STATE OF IOWA
1930

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REPORT OF

Joint Legislative Committee on Taxation

and

State Board of Assessment and Review

Appointed by authority of an Act of the
Forty-third General Assembly

Report Filed December 10, 1930

Published by
THE STATE OF IOWA
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LETTER OF TRANSMISSAL

December 10, 1930.

TO THE GOVERNOR AND TO THE
FORTY-FOURTH GENERAL ASSEMBLY
OF THE STATE OF IOWA:

The Joint Legislative Committee on Taxation appointed under the provisions of House Joint Resolution No. 9 (Chap. 401, Acts 43rd G. A.) passed by the 43rd General Assembly, and the State Board of Assessment and Review, submit herewith their report as required by the terms of said Joint Resolution.

C. F. CLARK, Chairman,
C. L. RIGBY,
GEO. W. PATTERSON,
HARRY M. GREENE,
J. H. JOHNSON,
MARION R. MCCAULLEY,
Joint Legislative Committee on Taxation.

LOUIS H. COOK, Chairman,
DR. J. W. REYNOLDS,
J. W. FOSTER,
State Board of Assessment and Review.

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HOUSE JOINT RESOLUTION NO. 9

(Chap. 401, Acts 43 G. A.)

WHEREAS, it is recognized that our present system of millage taxation in Iowa is unsuited to the present needs, is out of harmony with present conditions, and is old and inequitable, and unless changes be made and new ways and means of taxation be employed, increasingly unjust burdens will be imposed on that class of our people who own farms and dwellings, and tangible physical property, therefore

BE IT RESOLVED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. That a special tax committee of members of the House of Representatives and the Senate of the Forty-third General Assembly, consisting of six (6) members, be appointed, three (3) of whom shall be appointed by the Speaker of the House of Representatives from the members, and three (3) of whom shall be appointed by the Lieutenant Governor, president of the Senate, from the members, whose duty it shall be separately or in conjunction with the State Board of Assessment and Review to collect information and formulate proposed legislation which will provide the state revenue without direct property tax, and in conjunction with the said State Board of Assessment and Review make a written report and recommendations for said proposed legislation, said report to be made as soon as possible to an extra session of the 43rd General Assembly to be called by the Governor, or to the regular session of the 44th General Assembly; that such committee be given authority to employ stenographic and clerical help, call as witnesses the heads of departments of the state and others, and confer with tax specialists; and is directed to make its first report to the Governor on or before December 1, 1929.

WORK OF THE COMMITTEE

The Legislative Committee and the State Board have held public hearings throughout the state and have invited and called before them representatives of organizations of taxpayers and property interests, including the Farm Bureau Federation, the Farmers Union, State Federation of Labor, Iowa Bankers Association, Iowa Building & Loan Association, Iowa Manufacturers' Association, Retail Merchants Organizations, State Associations of Real Estate Boards, Domestic Life Insurance Companies, Railroads, and many of the public utilities.

Members of the Committee and Board have also personally attended sessions of the National Tax Association and visited State Tax Commissions and studied taxation statutes and made personal investigation regarding the operation of such statutes by visits to Kansas, Nebraska, Minnesota, Missouri, Wisconsin, Illinois, Ohio, Pennsylvania, New York, and other states. In these public hearings and committee meetings and conferences the Committee and Board have been in session for a total time nearly equal to the legislative days of a regular session of the General Assembly, in addition to the time spent in personal individual study, investigations, correspondence, and other methods of securing and compiling information.

We desire to express our appreciation for the assistance rendered the Committee and Board by Dr. John E. Brindley, head of the Department of Economics of the Iowa State College, and Dr. R. W. Nelson of the College of Commerce of the State University of Iowa.

COMMITTEE REPORT

The Joint Legislative Committee on Taxation, together with the State Board of Assessment and Review, have given careful consideration to the tax situation, as set out in the Preamble to House Joint Resolution No. 9, and in obedience to the mandate of the Resolution, submit this report, and recommend that the following changes be made in the revenue laws of the state.

RECOMMENDATIONS OF LEGISLATIVE COMMITTEE AND STATE BOARD

(1) That the present local assessor system be abolished, and that all assessments of real and personal property in each county be made under the direction of a full time county assessor, appointed by the Board of Supervisors and under the supervision of the State Board of Assessment and Review.

(2) That the assessment of the property of all privately owned public utilities and public service corporations be made directly by the State Board, and that valuations so fixed be reported by the Board to the county assessor.

(3) That the State Board be given more definite authority over subordinate assessing officials, and more definite oversight over individual assessments, together with a more definite statement of methods of procedure.

(4) That Code Section 7109 be amended to read as follows:

"In arriving at said actual value the assessor, after taking into consideration its productive and earning capacity, if any, past, present, and prospective, and all other matters that affect the actual value of the property, shall assess the property, giving primary consideration to its net productive capacity averaged over a period of five years."

(5) That a portion of the state general revenue be raised by an individual income tax, at graduated rates from one to five per cent on net taxable income, the tax to be levied on all income above a reasonable means of subsistence for the taxpayer and his family.

(6) That with the adoption of the individual income tax the tax rate on moneys and credits and other intangibles be placed upon lower and classified rates, ranging from a two mill rate on interest-bearing bank deposits and stock in building and loan companies to a maximum rate of six mills on certain intangibles.

(7) That mortgages on Iowa real estate be subjected to a moderate registration tax, and the debts secured thereby exempted from taxation as moneys and credits.

(8) That the present tax on cigarettes be increased, and a similar tax be imposed on the sale of all other forms of tobacco.

(9) That a tax be levied on billboards as a regulatory and revenue producing measure.

(10) That an inspection fee and excise tax be levied on all butter substitutes sold within the state of Iowa.

(11) As a means of raising revenue with which to reduce the present burdensome general property taxes for school purposes, we suggest for the consideration of the General Assembly a tax upon admission fees to public amusements ocnducted for pecuniary profit as recommended by the Joint Legislative Committee on Taxation of the 39th General Assembly; and suggest that the revenue derived from such source be distributed among the school districts of the state in proportion to school attendance, same to be used by such school districts as a replacement tax to decrease the present school tax burden upon general property.

(12) That statutes be enacted definitely authorizing municipalities to pass ordinances for the regulation of, and imposing a license fee upon, gasoline filling stations; and providing that refunds of gasoline license fees for gasoline used by airplanes be paid to the municipalities operating aviation fields to aid in maintaining such aviation fields.

(13) The Legislative Committee unites with the State Board in presenting to the General Assembly the bill prepared by the Board providing for the levying of franchise fees on corporations in the form of a tax on corporate excess.

(14) We further recommend that a committee be appointed with an adequate appropriation to continue the study of the tax problem in Iowa, and especially to investigate and report upon methods of limiting and controlling governmental expenditures, providing for greater efficiency and economy in public administration, and for the limitation of expenditures of public funds to the actual needs of the community, and in this connection to make a careful investigation of our present school system in its relation to efficiency of financial operation and tax expenditures.

(15) With these recommendations we submit a report stating our reasons for such recommendations and submit bills for the consideration of the legislature.

1. THE TAX SITUATION IN IOWA

It is unecessary for us to elaborate upon the fact that there is deep and wide-spread dissatisfaction throughout the state with our present taxation system. Our taxation statutes were enacted in 1853 and until the closing days of the 43rd General Assembly there were few material changes, aside from the moneys and credits flat rate statute enacted in 1911. While our taxation system may have been adequate for primitive, pioneer conditions, it has lagged behind economic changes and is wholly inadequate and unfair at the present time.

Since the appointment of our committee a similar legislative committee has reported to the Governor of Georgia, stating among other things:

> "It should by this time be perfectly obvious to every legislator and every intelligent citizen of the state that the general property tax, an ad valorem tax on all property at the same rate, is a complete and utter failure. This is not the experience of Georgia alone, but is the universal experience of the civilized world.
>
> "Every competent authority in the United States, Canada, and Europe, economist, tax administrator and financier, unqualifiedly

condemns the present system as 'unfair, unjust, unworkable and wholly unfitted to modern needs and conditions.'

"The experience of the few state that are still afflicted with this primitive form of taxation, furnishes accumulated and conclusive evidence that the general property tax is a relic of a by-gone day and totally out of place in the present industrial age. Georgia's greatest obstacle to progress, commercially, financially and industrially, is her outworn, inequitable and inadequate scheme of taxation."

The general dissatisfaction with the tax situation results from flagrant inequalities of assessment as between counties, minor taxation districts, and individual taxpayers, but even more than this, from the ever increasing burden of taxation upon real estate and tangible personal property and the failure of other forms of property and income to pay their fair share. This general distrust and dissatisfaction in regard to our present tax laws, together with the constantly mounting burden of taxation has greatly impaired real estate values, retarded business activities, and aroused a storm of protest against all governmental agencies engaged in, or maintained by, the collection of taxes.

In reply to a questionnaire sent out to all of the states by an interim committee of one of our adjoining states asking them if their present system of taxation was adequate, seven replied "No," and thirty-eight replied, "No, because tangible property is compelled to bear too great a proportion of the tax burden."

A fair tax system should distribute the burden upon all forms of taxpaying ability. The last few years have seen a rapid increase in taxpaying ability that escapes a part or all of its reasonable contributions. This includes the varied forms of intangible wealth and personal earnings in the form of fees, commissions, and salaries.

More than 96% of what we designate as our state and local taxes, not including special taxes, motor vehicle or gasoline license fees, are raised by the general property tax, and something less than 4% from moneys and credits on a six mill flat rate basis. For many years to come the greater portion of our local taxes must be raised by the general property tax. This makes necessary a thorough over-hauling of our present revenue statutes so that the general property tax may be imposed as equitably as possible.

Statisticians give the total annual earnings of the people of Iowa as approximately $1,500,000,000. The income from real estate is only about 25% of this total income, and yet under our present general property tax this 25% of the income of the state bears the burden of nearly 88% of the state and local taxes. Much may be accomplished

by more careful and rigid enforcement of our present tax laws, but we cannot expect substantial relief from rigid enforcement of a law that takes more than 88% of the taxes from the earnings of real estate, which constitute but 25% of the total earnings of the state.

In 1918 personal property constituted 15.20% of the total assessed valuation of the state, while in 1928 the percentage had dropped to 8.39%, although we know that the actual value of tangible personal property had been increasing during that time, while real estate values had been diminishing. This indicates the exposed position occupied by real estate. Our present problem is to relieve real estate from this ever increasing and intolerable tax burden, and the only known way to reduce the burden on real estate is to secure revenue from other sources.

This brief survey indicates that there are two phases of the taxation problem that are separate and distinct and should be given separate consideration, as follows:

(1) Changes in our present general property tax law, so that all property will be placed on the tax list and equitably assessed.

(2) Reduction of the present tax burden on real estate and tangible personal property, by broadening the tax base and securing revenues from forms of property and earnings now wholly untaxed or greatly undertaxed.

2. AMENDMENT TO GENERAL PROPERTY TAX LAW

(a) Assessments under Local Assessor System Unsatisfactory

From 1853 until 1929 Iowa attempted to administer her general property tax with a primitive rudimentary assessment system lacking any real head. Valuations were fixed by 2354 elective local assessors and 2354 local boards of review. Each assessor exercised his own individual judgment in the valuation of property, and as individual judgments are frequently divergent, it inevitably followed that there has often been a wide divergence in the valuation of the same type of property in the different taxing districts of the county, and an even greater divergence as between counties. There are from 20 to 35 local assessors in each county, each exercising his own individual judgment; therefore values have been measured in each county with from 20 to 35 yard sticks of different lengths. Furthermore, it is universally recognized that at all times there has been a competitive undervaluation of property, each local assessor endeavoring to reduce the level of values in his own district below that in the surrounding districts, and in this way, as well as by favoritism, conscious or unconscious, endeavoring to reduce the tax burden of his constituents.

The Committee has not considered it necessary to make an extended survey to determine the need for equalizing assessments. Such a survey was made by the Joint Legislative Committee on Taxation of the 39th General Assembly. The report of this committee filed January 30, 1923, states:

> "Perhaps the most important and far-reaching fact brought out in the hearings and investigations of your committee is the extent to which gross inequalities exist between individual taxpayers in the same taxing district; and finally between townships, towns, cities, and counties. This condition of affairs is a matter of common observation on the part of any person who takes the trouble to make even a superficial investigation of facts and conditions in his own locality. Inequality of assessment is the rule and uniformity the exception in Iowa. Hundreds of millions of dollars worth of taxable property and business find no place on the assessment rolls and therefore contribute nothing to the public burdens."

The 42nd General Assembly in 1927 provided that a part of the appropriation for the Agricultural Extension Department of Iowa State College "should be used for research work in the incidence of state and county taxes." This study resulted in the publication in 1929 of Extension Bulletin No. 150 "The Tax System of Iowa," by Dr. John E. Brindley and Grace S. M. Zorbaugh. Their examination and comparisons of assessments with sales values, both of rural and of town and city properties, during the year 1927 showed many properties assessed at from 6% to 15% of sales value and still larger numbers at more than 100% of sales value. At least one-fifth of the properties investigated were assessed at less than 35% of the sales value, one-fifth at more than 60%, the remaining three-fifths being assessed at various ratios between 35% and 60%, and with an average not far from 50%. This report shows that the properties assessed at less than 35% of sales value had an average value more than double those that were assessed at more than 60%.

This survey, together with subsequent investigations made by the Legislative Committee and State Board, shows vast differences in the percentage basis of real estate assessments in different cities and counties. It appears that in one city, real estate is assessed on a basis of 70% of actual value; in another, on the basis of 30%; and in others on bases varying between these extremes. These percentages apply to the average level of assessments; however, the worst feature of these inequalities is the fact that farms and homes of moderate value are frequently assessed at from 60% to 80% of actual value, whereas a better

class of homes, farms, and business properties are assessed at from 35% to 60%, while residences and business properties of still larger value are assessed at from 20% to 35%, and not infrequently at less than 20%.

The burden of our present general property tax rests most heavily upon the small home owners and the farmers,—those who are least able to pay. Sound public policy demands a system of taxation that tends to encourage ownership of farms and homes. The increasing burden of taxation, together with the maladministration of our present system, is increasing tenancy as people find it cheaper to rent farms and homes than to own and pay taxes on them.

(b) The County Assessor

We recommend the abolition of the elective township assessor, and the establishment of an appointive county assessor system. We regard this as the only possible remedy for the most fundamental defect of our assessment system,—the gross inequalities in assessment, both as between localities and as between individuals. The county assessor system is in successful operation in thirty-three states, and its adoption is being seriously considered in a number of others. In no state where the plan has been given a fair trial under proper centralized supervision has there been any sentiment in favor of a return to the local assessor system.

The general property tax is based upon the theory that a person's tax paying ability is measured by the value of the property, real and personal, owned by him. To render this system fair and equitable, so that each piece of property shall bear its proper share of the tax burden, two things are essential, to-wit:

(1) A complete listing of all taxable property; and

(2) Its equitable valuation.

Last year $107,000,000 in state and local taxes were levied on the real estate and tangible personal property of the state. No impartial student can for a moment contend that this immense tax burden was equitably apportioned.

One of the most serious defects in our present assessment system is the small area of the average assessment district. Good roads and the automobile have resulted in making the county today more accessible and more easily traversed, and therefore easier to know and administer for taxation purposes, than was the township thirty years ago. The automobile and good roads tend to eliminate time and distance. The last legislature decided that a road district or a township was too small a unit for road purposes, and in the interests of efficiency and economy the same rule should be applied to the matter of assessment and taxation.

There has been no overhauling of the assessment statutes of this state

since 1853, but since that time corporations have become prominent in the industrial and commercial life of the state, the total volume of wealth has increased many hundred-fold, and the varieties and complexities of taxable property have increased. All such developments have made the task of securing an equitable assessment progressively more difficult, until now the services of experts in valuation must be obtained if equality in tax burdens is to be realized. Assessments of property must be right in the first instance, and if the initial assessment is imperfectly made, no subsequent action by boards of review or equalization can overcome all its defects. If efficient expert assessors make a uniform assessment, boards of review will have little to do, as was the case recently in Des Moines where neither the board of review nor the court made a single change in the appraised value of business properties as fixed by special expert assessors.

The State Board of Assessment and Review, appointed less than a year and a half ago, has already fully justified its existence. The experience of the Board has removed any doubt that may have existed regarding the inefficiency of local assessors and local boards of review in handling the assessment problem. Some twenty million dollars of assessed value of tangible personal property and real estate, together with nearly one hundred million dollars of moneys and credits heretofore untaxed, have been added to the tax rolls. This was accomplished by the State Board acting through inefficient channels. If more energetic cooperation had been given by local officials generally, much more could have been accomplished. No tax commission can function effectively when working through 2354 locally elected officials who devote not more than one-sixth of their time to the business of assessment of property, and who are required to have no special qualification for such work. The State Board, acting through ninety-nine county assessors, can gradually build up a well coordinated, properly balanced system of assessment and tax administration, with lines of authority radiating directly from the central board to each county as the unit of assessment.

The county assessor should be a full time official, drawing the same salary in each county as the county auditor. In the smaller counties he would probably not need any full time deputy, although in the larger counties he would need several. In all counties he would be assisted during the assessment period by part-time deputies, each of whom would cover a territory several times the extent of the territory now covered by the township assessor. When not actively engaged in compiling a new assessment, the assessor could devote a considerable part of his time to making a check on current values of real estate, and in carrying on

investigations for the discovery of wealth, both tangible and intangible, that is now undertaxed or wholly untaxed. These county assessors should be appointed by the several boards of supervisors on the basis of their qualifications for the position, should have reasonably long tenure of office, and should be removable for cause by the State Board upon notice and a hearing.

The imperative need of the county assessor system has been for many years recognized and advocated by the state organizations of County Supervisors and County Auditors. In answer to our questionnaire, about 90% of the County Auditors who answered expressed themselves in favor of a county assessor system. They come into intimate contact with the imperfections of the local assessor system, and their conclusions should be given great weight. They know how difficult, almost impossible, it is to bring about even approximate equality through equalization when assessments are made by so many men of varying judgments, and not infrequently by men subject to local influence or personal prejudice or favoritism. In addition to this, many of the more studious and thoughtful local assessors are strong advocates of the county assessor system. The Legislative Committee and State Board regard the proposed county assessor system as the most important reform in our taxation procedure that can be made at this time.

The annual cost of assessing in the state of Iowa under our present system is approximately $540,000, or an average of nearly $5,500 per county. Our investigation has convinced us that a county assessor system will be more economical, and result in vastly more equitable assessments. Ninety-nine new officials will be created, but 2354 local assessors and 2354 local boards of review will be abolished.

The State Board, acting through 99 county assessors can then exercise direct supervision over the assessment level in each county, and prevent competitive undervaluation either within or between counties. The county assessor would be free from temptation to yield to local prejudices and petty favoritisms. He would be able to gather far more data and information regarding property values within his district than the part time local assessor would ever be able to do. He would substitute certain knowledge regarding the value of complicated industrial equipment and stocks of merchandise for the random guess, or the owner's valuation, on which the local assessor frequently relies. Iowa's system of state and local taxation can never be placed on an efficient basis and equitable and uniform assessments between individuals and between assessment districts secured, until the local assessor, the weakest link in our present taxation system, has been supplanted by the county assessor.

We submit this recommendation to the thoughtful consideration of the General Assembly. We do not consider it necessary to include in this report tables or detailed figures showing the inequalities of assessed valuations in this and other states. This subject has been carefully studied and fully covered by the recent bulletin by Dr. R. W. Nelson of the College of Commerce of the State University of Iowa, entitled "The Assessment of Real Estate in Iowa and Neighboring States."

(c) Amendment to Code Section 7109

Prior to the Code Revision Session of 1924 Section 1305 of the Code of 1897 as amended by the 31st General Assembly contained the following provision:

> "All property subject to taxation shall be valued at its actual value. * * * Actual value of property as used in this chapter shall mean its value in the market in the ordinary course of trade."

The Code Revision Session in 1924 included in Sec. 7109 the following provision, which is now the law of the state:

> "All property subject to taxation shall be valued at its actual value. * * * In arriving at said actual value the assessor shall take into consideration its productive and earning capacity, if any, past, present, and prospective, its market value, if any, and all other matters that affect the actual value of the property."

This requires the assessor in assessing property to take into consideration the "productive and earning capacity" of the property assessed, but fails to state in what manner or to what extent such "productive and earning capacity" should be considered. It was the intention at that time to provide for a change in assessing property, changing from the sales value to a more equitable basis which has reference to earning capacity. It can be safely asserted that local assessors have never attempted to carry out the spirit and purpose of this amendment. They could hardly be expected to do so without instruction and supervision.

We believe that something more definite should now be placed in the law, and that county assessors under the direction and instruction of the State Board, in arriving at the "actual value" of property for assessment purposes, shall be required to *"give primary consideration to its net productive capacity averaged over a period of five years."* (See proposed amendment Recommendation No. 4.)

When our tax laws were first written the sale value of the property was the yard stick used in measuring the value of property for taxation purposes. At that time no other yard stick was possible, as about all

tangible property consisted of real estate, which at that time had very little actual income, but great possibilities for potential income. From 1853 until the present time great changes have taken place in our entire economic situation and at the present time the sale value of property, and specially of farm property, is very hard to determine. There are not enough sales to establish a market and in a great many cases the element of sentiment enters into the price paid, and sentiment is not a proper element to consider in valueing property for taxation purposes.

On the other hand, nearly all property has some income value, or some potential income value, that could be used to measure the value of the property. In going from the ad valorem basis to the income basis as the yard stick by which to value property for taxation purposes, we are recognizing the principle that income is a proper basis for all taxation, and are following the natural evolution of tax laws. England in 1789 under the ministry of Wm. Pitt, and largely through his efforts, changed from the ad valorem basis to the income basis for measuring property for taxation purposes, and since that time all the countries of Europe have followed England's example.

Professor Seligman says in his "Essays on Taxation" that in Europe the tax is on the produce of the land or house; that is, what it yields or is capable of yielding in the shape of rent or of profits equivalent to rent.

Assessing property on the income basis rather than on the ad valorem basis will distribute the tax burden more equitably, for it is conceded that the poorer farms, and the lower priced business properties and dwellings, pay more taxes in proportion to their actual value than do the better farms and better located business properties and the better city and town dwellings.

3. SPECIAL SOURCES OF REVENUE

The earliest laws were written for the protection of property and the earliest governmental expense was for the benefit of property. Gradually the need of laws for the protection and benefit of persons developed, and with this development came governmental expense for the benefit of the individual. The increase in this expenditure for personal service and social welfare has developed very rapidly within the last twenty years, and all of this additional expense has been charged against tangible property. This is a charge that cannot be justified. The owners of property have a right to demand that those receiving the benefits of government, in personal service and social welfare made possible by government, should contribute to the cost thereof in proportion to their ability to pay,

and that this contribution should be used to relieve in part the present tax burden on real property. The demand for this relief is not based wholly on maladministration of the present general property tax law, but also on important economic changes that have taken place since Iowa's general property tax law was enacted in 1853.

In that simple pioneer life property consisted almost entirely of adjoining farms and small properties in the neighboring villages. Intangible wealth was unknown; franchise rights, royalties, large salaries, commissions, dividends and similar earnings were not dreamed of, and no provision was made for taxing them. At the present time intangible values, consisting of moneys and credits, stocks, bonds, franchise rights, royalties, good will, etc., about equal the value of tangible property, but the part of the wealth of the state represented by tangible real and personal property in 1930 paid $107,000,000 in state and local taxes while the part representing intangible values paid but $3,000,000. There are no statutory provisions of any kind for taxing intangible values, excepting only those included in the statutory definition with moneys and credits. Moneys and credits are now assessed at a flat rate of six mills on the dollar, but even at this rate not more than one-fifth of the taxable moneys and credits of the state appear on the tax list.

The injustice of this discrimination is further shown by the fact that tangible property, consisting largely of real estate, including farms, probably has an average net income not exceeding 3 per cent, but paid $107,-000,000 in taxes; while intangible property rights that paid only $3,000,000 in taxes have average incomes exceeding 5 per cent.

The 43rd General Assembly, recognizing the existing situation, by practically unanimous vote of both houses, imposed upon our committee the specific mandate *"to formulate proposed legislation that will raise the state revenue without direct property tax."* This means the raising of approximately $10,000,000 a year from other sources.

From the consideration thus far given to this problem, and from the experience of states that have enacted legislation providing for raising the entire state revenue without general property tax, we doubt the wisdom of a complete separation of sources of revenue indicated by the wording of this Resolution. We believe that it would be safer to leave a small millage tax for state purposes, so that the General Assembly would know that any proposed new or increased expenditure or appropriation would be translated into a direct tax imposed upon every piece of property in the state. However, compliance with the terms of the legislative mandate, requires us to collect information and formulate proposed legislation that will raise from $8,000,000 to $10,000,000 a year of the

state revenue, such special taxes to be used as replacement taxes, reducing to that extent the state levy on general property. All revenue derived from new sources should be applied to the reduction of taxes levied on general property, and should not be used for increased expenditures or appropriations.

We now raise four or five million dollars a year by special taxes, including the inheritance tax, cigarette tax, and tax on insurance companies' gross premiums. If the laws levying these special taxes had never been enacted or were now all repealed, it would not reduce the amount of our state expenditures one single thin dine; it would only mean increasing the millage levy on real estate. Under our present revenue system legislative appropriations are not based upon the amount of funds available for paying them. The legislature first determines the amount necessary to support all state institutions and departments, and then levies a millage tax sufficient to raise that amount, after having deducted the proceeds of special taxes. Judged by Iowa's experience with these special taxes in the past, we believe that other special taxes raising eight to ten million dollars a year would reduce the millage levy on real estate to just that extent, and would not increase legislative expenditures.

Our attention has been directed to general sales taxes, the retail sales tax, selective sales taxes including amusement taxes, cigarette and tobacco taxes, and taxes on butter substitutes, capital stock taxes, franchise and license fees, occupational taxes, and income taxes upon both individuals and corporations. From these a selection must be made that will raise the required amount if the mandate of a unanimous legislature is to be carried out.

4. SALES AND REGULATORY TAXES

West Virginia is the only state levying a general sales tax, and 48% of the revenue derived therefrom is raised by gross production taxes on coal, oil, and gas. There has been opposition to this tax in West Virginia, both on the part of the State Tax Commission and all business organizations, and an effort will be made to repeal this law at their coming legislative session.

In August, 1929, under pressure of a fiscal emergency, Georgia enacted a gross sales tax effective October 1, 1929, and expiring December 31, 1931. This law exempts the first $30,000 of sales annually and as a result little revenue has been raised.

In our neighboring state of Minnesota consideration is being given to the levying of a tax on all retail sales made to the ultimate consumer. It is estimated that such a tax at the rate of one mill and exempting all

food stuffs, might raise in a state like Minnesota or Iowa somewhere between one and two million dollars, and at the rate of 1% somewhere between ten and twenty million dollars.

A number of states, including Pennsylvania, Delaware, Virginia, Alabama, and North and South Carolina, levy selective sales taxes on various articles that are luxuries or non-essentials, including tobacco and soft drinks.

None of the business organizations appearing before our committee were in favor of a gross sales tax or even a general retail sales tax. This is especially true of merchants in cities along the state borders. While it may be true that such a tax may be passed on and paid by the ultimate consumer, yet it might affect the amount of retail business transacted in some localities.

Viewed as a consumption tax to be paid by the ultimate consumer, a gross sales tax or general retail sales tax is subject to the objection that it bears heaviest on those least able to pay. It is in effect an inverted income tax. The man of small earnings must spend all those earnings in the support of his family. He therefore pays a sales tax on 100% of his income. Further up the scale are those who only spend 50% of their earnings, and they would pay a sales tax on only 50% of their income; while among those who have the larger incomes would be some who would not spend more than 10% or 20% of their income and therefore pay a sales tax on only 10% or 20% of that income.

When asked whether such a sales tax or an income tax would be least objectionable to the business interests of the state, their representatives advised the committee that if they were obliged to choose between the two, they would prefer a tax in the form of a net income tax rather than a gross sales tax or a general retail sales tax. We have therefore confined our study and our recommendations to the matter of selective sales taxes or taxes on certain articles that are luxuries or non-essentials.

Dr. T. S. Adams of Yale University, who for many years acted as tax advisor for the United States Treasury, makes the following statement:

> "Both as a matter of tax theory and practical policies, in my opinion the sound residuum of the sales tax proposal is found in a tax on sales of non-essentials or luxuries. Theoretically such a tax would be shifted to consumers and would remain on the consumers. Practically any increase in the tax on luxuries would meet with little opposition from the general public compared with the opposition that would be aroused by the adoption of a general tax on sales, whether a turnover or consumption tax."

	Snuff and chewing tobacco 1c for each 3 ounces or fractional part thereof. Smoking, retailing, at 10c or less, 2c; 1c for each additional 10c or fractional part thereof.
	Chap. 242, Laws 1929—Cigarettes weighing not more than 3 lbs. per 1000, 1½ mills each cigarette; cigarettes weighing more than 3 lbs. per 1000, 4 mills each cigarette; papers and wrappers, not more than 50 papers in package, ½c; more than 50 papers and less than 100 in package, 1c; more than 100, ½c for each 50 papers or part thereof; tubes, 1c for each 50 tubes.
Tennessee:	Act March 29, 1929—Cigars, smoking, chewing, and snuff 10c of retail price; 1/10 of 1c per cigarette unless intended retail price is more than 1c, then tax is 10% of intended retail price.
	Act December 13, 1929—Cigars, smoking, chewing, and snuff 10% of retail price; 1/5c per cigarette unless intended retail price is more than 1c, then tax is 20% of intended retail price.
Utah:	Act May 8, 1923—Cigarettes weighing not more than 3 lbs. per 1000, 1 mill per cigarette; cigarettes weighing more, 2 mills per cigarette. Papers: ½c for 50 and each fraction thereof. Tubes: 1c for each 50 or fraction thereof.

The present cigarette tax in Iowa produces a revenue to the state of about $1,250,000 a year. An increase of 50% in the rate of this tax and including with cigarettes all other forms of tobacco, would produce a total revenue of approximately $2,250,000. A bill providing for an increase passed the House of Representatives of the 43rd General Assembly and came within three votes of passing the Senate.

The Committee and Board have prepared a bill similar to that introduced in the last legislature, and the proposed bill is submitted with this report.

(b) Tax on Butter Substitutes

We recommend a regulatory inspection fee and excise tax of five cents on every pound of oleomargarine sold within the state. The Iowa Department of Agriculture insists that no article of food coming into Iowa needs closer inspection than oleomargarine, and at the present time it contributes nothing toward the expense of this inspection. A survey made by the Iowa Department of Agriculture during the year in ten counties of the state, indicates that there are about 14,000,000 pounds of oleomargarine sold in Iowa annually. The imposition of this tax will either reduce the amount sold in competition with Iowa dairy products, or will result in the raising of considerable revenue, or both.

Pennsylvania taxes oleomargarine by collecting a manufacturers license of $1000, a retailers license of $500, and a boarding house license of $10. These net the state about $375,000 a year. Montana and Idaho impose similar licenses. The Iowa Department of Agriculture believes

that better supervision and inspection can be brought about by taxing the product itself, and requiring a stamp to be placed upon every package sold. A bill imposing such a tax on oleomargarine passed the House of Representatives of the 43rd General Assembly almost unanimously, but was not acted upon by the Senate.

Oleomargarine is a product manufactured by non-residents of this state out of commodities of doubtful food value. Prior to 1915 practically all of our oleomargarine was made from animal fat. Today 60% of the material used is vegetable oil, 75% of which is cocoanut oil. These oils are imported from foreign countries and produced by cheap coolie labor. The use of this substitute for butter limits the use and lowers the market value of the butter produced by the dairy interests of this state.

The Tax Conference of South Dakota, one of the leading beef producing states of the Union, in a report filed in November, 1930, recommends a tax of 10c per pound on butter substitutes, stating:

> "This tax will operate to the benefit of the dairy industry in reducing the amount of such substitutes used or, if the sale of butter substitutes is not curtailed, will be a fair revenue producer. As between the two possibilities, we would prefer that it operate in a reduction of the use of butter substitutes."

The bill presented at the last session of the legislature was endorsed by the Agricultural Department of the State College at Ames, the Iowa Department of Agriculture, the Farm Bureau Federation, the Farmers Union, and all of the dairy organizations of the state.

(c) Tax on Amusements

The report of the Joint Legislative Committee on Taxation appointed by the 39th General Assembly recommended a tax upon admission fees to public amusements conducted for pecuniary profit, and a proposed bill was submitted as a part of the committee's report.

Statistics show that the attendance on movies since the talkies were introduced two or three years ago, has increased throughout the United States more than 250%, and it is estimated that the people of Iowa are paying for admissions to movies and other amusements an aggregate of approximately thirty-five million dollars a year. At the suggested rate of 10%, this would raise approximately three and a half million dollars. If such a tax is adopted, the committee suggests that this tax be collected as a state tax and allocated back to the school districts of the state in proportion to the school attendance in each district. This would result in an average reduction of more than 7% in the local school tax, which is the heaviest single tax burden.

The bill prepared eight years ago should be enlarged to include club dues, and also admissions to miniature golf courses, indoor golf courses and similar amusements not heard of when the last committee made its report.

The South Dakota Tax Conference which filed its report in November, 1930, recommends that "in providing for revenue from sources other than the property tax a tax on admissions should be included."

Such a tax has been collected for several years in Connecticut, and the Tax Commissioner of that state in speaking of the tax on admissions says, "It demonstrates the feasibility of securing additional revenue from other sources rather than imposing further taxation upon real estate."

(d) Gasoline Filling Stations, Gasoline Refunds and Pipe Lines

We believe that a statute should be enacted permitting municipal corporations to impose a license fee on gasoline filling stations. We see no reason why this should not be a rate that will raise a considerable revenue for local purposes. This class of business has come into existence within the last few years, and a provision of this kind should be made both for regulatory and for revenue purposes,—taking into consideration the extra hazard of the handling of inflammable materials, the privileges granted in the use of parking space and the hazards accompanying driving across sidewalks.

Our attention has also been called to the fact that a considerable amount of gasoline used in airplanes receives a refund of the gasoline license fee. This refund in the City of Des Moines alone amounts to nearly $5,000 a year. We believe that the amount of this refund, instead of being paid to the user, should be turned over to the municipality where the gasoline is sold, to help bear the expense of maintaining aviation fields.

We also recommend that definite provisions be made for the assessment and taxation of gasoline and natural gas pipe lines crossing the state, together with payment of proper license fee for the privilege of passing under the highways and navigable streams of the state. All assessments of pipe lines should be made by the State Board and the tax or license fee collected as a state tax for state purposes.

(e) Highway Advertising Signs

In Iowa billboards and advertising signs on public highways are prohibited by statute. This law is an exercise of the police power of the state. It has resulted in moving the signs over the fence onto private property where they cannot be reached by police regulations, unless they obstruct the view of some portion of the public highway. If we wish to follow them any further we must resort to the taxing power rather

than the police power, though the taxing power may indirectly reach the same end sought by a purely police regulation.

The bill herewith submitted is a revenue measure, which undoubtedly will raise a considerable amount of money, and as an incident to its enforcement will result in displacing many old and battered signs.

The first purpose of the bill is to comply with the legislative demand to provide new forms of revenue, and the second purpose recognizes a universal demand that outdoor advertising should be regulated.

The amount of revenue that may be derived from the proposed tax cannot be determined in advance. It is quite impossible to estimate the number of square feet of surface of all these signs which will continue if the tax is imposed. It is certain, however, that a very substantial return can be obtained.

We have made considerable effort to estimate the number of square feet of advertising space now in use. Actual counts of the number of signs have been made by the State Board, and by the State Highway Commission. Thirty-five sections of primary road, scattered all over the state and aggregating a total of 400 miles were carefully surveyed in detail for advertising signs. These 400 miles of road did not include any mileage within the built up portion of any city or town, but were chosen to represent the general average condition on our primary road system. Along the 400 miles of road surveyed there are a total of 5,465 separate advertising signs, averaging 630 square feet of advertising per mile. On this basis, there are, on the primary road system of Iowa 5,436,000 square feet of advertising signs.

The rate of taxation per square foot provided in the bill is merely suggestive. The amount of revenue will depend on the rate the legislature may determine. A reasonable rate should yield from a quarter to a half million dollars.

5. INDIVIDUAL INCOME TAX

While representatives of many business and taxpaying organizations throughout the state have come before us in public hearings, and have submitted suggestions and briefs, the only special tax that has been advocated by any organization of taxpayers or property owners is the income tax. Those who oppose the income tax propose no other tax in its place. They merely propose to continue the present confiscatory levies on real estate.

We realize that any tax we may propose will be condemned,—by some of those who will have to pay it. We realize that the only popular tax is the tax the other fellow pays. However, all will admit that in every

sound financial system taxes in the final analysis must be paid from earnings. To compel payment of taxes out of principal results in a confiscation of property. According to the National Bureau of Economic Research the earnings or income from real estate is only about 25% of the total income of the people of the state and yet, under the general property tax as now administered, this 25% of the income of the state bears nearly 88% of the burden of the state and local taxes.

A special committee of the Association of Land Grant Colleges and Universities reported some two years ago that "from 1909 to 1919, inclusive, agriculture received not less than 20% of the total net income of the country. Since 1920 agriculture has received only a little more than 10% of the net income of the country." Notwithstanding this, the tax burden on agriculture in Iowa is a larger percentage of the total tax burden than it was before the war.

The National Industrial Conference Board, reporting at about the same time, called attention to the fact that while the amount of taxes levied on agriculture in 1913 was $315,000,000, in 1926 it was $890,-000,000, notwithstanding the fact that there had been a decline in farm values from seventy-nine billion dollars at the beginning of 1920 to fifty-eight billion dollars at the beginning of 1927, or a shrinkage of $21,000,000,000.

These figures all go to support the conclusion of the National Industrial Conference Board that the taxes imposed on agriculture are nearly three times greater in proportion to agricultural net profits than they were in the years preceding the war. During the years 1912, 1913, and 1914, taxes absorbed an average of 11% of the total net farm profits, while during the last three years taxes collected from farms have averaged more than 30% of the net farm profits.

The Committee on Taxation of the Chamber of Commerce of the United States in 1926 reported that the percentage of rentals that was absorbed by taxes had increased during these years until it was taking as high as nearly 33% of the net rental income from real estate generally. This shows that the burden is on all kinds of real estate and not limited to agricultural lands, but includes homes in cities and towns and ordinary business properties.

As the present law places 88% of the tax burden on the 25% of the income of the people that comes from real estate, it is evident that something is needed in attention to rigid enforcement of the present law. Those who endorse the income tax assert that it is based upon ability to pay, and that there is no other test of ability to pay taxes so just

and equitable as income. No one has suggested any other tax equally fair that will accomplish the same result.

(a) Legislative Committees Recommend Income Tax,
Iowa Committee in 1913 and 1923,
Massachusetts, California, Utah, Kansas, Pennsylvania, Texas, South Dakota, and Indiana.

This is not the first time that an income tax has been suggested to or recommended by an Iowa Legislative Committee. Seventeen years ago the special tax commission appointed by Governor Carroll expressed emphatically their belief "in the principles of the income tax." The Joint Legislative Committee on Taxation appointed by the 39th General Assembly which submitted its report to the 40th General Assembly on January 30, 1923, stated:

> "The income tax is steadily growing in favor and is strongly supported by students of taxation on the theory that of all systems yet devised, *it most clearly meets the fundamental principle of taxation, that every citizen should contribute to the public revenue in proportion to his ability to pay.* * * * A properly adjusted combination of property and income tax, supplemented with such luxury and business taxes as are found to be feasible, affords a balanced tax system, relieving tangible property of a part of the tax burden, and taking toll from those whom fortune has favored in proportion to the measure of prosperity enjoyed. In practice, the income tax has no favorites, taking toll only in equitable proportion from realized earnings of those who have prospered, making no demand upon those who have no achieved income from which to pay, and passing by the wealth that is temporarily unproductive."

More than twenty Legislative Committees or Commissions, in as many different states, have during the last ten years made surveys and recommendations for tax revision. It is a significant fact that practically all of these special tax investigating committees have approved the principle of the income tax. We quote the following as showing the findings and recommendations of the last seven legislative committees that have reported:

The Massachusetts Special Legislative Commission which filed its report in January, 1929, made the following statement:

> "The Commission is unanimous in the opinion that any substantial advance in the direction of fairness in the distribution of the tax burden involves the passage of a general income tax of low but

graduated rates with adequate exemptions. The way in which nearly every suggestion for relief from taxation brings us back to the necessity of greater revenue from the income tax is almost uncanny. Such a tax is an essential feature of any system which seeks to distribute the tax burden with primary reference to the ability of the taxpayer to pay."

The California Special Tax Commission that reported in March, 1929, recommended a taxation system consisting of three main divisions, as follows:

(1) An objective property tax of more restricted scope than the present property tax;
(2) A comprehensive business tax measured by net income arising from business carried on within the borders of the state; and
(3) A personal contribution from each person resident within the state apportioned according to ability to pay.

The Tax Revision Commission and Legislative Committee on Taxation of the State of Utah filed its final report November 30, 1929, recommending the "following four cardinal principles of equitable taxation:

(1) All tangible property should be taxed at uniform rates throughout the jurisdiction of the authority levying the tax;
(2) All business done for profit should be taxed at a moderate uniform rate upon the net income of the business done within the state;
(3) All residents of the state having taxable ability should pay a direct personal income tax at moderate graduated rates;
(4) Centralized administration should be provided with adequate authority to supervise the entire tax system."

The Tax Code Commission of the State of Kansas, which submitted its report to the Governor of Kansas December 1, 1929, recommended:

"A graduated personal income tax and a flat rate corporation income tax."

"That no provision be made at this time for a general sales tax."

This committee also states:

"Property taxes, which in any case must continue to be the principle source of revenue in all the states for local purposes, are levied and must be paid in fat years and lean. The property tax stands against the owner whether his property has produced a net return in a given year or not, and at a rate not altered by the fact that in a given year its earnings may have declined or vanished altogether. On the other hand, the income tax is not paid unless the income

is earned or received. If the tax is higher or increases, it is because the income is large or has increased."

The final report made by a *Special Tax Commission to the Pennsylvania General Assembly* in 1927 states:

"An income tax on net profits would have a direct and constant relationship to taxpaying ability; it would dispose of all apprehensions that new industries would not locate in Pennsylvania and that some of those now here would migrate elsewhere. If the profits of the business are small, the tax would be negligible. If the tax is large, it would only be so in consequence of large profits, and being but a small percentage of the profits, would not be a factor of sufficient influence to be prejudicial to a Pennsylvania habitat."

The Special Legislative Tax Survey Committee which reported to the Governor of Texas January 9, 1929, stated:

"In the judgment of your committee the income tax is a just and equitable tax and as such is not to be ignored as an essential part of a comprehensive taxing system from the standpoint of equitable taxation. Those who profit most should pay most."

The South Dakota Tax Conference which filed its report in November, 1930, recommended an income tax upon both individuals and corporations, stating:

"It is generally admitted that the income tax is a just tax and perhaps the fairest of all taxes. In support of this form of taxation it may be stated that it taxes only what the taxpayer has received; it does not cut into his capital or reduce his capacity to produce; it only applies where there is undoubted ability to pay; under it the person who is able to pay more is taxed more proportionately, and the person who is able to pay less is taxed less. The property tax attaches to the farm, home or factory whether it produces an income or not, but, if for any reason no income above the expense is received, there is no tax to pay under the provisions of the income tax law."

The Indiana Tax Survey Committee in a report filed December 10, 1930, recommends:

"1. That the county shall be the unit of assessment, with a county assessor and deputies, to be appointed by the county council, subject to approval of the state tax board, after examination as to qualifications.

2. That the four year periodical assessment of the real estate

be discontinue and that valuations on real estate be adjusted each year.

3. That the state tax board receive power to make corrections in assessment by increasing or decreasing at any time before Nov. 1 each year and to make such orders as to any taxing unit where valuations are out of line with the same or with others in the same class, with right of petition for rehearing by taxpayers.

4. That the state levy be discontinued and the following substituted:

A tax on personal net incomes with exemptions of $1,000 for single persons and $2,000 for man and wife, and with the following rates: 1 per cent on first $2,000 of net income; 2 per cent on next $1,000; 3 per cent on next $7,000; 4 per cent on all incomes over $10,000.

A 3 per cent tax on net income of corporations, except life insurance companies.

A retail license tax of 1 per cent on all sales at retail of commodities to the ultimate consumer, with no exemptions, and to be paid by the licensed merchant."

(b) Income Tax Relieves Real Estate

More than 96% of what we designate as our state and local taxes,—excluding special taxes, motor vehicle and gasoline license fees,—are raised through the general property tax, and less than 4% from moneys and credits. We must have a rigid enforcement of the present law so that taxes raised under the general property tax may be as equitably distributed as possible, but something more than rigid enforcement of the present law is needed to relieve the situation.

The earnings or income from real estate is only about 25% of the total income of the state; yet under our present general property tax, this 25% of the income bears the burden of nearly 88% of the state and local taxes. You cannot expect relief from rigid enforcement of a law that takes nearly 88% of the taxes from the owners of real estate who receive only 25% of the earnings of the state. The problem is to relieve real estate from this ever increasing and intolerable tax burden, and the only known way to reduce the burden on real estate is to secure revenue from other sources.

Although the State of New York raises a far smaller percentage of its revenues from the general property tax, the last New York legislature directed a special commission to study sources of revenue and make such readjustments that the general property tax would be reduced 50%.

To secure reduction of the general property tax there must be something substituted for it.

Real estate must be relieved and can be relieved by broadening the tax base to include important economic resources such as salaries, wages, fees, commissions, personal earnings of all kinds, and franchise rights, that are now untaxed, and can never be reached by taxation of property. The National Industrial Conference Board after an exhaustive survey and study of the question, in a recent (1930) publication announced its conclusion that *"the income tax reaches a class of taxpayers in many of the states who would otherwise make little or no contribution to the costs of government, although well able to do so."* (State Income Taxes, Vol. 2, Page 168.)

Nineteen states now have an income tax, four of which levy such income taxes on individuals only, and three of them on corporations only, while twelve of them levy the income tax on both individuals and corporations. In addition to this during the last two years legislative committees in Utah, Kansas, South Dakota, Pennsylvania, Texas, Indiana, and Illinois have recommended the adoption of an income tax. We attach to this report as Table A a schedule showing the rates of income taxes in each state, both on individuals and corporations, together with the state revenue derived from such income taxes according to the last available report, and in parallel columns the amount paid the federal government during the fiscal year 1929 in the same states, both on individual and corporation incomes.

(c) Property Tax Offset

After giving careful consideration to the question, and studying the experience of other states, we disapprove allowing an offset for either real or personal property taxes against the income tax.

First,—To permit such offset would to a very substantial degree diminish the revenue to be derived from such a tax. It would result in many cases in going to the expense and trouble of ascertaining and levying a tax and then allowing a deduction that would practically wipe out the tax so levied. We have sent out questionnaires to the tax commissioners of all states levying an income tax, and they are unanimous in disapproving an offset. Based on the income tax paid by individuals in Iowa to the Federal Government in 1929, and computed at the rates and with the exemptions set out in the bill we have prepared, and without any property tax offset, this individual income tax would raise about six million dollars a year, and to that extent would give substantial relief to all owners of real estate.

Second,—The tax offset is unsound in principle and unjust in operation. It is in effect a form of tax exemption. If it is confined to the taxes on personal property, it constitutes an unfair discrimination against the owners of real property.

Third,—It is not unfair to require the owner of real estate to pay the reduced general property tax in addition to the small income tax that would be levied on the profits from the real estate. It recognizes to this extent the principle incorporated in our Federal Income Tax system of putting earned income on a different rate than unearned income. In this case earned income, being income earned from personal services, fees, commissions, wages, and salaries, would pay the individual income tax alone, while earnings from property would pay the income tax on its net earnings, together with a reduced general property tax on the property. The National Industrial Conference Board in a recent publication reports a general agreement among economists

> *"that income from property has greater tax paying ability than income from personal effort, mental or physical,"* State Income Taxes (1930) Vol. 2, Page 81.

Fourth,—The granting of this offset has been tried in a number of different states, including Mississippi, Missouri, North Dakota, and Wisconsin, and universally discarded. Wisconsin experimented with such a tax offset, and finally discarded it, having found that the offset resulted in reducing the income tax receipts nearly 44%. In Missouri it so seriously affected the yield of the income tax that it was repealed after two years' trial. A survey of the effect of the property offset indicates that to allow a property offset in Iowa would diminish the returns by more than 49%.

Fifth,—We propose an income tax at very moderate rates, but if the offset is allowed, it will be necessary to increase the rates very materially in order to raise the desired amount of revenue.

(d) Graduated Rates

The bill which we present provides for graduated rates beginning with one per cent for the first $2000 of net income, and advancing one per cent for each additional thousand dollars of income, to a maximum of five per cent in the highest bracket. The National Industrial Conference Board, summarizing the argument for progressive rates in the following paragraph:

> "When the principle of basing the payment of taxes on ability to pay is once admitted, the general beneficial effects of injecting some progression into the tax system cannot be denied. Many

taxes are regressive, that is, the rate decreases as the base increases. The consumption tax shifted to the consumer bears with unequal burden upon the rich and poor. The effect of the property tax as administered often produces a regressive rate, for the small owner of property may have it in tangible form, while the large owner may have part of his property in intangible form which escapes the assessor's notice. There is also a tendency in certain localities for the assessors to undervalue the large estates. This tendency may be explained by one or more of three reason. First, the assessors are impressed by the larger amounts of tax on the larger estates. Second, the local assessors are less able to cope with the problems arising in connection with assessments of the larger estates. Third, there is greater dependence of the local assessors upon the influence of the larger property owners for their positions. The progressive income tax has the effect of offsetting this regressiveness and assists in bringing about at least a flat rate." State Income Taxes Vol. 2, Page 77 (1930).

(e) Exemptions

The Federal Income Tax allows an exemption of $1500 to single persons and $3500 to husband and wife, with $400 additional for each dependent. Exemptions are allowed in each of the states levying an individual income tax in the following amounts:

State	Single Person's Exemption	Married Couples' Exemption	Dependent's Exemption
Arkansas	$1,500	$2,500	$400
Delaware	1,000	2,000	None
Georgia	1,500	3,500	400
Massachusetts	2,000	2,500	250
Mississippi	1,000	2,000	200
Missouri	1,000	2,000	200
New Hampshire	200	200	
New York	2,500	4,000	400
North Carolina	1,000	2,000	200
North Dakota	1,000	2,000	300
Oklahoma(1)	3,000	4,000	
Oregon	1,500	2,500	400
South Carolina	1,500	2,500	400
Virginia	1,000	2,000	400
Wisconsin(2)	800	1,750	300

(1) Each child under 18, $300, if in school $500 additional; all other dependents $200

(2) Wisconsin exempts from the tax $8 flat for single persons and $17.50 for married couples, making the exemption the same in dollars and cents regardless of the amount of income.

The purpose of the exemption is to exempt from taxation a reasonable "minimum of subsistence." It will be noticed that in these fifteen states, Georgia follows the exemptions of the Federal Law, with New York and Oklahoma slightly higher. Three of the states fix the exemption at $1500 for single persons and $2500 for married, with $400 additional for each dependent, while six of the states, to-wit: Delaware, Mississippi, Missouri, North Carolina, North Dakota, and Virginia, place the exemption on the basis of $1000 for single persons and $2000 for married, plus an additional for dependants. This latter rate is the one proposed in the Model Tax Law prepared by the National Tax Association and is the exemption which we recommend.

The purpose of the exemption is to exempt from the tax a "minimum of subsistence," and not to reduce the amount of the tax on those able to pay it. Exempting a certain amount of income from the tax results in reducing the amount of the tax for all taxpaying individuals, the amount of such reduction depending upon the highest bracket in which payment is made. To exempt $2000 to a man and wife, plus $200 for each of three dependents, would make a total exemption of $2600, which would mean a deduction of $26.00 from the tax of the man who has a $2600 net income. But with rates such as ours it would result in a deduction of $130 from the tax of a man having a net income of $7600 or more. This evidently is not the intent and purpose of the exemption. For this reason the bill we present provides for an exemption from the tax of $10 flat for single persons, and $20 for married persons plus $2 for each dependent, thereby making the exemption the same in dollars and cents for each person regardless of the amount of his income.

The economical administration of the individual income tax also requires this exemption. It may cost as much to audit the return of a person having a small income as the return of a person having a large one. Those with small incomes are far more numerous than those with large ones. The cost of administration for a certain percentage of the smaller incomes would absorb a very considerable part of the revenue. This does not mean that we recommend exempting persons with small incomes from all financial obligations to the state. We do believe that it is more feasible to reach them in other ways. Practically all our indirect taxes such as gasoline tax, cigarette tax, and all other selective sales taxes, and even the general property tax as a general thing, reach people with small incomes in a more effective way.

(f) Expense of Collecting Income Tax

Some have asserted that the collection of an income tax would mean another horde of inspectors, resulting in large expense, but the experience

of other states indicates that the cost of administering and collecting an income tax in Iowa would not exceed two per cent. In New York it does not exceed one per cent, and in Wisconsin it is about one and a half per cent, of the total amount collected. The expense of assessing and collecting the general property tax in Iowa exceeds two per cent of the amount collected, but no one has given this as a reason for condemning or abolishing it. Wherever tried, it has been found that an income tax can be assessed and collected at a lower percentage of expense than the general property tax.

(g) Who Will Pay the Income Tax

The objection has been made that more than 80% of such an income tax would be paid by taxpaying individuals and corporations in cities and towns. This percentage applies to an income tax on both individuals and corporations. Manifestly a corporation income tax would be paid almost entirely in cities and towns. The percentage as applied to an individual income tax would not be so high. These figures may be approximately correct in the present depressed condition of agriculture, and this percentage might continue as long as this condition exists; but we believe that Iowa's farmers would welcome conditions that would permit the 39% of Iowa's population living on farms to realize 39% of Iowa's income, and pay 39% of an Iowa income tax.

But those who make this objection suggest no other method of relieving the present situation under which the farms of Iowa today pay far more than their just proportion of the state tax. 39% of Iowa's population living on farms and having less than 20% of the taxable income of the state, now pay 69% of the state tax. The farms of Iowa, having only 39% of Iowa's population, less than 39% of the students of her educational institutions, far less than 39% of the inmates of her charitable and penal institutions, with less than 20% of the taxable income of the state, now pay 69% of the cost of operating all these institutions. The farms of Iowa now pay 69 cents out of every dollar that goes to pay the salaries of all our state officers and employees, judges of our courts, and costs of all the state departments.

In considering this question of tax collection and tax distribution we must not overlook the fact that no small part of the taxable wealth that is centered in certain localities has been made possible and is still made possible by the industry of other communities. No one will contend that the tremendous wealth assembled in the larger cities owes its being solely to the industry of the population of these municipalities. Wealth drifts toward communities possessing superior strategic commercial advantages, and in the proportion that this adds to the taxpaying

ability of one community it takes from the taxpaying ability of the other. In no small part the income actually earned in commercial and industrial centers is made possible by the rest of the state, or at least by such part of it as comes within their trade territory and zones of influence. There is no business or industry of any size that is limited by the city limits of the municipality where it is located. Governments exist not only to protect lives and welfare of individuals, but also to protect and make possible business and industrial development, and to the extent that business and industry owes its development and protection to the state's governmental activities, to that extent business and industry should contribute to the expense of maintaining that government.

(h) Income Tax Cannot Be Shifted

Economists agree that the income tax is the one tax that is sure to stay where it is placed. It may be imposed with confidence that the equitable character of its initial levy will not be disturbed by any subsequent shifting or unloading by the original taxpayer. The fact that a levy has been made against the income of an individual has no future effect upon either his ability to obtain an income or the income itself, or the sources from which it is derived. He will always be better off if he has a larger income upon which he must pay a larger tax than if he has a small income upon which he is obliged to pay a smaller tax, yet there is nothing which follows from the imposition of the tax that enables him to increase his income in order to recover the amount of the tax. We might quote in support of this proposition from all of the leading economists of the country, but will submit the following:

> "If the tax on net profits is a general one, sound economic thinking must inevitably lead to the conclusion that the tax can hardly be shifted. Net profits constitute a surplus of price over costs, and since the net profits tax reaches this surplus, it is manifest that the tax cannot affect costs. The producer almost invariably bears the burden of the tax under ordinary conditions." (National Industrial Conference Board.)
>
> "Taxes on personal incomes cannot ordinarily be shifted, but must be borne currently by the income recipient. The taxpayer cannot charge any more for his services, or compel higher prices for his wares because of the fact that the tax takes a part of his income. This non-shiftable characteristic of the income tax is one of its desirable features." (Prof. Jens P. Jensen, Chicago University.)

(i) Income Tax Will be a Replacement Tax

It is not the purpose of those who favor an income tax or any other special tax to add another tax, but rather to substitute in part a more

equitable method of taxation,—one based on ability to pay. In order that this may be definitely and certainly determined by the General Assembly the closing section of the individual income tax bill herewith submitted contains the following provision:

> *"That the revenue derived from the tax hereby imposed shall become a part of the general fund in the hands of the State Treasurer, and shall reduce by a corresponding amount the state millage tax which the State Board of Assessment and Review would otherwise levy for state purposes."*

We have made a careful study of all the literature on state income taxes available, including reports of legislative committees and commissions of more than twenty states. None of these special tax commissions have reported that state income taxes have added to the tax burden. On the other hand, it is generally agreed that income taxes have brought relief by way of greater equalization of the burden among the citizens of the state.

The people of Iowa have finally come to an agreement that the motor vehicle license fees, regardless of where they are paid, should be used in the construction and maintenance of a state or primary road system. We believe that the proceeds of the income tax should also be paid into the state general fund, and be expended in maintaining state institutions and governmental departments. This does not mean that income taxes paid in Polk County will be used to support the schools of Fremont County, or reduce the road taxes in Kossuth County. It simply means that all of the people and all of the business of the state are interested in all state-wide activities that are carried on under the state government, and that all should contribute to their support in proportion to their ability to pay. The people of the state have been assured that if an income tax is levied, it will be a replacement tax. If any material part of it was divided among the 2354 taxing districts of the state, it would be difficult to secure this result. By paying it into the state general fund this can best be guaranteed.

Of the nineteen states levying income taxes Delaware allocates the entire income tax to the school fund. Massachusetts allocates all of the individual income tax and five-sixths of the corporation income tax to localities, while New York allocates 50% of the individual tax to localities and one-third of the corporation tax to municipalities with the balance to the general state fund. In Wisconsin 40% goes to the state and 10% to the county, and 50% to the taxing district in which the taxpayer lives. In all the other fifteen states the entire proceeds of the state income tax is paid in to the general state fund for state purposes.

The state income taxes have materially reduced the amount of general property taxes levied for state purposes, although there has been an increase in the general property taxes in states not having an income tax. The "Financial Statistics of State Governments," published annually by the United States Bureau of the Census, shows that in all of the forty-eight states the general property taxes levied for state purposes in 1922 aggregated $348,293,000, which in 1928 it was $384,424,000. In Connecticut, Massachusetts, Missouri, New York, North Carolina, Oklahoma, South Carolina, Virginia, and Wisconsin,—these nine states having an income tax in 1922,—the general property taxes collected for state purposes in 1922 were $73,480,000, and in 1928, $64,228,000. On the other hand, the remaining thirty-nine states collected general property taxes aggregating $274,811,000 in 1922 and $320,196,000 in 1928. Thus we find that the nine states above named having income taxes were able to reduce their general property tax levies for state purposes during these six years by 12.59%, whereas such levies in the other thirty-nine states increased 16.51% during the same time. If other states that have adopted a state income tax since 1922 were included in this comparison, the difference would be greater, and if all the receipts from state income taxes had been turned into the state general funds of these nine states, a greater reduction in their general property tax levies for state purposes would have resulted. (See Table "E".)

We give below per capita tax receipts from general tax levies for state purposes in twelve states having state income taxes and also similar receipts in twenty-four states levying no state income taxes, for the latest years available, all per capita computations being made on the basis of the population shown in the preliminary 1930 census reports, with revenue figures as given in reports of state tax commissions in these states for the latest years available, as follows, to-wit:

PER CAPITA RECEIPTS FROM GENERAL PROPERTY TAXES IN TWELVE STATES HAVING STATE INCOME TAXES

Year	State	Per Capita Receipts
1928	Connecticut	1.15
1929	Delaware	None
1928	Massachusetts	None
1928	Mississippi	2.15
1927	Missouri	.65
1928	Montana	3.61
1927	New York	1.86
1927	North Carolina	None
1928	North Dakota	5.88
1928	South Carolina	1.17
1929	Virginia	None
1928	Wisconsin	3.29
	Average for 12 states	1.65

PER CAPITA RECEIPTS FROM GENERAL PROPERTY TAXES IN TWENTY-FOUR STATES HAVING NO STATE INCOME TAXES

Year	State	Per Capita Receipts
1927	Alabama	.97
1928	Arizona	13.97
1928	Colorado	5.43
1928	Florida	1.15
1928	Idaho	6.51
1928	Illinois	3.30
1928	Indiana	2.11
1928	Iowa	3.59
1928	Kansas	3.83
1928	Kentucky	4.01
1928	Maryland	3.01
1928	Michigan	7.70
1927	Minnesota	5.87
1927	Nebraska	4.67
1928	Nevada	15.51
1928	New Jersey	9.02
1927	Ohio	1.73
1928	Pennsylvania	None
1928	Rhode Island	2.36
1928	South Dakota	6.29
1928	Texas	4.09
1928	Utah	3.35
1928	Washington	8.86
1928	West Virginia	1.70
	Average for 24 states	4.96

The above tables show average per capita receipts from general property taxes levied for state purposes in twelve states having state income taxes as $1.65, and in the twenty-four states levying no state income taxes $4.96. The per capita burden of the general property taxes levied for state purposes was only one-third as heavy in the state levying state income taxes as in the states that did not.

The collection of six million dollars by an individual income tax would cut off six mills from the state millage levy, and would reduce by six mills the consolidated tax levy in every taxing district of the state. We realize that the heaviest tax bruden are in connection with local expenditures. In recognition of this fact we have suggested that if three and a half million dollars should be raised by an amusement tax, that this might be allocated back to the school districts in proportion to school attendance. Such a provision would distribute this tax back to the people who paid it, and would result in a very substantial reduction of school taxes now being paid by local communities.

6. MODEL SYSTEM OF TAXATION

The National Tax Association, composed of members of state tax commissions, leading economists from our great universities, tax specialists and attorneys representing corporations like General Motors and American Telephone and Telegraph Company, have spent years in formulating what they now advocate as a "model system of taxation." This consists of distinct, but complementary elements:

First, a general property tax of reduced scope;

Second, a personal income tax levied upon all residents of the state;

Third, a business tax upon all business activities carried on within the borders of the state;

Fourth, inheritance taxes;

Fifth, special taxes relating to financial institutions, insurance companies, public utilities, and severance taxes.

This constitutes a balanced tax system, and an increasing number of the states are making their tax systems harmonize more and more with this model plan.

7. BUSINESS OR CORPORATION TAXES

We must not overlook the fact that a large part of the cost of government is traceable to the necessity of maintaining a suitable business environment. All of the forty-eight states, excepting only Arizona, Iowa, Florida, and South Dakota, levy some sort of a corporation or business

tax in the form of certain definite annual taxes, licenses, or franchise fees upon all corporations organized under or doing business in the state. In Nevada and New Mexico the fee is merely nominal. In the states above named the general property tax constitutes the entire tax levied against corporations. Legislative committees in South Dakota and Florida have within the last month filed reports recommending taxes on business. Shall Iowa remain with Arizona, Nevada, and New Mexico, or join the other forty-four states?

(a) Classification of Property

In Minnesota a special tax on business and all other urban property results from a state-wide classification of property not possible under constitutional provisions in this state. Under the Minnesota statutes iron ore and mining properties are taxed at 50% of full value, household goods at 25%, agricultural products, livestock, and farm machinery and tools at 10%, farms and other rural real estate at 33⅓%, and urban property and all other property not classified at 40%. This difference in assessment basis is in recognition of the difference in earning capacity of property devoted to different uses.

Even if classification were possible, the legislative task of differentiating the rates raises more difficult problems than are raised by the net income tax. Classified business taxes of all kinds almost always look toward the net income tax as the final goal, and approach it more closely year by year.

(b) Corporation Net Income Tax

In fourteen states, to-wit: Arkansas, California, Connecticut, Georgie, Massachusetts, Mississippi, Missouri, Montana, New York, North Carolina, North Dakota, South Carolina, Virginia, and Wisconsin, this tax is in the form of a corporation income tax levied on the net income of domestic corporations, and on the income of foreign corporations derived from business done within the state. This is at varying rates, with one per cent in Missouri and Montana, two per cent in Arkansas, two and a half per cent in Massachusetts, three per cent in Connecticut, North Dakota, and Virginia, four per cent in California and North Carolina, and four and a half per cent in New York, while in Mississippi and Wisconsin it is based on a graduated scale with rates and brackets similar to those of their individual income taxes.

Table "A" submitted herewith shows that corporations paying Federal Income Taxes in Iowa paid during the year 1929 a total of $7,376,359,

from which it appears that a 3% net income tax on corporations would raise between $2,000,000 and $3,000,000, although we have no figures available and attempt no estimate as to the amount that would be paid by foreign corporations based upon business done within the state of Iowa.

(c) Capital Stock and Annual Franchise Taxes

In sixteen states, to-wit: Alabama, Arkansas, Colorado, Illinois, Kentucky, Louisiana, Michigan, Missouri, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, and Texas, the tax on corporations is in the form of a capital stock tax running from 50c to $2 per $1000 of outstanding capital stock. A tax of $1 per $1000 on outstanding capital stock of Iowa corporations would produce approximately $850,000 a year, and the same rate upon the capital of foreign corporations invested in this state probably from $400,000 to $500,000 more. It will be noticed that this capital stock tax is levied on all corporations, the infant industry as well as the established one, and at the same rate regardless of earning capacity.

In the fifteen states of Delaware, Georgia, Idaho, Kansas, Maine, Maryland, Nebraska, Nevada, New Hampshire, Oregon, Utah, Vermont, Virginia, Washington, and West Virginia, instead of a capital stock tax computed on a definite percentage of the capital stock, or capital stock, surplus and profits, there is an annual franchise fee on a sliding scale, increasing as the capital stock increases.

We quote from the Prentice-Hall Corporation's Tax Service for 1930 the capital stock taxes or annual franchise fees in the various states using this method, and on these bases we have computed the annual tax on a corporation having a capital stock of $100,000, as follows, to-wit:

on net profits, then the basis for such an argument would be destroyed, because if the profits do not exist, there can be no tax. If there are profits, the corporation should not object to paying taxes on the ground of its inability to compete with those in other states, because the profits would show that the corporation has already successfully met such competition.

(d) Tax on Corporate Excess

In Rhode Island, Ohio, Indiana, Pennsylvania, Virginia, Illinois, and Minnesota the statutes provide for some form of a tax on corporate excess, although there does not seem to be any attempt made to collect such corporate excess tax in either Indiana or Minnesota. A tax on corporate excess recognizes that there is an element in the value of corporate properties which is over and above the value of their tangible and physical properties. It is a value which attaches to all the property of the corporation because of its income or earning power. If these corporations were taxed upon the basis of their earnings, or upon any equitable basis which referred to their earnings, there would be no occasion for the levying of a tax upon this corporate excess.

(e) States having both Corporation Income Tax and Capital Stock Tax

It will be noticed from the above that Arkansas, Georgia, Missouri, North Carolina, South Carolina, and Virginia collect not only a corporation net income tax, but also a tax on capital stock at the rates set forth in the foregoing table.

(f) Special Taxes in Other States

Individuals and business now untaxed or undertaxed sometimes condemn all forms of taxation besides the general property tax as being "just additional taxation." In this connection we call attention to the special taxes, aside from motor vehicle and gasoline license fees, levied for state purposes in some of the leading and most progressive states. We attach to this report as Table B a schedule showing "Receipts in Thirty-two States from Selected Major Sources of Revenue," giving in each case the amount received from various sources during the last year for which we have available figures.

It will be noticed that in the year 1928 there was no collection of general property taxes for state purposes in California, Massachusetts, North Carolina, Pennsylvania, or Virginia. All of these states excepting Pennsylvania levy an income tax for state purposes. Pennsylvania levies 17 separate and distinct special taxes on corporations and business for state purposes. We also call attention to the revenue raised for state

purposes from special sources in the following states. In each case the amount given is the amount allocated to the state revenue from each levy. These tables show the many and varied forms of business taxes levied in a dozen of the leading industrial states. The only business tax now levied in Iowa is that on insurance companies' gross premiums,—a tax now levied in every state.

CALIFORNIA—1928

I. Property taxes (no state levy)		
II. Inheritance Tax		$ 10,968,000
V. Business Taxes		
Public Utilities Gross Rec. Tax	$ 30,896,000	
Insurance Gross Premiums Tax	5,429,000	
Corporate Excess Tax	4,648,000	
Bank Share Tax	4,361,000	
Highway Trans. Gross Receipts Tax	639,500	
Corporation organization fee	432,000	46,405,500
Total		$ 57,373,500

CONNECTICUT—1928

I. Property Taxes		
A. General		$ 1,901,467
B. Classified		1,977,747
II. Inheritance and Estate Tax		3,010,653
V. Business Taxes		
Express Co. Gross Receipts Tax	$ 20,109	
Insurance Co. Gross Receipts Tax	538,763	
Steam R. R. Gross Receipts Tax	2,019,107	
Street R. R. Gross Receipts Tax	418,397	
Insurance Co's Stock Fran. Tax	979,926	
Non-Resident Stock Tax	516,601	
Insurance Fees and Licenses	895,846	
Corp. Net Income Tax	2,623,012	
Telegraph and Telephone Co.'s Gross Receipts Tax	661,934	
Public Service Corp. Gross Rec.	765,945	9,439,640
VI. Fees and Miscellaneous		
Secretary of State Fees	463,648	
Highway Receipts	1,276,664	
Interest	763,229	
State Agencies and Insts.	2,857,941	
Sundry Sources	1,315,165	6,676,647
Total		$ 23,006,154

IOWA—1928

I. Property Taxes	
A. General	$ 8,862,619(1)
B. Classified	772,418(2)
II. Inheritance Tax	1,222,787
V. Business Taxes (Insurance Co's Gross Premiums)	1,476,338
VI. Sales Taxes—Cigarette Tax	1,101,423
Total	$ 13,435,585

(1) Total State Levy in 1927

(2) State's share of receipts from moneys and credits tax including one mill for soldiers bonus

ILLINOIS—1928

I. Property Taxes		
A. General		$ 25,078,786
II. Inheritance Tax		9,256,531
V. Business Taxes		
Franchise Tax Domestic Corporations	$ 2,481,982	
Franchise Tax Foreign Corporations	914,391	3,396,373
VI. Fees and Miscellaneous		4,872,484
Total		$ 42,604,174

MASSACHUSETTS—1928

I. Property Taxes (No state levy)		
II. Inheritance Tax		$ 10,886,831(1)
III. Income Tax (State retains no portion)		
V. Business Taxes		
Corp. Excise	$ 3,511,031	
Public Utilities Corp. Excise	2,269,736	
Insurance Company Excise	3,256,814	
Savings Bks. and Depts. Excise	2,871,474	
Banks Excise	288,594(2)	
Stock Transfer Excise	540,058	12,737,707
Total		$ 23,624,538

(1) Includes Estate Tax

(2) About 28 per cent of total receipts; remainder distributed locally.

MINNESOTA—1927

I.	Property Taxes		
	A. General Property		$ 15,066,785 (App.)
	B. Classified		1,731,000 (1)
II.	Inheritance Tax		1,416,487
V.	Business Taxes		
	R. R. Gross Receipts Tax	$ 7,844,185	
	Telephone Receipts Tax	788,370	
	Express Receipts Tax	59,255	
	Sleeping Car Receipts Tax	63,138	
	Freight Line Receipts Tax	78,197	
	Trust Companies Receipts Tax	37,396 (2)	
	Elevator Bushel Tax	68,413	
	Mine Royalty Tax	916,825	
	Insurance Premium	1,655,428	
	Ore Occupation Tax	2,183,308	13,694,515
	Total		$ 31,908,787

(1) Monies and credits and mortgage registration fees.

MISSOURI—1927

I.	General Property		$ 2,398,858
II.	Inheritance Tax		1,960,553
III.	Personal Income Tax		2,593,018 (1929)
V.	Business Taxes		
	Corporation Franchise Tax	$ 1,648,591	
	Foreign Insurance Tax	1,161,470	
	Express Company Tax	62,930	
	Corporation Income Tax	1,659,471 (1929)	
	Incorporation Fees	332,889	
	Private Car Tax	77,290	
	Soft Drink Stamp Tax	72,179	5,014,820
	Total		$ 11,967,249

NEW YORK—1927

I. Property Taxes		
A. General		$ 23,438,306
B. Classified		5,853,814(1)
II. Inheritance and Estate Tax		27,787,086
III. Personal Income Tax		27,251,905(2)
V. Business Taxes		
Corp. Organ. Tax	$ 2,871,353	
For. Corp. License Tax	231,757	
Corp. Franchise Tax	6,071,565	
Fran. Tax on Trans. Utilities	3,443,616	
Fran. Tax on Local Utilities	3,365,551	
Fran. Tax on Ins. Corps.	6,605,876	
Fran. Tax on Trust Co's	6,349	
Fran. Tax on Sav. Banks	4,498,887	
Fran. Tax on Business Corps.	30,790,871	
Priv. Tax on For. Bankers	304,571	
Stock Transfer Tax	16,744,003	
Brokers Licenses	310,273	
Foreign Ins. Corps.	2,010,915	77,255,587
Total		$161,586,698

(1) Mortgage Registration Fees

(2) Amount allocated to state revenue; total individual income taxes New York for 1929 $83,018,944.

NORTH CAROLINA—1927

I. Property Taxes (No State Levy)		
II. Inheritance Tax		$ 736,192
III. Income Taxes		6,376,940(1)
V. Business Taxes		
Occupational Licenses	$ 1,378,748	
Public Service Corps.	986,119(2)	
Cap. Stock Fran. Tax	762,348	
Insurance Tax	1,420,473(3)	
Gross Rec. Bus Tax	190,671	4,738,359
Total		$ 11,851,491

(1) Receipts from corporations not separated from receipts from individuals.

(2) Includes receipts from gross receipts tax, invested capital tax, and others; returns not reported separately.

(3) Mainly from gross premiums tax, but capital stock tax on insurance companies included.

PENNSYLVANIA—1926

I. Property Taxes		
A. General (No State Levy)		
B. Classified		
Cap. Stock Millage Tax	$ 19,110,514(1)	
Corp. Loans Millage Tax	4,364,865(2)	
Bank Stock Millage Tax	1,978,599(3)	
B. and L. Stock Millage Tax	171,958(2)	
Municipal Loans Millage Tax	1,790,853(2)	$27,416,789
II. Inheritance Tax		14,070,597
V. Business Taxes		
Corp. Charter Bonus Tax	$ 1,922,543	
Public Utilities Gross Rec. Tax	4,010,971	
Private Bank Gross Receipts Tax	61,722	
Sav. Bank Net Income Tax	75,522	
Dom. Insurance Premiums Tax	261,803	
For. Insurance Premiums Tax	4,419,519	
Anthracite Coal Tax	6,006,944	
Emergency Net Profits Tax	2,453,238	
Stock Trans. Stamp Tax	320,280	
Writs, Wills and Deeds Tax	478,563	
Notaries Public Commissions	35,025	
Merc. and Business Licenses	4,568,154	24,614,284
Total		$ 66,101,670

(1) Five mills per dollar actual value.
(2) Four mills per dollar nominal value.
(3) Four mills per dollar actual value.

RHODE ISLAND—1928

I. Property Taxes		
A. General		$ 1,623,664
B. Classified		1,419,527
Sav. Bank Dept. and Res. Tax	$ 729,875	
State Bank and Trust Co. Dept.	635,869	
National Bank Sav. Dept.	53,803	
II. Inheritance and Estate Tax		688,365
V. Business Taxes		
Corporate Excess Millage Tax	1,256,271	
Insurance Co. Premiums and Fees	668,975	
Domestic Corp. Franchise Tax	66,498	
Public Service Gross Rec. Tax	592,012	
Corp. Charter Fees	36,380	
State's Share Municipal Licenses	31,533	
Peddler's Licenses	1,610	2,653,279
Total		$ 6,384,835

SOUTH CAROLINA—1928

I. Property Taxes		
A. General		$ 2,030,442
II. Inheritance Tax		146,192
III. Income Tax		2,265,504
V. Business Taxes		
Documentary Tax	$ 342,771	
Contractors License	74,000	
Billiard Room License	8,250	
Fish Stamp Tax	27,324	
Corporation Fees and Licenses	1,636,746	2,089,091
VI. Sales Taxes		
Selective Business Sales Tax	1,792,139(1)	
Soft Drink Tax	1,190,260	
Admissions Tax	273,890	
Sporting Goods Tax	1,409	
Glassware Tax	592	3,258,290
Total		$ 9,789,519

(1) Stamp Tax on Tobacco products, candies, ammunition and playing cards.

VIRGINIA—1929

I. Property Taxes		
A. General (None)		
B. Classified		
Bank stock at $1.10 per $100	$ 1,018,487	
Bonds, notes, etc., at 50c per $100	1,203,579	
Money at 20c per $100	195,019	
Shares of Stock at 50c per $100	617,727	
Domestic govt. bonds at 35c per $100	28,281	
Moneyed capital at $1.10 per $100	1,933	
Other Capital at 85c per $100	1,710,213	$ 4,775,240
II. Inheritance and Estate Tax		941,441
III. Personal Income Tax		1,978,911
IV. Poll Tax		957,285
V. Business Taxes		
Corp. Income Tax	1,775,668	
Business License Taxes	2,239,959	
Bus. Corp. Franc. Regis. and Fees	854,873	
Utilities Gross Rec. Franchise Tax	4,538,411	
Insurance Companies	1,397,538	
Recordations, Suits and Admin.	510,863	11,317,312
Total		$ 19,970,189

(g) Income Tax or Business Tax and Industry

Industry has good cause to shun excessive taxation, but not equitable taxation. The general property tax becomes operative as soon as the property comes into existence and before earnings begin. There is a disposition on the part of some industries now firmly established to oppose the income or business tax and favor the general property tax which places this handicap upon any prospective new competitive industry.

The income tax invites the infant industry to locate by promising immunity from such taxation until sufficiently established to earn taxable net income. The general property tax becomes and continues a drain on industry before it has reached the state of profitable operation.

Dr. T. S. Adams of Yale University says:

> "A net income tax encourages the infant industry. It spares every industry in lean years. It fosters industrial experimentation. In practice it saves the legislature the invidious task of classifying the various rates that must be adopted if the tax is laid upon gross income or gross business."

We refer to Table 40 in "The Tax System of Iowa" by Dr. John E. Brindley which shows the number of corporations in Iowa reporting a net income and number reporting no net income during each of the years 1916 to 1926. In 1926, 8843 corporations filed income tax reports in Iowa. Of these, 5060 or 57.2% reported a net income, which net income aggregated $56,751,215. During the same year 3783 corporations, or 42.8% of the total reporting, reported no net income, but deficits in the aggregate amount of $25,033,368.

(h) Taxes Paid and Profits Earned by Major Industrial Groups

The Commissioner of Internal Revenue reports the following totals in connection with corporation income taxes paid for the year 1926 (this being the last year available) filed in the state of Iowa, showing "taxes paid other than income tax," and "net profits after deducting tax" for the following major industrial groups:

	Taxes Paid Other Than Income Tax	Profits After Deducting Tax
Banks	$ 2,397,637	$ 779,822
Transportation and other public utilities	2,220,406	4,341,074
Trade	2,751,417	6,080,437
Total Manufacturing Corporations	2,153,018	22,210,548

(See Table "F" for statistics for 1927)

Reports from the same source covering neighboring and leading industrial states for the same year on "Banks," "Transportation," and "Manufacturing" as follows (000 omitted):

	Gross Sales	Taxes Paid	Net Income
IOWA			
Banks		$ 2,397	$ 779
Transportation		2,220	4,341
Manufacturing	$ 494,567	2,153	22,210
NEW YORK			
Banks		20,249	148,126
Transportation		157,869	735,763
Manufacturing	13,190,020	145,850	1,135,909
PENNSYLVANIA			
Banks		9,484	76,458
Transportation		51,578	219,047
Manufacturing	5,209,268	51,140	369,214
ILLINOIS			
Banks		11,882	50,916
Transportation		78,985	141,034
Manufacturing	8,587,199	40,200	381,134
MINNESOTA			
Banks		2,733	5,802
Transportation		25,070	50,986
Manufacturing	929,388	5,815	35,194
NEBRASKA			
Banks		1,284	1,656
Transportation		1,270	2,865
Manufacturing	182,925	892	6,101
OHIO			
Banks		8,071	22,458
Transportation		11,379	38,323
Manufacturing	4,793,550	47,644	272,261
MISSOURI			
Banks		4,873	12,734
Transportation		19,840	48,120
Manufacturing	1,737,175	10,707	90,764
KANSAS			
Banks		2,401	2,472
Transportation		15,166	85,379
Manufacturing	272,406	1,426	8,135

The above tables show that the amount of state and local taxes paid by these manufacturing corporations in Iowa was less than ten per cent of their net profits after deducting the tax, while in every other state listed it was higher, ranging all the way from more than ten per cent in Illinois and Missouri to sixteen per cent in Minnesota, and seventeen per cent in Ohio and Kansas.

(i) Income Tax Situation in Illinois

Illinois is our nearest competing state, and attention should be given to the present tax situation there. Dr. Herbert D. Simpson of the "Institute for Economic Research" has been a member of the Illinois Joint Tax Conference, of the Chicago Citizens' Committee, and of advisory committees to the State Tax Conference, the Joint Legislative Revenue Committee, and the present Legislative Revenue Commission. We quote from pages 250 and 251 of his recent publication on "Tax Racket and Tax Reform in Chicago" (October, 1930), the following relating to the present situation in Illinois relative to the income tax:

> "The income tax will encounter the opposition of those opposed to any form of classification of property and those opposed *to any change* from the present methods of taxation. * * * This includes specifically two groups who are definitely profiting by a continuance of the present system. One of these is represented by the official and political groups who have been exploiting the present system. Every tax racketeer in Chicago will "view with alarm,"—a sincere and genuine alarm,—any proposal for an income tax. * * * It will include again the Manufacturers' Associations whose members in general are recipients of profitable incomes that largely escape taxation under the present property tax. Their incomes would undoubtedly carry a larger proportion of tax burdens under an income tax. Their opposition to any kind of income taxation is legitimate—and perfectly obvious."

(j) Proposed Business or Corporation Franchise Tax

Any comprehensive plan of raising revenue to replace the present state millage levy must include some form of business tax. Such tax may be a tax on corporate net income, a franchise tax, a tax on corporate excess, a tax on gross earnings, or a combination of two or more of these methods. If the returns for an average year from the Federal Income Tax may be taken as a guide, a 3% tax upon corporate net income would raise between $2,000,000 and $3,000,000 annually.

Chapter 334 of the Code provides for the taxation of capital stock of certain domestic corporations, but the great majority of Iowa corporations have been exempted from its provisions. The State Board last year required a large number of corporations to make reports to local assessors, with the result that very considerable amounts of capital stock were listed for taxation.

This statute has several obscure features; it is discriminatory as between domestic and foreign corporations; and is so involved as to be

almost unenforcible by local assessors. The State Board, recognizing the demand for "more rigid enforcement of the present law," has drafted a bill which proposes to retain the principle and purpose of our present law taxing capital stock of certain corporations as moneys and credits, and which should make it more effective. This bill provides for a tax on corporate excess, and follows the provisions of business franchise laws in effect in Pennsylvania, Ohio, Virginia, Massachusetts, Illinois, Rhode Island, and several other states. Such taxation of corporate excess has been applied by the Executive Council of this state for many years in the valuation of railroads, and to some extent in the valuation of other state-wide public utilities. The bill prepared by the State Board proposes to apply a similar rule to all other corporations.

The bill provides for a valuation by the State Board of all of the property of the corporation, tangible and intangible, based upon an annual report made to the Board. The total value of the assets of the company, as determined from this report, is then apportioned between the state of Iowa and other territory in which the corporation does business, equal weight being given (1) to the ratio of the business done by such corporation in the state to that done in the balance of its operating territory, and (2) to the ratio between the tangible property of the corporation in Iowa and elsewhere. A deduction is allowed from that portion of the total value of the assets allocated to the state of Iowa, as determined by the State Board, of the value of its physical property subject to taxation in Iowa. A tax of six mills on the dollar is then imposed upon the value of the corporate excess thus obtained.

The State Board estimates that this tax will produce a revenue substantially equal to a 3% corporation net income tax. This assessment being based exclusively upon intangible values, imposes no additional tax upon any value already subject to a direct property tax. It makes our present moneys and credits law operative in the case of foreign corporations and domestic corporations not otherwise taxed. It is based upon laws which are in successful operation in other states. It is not discriminatory between the domestic and foreign corporations, the same method of valuation being applied to all corporations doing business in Iowa.

The tax proposed is in the nature of a privilege or franchise tax. Probably more than 90% in volume of the financial, manufacturing, and mercantile business of the state is transacted by corporations. There are recognized advantages in doing business in corporate form, and most of the states levy a privilege tax for the privilege of doing business as corporations within the state.

We realize the necessity for careful consideration of any tax upon corporations or business in this state that are in direct competition with similar organizations in other states. We must have a system of taxation that is not unduly burdensome on industry, but we must bear in mind that agriculture is the leading industry in Iowa. Our taxation system must be fair to the man who raises grain and livestock as well as to the man who mills the grain and slaughters the livestock, and tax preference or tax immunity can only be granted to one class at the expense of the other.

8. MONEYS AND CREDITS

Our present law provides for the assessment of moneys and credits on the uniform flat rate basis of six mills on the dollar. In 1929 less than five hundred million dollars of moneys and credits were on the tax list. For 1930, after a year's strenuous endeavor by the State Board, this has been increased to approximately six hundred million dollars. Even now it appears that not more than one-fifth of the intangibles subject to taxation appear on the tax list.

It is our belief that the six mill rate is excessive for some forms of moneys and credits, and that for this reason comparatively little relief can be expected from rigid enforcement of the present law. It is doubtful whether increasing the penalty for evasion will have much effect. According to Dr. Seligman, one of the leading authorities on taxation, the experience of the past shows that an increase in penalties for evading such a tax increases perjury, but does not increase revenue.

The Joint Legislative Revenue Committee that reported to the Governor of Illinois a few months ago stated:

> "No state has ever successfully taxed intangibles as property. This is the experience of every state that has tried it. *Intangibles can be taxed successfully only on the income they produce. Taxed on their net income they have no better chance of evasion than any other kind of income, and the taxes cannot be shifted.*"

In most states that have an income tax there is no other tax on intangibles. If an income tax is adopted in this state, it may not be advisable to repeal the moneys and credits tax. To do so might interfere seriously with tax budgets in communities now reporting moneys and credits. An income tax should, however, be accompanied by a substantial reduction in the rates on moneys and credits, making the total tax less burdensome than the present moneys and credits tax.

The six mills tax now levied absorbs 10% of the income from a 6%

mortgage, 12% of the income from a 5% bond, and 17% of the income from a 3½% bank deposit. We believe that this rate is excessive as applied to bank deposits in particular, and if rigidly enforced would result in a substantial withdrawal of bank deposits. We are gradually becoming a bond-buying people, and as a result there has been a shrinkage in time and savings deposits. Iowa needs credit, and a community is best served when the surplus funds of the community are deposited in its local banks to be used to finance the needs of the community.

Desiring to have upon the statute books a tax on intangibles that may be rigidly enforced, we recommend the reductions set forth in our proposed bill. We also recommend changes in the statutes relating to the assessment and collection of these taxes that we believe will, in conjunction with the reduced rate, result in bringing more of these intangibles from hiding and placing them upon the tax list. This would result in a measure of justice to the honest and conscientious owner of intangibles who now reports his holdings, and also to estates, guardianships, and testamentary trusts that are now obliged to pay the full rate on all such intangibles by reason of the publicity given their affairs through the probate courts.

We recommend that cash on hand and money on checking account be exempt, together with indebtedness secured by mortgages on Iowa real estate upon which the registration tax has been paid. We further recommend a reduction of the tax on all moneys and credits, and on stocks in certain corporations, from the present 6 mills to 4 mills, except that interest bearing bank deposits and building and loan stock be taxed at a flat rate of 2 mills, being one mill plus the soldiers' bonus one mill.

We believe that on the whole throughout the state this decrease in rate will not diminish the revenue from these intangibles. The total stock in building and loan associations less amount due by the stockholder to the association, aggregates approximately $45,000,000. At two mills on the dollar, this would produce a revenue of $90,000, which is greatly in excess of the amount now received from that source.

We also find that the amount of "time" or interest-bearing bank deposits and the amount of "demand" or non-interest-bearing checking deposits in the banks of the state on January 1, 1930, were as follows:

<table>
<tr><th></th><th>State</th><th>National</th><th>Private</th><th>Total</th></tr>
<tr><td>Time Dep.</td><td>$335,234,391</td><td>$130,374,000</td><td rowspan="2">$78,605,588</td><td rowspan="2">$916,062,335</td></tr>
<tr><td>Demand Dep.</td><td>239,851,356</td><td>131,997,000</td></tr>
<tr><td></td><td>$575,085,747</td><td>$262,371,000</td><td>$78,605,588</td><td>$916,062,335</td></tr>
</table>

In view of the fact that in 1929 the total of all moneys and credits listed for taxation was less than $500,000,000, and in 1930 it was less than $600,000,000, it is evident that very small proportion of interest-bearing bank deposits were listed for taxation. By rigidly enforcing a two mill rate we should secure more revenue than we are now securing under the present law.

We recommend this lower rate accompanied by changes in administration that should make the law enforceable, subject to the adoption of an individual income tax,—so that owners of moneys and credits and other similar intangibles will pay this low rate millage tax, together with moderate income tax.

9. MORTGAGE REGISTRATION TAX

The following table shows the rates of the mortgage registration tax in the eleven states levying such tax, as follows:

State	Rate
Alabama:	15 cents on each $100 or fraction thereof.
Kansas:	25 cents on each $100 or fraction thereof.
Kentucky:	20 cents on each $100 or fraction thereof.
Louisiana:	10 cents on each $100 or fraction thereof.
Maryland:	Annual 8 per cent of gross of interest on mortgages (Frederick County only)
Michigan:	50 cents on each $100 or fraction thereof.
Minnesota:	15 cents on each $100 or fraction thereof, 25 cents if maturity is more than 5 years and 60 days after date of mortgage.
New York:	50 cents on each $100 or fraction thereof.
Oklahoma:	10 cents on each $100 or fraction thereof on 5-year mortgages; 8 cents on 4-year mortgage, 6 cents on 3-year mortgage; 4 cents on 2-year mortgage; 2 cents on less than 2-year mortgage.
Tennessee:	10 cents on every $100 or fraction thereof.
Virginia:	12 cents on every $100 or major portion thereof.

At the present time there are about $1,400,000,000 of mortgages on Iowa farms. We have no exact figures of the mortgages on urban real estate, but believe they would aggregate at least $600,000,000, making a total of more than $2,000,000,000 in mortgages on Iowa real estate.

Half of the above amount, held by non-residents, including insurance companies, is not reached at all by our present moneys and credits tax. To tax the resident and not the non-resident is a discrimination which makes Iowa investors reluctant to invest in mortgages on Iowa real estate that may be caught by the assessor or the tax ferret.

We believe that it would be advisable to exempt indebtedness secured by mortgages on Iowa real estate from taxation as moneys and credits, and impose in lieu thereof a mortgage registration fee of $2 a thousand

on the basis of a five-year mortgage. Such a law should produce a revenue of approximately $600,000 a year, which is probably in excess of the amount now paid by mortgages on Iowa real estate as moneys and credits. These registration fees would go to the general fund of the counties where collected. While the registration fee on all future mortgages would be paid by the borrower, the benefit to him would exceed the cost, as large amounts of local money would be offered for such investments, making loans easier to obtain and reducing the interest rate. This change would encourage Iowa investors to invest their savings in mortgages on Iowa farms and homes. This will help solve one of the present problems of the state, and benefit the investor by encouraging him to invest his savings in a type of security with which he is thoroughly familiar, rather than investing them promiscuously in stocks and bonds, the value of which he has little knowledge.

The bill which we submit provides that if the maturity of any portion of the debt secured by the mortgage is fixed at a date more than five years and six months after the date of the mortgage, the tax to be paid on such portion shall be at the rate of $3 per $1000, and that this $3 rate also apply in cases where the date of the maturity of the debt is not given in the mortgage. The bill also provides that all real estate mortgages now outstanding shall continue subject to the moneys and credits tax, unless and until the holder of the mortgage shall pay the registration fee provided by this statute. This would affect resident mortgagees only, and the registration fee would be paid by the mortgagee, and not by the mortgagor.

10. INHERITANCE TAXES

The Iowa Collateral Inheritance Tax was enacted in 1896. This was enlarged and made to apply to direct heirs by the 39th General Assembly in 1921. The Iowa Estate Tax Act was passed by the last legislature solely for the purpose of reaching the full amount of the 80% credit allowed by the Federal Statute. The estate tax act has not produced as much additional revenue as was anticipated, and it involves considerable additional work in the administration of some estates. We do not recommend any change in that law at this time, but we do recommend changes in the exemptions and rates of the present inheritance tax statutes both as applied to direct and collateral heirs. There has been no change in these rates or exemptions since the 39th General Assembly.

In order that a comparison may be made of these exemptions and rates of tax with rates that are in force in other states, we attach hereto Tables C and D, prepared for us by John V. Wicklund of the State Treasurer's

office, showing the exemptions and the rates of tax on both direct and collateral heirs in all of the states. This schedule indicates that the states of Alabama, Florida, and Nevada levy no inheritance or estate tax of any kind, while Maryland and New Hampshire collect such tax from collateral heirs only. In Oregon, Pennsylvania, Utah, Mississippi, and North Dakota there is an estate tax, while all the other states levy such tax in the form of a tax on inheritances.

The inheritance tax is somewhat more complicated in its operation than the estate tax, but we believe that this is overbalanced by the greater equity found in an inheritance tax. In the estate tax the individual is not considered, and the exemptions are set off against the estate, and the rates of tax are also collected on the estate as a whole. We believe that the inheritance tax is preferable in that it permits of discrimination between classes of heirs, both as to exemptions and the rates of tax to be applied upon the inheritances which they receive.

(a) Exemptions

As shown by Table C, the exemptions allowed by the inheritance tax law of this state are higher than those of any of the other states levying such a tax. The Iowa exemption to the surviving spouse is one-third of the estate plus $15,000. This may be reasonable in the case of a small estate, but wholly unreasonable in the case of large estates. All other states have flat rate exemptions. In California it is $50,000 to the surviving wife and $10,000 to the surviving husband. In Kansas it is $75,000 to the surviving wife and $15,000 to the surviving husband. In Texas it is $25,000 to the surviving spouse, and in Michigan it is $30,000 to the surviving spouse. In no other state does the exemption exceed $20,000 to either spouse, and in only five of the forty states does the exemption to the husband exceed $15,000, and in thirty-three of the states the exemption to the surviving husband is $10,000 or less. In order to be more in line with exemptions in other states, we recommend that the exemption to the surviving wife be placed at $25,00 and to the surviving husband at $15,000.

The exemption now provided by our inheritance tax law for children, grandchildren, and parents, is a flat $15,000 in each case. A number of the states make a distinction between the exemption allowed to an adult child and to a minor child with a smaller amount to a parent or grandchild. We therefore recommend that a similar classification be made in this state with an exemption of $15,000 to a minor child, $10,000 to an adult child, $5,000 to each parent, and $5,000 to each grandchild.

These exemptions which we recommend exceed the average exemption

allowed in the various states which have inheritance tax statutes. We believe each exemption is ample and protects the heir insofar as protection is desirable.

(b) Rates

The present rate on direct heirs is from one per cent to seven per cent. We recommend the elimination of the half per cent rate steps in the present law, and raising the maximum to eight per cent, this maximum applying on the amount of each inheritance above $100,000.

Recommended Rates of Tax on Direct Heirs

First	$10,000 above the exemption	1%
Next	15,000	2%
"	25,000	3%
"	50,000	4%
"	50,000	5%
"	50,000	6%
"	100,000	7%
	Balance	8%

The collateral class should be devided into two divisions. A lower rate of taxation should be assessed against brothers and sisters and sons-in-law and daughters-in-law than against those more distantly related, and we have listed them under Class 1. In Class 2 we have listed all other collaterals, with the exception of certain institutions which we have listed in Classes 3 and 4.

At the present time there is considerable doubt as to whether charitable, religious, or educational institutions located outside the state are subject to tax upon property passing to them from a resident decedent. The Treasurer of State has been acting on the theory that they are not subject to tax under the present statute. While bequests of this nature should be encouraged and commended, yet most states recognize a difference for taxation purposes between bequests left to such institutions in the state and outside of the state. We therefore recommend classes and rates to collateral heirs as follows:

Rates of Tax on Collateral Heirs

No exemption

If the net estate equals or exceeds $1,000.00, all property passing to collaterals subject to tax.

RATES CLASS 1

Brothers, sisters, stepchildren, son-in-law, daughter-in-law

First	$ 25,000	at	5%
Next	25,000	at	6%
Next	50,000	at	7%
Next	100,000	at	8%
Next	100,000	at	9%
	Balance	at	10%

CLASS 2

All others in collateral class.

First	$100,000	at	10%
Next	100,000	at	12%
	Balance	at	15%

CLASS 3

All institutions, charitable, religious, or otherwise located outside the State, 5% on all passing.

CLASS 4

All religious, charitable, and educational institutions within the state open to the public and not maintained for pecuniary profit, exempt from the tax. Also exempting bequests for care and maintenance of cemetery or burial lot and bequests not exceeding $500 for religious services, all bequests for religious services exceeding such amount to be taxed as in Class 2.

One other change should be made in the matter of property passing to collateral beneficiaries. Under the law prior to 1921, if an estate equalled or exceeded $1000, any portion passing to collateral heirs was subject to the tax. Under the present law, through a change in the wording, the amount passing to collateral heirs must exceed $1000 before becoming subject to the tax. Where an estate is large enough and there is any property passing to collateral heirs, it should be subject to the tax.

(c) Amount Raised by Inheritance Tax

During the calendar year 1925 the inheritance tax collected amounted to $1,196,532.98. The inheritance tax division of the office of the Treasurer of State estimates that the modifications which we have suggested, both in exemptions and in rates, would result in increasing the revenue from this source to nearly $2,250,000. The changes we suggest,

both as to direct and collateral heirs, are not burdensome, and will not place a hardship upon the estate or on any heir or devisee.

11. BANK TAXES

Possibly no portion of our taxation system is in more uncertain and unsatisfactory condition than that relating to the taxation of banks and moneyed capital. The present statutes relating to taxation of banks levy such taxes on a basis that may be fair as between the banks and other forms of property. However, it is a source of constant litigation, in view of the provisions of Section 5219 of the Revised Statutes of the United States relating to the taxation of national banks.

The federal statute requires that national banks shall not be taxed at a higher rate than is imposed on other moneyed capital in the hands of other corporations or individuals used in competition with national banks. Prior to 1921 this limitation on the right of the state to tax national banks was assumed to require only that state banks and trust companies should be taxed on the same basis as national banks.

In 1921 the United States Supreme Court rendered a decision in Merchants National Bank vs. City of Richmond (256 U. S. 635), in which it was held that bonds, notes, and other evidences of indebtedness held by individuals were moneyed capital in competition with national banks, and that the State of Virginia could not tax national bank shares at a higher rate than was imposed upon such investments in the hands of private persons. This decision affected the taxation systems of most of the states, and led to a revision by Congress in 1926 of Sec. 5219 relating to taxation of national banks. While this amended section was given careful consideration by the best minds of the country for a considerable length of time before it was enacted, it has been found to be unsatisfactory. A committee of Congress, acting with a committee of the American Bankers Association, has been working for a considerable time upon the draft of an amendatory act rewriting Sec. 5219. A tentative draft of such amendatory measure has recently been agreed upon. In view of this situation and in view of the further fact that the question of bank taxes does not come within out legislative mandate, the committee at this time makes no recommendations whatsoever regarding bank taxation.

12. INSURANCE COMPANY TAXATION

Our statutes relating to taxation of insurance companies were enacted with a view to favoring the development of insurance companies organized in this state. At the time they were enacted very few of the Iowa com-

panies were doing any considerable business in other states. Since that time our home companies have grown rapidly, and the older companies now transact a large volume of business in other states.

Section 7025 of the Code provides that on or before March first of each year each Old Line Domestic Life Insurance Company shall pay to the Treasurer of State a sum equal to one per cent of the gross receipts from premiums, assessments, fees, and promissory obligations required by insurance contracts which have been received during the last calendar year. From this amount they are allowed deductions as follows:

First—Amounts actually paid for losses.
Second—Matured endowments.
Third—Dividends to policy holders.
Fourth—Increase in amount of reserve as certified by the Insurance Department Actuary.
Fifth—Amounts returned to members on cancelled policies, certificates, and rejected applications during said year.

In addition to this gross premium tax each insurance company is required to pay taxes on its moneys and credits (Code Sec. 7029), and on its real and personal property (Sec. 7028), at the same rates as like property of private individuals.

Although the one per cent gross premium tax on Iowa companies is payable on all business wherever transacted, the deductions allowed are liberal, so that Iowa companies pay in Iowa only a small fraction of one per cent of their entire gross premiums.

Our statutes provide that every Old Line Insurance Company organized in any state other than Iowa and transacting business in Iowa shall pay as taxes two and one-half per cent of the gross amount of premiums received from Iowa business without any deductions (Sec. 7021). The result is that Iowa companies transacting business only in Iowa are given a distinct advantage over other companies. However, since these insurance tax laws were enacted, other states have enacted what are known as retaliatory laws, under which Iowa companies doing business in those states must pay the same rate of tax as companies of those states doing business in Iowa have to pay in Iowa. In other words, if an Iowa company desires to write insurance in Illinois, it must pay in Illinois the same rate Iowa charges Illinois companies on business done in Iowa, so that Iowa companies must pay in Illinois two and one-half per cent of their gross premiums on insurance written in that state without any deductions. As Illinois has no premium tax on its Domestic Companies, Iowa companies are at a decided disadvantage on the business they trans-

act in Illinois. Forty states now have retaliatory statutes, so that Iowa companies must pay a two and one-half per cent gross premium tax in practically every other state in which they write insurance.

The average rate in the different states is a gross premium tax of two per cent, with a deduction for dividends actually paid in cash or applied in reduction of premium; and with a further deduction for reinsurance premiums paid to other companies. For every dollar we collect in taxes from companies organized in other states above the two per cent average gross premium tax, with deductions as above stated, our Iowa Life Insurance Companies pay in taxes to other states $1.41. At the present time our insurance tax laws, instead of being a benefit to Iowa companies, are exactly the opposite.

The allowance as deductions of amounts actually paid for losses and amounts set aside as increase in reserve is in effect a progressively increasing deduction. The result is that our Iowa companies are paying less taxes to the State of Iowa each year, and will continue to pay less as the companies grow older.

Life insurance is an important business in Iowa, and we feel that our insurance taxation laws should be revised to meet these changed conditions.

Practically all of the states tax insurance companies on their gross premiums. On account of the difficulties involved in determining what is the net income of insurance companies, we are of the opinion that we should continue to tax insurance companies on their gross premiums, and that they should be exempted from the provisions of an income tax law if one should be enacted.

We have met with representatives of insurance companies other than Life, and find that there is no apparent necessity for revising the tax laws applying to them, as very few of them transact any considerable amount of business in other states.

The Committee and Board recommend that Old Line Foreign Life Insurance Companies be required to pay a tax of two per cent of their gross premiums with an allowance as deductions for dividends actually paid in cash to the policy holder, or applied in reduction of the premiums; and also with a deduction for amounts paid for reinsurance to companies authorized to do business in the State of Iowa; and that Iowa companies pay a tax of two per cent on their gross premiums on insurance written in Iowa and be allowed the same deductions as proposed for foreign companies. This change will materially increase the amount of premium tax to be paid in Iowa by Iowa companies. This increase in the amount paid in Iowa will react favorably, in that the amount that Iowa companies pay to other states will be materially reduced, so that the amount

paid in taxes by Iowa companies on all their business will be less than the amount now paid. This will temporarily decrease the amount of taxes that foreign companies pay in Iowa. The net result will be a slight loss of revenue to the state, not exceeding $5,000 per year for one or two years, and after that time it is anticipated that the revenue will materially increase over the amount that is now being received.

If it is deemed advisable to give Iowa companies a preference over foreign companies, then we suggest that Iowa companies be allowed an additional deduction of the first year's premium. On this subject we quote with approval the Report of the Kansas Tax Code Commission, under date of December 1, 1929:

> "We find, and the companies admit, that the first year's premium on legal reserve life insurance policies adds nothing to the net assets of the company and in many forms of policies actually depletes the reserve of the company. As we apply the tax to each of the seventeen companies with and without this deduction and compare the result, we find that this additional deduction greatly equalizes the tax burden, falling lightly on the young companies whose percentage of new business is large, and more heavily on the old and wealthier companies who have a larger percentage of renewal business, which is the profitable business."

Our domestic and foreign fraternal life insurance companies pay no gross premium tax. Most of the fraternal life insurance companies which originally operated on a purely assessment plan have now changed to the legal reserve plan, and to that extent are in competition with Old Line Life Insurance Companies. We find no logical reason why all life insurance companies operating on the legal reserve plan should not be taxed in the same manner as Old Line Life Insurance Companies. However, at the present time it appears to be the policy of the different states to exempt fraternal life insurance companies from this tax.

13. PUBLIC UTILITIES

A brief reference should be made to the question of taxation of public utilities.

An increasing number of states are levying taxes on the gross receipts of public utilities in lieu of all other taxes, such tax in most of these states being levied at a classified rate, differing to some extent with each utility. Such a tax is easily computed and easily collected. If a tax of this kind could be levied in lieu of all other taxes, it would result in making the tax uniform on all similar utilities throughout the

state, and the rate making power would have something definite to consider on the item of taxes paid when considering the reasonableness of rates charged by such companies. On submitting this question to the Department of Justice, we have been furnished with an official opinion that under the constitution of this state the legislature cannot levy a gross receipts tax on public utilities in lieu of other taxes.

However, we advise that the operative real estate and personal property of all public utilities be valued under the direct supervision of the State Board of Assessment and Review rather than by the local assessor, and returned to the counties to be placed on the local tax rolls and subjected to the local general property tax rates.

The State Board reports that the various local public service corporations of the state are assessed at anywhere from 10% to 110% of fair value, whereas to be on the same basis as other property they should all be assessed on approximately a 50% basis.

The State Board has taken over the duties formerly imposed upon the Executive Council requiring it to assess all distribution systems and transmission lines outside of cities and towns. This leaves such distribution systems within the corporation limits to be valued and assessed by the local assessor. The State Board found on investigation about three hundred local public utilities where no attempt had been made to place a value upon or to assess in any manner the value of the distribution system of the public utility within the incorporated city or town. This had resulted either from a misunderstanding of the law on the part of the local assessor, or from an erroneous construction placed upon it by the representative of the public utility in reporting such property for taxation.

Few local assessors are qualified to place a value on public utility properties. They are usually obliged to take the figures given them by the owners. At the same time we cannot believe that these extreme valuations are in all cases the result of the assessor's inability to fix the value. It is altogether probable that frequently the lowest valuations resulted from favoritism and the highest valuations from public feeling existing locally against the public utility.

14. EXPENDITURES AND ADMINISTRATION OF PUBLIC FUNDS

The question of the control of public expenditures is a most important one. We believe it is as important as any other question which we have considered and discussed, but the legislative committee is restricted both by the legislative mandate creating it and by the limitation of its

time and resources, from giving this matter the consideration it deserves. We therefore recommend that a Legislative Committee or Commission be appointed with adequate funds for the purpose of giving this consideration. The solution of this problem stands as a challenge to the business genius of the state.

For the year 1930 the total tax bill of the state and its political subdivisions increased about $6,000,000 over the preceding year. Fifty-three counties showed an increase in their taxes. If the total tax bill is to be reduced, means must be adopted to prevent further increases in expenditures. The tax burden can only be reduced by providing every device that can be suggested for limiting expenditures and improving administrative efficiency, especially by local tax spending bodies.

The passage of the bills presented should secure a more equitable distribution of the present tax burden, but the problem of tax revision cannot be regarded as complete until there has been a careful study of all public expenditures, and especially those of a local nature, to determine the degree of efficiency which is being attained by public administration, and measures adopted that will result in eliminating waste and extravagance, and limiting expenditures of public funds to the needs of the community.

We make no insinuations of waste or extravagance by any tax spending body. We would join with them in resenting the all too frequent assertion that if taxes are raised in any other way except by levies on real estate, it will only mean additional expenditures. Those who direct local expenditures are giving the people just what the people demand in the way of better roads, better schools, and additional welfare work and personal and social service. The public is demanding that more and more things in the line of social service and welfare work shall be done by the public collectively and paid for from the collective public tax purse, that heretofore, if done at all, were done by individuals or groups of individuals and paid for from private funds. It will be difficult to deprive the public of those things that the public thinks it should have. What the public seems to want is the same service and increased service, but at less cost. No one has yet shown how this can be given.

(a) Budgetary Control

In our judgment all expenditures of the different political subdivisions should be budgeted in a simple comprehensive statement, which statement and the budget should be widely published. There should be some connection between the total amount of the budget and the total amount of assessable wealth. Under our present system each political subdivision submits its own askings without any knowledge of the askings of the

other political subdivisions. Expense budgets are made up by people interested in these expenditures, and the total budget is never considered in connection with the total assessable wealth of the district. In other words, expenditures are made without considering income. All taxes should be paid from income and not from capital. To insure this, a definite limit should be placed on the amount possible to tax property, and if the total budget of the various political subdivisions exceeds this amount, the budget should be readjusted.

Some supervision should be provided over the combined askings, and if it is found that any of the budgets are increased ten per cent over the previous year, there should be an appeal on petition of ten or twenty taxpayers to the Budget Director. A public hearing should be held to determine the effect of the total millage levy on the taxpayer. Indiana has such a law, and thirty-three counties have lower budgets for 1930 than they had in 1923. This same method of control should also apply to all bond issues. Property should also be protected from the vote of the non-property owner.

The method of budgetary control suggested above has the following advantages:

1. It gives any group of ten or twenty taxpayers an effective means of obtaining an official inquiry into all excessive budgets and bond issues.

2. It puts upon the taxpayers themselves the duty of appealing from proposed budgets, levies, or bond issues whenever they believe the expenditure is excessive or needless.

3. It puts on the taxing officials the duty of proving that the outlay is advisable and necessary.

4. It makes the people a more intimate part of that vital function of government, taxation.

5. It operates as a check upon every taxing official in the state, causing him to examine every item of normal outlay and every proposal for the creation of more public debt.

(b) Roads and Schools

The two major items of tax expenditure are roads and schools. We are beginning to realize that these are matters of more than local importance. The school district and the township are no longer the economic unit. The last legislature made the county the unit so far as road construction and maintenance is concerned. A similar principle must be applied to taxation and education.

Twenty years ago more than 99 per cent of the revenue for state and local highway construction and maintenance was derived from the generl property tax. Today about 40 per cent of our highway revenue comes from state and local taxes, the remaining 60 per cent being met by motor vehicle license fees, gasoline license fees, and Federal aid. In this way we are solving the problem regarding revenue for highway purposes.

But at the present time 98.65 per cent of our common school revenue is met by the local property tax, and only 1.35 per cent by state and Federal aid. City and town schools have improved, but rural schools to a large extent have either been going backward, or their support involves an excessive tax burden. The question of a county or state unit in the matter of education is being more and more discussed. Is it not a part of the state's function to see that every child receives an adequate education, and that no child is deprived of such an education by reason of the poverty of the district in which he lives?

When our school laws were first enacted education was a local problem. Each locality educated its own children and expected them to remain in or about their own locality. Today we are a great cosmopolitan nation, and the boy who is educated in one part of the state may do his life work in another part of the state or in some other state, and he brings to the place where he resides the benefit of his schooling without cost to that locality.

(c) Educational Survey Necessary

Education is not a local problem; it is a state and national one. It may be that the state should fix a reasonable minimum of educational requirements, and then create a state educational equalization fund for the equalization of educational advantages throughout the state. This would require a careful survey to determine the assessable valuation available for school support in the different districts and counties of the state. Such a survey would determine to what extent the various school districts and counties are unable to maintain the required minimum standard without excessive effort, and where such a minimum standard cannot be maintained without excessive effort, the other districts in the county, or the state itself, would provide for the deficiency. We must consider the question whether school district boundaries should circumscribe the right of the child to an adequate education or the duty to provide for it. Practically every city in the state is a single school district, and equal educational advantages are given to all the children in the city regardless of where they live. Why should not this equalization of educational advantages be extended to the county or to the entire state? This is

a matter for future investigation and consideration,—certainly we do not know enough about the problem to attempt its solution at this time.

15. CONCLUSION

While we have made brief reference to the matter of expenditures and to the necessity of more definite budgetary control, we realize that that subject lies beyond the scope of our instructions. It should be made the subject of further investigation by a committee appointed for that purpose. We realize the difficulty of devising an effective plan that does not usurp the rights of the local community. Our report is devoted to measures that will provide for the equitable assessment and just distribution of the tax burden upon all taxable property and persons without favor or descrimination, and by officials who are required to perform their duties free from political influence.

The tax problem is paramount and must be met and solved. Any plan or pretext that defers constructive action means that we will drift along as we have in the past with more general dissatisfaction by reason of inequitable taxation with each succeeding year. We may anticipate that those who enjoy some degree of immunity or advantage under our present antiquated methods will oppose any effective modification of our present system of taxation, and will have the support of those timid, suspicious souls who prefer to bear the ills they now have rather than to risk a change. We realize that a popular system of taxation has never been devised, and that no one meets the tax gatherer with a glad hand. However, we have endeavored to base our recommendations upon our conception of a sound system of equitable taxation that will promote the welfare of all the people of the state. With this in mind we submit these recommendations to the consideration of the General Assembly and the people of Iowa.

Table A

Income Taxes

State	Rate	State Revenue Last Available, 1929	Paid Fed Gov. Fiscal Year 1929
Arkansas			
IND.	1st $3000 1%	Enacted April, 1929	
	2nd $3000 2%	$ 403,184	$ 1,474,897
	next $5000 3%		
	next $14,000 4%		
	above $25,000 5%		
CORP.	2%	$ 417,330	2,082,402
California			
IND.	None		66,921,101
CORP.	4% on all bus		63,302,945
	corporations	Approved 3/1/29	
Connecticut:			
IND.	None		20,899,642
CORP.	3% on miscell. corp	2,887,492 ('28)	19,359,366
Delaware:			
IND.	1st $3000 1%		
	$3000 to $10,000 2%	1,615,646 ('28)	9,718,837
	Above $10,000 3%		
CORP.	None		18,448,078
Georgia:			
IND.	Income tax law approved		4,560,553
and	August 23, 1929		
CORP.	Rates 1/3 Federal Income Tax		8,939,240
Massachusetts:			
IND.	Income from annuities, professions, employment, trade or business 1½%; Net gains from dealings in intangibles 3%	24,220,801 ('28)	54,874,977
	Interest and Dividends 6%	29,000,000 (Approx)	
CORP.	2½% on net income derived from business within State	Included in above	19,359,366
Mississippi:			
IND.	1st $1000, 1%		
	$1000 to $2000, 1½%		
	$2000 to $5000, 2%		
	$5000 to $10,000, 3%		
	$10,000 to $25,000, 4%		
	5% on balance		997,904
CORP.	1% on 1st $1000		
	1½ on next $1000		
	2% on next $3000		
	3% on next $5000		
	4% on next $15,000		
	5% on excess of $25,000		1,327,839

State	Rate	State Revenue Last Available, 1929	Paid Fed. Gov. Fiscal Year 1929
Missouri			
IND.	1% on entire net income	$ 2,593,018	$ 19,206,134
CORP.	1% on net income from all sources, foreign corporations on income from sources within state	1,659,471	32,426,733
Montana			
IND.	None		1,017,577
CORP.	1% on net income derived from business within the state	249,014	1,617,111
New Hamp.:			
IND.	Same as average rate of taxation on other property, excepting savings deposits and property specially taxes for current year	614,586	2,050,237
CORP.	None		1,303,111
New York: Ind.	First $10,000, 1% Next $40,000, 2% Above $50,000, 3%	83,018,944	407,997,505
CORP.	4½%	3,381,088	336,784,291
N. Carolina:			
IND.	1st $2500, 1¼% $2500 to $5000, 2% $5000 to $7500, 2¾% $7500 to $10,000, 3½% $10,000 to $15,000, 4½% Balance, 5%	2,476,764	5,809,510
CORP.	4% on entire net income sources within state	5,109,516	14,257,284
No. Dakota:			
IND.	1st $2000, 1% $2000 to $4000, 2% $4000 to $6000, 3% $6000 to $8000, 4% $8000 to $10,000, 5% Balance 6%	547,786 1929 (both)	222,878
CORP.	3% on entire net income from sources within state		442,255

State	Rate	State Revenue Last Available, 1929	Paid Fed. Gov. Fiscal Year 1929
Oklahoma:			
IND.	1st $10,000, 7½ mills on dollar; $10,000 to $25,000, 15 mills on dollar; Bal. 20 mills	$ 526,328	$ 7,952,322
CORP.	None		9,619,282
Oregon:			
IND.	First $1000, 1% 2nd $1000, 2% 3rd $1000, 3% All above $4000, 5%	Chapt. 448 and 427 app. 3-9-29, Approved by referendum vote November 4, 1930	$ 2,650,509
CORP.			3,252,063
S. Carolina:			
IND.	1st $2500, 1% $2500 to $5000, 1½% $5000 to $7500, 2½% $7500 to $10,000 3½% $10,000 to $15,000, 4½% Balance, 5%	400,430	749,290
CORP.	4% on entire net income	1,882,154	2,751,105
Tennessee			
IND.	Income tax enacted April, 1929 covers only certain tangibles and not general income tax	607,422	5,516,925
CORP.	None		8,243,719
Virginia			
IND.	1st $3000, 1½% $3000 to $5000, 2½% Above $5000, 3%	1,902,882	4,546,926
CORP.	3%	1,775,668	15,630,464
Wisconsin:			
IND.	1st $1000, 1%, Increase of ¼% on each $1000 up to $5000 Increase of ½% on each $1000 from $5000 to $12,000 Balance in excess of $12,000, 6%	9,238,112	13,297,417
CORP.	1st $1000, 2% 2nd $1000, 2½% 3rd $1000, 3% 4th $1000, 3½% 5th $1000, 4% 6th $1000, 5% Balance, 6% In addition a surtax is imposed of 1/6 above rates on income of over $3000	11,708,066	24,210,359

TABLE B

RECEIPTS IN 32 STATES FROM SELECTED MAJOR SOURCES OF REVENUE

Year	State	General Property Tax	Classified Intangible Property Tax (Includes Mortgage Registration Fees)	Inheritance Tax	Major Business Taxes	Personal Income Tax	Sales Taxes Excluding Gasoline
1927	Alabama	$ 2,571,100	$ 378,436		$ 3,021,268		
1928	Arizona	6,088,316		40,742	93,606		
1928	California			10,968,000	46,405,500		
1928	Colorado	5,622,436		869,407	737,340		
1928	Connecticut	1,901,467	1,977,747	3,010,653	9,439,640		373,859
1928	Illinois	25,078,786		9,256,531	3,396,373		
1928	Indiana	6,793,346		1,171,523	2,188,197		
1928	Iowa	8,862,619	722,418	1,222,787	1,476,338		1,101,423
1928	Kansas	7,200,000	1,088,006 (1)	715,656	1,238,618		689,400
1928	Kentucky	10,525,278	431,262	734,311	2,381,897		206,434
1928	Maryland	4,900,057	850,257	947,048	7,362,684		
1928	Massachussetts			10,886,831	12,737,707	(1)	
1928	Michigan	37,309,106	1,331,636	2,293,154	690,474		
1927	Minnesota	15,066,785	1,731,000	1,416,487	13,694,515		
1928	Mississippi	4,322,722		269,010	1,442,606	$ 1,864,127	
1927	Missouri	2,398,858		1,960,553	5,014,820	2,593,018	
1927	Nebraska	6,439,262	698,977 (2)				
1928	Nevada	1,410,919			112,475		
1928	New Jersey	36,321,997		11,394,556	16,399,607		
1927	New York	23,438,306	5,853,814	27,787,086	77,255,587	27,251,905	
1927	North Carolina			736,192	4,738,359	6,376,940 (2)	
1928	North Dakota	4,015,510		26,606	684,276	234,025	332,696
1927	Oregon	7,710,104		440,437	1,445,464		
1926	Pennsylvania		27,416,789	14,070,597	24,614,284		
1928	Rhode Island	1,623,664	1,419,527	688,365	2,653,279		
1928	South Carolina	2,030,442		146,192	2,089,091	2,265,504	6,274,866
1929	Tennessee	3,248,950		513,732	2,331,325		1,350,238
1928	Texas	23,822,261		978,937	11,252,074		
1929	Virginia		4,775,240	941,441	11,317,312 (1)	1,978,911	
1928	Washington	13,835,832	327,045	657,902	1,916,754		
1928	West Virginia	2,933,629		667,457	276,666		3,805,078
1928	Wisconsin	9,632,297		3,450,692	2,368,988	8,595,627 (3)	

Classified Intangible Property Tax: (1) Total receipts state retains portion. (2) 1-6 of receipts retained by state.

Major Business Taxes: (1) Includes Corp. income receipts of $1,775,668

Personal Income Tax: (1) State retains no portion of tax (2) Corp. tax receipts not separated from personal. (3) Corp. returns not reported separately.

Table C

INHERITANCE TAX EXEMPTIONS

	Spouse		Children			
	Wife	Husband	Adult	Minor	Parents	Grandchild
Ala.	No inheritance tax law.					
Ariz.	$10,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00
Ark.	6,000.00	2,000.00	2,000.00	4,000.00	2,000.00	2,000.00
Cal.	50,000.00	10,000.00	10,000.00	24,000.00	10,000.00	10,000.00
Colo.	20,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Conn.	Class Exemption, $10,000.00					
Del.	20,000.00	20,000.00	3,000.00	3,000.00	3,000.00	3,000.00
Fla.	No inheritance tax law.					
Ga.	No inheritance tax law.					
Id.	10,000.00	4,000.00	4,000.00	10,000.00	4,000.00	4,000.00
Ill.	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
Ind.	25,000.00	5,000.00	5,000.00	10,000.00	5,000.00	5,000.00
Ia.	1-3 and 15,000.00	1-3 and 15,000.00	15,000.00	15,000.00	15,000.00	15,000.00
Kan	75,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00
Ky	20,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
La	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Me	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Md.	Collateral tax only.					
Mass	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	1,000.00
Mich	30,000.00	30,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Minn	10,000.00	10,000.00	10,000.00	10,000.00	3,000.00	10,000.00
Miss	Estate Tax					
Mo	20,000.00	20,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Mont.	17,500.00	5,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Neb.	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Nev.	No. Tax.					
N. H.	Collateral tax only.					
N. Mex.	Class Exemption of $10,000.00					
N. Y.	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
N. C.	10,000.00	2,000.00	2,000.00	5,000.00	2,000.00	2,000.00
N. D.	Estate Tax.					
N. J.	5,000.00	5,000.00	5,000.00	5,000.00	500.00	5,000.00
Ohio.	5,000.00	3,500.00	3,500.00	5,000.00	3,500.00	3,500.00
Okla.	15,000.00	5,000.00	10,000.00	10,000.00	5,000.00	5,000.00
Ore.	Estate tax exemption, $10,000.00					
Pa.	Estate tax—no exemption					
R. I.	Succession tax allowing exemption, $25,000.00					
S. C.	10,000.00	10,000.00	5,000.00	7,500.00	5,000.00	500.00
S. D.	10,000.00	10,000.00	10,000.00	10,000.00	3,000.00	10,000.00
S C	10,000 00	10,000 00	5,000 00	7,500 00	5,000 00	500 00
S D	10,000 00	10,000 00	10,000 00	10,000 00	3,000 00	10,000.00
Tenn.	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Tex.	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00
Utah	Estate tax, $10,000.00 exemption					
Vt.	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Va.	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Wash.	10,000.00	10,000.00	3,000.00	5,000.00	10,000.00	5,000.00
W. Va.	15,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Wisc.	15,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Wyo.	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	5,000.00

Table D

RATES OF INHERITANCE TAXES

	Direct		Collateral	
Alabama	No tax.			
Arizona	1% to	5%	2% to	25%
Arkansas	1%	10%	2%	40%
California	1%	10%	3%	12%
Colorado	2%	7½%	3%	16%
Connecticut	1%	4%	2%	8%
Delaware	1%	4%	2%	8%
Florida	No tax			
Georgia	Estate tax based on Federal Rates		1% to	20%
Idaho	1%	10%	2%	20%
Illinois	2%	14%	6%	30%
Indiana	1%	10%	5%	20%
Iowa	1%	7%	5%	7%
Kansas	½%	5%	3%	15%
Kentucky	1%	16%	2%	16%
Louisiana	2%	3%	5%	10%
Maine	1%	2%	1%	7%
Maryland	None		5%	
Massachusetts	1%	9%	3%	12%
Michigan	1%	8%	1%	15%
Minnesota	1%	6%	3%	20%
Mississippi	Estate Tax		4/5 of 1% to	16%
Missouri	1%	18%	3%	30%
Montana	1%	4%	2%	16%
Nebraska	1%	1%	4%	
Nevada	No tax		3%	26%
New Hampshire	no direct tax		5%	
New Mexico	1%	5%	5%	
New York	1%	4%	2%	8%
North Carolina	1%	10%		
North Dakota				
New Jersey	1%	16%	5%	16%
Ohio	1%	4%	5%	10%
Oklahoma	1%	16%	1%	16%
Oregon	1%	10%	1%	25%
Pennsylvania	2%		10%	
Rhode Island	½%	3%	½%	8%
South Carolina	1%	6%	2%	14%
South Dakota	1%	8%	3%	20%
Tennessee	1%	5%	5%	10%
Texas	1%	6%	3%	20%
Utah	3%	5%	3%	5%
Vermont	1%	5%	5%	5%
Virginia	1%	5%	2%	15%
Washington	1%	5%	3%	25%
West Virginia	2%	10%	4%	10%
Wisconsin	2%	10%	4%	40%
Wyoming	2%	4%	4%	6%

Table E

Under "*Income Tax Will Be a Replacement Tax*" statistics are given quoted from the "Financial Statistics of State Governments" published annually by the United States Bureau of the Census. We give below in detail the figures making up the aggregates shown in the report.

General Property Taxes Collected for State Purposes

State	1922	1928
Connecticut	$ 2,289,000	$ 2,251,000
Massachusetts	12,000,000	8,500,000
Missouri	4,971,000	6,430,000
New York	23,971,000	24,894,000
North Carolina	1,265,000	....
Oklahoma	1,146,000	3,672,000
South Carolina	4,943,000	2,022,000
Virginia	6,905,000	6,126,000
Wisconsin	15,990,000	10,333,000
Total	$ 73,480,000	$ 64,228,000
Remaining 39 states	274,811,000	320,196,000
Total all States	$348,293,000	$384,424,000

The nine states having state income taxes reduced their general property tax levies for state purposes during these six years 12.59%, whereas such levies in the other thirty-nine states increased 16.51% during the same time.

Figures are not available from the United States Bureau of the Census for the year 1929. However, the "Departments of Taxation" in these nine states have given us figures as follows for 1929, showing general property tax levies by each state for state purposes as follows:

State	1929
Connecticut	$ 1,668,092
Massachusetts	None
Missouri	2,491,296
New York	None
North Carolina	None
Oklahoma	6,403,842
South Carolina	2,132,000
Virginia	None
Wisconsin	4,342,563
Total	$17,037,793

It is probable that these figures are not compiled on the same basis sued by the Bureau of the Census. In any event, these figures show a very substantial reduction from previous years in these nine states which have collected state income taxes since 1922 and further show that in 1929 there were no levies by the state of general property taxes for state purposes in either Massachusetts, New York, North Carolina, or Virginia.

Table F

Since the foregoing report has gone to press the Committe has received from the Commissioner of Internal Revenue report covering "Taxes Paid and Profits Earned by Major Industrial Gropus as Show by Income Tax Returns for the Year 1927 filed in the State of Iowa", as follows:

	Taxes Paid Other Than Income Tax	Profits after Deducting Tax
Financial, banking, insurance, real estate and holding companies, stock and bond brokers etc.	$ 4,366,504	$ 4,925,334
(This statement furnished us by the Commissioner of Internal Revenue gives one aggregate for all financial corporations, aggregate for all financial corporations, banking, insurance, real estate and holding companies, stock and bond brokers etc. and does not give a separate item covering banks)		
Transportation and other public utilities	2,090,975	3,132,821
Trade	2,791,931	6,445,035
Total Manufacturing Corporations	2,122,319	19,544,411

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