

Personal Property Tax Replacement Subcommittee
Standing Committees on Ways and Means
Final Report

Following are the members and elected officers of the Subcommittee:

Representative Dewey Goode, Chairman
Senator Herbert Ollenburg, Vice Chairman
Senator Quentin V. Anderson
Senator William J. Reichardt
Representative Joan Lipsky
Representative D. Vincent Mayberry
Representative Fred Mohrfeld
Representative Norman G. Rodgers

Mrs. JoAnn Brown of the Legislative Service Bureau served as Subcommittee secretary through the month of October.

The Subcommittee was formed to study the possibility of replacing with other revenues all or a part of the personal property taxes collected in Iowa.

The Subcommittee began by considering the measure introduced during the last session by Senator Reichardt, which would exempt retail merchandise inventories and livestock from personal property taxation, and replace the lost revenues by a gross receipts or transaction tax of 1/8 of 1% on sales of food products and 1/4 of 1% on sales of other tangible personal property. The members received a compilation of statistics prepared by the Department of Revenue at the request of the Legislative Fiscal Director. The statistics indicated that nearly twenty-eight million dollars would be lost by exempting retail merchandise inventories and livestock from personal property tax, while the estimated receipts from the transaction tax as proposed would be only eleven and one-half million dollars.

Subcommittee members also received a memorandum relating to alternatives to personal property taxation, and a compilation of legislation in other states exempting business personalty from taxation or reducing the business personal property tax. These materials were provided by the Legislative Service Bureau.

During discussion, Subcommittee members agreed that the present personal property tax is inequitable for the following reasons:

1. Property is not assessed uniformly.
2. The tax is a burden on the businessman or farmer with high inventory and slow turnover.

3. Professional persons, and businesses such as catalog stores, pay no personal property tax.

4. The livestock industry in Iowa is being penalized by taxes which are higher than similar taxes in surrounding states.

5. Ownership of personal property is not necessarily indicative of ability to pay taxes.

The Subcommittee invited numerous representatives of organizations interested in taxation to file position papers and to appear at a hearing held November 10 in the Speaker's Room, State House, Des Moines. Since the members had previously discussed in depth the present inequities of the personal property tax structure, they requested the organizations to propose workable alternatives to the present system. Most representatives who appeared at the hearing agreed that a large part of personal property taxes should be replaced. The most frequent suggestion was a return to what is termed 100% state income tax, with the additional receipts earmarked for personal property tax replacement, and, if necessary, a business privilege tax of 1% on adjusted gross income. This would mean that the present state income tax rate structure would be increased from 3/4 of 1% to 1% on the first thousand dollars, from 1 1/2% to 2% on the next thousand dollars, and so forth.

Some members still prefer a type of gross receipts tax as a replacement, perhaps bracketed for different types of businesses, according to the average percentage of profit in each type of business. Some members believe that it is neither practicable nor desirable to eliminate and replace all of the personal property tax, because of the large amount of revenue it engenders.

Unresolved problems which were discussed by the Subcommittee include the reduction of the tax base for bonding purposes if personal property is exempted from taxation, and a method for allocating replacement tax revenues back to local governmental units.

The Subcommittee has asked for further research to be conducted by the Legislative Fiscal Director and the Legislative Service Bureau, to determine the revenues which would be obtained by a change in the state income tax rate structure, and to explore the techniques of North Dakota's new tax law and its applicability to the Iowa situation.

The Subcommittee plans to hold at least one more meeting before the 1970 legislative session, when the requested research is completed, and hopefully to develop in bill form one or more

alternatives to the present personal property tax structure for consideration by the General Assembly.

Reference materials submitted to the Subcommittee, and minutes of all Subcommittee meetings, are available in the Legislative Service Bureau office.

Representative Joan Lipsky requests that she be recorded as believing that it is not possible or expedient to repeal personal property taxes, but that inequities in the tax should be corrected so that businesses which do not maintain large inventories are included, and so that other segments of the economy do not carry an undue burden.