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REPORT
OF THE
TAX STUDY COMMITTEE

A STUDY OF
STATE AND LOCAL TAXES
IN IOWA

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CHAIRMAN'S INTRODUCTION TO TAX STUDY COMMITTEE REPORT

The combined report of our Tax Study Committee consists of two separate parts. One part is the basic tax study conducted by our consultant, Coopers & Lybrand, hereafter referred to as the Consultant's Report, together with the appendix which accompanies it. The other part is the set of tax recommendations developed by our Committee, including the impact on tax revenues.

The Coopers & Lybrand Report will stand on its own feet. It provided the raw material for our Committee's work and will serve as valuable resource material for future tax studies. The study was competently done under policies set down by our Committee and suffers only from the fact that, for practical reasons, it is 100% based on usage of existing tax data. In certain areas this data proved inadequate to draw meaningful conclusions. Of particular value to our Committee was the comparison of Iowa's tax laws with the tax laws of our eight neighboring states: Illinois, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wisconsin.

The Committee did not begin its work with any preconceived ideas as to where we would end up. Our only objective was to make an independent and thorough study of the Iowa tax structure and then to recommend specific changes in this structure. The two basic goals for our study were to search out ways to make the tax laws more fair and equitable and to improve the tax laws by removing impediments to economic development. We believe the Committee's recommendations meet these two basic goals and also deal with the severe problems now affecting the agricultural portions of our economy.

One overall conclusion of the study was that our present tax system is reasonably fair and equitable. We did not discover the need for any major overhaul of the system. Thus, our recommendations are more in the nature of fine tuning. Another conclusion we came to was the need to improve the tax climate for economic development. The problem does not lie in any one business tax which is inordinately high. However, we do have several specific taxes which are somewhat out of line with competing states and can be considered to be disincentives to economic development. Furthermore, except for the single factor corporate income tax, the state has no list of tax incentives to offset these disincentives to economic development.

Two taxes which are often cited as major disincentives to business development are unemployment compensation and workers' compensation, particularly the former. These were not studied by our Committee, despite their importance to economic development, because we were led to understand that they did not come within the purview of our Tax Study Committee.

I commend the recommendations of our Tax Study Committee to you for consideration and for possible enactment into law. They represent a consensus of the best ideas of our Committee after months of study. Although our Committee is not in any sense a group of tax experts, we do feel that these recommendations are worthy of your consideration. They are not in any sense politically motivated and in fact may, in certain cases, be politically unpopular.

In arriving at these recommendations we did not feel it was appropriate for our Committee to recommend overall levels of spending and taxation. This is a matter for the state legislature. Thus, we set ourselves a goal of remaining tax revenue neutral. To the extent our recommendations would reduce tax revenues, we felt the need to recommend offsetting tax increases. As a practical matter, the need for any overall tax increase could, of course, be deferred by phasing in any major tax decreases over a period of time.

I want to express my thanks as chairman for all who had a part in this tax study. This includes Sylvia Dennen, who headed up the tax study for Coopers & Lybrand, and Bernie Koebernick, Mike Goedert, and Thane Johnson of the Legislative Service Bureau who did yeomen's work in the multitude of details of the study. Most importantly, it includes the members of our Committee who worked so well together over the many months of our effort and who made my job as chairman an enjoyable one. A special thanks to our four legislative members, Senator Edgar Holden, Senator Norman Rodgers, Representative Lowell Norland, and Representative Hugo Schnekloth, who made such valuable contributions to the work of our Committee as nonvoting members.

ROBERT N. HOUSER, Chairman
Tax Study Committee

F I N A L R E P O R T

TAX STUDY COMMITTEE

December, 1984

The Tax Study Committee was created by Senate File 461 which appears as Chapter 211, Laws of the 70th General Assembly, 1983 Session. Section 2 provided for the creation of a tax study committee consisting of nine members. The majority and minority leaders of the House of Representatives were each authorized to appoint one member. Similarly, the majority and minority leaders of the Senate were each granted authority to appoint one member. The Governor was empowered to appoint four members of the Tax Study Committee, two of whom were registered Democrats and two of whom were registered Republicans. The four members appointed by the Governor were subject to confirmation by the Senate. One additional member was to be appointed and approved unanimously by the Governor and the majority and minority leaders of the Senate and the House of Representatives and this member would chair the Tax Study Committee. Subsequently two additional members were appointed to the Tax Study Committee. The members of the Tax Study Committee are as follows:

Mr. Robert N. Houser, Chairman
Mr. Gregory M. Brown
Ms. Mary E. Chalupsky
Mr. Jack Larson
Mr. Thomas A. Louden
Mr. Joe Lundsgaard
Mr. Stephen W. Roberts
Mr. Marvin Selden
Mr. Roger J. Shaff
Mr. Paul Stanfield
Ms. Connie Wimer

Senate File 461, section 1, stated the purpose of the study. By law, the General Assembly determined that the state is currently facing a fiscal and economic crisis and there is a need to study the tax system of the state to examine who pays state and local taxes in Iowa, to examine the impact of state and local taxes on the state economy, employment, the state treasury, and the citizens of the state. The study committee was further directed to examine changes which could be instituted to raise revenues more equitably and to improve the performance of the state's economy, to determine the enforceability of the state's tax laws, to examine the state's entire tax structure and compare that structure with the tax structure of other states, and to examine tax preference items. The law also provided that the list of revenue raising methods and taxes to be studied shall include, but not be limited to, the sales and use tax, the personal and corporate income tax, the property tax, inheritance and estate taxes, and road use taxes.

The law also provided that the Tax Study Committee submit copies of its final report to the Governor and the members of the General Assembly on December 1, 1984. The final report shall include findings of facts and its recommendations and relevant data gathered by and for the Study Committee.

Prior to the initial organization of the Tax Study Committee, the Legislative Council decided that the Tax Study Committee should have four ex officio nonvoting members of the General Assembly attending the Study Committee meetings. This would be helpful in providing some insight to members of the Tax Study Committee of particular tax issues which the General Assembly had discussed and debated. The ex officio nonvoting members appointed by the Legislative Council included:

Senator Edgar H. Holden
Senator Norman G. Rodgers
Representative Lowell E. Norland
Representative Hugo Schnekloth

The law also provided that the Tax Study Committee may request that the Legislative Council provide staff for the Tax Study Committee from the staff of the Legislative Service Bureau and the Legislative Fiscal Bureau. Staff members from these two agencies have provided staff assistance to the Tax Study Committee throughout the course of the study.

The first meeting of the Tax Study Committee was held on August 24, 1983. The Tax Study Committee organized at this meeting and staff provided information to the members of the Study Committee relating to practices and procedures to be followed for public bodies. It was necessary to review the open records law and the open meetings law for the members of the Tax Study Committee.

In its subsequent meetings, the Tax Study Committee decided to proceed with the letting of bids for the initial study for the Tax Study Committee. A subcommittee was appointed to put together a bid proposal for the Study Committee. The subcommittee consisted of Mr. Gregory Brown, Chair, Mr. Joe Lundsgaard, Ms. Connie Wimer, and Representative Lowell E. Norland. The Study Committee also concluded that one of the staff members of the consultant employed would be designated as the Tax Study Director rather than seeking to hire an additional person to complete that task. A subcommittee was appointed to develop a proposal for bid and distribute the proposal for bid following the proposal by the Tax Study Committee. The request for proposal to bid was submitted to a number of prospective bidders following an advertisement for bids and a pre-bid conference at which prospective bidders were invited to attend and ask or seek clarifications on particular items included within the request for proposal.

Initially, Mr. William A. Stauffer was appointed to chair the Tax Study Committee. However, during the month of November, 1983, Mr. Stauffer resigned as Chairman of the Tax Study Committee. The reason for the resignation was the transfer of Mr. Stauffer from the Northwestern Bell Telephone Company office in Des Moines, Iowa to the Northwestern Bell Telephone Company office in Omaha, Nebraska. Following Mr. Stauffer's resignation, Mr. Robert N. Houser, President and Chief Executive Officer of the Bankers Life, was appointed as Chairman of the Tax Study Committee.

Following a review of all bids submitted for the tax study, the Tax Study Committee selected Coopers & Lybrand to do a tax analysis of the state and local tax structure for the Study Committee. The Tax Study Committee held meetings regularly from March through November to review the progress of the consultant in conducting the study and giving the consultant particular issues or areas of tax law to be reviewed and data provided for.

Senate File 2045, enacted by the 70th General Assembly, 1984 Session, amended Senate File 461 to add two new members to the Tax Study Committee. One member was to be appointed by the House and Senate minority leaders and one member was to be appointed by the House and Senate majority leaders. The two new members appointed to the Tax Study Committee were Mr. Marvin Selden and Mr. Paul Stanfield.

The Tax Study Committee conducted public hearings in September and October at sites in Des Moines, Carroll, and Iowa City.

In its meetings conducted during the months of November and December, 1984, the Tax Study Committee reviewed recommendations provided in the Final Report from its consultant, Coopers & Lybrand and recommendations submitted by persons appearing at public hearings conducted by the Tax Study Committee.

The following represents positions taken by the Tax Study Committee on particular issues which came before the Study Committee.

INDIVIDUAL INCOME TAX

1. OPPOSES ELIMINATION OR PLACING A CAP ON THE DEDUCTIBILITY OF FEDERAL INCOME TAX PAID.

The Committee opposes any limitation of the deductibility of federal income taxes on state income tax returns.

Present law provides an individual taxpayer with a deduction for all of that person's federal income taxes paid or accrued. The tax consultant pointed out that the higher income brackets receive a greater benefit from this deduction. This negatively affects the progressivity. The Tax Study Committee expressed its concern for the decrease in progressivity but decided that a change in the deductibility could adversely affect economic development and would in effect result in a tax upon a tax. (See Consultant's Report, pp. 56-58 and Stanfield Minority Report)

2. OPPOSES SUBSTITUTION OF A FLAT OR MODIFIED FLAT RATE FOR THE PRESENT GRADUATED RATE.

The Tax Study Committee opposes at this time replacing the present income tax system with either a flat rate or a modified flat rate tax system which involves elimination of many of the existing deductions. The Committee feels that there is real merit to such a system but that unilateral action by the state is inappropriate. The Committee also agrees that the issue should be re-examined when and if the federal law is changed. The final reason for the Committee's recommendation opposing a flat rate or modified flat rate individual income tax is that the Committee feels a very thorough study is needed to determine the impact of such a tax structure on various income groups. (See Consultant's Report, pp. 59-62)

3. RECOMMENDS RETENTION OF THE MARRIED SEPARATE FILING STATUS AND INCREASING THE TAX BRACKETS FOR MARRIED JOINT FILING STATUS BY FIFTY PERCENT.

The tax consultant said that married persons file separately in Iowa to avoid the higher tax rate applicable when spouses file an Iowa joint return. Some feel that it is unfair to offer a tax advantage to married couples only in those cases where both members have separate incomes, providing no tax benefit when income is earned by only one spouse. The Tax Study opposes elimination of the married separate filing category but favors a new optional married joint tax return schedule in which tax brackets are widened by fifty percent in order to reduce the disparity. (See Consultant's Report, pp. 62-67)

4. SUPPORTS REVISION OF THE IOWA MINIMUM TAX LAW.

The Tax Study Committee favors a change in the present Iowa minimum tax which is a percent of the federal minimum tax and is in addition to the regular Iowa tax. The Tax Study Committee recommends that capital gains from "hardship" sales such as bankruptcy sales and foreclosure sales be excluded from the calculation and that a one-time exclusion of capital gains from the sale of the taxpayer's residence or business also be allowed. The Tax Study Committee further recommends that the minimum tax remain at seventy percent of the federal minimum tax computed with the above exclusions but that a cap on the total amount of minimum tax plus the regular tax be set at thirteen percent of the taxpayer's taxable income.

The Tax Study Committee opposes reducing the Iowa rate to twenty-five percent of the federal minimum tax. (See Consultant's Report, pp. 67-70)

5. RECOMMENDS RAISING THE MINIMUM LEVEL AT WHICH NET INCOME BECOMES SUBJECT TO TAXATION.

The Committee recommends that the minimum net income is subject to taxation for an individual or a married couple be increased from $5,000 to $8,000.

The Committee concluded that individuals or couples who have a net income of $8,000 or less should not be required to file or pay an income tax to the state.

6. OPPOSES CHANGE IN TAXATION OF SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS.

The Committee opposes the complete exemption of all Social Security benefits from state taxation. However, it recommends that tax exempt income be removed from the current formula for determining the state income tax on Social Security benefits.

The American Association of Retired Persons recommends the exemption of all Social Security benefits from state income taxation. Beginning in 1984, a portion of a person's Social Security benefits will be included in the taxable income if the person's adjusted gross income plus nontaxable interest income and one half of the person's Social Security benefits is more than the base amount of $25,000 for an individual and $32,000 for a married couple. Eighteen states have taken administrative or legislative action to exempt Social Security benefits from state income taxation while twelve states will tax the benefits. The Association believes that taxing Social Security benefits is unfair because the public has been led to believe since 1935 that Social Security benefits would not be subject to taxation. The tax formula also indirectly involves tax exempt earnings which are not otherwise subject to taxation.

The Committee concluded that the taxation of Social Security benefits based on a formula excluding tax exempt income will not create a hardship for those recipients who have the amount of outside income necessary to be taxed. The one half of the person's Social Security benefits which are included in the formula, in most cases, represents the employer's contribution to Social Security. This, of course, would not be true in the case of former self-employed persons.

CORPORATE INCOME TAX

1. RECOMMENDS RETAINING THE STATE'S SINGLE-FACTOR APPORTIONMENT FORMULA.

Present Iowa corporate tax law provides that a corporation doing business within and without the state apportion its income based only upon the sales factor. The sales factor is the fraction of the total corporate sales that are made in the state. This factor is applied to the business's total income to determine the amount subject to state tax. The great majority of other states provide apportionment on the three factors of sales, property and payroll. The Tax Study Committee opposes changing Iowa's single-factor apportionment formula to the three-factor apportionment formula. The main reason for retaining the single-factor is the belief that the current formula is a definite attraction for business in regards to locating or remaining in the state. It is about the only tax incentive the state has to offer and, in view of Iowa's relatively small consumer base, is attractive to businesses whose sales also cover a multistate area. (See Consultant's Report, pp. 88-91 and Stanfield Minority Report)

2. RECOMMENDS RETAINING THE CURRENT DEDUCTION FOR FEDERAL INCOME TAXES PAID.

Presently corporate taxpayers may deduct fifty percent of their federal income taxes paid or accrued in arriving at the net income for state tax purposes. A number of neighboring states do not permit any such deduction. The Tax Study Committee opposes the elimination of the current deduction. It is felt that such a change would impact negatively on economic development within the state. This is particularly true since Iowa's tax corporate income tax bracket of twelve percent is higher than that of most of our neighboring states. (See Consultant's Report, pp. 91-94)

3. OPPOSES SUBSTITUTION OF A FLAT RATE TAX FOR THE PRESENT SYSTEM.

Presently the corporate income tax has four graduated rates that apply. The range of rates begins at six percent and increases up to twelve percent. A substitution of a flat rate at a rate that would not affect revenues would result in an increase in tax for the small corporations. The Tax Study Committee felt that this effect would harm more in-state corporations and would not be beneficial or fair. Thus the Tax Study Committee opposes changing to a flat rate corporate income tax system. (See Consultant's Report, pp. 92-94)

4. OPPOSES COMBINED APPORTIONMENT ON UNITARY BUSINESS.

Presently, Iowa treats each corporate entity as a single taxpayer. Each corporation doing business in Iowa calculates its own income in a ratio of Iowa receipts to total receipts of the corporation. Under the combined apportionment method, a group of corporations which are related through common ownership, centralization of management, functional integration and a flow of value are considered to be conducting a unitary business. Any member of the unitary group which is doing business in Iowa would calculate its income on the combined income of the group and apportion its income to Iowa based on the ratio of receipts in Iowa to total receipts of all members of the group. The Tax Study Committee favors keeping the current apportionment. It feels that a change would have a negative impact on businesses which could impact economic development in the state. It is also the concern of the Tax Study Committee that there could be a loss of revenues because those related corporations that have one or more of their group with losses would combine because of the losses but those groups that do not might not use combined apportionment, claiming they are not related. (See Consultant's Report, pp. 94-96)

5. SUPPORTS RETAINING THE FRANCHISE TAX AT FIVE PERCENT FOR FINANCIAL INSTITUTIONS WITH THE STIPULATION THAT FURTHER STUDY BE GIVEN TO A GRADUATED TAX RATE.

The current franchise tax on financial institutions is a five percent flat rate on a net income base which does not allow the federal tax deduction nor the deduction for income from federal securities. The Committee considered a proposal by the consultant to tax financial institutions as corporations. The Committee heard conflicting testimony on the effect of taxing financial institutions under the corporate income tax law. Testimony received from a representative of Peat Marwick Mitchell & Co. indicated that the current franchise tax produces substantially higher revenue than the corporate income tax would, while the Consultant's Report suggested that revenue would be increased by changing to the corporation income tax. The Study Committee concluded that the discrepancy resulted from the use of data from different years. (See Consultant's Report, pp. 96-100)

During its discussion of the issue, the Tax Study Committee recognized that there is a discrepancy between the treatment of financial institutions and other corporations which are subject to the Iowa corporation income tax with graduated rates. The Study Committee recommends retention of the flat rate franchise tax. It could not determine the impact of a graduated franchise tax or the corporation income tax. Further study of this issue, including franchise tax rates, is recommended. (See Consultant's Report, pp. 97-101)

6. OPPOSES TAXING INSURANCE COMPANIES UNDER CORPORATE INCOME TAX -- FAVORS IMPOSING GROSS PREMIUMS TAX ON BLUE CROSS-BLUE SHIELD

The Tax Study Committee considered a proposal by the consultant to subject insurance companies to the regular corporate income tax. Insurance companies, with the exception of fraternal beneficiary associations and non-profit hospital and medical service corporations are subject to a gross insurance premiums tax at the rate of two percent of gross premiums in this state. This tax is in lieu of a regular corporate income tax. The gross premiums tax imposed in the state of Iowa is similar to a gross premiums tax which is imposed by all of the other states. (See Consultant's Report, pp. 101-109)

The Tax Study Committee spent considerable time discussing this issue and also whether the rate of the gross premiums tax on all forms of insurance should be increased.

One of the problems that exists in this area is that each state has the ability to impose a retaliatory tax. Thus, if Iowa imposes higher aggregate taxes, fees, fines, penalties, licenses, deposit requirements or other obligations on out-of-state companies doing business in Iowa, then each of these states will impose higher tax rates on Iowa companies doing business in their state. This means that an Iowa tax increase on out-of-state companies would result in a fifty-state tax increase for Iowa companies operating on a nationwide basis.

The Iowa Life Insurance Association proposed that, for Iowa-based companies, the regular corporate income tax be substituted for the gross premiums tax on Iowa based companies. This approach is used by several states and results in a lower tax burden for domestic companies. The Tax Study Committee feels there is some merit to this approach but that a change should not be made which would impact negatively on tax revenues. This is particularly true for property and casualty companies which are currently going through a period of very high losses. The Committee also feels that now would be an inappropriate time to consider a major change in the way insurance companies are taxed. The federal government has recently enacted legislation which materially changes the way life insurance companies are taxed at the federal level. Until the effect of this new legislation is thoroughly evaluated, the Committee feels it is inappropriate to recommend major changes in the taxation formula at the state level.

Representatives of the Iowa Life Insurance Association testified before the Tax Study Committee at a public hearing and proposed that the two percent gross premiums tax for health insurance either be eliminated or reduced to one percent and applied to all insurance companies in the state, including Blue Cross-Blue Shield. On the basis of that testimony, the proposal by the Iowa Life Insurance Association would be revenue material.

The Tax Study Committee recommends that the insurance gross premiums tax of two percent be imposed on insurance premiums collected by Blue Cross-Blue Shield, health maintenance organizations, and similar nonprofit associations. It was the consensus of the Tax Study Committee that these organizations provide significant competition for private carriers in this state and should not be provided a competitive advantage by an exemption from the gross premiums tax.

The Tax Study Committee noted that self-insuring entities would still not be subject to a premiums tax under this recommendation, but the Committee was unable to determine a satisfactory solution on this issue.

For similar reasons, the Tax Study Committee considered extension of the two percent gross premiums tax to insurance policies sold by fraternal beneficiary associations. The Tax Study Committee recognized that, because of retaliatory law, this would impose a significant tax burden on one fraternal beneficiary association headquartered in this state. The Study Committee also took cognizance of the fact that no other state applies the gross premiums tax to insurance policies issued by fraternal beneficiary associations. The Tax Study Committee, after considerable discussion, voted to recommend the continued exemption of fraternal beneficiary associations from the gross premiums tax. (See Consultant's Report, pp. 101-109)

7. OPPOSES ELIMINATING THE USE OF THE ACCELERATED COST RECOVERY SYSTEM FOR INCOME TAX PURPOSES.

The Tax Study Committee opposes the elimination of use of the accelerated cost recovery system in determining income tax liability in Iowa.

The Iowa State Education Association, as a part of an increase in state aid to the K-12 education system, recommends the elimination of the use of the accelerated cost recovery system in determining income tax liability. The recommendation would raise approximately $50 million in additional revenue.

The Committee opposes the recommendation as harmful to a favorable business climate for Iowa and the need to retain conformity with the current federal law.

SALES AND USE TAXES

1. OPPOSES BROADER BASED TAXABLE SERVICES.

The Tax Study Committee first looked at the base of the tax on services. Presently Iowa taxes a wide range of personal services and certain business services. Professional services, such as those provided by doctors and lawyers, are not included in the listing of taxable services. The consultant recommended consideration of broadening of the list of services subject to the sales and use tax. Only Hawaii, New Mexico, and South Dakota impose a tax on services generally. The Tax Study Committee feels that the service tax is already broader than most states and thus should not be broadened to include professional or other services not now covered. (See Consultant's Report, pp. 122-125)

2. FAVORS EXEMPTION OF AGRICULTURAL AND MANUFACTURING MACHINERY AND EQUIPMENT FROM THE SALES AND USE TAX

Currently Iowa exempts from the sales and use tax any tangible personal property which becomes a part of the ultimate product, or which is consumed, dissipated, or depleted in processing tangible personal property. There is no exemption, however for the machinery and equipment which is used directly and primarily for processing, fabricating or compounding, either in manufacturing or in agriculture.

The Tax Study Committee noted that agricultural and manufacturing machinery and equipment is exempt from the sales and use tax in all states surrounding Iowa and that this exemption in the neighboring states places Iowa at a competitive disadvantage in bringing new businesses into the state and in retaining existing businesses. For purposes of encouraging economic development, the Tax Study Committee recommends that a sales and use tax exemption be provided for all agricultural and manufacturing machinery and equipment, including replacement parts. (See Consultant's Report, pp. 125-129)

3. FAVORS EXEMPTION OF WAREHOUSING OF RAW AGRICULTURAL PRODUCTS FROM THE SALES AND USE TAX.

Prior to 1978, warehousing of any tangible personal property was considered a taxable service under the Iowa sales and use tax. Effective July 1, 1978 the law was changed to exempt all tangible personal property warehousing except raw agricultural products from the sales and use tax. The Tax Study Committee members agreed that there is no reasonable basis for taxing the warehousing of raw agricultural products and exempting all other warehousing activities.

The Tax Study Committee recommends that the warehousing of raw agricultural products be exempted from the sales and use tax. (See Consultant's Report, pp. 130-131)

4. OPPOSES SUBSTITUTION OF A GRADUATED INCOME TAX CREDIT FOR THE FOOD AND DRUG SALES AND USE TAX EXEMPTION.

The Tax Study Committee discussed the proposal to substitute a graduated income tax credit for the existing sales and use tax exemption on food and prescription drugs. While there was some agreement that more equity might be accomplished with such a recommendation, the Tax Study Committee felt that the administrative costs would be prohibitive and that the current system is working well. (See Consultant's Report, pp. 135-137)

5. RECOMMENDS SUBJECTING NEWSPAPERS TO THE SALES AND USE TAX.

The Tax Study Committee discussed the issue of subjecting advertising to the sales and use tax. The general history of the problem of taxing advertising was discussed and the problems which arose in this state when we attempted to tax advertising in the early 1970's. It is recommended that the extension of the sales and use tax to advertising be rejected.

The Tax Study Committee also discussed the taxation of the sale of newspapers. Under the current sales and use tax law, the sale of periodicals is subject to the sales and use tax. The Tax Study Committee agrees that there is no reason to treat newspapers and periodicals differently and recommends that the sale of newspapers be subject to the sales and use tax. (See Consultant's Report, pp. 137-139)

6. OPPOSES SALES AND USE TAX PAYMENTS ON A RECEIVABLE BASIS ON CREDIT SALES.

The Iowa Retail Federation requested that retailers be allowed to remit sales and use taxes on a receivable basis to reduce the amount of repayment of sales and use taxes and, in some cases, the borrowing of money to remit the taxes due on credit sales. Large retailers are required to make semimonthly tax deposits which, in a normal month, means the first deposit is due on the twenty-fifth day of the first month. This would cover the sales of the first fifteen days of the month. The retailer usually doesn't bill the customer until the end of the month and is not paid for at least two weeks if not several months later. This results in the retailer remitting the sales or use tax before receiving payment from the customer. The acceleration of sales and use tax collections in recent years has increased the costs to retailers. Nineteen states provide the option for retailers to remit sales taxes on a receivable basis.

The Tax Study Committee feels there is some merit to this request but rejects it, primarily because it has an immediate and severe negative impact on the state's tax receipts. The Department of Revenue pointed out that retail sales and use tax is actually a transaction tax payable at the time of the sales transaction, not when the goods or services are paid in full.

7. OPPOSES VENDOR DISCOUNTS ON SALES AND USE TAX COLLECTION.

The Iowa Retail Federation requested a vendor discount for sales and use taxes collected because of the substantial costs associated with collecting, reporting, paying, auditing and otherwise complying with state sales tax laws. Studies in other states have shown costs ranging from two percent to ten percent of the collections. In addition, Iowa's laws are somewhat more complex because some items are not taxable which requires of the retailer the additional step of identifying taxable and nontaxable items. Also, retailers in Iowa are required to remit the tax receipts more rapidly than in most other states. Twenty-four states have established vendor discounts.

The Tax Study Committee acknowledges that costs are associated with the collection of the sales tax, but feels that it is not a severe enough problem to warrant a change. The Committee also feels that a flat percentage allowance to cover collection costs would favor the large retailer over the small retailer. On balance, the Committee feels that the phaseout of the personal property tax will be more beneficial to retailers than would a sales tax collection discount.

INHERITANCE TAX

The Tax Study Committee recommends future consideration of inheritance tax law changes. There are indications that the present law is at least one factor in causing certain people to leave our state. However, the Tax Study Committee considers the cost to the state general fund too high to recommend repeal or higher exemption levels to the tax at this time. (See Consultant's Report, pp. 140-154)

MOTOR FUEL TAXES

The Tax Study Committee considered a proposal to change the motor fuel tax from a fixed rate per gallon to a variable rate basis such as a percentage of the cost of motor fuel and highway maintenance. The Tax Study Committee recommends retention of the existing motor fuel tax structure. (See Consultant's Report, pp. 155-166)

PROPERTY TAXATION

1. OPPOSES IMPOSITION OF LEVY LIMITATIONS IN LIEU OF ASSESSMENT AND RATE LIMITS.

The Tax Study Committee rejects the imposition of a direct levy limitation in lieu of the existing rather complicated system of limits on assessments and tax rates. (See Consultant's Report, pp. 184-188)

2. OPPOSES REDUCTION OF THE ASSESSMENT RATIO IN LIEU OF ROLLBACKS.

Under this alternative, all property would be subject to the property tax on its assessed value which would be a percentage of the market value of the property. The assessed value for all classes of property would be the same percentage of the market value. The Tax Study Committee considered and rejected the proposal which would have eliminated the present complicated system of variable rollbacks and substitute for this a system which would base all property taxes on a fixed percentage of market value or productivity value for agricultural property. (See Consultant's Report, pp. 189-191)

3. SUPPORTS EXEMPTION OF ALL PERSONAL PROPERTY FROM TAXATION.

The Tax Study Committee recommends an immediate and complete phase out of the personal property tax with state replacement of revenue losses to continue from the state. (See Consultant's Report, pp. 191-194)

4. OPPOSES IMPOSITION OF PAYMENT IN-LIEU-OF TAXES ON NONGOVERNMENTAL EXEMPT PROPERTY.

The Tax Study Committee recommends against the imposition of payment in-lieu-of taxes on nongovernmental exempt property.

The consultant noted that the federal government and some states provide payments in-lieu-of taxes payments on federal or state owned property. The federal government makes payments in-lieu-of taxes on federally owned parks, wilderness areas and other open land, based on a formula allocating a flat sum per acre. The state of New Jersey makes payments to local governments based on the assessed value of state owned property and the local tax rate.

The Committee noted that provision is already made for taxing property of tax-exempt institutions which is rented or used for profit making purposes. Also, the consultant noted that the imposition of payments in-lieu-of taxes would be difficult to administer. An equitable method of calculating the payment as well as a complete inventory of exempt property would need to be developed. (See Consultant's Report, pp. 196-198)

5. RECOMMENDS CHANGE IN ASSESSMENT OF UTILITY PROPERTY.

Since 1979, the method of assessing utility property has been inconsistent with standard appraisal practices employed in surrounding states. Since then, this new methodology has created substantial controversy and is currently the subject of costly litigation. The Committee is concerned that this method is different from the methods employed in other states. For that reason, the Committee urges the Department of Revenue to review and amend its utility assessment methodology within the confines of the existing assessment statute with the view to eliminating the sources of controversy and increasing the efficiency of the central assessment process.

The Committee specifically objects to the use of the stock equity-debt ratio formula as the primary basis for determining utility assessed valuations. Iowa gives this formula a seventy percent weighting when assessing the utility property. Before 1979, the assessing formula primarily used in assessing property of utilities was the cost approach. The income approach is also a method used to estimate market value. The Committee noted that only five other states use the stock equity-debt ratio assessment method and each of these states give this method a weighting of twenty percent or less.

The Department of Revenue argued that this method was recommended by a consultant and the procedures have been upheld by the State Board of Tax Review and the Polk County District Court. An appeal is pending before the Iowa Supreme Court and this result should conclude the litigation and related costs. Assessing the ability of a company to provide a return on investment is considered a more accurate method of determining assessed valuation compared to the cost approach.

6. REJECTS PROPOSAL TO TAX PROPERTY ONLY FOR THE COST OF SERVICES AND PROTECTION PROVIDED.

The Tax Study Committee opposes taxing all classes of real property only for the costs of services provided to serve and protect real property.

The Iowa Association of Realtors requested that all classes of real property should only be taxed for the cost of services provided to serve and protect that real property. The costs would include the costs of police and fire protection. Other costs such as those associated with education and social programs should be shifted to other forms of taxation such as user, sales, excise, payroll, moneys and credit, and income taxes.

The Committee recognizes that some reduced reliance on property taxation may be desirable, but shifting even K-12 school district costs amounts to approximately $608 million. This would be a significant amount of tax dollars to be shifted to other forms of taxation which could cause undesirable effects in comparison to the overall tax structures of surrounding states. The proposal also raises the definitional questions. What are services directly related to real property? What police and fire protection costs should be attributed to property and what costs to human safety and protection? Do not educational programs and basic social welfare programs add to social stability and proper respect for other persons and property?

7. OPPOSES ASSESSMENT AND TAXATION OF LAND VALUATION ONLY.

The Tax Study Committee opposes a proposal that all property taxes should be levied against land values only and not on improvements to land. The proposal is designed to encourage the development of land to its highest and best use and to discourage land speculation.

The Committee concluded that shifting taxable values of land from any improvements on the land would have a severe negative impact on farmers and agricultural production at a time when the agricultural economy is already depressed and upon property held for development.

8. OPPOSES INCREASING THE RATE FOR THE SCHOOL FOUNDATION LEVY.

The Tax Study Committee opposes an increase in the school foundation levy from $5.40 per thousand dollars of assessed value to $6.20 per thousand dollars.

The Iowa State Education Association recommended, as a part of an increase in state aid to the K-12 educational system, an increase in the property tax levy for the school foundation from $5.40 per thousand dollars of assessed valuation to $6.20 per thousand dollars. The recommendation will generate approximately $54 million of increased local effort.

The Committee opposes the recommendation as an increase in the already heavy burden on property for educational purposes. The Committee also was concerned that some schools would not have to levy the entire school foundation levy to raise the necessary revenue and such an increase might also deny state foundation aid to some school districts.

9. OPPOSES RECLASSIFICATION OF APARTMENT BUILDINGS AS RESIDENTIAL PROPERTY.

The Tax Study Committee opposes the reclassification of apartment buildings as residential property.

Representative Janet Carl proposed that apartment buildings should be classified as residential rather than commercial property for consistency of treatment with houses which contain apartments for rental purposes. Residential property as a class is assessed at a lower percentage of actual value than is commercial property.

The Committee opposed Representative Carl's proposal because apartment buildings are a commercial investment and enterprise similar to other business properties. The reduction in assessed valuations for apartment buildings should result in lower rents, but there are no guarantees. The resulting shift in the property tax burden in many communities would not be welcome.

10. RECOMMENDS CHANGE IN LIMIT ON THE AGRICULTURAL LAND TAX CREDIT.

The Tax Study Committee recommends that the agricultural land tax credit be limited to the first $1,000,000 for a family farm corporation, and the first $500,000 of taxable valuation of an individual farmer or other business entity. The Committee also recommends that the value of farm buildings be included in the taxable valuations eligible for the tax credit.

The Committee made the recommendation to limit the eligibility for the agricultural land tax credit to give some assistance to family farm operations and to family farm corporations. The Committee agreed to include farm buildings in the assessed valuations eligible for the credit as a method to encourage cattle feeding operations which need buildings to protect cattle from inclement weather. Retaining the agricultural land tax credit in light of recommendations to eliminate the homestead tax credit and military service tax credit is supported by the need to support the economically-depressed agricultural economy.

The Iowa State Education Association recommended, as a part of an increase in state aid to K-12 educational system, to limit the agricultural land tax credit to agricultural land which is farmed by an owner-operator only. The purpose of the recommendation, in addition to saving state revenue to be used for educational purposes, is to encourage the family farm concept.

The Committee opposes the recommendation because it would have little impact on encouraging family farms and would probably lead to abuse. It would be difficult to define the term "owner-operator" and administrative costs would have to be increased to make enforcement effective.

11. RECOMMENDS CHANGE IN CLASSIFICATION OF MACHINERY USED IN MANUFACTURING FACILITIES AND COMPUTERS FOR PROPERTY TAXATION.

The Tax Study Committee recommends striking sections 427A.1(1)e and 427A.1(1)j to remove machinery used in manufacturing establishments and computers from being automatically classified as real property. The Committee also recommends that the broad exemption specified in section 427A.1, subsection 3, be tightened so that it only applies to property which is frequently moved within its location.

The Committee concluded that machinery used in manufacturing facilities and computers should not be specifically defined as real property for property tax purposes. The consultant noted that this proposal would increase horizontal equity by removing the present inequity between manufacturing machinery and other types of machinery. With the elimination of the Code provisions specifically defining manufacturing machinery and equipment and computers as real property, the property would be assessed as real property only if it met other provisions in Chapter 427A. The Committee feels that current classification of manufacturing machinery and equipment and computers as real property provides an undesirable business climate in Iowa. The Committee also feels that, as an exception to the regular rule, manufacturing machinery which is attached when used but which is frequently moved within the manufacturing facility should be eligible for classification as personal property. The Committee feels that consistency of tax treatment for machinery and equipment and computers, wherever used, is important. It should make no difference for tax purposes, whether used in the home, on the farm, in the office, or in a manufacturing operation. (See Shaff Minority Report)

12. RECOMMENDS ELIMINATION OF MILITARY SERVICE TAX CREDIT.

The Tax Study Committee recommends elimination of the military service tax credit.

The military service property exemption reduces the taxable value of real or personal property of eligible Iowans who served in the armed forces during specified war time periods. The Committee recommends elimination of the exemption because it applies unfairly to veterans serving during certain periods of armed conflict regardless of their individual roles in the armed forces, applies only to homeowners among eligible veterans, and is generally an inappropriate method of recognizing military service. See Consultant's Report, pp. 200-201)

13. *RECOMMENDS ELIMINATION OF THE HOMESTEAD TAX CREDIT* AND THE EXTENSION OF THE ELDERLY AND HANDICAPPED TAX CREDIT TO ALL LOW-INCOME PERSONS.

The Tax Study Committee recommends elimination of the Homestead Tax Credit and extension of the Elderly and Handicapped Tax Credit to all low-income persons.

This recommendation would provide a property tax credit to all low-income owners and renters based on a graduated rate by income class. This modification would improve the progressivity of the property tax. The expanded credit would be administered by the Department of Revenue in the same manner as the current Elderly and Disabled Credit. See pages 198 through 200 of the final report for the consultant's analysis of the recommendation.

The Committee concluded that the original purpose of the Homestead Tax Credit which was basically to encourage home ownership is not being fulfilled by the credit. The Committee concluded that the amount of the credit is not a significant factor contributing to increased home ownership, amounting to only $136 in the 1983-84 fiscal year for the average homeowner. The credit discriminates against renters who, due to lack of funding or need for mobility in modern society, do not own their homes. Furthermore, the value of the homestead credit is uneven in its application, varying with each taxing district. It is an increasingly significant liability against the state general fund. The Committee believes that a credit against property taxation should apply only to those low income persons who cannot afford the property tax burden. (See Consultant's Report, pp. 198-200 and Shaff Minority Report)

14. *RECOMMENDS REVISION OF THE ASSESSMENT FORMULA FOR* AGRICULTURAL LAND.

The Tax Study Committee recommends that the agricultural land productivity formula capitalization rate be defined as eighty percent of the Federal Land Bank Mortgage interest rate averaged over three years with a limit of one percent increase or decrease in the rate per year. It also recommends that the period over which income is averaged be changed from five years to three years. The Committee also recommends that additional modifications be made in the agricultural land productivity formula as it applies to production and other factors within individual counties.

The present farmland productivity formula involves average production and county grain prices less expenses averaged over five years and a capitalization rate of seven percent. The consultant noted that using a shorter time period for income averaging in the formula would help counties which have had recent difficult climatic and economic problems such as flooding, drought, and low commodity prices by reflecting the lowered income more rapidly. Forty percent of the states tie their capitalization rates to the Federal Land Bank interest rates, but most of them use the five-year average rather than a three-year average. The three-year average for income is more responsive to actual income production, but it also tends to be more volatile. (See Consultant's Report, pp. 202-203)

The Committee believes that the current seven percent capitalization rate fixed by statute does not reflect changing interest rates in the market and that a five-year average on income holds assessed valuations too high when actual income is low. The five-year income average provides more stability to governmental units which rely on property taxes but it does not accurately reflect current income levels of taxpayers. The productivity formula should use actual county production figures rather than crop suitability rating based on statewide averages and use climatic conditions reflective of more recent conditions rather than longer term conditions of ten to twenty years. The Committee also recommends that the agricultural land productivity formula include consideration of fuel costs, machinery costs, and interest costs.

15. FAVORS CONTINUED COUPLING OF INCREASES IN AGRICULTURAL AND RESIDENTIAL PROPERTY ASSESSMENTS.

The Tax Study Committee recommends that statewide increases or decreases in the assessed valuation of agricultural property and residential property remain coupled as provided in section 421.21.

The Committee concluded that the current methods of determining the assessed values of tax property is very complex and that uncoupling the tie between agricultural and residential property assessments would further complicate the system. The Committee considered a proposal to allow local option on whether the assessed values of the two classes of properties should remain tied but were advised that serious legal questions would arise if all changes were to be made on a local option basis.

16. RECOMMENDS RETAINING CURRENT SYSTEM IN K-12 SCHOOL SYSTEM FUNDING.

The Tax Study Committee opposes a proposal to fund all per pupil costs of K-12 school districts by eliminating state-funded property tax credits and increasing income and sales and use taxes. The Committee felt that this proposal might impact upon local control.

Under this proposal, the state would assume all per pupil costs, based on actual head count, for K-12 school districts. Local school districts would continue to be responsible for most special school taxes. A state tax commission would be created to conduct an annual review of the need for additional revenues. If necessary, the commission would temporarily increase income and sales taxes sufficient to generate the funds required. Property tax credits currently paid by the state would be eliminated with the exception of the property tax credit for low-income elderly and handicapped. This credit would be retained for homes assessed at less than $30,000 and whose net worth is less than $50,000. See pages 203 through 211 of the final report for the consultant's analysis of the proposal.

To fund the projected budget needs for the fiscal year 1985-86, a one percent sales tax increase and an 18.7 percent surtax on individual and corporate incomes taxes, insurance premiums tax, and the franchise tax would be needed. The Committee felt that the proposal would have a significant impact on the taxpayers because of the tax shift and would have a negative impact on economic development in the state. The proposal would also raise the top individual income tax rate to over fifteen percent. In addition, the corporate income surtax would raise the top corporate income tax rate to over fourteen percent, a rate which is considerably higher than surrounding states.

The proposal would probably be detrimental to the insurance industry because the surtax on the insurance premiums tax would trigger retaliatory taxes against Iowa companies doing business in other states.

The Tax Study Committee supports continuation of the current funding structure.

OTHER COMMITTEE RECOMMENDATIONS

1. RECOMMENDS PROMPT PAYMENT OF STATE SCHOOL AID.

The Tax Study Committee recommends the timely and regular payment of state school aid to the school districts.

The Committee recognizes the economic problems which have occurred affecting cash flow in the state general fund but recommends that the state make necessary changes to return to timely and regular payments of state school aid to the school districts. Late payments in recent years have caused school districts to borrow funds for operating expenses, the cost of which reduces funds available for essential educational programs.

2. RECOMMENDS LOCAL OPTION TAXES BE PERMITTED.

The Tax Study Committee recommends that local governments be authorized to impose local option taxes after a referendum. The recommendation does not include authorization for a payroll tax borne by the employer.

The Committee had serious reservations about opening the door to local option taxes. However, after lengthy consideration it concluded that local governments should be allowed other sources of revenue in addition to property taxes. If maintaining local services without increasing property tax burdens is desirable, local sales, income, wheel or other user taxes may be necessary. The Committee makes no specific recommendations as to rates or administrative details except that the tax should be imposed by referendum and that a payroll tax should not be permitted. The Committee considers a payroll tax borne by a business as a tax which should be avoided since it could inhibit economic development.

3. RECOMMENDS ADDITIONAL REVENUE SOURCE.

The Tax Study Committee recommends that as additional tax revenues are needed to carry out the particular recommendations which are enacted into law, the best source of increased revenue would be an increase in the sales and use tax.

If all Committee recommendations were to be adopted immediately and not phased in over a period of years, an increase from four percent to five percent in the sales and use tax would be needed to offset the resulting loss in revenues. The Committee recognizes the regressivity of the sales tax. One of the principal objectives of the Tax Study Committee was to present a package of tax recommendations which is revenue neutral.

After considering other possibilities such as a surtax on individual and corporate income taxes, the Tax Study Committee concluded that the most desirable alternative is an increase of one percent in the sales and use tax. The additional one percent sales and use tax would not seriously disadvantage Iowa in comparison to most other surrounding or comparable states. On the other hand, a surtax on individual and corporate income taxes would put Iowa well above our competition and could seriously damage economic development in this state.

MINORITY REPORT

I supported the Committee's vote to discontinue the homestead credit as it has outgrown its original purpose of promoting home ownership. The federal income tax provides an incentive for home ownership. However, the money saved should have been allocated to lower property taxes to all property owners. Lowering property taxes could be done by increasing the school foundation from 79-80 to 84-85 percent funding. This would cost about seventy million and the savings to be shared by all property taxpayers, including apartment owners in the commercial class now being discriminated against.

It is not acceptable to use an increase in property tax to fund loss in sales and income tax.

While the joint married filers of the state income tax unfairly discriminated against the wife who works on the farm, in the business, and in the home, the cost corrections should be borne by all income taxpayers and might be delayed until the federal government changes to a modified flat rate, if they do.

Removing from the Code the section that defines all industrial machinery and equipment as real property does away with a class inequity and should be done. I do not believe this should include computers. This does not single out one class of taxpayers as industrial equipment does. Computers do require the services of police and fire protection more than most other classes of property and there is a definite need for educational services growing from the use of computers.

The seventy million used to increase the school foundation could be replaced by the ten million not lost by eliminating computers and by delaying and ultimately funding the loss of money from helping joint filers to a corresponding increase in the income tax.

ROGER J. SHAFF

MINORITY REPORT

I am concerned that so many recommendations of the Tax 1Study Committee tend to gloss over the issue of tax equity and put too much emphasis on reducing an already light business tax burden in the name of "economic development".

A number of studies, which use varied indices, show Iowa's business taxes to be among the nation's lowest. The most recent tabulation available shows that only three states have a lighter business tax burden as a percentage of total personal income. A more recent analysis indicates that tax changes in Iowa since 1980 have probably dropped this (see below) rank even lower.

With business taxes so low, substantial further reduction at the expense of individual taxpayers should be out of the question.

I also believe the data provide strong evidence to show that fairness of the Iowa individual income tax would be improved by limiting the deductibility of federal income taxes in computing state tax liability.

The percentage of income Iowans pay as taxes almost levels off above the $100,000 income level; and the percentage of income paid as additional tax (using an adjustment which takes into account the savings on federal income taxes resulting from state deductibility on federal returns) actually declines above the $100,000 level. (Figure 1, Page 41 of Consultant's Report)

Since this results form allowing full deduction of federal income taxes, the simplest way of dealing with it appears to me to be for Iowa to join the vast majority of states which either limit federal income tax deductibility or do not allow it. But if this step is unacceptable to some as a "tax on a tax," then the same end could be achieved by raising rates.

A corollary of the light Iowa business tax burden is this -- the proportion of state and local taxes paid by Iowa individuals in comparison to the proportion paid directly by businesses is one of the nation's highest.

A recent evaluation by Dr. Peter Fisher, "An Evaluation of Selected State Tax Credits and Property Tax Credits in Iowa," points out that actions since 1980 have further reduced the proportion of Iowa taxes paid by businesses while increasing that paid by individuals.

Further business tax reduction, such as exempting machinery and equipment from the sales tax are not justified.

If there is a problem with Iowa business tax, it is with the nature of the tax, not the total burden.

For that reason, I believe, the decision not to recommend that Iowa join most other states in using the standard three-factor process for taxing corporation profits was wrong. With three-factor apportionment, the corporation income tax could provide a fair replacement for the loss of sales taxes on machinery and equipment.

Single-factor apportionment greatly reduces Iowa state income taxes of some companies -- and may be a great attraction for them -- but it offers little attraction to others, and the high rates which single-factor apportionment makes necessary may actually keep other companies out of Iowa.

This expensive but somewhat spotty inducement should be dropped in favor of tax structures which will be attractive to all companies. This would be a way of making Iowa taxes more attractive without shifting taxes to individuals.

PAUL STANFIELD

TAX STUDY COMMITTEE: IMMEDIATE RECOMMENDATIONS, FISCAL EFFECTS

INDIVIDUAL INCOME TAX:

Adjust Income Brackets for Married Joint Filings. The committee recommends that income brackets for married taxpayers filing joint returns be increased by 50 percent. Married taxpayers filing separately will still be allowed that option.

Fiscal Effect: Decreases tax burden on those taxpayers currently filing joint returns. The recommendation would result in a decrease of $32-36 in state income tax collections.

Changes In the Exemption Amount. The committee suggests that all earners of less than $8,000 be exempt from the state income tax. Currently, the exemption level is set at $5,000.

Fiscal Effect: Increasing the minimum income level would decrease state income tax collections by $5-7 million.

Revise Calculation of Taxable Social Security Benefits. Currently, state income tax is imposed on the portion of social security benefits and railroad retirement benefits received by certain taxpayers that are subject to federal income tax in the tax years beginning on or after January 1, 1984. A taxpayer adds together his or her adjusted gross income, half of social security benefits received, and the amount of tax-free interest (for example, interest on municipal bonds) received. This sum is reduced by a base amount of $32,000 for a married couple filing a joint return or $25,000 for a single individual. The remainder is divided by two. The portion of social security benefits equal to this amount (but not more than half the benefits) is then counted as income. The committee recommends that income earned from federal tax exempt securities be eliminated from the calculation of taxable social security benefits.

Fiscal Effect: State income tax collections would decrease by an unknown amount.

Changes in the Minimum Tax. The committee recommends that the add-on federal alternative minimum tax be changed. This tax would maintain the current rate of 70% of the federal tax but would provide a cap equal to the 13% individual income tax rate. Also, the base would be altered to exclude hardship sales and a one-time exclusion of the sale of a home or business would be allowed.

Fiscal Effect: Current minimum tax revenues represent $8-10 million in collections to the state general fund. As capital gains account for the majority of that amount, by allowing the one-time exemption most of the dollars would be lost. Restricting the marginal rate to 13 percent will lower revenues from those who are investing rather than making one-time sales. The recommendations would result in an approximate $7-8 million decrease in minimum tax collections.

CORPORATE INCOME TAX:

Gross Premiums Tax. The committee recommends that non-profit service organizations (Blue Cross/Blue Shield) be subject to the two percent gross premiums tax.

Fiscal Effect: Current law exempts fraternal beneficiary associations, whose premium rates are not flexible and health maintenance organizations for the first five years from the two percent gross premiums tax. While non-profit service organizations (including Blue Cross/ Blue Shield) are also currently exempt, these corporations pay a tax of $0.15 per subscriber contract issued in the calendar year. Imposing such a tax on Blue Cross/ Blue Shield would result in an increase to the general fund of roughly 8.5 million.

Note: Calculations assume an elimination of the $0.15 per subscriber contract tax. Additionally, those accounts with no contract or certificate issued by Blue Cross/Blue Shield or which do not evidence acceptance of risk (including national accounts, federal employee programs, and administrative service/ cost plus accounts, all currently not under the $0.15 tax) are not included in the cost estimates. The current payment of taxes to the state requires one-half of the previous year's tax due June 1 and the balance of the tax due March 1. This schedule effectively precludes any additional collections during the first year of a law's enactment. This loss would be recovered the following fiscal year; collections would balance out after the first two years.

SALES AND USE TAX:

Exempt Agricultural and Industrial Machinery and Equipment.

Fiscal Effect: If enacted, exempting agricultural machinery and equipment would result in a decrease in collections of $28-36 million and exempting industrial equipment would result in a decrease of $16-28 million. Taken together, this represents a loss to the state general fund of $44-64 million. An evaluation of the agricultural economy may reveal that the ag M&E figure is somewhat higher than present investment patterns may indicate. A more specific estimate depends on how the legislation is drafted.

Exempt All Warehousing. All tangible personal property except raw agricultural products are exempt from sales and use tax. The committee recommends that warehousing of raw agricultural products also be exempted from the sales and use tax base.

Fiscal Effect: With this exemption, sales and use tax collections to the state general fund would decrease by slightly less than $2.0 million.

Subject the Sales of Newspapers to Sales and Use Tax.

Fiscal Effect: With this exemption, sales and use tax collections to the state general fund would increase by $3.0-4.0 million annually.

Increase Sales and Use tax. Since the suggestions of the committee represent a revenue shortfall to both state and local governments, the committee recommends increasing the state sales and use tax from 4 percent to 5 percent to replace the shortfalls.

Fiscal Effect: Increasing the state sales and use tax will result in an increase to the state general fund of approximately $175 million for fis-1986 if there were no changes in the base. However, if agricultural and industrial M&E and agricultural warehousing are exempted from the sales and use tax base, as per the committee recommendations, roughly $160 million additional revenue would be generated to the state. Also, an increase to the sales state general fund. Also, an increase to and use tax rate would generate an additional $18-20 million for the Road Use Tax Fund for use taxes collections on motor vehicle sales.

PROPERTY TAX:

Personal property. Currently, personal property is being phased out of the property tax base in a ten-phase approach. This phase-out involves a credit reimbursing local taxing authorities for a rollbacked aggregate assessed valuation loss. The state has reached the 5th phase with a credit to property owners up to $175,000. The committee recommends that the tax balance on personal property be eliminated immediately. The credit to local authorities remains in place.

Fiscal Effect: The effect of this recommendation is a reduced tax burden on those taxpayers with larger amounts of personal property (over $175,000). Local taxing authorities, still receiving their credit payment should be minimally affected.

Since the state pays the property tax credit and the payment schedule would be accelerated to the final year's credit amount rather than the 5th phase amount, a change in the law would result in additional credit payment. This amount represents a $3.8 million decrease to the state general fund for each year the payment is accelerated, totalling $21.8 million ($68.0 credit cap less $46.2 current credit).

Affects To School Aid Formula. Without going into detail explaining the school aid formula, it should be known that property tax assessments are linked to spending for K-12 schools; the level of a district's tax base affects the amount of available state aid.

Fiscal Effect: Assuming that local levies remain constant, a one percent decrease in the statewide tax base (assessed valuation) results in an effect to the K-12 formula which will shift $3.67 million in funding liabilities. Of this amount, the state will bear $3.0 million in increased state aid and local school districts will have to pick up the $0.67 balance. The current statewide tax base (for FY 1985 budgets) is approximately $68.0 billion. A one percent decrease would equal about $680.0 million.

Machinery and Equipment. Currently all machinery and equipment used by business and industry is defined as real property and excluded from treatment as personal property. The comtee recommmends that the exclusion for computers and other machinery and equipment used by business and industry be removed. These items would be eligible for classification as as personal property subject to the limitations cited in the Code. Further, the committee recommends that the definition of personal property pertaining to "attached" property be amended from that cited in Chapter 427A.1(3) to that property which is moveable within the plant.

Fiscal Effect: By making machinery and equipment eligible for classification as personal property, a shift from the real property tax base would occur. This shift represents a loss to local taxing authorities since any real property shifting to personal property would fall under the personal property tax exemption and the state credit reimbursing this is capped at $68.0 million.

Unless local authorities can increase their levies, shifting the real property assessment loss to other assessed properties, total assessed valuations would decline. For FY 1985, the numbers of local taxing authorities and their levies are as follows:

Cities:

At $8.10 limit......	360
$7.83 - 8.10	191
7.56 - 7.83	47
7.29 - 7.56	42
0.10 - 7.29	308
No levy...........	8
Use emergency levy..	102

Counties:

At $3.50 limit......	57

(Counties must be at their general fund limit before they can use the supplemental levy.)

An exact fiscal estimate of this recommendation is difficult to provide due to contemplated changes in assessment practices.

However, a loss to the assessment base also represents an additional loss to local taxing authorities and to the state due to the school foundation aid formula. (See above explanation). Also, if new equipment and machinery shifted to the personal property class, the estimates of the state's share of credit payment for machinery put in place after fiscal 1981 (the "70/30" credit) would decline from its current initial year estimate of $7.0 million. It is important to note that the cost to the state is only $6 million even if <u>all</u> M&E became personal property. This $6 million is a net figure based on savings from the 70/30 credit and costs of increased K-12 state aid. The loss to local governments would be $70 million (70/30 plus all other industrial M&E) if 100 percent became personalty. The amount shifted to personalty is likely to be closer to 70 percent, in which case the state costs would be $4.2 million and the local revenue $49 million.

<u>Ag Productivity Formula</u>. The committee recommends that the capitalization rate currently set at 7.0 percent be changed to 80 percent of the Federal Land Bank mortgage interest rate averaged over three years with no more than an increase of one percentage point per year. Further, the period over which income is averaged would change from five years to three years.

<u>Fiscal Effect:</u> The recommendation would result in a <u>cost</u> to the state reflecting an increase in school aid payments of $14 million for the first year in place and $39 million the second. The local loss, assuming no shifting, is estimated at $52 million for the first year and $144 million for the second year.

<u>Military Credit</u>. The committee recommends that the Military Tax Credit, currently paid to local taxing authorities for a reduction in the taxable value of real or personal property of eligible Iowans who served specified years in the military forces, be abolished.

<u>Fiscal Effect:</u> On the average, the repeal of the credit represents a $60 annual increase in property tax to qualified individuals. The state would save roughly $3.3 million annually.

<u>Change the Homestead/Elderly and Disabled Tax Credits.</u> The committee recommends that the Homestead Property Tax Credit be abolished and the Elderly and Disabled Tax Credit be expanded to all low income owners and renters with incomes less than $12,000.

<u>Fiscal Effect:</u> The homestead credit is paid to local taxing authorities in lieu of collections made on the the first $4,850 of assessed valuation for homeowners. The repeal of this credit would increase individual homeowner's property taxes by approximately $125-150.00 per year. However, to some extent this effect is offset by the expansion of the elderly credit to a "circuit breaker" eligibilities.

While there is a savings to the state with the repeal of the homestead credit, there is a cost related to the new low income owners and renters credit. The net effect of the change is difficult to project due to a lack of housing cost and related income data. Roughly, the circuit breaker represents an <u>increase</u> to the state general fund of $44-64 million.

<u>Local Options Tax.</u> The committee recommends that the state allow local governments the choice to levy a local options tax. The tax could come from a broad base (wheel, sales, and so on) with a payroll tax not allowed. Such a tax would be be subject to a local referendum. In the event that two taxing overlapping taxing authorities (such as a city and its respective county) both have the same local options, that part of the revenues collected within the city goes to the city and the collections in the unincorporated areas of the county and for any non-levying cities go to the county.

<u>Fiscal Effect:</u> The fiscal effect of this recommendation, while positive, is not known. The effect will vary depending on the number of local governments applying a tax and the selected tax base and rate.

FISCAL EFFECTS: TAX STUDY COMMITTEE - FUTURE RECOMMENDATIONS

Inheritance Tax:

Repeal Inheritance Tax. Currently, the state imposes an inheritance tax and an estate tax. The committee recommends that at some point in the future inheritance tax be repealed and only estate tax be imposed.

Fiscal Effect: Repealing the inheritance tax will decrease collections by removing a revenue source and by affecting the base of the remaining estate tax. Current revenues for the estate and inheritance tax are roughly $58.0-60.0 lion annually. These revenues will remain fairly constant over the next few years, with inflation increasing the base and the phase-in of the spousal exemption decreasing the base in proportionate amounts. Of this income, $12-15 million comes from the estate tax. By repealing the inheritance tax, collections would decrease to this $12-15 million amount, decreasing state general fund collections by approximately $45 million.

TAX STUDY IMMEDIATE RECOMMENDATIONS: SUMMARY OF FISCAL EFFECTS

AREAS OF STATE IMPACT:	Fiscal Effect*
INCOME TAX	
Married/Joint Tax Returns	$ 32-36 million decrease
Minimum Income - $8,000	5-7 million decrease
Social Security Changes	unknown decrease
Minimum Tax Changes	7-8 million decrease
GROSS PREMIUMS TAX	
Blue Cross/Blue Shield	8.5 million increase
SALES & USE TAX	
Exempt Machinery & Equip.	
- Agricultural M&E	28-36 million decrease
- Industrial M&E	16-28 million decrease
Exempt Warehousing	2 million decrease
Newspaper Sales Tax	3-4 million increase
Increase Sales Tax (assumes exemptions) (RUTF incr. $18-20 M)	160 million increase
PROPERTY TAX	
Exempt Personal Property- (1st five years)	21.8 million decrease
M&E Redefined	4-6 million decrease
AG Productivity (1st two years)	14-39 million decrease
Military Credit Repeal	3.3 million increase
New Circuit Breaker (Hmdstd/Elderly Credit)	44-64 million increase

AREAS OF LOCAL IMPACT:	Fiscal Effect*
PROPERTY TAX	
M&E Redefined	$ 49-70 million decrease
AG Productivity (1st two years)	52-144 million decrease
LOCAL OPTIONS TAX	unknown increase

C&L

A STUDY OF STATE AND LOCAL TAXES IN IOWA

Final Report
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November 16, 1984

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Chairman
Iowa Tax Study Committee
State Capitol
Des Moines, Iowa 50319

Dear Mr. Houser:

Coopers & Lybrand is pleased to submit our final report, "A Study of State & Local Taxes in Iowa." The report contains discussions of: the legislative goals of the study and the methodology followed in reaching these goals; an overview of the Iowa tax structure including policy and economic development implications; and a tax-by-tax analysis of the current system, including possible modifications. The Appendix includes the supporting documentation on which the analyses are based.

We appreciated the opportunity to work with you and the Committee on this important project and would like to express our gratitude for the support and assistance we received from state personnel in the Department of Revenue, Office of the Comptroller, Legislative Fiscal Bureau, Legislative Service Bureau, Department of Job Service, Insurance Department, Iowa Development Commission, and Office for Planning and Programming.

If you have any questions, please do not hesitate to contact any of the Coopers & Lybrand staff members involved in the study.

Very truly yours,

Coopers & Lybrand

RVLC:gm
SG

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EXECUTIVE SUMMARY

Part I. Introduction

A. Background and Methodology

The Iowa Tax Study Committee was created by Senate File 461 in June, 1983 to examine Iowa's state and local tax system. The Committee was charged with presenting findings of fact and recommendations for change to the Governor and State Legislature in December of 1984. Coopers & Lybrand was engaged to perform an in-depth analysis of the present structure and of possible modifications to the present structure.

The Coopers & Lybrand Study focuses on six major taxes: the individual income tax, the corporate income tax, the sales and use taxes, the inheritance and estate taxes, the motor vehicle fuel tax, and the property tax. Data were gathered from state sources, interviews were conducted with state personnel, a literature search was undertaken, analytic computer models were developed, and policy analysis was accomplished. Throughout this period Progress Reports were sent monthly and nine meetings were held with the Tax Study Committee. A business survey instrument was developed and the survey conducted in order to determine the impact of state and local taxes on location and investment decisions in Iowa. The results of these activities are contained in the Final Report (Volume I) and the data used to arrive at the findings are contained in the Appendix (Volume II).

B. Glossary

A Glossary was developed in order to fully explain the policy and analytic terms as used in this Study. The policy terms are equity, neutrality, yield and simplicity. The analytic terms include tax effort, tax capacity, tax burden, effective tax rates, incidence, federal deduction, federal tax offset and elasticity.

Part II. Iowa Tax Structure Overview

A. Policy Overview

According to tax policy theorists, a reasonable tax structure should be equitable, neutral with respect to economic decisions, adequate in yield, and simple to administer. The Iowa tax structure, in general, meets the criteria of a reasonable system. While equity considerations tend to be judgmental rather than factual, equity, or fairness, is most often considered to be present when a tax does not fall more heavily on those with lower incomes than it does on those with higher incomes. The measure of burden is not only absolute dollars paid in tax, but the percentage of income those dollars represent. On this basis the individual income tax, corporate income tax, and inheritance taxes are progressive, i.e., the relative burden increases as income increases up to certain income categories; the sales and use taxes are regressive since they are based on consumption, although the food and drug exemptions and taxation of services lessen the regressivity; the motor fuel tax is proportional based on its nature as a user fee; and the property tax is regressive since housing costs (including the tax) are such a large portion of income at the lower and lower-middle categories of income.

The system has no major distortions which would make it seriously non-neutral. The top rates of both the individual and corporate income taxes are high but the deductions in the case of the individual income tax and the single-factor formula used for apportionment of the corporate income tax bring down effective rates, making the tax less likely to cause economic decisions to be made on the basis of the tax. The major non-competitive feature of the sales and use tax is the full taxability of machinery and equipment used directly in processing. The treatment of inventories and industrial machinery under the property tax is also non-competitive but personal property roll-backs and partial exemptions of industrial machinery serve to lower the overall burden on these items. The fact that spouses are still subject to the inheritance tax is a non-competitive feature of that tax but only until the proposed full exemption is phased in. The property rollbacks lower the tax burden for all taxpayers and the increase in taxes has been less than the increase in personal income state-wide.

Revenue growth in general has not been as great as the growth in personal income. This is most likely due to several factors, among which are changes in federal liability upon which the income tax is based and lowered expectations of better times, leading to decreased spending and investment. Recent rate increases in the corporate tax, the sales and use taxes and the motor fuel tax will bring in increased revenues while the changes in the inheritance tax and the rollback provisions of the property tax will lead to decreased rates of growth. Iowa is at the approximate average in its reliance on the major taxes when compared with the surrounding states; the tax system capacity and effort made to reach that capacity are close to the national average for all states.

The Iowa system is not overly complex nor is it difficult to comply with or to administer. The most complex tax is the property tax. The complexity is attributable partly to the nature of property taxes in all states and partly to the presence of three kinds of limitations and many partial exemptions and credits which may be repaid to the local governments or lost to them completely.

The overall state and local tax burden for all Iowa taxes when compared to the U.S. as a whole is almost at the average (U.S. average = 12.07%: Iowa = 12.14%). When compared to the eight comparable states (Illinois, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin) it is higher than four and lower than four.

B. Economic Development Overview

It is difficult to quantify the effect of taxes on location and investment decisions and on purchase decisions. National and local economic cycles, the demand for Iowa products, the size of the market, the cost and availability of labor and the cost of capital are all more important determinants of economic growth than state and local taxes.

A number of studies indicate that once a broad geographic region is selected, taxes play an important role in choosing among competing sites. The Iowa survey, slightly biased because it was conducted for the Tax Study Committee, also showed state and local taxes to play a more important role in site selection within a region.

The Iowa system does not contain a large number of so-called business incentives such as state investment tax credits, but neither does it contain the major disincentives such as a disallowance of the Accelerated Cost Recovery System or the imposition of worldwide combined reporting for unitary businesses. The major tax incentive for attracting multistate businesses is the single-factor apportionment formula. The major disincentive, according to testimony presented to the Tax Study Committee is the full taxation of inventories and machinery and equipment used directly in processing.

When compared to the neighboring states, Iowa's tax burden is not high. Other factors relating to labor costs which include unemployment insurance and workers' compensation as well as salary ranges may play a larger part in location decisions than do the major state taxes.

Part III. Tax Analysis

A. Individual Income Tax

1. Description

The tax is based on federal adjusted gross income with certain modifications to create Iowa net income. A deduction is allowed for federal taxes paid and standard or itemized deductions are also allowed. The rates are graduated and range from 0.5 percent to 13 percent.

2. Policy Considerations

The tax is progressive, particularly at lower income levels. The federal deduction and federal offset narrow the progressivity. The tax exhibits general horizontal equity although variations in burden exist between taxpayers with larger families and smaller families and between married couples filing joint returns and those filing separate returns.

The top rate of the tax is high when compared to neighboring states, but at the lower and middle ranges of income the rate is comparable. The federal tax deduction tends to lower the burden, while the alternative minimum tax add-on increases it both for high income taxpayers and those who realize a large capital gain.

The growth of the tax from the 1978 liability year (fiscal year 1979) through 1982-83 was 25.7 percent, a growth percentage below that of personal income. Iowa is reliant on the tax at about the average of the neighboring states and has a below average capacity but makes an above average effort.

The tax is quite simple due to its close tie to the federal income tax.

3. Possible Modifications

a) Cap or Eliminate the Federal Deduction

The modification would increase vertical equity and increase the effective tax rate and, thereby increasing the tax burden. Individual income tax revenues could increase by approximately 41 percent. If revenues were to be held constant, nominal rates could be decreased. Simplicity would not be affected by the modification.

b) Substitute a Flat Rate for Graduated Rates

The modification could increase neutrality by lowering the effective rate for taxpayers with income over $20,000, would lessen the progressive nature of the tax and would have to be applied at a rate of 3.7 percent to produce like revenues.

c) Substitute a Modified Flat Rate

At either a 5% - 7% - 9% or a 5% - 7.5% - 10% rate structure the tax would become less progressive and more neutral, could increase individual income tax revenues from 1.5 percent to 2.2 percent (all from those earning $20,000 or less) and would be somewhat simpler to administer.

d) Eliminate Married Separate Filing

This modification could decrease neutrality and could increase individual income tax revenues by 14.4 percent, all from those presently filing as married separates.

e) Revise the Rate Structure for Joint and Married Separate Filers

This modification could decrease individual income tax revenues by 12 percent and would benefit present joint filers while increasing effective tax rates for present married separate filers.

f) Change the Add-On Federal Alternative Minimum Tax to an Iowa Tax

This modification would make the tax more neutral and could decrease revenues $2,000,000 to $4,000,000.

B. Corporate Income Tax

1. Description

The base is federal taxable income with certain modifications to arrive at Iowa net income. Multistate corporations are subject to apportionment on the receipts (sales) factor only. The graduated rates range from 6 percent to 12 percent.

2. Policy Considerations

The tax is progressive. The top rate is high compared to other states but the 50 percent federal deduction and the close tie to the federal tax base lower the effective tax rate. For resident apportioners the single-factor formula is an advantage and decreases the amount of income taxable by Iowa. For non-resident apportioners it serves to increase the apportionable base. Recently the revenues from the tax have grown at a rate exceeding the rate of growth of corporate income due to an increase in the rates. Iowa relies on the tax at the average for the comparable states and has a capacity approximately 10 percent less than the national average; its effort is approximately 6 percent less than the average. The tax is easy to administer and comply with.

3. Possible Modifications

a) Employ a Three-Factor Formula

Under this modification the tax would remain progressive, would be more horizontally equitable than it is currently, would provide a lesser incentive for locating or expanding in Iowa, and (based on a study completed ten years ago) could increase corporate income tax revenues approximately 32 percent.

b) Eliminate the Federal Deduction

Under this modification the tax would be slightly more progressive, the effective tax rates would increase to a small degree, and corporate tax revenues could increase by approximately 18 percent.

c) Substitute a Flat Rate

Under this modification the tax would become proportional, rather than progressive, effective rates for corporations with income over $100,000 would decrease and, depending on the rate chosen, corporate tax revenues could remain constant or be reduced by 24.8 percent to 37.8 percent.

d) Impose Combined Apportionment on Unitary Businesses

Under this modification the tax would remain progressive, horizontal equity would increase, the economic climate would be negatively affected, and administrative costs would increase.

e) Tax Financial Institutions under the Corporate Income Tax

Presently these taxpayers are subject to a 5 percent flat rate franchise tax on a net income base which does not allow the federal tax deduction nor the deduction for income from federal securities. Under this modification the tax would be progressive, banks would be subject to a higher rate in Iowa than in most of the surrounding states and revenues from financial institutions could decrease.

f) Tax Insurance Companies under the Corporate Income Tax

Insurance companies are presently taxed under the Gross Premiums Tax at 2 percent on the amount of premiums written with certain allowable deductions or exemptions. Under this modification the tax would be progressive but questions of neutrality and yield cannot be addressed due to recent federal tax changes which will seriously alter taxable income for insurance companies.

C. Sales and Use Taxes

1. Description

The tax is imposed on retail sales of tangible personal property, utility services, selected personal and business services, room rentals, and amusement activities at 4 percent. A complementary use tax at 4 percent is applied to taxable sales of property or services used in Iowa, on which tax has not been paid. The motor vehicle use tax is imposed at 4 percent on vehicles subject to registration.

2. Policy Considerations

Sales and use taxes are regressive when measured by income, although exemption of food and drugs lowers the effective tax rates and increases equity. The major business location disincentive relates to the taxation of machinery and equipment used directly in processing, but the low rate and absence of local sales taxes puts Iowa in a good competitive position relative to surrounding states. Growth in revenues lagged behind growth in personal income and cost of goods during the study period, but the newly imposed rate increase should increase revenues in the future. Iowa relies less on this source of revenue than most of the comparable states. Capacity is above average although, prior to the rate change, effort was very low. The tax, while fairly complex, is less complex than many states' taxes. Enforcement efforts are more than adequate.

3. Possible Modifications

a) Broaden the Base of Taxed Services

Under this modification regressivity would be lessened, businesses may experience an increase in burden, revenues from sales and use taxes could increase by 14.6 percent and administrative efforts would need to be increased.

b) Exempt Agricultural and Manufacturing Machinery and Equipment

Under this modification no equity effects would occur, Iowa would be more competitive with comparable states, and revenues from sales and use taxes could decrease by 7.6 percent.

c) Exempt Warehousing of Raw Agricultural Products

This modification would lead to greater horizontal equity and would cause sales and use tax revenues to decrease by less than one percent.

d) Allow Local Governments to Impose Sales and Use Taxes

This modification would increase effective tax rates, could cause inequities related to the distribution of revenues, would raise total state and local rates to a level at or below those in most neighboring states, and could yield approximately $176,000,000 if all local governments imposed the tax.

e) Substitute a Graduated Income Tax Credit for the Food and Drug Exemption

The effects of this modification could be an increase in regressivity in the sales tax, an increase in progressivity in the income tax, a net increase in sales tax revenues of approximately 12 percent (mainly from those earning over $20,000), and an increase in the administrative burden.

f) Tax Newspapers and Advertising Supplements

This modification would increase regressivity, would lead to problems of neutrality in relation to other news media or advertising instruments, could increase the sales and use tax revenue base by less than one percent and could lead to legal difficulties.

D. Inheritance and Estate Taxes

1. Description

The inheritance tax is imposed on the value of the estate received by the beneficiary with exemptions and rates varying by the class of beneficiary. Spouses receive a $180,000 exemption and, beginning in 1986, will be allowed credits which will totally exempt them from the tax by 1988. The Estate Tax is a pick-up of the federal state credit.

2. Policy Considerations

Assuming the size of the estate is an income measure, the inheritance tax is progressive. Horizontal inequities are built in through the system of classification based on the relationship of the beneficiary to the decedent. Iowa's rate structure is about average for those states which impose an inheritance tax, but Iowa is the only state in the region which imposes a tax on spouses. The tax revenues have grown at a greater rate than personal income, but recent legislative changes will decrease revenues within the next few years. Iowa relies on the tax to a greater extent than surrounding states, has a capacity above the national average and is collecting revenues at a higher rate than most states. The tax is fairly complex.

3. Possible Modification

a) Eliminate the Inheritance Tax

Under this modification Iowa would tax only the federal pick-up credit and, therefore, taxpayers would pay no tax over and above their federal estate liability. Revenues could decrease approximately 63 percent after the spousal exemption is fully phased in.

E. Motor Fuel Tax

1. Description

The tax is imposed on the sale of motor fuel at a rate of 13 cents per gallon for regular fuel, 11 cents per gallon for gasohol and 15.5 cents per gallon for diesel fuel.

2. Policy Considerations

On an ability-to-pay measure, the motor fuel tax is regressive, but when looked at as a user fee and measured by benefits received, the tax is proportional. The rates are somewhat higher than rates in the neighboring states as of January 1984, but some of those states also apply local taxes. Growth in revenues was less than growth in income; however, recent rate increases kept revenues fairly constant even though consumption decreased. Iowa is reliant upon this source of revenue somewhat more than the national average, although the level is comparable to neighboring states. The tax is neither difficult to administer nor to comply with.

3. Possible Modification

a) Tax Motor Fuel at a Variable Rate.

This modification would increase the equity on a benefits received basis and could lead to great variations in revenues received unless the rate were changed frequently.

F. Property Tax

1. Description

The tax is imposed on real and tangible personal property with certain exemptions. All property, except agricultural land, is assessed at full market value. Agricultural land is assesed on productivity and net earning capacity. Property is classified on the basis of use and locally assessed property is subject to biennial state equalization. The growth in assessments is limited by statutory "rollback" rates varying by class. Various modifications are made to the assessed base to reach the taxable base against which local governments may levy taxes. Collections are limited by various maximum rates or spending levels.

2. Policy Considerations

Property taxes are considered to be regressive when measured by income. The elderly and disabled credit serves to mitigate the regressivity for those with incomes below $12,000. Horizontal inequities are built into the system through exemptions, credits, different rollback rates, and different methods of assessment for different classes of property. The total burden or effective tax rate is very similar to that in the neighboring states although higher than the national average. The rollbacks, both for real property and personal property, have kept taxes from growing as rapidly as the growth in market value. The taxation of machinery and equipment is often cited as a location disincentive but this property is subject to rollbacks or partial exemptions. Revenues have grown at a rate less than the rate of growth in personal income since the rollbacks were instituted. Iowa is reliant on this revenue source at about the average for the surrounding states, has an above average capacity, and is making a greater effort in relation to it than the national average. The tax is extremely difficult for taxpayers to understand, but there are few compliance problems.

3. Possible Modifications

a) Impose Levy (Collection) Limitations in Lieu of Rollbacks

The modification would retain the regressivity, increase horizontal equity, and hold down tax bills (since the rates would decrease as the taxable base increased) it would probably shift the burden to residential property owners since they have received the greatest benefit from the rollbacks. It would result in some immediate administrative problems, while greatly simplifying the property tax system in the future.

b) Reduce the Assessment Ratio in Lieu of Rollbacks.

The modification would have the same equity effects and burden shifting effects as in (a) above, but could, in addition, result in higher tax bills in the future if market values again rise rapidly.

c) Exempt All Personal Property

This modification would increase horizontal equity and enhance Iowa's more competitive position. Revenues could decrease by $14,100,000, assuming the livestock credit was discontinued, it would simplify the system.

d) Treat Industrial Machinery and Computers as other Machinery and Equipment

The modification would increase horizontal equity and Iowa's competitive position, could increase state revenues by $7,100,000 and could decrease local revenues by approximately $10,000,000.

e) Impose Payment-in-Lieu of Taxes on Non-Governmental Tax Exempt Property

The modification would increase horizontal equity and could increase local revenues.

f) Expand the Elderly and Disabled Credit and Abolish the Homestead Credit

The modification would lessen the regressivity of the tax, increase the effective tax rate for all homeowners above $12,000 of income, and slightly increase state revenues.

g) Eliminate the Military Service Credit

The modification would increase vertical equity and could increase state revenues by $3,300,000.

h) Change the Farmland Productivity Formula

This modification would decrease the assessed value of farmland, make the Iowa formula more comparable to other states, and could either decrease local revenues or shift the tax burden to owners of other classes of property.

i) Eliminate State-Funded credits and Increase State Income and Sales Taxes to Fund School Per-Pupil Costs.

This modification could have horizontal equity effects related to renters versus owners, would increase equity in relation to education, would increase the burden for non-resident apportioning corporations with no property in Iowa, could lead to frequent rate changes in the income and sales taxes, and would simplify the property tax through the elimination of most state-funded credits and state equalization.

PART I

INTRODUCTION

I. INTRODUCTION

On June 1, 1983 Senate File 461 was approved and by this instrument, the state of Iowa created a Tax Study Committee to examine the tax system of the state in order to:

1. Examine who pays state and local taxes in Iowa.

2. Examine the impact of state and local taxes on the state's economy, employment, treasury, and citizens.

3. Examine changes which could be instituted to raise revenues more equitably and to improve the performance of the state's economy.

4. Determine the enforceability of the state's tax laws.

5. Examine how the state's entire tax structure compares with the tax structures of other states.

6. Examine tax preference items.

File 461 further directed the Committee to conduct the comprehensive study through hired research personnel and on October 23, 1983, the Committee issued a Request for Proposal in order to secure the services of a Consultant to serve as Tax Study Director to carry out the duties enumerated in the Senate File. The Request for Proposal specified that the services to be provided encompass a determination of the relative tax burden on different classes of persons and businesses in Iowa; an assessment of the enforceability of the state's tax laws; a determination of the impact of tax expenditures (credits, exemptions, preferences); a comparison of Iowa's tax capacity and tax burden with those of other states; an examination of the effect of the tax burden on the state's economic development and revenue needs; and an examination of possible changes in the tax laws and their impact on equity, revenues, and economic development.

Coopers & Lybrand was awarded the contract to perform these services on January 18, 1984 and the first meeting with the Tax Study Committee was held on February 1, 1984. In order to fulfill the requirements of Senate File 461, the study was conducted in three distinct phases:

Phase I: Organization and Data Collection

Phase II: Data Analysis

Phase III: Policy Analysis and Report Preparation

The methodology used in conducting each of these phases is described below.

Phase 1: Organization and Data Collection

The purposes of this phase were to establish the formal goals and objectives of the study, to develop an analytical framework for conducting the study, and to collect data to be used in the study in an appropriate format. This phase was organized into seven tasks.

Task 1: Project Initiation Meeting. During this meeting on February 1, the Tax Study Committee established the method of communication between the Committee and Coopers & Lybrand and agreed to the policy determinants, burden study categories, and study work plan which were set forth in the proposal.

Task 2: Meetings with Representatives of Key State Agencies. During Phase I, the Coopers & Lybrand study team members met with members of the following state agencies:

- Comptrollers Office
- Department of Revenue
- Legislative Fiscal Bureau
- Legislative Service Bureau
- Department of Job Services

- Office for Planning and Programming
- Iowa Development Commission

During these meetings we assessed the availability of data both on tax revenues and on economic parameters within Iowa, gained information on the specific components of the tax structure, and discussed the impact of the tax structure on the economy.

Task 3: <u>Literature Search</u>. A literature search was conducted during the initial stages of Phase I to gain a thorough understanding of issues pertinent to the study. Major topics covered by the literature search were:

- Theoretical issues relating to tax incidence and tax capacity,
- Changes in state taxes over the past five years, including an assessment of unitary taxation,
- Relationships between tax structure and incentives on economic growth and development,
- Significance of the underground economy, and
- U.S. and state court decisions on the constitutionality of various state and local taxes.

The result of the literature search provided us with a framework for analyzing key issues in the current Iowa tax structure and with guidelines for developing areas evaluated during the policy analysis.

Task 4: <u>Collect Data Regarding Iowa's Economic Growth and Development</u>. Data on Iowa's growth and development were collected at the state level from the Office for Planning and Programming, the Department of Job Services, and the Development Commission. These data were augmented on the national level by statistics collected from the Bureau of Labor Statistics, the Department of Commerce, and the Internal Revenue Service.

Task 5: Aggregate Data for Tax Burden Study

Task 6: Aggregate Data for Tax Expenditures Impact Analysis. (Because the work in each of these tasks was quite similar, they will be described together.) The initial work in this task was to determine for each tax (individual income, corporate income, sales and use, motor fuel, estate and inheritance, and property) and each tax expenditure item the categories for analysis and the definitions of terms. Matrices for both the tax burden analysis and the tax expenditure analysis were compiled providing, by tax, a list of types of analysis and a description of each analysis. The matrices were distributed and discussed with the Tax Study Committee at the progress meetings held on April 26 and June 20.

Categories for analysis were chosen to provide measures of both horizontal and vertical equity for each tax and tax expenditure item and to show the total impact of each tax expenditure item. Data were collected for the period 1978 to 1982 in order to gain information on historical changes in the tax impact and to assess the effect of these taxes on the economy.

Data were provided to us by the Department of Revenue according to the specifications detailed in the matrices. The Comptrollers Office provided us with data, by county, detailing taxable value and levy value by urban and rural property class. As part of this task, data on property tax were input into a computer model for further analysis.

Task 7: Obtain Information Regarding Auditing and Collection Activities. To conduct this task, interviews were held with officials representing the Department of Revenue in Iowa and other states to obtain information on the administration of each tax. This information was presented during Phase III, Policy Analysis.

Phase II: Data Analysis.

The purpose of this phase was to evaluate the data collected during Phase I to provide a quantitative description of the impact of the current tax structure.

Task 8: Analysis of Tax Burden Data. Each tax was evaluated to determine the impact on vertical and horizontal equity and the relationship between tax revenues received and the performance of the state economy.

Each tax was evaluated as follows:

- Personal income tax: Vertical equity was measured by dividing net taxes paid by Iowa Net Income by income bracket. Horizontal equity was measured by determining the impact of the tax structure by filing status, family size, urban and rural counties, and geographical area.

- Corporate income tax: Vertical equity was measured by dividing net taxes paid by Iowa Taxable Income by income bracket. The impact of apportioning or non-apportioning status, type of business, and geographical area on tax revenues was evaluated.

- Sales and use tax: Sales and use taxes were evaluated by type of business and by geographical area.

- Motor fuel tax: Revenues received by type of fuel were measured.

- Inheritance and estate tax: Taxes paid by type of beneficiary were measured.

- Property tax. We evaluated taxes paid by urban/rural classification, by county and by property classifications. Revenues received before credits were compared to assessment values after equalization and rollbacks for all categories.

Specific analytic issues relating to the calculations of tax incidence for each tax are discussed in the chapters of Part III of this report.

Task 9: Analysis of Tax Expenditure Data. The following tax expenditure items were evaluated:

Personal Income Tax: Personal Credits
Dependent Credits
Federal Tax Deduction

Corporate Income Tax:	Federal Tax Deduction Venture Capital Credit R&D Credit
Sales and Use Taxes:	Food Exemption Prescription Drug Exemption Fuel Subject to Motor Fuel Tax Exemption
Motor Fuel Tax:	Gasohol
Estate and Inheritance Taxes;	Individual Exemptions Surviving Spouse Credits
Property Tax:	Limitations (Rollbacks) Personal Property Exemption Urban Revitalization Tax Exemption Agricultural Land Credit Elderly and Disabled Credit Homestead Tax Credit Machinery and Computer Credit Military Service Exemption

For each tax expenditure item, we measured the total dollar amount of "lost" revenues, or the revenues that would result if the expenditure item were not allowed. In addition, for the personal income tax expenditure items, we estimated the impact of each expenditure on horizontal equity. These data can be found in the Appendix. Also, when a possible modification was analyzed involving elimination of any expenditure item, the specific amounts attributable to the expenditure are shown.

Task 10: Comparison of Iowa Tax Capacity and Tax Burdens With Those of Other States. Data on the tax structures of other states were collected during this task and added to tax capacity data collected during Phase I. Comparative data were gathered from Annual Reports produced by the Revenue Departments of the surrounding states for each of the last five years; from Commerce Clearing House and Prentice Hall State and Local Tax publications; from various papers published by the National Association of Tax Administrators, the International Association of Assessing Officials, and the Institute of Property Taxation; from the Journal of State Taxation; and from telephone interviews with state tax officials. These data were arrayed to compare Iowa's tax structure with that of competing states.

Task 11: Examination of the Relationship Between Tax Structure and Burden and the State's Economic Performances. As part of this task we evaluated the changes in tax revenues received from specific taxes compared to changes in measures of economic performance such as growth in personal income or gross state product.

In addition, we surveyed companies located in Iowa to gain an understanding of the impact of specific taxes on business location and expansion decisions. The survey results were compiled and presented at the progress meeting held on September 27.

Phase II: Policy Analysis and Report Preparation

This phase drew upon the results of the previous phases to provide the Tax Study Committee with an assessment of the current tax structure and a framework for evaluation of possible modifications to the tax structure.

Task 12: Conduct of Policy Analysis. This task was conducted in two steps: an analysis of the existing tax structure and an evaluation of possible modifications to the system.

To assess the current structure, we drew upon the work accomplished during Phase I and Phase II to provide a description of each tax and an evaluation of each tax in relation to four policy criteria factors: equity (both horizontal and vertical), neutrality, yield, and simplicity. In addition, the impact of tax expenditure items on the appropriate tax was discussed. The analysis of the current structure was presented to the committee during progress meetings on September 12 and September 27.

To evaluate the impact of possible modifications to the system, a list of modifications which would require further analysis were developed. The list was based on discussions held at progress meetings throughout the course of the study and on an evaluation of current trends in state taxes. It was presented to the Committee at progress meetings held on August 8, September 12, and September 27. After discussion with the Committee, we arrived at a final list of modifications for further evaluation.

Each modification was assessed for the probable impact it would have on the policy criteria factors.

Where possible, the impact of the modification on equity and yield was quantified. To quantify the impacts we relied upon analyses performed during Phase II, previous reports prepared by the Iowa Department of Revenue and the Legislative Fiscal Bureau, and special analyses performed for specific modifications by the Department of Revenue and by Coopers & Lybrand.

In conducting the analysis, Coopers & Lybrand developed computer models to evaluate the impact of changes in the corporate income tax structure on total revenues and on hypothetical firms, representative of Iowa's industry, and to estimate the impact of modifications to the property tax.

The evaluation of the impact of possible modifications was presented to the Committee at progress meetings held on October 18 and November 5.

Task 13: Draft Final Report

Task 14: Final Report The annotated outline for this final report was presented to and agreed upon by the Committee at the progress meeting held on September 27. As the policy analysis was conducted, the results were compiled as sections of the draft report and were submitted to the Committee on an on-going basis on September 27, October 18, and November 5. The final report was submitted on November 16.

Task 15: Assistance in Presentation of Final Report Members of the Coopers & Lybrand study team met with the Tax Study Committee to provide assistance in preparation of their final report to the Governor and members of the General Assembly through December 17. In addition, the appropriate officials within the state government were provided with computer models developed during the study and with instructions on their use.

Glossary

A. Policy Criteria

1. Equity

At its simplest, equity means fairness and fairness does not have a quantifiably acceptable measure. A tax may be considered more or less equitable based on one of two theoretical concepts: ability-to-pay or benefits-received. The ability-to-pay approach assumes that taxes should bear a reasonable relationship to an individual's economic capacity. That capacity itself is not precisely defined; it may include assets (accumulated wealth) as well as present income. The benefits-received approach is based on the relationship between taxes paid and the benefits which the individual receives from government. Benefits are also not precisely defined. It is clear that a gasoline tax which is used to finance highway improvements is a benefits-received tax. It is less clear that a tax used for education purposes may benefit the businessman in need of a skilled labor pool even though he, as an individual, is not going to the schools so financed.

Equity may be further refined into vertical and horizontal categories. Vertical equity assumes unequal circumstances and appropriate unequal treatment. It relates to the proportion of income paid as wealth varies. A regressive tax is one in which the tax burden, expressed as taxes paid as a percentage of income, decreases as income increases. A progressive tax has the opposite effect; the percentage increases as wealth increases. A proportional tax is one in which the percentage remains constant at all income levels.

Horizontal equity refers to the tax treatment of those in like circumstances. It is related to equality of tax treatment among bose with the same income or those who receive the same governmental benefits.

2. Neutrality

It is assumed by most economists that taxes should be neutral, i.e., they should have little, if any, effect on economic decisions and should not unintentionally reward or punish certain economic activities. If they are not neutral, choices regarding decisions such as consumption versus investment or location in one geographic area or another may be made on the basis of the tax, rather than on other economic or personal factors.

The neutrality of state and local taxes is very difficult to measure for two reasons: (1) taxes may intentionally be designed as non-neutral in order to foster specific goals; and (2) determination as to what effect taxes really have in economic decisions are often based on incomplete information or are overshadowed by federal tax considerations.

3. Yield

Revenues should be adequate to meet state and local governmental needs. Since economic cycles affect collections, each tax should be examined in relation to its elasticity, i.e., the percent change in revenues resulting from a change in community income. Furthermore, the impact of economic cycles on revenues can effect the stability of state's finances. Thus, the mix of taxes is important to ensure that revenue remains stable during economic cycles. While elastic taxes, i.e. those in which revenues increase by a greater percentage amount than does income, may produce increased revenues automatically, they have negative effects relating to governmental growth which may be unsupportable during downturns in the economy. Inelastic taxes may result in the need for rate changes or surtaxes. Too great a reliance on either kind leads to a lack of stability in revenue generation over time.

4. Simplicity

Both the government and the tax paying public bear the burden of complex, difficult taxes. A tax which is hard to understand and hard to comply with will lead to tax avoidance and will increase audit and collection activities. Features of a tax which may have been imposed to improve equity or to foster behavioral changes, e.g., credits, deductions or exemptions, often create greater complexity but such a trade-off may be desirable if no other means can be found to achieve those goals.

B. Data Analysis

1. Tax Effort and Capacity

The study of tax capacity involves an attempt to answer the basic question: what level of resources are available to draw tax revenues from? In answering this question a measure of overall income or wealth (called the "tax base") is developed. Comparison of tax revenues to the tax base indicates 'tax effort'; that is, the percentage of resources in the tax base actually claimed by taxing authorities.

A major difficulty in assessing tax capacity and tax effort stems from the need to establish a measure of wealth or income that clearly reflects the resources from which either the sum of all taxes are drawn or an individual tax is drawn. A common measure is per capita income; however, the components of per capita income have been variously defined and disagreement remains on how it should be specified.

In recent years the Advisory Commission On Intergovernmental Relations (ACIR) has attempted to develop a standardized measurement of tax capacity and tax effort for all states. The basis for this measure is called the Representative Tax Structure (RTS) and is computed in the following manner:

- sum all state tax revenues by type of tax (total for U.S.).

- calculate the U.S. average tax rate for each type of tax.

- apply the average rate for each type of tax to the relevant tax base for each individual state.

- for each state, sum the results to determine total tax revenue for that state based on RTS.

Other things being equal, the result is claimed to represent the potential tax revenue that a state would generate by adopting RTS. Thus, tax capacity is defined as "the amount of revenue that each state would raise if it applied a nationally uniform set of rates." The RTS method defines a state's "tax capacity index" as its per capita tax capacity divided by the average for all states, with the index for the average set at 100. Finally, tax effort is the ratio of a state's actual tax collections to its tax capacity.

However, it should be noted that the RTS system assumes that current decisions by the individual states regarding sources of tax revenue would be added into the general system proposed by ACIR and spread across all states. This means that a state that relies heavily on a sales tax rather than a personal income tax would contribute disproportionately in the sales tax category for the sum of all state taxes and dilute the importance of the personal income tax. In effect, ACIR assumes either that these significant variations would balance or that the variations have no economic substance.

2. Tax Burden

Tax burden is measured by the portion of taxes paid to the ability to pay, usually measured as income. The numerator, taxes paid, is not necessarily equivalent to the statutory amount owed by taxpayers. To the extent that taxes can be shifted to others through price increases or wage reductions, the statutory tax payer does not bear the tax burden. For example, sales taxes are paid by retailers and others, but the burden of the tax is shifted to consumers at the point of sale. The denominator, income, measures individuals' ability to pay and thus should be broadly defined to include non-wage income. For the purposes of this report, individuals' adjusted gross income as defined by and reported to the Iowa Department of Revenue is used as the measure of income.

3. Effective Tax Rates

Effective tax rates are the ratio of taxes paid to income and thus directly measure tax burden. Effective tax rates are generally not equal to statutory rates due to the shifting of tax burden and the allowance of standardized and itemized deductions, exemptions, and credits, which reduce taxes paid below the statutory rates.

4. Incidence

Incidence refers to the pattern of effective tax rates across income classes. Under a regressive tax, effective tax rates fall as income rises. A proportional tax affects all income brackets in a similar fashion. Under a progressive tax, effective tax rates increase as income increases.

5. Federal Deduction

The Federal deduction refers to provisions of the Iowa tax code which allow tax payers to deduct a portion of their federal taxes paid from their Iowa taxable income.

6. Federal Tax Offset

The Federal tax offset reflects federal tax law which allows the deduction of state and local taxes paid from federal taxable income.*

7. Elasticity

Elasticity is a measure of the change in one variable brought about by a one percent change in some other variable. The elasticity of taxes refers to the change in tax revenue produced by a change in community income. If a one percent increase in community income produces a greater than one percent increase in revenues, the tax is elastic. If the increase in tax revenues is less than one percent, the tax is inelastic.

* See Donald Phares, Who Pays State and Local Taxes? Oelgeschalger, Gunn & Haine, Cambridge MA, 1980, for a complete discussion of the federal tax offset.

PART II

IOWA TAX STRUCTURE OVERVIEW

I. IOWA TAX STRUCTURE OVERVIEW

A. Tax Structure Policy Overview

This section provides an overview of the tax system as a whole when evaluated under the general tax policy criteria. The Iowa Tax system does not require a great deal of change. Overall it is generally equitable, free from major distortions affecting econonomic decision-making, adequate in its revenue producing capacity, and fairly simple to comply with and administer. All of the taxes available to states are present in the system and the disadvantages of each tax are more related to the inherent nature of the tax than to Iowa's specific statutory treatment. For example, the federal offset reduces the progressivity of all state income tax systems whether graduated rates or flat rates are imposed; sales taxes are regressive in all states due to the fact that lower-income people expend a greater proportion of their income on consumable goods and services than do higher income individuals; property taxes are complex in all states because of the number of taxing districts involved, the imprecise nature of assessments, and the continual variation in the rates needed to produce adequate local revenues.

Equity Considerations

The individual income tax, due to the graduated rate structure, is basically progressive, although the federal deduction somewhat reduces progressivity. The only discernable horizontal inequities relate to size of family and method of filing.

The corporate income tax is also imposed at a graduated rate and is, therefore, also progressive. The major horizontal inequity is the differential effect of the single-factor apportionment formula on resident and non-resident apportioners.

The sales tax is generally regressive but the low rate, the exemption of food and drugs, and the inclusion of a fairly broad range of services make the Iowa sales tax less regressive than the norm.

The motor fuel tax, while regressive when measured by income, is proportional when considered as a benefits received tax.

The inheritance tax is progressive if size of estate is considered a measure of wealth. The tax contains inherent horizontal inequities since both the amount of the exemption and the rates are varied by the relationship of the taxpayer to the decedent.

Property taxes are generally considered to be regressive when measured by income. The relationship of the tax to benefits-received has become more tenuous as non-general purpose governments have proliferated and been given taxing authority. Mechanisms such as the elderly and disabled credit, the homestead credit, the agricultural land credit, and the real and personal property rollbacks have been instituted to provide relief. Of these, only the elderly and disabled credit is based on income. The other programs, while lowering the absolute burden, do not affect vertical equity. Horizontal inequities are present in the system due to the differences in rollback percentages, the different method of assessing farmland and the different treatment accorded manufacturing machinery.

Neutrality Considerations

The Iowa individual income tax has a high tax rate when compared to other states but the ability to deduct the federal income tax and the allowance for standard or itemized deductions lowers the effective tax rate for all income categories.

The corporate income tax rate is also high when compared to other states but the 50 percent federal income tax deduction, the allowance of the Accelerated Cost Recovery System provisions, the separate entity (as opposed to combined apportionment) provisions, and the single-factor apportionment formula make the effective rate more comparable with those in effect in other states.

The sales and use taxes rates are low in comparison to total state and local sales and use taxes rates in comparable states. The major disincentive to business location or investment in Iowa is the lack of preferential treatment for machinery and equipment used directly in processing.

The motor fuel tax rate is comparable with rates in effect in neighboring states and is a neutral tax.

The classification and graduated rate system of the inheritance tax is comparable to states which impose this tax but the taxation of spouses is a non-neutral element and comparable states either fully exempt spouses or impose a tax on the federal credit only.

The property tax consolidated rate is not particularly high when compared with other states and the rollbacks have served to keep assessed values from translating into high taxable values. The taxation of personal property, particularly inventories, and the treatment of manufacturing equipment as realty, produce a disincentive for business taxpayers relative to other states. The personal property rollback and the partial exemption for manufacturing machinery help mitigate this effect. The farmland productivity formula affords some relief to this class of taxpayers, but the use of a fixed capitalization rate causes variations which may result in higher assessed values in Iowa than in comparable states.

Yield Considerations

The individual income tax is the single largest source of state revenues, has grown less than personal income during the last five years and is relied upon somewhat above the average.

The corporate income tax has grown at a higher percentage than has corporate income, probably due to the increase in the top rate which occurred in 1982. Iowa relies less heavily on this tax than the national average but at about the average of the comparable states.

Sales and use tax revenues have grown less than has Iowa personal income and less than the cost of goods, but the increases in the rate which became effective in 1983 will lead to an increase in collections. Iowa's reliance on this revenue source is lower than the national average and lower than most of the surrounding states.

Motor fuel tax revenues have grown at a rate greater than the rate of consumption due to the changes in the rate instituted between 1978 and the present. Iowa relies on the tax at about the average of comparable states.

Revenues from the inheritance tax have grown considerably over the last five years but the figures, when adjusted for a management collection change in 1982, show a consistent increase comparable to growth in income and property value. Iowa's reliance is approximately at the average for comparable states which impose the inheritance tax.

The growth in property tax collections exceeded the growth in community income but only as a result of including years prior to the rollback provisions. Since the rollback has been in effect, collections have grown less than income. Iowa's reliance on property taxes is greater than the national average but about average for the surrounding states.

On the basis of capacity to raise revenues as measured by the Advisory Commission on Intergovermental Relations in 1983 (based on 1981 data), Iowa's tax system as a whole ranked slightly above the national average (average = 100; Iowa = 102). In terms of the tax effort measured as the ratio of actual collections to capacity, Iowa ranked slightly below the national average (average 100; Iowa = 98).

Simplicity Considerations

Both the Iowa individual income tax and the corporate income Tax are quite simple to comply with and administer because of their close tie to the federal income tax and the ability to exchange information with the Internal Revenue Service.

Sales and use taxes are more difficult to administer because they contain a large number and diverse kinds of exemptions. Iowa's taxes are simpler than those of many states because Iowa has no local sales tax and also because the state rate of 4 percent is applied to all taxable sales. The use tax is often not complied with by individuals making out of state purchases but the motor vehicle use tax, which is tied to registration, is easily enforceable.

The motor fuel tax is fairly simple to administer and comply with because it is collected at the distributor level, but frequent rate changes complicate the system due to the presence of inventory on hand purchased at a rate different from that applied to new product.

The inheritance tax is not difficult to collect but the system of classification and phased-in exemptions and credits serve to make it complex.

Property taxes, as stated above, are always complex. Iowa's system is further complicated by the unusually large number of credits and partial exemptions; the fact that some credits are paid for by the state and others merely lost to local governments; and the presence of three kinds of limitations (rate limits, spending limits and assessment growth limits).

Burden

The most recent comprehensive tax burden study was published in 1980 and is contained in Who Pays State and Local Taxes, by Donald Phares. Professor Phares has compiled data from all 50 states in order to show "patterns of incidence and levels of burden".

Although his results are based on 1977 data and changes in personal income tax rates and tax bases have occured, the results might prove useful since many of the changes made in Iowa have been made in the comparable states. For example, all farm states have had economic downturns; all of the surrounding states have increased income, and/or sales tax rates or imposed surcharges; all have instituted preferential treatment for farmland or increased the existing preferences and all have instituted or increased property tax relief programs such as homestead exemptions, circuit breakers and rate or assessment limits.

The following table shows total state and local burden expressed as percent of income devoted to taxes.

State	% of Income
Iowa	12.14
Illinois	11.97
Kansas	11.19
Minnesota	14.21
Missouri	10.21
Nebraska	11.55
North Dakota	12.86
South Dakota	12.64
Wisconsin	13.45

Summary

Iowa's major taxes are generally progressive or their inherent regressivity is somewhat mitigated through exemptions, deductions, credits and limitations. The federal deduction makes the income tax less progressive than it could be and the $12,000 cut-off on the elderly and disabled credit is probably not reflective of the present economic situation. The non-neutral elements are, for the most part, intended to produce social or economic benefits and the rates and bases of the various taxes are not markedly dissimilar from those in effect in neighboring states. The taxation of inventories and of machinery and equipment produce a higher burden in Iowa than in comparable states. The present taxation of spousal inheritance also produces a higher burden.

The economic down-turn has seriously affected Iowa and the slower recovery in revenue collections is more a reflection of a depressed economy than of the structure or rates of the major taxes.

The tax system is, as a whole, no more complex than the system of other states and the administration of the tax, including enforcement activities such as auditing, is above average.

Changes can be made which would lead to improvements in any or all of the above areas, but in general, the Iowa tax system is conceptually sound and functioning well.

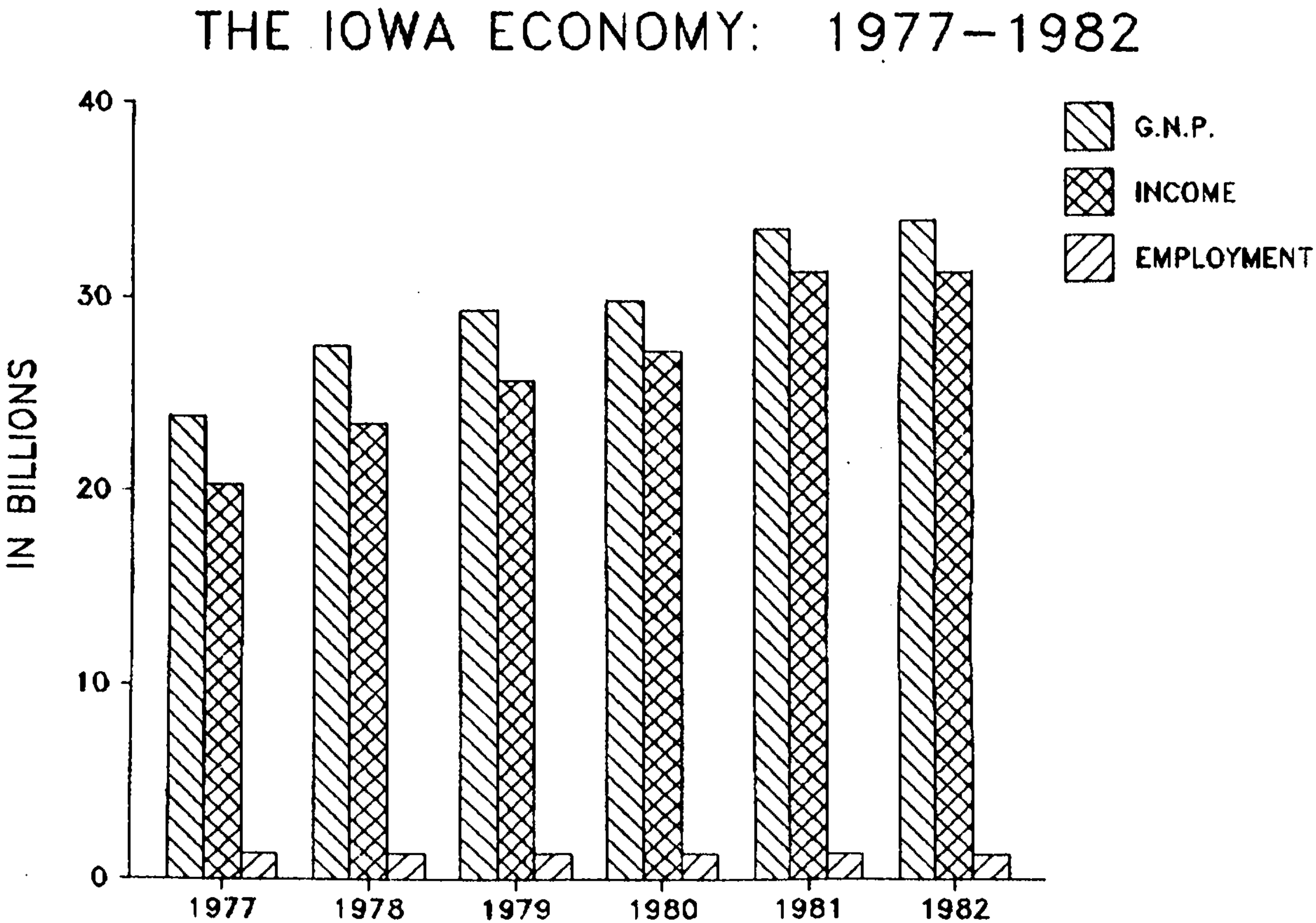
B. Economic Development Overview

Assessing the impact of taxes on economic activity is crucial to the evaluation of a tax system or a particular tax policy change. The ideal tax would not affect the economic decisions of individuals or businesses; the tax would therefore not cause resources to be inefficiently allocated. In reality, almost all taxes do affect the full range of economic activity from business investment and production decisions to personal investment, saving, and work-leisure tradeoffs.

This section reviews the performance of the Iowa economy between 1978 and 1982 and assesses the key determinants of economic activity in Iowa. In addition, a conceptual framework for understanding how taxes affect economic behavior is described and research findings from recent literature are discussed. In evaluating the Iowa tax system, the decision-maker should be aware of the kinds of decisions that could be affected by the tax and the possible impact of the tax change on those decisions. For example:

- Do taxes prevent Iowa from growing as fast as it would with lower taxes?
- Are firms' decisions to locate or expand in-state affected by taxes?

Figure 1


THE IOWA ECONOMY: 1977-1982
40
30
20
10
0
IN BILLIONS
1977
1978
1979
1980
1981
1982
G.N.P.
INCOME
EMPLOYMENT

- Do individuals work shorter hours due to tax incentives and thus reduce total output?

- Do individuals and business forego purchases that otherwise would be made in Iowa?

It is difficult to provide quantitative answers to these questions, yet without such information, the relative importance of these considerations is difficult to weigh. The effect of taxes is difficult to quantify because so many factors affect economic decisions. The interactions of these factors are very difficult to sort out and and distinguish from each other. In addition, other factors have stronger effects on economic decisions and overall levels of economic activity than tax policy. Thus the impact of taxes is often overwhelmed by these factors.

These other factors include national and international economic cycles as well as local demographic and economic trends which affect the demand for Iowa products, the size of the market in Iowa, the labor supply, and the availability of capital. These powerful trends dominate year-to-year changes in the Iowa economy; in general, state economic activity can best be forecasted based on national trends.*

A brief historical overview of the Iowa economy illustrates the importance of national and international trends to the state's economy. Figure 1 portrays Iowa total employment, gross state produce, and personal income from 1977 to 1982.** While gross state product and personal income grew during the period,

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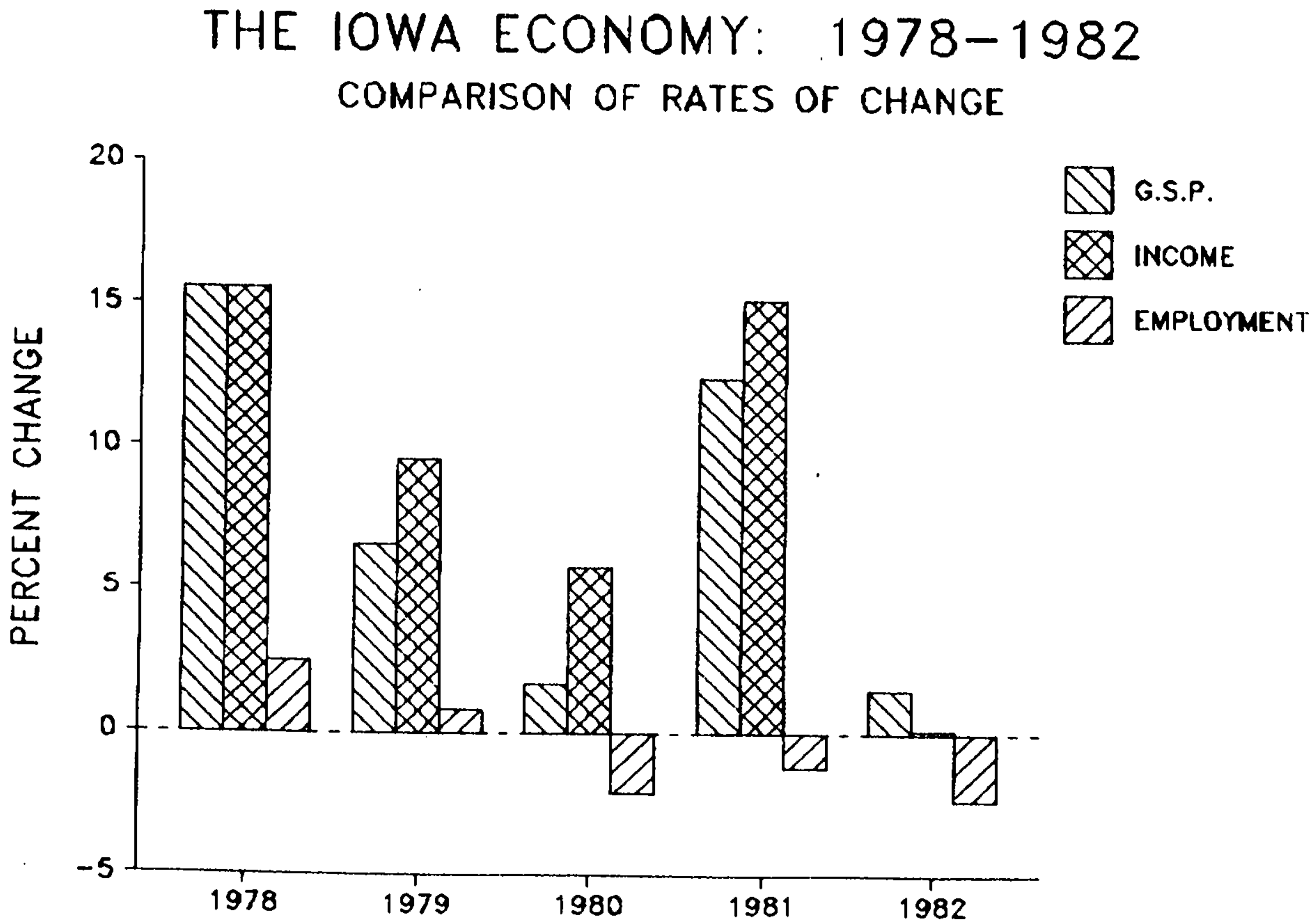
* For example, a recently developed model of the Massachusetts economy found that the national trend in real value added was the most important factor in forecasting the growth of personal income in Massachusetts. State and local tax revenues were generally statistically insignificant. Andrew Reschovsky, et. al., State Tax Policy: Evaluating the Issues, Joint Center for Urban Studies of MIT and Harvard, 1983, p. 181.

** Employment and gross state product figures were taken from the 1984 Statistical Profile of Iowa, Iowa Development Commission. Employment shown in Figure 1 is in millions of workers. Personal income figures from the Survey of Current Business, U.S. Dept. of Commerce, April 1983 and 1984.

Figure 2


THE IOWA ECONOMY: 1978–1982
COMPARISON OF RATES OF CHANGE
PERCENT CHANGE
20
15
10
5
0
–5
1978
1979
1980
1981
1982
G.S.P.
INCOME
EMPLOYMENT

total employment peaked in 1979 and has since declined. Figure 2 shows percent changes from year to year for each factor. The slowing of economic growth in the late 1979's and 1980's is clear from this figure; with the exception of 1981, growth rates of all three economic indicators have declined each year since 1978.

Did state tax policy lead to this decline? While Iowa taxes may have contributed to the weak economic performance *, the national recession and the weakening financial condition of the farming industry played the most important roles. Figure 3 shows percent changes in national employment, gross national product, personal income, and the parity ratios ** for 1978-1982. The national recession strongly affected Iowa's manufacturing industries and the combination of declining international demand for U.S agricultural products in conjunction with increasing costs of capital and production led to declining farm income.† The weakened financial condition of the farming industry in turn affected sales of farming equipment and other agriculture related products. In summary, the recent history of the Iowa economy demonstrates the overriding importance of national and international trends. The effects of state and local tax policy are difficult to discern and, in general, do not account for changes in the performance of the Iowa economy.

If state and local taxes seem to have such little impact, why should policy-makers be concerned with the effect of taxes on economic activity? While the effect of taxes on <u>overall</u> economic activity is hard to detect, many taxes do reduce economic output

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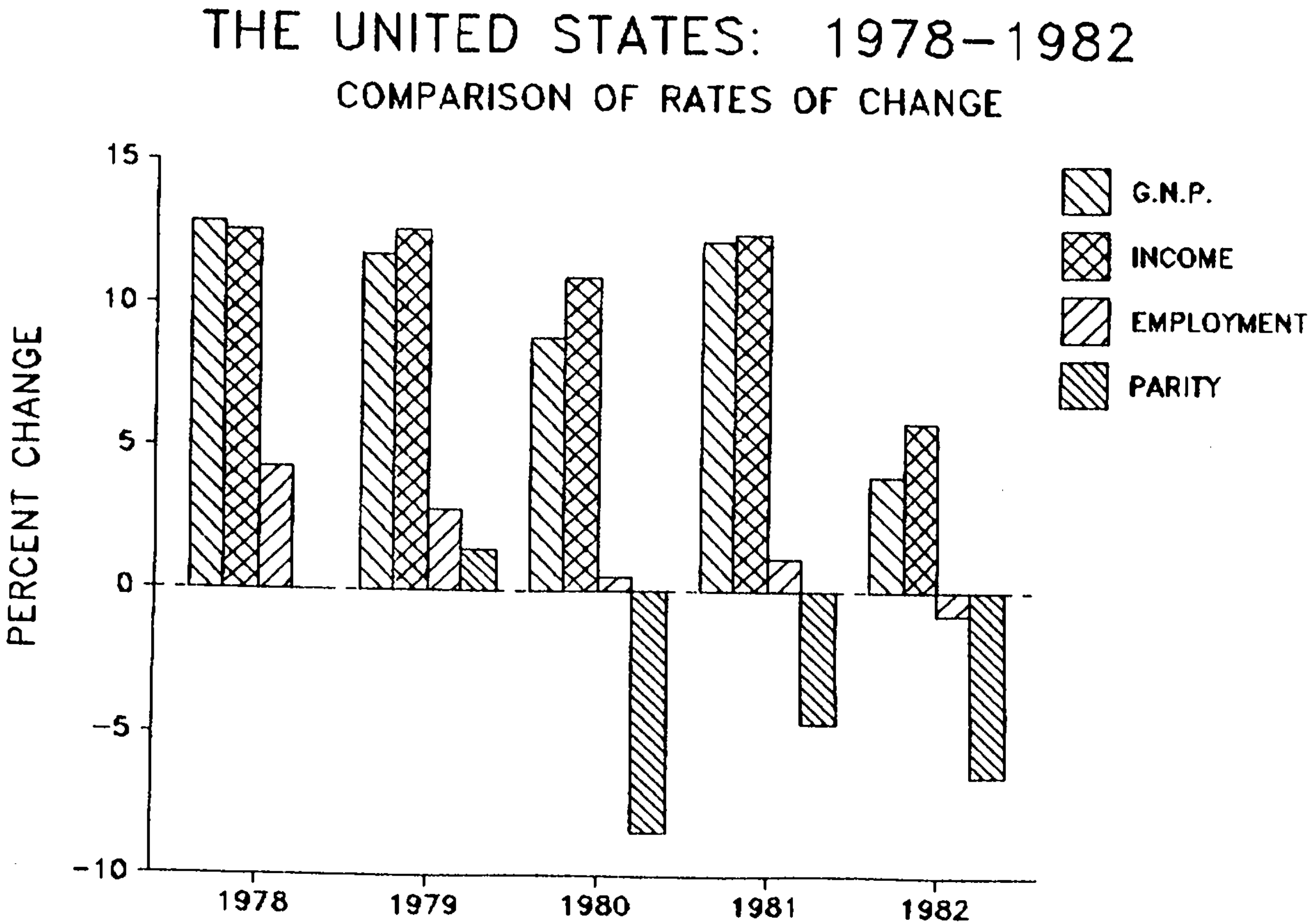
* Because there were no major tax increases during the period, it is unlikely that the decline in economic performance could be attributed to the Iowa tax system.

** The parity ratio is the ratio of prices received by farmers to prices paid. Source: U.S. Department of Agriculture, Statistical Reporting Service. Other data from the statistical Abstract of the United States 1984, U.S. Department of Commerce, Bureau of the Census.

† U.S. Department of Commerce, Bureau of the Census, <u>Statistical Abstract of the United States 1984</u>, p. 663-666.

Figure 3


THE UNITED STATES: 1978–1982
COMPARISON OF RATES OF CHANGE
PERCENT CHANGE
15
10
5
0
-5
-10
1978
1979
1980
1981
1982
G.N.P.
INCOME
EMPLOYMENT
PARITY

below what it would have been without the tax. This "welfare loss" results from the misallocation of resources that results from the imposition of the tax. The misallocation occurs because the tax drives a wedge between prices paid by purchasers and those received by suppliers. Producers may manufacture a smaller amount than consumers would be willing to purchase because the price they receive is lowered by the tax. The tax reduces the amount produced (and therefore consumed) below the optimum amount; thus producers receive lower profits and consumers are able to purchase fewer goods. Therefore, holding all else equal, tax policy changes should aim at reducing tax related distortions in the allocation of the economy's resources.*

A second important reason to consider tax effects is the impact of tax considerations on particular decisions. While these effects are difficult to discern in state economic data, they can affect specific towns, industries, or groups of individuals. State and local taxes have the greatest impact on economic decisions where alternatives exist which are similar in most respects except in the tax liability incurred under each. Taxes may impact decisions on the margin, influencing choices between a limited number of options. The impact of state and local taxes has been carefully studied for two types of decisions: 1) retail purchases and 2) business location and investment decisions. While other decisions or tradeoffs may be affected by state and local taxes, these two decisions are of particular importance to policy-makers because of their impact on state finances and local economies. The following sections examine the impact of taxes on each decision and summarize research findings.

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* For example, if two tax policies under consideration have very similar effects on equity, yield and administration, but different effects on the efficiency of resource allocation, the more neutral tax would be preferred.

Retail Purchases

Sales and use taxes impose price increases on consumers, creating incentives to avoid the price increases, if possible. Consumers can avoid paying sales taxes if neighboring states do not impose sales taxes, or tax retail sales at a lower rate. In this case, consumers can purchase goods across the state border to avoid the tax. A quantitative analysis of 173 cities found that an increase of one percent in the local sales tax would reduce local sales by six to seven percent.* This finding applies to cities imposing local sales taxes; state sales taxes are harder to avoid and thus are likely to have a smaller effect. For example, a recent study of the Massachusetts tax system estimated the cross border tax loss to be less than one percent of total sales tax revenues**.

In Iowa cross border losses are unlikely to be as high as even one percent. Unlike Massachusetts which has a neighboring state close to major population centers imposing no sales tax (New Hampshire), Iowa's neighbors impose rates either higher than or very similar to Iowa's four percent rate. Thus, because Iowa's neighbors tax sales at roughly the same percent as Iowa, there is little financial incentive for Iowans to make purchases out of state. In addition, Iowa's use tax is designed to capture revenues due on purchases made out of state for use in state. However, as sales tax rates change relatively frequently, policy-makers should consider relative rate structures in analyzing future tax changes.

Business Location and Investment

The impact of state and local taxes and public financial incentives (e.g. industrial revenue bonds, tax increment financing, and tax exemptions) on business location decisions has long been a subject of academic and public policy research. The state

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* John Mikesell, "Sales Taxation and the Cross Border Problem," Quarterly Review of Economics and Business, XI (Spring 1971).

** Reschovsky et al, Op. Cit., p. 26.

and local taxes that potentially affect location decisions are many: property taxes, sales taxes, and corporate income taxes. Each tax can potentially impact different industries in varying ways. A warehousing operation may be affected most by property taxes while a large textile manufacturer may face high corporate income and sales and use taxes. Most of the literature examines the effect of total taxes on location decisions. Fewer studies research the effect of tax concessions or incentives on locational behavior. The fundamental question addressed is the role or ability of state or local governments to affect business location decisions. Most of the literature has found that neither total state and local taxes nor tax incentives play a significant role in location decisions. This finding has been consistent over time. As early as the mid-1950's researchers found that "taxes are at best a relatively unimportant secondary factor of location."* A more recent survey finds that "There is no evidence that these [tax] concessions have had any significant effect on local growth. [They] are ineffective precisely because state and local taxes are, themselves, relatively unimportant determinants."**

Taxes, which vary so much from city to city, and financial incentives seem to have relatively little impact on the location of business. At least two reasons have been discussed regarding the role of taxes and incentives: first, other factors are much more important to the firm's profitability than taxes or financial incentives. These other factors, such as the availability of skilled labor, the cost of land, and proximity to other operations, vary more from jurisdiction to jurisdiction than do taxes. The firm's location decision-making process becomes

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* Kenneth Small: "Geographically Differentiated Taxes and the Location of Firm", Princeton Urban and Regional Research Center, 1982, p.5.

** Roger Vaughn, "State Taxation and Economic Development, Washington, D.C.": Council of State Planning Agencies. 1979, p. 99.

dominated by these most important factors, and thus taxes have less effect on the site decision.*

Another reason for the relatively small impact of taxes is revealed by economists' work on tax incidence.** In this analysis, the taxpayer may not bear the full burden of the tax; part of the cost may be shifted to consumers, suppliers, or the federal government (through corporate income tax deductions). The extent to which a firm can increase prices to consumers to receive price concessions from suppliers depends on how many customers or suppliers the firm will lose if it follows such a pricing policy. The losses, in turn, depend upon the firm's market area and competition.

A small number of researchers have challenged the view that taxes and financial incentives have little effect on location decisions. Kenneth Small and others argue that "Business taxes are a large fraction of business profits, and local variations in them are substantial enough to imply an important impact on locational decisions, especially for firms choosing among sites within a metropolitan area."*** Small argues that when firms compare four to five sites that are roughly equivalent in terms of suitable available labor supply, proximity to markets, low land costs, etc., variation in state and local taxes is large enough to influence final site selection. This stage in the comparison of sites usually comes when a firm has selected a region in which to locate and is evaluating a small number of sites. Thus, nearby jurisdictions compete through the use of tax

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* Advisory Commission on Intergovernmental Affairs, "Regional Growth: Interstate Tax Competition", Washington, D.C., 1981, p. 32-34.

** John F. Due, "Studies of State-Local Tax Influences on Location of Industry" National Tax Journal, Vol. 14 (1961), p. 163-173.

*** Kenneth Small, op. cit., p. 23.

concessions and financial incentives to influence a firm's marginal decision between sites.

These findings are supported by the results of a survey sent to 55 Iowa businesses as part of this study. (Complete results are presented in the Appendix.) While the results of the survey are likely to be somewhat biased,* the 28 respondents ranked state and local taxes of significant but lesser importance than proximity to markets and suppliers, labor availability and costs, and transportation costs in selecting a broad market area in which to expand or locate. However, when choosing among competing sites, relative state and local tax burdens assume greater importance. Taxes were ranked roughly equivalent to the proximity to markets and the relative costs of expansion at the existing site versus relocating. These results are consistent with the arguments of Kenneth Small.

Summary

The impact of taxes on economic behavior is difficult to quantify. Even for the two economic decisions reviewed the evidence is not clear; economists disagree about the importance of taxes in influencing business location decisions and cross border sales. Economists do agree that the larger the differences in neighboring jurisdictions' tax rates, the greater the potential impact of taxes on economic behavior. Thus, in Massachusetts the presence of a neighboring state with no sales tax creates a cross border sales revenue loss, while in Iowa such a loss is unlikely to occur due to the similar tax rates of its neighboring states. It is relative differences in state and

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* Respondents may have overstressed the importance of state and local taxes because the survey was explicitly conducted for the State Tax Committee which would consider the survey results in recommending tax policy changes.

local tax burden between jurisdictions that create the most important financial incentives affecting economic behavior.*

Recognizing that the impact of state and local taxes on economic behavior can have important effects on a broad range of economic decisions, but that it is very difficult to quantify those effects, we have compared the tax rates, and where relevant, bases, of those states neighboring Iowa for each tax analyzed. The relative tax rates help to determine the potential impact of each tax on economic behavior and thereby aid policy-makers in considering the neutrality of particular tax modifications.

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* Differing tax treatment of particular types of investment or income within a single jurisdiction can also effect economic behavior. However, these differences are most important on the federal level; lower state and local tax burdens limit the impact of differing tax treatments.

PART III

TAX ANALYSIS

INTRODUCTION

This section of the report separately examines the most important Iowa taxes. The four criteria described in Part I, equity, neutrality, yield, and simplicity form the basis of the analysis of each tax. In addition, a number of modifications in the current tax system are analyzed in light of the four criteria. The following taxes are analyzed in separate chapters:

1. Individual Income Tax
2. Corporate Income Tax
3. Sales and Use Taxes
4. Inheritance and Estate Taxes
5. Motor Fuel Tax
6. Property Tax

This section has been organized to facilitate its use as a reference document in the evaluation of specific taxes so that each tax and tax modification can be reviewed separately. Therefore, each chapter follows a similar format. First the current system is described, the data used is explained, and the tax is assessed under each criterion. Possible modifications to the present system are then described and analyzed under each criterion. The report contains summary tables and findings only; detailed calculations and analyses can be found in the Appendix volume.

I. INDIVIDUAL INCOME TAX

INDIVIDUAL INCOME TAX

A. Description

1. Overview

A. The base for taxation is federal adjusted gross income with certain modifications which create Iowa net income. Adjustments to arrive at Iowa taxable income include the federal deduction, standard or itemized deductions, and charitable contributions for nonitemizers.

B. Rates are graduated with married taxpayers allowed to file as separate individuals. In contrast to the federal tax, only one rate schedule is provided.

C. The statute provides for "indexation" of taxable income brackets and Civil Service Annuity exemptions. Annual adjustments are to reflect one-half of the annual change in inflation measured by the price deflator for the Gross National Product. Additional adjustment occurs only when the General Fund Balance exceeds $60 million. As a result, the only adjustment was for the 1979 tax year and this adjustment is still in effect.

2. Modifications to Federal Adjusted Gross Income

A. Add:

1. Deduction for married couples when both spouses work

2. Interest and dividends from state, municipal and foreign securities exempt from federal income tax, except certain bonds issued by the Iowa Board of Regents.

3. Federal net operating loss carryforward (See item 10 under subtractions to AGI)

4. Iowa modifications to partnership income (Threatened as a subtraction if the modification is negative)

5. Certain deductions associated with a sale-leaseback arrangement qualifying as a safe harbor lease.

B. Subtract:

1. Interest and dividends from federal securities

2. Iowa income tax refunds if included in Federal AGI

3. U.S. Civil Service Annuity Exclusion for disabled individuals, individuals 62 years or older or survivors of disabled or 62 years or older annuitants; maximum Exclusion $5,627 or $8,184 if filing joint return.

6. Alcohol Fuel Credit to the extent the Credit increased Federal Adjusted Gross Income

7. Small business deduction for 50% of wages paid to disabled individual or convicted felon

8. State legislators' travel expenses and living expenses on a per diem basis unless itemized

9. Income and certain deductions associated with a sale-leaseback arrangement qualifying as a safe harbor lease

10. Net operating loss carryforward from a prior tax year

11. Gains and losses determined by using a basis in property prior to January 1, 1934.

12. Installment payments received by a beneficiary under an annuity when the value has been included in decedent's estate for Iowa inheritance tax purposes

13. Disability Income Exclusion computed under provisions in effect as of December 31, 1982.

3. Adjustment to Iowa Net Income

A. Add:

1. Federal tax refunds attributable to federal income taxes deducted on an Iowa return for a prior year

2. Self-employment tax to the extent that the federal income tax deduction for the current year includes self-employment tax

B. Subtract:

1. Federal income taxes paid during the tax year which include:

   a. Federal income tax withheld

   b. Federal estimated payments

   c. Other federal tax payments in the current year

2. Standard or itemized deductions

   a. Standard deduction of 15% of net income after federal tax deduction (maximum $1,200 for single, married separate filers, $3,000 all others) or

   b. Itemized deductions allowable for federal income tax purposes with following adjustments:

      1) Add:

         a) Adoption expense which exceeds 3 percent of net income

         b) Expenses incurred for taking care of a disabled relative in the taxpayer's home ($5,000 maximum)

         c) Mileage incurred in voluntary work for a charitable organization

3. Standard deduction filers may claim additional deduction for charitable contributions. Effective for tax years 1984 through 1986, taxpayer may claim deduction

for 25 percent of up to $300 of charitable contributions or a maximum deduction of $75.

4. Compute Tax on Iowa Taxable Income - Rates range from .5% on first $1,000 of income to 13% on income in excess of $75,000 (see attached rate schedule)

5. Additions to Computed Tax

   A. Minimum Tax - 70% of Federal Alternative Minimum Tax on preference items

   B. Lump Sum Distribution Tax - 25% of the federal tax imposed on such distributions

6. Credits From Computed Tax

   A. Nonrefundable Credits

      1. Personal Exemption Credits (includes spouse and head of household $20)

      2. Credit for age (65 years of age or older, $20)

      3. Credit for blindness ($20)

      4. Credit for dependents ($15)

      5. Child and dependent care Credit of 10% of employment related expenses

      6. Political contributions Credit of 5% of first $100 ($200 for married joint filers)

      7. Iowa Venture Capital Fund Credit (5% of investment)

      8. Credit for state income taxes paid to other states by a resident

      9. Nonresidents and part year residents receive a tax Credit equal to percentage of income which is from non-Iowa sources.

   B. Refundable Credits

      1. Research Expenditure Credit (6.5% of qualifying research expenses, effective January 1, 1985)

      2. Motor Vehicle Fuel Tax Credit (in lieu of fuel tax refund)

Table 1

Iowa Individual Income Tax Rates

Over		But Not Over	Rate
0	-	1,023	.50%
$1,023	-	2,046	1.25%
2,046	-	3,069	2.75%
3,069	-	4,092	3.50%
4,092	-	7,161	5.00%
7,161	-	9,207	6.00%
9,207	-	15,345	7.00%
15,345	-	20,460	8.00%
20,460	-	25,575	9.00%
25,575	-	30,690	10.00%
30,690	-	40,920	11.00%
40,920	-	76,725	12.00%
$76,725	-	Over	13.00%

* Brackets indexed by 2.3 percent.

The Iowa Individual Income Tax is based on the ability-to-pay concept. The tax is imposed on and largely borne by individual taxpayers. Since state income taxes are deductible from the federal income tax by those who itemize deductions, some of the burden of this tax is exported, borne by the federal taxpaying public in general.

B. Explanation of the Data

The measure of income used to determine the tax burden for the Individual Income Tax is Iowa net income: federal adjusted gross income after Iowa addition and subtraction modifications but before deductions and credits.

Against this income measure, actual taxes paid are computed for each income bracket and an average effective tax rate (AETR) is calculated. Actual taxes paid reflect the deductibility of state income tax paid from the federal income tax for those taxpayers who itemized deductions on their federal return. For each dollar paid in state income tax, these taxpayers are able to reduce their total federal tax paid by some portion of that dollar, depending on their tax bracket and the applicable marginal tax rate. Thus, if $2,000 were itemized on a single individual return for income tax payments on a taxable income of $20,000, the applicable marginal rate would be 26 percent and the federal liability would be reduced by $520. This federal tax offset, in effect, reflects a shift of $520 in state and local taxes to the federal revenue structure.

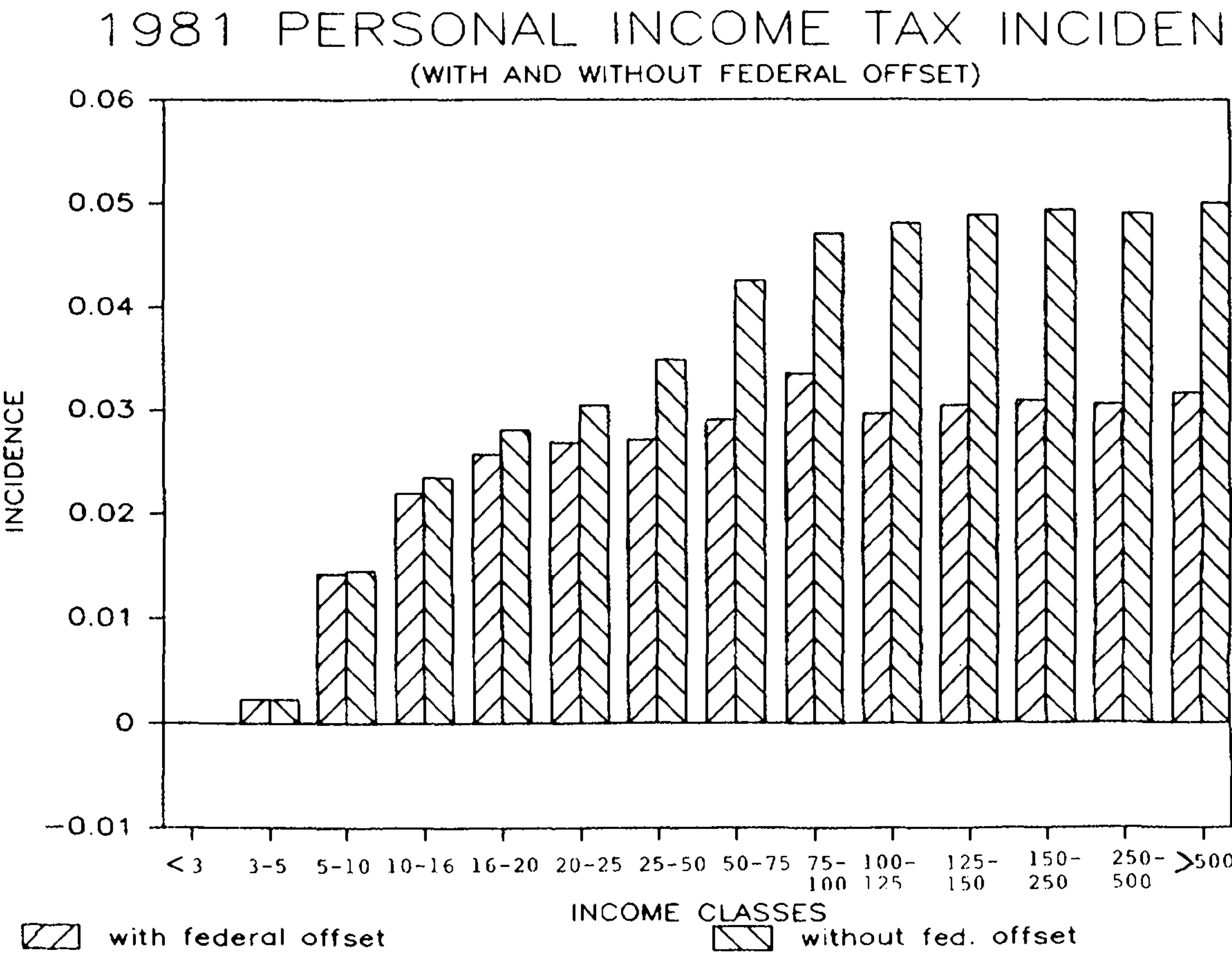
The federal tax offset was calculated as a percentage of adjusted gross income using estimates developed by Donald Phares.* Estimates for Iowa by income bracket were adjusted to match the income brackets used in this study and then were multiplied by adjusted gross income for each income class.

The following graph examines tax incidence for the Iowa Individual Income Tax. The graph summarizes tax incidence across the following income classes for taxes paid in 1981:

Less than		$ 3,000
$3,000	to	4,999
$5,000	to	9,999
$10,000	to	15,999
$16,000	to	19,000
$20,000	to	24,999
$25,000	to	49,999
$50,000	to	74,999
$75,000	to	99,000
$100,000	to	124,999
$125,000	to	149,999
$150,000	to	249,999
$250,000	to	499,999
More than		$500,000

* Donald Phares, Op. Cit., p. 68-70.

Figure 1


1981 PERSONAL INCOME TAX INCIDENCE
(WITH AND WITHOUT FEDERAL OFFSET)
INCIDENCE
0.06
0.05
0.04
0.03
0.02
0.01
0
-0.01
<3
3-5
5-10
10-16
16-20
20-25
25-50
50-75
75-100
100-125
125-150
150-250
250-500
>500
INCOME CLASSES
with federal offset
without fed. offset

The graph portrays incidence both before and after the federal tax offset is deducted from taxes paid. Table 1.82 in the Appendix provides the supporting data for the graph and describes the federal tax offset calculation.

C. Equity

1) Vertical. The differences in the effective tax rate determine the progressive, proportional, or regressive nature of the income tax. Figure 1 shows that the income tax is progressive in nature; as income rises, so does the tax burden. Due to the federal tax offset and the federal tax deduction the income tax is most progressive at lower income levels. The federal tax offset and deduction have the greatest impact on taxpayers in upper income brackets, and thus reduce the tax incidence for these taxpayers.

2) Horizontal. Filing Status. Iowa allows married taxpayers to file either separate returns or joint returns. Unmarried single people, unmarried heads of households, widows, and widowers file single returns. For comparative purposes the category of "married separate combined" is calculated. This category represents a hypothetical joining of the married separates in order to find the actual effective tax rate for a couple using the separate married method of filing. One can compare the separate combined figures with the married joint figures in an income category in order to check on the horizontal equity between married couples. The separate effective tax rate for each member of the couple can be compared to the single filer in the same income category. An example may clarify the situation.

Mr. A earns $40,000. In 1982 the effective tax rate for single filers in his income category was 3.91 percent.

Mr. and Mrs. B. earn a total of $63,000. Mr. B. earns $40,000 and Mrs. B. earns $23,000. They file as married separate taxpayers. In Mr. B.'s category the effective tax rate is 3.93

percent. Mrs. B.'s is 3.41 percent. Mr B. and Mr. A have the same income and almost the same burden.

Mr. and Mrs. C. have the same income as Mr. and Mrs. B., $40,000 and $23,000 respectively, but Mr. and Mrs. C. choose to file a joint return. On their combined income category of $63,000, the effective tax rate is 4.56 percent. When Mr. B.'s effective tax rate is applied to his $40,000 and Mrs. B.'s effective tax rate is applied to her $23,000, the resulting combined effective tax rate is lower for their income category, 3.99 percent. The burden for the two couples in this income category is not the same. The couple filing jointly are paying approximately .6 percent more in taxes than the couple filing as married separates.

In the lower income categories the joint return results in a lower effective tax rate. Due to the graduated rate system, above $5,000 the reverse is true; couples pay more filing joint than they would filing separately. The combined income of the higher income couples places them into a bracket to which higher rates are applied.

Single filers in the $50,000 and over categories have lower effective tax rates than married separate filers but this is probably a result of the effect of increased federal taxes and the ability to deduct them from Iowa Net Income. It may only mean that their income is at the higher end within a category.

In summary, there is some statistical variation in burden based on filing status but the variations are narrow and the tax is basically equitable across income classes on the basis of filing status.

<u>Family Size</u>. As is to be expected, family size has an effect on effective tax rates within a given income category. Up to the $100,000 and over income category, effective tax rates decrease as family size increases. Dependent exemptions, deductions and credits account for this variation. (See pages 9-11 of the Appendix for the supporting data).

Urban/Rural. Because the data on occupation, including farmer and non-farmer is not considered reliable for statistical purposes, we have assumed that the urban/rural figures will highlight horizontal variations between farming and non-farming activities.

In the lower income brackets (up to $10,000) rural filers had lower effective tax rates than urban filers. In the $10,000 to $50,000 category, rural filers bear a heavier burden, but by small amounts. The largest difference (approximately one-half a percentage point in the last two data years) is in the $50,000 to $100,000 category. Over $100,000 of income the difference again narrows. (See pages 14-16 of the Appendix).

Given the differences in computing federal adjusted gross income between farmers and non-farmers, and the variety of occupations in districts designated either rural or urban, the difference cannot be considered significant and the tax can be considered fairly equitable on the basis of this designation.

3) Equity Summary.

The Iowa Individual Income Tax is designed, through its graduated structure, to be a progressive tax based on ability-to-pay. In general, the intent is fulfilled. The two areas which can be highlighted as leading to either a narrowing of the progressive nature of the tax or to horizontal inequities, are the federal deduction and the standard or itemized deductions. The federal tax deduction is generally considered a "relief" provision and will be discussed under neutrality. The differential effect on family size is generally seen as an equity provision which was imposed to respond to the fact that at low and middle incomes, larger families will have less income available for tax purposes than small families and should, therefore, be given preferential treatment.

D. Neutrality

The income tax can affect a number of economic decisions including individuals' work vs. leisure decisions, investment choices, and possibly location decisions. The factors which should be analyzed in relation to this tax include the rate and the modifications to taxable income or tax liability intended to either offer relief or influence behavior.

1. Tax rate

Iowa has a high top rate of 13 percent. Only Minnesota, New York, Delaware and Oklahoma have higher top rates. The states chosen for comparison have the following rates:

Table 2

Comparison of Tax Rates

State	Rates
Iowa	0.5% to 13%
Arizona	2% to 8%
Illinois	2.5%
Kansas	2% to 9%
Minnesota	1.6% to 16%
Missouri	1.5% to 6%
Nebraska	20% of Federal Tax as computed on Nebraska adjusted federal income.
North Dakota	2% to 9% (option to use 10.5% of Federal tax liability)
South Dakota	None
Wisconsin	3.4% to 10%

The specific bracket and rate breakdown for these states are as follows:

Iowa

0.5% 1st $1,023; 1.25% 2nd $1,023; 2.75% 3rd $1,023; 3.5% 4th $1,023; 5% next $3,069; 6% next $2,046; 7% next $6,138; 8% next $5,115; 9% next $5,115; 10% next $5,115; 11% next $10,230; 12% next $35,805; 13% over $76,725

Arizona

2% 1st $1,017; 3% 2nd $1,017; 4% 3rd $1,017; 5% 4th $1,017; 6% 5th $1,017; 7% 6th $1,017; 8% over $6,102

Kansas

2% 1st $2,000; 3.5% next $1,000; 4.0 next $2,000; 5% next $2,000; 6.5% next $3,000; 7.5% next $10,000; 8.5% next $5,000; 9% over $25,000.

Illinois

Flat - 2.5%

Minnesota

1st $672, 1.6%; next $672, 2.2%; next $1,343, 3.5%; next $1,343, 5.8%; next $1,343, 7.3%; next $1,343, 8.8%; next $2,685, 10.2%; next $2,685, 11.5%; next $4,999, 12.8%; next $10,070, 14%; next $10,070 15%; over $36,925, 15%

Missouri

1.5% 1st $1,000; 2% next $1,000; 2.5% next $1,000; 3% next $1,000; 3.5% next $1,000; 4% next $1,000; 4.5% next $1,000; 5% next $1,000; 5.5% next $1,000; 6% over $9,000.

Nebraska

Flat 20% of federal tax.

North Dakota

2% on 1st $3,000; 3%, $3,001 - $5,000;
4%, $5,000-$8,000; 5%, $8,001 - $15,000;
6%, $15,001-$25,000; 7%, $25,001 - $35,000;
8%, $35,001-$50,000; over $50,000, 9%.

Wisconsin

$0 to $3,900, 3.4%; $3,901
to $7,700, 5.2%; $7,701 to $11,700, 7%;
$11,701 to $15,500, 8.2%; $15,501 to
$19,400, 8.7%; $19,401 to $25,000,
9.1%; $25,801 to $51,600,
9.5% and over $51,600, 10%

In terms of neutrality, it is well to remember that while Iowa's top rate is high, it is applied to income over $76,725. For taxpayer making $25,000, the marginal rate (not considering modifications such as the federal deduction or personal and dependent exemptions) would be as follows:

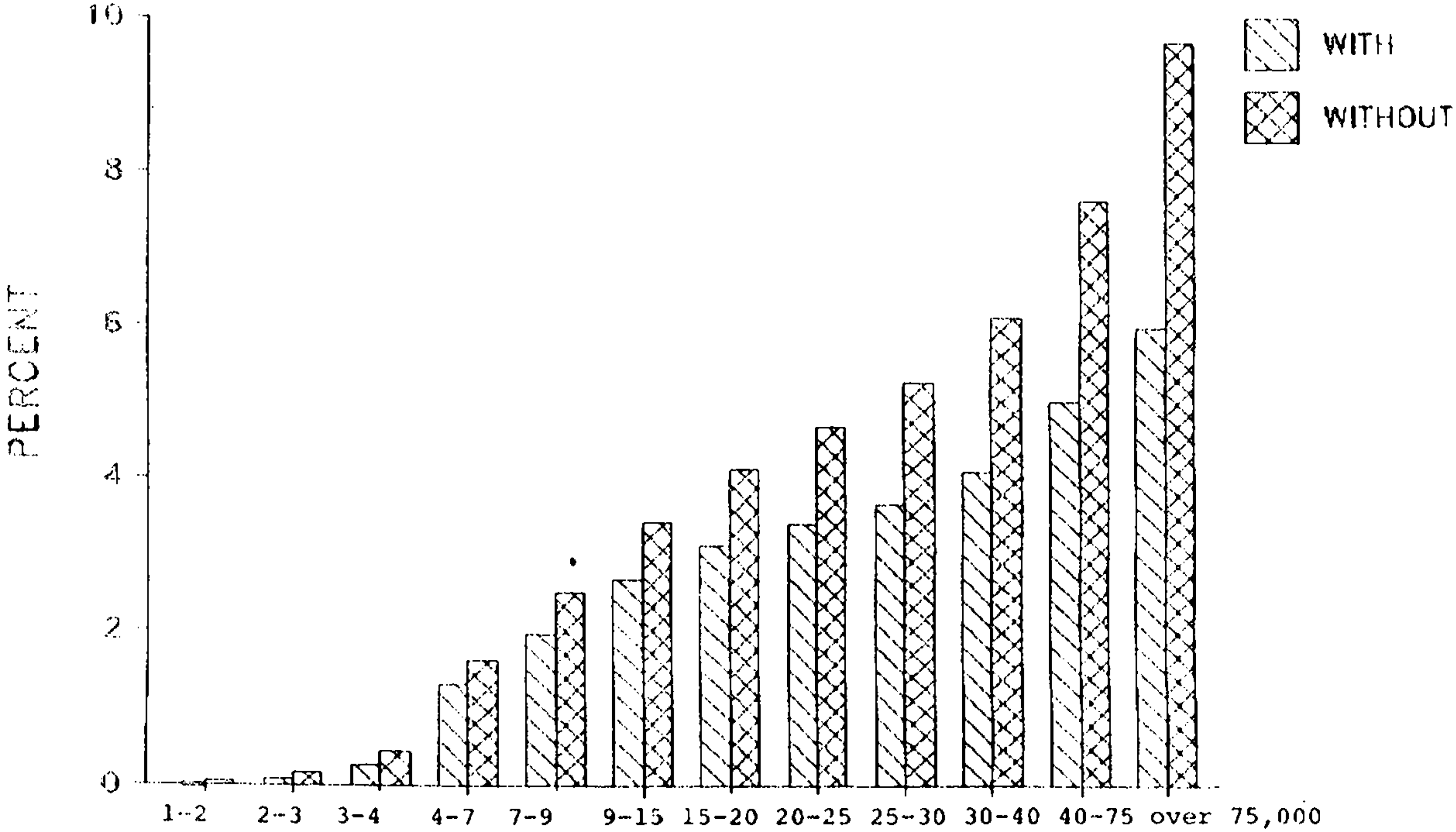
Iowa	9.0%	
Arizona	8.0%	
Kansas	9.0%	
Illinois	2.5%	
Minnesota	14.0%	
Missouri	6.0%	
Nebraska	20.0%	of federal tax = (6.0%)
North Carolina	6.0%	
Wisconsin	9.1%	

While tax rates are easily compared, the comparative tax burden is also a factor in spending and location decisions. The following table shows relative tax burdens using a slightly different measure of income and earlier data.

Figure 2

INCIDENCE BY BRACKET

WITH AND WITHOUT FEDERAL TAX DEDUCTION



INDIVIDUAL INCOME TAX

1981

INCIDENCE WAS CALCULATED BY DIVIDING TAXES PAID BY A.G.I.

Table 3

Comparison of Tax Burden

State	Tax Burden
U.S. Average	1.66
Iowa	2.34
Illinois	1.68
Kansas	1.44
Minnesota	3.70
Missouri	1.27
Nebraska	1.19
North Dakota	1.76
South Dakota	-0-
Wisconsin	3.54

Source: Donald Phares, Who Pays State and Local Taxes, Olegeschlager, Gunn and Hain, (Cambridge, MA), 1980, p. 11-12.

2. Modifications to Adjusted Gross Income

The sections below describe the principle modifications to adjusted gross income allowed in Iowa and contrasts these provisions with those of other states.

a. Federal Tax Deduction

The ability to deduct federal taxes has a large influence on actual state tax liability. As shown in Figure 2, the federal tax deduction reduces the progressivity of the income tax below what it would be without the deduction. The states examined above offer the following treatment:

Table 4

Comparison of Federal Tax Treatment

State	Deductibility of Federal Taxes
Iowa	Yes
Illinois	No
Kansas	Yes - $5,000 ($10,000 on a joint return) or 50% of Federal tax prorated in a ratio of Kansas income to Federal adjusted gross, if higher.
Minnesota	Yes - on income taxed by the state
Missouri	Yes - on income taxed by the state
Nebraska	No
North Dakota .	Yes - on income taxed by the state
South Dakota .	No tax
Wisconsin	No

b. Credits

The Research and Venture Capital Fund credits are designed to promote business. It is too early to tell if they are effective in increasing these activities. Experience in other states shows that individual income tax credits in these areas of activity has much less relevance than proximity to educational institutions, skilled labor, and the local interest rates on loans.*

c. Alternative Minimum Tax

This addition to the Individual Income Tax has recently been increased and at its present rate (70 percent of the Federal

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* Joint Economic Committee of the U.S. Congress, "Location of High Technology Firms and Regional Economic Development," GPO: Washington, D.C., 1982.

Alternative Minimum Tax) it can be expected to influence decision-making. The Alternative Minimum Tax is designed to recapture some of the tax dollars lost because of tax preference items. Those states previously examined which have special treatment for tax preference items are as follows:

Minnesota ..... Losses from tax preference items arising from out-of-state businesses or property are added back to federal adjusted gross income.

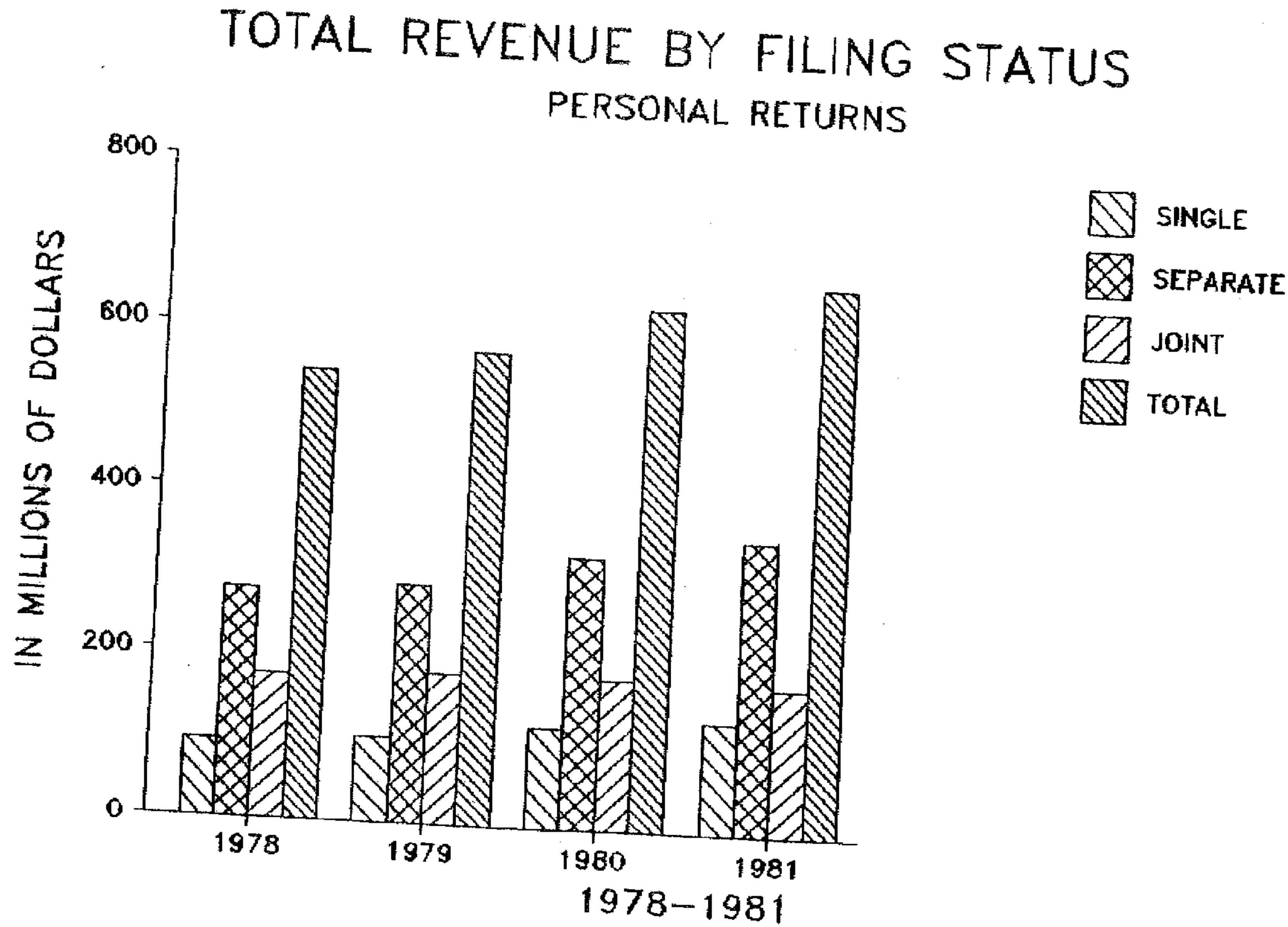
Nebraska ...... The Federal Alternative Minimum Tax is included in the base of the tax against which the 20% is imposed.

Wisconsin ..... The state has its own minimum tax based on seven specified preference items at a rate of 5.5% of the total tax preference items that exceed $10,000.

While it is unclear that individuals make location decisions based on tax items alone, a tax item which causes an unexpected or excessive increase in the effective tax rate can affect economic behavior. A taxpayer could, for example, reduce his tax liability by changing investment decisions to take advantage of non-preference items, or may increase federal regular tax in order to reduce or eliminate the difference between the minimum tax amount and the regular tax amount upon which the tax is based. While this does not change what is due to the federal government, it gives an Iowa taxpayer an increased federal deduction and reduces or eliminates the Iowa minimum tax addition.

Taxpayers who invest in preference items to maximize income expect to pay something on items which are given preferential treatment. The situation is different for one who makes a sale on a non-voluntary basis.

Figure 3



TOTAL REVENUE BY FILING STATUS
PERSONAL RETURNS
IN MILLIONS OF DOLLARS
800
600
400
200
0
1978
1979
1980
1981
1978–1981
SINGLE
SEPARATE
JOINT
TOTAL

An alternative minimum tax is non-neutral intentionally since it is imposed to redress other non-neutral tax treatment. It is necessary, however, to tailor the tax to the circumstances which the state rather than the federal government intends to address.

3. Neutrality Summary.

Iowa's individual income tax rates are high in comparison with those in effect in other states but the federal deduction reduces actual tax liability, particularly for incomes over $20,000. The Alternative Minimum Tax, as presently structured, does lead to some distortion but in general, this tax is fairly neutral. It should be noted that the close conformity to the federal tax base automatically carries over the distortions inherent in the federal income tax to Iowa's income tax.

E. Yield

1. Growth/Elasticity

In fiscal years beginning 1978 and through 1982, revenue from the Iowa Individual Income Tax increased from $545 million to $684 million, or by 25 percent and the tax continues to be the most important source of state revenue. Figure 3 shows that married separate returns have accounted for the largest percent of taxes paid over a four year period.* The share of taxes paid by those filing joint returns has fallen relative to separate and single returns, reflecting in part the growing numbers of two income and single households. The growth in Iowa personal income during those years was 33.5 percent. The rates have not been changed since 1975 but indexed tax brackets have been in place since the 1979 tax year in order to prevent "bracket creep," the unintended revenue increase which results from inflation in a graduated tax system.

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*1982 figures are not consistent with earlier years, see Appendix, Table 1.02.

2. Reliance

In 1982 revenues from state individual income taxes for the United States as a whole represented 22.4 percent of total state and local taxes.* Using the most recent year available from the selected states for comparison purposes, the states in this area placed the following reliance on this revenue source:

Table 5

Comparison of States' Reliance on Income Taxes

State	% of Major State & Local Taxes
Iowa	24.50
Illinois	17.40
Kansas	20.06
Minnesota	27.43
Missouri	22.70
Nebraska	17.50
North Dakota	6.07
South Dakota	-0-
Wisconsin	28.99

Source: Computed from the most recent annual reports for each state.

* ACIR, Significant Features of Fiscal Federalism, 1982-83 Edition, Washington, D.C., 1984., p. 36.

Because of different methods of reporting and differences in use by the states of gross and net revenues, these figures are not exact. They do show, however, that Iowa does not rely on this tax to a greater extent than other states.

3. Capacity.

The latest data available from the Advisory Commission of Intergovernmental Relations* shows Iowa to have a capacity to raise revenues from this source at less than the national average (National average = 100; Iowa = 88.1) and its effort is above average (National Average = 100; Iowa = 133.4).

4. Yield Summary.

The Iowa Individual Income Tax has been relatively inelastic over the past five years and is relied on at about the average when compared to the surrounding states. The tax effort, relative to the tax capacity, is high.

F. Simplicity

While the Iowa Individual Income Tax contains a fair number of additions, subtractions, deductions and credits, the number is by no means unusually high. The tie-in of the tax to federal adjusted gross income makes it relatively easy for the Department of Revenue to administer. Even with this advantage, audit efforts by the state are necessary. Again, this effort is helped by the federal tie-in since the information process results in federal audit information being supplied to the state. Collection activities are enhanced by the withholding system. In 1983, over 70 percent of the revenue from this source came from withholding agents.

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* ACIR, 1981 Tax Capacity of the Fifty States, Washington, D.C. Sept. 1983

Simplicity Summary. The Iowa Individual Income Tax is cost-effective for both taxpayers and state administrators because of its tie-in to the federal tax and the withholding provision.

G. Possible Modifications

1. Eliminate or Cap the Federal Deduction

A. Description

Presently individual income tax filers may deduct federal income taxes paid during the tax year from their Iowa Net Income. Under this modification taxpayers would either loose the deduction, or deduct 50 percent of federal income taxes paid. A third variation is to eliminate the deduction and reduce the tax rates. The rates analyzed are as follows:

Table 6
Modified Tax Rate Structure

Taxable Income	Tax Rate
0 - $ 1,999	.5%
$ 2,000 - $ 2,999	1.0%
$ 3,000 - $ 3,999	2.5%
$ 4,000 - $ 6,999	3.0%
$ 7,000 - $ 8,000	4.0%
$ 9,000 - $14,999	5.0%
$15,000 - 19,999	6.0%
$20,000 - $39,000	7.0%
Over $40,000	8.0%

B. Explanation of the Data

The analysis of this and all other individual income tax modifications was performed using the Iowa Department of Revenue's Individual Income Tax Model. This model is based on 1981 returns and 1981 tax law and, therefore, the revenue and incidence effects for 1984 would be different due to:

1. federal tax reductions,
2. changes in income, deductions and credits occurring naturally over time, and
3. change in the method of taxing non-residents.

The impact of this proposal was calculated in two ways: 1) all married separate returns were treated as separate filers and 2) all married separate returns were combined. The second calculation results in a smaller number of tax returns, but in a slightly larger total liability than under the first calculation. This results from a larger number of the combined returns falling into the highest income bracket. The second calculation appears in the Appendix.

C. Equity

1) Vertical. The individual income tax is basically progressive but taxpayers in the higher income brackets receive a greater benefit from the federal tax deduction than do those in the lower brackets. Eliminating the deduction would increase the effective tax rate for all filers: the percentage increase would be greater for each income bracket ranging from 23.5 percent for income of $10,000 and less, to over 81 percent for those with income greater than $75,000. Capping the Federal deduction at 50 percent would increase effective tax rates from 10.9 percent to 39 percent for a 50 percent deduction.

Progressivity would increase if the rates were changed in conjunction with the elimination of the federal deduction, as shown in Table 10. Under $40,000 of income, all filers would have a lower effective tax rate. The percentage decrease would be greatest for those in the lower income brackets ranging from an almost 40 percent drop for income under $10,000 to 2.3 percent cut for taxpayers with income between $30,000 and $40,000. From $40,000 to $75,000 of income the effective tax rate would increase approximately 1.5 percent and for income over $75,000 the effective rate would increase 14.6 percent.

2) Horizontal. If the deduction is eliminated or capped on a percentage basis, this modification will do nothing to change the existing horizontal equities or inequities in the individual income tax.

D. Neutrality

Assuming the rates and brackets remain unchanged, the Iowa individual income tax burden and effective rates would increase considerably which could affect economic decisions.

E. Yield

In 1981, elimination of the federal tax deduction would have increased state revenues by 41.3 percent or $273,400,000. The 50 percent cap would have resulted in a 20 percent increase, or $132,300,000. Reliance on this revenue source would increase proportionately and tax effort, relative to tax capacity, which is presently high, would rise.

If the rates were revised and the deduction eliminated, revenues would have been reduced by 5.3 percent or $40,200,000 in 1981.

F. Simplicity

The modification would slightly affect tax forms by removing one computation if the deduction were totally eliminated or by adding one calculation if a percentage cap were imposed.

2. Substitute a Flat Rate for the Present Graduated Rate System

A. Description

Under this modification a single rate would be applied to all income; standard or itemized deductions and the federal tax deduction would be eliminated and all taxpayers would be allowed a $1,000 personal exemption and a $1,000 exemption for each dependent. The purpose of the modification is to reduce the impact of taxes on economic decisions.

B. Explanation of the Data

The analysis was based on 1981 data and a tax rate of 1 percent was utilized to demonstrate the effects on effective tax rates and revenue generation.

C. Equity

1) Vertical. Under this modification the tax retains its progressive nature but the percentage difference between each step is lessened, and the range of difference is less. The elimination of the federal deduction and the imposition of the $1,000 personal and dependent credits account for the progressive features of what would otherwise be a proportional tax.

2) Horizontal. The flat rate tax removes horizontal inequities which are related to filing status. The dependent exemption would lower the effective tax rates for those with larger families.

D. Neutrality

A proportional tax or flat tax tends to make the tax more neutral since increases in income do not lead to a greater proportion of the income being paid in taxes.

E. Yield

In order to provide approximately the same revenues in 1981 under this modification the tax rate would have had to be 3.7 percent. This nominal rate would have resulted in an increased effective tax rate for those taxpayers having income of $20,000 and under and a decreased effective rate for all others.

F. Simplicity

This modification would greatly simplify the current tax system for taxpayers.

3. Substitute a Modified Flat for the Present Graduated Tax Rates

A. Description

Two different rate structures were analyzed to replace the present thirteen rate structure. The two structures were as follows:

Table 7

Revised Rate Structures

	Rates	
Taxable Income	Structure 1	Structure 2
$ 0 - $25,000	5%	5.0%
$25,001 - $50,000	7%	7.5%
$50,001 and over	9%	10.0%

The purpose of the modification is to simplify the current tax system.

B. Explanation of Data

The modifications were analyzed using 1981 data and assuming no changes in the present additions, subtractions, deductions and credits. In addition, married taxpayers filing separately on combined returns were assumed to file as separate individuals.

C. Equity

1) Vertical. Under this modification the tax becomes less progressive. At the middle range of income, it would actually become regressive with those in the $10,000 to $20,000 income range having a higher effective tax rate than taxpayers with income from $20,000 to $40,000. This is true for both rate structures, although the 5%, 7.5%, 10% structure results in a higher effective rate for taxpayers with income over $40,000.

2) Horizontal. Because there is no bracket adjustment for joint filers, the present system tends to impose a higher effective rate on this class of filers. This modification would tend to lower the effective tax rate for this class of filers and reverse the present horizontal inequity.

D. Neutrality

Reducing the top rates to 9 percent or 10 percent would remove some of the perceived incentive for high income earners to move to lower taxing states but the 9 percent marginal rate for those earning over $50,000 would still be higher than the rate in Arizona, Illinois, Missouri and Nebraska, and the 10 percent rate higher than Kansas, and North Dakota.

Under this revised rate structure, Iowa would have the second lowest tax rate applicable to taxpayers earning $25,000.

E. Yield

The revenues would have increased under this modification in 1981 by 1.5 percent for the 5%, 7%, 9% structure and 2.2 percent for the 5%, 7.5%, 10% structure. All of the increase would be the result of increased liability from those earning $20,000 and less. Under the first revised rate structure, those earning $10,000 or less would pay (as a whole) 118.5 percent more, and those earning from $10,000 to $20,000 would pay 16.8 percent more. All other brackets would pay less.

F. Simplicity

A system with 3 rates instead of 13 is less complex. The tax is easier to calculate, tax tables are simpler and those in the higher income brackets have less reason to avoid compliance.

4. Eliminate Married Separate Filing

A. Description

Presently, Iowa permits married couples to file a joint return, a combined return as separate taxpayers, and completely separate returns. No adjustments for rates or income brackets are made for joint filers; as a result, when both spouses have income, they are generally benefited by filing a combined or separate return rather than a joint return. Under this modification, couples could no longer file married separate returns. The modification would be imposed to reduce the horizontal inequity present in the existing system. A second method of reducing this horizontal inequity would be to broaden tax brackets for joint filers which would reduce the difference between separate and joint tax liability.

B. Explanation of the Data

The analysis is based on 1981 returns and reflects use of the $3,000 maximum standard deduction rather than two $1,200 deductions. Existing tax rates were applied to joint or combined taxable income. We also analyze the effects of doubling the tax brackets for joint filers based on 1981 tax returns.

C. Equity

1) Vertical. The tax remains progressive and the effective tax rate for each income category increases. The percentage increase is greatest for those in the $30,000 to $40,000 income bracket. Revising the tax brackets for joint filers would slightly reduce the progressivity of the income tax.

2) Horizontal. While the effective tax for those presently filing joint returns does not change under this modification, the increase for those presently filing combined separate returns is 26.8% and results in a larger difference in effective tax rates between the two groups than is present under the existing system. Revising the tax brackets for joint filers would also create a larger difference in effective tax rates than currently exists.

D. Neutrality

The perceived "marriage penalty" present in the federal system led to a change in the federal tax law which permits the spouse earning the lesser amount of income to deduct 10 percent of that income up to $3,000. Iowa did not adopt that provision because of Iowa taxpayers' ability to file separately.

Filing treatment in the comparable states is as follows:

Arizona:

Married couples may file separately but since Arizona is a joint property state, each spouse shows income which totals one-half of their own and one-half of their spouse. On a joint return the income brackets are doubled.

Illinois:

Married couples must file for the state as they file for federal purposes. Since the rate is flat, there is no "marriage penalty" and no modifications are necessary.

Kansas:

Married filers must follow federal filing but the income brackets are doubled for joint returns.

Minnesota:

Married filers may file any of three ways - joint returns, combined returns (separate liability on one return) or separate returns. The differences between combined and separate are:

1. on a combined return itemized deductions may be divided in any manner the taxpayers' wish; and,

2. each spouse is responsible for the total tax if the other spouse fails to pay.

Missouri:

Married filers must file a joint or combined return if they file a joint federal return. The combined return allows each spouse to compute his or her own income and the tax is determined on that income only.

Nebraska:

Married filers must follow their federal filing. Since the tax is a flat percentage of federal income, no modifications are necessary.

North Dakota:

If each spouse has income, they can file separate returns even if they filed a joint federal return.

Wisconsin:

There is no provision for a joint return. Married taxpayers compute separate liability on a combined form.

E. Yield

Eliminating the married separate filing status would have increased revenues by 14.4 percent or $95,400,000 in 1981. Doubling joint filers' tax brackets would have reduced revenues by $55.4 million, a decrease of 8.4 percent.

F. Simplicity

This modification would simplify the system by eliminating forms, following the federal income tax more closely and reducing the Department's need to combine separate married taxpayers returns for information purposes. Doubling joint filers' tax brackets would not have a substantial impact on the simplicity of the income tax.

5. Revise the Rates for Married Taxpayers

A. Description

This modification assumes all married taxpayers file a joint return but the rates for these returns are changed to reflect federal income tax treatment.

The rates would be as follows:

Table 8

Revised Rate Structure

Taxable Income	Tax Rate
$ 0 - $ 1,023	.50%
$ 1,023 - $ 2,046	1.25%
$ 1,046 - $ 3,069	2.75%
$ 3,069 - $ 4,092	3.00%
$ 4,092 - $ 7,161	4.50%
$ 7,161 - $ 9,207	5.50%
$ 9,207 - $ 15,345	6.00%
$15,345 - $ 20,460	6.50%
$20,460 - $ 25,575	7.50%
$25,575 - $ 30,690	8.00%
$30,690 - $ 40,920	9.25%
$40,920 - $ 76,725	10.25%
$76,725 - $153,450	11.00%
Over $153,450	13.00%

The modification would be imposed to improve horizontal equity.

B. Explanation of the Data

The analysis was done using 1981 data.

C. Equity

1) Vertical. The tax would become progressive; effective tax rates would increase for those with incomes above $30,000 and decrease for those in lower brackets.

2) Horizontal. Those presently filing married separate returns would experience an increased effective tax rate but a lesser increase than that which would occur if joint filing were mandatory and no rate adjustments were made: present system, 3.28%; mandatory joint filing without rate adjustments, 4.16%; mandatory joint filing with rate adjustments, 3.54%.

D. Neutrality

To the extent that married filers pay more tax at the same income level than single filers, the tax system establishes disincentive to marriage.

E. Yield

This modification would have produced a 6% increase in revenues in 1981. All of the increase would have come from those who filed married separate returns.

F. Simplicity

Providing for one filing method for married couples simplifies the system but a dual rate/bracket structure adds complexities.

6. Impose an Iowa Alternative Minimum Tax and Eliminate the Federal Add-On

A. Description

The federal alternative minimum tax is imposed to recapture taxes from those whose use of tax preference items reduces their tax liability to a point where it does not reflect their substantial economic income. Only if the alternative minimum taxable income multiplied by a 20 percent rate exceeds the regular income will the taxpayer be liable for the tax since it is reduced by the amount of the regular income tax. The reduced amount is then added to regular taxable income.

Presently 70 percent of the alternative minimum tax is added to Iowa regular tax liability to the extent that the preference items or credits included in the alternative minimum tax base affect Iowa taxable income.

This modification would substitute an Iowa alternative minimum tax for the federal alternative minimum tax by using Iowa taxable income as the base and adding the federal preference items to the extent they affect Iowa taxable income. The subtraction would be a general exemption of $40,000 for joint filers, $30,000 for single and $20,000 for separate filers and the resulting minimum taxable income would be subject to a tax rate of 8 percent. The regular Iowa tax and any applicable Iowa credits would then be deducted and the excess, if any, would be the Iowa minimum tax.

Two variations could be examined: 1) allow a one-time exclusion of capital gains arising from the sale of a taxpayer's principle residence and/or principle business (agricultural, commercial or industrial); and, 2) reduce the general exemption to $20,000 for all filers since the Iowa income tax does not provide for different rates or brackets based on filing status.

B. Explanation of the Data

The analysis is based on Iowa Department of Revenue research performed during the last year and from publications produced by the Iowa C.P.A. Society.

C. Equity

1) Vertical. The present tax and the proposed modification affect mainly taxpayers in the higher income brackets (75 percent is paid by taxpayers with income over $50,000). To that extent, the income tax becomes more progressive at the high end of the income scale. The general exemption would prevent those individuals with few preference items who are subject to a rate less than 8 percent from arriving at alternative minimum taxable income.

2) Horizontal. The differing exemption amount when applied to a tax which makes no adjustments for filing status could create horizontal inequities.

D. Neutrality

Tax preference items are generally imposed to encourage certain economic behavior. A few are granted to provide tax relief. Of the federal tax preference items included in the current law, most fall under the former rationale and are granted to stimulate economic activity intended to benefit the nation as a whole. The exception to this general rule is the sale of one's home or business which may result in a capital gain. The sale is usually made for non-tax reasons, is not recurring and is not part of an investment strategy. For this reason, income arising from such sales could be excluded from the list of preference items.

If the tax on preference items is too high it may affect investment decisions in a manner inconsistent with the rationale for the preference. The federal alternative minimum tax through use of a lower rate and by allowing a large general deduction, attempts to recapture revenues only when the effect of the tax preferences is considerably out of line with the economic ability-to-pay of the taxpayer. An Iowa tax based on the same principles would operate in a similar manner.

E. Yield

The Department of Revenue estimate the revenue loss from this modification at $2,000,000 to $4,000,000. It is not possible to compute the effects of an exclusion on one-time capital gains. The Department of Revenue cannot separate out this item but has indicated that capital gains, in general, account for a large percentage of the federal alternative minimum tax liability.

F. Simplicity

This modification would add some complexity to the income tax since a 70% addition of a federal tax is easier for the taxpayer to calculate and easier for the Department to administer. However, since Iowa taxpayers can recompute the federal alternative minimum tax in order to include only items affected by the Iowa income tax, the change to an Iowa tax should not add much complexity.

II. CORPORATE INCOME TAXES

CORPORATE INCOME TAXES

A. Description

I. Overview

A. The base is federal taxable income after certain modifications which result in Iowa net income.

B. Corporations doing business exclusively in Iowa are subject to tax on their entire income from taxable sources. Corporations doing business within and without Iowa attribute a portion of total income to Iowa through allocation and apportionment.

C. Graduated tax rates are applied to Iowa taxable income to result in computed tax.

II. Modifications to Federal

A. Subtract:

1. 50 percent of federal income tax

2. Interest and dividends from federal securities

3. Wages not deducted from federal taxable income due to federal Jobs Tax Credit

4. Amount included in federal taxable income due to federal Alchohol Fuel Credit

5. Small business deduction for 50% of first twelve months of wages paid to certain new employees

6. Income and certain deductions associated with a sale-leaseback arrangement qualifying as a safe harbor lease

B. Add:

1. Iowa income tax deducted in computing federal taxable income

2. Interest and dividends exempt from federal tax (foreign and state securities) except certain Iowa Board of Regents bonds

3. Windfall profits tax deducted in computing federal taxable income

4. Federal net operating loss

5. Certain deductions associated with a sale-leaseback arrangement qualifying as a safe harbor lease

III. Adjustments to Modified Federal Taxable Income

A. Subtract total net nonbusiness income

IV. Apportionment of Adjusted Federal Taxable Income

A. Income from sources such as interest, dividends, rents and royalties is allocated using various criteria.

B. Income from manufacturing or sale of tangible personal property is apportioned to Iowa on ratio of Iowa sales to total sales. Income from other activities is apportioned using similar criteria.

V. Modifications to Apportioned Income

A. Add net nonbusiness income allocated to Iowa

B. Deduct net operating loss apportioned to Iowa

VI. Compute Tax on Iowa Taxable Income - Rates range from 6% on first $25,000 of income to 12% on income in excess of $250,000 (see attached rate schedule)

VII. Additions to Computed Tax

A. Minimum Tax - 70% of federal minimum tax apportioned to Iowa

VIII. Credit From Computed Tax

A. Nonrefundable

1. Iowa Venture Capital Fund Credit (5% of investment)

B. Refundable

1. Motor Vehicle Fuel Tax Credit

2. Research Expenditure Credit (6.55% of qualifying expenditures, effective January 1, 1985).

RATES

Taxable Income	Rate
$0 - $ 25,000	6%
$ 25,000 - $100,000	8%
$100,000 - $250,000	10%
$250,000 & Over	12%

B. Explanation of the Data

For purposes of this study, the burden of the corporate and franchise income tax is measured against net corporation income before the Federal tax deduction. This incidence calculation allows Iowa corporate taxes to be directly compared to corporate and franchise taxes in other states. These interstate comparisons can play a role in corporations' investment and location decisions. In addition, this incidence calculation allows intra-state analysis of the treatment of different kinds of corporations under current tax law.

While comparing tax paid to corporate income is useful, the ultimate burden of the corporate income tax is borne by individuals, not corporations. The tax may be paid either by consumers in the form of higher prices for the corporation's products, by owners of capital and stockholders in the form of lower return on invested funds, or by, labor in the form of reduced wages. Economists differ widely on which of these groups bear the burden of the corporate income tax*. The incidence of the tax depends on which group bears its burden. If consumers or labor bears the tax, the incidence is regressive, while if owners of capital bear the burden, the tax is progressive. These differences can be seen in table 9 which compares the incidence of the Iowa corporate income tax calculated under different assumptions. The data were drawn from Donald Phares' book Who Pays State and Local Taxes? and are based on 1977 tax information.

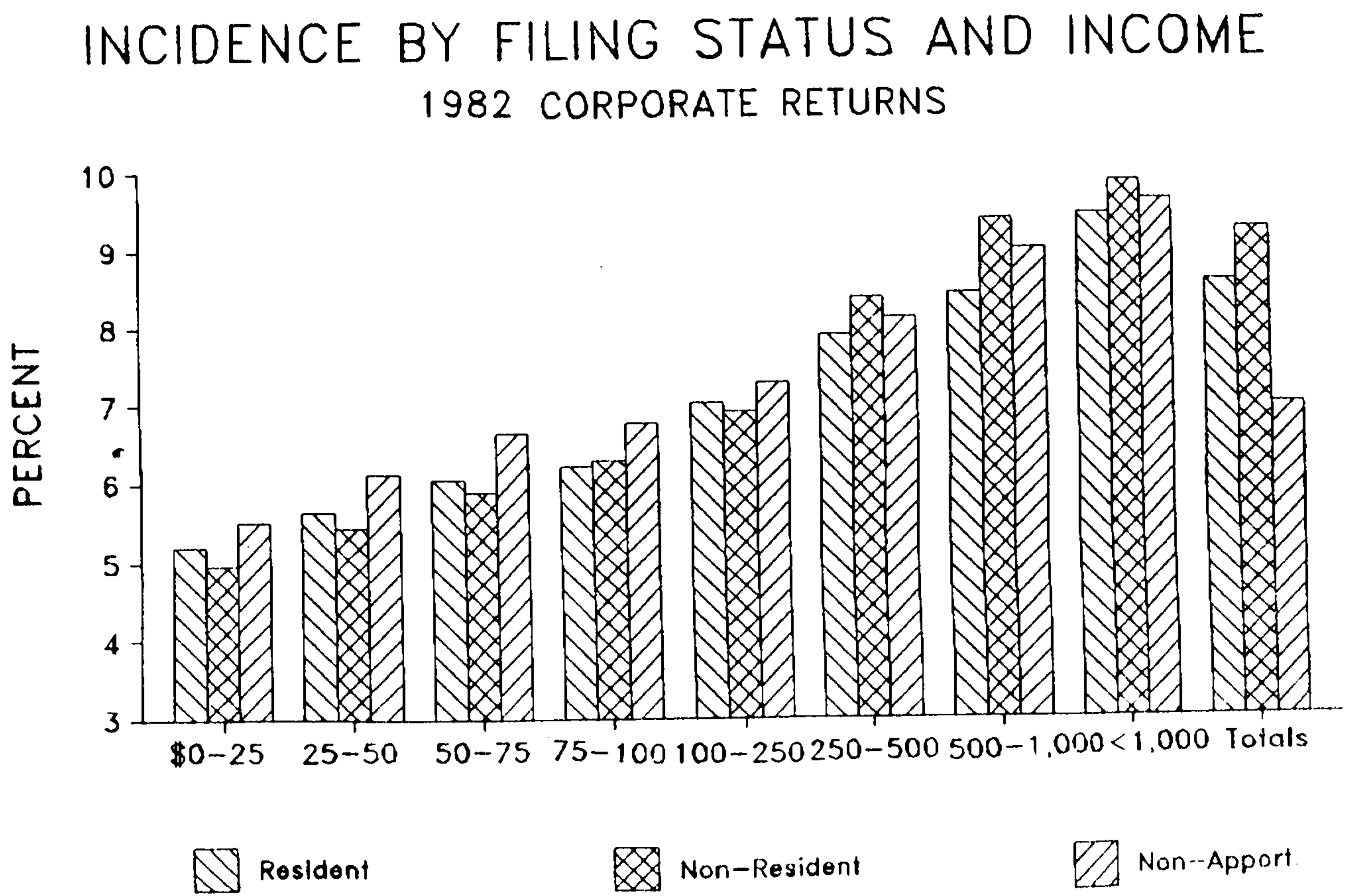
* Joseph Pechman, Federal Tax Policy, (Washington, DC: Bookings Institution), 4th Edition, 1983, p. 135.

Table 9

Comparison of Effective Tax Rates:
Corporate Net Income Tax
Effective Tax Rates

Tax Bracket	1/2 Consumers, 1/2 Owners of Capital	Consumers in General	Owners of Capital in General
under $3,000	0.45%	0.83	0.07
$3,000 - 3,999	0.36	0.52	0.20
$4,000 - 4,999	0.37	0.49	0.25
$5,000 - 5,999	0.39	0.39	0.40
$6,000 - 6,999	0.25	0.38	0.12
$7,000 - 7,999	0.18	0.36	0.00
$8,000 - 8,999	0.29	0.32	0.26
$10,000 - 11,999	0.30	0.31	0.29
$12,000 - 14,999	0.16	0.28	0.05
$15,000 - 29,999	0.18	0.26	0.10
#20,000 - 24,999	0.18	0.24	0.11
$25,000 - 29,999	0.18	0.23	0.13
$30,000 - 34,999	0.45	0.22	0.67
over $35,000	0.56	0.20	0.91

Figure 4



INCIDENCE BY FILING STATUS AND INCOME
1982 CORPORATE RETURNS
PERCENT
10
9
8
7
6
5
4
3
$0-25
25-50
50-75
75-100
100-250
250-500
500-1,000
<1,000
Totals
Resident
Non-Resident
Non--Apport

Figure 4 shows tax incidence based on corporate, rather than individual income, for three types of corporate tax returns: resident apportioning, non-resident apportioning, and non-apportioning. The tax is clearly progressive with respect to corporate income*; incidence rises from five to nearly ten percent for firms with more than $1 million in net income before the federal tax deduction. For firms with equal income, tax incidence is nearly the same for each category of return. Overall, however, average incidence for non-apportioning firms is lower than for other types of returns. This reflects the lower average income per return for non-apportioners as shown in Table 26 below.

Table 10

1982 Average Income Per Return

Type of Return	Average Income Per Return
Resident Apportioning	$167,356
Non-resident Apportioning	$245,054
Non-apportioning	$ 31,823

C. Equity

1) Vertical. Both with and without the federal deduction, the Iowa Corporate Income Tax is progressive, although it is more progressive without the deduction.

2) Horizontal

Filing status - Corporations may be non-apportioners or approtioners. In the latter case they may be resident or non-

* This calculation does not take into account the Federal tax offset for corporations which would reduce the incidence by the largest percent for firms with more than $100,000 in net income.

resident apportioners. Because the income measure used for data analysis is apportioned income, i.e., income taxable by Iowa based on the single-factor apportionment formula, it is not possible to measure horizontal inequities which may exist between resident and non-resident apportioners. Non-apportioners pay tax on 100 percent of their income but are not taxed by any other state. Apportioners are taxed by Iowa on only that portion of their income attributable to Iowa activities, but as multistate corporations they are subject to tax on the other portions by all the states in which they have taxable activities.

It can be assumed that resident apportioners receive greater benefits from the single-factor formula than do non-resident apportioners since the formula measures receipts from sales only. Resident corporations tend to have more property and employees within Iowa and these measures of activity are not taken into account in determining the percentage of income taxable by Iowa. Conversely, non-resident apportioners cannot use their lower percentages of property and payroll to offset their sales percentages. An example follows:

	Resident Corporation	Non-Resident Corporation
Iowa Property / All Property	$\frac{1,000,000}{1,500,000} = .67$	$\frac{250,000}{1,500,000} = .67$
Iowa Payroll / All Payroll	$\frac{100,000}{150,000} = .67$	$\frac{50,000}{150,000} = .33$
Iowa Sales / All Sales	$\frac{2,000,000}{8,000,000} = .25$	$\frac{3,000,000}{8,000,000} = .375$
Income	\$3,000,000	3,000,000
Apportionable Income- Single-Factor	\$750,000	\$1,125,000
Apportionable Income-3-Factor	\$1,583,320	\$874,999

This example compares the advantage that resident corporations receive from the single-factor as compared to an equally weighted three-factor apportionment.

Banks and Insurance Companies. Neither financial institutions nor insurance companies are taxed under the Iowa Corporation Income Tax. Iowa does impose a 2 percent gross premiums tax on insurance companies and a 5 percent franchise tax on financial institutions, which is based on net income.

Under the flat 5 percent tax rate imposed on banks, their average effective tax rate is a proportional 5 percent across all income categories, while other corporations have average effective tax rates which range from 6 percent to over 11 percent. The base used to calculate income differs, however, in that financial institutions cannot deduct federal taxes nor income from federal securities.

The base of the gross receipts tax is not income but premiums with some exceptions. Domestic and foreign insurers are subject to the same tax.

3) Equity Summary. Iowa's tax is progressive due to the graduated rate structure. The main horizontal inequity relates to the apportionment formula which was adopted to provide an incentive for locating capital and jobs in the state.

D. Neutrality

1. Rate

The rate of the tax, the base of the tax and the method of apportionment are factors in location and investment decisions for corporate taxpayers. Iowa's rate is high in comparison with those in the surrounding states as seen in the following table. For a comparison to all states' tax rates, see the Appendix.

Table 11

Corporate Tax Rate Comparison

State	Rates
Iowa	6% to 12%
Illinois	4% state; 2.5% corporate personal property replacement tax.
Kansas	4.5% + 2.25% on income over $25,000
Minnesota	6% on first $25,000 and 12% on remainder
Missouri	5%
Nebraska	5% to $50,000; 7% remainder
North Dakota	3% to 10.5%
South Dakota	None
Wisconsin	7.9% plus 10% surtax

2. Modifications to the Base

The modifications to federal taxable income are also very important to taxpayers. Iowa has few modifications and has not chosen to decouple from the federal changes relating to benefits such as accelerated depreciation. Corporate taxpayers are allowed to deduct 50 percent of their federal taxes in arriving at Iowa net income. A comparison of Iowa's treatment of federal taxes with those of the comparable states' follows:

a. Federal Tax Deduction

Table 12

Federal Tax Deductions

State	Treatment
Iowa	50%
Illinois	No
Kansas	No
Minnesota	No
Missouri	Yes, for income taxed by state
Nebraska	No
North Dakota	Yes, for income taxed by state
South Dakota	No tax
Wisconsin	No

b. Research & Venture Capital Credits -- These credits have not been in effect for enough time to be analyzed.

c. Federal Minimum Tax Add On. Iowa requires 70 percent of this tax to be apportioned or allocated to the state as an addition to the computed tax. Minnesota is the only surrounding state with a similar provision and the percentage add-on is 40 percent.

3. Apportionment

Iowa's single-factor formula is intended to reward corporations for locating in the state. All states determine income attributable to the state by comparing certain in-state activities to the total activities of the taxpayer. The most common formula is the 3-factor formula. A percentage is computed for property, payroll and sales. The three percentages are summed, divided by three and the resulting fraction is applied to income. Formulas used by the surrounding states follow:

Table 13

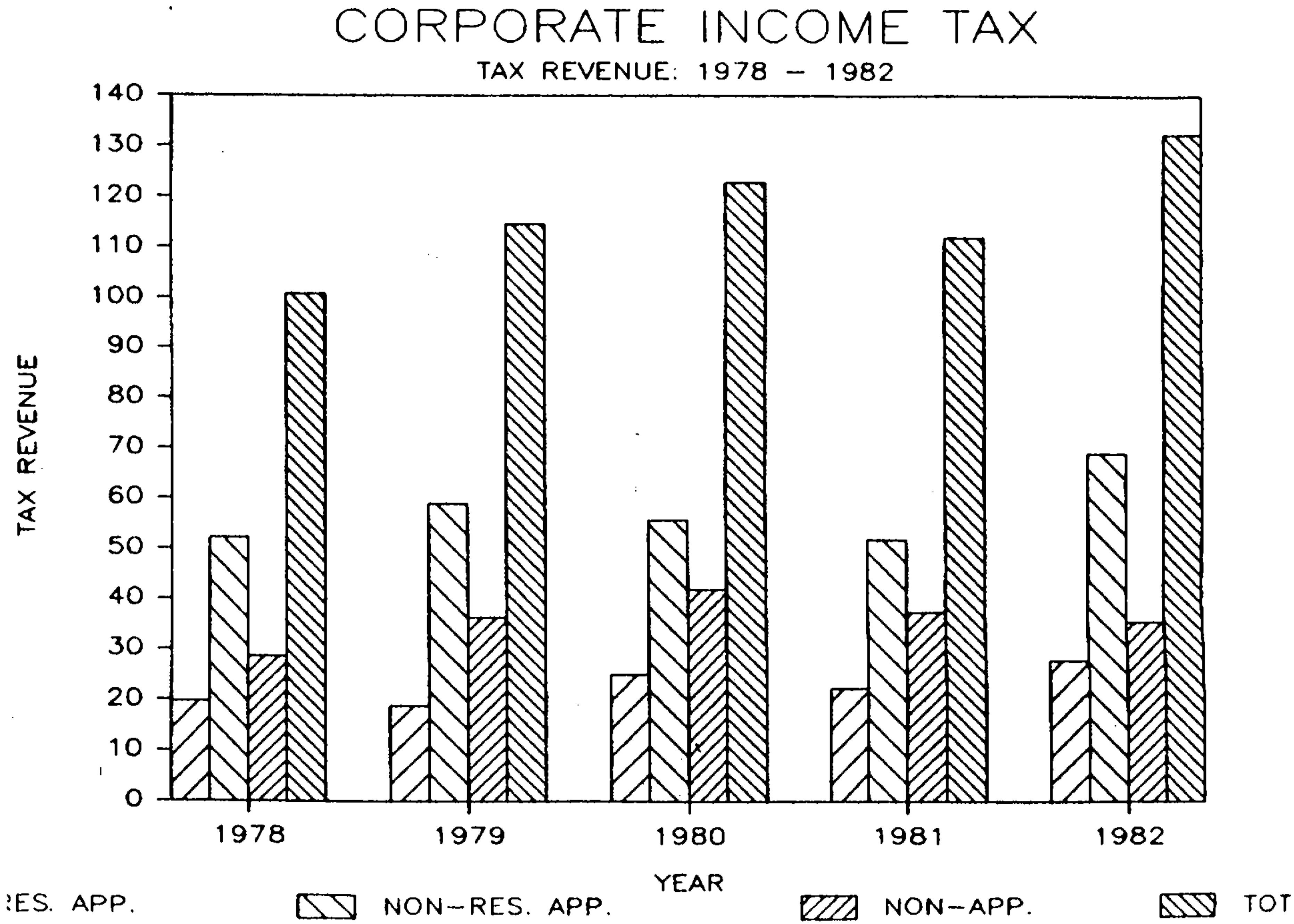
State Apportionment Formulas

State	Formula
Iowa	Sales
Illinois	3 factor
Kansas	3 factor
Minnesota	3 factor or 70% sales, 15% payroll, 15% property
Missouri	3 factor or single "volume of business" factor (includes 1/2 of receipts from transactions partly within and partly without Missouri)
Nebraska	3 factor
North Dakota	3 factor
South Dakota	No tax
Wisconsin	Sales 50%, payroll 25%, property 25%

4. Neutrality Summary

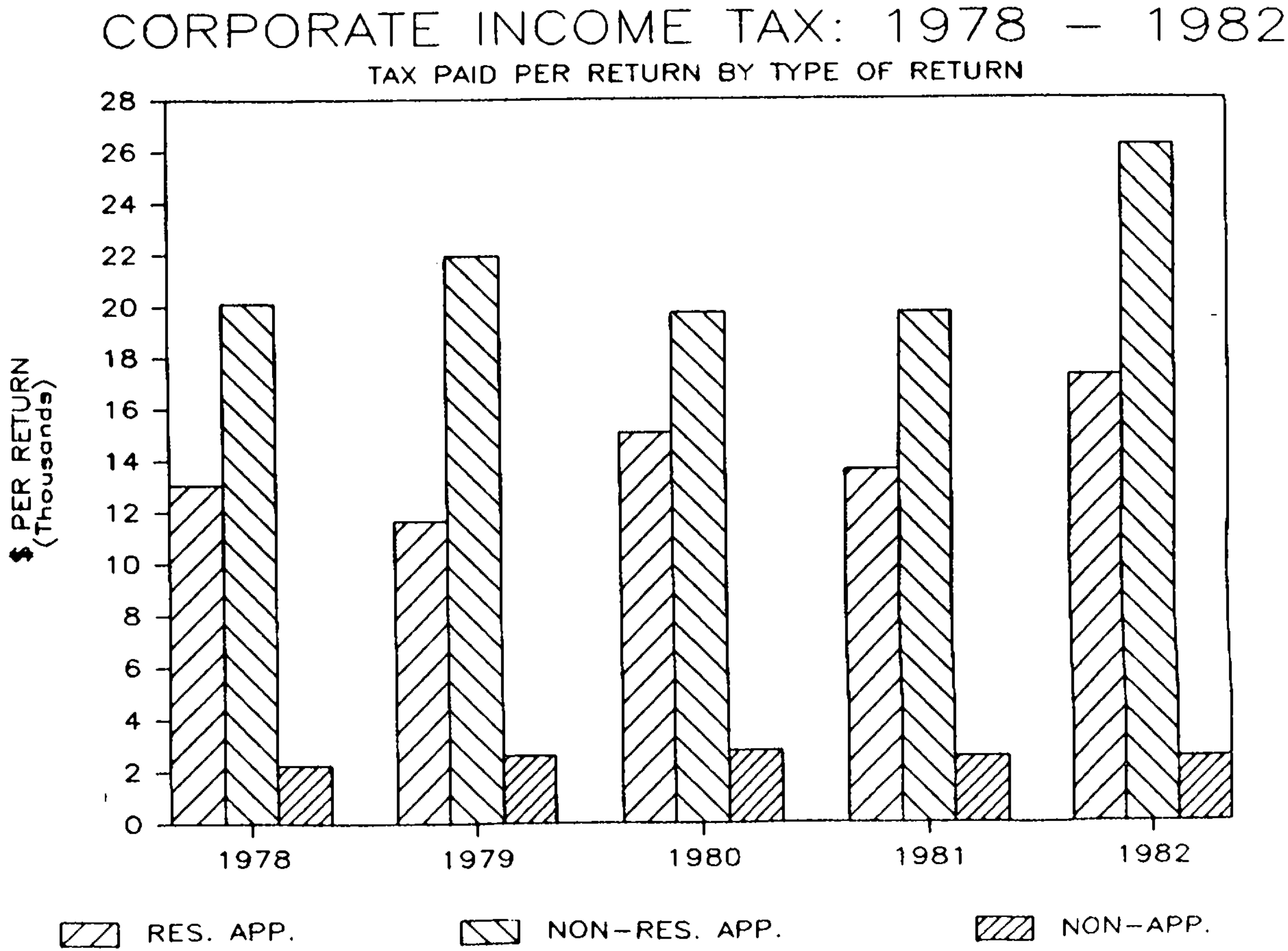
The high rate of corporate income tax is moderated by the federal tax deduction and the single-factor formula. The absence of certain changes to federal taxable income is also a positive economic development advantage. Corporate taxpayers also tend to look with disfavor at states which employ the throwback rule (attributing out-of-state non-taxable sales back to the originating state) and states which impose combined apportionment on unitary businesses. It is well to remember, however, that states which employ these methods claim they have not suffered from a loss of business due to them and have, in some instances, increased their revenues and have been able to provide better services.

Figure 5



CORPORATE INCOME TAX
TAX REVENUE: 1978 - 1982
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
TAX REVENUE
1978
1979
1980
1981
1982
YEAR
RES. APP.
NON-RES. APP.
NON-APP.
TOT

Figure 6


CORPORATE INCOME TAX: 1978 – 1982
TAX PAID PER RETURN BY TYPE OF RETURN
$ PER RETURN (Thousands)
0
2
4
6
8
10
12
14
16
18
20
22
24
26
28
1978
1979
1980
1981
1982
RES. APP.
NON–RES. APP.
NON–APP.

E. Yield

1. Growth/Elasticity

Corporate Income Tax. Measured as revenue, total tax liability grew from $101 million in fiscal year 1978 to $132.4 million in fiscal year 1982, an increase of 31.1 percent. During the same period, Iowa corporate income grew 29.2 percent. Revenue increased from 1981 largely due to an increase from 10 to 12 percent in the tax rate applicable for firms filing in the highest income brackets. If this rate increase had not gone into effect, revenue from the corporate income tax would have changed little from 1980 to 1982.

In all five years corporations filing non-resident apportioned returns paid the largest amount of tax as shown in Figure 5; for example in 1982, non-resident apportioning firms accounted for 52.1 percent of total corporate income tax revenue. Non-resident apportioners also paid the largest amount of tax per return as shown in Figure 6. These findings reflect the larger relative size of non-resident firms filing apportioned returns.

Franchise Tax. Franchise Tax receipts grew from $10.14 million in 1978 to $15.69 million in 1982 as shown in Figure 7. Receipts dropped from 1981 to 1982 due to a change in the rate structure from a graduated to a flat rate system.

Figure 8 shows that despite the lower tax rates for larger firms, tax revenue from larger firms grew at nearly 20 percent per year from 1978 to 1982, while tax revenue from smaller firms fell sharply. The tax base of firms with greater than $500,000 in taxable income more than doubled over the period, while the taxable income reported in the lower brackets fell sharply.

2. Reliance

In 1980, revenues from corporate income taxes represented 6 percent of total state and local taxes for the state taken as a

Figure 7

FRANCHISE TAX RECEIPTS
1978–1982

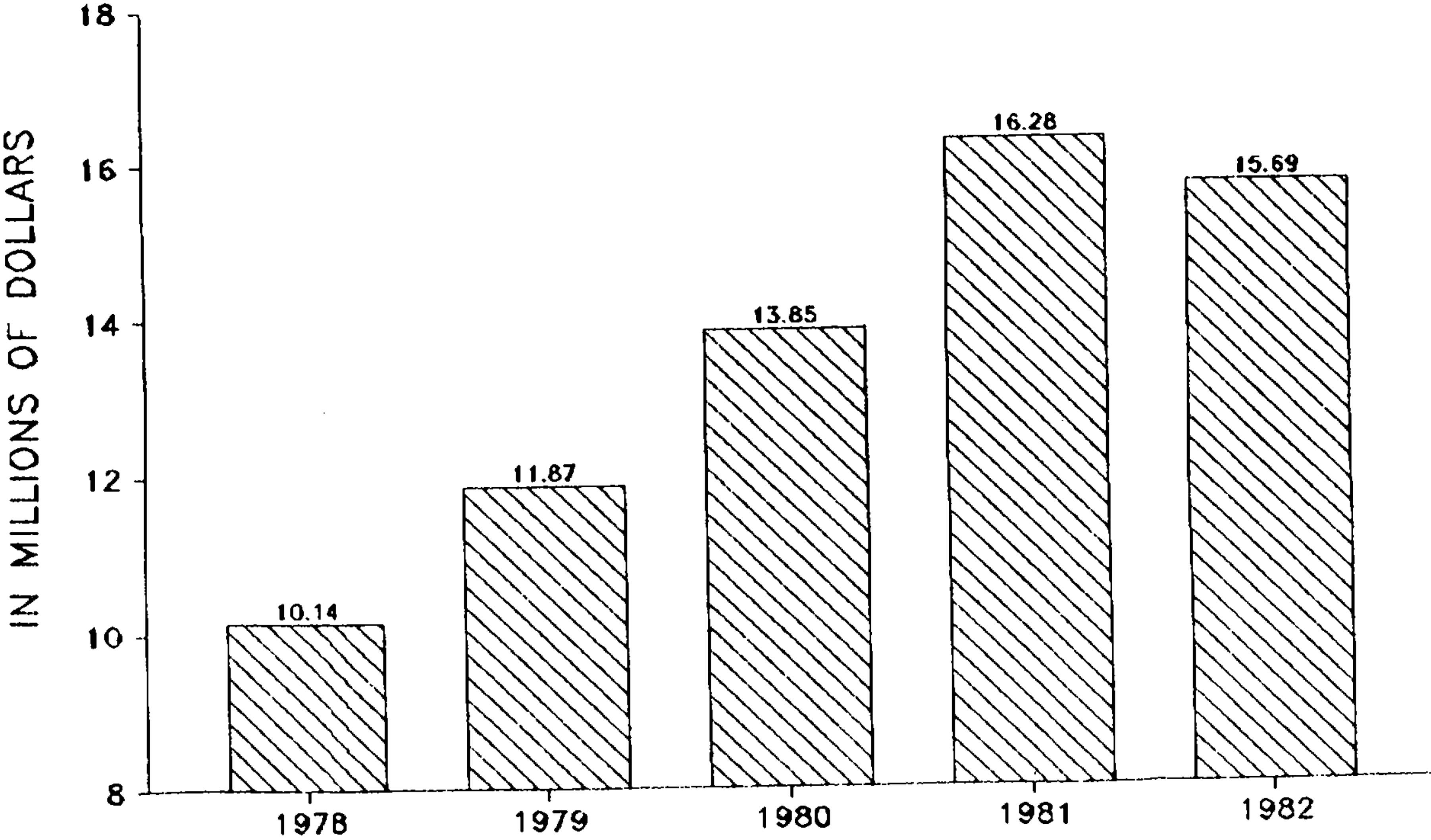
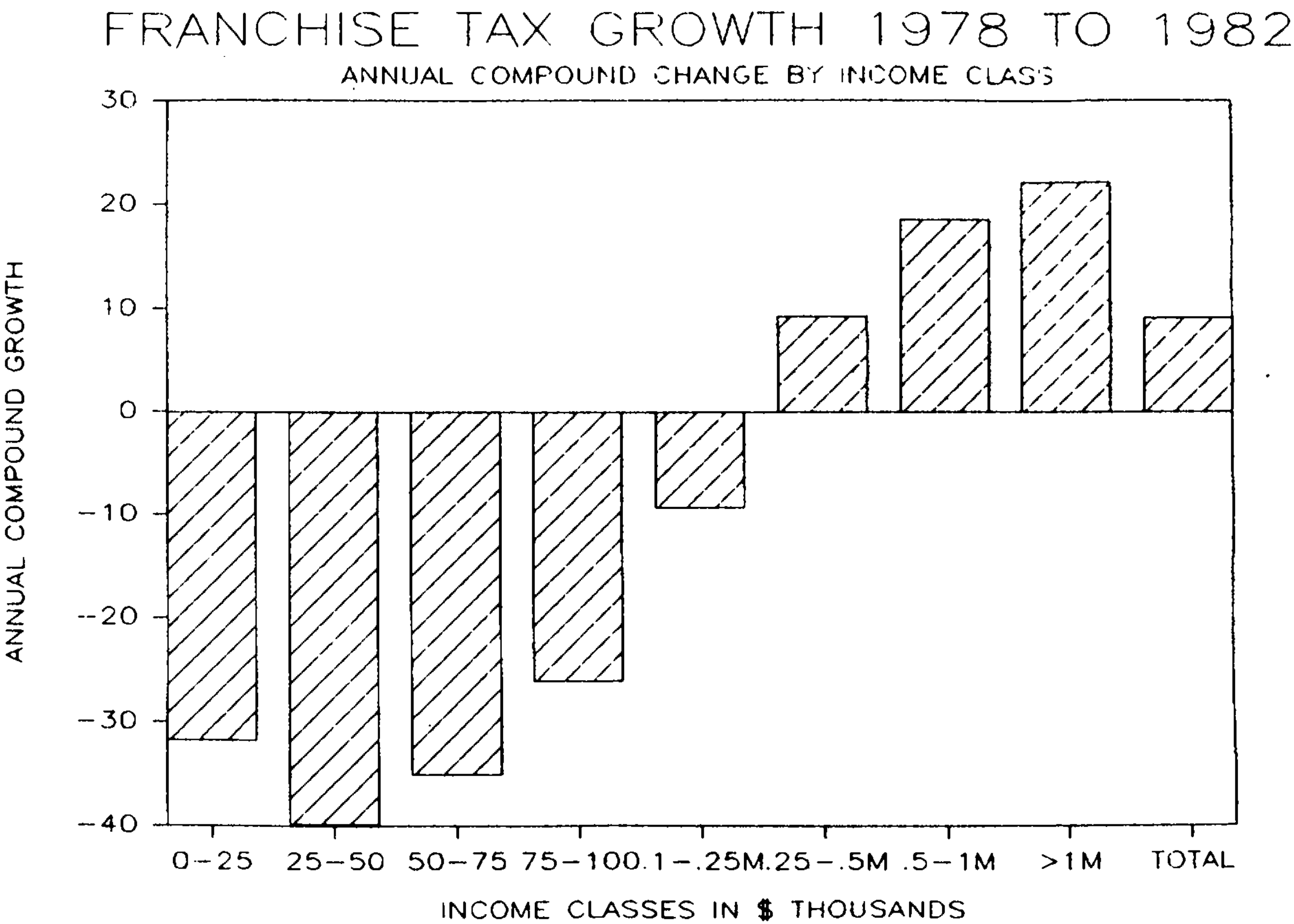


Figure 8


FRANCHISE TAX GROWTH 1978 TO 1982
ANNUAL COMPOUND CHANGE BY INCOME CLASS
ANNUAL COMPOUND GROWTH
30
20
10
0
-10
-20
-30
-40
0-25
25-50
50-75
75-100
.1-.25M
.25-.5M
.5-1M
>1M
TOTAL
INCOME CLASSES IN $ THOUSANDS

whole. For the most recent year available the reliance of the comparable states is shown below.

Table 14

Reliance of Corporate Income Tax Revenues

State		% of Major Local Taxes
Iowa	......	4.8%
Illinois	......	3.5%
Kansas	......	6.7%
Minnesota	......	5.2%
Missouri	......	3.2%
Nebraska	......	3.3%
North Dakota	......	4.2%
South Dakota	.....	-0-
Wisconsin	......	5.7%

3. Capacity

According to the most recent ACIR figures, Iowa had a capacity for this tax of 89.5 and an effort figure of 93.6.

4. Yield Summary

The growth in revenues during the period analyzed was mainly the result of a rate increase. Changes in the federal law and in the economy have served to hold down growth in corporate taxable income.

Iowa's reliance on this revenue source is somewhat lower than the average but if revenues from financial institutions and insurance companies are added in, the reliance is closer to the national average.

F. Simplicity

The tax is simple to compute and administer due to its close tie to federal taxable income.

G. Possible Modifications

1. Employ a Three-Factor Formula

A. Description

Income from corporations is presently apportioned on the basis of the sales or receipts factor. Businesses which are doing business within and without Iowa are permitted and required to apportion their income. Those corporations which are doing business only in Iowa are required to allocate 100 percent of their income to Iowa. The words in the Iowa Code, Section 422.33,3, read: "... if such trade or business is carried on partly within and partly with the state ..." to denote those businesses subject to apportionment. The Code in Section 422.32, 10, states, "For purposes of allocation and apportionment of income under this division, a taxpayer is taxable in another state if: (a) In that state he or she is subject to a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business, or a corporate stock tax; or (b) that state has jurisdiction to subject the taxpayer to a net income tax regardless of whether, in fact, the state does or does not." While the Code does not specifically tie the carrying on of business outside of Iowa to the concept of taxability in another state, the law has been interpreted to allow apportionment only for corporations which are taxable in another state.

A modification requiring property and payroll to be included in the apportionment formula would be imposed to increase revenues and to increase horizontal equity between resident apportioners and non-resident apportioners.

B. Explanation of the Data

Because it is not possible to determine what the property and payroll factors would be for apportioning corporations, the analysis was based on data developed for three hypothetical corporations: a high value-added manufacturer or one in which the business costs such as wages, rents, interest and other costs associated with producing goods are high compared with the cost of the raw material supplies and profits are generally high; a low value-added manufacturer or one in which production costs are not great and profits are generally lower; and a non-manufacturing operation. Examples of these different types are a farm implement manufacturer (high value-added), a food processing company (low value added) and a wholesaler. These three types of corporations are typical of Iowa businesses which would be affected by a change in the method of apportionment.

The analysis used current Iowa law and current financial data and statistics.

C. Equity

1) Vertical. Assuming no change in rates, vertical equity would not be affected by this modification and the tax would remain progressive.

2) Horizontal. The concept of apportioning income rests on assigning income to a state based on the activity of the company. The three factors of payroll, property and sales are assumed to measure that activity and are also assumed to bear a rational relationship to the services and benefits afforded by the state to the corporation doing business in and deriving income from the state. The use of the single sales or receipts factor distorts this relationship and ignores the services provided by the state to persons and property.

The data derived from the model indicate that those types of firms which are more likely to locate a greater proportion of their employees and property within Iowa in relation to sales will, under this modification, bear an increased tax burden. The high value-added manufacturer is likely to have less of his total property and payroll located within Iowa but more of his sales within Iowa. The low value-added manufacturer tends to have more sales out of Iowa but more operations within the state. The wholesaler is likely to have a more even distribution of each factor within and without Iowa. The low value-added manufacturer would, therefore, have the greatest increase in tax burden.

D. Neutrality

The single-factor formula is intended to be non-neutral and was instituted to act as an incentive for choosing an Iowa location over locations in competing states. To the extent that state taxes influence location decisions, the modification can affect location decisions for those corporations which have a considerable portion of their property and payroll in Iowa and sell most of their goods outside of the state.

E. Yield

Because of the variations in income and apportionment factors, it is difficult to assess accurately the revenue change which could be attributed to this modification. The most recent work done in this area was a survey by the Iowa Department of Revenue taken in 1975. Their work resulted in an estimate of the increase in the corporate income tax due to a three-factor formula of 32 percent. In 1984 this would have meant approximately $54,000,000 in additional revenues. Based on the models of hypothetical firms, tax increases would range from 14.7 percent for a wholesale operation to 29.3 percent for a high value manufacturer to 147.5 percent for a low value manufacturer. Tax increases could be much larger depending on the geographic distribution of firms' property, employment, and sales. For example, the tax increase would be approximately 320 percent for a high value added manufacturer located in Iowa (95 percent of its property and employment) which makes only 20 percent of its sales in Iowa. Companies with this allocation of factors would face the largest tax increases under a three factor formula, increases for other firms would vary based on the allocation of the three factors.

F. Simplicity

This modification would make the tax somewhat less simple for the tax administrators, but because the three factor formula is the most common formula used by the states, it would not have a great impact on taxpayers.

2. Eliminate the Federal Tax Deduction

A. Description

Presently Iowa corporate taxpayers may subtract 50 percent of their federal taxes paid from their federal taxable income in arriving at adjusted federal taxable income. Under this modification the subtraction would be eliminated. The modification would be imposed to increase revenues.

B. Explanation of the Data

The analysis was based on 1981 data and broken down into the following three categories: resident apportioning; non-resident apportioning; and non-apportioning - The marginal rates in effect in 1981 were 6%, 8% and 10%. In 1982 the marginal rate for income of $250,000 or more was increased to 12%.

C. Equity

1) Vertical. The elimination of the federal deduction would not affect the progressive nature of the tax.

2) Horizontal. Percentage increases in taxes due the state and in effective tax rates are very similar for each category of corporate taxpayers and no horizontal inequities would arise as a result of this modification.

D. Neutrality

The federal deduction tends to lower the effective tax rate. Eliminating the deduction increases the effective tax rate by a maximum of 2.6% (8.31% to 8.53%) for corporations with income between $100,000 and $250,000 and less than that for all other income categories. It is unlikely that this level of increase would affect location/investment decisions. Of the comparable states, only Missouri and North Dakota allow the federal tax deduction.

E. Yield

In 1981 this modification would have increased revenues by approximately $20,000,000 or 17.8 percent. See the Appendix for complete description of the analysis.

F. Simplicity

Elimination of the federal deduction would remove one calculation and lead to some simplification.

3. Substitute a Flat Rate for the Graduated Rate

A. Description

There are four rates applied under the present system. Under this modification a single rate would be applied to all income categories. Three alternatives have been examined; a rate of 9.65%, a rate of 6% and a rate of 7.25%. The modification would be imposed for simplicity and neutrality purposes.

B. Explanation of the Data

The analysis was done for the years 1978 through 1982. The rates were derived three ways: the mean, or average tax rate determined by dividing total tax revenues by total adjusted income (9.65%); the median, or mid-point of the effective tax rates for all returns filed (6%); and the flat states' average, the average tax rate as of January 1, 1984 of all the states which impose a flat rate on net income (7.25%). The 1982 year is used to illustrate the effects since the last rate change affected the 1982 taxes.

C. Equity

1) Vertical. The imposition of a flat rate will make the tax basically proportional rather than progressive.

2) Horizontal. A flat tax will not change the present horizontal equities and inequities.

D. Neutrality

Depending on the tax rate chosen, a flat rate could, to the extent the corporate rate affects location/investment decisions, make Iowa more attractive to corporate taxpayers. The highest rate, 9.65 percent is lower than the present rate for corporations with income of $100,000 or over. Both resident and non-resident apportioning corporations have an average income per return which is higher than $100,000. Non-apportioning corporations tend to be smaller and have less income and a 9.65 percent rate would represent an increase (based on average income per return) of 20 percent.

The flat states' average tax rate of 7.28 percent would represent a decrease for apportioners and non-apportioners based on average income per return, but a 20.8 percent increase for those corporations with $25,000 income or less.

The median rate of 6 percent represents no increase for any filer and a reduction for most.

E. Yield

In 1982 a flat rate of 9.65 percent would have produced the same revenues as were actually collected. The 7.25 percent rate would have decreased revenues by almost $33,000,000 or 24.8 percent. The 6 percent rate would have decreased revenues by $50,000,000 or 37.8 percent.

F. Simplicity

A flat rate is simpler to calculate and reduces incentives to calculate lower income figures to avoid entering a new bracket.

4. Impose Combined Apportionment on Unitary Businesses

A. Description

Presently, Iowa treats each corporate entity as a single taxpayer. Each corporation doing business in Iowa calculates its own income in a ratio of Iowa receipts to total receipts of the corporation. Under the combined apportionment method, a group of corporations which are related through common ownership, centralization of management, functional integration and a flow of value will be considered to be conducting a unitary business and any member of the unitary group who is doing business in Iowa will calculate its income on the combined income of the group and apportion its income to Iowa based on the ratio of receipts in Iowa to total receipts of all members of the group.

Different states determine membership in the unitary group on different grounds, the most common difference being the inclusion or exclusion of non-U.S. corporations. A worldwide unitary group consists of members who meet the above criteria with no regard for the country in which any member may be incorporated or may be conducting most of its activities. A domestic unitary group consists of members meeting the above criteria who are incorporated or conducting a substantial amount of business in the United States.

B. Explanation of the Data

The analysis does not include revenue data since there is considerable disagreement as to the validity of revenue estimates in this area of taxation. No state to date has been able to verify decreases or increases in revenues arising from the elimination or imposition of the combined apportionment method.

C. Equity

1) Vertical. The modification does not affect the progressivity of the tax.

2) Horizontal. If one assumes that a unitary business or integrated economic enterprise may be conducted by either a single corporation which employs branches and divisions to perform different functions or by a group of corporations in which different functions are performed by separately incorporated entities, then combined apportionment increases the horizontal equity of the corporate income tax. Presently, if a corporation is doing business in Iowa it will be taxed on a portion of its entire income, even if various branches or divisions of the company have no state presence. If, however, the company incorporated the non-Iowa divisions, the company would be taxed only on a portion of the income of the Iowa corporation. Under combined apportionment the form taken by the business is ignored and income is calculated based on the economic activities which underlie the production of total income.

Non-apportioning corporations would not be affected by the modification.

D. Neutrality

The majority of businesses are opposed to combined apportionment. They believe that corporate lines should be respected and that the indefinite criteria used to determine unitary group members leads to uncertainty and instability. More businesses are opposed to worldwide combination than to domestic combination. Of the twenty-one states which permit or require combined reporting, ten use the domestic method (Oregon and Nebraska just enacted statutes moving from worldwide to domestic) and three of the ten (California, Colorado and Florida) are considering changing their worldwide requirements.

E. Yield

Most states believe combined apportionment leads to increased revenues in the long run but the short run experience is generally a loss of revenues. This result is due to the fact that those businesses which benefit from combination (groups for which the ability to combine profits with losses leads to reduced combined income or no taxable income) tend to file on that basis immediately and claim refunds or carry their losses forward. Companies which would have increased taxes (groups which must combine their income with members having greater income) tend to wait until the state finds them to be unitary under audit and then often take advantage of appeals procedures to protest the finding.

F. Simplicity

Combined apportionment adds considerable complexity to the corporation income tax. Special auditing techniques must be learned, more audits must be performed, more hearings must be held and the tie to federal taxable income is lessened. Taxpayers must perform more work and may avail themselves of sophisticated planning techniques to minimize their tax liability.

5. Tax Financial Institutions Under the Corporate Income Tax

A. Description

The State of Iowa imposes a franchise tax according to and measured by net income on financial institutions including state banks, national banks having their principal office in Iowa, trust companies, federal savings and loan associations and production Credit associations.

The franchise tax is imposed annually in an amount equal to 5 percent of the net income received or accrued during the taxable year. If the net income of the financial institutions is derived from its business carried on entirely within Iowa, the tax shall be imposed on the entire net income, but if the business is carried on partly within and partly outside of Iowa, the portion of net income reasonably attributable to the business in Iowa shall be specifically allocated or equitably apportioned within and without Iowa. All financial institutions with the exception of Production Credit Associations determine their business activity by a ratio of "total savings or customer deposits net withdrawals" for each office location to the entire "total savings or customer deposits net of withdrawals" for all office locations. Production Credit Associations determine their business activity by a ratio of "loan volume" for each office location to the entire "loan volume" for all office locations.

The tax base of the franchise tax on financial institutions is computed as follows:

a. The starting point used is taxable income per the federal return computed after the dividend credit but before net operating loss.

b. Interest and dividends from evidences of indebtedness and from securities of state and other political subdivisions exempt from federal income tax is an addition to federal taxable income.

c. Other additions include:

(1) Iowa franchise tax deducted on the federal return; and,

(2) Federal deductions related to safe-harbor leases.

d. Reductions to federal taxable income include the following:

(1) Iowa net operating losses;

(2) The amount of the Work Incentive Credit allowed to the extent that the credit increased federal taxable income; and,

(3) The amount of income included in federal taxable income because of sale-leaseback transactions.

The major difference in the modifications to federal taxable income between financial institutions and regular corporations is that interest and dividends from federal securities and any federal income taxes paid may not be deducted by financial institutions in arriving at modified federal taxable income. These modifications were amended into the Act in 1980, and the amendment concurrently changed the rates from 5% on the first $25,000 of taxable income, 6% on the next 450,000, 7% on the next $25,000 and 8% on all net income over $100,000, to a flat 5%.

Under this modification financial institutions would be subject to the corporation tax rates.

B. Explanation of the Data

The modification was analyzed using 1981 data and tax rates and no change was made in the taxable base, i.e., the federal tax deduction and interest and dividends from federal securities were not deducted from taxable income. If these deductions were allowed, financial institutions would decrease their taxable income by approximately 20%, most of this due to the large part federal securities play in generating financial institutions' income.

C. Equity

1) Vertical. The present franchise tax is proportional. If the modification were instituted the tax would become progressive.

2) Horizontal. Data is not available on differences in effective tax rates between types of financial institutions at the same income level. Assuming no change in the taxable base, this modification would not change any present horizontal equities or inequities.

D. Neutrality

Financial institutions are taxed at regular corporate rates in 46 percent of the states. Thirty-five percent impose a rate which is higher.

Following is the tax treatment of financial institutions in the comparable states.

Table 15

Comparative Treatment of Financial Institutions

State	Tax Treatment
Iowa	Franchise tax at 5 percent
Illinois	Corporate income tax at corporate rates
Kansas	Excise tax on income at 4-1/4% + a 2-1/8% surtax on income over $25,000 for national and state banks and 4-1/2% + a 2-1/4% surtax on income over $25,000 for trust companies, savings and loan associations and development credit associations.
Minnesota	Excise tax based on net income at corporate rates.
Nebraska	Corporate income tax at corporate rates.
North Dakota	Excise tax based on net income at 5%. Additional privilege tax on banks and trust companies at 2%.
South Dakota	Excise tax on all but financial institutions organized under federal laws; based on net income at 6%.
Wisconsin	Corporate income tax at corporate rate.

E. Yield

While the corporate rates are higher than the franchise tax rates, many banks would pay no tax at all under this modification since the income from federal securities is not taxable under an income tax and this income represents a large part of total income. Because of this, 1984 revenues from financial institutions would be likely to decrease. If corporate rates were applied to the franchise tax with no change in base, revenues from this source could increase almost 100% (in 1981 this would have resulted in an increase of $16,186,969).

F. Simplicity

If the taxable base for financial institutions is not changed, the corporation tax would be somewhat more complex since different modifications would have to be made by different types of businesses. The presence of one less tax and tax form would lead to a certain amount of simplification.

6. Tax Insurance Companies Under the Corporate Income Tax

A. Description

Insurance companies, with the exception of fraternal beneficiary associations and non-profit hospital and medical service corporations are subject to the Gross Premiums Tax. Unauthorized insurers are also subject to the tax and insurers authorized to sell marine insurance in Iowa are taxable on taxable underwriting profits from insurance written in Iowa at a rate of 6-1/2 percent.

The 2 percent rate is imposed on gross premiums on the following basis:

a) Life insurance-gross premiums covering risks resident in Iowa but excluding reinsurance, premiums from policies issued in connection with a pension, annuity, profit sharing plan or individual retirement annuity qualified or exempt under various sections of the Internal Revenue Code, returned premiums, except cash surrender values and dividends paid in cash or applied in reduction of premiums or left to accumulate to credit of policyholders or annuitants;

b) Other companies-gross premiums, assessments and fees received for business done in Iowa after deducting amounts returned upon cancelled policies or rejected applications;

c) Fire insurance companies may deduct premiums returned upon cancelled polices issued on property located in Iowa;

d) Unauthorized insurers pay on gross premiums charged for insurance on subjects located, resident or to be performed in Iowa.

If any state imposes taxes, fees, fines, penalties, licenses, deposit requirements or other obligations on Iowa companies doing business in that state which are in excess, in the aggregate, of Iowa's taxes and fees, insurance companies from such state will be subject to the higher costs for doing business in Iowa.

B. Explanation of the Data

The Office of the Insurance Commissioner was unable to obtain data on the net income of foreign insurers. The data used, therefore, is drawn from the testimony given to the Committee by the Iowa Life Insurance Association and the Iowa Insurance Institute based on their survey of the five largest Iowa based life insurance companies and the five largest Iowa based property and casualty companies.

C. Equity

1) Vertical. Since the present tax is imposed at a flat rate it results in a proportional tax burden. The modification would impose the corporate graduated rate system on insurance companies which would result in a progressive tax burden.

2) Horizontal. While it would appear that placing all corporations under a single tax would be most equitable, it must be noted that horizontal equity refers to like treatment of equals or of like entities. Insurance companies, like financial institutions, are different in substantial ways from the average manufacturing or mercantile corporation on both the income production and expense sides of the general profit and loss picture. Banks, for example, receive much of their income from federal obligations. Income from this source is not taxable by the states on a direct net income tax basis but is taxable under a franchise tax. Insurance companies are not only different from other corporations, but differ from each other. Life insurance companies are treated differently under federal tax provisions

than are other insurance companies. The Blue Cross and Blue Shield Plans are tax-exempt organizations for federal purposes. Mutual insurance companies receive different federal treatment than either life or other insurance companies. In short, the type of insurance written distinguishes one kind of company from another and both the present gross premium tax and the federal income tax take cognizance of the differences by providing different modifications to gross income or premiums to arrive at taxable amounts.

D. Neutrality

The question of competitive advantage is quite different in insurance taxation than in other taxes due to the concept of retaliatory taxation. While the Interstate Commerce Clause of the Federal Constitution prohibits states from discriminating between foreign and domestic companies, the U.S. Supreme Court has held that the insurance business, although transacted in interstate commerce, is regulated by the states and uniformity of treatment is not required. As a result of this decision some states have imposed taxes on foreign companies which are higher than those imposed on domestic companies. Since many states, like Iowa, have a retaliatory clause, the effect of this is to raise the tax rate for the domestic companies when they do business in the foreign states.

The most common form of insurance taxation is the gross premiums tax and the most common rate is 2 percent. The following table shows the treatment of foreign and domestic insurers in all states.

Table 16

Gross Premium Tax Rates Imposed on

Foreign and Domestic Insurance Companies

State	Foreign	Domestic
Alabama	4.00%	1.00%
Alaska	3.00%	1.50%
Arizona	2.00%	1.00%
Arkansas (1)	2.50%	2.50%
California	2.33%	2.33%
Colorado (2)	2.25%	1.00%
Connecticut (3)	2.00%	2.00%
Delaware	1.75%	1.75%
District of Columbia	2.00%	2.00%
Florida (4)	2.00%	2.00%
Georgia	2.25%	2.25%
Idaho (5)	3.00%	3.00%
Illinois (6)	2.00%	2.00%
Indiana (7)	2.00%	2.00%
Iowa	2.00%	2.00%
Kansas	2.00%	1.00%
Kentucky	2.00%	2.00%
Louisiana (8)	-	-
Maine	2.00%	2.00%
Maryland (9)	2.00%	1.00%
Massachusetts	2.00%	2.00%
Michigan (10)	2.00%	-
Minnesota (11)	2.00%	2.00%
Mississippi (12)	3.00%	1.50%
Missouri	2.00%	2.00%
Montana (13)	2.75%	2.75%
Nebraska (14)	2.00%	.60%
Nevada	2.00%	2.00%
New Hampshire (15)	2.00%	2.00%
New Jersey	2.00%	2.00%

State	Foreign	Domestic
New Mexico (16)	2.50%	2.50%
New York	1.00%	1.00%
North Carolina	2.50%	1.50%
North Dakota	2.50%	2.50%
Ohio	2.50%	2.50%
Oklahoma (17)	4.00%	-
Oregon (18)	2.25%	-
Pennsylvania	2.00%	2.00%
Rhode Island	2.00%	2.00%
South Carolina (19)	2.00%	2.00%
South Dakota	2.50%	2.50%
Tennessee (20)	2.00%	1.75%
Texas	3.30%	3.30%
Utah	2.25%	2.25%
Vermont	2.00%	2.00%
Virginia	2.25%	2.25%
Washington	2.16%	1.16%
West Virginia	2.00%	2.00%
Wisconsin (21)	2.00%	2.00%
Wyoming	2.50%	1.50%

(1) Arkansas - Foreign and domestic insurers who fail to maintain a home office in the state are subject to the gross premiums tax. Domestic insurers who maintain a home office in the state are subject to the net income tax.

(2) Colorada - All insurance companies pay the gross premiums tax. However, any company which maintains a home or regional office in the state is subject to the lower tax of 1.00%.

(3) Connecticut - Foreign insurers pay the gross premiums tax. Domestic insurers pay the gross premiums tax and the corporation business tax. 80% of the corporate business tax is a credit against the gross premiums tax.

(4) Florida - All insurers must pay the gross premiums tax and the corporate income and emergency excise taxes. A credit is allowed against the gross premiums tax for income and excise taxes paid. Additionally, foreign insurers owning a regional home office in Florida are entitled to a credit against the gross premiums tax equalling 50% of the premiums tax due.

(5) Idaho - All insurers must pay the gross premiums tax. Domestic insurers are entitled to pay the tax at a rate of 1% if more than 25% of their gross assets are invested in Idaho.

(6) Illinois - All insurers must pay the gross premiums tax and the corporate net income tax. A deduction for net income taxes paid is allowed from the gross premiums tax. Domestic companies may be exempted from the gross premiums tax if:

a. their principal place of business is in Illinois;

b. they maintain in Illinois personnel knowledgeable of and responsible for the company's operations;

c. they conduct in Illinois substantially all their underwriting, policy issuing and serving operations relating to Illinois policyholders and,

d. they comply with Insurance Code provisions pertaining to the availability of company books and records.

(7) Indiana - Foreign insurers must pay the gross premiums tax. Domestic insurers may elect to pay either the gross premiums tax or the gross income tax. Domestic insurers must also pay the supplemental net income tax. If a domestic insurer elects to pay the gross premiums tax, he is entitled to a deduction for taxes paid for the supplemental net income tax.

(8) Louisiana - $140 minimum tax plus $170 per $10,000 or fraction thereof for premiums over $7,000.

(9) Maryland - All insurers must pay the gross premiums tax. Domestic insurance companies are allowed a credit for franchise taxes paid.

(10) Michigan - Foreign insurance companies pay the gross premiums tax. Domestic insurers are subject to the Michigan Single Business Tax.

(11) Minnesota - All insurance companies must pay the gross premiums tax and the corporate excise (income) tax. A Credit is allowed against the income tax for gross premium taxes paid.

(12) Mississippi - All insurance companies must pay the gross premiums tax and the corporate net income tax. A credit is allowed against the gross premiums tax for net income taxes paid.

(13) Montana - All insurance companies pay the gross premiums tax. Domestic insurers may obtain a rate reduction by investing a certain percentage of their assets in Montana securities.

(14) Nebraska - All insurance companies must pay the gross premiums tax and the corporate income tax. A credit is allowed against the income tax for gross premium taxes paid.

(15) New Hampshire - All insurance companies must pay the gross premiums tax and the corporate income tax. A credit is allowed against the income tax for gross premium taxes paid.

(16) New Mexico - All insurance companies must pay the gross premiums tax. All insurance companies are entitled to a reduced tax rate of .75% if 40% of the company's assets are invested in New Mexico investments.

(17) Oklahoma - Foreign insurance companies pay the gross premiums tax. Domestic insurance companies pay the corporate income tax.

(18) Oregon - Foreign insurance companies pay the gross premiums tax. Domestic insurance companies pay the corporate income tax.

(19) South Carolina - All insurance companies pay the gross premiums tax. However, domestic insurers' gross premium tax liability can not exceed 5% of net income computed under the net income tax laws.

(20) Tennessee - All insurance companies must pay the gross premiums tax. All insurance companies may obtain a rate reduction by investing a certain percentage of their assets in Tennessee securities.

(21) Wisconsin - All insurance companies pay the gross premiums tax. Domestic companies must also pay the corporate income tax. Gross premium taxes paid may be deducted from the taxable income base.

E. Yield

The bases of the gross receipts tax and the corporate income tax are so different that without good data on each kind of insurance company's income, revenue figures cannot be derived.

According to the Insurance Association and Institute's survey, a rate of 15% on life insurance companies and of 41.3% on property and casualty companies would have been needed to produce revenues comparable to those from the gross receipts tax in 1983. The American Council of Life Insurance calculated a 26.4% rate on life insurers and a higher rate on property and casualty insurers to raise comparable revenues. It is clear, therefore, that imposing the present corporate rates on these companies at the 6%-8%-10%-12% basis would result in a loss of revenues of well over 50%, for a 1983 loss of at least $25,000,000.

Further complicating projections are two federal issues: 1) the 1984 Tax Reform Act included a major change in the formula used for life insurance companies; and, 2) a recent General Accounting Office report on taxable income for casualty companies may lead to legislative changes for the taxation of this group of insurers.

F. Simplicity

A tax based on federal taxable income is easier to administer than a tax on gross receipts but if different bases and rates were necessary, new complexities would be added.

III. SALES AND USE TAXES

SALES AND USE TAXES

A. Description

1. Overview

   A. The retail sales tax is imposed at a rate of 4 percent on retail sales of:

      1. Tangible personal property
      2. Utility services,
      3. Selected personal and business services,
      4. Rooms rentals, and
      5. Amusement activities.

   B. The use tax is imposed on the use in Iowa of tangible personal property or services which otherwise are subject to Iowa sales tax but for which an eqivalent tax of 4 percent has not been paid.

   C. The motor vehicle use tax is imposed at the rate of 4 percent on the use in Iowa of vehicles subject to registration.

2. Retail Sales Tax Exemptions

   A. Agriculture

      1. Commercial fertilizer and agricultural limestone.
      2. Materials used to control disease, weeds, or insects or promote the health of plants or livestock produced as part of agricultural production for market.
      3. Fuel consumed in implements of husbandry used for agricultural productions.
      4. Fuel used in grain drying.
      5. Agricultural aerial application service.
      6. Horses, sold and used as draft animals.
      7. Portion of purchase price attributed as a discount on certain agricultural equipment purchased during period June 1, 1982, and July 1, 1984.

B. Business and manufacturing exemptions

1. Processing

a. Tangible personal property which by means of fabrication, compounding, manufacturing or germination becomes an integral part of other tangible personal property ultimately sold at retail.

b. Chemicals, solvents, absorbents or reagents, used consumed, dissipated or depleted in processing personal property intended to be sold ultimately at retail.

c. Fuel used to create heat, power or steam for processing or used to generate electric current.

d. Electricity or steam used in processing tangible personal property.

e. Taxable services when purchased and used in the processing of tangible personal property including the reconditioning or repair of tangible personal property of the type normally sold in the regular course of the retailers business and the type of property upon which sales or use tax will be paid at the time of sale.

2. Resale

a. Tangible personal property purchased for resale or purchased for resale in connection with a taxable service.

b. Sales of taxable service sold for resale.

3. Other exemptions relative to businesses.

a. Envelopes for advertising

b. Railroad rolling stocks or materials or parts used for railroad rolling stock.

c. Containers, labels, cartons, pallets, and certain other materials used for packaging or facilitating the transportation of property sold at retail.

d. Tangible personal property, purchased by its lessor, if the period of the lease is for more than one year and certain other conditions are met.

e. Chemicals used in the production of free newspapers or shoppers guides.

C. Sales of tangible personal property or services specifically exempted from tax.

1. Food for human consumption if eligible for purchase with USDA food stamps and not:

   a. prepared for immediate consumption, or

   b. sold through vending machines.

2. The following medical supplies if sold for human use or consumption:

   a. prescription drugs

   b. insulin, hypodermic syringes and diabetic testing materials

   c. prosthetic, orthotic or orthopedic devices

   d. medically prescribed oxygen

3. Sales of newspapers, free newspapers or shoppers guides and the printing and publishing of such periodicals.

4. Motor fuel and special fuel where fuel tax has been paid and not refunded.

5. Vehicles subject to registration or subject only to the issuance of a certificate of title.

6. Investment counseling performed by trust department.

7. Services performed on property delivered into interstate commerce.

8. Services performed on or in connection with new construction, reconstruction, alteration, or remodeling of a building or structure.

9. Services of a private employment agency, where the placed employee's principal place of employment is outside the state.

10. Sale, furnishing or service of transportation services including aerial, commercial and charter transportation services which are specifically exempt.

11. Sleeping rooms and other rooms rented for more than 31 consecutive days.

12. Exempt medical services including:

    a. rental of prosthetic, orthotic, and orthopedic devices if used by humans,

    b. services performed on humans by test laboratories

D. Sales exempt by virtue of the status or operations of the seller.

1. Sales under the auspices of educational, religious or charitable institutions, where the entire proceeds from the sales are expended for religious, educational, or charitable purposes. The exemption is not applicable to the gross receipts from games of skill, chance, or raffles and bingo games.

2. Sales by cities and counties, except sales of gas, electricity, water, heat and communication services to the public by a city.

3. Sales by elementary and secondary educational institutions of tickets or admissions to amusements, fairs and athletic events.

4. Sales by the State Historical Department of mementos and other items of property under the Department's control and at the State Capitol.

E. Sales exempt based upon purchaser's status or operations.

1. Sales to tax certifying or levying bodies of the state if the property or services sold are used for public purposes, except sales to a municipal utility.

2. Sales to municipal solid waste facilities.

3. Sales to nonprofit, private educational institutions if the property or services are used for educational purposes.

4. Sales to relief agencies (the agency must first pay the tax and then make application for refund).

F. Exemptions dependent upon the status or operations of both the buyer and the seller.

1. Sales by a contractor to a private, nonprofit educational institution or a tax certifying or tax levying body or governmental subdivision of the State (the tax certifying, levying, or governmental subdivision must pay the tax and then make application for a refund).

2. Sales by a trade shop to a printer of certain materials used to complete a finished product for retail sales.

G. Miscellaneous exemptions

1. Sales the State is prohibited from taxing by the Federal Constitution, Federal statutes or the Iowa Constitution.

a. sales by the federal government (such sales are subject to use tax)

b. sales to the federal government

c. sales to certain federally-chartered corporations

d. sales to American Indians with delivery on recognized settlements or reservations.

e. sales of newsprint and ink

2. Casual sales

3. Sales made within Iowa to be delivered outside Iowa.

4. Discounts, refunds and the value of tangible personal property traded toward the purchase price of other intangible personal property if certain conditions exist.

3. Use Tax Exemptions

A. The use of any property within Iowa upon which sales, use or an occupation tax has already been paid to Iowa or another state.

B. The use of tangible personal property, the gross receipts from the sale of which are exempt from retail sales tax under the retail sales tax

C. The use of services exempt from taxation

D. The use of tangible personal property by the sale of that property in the regular course of business.

E. The use of tangible personal property in processing.

F. The use of tangible personal property by non-resident individuals while within the State of Iowa.

G. Advertisement and promotional materials, seed catalogs, envelopes for the former, and other similar material acquired outside of Iowa, temporarily stored in the State and subsequently sent outside the State.

4. Motor Vehicle Use Tax Exemptions

A. Value of property traded

B. Lease vehicles in interstate commerce - vehicles subject to registration, other than those designed primarily for carrying persons, and property which by means of fabrication, compounding or manufacturing become a part of such vehicles, if the vehicles are purchased for lease and actually leased to a lessee for use outside the State of Iowa, and the subsequent sole use in Iowa is in interstate movement.

C. Vehicles transferred due to business reorganization - vehicles subject to registration transferred from a sole partnership or a partnership to a corporation formed by the sole proprietorship or partnership for the purpose of continuing the business when all the stock of the corporation so formed is owned by the sole proprietor and the sole proprietor's spouse or by all the partners.

Table 17

1983 Tax Incidence by Family Size*

Income	Family Size 1&2	3&4	over 5
$1 - $ 8,000	1.15%	1.29%	1.38%
$8,001 - $ 10,000	1.09%	1.22%	1.30%
$10,001 - $ 12,000	1.03%	1.17%	1.24%
$12,001 - $ 14,000	.99%	1.12%	1.19%
$14,001 - $ 16,000	.89%	1.09%	1.14%
$16,001 - $ 18,000	.92%	1.05%	1.11%
$18,001 - $ 20,000	.90%	1.02%	1.08%
$20,001 - $ 22,000	.87%	1.00%	1.05%
$22,000 - $ 24,000	.85%	.97%	1.02%
$24,001 - $ 26,000	.83%	.95%	.99%
$26,001 - $ 28,000	.81%	.93%	.97%
$28,001 - $ 30,000	.79%	.91%	.95%
$30,001 - $ 32,000	.78%	.90%	.93%
$32,001 - $ 34,000	.76%	.88%	.91%
$34,001 - $ 36,000	.75%	.87%	.90%
$36,001 - $ 38,000	.73%	.85%	.88%
$38,001 - $ 40,000	.72%	.84%	.87%
$40,001 - $ 45,000	.67%	.78%	.81%
$45,001 - $ 50,000	.63%	.74%	.76%
$50,001 - $ 55,000	.60%	.70%	.73%
$55,001 - $ 60,000	.58%	.67%	.69%
$60,001 - $ 65,000	.55%	.65%	.67%
$65,001 - $ 70,000	.53%	.63%	.64%
$70,001 - $ 75,000	.52%	.61%	.62%
$75,001 - $ 80,000	.50%	.59%	.61%
$80,001 - $ 85,000	.49%	.58%	.59%
$85,001 - $ 90,000	.48%	.56%	.58%
$90,001 - $ 95,000	.47%	.55%	.56%
$95,001 - $100,000	.46%	.54%	.55%

*Calculated by dividing figure from the Optional Sales Tax Table in IRS Form 1040 by the upper end of the income bracket.

B. Explanation of the Data

Table 17 presents estimates of the incidence of the Iowa sales and use taxes. The estimates were derived from the Optional Sales Tax Table included in the federal tax form 1040. The data reflects average sales taxes paid broken down by different family size and income bracket. These averages were then divided by the upper end of the income brackets to obtain estimates of the incidence. The incidence estimates reflect the March 1, 1983 increase in the Iowa sales tax rate from three to four percent and range from a high of 1.38 percent for families with more than five members in the lowest income bracket to a low of 0.46 percent for one and two member households in the highest income bracket.

C. Equity

1) Vertical. A sales tax, by its nature, tends to be regressive when measured by income. The tax is imposed on a proportional basis, i.e., a single rate is applied to all purchases with no gradations related to the cost of the goods or services purchased nor to the income of the purchaser. However, because lower income people spend more of their total income on consumable goods than do higher income individuals sales taxes are regressive, in general. The presence of food and drugs in a sales tax base makes the tax most regressive but even the absence of these items does not lead to proportionality or progressivism. Because of the inherent features of a consumption tax (sales tax) Iowa's tax remains regressive.

In Iowa, personal services like repair services are subject to the sales tax, while professional services, e.g., legal, architectural, etc., are not. Professional services tend to be purchased by those with higher incomes, while purchases of personal and repair services tend to account for a larger share of a lower income persons' income than those in higher income brackets. Thus the current taxation of services tends to reinforce the regressive nature of the sales tax.

2) Horizontal. The greatest horizontal inequity in the area of sales taxation relates to family size. Larger families require more goods and, as a result, the effective tax rate for these families will be greater than that for small families with the same income.

Another inequity in the tax relates to differing treatment of agriculture and industry. Warehousing of all products except raw agricultural products is exempt from tax.

3) Equity Summary. The sales tax in Iowa is less regressive than it would be if food and drugs were taxed but still retains the inherent features of a consumption tax.

D. Neutrality

The cost of goods and services has a considerably greater effect on purchase decisions than does the much lesser tax cost. The tax cost can have an impact on the purchase of expensive items such as vehicles, machinery and equipment. Because of the complementary use tax, Iowa residents cannot escape taxation by purchasing goods out of state for many items but location decisions as opposed to purchase decisions may be affected by the sales and use tax systems.

1. Rate

The following table compares the sales tax rate in Iowa with those in effect in surrounding states.

Table 18

Comparison of Sales Tax Rates

State	Rates
Iowa	4.0%
Illinois	5.0% plus local
Kansas	3.0% plus local
Minnesota	6.0% plus local
Missouri	4.13% plus local
Nebraska	3.5% plus local
North Dakota	4.0% plus local on lodgings
South Dakota	4.0% plus local
Wisconsin	5.0% plus local authorized

2. Base

The base of the Iowa tax is broad; most items of tangible personal property and many services are subject to sales and use tax. Economists believe that, in general, the broader the base, the more neutral the tax and on that measure the Iowa tax is basically neutral.

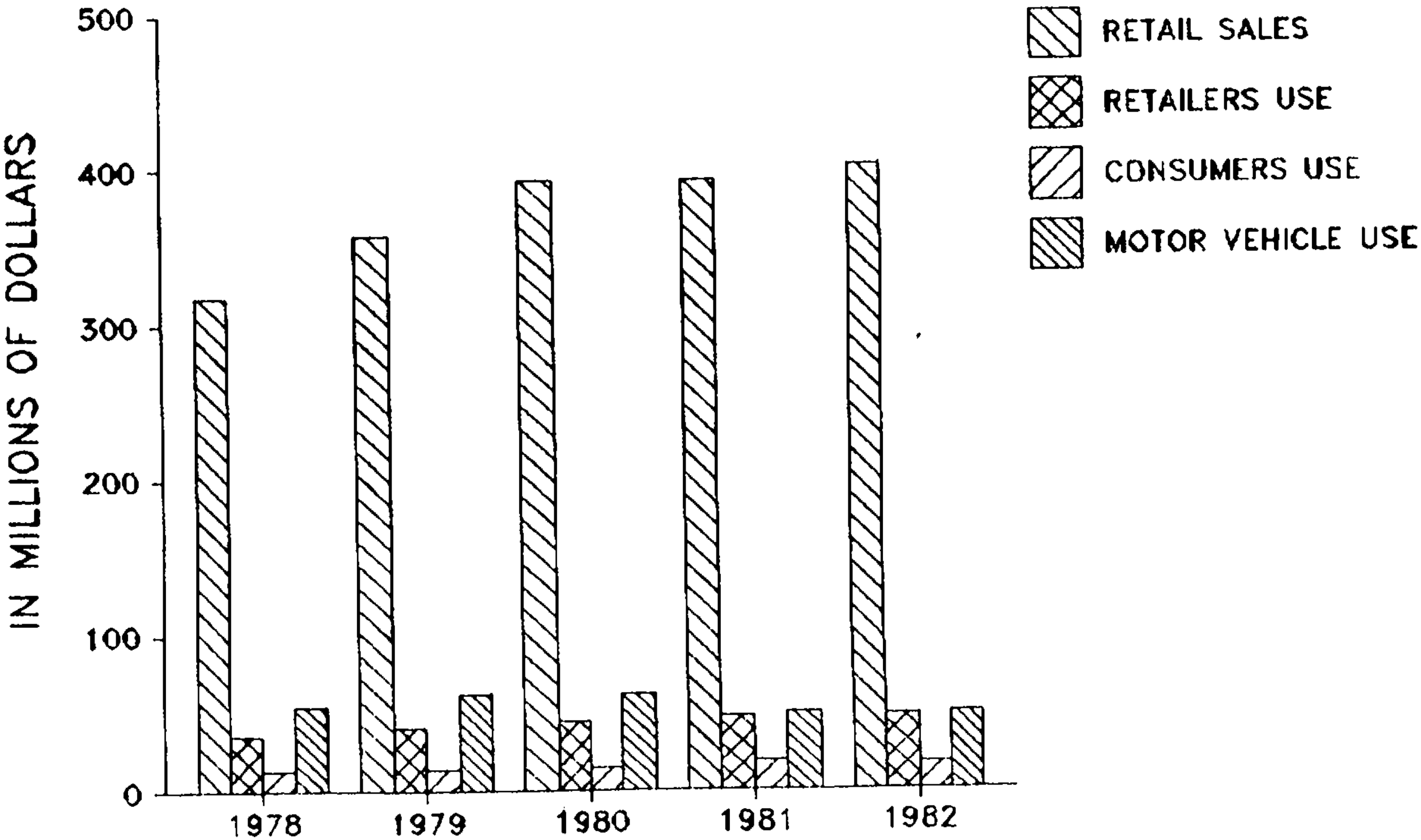
One exception relates to the taxation of machinery and equipment used in processing. Only ten states allow no preferential treatment for these goods and it is an area of taxation considered by manufacturing firms making locations decisions.

3. Neutrality Summary

Iowa has a state sales tax rate and no local tax giving it a competitive advantage to the extent the rate affects decisions. The full taxation of machinery and equipment imposes a higher tax burden than other states which may affect investment decisions.

Figure 9

SALES AND USE TAX RECEIPTS
BY TAX TYPE



E. Yield

1. Growth/Elasticity

Revenue increased from $422,520,655 in fiscal year 1978 to $517,946,374 in fiscal year 1982, or 22.6 percent as shown in Figure 9. Iowa personal income increased 34.1 percent. The national inflation rate on commodities (not including food) from 1977 to 1982 (most recent data) was 52 percent. The tax is, therefore, somewhat inelastic as compared to income, and did not keep pace with costs of goods.

Retail sales tax receipts are by far the greatest of all the sales and use revenues. However, in relative terms, the increase in tax receipts from retail sales (26.4%) has not been as great as in retail and consumer use tax receipts, 33.8 percent and 30. percent, respectively. The total amount of motor vehicle use tax receipts declined in the period from 1978 to 1982 by 8.9 percent.

2. Reliance

In 1980, revenues from general sales and use taxes for the states as a whole represented 23.20% of total state and local revenues. Based on recent data, the table below shows the reliance for the comparable states.

Table 19

Relative Reliance on Sales Taxes

State	% of Major State and Local taxes
Iowa	16.60%
Illinois	23.12%
Kansas	18.30%
Minnesota	15.41%
Missouri	23.67%
Nebraska	20.36%
North Dakota	17.86%
South Dakota	29.68%
Wisconsin	20.22%

3. Capacity

The latest ACIR study for capacity and effort was based on 1981 rates and showed Iowa with a capacity of 105 and an effort of 69.9. Given the rate change, the effort would indoubtedly be higher.

4. Yield Summary

The sales tax is relatively inelastic, but the change in rate should allow revenues to grow in the future. Iowa has, in the past, relied on this source of revenue less than some of its neighboring states.

F. Simplicity

Generally, the sales and use taxes are most difficult to administer since no exchange of federal information is possible. They require more work by state auditors than do income taxes. Avoidance of sales and use taxes comprises a large part of the underground economy because so much retail activity occurs on a cash basis, thus making "off the books" transactions feasible and difficult to find.

The number of exemptions makes record keeping complex for taxpayers and administrators.

G. Possible Modifications

1. Broaden the Base of Taxed Services

A. Description

Presently Iowa taxes a wide range of personal services and certain business services (services to businesses). Professional services are not included in the listing of taxable services (A listing of tax-exempt services appears in the Appendix). This modification would impose a tax on all services and would be imposed for purposes of neutrality and equity.

B. Explanation of the Data

The analysis was based on 1981 data from the Department of Revenue and data on service industry receipts from the 1977 Census of Services. These 1977 receipts were adjusted based on the Bureau of Labor Statistics CPI for service industries. The tax rate in effect in 1981 was used for analytic purposes.

C. Equity

1) Vertical. Economic studies indicate that persons in lower income brackets spend a larger percentage of their income on tangible personal property and personal services than do individuals or families with higher incomes. With the exception of medical services, professional services such as legal, engineering, accounting, and architectural services tend to be used more by individuals with higher incomes or by businesses. This modification would lessen the regressivity of the sales and use tax.

2) Horizontal. The burden on businesses is likely to increase relative to that of individuals. Smaller businesses which contract for many of these services as opposed to performing them through salaried personnel will experience a greater increase in burden.

D. Neutrality

Twenty-two states out of the 45 states imposing sales and use taxes tax no services other than utilities, admissions and transient accommodations. Three states impose the tax on services generally; Hawaii, New Mexico and South Dakota. Hawaii exempts hospitals from the tax, New Mexico exempts medical lab services only if they are ordered by a physician and taxed on his bill and South Dakota exempts health services generally.

Of the 21 states which tax services on a limited basis, Arizona, Connecticut, North Carolina and South Carolina tax a narrow range while Iowa, Washington and West Virginia tax a broad range. Although, the taxation of services could lead to decisions to purchase the services from an out-of-state provider, service provision more often requires the purchaser and provider to be in a closer physical proximity than the purchaser and provider of tangible personal property. Thus the taxation of services is not likely to affect purchase decisions.

E. Yield

In 1981, the sales and use tax on taxed services produced revenues of $44,225,879. If all service industries, personal, business and professional, had been subject to the tax in 1982, revenues would have increased by $75,767,495, which represents a 171.3 percent increase in service tax revenues and 14.6 percent increase in total sales and use tax revenues. A breakout of revenues by service industries can be found in the Appendix.

F. Simplicity

The taxation of professional services is more difficult to administer than the taxation of personal services or of tangible personal property. In the case of personal services , the provider is very likely to be physically located in the state and the service is likely to be performed totally in-state. Professional services, when contracted for from a firm with multi-state offices, may be performed partially in the state and partially out-of-state.

It is also easier to become aware of sales of tangible personal property into the state and to require the out-of-state property seller to collect the use tax on the sale (assuming the seller has the requisite nexus). It is more difficult to become aware of services performed in-state by out-of-state providers in order to collect from either the provider or from the user of the services.

2. Exempt Agricultural and Manufacturing Machinery and Equipment from the Sales and Use Tax

A. Description

Presently Iowa exempts tangible personal property which becomes a part of the ultimate product, or which is consumed, dissipated, or depleted in processing tangible personal property. Fuel and electricity used in processing and services used in processing tangible personal property which is later sold at retail are also exempt. There is no exemption, however, for the machinery and equipment which is used directly and primarily for processing, fabricating or compounding, either in manufacturing or in agricultural endeavors.

This modification would permit an immediate or phased-in exemption for industrial and agricultural machinery or equipment used directly and primarily in the processing of personal property intended to be sold ultimately at retail. The purpose of the modification would be to increase the neutrality of the sales and use tax.

B. Explanation of the Data

The revenue data is based on a projection made by the Iowa Department of Revenue using 1981 figures. The industrial machinery and equipment estimates were revised downward from earlier projections due to the availability of data gathered from the property tax program limiting the assessment of such property to 30 percent of the property's net acquisition cost.

C. Equity

1) Vertical. This analysis is not applicable.

2) Horizontal. This modification is not restricted to new and expanding businesses. The states which permit the exemption only in these circumstances have been criticized for discriminating between present businesses and newly locating businesses. In the same way, restricting the exemption to new machinery, rather than allowing it for new and replacement machinery, discriminates against older plants. Permitting the exemption for agricultural only or industrial only leads to horizontal inequities related to kind of business. A broad-based modification would not cause horizontal inequities.

D. Neutrality

Of the 45 states imposing sales and use taxes, 5 totally exempt manufacturing machinery and equipment, 30 confer some benefits (e.g., reduced rates, new facilities only, etc.) and 10 allow no preferential treatment. In regard to agricultural machinery and equipment, 21 totally exempt it, 12 confer some benefits and 12 allow no preferential treatment. The following is a list of the sales and use tax states indicating their tax treatment of machinery and equipment.

Table 20

Sales Tax Treatment of Machinery and Equipment

State	Manufacturing	Agricultural
Alabama	reduced rates	reduced rates
Arizona	if used directly	no benefits
Arkansas	new & expanded + enterprise zone	total exemption
California	no benefits	no benefits

State	Manufacturing	Agricultural
Colorado	in-state use up to $5,000	no benefits
Connecticut	exempt	exempt
Florida	new & expanded	reduced rates
Georgia	if used directly by, new & expanded	some exempt
Hawaii	no benefits	no benefits
Idaho	no benefits	some exempt
Illinois	if used primarily phase-in	exempt
Indiana	if used directly	exempt
Iowa	no benefits	no benefits
Kansas	tax refunded on machinery & equip.	some exempt (used machinery & equip.)
Kentucky	new & expanded + enterprise zone	exempt
Louisiana	enterprise zone	some exemptions
Maine	if directly for production	exempt if greater than $5,000
Maryland	exempt	exempt
Massachusetts	if used directly	exempt
Michigan	if used directly	exempt
Mississippi	reduced rate	some exempt
Missouri	replacement/new facility	exempt
Minnesota	Tools equip. 1 yr.	no benefits
Nebraska	new & expanded	no benefits
Nevada	no benefits	no benefits
New Jersey	if directly in production	exempt

State	Manufacturing	Agricultural
New Mexico	if directly for production	partial benefit
New York	exempt	exempt
North Carolina	reduced rate	partial exempt
North Dakota	no benefits	partial benefits
Ohio	exempt	exempt
Oklahoma	if used directly	exempt
Pennsylvania	if used directly	exempt
Rhode Island	useful life 1 yr./ directly	no benefits
South Carolina	if used directly	exempt
South Dakota	no benefits	reduced rate
Tennessee	exempt	exempt
Texas	enterprise zone/if directly in production	exempt
Utah	no benefits	exempt
Vermont	if directly in production	exempt
Virginia	economic zone for 5 yrs./directly in production	exempt
Washington	no benefits	no benefits
West Virginia	exempt if used in taxable business	no benefits
Wisconsin	if directly in production	exempt
Wyoming	no benefits	no benefits

While it is unclear whether businesses make location/investment decisions primarily on a tax basis, this particular tax preference has been cited by many businesses as one of the most important to them. This is probably due to the fact that start-up and expansion costs often lead to temporary unprofitability and sales and use tax costs add to the outlay before income is generated. An income tax, for example, would not become onerous until and unless the business were profitable. A sales or use tax liability is paid up-front and cannot be deferred until the cash flow improves.

E. Yield

The Iowa Department of Revenue estimates the revenue loss from the exemption for agriculture machinery and equipment at $7,000,000 to $9,000,000 for each penny of the sales and use tax and at $4,000,000 to $7,000,000 per penny for manufacturing machinery and equipment. In 1981 the loss, at a 3% sales and use tax rate would have been (at the midpoint of the range), $40,500,000 or 7.6% of the total sales and use tax revenue base.

It should be noted that broader economic factors influence the amount of machinery and equipment purchased and, therefore, influence both the size of the base and the amount of the loss.

F. Simplicity

Exemptions always add to the complexity of the sales and use tax system. Retailers must compute differing rates and, generally do extra paperwork in order to assure that the sale is properly exempt. State auditors must also increase activities since exemptions, total or partial, on a gross receipts base are harder to track.

3. Exempt Warehousing of Raw Agricultural Products from Sales and Use Tax

A. Description

Prior to 1978, warehousing of any tangible personal property was considered a taxable service under the Iowa Sales and Use Tax. Effective July, 1978, the law was changed to exempt all tangible personal property warehousing except raw agricultural products.

The modification would exempt warehousing of raw agricultural products and would be instituted for purposes of horizontal equity.

B. Explanation of the Data

The Iowa Department of Revenue calculated the revenue losses when the law was changed in 1978 of exempting raw agricultural products warehousing. Since costs have changed since 1978, the percentage will be more applicable than the actual dollar amount.

C. Equity

1) Vertical. This analysis is not applicable.

2) Horizontal. The modification would lead to greater horizontal equity since the present law discriminates between the service of warehousing based on the kind of tangible personal property stored in the warehouse. One factor in the differential treatment may relate to the fact that the law is quite specific as to its application to raw agricultural products. The Department's rule clarifies this by stating "...items that have not been subjected to any type of processing." The prior law included items such as "household or building furnishings, foods, clothes, furs, luggage, automobiles, airplanes..." One could assume that the distinction relates to items which when sold will

undergo processing before ultimate sale, and those which are ready for sale to the ultimate consumer or user. In the former case the warehousing cost is passed on to the processor; in the latter, pre-processing costs have probably been factored into the retail price already and the additional cost would more directly increase the cost to the consumer. Since the consumer will probably bear the burden in either event, this is probably a distinction without a difference.

D. Neutrality

Since the costs of transporting the raw agricultural products to a non-Iowa warehouse are likely to exceed the tax, and since the storage of products shipped from the warehouse to points out of Iowa is exempt from the tax, it is not likely that many decisions will be based on the tax. The exemption appears in Rule 730-26.42(422),(4)C and relates to the interstate commerce exemption on services.

E. Yield

In 1978 the Iowa Department of Revenue calculated a loss of revenue of $1,000,000 to $1,300,000 or 0.27 percent of total sales and use tax revenues. In 1981, at a 3 percent rate, the loss would have, on a percentage basis, totalled approximately $1,426,000.

F. Simplicity

While exemptions generally add complexity, an exemption of this nature, i.e., one which puts all warehousing on the same basis, simplifies the system.

4. Allow Local Governments to Impose Sales and Use Taxes

A. Description

There is, at present, no authority under Iowa law for local governments to impose sales and use taxes at the local level. Under this modification, municipalities and counties (in the unincorporated areas) could impose sales and use taxes at a rate of 1 percent. The base would be the same as the state sales and use tax base and the tax would be collected by the retailer and administered by the state. The modification would be imposed to increase local revenue yield.

B. Explanation of the Data

Revenue figures are based on 1981 data calculated per region.

C. Equity

1) Vertical. Assuming the local tax would be imposed on the same base as the state tax, the same degree of regressivity would occur (percentage change between income categories) and the absolute effective tax rates would increase.

2) Horizontal. As in the vertical equity discussion, the same tax base at an increased rate increases the effective tax rate but does not change the present equities or inequities in the system as they relate to taxpayer.

Horizontal inequities in regard to revenues returned to local governments could exist depending on the method of distribution. If point-of-sale determines dollars returned, then those areas of the state with the most retail activity will receive the greatest benefit: planning area 11 (the counties of Boone, Dallas, Jasper, Madison, Marion, Polk, Story and Warren) will receive 21.42 percent of the new revenue, while area 14 (the counties of Adair, Adams, Clarke, Decatur, Ringgold, Taylor and Union) will receive only 1.61 percent (figures based on 1981 data). While, in general, those local governments containing more retail establishments expend more revenues to service them (roads, police, fire, sewage, etc.) the population which generates the business is often drawn from neighboring cities and counties which also incur certain costs (roads, traffic control) in order to facilitate the movement to shopping outlets.

If the revenues are returned on a basis other than point-of-sale, such as population, then the state could as easily increase the state rate and earmark the additional one percent of revenues for local governments.

Since local governments containing viable retail businesses generally also receive the benefit of a higher property tax assessment base, some states have tied local sales and use taxes to a decrease in property taxes. If this is considered, a local government collection or spending limitation would need to be imposed to make the system work. Indiana increased the sales and use tax rate for this purpose, but had to establish a state system of review boards and appeal boards in order to assure that the system worked and property taxes did decrease. However, Indiana has just passed a new local option income tax tied to decreases in property taxes since the pressure to lower property taxes has not disappeared.

D. Neutrality

Twenty-seven states have local sales and use taxes in place. One state (Wisconsin) has given local governments the option to impose them but as of August, 1984 no local government had done so. Local total rates for the comparable states are as follows:

Table 21

Comparison of Sales Tax Rates

State	State Rate	Local Range	Maximum
Iowa	4.0%	-	4.0%
Illinois	5.0%	.5 - 3.0%	8.0%
Kansas	3.0%	.5 - 2.0%	5.0%
Minnesota	6.0%	1.0%	7.0%
Missouri	4.13%	.5 - 1.5%	5.63%
Nebraska	3.5%	.5 - 1.5%	5.0%
North Dakota	4.0%	-	4.0%
South Dakota	4.0%	.5 - 2.0%	6.0%
Wisconsin	5.0%	-	5.0%

To the extent sales taxes influence economic decisions, a combined state and local maximum rate of 5% would not make Iowa non-competitive.

If all local governments imposed the local sales tax there would be no greater impetus to purchase goods or services in a neighboring city or county than now exists.

E. Yield

In 1981, a one percent local sales and use tax could have produced local revenues of approximately $176,000,000, if all local governments imposed the tax.

F. Simplicity

The local tax will only be simple if the base remains the same as the state base and the state administers the tax. If local taxes are on a different base, retailers would be faced with complicated record keeping and if local governments administer the tax new staff would be required to collect the revenue and to register and audit the same taxpayers.

5. Substitute Graduated Income Tax Credit for the Food and Drug Exemption

A. Description

Presently food for human consumption and prescription drugs are exempt from sales and use taxes. This exemption was instituted in 1974. Prior to that time a credit was allowed.

Under this modification food and drugs would be subject to the tax and a credit allowed or refund given on the income tax which would be graduated as follows:

Income Bracket	Percentage of Expenditures
Under $5,000	100%
$5,000 to $ 6,000	70%
$6,000 to $ 7,000	50%
$7,000 to $ 8,000	40%
$8,000 to $ 9,000	30%
$9,000 to $12,000	25%
Over $12,000	-0-

The purpose of the modification is to increase the progressivity of the sales and use tax.

B. Explanation of the Data

The analysis was based on 1981 data and on the 1981 rate of 3 percent. Expenditures on food and drugs were derived from Bureau of Labor statistics and 1980-81 Consumer Expenditure Survey. The $12,000 income cut-off was used to conform to Iowa's property tax credit for the elderly and disabled. Complete description of the analysis can be found in the Appendix.

C. Equity

1) Vertical. If food and drugs were subject to taxation and no credit were granted, the incidence of the tax would be sharply regressive. Effective tax rates would range from 1.10 percent for those with income under $5,000 to 0.21 percent for those earning over $30,000.

A graduated credit, from 100 percent for those earning under $5,000 to 25 percent for those in the $9,000 to $12,000 income bracket, would reverse this situation and the tax on food and drugs would become progressive up to $20,000 in income.

2) Horizontal. No changes from the present horizontal equities and inequities would occur as a result of this modification.

D. Neutrality

While exempting food and drugs is common, only six states in 1982 gave tax credits against the income tax: Hawaii, Idaho, Massachusetts, Nebraska, Utah, and Vermont. Kansas gave senior citizens and the disabled an annual $20 refund to offset the sales tax on food and South Dakota and Wyoming gave this group a refund on sales and service taxes dependent on income. Indiana and Colorado, like Iowa, replaced their tax Credit plans with exemptions.

E. Yield

The modification would cost the state $4,098,243 on the income tax credit side, but, in 1981, taxation of food and drugs would have brought in $67,157,067, for a net gain in state revenues of $63,058,824. This represents a percentage increase of 11.9 percent over the 1981 sales and use tax base.

All taxpayers with income over $5,000 would pay more in sales taxes than previously. Average tax expenditures on food and drugs per household in 1981 ranged from $27.55 for those with under $5,000 of income, to $82.62 for income over $30,000.

F. Simplicity

A credit mechanism is more complex than the exemption. Taxpayers would have extra calculations and administrators would have additional work. Also, low income people who presently have no liability under the income tax would have to fill out forms and the state would have to send refund checks to possibly thousands of taxpayers.

6. Tax Newspapers or Advertising Supplements

A. Description

Presently Iowa allows an exemption for the gross receipts from the sales of newspapers, free newspapers or shoppers guides and their printing or publishing, as well as envelopes for advertising. Advertising is not considered a taxable service in Iowa. This modification would place a tax on newspapers as well as advertising supplements.

B. Explanation of the Data

The data used to determine the estimated revenues which would be generated from the sale of newspapers was based on newspaper circulation figures for 1981 from the Iowa Press Association at a rate of 1 cent per paper.

C. Equity

1) Vertical. Since low income earners would pay the same amount of tax as upper income earners, the percentage of tax paid would be much smaller for the upper income earners. (This assumes that consumption is the same for both classes of earners). Thus, this type of tax would be regressive since the tax burden, expressed as taxes paid as a percentage of income, would decrease as income increases.

2) Horizontal. No horizontal equities or inequities would arise as a result of this modification for taxes.

D. Neutrality

As of January, 1982, 38 states exempted newspapers from taxation. Some states extend the exemption to magazines, to those publications admitted as second class mail or as controlled circulations, to those published at regular intervals, to those selling below a specified price, or to those published for general circulation containing matters of current events.

In regard to advertising supplements generally, the laws vary by state. If the supplement is considered an integral part of the newspaper, and if the newspaper is exempt, then so is the supplement. Unless specifically exempted in states' statutes, advertising supplements could be taxed on a use tax basis.

Differing treatments would result if advertising supplements were taxed, but billboards, handbills, and commercials were exempt. Taxing one kind of advertising but not others could lead to impermissable discrimination.

The same problem arises if newspapers were taxed but other periodicals such as magazines were not subject to the tax.

E. Yield

Based on 1981 circulation figures, the revenues generated from the tax on newspapers would have been $3,772,000 in that year. No figures are available regarding advertising supplements. The State of Wisconsin taxes supplements and exempts newspapers but the state is unable to provide an estimate of revenues generated at this time.

F. Simplicity

State taxes on newspapers are collected usually through distributors. This alleviates collection from newsboys and newstands. It also circumvents the problem of collection on vending machine sales.

IV. INHERITANCE AND ESTATE TAXES

INHERITANCE AND ESTATE TAXES

A. Description

The inheritance tax is paid on estates of all deceased persons. There are seven classes of beneficiaries: spouse; children; parents; grandchildren and other lineal; brothers, sisters, in-laws, etc.; uncles, aunts, cousins and others and charities. The tax rate varies according to the amount of the estate and the beneficiary.

1. Overview

Under Iowa law the transfer of property at death may be subject to three forms of taxation:

a. Inheritance Tax - imposed on value of property transferred to beneficiary with exemptions and rates differing according to type of beneficiary

b. Estate Tax - "pickups" credit provided on federal taxes for state taxes when the credit exceeds the Iowa inheritance tax.

c. Generation Skipping Transfer - tax equal to excess credit provided on federal generation skipping taxes for state taxes (tax has not been collected at state level).

2. Inheritance Tax

a. Property subject to taxation includes real and tangible personal property located in Iowa and all intangible personal property of Iowa residents.

b. Exemptions - Tax is not imposed on the following forms of property or transfers:

1. Jointly Held Property - Fifty percent of property held in joint tenancy with surviving spouse is exempt. However, if spouse can prove greater contribution to property, then that share shall be exempt.

2. Small Estates - net value less than $10,000.

3. Charitable, Religious, Educational - property transferred to such organizations organized under Iowa law or the laws of a state which grant reciprocity to Iowa organizations.

4. Public Libraries, Public Art Galleries or Hospitals - property transferred for use in Iowa

5. Burial Lot or Religious Services - bequests for care or burial lot or for religious service not to exceed $500.

6. Installment Annuity Payments - that portion of installment payments included as net income by a beneficiary under an annuity which was purchased under an employee's pension plan

7. Life Insurance - insurance on decendent's life payable to a named beneficiary other than the decendent's estate.

8. Wrongful Death - Proceeds from the wrongful death (e.g., automobile accident) are exempt when individual does not have interest in property.

9. Power of Appointment - property passing the nonexercise of a power of appointment.

10. Property Located Out of Iowa - real and tangible personal property of Iowa decedent which is located outside of Iowa.

11. Nonresidents Intangible Property - Intangible personal property of residents of other states which provide reciprocal treatment of Iowa residents are exempt.

c. Value of Property Determined for Tax Purposes:

1. Property valued at either:

a. Market value occuring in the ordinary course of trade or,

b. Federal alternate value under Section 2032 IRC

c. Qualified use value established for federal estate tax purposes for real estate or farm or closely held business. Provisions exist to recapture portion of tax benefit if disqualifying disposition occurs.

d. Deductions Allowable in Determining Net Estate - If property located out of state is included in estate, the following obligations must be prorated on the basis the Iowa property bears to the total estate.

1. Debts of decedent and time of death

2. Decendent's federal and state tax liability
3. Allowances for surviving spouse and minor children
4. Funeral expenses
5. Court costs, appraisement costs, bonding fees
6. Costs of selling property
7. Fees for attorneys and personal representatives
8. Expenses incurred in marketing assets

e. Obligations Not Prorated - mortgages, judgements, real estate taxes are allocable to the state where property is located.

f. Exemptions to Arrive at Net Estate

1) Surviving Spouse - $180,000 (see credits sec. 2-h)
2) Children - $50,000
3) Parents - $15,000
4) Other lineal decedents - $15,000

g. Tax Rates Applied to Net Estate

1. Surviving Spouse, Children, Parents and other lineal decedents (Class I beneficiaries) are taxed at rates ranging from 1% on first $5,000 of value after exemption to 8% on value of excess of $100,000.

2. Brothers, sisters, sons and daughters-in-law, step children (Class II beneficiaries) are taxed at rates ranging from 5% on first $50,000 to 15% on value in excess of $100,000.

3. Individuals not included in #1 to #3 are taxed at rates ranging from 10% of first $50,000 to 15% on value in excess of $100,000.

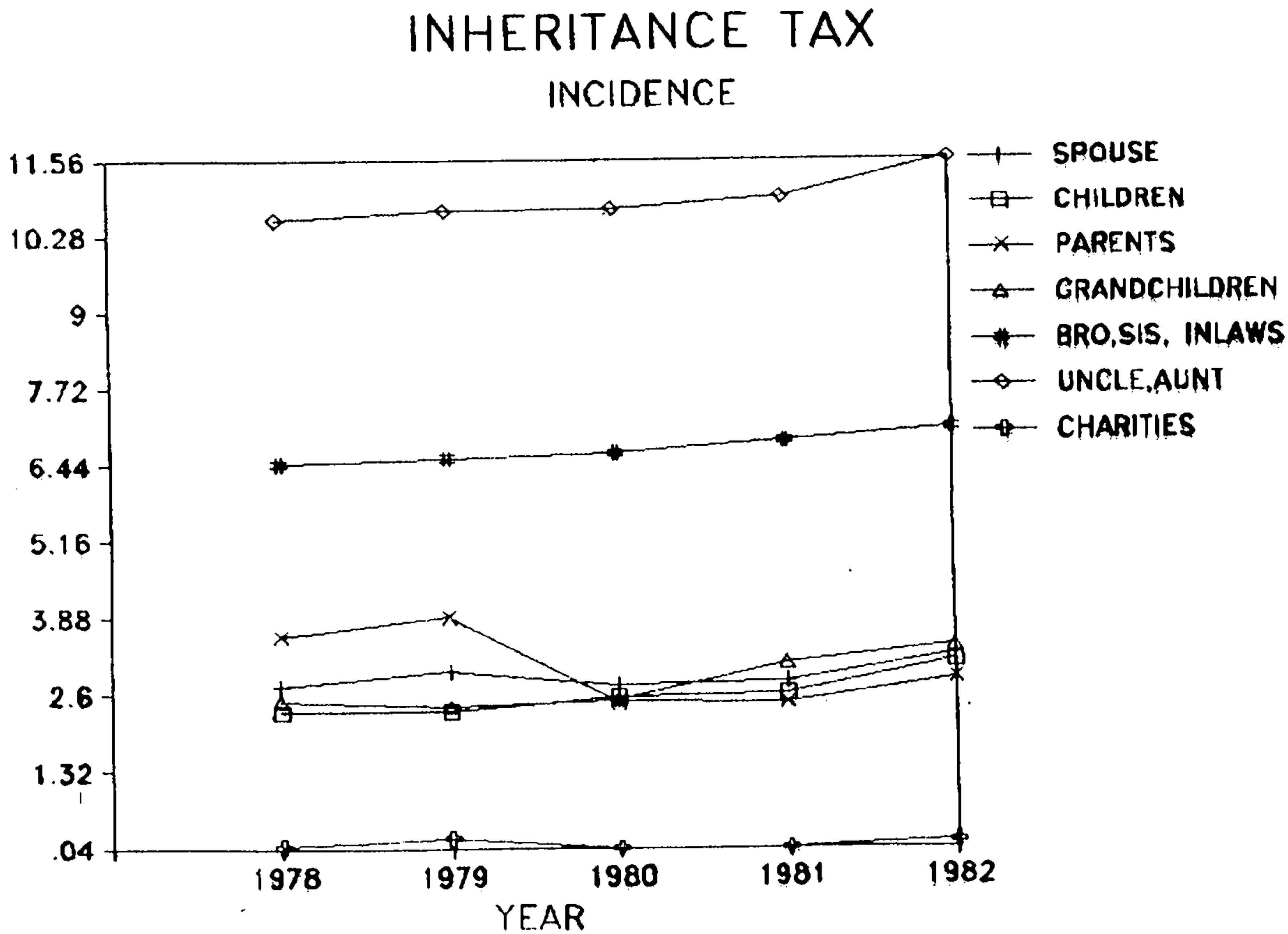
4. Charitable, religious, educational organizations which are not exempt (see 2b. - 3 and 5) are taxed at 10% of value.

5. Firms, organizations or societies organized for profit are taxed at 15% of value.

h. Credits Applied to Tax

1. Closely related individuals (class I and II beneficiaries) are eligible for credit for taxes paid on property which can be identified as having been received by the decedent from the estate of another person who died within 2 years prior to the death of decedent, or which can be identified as having been acquired by the decedent in exchange for property so received.

Figure 10


INHERITANCE TAX
INCIDENCE
11.56
10.28
9
7.72
6.44
5.16
3.88
2.6
1.32
.04
1978
1979
1980
1981
1982
YEAR
SPOUSE
CHILDREN
PARENTS
GRANDCHILDREN
BRO,SIS, INLAWS
UNCLE,AUNT
CHARITIES

2. Surviving spouses receive a credit which increases annually resulting in phaseout of tax on spouse.

Death Occurring In	Credit
1986	1/3 of tax on spouse
1987	2/3 of tax on spouse
1988 and after	100% of tax on spouse

3. Estate Tax

a. Rate - Amount equal to the federal estate tax credit for state death taxes is imposed upon every transfer of the net estate.

b. Credits - Tax due shall be reduced by the amount of any inheritance tax due the state.

B. Explanation of the Data

Figure 10 shows the incidence of inheritance taxes paid from 1978 to 1982 by class of beneficiary. The incidence is the tax paid as a percentage of the net value of the estate. In summary, family members closest to the deceased have the lightest tax burden while those farther away from the deceased have a heavier tax burden.

Uncles, aunts and cousins had the highest incidence of taxes paid rising from 10.54 percent in 1978 to 11.56 percent in 1982. Brothers, sisters, and in-laws had the second highest incidence which stayed fairly constant during the five year period. Family members closest to the deceased, spouse, children, grandchildren and parents, had an effective tax rate of approximately three percent from 1978 to 1982. Of these beneficiaries, parents were the only class which had an overall decrease in the incidence of taxes paid during this period. The above classes of beneficiaries will probably continue to have a low incidence, as the allowable exemptions were increased as of January 1982.

C. Equity

1) Vertical. The Inheritance Tax is paid by beneficiaries and the income figures of the taxpayers are not collected. The differential exemptions granted to different classes of beneficiaries and the differential rates on the taxable estates are designed to tax those individuals with the closest ties to the deceased the least. Further, the graduated rates within classes of beneficiaries are designed to tax beneficiaries of larger estates more than beneficiaries of smaller estates. Because of the tax structure the tax is vertically progressive if one equates larger estates with higher income.

2) Horizontal. Horizontal inequity is intentionally built into the system through the classification of beneficiaries.

Since the Estate Tax is based on the Federal credited amount minus Iowa taxes paid for the Inheritance Tax, the equity considerations for it will be the same as those for the Inheritance Tax.

3) Equity Summary Larger estates are subject to higher taxes within each classification. The tax burden is lower for beneficiaries having the closest relationships to the decendent.

D. Neutrality

1. Rates

The rates for surrounding states are shown in Table 22.

Table 22

Comparative Tax Rates and Exemptions

State	Rates	Exemptions
Iowa	1% - 15%	Spouse-$180,000- others $50,000 to $15,000 Estates under $10,000 are 100% exempt
Illinois	Federal Estate Tax Credit	
Kansas	1% - 15%	Spouse 100% - others $5,000 to $30,000
Minnesota	8% - 12%	Spouse 100% - others $325,000
Missouri	Federal Estate Tax Credit	
Nebraska	1% - 18%	Spouse 100% - others $500 to $10,000
North Dakota	Federal Estate Tax Credit	
South Dakota	1.5% - 30%	Spouse 100% - others $100 to $30,000
Wisconsin	2.5% - 30% (limited to 20% of full market value)	Spouse 100% - others $500 to $25,000

2. Credits and Exemptions

a. Spouses

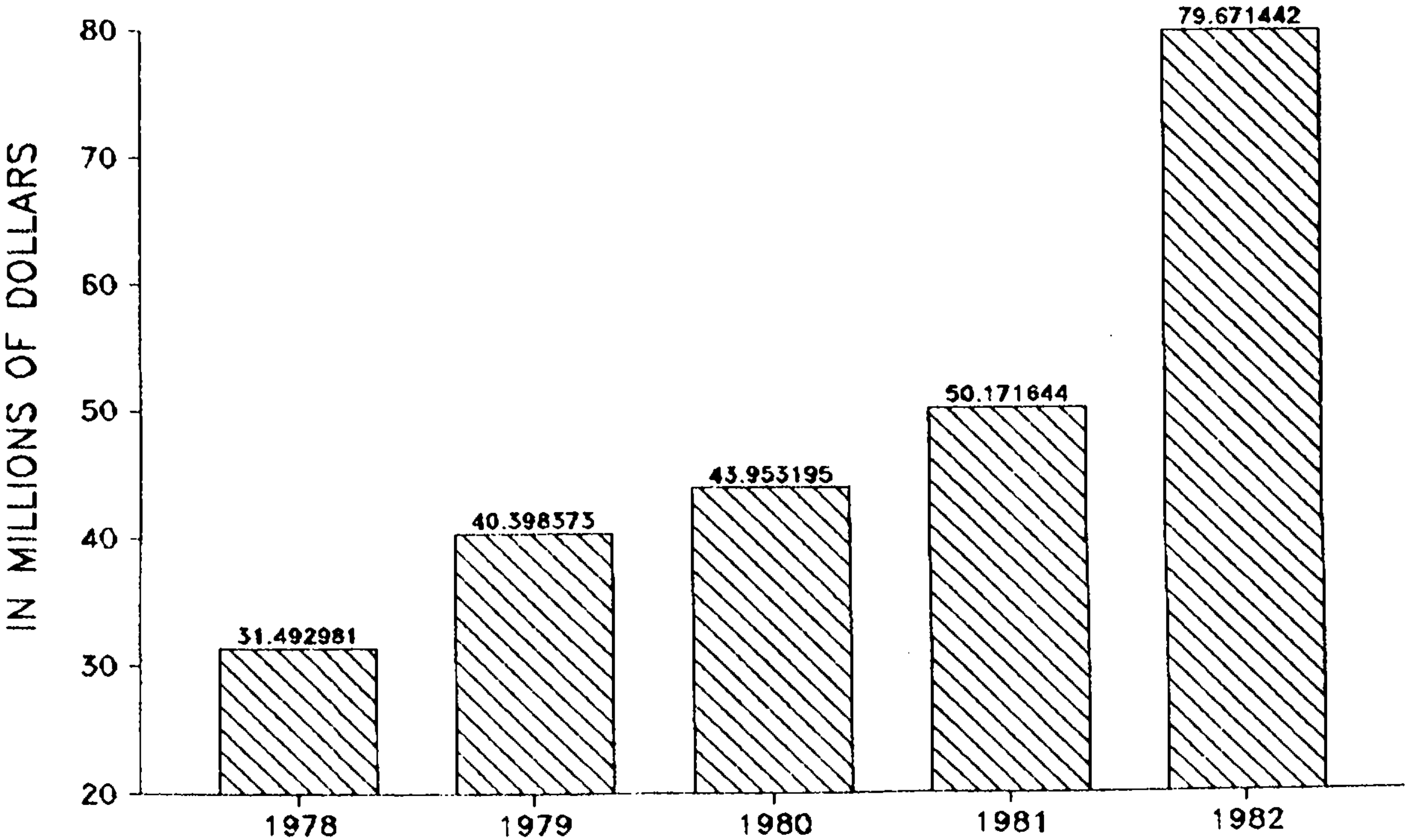
Spouses in Iowa are granted a $180,000 exemption and a credit against computed tax will begin in 1986 at one third of tax and will total 100% in 1988.

Wealthy older individuals have been said to make retirement location decisions based on the inheritance tax but climate and family considerations also play a part in these decisions. The warmer states, Arizona, California, Florida and Texas, all have death taxes which are based only on the Federal Estate Tax Credit. Of the comparable states, those which have an inheritance tax as well as a tax on the federal credit, totally exempt spouses from the inheritance tax.

Figure 11

INHERITANCE TAX RECEIPTS

1978–1982



b. Family farm or family trade or business

The value of the realty portion of these properties is determined by federal provisions if the property qualifies and if an election is made. Generally, this has the effect of decreasing the taxable value down to a dollar limitation as set forth in the Internal Revenue Code. If the property is disposed of to non-family member within 15 years, an additional tax is due.

The purpose of this modification is to avoid heavy tax burdens for family members who continue operations of family enterprises since fair market value is apt to be high, but any gain is unrealized if the farm, trade or business is not sold.

3. Neutrality Summary

The rates applied to estates are not high in comparison with other states imposing inheritance taxes but the present treatment of spouses is less advantageous.

E. Yield

1. Growth/Elasticity

From 1978 to 1982 inheritance and estate tax revenues grew 153 percent while community income grew 34 percent and property values less than 46 percent. 1983 revenues were down from the 1983 high. The unusual increase in 1982 was due to a change in collections and statutory increases in exemptions. This along with the spouse credit will eventually reduce anticipated revenues by one-third.

2. Reliance

The 1980 national figures include gift-losses and are therefore, not comparable. The surrounding states reliance on the inheritance tax is shown in Table 23.

Table 23

Relative Reliance on Inheritance and Estate Taxes

State	% of major state and local taxes
Iowa	1.86%
Illinois	unavailable
Kansas	1.25%
Minnesota	.41%
Missouri	1.09%
Nebraska	.24%
North Dakota	.36%
South Dakota	1.51%
Wisconsin	1.07%

3. Capacity

The ACIR index for Iowa indicates a capacity of 133.4 and an effort of 145.3. The figures pre-dated the 1981 changes.

4. Yield Summary

The inheritance tax has grown steadily over the years and has been relied on somewhat more heavily in Iowa than in surrounding states. Changes in the law will reduce revenue growth and reliance on this tax.

F. Simplicity

Because of classification, differential exemptions, differential rates and alternative valuation, the inheritance tax is complex. The tax on the federal estate credit is a simple addition to the inheritance tax form.

Possible Modifications

1. Eliminate the Inheritance Tax and Impose the Estate Tax Only

A. Description

Estates subject to federal estate tax are usually also subject to state death taxes. In order to minimize multiple taxation of the estate, the federal estate tax is reduced by a credit for state death taxes paid with respect to property in the gross estate. The state death tax credit is given for any estate, inheritance, legacy or succession taxes paid to a state.

The state death tax credit may not exceed the amount determined under the following table:

Table 24

Maximum State Death Tax Credit

Adjusted Taxable Estate		Maximum Credit	
Over (A)	But Not Over (B)	Credit for lower amount (C)	Plus this % of the excess (D)
$ 40,000	$ 90,000	$ 0	.8
90,000	140,000	400	1.6
140,000	240,000	1,200	2.4
240,000	440,000	3,600	3.2
440,000	640,000	10,000	4.0
640,000	840,000	18,000	4.8
840,000	1,040,000	27,600	5.6
1,040,000	1,050,000	38,800	6.4
1,540,000	2,040,000	70,800	7.2
2,040,000	2,540,000	106,800	8.0
2,540,000	3,040,000	146,800	8.8
3,040,000	3,540,000	190,800	9.6
3,540,000	4,040,000	238,800	10.4
4,040,000	5,040,000	290,800	11.2
5,040,000	6,040,000	402,800	12.0
6,040,000	7,040,000	522,800	12.8
7,040,000	8,040,000	650,800	13.6
8,040,000	9,040,000	786,800	14.4
9,040,000	10,040,000	930,800	15.2
10,040,000	-	1,082,800	16.0

The amount of state death taxes for which a credit will be allowed includes state death taxes actually paid and claimed as a credit within four years after the estate tax return is filed or within various statutory alternative periods that may be applicable.

An example of how the federal state tax credit is computed follows:

- D died 1/1/83 with an adjusted taxable estate of $250,000.
- State estate and inheritance taxes paid were $5,000.
- Maximum credit for state death taxes is calculated from the preceding table as follows:

Taxable Estate Bracket	Tax
$240,000 - $440,000	$3,600
Excess over $240,000 at 3.2% = 10,000 X 3.2%	320
Maximum Credit allowed on an Adjusted Taxable Estate of $250,000	$3,920

The maximum credit allowable is $3,920. Therefore, even though state estate and inheritance taxes paid were $5,000, the individual would receive a credit of only $3,920.

Several factors may make the actual state death taxes paid greater than the allowable credit for them.

1) State and federal tax structures may differ as to inclusions, deductions, or credits against the tax.

2) A state may impose other death taxes, such as an inheritance tax.

To the extent the federal tax allows a credit, a state estate tax places no additional tax burden upon a decedent's estate. The total tax burden is the same as if there were no state tax; some of the federal estate tax is simply diverted to the state rather than going to the federal government.

Consequently, some states impose death taxes in a manner designed to assure them of their share of the death taxes being imposed. These taxes are commonly referred to as "pick-up" taxes, because the states merely "pick-up" as much of the federal tax as they can, without imposing any additional tax burden on the decedent's estate.

Iowa's estate tax is imposed in the amount of the federal credit and a state credit equal to state inheritance tax payments is allowed. The inheritance tax is imposed on the value of property transferred to a beneficiary with exemptions and rates differing according to type of beneficiary. Surviving spouses receive a credit which increases annually resulting in a phase-out of tax on the spouse. The credit ranges from one-third of the tax on the spouse in 1986, two-thirds in 1987 and 100 percent of the tax on the spouse in 1988 and after.

Below is an example of how the Iowa and Federal death taxes operate.

I.	Inheritance Tax	Iowa Estate Tax	Total Iowa Tax	Federal Tax
(a)	4,000	10,000	(a+b) 10,000	25,000
		[4,000]		[10,000]
		(b) 6,000		15,000

If Iowa eliminated the inheritance tax the effect would be as follows:

II.	Federal Tax		Iowa Estate Tax
	$25,000		$10,000
	[10,000]	Maximum Credit	
	15,000		

In Example I, because Iowa taxes the federal estate tax credit, no additional burden is imposed on the decedent's estate. Total tax paid to Iowa is $10,000 ($4,000 inheritance and $6,000 estate). Total tax paid for federal is $15,000. Therefore, $25,000 tax is the total amount imposed on the decedent's estate. Because the federal credit, $10,000 is diverted directly to the State of Iowa.

It should be noted in Example I that the maximum credit allowed for state death taxes is $10,000. Therefore, if total state death taxes paid were revised to $12,000 in the example, only $10,000 would still be allowed as a credit. Therefore, instead of the individual paying $25,000, he would have to pay $27,000.

Under the modification, as shown in Example II, the total tax on the decedent's estate is also $25,000; $10,000 of which remains in Iowa as a "pick-up" tax. therefore, the tax effect in Examples I and II is that Iowa retains death taxes paid of $10,000 and the federal government receives $15,000 of death taxes. Because of the state tax credit, the total tax is $25,000. If Iowa imposed no inheritance or estate taxes, $25,000 would still be the total tax, all of which would be paid for federal death taxes.

B. Explanation of the Data

The Iowa Department of Revenue projected losses from the inheritance tax in 1981 and had information from Missouri which was gathered at the same time.

C. Equity

Elimination of this tax does not raise questions of equity.

D. Neutrality

The states are about evenly divided in this area with twenty-three imposing an inheritance tax along with the estate tax, twenty-five having no inheritance tax per se, one (Nevada) having no inheritance or estate tax, and one (Ohio) having a state estate tax in addition to the federal pick-up.

Since an inheritance tax is imposed on resident beneficiaries, an older couple would only have an incentive to move out of Iowa to escape the tax if there were no spousal exemption or if they had no beneficiaries in Iowa.

E. Yield

The Iowa Department of Revenue estimated that when the 1981 changes in the inheritance tax are fully phased-in, revenues from this source will decrease by one-third. Besides the spousal exemption phase-in, the changes increased exemptions for other classes of heirs, increased the value for totally exempt estates and permitted the election for alternative valuation of family farms and businesses. If the changes had been fully implemented in 1981, revenues would have been $36,665,965.

The Department also estimated 1981 revenues from the estate tax at $12,000,000 to $15,000,000, or a decrease of 63%. This modification could, therefore, result in a decrease of 63% of anticipated revenues when the spousal exemption is fully phased-in.

F. Simplicity

The federal pick-up is a very easy tax to administer.

V. MOTOR FUEL TAX

MOTOR FUEL TAX

A. Description

The motor fuel tax is imposed on purchases of gasoline, diesel fuel, liquified petroleum, aviation fuel, and gasohol.

1. Computation of Tax

   a. Motor Fuel (including gasohol)

      1. Total invoiced gallons of motor fuel received

      2. Less exemptions (Part III)

      3. Less discount for evaporation, shrinkage and administration (2% of first 300,000 gallons, 1% of gallons in excess of 300,000)

      4. Total Taxable Gallons x Rate (Part 2) = Tax

   b. Special Fuels - Number of gallons of Special Fuel delivered less exempt gallons x Tax Rate (Part 2) = Tax.

2. Motor Fuel Tax Rates

   a. Motor Fuel - 13 cents per gallon

   b. Gasohol

      1) Exempt until 5/1/81
      2) $.05/gallon from 5/1/81 - 8/31/81
      3) $.06/gallon from 9/1/81 - 4/30/82
      4) $.08/gallon from 5/1/82 - 4/30/82
      5) $.10/gallon from 7/1/83 - 6/30/84
      6) $.11/gallon from 7/1/84 - 6/30/85
      7) $.12/gallon from 7/1/85 - 6/30/85
      8) $.13/gallon from 7/1/86

   c. Special Rules

      1. Diesel Fuel Rate - $.155

   d. Other - the rate for all other special fuel (including LPG) is the same as for motor fuel. (.13). The natural gas equivalent for this is 10-1/2 cents per 100 cubic feet.

3. Exemptions

   a. Motor fuel containing at least 10% alcohol distilled from agricultural products grown in the U.S. is partially exempt for the period 7/1/78 - 6/30/86.

   b. Motor fuel sold for export or exported from Iowa to any other state, territory or country.

   c. Motor fuel sold to any U.S. or any agency or instrumentality.

   d. Motor fuel sold to any post exchange or other concessionaire on any federal reservation within this state.

   e. Motor fuel used in the operation of an Iowa urban transit system or regional transit system (i.e., a public bus system.

   f. Motor fuel sold to the state, its agencies, or political subdivisions, which is used for public purposes.

4. Refunds/Credits*

   a. Purchaser is entitled to refund or income tax credit of taxes if fuel is used for any purpose other than propelling motor vehicles operated or intended to be operated on the public highways, or for propelling watercraft on waterways.

   b. Distributor, dealer or user may receive a credit for tax paid on fuel which is lost or destroyed through accountable leakage, fire, accident, lightning, flood, storm, act of war, public enemy or like cause.

   c. Persons who use tax paid motor fuel to blend gasohol may obtain a credit on the difference between taxes paid on motor fuel purchased to produce gasohol and the tax due on the gasohol blended.

   d. Motor fuel used to denature alcohol

   e. Bona fide commercial fisherman, licensed and operating under an owner's certificate for commercial fishing gear shall be entitled to a refund for tax paid.

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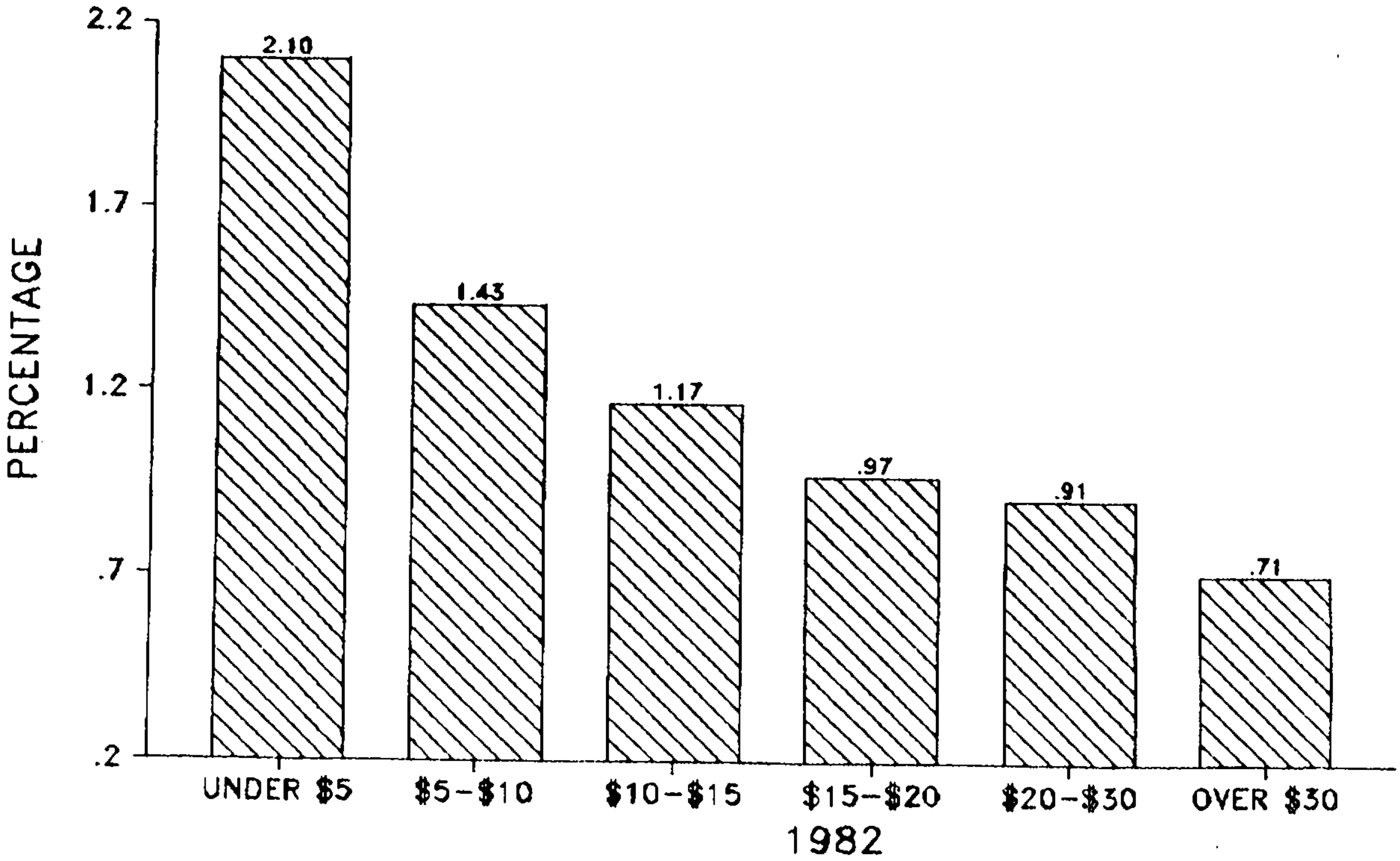
* Certain exclusions may also be claimed as a credit applied to individual or corporate income taxes.

Figure 12

INCIDENCE OF MOTOR FUEL TAX

BY INCOME BRACKET (000)



B. Explanation of the Data

The average weekly expenditure on motor fuel is from the Department of Labor Consumer Expenditure Survey: Diary Survey, 1980-1981. The data on the number of households in each income bracket for Iowa is from the Bureau of Census, State and Metropolitan Statistical Abstract. The total annual cost of the motor fuel tax by income bracket was calculated by allocating the total motor fuel tax receipts for 1982 over the brackets according to the percentage of total expenditure on motor fuel. The incidence of motor fuel tax is calculated by dividing the annual cost per household of the motor fuel tax by the midpoint of the income bracket. For the over $30,000 bracket, $40,000 was used as the income level since the average income of households in that bracket was calculated as approximately $40,000.

C. Equity

1) Vertical. While average effective tax rates have been calculated for motor fuel taxes by income categories, it is important to note that the motor fuel tax is imposed not on the ability to pay concept, but on the concept of benefits received. Measured by income, the tax is regressive since the tax costs of motor fuel represent a larger percentage of the income of lower income people than they do for higher income individuals as shown in Figure 12. In this respect it is similar to a general sales and use tax since motor fuel is a consumable good.

The basis for a motor fuel tax, however, is really that of a user fee. Those who use the highways most should, under this theory, pay for construction, maintenance and repair of the road system.

2) Horizontal. On an income basis there are no horizontal inequities. On a benefits-received basis it is also unlikely that horizontal inequities occur since heavy trucks, which are

responsible for more wear and tear on the roadways, generally use diesel fuel which is taxed at a higher rate.

3) Equity Summary. Measured by income the tax is regressive, but in a benefits-received basis it is basically proportional.

D. Neutrality

1. Rates

At border areas, individuals could purchase gasoline out of state to save tax costs. As seen in Table 25 below. Iowa's rate makes that unlikely.

Table 25

Comparison of Tax Rates*

State	Regular Fuel	Diesel	Gasohol
Iowa	13 ¢ per gallon	15.5 ¢	10 ¢
Illinois	12 ¢ + local in Cook County	13.5 ¢	12 ¢
Kansas	11 ¢	11 ¢	11 ¢
Minnesota	17 ¢	17 ¢	9 ¢
Missouri	7 ¢ & local	7 ¢	7 ¢
Nebraska	11 ¢ (set periodically)	11 ¢	10.4 ¢
North Dakota	13 ¢	13 ¢	8 ¢
South Dakota	12 ¢ + local	12 ¢	12 ¢
Wisconsin	16 ¢ (set periodically)	16 ¢	16 ¢

* Rates as of January 1, 1984

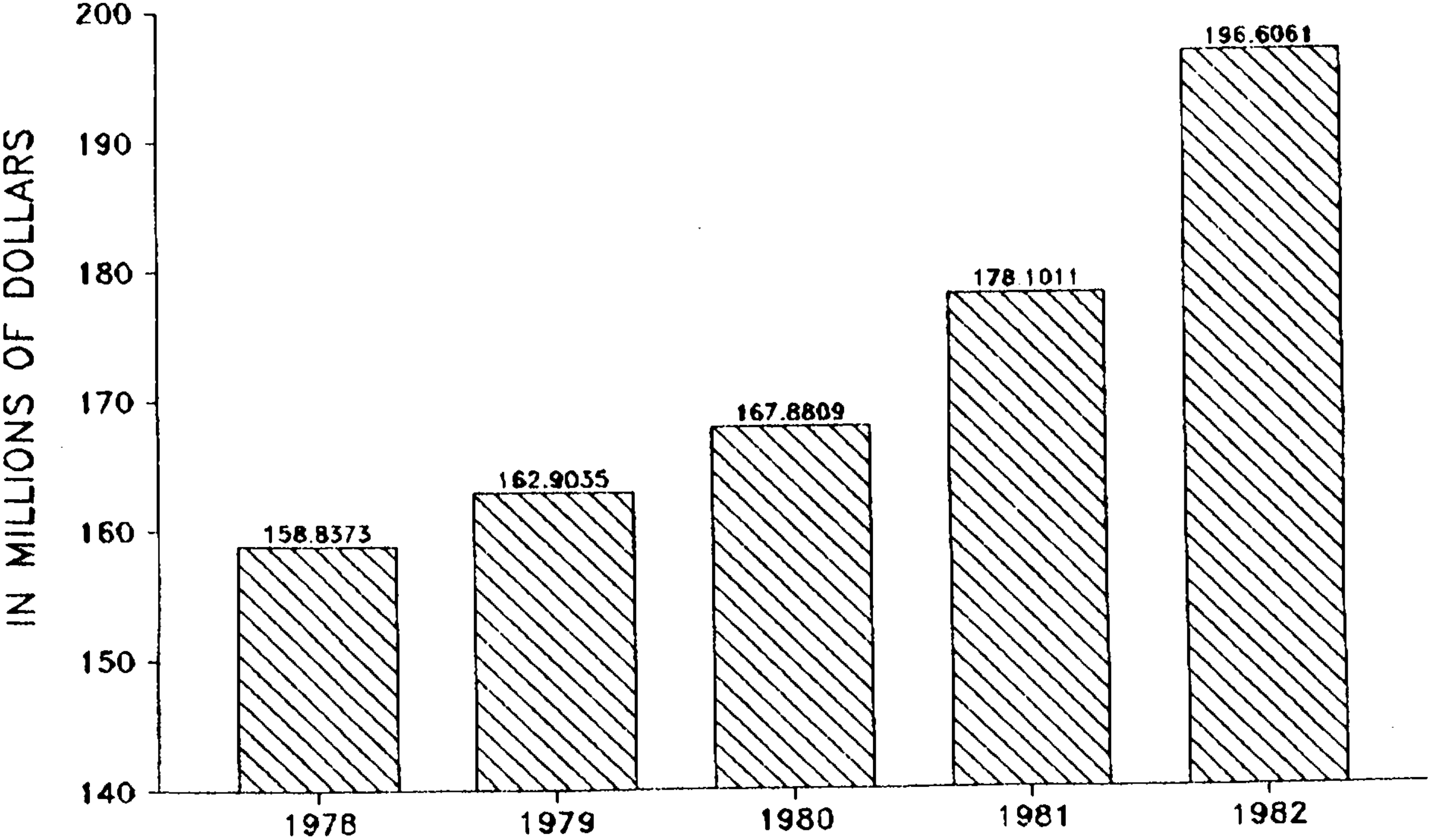
2. Gasohol

The major modification to the tax base is the partial exemption granted to gasohol. The purpose of the lower rate is to stimulate purchase of fuel made from vegetable products in order both to benefit agricultural producers and to decrease reliance on petroleum, a non-renewable resource. Twenty six states other than Iowa also give preferential treatment to gasohol.

Figure 13

MOTOR FUEL TAX RECEIPTS

1978–1982



3. Neutrality Summary

Iowa's average rate makes the tax basically neutral.

E. Yield

1. Growth/Elasticity

From fiscal year 1978 to 1982 total receipts grew 23.8 percent, despite a decrease in gas consumption, as shown in Figure 13; community income grew 34.1 percent. Changes in the rates explain this growth. In 1978 gasoline was taxed at 8.5¢ per gallon and diesel fuel at 10¢; by 1982 the rates had been increased to 13¢ for gasoline and 15.5¢ for diesel.

Rate changes tend to be more frequent when a tax is based on units rather than applied as a percentage of cost. During the years under study, the cost increased but consumption dropped as a result more of a move to smaller, more fuel-efficient automobiles than of cost per se. A number of studies show that demand for motor fuel does not decrease as a function of cost on a one-to-one ratio. Rates changed from 1957 to 1977 only once but from 1977 to the present they changed four times, indicating the need to increase the rate when the base of the tax decreases.

2. Reliance

In 1980, in the states as a whole, motor fuel taxes represented 4.30 percent of total state and local revenues. The table below shows the reliance of the surrounding states.

Table 26

Relative Reliance on Motor Fuel Taxes

States	% of Major State and Local Taxes	
Iowa	5.67%	
Illinois. . . .	2.75%	(prior to rate increase)
Kansas	4.77%	
Minnesota . . .	6.39%	
Missouri . . .	5.74%	
Nebraska . . .	6.27%	
North Dakota. .	6.15%	
South Dakota. .	10.19%	
Wisconsin . . .	4.80%	

3. Capacity

The ACIR index includes motor fuel tax under the larger heading of "selective sales", and therefore, data from this source is not available for motor fuel taxes.

4. Yield Summary

The yield from this tax has kept pace with growth in income, but only because of frequent rate increases.

F. Simplicity

The tax is collected from the distributors, those who first receive the fuel in the state and sell it to the dealers for resale. The distributors are licensed and, since there are far fewer distributors than dealers, collection and compliance are not a major problem.

Motor fuel used for non-highway or waterway purposes is subject to a refund or may be applied as a credit on the income tax. The credit mechanism makes the income tax more complex but reduces the need to process as many refunds.

G. Possible Modifications

1. Tax Motor Fuel on a Variable Rate Basis

A. Description

Presently, Iowa taxes motor fuel based upon the amount of gallonage received by the distributor and thereafter sold, less an allowance of 3 percent to cover evaporation, shrinkage and loss. The tax is an excise tax imposed upon the use of motor fuel within Iowa. The tax is paid in the first instance by the distributor and thereafter is added to the selling price of each gallon of motor fuel sold in the state. The ultimate consumer bears the burden of the tax.

The rate of tax on motor vehicle fuel is 13 ¢ per gallon. The motor fuel tax is presently applied on a cents per gallon or unit basis. This modification would impose the motor fuel tax on a variable rate basis, i.e., an amount to be calculated as a percentage of the cost of gasoline and the cost of highway maintenance. When costs increase, revenue also increases. The information needed to derive rates based on these facts usually takes anywhere from 2 months to a year to obtain. Therefore, implementation of adjusted rates does not coincide with current costs, though the variance from one period to the next is usually gradual. For example, based on information received from various states, the construction cost index of highway maintenance increased from 1978 to 1980, then gradually dropped off in 1981.

Consideration should be given to setting maximum rates, minimum rates and maximum percentage of increase in rates to stabilize revenues. Michigan used all three limitations and Ohio has set a maximum rate which can only be changed by legislative action.

B. Explanation of the Data

The analysis was based on consumption and price data for Iowa for the period 1978 to 1982.

C. Equity

1) Vertical. Measured by income, the tax would be regressive since the costs of motor fuel are a larger percentage of income for lower income people than for higher income individuals.

As the cost of gas rises, under this modification, so would the tax rate. Individuals in all income brackets tend to retain their consumption habits in spite of increasing costs and, therefore, on an ability-to-pay basis, the tax would remain regressive.

Measured on the benefits-received principal, however, the modification would improve equity since the tax would bear a greater relationship to the service provided, i.e., highway maintenance.

2) Horizontal. On an income basis, there are no horizontal inequities. The basis of the motor fuel tax is that of a user fee. Those who use the highways most should bear a greater tax cost than those who do not. They should contribute more for construction, maintenance and repair of the road system. Therefore, as costs increase to the user, it is assumed that this is due to increased use.

D. Neutrality

As costs of highway maintenance and motor fuel increase, the tax rate under this modification would also increase. Individuals, depending on the difference in the price of motor fuel, could cross over state lines to take advantage of lower prices. Under a variable rate system, Iowa could be less competitive but little evidence exists to indicate that this action is often taken.

E. Yield

The following tables show what rate would be necessary on an ad valorum basis to produce the same revenue generated by the unit price basis.

Table 27

Motor Fuel Revenue

	A Iowa Ave. Tax Rate	B Gallons Used in Iowa	C (A X B) Iowa Motor Fuel Tax Revenue	D* Average Price of Gasoline
1978	7.037 ¢	2,033,887,902	$143,125,000	67.70 ¢
1979	8.744	1,947,541,599	170,886,233	96,30
1980	9.744	1,789,106,846	178,050,670	123.40
1981	9.481	1,745,514,749	165,494,376	136.60
1982	11.244	1,688,948,834	189,910,797	131.40

* Note: Column D would be increased slightly to reflect highway maintenance costs.

In the above chart, Column C is the total tax revenue generated by the present Iowa system for taxing motor fuel. In order to produce the same amount of tax revenue in each year using the proposed modification, the tax rate for each year would be computed as follows:

	Cost of Motor Fuel (Col. B X Col. D)	Motor Fuel Revenues Col. C	Required Rate
1978	$1,376,942,110	$143,125,000	10.39 ¢
1979	1,875,482,560	170,886,233	9.11
1980	2,207,757,848	178,050,670	8.06
1981	2,207,757,848	165,494,376	6.94
1982	2,219,278,702	189,910,797	8.55

If the 1978 required rate of 10.39 ¢ had been used for 1979-1982, revenues would have increased by $198,226,029

If the 1979 required rate of 9.11 ¢ had been used for 1980-1982, revenues would have increased by	87,063,580
If the 1980 required rate of 8.06 ¢ had been used for 1981-1982, revenues would have increased by	15,649,166
If the 1981 required rate of 6.94 ¢ had been used for 1982, revenues would have decreased by	[35,892,855]
Total additional revenues	$265,045,920

While revenues could increase under the modification, they are less stable and predictable. In order to build stability, frequent rate changes would still be necessary.

F. Simplicity

The taxation of motor fuel on a variable rate basis as compared to a unit rate basis would be more difficult from the point of view of estimating future highway costs, consumption patterns and expected gasoline price trends. Because the price of motor fuel can change from any number of factors, the lag time of two months to one year may produce rates which do not reflect the true cost associated with them.

VI. PROPERTY TAX

VI. PROPERTY TAX

A. Description

1. Property Subject to Tax

   a. All real and tangible personal property

2. Classifications of Property

   a. Residential
   b. Agricultural
   c. Commerical
   d. Industrial
   e. Personal
   f. Personal property assessed as real property
   g. Centrally assessed (utilities, railroads, etc.)
   h. Other

3. Assessment of Property

   a. Fair Market Value is the principal standard for all classes of property

   b. Agricultural - valued on basis of productivity and net earning capacity determined on the basis of its agricultural use

   c. Director of Revenue biannually equalizes residential, agricultural and commercial classes.

4. Statutory Limitations - Growth in taxable valuations limited annually as listed below

a. Residential	4% or *
b. Agricultural	4% *
c. Commercial & Industrial -	4%
d. Utility	8%
e. Railroad	4% - Assessed at the same percentage of market value as commercial, industrial or centrally assessed property, whichever is less
f. Personal Property	Assessments reduced by a uniform percentage in each assessing jurisdiction so the current year aggregate assessed value does not exceed that for 1973.

(*Residential and agricultural land may increase only at an equal rate if less than 4 percent.

5. Exemptions

a. State

1) Federal and state property

2) Municipal and Military property: Property of a county, township, city, school corporation, levee district, drainage district or military company of the state, when devoted to public use and not held for profit. The exemption for property owned by a city or county also applies to property operated by a city or a county as a library, art gallery or museum, or as a location for holding athletic contests, sports or entertainment events, expositions, meetings or conventions, or leased from the city for any such purpose.

3) Public Grounds and Cemeteries: includes all places for the burial of the dead and crematoriums with land, not exceeding one acre, on which they are built.

4) Fire Equipment and Grounds: includes equipment and publicly owned buildings and grounds used exclusively for keeping them and for meetings of fire companies.

5) Property and Associations of War Veterans: does not include property held for profit.

6) Property of Cemetery Associations: does not include property used for the practice of mortuary science.

7) Libraries or Art Galleries: includes libraries and galleries owned and kept by private individuals, associations, or corporations, for public use and not for private profit.

8) Property of Religious, Literary, and Charitable Societies: not to exceed 320 acres in extent and not leased or otherwise used or under construction for profit. An exception to the 320 acre limit involves groups whose primary purpose is to preserve land in its natural state, in which case such group may own or lease land not exceeding 320 acres in each county for its appropriate purposes.

9. Personal Property of Institutions and Students: Moneys and credits belonging to institutions included in the above three areas and devoted to sustaining them.

10. Homes for soliders: includes buildings, grounds, house and equipment of homes operated for nonprofit

11. Agricultural Produce: Growing agricultural and horticultural crops and produce and all crops and produce harvested within one year previous to the listing.

12. Family Equipment: includes all tangible personal property customarily located and used in or about the residence or residences of the owner of the property; all wearing apparel and food used or to be used by the owner and his family; and all personal effects.

13. Farm Equipment - drays and tools: not to exceed $1,111 in value.

14. Government Lands: include government lands entered and located, or lands purchased from the state, for the year of the entry, location or purchase.

15. Public Airports: includes any lands whose use has been granted to or accepted by the state or any political subdivision of the state for airport or aircraft landing area purposes. (Either state or local)

16. Grain which is subject to grain handling tax

17. Property of Servicemen: If any person enters the armed services in time of national emergency, all personal property used in making his livelihood in excess of $300 shall not be taxed upon receipt of an affidavit that such property was not used during his absence.

18. Rural Water Sales: includes the real and personal property of a nonprofit corporation engaged in the distribution and sale of water to rural areas when devoted to public use and not held for profit.

19. Goods Stored by Warehousemen: provided such personal property is not offered for sale or sold by the owner at retail directly from the public warehouse.

20. Personal Property: All personal property in interstate commerce and certain property temporarily stored in Iowa.

21. Pollution Control: New installations of pollution control property and impoundments for a period of ten years, limited to the market value of the property. Impoundment structures are also exempt; however, ten year limitation does not apply.

22. Low-rent Housing: includes property owned and operated by a nonprofit organization providing low rent housing for the elderly and the physically and mentally handicapped. The exemption applies only until the terms of the original low-rent housing development mortgage is paid in full or expires.

23. Roads and Drainage Rights of Way: includes real estate occupied as a public road, rights of way for established public levees and rights of way for established, open, public drainage improvements.

24. Forest and Fruit Tree Reservations: includes forest and fruit tree reservations meeting certain conditions. In all other cases where trees are planted upon any tract of land, without regard to areas, for forest, fruit, shade, or ornamental purposes, or for windbreaks, the assessor shall not increase the valuation of such property because of such improvements.

25. Livestock

26. Motor Vehicles and Semi-trailers

27. Busses and Trackless Trolleys

28. Coal which is held in inventory except when held by a centrally assessed entity.

b. Local Option

1. Natural Conservation or Wildlife Areas: Locally approved exemption for property used for certain purposes must be applied for annually except for wetlands which are allowed a three year exemption. Subject to acreage limitations of one percent of acres assessed as agricultural land or 3,000 acres in each county, with some allowances made for additional acres after 1983. Lands included in this provision include: wetlands, open prairies, forest cover, and recreational lakes.

   Land certified as a wildlife habitat, or designated as native prairie, (up to a maximum of two acres) per agricultural land owner may be exempt. Approval of board of supervisors is not required.

2. Industrial Real Estate, Machinery, and Equipment: includes actual value added to industrial real estate by the new construction of industrial real estate and the acquisition of or improvement to machinery and equipment assessed as real estate. A public hearing must be held. The exemption is for a period of five

years. Maximum benefits are prescribed by statue as ranging from 75 percent in the first year to 15 percent in the fifth year.

3. Urban Revitalization Tax Exemptions: Upon designation by the governing body of an area as a revitalization area, an exemption for taxation based upon the value added by improvements applies to qualifying real property.

4. Credits, Exemption or Reduced Valuation

   a. Agricultural Land Tax Credit

      1. Credit against general fund school tax levies in excess of the basic levy of $5.40 per $1,000 valuation. Since the credit is only partially funded the actual benefits are less than those prescribed.

   b. Military Service Tax Exemption

      1. Reduction in taxable value depending on period of military service.

      2. Exemption varies from $1,852 to $2,778.

   c. Homestead Tax Credit

      1. Taxes levied on first $4,850 of taxable value.

      2. Certain disabled veterans may qualify for credit equal to 100 percent of taxes.

   d. Elderly and Disabled Property Tax Rent Assistance

      1. Eligible homeowners and renters include individuals who are 65 years and older, surviving spouses 55 and older or disabled.

      2. Maximum household income is $12,000.

      3. Reimbursement based on property taxes paid or 25% of rent paid for occupancy.

      4. Percentage of base reimbursed declines as income increases. Property owners must deduct any homestead tax credit.

e. Special Assessment Credit

1. Individuals with less than $5,000 or income may receive a direct reimbursement equal to special assessment paid.

2. Eligibility requirements parallel those of elderly credit program.

f. Mobile Home Tax

1. Tax is imposed in lieu of property tax at rate of 10¢ per square foot semi-annually.

2. Assistance parallel to that provided under elderly credit program is provided to reduce tax burden of elderly and disabled mobile homeowners.

g. Industrial Machinery and Computers

1. Taxable value of eligible property is limited to 30 percent of property's net acquisition cost.

2. Eligible property includes industrial machinery and equipment used in manufacturing establishment and computers.

3. The reduced assessment applies to property acquired or initially leased after December 31, 1981.

h. Personal Property

1. Taxpayers receive a credit established annually by the State.

2. For taxes payable in 1984-1985; the credit is equal to tax levied on first $175,000 of assessed value.

3. Amount of credit is to increase with ten annual increases until personal property tax is eliminated.

4. Personal property values are rolled back to 1973 assessment levels by assessing jurisdiction.

B. Explanation of the Data

All the analyses in this chapter are based on data compiled by the Iowa Department of Revenue. The data covers fiscal years 1978/79 to 1983/84 for the following:

- Valuations after rollbacks by property class
- Gross tax levies (before state credit payments) by property class
- Rollback percentages by property class
- State payments for the follwing credits:
  - homestead,
  - personal property,
  - elderly and disabled,
  - agricultural land,
  - livestock, and
  - military service.

We developed two models to analyze modifications to the current property tax system. The first model calculates the average tax rate that would be required to raise the same amount of after-credit revenue if: 1) property was assessed at 80% of market value (property tax credit would be retained) and 2) rollbacks and credits were eliminated. The second model estimates the revenue that would have been raised had the state enacted a levy limitation rather than the existing system of rollbacks and credits.

The first model uses data from 1982/83 and 1983/84 for property assessments, rollback percentages, tax revenue, and credit payments. To calculate the effect of replacing rollbacks with an 80% assessment ratio (and retaining credits), taxable valuations were divided by the appropriate rollback percentage to obtain market valuations. These valuations were then multiplied by .8 to obtain the new taxable valuations. The model then algebraically solved for the new tax rate, taking into account the impact of the new rate on the value of state payments for the homestead and personal property tax credits. To calculate the effect of eliminating rollbacks and credits, the same procedure was followed, except that the new tax rate could be calculated by dividing actual after-credit revenue by market valuations.

The second model compares actual after-credit revenue beginning in fiscal year 1978/79 to the revenue that would have been allowed if a levy limitation restricted revenue growth to five percent per year plus the levy on new construction. The amount of revenue allowed under the levy limitation was calculated as follows:

1) Multiply actual tax revenue for 1978/79 by 1.05 and divide by 1979/80 market assessments (less new construction) to obtain the new tax rate.

2) Multiply market value by the percentage new construction to obtain the value of new construction by class.

3) Multiply market valuations by class by the new tax rate calculated in 1) to obtain the levies collected from each class.

4) Sum the revenues calculated in 3) to obtain total revenue allowed in 1979/80. This sum becomes the base for the next year.

5) Repeat calculation through 1983/84.

The amount of new construction as a percent of market assessments was based on Department of Revenue estimates. In the mid 1970's the Department used the following percentages as a rule of thumb.

Residential	-	4.0%
Agricultural Land	-	0.5%
Agricultural Building	-	0.5%
Commercial	-	2.0%
Industrial	-	2.0%
Personal Real	-	2.0%
Utilities	-	2.0%
Others	-	2.0%

In the early 1980's new construction declined as a percentage of market value assessments. Because assessors do not separate out new construction within classes of property, the Department is unable to estimate the level of new construction activity in the early 1980's. We therefore ran the model under two sets of assumptions about new construction. The first uses the percentages shown above through fiscal year 1979/80 and half those levels through fiscal year 1983/84. The second assumes new construction continued at the pace of the mid 1970's. The result of the first set of assumptions appear in this chapter; the other results appear in the Appendix.

C. Equity

1) Vertical. It is difficult to relate property tax costs to income since tax records are based on property assessments with no relation to the income of the property owners. Also, economists' property tax incidence theories have undergone a change in the last two decades. If one assumes, as most economists did for many years, that the burden of the property tax on residential structures is borne by consumers of such structures, i.e., those who live in them, then the tax is regressive because housing, in whose cost the property tax is an especially large component, represents a much higher percentage of income in low income families than in families with greater income.

A more recent theory postulates that in the nation as a whole, the tax is an element in the cost of using taxed capital goods, including land and structures. The further assumption is that investors will shift their investments from heavily taxed to more lightly taxed, or untaxed activities, thus lowering the rate of return to all owners of capital goods, even those not directly subject to property taxation. If all owners of capital share the burden, the tax would be seen as progressive since ownership of capital is greater among those with higher incomes.

Another criticism of the regressive model of the property tax burden rests on the use of annual income as the measure to which the tax is applied. The argument is made that housing choices are made based on assumptions as to long range income and, therefore, the proper measure is average income over a reasonable period of time, similar to the income averaging used for income tax purposes. Under this income measure, the property tax is proportional.

Since national returns on capital are unlikely to affect property tax burdens in a single locality over a reasonable period of time, and since no agreement exists on an appropriate period of time for the averaging of income, it must be assumed for purposes of this study that the property tax is regressive based on current income measures.

The elderly and disabled credit is intended to address this problem and does lessen the regressivity of the tax at the lower income levels for particular groups of taxpayers.

2) Horizontal. Since income data for specific property taxpayers is not available, the horizontal equity must be examined in another way. Owners of different classes of property may be treated differently even though their property has the same value. For example, if agricultural property increases in value three percent and residential property increases seven percent, both will be rolled back to the three-percent level.* The residential owner receives a greater benefit than the owner of agricultural land in relation to the actual increase in value. The agricultural land credit gives relief to owners of farmland not available to other taxpayers for costs of education. Because of the state reimbursement, the burden is shifted to non-farm owners. The farm owners are also eligible

* Assuming taxable valuations equal or exceed market valuations.

for the homestead credit available to owner-occupants of residential property.

Differential methods of assessment also affect horizontal equity. Agricultural land is assessed on a productivity or income basis with no regard for market or purchase value. Commercial and industrial land and property is also income producing, but market value considerations are the major component in their valuation although income production and capitalization are also considered.

Personal property owners also receive differential treatment. Farm equipment, for example is exempt up to $1,111. Machinery and equipment, farm or non-farm, is not exempt. However, if such machinery is attached, it is taxed as realty and is not subject to the personal property tax credit. Industrial machinery is considered to be realty whether it is attached or not. The machinery and computer credit partially address the latter disparity. Agricultural produce, while growing or harvested in the last year is exempt, as is grain handled by elevators, mills and processing plants but the inventory of manufacturers and merchants is not exempt.

3) Equity Summary.

The property tax is generally considered a regressive tax when measured by income. If a benefits-received principle is assumed to be the basis for imposition there are still equity problems since the assessed value of property does not necessarily relate to local government benefits. For example, deteriorating structures may require more police and fire services, but are likely to have lower assessed values than will maintained or new structures.

Horizontally the different tax treatment accorded different kinds of property and the differences in the roll-back lead to inequities across the system.

D. Neutrality

Local taxes, by their nature, vary from taxing district to taxing district. Location decisions are more often based on broad measures, such as exemptions rather than rates alone.

1. Rate

The tax rate in 1983 varied from a low of $24.80 per $1,000 to a high of $34.72 per thousand. Rates, however, untied to assessment levels do not give an idea of comparative tax liability. The 1984 Prentice-Hall All States Handbook, lists the following composite average rates and assessment bases for the comparable states based on rates in effect prior to 1982.

Table 28

Comparison of Tax Base and Rates

State	Composite Average Rate (per $1,000)	Assessment Ratio
Iowa	$ 29.78	100.00%
Kansas	$140.88	30.00%
Minnesota	$100.07	43.00% (for commcial-industrial; 18 categories with different ratios exist)
Missouri	$76.63	33-1/3%
Nebraska	$33.27	100.00%
North Dakota	$271.02	50% X 10% (9% for residential)
South Dakota	$17.68 (Agricultural 49.44)	60.00%
Wisconsin	$45.10	100.00%

2. Special Farmland Treatment

Beginning with Maryland in 1956, the states have been moving toward special, favorable assessment treatment for farmland. One of the two most common approaches is based on restricting the conversion of farmland by restricting the value to current use. Missouri, South Dakota and Nebraska use this method. Iowa, Illinois and the other states' laws were based on the fact that market value was increasing rather than on the loss of farmland to urban development. In many cases, the law was imposed to recognize de facto special assessment treatment and to avoid court ordered increases in assessments.

The methods used by the states to determine the productivity or income value varies. Most states (40%) tie the capitalization rate to the Federal Land Bank Mortgage interest rate averaged over a period of years. Other methods used are a set rate fixed in the statutes (20%) or a variable rate fixed by a statutory formula (20%). The type of rate used will have an effect on the rate of growth of the farmland value. Assessed values have risen in Iowa, but declined in Illinois. Agricultural economists believe this is due to the capitalization rate and how it relates to the actual rate of inflation. Table 29 shows the methods used by neighboring states.

Table 29

Treatment of Agricultural Land

State	Special Treatment
Illinois	Yes - productivity
Kansas	Yes - productivity
Minnesota. . . .	Yes - lesser of market value or income value
Missouri	Yes - at value for agricultural use
Nebraska	Yes - value for agricultural use
North Dakota . .	Yes - income basis
South Dakota . .	Yes - value for agricultural use

3. Limitations

The roll-back is the most recent limitation factor imposed in Iowa to offer tax relief. Earlier ones included rate limits for cities, counties and other local governments and rate and spending limits for school districts. The roll-back does not limit rates or spending, but, rather, limits the assessment growth. In order to produce relief, both the rate and the assessment must be limited. If, for example, the roll-backs had not been in effect in 1982-83, local governments could have taxed on a base $386,000,000 greater without raising their rates. However, school spending limits could have restricted the use of this base since they are tied to changes in enrollment and the rate of inflation.

Under the current roll back system taxable valuations are allowed to grow at four percent per year for most classes of property. As long as taxable valuations remain below market value, taxable valuations may grow at four percent, even if market value increases at less than four percent. Taxable valuations could not increase by four percent if that increase would raise taxable valuations above market value. In the early 1970's taxable valuations have increased at four percent, even though market values have increased at a slower rate. This was possible because the rapid growth of market values in the late 1970's created a large difference between taxable and market values. The difference is slowly eroding as taxable valuations increase at a faster rate than market values. The roll back system thus has acted to reduce rapid increases in taxable valuations in the late 1970's and to maintain the growth of taxable valuations at a stable rate in the early 1980's.

4. Exemptions

Some property is totally exempt from taxation as a class. Kinds of property in this group include government property, property of religious, literary or charitable societies and public airports. Other exemptions are partial and are applied to a portion of otherwise taxable property. Examples of this group are the military service exemption and the personal property exemption.

National figures show that by 1980 the value of real property owned by tax-exempt entities equalled more than 40 percent of the value of property owned by taxable entities. Of this amount, by far the largest percentage was owned by state and local governments (71%), with non-profit organizations accounting for 13.5 percent and the rest held by the federal government. The intent of most of these exemptions is to allow for the provision of community service or amenities in a manner which is cost effective for the providers. The loss of revenue must be measured against this perceived goal.

5. Neutrality Summary

Location or investment decisions will include property tax considerations. Older people have been known to sell their homes when the taxes become too high, businesses are most concerned with assessment practices and exemptions, and farmers operating in the margin, may sell their farms to conglomerates or to developers when taxes become too burdensome.

Iowa has responded to these concerns through the homestead exemption, the personal property roll-back, the real property roll-back and the use of a productivity formula for the valuation of farmland. In spite of these mechanisms, the property tax is still considered burdensome. The survey of Iowa business showed this tax to be the most costly to businesses. This is likely the result of the taxation of machinery, equipment, and inventories. Farmland values have risen in spite of the productivity formula which could be due to several factors, e.g., the five year rolling average, the set capitalization rate and the country-wide averages. The roll-backs, however, have stablized both the property tax burden and revenues.

E. Yield

1. Growth/Elasticity

Actual collections from the property tax increased during the years 1978-79 to 1983-84 from $950,000,000 to $1,344,000,000 or 41.5 percent. Iowa personal income increased 34.1 percent during this same period. The tax is therefore elastic in relation to community income. In order to look at growth in collections in relation to the base, the non-rollback year (1978/79) will not be included. The growth in actual collections from 1979-80 to 1982-83 was 29.5 percent. The taxable base, subject to both the personal property and real property rollbacks grew 21.6%. If the roll-back had not been in place, the base would have grown 37.8 percent. Because of the rate and spending limits, it is not possible to estimate what the collection growth would have been had the roll-backs not been in place since the entire base would not have been capturable. However, a collection growth rate of almost 30 percent against a base which grew 22 percent indicates that tax rate increases occurred.

2. Reliance

In 1980 revenues from property taxes represented 30.30 percent of total state and local revenues for the states as a whole. The percentages of the comparable states are found below.

Table 30

State	% of Major state local taxes
Iowa	40.15%
Illinois	40.35%
Kansas	40.82%
Minnesota	32.37%
Missouri	39.65%
Nebraska	44.66%
North Dakota	32.73%
South Dakota	44.29%
Wisconsin	36.96%

3. Capacity

According to the most recent ACIR index the capacity of the property tax in Iowa is 119.98 and the effort 103.1.

4. Yield Summary

Collections from this source remain high although roll-backs have kept collections below the growth in community income. Iowa is still quite reliant on this source but not out of line with surrounding states. The effort, since the implementation of roll-backs, has declined in relation to capacity but is still above the national average.

F. Simplicity

The property tax, in all states, is a complicated tax. Part of this is due to the process itself. Most property is assessed locally but subject to equalization by the state. Assessed values are then rolled back and some exemptions to assessed value applied. The taxing bodies levy dollar amounts which are subject to rate or dollar limitations. The actual rate is then applied to assessed value to produce the computed tax which is then subject to further credits. There are hundreds of taxing bodies and a single tax bill is a compilation of many levies.

Given the nature of the tax, the system of classification, the variety of credits and exemptions and the less than precise art of assessment, it is not surprising that most individuals do not understand the system. It is commonly believed that this lack of understanding, coupled with the lump-sum billing system (as opposed to the withholding system on income taxes and the transaction-by-transaction nature of the sales tax) makes the property tax the least favored of all state and local taxes.

G. Possible Modifications

1. Impose Levy Limitation in Lieu of Assessment and Rate Limits

A. Description

Iowa currently limits increases in the property tax burden through a combination of assessment rollbacks and tax rate limits. The interaction of these two provisions indirectly limits the growth of property tax revenues, although the extent of the limitation depends on the growth of market assessments and statutory limits on tax rates. Under this modification, property tax revenue would be directly limited to increases of five percent per year (or some other designated percentage). The levy limit would not cover levies on new construction so that levies in rapidly growing towns could increase by more than five percent. The current system of rollbacks and credits would be eliminated. The purpose of this modification is not to radically change the amount of revenue raised by the property tax, but rather to simplify the current property tax system.

B. Equity

1) Vertical. The introduction of a levy limitation would have little impact on the vertical equity of the property tax.

2) Horizontal. The replacement of the rollback and rate limitation system with a levy limitation would remove existing horizontal inequities. Under the current system different classes of property are treated differently for tax purposes. Rollback percentages depend on the class of property and hence taxable value varies by class. Under the levy limitation approach, the tax levy for all classes would be based on market value of property (or productivity for agricultural lands). Thus property of the same market value would be taxed at the same value, regardless of property class.

C. Neutrality

Introducing a levy limitation would not have a large impact on the neutrality of the property tax. The property tax bills of most taxpayers would not change, assuming that tax rates were adjusted so that the state received the same amount of revenue.

The change could reduce the economic distortions caused by the property tax in particular counties or towns where market values have grown quickly, and as a result the rollback and rate limitations had reduced taxable valuations for particular property classes. In this case, tax-related incentives to invest in property classes with relatively low taxable valuations would be reduced, and thus the property tax would become more neutral.

A number of other states have imposed state tax or expenditure limitations in recent years. As shown in the following table, most of the limitations restrict expenditures rather than revenues, as a levy limitation would. In addition most of the states tie growth of revenues or expenditures to the growth in personal income, rather than a single fixed percentage. This provision creates greater flexibility in the growth of revenues and relates state expenditures to changes in the state's economic performance. If Iowa imposed a levy limitation based on the growth of personal income, the average increase allowed would have been 7.6 percent. The revenues allowed under this percentage growth are presented in the Appendix.

D. Yield

Property tax revenues need not change in the base year if rollbacks and credits were eliminated. Tax rates could be adjusted to maintain revenues received after credits were deducted. (In future years, revenues could vary depending on the future impact of rollbacks.) The following table compares the statewide consolidated tax rates for fiscal year 1983/84 with the rate that would be required to raise the same after-credit revenue if rollbacks and credits were eliminated.

It is important to note that each taxing jurisdication applies a single rate to all classes of property. The rates shown below are simply a method of showing taxable values in relation to actual or anticipated revenues.

Table 31

Comparison of 1983/84 Property Tax Rates Required to Raise the Same Revenue in 1983/84

All Property Class - Average Rates*	New Rates*	% Difference
$24.80	$17.13	-30.42%

* Given in dollars per thousand dollars of assessed value.

The elimination of rollbacks and credits would increase the size of the taxable base; therefore, to obtain the same amount of revenue, tax rates would be reduced. Because residential and personal property receive the largest rollbacks and credits, tax assessments for those two classes of property would increase by the greatest amounts. Due largely to these increases in taxable valuations, the total average tax rate would decline by 31 percent.

To illustrate how a levy limitation could affect future revenues, and also to demonstrate the differences in tax burden for different property classes that could arise if the rollback and credit system were eliminated, we have calculated what revenues would have been if the state had implemented a levy limitation instead of the system of rollbacks and credits it did institute. The following table shows the results of this calculation for fiscal year 1983/84 and compares the revenue allowed under a five percent levy limitation, with actual revenue. The revenue under the levy limitation was calculated by allowing revenue raised in fiscal year 1978/79 (the last year before the roll-backs) to increase at five percent each year, not including levies collected from new construction. Year-by-year calculations appear in the Appendix.

Table 32

Comparison of Actual Revenue and Revenue Allowed Under a Levy Limitation

1978/79	Actual Revenues (After Credits)	$950,162,196
1983/84	Actual Revenues (After Credits)	$1,410,259,669
1983/84	Estimated Revenues - Levy Limitation	$1,342,453,190
	% Difference	4.8%

Had a levy limitation been implemented in fiscal year 1978/79, revenues would have been five percent less ($67.8 million) than actual after-credit revenue. This finding is sensitive to the amount of new construction assumed over the time period. An alternative scenario assuming a larger amount of new construction occurring in the early 1980's results in a difference of 1.3 percent or $18.4 million. Both scenarios are presented in the Appendix.

E. Simplicity

A levy limitation in place of the current system of roll-backs, rate limitations, and credits would greatly simplify the property tax system. Property taxpayers would more easily understand their tax bill and how it was calculated, alleviating a common complaint about property taxes. The state would no longer need to administer the property tax credit programs, which could result in administrative cost savings.

The levy limitation would also increase the predictability and stability of property tax revenues. This predicability can help in the planning process as local governments could forecast their revenues with high reliability. However a strict levy limitation could severely restrict the ability of local governments to respond to unexpected cost increases. In times of high inflation, such a strict limit could force an erosion of locally provided services. In addition, such a limitation would reduce the ability of local governments to provide new services if demanded unless a provision for exceeding the limit were provided.

A state revenue or expenditure limitation could also be considered. The most common types of state limitations are based on the growth in personal income (see Appendix for complete listing of limitations).

Most of the state limitations were imposed in the later seventies when many states had significant surpluses. By 1982, many states were facing shortfalls and any surplus which had not been given to either residents (Wisconsin and Alaska) or to local governments (California) were spent as a part of "rainy day" provisions built into the limitations.

Of the limitations referenda on ballots this November, California "Jarvis II" and Michigan's state limitation lost. Oregon's also lost by a narrow margin. Maryland loosened the country spending limitations in its referendum.

While in general, states revenues are increasing, limitations at the state level are not being seriously considered since changes in the federal system have reduced the amount of intergovernmental transfers which states enjoyed in the 1970s.

2. Reduce the Assessment Ratio in Lieu of Rollbacks

A. Description

Under this modification, all property would be taxed at the same fixed percentage of market or productivity value. The current property credits could remain, but the rollback provisions would be eliminated.

B. Explanation of the Data

For the purposes of this analysis we have estimated the tax rates that would be required to raise the same amount of revenue after credits were paid if property were taxed on 80 percent of its market value.

C. Equity

1) Vertical. The proposed modification would have little effect on vertical equity.

2) Horizontal. The modification would tax all property on the same basis and therefore would remove the potential inequities in the current system. The reduced market assessment ratio would ensure that the assessment value of all classes of property would increase at the same rate as market value.

D. Neutrality

If tax rates were adjusted so that the same revenues were raised, the effect of the property tax on economic decisions would change little. The total tax bill of some taxpayers would increase, while the tax bill of others would decrease by the same amount. Again, because residential taxpayers have received the greatest benefit from the rollbacks, their bills would increase the most. The financial incentives established by these changes could cause some taxpayers to buy or sell property in order to minimize their changed tax burden.

A number of states assess property at less than full market value as shown earlier in Table 47. Without a corresponding limit on tax rates, the reduced assessment ratio would have little effect on tax revenue because the tax rates could be raised or lowered to obtain the desired revenue. As shown in the table the tax rates in states with low assessment ratios are much higher than those in states where property is taxed at 100 percent of market value.

E. Yield

As discussed earlier, the revenue raised under this modification would not necessarily change since tax rates could be adjusted to obtain the same revenue. The table below compares the actual 1983/84 rates with those needed to obtain the same revenue. These new rates take into account changes in the value of property tax credits due to the change in rates.

Table 33

Comparison of Property Tax Rates

All Property 1983/84 Rate	New Rate	% Difference
$24.80	$24.65	0.6%

F. Simplicity

This modification would somewhat simplify the administration of the property tax. The chief simplification would be to eliminate the need to calculate a new rollback percentage for each year; in effect this modification would establish a permanent rollback of 20 percent.

The reduced assessment ratio would eliminate the restrictions placed on the growth of assessments by the rollback provision. Total assessments would be reduced but would rise or fall as market valuations fluctuate. Thus, increases in market value would be reflected in the tax base, while the total size of the tax base would be reduced.

The change in the assessment ratio could create additional uncertainty about the property tax system as the ratio was only recently increased to 100 percent. In addition, if assessments began to grow rapidly, there may be a tendency to frequently change the ratio, thereby creating additional uncertainty on the part of taxpayers.

3. Exempt All Personal Property From Taxation

A. Description

Presently, tangible personal property, except personal property assessed as real property, is subject to a rollback provision which reduces current aggregate assessed value to the 1973 aggregate assessed value by assessing district. In addition, taxpayers receive a credit up to an amount established by the state on an annual basis (1984-85 credit is $175,000). The personal property tax is to be phased out through increases in the credit over time. The tenth increase results in elimination. The phase-out is in its fifth period. Increases in the credit are tied to increases in the general fund.

The Iowa Statutes provide that any machinery and equipment attached to structures, building or improvements is treated as real property. Further, machinery used in manufacturing establishments is also treated as real property.

Family equipment (tangible personal property located and used in a residence) is exempt.

The modification would eliminate the tax on personal property immediately.

B. Explanation of the Data

The analysis was based on 1982/83 data to calculate the effect of the elimination.

C. Equity

1) Vertical. The present credit and rollback provisions in the personal property tax law tend to exempt the majority of farmers and small businesses from the tax. Businesses with large inventories or many tangible assets bear most of the burden, but since the presence of such property may bear little relation to present income, the present tax is not necessarily related to ability to pay.

2) Horizontal. Elimination of the personal property tax would remove certain inequities between agricultural and commercial/industrial taxpayers such as the farm equipment partial exemption, which is not available for commercial equipment, and the harvested crops and produce exemption, which is not available for manufactured goods.

The modification would not eliminate the horizontal inequity relating to the classification of manufacturing machinery as real property. This machinery, plus computers, are subject to taxation but such property acquired or initially leased after December 1, 1983 is valued for tax purposes at 30 percent of its net acquisition cost.

D. Neutrality

Seven states, as of January 1, 1984, exempted personal property generally (Delaware, Hawaii, Illinios, New York, North Dakota, Pennsylvania and South Dakota). Nineteen exempt inventories of merchants and manufacturers held for processing or sale, and one exempts inventories with minor exceptions. A listing of the comparable states' tax treatment follows:

Table 34

Comparison of Property Tax Treatment of Inventories

State	Inventories Taxed
Iowa	Yes - subject to credit & rollback
Illinios	No tax
Kansas	Yes
Minnesota	No tax
Missouri	Taxed under business license tax (Merchants Ad Valorem Tax)
Nebraska	Exempt
North Dakota	No tax
South Dakota	No tax
Wisconsin	Exempt

The question of defining machinery and equipment as personal property has received a considerable amount of attention in the courts of many of the states. Attachment to a factory floor, factory improvements or other realty in such a fashion as to integrate the use of the machinery or equipment into the realty or plant improvement appears to be the most common rationale for considering such items as real property.

Most states exempt livestock and farm produce from personal property taxation.

E. Yield

In fiscal year 1983/84 Iowa would have lost $14.1 million in tax revenue after the personal property and livestock credits were paid*. In that year revenues from personal property accounted for one percent of total after credit revenues.

F. Simplicity

The elimination of the tax on personal property would simplify the current system of rollbacks and partial exemptions, reducing the administrative effort required from county and state governments. In addition, the elimination of the tax would end the uncertainty over future tax liability generated by the delayed ten year phase out.

4. Treat Industrial Machinery and Computers as Other Machinery and Equipment

A. Description

Under this modification industrial machinery and computers would no longer be automatically classified as realty and subject to the 30/70 credit. Instead, machinery and computers which are attached and meet the regulations for real property would be so classified and the machinery and computers which would be considered personal property would be reclassified as personalty.

B. Explanation of the Data

The analysis is based on Department of Revenue estimates based on 1983 data.

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* Tax revenue would have been approximately $22 million if only the personal property credit were deducted from personal property tax revenues and the $8,000,000 live stock credit was not discontinued.

C. Equity

1) Vertical. This modification would have little effect on vertical equity.

2) Horizontal. This modification would increase horizontal equity by removing the present inequity between manufacturing machinery and other types of machinery.

D. Neutrality

Most states make a distinction between machinery attached to structures and machinery which is not attached. Removing the differential treatment of manufacturing machinery would bring Iowa more in line with other states and increase neutrality.

E. Yield

The elimination of the tax on machinery and computers and the related state-funded credit program would reduce: 1) tax revenue received from business, 2) state payments to counties to replace lost revenue, and 3) the drain of state resources to fund the credit program. The Department of Revenue estimates that, based on 1983 assessments, $7.1 million will be paid to counties to replace revenue lost due to the current partial exemption for machinery and computers. The remaining tax on the residual value of machinery equipment would total approximately $3 million. Thus, counties would lose approximately $10 million total in property tax revenue. The $10 million represents only the machinery and computers acquired or leased after 1983. The loss to local government would increase by a considerable amount if the older machinery were to be reclassified as personal property.

F. Simplicity

The elimination of the state funded credit would reduce the administrative work load of the Department of Revenue. Taxpayers property tax calculations would be somewhat simplified.

5. Impose Payment In-Lieu-of Taxes on Non-governmental Exempt Property

A. Description

Under this modification, the state would collect payments from non-governmental property currently exempt from property taxes to replace the revenue that, if ownership were different, would be collected. Payments could be collected from some or all of the properties listed below which are currently exempt from property taxes:

- Property of Associations of War Veterans (Does not include property held for profit.)

- Public Airports: Includes any lands whose use has been granted to and accepted by the state, or any political subdivision of the state for airport or aircraft landing area purposes. (Either state or local)

- Property of Cemetary Associations: Does not include property used for the practice of mortuary science.

- Libraries and Art Galleries: Includes libraries and galleries owned and kept by private individuals, associations or corporations, for public use and not for private profit.

- Property of Religious, Literary, and Charitable Societies: Not to exceed 320 acres in extent and not leased or otherwise used or under construction for profit. An exception to the 320 acre limit involves groups whose primary purpose is to preserve land in its natural state, in which case such group may own or lease land not exceeding 320 acres in each county for its appropriate purposes.

- Personal Property of Institutions and Students: Moneys and credits belonging to institutions included in the above three areas and devoted to sustaining them. Includes books, papers, apparatus, works of art used solely for those purposes.

- Property of Educational Institutions: Real estate owned by any educational institution of this state as a part of its endowment fund with certain limitations depending upon the year acquired.

- Homes for Soldiers. Includes buildings, grounds, and house equipment. Must be not for profit.

The payment could be calculated in many different ways and/or could be negotiated between the state and the property owner. The federal government makes payments in-lieu-of-taxes on federally owned parks, wilderness areas and other open land, based on a formula allocating a flat sum per acre. A number of states make payments in-lieu-of-taxes on state owned property. New Jersey, for example, makes payments to local governments based on the assessed value of state owned property and the local tax rate. These two alternatives describe possible formulas for implementing this modification.

B. Explanation of the Data

Information was gathered from ACIR and the Academy for State and Local Taxes.

C. Equity

1) Vertical. This modification would have no impact on vertical equity.

2) Horizontal. This modification would help towns which have a reduced tax base due to the ownership of land by exempt institutions, yet provide basic municipal services to these property owners. While most towns have a limited amount of exempt property in their jurisdiction, in a small number of towns, exempt property accounts for a sizeable portion of the total tax base. The payments in-lieu-of-taxes would be, in effect, a service charge to cover the costs of services provided.

The equity implications of the imposition of payments in-lieu-of-taxes must be carefully evaluated. The property classes exempted were deemed to merit special treatment due to the purposes to which the land was put, or due to special characteristics of the owner. The payment in-lieu-of-taxes reverses this special treatment.

D. Neutrality

The imposition of a substantial payment in-lieu-of-taxes could influence the location decisions of certain institutions which could relocate to avoid the payment. It is, however, unlikely that many institutions could effect such a change of location. Thus, this modification would have little effect on neutrality, although specific decisions could be affected.

E. Yield

It is impossible to calculate the total yield from this modification due to the uncertainty of the methodology used to calculate the payment. Total revenue, in all probability, would not be significant, although the additional revenue could be significant for towns with large amounts of exempt property.

F. Simplicity

The imposition of payments in-lieu-of-taxes would be difficult to administer. An equitable method of calculating the payment as well as a complete inventory of exempt property would need to be developed. Thus the initial effort would be a significant administrative burden; once an operating system was established, the administrative burden would decline.

6. Expand the Elderly and Disabled Credit to Include all Low-Income Owners and Renters and Abolish the Homestead Credit

A. Description

Under this modification, all low income owners and renters would receive a credit graduated by income class. The homestead credit would be abolished. The expanded credit would be administered by the Department of Revenue in the same fashion as the current Elderly and Disabled Credit.

B. Explanation of the Data

The analysis was based on data from the 1981 Annual Housing Survey (Bureau of the Census, Series H-150-81) for median owner occupied house values by income class, median rent paid by income class and the number of owner occupied and rental units in Iowa.

C. Equity

1) Vertical. This modification would improve the progressivity of the property tax. Homeowners with income greater than the income cutoff would lose the homestead credit and would pay more in property taxes. Based on the consolidated state-wide average tax rate of 28.11 per thousand dollars of residential valuation in fiscal year 1983/84, the average homeowner would pay $136 more in property taxes. Renters or owners earning incomes below the income limit would receive a credit check equal to a percentage of their total property tax bill. The percentage would change based on income as shown below:

Income	Percent of Property Taxes
$0-4,999	100%
$5,000-5,999	70%
$6,000- 6,999	50%
$7,000- 7,999	40%
$8,000- 8,999	30%
$9,000-11,999	25%

2) Horizontal. The expanded credit could create differences in the amount of property tax paid on houses of the same value if the owners had radically different incomes. A low income person owning a house would receive a tax credit, while a higher income person would not. To the extent that low income persons who own homes are elderly (and thus receive a credit), this horizontal inequity is present in the current system. Thus, the expanded

credit would probably not have an important impact on horizontal equity.

D. Neutrality

The expanded credit would have little impact on the neutrality of the property tax. A table from the ACIR publication Significant Features of Fiscal Federalism, 1982/83 describes circuit breaker property tax relief programs in other states and appears in the Appendix.

E. Yield

The total cost to the state of funding the credit for all low income owner renters would be very unlikely to exceed the amount currently spent on the sum of the elderly and disabled credit and the homestead credit (approximately $104 million in 1983). Thus, the state would probably reduce its payments under the proposed modification.

F. Simplicity

The administrative cost created by the modification would be greatest in the first years after enactment. However, as the state already administers a program with similar provisions, the modification would not cause undue burden.

7. Eliminate the Military Service Credit

A. Description

This modification would abolish the military service exemption which reduces the taxable value of real or personal property of eligible Iowans who served in the military forces during specified war time periods.

B. Explanation of the Data

Data from 1983/84 was used in the analysis.

C. Equity

1) Vertical. The modification would have little effect on vertical equity.

2) Horizontal. The modification would eliminate the differential treatment accorded to veterans. The present exemption also differentiates by the war in which the veteran served.

D. Neutrality

This modification would have little effect on neutrality.

E. Yield

The elimination of the military service credit would have created a gain of revenue of $3.3 million in fiscal year 1983/84. The amount of the revenue gain would slowly decline as the population of veterans of early wars (and their spouses) decreases over time.

F. Simplicity

The elimination of the military service credit would have little effect on the administrative cost of the property tax and would only marginally improve the simplicity of administration.

8. Change the Farmland Productivity Formula

A. Description

The present farmland productivity formula is based on input factors (average production and county grain prices less expenses) averaged over five years and a capitalization rate of 7 percent. The modification would change the capitalization rate from 7 percent to the Federal Land Bank Mortgage Interest Rate averaged over 3 years with a limit of one percent on the annual increase of the cap rate, and would change the period over which income is averaged from five years to 3 years.

B. Explanation of the Data

The data was received from the Iowa Department of Revenue.

C. Equity

1) Vertical. The modification does not affect vertical equity.

2) Horizontal. The shorter time frame of the income averaging portion of the formula may help counties of the states which have had recent difficult times, e.g., draoght, flooding, by reflecting the lowered income more rapidly.

D. Neutrality

Since this modification would decrease values, farm owners would have lower taxes and less incentives to sell their properties. Forty percent of the states peg their cap rates to the Federal Land Bank rates although most use the five year average also used in alternative federal estate valuation. The three year average for income is more responsive to actual income production but tends to be more volatile.

E. Yield

The modification would decrease revenues since the Federal Land Bank rate is between 12 and 14 percent compared to the present 7 percent. If the increase were limited to one percent per year, the revenues would not change radically in any single year.

F. Simplicity

No major changes in the administration of the tax would occur as a result of this modification.

9. Eliminate State-Funded Property Tax Credits and Increase Income and Sales Taxes to Fund Schools for all Per Pupil Costs.

A. Description

Under this modification, the State of Iowa would assume all per pupil costs, based on actual head count, for K through 12 public education. In essence, the state would then be responsible for direct educational and most operating costs of public schools. Local school districts would continue to be responsible for most special school taxes.

A State Tax Commission would be created to conduct an annual review of the need for additional revenues to fund education. If necessary, the commission would temporarily increase income and sales taxes at rates sufficient to generate the funds required for schools.

Because the state would be assuming the bulk of education costs currently covered by property taxes, property tax credits now paid by the state would be eliminated. The only exception would be the extraordinary property tax credit for low-income elderly and handicapped Iowans which would be available only to those whose homes are assessed at less than $30,000 and whose net worth is less than $50,000.

Equalization orders of the Iowa Department of Revenue, which would no longer be needed for equitable distribution of school aid, would no longer be legally binding and would serve only as guidelines.

I. State assumes property tax burden of education costs.

A. State to assume 100 percent of the funding for the controlled budget cost per pupil.

Present concept of controlled school budget and allowable growth to be continued.

Funding to be based on actual head count for current budget year.

B. Local districts to be responsible for that part of their costs now covered by bond levies, site fund levy, etc.

C. Local districts may vote enrichment tax as now permitted if they wish to exceed the state mandated cost per pupil spending.

II. State Tax Commission adjusts income and sales taxes to generate revenues needed for education.

A. A State Tax Commission to be established chaired by the Governor and including the Comptroller, Majority Leader of the Senate, Speaker of the House and Director of the Legislative Fiscal Bureau.

Tax Commission to meet July 1 of each year to determine additional revenue, if any, necessary to fund the 100 percent school aid.

B. Revenue to be raised, as nearly equally as possible, from income tax and sales tax. Sales tax, however, shall be maintained at an even cents on the dollar. If this provision results in an unequal blend of taxes, it shall be corrected the following year if possible.

Special surtax for education to apply to personal and corporate income, bank franchise and insurance premium taxes.

C. Tax Commission to be authorized to impose special taxes for one-year period without legislative action.

III. Property tax credits to be eliminated.

A. Remaining personal property tax to be discontinued.

B. Machinery and equipment to be taxed at 30 percent of value but state will not replace balance.

C. The extraordinary property tax credit for low-income elderly and disabled Iowans will be replaced by the following:

A house valued for tax purposes at $30,000 or more shall not be eligible for tax credit.

Applicants for credit with houses valued at less than $30,000 for tax purposes shall file both an income and a net worth statement with the application. The assessor may also consider the income of other residents of the house if they are immediate relatives of the applicant. Applicants with a net worth of $50,000 or more shall not be eligible for tax credit.

If all the above standards are met, the credit shall be paid as presently administered.

IV. Equalization orders to be guidelines.

A. The Revenue Department may issue orders for the equalization of property values, but such orders are to be for assessor guideline purposes only and will not have the force of law.

B. In school districts which overlap assessor jurisdictions, the assessors shall confer to equalize values in the border areas.

C. Assessor jurisdictions, by vote of the county board of supervisors or city council, may elect to discontinue the current practice of limiting increases in assessed value of residential property to the increases in value of agricultural land (and vice versa).

B. <u>Explanation of the Data</u>

1. State assumes property tax burden of education costs.

A. Current K-12 formula funding based on budget enrollents (including "phantoms") for 1984-85

State Aid	702,748,733
Property Tax	683,737,549
Total	$1,386,486,282

Proposed K-12 funding based on actual head counts, with full state assumption

State Aid (current)	643,523,144
Plus shift from property tax*	607,597,062
Total	$1,310,345,795
Statewide property tax relief resulting in change to actual head counts	76,140,487
Assuming 5 percent allowable growth for 1985-86, additional state funding for that year of	65,517,290

*This $607.6 million is the additional cost to the state of "100% school aid".

B. Local districts may continue to vote the enrichment tax.

In 1983-84, seven special school taxes, on a statewide basis, generated 98,494,544

C. Local districts may continue to vote the enrichment tax.

In 1983-84, 53 school districts assessed the enrichment tax 2,895,876

2. Income, sales tax adjustments

Based on most recent estimates of FY85 revenues available from comptroller and Revenue Department:

Each 1¢ sales tax yields $177 million

	Estimated FY85 (millions)
Personal income tax	$1,017
Corporate income tax	156
Insurance premium tax	55
Franchise tax	7.6
	$1,235.6 million

THEREFORE:

Each 1% surtax yields	$12.4 million
Cost of assuming 100% school aid	$607.6 million
Eliminating property tax credits saves	200 million
Need additional	$407.6 million
Additional 1¢ sales tax	$177 million
Need income surtax equaling	$230.6 million

Therefore, a surtax of 18.7 percent and an additional one-cent sales tax would be necessary for the state to assume all public school operating costs.

3. Elimination of property tax credits

Savings estimated at $200 million

Homestead	97.4
Personal property	53.8
Agricultural land	43.5
Military service	3.3
Special assessment	.1
Mobile home	.1
Industrial machinery and computer	7.0
Total property tax credits	$205.2 million

*Estimated expenditures for FY85

The elderly and disabled property tax credit is estimated to cost approximately $12 million in FY85.

While the proposal retains this credit, it places new restrictions on eligibility. It is difficult to estimate what the cost of the credit would be because the Revenue Department does not have specific data on the assessed value of the homes or the net worth of current recipients. In addition, the loss of the homestead credit could result in a significant increase in the number of property owners eligible for the elderly/disabled credit.

Because it is possible that costs to the state of the elderly/disabled credit could increase, the figure used for savings on property tax credits is $200 million rather than $205.2 million.

C. Equity

1) Vertical. The tax changes to fund the modification could have a significant effect on vertical equity. The proposal would increase the sales tax by one percent to raise approximately $177 million. As described earlier, the sales tax is a regressive tax, and therefore increasing the tax rate would tend to raise the tax burden of low income taxpayers the most. The remainder of the new funding (approximately $231 million or 57 percent of the total) would come from a surcharge on the individual and corporate income taxes, the insurance premium tax and the franchise tax.

The surcharge would not change the relative progressivity of these taxes -- the taxes paid in every income bracket would increase by the same proportion.

The modification could have an overall regressive impact on the individual income tax, in that the reduction in property taxes which would partially offset the surcharge would directly benefit homeowners and other property owners, and would only indirectly benefit those who rent, rather than own, their residences. While the rent paid would theoretically be reduced in a competitive housing market, at least part of the property tax decrease would likely remain with the owner of the rental property. The following example shows the differing results for three hypothetical taxpayers.

Table 35

Impact of Proposal on a Taxpayer*

	Cerro Gordo County (Mason City)	Dallas County (Adel)	Renter
Gross Tax	$841	$884	n.a.
Homestead Credit	$136	$143	
Current Tax Bill	$705	$741	n.a.
School Tax	$373	$351	n.a.
Proposal Tax Bill (w/o) Homestead Credit or School Levy)	$468	$533	n.a.
Effect on Property Tax	-$237	-$208	n.a.
State Income Tax	$1,353	$1,353	1,353
18.7% Surtax	+$253	+$253	+253
Sales Tax**	$285	$285	$285
1¢ Increase	+$ 71	+$ 71	+$71
Income and Sales	+$324	+$324	+$324
Property	-$237	-$208	- 0
Net Effect on total Taxes Paid	+$ 87	+$116	+324

*1 wage-earner, married, 2 dependents with an income of $30,000 and a home taxed at $30,000 ($44,000 assessed value).

**Federal Estimate based on the Optional Sales Tax Table, form 1040.

The same finding could hold true for corporations, financial institutions, and insurance companies which own relatively little property in-state, but have part of their income apportioned to Iowa. These companies, which are generally non-resident apportioners, would probably not benefit substantially from the property tax reduction and would pay more under the surcharge. To the extent that non-resident apportioning corporations tend to have larger incomes than firms residing in Iowa, the surcharge would increase the progressivity of the corporate income tax with respect to corporate income.

2) Horizontal. The proposal would reduce the horizontal inequities which result from differences in school funding due to differences in community tax bases. The assumption of per pupil costs by the state would ensure that all pupils received a basic level of funding for their education, regardless of the school district in which they lived.

D. Neutrality

The proposal could impact business location decisions. The financial incentives established by this modification would depend on type of business and investment considered. The proposal would reduce the tax burden on companies which own or plan to purchase large amounts of property in Iowa, and which make few sales in Iowa thus having little of their income apportioned to Iowa under the single-factor apportionment formula. The 18.7 percent surcharge would raise the top corporate rate to approximately 14.25 percent; a rate that is considerably higher than in neighboring states. Thus for companies which would be subject to the single- factor formula and which would not benefit from property tax reduction, the attractiveness of Iowa as a business location would decline.

E. Yield

The proposal is intended to be revenue-neutral in that reductions in the property tax will be offset by increases in the income and sales taxes.

F. Simplicity

The proposal is not simple since it involves yearly estimates of additional revenues, changes in forms, changes in retail tax tables and so forth. Constantly changing tax rates tend to lead to taxpayer confusion and instability.

A STUDY OF STATE AND LOCAL TAXES IN IOWA

Appendix
December 5, 1984

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APPENDIX

On the following pages we present tables and graphs which have been developed during our analysis of Iowa's tax burden and the effect of expenditures on the tax burden. Also included is information drawn from other sources. The table of contents, on the following page, lists the topics covered for each type of tax.

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1.0 INDIVIDUAL INCOME TAX

The following graphs and tables examine the Iowa individual income tax. This section first examines the tax incidence for all returns and then analyzes incidence for different subgroups of Iowa taxpayers. Tax incidence generally was calculated as actual tax paid by income bracket divided by adjusted gross income for the matching bracket. The detailed breakdowns of tax incidence help to answer questions concerning the relative tax burdens for taxpayers in different income brackets.

This section also provides estimates of the effect of various credits and exemptions on personal income tax revenues and the tax burden borne by Iowa taxpayers.

Table 1.01 compares individual income tax rates across all 50 states. Table 1.02 describes adjustments made to 1982 data to ensure comparability across years.

Table 1.01

STATE INDIVIDUAL INCOME TAXES: JANUARY 1, 1984*

State	Rate Range (a) (percent)	Income Brackets		Personal Exemptions			Federal Income Tax Deductible
		Lowest (ends)	Highest (over)	Single	Married	Dependents	
Alabama	2.0 - 5.0(3)	$ 500	$ 3,000(c)	$1,500	$ 3,000	$ 300	X
Arizona(b)	2.0 - 8.0(7)	1,017	6,102(c)	1,759	3,518	1,056	X
Arkansas	1.0 - 7.0(6)(d)	3,000	25,000	17.50(e)	35(e)	6(e)	-
California(b)	1.0 - 11.0(11)(e)	4,600(a,f)	25,430(f)	38(e)	76(e)	12(e)	-
Colorado(b)	3.0 - 8.0(11)(g)	1,415	14,153	1,203	2,406	1,203	X
Delaware	1.4 - 13.5(15)	1,000	50,000	600	1,200	600	X(h)
Georgia	1.0 - 6.0(6)	750(i)	7,000(i)	1,500(j)	3,000(j)	700	-
Hawaii	2.25 - 11.0(11)(a,k)	1,300(a)	30,800	1,000	2,000	1,000	-
Idaho	2.0 - 7.5(6)(1)	1,000	5,000	1,000(1,m)	2,000(1,m)	1,000(1,m)	-
Illinois	3.0	Flat rate		1,000	2,000	1,000	-
Indiana	3.0	Flat rate		1,000	2,000(n)	500	-
Iowa(b)	0.5 - 13.0(13)(o)	1,023	76,725	20(e)	40(e)	15(e)	X
Kansas	2.0 - 9.0(8)	2,000(c)	25,000(c)	1,000	2,000	1,000	X
Kentucky	2.0 - 6.0(5)	3,000	8,000	20(e)	40(e)	20(e)	X
Louisiana	2.0 - 6.0(3)	10,000	50,000	4,500(p)	9,000(p)	1,000	X
Maine(b)	1.0 - 10.0(8)	2,000(c)	25,000(c)	1,000	2,000	1,000	-
Maryland	2.0 - 5.0(4)	1,000	3,000	800	1,600	800	-
Massachusetts	5.375(q)	Flat rate		2,200	4,400(r)	700	-
Michigan	6.1(s)	Flat rate		1,500	3,000	1,500	-
Minnesota(b)	1.6 - 16.0(13)(d)	672	36,925	68(e)	136(e)	68(e)	X
Mississippi	3.0 - 5.0(3)	5,000	10,000	6,000	9,500	1,500	-
Missouri	1.5 - 6.0(10)	1,000	9,000	1,200	2,400	400	X
Montana(b)	2.0 - 11.0(10)	1,200	42,000	960	1,920	960	X
Nebraska	20% U.S. tax	-	-	-	-	-	-
New Jersey	2.0 - 3.5(3)	20,000	50,000	1,000	2,000	1,000	-
New Mexico	0.7 - 7.8(19)(t)	1,000	100,000	1,000(m)	2,000(m)	1,000(m)	-
New York	2.0 - 14.0(13)(u)	1,000	23,000	800	1,600	800	-
North Carolina	3.0 - 7.0(5)	2,000	10,000	1,100	3,300	800	-
North Dakota	2.0 - 9.0(8)(v)	3,000	50,000	1,000(m)	2,000(m)	1,000(m)	X
Ohio	0.95 - 9.5(8)	5,000	100,000	1,000(w)	2,000(w)	1,000(w)	-
Oklahoma	0.5 - 6.0(7)(x)	1,000	7,500	1,000	2,000	1,000	-(x)
Oregon(b)	4.2 - 10.8(7)	500	5,000	85(e)	170(e)	85(e)	X(h)
Pennsylvania	2.45	Flat rate		0	0	0	-
Rhode Island	26% U.S. tax	-	-	-	-	-	-
South Carolina(b)	2.0 - 7.0(6)	2,000	10,000	800	1,600	800	X(h)
Utah	2.75 - 7.75(6)	750(c)	3,750(c)	750(m)	1,500(m)	750(m)	X
Vermont	26% U.S. tax(y)	-	-	-	-	-	-
Virginia	2.0 - 5.75(4)	3,000	12,000	600	1,200	600	-
West Virginia	2.1 - 13.0(17)	2,000(z)	60,000(z)	800	1,600	800	-
Wisconsin(b)	3.4 - 10.0(8)	3,900	51,600	20(e)	40(e)	20(e)	-
District of Columbia	2.0 - 11.0(10)	1,000	25,000	750(m)	1,500(m)	750(m)	-

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EXPLANATION OF ADJUSTMENTS TO 1982 TAX YEAR DATA

Legislative changes effective for the 1982 tax year affected the data reported on 1982 individual income tax returns in two significant areas. In order to permit comparison to prior years, the data provided reflects two adjustments.

Nonresident and Part-Year Resident Taxation

Prior to 1982 individuals who were not a full year resident of Iowa reported only that income and adjustments which were attributable to Iowa sources. The Iowa tax was computed on this portion of the total income. Effective in 1982 nonresidents and part-year residents report total net income and adjustments regardless of source. The tax is computed on the total income thereby subjecting the taxpayer to higher graduated tax rates than when the tax is computed on Iowa source income. The taxpayer receives a credit for the portion of the taxes attributed to non-Iowa income.

The effect of the change was an increase in the net income and adjustments reported and the final Iowa tax liability of these individuals. The law affected the data compiled by the department in that while the liability reflects the tax due after adjustment for the credit for taxes due on the non-Iowa income the total amount of net income and other adjustments is included. The effect was an increase in net income in excess of $1 billion which was not reflected in final tax liability. As a result, if no adjustments were made the incidence data would show a significant decline compared to prior years, particularly at the higher income levels.

In order to achieve a more accurate representation of the incidence of the Iowa tax on <u>full year residents</u> of Iowa, adjustment to the file was completed to exclude approximately 54,000 nonresidents and part-year residents moving out of Iowa.

While the adjustments do present a valid indicator of tax burden on full year residents the presence of these nonresidents and part-year residents in prior year data does affect a direct comparison of 1982 data to that for a prior year. As a result the most valid comparison of effects over time may be developed using data for tax year 1981 and prior.

Explanation of Adjustments
to 1982 Tax Year data

Table 1.02
Page 2

Minimum Tax and Tax on Lump Sum Distribution

In 1982 Iowans were subjected to a minimum tax equal to twenty-five percent of any federal minimum tax. In addition the method for taxation of lump sum distributions of a qualified pension plan was revised. Under the revised method, if a taxpayer computed their federal tax liability using a ten year averaging method the Iowa tax was to be equal to twenty-five percent of the federal tax.

In order to provide tax incidence data which was comparable to prior years the minimum and lump sum distribution taxes were excluded from the analysis. The effect was to eliminate approximately $3.1 million in additional taxes or less than one-half of one percent of total tax liability.

1.1 BURDEN BY FILING STATUS

The following table shows tax incidence by filing status for the years 1978 to 1982. Filing status is defined as follows:

Married Separate Separate:	Married filers who file separate returns
Married Separate Combined:	"Marries" married filers who have filed separate returns
Married Joint:	Married filers who file joint returns
Single:	Single filers, unmarried head of household filers, and widows or widowers

Much of the difference among separate categories is due to the difference in average adjusted gross incomes within the particular income bracket. Of particular interest, however, is the higher tax rate paid by married joint filers over married separate combined in the $5,000 to $100,000 income categories. The lower rate paid by single filers in the higher income brackets reflects the effect of a lower federal tax deduction. Because single filers have a higher marginal tax rate, and thus pay comparatively more federal income tax, they pay correspondingly less lower state income taxes.

Table 1.11

COMPARISON BETWEEN RETURNS BY FILING STATUS
BY ADJUSTED GROSS INCOME
1978-1982

ADJUSTED GROSS INCOME BRACKET	1978 MARRIED SEP SEPARATE	1978 MARRIED SEP COMBINED	1978 MARRIED JOINT	1978 SINGLE
$1-$2,999	.01%	.10%	.00%	.00%
$3,000-$4,999	.12%	.38%	.24%	.70%
$5,000-$9,999	1.42%	1.10%	1.60%	1.90%
$10,000-$15,999	2.41%	2.10%	2.81%	3.07%
$16,000-$19,999	2.93%	2.59%	3.50%	3.39%
$20,000-$24,999	3.70%	2.07%	3.73%	3.69%
$25,000-$49,999	4.09%	3.46%	4.59%	4.01%
$50,000-$74,999	5.45%	4.86%	5.75%	5.14%
$75,000-$99,999	5.54%	5.17%	5.05%	5.15%
OVER $100,000	5.67%	5.38%	5.55%	5.07%
TOTAL	3.22%	3.77%	3.62%	2.52%

ADJUSTED GROSS INCOME BRACKET	1979 MARRIED SEP SEPARATE	1979 MARRIED SEP COMBINED	1979 MARRIED JOINT	1979 SINGLE
$1-$2,999	.02%	.07%	.00%	.00%
$3,000-$4,999	.07%	.26%	.03%	.20%
$5,000-$9,999	1.21%	.90%	1.34%	1.72%
$10,000-$15,999	2.15%	1.00%	2.31%	2.69%
$16,000-$19,999	2.73%	2.32%	3.10%	3.23%
$20,000-$24,999	3.12%	2.66%	3.46%	3.57%
$25,000-$49,999	3.84%	3.75%	4.25%	4.12%
$50,000-$74,999	5.00%	4.45%	5.36%	4.95%
$75,000-$99,999	5.31%	4.93%	5.37%	5.16%
OVER $100,000	5.45%	5.21%	5.19%	5.34%
TOTAL	3.10%	3.10%	3.45%	2.46%

ADJUSTED GROSS INCOME BRACKET	1980 MARRIED SEP SEPARATE	1980 MARRIED SEP COMBINED	1980 MARRIED JOINT	1980 SINGLE
$1-$2,999	.07%	.05%	.00%	.00%
$3,000-$4,999	.64%	.76%	.02%	.27%
$5,000-$9,999	1.71%	.07%	1.29%	1.73%
$10,000-$15,999	2.64%	1.76%	2.40%	2.77%
$16,000-$19,999	3.15%	2.33%	3.00%	3.26%
$20,000-$24,999	3.47%	2.60%	3.45%	3.55%
$25,000-$49,999	4.11%	3.50%	4.10%	4.14%
$50,000-$74,999	5.07%	4.34%	5.22%	5.03%
$75,000-$99,999	5.31%	4.09%	5.35%	5.20%
OVER $100,000	5.42%	5.20%	5.30%	5.16%
TOTAL	3.21%	3.21%	3.51%	2.65%

ADJUSTED GROSS INCOME BRACKET	1981 MARRIED SEP SEPARATE	1981 MARRIED SEP COMBINED	1981 MARRIED JOINT	1981 SINGLE
$1-$2,999	.06%	.05%	.00%	.00%
$3,000-$4,999	.59%	.21%	.07%	.29%
$5,000-$9,999	1.66%	.07%	1.20%	1.69%
$10,000-$15,999	2.61%	1.60%	2.37%	2.60%
$16,000-$19,999	3.13%	2.27%	3.10%	3.27%
$20,000-$24,999	3.41%	2.64%	3.50%	3.49%
$25,000-$49,999	3.97%	3.27%	4.04%	3.96%
$50,000-$74,999	4.01%	4.06%	4.02%	4.77%
$75,000-$99,999	5.09%	4.60%	4.95%	4.89%
OVER $100,000	5.11%	4.99%	4.81%	5.10%
TOTAL	3.70%	3.20%	3.43%	2.73%

ADJUSTED GROSS INCOME BRACKET	1982 MARRIED SEP SEPARATE	1982 MARRIED SEP COMBINED	1982 MARRIED JOINT	1982 SINGLE
$1-$2,999	.06%	.01%	.00%	.00%
$3,000-$4,999	.54%	.34%	.00%	.50%
$5,000-$9,999	1.67%	.17%	1.13%	1.60%
$10,000-$15,999	2.59%	1.60%	2.37%	2.67%
$16,000-$19,999	3.17%	2.77%	2.99%	3.24%
$20,000-$24,999	3.41%	2.64%	3.37%	3.90%
$25,000-$49,999	3.93%	3.76%	3.99%	3.91%
$50,000-$74,999	4.00%	3.99%	4.56%	4.62%
$75,000-$99,999	5.13%	4.53%	4.79%	4.91%
OVER $100,000	5.05%	5.31%	5.10%	5.09%
TOTAL	3.25%	3.25%	3.46%	2.80%

1.2 BURDEN BY FAMILY SIZE

In Table 1.21 the incidence by family size is compared from 1978-1982. The label "five members" refers to families with five or more members.

Table 1.22, Average Difference in Incidence Between Family Sizes. The purpose of these two charts is to point out the effects of family size on incidence. They were calculated by summing the differences between the incidences for each family size within a given net income bracket.

Table 1.21 shows that as family size increased, the effective tax decreased for most income brackets. Only the $100,000 income bracket showed a positive effect of family size on incidence for most of the five year period. (The only year where this was not the case was 1982. However, data for that year are not comparable to the two other years because it does not include non-resident and part-time residents.) The largest negative effect of family size on incidence was found in the $5,000-$9,999 and $25,000-$49,000 income brackets.

The "Average Difference in Incidence Between Different Taxable Incomes" chart shows that as taxable income increases, so does the effective tax rate. This holds true for all family sizes.

Table 1.21

INCOME TAX INCIDENCE
BY FAMILY SIZE
1978

NET INCOME	1 MEMBER	2 MEMBERS	3 MEMBERS	4 MEMBERS	5 MEMBERS	DIFF. BETW. GROUPS
$1-$4,999	.47%	.20%	.22%	.14%	.00%	-.39%
$5,000-$9,999	2.02%	1.34%	1.56%	1.46%	1.32%	-.70%
$10,000-$24,999	3.14%	2.85%	2.85%	2.89%	2.97%	-.17%
$25,000-$49,000	4.46%	3.76%	3.67%	3.68%	3.92%	-.54%
$50,000-$99,999	5.15%	5.02%	5.16%	5.24%	5.45%	.30%
$100,000 & OVER	5.01%	5.37%	5.42%	5.49%	5.54%	.53%
DIFF. BETW. GROUPS	4.54%	5.17%	5.20%	5.35%	5.44%	.92%

INCOME TAX INCIDENCE
BY FAMILY SIZE
1979

NET INCOME	1 MEMBER	2 MEMBERS	3 MEMBERS	4 MEMBERS	5 MEMBERS	DIFF. BETW. GROUPS
$1-$4,999	.19%	.07%	.03%	.02%	.01%	-.18%
$5,000-$9,999	1.76%	1.14%	1.37%	1.21%	1.07%	-.69%
$10,000-$24,999	3.01%	2.59%	2.66%	2.72%	2.79%	-.22%
$25,000-$49,000	4.17%	3.50%	3.43%	3.40%	3.68%	-.49%
$50,000-$99,999	5.03%	4.67%	4.85%	4.89%	4.99%	-.04%
$100,000 & OVER	5.15%	5.11%	5.37%	5.25%	5.28%	.13%
DIFF. BETW. GROUPS	4.96%	5.09%	5.34%	5.23%	5.27%	.31%

INCOME TAX INCIDENCE
BY FAMILY SIZE
1980

NET INCOME	1 MEMBER	2 MEMBERS	3 MEMBERS	4 MEMBERS	5 MEMBERS	DIFF. BETW. GROUPS
$1-$4,999	.10%	.02%	.07%	.01%	.00%	-.10%
$5,000-$9,999	1.77%	1.17%	1.29%	1.15%	1.00%	-.77%
$10,000-$24,999	3.00%	2.60%	2.60%	2.72%	2.77%	-.31%
$25,000-$49,000	4.21%	3.54%	3.44%	3.49%	3.66%	-.55%
$50,000-$99,999	5.09%	4.65%	4.65%	4.66%	4.83%	-.26%
$100,000 & OVER	5.13%	5.13%	5.20%	5.32%	5.35%	.22%
DIFF. BETW. GROUPS	4.95%	5.11%	5.18%	5.31%	5.35%	.40%

INCOME TAX INCIDENCE
BY FAMILY SIZE
1981

NET INCOME	1 MEMBER	2 MEMBERS	3 MEMBERS	4 MEMBERS	5 MEMBERS	DIFF. BETW. GROUPS
$1-$4,999	.20%	.07%	.02%	.01%	.00%	-.20%
$5,000-$9,999	1.73%	1.04%	1.23%	1.09%	.91%	-.82%
$10,000-$24,999	3.04%	2.53%	2.65%	2.67%	2.70%	-.34%
$25,000-$49,000	4.01%	3.46%	3.40%	3.43%	3.58%	-.43%
$50,000-$99,999	4.80%	4.37%	4.33%	4.38%	4.44%	-.36%
$100,000 & OVER	5.01%	4.70%	4.85%	5.04%	5.15%	.14%
DIFF. BETW. GROUPS	4.81%	4.60%	4.83%	5.05%	5.15%	.34%

INCOME TAX INCIDENCE
BY FAMILY SIZE
1982

NET INCOME	1 MEMBER	2 MEMBERS	3 MEMBERS	4 MEMBERS	5 MEMBERS	DIFF. BETW. GROUPS
$1-$4,999	.21%	.01%	.01%	.00%	.00%	-.21%
$5,000-$9,999	1.72%	1.00%	1.17%	1.03%	.86%	-.86%
$10,000-$24,999	3.08%	2.40%	2.67%	2.64%	2.65%	-.43%
$25,000-$49,000	3.94%	3.41%	3.58%	3.43%	3.57%	-.37%
$50,000-$99,999	4.72%	4.23%	4.17%	4.10%	4.36%	-.36%
$100,000 & OVER	5.46%	5.40%	5.55%	5.44%	5.40%	-.06%
DIFF. BETW. GROUPS	5.25%	5.39%	5.54%	5.44%	5.40%	.15%

Table 1.22

AVERAGE DIFFERENCE IN INCIDENCE
BETWEEN DIFFERENT FAMILY SIZES
BY TAXABLE INCOME
1978-1982

NET INCOME	1978	1979	1980	1981	1982
$1-$4,999	-.39%	-.10%	-.10%	-.20%	-.21%
$5,000-$9,999	-.70%	-.69%	-.77%	-.82%	-.86%
$10,000-$24,999	-.17%	-.22%	-.31%	-.36%	-.43%
$25,000-$49,000	-.54%	-.49%	-.55%	-.43%	-.37%
$50,000-$99,999	.30%	-.04%	-.26%	-.36%	-.36%
$100,000 & OVER	.53%	.13%	.22%	.14%	-.06%

** A positive number indicates that as family size increases, the effective tax rate also increases. A negative number indicates that as family size increases, tax incidence decreases.

AVERAGE DIFFERENCE IN INCIDENCE
BETWEEN DIFFERENT TAXABLE INCOMES
BY FAMILY SIZE
1978-1982

FAMILY SIZE	1978	1979	1980	1981	1982
1 MEMBER	4.54%	4.96%	4.95%	4.81%	5.25%
2 MEMBERS	5.12%	5.09%	5.11%	4.68%	5.39%
3 MEMBERS	5.20%	5.34%	5.18%	4.81%	5.54%
4 MEMBERS	5.35%	5.23%	5.31%	5.05%	5.46%
5 MEMBERS	5.46%	5.27%	5.35%	5.15%	5.48%

** A positive number indicates that as taxable income increases, so does the effective tax rate.

1.3 BURDEN BY FARM/NONFARM CLASSIFICATION

The chart compares the tax incidence for filers self-reporting farming as an occupation with filers self-reporting occupations other than farming. This comparison is not made for all five years because of the unreliability of the data.

INCIDENCE FOR FARM/NONFARM
1981

Table 1.31

ADJUSTED GROSS INCOME BRACKET	INCIDENCE FARM	INCIDENCE NON-FARM
$1-$4,999	.02%	.16%
$5,000-$9,999	1.25%	1.48%
$10,000-$24,999	2.78%	2.74%
$25,000-$49,999	4.06%	3.43%
$50,000-$99,999	5.07%	4.19%
OVER $100,000	5.31%	4.82%
AVERAGE	3.61%	3.08%

1.4 BURDEN BY URBAN/RURAL CLASSIFICATION

Rural filers in the $1-$4,999 and $4,000-$9,999 brackets paid lower effective tax rates than their urban counterparts. However, the opposite is true for filers in income brackets over $10,000. The data does indicate that the difference between the incidence of rural and urban filers narrows for incomes over $100,000 after rising to their highest difference level in the $50,000-$99,999 income bracket. Over time, the difference between urban and rural incidence within the same income bracket increased in the upper brackets and decreased in the lower brackets.

Table 1.41

TAX INCIDENCE FOR
URBAN/RURAL AREAS
1978

BRACKET	RURAL	URBAN	- RURAL<URBAN + RURAL>URBAN
$1-$4,999	.39%	.41%	-.02%
$5,000-$9,999	1.74%	1.76%	-.02%
$10,000-$24,999	2.99%	2.83%	.16%
$25,000-$49,000	4.10%	3.46%	.64%
$50,000-$99,999	5.58%	4.69%	.89%
$100,000-OVER	5.75%	5.12%	.63%
AVERAGE	3.28%	3.06%	.22%

TAX INCIDENCE FOR
URBAN/RURAL AREAS
1979

BRACKET	RURAL	URBAN	- RURAL<URBAN + RURAL>URBAN
$1-$4,999	.14%	.16%	-.02%
$5,000-$9,999	1.50%	1.54%	-.04%
$10,000-$24,999	2.77%	2.71%	.06%
$25,000-$49,000	3.73%	3.35%	.38%
$50,000-$99,999	5.12%	4.48%	.64%
$100,000-OVER	5.34%	5.12%	.22%
AVERAGE	3.09%	3.02%	.07%

TAX INCIDENCE FOR
URBAN/RURAL AREAS
1980

BRACKET	RURAL	URBAN	- RURAL<URBAN + RURAL>URBAN
$1-$4,999	.13%	.16%	-.03%
$5,000-$9,999	1.49%	1.54%	-.05%
$10,000-$24,999	2.80%	2.74%	.06%
$25,000-$49,000	3.72%	3.40%	.32%
$50,000-$99,999	5.02%	4.37%	.65%
$100,000-OVER	5.34%	5.13%	.21%
AVERAGE	3.19%	3.14%	.05%

TAX INCIDENCE FOR
URBAN/RURAL AREAS
1981

BRACKET	RURAL	URBAN	- RURAL<URBAN + RURAL>URBAN
$1-$4,999	.14%	.17%	-.03%
$5,000-$9,999	1.44%	1.50%	-.06%
$10,000-$24,999	2.75%	2.73%	.02%
$25,000-$49,000	3.60%	3.40%	.20%
$50,000-$99,999	4.62%	4.11%	.51%
$100,000-OVER	5.01%	4.81%	.20%
AVERAGE	3.15%	3.16%	-.01%

TAX INCIDENCE FOR
URBAN/RURAL AREAS
1982

BRACKET	RURAL	URBAN	- RURAL<URBAN + RURAL>URBAN
$1-$4,999	.15%	.18%	-.03%
$5,000-$9,999	1.39%	1.46%	-.07%
$10,000-$24,999	2.73%	2.72%	.01%
$25,000-$49,000	3.56%	3.39%	.17%
$50,000-$99,999	4.51%	4.02%	.49%
$100,000-OVER	5.51%	5.39%	.12%
AVERAGE	3.16%	3.23%	-.07%

Table 1.42

TAX INCIDENCE FOR
URBAN/RURAL AREAS
1978-1981

BRACKET	1978	1979	1980	1981	1982
$1-$4,999	-.02%	-.02%	-.03%	-.03%	-.03%
$5,000-$9,999	-.02%	-.04%	-.05%	-.06%	-.07%
$10,000-$24,999	.16%	.06%	.06%	.02%	.01%
$25,000-$49,000	.64%	.38%	.32%	.20%	.17%
$50,000-$99,999	.09%	.64%	.65%	.51%	.49%
$100,000-OVER	.63%	.22%	.21%	.20%	.12%
AVERAGE	.22%	.07%	.05%	-.01%	-.07%

**A negative number indicates that the effective tax rate for rural filers is lower than for urban filers. A positive sign indicates that the rate for rural filers is higher than for urban filers.

1.5 BURDEN BY PLANNING AREA

This chart is sorted on the five year average from highest incidence to lowest. Within the five years examined, there is no significant change in the standing of the regions. Region 5 is, for the most part, the region with the highest incidence each year, while Region 13 has the lowest incidence.

AVERAGE INCIDENCE FROM
ALL INCOME BRACKETS
(1978-1982)

Table 1.51

REGION	1978	1979	1980	1981	1982	5 YR. AVE.
REGION 5	3.40%	3.25%	3.30%	3.29%	3.23%	3.29%
REGION 9	3.22%	3.18%	3.33%	3.35%	3.30%	3.29%
REGION 7	3.25%	3.15%	3.31%	3.28%	3.30%	3.26%
REGION 3	3.57%	3.19%	3.23%	3.16%	3.09%	3.25%
REGION 12	3.38%	3.22%	3.22%	3.15%	3.21%	3.24%
REGION 8	3.27%	3.15%	3.25%	3.25%	3.23%	3.23%
REGION 2	3.36%	3.13%	3.22%	3.18%	3.17%	3.21%
REGION 6	3.21%	3.12%	3.29%	3.21%	3.22%	3.21%
REGION 10	3.15%	3.06%	3.18%	3.19%	3.23%	3.16%
REGION 16	3.13%	3.00%	3.20%	3.18%	3.19%	3.14%
REGION 11	3.07%	3.03%	3.13%	3.16%	3.26%	3.13%
REGION 4	3.22%	3.06%	3.07%	3.06%	3.20%	3.12%
REGION 15	3.16%	2.95%	3.07%	3.04%	3.09%	3.06%
REGION 1	3.21%	2.97%	3.01%	2.98%	2.90%	3.01%
REGION 14	3.12%	2.85%	2.96%	2.91%	2.93%	2.95%
REGION 13	2.77%	2.57%	2.70%	2.66%	2.65%	2.67%

** The average incidence for each year includes taxes paid by filers with no adjusted gross income.

1.6 PERSONAL AND DEPENDENT CREDITS

The following charts compare, over time, the incidence and receipts with and without personal and dependent credits. Columns labelled "with credits" demonstrate incidence and receipts, by income bracket, as they actually occurred. Columns labelled "without personal" show the effects of removing personal credits, while columns labelled "without dependent" show the effects of eliminating dependent credits.

As these charts indicate, the removal of the personal and dependent credits would severely impact filers in the lowest adjusted gross income brackets while barely affecting those filers with more than $50,000 in income. This is consistently true for the five years examined. Taxes would increase on the average 6% without the personal credits and 2% without the dependent credits.

Table 1.63 examines the effect of allowing a $1,000 personal and dependent exemption when all other deductions and credits have been removed. The flat rate tax necessary to achieve the same amount of tax revenue as previously has also been calculated.

TAX INCIDENCE WITH AND WITHOUT
PERSONAL AND DEPENDENT CREDITS
1978-1982

Table 1.61

ADJUSTED GROSS INCOME CLASS	1978 WITH CREDITS	1978 WITHOUT PERSONAL	1978 WITHOUT DEPENDENT	1979 WITH CREDITS	1979 WITHOUT PERSONAL	1979 WITHOUT DEPENDENT	1980 WITH CREDITS	1980 WITHOUT PERSONAL	1980 WITHOUT DEPENDENT	1981 WITH CREDITS	1981 WITHOUT PERSONAL	1981 WITHOUT DEPENDENT	1982 WITH CREDITS	1982 WITHOUT PERSONAL	1982 WITHOUT DEPENDENT
$1-$4,999	.39%	1.21%	.40%	.15%	1.00%	.24%	.14%	1.04%	.24%	.15%	1.00%	.27%	.16%	1.17%	.20%
$5,000-$9,999	1.74%	2.09%	1.80%	1.51%	1.08%	1.57%	1.50%	1.90%	1.57%	1.45%	1.80%	1.52%	1.42%	1.87%	1.49%
$10,000-$24,999	2.93%	3.10%	2.99%	2.75%	2.97%	2.01%	2.78%	2.90%	2.04%	2.74%	2.94%	2.81%	2.72%	2.94%	2.79%
$25,000-$49,999	3.79%	3.89%	3.04%	3.55%	3.65%	3.60%	3.57%	3.67%	3.62%	3.50%	3.61%	3.56%	3.40%	3.99%	3.53%
$50,000-$99,999	5.30%	5.75%	5.73%	4.04%	4.09%	4.86%	4.77%	4.70%	4.74%	4.37%	4.43%	4.39%	4.26%	4.33%	4.29%
OVER $100,000	5.60%	5.42%	5.41%	5.21%	5.24%	5.22%	5.27%	5.24%	5.23%	4.90%	4.92%	4.91%	5.04%	5.06%	5.45%
TOTAL	3.18%	3.36%	3.23%	3.05%	3.22%	3.11%	3.16%	3.34%	3.21%	3.15%	3.33%	3.20%	3.19%	3.37%	3.24%

TAX RECEIPTS WITH AND WITHOUT
PERSONAL AND DEPENDENT CREDITS
1978-1982

ADJUSTED GROSS INCOME CLASS	1978 WITH CREDITS	1978 WITHOUT PERSONAL	1978 WITHOUT DEPENDENT	1979 WITH CREDITS	1979 WITHOUT PERSONAL	1979 WITHOUT DEPENDENT	1980 WITH CREDITS	1980 WITHOUT PERSONAL	1980 WITHOUT DEPENDENT	1981 WITH CREDITS	1981 WITHOUT PERSONAL	1981 WITHOUT DEPENDENT	1982 WITH CREDITS	1982 WITHOUT PERSONAL	1982 WITHOUT DEPENDENT
$1-$4,999	$2,990,600	$9,315,300	$3,668,690	$1,040,177	$7,133,713	$1,680,875	$879,903	$6,655,704	$1,561,911	$801,229	$6,428,415	$1,605,966	$822,404	$5,797,064	$1,426,626
$5,000-$9,999	$30,930,172	$37,227,427	$32,020,952	$26,117,127	$32,606,327	$27,177,263	$26,411,296	$30,903,935	$25,494,370	$22,195,310	$28,712,446	$23,302,200	$19,865,823	$26,205,230	$20,927,723
$10,000-$24,999	$232,007,341	$246,520,393	$230,153,021	$216,455,260	$230,516,140	$221,600,796	$209,142,071	$226,237,850	$214,075,663	$196,601,993	$211,034,620	$201,390,685	$185,206,675	$199,794,087	$189,034,763
$25,000-$49,999	$196,631,116	$191,402,966	$180,930,526	$223,353,010	$229,736,682	$226,473,030	$272,304,133	$280,452,829	$276,206,585	$307,306,600	$316,910,136	$311,006,001	$307,644,082	$317,046,285	$312,339,004
$50,000-$99,999	$60,359,019	$61,159,729	$60,832,979	$66,070,183	$67,606,796	$67,208,376	$79,373,600	$80,543,572	$79,997,626	$90,063,953	$92,140,379	$91,603,663	$93,282,376	$94,721,946	$93,887,320
OVER $100,000	$31,309,172	$31,654,932	$31,367,282	$37,965,337	$38,124,361	$38,036,419	$44,102,329	$44,296,039	$44,180,569	$45,335,504	$45,562,672	$45,633,323	$56,008,167	$56,260,715	$56,113,307
TOTAL	$545,335,501	$577,240,746	$555,101,171	$571,001,102	$605,726,014	$582,134,909	$630,313,637	$667,130,736	$641,326,971	$663,264,906	$700,796,608	$674,901,636	$662,910,206	$700,625,326	$674,329,722

Table 1.62

PERCENT INCREASE IN TAXES PAID
WITHOUT PERSONAL AND DEPENDENT CREDITS
1978-1982

ADJUSTED GROSS INCOME CLASS	1978 WITHOUT PERSONAL	1978 WITHOUT DEPENDENT	1979 WITHOUT PERSONAL	1979 WITHOUT DEPENDENT	1980 WITHOUT PERSONAL	1980 WITHOUT DEPENDENT	1981 WITHOUT PERSONAL	1981 WITHOUT DEPENDENT	1982 WITHOUT PERSONAL	1982 WITHOUT DEPENDENT
$1-$4,999	211%	22%	584%	67%	654%	78%	629%	82%	605%	73%
$5,000-$9,999	20%	4%	25%	4%	27%	4%	29%	5%	32%	5%
10,000-$24,999	6%	2%	6%	2%	7%	2%	7%	2%	8%	2%
25,000-$49,999	3%	1%	3%	1%	3%	1%	3%	1%	3%	2%
50,000-$99,999	1%	0%	1%	1%	1%	1%	1%	1%	2%	1%
OVER $100,000	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%
TOTAL	6%	2%	6%	2%	6%	2%	6%	2%	6%	2%

TAX REVENUE AND INCIDENCE WITH
PERSONAL AND DEPENDENT EXEMPTIONS
1982

ADJUSTED GROSS INCOME CLASS	TOTAL ADJUSTED GROSS INCOME	NUMBER OF EXEMPTIONS	AMOUNT OF EXEMPTIONS	NEW TAXABLE INCOME	NEW TAXES OWED	NEW INCIDENCE
$1-$4,999	$518,271,814	488,109	$488,109,000	$30,162,814	$1,129,037	.22%
$5,000-$9,999	$1,400,287,598	528,895	$528,895,000	$871,392,598	$32,617,469	2.33%
$10,000-$24,999	$6,804,377,631	1,435,438	$1,435,438,000	$5,368,939,631	$200,967,074	2.95%
$25,000-$49,999	$8,847,182,900	545,511	$545,511,000	$8,301,671,900	$310,743,429	3.51%
$50,000-$99,999	$2,188,167,268	66,110	$66,110,000	$2,122,057,268	$79,431,633	3.63%
OVER $100,000	$1,029,952,842	14,187	$14,187,000	$1,015,765,842	$38,021,565	3.69%
TOTAL	$20,788,240,053	3,078,250	$3,078,250,000	$17,709,990,053	$662,910,206	3.19%

FLAT TAX RATE IF ONLY
PERSONAL AND DEPENDENT
EXEMPTIONS OF $1,000 EACH
ARE GIVEN 3.74%

1.7 FEDERAL TAX, ITEMIZED AN STANDARDIZED DEDUCTIONS

On the following chart "All Deductions Taken" refers to the revenue and incidence that occurs for all tax returns with the tax system as it stands. "Stand. & Item. Deductions Not Taken" contains estimates of the change in the revenue and incidence that would result if the standard and itemized deductions were not allowed. "Federal Tax Deductions Not Taken" estimates the effect on tax incidence and revenue if the federal tax deduction were disallowed. The final column shows the effect on taxes if no deductions were allowed. The information presented is for 1978, 1981 and 1982 so that a trend can be seen.

As can be seen, the removal of standarized and itemized deductions would effect the lower income brackets most severly. The effect of the removal of the federal tax deduction increases as income rises, making the tax structure more progressive.

A tax policy change was examined in Table 1.72, the tax rate necessary to achieve the same amount of revenue as previously if the federal tax deduction were removed. The "New Rate" is derived from the amount of taxes paid and the new taxable income (a.g.i. minus the federal tax deduction). The new rate is a viable alternative since it does not effect the progressivity of the system. "Credits Taken" is a derived figure achieved by substracting the calculated "Tax Owed" from the given "Iowa Tax Paid".

Table 1.71
Page 1

STATE TAX REVENUE
WITH AND WITHOUT DEDUCTIONS
1978

TAXABLE INCOME BRACKET	ALL DEDUCTIONS TAKEN	STAND. & ITEM. DEDUCTIONS NOT TAKEN	FEDERAL TAX DEDUCTION NOT TAKEN	NO DEDUCTIONS TAKEN
$1-$1,999	$8,726	$246,723	$83,671	$321,668
$2,000-$2,999	$510,176	$1,151,471	$712,718	$1,354,014
$3,000-$3,999	$2,068,990	$3,056,495	$2,668,837	$4,456,302
$4,000-$6,999	$22,063,083	$29,883,830	$25,956,263	$33,777,510
$7,000-$8,999	$25,954,467	$34,807,630	$31,674,075	$40,527,238
$9,000-$14,999	$124,173,150	$161,678,001	$154,374,449	$191,879,300
$15,000-$19,999	$110,744,667	$150,689,812	$152,704,416	$184,649,561
$20,000-$24,999	$78,260,990	$97,318,827	$104,416,256	$123,474,076
$25,000-$29,999	$43,119,980	$52,291,495	$58,198,871	$67,340,386
$30,000-$39,999	$47,569,586	$56,064,246	$64,384,935	$72,879,595
$40,000-$74,999	$57,258,885	$65,973,616	$80,651,609	$89,384,340
over $75,000	$25,793,394	$29,488,014	$38,902,941	$42,557,561
TOTAL	$545,556,094	$683,410,160	$714,729,523	$852,603,589

STATE TAX INCIDENCE
WITH AND WITHOUT DEDUCTIONS
1978

TAXABLE INCOME BRACKET	ALL DEDUCTIONS TAKEN	STAND. & ITEM. DEDUCTIONS NOT TAKEN	FEDERAL TAX DEDUCTION NOT TAKEN	NO DEDUCTIONS TAKEN
$1-$1,999	.00%	.12%	.04%	.15%
$2,000-$2,999	.10%	.41%	.25%	.48%
$3,000-$3,999	.56%	1.04%	.72%	1.20%
$4,000-$6,999	1.58%	2.34%	1.86%	2.42%
$7,000-$8,999	2.21%	2.96%	2.69%	3.45%
$9,000-$14,999	2.80%	3.63%	3.48%	4.33%
$15,000-$19,999	3.24%	4.11%	4.16%	5.03%
$20,000-$24,999	3.61%	4.49%	4.87%	5.70%
$25,000-$29,999	4.16%	5.04%	5.61%	6.49%
$30,000-$39,999	4.88%	5.75%	6.60%	7.47%
$40,000-$74,999	5.72%	6.59%	8.06%	8.93%
over $75,000	6.54%	7.46%	9.86%	10.79%
TOTAL	3.19%	3.99%	4.18%	4.98%

STATE TAX REVENUE
WITH AND WITHOUT DEDUCTIONS
1981

TAXABLE INCOME BRACKET	ALL DEDUCTIONS TAKEN	STAND. & ITEM. DEDUCTIONS NOT TAKEN	FEDERAL TAX DEDUCTION NOT TAKEN	NO DEDUCTIONS TAKEN
$1-$1,999	$0	$293,043	$93,194	$386,237
$2,000-$2,999	$234,932	$955,811	$433,701	$1,154,619
$3,000-$3,999	$974,010	$3,106,733	$1,597,262	$3,729,986
$4,000-$6,999	$17,626,240	$27,128,307	$21,722,833	$31,225,101
$7,000-$8,999	$21,061,124	$30,818,628	$26,760,672	$36,518,176
$9,000-$14,999	$108,500,256	$147,745,190	$139,199,142	$178,444,076
$15,000-$19,999	$121,361,437	$161,399,625	$159,948,479	$200,186,667
$20,000-$24,999	$119,390,761	$156,919,254	$163,381,391	$200,909,884
$25,000-$29,999	$87,273,140	$113,277,806	$124,912,686	$150,917,352
$30,000-$39,999	$84,577,339	$107,760,135	$125,876,734	$149,059,530
$40,000-$74,999	$68,113,044	$83,834,044	$103,791,449	$119,512,448
over $75,000	$34,153,066	$41,074,255	$55,271,257	$62,192,446
TOTAL	$663,265,349	$874,513,030	$922,988,841	$1,134,236,521

STATE TAX INCIDENCE
WITH AND WITHOUT DEDUCTIONS
1981

TAXABLE INCOME BRACKET	ALL DEDUCTIONS TAKEN	STAND. & ITEM. DEDUCTIONS NOT TAKEN	FEDERAL TAX DEDUCTION NOT TAKEN	NO DEDUCTIONS TAKEN
$1-$1,999	.00%	.15%	.05%	.20%
$2,000-$2,999	.10%	.39%	.18%	.47%
$3,000-$3,999	.28%	.90%	.44%	1.08%
$4,000-$6,999	1.32%	2.04%	1.63%	2.34%
$7,000-$8,999	1.97%	2.89%	2.51%	3.42%
$9,000-$14,999	2.68%	3.64%	3.43%	4.40%
$15,000-$19,999	3.14%	4.18%	4.13%	5.17%
$20,000-$24,999	3.42%	4.50%	4.68%	5.76%
$25,000-$29,999	3.67%	4.77%	5.26%	6.35%
$30,000-$39,999	4.10%	5.22%	6.10%	7.23%
$40,000-$74,999	5.00%	6.16%	7.63%	8.78%
over $75,000	5.98%	7.19%	9.67%	10.89%
TOTAL	3.16%	4.17%	4.40%	5.41%

Table 1.71
Page 2

STATE TAX REVENUE
WITH AND WITHOUT DEDUCTIONS
1982

TAXABLE INCOME BRACKET	ALL DEDUCTIONS TAKEN	STAND. & ITEM. DEDUCTIONS NOT TAKEN	FEDERAL TAX DEDUCTION NOT TAKEN	NO DEDUCTIONS TAKEN
$1-$1,999	$0	$314,845	$68,759	$383,604
$2,000-$2,999	$199,128	$920,417	$342,359	$1,071,640
$3,000-$3,999	$841,712	$2,931,969	$1,276,969	$3,367,226
$4,000-$6,999	$13,303,230	$24,622,972	$18,498,925	$27,818,667
$7,000-$8,999	$19,007,503	$28,670,549	$23,686,344	$33,269,370
$9,000-$14,999	$99,924,900	$137,900,960	$126,096,226	$164,072,287
$15,000-$19,999	$115,354,751	$154,996,599	$149,834,775	$189,476,622
$20,000-$24,999	$118,095,158	$156,804,076	$159,144,474	$197,933,392
$25,000-$29,999	$91,969,078	$121,317,147	$129,910,923	$159,258,991
$30,000-$39,999	$88,376,697	$114,480,306	$130,126,462	$156,238,070
$40,000-$74,999	$68,217,552	$84,895,464	$102,610,033	$119,287,945
over $75,000	$45,542,562	$54,155,673	$69,763,652	$78,376,763
TOTAL	$662,912,312	$882,106,990	$911,359,901	$1,130,554,587

** The decrease in federal taxes was calculated by multiplying the increase in state taxes by the marginal federal tax rate for single filers for each tax bracket. The marginal federal tax rate for single filers was chosen because the majority of returns filed in Iowa were filed as single status.

STATE TAX INCIDENCE
WITH AND WITHOUT DEDUCTIONS
1982

TAXABLE INCOME BRACKET	ALL DEDUCTIONS TAKEN	STAND. & ITEM. DEDUCTIONS NOT TAKEN	FEDERAL TAX DEDUCTION NOT TAKEN	NO DEDUCTIONS TAKEN
$1-$1,999	.00%	.18%	.04%	.22%
$2,000-$2,999	.09%	.42%	.16%	.49%
$3,000-$3,999	.27%	.94%	.41%	1.08%
$4,000-$6,999	1.26%	2.03%	1.53%	2.30%
$7,000-$8,999	1.92%	2.89%	2.39%	3.35%
$9,000-$14,999	2.64%	3.44%	3.33%	4.33%
$15,000-$19,999	3.12%	4.19%	4.05%	5.13%
$20,000-$24,999	3.40%	4.51%	4.58%	5.70%
$25,000-$29,999	3.64%	4.80%	5.14%	6.30%
$30,000-$39,999	4.03%	5.23%	5.94%	7.13%
$40,000-$74,999	4.96%	6.17%	7.46%	8.68%
over $75,000	6.35%	7.56%	9.73%	10.94%
TOTAL	3.21%	4.27%	4.41%	5.47%

** Incidence figures for the higher income brackets are slightly underestimate because the deduction allowed people to qualify for a lower tax bracket. This is not true of the lower brackets. The additional tax without the deductions was calculated by multiplying the deduction by the tax rate for that taxable income bracket.

FEDERAL TAX DEDUCTIONS
BY TAXABLE INCOME
1981

TAXABLE INCOME BRACKET	NUMBER OF RETURNS	IOWA ADJUSTED GROSS INCOME	FEDERAL TAX DEDUCTION	STAND & ITEM DEDUCTION	TAXABLE INCOME	AVERAGE TAX. INC.	TAX OWED	CREDITS TAKEN	IOWA TAX PAID	NEW TAXABLE INCOME WITHOUT FED DEDUCTION	NEW AVG. TAX. INC.	TAXES OWED W/O FED. DEDUCT.	TAXES PAID W/O FED. DEDUCT.	NEW RATE	NEW TAX RATE & NEW INCOME MINUS CREDITS
$1-$1,999	99,726	$192,749,380	$18,638,836	$58,608,561	$115,501,985	$1,158	$679,126	$679,126	$0	$134,140,821	$1,345	$912,111	$232,985	.51%	$0
$2,000-$2,999	68,175	$243,880,064	$15,904,707	$57,670,271	$170,305,086	$2,498	$2,068,538	$1,833,606	$234,932	$186,209,793	$2,731	$2,505,917	$472,312	1.11%	$234,932
$3,000-$3,999	70,368	$346,605,965	$22,663,713	$77,553,597	$246,388,655	$3,501	$4,304,767	$3,330,757	$974,010	$269,052,368	$3,824	$5,097,997	$1,767,239	1.60%	$974,010
$4,000-$6,999	173,678	$1,332,441,629	$117,045,531	$271,493,345	$943,902,753	$5,435	$25,876,163	$8,249,923	$17,626,240	$1,060,948,284	$6,109	$31,728,440	$23,478,516	2.44%	$17,626,240
$7,000-$8,999	95,112	$1,068,146,812	$113,990,958	$195,150,088	$759,005,766	$7,980	$27,054,378	$5,993,254	$21,061,124	$872,996,724	$9,179	$33,893,835	$27,900,581	3.19%	$21,061,124
$9,000-$14,999	242,887	$4,054,549,633	$511,648,098	$654,082,222	$2,888,819,313	$11,894	$132,647,229	$24,146,972	$108,500,256	$3,400,467,411	$14,000	$168,462,593	$144,315,623	3.90%	$108,500,256
$15,000-$19,999	157,911	$3,868,775,574	$551,243,463	$574,831,258	$2,742,700,853	$17,369	$149,954,178	$28,592,741	$121,361,437	$3,293,944,316	$20,859	$194,684,507	$166,091,766	4.55%	$121,361,437
$20,000-$24,999	110,845	$3,090,898,352	$549,882,875	$469,106,159	$2,471,909,318	$22,301	$151,034,453	$31,643,692	$119,390,761	$3,021,792,193	$27,261	$202,393,225	$170,749,533	5.00%	$119,390,761
$25,000-$29,999	61,310	$2,375,700,636	$418,217,173	$288,940,736	$1,668,042,727	$27,207	$111,611,171	$24,338,031	$87,273,140	$2,086,259,900	$34,028	$155,479,449	$131,141,417	5.33%	$87,273,140
$30,000-$39,999	42,014	$2,062,950,003	$412,993,951	$231,827,959	$1,418,128,093	$33,754	$105,277,730	$20,700,392	$84,577,339	$1,831,122,044	$43,584	$151,826,157	$131,125,765	5.75%	$84,577,339
$40,000-$74,999	17,844	$1,361,041,143	$324,349,131	$142,918,175	$893,773,837	$50,088	$78,411,068	$10,298,023	$68,113,044	$1,218,122,968	$68,265	$117,332,964	$107,034,940	6.44%	$68,113,044
over $75,000	2,919	$571,330,945	$175,984,929	$57,676,572	$337,669,444	$115,680	$36,939,358	$2,786,292	$34,153,066	$513,654,373	$175,969	$59,817,398	$57,031,107	7.19%	$34,153,066
TOTAL	1,142,789	$20,968,570,144	$3,237,563,365	$3,079,858,949	$14,656,147,830	$12,825	$825,858,158	$162,592,809	$663,265,349	$17,888,711,195	$15,654	$1,124,134,595	$961,541,786	4.62%	$663,265,349

1.8 TOTAL REVENUE

Table 1.81 shows total revenue by filing status for the tax calendar years 1978-1981. The figures reflect tax liability rather than tax collections. Thus these figures, and those in the report differ from the Department of Revenues' collections figures reported in the Annual Report. The tax liability numbers were used because they most closely reflect tax owed in a given year. Figures from calendar year 1982 are not consistent with earlier years (see Table 1.02) and thus are not included in the table.

Table 1.82 shows the calculation of the federal offset discussed in the report.

Table 1.81

TOTAL REVENUE BY FILING STATUS
PERSONAL RETURNS
1978-1982

FILING STATUS	1978	1979	1980	1981
SINGLE	$93,420,520	$103,659,544	$120,873,464	$133,489,135
SEPARATE	$277,845,321	$287,196,802	$327,661,807	$353,547,148
JOINT	$174,270,253	$180,945,261	$181,978,467	$176,229,066
TOTAL	$545,536,094	$571,801,608	$630,513,738	$663,265,349

Source: Iowa Department of Revenue.

Table 1.82

1981 PERSONAL INCOME TAX: FEDERAL TAX OFFSET

Income Bracket	Iowa Adjusted Gross Income	Federal Offset as a Percent of Income	Federal Offset	Iowa Tax Paid	Incidence w/ Fed. Offset	Incidence w/o Fed. Offset
< 3,000	$209,506,669	0.0039	$8,170.76	$4,268.05	.00%	0.00%
3,000-4,999	$384,192,702	0.0028	$10,757.40	$876,961.92	0.23%	0.23%
5,000-9,999	$1,530,385,921	0.0287	$439,220.76	$22,195,510.02	1.42%	1.45%
10,000-15,999	$2,506,464,395	0.1414	$3,544,140.65	$58,791,932.75	2.20%	2.35%
16,000-19,999	$1,964,513,228	0.2347	$4,610,712.55	$55,328,263.99	2.58%	2.82%
20,000-24,999	$2,701,064,210	0.3565	$9,629,293.91	$82,561,747.22	2.70%	3.06%
25,000-49,999	$8,769,337,144	0.7757	$68,023,748.23	$307,306,688.01	2.73%	3.50%
50,000-74,999	$1,580,148,743	1.3421	$21,207,176.28	$67,330,767.58	2.92%	4.26%
75,000-99,999	$499,796,073	1.3421	$6,707,763.10	$23,533,186.66	3.37%	4.71%
100,000-124,999	$261,840,683	1.8364	$4,808,442.30	$12,602,872.89	2.98%	4.81%
125,000-149,999	$161,952,021	1.8364	$2,974,086.91	$7,918,590.99	3.05%	4.89%
150,000-249,999	$275,579,409	1.8364	$5,060,740.27	$13,617,089.88	3.10%	4.94%
250,000-499,999	$129,948,330	1.8364	$2,386,371.13	$6,376,589.83	3.07%	4.91%
> 500,000	$96,138,952	1.8364	$1,765,495.71	$4,820,441.07	3.18%	5.01%
Sub-total	$21,070,868,480	0.4692	$98,866,048.34	$663,264,910.86	2.68%	3.15%
No AGI	$0	0	$0.00	$438.27	N.A.	N.A.
GRAND TOTAL	$21,070,868,480	0.4692	$98,866,048.34	$663,265,349.13	2.68%	3.15%

1.9 POLICY ANALYSIS

The tables 1.91 through 1.923 report results from simulations run by the Iowa Individual Income Tax Model on 1981 tax returns. For a complete description of the Iowa Tax Model see the Department of Revenue "Overview of the Iowa Tax Model".

Table 1.91

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Separate)

ISSUE: Eliminate federal tax deduction.

Filing Status	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
Single	439,430	$114.9	$ 161.3	2.76%	3.87%	$ 46.4	40.4%
Married Joint	273,067	171.0	233.2	3.51%	4.79%	62.2	36.4%
Married Separate*	738,782	355.6	512.8	3.28%	4.73%	157.2	44.2%
Separate	12,341	3.6	5.1	2.79%	3.98%	1.5	41.7%
Head of Household	50,337	17.6	23.7	2.73%	3.68%	6.1	34.7%
All Returns	1,513,957	$662.7	$ 936.1	3.21%	4.53%	$273.4	41.3%

*Married taxpayers which file separate returns are not joined together in tax model.

Table 1.92

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Separate)

ISSUE: Eliminate federal tax deduction.

		Tax Liability		Incidence		Difference	
Adjusted Gross Income	Number of Returns	Current (Millions)	Proposed (Millions)	Current	Proposed	In Tax (Millions)	% Change In Tax
$ 0 - $10,000	728,707	$ 43.9	$ 54.2	1.25%	1.54%	$ 10.3	23.5%
$10,000 - $20,000	452,961	189.5	248.0	2.88%	3.77%	58.5	30.9%
$20,000 - $30,000	220,231	192.9	264.5	3.62%	4.96%	71.6	37.1%
$30,000 - $40,000	67,038	93.9	134.6	4.13%	5.92%	40.7	43.3%
$40,000 - $75,000	36,379	86.4	132.8	4.68%	7.19%	46.4	53.7%
Over $75,000	8,641	56.1	102.0	5.10%	9.27%	45.9	81.8%
Total	1,513,957	$ 662.7	$ 936.1	3.21%	4.53%	$ 273.4	41.3%

Table 1.93

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Combined)

ISSUE: Eliminate federal tax deduction.

		Tax Liability		Incidence		Difference	
Adjusted Gross Income	Number of Returns	Current (Millions)	Proposed (Millions)	Current	Proposed	In Tax (Millions)	% Change In Tax
$ 0 - $10,000	434,816	$ 23.4	$ 28.2	1.15%	1.38%	$ 4.8	20.5%
$10,000 - $20,000	295,670	123.9	156.0	2.85%	3.59%	32.1	25.9%
$20,000 - $30,000	213,345	193.2	253.6	3.67%	4.82%	60.4	31.3%
$30,000 - $40,000	117,118	170.7	234.6	4.25%	5.85%	63.9	37.4%
$40,000 - $75,000	72,385	172.8	255.1	4.82%	7.12%	82.3	47.6%
Over $75,000	11,232	74.1	129.9	5.30%	9.29%	55.8	75.3%
Total	1,144,566	$758.1	$1,057.4	3.67%	5.12%	$299.3	39.5%

Table 1.94

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Separate)

ISSUE: Allow a 50% federal tax deduction.

Filing Status	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
Single	439,430	$114.9	$ 137.3	2.76%	3.30%	$ 22.4	19.5%
Married Joint	273,067	171.0	200.9	3.51%	4.12%	29.9	17.5%
Married Separate	738,782	355.6	432.0	3.28%	3.98%	76.4	21.5%
Separate	12,341	3.6	4.3	2.79%	3.36%	.7	19.4%
Head of Household	50,337	17.6	20.5	2.73%	3.19%	2.9	16.5%
All Returns	1,513,957	$662.7	$ 795.0	3.21%	3.85%	$132.3	20.0%

Table 1.95

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Separate)

ISSUE: Allow a 50% federal tax deduction.

Adjusted Gross Income	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
$ 0 - $10,000	728,707	$ 43.9	$ 48.7	1.25%	1.38%	$ 4.8	10.9%
$10,000 - $20,000	452,961	189.5	218.0	2.88%	3.31%	28.5	15.0%
$20,000 - $30,000	220,231	192.9	227.6	3.62%	4.27%	34.7	18.0%
$30,000 - $40,000	67,038	93.9	113.4	4.13%	4.99%	19.5	20.8%
$40,000 - $75,000	36,379	86.4	108.8	4.68%	5.89%	22.4	25.9%
Over $75,000	8,641	56.1	78.5	5.10%	7.13%	22.4	39.9%
Total	1,513,957	$ 662.7	$ 795.0	3.21%	3.85%	$132.3	20.0%

Table 1.96

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Combined)

ISSUE: Allow 50% federal tax deduction.

Filing Status	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
Single	439,430	$114.9	$ 137.3	2.76%	3.30%	$ 22.4	19.5%
Married Joint	273,067	171.0	200.9	3.51%	4.12%	29.9	17.5%
Married Separate	369,391	451.0	540.5	4.16%	4.98%	89.5	19.8%
Separate*	12,341	3.6	4.3	2.79%	3.36%	.7	19.4%
Head of Household	50,337	17.6	20.5	2.73%	3.19%	2.9	16.5%
All Returns	1,144,566	$758.1	$ 903.5	3.67%	4.38%	$145.4	19.2%

*Married taxpayers which file separate returns are not joined together in tax model.

Table 1.97

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Combined)

ISSUE: Allow a 50% federal tax deduction.

Adjusted Gross Income	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
$ 0 - $10,000	434,816	$ 23.4	$ 25.7	1.15%	1.25%	$ 2.3	9.8%
$10,000 - $20,000	295,670	123.9	139.5	2.85%	3.21%	15.6	12.6%
$20,000 - $30,000	213,345	193.2	222.5	3.67%	4.23%	29.3	15.2%
$30,000 - $40,000	117,118	170.7	201.6	4.25%	5.02%	30.9	18.1%
$40,000 - $75,000	72,385	172.8	212.9	4.82%	5.94%	40.1	23.2%
Over $75,000	11,232	74.1	101.3	5.30%	7.25%	27.2	36.7%
Total	1,144,566	$758.1	$ 903.5	3.67%	4.38%	$145.4	19.2%

Table 1.98

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Separate)

ISSUE: Eliminate federal tax deduction and revise tax rates.

Taxable Income	Tax Rate	Taxable Income	Tax Rate
0 - $1,999	.5%	$ 7,000 - $ 8,999	4.0%
$2,000 - $2,999	1.0%	$ 9,000 - $14,999	5.0%
$3,000 - $3,999	2.5%	$15,000 - $19,999	6.0%
$4,000 - $6,999	3.0%	$20,000 - $39,999	7.0%
		Over $40,000	8.0%

		Tax Liability		Incidence		Difference	
Filing Status	Number of Returns	Current (Millions)	Proposed (Millions)	Current	Proposed	In Tax (Millions)	% Change In Tax
Single	439,430	$114.9	$ 106.9	2.76%	2.57%	$ (8.0)	(7.0%)
Married Joint	273,067	171.0	157.5	3.51%	3.23%	(13.5)	(7.9%)
Married Separate	738,782	355.6	344.1	3.28%	3.17%	(11.5)	(3.2%)
Separate	12,341	3.6	3.3	2.79%	2.61%	(.3)	(8.3%)
Head of Household	50,337	17.6	15.3	2.73%	2.38%	(2.3)	(13.1%)
All Returns	1,513,957	$662.7	$ 627.1	3.21%	3.04%	$(35.6)	(5.4%)

Table 1.99

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Separate)

ISSUE: Eliminate federal tax deduction and revise tax rates.

Taxable Income	Tax Rate	Taxable Income	Tax Rate
0 - $1,999	.5%	$ 7,000 - $ 8,999	4.0%
$2,000 - $2,999	1.0%	$ 9,000 - $14,999	5.0%
$3,000 - $3,999	2.5%	$15,000 - $19,999	6.0%
$4,000 - $6,999	3.0%	$20,000 - $39,999	7.0%
		Over $40,000	8.0%

		Tax Liability		Incidence		Difference	
Adjusted Gross Income	Number of Returns	Current (Millions)	Proposed (Millions)	Current	Proposed	In Tax (Millions)	% Change In Tax
$ 0 - $10,000	728,707	$ 43.9	$ 28.0	1.25%	0.80%	$(15.9)	(36.2%)
$10,000 - $20,000	452,961	189.5	160.0	2.88%	2.43%	(29.5)	(15.6%)
$20,000 - $30,000	220,231	192.9	185.3	3.62%	3.48%	(7.6)	(3.9%)
$30,000 - $40,000	67,038	93.9	95.8	4.13%	4.21%	1.9	2.0%
$40,000 - $75,000	36,379	86.4	91.4	4.68%	4.95%	5.0	5.8%
Over $75,000	8,641	56.1	66.6	5.10%	6.05%	10.5	18.7%
Total	1,513,957	$662.7	$ 627.1	3.21%	3.04%	$(35.6)	(5.4%)

Table 1.910

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Combined)

ISSUE: Eliminate federal tax deduction and revise tax rates.

Taxable Income	Tax Rate	Taxable Income	Tax Rate
0 - $1,999	.5%	$ 7,000 - $ 8,999	4.0%
$2,000 - $2,999	1.0%	$ 9,000 - $14,999	5.0%
$3,000 - $3,999	2.5%	$15,000 - $19,999	6.0%
$4,000 - $6,999	3.0%	$20,000 - $39,999	7.0%
		Over $40,000	8.0%

		Tax Liability		Incidence		Difference	
Filing Status	Number of Returns	Current (Millions)	Proposed (Millions)	Current	Proposed	In Tax (Millions)	% Change In Tax
Single	439,430	$114.9	$ 106.9	2.76%	2.57%	$ (8.0)	(7.0%)
Married Joint	273,067	171.0	157.5	3.51%	3.23%	(13.5)	(7.9%)
Married Separate	369,391	451.0	434.9	4.16%	4.01%	(16.1)	(3.6%)
Separate*	12,341	3.6	3.3	2.79%	2.61%	(.3)	(8.3%)
Head of Household	50,337	17.6	15.3	2.73%	2.38%	(2.3)	(13.1%)
All Returns	1,144,566	$758.1	$ 717.9	3.67%	3.48%	$(40.2)	(5.3%)

*Married taxpayers which file separate returns are not joined together in tax model.

Table 1.911

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Combined)

ISSUE: Eliminate federal tax deduction and revise tax rates.

Taxable Income	Tax Rate	Taxable Income	Tax Rate
0 - $1,999	.5%	$ 7,000 - $ 8,999	4.0%
$2,000 - $2,999	1.0%	$ 9,000 - $14,999	5.0%
$3,000 - $3,999	2.5%	$15,000 - $19,999	6.0%
$4,000 - $6,999	3.0%	$20,000 - $39,999	7.0%
		Over $40,000	8.0%

Adjusted Gross Income	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
$ 0 - $10,000	434,816	$ 23.4	$ 14.3	1.15%	.70%	$ (9.1)	(38.9%)
$10,000 - $20,000	295,670	123.9	99.4	2.85%	2.29%	(24.5)	(19.8%)
$20,000 - $30,000	213,345	193.2	177.0	3.67%	3.37%	(16.2)	(8.4%)
$30,000 - $40,000	117,118	170.7	166.7	4.25%	4.15%	(4.0)	(2.3%)
$40,000 - $75,000	72,385	172.8	175.6	4.82%	4.90%	2.8	1.6%
Over $75,000	11,232	74.1	84.9	5.30%	6.07%	10.8	14.6%
Total	1,144,566	$758.1	$ 717.9	3.67%	3.48%	$(40.2)	(5.3%)

Table 1.912

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Separate)

ISSUE: Broaden Base: Allow $1,000 deduction for each personal and dependent exemption. Eliminate federal tax deduction and standard/itemized deduction. One percent tax rate utilized to demonstrate effect.

		Tax Liability		Incidence	
Filing Status	Number of Returns	Current (Millions)	Proposed (Millions)	Current	Proposed
Single	439,430	$114.9	$ 36.4	2.76%	.87%
Married Joint	273,067	171.0	39.9	3.51%	.82%
Married Separate	738,782	355.6	96.0	3.28%	.89%
Separate	12,341	3.6	1.1	2.79%	.86%
Head of Household	50,337	17.6	4.8	2.73%	.75%
All Returns	1,513,957	$662.7	$ 178.2	3.21%	.86%

Table 1.913

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Separate)

ISSUE: "Broaden Base" allowing $1,000 deduction for each personal and dependent exemption. Eliminate federal tax deduction and standard/itemized deduction. Tax rate of 1% utilized to demonstrate effect.

Adjusted Gross Income	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed
$ 0 - $10,000	728,707	$ 43.9	$ 24.7	1.25%	.70%
$10,000 - $20,000	452,961	189.5	56.7	2.88%	.86%
$20,000 - $30,000	220,231	192.9	47.8	3.62%	.90%
$30,000 - $40,000	67,038	93.9	20.9	4.13%	.92%
$40,000 - $75,000	36,379	86.4	17.4	4.68%	.94%
Over $75,000	8,641	56.1	10.7	5.10%	.98%
Total	1,513,957	$ 662.7	$ 178.2	3.21%	.86%

Table 1.914

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Separate)

ISSUE: Revised Rate Structure

Taxable Income	Rate
$ - 25,000	5%
25,001 - 50,000	7%
50,001 & over	9%

Filing Status	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
Single	439,430	$114.9	$ 128.5	2.76%	3.09%	$ 13.6	11.8%
Married Joint	273,067	171.0	155.0	3.51%	3.18%	(16.0)	(9.3%)
Married Separate	738,782	355.6	365.2	3.28%	3.37%	9.6	2.7%
Separate	12,341	3.6	4.3	2.79%	3.33%	.7	19.4%
Head of Household	50,337	17.6	19.5	2.73%	3.03%	1.9	10.8%
All Returns	1,513,957	$662.7	$ 672.5	3.21%	3.26%	$ 9.8	1.5%

Table 1.915

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Separate)

ISSUE: Revised Rate Structure

Taxable Income	Rate
$ - 25,000	5%
25,001 - 50,000	7%
50,001 & over	9%

Adjusted Gross Income	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
$ 0 - $10,000	728,707	$ 43.9	$ 95.9	1.25%	2.72%	$ 52.0	118.5%
$10,000 - $20,000	452,961	189.5	221.3	2.88%	3.37%	31.8	16.8%
$20,000 - $30,000	220,231	192.9	176.9	3.62%	3.32%	(16.0)	(8.3%)
$30,000 - $40,000	67,038	93.9	75.3	4.13%	3.31%	(18.6)	(19.8%)
$40,000 - $75,000	36,379	86.4	63.7	4.68%	3.45%	(22.7)	(26.3%)
Over $75,000	8,641	56.1	39.4	5.10%	3.58%	(16.7)	(29.8%)
Total	1,513,957	$662.7	$ 672.5	3.21%	3.26%	$ 9.8	1.5%

Table 1.916

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Separate)

ISSUE: Revised Rate Structure

Taxable Income	Rate
$ - 25,000	5.0%
25,001 - 50,000	7.5%
50,001 & over	10.0%

		Tax Liability		Incidence		Difference	
Filing Status	Number of Returns	Current (Millions)	Proposed (Millions)	Current	Proposed	In Tax (Millions)	% Change In Tax
Single	439,430	$114.9	$ 129.0	2.76%	3.10%	$ 14.1	12.3%
Married Joint	273,067	171.0	156.4	3.51%	3.21%	(14.6)	(8.5%)
Married Separate	738,782	355.6	367.8	3.28%	3.39%	12.2	3.4%
Separate	12,341	3.6	4.3	2.79%	3.33%	.7	19.4%
Head of Household	50,337	17.6	19.5	2.73%	3.03%	1.9	10.8%
All Returns	1,513,957	$662.7	$ 677.0	3.21%	3.28%	$ 14.3	2.2%

Table 1.917

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Separate)

ISSUE: Revised Rate Structure

Taxable Income	Rate
$ - 25,000	5.0%
25,001 - 50,000	7.5%
50,001 & over	10.0%

Adjusted Gross Income	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
$ 0 - $10,000	728,707	$ 43.9	$ 95.9	1.25%	2.72%	$ 52.0	118.5%
$10,000 - $20,000	452,961	189.5	221.3	2.88%	3.37%	31.8	16.8%
$20,000 - $30,000	220,231	192.9	176.9	3.62%	3.32%	(16.0)	(8.3%)
$30,000 - $40,000	67,038	93.9	75.5	4.13%	3.32%	(18.4)	(19.6%)
$40,000 - $75,000	36,379	86.4	65.3	4.68%	3.54%	(21.1)	(24.4%)
Over $75,000	8,641	56.1	42.1	5.10%	3.83%	(14.0)	(25.0%)
Total	1,513,957	$ 662.7	$ 677.0	3.21%	3.28%	$ 14.3	2.2%

Table 1.918

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Combined)

ISSUE: Eliminate provisions which allow married taxpayers to file separately. Results reflect use of $3,000 maximum standard deduction rather than two $1,200 deductions and the application of existing tax rates to combined taxable income.

Filing Status	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
Single	439,430	$114.9	$ 114.9	2.76%	2.76%	$ -	-
Married Joint	273,067	171.0	171.0	3.51%	3.51%	-	-
Married Separate	369,391	355.6	451.0	3.28%	4.16%	95.4	26.8%
Separate*	12,341	3.6	3.6	2.79%	2.79%	-	-
Head of Household	50,337	17.6	17.6	2.73%	2.73%	-	-
All Returns	1,144,566	$662.7	$ 758.1	3.21%	3.67%	$ 95.4	14.4%

*Married taxpayers which file separate returns are not joined together with spouse in tax model. As a result effect of revision on these 12,341 taxpayers cannot be estimated.

Table 1.919

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Combined)

ISSUE: Eliminate provisions which allow married taxpayers to file separately. Results reflect use of $3,000 maximum standard deduction rather than two $1,200 deductions and the application of existing tax rates to combined taxable income.

Adjusted Gross Income	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
$ 0 - $10,000	434,816	$ 22.0	$ 23.4	1.08%	1.15%	$ 1.4	6.4%
$10,000 - $20,000	295,670	113.2	123.9	2.60%	2.85%	10.7	9.5%
$20,000 - $30,000	213,345	170.2	193.2	3.24%	3.67%	23.0	13.5%
$30,000 - $40,000	117,118	143.3	170.7	3.57%	4.25%	27.4	19.1%
$40,000 - $75,000	72,385	145.6	172.8	4.06%	4.82%	27.2	18.7%
Over $75,000	11,232	68.4	74.1	4.90%	5.30%	5.7	8.3%
Total	1,144,566	$ 662.7	$ 758.1	3.21%	3.67%	$ 95.4	14.4%

Table 1.920

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY FILING STATUS
(Married Separate - Separate)

ISSUE: Revise tax brackets for Married Joint Filers.

Taxable Income	Tax Rate	Taxable Income	Tax Rate	Taxable Income	Tax Rate
$ 0 - $2,046	.50	$14,322 - $18,414	6.00	$61,380 - $ 81,840	11.00
$2,046 - $4,092	1.25	$18,414 - $30,690	7.00	$81,840 - $153,450	12.00
$4,092 - $6,138	2.75	$30,690 - $40,920	8.00	Over $153,450	13.00
$6,138 - $8,184	3.50	$40,920 - $51,150	9.00		
$8,184 - $14,322	5.00	$51,150 - $61,380	10.00		

Filing Status	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
Single	439,430	$114.9	$ 114.9	2.76%	2.76%	$ -	-
Married Joint	273,067	171.0	115.6	3.51%	2.37%	(55.4)	(32.4%)
Married Separate	738,782	355.6	355.6	3.28%	3.28%	-	-
Separate	12,341	3.6	3.6	2.79%	2.79%	-	-
Head of Household	50,337	17.6	17.6	2.73%	2.73%	-	-
All Returns	1,513,957	$662.7	$ 607.3	3.21%	2.94%	$(55.4)	(8.4%)

Table 1.921

COMPARISON OF PROPOSED TAX LAW WITH 1981 LAW
1981 RETURNS
BY ADJUSTED GROSS INCOME
(Married Separate - Separate)

ISSUE: Revise tax brackets for Married Joint Filers.

Taxable Income	Tax Rate	Taxable Income	Tax Rate	Taxable Income	Tax Rate
$ 0 - $2,046	.50	$14,322 - $18,414	6.00	$61,380 - $ 81,840	11.00
$2,046 - $4,092	1.25	$18,414 - $30,690	7.00	$81,840 - $153,450	12.00
$4,092 - $6,138	2.75	$30,690 - $40,920	8.00	Over $153,450	13.00
$6,138 - $8,184	3.50	$40,920 - $51,150	9.00		
$8,184 - $14,322	5.00	$51,150 - $61,380	10.00		

Filing Status	Number of Returns	Tax Liability Current (Millions)	Tax Liability Proposed (Millions)	Incidence Current	Incidence Proposed	Difference In Tax (Millions)	Difference % Change In Tax
$ 0 - $10,000	728,707	$ 43.9	$ 41.3	1.25%	1.17%	$ (2.6)	(5.9%)
$10,000 - $20,000	452,961	189.5	176.2	2.88%	2.68%	(13.3)	(7.0%)
$20,000 - $30,000	220,231	192.9	175.2	3.62%	3.29%	(17.7)	(9.2%)
$30,000 - $40,000	67,038	93.9	84.0	4.13%	3.69%	(9.9)	(10.5%)
$40,000 - $75,000	36,379	86.4	77.7	4.68%	4.21%	(8.7)	(10.1%)
Over $75,000	8,641	56.1	52.9	5.10%	4.80%	(3.2)	(5.7%)
Total	1,513,957	$662.7	$ 607.3	3.21%	2.94%	$(55.4)	(8.4%)

2.0 CORPORATE INCOME TAX

2.01 Range of State Corporate Tax Rates
2.02 Tax Credit Programs in Other States Similar to Iowa Credits

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2.0 CORPORATE INCOME TAX

In this section, a summary of corporate tax incidence and revenue is presented. In Iowa all corporations with more than $1,000 due in state taxes must file returns. The Iowa corporate income tax currently is tied to net income reported on corporations' federal tax returns. Tax returns are broken down into three categories: resident apportioning, non-resident apportioning and non-apportioning. All corporations with sales outside of Iowa must apportion their income based on a sales apportionment factor. The factor is based on the corporation's sales in Iowa relative to its total sales. Tax revenues and incidence are presented for each category.

Table 2.01 shows the range of corporate tax rates imposed by other states.

Table 2.02 describes property tax abatement and corporate income tax credit programs in other states which are similar to those offered in Iowa. The programs are as follows:

Urban Revitalization Credit
Credit for Investment in R&D
Credit for Investment in shares of the Venture Capital Fund
Exemption from property taxation of value added by expansion of manufacturing firm

A machinery and computer credit is not offered in any other state.

Table 2.01

RANGE OF STATE CORPORATE INCOME TAX RATES
As of January 1, 1984*

State	Tax Rate** (percent)	State	Tax Rate** (percent)
Alabama (a)		Minnesota	
Business corporations..............	5	$0 to $25,000........................	6
Banks and financial corporations....	6	Over $25,000........................	12
Alaska		Mississippi	
Business corporations		$0 to $ 5,000........................	3
$0 to $10,000....................	1	Over $10,000........................	5(3)
Over $90,000....................	9.4(10)	Missouri (a)	
Banks and financial corporations....	7(b)	Business corporations..............	5
Arizona (a)		Banks and trust companies..........	7
$0 to $1,000......................	2.5	Montana..............................	6.75(m)
Over $6,000......................	10.5(7)	Nebraska	
Arkansas		$0 to $50,000........................	5
$0 to $ 3,000......................	1	Over $50,000........................	7(2)(n)
Over $25,000......................	6(5)	New Hampshire........................	9.56(o)
California		New Jersey...........................	9(p)
Business corporations..............	9.6(c)	New Mexico	
Banks and financial corporations....	11.6(c)	$0 to $1 million....................	4.8
Colorado............................	5(d)	Over $2 million....................	7.2(3)
Connecticut.........................	11.5(e)	New York	
Delaware............................	8.7	Business corporations..............	10(q)
Florida.............................	5(f)	Banks and financial corporations....	12(r)
Georgia.............................	6	North Carolina	6
Hawaii		North Dakota (a)	
Business corporations		Business corporations	
$0 to $25,000....................	5.85(g)	$0 to $ 3,000....................	3
Over $25,000....................	6.435(2)	Over $50,000....................	10.5(6)
Banks and financial corporations....	11.7	Banks and financial corporations....	5(s)
Idaho...............................	7.7(h)	Ohio	
Illinois............................	7.3(i)	$0 to $25,000........................	5.1(t)
Indiana.............................	7(j)	Over $25,000........................	9.2(2)(t)
Iowa (a)		Oklahoma.............................	4
Business corporations		Oregon...............................	7.5(u)
$0 to $ 25,000..................	6	Pennsylvania.........................	10.5
Over $250,000..................	12(4)	Rhode Island.........................	8(v)
Financial institutions.............	5	South Carolina	
Kansas		Business corporations..............	6
Business corporations..............	4.5(k)	Banks..............................	4.5
Banks..............................	4.25(k)	Financial associations.............	8
Trust companies and savings and		South Dakota (a)	
loan associations..............	4.5(k)	Banks and financial corporations....	6(w)
Kentucky		Tennessee............................	6
$0 to $ 25,000......................	3	Utah.................................	4(x)
Over $100,000......................	6(4)	Vermont	
Louisiana (a)		$0 to $ 10,000......................	5
$0 to $ 25,000......................	4	Over $250,000......................	7.5(4)(y)
Over $200,000......................	8(5)	Virginia.............................	6
Maine		West Virginia	
$0 to $ 25,000......................	3.5	$0 to $50,000......................	6.9
Over $250,000......................	8.93(4)	Over $50,000......................	8.05
Maryland............................	7	Wisconsin............................	7.9
Massachusetts		District of Columbia.................	9.9(z)
Business corporations..............	9.4962(1)		
Banks and trust companies..........	12.54		
Utility corporations...............	6.5		

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Table 2.02
Page 1

State:	Iowa I	Iowa II	Iowa III
Program	Improved Property in a City Revitalization Area (Part 1)	Improved property in a City Revitalization Area (Part 2)	Improved Property in a City Revitalization Area (Part 3)
Formula:	115% x value added	Year 1: (value added) x 80% Year 2: (value added) x 70% Year 3: (value added) x 60% Year 4: (value added) x 50% Year 5: (value added) x 40% Year 6: (value added) x 40% Year 7: (value added) x 30% Year 8: (value added) x 30% Year 9: (value added) x 20% Year 10: (value added) x 20%	100% of the value added
Type of Credit:	Property tax exemption	Property tax exemption	Property tax exemption
Who Qualifies:	All qualified real estate assessed as residential property	All qualified real estate	All qualified real estate
Maximum Amount:	Value added must not exceed $20,000		
When program started:			
Restrictions:	The exemption shall not result in the actual value of the qualified real estate being reduced below the actual value on which the homestead credit is computed		
Sunset:			
Length of Claim:	10 years	10 years	3 years
Carry forward:			
Refundability:			
Addback into income:			
Studies on effectiveness:			
Credit Cost in lost revenue:			
Additional Information:	See also Iowa II, III, IV once one of these exemptions has been elected the method can not be changed		

Table 2.02
Page 2

State:	Iowa IV	Florida-1	Florida-2
Program Name:	Improved Property in a City Revitalization Area (Part IV)	Enterprise Zone Property Credit (July, 1984)	Exemption from City or County Property Taxes
Formula:	100% of value added	Total Advalorum Tax paid on expansion or relocation	Total exemption
Type of Credit:	Property tax exemption	Corporate State Income Tax	Exemption, City or County Income Tax
Who Qualifies:	All qualified real estate assessed as residential property or as commercial property (with restrictions on the type of commercial property)	Any business, new or existing, located in an enterprise zone	Any business located within an enterprise zone which is located in a city or county which approved the exemption through referendum
Maximum Amount:		50,000 annually	Variable depending upon the city
When Started:	June 10, 1983	1/1/81 revised July, 1984	1/1/81 revised July, 1984
Restrictions:		1) a majority of the employees must live in an enterprise zone	1) a majority of the employees must live in an enterprise zone
Sunset:		All enterprise zones will be re-evaluated in 1986, a portion of the participants qualify up to 1988	All enterprise zones will be re-evaluated in 1986, a portion of the participants qualify up to 1988
Length of Claim:	10 years	10 years	10 years
Carry Forward:		Up to 5 years	Up to 5 years
Refundability:		No	No
Addback into Income:		Yes	Yes
Studies on effectiveness:		No, this credit is not widely taken advantage of	No, this credit is not widely take advantage of
Credit Cost in lost revenue:		N.A.	N.A.
Additional Information:		None	This exemption has been limited for the most part to small rural towns in Northern Florida

Table 2.02
Page 3

State:	Missouri-I	Missouri-2A	Missouri-2B
Program Name:	Enterprise Zone Corporate Income Tax Credit	Enterprise Zone Advalorum Property Tax	Redevelopment Program
Formula:	Credit on 50% of income earned within the zone	At least 50% abatement could be 100% abatement	1st 10 years - 100% abatement next 15 years - 50% abatement
Type of Credit:	Corporate Income Tax	Local property tax abatement	Local property tax abatement
Who Qualifies:	Any business located within an enterprise zone	Any business, new or existing, located in an enterprise zone	Any business, new or existing, located in a <u>blighted area</u>
Maximum Amount:	No limit	None	None
When Started:	September 1983, 10 zones created, limited of 15 to be created in 1983	See M-1	n.a.
Restrictions:	1) 30% of employees must live in enterprise zone or be difficult to employ under CETA standards 2) yearly readjustment of credits	1) 30% of employees must live in zone 2) if existing business, must create 2 new jobs 3) applies only to improved value of real property	1) applies only to improved value of real property 2) area population must be below 4,000 to qualify for this program
Sunset:	December 31, 1987 for creating more zones all credits are to be ended by the 25th year from inception	See M-1	n.a.
Length of Claim:	10 years	10 years	15 years
Carry Forward:	$50,000 - 1st year $25,000 - 2nd year None - 3rd year	$50,000 - 1st year $25,000 - 2nd year None - 3rd year	N.A.
Refundability:	Year 3 - unused 1st years credit Year 4 - unused 2nd years credit	Year 3 - unused 1st years credit Year 4 - unused 2nd years credit	N.A.
Addback into income:	No	No	No
Studies on effectiveness:	Guestimate for the first 4 or 5 zones 1) 1,000 jobs created 2) 13 million invested in plant & equipment	Guestimate for the first 4 or 5 zones 1) 1,000 jobs created 2) 13 million invested in plant & equipment	None
Credit cost in lost revenue:	N.A.	N.A.	N.A.
Additional information:	Credits and deductions aimed mostly at labor intensive firms, thus a manufacturing firm benefits most	Credits and deductions aimed mostly at labor intensive firms, thus a manufacturing firm benefits most	None

Other states which have similar programs: Illinois, Kansas, Louisiana ($1 credit brought in $1.55 worth of new jobs and improvements) Texas and Connecticut (both considering an enterprise zone program)

Table 2.02
Page 4

State:	Missouri-3	Missouri-4	Missouri 5
Program Name:	Enterprise Zone Training Credit	Enterprise Zone Job Credit	Enterprise Zone Investment Tax Credit
Formula:	$400/person/year, not more than 1 training/year	$1,200 credit on corporate income tax, for each job created	10% on 1st $10,000 invested, 5% on investment up to $90,000, 2% on all remaining investment above $99,000
Type of Credit:	Exemption on state corporate income tax	Corporate income tax credit	Corporate income tax credit
Who Qualifies:	Any business located within an enterprise zone	Any business located within an enterprise zone	Any business located within an enterprise zone
Maximum Amount:	No Limit	No Limit	No Limit
When Started:	September 1983, 10 zones created, limit of 15 to be created in 1983	September 1983, 10 zones created, limit of 15 to be created in 1983	September 1983, 10 zones created, limit of 15 to be created in 1983
Restrictions:	1) 30% of employees must live in enterprise zone or be difficult to employ under CETA standards 2) Must pay for training yourself (no other grants)	1) 30% of employees must live in enterprise zone or be difficult to employ under CETA standards 2) yearly readjustment of credits	1) 30% of employees must live in enterprise zone or be difficult to employ under CETA standards 2) yearly readjustment of credits
Sunset:	December 31, 1987 for creating more zones, all credits are to be ended by the 25th year from inception	December 31, 1987 for creating more zones, all credits are to be ended by the 25th year from inception	December 31, 1987 for creating more zones, all credits are to be ended by the 25th year from inception
Length of Claim:	Good for 1 year/field that employee is trained in (if an employee is trained in a different field every year then good for 10 years)	10 years	10 years
Carry Forward:	$50,000 - 1st year $25,000 - 2nd year None - 3rd year	$50,000 - 1st year $25,000 - 2nd year None - 3rd year	$50,000 - 1st year $25,000 - 2nd year None- 3rd year
Refundability:	Year 3 - unused 1st years credit Year 4 - unused 2nd years credit	Year 3 - unused 1st years credit Year 4 - unused 2nd years credit	Year 3 - unused 1st years credit Year 4 - unused 2nd years credit
Addback into income:	No	No	No
Studies on effectiveness:	Guestimate for the first 4 or 5 zones 1) 1,000 jobs created 2) 13 million invested in plant & equipment	Guestimate for the first 4 or 5 zones 1) 1,000 jobs created 2) 13 million invested in plant & equipment	Guestimate for the first 4 or 5 zones 1) 1,000 jobs created 2) 13 million invested in plant & equipment
Credit cost in lost revenue:	N.A.	N.A.	N.A.
Additional information:	Credits and deductions aimed at labor intensive firms, thus a manufacturing firm benefits most	Credits and deductions aimed at labor intensive firms, thus a manufacturing firm benefits most	Credits and deductions aimed at labor intensive firms, thus a manufacturing firm benefits most

Table 2.02
Page 5

State:	Massachusetts-1	Massachusetts-2
Program Name:	UJIB--Part 1 Urban Job Incentive Bureau	UJIB--part 2
Formula:	Area tax rate - state average x assessed value/1000	25% additional <u>deduction</u> for each employee that lives within a poverty area (up to $5,000)
Type of Credit:	Property tax credit	Corporate Income Tax <u>deduction</u>
Who Qualifies:	Any business located within an enterprise zone (a commercial business must also be located in a CARD--commercial area revitalization district)	Any business located within an enterprise zone (a commercial business must also be located in a CARD--commercial area revitalization district)
Maximum Amount:	None	$5,000/person
Program Start:	1979	1979
Restrictions:	1) business must be located in a "poor track" (20% or more of the census is below the poverty line) 2) must be recertified every year 3) must have a tax rate higher than state average 4) must hire at least 5 people from the same slum area	1) the business must be located in "poor track" 2) must be recertified every year 3) employee must live in a poor track
Sunset:	1) must start construction, lease or buy by 1/83 2) must occupy by 1/85	1) must start construction, lease or buy by 1/83 2) must occupy by 1/85
Length of claim:	10 years, gut feeling of the respondent	10 years, gut feeling of the respondent
Carry forward:	10 years	10 years
Refundability:	No, to the best of his knowledge	No, to the best of his knowledge
Addback into income:	Unsure	Unsure
Studies on effectiveness:	Going on	Going on
Credit cost in lost revenue:	Guestimates 1981-1982 7 million 1983 - 4 million The amount of lost revenue decreased because less poverty areas in Massachusetts. The figures include UJIB--2	Guestimates 1981-1982 7 million 1983 - 4 million The amount of lost revenue decreased because less poverty areas in Massachusetts. The figures include UJIB--2
Additional information:	1) The program was copied from a New York State Statute	1) The program was copied from a New York State Statute

Table 2.02
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STATE	IOWA	LOUISIANA	VERMONT	MONTANA	ILLINOIS
TYPE OF CREDIT	property tax exemption	property tax exemption	property tax exemption	property tax exemption	property tax exemption
CREDIT ON	value added by improvements to industrial property	buildings, equip., machin. and improvements	property or equipment	buildings only	industrial property
FORMULA FOR CREDIT	year 1--45% of value added year 2--40% of value added year 3--45% of value added year 4--30% of value added year 5--15% of value added	100% exemption from local property taxes	100% exemption from local property taxes on and investment over $1,000 in property or equipment	year1-5,50% decrease in prop. tax year6-10--10% decrease in prop.tax	100% abatement of local district tax
WHO QUALIFIES	only manufacturing firms--ind. real estate, machinery & equip	new or expanding manufacturing firms	mines, quarries & manufacturers	new or expanding (since 7/1/81) manufacturing industries	new or expanding industrial firms
LENGTH OF CLAIM	n.a.	5 years, subject to renewal for another 5	up to 10 years, varies	10 years	10 years
REFUNDABILITY	No	No	No	No	No
RESTRICTIONS	Rehab. does not qualify.Applies only to mach & equip used prim. in the manuf. process.Can't take in same yr any other exemption taken	None	Must chose between this or tax stabilization which is more popular This abatement is not widely used. Tax stabil. is fixed rate or base.	may be approved by local governing body	must be approved by majority vote of governing authority
CREDIT COST	n.a.	1982(est)--$21,305,372 1983(est)--$16,832,291 estimate is approximately 1% of total investment. This is a statewide average.	Tax stabilization resulted in $.62 million in lost revenue in 1981.	Only 2 counties presently allow this exemption. No industries within these counties have taken advantage of this yet.	n.a. The maximum amount in abated taxes allowed is $ million.
STUDIES DONE	n.a.	1982, invest.-$2,130,537,243 1982, jobs permanent-5,441 constr.-24,953 1983, invest.-$1,683,229,398 1983, jobs permanent-2,745 constr.-10,202	n.a.	n.a.	n.a.

n.a=not available
N/A=Not Applicable

STATE	IOWA	MAINE	WISCONSIN	INDIANA
TYPE OF CREDIT	Income Tax Credit	Income Tax Credit	Income Tax Credit	Income Tax Credit
CREDIT ON	Investment in Iowa Vent.Cap.Fund	Investment in Maine Capital Corp	Investment in the Community Development Finance Corp.	Investment in the Corporation for Innovation Development
FORMULA FOR CREDIT	5% of investment	50% of investment	The corp. is comprised of a non-profit Authority and a Company Must contribute equally to both parts. The credit is 75% of investment in the Company	30% of investment
WHO QUALIFIES	corporations and individuals	corporations and individuals	corporations and individuals	corporations and individuals
CARRY FORWARD	up to 3 years	4 years	until used up	until 1/1/87
REFUNDABILITY	No	No	No	No
RESTRICTIONS	None	The credit must be taken in 20% increments over 5 years. Not to exceed 50% of the corp. tax liability in any year.	None	The credit incentive expires on 12/31/83 and all credits must be taken by 1/1/87 or lost.
CREDIT COST	n.a.	Maximum of 500,000 for 5 years unsure as to how much of that has or will be taken. The fund was totally subscribed. The fund is still being offered w/o the incentive.	The fut. impact is highly uncert. Indications of $250,000-$500,000 annually. Most corp. have decided not to take cred. and only contrib. to the Authority.	1982--$1,253,624 1983--(so far)--$251,571
STUDIES DONE	n.a.	$350,000 worth of investment in past 18 months has been joined by 6 million in private funds.	n.a.--The corporation is too young to determine its effectiveness yet. A prospectus has just been completed for sale of stock in the Company.	n.a.

n.a.=not available
N/A=Not Applicable

Table 2.02
Page 8

STATE	IOWA	INDIANA	NEW YORK	WISCONSIN (Not in effect yet)	UTAH
TYPE OF CREDIT	Income Tax Credit	Income Tax Credit	Corporate Franchise Tax Credit	Deduction from Corporate Income Tax or Franchise Tax	Income Tax credit
CREDIT ON	Investment in R&D	Investment in R&D	Investment in R&D	Investment in R&D	Investment in R&D
FORMULA FOR CREDIT	6.5% of investment multiplied by the states apportioned qualified expend. divided by total qualified expenditure	difference between amt. of research exp. and amt. fed. cred. multiplied by 2%(82-83) or 5% (1984)	10% of the cost or other basis for fed. income tax purposes	100% of expenses not chargeable to the capital account	.5% of present contrib. by partn. if 75% of prior yrs. R&D funds were from out-of-state, if not, the cred. is decreased by 1/4% for each 1 part or point less than 75% any contributor as a partner to a qualifying R&D limited Partner.
WHO QUALIFIES	individuals and corporations	individuals and corporations	individuals and corporations	corporations	n.a.
CARRY FORWARD	1 year if refund not taken	yes, through 1986	No Limit	N/A	credit is available until 1/1/90
REFUNDABILITY	yes, with interest	No	No	N/A	n.a.
RESTRICTIONS	must be research activities as stated in the IRS code	None	must be true research as defined under federal statutes	expenses chargeable to the capital account may be treated as deferred expenses deduct. over not less than 5 years	at least 75% of funds must go to R&D. 75% funds must be spent in-state. for partn. must devel. tech for small, high tech firms only
CREDIT COST	n.a.	1982--$893,473 1983 (so far)--$2,267	n.a.	A study was done to estimate how much credit would be lost if people took advantage of this credit. 1984-1985 (estimated) $10.5 mil.	n.a.
STUDIES DONE	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.=not available
N/A=Not Applicable

2.1 BURDEN BY FILING STATUS

Graph 2.11 shows the percent of total corporate taxes paid by filing status. Those firms filing as Non-residents pay the most in taxes at 52.1% of total taxes paid. The graph and chart 2.12 clearly show that for firms with equal income, tax incidence is nearly the same for each category of return. Overall, however, average incidence for nonapportioning firms is lower than for other types of returns. This reflects the lower average income per return for nonapportioners shown below:

Type of return	Average Income Per Return
Resident Apportioning	$167,356
Non-resident Apportioning	$245,054
Non-apportioning	$ 31,823

The purpose of Table 2.13 is to show total taxes owed to the State if a flat tax rate were instituted.

The tax rates which are used are described as "mean", "median", and "flat". "Mean" is the average tax rate from Iowa data which is calculated by dividing total taxes paid by total adjusted gross income. The mean rate is what flat tax rate should be if the state wants to collect the same amount of revenue. The "median" rate is the incidence at the midpoint of the number of returns filed. The "flat" rate is an average of the 1984 tax rates of those states which have a flat rate. In this table "incidence rates" is synonymous with tax rates.

The tax revenues for each rate are calculated by multiplying the tax rate by the average adjusted gross income. Data is presented for corporate income taxes from 1978-1982 and is broken down by filing status.

Table 2.11

1982 CORPORATE INCOME TAX

TAX PAID BY TYPE OF RETURN: 1982

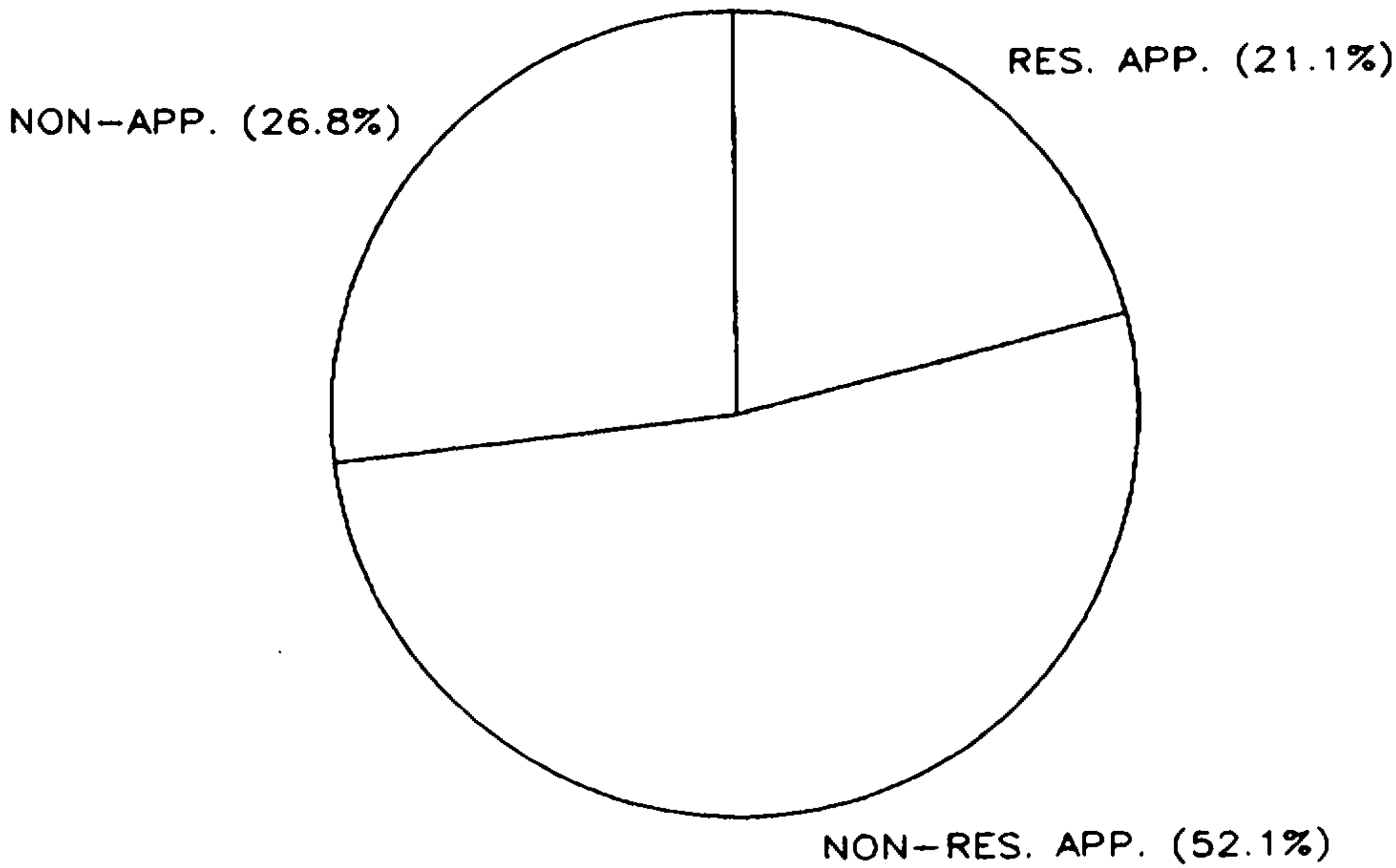


Table 2.12

INCIDENCE BY FILING STATUS AND INCOME
CORPORATE RETURNS
1982

Bracket (000)	Resident Apportioning	Non-Resident Apportioning	Non-Apportion	Total Apportioning
$0-25	5.20%	4.96%	5.51%	5.43%
25-50	5.65%	5.44%	6.13%	6.02%
50-75	6.05%	5.89%	6.64%	6.49%
75-100	6.21%	6.30%	6.76%	6.62%
100-250	7.03%	6.92%	7.29%	7.13%
250-500	7.90%	8.37%	8.10%	8.20%
500-1,000	8.43%	9.37%	8.99%	9.07%
<1,000	9.43%	9.87%	9.63%	9.74%
Totals	8.57%	9.26%	7.00%	8.39%

Source: Iowa Department of Revenue.

Incidence figures were calculated by dividing taxes paid by taxable income before the federal tax deduction.

INCIDENCE RATES FOR ALL FILING STATUS'S
CORPORATE INCOME TAX RETURNS
1978-1982

Table 2.13

FILING STATUS	TAX RATE	1978	1979	1980	1981	1982
RES. APPORT.	MEAN	9.20%	9.06%	9.24%	9.25%	10.34%
	MEDIAN	6.61%	6.63%	6.62%	6.63%	6.00%
	FLAT	6.75%	6.75%	6.75%	6.75%	6.75%
NON RES APP.	MEAN	9.52%	9.60%	9.52%	9.53%	10.69%
	MEDIAN	6.00%	6.00%	6.00%	6.00%	6.00%
	FLAT	6.75%	6.75%	6.75%	6.75%	6.75%
RES. NONAPPORT.	MEAN	7.51%	7.67%	7.68%	7.65%	7.78%
	MEDIAN	6.00%	6.00%	6.00%	6.00%	6.00%
	FLAT	6.75%	6.75%	6.75%	6.75%	6.75%
ALL	MEAN	8.79%	8.81%	8.75%	8.75%	9.65%
	MEDIAN	6.00%	6.00%	6.00%	6.00%	6.00%
	FLAT	6.75%	6.75%	6.75%	6.75%	6.75%

FOR ALL FILING STATUS'S
CORPORATE INCOME TAX RETURNS
1978-1982

FILING STATUS	TAX RATE	1978	1979	1980	1981	1982
RES. APPORT.	AVG. AGI	$215,655,480	$209,885,630	$272,753,041	$242,259,968	$270,281,402
	MEAN	$19,840,304	$19,015,638	$25,202,381	$22,409,047	$27,947,097
	MEDIAN	$14,254,827	$13,915,417	$18,056,251	$16,061,836	$16,216,884
	FLAT	$14,556,745	$14,167,280	$18,410,830	$16,352,548	$18,243.995
NON. RES. APP.	AVG. AGI	$549,860,349	$614,381,404	$585,609,983	$546,110,277	$645,472,820
	MEAN	$52,346,705	$58,980,615	$55,750,070	$52,044,309	$69,001,044
	MEDIAN	$32,991,621	$35,862,884	$35,136,599	$32,766,617	$38,728.369
	FLAT	$37,115,574	$41,470,745	$39,528,674	$36,862,444	$43,569,415
RES. NONAPPORT.	AVG. AGI	$383,799,010	$475,278,633	$545,760,193	$490,896,982	$455,735,420
	MEAN	$28,823,306	$36,453,871	$41,914,383	$37,553,619	$35,456,216
	MEDIAN	$23,027,941	$28,516,718	$32,745,612	$29,453,819	$27,344,125
	FLAT	$25,906,433	$32,081,308	$36,838,813	$33,135,546	$30,762,141
ALL	AVG. AGI.	$1,149,314,839	$1,299,545,667	$1,404,123,217	$1,279,267,227	$1,371,489,642
	MEAN	$101,024,774	$114,489,973	$122,860,781	$111,935,882	$132,348,750
	MEDIAN	$68,958,890	$77,972,740	$84,247,393	$76,756,034	$82,289,379
	FLAT	$77,578,752	$87,719,333	$94,778,317	$86,350,538	$92,575,551

2.2 BURDEN BY BUSINESS TYPE

Table 2.21 shows the taxes paid by type of business in 1978 and 1981 (the last year for which this information is available), the percent of total taxes paid and the incidence for each type of business. Manufacturing firms paid the largest percent of all taxes paid in 1978 and 1981. Transportation and utilities firms followed by retail trade establishments were the next largest tax paying industries. Tax incidence by business largely reflects the distribution of firm size across industries. The industries with the greater preponderance of large firms (transportation, utilities, manufacturing and mining) tend to show higher tax incidence because a larger number of firms fall into higher tax brackets than in other industries like agriculture and retail trade.

Table 2.21

CORPORATE INCOME TAX 1978 AND 1981

TAXES PAID BY TYPE OF BUSINESS

BUSINESS	1978 TAX PAID	1981 TAX PAID	1978 % OF TOTAL	1981 % OF TOTAL	1978 INCIDENCE	1981 INCIDENCE
AGRICULTURE	4.1	7.8	4.05%	6.97%	7.70%	7.72%
CONSTRUCTION	4.5	5	4.45%	4.47%	7.67%	7.85%
TRANS. & UTILITIES	21.5	26.2	21.26%	23.40%	9.63%	9.68%
RETAIL TRADE	13.4	12.1	13.25%	10.81%	8.27%	8.17%
SERVICES	3.9	6.7	3.86%	5.98%	7.21%	7.57%
MINING	0.78	1.2	0.77%	1.07%	8.81%	9.31%
MANUFACTURING	36.7	33.4	36.29%	29.83%	9.41%	9.37%
WHOLESALE TRADE	10.4	13.9	10.28%	12.41%	8.30%	8.42%
F,I & RE	5.5	5.4	5.44%	4.82%	7.73%	7.78%
OTHERS	0.36	0.27	0.36%	0.24%	7.81%	7.80%
TOTAL	101.14	111.97	100.00%	100.00%	8.79%	8.75%

2.3 BURDEN BY PLANNING AREA

The chart compares corporate tax liability by region for 1978-1982 and is sorted on the percent of total corporate tax liability that each region is responsible for. The row labelled "subtotal" refers to the total corporate tax liability of all 16 Iowa regions, whereas "nonres" shows the percent of corporate taxes paid by firms which are not residents of Iowa. The total amount of corporate income taxes collected from both resident and non-resident firms for each of the five years is shown in the bottom row marked "tax".

As the chart indicates, Region 11 has consistently paid the most corporate taxes while Region 14 has paid the least. Non resident firms bear a greater burden of corporate income taxes than resident firms for three out of the five years studied, 1978, 1979, and 1982.

Table 2.31

% OF TOTAL CORPORATE TAX LIABILITY
BY REGION
1978-1982

REGION	1978	1979	1980	1981	1982
NONRES.	54.22%	54.99%	48.11%	48.66%	54.91%
SUBTOTAL	45.78%	45.01%	51.89%	51.34%	45.09%
11	12.83%	12.68%	13.12%	13.09%	10.49%
9	4.35%	4.15%	5.93%	5.36%	5.78%
10	6.38%	5.01%	7.38%	6.40%	4.64%
4	3.51%	3.07%	2.00%	4.13%	4.43%
8	3.26%	3.27%	3.80%	3.55%	3.74%
15	2.59%	2.33%	2.59%	2.42%	2.99%
7	2.92%	3.44%	3.65%	3.32%	2.72%
2	1.81%	2.08%	2.12%	2.03%	1.59%
3	1.24%	1.56%	1.86%	2.04%	1.52%
5	1.36%	1.58%	1.91%	1.94%	1.49%
12	.85%	1.02%	1.14%	1.24%	1.36%
13	1.30%	1.49%	1.77%	1.86%	1.23%
16	1.07%	1.07%	1.16%	1.37%	1.14%
6	1.42%	1.24%	1.36%	1.34%	1.06%
1	.60%	.66%	.80%	.87%	.65%
14	.29%	.36%	.42%	.38%	.26%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%
TAX (000)	$101,012	$114,451	$122,074	$111,971	$132,388

2.4 FEDERAL TAX DEDUCTION

Table 2.41 shows the effect on Iowa's corporate income tax revenues and federal tax payments if the federal tax deduction had been disallowed in 1978 and 1982. Total corporate income tax collections would have increased by over 20 percent in both years. Corporations who are non-apportioning would have experienced the lowest percentage increase in taxes, largely due to the lower federal marginal tax brackets.

If the federal tax deduction were disallowed and a flat rate tax was applied so that revenues would remain approximately the same, then the system could still be progressive as seen in chart 2.42. The adjusted rate is calculated by multiplying the present marginal tax rates by the change in tax collections that occurs when taxable income increases from the loss of the federal tax deduction.

Table 2.41 Effect of Federal Tax Deduction
Corporate Income Tax

1978	Resident Apportioning			Non-Resident Apportioning			Non-Apportioning		
Bracket	Inc. Iowa Tax	Dec. Fed. Tax	% Inc. Iowa Tax	Inc. Iowa Tax	Dec. Fed. Tax	% Inc. Iowa Tax	Inc. Iowa Tax	Dec. Fed. Tax	% Inc. Iowa Tax
$0-25	72.25	33.23	18.72	198.19	91.17	33.65	430.62	73.21	9.80
25-50	155.89	71.71	20.06	181.57	83.52	25.54	666.72	133.34	10.37
50-75	134.83	62.02	22.78	150.15	69.07	23.87	412.64	123.79	11.68
75-100	107.73	49.56	24.54	160.33	73.75	26.03	297.44	118.98	15.55
100-250	633.60	291.46	30.32	930.01	427.81	29.11	1116.00	513.36	22.03
250-500	499.24	229.65	26.23	973.96	448.02	20.71	572.30	263.26	22.68
500-1,000	346.29	159.29	18.21	1240.33	570.55	23.32	371.60	170.94	24.48
<1,000	2185.03	1005.12	18.60	8002.45	3681.13	21.87	502.50	231.15	14.56
Totals	4134.86	1902.03	20.85	11837.00	5445.02	22.61	4369.82	2741.80	15.16

Total Increase in
Iowa Taxes: $ 20341.67
% 20.14

1982	Resident Apportioning			Non-Resident Apportioning			Non-Apportioning		
Bracket	Inc. Iowa Tax	Dec. Fed. Tax	% Inc. Iowa Tax	Inc. Iowa Tax	Dec. Fed. Tax	% Inc. Iowa Tax	Inc. Iowa Tax	Dec. Fed. Tax	% Inc. Iowa Tax
$0-25	63.16	29.06	15.29	122.57	56.38	21.02	439.02	70.24	8.89
25-50	141.47	65.08	20.53	163.15	75.05	25.86	565.20	107.39	9.34
50-75	148.26	68.20	20.85	158.72	73.01	24.42	446.08	133.82	8.91
75-100	114.68	52.75	21.16	116.76	53.71	19.24	335.12	134.05	10.48
100-250	455.47	209.51	22.95	887.32	408.17	25.24	980.50	451.03	15.82
250-500	494.74	227.58	27.49	916.90	421.77	19.85	557.64	256.51	24.12
500-1,000	698.78	321.44	27.76	892.78	410.68	13.41	486.24	223.67	20.03
<1,000	4227.34	1944.58	21.91	8170.26	3758.32	15.80	1030.08	473.84	19.30
Totals	6343.92	2918.20	22.70	11428.47	5257.10	16.57	4839.88	1850.55	13.64

Total Increase in
Iowa Taxes: $ 22612.27
% 22.39

Table 2.42
Page 1

1981: All returns (in thousands)

Bracket	# returns	Fed. Deduc.	Fed. tax Apport.	Tax. Income	Tax owed per return	Tax Paid	incidence	taxable inc. if no fed. tax deduct.	New taxes owed	new taxes paid	incidence	adj rate	taxes paid with adj rate	incidence
$0-25	11.633	$279,010	$11,235	$85,985	$5,159	$5,150	6.00%	$97,220	$5,833	$5,832	6.00%	5.13%	$4,989	5.13%
25-50	3.477	$200,796	$11,770	$124,848	$9,984	$8,249	6.61%	$136,618	$10,928	$9,191	6.73%	6.04%	$7,612	5.57%
50-75	1.538	$222,169	$13,374	$93,235	$7,458	$6,729	7.22%	$106,609	$8,528	$7,799	7.37%	6.04%	$6,561	6.16%
75-100	1.408	$98,180	$7,032	$59,424	$4,753	$4,410	7.42%	$66,458	$5,316	$4,973	7.48%	6.04%	$4,205	6.33%
100-250	1.052	$460,835	$23,136	$155,442	$15,542	$12,919	8.31%	$178,578	$17,855	$15,229	8.53%	8.55%	$12,449	7.08%
250-500	.294	$1,233,245	$18,289	$102,613	$10,261	$9,526	9.28%	$120,902	$12,089	$11,353	9.39%	8.55%	$9,608	7.95%
500-1,000	.086	$780,092	$21,477	$102,859	$10,284	$9,916	9.64%	$124,334	$12,431	$12,064	9.70%	8.55%	$10,268	8.26%
>1,000	.148	$3,855,754	$105,557	$554,362	$55,436	$55,064	9.93%	$659,919	$65,992	$65,622	9.94%	8.55%	$56,080	8.50%
Totals	20.436	$7,130,079	$211,871	$1,278,770	$118,878	$111,969	8.76%	$1,490,641	$130,972	$132,063	8.86%		$111,977	7.51%

Table 2.42
Page 2

1981: Resident Apportioning (in thousands)

Bracket	# returns	Fed. Deduc.	Fed Tax App	Tax. Income	Tax Owed	Tax Paid	incidence	taxable inc. if no fed. tax deduct.	new taxes owed	new taxes paid	incidence	adj rate	taxes paid with adj rate	incidence
$0-25	.815	$7,748	$1,292.366	$6,778	$406.680	$406	5.99%	$8,070.366	$484.222	$483.547	5.99%	5.13%	$413.350	5.12%
25-50	.312	$6,378	$2,003.330	$11,356	$908.324	$752	6.62%	$13,359.330	$1,068.590	$912.266	6.83%	6.84%	$757.454	5.67%
50-75	.142	$5,091	$1,747.231	$8,877	$710.089	$639	7.20%	$10,624.231	$849.867	$778.778	7.33%	6.04%	$655.608	6.17%
75-100	.071	$2,493	$1,096.671	$6,107	$488.525	$453	7.42%	$7,203.671	$576.258	$540.734	7.51%	6.04%	$457.207	6.35%
100-250	.170	$12,947	$5,079.108	$25,860	$2,585.575	$2,161	8.36%	$30,939.108	$3,093.466	$2,668.911	8.63%	8.55%	$2,220.719	7.18%
250-500	.075	$32,039	$5,316.634	$25,996	$2,599.413	$2,412	9.28%	$31,312.634	$3,131.076	$2,943.663	9.40%	8.55%	$2,489.818	7.95%
500-1,000	.037	$22,543	$6,767.409	$26,225	$2,622.408	$2,530	9.65%	$32,992.409	$3,299.148	$3,206.741	9.72%	8.55%	$2,728.443	8.27%
<1,000	.022	$76,338	$28,107.652	$131,062	$13,106.165	$13,051	9.96%	$159,169.652	$15,916.910	$15,861.765	9.97%	8.55%	$13,553.860	8.52%
Totals	1.644	$166,377	$51,410.401	$242,261	$23,427.150	$22,404	9.25%	$293,671.401	$28,419.558	$27,396.401	9.33%		$23,276	7.93%

1981: Non-Resident Apportioning (in thousands)

Bracket	# returns	Fed. Deduc.	Fed Tax App	Tax. Income	Tax owed	Tax Paid	incidence	taxable inc. if no fed. tax deduct.	new taxes owed	new taxes paid	incidence	adj rate	taxes paid with adj rate	incidence
$0-25	1.505	$263,241	$1,921.659	$7,752	$465.120	$465	6.00%	$9,673.659	$580.420	$580.300	6.00%	5.13%	$496	5.13%
25-50	.310	$187,043	$2,394.150	$10,958	$876.485	$722	6.39%	$13,352.150	$1,068.017	$913.532	6.84%	6.84%	$759	5.68%
50-75	.159	$207,589	$2,130.167	$9,310	$744.721	$705	7.57%	$11,440.167	$915.774	$876.053	7.65%	6.04%	$743	6.49%
75-100	.080	$91,183	$1,431.573	$7,027	$561.760	$522	7.43%	$8,458.573	$676.286	$636.526	7.53%	6.04%	$539	6.37%
100-250	.264	$436,200	$6,348.520	$40,977	$4,097.040	$3,438	8.39%	$47,345.520	$4,733.892	$4,074.852	8.61%	8.55%	$3,389	7.16%
250-500	.128	$1,195,082	$7,648.525	$45,373	$4,536.900	$4,217	9.29%	$53,021.525	$5,301.832	$4,981.852	9.40%	8.55%	$4,215	7.95%
500-1,000	.820	$753,693	$10,853.179	$57,812	$5,779.150	$5,576	9.65%	$68,665.179	$6,864.440	$6,661.318	9.70%	8.55%	$5,660	8.25%
<1,000	.107	$3,770,975	$69,008.843	$366,402	$36,639.933	$36,375	9.93%	$435,410.843	$43,540.817	$43,273.884	9.94%	8.55%	$36,961	8.49%
Totals	4.093	$6,905,006	$101,764.616	$545,611	$53,701.180	$52,018	9.53%	$647,375.616	$63,681.505	$61,998.317	9.58%		$52,768	8.15%

1981: Non-Apportioning (in thousands)

Bracket	# returns	Fed. Deduc.	Fed Tax App	Tax. Income	Tax owed	Tax Paid	incidence	taxable inc. if no fed. tax deduct.	new taxes owed	new taxes paid	incidence	adj rate	taxes paid with adj rate	incidence
$0-25	9.313	$8,021	$8,021	$71,455	$4,287.300	$4,287	6.00%	$79,476	$4,768.560	$4,768.260	6.00%	5.13%	$4,077	5.13%
25-50	2.855	$7,373	$7,373	$102,534	$8,201.293	$6,775	6.61%	$109,907	$8,791.133	$7,364.840	6.70%	6.84%	$6,091	5.54%
50-75	1.237	$9,489	$9,489	$75,048	$6,003.222	$5,385	7.18%	$84,537	$6,762.347	$6,144.120	7.27%	6.04%	$5,164	6.11%
75-100	.537	$4,504	$4,504	$46,292	$3,703.092	$3,435	7.42%	$50,796	$4,063.412	$3,795.320	7.47%	6.04%	$3,206	6.31%
100-250	.618	$11,688	$11,688	$88,605	$8,858.955	$7,316	8.26%	$100,293	$10,027.755	$8,484.800	8.46%	8.55%	$7,032	7.01%
250-500	.091	$5,324	$5,324	$31,244	$3,124.173	$2,897	9.27%	$36,568	$3,656.573	$3,429.400	9.38%	8.55%	$2,899	7.93%
500-1,000	.029	$3,856	$3,856	$18,822	$1,882.128	$1,810	9.62%	$22,678	$2,267.728	$2,195.600	9.68%	8.55%	$1,867	8.23%
<1,000	.019	$8,441	$8,441	$56,898	$5,689.753	$5,642	9.92%	$65,339	$6,533.053	$6,486.100	9.93%	8.55%	$5,539	8.48%
Totals	14.699	$58,696	$58,696	$490,898	$41,749.913	$37,547	7.65%	$549,594	$46,871.353	$42,668.440	7.76%		$35,874	6.53%

2.5 FRANCHISE TAX

The following tables and charts provide an overview of the incidence and revenue growth of the franchise tax.

Figure 2.51 contrasts the incidence of the franchise tax in 1978 and 1982 by income class. In 1978 the incidence rose as income grew -- financial institutions with taxable income of less than $25,000 paid five percent of that income in franchise taxes, while institutions with over $1 million in taxable income paid nearly eight percent. By 1982, the incidence across all income classes was five percent.

The next bar chart (Figure 2.52) shows that despite the lower tax incidence for larger firms, tax revenue from larger firms grew at nearly 20 percent per year from 1978 to 1982, while tax revenue from smaller firms fell sharply. The reason for this pattern of growth can be seen in Table 2.53. The tax base of firms with greater than $500,000 in taxable income more than doubled over the period, while the taxable income reported in the lower brackets fell sharply.

The last chart shows the increase in revenue if Franchise tax rates were the same as corporate tax rates for 1981 returns.

Table 2.51

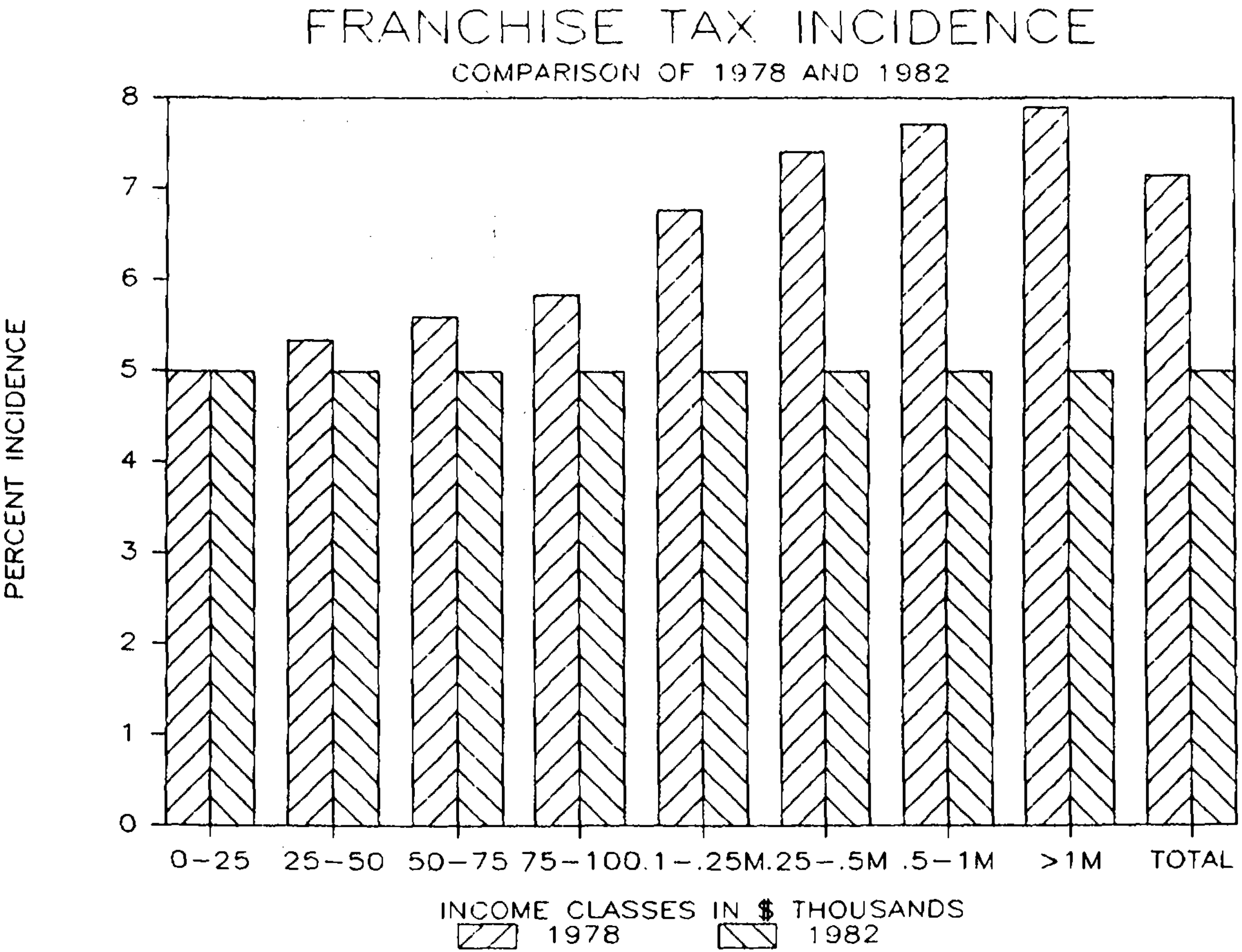

FRANCHISE TAX INCIDENCE
COMPARISON OF 1978 AND 1982
PERCENT INCIDENCE
0
1
2
3
4
5
6
7
8
0-25
25-50
50-75
75-100
.1-.25M
.25-.5M
.5-1M
>1M
TOTAL
INCOME CLASSES IN $ THOUSANDS
1978
1982

Table 2.52

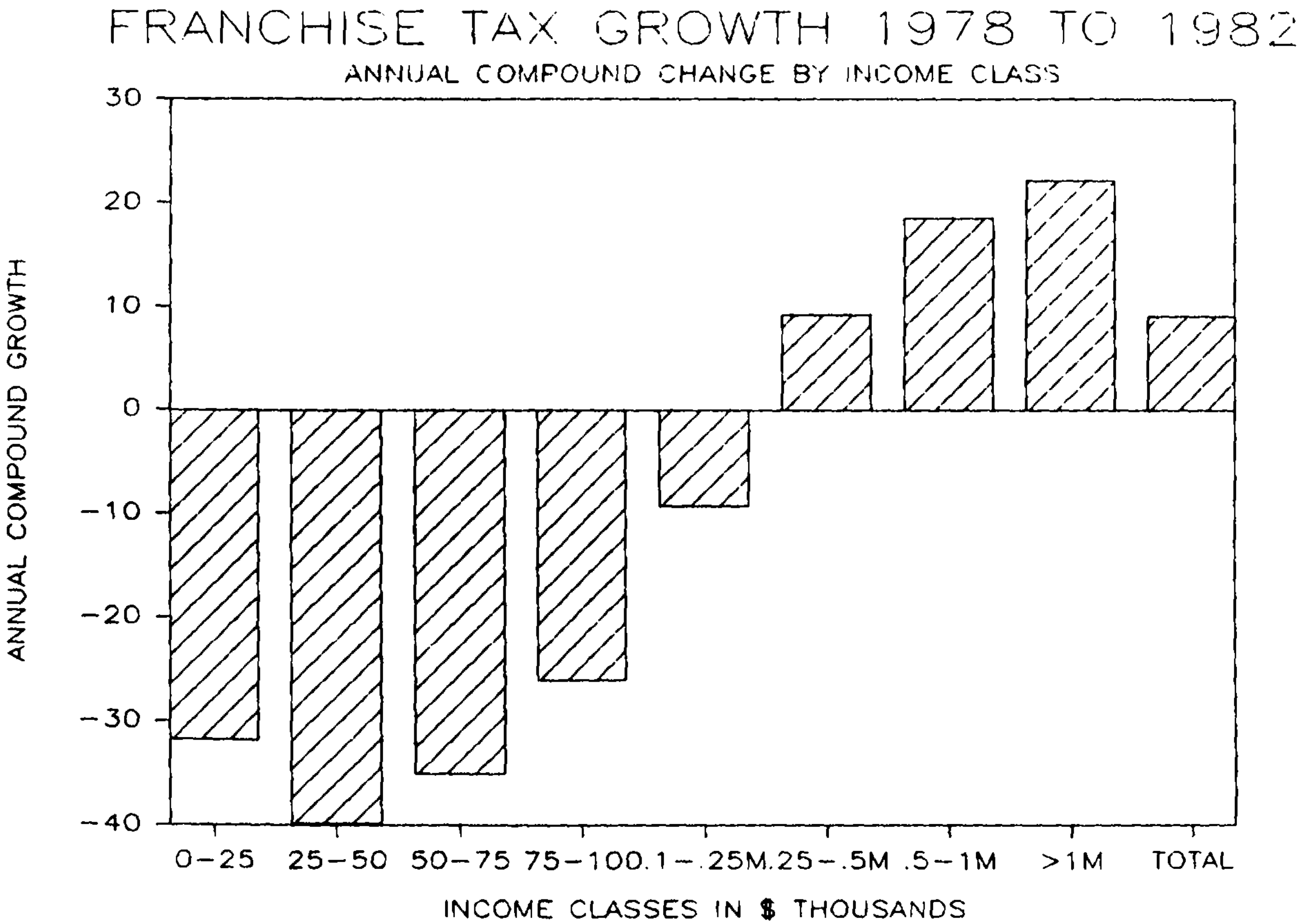

FRANCHISE TAX GROWTH 1978 TO 1982
ANNUAL COMPOUND CHANGE BY INCOME CLASS
ANNUAL COMPOUND GROWTH
30
20
10
0
−10
−20
−30
−40
0−25
25−50
50−75
75−100
.1−.25M
.25−.5M
.5−1M
>1M
TOTAL
INCOME CLASSES IN $ THOUSANDS

Table 2.53 IOWA FRANCHISE TAX

TAXABLE INC. BRACKET	TAX PAID		INCIDENCE	
(IN $ THOUSANDS)	1978	1982	1978	1982
0-25	$31.637.40	$4,701.75	5.0	5.0
25-50	$198.641.50	$15,625.40	5.3	5.0
50-75	$446.261.22	$51,734.60	5.6	5.0
75-100	$356,846.44	$78.911.90	5.8	5.0
.1-.25M	$2.612.971.92	$1.608.666.90	6.8	5.0
.25-.5M	$2,491,033.04	$3.867,015.05	7.4	5.0
.5-1M	$2.145.259.92	$5.019.710.35	7.7	5.0
>1M	$1.859.481.68	$5,045,264.40	7.9	5.0
TOTAL	$10.142.133.12	$15.691.630.35	7.1	5.0

Table 2.54

FRANCHISE TAX RECEIPTS
BY TAXABLE INCOME
1981

TAXABLE INCOME BRACKET	NUMBER OF RETURNS	TAXABLE INCOME	TAX PAID (FRANCHISE)	TAX PAID (CORPORATE)	INCREASE IN REVENUE FROM RATE CHANGE
$0-$25,000	16	$159,870	$7,993.50	$9,592.20	$1,598.70
$25,001-50,000	11	$406,195	$20,309.75	$32,495.60	$12,185.85
$50,001-$75,000	24	$1,471,332	$73,566.60	$117,706.56	$44,139.96
$75,001-$100,000	29	$2,584,846	$129,242.30	$206,787.68	$77,545.38
$100,001-$250,000	228	$39,731,494	$1,986,574.70	$3,973,149.40	$1,986,574.70
$250,001-$500,000	208	$74,760,244	$3,738,012.20	$7,476,024.40	$3,738,012.20
$500,001-$1,000,000	148	$99,856,520	$4,992,826.00	$9,985,652.00	$4,992,826.00
OVER $1,000,000	59	$106,681,733	$5,334,086.65	$10,668,173.30	$5,334,086.65
TOTAL	723	$325,652,234	$16,282,611.70	$32,469,581.14	$16,186,969.44

2.6 POLICY ANALYSIS OF HYPOTHETICAL FIRMS: HIGH AND LOW VALUE-ADDED MANUFACTURERS AND A WHOLESALING OPERATION

Chart 2.61-2.63 shows taxes paid by firms in Iowa which are similar to the hypothetical corporations. The taxes are calculated out for three years so that the effect of a change in apportionment formula on taxed owed can be fully seen. Simulation 1 examines the change in taxes paid by these corporations if they were no longer allowed to deduct federal taxes paid. The firm which is hardest hit by this policy is the high value-added manufacturer with a 31% increase in taxes for each of the 3 years. The tax burden of the wholesaler also increased dramatically at 21% to 22% for the three years.

When equal weight is given to each of the three factors for determining corporate tax liability (payroll, property and sales) the amount of taxes owed by the low value-added manufacturer increased by the most to 147% of their previous level. The high value-added manufacturer and wholesaler also experience an increase in taxes owed but the change is far smaller than that of the low value-added manufacturer, 29% and 15%, respectively.

IOWA TAX SIMULATION MODEL

HYPOTHETICAL HIGH VALUE-ADDED MANUFACTURER

BASE CASE

----------ASSUMPTIONS----------------

BASE YEAR SALES ($)	19,500,000
COGS AS % OF SALES	70.30%
SG&A AS % OF SALES	21.10%
OTHER EXPENSES (NET) AS % OF SALES	2.80%
AVG. DEPR. AS % OF SALES	2.20%
INFLATION RATE	5.00%

----------TAX INFORMATION-----------

PAYROLL FACTOR	45.00%
PROPERTY FACTOR	46.00%
SALES FACTOR	33.00%
WEIGHT FOR PAYROLL FACTOR	.00%
WEIGHT FOR PROPERTY FACTOR	.00%
WEIGHT FOR SALES FACTOR	100.00%
FED. TAX DEDUCTABLE ON IOWA RETURNS	50.00%

----------INITIAL TAX ESTIMATES-----

FEDERAL TAX DUE ON BRACKET	25,750	25,750	25,750
FEDERAL MARGINAL RATE	46.00%	46.00%	46.00%
FEDERAL TAX BRACKET	100,000	100,000	100,000
IOWA TAX DUE ON BRACKET	7,500	7,500	7,500
IOWA MARGINAL RATE	10.00%	10.00%	10.00%
IOWA TAX BRACKET	100,000	100,000	100,000

----------CASH FLOW ANALYSIS--------

YEAR	1	2	3
SALES	19,500,000	20,475,000	21,498,750
COGS	13,708,500	14,393,925	15,113,621
	----------	----------	----------
GROSS PROFIT	5,791,500	6,081,075	6,385,129
SG&A	4,114,500	4,320,225	4,536,236
OTHER EXPENSES	546,000	573,300	601,965
DEPRECIATION	429,000	450,450	472,973
	==========	==========	==========
PROFIT BEEFORE TAX	702,000	737,100	773,955
IOWA TAX	15,792	16,691	17,634
FEDERAL TAX	295,406	311,138	327,658

Table 2.61
Page 2

PROFIT AFTER TAX	398,802	409,271	428,663
ADD:			
DEPRECIATION	429,000	450,450	472,973
NET CASH FLOW	819,802	859,721	901,636
OVERALL APPORTIONMENT FACTOR	.33		
IOWA INCOME BEFORE TAXES	231,660	243,243	255,405
IOWA TAXABLE INCOME	182,918	191,905	201,342
FEDERAL TAXES DEDUCTED ON IOWA RETURNS	48,742	51,338	54,064

IOWA TAX SIMULATION MODEL
HYPOTHETICAL HIGH VALUE-ADDED MANUFACTURER
SIMULATION 1-NO DEDUCTION FOR FEDERAL TAXES

---------ASSUMPTIONS---------------			
BASE YEAR SALES ($)	19,500,000		
COGS AS % OF SALES	70.30%		
SG&A AS % OF SALES	21.10%		
OTHER EXPENSES (NET) AS % OF SALES	2.80%		
AVG. DEPR. AS % OF SALES	2.20%		
INFLATION RATE	5.00%		
----------TAX INFORMATION----------			
PAYROLL FACTOR	45.00%		
PROPERTY FACTOR	46.00%		
SALES FACTOR	33.00%		
WEIGHT FOR PAYROLL FACTOR	.00%		
WEIGHT FOR PROPERTY FACTOR	.00%		
WEIGHT FOR SALES FACTOR	100.00%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	25,750	25,750	25,750
FEDERAL MARGINAL RATE	46.00%	46.00%	46.00%
FEDERAL TAX BRACKET	100,000	100,000	100,000
IOWA TAX DUE ON BRACKET	7,500	7,500	7,500
IOWA MARGINAL RATE	10.00%	10.00%	10.00%
IOWA TAX BRACKET	100,000	100,000	100,000
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	19,500,000	20,475,000	21,498,750
COGS	13,708,500	14,393,925	15,113,621
GROSS PROFIT	5,791,500	6,081,075	6,385,129
SG&A	4,114,500	4,320,225	4,536,236
OTHER EXPENSES	546,000	573,300	601,965
DEPRECIATION	429,000	450,450	472,973
PROFIT BEEFORE TAX	702,000	737,100	773,955
IOWA TAX	20,666	21,824	23,041
FEDERAL TAX	293,164	308,777	325,171
PROFIT AFTER TAX	388,170	406,499	425,744
ADD:			
DEPRECIATION	429,000	450,450	472,973
NET CASH FLOW	817,170	856,949	898,716
OVERALL APPORTIONMENT FACTOR	.33		
IOWA INCOME BEFORE TAXES	231,660	243,243	255,405
IOWA TAXABLE INCOME	231,660	243,243	255,405
FEDERAL TAXES DEDUCTED ON IOWA RETURNS	0	0	0

Table 2.01
Page 4

INCREASE OR DECREASE (-) FROM BASE CASE:			
CASH FLOW	-2,632	-2,772	-2,920
FEDERAL TAXES	-2,242	-2,361	-2,487
IOWA TAXES	4,874	5,133	5,407
% CHANGES FROM BASE CASE:			
CASH FLOW	-.32%	-.32%	-.32%
FEDERAL TAXES	-.76%	-.76%	-.76%
IOWA TAXES	38.86%	38.75%	38.66%

IOWA TAX SIMULATION MODEL
HYPOTHETICAL HIGH VALUE-ADDED MANUFACTURER
SIMULATION 2-EQUALLY WEIGHTED APPORTIONMENT FACTORS

---------ASSUMPTIONS----------------			
BASE YEAR SALES ($)	19,500,000		
COGS AS % OF SALES	70.30%		
SG&A AS % OF SALES	21.10%		
OTHER EXPENSES (NET) AS % OF SALES	2.80%		
AVG. DEPR. AS % OF SALES	2.20%		
INFLATION RATE	5.00%		
----------TAX INFORMATION-----------			
PAYROLL FACTOR	45.00%		
PROPERTY FACTOR	46.00%		
SALES FACTOR	33.00%		
WEIGHT FOR PAYROLL FACTOR	33.33%		
WEIGHT FOR PROPERTY FACTOR	33.33%		
WEIGHT FOR SALES FACTOR	33.33%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	50.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	25,750	25,750	25,750
FEDERAL MARGINAL RATE	46.00%	46.00%	46.00%
FEDERAL TAX BRACKET	100,000	100,000	100,000
IOWA TAX DUE ON BRACKET	7,500	7,500	7,500
IOWA MARGINAL RATE	10.00%	10.00%	10.00%
IOWA TAX BRACKET	100,000	100,000	100,000
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	19,500,000	20,475,000	21,498,750
COGS	13,708,500	14,393,925	15,113,621
	----------	----------	----------
GROSS PROFIT	5,791,500	6,081,075	6,385,129
SG&A	4,114,500	4,320,225	4,536,236
OTHER EXPENSES	546,000	573,300	601,965
DEPRECIATION	429,000	450,450	472,973
	==========	==========	==========
PROFIT BEEFORE TAX	702,000	737,100	773,955
IOWA TAX	20,455	21,583	22,767
FEDERAL TAX	293,261	308,888	325,296
PROFIT AFTER TAX	388,284	406,629	425,891
ADD:			
DEPRECIATION	429,000	450,450	472,973
NET CASH FLOW	817,284	857,079	898,864
OVERALL APPORTIONMENT FACTOR	.41		
IOWA INCOME BEFORE TAXES	290,160	304,668	319,901
IOWA TAXABLE INCOME	229,553	240,831	252,673
FEDERAL TAXES DEDUCTED ON IOWA RETURNS	60,607	63,837	67,228

Table 2.61
Page 6

INCREASE OR DECREASE (-) FROM BASE CASE:			
CASH FLOW	-2,518	-2,642	-2,772
FEDERAL TAXES	-2,145	-2,258	-2,362
IOWA TAXES	4,663	4,892	5,133
% CHANGES FROM BASE CASE:			
CASH FLOW	-.31%	-.31%	-.31%
FEDERAL TAXES	-.73%	-.72%	-.72%
IOWA TAXES	29.53%	29.31%	29.11%

IOWA TAX SIMULATION MODEL
HYPOTHETICAL LOW VALUE-ADDED MANUFACTURER
BASE CASE

Table 2.62
Page 1

----------ASSUMPTIONS----------------			
BASE YEAR SALES ($)	8,830,000		
COGS AS % OF SALES	91.50%		
SG&A AS % OF SALES	6.00%		
OTHER EXPENSES (NET) AS % OF SALES	.60%		
AVG. DEPR. AS % OF SALES	.90%		
INFLATION RATE	5.00%		
----------TAX INFORMATION-----------			
PAYROLL FACTOR	55.00%		
PROPERTY FACTOR	72.00%		
SALES FACTOR	20.00%		
WEIGHT FOR PAYROLL FACTOR	.00%		
WEIGHT FOR PROPERTY FACTOR	.00%		
WEIGHT FOR SALES FACTOR	100.00%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	50.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	15,750	15,750	15,750
FEDERAL MARGINAL RATE	40.00%	40.00%	40.00%
FEDERAL TAX BRACKET	75,000	75,000	75,000
IOWA TAX DUE ON BRACKET	0	0	0
IOWA MARGINAL RATE	6.00%	6.00%	6.00%
IOWA TAX BRACKET	0	0	0
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	8,830,000	9,271,500	9,735,075
COGS	8,079,450	8,463,423	8,907,594
	----------	----------	----------
GROSS PROFIT	750,550	788,078	827,481
SG&A	529,800	556,290	584,105
OTHER EXPENSES	52,980	55,629	58,410
DEPRECIATION	79,470	83,444	87,616
	==========	==========	==========
PROFIT BEEFORE TAX	88,300	92,715	97,351
IOWA TAX	935	976	1,023
FEDERAL TAX	20,696	22,445	24,281
PROFIT AFTER TAX	66,669	69,292	72,047
ADD:			
DEPRECIATION	79,470	83,444	87,616
NET CASH FLOW	146,139	152,736	159,663
OVERALL APPORTIONMENT FACTOR	.20		
IOWA INCOME BEFORE TAXES	17,660	18,543	19,470
IOWA TAXABLE INCOME	15,590	16,299	17,042
FEDERAL TAXES DEDUCTED ON IOWA RETURN	2,070	2,244	2,428

IOWA TAX SIMULATION MODEL
HYPOTHETICAL LOW VALUE-ADDED MANUFACTURER
SIMULATION 1-NO DEDUCTION FOR FEDERAL TAXES

---------ASSUMPTIONS---------------			
BASE YEAR SALES ($)	8,830,000		
COGS AS % OF SALES	91.50%		
SG&A AS % OF SALES	6.00%		
OTHER EXPENSES (NET) AS % OF SALES	.60%		
AVG. DEPR. AS % OF SALES	.90%		
INFLATION RATE	5.00%		
----------TAX INFORMATION-----------			
PAYROLL FACTOR	56.00%		
PROPERTY FACTOR	72.00%		
SALES FACTOR	20.00%		
WEIGHT FOR PAYROLL FACTOR	.00%		
WEIGHT FOR PROPERTY FACTOR	.00%		
WEIGHT FOR SALES FACTOR	100.00%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	15,750	15,750	15,750
FEDERAL MARGINAL RATE	40.00%	40.00%	40.00%
FEDERAL TAX BRACKET	75,000	75,000	75,000
IOWA TAX DUE ON BRACKET	0	0	0
IOWA MARGINAL RATE	6.00%	6.00%	6.00%
IOWA TAX BRACKET	0	0	0
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	8,830,000	9,271,500	9,735,075
COGS	8,079,450	8,483,423	8,907,594
	----------	----------	----------
GROSS PROFIT	750,550	788,078	827,481
SG&A	529,800	556,290	584,105
OTHER EXPENSES	52,980	55,629	58,410
DEPRECIATION	79,470	83,444	87,616
	==========	==========	==========
PROFIT BEEFORE TAX	88,300	92,715	97,351
IOWA TAX	1,060	1,113	1,168
FEDERAL TAX	20,646	22,391	24,223
PROFIT AFTER TAX	66,594	69,211	71,960
ADD:			
DEPRECIATION	79,470	83,444	87,616
NET CASH FLOW	146,064	152,655	159,575
OVERALL APPORTIONMENT FACTOR	.20		
IOWA INCOME BEFORE TAXES	17,660	18,543	19,470
IOWA TAXABLE INCOME	17,660	18,543	19,470
FEDERAL TAXES DEDUCTED ON IOWA RETURN	0	0	0

INCREASE OR DECREASE (-) FROM BASE CASE:			
CASH FLOW	-75	-81	-88
FEDERAL TAXES	-50	-54	-58
IOWA TAXES	125	135	145
% CHANGES FROM BASE CASE:			
CASH FLOW	-.05%	-.05%	-.06%
FEDERAL TAXES	-.24%	-.24%	-.24%
IOWA TAXES	13.33%	13.76%	14.19%

IOWA TAX SIMULATION MODEL
HYPOTHETICAL LOW VALUE-ADDED MANUFACTURER
SIMULATION 2-EQUALLY WEIGHTED APPORTIONMENT FACTORS

---------ASSUMPTIONS---------------			
BASE YEAR SALES ($)	8,830,000		
COGS AS % OF SALES	91.50%		
SG&A AS % OF SALES	6.00%		
OTHER EXPENSES (NET) AS % OF SALES	.60%		
AVG. DEPR. AS % OF SALES	.90%		
INFLATION RATE	5.00%		
----------TAX INFORMATION-----------			
PAYROLL FACTOR	56.00%		
PROPERTY FACTOR	72.00%		
SALES FACTOR	20.00%		
WEIGHT FOR PAYROLL FACTOR	33.33%		
WEIGHT FOR PROPERTY FACTOR	33.33%		
WEIGHT FOR SALES FACTOR	33.33%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	50.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	15,750	15,750	15,750
FEDERAL MARGINAL RATE	40.00%	40.00%	40.00%
FEDERAL TAX BRACKET	75,000	75,000	75,000
IOWA TAX DUE ON BRACKET	0	0	0
IOWA MARGINAL RATE	6.00%	6.00%	6.00%
IOWA TAX BRACKET	0	0	0
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	8,830,000	9,271,500	9,735,075
COGS	8,079,450	8,483,423	8,907,594
	----------	----------	----------
GROSS PROFIT	750,550	788,078	827,481
SG&A	529,800	556,290	584,105
OTHER EXPENSES	52,980	55,629	58,410
DEPRECIATION	79,470	83,444	87,616
	==========	==========	==========
PROFIT BEEFORE TAX	88,300	92,715	97,351
IOWA TAX	2,316	2,421	2,531
FEDERAL TAX	20,144	21,868	23,678
PROFIT AFTER TAX	65,841	68,427	71,142
ADD:			
DEPRECIATION	79,470	83,444	87,616
NET CASH FLOW	145,311	151,870	158,757
OVERALL APPORTIONMENT FACTOR	.49		
IOWA INCOME BEFORE TAXES	43,561	45,739	48,026
IOWA TAXABLE INCOME	38,593	40,345	42,186
FEDERAL TAXES DEDUCTED ON IOWA RETURN	4,969	5,394	5,841

Table 2.62
Page 5

INCREASE OR DECREASE (-) FROM BASE CASE:			
CASH FLOW	-828	-866	-906
FEDERAL TAXES	-552	-577	-603
IOWA TAXES	1,381	1,443	1,508
% CHANGES FROM BASE CASE:			
CASH FLOW	-.57%	-.57%	-.57%
FEDERAL TAXES	-2.67%	-2.57%	-2.48%
IOWA TAXES	147.65%	147.52%	147.42%

IOWA TAX SIMULATION MODEL
HYPOTHETICAL WHOLESALING OPERATION
BASE CASE

Table 2.63
Page 1

----------ASSUMPTIONS----------------			
BASE YEAR SALES ($)	3,700,000		
COGS AS % OF SALES	73.40%		
SG&A AS % OF SALES	21.70%		
OTHER EXPENSES (NET) AS % OF SALES	.50%		
AVG. DEPR. AS % OF SALES	.50%		
INFLATION RATE	5.00%		
----------TAX INFORMATION-----------			
PAYROLL FACTOR	41.00%		
PROPERTY FACTOR	52.00%		
SALES FACTOR	39.00%		
WEIGHT FOR PAYROLL FACTOR	.00%		
WEIGHT FOR PROPERTY FACTOR	.00%		
WEIGHT FOR SALES FACTOR	100.00%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	50.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	25,750	25,750	25,750
FEDERAL MARGINAL RATE	46.00%	46.00%	46.00%
FEDERAL TAX BRACKET	100,000	100,000	100,000
IOWA TAX DUE ON BRACKET	1,500	1,500	1,500
IOWA MARGINAL RATE	8.00%	8.00%	8.00%
IOWA TAX BRACKET	25,000	25,000	25,000
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	3,700,000	3,885,000	4,079,250
COGS	2,715,800	2,851,590	2,994,170
	----------	----------	----------
GROSS PROFIT	984,200	1,033,410	1,085,081
SG&A	802,900	843,045	885,197
OTHER EXPENSES	18,500	19,425	20,396
DEPRECIATION	18,500	19,425	20,396
	==========	==========	==========
PROFIT BEEFORE TAX	144,300	151,515	159,091
IOWA TAX	3,306	3,481	3,664
FEDERAL TAX	44,607	47,846	51,246
PROFIT AFTER TAX	96,387	100,188	104,180
ADD:			
DEPRECIATION	18,500	19,425	20,396
NET CASH FLOW	114,887	119,613	124,577
OVERALL APPORTIONMENT FACTOR	.39		
IOWA INCOME BEFORE TAXES	56,277	59,091	62,045
IOWA TAXABLE INCOME	47,579	49,761	52,052
FEDERAL TAXES DEDUCTED ON IOWA RETURN	8,698	9,330	9,993

Table 2.63
Page 2

IOWA TAX SIMULATION MODEL
HYPOTHETICAL WHOLESALING OPERATION
SIMULATION 1-NO DEDUCTION FOR FEDERAL TAXES

---------ASSUMPTIONS----------------			
BASE YEAR SALES ($)	3,700,000		
COGS AS % OF SALES	73.40%		
SG&A AS % OF SALES	21.70%		
OTHER EXPENSES (NET) AS % OF SALES	.50%		
AVG. DEPR. AS % OF SALES	.50%		
INFLATION RATE	5.00%		
----------TAX INFORMATION-----------			
PAYROLL FACTOR	41.00%		
PROPERTY FACTOR	52.00%		
SALES FACTOR	39.00%		
WEIGHT FOR PAYROLL FACTOR	.00%		
WEIGHT FOR PROPERTY FACTOR	.00%		
WEIGHT FOR SALES FACTOR	100.00%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	25,750	25,750	25,750
FEDERAL MARGINAL RATE	46.00%	46.00%	46.00%
FEDERAL TAX BRACKET	100,000	100,000	100,000
IOWA TAX DUE ON BRACKET	1,500	1,500	1,500
IOWA MARGINAL RATE	8.00%	8.00%	8.00%
IOWA TAX BRACKET	25,000	25,000	25,000
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	3,700,000	3,885,000	4,079,250
COGS	2,715,800	2,851,590	2,994,170
	----------	----------	----------
GROSS PROFIT	984,200	1,033,410	1,085,081
SG&A	802,900	843,045	885,197
OTHER EXPENSES	18,500	19,425	20,396
DEPRECIATION	18,500	19,425	20,396
	==========	==========	==========
PROFIT BEEFORE TAX	144,300	151,515	159,091
IOWA TAX	4,002	4,227	4,464
FEDERAL TAX	44,287	47,502	50,878
PROFIT AFTER TAX	96,011	99,785	103,749
ADD:			
DEPRECIATION	18,500	19,425	20,396
NET CASH FLOW	114,511	119,210	124,145
OVERALL APPORTIONMENT FACTOR	.39		
IOWA INCOME BEFORE TAXES	56,277	59,091	62,045
IOWA TAXABLE INCOME	56,277	59,091	62,045
FEDERAL TAXES DEDUCTED ON IOWA RETURN	0	0	0

INCREASE OR DECREASE (-) FROM BASE CASE:				
CASH FLOW	-376	-403	-432	Table 2.63
FEDERAL TAXES	-320	-344	-368	Page 3
IOWA TAXES	696	746	800	
% CHANGES FROM BASE CASE:				
CASH FLOW	-.33%	-.34%	-.35%	
FEDERAL TAXES	-.72%	-.72%	-.72%	
IOWA TAXES	21.06%	21.44%	21.82%	

IOWA TAX SIMULATION MODEL
HYPOTHETICAL WHOLESALING OPERATION
SIMULATION 2-EQUALLY WEIGHTED APPORTIONMENT FACTORS

---------ASSUMPTIONS----------------			
BASE YEAR SALES ($)	3,700,000		
COGS AS % OF SALES	73.40%		
SG&A AS % OF SALES	21.70%		
OTHER EXPENSES (NET) AS % OF SALES	.50%		
AVG. DEPR. AS % OF SALES	.50%		
INFLATION RATE	5.00%		
----------TAX INFORMATION-----------			
PAYROLL FACTOR	41.00%		
PROPERTY FACTOR	52.00%		
SALES FACTOR	39.00%		
WEIGHT FOR PAYROLL FACTOR	33.33%		
WEIGHT FOR PROPERTY FACTOR	33.33%		
WEIGHT FOR SALES FACTOR	33.33%		
FED. TAX DEDUCTABLE ON IOWA RETURNS	50.00%		
----------INITIAL TAX ESTIMATES-----			
FEDERAL TAX DUE ON BRACKET	25,750	25,750	25,750
FEDERAL MARGINAL RATE	46.00%	46.00%	46.00%
FEDERAL TAX BRACKET	100,000	100,000	100,000
IOWA TAX DUE ON BRACKET	1,500	1,500	1,500
IOWA MARGINAL RATE	8.00%	8.00%	8.00%
IOWA TAX BRACKET	25,000	25,000	25,000
----------CASH FLOW ANALYSIS--------			
YEAR	1	2	3
SALES	3,700,000	3,885,000	4,079,250
COGS	2,715,800	2,851,590	2,994,170
GROSS PROFIT	984,200	1,033,410	1,085,081
SG&A	802,900	843,045	885,197
OTHER EXPENSES	18,500	19,425	20,396
DEPRECIATION	18,500	19,425	20,396
PROFIT BEEFORE TAX	144,300	151,515	159,091
IOWA TAX	3,798	3,995	4,202
FEDERAL TAX	44,381	47,609	50,999
PROFIT AFTER TAX	96,121	99,911	103,890
ADD:			
DEPRECIATION	18,500	19,425	20,396
NET CASH FLOW	114,621	119,336	124,286
OVERALL APPORTIONMENT FACTOR	.44		
IOWA INCOME BEFORE TAXES	63,492	66,667	70,000
IOWA TAXABLE INCOME	53,728	56,193	58,780
FEDERAL TAXES DEDUCTED ON IOWA RETURN	9,764	10,474	11,220

Table 2.63
Page 5

INCREASE OR DECREASE (-) FROM BASE CASE:			
CASH FLOW	-266	-277	-291
FEDERAL TAXES	-226	-237	-247
IOWA TAXES	492	514	538
% CHANGES FROM BASE CASE:			
CASH FLOW	-.23%	-.23%	-.23%
FEDERAL TAXES	-.51%	-.50%	-.48%
IOWA TAXES	14.89%	14.78%	14.69%

3.0 SALES AND USE TAXES

3.1 BURDEN BY FAMILY SIZE

3.11 Iowa Optional State Sales Tax Table
3.12 Sales Tax Incidence by Family Size

3.2 BURDEN BY TYPE OF BUSINESS

3.21 Retail Sales and Use by Group
3.22 Percent of Total Sales Tax Receipts (graph)
3.23 Percent of Total Sales Tax Receipts (pie graph, 1978)
3.24 Percent of Total Sales Tax Receipts (pie graph, 1982)
3.25 Percent of Total Retail Use Tax Receipts (graph)

3.3 BURDEN BY TYPE OF TAX

3.31 Sales and Use Tax Receipts, 1978-1982 (chart)
3.32 Sales and Use Tax Receipts, 1978-1982 (graph)

3.4 BURDEN BY PLANNING AREA

3.41 Percent of Total Receipts by Region

3.5 POLICY ANALYSIS

3.51 Revenue from the Taxation of Food and Drugs
3.52 Incidence of Sales Tax on All Taxable Goods and Food and/or Drugs
3.53 Revenue if Food Were Taxed But No Services Were Taxed
3.54 Incidence of Food and Drugs Tax if Credit Were Given to Lower Income Filers
3.55 Revenue if All Service Industries Were Taxed
3.56 Revenue if Newspapers Were Taxed

3.0 SALES AND USE TAXES

This section presents an overview of sales and use tax revenue by type of tax and also provides estimates of the burden of sales taxes on individuals. The revenue totals are further broken down by type of business and by Planning area. Tax incidence estimates by income class are presented for different family sizes.

The retail sales tax is levied by retailers in Iowa on products purchased by Iowans for use in Iowa. The use taxes are levied on purchases made outside of the state for use in the state. Thus, the retail use tax is levied on retailers which purchase goods out of state for use or resale inside the state. The consumer use tax applies to those purchases by Iowans out of state for use in state. Use taxes can be collected by the out-of-sate business if it has a special license or if it has a subsidiary within Iowa, otherwise this tax is self-reporting. The motor vehicle use tax is paid whenever a motor vehicle is registered (except in a few cases).

3.1 BURDEN BY FAMILY SIZE

On March 1, 1983, Iowa increased its state sales tax from 3% to 4%. Because of this increase the State Optional Sales Tax Table figures were revised upwards. It can be seen from the results obtained in the attached chart that those families which earned the least paid the greatest percentage of their income in sales taxes. The effect of the increase sales taxes on the poor was over two times greater (.26%/.11%) than on the rich.

Within each income class, as the family size increased so did the amount of sales tax paid as a percentage of income. However, the lower income classes exhibited a much larger increase in sales tax paid as a percentage of their income between a family of three and four and a family over five than the higher income brackets. The expenditures required to support additional children consume a larger portion of poor families income than of higher income families. Thus, an increase in sales taxes has the greatest impact on low income families with five or more members.

Table 3.11

IOWA STATE SALES TAX TABLES
1978-1983

INCOME	1978-1982* Family Size 1&2	1978-1982* Family Size 3&4	1978-1982* Family Size over 5	1983 Family Size 1&2	1983 Family Size 3&4	1983 Family Size over 5
$1-$8,000	71	79	85	92	103	110
$8,001-$10,000	83	93	100	109	122	130
$10,001-$12,000	95	107	114	124	140	149
$12,001-$14,000	106	120	127	139	157	167
$14,001-$16,000	116	132	139	143	174	183
$16,001-$18,000	126	143	151	166	189	199
$18,001-$20,000	135	154	162	179	204	215
$20,001-$22,000	144	165	173	191	219	230
$22,001-$24,000	153	176	183	203	233	244
$24,001-$26,000	162	186	193	215	247	258
$26,001-$28,000	170	196	203	226	261	272
$28,001-$30,000	178	206	213	237	274	285
$30,001-$32,000	186	215	222	248	287	298
$32,001-$34,000	194	224	231	259	300	311
$34,001-$36,000	201	233	240	269	312	324
$36,001-$38,000	208	242	249	279	324	336
$38,001-$40,000	215	251	258	289	336	348
$40,001-$45,000	226	264	271	303	353	365
$45,001-$50,000	237	277	284	317	370	382
$50,001-$55,000	248	290	297	331	387	399
$55,001-$60,000	259	303	310	345	404	416
$60,001-$65,000	270	316	323	359	421	433
$65,001-$70,000	281	329	336	373	438	450
$70,001-$75,000	292	342	349	387	455	467
$75,001-$80,000	303	355	362	401	472	484
$80,001-$85,000	314	368	375	415	489	501
$85,001-$90,000	325	381	388	429	506	518
$90,001-$95,000	336	394	401	443	523	535
$95,001-100,000	347	407	414	457	540	552
Factor	11	13	13	14	17	17

* Between 1978 and 1982 the Optional Sales Tax Table for Iowa did not change.
Source: IRS, Form 1040, 1978-1983

Table 3.12

IOWA STATE SALES TAX TABLES
1978-1983
TAX INCIDENCE BY FAMILY SIZE*

INCOME	1970-1982 Family Size 1&2	3&4	over 5	1983 Family Size 1&2	3&4	over 5	1983-1970 1&2	3&4	over 5
$1-$8,000	.89%	.99%	1.06%	1.15%	1.29%	1.38%	.26%	.30%	.31%
10,001-$10,000	.83%	.93%	1.00%	1.09%	1.22%	1.30%	.26%	.29%	.30%
$10,001-$12,000	.79%	.89%	.95%	1.03%	1.17%	1.24%	.24%	.28%	.29%
$12,001-$14,000	.76%	.86%	.91%	.99%	1.12%	1.19%	.24%	.26%	.29%
$14,001-$16,000	.73%	.83%	.87%	.89%	1.09%	1.14%	.17%	.26%	.28%
$16,001-$18,000	.70%	.79%	.84%	.92%	1.05%	1.11%	.22%	.26%	.27%
$18,001-$20,000	.68%	.77%	.81%	.90%	1.02%	1.00%	.22%	.25%	.27%
$20,001-$22,000	.65%	.75%	.79%	.87%	1.00%	1.05%	.21%	.25%	.26%
$22,001-$24,000	.64%	.73%	.76%	.85%	.97%	1.02%	.21%	.24%	.25%
$24,001-$26,000	.62%	.72%	.74%	.83%	.95%	.99%	.20%	.23%	.25%
$26,001-$28,000	.61%	.70%	.73%	.81%	.93%	.97%	.20%	.23%	.25%
$28,001-$30,000	.59%	.69%	.71%	.79%	.91%	.95%	.20%	.23%	.24%
$30,001-$32,000	.58%	.67%	.69%	.78%	.90%	.93%	.19%	.23%	.24%
$32,001-$34,000	.57%	.66%	.68%	.76%	.88%	.91%	.19%	.22%	.24%
$34,001-$36,000	.56%	.65%	.67%	.75%	.87%	.90%	.19%	.22%	.23%
$36,001-$38,000	.55%	.64%	.66%	.73%	.85%	.88%	.19%	.22%	.23%
$38,001-$40,000	.54%	.63%	.65%	.72%	.84%	.87%	.19%	.21%	.23%
$40,001-$45,000	.50%	.59%	.60%	.67%	.78%	.81%	.17%	.20%	.21%
$45,001-$50,000	.47%	.55%	.57%	.63%	.74%	.76%	.16%	.19%	.20%
$50,001-$55,000	.45%	.53%	.54%	.60%	.70%	.73%	.15%	.18%	.19%
$55,001-$60,000	.43%	.51%	.52%	.58%	.67%	.69%	.14%	.17%	.18%
$60,001-$65,000	.42%	.49%	.50%	.55%	.65%	.67%	.14%	.16%	.17%
$65,001-$70,000	.40%	.47%	.48%	.53%	.63%	.64%	.13%	.16%	.16%
$70,001-$75,000	.39%	.46%	.47%	.52%	.61%	.62%	.13%	.15%	.16%
$75,001-$80,000	.38%	.44%	.45%	.50%	.59%	.61%	.12%	.15%	.15%
$80,001-$85,000	.37%	.43%	.44%	.49%	.58%	.59%	.12%	.14%	.15%
$85,001-$90,000	.36%	.42%	.43%	.48%	.56%	.58%	.12%	.14%	.14%
$90,001-$95,000	.35%	.41%	.42%	.47%	.55%	.56%	.11%	.14%	.14%
$95,001-100,000	.35%	.41%	.41%	.46%	.54%	.55%	.11%	.13%	.14%

* Calculated by dividing figure from the Optional Sales Tax Table by the upper end of the income bracket.

3.2 BURDEN BY TYPE OF BUSINESS

The pie graphs for 1978 and 1982 show that there has not been a significant change in the share of total tax receipts by business group. The greatest changes are in the utilities/services group and in merchandise. From 1978 to 1982, utilities/services had a net increase of 4% in relation to total taxes paid, while during the same period, merchandise fell by 3%.

Table 3.21

% of TOTAL RETAIL USE TAX RECEIPTS
BY GROUP
1978-1982

Bus. Group	1978 Use % of Tot.	1979 Use % of Tot.	1980 Use % of Tot.	1981 Use % of Tot.	1982 Use % of Tot.
Food	.23%	.14%	.12%	.17%	.21%
Wholesale	23.91%	23.42%	23.86%	25.32%	23.42%
Merchandise	13.71%	13.45%	13.89%	12.48%	14.13%
Motor Veh	.96%	.97%	1.12%	.96%	.95%
Utilit./Serv	12.94%	13.57%	14.13%	16.02%	16.88%
Misc.	48.25%	48.44%	46.88%	45.05%	44.42%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

% of TOTAL SALES TAX RECEIPTS
BY GROUP
1978-1982

Bus. Group	1978 Sales % of Tot.	1979 Sales % of Tot.	1980 Sales % of Tot.	1981 Sales % of Tot.	1982 Sales % of Tot.
Food	11.98%	11.79%	11.82%	12.91%	13.25%
Wholesale	15.95%	17.35%	17.88%	15.91%	15.27%
Merchandise	33.77%	32.60%	32.17%	31.78%	31.42%
Motor Veh	6.59%	6.53%	6.53%	6.89%	6.13%
Utilit./Serv	22.24%	22.31%	22.32%	23.76%	25.61%
Misc.	9.48%	9.42%	9.26%	8.75%	8.32%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Table 3.22

% of TOTAL SALES TAX RECEIPTS

Sales

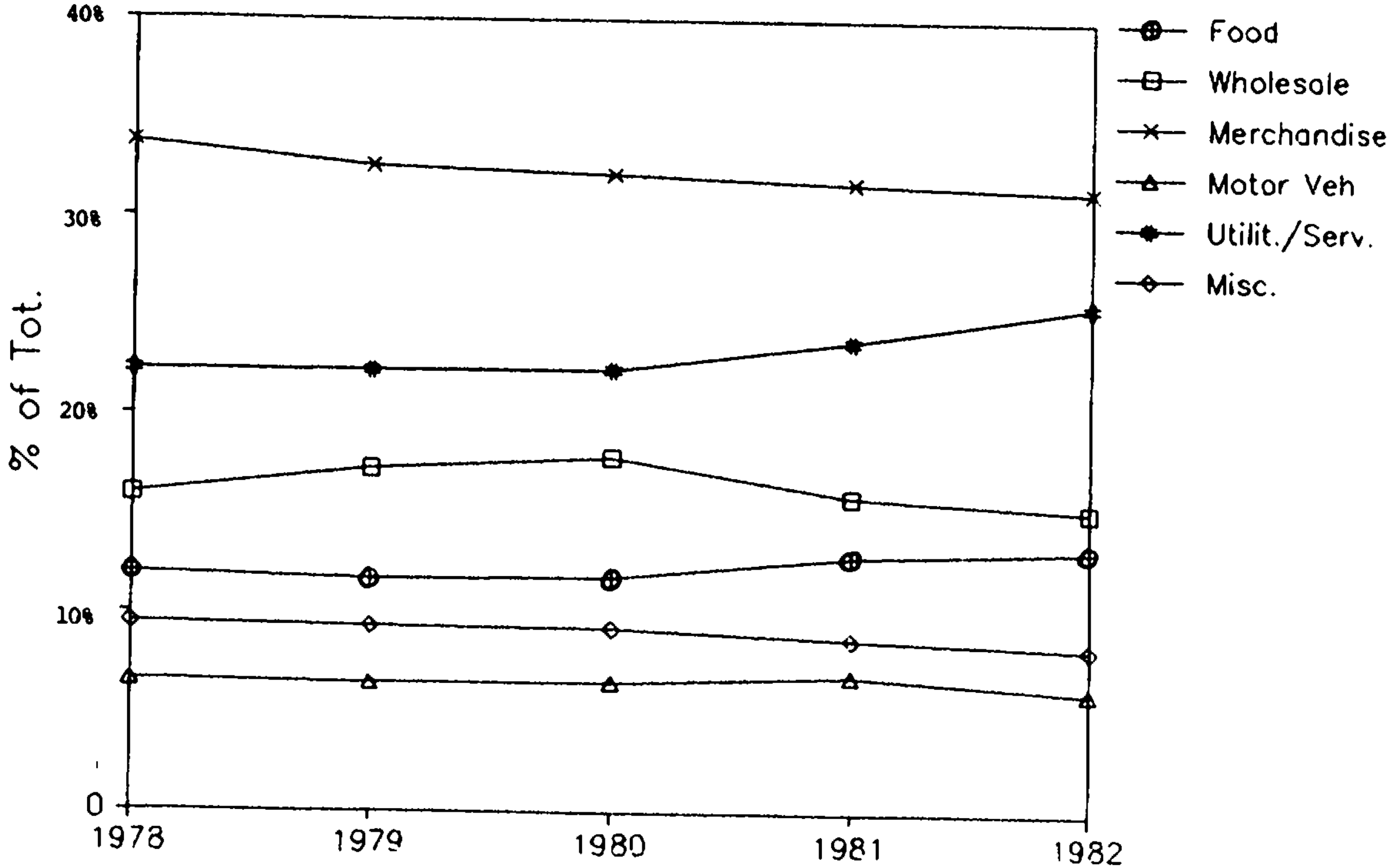


Table 3.23

% of TOTAL SALES TAX RECEIPTS
BY GROUP

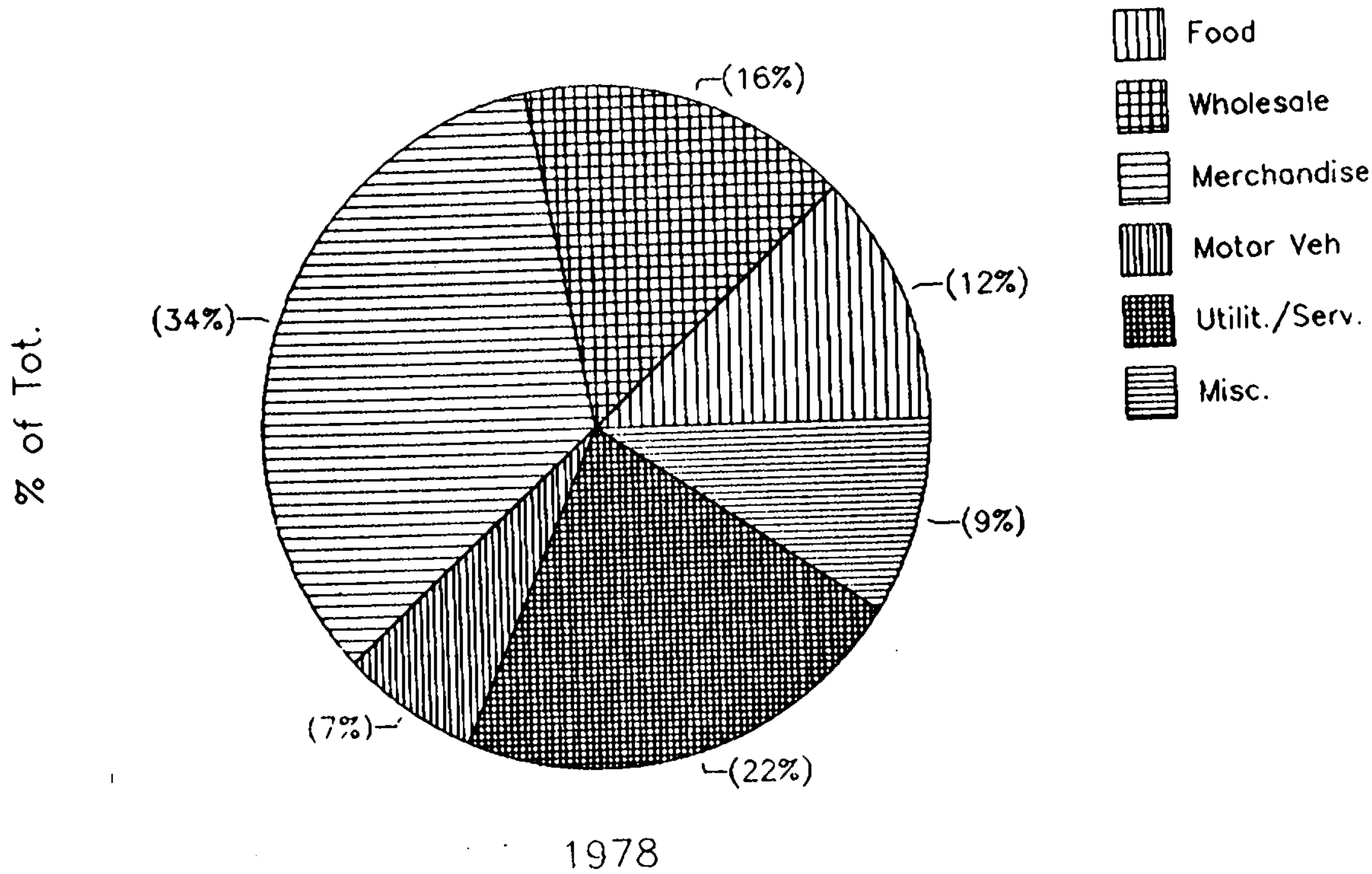


Table 3.24

% of TOTAL SALES TAX RECEIPTS
BY GROUP

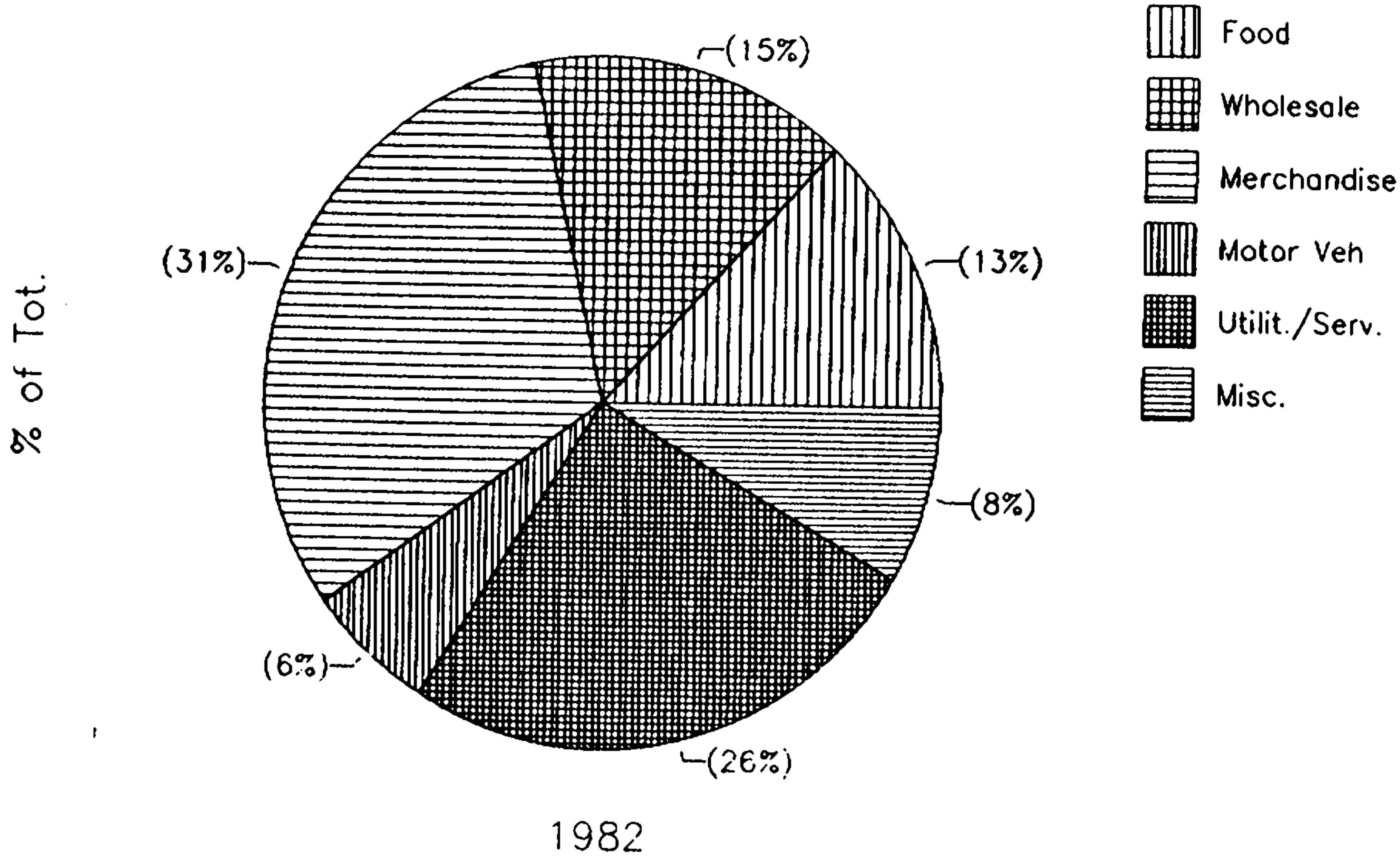
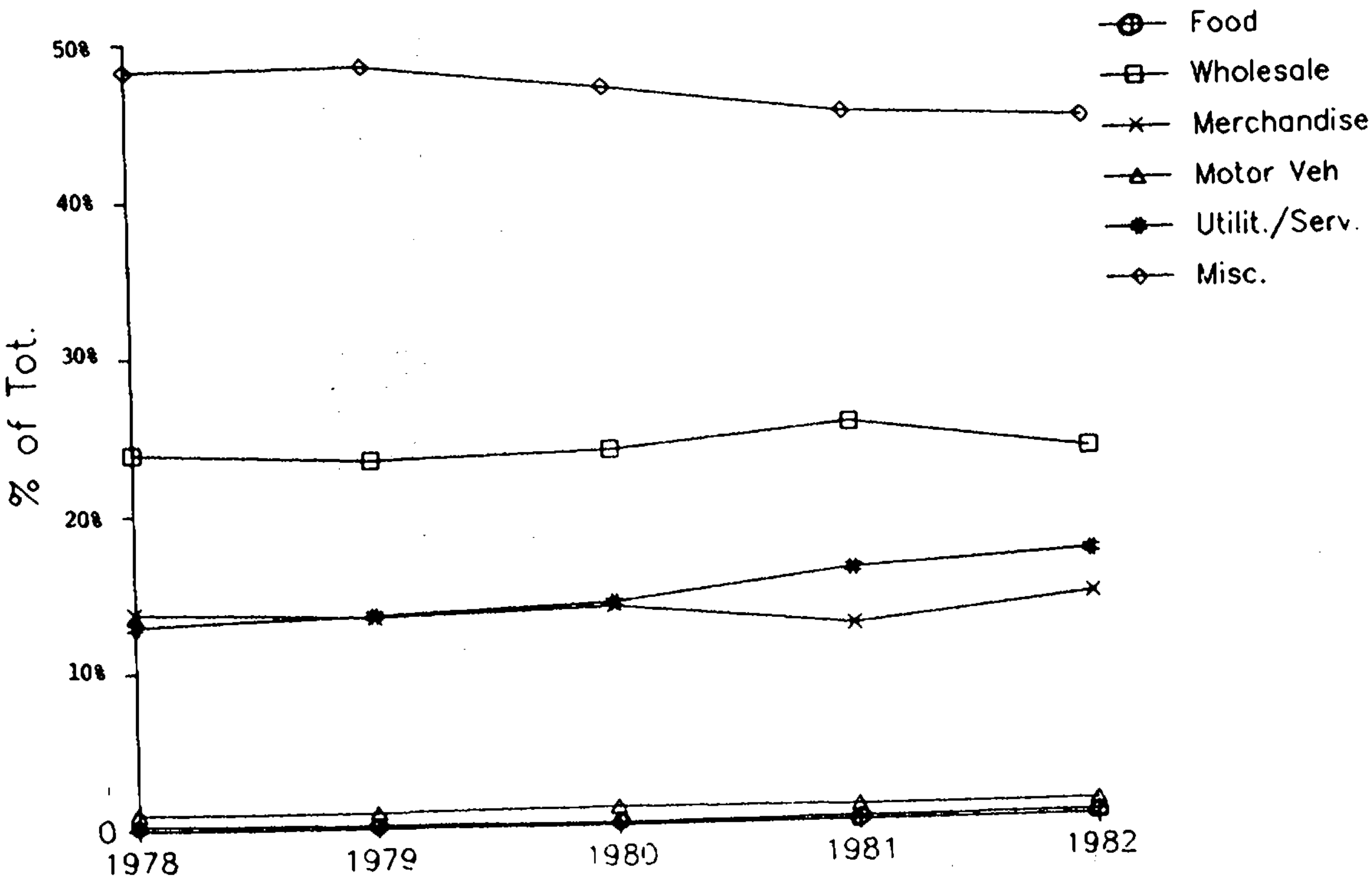


Table 3.25

% of TOTAL RETAIL USE TAX RECEIPTS
BY GROUP



3.3 BURDEN BY TYPE OF TAX

Chart 3.31 shows total tax revenue from sales and use taxes by type of tax. This information is plotted in graph 3.32 to show the magnitude of the difference between retail sales tax collections and revenue from the other use taxes.

Table 3.31

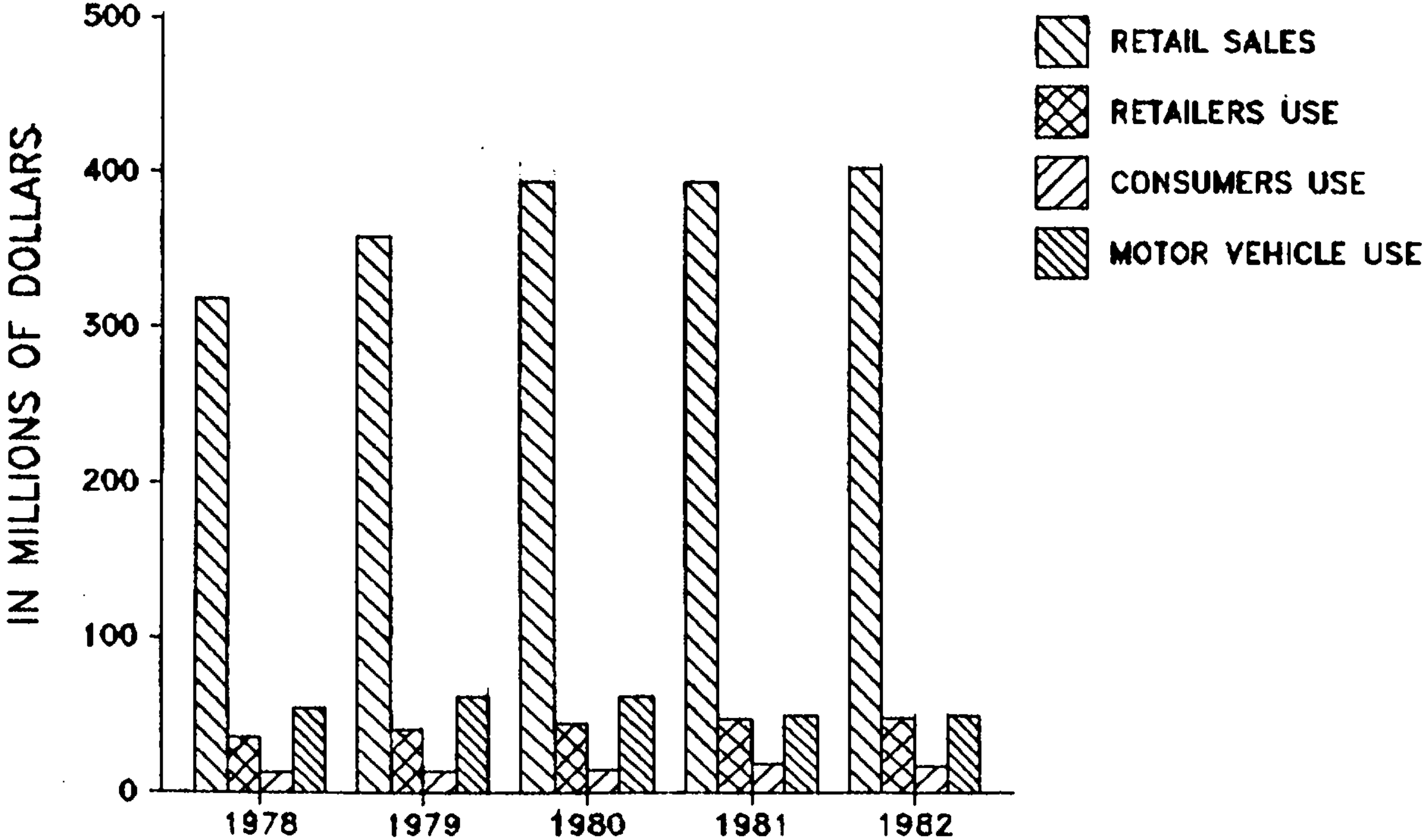
SALES AND USE TAX RECEIPTS
BY TAX TYPE

TAX TYPE	1978	1979	1980	1981	1982
RETAIL SALES	$317,941,759	$358,078,310	$393,327,019	$392,761,869	$402,019,740
RETAILERS USE	$36,241,962	$40,985,260	$45,093,774	$47,717,437	$48,487,732
CONSUMERS USE	$13,283,649	$14,067,967	$14,893,698	$19,214,574	$17,285,537
MOTOR VEHICLE USE	$55,053,285	$62,199,549	$61,782,172	$50,049,199	$50,153,366
TOTAL	$422,520,655	$475,331,086	$515,096,663	$509,743,079	$517,946,375

Table 3.32

SALES AND USE TAX RECEIPTS

BY TAX TYPE



3.4 BURDEN BY PLANNING AREA

Regions 11, 10, and 7 provide the most sales and use taxes of all of the regions, about 40% of total tax receipts. Thus, it is these regions which carry most onerously the increase in sales and use taxes. There are no significant changes in the rating of the areas according to share of total tax paid for the five year period.

It is interesting to note that the net change in the percentage of total taxes paid for the period 1978-1982 is greatest for the two regions which already pay the most in sales and use taxes. Region 11 experienced a net change of .36% while Region 10 saw a net increase of .44%. The net change figure is calculated by taking the difference between percent of total taxes paid for each year then summing these differences.

Table 3.41

% OF TOTAL*
TAX RECEIPTS
BY REGION
(1978-1982)

Region	1978	1979	1980	1981	1982	Net Change**
11	21.47%	21.37%	21.44%	21.42%	21.84%	-.36%
10	11.75%	11.74%	12.05%	12.11%	12.19%	-.44%
7	8.14%	7.91%	7.81%	8.19%	7.90%	.24%
9	7.64%	7.54%	7.55%	7.88%	7.98%	-.34%
8	6.78%	6.69%	6.73%	6.82%	6.74%	.04%
4	6.05%	5.91%	5.65%	5.60%	5.69%	.36%
2	5.15%	5.20%	5.10%	4.92%	4.97%	.18%
13	5.08%	5.26%	5.27%	5.32%	5.21%	-.14%
3	4.94%	5.05%	5.11%	4.85%	4.80%	.14%
15	4.47%	4.63%	4.49%	4.30%	4.07%	.40%
5	4.20%	4.18%	4.21%	4.06%	4.02%	.17%
16	4.10%	3.97%	3.99%	4.32%	4.32%	-.22%
6	3.40%	3.46%	3.41%	3.38%	3.42%	-.01%
12	2.67%	2.78%	2.85%	2.65%	2.60%	.07%
1	2.57%	2.63%	2.68%	2.58%	2.63%	-.06%
14	1.58%	1.68%	1.66%	1.61%	1.61%	-.04%

* Totals do not include non-classified information.

** The net change is calculated by summing the differences between the amount of tax receipts collected for each year.

3.5 POTENTIAL REVENUE IF EXEMPT ITEMS WERE TAXED

Using 1982 data, the amount of tax lost by the state in giving the food and drug exemption was calculated. The analysis is shown in chart 3.51.

Chart 3.52 calculates the incidence of the sales tax on All Taxable Goods, All Taxable Goods and Food, and All Taxable Goods and Food and Drugs by income class. The median income in each bracket was used to calculate the incidence. All average weekly expenditive data is from the Department of Labor Consumer Expenditure Survey: Diary Survey, 1980-1981 for the North Central Region.

The revenue gain from taxing food but not taxing any industries is represented chart 3.53.

The elderly owner and renter credit for property taxes paid was used as a model for a food and drug credit if these items were not longer exempt from sales and use taxes, chart 3.54. The credit alleviates, to some extent the non-progressivity of a sales and use tax on food and drugs, which can be seen in a comparison between incidence with and without the credit.

Chart 3.55 shows the increase in revenue if all service industries were taxed and which industries are not presently taxed. The total sales for 1981 and 1982 was estimated by inflating 1977 total sales figures by the change in the consumer price index.

The Iowa Tax Study Commission was interested in finding out the amount of revenue to be raised if newspapers were taxed at sales and use tax rates. This analysis is found in chart 3.56.

Table 3.51

REVENUE IF SALES & USE TAXES APPLIED TO FOOD & DRUGS

LOST REVENUE (1982)	$88,235,423
TAXABLE BASE	$2,941,180,754

CPIU FIGURES	1977	1982
DRUGS	140.5	210.1
FOOD	192.2	285.7

RETAIL SALES	1977	1982
DRUG & PROPRIETARY STORES	$275,047,000	$411,298,041
FOOD STORES	$1,969,492,000	
GROCERY STORES	$1,889,452,000	
MEAT AND FISH MARKETS	$36,046,000	
RETAIL BAKERIES	$18,261,000	$5,816,939,702
		$6,228,237,742

% OF TOTAL SALES	
DRUG & PROPRIETARY STORES	6.60%
FOOD STORES	93.40%

AMOUNT OF LOST REVENUE ATTRIBUTABLE TO EACH	
DRUG & PROPRIETARY STORES	$5,826,858
FOOD STORES	$82,408,565
LOST REVENUE (1982)	$88,235,423

Table 3.52

ANNUAL EXP ON FOOD & DRUGS
AND COST OF FOOD & DRUG TAX
BY INCOME BRACKET
1981

INCOME BRACKET	AVG WEEKLY EXPENDITURE ON FOOD & DRUGS (1)	# HOUSEHOLDS IN BRACKET (2)	TOTAL ANNUAL EXP. ON FOOD & DRUGS BY BRACKET	COST TO STATE OF F & D EXEMPTION BY BRACKET	ANNUAL SAVINGS PER HOUSEHOLD FROM F & D EXEMPTION	RATES FOR FOOD & DRUGS CREDITS	CREDIT OWED BY STATE	REVENUE GAIN FOR STATE	INCIDENCE OF F&D TAX WITH CREDIT	INCIDENCE OF F&D TAX W/O CREDITS
UNDER $5,000	$17.66	56,862	$52,217,512	$1,566,525	$27.55	100.00%	$1,566,525	$0	.00%	1.10%
$5,000-$6,000	$19.61	25,693	$26,199,870	$785,996	$30.59	70.00%	$550,197	$235,799	.17%	.55%
$6,000-$7,000	$20.92	25,693	$27,950,091	$838,503	$32.64	50.00%	$419,251	$419,251	.25%	.50%
$7,000-$8,000	$22.23	25,693	$29,700,311	$891,009	$34.68	40.00%	$356,404	$534,606	.28%	.46%
$8,000-$9,000	$23.54	25,693	$31,450,532	$943,516	$36.72	30.00%	$283,055	$660,461	.30%	.43%
$9,000-$10,000	$25.92	25,693	$34,630,323	$1,038,910	$40.44	25.00%	$259,727	$779,182	.32%	.43%
$10,000-$12,000	$27.46	61,916	$88,411,095	$2,652,333	$42.84	25.00%	$663,083	$1,989,250	.29%	.39%
$12,000-$15,000	$29.28	92,875	$141,407,760	$4,242,233	$45.68	.00%	$0	$4,242,233	.35%	.35%
$15,000-$20,000	$40.55	177,957	$375,240,130	$11,257,204	$63.26	.00%	$0	$11,257,204	.36%	.36%
$20,000-$30,000	$50.07	277,992	$723,791,091	$21,713,733	$78.11	.00%	$0	$21,713,733	.31%	.31%
OVER $30,000	$52.96	256,932	$707,570,173	$21,227,105	$82.62	.00%	$0	$21,227,105	.21%	.21%
TOTAL		1,053,000	$2,238,568,888	$67,157,067	$63.78		$4,098,243	$63,058,824		

(1) 1981 Consumer Expenditure Survey, Diary Survey for North Central Region
(2) 1982 State & Metropolitan Area Data Book, 1979 Data
The cost to the state of the food tax exemption was measured using a 3% sales tax rate.

Table 3.53
ANNUAL EXP ON AND SALES
TAX OF TAXABLE GOODS
BY INCOME BRACKET
1981

INCOME BRACKET	AVG WEEKLY EXPENDITURE ON TAXABLE GOODS	# HOUSEHOLDS IN BRACKET	TOTAL ANNUAL EXP. ON TAXABLE GOODS BY BRACKET	SALES TAX PAID ON TAXABLE GOODS BY BRACKET	ANNUAL SALES TAX PAID PER HOUSEHOLD ON TAXABLE GOODS	INCIDENCE OF SALES TAX ON TAXABLE GOODS	INCIDENCE OF SALES TAX ON TAXABLE GOODS AND FOOD & DRUGS	INCIDENCE OF SALES TAX ON TAXABLE GOODS AND FOOD
UNDER $5,000	$49.52	56,862	$146,419,650	$4,392,590	$77.25	3.09%	4.19%	4.14%
$5,000-$10,000	$58.65	128,466	$391,821,360	$11,754,639	$91.50	1.22%	1.76%	1.72%
$10,000-$15,000	$75.48	154,791	$607,554,675	$18,226,640	$117.75	.94%	1.31%	1.29%
$15,000-$20,000	$90.87	177,957	$840,846,825	$25,225,405	$141.75	.81%	1.17%	1.15%
$20,000-$30,000	$118.65	330,642	$2,040,061,140	$61,201,834	$185.10	.74%	1.05%	1.04%
OVER $30,000	$149.90	204,282	$1,592,378,190	$47,771,346	$233.85	.58%	.79%	.78%
TOTAL		1,053,000	$5,619,081,780	$168,572,453	$160.09			

Table 3.54

ANNUAL EXP ON FOOD
AND COST OF FOOD TAX
BY INCOME BRACKET
1981

INCOME BRACKET	AVG WEEKLY EXPENDITURE ON FOOD (1)	# HOUSEHOLDS IN BRACKET (2)	TOTAL ANNUAL EXP. ON FOOD BY BRACKET	COST TO STATE OF FOOD EXEMPTION BY BRACKET	ANNUAL SAVINGS PER HOUSEHOLD FROM FOOD EXEMPTION	INCIDENCE OF FOOD EXEMPTION BY BRACKET
UNDER $5,000	$15.80	56,862	$49,674,643	$1,490,239	$26.21	1.05%
$5,000-$10,000	$23.92	128,466	$159,791,149	$4,793,734	$37.32	.50%
$10,000-$15,000	$27.58	154,791	$221,995,061	$6,659,852	$43.02	.34%
$15,000-$20,000	$38.18	177,957	$353,308,710	$10,599,261	$59.56	.34%
$20,000-$30,000	$47.90	330,642	$823,563,094	$24,706,393	$74.72	.30%
OVER $30,000	$51.24	204,282	$544,305,303	$16,329,159	$79.93	.20%
TOTAL		1,053,000	$2,152,637,960	$64,579,139	$61.33	

SALES TAX REVENUE IF FOOD WAS TAXED	$64,579,139
SALES TAX REVENUE FROM SERVICE INDUSTRIES	$39,784,139
REVENUE GAIN IF FOOD TAXED BUT SERVICES NOT	$24,795,000

(1) 1981 Consumer Expenditure Survey, Diary Survey for North Central Region
(2) 1982 State & Metropolitan Area Data Book, 1979 Data
The cost to the state of the food tax exemption was measured using a 3% sales tax rate.

Table 3.55
Page 1

INCREASE IN SALES TAX REVENUE IF ALL
SERVICE INDUSTRIES WERE TAXED
1981 AND 1982

1977 RECEIPTS FOR ALL SERVICE INDUSTRIES		$2,393,000,000
CPI FOR SERVICE INDUSTRIES		
-------------1977	194.3	
-------------1981	305.7	
-------------1982	333.3	
RECEIPTS FOR ALL SERVICE INDUSTRIES		
-------------1981		$3,765,003,088
-------------1982		$4,104,924,858
SALES AND USE TAX REVENUE FOR ALL SERVICES**		
-------------1981		$112,950,093
-------------1982		$123,147,746
SALES AND USE TAX REVENUE FOR TAXABLE SERVICES		
-------------1981		$44,225,879
-------------1982		$47,380,251
REVENUE GAIN IF ALL SERVICE INDUSTRIES TAXED		
-------------1981		$68,724,214
-------------1982		$75,767,495

** The sales tax rate in 1981 and 1982 was 3% which is what was used in this analysis.

Table 3.55
Page 2

1977 TAX-EXEMPT SERVICES	1977 SALES RECEIPTS (000)	1981 ADJUSTED SALES RECEIPTS (000)	1982 ADJUSTED SALES RECEIPTS (000)
ADVERTISING	$25,438	$40,023	$43,636
SERVICES TO DWELLINGS	$31,529	$49,606	$54,084
COMPUTER SERVICES	$53,725	$84,528	$92,159
MANAGEMENT CONSULTING SERVICES	$50,629	$79,657	$86,848
MISC. BUSINESS SERVICES	$160,842	$253,059	$275,907
DENTAL	$9,923	$15,612	$17,022
MOTION PICTURE PRODUCTION	$24,245	$38,146	$41,590
PRODUCERS, ORCHESTRA AND ENTERTAIN.	$8,901	$14,004	$15,269
LEGAL	$166,467	$261,909	$285,556
ENGINEERING	$91,696	$144,269	$157,294
HEALTH SERVICES	$663,000	$1,043,125	$1,137,303
EDUCATION	$11,000	$17,307	$18,869
SOCIAL SERVICES	$145,000	$228,134	$248,731
TOTAL	$1,442,395	$2,269,378	$2,474,268
TAX RECEIPTS IF SERVICES TAXED	$43,271.850	$68,081.341	$74,228.037

Table 3.56

NEWSPAPER TAX DATA
OF PAPERS PER YEAR

TYPE OF PAPER	1981	1982	1983
DAILY	297,112,920	288,401,256	332,098.728
SUNDAY	38,636.988	38,857.312	38,757,836
WEEKLIES	40,524.692	39.485,680	39,308,568
TOTAL	376,274,600	366,744,248	410.165.132
NEWSPAPER TAX	$3,762,746	$3,667,442	$4,101,651

A tax of one cent per newspaper was used to determine potential revenue from a newspaper tax.

4.0 MOTOR FUEL TAX

The motor fuel tax is levied on the number of gallons purchased of gasoline, gasahol, diesel, liquified petroleum gas or aviation fuel. The tax varies depending upond which type of fuel is purchased.

4.1 BURDEN BY TYPE OF FUEL

Chart 4.11 shows for 1982 the tax rates for the different types of motor fuel in addition to the amount of fuel purchased and the tax revenue from those purchases.

Table 4.11

MOTOR FUEL TAX RECEIPTS
BY TYPE OF FUEL
1978-1982

FUEL	1978	1979	1980	1981	1982
GAS	$133,238,109	$133,238,109	$136,823,601	$136,436,058	$119,722,294
DIESEL	$24,852,870	$28,753,090	$30,043,717	$34,291,947	$40,398,366
LPG	$168,589	$232,986	$374,557	$782,968	$1,398,126
AVIATION	$577,812	$679,341	$639,113	$683,473	$683,686
GASAHOL	$0	$0	$0	$5,906,742	$34,403,696
TOTAL	$158,837,380	$162,903,526	$167,880,980	$178,101,188	$196,606,168

Source: Data was compiled by the Iowa Department of Revenue.

4.2 BURDEN BY INCOME BRACKET

Chart 4.21 shows that the motor fuel tax is not progressive since the lower income brackets bear a greater burden as a percentage of their income than the higher income brackets.

METHODOLOGY

The average weekly expenditure on motor fuel data is from the Department of Labor Consumer Expenditure Survey: Diary Survey, 1980-1981. The data on the number of households in each income bracket for Iowa is from the Bureau of Census, State and Metropolitan Statistical Abstract. The total annual cost of the motor fuel tax by income bracket was calculated by allocating the total motor fuel tax receipts for 1982 over the brackets according to the percentage of total expenditure on motor fuel. The incidence of motor fuel tax is calculated by dividing the annual cost per household of the motor fuel tax by the midpoint of the income bracket. For the over $30,000 bracket, $40,000 was used as the income level since the average income of households in that bracket was calculated as approximately $40,000.

Table 4.21

ANNUAL EXP ON MOTOR FUEL
AND COST OF MOTOR FUEL TAX
BY INCOME BRACKET
1982

INCOME BRACKET	AVG WEEK EXP GAS, MOTOR OIL AND ADDITIVES	# HOUSEHOLDS IN BRACKET	TOTAL ANNUAL EXP. ON MOTOR FUEL BY BRACKET	% OF TOTAL EXP. ON MOTOR FUEL BY BRACKET	TOTAL ANNUAL COST OF MOTOR FUEL TAX BY BRACKET	ANNUAL COST/HOUSE OF MOTOR FUEL TAX BY BRACKET	INCIDENCE OF MOTOR FUEL TAX
UNDER $5,000	$5.49	$56,862	$16,232,964	1.47%	$2,985,423	$52.50	2.10%
$5,000-$10,000	$11.25	$128,466	$75,152,610	6.81%	$13,821,402	$107.59	1.43%
$10,000-$15,000	$15.28	$154,791	$122,990,737	11.15%	$22,619,366	$146.13	1.17%
$15,000-$20,000	$17.78	$177,957	$164,531,924	14.92%	$30,259,252	$170.04	.97%
$20,000-$30,000	$23.81	$330,642	$409,374,473	37.11%	$75,288,523	$227.70	.91%
OVER $30,000	$29.63	$204,282	$314,749,534	28.53%	$57,885,943	$283.36	.71%
TOTAL		$1,053,000	$1,103,032,242	100.00%	$202,859,908		

4.3 POLICY ANALYSIS

In chart 4.31 it was assumed that the price for all types of motor fuel was the same. The 1982 price for motor fuel was obtained from triple A. The price included all state and federal taxes, so the average Iowa tax rate on motor fuel was subtracted from it to get a better figure for price of gas before tax. The tax rate per dollar of gas purchased was calculated by dividing 1982 motor fuel tax revenue by the derived total sales figure. This tax rate is the rate that would have to be charged to obtain the same amount of revenue if motor fuel was taxed per dollar purchased rather than per gallon purchased as it is presently. The potential revenue from taxing motor fuel at the sales and use tax rate is represented in the last column. This policy would result in lower motor fuel tax revenues. The chart also shows the additional revenue if gasahol was taxed at the same rate as gasoline.

Table 4.31

MOTOR FUEL TAX RECEIPTS
BY TYPE OF FUEL
1982

FUEL	TAX RATE	GALLONS	REVENUE
GAS	$.130	920,940,729	$119,722,295
DIESEL	$.155	278,616,962	$43,185,629
LPG	$.130	10,754,820	$1,398,127
AVIATION	$.130	5,259,122	$683,686
GASAHOL	$.080	473,377,151	$37,870,172
TOTAL	$.120	1,688,948,784	$202,859,908

ADDITIONAL REVENUE IF GASAHOL
TAX IS INCREASED TO GASOLINE
TAX RATE $23,668,858

FUEL	GALLONS	PRICE PER GALLON	TOTAL SALES	TAX RATE/DOLLAR	REVENUE IF TAXED AT SALES TAX RATE
GAS	920,940,729	$1.226	1,128,971,883	$.11	45,158,875
DIESEL	278,616,962	$1.226	341,553,703	$.13	13,662,148
LPG	10,754,820	$1.226	13,184,225	$.11	527,369
AVIATION	5,259,122	$1.226	6,447,104	$.11	257,884
GASAHOL	473,377,151	$1.226	580,308,240	$.07	23,212,330
TOTAL	1,688,948,784	$1.226	2,070,465,155	$.10	82,818,606

PRICE PER GALLON OF GAS $1.346
AVG. GAS TAX RATE $.120
PRICE PER GALLON W/O TAX $1.226

6.0 PROPERTY TAX

6.1 OVERVIEW

- 6.11 Assessment Limitations, 1978-1983
- 6.12 Property Valuations By Urban/Rural Classification, 1978-1983
- 6.13 Amount and Percentage of Local Property Tax Supporting Education

6.2 BURDEN BY COUNTY

- 6.21 Valuation, levy and tax rate by County, 1983
- 6.22 Compound Growth Rates from 1978 to 1983 for Levies and Valuations By Urban/Rural Classification

6.3 BURDEN BY CLASS OF PROPERTY

- 6.31 Compound Growth Rates from 1978 to 1983 for Levies and Valuations By Urban/Rural Classification
- 6.32 Taxable Values as a Percentage of State Total
- 6.33 Rate of Change Between 1978 and 1983 Within Classes of Property

6.4 EXEMPTION FOR INDUSTRIAL EQUIPMENT AND COMPUTERS

- 6.41 Example of Machinery Value: Actual, Taxpayer and State
- 6.42 Summary of Partial Property Tax Exemption For Machinery & Equipment

6.5 PERSONAL PROPERTY

- 6.51 Effect of Valuation Limitation on Values
- 6.52 Tax Credit
- 6.53 Formula for Calculation of Reimbursement
- 6.54 Valuation by County

6.6 EFFECT OF CREDITS AND ROLLBACKS ON TAX RATES

- 6.61 Effect on Polk, Ringgold, and Wright Counties and State Totals, 1978 and 1982

6.7 EFFECT OF CREDITS AND ROLLBACKS ON REVENUE

- 6.71 Effect on Polk, Ringgold, and Wright Counties Using County Tax Rates and an All County Average Tax Rate, 1978
- 6.72 Graph of Revenue Flow For Polk, Ringgold and Wright Counties Using County Tax Rates and an All County Average Tax Rate, 1978
- 6.73 Effect on Polk, Ringgold, and Wright Counties Using County Tax Rates and an All County Average Tax Rate, 1982

6.0 PROPERTY TAX

This section examines property tax levies and property valuations statewide and by county. The valuations and levies reported on in this section correspond to gross valuations reported by the state. Exemptions for military service are not netted out of the figures presented. The property valuations reported are used to calculate the tax levies for the following fiscal year. Thus 1980 valuations are used to calculate the tax levies for fiscal year 1981/82.

6.1 OVERVIEW

Table 6.11 includes a summary of Assessment Limitation and Rollback Percentages according to six classes of property, from assessment years 1978 to 1983.

COMMENTS

1. The Agricultural Rollback applies to both the Agricultural Land and Agricultural Structures.

2. Since 1981, the Agricultural Residences are subject to residential rollback.

3. Personal Property assessed as Real Property is not subject to a rollback.

Table 6.12 shows that over time urban valuations have increased to nearly the same level as rural valuations. The bar chart also represents the increase in total taxable valuations over the 1978 to 1983 interval.

Table 6.11

ASSESSMENT LIMITATIONS

CLASS OF PROPERTY	1978 ALLOW-ABLE GROWTH	1978 ROLLBACK	1979 ALLOW-ABLE GROWTH	1979 ROLLBACK	1980 ALLOW-ABLE GROWTH	1980 ROLLBACK
Agricultural	6%	96.2480%	6%	94.6706%	4%	99.0951%
Residential	6%	78.2516%	6%	64.3801%	4%	66.7355%
Commercial	(Not limited for 1978)		6%	88.9872%	4%	93.1854%
Industrial	(Not limited for 1978)		6%	-0-	4%	-0-
Utilities	(Not limited for 1978)		10%	-0-	8%	-0-
Railroads	(Not limited for 1978) (By federal statute must be assessed at same level as commercial			88.9872%		93.1854%

	1981 ALLOW-ABLE GROWTH	1981 ROLLBACK	1982 ALLOW-ABLE GROWTH	1982 ROLLBACK	1983 ALLOW-ABLE GROWTH	1983 ROLLBACK
Agricultural	4%	95.7039%	4%	99.5711%	4%	86.5024%
Residential	4%	64.7793%	4%	67.2223%	4%	69.8754%
Commercial	4%	87.8423%	4%	91.6331%	4%	91.7230%
Industrial	4%	96.9619%	4%	-0-	4%	97.4567%
Utilities	8%	-0-	8%	-0-	8%	98.3345%
Railroads		87.8423%		91.6331%		

Table 6.12

PROPERTY VALUATIONS 1978 – 1983

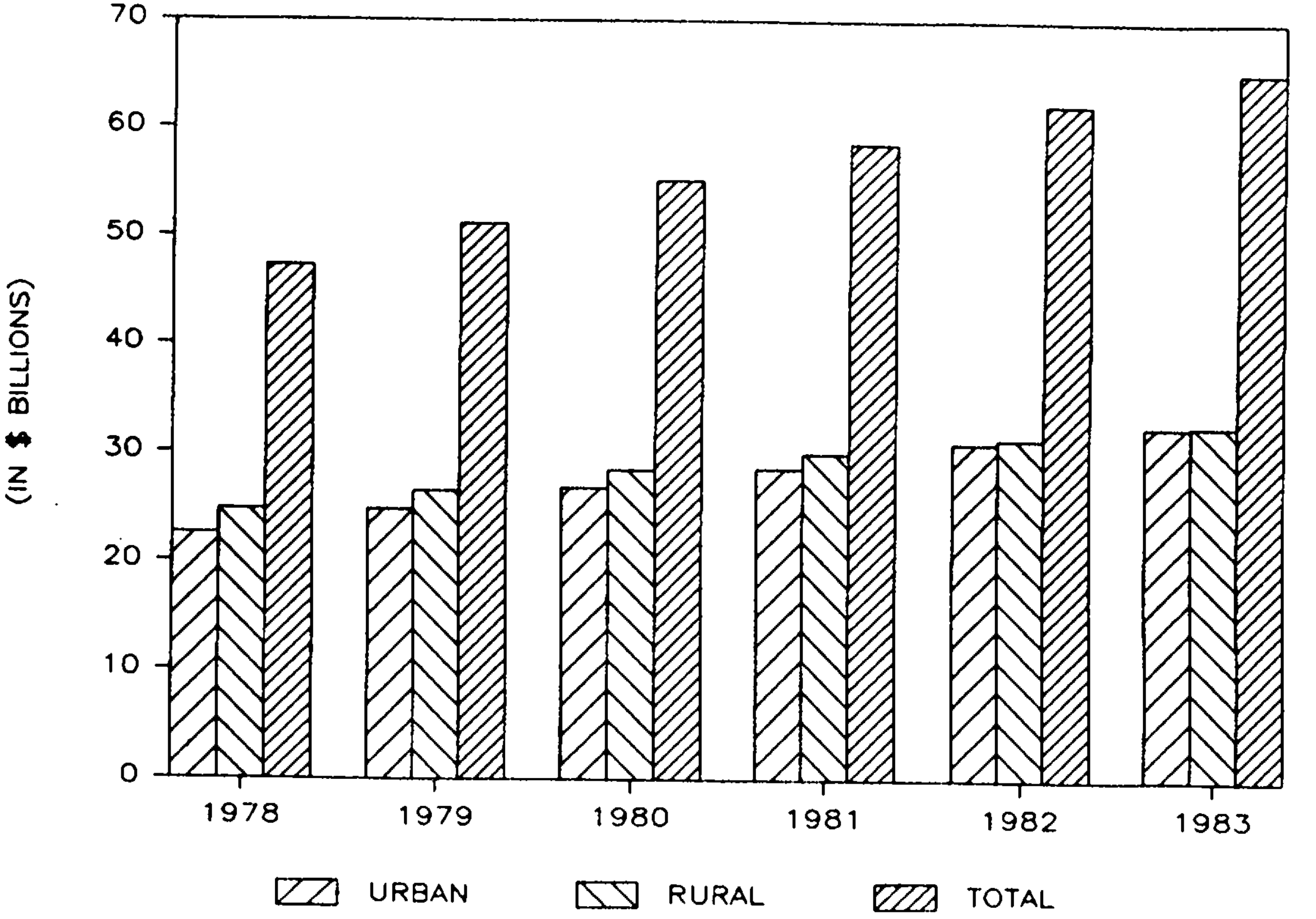


Table 6.13

AMOUNT AND PERCENTAGE OF LOCAL PROPERTY TAX SUPPORTING EDUCATION

STATEWIDE -- BY FISCAL YEAR

	1977	1978	1979	1980	1981	1982	1983	1984
Gross Property Taxes (in thousands)	985,851	1,050,910	1,126,605	1,215,333	1,344,451	1,446,920	1,535,463	1,636,878
Amount Going to Support K-12 Education	543,999	567,718	596,497	633,010	686,252	729,453	764,843	777,889
Percentage Going to Support K-12 Education	55.20%	54.0%	52.9%	52.1%	51.0%	50.4%	49.8%	47.5%

6.2 BURDEN BY COUNTY

Table 6.21 presents valuations, levies and tax rates (in $ per $1,000 of valuation) for each county in 1983. The counties have been sorted by tax rate, so that the counties with the highest tax rates appear at the top of the table. The tax rates reported are not actual tax rates; they reflect the consolidation of tax rates imposed by different jurisdictions within each county. The table also includes the mean and standard deviation for valuations, levies and tax rates. The mean and standard deviation summarize the variability of each column in the table.

Table 6.22 lists, in alphabetical order, compound growth rates from 1978 to 1983 for each county for:

Urban valuations,
Urban levies,
Rural valuations,
Rural levies,
Total taxable valuations and
Total levies (before credits were paid)

Table 6.21

1983 PROPERTY TAX SUMMARY

County	Gross Val	Total Levy	Levy/Val
Wapello	604725018	20996865	34.72
Polk	5659959265	189165642	33.42
Scott	3164977459	95507393	30.18
Linn	3352221917	100803392	30.07
Woodbury	1889186114	56534562	29.93
Pottawattami	1401933535	41305510	29.46
Black Hawk	2506046099	73151049	29.19
Dubuque	1465463327	41845220	28.55
Monroe	180996253	5081214	28.07
Johnson	1469438165	41046036	27.93
Des Moines	811427348	22325752	27.51
Lucas	211275385	5709213	27.02
Appanoose	255417591	6894199	26.99
Warren	590028232	15880828	26.92
Lee	880110262	23615837	26.83
Marshall	907949798	24342520	26.81
Jackson	385818069	10084819	26.14
Muscatine	911788597	23801183	26.10
Clinton	1162842004	30208129	25.98
Union	285463202	7379310	25.85
Henry	383360569	9724300	25.37
Madison	329043062	8178657	24.86
Webster	1054816141	26213065	24.85
Jasper	800369604	19885373	24.85
Van Buren	177337395	4395943	24.79
Clayton	425004694	10296547	24.23
Decatur	199593347	4826414	24.18
Marion	520203750	12470178	23.97
Story	1257778523	30119568	23.95
Cerro Gordo	1100996823	26056778	23.67
Clarke	211077319	4978459	23.59
Winneshiek	423388679	9930228	23.45
Dallas	734999783	17005392	23.14
Jones	420242482	9694502	23.07
Bremer	508926047	11661111	22.91
Jefferson	334275292	7656224	22.90
Poweshiek	478034488	10938691	22.88
Davis	208096074	4754356	22.85
Benton	606793303	13793320	22.73
Boone	635772775	14294020	22.48
Buchanan	496783131	11168025	22.48
Emmet	358461776	7998465	22.31
Delaware	420528910	9371259	22.28
Floyd	501498238	11159824	22.25
Fayette	583556361	12970442	22.23
Ringgold	198576237	4410406	22.21
Page	422035289	9352477	22.16
Shelby	401110990	8826421	22.00
Louisa	339957301	7473278	21.98
Howard	295373116	6463241	21.88
Cass	430829695	9294806	21.57
Mills	343142698	7302969	21.28
Montgomery	366944988	7805014	21.27

COUNTIES SORTED BY $ PER $1,000

1983 PROPERTY TAX SUMMARY

County	Gross Val	Total Levy	Levy/Val
Cherokee	435051927	9247110	21.26
Washington	526259334	11059786	21.02
Allamakee	360320400	7532214	20.90
Iowa	428481375	8903296	20.78
Dickinson	526395018	10884402	20.68
Sioux	727809747	14984443	20.59
Mahaska	534722105	10964583	20.51
Keokuk	344272659	7050378	20.48
Crawford	499082535	10190082	20.42
Hardin	622086303	12689834	20.40
Guthrie	345323965	7038533	20.38
Hamilton	622548262	12686798	20.38
Buena Vista	589277521	11996993	20.36
Ida	275205551	5595995	20.33
Harrison	417593852	8488681	20.33
Monona	384511717	7806644	20.30
Chickasaw	424442030	8534170	20.11
Tama	577683132	11589638	20.06
Grundy	502400162	10066094	20.04
Carroll	618340106	12333865	19.95
Wayne	225324947	4488977	19.92
Taylor	230718553	4563584	19.78
Cedar	542407732	10721358	19.77
Sac	454705198	8954595	19.69
Audubon	274156207	5395569	19.68
Franklin	515410273	10086304	19.57
Adair	306899668	6000107	19.55
Clay	635882045	12429657	19.55
Calhoun	502713180	9773306	19.44
Fremont	336255004	6508613	19.36
Humboldt	423647364	8139589	19.21
Adams	189051083	3631495	19.21
Wright	596885362	11419625	19.13
Plymouth	630450234	12020703	19.07
Osceola	307084492	5723996	18.64
Hancock	573544555	10645093	18.56
Butler	499126556	9237312	18.51
Greene	469877481	8662051	18.43
Obrien	505748294	9072883	17.94
Palo Alto	420436097	7529607	17.91
Worth	315487413	5618711	17.81
Winnebago	387520276	6846436	17.67
Lyon	386955536	6796102	17.56
Mitchell	377728633	6596274	17.46
Kossuth	872110373	14398800	16.51
Pocahontas	483195434	7898071	16.35
TOTAL	65291106211	1618950983	24.80
Standard Dev	727468399	23745828	
Mean	659506123	16353040	24.80

IOWA PROPERTY TAX COMPOUND GROWTH, 1978 - 1983

County	Urban Val Cmpd Grwth	Urb Levy Cmpd Grwth	Rural Val Cmpd Grwth	Rural Levy Cmpd Grwth	Total Val Cmpd Grwth	Total Levy Cmpd Grwth
Adair	7.72%	9.39%	5.93%	7.34%	6.26%	7.83%
Adams	3.26%	5.60%	5.29%	5.46%	5.03%	5.48%
Allamakee	7.76%	9.53%	3.23%	5.31%	4.28%	6.55%
Appanoose	3.68%	6.96%	7.21%	8.05%	5.91%	7.98%
Audubon	7.21%	7.04%	6.37%	6.62%	6.53%	6.72%
Benton	8.03%	9.83%	4.60%	7.09%	5.52%	8.00%
Black Hawk	9.24%	8.08%	9.09%	7.84%	9.22%	8.05%
Boone	6.95%	8.80%	4.12%	5.48%	5.01%	6.94%
Bremer	11.04%	11.45%	5.71%	6.21%	7.93%	8.74%
Buchanan	10.63%	11.21%	7.00%	7.55%	8.05%	8.69%
Buena Vista	8.69%	7.00%	4.05%	5.56%	5.58%	6.17%
Butler	9.37%	8.30%	10.10%	8.46%	9.92%	8.41%
Calhoun	7.89%	8.72%	5.96%	6.99%	6.40%	7.51%
Carroll	10.70%	9.71%	6.25%	6.20%	8.01%	7.86%
Cass	8.35%	7.52%	9.37%	7.80%	9.02%	7.69%
Cedar	9.88%	8.53%	9.91%	9.58%	9.90%	9.25%
Cerro Gordo	8.17%	5.82%	5.58%	5.69%	7.18%	5.78%
Cherokee	4.92%	6.60%	2.17%	4.33%	2.93%	5.17%
Chickasaw	9.83%	8.12%	11.15%	10.69%	10.76%	9.78%
Clarke	7.98%	8.88%	6.74%	7.99%	7.11%	8.32%
Clay	10.16%	9.74%	6.08%	6.09%	7.59%	7.79%
Clayton	10.11%	8.53%	7.08%	6.18%	7.93%	6.97%
Clinton	4.03%	6.23%	4.85%	4.94%	4.31%	5.88%
Crawford	10.65%	9.71%	4.04%	4.20%	5.90%	6.16%
Dallas	7.67%	9.95%	5.94%	7.13%	6.49%	8.26%
Davis	7.81%	11.81%	8.62%	9.74%	8.46%	10.30%
Decatur	9.52%	12.97%	6.30%	9.21%	7.03%	10.31%
Delaware	7.84%	8.27%	5.88%	6.71%	6.42%	7.21%
Des Moines	7.39%	6.95%	3.64%	3.26%	6.00%	5.91%
Dickinson	7.47%	10.94%	5.94%	7.74%	6.62%	9.39%
Dubuque	8.06%	6.80%	7.93%	5.43%	8.02%	6.46%
Emmet	3.90%	4.90%	5.59%	6.15%	5.04%	5.61%
Fayette	4.64%	7.95%	4.21%	5.83%	4.35%	6.70%
Floyd	5.46%	6.10%	6.96%	7.10%	6.39%	6.64%
Franklin	7.17%	9.03%	4.32%	6.34%	4.94%	7.09%
Fremont	8.75%	9.80%	4.33%	5.77%	4.92%	6.49%
Greene	6.60%	5.73%	4.91%	4.40%	5.30%	4.79%
Grundy	3.79%	6.90%	4.75%	6.56%	4.49%	6.67%
Guthrie	9.19%	9.93%	5.37%	4.30%	6.09%	5.66%
Hamilton	9.74%	9.66%	5.26%	5.52%	6.64%	7.14%
Hancock	5.99%	6.61%	6.48%	6.28%	6.35%	6.39%
Hardin	8.79%	9.21%	3.84%	5.30%	5.39%	6.93%
Harrison	3.53%	6.38%	1.77%	3.69%	2.15%	4.43%
Henry	8.01%	10.33%	3.37%	6.48%	4.95%	7.97%
Howard	6.79%	5.07%	9.54%	7.71%	8.87%	6.86%
Humboldt	6.09%	6.29%	3.33%	4.67%	4.07%	5.24%
Ida	6.26%	9.08%	2.81%	4.23%	3.65%	5.71%
Iowa	1.68%	5.46%	3.74%	5.62%	3.31%	5.58%
Jackson	6.09%	7.62%	5.38%	6.18%	5.65%	6.78%
Jasper	6.90%	7.35%	5.03%	6.77%	5.90%	7.09%
Jefferson	8.38%	8.00%	6.16%	5.14%	7.00%	6.36%
Johnson	9.79%	9.42%	7.01%	7.41%	8.89%	8.90%
Jones	10.30%	11.50%	4.12%	5.58%	5.89%	7.63%

C&L

IOWA PROPERTY TAX COMPOUND GROWTH, 1978 - 1983

County	Urban Val Cmpd Grwth	Urb Levy Cmpd Grwth	Rural Val Cmpd Grwth	Rural Levy Cmpd Grwth	Total Val Cmpd Grwth	Total Levy Cmpd Grwth
Keokuk	6.79%	9.61%	3.19%	5.71%	3.86%	6.64%
Kossuth	13.26%	13.59%	5.74%	5.18%	7.18%	7.39%
Lee	9.39%	9.13%	3.66%	4.08%	7.10%	7.51%
Linn	6.85%	6.71%	4.57%	5.31%	6.40%	6.49%
Louisa	8.85%	9.12%	6.09%	8.37%	6.57%	8.53%
Lucas	7.60%	9.06%	8.46%	8.65%	8.14%	8.83%
Lyon	8.10%	8.71%	4.94%	8.37%	5.62%	8.46%
Madison	9.07%	11.81%	5.29%	8.06%	6.15%	9.05%
Mahaska	11.43%	9.41%	8.31%	6.96%	9.43%	8.03%
Marion	9.49%	9.76%	5.80%	6.36%	7.59%	8.12%
Marshall	5.94%	8.92%	4.32%	5.91%	5.24%	7.89%
Mills	6.57%	9.24%	2.14%	3.93%	3.10%	5.40%
Mitchell	6.83%	3.98%	10.52%	7.12%	9.73%	6.23%
Monona	6.22%	11.94%	5.09%	6.81%	5.32%	8.08%
Monroe	9.83%	12.13%	6.61%	8.05%	7.42%	9.34%
Montgomery	5.74%	7.75%	10.38%	8.57%	8.83%	8.23%
Muscatine	8.25%	8.67%	6.99%	7.86%	7.70%	8.39%
Obrien	7.83%	9.67%	4.31%	4.43%	5.28%	6.35%
Osceola	8.81%	9.85%	4.95%	6.68%	5.69%	7.47%
Page	3.00%	4.55%	8.69%	7.38%	6.41%	5.99%
Palo Alto	7.24%	7.15%	4.27%	4.71%	4.86%	5.39%
Plymouth	4.87%	6.30%	3.76%	4.04%	4.08%	4.86%
Pocahontas	8.46%	6.68%	5.44%	4.21%	5.96%	4.80%
Polk	7.64%	7.73%	6.55%	7.29%	7.51%	7.69%
Pottawattami	5.36%	5.22%	5.61%	6.55%	5.47%	5.62%
Poweshiek	7.11%	9.74%	4.81%	5.29%	5.58%	7.11%
Ringgold	8.18%	11.40%	7.62%	7.81%	7.71%	8.55%
Sac	6.69%	8.57%	4.62%	8.60%	5.07%	8.59%
Scott	7.79%	9.20%	7.67%	9.03%	7.78%	9.19%
Shelby	7.21%	7.40%	4.43%	4.80%	5.10%	5.59%
Sioux	9.23%	10.78%	3.62%	5.72%	5.47%	7.85%
Story	9.76%	8.75%	5.27%	5.59%	8.07%	7.82%
Tama	7.12%	7.86%	7.46%	7.54%	7.37%	7.65%
Taylor	2.36%	2.37%	9.71%	8.02%	8.41%	6.74%
Union	8.66%	8.80%	6.93%	5.75%	7.61%	7.24%
Van Buren	5.08%	8.10%	6.16%	9.18%	5.96%	8.96%
Wapello	9.19%	9.74%	12.05%	13.16%	10.35%	10.76%
Warren	9.93%	9.57%	5.02%	6.69%	6.92%	7.94%
Washington	10.42%	8.85%	6.41%	5.83%	7.63%	6.94%
Wayne	9.06%	10.88%	6.89%	8.17%	7.33%	8.86%
Webster	4.64%	8.25%	3.95%	5.66%	4.27%	7.15%
Winnebago	5.74%	4.80%	8.17%	5.76%	7.39%	5.36%
Winneshiek	8.18%	6.89%	7.82%	7.45%	7.93%	7.23%
Woodbury	6.04%	6.80%	5.77%	6.28%	5.95%	6.69%
Worth	6.80%	5.56%	6.96%	5.61%	6.93%	5.60%
Wright	9.46%	10.93%	4.94%	5.05%	6.20%	7.25%
TOTAL	7.64%	7.96%	5.69%	6.39%	6.64%	7.33%
Standard Dev	2.13%	2.05%	2.05%	1.66%	1.71%	1.34%
Mean	7.60%	8.42%	5.92%	6.53%	6.48%	7.25%

6.3 BURDEN BY CLASS OF PROPERTY

Table 6.31 presents growth rates for valuations and levies for urban and rural land broken out by class of property. This table does include the deduction for military exemptions and thus presents a net, as well as gross total. The sharp decreases in agricultural buildings valuations and levies reflect the 1981 reclassification of residences on agricultural land from the agricultural building to the residential class. The increases in rural residential valuations and levies are also due to this reclassification.

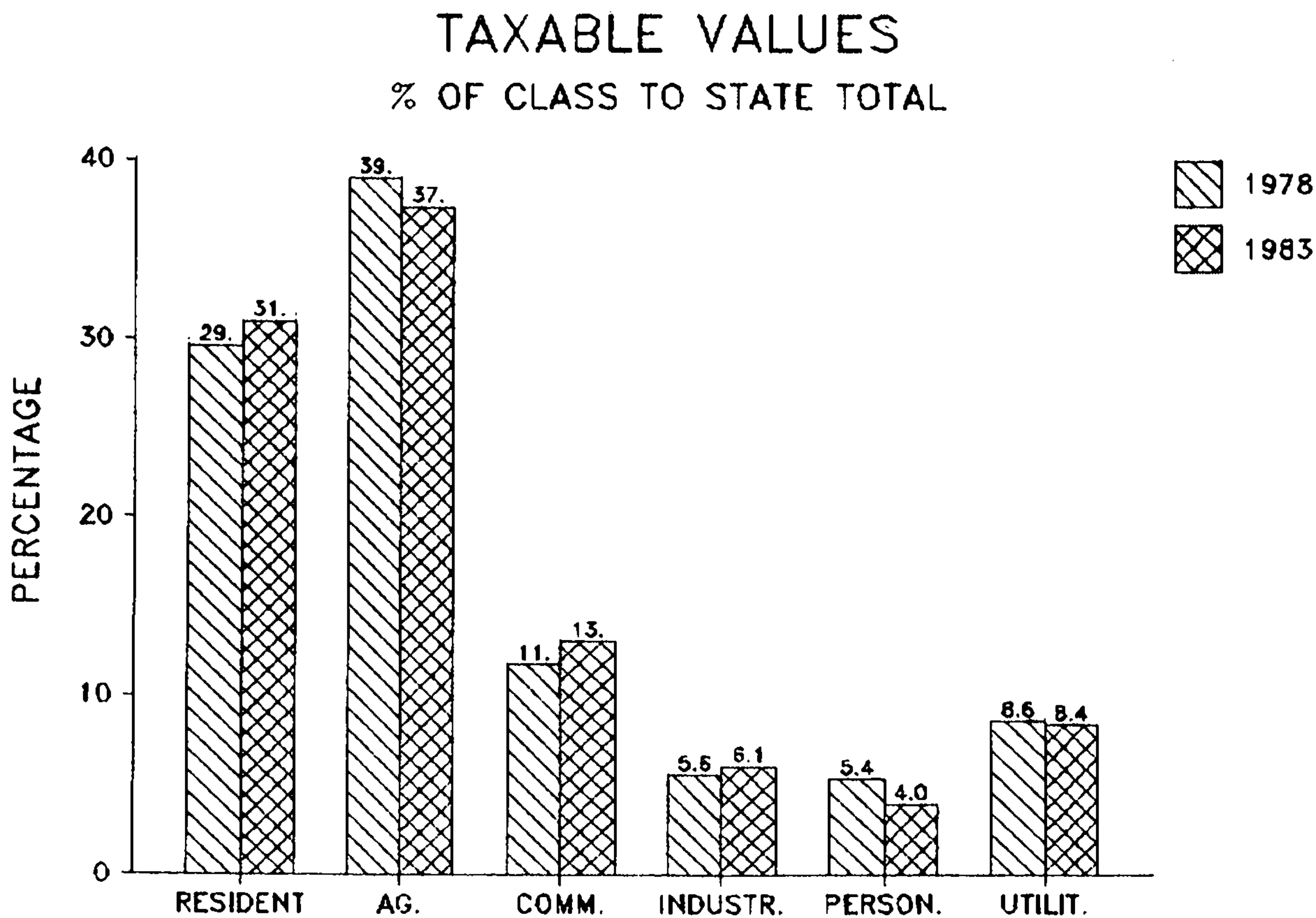
Table 6.32 shows the valuation by class of property as a percentage of total valuation for 1978 and 1983, while table 6.33 represents the rate of change between 1978 and 1983 of valuations. These bar charts are adjusted for the reclassification of agricultural buildings. In these charts, residences on agricultural property have been included in the agricultural building class.

Table 6.31

IOWA PROPERTY TAX COMPOUND GROWTH, 1978 - 1983

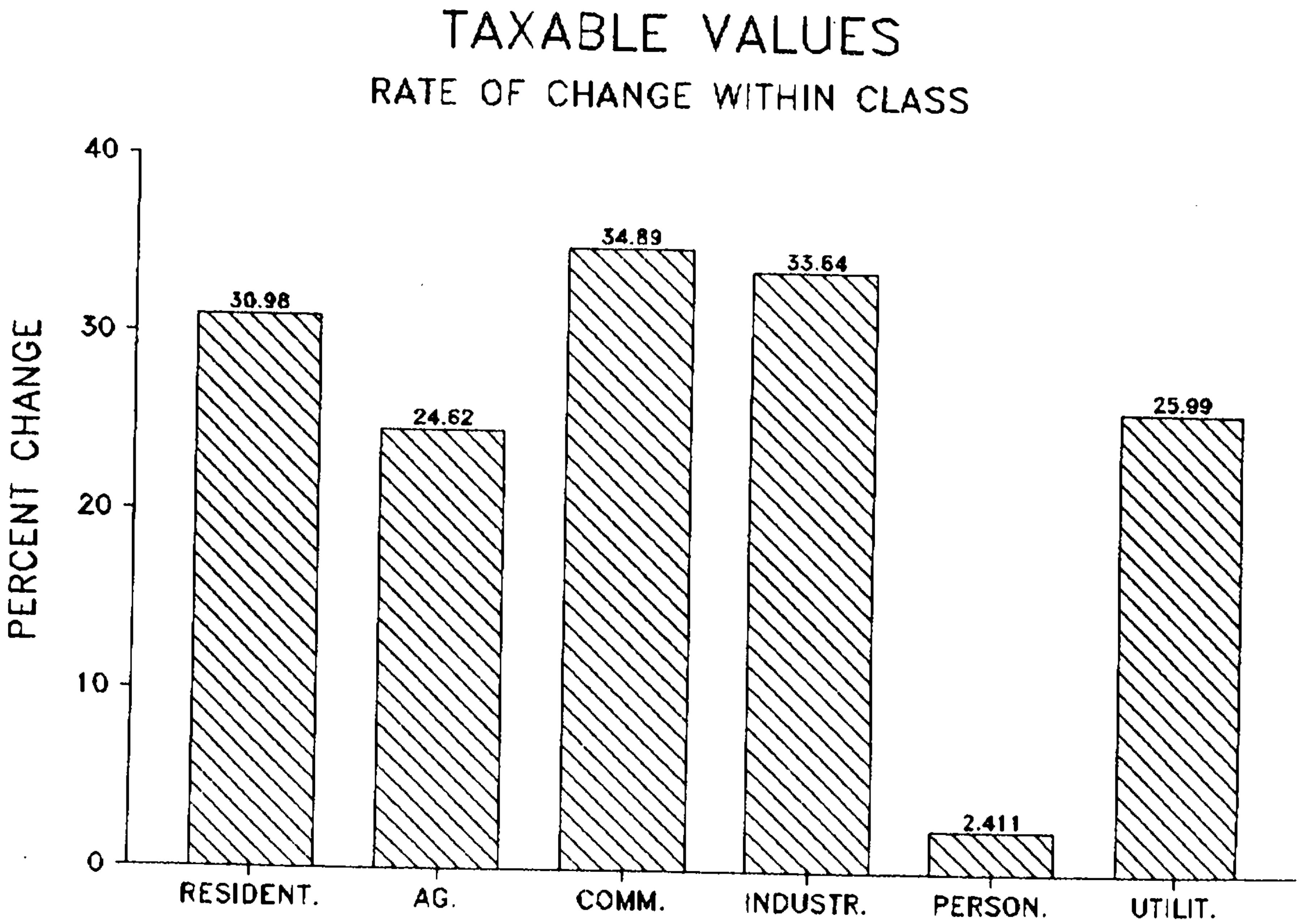
County	Urban Val Cmpd Grwth	Urb Levy Cmpd Grwth	Rural Val Cmpd Grwth	Rural Levy Cmpd Grwth	Total Val Cmpd Grwth	Total Levy Cmpd Grwth
Residential	6.89%	7.23%	25.96%	25.47%	9.73%	9.23%
AG. Land	4.73%	6.97%	5.07%	5.72%	5.07%	5.75%
AG. Building	-18.66%	-17.42%	-7.85%	-7.37%	-8.11%	-7.61%
Commercial	10.51%	10.46%	13.02%	13.70%	10.70%	10.63%
Industrial	-0.06%	-0.01%	-2.32%	-1.77%	-0.51%	-0.27%
Personal	-0.31%	0.07%	0.35%	0.86%	.00%	0.36%
Personal Real						
Future Use						
Utilities	5.06%	5.63%	5.87%	6.56%	5.57%	6.12%
Others	-11.65%	-10.25%	-6.04%	-6.54%	-8.87%	-8.80%
Gross	7.64%	7.96%	5.69%	6.39%	6.64%	7.33%
Deduct Mil.E	-0.66%	-0.34%	0.06%	0.76%	-0.50%	-0.17%
NET TOTAL	7.77%	8.08%	5.71%	6.41%	6.71%	7.41%

Table 6.32



TAXABLE VALUES
% OF CLASS TO STATE TOTAL
PERCENTAGE
0
10
20
30
40
1978
1983
29.
31.
39.
37.
11.
13.
5.5
6.1
5.4
4.0
8.6
8.4
RESIDENT
AG.
COMM.
INDUSTR.
PERSON.
UTILIT.

Table 6.33



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6.4 EXEMPTION FOR INDUSTRIAL EQUIPMENT AND COMPUTERS

The property tax program for industrial equipment and computers provides that the taxpayer's liability for taxes on new and replacement industrial machinery and computers be limited to the tax levied against its residual value of thirty percent. The State is to fund local taxing bodies for revenues lost due to the program. The program initially applied to machinery and equipment purchased during 1982 and first assessed as of January 1, 1983, for taxes payable in FY 1984-85.

Assessment

Industrial machinery and computers are presently assessed at their fair market value. Because this property depreciates in value each year, the assessed value decreases annually until it reaches a residual level of thirty percent of the net acquisition cost. (Table 6.41) At that point, no further depreciation is allowed as long as the machinery remains in use and, therefore, has value to the owner.

Reimbursement

The State reimburses local taxing bodies for revenue not collected. The amount of reimbursement is the difference between the tax levied against the residual value of the machinery and the tax which would have been levied had the machinery depreciated at its scheduled rate. (Table 6.42)

Table 6.41

EXAMPLE OF EFFECTS UNDER
INDUSTRIAL MACHINERY AND EQUIPMENT PROGRAM

Year	Actual Value[1]	Taxpayer Value	State Value[2]
1	$90,000	$30,000	$60,000
2	80,000	30,000	50,000
3	70,000	30,000	40,000
4	60,000	30,000	30,000
5	50,000	30,000	20,000
6	40,000	30,000	10,000
7	30,000	30,000	-

1. Depreciated on a straight-line basis for ten years: assumes machinery has a net acquisition of $100,000.

2. State value times tax rate equals reimbursements to local taxing districts.

Table 6.42

SUMMARY OF PARTIAL
PROPERTY TAX EXEMPTION
FOR INDUSTRIAL MACHINERY
AND COMPUTERS

1983 ASSESSMENTS

		(Millions)
1.	Net Acquisition Cost	$361.6
2.	1983 Assessed Value	316.9
3.	Taxpayer Share (30% x $361.6)	108.5
4.	Reimbursement Base (2-3)	208.4

ESTIMATED CREDIT

		(Millions)
1.	Annualized Value of Claims Received and Paid in September	$ 6.6
2.	Estimated Annual Value of Claims Outstanding	.5
	TOTAL	$ 7.1

6.5 PERSONAL PROPERTY

A. Overview

Legislation providing for the elimination of the personal property tax was enacted in 1973. This additional credit is administered in conjunction with the initial personal property tax credit which was enacted in 1967 and which provides a base credit equal to the taxes due on $10,000 of taxable value. Under the 1973 legislation the amount of additional personal property tax credit is to increase in each year following a fiscal year in which the growth in the state general fund revenues exceeds 5 1/2 percent. The amount of the additional credit is established at a level which will expend an additional appropriation of $3.8 million each year. After nine increases in the tax credit, all personal property taxes will be repealed. At that time the State will reimburse local governments $68 million.

B. Valuation Limitation

The 1973 legislation provided that the total assessed valuation of personal property in an assessing jurisdiction may not exceed the total valuation established for that jurisdiction as of 1973. While local assessors are required to value personal property at its market value, each assessment must be reduced by an equal percentage to ensure that the current year's aggregate valuation does not exceed the level established as of 1973.

The possible effect of the rollback on personal property values is demonstrated in Table 6.51. As presented in the example, the market value in the assessing jurisdiction was assumed to have increased from $500,000 to $750,000. In order to conform with the 1973 limitation the 1983 value for each taxpayer is rolled back by an equal percentage (66.67%).

C. Value of Credits

The annual amounts of the additional personal property tax credit are calculated to expend $3.8 million in appropriations. As indicated in Table 6.52, the total value of the credit has increased from $16,667 to $175,000. The actual impact is significally greater in certain counties due to the rollback of assessment discussed previously.

D. Amount of State Reimbursements

The increase in the additional tax credit has resulted in increased appropriations to the "replacement base" fund for reimbursements to local taxing bodies. As Table 6.52 indicates, the amount appropriate to the "replacement base" increased from $35.7 million in 1975 to $46.2 million for fiscal 1985.

E. Reimbursement

The reimbursement, made semi-annually by the State Comptroller, is based upon a "replacement base" formula specified in the legislation. (Table 6.53)

For each taxing district, the "replacement base" is equal to the 1973 assessed valuation of personal property in the district multiplied by the tax rate for taxes payable in 1973. Each year, taxing districts are reimbursed that percentage of the "replacement base" which is equal to the percentage of personal property in the district on which no tax is collected as a result of the credit. However, in no event is a taxing district reimbursed an amount greater than that lost due to the granting of the personal property tax credit. After the eventual repeal of the personal property tax, each taxing district will be reimbursed annually the amount of the computed "replacement base."

F. Impact

In 1973 the total assessed value of personal property excluding livestock was $2.7 billion of actual value which represented 9.0 percent of the total assessed value of all property in the State. By 1983, the actual value of personal property in Iowa had increased to $8.3 billion. In order to conform with the limitation on valuation, the 1983 valuations were rolled back to $2.7 billion which is the equivalent to a statewide average rollback of 67 percent. After application of the credit approximately $700 million of personal property is estimated to remain taxable. As a result of the value limitation and the personal property tax credit, in excess of 90 percent of the $8.3 billion of personal property is expected to be exempt from taxation in 1984-1985.

G. Burden by County

Chart 6.54 presents the market value, assessed value and calculates a rollback percentage for each county for personal property in 1981. The chart is arranged in descending order of rollback percentage with those counties which had an assessed value closest to market value at the top and those with a lower assessed value to market value ratio at the bottom. As can be seen, Wapello County had by far the highest rollback percentage at 64.27% while Dickinson County had the lowest, 22.48%.

Table 6.51

EFFECT OF VALUATION LIMITATION ON PERSONAL PROPERTY VALUES

Property Owner	1973 Assessed Value	1983 Assessed Value	% Change	1983 Value Rolled Back[1,3]	% Change[2]
1	$125,000	$140,000	12%	$ 93,338	(25%)
2	$100,000	$150,000	50%	$100,005	---
3	$275,000	$460,000	67%	$306,682	12%
Total in District	$500,000	$750,000	50%	$500,025	---

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(1) Roll Back Percentage = $\frac{\$500,000}{\$750,000}$ = 66.67%

(2) Percentage change in value after rollback compared to 1973 assessed value.

(3) Total differs slightly due to rounding.

Table 6.52

PERSONAL PROPERTY TAX CREDIT

Fiscal Year Ending June 30	Actual Increase In Credit	Revised Approp. (million)	Additional Credit	Total* Credit
1974) Ext. FY 1975)	---	$31.9 $35.7	$ 6,667	$ 16,667
1976	1st	$39.5	$ 18,148	$ 28,148
1977	2nd	$43.3	$ 48,500	$ 58,500
1978	---	$38.6	$ 48,500	$ 58,500
1979	---	$38.6	$ 48,500	$ 58,500
1980	3rd	$42.4	$135,000	$145,000
1981	---	$42.4	$135,000	$145,000
1982	---	$42.4	$135,000	$145,000
1983	4th	$46.2	$165,000	$175,000
1984	---	$46.2	$165,000	$175,000
1985	---	$46.2	$165,000	$175,000

Additional Increases Dependent on Growth in Revenue

*Includes $10,000 in regular personal property credit granted each year.

Table 6.53

FORMULA USED FOR CALCULATION OF PERSONAL PROPERTY TAX REIMBURSEMENT

(1) Personal Property Replacement Base =

$$\text{Personal Property Replacement Base} = \begin{array}{c}\text{1973 Assessed Value}\\ \text{of Personal Property}\end{array} \times \begin{array}{c}\text{Tax Rate Levied in 1972}\\ \text{Payable in 1973}\end{array}$$

(2) Percentage of Value Nontaxable =

$$\text{Percentage of Value Nontaxable} = \frac{\text{Value of Personal Property Subject to Credit}}{\begin{array}{c}\text{Total Value of Personal Property Eligible for Credit}\\ \text{(Rolled back to 1973 Levels)}\end{array}}$$

(3) Reimbursement Equal Lessor of Two Amounts

(A) Personal Property Replacement Amount (#1) x Percentage of Value Nontaxable (#2)

or

(B) Claim = Current Year Value Subject to Credit x Current Year Tax Levy

Table 6.54

1981 PERSONAL PROPERTY VALUATION BY COUNTY

COUNTY	MARKET VALUE	ASSESSED VALUE	ROLLBACK
WAPELLO	$43,958,927	$28,254,117	64.27%
DUBUQUE	$130,128,670	$67,547,144	51.91%
BLACK HAWK	$202,722,830	$103,967,409	51.29%
CLINTON	$104,667,491	$49,717,642	47.50%
MARSHALL	$97,216,978	$44,761,015	46.04%
POLK	$542,623,233	$248,292,717	45.76%
CERRO GORDO	$108,598,941	$49,066,737	45.18%
WOODBURY	$160,117,034	$72,185,325	45.08%
GRUNDY	$54,834,232	$24,651,661	44.96%
APPANOOSE	$27,772,365	$12,424,023	44.74%
SCOTT	$299,282,380	$132,383,957	44.23%
LINN	$305,039,544	$134,719,661	44.16%
JASPER	$106,811,744	$46,083,557	43.14%
CHICKASAW	$44,477,161	$18,490,822	41.57%
JOHNSON	$137,907,857	$56,287,903	40.82%
FLOYD	$65,020,301	$26,252,156	40.38%
DES MOINES	$111,302,318	$44,876,844	40.32%
HARRISON	$41,710,800	$16,717,606	40.08%
LUCAS	$40,274,324	$15,731,521	39.06%
KOSSUTH	$100,659,896	$38,601,862	38.35%
WEBSTER	$114,790,184	$43,884,615	38.23%
ADAMS	$18,868,390	$7,178,101	38.04%
MITCHELL	$41,589,707	$15,700,125	37.75%
BREMER	$56,024,391	$21,122,126	37.70%
WINNEBAGO	$50,354,928	$18,904,449	37.54%
MUSCATINE	$95,663,563	$35,687,100	37.30%
POWESHIEK	$60,595,372	$22,593,577	37.29%
DALLAS	$65,520,653	$24,314,074	37.11%
CARROLL	$64,723,120	$23,586,917	36.44%
BUTLER	$52,095,650	$18,754,434	36.00%
HAMILTON	$80,841,337	$29,041,981	35.92%
FRANKLIN	$61,742,434	$22,105,028	35.80%
CALHOUN	$50,978,297	$18,226,502	35.75%
CLAY	$82,509,118	$29,446,019	35.69%
HARDIN	$75,962,639	$26,792,022	35.27%
MILLS	$35,652,801	$12,444,162	34.90%
POTTAWATTAMIE	$124,215,172	$43,152,358	34.74%
LEE	$111,154,497	$38,506,969	34.64%
EMMET	$55,665,775	$19,201,308	34.49%
CASS	$54,659,474	$18,799,117	34.39%
JEFFERSON	$49,019,719	$16,742,768	34.16%
TAYLOR	$25,054,004	$8,543,645	34.10%
HUMBOLDT	$60,697,301	$20,694,376	34.09%
JONES	$52,339,591	$17,832,883	34.07%
AUDUBON	$38,251,118	$12,985,108	33.95%
WRIGHT	$83,378,536	$28,273,644	33.91%
FAYETTE	$98,379,700	$33,319,040	33.87%
BUENA VISTA	$73,664,463	$24,811,669	33.68%
SHELBY	$55,182,821	$18,421,129	33.38%
VAN BUREN	$20,682,360	$6,858,647	33.16%
CHEROKEE	$63,461,404	$21,029,390	33.14%
DAVIS	$24,329,149	$8,055,212	33.11%
WAYNE	$24,330,072	$8,053,259	33.10%
SAC	$62,949,178	$20,804,502	33.05%
MADISON	$34,787,397	$11,492,225	33.04%
BENTON	$89,878,575	$29,698,661	33.03%

DELAWARE	$55,398,988	$18,162,447	32.78%
POCAHONTAS	$71,874,849	$23,438,354	32.61%
TAMA	$71,199,666	$22,926,601	32.20%
CRAWFORD	$71,303,098	$22,945,347	32.18%
PAGE	$52,237,710	$16,638,987	31.85%
KEOKUK	$47,145,162	$14,973,134	31.76%
SIOUX	$100,440,247	$31,843,876	31.70%
IDA	$37,448,968	$11,826,918	31.58%
UNION	$34,019,624	$10,718,029	31.51%
STORY	$129,791,205	$40,872,499	31.49%
BOONE	$65,238,837	$20,534,206	31.48%
PLYMOUTH	$86,199,573	$26,852,080	31.15%
HOWARD	$43,495,475	$13,404,442	30.82%
FREMONT	$37,577,504	$11,465,711	30.51%
O'BRIEN	$62,347,443	$18,985,991	30.45%
MAHASKA	$70,046,022	$21,328,848	30.45%
WASHINGTON	$78,406,700	$23,600,822	30.10%
MONTGOMERY	$47,323,386	$14,239,606	30.09%
MONONA	$43,433,040	$13,053,544	30.05%
CLAYTON	$59,736,548	$17,921,105	30.00%
LOUISA	$36,432,719	$10,856,950	29.80%
DECATUR	$25,460,876	$7,558,825	29.69%
BUCHANAN	$65,072,097	$19,261,373	29.60%
WORTH	$37,480,193	$11,068,838	29.53%
GREENE	$61,460,424	$18,149,581	29.53%
IOWA	$76,796,571	$22,674,949	29.53%
HANCOCK	$81,850,771	$23,958,994	29.27%
HENRY	$62,465,242	$18,253,376	29.22%
GUTHRIE	$35,861,037	$10,409,936	29.03%
ALLAMAKEE	$56,426,067	$16,160,426	28.64%
WINNESHIEK	$83,122,177	$22,946,791	27.61%
OSCEOLA	$47,030,754	$12,935,936	27.51%
ADAIR	$51,620,830	$14,149,639	27.41%
CEDAR	$73,660,285	$19,834,254	26.93%
WARREN	$64,370,849	$17,300,116	26.88%
MONROE	$23,196,963	$6,168,072	26.59%
JACKSON	$52,647,375	$13,626,877	25.88%
RINGGOLD	$25,752,125	$6,383,952	24.79%
PALO ALTO	$57,107,411	$13,822,549	24.20%
MARION	$89,238,841	$21,335,525	23.91%
LYON	$64,803,115	$15,284,469	23.59%
CLARKE	$28,335,993	$6,664,521	23.52%
DICKINSON	$63,519,853	$14,276,490	22.48%

6.6 EFFECT OF CREDITS AND ROLLBACKS ON TAX RATES

Table 6.61 shows the effect of credits and rollbacks on property tax rates by class of property for 1978 and 1982 for three representative counties (Polk, Ringgold, and Wright) and for the state as a whole. Tax rates are computed as levy/valuation and are expressed as dollars per $1,000 of valuation. Tax rates are computed to show the effect of credits and rollbacks (separate and combined). Valuations are defined as the valuation after the rollback and equilization. New valuations include the additional amount of all property that would have been taxable in the absence of rollbacks. Credits were attributed to property classes as follows:

Military Service - Residential
Homestead
Elderly

Ag. Land - Ag. Land

Personal Property - Personal Property
Livestock

As the table indicates, the rollback has had a significant impact on tax rates in the residential and personal property classes. (Personal property rates become negative, because the amount of the taxes levied on personal property is less than what would have been paid in the absence of the rollback.) The percentage decrease in tax rates due to both credits and rollbacks in 1982 is over 40 percent for all three counties and for the state as a whole.

Table 6.61
p. 1 of 4

Effects of Credits and Rollbacks
on Property Taxes

1978

County: POLK

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	33.62	26.58	33.62	26.58	26.58	33.62	26.58
Ag. Land	24.85	20.90	24.85	20.90	20.90	24.85	20.90
Ag. Building	25.03	25.03	25.03	25.03	25.03	25.03	25.03
Commercial	34.20	34.20	34.20	34.20	34.20	34.20	34.20
Industrial	32.73	32.73	32.73	32.73	32.73	32.73	32.73
Personal	34.27	21.01	20.03	6.77	14.78	14.09	4.77
Personal (Real)							
Utilities	31.15	31.15	31.15	31.15	31.15	31.15	31.15
Others	25.81	25.81	25.81	25.81	25.81	25.81	25.81
Total	33.14	28.71	32.24	27.81	27.96	31.41	27.09

County: RINGGOLD

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	24.75	13.15	24.75	13.15	13.15	24.75	13.15
Ag. Land	20.45	17.37	20.45	17.37	17.37	20.45	17.37
Ag. Building	20.32	20.32	20.32	20.32	20.32	20.32	20.32
Commercial	25.37	25.37	25.37	25.37	25.37	25.37	25.37
Industrial	27.90	27.90	27.90	27.90	27.90	27.90	27.90
Personal	21.85	-7.36	-5.23	-34.44	-2.80	-1.99	-13.10
Personal (Real)							
Utilities	21.49	21.49	21.49	21.49	21.49	21.49	21.49
Others	21.13	21.13	21.13	21.13	21.13	21.13	21.13
Total	21.37	16.53	20.10	15.27	15.37	18.68	14.19

County: WRIGHT

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	23.84	16.14	23.84	16.14	16.14	23.84	16.14
Ag. Land	16.00	13.68	16.00	13.68	13.68	16.00	13.68
Ag. Building	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Commercial	23.62	23.62	23.62	23.62	23.62	23.62	23.62
Industrial	22.62	22.62	22.62	22.62	22.62	22.62	22.62
Personal	19.02	3.01	2.98	-13.03	1.56	1.54	-6.74
Personal (Real)							
Utilities	18.71	18.71	18.71	18.71	18.71	18.71	18.71
Others	21.74	21.74	21.74	21.74	21.74	21.74	21.74
Total	18.21	14.64	17.18	13.61	13.81	16.21	12.84

STATE

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	28.76	21.22	28.76	21.22	21.22	28.76	21.22
Ag. Land	18.30	15.57	18.30	15.57	15.57	18.30	15.57
Ag. Building	19.08	19.08	19.08	19.08	19.08	19.08	19.08
Commercial	29.83	29.83	29.83	29.83	29.83	29.83	29.83
Industrial	27.90	27.90	27.90	27.90	27.90	27.90	27.90
Personal	24.65	5.35	7.74	-11.56	2.89	4.18	-6.24
Personal (Real)							
Utilities	23.20	23.20	23.20	23.20	23.20	23.20	23.20
Others	26.58	26.58	26.58	26.58	26.58	26.58	26.58
Total	24.01	19.72	23.03	18.74	18.79	21.94	17.85

Table 6.61
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1982

County: POLK

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	33.52	28.10	15.30	9.89	18.21	9.91	6.41
Ag. Land	26.24	23.22	25.06	22.05	22.22	23.99	21.10
Ag. Building	26.31	26.31	25.13	25.13	25.18	24.05	24.05
Commercial	33.66	33.66	29.00	29.00	29.57	25.47	25.47
Industrial	33.08	33.08	32.04	32.04	32.08	31.07	31.07
Personal	34.43	15.96	-6.36	-24.83	7.28	-2.90	-11.33
Personal (Real)	33.07	33.07	33.07	33.07	33.07	33.07	33.07
Utilities	31.63	31.63	31.63	31.63	31.63	31.63	31.63
Others	27.52	27.52	27.52	27.52	27.52	27.52	27.52
Total	33.18	29.49	20.71	17.01	21.50	15.10	12.41

County: RINGGOLD

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	27.18	18.70	12.39	3.91	12.11	8.03	2.53
Ag. Land	20.74	18.35	19.81	17.42	17.56	18.96	16.67
Ag. Building	20.59	20.59	19.67	19.67	19.71	18.82	18.82
Commercial	32.04	32.04	27.60	27.60	28.14	24.25	24.25
Industrial	32.24	32.24	31.28	31.28	31.27	30.33	30.33
Personal	23.28	-8.49	-47.34	-79.10	-1.92	-10.70	-17.88
Personal (Real)	31.90	31.90	31.90	31.90	31.90	31.90	31.90
Utilities	22.99	22.99	22.99	22.99	22.99	22.99	22.99
Others	19.23	19.23	19.23	19.23	19.23	19.23	19.23
Total	22.60	18.73	16.95	13.08	15.08	13.65	10.54

County: WRIGHT

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	23.41	18.35	10.69	5.63	11.89	6.92	3.65
Ag. Land	16.23	14.27	15.50	13.54	13.66	14.83	12.96
Ag. Building	16.19	16.19	15.47	15.47	15.50	14.81	14.81
Commercial	24.92	24.92	21.47	21.47	21.89	18.86	18.86
Industrial	25.41	25.41	24.62	24.62	24.64	23.87	23.87
Personal	19.51	2.36	-18.49	-35.64	.78	-6.08	-11.73
Personal (Real)	24.33	24.33	24.33	24.33	24.33	24.33	24.33
Utilities	18.85	18.85	18.85	18.85	18.85	18.85	18.85
Others	19.23	19.23	19.23	19.23	19.23	19.23	19.23
Total	19.09	16.08	13.77	10.76	12.81	10.98	8.57

1982

STATE

Class:	Levy / Valuation	Levy-Credit / Valuation	Levy-Rllbck / Valuation	Levy-Both / Valuation	Levy-Credit / New Valuation	Levy-Rllbck / New Valuation	Levy-Both / New Valuation
Residential	28.27	22.86	12.88	7.48	14.81	8.34	4.84
Ag. Land	18.93	16.62	18.09	15.78	15.91	17.31	15.10
Ag. Building	19.64	19.64	18.76	18.76	18.80	17.96	17.96
Commercial	29.89	29.89	25.75	25.75	26.25	22.62	22.62
Industrial	28.21	28.21	27.32	27.32	27.35	26.49	26.49
Personal	25.17	3.17	-18.08	-40.08	1.10	-6.27	-13.89
Personal (Real)							
Utilities	23.79	23.79	23.79	23.79	23.79	23.79	23.79
Others	26.56	26.56	26.56	26.56	26.56	26.56	26.56
Total	24.85	21.29	16.74	13.19	16.30	12.82	10.09

6.7 EFFECTS OF CREDITS AND ROLLBACKS ON REVENUES

The following tables show the effects of property tax rollbacks and credits on property tax revenues. The effects have been estimated for three representative counties (Polk, Ringgold, and Wright) for the years 1978/79 and 1982/83 and for the state as a whole for the years 1978/79 through 1982/83.

Total tax available refers to the total taxes that could have been collected if there were no credits and rollbacks and if the tax rate (levy/valuation) were not changed. The taxes available have been estimated in two ways: 1) based on existing county tax rates, and 2) based on existing state tax rates.

The taxpayer column indicates at the top the total tax available. The total at the bottom represents the amount of tax actually paid by property holders within the county after deducting all credits and rollbacks. The State Refund column estimates the funds paid by the state to the counties. Thus, the first two columns represent the total amount of revenues received by the counties. The Lost County column estimates the amount of credits and taxes available before rollbacks that the counties do not receive.

Table 6.71

PROPERTY TAX ROLLBACKS AND CREDITS
COUNTY RATES
1978/79

COUNTY---POLK
YEARS USED---Property-1978/79
Valuation-1977
Rollback-1977
Mil. Ser.-1977

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$134,202			
Rollback-Res.	$0	$0	$0	
Agr.	$0	$0	$0	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$3,533	$0	$3,533	
Per. Prop. Crd.	$3,238	$3,224	$14	
Mil. Ser. Crd.	$1,904	$378	$1,526	
Agr. Land Crd.	$582	$581	$1	
Homestead Crd.	$10,314	$10,310	$0	
Eld-own Crd.	$762	$762	$0	
Eld-Rent Crd.	$614	$613	$1	
Livestock Crd.	$52	$36	$16	
Total	$113,203	$15,906	$5,093	
% of Total	84.3527%	11.8523%	3.7950%	100.0000%

PROPERTY TAX ROLLBACKS AND CREDITS
COUNTY RATES
1978/79

COUNTY---RINGGOLD
YEARS USED---Property-1978/79
Valuation-1977
Rollback-1977
Mil. Ser.-1977

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$3,155			
Rollback-Res.	$0	$0	$0	
Agr.	$0	$0	$0	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$174	$0	$174	
Per. Prop. Crd.	$132	$128	$4	
Mil. Ser. Crd.	$20	$0	$20	
Agr. Land Crd.	$249	$249	$0	
Homestead Crd.	$176	$176	$0	
Eld-own Crd.	$18	$18	$0	
Eld-Rent Crd.	$3	$3	$0	
Livestock Crd.	$55	$56	$-1	
Total	$2,319	$640	$196	
% of Total	73.5011%	20.2849%	6.2140%	100.0000%

PROPERTY TAX ROLLBACKS AND CREDITS
COUNTY RATES
1978/79

COUNTY---WRIGHT
YEARS USED---Property-1978/79
Valuation-1977
Rollback-1977
Mil. Ser.-1977

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$8,347			
Rollback-Res.	$0	$0	$0	
Agr.	$0	$0	$0	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$454	$0	$454	
Per. Prop. Crd.	$404	$397	$7	
Mil. Ser. Crd.	$69	$21	$48	
Agr. Land Crd.	$572	$572	$0	
Homestead Crd.	$433	$433	$0	
Eld-own Crd.	$37	$37	$0	
Eld-Rent Crd.	$16	$16	$0	
Livestock Crd.	$49	$38	$11	
Total	$6,314	$1,514	$519	
% of Total	76.2107%	17.7138%	6.0769%	100.0000%

PROPERTY TAX ROLLBACKS AND CREDITS
STATE RATES
1978/79

COUNTY---POLK
YEARS USED---Property-1978/79
Valuation-1977
Rollback-1977
Mil. Ser.-1977

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$133,196			
Rollback-Res.	$0	$0	$0	
Agr.	$0	$0	$0	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$2,541	$0	$2,541	
Per. Prop. Crd.	$3,238	$3,224	$14	
Mil. Ser. Crd.	$1,904	$378	$1,526	
Agr. Land Crd.	$582	$581	$1	
Homestead Crd.	$10,314	$10,314	$0	
Eld-own Crd.	$762	$762	$0	
Eld-Rent Crd.	$614	$613	$1	
Livestock Crd.	$38	$36	$4	
Total	$113,203	$15,906	$4,087	
% of Total	84.9898%	11.9418%	3.0684%	100.0000%

PROPERTY TAX ROLLBACKS AND CREDITS
STATE RATES
1978/79

COUNTY---RINGGOLD
YEARS USED---Property-1978/79
Valuation-1977
Rollback-1977
Mil. Ser.-1977

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$3,183			
Rollback-Res.	$0	$0	$0	
Agr.	$0	$0	$0	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$195	$0	$195	
Per. Prop. Crd.	$132	$128	$4	
Mil. Ser. Crd.	$20	$0	$20	
Agr. Land Crd.	$249	$249	$0	
Homestead Crd.	$176	$176	$0	
Eld-own Crd.	$18	$18	$0	
Eld Rent Crd.	$5	$5	$0	
Livestock Crd.	$61	$56	$5	
Total	$2,319	$640	$224	
% of Total	72.8463%	20.1043%	7.0497%	100.0000%

PROPERTY TAX ROLLBACKS AND CREDITS
STATE RATES
1978/79

COUNTY---WRIGHT
YEARS USED---Property-1978/79
Valuation-1977
Rollback-1977
Mil. Ser.-1977

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$8,496			
Rollback-Res.	$0	$0	$0	
Agr.	$0	$0	$0	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$560	$0	$560	
Per. Prop. Crd.	$404	$397	$7	
Mil. Ser. Crd.	$69	$21	$48	
Agr. Land Crd.	$572	$572	$0	
Homestead Crd.	$433	$433	$0	
Eld-own Crd.	$37	$37	$0	
Eld-Rent Crd.	$16	$16	$0	
Livestock Crd.	$63	$38	$25	
Total	$6,314	$1,514	$553	
% of Total	74.9085%	17.8195%	7.5405%	100.0000%

Table 6.72

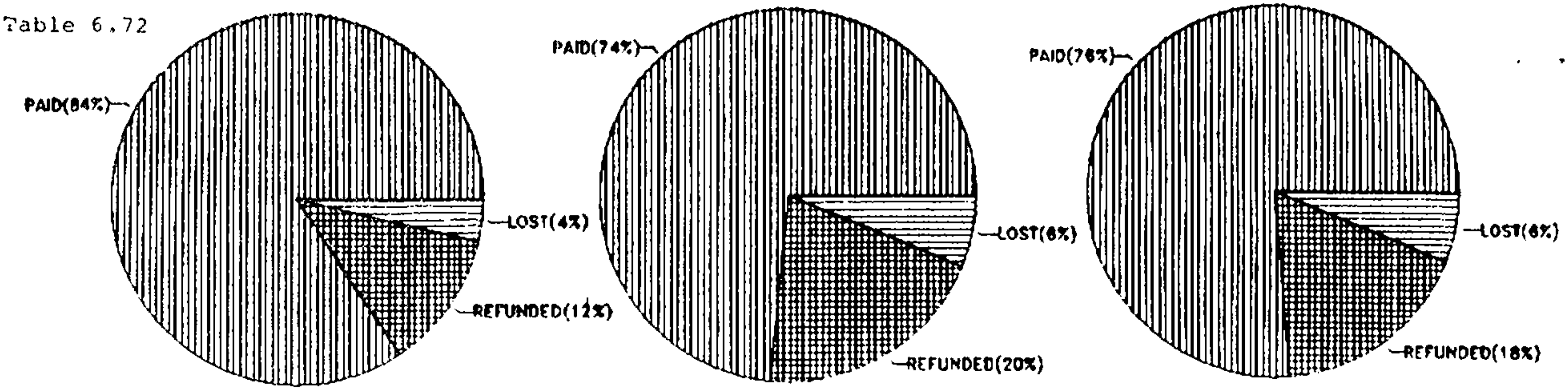


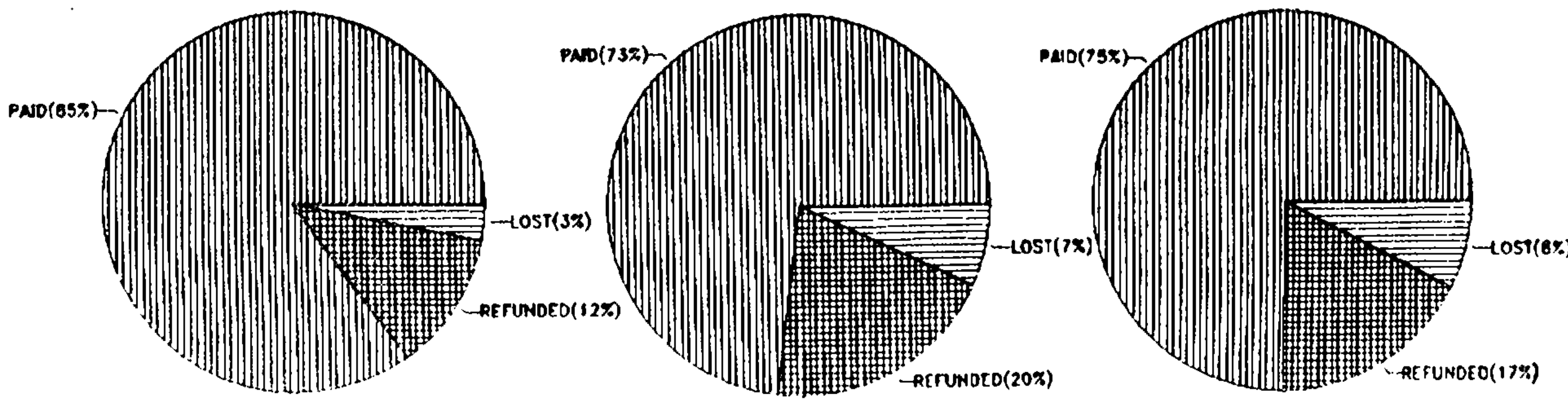
Table 6.52

POLK RINGGOLD WRIGHT

COUNTY RATES

1978/79 PROPERTY TAX ROLLBACKS AND CREDITS

STATE RATES



POLK RINGGOLD WRIGHT

Table 6.73

COUNTY--POLK
YEARS USED--Property-1982/83
Valuation-1981
Rollback-1981
Mil. Ser.-1981

PROPERTY TAX ROLLBACKS AND CREDITS
COUNTY RATES
1982/83

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$265,714			
Rollback-Res.	$49,790	$0	$49,790	
Agr.	$220	$0	$220	
Com.	$6,776	$0	$6,776	
Ind.	$250	$0	$250	
Per. Prop. Roll	$10,133	$0	$10,133	
Per. Prop. Crd.	$4,531	$4,460	$71	
Mil. Ser. Crd.	$1,828	$364	$1,464	
Agr. Land Crd.	$516	$516	$0	
Homestead Crd.	$11,730	$11,730	$0	
Eld-own Crd.	$720	$720	$0	
Eld-Rent Crd.	$500	$500	$0	
Livestock Crd.	$55	$36	$19	
Total	$130,659	$10,332	$60,723	
% of Total	64.37052	7.66871	27.96082	100.00005

COUNTY--RINGGOLD
YEARS USED--Property-1982/83
Valuation-1981
Rollback-1981
Mil. Ser.-1981

PROPERTY TAX ROLLBACKS AND CREDITS
COUNTY RATES
1982/83

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$5,307			
Rollback-Res.	$460	$0	$460	
Agr.	$110	$0	$110	
Com.	$36	$0	$36	
Ind.	$1	$0	$1	
Per. Prop. Roll	$452	$0	$452	
Per. Prop. Crd.	$145	$136	$9	
Mil. Ser. Crd.	$79	$58	$21	
Agr. Land Crd.	$263	$263	$0	
Homestead Crd.	$214	$214	$0	
Eld-own Crd.	$19	$19	$0	
Eld-Rent Crd.	$1	$1	$0	
Livestock Crd.	$58	$56	$2	
Total	$3,391	$697	$1,099	
% of Total	66.66161	12.95083	20.39963	100.00001

COUNTY--WRIGHT
YEARS USED--Property-1982/83
Valuation-1981
Rollback-1981
Mil. Ser.-1977

PROPERTY TAX ROLLBACKS AND CREDITS
COUNTY RATES
1982/83

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$13,002			
Rollback-Res.	$1,551	$0	$1,551	
Agr.	$229	$0	$229	
Com.	$130	$0	$130	
Ind.	$15	$0	$15	
Per. Prop. Roll	$1,476	$0	$1,476	
Per. Prop. Crd.	$435	$415	$20	
Mil. Ser. Crd.	$68	$19	$49	
Agr. Land Crd.	$597	$597	$0	
Homestead Crd.	$503	$503	$0	
Eld-own Crd.	$34	$34	$0	
Eld-Rent Crd.	$10	$10	$0	
Livestock Crd.	$50	$38	$12	
Total	$9,105	$1,616	$3,081	
% of Total	65.96952	11.70063	22.32191	100.00232

COUNTY--POLK
YEARS USED--Property-1982/83
Valuation-1981
Rollback-1981
Mil. Ser.-1981

PROPERTY TAX ROLLBACKS AND CREDITS
STATE RATES
1982/83

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$234,319			
Rollback-Res.	$41,992	$0	$41,992	
Agr.	$159	$0	$159	
Com.	$6,016	$0	$6,016	
Ind.	$213	$0	$213	
Per. Prop. Roll	$7,400	$0	$7,400	
Per. Prop. Crd.	$4,531	$4,460	$71	
Mil. Ser. Crd.	$1,828	$364	$1,464	
Agr. Land Crd.	$516	$516	$0	
Homestead Crd.	$11,730	$11,730	$0	
Eld-own Crd.	$720	$720	$0	
Eld-Rent Crd.	$500	$500	$0	
Livestock Crd.	$39	$34	$5	
Total	$130,659	$10,332	$57,370	
% of Total	67.71063	7.82331	24.46591	100.00002

COUNTY--RINGGOLD
YEARS USED--Property-1982/83
Valuation-1981
Rollback-1981
Mil. Ser.-1981

PROPERTY TAX ROLLBACKS AND CREDITS
STATE RATES
1982/83

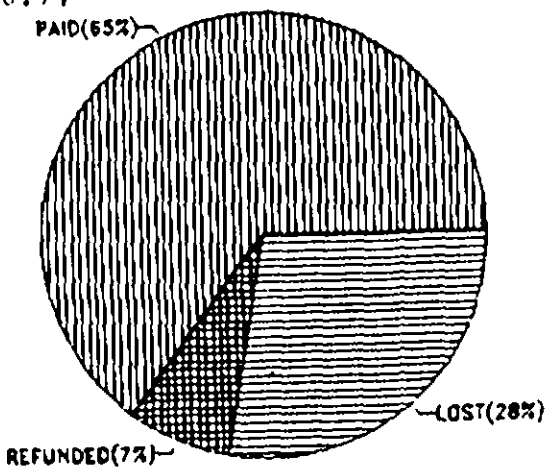
TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$3,433			
Rollback-Res.	$470	$0	$470	
Agr.	$100	$0	$100	
Com.	$34	$0	$34	
Ind.	$1	$0	$1	
Per. Prop. Roll	$407	$0	$407	
Per. Prop. Crd.	$145	$136	$9	
Mil. Ser. Crd.	$79	$58	$21	
Agr. Land Crd.	$263	$263	$0	
Homestead Crd.	$214	$214	$0	
Eld-own Crd.	$19	$19	$0	
Eld-Rent Crd.	$1	$1	$0	
Livestock Crd.	$63	$56	$7	
Total	$3,391	$697	$1,145	
% of Total	66.09443	12.82072	21.07693	100.00002

COUNTY--WRIGHT
YEARS USED--Property-1982/83
Valuation-1981
Rollback-1981
Mil. Ser.-1977

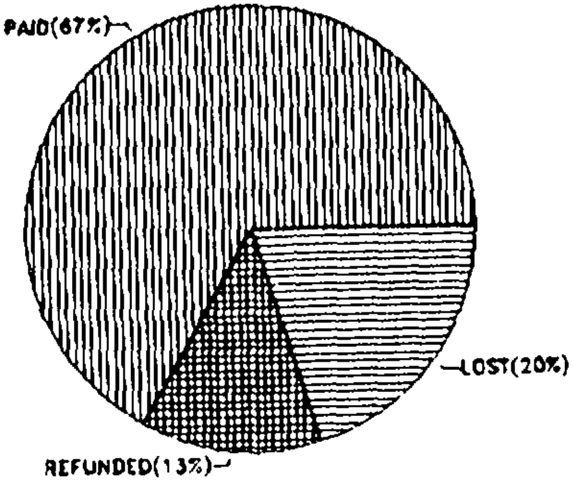
PROPERTY TAX ROLLBACKS AND CREDITS
STATE RATES
1982/83

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$14,313			
Rollback-Res.	$1,072	$0	$1,072	
Agr.	$267	$0	$267	
Com.	$156	$0	$156	
Ind.	$16	$0	$16	
Per. Prop. Roll	$1,307	$0	$1,307	
Per. Prop. Crd.	$435	$415	$20	
Mil. Ser. Crd.	$68	$19	$49	
Agr. Land Crd.	$597	$597	$0	
Homestead Crd.	$503	$503	$0	
Eld-own Crd.	$34	$34	$0	
Eld-Rent Crd.	$10	$10	$0	
Livestock Crd.	$64	$38	$26	
Total	$9,105	$1,616	$3,774	
% of Total	62.72031	11.13331	26.13041	99.99991

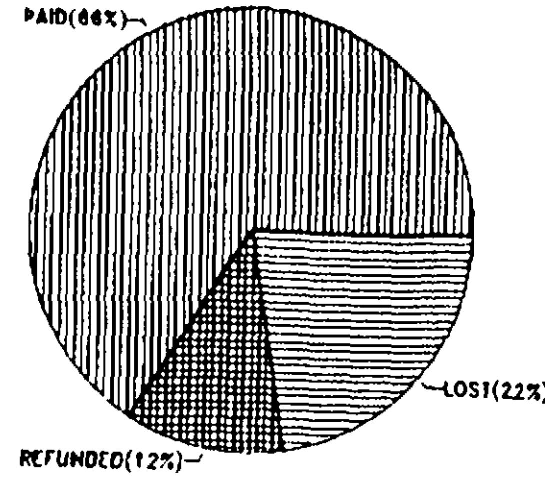
Table 6.74



POLK



RINGGOLD



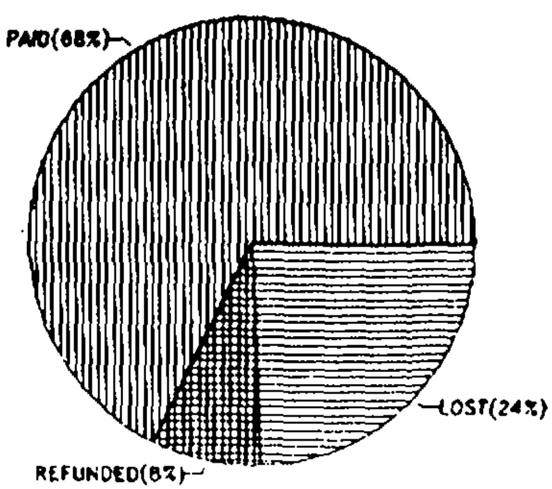
WRIGHT

Table 6.54

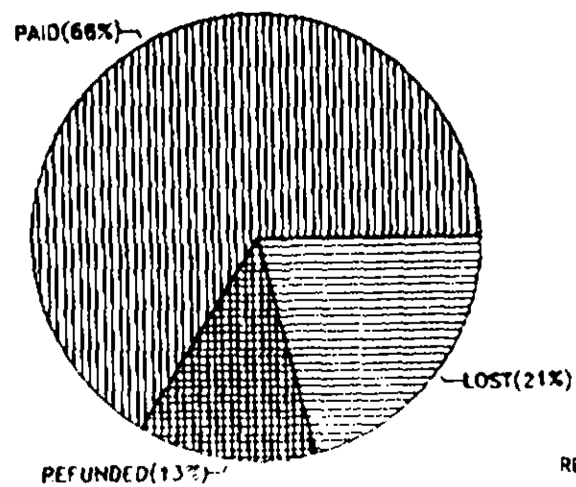
COUNTY RATES

1982/83 PROPERTY TAX ROLLBACKS AND CREDITS

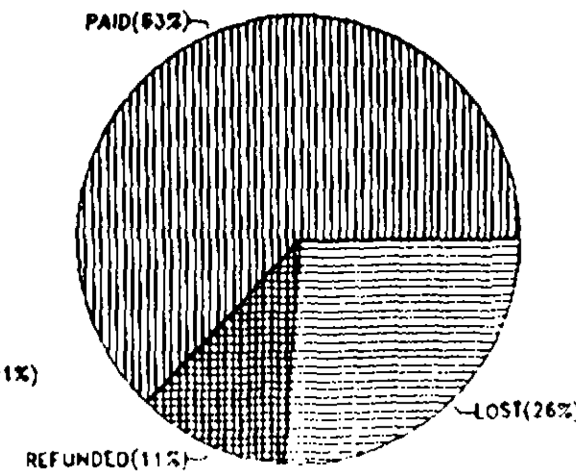
STATE RATES



POLK



RINGGOLD



WRIGHT

Table 6.75

YEARS USED---
Property-1978
Valuation-1977
Rollback-1977
Mil. Serv.-1977
Livest.-$8,000

PROPERTY TAX ROLLBACKS AND CREDITS 1978/79

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$1,199,608			
Rollback-Res.	$0	$0	$0	
Agr.	$0	$0	$0	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$46,330	$0	$46,330	
Per. Prop. Crd.	$81,527	$39,625	$1,902	
Mil. Ser. Crd.	$13,828	$3,375	$10,453	
Agr. Land Crd.	$41,032	$41,032	$0	
Homestead Crd.	$82,612	$82,612	$0	
Eld-own Crd.	$9,004	$9,004	$0	
Eld-Rent Crd.	$4,087	$4,087	$0	
Livestock Crd.	$11,431	$0	$11,431	
Total	$960,950	$179,534	$70,124	
% of Total	79.1013%	15.0287%	5.8700%	100.000%

YEARS USED---
Property-1978/9
Valuation-1978
Rollback-1978
Mil. Serv.-1978
Livest.-$8,000

PROPERTY TAX ROLLBACKS AND CREDITS 1979/80

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$1,435,147			
Rollback-Res.	$119,795	$0	$119,795	
Agr.	$14,421	$0	$14,421	
Com.	$0	$0	$0	
Ind.	$0	$0	$0	
Per. Prop. Roll	$60,639	$0	$60,639	
Per. Prop. Crd.	$48,166	$45,905	$2,261	
Mil. Ser. Crd.	$13,802	$3,382	$10,420	
Agr. Land Crd.	$42,000	$42,000	$0	
Homestead Crd.	$83,725	$83,725	$0	
Eld-own Crd.	$8,891	$8,891	$0	
Eld-Rent Crd.	$4,313	$4,313	$0	
Livestock Crd.	$11,369	$0	$11,369	
Total	$1,030,026	$186,216	$218,905	
% of Total	71.7715%	12.9754%	15.2531%	100.0000%

YEARS USED---
Property-1980
Valuation-1979
Rollback-1979
Mil. Serv.-1979
Livest.-$8,000

PROPERTY TAX ROLLBACKS AND CREDITS 1980/81

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$1,761,320			
Rollback-Res.	$265,041	$0	$265,041	
Agr.	$22,751	$0	$22,751	
Com.	$24,636	$0	$24,636	
Ind.	$0	$0	$0	
Per. Prop. Roll	$79,962	$0	$79,962	
Per. Prop. Crd.	$47,419	$44,490	$2,929	
Mil. Ser. Crd.	$13,978	$3,359	$10,619	
Agr. Land Crd.	$83,500	$83,500	$0	
Homestead Crd.	$88,473	$88,473	$0	
Eld-own Crd.	$8,891	$8,891	$0	
Eld-Rent Crd.	$3,738	$3,738	$0	
Livestock Crd.	$11,597	$0	$11,597	
Total	$1,150,534	$192,451	$418,335	
% of Total	65.3225%	10.9265%	23.7512%	100.0000%

YEARS USED---
Property-1981
Valuation-1980
Rollback-1980
Mil. Serv.-1980
Livest.-$7,632

PROPERTY TAX ROLLBACKS AND CREDITS 1981/82

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$1,853,011			
Rollback-Res.	$259,344	$0	$259,344	
Agr.	$3,933	$0	$3,933	
Com.	$15,027	$0	$15,027	
Ind.	$0	$0	$0	
Per. Prop. Roll	$104,799	$0	$104,799	
Per. Prop. Crd.	$48,181	$44,812	$3,369	
Mil. Ser. Crd.	$14,026	$3,338	$10,688	
Agr. Land Crd.	$43,500	$43,500	$0	
Homestead Crd.	$94,788	$88,473	$6,315	
Eld-own Crd.	$7,567	$8,891	$-1,324	
Eld-Rent Crd.	$3,442	$3,738	$-296	
Livestock Crd.	$11,776	$7,612	$4,164	
Total	$1,248,633	$200,384	$406,794	
% of Total	67.2023%	10.7997%	21.9200%	100.0000%

YEARS USED---
Property-1982/3
Valuation-1981
Rollback-1981
Mil. Serv.-1980
Livest.-$8,000

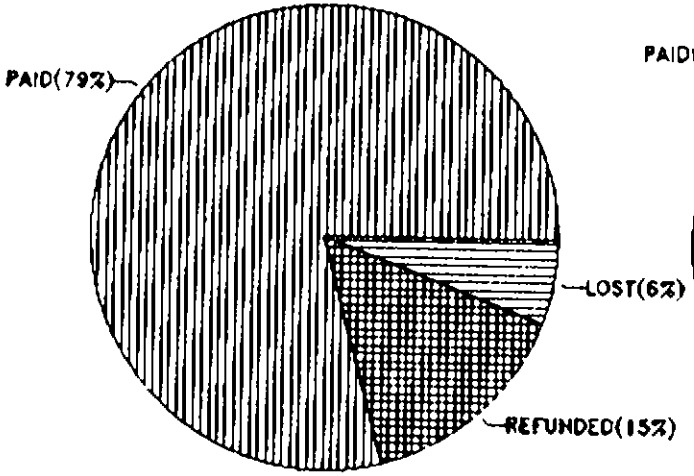
PROPERTY TAX ROLLBACKS AND CREDITS 1982/83

TYPE	TAXPAYER (000)	STATE REFUND (000)	LOST COUNTY (000)	TOTAL
TOT. TAX AVAIL.	$2,064,946			
Rollback-Res.	$354,437	$0	$354,437	
Agr.	$17,905	$0	$17,905	
Com.	$31,787	$0	$31,787	
Ind.	$2,261	$0	$2,261	
Per. Prop. Roll	$118,715	$0	$118,715	
Per. Prop. Crd.	$48,786	$43,295	$5,491	
Mil. Ser. Crd.	$13,785	$3,340	$10,445	
Agr. Land Crd.	$83,477	$83,477	$0	
Homestead Crd.	$94,345	$94,345	$0	
Eld-own Crd.	$6,326	$6,326	$0	
Eld-Rent Crd.	$3,155	$3,155	$0	
Livestock Crd.	$11,671	$8,000	$3,671	
Total	$1,338,317	$203,918	$522,712	
% of Total	64.8112%	9.8752%	25.3136%	100.0000%

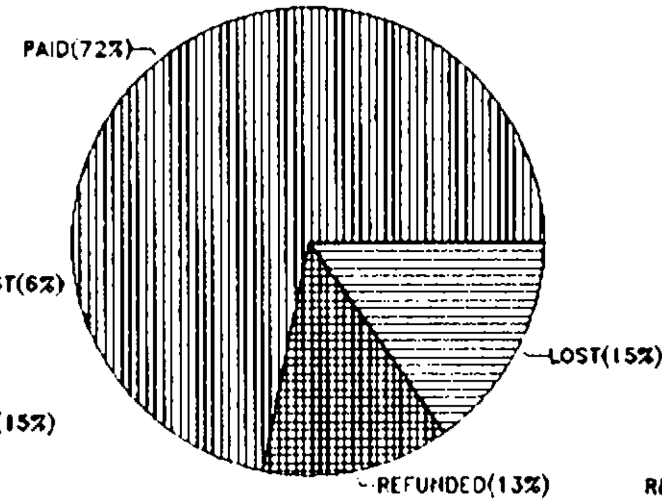
PROPERTY TAX ROLLBACKS AND CREDITS

Table 6.76

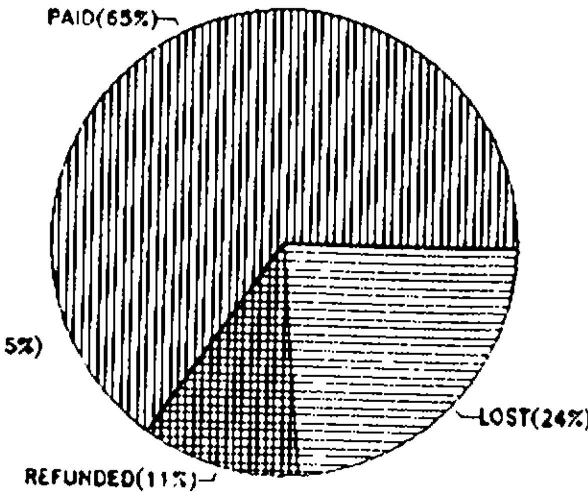
STATE TOTALS



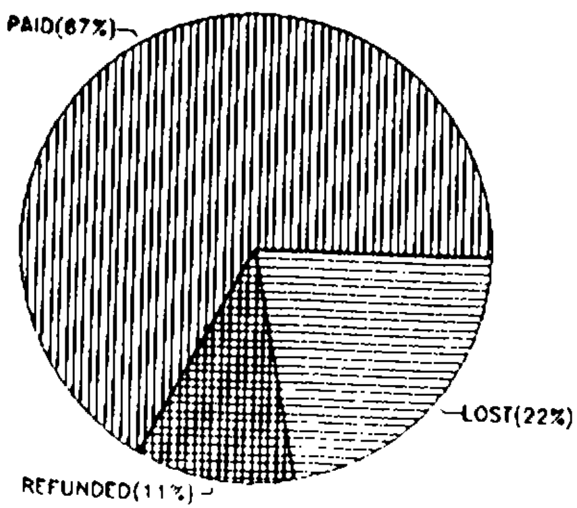
1978/79



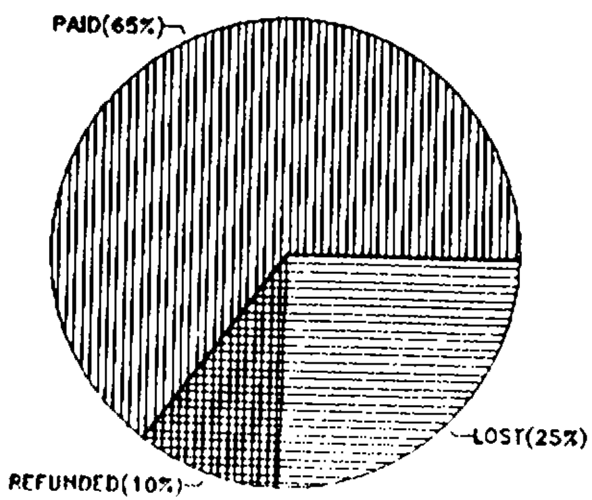
1979/80



1980/81



1981/82



1982/83

6.8 EFFECT OF ROLLBACKS ON VALUATION

The following figures show how Iowa's rollback policy has affected the taxable base of assessed valuations. The first figure reveals a growing difference between the market and taxable value of property in Iowa. In 1978/79 market and taxable value differed little, but by 1982/83 the market value was almost 30% larger than taxable value.

The rollbacks have had differing effects on the taxable base in different counties, as shown in the next two figures. Rollbacks have most strongly affected counties with rapidly growing property values. For example, in 1982/83 rollbacks have reduced the taxable base by 27% in Polk County but by only 18% in Ringgold County. Thus rollbacks have had the largest impact on counties with the largest rates of growth in property values and have reduced the horizontal equity of the property tax.

Table 6.81

EFFECTS OF ROLLBACKS ON TAXABLE BASE

1978/79--1982/83

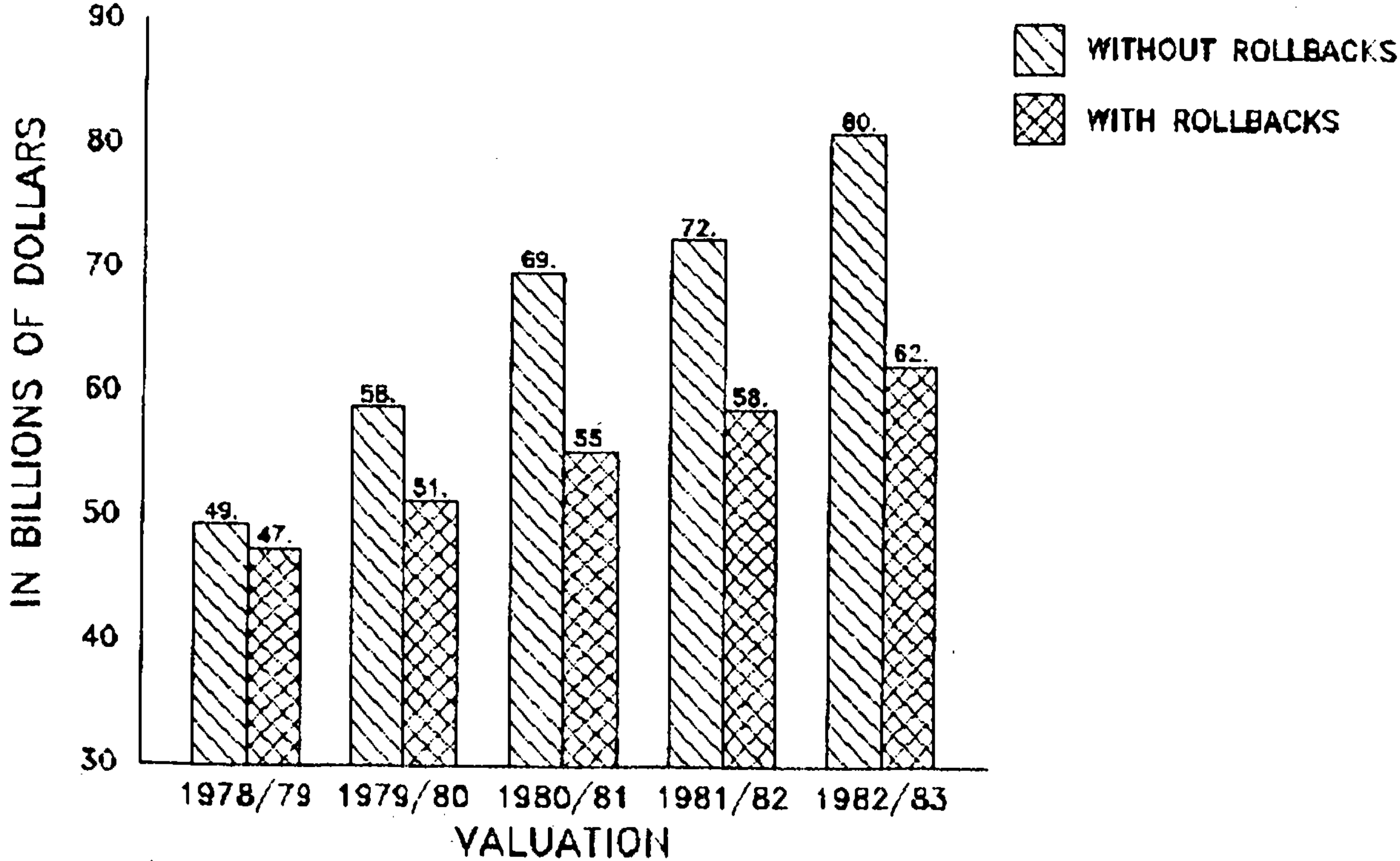


Table 6.82

EFFECTS OF ROLLBACKS ON THE TAXABLE BASE

1978/79

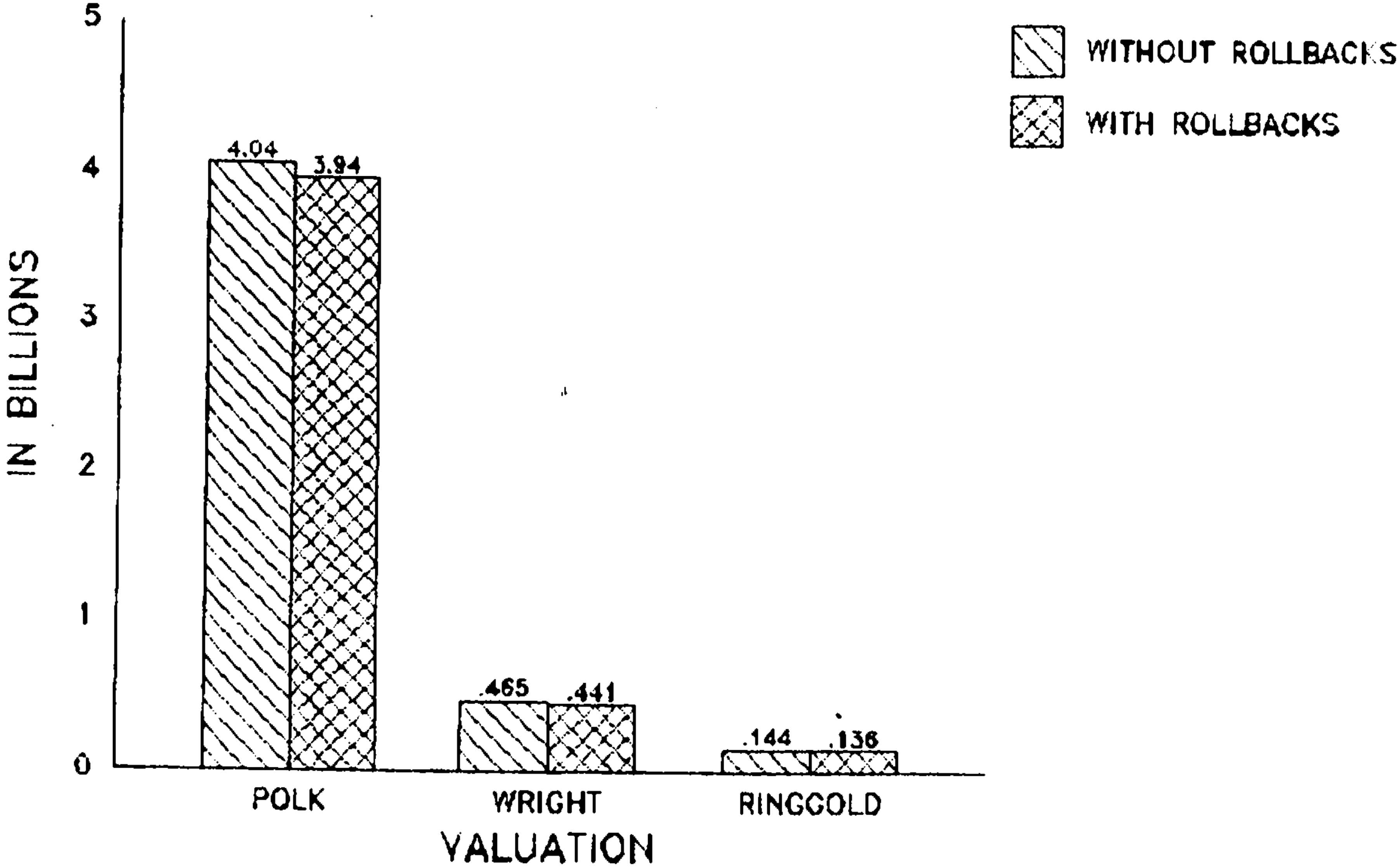
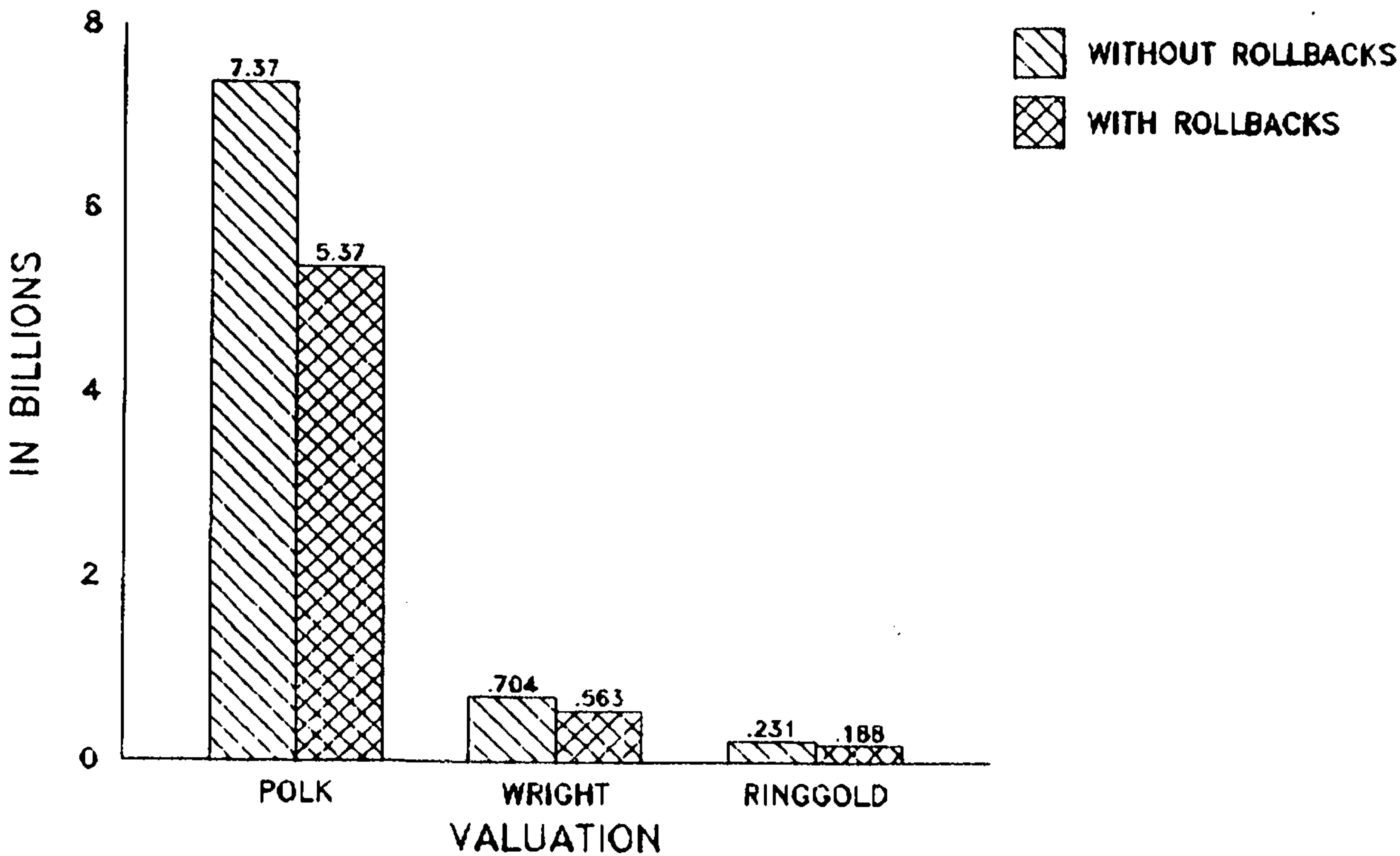


Table 6.83

EFFECTS OF ROLLBACKS ON THE TAXABLE BASE
1982/83



6.9 EFFECT OF CREDITS ON REVENUE

The following figures examine the impact of property tax credits on tax revenue for the state and for three counties (Polk, Wright, and Ringgold). Over the past five years, credits have reduced tax revenue by roughly 13% in each year, as shown in the first chart.

Credits have had very different effects on different types of property, as shown in the second figure. Reflecting the phase-out of the tax on personal property, credits reduced the tax revenue from personal property by 43% in 1982/83. Credits reduced tax revenue from residential and agricultural land by 17.4 and 12.2 percent respectively.

The remaining figures present the same comparisons for the three countries. In general, the findings discussed above hold for the counties. The figures show how the credits have different impacts due to the predominance of different classes of land in the each county. For example, the homestead and elderly and disabled credits have the largest impact on the largely residential Polk County while the agricultural land credit has the strongest effect on Wright County.

Methodology. The property tax credits were allocated to class of property as follows:

Residential - Homestead, Elderly and Disabled, Military Service Credits

Agricultural Land - Agricultural Land Credit

Personal Property - Personal Property and Livestock Credits

Table 6.91

EFFECTS OF CREDITS ON TAX REVENUE

1978/79--1982/83

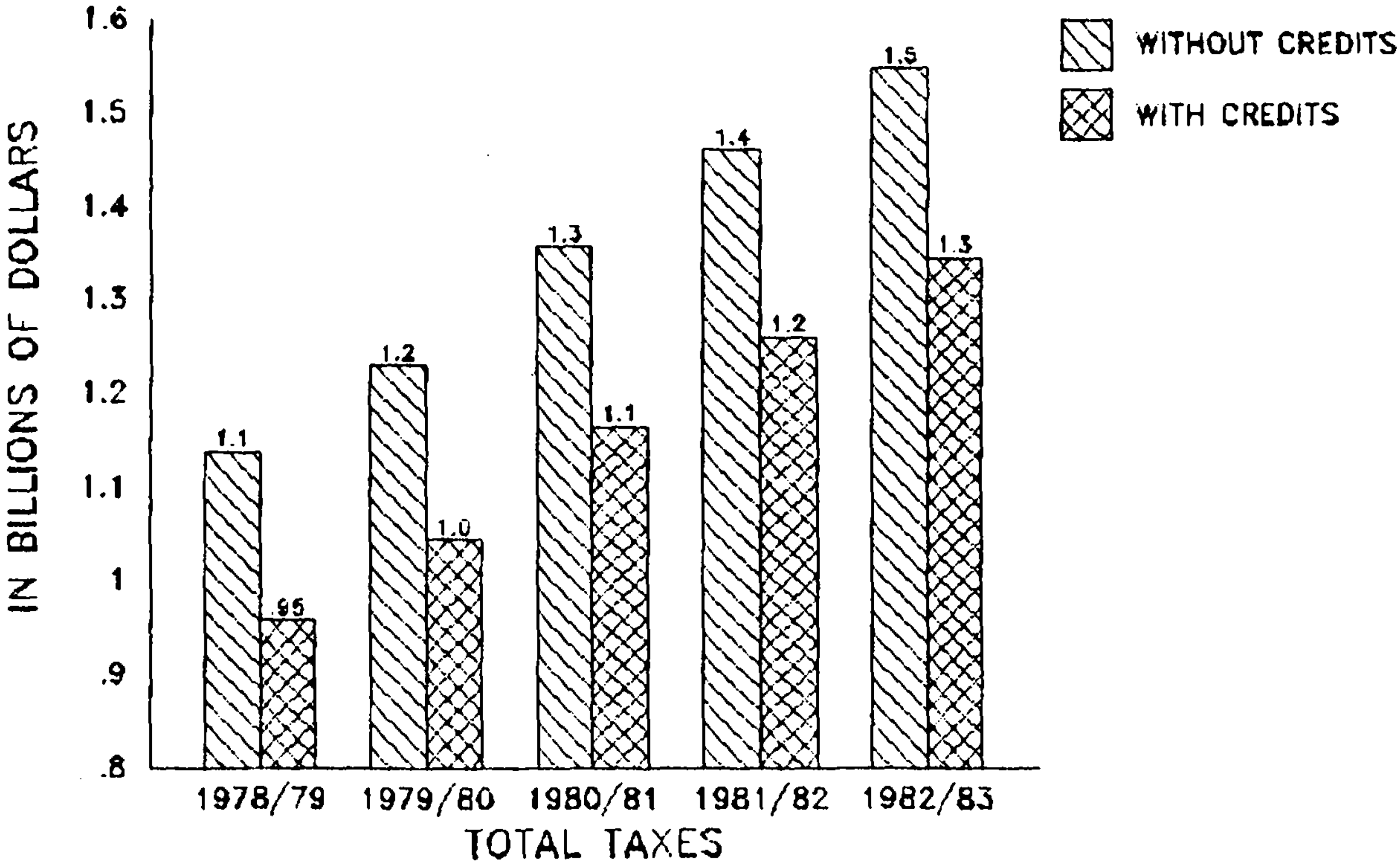


Table 6.92
Pg. 1 of 3

EFFECTS OF CREDITS ON TAX REVENUE

BY TYPE OF PROPERTY

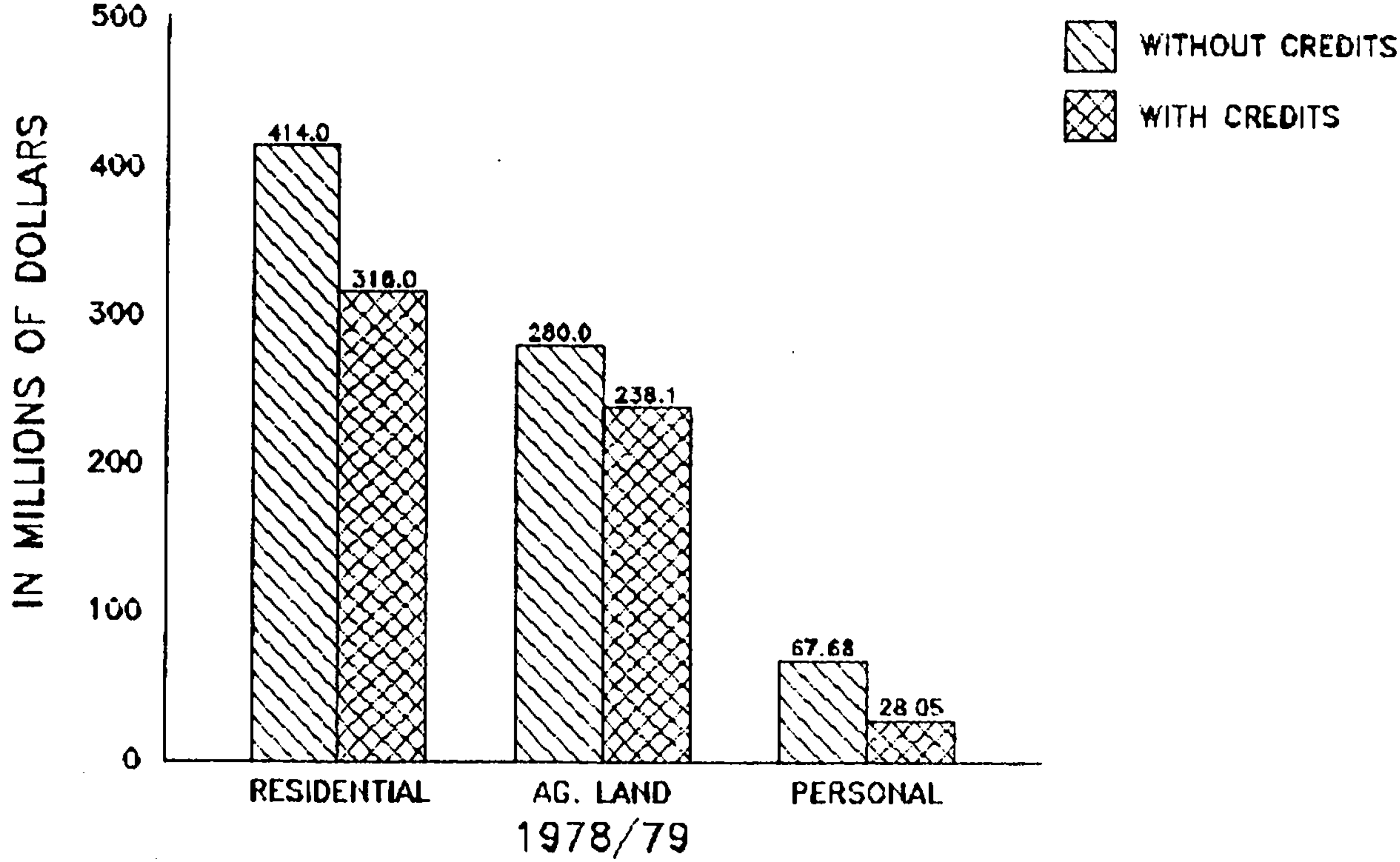


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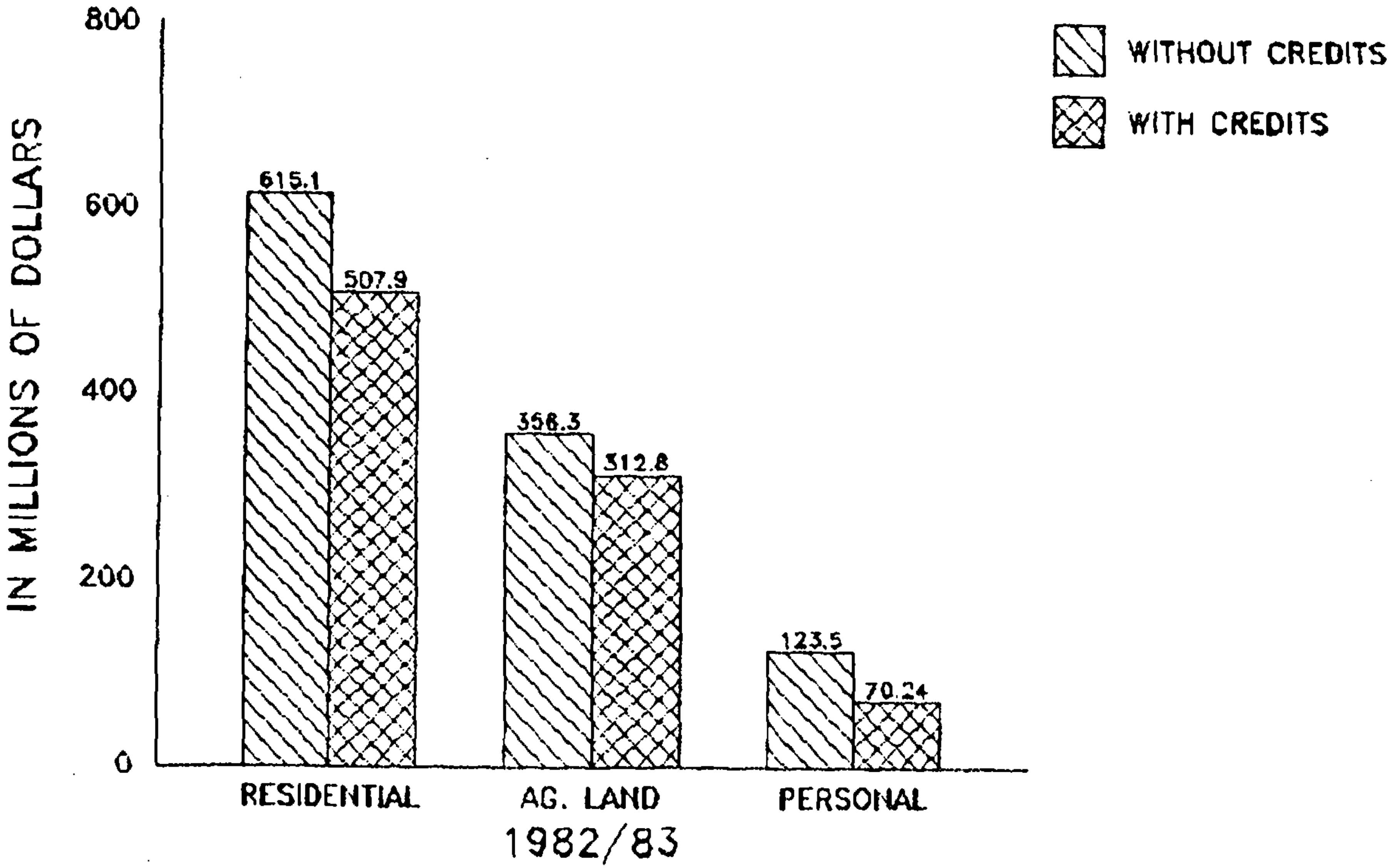
Table 6.92
pg. 2 of 3

EFFECTS OF CREDITS ON TAX REVENUE

BY TYPE OF PROPERTY



PROPERTY TAX CREDITS BY TYPE

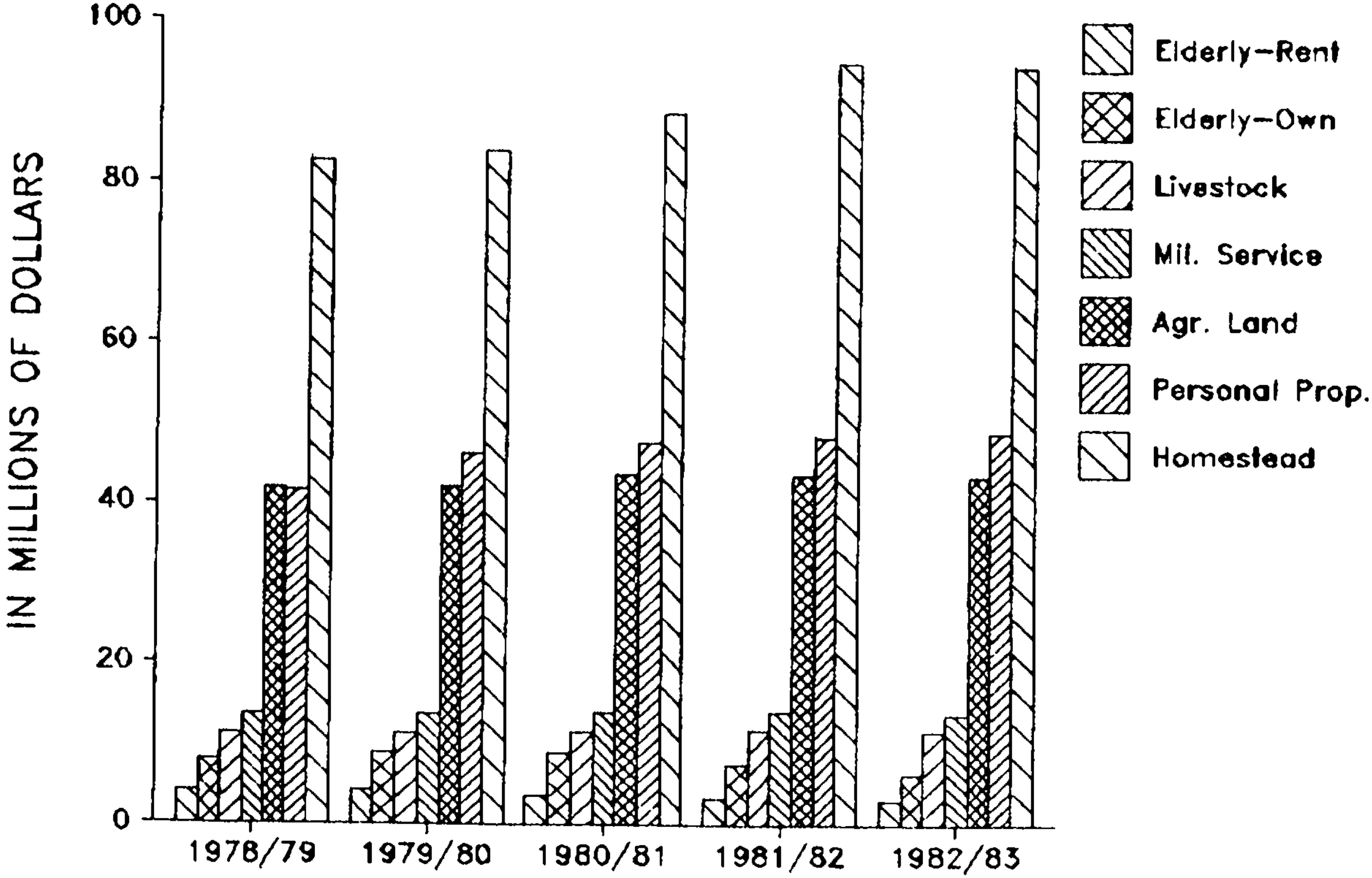
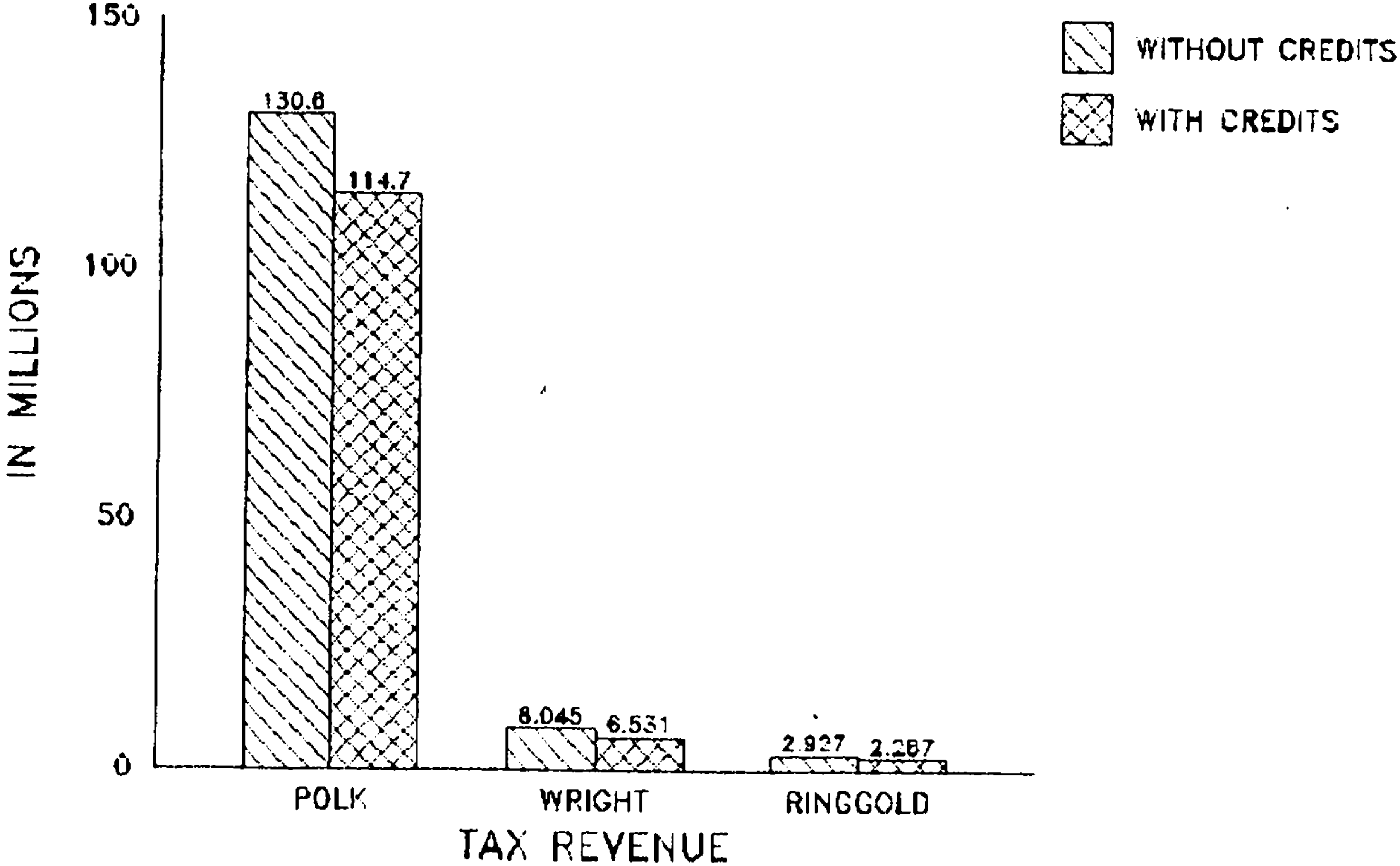


Table 6.93
pg. 1 of 2

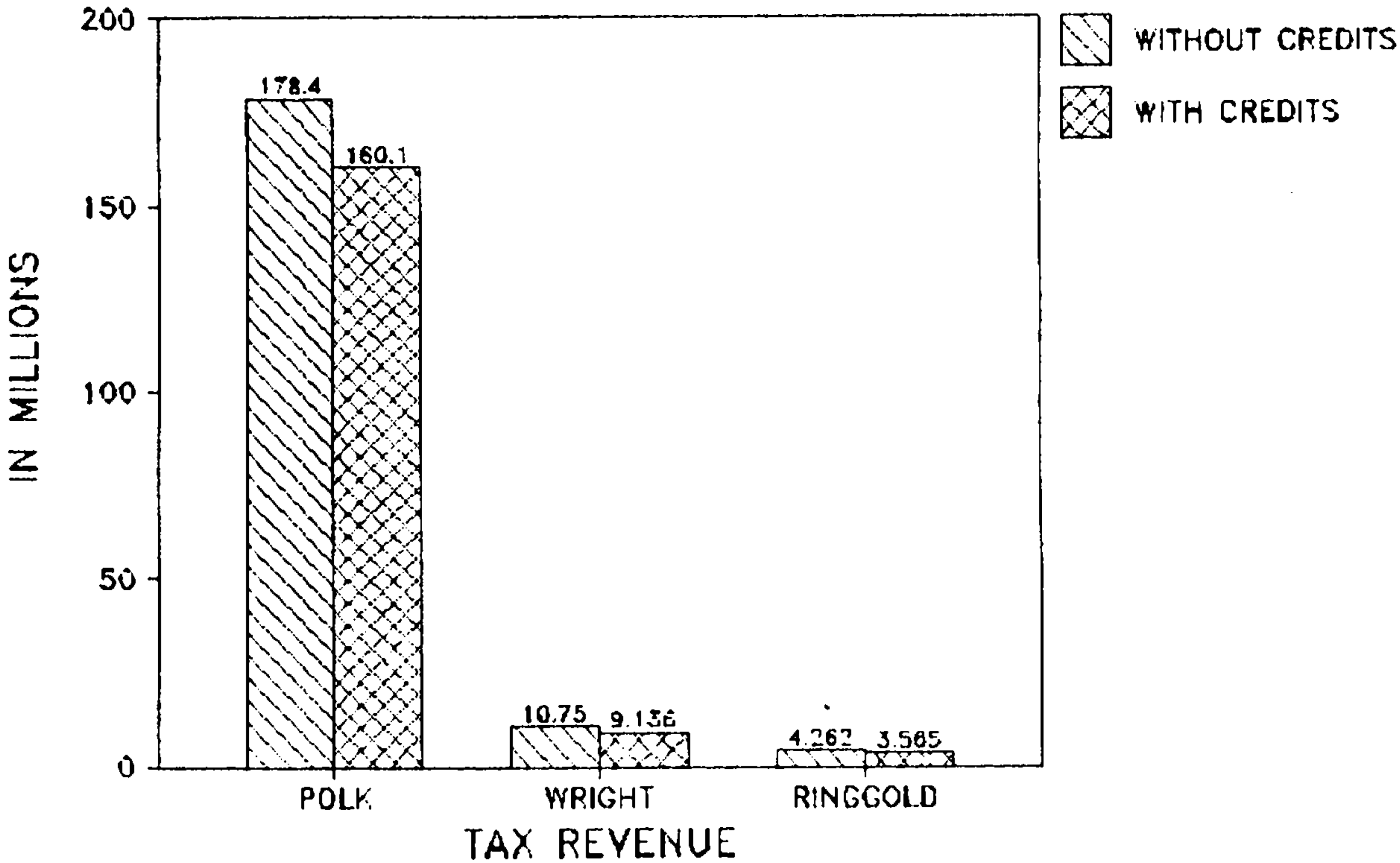
EFFECTS OF CREDITS ON TAX REVENUE

1978/79



EFFECTS OF CREDITS ON TAX REVENUE

1982/83



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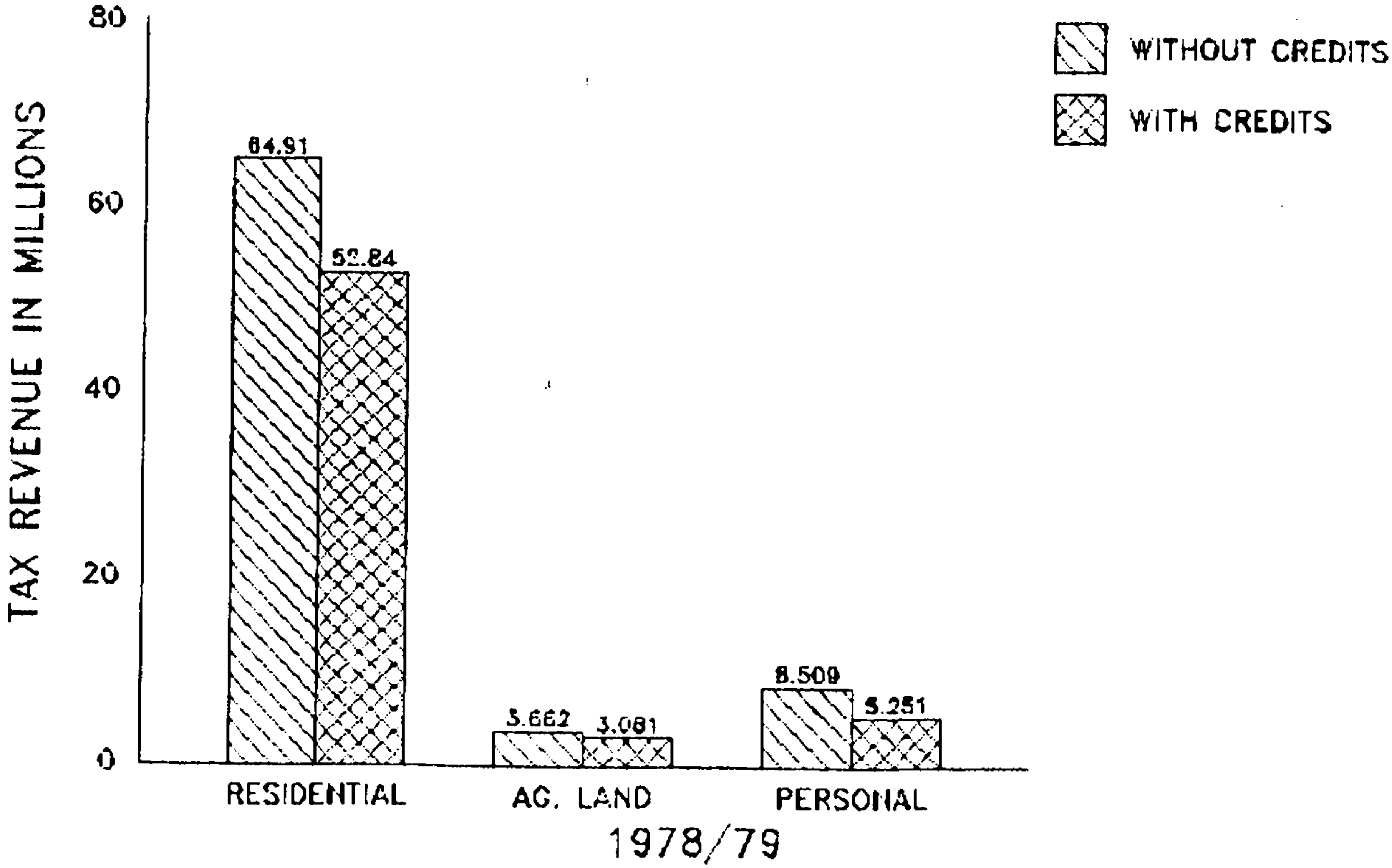
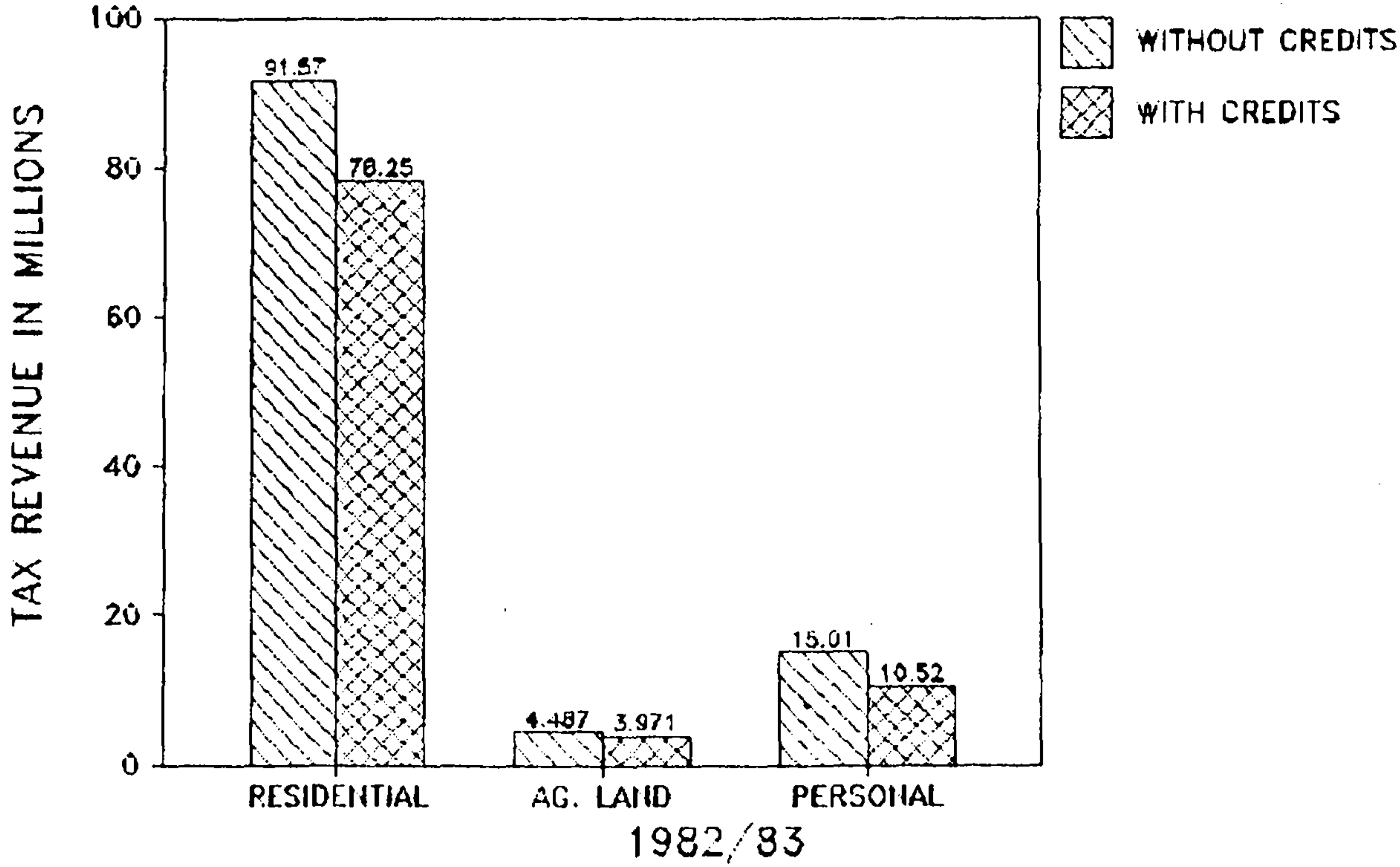
EFFECTS OF CREDITS ON TAX REVENUE

POLK



EFFECTS OF CREDITS ON TAX REVENUE

POLK



EFFECTS OF CREDITS ON TAX REVENUE

RINGGOLD

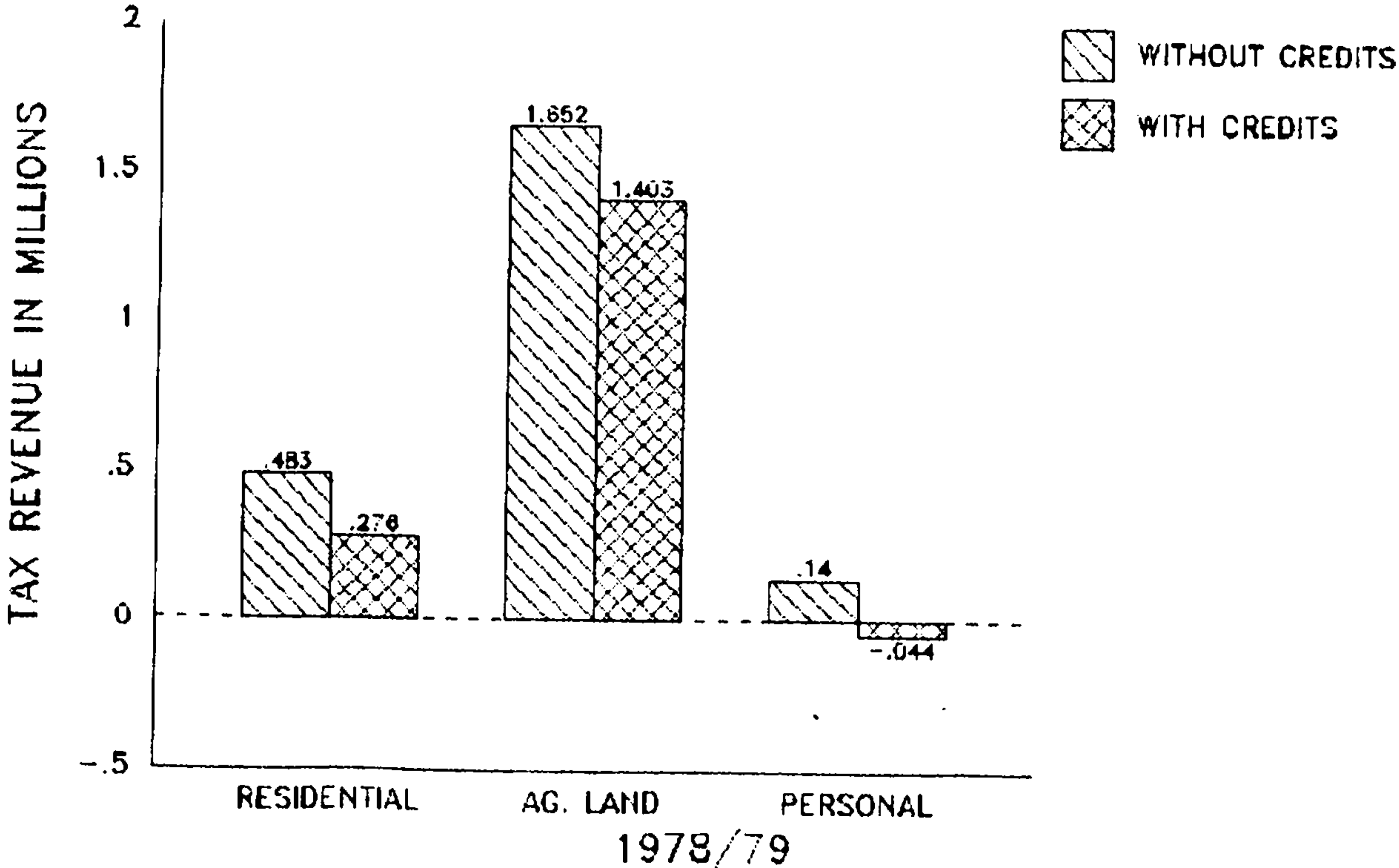


Table 6.95
pg. 2 of 2

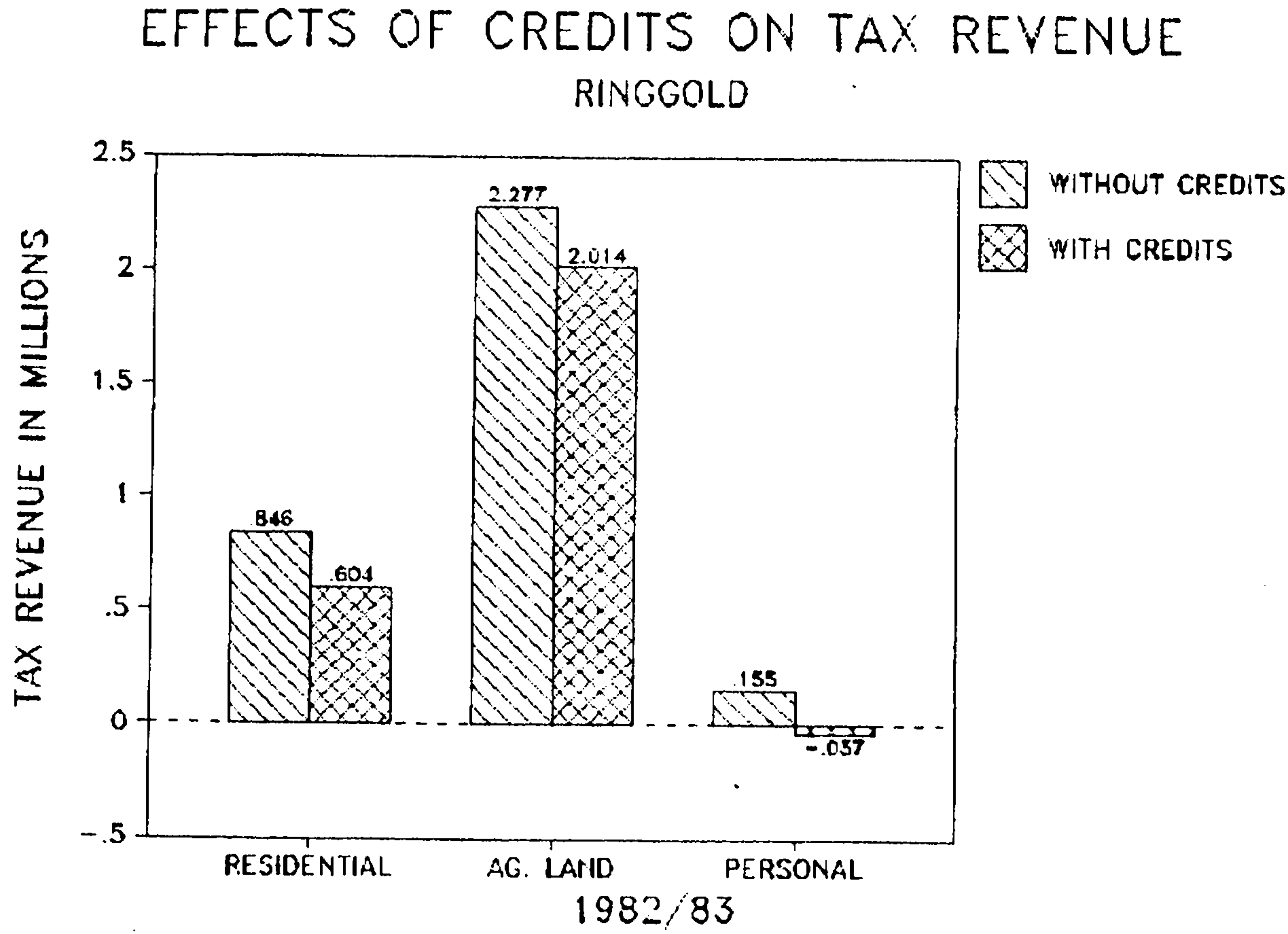
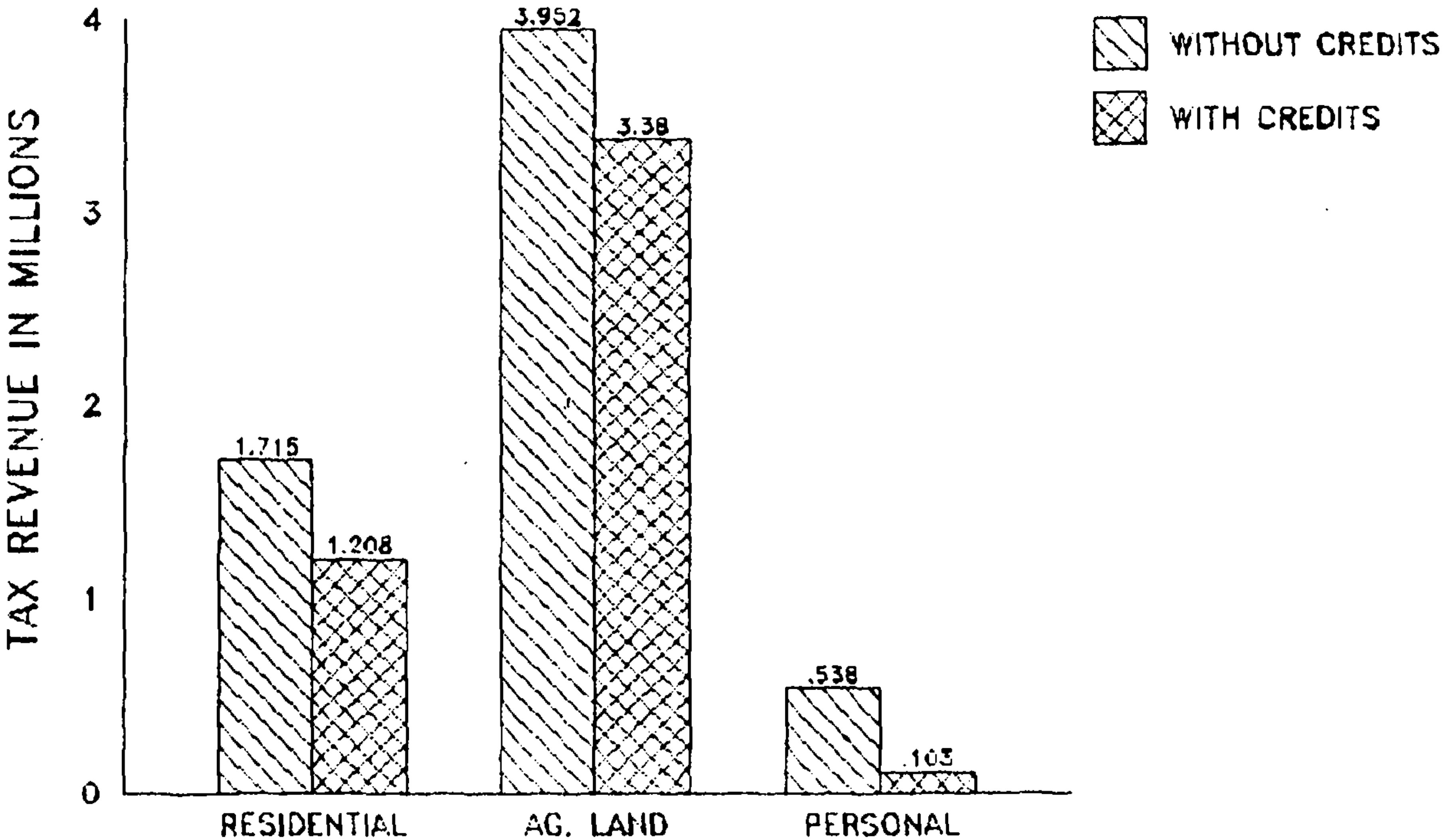


Table 6.96
pg. 1 of 2

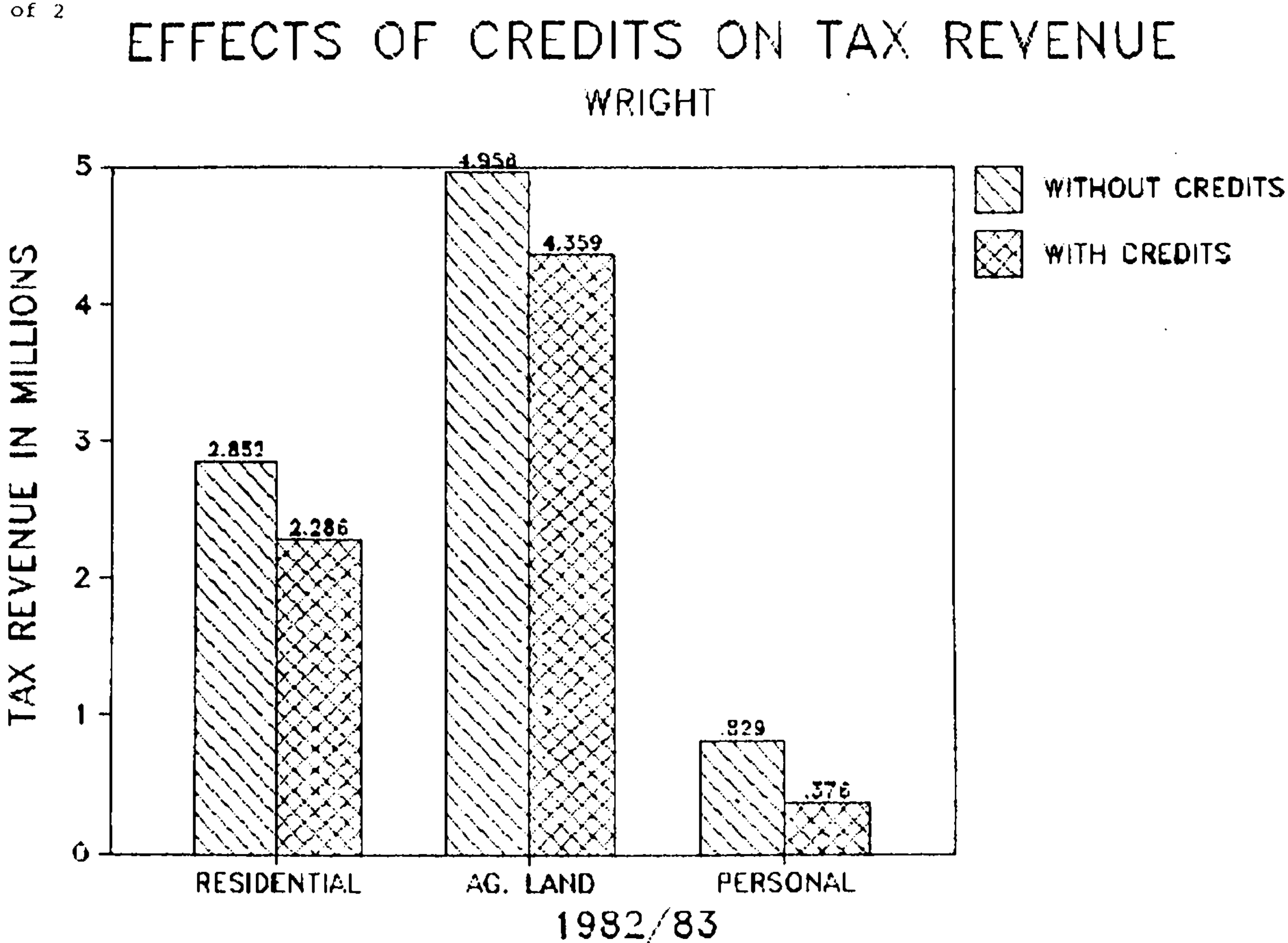
EFFECTS OF CREDITS ON TAX REVENUE

WRIGHT



1978/79

Table 6.96
Pg. 2 of 2



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6.10 POLICY ANALYSIS

The following tables analyze the impact of 1) levy limitations and 2) reduced assessment ratios on taxable valuations, total levies, and tax rates. The tax rates are estimated to provide the same revenue as was actually collected. Actual rates would not vary across property classes.

Table 6.101

1982/83 TO 1983/84 PROPERTY TAX ANALYSIS:
CALCUALTION OF RATES REQUIRED TO RAISE SAME REVENUE IF ROLLBACKS & CREDITS WERE ELIMINATED

PROPERTY CLASS	PROPERTY ASSESSMENTS 1981		1982/83 TAX REVENUE		CURRENT	CONSOLIDATED	REVENUE BASED	PERCENT DIFFERENCE
	TAXABLE VALUE	MARKET VALUE*	BEFORE CREDITS	AFTER CREDITS	TAX RATES	NEW TAX RATES	ON NEW TAX RATE	IN TAX RATES
RESIDENTIAL	$21,761,401,250	$33,593,140,479	$615,110,254	$507,964,381	$28.2661	$15.1211	$507,964,381	-46.50%
AG LAND	$18,817,447,591	$19,662,153,362	$356,301,630	$312,824,405	$18.9346	$15.9100	$312,824,405	-15.97%
AG BUILDING	$2,167,064,945	$2,264,343,402	$42,569,048	$42,569,048	$19.6436	$18.7997	$42,569,048	-4.30%
COMMERCIAL	$7,685,026,802	$8,748,663,004	$229,672,274	$229,672,274	$29.8857	$26.2523	$229,672,274	-12.16%
INDUSTRIAL	$2,007,868,188	$2,070,780,573	$56,638,260	$56,638,260	$28.2082	$27.3512	$56,638,260	-3.04%
PERSONAL	$2,748,523,550	$7,463,496,532	$69,178,973	$15,884,289	$25.1695	$2.1283	$15,884,289	-91.54%
PERSONAL REAL	$1,889,048,144	$1,889,048,144	$54,358,262	$54,358,262	$28.7755	$28.7755	$54,358,262	0.00%
UTILITY	$5,215,981,796	$5,215,981,796	$124,082,726	$124,082,726	$23.7889	$23.7889	$124,082,726	0.00%
OTHER	$9,749,076	$9,749,076	$258,885	$258,885	$26.5548	$26.5548	$258,885	0.00%
TOTAL	$62,302,111,342	$80,917,356,367	$1,548,170,312	$1,344,252,530	$24.8494	$16.6127	$1,344,252,530	-33.15%

*PROPERTY ASSESSMENTS BEFORE ROLLBACKS

PROPERTY CLASS	PROPERTY ASSESSMENTS 1982		1983/84 TAX REVENUE		CURRENT	CONSOLIDATED	REVENUE BASED	PERCENT DIFFERENCE
	TAXABLE VALUE	MARKET VALUE*	BEFORE CREDITS	AFTER CREDITS	TAX RATES	NEW TAX RATES	ON NEW TAX RATE	IN TAX RATES
RESIDENTIAL	$22,908,459,912	$34,078,661,266	$643,976,827	$531,157,911	$28.1109	$15.5862	$531,157,911	-44.55%
AG LAND	$19,591,408,134	$19,675,797,630	$370,241,563	$326,741,563	$18.8982	$16.6063	$326,741,563	-12.13%
AG BUILDING	$2,310,876,711	$2,320,830,754	$45,316,110	$45,316,110	$19.6099	$19.5258	$45,316,110	-0.43%
COMMERCIAL	$8,214,317,483	$8,964,356,202	$244,304,418	$244,304,418	$29.7413	$27.2529	$244,304,418	-8.37%
INDUSTRIAL	$2,285,515,112	$2,285,515,112	$64,532,415	$64,532,415	$28.2354	$28.2354	$64,532,415	0.00%
PERSONAL	$2,745,689,479	$7,626,915,219	$68,898,912	$14,064,209	$25.0935	$1.8440	$14,064,209	-92.65%
PERSONAL REAL	$1,879,889,110	$1,879,889,110	$54,204,447	$54,204,447	$28.8339	$28.8339	$54,204,447	0.00%
UTILITY	$5,346,179,531	$5,346,179,531	$127,242,154	$127,242,154	$23.8006	$23.8006	$127,242,154	0.00%
OTHER	$8,770,739	$8,770,739	$234,137	$234,137	$26.6952	$26.6952	$234,137	0.00%
TOTAL	$65,291,106,211	$82,186,915,563	$1,618,950,983	$1,407,797,364	$24.7959	$17.1292	$1,407,797,364	-30.92%

*PROPERTY ASSESSMENTS BEFORE ROLLBACKS

Table 6.102
pg. 1 of 3

1978/79 TO 1983/84 PROPERTY TAX ANALYSIS:
COMPARISON OF ACTUAL REVENUE AND REVENUE UNDER A LEVY LIMITATION
(LITTLE NEW CONSTRUCTION IN THE 1980'S)

PROPERTY CLASS	1977 VALUATIONS: TAXABLE VALUE	1977 VALUATIONS: MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1978/79: ACTUAL REVENUE AFTER CREDITS
RESIDENTIAL	$14,397,057,521	$14,397,057,521	4.00%	$316,008,162
AG LAND	$15,299,866,597	$15,299,866,597	0.50%	$238,013,285
AG BUILDING	$3,527,020,868	$3,527,020,868	0.50%	$67,312,751
COMMERCIAL	$4,940,953,422	$4,940,953,422	2.00%	$147,405,368
INDUSTRIAL	$2,344,792,501	$2,344,792,501	2.00%	$65,409,743
PERSONAL	$2,745,404,092	$4,622,838,182	2.00%	$21,080,297
UTILITIES	$4,076,594,713	$4,076,594,713	2.00%	$94,561,586
OTHERS	$13,955,478	$13,955,478	2.00%	$371,004
TOTAL	$47,345,645,192	$49,223,079,282		$950,162,196

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PROPERTY CLASS	1978 VALUATIONS: TAXABLE VALUE	1978 VALUATIONS: MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1978/79 TAX LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1979/80: TOTAL NEW LEVY	1979/80: ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$15,170,167,971	$19,386,399,730	4.00%		$775,455,989	$13,460,943	$336,523,572	$329,715,154	2.06%
AG LAND	$16,017,857,997	$16,642,276,200	0.50%		$83,211,381	$1,444,445	$288,889,031	$251,647,945	14.80%
AG BUILDING	$3,974,173,099	$4,129,096,811	0.50%		$20,645,484	$358,380	$71,675,939	$76,295,012	-6.05%
COMMERCIAL	$6,048,750,071	$6,048,750,071	2.00%		$120,975,001	$2,099,974	$104,998,711	$177,917,108	-40.98%
INDUSTRIAL	$2,871,051,268	$2,871,051,268	2.00%		$57,421,025	$996,757	$49,837,847	$79,414,010	-37.24%
PERSONAL	$2,747,629,395	$5,220,753,268	2.00%		$104,415,065	$1,812,515	$90,625,725	$19,743,490	359.02%
UTILITIES	$4,413,506,222	$4,413,506,222	2.00%		$88,270,124	$1,532,259	$76,612,930	$102,928,910	-25.57%
OTHERS	$12,451,605	$12,451,605	2.00%		$249,032	$4,323	$216,144	$328,968	-34.30%
TOTAL	$51,255,587,628	$58,724,285,175		$997,670,306	$1,250,643,103	$21,709,595	$1,019,379,901	$1,037,990,597	-1.79%
NEW TAX RATE				$17.3587					

Table 6.102
pg. 2 of 3

PROPERTY CLASS	1979 VALUATIONS TAXABLE VALUE	MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1979/80 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1980/81 TOTAL NEW LEVY	ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$16,488,406,595	$25,611,029,798	4.00%		$1,024,441,192	$16,113,566	$402,839,161	$376,023,959	7.13%
AG LAND	$17,012,052,699	$17,969,731,573	0.50%		$89,848,658	$1,413,241	$282,648,205	$274,429,576	2.99%
AG BUILDING	$4,402,556,688	$4,650,394,830	0.50%		$23,251,974	$365,733	$73,146,655	$86,216,371	-15.16%
COMMERCIAL	$6,662,932,798	$7,487,518,203	2.00%		$149,750,364	$2,355,443	$117,772,131	$199,070,430	-40.84%
INDUSTRIAL	$3,142,681,039	$3,142,681,039	2.00%		$62,853,621	$988,633	$49,431,632	$88,752,534	-44.30%
PERSONAL	$2,750,473,406	$5,942,958,954	2.00%		$118,859,179	$1,869,551	$93,477,561	$13,887,761	573.09%
UTILITIES	$4,799,145,956	$4,799,145,956	2.00%		$95,982,919	$1,509,728	$75,486,380	$115,019,688	-34.37%
OTHERS	$10,578,674	$10,578,674	2.00%		$211,573	$3,328	$166,393	$269,711	-38.31%
TOTAL	$55,268,827,855	$69,614,039,027		$1,070,348,896	$1,565,199,480	$24,619,223	$1,094,968,118	$1,153,670,030	-5.09%
NEW TAX RATE				$15.7291					

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PROPERTY CLASS	1980 VALUATIONS TAXABLE VALUE	MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1980/81 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1981/82 TOTAL NEW LEVY	ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$17,646,127,520	$26,441,890,029	2.00%		$528,837,801	$8,693,332	$434,666,589	$411,167,726	5.72%
AG LAND	$17,690,061,276	$17,851,600,408	0.25%		$44,629,001	$733,636	$293,454,600	$291,690,775	0.60%
AG BUILDING	$4,828,229,685	$4,872,319,302	0.25%		$12,180,798	$200,235	$80,093,912	$95,710,166	-16.32%
COMMERCIAL	$7,176,869,169	$7,701,709,891	1.00%		$77,017,099	$1,266,050	$126,605,018	$216,419,027	-41.50%
INDUSTRIAL	$2,681,298,775	$2,681,298,775	1.00%		$26,812,988	$440,767	$44,076,690	$76,777,249	-42.59%
PERSONAL	$2,751,814,785	$6,876,363,625	1.00%		$68,763,636	$1,130,375	$113,037,514	$17,393,910	549.87%
PERSONAL REAL	$839,532,272	$839,532,272	1.00%	$25,141,206	$8,395,323	$138,007	$13,800,701	$25,141,206	-45.11%
UTILITIES	$5,010,385,051	$5,010,385,051	1.00%		$50,103,851	$823,635	$82,363,514	$120,409,993	-31.60%
OTHERS	$11,381,778	$11,381,778	1.00%		$113,818	$1,871	$187,100	$306,066	-38.87%
TOTAL	$58,635,700,311	$72,286,481,131		$1,174,857,730	$816,854,314	$13,427,908	$1,188,285,639	$1,255,016,118	-5.32%
NEW TAX RATE				$16.4386					

Table 6.102
pg. 3 of 3

PROPERTY CLASS	1981 VALUATIONS: TAXABLE VALUE	1981 VALUATIONS: MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1981/82 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1982/83: TOTAL NEW LEVY	1982/83: ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$21,761,401,250	$33,593,140,479	2.00%		$671,862,810	$10,486,837	$524,341,869	$507,964,381	3.22%
AG LAND	$18,817,447,591	$19,662,153,362	0.25%		$49,155,383	$767,247	$306,898,673	$312,824,405	-1.89%
AG BUILDING	$2,167,064,945	$2,264,343,402	0.25%		$5,660,859	$88,358	$35,343,229	$42,569,048	-16.97%
COMMERCIAL	$7,685,026,802	$8,748,663,004	1.00%		$87,486,630	$1,365,544	$136,554,375	$229,672,274	-40.54%
INDUSTRIAL	$2,007,868,188	$2,070,780,573	1.00%		$20,707,806	$323,220	$32,321,984	$56,638,260	-42.93%
PERSONAL	$2,748,523,550	$7,463,496,532	1.00%		$74,634,965	$1,164,947	$116,494,727	$15,884,289	633.40%
PERSONAL REAL	$1,889,048,144	$1,889,048,144	1.00%		$18,890,481	$294,854	$29,485,396	$54,358,262	-45.76%
UTILITIES	$5,215,981,796	$5,215,981,796	1.00%		$52,159,818	$814,142	$81,414,170	$124,082,726	-34.39%
OTHERS	$9,749,076	$9,749,076	1.00%		$97,491	$1,522	$152,169	$258,885	-41.22%
TOTAL	$62,302,111,342	$80,917,356,367		$1,247,699,921	$980,656,243	$15,306,670	$1,263,006,591	$1,344,252,530	-6.04%
NEW TAX RATE				$15.6086					

PROPERTY CLASS	1982 VALUATIONS: TAXABLE VALUE	1982 VALUATIONS: MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1982/83 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1983/84: TOTAL NEW LEVY	1983/84: ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$22,908,459,912	$34,078,661,266	2.00%		$681,573,225	$11,132,918	$556,645,875	$533,620,216	4.31%
AG LAND	$19,591,408,134	$19,675,797,630	0.25%		$49,189,494	$803,468	$321,387,378	$326,741,563	-1.64%
AG BUILDING	$2,310,876,711	$2,320,830,754	0.25%		$5,802,077	$94,772	$37,908,792	$45,316,110	-16.35%
COMMERCIAL	$8,214,317,483	$8,964,356,202	1.00%		$89,643,562	$1,464,251	$146,425,115	$244,304,418	-40.06%
INDUSTRIAL	$2,285,515,112	$2,285,515,112	1.00%		$22,855,151	$373,319	$37,331,941	$64,532,415	-42.15%
PERSONAL	$2,745,689,479	$7,626,915,219	1.00%		$76,269,152	$1,245,792	$124,579,157	$14,064,209	785.79%
PERSONAL REAL	$1,879,889,110	$1,879,889,110	1.00%		$18,798,891	$307,064	$30,706,386	$54,204,447	-43.35%
UTILITIES	$5,346,179,531	$5,346,179,531	1.00%		$53,461,795	$873,253	$87,325,284	$127,242,154	-31.37%
OTHERS	$8,770,739	$8,770,739	1.00%		$87,707	$1,433	$143,263	$234,137	-38.81%
TOTAL	$65,291,106,211	$82,186,915,563		$1,326,156,921	$997,681,055	$16,296,269	$1,342,453,190	$1,410,259,669	-4.81%
NEW TAX RATE				$16.3341					

1978/79 TO 1983/84 PROPERTY TAX ANALYSIS:
COMPARISON OF ACTUAL REVENUE AND REVENUE UNDER A LEVY LIMITATION
(SUBSTANTIAL NEW CONSTRUCTION IN THE 1980'S)

PROPERTY CLASS	1977 VALUATIONS: TAXABLE VALUE	1977 VALUATIONS: MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1978/79 ACTUAL REVENUE AFTER CREDITS
RESIDENTIAL	$14,397,057,521	$14,397,057,521	4.00%	$316,008,162
AG LAND	$15,299,866,597	$15,299,866,597	0.50%	$238,013,285
AG BUILDING	$3,527,020,868	$3,527,020,868	0.50%	$67,312,751
COMMERCIAL	$4,940,953,422	$4,940,953,422	2.00%	$147,405,368
INDUSTRIAL	$2,344,792,501	$2,344,792,501	2.00%	$65,409,743
PERSONAL	$2,745,404,092	$4,622,838,182	2.00%	$21,080,297
UTILITIES	$4,076,594,713	$4,076,594,713	2.00%	$94,561,586
OTHERS	$13,955,478	$13,955,478	2.00%	$371,004
TOTAL	$47,345,645,192	$49,223,079,282		$950,162,196

PROPERTY CLASS	1978 VALUATIONS: TAXABLE VALUE	1978 VALUATIONS: MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1978/79 TAX LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1979/80 TOTAL NEW LEVY	1979/80 ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$15,170,167,971	$19,386,399,730	4.00%		$775,455,989	$13,460,943	$336,523,572	$329,715,154	2.06%
AG LAND	$16,017,857,997	$16,642,276,200	0.50%		$83,211,381	$1,444,445	$288,889,031	$251,647,945	14.80%
AG BUILDING	$3,974,173,099	$4,129,096,811	0.50%		$20,645,484	$358,380	$71,675,939	$76,295,012	-6.05%
COMMERCIAL	$6,048,750,071	$6,048,750,071	2.00%		$120,975,001	$2,099,974	$104,998,711	$177,917,108	-40.98%
INDUSTRIAL	$2,871,051,268	$2,871,051,268	2.00%		$57,421,025	$996,757	$49,837,847	$79,414,010	-37.24%
PERSONAL	$2,747,629,395	$5,220,753,268	2.00%		$104,415,065	$1,812,515	$90,625,725	$19,743,490	359.02%
UTILITIES	$4,413,506,222	$4,413,506,222	2.00%		$88,270,124	$1,532,259	$76,612,930	$102,928,910	-25.57%
OTHERS	$12,451,605	$12,451,605	2.00%		$249,032	$4,323	$216,144	$328,968	-34.30%
TOTAL	$51,255,587,628	$58,724,285,175		$997,670,306	$1,250,643,103	$21,709,595	$1,019,379,901	$1,037,990,597	-1.79%
NEW TAX RATE				$17.3587					

Table 6.103
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PROPERTY CLASS	1979 VALUATIONS TAXABLE VALUE	MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1979/80 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1980/81 TOTAL NEW LEVY	ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$16,488,406,595	$25,611,029,798	4.00%		$1,024,441,192	$16,113,566	$402,839,161	$376,023,959	7.13%
AG LAND	$17,012,052,699	$17,969,731,573	0.50%		$89,848,658	$1,413,241	$282,648,205	$274,429,576	2.99%
AG BUILDING	$4,402,556,688	$4,650,394,830	0.50%		$23,251,974	$365,733	$73,146,655	$86,216,371	-15.16%
COMMERCIAL	$6,662,932,798	$7,487,518,203	2.00%		$149,750,364	$2,355,443	$117,772,131	$199,070,430	-40.84%
INDUSTRIAL	$3,142,681,039	$3,142,681,039	2.00%		$62,853,621	$988,633	$49,431,632	$88,752,534	-44.30%
PERSONAL	$2,750,473,406	$5,942,958,954	2.00%		$118,859,179	$1,869,551	$93,477,561	$13,887,761	573.09%
UTILITIES	$4,799,145,956	$4,799,145,956	2.00%		$95,982,919	$1,509,728	$75,486,380	$115,019,688	-34.37%
OTHERS	$10,578,674	$10,578,674	2.00%		$211,573	$3,328	$166,393	$269,711	-38.31%
TOTAL	$55,268,827,855	$69,614,039,027		$1,070,348,896	$1,565,199,480	$24,619,223	$1,094,968,118	$1,153,670,030	-5.09%
NEW TAX RATE				$15.7291					

PROPERTY CLASS	1980 VALUATIONS TAXABLE VALUE	MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1980/81 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1981/82 TOTAL NEW LEVY	ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$17,646,127,520	$26,441,890,029	4.00%		$1,057,675,601	$17,587,680	$439,692,001	$411,167,726	6.94%
AG LAND	$17,690,061,276	$17,851,600,408	0.50%		$89,258,002	$1,484,237	$296,847,385	$291,690,775	1.77%
AG BUILDING	$4,828,229,685	$4,872,319,302	0.50%		$24,361,597	$405,100	$81,019,920	$95,710,166	-15.35%
COMMERCIAL	$7,176,869,169	$7,701,709,891	2.00%		$154,034,198	$2,561,375	$128,068,766	$216,419,027	-40.82%
INDUSTRIAL	$2,681,298,775	$2,681,298,775	2.00%		$53,625,976	$891,726	$44,586,284	$76,777,249	-41.93%
PERSONAL	$2,751,814,785	$6,876,363,625	2.00%		$137,527,273	$2,286,888	$114,344,401	$17,393,910	557.38%
PERSONAL REAL	$839,532,272	$839,532,272	2.00%	$25,141,206	$16,790,645	$279,205	$13,960,259	$25,141,206	-44.47%
UTILITIES	$5,010,385,051	$5,010,385,051	2.00%		$100,207,701	$1,666,315	$83,315,762	$120,409,993	-30.81%
OTHERS	$11,381,778	$11,381,778	2.00%		$227,636	$3,785	$189,263	$306,066	-38.16%
TOTAL	$58,635,700,311	$72,286,481,131		$1,174,857,730	$1,633,708,628	$27,166,311	$1,202,024,042	$1,255,016,118	-4.22%
NEW TAX RATE				$16.6286					

PROPERTY CLASS	1981 VALUATIONS TAXABLE VALUE	1981 VALUATIONS MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1981/82 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1982/83 TOTAL NEW LEVY	1982/83 ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$21,761,401,250	$33,593,140,479	4.00%		$1,343,725,619	$21,479,673	$536,991,832	$507,964,381	5.71%
AG LAND	$18,817,447,591	$19,662,153,362	0.50%		$98,310,767	$1,571,514	$314,302,730	$312,824,405	0.47%
AG BUILDING	$2,167,064,945	$2,264,343,402	0.50%		$11,321,717	$180,979	$36,195,899	$42,569,048	-14.97%
COMMERCIAL	$7,685,026,802	$8,748,663,004	2.00%		$174,973,260	$2,796,976	$139,848,806	$229,672,274	-39.11%
INDUSTRIAL	$2,007,868,188	$2,070,780,573	2.00%		$41,415,611	$662,035	$33,101,765	$56,638,260	-41.56%
PERSONAL	$2,748,523,550	$7,463,496,532	2.00%		$149,269,931	$2,386,104	$119,305,210	$15,884,289	651.09%
PERSONAL REAL	$1,889,048,144	$1,889,048,144	2.00%		$37,780,963	$603,935	$30,196,743	$54,358,262	-44.45%
UTILITIES	$5,215,981,796	$5,215,981,796	2.00%		$104,319,636	$1,667,566	$83,378,320	$124,082,726	-32.80%
OTHERS	$9,749,076	$9,749,076	2.00%		$194,982	$3,117	$155,841	$258,885	-39.80%
TOTAL	$62,302,111,342	$80,917,356,367		$1,262,125,244	$1,961,312,485	$31,351,900	$1,293,477,144	$1,344,252,530	-3.78%
NEW TAX RATE				$15.9852					

PROPERTY CLASS	1982 VALUATIONS TAXABLE VALUE	1982 VALUATIONS MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1982/83 TOTAL LEVY TIMES 1.05	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1983/84 TOTAL NEW LEVY	1983/84 ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$22,908,459,912	$34,078,661,266	4.00%		$1,363,146,451	$23,086,705	$577,167,618	$533,620,216	8.16%
AG LAND	$19,591,408,134	$19,675,797,630	0.50%		$98,378,988	$1,666,179	$333,235,897	$326,741,563	1.99%
AG BUILDING	$2,310,876,711	$2,320,830,754	0.50%		$11,604,154	$196,532	$39,306,367	$45,316,110	-13.26%
COMMERCIAL	$8,214,317,483	$8,964,356,202	2.00%		$179,287,124	$3,036,467	$151,823,338	$244,304,418	-37.85%
INDUSTRIAL	$2,285,515,112	$2,285,515,112	2.00%		$45,710,302	$774,165	$38,708,249	$64,532,415	-40.02%
PERSONAL	$2,745,689,479	$7,626,915,219	2.00%		$152,538,304	$2,583,440	$129,171,990	$14,064,209	818.44%
PERSONAL REAL	$1,879,889,110	$1,879,889,110	2.00%		$37,597,782	$636,769	$31,838,431	$54,204,447	-41.26%
UTILITIES	$5,346,179,531	$5,346,179,531	2.00%		$106,923,591	$1,810,894	$90,544,687	$127,242,154	-28.84%
OTHERS	$8,770,739	$8,770,739	2.00%		$175,415	$2,971	$148,544	$234,137	-36.56%
TOTAL	$65,291,106,211	$82,186,915,563		$1,358,151,001	$1,995,362,111	$33,794,121	$1,391,945,122	$1,410,259,669	-1.30%
NEW TAX RATE				$16.9363					

Table 6.104
pg. 1 of 3

1978/79 TO 1983/84 PROPERTY TAX ANALYSIS:
COMPARISON OF ACTUAL REVENUE AND REVENUE UNDER A LEVY LIMITATION
(7.6 % LEVY LIMITATION)

PROPERTY CLASS	1977 VALUATIONS TAXABLE VALUE	1977 VALUATIONS MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1978/79 ACTUAL REVENUE AFTER CREDITS
RESIDENTIAL	$14,397,057,521	$14,397,057,521	4.00%	$316,008,162
AG LAND	$15,299,866,597	$15,299,866,597	0.50%	$238,013,285
AG BUILDING	$3,527,020,868	$3,527,020,868	0.50%	$67,312,751
COMMERCIAL	$4,940,953,422	$4,940,953,422	2.00%	$147,405,368
INDUSTRIAL	$2,344,792,501	$2,344,792,501	2.00%	$65,409,743
PERSONAL	$2,745,404,092	$4,622,838,182	2.00%	$21,080,297
UTILITIES	$4,076,594,713	$4,076,594,713	2.00%	$94,561,586
OTHERS	$13,955,478	$13,955,478	2.00%	$371,004
TOTAL	$47,345,645,192	$49,223,079,282		$950,162,196

PROPERTY CLASS	1978 VALUATIONS TAXABLE VALUE	1978 VALUATIONS MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1978/79 TAX LEVY TIMES 1.076	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1979/80 TOTAL NEW LEVY	1979/80 ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$15,170,167,971	$19,386,399,730	4.00%		$775,455,989	$13,794,261	$344,856,537	$329,715,154	4.59%
AG LAND	$16,017,857,997	$16,642,276,200	0.50%		$83,211,381	$1,480,212	$296,042,474	$251,647,945	17.64%
AG BUILDING	$3,974,173,099	$4,129,096,811	0.50%		$20,645,484	$367,254	$73,450,772	$76,295,012	-3.73%
COMMERCIAL	$6,048,750,071	$6,048,750,071	2.00%		$120,975,001	$2,151,974	$107,598,679	$177,917,108	-39.52%
INDUSTRIAL	$2,871,051,268	$2,871,051,268	2.00%		$57,421,025	$1,021,439	$51,071,927	$79,414,010	-35.69%
PERSONAL	$2,747,629,395	$5,220,753,268	2.00%		$104,415,065	$1,857,396	$92,869,791	$19,743,490	370.38%
UTILITIES	$4,413,506,222	$4,413,506,222	2.00%		$88,270,124	$1,570,200	$78,510,012	$102,928,910	-23.72%
OTHERS	$12,451,605	$12,451,605	2.00%		$249,032	$4,430	$221,496	$328,968	-32.67%
TOTAL	$51,255,587,628	$58,724,285,175		$1,022,374,523	$1,250,643,103	$22,247,166	$1,044,621,689	$1,037,990,597	0.64%
NEW TAX RATE				$17.7886					

PROPERTY CLASS	1979 VALUATIONS		NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1979/80 TOTAL LEVY TIMES 1.076	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1980/81		PERCENT DIFFERENCE
	TAXABLE VALUE	MARKET VALUE					TOTAL NEW LEVY	ACTUAL REVENUE AFTER CREDITS	
RESIDENTIAL	$16,488,406,595	$25,611,029,798	4.00%		$1,024,441,192	$16,921,452	$423,036,293	$376,023,959	12.50%
AG LAND	$17,012,052,699	$17,969,731,573	0.50%		$89,848,658	$1,484,097	$296,819,327	$274,429,576	8.16%
AG BUILDING	$4,402,556,688	$4,650,394,830	0.50%		$23,251,974	$384,070	$76,814,006	$86,216,371	-10.91%
COMMERCIAL	$6,662,932,798	$7,487,518,203	2.00%		$149,750,364	$2,473,537	$123,676,868	$199,070,430	-37.87%
INDUSTRIAL	$3,142,681,039	$3,142,681,039	2.00%		$62,853,621	$1,038,200	$51,909,984	$88,752,534	-41.51%
PERSONAL	$2,750,473,406	$5,942,958,954	2.00%		$118,859,179	$1,963,285	$98,164,242	$13,887,761	606.84%
UTILITIES	$4,799,145,956	$4,799,145,956	2.00%		$95,982,919	$1,585,421	$79,271,038	$115,019,688	-31.08%
OTHERS	$10,578,674	$10,578,674	2.00%		$211,573	$3,495	$174,736	$269,711	-35.21%
TOTAL	$55,268,827,855	$69,614,039,027		$1,124,012,937	$1,565,199,480	$25,853,556	$1,149,866,493	$1,153,670,030	-0.33%
NEW TAX RATE				$16.5177					

PROPERTY CLASS	1980 VALUATIONS		NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1980/81 TOTAL LEVY TIMES 1.076	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1981/82		PERCENT DIFFERENCE
	TAXABLE VALUE	MARKET VALUE					TOTAL NEW LEVY	ACTUAL REVENUE AFTER CREDITS	
RESIDENTIAL	$17,646,127,520	$26,441,890,029	2.00%		$528,837,801	$9,341,081	$467,054,030	$411,167,726	13.59%
AG LAND	$17,690,061,276	$17,851,600,408	0.25%		$44,629,001	$788,309	$315,320,195	$291,690,775	8.10%
AG BUILDINS	$4,828,229,685	$4,972,319,302	0.25%		$12,180,798	$215,154	$86,061,789	$95,710,166	-10.08%
COMMERCIAL	$7,176,869,169	$7,701,709,891	1.00%		$77,017,099	$1,360,385	$136,038,484	$216,419,027	-37.14%
INDUSTRIAL	$2,681,298,775	$2,681,298,775	1.00%		$26,812,988	$473,609	$47,360,888	$76,777,249	-38.31%
PERSONAL	$2,751,814,785	$6,876,363,625	1.00%		$68,763,636	$1,214,601	$121,460,052	$17,393,910	598.29%
PERSONAL REAL	$839,532,272	$839,532,272	1.00%	$25,141,206	$8,395,323	$148,290	$14,829,005	$25,141,206	-41.02%
UTILITIES	$5,010,385,051	$5,010,385,051	1.00%		$50,103,851	$885,005	$88,500,502	$120,409,993	-26.50%
OTHERS	$11,381,778	$11,381,778	1.00%		$113,818	$2,010	$201,041	$306,066	-34.31%
TOTAL	$58,635,700,311	$72,286,481,131		$1,262,397,552	$816,854,314	$14,428,435	$1,276,825,998	$1,255,016,118	1.74%
NEW TAX RATE				$17.6634					

Table 6.104

PROPERTY CLASS	1981 VALUATIONS TAXABLE VALUE	1981 VALUATIONS MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1981/82 TOTAL LEVY TIMES 1.076	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1982/83 TOTAL NEW LEVY	1982/83 ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$21,761,401,250	$33,593,140,479	2.00%		$671,862,810	$11,547,245	$577,362,237	$507,964,381	13.66%
AG LAND	$18,817,447,591	$19,662,153,362	0.25%		$49,155,383	$844,829	$337,931,634	$312,824,405	8.03%
AG BUILDING	$2,167,064,945	$2,264,343,402	0.25%		$5,660,859	$97,293	$38,917,063	$42,569,048	-8.58%
COMMERCIAL	$7,685,026,802	$8,748,663,004	1.00%		$87,486,630	$1,503,625	$150,362,472	$229,672,274	-34.53%
INDUSTRIAL	$2,007,868,188	$2,070,780,573	1.00%		$20,707,806	$355,903	$35,590,317	$56,638,260	-37.16%
PERSONAL	$2,748,523,550	$7,463,496,532	1.00%		$74,634,965	$1,282,744	$128,274,433	$15,884,289	707.56%
PERSONAL REAL	$1,889,048,144	$1,889,048,144	1.00%		$18,890,481	$324,669	$32,466,898	$54,358,262	-40.27%
UTILITIES	$5,215,981,796	$5,215,981,796	1.00%		$52,159,818	$896,466	$89,646,603	$124,052,726	-27.75%
OTHERS	$9,749,076	$9,749,076	1.00%		$97,491	$1,676	$167,556	$258,885	-35.28%
TOTAL	$62,302,111,342	$80,917,356,367		$1,373,864,763	$980,656,243	$16,854,449	$1,390,719,212	$1,344,252,536	3.46%
NEW TAX RATE				$17.1869					

PROPERTY CLASS	1982 VALUATIONS TAXABLE VALUE	1982 VALUATIONS MARKET VALUE	NEW CONSTRUCTION AS A PERCENT OF MRKT VALUATION	1982/83 TOTAL LEVY TIMES 1.076	NEW CONSTRUCTION	TAX LEVY ON NEW CONSTRUCTION	1983/84 TOTAL NEW LEVY	1983/84 ACTUAL REVENUE AFTER CREDITS	PERCENT DIFFERENCE
RESIDENTIAL	$22,908,459,912	$34,078,661,266	2.00%		$681,573,225	$12,562,203	$628,110,140	$533,620,216	17.71%
AG LAND	$19,591,408,134	$19,675,797,630	0.25%		$49,189,494	$906,621	$362,648,283	$326,741,563	10.99%
AG BUILDING	$2,310,876,711	$2,320,830,754	0.25%		$5,802,077	$106,939	$42,775,663	$45,316,110	-5.61%
COMMERCIAL	$8,214,317,483	$8,964,356,202	1.00%		$89,643,562	$1,652,237	$165,223,715	$244,304,418	-32.37%
INDUSTRIAL	$2,285,515,112	$2,285,515,112	1.00%		$22,855,151	$421,248	$42,124,754	$64,532,415	-34.72%
PERSONAL	$2,745,689,479	$7,626,915,219	1.00%		$76,269,152	$1,405,731	$140,573,092	$14,064,209	899.51%
PERSONAL REAL	$1,879,889,110	$1,879,889,110	1.00%		$18,798,891	$346,486	$34,648,586	$54,204,447	-36.08%
UTILITIES	$5,346,179,531	$5,346,179,531	1.00%		$53,461,795	$985,364	$98,536,429	$127,242,154	-22.56%
OTHERS	$8,770,739	$8,770,739	1.00%		$87,707	$1,617	$161,655	$234,137	-30.96%
TOTAL	$65,291,106,211	$82,186,915,563		$1,496,413,872	$997,681,055	$18,388,445	$1,514,802,317	$1,410,259,669	7.41%
NEW TAX RATE				18.431185871					

Table 6.105

1982/83 TO 1983/84 PROPERTY TAX ANALYSIS:
CALCULATION OF RATES REQUIRED TO RAISE SAME REVENUE IF ASSESSMENTS
WERE BASED ON 80% OF MARKET VALUE

PROPERTY CLASS	PROPERTY ASSESSMENTS 1981		REVENUE BASED ON NEW TAX RATES		TAX RATES BASED ON	TAX RATES BASED ON	CREDITS BASED	1982/83 TAX REVENUE	
	ASSESSED VALUE+	MARKET VALUE*	BEFORE CREDITS	AFTER CREDITS	80% ASSESS	MRKT VALUE	ON NEW RATES	BEFORE CREDITS	AFTER CREDITS
RESIDENTIAL	$26,874,512,383	$33,593,140,479	$606,477,205	$507,964,381	$22.5670	$17.4783	$98,512,824	$587,149,701	$507,964,381
AG LAND	$15,729,722,689	$19,662,153,362	$356,301,630	$312,824,405	$22.6515	$18.1212	$43,477,225	$356,301,630	$312,824,405
AG BUILDING	$1,811,474,722	$2,264,343,402	$42,569,048	$42,569,048	$23.4997	$18.7997	$0	$42,569,048	$42,569,048
COMMERCIAL	$6,998,930,403	$8,748,663,004	$229,672,274	$229,672,274	$32.8153	$26.2523	$0	$229,672,274	$229,672,274
INDUSTRIAL	$1,656,624,458	$2,070,780,573	$56,638,260	$56,638,260	$34.1890	$27.3512	$0	$56,638,260	$56,638,260
PERSONAL	$5,970,797,226	$7,463,496,532	$96,153,810	$15,884,289	$16.1040	$12.8829	$80,269,521	$96,151,182	$15,884,289
PERSONAL REAL	$1,511,238,515	$1,889,048,144	$54,358,262	$54,358,262	$35.9693	$28.7755	$0	$54,358,262	$54,358,262
UTILITY	$4,172,785,437	$5,215,981,796	$124,082,726	$124,082,726	$29.7362	$23.7889	$0	$124,082,726	$124,082,726
OTHER	$7,799,261	$9,749,076	$258,885	$258,885	$33.1935	$26.5548	$0	$258,885	$258,885
TOTAL	$64,733,885,093	$80,917,356,367	$1,566,512,099	$1,344,252,530	$23.9007	$19.1205	$222,259,569	$1,547,181,968	$1,344,252,530

+PROPERTY ASSESSED AT 80% OF MARKET VALUE
*PROPERTY ASSESSMENTS BEFORE ROLLBACKS

PROPERTY CLASS	PROPERTY ASSESSMENTS 1982		REVENUE BASED ON NEW TAX RATES		TAX RATES BASED ON	TAX RATES BASED ON	CREDITS BASED	1983/84 TAX REVENUE	
	ASSESSED VALUE+	MARKET VALUE*	BEFORE CREDITS	AFTER CREDITS	80% ASSESS	MRKT VALUE	ON NEW RATES	BEFORE CREDITS	AFTER CREDITS
RESIDENTIAL	$27,262,929,013	$34,078,661,266	$640,629,750	$533,620,216	$23.4982	$18.1095	$107,009,534	$617,148,141	$533,620,216
AG LAND	$15,740,638,104	$19,675,797,630	$370,241,563	$326,741,563	$23.5214	$18.8171	$43,500,000	$370,241,563	$326,741,563
AG BUILDING	$1,856,664,603	$2,320,830,754	$45,316,110	$45,316,110	$24.4073	$19.5258	$0	$45,316,110	$45,316,110
COMMERCIAL	$7,171,484,962	$8,964,356,202	$244,304,418	$244,304,418	$34.0661	$27.2529	$0	$244,304,418	$244,304,418
INDUSTRIAL	$1,828,412,090	$2,285,515,112	$64,532,415	$64,532,415	$35.2942	$28.2354	$0	$64,532,415	$64,532,415
PERSONAL	$6,101,532,176	$7,626,915,219	$97,775,725	$14,064,209	$16.0248	$12.8200	$83,711,516	$97,777,020	$14,064,209
PERSONAL REAL	$1,503,911,288	$1,879,889,110	$54,204,447	$54,204,447	$36.0423	$28.8339	$0	$54,204,447	$54,204,447
UTILITY	$4,276,943,625	$5,346,179,531	$127,242,154	$127,242,154	$29.7507	$23.8006	$0	$127,242,154	$127,242,154
OTHER	$7,016,591	$8,770,739	$234,137	$234,137	$33.3691	$26.6952	$0	$234,137	$234,137
TOTAL	$65,749,532,451	$82,186,915,563	$1,644,480,719	$1,410,259,669	$24.6542	$19.7233	$234,221,051	$1,621,000,406	$1,410,259,669

+PROPERTY ASSESSED AT 80% OF MARKET VALUE
*PROPERTY ASSESSMENTS BEFORE ROLLBACKS

Table 6.106

Appendix B

State Payments in Lieu of Taxes to Local Governments

Governments in most of the 50 states have developed a variety of payment methods to compensate local governments for the loss in tax revenues arising from state acquisition and ownership of real (and, in some instances, personal) property. The methods and scope of payments vary widely. Like the federal government, some of the states have occasionally given their consent to direct local taxation of certain agencies and instrumentalities. However, as a whole, the states use the same methods of compensation as those used by the federal government and described in Chapter 2 of this report.

The nature of state compensatory efforts can be summarized as follows:

- 37 states either make payments to local governments for certain state-owned property or allow local taxation of selected state property.
- 13 states neither provide compensation nor permit taxation.[1]
- Financial payments for one or more categories of state-owned real property are made regularly[2] in at least 29 states. Some states, such as Hawaii, have in lieu statutes in their laws but do not have operating payment programs because they have not yet appropriated any funds. Seven of these states did not document expenditures in recent surveys although they may actually be fully funded.

Source: ACIR, "Payments in Lieu of Taxes on Federal Real Property," Washington, D.C., May 1982

- States seldom provide for full coverage of all state property when they adopt payment programs. Typically, only a select category of property, such as forest land or parks, gives rise to a payment or is allowed to be taxed.[3]

The wide variety of fiscal arrangements used by the states for compensating local governments for the presence of state-owned land can be classified within the same conceptual framework as that used to describe federal payment programs. No payment programs using a grant or fixed percentage of own-source (property tax and other local levies) revenues were found among the state programs, however. The 77 different state-payment programs can be broken down as follows:

- 18 receipt-sharing programs;
- 37 payment in lieu of tax-type programs;
- 19 formula-based programs; and
- three of a miscellaneous nature.

Together, these programs show a majority of the state legislatures throughout the country have acknowledged some state responsibility to local governments as landowner. In fact, many states have gone the entire route to assume full tax responsibility for government-owned lands: of the 37 PILOT-type programs, 11 provide for full tax equivalency payments, while 24 provide partial tax equivalency payments based upon either a percentage of land owned within a jurisdiction or a percentage of the value of lands within a jurisdiction which is state owned.* Indeed, the lion's share of these programs has been passed in the last decade and additional legislation continues to be regularly proposed each year. The remainder of this Appendix lists state compensatory payment programs and details the provision of each state payment.

* Although the partial tax equivalency programs provide only an arbitrary portion of the states' property tax liability were its lands held in private ownership, it is based upon property-related measures and is therefore considered a more direct payment scheme than most other federal programs.

STATE PROGRAMS PERTAINING TO COMPENSATION OF LOCAL GOVERNMENTS FOR STATE-OWNED PROPERTY, 1980

ALABAMA

No provisions for state compensation to local governments for state-owned property.

ALASKA

No provisions.

ARIZONA

No provisions.

ARKANSAS

No major provisions; indirect program authorization exists for compensation for state-owned forests, although no payments have ever been made.

CALIFORNIA

State statutes provide for an in lieu of taxes equivalency payment to those local governments in which state-owned forest and wildlife management land is located. (*West's Ann. Rev. & T. Code*, 38901 *et seq.*)

The state also provides for payments based on shared revenues and receipts derived from state lands acquired for highways and from tidal and submerged lands on which mineral rights were reserved.

COLORADO

No provisions, although there is some minimal receipt sharing from state-owned forest lands.

CONNECTICUT

The general statutes include a provision requiring an inventory of state-owned property. Each state department and institution must transmit to the comptroller annually an inventory of all real and personal property owned by the state and in the custody of such department or institution. (*General Statutes of Connecticut*, Title 12, Ch. 201, Sec. 4-36)

The state provides grants to townships in lieu of taxes on all state-owned real property, except highways and bridges. The grants are computed as the product of a fractional portion of the assessed value of all state-owned property in the town (determined by the ratio of total tax levied by the town on all real property to the total tax levied on real property by all towns in the state) multiplied by ten times the local mill rate. Grants are limited to no less than $2,000, or the value of the state-owned property, whichever is less, and may not exceed $600,000. (*General Statutes of* Connecticut, Title 12, Ch. 201, Sec. 12-19a-d)

The state makes an additional annual payment of $1,400 in lieu of taxes to the fire district of Warehouse Point (Sec. 12-19e). (The state is also unique in its provision for the reimbursement of municipalities, by the state, of a sum equal to 25% of the property taxes which would have been paid by any private nonprofit institution of higher education or general hospital facility, had these institutions not been tax exempt—Sec. 12-20a)

DELAWARE

No provisions.

FLORIDA

Limited state payments may be made to municipalities for improving the physical condition of state-owned lands. (*Florida Stat. Ann.*, Ch. 196, Sec. 30) Some prison farmland in Bradford County does receive a tax equivalent payment.

GEORGIA

The state provides payments in lieu of taxes on all state-owned land in counties if in excess of 20,000 acres, provided that the county receives no revenue directly from the land.

HAWAII

The statutes provide for compensation to counties for their share of improvement district costs; however, officials observed that the provision is "ineffective" because the requirement that appropriations be made "from time to time" allows the legislature to postpone appropriating the funds indefinitely. In fact, the state has owed the City and County of Honolulu some $1.5 million in improvement district costs for several years. (*Hawaii Revised Statutes*, Sec. 67-8)

IDAHO

State lands may be charged for local benefits (services) specially accruing to such lands. (*Idaho Code*, Title 58, Sec. 336) The state may also share receipts from its lands acquired for parks and forests.

ILLINOIS

The state makes payments to school districts which have minimum amounts of state land or a certain number of state employees. If the state-owned land comprises one eighth of the land area of the district, or if a state institution is located in a district with less than 250 pupils and 5% of the pupils who are members of families employed in the institution attend public school in the district, the state then pays an amount equal to the school taxes that would have been collected if the land were privately owned. The program was essentially addressed to University of Illinois properties used for income purposes or leased to staff members. (*Illinois Revised Statutes*, Ch. 122, Sec. 18-4)

The state may also share receipts from state-owned forest lands.

INDIANA

No provisions.

1979 Senate Bill 332 would have provided compensation to municipalities for lighting state roads; however, the bill did not become law.

IOWA

1979 H.F. 734 passed and appropriated $35,000 to reimburse school districts for taxes lost due to state acquisition of lands for the state's open space program. Payments are to be made according to prescribed assessment practices or reduced proportionally if the total taxes exceed the appropriated $35,000. *Iowa Code*, Sec. 284.1 *et seq.* also provides reimbursement to school districts for tax losses resulting from exemption of federal, state, or locally owned lands.

KANSAS

No specific provisions, although voluntary in lieu of tax payments are made by some state agencies, without established formula bases for calculating payments.

KENTUCKY

No provisions.

LOUISIANA

No provisions, although receipts from lands containing mineral leases are shared with localities.

MAINE

No provisions.

1979 Legislative Document 1049 would have allowed a municipality, at its option, to levy a user charge in place of taxes for services the municipality provides relative to state and county-owned property. The user charges would have been limited to the cost of the following services: road maintenance and construction, traffic control, snow and ice removal, water and sewer service, and sanitation services. The measure failed to gain legislative approval.

MARYLAND

In accordance with state statute, Maryland pays for utility services, makes special grants to Annapolis for its role as the capital city, and pays local government 15% of receipts from state parks, forests, scenic preserves, parkways, and recreation areas. (*Maryland Code*, Natural Resources Article, Sec. 5-212)

MASSACHUSETTS

A state-determined average mill rate is applied to the value of state-owned land in each community which is used for game sanctuaries, state military camp grounds, state forests, universities, and public institutions under departments such as correction, education, mental health, public health, and welfare. The equalized mill rate is applied against the full-market value of state land to yield these payments to municipalities. (*Massachusetts General Laws Annotated*, Ch. 58, Sec. 13)

MICHIGAN

1977 *Public Act 289* provides for the payment to municipalities for fire protection services received by state facilities, not to be less than $500 annually.

Flat payments per acre are also made for lands controlled by the State Military Board and Department of Natural Resources (DNR), including swamplands. Lands dedicated as wilderness, wild, or natural areas under DNR are also entitled to tax equivalency payments although none has been made. Finally, when DNR lands are sold, some of the receipts are shared with the localities.

MINNESOTA

Laws of 1979, Chapter 303, provides for state payments to local governments in lieu of taxes on lands presently owned by the state in fee title and administered by the Commissioner of Natural Resources. Payments are made on a flat-rate per-acre basis, with the rate depending upon the nature of the property (and receipts from economic activity). The law requires that 40% of the payments be deposited in the general fund for property tax reduction purposes, and further prescribes a distribution scheme for the balance of the payments.

MISSISSIPPI

The state shares receipts from its park and forest land.

MISSOURI

On November 4, 1980, the voters of Missouri approved a constitutional amendment requiring the Conservation Department to pay the counties taxes for property it has purchased.

Authority also exists for the state to make flat payments per acre for forest cropland although it appears that funding has not been provided.

MONTANA

During the 1979–81 biennium, interim legislative committees are studying the subject of state compensation to local governments for state-owned property to determine if legislation should be proposed.

The state currently has authority to share receipts from acquired forest land and also make payments for grazing land if it comprises more than 6% of a county's area, although it is not clear whether these programs are actually funded.

NEBRASKA

No provisions.

NEVADA

For a number of years, the legislature has provided a payment to the government of Carson City as an in lieu payment for all the state-owned property located there. However, the payment is not large and does not approach what the taxes would be on the property if it were privately owned. (*Nevada Revised Statutes*, 361.055)

Since July 1, 1978, all state-owned real estate has been required to be listed on a separate county tax list and assessment roll at its full cash value. If the total value of the state's real property in a county is greater than 17% of the total value of all other real estate listed in the county's tax list and assessment roll, that portion of the value of the state holdings in excess of 17% may be taxed by the county as other property is taxed. (*Nevada Revised Statutes*, 361.055)

The Nevada Department of Fish and Game is also to pay to the county tax receiver of the county where each parcel of its acquired real property is located an amount equal to the taxes levied and assessed against each parcel. (*Nevada Revised Statutes*, 361.055)

NEW HAMPSHIRE

1979 Senate Bill 49 has been referred for interim study. The bill would have established a uniform appraisal, levy, and appeal procedure whereby the state would pay cities and towns an amount equal to one-half the normal tax levy in return for local services in lieu of property taxes. Presently, the state makes tax equivalency payments only for certain forest lands and lands acquired for parks and recreation. State forest receipts are also shared. Under the new measure, still under study as of January 1980, the state could still make application to the local unit for exempting the property from payments.

NEW JERSEY

State land and improvements owned, except for lands used for highways, bridges or tunnels, are assessed and subject to an in lieu tax payment to compensate municipalities for the costs of local services to state property. The assessment is calculated by applying the effective local purpose tax rate for the tax year to the aggregate amount of state property in the municipality to yield a sum constituting the state's liability; not to be less than $1,000 or greater than 25% of the local (municipal) purpose tax levy for the year for which the calculations are made. (*New Jersey Revised Statutes*, 54:4-22a *et seq.*)

1978 Senate Bill 274 provided for payments by the state to municipalities that exempted publicly assisted housing projects from real property taxes. As proposed, the amount of state rebate is computed by the Director of Local Government Services as a product of the total replacement cost of publicly assisted housing units times the effective tax rate of the qualifying municipality The in lieu tax payment would be received by the municipality and then deducted from the tax equivalency figure to determine the final amount due to the municipality. If appropriations are insufficient to pay the qualifying municipalities the full amounts to which they are entitled, the amount appropriated would be prorated so that each municipality is distributed the same percentage of the total appropriation it would have received. This legislation was reintroduced in 1978-79 as Senate Bill 369 but died in session.

Three other state-local payment programs in lieu of taxes also exist. (1) The state makes a flat 10¢ fee per acre payment on certain state parks and forests. (2) State water resource projects, covering predominantly rural and agricultural lands, provide the base for a 100% tax equivalent payment on lands, equal to the taxes paid during the year prior to acquisition. For improvements on these lands, a declining payment is made, also based on the taxes paid during the year prior to acquisition, and phased out over a 13-year period from acquisition or commencement of construction. (3) The state's "Green Acres" legislation required tax payments on the parks, forests, open space and environmentally sensitive areas which it acquires. These payments are based on the taxes paid during the year prior to acquisition at a declining rate phased out over the 13-year period from acquisition.

NEW MEXICO

No provisions.

NEW YORK

The state offers local government units compensation under at least seven types of payment programs:

(1) Lands owned by the state for reforestation purposes are subject to taxation for all purposes except county purposes. Such lands are valued as if privately owned and assessed at the same percentage of full valuation as other taxable real property. (*New York Real Property Tax Law*, Sec. 534)

(2) The following state lands are subject to taxation for all purposes: (a) all wild or forest lands owned by the state in forest preserves; (b) all wild or forest lands owned by the state in the towns of Altona and Dannemora; (c) all state lands of the

Allegany State Park; (d) all land in Rockland County acquired for public use; (e) all land in Rockland County and the towns of Cornwall, Highland, Tuxedo, and Woodbury acquired for public use in connection with the Palisades Interstate Park; (f) lands acquired or leased by the state and used for the construction and management of a railroad from Lake Champlain to Clinton Prison; (g) all lands owned by the state or leased from the United States for a term of 50 years or more, for use by the conservation department as a fish hatchery, game farm, game management area, or game refuge. (*New York Real Property Tax Law*, Sec. 532)

(3) Lands owned by the state and situated in a variety of school districts are subject to taxation for school purposes. (*New York Real Property Tax Law*, Sec. 536)

(4) Whenever the state or a state agency acquires real property that becomes exempt as a result of the tax acquisition and constitutes 2% or more of the total taxable assessed valuation of the latest preceding assessment roll, or there is a reduction in assessments on taxable state lands, the state tax board is responsible for establishing a "transition assessment" which effectively prevents any loss of taxable assessed valuation on the assessment roll for the first year affected by the state acquisition. For each succeeding year, the board is responsible for establishing a transition assessment effectively limiting to 2% the loss in taxable assessed valuation resulting from the acquisition or subsequent acquisition or reductions in the assessments. This process continues until the transition assessment is phased out. (*New York Real Property Tax Law*, Sec. 545)

(5) State aid is payable to any county, city, or city school district when the assessed valuation of the unit's tax base is decreased in any one year by 10% or more as the result of the removal from the assessment roll of a public utility company as the direct or indirect result of the surrender of any license, franchise, permit, or authorization where the undertaking was by law or regulation of New York or of the United States. The state aid payment for the first year is 80% of the total taxes that would have been levied for the year preceding removal. For the next three years, the state aid payment would be 60%, 40%, and 20%, respectively, of the total taxes that would have been levied for the year preceding removal of the utility. (*New York Real Property Tax Law*, Sec. 546)

(6) State aid is payable to any city with a population of 75,000 or more when new land acquisitions by the state for other than highway purposes would cause the total assessed valuation of state-owned property in the city to be 25% or more of the total taxable assessed valuation of the tax roll. State aid for the first year the land is acquired is payable in an amount equal to the tax levy for the year preceding acquisition. Subsequently, in lieu of tax payments are made for the period of probable usefulness of the improvements, not to exceed 30 years, in an amount equal to 1% of the acquisition cost of the land and improvements plus construction costs of new facilities. The city must apply to the comptroller for these aid payments. (*New York Public Lands Law*, Sec. 19-a) To date only Albany has qualified for this program.

(7) Tax equivalency payments are also made on land acquired by the Port of New York Authority.

Optional Service Charge Law: In addition to these specific payment programs, New York has since 1972 permitted local governing bodies to levy property taxes on certain kinds of formerly exempt property. For example, associations organized exclusively for "Bible, tract, benevolent, missionary, infirmary, public playground, scientific, literary, bar or medical association, library, patriotic or historical purposes, or for the enforcement of laws relating to children or animals" are subject to taxation at local discretion to cover costs for fire, police, sanitation, water supply, and street maintenance services. Moreover, organizations which maintain their exempt status are still subject to a service charge on most local services, determined by multiplying the tax rate by a fraction representing the costs of chargeable services in relation to all expenditures financed from local property taxes. (*New York Consolidated Laws Annotated*, Art. 4, Title 2, Sec. 421)

NORTH CAROLINA

The state shares receipts from timberlands and lands which are donated for forests or parks.

NORTH DAKOTA

The state has authority to make tax equivalency payments for land under the control of The Fish and Game Commission, and to share receipts from its acquired forest lands. Payments under these programs are not documented, however.

OHIO

Ohio Revised Code, Chapter 163 provides a standard state appropriation procedure to local governments for state-owned property; on a tax equivalency basis for lands held by the Division of Wildlife: and also via receipt sharing for forest land and lands adjacent to certain lakes.

OKLAHOMA

No provisions.

OREGON

The state shares large amounts of revenues derived from state forest lands and also provides tax equivalency payments for lands under the control of the state game commissioner.

PENNSYLVANIA

Public Act 32 (printer's no. 2628), signed into law in April 1980, provides for an annual charge to be levied on all lands acquired by the Commonwealth or by the U.S. government for forest reserves, conservation of water, or to prevent flood conditions. The charge is to be levied and distributed for the following local units: (1) 13¢ per acre for the county in which the lands are located; (2) 13¢ per acre for the school districts in which the lands are located; and (3) 13¢ per acre for the township in which the land is located. The law authorizes the charge only until such time as the charges equal or exceed the amount paid by the Commonwealth in lieu of taxes, under a 1935 law, which provides for tax equivalency payments on lands acquired for flood control, recreation, conservation, and historical purposes, and receipt sharing on state forest lands.

RHODE ISLAND

The *General Laws of Rhode Island* do not provide for compensation to local governments for specific types of land. However, the state does make tax equivalency payments for reservoir land acquired by the State Water Resources Board when in excess of 25% of the value of all real property within that jurisdiction. These payments are made only on Big River and Wood River Reservoir land and are based on a declining scale over 25 years, beginning in 1963.

A bill (79-S-437) relating to state grants in lieu of taxes on state-owned property was introduced in 1979. However, the bill was not reported out of committee and its prospects for 1980 enactment do not seem any better, largely due to an estimated $21.7 million projected annual cost to the state. The bill would have provided an in lieu payment equal to 25% of the property tax which would have been paid for nonprofit institutions of higher education and nonprofit hospitals, and an in lieu payment for state-owned property to be computed as a fraction of the total state municipal tax levy times the assessed value of all state-owned real property and then multiplied by ten times the mill rate of the municipality.

SOUTH CAROLINA

The state has a program to make tax-equivalency payments on public service authority lands acquired before 1950, and to make flat per-acre compensatory payments for forestlands, parklands, and forestry commission lands.

SOUTH DAKOTA

The state pays for endowment and school lands it owns in each county and school district at the same tax rate of taxable agricultural lands. The state also pays its counties a tax equivalent to the amount that would be paid by properties outside of incorporations under the State Board of Charities and Corrections and State Board of Regents were such lands privately owned. (*South Dakota Compiled Laws*, Vol. 2, Ch. 5.11) The same section provides that public shooting areas and state-owned lands acquired under the Rural Credit Act may be taxed by local taxing districts.

TENNESSEE

No provisions.

TEXAS

No provisions.

UTAH

Minimal tax equivalency payments are made for land managed by the State Wildlife Division.

VERMONT

The state shares its receipts from forest and parklands. All state land is to be assessed at fair market value and listed separately. Whenever the total value of state land is greater than 10% of the total value of all other property listed in a town, the portion greater than 10% may be taxed by that town. (*Vermont Code*, Sec. 3655a)

Local taxation of state forests, parks, and forest reserves is also authorized although it is unclear whether this is actually done. (*Vermont Code*, Secs. 3615, 3657)

VIRGINIA

The governing body of any county, town, or city is authorized to impose and collect a service charge upon tax exempt state-owned real property based on the assessed value of the real estate and the amount which the local unit shall have expended in the preceding year for the purpose of furnishing police and fire protection, and refuse collection, excluding any amount received as a federal or state grant for that same purpose, but not to exceed 20% of the real estate tax rate. The charge is computed by dividing the expenditures by the assessed fair market value of all the real estate within the local unit, including nontaxable property. The service charge may be imposed on owners of all real estate in Virginia, except for church property, but cannot exceed 20% of the locality's real estate tax rate except for educational institutions, faculty and staff housing which has a 50% limit. (Code of *Virginia*, Sec. 58-16.2)

WASHINGTON

Receipt-sharing payments are made for forest and parklands, as well as harbor areas and tidelands within an established port district. State game lands of over 100 acres are also the base for annual tax equivalency payments. Other state agency or institutional land is also subject to state compensatory payments although they are made to the fire districts only.

WEST VIRGINIA

No provisions.

WISCONSIN

Wisconsin's numerous in lieu programs provide payments for nearly 90% of the state's tax exempt acreage:

(1) Enacted in 1973, the "payments for municipal services" program was one of the earliest and most comprehensive state compensatory policies to emerge. The plan's purpose is to "make equitable annual payments to municipalities, from a specific state appropriation, in recognition of critical services directly provided to state facilities." Payments to municipalities are authorized for police, fire, and garbage collection, computed by prorating a portion of the municipality's net costs for these services to the state property based on valuation (that is, the amount of these services financed by the property tax, multiplied by the ratio of the value of state improvements to taxable improvements plus state improvements). (*Wisconsin Statutes*, 70.119)

(2) State Department of Natural Resources (DNR) lands, including state parks, forests, fish and wildlife management lands, and lands leased from the federal government, provide for flat-fee per acre payments (50¢). (*Wisconsin Statutes*, 70.113)

(3) An alternative "formula" payment scheme for DNR lands acquired subsequent to July 1969, provides for a ten-year declining ad valorem payment for these lands, not to fall below the flat rate per acre. Under this program the first year's payment is determined on the basis of the local assessment following acquisition multiplied by the county, local, and school tax rate levied against all assessments for that year. Subsequent payments are 10% reductions of the first year's payment throughout a ten-year schedule or until the 50¢ acre minimum is reached. (Wisconsin *Statutes*, 70.113, as amended by Ch. 90, Laws of 1973, Sec. 323)

(4) The state pays 20¢ per acre to towns and 10¢ per acre to counties for county forestlands situated in each. In addition, when timber is cut in the county forest system, the state receives a severance payment of 20% of gross value, sharing 10% with the towns and the remainder with the counties. (*Wisconsin Statutes*, 28.10-11)

(5) The private Forest Crop Law provides for additional in lieu payments based on conservation and production/severance tax issues. It provides that an owner of 40 acres or more of forestland may sign a 25 to 50-year contract with the state, agreeing to practice sound forest management and pay annually 10¢ per acre (pre-1971 enrollment) or 20¢ an acre (post-1972 enrollment) in lieu of property taxes. The state contributes an additional 20¢ per acre and the proceeds are then divided

between town (40%), school district (40%), and county (20%). The landowner then pays a 10% severance tax to the state when timber is cut or the contract terminates. (*Wisconsin Statutes*, 77.01-.14)

(6) The private Woodland Tax Law provides the same benefits as the Forest Crop Law to woodlot owners of less than 40 acres. Herein, landowners pay an annual tax of 20% per acre to the local town treasurer with no additional sharing requirements. No severance tax is assessed, nor is there a rollback provision for early termination of the ten-year contract. However, no state payment is made to the local town treasurer under this program. (*Wisconsin Statutes*, 77.16)

WYOMING

No specific provisions; however, because property owned by the State Game and Fish Commission is not used primarily for a government purpose, it may be taxed.

FOOTNOTES

[1] These states are: Alabama, Alaska, Arizona, Delaware, Indiana, Kentucky, Maine, Nebraska, New Mexico, Oklahoma, Tennessee, Texas, and West Virginia.

[2] "Regularity" herein being determined by specific state payment listed on at least one of the surveys which supports this research.

[3] ACIR, *The Adequacy of Federal Compensation for Federal Tax Exempt Land*, p. 22.

NOTE: In addition to those programs itemized in the preceding section, programs that compensate localities for state-owned property have been identified, but not verified, by other researchers. For example, in *The Free List— Property Without Taxes*, Alfred Balk lists the results of a questionnaire he sent to state governments. One of the relevant questions was, "Does the state pay a service charge or payments in lieu of taxes for certain types of property?" The affirmative responses would add several state compensation programs for public housing: Arkansas, Colorado, Maryland, Massachusetts,* Minnesota, Missouri, New Jersey,* Oklahoma, Pennsylvania, Texas, Utah, and Washington;* for fish and game preserves: Arkansas, Mississippi,* Pennsylvania,* South Dakota,* and Vermont;* for state parks: Vermont;* for state forests and timberland: Maine, and for port authorities: Arkansas, Mississippi, and New York

* These payments were cited only indirectly in other surveys and research.

SOURCES: Survey of state source documents and conversations with state and local taxation officials; U.S. Advisory Commission on Intergovernmental Relations, *The Adequacy of Federal Compensation to Local Governments for Tax Exempt Federal Lands*, Table 3, A-68, Washington, DC, ACIR, 1978; EBS Management Consultants, Inc., *Revenue Sharing and Payments in Lieu of Taxes on the Public Lands*, Washington, DC, Public Land Law Review Commission, 1968; Kenneth T. Palmer and Roy W. Shin, "Compensatory Payment Plans in the States," *State Government*, vol. 48 (Autumn, 1975), pp. 216–219. The Library of Congress, Congressional Research Service, Report 1361 (unpublished), dated June 26, 1978.

Table 6.107

KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1983

State 1/	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Arizona*	1973 Revised: 1977, 1981	Homeowners and renters 65 and over, and disabled (50,340)	$3,750/ single $5,550/ married	Maximum tax credit is $396 (indexed annually) for single taxpayers earning less than $1,750 and married taxpayers earning less than $2,500. Minimum tax credit is $44 with an income ceiling of $3,750 for single and $5,500 for married taxpayers. Social Security payments are exempted from income limits.	State income tax credit or rebate	$327.09 ($5.76) [16,466]
Arkansas	1973 Revised: 1975, 1983	Homeowners 65 and over, widows 62 and over 32,203)	$12,000	Relief based on amount that property taxes exceed various percentages of household income, based on income size. Maximum relief ranges from $250 if income is $7,000 or less to $50 if income is between $11,000 and $12,000.	State income tax credit or rebate	$ 81.35 ($2.02) [2,685]
California* (1982)	1967 Revised: 1971, 1973, 1977, 1978, 1979	Homeowners and renters 62 and over, totally disabled Homeowners (117,500) Renters (281,400)	$20,000 gross household income; $12,000 net household income	Homeowner relief ranges from 96% of tax payment on first 34,000 of full value if net household income is not over $3,000 to 4% of tax payment if net household income is not over $12,000. Renter relief is based on household income and a statutory property tax equivalent of $250. Relief also ranges from 96% of the property tax equivalent to 4% of property tax equivalent for same income brackets as homeowners.	State rebate	Homeowners $ 93.00 ($ .47) [11,500] Renters $147.00 ($1.79) [44,300]
Colorado	1971 Revised: 1972, 1973, 1974, 1975, 1977, 1978, 1980	Homeowners and renters 65 and over, disabled or surviving spouse 58 and over (57,975)	$7,500/ single $11,200/ married	Relief cannot exceed $500 and is equal to $500 reduced by 10% of income over $5,000 for individuals and 20% of income over $8,700 for married couples (20% of rent equals tax equivalent).	State income tax credit or rebate	$261.61 ($4.98) [15,167]
Connecticut* (FY 83)	1973 Revised: 1974	Homeowners and renters 65 and over (49,304)	$11,900/ single $14,300/ married	Taxes exceeding 5% of income. Maximum refund ranges up to $500 for single taxpayers with an income limit of $11,900 and $600 for married taxpayers with income limit of $14,300. (20% of rent and utilities equals tax equivalent).	Reduction in tax bill or state rebate	$284.16 ($ 4.44) [14,010]
Dist. of Col.	1974 Revised: 1977	Non-elderly homeowners and renters (6,000)	$10,000	Relief takes the form of a variable credit ranging from 95% of tax in excess of 1.5% of income for incomes less than $3,000 to 75% of tax in excess of 4% of incomes for incomes between $15,000 and $20,000. Maximum credit $750. (15% of rent equals tax equivalent.)	Income tax credit	$207.56 ($6.43) [4,102.3]

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KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1983
(continued)

State 1/	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Dist. of Col.	1974 Revised: 1977	Elderly, blind or disabled homeowners and renters (12,632)	$20,000	Credit is based on amount of property tax paid in excess of various percentages of household gross income. Credit ranges from taxes paid in excess of 1% of household income if income is under $5,000 to taxes paid in excess of 2.5% of income for incomes between $15,000 and $20,000. Maximum credit is $750. (15% of rent equals tax equivalent.)	Income tax credit	$341.53 ($8.24) [5,254.4]
Hawaii (1981)	1977 Revised: 1981	All renters (41,494)	$20,000	Taxpayers with AGI under $20,000 who have paid more than $1,000 in rent qualify for a tax credit or refund of $50 per qualified exemption. Taxpayers 65 and over may claim double tax credits.		$100.65 ($4.27) [4,177]
Idaho (1982)	1974 Revised: 1976, 1978, 1980, 1982	Homeowners age 65 and over, widows, blind disabled veterans, fatherless children under 18, POWS, disabled (17,323)	$7,500	Relief ranges from lesser of $400 or actual taxes for those with incomes $4,780 less to lesser of $50 or taxes for those with incomes between 11,701 and 11,900. Brackets adjusted annually with COLA based on Social Security increase.	Reduction of tax bill	$181.48 ($3.33) [3,200]
Illinois	1972 Revised: 1974 1975, 1977, 1981, 1982	Homeowners and renters 65 and over or disabled (317,000)	$10,000	Relief based on amount by which property tax (or rent equivalent) exceeds 3.5% of household income. Relief limit is $700 less 5% of household income (30% of rent equals tax equivalent). An additional grant is provided regardless of the amount of property tax or rent payments. The additional grant is $80.	State rebate	$246.00 ($6.79) [78,100]
Iowa	1973 Revised: 1975 1977-81, 1983	Homeowners and renters 65 and over, surviving spouse 55 or older, and totally disabled (53,000)	$12,000	Relief ranges from 100% of property tax for incomes below $5,000 to 25% for incomes $9,000 to $12,000. Property taxes are limited to $1,000 for calculating relief. (In addition, all homeowners receive a state financed homestead tax exemption of $4,850. However, homestead assistance must be deducted from elderly credit program.) (25% of rent equals tax equivalent.)	State funded local credit	$179.25 ($3.26) [9,500]

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—KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1983
(continued)

State 1/	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Kansas	1970 Revised, 1972 1973, 1975 1978, 1979	Homeowners and renters 55 and over, disabled, blind or having a dependent child under 18. (60,478)	$13,000	Relief is dependent upon income level with various percentages of income subtracted from property tax to determine refund. Ranges from 0% for incomes below $3,000 to 4.5% for incomes above $7,000. Property taxes are limited to $400 for calculating relief. (15% of rent equals tax equivalent.)	State rebate	$149.13 ($3.79) [9,019]
Maine	1971 Revised: 1973 1974, 1977, 1981	Homeowners and renters 62 and over disabled surviving spouse 55 and over (20,786)	$6,200/ single $7,400/ married	Relief equal to amount of tax up to $400 (25% of rent equals tax equivalent.)	State rebate	$270.00 ($5.37) [5,917]
Maryland	1975 Revised: 1977 1981	All homeowners (99,625) Renters age 60 and over or disabled (8,606)	none (net worth $200,000)	Homeowners relief, not to exceed $1,200, equals property tax exceeding sum of graduated percentage of income ranging from 3/4% of first $4,000 of household income to 9% of income over $16,000. Renters' relief, not to exceed $450, equals the amount by which 15% of the individual rent exceeds the same graduated percentage of income as homeowners relief.	Homeowners: Credit against property tax bill Renters: direct payment	$363.97 ($8.50) [36,260] $177.11 (.36) [15,242]
Michigan	1973 Revised: 1975 1982	All homeowners and renters (1,456,500)	none	Credit equals 60% of property taxes in excess of 3.5% of income (100% of a lower percentage of income for elderly). Maximum relief is $1,200 (17% of rent equals tax equivalent). The credit is reduced 10% for each $1,000 of household income above $65,000.	State income tax credit or rebate	$369.79 ($58.16) [538,593]
Minnesota	1967 Revised: 1973 1975-1983	All homeowners and renters (700,000)	none	Tax exceeding various percentages of income is remitted; percentages range from 0.5% of income below $3,000 to 4% of income $10,000 or more. The refund is limited to a maximum of $650 and a limit of $850 for senior/disabled applicants. Additional refund of excess tax remaining after the maximum has been reached is available to all applicants up to a second maximum of $1,000. (Rent equivalent is 23%.)	State rebate	$270.00 ($45.37) [188,900]

(continued on next page)

U.S. Advisory Commission on Intergovernmental Relations

—KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1983
(continued)

State 1/	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Missouri	1973 Revised: 1975 1977	Homeowners and renters 65 and over (56,260)	$10,500	For incomes not over $3,000 the credit is equal to actual property tax or rent equivalent paid up to $500. For incomes between $3,000 and $10,000, tax exceeding various percentages range from 1/8% accumulative per $200 of income for incomes between $3,000 and $4,000 to 4% for incomes between $6,200 and $10,000. Maximum relief, $500 (20% of rent equals tax equivalent.)	State income tax credit or rebate	$134.77 ($1.53) [7,582]
Montana (1982)	1981 Revised: 1983	Homeowners and renters 62 and over (15,428)	none	Credit is based on a percentage ranging from .006 to .05 multiplied by household income and then subtracted from property tax liability. Household income means $0 or the amount obtained by subtracting $4,000 from gross household income. Maximum credit is $400.	Income tax credit	$194.45 ($3.74) [3,000]
Nevada	1973 Revised: 1975 1977, 1979, 1981, 1983	Homeowners and renters 62 and over (10,066)	$14,000*	Relief ranges from 90% of property tax for incomes less than $4,500 to 10% for incomes between $11,000 and $14,000. Maximum relief is $500 (17% of rent equals tax equivalent).	State rebate	$152.66 ($1.77) [1,537]
New Mexico	1977 Revised: 1981	Homeowners and renters 65 and over (20,000)	$16,000	The amount of credit allowed is based on a table provided indicating for various modified gross income classes. The credit is the difference between actual property tax liability and this maximum amount, not to exceed $250. The maximum liability ranges from $20 for MGI of $1,000 or less to $180 for MGI of $15,000 to $16,000.	State income tax rebate	$ 97.00 ($1.49) [2,012]
New York	1978, Revised: 1981 1982	All homeowners and renters (315,934)	$16,000	Relief is equal to 50% of the difference between real property tax and a certain percent of income. The percent of income ranges from 4% for taxpayers 65 and over with $3,600 or less to 6.5% for taxpayers (all ages) with income over $10,000 but not over $16,000. The maximum credit ranges from $250 for taxpayers 65 and over with income of $7,200 or less to $45 for taxpayers under 65 with income over $10,000 but not over $16,000. (25% of rent equals tax equivalent.)	State income tax credit or rebate	$ 73.92 ($1.33) [23,355]

(continued on next page)
U.S. Advisory Commission on Intergovernmental Relations

—KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1983
(Continued)

State 1/	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
North Dakota*	1969 Revised: 1973 1975, 1977, 1979, 1981, 1983	Homeowners age 65 and over or disabled (9,411)	$10,000	For persons with income under $5,500 the taxable value of the homestead is reduced 100% (maximum reduction, $2,000). For persons with income between $5,500 and $10,000 the reduction in taxable value varies. Relief ranges from an 80% reduction for incomes between $5,500 and $6,500 with a maximum reduction of $1,600 to a 20% reduction for incomes between $8,500 and $10,000 with a maximum reduction of $400.	Reduction of tax bill	$120.20 ($1.86) [1,198]
		Renters 65 and over or disabled (2,635)	$10,000	Property tax in excess of 4% of income is refunded. Maximum relief is $190 (20% of rent equals tax equivalent).	State rebate	$147.21 ($ .59) [388]
Ohio (1979)	1971 Revised: 1972 1973, 1975, 1977	Homeowners 65 and over or disabled (352,867)	$15,000	Benefits range from reduction of 75% or $5,000 assessed value (whichever is less) for incomes below $5,000 to 25% or 1,000 for incomes above 10,000.	Reduction of tax bill	$153.20 ($5.01) [54,058]
Oklahoma	1974	Homeowners age 65 and over or disabled (1,965)	$7,200	Relief equal to property taxes due in excess of 1% of household income, not to exceed $200. In addition, homeowners with household income of $4,000 or less receive a double homestead exemption ($2,000).	State income tax credit or rebate	$ 89.71 ($0.06) [176]
Oregon (1981)	1971 Revised: 1973 1977	All homeowners and renters (413,109)	$17,500	Refund of all property taxes up to various maximums that depend on income. For homeowners, these maximums range from $750 if household income is under $500, to $36 if household income is $17,000 to $17,499, for renters, maximums range from $375 if household income is under $500 to $58 if household income is $17,000 to $17,499. (17% of rent equals tax equivalent.)*	State rebate	$205.08 ($31.89) [84,719]
Pennsylvania (1981)	1971 Revised: 1973 1979, 1981	Homeowners and renters 65 and over or disabled 18 and over, widows and widowers 55 and over (465,348)	$11,999	Relief ranges from 100% of tax for incomes less than $5,000 (maximum relief, $500) to 10% of tax for incomes greater than $9,000 (20% of rent equals tax equivalent).	State rebate	$218.50 ($8.56) [$101,679]

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U.S. Advisory Commission on Intergovernmental Relations

—KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1983
(continued)

State 1/	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Rhode Island	1977	Homeowners and renters 65 and over (1,996)	$12,500	The credit equals the amount by which property taxes paid exceed various percentages of household income. A table is provided based on income and household size. The credit ranges from taxes paid in excess of 3% of household income for taxpayers with income of $1,000 or less to taxes paid in excess of 7% of household income for two or more person households with income between $11,001 and $12,500. The maximum credit or rebate is $200. (20% of rent equals tax equivalent.)	State income tax credit or rebate	$159.19 ($0.33) [318]
South Dakota*	1976 Revised: 1978 1982	Homeowners 65 and over or disabled (6,629)	$4,625 (single member household) $7,375 (multiple member household)	Refund is based on a percentage of real estate tax according to income. For single-member households, the percentage refunded ranges from 35% of tax if household income is less than $2,750 to 19% if income is between $4,501 and $4,625. For multi-member households, refunds range from 55% of tax if income is less than $5,500 to 25% if income is between $7,251 and $7,375.	State rebate	$113.14 ($1.09) [750]
Tennessee	1972 Revised: 1979 1982	Homeowners 65 and over or disabled (78,500)	$6,000	If income is $6,000 or less, taxpayers will receive a homestead exemption of $12,000 of market value. This program can also be classified as a homestead exemption.	State rebate	$ 92.61 (.61) [7,270]
Utah	1977	Homeowners and renters 65 and over and those that are widowed. (10,000)	$7,000 (homestead in excess of $80,000)	The rebate ranges from $300 for incomes under $3,000 to $25 for incomes between $9,000 to $10,000. Maximum credit is applied first; remaining tax liability can be reduced by indigent abatement of one-half of remaining tax up to $300. Income limit on abatement is $8,000 for married and $7,000 for single taxpayers.	State rebate	$106.00 (.68) [1,060]
Vermont	1969 Revised: 1971 1973, 1983	All homeowners and renters (full-year residents) (22,963)	$35,000	Refund of taxes exceeding variable percent of income ranging from 4% for incomes less than $4,000 to 7% for incomes up to $24,999. Maximum relief is $500 (20% of rent equals tax equivalent).	State rebate (or income tax credit for elderly)	$236.48 ($10.61) [5,430]

(continued on next page)
U.S. Advisory Commission on Intergovernmental Relations

--KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1985
(continued)

State 1/	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
West Virginia	1972	Homeowners and renters age 65 and over (106)	$5,000	Relief ranges from 30% to 75% of taxes exceeding a given percentage of income. These percents range from .5% to 4.5% with graduated income brackets ranging from 0-$499 to $4,950-$5,000, including Social Security benefits. (12% of rent equals tax equivalent; not more than $125 considered for relief).	State rebate	$ 16.19 (n.a.) [2]
Wisconsin	1964 Revised: 1971 1973, 1977 1979, 1981, 1983	All homeowners and renters (263,597)	$15,500	If household income was more than $7,000, excess taxes are taxes above 12.9% of income exceeding $7,000. Tax credit equals 80% of excess taxes. If household income was $7,000 or less, credit equals 80% of total tax. In all cases aid-able property taxes cannot exceed $1,100. (20% of rent equals tax equivalent.)	State income tax credit or rebate	$318.00 (17.58) [83,750]

1/ The number of beneficiaries and cost data are for FY 83 unless otherwise indicated in parenthesis.

AZ: In addition, there is a renters income tax credit program with no age or income restrictions which subsidizes 10% of rent paid up to a maximum of $132. There are 256,654 recipients with a total program cost of $30.7 million.

CA: Additionally there is a state financed homestead exemption of $7,000 for all homeowners.

CT: There also is a property tax freeze program that is currently being phased out with a total cost of $17.5 million for FY 83.

IN: In 1980, the circuit-breaker was revised to the Unified Tax Credit for the Elderly which enables all senior citizens, regardless of whether they are homeowners to qualify for the credit if their income is below $10,000. The state also offers a renters program for senior citizen renters which provides for a maximum $1,500 deduction on state income taxes.

NV: Claimants may not own Nevada realty, other than their own home, assessed at over $30,000.

OR: Low-income senior citizens (age 58 and over with income under $5,000) are provided optional rental & utility assistance.

ND: State has separate program which lowers the taxable value of low-income elderly homeowners by as much as $2,000. In determining a person's income for eligibility, the amount of medical expenses incurred and not compensated for shall be deducted.

SD: The number of beneficiaries, average benefits, and cost data are for property or sales tax refunds to the elderly or disabled. Age and income requirements are the same for both programs. Applicants can receive either a property or a sales tax refund. The Department of Revenue processes the claims for both programs and refunds whichever is to the applicant's advantage. Separate data by program is not available.

NOTE: Circuit-breaker property tax relief programs for homeowners and renters are generally defined as state-funded programs that target property tax relief to selected income groups or senior citizens and take the form of a state income tax credit, a direct payment to qualified individuals, or a state payment to the local government that lost tax revenue. Homestead exemptions can be state or locally financed and operate by subtracting a given dollar amount from assessed valuation before computing the tax liability and are often available to all homeowners (or just senior citizen homeowners) regardless of income levels. Recently, some states (e.g., Tennessee) have been restructuring homestead exemptions to use as a means of property tax relief for low-income homeowners. Another hybrid cross between circuit-breakers and homestead exemptions is used by the state of Washington which in 1985 will allow senior citizens and disabled homeowners with incomes less than $9,000 to receive a valuation exemption of $25,000 or 50%, whichever is more. Taxpayers with incomes between $9,000 to $12,000 receive an exemption of $20,000 or 30% of total value of residence up to a maximum of $40,000 exempted. All special excess property tax levies are also exempted. Unlike the typical state circuit-breaker programs, this program is locally financed.

Refer to Table 40 on page 54 regarding state trends in property tax relief strategies.

Source: ACIR staff compilation from questionnaire responses and Commerce Clearing House data.
U.S. Advisory Commission on Intergovernmental Relations

7.0 GENERAL

7.01 Report to Iowa Tax Study Committee on Business Survey
7.02 Business Survey Form
7.03 ACIR, 1981 Tax Capacity of the Fifty States
7.04 Description of State Tax and Expenditure Limitation Measures

Table 7.01

Report to Iowa Tax Study Committee

Business Survey

BACKGROUND

The following organizations were asked to supply representative names of businesses who could help the Committee to understand the role state and local taxes play in location/investment decisions:

National Federation of Independent Businesses

Iowa Small Business Employers

Iowa Association of Business and Industry

Iowa Retail Federation

Iowa Taxpayers Association

The organizations responded with a list of names totalling 55. Each business listed was sent a copy of the questionnaire and a cover letter explaining the purpose and assuring the confidentiality of the responses.

STATISTICS ON RESPONDERS

By September 7, 1984, twenty-eight responses had been received. This 50.9 response rate is considered good, especially considering the short response time given and the fact that the survey was conducted during the summer months- the prime vacation season.

Of those responding, 60.71 percent engage in manufacturing, 21.43 percent are retailers and 17.86 percent are in miscellaneous other occupations. Multistate firms represent 64.29 pecent of the total and those with operations in Iowa only represent 35.71 percent of the total.

LOCATION DECISIONS

The order of importance given the listed and unlisted criteria follows:

	BROAD MARKET AREA						COMPETING SITES					
Factors	MM	IM	MR	IR	MO	IO	MM	IM	MR	IR	MO	IO
Geography	5	6	2						1			
Cost-Expansion/ Relocation	3	2	2			1	1	1				1
Proximity-Markets/ Suppliers	1		1	1	1	1	2		1	1	1	
Land or Facility Available	4	4	2					2				
Public Finance Incentives	5	5	3									1
Access Transportation	1	6	3				2					
Availability of Labor	2	2					2	2				
Cost of Labor	2	2					2	1				
State & Local Taxes	2	1	3	1			1				1	
Community Amenities	6	5		1								
Other-Government Attitudes	5											

KEY

MM = Multistate Manufacturers — 1 = Most Important

IM = Iowa Only Manufacturers

MR = Multistate Retailers

IR = Iowa Only Retailers

MO = Multistate Others

IO = Iowa Only Others — 6 = Least Important

A. Broad Market Area

From the foregoing, it would appear that in making regional decisions, multistate manufacturers consider proximity to markets and suppliers and access to suitable transportation as most important with labor, both availability and cost, and taxes as next most important. Those manufacturers with no facilities outside the state are more concerned with taxes and secondarily with labor and proximity to markets and suppliers.

Retailers and other businesses rank proximity to markets as most important with secondary considerations of expansion costs, availability of land or facilities and geography.

B. Competing Sites

When competing sites within a region are looked at, state and local taxes and expansion vs. relocation costs are of most importance to multistate manufacturers while in-state manufacturers are concerned with expansion costs and labor costs equally. Proximity to markets remains the most important consideration for retailers and other businesses.

C. Non-Iowa Expansion

This question was responded to by 53.57 percent of the businesses. Two of the 15 who responded had not opened new facilities out-of-state, but did give reasons that they might. The responders ranked their reasons as follows:

1) changes in or expansion of the market;

2) lower wage area;

3) lower land or facility costs;

4) more favorable state and local taxes;

5) climate and government attitudes.

TAXES

A. Importance

While 35.71 percent of the respondents indicated that state and local taxes are not of primary concern in business location decisions, the negative wording of the question may have led to answers which do not reflect the respondents belief. The 64.2 percent who believe they are of primary importance, represent a substantial majority.

To the extent that taxes do influence decisions, 78.57 percent believed all components to be equally important, while rate, base and certainty and stability received equal shares from the remaining 21.45 percent of the respondents.

B. Perception

Iowa was ranked as a high tax state by 39.29 percent, a medium high tax state by 50 percent, a medium low tax state by 10.71 percent a a low tax state by none.

C. Tax Ranking

The relative ranking on a cost impact basis for each segment of the responding population as identified in the location section follows.

TAX RANKING

TAX	MM	IM	MR	IR	MO	IO
Property	1	2	1	6	2	2
Corporate Income	5	2	2	5	3	5
Individual Income	6	4	5	3	1	4
Sales and Use	4	5	4	1	5	3
Unemployment Compensation	2	1	2	2	2	1
Workers' Compensation	3	3	3	4	4	4
Other - License Fee	7					

KEY

MM = Multistate Manufacturers

IM = Iowa Only Manufacturers

MR = Multistate Retailers

IR = Iowa Only Retailers

MO = Multistate Others

IO = Iowa Only Others

1 = Most Important

7 = Least Important

From the foregoing, multistate manufacturers find the property tax the most costly, followed by unemployment and workers' compensation costs. Iowa-only manufacturers reverse property taxes and unemployment taxes in their ranking with the corporate income tax assuming more importance. Multistate retailers also place the property tax first with unemployment compensation and corporate income taxes following and workers compensation third. Sales taxes were ranked most costly by only two respondents, Iowa-only retailer and an Iowa-only "other".

The ranking for the taxes by all respondents taken as a whole are as follows:

1) Unemployment Compensation

2) Property Taxes

3) Corporate Income Tax

4) Workers' Compensation

5) Sales and Use Taxes

6) Individual Income Tax

It is important to note that these taxes were ranked in order of importance relative to their cost impact on business, not on individuals.

Table 7.02

IOWA TAX STUDY COMMITTEE

Return to:
A. Mandelbaum
Coopers & Lybrand
1700 Financial Center
666 Walnut Street
Des Moines, Iowa 50309
Before: August 6, 1984

ALL REPLIES WILL REMAIN CONFIDENTIAL

BUSINESS QUESTIONNAIRE

PROFILE

1. Company Name: ______________________________

2. Address: ______________________________

   ______________ Zip Code __________

3. Contact Person: ______________ Title/ Position __________

   Phone # ______________

4. Principal Product or Service, or Type of Business

   a) Business: ______________________________

   b) SIC Code Classification: ____________________

5. Business Locations:

a) # of plants/facilities in Iowa ________________

b) Please check those locations where you have plants/facilities

________ Cedar Rapids

________ Council Bluffs

________ Davenport

________ Des Moines

________ Dubuque

________ Iowa City

________ Sioux City

________ Waterloo

________ Other ____________________________

________ Throughout the state

6. What operations are currently in Iowa? - Out of Iowa?

Iowa		Non-Iowa	List state or country
/__/	corporate headquarters	/__/	________
/__/	headquarters of a wholly owned subsidiary	/__/	________
/__/	manufacturing facilities	/__/	________
/__/	distribution facilities	/__/	________
/__/	retail or sales facilities	/__/	________
/__/	other, please specify ________________		

7. When did your company begin doing business in Iowa?

____

LOCATION DECISIONS

8. a) When deciding in what region or broad market area to expand or invest, which of the factors listed below do you consider?

Please indicate the overall importance of each factor.

OVERALL
IMPORTANCE

(V = Very Important
S = Somewhat important
L = Little importance
N = Not considered)

/__/ geographic considerations (climate - natural resources, etc.)

/__/ cost effectiveness of expansion vs. relocation

/__/ proximity to major markets or suppliers

/__/ land or facility availability at reasonable cost

/__/ public financial incentives (revenue bonds, tax abatement, other public assistance/support)

/__/ access to suitable transportation

/__/ availability of labor supply

/__/ cost of labor supply

/__/ favorable state and local taxes

/__/ community amenitites (cost of living, schools, public safety etc.)

/__/ other, please specify ______________________

____

(if additional space is needed, please provide data on back of sheet)

b) Once a region is chosen, which five of the above factors are of greatest importance in choosing among competing sites?

1. ______________________
2. ______________________
3. ______________________
4. ______________________
5. ______________________

9. a) Have you recently moved operations or facilities out of Iowa or chosen a non-Iowa site for expansion?

/__/ yes /__/ no (go on to question #10)

b) If yes, what type of facility or operation has been relocated or expanded?

Type of Operation: ______________________________

Number of jobs involved: ______________________________

New Location: ______________________________

(if additional space is needed, please provide data on back of sheet)

c) Indicate the overall importance of each factor in your selection of a new location over Iowa.

OVERALL
IMPORTANCE

(V = Very Important
S = Somewhat important
L = Little importance
N = Not Considered)

/__/ change in major markets or suppliers

/__/ lower wage area

/__/ lower land, facility or construction costs

/__/ more favorable state and local taxes

/__/ other, please specify ______________________________

____

____

(if additional space is needed, please provide data on back of sheet)

TAXES

10. a) Many studies indicate that state and local corporate taxes are not of primary importance in business location decisions. Do you agree or disagree?

/__/ agree

/__/ disagree

b) To the extent that these taxes influence decisions, which of the following components are most important:

/__/ rate

/__/ base

/__/ certainty and stability

/__/ all

11. Do you consider Iowa to be:

/__/ a high tax state (upper 25% of all states)

/__/ medium high (second quartile of states)

/__/ medium low range (third quartile)

/__/ a low tax state (among the lowest 25% of states)

12. Which Iowa taxes (both state and local) have the greatest cost impact on your company. (Please rank, 1 = most impact, 7 = least impact)

/__/ property taxes
/__/ corporate income tax
/__/ individual income tax
/__/ sales and use taxes
/__/ unemployment compensation
/__/ workers' compensation
/__/ other, please specify ______________________________

Please add any comments you may have on the above matters on back of sheet.

June 12, 1984

Ms. Anita Mandelbaum
Coopers & Lybrand
1700 Financial Center
666 Walnut Street
Des Moines, Iowa 50309

Dear Ms. Mandelbaum:

I believe these businesses could make a useful contribution to the Iowa Tax Study Commission's work.

1. Name ______________________________

   Address ______________________________

   ____

   Contact Person ______________________________

2. Name ______________________________

   Address ______________________________

   ____

   Contact Person ______________________________

3. Name ______________________________

   Address ______________________________

   ____

   Contact Person ______________________________

4. Name ______________________________

   Address ______________________________

   ____

   Contact Person ______________________________

Table 7.03

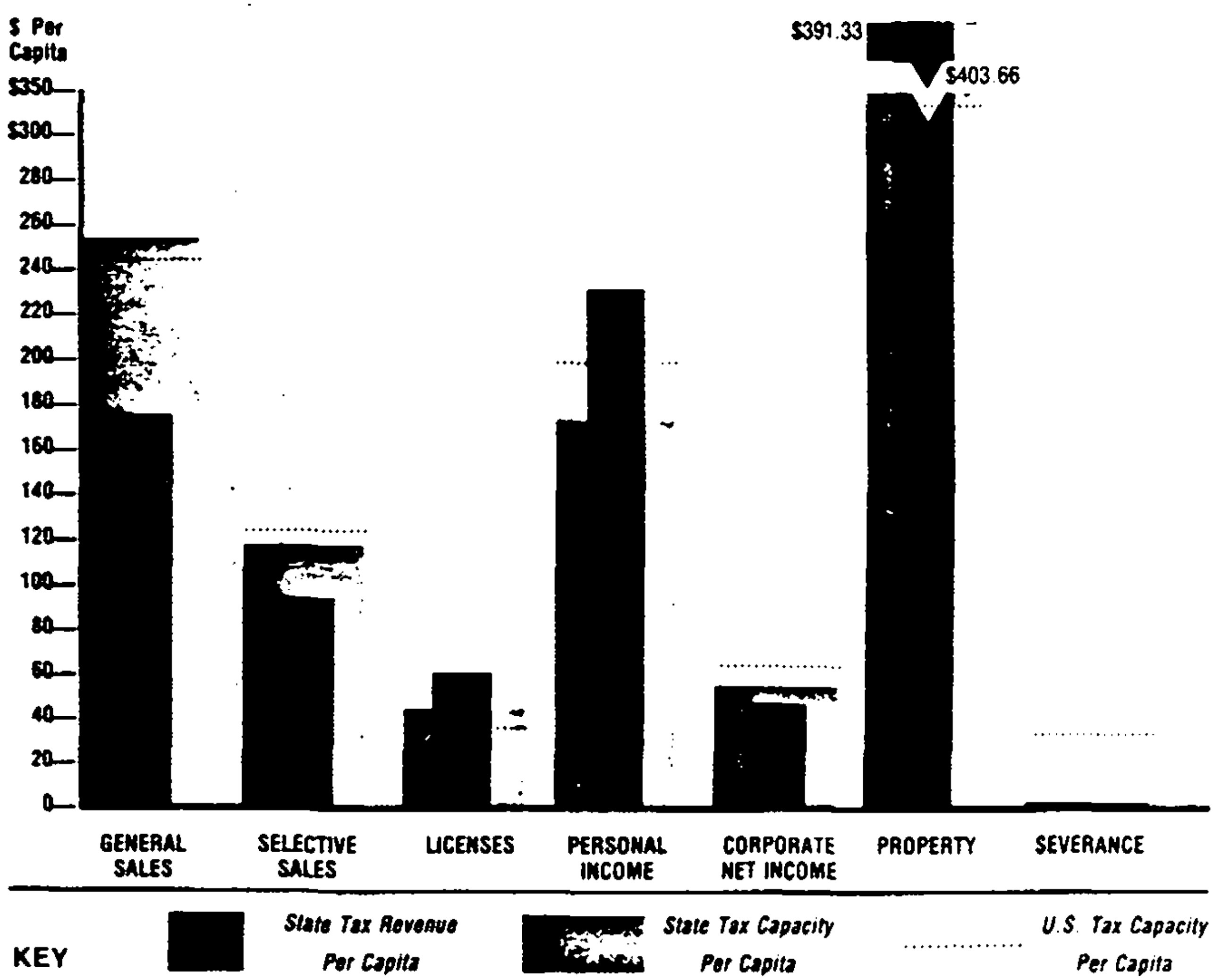
Iowa

	1967	1975	1977	1979	1981
Tax Effort	104	93	90	93	98
Tax Capacity	104	106	105	108	102

FISCAL BLOOD PRESSURE:
(1977–1981) 98/108

Tax Source	Tax Capacity Per Capita	Tax Capacity Index	Tax Capacity	Tax Revenue	Revenue Per Capita	Tax Effort Index	Revenue Less Capacity
General Sales	$254.10	105.0	$736,646	$514,726	$177.55	69.9	-$221,919
Selective Sales	$119.11	97.5	$345,295	$273,847	$94.46	79.3	-$71,447
License Taxes	$44.92	122.6	$130,226	$176,899	$61.02	135.8	$46,673
Personal Income	$174.15	88.1	$504,871	$673,472	$232.31	133.4	$168,601
Corporate Income	$56.07	89.5	$162,544	$135,867	$46.87	83.6	-$26,676
Total Property	$391.33	119.9	$1,134,469	$1,170,202	$403.66	103.1	$35,733
Estate & Gift	$13.05	133.4	$37,819	$54,969	$18.96	145.3	$17,150
Severance	$0.83	2.6	$2,402	$0	$0.00	0.0	-$2,402
Total Taxes	$1,053.56	102.3	$3,054,275	$2,999,988	$1,034.84	98.2	-$54,286

NOTE: All per capita amounts are in dollars; otherwise, dollar data are in thousands of dollars.



ACIR, 1981 Tax Capacity of the Fifty States, September 1983, A-93

Table 7.04

—DESCRIPTION OF STATE TAX AND EXPENDITURE LIMITATION MEASURES

State	Year Adopted	Constitutional or Statutory	Expenditures or Revenues	Nature of Limitation	Emergency Override Provisions
Alaska	1982	Statutory	Expenditures	Inflation and population growth	Governor specifies emergency legislature must appropriate amount.
Arizona	1978	Constitutional	Expenditures	7% of personal income	2/3 vote of legislature on specific additional amount.
California	1979	Constitutional	Expenditures	Inflation and population growth	Limit can be exceeded by voter approval (to be reapproved after 4 years); and, "in the event of an emergency," the limit can be exceeded for 1 year. (The amendment does not specify how and by whom an emergency is determined.)
Colorado	1979	Statutory	Expenditures	7% annual increase	(Statutory; may be amended.)
Hawaii	1978	Constitutional	Expenditures	Growth of personal income	2/3 vote of "members to which each house of the Legislature is entitled," on specified amount.
Idaho	1980	Statutory	Expenditures	5 1/3% of personal income	(Statutory; may be amended.)
Louisiana	1979	Statutory	Revenues	Growth of personal income	(Statutory; may be amended.)
Michigan	1978	Constitutional	Revenues	Ratio of revenue to personal income in base year	Governor first specifies emergency; 2/3 of members in each house concur.
Missouri	1980	Constitutional	Revenues	Ratio of revenue to personal income in base year	Governor can request General Assembly to call an emergency not to exceed one year. 2/3's vote of legislature required for specific purpose and amt.
Montana	1981	Statutory	Expenditures	Growth of personal income	Governor must declare an emergency and 2/3 vote of legislature on specified amount.
Nevada	1979	Statutory	Expenditures	Inflation and population growth	(Statutory; may be amended.)
New Jersey*	1976	Statutory	Expenditures	Growth of personal income per capita	Proposed increase submitted to people as referendum and approved by majority of legally qualified voters who vote.
Oregon	1979	Statutory	Expenditures	Growth of personal income	(Statutory; may be amended.)
Rhode Island*	1977	Statutory	Expenditures	8% annual increase	(Statutory; may be amended.)
South Carolina	1980	Statutory	Expenditures	Growth of personal income	(Statutory; may be amended.)
Tennessee	1978	Constitutional	Expenditures	Growth of personal income	Specific excess amount can be approved by majority vote of General Assembly.
Texas	1978	Constitutional	Expenditures	Growth of personal income	Record vote of majority of legislature finds emergency and specifies amount.
Utah*	1979	Statutory	Expenditures	Growth of personal income x .85	A 2/3 vote of the legislative body "may declare a fiscal emergency in order to exceed the appropriations of revenue limit for any fiscal year."
Washington	1979	Statutory	Revenues	Growth of personal income	The limit may be exceeded "to meet an emergency as declared by the Legislature" by a 2/3 vote. The Legislatures, with 2/3 vote, appropriates the additional revenue requested.

Notes: NJ: Statute expired, but state is still adhering to limitation; RI: Limitation applies to governor's budget request, not to legislative; and UT: Limitation is not yet in effect.

Source: ACIR staff compilations based on the National Conference of State Legislatures, Legislative Finance Paper, State Tax and Spending Limitations: Paper Tigers or Slumbering Giants?, January 1983.
U.S. Advisory Commission on Intergovernmental Relations