use tax which will become effective July 1, 1963. The tax rate prior to this date is 3/8 of 1%.

[b] The Missouri sales and use tax rates have been increased to 3% but will not become effective until October 13, 1963.

[c] Plus temporary additional tax of 1¢ per dollar or fraction thereof in excess of the first dollar of the sales price, until June 30,1964.

*Commerce Clearing House, Inc., <u>State Tax Guide</u>, (2d ed.; 1963) sec. 6021.

TABLE XIV

Comparison of Rates, Food and Medicine Exemptions and Sales Tax Collections Among the States*

State	Year Eff.	Retail Rate % (Jan. 1962)	Is Food Exempt ?	Is Medicine Exempt ?	General Sales and Use Tax Collections - 1960		
					Per Capita	Per $1,000 Personal Income	Per $1,000 Retail Sales
Alabama	1937	3%	No	No	$27	$19	$32
Arizona	1933	3	No	No	49	27	41
Arkansas	1935	3	No	No	31	23	32
California	1933	3	Yes	Yes[a]	45	17	33
Colorado	1935	2	No	No	28	13	41
Connecticut	1947	3.5	Yes	Yes[a]	30	11	23
Florida	1949	3	Yes	Yes	34	18	26
Georgia	1951	3	No	No	37	24	38
Hawaii	1935	3.5	No	No	97	48	107
Idaho	1935		Tax repealed - 1936				
Illinois	1933	3.5	No	No	37	15	27
Indiana	1933	2[b]	No	No	-	-	-
Iowa	1934	2	No	No	29	15	22
Kansas	1937	2.5	No	No	34	17	28
Kentucky	1960	3	No	No	New law - no experience		
Louisiana	1942	2	No	No	27	17	28
Maine	1951	3	Yes	Yes[a]	28	16	25
Maryland	1947	3	Yes	Yes	24	10	21
Michigan	1933	4	No	No	46	21	37
Mississippi	1930	3	No	No	33	29	44
Missouri	1934	3	No	No	27	13	22
Nevada	1955	2	No	No	45	17	28
New Jersey	1935			Tax repealed - 1935			

TABLE XIV (Cont'd.)

Comparison of Rates, Food and Medicine Exemptions and Sales Tax Collections Among the States*

State	Year Eff.	Retail Rate % (Jan. 1962)	Is Food Exempt ?	Is Medicine Exempt ?	General Sales and Use Tax Collections - 1960: Per Capita	Per $1,000 Personal Income	Per $1,000 Retail Sales
New Mexico	1935	3%	No	No	$43	$24	$38
New York	1933		Tax repealed - 1934				
N. Carolina	1933	3	No	No	19	13	21
N. Dakota	1935	2.25	No	Yes[a]	25	16	20
Ohio	1935	3	Yes	No	27	12	22
Oklahoma	1933	2	No	No	24	14	22
Pennsylvania	1953	4	Yes	Yes[a]	29	13	25
Rhode Island	1947	3	Yes	Yes	29	13	25
S. Carolina	1951	3	No	No	28	21	36
S. Dakota	1933	2	No	No	23	15	19
Tennessee	1947	3	No	No	29	20	30
Texas	1961	2	Yes	Yes	New Law - no experience		
Utah	1933	3	No	No	32	18	28
Vermont	1933			Tax repealed - 1935			
Washington	1933	4	No	No	91	41	71
W. Virginia	1921	2	No	No	46	28	51
Wisconsin	1961	3	Yes	Yes	New law - no experience		
Wyoming	1935	2	No	No	37	17	28

[a]Exemption applies to prescription medicine only.

[b]A 2% sales and use tax was recently adopted in Indiana which will become effective July 1, 1963

*Tax Foundation, Inc., Retail Sales and Individual Income Taxes in State Tax Structures, (January, 1962), Tables 7-9, pp. 23,25,27.

V. USE TAX

A. Historical Background

The use tax differs from the sales tax in that the use tax is levied on the privilege of owning or possessing goods within the taxing state in contrast to the sales tax which is imposed on the privilege of purchasing such goods. Originally, sales tax laws did not include out-of-state transactions within their taxing provisions. The exemption provided an incentive for a buyer to purchase goods in non-sales tax states in order to evade the tax. This situation placed dealers in sales tax states at a disadvantage compared with merchants in states not imposing a sales tax. Purchase of merchandise from without the state resulted in loss of revenues as well as opposition from local merchants to this form of taxation.[1]

The primary obstacle to state taxation of goods purchased outside of the state was thought to be Article I, Section 8 of the United States Constitution which gives Congress the power to regulate commerce among the states. This provision was generally considered to mean that interstate transactions could not be taxed by the states.[2] Nevertheless, in 1935, the State of Washington attempted the device of imposing a tax on the use, storage, or consumption within the state of property purchased outside of Washington.[3] This tax was tested and upheld by the United States Supreme Court in 1937.[4] Other states were quick to follow Washington's lead, and at the present time, every state imposing a sales tax also imposes a supplemental use tax.

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[1] Roy G. Blakey and Gladys C. Blakey, Sales Taxes and Other Excises, (Chicago: Public Administration Service, 1945), p. 18.

[2] Ibid., p. 18.

[3] Reuben A. Zubrow, Robert L. Decker, E. H. Plank, Financing State and Local Government in Nevada, (Carson City: Nevada Legislative Counsel Bureau, 1960), p. 406.

[4] Henneford v. Silas Mason, 300 U.S. 577 (1937)

B. The Use Tax In Iowa

The use tax was adopted in Iowa by the Forty-Seventh General Assembly in 1937 and became effective on April 15, 1937.[1] Originally a tax of two percent of the purchase price of tangible personal property purchased outside of Iowa was imposed on the "use" in this State of such property. When the Fifty-Sixth General Assembly temporarily increased the rate of the sales tax to 2½% from July 1, 1955, to June 30, 1957, the use tax rate was increased to the same amount for the same period of time.[2] After June 30, 1957, the rates again reverted to the present 2% rate.

The term "use" under Iowa law means " . . . the exercise by any person of any right or power over tangible personal property incident to the ownership of that property . . ."[3] but does not include property held for "processing" or "sale" in the regular course of business. However, industrial materials and equipment purchased outside of this State are subject to the use tax if the property purchased was "readily obtainable in Iowa"[4] even though such property is held for "processing."

The term "readily obtainable in Iowa" has been construed by the Iowa Supreme Court to mean " . . . readily obtainable generally by those engaged in the particular industry, the exigency or knowledge of the purchaser . . ."[5] not being material. " . . . (An) article is not 'readily obtainable in Iowa' unless it can be procured in kind and quality fairly equivalent to the item purchased outside (of this state)."[6] The item in question must be " . . . kept in Iowa for sale

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[1] Iowa, <u>Acts of the Regular Session</u>, 47th General Assembly (1937) c. 198, sec. 2.

[2] Iowa, <u>Acts of the Regular Session</u>, 56th General Assembly, (1955) c. 45, sec. 9 (Motor vehicles, trailers, and motor vehicle accessories and equipment were exempt from the ½% use tax rate increase.)

[3] <u>Code of Iowa</u> (1962), sec. 423.1.

[4] <u>Ibid</u>.

[5] <u>Dain Mfg. Co. of Iowa v. Iowa State Tax Commission</u>, 237 Iowa 531, (1946), p. 540.

[6] <u>Ibid</u>., p. 537.

or manufactured in Iowa for sale as distinguished from being obtainable by giving an order to an agent in Iowa for delivery (of the same) from some point outside the state of Iowa."[1]

Property purchased outside of Iowa is subject to the use tax even though such property was used in another state before being brought into Iowa if the property was intended for subsequent use in Iowa when purchased.[2] Although the property may be depreciated in value when brought into Iowa, such property is nevertheless subject to a tax of two percent of its full purchase price.

However, many items of property which are purchased outside of this State and used in Iowa are not subject to the use tax. Property on which a sales tax is collectible is not also subject to the use tax. Property used primarily in interstate transportation or commerce is not subject to this tax, nor is property taxable which is brought into this State by a nonresident for his use or enjoyment while within the State.[3] The use tax is not collectible from the use of property upon which the state now imposes and collects a special tax, with the exception of beer, cigarettes, and airplanes,[4] nor is the tax imposed upon property which is specifically exempted from the sales tax under Section 422.45 of the Iowa Code (1962).[5]

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[1] Code of Iowa (1962), sec. 423.10.

[2] Western Contracting Corporation v. Iowa State Tax Commission, 112 NW 2d 326 (1962).

[3] Code of Iowa (1962), secs. 423.2 and 423.4.

[4] Code of Iowa (1962), sec. 423.3.

[5] Section 422.45 exempts the following property from the sales tax:

(1) Property exempt from taxation under the Federal or State Constitution.
(2) The sale of transportation service.
(3) Receipts from fairs, and religious, charitable and educational activities.
(4) Property traded-in for other property.
(5) Property used for public purposes.
(6) Property sold to contractors in fulfillment of a written contract with Iowa or any of its political subdivisions, if the property is an integral part of such contract and becomes public property at the completion thereof.

An additional exemption exists for property used in the operation of street railways,[1] if not readily obtainable in Iowa. Finally, to the extent a sales, use, or occupational tax was paid in the state of purchase, no Iowa tax becomes due when the property is subsequently brought into this State;[2] i.e., if the purchaser of the property in question paid a 3% sales or use tax on such property in Wisconsin, no tax is collectible in Iowa.

The use tax imposed upon new motor vehicles or trailers is payable to the " . . . county treasurer from whom the original certificate of registration for such motor vehicle or trailer is obtained."[3] The county treasurer in turn must remit the taxes so collected to the State. Any retailer who maintains a place of business in this State, must collect and remit use taxes due and payable to Iowa upon goods purchased in the out-of-state stores owned by such retailer.[4] Retailers maintaining a place of business outside the State may be authorized by the State Tax Commission to collect the use tax.[5]

The use tax which is not collected by the above methods must be paid directly to the State Tax Commission by any person using property subject to the tax within the State. Such tax must be paid quarterly " . . . in such manner and accompanied by such returns as the commission shall prescribe."[6] However, it is estimated that some of the tax, the payment of which is the responsibility of the individual taxpayer, is never collected by the State due to neglect, ignorance, or fraud on the part of the taxpayer.[7]

The use tax has proven to be a productive source of revenue in Iowa accounting for $15,024,223.05 in State revenues for the

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[1] Code of Iowa (1962), sec. 423.4.

[2] Code of Iowa (1962), sec. 423.25.

[3] Code of Iowa (1962), sec. 423.7.

[4] Code of Iowa (1962), sec. 423.6.

[5] Code of Iowa (1962), sec. 423.10.

[6] Code of Iowa (1962), sec. 423.14.

[7] Information received from the Use Tax Division of the State Tax Commission.

fiscal year ending June 30, 1962. Of this amount, $6,625,894.45[1] went to the Road Tax Use Fund, by virtue of Section 312.1 of the Iowa Code (1962) which provides that all revenue derived from the use tax imposed upon new motor vehicles[2] and trailers must be paid into such Fund.

TABLE XV

THE USE TAX AS A SOURCE OF REVENUE IN IOWA*

Year	Receipts
1962	$15,024,223.05
1961	15,283,060.35
1960	12,746,573.38
1959	12,019,516.14
1958	11,204,835.79
1957	12,253,403.78
1956	11,516,444.19
1955	10,513,674.57
1954	9,739,022.84
1953	8,490,915.41

*Information obtained from the Iowa State Tax Commission.

Use tax receipts, like income and sales tax receipts, have increased in Iowa throughout the past ten years. At least three factors are responsible for the increase in use tax receipts according to the Use Tax Division of the State Tax Commission. The factors influencing the receipts are the following: A greater number of out-of-state vendors being registered to collect the use tax; more intensive emphasis in notifying and informing people that the use tax must be collected on taxable items; and the Iowa Supreme Court decision in Northern Natural Gas Company v. Lauterback[3] held that communications and transportation equipment brought into Iowa for eventual use in interstate commerce was subject to the Iowa use tax. The use tax, like the sales tax, is significant in the fact that a relatively slight increase in the tax rate would produce proportionately a considerable increase in the amount of use tax revenue.

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[1] Information obtained from the Office of the State Comptroller.

[2] Revenue from the use tax imposed upon the sale of motor vehicle accessories and equipments also reverts to the Road Use Tax Fund.

[3] Northern Natural Gas Company v. Lauterback, 251 Iowa 885 (1960).

C. Trends

Use taxes are generally similar throughout the states, being imposed on the " . . . use, storage, or consumption of tangible personal property that would be subject to the sales tax if bought in the states."[1] The rates of the sales and use taxes are identical in the states [See Table XIII, p. 59] and an increase in state sales tax rates in the past has been accompanied by a similar increase in the use tax rate. For this reason, reference is made to "State Trends in Sales Taxation," p. 46.

D. Arguments For and Against the Use Tax

The primary rationale in favor of the use tax is that this form of taxation is necessary to prevent sales tax evasion by out-of-state purchases. The use tax is also imposed for the purpose of equitable adjustment of local and interstate business by placing dealers in a state having a sales tax " . . . on a tax equality with out-of-state vendors whose sales are not subject to sales tax."[2]

Critics of the use tax argue that the use tax seriously hinders interstate commerce and is an additional trade-barrier between the states,[3] contending that this form of taxation offers " . . . tremendous possibilities to create trade barriers that will be just as destructive to business in the United States as those which exist between the various countries of the world have proved to be."[4]

Since the use tax is supplemental and complementary to the sales tax, and is imposed on the same types of goods or property, the arguments for and against the use of the sales tax in state structures also apply to the use tax, and will not be repeated in this chapter. [See, Arguments For and Against the Sales Tax, p. 52.]

E. Proposed Legislative Changes to Iowa Use Tax Law

In the past, it has been the practice of states to amend use tax provisions at the same time that sales tax statutes are changed. Iowa followed this practice by increasing the use tax rate from 2% to 2½% for the period July 1, 1955 to June 30, 1957 when the Iowa sales tax rate was increased accordingly.[5] The major exception

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[1] Sales Taxes and Other Excises, p. 19.

[2] Peoples Gas and Electric Company v. State Tax Commission, 238 Iowa 1369 (1947).

[3] Sales Taxes and Other Excises, p. 20..

[4] Fred I. Kent, "Effect of Trade Wars Upon Our Economic Life," Proceedings, National Conference on Interstate Trade Barriers, 1939, p. 53, quoted in Sales Taxes and Other Excises, p. 20.

[5] Iowa, Acts of the Regular Session, 56th General Assembly (1955), c. 45, sec. 9.

to the Iowa rate increase was that the ½% use tax increase did not apply to the sale of motor vehicles, trailers, and motor vehicle accessories and equipment.[1] These same items were also exempt from the use tax increase in proposed legislation raising the sales and use tax rate introduced into the Fifty-Seventh Iowa General Assembly.[2]

A listing of proposed changes in the sales tax statutes which were not adopted by the Iowa General Assembly can be found in Section G of Chapter IV. Notation has been made in Chapter IV of the proposed sales tax amendments which also would have amended Iowa use tax statutes.

Changes have been introduced into the Iowa General Assembly within recent years which were independent of proposed sales tax amendments. Most of these proposals affected the use tax exemption provisions. Seven bills or amendments to bills introduced into the General Assembly since 1953 which were not adopted would have amended the exemption relating to the taxation of tangible property used in interstate transportation or commerce.[3] One proposal would have allowed a series of transactions between a seller and a buyer which took place within one quarterly tax period and not totaling over $50.00 to be treated as a single transaction.[4] Legislation introduced into the Fifty-Eighth General Assembly would have permitted the exemption of payment of use tax on the purchase of out-of-state goods if the purchased goods were returned to the seller for refund of full purchase price in cash or credit.[5] Six additional amendments were also introduced during this period which would have changed exemption provisions relating to items used in agriculture[6] or processing,[7] materials "not readily obtainable" in Iowa,[8] and equipment used in Iowa by out-of-state contractors.[9]

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[1] Ibid.

[2] 57th General Assembly(1957); H.F.406, H.F.409, S.F.418, S.F.460.

[3] 55th General Assembly (1953); S.F.425, H.F.409: 56th General Assembly (1955); H.F.459, Amendment to H.F.459: 57th General Assembly (1957); H.F.34: 59th General Assembly (1961); S.F.233, H.F.346.

[4] 56th General Assembly (1955); H.F. 165.

[5] 58th General Assembly (1959); H.F. 538.

[6] 58th General Assembly (1959); S.F. 15, H.F. 96.

[7] 57th General Assembly (1957); S.F. 411.

[8] 55th General Assembly (1953); H.F. 154.

[9] 55th General Assembly (1953); H.F. 424: 56th General Assembly (1955); H.F. 460.

TABLE XVI

STATE AND LOCAL TOTAL AND PER CAPITA TAX COLLECTIONS BY STATE *
Selected Fiscal Years 1942-1960

State	Amount (Millions)				Per Capita (a)			
	1942	1953	1957	1960	1942	1953	1957	1960
Total	$8,528	$20,908	$28,817	$36,117	$ 63.68	$132.07	$169.22	$200.67
Alabama	81	230	320	385	27.61	74.62	101.19	117.60
Alaska	-	-	-	37	-	-	-	160.53
Arizona	34	121	183	275	65.54	135.22	169.83	208.35
Arkansas	56	143	179	225	28.15	79.00	100.33	125.67
California	668	2,176	3,311	4,409	86.40	178.99	238.57	278.18
Colorado	83	221	314	406	74.32	153.80	189.04	231.17
Connecticut	144	299	462	543	80.11	141.27	203.60	213.03
Delaware	16	36	59	89	55.77	100.05	135.44	198.66
Florida	116	441	667	920	53.80	134.09	158.42	183.98
Georgia	100	338	470	559	31.18	94.55	124.63	141.55
Hawaii	-	-	-	152	-	-	-	236.76
Idaho	30	81	100	127	61.79	137.03	155.53	188.97
Illinois	589	1,219	1,732	2,084	73.12	135.27	178.53	206.04
Indiana	202	542	639	840	57.55	129.82	141.67	179.65
Iowa	154	387	490	567	63.23	145.66	175.94	205.47
Kansas	106	289	369	474	60.14	145.77	175.54	217.86
Kentucky	95	232	325	362	34.04	78.38	106.79	118.67
Louisiana	122	379	498	616	48.06	132.89	162.50	188.47
Maine	51	116	141	188	60.31	128.28	149.83	193.43
Maryland	107	308	461	619	53.54	120.91	159.31	198.72
Massachusetts	358	797	1,018	1,208	81.96	167.11	210.86	233.79
Michigan	371	1,003	1,396	1,701	66.81	146.04	181.22	216.79
Minnesota	196	461	600	743	73.45	150.62	180.86	216.99
Mississippi	73	176	234	283	32.91	82.02	108.19	129.95
Missouri	186	419	554	659	48.63	103.02	130.61	152.11

TABLE XVI (Cont'd.)

STATE AND LOCAL TOTAL AND PER CAPITA TAX COLLECTIONS BY STATE*
Selected Fiscal Years 1942-1960

State	Amount (Millions)				Per Capita (a)			
	1942	1953	1957	1960	1942	1953	1957	1960
Montana	39	82	126	149	74.68	134.51	187.77	219.32
Nebraska	65	165	201	246	52.25	123.77	140.05	173.76
Nevada	11	35	60	79	82.19	178.43	230.01	273.26
New Hampshire	34	70	87	108	70.68	127.67	151.98	177.34
New Jersey	346	729	991	1,262	80.51	141.60	176.36	206.90
New Mexico	25	89	128	167	49.84	118.15	157.57	174.63
New York	1,386	2,855	3,723	4,838	106.63	184.52	230.58	287.54
North Carolina	146	398	503	625	40.93	95.24	112.52	136.91
North Dakota	44	86	108	126	75.98	137.53	167.13	198.26
Ohio	435	975	1,404	1,799	62.48	114.01	152.52	184.73
Oklahoma	115	282	347	413	51.97	132.37	153.53	177.07
Oregon	78	241	350	399	70.49	148.25	200.56	224.93
Pennsylvania	644	1,205	1,777	1,963	66.36	113.32	161.37	173.09
Rhode Island	49	106	130	169	66.04	129.92	151.85	197.55
South Carolina	72	216	246	309	35.88	96.15	103.76	129.31
South Dakota	40	92	113	135	67.47	138.85	162.77	198.09
Tennessee	106	287	404	481	36.04	86.78	117.42	134.51
Texas	271	859	1,259	1,561	40.42	102.10	137.20	162.30
Utah	37	95	137	176	64.89	126.19	162.83	196.87
Vermont	22	51	65	87	64.88	136.90	175.33	222.51
Virginia	112	315	492	583	36.81	89.60	128.43	133.89
Washington	136	387	514	652	71.39	155.99	188.60	228.04
West Virginia	87	173	220	269	47.62	87.45	112.18	145.02
Wisconsin	228	550	709	855	74.80	155.82	183.61	215.67
Wyoming	16	48	61	78	65.59	163.08	191.31	235.54
District of Columbia	46	111	143	165	54.14	131.56	174.70	216.67

(a) Based on population, excluding armed forces overseas, at the end of fiscal year.

*Tax Foundation, Inc., *Facts and Figures on Government Finance* (Englewood Cliffs: Prentice-Hall, Inc., 1963) Twelfth Edition, Table 112, p. 150.

TABLE XVII

Economic Burden of Property Tax Collections (1961)*

Per Capita			Percent of Personal Income		
Rank	State	Amount	Rank	State	Percent
1.	New Jersey	$149.33	1.	Kansas	6.9%
2.	Massachusetts	148.32	2.	Montana	6.7
3.	California	148.29	3.	South Dakota	6.7
4.	Kansas	148.09	4.	North Dakota	6.5
5.	Montana	132.11	5.	Iowa	6.1
6.	New York	130.90	6.	Minnesota	6.1
7.	Iowa	130.51	7.	Nebraska	6.0
8.	Minnesota	130.46	8.	Wisconsin	5.8
9.	Nebraska	130.12	9.	Massachusetts	5.7
10.	Wisconsin	126.43	10.	New Jersey	5.5
11.	Connecticut	125.63	11.	New Hampshire	5.4
12.	South Dakota	124.93	12.	California	5.3
13.	Colorado	122.01	13.	Wyoming	5.2
14.	Illinois	119.46	14.	Maine	5.1
15.	Wyoming	118.05	15.	Michigan	5.1
16.	Michigan	115.09	16.	Colorado	5.0
17.	New Hampshire	114.17	17.	Idaho	5.0
18.	Oregon	106.56	18.	Utah	4.9
19.	Indiana	104.42	19.	Vermont	4.9
20.	North Dakota	102.19	20.	Indiana	4.7
21.	Ohio	100.72	21.	Oregon	4.7
22.	Nevada	100.33	22.	Arizona	4.6
23.	Rhode Island	99.77	23.	New York	4.6
24.	Utah	96.83	24.	Illinois	4.5
25.	Arizona	96.26	25.	Rhode Island	4.4
26.	Maine	93.95	26.	Connecticut	4.3
27.	Vermont	92.41	27.	Ohio	4.3
28.	Idaho	90.35	28.	Texas	4.0
29.	Maryland	85.92	29.	Florida	3.9
30.	Texas	79.87	30.	Maryland	3.5
31.	Missouri	78.35	31.	Missouri	3.5
32.	Florida	77.00	32.	Nevada	3.3
33.	Washington	75.60	33.	Washington	3.2
34.	Pennsylvania	65.06	34.	Oklahoma	3.1
35.	Oklahoma	58.47	35.	Mississippi	3.0
36.	Virginia	53.17	36.	Pennsylvania	2.9
37.	Delaware	47.16	37.	Georgia	2.8
38.	New Mexico	46.90	38.	Kentucky	2.8
39.	Kentucky	45.64	39.	Tennessee	2.8
40.	Georgia	45.35	40.	Virginia	2.8

TABLE XVII (cont'd.)

Economic Burden of Property Tax Collections (1961)*

Per Capita			Percent of Personal Income		
Rank	State	Amount	Rank	State	Percent
41.	Alaska......... (47th, $33.65)	44.87**	41.	Louisiana.......	2.7
42.	Tennessee......	44.54	42.	Arkansas........	2.6
43.	Louisiana......	43.45	43.	New Mexico......	2.6
44.	West Virginia..	43.24	44.	West Virginia...	2.6
45.	North Carolina.	40.75	45.	North Carolina..	2.5
46.	Arkansas.......	37.62	46.	South Carolina..	2.1
47.	Mississippi....	37.34	47.	Alabama.........	1.7
48.	Hawaii.........	31.51	48.	Alaska..........	1.7
49.	South Carolina.	30.16	49.	Delaware........	1.6
50.	Alabama........	25.26	50.	Hawaii..........	1.3
	United States..	98.35		United States...	4.3

*Information obtained from: National Education Association, Rankings of the States, 1963, Research Report, pp. 49 and 50.

**The purchasing power of $1 in the two largest Alaska cities is about 74¢ as compared with $1 in 20 large cities covered by the Consumer Price Index of the U.S. Bureau of Labor Statistics. BLS reports May 1962 prices in Anchorage at 26 percent and in Fairbanks at 35 percent higher than in Seattle. The latest intercity index by BLS (1959) shows Seattle at an index of 106 in relation to the median index of 100 for 20 large cities. The weighted index for the two Alaska cities is 28 percent higher than Seattle's 106, or 136 in relation to 100 for 20 large cities. Therefore, all dollar amounts shown for Alaska should be reduced about one-fourth to make them roughly comparable with those of other states.

TABLE XVIII

Economic Burden of State Tax Collections (1962)*

Per Capita			Percent of Personal Income		
Rank	State	Amount	Rank	State	Percent
1.	Hawaii.........	$201.38	1.	Hawaii..........	8.6%
2.	Delaware......	199.06	2.	Louisiana.......	8.6
3.	Washington....	180.07	3.	Mississippi.....	7.2
4.	Nevada........	177.48	4.	New Mexico......	7.0
5.	Alaska........ (19th,$117.07)	156.09**	5.	South Carolina..	6.9
6.	Louisiana.....	146.12	6.	Washington......	6.9
7.	California....	144.51	7.	Arkansas........	6.4
8.	New Mexico....	140.49	8.	Oklahoma........	6.4
9.	New York......	136.71	9.	North Carolina..	6.3
10.	Arizona.......	134.38	10.	North Dakota....	6.2
11.	Colorado......	131.63	11.	Arizona.........	6.1
12.	Oklahoma......	130.46	12.	Vermont.........	6.1
13.	Wyoming.......	130.17	13.	Georgia.........	6.0
14.	Maryland......	126.72	14.	Kentucky........	6.0
15.	Michigan......	126.67	15.	West Virginia...	5.9
16.	Utah..........	126.56	16.	Alabama.........	5.7
17.	Vermont.......	125.75	17.	Idaho...........	5.7
18.	Connecticut...	118.56	18.	Delaware........	5.6
19.	Oregon........	118.22	19.	Utah............	5.6
20.	North Carolina	116.85	20.	Michigan........	5.4
21.	Minnesota.....	116.25	21.	Tennessee.......	5.4
22.	West Virginia.	114.98	22.	Wyoming.........	5.4
23.	Wisconsin.....	114.29	23.	Nevada..........	5.3
24.	Rhode Island..	111.66	24.	Colorado........	5.1
25.	Florida.......	107.92	25.	Florida.........	5.1
26.	Pennsylvania..	106.36	26.	Minnesota.......	5.1
27.	Montana.......	105.32	27.	Montana.........	5.1
28.	Idaho.........	105.10	28.	Alaska..........	5.0
29.	Massachusetts.	105.03	29.	Wisconsin.......	5.0
30.	Kansas........	104.05	30.	California......	4.9
31.	South Carolina	101.19	31.	Maine...........	4.9
32.	Georgia.......	101.05	32.	Oregon..........	4.9
33.	Kentucky......	100.54	33.	Rhode Island....	4.9
34.	North Dakota..	100.10	34.	Pennsylvania....	4.7
35.	Iowa..........	99.50	35.	Kansas..........	4.6
36.	Arkansas......	98.65	36.	Maryland........	4.6
37.	Texas.........	96.17	37.	Iowa............	4.5
38.	Illinois......	95.57	38.	South Dakota....	4.4
39.	Maine.........	94.14	39.	Virginia........	4.4
40.	Mississippi...	92.36	40.	New York........	4.3

TABLE XVIII (cont'd.)

Economic Burden of State Tax Collections (1962)*

Per Capita			Percent of Personal Income		
Rank	State	Amount	Rank	State	Percent
41.	Tennessee.....	91.03	41.	Texas..........	4.1
42.	Missouri......	90.29	42.	Indiana.........	3.9
43.	Ohio..........	90.29	43.	Massachusetts...	3.9
44.	Alabama.......	89.55	44.	Ohio............	3.8
45.	Indiana.......	89.18	45.	Missouri........	3.5
46.	Virginia......	88.59	46.	Connecticut.....	3.3
47.	South Dakota..	82.33	47.	New Hampshire...	3.3
48.	New Hampshire.	74.58	48.	Illinois........	3.2
49.	New Jersey....	69.07	49.	Nebraska........	3.0
50.	Nebraska......	66.22	50.	New Jersey......	2.3
	United States.	112.86		United States...	4.6

*Information obtained from: National Education Association, Rankings of the States, 1963, Research Report, pp. 50 and 51.

**The purchasing power of $1 in the two largest Alaska cities is about 74¢ as compared with $1 in 20 large cities covered by the Consumer Price Index of the U.S. Bureau of Labor Statistics. BLS reports May 1962 prices in Anchorage at 26 percent and in Fairbanks at 35 percent higher than in Seattle. The latest intercity index by BLS (1959) shows Seattle at an index of 106 in relation to the median index of 100 for 20 large cities. The weighted index for the two Alaska cities is 28 percent higher than Seattle's 106, or 136 in relation to 100 for 20 large cities. Therefore, all dollar amounts shown for Alaska should be reduced about one-fourth to make them roughly comparable with those of other states.

TABLE XIX

SOURCES OF IOWA STATE REVENUE

Estimates of the 1961-1963
Legislative Advisory Committee
on State Revenue

Additional Sources of Revenue	Annual Estimates
(Based on 1961-1962 Revenue Collections unless otherwise indicated)	
1. Increase Sales Tax & Use Tax 1%	$35,000,000[a]
2. Increase Corporation Income Tax 1%	1,450,000
3. Increase 2% Sales Tax to cover all Services	Not Available[1]
4. Increase Rates of State Income Tax to "100%"	15,000,000[a]
5. Increase as result of withholding of State Income Tax (No previous figures available for estimate verification)	1,000,000[b] (Min.)
6. Increase as result of the repeal of the following exemptions in the Sales & Use Tax:	
a. "Readily-available" Provision of the Use Tax Law -	1,500,000[b]
b. "Trade-In" Provision of the Sales Tax Law -	4,500,000[b,2]
7. Liquor-By-The-Drink: Provisions License Fees to State $500 allocated on population basis. 10% Tax on each sale by-the-drink Revenue if:	
a. Maximum Permits issued (exclusive of clubs)	3,105,000
b. One-third of Liquor Store Sales of Distilled Spirits & Wines were sold by-the-drink	4,977,350

[a] Estimates of the Comptroller [b] Estimates of the Tax Commission

[1] The 1956 Tax Study Committee estimated a 2% sales tax on services would yield $15,000,000. Other estimates presented to the Study Committee range to $45,000,000.

[2] Approximately $3,000,000 of the revenue received from the repeal of this law would go to the Road Use Tax Fund.

TABLE XIX (cont'd.)

Additional Sources of Revenue (Continued)	Annual Estimates
8. Enactment of an Unclaimed Property Tax Law	Not Available
9. Revenue for Local Governments from Tax Exempt Property such as charitable, educational and religious organizations	Not Available
10. Single Rate Adjusted Gross Income Tax Adjusted Gross Income in Iowa, 1962 Fiscal Year - $3,851,748,612	
1% Rate	$38,517,486
1½% Rate	57,776,229
11. Revenue from $3.00 annual sales tax permit fee (As of December 31, 1962, the State Tax Commission had record of approximately 70,000 active sales tax permits.)	210,000[3]
12. Revenue from $5.00 income tax return filing fee (The State Tax Commission records show 810,443 state income tax returns filed in 1962; 232,600 no pay, 577,843 pay.)	4,000,000
13. Increase as result of the repeal of the tax exemption on insurance premiums allowed to Mutual, Health, and Fraternal Insurance Companies	1,000,000[c]

[c] Estimate of the State Department of Insurance

[3] This figure would be substantially increased if all individuals selling at retail were required to obtain sales tax permits and if the General Assembly adopted a service tax.

TABLE XX

AMOUNTS NEEDED TO REPLACE OR IMPLEMENT PROGRAMS OF STATE & LOCAL GOVERNMENTS

Estimates of the 1961-1963
Legislative Advisory Committee
on State Revenue

1.	Amount necessary to equal 1961-63 Budget (annually)	$193,890,439.93
2.	Amount necessary to replace Moneys & Credit Tax less amount for Korean War Bonus Bonds (1962)	5,903,394.69
3.	Amount necessary to replace county payments to state for county patients in state institutions (1962)	14,000,000.00
4.	Amount necessary to replace Agricultural Land Tax Credit (1962)	11,250,000.00
5.	Amount necessary to replace Homestead Credit (1962)	29,000,000 approx
6.	Amount necessary to replace Veterans Exemption (1962)	2,708,265 approx
7.	Amount necessary to replace the following property tax receipts at the local level	
	a. Merchandise Inventories (1961) Valuation $175,567,023 average city millage 1961 - 93.742	16,458,003.86
	b. Personal Property Tax on Livestock (1961) Valuation $198,006,298 average rural millage 1961 - 62.734	12,421,727.09
	c. Personal Property Tax on Farm Machinery (1961) Valuation $162,705,832 average rural millage 1961 - 62.734	10,207,187.66
	d. All Personal Property Tax other than Industrial Personal (1962)	52,742,676.32
8.	Amount necessary to replace revenue obtained from liquor book permits	300,000.00
9.	Amount necessary to implement Kerr-Mills Bill	4,000,000.00
10.	Amount necessary for Area Community Colleges	Not Available

11.	Amount necessary to increase State School Aid and give Property Tax Relief	$ 39,000,000*
12.	Board of Regents Budget to be submitted to 1963 General Assembly	
	a. Capital Improvements	17,000,000
	b. Salaries, Support, Maintenance, Equipment, Repairs, Replacements & Alterations	110,102,219

*Amount the Tentative School Foundation Program would require as developed by State Aid to Schools Committee. The amount is in addition to the present $23,000,000 appropriated for General and Supplemental Aids.