

AN INFORMATION REPORT

*Tax Overlapping in
the United States*

1961

THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
SEPTEMBER 1961

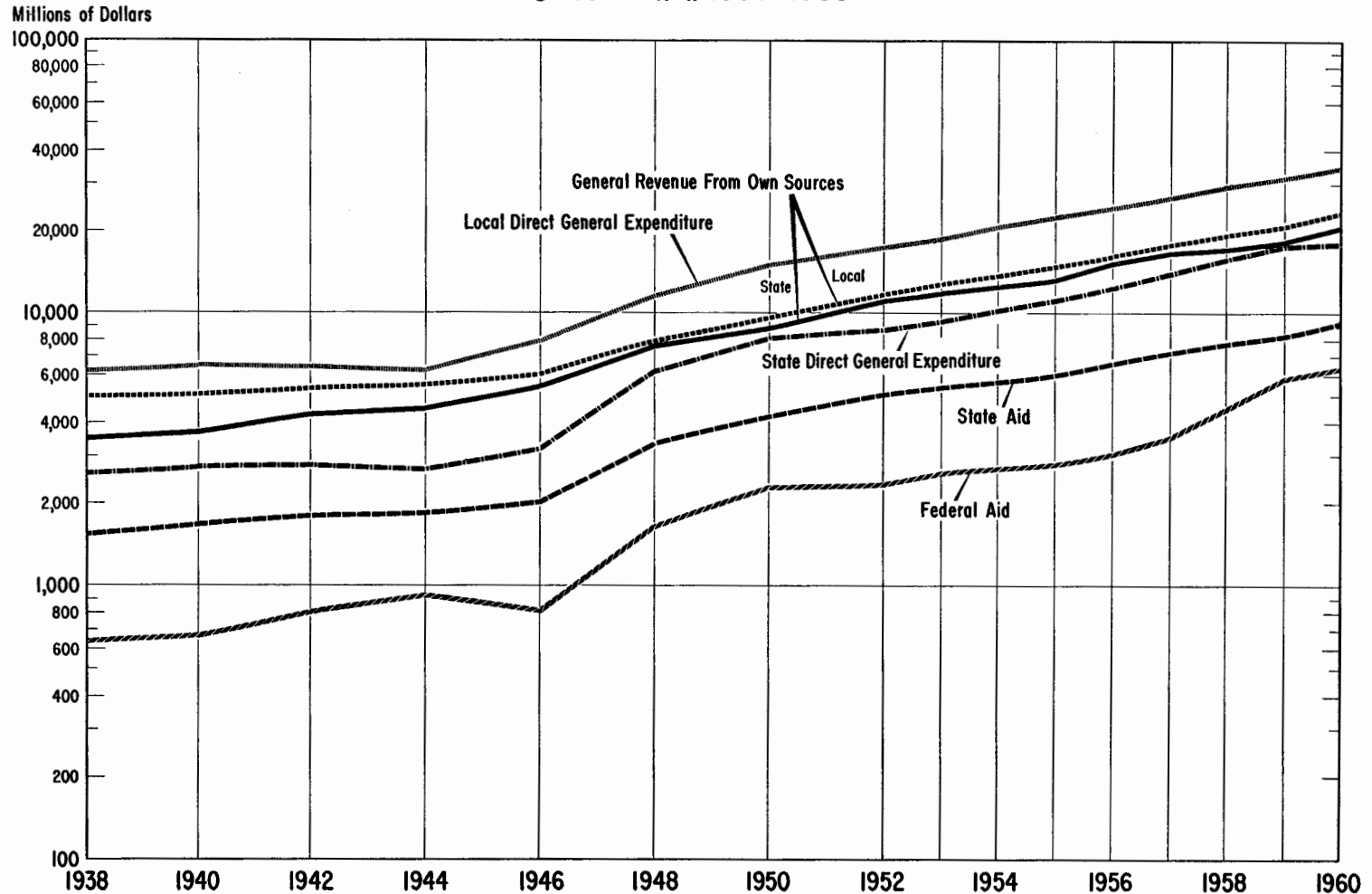
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STATE AND LOCAL GOVERNMENT FINANCES

Selected F. Y. 1938-1960



**TAX OVERLAPPING
IN THE
UNITED STATES
1961**

THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

September 1961

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PREFACE

This is an almanac of the principal taxes involved in local, State, and Federal fiscal relations.

Public Law 380 of the 86th Congress requires the Advisory Commission on Intergovernmental Relations to recommend, within the framework of the Constitution, the most desirable allocation of revenues among the several levels of government and methods of coordinating and simplifying their tax laws.

This volume seeks to bring together the more important tax information germane to these problems. Its publication accords with the Commission's duty to serve as a clearinghouse of information on intergovernmental issues. It reflects a conviction that longstanding differences on solutions to intergovernmental problems are sometimes due more to inadequate information than to real differences of opinion; that with benefit of full information, reasonable people stand a good chance of reaching reconcilable conclusions.

The volume is in some respects incomplete. The most conspicuous omission is the general property tax. While central to State-local tax relations, its treatment on a reasonably adequate basis would require more space than is here available. There are other omissions as well. The number of taxing jurisdictions in the United States now exceeds 80,000. Together they employ most types of taxes. Only the more prevalent of these and only those involved in intergovernmental relations are here covered. The depth of treatment of the different taxes is itself uneven, because our information is less complete in some areas than others. The discussion includes the consideration of coordination proposals with respect to inheritance, estate, and gift taxes and local non-property taxes because the Commission has already reported on these subjects.

Taxation in the United States, particularly at the local and State levels, is continually changing and a volume of this nature will require periodic updating. This will afford opportunities for improving both its coverage and accuracy. Users of the volume are urged to communicate to us its shortcomings.

Much of the material for the study was assembled early this year by the Treasury Department for the use of the Commission. Since then it has been updated by the Commission's staff to reflect tax legislation enacted and financial statistics released up to September 1, 1961.

Except where otherwise indicated, data on the provisions of State and local tax laws were largely derived from Commerce Clearing House, *State Tax Reporter*, and the statistics on State and local financial operations from the publications of the Governments Division, Bureau of the Census.

This is a staff information report and is to be distinguished from Commission reports on substantive policy issues. It was prepared under the direction of L. L. Ecker-Racz, Assistant Director (Taxation and Finance).

The Commission desires to express its appreciation to the Office of Tax Analysis, U.S. Treasury, for assembling much of this material, and to the State tax officials who generously complied with our request that they review the data pertaining to their respective States.

FRANK BANE, *Chairman.*

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PART I

Chapter 1

EXTENT OF TAX OVERLAPPING

Outstanding among 20th century tax developments in the United States is the increase in tax overlapping—the imposition of taxes on essentially identical tax bases by more than one level of government.

The practice of two or more governments levying on the same subject or object is as old as the United States itself. All local governments and States have always, or nearly always, each levied property taxes. The Federal income tax enacted during the Civil War and repealed in 1872 overlapped the income taxes of Southern and some Eastern States. During the Civil War and again during the Spanish-American War, Congress enacted death duties (excises on legacies) which overlapped some State levies. Also, in a sense, the 19th century Federal liquor taxes, especially the occupational licenses, overlapped similar State imposts.

A checklist of the different kinds of taxes known in the United States contains a significant number used simultaneously by both Federal and State governments, and not infrequently by local governments. This is true with respect to individual and corporation income taxes, death and gift taxes, and taxes on motor fuels, alcoholic beverages, tobacco products, amusements, and public utilities. The principal exceptions are customs duties which are levied only by the Federal Government, and property, general sales, and motor vehicle license

taxes¹ which are employed only by State and local governments. Although the Federal Government does not levy a general sales tax, its present excise structure consists of a variety of selective excises on commodities and services which are also subject to State general sales taxes.

The sources of tax revenues of the 3 levels of government have been grouped for purposes of this study into 14 broad categories (table 1). As the foregoing discussion suggests, however, the data in table 1 do not provide a qualitative measure of the extent of tax overlapping in the United States. They exaggerate it. A grouping of the wide variety of taxes employed by the numerous taxing jurisdictions within the United States into a manageable number of classes brings together, within any one category, imposts which are similar in general characteristics but differ in important respects. This applies even to the "property" tax category, which includes, in addition to general property taxes, a number of special levies on particular categories of property, some intended to approximate income taxes, others to assess particular businesses. Some jurisdictions substitute personal property taxes on motor vehicles for motor vehicle licenses or taxes. In some States, taxes based on the volume of business done by

¹ The Federal Government now levies a use tax on trucks weighing over 26,000 pounds, and during World War II levied a \$5 use tax on automobiles.

particular corporations, such as banks, insurance companies, and utilities, are substitutes for income or property taxes, although they are not so classified in the statistics. Despite their limitations, the broad categories employed in this study serve the general purpose of bringing together taxes with important common characteristics. They illustrate but do not accurately reflect the extent to which Federal, State, and local governments tap the same general tax bases.

Tax revenues of Federal, State, and local governments in the fiscal year 1960 amounted to \$113.1 billion (exclusive of over \$11 billion Federal and about \$2 billion State collected employment taxes). Tax revenues account for approximately three-fourths of total governmental revenues. The major sources of nontax revenues are insurance trust revenues, charges for services (including sale of products), and in the case of State and local governments, utility and liquor store revenues.² State and local governments derived important sums from intergovernmental aids, but they are encompassed, in the first instance, in the tax collections of the jurisdiction making the grant.

The tax revenues of the Federal Government accounted for approximately 68 percent of the total tax revenues of all governments combined in 1960. The other 32 percent was about equally divided between State and local governments.

The Federal Government receives the principal share of income, death and gift taxes, alcoholic beverage and tobacco taxes. Although the individual income tax is now employed at all levels of government, the

² In 1960 the amount of these major sources of nontax revenue for all governments combined were: insurance trust revenues, \$17.6 billion; charges for services, including sale of products, \$13.4 billion; and utility and liquor store revenues, \$4.9 billion.

Federal Government's share of the \$43 billion total collections in 1960 was 94 percent, the States' share a little more than 5 percent, and local governments less than 1 percent. The Federal Government also collected a comparable share of corporation income tax revenues. Although the yield of Federal estate and gift taxes was only 2.1 percent of total tax revenues of the Federal Government in 1960, it represented nearly 80 percent of all death and gift tax collections.

Of the \$3.8 billion tax revenues collected by all governments from alcoholic beverages in 1960, the Federal Government received 82 percent. The Federal share would be somewhat reduced if account were taken of the fact that in some States sales of alcoholic beverages are subject also to general sales taxes. Moreover, State tax collections exclude the profits of liquor monopoly systems in 16 States. In 1960, the latest year for which data are available, these States derived \$235 million of net income from their monopoly systems.

In tobacco taxation the States' share is on the increase. Some States have recently moved into this area; others have significantly increased their tax rates. In 1960, the States' share of total collections was approaching one-third. In some cases local taxes are added to the State tax.

In amusement taxation, the extent of overlapping with respect to the general admissions tax has been significantly reduced by Federal action. Largely as the result of rate reduction and increases in the price exemption, the yield of the Federal admissions tax (other than on cabarets, roof gardens, etc.) has declined from \$313 million in 1953 to about \$35 million.

Most admissions are no longer subject to Federal tax since the first \$1 of admissions

is now exempt. Higher priced admissions are taxed only on the excess over \$1 and at a much lower rate. Federal-State overlapping exists with respect to admissions to horseracing (on which the Federal rate has not been reduced), to boxing, wrestling, and athletic exhibitions, and to the taxes on special types of amusements (bowling alleys, pool tables, coin-operated amusement and gambling devices). The tax on pari-mutuel wagering has been left to the States and they have been developing this tax into an important revenue producer. In 1960 the States received approximately two-thirds of the total amusement tax collections of all governments combined. The amount of these collections is somewhat understated by table 1 because it excludes collections under the general sales taxes which apply to amusements in many States.

Approximately two-thirds of the revenues of all governments from the "public utilities" category shown in table 1 are received by the Federal Government. At the Federal level this category includes only the excises on transportation of property, telephone, telegraph, and other communication services. The State and local revenues, which together account for the other one-third, include collections from taxes on public utility companies which are measured by gross receipts, gross earnings, or units of service sold. They do not include amounts collected under State and local general sales taxes on public utility services.

The States receive the largest portion of motor fuel tax revenues; 62 percent of the total in 1960. The fact that Federal revenues from the gasoline tax have been earmarked for the Highway Trust Fund since 1956 assures the States collectively that the proceeds of the Federal tax will be available to them to spend through their highway departments.

General sales tax revenues are divided between State and local governments, with over 80 percent going to the States. Motor vehicle and operators' licenses are primarily a State source of revenue; local governments account for only 7 percent of the total.

The property tax has become principally a local tax. In 1960 State governments received less than 4 percent of total property tax collections.

The taxes grouped in table 1 under the category "Other selective sales and gross receipts" taxes cover a variety of levies with important variations among levels of government. Federal collections under this category consist entirely of various Federal selective excises, other than those shown separately. The most important producers are the retailers' excises (on jewelry, toilet preparations, luggage, and furs) and the manufacturers' excises on automobiles and parts, tires and tubes, electric, gas and oil appliances, and business and store machines. These Federal excises overlap the general sales taxes levied by State and local governments, but the portion of State and local sales tax collections derived from these specific commodities is unknown. The major component of the State total from the "selective sales and gross receipts" category is the tax on the gross premiums of insurance companies.

The foregoing data reveal a substantial amount of jurisdictional specialization by types of taxes, particularly in terms of the relative revenue magnitude of the 14 broad categories. Income taxes produce over 80 percent of Federal tax revenues. State tax structures, although widely diversified are weighted with general and selective sales taxes, deriving about 60 percent of their total from these sources. Property tax revenues at the local level outweigh by far

all other local tax revenues accounting for 87 percent of the total.

Measured in terms of tax dollars collected, Federal-State overlapping in individual income taxation is relatively small. The \$2.2 billion derived by States from individual income taxes in 1960 was equivalent to 5.4 percent of Federal tax revenues from this

source. The aggregate impact of all State individual income taxes is the equivalent of less than a 1¼ percentage point increase in the effective rate of the Federal individual income tax. Similarly, with respect to corporation income taxes, State revenues were about 5.5 percent of Federal revenues in 1960 and in the aggregate equaled less

TABLE 1.—Federal, State, and Local Tax Collections, by Source,¹ 1960

Tax	Amount (millions)				Distribution among governments (percent)			
	All governments	Federal	State	Local ²	All governments	Federal	State	Local ²
Individual income.....	\$43,178	\$40,715	\$2,209	\$254	100.0	94.3	5.1	0.6
Corporation income.....	22,674	21,494	1,180	(³)	100.0	94.8	5.2	(³)
Inheritance, estate, and gift.....	2,026	1,606	420	(⁴)	100.0	79.3	20.7	(⁴)
Sales and gross receipts.....	24,452	12,603	10,510	1,339	100.0	51.5	43.0	5.5
Customs duties.....	1,105	1,105	.....	.....	100.0	100.0	.....	.....
General sales and gross receipts ⁵	5,177	.....	4,302	875	100.0	.....	83.1	16.9
Selective sales and gross receipts.....	18,170	11,498	6,208	464	100.0	63.3	34.2	2.6
Motor fuel.....	5,352	1,984	3,335	33	100.0	37.1	62.3	.6
Alcoholic beverages.....	3,779	3,106	650	23	100.0	82.2	17.2	.6
Tobacco.....	2,915	1,927	923	65	100.0	66.1	31.7	2.2
Amusements ⁶	471	182	289	.....	100.0	38.6	61.4	.....
Public utilities ⁷	1,627	994	365	268	100.0	61.1	22.4	16.5
Other ⁸	4,027	3,305	646	76	100.0	82.1	16.0	1.9
Property.....	16,405	.....	607	15,798	100.0	.....	3.7	96.3
Motor vehicle and operators' licenses.....	1,700	.....	1,573	127	100.0	.....	92.5	7.5
All other ⁹	2,685	585	1,535	565	100.0	21.8	57.2	21.0
Total.....	113,120	77,003	18,036	18,081	100.0	68.1	15.9	16.0

¹ Exclusive of all employment taxes except \$348 million included in the "all other" category for the Federal Government which is used to cover costs of administration of insurance programs. Total Federal employment tax collections in fiscal 1960 were in excess of \$11 billion; State collections approximately \$2 billion. These collection figures include penalties and interest, but exclude refunds which are substantial in the case of Federal income taxes and State gasoline taxes.

² Includes Washington, D.C. For local aggregates excluding Washington, see ch. 5.

³ Minor amount included in "individual income taxes."

⁴ Minor amount for Washington, D.C., included in "all other."

⁵ Includes collections from the Washington and West Virginia business and occupation taxes (\$63 million and \$52 million, respectively), which are classified as general sales taxes by the Bureau of the Census but which have been excluded from the "general sales tax" category in this study by the definition employed in ch. 13. For prior years (table 4), it was not possible to segregate the collections from these taxes.

⁶ The Federal total includes taxes on admissions to theaters, concerts, athletic contests, cabarets, etc., club dues and initiation fees, bowling alleys, pool tables, coin-operated devices, etc., and wagering taxes. The State total includes both excises and licenses applicable to admissions or amusement operators in general and to speci-

fied types of amusement businesses, but does not include amounts collected from admissions by the 14 States which tax admissions under the general sales tax. The major portion of State collections (\$265 million) is derived from taxes on parimutuels (which are specifically exempt from the Federal wagering tax). Local collections from amusement taxes are not separately classified and therefore are excluded.

⁷ Federal collections are from the excises on transportation, telephone, telegraph, and other communication services. The State and local total includes taxes imposed specifically on public passenger and freight transportation companies, telephone, telegraph, light and power companies, and other public utility companies, which are measured by gross receipts, gross earnings, or units of service sold. It does not include amounts collected under State and local general sales taxes which apply to public utility services.

⁸ Important among the sources of revenue included here are: for the Federal Government, the manufacturers' excises on automobiles and parts, and the retailers' excises on luggage, jewelry, furs, and toilet preparations; for State governments, insurance taxes.

⁹ The significant taxes included in "all other" are Federal and State document and stock transfer taxes, the portion of Federal unemployment tax collections used to cover the cost of administration of the insurance program, State severance taxes, and local license revenues.

than 3 percentage points of the Federal tax rate.³ Allowing for the deductibility of State taxes for Federal tax purposes, the net cost of State taxes to corporations was near 1½ percentage points.

Tax overlapping, nonetheless, is widespread in the sense that a tax category providing the major part of the tax revenues at

one level—Federal, State, or local—is used also, if only to a minor degree, at another level. Two and often three levels of government derive some revenue from most of the established tax sources.

³ National Bureau of Economic Research, *Public Finances: Needs, Sources and Utilization*, Princeton University Press, 1961, pp. 145–157.

Chapter 2

THE GROWTH OF TAX COLLECTIONS

The fundamental force underlying the use of similar kinds of taxes by the State and Federal Governments, and some times by local governments as well, is the quest for funds to finance the tremendous increase in services demanded of American governments during the 20th century. The growth in the demand for governmental services is, in part, a concomitant of an economy growing in size and complexity; in part it is associated with the rising standard of living. Not only did the population more than double during this period but the economy had been urbanized, marked by an advanced technology and a high degree of specialization and interdependence. The relationship between the demand for governmental services and the advent of urbanization and the automobile are cases in point. In addition, the pressure for continually higher living standards persisted, and among other changes, entailed community provision for better schools, playgrounds, protection of life and property, and varieties of health and welfare functions. To provide for the financing of these expanded services, governments introduced new taxes, many of which were already in use by another level of government and increased the revenue-yielding capacity of existing taxes.

The statistics on tax collections during the past six decades reflect the degree to which American governments responded to the great increase in demand for governmental services.¹ They also reflect the more than

tripling of the price level over this period and, with respect to Federal tax revenues, the rise in the importance of international relations.

All Governments

In 1902, tax collections of all governments in the United States (including the Federal Government) fell short of \$1.4 billion. In 1960 they aggregated \$113.1 billion, an 80-fold increase in six decades (table 2).

During the first 25 years (1902–27), tax collections of all governments increased to \$9.5 billion, or 588 percent. During the next 25 years, from 1927–52, collections rose to \$79.1 billion, an increase of 737 percent. In each of these 25-year periods, the greatest increases occurred during war years. Comparable computations for 11- and 14-year intervals are presented in table 3.

The rate of increase in tax collections varied over the years, and during the period 1927 to 1934 actually declined.

After the Great Depression, collections rose, increasing by 70 percent during the period 1934–41. World War II involved

¹ Changes in the volume of tax collections are not fully indicative of expenditure developments. They exclude governmental activities financed from other sources, including nontax revenues, the proceeds of business activities such as public utilities and liquor stores, governmental insurance revenues, borrowings, and intergovernmental receipts. In 1960, for example, when tax revenues of "All governments" aggregated \$113.1 billion, their expenditures totaled \$151.3 billion. It should also be noted that since 1900, five States have been added to the Union: Oklahoma in 1907, Arizona and New Mexico in 1912, Alaska in 1958, and Hawaii in 1959.

TABLE 2.—Tax Collections: State, Local, and All Governments, Selected Years, 1902–60

(Totals in millions)

Year	All governments total including Federal	Combined State and local governments			State governments				Local governments ¹				
		Total	Percent of all governments	Percent of national income	Per capita	Total	Percent of all governments	Percent of national income	Per capita	Total	Percent of all governments	Percent of national income	Per capita
1902.....	\$1,373	\$860	62.6	-----	\$10.86	\$156	11.4	-----	\$1.97	\$704	51.3	-----	\$8.89
1913.....	2,271	1,609	70.8	-----	16.55	301	13.3	-----	3.10	1,308	57.6	-----	13.45
1922.....	7,387	4,016	54.4	-----	36.49	947	12.8	-----	8.60	3,069	41.5	-----	27.89
1927.....	9,451	6,087	64.4	-----	51.13	1,608	17.0	-----	13.51	4,479	47.4	-----	37.63
1932.....	7,977	6,164	77.3	14.49	49.34	1,890	23.7	4.44	15.13	4,274	53.6	10.05	34.21
1934.....	8,854	5,912	66.8	12.08	46.74	1,979	22.4	4.04	15.65	3,993	44.4	8.03	31.09
1936.....	10,583	6,701	63.3	10.32	52.27	2,618	24.7	4.03	20.42	4,083	38.6	6.29	31.85
1938.....	12,949	7,605	58.7	11.25	58.52	3,132	24.2	4.63	24.10	4,473	34.5	6.62	34.42
1940.....	12,688	7,810	61.6	9.57	59.11	3,313	26.1	4.06	25.08	4,497	35.4	5.51	34.04
1941.....	15,075	8,207	54.4	7.84	61.52	3,606	23.9	3.44	27.03	4,601	30.5	4.39	34.49
1942.....	20,793	8,528	41.0	6.19	63.24	3,903	18.8	2.83	28.94	4,625	22.2	3.36	34.29
1944.....	49,095	8,774	17.9	4.80	63.40	4,071	8.3	2.23	29.42	4,703	9.6	2.58	36.47
1946.....	46,380	10,094	21.8	5.58	71.39	4,937	10.6	2.73	34.92	5,157	11.1	2.85	33.98
1948.....	51,218	13,342	26.0	5.97	90.99	6,743	13.2	3.02	45.99	6,599	12.9	2.95	45.00
1949.....	50,417	14,790	29.3	6.80	99.14	7,376	14.6	3.39	49.44	7,414	14.7	3.41	49.70
1950.....	51,100	15,914	31.1	6.58	104.92	7,990	15.5	3.28	52.28	7,984	15.6	3.30	52.64
1952.....	79,066	19,323	24.4	6.61	123.06	9,857	12.5	3.37	62.77	9,466	12.0	3.24	60.28
1953.....	83,704	20,908	25.0	6.84	130.98	10,552	12.6	3.45	66.10	10,356	12.4	3.39	64.87
1954.....	84,476	22,067	26.1	7.31	135.87	11,089	13.1	3.67	68.27	10,978	13.0	3.64	67.59
1955.....	81,072	23,483	29.0	7.11	142.09	11,597	14.3	3.51	70.17	11,886	14.7	3.60	71.92
1956.....	91,593	26,388	28.8	7.52	156.78	13,571	14.6	3.81	79.53	12,992	14.2	3.70	77.25
1957.....	98,632	28,817	29.2	7.85	168.33	14,583	14.7	3.96	84.88	14,286	14.5	3.89	83.45
1958.....	98,387	30,380	30.9	8.26	174.54	14,919	15.2	4.06	85.71	15,461	15.7	4.20	88.83
1959.....	99,635	32,378	32.5	8.10	182.82	15,848	15.9	3.97	89.48	16,530	16.6	4.14	93.34
1960.....	113,120	36,117	31.9	8.66	200.67	18,036	15.9	4.32	100.21	18,081	16.0	4.34	100.46

¹ Includes the collections for the District of Columbia. National local governments aggregates exclusive of the District of Columbia are presented in ch. 5.

TABLE 3.—Federal, State, and Local Tax Collections: Percentage Increase Between Selected Years, 1902–60

Years	All governments	Federal	State	Local
1902–59.....	7,157	13,010	10,059	2,248
1902–60.....	8,239	14,910	11,462	2,468
25-year period:				
1902–27.....	588	556	931	536
1927–52.....	737	1,676	513	111
11-year period:				
1927–38.....	37	59	95	(¹)
1938–49.....	290	567	136	66
1949–60.....	124	116	145	144
14-year period:				
1913–27.....	316	408	434	242
1927–41.....	59	104	124	2
1941–55.....	439	739	222	161
1927–34.....	—6	—13	23	—12
1934–41.....	70	133	82	16

¹ Less than —0.5 percent.

a great increase in tax collections at the Federal level. The "All governments" total increased from \$15 billion in 1941 to \$49 billion in 1944. Despite some decline in collections immediately after World War II, the increase continued, especially with the advent of the Korean defense effort. By 1953 tax collections exceeded \$80 billion.

During the period 1953–60, the tax collections of all governments increased to even higher levels, although the total decreased during the contraction phases of the 1953–54 and 1957–58 recessions.

State and Local Governments

In 1960 the tax collections of State and local governments aggregated \$36.1 billion (table 2). Approximately six decades earlier they totaled \$860 million. Except for a slight decline at the depths of the Great Depression, the total increased steadily over the entire period. During the 25-year period 1902–27, the collections increased from \$860 million to \$6.1 billion. At the end of the following 25-year period, in 1952, they amounted to \$19.3 billion. During the decade of the 1950's total collections more than doubled.

One of the striking developments during the 20th century has been the shift in the relative importance of the tax collections of State and local governments, on the one hand, and those of the Federal Govern-

ment, on the other.² At the beginning of the century, State and local governments accounted for 63 percent of all taxes collected in the United States. This percentage increased to approximately 71 percent by 1913, and then declined to about 65 percent in the late 1920's. During the period 1927-38, the percentage rose to a high of 77 percent in 1932, and then declined to about 59 percent by 1938. The percentage was exceptionally high in 1932 because Federal tax collections declined more promptly and sharply under the impact of the economic collapse than did those of State and local governments.

The share of the State and local governments in total tax collections was maintained during the earlier part of the 1938-49 period, declined to approximately 18 percent during the war years when Federal tax collections reached an alltime peak, and then rose to a figure of approximately 30 percent by the end of the 1940's.

During the earlier part of the decade of the 1950's, when Federal taxes were increased to finance the Korean defense effort, the relative share of State and local governments in all tax collections declined from 31 percent to approximately 25 percent. Thereafter, their share rose and now again exceeds 30 percent.

State Governments

Between 1902 and 1960 tax collections of State governments increased from \$156 million to \$18.0 billion. This increase of over 11,400 percent is less than the increase in Federal tax collections over the same period, but considerably greater than the increase in local tax collections (table 3).

²The data here cited relate to the tax collections of governmental units from their own sources, before inter-governmental transfers. In 1960, Federal transfers to State and local governments totaled \$7.0 billion, and State transfers to local governments \$9.4 billion.

During the first 25 years (1902-27), the rate of increase in State tax collections was 931 percent; during the next 25-year period (1927-52), only about half this fast.

State tax collections showed less sensitivity to economic conditions during the Great Depression than did Federal and local tax collections. During the period 1927-34, State tax collections actually increased, while those of the Federal and local governments declined. However, tax collections of State governments did experience some decline during the years immediately following 1929-30, and they did not again reach their predepression levels until the middle of the 1930's. Thereafter, they increased each year with the exception of 1938-39.

Local Governments

During the last six decades, tax collections of local governments increased at a substantially slower pace than did those of either the Federal Government or of the States. In 1902 they reported total tax collections of \$704 million. The corresponding total for fiscal year 1960 is \$18.1 billion, an increase of 2,400 percent, or less than one-fourth of the increase reported by State governments and approximately one-sixth of the increase reported by the Federal Government.

The rate of increase in local tax collections during the period 1902-27 was 536 percent. During the next 25-year period the rate of increase was approximately one-fifth as much.

Local tax collections declined during the years following 1929, and did not again reach their predepression levels until the end of the 1930's. During the years 1938 to 1949, local tax receipts rose from \$4.5 billion to \$7.4 billion, an increase of 66 percent. The increase in local tax receipts

was much greater during the 1950's, occurring at a rate only slightly less than that reported for the States.

Relative Role of State and Local Taxes

A substantial change in the relative position of State and local governments in tax collections occurred after World War I. In 1913, local governments accounted for 57.6 percent and State governments 13.3 percent of the total tax collections in the United States, or a ratio of local to State tax collections of 4.3 to 1. By 1927, the share of the local governments had declined to 47.4 percent, while the share of the State governments had risen to 17.0 percent, a local-State ratio of 2.8 to 1.

This trend in the relative importance of State and local governments continued after 1927. By 1941, the local share had dropped to approximately 30 percent while the State share had increased to about 24 percent, and since World War II, the ratio has been approximately 1 to 1.

The shift in the relative position of State and local tax collections reflects the increased volume of intergovernmental transfers. In 1960, for example, the State transfers to their local subdivisions aggregated \$9.4 billion. Local governments, in turn, transferred \$0.4 billion to the States. As a result of these transfers and other nontax revenues, including borrowing operations, the relationship between State and local expenditures differs substantially from that between State and local tax collections. Thus, in 1960, States raised \$18.0 billion from taxes, transferred \$9.4 billion to their subdivisions, and spent \$22.3 billion

on their own activities; local governments raised \$18.1 billion from taxes and spent \$38.7 billion.⁸ The States, in other words, accounted for approximately 50 percent of State-local tax collections, but for only about 40 percent of State-local expenditures.

Per Capita Tax Collections

While tax collections of all governments were increasing, a tremendous growth in population occurred (from 79.2 million in 1902 to 180 million in 1960). Consequently, per capita collections increased substantially less than in absolute amounts. Thus, while the total tax collections of all governments increased by approximately 80-fold, collections on a per capita basis rose about 35-fold.

Between 1902 and 1960 when combined State and local tax collections increased 41-fold, per capita collections increased 18-fold. Combined State and local tax collections on a per capita basis were approximately \$11 in 1902, \$51 in 1927, \$123 in 1952, and nearly \$201 per capita in 1960 (table 2).

The per capita tax collections of State governments were about \$2 in 1902, \$14 in 1927, \$63 in 1952, and \$100 in 1960; those of local governments increased from less than \$9 in 1902 to about \$100 in 1960.

⁸ State and local nontax revenues included (in billions):

	<i>State</i>	<i>Local</i>
Intergovernmental -----	\$6.7	\$10.0
Utility and liquor store-----	1.1	3.7
Governmental insurance revenues -----	4.3	.5
Other nontax revenues-----	2.6	4.8
Increase in debt-----	1.6	4.2

Chapter 3

THE DEVELOPMENT OF STATE TAX SOURCES

At the turn of this century, the Federal Government and State and local governments obtained the major share of their tax revenues from different sources. The Federal Government employed almost exclusively customs and excises on liquor and tobacco. The special Federal taxes imposed to finance the Spanish-American War had been largely repealed by 1902. State and local governments depended primarily on property taxes.

The combined tax activities of State governments, in contrast to local governments, were then small. In 1902, they amounted to only \$156 million. Half of this total was obtained from property taxes; the balance from a variety of miscellaneous sources, including liquor and other business licenses, and death taxes.

Property taxes continued to be the major State revenue source through the 1920's (table 4). Between 1902 and 1927 their yield quadrupled.

This increase in collections coincided with substantial increases in local property taxes and produced a ground swell of complaints against property taxation. In response to this criticism, the base of State property taxes was gradually whittled away by tax rate limitations, homestead exemptions, and the abolition of property taxes on intangibles. The rate of increase in State property tax collections, arrested by the Great Depression, was never again resumed. Gradually the States relinquished property

taxation to local governments and sought their revenues in other tax areas. The contribution of property taxes to total State tax collections declined from 23 percent in 1927 to approximately 8 percent by 1938, and to less than 4 percent during the 1950's.

This development in State taxation coincided with the efforts of the Federal Government, first under pressures of World War I and then under the stimulus of the Great Depression, to broaden its revenue system. In the process, both governments had recourse to some of the same tax areas. The current status of this tax duplication is discussed, tax by tax, in subsequent chapters. This section summarizes the development of these taxes at the State level. A grouping of State tax enactments by 10-year intervals for the major State taxes is presented in table 5. Local tax developments are described in chapter 5.

Death and Gift Taxes

At the turn of the century, various kinds of death taxes were in use in 22 States, including the principal Eastern States. Some of these taxes had long histories. These early taxes were generally flat rate levies. In 1903, Wisconsin introduced rates which varied with the relationship of the decedent to the heirs. Within a very few years, 10 or more other States followed this pattern.

Some years later, States began to experiment with estate taxation. This coincided

with the adoption of a Federal estate tax in 1916. The overlaying of Federal and State death taxes continued without change until 1926. Meanwhile, death taxes spread to the other States and by 1922 were in use in all but three States. In 1924 the Congress introduced into the Federal estate tax a credit for taxes paid to States. New York was the first State to take full advantage of this credit by enacting an estate tax supplement to its inheritance tax in 1925. Following Federal liberalization of the credit

for taxes paid to States in 1926 (from 25 percent to 80 percent of Federal liability), New York revised its supplemental estate tax. Other States soon followed its lead. By 1931, when Alabama and Florida enacted their taxes, death taxation was universal among the States, with the exception of Nevada which remains the only State without a death tax.

State taxation of property transfers during life (gift tax) began in 1933 when Oregon and Wisconsin adopted such taxes.

TABLE 4.—State Tax Collections, by Source, Selected Years, 1902-61¹

I. AMOUNTS (in millions of dollars)

Year	Total, excluding employment taxes	Individual income taxes	Corporation income taxes ²	Death and gift taxes	General sales taxes ³	Motor fuel taxes	Alcoholic beverage taxes	Tobacco taxes	Amusement taxes	Public utility taxes	Property taxes	Motor vehicle and operators' licenses	All other
1902	156			7							82		67
1913	301			26			2				140	5	128
1922	947	43	58	66		13					348	152	267
1927	1,608	70	92	106		259					370	301	410
1932	1,890	74	79	148	7	527		19			328	335	373
1934	1,979	80	49	93	173	565	62	25			273	305	354
1936	2,618	153	113	117	364	687	126	44			228	360	426
1938	3,132	218	165	142	447	777	176	55			244	359	549
1940	3,313	206	155	113	499	839	193	97			260	337	564
1941	3,606	225	197	118	575	913	216	106			268	434	554
1942	3,903	249	269	110	632	940	257	130	33	100	264	431	488
1944	4,071	316	446	110	720	684	267	159	57	125	243	394	550
1946	4,937	389	442	141	899	886	402	198	120	132	249	439	640
1948	6,743	499	585	179	1,478	1,259	425	337	133	155	276	593	824
1949	7,376	593	641	176	1,609	1,361	426	388	125	168	276	665	948
1950	7,930	724	586	168	1,670	1,544	420	414	122	185	307	755	1,035
1952	8,857	913	838	211	2,229	1,870	442	449	157	228	370	924	1,226
1953	10,552	969	810	222	2,433	2,019	465	469	176	249	365	1,012	1,363
1954	11,089	1,004	772	247	2,540	2,218	463	464	193	263	391	1,098	1,436
1955	11,597	1,094	737	249	2,637	2,353	471	459	209	283	412	1,184	1,509
1956	13,375	1,374	890	310	3,036	2,687	546	515	223	300	467	1,295	1,732
1957	14,531	1,563	984	338	3,373	2,828	569	556	244	343	479	1,368	1,886
1958	14,919	1,544	1,018	351	3,507	2,919	566	616	250	345	533	1,415	1,855
1959	15,848	1,764	1,001	347	3,697	3,058	599	675	262	352	566	1,492	2,035
1960	18,036	2,209	1,180	420	4,302	3,335	650	923	289	365	607	1,573	2,183
1961 (preliminary)	19,002	2,353	1,265	494	4,509	3,431	688	986	301	375	631	1,640	2,329

II. PERCENTAGE DISTRIBUTION

1902	100.0			4.5							52.6		42.9
1913	100.0			8.6			0.6				46.5	1.7	42.5
1922	100.0	4.5	6.1	7.0		1.4					36.7	16.1	28.3
1927	100.0	4.4	5.7	6.6		16.1					23.0	18.7	25.5
1932	100.0	3.9	4.2	7.8	0.4	27.9		1.0			17.3	17.7	19.7
1934	100.0	4.0	2.5	4.7	8.7	28.5	3.1	1.3			13.8	15.4	17.9
1936	100.0	5.9	4.3	4.5	13.9	26.2	4.8	1.7			8.7	13.8	16.3
1938	100.0	6.9	5.3	4.5	14.3	24.8	5.6	1.8			7.8	11.5	17.5
1940	100.0	6.2	4.7	3.4	15.1	25.3	5.8	2.9			7.8	11.7	17.0
1941	100.0	6.2	5.5	3.3	16.0	25.3	6.0	2.9			7.4	12.0	15.4
1942	100.0	6.4	6.9	2.8	16.2	24.1	6.6	3.3	0.8	2.6	6.8	11.0	12.5
1944	100.0	7.8	10.9	2.8	17.7	16.8	6.6	3.9	1.4	3.1	6.0	9.7	13.5
1946	100.0	7.9	8.9	2.9	18.2	18.0	8.1	4.0	2.4	2.7	5.0	8.9	13.0
1948	100.0	7.4	8.7	2.7	21.9	18.7	6.3	5.0	2.0	2.3	4.1	8.8	12.2
1949	100.0	8.0	8.7	2.4	21.8	18.5	5.8	5.3	1.7	2.3	3.7	9.0	12.9
1950	100.0	9.1	7.4	2.1	21.0	19.5	5.3	5.2	1.5	2.3	3.9	9.5	13.1
1952	100.0	9.3	8.5	2.1	22.6	19.0	4.5	4.5	1.6	2.3	3.7	9.4	12.4
1953	100.0	9.2	7.7	2.1	23.1	19.1	4.4	4.4	1.7	2.4	3.5	9.6	12.9
1954	100.0	9.1	7.0	2.2	22.9	20.0	4.2	4.2	1.7	2.4	3.5	9.6	12.9
1955	100.0	9.4	6.4	2.1	22.7	20.3	4.1	4.0	1.8	2.4	3.6	10.2	13.0
1956	100.0	10.3	6.7	2.3	22.7	20.1	4.1	3.9	1.7	2.2	3.5	9.7	12.9
1957	100.0	10.8	6.8	2.3	23.2	19.5	3.9	3.8	1.7	2.4	3.3	9.4	13.0
1958	100.0	10.3	6.8	2.4	23.5	19.6	3.8	4.1	1.7	2.3	3.6	9.5	12.4
1959	100.0	11.1	6.3	2.2	23.3	19.3	3.8	4.3	1.7	2.2	3.6	9.4	12.8
1960	100.0	12.2	6.5	2.3	23.9	18.5	3.6	5.1	1.6	2.0	3.4	8.7	12.1
1961	100.0	12.4	6.7	2.6	23.7	18.1	3.6	5.2	1.6	2.0	3.3	8.6	12.3

¹ See table 1 for an explanation of these categories of taxation.

² Includes collections from the tax on net income of financial institutions levied by South Dakota.

³ Includes the collections from the business and occupation taxes levied by Washington and West Virginia. The amount for these taxes in fiscal 1960 was \$115 million.

TABLE 5.—Dates of Adoption of Major State Taxes ¹

INDIVIDUAL INCOME

Before 1911	1911-20	1921-30	1931-40	Since 1940
Hawaii, 1901; total, 1.	Wisconsin, 1911; Mississippi, 1912; Oklahoma, 1915; Massachusetts, 1916; Virginia, 1916; Delaware, 1917; Missouri, 1917; New York, 1919; North Dakota, 1919; total, 9.	North Carolina, 1921; South Carolina, 1922; New Hampshire, 1923 ² ; Arkansas, 1929; Georgia, 1929; Oregon, 1930; total, 6.	Idaho, 1931; Tennessee, 1931 ² ; Utah, 1931; Vermont, 1931; Alabama, 1933; Arizona, 1933; Kansas, 1933; Minnesota, 1933; Montana, 1933; New Mexico, 1933; Iowa, 1934; Louisiana, 1934; California, 1935; Kentucky, 1936; Colorado, 1937; Maryland, 1937; total, 16.	Alaska, 1949; West Virginia, 1961; total, 2. Grand total, 34

CORPORATION INCOME ³

Before 1911	1911-20	1921-30	1931-40	Since 1941
Hawaii, 1901; total, 1.	Wisconsin, 1911; Connecticut, 1915; Virginia, 1915; Missouri, 1917; Montana, 1917; New York, 1917; North Dakota, 1919; Massachusetts, 1919; total, 8.	Mississippi, 1921; North Carolina, 1921; South Carolina, 1922; Tennessee, 1923; Arkansas, 1929; California, 1929; Georgia, 1929; Oregon, 1929; total, 8.	Idaho, 1931; Oklahoma, 1931; Utah, 1931; Vermont, 1931; Alabama, 1933; Arizona, 1933; Kansas, 1933; Minnesota, 1933; New Mexico, 1933; Iowa, 1934; Louisiana, 1934; Pennsylvania, 1935; Kentucky, 1936; Colorado, 1937; Maryland, 1937; total, 15.	Rhode Island, 1947; Alaska, 1949; Delaware, 1957; New Jersey, 1958; total, 4. Grand total, 36.

DEATH

Before 1900	1901-10	1911-20	1921-30	1931-40
California, Connecticut, Delaware, Illinois, Iowa, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Vermont, Virginia, West Virginia; total, 22.	Arkansas, 1901; Colorado, 1901; Utah, 1901; Washington, 1901; North Dakota, 1903; Oregon, 1903; Wisconsin, 1903; Wyoming, 1903; Hawaii, 1905; New Hampshire, 1905; South Dakota, 1905; Kentucky, 1906; Idaho, 1907; Oklahoma, 1907; Texas, 1907; Kansas, 1909; total, 16.	Arizona, 1912; Georgia, 1913; Indiana, 1913; Rhode Island, 1916; Mississippi, 1918; Alaska, 1919; New Mexico, 1919; total, 7.	Nebraska, 1921; South Carolina, 1922; total, 2.	Alabama, 1931; Florida, 1931; total, 2. Grand total, 49.

GIFT

1931-40	1941-50
Oregon, 1933; Wisconsin, 1933; Virginia, 1934; Minnesota, 1937; North Carolina, 1937; California, 1939; Tennessee, 1939; Colorado, 1939; Louisiana, 1940; total, 9.	Oklahoma, 1941; Washington, 1941; Rhode Island, 1942; total, 3. Grand total, 12.

See footnotes at end of table, p. 16.

TABLE 5.—*Dates of Adoption of Major State Taxes*¹—Continued

GENERAL SALES			
1931-40		1941-50	Since 1951
Mississippi, 1932; Arizona, 1933; California, 1933; Illinois, 1933; Indiana, 1933; Iowa, 1933; Michigan, 1933; North Carolina, 1933; New Mexico, 1933; Oklahoma, 1933; South Dakota, 1933; Utah, 1933; Washington, 1933; West Virginia, 1933; Missouri, 1934; Ohio, 1934; Arkansas, 1935; Colorado, 1935; Hawaii, 1935; North Dakota, 1935; Wyoming, 1935; Alabama, 1936; Kansas, 1937; Louisiana, 1938; total, 24.		Connecticut, 1947; Maryland, 1947; Rhode Island, 1947; Tennessee, 1947; Florida, 1949; total, 5.	Georgia, 1951; Maine, 1951; South Carolina, 1951; Pennsylvania, 1953; Nevada, 1955; Kentucky, 1960; Texas, 1961; total, 7.
			Grand total, 36.
DISTILLED SPIRITS ⁴			
1931-40		Since 1941	
Arizona, 1933; Colorado, 1933; Delaware, 1933; Indiana, 1933; Maryland, 1933; Massachusetts, 1933; New Jersey, 1933; New York, 1933; Rhode Island, 1933; Illinois, 1934; Louisiana, 1934; Minnesota, 1934; Missouri, 1934; New Mexico, 1934; Wisconsin, 1934; Kentucky, 1934; California, 1935; Florida, 1935; Nebraska, 1935; Nevada, 1935; South Carolina, 1935; South Dakota, 1935; Texas, 1935; Arkansas, 1935; North Dakota, 1936; Connecticut, 1937; Georgia, 1937; Hawaii, 1939; Tennessee, 1939; total, 29.		Alaska, 1945; Kansas, 1948; Oklahoma, 1959; total, 3.	
			Grand total, 32.
CIGARETTES			
1921-30	1931-40	1941-50	Since 1951
Iowa, 1921; Utah, 1923; South Carolina, 1923; South Dakota, 1923; Tennessee, 1925; North Dakota, 1927; Arkansas, 1929; Kansas, 1927; total, 8.	Ohio, 1931; Texas, 1931; Louisiana, 1932; Mississippi, 1932; Oklahoma, 1933; Alabama, 1935; Arizona, 1935; Connecticut, 1935; Washington, 1935; Kentucky, 1936; Georgia, 1937; Pennsylvania, 1937; Vermont, 1937; Hawaii, 1939; Massachusetts, 1939; New Hampshire, 1939; New York, 1939; Rhode Island, 1939; Wisconsin, 1939; total, 19.	Maine, 1941; Illinois, 1941; Delaware, 1943; Florida, 1943; New Mexico, 1943; Idaho, 1945; Indiana, 1947; Michigan, 1947; Minnesota, 1947; Montana, 1947; Nebraska, 1947; Nevada, 1947; West Virginia, 1947; New Jersey, 1948; Alaska, 1949; total, 15.	Wyoming, 1951; Missouri, 1955; Maryland, 1958; California, 1959; Virginia, 1960; total 5.
			Grand total, 47.
GASOLINE			
1911-20	1921-30		Since 1930
Oregon, 1919; Colorado, 1919; New Mexico, 1919; North Dakota, 1919; Kentucky, 1920; total, 5.	Arizona, 1921; Connecticut, 1921; Florida, 1921; Montana, 1921; North Carolina, 1921; Pennsylvania, 1921; Washington, 1921; Arkansas, 1921; Georgia, 1921; Louisiana, 1921; South Dakota, 1922; Maryland, 1922; Mississippi, 1922; South Carolina, 1922; Alabama, 1923; California, 1923; Delaware, 1923; Idaho, 1923; Indiana, 1923; Maine, 1923; Nevada, 1923; New Hampshire, 1923; Oklahoma, 1923; Tennessee, 1923; Texas, 1923; Utah, 1923; Vermont, 1923; Virginia, 1923; West Virginia, 1923; Wyoming, 1923; Missouri, 1925; Iowa, 1925; Kansas, 1925; Michigan, 1925; Minnesota, 1925; Nebraska, 1925; Ohio, 1925; Rhode Island, 1925; Wisconsin, 1925; New Jersey, 1927; Illinois, 1927; Massachusetts, 1929; New York, 1929; total, 43.		Hawaii, 1932; Alaska, 1946; total, 2.
			Grand total, 50.

See footnotes at end of table, p. 16.

TABLE 5.—*Dates of Adoption of Major State Taxes*¹—Continued

AUTOMOBILE REGISTRATION

1901-10	1911-20	Since 1920
New York, 1901; Connecticut, 1903; Massachusetts, 1903; Minnesota, 1903; Missouri, 1903; New Jersey, 1903; Pennsylvania, 1903; Iowa, 1904; Maryland, 1904; Rhode Island, 1904; Vermont, 1904; California, 1905; Delaware, 1905; Indiana, 1905; Maine, 1905; Michigan, 1905; New Hampshire, 1905; Oregon, 1905; South Dakota, 1905; Tennessee, 1905; Washington, 1905; West Virginia, 1905; Wisconsin, 1905; Ohio 1906; South Carolina, 1906; Illinois, 1907; Nebraska, 1907; Texas, 1907; North Carolina, 1909; Utah, 1909; Georgia, 1910; Kentucky, 1910; Virginia, 1910; total, 33.	Alabama, 1911; Arkansas, 1911; Florida, 1911; North Dakota, 1911; Oklahoma, 1911; Arizona, 1912; Mississippi, 1912; New Mexico, 1912; Colorado, 1913; Idaho, 1913; Kansas, 1913; Montana, 1913; Nevada, 1913; Wyoming, 1913; Louisiana, 1914; Total, 15.	Alaska, 1931; total, 1. Grand total, 49.

¹ Includes only States which employ the tax on Sept. 1, 1961. Excludes the District of Columbia, where the dates of adoption were: Individual income, 1939; corporation income, 1939; death, 1937; general sales, 1947; distilled spirits, 1934; cigarettes, 1949; gasoline, 1924; and automobile registration, 1909.

² Income from stocks and bonds only.

³ Exclusive of South Dakota's tax applicable to financial institutions.

⁴ Exclusive of the excises levied by the 16 States that own and operate liquor stores, and exclusive of North Carolina where county stores operate under State supervision. Mississippi is the only State among the remaining 33 States that does not impose an excise on distilled spirits since their sale is prohibited.

TABLE 6.—*Dates of Adoption of Major State Taxes: Frequency Distribution*¹

Year	Individual income	Corporation income	Death	Gift	General sales	Distilled spirits	Cigarettes	Gasoline	Automobile registration
Pre-1901.....			22						
1901.....	1	1	4						1
1902.....									6
1903.....			4						4
1904.....									12
1905.....			3						2
1906.....			1						3
1907.....			3						
1908.....									2
1909.....			1						3
1910.....									5
1911.....	1	1							3
1912.....	1		1						6
1913.....			2						1
1914.....									
1915.....	1	2							
1916.....	2		1						
1917.....	2	3							
1918.....			1						
1919.....	2	2	2					4	
1920.....								1	
1921.....	1	2	1				1	10	
1922.....	1	1	1					4	
1923.....	1	1					3	16	
1924.....									
1925.....							1	9	
1926.....									
1927.....							2	2	
1928.....									
1929.....	2	4					1	2	
1930.....									
1931.....	5	4	2				2		1
1932.....					1		2	1	
1933.....	6	5		2	13	9	1		
1934.....	2	2		1	2	7			
1935.....	1	1			5	8	4		
1936.....	1	1			1	1	1		
1937.....	2	2		2	1	2	3		

¹ Includes only States which employ the tax as of September 1961.

TABLE 6.—*Dates of Adoption of Major State Taxes: Frequency Distribution*¹—Continued

Year	Individual income	Corporation income	Death	Gift	General sales	Distilled spirits	Cigarettes	Gasoline	Automobile registration
1938.....					1				
1939.....				3		2	6		
1940.....				1					
1941.....				2			2		
1942.....				1					
1943.....							3		
1944.....									
1945.....						1	1		
1946.....								1	
1947.....		1			4		7		
1948.....						1	1		
1949.....	1	1			1		1		
1950.....									
1951.....					3		1		
1952.....									
1953.....					1				
1954.....									
1955.....					1		1		
1956.....									
1957.....		1							
1958.....		1					1		
1959.....						1	1		
1960.....					1		1		
1961.....	1				1				
Total....	34	² 36	49	12	36	⁸ 32	47	50	49

¹ Exclusive of South Dakota's tax applicable to financial institutions.

² Exclusive of the excises levied by the 16 States which own and operate liquor stores, and the North Carolina

county stores system operated under State supervision. Mississippi is the only State among the remaining 33 States that does not impose an excise on distilled spirits since their sale is prohibited.

Ten other States followed during the next 10 years. None has joined the list since 1942. At present, gifts are taxed in 12 States. The Federal Government had enacted a gift tax in 1924 but repealed it 2 years later. The present Federal gift tax dates from 1932.

State collections from death and gift taxes did not reach \$100 million until 1927 and remained below \$200 million until 1952. Since that time collections from this source have been increasing, largely as a result of rising property values, and in 1961 collections reached nearly \$500 million. The relative contribution of death and gift taxes to State tax collections, however, remains at just over 2 percent of total State tax collections.

Automotive Taxes

New York was the first State to require registration of motor vehicles. Its motor vehicle registration law was adopted in 1901 and was followed in rapid succession by similar laws in other States.

These early measures were primarily regulatory in purpose. The use of motor vehicle registrations as a source of revenue developed a few years later. By 1910 States were imposing graduated taxes on automobiles based on horsepower with more complex and generally higher levels of rates. By 1914 all 48 States were requiring motor vehicle registrations and obtaining some revenue from this source.

Collections from motor vehicle registrations and operator licenses have increased

steadily, with the exception of some years in the early 1930's and during World War II. This growth is the result of increases in the level of rates and in the number of motor vehicles. Between 1927 and 1961 the yield from this source increased from \$300 million to \$1.6 billion. The percentage share of total State tax revenues derived from this source, however, declined from nearly 19 percent to about 9 percent during this period.

Gasoline taxes began to produce revenue in 1919, when Oregon, Colorado, New Mexico, and North Dakota imposed them. The gasoline tax spread rapidly and by 1929, with its adoption by New York and Massachusetts, all 48 States were levying such a tax. The two newest States, Hawaii and Alaska, adopted their territorial gasoline taxes in 1932 and 1946, respectively. The Federal tax on gasoline was introduced in 1932.

The early gasoline taxes were imposed at a 1-cent rate per gallon. However, the level of rates increased rapidly. A rate of 2½ cents per gallon was reported in 1923, a 4-cent rate in 1924, a 5-cent rate in 1925, a few 6-cent rates in 1929, a 7-cent rate in 1931, and an 8-cent (temporary) rate in 1961. Currently, a rate of more than 5 cents per gallon is in effect in 42 States.

Collections from gasoline taxes reflect the rapid spread of such taxes, the increase in their rates and, of course, increased gasoline consumption. Within 8 years after the adoption of the first gasoline tax, State collections from this tax reached \$250 million. By 1932, the tax produced \$527 million, or 27.9 percent of total State tax revenues, and became the largest single source of State tax revenues.

A recent development is the extension of gasoline taxation to diesel oil and other

liquid motor fuels. All States, except Vermont, tax diesel fuel and liquefied petroleum. In most States the tax rate on these products is the same as that on gasoline.

At present, motor fuel taxation ranks second to general sales taxation in terms of revenue productivity. In the fiscal year 1961 motor fuel tax collections were \$3.4 billion, or 18.1 percent of total State tax revenues. That year all automotive taxes (motor fuel taxes and motor vehicle licenses combined) accounted for approximately 27 percent of total State tax collections.

Income Taxes

At the turn of the century a number of States still carried on their statute books the personal income taxes enacted during and following the Civil War. These were flat rate taxes administered by local property tax officials.

A new era of income taxation was introduced in 1911 when Wisconsin adopted an income tax and vested responsibility for its administration in a State tax commission. This income tax provided for personal exemptions and graduated rates, and was quickly copied by some other States. By the end of 1920, nine States (and the Territory of Hawaii) had personal income taxes. Five more States adopted personal income taxes in the 1920's.

Personal income taxation at the State level received a great impetus by the depression of the 1930's. Four States adopted such taxes in 1931, six in 1933 and six more during the years 1934-37. Only Alaska (as a Territory in 1949) and West Virginia (in 1961) have adopted personal income taxes since 1937.

Corporate income taxation followed a similar pattern. States began to charge fees for incorporation during the past century. After the Civil War the revenue po-

tentialities of all incorporation fees began slowly to be recognized. This period witnessed the development of taxes measured by capital stock, and by the turn of the century almost every State imposed a capital stock tax on corporations.

The development of modern corporate income taxation, however, began, as did individual income taxation, with the enactment of the Wisconsin tax in 1911. (Hawaii, as a Territory, enacted a corporate income tax in 1901.) There were 7 more enactments before 1920, 8 during the 1920's, and 15 during the 1930's. Adoption of a corporation income tax by 3 more States (and Alaska while a Territory) since 1947 has brought the total of such taxes to 36.

Total income tax collections reflect the spread of this type of taxation among the States and the general increase in the level of incomes. Collections from individual and corporate income taxes reached \$162 million by 1927. They fell during the Great Depression years but have increased steadily since then, reaching \$1 billion in 1948. In the fiscal year 1961 they produced \$3.6 billion, or 19 percent of total State tax revenues. Two-thirds of the total came from individual income taxes.

General Sales Taxes

State taxation of general sales is largely a phenomenon of the Great Depression. Some States were already imposing taxes on business gross receipts in the 1920's, but the first permanent general sales tax was that adopted by Mississippi in 1932.

The flood of State sales taxes began in earnest in 1933. Accounting only for those States which levy a general sales tax at present, 13 States adopted the tax in 1933, 2 in 1934, 5 in 1935 (including Hawaii), and 3 more States during the years 1936-38. By

the end of the depression period, approximately half of the States were imposing sales taxes, although at least seven States which had temporarily adopted sales taxes had by then dropped them. After World War II, the sales tax movement received another impetus in the quest for funds to finance the higher level of postwar expenditures and eight States enacted sales taxes in the period 1947-51. Since the Korean war four more States have joined the group, with the latest being the 1961 enactment by Texas. At present, 36 of the 50 States have general sales taxes.

State sales tax collections have been increasing steadily since the first tax was enacted.

In 1932 collections were negligible but rose to \$447 million by 1938, reached \$1.6 billion in 1949 and \$4.5 billion by 1961. By the late 1930's the general sales tax was second in importance only to motor fuel taxes, and since 1944 it has been the No. 1 revenue producer for the States. At present, it provides almost one-fourth of all State tax revenues.

Alcoholic Beverage Taxes

Although the States obtained some revenue from alcoholic beverage excises and licenses prior to the prohibition era, this source did not become an important revenue producer until the repeal of the 18th amendment. Immediately following repeal, the States imposed excises on distilled spirits, wine, beer, and other beverages. During the 1930's 28 States and Hawaii enacted taxes on distilled spirits. In addition, the States required license fees of distillers, brewers, wholesalers, retailers, and other businesses and occupations engaged in the production and distribution of alcoholic beverages.

Seventeen States established monopoly

systems for the sale of distilled spirits and wine in the 1930's. In North Carolina the monopoly system took the form of county stores or dispensaries operating under State supervision, while in the other 16 States, there were State owned and operated liquor stores. Although excises on distilled spirits and wine are in effect in some of these monopoly States, these are an adjunct to their sales operation and are different from the excises in effect in the 33 license States.

All of the 33 license States except Mississippi now levy excises on distilled spirits, fortified wine, and light wine. Mississippi, which prohibits the sale of distilled spirits and fortified wine, imposes an excise on light wines. These excises generally are gallonage rather than ad valorem taxes.

The license system is in operation for the sale of beer in all 50 States, and beer is taxed at rates ranging from 62 cents per barrel to over \$13 per barrel. The rate is less than \$3 per barrel in more than half of the States.

State revenue from alcoholic beverage excises and licenses rose from \$81 million in 1934 to \$774 million in 1961. Excises account for more than three-fourths of the total. These collections reached a peak of relative importance during World War II when they accounted for almost 10 percent of total tax collections. In the fiscal year 1961, the latest year for which data are available, the net contribution of the 16 State monopoly systems to the general funds of the respective States approximated \$237 million.

Tobacco Taxes

State taxation of tobacco products is a development of the past 40 years. The first State cigarette tax was enacted by Iowa in 1921. There were 8 enactments during the twenties, 19 during the thirties, 15 during the forties, and 5 since 1950. At present,

only three States (Colorado, North Carolina, and Oregon) do not levy a cigarette tax. A number of States also impose taxes on cigars, smoking tobacco, chewing tobacco, and snuff.

State revenues from tobacco taxes did not aggregate \$100 million until 1941. In the fiscal year 1961, the total revenue from this source almost reached \$1 billion, second only to that of motor fuel taxes among State selective excises.

Amusement Taxes

Most of the State taxes on amusements are of relatively recent origin. While a wide variety of amusement taxes was in existence in the 1920's, and even prior to that time, a marked growth in the revenue from this source did not occur until after the 1930's.

The widespread adoption of parimutuel taxes (applicable to the amounts wagered at racetracks) was an outstanding development in the area of State amusement taxation during the past 30 years. Although the States were reluctant to legalize gambling, an exception was made with respect to parimutuel wagering or betting. Prior to 1929 only 5 States had legalized this form of wagering, but in 1933 and 1934 alone, 14 States did so. In the fiscal year 1961, as many as 24 States obtained revenue from parimutuels, and the \$277 million collected represented over 90 percent of the total amusement tax revenue (exclusive of that derived from admissions taxed under the general sales taxes).

The first State admissions tax was that enacted by Connecticut in 1921. At present, most States impose admissions taxes either under their general sales taxes or as special taxes. Thirty-six States now tax admissions to boxing events, and most of these extend the tax to include admissions to

wrestling matches. Ten States impose a tax on admissions to either some or all forms of racing (horse and dog). In some States these admissions are subject to a general admissions tax in addition to the special tax imposed upon them.

A large number of States impose license, privilege, or occupation taxes on amusement and gaming devices, such as slot machines, pinball machines, music machines, billiard and pool tables, and bowling alleys. Nevada was the first State to tax slot machines, after having legalized all forms of gambling in the 1930's. In some States the receipts obtained from amusement devices are also subject to the general sales tax.

Public Utility Taxes

State taxes on the intrastate gross receipts or gross earnings of public utility companies date from the latter part of the 19th century. At that time the property tax was the main form of taxation applied to such companies. The property-value basis of taxation, however, proved to be an inefficient method of taxing these companies. As a result, a number of States experimented with other

forms of taxation, particularly gross receipts or earnings taxes. These were first applied to railroad companies and gradually extended to other types of public utility companies. They were more often supplements to property taxes than replacements for them. A number of States that had adopted the gross receipts or earnings taxes eventually abandoned them in favor of the property tax. Thus, at the turn of the century the States were still generally taxing public utilities under the property tax. The tradition for gross receipts or earnings taxes, however, had been established, and a trend in their favor was evident. By the end of the 1920's a large number of States were imposing some type of gross receipts or earnings tax on public utility companies.

At the present time, 38 States obtain revenue from taxes imposed on telephone, telegraph, transportation, and other public utility companies, measured by gross receipts, gross earnings, or units of service sold. In some States the taxes are in lieu of others such as the property or income taxes. In other States they supplement them.

Chapter 4

INTERSTATE VARIATIONS IN TAX SYSTEMS

The foregoing account of the development of State taxation obscures some important interstate variations. The extent of these variations is partially indicated in table 7 which shows the distribution of tax collections by major sources for each of the

TABLE 7.—Tax Collections, by State: by Source, 1960

I. AMOUNTS (in millions of dollars)

State	Total excluding employment taxes	Individual income taxes	Corporation income taxes	Death and gift taxes	General sales taxes	Motor fuel taxes	Alcoholic beverage taxes	Tobacco taxes	Amusement taxes	Public utility taxes	Property taxes	Motor vehicle and operators' licenses	All other
Alabama.....	273.7	27.4	9.4	0.6	89.1	71.0	7.3	18.5	(*)	3.4	13.2	5.7	28.1
Alaska.....	27.1	8.9	1.7	.1	2.2	3.7	2.2	1.2	0.1	-----	1.5	2.0	6.7
Arizona.....	165.0	10.0	6.8	.5	64.2	25.0	3.6	3.5	2.3	3.3	28.5	10.3	7.1
Arkansas.....	158.1	9.8	8.9	.2	54.6	38.1	6.0	8.8	1.7	-----	.3	15.0	14.7
California.....	2,124.4	245.8	240.1	47.2	715.0	337.5	50.4	63.9	36.2	12.7	125.5	135.4	114.7
Colorado.....	192.5	34.5	10.7	6.6	50.2	37.3	5.8	-----	2.5	-----	10.6	17.2	17.0
Connecticut.....	238.1	-----	30.8	16.9	77.3	45.8	7.2	11.0	.1	7.9	(*)	17.4	23.7
Delaware.....	70.8	26.4	7.5	1.1	-----	8.4	1.6	2.0	3.9	(*)	1.8	4.4	13.6
Florida.....	521.7	-----	-----	5.5	171.3	121.7	45.6	9.3	26.9	7.6	18.6	57.3	57.9
Georgia.....	369.1	36.4	23.6	1.0	146.3	84.0	20.3	19.8	-----	-----	1.3	18.0	18.3
Hawaii.....	124.2	28.8	5.6	.6	62.1	14.6	3.2	2.0	-----	4.0	-----	-----	3.3
Idaho.....	69.0	20.2	5.8	.8	-----	14.7	1.9	3.2	(*)	1.2	2.6	10.1	8.5
Illinois.....	836.4	-----	-----	22.0	374.9	141.9	31.6	49.3	17.9	48.6	.9	104.9	44.3
Indiana.....	399.4	-----	-----	7.6	189.2	100.9	14.1	16.6	.1	-----	10.0	38.2	22.8
Iowa.....	265.8	36.7	3.8	7.3	80.7	60.4	3.2	11.5	-----	-----	3.6	46.3	12.3
Kansas.....	208.6	24.0	8.4	3.7	73.3	39.5	5.3	8.8	(*)	.3	7.9	22.5	12.8
Kentucky.....	228.5	51.7	20.2	5.8	-----	62.2	17.7	9.7	2.5	6.2	17.1	13.1	22.8
Louisiana.....	452.7	12.5	18.3	7.3	88.5	63.9	19.9	26.7	3.1	7.1	14.9	13.2	177.3
Maine.....	86.9	-----	-----	3.2	27.3	23.1	2.2	6.6	1.1	4.1	1.7	9.7	7.9
Maryland.....	343.6	85.0	20.4	5.0	74.1	55.8	8.8	10.9	9.2	9.9	12.1	26.3	26.0
Massachusetts.....	491.1	151.7	28.5	20.5	-----	76.7	25.9	39.2	13.0	-----	.3	23.4	112.0
Michigan.....	913.9	-----	-----	12.1	363.2	146.3	21.9	53.8	7.7	-----	51.2	75.6	182.0
Minnesota.....	352.6	89.3	39.8	7.3	-----	56.8	15.3	21.0	(*)	21.1	22.5	43.5	35.7
Mississippi.....	194.3	7.6	13.5	.7	71.8	46.5	4.4	11.0	.4	.2	4.4	7.3	26.6
Missouri.....	312.9	37.7	10.0	5.3	118.9	45.9	5.9	10.9	(*)	.1	11.2	39.0	28.0
Montana.....	64.9	10.7	4.7	1.8	-----	17.0	3.8	5.9	-----	1.1	6.2	4.3	9.4
Nebraska.....	91.1	-----	-----	.4	-----	37.8	2.7	6.0	.6	(*)	27.2	7.1	9.4
Nevada.....	44.9	-----	-----	-----	12.9	1.2	1.6	10.2	1.2	10.2	1.8	5.9	3.2
New Hampshire.....	41.8	1.6	-----	2.1	-----	13.5	1.1	4.1	4.2	-----	2.4	7.0	5.9
New Jersey.....	365.2	-----	27.7	20.6	-----	98.4	21.4	40.8	25.1	(*)	2.7	70.7	57.8
New Mexico.....	123.2	47.1	(4)	.7	40.9	24.8	2.1	4.6	.1	.5	8.2	11.7	22.4
New York.....	1,961.0	756.4	256.3	71.6	-----	215.2	57.2	119.2	90.3	68.7	3.5	141.9	180.8
North Carolina.....	459.4	91.8	51.5	6.6	88.0	99.1	16.3	-----	.5	23.9	11.2	31.8	38.6
North Dakota.....	60.8	4.8	1.4	.3	15.9	11.2	3.0	-----	(*)	(*)	3.2	10.5	6.8
Ohio.....	872.7	-----	-----	8.7	265.2	213.6	37.3	60.1	9.6	40.8	46.7	100.2	90.6
Oklahoma.....	275.4	16.8	12.2	6.4	56.2	38.5	14.4	13.8	.3	-----	.3	38.4	57.7
Oregon.....	208.3	94.6	22.4	4.5	-----	36.9	1.4	-----	1.4	.2	(*)	31.0	15.9
Pennsylvania.....	1,032.9	-----	142.1	51.1	330.4	155.4	46.1	63.5	(*)	16.7	1.7	86.6	139.2
Rhode Island.....	86.1	-----	8.4	3.9	24.7	15.1	3.1	5.9	7.0	5.0	-----	7.3	5.7
South Carolina.....	235.5	31.6	18.8	1.6	67.7	50.9	16.1	11.5	1.1	4.5	1.0	10.3	20.3
South Dakota.....	53.0	-----	5.4	.9	15.7	14.5	2.6	3.2	.5	(*)	(*)	6.7	8.4
Tennessee.....	304.6	5.2	21.4	4.8	104.9	76.3	8.2	17.4	.2	1.5	(*)	28.0	36.6
Texas.....	792.8	-----	-----	12.6	-----	185.3	35.0	85.9	.4	18.5	37.6	86.3	331.1
Utah.....	100.4	16.2	5.7	1.0	28.6	20.8	.9	2.3	-----	.1	8.1	6.6	10.0
Vermont.....	43.5	11.4	2.2	.7	-----	8.8	4.1	3.4	(*)	1.2	.3	7.4	4.0
Virginia.....	291.7	77.3	31.7	5.2	-----	76.8	8.9	-----	.1	18.1	13.2	23.6	36.8
Washington.....	460.8	-----	-----	9.4	198.7	60.5	13.1	18.1	2.9	14.7	34.0	23.7	85.7
West Virginia.....	180.1	-----	-----	2.4	32.7	34.5	3.3	9.5	5.4	-----	.4	19.5	72.5
Wisconsin.....	426.2	139.3	59.1	14.0	-----	72.2	15.0	21.2	(*)	11.3	30.4	43.4	20.3
Wyoming.....	41.5	-----	-----	.3	12.3	8.4	.6	1.7	-----	(*)	6.8	7.7	3.7
Total.....	18,035.9	4,209.4	4,179.9	420.2	4,187.0	3,335.4	650.5	922.5	288.6	365.4	607.4	1,573.2	2,296.6

*Less than \$50,000.

¹ Back taxes only.

² Includes the entire yield of the gross income tax which applies to all types of business and personal income.

³ \$64.5 million corporation taxes, measured in part by net income are included in the "All other" category.

⁴ Combined corporation and individual income taxes for New Mexico are tabulated with individual income taxes.

⁵ Applicable only to financial institutions.

⁶ Excludes the collections from the business and occupation taxes.

TABLE 7.—Tax Collections, by State: by Source, 1960—Continued

II. PERCENTAGE DISTRIBUTION

State	Total excluding employment taxes	Individual income taxes	Corporation income taxes	Death and gift taxes	General sales taxes	Motor fuel taxes	Alcoholic beverage taxes	Tobacco taxes	Amusement taxes	Public utility taxes	Property taxes	Motor vehicle and operators' licenses	All other
Alabama	100.0	10.0	3.4	0.2	32.6	25.9	2.7	6.8	(*)	1.2	4.8	2.1	10.3
Alaska	100.0	32.8	6.2	.2		13.6	8.1	4.5	0.4		.2	7.5	24.6
Arizona	100.0	6.1	4.1	.3	38.9	15.2	2.2	2.1	1.4	2.0	17.3	6.2	4.3
Arkansas	100.0	6.2	5.6	.2	34.5	24.1	3.8	5.6	1.0		.2	9.5	9.3
California	100.0	11.6	11.3	2.2	33.7	15.9	2.4	3.0	1.7	.6	5.9	6.4	5.4
Colorado	100.0	17.9	5.6	3.4	26.1	19.4	3.0		1.3		5.5	8.9	8.8
Connecticut	100.0		12.9	7.1	32.5	19.2	3.0	4.6	.1	3.3	(*)	7.3	9.9
Delaware	100.0	37.3	10.6	1.5		11.9	2.3	2.8	5.5	(*)	2.6	6.2	19.2
Florida	100.0			1.1	32.8	23.3	8.7	1.8	5.2	1.5	3.6	11.0	11.1
Georgia	100.0	9.9	6.4	.3	39.6	22.8	5.5	5.4			.3	4.9	5.0
Hawaii	100.0	23.2	4.5	.5	50.0	11.7	2.6	1.6		3.2			2.7
Idaho	100.0	29.3	8.4	1.1		21.3	2.8	4.7	(*)	1.8	3.7	14.6	12.3
Illinois	100.0			2.6	44.8	17.0	3.8	5.9	2.1	5.8	.1	12.5	5.3
Indiana	100.0			1.9	47.4	25.3	3.5	4.2	(*)		2.5	9.6	5.7
Iowa	100.0	13.8	1.4	2.7	30.4	22.7	1.2	4.3			1.4	17.4	4.6
Kansas	100.0	11.6	4.1	1.8	35.5	19.1	2.6	4.2	(*)	.1	3.8	10.9	6.2
Kentucky	100.0	22.6	8.9	2.3		27.2	7.7	4.2	1.1	2.7	7.5	5.7	10.0
Louisiana	100.0	2.8	4.0	1.6	19.5	14.1	4.4	5.9	.7	1.6	3.3	2.9	39.2
Maine	100.0			3.7	31.4	26.6	2.5	7.5	1.3	4.8	1.9	11.2	9.1
Maryland	100.0	24.7	5.9	1.5	21.6	16.2	2.6	3.2	2.7	2.9	3.5	7.7	7.6
Massachusetts	100.0	30.9	5.8	4.2		15.6	5.3	8.0	2.6		.1	4.8	22.8
Michigan	100.0			1.3	39.7	16.0	2.4	5.9	.8		5.6	8.3	19.9
Minnesota	100.0	25.3	11.3	2.0		16.1	4.3	6.0	(*)	6.0	6.4	12.3	10.1
Mississippi	100.0	3.9	6.9	.3	36.9	24.0	2.2	5.6	.2	.1	2.3	3.7	13.7
Missouri	100.0	12.0	3.2	1.7	38.0	14.7	1.9	3.5	(*)	(*)	3.6	12.5	9.0
Montana	100.0	16.5	7.2	2.7		26.2	5.9	9.0		1.7	9.6	6.6	14.5
Nebraska	100.0			.4		41.5	3.0	6.6	.7	(*)	29.9	7.8	10.3
Nevada	100.0				28.7	18.3	2.7	3.6	22.7		4.0	13.1	7.1
New Hampshire	100.0	3.8		5.0		32.2	2.6	9.8	10.1		5.7	16.7	14.0
New Jersey	100.0		7.6	5.6		26.9	5.9	11.2	6.9	(*)	.7	19.3	15.8
New Mexico	100.0	5.8		.5	33.2	20.1	1.7	3.8	.1	.4	6.7	9.5	18.2
New York	100.0	38.6	13.1	3.7		11.0	2.9	6.1	4.6	3.5	.2	7.2	9.2
North Carolina	100.0	20.0	11.2	1.4	19.2	21.6	3.6		.1	5.2	2.4	6.9	8.4
North Dakota	100.0	7.9	2.3	.5	26.1	18.4	5.0	5.8	.1	(*)	5.3	17.4	11.2
Ohio	100.0			1.0	30.4	24.5	4.3	6.9	1.1	4.7	5.4	11.5	10.4
Oklahoma	100.0	6.1	4.4	2.3	20.4	21.3	5.2	5.0	.1	.2		14.0	20.9
Oregon	100.0	45.4	10.8	2.2		17.7	.7		.7	.1	(*)	14.9	7.6
Pennsylvania	100.0	13.7	4.9	4.9	32.0	15.0	4.5	6.1	(*)	1.6	.2	8.4	13.5
Rhode Island	100.0		9.8	4.5	28.6	17.6	3.6	6.9	8.1	5.8		8.5	6.6
South Carolina	100.0	13.4	8.0	.7	28.7	21.6	6.8	4.9	.5	1.9	.4	4.4	8.6
South Dakota	100.0		.8	1.7	29.6	27.4	4.9	6.0	.9	.1	(*)	12.6	15.8
Tennessee	100.0	1.7	7.0	1.6	34.4	25.0	2.7	5.7	.1	.5	(*)	9.2	12.0
Texas	100.0			1.6		23.4	4.4	10.8	.1	2.3	4.7	10.9	41.8
Utah	100.0	16.1	5.7	1.0	28.5	20.7	.9	2.3		.1	8.1	6.6	10.0
Vermont	100.0	26.2	5.1	1.6		20.2	9.4	7.8	.1	2.7	.7	17.0	9.2
Virginia	100.0	26.5	10.9	1.8		28.3	3.1		(*)	6.2	4.5	8.1	12.6
Washington	100.0			2.0	43.1	13.1	2.8	3.9	.6	3.2	7.4	5.1	18.6
West Virginia	100.0			1.3	18.2	19.2	1.8	5.3	3.0		.2	10.8	40.3
Wisconsin	100.0	32.7	13.9	3.3		16.9	3.5	5.0	(*)	2.6	7.1	10.2	4.8
Wyoming	100.0			.8	29.6	20.2	1.5	4.1		(*)	16.3	18.6	8.9
Total	100.0	12.3	6.5	2.3	23.2	18.5	3.6	5.1	1.6	2.0	3.4	8.7	12.7

*Less than 0.05 percent.

States in fiscal year 1960. The frequency distribution of percentages of tax revenues obtained from various types of taxes is shown in table 8.

Since the distribution of responsibility between the States and their subdivisions for performing and financing governmental functions varies widely, State-by-State comparisons are meaningful only in terms of combined State-local data.

Table 9 shows the relative proportion of State-local taxes collected by the several

State governments in 1960. It will be observed that the proportion ranges from 82 percent in Hawaii to 29 percent in New Jersey. Ten States collect 70 percent or more of the total, and four States collect less than 40 percent. In heavily urbanized States the proportion collected by the State ranges up to 54 percent (Michigan). The State's share is generally highest in the South.

Table 9 reflects also the substantial interstate variation in the relative amount of

TABLE 8.—Number of States Using Various Taxes: Distribution According to Percentage of Tax Revenue Obtained From Each Tax, 1960

Tax	Number of States using tax in 1960	Distribution of the total according to the percentage of tax revenue obtained from the tax in each State								
		Under 5	5 to 10	10 to 15	15 to 20	20 to 25	25 to 30	30 to 35	35 to 40	40 and over
Individual income.....	¹ 33	5	5	6	3	4	4	3	2	1
Corporation income.....	¹ 37	11	16	10	.....	.....	.....	.....	.....	.....
Death and gift.....	49	46	3	.....	.....	.....	.....	.....	.....	.....
General sales.....	² 34	.....	.....	.....	3	2	8	11	6	4
Motor fuel.....	50	.....	.....	7	17	15	9	1	.....	1
Alcoholic beverage.....	50	39	11	.....	.....	.....	.....	.....	.....	.....
Tobacco.....	³ 46	20	24	2	.....	.....	.....	.....	.....	.....
Amusement.....	44	38	4	1	.....	1	.....	.....	.....	.....
Public utility.....	39	34	5	.....	.....	.....	.....	.....	.....	.....
Property.....	145	29	13	.....	2	.....	1	.....	.....	.....
Motor vehicle and operators' licenses.....	49	6	22	15	6	.....	.....	.....	.....	.....
All other.....	50	4	19	15	6	3	.....	.....	1	2

¹ New Mexico, which reports combined individual and corporation income tax revenues, is included in the totals of both taxes. South Dakota is included in the total number of States using the corporation income tax even though its levy applies only to financial institutions. West Virginia enacted an individual income tax effective Jan. 1, 1961.

² Kentucky, which enacted a general sales tax effective July 1, 1960, is not included in the total number of States using the general sales tax. Texas enacted a general sales tax effective Sept. 1, 1961.

³ Virginia, which enacted tobacco taxes effective Aug. 1, 1960, is not included in the total number of States using tobacco taxes.

combined State and local taxes. In 1960, per capita collections ranged from \$118 in Alabama to \$288 in New York. Seven States, all Southern, collected less than \$135 per capita. Three more Southern or border States collected less than \$150. Twenty States and the District of Columbia collected \$200 or more per capita. These include in addition to New York, a northern tier of States, some heavily industrialized like Michigan and Massachusetts, and some sparsely populated like Montana, Wyoming, and Vermont.

There is also considerable variation among the States in the relationship of tax collections to personal income. The range, however, is less marked. The percentage relationship of taxes to personal income exceeded 11 percent in Louisiana, North Dakota, Mississippi, and Vermont. Rates of 7 percent or less occurred in Alaska, Connecticut, Delaware, Missouri, Virginia, and the District of Columbia.

It should be kept in mind that these statistical tax comparisons do *not* necessarily

measure variations in the State and local tax burden borne by the residents of the several States. Every State's tax collections include sums collected from nonresidents, either directly or indirectly, in the cost of goods exported by the collecting (producing State). By the same token, each State's own collections exclude taxes paid by its residents to other States. Statistical measures of the net effect of these tax "imports and exports" are not available.

A State's tax collections, moreover, do not measure the level of governmental expenditures or services in the several States. Charges and assessments of various kinds, insurance trust revenues, liquor stores, and locally owned utilities are also substantial sources of revenue, as are Federal grants-in-aid. The relative role of each of these in financing expenditures varies greatly from State to State. In addition, a substantial amount of State and local activity is currently financed by borrowing.

The most important revenue producer in State tax systems is now the general sales

TABLE 9.—State and Local Tax Collection, by State: Total, Per Capita, and as Percent of Personal Income, 1960

State	Total tax collections (in millions)			Percentage collected by State governments	State and local collections per capita ¹	State and local collections as a percent of personal income ²
	State and local	State	Local			
Alabama.....	\$384.9	\$273.7	\$111.2	71.1	\$117.60	8.0
Alaska.....	36.6	27.1	9.5	74.0	160.53	5.8
Arizona.....	274.6	165.0	109.7	60.1	208.35	10.4
Arkansas.....	224.7	158.1	66.6	70.4	125.67	9.4
California.....	4,409.3	2,124.4	2,284.9	48.2	278.18	10.1
Colorado.....	406.4	192.5	213.8	47.4	231.17	10.0
Connecticut.....	542.8	238.1	304.6	43.9	213.03	7.4
Delaware.....	89.2	70.8	18.4	79.4	198.66	6.6
District of Columbia.....	165.1	.....	165.1	.....	216.67	7.2
Florida.....	919.9	521.7	398.2	56.7	183.98	9.3
Georgia.....	559.0	369.1	189.9	66.0	141.55	8.8
Hawaii.....	152.0	124.2	27.7	81.7	236.76	10.5
Idaho.....	126.8	69.0	57.8	54.4	188.97	10.5
Illinois.....	2,083.7	836.4	1,247.3	40.1	206.04	7.9
Indiana.....	840.2	399.4	440.8	47.5	179.65	8.2
Iowa.....	567.3	265.8	301.5	46.9	205.47	10.3
Kansas.....	474.5	206.6	267.8	43.5	217.86	10.5
Kentucky.....	361.6	228.5	133.1	63.2	118.67	7.7
Louisiana.....	616.3	452.7	163.6	73.5	188.47	11.8
Maine.....	188.4	86.9	101.5	46.1	193.43	10.2
Maryland.....	619.2	343.6	275.6	55.5	198.72	8.3
Massachusetts.....	1,208.0	491.1	716.9	40.7	233.79	9.3
Michigan.....	1,701.4	913.9	787.5	53.7	216.79	9.3
Minnesota.....	743.4	352.6	390.9	47.4	216.99	10.6
Mississippi.....	283.3	194.3	89.0	68.6	129.95	11.1
Missouri.....	658.8	312.9	345.9	47.5	152.11	6.9
Montana.....	148.7	64.9	83.8	43.6	219.32	10.9
Nebraska.....	245.7	91.1	154.6	37.1	173.76	8.2
Nevada.....	78.7	44.9	33.8	57.1	273.26	9.6
New Hampshire.....	108.0	41.8	66.3	38.7	177.34	8.6
New Jersey.....	1,261.9	365.2	896.6	28.9	206.90	7.8
New Mexico.....	167.3	123.2	44.1	73.6	174.63	9.7
New York.....	4,838.5	1,961.0	2,877.5	40.5	287.54	10.3
North Carolina.....	624.7	459.4	165.3	73.5	136.91	8.7
North Dakota.....	125.7	60.8	64.9	48.4	198.26	11.4
Ohio.....	1,799.1	872.7	926.3	48.5	184.73	7.9
Oklahoma.....	413.1	275.4	137.7	66.7	177.07	9.6
Oregon.....	398.8	208.3	190.5	52.2	224.93	10.0
Pennsylvania.....	1,963.4	1,032.9	930.6	52.6	173.09	7.6
Rhode Island.....	169.3	86.1	83.2	50.9	197.55	8.9
South Carolina.....	309.3	235.5	73.8	76.1	129.31	9.3
South Dakota.....	135.1	53.0	82.1	39.2	198.09	10.8
Tennessee.....	480.6	304.6	176.0	63.4	134.51	8.7
Texas.....	1,560.8	792.8	768.0	50.8	162.30	8.4
Utah.....	176.4	100.4	76.0	56.9	196.87	10.3
Vermont.....	87.0	43.5	43.5	50.0	222.51	12.0
Virginia.....	532.6	291.7	240.9	54.8	133.89	7.2
Washington.....	652.2	460.8	191.4	70.7	228.04	9.8
West Virginia.....	269.3	180.1	89.2	66.9	145.02	8.7
Wisconsin.....	854.9	426.2	428.6	49.9	215.67	9.9
Wyoming.....	78.2	41.5	36.7	53.1	235.54	10.1
Total.....	36,116.6	18,035.9	18,080.7	50.0	200.67	9.0

¹ Based on provisional estimates of population (exclusive of Armed Forces overseas) as of July 1, 1960.

² Based on personal income estimates reported in U.S.

Department of Commerce, *Survey of Current Business*, August 1961.

tax. Out of 34 States which imposed general sales taxes in fiscal 1960, 29 relied upon this source for more than 25 percent of their total tax revenues. In no State employing the general sales tax does this item account for less than 18 percent of all tax collections, and in only three States (Louisiana, North Carolina, and West Virginia) does it contribute less than 20 percent. Twenty-one States derived at least 30 percent of their revenues from the general sales tax. Hawaii received 50 percent of all tax revenues from this source; Indiana, 47 percent. The 16 States without a general sales tax include all the States (10) which obtain 25.0 percent or more of their revenue from the individual income tax. Of the 17 States without an individual income tax, 14 have a general sales tax and all but one of these depend on the latter for more than 25 percent of their tax revenue.

Income taxes provide close to one-fifth of State tax revenues. Oregon and New York obtained more than one-half of their tax revenues from this source in 1960. Delaware and Wisconsin likewise depended heavily on this source, deriving more than 45 percent of tax revenues from it. In the aggregate, the taxes on individual incomes are twice as productive as corporation income taxes. This relationship, as noted below, varies from State to State. Moreover, the corporation income tax totals include only some of the business taxes. License and gross receipts taxes on corporations in general, on public utilities and on insurance companies which account for substantially more revenue than the corporation income tax itself are here grouped in the "All other" category.

In 1960 no State received as much as 14.0 percent of its tax revenues from the corporation income tax, although Wisconsin and Pennsylvania approached this level. Of the 36 States imposing corporate income taxes, 10 received more than 10 percent of total tax revenues from this source and 11 received less than 5 percent. In one State (South Dakota) its contribution was less than 1 percent.

Among the selective sales and gross receipts taxes, the tax on motor fuels is by far the most important. It is imposed by every State and accounted for 18.5 percent of all State tax revenues in fiscal 1960. It is almost as important a source as individual and corporation income taxes combined, and no State derives less than 11 percent of its total tax revenue from it. It tends to be of greatest importance in the States with low population densities and exceeds 40 percent of State revenues in Nebraska.

Motor vehicle and motor vehicle operators' licenses are also a large source of State revenues. Every State except Hawaii obtains such revenue, and in 21 States it accounts for more than 10 percent of tax receipts.

Total automotive taxes (licenses and motor fuels) account for more than 30 percent of tax revenues in 24 States and more than 25 percent in 38 States. In only one State, Hawaii, do they bring in less than 15 percent.

The property tax now accounts for more than 10 percent of tax receipts in only three States: Arizona, Nebraska, and Wyoming.

Severance taxes are of importance in four States: Louisiana, where it accounts for 30 percent of State tax revenues; Texas, with 23 percent; New Mexico; and Oklahoma.

Chapter 5

TAXATION AT THE LOCAL LEVEL

Financing local government in the years ahead poses one of the more pressing inter-governmental problems. In 1960 the political subdivisions of the 50 States disbursed \$33.9 billion in providing general government service. Ten years ago they were spending only \$14.8 billion; 20 years ago only \$6.5 billion. During the 1950 decade their general government expenditures increased, on the average, 8.9 percent per year. This increase notwithstanding, broadly based pleas for additional and improved governmental programs went unheeded in many communities.

Under our system, civil government is largely a State and local responsibility. In 1960, for example, when civil government cost about \$63 billion, 54 percent of these expenditures took place at the local, 28 percent at the State, and only 18 percent at the Federal level. A portion of Federal appropriations for civil government (not included in the 18 percent) was for grants-in-aid, actually disbursed by State and local governments.

Many functions of civil government are traditionally local and their cost has outpaced the yield of local governments' own revenue sources. Despite substantial increases in the amount of State and Federal aid, many cities, counties, and school districts have been able to finance their burgeoning activities only by recourse to taxes not well suited for local use.

The revenue requirements of local governments will continue to mount as the

quantity and quality of their programs are brought into better conformity with the further growth and urbanization of the population and with rising living standards. Significant adjustments in State-local fiscal relations will be required to prevent the aggravation of disparities between local needs and local resources.

The realignment of fiscal resources at the local level is a State responsibility. It is a continuing process and embraces adjustments in the State-local division of functional responsibilities as well as intergovernmental financial aids and taxing powers. The realignment of fiscal resources takes different forms reflecting interstate variations in institutional arrangements and preferences and takes place at different times. In States where the imbalance between needs and resources is of significant proportions and widespread among local jurisdictions, constructive remedy in the future, as in the past, will probably entail readjustment in functional responsibilities by relieving local units of some of their obligations or increased State financial aids to local jurisdictions.

Pressures to increase locally raised revenues will inevitably persist, however, because intergovernmental fiscal institutions are slow to change, tax diversification has much appeal, the inclination to exercise home rule is strong, and the need for additional financing resources at the local level is immediate and pressing. A continuation of the expenditure growth rate recorded

TABLE 10.—*Local Government Direct General Expenditures, Selected Years, 1927–60*

[Total amounts in millions]

Fiscal year	Total local expenditure	Total State and local expenditure	Local as a percent of State and local expenditure ¹	Local expenditure as a percent of national income	Per capita local expenditure ²	Per capita local expenditure in 1954 prices ³
1927.....	\$5,830	\$7,210	80.9	(⁴)	\$48.98	(⁴)
1932.....	5,800	7,765	74.7	13.6	46.46	\$117.03
1934.....	5,172	7,181	72.0	10.6	40.93	95.63
1936.....	5,421	7,644	70.9	8.4	42.33	100.31
1938.....	6,181	8,757	70.6	9.1	47.61	109.70
1940.....	6,499	9,229	70.4	8.0	49.19	112.05
1942.....	6,421	9,190	69.9	4.7	47.61	95.60
1944.....	6,197	8,863	69.9	3.4	44.78	82.01
1946.....	7,875	11,028	71.4	4.4	55.70	88.41
1948.....	11,498	17,684	65.0	5.1	78.41	98.88
1950.....	14,754	22,787	64.7	6.1	97.27	116.21
1952.....	17,444	26,098	66.8	6.0	111.09	117.18
1953.....	18,616	27,910	66.7	6.1	116.62	119.61
1954.....	20,593	30,701	67.1	6.8	126.79	126.79
1955.....	22,534	33,724	66.8	6.8	136.35	133.41
1956.....	24,392	36,711	66.4	7.0	145.83	134.28
1957.....	26,604	40,375	65.9	7.3	156.22	136.80
1958.....	29,257	44,851	65.2	8.0	168.89	143.98
1959.....	31,421	48,887	64.3	7.9	178.16	148.10
1960.....	33,931	51,876	65.4	8.1	188.53	151.80

¹ To eliminate duplication, transactions between State and local governments have been excluded. Includes D.C.

² The computations are based on estimates of the population of continental United States as of July 1 of the years indicated. For reported years from 1940 through 1955, the population figures so used are inclusive of Armed Forces overseas. Exclusion of these forces beginning with

1956 data makes the per capita amounts shown for that year about 0.5 percent greater than they would be if computed on the same basis as the 1940–55 amounts.

³ On the basis of U.S. Department of Commerce implicit price deflators for State and local government purchases of goods and services.

⁴ Not available.

during the 1950's (4.6 percent per annum at constant prices) would raise local expenditures to \$53 billion by 1970, even without any allowance for further price increases.

Revenue Requirements

The development of local expenditures in recent years and their relationship to State and local expenditure aggregates is summarized in table 10. They remained relatively stable around \$6 billion per year from the late 1920's through World War II. Thereafter they increased rapidly, approaching \$15 billion by 1950 and \$30 billion by 1958. This fiscal year (1962) they are expected to approach \$40 billion.

Growth is not peculiar to local governments. The expenditure statistics cited quantify a familiar national phenomenon.

Increasing governmental costs have not been confined to a single level of government nor limited to the postwar years. Growth in the volume of government activity has been a general occurrence throughout most of our lifetime. Nor has the behavior of governmental activity differed materially from that of other phases of national economic life. Production, employment, consumption, savings, and economic activity generally are each attaining levels anticipated by few as recently as 10 years ago.

National economic growth, of which rising local expenditure is but one manifestation, generates part of its own fiscal solution. It automatically increases the revenue yield of existing tax rates. A substantial revenue gap, however, remains because

local requirements are increasing faster than the economy, while the revenue yield of local taxes does not even keep pace with it.

The local share of combined State-local expenditures has remained fairly stable over most of this period. Throughout the postwar years it has been constantly around 66 percent. It had been higher before World War II, around 85 percent at the turn of the century, 80 percent in the 1920's, and 70 percent in the late 1930's, where it remained until the end of the war.

The postwar increase in local expenditure aggregates has been the result of many factors, including population increases, growing urbanization, an improved level of service and rising prices. On a per capita basis local expenditures approximately doubled during the 1950's, from \$97 to \$189. In terms of constant prices, the per capita increases were less marked, from \$116 in 1950 to \$152 in 1960, about 31 percent.

Since the war, the share of national income devoted to the local government function has moved upward. Currently local expenditures are equivalent to about 8 percent of national income. This is about a third higher than the 6 percent for the early 1950's and is about the same as the relationship during the years immediately preceding World War II. Considerably higher ratios prevailed, of course, during the depression years when national income contracted at a faster rate than local expenditures.

Table 11 makes clear that by far the costliest local government function is education. It is responsible for 45 percent of local expenditures. Its relative role has risen rapidly, from 35 percent in 1940 and nearly 40 percent in 1950. During the 1950's when total local expenditure rose by 130 percent, education costs increased 160 percent. Investment in school plant and improved pay scales have been important factors. The only other functions which

TABLE 11.—*Local Government Direct General Expenditures, by Function: Selected Years, 1927–60*

[Dollar amounts in millions]

Item	1927		1940		1950		1960		Percentage increase 1950 to 1960
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	
Education.....	\$2,017	34.6	\$2,263	34.8	\$5,819	39.4	\$15,162	44.7	160.6
Highways.....	1,295	22.2	780	12.0	1,745	11.8	3,358	9.9	92.4
Public welfare.....	111	1.9	629	9.7	1,374	9.3	2,183	6.4	58.9
Health and hospitals.....	185	3.2	309	4.8	801	5.4	1,899	5.6	137.1
Police and local fire protection.....	466	8.0	566	8.7	1,179	8.0	2,607	7.7	121.1
Sanitation.....	312	5.4	207	3.2	834	5.7	1,727	5.1	107.1
Natural resources.....			74	1.1	202	1.4	347	1.0	71.8
Local parks and recreation.....	153	2.6	162	2.5	304	2.1	770	2.3	153.3
Housing and community redevelopment.....			230	3.5	452	3.1	850	2.5	88.1
General control.....	316	5.4	410	6.3	724	4.9	1,459	4.3	101.5
Interest on general debt.....	501	8.6	523	8.0	349	2.4	1,134	3.3	224.9
Other and unallocable ¹	474	8.1	346	5.3	971	6.6	2,434	7.2	150.7
Total direct general expenditures ²	5,830	100.0	6,499	100.0	14,754	100.0	33,931	100.0	130.0

¹ Includes expenditure for nonhighway transportation, general public buildings, libraries, civil defense and disaster relief, regulatory activities, etc.

² Includes D. C.

maintained their relative importance in local expenditures during the 1950's were health and hospitals, and parks and recreation. Both increased at a faster rate than local expenditures in the aggregate.

No local function even approaches education in costliness. In 1960, highways, the second costliest activity, accounted for 9.9 percent of expenditures, followed by police and fire protection, 7.7 percent; public welfare, 6.4 percent; and health and hospitals, 5.6 percent. These five items account for three-fourths of the cost of local government. National aggregates for local expenditures obscure wide interstate variations, which in turn are the result of differences in the division of responsibilities between the State and its political subdivisions, in the quantity, quality, and variety of services provided, and in price and wage levels. Local governments account for nearly two-thirds of State and local direct expenditures for general government. This average embraces significant differences between the States. In 1960, the local government share ranged from 34 percent in Hawaii and 38 percent in Delaware to 77 percent in New Jersey and 76 percent in Wisconsin.

The statistics on local expenditures on a per capita basis and in relation to personal income, presented in table 12, document the difficulty of generalizing about the relationship between interstate variations in local expenditures and the division of responsibility among State and local governments.

Per capita expenditures for local government services in 1960 ranged from \$85 in North Carolina to \$282 in New York. In North Carolina local governments accounted for a relatively small part, and in New York for a relatively large share of governmental expenditures. In North Carolina these expenditures absorbed a relatively small part, and in New York a rela-

tively large part of personal incomes. In New Jersey, on the other hand, where local governments carried a larger share of governmental costs than in any other State, per capita local expenditures ranked 11th among the 50 States. New Jersey is one of the high income States, and the expenditures of its local governments in terms of personal income were exceeded in 34 States.

We cite these variations to underscore the fact that the problem of financing local government embraces more than the division of responsibilities between the State and its political subdivisions. It involves also differences in economic resources available for taxation and in the share of those resources allocated to local governments.

In 1960, when local governments spent \$33.9 billion on general government service, they raised only \$22.9 billion from their own general revenue sources. They depended for nearly one-third of their total financing requirements on intergovernmental aids. To state this fact is not to imply that it is cause for concern in itself. Our is a cooperative federalism in which the adjustment of functional responsibilities and intergovernmental aids is a continuing process. It serves to give financial balance to the family relationship between States and their political subdivisions and to the interdependence of the Federal, State, and local governments. The social, economic, and political transformation since World War II has affected unevenly the needs and resources of the governments comprising this federalism, broadening the need for these readjustments. Here we are concerned with adjustments required to accommodate the increasing task of local governments without jeopardy to the delicate balance between the division of powers and responsibilities among constituent governments—an intergovernmental task.

TABLE 12.—Local Government Direct General Expenditures, by State: Amount, Per Capita, Per \$1,000 of Personal Income, and as Percent of State and Local Direct General Expenditures, 1960

State	Local general expenditure						
	Amount (\$'000,000)	Per capita ¹		Per \$1,000 of personal income ²		As a percent of State and local expenditures	
		Amount	Rank	Amount	Rank	Amount	Rank
Alabama	380.5	\$116.25	45	\$79.52	30	53.5	32
Alaska	39.0	171.05	24	62.00	45	49.6	38
Arizona	246.7	187.18	16	93.09	11	60.5	21
Arkansas	172.0	96.20	47	71.76	37	48.6	41
California	4,424.7	279.16	2	101.84	6	73.5	4
Colorado	421.6	239.82	5	103.36	4	69.7	7
Connecticut	467.8	183.59	18	64.13	41	58.9	23
Delaware	57.7	128.51	42	42.65	43	38.3	49
Florida	914.0	182.80	19	91.97	12	64.6	15
Georgia	524.3	132.77	38	82.58	25	59.7	22
Hawaii	80.8	125.86	44	56.03	49	34.1	50
Idaho	106.6	158.87	28	88.46	16	55.9	28
Illinois	2,038.9	201.61	9	77.16	34	70.3	5
Indiana	795.6	170.11	25	78.06	32	66.5	14
Iowa	493.7	178.81	22	89.26	14	60.9	19
Kansas	421.8	193.66	12	93.65	10	66.7	12
Kentucky	279.8	91.83	48	59.51	47	46.3	47
Louisiana	501.3	153.30	32	95.58	9	47.5	44
Maine	124.1	127.41	43	67.04	39	49.8	37
Maryland	581.0	186.46	17	77.88	33	69.3	9
Massachusetts	1,059.5	205.05	8	81.40	27	69.0	10
Michigan	1,582.0	201.58	10	86.80	18	66.7	13
Minnesota	785.9	229.39	6	111.70	2	69.7	8
Mississippi	290.2	133.12	37	113.49	1	57.6	26
Missouri	591.3	136.53	35	62.10	44	58.8	24
Montana	120.4	177.58	23	88.01	17	53.1	33
Nebraska	254.0	179.63	20	85.01	21	66.9	11
Nevada	70.6	245.14	4	86.20	19	58.3	25
New Hampshire	80.2	131.69	39	63.50	42	47.9	43
New Jersey	1,208.7	198.18	11	74.35	35	77.2	1
New Mexico	155.4	162.04	27	89.83	13	52.5	34
New York	4,749.7	282.27	1	101.21	7	75.4	3
North Carolina	387.0	84.81	50	53.87	50	43.5	48
North Dakota	113.7	179.34	21	102.99	5	48.6	42
Ohio	1,871.2	192.13	13	82.15	26	70.3	6
Oklahoma	338.6	145.14	34	78.53	31	51.4	35
Oregon	338.2	190.75	15	84.44	22	55.6	29
Pennsylvania	1,783.9	157.27	29	69.41	38	61.3	18
Rhode Island	112.2	130.92	41	58.77	48	51.2	36
South Carolina	215.5	90.09	49	64.50	40	49.2	40
South Dakota	101.4	148.68	33	80.73	28	49.3	39
Tennessee	470.2	131.60	40	85.15	20	60.6	20
Texas	1,475.9	153.47	31	79.74	29	62.3	17
Utah	152.2	169.87	26	88.95	15	55.4	30
Vermont	60.3	154.22	30	82.94	23	47.2	46
Virginia	531.1	133.51	36	72.25	36	62.7	16
Washington	547.6	191.47	14	82.64	24	57.5	27
West Virginia	191.6	103.18	46	61.63	46	47.5	45
Wisconsin	868.7	219.15	7	100.95	8	75.5	2
Wyoming	82.5	248.49	3	106.45	3	54.7	31
Total	33,661.5	187.83	.....	84.64	.....	65.2	.....

¹ Based on provisional estimates of population (exclusive of Armed Forces overseas) as of July 1, 1960.

² Based on personal income estimates reported in U.S. Department of Commerce, *Survey of Current Business*, August 1961.

While all governments—Federal, State, and local—have shared and will continue to share in expenditure increases, the financing of these increases poses particularly difficult problems for local governments. They have only such taxing powers as their respective State constitutions and legislatures have granted them. In most States they are severely restricted and with few exceptions are largely limited to the property tax. While these limitations are of each State's own choosing, they are nonetheless real. Moreover, the property tax itself labors under serious handicaps, some real, some contrived.

The imbalance at the local level between rapidly rising revenue requirements and limited taxing resources has long been recognized as the central problem in State-local relations. A redressing of this balance will necessarily involve numerous variables, combined in differing proportions in the several States.

Interstate variety in State-local fiscal relations is the hallmark of our governmental system. Many would say, and with good reason, that it is its strength. Under the system, each State develops its own arrangements for enabling its local governments to discharge the obligations it places upon them. The State develops these arrangements with benefit of a kit of tools and techniques. The contents of the kit are more or less common among the States. It is their application—the combinations and permutations in their use, their adaptation to the different circumstances prevailing in the several States—that varies.

In this chapter we assess some of these

tools, those in the tax area, to identify their strength and weakness. Our purpose is to uncover the opportunities available to States to facilitate the use of nonproperty taxes by local governments. Specifically, we seek to identify techniques, devices, and procedures available to State governments for assisting their political jurisdictions in making effective use of consumer, income, and excise taxes with minimum violence to local fiscal autonomy, effective tax administration, taxpayers' convenience, and competitive business relationships between communities.

The satisfactory resolution of the revenue needs of local governments, their ability to function in a manner compatible with State and national interests, will involve more than tax mechanics. It will depend on progress in numerous directions, including the reorganization of local governmental units themselves into structures more appropriate for contemporary and prospective requirements. Another area requiring attention is the intergovernmental division of functional responsibilities and financial resources.

Within the more restricted area of taxation itself, a variety of problems require consideration, many of which we bypass at this time. Perhaps the most important of these at the local government level relates to the property tax, to the policies and practices which would enable this historic workhorse of local government finance to perform more fairly and in better harmony with economic and fiscal goals.

Sources of Local Financing

Local governments finance their activities from locally raised revenues, State and

Federal aid, and borrowing. Generally they may not engage in deficit financing of operation and maintenance costs and borrow only for capital outlay purposes. Some engage in short-term borrowing in anticipation of tax collections. In recent years, the security flotations of local governments have ranged around \$6 billion a year. This includes borrowings for public utility and toll enterprises, as well as general government facilities. The volume of their borrowing has about doubled during the past decade. Annual debt retirements now exceed \$2.5 billion. Between the end of 1950 and 1960, the indebtedness of local governments has risen from \$18.8 billion to \$51.4 billion. The \$32.6 billion increase in liabilities is about equal to half of the \$65 billion invested in capital improvements during the decade.

Current Revenues. The current revenue of local governments for general government purposes totaled \$32.9 billion in 1960. It has been rising at a rapid rate, paralleling the rise in expenditures. The corresponding total was \$21 billion 5 years earlier, \$14 billion in 1950, and about \$7 billion during the war years (table 13). Local governments raise about 70 percent of their current revenues from their own sources. This proportion has not changed since the war. It had been higher in earlier years, around 90 percent before the depression and around 75 percent thereafter, including the war years.

Approximately 30 percent of the current revenue of local governments is State and Federal aid, chiefly the former. State aid includes, of course, some funds which originated in Federal aid to States. The composition of current revenues for general

government purposes was as follows in 1960:

	Amount (billions)	Percent of total
State aid.....	\$9.4	28.5
Federal aid ¹.....	.6	1.8
From local sources:		
Property taxes.....	15.8	48.1
Other taxes.....	2.3	6.9
Nontax revenues.....	4.8	14.7
Total.....	32.9	100.0

¹ Includes only grants-in-aid directly to local governments. Federal expenditures for capital improvements in communities, as reported in the budget message of the President for 1960 (p. M18), including long-term loans under various programs and highway grants in urban areas, aggregated about \$2 billion in 1960.

These are aggregates for the more than 80,000 local jurisdictions which comprise local government in the United States. The patterns of financing vary, not only among the different categories of local government but within each category from State to State. The percentage distribution of general revenues in 1957, the last year for which detail for all categories is available, illustrates the range of variation (table 14).

The property tax is the major producer for all categories except special-purpose districts, which rely chiefly on service charges and some of which have no taxing powers. Intergovernmental financial aid is of special importance in school district and county financing. In the case of the counties, it is related to their important role in such functions as public welfare, education, local highways, and health and hospitals. Non-property taxes play a significant role only in municipalities, as we shall have occasion to note later.

The development of the principal revenues of local governments is depicted on a ratio scale on the accompanying figure 2.

TABLE 13.—Local Government General Revenues, by Source: Selected Years, 1927–60

Fiscal year	Intergovernmental revenue		From local sources				Total general revenue	Increase or decrease (—) in debt during year	
	From Federal government	From State governments	Total	Taxes					Other general revenue
				Total	Property	Other			
Amount (\$000,000)									
1927.....	9	596	5,298	4,479	4,360	119	819	5,903	929
1932.....	10	801	4,879	4,274	4,159	115	605	5,690	9
1934.....	83	1,318	4,419	3,933	3,803	130	486	5,820	—826
1936.....	229	1,417	4,533	4,083	3,865	218	450	6,179	306
1938.....	167	1,516	4,968	4,473	4,196	277	495	6,651	6
1940.....	278	1,654	5,007	4,497	4,170	327	510	6,939	162
1942.....	56	1,780	5,286	4,625	4,273	352	661	7,122	—337
1944.....	28	1,842	5,470	4,703	4,361	342	767	7,340	—1,080
1946.....	53	2,092	6,082	5,157	4,737	420	925	8,227	—600
1948.....	218	3,283	7,872	6,599	5,850	749	1,273	11,373	1,133
1950.....	211	4,217	9,586	7,984	7,042	942	1,602	14,014	1,979
1952.....	237	5,044	11,671	9,466	8,282	1,185	2,205	16,952	1,332
1953.....	300	5,384	12,687	10,356	9,010	1,344	2,331	18,371	2,731
1954.....	298	5,635	13,629	10,978	9,577	1,401	2,651	19,562	3,374
1955.....	368	5,987	14,737	11,886	10,323	1,563	2,851	21,092	3,738
1956.....	309	6,590	16,238	12,992	11,282	1,710	3,246	23,137	2,909
1957.....	343	7,196	17,866	14,286	12,385	1,901	3,580	25,406	3,323
1958.....	404	7,828	19,345	15,461	13,514	1,946	3,885	27,577	3,798
1959.....	489	8,250	20,733	16,531	14,417	2,114	4,202	29,472	4,387
1960.....	592	9,361	22,912	18,081	15,798	2,283	4,831	32,866	4,232
Fiscal year	Intergovernmental revenue		From local sources				Total general revenue		
	From Federal government	From State government	Total	Taxes					
				Total	Property	Other			
Percentage distribution									
1927.....	0.2	10.1	89.8	75.9	73.9	2.0	13.9	100.0	
1932.....	.2	14.1	85.7	75.1	73.1	2.0	10.6	100.0	
1934.....	1.4	22.6	75.9	67.6	65.3	2.2	8.4	100.0	
1936.....	3.7	22.9	73.4	66.1	62.6	3.5	7.3	100.0	
1938.....	2.5	22.8	74.7	67.3	63.1	4.2	7.4	100.0	
1940.....	4.0	23.8	72.2	64.8	60.1	4.7	7.3	100.0	
1942.....	.8	25.0	74.2	64.9	60.0	4.9	9.3	100.0	
1944.....	.4	25.1	74.5	64.1	59.4	4.7	10.4	100.0	
1946.....	.6	25.4	73.9	62.7	57.6	5.1	11.2	100.0	
1948.....	1.9	28.9	69.2	58.0	51.4	6.6	11.2	100.0	
1950.....	1.5	30.1	68.4	57.0	50.2	6.7	11.4	100.0	
1952.....	1.4	29.8	68.8	55.8	48.9	7.0	13.0	100.0	
1953.....	1.6	29.3	69.1	56.4	49.0	7.3	12.7	100.0	
1954.....	1.5	28.8	69.7	56.1	49.0	7.2	13.6	100.0	
1955.....	1.7	28.4	69.9	56.4	48.9	7.4	13.5	100.0	
1956.....	1.3	28.5	70.2	56.2	48.8	7.4	14.0	100.0	
1957.....	1.4	28.3	70.3	56.2	48.7	7.5	14.1	100.0	
1958.....	1.5	28.4	70.1	56.1	49.0	7.1	14.1	100.0	
1959.....	1.7	28.0	70.3	56.1	48.9	7.2	14.3	100.0	
1960.....	1.8	28.5	69.7	55.0	48.1	6.9	14.7	100.0	

SOURCES OF LOCAL GOVERNMENT FINANCING

Selected F.Y. 1938 - 1960

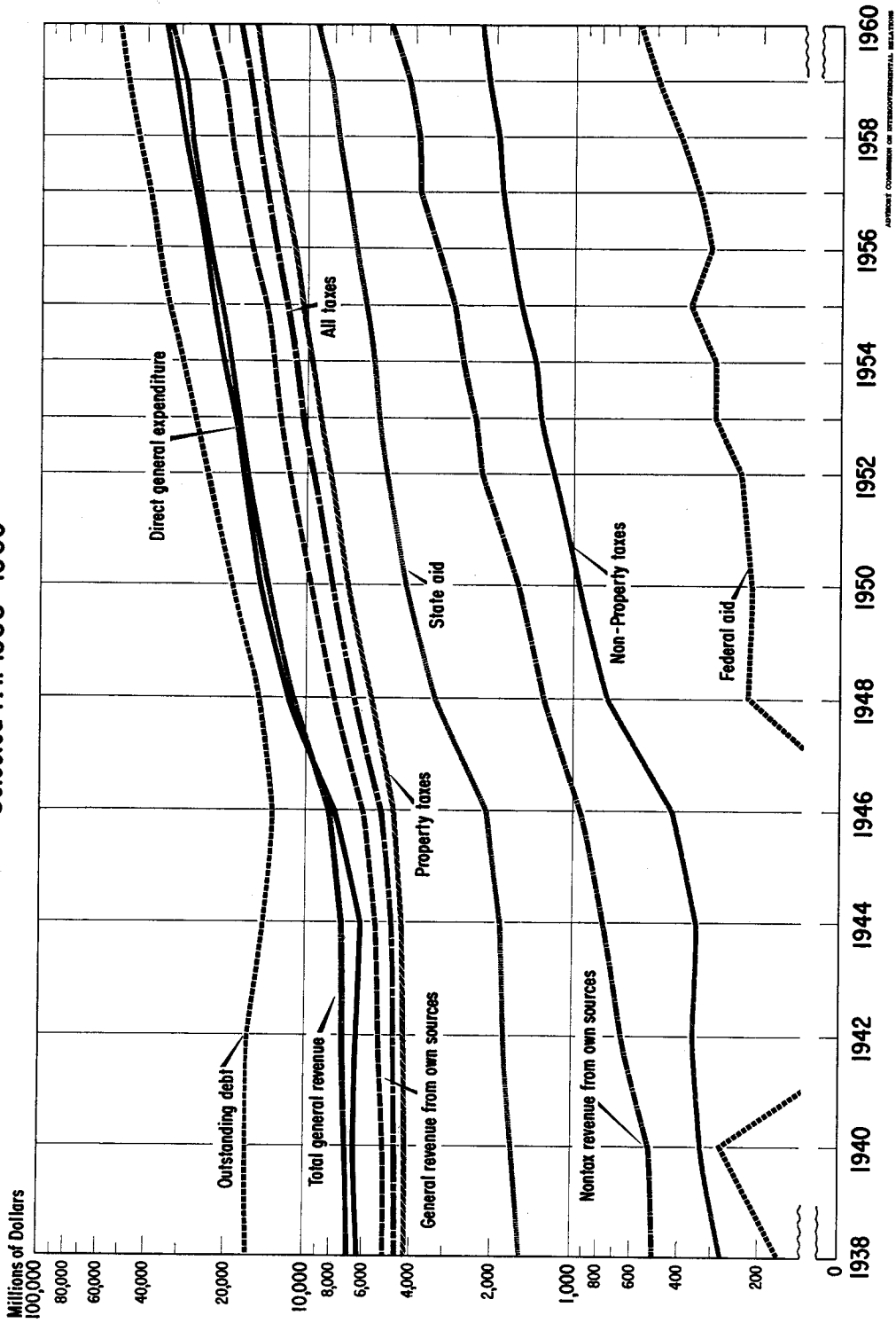


Figure 2

TABLE 14.—General Revenues of Local Governments: Percentage Distribution by Source, 1957

	Total	Counties	Municipalities	Townships	School districts	Special districts
Intergovernmental.....	29.7	38.0	18.9	24.8	42.1	14.1
Property tax.....	48.7	46.5	46.3	63.6	50.1	29.1
Other taxes.....	7.6	3.2	17.3	4.5	.7	.....
Nontax revenue.....	14.1	12.3	17.5	7.2	7.1	56.8
Total.....	100.0	100.0	100.0	100.0	100.0	100.0

Equal slopes on this scale indicate equal percentage rates of growth irrespective of the absolute amount of the variable. A 50-percent increase from \$100 million to \$150 million produces the same slope as an increase from \$20 billion to \$30 billion.

The general uniformity of these curves is striking. The major sources of local financing generally have increased at a remarkably uniform rate since 1950, suggesting that rising requirements exerted revenue pressures which were distributed fairly uniformly among the financing sources available to local governments.

State Aid. State financial aid to local governments totaled \$9.3 billion in 1960, nearly \$52 per capita, and accounted for 29 percent of total local general revenues.

The term "State aid" covers State payments to local units for their use in financing specific functions or for general local government support, as well as State imposed and collected taxes shared with local governments, and reimbursements for services performed for the State. The role of State aid as a source of local general revenue varied widely among the States, reflecting the prevailing variety in State-local fiscal relations, as tables 15 and 16 make clear.

The largest share (\$5.3 billion) of State aid was earmarked for education in 1960. Next in importance were \$1.5 billion for public welfare and \$1.2 billion for highways. The remainder went for health and hospitals, for other specified functions and for general support of government.

TABLE 15.—State Aid as a Percent of Local General Revenues: Frequency Distribution by State, 1960

Under 20 percent	20 to 30 percent	30 to 40 percent	40 percent or more
New Hampshire..... 7.9	Vermont..... 22.5	Colorado..... 31.0	Washington..... 40.5
South Dakota..... 10.2	Texas..... 23.8	Utah..... 31.1	Hawaii..... 40.9
New Jersey..... 13.6	Kansas..... 24.0	Minnesota..... 32.6	South Carolina..... 44.2
Connecticut..... 15.1	Iowa..... 24.3	Maryland..... 32.7	Delaware..... 44.9
Maine..... 15.4	North Dakota..... 25.1	California..... 33.6	New Mexico..... 45.2
Montana..... 16.1	New York..... 25.7	Wyoming..... 34.4	Alabama..... 46.8
Rhode Island..... 17.6	Nevada..... 26.3	Arizona..... 34.6	Mississippi..... 47.9
Nebraska..... 18.4	Ohio..... 26.5	West Virginia..... 34.6	Louisiana..... 48.9
Illinois..... 18.9	Oregon..... 26.7	Alaska..... 34.9	
Missouri..... 19.1	Florida..... 26.9	Georgia..... 36.1	
	Idaho..... 27.0	Michigan..... 36.1	
	Indiana..... 27.7	Oklahoma..... 36.3	
	Massachusetts..... 28.4	Tennessee..... 37.6	
	Virginia..... 28.4	Wisconsin..... 38.1	
	North Carolina..... 28.8	Arkansas..... 38.7	
	Pennsylvania..... 28.8		
	Kentucky..... 29.5		
Number of States..... 10	17	15	8

TABLE 16.—*State Intergovernmental Expenditures, by State: Total, Per Capita, as a Percent of State General Expenditure, and as a Percent of Local General Revenues, 1960*

State	1960 expenditure			
	Total (\$000)	Per capita ¹	As a percent of total State general expenditure	As a percent of total local general revenue
Alabama.....	167,614	\$51.21	33.7	46.8
Alaska.....	10,194	44.71	20.4	34.9
Arizona.....	79,587	60.38	33.1	34.6
Arkansas.....	65,002	36.35	26.3	38.7
California.....	1,454,643	91.78	47.7	33.6
Colorado.....	126,526	71.97	40.8	31.0
Connecticut.....	63,056	24.75	16.2	15.1
Delaware.....	20,230	45.06	17.9	44.9
Florida.....	222,568	44.51	30.7	26.9
Georgia.....	176,535	44.70	33.3	36.1
Hawaii.....	26,297	40.96	14.4	40.9
Idaho.....	27,824	41.47	24.8	27.0
Illinois.....	350,734	34.68	29.0	18.9
Indiana.....	208,419	44.56	34.2	27.7
Iowa.....	112,749	40.84	26.2	24.3
Kansas.....	102,124	46.89	32.6	24.0
Kentucky.....	82,169	26.97	20.2	29.5
Louisiana.....	231,227	70.71	29.4	48.9
Maine.....	20,028	20.56	13.8	15.4
Maryland.....	175,045	56.18	40.4	32.7
Massachusetts.....	310,423	60.08	39.4	28.4
Michigan.....	551,600	70.29	41.1	36.1
Minnesota.....	238,914	69.74	41.2	32.6
Mississippi.....	122,369	56.13	36.5	47.9
Missouri.....	105,731	24.41	20.3	19.1
Montana.....	20,403	30.09	16.1	16.1
Nebraska.....	42,374	29.97	25.2	18.4
Nevada.....	17,906	62.17	26.1	26.3
New Hampshire.....	5,973	9.81	6.4	7.9
New Jersey.....	159,295	26.12	30.8	13.6
New Mexico.....	70,543	73.64	33.4	45.2
New York.....	1,225,114	72.81	44.2	25.7
North Carolina.....	100,985	22.13	16.7	28.8
North Dakota.....	25,938	40.91	17.7	25.1
Ohio.....	450,922	46.30	36.3	26.5
Oklahoma.....	115,861	49.66	26.6	36.3
Oregon.....	90,141	50.84	25.0	26.7
Pennsylvania.....	474,888	41.87	29.6	28.8
Rhode Island.....	20,405	23.81	16.0	17.6
South Carolina.....	92,775	38.79	29.4	44.2
South Dakota.....	10,745	15.76	9.3	10.2
Tennessee.....	154,489	43.24	33.6	37.6
Texas.....	332,528	34.58	27.1	23.8
Utah.....	44,172	49.30	26.5	31.1
Vermont.....	13,505	34.54	16.7	22.5
Virginia.....	138,007	34.69	30.4	28.4
Washington.....	216,326	75.64	34.9	40.5
West Virginia.....	64,786	34.89	23.4	34.6
Wisconsin.....	315,610	79.62	52.9	38.1
Wyoming.....	27,413	82.57	28.6	34.4
Total.....	9,252,712	51.80	34.1	28.9

¹ Based on provisional estimates of population (exclusive of Armed Forces overseas) as of July 1, 1960.

TABLE 17.—*State Intergovernmental Expenditures, by Function: Selected Years, 1932-60*

Item	1932	1940	1950	1955	1960
Amount (\$'000,000)					
Total	801	1,654	4,217	5,986	9,283
General local government support.....	140	181	482	591	806
Public welfare.....	28	420	792	1,046	1,483
Education.....	398	700	2,054	3,150	5,300
Highways.....	229	332	610	911	1,247
All other.....	6	21	279	288	447
Percent distribution					
Total	100.0	100.0	100.0	100.0	100.0
General local government support.....	17.5	10.9	11.4	9.9	8.7
Public welfare.....	3.5	25.4	18.8	17.5	16.0
Education.....	49.7	42.3	48.7	52.6	57.1
Highways.....	28.6	20.1	14.5	15.2	13.4
All other.....	.7	1.3	6.6	4.8	4.8
Percent of total State general expenditure					
Total	29.0	37.7	34.4	34.9	34.1
General local government support.....	5.1	4.1	3.9	3.4	3.0
Public welfare.....	1.0	9.6	6.5	6.1	5.4
Education.....	14.4	16.0	16.8	18.3	19.5
Highways.....	8.3	7.6	5.0	5.3	4.6
All other.....	.2	.5	2.3	1.7	1.6
Relation to selected items of local government finance					
Total State intergovernmental expenditure as percent of total local general revenue.....	14.1	23.8	30.1	28.4	28.5
State intergovernmental expenditure for selected functions as percent of local general expenditure for—					
Public welfare.....	7.6	66.8	57.6	66.7	67.0
Education.....	19.6	30.9	35.3	31.5	35.0
Highways.....	25.5	42.6	35.0	35.6	36.7

The evolution of State aid for individual functions over the past three decades is summarized in table 17. It now finances over 65 percent of local expenditure for public welfare, 37 percent for highways, and 35 percent for education. (State aid for public welfare is financed in part from Federal public assistance grants to the States.) While the amount of State aid for each of these functions has increased in recent years, the share of local expenditures covered by it

has not changed materially because local expenditures have been increasing at an approximately equal rate.

Federal aid. Federal payments directly to local governments have also increased over the years, but have not assumed significant proportions in terms of local financing. In 1960 Federal grants and payments in lieu of taxes to local governments totaled less than \$600 million and provided less than 2 percent of local general revenues. Grants

accounted for most of it. The 1961 Federal legislation should increase these magnitudes significantly during the next several years. The comparable total was \$200 million in 1950 and \$300 million in 1953 and 1954. These amounts exclude loans, repayable advances, and Federal grants to States for programs which ultimately benefit local governments.

Nearly 40 percent of the \$600 million 1960 aggregate represented Federal payments for school operations (\$163 million) and for school construction (\$70 million) under the special Federal aid programs to federally affected areas (Public Law 815 and Public Law 874). The other significant Federal aid programs were low-rent housing contributions (\$123 million); slum clearance and urban renewal, including urban planning (\$103 million); waste treatment facilities (\$40 million); and airport construction (\$35 million). The enumerated five programs were responsible for 90 percent of all Federal aid directly to local governments.

Revenues from own sources. Local governments raise about 70 percent of their current general revenues from local sources, divided between taxes and other sources approximately in the ratio of 4:1. The 1960 totals were \$18.1 billion from taxes and \$4.8 billion from nontax sources. The latter includes user charges, sale of commodities, services and real estate, special assessments for public improvements, and interest earnings. As indicated earlier, the relative contributions of the major components have not changed materially in recent years. The amount contributed by each has increased. Comparative State-by-State data on the amount of locally raised general revenues are presented in table 18.

The \$18.1 billion local government tax

take in 1960 compared with \$8 billion in 1950 and under \$5 billion during the war years. Taxes now supply about 55 percent of local governments' general revenues. Their role has stabilized at this level after World War II. It had been somewhat higher before that time (table 13).

Comparative data on local tax revenue by States are presented in table 19. The variations are wide, explained in part by interstate differences in economic capacity and tax effort reflected in the level of government services provided, as well as the degree of local reliance on State financial aids and the local governments' relative role in providing governmental services. The percentage of State and local tax revenue raised by local governments, summarized in table 20, is one indication of this variation.

Property taxes. Taxation at the local level in most parts of the country continues to be largely synonymous with property taxation. With few exceptions, it is the most important single revenue producer in local jurisdictions. It was the mainstay of local tax systems at the beginning of the century and remains so today. It has been aptly called the beast of the local tax burden for it generally manages to carry whatever portion of the revenue load remains after the contribution of the other revenue sources has been budgeted.

The tax has been the object of severe criticism for decades. Some have in fact predicted its gradual demise. Instead, it is putting in a remarkable performance in terms of productivity. It held its relative position as a revenue producer even during the decade of the 1950's, when new taxes were being enacted and expanded by local jurisdictions on a large scale. Its yield increased from \$7 billion in 1950 to \$16 billion in 1960, by nearly 125 percent. Several

TABLE 18.—Locally Collected General Revenues by State: Amount, Per Capita, and Per \$1,000 of Personal Income, 1960

State	Locally collected general revenue				
	Amount (\$'000,000)	Per capita ¹		Per \$1,000 of personal income ²	
		Amount	Rank	Amount	Rank
Alabama	187.1	\$57.18	47	\$39.10	45
Alaska	17.5	76.75	38	27.82	48
Arizona	147.8	112.14	26	55.77	25
Arkansas	100.5	56.21	48	41.93	41
California	2,835.0	178.86	2	65.25	10
Colorado	275.9	156.94	6	67.64	8
Connecticut	348.2	136.66	13	47.73	32
Delaware	26.3	58.57	46	19.44	50
Florida	600.6	120.12	23	60.43	17
Georgia	303.7	76.91	37	47.83	31
Hawaii	39.1	60.90	45	27.12	49
Idaho	74.2	110.58	28	61.58	15
Illinois	1,490.3	147.36	10	56.40	22
Indiana	537.3	114.88	24	52.72	28
Iowa	374.2	135.53	15	67.66	7
Kansas	322.7	148.16	9	71.65	5
Kentucky	189.5	62.19	43	40.30	43
Louisiana	237.7	72.69	40	45.32	38
Maine	110.8	113.76	25	59.86	19
Maryland	349.0	112.00	27	46.78	33
Massachusetts	812.6	157.27	5	62.43	14
Michigan	994.3	126.69	19	54.56	27
Minnesota	498.9	145.62	11	70.91	6
Mississippi	133.0	61.01	44	52.01	29
Missouri	440.2	101.64	34	46.23	35
Montana	103.5	152.65	8	75.66	1
Nebraska	192.8	136.35	14	64.52	12
Nevada	47.7	165.63	4	58.24	21
New Hampshire	75.0	123.15	21	59.38	20
New Jersey	1,025.4	168.13	3	63.08	13
New Mexico	72.3	75.47	39	41.79	42
New York	3,506.9	208.41	1	74.73	3
North Carolina	248.0	54.35	49	34.52	46
North Dakota	79.6	125.55	20	72.10	4
Ohio	1,251.5	128.50	18	54.94	26
Oklahoma	193.7	83.03	35	44.92	39
Oregon	240.1	135.42	16	59.95	18
Pennsylvania	1,167.1	102.89	33	45.41	37
Rhode Island	94.0	109.68	29	49.24	30
South Carolina	115.4	48.24	50	34.24	47
South Dakota	94.9	139.15	12	75.56	2
Tennessee	251.6	70.42	41	45.56	36
Texas	1,043.7	108.53	30	56.39	23
Utah	95.5	106.58	32	55.82	24
Vermont	47.1	120.46	22	64.79	11
Virginia	323.7	81.37	36	44.03	40
Washington	305.9	106.96	31	46.17	34
West Virginia	122.6	66.02	42	39.43	44
Wisconsin	522.0	131.69	17	60.66	16
Wyoming	50.9	153.31	31	65.68	9
Total	22,717.3	126.76	.....	57.12	.....

¹ Based on provisional estimates of population (exclusive of Armed Forces overseas) as of July 1, 1960.

² Based on personal income estimates reported in U.S. Department of Commerce, *Survey of Current Business*, August 1961.

TABLE 19.—Local Government Tax Revenues by State: Amount, Per Capita, Per \$1,000 of Personal Income, and as Percent of State and Local Tax Revenues, 1960

State	Local tax revenue					As a percent of State and local tax revenue
	Amount (\$'000,000)	Per capita ¹		Per \$1,000 of personal income ²		
		Amount	Rank	Amount	Rank	
Alabama.....	111.2	\$33.97	49	\$23.24	45	28.9
Alaska.....	9.5	41.67	44	15.10	49	26.0
Arizona.....	109.7	83.23	29	41.40	27	39.9
Arkansas.....	66.6	37.25	47	27.78	43	29.6
California.....	2,284.9	144.16	3	52.59	12	51.8
Colorado.....	213.8	121.62	8	52.41	14	52.6
Connecticut.....	304.6	119.54	10	41.75	25	56.1
Delaware.....	18.4	40.98	45	12.86	50	20.6
Florida.....	398.2	79.64	33	40.07	30	43.3
Georgia.....	189.9	48.09	39	29.91	39	34.0
Hawaii.....	27.7	43.15	43	19.21	48	18.2
Idaho.....	57.8	86.14	27	47.97	17	45.6
Illinois.....	1,247.3	123.34	6	47.20	20	59.9
Indiana.....	440.8	94.25	25	43.25	23	52.5
Iowa.....	301.5	109.20	16	54.51	11	53.1
Kansas.....	267.8	122.96	7	59.46	5	56.4
Kentucky.....	133.1	43.68	42	28.31	42	36.8
Louisiana.....	163.6	50.03	37	31.19	38	26.5
Maine.....	101.5	104.21	20	54.84	10	53.9
Maryland.....	275.6	88.45	26	36.94	31	44.5
Massachusetts.....	716.9	138.75	4	55.08	9	59.3
Michigan.....	787.5	100.34	22	43.21	24	46.3
Minnesota.....	390.9	114.10	12	55.56	7	52.6
Mississippi.....	89.0	40.83	46	34.81	34	31.4
Missouri.....	345.9	79.87	31	36.33	32	52.5
Montana.....	83.8	123.60	5	61.26	3	56.4
Nebraska.....	154.6	109.34	15	51.74	15	62.9
Nevada.....	33.8	117.36	11	41.27	28	42.9
New Hampshire.....	66.3	108.87	17	52.49	13	61.4
New Jersey.....	896.6	147.01	2	55.16	8	71.1
New Mexico.....	44.1	46.03	41	25.49	44	26.4
New York.....	2,877.5	171.00	1	61.32	2	59.5
North Carolina.....	165.3	36.23	48	23.01	46	26.5
North Dakota.....	64.9	102.37	21	58.79	6	51.6
Ohio.....	926.3	95.11	24	40.67	29	51.5
Oklahoma.....	137.7	59.02	36	31.93	36	33.3
Oregon.....	190.5	107.45	19	47.57	18	47.8
Pennsylvania.....	930.6	82.04	30	36.21	33	47.4
Rhode Island.....	83.2	97.08	23	43.58	22	49.1
South Carolina.....	73.8	30.85	50	22.09	47	23.9
South Dakota.....	82.1	120.38	9	65.37	1	60.8
Tennessee.....	176.0	49.26	38	31.87	37	36.6
Texas.....	768.0	79.86	32	41.50	26	49.2
Utah.....	76.0	84.82	28	44.42	21	43.1
Vermont.....	43.5	111.25	13	59.83	4	50.0
Virginia.....	240.9	60.56	35	32.77	35	45.2
Washington.....	191.4	66.92	34	28.89	40	29.3
West Virginia.....	89.2	48.03	40	28.69	41	33.1
Wisconsin.....	428.6	108.12	18	49.81	16	50.1
Wyoming.....	36.7	110.54	14	47.35	19	46.9
Total.....	17,915.6	99.97	.....	45.05	.....	49.8

¹ Based on provisional estimates of population (exclusive of Armed Forces overseas) as of July 1, 1960.

² Based on personal income estimates reported in U.S. Department of Commerce, *Survey of Current Business*, August 1960.

TABLE 20.—*Local Tax Collections as Percent of State-Local Tax Collections: Frequency Distribution of States, 1960*

Under 30 percent	30 to 40 percent	40 to 50 percent	50 to 60 percent	Over 60 percent
Hawaii..... 18.2	Mississippi..... 31.4	Nevada..... 42.9	Vermont..... 50.0	South Dakota.. 60.8
Delaware..... 20.6	West Virginia.. 33.1	Utah..... 43.1	Wisconsin..... 50.1	New Hampshire 61.4
South Carolina.. 23.9	Oklahoma..... 33.3	Florida..... 43.3	Ohio..... 51.5	Nebraska..... 62.9
Alaska..... 26.0	Georgia..... 34.0	Maryland..... 44.5	North Dakota.. 51.6	New Jersey..... 71.1
New Mexico.... 26.4	Tennessee..... 36.6	Virginia..... 45.2	California..... 51.8	
Louisiana..... 26.5	Kentucky..... 36.8	Idaho..... 45.6	Indiana..... 52.5	
North Carolina. 26.5	Arizona..... 39.9	Michigan..... 46.3	Missouri..... 52.5	
Alabama..... 28.9		Wyoming..... 46.9	Colorado..... 52.6	
Washington..... 29.3		Pennsylvania... 47.4	Minnesota..... 52.6	
Arkansas..... 29.6		Oregon..... 47.8	Iowa..... 53.1	
		Rhode Island.. 49.1	Maine..... 53.9	
		Texas..... 49.2	Connecticut... 56.1	
			Kansas..... 56.4	
			Montana..... 56.4	
			Massachusetts.. 59.3	
			New York..... 59.5	
			Illinois..... 59.9	
Number of States.....10	7	12	17	4

factors contributed to this performance, including new construction, higher property values, improved tax administration, increased tax rates, and of course, public insistence on more adequate financing of certain programs, notably public education.

As a percentage of all local taxes, the property tax accounted for 97 percent during the 1920's and until 1934, after which it declined gradually to 88 percent, where it has remained for 10 or more years. In 1960, it supplied 87.4 percent of local tax revenues, 58 percent of local revenues from their own sources, and 48 percent of all local general revenues (table 21).

The postwar years have witnessed a quest for nonproperty tax sources by local governments and an effort to escape from exclusive dependence on property taxes.

This continues a general trend discernible since the 1920's.

The pressure for nonproperty tax revenues has been particularly strong in States where the property tax base is shared by more than two overlapping jurisdictions, as for example, by cities, counties, and school districts. In these cases the pressure has come in the jurisdictions with greater tax autonomy, mainly the cities. The single-purpose jurisdictions, notably school districts, typically rely almost wholly on the property tax. This has obliged cities serving the same taxpayers to look to other taxes and to nontax revenue sources.

The reluctance to leave the entire burden of rising local tax revenue requirements on property is motivated by various considerations. Doubtless the appeal of tax diversifi-

TABLE 21.—*Property Taxes in Local General Revenues: Selected Years, 1927-60*

	1927	1940	1948	1950	1960
Property tax revenue as a percent of—					
Total tax revenue.....	97.3	92.7	88.6	88.2	87.4
Revenue from local sources.....	76.1	72.0	60.5	60.3	58.2
Total general revenue.....	73.9	60.1	51.4	50.2	48.1

cation for its own sake is one of them. Another is the tendency to judge tax rates in terms of earlier years' levels and to confuse the contribution of tax rate changes to the increases in property tax bills with that of higher property values reflected in higher assessed valuations. The consideration of tax equity also plays a part. The base of the property tax consists largely of only one form of wealth, real property. It burdens these property owners regardless of their income status, as for example, retired homeowners with reduced incomes, and leaves untouched those with large amounts of wealth in other forms.

Political resistance to property tax increases stems also from concern with its effect on location of businesses. Business property frequently accounts for half or more of the property tax base and repeated expressions of fear that high property taxes will deter new business have a restraining influence on local governing bodies. A related factor is public dissatisfaction with the administrative shortcoming of the tax. Recent widespread efforts to improve tax assessment procedures—some locally, some prescribed by State legislatures—have not yet enhanced the national reputation of the tax.

Efforts since World War II to develop nonproperty tax sources have had a significant cumulative impact on the tax revenues of the larger urban jurisdictions, but their effect on aggregate local revenues has not been striking. In spite of a 15-fold increase in local taxes and continued searching for new forms of revenue, the great bulk of locally levied tax revenues comes from the same source as a half century ago.

The role of the property tax varies among categories of local government. In the last *Census of Governments* year (1957), prop-

erty taxes constituted 100 percent of total taxes for special districts, 99 percent for school districts, 94 percent for townships, 94 percent for counties, and 73 percent for municipalities. The decline in dependence on property taxes has been more marked in cities than in other local governments, from 77 percent in 1950 to 73 percent in 1960 (table 22). In the 5 cities with more than 1,000,000 population, the property tax supplied only 63 percent of tax revenues in 1960.

There is considerable variation among the States in the extent to which local governments tap tax sources other than property. In nine States, over half in New England, nonproperty taxes contribute less than 2 percent of all local tax revenues. The percentage is high in some Southern States because their local governments make wide use of license taxes. In New York and Pennsylvania special circumstances prevail, as we shall note later. Interstate variations in the role of nonproperty taxes are affected also by the degree to which States share their taxing powers with their local subdivisions. Comparative data are presented in tables 23 and 24.

Local Nonproperty Taxes

The headline story in local financing for well nigh a quarter century has been the advent of local nonproperty taxes, chiefly levies on sales, income, and utility services. Their appearance has centered in the larger urban places in about half of the States, scattered thinly in most, thickly in few. Most came on the scene in an atmosphere of fiscal crisis, first to meet depression generated relief needs, later to finance burgeoning postwar requirements. Espoused with enthusiasm in many communities which employ them, these local taxes have failed to

TABLE 22.—City Government Tax Collections, 1950–60

Year	Total tax collections	Property taxes	Nonproperty taxes				
			Total	Sales and gross receipts			Licenses and other
				Total	General	Selective	
Amount (\$000,000)							
1950 ¹	3,628	2,792	837	456	n.a.	n.a.	381
1951 ¹	3,856	2,948	908	513	n.a.	n.a.	395
1952.....	4,183	3,144	1,038	598	360	239	440
1953.....	4,552	3,375	1,177	685	418	267	492
1954.....	4,796	3,585	1,211	659	389	270	552
1955.....	5,100	3,767	1,334	728	433	295	606
1956.....	5,447	3,986	1,460	833	521	313	627
1957.....	5,908	4,297	1,610	934	602	332	676
1958.....	6,242	4,570	1,672	972	628	343	700
1959.....	6,596	4,823	1,773	1,041	676	365	732
1960.....	7,109	5,197	1,912	1,217	797	420	² 695
Percentage distribution							
1950.....	100.0	77.0	23.1	12.6	n.a.	n.a.	10.5
1951.....	100.0	76.5	23.5	13.3	n.a.	n.a.	10.2
1952.....	100.0	75.2	24.8	14.3	8.6	5.7	10.5
1953.....	100.0	74.1	25.9	15.0	9.2	5.9	10.8
1954.....	100.0	74.7	25.3	13.7	8.1	5.6	11.5
1955.....	100.0	73.9	26.2	14.3	8.5	5.8	11.9
1956.....	100.0	73.2	26.8	15.3	9.6	5.7	11.5
1957.....	100.0	72.7	27.3	15.8	10.2	5.6	11.4
1958.....	100.0	73.2	26.8	15.6	10.1	5.5	11.2
1959.....	100.0	73.1	26.9	15.8	10.2	5.5	11.1
1960.....	100.0	73.1	26.9	17.1	11.2	5.9	9.8

n.a. = Not available.

¹ Partially estimated (cities with less than 25,000 inhabitants).

² Not entirely comparable with back-year amounts, due to change in classification.

TABLE 23.—Local Nonproperty Taxes as Percent of Total Local Taxes: Frequency Distribution of States, 1960

Under 5 percent	5 to 10 percent	10 to 15 percent	15 to 20 percent	20 percent or more
Indiana..... .6	Montana..... .5.5	Maryland..... .10.2	Washington..... .16.8	Virginia..... .21.4
Maine..... .6	South Dakota..... .6.0	West Virginia..... .11.1	Kentucky..... .16.9	Louisiana..... .21.9
Connecticut..... .7	Wyoming..... .6.0	Tennessee..... .11.6	Mississippi..... .17.2	Nevada..... .22.2
New Hampshire..... .9	Arkansas..... .6.6	Georgia..... .11.7	Missouri..... .18.2	New York..... .23.0
Michigan..... .1.3	Texas..... .6.8	Illinois..... .12.0	Florida..... .18.9	New Mexico..... .24.3
Iowa..... .1.5	Colorado..... .7.1	California..... .13.0		Pennsylvania..... .25.9
Massachusetts..... .1.5	Utah..... .7.4			Hawaii..... .27.1
Wisconsin..... .1.7	Delaware..... .7.6			Alaska..... .29.5
Rhode Island..... .1.9	Nebraska..... .7.7			Alabama..... .43.7
North Dakota..... .2.3	South Carolina..... .8.4			
Idaho..... .2.4	New Jersey..... .9.0			
Kansas..... .2.5	Arizona..... .9.4			
Minnesota..... .2.8	Ohio..... .9.9			
Vermont..... .3.2				
Oregon..... .3.5				
North Carolina..... .3.8				
Oklahoma..... .4.2				
Number of States... 17	13	6	5	9

TABLE 24.—Tax Collections of Local Governments, by State, 1960

[Dollar amounts in millions]

State	Taxes			Nonproperty as a percent of total taxes
	Total	Property	Nonproperty	
Alabama.....	\$111.2	\$62.6	\$48.6	43.7
Alaska.....	9.5	6.7	2.8	29.5
Arizona.....	109.7	99.4	10.3	9.4
Arkansas.....	66.6	62.2	4.4	6.6
California.....	2,284.9	1,988.5	296.4	13.0
Colorado.....	213.8	198.6	15.2	7.1
Connecticut.....	304.6	302.4	2.2	.7
Delaware.....	18.4	17.0	1.4	7.6
Florida.....	398.2	322.9	75.3	18.9
Georgia.....	189.9	167.6	22.3	11.7
Hawaii.....	27.7	20.2	7.5	27.1
Idaho.....	57.8	56.4	1.4	2.4
Illinois.....	1,247.3	1,097.4	149.9	12.0
Indiana.....	440.8	438.1	2.7	.6
Iowa.....	301.5	296.9	4.6	1.5
Kansas.....	267.8	261.1	6.7	2.5
Kentucky.....	133.1	110.6	22.5	16.9
Louisiana.....	163.6	127.8	35.8	21.9
Maine.....	101.5	100.9	.6	.6
Maryland.....	275.6	247.6	28.0	10.2
Massachusetts.....	716.9	706.3	10.6	1.5
Michigan.....	787.5	777.4	10.1	1.3
Minnesota.....	390.9	379.9	11.0	2.8
Mississippi.....	89.0	73.7	15.3	17.2
Missouri.....	345.9	283.0	62.9	18.2
Montana.....	83.8	79.2	4.6	5.5
Nebraska.....	154.6	142.7	11.9	7.7
Nevada.....	33.8	26.3	7.5	22.2
New Hampshire.....	66.3	65.7	.6	.9
New Jersey.....	896.6	815.2	81.4	9.0
New Mexico.....	44.1	33.4	10.7	24.3
New York.....	2,877.5	2,214.5	663.0	23.0
North Carolina.....	165.3	159.1	6.2	3.8
North Dakota.....	64.9	63.4	1.5	2.3
Ohio.....	926.3	834.6	91.7	9.9
Oklahoma.....	137.7	131.9	5.8	4.2
Oregon.....	190.5	183.8	6.7	3.5
Pennsylvania.....	930.6	689.5	241.1	25.9
Rhode Island.....	83.2	81.6	1.6	1.9
South Carolina.....	73.8	67.6	6.2	8.4
South Dakota.....	82.1	77.2	4.9	6.0
Tennessee.....	176.0	155.5	20.5	11.6
Texas.....	768.0	715.6	52.4	6.8
Utah.....	76.0	70.4	5.6	7.4
Vermont.....	43.5	42.1	1.4	3.2
Virginia.....	240.9	189.3	51.6	21.4
Washington.....	191.4	159.3	32.1	16.8
West Virginia.....	89.2	79.3	9.9	11.1
Wisconsin.....	428.6	421.3	7.3	1.7
Wyoming.....	36.7	34.5	2.2	6.0
Total.....	17,915.6	15,738.1	2,177.5	12.2

generate anything resembling a national movement. They supplied 12 percent of local governments' tax collections in 1950 and 13 percent in 1960. To have kept their relative position during a decade when the total local tax take more than doubled was a fair performance, but not more than that.

Historical development. Local non-property taxes came to national notice with the adoption of retail sales taxes by New York City in 1934 and New Orleans in 1938, and the income tax by Philadelphia in 1939. (The District of Columbia's income tax, excluded from these local government statistics, was also enacted in 1939.) These enactments were based on enabling legislation limited to the particular cities. Five California cities resorted to sales taxes in 1945-46 under home rule and general law powers (after the State reduced its 3 percent rate to 2½ percent) and were followed by other California cities in rapid succession. About the same time (1946), Toledo adopted an income tax under Ohio's broad home rule provisions and other cities within the State soon followed suit.

Broad permissive legislation sanctioning wide-scale use of nonproperty taxes by local jurisdiction came after the war (1947), notably in New York and Pennsylvania. In that year New York authorized its counties and cities to tax retail sales, restaurant and bar receipts, utility services, alcoholic beverages, admissions, passenger motor vehicles, gross receipts of business, and hotel rooms. Also in 1947, Pennsylvania authorized its cities, boroughs, townships, and school districts to "tax anything not taxed by the State."

The extensive use of local sales taxes along with State-imposed sales taxes in several

States prompted suggestions for State administration of the local taxes. A proposal to this effect was first agitated in California in 1949, but was there not adopted until 1955. It had been meanwhile adopted in Mississippi in 1950. In 1955 Illinois' legislature authorized its cities to add their levies to the State's sales tax. These statewide developments were accompanied by non-property tax enactments in individual cities in various States. The impact of this development on the revenue structure of local governments is summarized historically in table 25.

Before the depression of the 1930's, non-property taxes supplied only 3 percent of the tax revenues of local governments. As a result of depression-time enactments, their share increased to 7 percent by the war years. Postwar enactments raised the percentage to around 13 percent by the early 1950's, where it has remained. During the 1950's the aggregate contribution of these taxes increased from less than \$1 billion to \$2.3 billion, the increase being accounted for largely by consumer taxes. Income taxes represent only about one-ninth of total nonproperty tax collections.

The local nonproperty tax development, while moderate in terms of national aggregates, has had a significant cumulative impact on local tax revenues in some States and on the tax revenues of the larger urban places.

The contribution of these taxes to local tax revenues by States in 1960 was summarized in table 23. The range is wide from less than 1 percent in four States to 44 percent in Alabama. In one-third of the States, nonproperty taxes produce less than

TABLE 25.—Local Tax Collections, by Major Source, Selected Years, 1927–60

Fiscal year	Amount of collections (\$000,000)						Percentage distribution of collections					
	Total	Property taxes	Nonproperty taxes				Total	Property taxes	Nonproperty taxes			
			Total	Sales and gross receipts	Income taxes	All other taxes			Total	Sales and gross receipts	Income taxes	All other taxes
1927.....	4, 479	4, 360	119	25	.....	94	100	97	3	1	.....	2
1932.....	4, 274	4, 159	115	26	.....	89	100	97	3	1	.....	2
1934.....	3, 933	3, 803	130	30	.....	100	100	97	3	1	.....	3
1936.....	4, 083	3, 865	218	90	.....	128	100	95	5	2	.....	3
1938.....	4, 473	4, 196	277	120	.....	157	100	94	6	3	.....	4
1940.....	4, 497	4, 170	327	130	19	178	100	93	7	3	(*)	4
1942.....	4, 625	4, 273	352	133	30	189	100	92	8	3	1	4
1944.....	4, 703	4, 361	342	136	31	175	100	93	7	3	1	4
1946.....	5, 157	4, 737	420	183	38	199	100	92	8	4	1	4
1948.....	6, 599	5, 850	749	400	51	298	100	89	11	6	1	5
1950.....	7, 984	7, 042	942	484	71	387	100	88	12	6	1	5
1952.....	9, 466	8, 282	1, 185	627	93	465	100	87	13	7	1	5
1953.....	10, 356	9, 010	1, 345	718	103	523	100	87	13	7	1	5
1954.....	10, 978	9, 577	1, 401	703	129	569	100	87	13	6	1	5
1955.....	11, 886	10, 323	1, 563	779	150	634	100	87	13	7	1	5
1956.....	12, 992	11, 282	1, 710	889	164	657	100	87	13	7	1	5
1957.....	14, 286	12, 385	1, 901	1, 031	191	679	100	87	13	7	1	5
1958.....	15, 461	13, 514	1, 946	1, 079	215	652	100	87	13	7	1	4
1959.....	16, 531	14, 417	2, 114	1, 150	230	734	100	87	13	7	1	4
1960.....	18, 081	15, 798	2, 283	1, 339	254	692	100	87	13	7	1	4

*Less than 0.5 percent.

5 percent of local tax revenues. Their contribution exceeds 20 percent in only nine States and 25 percent in only four. Some of the relatively high percentages reflect relatively low property taxes as much as high nonproperty taxes.

Apart from local license taxes, which are widespread mostly in the Southern States, and income and sales taxes in a few States, the nonproperty tax is principally a large city phenomenon. The detail on city revenues, classified by size of city, shown in table 26, leaves little doubt on this point. In 1960, when per capita local nonproperty tax revenues in the Nation averaged less than \$13, the average for cities with a population in excess of 1 million was \$49 and dropped quickly as the size of the city declined. For cities under 25,000 popula-

tion, it averaged only \$6 per capita, and half of this was composed of the miscellaneous category, chiefly business license taxes.

The relative role of nonproperty taxes in the total tax revenue of cities reveals a similar but less marked differentiation among cities of varying size. In 1960, these taxes supplied 26.9 percent of all city tax revenues. For cities of 1 million and over, the percentage was 37.2 percent and dropped to 26.6 percent for the next population size (½ million to 1 million). For all cities under 200,000, the corresponding percentages were below 20 percent except in the smallest size groups where licenses are relatively large contributors.

The role of nonproperty taxes in the 1960 tax revenues of the 50 largest cities which had a 1960 population of 250,000 or more

TABLE 26.—Tax Revenues of Cities, by Population Size Class, 1960

Item	Cities having a 1960 population of—								
	Total	1,000,000 or more	500,000 to 999,999	300,000 to 499,999	200,000 to 299,999	100,000 to 199,999	50,000 to 99,999	25,000 to 49,999	Less than 25,000
	Total (\$'000,000)								
Taxes:									
Property taxes.....	5,197	1,444	760	369	206	487	600	487	844
Nonproperty taxes.....	1,912	857	275	133	71	94	128	114	239
General sales and gross receipts....	797	542	57	21	16	30	36	34	60
Selective sales and gross receipts....	420	121	86	43	29	25	32	32	51
Other taxes, including licenses.....	695	193	132	69	26	39	60	48	128
Total.....	7,109	2,301	1,035	502	277	581	729	600	1,083
	Per capita (dollars)								
Taxes:									
Property taxes.....	44.80	82.60	65.44	44.54	48.31	52.30	47.98	38.37	21.18
Nonproperty taxes.....	16.48	49.00	23.70	16.12	16.68	10.11	10.29	8.91	6.00
General sales and gross receipts....	6.87	31.03	4.89	2.55	3.75	3.26	2.92	2.66	1.50
Selective sales and gross receipts....	3.62	6.95	7.44	5.22	6.75	2.70	2.59	2.50	1.28
Other taxes, including licenses.....	5.99	11.02	11.37	8.35	6.18	4.15	4.78	3.75	3.22
Total.....	61.28	131.60	89.13	60.67	64.99	62.41	58.27	47.28	27.19
	Percentage Distribution								
Taxes:									
Property taxes.....	73.1	62.8	73.4	73.5	74.4	83.8	82.3	81.2	77.9
Nonproperty taxes.....	26.9	37.2	26.6	26.5	25.6	16.2	17.6	19.0	22.1
General sales and gross receipts....	11.2	23.6	5.5	4.2	5.8	5.2	4.9	5.7	5.5
Selective sales and gross receipts....	5.9	5.3	8.3	8.6	10.5	4.3	4.4	5.3	4.7
Other taxes, including licenses.....	9.8	8.4	12.8	13.7	9.4	6.7	8.2	8.0	11.8
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

are shown in table 27. Philadelphia, St. Louis, New Orleans, Columbus, Louisville, and Toledo each obtained half or more of their tax revenues from nonproperty taxes.

These taxes are important revenue producers for four of the cities with population in excess of 1 million. Detroit is the conspicuous exception. (In Michigan, State aid is the important supplement to local property taxes.) The uniformity is less apparent among the smaller cities. There are striking variations even among cities

within the same State. While Cincinnati raised 48.3 percent, Columbus 74.9 percent, Toledo 62.5 percent, and Dayton 49.7 percent from these sources, the percentage for Cleveland was only 4.3 percent and for Akron 4.9 percent. The percentages for San Francisco and Los Angeles were 18.5 percent and 44.7 percent, respectively; for Pittsburgh and Philadelphia, 25.5 percent and 53.4 percent, respectively. In some States, however, the large cities made approximately equal use of these sources:

TABLE 27.—Tax Collections of the 50 Largest Cities, 1960¹

[Dollar amounts in thousands]

City	Taxes			Nonproperty as a percent of total taxes
	Total	Property	Nonproperty	
Cities having more than 1,000,000 inhabitants in 1960				
New York.....	\$1,594,215	\$1,004,042	\$590,173	37.0
Chicago.....	246,770	148,153	98,617	40.0
Los Angeles.....	152,032	84,070	67,962	44.7
Philadelphia.....	181,408	84,493	96,915	53.4
Detroit.....	126,438	123,376	3,062	2.4
Total.....	2,300,863	1,444,134	856,729	37.2
Cities having 500,000 to 1,000,000 inhabitants in 1960 ¹				
Baltimore.....	\$118,872	\$104,034	\$14,838	12.5
Houston.....	49,705	43,835	5,870	11.8
Cleveland.....	48,163	46,108	2,055	4.3
St. Louis.....	65,204	29,934	35,270	54.1
San Francisco.....	102,608	83,674	18,934	18.5
Milwaukee.....	45,279	43,346	1,933	4.3
Boston.....	146,868	144,087	2,781	1.9
Dallas.....	39,039	33,846	5,193	13.3
New Orleans.....	31,528	14,475	17,053	54.1
Pittsburgh.....	40,692	30,301	10,391	25.5
San Antonio.....	16,701	15,658	1,043	6.2
San Diego.....	24,668	14,084	10,584	42.9
Seattle.....	25,184	14,304	10,880	43.2
Buffalo.....	50,824	46,586	4,238	8.3
Cincinnati.....	38,660	19,983	18,677	48.3
Honolulu.....	25,847	16,280	9,567	37.0
Total.....	869,842	700,535	169,307	19.5
Cities having 250,000 to 500,000 inhabitants in 1960				
Memphis.....	\$28,236	\$21,366	\$6,870	24.3
Denver.....	34,660	24,445	10,215	29.5
Atlanta.....	20,512	13,177	7,335	35.8
Minneapolis.....	32,787	30,000	2,787	8.5
Indianapolis.....	24,916	24,677	239	1.0
Kansas City, Mo.....	27,564	14,007	13,557	49.2
Columbus.....	17,949	4,506	13,443	74.9
Phoenix.....	13,024	7,789	5,235	40.2
Newark.....	72,437	63,534	8,903	12.3
Louisville.....	22,485	9,856	12,629	56.2
Portland, Oreg.....	19,317	15,268	4,049	21.0
Oakland.....	26,531	17,780	8,751	33.0
Fort Worth.....	14,123	12,947	1,176	8.3
Long Beach.....	15,971	9,322	6,649	41.6
Birmingham.....	10,779	5,602	5,177	48.0
Oklahoma City.....	7,498	5,904	1,594	21.3
Rochester.....	31,587	30,438	1,149	3.6
Toledo.....	15,057	5,653	9,404	62.5
St. Paul.....	31,079	28,116	2,963	9.5
Norfolk.....	23,826	14,944	8,882	37.3
Omaha.....	12,103	9,533	2,570	21.2
Miami.....	25,507	17,492	8,015	31.4
Akron.....	10,188	9,684	504	4.9

¹ Excludes Washington, D.C., which derived 64.1 percent of its tax revenue from nonproperty tax sources in 1960.

TABLE 27.—Tax Collections of the 50 Largest Cities, 1960¹—Continued

[Dollar amounts in thousands]

City	Taxes			Nonproperty as a percent of total taxes
	Total	Property	Nonproperty	
Cities having 250,000 to 500,000 inhabitants in 1960				
El Paso.....	\$12,477	\$11,059	\$1,418	11.4
Jersey City.....	40,779	37,062	3,717	9.1
Tampa.....	13,804	7,447	6,357	46.1
Dayton.....	16,906	8,499	8,407	49.7
Tulsa.....	6,716	5,496	1,220	18.2
Wichita, Kans.....	9,603	8,304	1,299	13.5
Total.....	638,421	473,907	164,514	25.8
Total 50 Cities.....	3,809,126	2,618,576	1,190,550	31.3

¹ Excludes Washington, D.C., which derived 64.1 percent of its tax revenue from nonproperty tax sources in 1960.

Minneapolis and St. Paul, 8.5 percent and 9.5 percent; Kansas City and St. Louis, 49.2 percent and 54.1 percent.

The comparability of tax collection statistics for cities is somewhat impaired by the differences in the division of tax-raising activities between cities and overlapping local jurisdictions. The data for county areas presented in table 28 are free of this

limitation for they include taxes collected by all local governments within the county area. These data, available for only the year 1957, underscore the urban character of local nonproperty taxes. The populous counties, it will be remembered, are generally those containing large cities. In a general way, per capita nonproperty tax revenues increase with population size.

TABLE 28.—Countywide Per Capita Nonproperty Tax Revenues of All Local Governments, by 1960 Population Size Class, by State, 1957

State	State-wide	Counties having a 1960 population of—									Median county
		Under 5,000	5,000 to 9,999	10,000 to 14,999	15,000 to 19,999	20,000 to 24,999	25,000 to 49,999	50,000 to 99,999	100,000 to 249,999	250,000 or more	
Alabama.....	11.56			4.36	4.08	5.20	7.18	13.85	16.50	16.59	6.45
Arizona.....	5.17		2.13	2.78			5.31	1.72		5.74	2.88
Arkansas.....	3.50	2.10	1.22	1.68	2.38	2.59	3.81	4.37	6.71		2.46
California.....	15.37	7.66	7.75	9.27	6.90	2.67	6.20	8.82	11.30	16.58	10.30
Colorado.....	8.46	2.69	2.49	3.61	3.74	4.04		4.22	4.49	19.34	3.46
Connecticut.....	1.38							1.02	.92	1.49	1.21
Delaware.....	1.85							2.36		1.62	2.59
Florida.....	14.50	6.14	4.43	6.58	9.07	12.56	8.82	10.38	14.05	17.46	7.62
Georgia.....	5.32	1.07	2.20	2.66	2.75	3.30	4.46	5.41	8.32	8.69	2.40
Iaho.....	2.55	1.87	1.88	1.55	2.10	3.00	3.34	2.48			2.10
Illinois.....	15.12	2.39	3.46	4.20	5.81	5.13	6.79	7.48	8.60	20.57	6.24
Indiana.....	1.39	.24	.40	.65	1.09	1.28	1.25	1.49	1.36	1.69	1.41
Iowa.....	2.34		1.80	1.48	1.54	1.73	2.16	3.33	3.06	4.06	1.46
Kansas.....	3.50	1.96	1.71	1.93	2.70	2.59	3.25	4.34	4.25	6.14	1.77
Kentucky.....	7.07	.37	1.33	1.78	2.23	2.02	2.90	4.77	11.29	21.88	2.23
Louisiana.....	9.38		1.04	1.49	2.18	1.35	3.11	3.36	10.88	24.08	2.80
Maine.....	1.26				.63	.71	1.17	1.32	1.41		.66
Maryland.....	8.21				3.82	6.34	2.80	3.83	4.76	10.19	4.33
Massachusetts.....	2.83	5.93	6.41					3.41	2.84	2.81	2.52
Michigan.....	1.95	1.34	.87	1.24	1.18	1.18	1.87	1.38	1.71	2.28	1.43
Minnesota.....	3.60	1.56	1.15	1.34	1.55	1.69	2.94	2.80	3.30	5.84	4.87
Mississippi.....	5.93	3.50	4.52	3.57	3.71	3.54	5.59	8.58	10.57		3.48
Missouri.....	12.31	1.05	1.04	1.56	3.13	3.06	4.26	6.75	10.16	21.57	3.10
Montana.....	9.29	7.08	7.57	6.93	7.65		7.51	8.02			8.78
Nebraska.....	7.68	6.70	5.85	7.37	8.01	8.96	7.21		8.39	9.47	7.96

TABLE 28.—Countywide Per Capita Nonproperty Tax Revenues of All Local Governments, by 1960 Population Size Class, by State, 1957—Continued

State	State-wide	Counties having a 1960 population of—									Median county
		Under 5,000	5,000 to 9,999	10,000 to 14,999	15,000 to 19,999	20,000 to 24,999	25,000 to 49,999	50,000 to 99,999	100,000 to 249,999	250,000 or more	
Nevada.....	21.94	17.33	9.95	15.46				26.66	24.84		11.92
New Hampshire.....	1.99				2.71		2.03	1.70	2.13		2.16
New Jersey.....	13.76						15.87	13.06	15.92	13.38	11.38
New Mexico.....	8.64	7.79	5.44	4.50	3.53	3.16	6.86	6.96		16.82	5.14
New York.....	31.51	4.03			1.36	1.33	1.85	3.01	5.18	39.13	2.69
North Carolina.....	1.57	.42	.65	.52	.74	.50	1.03	1.59	2.24	3.08	.60
North Dakota.....	2.79	2.36	1.88	3.12	2.49	3.62	3.09	3.86			2.21
Ohio.....	8.76			3.40	2.32	2.67	3.53	3.13	5.17	12.87	2.88
Oklahoma.....	2.43	.66	.52	.99	1.29	1.45	1.88	2.63		4.15	1.46
Oregon.....	4.33	1.22	1.58	1.85	3.50	2.79	3.25	2.35	2.36	8.43	3.05
Pennsylvania.....	18.08	6.93	9.01	6.84	7.34		7.53	7.67	11.50	24.02	10.35
Rhode Island.....	2.39						2.27	2.97	2.54	2.24	2.54
South Carolina.....	2.47		1.35	1.00	1.58	1.29	1.73	2.23	3.69		1.38
South Dakota.....	8.04	9.38	6.02	7.82	14.98	6.42	8.62	7.99			5.97
Tennessee.....	5.34	.77	1.62	1.65	1.96	3.24	2.86	4.24	9.55	8.15	2.51
Texas.....	5.69	12.54	9.22	8.15	8.13	6.72	7.02	5.32	4.04	4.51	8.42
Utah.....	3.37	1.83	2.64	2.08	1.90	2.88	2.03	1.08	3.00	4.65	2.50
Vermont.....	2.94	3.26	2.94	3.41	2.21	2.25	2.93	3.65			3.16
Virginia.....	9.86	5.30	5.14	5.76	7.81	3.96	3.94	13.96	16.56	14.45	1.83
Washington.....	11.01	3.02	5.14	4.25	3.96	5.94	5.83	8.47	7.41	14.48	8.76
West Virginia.....	4.99	.65	1.21	.68	2.01	1.12	2.36	5.53	15.52	9.24	2.70
Wisconsin.....	2.76	1.42	2.51	2.39	2.08	2.27	2.42	2.26	2.28	4.08	2.44
Wyoming.....	6.31	4.38	4.58	6.21	5.96	8.78	7.20	7.23			8.18

Generally also, per capita collections in the most populous counties exceed the statewide average by a substantial margin.

Types of nonproperty taxes. Local governments employ a variety of nonproperty taxes. The most detailed classification available pertains to 1957 collections (table 29). Apart from general sales and income taxes, some use is made of selective excise taxes. Of these, only public utility levies produce significant amounts. In 1957 the local gasoline, liquor, tobacco, amusement, and insurance taxes each produced less than \$50 million in the aggregate; most substantially less. This excludes the profits of proprietary enterprises such as liquor stores and public utilities which are closely akin to consumer taxes. The development of these taxes at the local level is sketched, where relevant, in the chapters which follow.

TABLE 29.—Tax Revenues of Local Governments, by Type of Tax, 1957

Type of tax	Amount (\$000,000)	Percent
Property.....	12,385	86.7
Sales and gross receipts.....	1,031	7.2
General.....	656	4.6
Selective.....	376	2.6
Motor fuels.....	26	.2
Alcoholic beverages.....	21	.1
Tobacco products.....	46	.3
Insurance.....	11	.1
Public utilities.....	225	1.6
Amusements.....	26	.2
Other and unallocable.....	21	.1
Income taxes.....	191	1.3
Death taxes.....	11	.1
Motor vehicle and operators licenses.....	96	.7
Alcoholic beverage licenses.....	47	.3
Building and equipment permits.....	68	.5
Parking meter charges (on-street).....	105	.7
Other licenses.....	254	1.8
Other taxes.....	98	.7
Total tax revenue.....	14,286	100.0

PART II



Chapter 6

INDIVIDUAL INCOME TAXES

Taxation of individual incomes began at approximately the same time at the Federal and State levels. Most of the States, however, entered the field a decade or more after the adoption of the Federal income tax. At the present time, 34 States and the District of Columbia impose individual net income taxes. New Hampshire and Tennessee limit their taxes to income from intangibles. Indiana's gross income tax is treated in this study in the general sales tax section.

Local income taxes are largely a post-World War II phenomenon. They are now levied by cities or other local units in five States. These are imposed at low, flat rates and differ in basic characteristics from the Federal and State taxes.

The Federal Tax

For some years the income tax has been the most important single source of Federal revenue. During fiscal year 1961, Federal individual income tax collections amounted to about \$41 billion (net of refunds) and accounted for 53 percent of total Federal tax revenues (exclusive of employment taxes). In 1939, this source accounted for about one-fifth of total tax revenue. The number of returns filed increased from less than 7 million in 1939 to more than 61 million in 1960. This growth resulted from an increase in the number of personal incomes, income recipients and the level of incomes, and from higher rates and lower exemptions.

The personal income tax, enacted upon ratification of the 16th amendment in 1913, consisted of a 1-percent normal tax from which corporation dividends were exempt and of a surtax at rates ranging from 1 to 6 percent. In addition to many structural changes since 1913, the individual income tax has undergone numerous changes in rates and exemptions. World War I brought rate increases and a decline in exemptions. Immediately thereafter taxes were reduced. Between 1919 and 1928 personal income taxes were reduced seven times. This trend was reversed during the 1930's. Exemptions were lowered in 1932 and rates were raised in 1932, 1934, and 1935.

Defense and war financing during World War II resulted in a series of sharp increases, reaching a peak in 1944. The wartime taxes were reduced first in 1945 and again in 1948. However, as a result of increased defense requirements following the beginning of hostilities in Korea, rates were increased by the 1950 and 1951 revenue acts. These acts left the \$600 per capita exemption unchanged. An additional exemption of \$600 is allowed for persons over 65 years of age and for the blind.

Under the Revenue Act of 1951, the tax rates were temporarily increased, and for 1952 and 1953 ranged from 22.2 percent on the first \$2,000 of taxable income to 92 percent on the amount of taxable income in excess of \$200,000. The total tax for an

individual was limited to 88 percent of net income. In 1954, in accordance with the provisions of the Revenue Act of 1951, the first-bracket rate reverted to 20 percent. The rates now range up to 91 percent, with a maximum effective rate limitation of 87 percent. Since 1954, there have been no changes in Federal income tax rates.

The State Taxes

In 1961, State individual income taxes produced \$2.4 billion and accounted for about 12 percent of State tax revenues (exclusive of unemployment compensation taxes). They provided about 6 percent of combined State and local tax revenues. This represented some increase since 1953, when they accounted for about 5 percent, and presumably is attributable to the rise in the level of personal income and to tax rate increases. More effective enforcement, notably the introduction of withholding at the source, has also been a factor. Significantly, not a single new State individual income tax had been enacted in the 23 years prior to 1961 when West Virginia adopted this tax. More than one-third of the U.S. population is still free of income taxation in its home State. Significantly, also, these people are concentrated in the older industrial States: Connecticut, Illinois, Michigan, New Jersey, Ohio, and Pennsylvania.

Individual income taxes imposed by the States are similar to the Federal tax, but differ from it and from each other in structural detail, particularly the level of rates and exemptions. Like the Federal tax, all State individual income taxes grant personal exemptions (table 30). The exemption is generally stated as a deduction from income, but five States express the exemption in the form of a tax credit.

Under State income taxes, exemptions

for a single person, a married couple, or head of family are generally higher than the corresponding exemptions allowed under the Federal \$600 per capita system. In only four States, however, is the credit for a dependent higher than the \$600 Federal allowance. Thirteen States use the Federal \$600 per capita system.

The size distribution of personal exemptions and credit for dependents allowed by the States and the District of Columbia is shown below. For the five States which express the exemption in the form of a tax credit, the credits have been converted into their deduction equivalents (table 31).

With few exceptions, State income tax rates are graduated, but none approaches the highest rates of the Federal schedule. The highest State rate is 11 percent; in 20 States the rates are no higher than 7 percent, and 3 States have maximum rates of less than 5 percent. In the District of Columbia the maximum rate is 5 percent. Approximately two-thirds of the States terminate graduation at \$15,000 of taxable income or below; graduation extends beyond the \$25,000 level in only 4 States (table 32).

While income tax rates and exemptions vary, there is substantial structural similarity. In recent years, an increasing number of States have patterned their methods of tax computation after those used by the Federal Government since adoption of the tax simplification program in 1944. Most income tax States give their taxpayers the option of a standard deduction equal to a specified percentage of income instead of itemizing deductions. In addition, 19 States and the District of Columbia provide their lower income taxpayers with the option of using a tax table in lieu of computing their tax by deducting personal exemptions

TABLE 30.—State Individual Income Taxes, Personal Exemptions and Credits for Dependents

States	Personal exemption		Credit for dependents	Additional exemption on account of—	
	Single	Married (joint return)		Age	Blindness
Alabama.....	\$1, 500	\$3, 000	\$300		
Alaska.....	600	1, 200	600	¹ \$600	¹ \$600
Arizona.....	1, 000	2, 000	600		² 500
Arkansas ³	17. 50 (1, 750)	35 (3, 250)	6 (300)		
California.....	1, 500	3, 000	600		² 600
Colorado.....	750	1, 500	750	² 750	² 750
Delaware.....	600	1, 200	600	¹ 600	¹ 600
Georgia.....	1, 500	3, 000	600	² 600	² 600
Hawaii.....	600	1, 200	600		1 5, 000
Idaho.....	600	1, 200	600	¹ 600	¹ 600
Iowa ³	15 (1, 500)	30 (2, 333)	7. 50 (333)		
Kansas.....	600	1, 200	⁴ 600	² 600	² 600
Kentucky ³	20 (1, 000)	40 (2, 000)	20 (1, 000)	² 20(1, 000)	² 20(1, 000)
Louisiana ⁵	2, 500 (50)	5, 000 (100)	⁶ 400 (8)		
Maryland.....	800	1, 600	⁷ 800	¹ 800	¹ 800
Massachusetts ⁸	2, 000	2, 500-4, 000	400		¹ 2, 000
Minnesota ³	10 (833)	30 (1, 700)	15 (514)	(⁹)	(⁹)
Mississippi.....	5, 000	7, 000			
Missouri.....	1, 200	2, 400	400		
Montana.....	600	1, 200	¹⁰ 600	¹ 600	¹ 600
New Hampshire ¹¹	600	600			
New Mexico.....	1, 500	2, 500	200		
New York ¹²	600	1, 200	¹⁰ 600	² 600	² 600
North Carolina.....	1, 000	¹³ 2, 000	300		1, 000
North Dakota.....	600	1, 500	600	¹ 600	² 600
Oklahoma.....	1, 000	2, 000	500		
Oregon.....	600	1, 200	¹⁴ 600	(¹⁵)	¹⁵ 600
South Carolina.....	800	1, 600	¹⁶ 800	¹ 800	¹ 800
Tennessee ¹¹					
Utah.....	600	1, 200	⁶ 600		¹ 600
Vermont.....	500	1, 000	500	² 500	² 500
Virginia.....	1, 000	2, 000	200	² 600	² 600
West Virginia ¹⁷	600	1, 200	⁶ 600	¹ 600	¹ 600
Wisconsin ³	7 (700)	14 (1, 320)	7 (560)		
District of Columbia.....	1, 000	2, 000	500	² 500	² 500

¹ An identical exemption is allowed for a spouse. In Massachusetts the deduction is allowed against business income only. In Hawaii the \$5,000 deduction is allowed in lieu of the personal exemption.

² An identical exemption is allowed for a spouse if separate returns are filed.

³ Personal exemptions and credits for dependents are allowed in the form of tax credits which are deductible from an amount of tax. With respect to personal exemptions, the sum in parentheses is the exemption equivalent of the tax credit assuming that the exemption is deducted from the lowest brackets. With respect to the credits for dependents, the sum in parentheses is the amount by which the first dependent raises the level at which a married person or head of family becomes taxable.

⁴ The exemption is allowed for students regardless of age.

⁵ The exemptions and credits for dependents are deductible from the lowest income bracket and are equivalent to the tax credits shown in parentheses.

⁶ The exemption is extended to dependents above the age of 18 if they are students.

⁷ An additional credit of \$800 is allowed for each dependent 65 years of age or over.

⁸ The exemptions shown are those allowed against business income, including salaries and wages: a specific exemption of \$2,000 for each taxpayer. In addition, a dependency exemption of \$500 is allowed for a dependent spouse who has income from all sources of less than \$2,000. In the case of a joint return, the exemption is the smaller of (1) \$4,000 or (2) \$2,000, plus the income of the spouse having the smaller income. For nonbusiness income (annuities, interest, and dividends) the exemption is the smaller of (1) \$1,000 or (2) the unused portion of the exemption applicable to business income. Married persons must file a joint return in order to obtain any nonbusiness income exemption. If a single person, or either party to a joint return, is 65 years of age, the maximum exemption is increased from \$1,000 to \$1,500. No exemption is allowed against nonbusiness income if income from all sources for a single person ex-

(Footnotes to table 30 continued)

ceeds \$5,000 and for a married person exceeds \$7,500.

⁹ An additional tax credit of \$10 for single persons and \$15 each for taxpayer and spouse is allowed for persons 65 years of age or over and for blind persons.

¹⁰ The exemption is extended to dependents above the age of 19 if they are students.

¹¹ The tax applies only to interest and dividends.

¹² In addition to the personal exemptions, the following tax credits are granted: Single persons, \$10; married taxpayers and heads of households, \$25.

¹³ An additional exemption of \$1,000 is allowed a married woman with separate income.

¹⁴ A credit of \$1 is allowed for each \$100 actually con-

tributed by the taxpayer as partial support of a person who could qualify as a dependent. The credit shall not exceed \$6.

¹⁵ A tax credit of \$12 is allowed for each taxpayer or spouse who has reached the age of 65. A blind taxpayer and his spouse are allowed an additional \$600 exemption plus a tax credit of \$18 each.

¹⁶ The exemption is extended to dependents over the age of 21 if their income is less than \$800 a year and if they are students in an accredited school or college.

¹⁷ The West Virginia income tax enacted in January 1961 is applicable to the taxable years ending on or after Dec. 31, 1961, and pro rata to fiscal years ending in 1961.

TABLE 31.—State Income Taxes: Personal Exemptions and Credits: Frequency Distribution ¹

Single person		Married couple or head of family		Dependents	
Amount of exemption	Number of States	Amount of exemption	Number of States	Amount of exemption	Number of States
\$500	1	\$1,000	1	\$0	1
\$600	11	1,200	10	200	2
\$700	1	1,320	1	300	3
\$750	1	1,500	2	333	1
\$800	2	1,600	2	400	3
\$833	1	1,700	1	486	1
\$1,000	6	2,000	6	500	3
\$1,200	1	2,333	1	560	1
\$1,500	5	2,400	1	600	14
\$1,750	1	2,500	² 2	750	1
\$2,000	1	3,000	3	800	2
\$2,500	1	3,250	1	1,000	1
\$5,000	1	5,000	1		
		7,000	1		

¹ New Hampshire and Tennessee which tax income from intangibles only are not included. New Hampshire allows a \$600 exemption to single and married persons, but no credit for dependents. Tennessee allows no personal exemptions or credit for dependents.

² In Massachusetts the minimum exemption allowed against earned and business income is \$2,500. In the case of a joint return, the exemption is the smaller of \$4,000 or \$2,000, plus the income of the spouse with the smaller income.

TABLE 32.—State Individual Income Tax: Rates

State	Net income after personal exemption ¹	Rate (percent)	Special rates or features
Alabama	First \$1,000	1.5	A standard deduction and an optional tax table are provided.
	\$1,001-\$3,000	3	
	\$3,001-\$5,000	4.5	
	Over \$5,000	5	
Alaska	16 percent of total Federal income tax.		The Federal optional tax table and standard deduction are applicable.
Arizona	First \$1,000	1	A standard deduction and an optional tax table are provided.
	\$1,001-\$2,000	1.5	
	\$2,001-\$3,000	2	
	\$3,001-\$4,000	2.5	
	\$4,001-\$5,000	3	
	\$5,001-\$6,000	3.5	
	\$6,001-\$7,000	4	
	Over \$7,000	4.5	
Arkansas	First \$3,000	1	A standard deduction is allowed.
	\$3,001-\$6,000	2	
	\$6,001-\$11,000	3	
	\$11,001-\$25,000	4	
	Over \$25,000	5	

¹ Does not reflect income splitting by married couples filing joint returns allowed in some States and under Federal law.

TABLE 32.—*State Individual Income Tax: Rates—Continued*

State	Net income after personal exemption ¹	Rate (percent)	Special rates or features
California.....	First \$2,500.....	1	A standard deduction and an optional tax table are provided.
	\$2,501-\$5,000.....	2	
	\$5,001-\$7,500.....	3	
	\$7,501-\$10,000.....	4	
	\$10,001-\$12,500.....	5	
	\$12,501-\$15,000.....	6	
	Over \$15,000.....	7	
Colorado.....	First \$1,000.....	3	A standard deduction and an optional tax table are provided. Surtax on intangible income in excess of \$5,000, 2 percent.
	\$1,001-\$2,000.....	3.5	
	\$2,001-\$3,000.....	4	
	\$3,001-\$4,000.....	4.5	
	\$4,001-\$5,000.....	5	
	\$5,001-\$6,000.....	5.5	
	\$6,001-\$7,000.....	6	
	\$7,001-\$8,000.....	6.5	
	\$8,001-\$9,000.....	7	
	\$9,001-\$10,000.....	8	
Over \$10,000.....	9		
Delaware.....	First \$1,000.....	1.5	A standard deduction is allowed.
	\$1,001-\$2,000.....	2	
	\$2,001-\$3,000.....	3	
	\$3,001-\$4,000.....	4	
	\$4,001-\$5,000.....	5	
	\$5,001-\$6,000.....	6	
	\$6,001-\$8,000.....	7	
	\$8,001-\$30,000.....	8	
	\$30,001-\$50,000.....	9	
	\$50,001-\$100,000.....	10	
Over \$100,000.....	11		
Georgia.....	First \$1,000.....	1	A standard deduction is allowed.
	\$1,001-\$3,000.....	2	
	\$3,001-\$5,000.....	3	
	\$5,001-\$7,000.....	4	
	\$7,001-\$10,000.....	5	
	Over \$10,000.....	6	
Hawaii.....	First \$500.....	3	A standard deduction and an optional tax table are provided. Alternative tax on capital gains: Deduct 50 percent of capital gains and pay an additional 3 percent on such gains.
	\$501-\$1,000.....	3.5	
	\$1,001-\$2,000.....	4	
	\$2,001-\$5,000.....	5	
	\$5,001-\$10,000.....	6	
	\$10,001-\$20,000.....	7	
	\$20,001-\$30,000.....	8	
	Over \$30,000.....	9	
Idaho.....	First \$1,000.....	3	A standard deduction is allowed. A \$10 filing fee is imposed.
	\$1,001-\$2,000.....	5	
	\$2,001-\$3,000.....	6.5	
	\$3,001-\$4,000.....	7.5	
	\$4,001-\$5,000.....	8.5	
	Over \$5,000.....	9.5	
Iowa.....	First \$1,000.....	.75	A standard deduction and an optional tax table are provided.
	\$1,001-\$2,000.....	1.5	
	\$2,001-\$3,000.....	2.25	
	\$3,001-\$4,000.....	3	
	Over \$4,000.....	3.75	
Kansas.....	First \$2,000.....	1.5	A standard deduction and an optional tax table are provided.
	\$1,001-\$3,000.....	2.5	
	\$3,001-\$5,000.....	3	
	\$5,001-\$7,000.....	4	
	Over \$7,000.....	5.5	
Kentucky.....	First \$3,000.....	2	A standard deduction and an optional tax table are provided.
	\$3,001-\$4,000.....	3	
	\$4,001-\$5,000.....	4	
	\$5,001-\$8,000.....	5	
	Over \$8,000.....	6	
Louisiana.....	First \$10,000.....	2	A standard deduction is allowed.
	\$10,001-\$50,000.....	4	
	Over \$50,000.....	6	

¹ Does not reflect income splitting by married couples filing joint returns allowed in some States and under Federal law.

TABLE 32.—State Individual Income Tax: Rates—Continued

State	Net income after personal exemption ¹	Rate (percent)	Special rates or features
Maryland.....	Ordinary income.....	3	A standard deduction and an optional tax table are provided.
	Investment income:		
	First \$500.....	3	
	Balance.....	5	
Massachusetts.....	Earned income and business income.	3.075	An optional tax table is provided for salaries and wages not in excess of \$8,000. Rates include additional taxes: 3 percent permanent surtax on all types of income; and, through June 30, 1963, 20-percent surtax on all types of income, 1 percent on earned and business income, and 3 percent on capital gains on intangibles.
	Interest and dividends, capital gains on intangibles.	7.38	
	Annuities.....	1.845	
Minnesota.....	First \$500.....	1	A 15-percent surtax for taxable years starting before 1963. There is an additional tax of 1 percent on the first \$1,000 or fraction thereof of adjusted gross income where net income tax plus surtaxes does not exceed \$10. This additional tax shall not, however, be applied to increase the total taxes payable by such persons to more than \$10. A standard deduction and an optional tax table are provided.
	\$501-\$1,000.....	1.5	
	\$1,001-\$2,000.....	2.5	
	\$2,001-\$3,000.....	3.5	
	\$3,001-\$4,000.....	4.5	
	\$4,001-\$5,000.....	5.5	
	\$5,001-\$7,000.....	6.5	
	\$7,001-\$9,000.....	7.5	
	\$9,001-\$12,500.....	8.5	
	\$12,501-\$20,000.....	9.5	
	Over \$20,000.....	10.5	
Mississippi.....	First \$5,000.....	2	A standard deduction is allowed. The maximum rate for later years will be: 1962, 5.0 on income in excess of \$15,000. 1963, 4.5 on income in excess of \$15,000. 1964, 4.0 on income in excess of \$10,000. 1965, 3.5 on income in excess of \$10,000. 1966 and after, 3.0 on income in excess of \$5,000.
	\$5,001-\$10,000.....	3	
	\$10,001-\$15,000.....	4	
	\$15,001-\$25,000.....	5	
	Over \$25,000.....	5.5	
Missouri.....	First \$1,000.....	1	A standard deduction and an optional tax table are provided. The rates apply to total income not merely to the portion of income falling within a given bracket, but as a result of the following tax credits, the schedule in effect is a bracket rate schedule: \$1,001-\$2,000, \$5. \$2,001-\$3,000, \$15. \$3,001-\$5,000, \$30. \$5,001-\$7,000, \$55. \$7,001-\$9,000, \$90. Over \$9,000, \$135.
	\$1,001-\$2,000.....	1.5	
	\$2,001-\$3,000.....	2	
	\$3,001-\$5,000.....	2.5	
	\$5,001-\$7,000.....	3	
	\$7,001-\$9,000.....	3.5	
	Over \$9,000.....	4	
Montana.....	First \$1,000.....	1	A standard deduction is allowed.
	\$1,001-\$2,000.....	2	
	\$2,001-\$3,000.....	3	
	\$3,001-\$5,000.....	4	
	\$5,001-\$7,000.....	5	
	Over \$7,000.....	7	
New Hampshire.....	Interest and dividends (excluding interest on savings deposits).	4.25	
New Mexico.....	First \$10,000.....	1.5	After Dec. 31, 1963, rates will revert to prior levels of— First \$10,000, 1. \$10,001-\$20,000, 2. \$20,001-\$100,000, 3. Over \$100,000, 4.
	\$10,001-\$20,000.....	3.0	
	\$20,001-\$100,000.....	4.5	
	Over \$100,000.....	6.0	
New York.....	First \$1,000.....	2	A standard deduction and an optional tax table are provided. An additional 10 percent reduction was allowed for calendar year 1960 and fiscal years ending in 1961.
	\$1,001-\$3,000.....	3	
	\$3,001-\$5,000.....	4	
	\$5,001-\$7,000.....	5	
	\$7,001-\$9,000.....	6	
	\$9,001-\$11,000.....	7	
	\$11,001-\$13,000.....	8	

¹ Does not reflect income splitting by married couples filing joint returns allowed in some States and under Federal law.

TABLE 32.—*State Individual Income Tax: Rates—Continued*

State	Net income after personal exemption ¹	Rate (percent)	Special rates or features
New York—Continued	\$13,001–\$15,000	9	For taxable years ending on or after Dec. 31, 1960, capital gains treatment is similar to that provided under Federal law. Income from unincorporated business is taxed at 4 percent. For taxable years ending on or after Dec. 31, 1960, the following credit is allowed: <i>If tax is—</i> <i>Credit is—</i> \$100 or less . . . Full amount of tax. \$100–\$200 . . . Difference between \$200 and amount of tax. \$200 or more . . . No credit.
	Over \$15,000	10	
North Carolina	First \$2,000	3	A standard deduction is allowed.
	\$2,001–\$4,000	4	
	\$4,001–\$6,000	5	
	\$6,001–\$10,000	6	
	Over \$10,000	7	
North Dakota	First \$3,000	1	A standard deduction is allowed.
	\$3,001–\$4,000	2	
	\$4,001–\$5,000	3	
	\$5,001–\$6,000	5	
	\$6,001–\$8,000	7.5	
	\$8,001–\$15,000	10	
	Over \$15,000	11	
Oklahoma	First \$1,500	1	A standard deduction and an optional tax table are provided.
	\$1,501–\$3,000	2	
	\$3,001–\$4,500	3	
	\$4,501–\$6,000	4	
	\$6,001–\$7,500	5	
	Over \$7,500	6	
Oregon	First \$500	3	A standard deduction and an optional tax table are provided.
	\$501–\$1,000	4	
	\$1,001–\$1,500	5	
	\$1,501–\$2,000	6	
	\$2,001–\$4,000	7	
	\$4,001–\$8,000	9	
	Over \$8,000	9.5	
	South Carolina	First \$2,000	
\$2,001–\$4,000		3	
\$4,001–\$6,000		4	
\$6,001–\$8,000		5	
\$8,001–\$10,000		6	
Over \$10,000		7	
Tennessee	Interest and dividends	6	Dividends from corporations having at least 75 percent of their property subject to the Tennessee ad valorem tax are taxed at 4 percent.
Utah	First \$1,000	1	A standard deduction is allowed.
	\$1,001–\$2,000	2	
	\$2,001–\$3,000	3	
	\$3,001–\$4,000	4	
	Over \$4,000	5	
Vermont	First \$1,000	2	A standard deduction and an optional tax table are provided. The rates are subject to reduction if there is sufficient surplus in the general fund.
	\$1,001–\$3,000	4	
	\$3,001–\$5,000	6	
	Over \$5,000	7.5	
Virginia	First \$3,000	2	A standard deduction is allowed.
	\$3,001–\$5,000	3	
	Over \$5,000	5	
West Virginia	6 percent of Federal income tax which would be imposed on Federal taxable income equal to West Virginia taxable income.		A standard deduction and an optional tax table are provided.

¹ Does not reflect income splitting by married couples filing joint returns allowed in some States and under Federal law.

TABLE 32.—*State Individual Income Tax: Rates—Continued*

State	Net income after personal exemption ¹	Rate (percent)	Special rates or features
Wisconsin.....	First \$1,000.....	1	A standard deduction and an optional tax table are provided. A surtax of 20 percent of the tax was imposed for calendar year 1960 and corresponding fiscal years.
	\$1,001-\$2,000.....	1.25	
	\$2,001-\$3,000.....	1.5	
	\$3,001-\$4,000.....	2.5	
	\$4,001-\$5,000.....	3	
	\$5,001-\$6,000.....	3.5	
	\$6,001-\$7,000.....	4	
	\$7,001-\$8,000.....	5	
	\$8,001-\$9,000.....	5.5	
	\$9,001-\$10,000.....	6	
	\$10,001-\$11,000.....	6.5	
	\$11,001-\$12,000.....	7	
	\$12,001-\$13,000.....	7.5	
	\$13,001-\$14,000.....	8	
Over \$14,000.....	8.5		
District of Columbia.....	First \$5,000.....	2.5	A standard deduction and an option tax table are provided. Income from unincorporated business is taxed at 5 percent.
	\$5,001-\$10,000.....	3	
	\$10,001-\$15,000.....	3.5	
	\$15,001-\$20,000.....	4	
	\$20,001-\$25,000.....	4.5	
	Over \$25,000.....	5	

¹ Does not reflect income splitting by married couples filing joint returns allowed in some States and under Federal law.

and applying a prescribed tax rate schedule (table 33). The States which do not provide a tax table are generally those which do not use the per capita exemption system.

The rapidly growing trend toward State adoption of the Federal tax base for State tax purposes is a significant development from the point of view of easing the taxpayers' compliance burdens and facilitating Federal-State administrative cooperation. Twelve of the 34 individual income tax States now use the Federal tax base (Alaska, Hawaii, Idaho, Iowa, Kentucky, Minnesota, Montana, New Mexico, New York, North Dakota, Vermont, and West Virginia). The taxpayer in filling out his State tax return uses the adjusted gross income figure on his Federal return and makes the prescribed adjustments, such as subtracting interest on Federal securities, and adding (1) interest from obligations of other States and their political subdivisions, and (2) State income taxes which were deducted in arriving at the Federal base. In addition, some State taxes use the same standard deduction

and personal exemptions as the Federal tax. In the most complete use of the Federal tax base, the State tax is simply expressed as a percentage of Federal tax liability, as in Alaska where taxpayers pay a tax of 16 percent of their total Federal income tax liability. Under the new West Virginia personal income tax, the tax is 6 percent of what the Federal tax liability would be if the base of the Federal taxable income were identical with West Virginia taxable income. Taxable income for West Virginia is defined as Federal adjusted gross income with certain adjustments.

Another significant development is State adoption of withholding as a means of collecting their income taxes from wage and salary recipients, and provision for current collection of the tax on other forms of income through declarations of estimated tax. Twenty-four States now provide for withholding and current payment.

Deductibility. The Federal income tax allows deduction of State income taxes in computing net income for Federal tax pur-

TABLE 33.—State Individual Income Taxes: Use of Standard Deduction and Optional Tax Table

State	Size of standard deduction				Optional tax table
	Percent ¹	Maximum			
		Single	Married		
			Separate return	Joint return	
Alabama	*7	\$500	\$500	\$500	x
Alaska	10	1,000	500	1,000	x
Arizona	10	500	500	1,000	x
Arkansas	10	1,000	500	1,000	.....
California	10	500	500	1,000	x
Colorado	*10	1,000	500	1,000	x
Delaware ²	*10	500	500	1,000	.....
Georgia	10	1,000	500	1,000	.....
Hawaii	10	1,000	500	1,000	x
Idaho	*10	1,000	500	1,000	.....
Iowa	*5	250	250	250	x
Kansas	*10	400	400	400	x
Kentucky ³	(*)	500	500	500	x
Louisiana	*10	1,000	500	1,000	.....
Maryland	10	500	500	1,000	x
Massachusetts					x
Minnesota	*10	1,000	1,000	1,000	x
Mississippi	10	500	500	1,000	.....
Missouri	*5	500	500	500	x
Montana	10	500	500	1,000	.....
New Mexico					.....
New York	10	1,000	1,000	1,000	x
North Carolina	10	500	500	.....	.....
North Dakota	*5	500	500	500	.....
Oklahoma	*10	500	500	1,000	x
Oregon	*5	250	250	500	x
South Carolina	10	500	500	1,000	.....
Utah	*10	1,000	500	1,000	.....
Vermont	10	1,000	500	1,000	x
Virginia	5	500	250	500	.....
West Virginia	10	1,000	(⁴)	1,000	x
Wisconsin ⁵		450	450	.....	x
District of Columbia	10	1,000	500	1,000	x

*The standard deduction is allowed in addition to deduction of Federal income taxes.

¹ Amount of standard deduction is generally based on gross income after business expenses. The detailed provisions vary.

² In lieu of all other deductions except Federal income taxes up to \$300 for individuals and \$600 for married couples filing joint return.

³ In lieu of other deductions except Federal income

poses. Approximately one-half of the income tax States allow taxes paid to the Federal Government to be deducted in computing State liability (table 34).

The deductibility feature, whether applicable under the Federal tax alone or on a

taxes, a standard deduction of \$500 may be taken if adjusted gross income is at least \$8,000. If adjusted gross income is less than \$8,000, taxpayers may use the optional tax table.

⁴ The \$1,000 standard deduction allowed a married couple may be taken by either or divided between them in such proportion as they may elect.

⁵ If adjusted gross income is less than \$5,000, taxpayers may use the optional tax table; if over \$5,000, a standard deduction of \$450 may be taken.

mutual basis, affects the overall burden of the taxpayer and the distribution of the combined net revenues among Federal and State Governments.

Table 35 shows the effect of deductibility of individual income taxes at selected in-

TABLE 34.—*State Income Taxes: Deductibility of Federal Income Tax in Computing Net Income*¹

State	Individual income tax	Corporation income tax
Alabama.....	Yes.....	Yes.
Alaska.....	No.....	No.
Arizona.....	Yes.....	Yes.
Arkansas.....	No.....	No.
California.....	No.....	No.
Colorado.....	Yes.....	No.
Connecticut.....	None imposed.....	No.
Delaware.....	Yes ²	No.
District of Columbia.....	No.....	No.
Georgia.....	No.....	No.
Hawaii.....	No.....	No.
Idaho.....	Yes.....	Yes.
Iowa.....	Yes.....	Yes.
Kansas.....	Yes.....	Yes.
Kentucky.....	Yes.....	Yes.
Louisiana.....	Yes.....	Yes.
Maryland.....	No.....	No.
Massachusetts.....	{ Earned income and business income.....	Yes.
	{ Interest, dividends, annuities and capital gains.....	No.
Minnesota.....	Yes.....	Yes.
Mississippi.....	No.....	No.
Missouri.....	Yes.....	Yes.
Montana.....	Yes.....	No.
New Hampshire.....	No ³	None imposed.
New Jersey.....	None imposed.....	No.
New Mexico.....	Yes.....	Yes.
New York.....	No.....	No.
North Carolina.....	No.....	No.
North Dakota.....	Yes.....	Yes.
Oklahoma.....	Yes.....	Yes.
Oregon.....	Yes.....	No.
Pennsylvania.....	None imposed.....	No.
Rhode Island.....	None imposed.....	No.
South Carolina.....	Yes ⁴	No.
Tennessee.....	No ³	No.
Utah.....	Yes.....	Yes.
Vermont.....	No.....	No.
Virginia.....	No.....	No.
West Virginia.....	No.....	None imposed.
Wisconsin.....	Yes ⁵	Yes. ⁵

¹ In general, each State which permits the deduction of Federal income taxes limits such deduction to taxes paid on that part of income subject to its own income tax.

² The deduction is limited to \$300 per taxpayer.

³ The tax applies only to intangibles.

⁴ The deduction is limited to \$500 per taxpayer.

⁵ The deduction is limited to 3 percent of net income (before deduction of Federal income taxes and charitable contributions) in the case of noncorporate taxpayers and 10 percent in the case of corporations.

come levels. New York does not permit deduction of the Federal income tax, but for purposes of illustration the combined Federal and New York taxes have been computed under two assumptions (1) no deduction allowed for Federal tax and (2) assuming New York allowed deduction for Federal tax.

It will be noted that at the \$1 million income level the net increase in the combined tax resulting from the State tax for residents of New York which does not allow

a deduction of Federal taxes is 0.9 percentage point. At \$25,000 the addition of the State tax increases the effective rate from 28.9 percent to 33.3 percent. At \$100,000, the effective rate is increased from 53.6 percent to 56.3 percent.

Where the State allows the Federal tax as a deduction, the addition of the State tax to the Federal tax results in an even smaller increase in total tax burden. It will be noted by reference to table 35 that for an individual subject to the New York tax of

TABLE 35.—Effect of Deductibility on (1) Effective Rates of Federal and State Individual Income Taxes, and (2) Net Income Remaining After Taxes, for a Married Couple, at Selected Taxable Income Levels and 1960 Federal and New York Tax Rates¹

Taxable income ²	(1) Effective rate of tax (percent)			
	Federal (assuming no State tax)	New York ³	Combined Federal and New York	
			No deduction allowed by New York for Federal tax	Assuming New York allowed deduction for Federal tax
\$25,000.....	28.9	7.3	33.3	31.6
\$100,000.....	53.6	9.3	56.3	54.8
\$1,000,000.....	86.0	9.9	86.9	86.1

	(2) Net income remaining after tax			
	Percent of net income remaining after tax		Percentage reduction in income remaining after tax due to New York tax	
	Federal alone	Combined Federal and New York		
	No deduction allowed by New York for Federal tax	Assuming New York allowed deduction for Federal tax	No deduction allowed by New York for Federal tax	Assuming New York allowed deduction of Federal tax
\$25,000.....	71.1	66.7	68.4	3.8
\$100,000.....	46.4	43.7	45.2	2.6
\$1,000,000.....	14.0	13.1	13.9	0.7

¹ State income taxes are deductible for purposes of the Federal income tax. The New York income tax does not permit deduction of the Federal income tax. For purposes of illustrating the effect of mutual deductibility, however, the last column shows the effective rate of combined Federal and New York taxes, assuming that New York permitted deduction of the Federal tax.

² Income after all deductions (except income taxes) and personal exemptions. Computations of Federal tax allow for income splitting.

³ Takes into account the \$25 tax credit allowed a married couple filing a joint return, but does not allow for the 10-percent reduction of tax liability applicable to taxable year 1960.

9.3 percent on a net income of \$100,000, the combined burden of the Federal and New York taxes, assuming here that New York allowed a deduction of the Federal tax, would be 54.8 percent, or only 1.2 percentage points higher than the Federal tax of 53.6 percent.

The effect of deductibility on net income remaining after tax is illustrated in part 2 of table 35. For example, in the case of a \$100,000 net income subject only to the Federal tax, 46.4 percent of the net income remains after tax. The addition of the New

York tax (9.3 percent), which does not allow the deduction of Federal taxes, reduces net income remaining after tax from 46.4 percent to 43.7 percent, or by 5.8 percent. This is due to the fact that the State tax is deductible for Federal income tax purposes. At the \$100,000 net income level, the addition of the New York tax, assuming in this case the deduction of Federal taxes, would reduce the net income after tax from 46.4 percent to 45.2 percent, or 2.6 percent.

A large proportion of Federal taxpayers,

particularly at lower income levels, do not itemize their deductions but elect to use instead the 10-percent standard deduction (with an upper limit of \$1,000). Currently about two-thirds of all filers of tax returns with incomes under \$10,000 use the standard deduction (65.5 percent for 1959). Although such taxpayers do not directly benefit from the deductibility feature, the standard deduction itself makes allowance for deduction of State income taxes. Also, the trend in the number of taxpayers who itemize their deductions is upward.

The growing use of the standard deduction by the States has not greatly restricted the benefits of deductibility where it exists at the State level since most of the States which permit deductibility of Federal taxes allow the standard deduction in addition to this deduction (table 33).

Federal-State Duplication

On a national scale and measured in terms of tax dollars collected, Federal-State tax duplication in individual income taxation is relatively small. A study prepared for the National Bureau of Economic Research found that all individual income taxes collected by State governments in

1958 were the equivalent of 4.5 percent of Federal tax collections from this source.¹ The aggregate impact of all State-imposed individual income taxes was then of the general magnitude of a 1¼-percentage point change in the first-bracket rate of the Federal tax. In the 31 States with income taxes, 1958 State collections averaged about 8 percent of Federal collections. The weight of State income tax collections, as measured by the amount of Federal tax collections, has been increasing steadily, if slowly, during the past few years (reflecting in part Federal tax reductions and in part the sharper graduation of State rate schedules). The ratio of State to Federal collections edged up from 3.2 percent in 1953, and 4.5 percent in 1958 to 5.7 percent in 1961.

The relative weight of State income taxes varies widely. In seven States the ratio of State to Federal collections in 1958 was less than 5 percent and in another 12 less than 10 percent. In 12 States, this percentage exceeded 10 percent, and in 5 of these, 15 percent (table 36).

¹ National Bureau of Economic Research, *Public Finances: Needs, Sources and Utilization*, Princeton University Press, 1961, p. 145.

TABLE 36.—*Individual Income Taxes: State Collections as Percent of Federal Collections, 1958*

Under 5 percent		5-10 percent		10-15 percent		15 percent and over	
✓ California.....	4.3	✓ Alabama ¹	7.8	Idaho.....	13.8	Kentucky.....	17.1
✓ Colorado.....	4.9	✓ Arizona ¹	6.5	Massachusetts.....	10.0	Oregon.....	28.7
✓ Missouri ¹	3.1	Arkansas.....	6.3	Minnesota.....	12.7	Vermont.....	21.6
✓ New Hampshire.....	1.8	✓ Delaware.....	9.0	Montana.....	11.0	Virginia.....	14.0
✓ New Mexico ¹	4.9	Georgia.....	6.7	North Carolina.....	13.8	Wisconsin.....	17.4
✓ Oklahoma.....	4.2	✓ Iowa.....	8.3	South Carolina.....	11.2		
Tennessee.....	1.4	✓ Kansas.....	5.4	Utah.....	11.1		
		✓ Louisiana ¹	5.8				
		Maryland ²	7.8				
		Mississippi.....	5.9				
		New York.....	8.7				
		✓ North Dakota.....	6.1				
Number of States.....	7		12		7		5

Caution: These data are subject to important limitations and the reader is urged to consider the qualifications noted in the accompanying text in interpreting them.

¹ Since State income tax collections include both the individual and corporate tax, the computation is based on State and Federal collections from both taxes.

² Includes District of Columbia.

These percentages, it should be emphasized, serve only as approximations of the relative weight of State taxes. Federal tax collections are tabulated on the basis of States in which they were paid, which in some cases does not conform to liability for State taxes. Moreover, since Federal tax collection statistics combine the individual income tax with the OASI employment taxes, the amount of Federal income tax collections had to be estimated. This was done by applying the national ratio of income tax collections to combined income and payroll tax collections for the particular year to the combined collections tabulated for each State. As a result, Federal collections in the less industrialized States are probably somewhat understated. However, a State-by-State comparison of State tax collections with Federal tax liabilities reported on unaudited income tax returns (as reported in *Statistics of Income*) does not provide too much support for this generalization.

Despite these limitations, the computed percentage relationships between State and Federal income tax collections demonstrate a striking variation in the relative weight of State income taxes, explained largely by differences in tax rates and personal exemptions. Two-thirds of the States with relatively low State collections allow the Federal tax as a deduction for State income tax purposes. This, however, is only a partial explanation of the variation in the productivity of State income taxes since about the same proportion of relatively high-yield State taxes also allows this deduction.

These statistics illuminate the divergence in State attitudes toward the personal income tax as a source of State revenue. Sixteen States choose not to use the income tax and have held to this view even in the last

20 years, when the pressure for revenue was great; 2 choose to tax only income from intangibles; the remaining 32 States employ broadly based taxes but employ them with varying degrees of intensity, ranging from about 3 percent of Federal tax liabilities in Missouri to over 25 percent in Oregon. The yield of the New Hampshire and Tennessee taxes restricted to income from intangibles is less than 2 percent of Federal collections.

This divergence in State attitudes toward income taxation, quite apart from the States' desire to preserve freedom of action with respect to the structure of their respective income taxes, has important implications for Federal-State tax coordination.

Municipal Income Taxes

Local governments in five States levy income taxes, but they are widely used in only two States, Ohio and Pennsylvania (table 37).

Eight of the 41 largest cities (with population of over 250,000) in this country use this source of revenue.² Twenty-five cities with population of 50,000 and over impose income taxes. Ten of these are located in Ohio, 10 in Pennsylvania, 3 in Kentucky, and 1 each in Missouri (St. Louis) and Alabama (Gadsden).³

Philadelphia imposed the first municipal income tax in 1939. Under Pennsylvania's blanket authorization of 1947, which permitted local governments to use sources of revenue not employed by the State, with certain exceptions, even the smallest taxing

² Philadelphia, Pittsburgh, St. Louis, Cincinnati, Columbus, Dayton, Toledo, and Louisville.

³ In Ohio: Canton, Cincinnati, Columbus, Dayton, Hamilton, Lima, Springfield, Toledo, Warren, and Youngstown. In Pennsylvania: Allentown, Altoona, Bethlehem, Erie, Johnstown, Lancaster, Philadelphia, Pittsburgh, Scranton, and York. In Kentucky: Covington, Lexington, Louisville.

TABLE 37.—Municipal Income Tax Rates

State and city	Rate	State and city	Rate
Alabama: Gadsden.....	1.0.	Ohio—Continued	
Kentucky:		Cities of 50,000 population and over—Continued	
Catlettsburg.....	1.0.	Warren.....	0.5
Covington.....	1.5.	Youngstown.....	1.0.
Frankfort.....	1.0.	51 cities and villages (with less than 50,000 population).....	Ranges from 0.5 to 1 percent.
Hopkinsville.....	1.0.	Pennsylvania:	
Lexington.....	1.5.	Cities of 50,000 population and over:	
Louisville.....	1.25.	Allentown.....	1.0.
Jefferson County ¹	1.25.	Altoona.....	1.0.
Newport.....	2.0.	Bethlehem.....	1.0.
Owensboro.....	1.0.	Erie.....	1.0.
Paducah.....	1.0.	Johnstown.....	1.0.
Missouri: St. Louis.....	1.0.	Lancaster.....	0.5. ²
Ohio:		Philadelphia.....	1.625.
Cities of 50,000 population and over:		Pittsburgh.....	1.0.
Canton.....	0.6.	Scranton.....	0.5. ³
Cincinnati.....	1.0.	York.....	1.0.
Columbus.....	1.0.	Approximately 20 other cities, 240 boroughs, 40 townships, and 800 school districts.	Ranges from 0.25 to 1 percent.
Dayton.....	0.75.		
Hamilton.....	0.8.		
Lima.....	0.75.		
Springfield.....	1.0.		
Toledo.....	1.0.		

¹ A taxpayer subject to the 1.25-percent tax imposed by the city of Louisville may credit this tax against the 1.25-percent tax levied by Jefferson County.

² Lancaster city tax is 0.5 percent. The Lancaster township school tax is 1 percent.

³ The city's rate is 0.5 percent and the city school district rate is 0.5 percent.

jurisdictions were enabled to levy individual income taxes. At present, approximately 30 cities and 240 boroughs in Pennsylvania impose income taxes. In addition, more than 40 townships and approximately 800 school districts levy such taxes.⁴ Frequently, the tax is imposed by coterminous units, and in such cases the combined rate is limited to 1 percent. School districts, for example, are coterminous with the cities, boroughs, and townships, and the 1-percent rate is shared among them on the basis of their respective revenue needs as determined by mutual agreement between the respective municipal councils and school boards.

The first local income tax in Ohio was imposed by Toledo in 1946. At last count, 61 Ohio municipalities (including 19 vil-

⁴ Only first-class townships are permitted to tax incomes. Those units are urban in nature and perform many of the functions of cities. Boroughs may be considered generally as equivalent to small cities elsewhere.

lages) were imposing income taxes at rates ranging from one-half of 1 percent to 1 percent.

The present St. Louis income tax was enacted in 1954. Earlier income taxes had been enacted in 1948 and 1952 for temporary periods.

In Kentucky, the city income taxes are levied as "occupational license taxes."⁵ This form of tax was first adopted by Louisville in 1948. Eight other Kentucky cities and Jefferson County (in which the city of Louisville is located) have enacted similar measures. The Jefferson County tax is imposed at the same rate as the Louisville tax and allows taxpayers subject to the Louisville tax a credit for that tax. Gadsden,

⁵ This form of tax was levied because there was a question as to whether Kentucky's constitution permitted the State to delegate to its subdivisions the authority to levy an income tax. The constitution enumerated the taxes which could be delegated and did not include the income tax among them, while authority to delegate license powers to the municipalities was specifically authorized.

Ala., also levies its tax as an "occupational license tax."

In Ohio and Pennsylvania there is no overlapping State tax. Both of these States prohibit local governments from entering tax fields already occupied by the State. In Pennsylvania where the State levies a corporate income tax, the local taxes do not apply to corporate income. Ohio levies neither an individual nor a corporate income tax and the Ohio cities are permitted to tax corporations as well as individuals.

In the Kentucky cities and in Gadsden, Ala., and St. Louis, Mo., income recipients are generally subject to three income taxes (Federal, State, and local).

All municipal income taxes are imposed at low flat rates. The maximum rate which

may be imposed in Pennsylvania is 1 percent (except in Philadelphia where the current rate is 1½ percent). The rate is as low as one-fourth of 1 percent in some of the smaller jurisdictions in Pennsylvania. Ohio limits the city rates to 1 percent unless the voters approve a higher rate (which has not yet been done). The rate in St. Louis and Gadsden, Ala., is 1 percent. In Kentucky cities the rates range from 1 to 2 percent.

The local taxes are generally levied on gross earnings of individuals and net profits of professions and unincorporated businesses. Net profits of corporations are also taxed by Ohio cities, some Kentucky cities, and St. Louis (table 38).

TABLE 38.—Municipal Income Tax Bases

	Individuals			Unincorporated business			Corporations	
	Salaries and wages and other compensation for personal services			Net profits			Net profits from activities conducted within city, allocated on basis of—	
	Residents		Nonresidents	Residents		Nonresidents		
	Income earned within city	All earned income regardless of origin ¹	Income earned within city	Activities conducted within city	Activities wherever conducted	Activities conducted within city	(1) Property (2) Gross receipts (3) Payrolls	(1) Gross receipts (2) Payrolls
Alabama: Gadsden ²	X	-----	X	X	-----	X	-----	-----
Kentucky: ³								
5 cities and 1 county ³	X	-----	X	X	-----	X	-----	X
4 cities ⁴	X	-----	X		-----		-----	
Missouri: St. Louis.....		X	X		X	X	X	
Ohio cities.....		X	X		X	X	X	
Pennsylvania local governments.....		X	X ⁵		X	X ⁶	-----	-----

¹ Various types of intergovernmental tax crediting or reciprocity arrangements are employed in Ohio and Pennsylvania, to avoid double taxation.

² The taxes in Gadsden, Ala., and Kentucky cities are imposed as occupational license taxes.

³ Catlettsburg, Frankfort, Lexington, Louisville, Owensboro, and Jefferson County.

⁴ Covington, Hopkinsville, Paducah, and Newport. In most of these cities businesses and professions are taxed under a separate business license tax.

⁵ Dayton substitutes for the payroll factor total production costs.

⁶ School districts in Pennsylvania are not allowed to tax nonresidents.

Employees are taxed on all forms of income received as compensation for services, including salaries, wages, commissions, bonuses, incentive payments, and tips. Pay received by members of the armed services on full-time active duty is generally specifically exempted. Other types of income specifically excluded are: old-age pensions and similar payments from Fed-

eral, State, and local governments, unemployment compensation, and pensions and annuities from whatever source derived.

Income from salaries and wages is generally taxed on a gross basis, with no exemptions or deductions and the full amount of the tax is withheld by the employer. Warren, Ohio, is the only city which provides a personal exemption. The first \$1,200 is

exempt from Warren's tax and withholding applies only to the amount in excess of \$1,200. Springfield, Ohio, taxes only incomes in excess of \$1,040 per year, but if income exceeds \$1,040, the entire income is taxed. In Springfield, there is no exemption for withholding purposes and the taxpayer must establish that his income was less than \$1,040 in order to get a refund.

Several of the Ohio cities exempt personal earnings of persons under a specified age (either 16 or 18).

Since the taxes are basically earned income taxes, the various types of unearned income (dividends, interest, rents, capital gains) received by individuals are all exempt. Net profits of unincorporated businesses, however, in some cases include net capital gains.⁶ Net rentals from real estate are taxable when the rentals can be considered as income from a business activity. Some Ohio cities determine whether rentals constitute income from a business activity on the basis of gross rentals received.⁷ Louisville holds an individual to be employed in the real estate business if this activity requires at least 30 percent of his time.

For business and professions the tax base is net profits which is determined in much the same way for unincorporated and incorporated business. Ordinary and necessary business expenses similar to those allowed by the Federal Government are generally deductible.

Residents are generally taxed on earned income and net profits from professions and

⁶ In some of the Ohio cities (Toledo, Columbus, and Maumee, for example) capital gains and losses are not considered in arriving at net profits.

⁷ For example, in Cincinnati if gross rentals exceed \$1,200 per year, the entire net income from rentals is taxed, but if gross rentals are less than this amount, it is assumed that such rental activities are not a business activity and therefore are not taxable.

unincorporated business, regardless of where the income is earned or the activities are conducted, while nonresidents are taxed only on income arising within the municipal limits. The occupational license taxes of Kentucky cities and Gadsden, Ala., however, apply only to income or net profits derived within the city in the case of both residents and nonresidents since the tax is imposed on the privilege of doing business within the city.

Pennsylvania has taken steps to prevent double taxation under local income taxes. The State enabling act, which authorizes local income taxes, permits municipalities to tax residents and nonresidents, but provides that credit be allowed for income taxes paid to the place of residence against the tax imposed on nonresidents by a municipality where a taxpayer works or operates a business.⁸ The community of residence is thus given a priority. In Philadelphia, however, a nonresident gets no credit against Philadelphia tax for tax paid to the jurisdiction in which he resides. In many cases, after a city or borough imposes an income tax, the neighboring governmental units follow suit and in actual practice the income tax eventually becomes a tax on residents only. If two overlapping political subdivisions impose an income tax on the same person and the combined levy exceeds the statutory rate limitation of 1 percent, the effective rates are automatically halved during the period of duplication. The two units may also agree to divide the maximum rate in some other manner. If nonresidents employed in a Pennsylvania city make no claim for credit for income taxes imposed at their places of

⁸ For a detailed discussion of interjurisdictional tax crediting and double taxation problems in Pennsylvania, see Robert A. Sigafos, *The Municipal Income Tax: Its History and Problems*, Public Administration Service, 1955.

residence, the city may collect from them the full 1-percent income tax, although it collects only one-half of 1 percent from its residents who are also subject to a one-half of 1 percent school district income tax. School districts are permitted to tax only the income of residents.

In Ohio cities the place of employment is given priority. Residents are given a credit for taxes paid to other cities or are allowed to exclude from the tax base income on which a tax has been paid to other cities. Some cities limit the credit to 50 percent of the tax liability and require reciprocity.⁹

All of the cities which tax corporate net income permit allocation of the incomes of domestic and foreign corporations. The "Massachusetts formula" which allocates income on the basis of tangible property, payrolls, and gross sales is generally used. In Kentucky cities, only 2 factors are used (gross receipts and payrolls).

Income taxes are second only to sales

⁹ For example, Toledo and its neighboring city of Maumee both have a 1-percent rate. Nonresidents of one city employed in the other pay one-half of 1 percent of their income to each.

taxes as a source of local nonproperty tax revenues. In 1960, total revenues from municipal income taxes (including District of Columbia) were \$254 million. In many of the cities which employ it, the income tax has become the most important source of revenue, outstripping the property tax. In 1958, 33 Ohio cities derived \$49 million from the income tax, as compared with \$45 million from the property tax.¹⁰ The relative importance of the income tax in 1960 in the tax structure of some of the larger cities in Ohio and other States is indicated below:

City	Revenues (in thousands of dollars)		Income tax as percent of total taxes
	Income tax	Total taxes	
Cincinnati.....	15,859	38,660	41.0
Columbus.....	12,420	17,949	69.2
Toledo.....	8,609	15,057	57.2
Philadelphia.....	70,931	181,408	39.1
Pittsburgh.....	5,154	40,692	12.7
Louisville.....	10,803	22,485	48.0
St. Louis.....	14,829	65,204	22.7

¹⁰ Ohio Department of Taxation, "Municipal Income Taxes in Ohio, July 1, 1960"; Ohio Auditor of State, *The 1958 Financial Report of Ohio Cities*.

Chapter 7

CORPORATION INCOME TAXES

The modern Federal corporation income tax originated with the excise tax of 1909 levied at a 1-percent rate on corporate net income above \$5,000.¹ A few States had experimented with corporation income taxes prior to that time, but the first successful State corporation income tax was imposed by Wisconsin in 1911. This form of taxation is now imposed by 36 States and the District of Columbia.² With the exception of New Hampshire and West Virginia, all States which tax individual income also tax corporate income. Four States (Connecticut, New Jersey, Pennsylvania, and Rhode Island) do not tax individual income tax corporation incomes.

Corporate income taxes are also imposed by St. Louis, 5 cities and 1 county in Kentucky and approximately 50 Ohio cities. All of these are companion taxes to the low-rate taxes imposed by these cities on salaries

and wages and on net profits of unincorporated businesses, and apply to net profits from activities conducted by corporations within the city.

Under present Federal law, the corporation income tax consists of a normal tax of 30 percent applicable to total taxable income, and a surtax of 22 percent which applies to income in excess of \$25,000. The total rate is 30 percent on incomes of \$25,000 or less, and 52 percent on amounts of income in excess of \$25,000.

During fiscal year 1961, Federal corporate income tax collections amounted to \$21 billion (net of refunds), accounting for 27 percent of total Federal tax revenues (exclusive of employment taxes). In the same year, State corporation income taxes amounted to nearly \$1.3 billion, or 6.7 percent of State tax revenues, excluding payroll levies for unemployment compensation.

Corporate income and profits taxes assumed an important role in Federal revenues during the war years, reflecting in part higher levels of corporate earnings and in part higher tax rates coupled with excess profit taxation. While Federal corporate tax yields declined considerably in fiscal years 1955 and 1959, reflecting the recessions of 1954 and 1958, they have remained relatively level since the end of the Korean war period. There has been no change in Federal corporate income tax rates since

¹ The tax was levied as an excise on the privilege of doing corporate business, measured by net income.

² Almost all States levy a variety of franchise or privilege taxes and fees on domestic and out-of-State corporations for the right of using the corporate form of organization or as a condition of doing business within the particular State. The capital stock tax is one of the most common forms of privilege levies and is now employed in about three-fourths of the States. In a few States the capital stock tax is an alternative to the income tax, with the corporation paying whichever tax is higher; but in most cases it is an additional tax. Because of the special difficulties of applying corporate net income taxes in certain fields, such as banking, insurance, and utilities, many States levy special in-lieu taxes on particular types of corporations.

1952, except for the expiration of the excess profits tax at the end of calendar year 1953. On the other hand, with the help of rate increases in many States, State corporation income tax collections continued to increase during that period, except for recession years, although corporate income taxes declined somewhat as a percentage of total State tax revenues.

State and Local Taxes

Of the 36 States (and the District of Columbia) which tax corporate income, 30 apply flat rates¹ and 7 graduated rates (table 39). The rates of tax are relatively low compared with the Federal levy, ranging between 1.75 percent and 10.23 percent, as follows:²

Rate (percent)	Number of States
1.75.....	1
2.0.....	1
3.0.....	3
3.5.....	1
3.75.....	1
4.0.....	4
4.5.....	1
5.0.....	10
5.5.....	4
6.0.....	5
6.75.....	1
7.0.....	2
9.36.....	1 ¹
9.5.....	1
10.23.....	1

¹ Alaska's rate for a corporation paying the 52-percent Federal rate.

² Including Alaska, where the corporate tax rate is equal to 18 percent of total Federal income tax.

³ For the seven States which apply graduated rates, the highest bracket rate is shown.

TABLE 39.—State Corporation Income Tax Rates

State	Rate (percent)	Related provisions
Alabama.....	3	
Alaska.....	18 percent of total income tax payable to the United States.	
Arizona.....	First \$1,000..... 1 \$1,001-\$2,000..... 2 \$2,001-\$3,000..... 2.5 \$3,001-\$4,000..... 3 \$4,001-\$5,000..... 3.5 \$5,001-\$6,000..... 4.5 Over \$6,000..... 5	
Arkansas.....	First \$3,000..... 1 \$3,001-\$6,000..... 2 \$6,001-\$11,000..... 3 \$11,001-\$25,000..... 4 Over \$25,000..... 5	
California.....	5.5	Minimum tax: \$100.
Colorado.....	5	
Connecticut.....	5	If tax yield is greater, 2.5 mills per dollar of asset value. Minimum tax: \$25.
Delaware.....	5	
Georgia.....	4	
Hawaii.....	First \$25,000..... 5 Over \$25,000..... 5.5	Capital gains entitled to alternative tax treatment are taxed at 2¼ percent. A \$10 filing fee is imposed.
Idaho.....	9.5	
Iowa.....	3	
Kansas.....	3.5	
Kentucky.....	First \$25,000..... 5 Over \$25,000..... 7	
Louisiana.....	4	A specific exemption of \$3,000, prorated according to the proportion of total net income taxable in Louisiana, is allowed against net income.
Maryland.....	5	

TABLE 39.—State Corporation Income Tax Rates—Continued

State	Rate (percent)	Related provisions
Massachusetts.....	6.765	Includes the basic 2.5-percent rate, a temporary additional tax of 3 percent, a permanent surtax of 3 percent of tax, and a temporary surtax of 20 percent of tax. All corporations pay additional \$6.15 tax (including surtaxes) on each \$1,000 of taxable corporate excess or on taxable Massachusetts tangibles, whichever is greater. Minimum tax, the greatest of: (1) $\frac{1}{20}$ of 1 percent of the fair value of capital stock, plus 3 percent of allocable income; or (2) $\frac{1}{20}$ of 1 percent of allocable gross receipts, plus 3 percent of allocable income; or (3) \$25 each plus the 23 percent total surtaxes.
Minnesota.....	10.23 ¹	Includes the 7.5-percent basic rate plus, for taxable years beginning after Dec. 31, 1960, and prior to Jan. 1, 1963, a 10 percent increase in the basic rate and an additional tax of 1.98 percent. A credit of \$500, deductible from net income, is allowed each corporation. Minimum tax: \$10.
Mississippi.....	First \$5,000..... 2 \$5,001-\$10,000..... 3 \$10,001-\$15,000..... 4 \$15,001-\$25,000..... 5 Over \$25,000..... 5.5	The maximum rate for later years will be: 1962, 5.0 percent on income in excess of \$15,000; 1963, 4.5 percent on income in excess of \$15,000; 1964, 4.0 percent on income in excess of \$10,000; 1965, 3.5 percent on income in excess of \$10,000; 1966 and after, 3 percent on income in excess of \$5,000.
Missouri.....	2	
Montana.....	4.5	Minimum tax: \$10.
New Jersey.....	1.75	All corporations pay additional tax on net worth.
New Mexico.....	3	Rate will be reduced to 2 percent for taxable years beginning after Dec. 31, 1963.
New York.....	5.5 percent plus tax of $\frac{1}{2}$ mill per \$1 of allocated subsidiary capital.	Corporations are subject to the 5 $\frac{1}{2}$ -percent tax on net income or a tax on 3 alternative bases, whichever is greatest. The alternative taxes are: (1) 1 mill on each dollar of business and investment capital; or (2) 5 $\frac{1}{2}$ percent of 30 percent of net income plus compensation paid to officers and holders of more than 5 percent of capital stock, less \$15,000 and any net loss; or (3) \$25, whichever is greatest; plus the tax on allocated subsidiary capital.
North Carolina.....	6	
North Dakota.....	First 3,000..... 3 \$3,001-\$8,000..... 4 \$8,001-\$15,000..... 5 Over \$15,000..... 6	
Oklahoma.....	4	
Oregon.....	6	
Pennsylvania.....	6	Minimum tax: \$10. Manufacturers may offset up to $\frac{1}{4}$ of their tax with personal property taxes paid on inventory.
Rhode Island.....	6	Alternative tax: 40 cents per \$100 on corporate excess, if tax yield is greater. Minimum tax: \$10.
South Carolina.....	5	
Tennessee.....	3.75	
Utah.....	4	Corporations are subject to the 4-percent tax or a tax of $\frac{1}{20}$ of 1 percent of the value of tangible property within the State, whichever is greater. Minimum tax: \$10.
Vermont.....	5	Subject to reduction if there is sufficient surplus in general fund. Minimum tax: \$25.
Virginia.....	5	
Wisconsin.....	First \$1,000..... 2 \$1,001-\$2,000..... 2.5 \$2,001-\$3,000..... 3 \$3,001-\$4,000..... 4 \$4,001-\$5,000..... 5 \$5,001-\$6,000..... 6 Over \$6,000..... 7	
District of Columbia.....	5	

¹ Bank rate is 12.54%.

All the taxes imposed by local governments are low, flat-rate taxes (in no case more than 1½ percent), and only in St. Louis and some of the Kentucky cities do these taxes overlap State taxes.

The States are moving toward greater reliance on the Federal tax base for State corporate income taxes as well as for individual income taxes. Fifteen of the 36 States imposing corporate income taxes now have adopted the Federal tax base (with certain adjustments). In general, the adjustments made by States in the Federal tax base are relatively few. The more common ones are the subtraction of interest

on Federal securities and the addition of State income taxes. The most complete use of the Federal base is in Alaska, which takes 18 percent of the Federal tax due.

Deductibility. Under Federal law, State corporate income tax payments are allowed as a deduction in computing net income for Federal corporate income taxes. Fourteen of the 36 States levying such taxes permit taxes paid to the Federal Government to be deducted in computing State tax liability (table 34).

Table 40 illustrates the effect of deductibility of corporate income taxes at selected levels of net income. Pennsylvania does

TABLE 40.—Effect of Deductibility on (1) Effective Rates of Combined Federal and State Corporation Income Taxes, and (2) Net Income Remaining After Taxes, at Selected Net Income Levels and 1960 Federal and Pennsylvania Tax Rates¹

Net income before deduction for income taxes	(1) Effective rate of tax (percent)				
	Federal alone	Pennsylvania alone	Combined Federal and Pennsylvania		
			No deduction allowed by Pennsylvania for Federal tax	Assuming Pennsylvania allowed deduction of Federal tax ¹	
\$25,000.....	30.00	6	34.20	32.99	
\$250,000.....	49.80	6	52.68	51.29	
\$10,000,000.....	51.95	6	54.83	53.37	
	(2) Net income remaining after tax				
	Percent of net income remaining after tax			Percentage reduction in income remaining after tax due to Pennsylvania tax	
	Federal alone	Combined Federal and Pennsylvania		No deduction allowed for Federal tax	Assuming deduction allowed for Federal tax
		No deduction allowed by Pennsylvania for Federal tax	Assuming Pennsylvania allowed deduction of Federal tax		
\$25,000.....	70.00	65.80	67.01	6.0	4.3
\$250,000.....	50.20	47.32	48.71	5.7	3.0
\$10,000,000.....	48.05	45.17	46.63	6.0	3.0

¹ State income taxes are deductible for purposes of the Federal income tax. The Pennsylvania income tax does not permit deduction of the Federal income tax. For purposes of illustrating the effect of mutual deductibility,

however, the last column shows the effective rate of combined Federal and Pennsylvania taxes, assuming that Pennsylvania permitted deduction of the Federal tax.

not allow the deduction of Federal tax, but for purposes of illustration, the combined Federal and Pennsylvania tax have been computed under two assumptions, (1) no deduction for Federal tax and (2) assuming Pennsylvania allowed deduction of Federal tax. In the case of a \$250,000 net corporate income, for example, the effective rate of the Federal income tax alone is 49.8 percent. Under Pennsylvania law, which imposes a tax of 6.0 percent and does not allow the Federal tax as a deduction, the combined effective rate of both taxes is 52.68 percent, or 2.88 percentage points above the Federal tax alone. Assuming Pennsylvania law allowed the Federal tax as a deduction, the combined effective rate of Federal and State tax would amount to 51.29 percent, or 1.49 percentage points above the Federal tax alone.

The effect of deductibility on net income remaining after tax is illustrated in part 2 of table 40. For example, in the case of a

\$250,000 net corporate income subject only to Federal tax, 50.2 percent of net income remains after tax. The Pennsylvania tax, which does not allow the deduction of Federal taxes, reduces net income remaining after tax from 50.2 percent of 47.3 percent, or by 5.7 percent. This is due to the fact that the State tax is deductible for Federal income tax purposes. At the \$250,000 net income level the Pennsylvania tax, assuming in this case the deduction of Federal taxes, would reduce the net income after tax from 50.2 percent to 48.7, or 3 percent.

Federal-State Duplication

In relation to the Federal tax, the weight of the overlapping State taxes is moderate. In the 32 States which taxed corporate income throughout the 6 year period, 1953-58, State revenues averaged about 6.9 percent of Federal corporate income tax collections (table 41). On a national basis, relating State collections in the income tax States to Federal collections from

TABLE 41.—*State Corporation Income Tax Collections: as Percent of Federal Corporation Income Tax Collections, 1953-58*

FREQUENCY DISTRIBUTION

Under 5 percent	5 to 10 percent	10 to 15 percent	15 percent and over
Iowa..... 2.2	Alabama ¹ 6.9	California..... 12.2	Arkansas..... 25.8
Kansas..... 3.3	Arizona ¹ 7.9	North Dakota..... 13.2	Idaho..... 15.5
Missouri ¹ 2.5	Colorado..... 5.2	Rhode Island..... 10.1	Mississippi..... 43.8
New Mexico ¹ 4.4	Connecticut..... 7.7	Tennessee..... 13.3	North Carolina..... 15.8
New York..... 4.4	Georgia..... 9.2	Utah..... 11.8	Oregon..... 21.5
	Kentucky..... 8.2	Vermont..... 12.7	South Carolina..... 21.2
	Louisiana ¹ 5.2	Virginia..... 11.5	
	Maryland ³ 9.6	Wisconsin..... 12.3	
	Massachusetts ² 5.4		
	Minnesota..... 6.2		
	Montana..... 9.4		
	Oklahoma..... 5.3		
	Pennsylvania..... 9.4		
Number of States..... 5	13	8	6

Caution: These data are subject to important limitations and the reader is urged to consider the qualifications noted in the accompanying text in interpreting them.

¹ Since State income tax collections include both the individual and the corporate tax, the computation is based on Federal and State collections from both taxes.

² State collections do not include corporation excise taxes and surtaxes measured in part by net income and in part by corporate excess, which are classified as licenses.

³ Includes District of Columbia.

Source: National Bureau of Economic Research, *Public Finances: Needs, Sources and Utilization*, p. 156.

TABLE 42.—*Federal and State Corporation
Income Tax Collections, 1953-61*

[In millions]

Year	Federal	State and local	
		Amount	Percent of Federal
1953.....	\$21, 238	\$817	3. 85
1954.....	21, 101	778	3. 69
1955.....	17, 861	744	4. 17
1956.....	20, 880	890	4. 26
1957.....	21, 167	984	4. 65
1958.....	20, 074	981	4. 89
1959.....	17, 309	1, 001	5. 78
1960.....	21, 494	1, 180	5. 49
1961.....	20, 955	1, 265	6. 04

all the States, the percentage relationship is significantly smaller. As table 42 indicates, aggregate State collections in 1958 amounted to 4.9 percent of Federal collections. They were then equal to about 2½ percentage points of the Federal tax rate. The net cost of State taxes to corporations, allowing for the deductibility of State taxes for Federal tax purposes was of the general magnitude of about 1½ percentage points of the Federal tax rate. Since 1958 the ratio of State to Federal collections rose by about one-fifth, but on a net basis is still substantially below the revenue equivalent of 2 percentage points of the Federal tax.

On the basis of Federal tax returns filed in 1955-56, the States with corporate income taxes accounted for 66 percent of all corporations filing Federal income tax returns, for 61 percent of these corporations' reported net income, and for 60 percent of their Federal income tax liability. The two

new State taxes enacted since 1957 raise these respective percentages by about 5 points. About 28 percent of corporations with net income, accounting for one-third of all corporate net income and Federal tax liability, have their main offices in 1 of the 14 States without a corporate net income tax. Some of these corporations, however, pay income taxes in one or more additional States since they derive income from them.

The evaluation of the relative weight of States' corporate income taxes in terms of the Federal tax presents even more difficulties than in the individual income tax area. Tabulations of Federal collections by States are based on Federal returns filed and taxes collected. Corporations typically file a single Federal tax return at their headquarters or principal place of business, although a substantial number of them derive income in more than one State. Because their main offices are generally in urban industrial areas, Federal tax collection statistics understate the contribution of the nonindustrial and noncommercial States.

Since the States invariably tax all income derived within their borders, the less industrialized jurisdictions generally derive a large share of their corporate tax revenue from nonresident corporations which pay their Federal taxes in another State. In consequence, the ratio of State to Federal collections generally exaggerates the relative weight of State taxes in rural sections and undervalues it in industrialized States.

Chapter 8

INHERITANCE, ESTATE, AND GIFT TAXES

Federal and State Governments derived about \$2.4 billion from death and gift taxes in fiscal year 1961. The Federal share amounted to \$1.9 billion (net after refunds), or 2.4 percent of total Federal tax revenues. The States' share was nearly \$500 million, 2.6 percent of State tax revenues. In 1960, the share of State tax revenues derived from death and gift taxes ranged from less than half of 1 percent in nine States to more than 5 percent in only three.

Federal Estate and Gift Taxes

The present Federal tax on transfers of property at death dates from 1916, but the Federal Government has levied death taxes of various types intermittently since 1798.¹ Unlike earlier Federal and State inheritance taxes, the 1916 tax was imposed on the transfer of the entire estate rather than on the amount distributed to each beneficiary. Rates, initially graduated to 10 percent, were increased to a maximum of 25 percent during World War I. At the end of the war, rates were reduced on smaller estates, but were retained at the same level on large ones. In 1924 rates were increased to a

maximum of 40 percent, but in 1926 they were reduced retroactively to a maximum of 20 percent. Also, the estate tax exemption was increased in 1926 from \$50,000 to \$100,000.

A substantial segment of the Congress viewed the 1916 Federal estate tax as a temporary measure. The States had strongly opposed its enactment and after World War I considerable congressional sentiment developed, particularly in the Senate, for repealing it. This course was urged also by the Treasury Department.

Congressional consideration of the future of the Federal estate tax chanced to coincide with the advent of interstate tax competition for wealthy residents. One or two States had just begun to advertise immunity from death taxation in national journals. At least two had amended their constitutions to guarantee freedom from inheritance taxes to those who settled within their borders. State leadership was quick to recognize that unchecked interstate tax competition practiced by a few States would quickly destroy this tax source for all of them.

Heeding the plea of State leaders, Congress agreed to substitute tax reduction and a Federal tax credit (a special kind of tax reduction) for repeal of the tax. The 1926 revenue legislation reduced estate tax rates, raised the exemption from \$50,000 to \$100,000 and permitted 80 percent of the remaining estate tax liability to be offset,

¹ In 1798 a tax was imposed on transfers of property at death. It remained in effect until 1802. At the outbreak of the Civil War in 1861 an inheritance tax was enacted which was repealed in 1870. The Federal income tax of 1894 included a tax on inheritances, but this was nullified when the income tax law was declared unconstitutional. The war revenue bill of 1898 included a graduated inheritance tax on transfers of personal property which remained in effect until 1902.

dollar-for-dollar, with receipts for taxes paid to States. (A 25-percent tax credit had been introduced in 1924.) This provided tax reduction, an objective of Federal policy, and fixed a floor under State death taxes which effectively deterred interstate competition for wealthy residents. Each State was left free to collect death taxes not in excess of 80 percent of the Federal tax liability secure in the knowledge that it was adding nothing to the net tax burden of its residents. The combined State and Federal liability would in any event be the same. It became a matter of indifference whether a State did or did not impose a tax up to the amount of the credit. Any State which declined to do so was merely bestowing a bounty on the National Treasury and not on its own taxpayers.

In 1932, Federal estate tax rates were increased to a maximum of 45 percent by imposing a tentative tax in addition to the 1926 basic tax. The estate tax exemption applicable to the tentative tax was fixed at \$50,000. The maximum rate under the 1926 basic tax, which determined the amount of the credit for taxes paid the State, was set at 20 percent and the specific exemption was retained at \$100,000. During the 1930's, legislation further increased the rates and reduced the exemption for the tentative tax. Since the Revenue Act of 1941, the tentative estate tax rates have ranged from 3 percent on the first \$5,000 to 77 percent on that portion of the taxable estate in excess of \$10 million. In 1942, when the separate exclusion for life insurance was repealed, the specific exemption from tentative tax was increased to \$60,000. In 1948 an additional exemption was provided for the surviving spouse (the marital deduction) not in excess of 50 percent of the gross estate. The 1954 Code simplified the method of computing the

estate tax, but made no changes in the rates and exemptions effective under the 1939 Code as amended up to that time. After credit for State death taxes, the present maximum estate tax rate is about 61 percent.

The gift tax was first adopted in 1924 but was repealed 2 years later. Rates ranged from 1 percent on net gifts not in excess of \$50,000 to 25 percent on gifts over \$10 million. A specific annual exemption of \$50,000 was provided and a \$500 annual exclusion was allowed per donee.

The gift tax was restored in 1932 and since then has remained an integral part of the Federal transfer tax structure. Rates were set in 1932 at 75 percent of the tentative estate tax rates; that relationship has been maintained to date. In 1932, the donor's lifetime exemption was \$50,000; it was reduced to \$40,000 in 1935, and \$30,000 in 1942. The annual per donee exclusion, first \$5,000 under the 1932 act, was reduced to \$4,000 in 1938, and \$3,000 in 1942.

Since 1941, Federal estate and gift tax rates have remained unchanged (table 43). However, the introduction of the estate tax marital deduction and its gift tax counterparts by the Revenue Act of 1948 reduced the effective rates of these taxes when a surviving spouse succeeds to property and where both the husband and the wife are donors.

Federal estate and gift tax revenues increased from \$360 million in 1939 to about \$900 million in 1948. Revenues declined to about \$700 million by fiscal year 1950, but rose thereafter to a high of \$1.9 billion in fiscal year 1961.

State Death and Gift Taxes

The history of State death taxes begins with the inheritance tax on collateral heirs

TABLE 43.—*Federal Estate Tax Rates and Exemption Under 1926 Act and Federal Estate and Gift Tax Rates and Exemptions Under Present Law*

Tax bracket (thousands of dollars)		Estate tax				Gift tax	
		1926 act		Present law		Present law	
Equaling (1)	Not exceeding (2)	Rate (percent)	Tax on amount in col. (2)	Rate (percent)	Tax on amount in col. (2)	Rate (percent)	Tax on amount in col. (2)
.....	5	1	\$50	3	\$150	2½	\$112
5	10	1	100	7	500	5¾	375
10	20	1	200	11	1,600	8¾	1,200
20	30	1	300	14	3,000	10½	2,250
30	40	1	400	18	4,800	13½	3,600
40	50	1	500	22	7,000	16½	5,250
50	60	2	700	25	9,500	18¾	7,125
60	100	2	1,500	28	20,700	21	15,525
100	200	3	4,500	30	50,700	22½	38,025
200	250	4	6,500	30	65,700	22½	49,275
250	400	4	12,500	32	113,700	24	85,275
400	500	5	17,500	32	145,700	24	109,275
500	600	5	22,500	35	180,700	26¼	135,525
600	750	6	31,500	35	233,200	26¼	174,900
750	800	6	34,500	37	251,700	27¾	188,775
800	1,000	7	48,500	37	325,700	27¾	244,275
1,000	1,250	8	68,500	39	423,200	29¾	317,400
1,250	1,500	8	88,500	42	528,200	31½	396,150
1,500	2,000	9	133,500	45	753,200	33¾	564,900
2,000	2,500	10	183,500	49	998,200	36¾	748,650
2,500	3,000	11	238,500	53	1,263,200	39¾	947,400
3,000	3,500	12	298,500	56	1,543,200	42	1,157,400
3,500	4,000	13	363,500	59	1,838,200	44¼	1,378,650
4,000	5,000	14	503,500	63	2,468,200	47¼	1,851,150
5,000	6,000	15	653,500	67	3,138,200	50¼	2,353,650
6,000	7,000	16	813,500	70	3,838,200	52½	2,878,650
7,000	8,000	17	983,500	73	4,568,200	54¾	3,426,150
8,000	9,000	18	1,163,500	76	5,328,200	57	3,996,150
9,000	10,000	19	1,353,500	76	6,088,200	57	4,566,150
10,000	.....	20	.....	77	.....	57¾	.....
Specific exemption.....		\$100,000		\$60,000		\$30,000	

enacted by Pennsylvania in 1825. Several other States followed Pennsylvania's example, subjecting direct as well as collateral heirs to the tax. Following the Civil War these taxes fell into disuse, with the result that by 1885 substantial inheritance taxes were in force in only two or three States. The imposition of a 5-percent tax on collateral heirs by New York State in 1885 marked a turning point in State inheritance taxes. In 1903, Wisconsin established a pattern for future State taxes by the enactment of progressive rates on transfers to direct and collateral heirs, refinements in the

definition of taxable property, and improved centralized administration.

By 1926, when the 80-percent tax credit was enacted, all but two States already had reasonably well developed death tax systems. Most used inheritance taxes, as contrasted to estate taxes, and each employed its own definitions and rate scales. State exemptions were typically far below the \$100,000 Federal exemption, especially for bequests to distant relatives and strangers. Rates on middle-sized estates generally exceeded those accommodated by the new tax credit.

In these circumstances States had little incentive, if any, to replace their own tax systems with the uniform statute developed in 1925 by the group of experts, who composed the National Conference on Inheritance and Estate Taxation. The States left their respective structures unchanged and merely added "pickup" taxes to insure that State tax liability would in each instance at least equal the maximum credit allowed under Federal law. The institution of the "pickup" tax actually encouraged interstate variety for it reduced State resistance to special relief provisions of one kind or another. Legislators could acquiesce to pressures for relief provisions sanguine in the assurance that no amount of such legislation could ever reduce the State tax liability of an estate below the maximum credit. In this way, State tax provisions tended to become increasingly more varied over the years.

The diverse death tax provisions accumulated over the years fill many thousand closely printed pages and can be sketched here only cursorily. In general shape, these taxes fall into several categories (table 44). The simplest are the five estate taxes patterned after the Federal statute and designed to impose a tax liability equal to the

maximum credit allowed against the Federal tax. Some of these so-called "pickup" taxes, originally intended to preempt for the States the exact amount of the credit, have departed from this pattern; they have been overlaid with provisions at variance with those of the Internal Revenue Code. In consequence, State tax liability even in these States frequently exceeds the Federal credit.

Three States use estate taxes and 36 (including the District of Columbia) inheritance taxes, supplementing each with a "pickup" statute to absorb any unused credit; 3 use only inheritance taxes and 2 only estate taxes, but each of these employs tax rates substantially in excess of the maximum credit, obviating the need for "pickup" taxes; 1 State employs all 3: an inheritance tax, an estate tax, and a "pickup" tax, while another employs none of them.

There are important variations in virtually every structural feature of the States' taxes—in definitions of the gross tax base, in the deductions and exemptions, as well as in rates and payment provisions. The exemption of property left to a surviving spouse, for instance, in some cases is limited to a prescribed dollar amount; in others to a share (typically one-half, less often one-third) of the estate and in at least one State

TABLE 44.—Types of State Death Taxes

Type of tax	State
"Pickup" tax only (5)	Alabama, Arizona, Arkansas, Florida, Georgia, North Dakota, Utah.
Estate tax only (2)	Mississippi, New York, Oklahoma.*
Estate tax and "pickup" tax (3)	Oregon,* South Dakota, West Virginia.
Inheritance tax only (3)	Alaska, California,* Colorado,* Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana,* Maine, Maryland, Massachusetts, Michigan, Minnesota,* Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina,* Ohio, Pennsylvania, South Carolina, Tennessee,* Texas, Vermont, Virginia,* Washington,* Wisconsin,* Wyoming.
Inheritance tax and "pickup" tax (36)	Rhode Island.*
Inheritance, estate and "pickup" taxes (1)	Nevada.
No tax (1)	

*Has also gift tax (12).

is unlimited. Rates are generally graduated, but some States employ flat rates differentiating between two or more classes of relationship of the heir to the decedent. The variety literally defies summation.

Rates and exemptions vary greatly, even

among those States that levy the same type of death taxes. Among the States with estate taxes, exemptions range from \$10,000 to \$100,000, and maximum rates range from 10 percent to 23 percent ² (table 45). The inheritance tax exemptions range from

TABLE 45.—*State Estate Tax Rates and Exemptions* ¹

State	Rates	Maximum rate applies above—	Exemption
Alabama.....	80 percent of 1926 Federal rates.....	\$10, 000, 000	\$100, 000
Arizona ²	80 percent of 1926 Federal rates.....	10, 000, 000	100, 000
Arkansas.....	80 percent of 1926 Federal rates.....	10, 000, 000	100, 000
Florida.....	80 percent of 1926 Federal rates.....	10, 000, 000	100, 000
Georgia.....	80 percent of 1926 Federal rates.....	10, 000, 000	100, 000
Mississippi.....	80 percent of 1926 Federal rates.....	10, 000, 000	60, 000
New York ²	2-21 percent.....	10, 100, 000	(³)
North Dakota.....	2-23 percent.....	1, 500, 000	(⁴)
Oklahoma ²	1-10 percent.....	10, 000, 000	15, 000
Rhode Island ^{2 5}	1 percent.....	(⁵)	10, 000
Utah.....	3-10 percent.....	125, 000	10, 000

¹ Excludes States shown in table 46 which, in addition to their inheritance taxes, levy an estate tax to assure full absorption of the 80-percent Federal credit.

² An additional estate tax is imposed to assure full absorption of the 80-percent Federal credit.

³ \$20,000 of transfers to spouse and \$5,000 to each lineal

ascendant and descendant and to other specified relatives are exempt and deductible from first bracket.

⁴ Exemption for spouse is \$20,000 or 50 percent of adjusted gross estate, for minor child \$5,000, for lineal ancestor or descendants, \$2,000.

⁵ Entire estate above exemption.

as much as \$75,000 to no exemptions for certain types of heirs. In some States, benefits to certain heirs are totally exempt from inheritance tax. Tax rates range up to 40 percent on inheritances of distinctly related beneficiaries (table 46). The "pickup" tax rates range from 0.8 to 16.0 percent. These "pickup" taxes are paid to the extent that they exceed the regular inheritance or estate taxes, but fall short of the maximum credit allowed under the Federal tax.

Federal and State tax overlapping is now virtually universal for net estates of more than \$100,000. Estates of this size are subject both to Federal and to State taxation everywhere, save Nevada. Overlapping is substantially complete also (in 45 out of 50 States) in the case of net estates between \$60,000 and \$100,000. Smaller estates pay only State taxes since the Federal exemption is \$60,000.

Numerically, estates subject only to State taxes exceed by a substantial margin those subject to both Federal and State taxes. However, most of the \$2.4 billion Federal and State revenue produced by these taxes is accounted for by estates subject to both Federal and State taxes, those above \$60,000.

State gift taxes are generally patterned after the State death taxes. The gift tax structure in Oregon is similar to that used by the Federal Government. In Wisconsin, the gift tax is levied each year without reference to prior-year gifts. Other States follow the Federal system of cumulating current-year gifts taxed in prior years, but the aggregation is made for each donee instead of the donor.

² Excludes States which, in addition to inheritance taxes, levy a "pickup" tax to assure full absorption of the 80-percent Federal credit.

TABLE 46.—State Inheritance Tax Exemptions and Rates, for Selected Categories of Heirs

State ¹	Exemptions					Rates				In case of spouse	
	Widow	Minor child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	Size of first bracket	Level at which top rate applies
						Percent	Percent	Percent	Percent		
Alabama ²											
Alaska	\$10,000	\$10,000	\$10,000	\$1,000	None	1-3.5	1-3.5	3-10.5	5-17.5	\$15,000	\$100,000
Arizona ^{3, 4}											
Arkansas ²											
California ^{3, 4}	24,000	12,000	5,000	2,000	\$50	2-10	2-10	5-15	10-24	25,000	500,000
Colorado	20,000	10,000	10,000	2,000	\$ 500	2-8	2-8	3-10	7-16	50,000	500,000
Connecticut ^{5, 6, 17}	50,000	10,000	10,000	3,000	500	3-8	2-8	4-10	8-14	150,000	1,000,000
Delaware ³	20,000	3,000	3,000	1,000	None	1-4	1-4	2-5	5-8	30,000	200,000
District of Columbia ²	5,000	5,000	5,000	2,000	1,000	1-5	1-5	3-10	5-15	50,000	1,000,000
Florida ²											
Georgia ²											
Hawaii	20,000	5,000	5,000	500	500	2-6	1.5-7.5	3.5-9	3.5-9	15,000	250,000
Idaho ⁴	10,000	10,000	4,000	1,000	None	2-15	2-15	4-20	8-30	25,000	500,000
Illinois	20,000	20,000	20,000	10,000	100	2-14	2-14	2-14	10-30	20,000	500,000
Indiana ³	15,000	5,000	2,000	500	100	1-10	1-10	5-15	7-20	25,000	1,500,000
Iowa	40,000	15,000	15,000	None	None	1-8	1-8	5-10	10-15	10,000	300,000
Kansas	75,000	15,000	15,000	5,000	\$ 200	0.5-2.5	1-5	3-12.5	10-15	25,000	500,000
Kentucky	10,000	10,000	5,000	1,000	500	2-10	2-10	4-16	6-16	20,000	500,000
Louisiana ^{3, 4}	5,000	5,000	5,000	1,000	500	2-3	2-3	5-7	5-10	25,000	250,000
Maine	15,000	10,000	10,000	500	500	2-6	2-6	8-12	12-18	50,000	250,000
Maryland ⁶	150	150	150	150	150	1	1	7½	7½	(15)	(15)
Massachusetts ^{5, 9}	10,000	10,000	10,000	1,000	1,000	1-9	1-9	4-15	6-15	10,000	1,000,000
Michigan ¹⁰	20,000	5,000	5,000	5,000	None	2-8	2-8	2-8	10-15	50,000	750,000
Minnesota ²	30,000	15,000	6,000	1,500	500	1.5-10	2-10	6-25	8-30	25,000	1,000,000
Mississippi ²											
Missouri	20,000	5,000	5,000	500	\$ 100	1-6	1-6	3-18	5-30	20,000	400,000
Montana ²	17,500	2,000	2,000	500	None	2-8	2-8	4-16	8-32	25,000	100,000
Nebraska ²	10,000	10,000	10,000	10,000	500	1	1	1	6-18	(15)	(15)
Nevada ⁽¹⁶⁾	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)
New Hampshire ⁽¹⁶⁾	(16)	(16)	(16)	None	None	(16)	(16)	8.5	8.5	(16)	(16)
New Jersey ³	5,000	5,000	5,000	\$ 500	\$ 500	1-16	1-16	5-16	8-16	50,000	3,700,000
New Mexico ^{4, 6}	10,000	10,000	10,000	10,000	500	1	1	5	5	(15)	(15)
New York ²											
North Carolina	10,000	5,000	2,000	None	None	1-12	1-12	4-16	8-17	10,000	3,000,000
North Dakota ²											
Ohio ²	10,000	10,000	7,000	1,000	None	1-5	2-5	6-9	8-11	25,000	200,000
Oklahoma ²											
*Oregon	(16)	(16)	(16)	1,000	500	(16)	(16)	1-15	4-20	(15)	(18)
Pennsylvania	1,000	¹² None	¹² None	None	None	2	2	15	15	(15)	(15)
Rhode Island ¹¹	10,000	10,000	10,000	5,000	1,000	2-9	2-9	3-10	8-15	25,000	1,000,000
South Carolina	10,000	7,500	5,000	500	200	1-6	1-6	2-7	4-14	20,000	300,000
*South Dakota ²	10,000	10,000	10,000	500	100	1-4	1-4	3-12	5-20	15,000	100,000
Tennessee ⁶	10,000	10,000	10,000	1,000	1,000	1-7	1-7	5-15	5-15	25,000	500,000
Texas ^{3, 4}	25,000	25,000	25,000	10,000	500	1-6	1-6	3-10	5-20	50,000	1,000,000
Utah ²											
Vermont ²	15,000	15,000	15,000	15,000	None	2-6	2-6	2-6	12	25,000	250,000
Virginia ²	5,000	5,000	5,000	2,000	1,000	1-5	1-5	2-10	5-15	50,000	1,000,000
Washington ^{3, 4}	¹³ 5,000	¹³ 5,000	¹³ 5,000	⁶ 1,000	None	1-10	1-10	3-20	10-25	25,000	500,000
*West Virginia ²	15,000	5,000	5,000	None	None	3-13	3-13	4-18	10-30	50,000	1,000,000
Wisconsin ¹⁴	15,000	2,000	2,000	500	100	2-10	2-10	2-10	8-40	25,000	500,000
Wyoming	10,000	10,000	10,000	10,000	None	2	2	2	6	(15)	(15)

¹ All States, except those designated by asterisk (*), impose also an estate tax to assure full absorption of the 80-percent Federal credit.

² Imposes only estate tax. See table 45.

³ Exemptions are deductible from the first bracket.

⁴ All community property passing to the widower and ½ of the community property passing to the widow are not taxable.

⁵ No exemption is allowed if beneficiary's share exceeds the amount shown in the exemption column, but no tax shall reduce the value of the amounts shown in the exemption column. In Maryland, it is the practice to allow a family allowance of \$450 to a widow if there are infant children, and \$225 if there are no infant children, although there is no provision for such deductions in the statute.

⁶ The exemption shown is the total exemption for all beneficiaries falling into the particular class and is shared by them proportionately.

⁷ Rate shown is for spouse only. A minor child is taxed at the rates applying to an adult child.

⁸ Estates of less than \$1,000 after deduction of debts are not taxable.

⁹ Additional taxes, equal to 23 percent of the inheritance tax, are also imposed.

¹⁰ Transfers of real property to class I beneficiaries are taxed at ¾ of the indicated tax rates.

¹¹ Imposes also an estate tax. See table 45.

¹² In the absence of a spouse, the children may claim the \$1,000 exemption.

¹³ An additional \$5,000 exemption is allowed to the class as a whole.

¹⁴ These rates are subject to the limitation that the total tax may not exceed 15 percent of the beneficiary's share. An additional tax equal to 30 percent of the inheritance tax is also imposed.

¹⁵ Entire share.

¹⁶ No tax imposed.

¹⁷ Effective June 8, 1961, an additional 30-percent surtax is imposed.

There is much interstate variation in gift tax exemptions, annual exclusions, and rates (table 47). In some States, there is no variation of exemption and annual exclusion by type of donee; in others there is considerable variation. In California, for example, donor exemptions range from \$50 for gifts

to distant relatives to \$24,000 for gifts to a wife, but the annual exclusion is \$4,000 to any donee. Oregon allows a donor exemption of \$15,000, but annual exclusions by type of donee range from \$5,000 of gifts to spouse or child to \$1,000 to someone other than a relative.

TABLE 47.—State Gift Tax Rates and Exemptions for Selected Categories of Donees

State	Donor's lifetime exemption					Rates				Annual exclusion to each donee
	Wife	Minor child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	
California* 1 2	\$24,000	\$12,000	\$5,000	\$2,000	\$50	Percent 2-10	Percent 2-10	Percent 5-15	Percent 10-24	\$4,000.
Colorado* 1	20,000	10,000	10,000	2,000	500	2-8	2-8	3-10	7-16	\$3,000 spouse, child. \$1,500 brother, sister. \$1,000 other than relative.
Louisiana* 1		30,000				2-3	2-3	5-7	5-10	\$5,000 spouse, child. \$1,000 brother, sister. \$500 other than relative.
Minnesota* 2 3	10,000	10,000	5,000	1,000	250	1-5-10	2-10	6-25	8-30	\$3,000.
North Carolina*	25,000	(?)	(?)	None	None	1-12	1-12	4-16	8-17	\$3,000.
Oklahoma			None					1-10		\$3,000.
Oregon			15,000			1-10	1-10	2-25	5-30	\$5,000 spouse, child. \$3,000 brother, sister. \$1,000 other than relative.
Rhode Island	25,000	(?)	(?)	(?)	(?)			2-9		\$3,000.
Tennessee*			None			1-7	1-7	5-15	5-15	\$10,000 spouse, child. ⁴ \$5,000 brothers and sisters, others. ⁴
Virginia* 3			None			1-5	1-5	2-10	5-15	\$5,000 spouse, child. \$2,000 brother, sister. \$1,000 other than relative.
Washington* 1 3		\$10,000		\$1,000	None	.9-8.1	.9-8.1	2.7-18	9-22.5	\$3,000.
Wisconsin* 3 6	15,000	2,000	2,000	None	None	2-10	2-10	4-20	8-40	\$1,000.

*Gift tax rates are the same as inheritance tax rates except in Washington where they are 90 percent of inheritance tax rates.

¹ Half of community property transferred to surviving spouse is not taxable.

² The following tax credits are allowed: wife, \$300; minor child, \$75; adult child, \$20; brother or sister, \$30; other than relatives, \$20. The tax may not exceed 35 percent of the full value of the gift.

³ Exemptions or exclusions are deductible from the first bracket.

⁴ Only 1 annual exclusion is allowed each class of donee. 1 class in-

cludes spouse, lineal ancestor or descendant; all others are in the other class. Exemptions are deductible from the first bracket.

⁵ Only 1 exemption allowed each class of donees. Spouse and lineal ancestors and descendants comprise 1 class; brothers and sisters another; all others, the 3d class.

⁶ In addition, an emergency tax is imposed equal to 30 percent of the tax computed at the rates shown. The total tax may not exceed 15 percent of the value of the gift.

⁷ Only one \$25,000 lifetime exemption for all classes of donees combined.

Role of the Tax Credit

The capacity of the Federal tax credit to achieve Federal-State tax coordination has been reduced over the years. One contributing factor was Federal tax legislation. As already noted, during the 15 years following 1926, Federal estate tax rates were increased and exemptions reduced. The purpose of these measures was to increase Federal revenues. This was accomplished by enacting the increases in the form of a separate estate tax against which no credit was allowed for taxes paid to States.

A contributing factor was the Federal gift tax imposed at rates fixed at 75 percent of

estate tax rates and with a separate exemption. This serves to encourage the distribution of properties during the lifetime of their owners. Since property so distributed generally reduces the estate subject to taxation at death, State death tax revenues are automatically reduced. The dozen States which use gift taxes find them difficult to enforce. Moreover, State gift taxes do not qualify for a Federal tax credit.

These developments have combined to reverse the relative Federal and State shares in revenues from these taxes. Thirty years ago the States' share was about three-

fourths of the total. In recent years it has averaged about one-fifth.

The decline in the importance of the credit is illustrated in table 48. Between 1931 and 1959 the percentage of Federal estate tax liability represented by credits

claimed for taxes paid to the States declined from 76 percent to 10 percent. There is considerable variation, however, in relative credit among the States during any given year, among estates of different size within any one State, and year to year in the same

TABLE 48.—*Federal Estate Tax Liability Before State Death Tax Credit, and State Death Tax Credit, for Returns Filed During 1929-59*

[Dollar amounts in thousands]

Year	Federal estate tax liability before State death tax credit	State death tax credit	
		Amount	Percent of Federal tax liability before credit
1929.....	\$165,414	\$122,110	73.8
1930.....	152,391	113,388	74.4
1931.....	182,202	137,663	75.6
1932.....	84,006	61,642	73.4
1933.....	76,701	20,097	26.2
1934.....	129,150	33,922	26.3
1935.....	197,672	43,864	22.2
1936.....	239,559	44,218	18.5
1937.....	364,180	58,252	16.0
1938.....	374,561	59,841	16.0
1939.....	330,227	53,111	16.1
1940.....	295,685	45,337	15.3
1941.....	336,529	53,636	15.9
1942.....	330,674	45,626	13.8
1943.....	398,194	35,966	9.0
1944.....	452,211	46,285	10.2
1945.....	596,123	64,517	10.8
1946.....	.....	(1)	.....
1947.....	693,587	69,850	10.1
1948.....	799,297	82,725	10.3
1949.....	634,859	65,831	10.4
1950.....	533,942	48,940	9.2
1951.....	644,355	64,535	10.0
1952.....	.....	(1)	.....
1953.....	.....	(1)	.....
1954.....	868,643	85,842	9.88
1955.....	872,471	86,249	9.89
1956.....	.....	(1)	.....
1957.....	1,353,262	146,769	10.85
1958.....	.....	(1)	.....
1959.....	1,346,297	131,479	9.77

¹ Not available.

Source: Internal Revenue Service, *Statistics of Income*.

States. For returns filed in 1959, for example, the Federal credit as percent of tentative Federal estate tax ranged from a low of 1.9 percent in Alaska to a high of 14 percent in Michigan (table 49).

Some States have sought to increase death tax revenues through tax enactments over and above the tax credit. Most States im-

pose death taxes on small estates exempt from Federal estate tax, and levy taxes (in addition to the inheritance tax) on larger estates in excess of the amount allowed as a credit against Federal tax. On the other hand, many States provide for deduction of the Federal estate tax before computing the State inheritance tax (table 50). Only a

TABLE 49.—Credit for State Death Taxes as a Percent of Federal Estate Tax Liability Before Credits, by States, for Taxable Returns Filed During Selected Years 1949–59

State	1949	1950	1951	1954	1955	1957	1959
Alabama.....	11.03	5.84	6.04	8.34	7.37	6.18	6.94
Alaska.....							1.85
Arizona.....	7.29	4.82	4.78	7.10	7.83	7.88	7.64
Arkansas.....	7.74	5.90	5.25	5.31	6.66	7.15	6.31
California.....	12.71	8.18	9.05	8.80	8.48	11.54	9.68
Colorado.....	10.69	5.96	7.29	7.65	6.52	9.62	9.55
Connecticut.....	11.87	9.43	10.00	11.71	11.47	12.53	12.31
Delaware.....	16.30	15.63	9.92	13.41	8.89	11.36	9.31
Florida.....	12.18	10.99	7.68	9.41	10.53	8.40	8.91
Georgia.....	9.12	10.52	8.00	7.93	8.71	8.37	7.02
Hawaii.....							9.12
Idaho.....	1.42	5.68	4.04	3.03	5.83	3.80	4.45
Illinois.....	7.67	8.41	8.29	8.80	11.77	9.03	9.21
Indiana.....	7.24	6.88	7.16	5.42	7.18	8.66	7.90
Iowa.....	4.89	5.17	4.19	5.05	4.74	5.74	5.42
Kansas.....	5.68	5.46	6.38	4.72	7.16	7.61	10.23
Kentucky.....	6.28	8.32	6.87	8.40	7.32	11.76	7.31
Louisiana.....	7.75	5.28	9.64	7.28	9.56	8.50	7.43
Maine.....	5.33	7.37	8.57	6.89	7.90	6.89	7.69
Maryland.....	8.06	8.63	9.27	7.56	9.43	11.15	8.90
Massachusetts.....	10.47	8.39	10.25	9.91	9.34	11.03	9.57
Michigan.....	8.68	10.17	9.47	13.83	9.29	9.26	14.02
Minnesota.....	5.65	7.43	10.26	7.67	8.03	7.82	11.62
Mississippi.....	5.56	5.21	6.05	5.27	5.64	5.62	6.21
Missouri.....	8.53	9.38	8.50	8.22	8.56	8.87	8.27
Montana.....	2.28	6.95	5.06	5.30	8.04	5.96	8.16
Nebraska.....	5.69	6.39	4.44	5.01	6.91	7.69	6.45
Nevada.....	4.07	.28	7.35	.09	.55	2.91	2.36
New Hampshire.....	6.83	11.80	6.80	7.13	7.12	8.47	5.23
New Jersey.....	10.88	9.74	10.48	9.17	8.80	7.89	10.29
New Mexico.....	4.89	6.63	4.85	4.64	9.58	7.74	7.16
New York.....	11.11	9.96	11.36	11.23	11.67	12.62	10.90
North Carolina.....	6.49	7.22	8.41	12.35	6.92	9.41	8.89
North Dakota.....	7.28	2.02	4.50	5.30	2.62	5.71	3.61
Ohio.....	11.24	9.43	8.91	10.56	8.61	9.14	9.86
Oklahoma.....	6.29	11.62	11.54	5.41	7.92	7.06	8.76
Oregon.....	6.76	5.61	9.43	6.22	9.17	6.63	6.29
Pennsylvania.....	9.54	10.18	12.91	10.52	10.42	13.75	9.48
Rhode Island.....	11.52	10.42	12.39	10.90	9.59	14.94	10.94
South Carolina.....	10.48	4.76	7.16	5.00	15.88	6.95	5.92
South Dakota.....	6.09	8.65	5.78	4.15	4.96	6.24	4.02
Tennessee.....	7.29	6.70	9.73	8.39	8.48	6.33	7.00
Texas.....	9.39	10.02	10.47	8.46	11.01	10.53	9.00
Utah.....	6.32	2.05	6.28	4.68	4.75	8.54	11.70
Vermont.....	4.78	9.95	7.06	8.67	4.16	8.61	8.86
Virginia.....	9.56	5.79	9.03	12.11	6.85	9.30	6.51
Washington.....	6.67	6.48	4.35	7.83	6.65	7.24	8.19
West Virginia.....	5.61	4.96	6.39	5.77	9.04	7.28	8.00
Wisconsin.....	6.93	7.93	11.59	8.84	8.12	8.61	7.42
Wyoming.....	8.78	5.85	3.26	7.29	5.14	6.41	8.64
Total ¹	10.37	9.17	10.02	9.88	9.89	10.85	9.77

¹ Total includes District of Columbia and a few tax returns filed from outside the continental United States.

Source: Internal Revenue Service, *Statistics of Income*.

few States limit their death taxes only to absorption of the 80-percent Federal credit. Today the credit continues to serve as a floor under State tax liability and to this extent prevents competitive tax reduction. It

does not, however, prevent wide variations in State liabilities above the credit. Every State except Nevada imposes a tax at least equal to the maximum Federal credit and here the resemblance ends.

TABLE 50.—*Deductibility of Federal Estate Tax for Purposes of State Inheritance and Estate Taxes*

State	Federal estate tax deductible	State	Federal estate tax deductible
Alabama	No.	Montana	Yes.
Alaska	Yes.	Nebraska	Yes.
Arizona	No.	Nevada	No inheritance tax.
Arkansas	No.	New Hampshire	Yes.
California	No.	New Jersey	No.
Colorado	No.	New Mexico	No.
Connecticut	No.	New York	No.
Delaware	No.	North Carolina	No.
District of Columbia	Yes. ¹	North Dakota	Yes.
Florida	No.	Ohio	Yes.
Georgia	No.	Oklahoma	No.
Hawaii	No.	Oregon	No.
Idaho	Yes.	Pennsylvania	No.
Illinois	Yes.	Rhode Island	No.
Indiana	No.	South Carolina	Yes.
Iowa	Yes.	South Dakota	No.
Kansas	Yes.	Tennessee	No.
Kentucky	Yes. ¹	Texas	No.
Louisiana	No.	Utah	No.
Maine	Yes.	Vermont	Yes.
Maryland	Yes.	Virginia	Yes.
Massachusetts	Yes.	Washington	No.
Michigan	No.	West Virginia	Yes.
Minnesota	Yes.	Wisconsin	Yes. ¹
Mississippi	No.	Wyoming	Yes.
Missouri	Yes.		

¹ In proportion to the ratio of the value of the estate subject to State tax to the value subject to Federal tax.

Under its original 1926 formulation, the credit for State taxes was limited to 80 percent of the Federal tax liability of each estate. At that time tax rates ranged from 1 percent on the first \$50,000 bracket in excess of a \$100,000 exemption to 20 percent on the excess over \$10 million. Regardless of the size of the estate, the credit was in each instance 80 percent of the Federal liability. The subsequent Federal rate revision increased Federal tax liability substantially more in the lower than in the higher tax brackets. This had the effect of changing drastically the relationship of the tax credit to Federal tax liability. Today the share of Federal-State liability represented by the credit is least on small estates and increases as the size of the estate increases. It rises from zero on net estates between \$60,000 and \$100,000 to 5 percent at around \$300,000, 10 percent at \$1 million, and approaches 20 percent on estates over \$10 million (table 51).

TABLE 51.—*Credit for State Death Taxes as Percent of Federal Estate Tax Liability, Returns Filed During 1959*

[Dollar amounts in thousands]

Net estate before specific exemption classes	Credit for State taxes	Federal estate tax liability before credits	Credit as percent of Federal liability
\$100-\$150	\$1, 815	\$85, 583	2. 1
\$150-\$200	2, 728	89, 473	3. 0
\$200-\$300	6, 982	146, 038	4. 8
\$300-\$400	6, 911	106, 975	6. 5
\$400-\$500	6, 399	84, 226	7. 6
\$500-\$600	5, 459	65, 423	8. 3
\$600-\$700	4, 766	53, 427	8. 9
\$700-\$800	3, 991	41, 924	9. 5
\$800-\$900	4, 200	41, 691	10. 1
\$900-\$1,000	3, 729	35, 143	10. 6
\$1,000-\$2,000	23, 783	193, 428	12. 3
\$2,000-\$3,000	15, 123	106, 187	14. 2
\$3,000-\$4,000	7, 447	49, 345	15. 1
\$4,000-\$5,000	6, 522	41, 236	15. 8
\$5,000-\$7,000	8, 662	52, 758	16. 4
\$7,000-\$10,000	8, 144	47, 406	17. 2
\$10,000-\$20,000	10, 810	58, 378	18. 5
\$20,000 or more	3, 908	19, 716	19. 8
All taxable returns ¹	131, 479	1, 346, 297	9. 8

¹ Includes returns under \$100,000.

Source: Internal Revenue Service, *Statistics of Income*, 1958.

Since the relationship of the credit to Federal tax liability depends on the size of the estate and since the distribution of estates by size varies among the States, the role of the credit varies similarly. In some States nearly two-thirds of the estates subject to Federal tax have a net valuation of less than \$100,000, and on the estates of this size present Federal law allows no credit for State taxes. In other States the proportion of returns represented by these small estates is substantially below 50 percent. Even greater variations prevail at the other end of the size distribution. Some States may not have a single \$1 million tax return in several successive years. This irregularity of large estates is the cause of sharp year-to-year fluctuations in State revenues. One \$25 million estate produces a larger tax credit under present rates than nearly 3,000 separate \$200,000 estates. In 1959 the tax credit on a single \$25 million estate exceeded the sum of all tax credits claimed on all estate tax returns filed from 17 low-wealth States.

Coordination Proposals

For some years the relationship of Federal and State death taxes has had many critics, no defenders. The States feel that their share of the yield of these taxes should be increased. Some are concerned because interstate tax differentials may intrude on decisions where people settle and do business; they would like a higher Federal tax credit to shelter their higher tax rates against interstate competition. Tax practitioners and administrators are critical of the excessive tax complexity and interstate variety. Students of taxation lament that heterogeneity mars the death tax structure's usefulness as an instrument of public policy.

Since the war, proposals for the rearrangement of Federal-State relations in this

tax area have probably outnumbered all the other coordination suggestions which have emanated from the long list of study commissions, committees, public officials, business and professional organizations, and tax students who have expressed themselves on the subject. Most recently, a program for the coordination of these taxes has been developed by the Advisory Commission on Intergovernmental Relations.³ Its recommendations are embodied in bills introduced during the 87th Congress.⁴

The Commission's analysis of the possible coordination alternatives ranged all the way from the Federal Government vacating the field for exclusive State use—the course frequently urged by State Governors—to the converse, that the States vacate the field for exclusive Federal use, possibly with Federal-State revenue sharing or in exchange for another Federal tax. It recommended that the present flat rate tax credit be replaced with a two-bracket credit to allow a relatively high credit in the low tax brackets and a low credit in the remaining brackets. This would contribute to the stability of the States' revenues because small and middle-size estates are the hard core of their tax bases. By the same token it would increase the relative shares of the small, less industrialized States without affecting high-wealth States excessively.

The Commission made no recommendation on the specific size of the tax credit, i.e., the amount of additional revenue which should be transferred to the States, on the ground that this was a policy decision for the President and the Congress to make. The bills pending before the 87th Congress would provide for an 80-percent credit in

³ *Coordination of State and Federal Inheritance, Estate, and Gift Taxes* (Washington; GPO x-134 pp., January 1961).

⁴ H.R. 5153, H.R. 5155, H.R. 8600, and S. 1344.

the taxable brackets up to \$150,000, and a 20-percent credit in the remaining brackets. On the basis of 1959 returns, these rates would have resulted in an annual Federal revenue loss of about \$400 million.

Contrary to general belief, an increase in the Federal credit would not automatically increase States revenues. Unless States increased their taxes to parallel the increase in the Federal credit, a substantial part of it would be absorbed in Federal tax reduction.

State taxes now exceed the present credit, on the average, by over 150 percent; in some States by substantially more, especially in the lower and middle tax brackets. As a result, present State taxes leave most estates with tax receipts which they are unable to utilize fully against the tax credits allowed under present Federal law. They would have these receipts available for application against a new, enlarged Federal tax credit.

States would be free, of course, to increase their taxes to parallel the additions to the Federal tax credit and to capture their revenue equivalent for their treasuries without increasing aggregate (Federal and State) death taxes. This, the Commission believes, is unlikely to occur to any significant degree. The initial effect of the higher tax credit would be a form of Federal tax reduction and States would be under pressure not to nullify it by State tax adjustments, lest they discourage the in-migration of well-to-do residents from other States.

To insure that the revenues involved in an increase in the Federal tax credit would be conserved for the States, the Commission recommended that eligibility for the credit be limited to taxpayers in those States which have made corresponding adjustments in their tax laws. This would require each State to increase the annual yield of its death

tax system by an amount approximately equal to the aggregate reduction in Federal taxes paid on the estates of its decedents as a result of the increase in the Federal credit. These adjustments would pose technical problems; more for some States than others. A few would be able to accomplish them simply by amending their present "pickup" taxes; most, however, would have to revise their tax rates.

An increase in the credit, standing alone, would not materially reduce the complexity of the present aggregation of State and Federal death taxes. That diversity is the product of several factors. One is overlapping taxing jurisdictions and the natural inclination of each to shape its own statutory provisions. Another is the use of the estate tax at the national level and inheritance taxes by the States, some in combination with estate taxes. The Commission recommended that the higher Federal estate tax credit be limited to estate-type taxes as distinguished from inheritance taxes. It urged the States to adopt uniform tax provisions, preferably along the line of the Federal law.

A few States would automatically satisfy this requirement because they now employ estate taxes similar in structure to the Federal tax. Most States, however, would have to enact new legislation, a process which would require some time. A comparable situation would exist with respect to the requirement described above, that each State increase the aggregate annual revenue level of its death tax system. The Commission therefore proposed that the effective date of the new tax credit legislation be made prospective. The pending bills would make the new provisions applicable to estate tax returns of decedents dying after December 31, 1963.

There is some likelihood that after a higher tax credit and State revenue level have become established, some States will prefer to forgo their independently collected taxes for a corresponding share of Federal collections. The Commission regarded this an inviting prospect and recommended that the U.S. Treasury be prepared to afford the States an option to forgo their independently imposed death taxes based on a Federal estate tax credit in return for a share of Federal collections if a consensus for such an exchange develops among the States.

The gift tax is the essential complement of inheritance and estate taxes because property distributed during life is automatically removed from taxation at the time of death. States are concerned because the Federal tax system encourages lifetime property distributions by imposing

lower taxes on gifts than bequests. This reduces the amount of property to which State death tax rates apply.

The Commission considered and rejected proposals for a Federal gift tax credit to parallel the estate tax credit. This would automatically force gift tax enactments upon the 38 States which do not now employ them. Such compulsory tax overlapping would be all the more regretful because in many States the gift tax would produce only negligible revenues at relatively high enforcement costs and would not materially contribute to safeguarding State death taxes against avoidance by gifts. It urged the States with gift taxes to repeal them because the proposed estate tax credit would be generous enough to compensate for their revenue losses attributable to property their decedents might have distributed during life.

Chapter 9

TOBACCO TAXES

Tobacco products have been taxed by the Federal Government since the Civil War. State taxation of tobacco dates from the enactment of Iowa's tax in 1921. Eight States were imposing excises on cigarettes by 1929, and by 1939 the total had reached 27. At present, 47 States and the District of Columbia levy cigarette taxes, and 16 States impose excises on one or more of the tobacco products other than cigarettes. A large number of States increased their rates in recent years, and some, which formerly imposed these taxes for a limited period, have now made them a permanent part of their tax structures.

Tobacco taxation by counties and municipalities, which had developed after World War II, has thus far been confined to relatively few States.

Federal Taxes

The Revenue Act of 1951 raised the Federal tax on cigarettes to \$4 per thousand, or 8 cents per package of 20. The \$4 rate has been extended from year to year and is now scheduled to revert to \$3.50 per thousand on July 1, 1962. The tax on manufactured tobacco, including chewing and smoking tobacco and snuff, was reduced from 18 to 10 cents a pound by the Revenue Act of 1951. Cigar tax rates have not been changed since 1942. The rates on large cigars range from \$2.50 to \$20 per thousand depending upon the intended retail price. Small cigars are taxed at the rate of 75 cents per thousand.

State and Local Taxes

The principal State tobacco excises are those on cigarettes. Excises on cigarettes are imposed by the District of Columbia and all of the States except Colorado, North Carolina, and Oregon. The tax is usually levied in terms of packages of a specified number of cigarettes. In only two cases is the tax based on the retail or wholesale price. Twelve States apply different rates to cigarettes of varying dimension or weight. The State tax rates on a standard package of 20 cigarettes range from 2 cents to 8 cents (table 52). The most common rates are 5 cents (9 States) and 6 cents (12 States) per package.

A total of 15 States tax cigars (table 53). In 5 of these the tax takes the form of a specified percentage of the retail or wholesale price, and the same percentage is applied to both small cigars (defined as those weighing not more than 3 pounds per 1,000 cigars) and large cigars (defined as those weighing more than 3 pounds per 1,000 cigars). Small cigars are taxed at specific rates in all the remaining States, with the exception of Mississippi where rates graduated according to the intended retail price are applied. Large cigars are taxed in 10 of the States at rates graduated according to the intended retail price. The specific rates on small cigars range from \$1 to \$3.50 per thousand, or 1/2 cent to 1 3/4 cents per standard package of five cigars. Taxes on large cigars intended to retail at

TABLE 52.—State Cigarette Tax Rates

[Per standard package of 20 cigarettes]

2¢	2½¢	3¢	3½¢	4¢
Arizona, District of Columbia.	Kentucky.	California. Delaware. Indiana. New Hampshire. ² Virginia. ³	Hawaii. ¹	Illinois. Iowa. Kansas. Missouri. Nebraska. Utah. Wyoming.
Total.....2	1	5	1	7
5¢	6¢	7¢	8¢	
Connecticut. Florida. Georgia. Michigan. New York. Ohio. South Carolina. South Dakota. Tennessee.	Alabama. Arkansas. Idaho. Maine. Maryland. Massachusetts. Mississippi. North Dakota. Pennsylvania. ⁴ Rhode Island. West Virginia. ⁵ Wisconsin.	Minnesota. Nevada. New Jersey. Oklahoma. Vermont. Washington.	Alaska. Louisiana. Montana. ⁴ New Mexico. Texas.	
Total.....9	12	6	5	

¹ The statutory rate is 20 percent of the wholesale price.

² The statutory rate is 15 percent of the retail price.

³ The tax is effective for the period Aug. 1, 1960, through June 30, 1962.

⁴ Includes the following additional temporary taxes to

be levied until veterans' bonus bonds are retired: Montana, 3¢; Pennsylvania, 1¢.

⁵ Includes a temporary increase of 2¢ scheduled to expire on June 30, 1962.

TABLE 53.—State Cigar Tax Rates

State	Weighing not more than 3 pounds per 1,000		Weighing more than 3 pounds per 1,000	
	Tax per 1,000	Intended retail price (cents)		Tax per 1,000
		Over—	Not over—	
Alabama.....	\$2.00.....	3½	5	\$1.50
		5	8	3.00
		8	10	4.50
		10	20	7.50
		20		15.00
Arizona.....	\$1.00.....		5	20.25
		5		3.33½
				10.00
Georgia.....	\$2.00.....		3½	1.50
		3½	5	3.00
		5	8	4.00
		8	10	7.50
		10	20	15.00
		20		20.00
Hawaii.....	20 percent of wholesale price.....	20 percent of wholesale price		
Louisiana.....	\$1.20.....		5	3.20
		5	8	4.80
		8	15	8.00
		15	20	32.00
		20		40.00

TABLE 53.—State Cigar Tax Rates—Continued

State	Weighing not more than 3 pounds per 1,000		Weighing more than 3 pounds per 1,000	
	Tax per 1,000	Intended retail price (cents)		Tax per 1,000
		Over—	Not over—	
Minnesota	10 percent of wholesale price	10 percent of wholesale price		\$1.20
Mississippi	(1)	3½	3½	
		5	5	2.40
		8	8	3.60
		10	10	6.00
		20	20	12.00
		20	20	16.80
New Hampshire	15 percent of retail price	15 percent of retail price		10.00
Oklahoma	\$3.50	3½	3½	
		3½	3½	20.00
South Carolina	\$2.00	3½	3½	5.00
		3½	3½	16.00
Tennessee	\$1.00	3½	3½	1.00
		3½	5	2.00
		5	9	3.00
		9	10	5.00
		10	20	10.50
		20	20	13.50
Texas	\$1.00	3½	3½	7.50
		3½	3½	15.00
Vermont	20 percent of wholesale price	20 percent of wholesale price		1.00
Virginia ²	\$1.00	3½	3½	
		3½	5	2.00
		5	8	3.00
		8	10	5.00
		10	20	10.00
		20	20	13.50
Washington	25 percent of wholesale price	25 percent of wholesale price		

¹ The rates are the same as those shown for large cigars.

² The tax is effective from Aug. 1, 1960, through June 30, 1962.

10 cents a piece range from 2½ cents to 10 cents per standard package of five cigars.

Smoking tobacco, chewing tobacco, and snuff are subject to State excises in 13, 12, and 11 States, respectively (table 54). These taxes generally are either of the ad valorem variety (specified percentage of either the retail, wholesale, or factory list price) or the specific type (specified amount per given weight). Some States employ rates graduated according to weight or retail price.

Thirty-four of the 47 States with cigarette taxes employ also a general sales tax. Only 12 of these exempt cigarette sales from the general sales tax. Among the States that tax cigars, smoking tobacco, chewing tobacco, and snuff, 12 levy a general sales tax,

and only 3 of these 12 States (North Dakota, Oklahoma, and Tennessee) exempt sales of these tobacco products from their general sales tax.¹ Some of the States which subject tobacco sales to their general sales tax exclude Federal and State tobacco taxes from the sales tax base.

In conjunction with their tobacco taxes, most States require the annual licensing of tobacco distributors, wholesalers, and retailers. Ordinarily these fees are nominal in amount and are imposed to facilitate tax administration.

Cigarette and other tobacco taxes are levied by municipalities and counties in at

¹ North Dakota's exemption applies only to snuff since cigars, smoking tobacco, and chewing tobacco are not taxed.

TABLE 54.—*State Tax Rates on Smoking and Chewing Tobacco and Snuff*

State	Smoking tobacco	Chewing tobacco	Snuff
Alabama.....	Ranges from: 2¢ for 1½ oz. or less to 11¢ for 3 to 4 oz., plus 3¢ per oz. or fraction above 4 oz.	¾¢ per oz. or fraction.....	Ranges from: ½¢ for ½ oz. or less to 4¢ for 5 to 6 oz., plus 1¢ per ounce or fraction above 6 oz.
Arizona.....	1¢ per oz. or major fraction.	¼¢ per oz. or major fraction....	1¢ per ounce or major fraction.
Hawaii.....	20 percent of wholesale price.	20 percent of wholesale price....	20 percent of wholesale price.
Louisiana.....	Ranges from: 1¢ per package retailing for 5¢ or less to 4¢ per package retailing at 13¢ through 15¢, plus 1½¢ for each 5¢ or fraction of retail price above 15¢.		
Minnesota.....	10 percent of wholesale price.	10 percent of wholesale price..	10 percent of wholesale price.
Mississippi.....	1¢ per 5¢ or fraction of retail price.	½¢ for each 5¢ or fraction of retail price.	½¢ for each 5¢ or fraction of retail price.
New Hampshire.....	15 percent of retail price.	15 percent of retail price.....	15 percent of retail price.
North Dakota.....			2¢ per 1¼ oz. or fraction.
Oklahoma.....	25 percent of factory list price..	20 percent of factory list price..	
South Carolina.....	2¢ per package retailing for 10¢ or less, plus 2¢ for each additional 5¢ or fraction of retail price.	1¢ per 2 oz. or fraction.....	1¢ per 2 oz. or fraction.
Tennessee.....	5 percent of retail price.....	5 percent of retail price.....	5 percent of retail price.
Texas.....	25 percent of factory list price..	25 percent of factory list price..	
Vermont.....	20 percent of wholesale price....	20 percent of wholesale price....	20 percent of wholesale price.
Washington.....	25 percent of wholesale price....	25 percent of wholesale price....	25 percent of wholesale price.

least nine States, namely, Alabama, Colorado, Florida, Missouri, New Jersey (Atlantic City only), New Mexico, New York (New York City only), Tennessee (Memphis and Shelby County only), and Virginia (table 55). A large number of municipalities in Alabama and virtually all municipalities in Florida impose excise taxes on cigarettes. Local cigarette taxes are also widespread in Colorado and Missouri.

Florida's 1949 act authorized municipalities to levy cigarette taxes at a rate not exceeding the State rate with a corresponding tax credit against the State tax. The State collects the tax, withholds 3 percent of collections to cover administrative costs, and returns the balance to the municipalities in proportion to collections. Proceeds from the State tax in areas outside the municipalities are reserved for the State.

Local cigarette tax rates range from 1 to 5 cents per standard package of 20 cigarettes, and the most common rate is 2 cents,

except in Florida where, as already noted, a 5-cents-per-standard-package rate is uniform throughout the State. The aggregate cigarette tax rate now ranges from 8 cents per standard package in North Carolina and Oregon (where neither State nor local taxes are imposed), and from 9 cents in some Colorado municipalities (where no State tax is imposed) to 18 cents per standard package in one Alabama municipality.

Revenues

Federal tobacco tax collections in the fiscal year 1961 amounted to \$2.0 billion, or 2.5 percent of total Federal tax revenues. Among the selective sales or excise taxes, tobacco taxes are exceeded, in terms of the amount of revenue produced, only by alcoholic beverage and motor fuel taxes.

The yield of tobacco taxes at the State level in the fiscal year 1961 was \$986 million compared with \$414 million in the fiscal year 1950. Tobacco is second only to motor

fuel among State excise revenue producers. At the local level, the yield of tobacco taxes is greater than that of either the motor fuel or the alcoholic beverage taxes. In the six largest municipalities levying tobacco taxes

in fiscal year 1960 (Baltimore, Denver, Kansas City, Memphis, New York City, and St. Louis), they produced \$30.3 million, or 24.9 percent of all selective sales and gross receipts tax collections.

TABLE 55.—*Local Cigarette Tax Rates*¹
[Per standard package of 20 cigarettes]

State	1¢	2¢	3¢	4¢	5¢
Alabama:					
99 municipalities ²	11	83	4	1	.....
5 counties.....		3	2		.....
Colorado: 33 municipalities.....	3	23	7		.....
Florida: Municipalities ³					(³)
Missouri: 37 municipalities.....	1	32	4		.....
New Jersey: 1 municipality (Atlantic City).....		1			.....
New Mexico: ⁴ 1 municipality (Santa Fe).....	1				.....
New York: 1 municipality (New York).....		1			.....
Tennessee:					
1 municipality (Memphis).....	1				.....
1 county (Shelby County outside corporate limits of Memphis).....	1				.....
Virginia: 6 municipalities.....		5	1		.....

¹ A total of 17 counties and municipalities in 4 of the States listed (Alabama, Colorado, Florida, and New Jersey) levy taxes on other tobacco products as well. Over ½ of these are in Alabama.

² The rates shown apply only in the town or city. Rates in police jurisdictions are generally lower, usually ½ the city or town rate.

³ The taxes are locally imposed, State collected, and locally shared.

⁴ A 1955 act repealed the authority of municipalities to levy cigarette taxes and provided that the proceeds of a 1¢ additional State cigarette tax be distributed to local governments according to sales. A municipality may retain its cigarette tax if it had issued bonds to be paid from cigarette tax revenues. Santa Fe is the only city with this authority. The State tax in Santa Fe is 1¢ less than in other municipalities.

Chapter 10

ALCOHOLIC BEVERAGE TAXES

Distilled spirits, wine, and beer are taxed by the Federal Government, the States, and by a number of local governments. The taxes take the form of specific excises and occupational license taxes imposed on the privilege of engaging in various branches of the alcoholic beverage business.

Federal taxes on distilled spirits and beer have been in effect continually since 1862. Wine has been taxed by the Federal Government since 1914.

Before prohibition the States had derived revenue from alcoholic beverages by means of license fees. After repeal of the prohibition amendment, the States rapidly imposed excise taxes or set up monopoly distribution systems. Most municipalities and some counties derive revenues from license fees and an increasing number are imposing excises.

Federal Taxes

The present Federal tax rates on alcoholic beverages have been in effect since the enactment of the Revenue Act of 1951. The temporary increases over the 1944 rates provided for by this act have been extended several times and under present law are scheduled to expire on July 1, 1962. The tax on distilled spirits is \$10.50 per proof-gallon, compared with the pre-1951 rate of \$9 per proof-gallon. The present tax on beer is \$9 per barrel, compared with the previous tax of \$8. Light wines are taxed at 17 cents per gallon and fortified wines at 67 cents, compared with previous rates of

15 and 60 cents, respectively. The rate of \$2.25 per gallon on fortified wine containing over 21 percent but not more than 24 percent alcohol is not of much practical significance, since little of the output falls in this category. On sparkling wines, the present rates are \$2.40 and \$3.40 per gallon, depending on whether the wine is artificially or naturally carbonated. Liqueurs and cordials are taxed at the rate of \$1.92. The Federal Government also levies annual occupational taxes on retail and wholesale dealers, brewers, and rectifiers.

State and Local Taxes

The States and the District of Columbia impose excises on all types of alcoholic beverages. A license system for the distribution of distilled spirits is in operation in 32 States,¹ and all of these States levy a gallonage tax on distilled spirits except Hawaii (table 56). These gallonage excises range from 75 cents per gallon in South Dakota to \$4 per gallon in Alaska. In 18 States and the District of Columbia the rate is less than \$2 per gallon. Hawaii's ad valorem tax on distilled spirits is 16 percent of the wholesale price. A few of the other license States also impose ad valorem taxes in addition to the gallonage excises.

Seventeen States exercise monopoly rights over the distribution of distilled spirits and one State (Mississippi) prohibits the

¹ Distilled Spirits Institute, *Summary of State Laws and Regulations Relating to Distilled Spirits*, 15 ed., Washington, D.C., 1959.

TABLE 56.—*State Tax Rates on Distilled Spirits*¹
[Per gallon]

75¢	\$1 to \$1.50	\$1.50 to \$2	\$2 to \$2.50	\$2.50 to \$3	\$4	16 percent of wholesale price
South Dakota ²	Arizona. Delaware. Georgia. ⁹ Kansas. ¹⁰ Kentucky. ¹² Missouri. Nebraska. Nevada. New Mexico. District of Columbia.	California. Colorado. Illinois. Louisiana. Maryland. New Jersey. New York. Texas.	Connecticut. Florida. ³ Indiana. ⁵ Massachusetts. ⁷ Oklahoma. Rhode Island. ¹¹ Tennessee. ¹³ Wisconsin.	Arkansas. ⁴ Minnesota. ⁶ North Dakota. ⁸ South Carolina.	Alaska.	Hawaii.
Total.... 1	10	8	8	4	1	1

¹ This tabulation includes only the taxes imposed by the District of Columbia and the 32 States which use the license system for the distribution of distilled spirits. Of the remaining 18 States, 16 have State-operated stores (Alabama, Idaho, Iowa, Maine, Michigan, Montana, New Hampshire, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming); North Carolina has county-operated stores supervised by the State; and Mississippi prohibits the sales of distilled spirits. The rates used in this table are those applicable to distilled spirits of standard alcoholic content.

² In addition, there is a 10-percent tax on the gross receipts from sales of intoxicating liquors including beer in excess of 3.2 percent.

³ Includes a tax of \$1.20, and two additional taxes of 72¢ and 25¢. The tax on distilled spirits containing more than 48 percent alcohol by weight is \$4.34, consisting of a basic tax of \$2.40, and 2 additional taxes of \$1.44 and 50¢.

⁴ There is a 5¢ per gallon additional tax and also a wholesalers' tax of 20¢ per case. Arkansas also levies a 3-percent tax on retail receipts from sales of liquor, cordials, liqueurs, specialties, and wines.

⁵ Includes an enforcement tax of 8¢ per gallon.

⁶ Includes a 15-percent surtax effective through June 30, 1963.

⁷ Includes a temporary additional tax of 25¢ per gallon scheduled to expire on June 30, 1963. In addition, chartered veterans' organizations maintaining quarters for the exclusive use of its members are taxed on the gross receipts from the sale of alcoholic beverages at the rate of ¼ of 1 percent, plus a 23-percent surtax.

⁸ Includes a temporary additional tax of 80¢ per gallon scheduled to expire on July 1, 1967, and a wholesale liquor transactions tax of \$1.10.

⁹ The tax on distilled spirits manufactured in the State is 50¢ per gallon.

¹⁰ In addition, an enforcement tax of 2½ percent of gross receipts from retail sales is levied.

¹¹ Distilled spirits imported into the State are taxed on the basis of reciprocity. The current rate, as fixed by the Liquor Control Commission, is \$1.50 per gallon.

¹² The major revenue-producing tax on distilled spirits, however, is the tax on manufacturers, transporters, rectifiers, and blenders at the rate of 10¢ per gallon. Also, there is a tax on wholesalers at the rate of 5¢ per case.

¹³ In addition, a tax of 15¢ per case is imposed upon sales at wholesale.

sale of all alcoholic beverages except those of low alcoholic content.² Of the 17 monopoly States, 16 have State-operated stores. North Carolina has county-operated stores supervised by the State. Approximately one-half of the monopoly States levy gallonage or ad valorem taxes, and in one of these (Vermont) the tax is as high as \$5.10 per gallon.

All 50 States and the District of Columbia impose gallonage excises on beer (table 57). Most States tax both light and strong beer at the same rate. The rates range from 62 cents per barrel in Wyoming to over \$13 per

per barrel in Mississippi and South Carolina. The rates are less than \$2 per barrel in approximately one-third of the States, and less than \$3 per barrel in more than one-half of the States. Hawaii taxes beer on an ad valorem basis at 16 percent of the wholesale price.

Gallonage taxes on light wines (defined as containing not more than 14 percent alcohol) and fortified wines (defined as containing 14–21 percent alcohol) are in effect in all States that use the license system for distributing wines, except in Hawaii where an ad valorem tax is imposed on all types of wine (table 58). The rates on light wines

² For a list of these States, see table 56, footnote 1.

TABLE 57.—State Tax Rates on Beer¹

[Per barrel]

Less than \$1	\$1 to \$2	\$2 to \$3	\$3 to \$4	\$4 to \$6
Maryland. Missouri. Wyoming.	California. Colorado. Illinois. Michigan. Montana. Nebraska. Nevada. New Jersey. New Mexico. New York. Oregon. Rhode Island. Washington. Wisconsin. District of Columbia.	Arizona. Connecticut. Delaware. Indiana. ² Iowa. Kentucky. Massachusetts. ⁵ Ohio. Pennsylvania. South Dakota. ⁶	Kansas. Minnesota. New Hampshire. Tennessee. ³	Arkansas. Idaho. Texas. Utah. Virginia. ⁴ West Virginia.
Total 3	15	10	4	6
\$6 to \$8	\$8 to \$10	\$10 to \$12	\$12 to \$14	16 percent of wholesale price
Alabama. Alaska. Florida. Maine. ⁷ North Dakota. ⁸ Vermont.	Georgia.	Louisiana. North Carolina. Oklahoma.	Mississippi. South Carolina.	Hawaii.
Total 6	1	3	2	1

¹ Montana, Virginia, Washington, and West Virginia tax light beer only, and Kansas and Oklahoma tax strong beer only. The rates for Minnesota, North Dakota, and Utah included in the table are those applicable to strong beer.

² Includes in addition to excise taxes of 8¢ per gallon, an enforcement tax of $\frac{3}{4}$ of 1¢ per gallon.

³ The tax on sales of beer at wholesale is 17 percent of the wholesale price.

⁴ Includes an increase of 90¢ per barrel scheduled to expire on June 30, 1962.

⁵ In addition, chartered veterans' organizations main-

taining quarters for the exclusive use of its members are taxed on the gross receipts from the sale of alcoholic beverages at the rate of $\frac{1}{4}$ of 1 percent, plus 23 percent surtax.

⁶ The tax on beer manufacturers in the State and sold by class A licenses is \$1 per barrel. In addition, there is a 10-percent tax on the gross receipts from sales of intoxicating liquors including beer in excess of 3.2 percent.

⁷ The tax on malt liquors manufactured in the State is $5\frac{1}{2}$ ¢ per gallon.

⁸ Includes additional taxes scheduled to expire on July 1, 1967.

are less than 30 cents per gallon in 19 States, and on fortified wines exceed 50 cents per gallon in 19 States. A few of the license States impose ad valorem excises in addition to gallonage excises on wines. Over one-half of the monopoly States also levy gallonage or ad valorem taxes. Washington's wine tax is applicable only to domestic wines.

Alcoholic beverages are commonly subject to general sales taxes as well as excises in many of the States. The 36 States that use the license system for the distribution of

some or all distilled spirits and wines impose excises on some or all of these beverages. Of these 36 States, 27 levy also a general sales tax. Among this group of 27 States, only 6 (Colorado, Kansas, North Carolina, North Dakota, South Dakota, and Texas) exempt some or all sales of distilled spirits and wines from their general sales tax. In one of these (Kansas), moreover, the exemption provision is offset by an enforcement tax, of $2\frac{1}{2}$ percent on gross retail sales. A few of the States that do not exclude sales

TABLE 58.—State Tax Rates on Wines¹

LIGHT WINES (PER GALLON)

1¢	10¢ to 30¢	30¢ to 50¢	50¢ to 80¢	80¢ and over	16 percent of wholesale price
California.	Colorado. Connecticut. Illinois. ⁵ Kansas. ⁸ Louisiana. Maryland. Minnesota. ¹¹ Missouri. Nebraska. New Jersey. New York. Ohio. Oregon. Rhode Island. ¹³ South Dakota. ¹⁴ Texas. Washington. ¹⁵ Wisconsin. District of Columbia.	Arizona. Indiana. ² Mississippi. ⁶ Nevada. New Mexico. Oklahoma.	Alaska. Arkansas. ³ Kentucky. Massachusetts. ⁹ North Carolina. North Dakota. ¹⁰ Tennessee.	Delaware. Florida. ⁴ Georgia. ⁷ South Carolina.	Hawaii.
Total.....1	19	6	7	4	1

FORTIFIED WINES (PER GALLON)

2¢	10¢ to 30¢	30¢ to 50¢	50¢ to 80¢	80¢ and over	16 percent of wholesale price
California.	Louisiana. Maryland. Missouri. New Jersey. New York. Rhode Island. ¹³ Texas. Washington. ¹⁵	Arizona. Colorado. Indiana. ² New Mexico. Ohio. South Dakota. ¹⁴ Wisconsin. District of Columbia.	Alaska. Arkansas. ³ Connecticut. Illinois. ⁵ Kansas. ⁸ Kentucky. Massachusetts. ⁹ Minnesota. ¹¹ Nebraska. Nevada. North Carolina. ¹⁰ North Dakota. ¹⁰ Oklahoma. Tennessee. ¹²	Delaware. Florida. ⁴ Georgia. ⁷ South Carolina.	Hawaii.
Total.....1	8	8	14	4	1

¹ For purposes of this table, wines containing 14 percent or less alcohol are classified as light wines and those containing 14–21 percent alcohol are classified as fortified wines. Some States specify wines exceeding 21 percent alcoholic content and tax such wines at different rates. This tabulation does not include the taxes of those States where wines are sold through a State or county store system under State supervision. These States are: Alabama, Idaho, Iowa, Maine, Michigan, Montana, New Hampshire, Oregon (fortified wines only), Pennsylvania, Utah, Vermont, Virginia, Washington (nondomestic wines only), West Virginia, and Wyoming.

² Includes an enforcement tax of 2¢ per gallon.

³ In addition, there is a 5¢ per case additional tax. Arkansas also levies a 3-percent tax on retail receipts from sales of liquors, cordials, liqueurs, specialties, and wines. Wines produced and consumed in the home from grapes grown in Arkansas are exempt from tax.

⁴ Light and fortified wines manufactured in Florida from local products are taxed at 20¢ and 30¢ per gallon, respectively.

⁵ Light and fortified wines produced from grapes grown in Illinois are taxed at 8¢ and 23¢ per gallon, respectively.

⁶ The 42.68¢ tax is applicable only to wines containing 4 percent or less alcohol. Mississippi prohibits the sale of alcoholic beverages having an alcoholic content of more than 4 percent.

⁷ Domestic light and fortified wines are taxed at 20¢ and 50¢ per gallon, respectively.

⁸ In addition, an enforcement tax of 2½ percent of gross receipts from retail sales is levied.

⁹ Includes a temporary additional tax of 45¢ per gallon scheduled to expire on June 30, 1963. The tax rate on wines containing 3–6 percent alcohol is 30¢ per gallon. Massachusetts also imposes a tax on the gross receipts of chartered veterans' organizations from the sale of alcoholic beverages at the rate of ¼ of 1 percent, plus 23-percent surtax.

¹⁰ Includes a temporary additional tax of 20¢ per gallon scheduled to expire July 1, 1967, and a wholesale transactions tax of 20¢ per gallon.

(Footnotes continued on p. 100.)

of distilled spirits and wine from the base of their general sales tax do permit the retailer or the collecting agency to deduct Federal and State taxes on these beverages. A similar situation exists with respect to the taxation of beer.

Taxation of alcoholic beverages by local governments occurs in only a few States. However, alcoholic beverage sales are often included in the base of local general sales taxes. The alcoholic beverage taxes imposed by New Orleans include a 40-cent-per-gallon excise on distilled spirits, a 5-cent-per-gallon excise on light wines, a 10-cent-per-gallon excise on fortified wines, and a \$1.50-per-barrel excise on beer having an alcoholic content of 6 percent or less. In 1959 New Orleans collected \$1.4 million from its special excises on alcoholic beverages.³

At least six States (Maryland, Minnesota, North Carolina, Oregon, South Dakota, and Wisconsin) permit municipalities and counties to operate liquor stores. Available data indicate that 8 counties in Maryland, 32 counties and 8 municipalities in North Carolina, 1 municipality in Oregon, and 160 municipalities in South Dakota operate liquor dispensaries for revenue purposes. Maryland counties derived \$1.7 million and Minnesota municipalities \$6.9 million net profits from their liquor dispensaries in 1959.

License fees are levied by State or local governments, and not infrequently by both. These license fees are levied at various

levels of distribution, including distillers, brewers, manufacturers of wine, importers, wholesalers, retailers, restaurants, taverns, dining cars, and other dispensers of alcoholic beverages. The fee charges vary considerably. The State fees required of wholesalers of distilled spirits, for example, range from \$150 in Illinois to \$10,000 in South Carolina. These licenses have regulatory purposes and are not unimportant sources of revenue.

Revenues

Alcoholic beverages constitute the largest single source of Federal excise revenue. In fiscal year 1961, they produced \$3.1 billion, or 4 percent of total Federal tax revenues (table 1). Although Federal taxes on alcoholic beverages have been increased several times since 1939, their revenue contribution has declined in relation to both the total excise revenues and the total tax revenues of the Federal Government.

Alcoholic beverage excise tax collections of the States in fiscal year 1961 were \$688 million, or 3.6 percent of State tax revenues. The revenue obtained from licenses by the States during the same year was \$86 million. Alcoholic beverage revenues of 16 of the States depend largely on profits from operating State liquor stores rather than on taxes and licenses. In the fiscal year 1960, the State monopoly systems contributed \$221 million to the general funds of their respective States. The yield of alcoholic beverage taxes at the local level is relatively small, although it is significant for individual municipalities.

³ Distilled Spirits Institute, *Public Revenues from Alcoholic Beverages, 1959*, Washington, D.C., 1960.

(Footnotes continued from p. 99.)

¹⁴ Includes a 15-percent surtax effective through June 30, 1963.

¹⁵ In addition, a tax of 15¢ per case is imposed upon sales at wholesale.

¹⁶ Wines imported into the State are taxed on the basis of reciprocity. The current rate, as fixed by the Liquor Control Commission, is 20¢ per gallon.

¹⁷ In addition, there is a 10-percent tax on the gross

receipts from sales of intoxicating liquors, including beer in excess of 3.2 percent.

¹⁸ The tax of 10¢ per gallon is applicable only to domestic wines.

¹⁹ Sweet wines, alcoholic content of 14 to 20 percent, may be sold by drug and grocery stores, hotels, and restaurants located in counties authorizing alcoholic beverage control stores.

Chapter 11

MOTOR FUEL TAXES

Motor fuel is taxed by the Federal Government, the 50 States, the District of Columbia, and by a number of local governments. The Federal tax on gasoline was introduced in 1932 as an emergency revenue measure, but has been in continuous use since that time.

State taxes on gasoline antedate the Federal levy. In 1919, Oregon introduced a tax on gasoline to provide revenue for State highway construction. By 1929, gasoline taxes were in effect in every State. Hawaii and Alaska enacted gasoline taxes in 1932 and 1946, respectively.

In eight States motor fuel is taxed also at the local level by counties or municipalities. In Alabama the taxes are imposed both by counties and municipalities, which in some cases overlap, with the result that motor fuel is subject to four levies.

The early motor fuel taxes applied only to gasoline, but with the development and widespread use of diesel oil and other liquid motor fuels, the tax has been extended to these products.¹

Federal Taxes

The Federal tax on gasoline as enacted in 1932, imposed a rate of 1 cent per gallon at the manufacturer's level. The rate was increased to 1½ cents for the period June 18,

¹In addition to motor fuel taxes, State and local governments levy oil and gas severance and production taxes and taxes on fuels used for other purposes. Also, many States charge fractional fees for the inspection of petroleum products.

1933, to January 1, 1934, after which date it reverted to 1 cent and remained at that level until it was again raised to 1½ cents by the Revenue Act of 1940. The Revenue Act of 1951 increased the rate to 2 cents per gallon, and the Highway Act of 1956 raised it to 3 cents beginning with July 1, 1956. It was further increased to 4 cents on October 1, 1959. In addition to the gasoline tax, the Federal Government levies a 4-cents-per-gallon retail tax on diesel fuel intended for highway use, and a 6-cents-per-gallon manufacturers' excise on lubricating oil. The 4-cent rate on diesel fuel became effective on October 1, 1959.

Since 1956, the proceeds of the Federal motor fuel taxes have been earmarked for highway purposes. The Federal-Aid Highway Act of 1956 provided that for a period of 16 years, all revenues from Federal motor fuel taxes (as well as revenues from other automotive taxes) should be transferred to a newly established Highway Trust Fund for use in financing Federal highway aid. Revenues allocated for this purpose in 1956 have proven to be inadequate for expenditure needs and have had to be increased by higher tax rates. The President's recommendations for further increases to begin July 1, 1961, have not yet been enacted.

State and Local Taxes

State gasoline tax rates range from 5 cents per gallon in 9 States to 8 cents per gallon in Alaska (table 59). The most common

TABLE 59.—State Gasoline Tax Rates¹
[Per gallon]

5¢	5½¢	6¢	6½¢	7¢
Arizona. Delaware. Hawaii. ² Illinois. Kansas. ¹ Minnesota. Missouri. ⁴ Texas. ¹ Wyoming. ¹	Massachusetts.	California. ¹ Colorado. Connecticut. Idaho. Indiana. Iowa. ¹ ³ Maryland. Michigan. Montana. ¹ Nevada. New Jersey. New Mexico. New York. ¹ North Dakota. Oregon. South Dakota. ¹ Utah. Wisconsin. District of Columbia.	Arkansas. Georgia. Oklahoma (6.58¢). Vermont. ¹	Alabama. Florida. Kentucky. Louisiana. Maine. Mississippi. ¹ Nebraska. New Hampshire. ³ North Carolina. Ohio. Pennsylvania. Rhode Island South Carolina. ³ Tennessee. Virginia. West Virginia.
Total 9	1	19	4	16

7½¢	8¢
Washington.	Alaska. ³
Total 1	1

¹ In most States, diesel fuel is taxed at the same rate as gasoline. The States which tax diesel fuel at a different rate are: California, 7¢; Iowa, 7¢; Kansas, 7¢; Mississippi, 8¢; Montana, 9¢; New York, 9¢; South Dakota, 7¢; Texas, 6.5¢; Wyoming, 7¢. In all but a few States, liquefied petroleum is taxed at the same rate as gasoline. Vermont does not tax diesel fuel and liquefied petroleum.

² In Hawaii County the State tax rate is 8¢.

³ The rates shown include temporary rates scheduled to

expire as follows: Alaska, 1¢, July 1, 1964; New Hampshire, 1¢, June 30, 1966; South Carolina, 1¢, June 30, 1972.

⁴ If voters reject a constitutional amendment authorizing the apportionment of the proceeds of the motor fuel tax between the State and its political subdivisions or if no such amendment is submitted to the voters within 6 months after the effective date of the 2¢ increase (Oct. 13, 1961), the tax will revert to 3¢.

rate (imposed by 18 States and the District of Columbia) is 6 cents per gallon. The rate exceeds 6 cents per gallon in 22 States and is lower than 6 cents in 10 States.

All gasoline sales are not taxed, and some are given special treatment. Interstate sales, export sales, and sales to governmental units are commonly exempt.² Tax refunds are generally allowed in the case of gasoline purchased for nonhighway purposes (e.g., for use in farm trucks, motorboats, etc.). Tax relief is given to gasoline used for avia-

tion purposes in all States except Alabama and Vermont. In most States, full tax relief is given provided certain conditions with respect to exemptions and refunds are met. Many States levy a special gasoline use tax on out-of-State imports, while others either do not tax such imports or apply the regular gasoline rate to them. In Kentucky, a motor fuel surtax of 2 cents per gallon is levied for vehicles with three or more axles.

Diesel fuel and liquefied petroleum are taxed by the District of Columbia and all States except Vermont. The rate on diesel fuel is the same as the gasoline rate in all but

² Committee on Public Affairs of the American Petroleum Institute, *Tax Compendium* (Mimeograph), March 1960.

nine of the States and in these it is higher than the rate on gasoline. Liquefied petroleum is taxed at the same rate as gasoline in all but a few States.

Six States (Georgia, Hawaii, Illinois, Indiana, Michigan, and Mississippi) do not exempt gasoline sales from their general sales taxes. In these cases the sales tax is generally computed on the price of the gaso-

line before either Federal or State taxes or before both.

Local gasoline taxes are imposed by 375 municipalities and 36 counties in 8 States (table 60). The most common rate is 1 cent per gallon. The aggregate Federal, State, and local gasoline tax rate is as high as 14 or 15 cents in some of these eight States.

TABLE 60.—Local Gasoline Tax Rates

[Per gallon]

State	State tax rate (cents)	Local tax rates											
		Less than ½¢	½¢	¾¢	1¢	1¼¢	1½¢	2¢	3¢	3½¢	4¢	5¢	
Alabama ¹	7												
193 municipalities.....		1	4		170		2	16					
12 counties ²					10	1		1					
Florida.....	7												
2 municipalities.....					2								
Hawaii.....	³ 5												
4 counties.....									1	1	1	1	
Mississippi.....	7												
3 counties.....								2	1				
Missouri.....	3												
108 municipalities.....		6	32	1	63		4	2					
Nevada.....	⁴ 6												
17 counties.....					4	17							
New Mexico.....	6												
60 municipalities.....			⁵ 9		51								
Wyoming.....	5												
12 municipalities.....			2		10								

¹ The rates shown apply only in the town or city. Rates in police jurisdictions are generally lower, usually ½ the town or city rate.

² A total of 25 municipalities in 8 of these 12 counties also levy a tax. These municipal levies are independent of the county levy, except in Mobile County where the municipal tax is allowed as a credit against the county tax. The combined county-municipal rates in the 25 municipalities are as follows: 1½¢ in 2 municipalities; 1¼¢ in 1; 2¢ in 18; 2¼¢ in 2; 2¾¢ in 1; and 3¢ in 1 municipality.

³ Except in the county of Hawaii where the State rate is 8¢ per gallon; the county rate is 3¢ per gallon.

⁴ Nevada levies and collects a 1¢ gasoline tax for all of its 17 counties. This 1¢ tax is included in the 6¢ State rate shown.

⁵ Includes the ½¢ tax of Los Alamos County which is applicable only in the city limits of the municipality of Los Alamos.

Taxation of gasoline at the local level in Alabama is unique in that both counties and municipalities levy gasoline taxes. Local gasoline taxes are imposed by nearly 200 municipalities located in counties that do not levy such taxes and by 4 counties where a municipal levy is not permitted. Both county and municipal taxes are in effect in

eight other counties, and in one of these counties (Mobile) the municipal tax is credited against the county tax.

Some counties and municipalities impose taxes on fuels other than gasoline. This is the case in Alabama where some local governments tax lubricating oil and other fuels used in connection with motor vehicles.

One municipality in Wyoming (Cheyenne) levies a tax on aviation fuel dispensed at its municipal airport.

Revenues

The Federal motor fuel taxes yielded \$2.3 billion, or 3.0 percent of total Federal tax collections in the fiscal year 1961. Collections from the diesel-fuel tax in the same year were \$89 million and from the lubricating oil tax were \$74 million.

Motor fuel taxes are an important revenue source for the State governments. Collections in the fiscal year 1961 amounted to \$3.4 billion, or over 18 percent of total State tax revenues. This yield is approximately equal to the combined yield of State individual and corporation income taxes. At the local government level, motor fuel tax

collections totaled \$33 million in fiscal year 1960.

The proceeds of gasoline taxes, as well as of the other automotive revenues (motor vehicle registration fees, drivers' license fees, tolls), are typically earmarked for highway purposes, particularly at the Federal and State level. This is less true of local taxes. Municipal streets and other automotive-associated expenditures are frequently financed from general funds in which automotive revenues, if any, are merged with those from other sources. Expenditure data do not generally identify automotive-associated costs in the total cost of such public programs as police protection, the judiciary, health and hospitals, or air pollution control. In all likelihood, direct and indirect costs associated with the motor vehicle lead the revenue produced by it.

Chapter 12

AMUSEMENT TAXES

The extent of Federal-State overlapping with respect to the general admissions tax has been significantly reduced by Federal action in recent years. Since 1959 the first \$1 of admissions charge has been tax exempt. Overlapping is now of the most significance with respect to admissions to horse-racing, boxing, wrestling, and athletic exhibitions, and with respect to the taxes on the special types of amusements: coin-operated amusement devices, billiard and pool tables or rooms, and bowling alleys. Only a few State and local governments specifically impose taxes on cabaret charges, club dues, and initiation fees of the type levied by the Federal Government.

The Federal tax on wagering which was adopted in 1951 specifically exempts parimutuel wagering licensed under State law and thus reserves this important source of revenue for the States. In the fiscal year 1961, as many as 24 States obtained revenues from parimutuels, and the \$277 million collected represented over 90 percent of State amusement tax revenues (exclusive of that derived from admissions taxed under general sales taxes).

Federal Taxes

The Federal tax on admissions was adopted in 1917. The tax is applicable to all types of admissions, including admissions to motion picture theaters, legitimate theaters and opera houses, and to sporting events. Admissions to symphony concerts,

operas, and activities for the benefit of specified educational, religious, and charitable institutions operated on a nonprofit basis are exempt.

The rate on all admissions except for horse and dog racing is 1 cent for each 10 cents or fraction of admission charges in excess of \$1. Admissions to horse and dog racing are taxed at a rate equivalent to 20 percent of the full admission charge. The basic rate of 1 cent for each 10 cents or fraction of admission charges has been in effect since 1917, except for the 10-year period from 1944 to 1954 during which time the rate was 1 cent for each 5 cents or major fraction. The amount of the admission charge exempt from tax, however, was changed on a number of occasions, and since January 1, 1959, the tax has applied only to the admissions charge in excess of \$1.

Cabarets were included in the admissions subject to tax under the tax legislation enacted in 1917. The rate was originally the same as that applicable to other admissions (1 cent for each 10 cents or fraction), but was increased in 1918 to 1½ cents for each 10 cents or fraction, and in 1940 to 2 cents for each 10 cents or fraction while the rate on other admissions remained unchanged. The relationship of the tax on cabaret charges to the admissions tax was significantly altered by the Revenue Act of 1941. This act imposed a flat tax of 5 percent on the entire cabaret bill (for admission, food, beverages, and service), in-

cluding any separately stated cover charge. This rate was raised to 30 percent on April 1, 1944, but was lowered to 20 percent on July 1, 1944. The 20-percent rate remained in effect until May 1, 1960, when the rate was reduced to 10 percent.

The Federal tax on coin-operated amusement and gaming devices was imposed by the Revenue Act of 1941. The present rates are \$10 and \$250, respectively, per device per year. A tax on pool tables and bowling alleys was adopted by the Federal Government under the Revenue Act of 1914, was repealed in 1926, and reenacted in 1941. The present rate is \$20 per table or alley per year.

In addition to the foregoing amusement taxes, the Federal Government imposes wagering taxes of \$50 per year and 10 percent of amounts wagered as well as a 20-percent tax on club dues and initiation fees.

State Taxes

The first State tax on admissions was adopted in 1921 by Connecticut in the form of a tax supplement equal to one-half the Federal tax. Because of the increases in the price exemptions under the Federal tax during the 1920's, State revenues from this source virtually disappeared and the tax was repealed as of July 1, 1929. However, a license tax based on seating capacity, enacted in 1927, was continued and is still in effect. South Carolina and Mississippi introduced admissions taxes in 1923 and 1930, respectively.

At present, admissions in general (either the admission charge or the admission receipts of amusement operators) are taxed by 30 States (table 61). Among these, only Maryland, Mississippi, North Carolina, South Carolina, Tennessee, and Texas tax admissions in general under a special admissions or amusement tax. Seventeen

other States tax these admissions under their general sales taxes, and Alaska, Connecticut, Michigan, and Rhode Island tax them under their gross business receipts taxes ("adjusted business receipts" in Michigan). The three remaining States, Louisiana, Washington, and West Virginia, tax admissions under both a special or general gross business receipts tax and under their general sales tax.

Approximately half of the States impose a rate of 2 or 3 percent. In only three States is the rate as high as 10 percent, and these States have special provisions which ameliorate the degree of overlapping. Mississippi has a preferential rate for motion picture admissions; South Carolina exempts motion picture theaters (which pay an annual license tax based on seating capacity in indoor theaters and number of speakers in drive-in theaters), and Texas exempts admissions of \$1.05 or less to amusements held at established theaters and 51 cents or less to amusements other than racing and like exhibitions. Tennessee's admissions tax is limited to theaters, motion pictures, and vaudeville shows. North Carolina exempts motion picture theaters, but imposes an annual license tax on such theaters based on seating capacity and town population.

Thirty-six States levy special taxes on admissions to either boxing or wrestling exhibitions, or both, and 10 States impose special taxes on admissions to some or all forms of horse and dog racing (table 61). In many States these admissions are subject to the general admissions tax in addition to the special tax imposed upon them. Although the most common rate imposed under the special boxing and wrestling taxes is 5 percent, the rates range from 2 percent in Tennessee to 17½ percent in Alabama. The rates of the special taxes on racing are

TABLE 61.—State Tax Rates on Admissions

State	Rate on admissions ¹	Special taxes on admissions to—	
		Boxing and wrestling	Horse and dog racing
Alabama*	3 percent	17½ percent	
Alaska	½ of 1 percent ²		
Arizona*	3 percent		
Arkansas*	3 percent		10¢ per admission or 10 percent of admissions, whichever is greater.
California		5 percent or \$25 annually, whichever is greater.	
Colorado		5 percent	
Connecticut	⅓ of 1 percent ³ 25¢ to \$8 per day (seating capacity tax on theaters).	5 percent	
Delaware		5 percent ⁴	20¢ per admission to horseracing; 10¢ per admission to harness racing.
Florida*	3 percent (except horse and dog racing).		10¢ per admission or 15 percent of admissions, whichever is greater.
Georgia*	3 percent		
Hawaii*	3½ percent		
Idaho		5 percent	
Illinois		10 percent	20¢ per admission to horseracing.
Indiana*	1½ percent (except athletic events).	10 percent	
Iowa*	2 percent		
Kansas*	2½ percent (except boxing and wrestling).	5–10 percent ⁵	
Kentucky*	3 percent (except racing under Commission).	5 percent	15¢ per admission.
Louisiana*	2 percent	5 percent	10¢ per admission.
Maine	½ of 1 percent ⁶	3 percent (boxing only)	
Maryland	½ of 1 percent ⁷	10 percent	
Massachusetts		5 percent (boxing only)	
Michigan	7¼ mills ⁸	10 percent ⁹	
Minnesota		5 percent (boxing only)	
Mississippi	10 percent (3 percent on motion picture admissions). ¹⁰	5 percent	
Missouri*	2 percent	5 percent	
Montana		5 percent (boxing only)	
Nebraska		10 percent	15¢ per admission to horseracing. ¹¹
Nevada		3 percent	
New Hampshire		5 percent	
New Jersey		10 percent ¹²	
New Mexico*	2 percent		10 percent of admissions to horseracing.
New York		5 percent	15 percent of admissions to horseracing.
North Carolina	3 percent ¹³		
North Dakota*	2 percent	5 percent	
Oklahoma*	2 percent		
Pennsylvania		5 percent	5 percent of admissions to harness racing.
Rhode Island	⅓ of 1 percent ¹⁴	5 percent ¹⁵	
South Carolina	10 percent ¹⁶		
South Dakota*	2 percent	10 percent	
Tennessee	1 percent ¹⁷	2 percent	
Texas	10 percent ¹⁸	3 percent	
Utah*	2½ percent		
Vermont		5 percent (boxing only)	
Virginia		5 percent	
Washington*	4 percent ¹⁹	5 percent	
	1 percent (except boxing, wrestling, horseracing). ²⁰		

See footnotes at end of table, p. 108.

TABLE 61.—*State Tax Rates on Admissions—Continued*

State	Rate on admissions ¹	Special taxes on admissions to—	
		Boxing and wrestling	Horse and dog racing
West Virginia*	3 percent ²¹ ⁶⁵ / ₁₀₀ of 1 percent. ²²	5 percent	
Wisconsin		5 percent (boxing only)	
Wyoming*	2 percent	5 percent (boxing only)	
District of Columbia		10 percent (boxing only)	

¹ The rates shown are those imposed under: (1) special admissions or amusement taxes; (2) general sales taxes which apply to admissions or amusement operators; (3) gross receipts taxes applicable to (a) all businesses including amusement operators and (b) specified unincorporated businesses including amusement. States which tax admissions under the general sales tax are marked with an asterisk (*). The other taxes under which admissions or amusement operators are taxed are identified in footnotes.

² The business license tax on the gross receipts of businesses, including amusement businesses. The rate is \$25 plus 1/2 of 1 percent of the gross receipts in excess of \$20,000 but not more than \$100,000, and 1/4 of 1 percent of the gross receipts in excess of \$100,000.

³ The unincorporated business tax on the gross income of unincorporated businesses, including amusement businesses. The rate is \$1 per \$1,000 or fraction of gross income up to, and inclusive of, \$60,000, and \$2 per \$1,000 or fraction of gross income in excess of \$60,000.

⁴ The rate is 10 percent for championship matches.

⁵ The State athletic commission is authorized to fix a rate of not less than 5 percent but not more than 10 percent.

⁶ The special gross receipts tax on operators of theaters, music and opera houses, moving picture shows, skating rinks, and similar places of amusement.

⁷ The special tax on the gross receipts of amusement businesses. The tax on passes or reduced charges is: not over 50¢, 5¢; 51¢—\$1, 10¢; over \$1, 15¢.

⁸ The business receipts tax on the adjusted receipts of businesses, including amusement businesses (with an allowable tax credit).

⁹ The rate is 5 percent for national or international championship matches.

¹⁰ The special admissions tax.

¹¹ Applicable only to races held in counties having a population of 200,000 or over.

¹² The State athletic commission is authorized to reduce the rate to 5 percent when a championship title is at stake.

¹³ The special tax on the gross receipts of amusement businesses. The rate is that applicable to retail sales under the general sales tax. Motion picture theaters are exempt; however, they are subject to a license tax which is not based on gross receipts.

¹⁴ The unincorporated business tax on the gross receipts of specified unincorporated businesses, including amusement businesses. The rate is \$2 on each \$1,000 of gross receipts (\$5,000 of gross receipts are exempt, and no tax is imposed if the gross receipts are less than \$30,000).

¹⁵ The rate for amateur exhibitions is 2 percent on the first \$1,000 and 5 percent on the balance of gross receipts.

¹⁶ The special admissions tax. Motion picture theaters are exempt; however, they are subject to a license tax which is not based on gross receipts.

¹⁷ The special tax on the gross receipts of operators of theaters, motion pictures, and vaudeville shows.

¹⁸ The special admissions tax. Admissions of \$1.05 or less to motion pictures, operas, plays, etc., at established motion picture theaters are exempt, as well as admissions of 51¢ or less to other amusements (except racing and like exhibitions).

¹⁹ Applies to the following amusement or recreation activities: golf driving ranges, miniature golf, shuffleboard, swimming facilities, charter boat rentals, tennis facilities, dancing, badminton, croquet, handball courts, private fishing, and trampolines, provided such activities are not already subject to county or city admission taxes. Those activities not subject to the retail sales tax remain taxable under the State business and occupation tax at 1 percent.

²⁰ The business and occupation tax on the gross income (in excess of \$600 per bimonthly period) of businesses, including amusement businesses.

²¹ The 3-percent rate includes a 1-percent additional tax effective through Aug. 31, 1961.

²² The business and occupation tax on the gross receipts of businesses, including amusement businesses (a tax credit of \$50 per year is allowed).

either 10, 15, or 20 cents per admission, or 5, 10, or 15 percent of the admission receipts.

Twenty-three States impose special license, privilege, or occupation taxes on coin-operated amusement devices, and 25 States impose such taxes on either or both billiard and pool operators or bowling alley operators (table 62). In some cases,

prize-rendering devices or machines are taxed as well as non-prize-rendering devices. In a number of States, general sales or gross receipts taxes apply to coin-operated devices, billiard and pool tables, and bowling alleys.

Only a few States specifically tax cabaret charges and club dues and initiation fees. In some cases, however, the general sales

TABLE 62.—State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys¹

State	Coin-operated amusement devices or machines (tax rate per year)	Billiard and pool tables, and bowling alleys (tax rate per year)
Alabama.....	Pinball machines and games of skill; Penny machines, \$10 per machine; nickel machines, \$50 per machine; machines operated by more than 5¢, \$100 per machine; radios and music machines: penny machines, \$1 per machine; machines operated by 5¢ or more, \$8 per machine.	Pool tables for the games of pin-pool, bottle pool, starboard pool, or other like devices, \$100 per table; pool or billiard tables for games played with approximately 15 balls, and not pin-pool, \$25 per table; bowling and tenpin alleys, \$10 per alley.
Alaska.....	Devices which do not involve an element of chance (except coin-operated radios), \$48 per device; pinball machines or other devices which, by chance or skill, award free plays, \$120 per machine or device; prize-rendering slot machines and other devices involving an element of chance, \$240 per machine or device.	
Arizona.....		Billiard tables, ninepin or tenpin bowling alleys or similiar devices, \$40 per table or alley or device.
Arkansas.....	Radio rifles, miniature football, pinball, and other miniature amusement games, \$5 per machine; music vending phonographs, \$5 per machine; other amusement devices: devices operated by less than 5¢, \$1 per device; devices operated by 5¢ or more, \$2.50 per device; machines with over 3 slots, \$5 for each slot over 3; privilege of owning, operating, or leasing coin-operated machines, \$250.	Billiard and pool rooms, \$10 per table; bowling alleys, \$10 per alley or lane.
Delaware.....	Amusement machine owners: \$20 plus; each penny machine, \$10; each machine operated by 5¢ or more, \$20; music machine owners: nickel machines, \$20 per machine; dime machines, \$40 per machine.	Billiard and pool tables, bowling alleys, and shuffleboards: 1st table, alley, or board, \$30; 2d table, alley or board, \$20; each additional table, alley, or board, \$10.
Florida.....	Amusement machines: Penny machines, 50¢ per machine; all other machines, \$5 per machine (\$2 in establishments selling tangible personal property); radio receiving sets in guest rooms for travelers, \$7 per operator plus 20¢ per set.	Pool tables, bowling alleys, \$5 per table or alley.
Hawaii.....		Billiard tables, bowling alleys, \$5 per table or alley.
Illinois.....	Non-prize-rendering pinball machines, \$50 per coin slot; mechanical bowling or shuffleboard devices, \$25 per device; electronic amusement devices, \$10 per device.	
Kentucky.....	Amusement and music machines, \$10 per machine.	
Louisiana.....	Prize-rendering slot machines and similar devices involving an element of chance, \$100 per machine or device; pinball and other mechanical amusement devices: penny machines or devices, \$5 per machine or device; all other machines, or devices, \$50 per machine or device; grab machines and other similar devices: penny machines or devices, \$2.50 per machine or device; all other machines or devices, \$25 per machine or device; "cigarette booster" machines: penny machines, \$10 per machine; all other machines, \$20 per machine; merry-go-rounds and similar amusements run by machinery: penny machines, \$5 per machine (\$1 if capacity is 2 or less riders); all other machines, \$50 per machine (\$10 if capacity is 2 or less riders); jukeboxes, electric phonographs, and similar devices: penny machines or devices, \$1 per machine or device; all other machines or devices, \$10 per machine or device.	Billiard tables, pigeon-hole, jenny-lind, pool, bagatelle or domino tables, tenpin alleys, bowling alleys, and other games or devices, \$15 per table, alley, or device.

See footnote at end of table, p. 112.

TABLE 62.—State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys¹—Continued

State	Coin-operated amusement devices or machines (tax rate per year)	Billiard and pool tables, and bowling alleys (tax rate per year)
Maine.....	Pinball machines, \$5 for each premise or location of machines.	
Maryland.....	Free play pinball machines: Caroline, Kent, and Queen Anne Counties, \$10 per machine; Baltimore, Dorchester, Harford, Talbot, and Wicomico Counties, and Baltimore City, \$20 per machine; Washington County, \$30 per machine; free play console machines: Caroline, Kent, and Queen Anne Counties, \$25 per machine; Baltimore, Dorchester, Harford, Talbot, and Wicomico Counties, and Baltimore City, \$35 per machine; Washington County, \$50 per machine; music boxes, \$10 per machine.	Billiard and pool tables, bowling alleys, \$10 per table or alley.
Mississippi.....	Amusement machines (not otherwise enumerated): Machines operated by a coin or coins of less than 5¢, \$4 each for music or picture machines, \$8 each for other amusement machines; machines operated by a coin or coins of 5¢ to 10¢, \$10 each for music or picture machines, \$30 each for other amusement machines; machines operated by a coin or coins of 10¢ to 20¢, \$20 each for music or picture machines, \$60 each for other amusement machines; machines operated by a coin or coins of 20¢ and over, \$30 each for music or picture machines, \$90 each for other amusement machines; multiple slot music machines, multiple of the coin required; radio and television sets, \$4 per set; hobby horses for children, \$3 per machine.	
Montana.....		Billiard, pool, or bagatelle tables, \$14.80 per table; bowling alleys, \$20 per alley.
Nebraska.....		Poolrooms or bowling alleys (outside of limits of incorporated cities or villages), \$10 per table or alley for the first 3 tables or alleys, and \$5 for each additional table or alley.
Nevada.....	Slot machines, \$120 per machine (\$120 per unit for multiple-unit machines operated by 1 handle and each unit paying in identical denominations); other amusement and gaming devices, \$600 per machine or device; 3-5½ percent of gross revenue of winnings of machines or devices (graduated on basis of gross revenue).	
New Hampshire.....		Billiard and pool tables, bowling alleys, \$10 per table or alley (\$4 per table or alley at resorts operating during summer months).
New York.....		Billiard rooms (outside of cities having a population of over 400,000), \$5.
North Carolina.....	Music machines, \$100 operator's license, plus \$10 for each machine operated.	Billiard and pool tables: Not more than 2' x 4', \$5 per table; not more than 2½' x 5', \$10 per table; not more than 3' x 6', \$15 per table; not more than 4' x 8', \$20 per table; not more than 4½' x 9', \$25 per table; more than 4½' x 9', \$30 per table; bagatelle tables, \$25 per table (\$10 per table in cities or towns of less than 10,000 population); bowling alleys, \$10 per alley.
North Dakota.....	Amusement machines or devices: Penny machines or devices, \$5 per machine or device; machines or devices operated by 5¢ or more, \$15 per machine or device.	Billiard or pool rooms, ball and pin alleys, \$5 per table or alley.
Oklahoma.....	Amusement and music machines or devices: Penny machines or devices, \$6 per machine or device; all other machines or devices, \$40 per machine or device; devices used temporarily, 10 percent of the annual rate for each month; radio and television receiving sets in hotels, motels, and hospitals, \$3 per set.	Billiard and pool halls, \$5.

See footnote at end of table, p. 112.

TABLE 62.—State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys¹—Continued

State	Coin-operated amusement devices or machines (tax rate per year)	Billiard and pool tables, and bowling alleys (tax rate per year)
Oregon.....	Amusement devices which shoot or propel an electric light ray to a target or which deliver 1 or more balls to the players, \$25 per device; musical devices, radios, television sets, and mechanical rides, \$10, and \$1 for each additional device in the same category on the premises or for each additional coin-receiving slot; other amusement devices: devices operated by 1¢, \$1 per device; devices operated by 2¢, \$10 per device; devices operated by more than 2¢, \$50 per device. \$100 for devices operated simultaneously by 5 or more players.	Billiard or pool rooms (outside of limits of incorporated cities or towns), \$10 per table (maximum of \$50 per year); ball (ninepin) alleys, \$50.
Pennsylvania.....		Billiard, pool, and bagatelle rooms (in 1st-class cities), \$25 for the 1st table and \$15 each additional table; billiard rooms and bowling alleys (in all counties and cities except 1st-class cities), \$30 for the 1st table or alley and \$10 for each additional table or alley; bagatelle tables in Alleghany County, \$5 per table.
Rhode Island.....		Billiard, pool, and bagatelle rooms, not less than \$10 and not more than \$200; bowling and box ball alleys, not less than \$15 and not more than \$25 (not more than \$200 in the city of Providence).
South Carolina.....	Music, gaming, or amusement machines or devices, \$25 per machine or device; nonpayout pin table devices, and gaming or amusement machines or devices with a free play feature, \$75 per machine or device.	Billiard rooms, \$25 per table (\$10 for tables not more than 3½' x 7'); bowling alleys, \$5 per alley (maximum of \$30 per year).
Tennessee.....	Prize-rendering slot machines or devices: Machines or devices operated by 5¢ or less, \$30 per machine or device; machines or devices operated by more than 5¢ but less than 15¢, \$40 per machine or device; machines or devices operated by 15¢ or more, \$50 per machine or device; mechanical music machines: machines operated by 5¢ or less, \$5 per machine; machines operated by more than 5¢, \$10 per machine; radio sets in hotels or tourist courts, \$7.50 per location (hotel or tourist court); miniature football, pinball machines, and other miniature games, \$7.50 (\$15 in cities of 20,000 or more).	Billiard tables, pool tables, bagatelle tables, bowling alleys, jenny-lind tables, and other similar devices in: cities of 10,000 or less, \$10; cities of over 10,000 but less than 20,000, \$20; cities of 20,000 or more, \$25.
Texas.....	Skill or pleasure machines: Machines operated by more than 1¢ but not more than 5¢, \$30 per machine; machines operated by more than 5¢ or more, \$5 per machine.	Ninepin and tenpin bowling alleys, \$10 per alley.
Vermont.....	Amusement or gaming machines, \$100 per machine; music machines, \$25 per machine.	
Virginia.....	Musical machines, \$5 per machine; merry-go-rounds, hobby horses, and other like machines, \$10 per machine; miniature pool tables operated by nickels or coins of larger denominations, \$10 per machine; radio and television sets in hotels, lodging, and hospital rooms, and in eating places, \$1 per set; coin-operated machines not specifically enumerated: machines operated by 1¢, \$2 per machine; all other machines, \$25 per machine; privilege of selling, leasing, renting, or furnishing coin-operated amusement machines (other than musical machines and machines for children's rides), \$100.	Billiard, pool, and bagatelle rooms, \$50 plus \$25 for each table in excess of 1 (\$25 plus \$12.50 for each table in excess of 1 in towns of less than 1,000 population and at watering places for 4 months or less); bowling alleys, \$25 plus \$10 for each alley in excess of 1 (\$12.50 plus \$5 for each alley in excess of 1 at watering places for 4 months or less).
Washington.....	Mechanical devices: Where skill or a combination of skill and chance determine the payout, 20 percent of gross operating income; where chance alone determines the payout, 40 percent of gross operating income.	Billiard and pool halls, bowling alleys (outside of limits of incorporated cities, towns, or villages), not less than \$25 and not more than \$250.

See footnote at end of table, p. 112.

TABLE 62.—*State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys*¹—Continued

State	Coin-operated amusement devices or machines (tax rate per year)	Billiard and pool tables, and bowling alleys (tax rate per year)
West Virginia	Slot and automatic machines or devices: Penny machines or devices, \$2 per machine or device; all other machines or devices, \$5 per machine or device.	Billiard, pool, bagatelle, and other similar tables, bowling alleys, \$25 for the 1st table or alley and \$15 for each additional table or alley.
Wyoming		Billiard, pool, and bagatelle tables, ninepin or tenpin bowling alleys, \$20 per table or alley (\$5 per table or alley outside of limits of incorporated cities or towns).
District of Columbia	Mechanical amusement machines, \$6 per machine for the 1st 3 machines (maximum of \$100 per year).	Billiard or pool tables, bowling alleys, or any table, alley, or board upon which legitimate games are played, \$12 per table, alley, or board.

¹ Except for Washington's tax on coin-operated mechanical devices, this tabulation is limited to the special license, privilege, or occupation taxes imposed by the States. Washington taxes the gross income derived from coin-operated mechanical devices, game devices, and music and picture machines under its gross business receipts tax. The gross receipts or charges derived from the amusements

covered in this table are taxed under general sales taxes in some States (see table 63); under gross business receipts taxes in Alaska, Michigan (business receipts tax), and West Virginia; under unincorporated business taxes in Connecticut and Rhode Island; and under the special amusement tax in Maryland.

taxes are applicable to these charges or payments.

Local Taxes

Admissions taxes are imposed by local governments in approximately 12 States, but are widely used in only 3 States, Ohio, Pennsylvania, and Washington.¹

Philadelphia was the first large city to use this source of revenue. Its tax was adopted in 1937 with a rate of 1 cent for each 25 cents of admissions. Other local governments in Pennsylvania make extensive use of admissions taxes under the broad taxing powers conferred on them in 1947. Over 350 jurisdictions (including cities, boroughs, townships, and school districts) now levy such taxes. The rates range from 1 to 10 percent and the most common rates are 5 or 10 percent. When rates for overlapping jurisdictions exceed 10 percent, the State act provides for an equal division of this maximum unless the jurisdictions agree to a different division.

¹ Available information is incomplete regarding local admissions taxes in those States where limited use is made of them.

Washington (in 1943) and Ohio (in 1947) repealed their State admissions taxes in order to leave this source of revenue to local governments. Cities in both States immediately took advantage of the authorization.²

New York State in 1948 authorized counties and cities with a population of more than 25,000 to impose a 5-percent tax on admissions, but this authorization has been little used. New York City imposes a 5-percent tax on admissions, but allows an exemption of 90 cents for motion picture theater admissions.³

Cities in Tennessee are authorized to levy a special tax on admissions to theaters of not

² Available information indicates that practically all cities in Washington with a population of 5,000 or over and more than 100 cities in Ohio impose such taxes. The rates in Ohio and Washington cities are 3 percent and 5 percent, respectively.

³ The tax applies to (1) the entire admissions charge in the case of other amusements where the admissions charge is in excess of 10 cents; (2) the total charges of cabarets, roof gardens, and other similar places (but these charges are exempt from the 3-percent city sales tax on food and drink); and (3) dues paid to any social, athletic, or sporting club if the dues are in excess of \$10 per year.

more than 2 percent of gross receipts (in addition to any license tax), but only a few cities have levied such taxes.

Other States have granted authority to specific cities or cities of specified size to impose admissions taxes. In some States, local authority to impose such taxes is found in home-rule provisions or charters or is derived from general or specific business licensing powers. Georgia, however, specifically prohibits the use of admissions taxes by its local subdivisions.

A number of cities in Illinois impose taxes on gross receipts from admissions charges to various forms of amusements, including admissions to theaters. The rate in Chicago is 3 percent and in most other cities is either 3 or 4 percent.

Several Virginia cities impose admissions taxes at rates ranging from 2 to 10 percent. Richmond's rate is 5 percent. In Maryland, localities (including counties) are permitted to add an additional levy to the State admissions tax. These levies varying from 1 to 4½ percent on all types of amusements are presently used by only a few localities.

In Florida, available information indicates only one local jurisdiction, the city of Pensacola, levying an admissions tax.

Admissions are taxed under the general sales and gross receipts taxes imposed by local governments in several States (Alabama, Alaska, Arizona, Louisiana, New Mexico, and West Virginia). The rates are generally 1 percent in Alabama, Louisiana,⁴ and New Mexico; one-half of 1 percent or 1 percent in Arizona; and 2 or 3 percent in Alaska. Under the business and occupation taxes imposed by West Virginia cities, the rates are low fractional rates ranging from

⁴ New Orleans taxes admissions under the sales tax and in addition imposes a special tax of 2 percent on admissions to motion picture houses or theaters and 5 percent on admissions to other places of amusement. The tax also applies to admissions to games of skill.

0.05 percent to 0.5 percent. In all of these States the local taxes overlap similar taxes imposed at the State level.

Atlantic City, N.J., under its sales tax (which applies only to a few specified commodities and services) taxes (1) admissions to movies, piers, and other places of amusements; and (2) cover, minimum or entertainment charges made to patrons of restaurants, cafes, bars, hotels, and similar establishments. The rate is 3 percent of the admission price, with an exemption of admissions of 12 cents or less.

Revenues

Federal revenues from amusement taxes reached a peak of \$504.5 million in 1947 and have since declined steadily, partly because of the downward trend of motion picture theater admissions. For fiscal year ending June 30, 1961, Federal revenues from amusement taxes were as follows (in millions):

Admissions	\$36
Cabarets	34
Coin-operated amusements and gaming devices....	24
Pool tables, bowling alleys, etc.....	4
Club dues and initiation fees.....	64
Wagering taxes.....	7
	—
Total	169

Amusement taxes are a minor source of revenue for State governments. Collections in the fiscal year 1961 amounted to \$301 million. Since \$277 million of this total represented parimutuel tax receipts, the amount of revenue attributable to overlapping amusement taxes is inconsequential. These collection figures, to be sure, understate the yield of overlapping amusement taxes at the State level since they do not include collections under the general sales taxes which apply to amusements in a number of States. Local governments collect only a minor amount of revenue from amusement taxes.

Chapter 13

STOCK TRANSFER TAXES

Although Federal-State overlapping in the field of stock transfer taxes is limited to four States, most stock transfers are subject to both a Federal and State tax. The stock transfer tax is of most significance in New York since approximately 90 percent of the aggregate value of all transactions in the United States are affected in that State.

The Federal tax on stock transfers is 4 cents per \$100 or major fraction thereof of the actual value of the securities. There is a maximum tax of 8 cents per share. The present rate has been in effect since January 1, 1959. Previously the tax was based on par value or, alternatively, selling price per share.

A tax on stock transfers was imposed by the Federal Government during the Civil War and the Spanish-American War. In each case, the tax was repealed a few years after the end of the war. The tax was again imposed in 1914 and repealed in 1916. It was re-imposed by the Revenue Act of 1917 and has been in continuous effect since that time.

The Federal Government also taxes issuance of stock and bonds, but the States' taxes (with the exception of South Carolina's) apply only to sales or transfers of stock.

The four States which impose stock

transfer taxes are Florida, New York, South Carolina, and Texas. New York enacted its tax on security transfers in 1905, shortly after the repeal of the Federal tax of the Spanish-American War era. The New York tax is graduated according to the selling price of the shares: 1 cent per share when the selling price is less than \$5, 2 cents when it is \$5 to \$10, 3 cents from \$10 to \$20, and 4 cents when \$20 or more.

Available revenue data for both Federal and State Governments cover all types of documentary stamp taxes and do not segregate revenues derived from taxes on stock transfers. For fiscal year 1960, Federal collections from the stamp taxes on issues of securities, stock and bond transfers, and deeds of conveyance were \$131 million.¹

The State of New York in fiscal year 1960 received \$57.6 million from document and stock transfer taxes. The stock transfer tax apparently accounts for a large proportion of this amount since the New York tax does not apply to issuance of stock and the mortgage recording tax is the only other important stamp tax.

¹Also included is a small amount from the tax on policies issued by foreign insurers. In the fiscal year 1952 (the latest year for which stock transfer taxes were reported separately), that tax accounted for \$22.6 million of a total of \$77.6 million from the three types of stamp taxes (issues of securities, stock and bond transfers, and deeds of conveyance).

Chapter 14

GENERAL SALES TAXES

Thirty-six States (including Indiana), the District of Columbia, and a large number of local governments now impose general sales taxes.¹ All but a few of the State and local sales taxes are of the single-stage retail type. Practical considerations associated with limitations of taxing jurisdiction and business competition pose problems for State taxation of sales at earlier stages of the production-distribution process.

The Federal Government has never imposed a general sales tax, but Federal excises partially overlap State and local sales taxes since they apply to commodities and services which are frequently included within the scope of these taxes. Important Federal excises which cover items subject to State and local sales taxes are the retailers' or manufacturers' excises on jewelry, toilet preparations, luggage, furs, automobiles, tires and tubes, and home appliances. The Federal excises on transportation of persons, local telephone service, and certain admissions overlap State and local sales taxes on these services. The Federal rates are substantially higher than the rates imposed under State and local sales taxes.

¹ State and local governments commonly levy business license, occupation or privilege taxes based on gross receipts or income (for example, Michigan's "value added" tax and the gross receipts taxes of Alaska, Washington, and West Virginia). They are not viewed as "sales taxes" in this report because of their form and legal incidence.

State Sales Taxes

Most of the existing State sales taxes were adopted during the depression years 1933-35. By the end of the 1930's, sales taxes were in effect in 24 States (table 5). Although the enactments of the thirties were intended for the most part to be temporary measures, only a small number of States eventually dropped them. The States had turned to this form of taxation in the face of increasing expenditures and declining revenues from existing sources. With the improvement of economic conditions, the States retained their sales taxes, partly in response to pressures from local governments that States withdraw from the property tax field and partly because pressures for revenue continued unabated.

A second sales tax movement occurred after World War II, as States sought means to finance the high level of postwar expenditures. Twelve States have enacted sales tax laws since 1946, with Texas' 1961 enactment being the most recent.

Most of the State sales taxes are single-stage retail sales taxes, applying to sales of tangible personal property at retail and to specified services (table 63). Mississippi and New Mexico, in addition to their retail rates of 3 and 2 percent respectively, tax wholesale sales at the low fractional rate of one-eighth percent. Hawaii's tax is applicable to manufacturers and wholesalers as well as to retailers. Indiana taxes retailers,

TABLE 63.—State Sales Taxes: Types and Rates

State	Type of tax ¹	Rate on tangible personal property at retail (percent)	Rates on selected services subject to tax						Transportation of persons and property	Rates on other services and nonretail businesses subject to tax
			Ad-missions	Restau-rant meals	Transient lodging	Tele- phone and tele- graph	Gas and elec- tricity	Water		
Alabama	Retail sales	3	3	3	3					Mining and manufacturing machinery, 1½ percent; gross receipts of amuse- ment operators, 3 percent.
Arizona	do	3	3	1½	3	1½	1½	1½	1½	Advertising, printing, publishing, contracting, extracting and processing minerals and timber, 1½ percent; storage, apartment and office rentals 3 percent; meatpacking and wholesale sales of feed to poultrymen and stockmen, ¾ percent; amusement operators, 3 percent. Printing and photography, 3 percent.
Arkansas	do	3	3	3	3	3	3	3		Rental income of amusement machines, 3 percent.
California	do	3		3						Charges on amusements and amusement devices, 3 percent.
Colorado	do	2		2	2	2	2			Manufacturers, producers, and wholesalers, ½ percent; sugar processors and pineapple canners, 2 percent; insurance solicitors, 1½ percent; con- tractors, sales representatives, professions, radiobroadcasting stations, service business, and other businesses (not otherwise specified), including amusement businesses, 3½ percent.
Connecticut	do	3½		4 3/4	3½					Property sold in connection with a sale of service 3 percent (2½ percent after June 30, 1963); remodeling, repairing, reconditioning, and rental of tangible personal property, 3½ percent.
Florida	do	3	3	3	3					Gross income from sales by manufacturers, producers, processors, whole- sellers (except grocer wholesalers), gross income from display advertising, laundry and drycleaning, ¾ percent gross income of all other business and persons (not otherwise specified), including amusement businesses, 1½ percent.
Georgia	do	3	3	3	3	3	3		3	Gross receipts derived from operation of amusement devices and com- mercial amusement enterprises, 2 percent.
Hawaii	Multiple-stage sales	3½	3½	3½	3½					Gross receipts from the operation of any coin-operated device and charges for participation in pool, golf, and other amusements, 2½ percent.
Illinois ¹	Retail sales	3½		3½						Sewer services, photography and photo finishing, 3 percent.
Indiana	Gross income	¾	1½	¾	1½	1½	1½	1½	1½	Laundry, drycleaning, automobile and cold storage, printing, repair services to tangible personal property, 2 percent.
Iowa	Retail sales	2	2	2		2	2	2		Production, fabrication, or printing on special order, 3 percent; farm equip- ment, 2 percent.
Kansas	do	2½	2½	2½	2½	2½	2½	2½		Wholesaling, ¼ percent (beer and motor fuel, 3 percent); extracting or mining of minerals, 3 percent; specified miscellaneous businesses (including bowling alleys, pool parlors, laundry and drycleaning, photo finishing, storage, certain repair services), 3 percent, except cotton ginning, 15c per bale; contracting (contracts exceeding \$10,000), 1½ percent; farm tractors, 1 percent.
Kentucky	do	3	3	3	3	3	3	3		Trailer camp rentals, 3 percent.
Louisiana	do	2	2	2	2					Wholesaling, ¼ percent; extracting minerals (except potash, coal, oil, and gas) and timber, ½ percent; potash extracting, 2 percent; coal extracting, ¼ percent; smelting, refining, or processing of minerals (including oil and gas), ¼ percent; preparing lumber or lumber, ¼ percent; contracting, 1 percent; professions and service businesses (including amusement busi- nesses), excluding ordinary wages and salaries, 2 percent; farm imple- ments, 1 percent.
Maine	do	3		3	3		3	3		Laundry and drycleaning, 3 percent; horses or mules, sales of fuel to farm- ers, manufacturing industries and plants other than for residential heating purposes, and to commercial laundries or to pressing and drycleaning establishments, sales of machinery to farmers, manufacturing industries, laundry and drycleaning establishments, and other selected items, 1 percent (maximum tax is \$50 per article for several items).
Maryland	do	3		3	3		3	3		Gross receipts from coin-operated music machines, 2 percent.
Michigan	do	4		4	4		4			Printing and reproducing, 3 percent.
Mississippi ⁴	Multiple-stage sales	3		3	3	3	3	3	3	
Missouri	Retail sales	2	2	2	2	2	2	2	2	
Nevada	do	2		2						
New Mexico	Multiple-stage sales	2	2	2	2	2	2	2	2	
North Carolina	Retail sales	3		3	3					
North Dakota	do	2	2	2		2	2	2		
Ohio	do	3		3	3					

Oklahoma	Retail Sales	2	2	2	2	2	2	2	2	Advertising (limited), gross proceeds from amusement devices, printing, automobile storage, 2 percent.
Pennsylvania	do	4		4	4	4	4			Repairing, altering, and cleaning of tangible personal property, cleaning, polishing, lubricating, and inspecting of motor vehicles, and rental income of coin operated amusement machines, 4 percent.
Rhode Island	do	3		3		3	3	3		Laundry and drycleaning, 3 percent.
South Carolina	do	3		3	3	3	3	3		Gross receipts from amusement devices, 2 percent.
South Dakota	do	2	2	2		2	2	2		Parking lots and storage of motor vehicles, 3 percent; machinery for "new and expanded" industry, 1 percent.
Tennessee	do	3		3	3					
Texas	do	2		2			2	2		
Utah	do	2½	2½	2½	2½	2½	2½	2½	2½	Laundry and drycleaning, repairing, renovating and installing, 2½ percent.
Washington	do	4	4	4	4					Charges for certain specified services, 4 percent; selected amusement and recreation activities, 4 percent (unless subject to county or city admissions taxes, in which case they remain taxable under the State business and occupation tax at 1 percent).
West Virginia	do	3	3	3	3					All services (including services rendered in amusement places), except public utilities and personal and professional services, 3 percent.
Wyoming	do	2	2	2		2	2	2	2	
District of Columbia	do	2		2	3			2		

¹ All but a few States levy sales taxes of the single-stage retail type. Hawaii, Mississippi, and New Mexico levy multiple-stage sales taxes (although Arizona's tax is applicable to some nonretail businesses, it is essentially a retail sales tax). Washington and West Virginia levy a gross receipts tax on all businesses, distinct from their sales taxes. Alaska also levies a gross receipts tax on businesses. The rates applicable to retailers (with exceptions) under these gross receipts taxes are as follows: Alaska, ½ percent on gross receipts of \$20,000-\$100,000, and ¼ percent on gross receipts in excess of \$100,000; Washington, 44/100 percent and West Virginia, ½ percent. Michigan imposes a form of value-added tax in addition to a retail sales tax. The tax is applicable to the professions and the self-employed, as well as to businesses, and the rate is 7¼ mills (except public utilities which are taxed at 2 mills). Indiana's "gross income" tax (applicable to personal and business income) is included in this tabulation because of its many sales tax features.

² Several States have special provisions for the sales of automotive vehicles. The States that tax such sales at different rates are as follows: Alabama, 1½ percent; Florida, 1 percent; Mississippi, 2 percent; New Mexico, new and used vehicles, 1 percent; North Carolina, including airplanes, 1 percent (1.5 percent effective July 1, 1962), maximum rate \$120. The following States exempt such sales but impose either the use tax or a special tax: Iowa, subject to use tax; Maryland, subject to a 2-percent titling tax; Oklahoma, subject to a special tax of 2 percent.

³ Arizona and Mississippi also tax the transportation of oil and gas by pipeline. Missouri, Oklahoma, and Utah do not tax transportation of property. Mississippi taxes bus and taxicab transportation at the rate of 2 percent. Oklahoma does not tax local transportation, school transportation, and fares of 15¢ or less. Utah does not tax street railway fares.

⁴ Restaurant meals below a certain price are exempt: Connecticut, less than \$1; Maryland, \$1 or less; Pennsylvania, 50¢ or less.

⁵ Illinois' 3½ percent rate includes a 1-percent additional tax effective through June 30, 1963; West Virginia's 3 percent rate includes a 1-percent additional tax (on sales in excess of \$1) effective through June 30, 1962.

⁶ Illegal sales, including sales of whisky, are also taxed. Wholesale 5 percent and retail 8 percent. Illegal sales are also subject to a 10-percent "blackmarket" tax.

⁷ Mississippi taxes industrial sales of gas and electricity at the rate of 1 percent. South Carolina's tax is not applicable to sales of gas. Texas exempts gas and electricity used in manufacturing, mining, or agriculture.

⁸ Food and beverages for off-premises consumption are taxed at the rate of 1 percent.

wholesalers, and manufacturers at the rate of three-eighths percent under its gross income tax. Extracting and processing industries are included in the sales tax base of several States.

Inclusion of services in the sales tax base is quite common. Twenty States tax admissions, 27 tax transient lodging, and all 36 States tax meals served in restaurants. One or more public utility services are subject to tax in almost two-thirds of the States. Nineteen States tax telephone and telegraph services, 22 tax sales of gas, and 23 States tax sales of electricity. Only 13 States apply their tax to water sales; and transportation services are subject to tax in only about one-fourth of the States. Printing, publishing, advertising, photography, laundry and dry-cleaning, storage, and repair services to tangible personal property are also taxed in a small number of States.

Certain types of sales of tangible goods are excluded from the sales tax base. Sales of materials which become a constituent part of a final product are generally excluded from the base of retail sales taxes. A few States exempt machinery and other items used directly in production. The fuel consumed in manufacturing processes is exempt from taxation in more than half of the States. Sales of feed, seed, and fertilizer are exempt in almost all States, and agricultural products are not taxed as retail sales in most States. Alcoholic beverages and tobacco products are subject to both excise and sales taxes in most of the 36 States, but motor fuel is subject only to the excise tax.

Several States have extended exemptions to certain "necessities" in order to mitigate the regressivity of sales taxes (table 64).

TABLE 64.—*State Sales Taxes: Exemption of Food, Clothing, and Medicine*

Food:¹

Exempt: California, Connecticut, Florida, Maine, Maryland, Ohio, Pennsylvania, Rhode Island, and Texas.

Taxable: 27 States and the District of Columbia.

Clothing:

Exempt: Connecticut,² and Pennsylvania,³ and Texas.⁴

Taxable: 33 States and the District of Columbia.

Medicine:⁵

Exempt: California,⁶ Connecticut, Florida, Maine, Maryland, Michigan,⁷ North Carolina, North Dakota, Ohio,⁸ Pennsylvania, Rhode Island, Texas, and the District of Columbia.

Taxable: 24 States.

¹ Food exemptions usually apply to "food for human consumption off the premises where sold." Restaurant meals are taxable in all States, although meals costing less than a specified amount are exempt in some States.

² The exemption is applicable only to clothing for children for children (up to 16 years of age).

³ The exemption is not applicable to formal clothing and certain fur articles.

⁴ The exemption is applicable only to single articles of "outer wearing apparel" which sell at retail for less than \$10, and which are not accessories.

⁵ The exemption is usually applicable to medicine sold on prescription or compounded by druggists, and to medical and dental aids or devices such as artificial limbs, eyeglasses, and dentures. Some States exempt patent medicines and household remedies.

⁶ Effective Jan. 1, 1962.

⁷ The exemption is applicable only to 50 percent of the amount charged for recorded drug prescriptions.

⁸ The exemption is not applicable to eyeglasses and dentures.

Nine States exempt food purchased for off-premises consumption and three exempt specified types of clothing. Sales of medicine sold on prescription and medical and dental aids or devices are exempt from sales taxation in 12 States. One of these (Michigan) limits the exemption to 50 percent of the amount charged for recorded drug prescriptions; another (Ohio) specifically excludes eyeglasses and dentures from its exemption.

Small purchases below a specified amount, casual sales, sales to or by governments and religious, charitable, educational, and other nonprofit organizations, are often exempt from State sales taxes.

The tax rates on retail sales of tangible personal property range from three-eighths percent in Indiana to 4 percent in Michi-

gan, Pennsylvania, and Washington. The rate is 3 percent in 16 States and 2 percent in 11 others. Approximately two-thirds of the States apply a uniform rate to all taxable items.

In order to prevent avoidance of their sales taxes, all States (except Indiana) have enacted use taxes on goods purchased outside the State or in interstate commerce for use within the State. Use tax rates are the same as the sales tax rates. Recent Supreme Court decisions have tended to extend State taxing jurisdiction with respect to interstate sales.

Local Sales Taxes

Sales taxation at the local level is essentially a product of the inflationary pressures of the postwar period. Prior to World War II, sales taxes were imposed by only two major cities, New York City and New Orleans, which enacted their original sales tax laws in 1934 and 1938, respectively. Following the war, a local sales tax movement began in California and spread to localities in other States, particularly Illinois, Mississippi, and Utah. At the present time, sales taxes are levied by local governments in 12 States. Almost all municipalities in California and Illinois levy a sales tax. Five of the 15 largest cities in the United States (New York, Chicago, Los Angeles, San Francisco, and New Orleans) impose a sales tax. Table 65 indicates the number of local governments levying a sales tax and the rates.

The local government tax rate in those States where a State sales tax is in effect (9 of the 12 States) is either one-half or 1 percent, except for 1 municipality in Arizona where the rate is three-fourth of a percent. The local sales tax rate in the three remaining States (Alaska, New York, and Virginia) which do not have State sales taxes

is either 1, 2 or 3 percent. The bases of the State and local taxes are substantially the same in those cases where both levels of government now tax sales.

Locally administered sales taxes are in effect in seven States (Alabama, Alaska, Arizona, Colorado, Louisiana, New York, and Virginia), while in the five remaining States there is some type of State-local and county-municipal coordination.

The combined administration of the State and local sales taxes was first used by Mississippi in 1950. In 1955, Illinois authorized its municipalities to add a one-half percent sales tax to the 2-percent State tax. California adopted a similar measure also in 1955. Under its uniform sales and use tax law, counties are authorized to levy a 1-percent sales tax if their tax base is similar to that of the State tax, and furthermore, if they agree to collection of the tax by the State. Municipalities in conforming counties are also authorized to levy a sales tax. However, in those cases where both local units levy a tax, a credit against the county tax for the amounts paid under the municipal tax is allowed, so that the combined rate will not exceed 1 percent. In conforming counties, the county tax applies in unincorporated areas and in municipalities not imposing a tax. Municipalities in nonconforming counties can levy a locally administered sales tax.

Local sales taxes duplicate or overlap State sales taxes in nine States and, like the State sales taxes, they overlap excises imposed by the Federal Government. In addition, they overlap the State and local special excises on items such as alcoholic beverages. The sales tax of the city of New Orleans, for example, overlaps its own excises on alcoholic beverages as well as those imposed by the State.

TABLE 65.—Local Sales Tax Rates¹

State	State tax rate (per-cent) ²	Local tax rates ²				
		½ per-cent	¾ per-cent	1 per-cent	2 per-cent	3 per-cent
Alabama.....	3					
16 municipalities ³		2		14		
13 counties.....		2		11		
Alaska.....						
32 municipalities.....				2	22	8
4 school districts.....				2	2	
Arizona.....	3					
6 municipalities.....		3	1	2		
California ⁴	3					
364 municipalities.....				364		
56 counties.....				56		
Colorado.....	2					
2 municipalities.....				2		
Illinois.....	3½					
1,120 (approx) municipalities.....		1,120				
56 counties ⁵		56				
Louisiana ⁶	2					
10 municipalities.....				10		
3 parishes.....				3		
Mississippi.....	3					
99 municipalities.....		74		25		
New Mexico.....	2					
15 municipalities.....				15		
New York ⁷						
6 municipalities.....				1	4	1
5 counties.....				1	3	1
Utah ⁸	2½					
54 municipalities.....		54				
11 counties.....		11				
Virginia.....						
1 municipality (Bristol).....						1

¹ This tabulation includes only those local sales taxes about which authoritative information is available. The following cities with a population of 50,000 or more impose a sales tax: Albuquerque, Baton Rouge, Denver, Huntsville, Jackson, Mobile, Montgomery, New Orleans, New York, Niagara Falls, Phoenix, Pueblo, Salt Lake City, Syracuse, Tucson, and all cities of 50,000 or over in California and Illinois.

² The rates shown are those applicable to sales of tangible personal property at retail. The State rate for Illinois includes a 1 percent additional tax, effective through June 30, 1963.

³ A county tax (Lauderdale, 1 percent, except in Florence where the rate is ½ percent, and Colbert, ½ percent) is levied in 2 of the 16 municipalities imposing a tax (Florence, ½ percent, and Sheffield, ½ percent). The combined county-municipal tax rate is 1 percent in both Florence and Sheffield.

⁴ The 56 counties are conforming counties and all but 5 of the 364 municipalities imposing a tax are in these conforming counties. The 5 remaining municipalities (Dunsmuir, Fort Jones, Mount Shasta, Weed, and Yreka) impose locally administered taxes of 1 percent. Both counties and municipalities levy a sales tax in conforming

counties, but the municipal tax is credited against the county rate. Therefore, the combined county-municipal tax rate is 1 percent. Sales in unincorporated areas are subject only to the 1 percent county tax. Nonconforming counties may not levy a sales tax.

⁵ The tax imposed by these 56 counties is applicable only to unincorporated areas.

⁶ Three of the 10 municipalities, namely, Baker, Baton Rouge, and Zachary, are located in East Baton Rouge Parish, which is 1 of the 3 parishes imposing a tax. The East Baton Rouge Parish tax does not apply to the three municipalities.

⁷ A county tax (Jefferson, 2 percent, except in Watertown where the rate is 1 percent) is levied in 1 of the 6 municipalities imposing a tax (Watertown, 1 percent). The combined municipal-county tax rate is 2 percent in Watertown.

⁸ Eleven counties and 54 municipalities in these counties each impose a ½ percent sales tax. The municipal tax is credited against the county tax. Sales in unincorporated areas and in municipalities not imposing a tax are subject only to the county tax. Municipalities cannot levy the tax until imposition by the county.

Revenues

General sales are the largest single source of State tax revenues. In the fiscal year 1961 they yielded \$4.5 billion, or 23.7 percent of State tax revenues and 31.7 percent

of the total tax revenues of States levying general sales taxes. In no State imposing a general sales tax in 1960 did this item account for less than 18 percent of tax collections, and 21 of the 34 (excluding the new

Kentucky and Texas laws) sales tax States obtained 30 percent or more of their tax revenues from this source.

At the local level, the yield of property taxes overshadows that of any other type of taxation, including the almost billion dollar yield of general sales taxes. However, municipalities which impose general sales taxes

derive an important part of their tax revenues from this source. The 1960 sales tax yields of the five largest cities, as a percentage of their total tax revenues, is as follows: New York, 29.9 percent; Chicago, 9.2 percent; Los Angeles, 28.5 percent; San Francisco, 16.6 percent; and New Orleans, 28.0 percent.

Chapter 15

LOCAL TELEPHONE SERVICE TAX

Federal Tax

The Federal Government has imposed a tax on payments for local telephone service since 1941. The tax, which supplements Federal excises on long-distance communications, applies to payments by subscribers for ordinary telephone service except that for which there is a toll charge. Amounts paid for coin-operated telephone service are taxable to the extent of any guaranteed amount, plus any fixed monthly or other periodic payment made by the location owner. A 15-percent rate on local telephone service was in effect from May 1, 1944, through March 31, 1954. It has been 10 percent since April 1, 1954. The tax is payable by the person purchasing the service and is collected by the person furnishing the service.

State and Local Taxes

Nineteen of the 36 States which impose general sales taxes apply this tax to charges for local telephone service (table 63). The most common rate is 2 percent. Michigan's business activities tax and West Virginia's business and occupation tax also apply to this service.

Telephone companies are subject to gross receipts taxes in 25 States and the District of Columbia.¹ These taxes generally are not limited to telephone companies but apply to other types of utilities. In a number of States they are levied in lieu of property taxes or general corporation taxes; in some

cases they are imposed in addition to these taxes. Five States (Connecticut, New York, Oregon, Rhode Island, and Virginia) specifically exempt telephone companies from corporate net income tax. In one of these (Oregon) the exemption applies only to mutual or cooperative telephone companies.

The rates of gross receipts taxes range from three-tenths of 1 percent to 7 percent, and only six States have rates in excess of 4 percent.

Several States grant specific authority to local governments to tax public utilities, including telephone companies, usually specifying a maximum rate. In other States, local authority to impose such taxes is derived from general or specific business licensing powers or is found in home-rule charter provisions.

At present, local governments in about 23 States impose gross receipts taxes on telephone companies.² The tax is most widely used by municipalities in California, Florida, Missouri, New York, Oregon, Texas, Virginia, and Washington.

A number of cities and villages in New York impose a 1-percent tax on gross receipts of utility companies similar to the State 2½-percent tax. At least 14 New York cities impose a 3-percent consumer's

¹ In five additional States low rate gross receipts taxes are imposed for purposes of paying the cost of regulation.

² Complete information is not available with respect to the local telephone tax in those States where it is used by only a few cities.

utility tax which in some cases is used for school district purposes.

In Florida cities the rate is generally 10 percent and is applicable in some cases to the gross receipts of the utility company and in other cases is added to the consumer's bill. The city tax overlaps the Florida State tax of 1½ percent.

The city rates are generally 2 percent in Oregon and Texas and 5 percent in Missouri. In two States city rates vary widely, reaching as high as 15 percent in Virginia (on the customer's bill) and 8 percent in Washington. California cities usually levy a flat rate. In three States (Texas, Virginia, and Washington) the local taxes exist alongside State taxes on the gross receipts of telephone companies. Local telephone services are taxed under city sales taxes in several States.

In fiscal year 1961, the Federal tax on local telephone service yielded about \$483 million, 4.0 percent of total excise tax collections and one-half of 1 percent of total internal revenue collections. Data on collections from State taxes on gross receipts of telephone companies and sales of telephone service are not available.

In recent years consideration has been given to placing at the disposal of the States a portion of the Federal tax on local telephone service through the instrumentality of a Federal credit for taxes paid to the States. The Joint Federal-State Action

Committee in 1958 and 1959 examined possible alternative methods of allowing a credit.³ Subsequently Congress in connection with the 1959 tax rate extension legislation provided for the repeal of the Federal tax on local telephone service on July 1, 1960. However, the repeal did not occur because on July 1, 1960, Congress enacted legislation postponing the scheduled termination of the tax. Meantime, New York State (in anticipation of repeal of the Federal tax) had passed legislation in 1960 authorizing the imposition for school purposes, of a local tax of 10 percent on telephone service contingent upon the abandonment by the Federal Government of its 10 percent tax on local telephone service or provision of a Federal credit for the full amount of the local tax. The New York State authorization allowed counties (except a county wholly within a city) to enact the 10-percent tax when its imposition was requested by the school authorities of any school district or districts which contain a majority of the children attending public schools in the county. The legislative body of any city having a population of 1 million or more population was also authorized to levy such a tax. Retention of the Federal tax has prevented the New York provision from going into effect.

³ For a description of the alternative proposals, see the *Final Report of the Joint Federal-State Action Committee*, February 1960, pp. 108-109.

PART III

Chapter 16

TAX COORDINATION AT THE LOCAL LEVEL

In chapter 5 we sketched the development of local nonproperty taxation principally since the end of World War II. In a few States, notably in California and Ohio, it emerged under broad home-rule provisions enjoyed by local governments; in most States, under special enabling legislation limited to selected local jurisdictions.

The revenue requirements of local governments within individual States are increasing unevenly. Generally, the increases are more marked in the rapidly growing urban centers, where larger numbers, possibly higher unit costs, and insistence on better governmental programs generated by rising personal incomes, are raising governmental requirements faster than in the less populous sections of the State. Legislation enabling individual jurisdictions to finance programs locally postpones the necessity to provide financing for statewide programs. This accords with the natural reluctance of political leadership to recognize the emergence of costly statewide problems—its preference to leave solutions to local governments. It harmonizes also with a deeply rooted inclination to keep government decision making close to the people, which expresses itself in appeal for home rule and local self-determination. What possible objection can the legislature have, so the argument runs, to permitting a city to tax itself. In many instances, legislation authorizing special local taxes receives strong support from (if it is not initiated by) or-

ganizations of citizens interested in more adequate financing of particular functions, principally public schools.

The mushrooming of the miscellany of nonproperty taxes produced by these pressures across the country gives some cause for public concern. A count in Pennsylvania now 3 years old (1958) turned up 5,200 separate city, borough, township, town, and school district nonproperty tax enactments, including 845 income taxes, 671 real property transfer taxes, 2,597 per capita taxes, 382 trailer taxes, and 367 admissions taxes, to mention only the more numerous categories. While no State approaches Pennsylvania in the variety of its nonproperty tax “smorgasbord” and in number and variety of local jurisdictions who may partake of it, the difference is only one of degree. A 1959 New York State list of local nonproperty taxes contains over a dozen different categories, some with several subcategories of levies in force in one or more local jurisdictions. Excessive variety may give pause to those who see the solution to local jurisdictions’ fiscal problems in broad legislative license to levy nonproperty taxes.

As a people, we have a desire for simplicity and symmetry in governmental finances and we express this prejudice in an aversion to overlapping taxes. A separation of revenue sources under which each level of government is assigned its own tax preserve, safeguarded against encroachment from other levels, is the cherished hope of

many who frequently wax eloquent on the subject. That this utopia, if it be that, bears no resemblance to attainable reality (and under this governmental system never will) does not dampen the ardor of its advocates.

The use of consumer, income, and excise taxes by local governments, however, does labor under real handicaps which should be recognized. Some of these stem from the limited territorial jurisdiction of local governmental units. Counties, cities, towns, and school districts are typically far smaller than the economic areas of which they are a part. The nonproperty taxes they impose generally affect business relationships within the entire economic area. Consumer taxes, whether broadly based sales taxes or levies on selected commodities or services, are likely to affect business competition between the trading jurisdiction and the surrounding areas. Taxes on wages and salaries affect competitive relationships between the employment centers within and without the taxing jurisdiction. Even within the employment city they raise problems, involving equities between workers residing within and outside of that city.

The influence of tax considerations on the location decisions of business are frequently exaggerated, to be sure, particularly when the rate of the tax is low and is associated with substantial differences in the quality of local governmental services beneficial to business. In a very real sense, however, the distorting effects of taxes on business decisions are no less damaging when based on misinformation or inadequate information than when they are founded on fact.

Most consumer and income taxes imposed at rates practicable for use at the local level entail relatively high administrative

costs. More correctly, they would involve high costs if administration consistent with good enforcement were provided, except where responsibility for enforcement can be shifted to others, as for instance, to employers directed to withhold wage taxes or business enterprises required to collect taxes from consumers of utility services. Low rate retail sales taxes pose difficult enforcement problems except where the superior collection facilities of the State administration are available.

The uncoordinated use of consumer and income taxes typically results in compliance burdens for taxpayers and business enterprises, as for example, where employers are required to withhold one or more local wage taxes on top of the Federal and State taxes from the compensation of individual employees.

Finally, State governments are themselves disadvantaged by the heterogeneity of local tax measures because it tends to restrict their own tax freedom and may conflict with their economic development programs. The prevalence of local income taxes in Pennsylvania was said to have swung the balance in favor of the State sales tax rather than an income tax, while the reliance of New York City and other local jurisdictions on 2 percent and 3 percent general sales taxes may effectively bar New York State from this tax area. Where general sales taxes, income taxes, or selective excises are imposed by a significant number of local jurisdictions, the State has this additional hurdle to surmount in its own decision to tap the particular or a closely related tax area.

These adverse features of local nonproperty taxes can in some measure be mitigated through State action. Local governments are creatures of the State. In an historical sense, they are an administrative arm of the

State and as such can be coordinated and integrated by the State to a degree alien to State-Federal relations. States can attain by direction objectives which the Federal Government can approach only by indirection.

We turn next to these possibilities, first at the inter-local level, then some statewide possibilities.

Inter-Local Coordination

The shadow of intercommunity competition can effectively restrain a jurisdiction within a larger economic area from using nonproperty taxes. Just as frequently, the use of these taxes actually distorts normal economic patterns within the area. To avoid such results, two or more jurisdictions within the economic area may desire to use a particular tax, may in fact be prepared to move in harmony by adopting a substantially identical tax measure, but are precluded from doing so for lack of authority to act in concert or because of disparities in their respective taxing powers under the State constitution or enabling legislation. Contiguous cities, counties, and towns frequently possess disparate taxing powers. To meet just this kind of situation the Virginia Legislature was unsuccessfully urged some years ago to grant the two counties in the northern part of the State sales tax powers comparable to those possessed by the two adjoining cities, in order that the four tax jurisdictions comprising the Virginia segment of the National Capital area might impose these taxes simultaneously and under identical terms.

The adverse impact of locally imposed consumer, income or excise taxes on economic activity and competitive relationships could in some measure be relieved if the jurisdictions comprising the economically integrated area were granted parallel tax-

ing powers. Many of the standard metropolitan statistical areas could benefit from such legislation, although economically more meaningful groupings of local jurisdictions probably could be developed to meet individual State conditions.

Some States already have authorized groups of adjoining jurisdictions to undertake jointly functional activities they are authorized to engage in singly. In 1959, the New York electorate approved a constitutional amendment empowering the legislature to authorize municipalities, school districts, and other districts to provide and *finance* jointly any service which each can provide separately. In its report on *Governmental Structure, Organization and Planning in Metropolitan Areas*, the Advisory Commission on Intergovernmental Relations has recommended the enactment of State legislation authorizing two or more units of local government to exercise jointly or cooperatively any power possessed by one or more of the units concerned and to contract with one another for rendering of governmental service. This technique has application in the revenue-raising activities of local jurisdictions.

A timely illustration of this approach is provided by Colorado. The 1961 session of that State's legislature authorized a group of counties to band together into a capital improvement district and to levy an areawide sales tax (not to exceed 2 percent) to finance improvements. The district court was empowered to authorize an election on the establishment of the capital improvement district upon the petition of any county. Approval of the majority in the district rather than in each of the counties affected is sufficient to establish the district. At a special election held on September 26, 1961, in the four counties comprising the Denver

metropolitan area (Adams, Arapahoe, Denver, and Jefferson), a 2-percent metropolitan district sales tax was approved by a substantial margin. This will increase Denver's 1 percent tax to 2 percent and produce a combined 4 percent State and local sales tax in the four counties.

When, as in the Colorado legislation, the instrumentality for intercommunity cooperation is a special district, it must necessarily bear the onus of adding to the proliferation of local governmental units.

Authority to enable adjoining local jurisdictions to move in unison on nonproperty taxes would relieve intercommunity competition but might not relieve the high cost of administration and the heavy compliance burden of local taxes. Quite possibly these are insurmountable hurdles because income and sales taxes are not economical to administer at the low rates used by local governments. The problems can in some measure be mitigated, however. As a minimum, where several political subdivisions have authority to employ any of these taxes, the State by generally applicable legislation could prescribe standard definitions of taxpayers, tax bases, exemptions, penalties, credits, jurisdictional rules, and administrative powers to minimize uncertainty and confusion and to prevent intrastate inconsistency. Where appropriate, it could prescribe procedural rules (referendum, etc.) for implementing cooperative taxation policies as well as allocation rules for the sharing of collections among the cooperating jurisdictions.

In States where payroll taxes on wages and salaries are typically imposed by two or more overlying jurisdictions, the compliance burden on employers and administrative costs could be reduced also by pooled administration. One of the jurisdictions,

preferably the larger one, could administer the tax for all of them. This arrangement appears to have been developed in some Pennsylvania areas through local initiative. The scope of the problem is warrant for State initiative, to which we next turn.

Statewide Coordination

The proposition that the State should actively assist its subdivisions in improving the effectiveness of tax sources it makes available to them requires no demonstration. The parental relationship of the State to its subdivision is adequate justification. If more were needed, it could readily be found in the case for mitigating the adverse effect of the uncoordinated local use of the nonproperty taxes on the State's economy.

If State assistance to local tax administration is viewed with skepticism at all, that skepticism is likely to stem from the local governments themselves. Their sensitivity to home rule, their attachment to local autonomy, breeds suspicion of State intervention in local tax matters. At the very least, it dampens local enthusiasm for seeking State help in tax administration.

Another barrier is the absence of a common interest among some adjoining jurisdictions, stemming in part from differences in the urgency of finding additional revenue and in part from the unequal impact of most taxes on adjoining jurisdictions. The improved effectiveness of local sales taxes is likely to interest the jurisdiction which serves as the area's trading center; it is not likely to elicit support from the residential suburb. Similar conflicts of interest are likely to prevail between employment centers and residential suburbs with respect to local income or earnings taxes. The association of a tax with a service potentially beneficial to the total area, as in the Denver

metropolitan areawide sales tax described above, may promote some areawide solidarity in tax policy but entails the weakness of taxes earmarked for specific uses. An alternative, as noted above, is the prescription of revenue allocation rules by the legislature.

Technical assistance. The State can assist local tax areas in various ways short of taking a direct hand in tax collections. It can serve as a clearinghouse of information on the experience of other jurisdictions. It can provide training facilities for local personnel. It can provide technical advice on tax administration. It can afford local jurisdictions access to relevant State tax and related records. In some situations it can employ sanctions on behalf of local jurisdictions. Local administration of personal property taxes on automobiles would be measurably eased if evidence of their payment was made prerequisite to State registration of motor vehicles. Where local registration fees are imposed, evidence that the local tags had been purchased before State tags are issued would be equally effective.

Tax administration. A special situation prevails where local use of particular non-property tax is statewide or nearly so, and where reasonably uniform tax bases and rates are or can be employed. The conspicuous example is Pennsylvania, where as noted earlier, more than 800 cities, boroughs, townships, and school districts impose income taxes, frequently overlapping. Ohio with more than 50 city income taxes is another example. In these situations, a statewide administration appears to be indicated. In neither Pennsylvania nor Ohio is income subject to State taxation and the question has been raised whether the constitutional provisions which have been in-

voked against the enactment of State income taxes would not also bar State administration of local income taxes. This is not the place to consider the constitutional question if one should exist. It would appear, however, that nothing in its constitution should preclude a State from assisting its political subdivisions in organizing a joint tax administration for themselves.

The local income tax situation in Pennsylvania and Ohio is unique. More generally, the local taxes overlap State taxes and provide ready scope for cooperation in tax administration. The most promising device of this kind is the tax supplement.

Tax supplement. Where a particular tax (base) is used for both State and local purposes, a logical administrative device is the tax supplement. The local rate is added to the State rate, both are collected by the State administration, and the allocated share of the collections (on the basis of geographic origin) is credited to the account of the local taxing jurisdiction. The classic American example is the manner in which some States still share the property tax with their political subdivisions. Administration in these cases is generally local, occasionally State. In Alabama, municipalities can provide by ordinance (and most of the large cities have provided) for the assessment and collection of personal property taxes through the State assessment and collection machinery.

In Nevada the State collects a 1-cent gasoline tax for the counties, which they have the privilege (by resolution) not to impose. None has taken advantage of the privilege.

The tax supplement has important advantages. It involves the use of identical State tax definitions (taxpayer, tax base, etc.) by all local jurisdictions. While some State definitions may leave scope for im-

provement, the advantages of uniformity for ease of compliance are self-evident. The local supplement is collected together with the State tax, eliminating the need for duplicate administration, with corresponding alleviation of compliance burdens. Where the local jurisdiction is charged a fee for the collection of its tax, these funds supplement the State's own, typically inadequate appropriations for tax enforcement.

The tax supplement, moreover, leaves the responsibility for imposing the tax and fixing its rate (generally within limits prescribed by the State) with the local jurisdiction. It enables the electorate in each jurisdiction to balance the case for the tax against the need for the additional local services and thus leaves scope for intrastate differences in the level of governmental services (necessarily at the cost of intrastate tax rate differentials). However, the degree of local autonomy exercised in these situations may be ephemeral only. Experience suggests that frequently when local governing bodies are granted authority (without referendum requirement) to add local tax supplements, the tendency is to utilize the authority. This appears to be the burden of the experience with local sales tax supplements in Mississippi and Illinois. The California experience can be similarly interpreted. Examples can be cited, however, to demonstrate the contrary, particularly if the authority is subject to electoral approval.

Since the proceeds of local supplements accrue by definition to the imposing jurisdiction (the revenues are left in the jurisdictions where they are collected), problems of allocation among jurisdictions present in grants-in-aid and shared revenues are avoided. (By the same token, however, variations in need relative to local resources are disregarded.)

Recent experience with tax supplements has been particularly successful with sales taxes. The device was first used by Mississippi in 1950 and has spread to four other States. It has been in use in California since 1956 where both county and city taxes prevail. In that State, the legislative limit on both the county and city rate is 1 percent, but the city tax is allowed as a tax credit against the county tax. Thus the net county rate may vary from 1 percent, where the city eschews the tax altogether, to zero if the city levies the 1-percent rate. Today the 1-percent local supplement to the 3-percent California State tax is virtually statewide, with the cities' share ranging from one-half percent to the full 1 percent. A few jurisdictions, however, still collect their own tax.

In Illinois, the privilege to add a local supplement to the State's sales tax was utilized (as of the first of this year) by approximately 1,120 out of 1,181 municipalities, and by 56 out of 102 counties. In Alabama, where 13 counties and 63 municipalities impose sales taxes, 9 of the county and 2 of the city taxes are administered by the State department of revenue as a supplement to the State's tax.

The opportunity to collect the new Denver area four-county 2 percent sales tax as a supplement to the State's 2 percent tax is precluded, at least for the time being, because the local tax provides for exemptions (principally food) while the State's tax does not.

While tax supplements have received most public notice in connection with sales taxes, the technique has potential in other areas where local taxes duplicate a State tax. Moreover, local use of the tax need not be statewide. The supplement would appear to have considerable scope with respect to motor vehicle registration fees where local

licensing of vehicles is a widespread practice. The device has been discussed also in connection with local income taxes. It presents some problem here because States tax the total income of their residents from whatever geographic source derived, while local income taxes generally apply to earnings from employment within the taxing jurisdiction.

Tax credit. The tax credit is a device by which a taxing jurisdiction invites a subordinate jurisdiction to share with it a prescribed portion of a tax area. It is used also to enable two coordinate jurisdictions to share a portion of the tax.

The purpose of the credit is accomplished by permitting the taxpayer to discharge a specified portion of his tax liability to one (the superior) jurisdiction with receipts for an identical kind of tax paid to other (subordinate) jurisdictions. The credit, it will be noted, is to the taxpayer, and not to the taxing jurisdiction. Since the taxpayer's liability is the same whether the subordinate jurisdiction uses the tax (which gives rise to a credit) or not, the availability of the credit exerts a strong compulsion on the subordinate jurisdiction to impose the tax up to the limit of the credit. Why forgo the tax when it adds nothing to the tax burden of the local citizen; when it merely diverts to the local treasury revenues which otherwise would go to the State?

While the tax credit was used as early as 1918 to minimize international double taxation of Federal income taxpayers, its use in tax coordination among the constituent governments of the United States dates from 1924 when it was first employed to give States a share of the Federal estate tax. (See ch. 8.) In 1936 it was also employed to insure that all States would set up unemployment compensation programs.

The tax credit has had only limited application in State-local relations. Two States (California and Utah) are using it to limit the aggregate of city and county sales taxes, by requiring the county to allow credit for the sales tax paid to cities. An example of the use of the tax credit in State-local tax relations is the Florida cigarette tax credit. In 1949 Florida authorized municipalities to levy cigarette taxes at a rate not exceeding the 5-cent-per-package State rate, with a corresponding tax credit against the State tax. All jurisdictions promptly imposed 5-cent cigarette taxes. In Florida the State collects the tax, withholds 3 percent of collections to cover administration costs, and returns the balance to municipalities in proportion to collections. Proceeds for the tax in areas outside municipalities are reserved for the State. Other incidental uses of the credit occur here and there. Virginia, for example, allows municipal taxes on shares in incorporated banks to be credited against the corresponding State tax.

In view of its coercive aspects, the tax credit is closely akin to a State-imposed tax shared with subordinate jurisdictions on the basis of collections. In its Florida application, the tax credit in effect produces a State-collected, locally shared cigarette tax.

In its more familiar application, as in the Federal estate and unemployment insurance taxes, the credit is consistent with, and in fact, contemplates, local tax rates in excess of the tax credit. In a State-local context, a case could be made for limiting local rates to the amount of the credit in order to avoid intercommunity tax rate differentials.

While the local and State taxes based on a tax credit are separately administered, the benefits of superior State administration spill over to local jurisdictions so long as the State retains a significant enough share of

the tax to leave it with an incentive to make an enforcement effort. This would not be the case where the credit absorbs substantially all of the nominal State tax liability.

Perhaps the strongest feature of the tax credit is its tendency to equalize tax rates among jurisdictions, thereby curtailing intercommunity tax competition. While tax rate differentials are precluded only if the local tax rates cannot exceed the credit, some equalizing tendency prevails even in the absence of local rate ceilings. The tax credit enables each jurisdiction to impose a tax rate up to the amount of the credit without affecting the combined State-local tax liability. This serves as a floor below which competitive tax rate cutting is eliminated because the tax credit makes it pointless.

Tax sharing. The most familiar intergovernmental device in State-local tax relations is the shared tax. The tax is imposed by the State and its yield shared with local governments. Typically the tax is State administered. On occasions, however, as in the case of some State death duties, it is locally administered with a portion of collections retained by the administering jurisdiction.

The advantages of a State-imposed and locally shared tax over separately imposed State and local taxes are several. Dual tax administration is eliminated. Local governments are afforded the benefit of the State's superior enforcement facilities. It eliminates scope for intercommunity tax rate competition and results in a statewide tax rate level deemed consistent with State policy. These benefits are obtained without destroying local independence with respect to expenditures.

Local sharing of State taxes, however, is not without its shortcomings. Local fiscal independence is impaired to the extent that

the decision respecting the kinds of taxes employed, tax rates, etc., are removed from local determination. Conceivably some jurisdictions have no need for the revenue or would prefer to do without the tax burden and the revenue. The basis of sharing, moreover, poses difficulties akin to those present in grants-in-aid and exposes local jurisdictions to the fortunes of the political power balance in State councils. Tax sharing does have a practical advantage over grants-in-aid in that it escapes the periodic budget debate over how much should be appropriated for it.

A common basis for tax sharing is collections within each jurisdiction. This is readily workable with respect to such revenues as motor vehicle registration fees or taxes on utility services. Here the geographic origin of the revenue can be readily identified. The task is more difficult, however, in the case of general sales taxes since the distribution of revenues on the basis of collections will overstate the contribution of the marketing areas. It is most difficult in the case of income taxes because a resident normally files his tax return in the jurisdiction where he resides and a business organization where its headquarters are located while the income of both may and probably does represent activity scattered over a larger area.

Because of these kinds of considerations, distribution of revenues on bases other than collections is not uncommon. Sometimes population or school enrollment is employed. In the case of automotive taxes, the distribution formulas may be related to highway needs. Objective standards for distribution, however, are illusive. Where the bases of distribution are collections or population within each jurisdiction, the result may be at marked variance with rela-

tive need resulting in excessive distributions to some jurisdictions, inadequate shares to others.

Finally, since distributions are on the basis of collections, the yield of shared taxes fluctuates from year to year and shifts the burden of adjusting expenditure levels from the State, which typically is better able to absorb it, to local jurisdictions. This consideration, however, has more relevance in comparing shared taxes with grants-in-aid, than with other State-local tax arrangements.

While the tax-sharing device may run a poor second to grants-in-aid where the objective is to provide State financial assistance to local units on a stable basis, it has distinct advantages as a substitute for locally imposed taxes where they are widespread within the State, especially if the independently imposed local tax rates tend to be uniform. In 1961, Maryland increased its State cigarette tax by 3 cents, the approximate rate of the prevailing county cigarette taxes, and earmarked the added revenue for counties, on the basis of collections. At the same time, it prohibited the further imposition of local cigarette taxes. By this measure, it made the State's more efficient and economical enforcement resources available to the counties, and eliminated intrastate tax rate differentials.

Coordination Proposals

In its report on *Local Nonproperty Taxes and the Coordinating Role of the State*, the Advisory Commission on Intergovernmental Relations concluded that the widespread use of miscellaneous kinds of local taxes across the country poses problems of public policy and affords State governments an opportunity to foster State and national objectives by maximizing the effectiveness and minimizing the adverse results of local tax practices.

It found that local sales, income, and excise taxes add still another layer to existing tax duplication. While a clear-cut separation of revenue sources, under which each level of government has its own tax preserve immune from encroachment by other levels, is an unrealistic objective, the case for avoiding needless tax overlapping needs no demonstration.

Many local nonproperty taxes distort competitive business relationships because the local taxing jurisdiction, even the very large city, is typically smaller than the economic area of which it is a part. Its taxes, therefore, handicap local business firms in their competition with firms beyond the city line. Local taxes typically entail high administrative costs for government and heavy compliance burdens for taxpayers, and all the while are not well administered. Furthermore, the widespread use of these taxes handicaps State government itself, through its adverse impact on the State's economy and by limiting its freedom in shaping its own tax system.

The interstate variation in division of functions, taxes, and financing arrangements and the intrastate variation among different local jurisdictions preclude the formulation of generally applicable prescriptions for State coordination of local taxes. Local government finance in the United States is a most heterogeneous institution, nationally as well as within most individual States. Our sketchy description of State-local tax arrangements involving some 80,000 separate governmental entities makes this abundantly clear. It underscores also the improbability that local fiscal problems are susceptible to common solutions. This study has certainly failed to uncover them. It has provided, however, a basis for some general appraisal of the merits of the more common techniques in State-

local tax relations, some general guidelines which can be readily synthesized. Each of these is believed to have potential usefulness in some situations in some States, probably none in all of the States. This Commission suggested the following:¹

(1) The case for most nonproperty taxes is strongest in the large urban places. Even here, these taxes are best imposed cooperatively by a group of economically interdependent jurisdictions. Therefore, the city and the other jurisdictions comprising an economic area should be provided with (a) uniform taxing powers and (b) authority for cooperative tax enforcement. The States should take active leadership in promoting the pursuit of coordinated tax policies and practices by these economically interdependent jurisdictions.

(2) In States where a particular tax, such as the sales or income tax, is in widespread use by local governments and is simultaneously used also by the State, the most promising coordinating device is the local tax supplement to the State tax. It gives local jurisdictions access to the superior enforcement resources of the State and eases taxpayer compliance, but leaves the decision to impose the tax to local initiative.

(3) In situations where a particular nonproperty tax is widely used locally but the State does not itself use the same tax, the State can nonetheless help local jurisdictions by facilitating the pooled administration of the separate local taxes by a State administrative agency; alternatively, it can authorize local jurisdictions to join in creating such an administrative agency for themselves.

(4) States can minimize needless variety among local nonproperty taxes by accompanying the authorization for using them with generally applicable specifications with respect to their structure (tax base, exemptions, etc.) and administrative features.

(5) Individual States' tax policy should aim to limit local government to the more productive taxes. Local jurisdictions should be discouraged from levying many kinds of different taxes, none of which produces enough to warrant reasonably good enforcement. Extensive tax diversification is not practicable at the local level, especially in the smaller jurisdictions.

(6) States should provide their local units with technical assistance by serving as a clearinghouse of information on tax experience in other parts of the State and country, by providing training facilities for local tax personnel, by giving them access to State tax records, and where appropriate, by employing sanctions against State taxpayers who fail to comply with local tax requirements.

(7) While the tax-sharing device may run a poor second to grants-in-aid where the objective is to provide State financial assistance to local units on a stable basis, it has distinct advantages as a substitute for locally imposed taxes where they are widespread within the State, especially if the independently imposed local tax rates tend to be uniform.

(8) The tax credit device affords little scope for State-local tax coordination. Its chief value is in coordinating the use of the same tax by overlapping local units, as for example, county and city sales taxes, and for reconciling the competing taxing jurisdiction of two or more States, as in the case of State taxation of the income of non-residents.

¹ Advisory Commission on Intergovernmental Relations, *Local Nonproperty Taxes and the Coordinating Role of the States*, September 1961, p. 6.

COMMISSION REPORTS¹

- Coordination of State and Federal Inheritance, Estate and Gift Taxes.*
January 1961. (Report A-1; 134 p., printed.)
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¹ Available free of charge from Advisory Commission on Intergovernmental Relations,
Washington 25, D.C.

