State of Iowa
1956

Report of the Iowa Taxation Study Committee to The Governor and the General Assembly of Iowa

PART II

FINDINGS, RECOMMENDATIONS and BILLS

Committee appointed by authority of

Senate Joint Resolution No. 7 of the 56th General Assembly

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LETTER OF TRANSMITTAL

November 13, 1956

TO: The Governor and

The 56th and 57th General Assemblies
of the State of Iowa:

Gentlemen:

The Iowa Taxation Study Committee, appointed under provisions of Senate Joint Resolution 7, 56th General Assembly, submits herewith the second and final part of its Report. This part contains a summary of Part I and the findings, recommendations, and bills.

The report as a whole, Parts I and II, merits consideration and action by the General Assembly. In the first place, the people of Iowa are deeply concerned about the State's tax system. They demonstrated this by their suggestions to the Committee and their active and continued interest in the Committee's deliberations. In the second place, the General Assembly now has available in Parts I and II the basis for a legislative program of action. Part I provides the factual background and Part II specific findings and recommendations, and bills drawn to embody the recommendations. The bills are ready for immediate consideration.

Finally, the Committee wishes to express its appreciation for the cooperation and assistance it received from organized groups, individual taxpayers, assessors, the press, and various state officials and state departments including the State Department of Public Instruction, the State Tax Commission, the Board of Regents, and the Legislative Research Bureau.

Respectfully submitted,

L. P. Boudreaux	W. J. Johannes
Jay C. Colburn	Robert H. Johnson
Blythe C. Conn	Herman M. Knudson, Sec'y.
Frank D. Elwood	W. C. Molison
Henry E. Heideman	Edward Oppedahl, Vice Ch.
Jim O. Henry	X. T. Prentis, Chairman

TABLE OF CONTENTS

PART II

FINDINGS, RECOMMENDATIONS, AND BILLS

Section	Page
1. Committee Membership and Organization	1
2. Foreword and Explanation of Work of Committee	2
Organizations and Individuals Who Presented Reports and Recommendations to the Committee	2
3. List of Recommendations and Bills	3
4. Findings, Recommendations, and Bills:	
A. Committee's Task—Equity in Taxation	5
B. Public School Finance	5
C. Higher Education	8
D. Income Taxes	11
E. Property Taxes	18
F. Transportation Taxes	26
G. State Fund Investments	34
H. Inheritance Taxes	37
I. Sales and Use Taxes	39
J. County Government Finance	43
K. Insurance	49
L. Contracting and Retiring State Debt	50
M. Summary of Recommendations	51
5. Alternative Sources of Revenue:	
A. Educational Sales and Use Tax	53
B. Adjusted Gross Personal Income Tax	54
C. Service Tax	56
D. Alcoholic Beverages Taxes	58
6. Summary of Part I	60
7. Appendix A. Senate Joint Resolution 7, 56th General Assembly, 1955	69
Appendix B. Supplemental Statement of the Committee, Written by Robert Johnson, Member of the Committee	70

SECTION I

COMMITTEE MEMBERSHIP AND ORGANIZATION

1. Membership

Appointed by Governor

L. P. Boudreaux ..... Cedar Rapids, Iowa
Robert H. Johnson ..... Iowa City, Iowa
Hon. Jay C. Colburn ..... Harlan, Iowa
Hon. Henry E. Heideman ..... Rockwell City, Iowa

From State Senate

Hon. X. T. Prentis ..... Mount Ayr, Iowa
Hon. Frank D. Elwood ..... Cresco, Iowa
Hon. Herman M. Knudson ..... Clear Lake, Iowa
Hon. W. C. Molison ..... Grinnell, Iowa

From Iowa House of Representatives

Hon. Edward Oppedahl ..... Renwick, Iowa
Hon. Blythe C. Conn ..... Burlington, Iowa
Hon. Jim O. Henry ..... Carson, Iowa
Hon. W. J. Johannes ..... Ashton, Iowa

2. Organization

Chairman — Honorable X. T. Prentis, Mount Ayr, Iowa
Vice Chairman — Honorable Edward Oppedahl, Renwick, Iowa
Secretary — Honorable Herman M. Knudson, Clear Lake, Iowa
Director of Research — William G. Murray, Ames, Iowa

SECTION II

FOREWORD AND EXPLANATION OF WORK OF COMMITTEE

The best explanation of the Committee's work can be provided by dividing it into the following five stages or steps which were decided upon soon after the Committee was organized:

1. Hearings for organized groups.
2. Local hearings for individual taxpayers.
3. Subcommittee organization and analysis of evidence and data.
4. Development of recommendations and bills.
5. Preparation and publication of final report.

1. Hearings for Organized Groups

Forty organized groups appeared before the Committee in Des Moines during the summer and early fall of 1955 and presented formal reports including recommendations and materials on various aspects of Iowa's tax system. A list of the organizations appears at end of this section. Many of the reports involved extensive work and provided the Committee with valuable data for its deliberations.

2. Local Hearings

During the fall and early winter of 1955-56, four local hearings were held in different parts of the state—at Clarinda, Fairfield, Mason City and Sioux City. At these meetings, as well as at the organized group hearings in Des Moines, tape recordings were taken of the oral statements to provide the Committee with a record which was referred to later to check the views presented on various issues. The attendance, interest and suggestions at the local hearings confirmed the judgment of the Committee that this phase of the inquiry was well worth while.

3. Subcommittee Analysis of Evidence

In view of the extensive array of material presented and the large number of issues to be considered by the Committee, it was necessary to designate subcommittees to analyze the information and make recommendations to the Committee as a whole. The Subcommittees and their chairmen were:

1. School Finance ..... W. C. Molison
2. Higher Education Finance ..... Edward Oppedahl
3. Income, Personal and Corporation ..... Blythe C. Conn
4. Property Taxes ..... L. P. Boudreaux
5. Transportation Taxes ..... Jim O. Henry
6. State Fund Investments ..... Jay C. Colburn
7. Inheritance Taxes ..... Blythe C. Conn
8. Sales, Use and Service Taxes ..... Jay C. Colburn
9. County Government ..... Henry E. Heideman
10. Special Taxes ..... W. J. Johannes
11. Exemptions and Credits ..... Frank E. Elwood
12. Overall Analysis ..... Robert H. Johnson

4. Development of Findings, Recommendations, and Bills

During this stage, the Committee and Subcommittees met on the average of two or three times a month for three-day periods to analyze, discuss and prepare findings, recommendations and appropriate bills. In between these meetings research and informal subcommittee meetings were carried on in preparation for the formal sessions. Various state officials and state departments were of valuable assistance to the Committee during this period.

Not all the tax issues analyzed by the Committee resulted in recommended legislation. In some instances bills were prepared, not as recommendations but only as suggestions to be considered by the General Assembly if and when future conditions warranted. Other findings are in the nature of conclusions reached that did not involve legislative bills. However, most of the major issues analyzed resulted in recommendations and bills.

5. Preparation and Publication of the Report

The Committee's report is divided into two parts with each part published separately. Part I, completed first, presents the factual analysis of Iowa's fiscal system, both state and local. Part II, containing the findings, recommendations, and bills, is based on the background material in Part I and the analysis and discussion of the Committee.

In connection with the preparation of Part II, the Committee gratefully acknowledges the assistance of Clayton Ringgenberg, Director, and John W. Tow, Assistant Director, of the Legislative Research Bureau, and Wayne Faupel, Assistant Code Editor.

6. List of Organizations and Individuals

Action Committee for Better Education
American Legion
Associated General Contractors
Associated Retailers of Iowa
Berry, Don—Editor, The Indianola Record
Doolittle, Clyde—Moneys & Credits Report
Goode, Dewey E.—State Representative
Iowa Association of Utility Tax Representatives
Iowa Automobile Dealers Association
Iowa Chain Store Association
Iowa Congress of Parents and Teachers
Iowa County Assessors Association
Iowa County Officers Association
Iowa Farm Bureau Federation
Iowa Farmers Union
Iowa Federation of Labor
Iowa Good Roads Association
Iowa Junior College Association
Iowa Manufacturers Association
Iowa Motor Truck Association
Spokesmen for:
- Commercial Airlines in Iowa
- Liquor-by-the-drink
- Private Colleges of Iowa

Iowa Railway Committee
Iowa Rural Electric Cooperative Association
Iowa School Boards Association
Iowa Society of Certified Public Accountants
Iowa State Bar Association
Iowa State Education Association
Iowa Taxpayers Association
Iowa Utilities Association
League of Iowa Municipalities
Members of the 56th General Assembly (Special Hearing)
State Agencies:
- Auditor of State
- Board of Regents
- Comptroller of State
- Highway Commission
- Insurance Department
- Public Instruction Department
- Tax Commission
- Treasurer of State

Zuver, Bert—City Assessor of Des Moines

SECTION III

LIST OF RECOMMENDATIONS AND BILLS

Bill No.	Subject	Pages Recommendation	Pages Bills
	PUBLIC SCHOOL FINANCE		
1.	School district reorganization	5	6
2.	New standard aid to schools under reorganization plan	5	7
3.	Suppemental aid to schools	5	8
	HIGHER EDUCATION		
4.	Provision for Board of Regents to borrow for buildings	8	8
5.	Junior college aid	10	10
	INCOME TAXES		
6.	New personal tax bill including split income for husband and wife, $600 exemptions in place of tax credits, new rate schedule, 10% standard deductions, withholding, plus minor changes	11	13
7.	Technical amendment to correlate state income tax law with the Internal Revenue Code	17	17
8.	Continuation of corporation income tax at 3 percent rate, and dividend credit to individual taxpayer against corporation income tax paid on dividends	18	18
9.	Extension of corporation income tax to income of foreign corporations on business solicited in Iowa	18	18
	PROPERTY TAXES		
10.	Repeal of property tax on household goods	19	19
11.	Repeal of 5 mill moneys and credits tax on individuals, and exemption of accounts receivable. Replacement by 3 percent surtax on interest and dividends after exemption.	20	21
12.	Repeal of 1 mill moneys and credits on building and loan associations, but eliminate use of government securities as offset to reserves which are taxed as moneys and credits at 5 mill rate	20	21
13.	Exemption of capital stock as moneys and credits abolished	20	22
14.	Provide exemption of pension and employees welfare funds from moneys and credit tax	22	22
	MERCHANDISE INVENTORIES		
15.	Increase in fees on mobile homes. Changes in method of payment. Mobile homes in hands of dealers subject to property tax in place of fee	23	23
16.	Repeal of exemption on endowment real estate of educational institutions for all real estate acquired after June 30, 1958. Educational institution defined	24	24
17.	Mandate to State Tax Commission to bring about assessment uniformity through rules, regulations and procedures	24	24
18.	Repeal of county assessor residence requirement	25	25
19.	Repeal of city assessor residence requirement	25	25
20.	Extension of city assessor term from 4 to 6 years	25	25
21.	Extension of county assessor term from 4 to 6 years. Salary of county assessor fixed by conference board. Provisions for reappointment and removal of county assessor	25	25
22.	Provision for written objections to proposed budgets by three or more qualified objectors	26	26
	TRANSPORTATION TAXES		
23.	Tax on flight property of air lines	26	26
24.	Repeal of allocation of 10 percent of sales tax to road use tax fund, and allocate to general fund	28	28
25.	Replace compensation tax with $5.00 fee plus initial $25.00 filing charge	29	29

Bill No.	Subject	Pages Recommendation	Pages Bills
26.	Establish reciprocity board to handle interstate truck tax agreements	31	32
27.	Fiscal and engineering survey of all highways, roads, and streets in Iowa	33	33
	STATE FUND INVESTMENTS		
28.	Mandatory investment of inactive state funds in government securities or interest-bearing certficates of deposit in Iowa banks	35	35
29.	Manadtory monthly transfers of state funds in county treasuries to the state treasury	35	36
30.	Technical amendment to include additional state deposits in state sinking fund	35	36
	INHERITANCE TAX		
31.	Amendments to improve law involving transfer in contemplation of death, deductions, termination of life estates, checking property transfers, access to safe deposit boxes, transfer of stock after death, and other minor changes	37	37
	SALES AND USE TAXES		
32.	An enabling act to allow cities and towns to establish a sales and use tax if approved by a vote of the people	39	39
33.	Definition of the word "container"	41	41
34.	Definition of "interstate commerce" on highways	41	41
35.	Extension of sales and use tax to certain rentals or leases	41	42
36.	Sales tax exemption certificates to prevent evasion	41	42
37.	Use tax exemption certificates to prevent evasion	41	42
	COUNTY GOVERNMENT		
38.	Preparation of county budget	43	43
39.	Millage levy limit for county boards of education	44	44
40.	Millage levy limit for county assessment	44	44
41.	Requirement of bids on purchases with secondary road funds	44	44
42.	Revision of secondary road funds and procedures	45	45
43.	Progress report on secondary road projects	46	46
44.	Duties and responsibilities of county engineer	47	47
45.	Appointment, tenure and removal of county engineer	47	47
46.	Secondary road budget	48	48
No Bill	Recommendation on appointment of county government study committee	49	
	INSURANCE TAXES		
47.	Definition of fraternal beneficiary associations and classification of taxable and nontaxable policies	49	49
48.	Taxation and regulation of unincorporated mutual benefit societies (burial associations)	50	50
	ON CONTRACTING AND RETIRING STATE DEBT		
49.	Constitutional amendment on borrowing to legalize pledging of resources in addition to property, and to extend period of borrowing to forty years	51	51
	SUMMARY OF RECOMMENDATIONS	51	
	ALTERNATIVE SOURCES OF REVENUE		
50.	Educational sales and use tax		53
51.	Personal adjusted gross income tax		55
52.	Service tax		56
No Bill	Alcoholic beverages taxes if liquor-by-the-drink legislation were enacted		

SECTION IV

FINDINGS, RECOMMENDATIONS, AND BILLS

A. COMMITTEE'S TASK—EQUITY IN TAXATION

The Committee's objective was achievement of equity or fairness in the Iowa tax system. With equity as its guiding principle, the Committee made a detailed study of the individual taxes in the state and the tax system as a whole. From this came the conclusion that a number of gross inequalities existed which needed attention.

Iowa has a reasonably satisfactory highway tax system but does not have a satisfactory tax system for its public schools. The rapidly increasing property tax levies for schools was recognized by the Committee as Iowa's number one tax problem. The major reason for this situation is, on the one hand, the strong desire of Iowa's citizens to provide good schools for its expanding group of school children and, on the other hand, a property tax not adapted to the task of providing the added revenues required.

Highways, although they are expanding like schools and requiring additional revenue, are being financed with reasonable success out of gasoline taxes, vehicle license fees, and other highway tax revenues. Consequently, the changes recommended for highways are not major issues.

After the school finance problem, come several unsatisfactory tax situations that can be corrected by legislative enactments. These include desirable changes in the personal income tax, household property, moneys and credits, airline flight property, investment of state funds, sales and use taxes, and a number of other miscellaneous items, all of which are considered in this part of the report.

Where should the state get needed revenue on the expiration of the one-half percent sales tax on July 1, 1957? This question raises the whole issue of sources of state revenue and where any increase should come from if an effort is made by the state government to relieve local property taxes. Issues of this broad nature are treated in detail in Section 5.

B. PUBLIC SCHOOL FINANCE[1]

Situation:

Iowa's school finance problem is directly tied to the increasing revenue required to support the kind of schools the majority of the people in Iowa want. Since 1946 the annual cost of public schools has risen substantially.[2]

An effort has been made to relieve the property tax of a portion of the increased school expenses. Direct state school aid, including transportation, rose from approximately $3 million at the beginning of 1946 to $22 million in 1956. Agricultural land tax credits rose from zero to $10.5 million in this same period. Total aid to schools outside of homestead credits has risen from $3 to $32.5 million, a substantial amount in this short period of ten years. But in spite of this state aid the local property tax effort for public education in the 1946-1956 period has increased from $60 to $132 million; in short, the property tax for schools has more than doubled in this decade. The figures for 1946 and the year by year increase since 1951 are shown in Table I.

Table I.
Public School Finance
Local Property Tax and State Aid
(millions of dollars)

	Local Property Taxes	State Aid: Direct	State Aid: Agr. Land Tax Credit	Total
1946	$ 60	$ 3	$ 0	$ 63.00
1951	91	18	5	114.00
1952	103	18	5	126.00
1953	113	19	5	137.00
1954	123	19	5	147.00
1955	130	22	5	157.00
1956	132	22	10.5	165.00

Property, it is evident, is not an adequate base to support our expanding school organization. If Iowa wants the kind of a school system it is voting each year, a wider revenue base will have to be accepted as a permanent solution. (See, Pt. I, Chap. V, Table 53). It is true that property could be required to pay for this expanded school organization but here is where the principle of equity or fairness enters. Property is not evenly distributed; many people with ability to pay have relatively small amounts of property while others, especially farmers, have relatively large amounts of property in comparison to their income. This is a day of mobility as illustrated by a family with two children living in a trailer. This family may send the children to school all year and pay a maximum of $3 a month or a total of $36 in property taxes on their trailer. Yet the annual cost of educating these two children may be in the neighborhood of $600 of which $18 will come from the trailer tax, the other $18 going for city and county tax purposes.

Sales, service and income taxes, the other major taxes of a general nature, are the most likely source of permanent school aid as supplements to the property tax. At present, sales and income are the major source of the present direct and indirect aids provided by the state.

State aid to schools, which is designed to improve the education program and to increase the efficiency of operations as well as to relieve the local property tax, should be tied to desirable school organization. This means the establishment of certain standards as part of the aid program. These standards include eventual organization of all areas into public twelve grade systems, modification of the supplemental aid system to give more assistance to deserving districts, and a new "standard" aid formula to provide property tax relief to districts meeting certain minimum requirements.

The Committee Recommends that:

a. All areas in Iowa be in districts maintaining a public twelve grade system by July, 1962.

b. Supplemental aid be modified by changing the per pupil amounts and the millage requirements to provide a greater degree of equalization of the tax load among school districts.

c. A new form of financial aid called "standard" aid be provided to all districts in 1957-58 and in succeeding years to all districts which conform to certain standards. The important standards proposed are: inclusion in a

[1] Factual material on this subject including tax levies, school costs, and comparisons with other states will be found in Part I of the Committee Report, particularly in Chapters I and V.

[2] For additional evidence on public school costs see Table 10 in Chapter I in Part I.

high school district, 500 or more elementary and high school pupils in average daily attendance in the whole district, and a 10 percent limit on increase in budget per pupil. School districts unable to meet the size qualifications may be granted the standard aid if special circumstances warrant. Standard aid will be reduced 20 percent in 1958-59 in districts not qualifying, a similar amount or a total of 40 percent in 1959-60 in nonqualifying districts, and similar reductions each year until 1962, at which time this aid will cease altogether to nonqualifying districts.

d. A substantial sum of money be appropriated for standard aid, such aid to be provided as direct property tax relief.[3]

Explanation of Proposed Bills:

a. Reorganization. The present organization of school districts must be considered as a contributing factor to the high cost of education in the state. There are approximately 3,600 school districts. These districts range in size from 4 sections of land up to districts with over 140 sections of land. They also show great variation in the number of pupils; ranging from no pupils to over 35,000 pupils. They show even a greater variation in the amount of assessed valuation per child.

Local property is the major tax base for the support of education in Iowa. Districts which maintain and provide facilities for twelve grades of education have only about 45 percent of the entire area of the state within their boundaries. These districts have less than 60 precent of the assessed valuation of the state.

In order to distribute equitably the cost of education and to provide reasonable equality of educational opportunity, it is imperative that there be an orderly progress toward the inclusion of all area of the state into districts which maintain a full twelve grade program. With this situation in mind, it is felt that all territory of the state should be in a district maintaining twelve grades by July 1, 1962. This would give sufficient time for careful planning and study to attain that goal. If this goal were reached by July 1, 1962, it would do much to provide an equitable tax base, not only for current operation but for adequate facilities. If properly attained, it would also reduce the inequities of assessed valuation per child.

b. Supplemental Aid. The present supplemental aid law provides for equalization aid to those districts which cannot provide $90 per elementary pupil and $145 per high school pupil on a millage levy of:

17 mills in independent districts with high school;
10 mills in consolidated and other high school districts;
7 mills in rural or "non-high school" districts.

Obviously any revision of this formula could involve either or both of two factors:

1. The dollars per pupil to be used as the measure of basic support, and
2. The millage levy to be applied to the assessed valuation, with the product being used as a measure of ability of the local district.

There has been considerable concern and dissatisfaction with the three millage rates that have been used as a measure of local ability in the present supplemental aid law. With the changing status of school districts in the state, it is apparent that there is no fundamental difference between high school districts, whether they be independent, consolidated, or community districts.

It is proposed that all high school districts be treated the same in so far as the millage rates are concerned. In keeping with the policy established by the state in recent years, a district should not participate in state aid funds unless it actually levied 15 mills. In the proposed revision, the millage rate for high school districts was set at that figure. The millage rate for rural districts was increased from 7 to 10 mills with the thought that this would recognize their peculiar problem. This problem would obviously be one of short duration if all the area of the state is in a high school district by July 1, 1962.

With a given appropriation and a given millage levy measure, the equalization tends to "spread out" over more schools as the formula is increased in terms of dollars per pupil. It seems advisable to provide a formula which will give some equalization to those districts on the lower one-half of the scale (in terms of local ability), with the greater amounts, of course, going to the most deserving districts. By "most deserving" is meant those with the least assessed valuation per child.

In order to provide more adequate coverage of deserving districts, and also recognize the increased cost of education, the formula was revised to provide for $120 per elementary child and $170 per high school child.

Therefore, it is proposed that the supplemental aid formula be revised to provide equalization aid to those districts which cannot provide $120 per elementary pupil and $170 per high school pupil on a millage levy of: (1) 15 mills in high school districts or (2) 10 mills in elementary school districts.

c. Standard Aid. The purpose of the new proposed aid is to encourage the reorganization of school districts and to provide for more efficient use of money now being expended for public education. Standard aid, as the name implies, establishes a standard which, it is hoped, as increasing funds become available at the state level, will assure the individuals paying these taxes that the money will be used more efficiently. It should also provide, in many cases, an opportunity for the school districts themselves to provide a more adequate education for their children.

Provision has been made for all districts to participate in standard aid for a five-year period regardless of whether or not they meet the standard. This was done because the standards of having at least 500 resident pupils in average daily attendance and maintaining a twelve grade school system might be difficult for many of the districts of the state to achieve. However, each year that a district was unable to meet the standard, the amount of its claim against standard aid would be reduced by 20 percent. Since there will be exceptions, provision was made for those districts with special situations such as sparsity of population, topography, or other reasons, to request a waiver of the standards by making application to the State Board of Public Instruction. The decision of the State Board of Public Instruction in regard to any school district on this question may be appealed to the courts.

Concern over the increasing amount of local property tax resulted in a provision that cost per pupil in average daily attendance in the local school district's budget should not increase over 10 percent from the preceding year. This restriction, along with a substantial sum of money appropriated for standard aid, should result in lower local property taxes for the support of schools.

Proposed Bills: Nos. 1, 2 and 3:

BILL 1. SCHOOL DISTRICT REORGANIZATION.
BILL 2. NEW STANDARD AID TO SCHOOLS UNDER REORGANIZATION PLAN.
BILL 3. SUPPLEMENTAL AID TO SCHOOLS.

Bill 1.

A BILL FOR

AN ACT relating to reorganization of school districts.

Be It Enacted by the General Assembly of the State of Iowa:

[3] For further reference to explanations and bills for possible sources of revenue see Section 5 of this report.

Section 1. Section two hundred seventy-five point one (275.1), Code 1954, is hereby amended by adding the following:

"It is further declared to be the policy of the state that all the area of the state shall be in a district maintaining twelve grades by July 1, 1962. If any area of the state is not in such a district by July 1, 1962, it shall be attached by the county board of education to some such district, provided, however, that such attachment has the approval of the state board of public instruction before becoming effective."

Explanation

The purpose of this bill is to bring all areas of the state into districts maintaining twelve grades by July 1, 1962.

Bill 2.

A BILL FOR

AN ACT to provide standard aid to school districts to encourage reorganization of units.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. For the purpose of encouraging the reorganization of school districts into such units as are necessary, economical and efficient, and which will insure an equal opportunity to all the children of the state, the several school districts in the state shall be entitled to and receive financial aid from the state in the manner and amount as provided in this chapter.

Sec. 2. For the purposes of this chapter an elementary pupil is a pupil of school age, attending public school, who has not entered the ninth grade and a high school pupil is a pupil of school age, attending public school, in any of the grades nine to twelve inclusive.

Sec. 3. Standard aid shall be paid by the state to those districts which qualify as hereinafter provided.

Sec. 4. In order to qualify for aid under this chapter, every school district shall:

1. Have a resident average daily attendance, in public school, of five hundred or more pupils and maintain no less than a twelve-grade school system, provided, however:

a. The above requirements will not apply in the determination of the eligibility of a school district for this aid for the school year 1957-1958 beginning July 1, 1957.

b. The claims of those districts failing to meet the above requirements, except as provided in subsection 4 hereof, shall be reduced as follows: Claims for the 1958-1959 school year beginning July 1, 1958, by twenty (20) percent, claims for the 1959-1960 school year beginning July 1, 1959, by forty (40) percent, claims for the 1960-1961 school year beginning July 1, 1960, by sixty (60) percent, claims for the 1961-1962 school year beginning July 1, 1961, by eighty (80) percent, and the claims for the 1962-1963 school year beginning July 1, 1962, and subsequent school years by one hundred (100) percent. Said reduction of claims shall be made by the department of public instruction before submitting the claims to the state comptroller.

c. All community districts formed and legally in effect on this date and all those community districts created by a majority vote on or before October 1, 1956, and becoming effective July 1, 1957, shall be eligible for this aid without being reduced as set forth in subsection "b" through the school year 1961-1962 beginning July 1, 1961. After that school year, however, such districts must meet the above requirements in order to qualify for any standard aid.

2. Adopt a budget for general fund expenditures which does not exceed by more than ten (10) percent, in terms of dollars per pupil in average daily attendance, the general fund budgeted expenditures in dollars per pupil in average daily attendance for the preceding school year. In projecting a budget for the first school year of a newly reorganized district, the general fund expenditures in dollars per pupil in average daily attendance in the new district shall not exceed by more than ten (10) percent the average general fund expenditures per pupil in average daily attendance in the component school districts for the preceding school year. Provided, however, a school district faced with a rapidly increasing school population or other unusual expenditures may, with the approval of the county board of education, exceed this restriction, subject to the provisions of chapter two hundred ninety-eight (298).

3. Levy a tax of at least fifteen (15) mills for the general fund.

4. The state board of public instruction shall grant a school district upon the written request of the board, approval to receive aid under the provisions of this chapter by waiving the standard of five hundred (500) pupils if such request is substantiated by evidence showing sparsity of population, natural barriers or other good reasons making it impractical to meet the standard of five hundred (500) pupils in average daily attendance as set forth in this section.

a. The school district shall within ten days after the filing of the request be granted a hearing before the state board of public instruction, at which time the school district shall present its evidence in substantiation of the request.

The state board of public instruction shall notify the school district affected, of the time and place of hearing at least seven days before the date set for said hearing.

A record shall be made of all matters of evidence presented at said hearing.

b. The state board of public instruction shall, within ten days of said hearing, mail by certified mail to said school district affected its findings and decision.

c. An appeal may be taken by the school district affected to the district court of the county wherein a part of said school district is located, within fifteen days after the mailing of the decision of the state board of public instruction.

The school district affected may take said appeal by filing in the district court a petition for hearing, whereupon the court shall set said matter for hearing and shall prescribe a notice of the hearing to be served upon the state board of public instruction at least fifteen days before the date of said hearing.

d. Upon receiving the notice for hearing the state board of public instruction shall file immediately with the clerk of the district court, a transcript of all matters of evidence received in the hearing before the state board of public instruction, together with its findings and decisions.

e. The district court shall hear and determine the matter as an original proceeding in equity upon said transcript submitted by the state board of public instruction, and upon such additional evidence as may be presented by the school district or the state board of public instruction.

Sec. 5. Standard aid shall be computed and determined by multiplying two hundred dollars ($200) by the resident average daily attendance, kindergarten through grade twelve, of the district.

Sec. 6. At the close of each school year, but not later than July 5, the local district shall supply to the state board of public instruction the information required for calculation of the amount reimbursable to the district, in such manner and form as required by the state department. After all claims have been calculated and validated for accuracy, the board of public instruction shall certify the same to the state comptroller for payment as soon as possible. In the event that the amount of

funds in the standard school aid fund held by the treasurer of state available for reimbursement of the school districts is insufficient to pay in full the amounts to each of the school districts, then the amount of each payment shall be reduced by the state comptroller in the ratio that the total funds available bear to the total amount certified for reimbursement.

Sec. 7. The superintendent of public instruction, subject to the approval of the state board of public instruction, is hereby authorized to adopt such rules and regulations and definitions of terms as are necessary and proper for the administration of this chapter. When such conditions as unnatural weather hazards, bad roads, epidemics and other unusual circumstances occur to such an extent as to penalize any district, the superintendent of public instruction may adjust the formula by taking the average of several six-week or nine-week periods of attendance in lieu of the attendance period affected by such conditions.

Sec. 8. Chapter two hundred ninety-three (293), Code 1954, is hereby repealed.

Explanation

This bill provides a new aid called standard aid. In order to qualify school districts have to meet specific standards. All districts qualify the first year; each year thereafter to 1962 the aid will be reduced 20 percent if the district does not qualify.

Bill 3.

A BILL FOR

AN ACT relating to supplemental aid to schools.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section two hundred eighty-six point four (286.4), Code 1954, is hereby amended as follows:

1. By striking from line four (4) of subsection one (1) the word "ninety" and inserting in lieu thereof the words "one hundred twenty"

2. By striking from line five (5) of subsection one (1) the words "one hundred forty-five" and inserting in lieu thereof the words "one hundred seventy"

3. By striking from lines six (6), seven (7), eight (8), and nine (9) of subsection two (2) the words "seventeen mills for independent districts with high schools, ten mills for consolidated and other districts with high schools, and seven" and inserting in lieu thereof the words "fifteen mills for all districts with high schools and ten"

4. By striking all of subsection two (2) after the word "districts" in line ten (10).

Sec. 2. Section two hundred eighty-six point five (286.5), Code 1954, is amended as follows:

1. By striking from line one (1) of subsection one (1) the word "ninety" and inserting in lieu thereof the words "one hundred twenty"

2. By striking from line one (1) of subsection two (2) the words "one hundred forty-five" and inserting in lieu thereof the words "one hundred seventy"

3. By striking all of subsection five (5).

Explanation

This bill changes the basis of paying supplemental aid to school districts. The net result of the new procedure is to provide more assistance to deserving districts.

C. HIGHER EDUCATION[1]

1. Building Finance

Situation:

The expanding public school population is beginning to knock at the doors of Iowa's institutions of higher learning. Enrollment is not only on the increase but is almost certain to continue increasing because the college students of 1958 to 1970 are now in the public schools or will be in the next two years. Enrollment in 1970 in Iowa's three state institutions of higher learning is expected to reach 38,500, almost double the size in recent years.

More students mean more facilities. To care for this influx of students, the Board of Regents has worked out a long range building program amounting to $5,500,000 annually for the period 1957-1967. One method of financing such a program would be by direct legislative appropriations. A second method would be by legislative enactment of a proposal to allow the Board of Regents to borrow funds for the buildings and use a portion of student fees to pay the interest and principal of the bonds. A third method would be a combination of the first two methods.

As a result of subcommittee action a special advisory committee was appointed by the Tax Study Committee and the Board of Regents to study and, if feasible, prepare a recommendation of the proposal for issuing bonds to obtain funds for buildings. This committee, composed of W. Harold Brenton, Vivian W. Johnson, and Robert B. Patrick, chairman, made an exhaustive study of the subject and reported favorably on a plan for financing buildings through the issuance of bonds. With the assistance of this special advisory committee a bill was drawn which would authorize the Board of Regents to use bonds as a means of obtaining funds to carry on a building program subject to the approval of the Budget and Financial Control Committee of the General Assembly.

The Committee Recommends that:

The State Board of Regents be authorized to borrow funds by the issuance of bonds to erect buildings at the State University of Iowa, Iowa State College, and Iowa State Teachers College and to use a portion of the fees paid by students at each institution to pay the interest and principal of the bonds issued for funds used at each institution.

Explanation of Proposed Bill:

The major question in the bond proposal is constitutionality of the procedure. At the present time the three educational institutions are borrowing funds to build dormitories and pledging the rentals on existing dormitories to pay the interest and principal of the debt. The objective of the building proposal is to authorize a similar procedure for educational buildings using fees in place of room rentals as a revenue source to service and retire the bonds. The bill drawn has been drafted to meet the constitutional requirement that the State may not contract debts without a vote of the people.

Proposed Bill No. 4:

BUILDING FINANCE

Bill 4.

A BILL FOR

AN ACT authorizing the state board of regents to acquire purchase, lease, construct, equip, improve, repair and remodel buildings or structures, including additions to buildings or structures, necessary or useful for carrying on the educational programs and extra-curricular student activities at the State University of Iowa, the Iowa State College of Agriculture and Mechanic Arts and the Iowa State Teachers College, to acquire, lease and improve property therefor, to establish and collect building fees from students attending said institutions and to borrow money and issue debentures to pay the cost of such facilities in anticipation of the collection and secured by a pledge of all or any part of such building fees.

[1] See Part I, Chapter V.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Subject to and in accordance with the provisions of this Act the state board of regents (hereinafter referred to as the "board") is hereby authorized to acquire, purchase, lease, construct, equip, improve, repair and remodel any and all buildings or structures, including additions to buildings or structures, as the board shall from time to time deem necessary or useful for carrying on the educational programs and extra-curricular student activities at the State University of Iowa, the Iowa State College of Agriculture and Mechanic Arts and the Iowa State Teachers College (hereinafter referred to as the "institution" or "institutions"), and for that purpose said board may acquire property of every kind and description, whether real, personal or mixed, by gift, purchase, lease, condemnation or otherwise, and improve the same.

Sec. 2. In order to provide funds with which to pay the cost of carrying out any building or improvement program at any institution under the terms of this Act, including any or all rents due under any lease executed pursuant to authority granted hereunder, the state board of regents is further authorized to establish, impose and collect a building fee from students who are charged a tuition for attending each of the foregoing institutions. The amount of the building fee to be charged at each institution shall be determined by the board based on the needs of each such institution and such fee shall be paid to and collected by each institution at the same time and in the same manner and in addition to all other tuition, fees or charges collected by each such institution. Such building fees, when collected, shall be deposited with the treasurer of the particular institution for account of which such fees are charged and shall be set aside by him in a special building fund separate and apart from all other funds and accounts to be used solely and only for the purposes specified in this Act. Such building fees shall not be construed to constitute state funds within the meaning of this Act or any other constitutional or statutory provision and the same are hereby appropriated to the uses herein provided without the necessity for any further appropriation.

Sec. 3. When in the opinion of the state board of regents the amount of building fees on deposit at any institution is not sufficient to meet the current needs of such institution for building and improvement purposes as contemplated by this Act, said board is authorized to anticipate the future collection of such fees on behalf of any such institution through the issuance of debentures in such amount or amounts as the board may determine for the purpose of acquiring, purchasing, constructing, equipping, improving, repairing or remodeling any such buildings or structures or additions to buildings and structures, and acquiring by purchase, condemnation or otherwise and improving property, whether real, personal or mixed, and to refund and refinance such debentures from time to time as often as it should be advantageous and to the public interest to do so. All such debentures shall bear interest at a rate or rates not exceeding five (5) percent per annum, payable semi-annually, and may be sold by the board at public or private sale in such manner and upon such terms as may be prescribed by the resolution authorizing the same, but such debentures shall be sold at such price that the interest cost computed to maturity of the debentures according to standard tables of bond values shall not exceed five (5) percent per annum. Such debentures and the interest thereon shall be payable solely and only from the special building fund consisting of building fees collected and to be collected from students at the institution on behalf of which such debentures are issued, as hereinbefore provided. All debentures issued under this Act shall have all the qualities of negotiable instruments under the laws of this state.

Such debentures may bear such date or dates and may mature at such time or times, not exceeding forty years from their date or dates, may be in such form, carry such registration privileges, may be payable at such place or places, may be subject to such terms of redemption prior to maturity with or without premium, if so stated on the face of the debentures, and may contain such terms and covenants all as may be provided by the resolution of the board authorizing the issuance of such debentures.

Such debentures shall be executed by the president of the state board of regents and attested by the secretary thereof, and the coupons thereto attached shall be executed with the original or facsimile signatures of said president and secretary. Any debentures bearing the signatures of officers in office on the date of the signing thereof shall be valid and binding for all purposes, notwithstanding that before delivery thereof any or all such persons whose signatures appear thereon shall have ceased to be such officers.

Each such debenture shall state upon its face the name of the institution on behalf of which it is issued, that it is payable solely and only from the special building fund consisting of building fees paid by students attending the institution on behalf of which the debentures are issued, and that it does not constitute an indebtedness of the board of regents or of the state of Iowa within the meaning or application of any constitutional or statutory limitation or provision. The issuance of such debentures shall be registered in the office of the treasurer of the institution on behalf of which the same are issued, and a certificate by such treasurer to this effect shall be printed on the back of each such debenture.

Sec. 4. Upon the determination by the state board of regents to acquire, purchase, construct, equip, improve, repair or remodel any such buildings or structures or additions to buildings or structures at any institution and acquire and improve property, whether real, personal or mixed, in connection therewith, the cost of which is to be paid from the proceeds of debentures issued under the terms of this Act, said board shall adopt a resolution describing generally the contemplated project, the estimated cost thereof, fixing the amount of debentures, the maturity or maturities, the interest rate or rates and all details in respect thereof. Such resolution shall contain such covenants as may be determined by the board as to the issuance of additional debentures that may thereafter be issued payable from the special building fund, the amendment or modification of the resolution authorizing the issuance of any debentures and the manner, terms and conditions and the amount or percentage of assenting debentures necessary to effectuate such amendment or modification and such other covenants as may be deemed necessary or desirable. The provisions of this Act and of any resolution or other proceedings authorizing the issuance of debentures and providing for the establishment and maintenance of adequate building fees and the application of the proceeds thereof shall constitute a contract with the holders of such debentures.

Sec. 5. Whenever debentures are issued by the state board of regents, it shall be the duty of said board to establish, impose and collect building fees at the institution on behalf of which such debentures are issued, and to adjust such fees from time to time, in order to always provide amounts sufficient to pay the principal of and interest on such debentures and to maintain a reasonable reserve therefor and said board is authorized to pledge a sufficient portion of said building fees for such purpose.

Sec. 6. A certified copy of each resolution providing for the issuance of debentures under this Act shall be filed with the treasurer of the institution on behalf of which the debentures are issued and it shall be the duty of said treasurer to keep and maintain separate accounts for each issue of debentures in accordance with the covenants and directions set out in the resolution providing for the issuance thereof. It shall be the duty of the treasurer of such institution to disburse funds from the proper account for the payment of principal of and interest on the debentures in accordance with the directions and covenants of the resolution authorizing the issuance thereof.

Sec. 7. Building fees collected at one institution shall not be used to discharge obligations incurred by or debentures issued on behalf of another institution. All debentures issued under the terms of this Act and the interest thereon shall be exempt from taxation by the state of Iowa.

Sec. 8. Under no circumstances shall any debentures issued under the terms of this Act be or become or be construed to constitute an indebtedness of the state of Iowa or of the state board of regents within the purview of any constitutional or statutory limitation or provision. No taxes, appropriations or other funds of the state of Iowa may be pledged for or used to pay such debentures or the interest thereon but any such debentures shall be payable solely and only as to both principal and interest from building fees established, imposed and collected as authorized under the terms of this Act, and the sole remedy for any breach or default of the terms of any such debentures or proceedings for their issuance shall be by a proceeding either in law or in equity by suit, action or mandamus to enforce and compel performance of the duties required by this Act and the terms of the resolution under which such debentures are issued.

Sec. 9. The state board of regents is authorized to accept federal aid or other grants of funds and to use the same to pay all or any part of the cost of carrying out any building or improvement program at any institution under the terms of this Act.

Sec. 10. Plans for any building or improvement program or programs proposed to be undertaken pursuant to authority granted under the provisions of this Act shall be submitted by said board to the Budget and Financial Control Committee created under the provisions of section 2.41 of the Code, and when such plans or modifications thereof have been approved by said Committee as being economical and necessary for the efficient operation of the institution or institutions involved, the board may proceed to carry out such program or programs as approved or as modified and approved by the Budget and Financial Control Committee.

Sec. 11. This Act shall be construed as providing an alternative and independent method for the acquisition, purchase, lease, construction, equipment, improvement, repair and remodeling of buildings or structures at the institutions herein mentioned including additions to buildings or structures, for the acquisition and improvement of real, personal or mixed property by gift, purchase, lease, condemnation or otherwise, and for the issuance and sale of debentures in connection therewith and, except as otherwise provided in this Act, shall not be construed as an amendment of or subject to the provisions of any other law.

Sec. 12. This Act being deemed of immediate importance shall be in full force and effect from and after its passage and publication in the ....., a newspaper published at ....., Iowa, and in the ....., a newspaper published at ....., Iowa.

Explanation

The purpose of this bill is to legalize the borrowing of funds by the Board of Regents for capital improvements at the State University of Iowa, Iowa State College, and Iowa State Teachers College. The pledging of a portion of the students' tuition as a building fee to cover payment of interest and principal of the debt is provided.

2. Junior College Aid.

Situation:

Junior colleges offer an economical and satisfactory way to provide the first two years of college for a portion of the expanded college enrollment in the 1958-70 period. There are 16 public junior colleges operating at present with an enrollment of 2,332 in 1955-56. They are receiving in aid from the state 25 cents a day per student or $45 a year per student. To organize and operate a junior college a school district must have a population of 5,000.

Enrollment in public junior colleges has not grown rapidly. In the early thirties there were 27 of these colleges with 1,800 students. In 1940-41 the number was the same with 2,400 students. Since then the number of public junior colleges has been reduced to 16, but the enrollment, which declined during World War II, has climbed back to the 2,300 pupils in 1955-56.

To meet the coming expansion in college enrollments, the present public junior colleges estimate that they can provide facilities and personnel to handle a large number of additional students in the next five years, and an even larger number within ten years.

Advantages of the junior college include the saving in cost from the student being able to live at home and effective use of buildings and teachers. Possible disadvantages center in the lack of facilities and in the training of staff in comparison with the four-year educational institutions.

A committee representing the 16 public junior colleges in Iowa recommended an increase in state aid from 25 cents to $1.00 a day per student which amounts to a $135 increase for the school year, from $45 to $180 per student.

The Subcommittee on Higher Education arranged for the formation of a committee with wide representation to pass on the question of standards in connection with the proposed increase in aid to junior colleges. This committee, composed of Dean M. J. Nelson and Registrar Marshall R. Beard of Iowa State Teachers College, Boyd Graeber and J. C. Wright of the State Department of Public Instruction, and Dean E. J. Aalberts of Ellsworth College, in a report which, with other information, was used as a basis for the recommendation by the Taxation Study Committee.

The Committee Recommends that:

a. State aid to public junior colleges be increased from 25 cents to one dollar per day per student provided certain standards are met.

b. The standards for eligibility for aid be established by a committee composed of one representative each from the Department of Public Instruction, Board of Regents, and Public Junior Colleges.

Proposed Bill No. 5:

JUNIOR COLLEGE AID

Bill 5.

A BILL FOR

AN ACT relating to state aid to public junior colleges.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section two hundred eighty-six A point three (286A.3), Code 1954, is hereby amended by striking from line six (6) the words "twenty-five cents" and inserting in lieu thereof the words "one dollar."

Sec. 2. Section two hundred eighty-six A point four

(286A.4), Code 1954, is hereby amended by striking from line twenty (20) the words "twenty-five cents" and inserting in lieu thereof the words "one dollar"

Sec. 3. Section two hundred eighty-six A point three (286A.3), Code 1954, is hereby amended by adding at the end thereof the following:

"Eligibility for receipt of such state aid by public junior colleges shall be determined by a committee consisting of one representative from the department of public instruction, one from the board of regents and one selected by the public junior colleges. It shall be the duty of this committee to establish such standards as it may deem desirable to maintain and improve the quality of instruction in public junior colleges and to require that such standards be met as a condition for receipt of said state aid."

Explanation

This bill raises state aid to junior colleges from 25 cents to $1.00 per day per student provided certain standards are met. The standards are to be set by an appropriate committee created for this purpose.

D. INCOME TAXES

1. Personal Income Tax.[1]

A. Major Revision.

Situation:

Substantial changes were made in the personal income tax by the last (56th) General Assembly to make the structure conform to the Federal income tax. Although the changes were recognized as in the right direction, several conflicting and unsatisfactory features developed which called for attention. Accordingly the Committee with the assistance of the Income Tax Division of the State Tax Commission has developed, after long and careful study, a revised form with important features which simplify the calculations and provide an equitable basis of income taxation.

The Committee Recommends that:

The following provisions and changes be incorporated in the personal income tax:

1. Adoption of split income method of reporting income of husband and wife similar to Federal system.
2. Allow deductions of $600 for taxpayer and $600 for spouse and for each dependent in place of present credits against tax. The new plan is similar to Federal tax law.
3. Allow additional $600 exemption for head of a household. Also permit persons over 65 and blind persons to take an additional $600 exemption.
4. Adoption of rate schedule on basis of split income feature as follows:

Income	Rate
From $ 0 to $2,000	2%
Over $2,000 to $4,000	4%
Over $4,000 to $6,000	6%
Over $6,000 to $8,000	8%
All Over $8,000	10%

5. Provide standard deduction of 10 percent not to exceed $500.
6. Change filing requirement to $600 or more for single and $1200 or more for married taxpayers.
7. Establish a withholding system similar to the Federal withholding plan, for persons receiving salaries or wages. Also provide for declaration of estimated tax for self-employed persons. Farmers and agricultural laborers be treated the same as under Federal law.
8. Provide (a) for certain information on returns over $600; (b) for an indefinite period to determine and assess tax on delinquent returns; (c) for extension of statute of limitations where taxpayer and State Tax Commission sign waiver, and (d) jeopardy assessments in connection with corporate returns.

Explanation of Proposed Bills:

1. Split income feature: The law in its present form is inequitable because it provides a lower tax for married couples where a husband and wife both have income than for those couples where only one spouse has income. The present law also creates a problem of dividing deductions between husbands and wives where separate returns are filed. It is next to impossible to determine a correct division of deductions where a common pool of funds is maintained by husband and wife. Providing for filing on a split income basis (as is now being done on Federal returns) would not only eliminate the necessity of determining a correct division of income and deductions, but would also equalize the tax for all married couples.

2. Exemptions of $600 in place of tax credit. This is the provision now in effect on Federal income tax returns and in 27 of the 30 states which have a state income tax law.

3. Additional exemption of $600 for those over 65 and for the blind. The use of the $600 exemption makes feasible a provision for an additional $600 exemption for those over 65 and for blindness. The exemption would apply the same as under Federal law.

4. New rate structure. The split income feature plus the $600 exemptions make a new rate structure necessary if the revenue is to be kept near its present level. If rates were to remain the same, revenue would drop to almost one-half of the present level. The new rate structure, rising 2 percent at intervals of $2000, will produce slightly more than the present rates, it is estimated, but not to exceed 10 percent more than is now being received. The splitting of the income between husband and wife is the main reason the rates must be raised to bring in approximately the same income.

5. Standard deduction of 10 percent. The optional standard deduction of 5 percent should be increased to 10 percent with a maximum deduction of $500. For married taxpayers filing separate returns the maximum would be $250 on each return. This deduction is in addition to the Federal income tax deduction. Under present law married couples filing separate returns where each has income are entitled to a greater standard deduction than married couples where only one spouse has income.

6. Filing requirement. In line with the $600 exemption provision all single persons receiving $600 or more and all married persons receiving $1200 or more should be required to file an Iowa income tax return.

7. Withholding and declarations of estimated tax. As withholding solved the collection and delinquency problems for the Federal Bureau of Internal Revenue, it is now solving these problems for 11 states, Alaska, and the District of Columbia. Many of the remaining 19 income tax states that do not now have a withholding provision are giving serious thought to the proposal. A withholding provision would set up an effective method of handling many delinquent taxpayers, lessen the collection problem, and remove much of the existing criticism of state income taxes by wage and salaried workers. Correspondence and personal visits between taxpayers and the State Income Tax Division indicates a strong desire on the part of taxpayers for withholding.

A withholding provision requires an initial burden on employers. However, states adopting the provision have found little objection once the plan is in full operation. The recommended provision follows the Federal law. A

[1] See Part I, Chap. IV, Section 4.

penalty is provided for employers who do not withhold.

Two gains would be realized from withholding. First, the income tax division estimates that the plan would bring in annually at least an added $1,500,000 of revenue from persons now failing to file. Secondly, states going on a withholding basis have taken the advance payment rather than forgiving a year or a portion of a year's tax. Iowa might do the same. This extra payment can be used advantageously by the state in some nonrecurring expenditure such as capital improvements.

The declaration of estimated income, like in the Federal law, is designed to place self-employed taxpayers, except farmers, on a current basis.

8. Four-page income tax form. The present income tax form provides a very limited amount of information concerning income and deductions. Consequently, the audit function of the State Tax Commission is rendered completely ineffective which results in a considerable loss of revenue. Exchange of audit information with the Bureau of Internal Revenue is also hampered. It is recommended that Iowa income tax returns be drafted so as to reflect the same data as is reported for federal income tax purposes on individual federal income tax returns.

9. Miscellaneous items. The remaining changes in the law are designed to plug loopholes and improve collection procedures. The unlimited time feature is in line with the Federal law. The waiver and jeopardy feature will make auditing more efficient and reduce the uncertainty in the taxpayer's mind in certain cases.

10. The recommended provisions will reduce the number of no-pay returns. Up to 40 percent of the income tax returns now being filed have no tax liability; this means approximately 300,000 out of 750,000 returns that are filed and processed provide no tax. Under the new form with the $600 exemption and revised rate structure, it is estimated that the no-pay returns will be not more than one-half of the present total, or less than 20 percent of all returns filed.

11. Revised rate examples. How the income tax would operate under the new rates is shown in the following typical situations.

Table 2.
Comparative Tax Bills, Present and Proposed Iowa Personal Income Tax Structures, by Selected Dependency Status and Adjusted Gross Income Levels[3]

Adj. Gross Income	Single: No dpdt.	Head of Household 1 dpdt.[4]	Married: No. dpdt.	Married: 1 dpdt.	Married: 2 dpdts. Joint return	Married: 3 dpdts.	Married: 4 dpdts.
$ 1,000 a[1]	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
b[2]	5	0	0	0	0	0	0
2,000 a	7	0	0	0	0	0	0
b	21	0	0	0	0	0	0
3,000 a	23	2	2	4	0	0	0
b	34	13	23	18	5	0	0
4,000 a	43	23	36	27	18	10	2
b	53	23	39	30	20	10	0
5,000 a	67	48	61	53	46	39	31
b	86	43	57	42	34	23	14
6,000 a	96	78	92	85	78	71	64
b	114	72	70	59	50	40	31
7,000 a	127	111	124	118	111	104	96
b	157	104	90	76	67	57	47
8,000 a	156	142	156	150	143	136	129
b	201	144	122	104	84	73	63
9,000 a	186	173	188	182	175	168	162
b	247	190	155	136	116	98	80
10,000 a	214	203	221	214	207	200	194
b	284	237	187	168	149	130	111
12,000 a	266	260	280	274	269	263	256
b	401	348	250	228	211	193	174
14,000 a	315	314	339	334	328	322	316
b	532	470	338	311	284	258	233
16,000 a	360	366	396	391	386	381	375
b	646	600	396	397	372	347	320
18,000 a	402	415	452	447	442	437	432
b	694	722	468	480	457	431	406
20,000 a	442	461	505	501	497	493	488
b	849	840	620	590	558	527	490
25,000 a	530	570	632	629	625	624	621
b	1070	1110	894	858	820	787	757
50,000 a	871	989	1126	1128	1130	1132	1135
b	1923	2158	2364	2100	2080	2057	2031
100,000 a	1261	1525	1804	1809	1814	1820	1825
b	2898	3490	4249	3806	3790	3713	3756

Notes: [1] Line "a" shows tax liability under present tax structure:
Federal tax fully deductible
5 percent standard deduction, with $250 maximum
Tax credit of $12 per person
Tax rates from .8 percent on first $1,000, to 4 percent on all over $4,000.

[2] Line "b" shows tax liability under proposed tax structure:
Federal tax fully deductible
10 percent standard deduction, with $500 maximum
Split income for married taxpayers

$600 per person exemption, except for head of household, where the exemption is $1,200.

Tax Rates	
From 0 to 2000.00	2%
over 2000.00 to 4000.00	4%
over 4000.00 to 6000.00	6%
over 6000.00 to 8000.00	8%
all over 8000.00	10%

[3] In all computations, it has been assumed that all taxpayers use standard deductions at all income levels. At higher income levels this assumption undoubtedly overstates tax liabilities on both lines "a" and "b".

[4] The principal reason for the higher tax liability of heads of households at all levels of income above $8,000 is that the income split is not available to heads of households.

In general, married couples would pay less tax and single taxpayers who are not head of a household would pay more. In the above table the proposed (b) rate is based on split income between husband and wife, 10 percent standard deduction, and $600 exemption.

Proposed Bill No. 6:

REVISION OF PERSONAL INCOME TAX PROVISIONS.

Bill 6.

A BILL FOR

AN ACT to provide amendments to the Iowa income tax law to utilize provisions of the federal Internal Revenue Code of 1954 with respect to personal exemptions, filing requirements, split income provision, withholding and declaration provisions, and statutes of limitations.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-two point four (422.4), Code 1954, as amended by the Fifty-sixth (56th) General Assembly, is hereby amended by striking therefrom subsection thirteen (13) and enacting in lieu thereof the following:

"13. The term "withholding agent" means any individual, fiduciary, corporation, partnership or association in whatever capacity acting, and including all officers and employees of the state of Iowa or of any municipal corporation of the state or of any school district or school board of the state, or of any political subdivision of the state of Iowa, that is obligated to pay or has control of paying or does pay to any nonresident of the state of Iowa or his agent any income that is subject to the Iowa income tax in the hands of such nonresident."

Sec. 2. Section four hundred twenty-two point five (422.5), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by striking all of said section and substituting in lieu thereof the following:

"422.5 Tax imposed. A tax is hereby imposed upon every resident of the state and upon that part of the taxable income of any nonresident which is derived from any property, trust, or other source within this state, including any business, trade, profession, or occupation carried on within this state, which tax shall be levied, collected, and paid annually upon and with respect to his entire taxable income as herein defined at rates as follows:

1. On the first two thousand dollars of taxable income, or any part thereof, two (2) percent.

2. On the second two thousand dollars of taxable income, or any part thereof, four (4) percent.

3. On the third two thousand dollars of taxable income, or any part thereof, six (6) percent.

4. On the fourth two thousand dollars of taxable income, or any part thereof, eight (8) percent.

5. On all taxable income in excess of eight thousand dollars, ten (10) percent.

The tax herein levied shall be computed and collected as hereinafter provided.

The provisions of this division shall apply to all salaries received by federal officials or employees of the United States government as provided for herein."

Sec. 3. Chapter four hundred twenty-two (422), Code 1954, as amended, is hereby amended by adding the following:

"The tax determined under section four hundred twenty-two point five (422.5) shall be reduced by ten (10) percent thereof, and the remainder shall be the tax payable."

Sec. 4. Section four hundred twenty-two point nine (422.9), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by striking all of said section, and substituting therefor the following:

"422.9 Deductions from net income.

In computing taxable income of individuals there shall be deducted from net income the larger of the following amounts:

1. An optional standard deduction of ten (10) percent of the net income after deduction of federal income tax not to exceed five hundred (500) dollars. In the case of married persons filing separately the standard deduction shall not exceed two hundred fifty (250) dollars for either of the persons filing separately.

2. The total of contributions, interest, taxes (except Iowa income tax), medical expense, child care expense, losses and miscellaneous expenses, deductible for federal income tax purposes under the internal revenue Code of 1954. In addition to the foregoing a deduction shall be allowed for the amount of federal income taxes paid (or accrued) during the tax year adjusted by the amount of any federal income tax refunds received during the tax year.

Where married persons file separately the total deductions provided for herein shall be divided between them according to the portion thereof paid (or accrued) by each.

3. Where married persons file separately, both must use the optional standard deduction if either elects to use it.

4. A taxpayer affected by section four hundred twenty-two point eight (422.8) shall, if the optional standard deduction is not used, be permitted to deduct only such portion of the total referred to in subsection two (2) above as is fairly and equitably allocable to Iowa under rules and regulations prescribed by the state tax commission.

5. a. Allowance of deductions. In the case of an individual, the exemptions provided by this subsection shall be allowed as deductions in computing taxable income.

b. Taxpayer and spouse. An exemption of six hundred (600) dollars for the taxpayer, and an additional exemption of six hundred (600) dollars for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

c. Additional exemption for taxpayer or spouse aged sixty-five (65) or more, or head of household.

(1) **For taxpayer.** An additional exemption of six hundred (600) dollars for the taxpayer if he has attained the age of sixty-five (65) before the close of his taxable year.

(2) **For spouse.** An additional exemption of six hundred (600) dollars for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse has attained the age of sixty-five (65) before the close of such taxable year, and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

(3) **For head of household, an additional exemption of six hundred (600) dollars.** As used in this section the term "head of household" shall have the same meaning as provided by the internal revenue Code of 1954.

d. Additional exemption for blindness of taxpayer or spouse.

(1) **For taxpayer.** An additional exemption of six hundred (600) dollars for the taxpayer if he is blind at the close of his taxable year.

(2) **For spouse.** An additional exemption of six hundred (600) dollars for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse is blind and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer. For purposes of this paragraph, the determination of whether the spouse is blind shall be made as of the close of the taxable year of the taxpayer; except that if the spouse dies during such taxable year such determination shall be made as of the time of such death.

(3) **Blindness defined.** For purposes of this subsection, an individual is blind only if his central visual acuity does not exceed 20-200 in the better eye with correcting lenses, or if his visual acuity is greater than 20-200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty (20) degrees.

(e) Additional exemption for dependents. In general, an exemption of six hundred (600) dollars for each dependent. As used in this subsection, the term "dependent" will have the same meaning as provided by the Internal Revenue Code of 1954."

Sec. 5. Section four hundred twenty-two point twelve (422.12), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by striking all of said section and substituting in lieu thereof the following:

"422.12 Determination of marital status. The determination of whether an individual is married shall be made as of the close of his tax year unless his spouse dies during his tax year, in which case such determination shall be made as of the date of such death. An individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married."

Sec. 6 Section four hundred twenty-two point thirteen (422.13), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by striking all of subsections one (1) and two (2), of said section, and substituting therefor the following:

"1. Every individual having a taxable income for the tax year, from sources taxable under this division, of six hundred (600) dollars or over, if single, or if married and not living with husband or wife, or having a taxable income for the tax year of twelve hundred (1200) dollars or over, if married and living with husband or wife, shall make and sign a return.

2. If husband and wife living together have an aggregate taxable income of twelve hundred (1200) dollars or over, each shall make such return unless the income of each is included in one joint return.

3. The requirement for filing provided by this section shall be twelve hundred (1200) dollars or more if the taxpayer has attained the age of sixty-five (65) years before the close of his taxable year.

4. In the case of a joint return by husband and wife, under the provisions of this section, the tax imposed shall be twice the tax which would be imposed if the taxable income were cut in half. A return of a surviving spouse shall be treated as a joint return of a husband and wife. The provisions of the Internal Revenue Code of 1954 relating to joint returns shall apply to joint returns made under this provision insofar as they are applicable."

Subsections three (3) and four (4) of section four hundred twenty-two point thirteen (422.13) are hereby renumbered as subsections five (5) and six (6), respectively.

Sec. 7. Section four hundred twenty-two point thirteen (422.13), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by adding as subsection seven (7) of said section the following:

"7. Resident taxpayers shall furnish the state tax commission with substantially the same data as is required on federal income tax returns, such data to be furnished on the form supplied by the state tax commission or by attaching a copy of the federal income tax return to the Iowa return. The state tax commission shall as far as consistent with the provisions of the Iowa Code so draft income tax forms as to conform to the income tax forms of the internal revenue department of the United States government."

Sec. 8 Section four hundred twenty-two point fifteen (422.15), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by striking all of subsection one (1) of said section and inserting in lieu thereof the following:

"1. Every person or corporation being a resident of or having a place of business in this state, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, employers and all officers and employees of the state or of any political subdivision of the state, having the control, receipt, custody, disposal or payment of interest (other than interest coupons payable to bearer), rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments or other fixed or determinable annual or periodical gains, profits and income, (not subject to withholding) amounting to six hundred (600) dollars or over, paid or payable during any year to any individual, whether a resident of this state or not, shall make complete return thereof to the commission, under such regulations and in such form and manner and to such extent as may be prescribed by it. Any person or corporation willfully failing to make a complete return thereof to the commission, as provided in this section, shall be subject to a penalty of not less than ten (10) dollars for each and every failure to make a return in the case of any individual to whom a payment of six hundred (600) dollars or over has been made to a maximum amount of two hundred fifty (250) dollars. Such penalty shall be collected by the state tax commission from the person or corporation liable to make such return and shall be enforceable by a lien upon all property and rights to property belonging to said person or corporation, as provided by section four hundred twenty-two point twenty-six (422.26)."

Sec. 9. Strike all of section four hundred twenty-two point sixteen (422.16), Code 1954, as amended by the Fifty-sixth General Assembly, and substitute therefor the following:

"1. Every employer, as defined in the Internal Revenue Code of 1954, including domestic and foreign corporations, with respect to income tax collected at source, making payment of wages, as defined in the Internal Revenue Code of 1954, to an employee or to employees, shall deduct and withhold upon such wages, minus the federal income tax withheld from such wages and minus ten (10) percent of the remainder (not to exceed five hundred (500) dollars) and minus the personal exemptions granted to such employee under section four hundred twenty-two point thirteen (422.13), as shown by a certificate to be filed with the employer in such form and containing such information as may be prescribed by the state tax commission, a tax equal to two (2) percent of the first two thousand (2,000) dollars or less, four (4) percent of the next two thousand (2,000) dollars or less, six (6) percent of the next two thousand (2,000)

dollars or less, eight (8) percent of the next two thousand (2,000) dollars or less and ten (10) percent of the excess over eight thousand (8,000) dollars, reduced by twenty (20) percent. In the event the employee is married or otherwise entitled to the benefits of the split income provision of subsection four (4) of section six (6) hereof, the tax to be withheld shall be twice the tax which would be withheld if the taxable income were divided by two (2).

2. The same deductions and withholding for the Iowa income tax provided for herein shall be made from payments of wages, salaries, commission, bonuses and other compensation to nonresidents of the state of Iowa for personal services performed within the state of Iowa, and sales made within this state, also from distributions made by an estate or trust of taxable Iowa income to nonresident of Iowa beneficiaries, such deductions and withholding, subject to exemptions and rates hereinafter stated, shall also be made by withholding agents, defined in subsection thirteen (13) of section four hundred twenty-two point four (422.4) of the Code, as amended by section 1 of this Act, from payments of other income that is subject to the Iowa income tax in the hands of the nonresident recipient, including payments of rents for Iowa real property, fees for professional services rendered by the nonresident within the state of Iowa, payments on contracts for construction, installation or maintenance work done within the state of Iowa by nonresidents, and payments of income in connection with a business, trade or profession carried on by nonresidents within the state of Iowa, and also shall include distributions of income by fiduciaries of estates or trusts and other fiduciary matters, where such income is subject to the Iowa income tax in the hands of the nonresident beneficiary. In making payments to nonresidents of the state of Iowa of income other than wages, salaries, commissions, bonuses and other compensation for personal services performed or sales made within Iowa, and distributions of income of an estate or trust, no deduction or withholding for the Iowa income tax is required to be made on the first seven thousand five hundred (7,500) dollars paid in a calendar year by the withholding agent, and on all paid in excess of seven thousand five hundred (7,500) dollars the deduction and withholding shall be at the rate of one (1) percent of such excess.

3. At the election of the employer with respect to such employee, the employer may deduct and withhold upon the wages paid to such employee a tax determined on the basis of tables to be prepared and furnished by the state tax commission which tax shall be substantially equivalent to the tax provided in subsection one (1) of section nine (9), and which shall be in lieu of the tax required by subsection one (1) of said section.

4. Every employer and withholding agent required to deduct and withhold tax under subsections one (1), two (2) or three (3), of this section shall, for the quarterly period beginning July 1, 1957, and for each quarterly period thereafter, on or before the last day of the month following the close of each quarterly period make return and pay over to the commission in the form of remittances made payable to the treasurer of the state of Iowa the tax required to be withheld under the provisions of subsections one (1), two (2) or three (3) hereof. If the state tax commission, in any case, has reason to believe that the collection of the tax provided for in subsections one (1), two (2) or three (3) hereof is in jeopardy, it may require the employer or withholding agent to make such return and pay such tax at any time.

5. Every employer or withholding agent who fails to withhold or pay to the commission any sums required by this Act to be withheld and paid, shall be personally and individually liable therefor to the state of Iowa, and any sum or sums withheld in accordance with the provisions of subsections one (1), two (2) or three (3) hereof, shall be deemed to be held in trust for the state of Iowa.

6. In the event an employer or withholding agent fails to withhold or pay over to the commission any amount required to be withheld under subsections one (1), two (2) or three (3) of this section such amount may be assessed against such employer or withholding agent in the same manner as is prescribed for the assessment of income tax under the provisions of chapter four hundred twenty-two (422) of the Code, as amended.

7. The state of Iowa shall have a lien upon all the property of any employer or withholding agent who fails to withhold or pay over to the state tax commission sums required to be withheld under subsections one (1), two (2) or three (3) of this section. If the employer or withholding agent withholds but fails to pay the amounts withheld to the commission, the lien shall attach as of the date the amounts withheld were required to be paid over to the commission. If the employer or withholding agent fails to withhold, the lien shall attach as of the date the amounts which should have been withheld were required to be paid over to the commission had they been withheld under the provisions of subsections one (1), two (2) or three (3) of this section.

8. Every employer and withholding agent required to deduct and withhold from an employee or other person receiving taxable Iowa income, a tax under subsections one (1), two (2) or three (3) of this section shall furnish to such employee or other person in respect of the remuneration paid by such employer or withholding agent to such employee or other person during the calendar year, on or before January 31 of the succeeding year, or, if the employee's employment is terminated before the close of such calendar year, within thirty (30) days from the day on which the last payment of wages is made, a written statement showing the following:

a. The name of such employer or withholding agent.

b. The name of the employee or other person and his federal social security account number.

c. The total amount of wages, as defined in the Internal Revenue Code of 1954, or other taxable Iowa income paid to the employee or other person.

d. The total amount deducted and withheld as tax under the provisions of subsections one (1), two (2) or three (3) of this section.

e. The total amount of federal income tax withheld.

The statement required to be furnished by this subsection in respect of any wages or other taxable Iowa income shall be furnished at such other times, shall contain such other information, and shall be in such form as the state tax commission may by regulations prescribe.

9. An employer or withholding agent shall be liable for the payment of the tax required to be deducted and withheld under subsections one (1), two (2) or three (3) of this section and any amount deducted and withheld as tax under subsections one (1), two (2) or three (3) of this section during any calendar year upon the wages of any employee or other person shall be allowed as a credit to the employee or other person against the tax imposed by section four hundred twenty-two point five (422.5) of the Code, as amended, irrespective of whether or not such tax has been, or will be, paid over by the employer or withholding agent to the state tax commission as provided in this Act.

10. The amount of any overpayment of the individual income tax liability of the employee taxpayer or other person which may result from the withholding and payment of withheld tax by the employer or withholding agent to the commission under subsections one (1), two (2) or three (3) hereof, as compared to the individual income tax liability of the employee taxpayer or other

person properly and correctly determined under the provisions of section four hundred twenty-two point five (422.5) to and including section four hundred twenty-two point thirteen (422.13) of the Code, as amended, may be credited against any income tax or installment thereof then due the state of Iowa and any balance of two (2) dollars or more shall be refunded to the employee taxpayer or other person with interest at six (6) percent per annum, such interest to begin to accrue one hundred eighty (180) days after the overpayment is made, the date the return is filed, or the due date of the return, whichever is later. Amounts less than two (2) dollars shall be refunded to the taxpayer only upon written application, and only if such application is filed within twelve (12) months after the due date of the return. Refunds provided for by this subsection shall be paid by the state treasurer by means of warrants drawn by the comptroller at the direction of an authorized employee of the state tax commission, without requiring the taxpayer to file a claim for such refund. There is hereby appropriated out of any funds in the state treasury not otherwise appropriated a sum sufficient to carry out the provisions of this section.

11. a. Any person or corporation required under the provisions of this Act to furnish a statement required by this Act who willfully furnishes a false or fraudulent statement, or who willfully fails to furnish such statement shall, for each such failure be subject to a civil penalty of one hundred (100) dollars, such penalty to be in addition to any criminal penalty otherwise provided for by the Code as amended.

b. Any employer or other withholding agent required under the provisions of this Act to withhold taxes on wages or other taxable Iowa income who fails to withhold such taxes, or to make the required returns, or who fails to remit to the commission the amounts withheld, shall be liable for the amount of such taxes which should have been withheld and paid and in addition shall be subject to a civil penalty, equal to five (5) percent of the amount which should have been withheld or paid over to the commission, for each month or fraction thereof during which such failure continues, not to exceed twenty-five (25) percent in the aggregate. Interest at the rate of six (6) percent per annum shall be added to the amount of the tax required to be withheld and paid to the state tax commission.

c. If any employer, being a domestic or foreign corporation, required under the provisions of this section to withhold on wages or other taxable Iowa income fails to withhold such amounts, fails to make the required returns or fails to remit to the state tax commission the amounts withheld or required to be withheld, the state tax commission may certify such fact or facts to the secretary of state, who shall thereupon cancel the articles of incorporation or certificate of authority (as the case may be) of such corporation and the rights of such corporation to carry on business in the state of Iowa shall thereupon cease. Any person or persons who shall exercise or attempt to exercise any rights, powers, privileges or franchises under articles of incorporation or certificate of authority after the same are cancelled shall pay a penalty of not less than one hundred (100) dollars nor more than one thousand (1000) dollars, to be recovered in an action brought by the commission, such penalty to be in addition to all other penalties provided under chapter four hundred twenty-two (422) of the Code, as amended.

12. a. Every individual, or married couple filing a joint return, shall make a declaration of estimated tax if his or their Iowa income tax attributable to income other than wages subject to withholding can reasonably be expected to amount to twenty (20) dollars or more for the taxable year, except that in the case of farmers the provisions of the Internal Revenue Code of 1954 with respect to declarations shall apply.

The declaration provided for herein shall be filed at such times and in such form as the state tax commission may by regulations require, and the estimated tax shall be paid in four equal installments, the first installment to be paid at the time of filing the declaration, except that at the election of the individual, or married couple filing jointly any installment of the estimated tax may be paid prior to the date prescribed for its payment.

b. In the case of individuals or married couples filing jointly the total balance of the tax payable after credits for taxes paid through withholding as provided in subsections one (1), two (2) or three (3) of this section or through declaration and payment of estimated tax as provided in subsection twelve (12) of this section shall be due and payable on or before April 30 following the close of the calendar year or if the return should be made on the basis of a fiscal year, then on or before the last day of the fourth (4th) month following the close of such fiscal year.

c. The declaration provided for in this section may be amended during the taxable year under regulations prescribed by the state tax commission.

d. If a taxpayer is unable to make his own declaration the declaration may be made by a duly authorized agent or by the guardian or other person charged with the care of the person or property of such taxpayer.

e. Any amount paid on a declaration of estimated tax shall be a credit against the amount of tax found payable on a final, completed return as provided in subsection ten (10) hereof relating to the credit for the tax withheld against the tax found payable on a return properly and correctly prepared under the provisions of section four hundred twenty-two point five (422.5) to and including section four hundred twenty-two point thirteen (422.13) of the Code, as amended, and any overpayment of two (2) dollars or more shall be refunded to the taxpayer as provided in subsection ten (10) hereof, relating to overpayments of tax through withholding. Amounts less than two (2) dollars shall be refunded to the taxpayer only upon written application, and only if such application is filed within twelve (12) months after the due date for the return. The penalties provided by the Internal Revenue Code of 1954 for failure to file a declaration or for underpayment of the tax payable shall apply to persons required to file declarations and make payment of estimated tax under the provisions of this section."

Sec. 10. Section four hundred twenty-two point twenty-one (422.21), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by inserting as the third sentence thereof the following:

"When at the request of the taxpayer the time for filing the return is extended, interest at the rate of six (6) percent per annum on the tax due from the time when the return was originally required to be filed to the time of payment shall be added and paid."

Sec. 11. Section four hundred twenty-two point twenty-four (422.24), Code 1954, is hereby repealed.

Sec. 12. Section four hundred twenty-two point twenty-five (422.25), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended as follows:

Insert after the period (.) following the word "tax" at the end of the first sentence in subsection one (1) of said section the following:

"Where returns are delinquent there shall be no limitation of the period for examination or determination of the tax which may be due."

Strike all of the first sentence of subsection two (2) and substitute in lieu thereof the following:

"If the commission discovers from the examination of the return or otherwise that the taxable income of the taxpayer has been understated it may at any time within five years after the time when such return was due determine the correct amount of the tax together with interest and penalty as hereinafter provided."

Sec. 13. Subsection three (3) of section four hundred twenty-two point twenty-five (422.25), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by striking the first two sentences of said subsection and inserting in lieu thereof the following:

"3. In addition to the tax or additional tax as determined by the commission under the provisions of subsections one (1) and two (2) of this section, the taxpayer shall pay interest on such tax or additional tax so determined at the rate of six (6) percent per annum, computed from the date the return was required by law to be filed. In case of failure to file a return on the date prescribed therefor or to pay the tax required to be paid with the filing of the return, (determined with regard to any extension of time for filing), unless it is shown that such failure was due to reasonable cause and not due to willful neglect, there shall be added to the amount required to be shown as tax on such return five (5) percent of the amount of such tax if the failure is for not more than one month, with an additional five (5) percent for each additional month or fraction thereof during which such failure continues, not exceeding twenty-five (25) percent in the aggregate."

Sec. 14. Section four hundred twenty-two point twenty-five (422.25), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended by striking all of subsection eight (8) and substituting in lieu thereof the following:

"8. The periods of limitation provided by subsections one (1) and two (2) of this section may be extended by the taxpayer by signing a waiver agreement to be provided by the state tax commission. Such agreement shall stipulate the period of extension and the year or years to which such extension applies. It shall further provide that a claim for refund may be filed by the taxpayer at any time during the period of extension. In consideration of such agreement the state tax commission shall waive interest due in excess of thirty-six (36) months."

Sec. 15. Section four hundred twenty-two point forty-one (422.41), Code 1954, as amended by the Fifty-sixth General Assembly, is hereby amended as follows:

Strike all of said section following the heading "Corporations" and substitute in lieu thereof the following:

"All the provisions of sections four hundred twenty-two point twenty-eight (422.28), four hundred twenty-two point twenty-nine (422.29) and four hundred twenty-two point thirty (422.30) of division II in respect to revision, appeal, and jeopardy assessments shall be applicable to corporations taxable under this division."

Sec. 16. This Act shall be used as a basis for computing income for all tax years commencing after December 31, 1956. The tax rates provided by section two (2) of this Act shall also apply to tax years commencing after said date.

Sec. 17. Section four hundred twenty-two point sixty-two (422.62), Code 1954, as amended by the Fifty-Sixth (56th) General Assembly, is hereby amended as follows:

Strike the period (.) following the word "commission" at the end of the third sentence and substitute in lieu thereof a comma (,) and add thereto "and further provided that there is set aside from said fund all moneys collected under the withholding and estimate provisions of section four hundred twenty-two point sixteen (422.16), Code 1954, as amended by the Fifty-seventh (57th) General Assembly, due and payable on October 31, 1957, January 31, 1958 and April 30, 1958, which moneys shall be credited to the special withholding tax fund which is hereby created.

Sec. 18. Any laws or parts of laws in conflict with this Act are hereby repealed.

The provisions of the Act, as it relates to and affects employee taxpayers or other persons who receive taxable Iowa income, shall apply equally to both residents and nonresidents of the state of Iowa.

If any provision of this Act or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of this Act which can be given effect without the invalid provision or application, and to this end the provisions of this Act are declared severable.

Explanation

This bill is a major revision of the personal income tax law. Its major provision is the split income feature allowing husbands and wives to split their total income just as in the federal income tax. Other provisions include $600 exemptions in place of the present credit against tax; 10 percent standard deduction; a new rate schedule to go with the split income feature; withholding and declaration of estimated income; and minor changes. In the main, the provisions are designed to simplify the tax by making it more in line with federal income tax procedures.

B. Technical Amendment: Correlation with Federal Code.

Situation:

In order to have all references to Internal Revenue Code clear and up to date an amendment to this effect is necessary.

The Committee Recommends that:

All amendments to Internal Revenue Code of 1954 through December 31, 1956 be included wherever Internal Revenue Code of 1954 is used in the Iowa income tax law.

Proposed Bill No. 7:

CORRELATION OF STATE INCOME TAX WITH FEDERAL REVENUE CODE.

Bill 7.

A BILL FOR

AN ACT to amend chapter 422, Code 1954, as amended, relating to state income taxes, to provide for the adoption of amendments to the Internal Revenue Code of 1954.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Chapter four hundred twenty-two (422), Code of Iowa, 1954, as amended, is hereby amended by adding the words "as amended to and including December 31, 1956" to the words "Internal Revenue Code of 1954" wherever the words "Internal Revenue Code of 1954" appear.

Explanation

The purpose of this bill is to recognize and embody in the Iowa income tax law any and all amendments to the Internal Revenue Code of 1954 up to and including December 31, 1956 in order to assure that the income reported on the Iowa income tax return shall correspond to the income reported on the federal income tax return.

C. Dividend Credit Against Corporation Income Tax Paid.

Situation:

The Iowa income tax revision of 1955 repealed the dividend credit to individuals for Iowa corporation income tax paid. The dividend credit extends only to the amount of tax paid (corporations are temporarily paying on a 3 percent rate on business done in Iowa) and only on that

portion of the taxed income which is paid out as dividends.

The Committee Recommends that:

The 3 percent corporation rate be made permanent and the dividend credit on the personal income tax be re-enacted to allow a taxpayer credit on his personal income tax to the extent the Iowa corporation tax has been assessed and paid by a corporation on such dividend income received by the individual taxpayer.

Proposed Bill No. 8:

PERMANENT 3 PERCENT CORPORATION INCOME TAX RATE, AND DIVIDEND CREDIT ON PERSONAL INCOME TAX REENACTED.

Bill 8.

A BILL FOR

AN ACT relating to income taxes on corporations and providing for a proportionate credit of said tax to the tax on dividends paid by stockholders.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-two point thirty-three (422.33), Code 1954, is amended by striking from line six (6) the word "two" and inserting in lieu thereof the word "three".

Sec. 2. Division II of chapter four hundred twenty-two (422), Code 1954, is amended by adding the following:

"A credit shall be allowed against the amount of tax computed to be due and payable under this division, to the extent of the tax which has been assessed against and paid by a corporation under division III of this chapter on income which is represented by dividends on stock in said corporation, received by the taxpayer and included in his gross income within the tax year; provided, that when only part of the income of any corporation shall have been assessed and income tax paid under said division, only a corresponding amount of tax shall be deducted; and provided, further, that such corporation has reported the name and address of each person owning stock and the amount of dividends paid each such person during the year."

Explanation

This bill makes permanent the present 3 percent corporation income tax, and allows a dividend credit to the individual taxpayer to the extent that the corporation has paid income tax on the dividends which the corporation pays the taxpayer. This provision was in effect in 1954 and prior years, but was not included in the 1955 Act.

D. Extension of Corporation Tax to Foreign Corporations Soliciting Business in Iowa.

Situation:

Two minor items need legislation to correct inequities in the application of the present law. The first involves income from tangible property in Iowa owned by a foreign corporation; the second covers income made by foreign corporations on business solicited in Iowa through salesmen or other representatives.

In the first situation certain income arising from rents and other revenues from tangible property of foreign corporations has been exempted if it was not a result of the principal business of the corporation. The recommendation makes all such income subject to the Iowa corporation income tax.

In the second case, a considerable amount of business is done in Iowa by foreign corporations through salesmen and representatives. At present the income on this business is not subject to the corporate income tax. Under the recommendation the income from this type of business in Iowa by foreign corporations would be subject to this tax.

The Committee Recommends that:

Income and rents from tangible property owned by foreign corporations and income from business in Iowa by foreign corporations transacted by salesmen or other representatives be subject to Iowa corporation income tax.

Proposed Bill No. 9:

INCOME TAX ON FOREIGN CORPORATIONS

Bill 9.

A BILL FOR

AN ACT to amend section four hundred twenty-two point thirty-three (422.33), Code 1954, with respect to taxation of the net income of corporations allocable to Iowa.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-two point thirty three (422.33), Code 1954, as amended by the Fifty-sixth (56th) General Assembly is hereby amended by adding to subsection one (1) as paragraph "b" the following:

"Income from rents and royalties, less related expenses, from tangible property having a situs in Iowa received by a corporation domiciled in Iowa or a corporation not domiciled in Iowa, shall be assigned to Iowa."

Also, by relettering paragraph "b" as paragraph "c", and by adding as paragraph "d" the following:

"Foreign corporations making sales in Iowa through personal solicitation of a salesman or representative, whether such salesman or representative is located in Iowa or not and regardless of whether or not such transactions are carried on in intrastate, interstate, or foreign commerce shall be subject to the tax provided in section four hundred twenty-two point thirty-three (422.33) of the Code as amended, on the net income from such sales."

Explanation

This bill provides for the taxation of net Iowa income of domestic and foreign corporations realized from tangible property having a situs in Iowa. It further provides for taxation of the net Iowa income of unqualified foreign corporations realized from sales made in Iowa through personal solicitation by salesmen or other representatives.

E. PROPERTY TAXES

1. Repeal of Household Property Tax

Situation:

The present household property tax is largely assessed and paid on television sets, deep freezers, and household furniture. Total assessments as listed by the State Tax Commission for 1956 are as follows:

Radio and Musical Instruments and Television Sets	$35,000,000
Home Freezers	11,000,000
Household, Boarding House and Hotel Furniture	5,000,000
Total	$51,000,000

Comparisons of this household total with the total of all personal and with the grand total of all property are as follows:

Household property	$51,000,000
All tangible personal property	728,000,000
Grand total all property	$4,550,000,000

From this it is evident that household property does not involve an important portion of the property tax base; it amounts to only 7 percent of all tangible personalty and only slightly more than 1 percent of all property.

The estimated revenue from this tax is less than 3,000,000 or an average of $30,000 per county.

For the amount of revenue raised the household property tax is one of the most expensive to assess and collect. Assessments are made each year and involve a heavy cost for calculation and collection when compared with the small size of the tax. With roughly 800,000 taxpayers in Iowa, the average household tax amounts to less than $4 per family. In order to get this $4 the assessor has to send a field man to call at the house to assess the property or arrange to have the householder make a valuation for the assessor either by mail or by coming to the assessment office.

A survey of assessment expense revealed an estimated $220,000, or almost 8 percent of the amount of the tax, was spent for putting the value on the tax books. Added to this expense is the computation and collection of the tax including advertisement of delinquencies and loss through nonpayment of small amounts. The survey included reports from 56 county and 16 city assessors.

Household property is difficult to assess. Furniture, for example, is very unevenly assessed at present. In one county only $300 was reported in 1955, while in a neighboring county with less total personal property the furniture assessment was $7,400. Determining what is assessable and what is not is also difficult. Kitchen equipment is exempt but freezers are taxable, which leaves the new combination refrigerator-freezers in an uncertain zone.

The trend throughout the country has been towards repeal of this tax. Thirteen states have repealed this tax in full. Twenty-five other states have exemptions of various kinds including Iowa's present exemption of $300. Ten states tax personal property in full.

Reasons usually given for repeal include undesirability of invading the home to make the assessment; household items are nonincome property; the large number and variety of home furnishings and appliances; difficulty of valuing these items; the mobility of people, and problems of assessment equity and tax collection.

Repeal is recommended because of the inherent difficulties of assessment and the high cost of assessment and collection in comparison with the relative small amount of this tax. Repeal will mean the complete elimination of one tax that is annually a source of irritation to many of Iowa's 800,000 taxpayers.

The Committee Recommends that:

The household property tax be repealed except as it applies to hotels, motels, boarding houses, offices, and other commercial establishments.

Explanation of the Proposed Bill:

The present law includes as household property the following: gold and silver plate, watches, jewelry, musical instruments, bicycles, and household furniture. Musical instruments include television sets and radios. All of these items would be exempted. This exemption would include household property in the farm home. Household property in hotels, motels, boarding houses, offices, and other business establishments would not be exempted.

Proposed Bill No. 10:

HOUSEHOLD PROPERTY TAX REPEAL

Bill 10.

A BILL FOR

AN ACT relating to the assessment and taxation of certain personal property and exemptions therefrom.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-seven point one (427.1), Code 1954, is hereby amended by striking all of lines two (2) and three (3) of subsection sixteen (16) and inserting in lieu thereof the following: "all household furniture including musical instruments, television receiving sets and antennas, air conditioners, deep freezers and kitchen furniture;".

Sec. 2. Section four hundred twenty-seven point thirteen (427.13), Code 1954, is hereby amended as follows:

1. Strike all of subsection ten (10).
2. Strike all of subsection eleven (11).

Explanation

This bill repeals the personal property tax on all household goods in the home. Household goods include television sets and antenna, radios, home freezers, and all appliances in the home. The personal property tax is not repealed on household goods in hotels, motels, boarding houses, and all commercial establishments.

2. Moneys and Credits.

Situation:

The present moneys and credits tax brings in a total revenue of $3,300,000. This total comes from the following sources, on the basis of available estimates:

	Value	Tax
Individuals (5 mills)	$350,000,000	$1,750,000
Business (5 mills)	50,000,000	250,000
Accounts Receivable		
Finance Companies	90,000,000	450,000
Corporation stocks, etc. (5 mills)		
Building and Loan (1 mill)	35,000,000	35,000
Association stock		
Banks (5 mills)	160,000,000	800,000
	$685,000,000	$3,285,000

No problem exists in the assessment and collection of the moneys and credits tax on finance companies, corporation stock, and banks; therefore, in the discussion which follows, these institutions are not included. The following refers primarily to the moneys and credits tax on individuals and to accounts receivable of business.

a. **History.** The original moneys and credits tax was enacted in 1851 and carried at that time a full mill levy against the reported assessment. For years there was agitation against the tax because farmers and investors claimed that it was double taxation--a tax on the mortgage in addition to the property tax on the farm real estate.

1910. In this year, Dr. J. E. Brindley, an authority on Iowa taxation, wrote:

"From 1873 to the present time (1910) two facts stand out as of chief importance in an historical review of the tax on moneys and credits; first, that the whole period has been one of constant agitation; and second, that almost nothing in the way of definite reform has been accomplished." (From "History of Taxation in Iowa," page 307.)

1911. Levy on moneys and credits was changed from a full property levy to a uniform 5 mills over the state.

1930. A campaign to reduce evasion resulted in an increase of 20 percent in the money and credits assessments reported.

1933. Repeal of moneys and credits and replacement by an income tax was recommended in a Brookings Institution report after an intensive study of the tax.

1947. Taxation Study Committee and Brookings Institution Report both recommended repeal of the moneys and credits tax.

1949. Law passed providing for $5,000 exemption on moneys and credits.

b. **Evasion.** There is more evasion than there is compliance according to a recent study of Iowa inheritance tax cases. Only about 25 percent of those who should pay actually do pay a substantial part of their obligation. The other 75 percent, by one means or another, evade the tax.

To find out who is paying and who is not, a check was made of all recent Iowa inheritance tax reports where the personal property reported was $100,000 or more. Only 21 percent of the individuals checked had been paying as much as three-fourths of the moneys and credits tax they should have been paying. Actually there were only 13 out of 106 who had been paying the full tax prior to their death. Cases checked show:

	Number of cases
No obligation (property exempt)	18
Paid full obligation before death	13
Paid 75% to 99% of tax due before death	9
Paid 50% to 74% of tax due before death	11
Paid 25% to 49% of tax due before death	8
Paid 1% to 24% of tax due before death	15
Complete evasion, no tax paid	50
Total Cases checked	124
Total moneys and credits that should have been declared	$8,700,000
Moneys and credits declared	2,600,000
Total Evasion	$6,100,000

Assessors obtained $2,600,000 in moneys and credits assessments but missed $6,100,000 that was not reported but should have been.

A question may arise regarding the payment record of those now living. Although it is not possible to check these except through dividend and interest income reported in their income tax, the evidence which is available indicates that compliance is no better and perhaps not as good. A check of small inheritance cases in one of the counties showed about the same proportion of payment as the large cases reported above.

c. **Types of moneys and credits.** Stocks in corporations are the chief moneys and credits subject to tax at this time. The breakdown of the holdings in the recent estate cases with over $100,000 of personal property revealed the following:

Shares of corporations (stocks)	$15,300,000—	57.3%
U.S. Government securities	5,100,000—	19.1%
Cash, deposits, savings, etc.	3,200,000—	12.0%
Mortgages and notes	1,800,000—	6.7%
Bonds (not U.S.)	600,000—	2.3%
Miscellaneous	700,000—	2.6%
Total	$26,700,000—	100.0%

Some shares of stock, such as those of telephone companies, Iowa manufacturing corporations, and companies doing a merchandising business in Iowa, are exempt. And all government securities as well as shares in building and loan associations held by individuals are exempt.

When the moneys and credits law was enacted in Iowa in the 1850's the most common credit was the farm mortgage, a security which can be checked locally by checking the mortgage records at the county court house. Today, however, shares of stock are the principal credit subject to tax. These are generally kept in safe deposit boxes and the assessor has no way to assess them except through voluntary disclosure by the taxpayer.

d. **Situation in Other States.** The trend among states is towards repeal of intangible property taxes. Seventeen states and the District of Columbia have repealed either fully or partially this tax. States which have repealed the tax since 1939 are Colorado, Minnesota, Nevada, New Jersey, Oregon, Vermont and Wyoming.

Other states which repealed the tax in whole or in part before 1939 are:
Arizona, California, Delaware, Idaho, Mississippi, New York, North Dakota, Utah, Washington and Wisconsin.

e. **Enforcement.** Problems of enforcement center around the obtaining of information by the assessor on the taxpayer's holdings of moneys and credits. The only reliable source was the state income tax return which provided interest and dividend information on the long form. However, there is little support for legislation to give information from income tax returns to city and county assessors.

The Committee Recommends that:

a. The moneys and credits tax of 5 mills on individuals be repealed, and accounts receivable be exempted from the moneys and credits tax.

b. A 3 percent surtax on interest and dividends, excluding such income on government securities and bank stock, be imposed to replace the moneys and credits tax of 5 mills on individuals. An exemption of $200 per taxpayer be permitted. Accounts receivable be exempted.

c. The surtax on interest and dividends be distributed to the counties according to the residence of the taxpayer paying the surtax, and the county distribute the revenue received to school districts on the basis of the last school census.

d. The one mill tax on building and loan shares be repealed, but government securities not be allowed as an offset against the 5 mill tax on reserves. Interest and dividends from building and loan shares be subject to the surtax.

Explanation of Proposed Bills:

The surtax on interest and dividends, which would be collected as part of the personal income tax, would apply to all dividends and interest except on government securities and shares of bank stock. Bank shares will continue to be assessed as moneys and credits. Building and loan (mutual savings) association shares are not taxed as moneys and credits because they are more like certificates of deposits than bank shares.

The $200 deduction on interest and dividends represents a 4 per cent return on the present $5,000 exemption allowed on moneys and credits. A husband and wife would each be allowed the full $200 exemption on the surtax.

The surtax rate of 3 percent on interest and dividend income is a much lower effective rate of taxation than the present 5 mill moneys and credits tax. A taxpayer with $30,000 of moneys and credits yielding $1,200 annual income pays 5 mills on $25,000 or $125 tax at present. Under the surtax he would pay 3 percent of $1,000 or $30. However, since only about one fourth of the moneys and credits are currently being reported, the surtax should bring in nearly as much revenue as the present tax. And since the surtax will be collected as part of the income tax, enforcement should not be a difficult problem.

There will be two other important differences. First, income from securities now exempt from the present tax, such as those of telephone companies, Iowa manufacturing corporations, and companies carrying on a merchandizing business in Iowa, will be subject to the surtax. Second, noninterest bearing deposits which are now subject to the present tax will not be included in the surtax because they do not yield any income. The net effect of these changes—the repeal of certain moneys and credits and the replacement by a surtax—should result in little change in the amount of revenue raised.

No change in the assessment of moneys and credits is proposed except that accounts receivable would be exempted while the stock in certain corporations would no longer be exempted. This will make it possible for local districts to continue using moneys and credits valuations as a basis for bond issues and will also make it possible for the state to levy the 1 mill tax on moneys and credits for the Korean bonus.

The changes proposed for the building and loan (mutual savings) associations are designed to treat them in the same manner as other financial institutions in so far as possible. The only moneys and credits tax applied to these associations will be the 5 mill tax on their reserves. The 1 mill tax on shares would be repealed. In figuring their moneys and credits tax, associations will be allowed to deduct from their reserves and surplus any real estate or personal property on which they pay a property tax, as in the case with banks, but they will not be allowed to deduct government securities, as is also the case with banks.

Proposed Bills No. 11, 12 and 13:

Bill 11. REPEAL OF 5 MILLS MONEYS AND CREDITS TAX ON INDIVIDUALS, EXEMPTION OF ACCOUNTS RECEIVABLE FROM THIS TAX, AND SURTAX ON INTEREST AND DIVIDENDS.

Bill 12. MONEYS AND CREDITS TAX ON BUILDING AND LOAN ASSOCIATIONS.

Bill 13. CAPITAL STOCK MADE SUBJECT TO MONEYS AND CREDITS TAX.

Bill 11.

A BILL FOR

AN ACT to abolish the five-mill tax on moneys and credits heretofore paid by individual taxpayers and to substitute in lieu thereof a surtax on income from interest and dividends, and to amend certain sections of the Code to retain the said tax on banks and corporations.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-nine point one (429.1), Code 1954, is hereby amended by adding in line ten (10) after the word "rendered", the words, ", or accounts receivable not bearing interest".

Sec. 2. Section four hundred twenty-nine point two (429.2), Code 1954, is hereby amended by striking all of said section after the word "and" in line fourteen (14) and inserting in lieu thereof the words "taxed as provided by law."

Sec. 3. Section four hundred twenty-nine point three (429.3), Code 1954, is hereby amended by striking from lines one (1), two (2) and three (3) the words and figures, "The millage tax provided for in section 429.2 shall be in lieu of all other taxes upon moneys and credits and" and inserting in lieu thereof the following: "Millage taxes on moneys and credits".

Sec. 4. Section four hundred thirty point seven (430.7), Code 1954, is hereby amended by inserting in line ten (10) after the word "credits" the words "at five mills in addition to any other tax on moneys and credits provided by law".

Further amend said section by inserting in line eighteen (18) after the word "credits" the words "at the five-mill rate as provided above".

Further amend said section by adding at the end thereof the following:

"Taxes on moneys and credits provided in this chapter shall be distributed as provided in section four hundred twenty-nine point three (429.3)."

Sec. 5. Section four hundred thirty-one point one (431.1), Code 1954, is hereby amended by inserting in line eight (8) after the word "transacted" a new sentence as follows:

"Such moneys and credits shall be taxed at a rate of five mills in addition to any other tax on moneys and credits provided by law and the proceeds thereof distributed to taxing districts as provided in section four hundred twenty-nine point three (429.3)."

Sec. 6. As a replacement for the individual five-mill tax on moneys and credits abolished by this Act, the following amendment to division II of chapter four hundred twenty-two (422) of the Code as amended is hereby enacted:

"Every individual taxpayer subject to filing an Iowa income tax return shall make a separate accounting, on his tax return, of interest and dividends received during the tax year and forward to the tax commission, as a surtax, three percent of the amount thereof. The provisions of this section shall not include the first two hundred dollars of such interest and dividends for every individual taxpayer nor interest and dividends received on United States government securities and bank stock. The amount of said surtax shall be paid at the same time and the same manner as income taxes due on the tax return. The total amount of all surtaxes collected hereunder shall be returned to the county of origin as indicated by the mailing address of the taxpayer. Surtaxes paid by nonresidents shall be credited to the general fund.

The state tax commission shall make a separate account of the amount of said surtax received from each county and on the first day of each calendar quarter certify to the state treasurer and state comptroller the amounts determined as due each county and the comptroller shall thereupon draw warrants for the said amounts and transmit same to the various county auditors for deposit with the county treasurers. Each county auditor shall apportion said funds to the various school corporations in the county as provided in section two hundred ninety-eight point eleven (298.11) of the Code."

Explanation

This bill repeals the present 5 mill moneys and credits tax on individuals, and exempts accounts receivable. Assessment of moneys and credits will continue as at present.

As a replacement a 3 percent surtax on interest and dividends is imposed. An exemption of $200 of interest and dividends per taxpayer is allowed before the 3 percent tax is imposed. The tax will be reported and paid in connection with the filing of the annual personal income tax return.

Bill 12.

A BILL FOR

AN ACT to equalize the moneys and credits taxes paid by certain lending agencies, such as building and loan associations and credit unions, with the amount of said taxes paid by banks and corporations.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Sections four hundred thirty-one point six (431.6), four hundred thirty-one point nine (431.9), four hundred thirty-one point ten (431.10), four hundred thirty-one point eleven (431.11), four hundred thirty-one point twelve (431.12), four hundred thirty-one point sixteen (431.16), four hundred thirty-one point seventeen (431.17), and four hundred thirty-one point eighteen (431.18), Code 1954, are hereby repealed.

Sec. 2. Section four hundred thirty-one point seven (431.7), Code 1954, is hereby amended by striking subsections one (1), two (2) and six (6).

Sec. 3. Section four hundred thirty-one point thirteen (431.13), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"There is hereby levied and imposed a tax of five mills on the contingent reserve and other funds of every building and loan association exclusive of the actual value of the real estate and personal property owned by the association. The balance obtained after making the deductions herein provided for shall be taxed and assessed against such association at its principal place of business."

Sec. 4. Section five hundred thirty-three point twenty-two (533.22), Code 1954, is amended by adding at the end thereof the words "The rate of tax on such moneys and credits shall be five mills."

Explanation

In order to make the taxation of building and loan (mutual savings) associations fair and equitable, certain changes are required. This bill repeals the 1 mill tax on building and loan association shares. There will be no tax on the shares with the exception of the surtax on interest and dividends provided in another bill. Another provision of this bill abolishes the exemption of government securities as an offset against reserves which are subject to the 5 mill moneys and credits tax. Other minor changes specify the 5 mill moneys and credits rate applicable to banks, corporations, and credit unions.

Bill 13.

A BILL FOR

AN ACT to abolish the tax exemption on capital stock of certain corporations so as to equalize the taxes paid by said corporations with taxes paid by other similar corporations and banks.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-seven point one (427.1), Code 1954, is hereby amended by striking subsection twenty (20) and inserting in lieu thereof the following:

"The shares of capital stock of corporations not organized for profit."

Sec. 2. Section four hundred thirty-three point four (433.4), Code 1954, is hereby amended by striking all after the word "business' in the fourth (4th) and fifth (5th) lines from the end of said section.

Sec. 3. Section four hundred thirty-three point twelve (433.12), Code 1954, is hereby amended by striking from line two (2) and three (3) the following:

"and section 427.1, subsection 20,".

Sec. 4. Section four hundred thirty-seven point one (437.1), Code 1954, is hereby amended by striking from lines two (2) and three (3) the following:

"and section 427.1, subsection 20,".

Explanation

This bill makes uniform the application of the moneys and credit tax on all corporations. Exemptions granted in the past have been difficult to interpret and have created inequities.

3. Exemption of Pension Trusts and Employee Welfare Funds.

Situation:

Pension funds and other employee welfare funds are taxable if kept in the State of Iowa. Since it is easy for such funds originating in Iowa to be kept in some other state not having a moneys and credits tax, and since the funds are used not for profit but for pensions, the Committee favors exempting them from the moneys and credits tax.

The Committee Recommends that:

Pension funds and other employee welfare funds be exempted from the moneys and credits tax.

Proposed Bill No. 14:

EXEMPTION OF PENSION AND WELFARE FUNDS FROM MONEYS AND CREDITS TAX.

Bill 14.

A BILL FOR

AN ACT to amend section four hundred twenty-seven point one (427.1), Code 1954, relating to employee pension funds and the exemption from taxation of such funds.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-seven point one (427.1), subsection nineteen (19), Code 1954, is hereby amended by striking the period at the end of said subsection and inserting in lieu thereof the following: ", the accumulations and funds held or possessed by any trustee or employer for the irrevocable benefit of employees pursuant to any pension, or other employee welfare plan which qualifies for tax-exempt status under the laws of the United States, or for the payment of the expenses of such plans.".

Explanation

Under present law, pension funds are taxable as moneys and credits except for a number of specific exemptions already recognized. Consequently most of these funds are kept in or moved to banks and trust companies in other states where such moneys and credits are not taxed. This bill will benefit the localities involved by keeping the funds in local banks and trust companies where they can be administered more conveniently and efficiently. It is obviously desirable to have these funds kept in Iowa and governed by Iowa law. In addition, the welfare, security and benefits of these employees will be increased by reducing the expenses of maintaining such funds.

4. Merchandise Inventories and Other Personal Property.

Situation:

One of the most difficult problems in the assessment of personal property used in business is the assessment of merchandise inventories. The Committee devoted a great deal of time to this subject in the hope that a satisfactory alternative to the present system of merchandise assessment could be found to recommend. The Associated Retailers of Iowa presented a report on the personal property tax problem to the Committee with the suggestion that it be replaced in the main by taxes on sales, services, and income. This report was analyzed in detail. A number of other suggested revenue replacements—including a transactions or gross receipts tax and a value-added or gross profits tax—were analyzed by the Committee.

The complexity and ramifications of a replacement to the personal property tax from the state level, or to the one phase of merchandise inventories, were so great that the Committee was unable to arrive at a satisfactory and workable solution.

5. Mobile Homes.

Situation:

The use of mobile homes as semipermanent residences has increased to such an extent that this type of property has to be recognized as an important element in the tax base. At the same time it is evident that an increasing number of school children are coming from these mobile homes.

To place these mobile homes on a comparable basis with other homes, the existing fees should be increased. Mobile homes in the hands of dealers should be taxed as personal property. For example, at present a family con-

sidering the purchase of living quarters can buy a mobile home not taxed in dealer's hands or it can build a home in which case it buys lumber and other materials subject to a personal property tax in the hands of a dealer. Mobile homes while being held for sale by dealers should be treated like other personal property in the hands of dealers which is uniformly assessed and subject to the personal property tax.

The Committee Recommends that:

The monthly fee rate on mobile homes be increased from $2.00, $2.50 and $3.00 to $3.00, $4.00 and $5.00 respectively and that the method of payment be changed from a monthly to a six-month period, the six-month fee to be paid in advance.

Mobile homes in the hands of dealers be subject to the personal property tax.

Explanation of Proposed Bill:

The six-month payment is designed to cut down the number of payments and to simplify the collection where a mobile home is moved from one county to another within the state. When the owner of the mobile home has paid his fee for the six-month period his receipt will attest to this fact and he will not be required to pay any additional fee for the period. The fact that one county may get all the fee for a period, even though the home is there only a short time, will be offset by situations of mobile homes moving into the county in question with their fees paid until the end of the period. If a mobile home is moved out of the state before the expiration of the period covered, the mobile home owner can obtain a pro rata refund for the unexpired period.

Proposed Bill No. 15:

TAXATION OF MOBILE HOMES

Bill 15.

A BILL FOR

AN ACT relating to the regulation, licensing and taxation of mobile homes and house trailers.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section one hundred and thirty-five D point nine (135D.9), Code 1954, is hereby amended as follows:

1. By striking from lines four (4), and thirty-eight (38), thereof the word, "occupied" wherever such word shall appear in such lines.

2. By striking from line six (6), thereof the word, "monthly" and inserting in lieu thereof the word, "semiannual".

3. By striking from lines seven (7) and eight (8), thereof the words, "two dollars per month or major fraction thereof;" and inserting in lieu thereof the words, "except trailers less than twenty (20) feet in length which are used solely for vacation or like purposes and are occupied for no more than ninety (90) days in any twelve-month period, eighteen (18) dollars for each semiannual period;".

4. By striking from lines ten (10) and eleven (11), thereof the words, "two and one-half dollars per month or major fraction thereof;" and inserting in lieu thereof the words, "twenty-four (24) dollars for each semiannual period;".

5. By striking from lines twelve (12) to seventeen (17), inclusive, thereof the words, "three dollars per month or major fraction thereof which monthly fee shall be paid by the licensee on or before the tenth of the month, following the month for which such additional fee is due, in the manner herein prescribed.", and inserting in lieu thereof the following: "thirty (30) dollars for each semiannual period. Such semiannual fees shall be paid by the licensee in the following manner: On or before the tenth day of January of each year, the semiannual fee in advance for the first half of the year for each mobile home occupying space on the first day of January of such year in such licensed mobile home park; and on or before the tenth day of July of each year, the semiannual fee in advance for the last half of the year for each mobile home occupying space on the first day of July of such year in such mobile home park; and on or before the tenth day of each other month of the year, the proportionate fee in advance for the remainder of the half year period for each mobile home occupying space in such mobile home park on the first day of such month and which first commenced to occupy such space subsequent to the first day of the last preceding month. Such proportionate fee shall be one-sixth (1/6th) of the semiannual fee for each month or fraction of a month of one day or more over one-half (½) remaining in the semiannual period on the day the mobile home first commenced to occupy space in such mobile home park. The county treasurer upon receipt of such fees shall issue to the licensee an individual receipt for each such trailer which receipt shall state the name of the owner of the trailer and which receipt shall be delivered by the licensee to the owner within five (5) days."

6. By striking from line forty (40) thereof the word, "monthly" and inserting in lieu thereof the word "semiannual".

7. By adding at the end of such section the following: "If any mobile home, for which the fee provided for in this section has been paid, shall, during the semiannual period for which such license fee has been paid, be moved within the state of Iowa from the county or municipal corporation in which it was located when such fee was paid, no refund of such fee shall be allowed nor shall the allocation of such fee by the county treasurer as provided in section one hundred thirty-five D point ten (135D.10) of the Code be changed, and no fee shall be payable for such mobile home at its new location until the period for which such fee was paid has expired. If such mobile home shall be permanently moved to a location without the state of Iowa, the owner of such mobile home shall be paid a refund by the county treasurer of one-sixth (1/6th) of the semiannual fee for each full month or fractional part thereof of one-half or more remaining in the semiannual period for which the mobile home fee was paid. No refund shall be so paid except upon receipt by the treasurer of an application for refund by the owner of the mobile home together with the treasurer's original receipt for the mobile home fee or a duplicate thereof issued by the treasurer and a statement under oath by the owner that the mobile home has been permanently removed from the state of Iowa. The mobile home fee required by this section shall not apply to mobile homes owned by dealers for resale. Mobile homes owned by dealers for resale and mobile homes less than twenty (20) feet in length which are used solely for vacation or like purposes and are occupied for no more than ninety (90) days in any twelve-month period shall be exempt from all fees under this section, but shall be subject to the personal property tax."

Sec. 2. Section three hundred and twenty-one point one hundred and thirty (321.130), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"The registration fees imposed by this chapter upon private passenger motor vehicles or semitrailers shall be in lieu of all taxes, general or local, to which motor vehicles or semitrailers may be subject, and if a motor vehicle or semitrailer shall have been registered at any time under this chapter it shall not thereafter be subject to a personal property tax unless such motor vehicle or semitrailer shall have been in storage continuously as an unregistered motor vehicle or semitrailer during the

preceding registration year. This section shall not apply to mobile homes."

Explanation

This bill revises the mobile home regulation law to facilitate the administration and collection of taxes thereon.

6. Repeal of Exemption to Endowment Real Estate of Educational Institutions.

Situation:

Present law (section 427.1, subsection 11) allows an educational institution of Iowa to hold real estate up to 160 acres in any civil township in its endowment. This provision applies whether the property is in cities or rural areas.

Although the intent of this provision is a commendable one, the workings of this law can create an undesirable and involuntary hardship on the taxpayers of a township where several donors give their real estate to Iowa educational institutions. Where this happens, the other taxpayers are forced to shoulder the tax load formerly paid by the donated property.

In 1955 the State Tax Commission prepared a report showing the exemptions under this provision amounted to $5,300,000, of which $3,000,000 was in cities and the remainder in rural areas.

The Committee Recommends that:

Exemption of endowment real estate be repealed on such property acquired by educational institutions in Iowa after June 30, 1958. The definition of educational institutions be clarified to determine the institutions which are eligible for the present exemption.

Explanation of Proposed Bill:

This recommendation would not disturb the exemption on real estate now claimed as an exemption. It would, however, apply to any real estate received after June 30, 1958. The year 1958 is specified so as not to work any hardship in the change and to provide for final transfer of properties now in process.

The definition of educational institutions is desirable because some difficulty has been experienced in determining which institutions are now eligible for this exemption. Only property classed as endowment is involved in this recommendation, not property used for educational purposes.

Proposed Bill No. 16:

TAXATION OF ENDOWMENT REAL ESTATE OF EDUCATIONAL INSTITUTIONS.

Bill 16.

A BILL FOR

AN ACT to repeal the exemption from taxation for future acquisitions of real estate by educational institutions, and defining same.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-seven point one (427.1), Code 1954, is hereby amended by inserting in line two (2) of subsection eleven (11), after the word "estate" the following: "acquired prior to July 1, 1953 and".

Further amend said subsection by adding at the end thereof the following: "An educational institution is defined as a nonprofit organization which (a) offers a curriculum leading to a recognized academic degree or certificate, and (b) is approved by the Iowa committee on secondary school and college relations, or the state department of public instruction for admission and transfer of credits to the three state institutions for higher education in Iowa, or is a member of the north central association of colleges and secondary schools."

Explanation

This bill abolishes the real estate endowment exemption to educational institutions on property acquired after June 30, 1958. Real estate in the endowment of educational institutions on this date will not be affected; that is, it will continue to carry the property tax exemption. The bill also defines educational institutions entitled to exemptions under this section of the Code.

7. Assessment Uniformity

Situation:

Uniformity in assessments is a goal, which as is indicated in Section 5 of Chapter 7 of Part I, is yet to be achieved. In particular rural real estate is assessed, on the average, somewhat higher than urban real estate. And the low-priced properties, both on the farm and in the city, tend to be assessed higher than properties of above average value.

The hopeful sign is the fact that in a few counties, rural and urban real estate is assessed at about the same level. What is needed is increased effort on the part of assessors and the State Tax Commission to bring about uniformity between properties in all counties of the state and at the same time to bring all counties on a level with each other. At present, a few of the high counties are as much as twice as high as some of the low counties. Little evidence is available on assessments of industrial real estate, but the data at hand indicate that more equalization is needed in this area.

The average level of assessment has dropped as a result of the rising trend in real estate values. Some of the counties with a low total of real estate values have had to hold their assessments up to have sufficient assessed value to raise enough tax revenue to operate their school, municipal and county governments under the existing millage limitations. Thus, the State Tax Commission has a task in raising the assessment level so that all counties are approximately in line with each other.

The Committee Recommends that:

The State Tax Commission be given a more emphatic mandate than is in the present law to secure a greater degree of assessment equalization by use of appropriate rules and regulations.

Proposed Bill No. 17:

UNIFORM RULES BY TAX COMMISSION

Bill 17.

A BILL FOR

AN ACT relating to the powers of the state tax commission to adopt rules on standards of value for assessment purposes.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Subsection two (2) of section four hundred twenty-one point seventeen (421.17), Code 1954, is hereby amended by adding to said subsection the following:

"For the purpose of bringing about uniformity and equalization of assessments throughout the state of Iowa, the state tax commission shall prescribe rules and regulations relating to the standards of value to be used by assessing authorities in the determination, assessment and equalization of actual value for assessment purposes of all property subject to taxation in the state, and such rules shall be adhered to and followed by all assessing authorities."

Explanation

The purpose of this bill is to give the state tax commission a clear-cut mandate to bring about assessment

uniformity throughout the state. The law as it now stands requires this action but not as specifically.

8. Repeal of Assessor Residence Requirement.

Situation:

The present law requires candidates for county assessor to be "residents of the county for at least one year" and candidates for city assessor to be "qualified electors of the city." These residence requirements have worked against attracting highly qualified candidates. Since the qualifications for assessor are in the nature of professional appraisal abilities, the residence requirement is a handicap rather than an aid. Somewhat the same situation holds for the county engineer for whom there is no residence requirement.

The Committee Recommends that:

The residence requirement for county and city assessors be repealed.

Proposed Bills Nos. 18 and 19:

Bill 18: REPEAL COUNTY RESIDENCE REQUIREMENT.

Bill 19: REPEAL CITY RESIDENCE REQUIREMENT.

Bill 18.

A BILL FOR

AN ACT to repeal the residence requirement for county assessor examinations.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred forty-one point three (441.3), Code 1954, is hereby amended by striking from lines thirty (30) and thirty-one (31) the words "residents of the county for at least one year,".

Further amend said section by striking from lines thirty-three (33) and thirty-four (34) the words "and who are qualified voters and residents of the county".

Explanation

This bill repeals the residence requirement of county assessors. It will open the examination to fill a county assessor vacancy to a wider group of capable applicants.

Bill 19.

A BILL FOR

AN ACT to repeal the residence requirement for city assessor examinations.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred five point three (405.3), Code 1954, is hereby amended by striking the first (1st) paragraph following subsection six (6) reading as follows: "Only qualified electors of the city shall be eligible to take this examination."

Explanation

This bill repeals the residence requirement for city assessors. It will open the examination to fill a city assessor vacancy to a wider group of capable applicants.

9. Change in Assessor Term and Determination of Salary.

Situation:

The six-year term of the city assessor in Des Moines has worked well. In order to further the professional character of the position and attract qualified personnel, a six-year term for the other city assessors and for the county assessors is recommended.

At present the salary of all the city assessors is set by the conference board which consists of the board of supervisors, the city council and the school board. Each of these bodies has one vote. This arrangement has worked well in bringing the salary in line with professional ability. The same procedure is recommended for the county assessors whose salary is now subject to a veto by the board of supervisors if it is higher than that of the auditor.

Reappointment of a county assessor by the county conference board does not require the approval of the State Tax Commission. In view of the mandate to the commission to accomplish equalization throughout the state, it appears desirable that the commission have approval power of reappointments. In this same connection, it is appropriate that the procedure for removal be made more specific.

The Committee Recommends that:

The term of all assessors be increased from the present four years to six years. The salary of county assessors be set by the conference board in the same manner as for city assessors. The State Tax Commission be given approval power on reappointment of assessors and the procedure for removal of an assessor be made definite.

Proposed Bills Nos. 20 and 21:

Bill 20: LONGER CITY ASSESSOR TERM.

Bill 21: LONGER COUNTY ASSESSOR TERM.

Bill 20.

A BILL FOR

AN ACT relating to the term of assessors in cities having a population of more than ten thousand and less than one hundred twenty-five thousand.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred five A point three (405A.3), Code 1954, is amended by striking from line four (4) the word "four" and inserting in lieu thereof the word "six."

Explanation

This bill increases the term of assessors in certain cities from four years to six years. This change is designed to attract highly qualified persons to this position.

Bill 21.

A BILL FOR

AN ACT relating to the appointment, term, salary and removal of the county assessor.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred forty-one point two (441.2), Code 1954, is hereby amended by striking the period (.) following the word "commission", in the last line of said section, inserting a comma (,), and adding the following: "The state tax commission shall, within ten days after receiving said notice, either approve or disapprove of the reappointment of said assessor, and, in the event that it does not approve of such reappointment, the state tax commission shall cause to be held an examination for county assessors in the county seat of said county and the same procedure shall be followed in filling the vacancy that is prescribed in section four hundred forty-one point three (441.3).

Sec. 2. Section four hundred forty-one point six (441.6), Code 1954, is hereby amended by striking all of said section after the word "assessor" in line eight (8).

Sec. 3. Section four hundred forty-one point two (441.2), Code 1954, is hereby amended by striking from line nine (9) the word "four" and inserting in lieu thereof the word "six".

Sec. 4. Section four hundred forty-one point three (441.3), Code 1954, is hereby amended as follows:

1. Strike from the sixteenth (16th) line from the end

of said section the word "four" and insert in lieu thereof the word "six".

2. Strike from the thirteenth (13th) line from the end of said section the word "four-year" and insert in lieu thereof the word "six-year".

3. Strike from the seventh (7th) line from the end of said section the word "four" and insert in lieu thereof the word "six".

Sec. 5. Chapter four hundred forty-one (441), Code 1954, is hereby amended by adding thereto the following: "The county assessor may be removed by a majority vote of the conference board, after charges of misconduct, nonfeasance, malfeasance, or misfeasance in office shall have been substantiated to the satisfaction of said board at a public hearing, if same is demanded by the assessor by written notice served upon the chairman of the conference board. Its decision shall be final. The vote for removal shall be conducted in the same manner as the vote for appointment of the county assessor."

Explanation

The purpose of this bill is to provide the same method salary determination for the county assessors as that now in effect for the city assessors. This bill also extends term of county assessors from four to six years and requires the approval of the state tax commission for reappointment. Procedure for removal is made specific. The bill is designed to attract highly qualified persons to the position of county assessor and at the same time protect the state tax commission and the public.

10. Written Objections to Proposed Budgets.

Situation:

A recognized difficulty connected with annual budget hearings is the lack of objections by qualified individuals. Far too many citizens wait until they see their tax bill before they raise their objections.

To improve this situation it should be possible for a group of three or more electors to prepare a written statement setting forth their objections in detail. Such an orderly procedure would make possible the preparation of a detailed and carefully worded statement for consideration by the board or body which presented the budget for approval.

The Committee Recommends that:

Provision be made for three or more duly qualified electors to present a written statement of specific objections to a proposed budget at or before the regular budget hearing.

Proposed Bill No. 22:

WRITTEN OBJECTIONS TO LOCAL BUDGETS

Bill 22.

A BILL FOR

AN ACT relating to written objections to proposed local budgets.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Amend section twenty-four point twenty-six (24.26), Code 1954, by inserting after the word "have" in line seventeen (17) the following:

"filed a joint written objection, which shall include a detailed statement of the objections to said budget, expenditures or tax levy for each and every fund, or the items therein to which objection is taken and an analysis of the fund or funds, or items therein showing grounds for such objections or shall have".

Explanation

The bill permits persons who have objections to proposed local budgets to file their objections in writing.

F. TRANSPORTATION TAXES

1. Airline Flight Property Tax.

Situation:

Airlines pay no property tax on their airplanes while railroads, bus lines, freight car companies and other carriers do pay a property tax or registration fee on their rolling stock. A property tax on the flight property (airplanes) of airlines appears reasonable. Such a tax has been enacted recently in a number of states.

The Committee Recommends that:

Flight property of airlines be subjected to a personal property tax using the Council of State Governments model which includes an allocation formula that has been recommended by taxing authorities and is now in use in Nebraska and Wisconsin.

Explanation of Proposed Bill:

Assessment would be by the state tax commission in a manner similar to the assessment procedures used for railroads. First, the value of the flight property (airplanes) over the entire system of the airline is determined. Next, an allocation formula is applied to compute what portions of the system value should be assigned to Iowa for taxation. Then, sixty percent of Iowa's share for taxation is taxed at the average state property tax rate. Receipts go to the general fund.

The recommended bill basically is a copy of the model airline taxation Act of the Council of State Governments with minor adjustments to fit into the Iowa Code. The allocation formula used in both the Model Bill and the proposed Iowa Bill is a recommended uniform formula proposed by the National Association of Tax Administrators in 1947 and later approved by the Civil Aeronautics Board of the Federal Government. These groups recommend the use of this allocation formula to accomplish uniformity among the states.

The Nebraska and Wisconsin airline tax laws follow this model bill; these states also use the recommended uniform allocation formula.

The right of a state to tax the airplanes of airlines was upheld by the Supreme Court of the United States in Braniff v. Nebraska, 347 US 590, (1954). It is estimated this tax would have raised approximately $50,000 in Iowa in 1955. This should increase in future years. Costs of administration would be small.

Proposed Bill No. 23:

TAXATION OF AIRLINE FLIGHT PROPERTY

Bill 23.

A BILL FOR

AN ACT relating to the assessment and levying of a tax on the flight property of air carriers.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. As used in this Act:

1. The term "air carrier" means any firm, partnership, corporation, association, trustee, receiver, assignee, or other person or persons, whether or not in a representative capacity, which engages in the transportation of persons or cargo for hire by aircraft; but does not include;

a. An air carrier otherwise within the above definition which is engaged solely in intrastate transportation whose flight property is based at only one airport within the state; or

b. A foreign flag air carrier.

2. The term "aircraft" means any contrivance now known or hereafter invented, used or designed for navigation of or flight in the air for the purpose of transporting persons or property, or both.

3. The term "aircraft arrivals and departures" means;

a. In scheduled operations, the number of scheduled landings, takeoffs, air pickups and deliveries by the aircraft of an air carrier;

b. In nonscheduled operations, all landings, takeoffs, pickups and deliveries by the aircraft of an air carrier.

4. The term "originating revenue" means all revenue to an air carrier from the transportation of revenue passengers and revenue cargo not including mail, first received by such carrier either as originating or connecting traffic within a designated area.

5. The term "revenue tons handled" by an air carrier at an airport means the weight in tons of revenue passengers and revenue cargo including mail, first received either as originating or connecting traffic or finally discharged by such air carrier at an airport.

6. The term "flight property" means all aircraft and flight equipment used in connection therewith, excluding spare parts, and used within the continental limits of the United States.

Section 2. For the purpose of taxing the flight property of an air carrier, the value of the flight property subject to tax in this state shall be that proportion of the total value of its flight property as determined by the state tax commission on the basis of the arithmetical average of the following ratios:

1. The ratio which the aircraft arrivals and departures within this state by such air carrier during the preceding calendar year bears to the total aircraft arrivals and departures by such air carrier during the same period within the continental limits of the United States including this state.

2. The ratio which the revenue tons handled by such air carrier at airports within this state during the preceding calendar year bears to the total revenue tons handled by such carrier during the same period at airports within the continental limits of the United States including this state.

3. The ratio which such air carriers originating revenue within this state for the preceding calendar year bears to the total originating revenue of such carrier for the same period within the continental limits of the United States including this state.

Sec. 3. The state tax commission shall meet on the second Monday in July of each year and it shall thereupon assess and value the total flight property of each air carrier. Thereupon after ascertaining the actual value of such flight property of each air carrier, the tax commission shall determine in the manner provided for in section two (2) herein, the value of such flight property of such carrier allocated to this state for purposes of taxation. Sixty percent of the value of the flight property allocated to this state for purposes of taxation shall be assessed to such air carrier.

Sec. 4. The state tax commission shall also at said meeting determine the rate of tax to be levied upon and collected upon said assessments, which shall be equal as nearly as may be, to the average rate of taxes, state, county, municipal, and local, levied throughout the state during the previous year. Such rate shall be ascertained from the records and files in the state auditor's office.

Sec. 5 The air carrier shall be given actual notice of such assessment, rate of tax, and amount of the tax not later than ten days after determination of such has been made by the tax commission. The tax shall be due and payable to the state tax commission on the first day of February, following the levy thereof. If not so paid, the state tax commission shall collect the same by distress and sale of any property belonging to such air carrier in the state in the same manner as is required of a county treasurer in like cases. The order of the state tax commission in such cases shall be sufficient authority therefor. Such tax herein imposed shall be a personal debt of the air carrier in whose name the flight property is assessed and may be collected and enforced by garnishment proceedings for the collection of delinquent taxes as provided by section six hundred twenty-six point twenty-nine (626.29) or in any other manner provided by law. Any such delinquent tax shall carry interest at the rate of six percent per year which interest shall be a part of the tax.

Sec. 6. Each air carrier engaged in air transportation in this state shall on or before the first day of May, each year make to the state tax commission a report, in such form as the tax commission may prescribe, containing such information as may be required by the tax commission as necessary for the tax commission to determine the value of the flight property of such air carrier and the proportion of the value of such flight property allocated to this state for purposes of taxation.

Sec. 7. For the purposes of assessing the value of the flight property of an air carrier and determining the proportion thereof allocated to this state, the state tax commission may require such air carrier, its agents, officers, or employees, to appear before the state tax commission with such books, papers, records, or additional statements, including copies of any return, report, or statement made to the United States or any state for any year, whether such books, papers, records or additional statements are the property of or in the possession of the air carrier or any other person.

Sec. 8. If any air carrier shall refuse or willfully neglect wholly or in part to make the report to the state tax commission required by section six (6) herein, or shall neglect wholly or in part to produce any books, papers, records, or additional statements when required by the state tax commission under the provisions of section seven (7) herein, the state tax commission shall determine and assess the tax provided for herein against the air carrier according to the best judgment of the tax commission on available information. In such case the state tax commission may add to the assessment of this tax, a penalty not to exceed twenty-five percent of the assessment. Such air carrier shall be estopped to question or impeach such assessment or determination, except on proof of fraud by the state tax commission.

Sec. 9. All revenues arising from the tax imposed herein shall be credited to the general fund of the state.

Sec. 10.

1. Real property and personal property, except flight property, of an air carrier shall be taxed in accordance with the applicable laws of this state.

2. The aircraft registration fee imposed by sections three hundred twenty-eight point twenty (328.20) and three hundred twenty-eight point twenty-one (328.21) shall not apply to air craft of an air carrier subject to the tax herein imposed upon flight property of air carriers.

Sec. 11. Section three hundred twenty-eight point twenty (328.20), Code 1954, is hereby amended by inserting in line three (3) after the word "unless" the words, "subject to the tax on flight property of air carriers or".

Sec. 12. Section three hundred twenty-eight point twenty-one, (328.21), Code 1954, is hereby amended by striking subsection four (4).

Sec. 13. Section three hundred twenty-eight point twenty-five (328.25), Code 1954, is hereby amended by inserting in line four (4) after the word "except" the words, "the tax on flight property of air carriers, and".

Sec. 14. Section three hundred twenty-eight point thirty-five (328.35), subsection three (3), Code 1954, is hereby amended by striking from lines three (3) and four

(4) the words, ", except as provided in subsection 4 of section 328.21".

Sec. 15. This Act shall be effective on and after January 1, 1957.

Explanation

The purpose of this bill is to place a state property tax on flight property of air lines. Revenue from this tax would be put in the state general fund.

2. Repeal of Allocation of 10 Percent of Sales Tax Revenue for Highway Purposes and Continuation of 5th and 6th Cent Gasoline Taxes.

Situation:

Under present law 10 percent of the net receipts from the retail sales tax are transferred to the road use tax fund. This provision was enacted on the assumption that roughly 10 percent of retail sales involves articles connected with motor vehicles such as tires, oil, batteries, accessories and similar items. Also, this provision was enacted in 1949 when the need for highway funds was of an emergency character.

The need for road funds is still pressing; this apparently can always be justifiably claimed. But, on the other hand, an unbiased evaluation of the needs of state and local governments indicates that there are other pressing needs, one of which is more critical than money for highways. This is the paying for our state and local school costs. These costs are increasing rapidly. So far as financing of local schools is concerned, if additional aid from the state is not given, property taxpayers will have to pay the full brunt of the increased costs.

Increased motor vehicle registrations and increased gasoline sales are providing a larger highway-users tax base. Therefore, without an increase in rates, Iowa is getting more money for its highways. Also, revenues of the primary road fund have increased $16 million due to the 5th and 6th cent gasoline taxes enacted during the 1953 and 1955 legislative sessions.

Federal aid allotments have also jumped considerably —from $12.5 million in 1955 to $18.8 million in 1956. This does not consider the federal aid for the new interstate program, which it is estimated will amount to about $35 to $40 million annually beginning in 1958. County road levies have leveled off at about $31 million annually for the past four years.

At the 2½ percent sales tax rate, 10 percent of the annual revenue totals about $6.9 million annually. At the 2 percent rate, this portion amounted to about $5 million.

Taking into account the increased gas tax levies, increased federal aid, and the increased number of motor vehicles and amount of gasoline sold in Iowa, it appears reasonable to conclude that the sales tax money is not as urgently needed as would be the case if it were not for these additional revenues for our highways.

The Committee Recommends that:

The present allocation of 10 percent of the net receipts of the sales tax for the road use tax fund be repealed and instead make this money available for state general fund appropriations.

The 5th and 6th cent gasoline taxes for primary road purposes which were enacted during the 1953 and 1955 legislative sessions should be continued and the revenues be used for the same purposes for which they are now used.

Proposed Bill 24:

REPEAL OF 10 PERCENT OF SALES TAX FOR HIGHWAYS.

Bill 24.

A BILL FOR

AN ACT to amend section four hundred twenty-two point sixty-two (422.62), Code of Iowa 1954, relating to the sales tax and repealing the provision of said section providing for the allocation of ten percent of the receipts collected under Division IV of chapter four hundred twenty-two (422) relating to the allocation of sales tax funds to the road use tax funds.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-two point sixty-two (422.62), Code of Iowa 1954, is hereby amended by striking therefrom the second sentence being: "Ten percent of the net receipts collected under Division IV of this chapter shall be credited by the treasurer of state to the road use tax fund." Also by striking from line ten of the same section the words "remainder of the".

Explanation

The purpose of this bill is to stop the practice of earmarking for highway purposes 10 percent of the money collected from the state sales tax. Instead, this money would be put in the state general fund.

3. Repeal of Compensation Tax and Enactment of Five Dollar Fee on Trucks Weighing at Least 8,000 Pounds, Except Farm Trucks, Unsold Trucks Owned by Dealers, and Certain Other Exceptions.

Situation:

Almost without exception, trucks from out-of-state are not charged any Iowa motor vehicle taxes except the gasoline tax. Although common and contract carriers (commercial truckers) must file information with the state commerce commission about their truck operations in Iowa and must have insurance or surety bonds, Iowa does not have information about the operation of trucks in this state by private carriers, nor are private carriers required to have insurance.

Because of the change in the compensation tax law in 1951 and subsequent reciprocity agreements, this tax, which applies only to certificated carriers, is now paid exclusively on busses and on trucks of certificated carriers which make intrastate trips. The compensation tax is not charged to trucks of certificated carriers used on interstate routes.

Instead of the compensation tax, some of these interstate carriers register some of their trucks in Iowa and pay the Iowa motor vehicle fee. However, neither the Iowa registration fee nor compensation tax is paid on most of these trucks.

The facts are that (1) certificated carriers who operate trucks in interstate commerce are not being taxed uniformly by Iowa; (2) the certificated carriers who are supposed to be registering portions of their fleets in Iowa are not doing so to the extent the law apparently requires; (3) the compensation tax law has proved difficult to enforce both prior to and after the 1951 legislation, and (4) from all indications Iowa receives less revenue today from these certificated carriers who operate interstate than was received prior to the change in the 1951 law.

(See Iowa Legislative Research Bureau Bulletin No. 3. The Iowa Department of Public Safety also has compiled information on this Subject.)

A research study now in progress will show how much other states' trucks use Iowa's highways and how much Iowa's trucks use other states' highways. This report is being prepared for the Iowa Budget and Financial Control Committee by the Iowa State Highway Commission and Legislative Research Bureau. This information will be helpful to the legislature in deciding truck tax policies and will aid reciprocity authorities in making agreements, particularly prorating agreements, with other states.

The Committee Recommends that:

The compensation tax be repealed.

A permit be required and a five dollar fee be charged on all trucks of 8,000 pounds or more (gross weight) operated in Iowa. Evidence of insurance be required before the permit is issued. The permit, fee and insurance not be required of certain trucks weighing 8,000 pounds or more.

The provision in section 321.56, Code 1954, which permits Iowa reciprocity authorities to make prorating truck tax agreements with other states be retained. These agreements could be made applicable by the reciprocity authorities to all trucks regardless of whether the carrier is a common, contract or private hauler.

Explanation of Proposed Bill:

The compensation tax, which is levied on trucks of certificated carriers but which does not apply to other truck owners, would be repealed. In its place, a five-dollar annual fee would be levied on each truck for the privilege of using Iowa's highways. This fee would apply to both Iowa and out-of-state registered trucks which travel in Iowa. The only trucks exempted would be implements of husbandry and farm trucks and certain other minor exemptions of trucks not subject to the motor vehicle registration, (a dealer's stock of trucks for sale; a newly purchased truck owned by a non-resident and being removed from the state or crossing the state to the owners home state; government owned trucks; plant or factory trucks not used on the highway; trolley busses, and equipment of the type of road construction or ditch digging machinery).

A permit would not be issued without proof of liability insurance and compliance with safety laws.

In effect, this extends to trucks of 8,000 pounds or more the five dollar annual fee now charged truck operators and contract carriers. Trucks whether owned by certificated carriers, contract carriers or truck operators, or private business or persons would pay the same fees for use of the highways. A claimed tendency of the present laws to encourage registration of Iowa trucks in other states would be checked by the equal application of the fee to both Iowa and out-of-state trucks.

Numerous decisions of the U. S. Supreme Court support the constitutionality of such a state fee for the use of its highways by out-of-state trucks engaged in interstate commerce. In fact, Iowa trucks are now charged similar fees by a number of states.

Permits would be issued by the commerce commission. A twenty-five dollar filing fee would be charged each truck owner, but only for the first time he obtained the annual permit for his truck or trucks. This will help to support the cost of receiving and classifying the factual information that the truck owner will be required to provide the commerce commission. This will provide, for the first time, information and statistics concerning the trucking industry which will be of great value to the commerce commission, highway commission, and especially to the public safety department in making motor vehicle registration reciprocity agreements with other states.

Although an exact estimate of the revenue from this act cannot be made, such revenue will, beyond doubt, be somewhat in excess of the revenues now collected due to the compensation tax law.

It should be made clear this proposed five dollar permit fee applies to both Iowa and out-of-state trucks; the fee **cannot** be waived for out-of-state trucks through reciprocity agreements. This non-waiver principle for out-of-state trucks is the very essence of the bill; to permit the fee to be waived would eliminate most of the revenue which could be expected from enactment of the bill as recommended.

Proposed Bill No. 25:

REPEAL COMPENSATION TAX AND IMPOSE FIVE DOLLAR PERMIT FEE ON ALL TRUCKS WEIGHING 8,000 POUNDS OR MORE, EXCEPT FARM TRUCKS AND OTHER MINOR EXCEPTIONS.

Bill 25

A BILL FOR

AN ACT to require an annual permit and payment of a permit fee for the use of the highways of the state of Iowa by motor trucks, truck tractors and road tractors operated within this state, whether in interstate or intrastate commerce, and amending and repealing certain provisions of the Code relating to permits and fees and taxes presently paid for use of the highways by such motor trucks.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Chapter three hundred and twenty-six (326), Code 1954, is hereby repealed and the provisions of sections two (2) to fourteen (14) of this Act enacted in lieu thereof.

Sec. 2. 1. When used in this Act, the term "motor truck" shall mean any motor vehicle or other self-propelled vehicle or device, including, but not limited to, any automobile, automobile truck, truck tractor, road tractor, or motor bus, designed primarily for drawing a trailer or other vehicle or for carrying livestock, merchandise, freight of any kind, or over seven persons as passengers; but not including any vehicle operated upon fixed rails or tracks, or propelled by electric power obtained from overhead trolley wires, or without motive power and designed to be drawn by another vehicle.

2. When used in this Act, the term "owner" means a person who holds the legal title of a motor truck or in the event a motor truck is the subject of an agreement for the conditional sale or lease thereof with the right of purchase upon performance of the conditions stated in the agreement and with an immediate right of possession vested in the conditional vendee or lessee or in the event a mortgagor of a motor truck is entitled to possession, then such conditional vendee or lessee or mortgagor shall be deemed the owner for the purpose of this Act.

Sec. 3. On and after the first day of January 1, 1958, it shall be unlawful for any person to drive or operate any motor truck on the highways of this state or for the owner of any such motor truck to cause or knowingly permit such motor truck to be driven or operated on such highways unless a valid and current annual permit for operation of such motor truck on the highways shall have been obtained, upon payment of all required fees and penalties, from the state commerce commission or unless the sticker or place evidencing such permit is displayed upon such motor truck in the manner prescribed by the commission. Any violation of this section is a misdemeanor punishable as provided in section twelve (12) of this Act. This section shall not apply to:

1. Motor trucks, if the gross weight of such motor truck and any vehicle drawn by such motor truck plus the maximum load to be carried on such motor truck and any such drawn vehicle is less than eight thousand (8,000) pounds.

2. Any motor truck owned and controlled by any farmer, farm landlord, farm tenant, or farm employee and used exclusively as an incident to the principal business of farming or livestock raising for the private and not for hire transportation of agricultural or dairy products, or other farm products while owned by the producer, including landlord and tenant, from farm to market, ware-

house, dairy, or shipping terminal, or for such private and not for hire transportation of such items, and machinery, materials and supplies necessary for farm operation and while owned by a farmer, farm landlord, farm tenant or farm employee from market, warehouse, or shipping point to farm or from one farm to another, or for the transportation of agricultural or dairy products, or other farm products while owned by the producer of the products, including landlord and tenant, from a farm to a fair or exhibit and return.

3. Any such motor truck which, under the provisions of chapter three hundred and twenty-one (321) of the Code relating to manufacturers, transportors and dealers or under the provisions of subsections two (2), three (3), four (4), five (5) and six (6) of section three hundred and twenty-one point eighteen (321.18) of the Code, is not subject to motor vehicle registration.

4. Any such motor truck which has been purchased by a nonresident of Iowa in this state or any other state not the owner's state of residence, which motor truck, while empty, is crossing or being removed from Iowa on a direct route to the owner's state of residence, and for which motor truck a transit plate has been purchased under the provisions of section three hundred and twenty-one point one hundred and nine (321.109) of the Code or if such motor truck was purchased in another state, the applicable laws of that state regarding newly purchased motor trucks in transit have been complied with and all appropriate fees of such state have been paid.

5. Motor trucks for which the permit fee required under the provisions of section three hundred and twenty-seven point nine (327.9), of the Code, as amended, has been paid. The permit and filing and permit fees provided by such section shall be in lieu of the permit and filing and permit fees required by this Act.

6. Motor Trucks owned by the United States, any state, or any political subdivision thereof.

Sec. 4. This Act shall apply to motor trucks operated in interstate and foreign commerce upon the highways of this state, in all particulars and provisions as may be lawful under the Constitution of the United States. The permits and permit and filing fees required by this Act shall not be subject to waiver through reciprocity agreements. Such permits and fees for the operation on the highway of this state of motor trucks operating in interstate and foreign commerce shall be required as partial compensation for the use of the highways of this state and for the policing of such highways.

Sec. 5. Annual motor truck permits shall be valid from the first day to the last day of the year for which the permit was issued. A numbered sticker or plate shall be issued with each permit and shall be attached to the motor truck for which the permit was issued in such manner as prescribed by the commission.

Sec. 6. 1. Application for permits shall be made by the owner of such motor truck or trucks to the state commerce commission in writing on such form as shall be provided by the commission. The applications for permits for all motor trucks subject to this Act owned by such owner on the first day of January of each year shall be due on or before the fifteenth day of January of such year. Applications for motor trucks which are purchased by such owner or which otherwise become subject to this Act after the first day of January shall be due on or before the fifteenth day following the day such motor truck was purchased or became subject to this Act.

2. The original application by any owner for a motor truck permit or permits shall be accompanied by a filing fee of twenty-five (25) dollars and each such original and all subsequent applications shall be accompanied by a filing fee of five (5) dollars for each motor truck for which a permit is requested in such application. Subsequent applications by the same owner shall not require the payment of the filing fee so long as such owner shall apply for a permit for at least one truck at sometime during each consecutive subsequent year. If such owner shall in any subsequent year, not apply at some time during such year for at least one permit, then the next application by such owner shall be an original application and payment of the filing fee shall be required.

3. The commission shall not issue a permit for any motor truck, until and after the applicant has filed with the commission:

(a) A statement that all motor trucks owned by him, for which a permit has been requested, comply with all safety standards regarding motor trucks and the equipment thereof which are contained in any applicable law or regulation of the United States or State of Iowa; and

(b) evidence of insurance or financial responsibility for each such motor truck in the same form, manner, extent, coverage and limits of liability as required in section three hundred twenty-seven point fifteen (327.15), of the Code, or if the owner of the motor truck is a "certificated carrier" under the provisions of chapter three hundred and twenty-five (325) as required in section three hundred and twenty-five point twenty-six (325.26) of the Code. No other or additional insurance or bond shall be required of a motor truck owner by any city, town or other agency of this state. Further, the commission shall not issue a permit to any applicant who has failed to submit with an application any other information or factual statements required by the commission.

4. If any motor truck for which a permit has been issued is sold or transferred to a new owner, the new owner shall make application to the commission within fifteen (15) days of such sale or transfer for the transfer of the permit. Such application shall be made upon such form as shall be provided by the commission. No fee shall be charged for such transfer except that a filing fee shall be required for such application if it is an original application as defined in subsection two (2) of this section for which payment of the twenty-five (25) dollar filing fee is required. Upon receipt of such application, the commission shall transfer the permit and issue a new sticker or plate.

Sec. 7. If any application for a motor truck permit or permits or application for transfer of such permit or permits shall not be received together with all required fees by the commission on or before the due date specified for such application, such late application shall be subject to and require the payment of a penalty. The penalty shall be two (2) dollars per each motor truck for which a permit or transfer of a permit is requested in such application for each month or fraction thereof elapsing between the due date and the time such application together with all required fees and penalties is received by the commission. This penalty shall not be waived and shall be in addition to all other punishments as may be provided for conviction of a violation of the provisions of this Act.

Sec. 8. Upon receipt of a properly executed application for a permit or permits or a transfer of such permit or permits together with all required proofs of compliance with this Act and payment of all required fees and penalties, the commission shall, without further proceedings, issue or transfer such permit or permits. However, if it shall appear that applicant shall, in any previous year or years, fail to obtain any required permit or transfer of a permit for any motor truck listed in such application, the commission shall withhold action on such application until all required fees and penalties for such previous year or years are paid.

Sec. 9. Failure to keep the insurance for any motor truck required by this Act in force at all times shall

cause the permit for such motor truck to be revoked. For violation by any motor truck owner of the safety standards regarding motor trucks and the equipment thereof which are contained in any applicable law or regulation of the United States or of the state of Iowa, or for violation by a motor truck owner of any provision of this Act or any rule or regulation promulgated thereunder, the commission, may, in addition to the other penalties herein provided, suspend or revoke and cancel any or all motor truck permits held by such owner.

Sec. 10 All fees and penalties provided in this Act shall be and constitute a lien against the motor truck for which they are payable until such time as they are paid in full. Such lien shall attach at the time such fee or penalty is due. Such fees and penalties shall also be a personal debt of the owner and may be collected by suit. The collection of such fees and penalties may be enforced against the motor truck against which they constitute a lien by the delivering by the commerce commission to the sheriff of the county in which such motor is registered, or to the sheriff of any county if such motor truck is not registered in this state, of a certified notice of such delinquent penalties and fees. The sheriff shall proceed to collect such fees, penalties, and cost of collection in the same manner as provided in chapter three hundred and twenty-one (321) for the collection by the sheriff of delinquent motor vehicle registration fees, penalties and costs. The certified notice shall for all purposes be a sufficient warrant for such action.

Sec. 11. The commission is hereby empowered to make such rules and regulations as may be necessary to carry out and enforce this Act and to require each applicant for the issuance or transfer of a permit to submit under oath such information with his application as the commission deems necessary or desirable for the enforcement, by the commission or other agency of the state, of this Act or any other law of the state.

Sec. 12. It is a misdemeanor for any person to violate any of the provisions of this chapter unless such violation is by other law of this state declared a felony. Upon conviction for violation of any of the provisions of this Act the person so convicted shall be punished by imposition of fines as follows: For the first offense thirty dollars; for the second offense one hundred dollars; for the third and all subsequent offenses five hundred dollars.

Sec. 13. All revenues received under this Act shall be remitted by the commission to the treasurer of state within fifteen days after the close of each quarterly period of each calendar year. Such revenues shall be credited to the road use tax fund.

Sec. 14. The enactment of this Act by the General Assembly constitutes a finding of fact by the General Assembly that the provisions of this Act are necessary and required for the effective policing and regulation of the highways of this state and the motor traffic thereon in the interests of the public safety and the enforcement of the laws of this state.

Sec. 15. Section three hundred and twenty-seven point nine (327.9), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"Each original application shall be accompanied by a filing fee of twenty-five dollars and an annual permit fee of five dollars for each motor truck to be operated under such permit. Thereafter, no permit shall be continued in force until the holder thereof shall have paid to the commission, the annual permit fee of five dollars for each motor truck operated under such permit. So long as such permit shall remain continuously in force, subsequent payments of the filing fee shall not be required. If in any year, an annual permit fee is not paid for at least one truck operated under such permit, or such permit shall be revoked, or in any other way lapse or be cancelled, the next subsequent application by the holder shall require payment of the twenty-five dollar filing fee in addition to any other fees imposed by this chapter. The filing fee and permit fees imposed by this chapter shall be in lieu of the filing fee and permit fee imposed by and permits issued under chapter three hundred twenty-six (326) as re-enacted."

Sec. 16. Section three hundred and twenty-seven point fourteen (327.14), Code 1954, is hereby amended by adding to the end of such section the following: "No fee shall be charged in the case of such sale, transfer, lease, or assignment, except that if the person to which such permit is so sold, transferred, leased, or assigned is not at the time of such transaction already a holder of a permit issued under this section such person shall be required to pay, before such transaction shall be valid, the original filing fee of twenty-five (25) dollars to the commission."

Sec. 17. Section three hundred and twelve point one (312.1), Code 1954, is hereby amended by striking subsection three (3) and inserting in lieu thereof the following: "All revenue derived from motor truck permits under chapter three hundred twenty-six (326) as re-enacted."

Sec. 18. Section four hundred and seventeen point fifty-four (417.54), Code 1954, is hereby amended by striking from line seven (7) of subsection four (4) thereof the word and figures, "and 326.2".

Explanation

The purpose of this bill is to repeal the compensation tax on trucks of certificated carriers and to require Iowa and out-of-state truckers who operate trucks in Iowa to pay a five dollar permit fee on each of their trucks. Evidence of insurance would be required before a permit would be issued. All trucks less than 8,000 pounds gross weight, farm trucks, and certain other trucks are exempted from the Act.

4. Three-member Reciprocity Board on Truck Taxation.

Situation:

At least three state departments are concerned with truck taxation and enforcement of truck laws. These are the department of public safety, the commerce commission and the highway commission. It is evident that cooperation between these departments is necessary and should be encouraged.

At present, the commissioner of public safety is authorized to make agreements with other states about the reciprocal waiving of motor vehicle registration fees on out-of-state vehicles. These agreements must be approved by the attorney general. The commerce commission has authority to make agreements with other states to waive the Iowa permit fee on out-of-state trucks of truck operators and contract carriers operated in Iowa.

On several occasions, this Committee has been requested to study the necessity and economy of truck law enforcement being split among four state departments, (the motor fuel tax division, in addition to the above-listed departments). The Committee has referred this matter to the Governmental Reorganization Study Committee, also created by the 56th General Assembly, which was directed to study organization matters such as this.

The Committee Recommends that:

A reciprocity board be established to handle all motor vehicle reciprocity matters.

Explanation of Proposed Bill:

The proposed bill would establish a reciprocity board composed of representatives from the department of public safety, highway commission, and commerce commission. This board would replace the public safety commissioner as the authority empowered to make reciprocity

agreements. The board would have no appropriation or staff of its own; it would operate with the present staff and facilities of the public safety department and other departments. The attorney general is required to give legal assistance to the board, but no longer must approve each agreement.

Proposed Bill No. 26:

TO CREATE A RECIPROCITY BOARD ON TRUCK TAXATION.

Bill 26.

A BILL FOR

AN ACT to establish a motor vehicle reciprocity board to make and administer reciprocity agreements with other states regarding registration of motor vehicles and certain permit fees imposed upon motor trucks.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section three hundred twenty-one point fifty-six (321.56), Code 1954, is hereby repealed and the following enacted in lieu thereof:

1. A board, to be known as the motor vehicle reciprocity board, is hereby established to be located at the seat of government. The board shall have three members who shall be: A member of the state highway commission, to be designated by the state highway commission; a member of the state commerce commission, to be designated by the state commerce commission; and the commissioner of public safety. Each member of the board may appoint from the officials of his department a deputy member who shall, in the absence of such member, act as a member of the board with the full powers, authority and responsibility of such member. The duties of the members of the board and their deputies shall be in addition to their regular duties and they shall receive no additional compensation. The board shall maintain no staff, but shall use the staff, facilities, and personnel of the public safety department and the highway and commerce commissions. The attorney general or any assistant attorney general designated by him shall give legal counsel and assistance to the motor vehicle reciprocity board.

2. The motor vehicle reciprocity board shall have authority to make reciprocity agreements with the duly authorized representatives of any county, state, territory or federal district exempting the residents of such county, state, territory or federal district using the highways of this state from the registration requirements of this chapter with such restrictions, conditions, and privileges or lack of them as such board may deem advisable provided the residents of this state when using the highways of such other state shall receive exemptions of a similar kind to a like agreement. Such agreements may provide for the denial of registration exemption to one or more particular nonresidents at any time if in the opinion of the board such nonresidents should not be granted exemption privileges. Notwithstanding any provisions of the chapter to the contrary or inconsistent herewith such agreements may provide with respect to resident or nonresident fleets of two or more commercial vehicles which are engaged in interstate movement, that the registrations of such fleets be apportioned between this state and the other states in which such fleets operate. The percentage of miles such fleets operate in all states, shall be used by the board to determine what percentage of the total number of vehicles in such fleets are to be registered in this state. When a vehicle has been licensed in one of the reciprocating states under an agreement as provided herein, such vehicle shall not be subject to licensing in the other reciprocating state.

3. The board may require fleet owners to submit under oath such information as the board deems necessary for the proper carrying out of the provisions of this section and the board's determination of the number of vehicles in fleets subject to this section to be registered in this state shall be final.

4. Any nonresident motor vehicle, trailer, or semitrailer shall be subject to all laws, rules and regulations governing the operation of such vehicles on the highways of this state and violations of such laws, rules or regulations by any carrier may be a ground for denial of registration exemption to such carrier. The registration number plates assigned and furnished to any foreign-licensed motor vehicle, trailer, or semitrailer for the current registration year by another state where the same is licensed shall be displayed on such motor vehicle, trailer, or semitrailer substantially as provided in this chapter for vehicles registered pursuant to the provisions thereof.

5. Nothing herein contained shall authorize the waiving of the registration requirements of this chapter relating to motor vehicles operated within this state in intrastate commerce.

Sec. 2. Section three hundred twenty-seven point ten (327.10), Code 1954, is hereby amended by striking from line one (1) thereof the words "Iowa state commerce commission" and inserting in lieu thereof the words "motor vehicle reciprocity board established under the provisions of section three hundred twenty-one point fifty-six (321.56)" and by striking from line ten (10) thereof the word "commission" and inserting in lieu therof the word "board".

Explanation

The purpose of this bill is to substitute a three-man reciprocity board for the present administrative setup for making motor vehicle reciprocity agreements with other states. Additional state employees would not be needed.

5. Fiscal, Administrative and Engineering Survey of Iowa's Highways, Roads and Streets.

Situation:

About $90 to $95 million is now collected for the state road use tax fund each year for distribution among the highway commission, the counties and the municipalities of the state. In addition, $16 million is collected each year from the additional two cent gasoline taxes imposed in 1953 and 1955; this is used on our primary highways.

The present allocation of the $90 to $95 million is 15 percent for farm-to-market roads, 35 percent for other secondary roads, 42 percent for primary highways and 8 percent for municipalities. The Iowa League of Municipalities and the Iowa Good Roads Association have recommended that the municipal share of these funds be made larger.

This formula for division of state road-user tax collections was enacted in 1949 after a special legislative committee on highways recommended that the formula be 48.5 percent for primary highways, 15 percent for farm-to-market roads, 30 percent for other secondary roads and 6.5 percent for municipalities. The present formula for dividing this money among the four road systems is not based on any actual measurement of the relative needs of these systems.

It is the belief of this Committee that state road use tax collections should be divided among the various road systems on an equitable and justifiable basis. This means that some yardstick, or yardsticks, must be found upon which to base the formula. What this yardstick should be, this Committee is not able to say.

What is vitally needed, however, is an engineering survey of all of Iowa's highways, roads and streets to determine where the traffic is, where the road deficiencies are

and what the future needs are likely to be. This information is not now available, and the Committee believes the general assembly should get and use these facts if the formula for distribution of funds to the various road systems is to be changed.

In its study the Committee has found that an engineering survey of municipal streets has never been made. This should be done, especially in view of the trend in Iowa toward a larger part of our population living in cities and the traffic congestion in our middle-sized and larger communities.

The committee sent a questionnaire to all cities and towns in Iowa to ask about their construction needs. From the replies of 44 cities and about 200 towns, the following was concluded: (1) a thorough engineering survey is necessary; (2) there is a very real need in the larger communities where primary extensions are only a small part of a city's road mileage and (3) there is concern about paying for these construction costs through property taxation and special assessments.

Another matter has convinced the Committee that the legislature should take a new look at the financing and administering of our highways, roads and streets. This is the greatly increased amounts of federal aid Iowa will be receiving in the near future. (In 1955, Iowa was allotted $12.5 million; in 1956 this was increased to $18.8 million. In addition to this, the new federal interstate highway aid will amount to about $35 million in 1958 and about $40 million in 1959).

Two years from now, Iowa will have about $200 million a year available for road purposes. This undoubtedly will have a tremendous effect on the manpower and other resources of this state and the planning of our entire road system. The Committee believes that an engineering, fiscal and administrative study will be very beneficial to all to point out where we are and what we need to do to make certain this money is put to the best use possible for all the citizens of Iowa.

The Commitee Recommends that:

A special interim committee be created by the 57th General Assembly to make a fiscal, administrative and engineering survey of Iowa's highways, roads, and streets.

Proposed Resolution (Bill No. 27):

JOINT RESOLUTION TO CREATE A HIGHWAY NEED STUDY COMMITTEE.

JOINT RESOLUTION

A Joint Resolution to create a special committee to make a fiscal, administrative and engineering survey of Iowa's highways, roads and streets.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. An eleven (11) member study committee is created to make a comprehensive fiscal, administrative and engineering survey of Iowa's highways, roads and streets. This committee shall be composed of three (3) members of the senate to be appointed by the president of the senate, three (3) members of the house to be appointed by the speaker of the house, two (2) municipal officials chosen by the governing board of the Iowa League of Municipalities, a county supervisor chosen by the Iowa County Supervisors' Association, a county engineer chosen by the Iowa County Engineers' Association, and a member of the state highway commission chosen by the commission. Should any vacancy appear on the committee, the person or authority originally appointing the member whose position is vacant, shall appoint a successor.

Sec. 2. The committee shall choose a chairman from its members and shall adopt rules for the conduct of its meetings. The committee is authorized to employ a secretary and such other aids and employees as are necessary to conduct its business and to fix the compensation of the secretary and other employees. The committee may hold public hearings, shall have access to all official records, may subpoena witnesses and compel the production of books, papers, or other documents pertaining to its investigation and study. Witnesses shall be entitled to witness fees and actual travel expenses as audited and approved by the committee. The committee may appoint subcommittees of one or more members to hold hearings and conduct investigations in any part of the state. Any member of the committee shall have the power to administer oaths.

Sec. 3. This committee shall have the duty and authority to study any aspect of the service of providing roads for Iowa citizens. The study shall be concerned with all primary highways, including interstate highways; all secondary roads, including farm-to-market roads; and municipal streets. Special attention should be given to the following:

(1) An engineering study of the present deficiencies and the future needs of all highways, roads and streets in the state; (2) A finance study to determine the adequacy of highway revenues, both state and local, to meet these deficiencies and needs; (3) A management study to determine the ability of the state, counties and cities and towns to plan and spend close to two hundred million dollars ($200,000,000) annually in highway revenues in a sound and efficient manner; (4) A safety study to determine what is being done and what more can be done to make Iowa's roads safer; (5) An analysis of the highway, road and street laws to determine how these can be strengthened to enable highway administrators to do a better job.

Sec. 4. The committee shall make recommendations to the fifty-eighth general assembly on matters of management, financing, safety, construction and maintenance of our highway system. These recommendations shall include, but shall not be limited to, the following:

(1) A recommendation for sound legislative policies and management practices to be followed in primary highway construction and maintenance in view of the increase in federal funds for interstate highways;

(2) A recommendation for an equitable basis for distribution of state highway revenues so that this money will be spent where it is most needed;

(3) A recommendation for techniques to be used to get closer cooperation between the state and local units in planning and constructing our highways, roads and streets.

Sec. 5. The committee shall have the authority to utilize the facilities of the state highway commission and other state and federal agencies to complete this study and shall seek the cooperation of county road and municipal street officials. The highway commission may, with the approval of the committee, employ the necessary engineering and other technical assistants to complete the study.

Sec. 6. Members of the committee shall be reimbursed for the actual and necessary expenses incurred by them in the discharge of their duties. In addition, committee members shall be paid such amounts as the fifty-eighth general assembly may allow.

Sec. 7. The report of this committee and all proposed bills shall be submitted to the governor and all members of the general assembly at least two months prior to the convening of the general assembly in 1959.

Sec. 8. There is hereby appropriated from the road use tax fund, the sum of ten thousand dollars ($10,000), or so much thereof as may be necessary, to carry out the

provisions of this Act; the compensation of the employees of the committee and for expenses of such committee and its members as provided herein, to be paid out of the state treasury on vouchers to be approved by the chairman or secretary of the committee and audited according to law. There is further appropriated from the road use tax fund such sum as may be approved by the budget and financial control committee upon request of the committee herein created to the state highway commission to be used to pay the cost of any study or research conducted by the highway commission for the committee and to pay the cost of any engineering or technical assistants or personnel employed for such purpose by the commission. The committee herein created and the highway commission are authorized and empowered on behalf of the state to enter into any arrangement or contract with and required by the duly constituted federal authority in order to secure the full cooperation of the government of the United States, and the benefit of all present and future allotments of federal funds in aid of highway construction, reconstruction, improvement or maintenance that may be available for utilization to pay or partly pay the cost of the committee and its functions. The committee and the highway commission are authorized and empowered subject to the approval of the budget and financial control committee to pledge and make available and expend sufficient funds as may be required to equal the total of any sums apportioned and granted to the state for highway purposes by the United States government which may be utilized as provided above.

Explanation

The purpose of this resolution is to create an interim highway study committee composed of legislators and state and local highway officials. The committee would be given broad authority to determine the needs of the entire highway, road, and street system in Iowa.

G. STATE FUND INVESTMENTS

Situation:

The Committee examined the various fund balances of the State to determine the extent to which such balances could be invested to earn income for the State. Two significant points were revealed. First, substantial inactive balances existed which could be invested either in short term government securities or in certificates of deposit with Iowa banks. For example, inactive balances of approximately $14 million were found to be distributed on deposit among banks of the state but not drawing any interest.

The second important point was that present law makes investment of funds permissive but not mandatory.

On the request of the Committee, the State Comptroller and State Treasurer provided the following information covering fund balances:

Table 4

Net Cash in State Treasury at End of Each Month
(in millions of dollars)

	1954-55			1955-56		
	Consututional Cash*	Other Cash	Total Net Cash	Constitutional Cash*	Other Cash	Total Net Cash
July	$20.6	$30.4	$51.0	$40.6	$18.0	$58.6
August	19.8	32.3	52.1	43.6	23.8	67.4
September	18.0	23.9	41.9	39.5	22.0	61.5
October	19.9	23.4	43.3	36.9	26.2	63.1
November	21.9	27.9	49.8	38.7	20.2	58.7
December	20.7	13.0	33.7	37.2	14.2	51.4
January	19.6	17.8	37.4	38.6	17.9	51.5
February	20.8	27.0	47.8	36.4	33.0	69.4
March	22.8	14.2	37.0	39.0	15.1	54.1
April	25.4	19.9	45.3	35.2	30.7	65.9
May	28.3	39.1	67.4	44.3	43.3	87.6
June	27.5	33.3	60.8	43.5	42.6	86.1

(*) Chiefly primary and farm-to-market road funds.

The large increase in the balances of 1956 over 1955 is chiefly highway funds which are not part of the general cash of the State, but are specifically allocated for road purposes. Although these road fund balances were large in May and June of 1956, they were reduced to a low figure in the fall of 1956, as payments were made on highway projects. This illustrates the varying cash balance situation and the need for a system of investing large sums for short periods.

Cash balances represent slightly more than one-half the total of all state funds, cash and invested, in 1956 (Table 5). Of the total of invested funds, $54.6 million belongs to the Public Employees' Retirement Fund in 1956.

Table 5

State Fund Balances, June 30, 1955, 1956, Invested and Not Invested
(in millions of dollars)

	1955		1956	
Cash				
Cash on Hand	$ 0.1		$ 0.1	
Depository Banks (Active	47.1		72.0	
Depository Banks (Inactive)	13.6		14.0	
Total Cash on Hand and in Banks		$60.8		$86.1
Investments				
General	$28.0		14.9	
Trust and Specials	44.7		62.8	
Total Investments		$72.7		$77.7
GRAND TOTAL		$133.5		$163.8
Motor Vehicle Funds in County Treasuries		$ 16.9		$ 14.2

Vehicle license fees deposited in county treasuries is another state fund balance that deserves attention, as indicated by Table 5. The present law allows these funds to be withdrawn by the state when needed.

The cash funds of the state are of three types:

(1) Inactive accounts.
(2) Active accounts.
(3) State funds in county treasuries.

Inactive accounts consist of funds on deposit in Iowa banks where few, if any, warrants were drawn over a period of at least a year. Over $14 million of state funds were on deposit in 642 banks throughout the state on June 30, 1956, in what may be called inactive accounts. Some of these accounts have been dormant for five years and longer, according to evidence presented to the committee.

Active accounts were maintained by the state in 13 Iowa banks on June 30, 1956. These 13 banks through which warrants were drawn regularly, had total balances of $72 million on June 30, 1956.

State funds in county treasuries, the third type, consist mainly of vehicle license fees collected by county treasurers for the state. In the past these funds have been drawn upon when needed. On June 30, 1956, the

total amount of these state funds in county treasuries was approximately $14 million.

Other states, including Illinois and Minnesota, obtain substantial revenue from investment of inactive balances. In the two neighboring states of Missouri and Kansas, legislation is being urged to make it possible to invest inactive state fund balances.

Approximately $86 million of state funds were on deposit in Iowa banks on June 30, 1956, and, in addition, almost $14 million of state funds were in county treasuries. In general, May is the high month and December the low month. If allowance is made for reasonable checking account balances in the various funds, an additional amount varying throughout the year from $10 to $50 million could be invested either in treasury bills and other U. S. securities with from 3 to 12 month maturities, or in certificates of deposit in Iowa banks for 6 to 12 month periods. Both of these short term investments would bring a substantial interest return. Rates on government securities ranging from ½ of 1 percent on the one hand to 3 percent on the other are common; the going rate in the fall of 1956 was 2.75 percent, and at times has been even more than that. Investment on the average of $25 million in government securities would bring in from $125,000 to $700,000 per year depending on the interest rate. Placement of this amount in certificates of deposit would yield from $125,000 to $500,000 depending on the going rate.

The Committee Recommends that:

a. Investment of inactive state funds in short term U. S. government securities or in certificates of deposit in Iowa banks be made mandatory. The rate on certificates of deposit to be determined by joint action of the Superintendent of Banking, the Insurance Commissioner, and the State Comptroller. In no case shall the rate on certificates of deposit in Iowa banks be less than ½ of 1 percent or more than 2 percent.

b. Remittances of state funds in county treasuries into the state treasury be made mandatory.

Proposed Bills Nos. 28, 29 and 30:

Bill 28. MANDATORY INVESTMENT OF INACTIVE STATE FUNDS. This bill requires the investment of funds not currently needed in either government securities or in time deposits. It also provides for determination of the time deposit interest rate by a group of three state officers.

Bill 29. MANDATORY REMITTANCE OF VEHICLE FEES TO THE STATE. This bill requires the county treasurer to send the Treasurer of the State a statement and remittance once a month covering all vehicle fees. Other provisions included pertain to the handling of motor vehicle fees.

Bill 30. STATE SINKING FUND. This bill covers minor changes to bring the deposits of various state agencies under the sinking fund law and to provide for the handling of certificates of deposit under this law.

Bill 28.

A BILL FOR

AN ACT relating to the collection, investment and deposit of public funds not currently needed for operating expenses.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Sections twelve point eight (12.8) and twelve point nine (12.9), Code 1954, are hereby repealed and the following enacted in lieu therof:

"The treasurer of state shall invest or deposit, as provided by law, any of the public funds not currently needed for operating expenses".

Sec. 2. Section three hundred thirty-four point nine (334.9), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"The treasurer of each county shall on or before the fifteenth day of each month prepare sworn statements of the amount of money in his hands on the last day of the preceding month belonging to the state treasury, and forward by mail one such statement, accompanied by his remittance therefor, to the treasurer of state, and one such statement to the state comptroller".

Sec. 3. Section three hundred thirty-four point ten (334.10), Code 1954, is hereby amended by striking therefrom all of the first sentence.

Sec. 4. Section four hundred fifty-two point ten (452.10), Code 1954, is hereby amended by striking all of the last sentence and inserting in lieu thereof the following:

"However, the treasurer of state shall invest, unless otherwise provided, any of the public funds not currently needed for operating expenses in United States government bonds and certificates, providing suitable issues are available; or make time deposits of such funds in banks as provided in chapter four hundred fifty-three (453) and receive time certificates of deposit therefor".

Sec. 5. Section four hundred fifty-three point one (453.1), Code 1954, is hereby amended by striking from lines eleven (11) to sixteen (16), inclusive, all beginning with the words "However, the treasurer of state" and ending with the words "and/or certificates" and inserting in lieu thereof the following:

"However, the treasurer of state shall invest or deposit as provided in section four hundred fifty-two point ten (452.10) any of the public funds not currently needed for operating expenses".

Sec. 6. Section four hundred fifty-three point six (453.6), Code 1954, is hereby amended as follows:

1. Add in line three (3) after the word "shall" the words, "except for time certificates of deposit".

2. Add at the end of said section the following:

"Time certificates of deposit for public funds shall draw interest at rates to be determined January 1 and quarterly thereafter by joint action of the superintendent of banking, insurance commissioner and state comptroller, of which a majority shall control their actions in setting such rates. Said rates shall not be less than one-half of one percent, nor more than two percent".

Sec. 7. Section four hundred fifty-three point seven (453.7), Code 1954, is hereby amended as follows:

1. Add in line three (3) after the words "on any" the word "demand".

2. Strike from lines five (5) and six (6) the words "public funds" and insert in lieu thereof the words, "demand deposits of public funds".

3. Further amend said section by adding at the end thereof the following:

"This provision shall not apply to interest on time certificates of deposit for public funds".

4. Further amend said section by adding the following:

"interest or earnings on investments and time deposits made in accordance with the provisions of sections twelve point eight (12.8) as re-enacted in section one (1) of this Act, four hundred fifty-two point ten (452.10), four hundred fifty-three point one (453.1), and four hundred fifty-three point six (453.6), shall be credited to the general fund of the governmental body making the investment or deposit, with the exception of specific funds for which investments are otherwise provided by law, constitutional funds, or when legally diverted to the state sinking fund for public deposits. Funds so excepted shall receive credit for interest or earnings derived from such investments or time deposits made from such funds. Such

interest or earnings on any fund created by direct vote of the people shall be credited to the fund to retire any such indebtedness after which the fund itself shall be credited".

Sec. 8. Section four hundred fifty-four point thirty-five (454.35), Code 1954, is hereby repealed and the following enacted in lieu thereof and added to chapter four hundred fifty-three (453):

"The governing council or board who by law are authorized to direct the depositing of funds shall be authorized to direct the treasurer to invest any fund not an active fund needed for current use and which is being accumulated as a sinking fund for a definite purpose, the interest of which is used for the same purpose, in the certificates provided by section four hundred fifty-four point nineteen (454.19), or in United States government bonds, or in local certificates or warrants issued by any municipality or school district within the county, or in municipal bonds which constitute a general liability, and the treasurer when so directed shall so invest such fund".

Sec. 9. Chapter four hundred fifty-three (453), Code 1954, is hereby amended by adding the following:

"The governing council or board, who by the law have control of any fund created by direct vote of the people, may invest any portion thereof not currently needed, in United States government bonds or make time deposits of such funds as provided in this chapter and receive time certificates of deposit therefor. Interest or earnings on such funds shall be credited as provided in subsection four (4) of section seven (7) of this Act".

Sec. 10. This Act shall be effective January 1, 1957.

Sec. 11. Publication clause.

Explanation

This bill requires the investment of state funds to draw interest that are idle and not needed for current operating expenses. It applies to the portion of balances not obligated by appropriations. The interest rate on each investment is set by a joint committee composed of the state superintendent of banking, the state insurance commissioner, and the state comptroller.

Bill 29.

A BILL FOR

AN ACT relating to the remittance of motor vehicle funds to the state treasurer after payment of authorized refunds.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section three hundred twenty-one point one hundred twenty-eight (321.128), Code 1954, is hereby amended by adding at the end thereof the following:

"There is hereby appropriated, out of any funds in the state treasury not otherwise appropriated, funds sufficient to pay the refunds authorized by this chapter."

Sec. 2. Section three hundred twenty-one point one hundred twenty-nine (321.129), Code 1954, is hereby repealed.

Sec. 3. Section three hundred twenty-one point one hundred forty-five (321.145), Code 1954, is hereby amended as follows:

1. Strike from line one (1) of subsection one (1) the word "three" and insert in lieu thereof the word "four".

2. Strike from lines three (3), four (4) and five (5) of subsection two (2) the words, ", and less the one percent received by the department as a reimbursement fund from which to pay refunds,".

Sec. 4. Section three hundred twenty-one point one hundred forty-six (321.146), Code 1954, is hereby amended by inserting in line four (4) after the word "department" the following:

"and the amount of refunds provided for in this chapter".

Further amend said section by striking all thereof after the word "department" in line eight (8) and insert in lieu thereof the words "and amount of refunds".

Sec. 5. Section three hundred twenty-one point one hundred fifty-three (321.153), Code 1954, is hereby repealed, and the following enacted in lieu thereof:

"The treasurer of each county shall on or before the fifteenth day of each month prepare, on forms furnished by the department, sworn statements of all fees and penalties so received by him during the preceding calendar month and shall forward by mail one such statement, accompanied by his remittance therefor, to the treasurer of state and one such statement to the department and to the state comptroller."

Sec. 6. Section three hundred twenty-one point one hundred fifty-four (321.154), Code 1954, is hereby repealed.

Sec. 7. Section three hundred twenty-one point one hundred fifty-five (321.155), Code 1954, is hereby amended by striking all of said section after the word "herein" in line three (3).

Sec. 8. Section three hundred twelve point one (312.1), Code 1954, is hereby amended by striking all of subsection one (1) and inserting in lieu thereof the following:

"1. The proceeds of the registration of motor vehicles as provided in chapter three hundred twenty-one (321)."

Sec. 9. Section three hundred twelve point seven (312.7), Code 1954, is hereby repealed.

Explanation

This bill is in coordination with Bill No. 28 and requires the transmittal of state motor vehicle funds in local banks to the state treasurer.

Bill 30.

A BILL FOR

AN ACT relating to the state sinking fund for public deposits.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred fifty-four point two (454.2), Code 1954, is hereby amended by adding at the end thereof the following:

"The fund shall also be to secure the payment of deposits in banks as defined in chapter four hundred fifty-three (453) of the Iowa liquor control commission, institutions under the jurisdiction of the state board of control and state board of regents."

Sec. 2. Section four hundred fifty-four point six (454.6), Code 1954, is hereby amended by adding at the end thereof the following:

"It shall also be the duty of the Iowa liquor control commission and the heads of institutions under the jurisdiction of the state board of control and state board of regents to keep on file with the treasurer of state a list of such depositories."

Sec. 3. Section four hundred fifty-four point ten (454.10), Code 1954, is hereby amended by adding at the end thereof the following:

"The assessment provided in section four hundred fifty-four point nine (454.9) shall be computed on all certificates of deposit authorized by section four hundred fifty-three point six (453.6). Such assessments shall be paid to the state treasurer or county treasurer at the same time the assessments are paid on open accounts. In the event the interest rate on a certificate of deposit exceeds the assessment rate, the difference shall be paid to the public treasurer at the maturity of the certificate of deposit in addition to the assessment."

Sec. 4. This Act shall be effective January 1, 1957.

Sec. 5. Publication clause.

Explanation

This bill broadens the sinking fund to protect deposits

of the liquor control commission and institutions under the control of the board of control and board of regents. It also coordinates with Bill No. 28 on funds deposited that are drawing interest.

H. INHERITANCE TAXES

Situation:

The Committee's study of the inheritance tax situation indicated that the rate structure is satisfactory and needs no change. However, the study did reveal several defects in the present law which, if corrected, would make the administration of the law more effective and result in slightly more revenue under present rates.

The Committee Recommends that:

Certain amendments be made in the inheritance law to strengthen the tax collection powers of the State Tax Commission with special regard to assets held by or transferred through third persons.

Explanation of Proposed Bill:

In view of the complexity of inheritance law, the explanation of the proposed amendments will be of a technical nature and designed specifically for those primarily concerned with inheritance tax law.

Amendments are proposed for sections 450.3; 450.12; 450.51; 450.81; 450.86; 450.87 and 450.88, Code 1954.

Technical Explanation of Inheritance Tax Changes:

1. Transfers made in contemplation of death (450.3).

Federal law extends back three years. Iowa law now only extends back two years. This provision extends presumption of contemplation of death from two years to three years. Cases involved include transfers of property by a decedent prior to his death.

2. Deductions allowed on one tax only. (450.12)

Present law allows deductions for both inheritance and income tax in an estate. Deductions allowed in computation of inheritance tax should not be allowed in computation of income tax liability in the same estate.

3. Termination of life estates. (450.51)

The present provision, section 450.51, does not operate satisfactorily where a life estate is ended soon after it is established by the death of the life tenant. The computations based on mortality tables should not be applicable where the life tenant dies less than 18 months after the decedent whose inheritance tax is being determined.

The proposal provides that if a life estate terminates within 18 months after the decedent's death, and if the inheritance tax has not been paid, the inheritance tax on the remainder is on the full value of the property, and the inheritance tax on the life estate is on what was actually paid the life tenant before his death.

4. Listing of deaths by Vital Statistics Division and checking of property transfers by county recorders. (450.81)

Difficulty has been experienced in checking property transfers prior to death. To overcome this difficulty the amendment recommended requires the Vital Statistics Division to furnish quarterly a list of decedents by counties to the State Tax Commission. The State Tax Commission in turn will send these lists to the county recorders who are required to search the records, list for each decedent any property transfers during the three years prior to death, and send this information to the State Tax Commission.

5. Restrictions on access to safe deposit boxes and on delivery of contents after death. (450.86)

Problems have arisen in granting access to safe deposit boxes after the death of the holders. Similar problems have occurred in transferring the contents to other parties. The proposal broadens the scope of the present law by requiring the State Tax Commission's consent before access to the safe deposit box is granted, and before the contents can be released. This last limitation on releasing contents would not apply to executors or administrators of decedent's estate. The recommendation also removes, in this section, all penalty for failure to comply. A penalty provision is added in section 450.88.

6. Transfer of stock after death. (450.87)

The present law does not apply to foreign corporations and is not specific in requiring the cooperation of all corporations doing business under Iowa law. The proposal, which applies to all corporations doing business in Iowa, prohibits these corporations from transferring the shares of their stock or assets in trust in the name of a decedent without consent of the State Tax Commission.

7. Penalties for willful failure to comply with safe deposit provisions, and to give notice of death. (450.88)

The present sections, 450.87 and 450.88, have not provided the State Tax Commission with information that could be used advantageously. The new provision, section 450.87, would be sufficient on this point. The new 450.88 would place responsibility for payment of tax. Further, it would require any person seeking access to a safety deposit box of a decedent to give written notice of the death to the lessor of the box. The proposal also requires that any person seeking to remove assets held for safe keeping or in a deposit box, shall provide written notice of the death to the institution holding such assets or the lessor of the safety deposit box.

Proposed Bill No. 31:

INHERITANCE TAX AMENDMENTS

Bill 31.

A BILL FOR

AN ACT relating to the assessment and collection of inheritance taxes on real and personal property.

WHEREAS, the present inheritance tax laws were enacted 45 years ago and since that time there have been only minor revisions, and

WHEREAS, the administrators of this tax are handicapped in the application of the law to present methods of transfers of estate property to devisees, legatees and grantees, and

WHEREAS, in the light of the many court decisions in inheritance tax matters in the last half century attempting to interpret the Legislature's intent and purpose, some changes in text of the law are indicated to effectuate that intention, and

WHEREAS, it is not the intent of this bill to make any changes in rates of tax or allowable deductions from taxable property, but to clarify the law so that all persons receiving estate property are fairly and equitably taxed, now therefore:

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred fifty point three (450.3), Code 1954, is hereby amended by striking all of subsection two (2) and inserting in lieu thereof the following:

"2. By deed, trust agreement, grant, sale, gift or transfer made in contemplation of death of the grantor or donor, except in case of a bona fide sale for an adequate and full consideration in money or money's worth, and any such deed, trust agreement, grant, sale, gift or transfer made within a period of three years, ending with the date of death of the grantor or donor, except in case of a bona fide sale for an adequate and full consideration in money or money's worth shall, unless

shown to the contrary, be deemed to have been made in contemplation of death within the meaning of this section, but no such deed, trust agreement, grant, sale, gift or transfer made before such three-year period shall be treated as having been made in contemplation of death. Such limitation shall not affect those transfers taxable under subsection three (3) of this section."

Sec. 2. Section four hundred fifty point twelve (450.12), Code 1954, is hereby amended as follows:

1. Add at the end of subsection one (1) the following: "None of the deductions listed in this subsection shall be allowable if such deductions are applied to reduce the state income tax liability of the estate."

2. Strike all of subsection three (3) and insert in lieu thereof the following:

"3. An amount equal to the value at the time of decedent's death of any property, real, personal or mixed, which can be identified as having been received by decedent, as a share in the estate of any person who died within the two years prior to the death of the decedent or as a transfer made by such person to the decedent and included in the estate of such person for purposes of taxation hereunder by reason of any provision of section four hundred fifty point three (450.3), or which can be identified as having been acquired by the decedent in exchange for property so received if an inheritance tax under this chapter was collected from such estate and if such property is also included in decedent's gross estate."

Sec. 3. Section four hundred fifty point fifty-one (450.51), Code 1954, is hereby amended by adding after the word "founded" at the end thereof the following:

", provided, however, in the event any estate for life or term of years is terminated by death of the life tenant or tenant for a term of years prior to a date eighteen months after the death of the decedent and also prior to the payment of inheritance taxes on the remainder interest following such estate, the tax on the remainder interest shall be computed on the full value of the property in which the remainder interest was created without diminution for any value otherwise attributable to the pre-existing estate for life or term of years and the tax due on such life estate or term shall be computed on the basis of the net income actually received by, or accrued to, the tenant of such an estate, as such tenant, prior to his death".

Sec. 4. Section four hundred fifty point eighty-one (450.81), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"Within thirty days after September 30 of the year in which this section becomes effective and within thirty days after the expiration of each calendar quarter thereafter, the vital statistics division of the state department of health shall furnish to the state tax commission, alphabetically and by counties, a list of the names of all persons whose death is recorded as occurring in the respective counties during the quarter to which the report is applicable, and the respective dates of death. Within thirty days after the receipt of each quarterly report the tax commission shall forward a list of the recorded deaths in each county to the county recorder of such county. Thereafter, and within sixty days from the receipt of such list, each county recorder shall prepare from the records and files in his office a list of all deeds, trust agreements, grants, sales, gifts or transfers of real or personal property, except conditional sales contracts involving personal property, with dates thereof, filed in his office within a period of three years immediately preceding the date of death of the decedent shown in said list to which such decedent was a party. Such list so prepared by each county recorder shall be returned to the state tax commission.

Sec. 5. Section four hundred fifty point eighty-six (450.86), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"1. Access to safe deposit boxes. It shall be unlawful for any safe deposit company, trust company, corporation, bank or other institution, person or persons having in possession and under control, custody or partial custody any safe deposit box or similar receptacle, to permit access thereto by anyone after death of any person who at the time of his death had the right or privilege of access thereto, either as principal, deputy, agent or cotenant, without the consent of the tax commission.

"2. Delivery or transfer of securities, deposits or assets. No safe deposit company, trust company, corporation, either organized under the laws of this state or doing business in this state as a foreign corporation, bank or other institution, person or persons having in possession or under escrow or control or custody or under partial control or partial custody, securities, deposits, assets, instruments of title to property, or property belonging to or held in trust of the benefit of the decedent or under terms which do or may make transfer of such trust assets subject to the provisions of this chapter, or standing in the name of a decedent who was a resident or nonresident, or belonging to, or standing in the joint names of such decedent and one or more persons, including the shares of the capital stock of, or other interest in, the safe deposit company, trust company, corporation, bank or other institution making the delivery or transfer herein provided, shall deliver or transfer the same to any person or persons whomsoever, except executors and administrators, unless notice of the time and place of such delivery or transfer be given to the state tax commission in writing at least ten days prior to said delivery or transfer, and unless there is first obtained the consent thereto in writing from the commission. Consent of the tax commission to such delivery or transfer may be conditioned upon the payment of any tax owing by the claimant of any such securities, deposits, assets, instruments of title to property or other property, or upon the withholding by the organizations or persons above named of such portion thereof as it deems necessary to secure tax payment thereon. It shall be lawful for the tax commission or any person acting as its agent to examine said securities, deposits or assets at the time of said delivery or otherwise. Two thousand dollars of every bank deposit shall be exempt from the provisions of this section."

Sec. 6. Section four hundred fifty point eighty-seven (450.87), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"No corporation, incorporated under the laws of this state or doing business in this state as a foreign corporation, shall transfer on its books any stock or issue a new certificate for any share or shares of its capital stock belonging to or held in trust for the benefit of a decedent or under terms which do or may make the transfer of such trust assets subject to the provisions of this chapter, or standing in the joint names of a decedent and one or more persons, without the written consent of the state tax commission."

Sec. 7. Section four hundred fifty point eighty-eight (450.88), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"1. Willful failure to comply with the provisions of sections four hundred fifty point eighty-six (450.86) and four hundred fifty point eighty-seven (450.87) shall render such safe deposit company, trust company, corporation, bank or other institution, person or persons, liable for the amount of the taxes, interest or penalties due under other provisions of this chapter.

"2. Any person seeking access to any safe deposit

box upon the death of any person having such rights of access thereto as are listed in section four hundred fifty point eighty-six (450.86), or seeking to withdraw securities, assets, instruments of title to property, property, or funds belonging to a decedent or which the decedent had the right to withdraw or seeking to reach such property held in any manner by an institution for safekeeping, shall notify, in writing, the lessor of such safe deposit box or person holding such securities, assets, instruments of title to property or funds of the fact of the decedent's death. Any person who willfully fails to give the notice of the death of the decedent required by this subsection with intent to evade taxes due hereunder shall be guilty of a misdemeanor."

Explanation

This bill revises certain sections of the inheritance tax laws to facilitate enforcement and provide equitable administration. It makes no changes in rates or obligations to pay the tax.

I. SALES AND USE TAX

1. Authority to Local Governments to Charge Sales and Use Tax.

Situation:

The cost of local government, expecially in some of the larger cities, has risen to a point where it is evident that the property tax is inadequate as a basis for the needed revenue. In localities where this situation develops it frequently happens that there is a larger than average percentage of residential real estate compared to industrial and commercial real estate. It often happens that industry is outside the city limits whereas the workers at these industrial plants have their homes in the city. Another modern trend, which contributes to a low property base, is the mobile home. A park full of these mobile homes requires city services and provides children for the schools, but does not offer much of a property valuation base.

Other states, notably Illinois and California, have enacted laws giving local governments the right, if proper legal procedures are followed, to establish a local sales tax. In these instances the local governments have expressed the need for a tax base in addition to property.

The Committee Recommends that:

An enabling act be passed authorizing cities and towns, following an affirmative vote of the people and with other appropriate safeguards, to establish a local sales tax, the tax to be collected by the state and returned to the local unit of government.

Proposed Bill No. 32:

OPTIONAL MUNICIPAL SALES AND USE TAX

Bill 32.

A BILL FOR

AN ACT to enable cities and towns to impose a sales and use tax for municipal purposes.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Any city or town, hereinafter referred to as a municipality, is hereby authorized and empowered to impose by ordinance, any other provisions of the Code to the contrary notwithstanding, a retail sales tax, hereinafter referred to as a sales tax, upon the gross receipts from all retail sales of tangible personal property and other transactions within such municipality which at the time of the imposition of the municipal tax are subjected to the imposition and payment of the state retail sales tax and a complementary excise tax, hereinafter referred to as a use tax, on all use within such municipality of tangible personal property which, except as provided otherwise herein, at the time of the imposition of the municipal tax is subjected to the imposition and payment of the state excise tax on the use of tangible personal property.

The exemption from the imposition of the state use tax of tangible personal property, the gross receipts from the sale of which are subject to the state sales tax, provided in subsection one (1), section four hundred twenty-three point four (423.4), of the Code, shall not apply to the municipal use tax; but the municipal use tax shall not be imposed upon the use of tangible personal property, the gross receipts from the sale of which are subject to the municipal sales tax of the same municipality. In the case of tangible personal property brought into the municipality, if a sales, excise, or occupation tax has already been paid on or with respect to such property or its sale or use to any municipality, county or other political subdivision of this or any other state, then the rate of the municipal use tax shall be reduced by the rate of such previous tax, and if the rate of such previous tax shall exceed the rate of the municipal use tax, no tax shall be due. Notwithstanding any other provisions of this Act, in no case shall the municipal sales and use tax be imposed upon the sale or use of any commodity which is subjected to taxation under chapter three hundred and twenty-four (324) of the Code; nor shall the municipal sales and use tax apply to the use of any tangible personal property for the performance of a building or construction contract executed prior to the date the imposition of the municipal sales and use tax becomes operative and effective.

The rate of such municipal tax, as specified in the ordinance, shall not exceed one (1) percent of the gross receipts from such sales and other transactions as are subject to the sales tax and one (1) percent of the purchase price of such tangible personal property the use of which is subject to the use tax.

Sec. 2. The sales and use tax imposed by a municipality pursuant to this Act and all civil penalties that may be assessed as an incident thereof shall be collected and enforced by the state tax commission. The commission shall have full power to administer and enforce this Act and such tax, to collect all taxes and penalties due, to dispose of taxes and penalties so collected in the manner hereinafter provided, and to determine all rights to refunds arising on account of the erroneous payment of a tax or penalty. In the administration and compliance with this Act and in the administration, collection and enforcement of such municipal tax the commission and all persons who are subject to this Act and such municipal tax shall have the same rights, remedies, privileges, immunities, powers and duties and be subject to the same conditions, restrictions, limitations, penalties and definitions of term, and employ the same methods of procedure, as are prescribed in Division IV, chapter four hundred and twenty-two (422) and chapter four hundred and twenty-three (423) of the Code, in all respects except the rate of tax and the disposition of tax and penalties collected, as the same are now or may thereafter be amended, as fully as if such provisions of the Code were set forth herein. Provided, however, that any place in such provisions of the Code where the words "state" or "Iowa" or other words of similar import appear, the words "municipality" or the name of the municipality of such other word of similar import shall be substituted if required by the meaning of such provisions of the Code in order to place such municipal retail sales and use tax upon the same relative basis, extent, territorial extent and other status as the state retail sales and use taxes.

All permits and licenses required by the provisions of the Code relating to the state sales and use taxes shall apply to the municipal sales and use tax and no additional permits or licenses shall be required of any person by virtue of a municipal sales and use tax. All county treasurers and retailers shall have the same duties, responsibilities and powers to administer, collect and enforce the municipal sales and use tax as are prescribed for county treasurers and retailers in the administration, collection and enforcement of the state sales and use tax. The state tax commission shall forthwith pay over to the state treasurer all taxes and penalties collected hereunder. On or before the tenth day of each calendar month, the commission shall notify the state treasurer and state comptroller, in writing, to disburse stated sums of money to the municipalities from which the commission has received or collected taxes or penalties hereunder during the second preceding calendar month. The amount to be paid to each municipality shall be the amount, after deduction of refunds, collected or received hereunder from such municipality during the second preceding calendar month by the commission less three (3) percent of such amount, after deduction of refunds, which three (3) percent shall be retained by the state treasurer and credited to the general fund of the state to cover the cost incurred by the commission in administering and enforcing this Act. Within ten (10) days after the receipt, by the state treasurer and comptroller, of the disbursement notification, such disbursement shall be made.

Sec. 3. A municipal ordinance imposing a municipal sales and use tax shall specifically provide that the net revenue to the municipality shall be for general municipal purposes and that all or any part, amount, or proportion of such revenue shall be credited, as may be provided for, from time to time, by and in the discretion of the council of such municipality to any or all funds of such municipality except the debt service fund.

Sec. 4. After enactment of an ordinance imposing a municipal sales and use tax by the council of a municipality, the tax so imposed shall not become operative and effective until:

1. The question of whether the imposition of such tax shall be operative and effective within such municipality shall be submitted to the electors of such municipality not earlier than thirty (30) and not later than ninety (90) days following the enactment of such ordinance by the council of the municipality, at a general election or a special election called for such purpose.

2. The question submitted to the electors shall include a statement of the ordinance and the question of whether the tax imposed by the ordinance shall be operative and effective within such municipality. Prior to the election, such question, including the ordinance, and notice of such election shall be published in a newspaper of general circulation within such municipality, if there is one, at least once each week for the three full consecutive weeks last preceding the election and copies of such question, including the ordinance, and notice of such election shall be posted at least twenty days prior to the election in at least five public places within the municipality.

3. If a majority of all votes cast upon such question shall be in the affirmative, the tax imposed by such ordinance shall become operative and effective within such municipality at the time provided herein.

Sec. 5. As soon as may be possible the results of the election shall be published for three consecutive weeks in a newspaper of general circulation within such municipality, if there is one, and posted in five public places within the municipality.

Sec. 6. A municipal sales and use tax once imposed and its imposition made operative and effective may be repealed or its rate changed only by enactment by the council of an ordinance repealing or changing the rate of such tax. Such repeal or change in rate shall be effective and operative within such municipality only after the question of whether such repeal or change in rate shall be so operative and effective shall be submitted to and approved by the electors of such municipality in compliance with all appropriate provisions of this Act relating to the submission of the original question as to whether the imposition of such tax should be operative and effective. However, if at any time subsequent to the original enactment of an ordinance imposing such a tax by the council of any municipality, any change or amendment is made in the laws of the state of Iowa regarding the sales, other transactions, and uses of taxable personal property which are subjected to the imposition and payment of the state sales and use taxes, then any such municipal ordinance imposing a municipal sales and use tax shall automatically be amended by the council of such municipality to conform with the amended or changed provisions of the state law regarding the imposition and payment of the state sales and use taxes. Such amendments to a municipal ordinance shall become effective at the same time as do the amendments or changes to the state laws and shall not be subject to the requirements of this Act requiring the submission of questions to the electors of the municipality. Such amendments shall be published and posted in the same manner required by this Act for results of an election concerning a question submitted to the people.

Sec. 7. Upon approval of the electors of a question regarding whether the imposition, repeal, or change in rate of such tax shall be operative and effective within such municipality, such imposition, repeal, or change in rate shall become so operative and effective on the first day of the second quarterly period, as defined in section four hundred and twenty-two point fifty-two (422.52), of the Code, following such election. The council of the municipality shall transmit the results of such election and a certified copy of the ordinance to the state tax commission within five days after the results of the election have been officially determined. This notification shall constitute sufficient authority for the commission to perform all duties and responsibilities and other acts required of it by this Act.

Sec. 8. Subsection five (5) of section four hundred and four point twenty-five (404.25), Code 1954, is hereby amended by adding at the end of such subsection the following: "Revenues from a municipal sales and use tax, regardless of what particular municipal fund or funds to which they may be credited, shall not be considered in determining the maximum millage rate, either for any function or in the aggregate, which may be levied by a municipal corporation."

Explanation

The purpose of this bill is to permit a city or town to enact a sales tax. Approval of the voters of the city or town is necessary before enforcement. The maximum rate which could be levied locally would be one percent.

2. Sales and Use Tax Amendments.

Situation:

A survey of sales and use tax operations indicated no major changes in the law, but the desirability of several minor revisions. Questions relating to the rate structure are considered in Section 5 of this Report.

The recommended revisions are mainly technical in nature and relate to the following:

1. Clarification of the word "container" as used in the law.
2. Definition of use tax application to property used in interstate commerce.
3. Application of sales and use tax to rentals of property such as rental of machines.

4. Specific provisions for the use of exemption certificates where sales and use tax is not paid.

The Committee Recommends that:

Amendments be made to the sales and use tax law covering containers, property used in interstate commerce, tax on rentals, and exemption certificates.

Explanation of Proposed Bills:

1. Containers. Confusion has arisen concerning the application of the sales and use tax to containers. Section 423.1 (a) uses the words "including containers" but this term is not defined in either the sales or use tax law. The term should be specifically defined to indicate which kind of containers are exempted and which are taxed. (See Iowa State Tax Commission Rule 52, also Iowa Supreme Court decision Zoller Brewing Co. vs. State Tax Commission, 232 Iowa 1104).

2. Use tax application to interstate commerce. The problem here mainly concerns the application of the use tax to purchases of new automobiles, new trucks, new tractors, new trailers, and the like, which are purchased for use in this state and in other states as well. Collection is made by the county treasurer and the proceeds go to the road use tax fund.

Under a 1956 Supreme Court ruling, Bruce Motor Freight, Inc. vs. Lauterbach, et al., ... Iowa ....., 77 N. W.2d 613, new trailers and new truck tractors purchased from Iowa suppliers and licensed for use in Iowa are exempt from use tax is they are later to be used, in part, in interstate transportation. This issue can be clarified by providing that any property which uses publicly constructed and maintained highways is not exempted from use tax even though it is engaged in part in interstate commerce.

3. Property leased or rented. In many lines of business it is becoming customary to lease or rent tangible personal property rather than to sell it. Where this is done Iowa does not get any sales tax upon the rental receipts because the term "sales" is not defined definitely to include rentals or leases.

On the other hand, the commission has regarded a person in the business of leasing or renting tangible personal property as the user or the consumer of that property for the purpose of sales tax or use tax. This causes the tax to be due from the owner-lessor based upon his purchase price. However, the legality of this position by the commission has been questioned.

A majority of the sales tax states have defined "sales" to include leases or rentals; as a result rental receipts are taxed as well as sales receipts. This is much easier to administer and would bring in more tax revenue than is now the case. We believe, also, many taxpayers would prefer the tax on rental receipts rather than on the cost to the owner-lessor of the property leased or rented. This rental or lease arrangement would not apply to new motor vehicles or new trailers because in this area the use tax collection by the county treasurer is efficient and satisfactory.

4. Exemption certificates. States with efficient administration of sales and use taxes usually have statutory provisions in their law which provide:

a. A presumption of taxability for all sales or purchases.
b. The presumption can be overcome on nontaxable sales or purchases by the furnishing of proper written certificates.

Therefore, it is recommended that each law be amended by adding sections providing for the "presumption" and for the giving and taking of written certificates signed by the purchaser, certifying to the nontaxable nature of the transaction, the form of which to be established by State Tax Commission. These changes would help prevent evasions of the use and sales tax law and would result in more efficient administration. These certifications should be made at the time of the sale and should be retained by the seller as a part of his records for the statutory period.

Proposed Bills Nos. 33, 34, 35, 36 and 37:

Bill 33: DEFINITION OF "CONTAINERS"

Bill 34: DEFINITION OF "INTERSTATE COMMERCE" ON HIGHWAYS.

Bill 35: EXTENSION OF SALES TAX TO RENTALS.

Bill 36: EXEMPTION CERTIFICATES TO PREVENT EVASION OF SALES TAX.

Bill 37: EXEMPTION CERTIFICATES TO PREVENT EVASION OF USE TAX.

Bill 33.

A BILL FOR

AN ACT relating to the definition of "containers" under the sales and use tax statutes.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Subsection three (3) of section four hundred twenty-two point forty-two (422.42), Code of 1954, is hereby amended by inserting after the word "property" in line eleven (11) thereof the following words: "including containers".

Sec. 2. Section four hundred twenty-two point forty-two (422.42), Code 1954, is hereby amended by adding thereto a new subsection to define the word "containers" as follows:

"The word 'containers' shall mean and refer only to those:

(a) Nonreturnable containers when sold without the contents to persons who place the contents in the container and sell the contents together with the container.

(b) Containers when sold with the contents if the sales price of the contents is not required to be included in the measure of the taxes imposed by this division.

(c) Returnable containers when sold with the contents in connection with a retail sale of the contents or when resold for refilling.

As used herein the term "returnable containers" means containers of a kind customarily returned by the buyer of the contents for reuse. All other containers are "nonreturnable containers."

Sec. 3. Section four hundred twenty-three point one (423.1), Code 1954, is hereby amended by adding thereto the following subsection:

"The word 'containers' shall have the same meaning as defined in the retail sales tax law in section four hundred twenty-two point forty-two (422.42), Code 1954."

Explanation

This bill clarifies the definition of "containers" in the sales and use tax laws.

Bill 34.

A BILL FOR

AN ACT relating to exemptions from use tax of property used in interstate transportation or commerce.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-three point four (423.4), Code 1954, is hereby amended by striking all of subsection two (2) and inserting in lieu thereof the following:

"2. Tangible personal property used in interstate transportation or interstate commerce, except said property which utilizes highways or other facilities constructed or maintained in whole or in part from funds pro-

vided by the State of Iowa or any political subdivision thereof."

Explanation

This bill provides that in certain instances, property used in interstate transportation and commerce should pay some use tax.

Bill 35.

A BILL FOR

AN ACT relating to sales and use taxes on leased or rented property.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Subsection two (2) of section four hundred twenty-two point forty-two (422.42), Code 1954, is hereby amended by inserting after the word "barter" on line two (2) thereof the following words:

"or lease or rental"

Sec. 2. Subsection six (6) of section four hundred twenty-two point forty-two (422.42), Code 1954, is hereby amended by inserting after the word "sales" on line two (2) thereof the following:

"or lease or rental charge, as the case may be,"

Sec. 3. Subsection two (2) of section four hundred twenty-three point one (423.1), Code 1954, is hereby amended by adding after the word "barter" on line two (2) thereof the following:

"or lease or rental"

Sec. 4. Subsection three (3) of section four hundred twenty-three point one (423.1), Code 1954, is hereby amended by adding after the word "sold" on line two (2) thereof the following:

"or the lease or rental charge, as the case may be," Also by inserting after the word "otherwise" in line four (4) of said subsection the following:

"excepting in the case of rented motor vehicles or rented trailers concerning which the use tax is collected under the provisions of section four hundred twenty-three point seven (423.7), Code 1954, the measure of use tax shall be the owner-lessor's purchase price and not the amount of rental receipts received by the lessor"

Explanation

This bill clarifies the problem of the liability of leased personal property to pay the sales and use taxes.

Bill 36.

A BILL FOR

AN ACT creating a presumption of taxability for all gross receipts from sales of tangible personal property and other commodities made taxable under section four hundred twenty-two point forty-three (422.43), Code 1954, and for administration provisions for the giving of and the securing and keeping of certificates of exemption.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-two point fifty (422.50), Code 1954, is hereby amended by adding the following subsections thereto:

"(1) Presumption of taxability. For the purpose of the proper administration of this division and to prevent evasions of the sales tax it shall be presumed that all gross receipts are subject to the tax until the contrary is established. The burden of proving that a sale of tangible personal property or property made taxable by section four hundred twenty-two point forty-three (422.43) is not at retail, but exempt, is upon the person who makes the sale, unless he takes from the purchaser a written certificate to the effect that the property is purchased for resale or is otherwise exempt.

"(2) Form of certificate. The certificate shall be signed by and bear the name and address of the purchaser, shall indicate the number of the permit issued to the purchaser, and shall be in substantially the following form:

'I HEREBY CERTIFY: That I hold valid seller's permit No. ..... issued pursuant to the Sales and Use Tax Law, that I am engaged in the business of selling .....; that the tangible personal property described herein which I shall purchase from: .... will be resold by me in the form of tangible personal property; provided, however, that in the event any such property is used for any purpose other than retention, demonstration, or display while holding it for sale in the regular course of business, it is understood that I am required by the Sales and Use Tax Law to report and pay tax, measured by the purchase price of such property. Description of property to be purchased:

.....

.....

Purchaser .....

Address .....

Dated: ..... 19 .....

at .....'

"(3) Use of exempt property. If a purchaser who gives a resale certificate or other certificate of exemption makes any use of the property other than retention or display while holding it for sale in the regular course of business or 'processing' or exempt purpose, the use shall be taxable to the purchaser as of the time the property is first used by him, and the sales price of the property to him shall be the measure of the tax. If the sole use of the property other than retention or display in the regular course of business, 'processing' or other exempt purpose is the rental of the property while holding it for sale, 'processing' or exempt purpose, the purchaser may elect to include in his gross receipts the amount of the rental charge rather than the sales price of the property to him.

"(4) Improper use of certificate. Any person who gives a resale certificate or other certificate of exemption for property or commodity which he knows at the time of purchase is not to be resold by him in the regular course of business and is not to be used by him for the claimed exempt purpose for the purpose of evading payment to the seller of the amount of tax applicable to the transaction is guilty of a misdemeanor."

Explanation

This bill provides for a certificate of exemption from sales tax to be executed by the buyer when property is purchased for resale, and not for consumption by the buyer.

Bill 37.

A BILL FOR

AN ACT relating to certificates of exemption from use tax and the use of same.

Be It Enacted by the General Assembly of the State of Iowa:

Section four hundred twenty-three point five (423.5), Code 1954, is hereby amended by adding after the period (.) in line six (6) thereof the following:

"1. The burden of proving the contrary is upon the person who makes the sale unless he takes from the purchaser a certificate to the effect that the property is purchased for resale or to the effect that its use is otherwise exempted for a stated reason. The certificate shall be given by the purchaser and secured by the seller at the time of the sale.

"2. Form of certificate. The certificate shall be signed by and bear the name and address of the purchaser and shall be in substantially the following form:

'I HEREBY CERTIFY: That I hold valid seller's permit No. ..... issued pursuant to the Sales and Use Tax Law, that I am engaged in the business of selling ..... ; that the tangible personal property described herein which I shall purchase from: ..... will be resold by me in the form of tangible personal property; provided, however, that in the event any such property is used for any purpose other than retention, demonstration, or display while holding it for sale in the regular course of business, it is understood that I am required by the Sales and Use Tax Law to report and pay tax, measured by the purchase price of such property.

Description of property to be purchased:

.....

.....

Purchaser .....

Address .....

Dated: ....19.....

at ....., ' "

Explanation

This bill provides for a certificate of exemption from use tax to be executed by the buyer when property is purchased for resale and not for use by the buyer.

J. COUNTY GOVERNMENT FINANCE

Situation:

A substantial amount of tax money in Iowa is handled by county government officials. However, little attention has been given to the machinery by which county tax moneys are received and spent. The Committee, consequently, has found a number of items which deserve study and action.

The first measure for consideration is a county budget recommendation, setting up uniform and business-like procedures for the preparation of the county budget. The next two measures provide for maximum millage levies for county boards of education and county assessment administration.

The remaining six recommendations are for improvement in county road administration and road finance. In the following list of recommendations each proposal is explained in detail.

A further finding, which does not involve a legislative proposal, is a recommendation to the General Assembly that it give consideration to the appointment of an interim committee on county government to study, among other matters, a bill providing for an optional form of county-manager government.

1. Local Budget Law Amendment.

The Committee recommends that:

The local budget law be amended to establish uniform and business-like procedures for the preparation of the annual budget each county is required to compile.

Explanation of Proposed Bill:

The present law requires the board of supervisors to prepare a county budget for the next year prior to the levying of taxes for such year. However, the board has no statutory machinery whereby it receives budget estimates and requests from the various county officers and departments. In the absence of such detailed information, budget preparation may be based more upon "educated guesses" than actual knowledge of past experience and estimated needs. A budget based upon adequate information is necessary if the board of supervisors is to perform intelligently their duty of determining the fiscal needs of each department. Establishment of better budget procedures could result in lower overall expenditures and certainly should create a better basis upon which to use county funds where they are most needed.

To accomplish this, the bill requires each county officer and department to submit an itemized statement of his department's actual expenditures for the last two years and an itemized estimate of the funds needed to operate such office during the next year. The various estimates and statements are then compiled by the county auditor and submitted to the board of supervisors. The bill further provides that the board of supervisors may consult with any officer concerning his budget estimates and may adjust the budget requests of any department.

These procedures will cost little or nothing and will not be a burden upon any department. No major policy changes are made nor are the present duties or powers of the board of supervisors or any county offices enlarged or diminished. In fact, some counties have already informally established such procedures.

Proposed Bill No. 38:

PREPARATION OF COUNTY BUDGETS

Bill 38.

A BILL FOR

AN ACT relating to the preparation of the county budget required by chapter twenty-four (24) of the Code.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. 1. On or before the first day of July of each year, each elective or appointive officer or board, except tax certifying boards as defined in subsection three (3) of section twenty-four point two (24.2) of the Code, having charge of any county office or department shall prepare and submit to the county auditor the following:

a. An estimate of the actual expenditures of such office or department during the current year;

b. A statement of the requested expenditures to be budgeted for such office for the next calendar year;

c. An estimate of the revenues, except property tax, to be collected for the county by such office during the current year;

d. An estimate of the revenues, except property tax, to be collected for the county by such office during the next calendar year.

Such estimates and statements shall be itemized in the same manner as the various expenditures and revenues are itemized in the records of the auditor.

2. On or before the tenth day of July of each year, the auditor shall submit to the board of supervisors, a compilation of the various office and department estimates in as much detail as they were submitted to him. With this compilation, the auditor shall show the itemized expenditures and revenues for the two years preceding the current year and an estimate of the cash balances of each county fund at the end of the current year.

3. The board of supervisors, in the preparation of the county budget as required by chapter twenty-four (24) of the Code, shall have authority to consult with any such county officer or board concerning his budget estimates and requests and to adjust the budget requests for any such county office or department.

Explanation

The purpose of this bill is to outline more clearly in the law the steps a county should take in preparing its annual budget. This bill would not change the powers of any county official.

2. Millage Levy Limitation for County Boards of Education and County Assessment Administration.

The Committee Recommends that:

Maximum millage limits be set for the county board of education and the county assessor's office, county board of review, and conference board.

Explanation of Proposed Bills:

The purpose of these recommendations is to bring these groups in line with other county functions which are subject to millage levy limits. There is some question about the effectiveness of millage levy limits, and there is evidence that many of the boards of education and county assessment groups do not need a millage limitation, but for the instances where a limitation would be helpful and to place all functions under the same general rule, millage limits have been recommended.

The limits recommended vary with the assessed valuation of the counties and have been calculated so that each county will be able to levy sufficient taxes for this service.

Proposed Bills Nos. 39 and 40:

Bill 39. MILLAGE LEVY LIMIT FOR COUNTY BOARDS OF EDUCATION.

Bill 40: MILLAGE LEVY LIMIT FOR COUNTY ASSESSMENT.

Bill 39.

A BILL FOR

AN ACT to amend section two hundred seventy-three point thirteen (273.13), Code 1954, to set a millage levy limit for county boards of education.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section two hundred seventy-three point thirteen (273.13), subsection ten (10), Code 1954, is hereby amended by adding thereto the following:

"This levy shall not exceed three-fourths mill in counties having an assessed valuation under twenty million dollars, five-eighths mill in counties having a valuation from twenty million dollars to thirty million dollars, one-half mill in counties having a valuation from thirty million to fifty million dollars, three-eighths mill in counties having a valuation of fifty million to seventy-five million dollars and one-fourth mill in counties having a valuation over seventy-five million dollars."

Explanation

The purpose of this bill is to set a limit on the property tax millage rate which can be levied for the county board of education.

Bill 40.

A BILL FOR

AN ACT to amend section four hundred forty-one point five (441.5), Code 1954, to set a millage levy limit for county assessor's office, county boards of review and conference board.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred forty-one point five (441.5), Code 1954, is hereby amended by inserting in line seventeen (17) after the word "shall" the words, "not exceed a levy of one mill in counties of less than twenty-one million dollars of assessed valuation and three-fourths mill in all counties with a valuation of twenty-one million dollars or more and such tax shall".

Explanation

The purpose of this bill is to set a limit on the property tax millage rate which can be levied for county assessment purposes.

3. County Road Administration Proposals.

Situation:

Iowa counties in 1954 spent about $56 million for secondary road construction and maintenance. During this same year, counties received for secondary road purposes approximately $27 million from the state government in road use tax fund distributions. These expenditures can be expected to increase in future years. It can thus be seen that county road construction and maintenance is big business and that a significant proportion of the total tax receipts of both the counties and state government is spent for this purpose. In fact, close to one-half of county road expenditures are financed by distributions from the state.

Anything that can be done to improve the efficiency and economy of county road administration obviously will be of considerable benefit and import to the total revenue and tax status of both the state and county governments. In approaching this problem the committee has acted with two basic principles in mind.

(a) County road administration should be locally controlled and operated with a minimum of state administrative and engineering help and supervision to aid counties in achieving efficiency, economy and good roads;

(b) A strong effort should be made, not necessarily to cut total county road costs, but to get more and better roads for the available money by improving road administration.

To accomplish these objectives, the committee recommends six bills. Each of these bills provides a desirable reform. Each can be enacted separately with or without the others. None of the bills affects in any way the present dual system of financing county roads by local taxes and the distribution of money from the road tax fund. The counties' share of road use tax money remains the same as do local tax levy limitations.

While, no doubt, there will be some differences of opinion, the committee earnestly feels that these bills greatly streamline and improve county road administration to the advantage of all concerned. It should not be expected that enactment of these bills will result in any great cut in road expenditures, but it should be expected that the counties will get better roads with the money which is available.

3a. Requirement of Bids.

The Committee Recommends that:

Bids be required on all purchases of heavy machinery, rentals of equipment, materials and supplies from secondary road funds where the cost is $500 or more.

Explanation of Proposed Bill:

Under the present law, bids are not required to be taken for the purchase of heavy machinery or maintenance and supplies. The recommended bill amends section 309.40 of the code to require advertising for bids on all $500 or more purchases or rentals of such equipment or supplies. This would place county road purchasing on a basis similar to that used by the State Highway Commission.

Proposed Bill No. 41:

REQUIREMENT OF BIDS ON SECONDARY ROAD PURCHASES.

Bill 41.

A BILL FOR

AN ACT relating to purchase of machinery, equipment and materials from secondary road funds.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section three hundred nine point forty (309.40), Code 1954, is hereby amended as follows:

1. By striking from line three (3) the words, "and materials therefor of" and inserting in lieu thereof the word, "for".

2. By inserting in line four (4) following the word, "dollars" the words, "and all purchases or rentals of equipment, machinery, material, and supplies from county secondary road funds which involve a cost of five hundred (500) dollars or more".

Explanation

The purpose of this bill is to require advertising for bids on purchases amounting to at least $500 of machinery, materials and supplies and rentals of equipment paid for from county road funds.

3b. Revision of Secondary Road Funds and Procedures.

The Committee Recommends that:

One secondary road fund be established in place of the present two funds. No change be made in the millage levy limitations. The division of secondary roads into county trunk roads and local county roads be eliminated. The provision that 35 percent of construction be spent on local county roads also be eliminated.

The board of supervisors be required to meet and consult with township trustees on improvements needed for the secondary roads in the various townships.

Explanation of Proposed Bill:

These recommendations simplify and improve county road fiscal procedures and road administration. The bill creates one secondary road fund in place of the present separate construction and maintenance funds and centralizes authority over the spending of county road money in the board of supervisors. Inasmuch as the board of supervisors may now legally transfer money at will from the secondary road construction fund to the maintenance fund and vice versa, the two-fund concept is obsolete and creates extra red tape and duplicate bookkeeping in the accounting and administration of the two funds. The millage levy limitations would be the same; proceeds would merely go into one combined fund.

This proposal also eliminates the classification of secondary roads into county trunk roads and local county roads. The requirement that 35 percent of construction must be spent on local county roads under the direction of a board of approval composed of the board of supervisors and township trustees is also eliminated. Under the 35 percent requirement, the board of supervisors is unduly hampered in many counties in its duty of planning and administering a sound countywide road program. The flat requirement that 35 percent of construction funds be spent on local roads bears no relationship to the needs of individual counties. Much less is needed in some counties while others may need to spend more on local roads. The conditions that led to the original enactment of the 35 percent provision no longer exist.

To aid the board of supervisors in county road planning, the township trustees are given the duty of advising the county board in the creation of the annual county road construction program.

Proposed Bill No. 42:

REVISION OF SECONDARY ROAD FUNDS AND PROCEDURES.

Bill 42.

A BILL FOR

AN ACT relating to the secondary road system of counties

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Sections three hundred and nine point four (309.4), three hundred and nine point five (309.5), three hundred and nine point six (309.6), three hundred and nine point seven (309.7), three hundred and nine point eight (309.8), three hundred and nine point nine (309.9), three hundred and nine point ten (309.10), as amended by chapter one hundred and forty-nine (149), Acts of the Fifty-sixth General Assembly, three hundred and nine point eleven (309.11), three hundred and nine point twelve (309.12), three hundred and nine point thirteen (309.13), as amended by chapter one hundred and forty-nine (149), Acts of the Fifty-sixth General Assembly, three hundred and nine point fourteen (309.14), three hundred and nine point fifteen (309.15), three hundred and nine point twenty-three (309.23), three hundred and nine point thirty-one (309.31), three hundred and nine point thirty-two (309.32), three hundred and nine point thirty-three (309.33), and section three hundred twenty-one point three hundred fifty-one (321.351), Code 1954, are hereby repealed.

Sec. 2 The board of supervisors may annually, at its September session, levy for secondary road construction and maintenance purposes:

1. A tax of not to exceed two mills on the dollar on all taxable property in the county except on property within cities and towns which control their own bridge levies.

2. A tax of not to exceed one-half mill on the dollar on all taxable property in the county except on property within cities which control their own bridge levies.

3. A tax of not to exceed eight and five-eighths mills on the dollar on all property in the county, except on property within cities and towns, provided, that no county shall be required, as a condition precedent to being eligible, to receive farm-to-market road funds on an equalization basis, to levy in excess of five and five-eighths mills.

4. A tax not to exceed five-eighths mills on the dollar on all taxable property in the county.

Sec. 3. There is hereby created a secondary road fund which fund shall consit of:

1. All funds derived from the secondary road tax levies.

2. All funds allotted to the county from the state road use tax fund.

3. All funds provided by individuals for the improvement of any secondary road from their own contributions.

4. All other funds which may by law be dedicated to said fund.

Sec. 4. The secondary road fund is hereby pledged to and shall be used for any or all of the following purposes at the option of the board of supervisors:

1. Construction and reconstruction of secondary roads and costs incident thereto.

2. Maintenance and repair of secondary roads and costs incident thereto.

3. Payment of all or part of the cost of construction and maintenance of bridges in cities and towns having a population of eight thousand (8,000), or less and all or part of the cost of construction of roads located within an incorporated town, of less than four hundred (400), population, which lead to state parks.

4. Special drainage assessments levied on account of benefits to secondary roads.

5. Payment of interest on and principal of any bonds of the county issued on account of secondary roads, bridges or culverts constructed by the county.

6. Any legal obligation or contract in connection with secondary roads and bridges which is required by law to be taken over and assumed by the county, and

7. Secondary road equipment, materials, supplies and

garages or sheds for the storage, repair and servicing thereof.

Sec. 5. Section three hundred and nine point twenty-two (309.22), Code 1954, is hereby amended as follows:

1. By striking from lines one (1), two (2) and three (3) the words, "Before proceeding with any construction work on the secondary road system for any year or years" and inserting in lieu thereof the words, "On or before the first day of November of each year".

2. By striking from lines five (5) and six (6) the words, "or project" and inserting in lieu thereof the following "for the next calendar year".

3. By striking all of said section after the word, "year" in line seven (7).

Sec. 6. In the preparation of the county secondary road program required by section three hundred and nine point twenty-two (309.22), of the Code, the board of supervisors shall meet and consult with the township trustees as to the improvements needed for the secondary roads in the various townships.

Sec. 7. Section three hundred and eleven point seven, (311.7), Code 1954, is hereby amended by striking the word, "December" in line five (5) and inserting in lieu thereof the word, "July".

Sec. 8. Section three hundred and nine point forty-six (309.46), Code 1954, is hereby amended by striking the word, "construction" in line seven (7).

Sec. 9. Section three hundred and nine point forty-seven (309.47), subsection one (1), Code 1954, is hereby amended by striking the word, "construction" in line four (4).

Sec. 10. Section three hundred and nine point forty-eight (309.48), Code 1954, is hereby amended as follows:

1. By striking from lines one (1) and two (2) of subsection one (1) the word, "construction".

2. By striking from line two (2) of subsection three (3), the word, "construction."

Sec. 11. Section three hundred and nine point fifty-two (309.52), Code 1954, is hereby amended as follows:

1. By striking from line four (4) the word, "construction" and inserting in lieu thereof the words, "secondary road".

2. By striking from line nine (9) the word, "construction".

Sec. 12. Section three hundred and twelve point two (312.2), subsection two (2), Code 1954, is hereby amended by striking the word, "construction" in line one (1).

Sec. 13. Section three hundred and twelve point three (312.3), subsection one (1), Code 1954, is hereby amended by striking the word, "construction" in lines five (5) and six (6).

Sec. 14. Section three hundred and twelve point four (312.4), subsection two (2), Code 1954, is hereby amended by striking the word, "construction" from line three (3).

Sec. 15. Section three hundred and twenty-one point three hundred and forty-six (321.346), Code 1954, is hereby amended as follows:

1. By striking the words, "county trunk highways" in line four (4) and inserting in lieu thereof the words, "secondary roads".

2. By striking the words, "trunk road maintenance or construction fund" in lines five (5) and six (6) and inserting in lieu thereof the words, "secondary road fund".

Sec. 16. Section four hundred sixty-seven B point thirteen (467B.13), Code 1954, is hereby amended by striking from lines four (4) to seven (7), inclusive, the words and figures, "to the secondary road construction fund as provided by section three hundred nine point eight (309.8). Any amount so credited to the secondary road construction fund" and inserting in lieu thereof the words, "to the secondary road fund. Any amount so credited to said fund".

Sec. 17. The classification of secondary roads into "county trunk roads" and "local county roads" is hereby abolished. Wherever in any statute the words, "county trunk roads," "county road" or "local county road" appear, they shall be construed to mean "secondary road".

Sec. 18. The classification of county road funds into "secondary road construction funds" and "secondary road maintenance funds" is hereby abolished. Wherever in any statute the words, "secondary road construction fund" or "secondary road maintenance fund" appear, they shall be construed to mean, "secondary road fund"

Explanation

The purposes of this bill are: (1) to create one county road fund, (2) to classify all secondary roads, except farm-to-market roads, into one system, and (3) to eliminate the requirement that 35 percent of county road construction money must be spent on local county roads. Millage levy limits for road purposes would not be changed.

3c. Annual Progress Report on County Road Work.

The Committee Recommends that:

The county engineer be required to include each year in his annual report to the State Highway Commission a statement on the progress made on each project in the county's secondary road program.

Explanation of Proposed Bill:

Each county is required to file with the state highway commission a secondary road construction program setting forth the county's plans for road construction. The present law requires approval of this plan by the Highway Commission. This bill simply requires each county engineer to include in his annual report to the Highway Commission a statement of the progress made toward the completion of each project contained in the county secondary road construction program. The bill thus would provide a follow-up to show a county's progress in meeting its secondary road plans.

Proposed Bill No. 43:

PROGRESS REPORT ON SECONDARY ROAD PROJECTS.

Bill 43.

A BILL FOR

AN ACT to require an annual report as to a county's progress on its secondary road construction program.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section three hundred and nine point twenty-two (309.22), Code 1954, is amended by adding thereto the following: "At the close of each year, the county engineer as a part of his annual report to the state highway commission shall include a statement of the progress made toward the completion of each project contained in the approved program, a statement of the total amount expended on each such project during the year, and a statement of what portion of the work on each such project was done on contract and the amount so expended on each contract for each such project."

Explanation

The purpose of this bill is to require each county to inform the highway commission each year of its progress on the construction program which the county is now required to file with the commission.

3d and 3e. Responsibilities and Employment of County Engineers.

To improve the status of the county engineers to attract competent personnel and to establish the county engineer's responsibility for road administration on a more

business-like basis, the Committee makes the recommendations which are embodied in the following two bills.

3d. County Engineer: Duties and Responsibilities.

The Committee Recommends that:

The status and responsibility of the county engineer be defined to give him the direct and immediate supervision of all road construction and maintenance carried out by the county.

Explanation of Proposed Bill:

This recommendation defines the duties of the county engineer and the responsibility of the board of supervisors in county road administration. The board is granted all policy making powers and is made responsible for directing where and what types of road work shall be done and how much money will be spent. The board also hires county engineers and assistant engineers, fixes salaries and approves bids and contracts.

The county engineer carries out the road policy and program of the board and is made responsible for (1) hiring and firing of road employees, (2) the assignment and direction of the work of road employees, (3) preparation of plans and specifications for projects directed by the board, (4) direct supervision over construction and maintenance work, (5) all other plans and engineering work, (6) minor purchases not requiring bids or contracts and (7) record keeping.

This proposal will eliminate the present practice in some counties whereby the board of supervisors divide up the county and each supervisor directs the road work in his district. In this connection, it should be noted that such a practice of supervisors acting as road foremen in their districts was ruled illegal by the Iowa Attorney General in 1948.

Proposed Bill No. 44:

COUNTY ENGINEER: DUTIES AND RESPONSIBILITIES.

Bill 44.

A BILL FOR

AN ACT to define the duties and responsibilities of the county engineer.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section three hundred nine point twenty-one (309.21), Code 1954, is repealed and the following enacted in lieu thereof:

"All road construction and maintenance work performed by or for counties shall be performed under the direct and immediate supervision of the county engineer who shall be responsible for the efficient, economical and good-faith performance of the work. The county engineer shall have all necessary powers required for the performance of his duties and responsibilities including, but not restricted to, the following:

"1. To hire and dismiss all county road employees except assistant county engineers; and to supervise, direct and assign the work of all such employees including assistant county engineers.

"2. To fix the salaries, subject to the approval of the board of supervisors, of all county road employees except assistant county engineers.

"3. To prepare specifications and requisitions for purchases for county road purposes and to make all purchases except where bids and contracts are required.

"4. To prepare plans and specifications for construction projects designated by the board and to have charge of all other phases of engineering work.

"5. To keep the necessary financial records relating to road expenditures."

Explanation

The purpose of this bill is to define clearly the policy-making duties of the board of supervisors and the administrative duties of the county engineer in getting county road work done. These duties are now stated in general terms in the Code.

3e. County Engineer: Appointment, Tenure and Removal.

The Committee Recommends that:

The law about appointment, tenure, and removal from office of the county engineer be revised to make the position more attractive and secure.

Explanation of Proposed Bill:

The second county engineer proposal is designed to give the county engineer more job security during the duration of his contract and at the same time establish procedures so that the board of supervisors may discharge an unfit engineer.

An employment contract may run between one and three years at the discretion of the board of supervisors. If it is desired to discharge a county engineer prior to the expiration of his term, this bill provides that written charges must be served upon him and that he is entitled to appear before the board of supervisors at a public hearing and present matter in his defense. Following such a hearing he may be discharged if a two-thirds majority of the board of supervisors so votes.

The bill provides, as is the case for all county officials, that a county engineer may also be removed from office under the provisions of subsection nine (9) of section three hundred thirty-two point three, (332.3), of the code for failure to submit any required report to the board of supervisors. The bill also permits the removal of a county engineer under provisions of chapter sixty-six (66) of the code which relates generally to removal of all public officials for certain listed causes.

Proposed Bill No. 45:

COUNTY ENGINEER: APPOINTMENT, TENURE AND REMOVAL.

Bill 45.

A BILL FOR

AN ACT relating to the appointment, tenure and removal from office of county engineers and assistant county engineers.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section three hundred and nine point seventeen (309.17), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"The board of supervisors shall appoint a county engineer and such assistant engineers as may be necessary. Every person appointed to the office of county engineer under the provisions of chapter one hundred and fourteen (114) of the Code, shall be a registered civil engineer. At the time of appointment or reappointment of any person to the office of county engineer, the board of supervisors shall fix the term of office which shall not be less than one nor more than three years. No person so appointed to the office of county engineer shall be removed from office prior to the expiration of his term except as follows: 6

"1. By a two-thirds majority of the entire board of supervisors in a public hearing before the board of supervisors at least ten days following the service by the board of specific written charges upon the person sought to be removed. Such person sought to be removed shall have the right to appear before the board at such public hearing and present matter and evidence in his defense. Such proceedings before the board, if not result-

ing in removal, shall not be a bar to subsequent proceedings in the district court as provided in chapter sixty-six (66) of the Code.

"2. By action under the provisions of section three hundred thirty-two point three (332.3) subsection nine (9) of the Code.

"3. By proceedings in the district court under the provisions of chapter sixty-six (66) of the Code."

Explanation

The purpose of this bill is to permit the county engineer to have a public hearing before the board of supervisors if he believes he is being discharged unjustifiably.

3f. Secondary Road Budget.

The Committee Recommends that:

Each county be required to prepare annually a secondary road budget. Approval by the State Highway Commission be required before construction funds may be spent. The budget be used to increase efficiency in the spending of county road funds by county officials.

Explanation of Proposed Bill:

The purpose of this proposal is to improve county road budgetary procedures and to set up a system whereby each county will receive the advice and aid of the State Highway Commission in planning its county road expenditures.

Each county is required to file a budget with the Highway Commission each year. The budget would list the revenue available for road purposes and the amounts proposed to be spent from each road fund for each category of road expenditure. Approval of the proposed budget by the Highway Commission would be necessary before the county could spend any road money for any purpose other than maintenance. If a county desires to operate on a budget disapproved by the Highway Commission, it may do so; but, in such a case, the county may make expenditures only for road maintenance. The bill contains adequate provisions for amendment of road budgets in cases of emergency or unforeseen conditions.

It is generally agreed that some counties manage to get more for each dollar of road expenditures than others. The budgetary procedures established by this bill and the aid and advice of the highway commission that accompany these procedures can be expected to help eliminate this discrepancy by improving county road planning and encouraging efficiency and economy in spending of road money. These procedures are consistent with the established principle that the state should not usurp control of local roads from the various counties.

Proposed Bill No. 46:

SECONDARY ROAD BUDGET

Bill 46.

A BILL FOR

AN ACT relating to county secondary road budgets.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. On or before November 1 of each year, the board of supervisors, with the assistance of the county engineer, shall adopt and submit to the state highway commission for approval the county secondary road budget for the next calendar year. The budget shall include an itemized statement of:

1. Estimated revenues to be raised by property taxation for secondary road purposes.

2. Estimated revenues to be received from the state road use tax fund.

3. Estimates of revenues from all other sources for secondary road purposes.

4. The proposed expenditures from each road fund during the next calendar year. The estimates of such proposed expenditures shall be itemized and classified in a manner which the state highway commission shall prescribe.

5. The actual expenditures for the last two prior years and the estimated expenditures for the current year. These shall be itemized and classified in the same manner as proposed expenditures.

6. The cash balance of each road fund at the end of the last prior year, an estimate of the cash balance at the end of the current year, and an estimate of the cash balance at the end of the next calendar year.

Sec. 2. The state highway commission shall have the power to approve or disapprove the budget adopted by the board of supervisors. If the budget is not approved, the state highway commission shall list the disapproved expenditures and shall state the reasons for disapproval when the budget is returned to the county. The commission shall act upon a budget and return the budget to the county within forty-five (45) days after the budget is received by the commission. Upon disapproval of any proposed expenditure in a budget, the county may submit a revised budget to the commission for approval. The commission shall act upon such a revised budget within ten days.

Sec. 3. The budget shall be binding except that should bona fide unforseen or emergency conditions arise, the board of supervisors may amend such budget during the year for which it was adopted. Such amendments shall be submitted to the state highway commission for approval with a statement of the reasons necessitating the amendment. The state highway commission shall approve or disapprove such amendments in the same manner as original budget estimates except that the highway commission shall act upon and return such amendments within fifteen (15) days after their receipt by the commission. The state highway commission acting upon budget amendments is directed to approve only such amendments as are actually necessitated by unforeseen or emergency conditions.

Sec. 4.

1. No county shall expend from a secondary road fund for any purpose, funds in excess of the amount provided for such purpose in the budget or amended budget as adopted by the board of supervisors, whether such budget is approved or disapproved by the highway commission.

2. In the event that a county secondary road budget or amended budget thereto is disapproved by the highway commission, the county may elect either to revise such budget or amended budget so as to receive approval or the county may elect to operate with such disapproved budget or amended budget. In the event that a county shall elect to operate with a disapproved budget or amended budget such county may expend funds for road maintenance as provided in the disapproved budget or amended budget, subject to the provisions of subsection one (1) of this section, but such county shall not expend any funds for road construction, other than construction in special assessment districts under the provisions of chapter three hundred and eleven (311) of the Code, until such time as its secondary road budget or amended budget shall be approved by the commission. Expenditures for maintenance by a county electing, under the provisions of this subsection, to operate with a disapproved budget shall not include any expenditures totaling five hundred dollars ($500) or more during any year for the purchase or rent of any one item of equipment or machinery nor shall construction work be carried out with maintenance funds.

Sec. 5. Section three hundred and eleven point seven

(311.7), Code 1954, is hereby amended by striking the word "December" in line five (5) and inserting in lieu thereof the word "July".

Sec. 6. Nothing in this Act shall contravene or affect the provisions of chapter twenty-four (24) of the Code.

Explanation

The purpose of this bill is to require each county to submit each fall to the state highway commission a budget. This budget would contain the proposed revenues and proposed expenditures for county road purposes during the next year. Unless a budget was submitted and approved, a county would not be permitted to spend money for construction work.

4. **County Government Study Committee.**

Situation:

Many of the tax questions related to local tax levying bodies involved county government in one form or another. The Committee found it difficult to draw the line between tax problems and those problems related to the local government agencies and officials administering taxes. The recommendations in this section of the report do not cover many issues of county government because the Committee felt these were not strictly within its area. One of the important questions in the county area, which fell in this class, was the form of county government. Consequently, the Committee proposes further study in this field.

The Committee Recommends that:

Further study and consideration by a county government study committee, created by future legislative action, be given to a plan or plans for the optional county manager form of government in Iowa. In such a plan it is understood that the electors of a county would vote to adopt or reject said county manager form in their respective counties. (This Taxation Study Committee will make available to such future committee, when and if selected, all data and bills which it considered.)

K. INSURANCE

1. **Fraternal Insurance.**

Situation:

Difficulty has been experienced in recent years in administering the insurance law as it related to exemptions allowed fraternal beneficiary associations. The particular problem has centered on the definition of such an association. In order to make the law clear on this point an entirely new statement has been prepared which defines the fraternal association; sets forth specifically the type of insurance issued by these associations which is exempt from the insurance premium tax and the type which is not exempt; and provides for exemptions on funds spent for charitable purposes.

The Committee Recommends that:

a. Fraternal beneficiary associations be defined in such a way that there be no difficulty in determining those eligible and those not eligible for the exemption of the insurance premium tax.

b. The insurance policies issued by fraternal associations be classified to provide a tax exemption for risks of $2,000 per person or less and to provide for the taxation of the premium on risks in excess of $2,000 per person on policies hereafter issued.

c. Exemption on insurance premium tax be allowed on income spent for charitable or benevolent purposes.

Explanation of Proposed Bill:

In order to qualify as a fraternal beneficiary association, an organization would have to meet the following three tests:

a. Be a nonprofit organization;

b. Have members pay dues in addition to insurance premiums;

c. Have an active lodge system.

If an association qualified under a, b, and c above, it would be entitled to exemption from the insurance premium tax on insurance contracts not exceeding $2,000, and on all income received which is spent for charitable and benevolent purposes. A fraternal association not strictly conforming to (b) and (c) may nevertheless be licensed, but in that event must conform to the licensing law for agents.

Proposed Bill No. 47:

FRATERNAL INSURANCE AMENDMENT

Bill 47.

A BILL FOR

AN ACT to repeal section five hundred twelve point one (512.1), Code 1954, and to enact in lieu thereof a new section defining a fraternal beneficiary association and providing for the taxation thereof.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section five hundred twelve point one (512.1), Code 1954, is hereby repealed and the following enacted in lieu thereof:

"A fraternal beneficiary association as referred to in Title XX is hereby declared to be a corporation, society, or voluntary association, operated for the sole benefit of its members, their beneficiaries and dependents, if (1) a nonprofit organization, (2) having a membership paying regular identifiable dues independently of insurance charges or assessments, (3) having an active and functioning lodge system with a ritualistic form of work and representative form of government.

"An association purported to be organized on a fraternal basis which does not strictly conform to items (2) and (3) may nevertheless be licensed by the commissioner of insurance if otherwise qualified under the provisions of chapter five hundred twelve (512), in which event it shall also be subject to the provisions of chapter five hundred twenty-two (522).

"A fraternal beneficiary association licensed under the provisions of this chapter shall, at the time of filing its annual report, pay to the treasurer of state as taxes, two percent of the considerations received during the preceding calendar year from all life and annuity contracts written after the effective date of this section on risks resident in Iowa, subject to the following:

"Before computation of the tax due, there may be deducted from such income, (1) premiums or assessments received from a member in consideration of life or annuity contracts, if the total of the principal amounts of all such contracts carried by the association on the member does not exceed two thousand dollars; (2) premiums returned which are not conditioned on the death of the contract holder; (3) dividends paid and not applied to the purchase of additional insurance or annuities; (4) all funds expended by the association for charitable and benevolent purposes other than insurance, for the benefit of association members or their family dependents."

Explanation

The purposes of this bill are to (1) better define fraternal beneficiary associations, (2) provide for a tax on premiums for risks in excess of $2,000 per person and (3) to allow an exemption on this tax for income spent for charitable or benevolent purposes.

2. Burial Associations.

Situation:

Mutual benefit societies, commonly known as burial associations, have been operating in various areas of the state. At present there is no provision in the law for such associations and consequently no regulations for the protection of their members.

It is deemed appropriate that these associations should come under the supervision of the Insurance Department of Iowa; that certain rules be specified to safeguard the interests of the members; and that a 2 percent tax be applied to membership fees and assessments as is now required of insurance companies.

The Committee Recommends that:

Mutual benefit societies (burial associations) be placed under the supervision of the Insurance Department of Iowa, that regulations to protect the interest of members be set forth, and that the 2 percent tax be applied to all fees and assessments.

Explanation of Proposed Bill:

The major regulations include the filing of a $25,000 bond by the secretary, the filing of an annual report to the insurance commissioner, payment of an annual $25 fee and a 2 percent tax on all fees and assessments.

Such societies shall not be incorporated, but would be required to hold annual meetings, elect a secretary or agent, and issue memberships. No society of this type could operate in Iowa except under the provisions of the statue recommended.

Proposed Bill No. 48:

TAXATION OF BURIAL ASSOCIATIONS

Bill 48.

A BILL FOR

AN ACT for the taxation and regulation of unincorporated mutual benefit societies; and prohibiting incorporated benefit societies not otherwise authorized by law.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. **Definition.** Unincorporated mutual benefit societies are hereby defined as voluntary associations formed and organized solely for the purpose of rendering financial aid or other assistance to their members, or certain designated beneficiaries thereof, when visited by sickness, death, or other misfortunes specifically designated by membership certificate or bylaw.

Sec. 2. **Status.** Said societies shall have no status as persons or as bodies corporate or politic but are mere aggregations of individuals called for convenience by a common name and shall have no power to sue or be sued or acquire or hold property in such name.

Sec. 3. **Duties.** Such societies shall:

1. Adopt bylaws;
2. Issue membership certificates;
3. Hold meetings at least annually;
4. Elect a secretary or agent to administer the affairs of the society.

Sec. 4. **Powers.** Such societies may:

1. Provide for a membership fee, the proceeds of which shall be used only for expenses incurred in the performance of the duties enumerated in section three (3) hereof and for the payment of the tax and fee hereinafter provided.
2. Provide for assessment of members for the purpose of paying benefits named in the membership certificate, expense of preparing and mailing assessment notices and payment of the tax and fee hereinafter provided.

Sec. 5. **Duties of secretary.** The secretary or agent shall:

1. File bond with the insurance commissioner for the benefit of the members in the principal amount of twenty-five thousand (25,000) dollars.
2. Receive all dues and assessments and keep an account thereof.
3. Pay all benefits and authorized expenses and keep an account thereof.
4. Issue memberships in accordance with the bylaws and sign all membership certificates.
5. File an annual report with the insurance commissioner on or before April 1 of each year on a form to be provided by the commissioner accounting for all moneys received and expended and providing such other information required by the commissioner.
6. File with the insurance commissioner the proceedings of the annual meeting and a copy of all bylaws, membership certificate forms, and amendments to bylaws, which must be approved by the commissioner.
7. Pay a fee of twenty-five dollars to the insurance commissioner at the time of organization and annually thereafter on or before April 1 of each year.
8. Pay over to the treasurer of state through the insurance commissioner all taxes hereinafter provided.

Sec. 6 **Prohibited acts.** No member, secretary or agent shall:

1. Represent membership in such society as "insurance."
2. Receive any salary, wage, profit, or compensation of any nature for services rendered to or on behalf of such society except reimbursement for actual and necessary expenses incurred in carrying out the duties and powers herein provided and reasonable compensation for actual time expended.
3. Agree to pay benefits in a fixed amount.

Sec. 7. **Tax imposed.** There is hereby imposed a tax of two percentum on the amount of each membership fee and on the amount of each assessment. It shall be the duty of the secretary or agent to withhold the said tax and pay same to the treasurer of state through the insurance commissioner at the time of filing the annual report.

Sec. 8. Unless otherwise specifically provided by statute no unincorporated society or association providing sick, funeral or death benefits for its members on an assessment basis shall be operated in the state of Iowa except in conformity with the provisions hereof. No corporation shall operate directly or indirectly as a mutual benefit society, except that a fraternal beneficiary association as now or hereafter defined in chapter five hundred twelve (512) may operate such a plan exclusively for its members.

Sec. 9. Violation of any of the provisions of this Act by any secretary or agent of such society or by any other person shall be a misdemeanor and any person convicted thereof shall be sentenced to thirty days in the county jail.

Sec. 10. If any provision of this Act is found to be unconstitutional or invalid it shall not operate to invalidate other provisions therof.

Explanation

The purposes of this bill are to place burial associations under the supervision of the state insurance department and to tax their fees and assessments at a 2 percent rate.

L. CONTRACTING AND RETIRING STATE DEBT

Situation:

The Constitution of Iowa presently provides for borrowing by the State on vote of the people for a period of not

exceeding 20 years and payment of interest and principal by the imposition of a direct annual tax. These requirements apply to all state debts in excess of $250,000.

This section of the constitution was adopted in 1857 when property was practically the sole basis of taxation and interest rates were so high that twenty years was a long period for a debt.

Consequently, two changes are suggested in the borrowing provision of the constitution: (1) to permit bonds to be issued for 40 year terms and (2) to permit use of other revenues besides property taxes for the payment of state debts.

Extension of the period from 20 to 40 years is in accord with standard conservative methods of financing. In fact, the stronger the borrowing agency the more reason for using a long period loan if the purpose and the interest rate are favorable for a long term loan.

Use of other revenues than property taxes as a pledge is in keeping with the new methods of state financing which have developed in the last 25 years. Years ago the state relied almost entirely on property taxes for state revenue; now state property taxes are used only for soldiers' bonus payments.

The Committee Recommends that:

A constitutional amendment to extend the term for which state bonds may be issued from 20 to 40 years and to provide for the use of other revenues than property taxes as a pledge for payment of interest and principal on state debts.

Proposed Resolution (Bill No. 49):

TERM AND PAYMENT OF STATE DEBT

Bill 49.

JOINT RESOLUTION

A Joint Resolution proposing an amendment to section five (5), Article Seven (VII), of the Constitution of the State of Iowa relating to the contracting of debt by or on behalf of the state.

Be It Resolved by the General Assembly of the State of Iowa:

Section 1. The following amendment to the Constitution of the State of Iowa be and the same is hereby proposed.

Section five (5) of Article seven (VII) of the Constitution of the State of Iowa is hereby repealed and the following adopted in lieu thereof:

"Except the debts herein before specified in this article, no debt shall be hereafter contracted by, or on behalf of this State, unless such debt shall be authorized by some law for some single work or object, to be distinctly specified therein; and such law shall impose and provide for the collection of a direct annual tax, sufficient to pay the interest on such debt, as it falls due, and also to pay and discharge the principal of such debt within forty years from the time of the contracting thereof, or provision may be made in and by such law for irrevocably pledging, in whole or part, one or more other sources of revenue toward the payment of such interest and principal and the proportionate abatement of the direct annual tax; but no such law shall take effect until at a general election it shall have been submitted to the people, and have received a majority of all the votes cast for and against it at such election; and all money raised by authority of such law, shall be applied only to the specific object therein stated, or to the payment of the debt created thereby; and such law shall be published once each month in at least one newspaper in each County, if one is published therein, throughout the State, for the three consecutive full months next preceding the election at which it is submitted to the people."

Sec. 2 The foregoing proposed amendment to the Constitution of the State of Iowa is hereby referred to the General Assembly to be chosen at the next general election and the Secretary of State is directed to cause the same to be published as provided by law for three months previous to the time of making such choice.

Explanation

The purpose of this resolution is to amend the state constitution to permit debt to be issued for 40 years rather than 20 years and to permit other revenues besides property taxes to be used to pay off state debts.

M. SUMMARY OF RECOMMENDATIONS

The recommendations made by the Committee form a definite pattern. First and foremost, reduction in local property taxes is indicated with the funds to make up the reduction coming from state aids which in turn are supplied by state taxes of various kinds. This general set of recommendations is in line with the trend of state finance during the last ten years. In this period direct state aid to schools has risen from $3 to $22 million, agricultural land tax credit distributions have risen from nothing to $10.5 million, and homestead credits have increased from $16 million to $25 million.

Even with this substantial increase in state aid, the local property tax on a net basis has continued to climb. The total in 1956 was $224 million, or 50 percent of all state and local revenue, compared to $105 million or 54 percent in 1946. The reason, of course, is the askings in local units of government—schools, cities and counties—for more funds to provide the services which the people want.

The most significant fact in Iowa's present tax picture is the rise in local taxes caused by the rise in local expenditures.

The average local budget for 1957—school, city and county—was estimated by the Iowa Taxpayers Association, on the basis of 1,831 budgets, to be 7 percent over 1956. This means an increase in one year of approximately $19 million which is more than a one-half cent sales tax would yield to the State. If the people of Iowa do not want taxes to go up, they must take positive action in their local units of government which means holding down school, city and county budgets. The General Assembly of Iowa should not be critized for a situation which is fundamentally the result of increased local budgets approved by local units of government.

Once the local units have voted increased expenditures, the question then arises as to how much of the tax increase should be borne locally by property and how much can be shifted to state taxes.

The Taxation Study Committee has indicated by its recommendations that it thinks the state should assist local areas by continuing to absorb a share of the increase in local cost of services of a statewide interest. The recommendation for increased school aid, based largely on a new standard aid, is in line with this policy.

A second major policy indicated by the Committee's recommendations is a general modernizing and streamlining of the state tax system. Fewer and better administered taxes is the net result desired. The 5 mill moneys and credits tax on individuals and the household property tax would be repealed. Income, sales, inheritance, and insurance taxes would be given a major or minor overhauling as the case warranted.

Iowa will not have a perfect tax system if all the recommendations are enacted. Very little was done with exemptions and credits. When more people are acquain-

ted with the cost of these exemptions and credits—with the amount of labor it takes to calculate them and with the amount which the individual himself contributes in taxes to the exemption and credit he receives—then, and probably not until then, will it be possible to do the job that needs to be done. And it is difficult in the meantime to do much in removing one set of exemptions or credits without in fairness removing practically all of them.

After studying and evaluating the Iowa tax system for 18 months and comparing Iowa's system with those of other states, the Committee is encouraged. It is encouraged first by the progress made during the last 20 years and second by the intelligent discussion of tax issues by the public which has taken place during the Committee's deliberations. The evidence of this in the press and in numerous meetings which committee members have attended has been gratifying. The Committee hopes that citizens and organizations generally, and legislators in particular, will give the recommendations and related material in Part II and the background material in Part I careful and serious study. We also hope that as a result of this study the General Assembly will take action which will mark an outstanding mile stone in the improvement of Iowa's tax system.

SECTION V

ALTERNATIVE SOURCES OF REVENUE

Situation:

The present temporary 2½ percent retail sales tax automatically drops back to a 2 percent rate on July 1, 1957.

Without this one-half percent raise in the sales tax, the estimated general fund revenues each year during the 1956-1957 biennium would be approximately $10 million short of meeting the annual appropriations for this two-year period. The 1956-1957 appropriations are $136.5 million per year. The estimated revenues under a 2 percent instead of a 2½ percent sales tax with all other taxes remaining the same would be $126.5 million.

The Iowa Taxation Study Committee is not an appropriation committee. This committee was not authorized, nor has it attempted to determine how much money the state should spend. However, the committee was specifically requested by the General Assembly to inquire into and examine "the methods of raising revenues from all other possible sources than the taxation of real and personal property".

Consequently, the Committee, as a result of its studies, presents the following statement on sources of revenue other than property taxes. The Committee does not recommend or suggest that one or any of these taxes should be adopted. These sources of revenues are listed only as suggestions to indicate where revenues can be raised if needed. Three sources of revenue are submitted for consideration.

1. Educational Sales and Use Tax

Explanation of this Revenue Source.

This revenue source involves a special retail sales and use tax. Since the one-half percent rate will be dropped on June 30, 1957, the adoption of this revenue source at a one percent rate would make the state rate 3 percent.

Several important features are included in this revenue source. First is an earmarking feature. The entire proceeds of this 1 percent tax would be allocated directly for education. This earmarking feature is not generally considered a desirable device because it prevents the General Assembly from appropriating according to its wishes each time it meets. The argument is that earmarked revenue may be greater than needed. But in the case of such a 1 percent educational sales tax this argument would not be important, in the near future at least, because of the large sums needed for education. An advantage of the earmarking and labelling of the tax as educational would be the desirability of having people know that they were paying part of their sales tax directly for schools, just as they know that their gasoline taxes go for roads.

A second feature of the tax is its distribution. Junior college aid, which would be raised from 25 cents to one dollar a day per student, would be paid from the fund. This would require approximately $400,000. Next, the agricultural land tax credit amounting to $10,500,000 would be paid from this fund because this credit is used as a direct deduction from the general school levy on agricultural lands paid by the individual farm owner whose school district's millage is above 15 mills. The remainder of the fund, which would be approximately $17 million, would be allocated to school districts as standard aid. Standard aid is described in the proposal under Public School Finance earlier in this report. The $17 million of standard aid is computed by assuming that a 1 cent sales tax will raise $28 million and that the junior college aid and agricultural land tax credit would take about $11 million of this.

The educational sales tax bill, without recommendation of the Committee, is presented below:

Bill No. 50:

EDUCATIONAL SALES TAX BILL

Bill 50.

A BILL FOR

AN ACT to provide an educational sales and use tax, to prescribe the allocation of the revenue raised by such tax, and to amend and repeal certain sections of the Code relating to or replaced by the provisions of this Act.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section four hundred twenty-two point forty-three (422.43), Code 1954, as amended by section seven (7), chapter forty-five (45), and sections one (1) and two (2), chapter two hundred and twelve (212), Acts of the Fifty-sixth General Assembly, is hereby amended as follows:

1. By adding thereto the following: "There is hereby imposed beginning the first day of July, 1957, an additional tax of one (1) percent upon the gross receipts from all sales of tangible personal property and all other transactions subject to sales tax under the provisions of this section. This tax shall be known as the educational sales tax and the proceeds of such tax shall be appropriated as prescribed in Section five (5) of this Act. All provisions of the Code relating to the imposition, collection and administration of the sales tax shall apply to the educational sales tax."

2. By inserting after the word "revenues" in line fifty-five (55) the words ", except those from the educational sales tax,".

Sec. 2. Section four hundred twenty-two point sixty-two (422.62), Code 1954, as amended by section eight (8), chapter forty-five (45), Acts of the Fifty-Sixth General Assembly, is hereby amended as follows:

1. By inserting after the word "receipts" in line seven (7) the words, ", except those from the educational sales tax,".

2. By inserting after word "chapter," in lines eleven (11) and twelve (12) the words "except the proceeds of the educational sales tax,".

3. By inserting after the word "commission." in line seventeen (17) the following new sentence: "The proceeds of the educational sales tax shall be credited by the treasurer of the state in the manner provided for in section five (5) of this Act."

Sec. 3. Section four hundred twenty-three point two (423.2), Code 1954, as amended by section nine (9), chapter forty-five (45), Acts of the Fifty-Sixth General Assembly, is hereby amended by adding to such section the following:

"An excise tax is hereby imposed upon the use in this state of tangible personal property purchased on or after the first day of July, 1957, for use in this state, except motor vehicles, trailers and motor vehicle accessories and equipment, at the rate of one (1) percent of the purchase price of such property. This tax shall be known as the educational use tax and shall be in addition to all

other use taxes imposed. Said tax is hereby imposed upon every person using such property within this state until such tax has been paid through the retailer or to the state tax commission as hereinafter provided. This tax shall not apply to the use of tangible personal property exempted by section four hundred twenty-three point four (423.4). All provisions of the Code relating to the imposition, collection and administration of the use tax shall apply to the educational use tax."

Sec. 4. Section four hundred twenty-three point twenty-four (423.24), Code 1954, as amended by section ten (10), chapter forty-five (45), Acts of the Fifty-Sixth General Assembly, is hereby amended as follows:

1. By adding to line one of such section before the word "All" the number "1."

2. By adding to such section the following new subsection: "2. Subsection one (1) of this section shall not apply to the proceeds of the educational use tax. The proceeds of the educational use tax shall be appropriated as prescribed in Section five (5) of this Act."

Sec. 5. The proceeds of the educational sales and use taxes received by the state treasurer during each fiscal year beginning July 1, 1957, shall be held by the state treasurer in a special fund during such fiscal year. On the first day, of each fiscal year beginning July 1, 1958, the proceeds of the educational sales and use tax from the prior fiscal year held by the state treasurer are hereby appropriated as follows:

First, to the state treasurer for distribution each year to the school districts of this state operating public junior colleges, a sum sufficient to grant each such school district the sum of one hundred and eighty dollars ($180) per student carrying twelve (12) or more hours of college work in average daily enrollment during the past year in the junior college operated by such school district.

Second, to the agricultural land credit fund held by the state treasurer, the sum of ten million five hundred thousand dollars ($10,500,000) each year.

Third, the remainder of the proceeds to the standard school aid fund held by the state treasurer for distribution on an average daily attendance basis to the school districts of this state meeting the requirements for such standard school aid.

If the revenues from the educational sales and use taxes are insufficient to meet the above appropriations, such revenues shall be devoted to such appropriations in the order the appropriations are listed until such revenues are exhausted.

Sec. 6. Section two hundred eighty-six A point three (286A.3), Code 1954, is hereby amended by striking all of such section following the word "school" in line six (6).

Sec. 7. Section two hundred eighty-six A point four (286A.4), Code 1954, is hereby amended as follows:

1. By striking all of subsection three (3) thereof.

2. By striking the words and figures ", 2, and 3" in line two (2) of subsection four (4) thereof and inserting in lieu thereof the following: "and 2".

Sec. 8. Section four hundred twenty-six point one (426.1), Code 1954, as amended by chapter two hundred fifteen (215), Acts of the Fifty-Sixth General Assembly, is hereby amended by striking all of such section after the word "for" in line six (6) thereof and inserting in lieu thereof the following: "the fiscal year beginning July 1, 1957, and ending June 30, 1958, from the general fund, and for the fiscal year beginning on July 1, 1958, and each fiscal year thereafter from the proceeds of the educational sales and use taxes, the sum of ten million five hundred thousand dollars ($10,500,000). Any balance in such agricultural land credit fund on June 30 of any fiscal year shall revert to the standard school aid fund."

Explanation

The purpose of this bill is to enact a one percent retail sales and use tax with the entire revenue to be used solely for educational purposes: (1) Payment of one dollar a day per student in junior colleges; (2) payment of the agricultural land tax credit, and (3) the remainder for new standard aid.

2. Adjusted Gross Personal Income Tax

Explanation of this Revenue Source.

a. **The Base of the Tax.** The base on which this tax would be levied is "adjusted gross income," as computed for Federal tax purposes, less interest and dividends from Federal securities, plus interest and dividends from foreign securities, and from securities issued by state and local political subdivisions. With these additions and subtractions the Federal "adjusted gross income" is the same as the Iowa measure of "net income," as defined in the Code of Iowa, 1954, (sections 422.7 and 422.8). Thus, the tax base would include receipts in the form of:

Wages, salaries, bonuses and commissions;
Dividends and other earnings from investments;
Interest from bonds and other loans;
Pensions, annuities, and endowments (less the cost of such pensions to the taxpayer);
Rent and royalties;
Profits from business or profession;
Profits from sales of real estate, securities, autos, etc.;
Shares in partnership profits, and income from estates or trusts.

The only deductions allowed would be for costs incurred in the earning of income, including ordinary trade and business costs, or expense. Other deductions would be limited to:

Expenses of travel and lodging incurred in connection with employment and other reimbursed expenses connected employment;
Deductions attributable to rents and royalties;
Deductions for depreciation and depletion allowable to beneficiaries of property held in trust;
Allowable losses from sales of capital assets and other property; and
A deduction equal to 50 percent of the excess of net long-term capital gain over net short-term capital loss.

These are exactly the same inclusions and deductions now in effect for the computation of Federal "adjusted gross income."

The "Adjusted Gross Personal Income Tax" would differ from the present Iowa individual net income tax in these respects:

1. No deductions from the tax base described above would be permitted, for either personal exemptions (for the taxpayer, spouse, and dependents), or for "nonbusiness deductions" (interest, taxes, medical expenses, contributions, and casualty losses and thefts).

2. The total amount of adjusted gross income would be taxed at a single, uniform rate, regardless of the size of adjusted gross income.

b. **Estimated Yield at Various Rates.** On the basis of income reported from Iowa to the Federal Treasury Department, it is estimated that a tax levied on adjusted gross personal income, as defined above, would yield approximately $3,000,000 for each one-tenth percent of the rate imposed. That is, at a rate of ½ of one percent, the yield would be about $15,000,000; at one percent, approximately $30,000,000. These yields would be realized **only if the adjusted gross income reported for state individual income tax purposes is approximately equal to that reported for Federal tax purposes.** If the recommendations for revision of Iowa's individual net income tax (withholding, filing limit, $600 exemption, etc.) are adop-

ted, there is no major reason why the amount reported for state taxation should differ significantly from the amount reported on Federal returns.

In 1953, total adjusted gross income of individuals reported from Iowa was $3,282,905,000; in 1952 income of Iowa fiduciaries was reported at almost $25,000,000. Both figures are from the Internal Revenue Service, U.S. Treasury Department. Adjusted gross income reported from Iowa for individuals (excludes fiduciary incomes) has varied as follows since 1946:

Year	Adj. gross income (in millions)
1946	$2,153
47	2,573
48	2,737
49	2,736
50	2,887
51	3,057
52	3,098
53	3,283

c. **Stability of Yield.** During recent years, the yield from a fixed, flat-rate tax on adjusted gross income would have increased steadily, rising by approximately 50 percent from 1946 to 1953. In general, the yield from a tax on adjusted gross income would fluctuate more than the yield from the sales and use taxes, but less than the yield from the individual **net** income tax.

d. **General Characteristics of the Tax.** A tax on adjusted gross income would have a very broad base. It would collect revenue from many persons not now required to pay a tax under the individual net income tax or property tax. However, the base would not be so broad as for a general retail sales tax of the type employed in Iowa.

A rate of 1 percent on adjusted gross income would produce about the same revenue as 1 percent on the present retail sales and use tax base. But this does not mean that the incidence of the two taxes would be the same on families at different levels of income. At very low levels of income, where families may spend more than their current adjusted gross income, the sales and use taxes will impose a heavier burden, relative to income, than an equal rate on adjusted gross income. Also, individuals and families with no income or with income below the minimum level for the filing of a net income tax return would pay no gross income tax, but would pay sales taxes on their expenditures. But above a "breakeven point", at which expenditures are just equal to current adjusted gross income the tax liability incurred under a 1 percent adjusted gross income tax would be greater than that incurred under a 1 percent sales and use tax. At higher levels of income, the tax on adjusted gross income would increase in direct porportion to income, but under the sales tax, the tax liability rises less than in proportion to the increase in income. In other words the adjusted gross income tax is a proportional tax while the sales tax is a regressive tax, relative to income.

For most taxpayers having gross incomes above the minimum level required for the filing of an income tax return, a 1 percent tax on adjusted gross income will result in larger tax payments than a 1 percent tax on retail sales. The "spread" between the two types of taxes would become larger the higher the level of income. Although most taxpayers would pay more under an adjusted gross income than under a retail sales and use tax (if the rates were the same), the two taxes would yield about the same total revenue. The reasons for this apparent contradiction are as follows:

1. Some individuals with very small or no incomes would not pay any adjusted gross income tax, but would pay *some* sales tax. This may be regarded as an advantage—or a weakness—of the adjusted gross income tax, depending upon one's viewpoint with respect to the desirability of imposing some tax on very low income groups.
2. A considerable part of the present yield of the sales and use tax is derived from business, including farmers' expenditures for machinery, equipment, and supplies subject to sales or use taxation, as distinguished from the yield from the tax on consumers' outlays. To the extent that the "retail" sales tax falls on purchases which become a part of the cost of doing business, such taxes are either shifted to consumers, or reduce the personal income of proprietors, owners, or employees, where they become a "hidden" form of taxation.

As compared with the transactions tax, such as is used in Indiana, or the gross receipts type of tax used in West Virginia and Washington, the tax on adjusted gross income would be more equitable (largely because it allows for the deduction of all business expenses) and less complicated (largely because it would not require a set of multiple rates).

Because the tax on adjusted gross income would raise substantial revenues at very low rates, it would tend to produce fewer economic dislocations than a tax levied at higher rates on a narrowly defined base.

The tax on adjusted gross income would require no additional computations for the taxpayer, as adjusted gross income must be computed for Federal income tax purposes (net income on the Iowa income tax form). Neither would the tax require any new or additional administrative machinery, it would be handled as a part of the individual net income tax administration.

Although a tax on adjusted gross personal income could be imposed within the framework of the present Iowa individual net income tax, the feasibility of the tax, and the likelihood of realizing the revenue potential noted earlier would be enhanced by the adoption of the recommendations for withholding, the substitution of the $600 personal exemption for the present system of tax credits, and the establishment of the filing limit at $600 for a single taxpayer.

The following bill, which would impose a tax on adjusted gross personal income, is presented without recommendation by the Committee. The rate at which the tax would be levied is not specified; this would depend upon the amount of revenue to be raised.

Bill No. 51:

PERSONAL ADJUSTED GROSS INCOME TAX

Bill 51.

A BILL FOR

AN ACT to amend chapter four hundred twenty-two (422), Code 1954, as amended, and to provide for a Division VI, to be known as "Personal Adjusted Gross Income Tax."

Be It Enacted by the General Assembly of the State of Iowa:

Chapter four hundred twenty-two (422), Code 1954, as amended, is hereby amended by adding as Division VI the following sections, one (1) to six (6), inclusive:

Section 1. **Definitions controlling division. For purposes** of this division and unless otherwise required by the context:

1. The term "adjusted gross income" means the net income as determined under sections four hundred twenty-two point seven (422.7) and four hundred twenty-two point eight (422.8), Division II, Code 1954, as amended.
2. The word "resident" applies only to individuals and includes for the purpose of determining liability to the tax imposed by this division upon or with reference to the adjusted gross income of any tax year, any individual

domiciled in the state of Iowa, and any other individual who maintains a permanent place of abode within Iowa.

3. The word "nonresident" applies only to individuals and includes all individuals who are not "residents" within the meaning of subsection 2 hereof.

4. The word "individual" means a natural person, but does not include a fiduciary.

Sec. 2. **Tax imposed.** A tax is hereby imposed upon the adjusted gross income, as defined in section one (1) hereof, of every resident of Iowa and upon that part of the adjusted gross income, as defined in section one (1) hereof, of every nonresident which is derived from any property, trust, or other source within this state, including any business, trade, profession or occupation carried on within this state, which tax shall be levied, collected and paid annually upon and with respect to his adjusted gross income, as herein defined, at the rate of ..... percent.

The tax herein levied shall be computed and collected as hereinafter provided.

The provisions of this division shall be effective for all tax years commencing after December 31, 1956.

Sec. 3. **Return by individual.** The tax provided for by section two (2) hereof shall be computed on the income tax returns required by section four hundred twenty-two point thirteen (422.13) of Division II, Code 1954, as amended, and the return forms shall be designed by the state tax commission to facilitate the computation thereof.

Sec. 4. **Payment of tax.** The tax payable under the provisions of section two (2) hereof shall be paid at the time of filing the return required by section four hundred twenty-two point thirteen (422.13) of Division II, Code 1954, as amended, and if the amount required to be paid under the provisions of Division VI when added to that required to be paid under the provisions of Division II exceeds fifty dollars ($50) the total tax payable may be paid in two installments as provided by section four hundred twenty-two point twenty-four (422.24) of Division II, Code 1954, as amended.

Sec. 5. **Statutes applicable to personal adjusted gross income tax.** All the provisions of sections four hundred twenty-two point twenty-five (422.25), four hundred twenty-two point twenty-six (422.26), four hundred twenty-two point twenty-eight (422.28), four hundred twenty-two point twenty-nine (422.29) and four hundred twenty-two point thirty (422.30) of Division II, Code 1954, as amended, in so far as applicable, shall apply to all individuals taxable under this division.

Sec. 6. All the revenues arising from the tax imposed under Division VI shall be credited to the general fund of the State of Iowa.

Sec. 7. Section four hundred twenty-two point one (422.1), Code 1954, is hereby amended by striking the last line and inserting in lieu thereof the following:

"Division VI Personal Adjusted Gross Income Tax."

Explanation

The purpose of this bill is to tax the adjusted gross income, as computed for Federal tax purposes. This tax would differ from the present state income tax in two ways: (1) No deduction would be allowed for personal exemptions or nonbusiness deductions, and (2) the rate would be the same on all taxpayers.

3. Service tax.

Explanation of this Revenue Source.

The effect of a service tax is to extend the sales tax rate to services as well as retail sales. Thus, the labor on the repair of an automobile or tractor would be taxed at the same rate as the tax on the parts used in making the repairs. At present the garage charges a sales tax on parts used, but not on labor.

The principle of a service tax is simple and its application to a number of services is likewise not difficult to administer. For example—in a number of states a tax is applied to motel and hotel room charges. There would be little difficulty in the administration of a service tax applied to many of the service industries, especially where a sales tax is now collected on that part of the bill involving parts. Laundries, barber shops, beauty shops, plumbing concerns, repair shops of all kinds and hotels and motels are the types that are usually suggested.

But the professional services of doctors, dentists, lawyers, engineers, and the like have to be considered also because these individuals definitely fall into the general class of those rendering services.

Finally, there is a group which is difficult to classify but which would logically be included if all goods and services were taxed. These are such items as advertising, newspapers, radio, and television. Some of the difficulties connected with this group are based on the interstate nature of their operations.

In the bill which follows an attempt has been made to include all services. The main services specifically exempted in the bill are ministers of religion and hospital service. Hospital service is exempted only where the hospital itself is exempt from the property tax.

Among the services taxed in the following bill are services performed by hotels, rooming houses, motels, and trailer camps; newspaper and magazine advertising, billboards, and advertising over radio and television stations, with the restriction that only the advertising applicable to Iowa be included; constructing, repairing, decorating or improving new or existing buildings; services of professional, technical or scientific nature including abstractors, accountants, architects, barbers, cosmetologists, engineers, pharmacists, real estate brokers, services of transportation agencies, etc., except ministers or others performing religious services.

If all services were taxed on a two (2) percent basis, it is estimated the tax would yield as much as $15 million.

The following bill, without the recommendation of the Committee is included here for the information of those wanting to study a revenue measure of this kind. The bill includes virtually all services.

Bill No. 52:

SERVICE TAX

Bill 52.

A BILL FOR

AN ACT imposing a sales tax upon the sale or performance of certain specified services, this bill being complementary and supplementary to the provisions of the Iowa sales and use tax laws to be found in chapters four hundred twenty-two (422) and four hundred twenty-three (423), Code 1954, said provisions of the sales and use tax laws to be considered as an integral part of this act; providing for the collection of such taxes by the state tax commission, and providing that all funds derived therefrom shall be paid into the general fund of the state of Iowa subject to appropriation for the general expenditures of state government.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Chapter four hundred twenty-two (422), Code 1954, is hereby amended by inserting, as a new division, sections two (2) to twelve (12), inclusive, of this Act.

Sec. 2. **Definitions.** 1. The term "person" includes any individual, firm, copartnership, joint venture, association, corporation, estate, trust, business trust, receiv-

er, syndicate or any other group or combination acting as a unit in the plural as well as the singular number.

2. The term "services rendered or performed" shall mean all acts or services rendered, furnished or performed for a valuable consideration by any person engaged in any business or occupation not hereinafter specifically exempted when said act or service is rendered, furnished or performed for the ultimate user thereof. The term "user" shall mean the person for whom or for whose benefit services are rendered or performed.

3. The term "business" shall include all activities engaged in or caused to be engaged in with the object of gain, benefit or advantage, direct or indirect.

4. The term "taxpayer" shall mean any person obligated to account to the state tax commission for taxes collected or to be collected or due the state under the terms of this Act.

5. The term "tax" means either the tax payable by the person procuring or for whose benefit a service is rendered or performed subject to tax, or the aggregate amount of taxes due from the person rendering, performing or furnishing services during the period for which he is required to report his collections, as the context may require.

6. The term "value of services" means the price to the user, exclusive of any direct tax imposed by the federal government or by this Act.

7. The term "gross taxable services" shall mean the total amount received in money, credits, property or other consideration valued in money from services rendered or performed within this state as herein defined, and embraced within the provisions of this Act: provided, that the taxpayer may take credit in his report of gross taxable services for an amount equal to the value of services rendered or performed when the full value of services thereof is refunded either in cash or by credit; and provided further, that on all services rendered or performed, valued in money, when such services are made under conditional contract, or under other contract or agreement where the payment of the principal sum thereunder be extended over a period longer than sixty (60) days from the date of contract or agreement thereof, only such portion of the value of services thereof may be accounted for the purpose of imposition of the tax imposed by this Act as has actually been received in cash by the taxpayer during the period for which the tax imposed by this Act is due and payable; and provided further, that taxes paid on gross taxable services represented by accounts found to be worthless and actually charged off for income tax purposes may be credited upon a subsequent payment of the tax herein provided, but if any such accounts are thereafter collected by the taxpayer, a tax shall be paid upon the amounts so collected.

8. The words "includes" and "including", when used in a definition or classification contained in this Act, shall not be deemed to exclude other things otherwise within the meaning of the term defined, or otherwise within the classification specified.

Sec. 3. Services rendered or performed as herein defined to a person engaged in rendering services taxable under this Act or in selling tangible personal property subject to retail sales tax, provided that the cost of such services, directly or indirectly, enter into and become a part of the charges to the ultimate user or purchaser, shall be exempt; provided that, should a dispute arise between the user and the person rendering or performing services as to whether or not any such service rendered is exempt from taxation hereunder, nevertheless, the person performing said services shall collect and the user shall pay such tax, and the person performing said service shall thereupon issue to the user a receipt, or certificate, on forms prescribed by the state tax commission, showing the names of the person performing said services and the user, the items purchased, the date, price, amount of tax paid, and a brief statement of the claim of exemption.

Sec. 4. It shall be unlawful for any person to engage in the business of selling, rendering or performing services subject to taxation under this Act, after the effective date of this Act, without first having obtained a permit under the provisions of section four hundred twenty-two point fifty-three (422.53) of the sales tax law. All provisions relating to the issuance of licenses, as included in section four hundred twenty-two point fifty-three (422.53), shall apply to permits involving the sale, rendering or use of services. No person already holding a permit under the provisions of section four hundred twenty-two point fifty-three (422.53) shall be required to obtain an additional permit, but shall report the tax upon services provided in this Act together with retail sales which are reported for taxation.

Sec. 5. There is hereby levied and imposed upon the services specified in this Act and measured by the amounts paid therefor a tax in the amount of two (2) percent which shall be collected by the state tax commission. All proceeds derived from the collection of the tax hereby imposed shall become a part of the general funds of the state of Iowa and shall be collected by the state tax commission in the same manner as are taxes upon retail sales or use taxes

1. This tax shall be specifically imposed upon the furnishing of lodging and related services to transients in or by a hotel, rooming house, tourist court, motel, or trailer camp, and the granting of any similar license to use real property, as distinguished from the renting or leasing of real property, and it shall be presumed that the occupancy of real property, for a continuous period of one (1) month or more constitutes a rental or lease of real property and not a mere license to use or enjoy the same.

2. This tax shall be specifically imposed upon all sales of newspaper and magazine advertising and advertising over radio and television stations. In the case of a newspaper or magazine, the amount of the tax shall be determined through an allocation to the state of Iowa of the receipts from such advertising based upon the circulation of the publication within the state of Iowa and without the state of Iowa. The tax shall also be imposed upon all receipts from advertising displayed upon billboards or posted or distributed within the state. There shall be deducted from the gross receipts of such advertising any amounts paid by the taxpayer as a commission to advertising agencies through which such business may be received.

3. This tax shall be specifically imposed upon the constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for consumers, including the installing or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation, and shall also include the sale of services or charges made for the clearing of land and the moving of earth to the extent necessary for such constructing or improving, unless the charge therefor is stated separately from other charges made in connection with the work performed, under such rules as the tax commission may prescribe.

4. This tax shall be specifically imposed upon the value of services rendered or performed by any person engaging in business of a professional, technical or scientific nature, where services are rendered or performed on a fee basis, or for consideration in the nature of a

retainer, including but not limited by: abstractors; accountants; architects; barbers; cosmetologists; engineers; pharmacists; real estate brokers; shorthand reporters; lobbyists; auctioneers; and any other business of a professional, technical or scientific nature in which services are rendered or performed on a price or fee basis or for a consideration in the nature of a retainer, except the services of a minister, priest or rabbi or of any service of a religious nature.

5. This tax shall be specifically imposed upon the value of intrastate services rendered by transportation agencies including railroads, truck lines, bus lines, and commercial haulers, and also upon that portion of services of this character rendered during the course of interstate business which may be allocated upon the basis of the receipts derived from sale of such services upon that portion of the transaction performed within the state of Iowa. No tax shall be imposed upon any such service where the charge involved is less than twenty cents.

Sec. 6. Persons rendering, performing or selling services shall, as far as practicable, add the tax imposed under this Act, or the average equivalent thereof, to the value of services or charges showing such tax as a separate and distinct item and when added such tax shall constitute a part of such value of service or charge, shall be a debt from the user to the person rendering or performing service until paid, and shall be recoverable at law in the same manner as other debts; provided that persons engaged in businesses of a professional, technical or scientific nature, subject to taxation under this Act, may, if they so desire, make service return upon the gross proceeds received by them and are not required to include the tax in their billings to clients.

1. To provide uniform methods of adding the tax, or the average equivalent thereof, to the value of service, it shall be the duty of the state tax commission to formulate and promulgate after hearing appropriate rules and regulations to effectuate the purposes of this section.

2. It shall be unlawful for any person rendering or performing service to advertise or hold out or state to the public or to any user, directly or indirectly, that the tax or any part thereof imposed by this Act will be assumed or absorbed by him or that it will not be added to the value of service rendered, or if added that it or any part thereof will be refunded.

Sec. 7. All services rendered or performed which the state of Iowa is prohibited from taxing under the Constitution or laws of the United States shall be exempt from taxation under this Act.

Sec. 8. It is the intention of this Act that the service tax imposed under the provisions of this Act shall include a payment of sales or use tax, as the case may be, as a portion of the service tax. The state tax commission shall provide uniform forms for the return required and such forms shall also provide for the return of any sales or use tax paid upon materials or supplies involved in services. No tax shall be imposed by this Act upon any services now subject to taxation under the sales or use tax laws and all exemptions from taxation under the sales and use tax laws shall apply to the sales of services taxable under this Act. The tax imposed by this Act shall be in addition to all licenses and taxes imposed by law except as herein otherwise provided.

Sec. 9. There shall be exempt from taxation under the provisions of this Act all services rendered to the state of Iowa or any of the tax-levying political subdivisions thereof.

Sec. 10. This Act shall not apply to any person engaging in any business activity whose value of products, gross proceeds of sales, or gross income of the business is less than six (6) hundred dollars, for a quarterly period: Provided, that where one person engages in more than one business activity and the combined measures of tax applicable to such businesses equal or exceed nine (9) hundred dollars, no exemption or deduction from the amount of tax is allowed by this section.

In computing tax there may be deducted from the measure of tax the following items:

Amounts derived as compensation for services rendered or to be rendered to patients by a hospital or other institution devoted to the care of human beings with respect to the prevention or treatment of disease, sickness, or suffering, when such hospital or other institution is operated by the United States or any of its instrumentalities, or by the state, or any of its political subdivisions; amounts derived as compensation for services rendered to patients by a hospital or other institution which is organized as a nonprofit corporation devoted to the care of human beings with respect to the prevention or treatment of disease, sickness, or suffering, but only if no part of the net earnings received by such an institution inures directly or indirectly, to any person other than the institution entitled to deduction hereunder. In no event shall any such deduction be allowed unless the hospital building is entitled to exemption from taxation under the property tax laws of this state.

Sec. 11. The provisions of Divisions IV and V of chapter four hundred twenty-two (422) relating to retail sales tax and the administration thereof, shall apply to the collection of service taxes under this law in so far as is practicable.

Sec. 12. The provisions of chapter four hundred twenty-three (423) shall apply to the collection and administration of the service tax law provided in so far as they are applicable.

Sec. 13. Section four hundred twenty-three point two (423.2), Code 1954, is hereby amended by adding to said section four hundred twenty-three point two (423.2), Code 1954, the following:

"An excise tax is hereby imposed on the use in this state of personal services purchased or rendered on and after the effective date of this Act at the rate of two (2) percent of the purchase price of such services. Such tax is hereby imposed upon every person using such services within the state until such tax has been paid directly to the person rendering such services or to the tax commission as hereinafter provided. The items subject to use tax on services shall be the same as those subject to a sales tax upon services as enumerated in this Act, but the use tax shall not apply except in such cases where the services rendered are by nonresidents who do not maintain a permanent place of business within the state and are not subject to a state sales tax upon services."

Sec. 14. Section four hundred twenty-two point one (422.1), Code 1954, is hereby amended by adding a reference to the Division created by this Act to the end of such section: "Sales of Services."

Explanation

The purpose of this bill is to extend the state sales tax to almost all services. Receipts from such services would be taxed at the same rate as the sales tax.

4. Revenue if Liquor-by-the-Drink Legislation Were Enacted.

Several appearances were made before the Committee by persons who suggested that additional state and local revenues could be obtained in Iowa from the taxation and regulation of legalized liquor-by-the-drink.

These persons told the committee that all states bordering Iowa have liquor-by-the-drink and that it is apparent there are Iowans who are buying liquor in other states. It was estimated by these persons that if liquor-by-the-drink were to become legal in Iowa, the state could obtain about $20 million annually in tax revenues

and state liquor store profits. This would be much more than the present $8 million obtained through the state liquor store operation.

The $20 million estimate included revenue from state liquor store profits, the sales tax on liquor store sales and liquor-by-the-drink sales, individual liquor permit fees, and license fees from places which would sell liquor-by-the-drink. It should be understood that this is not an estimate of the Taxation Study Committee.

However, after study, the Committee took no action except to agree to bring this matter to the attention of the General Assembly in this report.

SECTION VI

SUMMARY OF PART I

A summary of the materials contained in Part I of the **Report** is presented in the following pages. The section numbers in the summary correspond to the chapter numbers in Part I of the **Report**: the statistical tables and charts cited in the summary are contained in Part I of the **Report**.

I. The Trend of Governmental Revenues and Expenditures in Iowa: 1946-1956

Total general revenues of Iowa State and local governments—including taxes, charges and miscellaneous revenues, and Federal aids—rose from $228 million in 1946, to $547 million in 1955. In this period revenues of the State government increased 148 percent, while revenues raised by local governments increased 132 percent. However, from 1948 through 1955, local revenues rose more rapidly than State revenues (See Table 1).

Total State taxes and local property tax levies, less Homestead and Agricultural Land Tax Credits, rose from almost $181 in 1946, to approximately $460 million in 1956, an increase of 154 percent. Taxes imposed at the State level rose more rapidly than net local property taxes in the early postwar years, 1946 to 1948, when the dollar volume of income of Iowans was rising very rapidly, consumers' durable goods were returning to the market, and prices were rising. But, from 1948 to 1955, net local property tax levies increased almost 80 percent, as compared with an increase of only 55 percent in the tax revenues of the State government. Thus, from 1948 through 1955, local property taxes contributed an increasing share to the rising total tax revenues of Iowa governments.

The tax revisions and increased aids enacted by the 56th General Assembly reversed the trend toward increased reliance on local property taxes. In 1956, property taxes supplied a smaller fraction of total State and local tax revenues than in any year since 1948.

From 1946 to 1956, receipts of the General Fund of the State of Iowa rose from $56.7 million, to approximately $136 million, an increase of about 140 percent. Increased yields from the sales and use taxes and personal income taxes accounted for the major share of the expanded receipts of the General Fund. But the yields of all tax and nontax General Revenue sources rose substantially during the period (See Table 3).

General Revenue Fund Appropriations rose from $114 million for the 51st biennium (July 1, 1945 to June 30, 1947), to $273 million for the 56th biennium, an increase of approximately 140 percent. During this period, from the 51st through the 56th biennium, 57 percent of the increase of $159 million in appropriations was accounted for by higher levels of expenditures for social welfare and the various tax credits and State aids returned to local governments throughout the State (See Table 5).

During World War II, and in the immediate postwar period, a net balance of more than $120 million was accumulated. In the 51st and 52nd biennia, receipts of the General Fund were over $332 million, while appropriations were slightly less than $275 million, accounting for about $58 million of the surplus. But in the next three biennia, covering the period from July 1, 1949 through June 30, 1955, appropriations exceeded receipts by a cumulative total of $84 million. By June 30, 1955, the unencumbered balance in the General Fund of the State of Iowa had been reduced to less than $30 million. Much of this reduction in balance can be accounted for because of this $58 million used for World War II bonuses and the $5 million transferred to the Primary Road Fund.

For the first time since the biennium ending June 30, 1949, the receipts of the General Fund will be approximately equal to or slightly larger than appropriations during the biennium ending June 30, 1957 (See Table 6).

In the postwar period, revenues available for highways, roads, and streets have increased more rapidly than revenues of the General Fund of the State of Iowa. From 1950 to 1956, total State and local tax revenues increased by roughly 55 percent; receipts of the General Fund of the State of Iowa rose 41 percent; and revenues for highways, roads, and streets increased almost 66 percent (See Table 8).

From 1946 to 1956, net receipts of the Primary Road Fund rose from $17.2 million to $69.6 million, an increase of 305 percent; in the same period, expenditures from the Primary Road Fund increased 271 percent. From June 30, 1953, to June 30, 1956, the balance in the Primary Road Fund rose from $3.8 million to $25.7 million (See Table 9).

The total costs of the public elementary and secondary school system has risen even more rapidly than receipts for highways, roads and streets in the postwar period. In 1956, outlays for current operations, capital expenditures, and debt service were $61.5 million; for 1956, these outlays were estimated to have been $216 million, an increase of more than 250 percent. From 1950 to 1956, total public school expenditures increased 91 percent (See Table 10).

Local levies on property have contributed to the general increase in taxes since 1946. For taxes levied in 1945, collectible in 1946, the gross local tax—before deductions of credits—was $114.5 million; ten years later, the gross levy was $265.3 million, representing an increase of 132 percent. Although approximately 54 percent of all local levies for collection in 1956 were made for school purposes, the rate of increase in taxes levied for schools has been somewhat lower than the rate of increase in levies by city governments. Levies for road construction and maintenance have risen more slowly since 1946 than any other major type of levy (See Table 11).

The tax system of the State of Iowa has provided very substantial increases in revenue in the postwar decade. Some of the additional revenue has resulted "automatically" from higher price levels, increased income, and an expanded volume of trade. But it has also been necessary to raise tax rates and broaden the tax base to procure the revenues required to meet the needs of State and local government. Moreover, the rising level of expenditures has been financed, in part, by a substantial reduction in the balance of the General Fund of the State.

Most of the tax changes enacted by the 56th General Assembly expire June 30, 1957. Unless appropriations from the General Fund can be reduced substantially for the biennium beginning July 1, 1957, it will be necessary to reenact the tax revision made by the 56th General Assembly, or to modify the revenue structure in other ways.

II. Population and Economic Trends in Iowa

The total population of Iowa increased by only 17.4 percent from 1900 to 1950, as compared with an increase of 98.3 percent in the nation as a whole. From 1950, to

July 1, 1955, the rate of increase was 2.7 percent in Iowa, as compared with an increase of 9.9 percent in the nation. Over the more recent five-year period, as well as during the longer period covering the first half of the century, the rates of increase in Iowa were the lowest registered in any of the eleven states in the Northcentral region of the United States (See Table 12).

From April, 1940, to July 1, 1954, births exceeded deaths by 438,000 in the Iowa population; over the same period, the net growth in the Iowa population was only 125,000, or about 28 percent of the natural increase. The difference between the excess of births over deaths (438,000) and the net increase in total population (125,000) represents the net migration of population from the State of Iowa over the 14-year period (See Table 13).

Although the total population of the State has not increased substantially in recent decades, there have been three closely related shifts in the location and composition of population. First, the total population has been maintained at a relatively constant level only because about a third of the counties have registered marked increases in population to more than offset the declines which have taken place in roughly two-thirds of the State's 99 counties. In general, the counties in the south-central part of the State have lost population more rapidly than counties in other sections of Iowa.

A second major population shift—closely related to the first—has been the movement from rural to urban areas. In 1950, the absolute numbers of residents in rural areas was 140,000 less than in 1920; in 1950, 53.3 percent of Iowa's population was rural, as compared with 63.6 percent in rural areas in 1920.

The two shifts noted above have been accompanied by, and closely related to, a change in the occupational status of employed workers in Iowa. From 1940 to 1950, the percentage of the labor force employed in agriculture declined from 36.0 to 28.5; in the same period, the percentages employed in manufacturing, trade and services, and the professions increased.

Partly as a result of the substantial loss of population through migration, the Iowa population contains an abnormally low (as compared with regional and national averages) percent of persons in the "productive age brackets" between 15 and 65 years (See Table 14). The percentage of the Iowa population in the labor force is also somewhat below regional and national averages.

As a result of the trends noted above, there are entire counties, and rural portions of still other counties, in which population declines have given rise to "excess capacity" in governmental structures. At the same time, in the rapidly growing urban areas, large capital outlays for schools, streets, and other municipal facilities have been necessary. Moreover, the relatively small fraction of the total population in the productive age brackets and in the labor force is a contributory factor in holding down the level of per capita income—and taxable capacity—in the State of Iowa.

The below-national-average rate of increase in the population of Iowa has been accompanied by a lagging rate of growth in the State's income, at least since 1929. From 1929 to 1933 the Personal Income of residents of Iowa dropped 55 percent, as compared with a decline of 45 percent in the nation as a whole; from 1933 to 1940, income doubled in Iowa, while increasing by only two-thirds in the nation as a whole. During World War II (1940 to 1945), Personal Income rose less rapidly in Iowa than in the Northcentral region, or in the nation as a whole. But from 1945 to 1948, income received by residents of the State of Iowa increased 59 percent, as compared with an increase of 26 percent in the nation as a whole.

This was also the period in which State tax revenues were increasing most rapidly, and the relative share of the total tax load borne by property dropped to its lowest level. It was also a period in which the tax "burden" weighed lightly on the population because of the rapid growth in taxable capacity.

From 1948, through 1955, Personal Income has risen only 7.1 percent in Iowa, as compared with an increase of 46.5 percent in the nation as a whole. Over the longer period, 1929 through 1955, Personal Income increased 205 percent in Iowa and 243 percent in the nation (See Table 15).

The major sources of Iowans' Personal Income have changed at significantly different rates since 1948. While total Personal Income rose only 7.1 percent from 1948 to 1955, income from farming dropped 55 percent, private nonfarm income rose almost 40 percent, and government income disbursements increased 85 percent (See Table 16). From 1953 to 1955, nonfarm Personal Income rose almost 10 percent in Iowa, as compared with 8.2 percent in the nation as a whole (See Table 17).

The lagging rate of increase in Personal Income in Iowa since 1948 is almost entirely attributable to decline in net farm income and the relative importance of farming as a source of income in Iowa.

The changing structure of the Iowa economy is reflected in shifts in the sources of income received by residents of the State (See Chart 8). Since 1950, agriculture has supplied a diminishing portion of income; payrolls of manufacturing establishments surpassed agriculture as a source of Personal Income. From 1950 through 1954, income from farming accounted for between 22 and 39 percent of total Personal Income; in 1955 farming supplied only 16.4 percent, while manufacturing payrolls accounted for 16.6 percent of Personal Income in Iowa.

To some considerable degree, the increased **relative** importance of manufacturing in the Iowa economy reflects the decline in the agricultural segment of the economy. But the growth in manufacturing activity in Iowa has also exceeded the rate of growth in the nation. From 1947 to 1954, manufacturing employment increased 15.2 percent in Iowa, as compared with 12.9 percent in the United States. In the same comparison manufacturing payrolls increased 72.2 percent in Iowa and 66.3 percent in the nation. The rate of increase in value added by manufacture also rose more rapidly in Iowa than in the nation as a whole. However, in Iowa, capital outlay for new plant and equipment was only 13.6 percent higher in 1954 than in 1947; in the nation the increase was 29.2 percent (See Table 19).

The changing relative importance of agriculture in the Iowa economy reflects, basically, a national pattern rather than the development of trends peculiar to Iowa. However, there are some notable differences in year-to-year changes in agriculture in the nation and in Iowa. From 1940 to 1954, the rate of decline in the number of farms was lower in Iowa than in other states in the Northcentral area and in the nation as a whole. From 1940 to 1955, cash receipts from farm marketings increased almost 210 percent in Iowa as compared with 251 percent in the nation as a whole. Iowa, with about 3.5 percent of the nation's farms, accounted for about 7 percent of the nation's total investment in farm lands and buildings and about 7 percent of total cash receipts from farm marketings in 1955 (See Table 23).

Since 1947-49, the average value per acre of farm real estate has risen more rapidly in Iowa than in the nation as a whole and at a rate about equal to the rates in the states in the Northcentral region.

Although Iowa is one of the top states in the nation in terms of farm income, the median money income of Iowa's farm families was only 78 percent of the median income of urban families in 1950 (See Table 26).

The growth in retail and wholesale trade in Iowa from 1948 to 1954 generally reflects the lag in Personal Income received by residents of the State during the period. Iowa retailers and wholesalers accounted for a smaller fraction of sales in the Northcentral area in 1954 than in 1948. The sales of Iowa retailers increased 20.4 percent from 1948 to 1954, while sales in the Northcentral region increased 25.9 percent. Sales of wholesale establishments and payrolls of both wholesale and retail establishments increased less rapidly in Iowa than in the Northcentral states as a whole (See Table 27).

III. The Comparative Tax Burden in Iowa

The most recent year for which comparable state and local revenue data are available is 1953. In this year per capita tax revenues of the State and local governments of Iowa were $146; state and local per capita taxes were higher in eleven other states in the nation. Per capita State and local tax revenues in Iowa were almost $12 above the average for all 48 states.

Per capita State tax collections were $64 in Iowa, as compared with an average of almost $68 for all state governments; in 1953, Iowa ranked 29th among the 48 states in terms of per capita State tax collections. For all local units of government, per capita tax collections were $82 in Iowa as compared with approximately $66.50 in the nation as a whole; in 1953, per capita local tax collections were higher than in Iowa in only seven other states (See Table 29).

Combined State and local tax revenues for 1953 were equivalent to $9.22 for every $100 of Personal Income received by residents of Iowa; the comparable ratio of state and local taxes to Personal Income in the nation as a whole was $7.58. The ratio was higher than in Iowa in only six other states. Three states in the Northcentral area—North Dakota, South Dakota, and Minnesota—collected a larger amount of taxes, relative to Personal Income, than Iowa. However, the Federal tax system bears somewhat less heavily on the residents of Iowa, relative to their income, than upon the residents of 28 of the 48 states (Table 30).

From 1953 to 1956, tax revenues of the State government of Iowa increased 36 percent, as compared with an increase of 26.4 percent in the tax collections for all 48 state governments. In 1946, per capita State tax collections were $85.58 in Iowa; the average for all 48 states was $81.60. In terms of per capita collections by state governments only, the State of Iowa ranked 19th in 1956, as compared with a ranking of 29th in 1953 (Tables 30 and 31). In terms of state taxes per $100 of Personal income received by residents of the State, the Iowa rate for 1946 ($5.47) was exceeded in 19 other states. In Iowa, the rate of increase in State tax collections from 1953 to 1956 was substantially higher than the rate of increase in combined State and local tax receipts.

State and local tax collections as a percent of Personal Income have been higher in Iowa than in the nation as a whole throughout the entire period for which comparable data are available. Since 1948 the Iowa ratio has risen more rapidly than the comparable measure for the nation as a whole (Chart 9).

Several factors account for the high and rising ratio of State and local taxation to Personal Income in Iowa relative to the nation as a whole. First, since 1943, Personal income has risen less rapidly in Iowa than in the nation as a whole, while the rates of increase in State and local taxes have been roughly the same in Iowa and the nation. State and local taxes have risen more rapidly than Personal Income in both Iowa and the nation since 1946; but the discrepancy in the rates of change has been greater in Iowa than in the nation as a whole (Table 33).

A second factor responsible for the "high cost" of State and local government in Iowa is the greater-than-national average financial effort made for the support of public elementary and secondary education. The revenues for the support of public schools in Iowa surpass national revenues on a per capita basis as well as on the basis of school revenues as a percentage of Personal income (Table 34).

Third, revenues for highways, roads, and streets - on both a per capita basis and relative to income received by residents of the State - are well above the comparable measures for all states. As compared with population, vehicle registration, land area, and income, the total mileage of highways, roads and streets is disproportionately large in Iowa.

Fourth, the shifts of population within the State of Iowa have resulted in very high rates of increase in per capita local tax collections in those counties with declining populations. As the counties in which population has declined most sharply are also the counties with the low per capita and total Personal Incomes, these factors have contributed to the relatively high tax-to-income ratio in the State as a whole (Table 36).

Finally, the high cost of State and local government in Iowa may be viewed in terms of the number of government employees relative to population. In October, 1955, about 273 full-time equivalent employees per 10,000 population were required to perform the functions of state and local governments in the 48 states; in Iowa, almost 292 full-time equivalent employees per 10,000 population were required, about 7 percent more than the average for all states. The operation of Iowa's public schools required 126 full-time equivalent employees per 10,000 population, as compared with an average of 102 employees for the public school systems in the 48 states. The comparable ratios for other functions were: highways, Iowa 34, the United States 27; health and hospitals, Iowa 27, the United States, 31; general control, Iowa 22, the United States, 19 (Table 37).

IV. Sources of Governmental Revenue in Iowa

The revenue structure of state and local government in Iowa resembles the pattern in the nation as a whole in most important respects. The major differences between the Iowa and the 48-state average are: revenues collected by the State government are slightly smaller relative to total State and local revenues in Iowa than in the nation as a whole; charges and miscellaneous revenues account for a smaller percentage of total revenues in Iowa than in the nation as a whole; and taxes account for a somewhat more important share of the total revenues of state and local governments in Iowa than for state and local governments in the nation as a whole. In Iowa, property taxes supplied approximately 52 percent of all state and local tax revenue in 1955, as compared with 46 percent of state and local tax revenue in the nation as a whole (Table 38).

The tax sources of the 48 state governments exhibit a wide range of variation. The tax structure of the State of Iowa resembles most closely the tax systems of Missouri, Kansas, and North Dakota in the Northcentral area. These states all employ general sales taxes and individual income taxes, and three of the four states levy corporate net income taxes. For the fiscal year 1956, the general sales and use tax provided 35 percent of all State tax revenue in Iowa; for the 48 states as a whole, including those states which do not levy such taxes, general sales and use taxes provided approximately 23 percent of total state tax revenue. A slightly higher-than-national average percentage of Iowa's total tax collections are accounted for by highway-user taxes. The individual income tax provides about the same fraction of Iowa's tax revenues as this source of taxation provides in the 48 states as a whole. The corporate net income tax is much less important in the revenue structure of Iowa than in

the revenue structure of other states which employ this form of taxation. Several states in the Northcentral area, including Illinois, South Dakota, and Iowa, derive only token revenues from property taxation at the state level.

The State of Nebraska derives almost one-half of all taxes from levies on highway users and almost one-thiird of its total taxes from levies on property. In contrast, Iowa derives almost 42 percent of its revenues from highway-user taxes and only a fraction of one percent of its State tax revenue from levies on property (Table 39).

In Iowa the retail sales and use tax is second only to highway-user taxes as a source of State tax revenue. The sales and use taxes provided 49 percent of the revenue available to the General Fund of Iowa and in addition, provided $13.4 million of revenue for the Road Use tax Fund in the fiscal year 1956.

Retail sales tax rates range from .5 percent in Indiana to 3.33 percent in the State of Washington. Seventeen states employ rates below the 2.5 percent rates used in Illinois and Iowa; thirteen states employ rates higher than the Iowa rate. Twelve states levy at 3 percent and one state at a rate of 3.33 percent. In seven states the rates vary depending upon the type of transaction, with the highest rate generally being applicable to retail sales. In the states which tax transactions other than retail sales, the tax receipts from this source of taxation are generally more important than in those states in which the levy is limited to retail transactions.

In the fiscal year 1956, the retail sales and use taxes supplied revenues of almost $30 per capita in the State of Iowa, as compared with an average for the 33 states levying general sales taxes of $27.70. In Iowa, collections from the retail sales and use taxes were equivalent to 1.91 percent of the Personal Income of the people of the State; in the 33 states as a whole, general sales and use taxes produced revenues equal to 1.53 percent of the personal income of the residents of these states (Table 40).

Retail sales and use taxes of the type employed in the State of Iowa impose a somewhat heavier burden, relative to income, on the lower income groups than on the higher income groups. This feature of sales taxation is a result of the fact that low income groups spend a larger percentage of their income on taxable goods and services than is spent by individuals in higher income brackets. The regressive nature of sales taxes can be reduced, or entirely eliminated, by the exemption of food which accounts for a substantially larger percentage of the total outlays of low-income than of high-income families. However, the exemption of food, even if restricted to food purchased for home consumption, would probably reduce the yeild of sales taxes by something like 20 percent (Tables 41 and 42).

The Iowa individual income tax provided revenues of $9.33 per capita in the fiscal year 1956, as compared with an average for the 31 states levying this form of taxation of $14.69 per capita. In Iowa the yield of the individual income tax was equivalent to .60 percent of the Personal Income of the people of the state as compared with a ratio of 1.47 percent for the 31 states employing this form of taxation.

The rates employed in the Iowa individual income tax are among the lowest in the nation. The top rate of 4 percent in Iowa is the same as the top rate in Kansas, Missouri, and Montana, but it is below the top rate in all other states. Only one other state - Colorado - employs a first bracket rate as low as the Iowa rate. The effective yield of individual income taxes at the state level is also affected by the deductibility of the Federal income tax, particularly in the upper income brackets. Seventeen of the 31 states employing individual income taxation allow all Federal income taxes to be deducted in the computation of the state tax liability. Iowa is one of the seventeen states. Five of the 31 states levying individual income taxes permit the splitting of income by married taxpayers. This provision reduces the effective rate of taxation for taxpayers in the middle income brackets. At present ten states require withholding of taxes on wages and salaries. In most states this requirement has been imposed since the end of World War II. Twenty-seven of the 31 states employing individual income taxation provide for personal exemptions of varying amounts. The other states, Iowa, Minnesota, Kentucky, and Wisconsin, provide for a personal credit against the computed tax liability in lieu of the personal exemption of specified amounts of income.

In comparison with the individual income taxes levied in other states, the Iowa individual income tax has the following characteristics: (a) the Iowa income tax begins to be effective at a somewhat higher level of income, particularly for married couples, than in other states; (b) at the $5,000 level of income a married taxpayer in Iowa would pay a larger individual income tax than a similar taxpayer in any but five other states levying a personal income tax; (c) as the level of income rises, the relative severity of the Iowa individual income tax declines. From a ranking of 6th at the $5,000 level, the Iowa tax bill drops to a ranking of 22nd at the $100,000 level of income out of a total of 29 states taxing income from all sources (Table 44).

The corporation net income tax rate is 3 percent in Iowa. The rate is as low, or lower, in six of the other 31 states levying this form of taxation. In the fiscal year 1956 the Iowa corporation income tax produced revenue equivalent to .08 percent of the total Personal Income of Iowans. This amounted to $1.18 per capita in Iowa. These ratios were very much smaller for Iowa than the average for all states levying this type of tax (Table 45).

Corporation income tax is less important in the revenue structure of the State of Iowa than similar taxes in the revenue systems of any of the 31 other states levying a general tax on corporate profits. The relatively minor role of corporate net income tax in Iowa is attributable to the following factors: (1) Iowa is not a heavily industrialized state in which the corporate form of business organization is dominant; (2) the rate levied in Iowa is among the lowest in any of the 32 states; (3) the method used in allocating net income of multistate businesses for purposes of income taxation in Iowa has the effect of minimizing the income taxable in the State of Iowa.

Taxes on cigarettes provide a relatively minor source of tax revenue in Iowa, although the yield from this particular form of taxation is very stable through the years, being little affected either by changes in income or prices. On September 1, 1954, 21 states taxed cigarettes at a rate of less than 4 cents per package, while 20 states imposed a rate of 4 cents per package or higher. The top rate of 8 cents per package of 20 cigarettes was levied in Louisiana. North Dakota and Arkansas employed rates of 6 cents per package. Eleven of the 42 states imposing a tax on cigarettes also imposed some type of tax on one or more other tobacco products such as cigars and smoking tobacco. In Iowa, the tax is limited to cigarettes.

In the fiscal year 1956, the Iowa inheritance tax yield was about "average" for the 47 states levying such taxes. Iowa ranked 17th among the 47 states and 3rd among the eleven states in the Northcentral area in terms of per capita yield of inheritance taxes.

Iowa, like most of the states which operate liquor store systems, does not impose specific taxes on alcoholic beverages sold through these stores. Rather the state derives its revenue in the form of profits in lieu of specific excises. The Iowa rate of $2.48 per barrel of 31

gallons on malt beverages is somewhat below the typical rate imposed in most states. However, in Iowa, unlike the majority of states, sales of beer are subject to general sales taxation which adds materially to the effective rate of tax on alcoholic beverages. The yield of the 8 cent per gallon tax on beer, plus the profits from the State liquor store system are equivalent to slightly more than 5 percent of total tax collections in Iowa, about the same share of tax revenue supplied from these sources in the 48 states as a whole.

The yield of the insurance premiums tax in Iowa is also about average for the 48 states as a whole. On a per capita basis, insurance premiums taxes in Iowa rank 29th in the 48 states.

The practice of earmarking, or dedicating, the receipts from certain taxes to specified uses is very widespread among the 48 states. All but two of the states earmark the receipts from highway-user taxes for highway, road and street purposes. Delaware and Rhode Island are the exceptions to this general practice. In Iowa the earmarking of revenues of the State government is confined largely to earmarking for highway purposes. The fraction of total state revenues earmarked for highway use is higher than in Iowa in only three other states - Nevada, Nebraska, and Idaho. On the other hand, earmarking for purposes other than highways is almost nonexistent in Iowa (Chart 11. The earmarking of revenues for specific purposes is generally viewed as being undesirable for the reasons that such practices (a) remove from legislative control the rate of expenditure on the purposes for which funds are dedicated; (b) some functions may receive more revenues than are actually needed while other governmental functions are hampered by inadequate funds; (c) with some of the major sources of revenue earmarked state governments may be forced to impose inferior types of taxation in order to obtain revenues required to finance essential governmental functions; and (d) the existence of a large amount of earmarking makes the state revenue system inflexible.

V. Public Schools: Expenditures and Revenues

In the most recent year for which comparable data are available for all 48 states, the school year 1953-1954, the average current expenditure per pupil in average daily attendance in public elementary and secondary schools was $274 in Iowa, as compared with an average for all 48 states of $265. Iowa ranked 21st among the 48 states in terms of cost per pupil in average daily attendance. From the school year 1945-1946 to the school year 1953-54, average cost per pupil increased 90 percent in Iowa as compared with an increase in the nation as a whole of 95 percent. In terms of the rate of increase, Iowa ranked 26th among the 48 states (Table 48).

In the school year 1953-54 the Personal Income of the State's residents per child enrolled in the public school system of Iowa was $7,859, as compared with an average for all 48 states of $9,819. Twenty-eight of the nations 48 states had a higher ratio of Personal Income per pupil enrolled than the ratio in Iowa. The degree of "financial effort" made for the support of public schools may be measured by the ratio of state and local revenues for public schools to total Personal Income of the residents. In terms of this measure, Iowa made a stronger effort to support its public schools than all but five other states in the nation. Revenues for the school year 1953-54 were equivalent to 3.59 percent of Personal Income during the calendar year 1953 in Iowa, as compared with a national average of 2.65 percent. The states making a heavier financial effort in behalf of public schools than was made in Iowa were: Utah, South Dakota, New Mexico, Arizona, North Dakota (Table 49).

Although average cost per pupil in average daily attendance is higher in Iowa than in the nation as a whole, the average salary of instructional staff in Iowa is substantially below the national average level. In the school year 1953-54 the average salary in Iowa was slightly below $2,900 as compared with a national average of $3,825. In this year Iowa ranked 37th among the 48 states in terms of average salary of instructional staff. From 1945-46 to the school year 1953-54 the average salary of instructional staff in the Iowa public school system increased 73 percent; over the same period the rate of increase was higher in 38 of the 48 states. The rate of increase for the nation as a whole was 92 percent. Estimates of the National Education Association indicate that since the year 1953-54 the average salary in Iowa's public school system has risen, along with the average salary in the nation as a whole. For example, in the school year 1955-56 it is estimated that the average salary in Iowa was $3,446, as compared with a national average of $4,100. In terms of the 1955-56 estimates Iowa ranked 33rd among the 48 states, with the average salary in Iowa about 16 percent below the national average. To the extent that the data for 1953-54 and 1955-56 are comparable, a substantial improvement in the relative and the absolute position of Iowa is indicated.

It is noted that the comparisons of salaries in Iowa and in the nation are in terms of money income rather than real income. To some extent differentials in money income are compensated for by differences in living costs, particularly as between large urban areas and smaller towns and rural areas. Moreover, the average salary level in Iowa is significantly influenced by the relatively large number of teachers in small schools in rural areas. Finally, the average annual instructional salaries for public school employees must be evaluated in terms of the general income and wage level in other occupations within the same state. In terms of total Personal Income the per capita figure for Iowa for the year 1955 was 15 percent below the national average, about the same margin as that observed in connection with average instructional salaries in the State and in the nation (Table 51).

The higher-than-national average cost per pupil in average daily attendance and the lower-than-national average salary of instructional staff in Iowa are reconcilable in terms of difference in the ratio of pupils to teachers in Iowa and in the nation as a whole. In the school year 1953-54 the number of pupils in average daily attendance per member of the instructional staff was 18.0 in Iowa, as compared with a national average of 23.3. The pupil teacher ratio was lower than in Iowa in only three other states: South Dakota, North Dakota, and Nebraska. Two other states - Montana and Wyoming - had pupil teacher ratios approximately the same as the Iowa ratio. While the low level of salaries in Iowa tends to make for low per pupil cost, this is more than offset by the lower-than-average ratio of pupils to teachers. If the Iowa ratio of pupils in average daily attendance to instructional staff could have been raised to the national average of 23.3, the total instructional staff in the Iowa public school system could have been reduced from 25,763 to about 19,880. At the prevailing average salary in Iowa this would have reduced instructional staff expenditures from about $75 million per year to about $58 million per year, a reduction of $17 million. With an instructional staff of 19,880 the average Iowa salary could have been raised to the national average with total expenditures for instructional staff about the same as the amount which was actually spent in the school year 1953-54.

In terms of school aids as they are classified by the United States Office of Education (this would exclude the Agricultural land Tax Credit and the Homestead Tax Credit) a smaller percentage of the total revenues for public schools is derived from State sources in Iowa than

in most other states. In the eleven-state Northcentral area, only two states - South Dakota and Nebraska - depend more heavily on local revenues for the support of the public school system. In the school year 1953-54, according to the measures computed by the United States Office of Education, 12.3 percent of the total current revenues of the public school system were derived from State sources in Iowa, as compared with 37.4 percent from state sources in the nation as a whole. For the school year 1955-56 the indicated current revenues for the public school system of Iowa are $168 million. If the same classification of state aids as that used by the United States Office of Education is employed, 13.3 percent of this total revenue was derived from State sources and approximately 85 percent from local sources. However, if the Agricultural Land Credit be included as a form of State aid to local schools, the percentage derived from State sources is raised to almost 20 percent. If, in addition, a proportionate amount of the Homestead Tax Credit is considered as a form of State funds going to schools, the share of the total cost of public schools paid from State funds is raised to approximately 27 percent (Table 53).

The organization of the Iowa public school system is characterized by a very large number of small schools and a large number of districts not operating high schools. In the school year 1953-54 more than 70 percent of all of the elementary schools in the State of Iowa were accounted for by one-room one-teacher schools. This ratio has declined substantially, however, since 1953-54 (Table 55 and Chart 12).

The ratio of pupils enrolled per teacher in the high schools of Iowa averaged slightly less than 15 in the school year 1955-56. In those high schools having a total enrollment of less than 25, the average ratio was only 6.0; in those high schools with enrollment of more than 600 the ratio was almost 21 pupils enrolled per teacher. In general, the larger the size of the school, the higher the ratio of pupils enrolled per teacher. On the other hand, the average cost per pupil tends to decline as the size of the school is increased until the 400 to 500 enrollment level is reached. Beyond this level cost per pupil tends to increase slightly.

For elementary enrollment the ratio of pupils per teacher for all elementary schools was 23.6 in the school year 1955-56. In elementary schools operating in districts maintaining high schools the average ratio was almost 26 pupils enrolled per teacher. However, in the rural one-teacher elementary schools the ratio was slightly less than 14 pupils enrolled per teacher. For all elementary pupils enrolled in non-high school districts the ratio of pupils to teachers was 15.7. There is also a noticeable tendency for the average cost per pupil for elementary grades to decline as the size of the school system increases in those elementary schools operating in districts maintaining high schools.

The degree of decentralization in the Iowa public school system is indicated by the fact that the largest 106 high school districts accounted for over 50 percent of all elementary and high school enrollment in September, 1955, while the remaining 50 percent of enrollment was scattered through approximately 3,700 school districts, including those not maintaining high schools as well as high school districts. In September, 1955, there were 185 high school districts with total elementary and secondary enrollment of more than 500 students. While these districts comprise a very small fraction of the total number of districts the enrollment in these large districts accounted for 59 percent of all students in the Iowa public school system. In the same year there were 379 districts with total enrollment of 300 or more. These districts, approximately 10 percent of the total number of districts in the state, educated 74 percent of all the children enrolled in the Iowa public school system.

State appropriations for the operation of Iowa's institutions of higher education have increased less rapidly over the past 15 years than for other comparable institutions in the states in the Northcentral area. From the school year 1939-40 to the school year 1954-55, operating appropriations increased 235 percent for the State University of Iowa and 229 percent for the Iowa State College. The rates of increase just noted ranked 12th and 13th, respectively, among 14 state-supported institutions of higher education in neighboring states. In terms of the rate of increase in appropriations per student enrolled from 1939-40 to 1954-55, the two Iowa institutions ranked 11th and 12th among the 14 state institutions.

In terms of the 1954-55 appropriations for operations of all institutions of higher education operated by state governments, the Iowa appropriations ranked 4th from the top in the eleven-state area as a percent of the Personal Income of the residents of the various states. The relatively high rank of the State of Iowa in terms of appropriations as a percentage of income of the people of the state, together with the very low rank of Iowa in terms of the rate of increase in appropriations for the support of higher education, evidences the below-average rate of growth in income in the State rather than an exceptionally high - or even average - rate of increase in state appropriations for the support of higher education (Tables 58 and 59).

In terms of the cumulative appropriations for capital improvements at institutions of higher education from 1939-41 through 1953-55, Iowa ranks 8th among the 11 states in the Northcentral area. Over the period as a whole Iowa's appropriations for capital improvements were equivalent to $5.33 per capita of the population as of July 1, 1955. In this measure, cumulative appropriations per capita, Iowa ranked 11th among the eleven states. Relative to the income of the people of the state in the calendar year 1955, the cumulative appropriations in Iowa were also the lowest in the eleven-state Northcentral area.

VI. Highway Revenues and Expenditures in Iowa

The major sources of revenue for highways, roads and streets in Iowa increased from slightly less than $50 million in the fiscal year 1946 to almost $160 million in the fiscal year 1956. The amounts indicated do not include several minor sources of revenue such as property levies of urban governments, special assessments, and miscellaneous receipts at the local and State levels of government (Chart 13).

In the fiscal year 1956, per capita collections from the motor vehicle fuel tax were equivalent to $20.23 in Iowa; a higher per capita yield was reported in only one other state in the Northcentral area - Nebraska. The motor vehicle license revenues for the same year were $15.12 per capita in Iowa, the highest in any of the eleven Northcentral states. Combined per capita motor vehicle fuel and motor vehicle license revenues were $35.35 in Iowa, the highest combined rate in any of the eleven Northcentral states. The present Iowa gasoline tax rate of 6 cents per gallon is the same rate used in 16 other states. Eighteen states tax gasoline at rates of less than 6 cents per gallon, while 14 states tax at a rate higher than the Iowa rate. The average rate for the 48 states and the District of Columbia is 5.77 cents per gallon, only slightly below the average rate in Iowa. The higher than national average per capita yield of the Iowa gasoline tax is attributable, in part, to the fact that Iowans own and operate a larger than national average number of vehicles, relative to the size of the population Few states have a higher ratio of motor vehicles to population than Iowa. (Table 61).

During the calendar year 1954, according to the United States Bureau of Public Roads, total Iowa State revenues for highway purposes were $105 million. Of this amount approximately 39 percent was derived from taxes on motor vehicle fuels, 36 percent from licenses and carrier taxes, 11 percent from sales and use tax revenues, and slightly less than 14 percent from Federal aids. As compared with the sources of state highway revenues in the nation as a whole, Iowa derived a smaller percentage from motor vehicle fuel taxes, a larger percentage from license and carrier taxes, and a much larger percentage from State taxes other than the fuel and license taxes. Federal aids provide about the same fraction of total highway revenues in Iowa as in the nation as a whole.

In the calendar year 1954, 47 percent of disbursements from State revenues for highways was made for the State-administered system in Iowa; in the nation as a whole almost 75 percent of all disbursement of state funds was applied to the state-administered system. In Iowa 43 per cent of State disbursements were for county and other roads, as compared with about 14 percent in the nation as a whole. In the same year, 1954, 7.2 percent of State collected revenues applicable to highways was allocated to city streets in Iowa. In the nation as a whole, only 4.5 percent of state revenues applicable to highways was allocated for city streets. The Iowa pattern of allocation of State highway revenues differs markedly from the pattern for the 48 states as a whole in at least three important respects. First, in 1954, Iowa allocated a larger percentage of State highway revenues to local rural highways and roads than any other state in the nation. Second, the percentage of highway revenues expended for State-adminstered primary roads and urban extensions of primary roads was smaller in Iowa than in any other state except Tennessee. Third, the percentage of State highway revenues allocated to cities and towns was higher in Iowa than in 40 of the 48 states. In the Northcentral area, only Illinois, Indiana, Michigan, and Wisconsin allocated larger percentages of state highway revenues to city governments in 1954.

The imposition of the 6th cent of the gasoline tax earmarked for the primary road system has altered the pattern of allocations since the calendar year 1954. On the basis of revenues collected in the fiscal year 1956, approximately 53 percent of total State collected revenues will be available for expenditures on the state administered primary road system and the urban extensions of this system; 41 percent will be available to the counties for secondary and other local roads; and approximately 6 percent will be available to cities and towns for local streets.

The pattern of allocation in Iowa can be evaluated only in terms of the fraction of the State's total road mileage contained in the state administered system. In Iowa, a smaller percentage of the total road mileage is under State administration than is the case in most states. Iowa ranks 26th among the 48 states in terms of the number of miles under State administration, but ranks 6th among the 48 states in terms of rural miles under local administration (Tables 63 and 68).

In Iowa a major portion of total highway revenues is channeled through the road use tax fund. From this fund allocations are made to the various state, county, and city highway, road and street funds (Chart 14). The primary road fund derives its receipts from the road use tax fund, the 5th and 6th cents of gasoline tax, and from Federal aids. In the fiscal year 1956, approximately 63 percent of total receipts of the primary road fund were expended for construction, while maintenance expenditures accounted for about 15 percent. During the same year the increase of $9.3 million in the end of the year balance of the road use tax fund was equivalent to 13.3 percent of receipts of this fund during the year (Chart 15).

The total taxes paid by a lightweight passenger car owned and operated in Iowa would be the 19th highest of any state in the nation, in terms of total taxation. However, in terms of gasoline taxes and licenses alone, that is, exclusive of property taxation in those states in which motor vehicles are subject to the property tax, the taxes paid on the vehicle in Iowa would rank 4th among the 48 states. In general, in terms of total taxes inclusive of property taxes, the tax cost of owning and operating motor vehicles in Iowa ranks near the median position for most types of motor vehicles. However, if the cost of owning and operating motor vehicles is measured exclusive of property taxation, Iowa ranks relatively high among the 48 states (Tables 64,65,66, and 67).

Total expenditures for highway, road, and street construction, maintenance, and administration are high in Iowa, measured either in terms of per capita cost or in terms of outlays relative to the income of the people of the State. The major factor responsible for the disproportionately heavy costs of highways, roads, and streets in Iowa is the large number of miles in the road system, over 112,000 miles. The road mileage in Iowa is equivalent to 3.31 percent of all of the miles of rural and urban roads and streets in the nation. Yet, with 3.31 percent of the nation's total mileage of roads and streets, Iowa contained only 1.64 percent of total population in 1955; Iowans received 1.39 percent of the nation's Personal Income; the State accounted for 1.88 percent of the nation's land area; and 1.95 percent of all of the vehicles registered in the nation in 1954 were registered in Iowa. In 1954, only 9,830 miles out of the total of over 112,000 miles were administered by the State. This was equivalent to 1.52 percent of all of the state administered mileage in the nation. However, Iowa, with slightly more than 92,000 miles of locally administered rural roads, accounted for 4 percent of all of the roads of this type in the nation as a whole. Municipal streets under local administration in Iowa included 10,138 miles, which is equivalent to 3.13 percent of such mileage in the nation as a whole. The disproportionately large number of miles of public roads and streets in Iowa is also indicated by the population ratio per mile, which is 24 in Iowa as compared with over 48 persons per mile of road in the nation as a whole. On the average, there are 2 miles of roads and streets for every square mile of land in Iowa, as compared with a national average of 1.14 miles of road per square mile of land. In terms of the 1955 personal Income of residents of the State, the average amount of income per mile of roads and streets was $37,560 in Iowa, as compared with $89,375 in the nation as a whole. Thus, if the same outlay per mile of road was made in Iowa as in the nation as a whole, highway, road, and street expenditures in Iowa would comprise more than twice as large a share of income of residents of the State as in the nation as a whole.

VII. Property Taxation

Although the relative importance of taxes on real and personal property has declined significantly in Iowa and in other states since the 1920's, the property tax still constitutes the most important single source of state and local tax revenue in Iowa and in the Nation. At the end of the 1920's, property taxes supplied about 80 percent of all State and local taxes in Iowa. This ratio declined sharply in the mid-thirties with the introduction of sales and use taxes and income taxes at the state level of government. Just prior to World War II, property taxes supplied slightly less than 60 percent of combined State and local tax revenues in Iowa. In the postwar period the ratio has declined still further, reaching a low of 48 per-

cent of all State and local tax revenue in the year 1948. After 1948 the ratio rose slightly but is estimated to have declined to approximately 50 percent in 1956. A similar trend is observable in the nation as a whole, although the ratio has fallen somewhat lower in the nation whan in Iowa (Table 69).

Nationwide, property taxes supplied about 45 percent of all state and local revenue in 1953 as compared with more than 54 percent in the State of Iowa. Iowa ranks 4th among the eleven Northcentral states in the degree of dependence on property tax levies as a source of combined State and local tax revenue. However, in 1953, the State government of Iowa received only nominal tax revenues from the imposition of property levies. Nebraska is the only state in the Northcentral region deriving a major share of its State revenue from property taxation. On the other hand, local units of government in all of the Northcentral states derived almost all of their tax revenue from levies on property. In some states, notably Illinois and Missouri in the Northcentral area, sales and income or payroll taxes have to some extent come into use as a substitute for property tax levies (Table 70).

In Iowa, local levies on property supplied a little over 49 percent of the total general revenue of city governments in 1953, with most of the remainder coming from charges and miscellaneous revenues and aids from the State government. At the county level, local property taxes supplied about 63 percent of total general revenues in the same year, with almost 27 percent of county revenues coming in the form of State aids. For school districts, local property taxes supplied about 65 percent of total general revenues, with approximately 28 percent being supplied by State aids and about 7 percent by charges and miscellaneous sources of income (Table 71).

In Iowa property taxes have risen from approximately $142 million collectible in 1948 to $264 million collectible in 1956. Both these figures are exclusive of the tax on monies and credits. The overall increase in levies for the period was approximately 86 percent. Levies for school purposes increased by about the same rate as the overall levy for all purposes. Levies for city purposes increased by approximately 117 percent, county levies by 77 percent, and levies for road purposes by 54 percent. School levies accounted for about the same proportion of total levies—53 percent—in both 1948 and 1956. However, levies for city purposes, which accounted for only 14.5 percent of total levies collectible in 1948, comprised almost 17 percent of the levies collectible in 1956. On the other hand the relative importance of levies for roads and for general county purposes declined between 1948 and 1956 (Table 72).

Of the total net taxable values of real and tangible personal property in 1954, agricultural lands and buildings accounted for approximately 44.3 percent; business and commercial lots and buildings, 7.3 percent; residential lots and buildings, 19.8 percent; real and personal property of industrial and manufacturing establishments, 4.3 percent; and other personal property, 14.4 percent. Utilities and railways assessed by the State Tax Commission accounted for almost 10 percent of total assessed value. As millage rates are generally lower in rural areas than in urban areas, agricultural lands and buildings accounted for only 35.3 percent of the gross levy collectible in 1955. Business and commercial lots and buildings accounted for 9.6 percent, residential lots and buildings, 25.6 percent, and industrial and manufacturing properties, 5.3 percent of the total gross tax levy (Table 73).

The distribution of net property tax levy by type of property and by major economic sectors of the Iowa economy can be estimated by allocating the personal property to agriculture, on the one hand, and to other types of economic activity on the other hand. In order to estimate the distribution of the net levy it is also necessary to subtract from the gross levies the tax credits applicable on the various types of property. On this basis, it is estimated that 1954 levies for collection in 1955 were distributed as follows: For agricultural lands and buildings and personal property on farms, about 44 percent of the total net levy; for business and commercial lots and buildings and the personal property in the form of inventories and store fixtures, about 17.5 percent of the net levy; residential lots and buildings, about 20 percent of the net levy; manufacturing and industrial plants, buildings, and personal property, 6 percent; public utility property, 11 percent; and miscellaneous personal property, about 2.5 percent (Table 74).

Although interstate comparisons of millage rates on various kinds of property are meaningless because of differences in assessment ratios, it is possible to compare the total property taxes borne by agriculture in Iowa and in other states through the use of data compiled by the United States Department of Agriculture.

The dollar amount of property taxes per acre on Iowa farm lands and buildings was the second highest in the Northcentral area in both 1950 and 1955. In 1955, taxes on lands and buildings were the equivalent of $2.27 per acre in Iowa. This rate was exceeded only in Illinois in the Northcentral states where the levy was $2.97 per acre. The average for the United States as a whole was $0.87 per acre. However, in terms of taxes on farm real property per $100 of full (estimated market) value, the rate in Iowa was lower than in all but three other states in the Northcentral area in 1955. Moreover, the increase in property taxes per $100 of full value was lower in Iowa than in all but three other states in the Northcentral area (Table 75).

Taxes on farm, real and personal property in the various states may also be compared in terms of the ratio of such taxes to various measures of farm income. Taxes on farm real and personal property in Iowa were equivalent to $3.88 for every $100 of realized gross income in 1954. In the same year, property taxes on Iowa real and personal property used in agriculture were equivalent to $10.70 of realized net income. Although the Iowa rates were somewhat above the national average, Iowa ranked 8th in the eleven-state area in terms of the ratio of farm property taxes to realized gross and net income. Thus the taxation of agricultural properties in Iowa, while it supplies almost 44 percent of the total net property tax revenue, does not bear as heavily on agriculture, relative to agricultural income, as in most states in the Northcentral area. Of course, the decline in farm income since 1954 has raised the ratio of property taxes to farm income in Iowa as well as in other predominantly farm states (Table 76).

During the period from 1949 to 1955, taxes on farm real estate rose about 25 percent in Iowa. Over the same period, the actual value of farm lands and buildings increased by roughly the same percentage. Thus, levies on farm realty represented about the same percentage of actual value in 1955 as in 1949.

Based on a sample of almost 25,000 property transfers taking place in all counties of the State during the calendar years 1952, 1953, and 1954, assessed values averaged 27.2 percent of actual sales values of the properties. Urban properties were assessed at an average of 24.6 percent of sales values, while rural properties were assessed at a ratio of almost 30 percent of sales value. However, within these Statewide averages there is a wide range of variation in the assessment ratios in the various counties (Chart 17). The countywide average assessment ratios, including rural and urban properties, range from a low of less than 22 percent to a high of approximately 41 percent. For rural properties the county

average assessment to sales ratios range from less than 25 percent in a number of counties to more than 42 percent in Decatur County. Assessment ratios for urban properties vary from less than 20 percent in Plymouth and Franklin Counties to a high of 38 percent in Decatur County, a difference of almost 100 percent (Table 77 and Chart 17).

The assessment ratios for properties of low sales value tend to be somewhat higher than for more valuable properties. This tendency is observable for both rural and urban properties (Table 78).

Comparatively little information is available from which comparable assessment ratios may be computed for properties other than rural real estate and urban residential dwellings.

VIII. Tax Exemptions and Credits

The net distribution of the total tax costs of government is significantly affected by the various exemptions and credits in the tax system as well as by the types of taxes levied and the rates at which such taxes are imposed. Iowa is not unique by virtue of the extensive exemptions granted from the various taxes imposed. However, Iowa differs from the majority of states in the degree to which tax revenues collected at the State level of government are used to provide "credits" against local levies on property. But even in this respect many other states attain the same objective of financing local governmental functions with revenues derived from statewide taxes through the use of state aids or shared revenues.

Real and tangible personal property exempt from taxation in Iowa is estimated to have been roughly $5 billion in 1955. This is a market, or estimated actual, value figure rather than the value at which such property would have been assessed had it been taxable. The major categories of exempt property are those owned by Federal, State and local governments, including school districts and fair organizations; livestock, poultry, and farm crops; motor vehicles in the hands of operators and dealers; and a portion of household goods (Table 79). If all the exempt property were assessed at the statewide average ratio of assessment to actual value, it would increase the total tax base by something like one-third. It is, of course, unrealistic to contemplate the removal of all the categories of property from the exempt status they now enjoy.

A very small portion of intangible personal property is reported for taxation in Iowa. According to estimates of the State Tax Commission the present value of all monies and credits owned by Iowans is somewhere in the neighborhood of $12 billion. Of this amount probably $2 billion is taxable. The remainder is exempt by virtue of a flat $5,000 personal exemption or because the mortgages on farm properties are held by nonresidents of the State. In addition, securities of Federal, State and local governments and securities of some corporations operating in Iowa are exempt. In 1954, the actual assessment of monies and credits was approximately $623 million or about 30 percent of the amount estimated to have been subject to the monies and credits tax. Exemptions and nonassessment have virtually eliminated intangibles from the property tax base.

The history of property taxation has been marked by a persistent tendency for the list of exempt properties to increase. To an increasing degree, the "general property tax" has become a tax which rests primarily on real property. With each exemption the arguments for still more exemptions are strengthened as the burdens on the remaining forms of taxable property are increased.

Tax exemption is not confined to the field of property taxation. Several classes of transactions are excluded from the Iowa sales and use taxes. Three types of insurance operations are exempt from the Iowa gross insurance premiums tax. The Iowa individual income tax has relatively few exemptions in comparison with the individual income taxes of other states. In Iowa both capital gains and dividend income are taxable. In many states one or both of these forms of receipts is exempt from the income tax. The system of personal credits used in lieu of exemptions in Iowa is roughly comparable to the tax saving resulting from the exemptions in other states. The Iowa system of personal credits is somewhat more generous with respect to dependents than is the case in most other states, but the Iowa credits are comparable to the exemptions allowed in other states for the taxpayer and spouse.

Several types of corporations are exempt from the Iowa corporate net income tax. These exemptions include banks, credit unions, building and loan associations, insurance companies; organizations established for religious, charitable, scientific, and educational purposes; nonprofit business, labor and civic organizations such as Chambers of Commerce and labor unions; clubs, organizations and associations organized and operated for pleasure, recreation,, and other nonprofit purposes where no part of the net earnings accrue to private stockholders; and agricultural marketing cooperatives.

Corporations subject to the Iowa corporate net income tax are taxable only on that part of their net income represented by business done in Iowa. This technique for allocating net income to Iowa largely exempts the net income of corporations selling most of their output beyond the borders of the State of Iowa.

The exemption or exclusion of some types of income, transactions, or commodities from income, sales, or excise taxes does not automatically and directly increase the rates on taxpayers having taxable incomes, transactions, or purchases of taxable commodities. In this respect the exemptions and exclusions for non-property taxes have different effects than exemptions from the property tax. But in the final analysis any exemption from any kind of tax involves increased taxation at some other point in the system if total revenues are to be maintained.

Many people have a misconception about tax exemptions; they believe exemptions are a means of reducing the level of taxation. Tax exemptions and credits cannot reduce total taxation but such devices can and do shift the tax load from one group of taxpayers to another. At the state and local levels of government, the total tax bill is determined largely by the volume of government expenditure which, in turn, depends upon public demands for governmental services. Whether or not the public will demand some new service, the expansion of an existing service, or an improvement in the quality of a given service depends upon many factors. One of these factors is the anticipated cost of the new, or expanded, service as it may be reflected in tax payments of the citizens of the area. To the extent that exemptions, credits, and exclusions from taxation relieve or reduce the tax load borne by substantial numbers of the electorate, or even if such tax exemptions only induce people to believe that they can escape some or all of the additional costs, the public demands for increased public expenditures tend to be strengthened. The general tendency of such exemptions and credits is to facilitate the expansion of governmental services and, hence, to raise the level of taxation rather than to reduce total taxes.

Twenty-six states grant some form of property tax relief to veterans. In ten states, including Iowa, some degree of tax exemption is available without regard to the age, disability, income, or total wealth of the veteran. However, in 16 states eligibility for veterans exemptions depends in varying degree upon the physical disability,

incompetency, or the age of the veteran. In seven states eligibility or the amount of the exemption is determined by the total income and/or property of the veteran. Several states apply more than one of these tests in the determination of eligibility. In general the amount of the exemption accorded veterans tends to be larger in those states having a disability requirement than in other states in which no such test of need is applied. For the year 1954, there were 182,231 military service exemption claims in Iowa for a total of $98.1 million of assessed value. The total tax on the property exempt by virtue of the military service of the owner would have been approximately $6.5 million at the levies in effect for 1954. Of this amount, the state reimburses local governments for the tax loss in an amount slightly in excess of $2 million. The balance of about $4.5 million is shifted to other properties at the local level.

As of October, 1949, there were an estimated 366,000 veterans in Iowa. Although the number of veterans is somewhat larger now than in 1949, the number of exemptions in the most recent year for which data are available (1954) was only one-half as large as the total number of veterans five years earlier. Thus, it is apparent that the military service exemption benefits are enjoyed by about one-half of the veterans in the State.

About one-fourth of the states grant some form of preferential tax treatment to homeowners. In the majority of these states, the value of homesteads up to specified levels is exempt only from levies by the state governments. In a smaller number of states the exemption also extends to levies by local units of government. In the majority of the states there is no attempt to reimburse local governments for any shrinkage in the tax base resulting from the whole or partial exemption of homesteads. In Iowa, however, the Homestead Tax Credit does not result in the removal of any property from the tax base. Rather, the State government pays from the General Fund, up to a maximum of $62.50, the local property taxes on each home.

Since its inception in 1936 the amount required to repay the Iowa Homestead Tax Credit has risen from just over $11 million to over $24.5 million per year. Some of this increase in the credit has resulted from the growth in the number of owner-occupied homes from just over 300,000 in 1936 to more than 520,000 in 1954. The increase in the average assessed value of homes has also contributed to the increase in the amount of State funds required to meet the tax credit. And finally, increases in millage levies have also contributed in a minor way to the increased requirements for Homestead Tax Credits.

The Homestead Tax Credit was established in a period of economic stress. It has generally been justified on the grounds that the Credit would operate to encourage home ownership. In fact, the ratio of owner occupancy was higher in Iowa than in 37 of the 48 states in 1950. In the 10 states with owner occupancy ratios above the Iowa ratio, there were only two states which offered some form of tax relief to homeowners—North Dakota and Minnesota.

The Agricultural Land Tax Credit resembles the Homestead Tax Credit in at least one important respect—neither results in the removal of property from the tax base. The Agricultural Land Tax Credit establishes a fund (presently at the rate of $10.5 million per year) from which the State reimburses owners of agricultural lands for millage levies in excess of 15 mills for general school fund purposes. The credit does not apply to school levies for any other than the general fund, nor is it applicable to personal property. The actual extent to which the Agricultural Land Tax Credit absorbs the millage levy in excess of 15 mills depends of course upon the adequacy of the appropriation for this purpose. Some prorating of claims has been necessary in most years.

Although the Iowa Agricultural Land Tax Credit is somewhat unique as a form of tax relief on agricultural property, it has, or would have if all claims were paid in full, about the same effect as another device used in some other states. This device is the imposition of a ceiling of 15 mills on levies for school purposes, with the provision that the balance of revenue required for schools be supplied through some form of state aid. This accomplishes about the same purpose envisaged by the Agricultural Land Tax Credit.

The Homestead Tax Credit, the Agricultural Land Tax Credit, and the Veterans Service Tax Credit currently require a very substantial and rising amount of State revenue, about $38 million per year. Several methods of limiting the amount of such payments have been considered by the Committee **without recommendation.** Some of the more important of these measures are: (a) a definite, fixed appropriation for the Homestead Tax Credit in place of the present "open end appropriation." This would mean that claims for this credit would have to be prorated as is presently the case for the Agricultural Land Tax Credit; (b) the maximum credit for any one claimant might be reduced from the present $62.50 to some lower figure, say 25 mills on assessed value not to exceed $2,000; (c) the period of time for which any one individual might be eligible for the Homestead Tax Credit might be limited to, say, 10 years; (d) the eligibility of agricultural lands for the tax credit might be limited to those lands lying in school districts meeting certain approved standards. Alternatively, the amount of the Agricultural Land Tax Credit could be limited to some specified number of mills or maximum number of dollars per claimant, as is presently done on the Homestead Tax Credit. The military exemption and the tax credit paid from State funds might be limited by the restriction of the exemption to a limited period of time following discharge or to those veterans who are disabled or who are over some specified age.

APPENDIX A: SENATE JOINT RESOLUTION

A JOINT RESOLUTION

PROPOSING TO CREATE A SPECIAL COMMITTEE TO MAKE A STUDY OF TAXATION EMBRACING THE ADEQUACY AND EQUITY OF THE ENTIRE STRUCTURE OF STATE, COUNTY, MUNICIPAL, AND SCHOOL METHODS OF RAISING REVENUES, TO MAKE SPECIAL INQUIRIES INTO THE PRESENT SYSTEM OF TAXATION, TO MAKE A STUDY OF THE EQUALIZATION OF REAL AND PERSONAL PROPERTY ASSESSMENTS AND EXEMPTIONS THROUGHOUT THE STATE AS BETWEEN THE VARIOUS COUNTIES OF THE STATE AND THE VARIOUS TAXING DISTRICTS OF THE STATE, TO STUDY THE QUESION OF REVISION OR IMPROVEMENT IN THE PRESENT LAWS RELATING TO THE PUBLIC REVENUES OF THE STATE AND ITS VARIOUS POLITICAL SUBDIVISIONS AND TO MAKE SUCH RECOMMENDATIONS TO THE GOVERNOR AND THE NEXT SESSION OR SPECIAL SESSION OF THE LEGISLATURE AS MAY BE DECIDED UPON BY THE COMMITTEE, AND TO MAKE AN APPROPRIATION THEREFOR.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. A special committee is hereby created to be known as the Iowa taxation study committee which shall be a bipartisan committee of twelve (12) members consisting of four (4) members to be appointed by the governor, four (4) members from the senate to be ap-

pointed by the president of the senate, and four (4) members of the house to be appointed by the speaker of the house. Appointments by the governor from the legislature, if any, shall be in equal numbers from each house.

Sec. 2. The committee shall have full power and authority to investigate, inquire into and examine all matters relating to the adequacy and equity of the provisions for revenue for the state government and cities and towns, counties, and school districts of Iowa, and shall make recommendations for changes deemed advisable for the equalization of taxes for the support of the state or other political subdivisions, and in general to inquire into and examine every matter and thing whatsoever affecting the providing of revenue for governmental purposes in Iowa, and the administration of laws relating to taxation.

Activities of the committee shall cover, among other things, the following:

1. The present assessment system and methods of equalization of individual assessments between the various taxing districts and counties;
2. The entire present system of exemptions, credits, and deductions with respect to all taxes;
3. The methods of raising revenues from all other possible sources than the taxation of real and personal property, the effects of such methods upon the sources themselves, and the stability of such revenues in the future;
4. The entire system of state aids to local taxing bodies and possible replacement of direct property levies as a source of revenue for local purposes.

Sec. 3. Said committee shall choose a chairman from its members, adopt rules for conduct of its proceedings, and is hereby empowered to employ a secretary and such other employees as are necessary for the proper conduct of the business of the committee. It is hereby empowered also to employ such expert assistance as may be deemed necessary for the studies and investigations herein authorized, including the employment of recognized survey agencies to assist the committee in arriving at its conclusions. The committee may hold public hearings, may subpoena witnesses and compel the production of books, documents or papers, pertaining to its investigations. Witnesses shall be entitled to witness fees and to actual traveling expenses while attending upon the committee, such expenses to be audited and approved by the committee, but no Iowa public employee shall be entitled to witness fees, but may be allowed actual and necessary expenses. The committee shall have access to all public records and shall be given the cooperation of all public officials and shall generally have all the powers of a joint legislative committee. The committee may at any time or from time to time be divided into subcommittees of one or more members, any of said subcommittees having the power to hold hearings and conduct investigations in any part of the state. The committee may also, if deemed necessary, cause studies to be made of taxation systems and administration in other states, and may designate, if necessary, subcommittees for the purpose of studying revenue methods in other states than Iowa. The committee or any member thereof, or the secretary of the committee, shall have the power to administer oaths.

Sec. 4. The committee shall have the cooperation of the state tax commission and its counsel in the performance of its duties and shall be authorized to call upon any department of the state government, including state educational institutions, for assistance in the obtaining of information deemed useful to the committee.

Sec. 5. Should any vacancy occur in the committee, the governor is empowered to fill it by appointment, in case the vacancy is that of a member appointed by him. In case of a vacancy in the legislative membership, it shall be filled by the appointment from the representative body to which such member of the committee belonged, by the speaker of the house or president of the senate, as the case may be. Members of the committee shall be reimbursed for the actual and necessary expenses incurred by them in the discharge of their duties. Members of the committee appointed by the governor, other than members of the legislature, shall receive a compensation of twenty dollars ($20.00) per day for days actually engaged in work of the committee. Legislative members of the committee shall receive as compensation such amounts as the fifty-seventh general assembly may allow. The committe shall have power to fix the compensation of its secretary and other assistants and shall be provided a suitable office for the conduct of its investigations by the state executive council.

Sec. 6. The committee shall be appointed as promptly as possible after the enactment of this measure and shall organize as soon thereafter as possible. It shall make its final report, including drafts of proposed bills, to the governor at least sixty (60) days prior to the convening of the general assembly in 1957 and in event said committee reports to the governor prior to the time above specified, the governor may sooner convene said general assembly provided that said general assembly should not be convened until thirty (30) days have elapsed from the time of the submitting of said report to the governor. Whereupon the governor shall cause to be printed the necessary number of copies of said report including drafts of proposed bills and cause copies of the same to be mailed to members of the general assembly as soon as such report has been completed, the expense therof to be paid from funds herein appropriated. The committee shall be discharged from its duties when it has submitted its final report to the governor and the legislature.

Sec. 7. There is hereby appropriated from any funds of the state treasury not otherwise appropriated, the sum of thirty thousand dollars ($30,000), or so much thereof as may be necessary, to carry out the proposals of this act and for compensation and expenses of such committee and its members as herein provided, to be paid out of the state treasury on vouchers to be approved by the chairman or secretary of the committee and audited according to law.

Sec. 8. This act being deemed of immediate importance shall be in full force and effect from and after its passage and publication in the Creston News Advertiser, a newspaper published at Creston, Iowa, and in the Leon Journal-Reporter, a newspaper published at Leon, Iowa.

.....
Leo Elthon
President of the Senate

.....
A. C. Hanson
Speaker of the House

I hereby certify that this joint resolution originated in the Senate and is known as Senate Joint Resolution 7, Fifty-sixth General Assembly.

.....
Carroll A. Lane
Secretary of theSenate

Approved ....., 1955

.....
Leo A. Hoegh
Governor

APPENDIX B: SUPPLEMENTAL STATEMENT

The Taxation Study Committee submits herewith a supplemental report compiled and written by Mr. Robert Johnson of the Committee.

The members of the Committee join in the inclusion of this supplemental report with the conviction that many of the findings and recommendations set forth therein have merit for the future use and consideration of the Governors and General Assemblies of the State of Iowa.

These findings and recommendations are not included in the main report for the reason that said findings and recommendations were not adopted by the Committee pursuant to the rules thereof.

However, it is felt that all matters bearing upon the taxation problems in the state should be given adequate and fair public consideration; **therefore**, this supplemental report is submitted with the reminder and specific understanding that it does not necessarily reflect the views of members of the Committee, except, the views of the author thereof.

Supplementary Statement
by Robert H. Johnson, member
Iowa Taxation Study Committee

The positive recommendations of the Committee, if adopted by the General Assembly, will provide some long overdue and significant improvements in the State's fiscal structure. But, even if all of the proposed bills are enacted, much will remain to be done if Iowa's tax system is to supply adequate revenues, stimulate efficiency in government, and provide for a distribution of the costs of government in a manner which is both equitable and compatible with the changing structure of the State's economy.

The following statement is **not** a dissenting, or minority report. Neither is it a criticism, explicit or implied, of the viewpoints or judgment of other members of the Committee. It may well be, as has been so frequently argued in the deliberations of the Committee, that the recommendations presented elsewhere in the **Report** represent the maximum that can be accomplished by way of desirable revisions in the State's financial structure. On the matter of the extent of tax revision that is, or is not, acceptable to the public, the writer of this statement respectfully defers judgment to the citizens of the State of Iowa and to their elected representatives. But, regardless of the possibilities for immediate acceptance, there are certain basic principles of state and local finance which should be set forth as a basis for evaluating current fiscal practices, as well as proposals for modifications of the system. If the recommendations of the Committee as a whole fall short of accomplishing the results desired, the following statement may be suggestive of the general direction in which long-run improvements may be sought.

1. State Revenues for Local Purposes

One of the major defects in Iowa's fiscal structure is the transfer of a very large amount of tax revenues collected at the State level to local governmental units **without effective controls over the expenditure of such funds at the local level of government.** In the current year disbursements of State revenues for expenditure by local units of government will be in excess of $100 million, distributed as follows:

Allocations from the Road Use Tax Fund:

Secondary Roads	$ 34.1 million
Cities and towns	7.8
Sub-total	$ 41.9
School aids	22.4
Homestead tax credits	24.7
Agricultural land tax credits	10.5
Reimbursements to local units for military service exemptions	2.4
Total	$101.9

These amounts do not include a number of important disbursements such as allocations for farm-to-market roads and social welfare expenditures over which State departments maintain some degree of effective control and supervision.

The objection here raised is not against the use of revenues collected by Statewide taxation for the support of any local function. Rather, the objections are raised against the lack of control over such spending, the methods used in allocating the revenues and the consequent opportunities created for the inefficient use of tax revenues.

There are perfectly sound reasons for the existence of State aids under proper conditions. In the first place, the State may be in a position to employ more equitable forms of taxation than can be used effectively by local units of government. Secondly, there are certain functions of government for which the "community of interest" is much broader than the local unit of government administering the service—thus justifying Statewide financial support and participation in general supervision. Third, financial assistance from a larger to a smaller unit of government may be justified as a means of equalizing tax burdens among taxpayers in the smaller units of government.

If the local units of government receive back only the revenue collected from taxpayers in that area and the residents of the area retain control over the rates at which they are to be taxed, the State merely functions as a tax administering body and the control over the expenditures of such revenues can and should remain at the local level. But as soon as the rates and amount of tax are determined on a Statewide basis and returned to local communities on some basis other than "where collected" the residents of some areas are being taxed to support services demanded by residents of other areas. In the absence of some general control over the purposes for which such transferred funds may be spent and the effectiveness with which the revenues are used, wasteful expenditures may be encouraged in some areas while other local units of government experience financial difficulties.

If the total level of public expenditure and the purposes of such outlays are to be rationally determined, then taxpayers—in their roles as voters—must be provided with the means for making a choice on the basis of the expected benefits of government services versus the tax costs. To give the citizens of one community the power to determine the amount and specific content of a local budget which is to be financed in a substantial part by citizens of other communities having no voice in the determination of the budget simply precludes the possibility of rational determination of either the volume or composition of public expenditures.

It is recognized that criticism of the existing lack of effective State control over local expenditures raises the critical issue of local autonomy. The virtues of local control over matters of local interest are not here challenged. But it seems doubtful that these virtues can be used as an argument against effective State controls over functions which are to be financed with State revenues because **the particular service or function, so financed, is one in which the people of the entire State have an interest**, for example, public education. If the function is one of strictly **local** interest, then local autonomy should prevail and the function should be financed from local sources of revenue; if it is of statewide interest, then, to the extent that it is financed by taxpayers in the State as a whole, it should be subjected to control by the State government.

The virtues of local autonomy are properly used as an argument against State control only when the area of lo-

cal autonomy coincides with the area from which taxes are to be collected. As a corollary, State revenues should be employed only to finance functions in which the "community of interest" is Statewide; and then only if (a) the elected representatives of the State as a whole have a voice in the determination of the purposes and manner of the expenditure, and (b) effective control over such expenditures is, in fact, maintained. Complete local control over local expenditures financed from non-local revenues may represent "local autonomy." But it also represents an invitation to fiscal irresponsibility and waste.

The various allocations of State revenues to local governmental units are now examined briefly.

Allocations for secondary roads and urban streets. Allocations from the Road Use Tax Fund for secondary road construction purposes are made solely on the basis of area. The State Highway Commission functions in an advisory capacity, county road programs are required, and there are certain requirements that bids be taken on projects costing more than $5,000. But the total amount to be spent in each county and the particular projects for which outlays are made are largely beyond effective State supervision or control. Of course, the total amount of the allocation is determined by State law. But the allocation formula does not take into account the relative urgency of needs in the various counties or the degree of Statewide interest in the purposes for which the funds may be spent.

There exists a wide range of variation in the effectiveness with which such funds are spent in the various counties. In some counties, the practice has developed of splitting the road funds into sub-county allotments—one for each of the supervisors. It would be difficult to devise a scheme which would be less conducive to the use of such funds in a manner consistent with the general welfare of the State as a whole. And this, it may be noted, is supposed to be the objective which justifies the distribution of State revenues for the use of local units of government.

The major defects are two in number; (1) the manner of distribution, which does not take into account the needs for local road construction and the Statewide interest in the secondary road system, and (2) loose administration of road funds at the county level. Some of the recommendations of the Committee are designed to improve local administration. But the practice of allocating revenues on the basis of a formula based solely on area is an equally important defect.

This formula—like any system of earmarking revenues for specific purposes—tends to lead to excessive outlays in some areas and inadequate revenues in others. It is well known that Iowa's secondary road system is, on the whole, one of the best in the nation. But it is equally apparent that the quality of the secondary system exhibits great variation among counties in different parts of the State.

It is not intended that the preceding comments shall be interpreted as an unqualified argument for changing the road allocations in a manner to provide larger revenues for the economically poorer counties of the State. For the most part such counties are unable to finance locally a level of expenditures which would provide the quality and quantity of services available at moderate tax costs in the wealthier counties. But the long-run wisdom of allocating more State revenues for the financing of strictly local functions in low-income areas is subject to question.

In the final analysis, the sub-standard secondary roads in the low-income counties is attributable, in substantial part, to the general inadequacy of the economic base in such counties. Unless it can be demonstrated that increased State aids—for local roads or other local purposes—would contribute to the development of a more adequate local economic base, the allocation of State revenues from the wealthier counties to the chronically depressed areas of the State tends to retard the movement of population and the economic readjustments which alone can provide a measure of solution to the problem. High tax costs, like low income and high costs of production, may simply be an indication that economic resources and population are improperly employed. In other words, the pattern of State aids should not impede desirable adjustments in population and economic resources. In the long run, the economic well-being of some of the population of Iowa's poorer counties would be better served by migration to areas offering enhanced opportunities than by a program of State subsidies designed, in part, to maintain local services for which local resources provide inadequate support.

Beyond the requirement that such funds be accounted for separately, the allocation of Road Use Tax Fund receipts to cities and towns is virtually free of any controls from the State level. The allocation of funds for use on urban streets is made on the basis of population and, therefore, is somewhat more likely to be correlated with needs than the allocation for secondary roads. But two cities with identical populations may have quite different requirements for urban streets. As the population figures used in the allocation formula are those compiled in the regular decennial enumerations by the U. S. Bureau of the Census, the formula may fail—by more than 10 years—to take into account recent shifts in population. Moreover, the formula does not reflect the urban street requirements which may result from suburban population, not counted in the population of the city or town to which the suburbs are attached. Nor does the formula take into account the differences in the relative importance of primary and secondary extensions within corporate limits of towns and cities.

Most of the above comments with respect to rural secondary roads are also applicable to the use of State revenues for urban streets. The allocations made solely on the basis of population cannot possibly conform to the pattern of need for funds in towns and cities experiencing vastly different rates of growth and serving varying numbers of vehicles of non-residents of the towns and cities. Moreover, taxpayers in the State as a whole are entitled to some voice in the determination of general standards to be applied in the expenditure of revenues collected on a Statewide basis.

School aids. The most important type of school aid—general aid—is distributed without regard to need, efficiency of school operations or effective maintenance of educational standards. That is, it is paid at uniform rates per pupil for all districts in the State.

The maintenance of adequate educational facilities in all areas of the State is a proper function of the State as a whole. This is recognized in the Constitution of Iowa. It is one service or function for which the "community of interest" is clearly larger than the local unit of government administering the educational program. Moreover, it is one of the few functions which ought to be heavily subsidized in the chronically depressed areas of the State. A superior educational program facilitates—rather than impedes— the population and economic adjustments needed in such areas.

Therefore, public education stands at the top of the list of those local functions which may be financed, appropriately, with revenues derived from Statewide taxation. But the same line of reasoning constitutes support for the establishment of Statewide standards for educational programs and operating efficiency. In the absence of such standards, State aids for school have been used not only to improve the quality of education but also to

subsidize the continued operation of uneconomical systems offering inadequate educational programs.

The supplemental school aid appropriation is supposed to provide a degree of equalization of educational opportunity and tax burdens in districts having unequal "local abilities" to support educational services. In principle, the equalization factor is a desirable feature of a system of State aid. But, in practice, the objectives of equalization are attained only if assessed values, in terms of which "local ability" is measured are equalized.

Agricultural Land Tax Credits. In some important respects, the credit against taxes levied on agricultural lands in excess of fifteen mills for general school fund purposes resembles the supplemental school aid. However, the amount of the credit available has no maximum limit (except that imposed by the total amount of the appropriation for payment of the credit) as is the case with supplemental aid. The State imposes no standards on eligibility for the Agricultural Land Tax Credit; it is equally available for the relief of property taxes in inefficient and efficient districts and for districts maintaining inadequate educational programs as well as those maintaining adequate programs. While the tax credit on agricultural lands has undoubtedly facilitated some desirable school reorganization, it has also provided a subsidy for the continued operation of high cost schools.

The problem for which the Agricultural Land Tax Credit was supposed to provide a partial solution was, and is, a very real one. That the credit has proved to be an unsatisfactory solution to the problem is generally admitted even by the proponents of the credit.

If the problem is to be approached in a direct manner, as distinguished from the temporary expediency of special credits, it is necessary to: (1) improve assessment practices, especially in the direction of an equalization between urban and rural properties, and (2) reduce the degree of reliance on property taxation as a source of revenue for schools.

Eligibility for the receipt of general and supplemental aids for schools, as well as the Agricultural Land Tax Credit requires the imposition of a 15 mill levy. The purpose of this requirement is to restrict the availability of these aids to districts in which a reasonable "local effort" is being made. In principle, some local effort should be forthcoming before the State assumes financial responsibility. But, in practice, the 15 mill minimum requires a heavier effort in some areas than in others because of differences in assessment levels. As it happens, assessment ratios are highest (relative to actual market values) in precisely those counties in which incomes and "local ability" to support education are the lowest in the State. Thus, in order to qualify for aids and the tax credit on agricultural lands, taxpayers in the State's poorer counties are required to make a greater effort relative to their ability than taxpayers in the wealthier counties.

The only solution to this inequitable arrangement is a greater degree of equalization within and among counties so long as millage levies are used as the measure of local effort.

The pressures for additional State support for public education are strong and well founded. But, in the opinion of the author of this statement, additional expenditures of State funds for public schools should be made **only if standards of educational adequacy and operating efficiency are established and enforced.** In this respect, the new "standard aid" recommended by the Committee represents a significant improvement in the basis for further State financial assistance. But it will be meaningless unless a significant portion of the costs are to be met from aids available only on the basis of these and other standards. At the earliest possible moment, all of the State's financial aids to local schools should be restricted to those units meeting standards of an adequate educational program and of efficient operations. In this connection it is observed that size alone is no guarantee of either educational adequacy or efficiency. While the 500 pupil limit recommended by the Taxation Study Committee is, if anything, too low in most instances, efficiency will not automatically result from larger units. In the absence of larger units than those presently in existence in many areas neither efficiency nor adequacy of educational program is likely to be attained.

Homestead Tax Credit. The Homestead Tax Credit, like the Agricultural Land Tax Credit, is essentially a form of property tax relief. However, the two types of credits differ in certain important respects. For one thing the tax credits available on homesteads are paid from an open-end "appropriation" while the total credit against taxes levied on agricultural lands is limited to the specific amount appropriated—currently $10.5 million per year. The Agricultural Land Tax Credit is limited to levies above 15 mills for a specific purpose—the general school fund; but the purpose for which levies are made is not relevant for the credit against taxes on homesteads. The credit per homestead claimant is limited to $62.50; there is no limit on the amount of Agricultural Land Tax Credit which any one taxpayer may receive. But regardless of these differences, the net effect of the two types of credits is to shift a portion of the costs of local governments to the General Fund of the State of Iowa. In neither case, does the State exercise effective controls over the expenditures financed by State revenues. In the case of the Homestead Tax Credit, the State does not even control the total amount of State funds used for payment of the claims. From 1946 to 1956, Homestead Tax Credit allocations rose by over $8 million or about $800,000 per year.

Whatever merits the Homestead Tax Credit may have had in the depression years when it was enacted, these merits have only limited validity under present levels of income and with all the other inducements for home ownership. The amount of the maximum credit is not likely to be a major factor in the decision between renting and owning a home. Nor is it altogether clear on what definition of equity one might rely to support the proposition that, on balance, those individuals able to own a home should be granted tax privileges at the expense of those who do not—and in many cases can not—own their own home. Certainly it can not be maintained that renters make no contribution to local property tax levies.

The Homestead Tax Credit provides a widely varying degree of tax relief to homeowners. In some of the smaller towns of the State the Military Service Exemption and the Homestead Tax Credit may largely relieve all but the owners of the most expensive homes of contributions to local governmental costs. In other areas, particularly in the larger urban areas, the credits and exemptions may afford relief from only a small fraction of the total tax cost of home ownership.

The fact that all tax credits are paid from some other tax source is frequently overlooked in the arguments for continuation and expansion of the tax credits. And since sale, use and income taxes fall on homeowners as well as others, the amount of the credits does not represent a net tax saving even to the homeowners. Finally, it may be noted that the tax credits, unlike outright State grants in aid, involve the administration of two taxes and complicated allocations of revenue from one source of tax revenue to pay levies made on property—all to obtain net revenues substantially less than the total taxes imposed.

Wholely apart from the somewhat dubious arguments put forward in support of the Homestead Tax Credit on the grounds of encouraging home ownership, equity, etc.,

this particular form of credit along with other credits and aids opens the door to fiscal irresponsibility at the local level. It holds out the prospect or at least gives the appearance of increasing local expenditures without commensurate increases in the tax costs borne by the citizens of the area. Somewhat illogically—but nonetheless understandably—sentiment for increased local expenditures is accompanied by: (a) insistent demands that the State absorb an ever-increasing share of local costs, (b) expressions of righteous indignation at the rising levels of State taxation, and (c) traditional resistance to any infringements on local autonomy. To those people who are perplexed by these mutually inconsistent demands—particularly to those officials responsible for the formulation of State tax policy—a close look at the "system" of tax credits and aids without effective controls may prove rewarding.

Military Service Exemptions and Credits. The limited exemption of property owned by veterans results in a general shrinkage of some $100 million in the local tax base. Therefore, higher millage rates must be imposed on remaining taxable property—including the nonexempt property of veterans—to raise given amounts of revenue. To the extent that local units are reimbursed for the shrinkage (25 mills on the exempt property) the exemption shifts the costs of local government to the General Fund of the State of Iowa. Thus, the Military Service Exemption and the State reimbursement contribute in a minor way to the defects noted in connection with the Agricultural Land Tax Credit, and the Homestead Tax Credit.

The whole issue of veterans' tax exemption needs to be re-evaluated in the light of: (a) the total number of potential claimants relative to the total number of taxpayers in the State; (b) the entire program of veterans' benefits, Federal and State; and (c) the long-run interests of veterans in a sound and equitable tax system.

It should be perfectly obvious that if all taxpayers were veterans there would be no particular benefit—to veterans as a group—from exemptions based on military service. Although this stage has not been reached, veterans comprise a very substantial segment of the taxpaying population. At present less than one-half of the estimated number of veterans in Iowa derive tax benefits from the Military Service Exemption. As those exemptions result in a shift of the tax load to other taxpayers—veterans and nonveterans—it is rather illogical to defend the Military Service on the ground that it provides benefits to **veterans as a group.** Quite clearly, it does not. Rather it benefits some veterans while it increases the tax bills of a larger number of veterans and all nonveterans.

It is not argued that the State should refrain from making tax concessions—in substantial amounts—to veterans actually in need of assistance. Rather, the objection is raised against a **general** tax relief to property-owning veterans under the guise of benefits for **all** veterans and to a needless shrinkage in the local property tax base. Substantial property belonging to taxpayers well able to contribute their full share of the costs of government is exempted in order to "get through" to a relatively small number of deserving veterans for whom a tax concession is really justified.

Therefore, it is suggested that the present system of exemptions for Military Service be replaced by one in which a substantially **larger** exemption be allowed on property owned by disabled veterans or veterans for whom a need can be demonstrated in terms of age, income, or total wealth.

Summary of Position. Most emphatically, this statement does **not** recommend that (1) all State aids should be reduced or eliminated, or (2) local property taxation should bear a larger share of the total costs of government in Iowa, or (3) existing property tax credits and exemptions be abolished **without a general overhaul of the entire State and Local tax and expenditure pattern.** To abolish all such exemptions and credits—without a material reduction in the reliance on property taxation for the support of local government—would create more problems than would be solved.

The positions taken in this statement are: (1) that functions of purely local interest should be controlled **and financed** at the local level, even with revenues from nonproperty tax sources if locally raised; (2) functions in which the State as a whole has a vital interest should be financed, in substantial part, from revenues raised at the State level in order to assure that the interests of the State are adequately served regardless of local ability or willingnss to provide such services; and (3) local expenditures of revenues derived from Statewide sources should be limited to specific purposes designated by the General Assembly and subject to controls at least as effective as those imposed on the State Departments for which the General Assembly also appropriates funds. The application of these principles will not solve all the tax problems of the State of Iowa. But it will at least create a framework in which responsible fiscal practices can prevail.

2 Taxation of Manufacturing and Industrial Development in Iowa

The prevailing attitude toward the taxation of manufacturing in Iowa is, in general, that special tax inducements should be offered in order to encourage industrialization, broaden the tax base of the State, and thus spread the relatively "fixed" costs of government over a larger total income. The "inducements" take the form of (1) virtual exemption by law of some of the State's larger corporate manufacturing establishments from the corporate net income tax, and (2) on the basis of reported valuations, a general underassessment, by informal practice and agreement of manufacturing properties relative to the level of assessment of agricultural properties, residential dwellings, public utility property and some other types of business property. The recommendations of the Taxation Study Committee do not include any proposed changes in the tax policies applied to manufacturing.

It is not the purpose of this statement to challenge the desirability of the objective sought of increased industrialization. It is clearly demonstrated in Part I of the Committee Report that the high and rising ratio of taxes to income in Iowa results primarily from below-national-average rates of growth in income rather than from abnormally high rates of taxation in the State. Moreover, the growth of income of the State's residents would have been even less than it actually was during recent years except for the rapid increases registered in the nonagricultural components of the Iowa economy. Rather, the purpose of this section of the statement is to: (1) raise certain questions concerning the effectiveness and the appropriateness of tax concessions as a technique for encouraging industrial development; (2) examine the proposition that industrialization under present tax policies broadens the tax base; and (3) point out the probable effects of industrialization upon the costs of government, the adequacy of the revenue system and required rates of taxation.

There is little evidence to substantiate the allegation that state and local tax differentials have any substantial effect on the rates of industrial development in the various states. Quite understandably, those industries receiving such benefits are quick to publicly point out that the inducements offered constitute important factors in the decision to locate in one state rather than in some other state. But objective analysis of the rates of

industrial growth and taxation in the 48 states fails to disclose any significant pattern of faster growth in low-tax states. For example, from 1947 to 1954, the rates of growth in the number of manufacturing employees and manufacturing payrolls were higher in the 32 states having corporate net income taxes than in the 16 states not levying this form of taxation. On the other hand, value added by manufacture and investment in new plant and equipment increased more rapidly in the 16 states not levying corporate net income taxes than in the 32 states levying this form of tax.

From a thorough study of the tax exemption program in the State of Louisiana (where the inducements are more obvious than in Iowa) it was concluded that:

"Theoretical analysis and empirical evidence presented in this study coincide to support the widely held belief that the industrial property tax exemption will, under special circumstances, serve as the deciding influence upon the decisions of management to develop and to locate a new enterprise in Louisiana rather than in another state. . . The results of this study indicate that such cases are very few in number, that exemptions cannot be so selectively employed, and that the cost in terms of lost revenue entailed in the granting of exemptions to all firms is great in proportion to results."[1]

James W. Martin and Glenn D. Morrow, in their study, **Taxation of Manufacturing in the South,** concluded that subsidies in the form of tax concessions have not brought about any significant migration of industry and that there is little relation between tax load and the rate of growth in manufacturing.[2]

The following quotation, from a study entitled **State and Local Taxation and Expenditures in New England,** raises and answers the relevant question:

"Do state and local taxes play a dominant role in the location decisions of most business firms? Our conclusion is that they do not. That they are a factor in many location decisions is not questioned. That they are the determining factor is a proposition we reject."[3]

In a recent study, **State and Local Tax Differentials and the Location of Manufacturing,**[4] it was found that from 1939 to 1953, "There was no reliable relationship between per capita tax levels and the rate of growth in industrial employment relative to population." It was also found that "There is no discernible relationship between per capita state and local tax collections and manufacturers' expenditures on new plant and equipment per employee . . . (and) there is no discernible tendency for growth in manufacturing employment to be depressed where corporate net income and license tax collections are high."

Studies of the type cited above are frequently ignored or the results are questioned on the ground that "statistics can be used to prove anything" and, besides, the findings simply do not agree with "common sense" observations. These views merit some examination.

Aside from the question of vested interests which might possibly color the viewpoints on both sides, what can be said on the "common sense" viewpoint? In the first place, it is not argued in any of the sources quoted above that it would be impossible to influence the pattern of industrial location by sufficiently large differentials in taxation. Rather, the conclusions relate only to existing levels of tax differentials for which it is concluded that the locational effects are not of major importance. The existing differences in state and local tax rates applicable to manufacturing business generally comprise a very small element in the total costs of such businesses. For example, total property taxes payable on manufacturing real and personal property in Iowa in 1955, were slightly less than $13.2 million; an amount equivalent to less than 2 percent of payrolls and 1.1 percent of total value added by manufacture. Many factors bulk larger in cost differentials and locational decisions than tax costs. Even such tax differentials as exist are minimized by: (1) the deductibility of all state and local taxes in the computation of Federal net income tax liability (in effect, this means that for every $1.00 of state and local tax payment by most of the larger corporate businesses the net tax cost is only 48 cents, the other 52 cents being "paid" by a saving on the Federal tax liability); and (2) differences in the quality and quantity of public services provided by state and local governments for the use of business firms, their employees and owners. It is a tribute to the industrial leadership of the nation that most firms seeking new locations place more emphasis on adequate schools, police and fire protection, transportation facilities and adequately financed local government than on special tax concessions. All of which is not to imply that any business is looking for a location in which it will be expected to pick up the tab for an extravagant program of government expenditure. Rather, the point is simply that special tax concessions—any form—may not provide the inducement which "common sense" observations on less than all the factors involved might suggest.

Even if it be granted for purposes of discussion that by its present practices in the allocation of corporate income for taxation in Iowa and in the assessment of manufacturing properties, Iowa can attract industries which would not otherwise locate in the State, there remain important issues of policy. For one thing, it does not necessarily follow that industries attracted to Iowa by special tax concessions will "broaden the tax base" by their presence in the State. Of course, the local employees of such firms will make retail purchases on which sales or use taxes will be collected; resident employees will contribute to the yield of the individual income tax; and local property values will be increased by additional residential assessments. But, it will be remembered that one of the alleged reasons for encouraging industrialization is to retain a larger portion of the State's natural increase in population by enlarging the opportunities for nonagricultural employment. To the extent that industrialization takes place, population in urban areas will tend to increase and with increased population will come increased demands for schools and other local governmental facilities.

Unless the tax bases—property, sales, and income actually subject to taxation—rise faster than demands for increased governmental expenditures the inevitable result of industrialization is higher rates on the existing tax bases, or the imposition of new taxes.

If the only additions to the tax base arising from industrialization are those attributable to income of employees, residential real estate and increased expenditures subject to sales taxation, it is improbable that on the average the added revenues would be equal to the added costs of government arising from the growth in industrial employment and population. Take, for example, a manufacturing employee at $4,000 per year income, married, with one child and the owners of a $12,000 home. If the employee is a veteran, the net tax on the home (after veteran's exemption and the Homestead Tax Credit) would be only about $138, assuming a 25 percent assessment ratio and an 80 mill levy. Even if all

[1] **Louisiana's Industrial Tax Exemption Program,** Division of Research of the College of Commerce, Louisiana State University, December, 1953 (As quoted in **Tax Review,** November, 1955, p. 52.)

[2] **Tax Review,** op. cit.

[3] Boston, 1954, p. 645, as quoted in **Tax Review,** op. cit.

[4] Bureau of Business and Economic Research, State University of Iowa (March, 1956). Quotations from pages 18, 32 and 34 of the source cited.

the employee's income is spent for items subject to sales or use tax, the net revenue would be $100 at a 2½ percent rate. The Iowa individual net income tax would yield $27. This totals $265 from these three taxes. And this amount it may be noted is substantially less than the average cost of educating one child, not to mention the other costs of administering local government services to a growing urban population.

The basic difficulty, of course, arises, not from the inadequacy of the **economic** base created by industrialization, but from the fact that much of the economic base is not included in the **tax** base.

Quite apart from the assessment ratios applied to such properties, the actual value of investment is much smaller per worker engaged and per dollar of income produced in manufacturing than in agriculture. In 1955, productive assets per worker employed in agriculture in the nation as a whole were estimated at $18,479 as compared with $7,140 in all nonfarm occupations as a whole.[5] In Iowa, the total number of workers in agriculture was approximately 340,000 in 1954; the assessed value of farm realty, livestock and farm machinery was $2,356 million in 1955. In contrast, total manufacturing employment of roughly 170,000 was represented by real and personal property assessments of only $194 million.[6] It is recognized, of course, that "agricultural lands and buildings" include residential properties as well as productive property while manufacturing assessments do not. But even if *one-fourth of the value of residential properties* be combined with manufacturing assessments (one-fourth of the nonagricultural labor force of Iowa is employed in manufacturing) the combined assessed value of productive and residential properties "in manufacturing" would be only $440 million or less than one-fifth of the assessed value of farm properties. Yet manufacturing employment is half as large as agricultural employment and manufacturing payrolls alone were larger than total net income from farming in 1955. In part, the higher ratio of assessed value per worker and per dollar of income produced in agriculture reflects real differences in capital employed per worker and per dollar of income produced. *But the higher ratio also reflects differences in assessment levels.*

On the basis of investment per production worker by industry in the nation as a whole, the total investment in Iowa's **manufacturing industries** computed at the value at which such assets are carried on the books of the firms is estimated to be in the range of $1.25 billion to $1.5 billion. Even in terms of these figures which are, in most instances, below replacement costs the assessed value is around 12 to 15 percent of total book value.

In the four years 1951 through 1954, total investment in new plant and equipment by Iowa manufacturers was reported to have been $288 million by the U.S. Bureau of the Census. At the *beginning of 1951, manufacturing* and industrial properties assessed as real estate (including machinery) were valued at $97 million according to the State Tax Commission; four years later, the assessed value of the same category of property had risen to $134 million, an increase of $37 million or 13 percent of the Census estimate of the actual additions to new plant and equipment. Even these data probably overstate the ratio of assessed value to new investment for two reasons: (1) some reclassification of industrial properties to the "industrial and manufacturing" category has been taking place in the reports of the State Tax Commission, and (2) the reported new investment in plant and equipment excludes outlays by *firms not actually in operation* during the year in which the surveys were made.

[5] John D. Black, "Agriculture in the Nation's Economy", **American Economic Review**, March, 1956, p. 4.

[6] On the basis of these data, assessed value per worker was $6,929 in agriculture, as compared with $1,141 per worker in manufacturing.

As explained in Part I of the Report the method employed in allocating the net income of multistate businesses to Iowa for purposes of corporate net income taxation results in the virtual exemption of some of the State's larger manufacturing corporations. As a rough figure, it is estimated that for every $1 of corporate net *income taxable in Iowa, $2 of net income is excluded.* For manufacturing corporations alone the ratio of income taxed in Iowa to total net income is even less than for all corporations.

To summarize: Unless the expanding industrial segment of the Iowa economy makes a heavier contribution to the costs of State and local government than is presently the case, it is extremely difficult to see how this industrial development can lead to a lowering of the tax load, either per capita or relative to income received by residents of the State. A significant portion of the income **produced** in Iowa's manufacturing establishment is actually **received** by residents of other states and thus does not add to the Iowa tax base. Only if it can be assumed that employees and owners are already in Iowa and will remain here whether they are employed or not does it appear that the present practices will lead to a reduction in taxation relative to income.

The experience of several of Iowa's more rapidly growing industrial centers confirms the view expressed in a recent issue of **tax review**, published by the Tax Foundation and quoted, in part, below:

> ". . .tax exemption *checks the growth of revenue* just at the time when additional local services will probably be required because of new or expanded industry and . . . the rates on taxable property are therefore likely to be pushed higher."[7]

Although new and established manufacturing concerns are not completely exempt from either property or corporate net income taxation in Iowa, it is apparent that both taxes weigh very lightly on such firms.

The basic issues involved in the taxation of interstate business and the competition among states for new business enterprises were stated quite clearly in a recent address given in Des Moines by one of the nation's outstanding authorities on state and local finance. A portion of his comments is quoted below:

> "The subdivisions of a national economy are highly susceptible to a *mercantilistic tax competition* that bids for industry on the basis of a favorable (that is low) tax environment. This element of competition *explains many things:* the trend toward centralization in government; the trend toward federal and state aids; and the difficulty of state and local governments in meeting their responsibilities.
>
> Now the existence of interstate competition is one of the facts of life that a state can entirely ignore only at its own peril. But over-sensitivity to this fact of life can be perilous not only to the state involved but to the national economy as well."[8]

To seek differentially higher rates of industrial develment through formal, i.e., statutory, or informal tax concessions is a questionable social policy—even if it works - which it quite obviously can not for all 48 states. *If carried to extremes, it can seriously impair the ability* of local and state governments to finance those functions which are traditionally the responsibility of local rather than the national government. As Professor Groves suggests, this is the way to centralization of respossibility and increased nationalization of the tax system with local support derived from Federal and state aids. If

[7] **Tax Review**, November, 1955, p. 52.

[8] Prof. H. M. Groves of the University of Wisconsin, a former member of the Wisconsin Assembly, a former member of the Wisconsin Tax Commission, and research consultant to the U.S. Treasury Department, and the Committee for Economic Development. Address reprinted in **Iowa Business Digest**, Feb., 1955.

an industry can not operate profitably in Iowa while paying its share of all costs of production including those of governmental operation necessary for community living, it is reasonably certain that the tax burden on Iowa's residents and fully taxed businesses is not going to be lightened by bringing in an industry which must be subsidized, even indirectly, through tax concessions.

In the view of the author of this statement tax policies applicable to manufacturing should be revised by: (1) adopting a 3-factor formula for the allocation of the net income of multistate businesses. Iowa is unique among the 32 states levying such a tax in the manner used to allocate corporate income; and (2) putting into effect a realistic level of assessment of manufacturing properties, preferably with the assessment of such properties being placed in the hands of the State Tax Commission. In almost all cases local assessors lack the technical skills required to assess complicated properties of industrial plants. In many cases, there may be irresistible local pressures to prevent equitable assessment even if the assessor were in a position to determine the proper value. But, under no circumstance, should industrial properties be assessed at higher levels than other productive assets.

At the same time, the definition of "consumer" employed in the retail sales and use taxes should be modified to exclude purchases by producers (manufacturers as well as other businesses) of machinery, equipment, and supplies which become elements of business cost, either immediately or eventually via depreciation charges. There is no more logic in placing a sales (or use) tax on a piece of machinery to be "used up" over a period of 10 years in the manufacture of some item than there would be in the application of the sales or use tax to the raw material physically embodied in the product of manufacture. Incidentally, the "consumer's" use taxes paid by industrial users were larger ($632,027) in the fiscal year 1955 than corporate net income taxes paid by manufacturing establishments ($474,433).

The sales and use taxes together with the high millage rates in urban areas arising, in part, from tax credits and exemptions on large amounts of property are probably at least as important in deterring industrial development as any other factors in the Iowa tax structure.

3. The Role of Property Taxation in Iowa

There is widespread public support in Iowa for a significant reduction in the levies imposed on property. Although Iowa depends to a greater degree than most states on property taxation, the effective rates of taxation on comparable properties do not appear to be abnormally high in Iowa. As noted in Part I of the Committee Report, Iowa taxes on agricultural properties are among the lowest in the 11-state Northcentral Region relative to income from these properties. With Homestead Tax Credits and the Military Service Exemption, net taxes on residential properties of similar value do not appear to be abnormally high in Iowa. The major reason for the relatively high per capita property tax yield in Iowa - and for the relatively high ratio of property taxes to total State and local tax collections - is that Iowa contains a very high proportion of the one type of property which is easily discovered and assessed at a fairly high percentage of its actual value - agricultural land.

There can be little question but what the ownership of property has long since ceased to be a satisfactory measure of either taxpaying ability, or the benefits received from government. For this reason, the equity of the tax system of Iowa would probably be enhanced by lessening the emphasis on property taxation.

In general, land - both rural and urban - provides a more satisfactory basis for property taxation than improvements or personal property. Taxes on land tend to make land cheap. The prices which have been paid for lands reflect a certain degree of capitalization of the tax. That is, the prices at which lands have been acquired reflect the taxes levied on the lands. If such taxes were suddenly removed, land prices would tend to rise to the point where the net rate of return on the investment would be the same as before taxes were reduced. All of this may come as little comfort to the agricultural segment of Iowa's economy, confronted as it has been for several years with rising property taxes, falling net income, and rising average land prices.

But the major difficulty posed by the heavy reliance on property taxes - particularly on agricultural lands - is the barrier to school reorganization created when rural and urban properties are to be combined in a single taxing district. The most promising approach to this problem is to be found along the lines of increased State aids from revenues derived from nonproperty tax sources and made available only to districts meeting certain standards. The approach suggested will tend to reduce the **relative** tax share borne by property while, at the same time, reducing some of the relative tax disadvantage on rural lands in taxing districts containing urban areas.

In the view of the writer of this statement, some reduction in the reliance on property taxation should be made. But any overall reduction of substantial amount must be evaluated in terms of the equity and economic effects of alternative sources of revenue. And if substantial reductions are to be made, the credits and exemptions which have developed over the years should be eliminated so that the reduction becomes available on all property rather than property belonging to special groups of owners.

The other aspect of the property tax problem derives from the changing economic structure of the State. While the property tax worked reasonably well when all property was of essentially the same type - agricultural lands - the diversification of property has created problems which have become more difficult to solve with the passage of time. The essential feature of the **general** property tax was the treatment of all property, of whatever kind, in the same manner taxwise. But it has long been evident that all forms of property are not alike and can not be so treated for tax purposes, hence, the classification of property for purposes of assessment or the application of different millage levies to various types of property, e.g., the tax on moneys and credits.

As Iowa has become more urbanized the fewer people in rural areas and as a diminishing share of the income of the people of the State has come to be derived from agriculture, the property tax has functioned very inadequately as a tax source. For reasons already noted, as well as for some not discussed, assessed property tends to be less - per capita and relative to income - in urban, industrial and commercial areas than in farm areas. If uniform millage levies are applied in both types of areas, the share of taxes borne in the rural areas will be much higher, per capita and relative to income, than in the nonagricultural urban areas. It is largely for these reasons that most states have abandoned statewide levies and have introduced nonproperty taxes, such as sales and income taxes which are better able to tap the taxpaying ability in urban areas. Iowa took both these steps in the mid-1930's. Since that time the shift from agriculture to nonagricultural sources of income and the shift from rural to urban areas have continued. The time has probably arrived when another general movement away from the reliance on property taxation is necessary. Since the State no longer imposes any significant State-wide levy, the principal "sore spot" of rural and urban tax equity is in the financing of public education in mixed districts.

But there are also issues of equity involved between individuals and businesses owning vastly different amounts of property, but with incomes or other measures of ability or benefit of roughly comparable magnitudes. The seriousness of these inequities has not been lessened by the change in the State's economic structure.

4. The Adequacy of the Present Tax Structure.

Although increased taxation is not a popular prospect - particularly at the time this statement is submitted - it is inconceivable that the total costs of government in Iowa will change in any direction but upward in the forseeable future. The rate of increase and the purposes for which such outlays will be made are decisions which will be made by school boards, county supervisors, city councils, other local bodies and future General Assemblies of the State of Iowa. But all of these bodies will be subject to pressures which are not likely to be denied - and in the interest of the general welfare, many should not be denied.

It is well, therefore, to begin now to put the tax structure of the State in shape to meet the demands which will certainly be made upon it. Specifically, this means that either the rates must eventually be raised on existing taxes, the base of existing taxes must be broadened or new taxes must be imposed. Because of interstate competitive pressures, there are strong arguments for very broad tax bases with moderate rates rather than high rates imposed on narrower bases. In this connection two suggestions are offered: (1) the sales tax, now restricted largely to tangible personal property transactions, should be broadened to include most services purchased by **final consumers**, but not to those services purchased by businesses; and (2) the base of income taxation should be broadened, as might be accomplished by the adoption of the proposed tax on adjusted gross personal income, as a supplement to the individual net income tax.

5. Financing Higher Education.

This statement is concluded with some brief comments on two of the recommendations made by the Committee as a whole: (1) that State aid to junior colleges be increased from $.25 per student per day to $1.00, and (2) that the Board of Regents be authorized to issue revenue bonds for capital improvements at the three institutions of higher education with such debt to be serviced by the earmarking of tuition.

In connection with the recommendation for increased aid to junior colleges it may be observed that the facilities of all of Iowa's institutions of higher education, private as well as public, will be sorely pressed by rising enrollments during the coming decade. It may well be that expansion at the junior college level can provide some of the additional education services which will be required. But two factors should not be overlooked.

In the first place, the cost of providing the first two years of college work is probably not much less at the junior colleges than at the three institutions of higher education. Allegations to the contrary, based upon a comparison of the average cost per student in the junior colleges with the average cost per student for **all** students or even for **all** liberal arts students in the four year colleges, seriously misrepresent the opportunities for saving. Secondly, even with substantially increased State aids for junior colleges, it will be necessary to expend greater amounts for operation and capital improvements at the three State-supported institutions. While the author of this statement supports the recommendation aid to junior colleges be increased, it its emphasized that this will not provide any "cheap solution" to the problem of providing financial support for higher education in the State of Iowa.

The recommendation of the Board of Regents that permissive legislation be enacted to allow the Board to issue revenue bonds with tuition pledged for payment of interest and principal is rather eloquent testimony to the critical nature of the need for funds for capital improvements. The plan, as proposed by the Board and adopted (with some modifications) by the Taxation Study Committee, is certainly not the best solution to the problem as is probably recognized by the Board. It is a plan, moreover, which is fraught with dangers. Once securities are issued under the plan, the annual carrying charges become a contractually fixed cost to be met from tuition charges made for this purpose. To the extent the future sessions of the General Assembly see fit to replace the earmarked tuition with "replacement" appropriations, the operating revenues of the institutions will be maintained. Under these conditions, the annual carrying charges are, in effect, met from State General Fund appropriations. However, if at any time during the thirty year period for which the bonds are to be issued, the General Assembly does not make such "replacement" appropriations or enrollment drops because of a national emergency, the institutions will encounter financial difficulties. Either tuition rates must be raised or operating expenditures must be cut by an amount to cover the fixed carrying charge.

It is doubtful if the fiscal condition of the State of Iowa is sufficiently desperate to justify the use of such an indirect and expensive - method of meeting the needs for capital outlays at the three institutions. Data submitted by the Board of Regents indicate that the total interest costs of the plan will aggregate over $26 million on borrowing of less than $38 million over the thirty-year period.

If the withholding system is adopted on the State net income tax, the State will receive, as a "one-time" revenue, several million dollars. Under no circumstance should this money be used to cover regularly recurring expenses. But such funds could be used quite appropriately for capital outlays such as those which would be made under the proposed revenue bond plan.