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Preliminary Report

of the

Committee on Reduction

of

Governmental Expenditures

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November 6, 1933.

To His Excellency, Clyde L. Herring, Governor of Iowa,

and

To the Senate and House of Representatives of the General Assembly
of Iowa:

Acting under the authority of Senate Joint Resolution No. 2, your Committee on Reduction of Governmental Expenditures has the honor to submit its report for the consideration of the Special Session.

To the extent that this report relates to tax revision only, as provided in the Property Relief Act, the Senate Committee on Tax Revision, appointed on the authority of a motion by Senator Geske, duly approved, and the members of the House appointed by the courtesy of Speaker George Miller of the House of Representatives, join in the recommendations.

Respectfully submitted,

WM. F. RILEY, *Chairman*

JOHN K. VALENTINE, *Secretary*

D. W. KIMBERLY

EARL M. DEAN

JOHN SPEIDEL

M. X. GESKE

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LEROY S. MERCER

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PRELIMINARY REPORT OF THE COMMITTEE ON REDUCTION OF GOVERNMENTAL EXPENDITURES

Your Committee on Reduction of Governmental Expenditures, created by virtue of Joint Resolution No. 2 (Chapter 270, Acts 45th General Assembly), directed by that resolution "to report to the Governor and to this Legislature if in session, or to any special or adjourned session thereof," as well as to the Forty-sixth General Assembly when it will have convened in 1935, submits this report to the extraordinary session of the Forty-fifth General Assembly.

Your Committee engaged the Brookings Institution of Washington, D. C., to make for it a survey of administration in Iowa along the lines of Section 2 of the Joint Resolution. Their study extended also to the counties, townships and school districts, but except incidentally did not touch municipal administration or the legislative and judicial branches of the State government. The formal report of their survey was received in August. Part II of the report, consisting of four chapters, deals with

The Revenue System. It represents a careful, painstaking study and contains an exhaustive analysis of our system for the levy, assessment and collection of taxes.

When the report was received, your Interim Committee immediately communicated the fact to Senator M. X. Geske, Chairman of the special Senate committee composed of Senators M. X. Geske, I. G. Chrystal, E. R. Hicklin, Irving H. Knudson and Garritt E. Roelofs, and created, by virtue of the motion by Senator Geske, to study tax revision proposals (Senate Journal, March 28, 1933, Page 839). In order that both Houses might have similar representation in their consideration of this important question, Speaker Miller of the House of Representatives, who was asked by the Interim Committee and the Senate Special Committee to designate five members of the House to join in the study, named for that purpose five House members: Hons. Paul Cunningham, Ernest H. Fabritz, O. J. Grau, Leroy S. Mercer and C. L. Rice.

The entire joint committee of fifteen has studied the tax revision bills offered in the regular session of the Forty-fifth General Assembly, the report of the survey of the Brookings Institution, reports of previous legislative committees, and the reports and experience of other States. Public hearings have been held and the Committee has sought aid from every source that might contribute to a solution of this perplexing problem. The Committee is indebted to the advocates of the various forms of taxation proposed, and to many others, including the Board of Assessment and Review, the Des Moines Bureau of Municipal Research, and citizens who have appeared before it. Especially is it indebted to Dr. John E. Brindley of Ames, Iowa, for his valuable suggestions and assistance, and to Raymond J. Mischler of Council Bluffs, Iowa, who has served as assistant to the Committee. The joint committee was fortunate in having the benefit of the recommendations of the special committee of the National Tax Association, composed of tax students of national prominence, who, within the month, submitted to the national meeting of that Association in Phoenix, Arizona, their model plan of State and local taxation.

As a result of their study, the joint committee, composed of your Interim Committee and the special committees of Senate and House, submits to the Governor and to this General Assembly a revenue bill designated as the Property Relief Act, and recommends its adoption.

The urgent problem of tax revision is based on the necessity of the relief of property, the desirability of simplifying, co-ordinating and rendering more practical the machinery of assessment, and the need of providing for more strict supervision of tax levies and bond issues, to the end that new sources of revenue provided shall not be additional taxes, but shall in fact reduce the burden on property.

Eliminating the gasoline tax and motor vehicle license tax, used exclusively for road purposes, general property in the past has carried practically the entire burden of State and local taxation. In the case of schools, property has paid the entire tax with the exception of only a nominal support from the State for special purposes. The present

economic depression has, therefore, only accentuated the weight of a burden which has long been felt and which now must be permanently and substantially relieved if we are to maintain the institution of private property as such.

Table I shows the remarkable advance in State and local property taxes over a relatively short period of years.

TABLE I
TOTAL PROPERTY TAXES LEVIED IN IOWA

Date	Amount	Per Cent Increase
1912	\$ 36,520,982	100.0
1913	45,415,793	124.3
1914	46,475,206	127.2
1915	50,050,165	137.0
1916	53,646,556	146.8
1917	61,760,475	169.1
1918	65,582,166	179.5
1919	79,872,709	218.7
1920	96,454,244	264.1
1921	104,225,257	285.3
1922	105,152,289	287.9
1923	106,861,584	292.6

Using the property tax levy of 1912 as a base representing 100%, it will be observed that the property tax burden increased by leaps and bounds until only eleven years later, in 1923, we find the tax almost three times as great. In other words, property taxes increased out of all proportion to wealth, income or any other reasonable basis of comparison. Following 1923, there was first a small decrease, followed by a slight increase, until in the peak year of 1929 we have a property tax levy of \$110,754,929, with substantially the same levy the following year.

Beginning with the fiscal year 1930, when the immediate economic depression was well started, we discover a very substantial decrease in property tax levies to 100 million dollars in 1931, 91 million dollars, roughly, in 1932, and an estimated levy of approximately 80 million dollars or less for the current year, collectible in 1934. In other words, there is the remarkable decrease of at least 30 millions of dollars beginning with the property tax levy of 1930, or a decrease of about 27.3% in three years. When we think how painful this decrease has been when compared with the much more remarkable increase as noted in Table I, we see the true reason for relief in property taxation. The new sources of revenue from income, business, and retail sales taxes are intended to, and in the opinion of the Committee will decrease the relative and absolute amount of property tax levies by as much as one-half of the 1930 tax bill. That is the problem which we are endeavoring to solve in the bills now presented for the consideration of the General Assembly at its special session.

It is well to consider the fundamental principles of the property tax. The general property tax, as is well known, is based primarily on bene-

fits received, and only incidentally on faculty or ability to pay taxes. Research in New York and other states shows that at least 60 per cent of the property tax may reasonably be justified by special or general benefits actually received by property in the form of schools, roads and bridges, streets and alleys, police, fire protection, parks, and other well known governmental services. When we consider that highly industrialized states like Massachusetts, New York, and Wisconsin, with modern tax systems, still derive over 70 per cent of their revenue for State and local purposes from the property tax, it would seem reasonable for Iowa to derive half or more from that source.

Moreover, from the point of view of ability to pay taxes, the theory of the general property tax is market value in the ordinary course of trade, which is not based on income actually received for one, two, or three years, but on the probable income over a period of years. Temporary injustice may and does result in a depression like the present, but, by and large, in the course of time, the tax is just and reasonable.

DISTRIBUTION OF THE TAX BURDEN

In the past, the owners of property, or not more than one-third of the voters, have been obliged to bear the lion's share of the fiscal burden. People without property have gone to the polls and voted bonds for this, that or the other purpose, thus forcing large amounts of property to be sold for taxes.

The income tax, with as low exemptions as are practicable from an administrative standpoint, will about double the number of taxpayers. High exemptions, it should be stated frankly, frequently defeat this worthy and necessary purpose of income taxation. The customary sophistry should not delude the General Assembly into increasing exemptions so as to make the income tax a class tax.

Finally, the tax on gross income from retail sales has been added as the third part of the Committee's fiscal program for the reasonable, fair, and acknowledged purpose of requiring that substantial group of voters, who have been making no direct tax contribution, to contribute at least a small part of the burden of State and local taxation. The only practicable manner of accomplishing this result is by this method. In short, the three-point program makes every voter in the State a direct taxpayer.

The recommendation of the Joint Committee finds this support in the report of the committee of the National Tax Association mentioned above:

"Of the various expedients that have been proposed, we regard the tax on retail sales as the most eligible. This encounters no constitutional difficulties and fewer difficulties arising from interstate competition than are raised by sales taxes falling upon jobbers and manufacturers. The competition of mail-order houses is, of course, to be reckoned with; and this is a reason for keeping the rate of the tax moderate. Along state boundary lines there are some communities in which retailers encounter the competition of retailers in adjoining states, and this constitutes a second reason for a moderate tax rate. With

sales taxes increasing as rapidly as they have done during the past year, this latter complication is tending to disappear. The tax does not involve unfair discrimination against the retailer. If it were levied upon producers and were wholly shifted through increase of prices, the retailer although exempt from tax, would nevertheless be the person to whom would fall the obligation of passing the accumulated, or pyramided burden along to the consumer, who in the usual view of the case is assumed to bear the final burden. Finally, the tax is advantageous because it is placed at the point nearest to consumption, which is in accordance with sound fiscal policy. Administration is simple and inexpensive in the case of all dealers whose business is large enough to require them to make a return of their income either to the Federal or State government, since such returns must always include the figure of gross sales."

The Interim Committee, because of the time necessarily devoted to a study of tax revision with the special committees, has been unable independently to pursue its study of the other recommendations of the Brookings Institute and of our State and local governments to a point where they are willing at this time to make recommendations to the Legislature. Your Committee holds until the submission of its report to the Forty-sixth General Assembly, which will convene in January, 1935. It is our intent to continue our study and investigation, with the purpose of presenting to the Forty-sixth General Assembly a number of definite recommendations. It is probable that there will be some measures of immediate importance which your Committee may be able to submit to this special session of the Legislature.

The joint resolution creating the Committee provided only for its report to the Governor and to the Legislature. In the absence of provision for the printing of the entire report of the survey conducted by the Brookings Institution, consisting of more than 1400 pages, with tables and appendices, your Committee caused to be printed Part II, pertaining to the Revenue System, for the benefit of the members of the General Assembly, making a charge of fifty-five cents per copy to the general public to defray actual printing cost. It is hoped and suggested by your Committee that provision may be made for the general printing and circulation of the balance of the report, either for free distribution or at a price not to exceed actual cost.

It is desirable that in the consideration of these new measures, there will be realization of the necessity and importance of relieving the burden on property, and that the members may cooperate to that end. Otherwise, it is possible that the experience of past sessions will be repeated and that the session will end without relief from this tax burden.

Respectfully submitted,

WM. F. RILEY, *Chairman*
JOHN K. VALENTINE, *Secretary*
D. W. KIMBERLY
EARL M. DEAN
JOHN SPEIDEL.

MINORITY REPORT

We wish to concur in the Majority Report to the extent that a measure of tax relief is accomplished by its recommendations, but with the reservations hereafter enumerated.

It is our opinion that the results of this report constitute a step in the right direction. Greater equity in distributing the tax burden is obtained, but in our opinion if we stop there we have fallen short of the purposes and aims of this Committee when it was formed, and of the absolute demands of the people of the State, to-wit: actual and decisive tax relief for real and personal property.

In our opinion other tax suggestions, namely, the Gross Sales Tax, the Gross Income Tax, and the Classified Business Transactions Tax, which is a combination of the principle of the Net Income Tax and the Sales Tax, come nearer to solving the present and future needs of the State than the Bill of the majority of the Committee. We believe that the land owner of Iowa should not be satisfied until a tax limitation has been fixed by statute beyond which confiscatory taxes cannot rise. We believe that such a tax limitation cannot be determined until a measure or measures have been adopted which will furnish reliable, substantial and absolute replacement. In our opinion the Committee Bill fails in being a sufficient replacement tax, and it also fails in being sufficiently substantial so that the present or any future legislature might determine an adequate tax limitation upon tangible property.

We, therefore, recommend that the legislature give earnest consideration to Bills recognizing the principles herein mentioned, and which we understand will be introduced and referred to the proper Committees of the House and Senate.

Respectfully submitted,

PAUL H. CUNNINGHAM

E. R. HICKLIN.



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