FINAL REPORT

OF THE

TAXATION STUDY COMMITTEE

1971

Senate Concurrent Resolution 119, Sixty-third Iowa General Assembly, Second Session, directed the Legislative Council to establish a study committee to conduct during the 1970 interim a detailed study of the Iowa tax structure as it relates to local taxing body expenditures and recommend methods of implementing tax reform measures which will effectively reduce emphasis on local property taxes. The Resolution provided that the membership of the study committee should consist of not more than sixteen legislators representing the Senate and House Committees on Ways and Means, Cities and Towns, Schools, and County Government and that the members be appointed jointly by the President of the Senate and the Speaker of the House.

The following persons were appointed to serve on the Study Committee in accordance with Senate Concurrent Resolution 119:

President of the Senate appointees:
- Senator C. Joseph Coleman, Clare
- Senator W. Charlene Conklin, Waterloo
- Senator Wayne D. Keith, Algona
- Senator Edward E. Nicholson, Davenport
- Senator Ralph W. Potter, Marion
- Senator Roger J. Shaff, Camanche
- Senator Charles K. Sullivan, Sioux City
- Senator Bass Van Gilst, Oskaloosa

Speaker of the House of Representatives appointees:
- Representative John Camp, Bryant
- Representative Elmer H. Den Herder, Sioux Center
- Representative Charles E. Grassley, New Hartford
- Representative Edgar H. Holden, Davenport
- Representative William H. Huff III, Des Moines
- Representative James I. Middleswart, Indianola
- Representative Fred W. Nolting, Waterloo
- Representative Maurice A. Van Nostrand, Avoca

The organizational meeting of the Taxation Study Committee was held on May 20, 1970 at which time Senator Ralph W. Potter was elected Committee Chairman and Representative Elmer H. Den Herder was elected Committee Vice Chairman. At this meeting, the

Committee agreed that it should meet with school, city, county, and state officials. The Committee also agreed that it might be desirable to hold public hearings in various parts of the state.

The various school officials, appearing before the Committee, suggested basically two approaches to the financing of public education. One approach is the implementation of a foundation grant program in which the state would fund up to eighty percent of per pupil costs. The other approach is to continue with the present equalization aid program. Some officials favored a property tax limit for the funding of public education costs by local property taxpayers with a greater reliance upon increased income and sales taxes for financing school costs.

In their appearances before the Committee, county officials emphasized that the General Assembly has placed responsibility upon the county for providing additional services in particular areas without providing a method for funding the additional services or new programs. County officials also emphasized the present financial problems in the area of welfare costs. It was noted that the law presently provides millage limitations for the poor fund from which aid to dependent children, aid to the blind, and aid to the disabled programs are financed. Welfare costs are now greater in some counties than the amount of revenue that can be collected from levying the maximum millage allowable, and the more populous counties have been required to issue bonds to finance the required assistance programs.

A number of city officials met with the Committee on June 26, 1970. These officials, noting that many cities are levying the maximum allowable millage rate, stated that the financial needs of cities and towns have increased substantially and suggested that state aid or local option taxes may be necessary to solve the cities' financial problems. Several officials noted that the use of nonproperty taxes is more appropriate than the use of property taxes for financing city services because nonproperty taxes yield increased revenues in times of economic prosperity and are based upon the ability to pay to a greater extent than the property tax.

The Committee also met with the Director of Revenue, Commissioner of Social Services, State Comptroller, Legislative Fiscal Director, Treasurer of State, Auditor of State, Superintendent of Public Instruction, and the Director of the Iowa Development Commission and with Professors from Iowa State University and the University of Northern Iowa.

Public hearings were held in Waterloo, Atlantic, Sioux City, Mount Pleasant, Cedar Rapids, Oskaloosa, and Des Moines during July and early August and were well attended by residents of the community and the surrounding areas. Each one-day session was attended by at least 150 persons, of whom at least 30 persons were able to express comments and ideas on Iowa's tax structure to the Committee. The hearings were attended by legislators, local government officials, businessmen, farmers, laborers, retired persons, and other interested persons.

Many of the persons who appeared before the Committee expressed their concern with the present high property taxes, emphasizing the burden on property owners and stressing that the tax is not based on the ability to pay. Many persons also noted the inequitable and varying assessment procedures throughout the state and suggested that property should not be taxed to finance a service which benefits individuals and is not essentially a service to the property. Many persons also emphasized the need for property tax relief for the retired individuals who are living on fixed incomes.

Rural property owners and businessmen expressed dissatisfaction with the present method of taxing personal property. It was pointed out that assessment practices presently vary from county to county. It was also stated that personal property taxes on inventories are unfair because some businesses have a greater inventory turnover than others, resulting in a lower personal property tax bill for high volume and high turnover businesses when consideration is given to total inventories carried in a year. Businessmen emphasized their dissatisfaction with the present personal property tax exemptions.

Many persons testified that the burden of taxation should be shifted from the property tax to income and sales taxes. Individuals testifying also claimed that the present income tax law is inequitable in that if an individual takes a standard deduction for federal income taxes, he is required to use a standard deduction on the Iowa return and the present standard deduction allowed under Iowa law is $250 as compared to $1500 on the federal return for 1971. The Committee also heard testimony that the number of tax brackets should be increased and those persons in higher tax brackets should be subject to higher income tax rates.

Many persons also expressed their concern about the present high cost of education, and the increase in costs over the past several years. The Committee heard testimony recommending that the General Assembly exercise greater control over school district expenditures, teachers' salaries, course offerings, and the need for more school district reorganizations.

Many persons expressed concern about present school budget hearing procedures, noting that approximately seventy percent of a school district budget is committed to teacher contracts by April, and public hearing on the school budget is not held until July.

Individuals testified that too much personal and real property is presently exempted from taxation. Many persons also noted their dissatisfaction with the repeal of the moneys and credits tax and with enforcement of the chain store tax.

The Committee also heard testimony recommending enactment of the following new taxes:

1. A transactions tax to replace the present sales and use tax.

2. Reenactment of the moneys and credits tax.

3. A value-added tax to replace sales and use taxes.

4. A business privilege tax to replace the present personal property tax.

Commencing with November meetings, the Committee directed its attention to the following areas:

1. The possibility of developing a foundation grant program for financing public education, grades K through 12.

2. An alternative method of financing the categorical assistance programs which are becoming a financial burden for the larger counties.

3. Possible solutions to the present financial crises faced by cities and towns.

4. The inequities of the personal property tax.

5. A review of all tax exemptions presently granted.

TAXATION STUDY COMMITTEE RECOMMENDATIONS

The Committee recommends the repeal of the present equalization aid program and the establishment of a foundation grant program. The Committee believes that the present equalization aid program, which is one of the most complicated school aid formulas in the nation, contains inequities. School district personnel object to the formula because the amount of state aid which will be received by a district cannot be computed ahead of time. Residents of school districts which contribute more to the basic school tax equalization fund than they receive object to its distribution on a countywide basis.

The Committee recommends that a foundation grant program for state aid to education be established on July 1, 1972. For the fiscal year 1971-1972 only, the Committee recommends that general fund operating expenses in each school district be limited, and the amount of local property tax collected for schools not be allowed to increase above the amount raised by property taxes in 1970-1971. Because 1971 is a reassessment year, it is not deemed advisable to recommend limits on mill levies. In order that school districts may remain within the budget limits, the Committee recommends that an additional amount equal to $30,000,000 less the difference between the amount appropriated for equalization aid purposes for 1971-1972 and the amount appropriated for 1970-1971 and less the difference between the 40% of the income tax revenue returned to the county to be allocated to the local school districts in 1971-1972 and 40% of the income tax revenue returned in 1970-1971. The amount shall be returned to each local school district on a uniform per pupil basis.

The Committee recommends that commencing July 1, 1972, each school district levy a 20-mill property tax for the foundation grant program and the revenue derived from the property tax be retained in each district. The Committee considered a 25-mill uniform levy, but the amount raised by each district in some cases would exceed the foundation level of support. If a school is not spending beyond the foundation level and the uniform 20-mill levy raises an amount in excess of the general fund expenditures of the district, the district would only be required to levy a property tax to raise an amount equal to the general fund expenditures.

The Committee recommends that state funds be used to bring the level of support for each pupil in the state up to the foundation level by dividing the amount raised in each district through the use of the 20-mill levy by the number of public school pupils in each district, and distributing state funds to reach the foundation level for each pupil.

After discussing the cost per pupil for providing an education and the wide variance in per pupil cost throughout the state, the Committee notes that if the foundation plan had been in effect during the 1969-1970 school year, the level of support should have been $640 or 80% of $800, which was the state average per pupil cost for general fund expenditures for that year. In deciding upon an 80% level of support, the Committee has retained local support for an average of 15% of general fund expenditures plus 5% federal and special aids.

The foundation level of support will increase each year at the same rate as the growth of the major state taxes which fund the program. The Committee discussed allowing the foundation level of support to be set each year at 80% of the state average per pupil cost for general fund expenditures, but decided such a plan would encourage school districts to increase expenditures and raise the state average.

The Committee in reviewing the functions of the School Budget Review Committee agreed that the School Budget Review Committee performs a useful function in reviewing school budgets and should be retained. Any school district which is spending more than 110% of the state average per pupil cost for general fund expenditures, any school district which has increased its budget from the previous year at a greater percent than the economic growth of the state taxes, and any district which may not be spending beyond the state average per pupil cost but is spending more than the School Budget Review Committee believes is justified, may be required to appear before the School Budget Review Committee and justify the budget. The School Budget Review Committee may approve or disapprove the excess spending. If the excess spending is disapproved, the Committee believes that the residents of the local school district should be informed that their school budget indicates excess spending and the residents should be granted the right at a referendum election to approve the excess spending, after having been informed of the manner in which the excess spending will be financed, or to disapprove the excess spending, in which case the school board must reduce its budget.

The Committee agrees that the measure of ability to pay is not primarily property ownership or a large income, and proposes that both property and income indicate an ability to pay. Therefore, the Committee recommends that the local funding for school purposes should be based upon an <u>equal effort</u> from a local income tax and a local property tax. The property tax mill rate to be used in a district will be the same as the percent of the previous year's adjusted gross income of district residents used to determine the amount to be raised by a local income tax. The local income tax will be paid directly to the school district treasurer who will have the necessary powers for collection of the tax.

The Committee discussed enforcement problems regarding collection of the local income tax and agreed to recommend that delinquent school district income taxpayers shall be listed with the automobile license department of the county and refused renewal of their auto licenses until the local income tax has been paid.

In discussing average per pupil costs, the Committee noted that many school districts with an average daily membership of less than 600 have high per pupil expenditures, and the residents of the school district may be unaware of the high per pupil expenditures. The Committee recommends that any school district which has an average daily membership of less than 600 and which spends in excess of $1,050 per pupil for general fund expenditures in 1971-1972, must propose a plan for school reorganization and hold a referendum election before June 1, 1973 to determine whether the school district will be consolidated with a contiguous school district. The new district formed must have an average daily membership of at least twelve hundred students.

The Committee discussed the functions and services of the county school system and it was noted that some of the services being provided by the county school system would not be provided if the individual local school districts were assessed to pay for the service. The Committee recommends that the county school system be abolished and that an intermediate school system be established and supported on a cooperative basis by each individual school district. If the county system is retained, the Committee recommends that the maximum property tax levy for county boards and joint county boards of education beginning July 1, 1972 be set at 3 mills.

Until the General Assembly acts with regard to changes in the county school system, the Committee believes that budget increases of county school systems should also be limited for 1971-1972 to an increase of 1½% of the amount raised by property taxation in 1970-1971.

Present law requires employees of the Department of Public Instruction to inspect school operations and report school deficiencies. The Committee believes that school inefficiencies should also be reported.

Because of inequities in the present school transportation laws, the Committee recommends that the Committees on Schools of the General Assembly, in cooperation with the Committees on Transportation, revise Chapter 285 of the Code.

The Committee believes that the major financial problem for counties, especially urban counties, is payment of the county's share of the categorical assistance programs--aid to dependent children, aid to the blind and aid to the disabled, and in particular aid to dependent children. Since the United States Supreme Court has ruled that residency requirements for aid to dependent children recipients cannot be required, and since average payments to ADC recipients in some contiguous states are lower than average payments in Iowa, welfare costs have risen. The Committee also believes that all persons should contribute to welfare payments, not just property owners. Some of the more populous counties have levied the maximum property tax levy allowable and have been required to issue bonds to obtain needed revenue to finance the programs. The Committee recommends that the county's liability for categorical assistance programs be limited to a maximum property tax levy of one mill, and state funds will provide the remainder needed in a county. Since the county's liability for welfare payments has been reduced, the Committee recommends that the ½ mill for ADC assistance be eliminated and the maximum additional levy for the county poor fund be reduced from 3 mills to 2 mills.

The Committee received information that the per capita cost for county government in counties with low populations is much higher than the per capita cost in more populous counties. The Committee believes that county residents should be aware of the costs of county government and the savings which might be realized if a county government were combined with a contiguous county. Therefore, the Committee recommends that a procedure for county consolidation be initiated upon the adoption of a resolution of the county board of supervisors or upon receipt by the Secretary of State of a petition calling for an election of approval by the residents of the counties involved. Since many county jails and county courthouses are in need of repair or replacement, the Committee recommends that county boards of supervisors be required, before any major capital improvements which will require the issuance of bonds can be initiated, to appoint a citizen's committee to work with a governmental agency or organization concerned with local affairs to conduct a study of the cost of county government as it exists and the cost of county government if the county consolidates with a contiguous county.

The Committee believes that the volume and quantity of services which must be provided is constantly increasing and governmental units should be attempting to avoid duplication and thus increase efficiency. It recommends that an amount equal to the revenue derived from ½ cent sales tax be provided for use by a regional agency or merged arrangement for providing such services as police protection, fire protection, sewage disposal, water supply, sanitary landfill, or any other service that is needed by citizens which can best be provided by a cooperative effort.

The Committee heard testimony that the property tax base is constantly being eroded and much property is either not on the tax rolls or the property is not taxed to the same extent as other property. The Committee recommends that if the uniform mill levy for school purposes is set at 20 mills, the agricultural land tax credit should be eliminated. It recommends that all residences be placed on the tax rolls. It recommends that all health care facilities, except hospitals and wholly-owned federal, state, city, and county homes be placed on the tax rolls, but it believes that consideration should be given to facilities which have a high percent of welfare patients. The Committee recommends that the property of associations of war veterans and the property of literary, scientific, benevolent, and agricultural societies be placed on tax rolls to pay for the basic services of police protection, fire protection, and street construction and maintenance. The Committee recommends that the homestead tax exemption be reduced to half its present level.

The Committee believes that the personal property tax is an unfair tax and is difficult to adequately enforce, and it recommends that the tax on personal property be eliminated and a tax be assessed upon the adjusted gross income of businesses, corporations, cooperatives, professional persons, banks, savings and loan associations, and farms, which will produce sufficient revenue to replace the personal property tax.

The Committee received many complaints about the unfairness of the double homestead exemption for low income elderly persons and studied various alternatives. It recommends a plan, which has been enacted in Vermont, which limits the property tax liability on a homestead owned by an elderly person or couple or owned by a person retired because of disability to 7% of the person's or couple's annual income from all sources. If the property tax charged exceeds 7% of the person's or couple's income, the amount over the 7%, not exceeding $300, will be refunded as a credit on the person's income tax. The Committee, which believes that all low income elderly persons should be benefited, not just property owners, recommends that 20% of the rent of persons not owning property be considered property tax for purposes of computing the credit.

The Committee heard testimony from many persons who suggested that the moneys and credits tax or a similar tax be reenacted, and it recommends that a 1% tax be imposed on the income from interest and dividends.

The Committee believes that corporations should continue to pay approximately the same amount of money in taxes as they presently do. However, if the foundation grant program for schools is adopted and the personal property tax is eliminated, considerable property tax savings will result for corporations. Iowa presently taxes corporations located in Iowa for income tax purposes on the basis of income derived from the sale of goods sold and delivered within the state. The Committee recommends that the Committees on Ways and Means study ways in which the present law can be amended in order to tax corporations not located in Iowa, but selling goods in Iowa.

With regard to the property tax reduction which corporations will have if the foundation grant for financing schools is adopted, the Committee recommends that the Committees on Ways and Means study ways in which the reduction can be recaptured. The Taxation Study Committee's consensus is that a statewide property tax is the preferable source.

In order to increase state revenues to provide the additional funds needed to finance the programs which are recommended, the Committee recommends that the sales tax be increased to 4%. If the sales tax rate is increased, it is believed that some form of sales tax credit for low income persons, similar to the sales tax credit enacted in 1967 and amended in 1969, should be adopted. The Committee recommends that $10,000,000 of the sales tax revenue be set aside to finance a sales tax credit.

The Committee recommends that the state income tax rates be changed to provide increased revenues. A series of plans for increasing income tax revenue was proposed at the Committee's request by Mr. William Forst, Director of Revenue, and a copy of Mr. Forst's proposals is attached to this Report. The Committee heard testimony from Mr. Forst that the percent of an individual's income paid as state income tax decreases on incomes exceeding $30,000, and it recommends that any changes in the rate structure should also increase the progressiveness of the state income tax.

The Committee recommends that all political subdivisions, except special charter cities which levy their own taxes, prepare special budgets for the period January 1, 1972 to June 30, 1972 in order to bring all budgeting in line with a fiscal year closing of June 30. Since the federal government and the State of Iowa operate on a fiscal year basis as do school corporations, it appears advisable that cities and towns and counties change their budget year to correspond.

Although the Committee has been studying the tax structure, it has also recognized the need for greater efficiency at all levels of government which will, in effect, reduce the cost of government.

Attached to this Report are charts indicating the revenue which must be raised to finance programs recommended by the Taxation Study Committee and revenue which will be raised if the recommended tax changes are enacted. Copies of Minutes of the Taxation Study Committee meetings and research information obtained for Committee members is available in the Legislative Service Bureau office.

FULL RATES ON EXISTING BRACKETS

AGI Brackets (000)	AGI	Present Tax	Present Incidence	Proposed Tax	Proposed Incidence	Incidence Change
3-4	416,199,303	1,838,073	.44%	3,067,520	.74%	68%
4-5	479,386,131	3,411,893	.71	5,395,974	1.13	59
5-6	532,597,234	5,170,120	.97	7,854,544	1.47	52
6-7	610,718,891	7,309,956	1.20	10,943,946	1.79	49
7-8	672,922,228	9,156,672	1.36	13,530,375	2.01	48
8-9	655,603,517	9,753,663	1.49	14,186,228	2.16	45
9-10	583,628,309	9,366,629	1.60	13,447,237	2.30	44
10-15	1,561,596,132	29,794,624	1.90	41,698,616	2.67	41
15-20	490,615,722	11,864,563	2.42	16,500,609	3.36	39
20-25	238,405,604	6,411,200	2.69	8,793,662	3.69	37
25-30	144,830,670	4,021,913	2.78	5,437,574	3.75	35
30-35	95,989,774	2,709,701	2.82	3,684,468	3.84	36
35-40	74,043,854	2,088,154	2.82	2,838,140	3.83	36
40-45	55,690,940	1,562,242	2.81	2,126,604	3.82	36
45-50	44,718,751	1,227,302	2.74	1,666,328	3.73	36
50-75	120,294,979	3,174,287	2.64	4,299,011	3.57	35
75-100	44,136,245	1,104,499	2.50	1,501,241	3.40	36
100-150	30,227,778	724,774	2.40	984,037	3.26	36
150-over	53,923,796	1,299,540	2.41	1,879,397	3.49	45
	$6,905,529,858	$111,989,811	1.62%	$159,835,511	2.31%	43%

New Revenue: $48,000,000

SOURCE: 1969 Individual Income Tax (final) Iowa Department of Revenue

ESTIMATE OF EFFECT - ADJUSTED GROSS INCOME TAX (1969 Final Individual Income Tax)

AGI Brackets (000)	AGI	Present Tax	Present Incidence	Proposed Tax	Proposed Incidence	Incidence Change
3-4	416,199,303	1,838,073	.44%	$ 2,421,536	.58%	32%
4-5	479,386,131	3,411,893	.71	4,314,604	.90	27
5-6	532,597,234	5,170,120	.97	6,273,809	1.18	22
6-7	610,718,891	7,309,956	1.20	8,871,316	1.45	21
7-8	672,922,228	9,156,678	1.36	11,119,989	1.65	21
8-9	655,603,517	9,753,663	1.49	12,197,886	1.86	25
9-10	583,628,309	9,366,629	1.60	12,075,955	2.07	29
10-15	1,561,596,132	29,794,624	1.90	41,247,248	2.64	39
15-20	490,615,722	11,864,563	2.42	19,225,088	3.92	62
20-25	238,405,604	6,411,200	2.69	11,642,808	4.88	81
25-30	144,830,670	4,021,913	2.78	7,933,584	5.48	97
30-35	95,989,774	2,709,701	2.82	5,627,422	5.86	108
35-40	74,043,854	2,088,154	2.82	4,554,608	6.15	118
40-45	55,690,940	1,562,242	2.81	3,548,675	6.37	127
45-50	44,728,751	1,227,302	2.74	2,918,880	6.53	138
50-75	120,294,979	3,174,287	2.64	8,221,068	6.83	159
75-100	44,136,245	1,104,499	2.50	3,177,430	7.20	188
100-150	30,227,778	724,774	2.40	2,255,312	7.46	211
150-over	53,923,796	1,299,540	2.41	4,223,664	7.83	225
	$6,905,529,858	$111,989,811	1.62%	$171,850,882	2.48%	53%

NEW REVENUE: $59,511,868

Rate Structure

0- 1,000	1%
1- 2,000	2% + $ 10
2- 3,000	3% + $ 30
3- 5,000	4% + $ 60
5- 7,000	5% + $140
7- 9,000	6% + $240
9-12,000	7% + $360
12 & over	8% + $570

AGI Less $1,000 X Personal & Dependent Credits equals taxable amount.

SOURCE: 1969 Individual Income Tax (final)
Iowa Department of Revenue

ESTIMATE OF EFFECT - FULL RATES WITH FOUR BRACKETS

AGI Brackets (000)	AGI	Present Tax	Present Incidence	Proposed Tax	Proposed Incidence	Incidence Change
3-4	416,199,303	1,838,073	.44%	3,067,520	.74%	68%
4-5	479,386,131	3,411,893	.71	5,395,974	1.13	59
5-6	532,597,234	5,170,120	.97	7,854,544	1.47	52
6-7	610,718,891	7,309,953	1.20	10,943,946	1.79	49
7-8	672,922,228	9,156,678	1.36	13,530,375	2.01	48
8-9	655,603,517	9,753,663	1.49	14,186,228	2.16	45
9-10	583,626,309	9,366,629	1.60	13,447,237	2.30	44
10-15	1,561,596,132	29,794,624	1.90	41,698,616	2.67	41
15-20	490,615,722	11,864,563	2.42	16,667,136	3.40	40
20-25	238,405,604	6,411,200	2.69	9,353,324	3.92	46
25-30	144,830,670	4,021,913	2.78	6,090,821	4.21	51
30-35	95,989,774	2,709,701	2.82	4,261,549	4.44	57
35-40	74,043,854	2,088,154	2.82	3,388,129	4.58	62
40-45	55,690,940	1,562,242	2.81	2,594,530	4.66	66
45-50	44,718,751	1,227,302	2.74	2,063,117	4.61	68
50-75	120,294,979	3,174,287	2.64	5,463,746	4.54	72
75-100	44,136,245	1,104,499	2.50	1,971,292	4.47	79
100-150	30,227,778	724,774	2.40	1,319,760	4.37	82
150-over	53,923,796	1,299,540	2.41	2,636,926	4.89	103
	$6,905,529,858	$111,989,811	1.62%	$165,934,770	2.40%	48%

NEW REVENUE: $53,595,756

Rate Schedule on Taxable Income

0- 1,000	1%
1- 2,000	2%
2- 3,000	3%
3- 4,000	4%
4- 7,000	5%
7- 9,000	6%
9-12,000	7%
12-15,000	8%
15-20,000	9%
20-over	10%

SOURCE: 1969 Individual Income Tax (Final)
Iowa Department of Revenue

ESTIMATE OF EFFECT - INDIVIDUAL INCOME TAX - FEDERAL INCOME TAX DEDUCTION ELIMINATION

AGI Brackets (000)	AGI	Present Tax	Present Incidence	Proposed Tax	Proposed Incidence	Incidence Change
3-4	416,199,303	1,838,073	.44%	$ 2,771,789	.67%	52%
4-5	479,386,131	3,411,893	.71	4,918,400	1.03	45
5-6	532,597,234	5,170,120	.97	7,379,467	1.39	43
6-7	610,718,891	7,309,956	1.20	10,063,693	1.65	38
7-8	672,922,228	9,156,678	1.36	12,316,131	1.83	35
8-9	655,603,517	9,753,663	1.49	13,157,244	2.01	35
9-10	583,628,309	9,366,629	1.60	12,675,787	2.17	36
10-15	1,561,596,132	29,794,624	1.90	40,326,592	2.58	36
15-20	490,615,722	11,864,563	2.42	15,816,760	3.22	33
20-25	238,405,604	6,411,200	2.69	8,570,915	3.60	34
25-30	144,830,670	4,021,913	2.78	5,501,369	3.80	37
30-35	95,989,774	2,709,701	2.82	3,809,490	3.97	41
35-40	74,043,854	2,088,154	2.82	3,002,128	4.05	44
40-45	55,690,940	1,562,242	2.81	2,308,638	4.15	48
45-50	44,718,751	1,227,302	2.74	1,873,011	4.19	53
50-75	120,294,979	3,174,287	2.64	5,134,497	4.27	62
75-100	44,136,245	1,104,499	2.50	1,970,810	4.47	79
100-150	30,227,778	724,774	2.40	1,364,715	4.51	88
150-over	53,923,796	1,299,540	2.41	2,537,544	4.71	95
	$6,905,529,858	$111,989,811	1.62%	$155,498,980	2.25%	39%

NEW REVENUE: $43,509,169

SOURCE: 1969 Individual Income Tax (Final)
Iowa Department of Revenue

ESTIMATE OF EFFECT - ILLINOIS PLAN (1969 Final Individual Income Tax) [1]

AGI Brackets (000)	AGI	Present Tax	Present Incidence	Proposed Tax	Proposed Incidence	Incidence Change
3-4	416,199,303	1,838,073	.44%	6,772,999	1.63%	270%
4-5	479,386,131	3,411,893	.71	9,399,305	1.96	176
5-6	532,597,234	5,170,120	.97	11,334,346	2.13	120
6-7	610,718,891	7,309,956	1.20	13,602,558	2.23	86
7-8	672,922,228	9,156,673	1.36	15,476,746	2.30	69
8-9	655,603,517	9,753,663	1.49	15,523,107	2.37	59
9-10	583,628,309	9,366,629	1.60	14,137,812	2.42	51
10-15	1,561,596,132	29,794,624	1.90	40,617,042	2.60	37
15-20	490,615,722	11,864,563	2.42	14,291,202	2.91	20
20-25	238,405,604	6,411,200	2.69	7,423,898	3.11	16
25-30	144,830,670	4,021,913	2.78	4,691,613	3.24	17
30-35	95,989,774	2,709,701	2.82	3,181,904	3.31	17
35-40	74,043,854	2,088,154	2.82	2,497,307	3.37	20
40-45	55,690,940	1,562,242	2.81	1,904,023	3.42	22
45-50	44,718,751	1,227,302	2.74	1,541,166	3.45	26
50-75	120,294,979	3,174,287	2.64	4,222,724	3.51	33
75-100	44,136,245	1,104,499	2.50	1,583,934	3.59	44
100-150	30,227,778	724,774	2.40	1,103,429	3.65	52
150-over	53,923,796	1,299,540	2.41	2,006,167	3.72	54
	$6,905,529,858	$111,989,811	1.62%	$171,311,182	2.48%	53%

NEW REVENUE: $58,972,168

[1] AGI Less $1,000 Deduction X personal and dependent credits

[1] Flat Rate (all brackets) 3.75%

SOURCE: 1969 Individual Income Tax (final), Iowa Department of Revenue

ADDITIONAL STATE REVENUES FOR 1972-1973

Agricultural Land Tax Credit	$ 18,000,000
Homestead Tax Credit Repeal (Schools only) . .	20,000,000
Sales Tax Increase (1¢)	60,000,000*
Individual Income Tax Increase	45,000,000**
Business Privilege Tax	28,000,000
Additional Corporation Tax	44,000,000***
1% Tax on Income from Interest and Dividends less 3/4% tax on incomes over $9,000	7,000,000
Change in Definition of Single Factor Formula	10,000,000
	$232,000,000

* Estimated revenue $70,000,000 minus $10,000,000 credit for low income persons.

** Method of increasing the income tax yet to be decided.

*** Method of recapturing property tax loss from corporations yet to be determined.

ADDITIONAL FUNDS NEEDED FOR PROGRAMS

	1971-1972	1972-1973
Additional School Aid	$30,000,000	$153,308,000
Welfare Revision	6,000,000	7,000,000*
Personal Property Tax Elimination . .	---	26,000,000
Aid to Regional Services	34,462,000	37,219,000**
Property Tax Credit to the Aged . . .	---	7,000,000
	$70,462,000	$230,527,000

* Based upon $11,000,000 appropriation for 1970 and budget request of 1972-1973 for $19,000,000 minus a maximum one-mill county levy.

** Based upon $12.50 per person in 1970 with a growth factor of 7%.

SCHOOL FUNDING PROPOSAL

	1970-1971	1971-1972	1972-1973
Total School Costs	$577,242,000	$617,000,000	$643,573,000
Total State Aid	$154,045,000*	$184,045,000**	$332,937,000
Federal and Special Aid .	$ 26,403,000	$ 27,000,000	$ 28,000,000
20-Mill Property Tax			$157,620,000
Local Property Tax	$396,794,000	$406,063,000	
Local Effort			$125,013,000

* Includes $115,000,000 appropriation and $39,045,000 income tax revenue.

** Includes $30,000,000 additional appropriation.

Total State Aid	$332,937,000
Present level plus growth will produce.	179,629,000
New State Money Needed	$153,308,000

MINORITY REPORT

As the only member of the Taxation Study Committee serving in the current session of the 64th General Assembly who voted "No" on the final report of the committee, I feel an obligation to explain my position. This I shall attempt to do.

First of all, there was a recognition, from the initial meeting, by all members of the committee that too great a dependence is placed on property as a source of taxation in Iowa today. Furthermore, it was soon apparent that the person who does pay property tax is further burdened because of the large proportion of properties placed on exempt status over the years.

The committee was determined to hear from the taxpayer as well as the taxspender, i.e. various governmental sub-division representatives. This was accomplished, in part, through public hearings held in the seven Congressional Districts. These were invaluable.

Property taxpayers who appeared represented, almost exclusively, farm and small business interests. Industry and homeowners appeared infrequently. Almost no other occupational groups testified. Little discussion was presented from the people who will find their taxes greatly increased by the proposals found in the Tax Study Final Report.

There was general agreement among the participants of the hearings that the sales tax should be raised as a way to shift from such heavy reliance on property. Their concern for the effect on the low income group is reflected in the proposed credit. I would like to have seen further exploration of possible exemption of food and drugs and going to 5¢, if necessary, or to have allowed a set amount deduction for all Iowans in recognition that everyone must provide a certain basic level of spending for necessities over which no one has any control.

There was, then, no great divergence in the basic premise of the committee members. It was in the judgment as to what direction and at what speed toward the ultimate goal of property tax relief I found myself in opposition.

I shall not belabor the points of agreement; there were many.

First of all, as I analyzed what was said at the hearings and in conversation with others across the state, the Iowa taxpayer agreed: (1) cut spending by taxing bodies at all levels; give us less government (2) stop the rise in property tax (3) finance schools and welfare programs more at the state level and less at the local (4) let changes in spending come from taxes that reflect changes in the economy.

I feel strongly that the number one priority in solving the property tax problem is one of setting priorities by governmental bodies and finding ways to cut spending. Other than in the area of schools, I see little in the Report to see that this is mandated.

I do think that the basic philosophy of the property tax freeze for schools was a sound one. But I disagree with the legislation proposed in a number of respects. I further disagree with the plan proposed after the 1971-72 school year.

The plan calls for a freeze for one year. The plan calls for a "roll-back" after that one year.

I did not understand the people of the state to say that they ever really expected a "turning-back of the clock." I heard them to say, "We want to stop the rise of property tax and to shift in another direction."

The 20-mill limitation for school spending, uniform levy, is too low. I favored 25 or 30 mills as a more realistic limit. I do not think, in view of all the other property tax reductions or elimination proposed by the committee that it is possible to increase state taxes (basically sales and income) to the extent required to make up the differences.

As to the "stop-gap" plan for school costs for the 1971-72 year, my objections are:

1. Any plan should have allowed for the natural growth in property value in the district by

   (a) Freezing the property levy for school spending at the same level as the 1970-71 year and adding last year's levy applied to new property.

(b) Allow (since this will be an assessment year) a change in school levy to reflect a change equal to the average change in property value in the individual school district.

2. Equalization aid should be figured on enrollment figures for the 1971-72 enrollment.

3. Additional aid should be paid using the equalization formula rather than per pupil.

4. Despite the provision for the School Budget Review Committee to hear special problem cases, the freeze tries to deal with all 453 school districts in the same way without recognition of great divergence in needs and problems.

It was unfortunate that none of the "experts" could give us the basic school costs as required by state law. This would have been a good way to determine the state's basic responsibility and to allow additional state aid for "quality" education, to the extent possible.

The mechanics of collecting a local income tax for schools has not been solved, in my opinion. The license plate requirement is not workable.

I am not certain that the reorganization proposal will really accomplish the desire on the part of the state to see greater efficiency in high spending districts. This does show a recognition, however, of the increased statewide interest in such schools when most of the cost comes from taxation of all the state. The State Legislature must study carefully the special problems that face the district losing enrollment just as it must other districts facing problems peculiar to that area. Quality of education for each school child in Iowa must be kept as the focal point.

The recommendation concerning the county system is another point of concern to me. I feel that the Schools committees must look at alternative methods of reorganization of responsibility to the special education needs of our students. And the increased costs in special education are not considered realistically by the 1½% growth factor. There is no additional state funding coming to this area of education.

Finally, the Report does not mention the one factor that is vital for the school plan to work at all. It was suggested in committee and it must be enacted that the state share of the plan must be a standing appropriation such as is the homestead credit at the present time. I regret that this is not spelled out in the Report.

I am particularly concerned that the area of exemptions was not explored in greater depth. One of the biggest aids to property tax relief would be a broadening of the base. It has been estimated that 40% of property is presently paying 100% of the tax.

I did disagree with the cutting of the homestead exemption after I saw the over-all effect of the Report on the homeowner. I think we need to recognize that the renter, too, pays property tax through his rent.

At the first meeting of the committee I requested a breakdown summary of "Who Pays the Cost of Government Today--Local, State, and Federal?" As of this date, this information has not been made available. This we must know. We can not expect the same groups of people to pay all the costs. Real property pays none of the cost of state or federal government.

I do believe that property is some measure of wealth. Therefore, it does have an obligation to pay part of the costs. Many people told us, "Property is no measure of wealth."

The Report does not spell out finally how the property tax reduction that will apply to Industry as well is to be recovered. But it should be pointed out that Industry will be paying increased sales tax, a tax that is being increased for all. But the property owner, other than Industry will be getting a reduction on that tax. So Industry is paying an additional tax, getting no property relief, and getting an added tax in the form of a Business-Privilege Tax.

The business-privilege tax is in its name itself, a tax I find impossible to accept. Is it really a privilege to do business in Iowa? This seems contrary to all the thrust of the Iowa Development Commission.

Industry needs a stable tax structure. They did not ask for property tax relief. Can they afford this kind?

Income is the most often suggested way of making up the tax needed from the shift from property. Yet, the income tax is not a fair tax either. This matter was discussed with United States Representative Neal Smith, Fifth Congressional District, at a meeting to which all members of the Iowa Delegation were invited.

Congressman Smith stated that a ground-swell from the States was needed to get Congress to act to change the inequities in the present federal law. The Report should have called for such an expression by the General Assembly. Until those changes are made, the state income tax is also unfair because we are so limited in changes we can make.

Increased income tax will be felt hardest by the low income and middle income groups because only in these levels can the sums of money be realized that are necessary. There are not that many "high income" taxpayers in our state. In addition, we must not have so progressive an income tax rate as to kill the incentive to produce.

In conclusion, I feel the Tax Study Report might be termed "an overkill." I do not feel that it is possible to shift so much tax, so quickly to state taxes. There is a limit as to the amount of sales and income increases that can be tolerated. These people so affected have not yet really made their voices heard.

/s/ W. CHARLENE CONKLIN
February 5, 1971

Statement of Dissent From Certain Recommendations
In The Report Of The Taxation Study Committee

While there is little question that the foundation concept for the financing of schools would be an improvement over the present complex method of school aid, the committee's recommended foundation program would result in a far too extensive shift in tax burdens and serious economic dislocations are sure to result throughout the state.

Primarily because of the heavy reliance on income tax increases both at the state and local level to fund the foundation program, wage earners and salaried persons will generally find that their increased state taxes plus the new local income tax will far exceed the property tax reduction on their homes and will end up with a net tax increase, at a time when many believe that all taxes (not just property taxes) are already much too high.

The same thing will occur with business. It is estimated that property taxes paid by business will drop $44 million under the program. However, the committee report recommends that this amount be "recaptured" from business through some other form of tax on business, and preference is given to a statewide property tax on business.

In addition to "recapturing" the business property tax reduction from some other state tax, the committee recommended a sales and use tax increase, and a very substantial part of this would be paid by business on purchases they make for their own use. Thus, at this point business would have a net tax increase equal to the amount of their increased sales and use tax. Add to this the additional $10,000,000 the committee recommends be collected through the corporation income tax by redefining what constitutes a "sale" in Iowa for corporate tax purposes and the recommended new tax on adjusted gross incomes of business to replace personal property taxes and it can only be concluded that business, as well as wage earners and salaried persons, would experience a severe net tax increase under this property tax relief program. (Remember the tax relief you were to get by the Tax Bill of 1967. Did you get it? The answer is Definitely "NO".)

If Iowa is a "place to grow" -- as we are telling the entire country -- we cannot in good conscience continue saying this unless full recognition is given to the fact that Iowa's future is directly tied to its ability to make this state attractive to both those who create jobs and those who fill jobs.

The committee recommendations to fund the total property tax relief program by inordinately heavy reliance on personal income tax increases at the state and local level and by increasing excessively the taxes on business fails to give recognition to this economic fact of life and I therefore cannot agree to either the extent nor method of raising taxes as recommended by the majority of the committee.

My position has not changed, I am very definitely opposed to any increase in Taxation.

/s/ CHAS. K. SULLIVAN

MINORITY REPORT
to the
Final Report of the Interim Taxation Study Committee

It would be proper for me to begin by stating that I do agree with much of the report as adopted, and concur with the findings and recommendations thereof except as hereinafter noted.

By going to each general area of the state, holding hearings, listening to citizens and officials, the Committee gained the knowledge and understanding of revenues and expenditures of every governmental subdivision of the state to be able to do a knowledgeable job of rebuilding the tax structure of the state to reduce dependence on property tax.

Several of the Committees decisions, if enacted, will be of such historic proportion to warrant special notice. Among these decisions are:

1. Establishing a foundation grant program for financing public school education; grades K-12.
2. Replacing the unworkable method of financing welfare programs.
3. Placing all political subdivisions on the same fiscal year as the state.

There are several items in the final report which I do not feel are in the best present and continuing interests of the citizens of Iowa. Among them:

1. 20 mill property tax levy by each school district, retained within the district.

   This levy should be 30 mills to start a meaningful minimum foundation and should be collected and sent to the state for distribution, along with the income tax distribution.

2. The local income tax making up half of the local effort for school costs is unworkable as proposed.

3. Removal of the personal property tax is inexcusable. It is possible to enforce and be made more equitable. I do not believe the General Assembly can pass and enforce the 1% tax on business "adjusted gross income".

   Since revenues needed are dependent on new taxes, no tax i.e. personal property tax--should be repealed until its full replacement is enacted. If the General Assembly does other than this, I fear the revenue may be sought from other convenient sources, such as the wage earner's income.

It is all too easy for us to listen to the loudest shouts, and travel a consensus road of property tax relief at any cost. As a State Representative, I felt that the Government should serve all Iowa as well as it could, not group against group. If the Report is enacted, we will not have ended the current tax protest, but merely created a different group of protesters already uneasy about the effects of our Report.

I would hope the 64th General Assembly in its wisdom would alter the Report to create a tax structure with balance and growth potential to provide the State of Iowa with Revenue through the forseeable future.

In conclusion, I would like to state my principal reasons for opposing adoption of the final report.

1. Although dependence on property tax should be decreased, the committee has recommended shifting that tax burden to a different group of taxpayers, principally wage earners, without ascertaining their ability to shoulder this additional load. The wage earner and salaried person, already bearing the brunt of the cost of federal and state government, has the pipeline of school costs and local government thrust into his paycheck to drain it further, without any increase in his ability to pay.

2. The wage earner and salaried person should be allowed page 1 deduction of transportation to and from work and meals at work as a cost of doing business in connection with his employment. This small token would be even more necessary if massive income tax increases are enacted.

State Representative

/s/Fred W. Nolting
Member Interim Taxation Committee

STATEMENT OF EXCEPTION

While I support the majority of the proposals of the Tax Study Committee report, I make these exceptions:

I believe the persons paying a local income tax should have some protection for the confidential aspect of reporting their income tax. I feel a system could be created whereby a payment would be made in two parts to the Department of Revenue. One check for the state income tax and one check for the local income tax for school support. The State would then remit, in a total payment, the amount collected in that district. The Department of Revenue would have the enforcement power of collection.

I make further exception to the proposal for mandatory requirements for a referendum to reorganize school districts. I believe that the additional levy of property tax will provide incentive to the people in the school district to desire reorganization. Also, there is no mandatory provision, if the requirement of a referendum for reorganization is enacted, for a contiguous district to accept a district that wishes to so reorganize. In some instances in the state, we have small enrollment districts contributing to the support of large enrollment districts, which tends to increase the per pupil cost in their own district.

I believe the committee should have delved further into what constitutes property wealth.

A farmer owning a $300,000 farm pays a considerable tax load on this property along with a tax on the income derived from such property.

If he desired to reduce this to a $100,000 farm and invested the remaining money in a manner such as $100,000 in stocks, bonds and other negotiables and $100,000 in municipal bonds, he would pay tax only on the income from the former and no tax whatsoever on these latter investments. This I feel points up the unrest caused by our current taxing methods.

Lastly, I cannot agree to the reduction in the homestead tax exemption. This exemption has been given to encourage home ownership which in itself is beneficial to a stable society. I feel if our committee had investigated the number of home-owners who are receiving social welfare benefits, the conclusion would be that we would not change the homestead tax credit.

/s/ C. Joseph Coleman