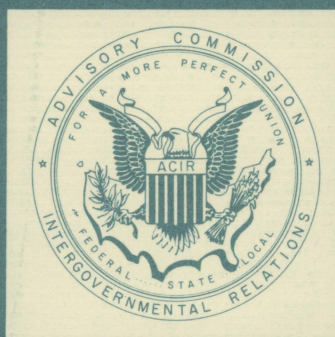


AN INFORMATION REPORT

*Tax Overlapping in  
the United States*

1964



THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

JULY 1964

M-23

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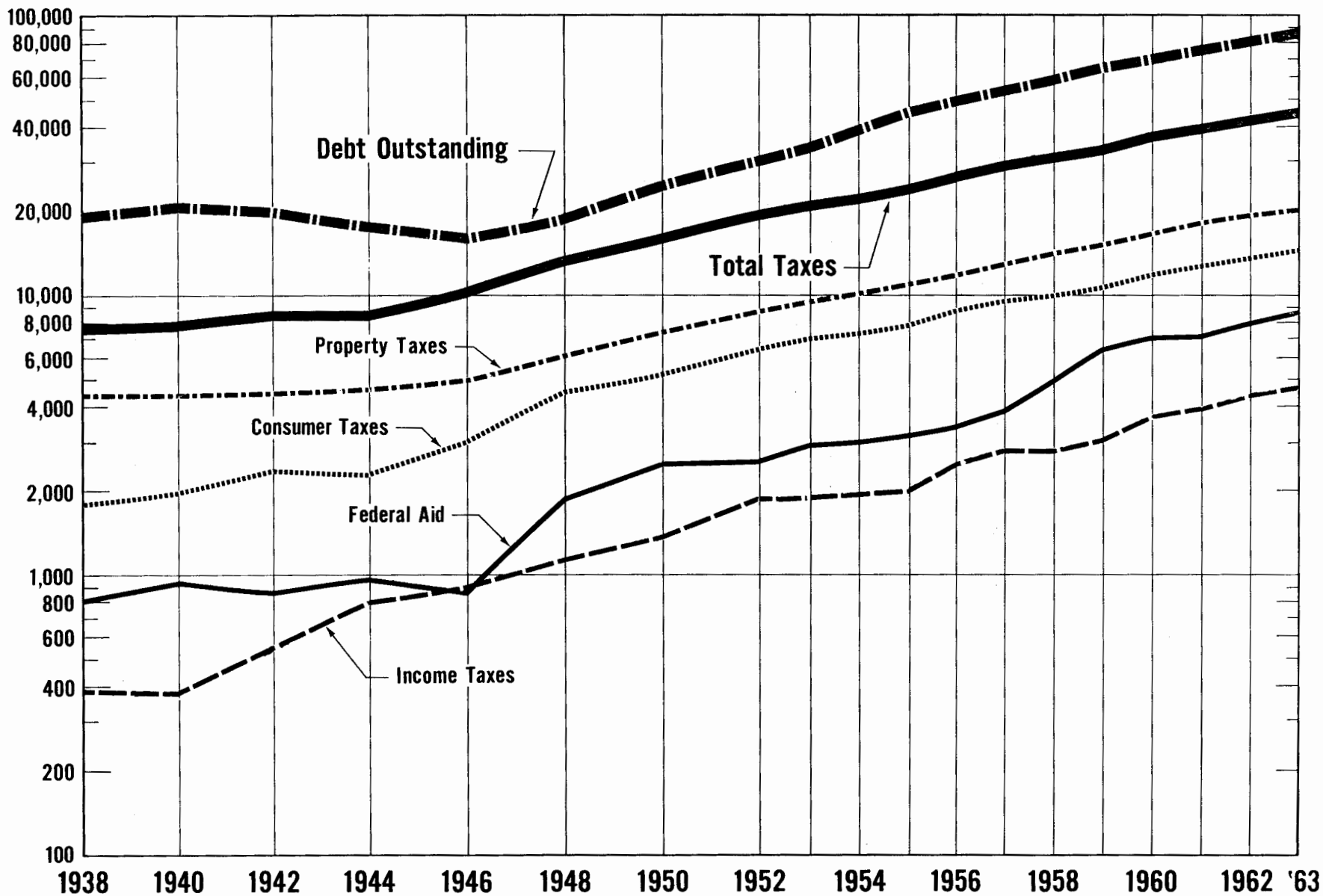
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# SOURCES OF STATE AND LOCAL GENERAL GOVERNMENT FINANCING

## Selected F.Y. 1938-1963

MILLIONS OF DOLLARS



## 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 as well as methods of coordinating and simplifying their tax laws.

This volume seeks to bring together the more important basic data 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 the benefit of full information, reasonable people stand a good chance of reaching reconcilable conclusions.

The volume is in some respects incomplete. 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 covered here. The depth of treatment of the different taxes is itself uneven because our information is less complete in some areas than in others. Where it is relevant, a statement of this Commission's recommendations for intergovernmental fiscal coordination is included.

Taxation in the United States, particularly at the local and State levels, is continually changing, and a volume of this nature requires periodic updating. The present volume represents a revised and expanded version of a publication issued under the same title in September 1961. The additions include a chapter on interstate variations in State and local tax systems, one on property taxes, some historical tax-rate tables, and data on State-collected taxes shared with local governments.

The report will be revised again as developments warrant. This will afford opportunities for improving further its coverage and accuracy. Users of the volume are urged to communicate to us its shortcomings.

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. The manuscript was reviewed by State officials in the several States. Their generous cooperation is gratefully acknowledged.

This is a staff information report and is to be distinguished from Commission reports on substantive policy issues.

WM. G. COLMAN,  
*Executive Director.*

L. L. ECKER-RACZ,  
*Assistant Director.*

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# **PART I**



## Chapter 1

### INTRODUCTION

We have called this volume *Tax Overlapping* because it is a familiar term likely to attract reader interest. It is not an entirely happy choice, however, both because this publication treats of more than tax overlapping and because this term carries an odium to which we do not subscribe. The use of the same kind of tax by two or more levels of government is not poor public policy in and of itself. It becomes poor policy only when one level of government uses a particular tax without regard for the use made of it by another and in such a way that (a) the cumulative tax take of all governments does gross violence to an acceptable pattern of tax burden distribution, and (b) the overlapping is accompanied by inefficient use of tax enforcement resources and needless taxpayer compliance burdens.

Tax overlapping concerns many people for many reasons, some good, some less good. A part of the aversion to tax overlapping is little more than a dislike for paying more than one tax on the same income, the same transaction, or the same parcel of property—for diverse reasons, of which the fact that the combined tax bill is too large is only one. Tax overlapping means preparing separate tax returns for two or more separate tax administrations, which implies waste. Tax overlapping means also two sets of tax collectors, and that is costly. And if two sets of auditors review the same taxpayer's records for identical purposes on different days, the waste seems compounded.

Out of this aversion to overlapping taxes the citizen has evolved an image of a utopia in which each level of government is assigned its own private tax domain and governments are enjoined to keep out of one another's fish ponds. The tax profession calls it separation of revenue sources.

This kind of tax utopia is pleasant to contemplate. It caters to man's love of symmetry and simplicity. Unhappily an idle dream is all that it can ever be. Man's ingenuity has devised only so many kinds of taxes, and there are not nearly enough that produce good, fat revenues to satisfy the States, counties, cities, towns, townships, boroughs, school districts, and special districts—over 80,000 of them—not to mention the National Government.

Separation of revenue sources is unattainable for another compelling reason as well. A necessary objective of such separation is to give each level of government a tax whose yield will meet its revenue needs. But needs change over time, not only because the relative importance of the different governmental functions changes but also because in a dynamic society people are increasingly on the move. The relative yields of the different taxes also change, both with long-run and with cyclical changes in the economy. In the face of these kinds of changes, any rigid revenue separation plan would be obsolete before it could even be formulated, to say nothing of implemented.

This Nation's governmental system provides some latitude for adjusting discrepancies between revenue needs and a government's own tax revenues through grants-in-aid. Federal grants are used to supplement State revenues, State aid to supplement local resources. Federal aids to State and local governments now approach, and State aids to local governments have for some time exceeded, \$10 billion a year. If tax sources were rigidly separated, these amounts would have to be relatively much larger and far more variable.

The purpose of this volume is to present an overview of taxes at the Federal, State, and local levels, of their variety and interrelationships, and how they fit into the pattern of government finances. In the interest of perspective, this first chapter presents a brief analysis of the magnitude, direction, and general characteristics of State and local finances discernible in the fiscal developments of the immediately preceding years.

### *Expenditure Developments*

During the 10 years prior to 1962, annual State and local expenditures for general governmental purposes (current operations, capital outlay, and interest on debt), rose from \$26 billion to nearly \$60 billion, an increase of 129 percent (table 1).<sup>1</sup> The rate of growth was somewhat faster during the earlier than during the later years of the decade, but not much significance can be attached to this change in pace. In the fiscal year 1952, national economic policy objectives associated with the Korean involvement restrained State and local spending. Moreover, increases in the prices of goods and services pur-

chased by State and local governments were more pronounced during the first than during the second half of the decade (20.5 percent for 1952-57 compared with 15.8 percent for 1957-62).

The factors that contributed to these expenditure increases are familiar. They were the byproducts of changes in population, urbanization, industrialization, technology, and economic well-being. At the same time the pay of State and local government employees improved and began to approach earning rates in private employment.

Changes in the size of the population and in prices alone account for a substantial share of the rise in expenditures. If the influence of these two factors is abstracted from State and local expenditure totals, by reducing them to per capita terms in constant prices, the 1952-62 increase is reduced from 129 percent to 39 percent (table 2).

About two-fifths of the \$34 billion increase in State and local government general expenditure (nearly \$14 billion) is accounted for by public education and reflects the rise in the school-age population and in teachers' salaries over the past decade. While the Nation's total population rose 18.5 percent between 1950 and 1960, two groups that require particularly costly government services—the school-age population and the aged—increased respectively 47 percent and 35 percent. Public school enrollment rose 43.1 percent. The average monthly earnings of public school employees rose by 60 percent (1952-62). Since 1952 the dollar expenditure for local public schools has increased 153 percent. The increase in the per pupil cost has been only about half as great.

About one-sixth of the \$34 billion increase in State and local spending during the decade was accounted for by highways.

<sup>1</sup> Because of rounding, detail in this and subsequent tables may not add to totals.



TABLE 1.—Sources of State and Local Government Financing, 1952 and 1962  
(Dollar amounts in millions)

Item	1962	1952	Net increase	
			Amount	Percent
<i>Expenditure</i>				
General expenditure .....	\$59,714	\$26,098	\$33,616	128.8
Education .....	21,921	8,318	13,603	163.5
Highways .....	10,341	4,650	5,691	122.3
Public welfare, health, and hospitals .....	9,439	4,973	4,466	89.8
Other .....	18,013	8,157	9,856	120.9
Insurance trust, liquor stores, and utility expenditure .....	10,404	4,765	5,639	118.3
Total expenditure .....	70,118	30,863	39,255	127.2
<i>Revenue</i>				
Intergovernmental revenue (Federal) .....	7,857	2,566	5,291	206.2
General revenue from own sources .....	50,356	22,615	27,741	122.7
Taxes .....	41,523	19,323	22,200	114.9
Property .....	19,056	8,652	10,404	120.2
Sales and gross receipts .....	13,510	6,357	7,153	112.5
General sales .....	6,085	2,598	3,487	134.2
Other .....	7,425	3,759	3,666	97.5
Individual income <sup>1</sup> .....	3,036	1,006	2,030	201.8
Corporation income <sup>1</sup> .....	1,308	838	470	56.1
Other .....	4,612	2,471	2,141	86.6
Charges and miscellaneous .....	8,833	3,292	5,541	168.3
Total general revenue .....	58,214	25,181	33,033	131.2
Insurance trust, liquor stores, and utility revenue .....	11,359	5,832	5,527	94.8
Total revenue .....	69,573	31,013	38,560	124.3
Debt outstanding at end of year .....	81,048	30,100	50,948	169.3
Cash and security holdings .....	64,126	33,959	30,167	88.8
Trust accounts .....	30,599	15,258	15,341	100.5
All other .....	33,528	18,702	14,826	79.3

<sup>1</sup> A minor amount of corporation income tax revenue is included with individual income tax.

Source: U.S. Bureau of the Census, *Historical Summary*

of *Governmental Finances in the United States, 1957 Census of Governments, Vol. IV, No. 3*; and *Governmental Finances in 1962*, October 1963.

This was occasioned by the need of an increasingly mobile population with ever more automobiles for more and better roads. By 1962 motor vehicle registrations were about half again as high as in 1952. Highway expenditures relative to the number of motor vehicles registered increased about 50 percent.

An eighth of the \$34 billion rise went into public welfare, health, and hospital programs. State and local expenditures for these related functions were \$4.5 billion more in 1962 than in 1952, a 90-percent increase. Again, after allowance for the extraordinary rise in the dependent population, young and old, the expenditure increase was significantly smaller.

And it was still less after adjustment for increased living costs.

Population increases and price changes explain a large part but not all of the expenditure increases. Presumably some qualitative and quantitative improvements occurred in services, but the details are obscured by the inadequacy of units-of-service and productivity data.

The increased share of State and local governments in the Nation's economy was reflected in the growth of their expenditures in relation to GNP, from 7.5 percent in 1952 to 10.8 percent in 1962. During this time, however, the State-local share in total expenditures for domestic government remained remarkably constant. In

1952, 73.5 percent of total expenditures for civilian government (excluding defense, expenditures for past wars, etc.) occurred at the State and local level; 26.5 percent at the Federal level. In 1962 the corresponding shares were 73 percent and 27 percent. Very little change occurred,

moreover, in the division between local governments and the States. In 1952 their respective shares were 66.8 percent and 33.2 percent; in 1962, 65.9 percent and 34.1 percent. No significant intergovernmental shifts in responsibilities for functions were noted.

*Governmental Expenditure for Civil Functions,<sup>1</sup> by Level of Government, 1952 and 1962*

(Dollar amounts in millions)

Level of government	1962			1952		
	Amount	Percent distribution	Percent of GNP	Amount	Percent distribution	Percent of GNP
Federal.....	\$22,136	27.0	4.0	\$9,416	26.5	2.7
State.....	20,373	24.9	3.7	8,653	24.4	2.5
Local.....	39,340	48.1	7.1	17,444	49.1	5.0
State and local.....	59,714	73.0	10.8	26,098	73.5	7.5
All governments.....	81,850	100.0	14.8	35,513	100.0	10.2

<sup>1</sup> Excluding Federal expenditure for national defense, international affairs and finance, space technology, veterans' benefits (except education), and interest on debt.

Some of the factors accounting for the increases in State and local expenditures during the past decade are likely to remain operative during the balance of the 1960's. The most important of these are (a) increases in total population, (b) increases in the relative importance of the school-age and the aged segments of the population, (c) increasing urbanization, and (d) rising standards of living. In short, State and local expenditures will continue to increase because the numbers served are increasing, families are growing larger, more of the children are going to school and staying longer, more time is spent in recreation with benefit of more elaborate recreational facilities, etc. As economic affluence increases, the people's taste for more and better amenities of living grows apace. Other factors are likely to exert an influence in the same direction: a dynamic business community geographically more and more competitive, requiring well-trained labor and good community facilities, and exhibiting sensitivity to the

desires of its employees for the amenities of a pleasant environment; and a nation internationally involved and committed to an ideological race for the minds and hearts of emerging peoples. This combination of influences points to rising government expenditures. And since the National Government's role in the provision of domestic governmental services is secondary, the focus of this increased activity concentrates on the State and local level.

State and local governments financed the increases in their expenditures over the past decade in traditional ways out of their conventional sources, principally taxes, some nontax revenues, Federal aid, and borrowing.

### *Tax Revenues*

To finance the \$34 billion addition to their expenditures between 1952 and 1962, State and local governments increased their tax collections by \$22 billion (115 percent), raising their annual take to \$41.5

TABLE 2.—State and Local Government Finances, in Current and Constant Prices,  
Selected Years, 1938–62

(Dollar amounts, except per capita, in millions)

Year	General revenue from own sources	Tax revenue	Federal aid	Direct general expenditure	Capital outlay	Increase or decrease (–) in debt during year
TOTAL IN CURRENT PRICES						
1938.....	\$8,428	\$7,605	\$800	\$8,757	\$1,858	\$–26
1940.....	8,664	7,810	945	9,229	2,515	220
1942.....	9,560	8,528	858	9,190	1,477	–570
1944.....	9,954	8,774	954	8,863	709	–1,294
1946.....	11,501	10,094	855	11,028	1,305	–754
1948.....	15,389	13,342	1,861	17,684	3,725	1,841
1950.....	18,425	15,914	2,486	22,787	6,047	3,116
1952.....	22,615	19,323	2,566	26,098	7,436	1,984
1954.....	26,046	22,067	2,966	30,701	9,125	5,149
1956.....	31,332	26,368	3,335	36,711	11,407	4,601
1958.....	36,354	30,380	4,865	44,851	13,986	5,148
1960.....	43,530	36,117	6,974	51,876	15,104	5,845
1962.....	50,356	41,523	7,857	59,714	16,719	6,025
TOTAL IN CONSTANT PRICES (1954 = 100)						
1938.....	\$19,419	\$17,523	\$1,843	\$20,177	\$4,281	\$–60
1940.....	19,736	17,790	2,153	21,023	5,729	501
1942.....	19,197	17,124	1,723	18,454	2,966	–1,145
1944.....	18,231	16,070	1,747	16,233	1,299	–2,370
1946.....	18,256	16,022	1,357	17,505	2,071	–1,197
1948.....	19,406	16,825	2,347	22,300	4,697	2,322
1950.....	22,013	19,013	2,970	27,225	7,225	3,723
1952.....	23,855	20,383	2,707	27,530	7,844	2,093
1954.....	26,046	22,067	2,966	30,701	9,125	5,149
1956.....	28,851	24,280	3,071	33,804	10,504	4,237
1958.....	30,992	25,899	4,147	38,236	11,923	4,889
1960.....	35,162	29,174	5,633	41,903	12,200	4,721
1962.....	38,062	31,385	5,939	45,135	12,637	4,554
PER CAPITA IN CONSTANT PRICES						
1938.....	\$149.58	\$134.97	\$14.20	\$155.42	\$32.98	\$–0.46
1940.....	149.38	134.65	16.30	159.12	43.36	3.79
1942.....	142.35	126.98	12.78	136.84	21.99	–8.49
1944.....	131.73	116.12	12.62	117.29	9.39	–17.12
1946.....	129.12	113.32	9.60	123.81	14.65	–8.47
1948.....	132.35	114.74	16.01	152.08	32.03	15.84
1950.....	145.13	125.35	19.58	179.49	47.63	25.54
1952.....	151.92	129.80	17.24	175.32	49.95	13.33
1954.....	160.36	135.87	18.26	189.03	56.18	31.70
1956.....	172.49	145.16	18.36	202.10	62.80	25.33
1958.....	178.90	149.50	23.94	220.71	68.82	25.33
1960.....	195.36	162.09	31.30	232.82	67.78	26.23
1962.....	204.83	168.90	31.96	242.89	68.01	24.51

Source: U.S. Bureau of the Census, *Historical Summary of Governmental Finances in the United States*, 1957 Census of Governments, Vol. IV, No. 3; and *Governmental Finances in 1962*, October 1963. Constant price data computed by the Advisory Commission on Intergovernmental Relations.

billion by the fiscal year 1962. The share of net national product taken by State and local taxes increased from 6 percent to 8.2 percent. During the same period, however, the Federal tax take declined at precisely the same rate, with the result that

the share of net national product claimed by all taxes—Federal, State, and local—remained unchanged. It was 24.5 percent in 1952, and after a temporary decline, returned to 24.5 percent by 1962.

*Local taxes.*—A striking feature of recent

*Governmental General Expenditure and Tax Collections as a Percent of Net National Product,  
Selected Years 1932-62*

Year	All governments	Federal	State	Local
DIRECT GENERAL EXPENDITURE				
1932.....	23.1	7.8	3.9	11.4
1938.....	21.0	9.7	3.3	8.0
1942.....	29.2	23.0	1.9	4.3
1948.....	20.5	13.3	2.5	4.7
1952.....	28.3	20.2	2.7	5.4
1957.....	27.1	17.1	3.4	6.6
1962.....	29.4	17.6	4.0	7.8
TAX COLLECTIONS				
1932.....	15.7	3.6	3.7	8.4
1938.....	16.7	6.9	4.0	5.8
1942.....	14.0	8.2	2.6	3.1
1948.....	21.0	15.5	2.8	2.7
1952.....	24.5	18.5	3.1	2.9
1957.....	24.3	17.2	3.6	3.5
1962.....	24.5	16.3	4.1	4.1

tax developments has been the performance of the property tax. Most of the States have left this tax area to their subdivisions, encouraged to do so both by the revenue needs of local governments and by a consensus that the property tax had little to recommend it and much to condemn it. It is, therefore, all the more surprising that nearly half of the decade's \$22.2 billion tax increase came from this source. Collections rose from \$8.7 billion to \$19.1 billion. And the upward trend is continuing. For the 12-month period ended December 1963, property tax collections are reported to have topped \$21 billion.

The \$10.4 billion rise in property tax revenue over the past decade, almost entirely at the local level, represents a slightly greater rate of increase than that for all other State and local taxes combined. It produced 45.9 percent of all State and local tax revenue in 1962, compared with 44.8 percent in 1952. In other words, the property tax is more than holding its own.

Several factors appear to have played a part in the productivity of the property tax. For one, local governments are without an alternative. Their respective State

governments charge them with responsibility for providing essential government services but, with few exceptions, give them neither sufficiently productive non-property tax sources nor adequate financial aid to enable them to forego property tax increases. Moreover, new construction and increased urbanization have created new taxable values. Improved assessment administration has also added to the tax base. Some States have themselves contributed by mandating improvement in the quality of assessments, by making State aid conditional on such improvement, and by lending support to the efforts of the courts to reduce assessment inequalities. Improved administration was sparked also by property owning groups, notably railroads and other public utilities, because they believed themselves relatively over-taxed; by functional groups (education), seeking additional financial support for their programs; by the assessment profession, sensitive to its public posture; and by political leadership, increasingly aware that the quality of administration of the property tax in a community has an important effect on the image it presents to business

in search of new sites. New construction, higher property values, and improved assessment administration are believed to have accounted for about two-thirds of the added property tax revenue over the past decade; increases in tax rates, for the balance.

In some States, local governments—principally cities—are supplementing the property tax with other taxes. The over-all ratio for the Nation is about 1 to 7. In about one-fifth of the States, local governments derive more than 20 percent of their tax dollars in this way, but in a third of them, the share is less than 5 percent (table 3). Instances can be found of local use of virtually every kind of tax, but, aside from the usual license taxes, sales, public utility, and income taxes are the only significant producers, and they are localized in a few States.

The weak showing of nonproperty taxes for the country as a whole is explained partly by a lack of enabling legislation—the authority to levy them locally. The more important explanation, however, is that, unless there is State assistance, these taxes are unsuitable for local use except in large cities. Local governments, particularly small ones, find it difficult, if not impossible, to make effective use of these nonproperty taxes. It is uneconomical for them to finance an effective tax collection effort, and intercommunity competition for business and industry restrains them. There is always the fear that a city sales tax will drive trade to the suburbs and vice versa, or that a tax on wages and salaries will alter competitive relationships between employment centers and discriminate between employees who live within and those who live outside these centers. Some States have alleviated this problem by authorizing local governments to impose sales taxes, patterned after and col-

lected together with the State's own tax. This places the quality of State tax administration at the disposal of local governments and reduces collection costs; and the ready availability of a particular tax on a uniform basis to all local communities restrains the inclination toward tax competition among communities.

*State taxes.*—At the State level a large part of the expenditure increase of the past decade was financed by consumer and income taxes. From 1952 through 1962 State collections from all sources increased by \$10.7 billion. This about equaled the increase in property taxes alone and covered almost a third of the \$34 billion rise in State and local spending. Of the increases in State collections, consumer taxes provided about 60 percent; income taxes about 20 percent.

The general sales tax has proven to be the most responsive State levy. Its yield increased about 130 percent during the decade, to over \$5 billion by 1962. Several factors played a part. There is no national sales tax to impinge in this area. The volume of retail sales rose 45 percent. Five additional States introduced the tax for the first time, making a total of 37 that now have this tax; they account collectively for about 75 percent of retail sales in the country. Most of the populous industrial States now have established sales taxes. Several States broadened the base of their tax, and many raised tax rates, some more than once. During the decade the median sales tax rate moved from 2 percent to 3 percent.

Among the selective excises, the gasoline tax has been most active. Its yield doubled during the decade to \$3.7 billion. The favorable matching provisions of the Federal highway grant, particularly the 90:10 provisions of the Interstate Highway Program, are exerting pressure on the States

TABLE 3.—Percentage Relationships Between Selected Items of State and Local Government Finances, by State, 1962

State	Federal aid as percent of State and local general revenue	State aid as percent of local general revenue	State taxes as percent of State and local taxes	Property taxes as percent of total State and local taxes	Local nonproperty taxes as percent of total local taxes	State direct general expenditure as percent of State and local direct general expenditure
Alabama.....	24.1	40.4	69.7	20.3	44.2	47.6
Alaska.....	34.0	35.6	70.3	22.2	26.0	67.6
Arizona.....	16.4	33.2	56.4	48.7	8.0	40.5
Arkansas.....	24.0	36.8	68.9	28.9	7.5	50.9
California.....	14.0	32.2	45.8	50.4	11.9	28.2
Colorado.....	15.9	31.0	48.5	48.5	8.6	32.2
Connecticut.....	10.7	15.4	46.6	52.9	.8	40.6
Delaware.....	9.8	49.9	77.9	20.9	6.0	50.7
Dist. of Col.....	26.8	.....	.....	37.0	63.0	.....
Florida.....	10.8	22.7	52.4	41.8	16.5	32.2
Georgia.....	19.5	34.6	64.7	31.5	11.2	41.6
Hawaii.....	19.4	27.7	76.1	16.0	33.0	65.1
Idaho.....	21.8	25.3	53.7	47.7	2.3	45.6
Illinois.....	11.2	19.6	40.2	53.2	11.2	29.8
Indiana.....	10.8	26.7	44.4	56.1	.5	32.8
Iowa.....	12.3	21.7	43.3	56.6	1.3	35.9
Kansas.....	13.1	24.0	44.2	56.0	2.9	33.4
Kentucky.....	20.2	33.3	66.8	30.2	20.5	57.7
Louisiana.....	20.0	49.4	74.2	22.6	22.1	52.2
Maine.....	14.7	15.8	45.1	55.6	.8	49.3
Maryland.....	12.0	36.9	56.6	41.8	8.6	30.6
Massachusetts.....	11.1	24.8	39.2	60.1	1.3	20.8
Michigan.....	11.1	31.6	53.0	49.4	1.1	34.3
Minnesota.....	12.2	30.3	46.5	54.8	2.8	29.5
Mississippi.....	20.7	42.6	64.6	29.8	19.4	44.6
Missouri.....	18.0	20.4	48.6	42.5	18.7	40.9
Montana.....	20.9	16.0	44.4	56.6	5.7	47.6
Nebraska.....	15.4	16.8	35.6	70.3	7.5	34.7
Nevada.....	18.5	28.9	59.3	32.7	25.4	42.1
New Hampshire.....	17.8	7.0	37.5	63.3	.9	47.4
New Jersey.....	8.7	13.5	28.9	64.8	9.0	25.6
New Mexico.....	22.4	48.5	73.6	25.1	24.9	47.2
New York.....	7.1	28.5	43.1	43.9	23.0	22.2
North Carolina.....	15.2	50.5	72.9	28.0	3.5	37.9
North Dakota.....	15.8	19.0	46.4	53.6	3.4	47.3
Ohio.....	12.7	26.4	44.7	52.1	9.4	28.0
Oklahoma.....	21.6	33.0	67.5	31.0	4.7	51.8
Oregon.....	18.9	25.9	51.2	47.2	3.4	45.0
Pennsylvania.....	10.9	24.8	53.3	35.6	23.8	38.7
Rhode Island.....	13.6	20.1	50.6	48.5	1.8	46.3
South Carolina.....	17.5	43.0	73.6	26.7	7.3	49.2
South Dakota.....	24.0	11.5	38.1	58.0	6.3	51.3
Tennessee.....	20.3	36.1	62.5	33.3	11.2	40.2
Texas.....	13.7	26.5	53.4	45.5	7.0	34.7
Utah.....	20.0	34.6	56.5	43.3	11.9	44.8
Vermont.....	29.4	20.7	55.4	44.0	2.3	60.6
Virginia.....	16.3	30.5	57.7	36.0	20.7	39.8
Washington.....	14.1	39.2	68.8	31.0	16.0	42.2
West Virginia.....	19.1	34.8	69.4	27.2	11.3	55.1
Wisconsin.....	11.2	37.4	46.9	55.9	1.7	25.2
Wyoming.....	31.1	33.5	53.8	53.5	5.6	47.0
United States.....	13.5	28.5	49.5	45.9	12.1	34.1

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963.

to find matching money—by increased tax rates if necessary. On the basis of national consumption of motor fuel, the combined State-local average tax rate moved from about 4½ to 5½ cents per gallon between 1952 and 1962.

The yield of taxes on tobacco products, chiefly cigarettes, increased by 140 percent, but has only now moved into the billion-dollar class. The average State-local tax rate has nearly doubled over the past 10 years. The Jenkins Act, enacted by the Congress in 1949, has effectively stopped the shipment of untaxed cigarettes into States that have cigarette taxes by requiring the name and address of the consignee with quantities shipped to be reported to the tax administration in the receiving State.

During the decade, State individual income tax collections moved from less than \$1 billion to nearly \$3 billion. The increase in corporate income tax revenues was substantially lower (56 percent). Together, income taxes contributed \$2.5 billion toward financing the \$34 billion increase in State-local spending. Reflected in these aggregates are two new corporate income taxes, larger corporate profits, and increased personal income. One of the only four new personal income tax enactments during the past 25 years (the Indiana flat-rate tax) became effective only this year (1964).

Individual income taxes, which at last report (December 1963) were producing at an annual rate of \$3.4 billion, reflect a 56 percent increase in national income and a 37 percent increase in per capita income since 1952. Other contributors to revenue were improved tax administration, facilitated by the adoption of withholding at the source, and increased tax rates at the lower and middle income levels.

State income tax rates remain relatively

moderate. For a married couple with two dependents, effective rates range from less than 1 percent at the \$5,000 income level in 26 States to a high of 5.5 percent at the \$25,000 level in one. Only 4 States have effective rates of 5 percent or more for \$25,000 incomes.

The deductibility for Federal income tax purposes of taxes paid to States has not had the anticipated effect on State tax policies. While the high Federal marginal rates reduce substantially the net burden imposed by State tax rates in the upper brackets, the States are limiting their top rates to around 10 percent and have concentrated their rate increases in the lower and middle brackets. Indeed, about half of the States allow the Federal income tax as a deduction for purposes of their own tax. Moreover, since State personal income taxation has not yet penetrated most industrial States, 40 percent of the Nation's population and a sizable portion of total personal income is still free of State income taxation.

The aggregate contribution of the inheritance, estate, and gift taxes to State and local revenues has been rising, but by 1962 had reached only \$500 million. This amounted to a \$300 million increase over 1952, attributable almost totally to higher property values.

### *Borrowing*

By the end of the fiscal year 1962, State and local debt exceeded \$81 billion. At this writing (early 1964) it probably exceeds \$90 billion, since debt offerings were at record levels in 1963. The corresponding total at the close of World War II was \$16 billion. During the 11-year period 1952-62 alone, the increase was \$51 billion. These are large magnitudes, to be sure, but State and local governments borrow only for capital purposes. They do

not borrow (with minor exceptions) to cover operating costs. The accelerated mobility of the population appears to be contributing to voter acceptability of bond proposals, under the rationale that those not now in the community, who will also benefit in the future from the new capital improvements, should help to pay for them.

In the 1952-62 period, State and local governments invested \$136 billion in capital improvements. Simultaneously, the cash and security holdings in their working balances, bank accounts, and reserves for debt repayment rose by nearly \$15 billion. These numbers suggest that the net worth position of State and local governments must have improved significantly despite their increased debt liabilities.

### *General Trends*

As the foregoing summary makes clear, the better-than-10-percent average annual increase in expenditures during the past decade was accomplished within established patterns and without conspicuous changes in financing methods. The major components—taxes, borrowing, and Federal aid—as well as the shares of the major tax groups within the tax system, stayed remarkably stable. The major variables moved in parallel lines.

The annual amount of Federal aid to State and local governments increased from \$2.6 billion to \$7.9 billion, but these increases financed only 16 percent of the \$33.6 billion increase in State and local spending. These governments financed 84 percent of the increase from their own resources.

The State-local division also held steady. While State aid to local government rose from \$5 billion to \$11 billion, its share of local revenues actually dropped from 30 to

28 percent. The proportion of local education and public welfare expenditures financed from State aid remained unchanged, and of highway expenditures increased only 2 percentage points.

Admittedly the stability of the national fiscal aggregates over the past decade masks substantial variety—differences in pace, if not in direction. Eight large industrial States account for half of all State and local operations. As they move, so move the national totals, and they tend to move together, albeit each with its own timetable.

Within this governmental organization, differences in pace are inevitable. Within it, the National Government concentrates largely on international responsibilities and leaves domestic government to the States and their subdivisions. The States in turn follow their individual preferences in sharing that responsibility with their local units, which they match with their individually designed allocation of fiscal resources. In New Jersey, local governments account for 71 percent, the State for 29 percent of aggregate collections; in nearby Delaware the relationship is reversed (22 percent and 78 percent). In New Jersey, property taxes supply two-thirds of all tax revenues; in Delaware, only one-fifth (table 3). In Delaware, income taxes produce 37 percent of aggregate State and local tax revenues; in New Jersey, only 2 percent.

Since the needs of the different functions and the productivity of the different revenue sources are continually changing, the balance between requirements and resources at the different levels is changing too. Much of this volume is concerned with the role of the different groups of taxes in meeting revenue requirements at the State and local level and with the inter-governmental relationships this entails.



## Chapter 2

### EXTENT OF TAX OVERLAPPING

Tax overlapping—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 as well as the States have always, or nearly always, levied property taxes. The Federal income tax that was 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 of 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 taxes, which are levied only by State and local governments.<sup>1</sup> Although the Federal Government does not have a general sales

tax, its present excise structure consists of a variety of selective excises on commodities and services that are also subject to State general sales taxes.

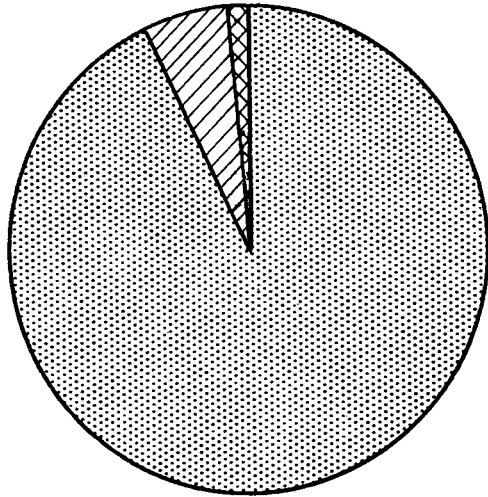
The tax revenue sources of the three levels of government have been grouped for analytical purposes into 14 broad categories (table 4). As the foregoing discussion suggests, however, the data in the table do not provide a qualitative measure of the extent of tax overlapping in the United States. They exaggerate it. A grouping of the wide variety of taxes used by the numerous taxing jurisdictions within the United States into a manageable number of classes brings together, within any one category, imposts that 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 other kinds of motor vehicle taxes. In some States, taxes based on the volume of business done by 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 used in this study serve the general purpose of

<sup>1</sup> 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.

# THE NATIONAL TAX PIE

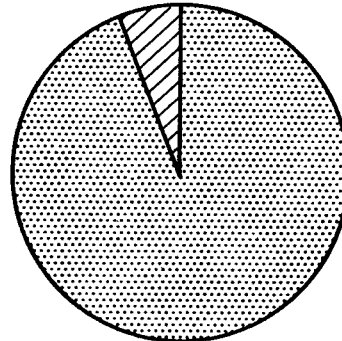
1962 Tax Collections in Millions

Individual income



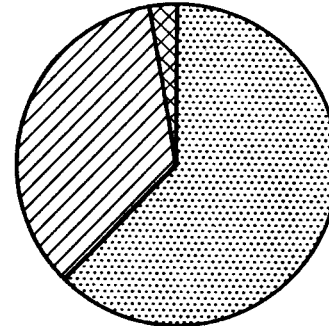
\$48,607

Corporation income



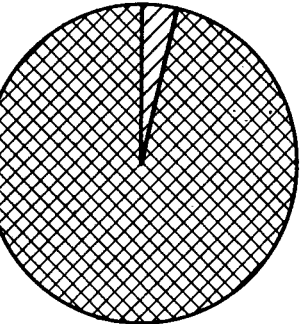
\$21,831

Selective sales and gross receipts



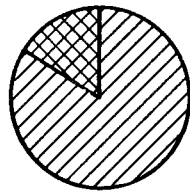
\$19,711

Property



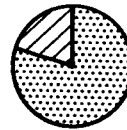
\$19,056

General sales and gross receipts



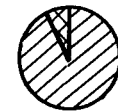
\$5,962

Inheritance, estate, and gift



\$2,532

Motor vehicle and operators' licenses



\$1,790



TABLE 4.—Federal, State, and Local Tax Collections, by Source,<sup>1</sup> 1962

Tax	Amount (millions)				Distribution among governments (percent)			
	All governments	Federal	State	Local	All governments	Federal	State	Local
Individual income .....	\$48,607	\$45,571	\$2,728	\$308	100.0	93.8	5.6	0.6
Corporation income .....	21,831	20,523	1,308	( <sup>2</sup> )	100.0	94.0	6.0	( <sup>2</sup> )
Inheritance, estate, and gift .....	2,532	2,016	516	( <sup>2</sup> )	100.0	79.6	20.4	( <sup>2</sup> )
Sales and gross receipts, total .....	26,815	13,428	11,915	1,472	100.0	50.1	44.4	5.5
Customs duties .....	1,142	1,142	.....	.....	100.0	100.0	.....	.....
General sales and gross receipts .....	5,962	.....	4,988	974	100.0	.....	48.7	16.3
Selective sales and gross receipts, total .....	19,711	12,286	6,927	498	100.0	62.3	35.1	2.5
Motor fuel .....	6,153	2,451	3,665	37	100.0	39.8	59.6	.6
Alcoholic beverages .....	4,013	3,248	740	25	100.0	80.9	18.4	.6
Tobacco .....	3,160	2,022	1,075	63	100.0	64.0	34.0	2.0
Amusements <sup>5</sup> .....	453	147	306	( <sup>5</sup> )	100.0	32.5	67.5	( <sup>5</sup> )
Public utilities <sup>6</sup> .....	1,824	1,094	420	310	100.0	60.0	23.0	17.0
Other <sup>7</sup> .....	4,109	3,324	721	64	100.0	80.9	17.5	1.6
Property .....	19,056	.....	640	18,416	100.0	.....	3.4	96.6
Motor vehicle and operators' licenses .....	1,790	.....	1,667	123	100.0	.....	93.1	6.9
All other <sup>8</sup> .....	3,153	724	1,786	643	100.0	23.0	56.6	20.4
Total .....	123,785	82,262	20,561	20,963	100.0	66.5	16.6	16.9

<sup>1</sup> Exclusive of all employment taxes except \$466 million included in the "all other" category for the Federal Government which is used to cover costs of administering insurance programs. Total Federal employment tax collections in fiscal 1962 were approximately \$13 billion; State collections approximately \$2½ billion. These collection figures include penalties and interest, but are net of refunds, which are substantial in the case of Federal income taxes and State gasoline taxes.

<sup>2</sup> Minor amount included in "individual income taxes."

<sup>3</sup> Minor amount included in "all other."

<sup>4</sup> Excludes collections from the Washington and West Virginia business and occupation taxes (\$69 million and \$54 million, respectively, included in "all other"), 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 chapter 7.

<sup>5</sup> The Federal total includes taxes on admissions to theaters, concerts, athletic contests, cabarets, etc., club dues and initiation fees, and wagering taxes. The State total includes excises applicable to admissions on amusement operators in general and to specified types of amusement businesses, but does not include amounts collected from admissions by the 20 States which tax admissions under the general sales tax. The major portion of State collec-

tions (\$286 million) is derived from taxes on pari-mutuels (which are specifically exempt from the Federal wagering tax). Local collections from amusement taxes are not separately classified and therefore are included in "all other taxes."

<sup>6</sup> 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.

<sup>7</sup> Important among the sources of revenue included here are: for the Federal Government, the manufacturers' excise on automobiles and parts, and the retailers' excises on luggage, jewelry, furs, and toilet preparations; for State governments, insurance taxes.

<sup>8</sup> 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 administering the insurance program, State severance taxes, and local license revenues.

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963.

bringing together taxes that have 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 1962 amounted to \$123.8 billion (net of refunds

and exclusive of about \$13 billion Federally- and \$2.7 billion State-collected employment taxes). Tax revenues account for approximately three-fourths of all 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.<sup>2</sup> State and local governments derived important sums from inter-governmental 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 two-thirds of the taxes collected by all governments in 1962. The other 34 percent was about equally divided between State and local governments.

The Federal Government receives the principal share of income, death and gift, alcoholic beverage, and tobacco taxes. Although the individual income tax is now employed at all levels of government, the Federal Government's share of the \$49 billion total collections in 1962 was 94 percent, the States' share a little less than 6 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 percent of total tax revenues of the Federal Government in 1962, it represented 80 percent of all death and gift tax collections.

Of the \$4 billion tax revenues collected by all governments on alcoholic beverages in 1962, the Federal Government received 81 percent. The Federal share would be somewhat less 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 1963 these States derived \$261 million of net income from their monopoly systems.

<sup>2</sup> In 1962 receipts from these major sources of nontax revenue for all governments combined were: insurance trust revenues, \$20.4 billion; charges for services, including sale of products, \$18.6 billion; and utility and liquor store revenues, \$5.4 billion.

Apart from the temporary decline occasioned by the recent emphasis on the health hazards of smoking, State tobacco tax revenue has been rising. Most States have significantly raised their tax rates, and further rate increases are to be expected, so that the States' share of the tobacco tax take is on the increase. In 1962 the States' share of total tobacco tax collections was 34 percent. Local governments accounted for another 2 percent.

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 a 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 less than \$50 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 than formerly. Federal-State taxes overlap on admissions to horseracing (on which the Federal rate has not been reduced), to boxing, wrestling, and athletic exhibitions, and 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 1962 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 4 because it excludes collections under the general sales taxes, which apply to amusements in many States.

Three-fifths of the revenues of all governments from the "public utilities" category shown in table 4 are received by the

Federal Government. At the Federal level this category includes only the excises on transportation, on telephone, telegraph, and other communication services. The State and local revenues, which together account for the other two-fifths, 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: 60 percent of the total in 1962. 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, though, of course, not in the proportion in which these are collected from any particular State.

General sales tax revenues are divided between State and local governments, with 84 percent going to the States. Motor vehicle and operators' licenses are primarily a State revenue source; local governments account for only 7 percent of the total.

The property tax has become principally a local tax. In 1962 State governments received less than 4 percent of total property tax collections.

The taxes grouped in table 4 in the category "Selective sales and gross receipts, other" cover a variety of levies with important variations among levels of government. Federal collections in this category consist entirely of various 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 "other selective sales and gross receipts" category is the tax on the gross premiums of insurance companies.

As the foregoing discussion makes clear, the different kinds of taxes are typically used by two, three, or more categories of governments. This kind of duplication, however, tells only part of the story. In point of fact, tax separation exists in the American system to a degree not always appreciated.

The foregoing data reveal also that there is a substantial amount of jurisdictional specialization by types of taxes, particularly in terms of the relative revenue magnitudes of the 14 broad categories. Income taxes produce 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 taxes at the local level outweigh by far all other local tax revenues and account for nearly 90 percent of the total.

Measured in terms of tax dollars collected, Federal-State overlapping in individual income taxation is relatively small. The \$2.7 billion derived by States from individual income taxes in 1962 was equivalent to 6 percent of Federal tax revenues from this source. The aggregate impact of all State individual income taxes is the equivalent on the average of that of about a 1½ percentage point increase in the effective rate of the Federal individual income tax. Similarly, with respect to cor-

poration income taxes, State revenues in 1962 were about 6.4 percent of Federal revenues in 1962 and in the aggregate equaled less than 3 percentage points of the Federal tax rate. Allowing for the deductibility of State taxes for Federal tax purposes, the net cost of State taxes to corporations was about 1½ percentage points.

While tax overlapping is widespread in the sense that often 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, the system is characterized by a substantial degree of revenue separation. Most of the tax overlapping is minimal and could be largely eliminated by foregoing about 20 percent of collections. If by some magic, for example, all three levels of government could turn back the clock just three years (in terms of their latest tax collections), and each could rearrange its tax take of three years ago, they could utilize such a 20 percent reduction in their tax take, in terms of averages, to eliminate tax overlapping. They would accomplish this by leaving the Federal Government with only income taxes, local governments with only property taxes, and the States largely with consumer taxes.

Some progress toward revenue separation actually has taken place in recent years. Most of the States have abandoned the property tax, which the Federal Government is prohibited from using, and have left it exclusively to their local governments. About 15 years ago the National Government repealed its electrical energy tax, in which local governments were interested. In more recent years it has largely eliminated its admissions taxes. These few examples probably exhaust the list. Moreover, the objective of Congress

in repealing these Federal taxes is quite unrelated to tax simplification and coordination. It had other, politically more compelling, motivations.

Under our Federal system of government, the National Government on the one hand and State-local governments on the other are largely free to choose any tax they please, and they have generally chosen differently. Beyond the very few strictures prescribed by the Constitution, each of the 50 States is fiscally autonomous and enjoys a kind of tax sovereignty, as in a sense do also the many local governments operating under home rule or liberal charter provisions. Their theoretical tax autonomy is limited, to be sure, by practical political considerations, interjurisdictional tax competition, and problems of tax administration, to mention only some of the more important limitations.

Each State guards jealously its right to shape its own tax policies, and this handicaps the realization of a master design for the division of tax sources between the National Government and the States. No one has yet devised a technique for making an agreement binding on all of the States. Each would want to be party to the negotiation, and most would probably prefer a separate negotiation.

Moreover, the affinity for different solutions in the several States is not solely a desire for variety and independence. With the wide differences in economic, social, and political circumstances in this country, a tax structure design favorable to some governments at any given time is certain to be unfavorable to others. The range of interstate variations in the weight assigned by the several States and their local governments to the major categories of taxes is documented in chapter 5.

## 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. Most of the special Federal taxes imposed to finance the Spanish-American War had been 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 State tax collections amounted to only \$156 million. Half of this total came 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 tax source through the 1920's (table 5). Between 1902 and 1927 their yield quadrupled. This increase in collections coincided with substantial increases in local property taxes and produced a groundswell 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 reve-

nues 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, to less than 4 percent during the 1950's, and to about 3 percent currently.

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 own revenue system. In the process both Federal and State governments had recourse to some of the same tax areas. The current status of this tax duplication has been summarized in chapter 2 and is discussed, tax by tax, in subsequent chapters. This chapter 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 6, and a frequency distribution by year, in table 7. Table 8 shows the increases and new enactments that have occurred in the past 5 years for six selected taxes.

#### *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. The early taxes were generally flat-rate levies. In 1903 Wisconsin introduced rates that varied with the relationship of the decedent to the heirs. Within a very

TABLE 5.—State Tax Collections, by Source, Selected Years, 1902–63

(Dollar amounts in millions)

Year	Total excluding employment taxes	Individual income taxes	Corporation income taxes	Death and gift taxes	General sales taxes <sup>1</sup>	Motor fuel taxes	Alcoholic beverage taxes	Tobacco taxes	Amusement taxes	Public utility taxes	Property taxes	Motor vehicle and operators' licenses	All other
1. AMOUNT													
1902.....	\$156			\$7							\$82		\$67
1913.....	301			26							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					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	387	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	1,055
1952.....	9,857	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.....	19,057	2,355	1,266	501	4,510	3,431	688	1,001	302	401	631	1,641	2,331
1962.....	20,561	2,728	1,308	516	5,111	3,665	740	1,075	312	420	640	1,667	2,379
1963 (Pre- liminary).....	22,099	2,954	1,507	595	5,533	3,845	794	1,124	348	437	688	1,780	2,495
2. PERCENTAGE DISTRIBUTION													
1902.....	100.00			4.5							52.6		42.9
1913.....	100.00			8.6			.6				46.5	1.7	42.5
1922.....	100.00	4.5	6.1	7.0		1.4					36.7	16.1	28.3
1927.....	100.00	4.4	5.7	6.6		16.1					23.0	18.7	25.5
1932.....	100.00	3.9	4.2	7.8	.4	27.9		1.0			17.3	17.7	19.7
1934.....	100.00	4.0	2.5	4.7	8.7	28.5	3.1	1.3			13.8	15.4	17.9
1936.....	100.00	5.9	4.3	4.5	13.9	26.2	4.8	1.7			8.7	13.8	16.3
1938.....	100.00	6.9	5.3	4.5	14.3	24.8	5.6	1.8			7.8	11.5	17.5
1940.....	100.00	6.2	4.7	3.4	15.1	25.3	5.8	2.9			7.8	11.7	17.0
1941.....	100.00	6.2	5.5	3.3	16.0	25.3	6.0	2.9			7.4	12.0	15.4
1942.....	100.00	6.4	6.9	2.8	16.2	24.1	6.6	3.3	.8	2.6	6.8	11.0	12.5
1944.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	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.....	100.00	12.4	6.6	2.6	23.7	18.0	3.6	5.3	1.6	2.1	3.3	8.6	12.2
1962.....	100.00	13.3	6.4	2.5	24.9	17.8	3.6	5.2	1.5	2.0	3.1	8.1	11.6
1963.....	100.00	13.4	6.8	2.7	25.0	17.4	3.6	5.1	1.6	2.0	3.1	8.1	11.3

<sup>1</sup> Includes the collections from the business and occupation taxes levied by Washington and West Virginia. The amount for these taxes in fiscal 1963 was \$126 million.

Source: U.S. Bureau of the Census, *Historical Summary of Governmental Finances in the United States, 1957 Census of Governments*, Vol. IV, No. 3; *Compendium of State Government Finances in 1962, 1963*; and *State Tax Collections in 1963*, August 1963.

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; and the overlapping of Federal and State death taxes continued without change until 1926. Meanwhile, death

taxes were adopted by additional States and by 1922 were in use in all but three of them. 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 Fed-



eral 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 today the only State without a death tax.

State taxation of property transfers during life (the gift tax) began in 1933, when Oregon and Wisconsin adopted such taxes. Ten other States followed during the next 10 years, though 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, which was repealed 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; in 1963 collections reached nearly \$600 million. The relative contribution of death and gift taxes to State tax collections, however, remains under 3 percent of total State tax collections.

### *Automotive Taxes*

New York was the first State to require registration of motor vehicles. Its law, adopted in 1901, 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 required

motor vehicle registrations and were obtaining some revenue from this source.

Collections from motor vehicle registrations and operators' licenses have increased steadily, except in some years in the early 1930's and during World War II. This growth is the result of increases both in the level of rates and in the number of motor vehicles. Between 1927 and 1963 the yield from this source increased from \$300 million to \$1.8 billion. The percentage share of total State tax revenues derived from this source, however, declined from nearly 19 percent to about 8 percent during this period.

Gasoline taxes began to produce revenue in 1919, when Oregon, Colorado, New Mexico, and North Dakota imposed them. This type of tax spread rapidly and by 1929, with its adoption by New York and Massachusetts, all 48 States were using it. 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 rate of 1 cent a gallon. However, the level of rates increased rapidly. A rate of 2½ cents a gallon was reported in 1923 and a 4-cent rate in 1924, 5 cents in 1925, a few 6-cent rates in 1929, a 7-cent rate in 1931, and an 8-cent rate in 1964. Currently a rate of 6 cents or more a gallon is in effect in 43 States.

Collections from gasoline taxes reflect the rapid spread of such taxes, the increase in 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 revenue.

All States except Vermont tax die-

sel 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 the general sales tax in terms of revenue productivity. In the fiscal year 1963 motor fuel tax collections were \$3.8 billion, or 17.4 percent of total State tax revenue. That year motor fuel taxes and motor vehicle licenses combined accounted for approximately one-fourth 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, 9 States (and the territory of Hawaii) had a personal income tax. Five more States adopted it in the 1920's.

Personal income taxation at the State level was given a great impetus by the depression of the 1930's. Four States adopted it in 1931, six in 1933, and six more during the years 1934-37. Only Alaska (as a

TABLE 6.—Dates of Adoption of Major State Taxes <sup>1</sup>  
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 <sup>2</sup> ; Arkansas, 1929; Georgia, 1929; Oregon, 1930; total, 6.	Idaho, 1931; Tennessee, 1931 <sup>2</sup> ; 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; New Jersey, 1961 <sup>3</sup> ; West Virginia, 1961; Indiana, 1963; total, 4.  Grand total, 36.

### CORPORATION INCOME <sup>4</sup>

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; Massachusetts, 1919; North Dakota, 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; Indiana, 1963; total, 5.  Grand total, 37.

See footnotes on p. 24.

TABLE 6.—*Dates of Adoption of Major State Taxes*<sup>1</sup>—Continued

DEATH				
Before 1900	1901-10	1911-20	1921-30	1931-40
California, Connecticut, Delaware, Hawaii, Illinois, Iowa, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Vermont, Virginia, West Virginia; total, 23.	Arkansas, 1901; Colorado, 1901; Utah, 1901; Washington, 1901; North Dakota, 1903; Oregon, 1903; Wisconsin, 1903; Wyoming, 1903; New Hampshire, 1905; South Dakota, 1905; Kentucky, 1906; Idaho, 1907; Oklahoma, 1907; Texas, 1907; Kansas, 1909; total, 15.	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; Colorado, 1939; Tennessee, 1939; Louisiana, 1940; total, 9.		Oklahoma, 1941; Washington, 1941; Rhode Island, 1942; total, 3.		
		Grand total, 12.		
GENERAL SALES				
1931-40		1941-50	Since 1951	
Mississippi, 1932; Arizona, 1933; California, 1933; Illinois, 1933; Indiana, 1933; Iowa, 1933; Michigan, 1933; New Mexico, 1933; North Carolina, 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; Wisconsin, 1961; total, 8.	
		Grand total, 37.		
DISTILLED SPIRITS <sup>6</sup>				
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; Kentucky, 1934; Louisiana, 1934; Minnesota, 1934; Missouri, 1934; New Mexico, 1934; Wisconsin, 1934; Arkansas, 1935; California, 1935; Florida, 1935; Nebraska, 1935; Nevada, 1935; South Carolina, 1935; South Dakota, 1935; Texas, 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; South Carolina, 1923; South Dakota, 1923; Utah, 1923; Tennessee, 1925; Kansas, 1927; North Dakota, 1927; Arkansas, 1929; 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.	Illinois, 1941; Maine, 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.	

See footnotes on p. 24.

TABLE 6.—*Dates of Adoption of Major State Taxes*<sup>1</sup>—Concluded  
GASOLINE

1911-20	1921-30	Since 1930
Colorado, 1919; New Mexico, 1919; North Dakota, 1919; Oregon, 1919; Kentucky, 1920; total, 5.	Arizona, 1921; Arkansas, 1921; Connecticut, 1921; Florida, 1921; Georgia, 1921; Louisiana, 1921; Montana, 1921; North Carolina, 1921; Pennsylvania, 1921; Washington, 1921; Maryland, 1922; Mississippi, 1922; South Carolina, 1922; South Dakota, 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; Iowa, 1925; Kansas, 1925; Michigan, 1925; Minnesota, 1925; Missouri, 1925; Nebraska, 1925; Ohio, 1925; Rhode Island, 1925; Wisconsin, 1925; Illinois, 1927; New Jersey, 1927; Massachusetts, 1929; New York, 1929; total, 43.	Hawaii, 1932; Alaska, 1946; total, 2.  Grand total, 50.

AUTOMOBILE REGISTRATION

1901-10	1911-20
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; Alaska, 1915; total, 16. Grand total, 49.

<sup>1</sup> Includes only States that used the tax on January 1, 1964. 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.

<sup>2</sup> Income from stocks and bonds only.

<sup>3</sup> In effect applies only to New York residents who derive income from New Jersey sources.

<sup>4</sup> Exclusive of South Dakota's tax applicable to financial institutions only.

<sup>5</sup> Gross income tax; in 1963 Indiana enacted a 2-percent retail sales and use tax.

<sup>6</sup> 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.

territory in 1949), West Virginia (in 1961), and Indiana (in 1963) have adopted personal income taxes since 1937. New Jersey enacted a limited personal income tax in 1961, restricted in its effective application to New York residents earning income in New Jersey. The new Indiana income tax was coupled with a restructuring of its gross income tax, in effect replacing it in large part with an individual income tax, a corporation income tax, and a general sales and use tax.

Corporate income taxation followed a similar pattern. States began to charge fees for incorporation in the 19th century. After the Civil War the revenue potentialities of all incorporation fees began

gradually to be recognized. This period witnessed the development of taxes measured by capital stock, and almost every State, by the turn of the century, was levying 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, had 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 4 more States (and Alaska while a territory) since 1947 has brought the total of such taxes to 37.

TABLE 7.—Dates of Adoption of Major State Taxes, Frequency Distribution <sup>1</sup>

Year	Individual income	Corporation income	Death	Gift	General sales	Distilled spirits	Cigarettes	Gasoline	Auto-mobile registration
Pre-1901.....			23						
1901.....	1	1	4						1
1902.....									
1903.....			4						6
1904.....									4
1905.....			2						12
1906.....			1						2
1907.....			3						3
1908.....									
1909.....			1						2
1910.....									3
1911.....	1	1							5
1912.....	1		1						3
1913.....			2						6
1914.....									1
1915.....	1	2							1
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		
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		
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.....	2				2				
1962.....									
1963.....	1	1							
Total.....	36	* 37	49	12	37	* 32	47	50	49

<sup>1</sup> Includes only States that used the tax as of January 1, 1964.

<sup>2</sup> Exclusive of South Dakota's tax applicable to financial institutions.

<sup>3</sup> Exclusive of the excises levied by the 16 States that

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.

TABLE 8.—States Increasing Tax Rates and Enacting New Taxes, Selected Taxes, 1959–63

State	Sales	Personal income	Corporation income	Motor fuel	Cigarette	Alcoholic beverage
Alabama	X		X		X	X
Alaska		X		XX	X	X
Arizona	X			X		X
Arkansas						
California		X	X	X	N	X
Colorado		X	X			X
Connecticut	X		X		XX	X
Delaware		X		X	X	X
Florida					X	X
Georgia						
Hawaii						
Idaho		XX	XX		XXX	XXX
Illinois	XX				XX	X
Indiana	N <sup>1</sup>	N <sup>1</sup>	N <sup>1</sup>		X	
Iowa			X		XX	X
Kansas						X
Kentucky	N					
Louisiana						
Maine	X				X	X
Maryland					X	
Massachusetts						
Michigan	X				X	X
Minnesota		XX	XX	X	XXX	X
Mississippi					X	
Missouri	X			X	X	X
Montana		X	X			X
Nebraska					X	X
Nevada	X <sup>2</sup>				X	X
New Hampshire				X		
New Jersey		N <sup>3</sup>		X	XX	X
New Mexico	X	X	X		X	XX
New York		X		X	X	X
North Carolina						X
North Dakota	X	X <sup>2</sup>			X	X
Ohio				X	X	X
Oklahoma					X	N
Oregon		XX <sup>3</sup>	X <sup>2</sup>			
Pennsylvania	XX			X	XX	X
Rhode Island			X	X	X	
South Carolina		X			X	X
South Dakota					XX	X
Tennessee			X	X <sup>4</sup>	X	XX
Texas	N				X	X
Utah	XX				X	
Vermont					XX	
Virginia				X	N	X
Washington	X			X	XX	X
West Virginia	X	N		X	X	
Wisconsin	N	XXX			XX	XXX
Wyoming					X	X <sup>5</sup>
District of Columbia	X					X

Note: Each X indicates a tax increase enactment. N indicates a new tax.

<sup>1</sup> Partly replaces the gross income tax.

<sup>2</sup> Defeated in referendum (1963).

<sup>3</sup> "Commuter Income Tax."

<sup>4</sup> Increase in diesel fuel tax rate only.

<sup>5</sup> Beer tax increase declared unconstitutional (1963).

Source: Federation of Tax Administrators, *Tax Administrators News*, Vol. 28, No. 1, January 1964.

Total income tax collections reflect the spread of this type of taxation among the States as well as 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 1963, they produced \$4.5 billion, or 20 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 that 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 7 States that 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 8 States enacted sales taxes in the period 1947-51. Since the Korean War five more States have joined the group, the latest being the 1961 enactments by Texas and Wisconsin. As has been mentioned, Indiana's gross income tax (classified as a general sales tax) was partly replaced in 1963 by a retail sales and use tax and a net income tax. At

present 37 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 \$5.5 billion by 1963. 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 number one revenue-producer for the States. At present, it provides one-fourth of all State tax revenues.

Rate increases have been a significant factor in recent sales tax gains. Since 1952 the preponderant State rate has risen from 2 to 3 percent and the highest rate in effect from 3 to 5 percent. Eight States raised their rates in 1963, the largest number in any recent legislative year.

### *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; in the other 16 States liquor stores are State-owned and operated. Although excises on distilled spirits and wine

are in effect in some of these monopoly States, they are adjuncts to sales operations and perform a lesser role than do the excises in the 33 license States.

All of the 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 to over \$13 a barrel. The rate is less than \$3 a barrel in half of the States.

State revenue from alcoholic beverage excises and licenses rose from \$81 million in 1934 to \$884 million in 1963. Excises account for about 90 percent of the total. These collections reached a peak of relative importance during World War II, when they accounted for almost 10 percent of total State tax collections. In the fiscal year 1963 the net contribution of the 16 State-monopoly systems to the general funds of the respective States amounted to \$272 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 (allowing for the 3-cent Colorado cigarette tax, which becomes effective on July 1, 1964) only two States (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 revenue from tobacco taxes did not aggregate \$100 million until 1941. In

the fiscal year 1963, the total revenue from this source was \$1.1 billion, second only to that of motor fuel taxes among State selective excises.

Cigarette tax rates have been edging up steadily in recent years. Fully 15 States raised their rates in 1963, several to 8 cents per standard pack, which is now the most common rate.

### *Amusement Taxes*

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

The widespread adoption of pari-mutuel taxes (applicable to the amounts wagered at racetracks) has been 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 pari-mutuel 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 1963 as many as 26 States obtained revenue from pari-mutuels, and the \$319 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-seven 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 on them.

New Hampshire attracted national attention in 1963 with legislation authorizing the operation of a State lottery. The proceeds, estimated at \$4 million annually, are to be used for educational purposes.

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 com-

panies. 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 of 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

### TAXATION AT THE LOCAL LEVEL

Financing local government in the years ahead poses one of the more pressing intergovernmental problems. Because some of the functions of civil government that have expanded most rapidly in recent decades are traditionally local, the revenue requirements of many local governments have outpaced their resources. 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.

In 1962 the political subdivisions of the 50 States spent \$39.3 billion in providing general government services. In 1950 they were spending only \$14.8 billion; in 1940, only \$6.5 billion. Since 1950 their general government expenditures have increased, on the average, nearly 9 percent a year. This increase notwithstanding, broadly based pleas for additional and improved governmental programs are believed to have gone unheeded in many communities.

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, with the increasingly exacting requirements of business for community services and facilities, 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 in the first instance 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, it will probably be necessary in the future, as in the past, to relieve the local units of some of their functional responsibilities, as well as to increase the financial aid afforded them by the States. As in the past, the latter is likely to be the more frequent avenue of relief.

Pressures to increase locally raised revenues inevitably will 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.

#### *Revenue Requirements*

The development of local expenditures in recent years and their relationship to State and local expenditure aggregates is summarized in table 9. They remained relatively stable around \$6 billion a year

TABLE 9.—Local Government Direct General Expenditure, Selected Years, 1927–62

Fiscal year	Direct general expenditure				
	Total (millions)	As a percent of State and local expenditure <sup>1</sup>	As a percent of net national product	Per capita <sup>2</sup>	Per capita in 1954 prices <sup>3</sup>
1927.....	\$5,830	80.9	n.a.	\$48.98	n.a.
1932.....	5,800	74.7	.4	46.46	\$117.03
1934.....	5,172	72.0	8.9	40.93	95.63
1936.....	5,421	70.9	7.2	42.33	100.31
1938.....	6,181	70.6	8.0	47.61	109.70
1940.....	6,499	70.4	7.0	49.19	112.05
1942.....	6,421	69.9	4.3	47.61	95.60
1944.....	6,197	69.9	3.1	44.78	82.01
1946.....	7,875	71.4	3.9	55.70	88.41
1948.....	11,498	65.0	4.7	78.41	98.88
1950.....	14,754	64.7	5.6	97.27	116.21
1952.....	17,444	66.8	5.4	111.09	117.18
1954.....	20,593	67.1	6.2	126.79	126.79
1956.....	24,392	66.4	6.3	145.83	134.28
1958.....	29,257	65.2	7.2	168.89	143.98
1960.....	33,931	65.4	7.4	188.51	152.29
1961.....	37,197	66.2	7.9	203.31	158.96
1962.....	39,340	65.9	7.8	211.71	160.02

n.a.—Data not available.

<sup>1</sup> To eliminate duplication, transactions between State and local governments have been excluded.

<sup>2</sup> 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.

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

Source: U.S. Bureau of the Census, *Historical Summary of Governmental Finances in the United States, 1957 Census of Governments*, Vol. IV, No. 3; and *Governmental Finances* (Annually 1958–1962).

from the late 1920's through World War II. Thereafter they increased rapidly, approaching \$15 billion by 1950, \$30 billion by 1958, and this fiscal year (1964) can be expected to approximate \$45 billion.

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

tion (and to which it contributes), generates part of its own fiscal solution. It automatically increases the revenue yield under 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 can keep pace with it only with the benefit of some tax-rate increases.

The local share of combined State-local expenditures has remained fairly stable over most of this period. Throughout the postwar years it has remained consistently 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 in-

TABLE 10.—Local Government Direct General Expenditure, by Function, Selected Years, 1927–62

(Dollar amounts in millions)

Item	1927		1940		1950		1962		Percent- age increase 1950 to 1962
	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	\$17,652	44.9	203.4
Highways .....	1,295	22.2	780	12.0	1,745	11.8	3,706	9.4	112.4
Public welfare .....	111	1.9	629	9.7	1,374	9.3	2,589	6.6	88.4
Health and hospitals .....	185	3.2	309	4.8	801	5.4	2,182	5.5	172.4
Police and local fire protection .....	466	8.0	566	8.7	1,179	8.0	2,931	7.5	148.6
Sanitation .....	312	5.4	207	3.2	834	5.7	1,947	4.9	133.5
Natural resources .....			74	1.1	202	1.4	404	1.0	100.0
Local parks and recreation ..	153	2.6	162	2.5	304	2.1	880	2.2	189.5
Housing and urban renewal ..			230	3.5	452	3.1	1,096	2.8	142.5
General control, including financial administration ..	316	5.4	410	6.3	724	4.9	1,560	4.0	115.5
Interest on general debt .....	501	8.6	523	8.0	349	2.4	1,373	3.5	293.4
Other and unallocable <sup>1</sup> .....	474	8.1	346	5.3	971	6.6	3,025	7.7	211.5
Total .....	5,830	100.0	6,499	100.0	14,754	100.0	39,340	100.0	166.6

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

Source: U.S. Bureau of the Census, *Historical Summary*

of *Governmental Finances in the United States, 1957 Census of Governments, Vol. IV, No. 3*; and *Governmental Finances in 1962*, October 1963.

creases, growing urbanization, an improved level of service, and rising prices. On a per capita basis, local expenditures have approximately quadrupled during this period, from \$55.70 in 1946 to \$211.71 in 1962. In terms of constant prices, the per capita increases were less marked, from \$88.41 to \$160.02, or 81 percent.

Since the war the share of the net national product represented by the local government function has moved upward. In 1962 local expenditures accounted for 7.8 percent of the net national product. This is nearly one-half higher than in the early 1950's and is about the same as in the years immediately preceding World War II. Considerably higher ratios prevailed, of course, during the trough of the Depression, when the economy and its private sector had contracted substantially more than had local expenditures.

Table 10 makes it 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. Since 1950, while total local expenditures have risen by 167 percent, education costs have increased 203 percent. Investment in school plant and improved pay scales have been important factors. The only other functions that 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 1962 highways, the second costliest activity, accounted for 9.4 percent of expenditures, followed by police and fire protection, 7.5 percent; public welfare, 6.6 percent; and health and hospitals, 5.5 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 quality, quantity, and variety of serv-

ices 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 1962 the local government share ranged from 32 percent in Alaska and 35 percent in Hawaii to 78 percent in New York and 75 percent in Wisconsin.

The statistics on local expenditures on a per capita basis and in relation to personal income, presented in table 11, 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 1962 ranged from \$103 in South Carolina to \$310 in New York and \$419 in the District of Columbia. In South Carolina local governments accounted for a relatively small part, and in New York for a relatively large share, of government expenditures. In South Carolina these expenditures absorbed a relatively small part, and in New York a relatively 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 but two (New York and Wisconsin), per capita local expenditures ranked 11th among the 50 States and the District of Columbia. New Jersey is one of the high-income States, and the expenditures of its local governments in terms of personal income were exceeded in 29 States and the District of Columbia.

These variations 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 tax-

ation and in the share of those resources allocated to local governments.

In 1962, when local governments spent \$39.3 billion on general government services, they raised \$26.7 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. This 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. The 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 is in part an intergovernmental task.

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 grant to them. With the exception of home rule powers granted in charter provisions and the general powers of municipalities in most States to levy license taxes (including in some instances the imposition of these taxes for revenue purposes), local governments do not commonly have the power to levy nonproperty taxes. While these limitations on local taxing powers are of each State's own

TABLE 11.—Local Government Direct General Expenditure, by State, 1962

State	Local general expenditure						
	Amount (millions)	Per capita <sup>1</sup>		Per \$1,000 of personal income <sup>2</sup>		As a percent of State and local expenditure	
		Amount	Rank	Amount	Rank	Amount	Rank
Alabama	\$425.1	\$128.16	47	\$80.80	30	52.4	38
Alaska	43.3	178.93	27	66.01	47	32.4	50
Arizona	312.9	210.57	17	98.89	9	59.5	22
Arkansas	199.9	108.52	50	72.90	38	49.1	42
California	5,249.5	308.26	3	106.74	6	71.8	6
Colorado	465.0	245.64	9	102.88	8	67.8	10
Connecticut	573.2	218.36	15	71.44	41	59.4	23
Delaware	77.2	165.31	32	53.06	51	49.3	41
Dist. of Columbia	330.8	419.26	1	131.06	1	.....	.....
Florida	1,041.0	191.57	23	93.30	14	67.8	11
Georgia	611.7	149.82	39	84.81	24	58.4	25
Hawaii	103.1	148.77	40	64.72	49	34.9	49
Idaho	118.3	169.00	30	87.31	21	54.4	31
Illinois	2,234.0	221.23	13	77.42	34	70.2	8
Indiana	909.8	195.11	22	82.13	27	67.2	12
Iowa	579.3	208.83	20	95.31	11	64.1	17
Kansas	474.1	214.04	16	97.63	10	66.6	13
Kentucky	382.4	123.99	48	72.48	40	42.3	47
Louisiana	535.9	158.97	34	94.38	13	47.8	45
Maine	144.6	147.85	41	75.51	36	50.7	40
Maryland	713.8	220.79	14	83.37	26	69.4	9
Massachusetts	1,281.5	247.01	8	89.68	17	72.0	5
Michigan	1,833.8	228.40	10	94.98	12	65.7	14
Minnesota	885.1	255.74	7	113.91	2	70.5	7
Mississippi	311.3	137.68	46	107.75	5	55.4	28
Missouri	679.9	157.53	36	65.61	48	59.1	24
Montana	128.1	183.79	25	81.85	28	52.4	37
Nebraska	265.0	183.26	26	78.66	32	65.3	15
Nevada	95.2	272.00	4	67.03	45	57.9	26
New Hampshire	98.8	158.84	35	70.88	42	52.6	36
New Jersey	1,425.9	224.30	11	79.08	31	74.4	3
New Mexico	172.0	172.52	29	92.47	15	52.8	34
New York	5,419.4	309.72	2	106.29	7	77.8	1
North Carolina	670.0	142.43	45	81.76	29	62.1	18
North Dakota	126.4	199.68	21	86.63	23	52.7	35
Ohio	2,099.6	209.17	19	86.93	22	72.0	4
Oklahoma	352.0	143.79	43	75.47	37	48.2	44
Oregon	380.6	210.63	18	87.51	18	55.0	30
Pennsylvania	1,901.7	167.08	31	70.73	43	61.3	19
Rhode Island	138.1	157.29	37	67.30	44	53.7	32
South Carolina	251.1	102.57	51	66.73	46	50.8	39
South Dakota	115.6	160.33	33	77.64	33	48.7	43
Tennessee	521.4	142.77	44	84.30	25	59.8	21
Texas	1,779.4	175.80	28	87.39	20	65.3	16
Utah	176.1	183.82	24	87.39	19	55.2	29
Vermont	56.8	146.77	42	72.63	39	39.4	48
Virginia	637.2	150.00	38	75.61	35	60.2	20
Washington	670.6	222.79	12	89.76	16	57.8	27
West Virginia	202.3	112.64	49	63.02	50	44.9	46
Wisconsin	1,054.0	262.25	5	112.83	3	74.8	2
Wyoming	86.5	260.54	6	109.49	4	53.0	33
Total	39,340.3	211.71	.....	89.48	.....	65.9	.....

<sup>1</sup> Based on estimated population (exclusive of Armed Forces overseas) as of July 1, 1962.

<sup>2</sup> Based on personal income estimates reported in U.S. Department of Commerce, *Survey of Current Business*,

August 1963.

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963.

choosing, they are nonetheless real. Moreover, the property tax itself labors under serious handicaps, some real, some contrived, as is indicated in chapter 6.

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 imbalance 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 that is its strength. Under our 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 an effort is made to assess some of these tools—those in the tax area—to identify their strength and weakness. Chapter 17 explores the opportunities available to States to facilitate the use of nonproperty taxes by local governments.

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 many directions, including the reorganization of local governmental units themselves into structures more appropriate for present and prospective requirements. Another area requiring attention is the intergovernmental division

of functional responsibilities and intergovernmental financial aid.

Within the more restricted area of taxation itself, a variety of problems require consideration. Many of them are bypassed at this time. The most important, however, those relating to the property tax, are discussed in some detail in chapter 6 to identify some of the policies and practices that 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 may borrow only for capital outlay purposes. Some resort to 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 for general government facilities. The volume of their borrowing has about doubled during the past decade. Annual debt retirements now exceed \$3 billion. Between the end of 1950 and 1962 the indebtedness of local governments has risen from \$18.8 billion to \$59.1 billion. The \$40.3 billion increase in liabilities is equal to about half of the \$84 billion invested in capital improvements during the same period.

*Current revenues.*—The current revenues of local governments for general government purposes totaled \$38.4 billion in 1962. They have been rising at a rapid rate, paralleling the rise in expenditures. The corresponding total was \$25 billion

TABLE 12.—Local Government General Revenue, by Source, Selected Years, 1927–62

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					
				Total	Property	Other			
1. AMOUNT (in millions of dollars)									
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	3,233	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
1954	298	5,635	13,629	10,978	9,577	1,401	2,651	19,562	3,374
1956	309	6,590	16,238	12,992	11,282	1,710	3,246	23,137	2,909
1958	404	7,828	19,345	15,461	13,514	1,946	3,885	27,577	3,798
1960	592	9,361	22,912	18,081	15,798	2,283	4,831	32,866	4,232
1961	719	10,185	24,995	19,804	17,370	2,434	5,192	35,899	3,618
1962	750	10,929	26,680	20,963	18,416	2,546	5,717	38,357	4,047
2. 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	.....
1954	1.5	28.8	69.7	56.1	49.0	7.2	13.6	100.0	.....
1956	1.3	28.5	70.2	56.2	48.8	7.4	14.0	100.0	.....
1958	1.5	28.4	70.1	56.1	49.0	7.1	14.1	100.0	.....
1960	1.8	28.5	69.7	55.0	48.1	6.9	14.7	100.0	.....
1961	2.0	28.4	69.6	55.2	48.4	6.8	14.5	100.0	.....
1962	2.0	28.5	69.6	54.7	48.0	6.6	14.9	100.0	.....

Source: U.S. Bureau of the Census, *Historical Summary of Governmental Finances in the United States, 1957 Census of Governments, Vol. IV, No. 3*; and *Governmental Finances* (annually since 1958).

in 1957, \$14 billion in 1950, and about \$7 billion during the war years (table 12). The revenue productivity of the sources of local financing generally has increased at a remarkably uniform rate since 1950, suggesting that rising requirements exerted revenue pressures that were distributed fairly uniformly among the financing sources available to local governments. Local governments raise on the average about 70 percent of their current revenues

for general government 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 about 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 1962:

	Amount (billions)	Percent of total
State aid .....	\$10.9	28.5
Federal aid (directly to local governments) .....	.8	2.0
From local sources:		
Property taxes .....	18.4	48.0
Other taxes .....	2.5	6.6
Nontax revenues .....	5.7	14.9
Total .....	38.4	100.0

These are aggregates for the more than

90,000 local jurisdictions that perform governmental functions in the United States, about 90 percent of which have taxing powers. 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 1962, the last year for which detail for all categories is available, illustrates the range of variation.

*General Revenue of Local Governments, Percentage Distribution by Source, 1962*

Source	Total	Counties	Municipalities	Townships	School districts	Special districts
Intergovernmental .....	30.5	38.7	20.4	23.8	40.6	20.1
Property tax .....	48.0	45.6	44.0	63.8	51.2	26.1
Other taxes .....	6.6	3.2	16.1	4.0	.7	.....
Nontax revenue .....	14.9	12.4	19.5	8.4	7.5	53.8
Total .....	100.0	100.0	100.0	100.0	100.0	100.0

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. Nationally, nonproperty taxes play a significant role only in municipalities.

*State aid.*—State financial aid to local governments (including Federal grants channeled through the States) totaled \$10.9 billion in 1962, nearly \$59 per capita, and accounted for 29 percent of total local general revenues. About one-fifth of this State aid was in the form of State collected and imposed taxes shared with local governments. Most of the State aid funds, however, represent State payments to local units for their use in financing specific functions or for general local government

support and reimbursements to these local units 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 13 and 14 make clear.

The largest share (\$6.5 billion) of State aid was earmarked for education in 1962. Next in importance were \$1.8 billion for public welfare and \$1.3 billion for highways. The remainder went for health and hospitals, for other specified functions, and for general support of local government.

The evolution of State aid for individual functions over the past three decades is summarized in table 15. It now finances over 70 percent of local expenditure for public welfare, 36 percent for highways, and 37 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

TABLE 13.—State Intergovernmental Expenditure, by State, 1962

State	Intergovernmental Expenditure			
	Total (thousands)	Per capita	As a percent of total State general expenditure	As a percent of total local general revenue
Alabama.....	\$164,425	\$48.97	29.8	40.7
Alaska.....	14,217	57.79	13.6	35.2
Arizona.....	96,663	64.06	31.2	32.2
Arkansas.....	75,455	41.39	26.7	37.6
California.....	1,642,908	96.81	44.3	31.4
Colorado.....	145,755	76.43	39.8	30.9
Connecticut.....	81,843	31.51	17.3	16.1
Delaware.....	39,997	85.28	33.1	53.3
Florida.....	246,277	45.11	33.2	24.5
Georgia.....	203,944	49.74	31.8	34.9
Hawaii.....	24,564	35.45	11.3	26.6
Idaho.....	32,323	46.31	24.6	27.4
Illinois.....	385,033	37.95	34.0	17.4
Indiana.....	238,911	50.67	35.0	26.9
Iowa.....	123,989	44.65	27.7	21.3
Kansas.....	117,478	52.94	33.1	24.5
Kentucky.....	123,684	40.13	19.2	33.9
Louisiana.....	254,103	76.31	30.3	51.4
Maine.....	22,253	22.28	13.7	14.8
Maryland.....	256,798	80.48	44.9	37.6
Massachusetts.....	319,172	61.84	39.0	24.0
Michigan.....	609,724	76.30	39.0	35.5
Minnesota.....	264,495	76.11	41.6	31.1
Mississippi.....	127,409	56.68	33.7	42.1
Missouri.....	141,209	32.49	23.1	20.9
Montana.....	22,770	32.12	16.3	16.8
Nebraska.....	45,624	30.74	24.5	16.9
Nevada.....	23,706	70.76	25.5	27.6
New Hampshire.....	6,664	10.54	7.0	6.8
New Jersey.....	197,996	31.70	28.7	13.9
New Mexico.....	93,409	91.58	37.8	54.6
New York.....	1,521,419	87.43	49.5	28.5
North Carolina.....	336,181	71.06	45.1	52.8
North Dakota.....	24,289	37.83	17.7	20.0
Ohio.....	499,389	49.46	37.9	24.9
Oklahoma.....	120,763	49.33	24.2	34.6
Oregon.....	101,440	54.42	24.6	26.6
Pennsylvania.....	461,048	40.53	27.8	24.5
Rhode Island.....	27,645	31.96	18.8	19.9
South Carolina.....	109,877	45.11	31.1	43.4
South Dakota.....	12,724	17.65	9.5	10.4
Tennessee.....	169,259	46.58	32.6	35.5
Texas.....	442,919	43.78	31.9	26.7
Utah.....	59,030	61.04	29.3	34.0
Vermont.....	12,086	30.99	12.1	21.9
Virginia.....	169,612	40.61	28.7	31.2
Washington.....	261,628	87.04	34.9	39.1
West Virginia.....	72,017	40.62	22.5	35.1
Wisconsin.....	335,438	81.97	48.5	33.1
Wyoming.....	26,838	73.53	25.9	33.3
Total.....	10,906,400	58.94	34.9	28.2

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963; and *State Payments to*

*Local Governments*, 1962 Census of Governments, Vol. VI, No. 2.

TABLE 14.—*State Intergovernmental Expenditure as a Percent of Local General Revenue, Frequency Distribution, 1962*

Under 20 percent	20 to 30 percent	30 to 40 percent	40 percent or more
New Hampshire ..... 6.8	North Dakota ..... 20.0	Colorado ..... 30.9	Alabama ..... 40.7
South Dakota ..... 10.4	Missouri ..... 20.9	Minnesota ..... 31.1	Mississippi ..... 42.1
New Jersey ..... 13.9	Iowa ..... 21.3	Virginia ..... 31.2	South Carolina ..... 43.4
Maine ..... 14.8	Vermont ..... 21.9	California ..... 31.4	Louisiana ..... 51.4
Connecticut ..... 16.1	Massachusetts ..... 24.0	Arizona ..... 32.2	North Carolina ..... 52.8
Montana ..... 16.8	Florida ..... 24.5	Wisconsin ..... 33.1	Delaware ..... 53.3
Nebraska ..... 16.9	Kansas ..... 24.5	Wyoming ..... 33.3	New Mexico ..... 54.6
Illinois ..... 17.4	Pennsylvania ..... 24.5	Kentucky ..... 33.9	
Rhode Island ..... 19.9	Ohio ..... 24.9	Utah ..... 34.0	
	Oregon ..... 26.6	Oklahoma ..... 34.6	
	Hawaii ..... 26.6	Georgia ..... 34.9	
	Texas ..... 26.7	Alaska ..... 35.2	
	Indiana ..... 26.9	West Virginia ..... 35.1	
	Idaho ..... 27.4	Michigan ..... 35.5	
	Nevada ..... 27.6	Tennessee ..... 35.5	
	New York ..... 28.5	Arkansas ..... 37.6	
		Maryland ..... 37.6	
		Washington ..... 39.1	
Number of States ..... 9	..... 16	..... 18	..... 7

Source: Table 13.

covered by it has not changed materially except in the public welfare function 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 1962 Federal grants and payments in lieu of taxes to local governments totaled less than \$750 million and provided 2 percent of local general revenue. Grants accounted for most of this amount. The comparable total was \$200 million in 1950, \$300 million in 1953, and \$600 million in 1960. These amounts exclude loans, repayable advances, and Federal grants to States for programs that ultimately benefit local governments. Federal aid directly to local governments has been increasing in recent years and can be expected to become larger during the next few years as recently enacted programs become operational.

Nearly 35 percent of the \$750 million 1962 aggregate represented Federal payments for school operations (\$215 million) and for school construction (\$41 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 (\$149 million); slum clearance and urban renewal, including urban planning (\$167 million); waste treatment facilities (\$42 million); and airport construction (\$57 million). These six programs were responsible for 90 percent of all Federal aid given directly to local governments.

*Revenue from own sources.*—Local governments raise about 70 percent of their current general revenue from local sources, divided between taxes and other sources approximately in the ratio of 4:1. The 1962 totals were \$20.9 billion from taxes and \$5.7 billion from nontax sources. The latter include 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

TABLE 15.—*State Intergovernmental Expenditure, by Function, Selected Years, 1932–62*

Item	1932	1940	1950	1960	1962
Amount (millions)					
General local government support .....	\$140	\$181	\$482	\$806	\$844
Public welfare .....	28	420	792	1,483	1,779
Education .....	398	700	2,054	5,461	6,474
Highways .....	229	332	610	1,247	1,326
All other .....	6	21	279	446	483
Total .....	801	1,654	4,217	9,443	10,906
Percent distribution					
General local government support .....	17.5	10.9	11.4	8.5	7.7
Public welfare .....	3.5	25.4	18.8	15.7	16.3
Education .....	49.7	42.3	48.7	57.8	59.4
Highways .....	28.6	20.1	14.5	13.2	12.2
All other .....	.7	1.3	6.6	4.7	4.4
Total .....	100.0	100.0	100.0	100.0	100.0
Percent of total State general expenditure					
General local government support .....	5.1	4.1	3.9	3.0	2.7
Public welfare .....	1.0	9.6	6.5	5.4	5.7
Education .....	14.4	16.0	16.8	20.1	20.7
Highways .....	8.3	7.6	5.0	4.6	4.2
All other .....	.2	.5	2.3	1.6	1.5
Total .....	29.0	37.7	34.4	34.7	34.9
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	28.6	28.2
State intergovernmental expenditure for selected functions as percent of local general expenditure for—					
Public welfare .....	7.6	66.8	57.6	67.0	70.2
Education .....	19.6	30.9	35.3	35.6	36.6
Highways .....	25.5	42.6	35.0	36.7	35.8

Source: U.S. Bureau of the Census, *State Payments to Local Governments*, 1962 Census of Governments, Vol. VI, No. 2.

raised general revenues are presented in table 16.

The local government tax take was \$21 billion in 1962, 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 stabilized at approximately this level after World War II. It had been somewhat higher before that time (tables 12 and 17).

Comparative data on local tax revenue by States are presented in table 18. The

variations are wide, explained in part by interstate differences in economic capacity and tax effort as reflected in the level of government services provided. They vary also according to the degree of local reliance on State financial aids and the local governments' relative role in providing governmental services. The frequency distribution presented in table 19 reflects this variation.

*Property taxes.*—Taxation at the local level in most parts of the country continues to be largely synonymous with prop-

TABLE 16.—Local Government General Revenue, by State, 1962

State	Locally collected general revenue				
	Amount (millions)	Per capita <sup>1</sup>		Per \$1,000 of personal income <sup>2</sup>	
		Amount	Rank	Amount	Rank
Alabama.....	\$222.9	\$67.20	48	\$42.37	43
Alaska.....	24.5	101.24	36	37.35	48
Arizona.....	192.3	145.90	18	60.78	21
Arkansas.....	122.0	66.23	49	44.49	40
California.....	3,471.0	203.83	3	70.58	6
Colorado.....	313.1	165.40	8	69.27	9
Connecticut.....	414.1	157.75	12	51.61	33
Delaware.....	35.5	76.02	43	24.40	51
Dist. of Columbia.....	213.3	270.34	1	84.51	1
Florida.....	758.0	139.49	24	67.93	11
Georgia.....	361.1	88.44	38	50.06	36
Hawaii.....	60.0	86.58	39	37.66	47
Idaho.....	85.0	121.43	30	62.73	19
Illinois.....	1,756.8	173.98	6	60.88	20
Indiana.....	642.4	137.77	25	57.99	21
Iowa.....	450.7	162.47	10	74.15	3
Kansas.....	355.5	160.50	11	73.21	5
Kentucky.....	233.7	75.78	44	44.28	41
Louisiana.....	241.5	71.64	47	42.53	42
Maine.....	124.4	127.19	27	64.96	17
Maryland.....	402.3	124.44	28	46.99	38
Massachusetts.....	981.5	189.19	5	68.68	10
Michigan.....	1,158.4	144.27	21	60.00	23
Minnesota.....	585.7	169.23	7	75.37	2
Mississippi.....	168.5	74.52	45	58.32	26
Missouri.....	528.1	122.36	29	50.97	35
Montana.....	109.5	157.10	13	69.97	8
Nebraska.....	219.5	151.80	17	65.15	16
Nevada.....	57.6	164.57	9	52.46	30
New Hampshire.....	88.5	142.28	23	63.49	18
New Jersey.....	1,211.2	190.53	4	67.17	13
New Mexico.....	78.2	78.84	42	42.04	44
New York.....	3,771.4	215.53	2	73.97	4
North Carolina.....	303.6	64.54	50	37.05	49
North Dakota.....	96.3	152.13	16	66.00	14
Ohio.....	1,442.0	143.65	22	59.70	24
Oklahoma.....	219.6	89.71	37	47.08	37
Oregon.....	263.1	145.60	19	60.50	22
Pennsylvania.....	1,378.1	121.08	31	51.26	34
Rhode Island.....	106.0	120.72	32	51.66	32
South Carolina.....	137.1	56.00	51	36.43	50
South Dakota.....	104.9	145.49	20	70.45	7
Tennessee.....	288.2	78.92	41	46.60	39
Texas.....	1,192.4	117.80	33	58.56	25
Utah.....	109.9	114.72	34	54.54	29
Vermont.....	43.3	111.89	35	53.37	28
Virginia.....	349.8	82.34	40	41.50	45
Washington.....	391.8	130.17	26	52.44	31
West Virginia.....	132.9	74.00	46	41.40	46
Wisconsin.....	630.3	156.83	14	67.48	12
Wyoming.....	52.0	156.63	15	65.82	15
Total.....	26,679.5	143.58	.....	60.68	.....

<sup>1</sup> Based on estimated population (exclusive of Armed Forces overseas) as of July 1, 1962.

<sup>2</sup> Based on personal income estimates reported in U.S.

Department of Commerce, *Survey of Current Business*, August 1963.

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963.

erty taxation. With few exceptions, it is the most important single producer in local jurisdictions. Because it is the mainstay of local tax systems, it is treated in detail in a separate chapter. Here it suffices to note that while the property tax has been the object of severe criticism for decades, it is putting on 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.

Among 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 1962 it supplied 87.9 percent of local tax revenues, 58 percent of local revenues from their own sources, and 48 percent of all local general revenues. The developments in these relationships during the past 35 years were as follows:

Item	1927	1940	1948	1950	1960	1962
Property tax revenue as a percent of:						
Total tax revenue.....	97.3	92.7	88.6	88.2	87.4	87.9
Revenue from local sources.....	76.1	72.0	60.5	60.3	58.2	58.3
Total general revenue.....	73.9	60.1	51.4	50.2	48.1	48.0

*Nonproperty taxes.*—The postwar years have witnessed a quest for nonproperty tax sources by local governments in 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. 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 the increasing local tax revenue requirements to the property tax is motivated by various considerations. Doubtless the appeal of tax diversification for its own sake is one of them. Another is the tendency to judge tax rates in terms of the levels of earlier years and to confuse the

contribution to the increases in property tax bills made by changes in tax rates 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 property owners regardless of their income status, 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 the location of businesses. Business property frequently accounts for a third or even more of the real 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 shortcomings of the tax. Recent widespread efforts to improve tax assessment procedures—some locally, some prescribed by State legislatures—have not yet

TABLE 17.—Local Tax Collections, by Major Source, Selected Years, 1927–62

Fiscal year	Total	Property taxes	Nonproperty taxes			
			Total	Sales and gross receipts	Income taxes	All other taxes
1. AMOUNT (in millions of dollars)						
1927.....	4,479	4,360	119	25	.....	94
1932.....	4,274	4,159	115	26	.....	89
1934.....	3,933	3,803	130	30	.....	100
1936.....	4,083	3,865	218	90	.....	128
1938.....	4,473	4,196	277	120	.....	157
1940.....	4,497	4,170	327	130	19	178
1942.....	4,625	4,273	352	133	30	189
1944.....	4,703	4,361	342	136	31	175
1946.....	5,157	4,737	420	183	38	199
1948.....	6,599	5,850	749	400	51	298
1950.....	7,984	7,042	942	484	71	387
1952.....	9,466	8,282	1,185	627	93	465
1953.....	10,356	9,010	1,345	718	103	523
1954.....	10,978	9,577	1,401	703	129	569
1955.....	11,886	10,323	1,563	779	150	634
1956.....	12,992	11,282	1,710	889	164	657
1957.....	14,286	12,385	1,901	1,031	191	679
1958.....	15,461	13,514	1,946	1,079	215	652
1959.....	16,531	14,417	2,114	1,150	230	734
1960.....	18,081	15,798	2,283	1,339	254	692
1961.....	19,804	17,370	2,434	1,432	258	744
1962.....	20,963	18,416	2,546	1,472	308	766
2. PERCENTAGE DISTRIBUTION						
1927.....	100	97	3	1	.....	2
1932.....	100	97	3	1	.....	2
1934.....	100	97	3	1	.....	3
1936.....	100	95	5	2	.....	3
1938.....	100	94	6	3	.....	4
1940.....	100	93	7	3	(1)	4
1942.....	100	92	8	3	1	4
1944.....	100	93	7	3	1	4
1946.....	100	92	8	4	1	4
1948.....	100	89	11	6	1	5
1950.....	100	88	12	7	1	5
1952.....	100	87	13	7	1	5
1953.....	100	87	13	6	1	5
1954.....	100	87	13	7	1	5
1955.....	100	87	13	7	1	5
1956.....	100	87	13	7	1	5
1957.....	100	87	13	7	1	5
1958.....	100	87	13	7	1	4
1959.....	100	87	13	7	1	4
1960.....	100	87	13	7	1	4
1961.....	100	88	12	7	1	4
1962.....	100	88	12	7	1	4

<sup>1</sup> Less than 0.5 percent.

Source: U.S. Bureau of the Census, *Historical Summary*

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

of *Governmental Finances in the United States, 1957 Census of Governments, Vol. IV, No. 3*; and *Governmental Finances* (annually since 1958).

been striking. In spite of a 17-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.

There is considerable variation among the States in the extent to which local gov-

TABLE 18.—Local Tax Collections, by State, 1962

State	Local tax collections					
	Amount (millions)	Per capita <sup>1</sup>		Per \$1,000 of personal income <sup>2</sup>		As a percent of State and local tax revenue
		Amount	Rank	Amount	Rank	
Alabama.....	\$132.3	\$39.89	50	\$25.15	47	30.3
Alaska.....	15.4	63.64	36	23.48	49	29.7
Arizona.....	144.5	97.24	27	45.67	27	43.6
Arkansas.....	80.2	43.54	48	29.25	43	31.1
California.....	2,802.0	164.54	5	56.97	11	54.2
Colorado.....	248.6	131.33	9	55.00	14	51.5
Connecticut.....	360.2	131.17	7	48.95	19	53.4
Delaware.....	24.9	53.32	42	17.11	51	22.1
Dist. of Columbia.....	183.0	231.94	1	72.50	1	.....
Florida.....	511.6	94.15	31	45.85	25	47.6
Georgia.....	219.5	53.76	41	30.43	40	35.3
Hawaii.....	41.5	59.88	39	26.05	46	23.9
Idaho.....	62.1	88.71	33	45.83	26	46.3
Illinois.....	1,460.7	144.65	6	50.62	17	59.8
Indiana.....	527.0	113.02	20	47.57	21	55.6
Iowa.....	362.6	130.71	10	59.66	6	56.7
Kansas.....	288.3	130.16	11	59.37	8	55.8
Kentucky.....	154.0	49.94	45	29.19	44	33.2
Louisiana.....	169.0	50.13	44	29.76	41	25.8
Maine.....	114.0	116.56	17	59.53	7	54.9
Maryland.....	310.0	95.89	30	36.21	34	43.4
Massachusetts.....	854.2	164.65	4	59.78	4	60.8
Michigan.....	891.7	111.06	23	46.19	23	47.0
Minnesota.....	463.6	133.95	8	59.67	5	53.5
Mississippi.....	112.1	49.58	46	38.80	33	35.4
Missouri.....	416.1	96.41	29	40.16	32	51.4
Montana.....	89.8	128.84	13	57.38	10	55.6
Nebraska.....	171.7	118.74	16	50.96	16	64.4
Nevada.....	38.9	111.14	22	35.43	35	40.7
New Hampshire.....	77.2	124.12	15	55.38	13	62.5
New Jersey.....	1,060.3	166.79	3	58.80	9	71.1
New Mexico.....	49.3	49.45	47	26.51	45	26.4
New York.....	3,079.1	175.97	2	60.39	3	56.9
North Carolina.....	200.5	42.62	49	24.47	48	27.1
North Dakota.....	73.4	115.96	18	50.31	18	53.6
Ohio.....	1,101.0	109.68	24	45.58	28	55.3
Oklahoma.....	148.3	60.58	38	31.80	38	32.5
Oregon.....	202.9	112.29	21	46.65	22	48.8
Pennsylvania.....	1,101.7	96.79	28	40.98	31	46.7
Rhode Island.....	94.4	107.52	25	46.00	24	49.4
South Carolina.....	88.1	35.99	51	23.41	50	26.4
South Dakota.....	92.1	127.74	14	61.85	2	61.9
Tennessee.....	197.9	54.19	40	32.00	36	37.5
Texas.....	865.1	85.47	34	42.49	30	46.6
Utah.....	89.1	93.01	32	44.22	29	43.5
Vermont.....	40.0	103.36	26	51.15	15	44.6
Virginia.....	263.6	62.05	37	31.28	39	42.3
Washington.....	237.6	78.94	35	31.80	37	31.2
West Virginia.....	93.8	52.23	43	29.22	42	30.6
Wisconsin.....	519.8	129.34	12	55.65	12	53.1
Wyoming.....	37.8	113.86	19	47.85	20	46.2
Total.....	20,962.5	112.81	.....	47.68	.....	50.5

<sup>1</sup> Based on estimated population (exclusive of Armed Forces overseas) as of July 1, 1962.

<sup>2</sup> Based on personal income estimates reported in U.S. Department of Commerce, *Survey of Current Business*,

August 1963.

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963.



TABLE 19.—Local Tax Collections as a Percent of State-Local Tax Collections, Frequency Distribution, 1962

Under 30 percent	30 to 40 percent	40 to 50 percent	50 to 60 percent	Over 60 percent
Delaware ..... 22.1	Alabama ..... 30.3	Nevada ..... 40.7	Missouri ..... 51.4	Massachusetts ... 60.8
Hawaii ..... 23.9	West Virginia .. 30.6	Virginia ..... 42.3	Colorado ..... 51.5	South Dakota .... 61.9
Louisiana ..... 25.8	Arkansas ..... 31.1	Maryland ..... 43.4	Wisconsin ..... 53.1	New Hampshire.. 62.5
New Mexico .... 26.4	Washington ..... 31.2	Utah ..... 43.5	Connecticut .... 53.4	Nebraska ..... 64.4
South Carolina .. 26.4	Oklahoma ..... 32.5	Arizona ..... 43.6	Minnesota ..... 53.5	New Jersey ..... 71.1
North Carolina . 27.1	Kentucky ..... 33.2	Vermont ..... 44.6	North Dakota .. 53.6	
Alaska ..... 29.7	Georgia ..... 35.3	Wyoming ..... 46.2	California ..... 54.2	
	Mississippi ..... 35.4	Idaho ..... 46.3	Maine ..... 54.9	
	Tennessee ..... 37.5	Texas ..... 46.6	Ohio ..... 55.3	
		Pennsylvania .. 46.7	Indiana ..... 55.6	
		Michigan ..... 47.0	Montana ..... 55.6	
		Florida ..... 47.6	Kansas ..... 55.8	
		Oregon ..... 48.8	Iowa ..... 56.7	
		Rhode Island ... 49.4	New York ..... 56.9	
			Illinois ..... 59.8	
Number of States..7	.....9	.....14	.....15	.....5

Source: Table 18.

ernments tap tax sources other than property. In 9 States, over half of them in New England, nonproperty taxes contribute less than 2 percent of all local tax revenues. The percentage from nonproperty taxes 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 will be noted 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 20 and 21.

Local nonproperty taxes, chiefly levies on sales, income, and utility services, are found in the large urban places in about half of the States, scattered thinly in most, thickly in a few. Most of these 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 of the communities that use them, these local taxes have failed to generate anything resembling a national movement.

Local nonproperty taxes came to national notice with the adoption of retail

sales taxes by New York City in 1934 and New Orleans in 1938, and of the income tax by Philadelphia in 1939. (The District of Columbia's income tax 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. At 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 jurisdictions 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."

TABLE 20.—*Local Property and Nonproperty Tax Collections, by State, 1962*  
(Dollar amounts in millions)

State	Tax collections			Nonproperty as a percent of total
	Total	Property	Nonproperty	
Alabama.....	\$132.3	\$73.8	\$58.5	44.2
Alaska.....	15.4	11.4	4.0	26.0
Arizona.....	144.5	133.0	11.5	8.0
Arkansas.....	80.2	74.2	6.0	7.5
California.....	2,802.0	2,467.8	334.2	11.9
Colorado.....	248.6	227.1	21.5	8.6
Connecticut.....	360.2	357.3	2.9	.8
Delaware.....	24.9	23.4	1.5	6.0
Dist. of Columbia.....	183.0	67.7	115.2	63.0
Florida.....	511.6	427.4	84.2	16.5
Georgia.....	219.5	194.9	24.6	11.2
Hawaii.....	41.5	27.8	13.7	33.0
Idaho.....	62.1	60.6	1.5	2.3
Illinois.....	1,460.7	1,296.5	164.2	11.2
Indiana.....	527.0	524.6	2.4	.5
Iowa.....	362.6	357.8	4.8	1.3
Kansas.....	288.3	279.9	8.4	2.0
Kentucky.....	154.0	122.5	31.5	20.5
Louisiana.....	169.0	131.6	37.4	22.1
Maine.....	114.0	113.1	.9	.8
Maryland.....	310.0	283.4	26.6	8.6
Massachusetts.....	854.2	843.2	11.0	1.3
Michigan.....	891.7	881.5	10.2	1.1
Minnesota.....	463.6	450.7	12.9	2.8
Mississippi.....	112.1	90.3	21.8	19.4
Missouri.....	416.1	338.3	77.8	18.7
Montana.....	89.8	84.7	5.1	5.7
Nebraska.....	171.7	158.7	13.0	7.5
Nevada.....	38.9	29.1	9.8	25.4
New Hampshire.....	77.2	76.5	.7	.9
New Jersey.....	1,060.3	964.4	95.9	9.0
New Mexico.....	49.3	37.0	12.3	24.9
New York.....	3,079.1	2,370.0	709.1	23.0
North Carolina.....	200.5	193.4	7.1	3.5
North Dakota.....	73.4	70.9	2.5	3.4
Ohio.....	1,101.0	997.9	103.1	9.4
Oklahoma.....	148.3	141.3	7.0	4.7
Oregon.....	202.9	196.0	6.9	3.4
Pennsylvania.....	1,101.7	839.2	262.5	23.8
Rhode Island.....	94.4	92.8	1.6	1.8
South Carolina.....	88.1	81.7	6.4	7.3
South Dakota.....	92.1	86.3	5.8	6.3
Tennessee.....	197.9	175.7	22.2	11.2
Texas.....	865.1	804.5	60.6	7.0
Utah.....	89.1	78.5	10.6	11.9
Vermont.....	40.0	39.1	.9	2.3
Virginia.....	263.6	208.9	54.7	20.7
Washington.....	237.6	199.6	38.0	16.0
West Virginia.....	93.8	83.2	10.6	11.3
Wisconsin.....	519.8	510.9	8.9	1.7
Wyoming.....	37.8	35.7	2.1	5.6
Total.....	20,962.5	18,415.8	2,546.4	12.1

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963.

TABLE 21.—*Local Nonproperty Taxes as a Percent of Total Local Taxes, Frequency Distribution, 1962*

Under 5 percent	5 to 10 percent	10 to 15 percent	15 to 20 percent	20 percent or more
Indiana ..... 0.5	Wyoming ..... 5.6	Georgia ..... 11.2	Washington ... 16.0	Kentucky ..... 20.5
Maine ..... .8	Montana ..... 5.7	Illinois ..... 11.2	Florida ..... 16.5	Virginia ..... 20.7
Connecticut ..... .8	Delaware ..... 6.0	Tennessee ..... 11.2	Missouri ..... 18.7	Louisiana ..... 22.1
New Hampshire .. .9	South Dakota ... 6.3	West Virginia .. 11.3	Mississippi .... 19.4	New York ..... 23.0
Michigan ..... 1.1	Texas ..... 7.0	California ..... 11.9		Pennsylvania ... 23.8
Iowa ..... 1.3	South Carolina .. 7.3	Utah ..... 11.9		New Mexico .... 24.9
Massachusetts ... 1.3	Arkansas ..... 7.5			Nevada ..... 25.4
Wisconsin ..... 1.7	Nebraska ..... 7.5			Alaska ..... 26.0
Rhode Island ... 1.8	Arizona ..... 8.0			Hawaii ..... 33.0
Idaho ..... 2.3	Colorado ..... 8.6			Alabama ..... 44.2
Vermont ..... 2.3	Maryland ..... 8.6			Dist. of Columbia, 63.0
Minnesota ..... 2.8	New Jersey ..... 9.0			
Kansas ..... 2.9	Ohio ..... 9.4			
North Dakota ... 3.4				
Oregon ..... 3.4				
North Carolina ... 3.5				
Oklahoma ..... 4.7				
Number of States .. 17	..... 13	..... 6	..... 4	..... 11

Source: Table 20.

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 not adopted there until 1955. It had been adopted meanwhile in Mississippi in 1950. In 1955 Illinois' legislature authorized its cities to add their levies to the State's sales tax. Similar legislation was adopted by New Mexico (1955), Utah (1959), and Tennessee (1963). These statewide developments were accompanied by nonproperty tax enactments in individual cities in various States. The impact of this development on the revenue structure of local governments is summarized historically in tables 17 and 22.

Before the Depression of the 1930's nonproperty 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 by the early 1950's, where it remained until dropping back to 12 percent in 1961 and 1962.

During this period the aggregate contribution of these taxes increased from less than \$1 billion in 1950 to \$2.5 billion in 1962, the increase being accounted for largely by consumer taxes. Income taxes represent only about one-eighth of total nonproperty tax collections.

The development of the local nonproperty tax, 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 in 1962 is summarized in table 21. The range is wide, from less than 1 percent in four States to 44 percent in Alabama (and 63 percent in the District of Columbia). In one-third of the States, nonproperty taxes produce less than 5 percent of local tax revenues. Their contribution exceeds 20 percent in only 10 States and 25 percent in only 4. 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,

TABLE 22.—City Government Tax Collections, 1950–62

Year	Total tax collections	Property taxes	Nonproperty taxes				
			Total	Sales and gross receipts			Licenses and other
				Total	General	Selective	
1. AMOUNT (in millions of dollars)							
1950 <sup>1</sup> .....	3,628	2,792	837	456	n.a.	n.a.	381
1951 <sup>1</sup> .....	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	<sup>2</sup> 695
1961.....	7,518	5,515	2,002	1,278	822	456	<sup>2</sup> 724
1962.....	7,646	5,605	2,041	1,300	844	456	<sup>2</sup> 741
2. 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	<sup>2</sup> 9.8
1961.....	100.0	73.4	26.6	17.0	10.9	6.1	<sup>2</sup> 9.6
1962.....	100.0	73.3	26.7	17.0	11.0	6.0	<sup>2</sup> 9.7

n.a.—Data not available.

<sup>1</sup> Partially estimated (cities with less than 25,000 inhabitants).

<sup>2</sup> Not entirely comparable with data prior to 1960 which include parking meter fees (now included in "Current

charges").

Source: U.S. Bureau of the Census, *Governmental Finances* (annually, 1952–62); and *Compendium of City Government Finances* (1950 and 1951).

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 23, leaves little doubt on this point. In 1962, when per capita local nonproperty tax revenues in the Nation averaged less than \$14, the average for cities with a population in excess of 1 million was \$52 and dropped quickly as the size of the city declined. For cities under 50,000 population, the per capita average was only \$7, and nearly half of this consisted of the miscellaneous group, 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 1962 these taxes supplied 26.7 percent of all city tax revenues. For cities of 1 million and over, the percentage was 36.9 and dropped to 26.9 percent for the next population size (1/2 million to 1 million). For all cities under 200,000 the corresponding percentages were below 20, except in the smallest size groups, where licenses are relatively large contributors.

The role of nonproperty taxes in the 1962 tax revenues of the 51 largest cities

TABLE 23.—City Government Tax Collections, by Population Size Class, 1962

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	Less than 50,000
1. TOTAL (in millions of dollars)								
Property taxes .....	5,605	1,557	817	391	230	562	683	1,364
Nonproperty taxes .....	2,041	910	301	146	74	103	146	362
General sales and gross receipts .....	844	581	60	26	17	33	44	84
Selected sales and gross receipts .....	456	112	89	48	30	29	36	113
Other taxes, including licenses .....	741	217	152	72	27	41	66	165
Total .....	7,646	2,466	1,118	536	305	666	829	1,726
2. PER CAPITA (dollars)								
Property taxes .....	48.22	89.03	70.36	47.16	54.00	60.42	54.60	25.84
Nonproperty taxes .....	17.55	52.04	25.92	17.54	17.41	11.10	11.68	6.86
General sales and gross receipts .....	7.26	33.22	5.17	3.11	3.95	3.59	3.52	1.59
Selected sales and gross receipts .....	3.92	6.41	7.66	5.74	7.04	3.07	2.88	2.14
Other taxes, including licenses .....	6.37	12.41	13.09	8.69	6.42	4.44	5.28	3.13
Total .....	65.78	141.07	96.28	64.72	71.41	71.52	66.27	32.70
3. PERCENTAGE DISTRIBUTION								
Property taxes .....	73.3	63.1	73.1	72.9	75.6	84.5	82.4	79.0
Nonproperty taxes .....	26.7	36.9	26.9	27.1	24.4	15.5	17.6	21.0
General sales and gross receipts .....	11.0	23.5	5.4	4.8	5.5	5.0	5.3	4.9
Selected sales and gross receipts .....	6.0	4.6	7.9	8.9	9.9	4.3	4.3	6.5
Other taxes, including licenses .....	9.7	8.8	13.6	13.4	9.0	6.2	8.0	9.6
Total .....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: U.S. Bureau of the Census, *Compendium of City Government Finances in 1962, 1963*.

with 1960 populations of 250,000 or more are shown in table 24. Philadelphia, Washington, St. Louis, New Orleans, Kansas City, 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 five cities with populations in excess of 1 million. Detroit was the conspicuous exception in fiscal 1962, but it now has a local income tax. The uniformity is less apparent among the

smaller cities. There are striking variations even among cities within the same State. While Cincinnati raised 47.8 percent, Columbus 74.1 percent, Toledo 60.8 percent, and Dayton 49.3 percent from these sources, the percentage for Cleveland was only 4.7 and for Akron 7.4. The percentages for San Francisco and Los Angeles were 18.6 and 41.8, respectively; for Pittsburgh and Philadelphia, 32.5 and 53.6, respectively. In some States, however, the large cities made approximately

TABLE 24.—Tax Collections of the 51 Largest Cities, 1962  
(Dollar amounts in thousands)

City	Tax collections			Nonproperty as a percent of total taxes
	Total	Property	Nonproperty	
CITIES HAVING MORE THAN 1,000,000 INHABITANTS IN 1960				
New York .....	\$1,711,085	\$1,085,000	\$626,085	36.6
Chicago .....	256,375	155,500	100,875	39.3
Los Angeles .....	171,086	99,650	71,436	41.8
Philadelphia .....	202,427	98,950	108,477	53.6
Detroit .....	125,510	122,500	3,010	2.4
Total .....	2,466,483	1,556,600	909,883	36.9
CITIES HAVING 500,000 TO 1,000,000 INHABITANTS IN 1960				
Baltimore .....	121,568	108,500	13,068	10.7
Houston .....	55,317	48,650	6,667	12.1
Cleveland .....	50,837	48,450	2,387	4.7
Washington, D.C. ....	182,950	67,750	115,200	63.0
St. Louis .....	71,447	28,950	42,497	59.5
San Francisco .....	113,183	92,150	21,033	18.6
Milwaukee .....	59,399	48,550	1,849	3.7
Boston .....	149,382	146,500	2,882	1.9
Dallas .....	44,120	38,150	5,970	13.5
New Orleans .....	32,419	15,650	16,769	51.7
Pittsburgh .....	44,805	30,250	14,555	32.5
San Antonio .....	17,799	16,650	1,149	6.5
San Diego .....	27,096	16,950	10,146	37.4
Seattle .....	29,998	16,650	13,348	44.5
Buffalo .....	53,330	49,350	3,980	7.5
Cincinnati .....	39,754	20,750	19,004	47.8
Honolulu .....	33,721	23,350	10,371	31.2
Total .....	1,118,125	817,250	300,875	26.9
CITIES HAVING 250,000 TO 500,000 INHABITANTS IN 1960				
Memphis .....	24,451	17,150	7,301	29.9
Denver .....	36,223	21,750	14,473	40.0
Atlanta .....	23,100	14,550	8,550	24.0
Minneapolis .....	35,621	32,850	2,771	7.8
Indianapolis .....	26,632	26,350	282	1.1
Kansas City, Mo. ....	30,305	15,150	15,155	50.0
Columbus .....	19,900	5,155	14,745	74.1
Phoenix .....	16,103	10,050	6,053	37.6
Newark .....	73,476	64,350	9,126	12.3
Louisville .....	22,820	10,250	12,570	55.1
Portland, Oreg. ....	21,550	17,650	3,900	18.1
Oakland .....	27,419	18,550	8,869	32.3
Fort Worth .....	16,072	14,650	1,422	8.8
Long Beach .....	15,975	9,305	6,670	41.8
Birmingham .....	11,176	5,995	5,181	46.4
Oklahoma City .....	7,492	5,745	1,747	23.3
Rochester .....	34,109	32,850	1,259	3.7
Toledo .....	15,966	6,265	9,701	60.8
St. Paul .....	37,705	34,550	3,155	8.4
Norfolk .....	25,184	15,850	9,334	37.1
Omaha .....	14,885	11,550	3,335	22.4
Miami .....	25,536	17,750	7,786	30.5
Akron .....	10,274	9,515	759	7.4
El Paso .....	14,947	13,150	1,797	12.0
Jersey City .....	48,524	44,650	3,874	8.0
Tampa .....	15,034	8,185	6,849	45.6
Dayton .....	17,186	8,715	8,471	49.3
Tulsa .....	5,960	4,745	1,215	20.4
Wichita .....	9,776	8,305	1,471	15.0
Total .....	683,401	505,580	177,821	26.0
Total, 51 Cities .....	4,268,009	2,879,430	1,388,579	32.5

Source: U.S. Bureau of the Census, *Compendium of City Government Finances in 1962, 1963.*

equal use of these sources: Minneapolis and St. Paul, 7.8 percent and 8.4 percent; Kansas City and St. Louis, 50.0 percent and 59.5 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. However, the data for county areas assembled in connection with the 1957 *Census of Governments* confirms the urban character of local non-property taxes.

Local governments employ a variety of nonproperty taxes. 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 1962 the motor fuels, alcoholic beverages, and tobacco products taxes yielded local governments only \$125 mil-

lion in the aggregate (compared with over \$5 billion at the State level). Excluded from the tabulation of local tax revenues are the profits of proprietary enterprises, such as liquor stores and public utilities, which are closely akin to consumer taxes.

*Tax Revenue of Local Governments,  
by Type of Tax, 1962*

(Dollar amounts in millions)

Type of tax	Amount	Percent
Property .....	\$18,416	87.9
Sales and gross receipts .....	1,472	7.0
General .....	974	4.6
Selective .....	498	2.4
Motor fuels .....	37	.2
Alcoholic beverages .....	25	.1
Tobacco products .....	63	.3
Public utilities .....	310	1.5
Other and unallocable .....	64	.3
Income taxes .....	308	1.5
Motor vehicle and operators' licenses .....	123	.6
All other (mainly business licenses) .....	643	3.1
Total .....	20,963	100.0

## Chapter 5

### INTERSTATE VARIATIONS IN STATE AND LOCAL TAX SYSTEMS

The foregoing account of the development of State and local taxation obscures some important interstate variations. The extent of these variations is partially indicated in table 25, which shows the distribution of State and local tax collections, by major sources, for each of the States in the fiscal year 1962. The frequency distribution of percentages of tax revenues obtained from various types of taxes is shown in table 26.

For the Nation as a whole, the property tax is by far the most important revenue producer, accounting for almost half of all State and local tax collections. However, individual States differ considerably in the degree of their dependence on this source to finance their State and local government services—from 16 percent of State-local tax collections in Hawaii to 70 percent in Nebraska. General sales taxes, imposed by State and/or local governments in 39 States and the District of Columbia, provide about one-seventh of all State and local taxes, ranging from less than 10 percent in 3 States to more than 35 percent in Hawaii. Among the selective sales taxes, those on motor fuels are the most significant, providing almost one-tenth of all State and local tax collections, with much less interstate variation than is evident in the use of property or general sales taxes.

Individual and corporation income taxes together account for about 10 percent of State and local tax revenue. In 12 of the

34 States that levy both individual and corporate income taxes, the combined yield provides less than 10 percent of State and local tax revenues, and in one (Delaware) income taxes account for 37 percent of the total. Of the 8 States with income tax yields of 20 percent or more, 5 levy no State general sales taxes, and one (Wisconsin) had just enacted a general sales tax at the end of 1961, so that the fiscal year 1962 data include only a partial year's collections. The other 2 States (Hawaii and North Carolina) that impose general sales taxes as well as individual and corporate income taxes are among those that rely least upon property taxes.

The distribution of responsibility between the States and their subdivisions for performing and financing governmental functions varies widely. Table 27 shows the relative proportion of State-local taxes collected by the several State governments in 1962. The proportion ranges from more than 75 percent in Delaware and Hawaii to 29 percent in New Jersey. Seven States collect 70 percent or more of the total; five States collect less than 40 percent. The State's share is generally highest in the South.

Table 27 reflects also the substantial interstate variation in the weight of combined State and local taxation. In 1962 per capita collections ranged from \$132 in Alabama to \$309 in New York. Six States, all Southern, collected less than \$150 per



capita. Four more Southern or border States collected less than \$175. Nine States collected \$250 or more per capita. The nine are chiefly heavily industrialized States, but some of the industrial States are not in the group.

There is also considerable variation among the States in the relationship of tax collections to personal income. The range, however, is less marked. Taxes amounted to more than 11 percent of personal income in Louisiana, Minnesota, Mississippi, and Vermont. They were 8 percent or less in Alaska, Delaware, Missouri, Nebraska, 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 non-residents, either directly or indirectly, in the cost of goods exported by the collecting (producing) States. 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 "imported" and "exported" taxes are not available.

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

### *Interstate Variations in Tax Use*

The tax collection figures discussed in the foregoing section give some indication of the varying extent to which the States and their local governments rely on different tax sources. Together with the detailed information in subsequent chapters on statutory tax rates and definitions of tax bases, they document the tax experience of the States and provide tax policymakers with a partial basis for comparing their own State's experience with that of others.

The hard decisions on which tax policy is based are made in terms of increasing the rates or broadening the base of existing taxes or of introducing a new tax. Should the general sales tax rate be increased? Should services be taxed? This is the kind of question that confronts policymaking officials and that leads them to assess their own tax loads and effective tax rates relative to those of their neighboring and competitor States. For this purpose they need still another set of facts; namely, interstate differences in effective rates paid by taxpayers on property, income, consumption, and business activity in consequence of the combination of tax law provisions. The differential impact of the quality of tax enforcement, while also germane, cannot now be quantified.

It is possible to gain some understanding of differences among States in their use of the individual tax sources by relating the tax collections to a standard base. More particularly, it is possible to measure the relative use of the tax bases by defining them in a uniform way and then examining the information on tax collections by source in relation to these uniform bases. Such an effort was undertaken in this Commission's staff report on *Measures of State and Local Fiscal Capacity and Tax Effort*, issued in 1962, and described in

TABLE 25.—State and Local Tax Collections, by Source, by State, 1962

(in millions of dollars)

State	Total (excluding employment taxes)	Property taxes	Sales and gross receipts taxes							Income taxes		Death and gift (State only)	Motor vehicle and operators' licenses	All other taxes <sup>a</sup>	
			Total	General <sup>1</sup>	Motor fuel	Alcoholic beverages	Tobacco	Public utilities	Other <sup>2</sup>	Individual	Corporation (State only)				
1. AMOUNT															
Alabama.....	436.7	88.8	255.5	111.3	85.0	21.2	22.5	22.5	5.2	10.3	30.7	9.6	0.7	9.8	41.5
Alaska.....	51.9	11.5	14.7	3.7	5.6	2.5	1.9	1.9	(*)	1.0	12.2	1.8	.1	2.7	8.9
Arizona.....	331.4	161.4	130.8	83.3	28.4	4.2	4.0	4.5	4.5	6.4	14.5	5.6	.9	11.4	7.0
Arkansas.....	257.5	74.5	127.3	60.7	42.1	6.3	10.0	1.6	1.6	6.6	12.2	10.3	.7	16.6	15.7
California.....	5,171.4	2,604.1	1,636.3	999.0	364.0	55.9	63.2	28.4	28.4	125.8	298.9	290.8	76.0	145.2	120.2
Colorado.....	483.0	234.3	128.1	66.4	40.4	7.1	1.8	3.3	3.3	9.1	57.2	20.3	6.0	19.0	18.0
Connecticut.....	674.9	357.3	227.7	97.8	48.9	14.8	18.8	27.3	20.1	20.1	38.5	38.5	23.0	16.7	11.6
Delaware.....	112.8	23.6	21.6	.....	10.3	2.0	3.4	.1	5.8	34.6	7.3	7.3	3.4	4.8	17.5
Dist. of Columbia.....	183.0	67.7	61.8	25.7	11.9	6.2	3.4	6.0	8.6	4 38.0	(*)	.....	.....	7.0	8.5
Florida.....	1,075.2	449.3	476.9	181.7	132.1	49.8	31.5	39.9	41.9	.....	.....	.....	6.3	64.2	78.5
Georgia.....	622.4	196.3	313.1	157.3	89.6	27.5	21.3	3.1	14.3	43.6	24.9	24.9	1.6	20.6	22.1
Hawaii.....	173.8	27.8	98.2	65.9	17.0	3.5	2.4	6.9	2.5	30.4	7.3	7.3	1.1	4.6	4.3
Idaho.....	134.0	63.9	24.1	.....	14.8	1.8	3.2	1.0	3.3	21.6	5.2	5.2	.6	11.4	7.2
Illinois.....	2,441.1	1,297.7	915.4	524.8	149.9	41.4	34.9	88.7	55.7	.....	.....	.....	31.7	139.8	56.4
Indiana.....	947.2	531.5	351.5	5 204.5	105.4	14.1	.....	6 17.7	.....	9.8	.....	.....	7.2	39.8	17.2
Iowa.....	639.2	362.0	167.3	83.5	59.0	3.3	12.0	.8	8.7	41.6	4.5	4.5	8.2	47.2	8.4
Kansas.....	516.6	289.2	148.1	79.8	42.8	6.0	9.5	3.3	6.7	27.1	9.0	9.0	5.2	24.8	13.1
Kentucky.....	463.3	140.0	206.1	96.9	64.8	17.0	8.8	.2	18.4	59.9	21.0	21.0	5.9	15.0	15.5
Louisiana.....	654.2	147.6	256.4	109.0	66.4	23.4	27.9	10.9	18.8	18.8	23.3	23.3	5.0	13.9	189.2
Maine.....	72.0	115.2	72.0	29.5	23.4	3.3	8.1	4.0	3.7	.....	.....	.....	3.7	10.3	6.2
Maryland.....	713.9	298.2	236.4	91.0	60.7	9.8	22.9	20.3	31.7	99.3	19.8	19.8	6.4	29.9	23.9
Massachusetts.....	1,404.0	843.5	189.6	.....	81.9	27.8	42.5	.....	37.4	178.0	7 33.0	33.0	21.1	24.9	7 113.8
Michigan.....	1,899.2	938.8	709.1	460.5	152.6	14.0	51.7	.....	30.3	.....	.....	.....	14.5	77.1	159.7
Minnesota.....	867.0	475.5	140.7	.....	59.8	19.6	25.2	25.1	11.0	122.8	35.0	35.0	9.0	45.1	39.0
Mississippi.....	316.7	94.5	162.7	87.5	48.7	5.2	11.9	1.3	8.1	8.1	13.1	13.1	1.2	13.3	23.9
Missouri.....	808.6	343.7	268.7	128.4	71.7	8.6	27.2	18.6	14.2	93.2	12.0	12.0	6.7	47.9	36.5
Montana.....	161.6	91.5	31.9	.....	18.1	4.0	6.2	1.3	2.3	14.2	4.5	4.5	2.1	8.6	8.7
Nebraska.....	266.4	187.3	53.3	.....	39.5	3.2	6.5	1.3	2.8	.....	.....	.....	.4	14.1	11.3
Nevada.....	95.5	31.2	43.4	15.2	9.7	2.2	4.3	.2	11.8	.....	.....	.....	.....	7.4	13.6
New Hampshire.....	123.5	78.2	28.3	.....	14.2	1.1	4.7	.6	7.7	1.7	.....	.....	2.8	7.4	5.1
New Jersey.....	1,491.6	966.8	325.7	.....	122.5	23.5	59.4	69.0	51.2	6.5	25.3	25.3	24.1	77.9	65.3
New Mexico.....	186.5	46.8	85.3	43.9	27.3	2.2	7.0	1.6	3.3	4 12.8	(4)	12.8	.5	12.2	28.9
New York.....	5,407.7	2,374.4	1,313.4	567.4	231.9	60.8	149.7	112.9	190.7	989.8	298.8	298.8	81.7	154.2	195.5
North Carolina.....	739.6	206.8	302.4	131.2	107.8	21.2	.....	27.5	14.7	95.5	36.8	36.8	7.8	35.0	35.3
North Dakota.....	137.2	73.5	36.0	14.8	12.2	3.1	3.7	.1	2.1	6.5	1.8	1.8	.3	11.1	8.0
Ohio.....	1,992.7	1,037.8	670.1	262.8	220.3	37.4	63.0	45.0	41.6	73.2	.....	.....	11.6	100.6	99.4
Oklahoma.....	456.2	141.3	174.7	60.4	62.6	12.1	20.3	3.6	15.7	29.2	14.6	14.6	7.3	41.3	48.0
Oregon.....	415.6	196.0	50.9	.....	38.8	1.5	.....	3.0	7.6	90.5	21.5	21.5	8.1	33.1	15.6
Pennsylvania.....	2,360.0	840.9	843.4	409.5	233.8	50.2	84.5	24.6	40.8	151.0	148.9	148.9	57.3	85.3	233.2
Rhode Island.....	191.2	92.8	71.8	26.7	17.9	3.4	7.3	5.4	11.1	.....	9.5	9.5	3.0	9.8	4.6
South Carolina.....	333.6	82.9	175.5	73.8	53.3	18.0	12.1	5.1	13.2	29.3	18.0	18.0	1.6	10.2	16.0
South Dakota.....	148.9	86.3	45.4	17.3	15.7	2.9	3.6	.1	5.8	.....	.5	.5	.9	10.8	5.1
Tennessee.....	526.9	175.7	245.2	112.6	80.5	16.4	20.2	4.1	11.4	6.5	21.5	21.5	6.7	35.1	36.3
Texas.....	1,856.6	845.1	592.6	148.7	198.2	38.1	94.7	41.2	71.7	.....	.....	.....	6.7	126.3	275.0
Utah.....	205.0	88.7	71.3	41.5	22.0	1.0	2.4	.9	3.5	16.9	7.1	7.1	1.4	7.6	12.0

Vermont.....	89.7	39.5	22.3	.....	9.3	4.4	3.7	1.4	3.5	12.8	2.5	1.2	8.1	3.5
Virginia.....	623.2	224.3	182.9	.....	93.8	22.3	16.0	37.2	13.6	91.6	30.3	5.2	36.0	52.9
Washington.....	760.1	235.9	388.1	1 218.6	75.0	19.5	21.4	29.3	24.3	.....	.....	10.3	28.4	97.5
West Virginia.....	306.5	83.5	115.3	1 43.9	35.5	3.7	11.6	.6	20.0	21.0	.....	2.7	14.2	69.9
Wisconsin.....	979.4	547.1	154.0	13.9	75.9	15.6	25.8	12.4	10.4	144.4	53.8	14.9	44.4	20.7
Wyoming.....	81.8	43.8	24.9	12.4	8.7	.6	1.7	.3	1.2	.....	.....	.4	8.0	4.6
Total.....	41,523.3	19,056.0	13,387.7	1 5,963.0	3,701.7	764.8	1,137.2	729.2	1,092.0	3,036.3	1,307.6	516.3	1,790.1	2,429.6

2. PERCENTAGE DISTRIBUTION

Alabama.....	100.0	20.3	38.5	25.5	19.5	4.9	5.2	1.2	2.4	7.0	2.2	.2	2.2	9.5
Alaska.....	100.0	22.2	28.3	7.1	10.8	4.8	3.7	(**)	1.9	23.5	3.5	.2	5.2	17.1
Arizona.....	100.0	48.7	39.5	25.1	8.6	1.3	1.2	1.4	1.9	4.4	1.7	.3	3.4	2.1
Arkansas.....	100.0	28.9	49.4	23.6	16.3	2.4	3.9	.5	2.6	4.7	4.0	.3	6.4	6.1
California.....	100.0	50.4	31.6	19.3	7.0	1.1	1.2	.5	2.4	5.8	5.6	1.5	2.8	2.3
Colorado.....	100.0	48.5	26.5	13.7	8.4	1.5	4	7	1.9	11.8	4.2	1.2	3.9	3.7
Connecticut.....	100.0	52.9	33.7	14.5	7.2	2.2	2.8	4.0	3.1	.....	5.7	3.4	2.5	1.7
Delaware.....	100.0	20.9	19.1	.....	9.1	1.8	3.0	.....	2.1	30.7	6.5	3.0	4.3	15.5
District of Columbia.....	100.0	37.0	33.8	14.0	6.5	3.4	1.9	3.3	4.7	4 20.8	(*)	.....	3.8	4.6
Florida.....	100.0	41.8	44.4	16.9	12.3	4.6	2.9	3.7	3.9	.....	.....	.6	6.0	7.3
Georgia.....	100.0	31.5	50.3	25.3	14.4	4.4	3.4	.5	2.3	7.0	4.0	.3	3.3	3.6
Hawaii.....	100.0	16.0	56.5	37.9	9.8	2.0	1.4	4.0	1.4	17.5	4.2	.6	2.6	2.5
Idaho.....	100.0	47.7	18.0	.....	11.0	1.5	2.4	1.7	2.5	16.1	5.9	.4	8.5	5.4
Illinois.....	100.0	53.2	37.5	21.2	6.1	1.7	2.2	3.6	2.3	.....	.....	1.3	5.7	2.3
Indiana.....	100.0	56.1	37.1	8 21.6	11.1	1.5	6 1.9	.....	1.0	.....	.....	.8	4.2	1.8
Iowa.....	100.0	56.6	26.2	13.1	9.2	0.5	1.9	.1	1.4	6.5	7	1.3	7.4	1.3
Kansas.....	100.0	56.0	28.7	15.4	8.3	1.2	1.8	.6	1.3	5.2	1.7	1.0	4.8	2.5
Kentucky.....	100.0	30.2	44.5	20.9	14.0	3.7	1.9	(**)	4.0	12.9	4.5	1.3	3.2	3.3
Louisiana.....	100.0	22.6	39.2	16.7	10.1	3.6	4.3	1.7	2.9	2.9	3.6	.8	2.1	28.9
Maine.....	100.0	55.6	34.7	14.2	11.3	1.6	3.9	1.9	1.8	.....	.....	1.8	5.0	3.0
Maryland.....	100.0	41.8	33.1	12.7	8.5	1.4	3.2	2.8	4.4	13.9	2.8	.9	4.2	3.3
Massachusetts.....	100.0	60.1	13.5	.....	5.8	2.0	3.0	.....	2.7	12.7	2.4	1.5	1.8	78.1
Michigan.....	100.0	49.4	37.3	24.2	8.0	.7	2.7	.....	1.6	.....	.....	.8	4.1	8.4
Minnesota.....	100.0	54.8	16.2	.....	6.9	2.3	2.9	2.9	1.3	14.2	4.0	1.0	5.2	4.5
Mississippi.....	100.0	29.8	51.4	27.6	15.4	1.6	3.8	.4	2.6	.....	4.1	.4	4.2	7.5
Missouri.....	100.0	42.5	33.2	15.9	8.9	1.1	3.4	2.3	1.8	11.5	1.5	.8	5.9	4.5
Montana.....	100.0	56.6	19.7	.....	11.2	2.5	3.8	.8	1.4	8.8	2.8	1.3	5.3	5.4
Nebraska.....	100.0	70.3	20.0	.....	14.8	1.2	2.4	.5	1.1	.....	.....	.2	4.2	4.2
Nevada.....	100.0	32.7	45.4	15.9	10.2	2.3	4.5	.2	12.4	.....	.....	.....	7.7	14.2
New Hampshire.....	100.0	63.3	22.9	.....	11.5	.9	3.8	.5	6.2	1.4	.....	.....	6.0	4.1

See footnotes at end of table.

TABLE 25.—State and Local Tax Collections, by Source, by State, 1962—Concluded

State	Total (excluding employment taxes)	Property taxes	Sales and gross receipts taxes							Income taxes		Death and gift taxes (State only)	Motor vehicle and operators' licenses	All other taxes <sup>3</sup>
			Total	General <sup>1</sup>	Motor fuel	Alcoholic beverages	Tobacco	Public utilities	Other <sup>2</sup>	Individual	Corporation (State only)			
New Jersey.....	100.0	64.8	21.8	.....	8.2	1.6	4.0	4.6	3.4	.....	1.7	1.6	5.2	4.4
New Mexico.....	100.0	25.1	45.7	23.5	14.6	1.2	3.8	.9	1.8	4 6.9	(4)	.3	6.5	15.5
New York.....	100.0	43.9	24.3	10.5	4.3	1.1	2.8	2.1	3.5	18.3	5.5	1.5	2.9	3.6
North Carolina.....	100.0	28.0	40.9	17.7	14.6	2.9	.....	3.7	2.0	12.9	7.7	1.1	4.7	4.8
North Dakota.....	100.0	53.6	26.2	10.8	8.9	2.3	2.7	.1	1.5	4.7	1.3	.2	8.1	5.8
Ohio.....	100.0	52.1	33.6	13.2	11.1	1.9	3.2	2.3	2.1	3.7	.....	.6	5.0	5.0
Oklahoma.....	100.0	31.0	38.3	13.2	13.7	2.7	4.4	.8	3.4	6.4	3.2	1.6	9.1	10.5
Oregon.....	100.0	47.2	12.2	.....	9.3	.4	.....	.7	1.8	21.8	5.2	1.9	8.0	3.8
Pennsylvania.....	100.0	35.6	35.7	17.4	9.9	2.1	3.6	1.0	1.7	6.4	6.3	2.4	3.6	9.9
Rhode Island.....	100.0	48.5	37.6	14.0	9.4	1.8	3.8	2.8	5.8	.....	5.0	1.6	5.1	2.4
South Carolina.....	100.0	24.9	52.6	22.1	16.0	5.4	3.6	1.5	4.0	8.8	5.4	.5	3.1	4.8
South Dakota.....	100.0	58.0	30.5	11.6	10.5	1.9	2.4	.1	3.9	.....	.3	.6	7.3	3.4
Tennessee.....	100.0	33.3	46.5	21.4	15.3	3.1	3.8	.8	2.2	1.2	4.1	1.3	6.7	6.9
Texas.....	100.0	45.5	31.9	8.0	10.7	2.1	5.1	2.2	3.9	.....	.....	1.0	6.8	14.8
Utah.....	100.0	43.3	34.8	20.2	10.7	.5	1.2	.4	1.7	8.2	3.5	.7	3.7	5.9
Vermont.....	100.0	44.0	24.9	.....	10.4	4.9	4.1	1.6	3.9	14.3	2.8	1.3	9.0	3.9
Virginia.....	100.0	36.0	29.3	.....	15.1	3.6	2.6	6.0	2.2	14.7	4.9	.8	5.8	8.5
Washington.....	100.0	31.0	51.1	28.8	9.9	2.6	2.8	3.9	3.2	.....	.....	1.4	3.7	12.8
West Virginia.....	100.0	27.2	37.6	14.3	11.6	1.2	3.8	.2	6.5	6.9	.....	.9	4.6	22.8
Wisconsin.....	100.0	55.9	15.7	1.4	7.7	1.6	2.6	1.3	1.1	14.7	5.5	1.5	4.5	2.1
Wyoming.....	100.0	53.5	30.4	15.2	10.6	.7	2.1	.4	1.5	.....	.....	.5	9.8	5.6
Total.....	100.0	45.9	32.2	14.4	8.9	1.8	2.7	1.8	2.6	7.3	3.1	1.2	4.3	5.9

Note.—Local data are preliminary.

\* Less than \$50,000.

\*\* Less than 0.05%.

<sup>1</sup> Excludes collections from the Washington and West Virginia business and occupation taxes (\$69 million and \$54 million, respectively, included in "all other taxes"), 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 chap. 7.

<sup>2</sup> Important among the sources of State revenue included here are insurance and pari-mutuel taxes.

<sup>3</sup> The significant taxes included in "All other taxes" are State document and stock transfer taxes, State severance taxes, and State and local license revenues.

<sup>4</sup> Combined corporation and individual income taxes for the District of Columbia and New Mexico are tabulated with individual income taxes.

<sup>5</sup> Includes the entire yield of the gross income tax, which applies to all types of business and personal income.

<sup>6</sup> Includes related license taxes.

<sup>7</sup> "All other taxes" includes \$76 million corporation taxes, measured in part by net income and in part by corporate excess.

Source: U.S. Bureau of the Census, *Compendium of State Government Finances in 1962*, supplemented by preliminary unpublished data for local tax collections.

TABLE 26.—Number of States Using Various Taxes: Distribution According to Percentage of State and Local Tax Revenue Obtained From Each Tax, 1962

Tax	Number of States using tax in 1962 <sup>1</sup>	Distribution of the total according to the percentage of tax revenue obtained from the tax in each State							
		Under 5	5 to 9.9	10 to 19.9	20 to 29.9	30 to 39.9	40 to 49.9	50 to 59.9	60 and over
Property tax .....	51	.....	.....	1	10	19	13	14	4
Sales and gross receipts taxes:									
Total .....	51	.....	.....	7	11	20	7	6	.....
General .....	40	1	2	22	14	1	.....	.....	.....
Motor fuel .....	51	1	22	28	.....	.....	.....	.....	.....
Alcoholic beverages .....	51	50	1	.....	.....	.....	.....	.....	.....
Tobacco .....	49	47	2	.....	.....	.....	.....	.....	.....
Public utilities .....	48	47	1	.....	.....	.....	.....	.....	.....
Other .....	51	46	4	1	.....	.....	.....	.....	.....
Income taxes:									
Total .....	35	1	11	14	18	1	.....	.....	.....
Individual .....	38	9	12	13	13	1	.....	.....	.....
Corporation .....	37	26	11	.....	.....	.....	.....	.....	.....
Death and gift taxes .....	49	49	.....	.....	.....	.....	.....	.....	.....
Motor vehicle and operators' licenses .....	51	25	26	.....	.....	.....	.....	.....	.....
All other taxes .....	51	27	15	7	2	.....	.....	.....	.....

<sup>1</sup> Includes District of Columbia.  
Source: Table 25.

<sup>2</sup> States (and the District of Columbia) with both individual and corporation income taxes.

detail in the later portions of this chapter. The following discussion draws on those findings, based on 1960 data.

The standard applied here for purposes of interstate comparison (described in greater detail below) is that of a representative tax base, that is, a base for each of the taxes as defined by the statutes of the States and localities accounting for more than half of the population of all the States imposing the particular tax. For example, personal property (except for household goods) is included in the property tax base because this is the practice in States with over half of the Nation's population. Food and medicines are excluded from the retail sales tax base because States which exclude them from their sales tax account for over half of the population of the taxing States.

When the base for each tax source is defined in the same way for each State, and State and local tax collections are added together, the effective tax rate differences reflect the combined effects of

differences in the statutory base on which taxes are actually assessed and of variations in statutory rates. Statutory rate variations are not as meaningful as they sometimes appear to be. For example, one State may have a 2-percent general sales tax applicable to all retail sales, including foods and drugs and a wide range of services. Another with a 3-percent rate may apply its retail sales tax narrowly and exempt a broad range of household and business purchases. The effective rate of sales taxation is certainly not half again as high in the second State as in the first. Similarly, property tax rates can be compared among jurisdictions only if property is valued in some uniform way. Assessment practices as well as property tax exemptions are too diverse to permit a meaningful comparison of nominal rates alone.

*Property taxes.*—Variations in property tax rates, which are shown in chapter 6, have a fairly distinctive regional pattern.<sup>1</sup>

<sup>1</sup> See table 40.

TABLE 27.—State and Local Tax Collections, by State, 1962

State	Tax collections							
	Amount (millions)			Percentage collected by State government	Per capita		As a percent of personal income	
	State and local	State	Local		Amount	Rank	Amount	Rank
Alabama.....	\$436.7	\$304.4	\$132.2	69.7	\$131.66	51	8.3	42
Alaska.....	51.9	36.5	15.4	70.3	214.48	26	7.9	46
Arizona.....	331.4	186.9	144.5	56.4	223.05	22	10.5	10
Arkansas.....	257.5	177.3	80.2	68.9	139.77	49	9.4	27
California.....	5,171.4	2,369.4	2,802.0	45.8	303.68	2	10.5	11
Colorado.....	483.0	234.4	248.6	48.5	255.15	6	10.7	7
Connecticut.....	674.9	314.7	360.2	46.6	257.10	5	8.4	41
Delaware.....	112.8	87.9	24.9	77.9	241.56	13	7.8	48
Dist. of Columbia.....	183.0	.....	183.0	.....	231.89	17	7.3	51
Florida.....	1,075.2	563.6	511.6	52.4	197.86	34	9.6	24
Georgia.....	622.4	402.9	219.5	64.7	152.43	44	8.6	37
Hawaii.....	173.8	132.3	41.5	76.1	250.75	8	10.9	5
Idaho.....	134.0	71.9	62.1	53.7	191.37	36	9.9	20
Illinois.....	2,441.1	980.4	1,460.7	40.2	241.74	12	8.5	39
Indiana.....	947.2	420.1	527.0	44.4	203.13	31	8.6	38
Iowa.....	639.2	276.5	362.6	43.3	230.41	20	10.5	12
Kansas.....	516.6	228.3	288.3	44.2	233.21	16	10.6	8
Kentucky.....	463.3	309.3	154.0	66.8	150.21	45	8.8	34
Louisiana.....	654.2	485.3	169.0	74.2	194.07	35	11.5	1
Maine.....	207.3	93.4	114.0	45.1	212.05	28	10.8	6
Maryland.....	713.9	404.0	310.0	56.6	220.83	23	8.3	43
Massachusetts.....	1,404.0	549.7	854.2	39.2	270.62	4	9.8	21
Michigan.....	1,899.2	1,007.5	891.7	53.0	236.54	14	9.8	22
Minnesota.....	867.0	403.4	463.6	46.5	250.51	9	11.2	3
Mississippi.....	316.7	204.6	112.1	64.6	140.07	48	11.0	4
Missouri.....	808.6	392.6	416.1	48.6	187.36	37	7.8	49
Montana.....	161.6	71.8	89.8	44.4	231.86	18	10.3	15
Nebraska.....	266.4	94.8	171.7	35.6	184.24	40	7.9	47
Nevada.....	95.5	56.6	38.9	59.3	272.99	3	8.7	36
New Hampshire.....	123.5	46.3	77.2	37.5	198.56	32	8.9	32
New Jersey.....	1,491.6	431.2	1,060.3	28.9	234.64	15	8.3	44
New Mexico.....	186.5	137.2	49.3	73.6	187.05	38	10.0	18
New York.....	5,407.7	2,328.6	3,079.1	43.1	309.05	1	10.6	9
North Carolina.....	739.6	539.1	200.5	72.9	157.23	43	9.0	31
North Dakota.....	137.2	63.7	73.4	46.4	216.68	25	9.4	28
Ohio.....	1,992.7	891.7	1,101.0	44.7	198.52	33	8.2	45
Oklahoma.....	456.2	307.9	148.3	67.5	186.35	39	9.8	23
Oregon.....	415.6	212.7	202.9	51.2	229.98	21	9.6	25
Pennsylvania.....	2,360.0	1,258.3	1,101.7	53.3	207.35	29	8.8	35
Rhode Island.....	191.2	96.8	94.4	50.6	217.81	24	9.3	29
South Carolina.....	333.6	245.5	88.1	73.6	136.26	50	8.9	33
South Dakota.....	148.9	56.8	92.1	38.1	206.50	30	10.0	19
Tennessee.....	526.9	329.1	197.9	62.5	144.29	47	8.5	40
Texas.....	1,856.6	991.5	865.1	53.4	183.42	41	9.1	30
Utah.....	205.0	115.9	89.1	56.5	214.00	27	10.2	16
Vermont.....	89.7	49.7	40.0	55.4	231.79	19	11.5	2
Virginia.....	623.2	359.6	263.6	57.7	146.70	46	7.4	50
Washington.....	760.1	522.6	237.6	68.8	252.54	7	10.2	17
West Virginia.....	306.5	212.7	93.8	69.4	170.68	42	9.5	26
Wisconsin.....	979.4	459.7	519.8	46.9	243.70	11	10.5	13
Wyoming.....	81.8	44.0	37.8	53.8	246.45	10	10.4	14
Total.....	41,523.3	20,561.1	20,962.5	49.5	223.46	x x	9.4	x x

 Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963.

In 1960 effective rates for the New England region averaged over 2 percent, with the highest rate, 2.4 percent, in Maine and in Massachusetts. The average rate in the Mideast was 1.8 percent, with a range from 2.3 percent in New Jersey to Delaware's 0.7 percent. In the Southwest and Southeast the effective rate averaged 1 percent or less.

An analysis of effective rates, computed as the percentage relationship between property tax collections and property values, with property defined uniformly as the market value of land, structures, equipment, and inventories (exclusive of public utilities and motor vehicles), shows that there is considerable variation in the intensity of property tax use even within geographical regions of the country. Within each region some States could add to their property tax take without raising effective rates above that of the regional average. While the relative use of property taxes as measured by these effective rates provides an indication of the as yet untapped property tax potential of the States, policy decisions as to the tax depend upon many political, economic, and social factors. Differentials in effective property tax rates provide only a kind of technical guideline for policy determination. If property in all of the States were taxed at a rate comparable to the average effective rate of the Southeastern and Southwestern States, collections would be reduced over 30 percent. In contrast, if all States taxed at the average effective rate in New England, property tax yields would be increased by about 50 percent.

It must be borne in mind that variations—both among regions and within them—reflect differences in the willingness of citizens in each State to tax themselves for local public services and the accommodation of property taxation to economic and

political forces. Since part of the property base represents business property and taxes paid on it are “exported” out of the taxing community or out of the State, the people's willingness to pay taxes is perhaps reflected more adequately by comparing effective property tax rates on dwellings (either single-family or all residential) than by comparing the taxes on all property. In 1957 the effective property tax rate on single-family dwellings averaged 1.3 percent in the Nation but showed the same distinctive regional pattern as taxes on all kinds of property. The New England region, led by Massachusetts, showed the highest rates. Effective rates in the South were low, ranging down to 0.4 percent in West Virginia and South Carolina.<sup>2</sup>

The variations in aggregate property tax rates and in rates on single-family dwellings suggest some accommodation of property tax practices to income available for tax payments and to other aspects of the State's economy. Effective property tax rates are relatively high in the industrial States in New England and the Mideast, where the ratios of taxable property values to income are relatively low; they tend to be low in the Rocky Mountain and Southwestern mining and farming States, where the ratio of the value of taxable property to income is high and the size of the income flows serves to limit property taxation.

*General sales taxes.*—While effective rate variations in property taxation reflect primarily local tax decisions, the variations among States in general sales and selective sales taxation develop largely out of differences in State tax policies. Effective general sales tax rates are substantially below one-half of 1 percent in those States where the State government itself does not im-

<sup>2</sup> Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962, p. 131.

pose a general sales tax; they range above 5 percent in States which rely heavily on general sales taxation.

Some form of general sales tax was included in the tax structure of 37 States and the District of Columbia in the fiscal year 1960 (including 3 States—Alaska, New York, and Virginia—with local sales taxes only). As indicated in chapter 7, Kentucky, Texas, and Wisconsin have introduced a State general sales tax since then.

Most of the taxing States confine their tax base to retail sales, although some include also the sales of wholesalers, extractive industries, and manufacturers, usually at a lower rate. Indiana's gross income tax as of 1960 included taxes on sales, as well as on wages and salaries.<sup>3</sup> In the States where more than half the population lives, foods and medicines are exempt from the sales tax (except that restaurant meals are generally subject to tax). Feed and fertilizer are likewise exempt in States with over half the population. Accordingly, the uniformly defined base on which effective rates are computed is assumed to include all retail sales except of food, medicine, and feed and fertilizer.

It should be noted, furthermore, that the sales tax States generally apply their sales levies to industrial machinery, tools and equipment, office equipment, and supplies sold to businesses for "final consumption." In part such sales are included in retail sales, as reported by the *Census of Business*, but other sales of this type are excluded since they represent sales made directly by wholesale and manufacturing firms. Equipment purchases of manufacturers and construction equipment purchases were added to retail sales in each State in computing the standard base in

<sup>3</sup> The Indiana gross income tax was partly converted in 1963 to a retail sales tax and flat rate individual and corporation net income taxes.

order to take account of these final consumption purchases made by business firms.

The only service industries taxed by States in which half the people live are hotels and similar operations. Accordingly, hotel, motel, and other lodging place receipts, as reported in the *Census of Business*, are included in the uniformly defined sales tax base.

As table 28 shows, the large geographic concentration of States with relatively high effective general sales taxes in 1960 was in the South, where the nominal retail sales tax rate of State levies on taxable sales was generally 3 percent, with foods and medicines taxed. Ten of the 16 Southern States had effective general sales tax rates above the United States average in 1960, and three imposed no sales tax. Thus, of the 13 taxing States in the South only three had effective rates below the United States average, and of the three additional States—those not imposing a general State sales tax in 1960—two have since added the tax.

In the New England and the Mideast States, by way of contrast, effective sales tax rates were about a fifth below the United States average. Six of the 11 States in these regions did not impose a State general sales tax, and all of the remaining States and the District of Columbia which did tax had an effective rate below the United States average. The Midwest showed somewhat greater diversity than the Eastern seaboard in general sales tax use. Two of the largest States in the Midwest had rates 10 to 25 percent above the United States average; one other had a rate at about the United States average and in 6 States effective rates varied from 8 percent to 40 percent below the average for the Nation.

In broad outline there appears to be considerable uniformity in rates among



TABLE 28.—Effective Rates of General Sales Taxes and Taxes on Tobacco Products, by State, 1960

State and Region	General sales		Tobacco products	
	Effective rates <sup>1</sup> (percent)	Rates as a percent of U.S. average	Effective rates <sup>2</sup> (cents)	Rates as a percent of U.S. average
New England.....	3.03	81	4.62	100
Maine.....	3.16	85	5.09	110
New Hampshire.....	( <sup>3</sup> )	.....	3.20	69
Vermont.....	( <sup>3</sup> )	.....	5.95	129
<b>Massachusetts</b> .....	( <sup>3</sup> )	.....	5.68	123
Rhode Island.....	3.21	86	4.91	106
Connecticut.....	2.93	79	2.80	61
Mideast.....	2.97	80	5.08	110
New York.....	<sup>4</sup> 2.99	80	5.74	124
New Jersey.....	( <sup>3</sup> )	.....	4.77	103
Pennsylvania.....	3.13	84	4.67	101
Delaware.....	( <sup>3</sup> )	.....	2.72	59
Maryland.....	2.72	73	4.64	100
District of Columbia.....	1.91	51	1.99	43
Great Lakes.....	3.68	99	4.32	94
Michigan.....	4.65	125	5.50	119
Ohio.....	2.75	74	4.83	105
Indiana.....	4.09	110	2.79	60
Illinois.....	3.65	98	3.58	77
Wisconsin.....	( <sup>3</sup> )	.....	4.65	101
Plains.....	2.78	75	3.89	84
Minnesota.....	( <sup>3</sup> )	.....	5.60	121
Iowa.....	2.79	75	3.61	78
Missouri.....	2.61	70	2.71	59
North Dakota.....	2.24	60	6.39	138
South Dakota.....	2.32	62	4.24	92
Nebraska.....	( <sup>3</sup> )	.....	3.68	80
Kansas.....	3.44	92	3.85	83
Southeast.....	3.53	95	4.59	99
Virginia.....	<sup>4</sup> 4.03	1	<sup>5</sup> 4.1	9
West Virginia.....	<sup>6</sup> 5.81	156	5.06	110
Kentucky.....	( <sup>3</sup> )	.....	2.81	61
Tennessee.....	3.77	101	4.98	108
North Carolina.....	2.58	69	( <sup>3</sup> )	.....
South Carolina.....	4.47	120	5.22	113
Georgia.....	4.71	127	4.88	106
Florida.....	3.17	85	4.67	101
Alabama.....	4.47	120	6.87	149
Mississippi.....	5.95	160	5.96	129
Louisiana.....	4.07	109	7.73	167
Arkansas.....	4.23	114	5.51	119
Southwest.....	4.11	110	6.83	148
Oklahoma.....	2.75	74	5.21	113
Texas.....	( <sup>3</sup> )	.....	8.09	175
New Mexico.....	5.10	137	5.06	110
Arizona.....	5.62	151	2.41	52
Rocky Mountain.....	3.16	85	3.16	68
Montana.....	( <sup>3</sup> )	.....	7.56	164
Idaho.....	( <sup>3</sup> )	.....	4.51	98
Wyoming.....	3.03	81	4.35	94
Colorado.....	2.91	78	<sup>4</sup> 1.90	19
Utah.....	3.79	102	3.20	69
Far West.....	5.74	154	3.34	72
Washington.....	<sup>6</sup> 8.70	234	6.12	132
Oregon.....	( <sup>3</sup> )	.....	( <sup>3</sup> )	.....
Nevada.....	2.73	73	3.41	74
California.....	5.19	140	2.93	63
Alaska.....	<sup>4</sup> 1.18	5	3.97	86
Hawaii.....	13.48	362	4.14	90
United States.....	3.72	100	4.62	100

<sup>1</sup> Collections as a percent of estimated taxable retail sales in 1959.

<sup>2</sup> Total collections from taxes on all tobacco products as a percent of cigarette consumption in 1960 (equivalent rate, in cents, for a standard cigarette package).

<sup>3</sup> Not taxable.

<sup>4</sup> Local taxes only.

<sup>5</sup> Enacted in 1960; effective rate based on partial year's collections.

<sup>6</sup> Includes fractional rate business and occupation taxes, classified as license taxes elsewhere in this report.

Source: Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962.

the taxing States within a geographic region. The additional tax potential, comparatively speaking, appears to be in new general sales tax levies by those States not now imposing this type of tax, rather than in rate changes. It should be noted, however, that in 12 of the States and the District of Columbia with sales taxes in 1960, rates have since been increased. Since only three of those States are in the South, the tendency is toward national uniformity in effective sales tax rates.<sup>4</sup>

*Tobacco taxes.*—In the selective sales tax area, the problem of developing a standard or representative base is at the same time conceptually less significant than in the case of the general sales tax and technically more difficult because of gaps in data. Far greater uniformity exists among States in the bases used for the selective excises, and hence rate comparisons are meaningful; whereas rate comparisons for the general sales or income tax levies, given the wide variation in tax base, are not.

The comparison of effective rates of taxation on tobacco products, shown in table 28, measures total collections from taxes on all tobacco products as a percentage of cigarette consumption; the taxes are shown as the equivalent rate (in cents) for a standard cigarette package.

Cigarette consumption in each State as estimated by the Department of Agriculture is used as the base. Comparable data are not available on cigar and other tobacco consumption. The nationwide base used in the comparisons totaled 22 billion packs of cigarettes for 1960; this implies an average tax rate of 4.6 cents per pack.

Fairly wide variation existed in tobacco taxation in 1960, both among and within regions. In the Southwest, tobacco taxes were relatively high—with a regional rate per pack of cigarettes of 6.8 cents; that is,

<sup>4</sup> See chap. 7, table 43.

2.2 cents above the national average. The Southeastern States, where most of the tobacco is produced, averaged 4.6 cents, a rate equal to the United States average. North Carolina, the largest tobacco-producing State, had no tobacco tax, and Virginia's cigarette tax (3 cents per package) is among the lowest in the Nation.<sup>5</sup>

Within geographic regions the range was also marked in 1960. In New England, for example, tobacco tax collections varied from 2.8 cents per pack in Connecticut to 6 cents in Vermont. Within the Mideastern States the range was from 2 cents in the District of Columbia to 5.7 cents in New York; within the Great Lakes States, from 2.8 cents in Indiana to 5.5 cents in Michigan.

Thus in the case of tobacco taxation, unlike general sales taxes, variations in rates from regional averages suggest that some States could raise additional tobacco tax revenue by adjusting their rates in line with others in their respective regions. As in the case of general sales taxes, many States have raised their cigarette tax rates since 1960.<sup>6</sup>

*Motor vehicle taxes.*—Table 29 shows the effective rates of levies on motor vehicles and motor fuel, by State, in 1960. The first column indicates the results of combining tax collections from special sales and other levies on motor vehicles, including motor fuel taxes, property taxes on automobiles, and licenses on vehicles and operators, and computing these levies as an amount per motor vehicle registered in each State. Combined State and local levies on motor vehicles averaged \$80 per vehicle in the United States as a whole. Regional averages ranged from 16 percent above the United States average in New

<sup>5</sup> North Carolina has adopted a 3-cent cigarette tax, effective July 1, 1964.

<sup>6</sup> See chap. 12, table 80.

TABLE 29.—Effective Rates of Levies on Motor Vehicles and Motor Fuel by State, 1960

State and Region	Motor vehicles		Motor fuel	
	Effective rates <sup>1</sup> (dollars)	Rates as a percent of U.S. average	Effective rates <sup>2</sup> (cents)	Rates as a percent of U.S. average
New England.....	93.37	116	5.89	108
Maine.....	107.46	134	6.92	127
New Hampshire.....	95.51	119	6.41	117
Vermont.....	108.84	135	6.85	125
Massachusetts.....	94.46	118	5.40	99
Rhode Island.....	88.15	110	6.03	110
Connecticut.....	84.78	105	5.99	110
Mideast.....	69.59	87	5.09	93
New York.....	72.31	90	5.23	96
New Jersey.....	74.19	92	4.88	89
Pennsylvania.....	58.52	73	4.76	87
Delaware.....	65.57	82	3.92	72
Maryland.....	85.27	106	6.20	113
District of Columbia.....	97.44	121	6.08	111
Great Lakes.....	79.93	99	5.59	102
Michigan.....	70.10	87	5.46	100
Ohio.....	80.77	100	6.58	120
Indiana.....	86.28	107	5.62	103
Illinois.....	86.09	107	4.68	86
Wisconsin.....	75.31	94	5.44	99
Plains.....	73.43	91	4.15	76
Minnesota.....	67.07	83	4.29	78
Iowa.....	82.81	103	5.03	92
Missouri.....	68.11	85	3.06	56
North Dakota.....	65.67	82	3.60	66
South Dakota.....	81.34	101	4.32	79
Nebraska.....	86.10	107	6.15	112
Kansas.....	71.49	89	3.69	67
Southeast.....	86.48	108	6.64	121
Virginia.....	86.67	108	5.82	106
West Virginia.....	106.72	133	6.45	118
Kentucky.....	78.90	98	6.82	125
Tennessee.....	100.16	125	6.40	117
North Carolina.....	90.78	113	6.77	124
South Carolina.....	77.70	97	6.98	128
Georgia.....	88.85	111	6.47	118
Florida.....	80.90	101	6.49	119
Alabama.....	77.57	97	7.84	143
Mississippi.....	107.06	133	7.09	130
Louisiana.....	69.15	86	6.63	121
Arkansas.....	94.96	118	6.40	117
Southwest.....	83.78	104	4.48	82
Oklahoma.....	93.43	116	5.40	99
Texas.....	80.89	101	4.03	74
New Mexico.....	88.84	111	6.24	114
Arizona.....	82.54	103	5.11	93
Rocky Mountain.....	78.97	98	5.43	99
Montana.....	81.25	101	5.54	101
Idaho.....	70.22	87	5.35	98
Wyoming.....	95.34	119	5.03	92
Colorado.....	76.92	96	5.19	95
Utah.....	81.27	101	6.10	112
Far West.....	84.05	105	5.66	103
Washington.....	83.36	104	5.25	96
Oregon.....	79.07	98	5.48	100
Nevada.....	100.00	124	5.31	97
California.....	84.07	105	5.69	104
Alaska.....	86.96	108	4.95	90
Hawaii.....	95.24	118	8.90	163
United States.....	80.38	100	5.47	100

<sup>1</sup> Combined motor fuel taxes, property tax on automobiles, and motor vehicle and operators' license tax revenue, per motor vehicle registered in 1959.

<sup>2</sup> Motor fuel tax collections per gallon of gasoline consumed in 1959.

Source: Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962.

England to 13 percent below the national average in the Mideast.

While the figures show the expected interstate variations, on the whole there was more uniformity among States in taxes on motor vehicles than in many other levies. The maximum spread was between Pennsylvania's combined levies of \$59 per motor vehicle, a figure 27 percent below the average, and Vermont's levies of \$109 per motor vehicle, or 35 percent above the national average. Only 6 States, including Pennsylvania, collected less than \$70 per motor vehicle; only 6 States (Maine, Vermont, West Virginia, Tennessee, Mississippi, and Nevada)—mostly States with low per capita incomes—collected \$100 or more per motor vehicle from special levies on motor fuel or motor vehicles.

In drawing conclusions as to tax potentials in the States, it should be noted that motor vehicle registrations, at best, provide only a rough standard for comparing motor vehicle tax collections. Registration figures reflect neither the relative number of motor vehicles used for industrial and commercial purposes, nor the distances traveled, nor the value of the vehicles. The actual bases used by the States in taxing motor vehicles, however, take account of such factors.

State and local motor fuel tax variations are reflected in comparative motor fuel tax collections per gallon of gasoline. The volume of gasoline consumption in each State used as the standard is that compiled by the Bureau of Mines (*Mineral Yearbook*). In 1960 total motor fuel tax collections amounted to \$3.4 billion, an average of about 5.5 cents a gallon of gasoline consumed. Regional averages varied from 4.2 cents a gallon in the Plains States to 6.6 cents per gallon in the Southeast. Intra-regional differences may be summarized

by the spread between the highest and lowest rates (in cents per gallon):

New England. 1.52	Southwest . . . . 2.21
Mideast . . . . . 2.28	Rocky
Great Lakes . . 1.90	Mountain . . 1.07
Plains . . . . . 3.09	Far West . . . . 3.95
Southeast . . . . 2.02	

*Sales and individual income taxes combined.*—Differences in taxing patterns between the States relying primarily on the sales tax and those relying more heavily on the individual income tax suggest a combination of sales and income levies to assess State-by-State variations. Table 30 shows the actual State and local individual income and sales tax collections as a percent of personal income, less Federal tax and nontax payments, and of purchases of goods and services. On the average, individual income taxes and sales levies accounted in 1960 for 4.2 percent of disposable personal income and 5.7 percent of purchases of goods and services.

Effective rates of the combined levies were substantially above average in the Southeast and Far West. Relative to personal income, rates in the New England region were the lowest in the Nation. The individual States with lowest effective use of sales and income levies combined were New Jersey, Nebraska, New Hampshire, and Texas, in that order. The highest effective rates were found in Hawaii, Washington, South Carolina, and Mississippi.

*Income taxes.*—In a number of State debates on tax policy, general sales and individual income taxation are viewed as competing tax methods. The extremes in tax practices are perhaps illustrated by Oregon, Washington, and Hawaii. Oregon imposes no general sales levy, but its effective rate of individual income taxation for the vast majority of residents is among the highest in the country. Washington, its

TABLE 30.—*Individual Income and Sales and Gross Receipts Tax Collections in Relation to Personal Income and Retail Sales, by State*

State and Region	Individual income and sales and gross receipts tax collections in 1960 as a percent of—			
	Personal income less Federal tax and nontax payments in 1959		Estimated retail sales and receipts from services in 1959	
	Percent	Percent related to U.S. average	Percent	Percent related to U.S. average
New England.....	3.1	74	4.6	81
Maine.....	4.2	100	5.5	96
New Hampshire.....	2.5	60	3.2	56
Vermont.....	4.7	112	5.8	102
Massachusetts.....	2.9	69	4.3	75
Rhode Island.....	3.9	93	5.9	104
Connecticut.....	2.7	64	4.5	79
Mideast.....	4.1	98	5.8	102
New York.....	5.0	119	6.8	119
New Jersey.....	2.0	48	3.1	54
Pennsylvania.....	3.5	83	5.2	91
Delaware.....	3.9	93	6.4	112
Maryland.....	4.6	110	7.2	126
District of Columbia.....	4.3	102	4.8	81
Great Lakes.....	3.6	86	5.1	89
Michigan.....	3.9	93	5.4	95
Ohio.....	3.7	88	5.3	93
Indiana.....	3.8	90	5.3	93
Illinois.....	3.4	81	4.6	81
Wisconsin.....	3.6	86	4.9	86
Plains.....	3.6	86	4.5	79
Minnesota.....	3.6	86	4.4	77
Iowa.....	4.1	98	5.0	88
Missouri.....	3.3	79	4.3	75
North Dakota.....	4.6	110	4.6	81
South Dakota.....	4.5	107	4.5	79
Nebraska.....	2.1	50	2.5	44
Kansas.....	4.1	98	5.5	96
Southeast.....	5.2	124	6.8	119
Virginia.....	3.3	79	4.6	81
West Virginia.....	5.5	131	7.9	139
Kentucky.....	4.3	102	5.7	100
Tennessee.....	4.8	114	6.0	105
North Carolina.....	5.3	126	7.2	126
South Carolina.....	6.6	157	9.3	163
Georgia.....	5.9	140	7.6	133
Florida.....	5.2	124	5.9	104
Alabama.....	6.0	143	8.2	144
Mississippi.....	6.7	160	8.8	154
Louisiana.....	5.6	133	7.3	128
Arkansas.....	5.7	136	6.8	119
Southwest.....	3.4	81	4.2	74
Oklahoma.....	4.8	114	6.2	109
Texas.....	2.6	62	3.1	54
New Mexico.....	5.8	138	7.3	123
Arizona.....	5.8	138	7.0	123
Rocky Mountain.....	4.3	102	5.2	91
Montana.....	3.4	81	3.9	68
Idaho.....	4.7	112	4.4	77
Wyoming.....	3.8	90	4.8	84
Colorado.....	4.3	102	5.4	95
Utah.....	5.2	124	6.5	114
Far West.....	5.1	121	7.0	123
Washington.....	6.9	164	9.1	160
Oregon.....	4.2	100	5.3	93
Nevada.....	5.1	121	4.3	75
California.....	4.8	114	6.6	116
Alaska.....	3.3	79	6.6	116
Hawaii.....	9.9	236	17.2	302
United States.....	4.2	100	5.7	100

Source: Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962.

neighbor to the north, does not levy an individual income tax, but its general sales tax effective rate exceeds that of all the States except Hawaii. Hawaii, on the other hand, imposes both an individual income tax and general sales tax at effective rates (on a standard base) considerably in excess of the averages prevailing throughout the country.

Thirty-one States imposed individual income taxes in 1960, almost the same number as levied general sales taxes; 19 States had both State individual income and general sales taxes; 12, only individual income taxes; 15, only general sales taxes; and 4 neither.<sup>7</sup>

The task of defining a standard base against which to assess existing State income tax practice is necessarily fairly complex, given differences in statutory provisions on rate graduation by income level and varying definitions of income. While considerable progress has been made by the States in recent years toward greater uniformity of tax practices, variations still are sizable.

Table 31 summarizes the average effective rates of individual income taxation in the States. In column 1, actual State and local individual income tax collections in 1960 are computed as a percent of adjusted gross income in 1959, as reported on taxable Federal income tax returns. In columns 2 and 3, estimates of what the income tax would yield in the taxing States if these States used two alternative standard tax methods are also computed as a percent of adjusted gross income. Column 2 is based on the assumption that Federal individual income taxes are not deductible for State tax purposes, and column 3 assumes deductibility of the Federal tax. Columns 4 and 5 relate actual income tax

collections (column 1) to the yields of a representative tax system under the two alternative standard methods (columns 2 and 3).

In making the computations shown in columns 2 and 3 it was necessary to calculate a standard rate structure for all the States, which required, among other things, State-by-State estimates of the number of persons and couples by taxable income size classes. For convenience, taxable income was defined as it is defined in the Internal Revenue Code.

The individual income tax yields of the representative system, computed in this way, reflect the assumption that all States use a uniform set of representative rates; that they follow the Federal Government's practices with respect to exemptions, deductions, and income splitting. For the major elements in income taxation these assumptions accord with general practice.

Obtaining income tax yields under a representative income tax system involved the following steps:

(a) Estimating an individual's State tax liability as a percent of his taxable income (Federal definition) for various levels of taxable income in each of the States which does not allow the Federal income tax to be deducted.

(b) Computing a weighted average of the tax rates at each level of taxable income, weighted by State population.

(c) Repeating this procedure for joint returns.

(d) Obtaining estimates of the number of persons and couples with average taxable incomes of various sizes in each State from tabulations of Federal tax returns.

(e) Applying the average rates (from b and c) to these income distributions to obtain a first estimate of the yield for each State.

(f) Adjusting these yields proportion-

<sup>7</sup> We disregard here New Hampshire's and Tennessee's taxes on income from intangibles.

TABLE 31.—*Individual Income Tax Yield, Actual and Under Representative Tax System in 1960 as a Percent of Adjusted Gross Income, by State*<sup>1</sup>

State and Region	Actual collections as a percent of adjusted gross income (1)	Yield under representative tax system as a percent of adjusted gross income		Index of actual collections to yield under representative tax system (Yield under representative tax system = 100)	
		Alternative No. 1 <sup>2</sup> (2)	Alternative No. 2 <sup>3</sup> (3)	Alternative No. 1 <sup>2</sup> (4)	Alternative No. 2 <sup>3</sup> (5)
<b>New England</b>					
New Hampshire.....	<sup>4</sup> 0.21	0.98	1.02	21	21
Vermont.....	2.34	.83	.85	282	275
Massachusetts.....	1.58	1.20	1.20	132	132
<b>Mideast</b>					
New York.....	2.13	1.40	1.32	152	161
Pennsylvania.....	<sup>5</sup> .60	1.18	1.17	51	51
Delaware.....	2.86	1.68	1.41	170	203
Maryland.....	1.45	1.25	1.25	116	116
Dist. of Columbia.....	1.43	1.54	1.49	93	96
<b>Great Lakes</b>					
Ohio.....	<sup>5</sup> .41	1.18	1.21	35	34
Wisconsin.....	2.21	1.08	1.11	205	199
<b>Plains</b>					
Minnesota.....	1.81	1.10	1.31	165	138
Iowa.....	1.01	1.04	1.08	97	94
Missouri.....	.83	1.18	1.18	70	70
North Dakota.....	.77	.85	.90	91	86
Kansas.....	.78	1.02	1.21	76	64
<b>Southeast</b>					
Virginia.....	1.54	1.08	1.11	143	139
Kentucky.....	2.10	1.00	1.00	210	210
Tennessee.....	<sup>4</sup> 1.13	1.04	1.02	13	13
North Carolina.....	2.10	.95	.93	221	226
South Carolina.....	1.55	.87	.87	178	178
Georgia.....	.88	1.02	1.02	86	86
Alabama.....	.90	1.02	1.01	88	89
Mississippi.....	.58	.95	.94	61	62
Louisiana.....	.36	1.27	1.17	28	31
Arkansas.....	.70	.97	1.42	72	49
<b>Southwest</b>					
Oklahoma.....	.59	1.08	1.08	55	55
New Mexico.....	.58	1.11	1.11	52	52
Arizona.....	.56	1.21	1.20	46	47
<b>Rocky Mountain</b>					
Montana.....	1.15	1.12	1.17	103	98
Idaho.....	2.30	.97	.97	237	237
Colorado.....	1.25	1.15	1.17	109	107
Utah.....	1.23	1.01	.95	122	129
<b>Far West</b>					
Oregon.....	3.20	1.14	1.17	281	274
California.....	.78	1.34	1.32	58	59
Alaska.....	3.07	1.31	1.51	234	203
Hawaii.....	2.93	1.17	1.18	250	248
United States.....	1.21	1.21	1.21	100	100

<sup>1</sup> Adjusted gross income as reported on taxable Federal income tax returns for 1959.

<sup>2</sup> Using average tax rate of States not allowing deduction of Federal income tax in computing State income tax. See table 32.

<sup>3</sup> Using average tax rate of States allowing deduction of

Federal income tax. See table 32.

<sup>4</sup> Tax on interest and dividends only.

<sup>5</sup> Local taxes only.

Source: Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962.

TABLE 32.—Weighted Averages of State Personal Income Tax Rates in 1959

Taxable income (Federal definition) before Federal tax	Average rates in 12 States in which Federal tax is not deductible <sup>1</sup>		Taxable income (Federal definition) after Federal tax	Average rates in 17 States in which Federal tax is fully deductible <sup>2</sup>	
	Single	Joint		Single	Joint
\$1,000.....	0.008	0.003	\$1,000.....	0.009	( <sup>3</sup> )
\$2,000.....	.013	.009	\$2,000.....	.015	0.009
\$3,000.....	.017	.012	\$3,000.....	.020	.013
\$4,000.....	.020	.016	\$4,000.....	.023	.017
\$6,000.....	.024	.021	\$6,000.....	.028	.024
\$10,000.....	.033	.029	\$10,000.....	.038	.033
\$20,000.....	.050	.043	\$20,000.....	.048	.044
\$30,000.....	.058	.051	\$30,000.....	.051	.047
\$50,000.....	.064	.063	\$50,000.....	.054	.052

<sup>1</sup> 12 nondeductibility States are Alaska, Arkansas, California, Washington, D.C., Georgia, Hawaii, Maryland, Mississippi, New York, North Carolina, Vermont, Virginia. Total population: 54,042,000. New Hampshire and Tennessee, which tax income from intangibles only, are omitted.

<sup>2</sup> 17 full deductibility States are Alabama, Arizona, Colorado, Idaho, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, Montana, New Mexico,

North Dakota, Oklahoma, Oregon, Utah. Total population: 38,350,000. Delaware, South Carolina, and Wisconsin allow partial deductibility of Federal income taxes.

<sup>3</sup> Not computed.

Source: Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962.

ately so that the aggregate for all the States equaled the total amount that States and localities would collect from income taxes if States taxed at the average rate of the taxing States.

(g) This procedure was repeated for the States that allow Federal income tax as a deduction for purposes of their own income tax.

(h) The weighted averages of State individual income tax rates in 1959 were then applied to the estimated number of persons and couples in each State at various taxable income levels, as shown in table 32.

It will be noted that the rates for the States that allow deduction of the Federal tax are not appreciably higher (in fact, in the upper income brackets they are lower) than rates for States that do not allow the deduction of the Federal tax. This is due to the fact that average rates for the "non-deductible States" are dominated by the rates in the more populous States which have relatively high and progressive individual income tax rates. A State-by-State analysis in chapter 8 of the effective rates

and net State individual income tax burdens at various income levels shows the effect of Federal income tax deductibility on the State income tax structure.

Application of the standard base helps to quantify the differences in taxing practices of States levying an individual income tax. For example, both New York and California are regarded as strong income tax States, yet there were sharp differences between their tax structures in 1960, as illustrated by the effective rates shown in table 31. Of the income taxing States, the highest effective rates were found in Oregon and Alaska—the former having a highly graduated rate structure and the latter tied administratively to the Federal income tax.

When collections as a percent of adjusted gross income were used as the index of individual income tax use, four States showed a tax utilization rate of over twice the average for the taxing States; these included Delaware and Hawaii in addition to Oregon and Alaska. In 9 States the income tax use rate was less than half the national average, but the low-use States were primarily those in which income taxes were



used by local governments only (Ohio and Pennsylvania) in which income levies were restricted to investment income (New Hampshire and Tennessee), or which allowed relatively very high personal exemptions (Louisiana and Mississippi).

When collections were compared with the yields of the two alternative representative income tax structures (i.e., with and without Federal deductibility), taking account of differences in the income distribution among States and in the average rate structure, the relative tax use position of the States was altered. When the income distribution was taken into account, New York's use of individual income taxes, for example, while still substantially above the average, was less than that indicated by the tax collection-adjusted gross income comparison. On the other hand, in a State such as Iowa, where the distribution of income was more even than it was in New York, the two tax-use computations showed about the same degree of relative income tax use.

The standard or representative tax base for State corporate income taxes poses challenging problems of computation, both conceptual and practical. Tabulations of Federal income tax returns could not serve as a point of departure, as they did in the case of the individual income tax, because of the importance of corporations doing business and incurring tax liabilities in States other than the one in which they happen to file their Federal tax returns.

In the absence of comparable data on corporate receipts by State the taxable corporate net income reported in the States imposing the tax was used as a basis for building estimates of corporate net income that would be more comparable from State to State. Data on the taxable corporate net income reported to the States for the income year 1959 were provided by the

Federation of Tax Administrators for 30 of the 38 States (including the District of Columbia) with corporate income taxes. These estimates were adjusted to give them greater comparability by adding estimates of bank and public utility income in the States that exempt such corporations from the tax and by adding estimates of Federal taxes paid in States that allow corporations to deduct the Federal tax on their State returns. There was no way of adjusting for the fact that the States use different formulas for allocating the income of multistate corporations, except to the extent that the allocations were already reflected in the data supplied by the 30 States.

Estimates were made of the average relationship between taxable corporate net income in the 30 States and the three factors commonly used in the allocation of corporate income by States: corporate property, payrolls, and sales. This relationship was used to estimate net corporate income for all the taxing States. In general, this computation derives a corporate income figure for each State by combining the allocation factors in a standard way.

When corporate license levies and corporate income taxes, both State and local, are combined and the total is computed as a percent of corporate income, interstate differences in corporate taxes may be compared (table 33). The regions with the highest rate of corporate tax use in 1960 were New England and the Mideast. Delaware's corporate licenses gave it the highest ranking among the States, followed by Mississippi, North Carolina, Massachusetts, and Pennsylvania in that order. The Midwestern States, in contrast, showed the lowest use of corporate levies. With the exception of Minnesota and Wisconsin, which have relatively high corporation income tax statutory rates, all States within the region had substantially less than aver-

TABLE 33.—Corporation Income Tax Effective Rates, by State, 1960

State and Region	State corporation income tax		State and local corporation income and related license taxes <sup>1</sup>	
	Effective rates <sup>2</sup> (percent)	Rates as a percent of U.S. average	Effective rates <sup>2</sup> (percent)	Rates as a percent of U.S. average
New England.....	5.8	129	5.3	136
Maine.....			.2	5
New Hampshire.....			.2	5
Vermont.....	3.0	67	3.0	77
Massachusetts.....	<sup>3</sup> 7.2	160	<sup>3</sup> 7.3	187
Rhode Island.....	4.3	96	4.8	123
Connecticut.....	4.2	93	4.3	110
Mideast.....	4.4	98	5.4	138
New York.....	5.1	113	5.1	131
New Jersey.....	1.6	36	3.4	87
Pennsylvania.....	5.1	113	7.1	182
Delaware.....	5.4	120	13.2	338
Maryland.....	3.2	71	3.3	85
District of Columbia.....	6.6	147	6.6	169
Great Lakes.....	6.3	140	1.8	46
Michigan.....			3.2	82
Ohio.....			<sup>1</sup> 1.8	46
Indiana.....			.1	3
Illinois.....			.2	5
Wisconsin.....	6.3	140	6.3	162
Plains.....	2.3	51	2.3	59
Minnesota.....	5.3	118	5.3	136
Iowa.....	.8	18	.8	21
Missouri.....	1.0	22	<sup>1</sup> 1.6	41
North Dakota.....	1.3	29	1.3	33
South Dakota.....	.5	11	1.3	33
Nebraska.....			.4	10
Kansas.....	2.1	47	2.4	62
Southeast.....	4.4	98	4.4	113
Virginia.....	5.1	113	5.2	133
West Virginia.....			.3	8
Kentucky.....	4.3	96	<sup>1</sup> 4.8	123
Tennessee.....	3.5	78	5.0	128
North Carolina.....	6.5	144	7.5	192
South Carolina.....	6.2	138	6.6	169
Georgia.....	3.8	84	4.1	105
Florida.....			.2	5
Alabama.....	1.8	40	3.7	95
Mississippi.....	6.3	140	8.3	213
Louisiana.....	3.0	67	5.5	141
Arkansas.....	4.3	96	4.8	123
Southwest.....	3.5	78	3.2	82
Oklahoma.....	3.4	76	4.5	115
Texas.....			3.0	77
New Mexico.....	( <sup>4</sup> )		<sup>5</sup> 9.9	23
Arizona.....	3.7	82	4.2	108
Rocky Mountain.....	3.7	82	3.6	92
Montana.....	4.0	89	4.0	103
Idaho.....	5.5	122	5.5	141
Wyoming.....			.3	8
Colorado.....	3.0	67	3.3	85
Utah.....	3.7	82	3.7	95
Far West.....	5.6	124	4.9	126
Washington.....			.2	5
Oregon.....	5.6	124	5.9	151
Nevada.....			.8	21
California.....	5.5	122	5.6	144
Alaska.....	5.3	118	5.3	136
Hawaii.....	6.6	147	6.6	169
United States.....	4.5	100	3.9	100

<sup>1</sup> Minor amounts of local corporation income taxes for Kentucky, Missouri, and Ohio are tabulated with individual income taxes.

<sup>2</sup> Tax yield in 1960 as a percent of estimated corporate income in 1959.

<sup>3</sup> Based on collections which include \$65 million corporation excise taxes and surtaxes, measured in part by net income and in part by corporate excess.

<sup>4</sup> Combined corporation and individual income taxes are tabulated with individual income taxes.

<sup>5</sup> Based on related license taxes only.

age effective rates. Corporation tax use was relatively high in the Far West, about average in the Southeast, and below average in the Southwest and Rocky Mountain States.

*Interstate Variations as Reflected in Indexes of Fiscal Capacity and Tax Effort*

Fiscal capacity indexes provide summary measures of the relative resources available in the States for taxation by each of the governmental jurisdictions that tax and spend within the geographic area. "Fiscal capacity," as here used, is a measure of the relative ability of the State, including its local governments, to raise tax revenue for financing government programs. The extent to which this capacity is used by the State and its local governments in raising tax revenue is measured by tax effort.

In assessing State fiscal capacity and tax effort, the State and its local governments may be treated as one entity, partly because this accords with general practice in Federal-State fiscal relations, but primarily in recognition of the wide variations in the State-local division of taxing resources and program responsibilities. Total capacity is measurable only in terms of what other jurisdictions are doing. It is relative rather than absolute fiscal capacity which can be assessed, for the capacity of a people to contribute to the support of their government is a function of many complex factors. These include the population's economic resources, the demand made upon these resources by the several governmental jurisdictions and by private investment and consumption, the quality and quantity of services provided and the importance people attach to these services, as well as the level of taxation the people consider reasonable and political leadership finds acceptable. In essence, absolute capacity rests on a political decision reflecting the willingness of a people to be

taxed for the public services they seek. Some of the elements in that decision are not readily researchable in the present state of knowledge. Relative capacity is concerned with the question: How does the ability to contribute to government in one State compare with the corresponding ability in another? A firm answer would serve a variety of purposes, some germane to the development of State and local tax programs, others to planning for future budgetary requirements, and still others to intergovernmental financial relations.

There are essentially two approaches to comparing the relative fiscal capacity of one State with that of another. One looks to the economic indicators, notably the flows of income in the State, out of which taxes are paid, and compares them with corresponding indicators for other States. The other compares the tax institutions of the States—the tax instruments that customarily are available to States and localities—for an estimate of the amount of revenue the taxable resources available to the States would produce if subjected to taxation.

While the two approaches can be differentiated, they also tend to converge. The most general economic indicator is income. But measures of income can be defined in different ways (income produced, personal income, disposable income) to make them more meaningful as indicators of fiscal capacity; and each such refinement is a step in the direction of identifying the base of some particular kind of tax. Conversely, a combination of tax bases is likely to include such economic indicators as personal income, income produced, or retail sales because they serve as bases for taxes levied by State and local governments.

Generally all taxes, however labeled, are paid out of income. This suggests the use of some measure of income as an indicator

of tax-raising ability. Income, however, may be measured in various ways. Personal income—income received by the residents of a State—is not necessarily equal to the income produced or spent within that State. Moreover, some components of the income stream are less accessible and less available as sources of State-local tax payments than others.

The most readily available State-by-State measure of income is personal income received by the residents of the State. It is the usual base against which tax effort is commonly measured in State fiscal studies. The personal income series, however, has limitations for measuring fiscal capacity. It does not reflect, for example, the fact that Federal taxes take varying proportions of the income of the residents of the different States, or that varying proportions of personal income consist of types of income that do not ordinarily give rise to tax liability, as for example, home-produced food, employee fringe benefits, or imputed rent of owner-occupied homes.

Furthermore, a large share of State-local taxes is initially paid out of the income stream at the place where the income is produced, as for example, property taxes on steel or automobile manufacturing plants, or severance taxes on mineral production. While these taxes may be exported out of the State as part of the cost of production in the price of commodities sold, the capacity to tax lies in the producing State, and residents of this State enjoy the services provided by the revenue from the exported tax. Personal income reflects the flow of income at place of residence and not point of origin of the production.

Still other State and local taxes are paid out of particular segments of income flow. The outstanding example here is corporate income taxes. The major part of corporate income is not included, however, as

a component of personal income. The relative position of the States is altered depending upon whether income received or income produced is used as an index. Furthermore, the several income flows may be combined in a composite income index in which three measures of income for each State—personal income, income produced, and corporate income—are weighted so as to reflect their relative roles in the Nation as a whole as sources of State and local tax payments.

A more direct approach to measuring the relative fiscal capacities of the States is to evaluate the bases available for taxation in each State and then to estimate the amount of revenue each State could raise if it imposed some uniform tax system yardstick on these taxable resources. This was essentially the approach of the model tax system calculations made by Mabel Newcomer,<sup>8</sup> and in a sense is the general notion of capacity used in State grant-in-aid programs. States typically differentiate among local governments on the basis of the amount of the taxable property on their respective tax rolls. The shortcoming of a model tax system calculation lies in its abstraction. It purports to reflect what State and local governments ought to be doing. How does one develop a consensus on the optimum in State-local taxation, and would that model bear much resemblance to what they actually are doing or politically can do?

The most direct measure of comparable State and local ability to raise tax revenue is the yield of a uniform tax system that reflects current tax practice. For want of a better name, it is called a "representative tax system." The specifications for such a system are not easy to formulate. What kinds of taxes should be included?

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<sup>8</sup> *An Index of the Taxpaying Ability of State and Local Governments* (New York: Columbia University Press, 1935).

How much weight should each be given? As has been pointed out, the 50 States use many of the same kinds of taxes, and they use them in different combinations with infinite variations in provisions. This variation reflects each State's accommodation to its own combination of economic, political, and social forces, an accommodation developed by political pressures. One-third of the States do not impose the general sales tax; one-third do not tax personal income; some tax neither, and some tax both; and no two of the sales and income taxes are exactly alike. Practice with respect to business taxes varies even more broadly.

Problems of selection, accordingly, may be resolved by recourse to a representative tax system which is constructed to portray current State and local tax practice across the country. Its construction involves several steps. Among the taxes currently in use, each is included in the yardstick which satisfies either of two tests: (a) it is in use in enough States to account for more than one-half of the Nation's population, or (b) the States using it account for more than one-half of the total potential base of the tax in the country.

The rate assigned to each tax included in the representative tax system was derived by dividing its aggregate 1960 yield for all State and local governments by the aggregate base for that tax in all the States, including those that did not actually use this type of tax.

The weights of the different taxes in the representative tax system corresponded to their 1960 revenue contribution in all the States. Thus heavy weights were accorded the property tax and the general and selective sales taxes because in 1960 they accounted, respectively, for 44 percent and 34 percent of State-local tax collections. On the basis of 1960 collections, the per-

sonal income tax had a weight of 7 percent, the corporate income tax 4 percent, and motor vehicle taxes 6 percent.

As table 34 indicates, differences in fiscal capacity as measured by the different income series in 1959 were not striking. In only a few States, notably those in which mining and other corporate firms pay dividends and interest to the holders of their stocks and bonds in other States, did the relative income position of industrial States shift materially. The Plains, Rocky Mountain, and Southwestern States generally ranked higher in income produced than in income received, while the opposite was true of the New England and Mideastern regions.

Differences between the income series and the yield of the representative tax system in 1960, however, were very substantial. The Plains, Mountain, and Southwestern States ranked much higher on the yield of the representative tax system than they did on the basis of personal income. In fact, these regions were well above the national average in per capita yield of the representative tax system, although they were below the national average in per capita personal income. The New England and Mideastern States, by contrast, ranked substantially higher in personal income than they did in the yield of the representative tax system.

Regardless of the index used, the States in the Southeastern part of the United States appeared to have far less fiscal capacity than those in other areas, and the States in the Far West seemed to have above-average capacity.

Similar findings can be reported with respect to the measurement of tax effort (table 35). We have defined effort as the extent to which a State uses its available fiscal capacity (actual tax collections divided by a measure of capacity). Hence,

TABLE 34.—Selected Measures of State and Local Fiscal Capacity, Per Capita as a Percent of United States Average, by State

State and Region	Personal income 1959 <sup>1</sup>	Income of families and unrelated individuals, 1959 <sup>2</sup>		Income produced 1959 <sup>4</sup>	Composite series 1959 <sup>5</sup>	Actual tax collections 1960	Yield of representative system 1960
		Total	Above minimum amount <sup>3</sup>				
New England.....	111	109	110	101	103	109	97
Maine.....	83	82	81	72	75	99	78
New Hampshire.....	92	97	97	83	86	93	98
Vermont.....	83	82	81	78	80	110	85
Massachusetts.....	113	111	112	105	107	116	96
Rhode Island.....	100	98	98	89	92	98	87
Connecticut.....	129	128	130	115	118	105	112
Mideast.....	116	114	115	114	114	115	100
New York.....	125	121	122	128	127	143	105
New Jersey.....	120	123	125	111	113	102	105
Pennsylvania.....	102	100	100	97	98	87	91
Delaware.....	136	113	114	97	107	98	112
Maryland.....	108	109	110	94	97	99	93
District of Columbia.....	133	128	129	159	151	107	126
Great Lakes.....	107	107	108	109	109	100	105
Michigan.....	104	105	105	101	102	109	99
Ohio.....	106	106	106	106	106	94	103
Indiana.....	97	99	99	102	101	89	101
Illinois.....	119	118	119	126	124	102	116
Wisconsin.....	98	99	100	96	97	107	97
Plains.....	92	91	90	96	95	96	107
Minnesota.....	91	94	93	97	95	108	103
Iowa.....	91	88	88	96	95	103	114
Missouri.....	100	94	93	103	102	75	99
North Dakota.....	72	73	72	80	78	99	108
South Dakota.....	70	71	69	81	78	99	107
Nebraska.....	91	88	87	100	97	86	119
Kansas.....	92	96	95	87	89	108	113
Southeast.....	72	73	71	73	73	71	76
Virginia.....	83	86	85	85	84	68	81
West Virginia.....	76	73	71	81	80	75	74
Kentucky.....	70	71	69	74	73	59	74
Tennessee.....	70	71	68	69	70	67	71
North Carolina.....	69	68	66	76	75	69	72
South Carolina.....	62	61	59	60	61	64	60
Georgia.....	72	73	71	74	74	70	69
Florida.....	91	95	94	83	86	91	101
Alabama.....	66	67	65	65	65	60	66
Mississippi.....	53	52	48	48	50	64	57
Louisiana.....	74	74	72	81	80	93	88
Arkansas.....	61	60	56	56	58	62	69
Southwest.....	87	89	88	95	93	84	113
Oklahoma.....	83	87	85	89	88	88	94
Texas.....	88	88	87	96	94	80	120
New Mexico.....	84	88	87	92	90	86	102
Arizona.....	89	98	98	96	94	103	99
Rocky Mountain.....	94	96	97	97	96	108	116
Montana.....	92	91	91	96	95	111	129
Idaho.....	83	87	87	84	84	96	108
Wyoming.....	104	102	103	108	107	118	161
Colorado.....	101	103	103	101	101	114	114
Utah.....	86	92	93	96	93	100	101
Far West.....	118	122	123	116	116	133	119
Washington.....	104	110	111	102	102	100	102
Oregon.....	102	105	105	94	96	116	103
Nevada.....	126	129	130	142	137	136	146
California.....	124	126	128	121	122	138	126
Alaska.....	117	124	126	117	117	80	69
Hawaii.....	96	102	103	96	97	117	76
United States.....	100	100	100	100	100	100	100

<sup>1</sup> As reported in U.S. Department of Commerce, *Survey of Current Business*, August 1961.

<sup>2</sup> As reported by Bureau of the Census in Series PC (1) C, *General Social and Economic Characteristics of the U.S.*, Census of Population: 1960.

<sup>3</sup> Excludes income of families with income under \$2,000 and income of individuals with income under \$1,000.

<sup>4</sup> Estimated, 1959 (1957 estimates by National Planning

Association increased to 1959 on basis of percentage change in wages and salaries, 1957-1959).

<sup>5</sup> Composite of 1959 personal income (less Federal payments), income produced (1959 est.), and corporate net income in 1959.

Source: Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962.

conclusions about effort depend on which measure of capacity is used. The Plains and Mountain States, for example, appeared in 1960 to be making a low effort when capacity was measured by the representative tax system, but a more than average effort when personal income was used.

A number of States showed below-average tax effort regardless of which capacity index was used. The States with the lowest tax effort formed a midcontinental band of States east of the Mississippi and included both high-income industrial States, such as Connecticut and New Jersey, Ohio and Illinois, and also several of the Southeastern States—Virginia, Kentucky, Tennessee, and North Carolina. The tax effort of the States in the Far West was relatively high no matter which index was used, as was the effort ranking of New York, Massachusetts, Michigan, Minnesota, Mississippi, Maine, Vermont, and Louisiana.

Why are such large differences found between the relative capacities of the States measured by personal income and the relative capacities measured by the yield of the representative tax system? Part of the explanation lies in the fact that the ratio of the value of taxable property to personal income varies greatly among the States and in a definite geographic pattern. As already noted, the Plains, Rocky Mountain, and Southwestern States have much higher ratios of taxable property to personal income than do the New England and Mideastern States.

This variation in the income-to-property ratio in turn appears to be attributable to a combination of factors—the low fixed capital requirements of distributive and service trades concentrated in areas of great population density, the older age of both residential and industrial structures in the Eastern part of the United States, and the

changes which have taken place in farmland values. Of these factors the most important appears to be the inflation of farmland values in recent years, which has pushed the market value of farm acreage far out of line with agricultural income. Absentee ownership of income-producing property in the Plains, Rocky Mountain, and Southwestern States also plays a role.

In addition, nonproperty tax yields under a representative tax system diverge markedly from personal income. Almost all of the low-income States ranked higher in nonproperty tax capacity in 1960 than they did in personal income. This is not surprising. Sales taxes—general and selective—account for a large share of nonproperty taxes, and spending on consumer goods is likely to absorb a larger proportion of income in the low-income States than in States with high incomes and a substantial margin for saving and investment. Ratios of taxable retail sales to personal income are higher in the Plains, Mountain, and Southwestern States than in New England and the Mideast. This, plus the existence of severance tax capacity in the Western States, explains why nonproperty tax capacity (as well as property tax capacity) was substantially higher relative to personal income in the Plains, Rocky Mountain, and Southwestern States than in New England and the Mideast.

The divergence in findings according to the index of capacity suggests a reexamination of the uses of each index and the underlying concepts. The basic case for using the representative tax system is that the yield of such a system reflects the capacity of the States to raise revenue for public purposes using the tax instruments available to them. State and local governments have traditionally relied heavily on property and consumer taxation for revenue and will probably continue to do so

TABLE 35.—State and Local Tax Effort Indexes, by State, 1960

State and Region	Actual tax collections in 1960 as a percent of—						Yield under representative tax system 1960
	Personal income 1959		Income produced 1959		Composite income 1959		
	Percent	Percent related to U.S. average	Percent	Percent related to U.S. average	Percent	Percent related to U.S. average	
New England.....	9.3	98	8.1	108	9.1	106	112
Maine.....	11.3	119	10.4	139	11.3	131	126
New Hampshire.....	9.6	101	8.4	112	9.3	108	95
Vermont.....	12.5	132	10.6	141	11.8	137	130
Massachusetts.....	9.8	103	8.3	111	9.3	108	121
Rhode Island.....	9.1	96	8.2	109	9.0	105	112
Connecticut.....	7.8	82	7.0	93	7.7	90	94
Mideast.....	9.4	99	7.6	101	8.7	101	115
New York.....	10.7	113	8.4	112	9.7	113	136
New Jersey.....	8.1	85	7.0	93	7.9	92	97
Pennsylvania.....	8.1	85	6.7	89	7.6	88	96
Delaware.....	6.9	73	7.7	103	8.0	93	87
Maryland.....	8.7	92	7.9	105	8.8	102	106
District of Columbia.....	7.5	79	5.0	67	6.0	70	85
Great Lakes.....	8.8	93	6.9	92	7.9	92	95
Michigan.....	9.9	104	8.1	108	9.2	107	110
Ohio.....	8.4	88	6.6	88	7.6	88	91
Indiana.....	8.7	92	6.6	88	7.6	88	87
Illinois.....	8.1	85	6.1	81	7.1	83	88
Wisconsin.....	10.3	108	8.4	112	9.5	110	110
Plains.....	9.8	103	7.4	99	8.6	100	89
Minnesota.....	11.3	119	8.4	112	9.8	114	105
Iowa.....	10.7	113	8.1	108	9.3	108	91
Missouri.....	7.1	75	5.5	73	6.3	73	76
North Dakota.....	12.9	136	9.3	124	10.8	126	91
South Dakota.....	13.3	140	9.1	121	10.8	126	92
Nebraska.....	8.9	94	6.5	87	7.3	85	72
Kansas.....	11.0	116	9.3	124	10.4	121	96
Southeast.....	9.4	99	7.4	99	8.4	98	95
Virginia.....	7.8	82	6.1	81	6.9	80	84
West Virginia.....	9.2	97	6.8	91	7.9	92	101
Kentucky.....	7.9	83	6.0	80	6.9	80	80
Tennessee.....	9.0	95	7.2	96	8.2	95	93
North Carolina.....	9.4	99	6.8	91	7.9	92	96
South Carolina.....	9.8	103	8.0	107	9.0	105	106
Georgia.....	9.2	97	7.1	95	8.2	95	102
Florida.....	9.8	103	8.5	113	9.4	109	90
Alabama.....	8.6	91	6.9	92	7.9	92	91
Mississippi.....	11.4	120	10.0	133	10.9	127	113
Louisiana.....	12.0	126	8.7	116	10.1	117	106
Arkansas.....	9.5	100	8.4	112	9.2	107	90
Southwest.....	9.2	97	6.7	89	7.8	91	74
Oklahoma.....	10.0	105	7.4	99	8.6	100	94
Texas.....	8.7	92	6.3	84	7.3	85	67
New Mexico.....	9.9	104	7.2	96	8.4	98	84
Arizona.....	11.5	121	8.4	112	9.8	114	104
Rocky Mountain.....	11.0	116	8.4	112	9.7	113	93
Montana.....	11.5	121	8.7	116	10.0	116	86
Idaho.....	11.0	116	8.6	115	9.9	115	89
Wyoming.....	10.9	115	8.3	111	9.6	112	73
Colorado.....	10.8	114	8.6	115	9.8	114	100
Utah.....	11.1	117	7.8	104	9.2	107	98
Far West.....	10.7	113	8.7	116	9.9	115	111
Washington.....	10.7	113	8.7	116	9.9	115	114
Oregon.....	10.7	113	9.2	123	10.3	120	113
Nevada.....	10.4	109	7.3	97	8.7	101	93
California.....	10.8	114	8.7	116	9.9	115	109
Alaska.....	6.7	71	5.3	71	6.0	70	116
Hawaii.....	11.8	124	9.4	125	10.6	123	155
United States.....	9.5	100	7.5	100	8.6	100	100

Source: Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962.



for some time to come. The income tax is principally a Federal levy and is not very important in the State and local revenue picture as a whole. Similarly, in States that limit their local units to property taxes, property values represent a more appropriate measure of capacity to support public programs than does personal income. The representative tax system approach recognizes that tradition and circumstances oblige the States to rely heavily on property and consumption taxation and that they cannot be expected to shift

this reliance substantially in the foreseeable future.

The essential point to be made is that fiscal capacity and tax effort are not likely to be adequately reflected by any one measure alone. State officials and legislators operate under two separate groups of tax restraints. One group of restraints is imposed by the public's view of what taxation is fair and reasonable. The other is imposed by the limitation of taxable resources within the reach of State and local governments.



## **PART II**



## Chapter 6

### PROPERTY TAXES

Second only to personal and corporation income taxes, the group of taxes embraced within the term "property tax" is the most productive single source of tax revenue in this country. While the \$19 billion produced by these taxes in 1962 and the \$21 to \$22 billion they are producing this year account for only about one-sixth of the combined tax collections of Federal, State, and local governments, they are the mainstay of local governments' revenues. They provide seven-eighths of all locally raised taxes. State governments have all but withdrawn from property taxation, but local governments rely on it for tax revenue almost to the same extent now as they did at the turn of the century. Even taking into account local government nontax revenue, which includes State and Federal aid as well as service charges, the property tax provides almost half of the funds received for local general government purposes.

#### *Nature of the Property Tax*

The property tax is a tax generally conditioned on ownership of property, regardless of any liens against it, and measured by its value. In some cases it is levied on leaseholds. In actual practice it is a combination of taxes based on different kinds and concepts of property. Thus, in four States (Delaware, Hawaii, New York,<sup>1</sup>

and Pennsylvania) it is a real estate tax on land and improvements. In the other 46 States and the District of Columbia the property tax base, while consisting mainly of real estate, includes varying mixes of tangible and intangible property, such as household goods, livestock, motor vehicles, stock-in-trade, machinery and fixtures, money and credit, and stocks and bonds.

For the Nation as a whole real estate made up more than three-fourths of the \$355.7 billion assessed value subject to local general property taxes in 1962. The remainder of the assessed valuation consisted of personal property (16 percent) and State-assessed property, mainly public utilities (8 percent). As table 36 indicates, the proportions varied considerably from State to State, the share of real estate ranging from a low of 30 percent in Wyoming to 100 percent in Delaware, Hawaii, and Pennsylvania.

The property tax is far from a comprehensive tax on property. As has been indicated, in 4 States only real property is taxed. In many States partial exemptions are allowed, such as those for homesteads, veterans, senior citizens, and fallout shelters. These partial exemptions on real property amounted to almost \$10.5 billion in 1961. In addition, billions of dollars worth of church, educational, and government real estate are exempted from property taxation; the value of most of these exemptions is unrecorded. Likewise not entered in the assessment records are un-

<sup>1</sup> Except for a small amount of utility property, assessed by the State for local general property taxation on the basis of "special franchise" value.

TABLE 36.—Assessed Value of Property Subject to Local General Property Taxation, by Class of Property, by State, 1961  
(Dollar amounts in millions)

State	Assessed value subject to tax, after deduction of exemptions							Percent of assessed value subject to tax			
	Total	State assessed property				Locally assessed property			State assessed	Locally assessed	
		Total	Rail-roads	Other public utilities	Other 1	Total	Real	Personal		Real	Personal
Alabama.....	\$3,022	\$528	\$120	\$408	.....	\$2,495	\$1,752	\$743	17.5	58.0	24.6
Alaska.....	616	.....	.....	.....	.....	616	503	113	.....	81.7	18.3
Arizona.....	1,743	464	119	92	\$253	1,279	985	295	26.6	96.5	16.9
Arkansas.....	1,416	265	66	199	.....	1,151	843	309	18.7	59.3	21.8
California.....	31,567	4,065	344	3,721	.....	27,501	22,918	4,583	12.9	72.6	14.5
Colorado.....	3,699	400	107	294	.....	3,298	2,664	634	10.8	72.0	17.1
Connecticut.....	9,792	.....	.....	.....	.....	9,792	7,566	2,227	.....	77.3	22.7
Delaware.....	1,235	.....	.....	.....	.....	1,235	1,235	.....	100.0	.....	.....
Dist. of Columbia.....	2,736	.....	.....	.....	.....	2,736	2,325	411	.....	85.0	15.0
Florida.....	10,984	164	160	4	.....	10,820	8,965	1,855	1.5	81.6	16.9
Georgia.....	3,231	430	87	343	.....	2,801	1,685	1,116	13.3	52.2	34.5
Hawaii 2.....	1,970	.....	.....	.....	.....	1,970	1,970	.....	100.0	.....	.....
Idaho.....	700	182	56	126	.....	518	408	110	26.0	58.3	15.7
Illinois.....	34,858	1,602	1,017	8	577	33,256	27,050	6,206	4.6	77.0	17.8
Indiana.....	7,958	1,116	264	851	.....	6,842	4,270	2,573	14.0	53.7	32.3
Iowa.....	5,266	581	104	477	.....	4,685	3,923	762	11.1	74.5	14.5
Kansas.....	4,444	818	215	604	.....	3,625	2,490	1,135	18.4	56.0	25.5
Kentucky.....	4,197	947	226	472	249	3,250	2,711	539	22.5	64.6	12.8
Louisiana.....	3,100	777	92	685	.....	2,323	1,440	884	25.1	46.4	28.5
Maine.....	1,878	94	.....	.....	94	1,784	1,453	331	5.0	77.4	17.6
Maryland.....	9,212	1,962	66	1,077	819	7,250	7,053	198	21.3	76.6	2.1
Massachusetts.....	10,367	.....	.....	.....	.....	10,367	9,448	919	.....	91.1	8.9
Michigan.....	16,807	.....	.....	.....	.....	16,807	12,258	4,549	.....	72.9	27.1
Minnesota.....	2,261	27	27	.....	.....	2,234	1,806	428	1.2	79.9	18.9
Mississippi.....	1,206	358	57	301	.....	848	460	388	29.7	38.2	32.2
Missouri.....	7,985	853	222	631	.....	7,132	5,464	1,668	10.7	68.4	20.9
Montana.....	691	161	58	49	53	530	320	210	23.3	46.3	30.4
Nebraska.....	3,278	97	93	4	.....	3,181	2,319	862	2.9	70.7	26.3
Nevada.....	824	169	63	80	26	655	501	154	20.5	60.8	18.6
New Hampshire.....	1,307	.....	.....	.....	.....	1,307	1,199	108	.....	91.8	8.2
New Jersey.....	10,259	164	164	.....	.....	10,096	8,913	1,183	1.6	86.9	11.5
New Mexico.....	1,143	526	80	256	191	617	502	115	46.1	43.9	10.0
New York.....	44,685	1,741	.....	1,741	.....	42,945	42,945	.....	3.9	96.1	.....
North Carolina.....	8,945	322	138	183	.....	8,621	5,966	2,655	3.6	66.7	29.7
North Dakota.....	679	96	54	42	.....	583	441	142	14.2	64.9	20.9
Ohio.....	29,355	3,846	778	3,068	.....	25,509	18,575	6,935	13.1	63.3	23.6
Oklahoma.....	2,500	609	133	475	.....	1,891	1,592	499	24.3	55.7	20.0
Oregon.....	3,060	341	59	282	.....	2,719	2,299	420	11.1	75.1	15.7
Pennsylvania.....	15,305	.....	.....	.....	.....	15,305	15,305	.....	100.0	.....	.....
Rhode Island.....	2,643	.....	.....	.....	.....	2,643	2,091	552	.....	79.1	20.9
South Carolina.....	824	382	28	114	239	443	334	109	46.2	40.5	13.2
South Dakota.....	2,130	118	33	85	.....	2,013	1,481	532	5.5	69.5	25.0
Tennessee.....	3,883	542	178	364	.....	3,341	3,007	334	14.0	77.4	8.6
Texas.....	13,317	145	36	99	10	13,172	9,906	3,267	1.1	74.4	24.5
Utah.....	1,344	486	69	130	287	858	622	235	36.1	46.3	17.5
Vermont.....	480	.....	.....	.....	.....	480	409	70	.....	85.4	14.6
Virginia.....	6,962	742	161	581	.....	6,220	4,878	1,342	10.6	70.1	19.3
Washington.....	3,586	324	76	248	.....	3,263	2,606	657	9.0	72.7	18.3
West Virginia.....	4,011	870	333	537	.....	3,141	1,929	1,212	21.7	48.1	30.2
Wisconsin.....	11,257	.....	.....	.....	.....	11,257	9,535	1,722	.....	84.7	13.3
Wyoming.....	999	529	80	98	351	470	302	169	52.9	30.2	16.9
United States.....	355,716	27,843	5,939	18,754	3,150	327,873	271,419	56,456	7.9	76.3	13.9

1 Consisting of particular property types as follows: Arizona, Utah, and Wyoming, mining property; Illinois, capital stock of domestic corporations; Kentucky, distilled spirits in bonded warehouses; Maine, property in areas lacking organized town governments; Maryland, tangible personal property of corporations (\$806 million) and distilled spirits (\$13 million); Montana, proceeds of mines; Nevada, net proceeds of mines (\$20 million) and bank stock (\$5 million); New Mexico, mines (\$135 million), oil and gas contractors equipment (\$36

million), and shares of bank and trust companies (\$19 million); South Carolina, mostly textile and other manufacturing property; Texas, lands owned by the University of Texas.

2 All assessment in Hawaii is performed by a State agency, but valuations are shown here as "locally assessed" for comparability with data for other States.

Source: U.S. Bureau of the Census, *Taxable Property Values, 1962 Census of Governments, Vol. II.*

told billions of dollars worth of tangible and intangible personal property. Most States either exempt household goods entirely or allow a partial exemption of some fixed amount. Intangibles—money, stocks

and bonds, accounts receivable, and the like—are exempt from general property taxes in most States, although some subject selected intangibles to very low-rate special property taxes. In 1962 motor vehicles

were legally subject to general property taxation in 22 States, and to special property taxation at uniform statewide rates, in 9 (in Kentucky they are subject to general property taxes for local purposes and to special property taxes for State purposes). Table 37 provides information on the taxability for local general property taxes, of the four major classes of tangible personal property.

Because of the difficulty in locating personal property, the complexity of appraising some kinds of personalty, especially intangibles, and the tendency in many States to allow the taxpayer to assess his own, vast amounts of personal property escape *ad valorem* taxation—even in States, such as Illinois, where the property tax is legally intended as a comprehensive tax on substantially all private wealth.

Locally assessed real property, with a gross assessed valuation of \$282 billion in 1961, comprised three-fourths of the aggregate property assessments in the Nation and consisted of the following classes:<sup>2</sup>

	Amount (billions)	Percent
Residential (nonfarm) .....	\$163.3	57.9
Single-family houses only .....	135.8	48.2
Acreage and farms .....	32.7	11.6
Vacant lots .....	7.0	2.5
Commercial .....	44.5	15.8
Industrial .....	30.6	10.8
Other and unallocable .....	3.8	1.4
Total .....	\$281.9	100.0

Even the so-called “general property tax” is not general, for it bears differently on different kinds of property. The Census Bureau found considerable variation among property classes in the ratio of assessed value to market value (as represented by the selling prices of properties transferred during a six-month period in 1961). With a national average ratio for all locally assessed real estate of about 30 percent, nonfarm residential property was assessed, on the average, at 32 percent of

market value; acreage and farm property, at 19 percent; and vacant lots, at 21 percent. Owing to the paucity of commercial and industrial property transfers in some States, the 1962 *Census of Governments* did not arrive at a national average for that type of property. However, the data for individual States in which ratios were developed for commercial and industrial property indicate significant differences from the other classes (table 38).

### *The Role of the Property Tax in the National Tax Structure*

Except for a few ineffective attempts by Congress in the 1800's to levy direct taxes on real estate, apportioned among the States as required by the Constitution, *ad valorem* taxation of property has been left to the State and local governments. As is shown in table 39, three-fifths of the taxes collected by all governments at the turn of the century went to State and local governments, and about half of that total was accounted for by the property tax. As Federal tax requirements skyrocketed incident to two wars and a major depression, the State-local share of tax collections fell to one-third of the total by 1962, when the share of the property tax in Federal, State and local taxes was only 15.4 percent.

Over the years the States gradually relinquished property taxes in favor of income, sales, and excise taxes, leaving the field to their local governments. Thus, while States derived about half of their tax revenues from property taxes in 1902, the proportion had dropped to 17.4 percent by 1932, and property taxation has now virtually disappeared as a revenue source for most States. Although 29 States still obtained some revenue from general property taxes in 1962, only 3 placed substantial reliance on them—28.6 percent of State tax collections in Nebraska, 18 percent in

<sup>2</sup> U.S. Bureau of the Census, *Taxable Property Values, 1962 Census of Governments, Vol. II, p. 7.*

TABLE 37.—Legal Coverage of Major Types of Tangible Personal Property by Local General Property Taxes in the Various States, 1962

State	Commercial and industrial	Agricultural personalty	Household personal property	Motor vehicles
Alabama.....	X	X	<sup>1</sup> X	X
Alaska.....	L	L	<sup>1</sup> L	L
Arizona.....	X	X	X	E
Arkansas.....	X	X	X	X
California.....	X	X	X	E
Colorado.....	X	X	E	E
Connecticut.....	X	<sup>1</sup> X	E	X
Delaware.....	E	E	E	E
Dist. of Columbia.....	X	E	E	E
Florida.....	X	X	<sup>1</sup> X	E
Georgia.....	X	X	<sup>1</sup> X	X
Hawaii.....	E	E	E	E
Idaho.....	X	X	<sup>1</sup> X	E
Illinois.....	X	X	X	X
Indiana.....	X	X	X	X
Iowa.....	X	X	X	E
Kansas.....	X	X	<sup>1</sup> X	X
Kentucky.....	X	E	E	X
Louisiana.....	X	E	E	<sup>2</sup> E
Maine.....	X	X	( <sup>3</sup> )	E
Maryland.....	X	X	<sup>1</sup> L	E
Massachusetts.....	X	X	<sup>1</sup> X	E
Michigan.....	X	X	<sup>1</sup> X	E
Minnesota.....	X	X	L	E
Mississippi.....	X	E	E	X
Missouri.....	X	X	X	X
Montana.....	X	X	X	X
Nebraska.....	X	X	<sup>1</sup> X	X
Nevada.....	X	X	X	<sup>4</sup> X
New Hampshire.....	X	X	E	E
New Jersey.....	X	X	<sup>1</sup> L	E
New Mexico.....	X	X	<sup>1</sup> X	E
New York.....	E	E	E	E
North Carolina.....	X	X	<sup>1</sup> X	X
North Dakota.....	X	X	X	E
Ohio.....	X	X	E	E
Oklahoma.....	X	X	<sup>1</sup> X	E
Oregon.....	X	X	E	E
Pennsylvania.....	E	E	E	E
Rhode Island.....	X	X	<sup>1</sup> X	X
South Carolina.....	X	X	E	X
South Dakota.....	X	X	X	E
Tennessee.....	X	X	<sup>1</sup> X	X
Texas.....	X	X	<sup>1</sup> X	X
Utah.....	X	X	E	X
Vermont.....	X	X	<sup>1</sup> X	E
Virginia.....	X	X	L	<sup>5</sup> X
Washington.....	X	X	E	E
West Virginia.....	X	X	<sup>1</sup> X	X
Wisconsin.....	X	X	E	E
Wyoming.....	X	X	X	E
Number of taxing States.....	47	43	33	22

Note: X denotes legal taxability; E denotes exemption; L denotes local option; except in New Jersey and Virginia, the option to exempt these items is exercised in most jurisdictions.

<sup>1</sup> Subject to legal provision for partial exemptions.

<sup>2</sup> Municipalities (but no other local governments) can subject motor vehicles to general property taxation.

<sup>3</sup> Television sets only.

<sup>4</sup> Subjected to a statewide 4 mill special property tax in lieu of the general property tax, effective June 1, 1963.

<sup>5</sup> Revised.

Source: U.S. Bureau of the Census, *Taxable Property Values*, 1962 Census of Governments, Vol. II.



TABLE 38.—Ratio of Assessed Value to Sales Price for Real Properties Involved in Measurable Sales During a Six-Month Period, by Type of Property, by State, 1961  
(Simple sales-based averages)

State	All types of property <sup>1</sup>	Nonfarm residential	Acreage and farms	Vacant lots	Commercial and industrial
Alabama.....	19.4	20.2	14.2	19.4	20.0
Arizona.....	14.2	18.5	4.8	5.8	10.0
Arkansas.....	13.4	15.4	9.5	12.1	11.4
California.....	17.6	19.7	11.0	14.0	16.5
Colorado.....	24.6	27.3	13.2	12.3	30.2
Connecticut.....	53.2	54.6	44.9	50.7	50.0
Delaware.....	54.1	57.2	19.2	40.5	66.7
Dist. of Columbia.....	46.7	48.8	XXX	20.7	53.8
Florida.....	40.3	48.4	30.6	23.6	38.2
Georgia.....	21.3	25.1	11.3	16.8	( <sup>2</sup> )
Hawaii.....	46.2	50.2	35.2	41.5	( <sup>2</sup> )
Idaho.....	10.8	10.4	11.2	12.5	13.6
Illinois.....	43.5	43.1	35.7	32.1	55.1
Indiana.....	22.3	23.9	14.0	14.1	27.1
Iowa.....	23.4	23.1	25.1	16.4	26.8
Kansas.....	18.8	19.1	21.2	14.0	13.0
Kentucky.....	27.0	29.2	17.9	24.2	32.3
Louisiana.....	18.9	21.3	13.1	10.7	17.4
Maine.....	44.3	45.5	25.2	33.3	53.7
Maryland.....	44.7	51.2	19.6	31.3	45.0
Massachusetts.....	37.6	38.3	28.9	25.1	36.7
Michigan.....	32.3	33.4	27.3	30.6	28.8
Minnesota.....	9.6	8.7	9.4	14.6	11.8
Mississippi.....	14.0	16.0	11.5	9.0	11.8
Missouri.....	25.8	27.2	21.1	21.6	25.1
Montana.....	7.4	8.3	5.1	5.4	9.0
Nebraska.....	25.9	27.2	22.2	14.8	30.2
Nevada.....	23.2	24.3	16.9	18.0	( <sup>2</sup> )
New Hampshire.....	41.2	42.7	31.2	33.7	43.3
New Jersey.....	27.7	27.7	13.5	18.8	37.1
New Mexico.....	15.7	17.4	11.0	11.2	13.8
New York.....	44.0	42.8	31.0	28.0	55.1
North Carolina.....	30.2	36.0	20.5	13.8	44.1
North Dakota.....	16.5	16.1	23.2	13.2	10.7
Ohio.....	33.9	37.8	23.6	22.8	23.5
Oklahoma.....	19.3	20.6	15.2	15.8	16.6
Oregon.....	23.9	26.6	15.2	16.3	24.5
Pennsylvania.....	32.4	33.8	18.2	20.4	34.7
Rhode Island.....	65.5	66.2	32.1	47.0	85.0
South Carolina.....	5.6	5.9	4.6	5.0	5.9
South Dakota.....	41.6	41.4	41.6	32.8	50.8
Tennessee.....	28.4	32.3	18.8	14.3	28.8
Texas.....	17.5	19.4	8.6	12.4	17.2
Utah.....	14.1	14.2	12.0	11.8	17.5
Vermont.....	25.9	26.5	25.8	20.9	24.2
Virginia.....	28.9	31.7	17.3	17.9	34.7
Washington.....	14.5	15.4	10.4	10.4	17.2
West Virginia.....	32.8	32.4	30.9	25.4	( <sup>2</sup> )
Wisconsin.....	48.1	50.2	39.7	39.8	44.1
Wyoming.....	19.3	19.5	17.0	15.1	20.5
United States <sup>3</sup> .....	29.5	32.1	18.6	20.5	( <sup>2</sup> )

XXX—Not applicable.

<sup>1</sup> Includes a minor amount of property classed as "other and unallocable."

<sup>2</sup> Not computed because of insufficient sales representation in these States. Because of this, no average ratio for

the United States has been computed.

<sup>3</sup> U.S. averages include estimated data for Alaska, not shown separately.

Source: U.S. Bureau of the Census, *Taxable Property Values, 1962 Census of Governments, Vol. II.*

TABLE 39.—Federal, State, and Local Tax Collections, by Level of Government, Selected Years 1902–62

(Dollar amounts, except per capita, in millions)

Year	Total taxes		Property taxes			State and local as percent of all governments	
	Amount	Per capita	Amount	Per capita	Percent of total taxes	Total taxes	Property taxes
<b>ALL GOVERNMENTS</b>							
1902.....	\$1,373	\$17.34	\$706	\$8.92	51.4	.....	.....
1927.....	9,451	79.40	4,730	39.74	50.0	.....	.....
1932.....	7,977	63.90	4,487	35.94	56.2	.....	.....
1942.....	20,793	154.18	4,537	33.64	21.8	.....	.....
1952.....	79,066	503.49	8,652	55.10	10.9	.....	.....
1962.....	123,785	666.15	19,056	102.55	15.4	.....	.....
<b>STATE AND LOCAL</b>							
1902.....	860	10.86	706	8.92	82.1	62.6	100.0
1927.....	6,087	51.13	4,730	39.74	77.7	64.4	100.0
1932.....	6,164	49.38	4,487	35.94	72.8	77.3	100.0
1942.....	8,528	63.24	4,537	33.64	53.2	41.0	100.0
1952.....	19,323	123.06	8,652	55.10	44.8	24.4	100.0
1962.....	41,523	223.46	19,056	102.55	45.9	33.5	100.0
<b>STATE</b>							
1902.....	156	1.98	82	1.03	52.6	11.4	11.6
1927.....	1,608	13.50	370	3.10	23.0	17.0	7.8
1932.....	1,890	15.14	328	2.66	17.4	23.7	7.4
1942.....	3,903	28.68	264	1.95	6.8	18.8	5.8
1952.....	9,857	62.94	370	2.37	3.8	12.5	4.3
1962.....	20,561	111.12	640	3.46	3.1	16.6	3.4
<b>LOCAL</b>							
1902.....	704	8.88	624	7.89	88.6	51.2	88.4
1927.....	4,479	37.63	4,360	36.64	97.3	47.4	92.2
1932.....	4,274	34.24	4,159	33.28	97.3	53.6	92.6
1942.....	4,625	34.56	4,273	31.69	92.4	22.2	94.2
1952.....	9,466	60.12	8,282	52.73	87.5	11.9	95.7
1962.....	20,963	112.34	18,416	99.09	87.9	16.9	96.6

Source: U.S. Bureau of the Census, *Historical Summary of Governmental Finances in the United States, 1957 Census of Governments*, Vol. IV, No. 3, and *Governmental Finances in 1962*, October 1963.

Wyoming, and 13.3 percent in Arizona. The general property tax provided between 5 and 10 percent in five States and from 3 to 5 percent in seven others.<sup>3</sup>

As a result of the transformation that has occurred in the national tax structure since the turn of the century, the property tax is now one of the very few major tax areas involving little or no tax overlapping among the three levels of government,

Federal, State, and local.<sup>4</sup> Apart from customs duties, the only other taxes that are substantially the province of a single level of government are the income taxes and the motor vehicle and operators' licenses. The Federal Government accounts for 94 percent of income tax collections; the

<sup>3</sup> Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, June 1963, Vol. 1, pp. 71–72.

<sup>4</sup> See chap. 2.

States for the same percentage of automotive licenses. Although the States receive only about 5 percent of all income tax collections, that source represents almost 20 percent of their total tax take; the property tax only 3 percent.

While there is little *interlevel* overlapping of property taxation, there is considerable overlapping *among* local govern-

ments. Thus, the assessed value of property in a particular area may well serve as the base for property tax levies by at least a county and a municipality, and often by a school district, a township, and one or more special districts. Of the \$18.4 billion property taxes collected by local governments in 1962, the largest share—almost 40 percent—went to school districts, while

*Local Government General Revenue, by Type of Government, 1962*  
(Dollar amounts in millions)

Type of local government	Total general revenue	Tax revenue				
		Total	Property taxes only			
			Amount	Percent distribution	As percent of general revenue	As percent of total tax revenue
Counties .....	\$8,521	\$4,162	\$3,888	21.1	45.6	93.4
Municipalities .....	13,060	7,846	5,744	31.2	44.0	73.2
School districts .....	14,232	7,394	7,289	39.6	51.2	98.6
Townships and special districts .....	3,351	1,561	1,495	8.1	44.6	95.8
Total .....	<sup>1</sup> 38,357	20,963	18,416	100.0	48.0	87.9

<sup>1</sup> To eliminate duplication, transactions among local governments are excluded from local aggregate.

townships and special districts together obtained only about 8 percent.

Among the classes of local government, school districts rely most heavily upon property taxes, obtaining almost all their tax revenue and over half of their total general revenue from that source in 1962. Counties, and townships and special districts depended almost as much as school districts on property taxes, while municipalities derived less than three-fourths of their taxes and 44 percent of their total general revenue from the property tax.

The property tax is the most productive single source of revenue in the combined State and local tax structure. The \$19 billion collected in fiscal 1962 by 82,319 State and local governments with taxing powers represented 46 percent of all State and local tax collections. As table 40 indi-

cates, however, individual States and their local governments vary considerably in their reliance on property taxation, ranging from 16 percent of total taxes in Hawaii to 70.3 percent in Nebraska. This variation is summarized by the following distribution for 1962:

<i>Property tax as percent of total State and local taxes</i>	<i>Number of States<sup>1</sup></i>
Less than 20 .....	1
20-29.9 .....	10
30-39.9 .....	19
40-49.9 .....	13
50-59.9 .....	14
60-69.9 .....	3
70 and over .....	1
Total .....	51

<sup>1</sup> Includes the District of Columbia.

### *Property Tax Rates*

Throughout the history of the property tax there have been periodic outcries that property bears too large a share of the tax burden and that tax rates have reached

their saturation point. These cries have had their effect, usually during depression periods, and in most States are reflected in constitutional or statutory property tax rate limitations. These limitations and their effects on local governments were examined in some detail by the Advisory Commission.<sup>5</sup> The Commission found that while property tax restrictions might have had some initial impact in limiting tax rates, local governments have in the long run contrived to expand their property tax revenue in spite of the limitations. On balance, they have had damaging effects on the structure and fiscal operation of local governments which far outweigh any presumed benefits from them.

Property tax rate restrictions have stimulated the creation of special districts for the primary purpose of gaining additional taxing authority and thus have aggravated the proliferation of local governments. They have necessitated recourse to short-term financing to cover operating deficits, which ultimately had to be funded. They have encouraged long-term borrowing for activities that might better have been financed out of current revenue. They have necessitated extensive special legislation in some States to relieve individual jurisdictions, thereby in effect shifting the local governing bodies' appropriating function to State legislatures. They have impaired the ability of local officials to budget effectively where specific limitations apply to particular government functions. They have imposed onerous burdens on administrative agencies and added to the already overcrowded dockets of the courts. Where property tax limitations are especially rigid and communities have reached their tax limit, assessors are often subjected

<sup>5</sup> Advisory Commission on Intergovernmental Relations, *State Constitutional and Statutory Restrictions on Local Taxing Powers*, October 1962.

to conflicting pressures from governing bodies seeking additional property tax revenue and from taxpayers who wish to prevent property taxes from rising. They are thus forced into policymaking positions with control over the level of local government spending.

These considerations prompted the Advisory Commission to conclude that property tax rate limits should be removed from State constitutions and statutes.

The relinquishment of the property tax as a source of State government revenue and the ever-intensifying quest for local nonproperty taxes is another reflection, at least in part, of the desire to relieve the property tax burden.

As was shown in the previous section, States differ considerably in their reliance on property taxation to finance State and local public services. Partly because of these differences, the tax levied on property in one part of the country can vary considerably from the tax liability on property with identical value in another location. There are also other reasons for the uneven impact of the property tax.

Because of the significant interstate variations in assessment levels (see table 38) the nominal rates, or "mill rates," that are applied to assessed valuations cannot be compared meaningfully from State to State. Valid comparisons can be made by using statewide average "effective" property tax rates, computed by relating the tax liability to the actual value of the taxed property. Such effective rates, shown in table 40, ranged in 1960 from an estimated low of 0.5 percent in Alabama to an estimated high of 2.4 percent in Maine and Massachusetts.

As is to be expected, there is a striking relationship between the extent to which a State relies on the property tax and the magnitude of the statewide average effective

**TABLE 40.—The Property Tax in the State and Local Tax Structure, by State, 1962**  
(Dollar amounts, except per capitas, in millions)

State	Tax revenue of State and local governments				Property tax as percent of total taxes	Effective rate 1960
	Total		Property taxes	Other taxes		
	Amount	Per capita				
Alabama.....	\$437	\$132	\$89	\$348	20.3	0.5
Alaska.....	52	214	12	40	22.2	1.1
Arizona.....	331	223	161	170	48.7	1.0
Arkansas.....	258	140	75	183	28.9	.6
California.....	5,171	304	2,604	2,567	50.4	1.4
Colorado.....	483	255	234	249	48.5	1.4
Connecticut.....	675	257	357	318	52.9	1.6
Delaware.....	113	242	24	89	20.9	.7
District of Columbia.....	183	232	68	115	37.0	1.3
Florida.....	1,075	198	449	626	41.8	1.1
Georgia.....	622	152	196	426	31.5	.9
Hawaii.....	174	251	28	146	16.0	.7
Idaho.....	134	191	64	70	47.7	1.0
Illinois.....	2,441	242	1,298	1,143	53.2	1.5
Indiana.....	947	203	532	416	56.1	1.2
Iowa.....	639	230	362	277	56.6	1.2
Kansas.....	517	233	289	227	56.0	1.4
Kentucky.....	463	150	140	323	30.2	.8
Louisiana.....	654	194	148	507	22.6	.8
Maine.....	207	212	115	92	55.6	2.4
Maryland.....	714	221	298	416	41.8	1.5
Massachusetts.....	1,404	271	844	561	60.1	2.4
Michigan.....	1,899	237	939	960	49.4	1.8
Minnesota.....	867	251	476	392	54.8	1.9
Mississippi.....	317	140	95	222	29.8	.7
Missouri.....	809	187	344	465	42.5	1.1
Montana.....	162	232	92	70	56.6	1.1
Nebraska.....	266	184	187	79	70.3	1.4
Nevada.....	96	273	31	64	32.7	.9
New Hampshire.....	124	199	78	45	63.3	1.9
New Jersey.....	1,492	235	967	525	64.8	2.3
New Mexico.....	187	187	47	140	25.1	.6
New York.....	5,408	309	2,374	3,033	43.9	2.1
North Carolina.....	740	157	207	533	28.0	.8
North Dakota.....	137	217	74	64	53.6	1.3
Ohio.....	1,993	199	1,038	955	52.1	1.4
Oklahoma.....	456	186	141	315	31.0	.9
Oregon.....	416	230	196	220	47.2	1.6
Pennsylvania.....	2,360	207	841	1,519	35.6	1.3
Rhode Island.....	191	218	93	99	48.5	1.9
South Carolina.....	334	136	89	251	26.7	.8
South Dakota.....	149	207	86	63	58.0	1.4
Tennessee.....	527	144	176	351	33.3	1.0
Texas.....	1,857	183	845	1,012	45.5	1.0
Utah.....	205	214	89	116	43.3	1.1
Vermont.....	90	232	40	50	44.0	2.1
Virginia.....	623	147	224	399	36.0	.9
Washington.....	760	253	236	524	31.0	.9
West Virginia.....	307	171	84	223	27.2	.9
Wisconsin.....	979	244	547	432	55.9	1.9
Wyoming.....	82	246	44	38	53.5	1.0
United States.....	41,523	223	19,056	22,467	45.9	1.4

Source: U.S. Bureau of the Census, *Governmental Finances in 1962*, October 1963; Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October 1962, p. 125.

tive rate. Every one of the 16 States with an effective rate of less than 1 percent places less than average reliance on the property tax in its State and local tax structure. Conversely only 3 of the 14 States with effective rates of 1.5 percent or more derive less than 46 percent (the national average) of their State and local tax revenue from the property tax.

The overall level of State and local taxation is also a factor in the size of the effective property tax rate. In general, the States with low effective property tax rates raise the smallest amount of total taxes relative to their populations. This is true especially of the Southern States, as can be seen from table 40. There are exceptions. Hawaii, for example, places a relatively small burden on property (effective rate 0.7 percent) but has a high per capita overall tax burden (\$251 compared with a national average of \$223). To a lesser degree this is true also of Washington. Those States use income and consumer taxes to finance a relatively high level of public expenditure. States like New Jersey and Massachusetts, also with relatively high public expenditures, finance them to a considerable extent from the property tax.

#### *Operation of the General Property Tax*

Administration of the property tax is governed by State constitutional and statutory provisions, which usually spell out in considerable detail the rules under which property taxation operates. Although the States have virtually relinquished the property tax as a State revenue source, they have considerable influence on its administration. The States decide how the assessment and collection machinery is organized, including the division of responsibility between State and local officials.

The property tax base can be limited or

narrowed by State action. Every State legislative session deals with many bills aimed at reducing property taxes in one way or another. Most often these efforts take the form of allowing or increasing exemptions, such as those for homesteads, veterans, and, of late, senior citizens. Almost invariably these exemptions—the “property tax giveaway system” as it has been called<sup>6</sup>—are imposed upon local governments by State law without revenue being provided to them to replace the tax loss. As a result, property taxpayers not eligible for such exemptions find their rates increased. As has been mentioned, even the amount of revenue local governments can raise from property taxation is restricted by State constitutional and statutory provisions, usually in the form of tax rate limits.

Property tax administration involves three basic operations: (1) assessment, or setting the taxable property values; (2) determination of the amount of revenue to be raised from the property tax, or setting the levy; and (3) collecting the tax.

Assessed values are usually determined by both State and local government officials. In most States the taxable value of operating railroad and other utility property is set by the State tax agency. As a rule, the State agency arrives at a unit value on the entire operating property of a public utility company and then distributes the valuation in some proportional basis among the taxing units in which its properties are located. In some

<sup>6</sup> Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, June 1963, Vol. 1, p. 11. A variant on the senior citizens' homestead exemption is Oregon's alternative deferral system, enacted in 1963. A homeowner over 65 may defer property tax payments until his death or so long as he occupies his home. Deferred taxes are repayable with 6 percent interest. The deferral is in fact financed by the Public Employees' Retirement Fund which reimburses local taxing jurisdictions currently and is in turn reimbursed, with interest, when the account is settled.

States the State agency appraises other kinds of business property, such as mines, liquor, business inventories, and the like.<sup>7</sup> In Oregon the State tax agency appraises timber in behalf of the local assessors.

Local assessors determine the assessed value of all other taxable real and personal property under their jurisdiction. Local assessment organization differs considerably from State to State, varying from that in 28 States in which the county is the primary assessing unit to that in 12 States with hundreds of city, village, and township assessors.<sup>8</sup> Hawaii is the only State that provides for completely centralized administration of the property tax by a State agency.

In the 28 States with primarily county assessment there is considerable overlapping of the assessment function. Ten permit cities to do their own assessing, even though the county also determines the taxable value of the property; and in Texas even school districts may do their own assessing.<sup>9</sup> Assessors may be part-time elected officials covering very small jurisdictions, or they may be full-time, well-paid appointed officials, as in many of the large municipalities. The local assessor usually has a great deal of discretion as to the value he can set on an individual piece of property, although a taxpayer who is dissatisfied with his assessment can appeal to an administrative body (usually a local board of equalization) and finally to the courts. There is a considerable range in the extent to which assessing has been professionalized and in the kind of tools assessors use. Some States with effective State tax agencies provide much assistance to

their local assessors, but in many areas property assessment remains the subjective prerogative of the assessors. It is at the assessment stage that many of the abuses attributed to the property tax appear.

The taxpayer's first line of defense against inequitable assessment is the competent organization and procedure for good quality primary assessment, but he is entitled to effective remedies when he has a grievance. The State tax laws specify that assessments shall be uniform, at least within classes of property, and under the equal protection clause of the Fourteenth Amendment the taxpayer is entitled to fair treatment in the apportionment of the tax burden; but in most States the review and appeal procedures give him inadequate protection.

In many States the statutory hierarchy of administrative and judicial review and appeal agencies for the protection of the property taxpayers is elaborate; but actual protection under the various systems is illusory because, first, the tribunals to which the taxpayer must appeal are not well constituted and staffed for the purpose, and second, the burden of proving his case is too onerous and costly. The small taxpayer, in particular, is helpless if he has no simple, inexpensive, and dependable recourse. While numerous States have been undertaking to improve assessment administration by such means as better State supervision, better training for assessors, statewide revaluations, experimentation with fractional assessment, and the use of assessment ratio studies for equalization purposes, they have tended, for the most part, to ignore the need to improve the procedure for assessment review and appeal.

The amount of the individual's property tax bill is determined by the legislative body of the jurisdiction or juris-

<sup>7</sup> See table 36, footnote 1.

<sup>8</sup> See Advisory Commission on Intergovernmental Relations, *op. cit.*, especially Vol. 1, Part III, for a description of State assessment organization.

<sup>9</sup> Marilyn S. Koplik, *Property Tax Assessment in the United States* (Albany: New York State Board of Equalization and Assessment, 1961, preliminary report), pp. 90-92.

dictions in which his property is located. Each of the local governments—county, city, school district, etc.—decides how much it will need to provide its services. Having determined how much money will be needed, the chief executive, with his finance officer, adds up the amount of money available from all sources except the property tax—State and Federal aid, local nonproperty taxes, service charges, etc. The amount that remains to be financed from the property tax is then divided by the total assessed valuation to arrive at the tentative rate, usually expressed as a number of mills, or dollars per thousand dollars of assessed valuation. The determination of the actual rate levied and therefore the level of expenditures is a political decision vested in the local governing board. Since, as has been mentioned, almost all States have constitutional or statutory tax-rate limitations, often in terms of particular governmental purposes, setting the tax rate is complicated further. In many States, State-imposed limitations hamstringing local officials in budgeting their funds.

When the tax rate (or levy) is finally set, the assessment roll, containing the assessed valuation of each piece of taxable property in the jurisdiction, is turned over to the tax collector. The collector (or some other official) multiplies the assessed valuation by the rate (extends the tax) to arrive at the amount of tax liability that attaches to each parcel of property.

In 20 States property tax collection is exclusively a county function, and the county collector bills the taxes for all jurisdictions in the county—municipalities, school districts, and special districts, as well as the county.<sup>10</sup> Another eight States pro-

<sup>10</sup> The 20 States are Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Utah, Washington, and West Virginia.

vide for centralized county collection but allow cities to do their own collecting with the option of contracting with the county for collection services.<sup>11</sup> To the extent that cities do not contract with their counties for tax collection services in those States, taxpayers pay part of their property tax to the county and part to the city. In the New England States, as well as in Michigan, New Jersey, New York, Pennsylvania, and Wisconsin, the property taxes are collected by cities, towns, villages, and boroughs, and in the case of New York, by school districts. The counties have little or no tax collecting function in those States, obtaining their own tax levies from the cities and towns that collect for them. Except in Michigan and New York, however, there is little or no overlapping of tax collection, for in almost all other States a taxpayer is billed by only one governmental unit, to meet its own levy and that of the county and the school district in which he resides. In New York a taxpayer may be confronted with separate property tax bills from the township collector, the village collector, and the school district collector. Even the billing dates may differ for each local government. In Michigan, villages collect their own taxes, as do the townships in which they are located. Similar situations exist in Kentucky and Texas, where cities and school districts may do their own collecting independently of the counties. In Virginia, counties and independent cities do their own collecting, but there is no overlapping between them since the two groups of jurisdictions are mutually exclusive territorially.

### *The Need for Reform*

Many States are now taking some of the steps necessary to improve the administra-

<sup>11</sup> Alabama, California, Florida, Louisiana, Maryland, Mississippi, North Carolina, and Tennessee.



tion of their property tax systems. With the advice and encouragement of such organizations as the National Association of Tax Administrators and the International Association of Assessing Officers, there is a continuing trend toward training and professionalization of personnel. The geographic organization for property assessment has been moving toward centralization at the county level and elimination of overlapping assessment districts. More than half of the States now conduct assessment-ratio studies, using sampling techniques to reveal variations in assessment levels among assessing jurisdictions and among property classes within assessing jurisdictions. The facts gained from such studies point up the areas that lack uniformity and provide a useful tool for correcting inequities and for installing a meaningful equalization system. As the techniques for conducting assessment ratio studies are refined and competent personnel becomes available to apply them, more States will use them in their efforts to improve property tax assessment administration.

The States have compelling reasons for a new look at the property tax. Their views as to its proper role in their overall tax systems are sure to vary, but none of them can afford to disregard its potential value for the demanding years ahead. Those States that place substantial dependence on the property tax can increase its reliability by raising the quality of its administration. The few States that have not found it necessary to put much dependence on this tax can turn to it for a better-balanced revenue system. The States that have permitted it to decline to a minor position through pressure or neglect, or have reduced its productivity through maladministration, or fear to put more reliance on it because its manage-

ment is defective, have weakened their financial outlook. The States now undertaking remedial action are showing foresight because constructive changes in the management and use of the tax are not effected overnight, and smooth adjustment can avoid harsh emergency measures at some later date.

One factor that should be kept in view in determining the future position of the property tax is its close alinement with the outlook for local self-government. It is the only major tax adaptable to local use generally, regardless of the size and nature of the local jurisdiction. Aside from being a good revenue producer, it has the dependability and adjustability that local governments need. The required revenue yield can be obtained from year to year with a convenient range of flexibility and a satisfactory degree of precision, and the collectability of most classes of property taxes is assured by enforceable lien on the property. These merits are vitiated in practice, however, if highly restrictive tax-rate limits combine with serious underassessment to relegate the property tax to an inflexibly minor role in local government finance and inferior assessment administration discredits the tax.

In at least a few States criticism of the property tax has been so intense as to generate constantly increasing fiscal aid to local governments, regardless of whether the local fiscal effort is adequate, or to deprive them of the opportunity to develop sound budgeting and capital financing policies.

Determination of the property tax base is strictly an administrative function demanding technical competence. Most, if not all, States could improve their property taxes by legislative and administrative action and contribute thereby to the strength of local government.

A recent report of this Commission details those significant features of each State's property tax system that are potentially useful for other States.<sup>12</sup> The report also contains 29 separate recommendations for strengthening the property tax, to enable each State to identify those lines of action most appropriate to its circumstances. The recommendations fall into six basic categories, as follows:

(1) To provide, on a regular basis, precise information on the property tax situation throughout all taxing and assessing districts in the State with respect to the utilization of the tax and the quality of assessing, and to make well-analyzed and informative reports on these features regularly available to the public.

(2) To amend or change property tax laws that are inequitable, unworkable, unduly restrictive, or otherwise unsatisfactory and to rid constitutions of details that more properly belong in statutes or administrative regulations. This applies equally to laws which determine the tax base, establish limitations and exemptions, and set forth the procedures for administering the tax.

(3) To determine the appropriate role of the property tax in a well-integrated State-local revenue system.

(4) To recast any features of the administrative setup, with respect to both organization and personnel, that prevent efficient and equitable administration.

(5) To provide effective State supervision, coordination, and technical assistance to the administration of the property tax and to guard against unfairness in distribution of the property tax burden.

(6) To provide the taxpayer with readily usable and effective means of protecting himself against inequitable assessment.

<sup>12</sup> Advisory Commission on Intergovernmental Relations, *op. cit.* in note 6.

Specifically, the Commission recommends, among other steps, that the States:

(1) Rid the property tax laws of features that are impossible to administer, oblige administrators to condone evasion, and encourage taxpayers to ignore the law.

(2) Remove details about property tax administration from their constitutions.

(3) Take a hard, critical look at tax exemptions that fritter away the property tax base and repeal exemptions for secular purposes that would not be valid as a continuing State budget appropriation.

(4) Reimburse local governments for revenues lost when the State prescribes the tax exemption of property as an expression of its esteem for such groups as veterans or senior citizens.

(5) Consolidate small primary assessment districts into districts large enough to support an efficient assessing operation.

(6) Provide a strong State supervisory and coordinating agency headed by a career administrator of recognized professional ability.

(7) Shift to the State agency responsibility for assessing property that customarily lies in more than one assessing district or requires appraisal specialists not available to most local districts.

(8) Require local assessors to be appointed to office on the basis of professional qualifications.

(9) Conduct continuing studies of the quality of local assessing and publish findings regularly.

(10) Simplify assessment review and appeal procedures for the protection of taxpayers.

Since the State creates local governments and determines their share of the governing role, it must see to it that they have the financial resources necessary to match their responsibilities. If the locally

raised revenue is inadequate to finance the prescribed duties of local governments, the State must provide it or rely on the Federal Government to provide it.

Inasmuch as local governments continue to rely on the property tax for seven-eighths of all their locally raised tax revenue, it is the most important single factor in their ability to finance local activities. It follows that the States' concern with the quality of property taxation is direct and inescapable.

States are directly concerned with the quality of property taxation for other reasons as well. The \$21 billion collected from this source in 1963 nearly equaled the combined collections from the States' own taxes and accounted for 46 percent of aggregate State and local tax revenues. In short, it is the most important single factor in the impact of non-Federal taxes on the pace of industrialization and economic development, on production, income, and consumption, and on the distribution of the people's tax burden.

While the proportionate reliance on the property tax in the total State-local revenue system is a matter each State must determine for itself, continued heavy reliance on it is preordained by the unrelenting pressure for more and more revenue to finance local government activities, especially education. If this be true, and few if any contest it, then it is vitally important to rid the property tax of the weaknesses that have plagued it but have been tolerated all these years: Needless and harmful constitutional and statutory restrictions and prescriptions, unwarranted exemptions, inoperable administrative provisions, and discriminatory valuations for tax assessment purposes. The burdensomeness of the tax and its stultifying effect on business activity will be reduced as these deficiencies are remedied.

Thwarted local efforts in recent years make it clear that without benefit of strong State support, local governments are severely handicapped in property tax reform. Most are too small to afford the organization and technical skill required to appraise and assess the wide variety of highly specialized properties currently used by industry. Sensitivity to intercommunity competition for business restrains tax reform and encourages competitive underassessment. Moreover, some of the faults of the tax are imbedded in State constitutional and statutory provisions and therefore are mandatory upon local governments.

A survey of the recent successes and failures in property tax reform in different parts of the country, at both the local and the State level, leaves no doubt that the tax is capable of reasonably fair operation and administration, that the rate of progress in this direction is strongly influenced by the degree of responsibility assumed on a statewide basis, and that tax officials, practitioners, and scholars are in general agreement about the lines of action States must take to give soundly based local property tax improvement efforts a reasonable chance to succeed. However, the details of the prescription for strengthening the property tax will vary with the tax institution in each individual State and with the progress toward reform already made.

Each State is urged to take a hard and critical look at its property tax system to identify those features that should and can be improved. Each State should then proceed expeditiously with property tax reform in the manner best calculated to insure maximum progress. Its potential for strengthening local government warrants the concerted efforts of both State legislatures and executives and of local elective and administrative officials.

## Chapter 7

### GENERAL SALES TAXES

Thirty-seven States, the District of Columbia, and over 2,000 local governments now impose general sales taxes.<sup>1</sup> The areas in which purchases are subject to State and local general sales taxes account collectively for more than four-fifths of retail sales in the country and the same proportion of the population.

With only two exceptions, general sales taxes are imposed at the retail stage of the distribution process. Hawaii and Mississippi have what may be termed "multiple-stage" sales taxes. That State sales taxation was directed at the retail stage, rather than at manufacturing (as in Canada), wholesaling (as in England), or at multiple stages of production and distribution (as in Germany and France), is understandable.<sup>2</sup> The manufacturers', wholesalers', and multiple-stage sales taxes of other coun-

tries are levied by the central government. Such taxes at the State level, in view of the States' delimited taxing jurisdictions, would result in interstate complications. Furthermore, the location decisions of retail establishments are believed to be somewhat less sensitive to "tax climate" considerations than are those of manufacturers or wholesalers.

The Federal Government has never imposed a general sales tax although such a proposal has been "discussed" sporadically. Federal sales taxation is in the form of excises on selected commodities and services, many of which are included within the scope of State and local general sales taxes. Important Federal selective excises which cover items subject to State and local sales taxes are the retailers' excises on jewelry, toilet preparations, luggage, and furs and the manufacturers' excises on automobiles, tires and tubes, and home appliances. The Federal excises on local telephone service, and on certain admissions sometimes overlap State and local sales taxes on these services. The Federal rates, generally 10 percent, are substantially higher than the rates imposed under State and local sales taxes.

State and local governments collected \$6.5 billion from general sales taxes in the 12-month period ended June 1963. Of that total, \$5.5 billion accrued to the States and about \$1 billion to the localities (table 41). The general sales tax constitutes the largest single source of State tax

<sup>1</sup> The term "general sales tax" excludes business licenses and occupation and privilege taxes based on gross receipts or gross income. Such taxes are imposed by State or local governments in 17 States at low fractional rates, sometimes graduated according to brackets of gross receipts volume, and usually providing for a minimum flat license fee. The States with business licenses or occupation taxes based on gross receipts are: Alaska and Delaware (State only); Louisiana, Virginia, Washington, and West Virginia (State and local); Alabama, California, Kentucky, Missouri, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, and Utah (local only).

<sup>2</sup> Only one State has experimented with a general tax on business. The Michigan business activities tax, enacted in 1953, is a limited "value-added" tax, applicable to all forms of business, both incorporated and unincorporated. The rate is 7¼ mills on "adjusted receipts" (gross receipts less amounts paid for the purchase of goods and certain other deductions), but in no case can "adjusted receipts" be more than 50 percent of gross receipts. In addition, each taxpayer is allowed a deduction of \$12,500 from his "adjusted receipts."

TABLE 41.—Revenue from State and Local General Sales Taxes, 1952–63  
(Dollar amounts in millions)

Year	State and local		State <sup>1</sup>		Local		
	Amount	Percent of total taxes	Amount	Percent of total taxes	Amount	Percent of—	
						Total taxes	Non-property taxes <sup>2</sup>
1963 (prelim.).....	\$6,548	14.9	\$5,531	25.2	\$1,017	4.6	n.a.
1962.....	6,085	14.3	5,111	24.9	974	4.6	38.2
1961.....	5,431	14.0	4,510	23.7	921	4.7	37.8
1960.....	5,177	14.3	4,302	23.9	875	4.8	38.3
1959.....	4,444	13.7	3,697	23.3	747	4.5	37.3
1958.....	4,206	13.8	3,507	23.5	699	4.5	38.0
1957.....	4,029	14.0	3,373	23.2	656	4.6	36.5
1956.....	3,583	13.6	3,036	22.7	546	4.2	34.0
1955.....	3,090	13.2	2,637	22.7	453	3.8	31.0
1954.....	2,948	13.4	2,540	22.9	408	3.7	31.4
1953.....	2,860	13.7	2,433	23.1	427	4.1	34.1
1952.....	2,597	13.4	2,229	22.6	369	3.9	33.7

Note: Except for 1963, data are for fiscal years; 1963 data are for the 12-month period ended June 1963.

n.a. Data not available.

<sup>1</sup> Includes the Washington and West Virginia business and occupation taxes, which are levied in addition to the general sales taxes on gross receipts. Revenue from those gross receipts taxes in 1963 amounted to about \$125 million.

<sup>2</sup> Local nonproperty taxes for 1960 and prior years adjusted to exclude revenue from parking meters.

Source: U.S. Bureau of the Census, *Annual Reports on Governmental Finances*; and *Quarterly Summary of State and Local Tax Revenue, July–September 1963*, December 1963.

revenue, accounting for about one-fourth of all State tax collections. In no State imposing a general sales tax in 1963, except Wisconsin (where the tax is actually a “selective sales and use tax”), did this item account for less than a sixth of tax collections, and 22 of the 37 sales tax States obtained 30 percent or more of their tax revenues from this source (table 42). New sales tax enactments, tax rate increases, and the rise in the volume of retail sales combined to more than double State general sales tax revenue since 1952. However, as table 41 shows, the position of general sales taxes relative to other State taxes has changed very little, indicating that the yields of State income, business, and selective excise taxes have been keeping pace with general sales tax collections. Local general sales taxes have been increasing at a faster pace than have other local nonprop-

erty taxes, but they still comprise less than 5 percent of total local tax collections.

#### State Sales Taxes

Most of the existing State sales taxes were adopted during the Depression years. By 1938 sales taxes were in effect in 24 States.<sup>3</sup> Although the enactments of the 1930's were intended for the most part as temporary measures, only a small number of States eventually dropped them. The States turned to this form of taxation in the absence of other means to finance increasing expenditures. The yields of existing taxes were declining, and there was strong opposition to rate increases. Many of the most stringent property tax limitations were imposed during the Depression period, and a number of the State general sales taxes were enacted in part to replace property tax losses. With the improve-

<sup>3</sup> See chap. 3, table 6.

TABLE 42.—State General Sales Tax Collections, by State, 1952 and 1963  
(Dollar amounts in thousands)

State	1952		1963 (prelim.)		Percent increase 1952-63
	Amount	Percent of total tax collections	Amount	Percent of total tax collections	
Alabama	\$37,165	28.2	\$100,338	31.4	170.0
Alaska					
Arizona	22,246	31.9	82,203	39.5	269.5
Arkansas	27,569	27.7	66,722	35.2	142.0
California	416,494	39.1	813,310	31.8	95.3
Colorado	30,986	29.1	57,926	25.0	86.9
Connecticut	35,164	26.6	101,861	30.3	189.7
Delaware					
Florida	54,115	23.7	191,339	32.3	253.6
Georgia	93,654	41.1	171,965	38.9	83.6
Hawaii	<sup>1</sup> 31,211	<sup>1</sup> 52.2	67,648	50.8	<sup>1</sup> 116.7
Idaho					
Illinois	191,934	42.2	545,076	50.5	184.0
Indiana	126,746	49.0	215,002	48.7	69.6
Iowa	59,289	35.2	88,133	30.4	48.6
Kansas	44,684	33.7	84,333	35.3	88.7
Kentucky			102,370	30.4	( <sup>2</sup> )
Louisiana	54,288	19.2	96,900	19.0	78.5
Maine	11,212	19.9	30,137	30.8	168.8
Maryland	29,246	19.1	96,922	22.3	231.4
Massachusetts					
Michigan	245,660	48.9	499,884	43.7	103.5
Minnesota					
Mississippi	30,864	28.1	82,755	37.3	168.1
Missouri	83,287	45.0	135,369	32.7	62.5
Montana					
Nebraska					
Nevada			19,490	29.7	( <sup>2</sup> )
New Hampshire					
New Jersey					
New Mexico	22,618	35.0	42,847	28.8	89.4
New York					
North Carolina	51,821	18.6	145,942	24.8	181.6
North Dakota	12,290	27.3	17,607	25.7	43.3
Ohio	165,246	36.6	277,459	29.9	67.9
Oklahoma	40,990	21.8	62,827	19.5	53.3
Oregon					
Pennsylvania			397,770	31.4	( <sup>2</sup> )
Rhode Island	12,526	23.5	28,930	27.4	131.0
South Carolina	37,581	25.6	80,497	30.5	114.2
South Dakota	16,137	41.5	18,164	28.0	12.6
Tennessee	49,322	27.5	121,266	34.4	145.9
Texas			178,893	17.2	( <sup>2</sup> )
Utah	16,890	31.1	41,175	33.7	143.8
Vermont					
Virginia					
Washington	<sup>3</sup> 108,725	43.6	<sup>3</sup> 231,264	42.1	112.7
West Virginia	<sup>3</sup> 27,198	22.1	<sup>3</sup> 44,324	19.7	63.0
Wisconsin			55,440	9.2	( <sup>2</sup> )
Wyoming	7,804	32.3	12,400	27.5	58.9
Total	<sup>3</sup> 2,163,753	22.0	<sup>3</sup> 5,406,488	24.5	149.9

<sup>1</sup> Data supplied by Hawaii Department of Taxation; not included in U.S. total.

<sup>2</sup> Tax enacted after 1952.

<sup>3</sup> Excludes Washington and West Virginia business and occupation gross receipts taxes (estimated for 1952). The 1952 total excludes Hawaii.

Source: U.S. Bureau of the Census, *Compendium of State Government Finances in 1952*, and *State Tax Collections in 1963*, August 1963.

ment 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 persisted.

A second sales tax movement occurred after World War II as States sought ways to finance the high level of postwar expenditures. Five States enacted sales tax laws in 1947 and 1949, another five during the 1950's, and three more thus far in the present decade.

In 1963 Indiana revamped its fractional rate gross income tax, partly replacing it with a 2-percent retail sales tax, an individual income tax, and a corporation net income tax. While the old gross income tax law was not repealed, individuals are exempted from it, and corporations are liable for payment of either the gross income tax (at  $\frac{1}{2}$  of 1 percent or at 2 percent, depending on the nature of their business) or the adjusted gross net income tax, whichever is greater. Corporations may credit gross income tax payments against the corporation net income tax, and since in most instances liability under the gross income tax will exceed that under the corporation net income tax for intrastate Indiana corporations, the corporation net income tax has been characterized as essentially a tax on interstate business only.

*Rates.*—State general sales tax rates now range from 2 percent in nine States to 5 percent in one (table 43). There have been significant rate changes in a little more than a decade since 1952. That year the preponderant rate was 2 percent, imposed by 21 States and the District of Columbia; by January 1, 1964, 18 States and the District of Columbia had 3-percent rates, and there were only nine with 2-percent rates. The following dis-

tribution of State sales taxes summarizes the changes that have taken place:<sup>4</sup>

Rate (percent)	No. of States <sup>1</sup>	
	1952	1964
Less than 1 .....	1	.....
1 .....	.....	.....
2 .....	22	9
2½ .....	.....	1
2½ .....	21	1
3 .....	9	19
3½ .....	.....	3
4 .....	.....	4
5 .....	.....	1
Total .....	33	38

<sup>1</sup> Includes the District of Columbia.

<sup>2</sup> Hawaii, which is included in the 1952 count, although it was a Territory at that time.

Table 43 shows the trend in State general sales tax rates since 1952. During the period 1952 through 1963, 5 States entered the general sales tax field (Kentucky, Nevada, Pennsylvania, Texas, and Wisconsin), and two-thirds of the 33 States with general sales taxes in 1952 (including the District of Columbia) raised their rates. Some States raised their rates two or three times during the period. Iowa, an exception to the general trend, raised its rate temporarily from 2 to 2.5 percent but allowed it to revert to 2 percent in 1957, where it has remained since. The Connecticut rate has alternated between 3 and 3.5 percent since 1954.

Most rate changes and new tax enactments appear in table 43 as of January 1 of the even years, having been enacted in the preceding odd years, when the majority of States hold their regular legislative sessions. The most active legislative year on this score was 1963, when eight States raised their rates; the next most active year was 1961, with 6 rate increases and 1 new enactment. Eleven States re-

<sup>4</sup> This distribution does not take account of local sales taxes except for the District of Columbia. Local sales taxes, virtually statewide in California (1%) and Illinois ( $\frac{1}{2}$ %), and widespread in several other States, are discussed in a subsequent section.

TABLE 43.—State General Sales Tax Rates as of January 1—1952 through 1964

State	Rate on tangible personal property at retail (percent)												
	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Alabama.....	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4
Alaska.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Arizona.....	2	.....	.....	.....	.....	.....	.....	.....	3	.....	.....	.....	3
Arkansas.....	2	.....	.....	.....	.....	.....	3	.....	.....	.....	.....	.....	3
California.....	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
Colorado.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2
Connecticut.....	2	.....	3	.....	3½	3	.....	.....	.....	.....	3½	.....	3½
Delaware.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Dist. of Columbia.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3	3
Florida.....	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
Georgia.....	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
Hawaii.....	2½	.....	.....	.....	.....	.....	3½	.....	.....	.....	.....	.....	3½
Idaho.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Illinois.....	2	.....	.....	.....	2½	.....	.....	.....	3	.....	3½	.....	3½
Indiana <sup>1</sup> .....	¾	.....	½	.....	.....	.....	¾	.....	.....	.....	.....	.....	2
Iowa.....	2	.....	.....	.....	2½	.....	2	.....	.....	.....	.....	.....	2
Kansas.....	2	.....	.....	.....	.....	.....	.....	2½	.....	.....	.....	.....	2½
Kentucky.....	—	—	—	—	—	—	—	—	.....	.....	.....	.....	3
Louisiana.....	2	.....	.....	.....	.....	.....	.....	.....	.....	3	.....	.....	2
Maine.....	2	.....	.....	.....	.....	.....	3	.....	.....	.....	.....	.....	4
Maryland.....	2	.....	.....	.....	.....	.....	.....	3	.....	.....	.....	.....	3
Massachusetts.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Michigan.....	3	.....	.....	.....	.....	.....	.....	.....	.....	4	.....	.....	4
Minnesota.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Mississippi.....	2	.....	.....	3	.....	.....	.....	.....	.....	.....	.....	.....	2 3
Missouri.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
Montana.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Nebraska.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Nevada.....	—	—	—	—	2	.....	.....	.....	.....	.....	.....	.....	2
New Hampshire.....	—	—	—	—	—	—	—	—	—	—	—	—	—
New Jersey.....	—	—	—	—	—	—	—	—	—	—	—	—	—
New Mexico.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
New York.....	—	—	—	—	—	—	—	—	—	—	—	—	—
North Carolina.....	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
North Dakota.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2½
Ohio.....	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
Oklahoma.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2
Oregon.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Pennsylvania.....	—	—	1	.....	( <sup>8</sup> )	3	.....	.....	4	.....	.....	.....	5
Rhode Island.....	2	.....	.....	.....	.....	.....	3	.....	.....	.....	.....	.....	2 3
South Carolina.....	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
South Dakota.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2 2
Tennessee.....	2	.....	.....	3	.....	.....	.....	.....	.....	.....	.....	.....	3
Texas.....	—	—	—	—	—	—	—	—	—	—	2	.....	2
Utah.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	2½	.....	3
Vermont.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Virginia.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Washington.....	3	.....	.....	.....	3½	.....	.....	.....	4	.....	.....	.....	4
West Virginia.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3
Wisconsin.....	—	—	—	—	—	—	—	—	—	—	4 3	.....	3
Wyoming.....	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2
Number of States with tax <sup>9</sup> .....	33	33	34	34	34	35	35	35	35	36	38	38	38

Note: Dots (...) indicate no rate change since previous rate shown. A dash (—) indicates no sales tax in effect as of January 1.

<sup>1</sup> Prior to 1964 the rates shown are for the "gross income" tax, included because of its many sales tax features. On April 20, 1963, the Governor approved Indiana's new 2% sales and use tax bill which, after being declared unconstitutional by a lower court, was upheld by the State Supreme Court and went into effect October 23, 1963.

<sup>2</sup> Increased to 3½%, effective July 1, 1964 (Miss.) and June 1, 1964 (R.I.).

<sup>3</sup> Previous tax expired in 1955 and was reinstated in revised form by the Act of March 6, 1956, effective March 7, 1956, at the rate of 3%.

<sup>4</sup> Effective December 31, 1961. However, the tax was operative only on sales made on and after February 1, 1962.

<sup>5</sup> Includes District of Columbia; also includes Hawaii for the period prior to attaining statehood.

tained their 1952 rates throughout the period (California, Colorado, Florida, Georgia, Louisiana, North Carolina, Ohio, Oklahoma, South Carolina, South Dakota, and Wyoming), and as has been mentioned, Iowa reinstated its 2-percent rate after raising it to 2½ percent for 2 years.

Six of these 12 States still levy 2-percent rates.

The 2½-fold increase in State general sales tax revenue, from \$2.2 billion in 1952 to \$5.4 billion in 1963 (table 42), is attributable only in part to rate increases. As has been noted, five States entered the



sales tax field during the period.<sup>5</sup> Furthermore, the general sales tax base has been broadened, both in terms of increased retail trade and the removal of previous exemptions. This can be demonstrated by looking at the States that did not change their rates between 1952 and 1964. Three increased their sales tax yields relatively more than the 112 percent rise experienced by all 32 States with sales tax revenue reported for the entire period (that is, excluding Hawaii and the 5 new sales tax States). The sales tax yields of 7 rose from half to five-sixths of the national percentage increase. Only South Dakota showed a minimal rate of increase, 12.6 percent, but there the rate had been reduced from 3 to 2 percent on October 1, 1951, so that part of the collections for the fiscal year 1952 was at the higher rate.

Florida, with a 3-percent rate throughout the period, had a striking increase in sales tax collections, 254 percent, second only to Arizona (270 percent), which raised its rate from 2 to 3 percent. Retail sales volume has been rising in both States at a faster pace than in any other State (they ranked first and second, respectively, in rate of increase between 1954 and 1958, the last two retail trade census years). In conjunction with the sharp rise in retail sales, Florida has moved toward broadening its sales tax base by bringing within its scope previously exempted commodities, such as motor vehicles, cigarettes, alcoholic beverages, and inexpensive clothing. Other States have used the same method to increase sales tax revenue without raising rates. North Carolina eliminated its food exemption and made laundry and dry cleaning services taxable;

<sup>5</sup> Exclusion from the 1963 total of the yields of the 5 additional sales tax States and that of Hawaii, data for which are omitted from the 1952 total in table 42, reduces the 1952-63 growth in collections to 112 percent, compared with 150 percent for all States.

South Carolina brought many services, such as laundry and dry cleaning, transient lodgings, and utility services, within the purview of its tax. Inclusion of various services has been one of the notable recent trends in most State sales tax legislation, with or without rate increases. The cumulative impact of these events—increased rates, expanded retail trade, and broadening of the base—has been to move from 1.6 percent in 1952 to about 2.6 percent, the current ratio nationally of State sales tax collections to retail sales.

*The sales tax base.*—All but two 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 44). Mississippi, in addition to its 3-percent retail rate, taxes wholesale sales at the low fractional rate of one-eighth of 1 percent. The fact that wholesale transactions are taxable at such a low rate, applicable only to such sales to retailers, makes the Mississippi tax virtually a single-stage tax, as compared with Hawaii's tax. The Hawaii sales tax is applicable to manufacturers and wholesalers at  $\frac{1}{2}$  of 1 percent, on top of the  $3\frac{1}{2}$  percent retail sales tax. Extracting and processing industries are included in the sales tax base of Arizona, Mississippi, and New Mexico. North Carolina, which taxed wholesale sales at .05 percent, repealed that provision in 1961, and New Mexico repealed its fractional rates on wholesalers and manufacturers in 1963.

While State sales taxes apply generally to retail sales of tangible property, inclusion of some services in the sales tax base is quite common, and, as has been noted, this tendency appears to be gaining momentum. One or more public utility services are subject to tax in two-thirds of the States. Twenty-two States tax intra-state telephone and telegraph services, 24

TABLE 44.—State Sales Taxes: Types and Rates, January 1, 1964

State	Type of tax <sup>1</sup>	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 non retail businesses subject to tax
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water		
Alabama.....	Retail sales	2 4	4	4	4					Mining and manufacturing machinery, 1½ percent; gross receipts of amusement operators, 4 percent.
Arizona.....	do.....	3	3	1½	3	1½	1	1½	3 1½	Advertising, printing, publishing, contracting, extracting, and processing minerals and timber, 1½ percent; storage, apartment and office rentals, 3 percent; meat-packing and wholesale sales of feed to poultrymen and stockmen, ¾ percent; amusement operators, 3 percent.
Arkansas.....	do.....	3	3	3	3	3	3	3		Printing, photography, and receipts from coin-operated devices, 3 percent.
California.....	do.....	3		3						Producing, fabrication, processing, printing, or imprinting of tangible personal property, 3 percent.
Colorado.....	do.....	2		2	2	2	2			
Connecticut.....	do.....	3½		4 3½	3½					
Florida.....	do.....	2 3½	3	3	3					Fishing, hunting, camping, swimming and diving equipment, 5 percent of wholesale price or cost. Rental income of amusement machines, 3 percent.
Georgia.....	do.....	3	3	3	3	3	3		3 3	Charges on amusements and amusement devices, 3 percent.
Hawaii.....	Multiple stage sales	3½	3½	3½	3½					Manufacturers, producers, wholesalers, and selected service businesses, ½ percent; sugar processors and pineapple canners, 1 percent (½ of 1 percent commencing July 1, 1964); insurance solicitors, 1½ percent; contractors, sales representatives, professions, radio broadcasting stations, service businesses and other businesses (not otherwise specified), including amusement businesses, 3½ percent.
Illinois <sup>5</sup> .....	Retail sales	3½		3½						Property sold in connection with a sale of service, 3½ percent (2½ percent after June 30, 1965); remodeling, repairing, reconditioning, and rental of tangible personal property, 3½ percent.
Indiana.....	do.....	2		2	2	2	2	2		
Iowa.....	do.....	2	2	2		2	2	2		Gross receipts derived from operation of amusement devices and commercial amusement enterprises, 2 percent.
Kansas.....	do.....	2½	2½	2½	2½	2½	2½	2½		Gross receipts from the operation of any coin-operated device and charges for participation in pool, golf, and other amusements, 2½ percent.
Kentucky.....	do.....	3	3	3	3	3	3	3		Sewer services, photography and photo finishing, 3 percent.
Louisiana.....	do.....	2	2	2	2					Laundry, drycleaning, automobile and cold storage, printing, repair services to tangible personal property, 2 percent.
Maine.....	do.....	4		4	4		4	4		
Maryland.....	do.....	2 3		4 3	3		3			Production, fabrication, or printing on special order, 3 percent; farm equipment, 2 percent.
Michigan.....	do.....	4		4	4	4	4			

See footnotes at end of table.

TABLE 44.—State Sales Taxes: Types and Rates, January 1, 1964—Continued

State	Type of tax <sup>1</sup>	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 non retail businesses subject to tax
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water		
Mississippi <sup>8</sup> .....	Multiple stage sales	2 3	.....	3	3	3	6 3	3	3 3	Wholesaling, 1/2 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, 30¢ per bale; contracting (contracts exceeding \$10,000), 2 percent; farm tractors, 1 percent.
Missouri.....	Retail sales	3	3	3	3	3	3	3	3 3	Trailer camp rentals, 3 percent.
Nevada.....	do.....	2	.....	2	.....	.....	.....	.....	.....	
New Mexico.....	do.....	2 3	3	3	3	3	3	3	3	Liquor wholesalers, 1/2 percent; extracting minerals (except potash, coal, oil, and gas) and timber, 3/4 percent; potash extracting, 3 percent; smelting, refining, or processing of minerals (including oil and gas), 3/4 percent; preparing timber or lumber, .375 percent; contracting, 1 1/2 percent; professions and service businesses (including amusement businesses), excluding ordinary wages and salaries, 3 percent; farm implements, 1 1/2 percent.
North Carolina.....	do.....	2 3	.....	3	3	.....	.....	.....	.....	Laundry and drycleaning, 3 percent; horses or mules, sales of fuel to farmers, 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 \$80 per article for several items).
North Dakota.....	do.....	2 1/4	2 1/4	2 1/4	2 1/4	2 1/4	2 1/4	2 1/4	.....	Leasing or renting of tangible personal property, services furnished in repairing, altering, restoring, or cleaning any tangible personal property (except such services to agricultural producers with respect to agricultural products), and gross receipts from coin-operated music machinery, 2 1/4 percent.
Ohio.....	do.....	3	.....	3	3	.....	.....	.....	.....	Printing and reproducing, 3 percent.
Okklahoma.....	do.....	2 2	2	2	2	2	2	.....	2 2	Advertising (limited), gross proceeds from amusement devices, printing, automobile storage, 2 percent.
Pennsylvania.....	do.....	5	.....	4 5	5	5	5	.....	.....	Repairing, altering, and cleaning of tangible personal property, cleaning, polishing, lubricating, and inspecting of motor vehicles, and rental income of coin-operated amusement machines, 5 percent.
Rhode Island.....	do.....	3	.....	3	.....	3	3	3	.....	
South Carolina.....	do.....	3	.....	3	3	3	6 3	3	.....	
South Dakota.....	do.....	2 2	2	2	2	2	2	2	.....	Laundry and drycleaning, 3 percent.
										Gross receipts from amusement devices, 2 percent.

See footnotes at end of table.

TABLE 44.—State Sales Taxes: Types and Rates, January 1, 1964—Concluded

State	Type of tax <sup>1</sup>	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 non retail businesses subject to tax
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water		
Tennessee.....	do.....	3	.....	3	3	3	63	63	.....	Parking lots and storage of motor vehicles, repair services, installation of tangible personal property, laundry and drycleaning, 3 percent; machinery for "new and expanded" industry, 1 percent.
Texas.....	do.....	2 2	.....	2	.....	.....	6 2	.....	.....	Laundry and drycleaning, repairing, renovating and installing, 3 percent.
Utah.....	do.....	3	3	3	3	3	3	.....	3 3	Charges for certain specified services, 4 percent; selected amusement and recreation activities, 4 percent (unless subject to county or city admission taxes, in which case they remain taxable under the State business and occupation tax), 1 percent.
Washington.....	do.....	4	4	4	4	.....	.....	.....	.....	All services (including services rendered in amusement places), except public utilities and personal and professional services, 3 percent.
West Virginia <sup>5</sup> .....	do.....	2 3	3	3	3	.....	.....	.....	.....	Laundry, drycleaning, photographic services, the repair, service, or maintenance of all items of taxable tangible personal property, 3 percent.
Wisconsin.....	do.....	3	3	3	3	3	6 3	.....	.....	
Wyoming.....	do.....	2	2	2	.....	2	2	.....	2	
District of Columbia.....	do.....	2 10 3	.....	3	4	.....	6 3	3	.....	

<sup>1</sup> All but a few States levy sales taxes of the single-stage retail type. Hawaii and Mississippi levy multiple-stage sales taxes (although the Arizona and New Mexico taxes are applicable to some nonretail businesses, they are essentially retail sales taxes). 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, 1/2 percent on gross receipts of \$20,000-\$100,000, and 1/4 percent on gross receipts in excess of \$100,000; Washington, 4/100 percent and West Virginia, 1/2 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 7 3/4 mills (except public utilities which are taxed at 2 mills).

<sup>2</sup> Motor vehicles are taxable at the general rates with certain exceptions. The following States apply different rates to motor vehicles under their general sales and use tax laws: Alabama, 1 1/2 percent; Florida, 2 percent; Mississippi, 2 percent; and North Carolina, 1 1/2 percent (maximum \$120). The following exempt motor vehicles from their general sales and use taxes but impose special sales or gross receipts taxes on them under their motor vehicle tax laws: District of Columbia, 2 percent titling tax; Maryland, 2 percent titling tax (increased to 3%, effective June 1, 1964); New Mexico, 1 1/2 percent excise tax; Oklahoma, 2 percent excise tax; South Dakota, 2 percent excise tax; Texas, 2 percent sales and use tax; and West Virginia, 3 percent titling tax.

<sup>3</sup> Arizona and Mississippi also tax the transportation of oil and gas by pipeline. Georgia, 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.

<sup>4</sup> Restaurant meals below a certain price are exempt: Connecticut, less than \$1; Maryland, \$1 or less; Pennsylvania, 50¢ or less.

<sup>5</sup> Illinois' 3 1/2 percent rate includes a 1-percent additional tax effective through June 30, 1965; West Virginia's 3 percent rate includes a 1-percent additional tax (on sales in excess of \$1) effective through June 30, 1965.

<sup>6</sup> Indiana exempts gas, electricity, and water used in manufacturing, construction, mining, refining, oil or mineral extraction, and irrigation; also exempts telephone and telegraph services to other utilities. Kentucky exempts energy or energy producing fuels used in manufacturing, processing, mining, or refining to the extent that costs exceed 3 percent of the cost of production. 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 used in manufacturing or in furnishing laundry service. Tennessee taxes gas, electricity and water sold to or used by manufacturers at the rate of 1 percent (if these substances are used directly in the manufacturing process they are non-taxable). Texas exempts gas and electricity used in manufacturing, mining, or agriculture. Wisconsin's tax is not applicable to gas, or to electricity for space heating charged at a specific rate. The District of Columbia exempts gas and electricity used in manufacturing, assembling, processing or refining.

<sup>7</sup> The tax on the sale of tickets to prize fights or wrestling matches on closed circuit television is 5 percent of the gross receipts. The 5-percent tax also applies to payments received from broadcasting companies for the right to televise or broadcast any match.

<sup>8</sup> Illegal sales, including sales of whisky, are also taxed: wholesale, 6 percent; and retail, 9 percent. Illegal sales are also subject to a 10-percent "blackmarket" tax (repealed, effective May 1, 1964).

<sup>9</sup> Sales of admissions to motion picture theaters costing 75¢ or less are exempt.

<sup>10</sup> Foods and beverages for off-premises consumption are taxed at the rate of 1 percent.

and the District of Columbia tax sales of gas, and 25 States and the District of Columbia tax sales of electricity. Only 14 States and the District of Columbia apply their tax to water sales; and intrastate transportation services are subject to tax in only about one-fourth of the States. Printing, publishing, advertising, photog-

raphy, laundry and dry cleaning, storage, and repair services to tangible personal property are also taxed in a small but increasing number of States. Twenty States tax admissions, 30 and the District of Columbia tax transient lodging, and all 37 States and the District of Columbia tax meals served in restaurants.

*Exemption of Food and Medicine in  
State General Sales Taxes, January 1, 1964*

Certain types of sales of tangible goods are excluded from the sales tax base. Sales of materials that 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 sold by the producer are not taxed as retail sales in most States. Alcoholic beverages and tobacco products are subject to both selective excises and general sales taxes in most of the 37 States, but motor fuel is exempt from general sales taxation in most States.

Several States have extended exemptions to certain "necessities" in order to mitigate the burden of sales taxes. Both food and medicine are exempt in 10 States, while the District of Columbia excludes medicine and taxes food at one-third the regular tax rate (1 percent). Three more States (a total of 13) exempt medicine only, but one of these (Michigan) limits the exemption to 50 percent of the amount charged for recorded drug prescriptions.

Because food looms particularly large in the family budget at the lower income levels, its inclusion in the general sales tax base contributes importantly to the regressivity of that tax. For this reason a number of States have included it in their list of exemptions. On the other hand, the food exemption reduces a State's sales tax revenue by 15 or 20 percent, hence the tendency toward higher tax rates in the States exempting food.<sup>6</sup> Only 1 of the 10 States exempting food has a general

State	Tax rate (percent)	Food <sup>1</sup>	Medicine <sup>2</sup>
California.....	3	X.....	X
Connecticut.....	3½	X.....	X
District of Columbia.....	3	X <sup>3</sup> .....	X
Florida.....	3	X.....	X
Maine.....	4	X.....	X
Maryland.....	3	X.....	X
Michigan.....	4	.....	X <sup>4</sup>
North Carolina.....	3	.....	X
North Dakota.....	2¼	.....	X
Ohio.....	3	X.....	X
Pennsylvania.....	5	X.....	X
Rhode Island.....	3	X.....	X
Texas.....	2	X.....	X
Wisconsin.....	3	X.....	X

<sup>1</sup> 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.

<sup>2</sup> The exemption is usually applicable to medicine sold on prescription or compounded by druggists, and often to medical and dental aids or devices such as artificial limbs, eyeglasses, and dentures. Some States exempt patent medicines and household remedies.

<sup>3</sup> Rate on food is 1 percent.

<sup>4</sup> The exemption is applicable only to 50 percent of the amount charged for recorded drug prescriptions. Full exemption applies to artificial limbs and eyes.

sales tax rate of 2 percent, the others ranging from 3 to 5 percent. No doubt the overriding revenue considerations of the 1930's restrained legislatures from exempting food in the sales taxes enacted during that period. Only California and Ohio among the States that currently exempt food imposed their sales taxes as Depression measures; and California's tax, as originally enacted in 1933, applied to food, which was exempted in 1935 when the rate was raised from 2½ percent to 3 percent. The sales taxes in the other eight States are all post-World War II enactments. North Carolina, whose sales tax also stems from the 1930's, originally included a food exemption but repealed it in 1961; and West Virginia, which added a food exemption to its sales tax in 1941, repealed it 10 years later. Although Indiana does not exclude food or medicines

<sup>6</sup> See John F. Due, *State Sales Tax Administration* (Chicago: Public Administration Service, 1963), pp. 188-91.

from its 2-percent retail sales tax, it provides a \$6 tax credit against the personal income tax (equivalent to the income tax on \$300) for each taxpayer and each of his dependents, specifically as an offset for sales taxes on purchases of food and prescription drugs.

Administrative problems may also have been a deterrent to the exemption of food. Since most food retailers sell a large variety of nonfood items, the food exemption aggravates the compliance burden by requiring merchants to keep a separate record of taxable and nontaxable sales and increases the tax enforcement problem significantly.

Only three States exempt clothing from their sales taxes. Connecticut excludes children's clothing, and the Pennsylvania and Wisconsin clothing exemptions apply generally except for certain fur articles and apparel used in sports, and in Pennsylvania, formal wear. In 1963 Texas repealed a provision exempting "outer apparel" selling at retail for less than \$10.

The Wisconsin sales tax is unique in that it is designated a "selective sales and use tax" and taxes only those specific items enumerated in the law. The list is quite comprehensive and includes most items encompassed by the usual general sales tax laws. Excluded from the list of taxable items are cigarettes, motor fuel, food (except restaurant meals), clothing (except furs and sporting goods), and medicine.

Casual sales, sales to or by governments and religious, charitable, educational, and other nonprofit organizations, are usually exempt from State sales taxes.

*Administration.*<sup>7</sup>—In about half of the States with general sales taxes, the tax is administered by an agency headed by a single director appointed by the Governor.

<sup>7</sup> A more detailed discussion of State sales tax administration will be found in Due, *op. cit.*

In Maryland and Texas the elected State comptrollers administer the sales tax. Florida, which formerly also lodged responsibility for sales tax administration in its elected comptroller, shifted in 1963 to a revenue commission composed of the Governor and a number of cabinet-level officials. The board appoints a director of revenue. Ten other States have either appointed or elected boards or commissions.

Sales taxes are collected by the State agency from the vendors of taxable items, who collect the tax from purchasers at the time of the sale. All States require vendors to register with the State tax agency, which issues a certificate of registration. Over half of the States require monthly returns, the remainder, generally quarterly returns. In some States either monthly or quarterly filing may be permitted by the State tax agency under certain circumstances.

Twenty-two States compensate vendors for collecting the sales tax by allowing a discount on the tax liability. The discounts range from 1 to 5 percent. Because of the widespread use of the bracket system, whereby small sales bring in more than the established rate, vendors often collect more than the tax liability calculated on the basis of their total sales volume. In at least 17 States the vendors are allowed to retain the excess receipts (referred to as "breakage"). Most of the States allowing no discount allow retention of the breakage.

In order to prevent avoidance of their sales taxes, all States have enacted use taxes, at the same rate as the sales tax, on goods purchased outside the State for use within the State. Although the purchaser is liable for payment of the use tax to his State of residence, enforcement of this requirement has been one of the more dif-

difficult aspects of sales tax administration. To minimize dealing with individual purchasers, virtually all States require out-of-State vendors to register with the State tax agency so that they can collect the use tax from the purchaser and remit the proceeds to his State of residence. This procedure has been applied rather broadly to encompass vendors who have no retail outlets or even sales representatives in the State. A 1960 Supreme Court decision upheld the right of Florida to require registration and payment of tax by an Atlanta firm that had neither a place of business nor any agents in Florida.<sup>8</sup> The Court held that solicitation by an independent broker rather than by a representative of the firm did not alter the tax status. Although brokers are "independent," the court ruled that the firm was represented by "salesmen" who were engaged in the continuous solicitation of orders.

Judicial assent to extension of the State taxing jurisdiction to interstate sales has prompted the Congress to explore the need for Federal legislation to regulate the application of State sales taxes to commodities moving in interstate commerce. A subcommittee of the House Judiciary Committee is now conducting an extensive study of the problem.<sup>9</sup>

### *Local Sales Taxes*

Sales taxation at the local level is essentially a product of the need for revenue to relieve the pressure on property taxation in the postwar period. Prior to World War II, sales taxes were imposed by only

<sup>8</sup> *Scripto, Inc. v. Carson*, 362 U.S. 207 (1960). See Due, *op. cit.*, pp. 206-10.

<sup>9</sup> U.S. Congress, House, Committee on the Judiciary, *Hearings Before the Special Subcommittee on State Taxation of Interstate Commerce*, June 14-20, 1962. 87th Congress, 2d Sess. It is expected to report by June 30, 1965.

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 present, sales taxes are levied by local governments in 13 States. Virtually all municipalities in California and Illinois levy a sales tax. Six of the 15 largest cities in the United States (New York, Chicago, Los Angeles, Washington, D.C., San Francisco, and New Orleans) impose a sales tax. Table 45 indicates the number of local governments in each State levying a sales tax, and the tax rates. In all, over 2,000 local governments now impose general sales taxes.

The local government tax rate in those States where a State sales tax is in effect (10 of the 13 States) is either one-half or 1 percent, except for Denver, and several municipalities and one county in Alabama, where the rate is 2 percent. The local sales tax rate in the three States without State levies (Alaska, New York, and Virginia) is either 1/2, 1, 2, or 3 percent (the rate in New York City is 4 percent). Where State and local taxes exist side by side, the tax bases tend to be substantially the same.

Sales taxes are locally administered in seven States (Alabama, Alaska, Arizona, Colorado, Louisiana, New York, and Virginia), while in the six remaining States there is some type of State-local and county-municipal coordination. However, in Alabama and Colorado, there is also provision for State collection of the local sales taxes (table 46).

Six States provide general authorization for local governments to enact supplements to the State general sales tax, to be collected by the State (California, Illinois,

TABLE 45.—Local Sales Tax Rates, January 1, 1964<sup>1</sup>

State	State tax rate (percent) <sup>2</sup>	Local tax rates <sup>3</sup>				
		½ percent	1 percent	2 percent	3 percent	4 percent
Alabama.....	4					
77 municipalities.....			<sup>3</sup> 72	5		
18 counties.....		2	15	1		
Alaska:						
32 municipalities.....			2	20	10	
4 school districts.....			2	2		
Arizona.....	3					
9 municipalities.....		3	6			
California:						
385 municipalities.....	3		385			
58 counties <sup>4</sup> .....			58			
Colorado.....	2					
6 municipalities.....			5	1		
Illinois.....	3½					
1,170 (approx.) municipalities.....		1,170				
68 counties.....		68				
Louisiana <sup>5</sup> .....	2					
14 municipalities.....			14			
4 parishes.....			4			
1 school district.....			1			
Mississippi.....	3					
151 municipalities.....		59	112			
New Mexico.....	3					
23 municipalities.....			23			
New York:						
8 municipalities.....			<sup>6</sup> 2	5		1
5 counties <sup>7</sup> .....			<sup>8</sup> 1	3	1	
1 school district.....		1				
Tennessee.....	3					
2 counties.....			2			
Utah.....	3					
133 municipalities.....		133				
24 counties.....		24				
Virginia:						
1 municipality.....						
(Bristol) <sup>9</sup> .....					1	

<sup>1</sup> This tabulation includes only those local sales taxes about which authoritative information is available. The following cities with 1960 populations 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. The District of Columbia, not included in this tabulation, levies a 3-percent sales tax.

<sup>2</sup> 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, 1965.

<sup>3</sup> Twenty of these cities are in 12 counties that also have local sales taxes. The legislation authorizing county sales taxes, however, takes account of any city sales taxes in the county. For example, in Marion County, where the general county rate is 2 percent, it is only 1 percent in cities that levy their own 1-percent sales taxes, so that the overall rate in those cities is no higher than the general county rate.

Mississippi, New Mexico, Tennessee, and Utah). The combined administration of the State and local sales taxes was pioneered by Mississippi in 1950, applicable to municipalities only. New Mexico enacted similar authorization for munic-

<sup>4</sup> Includes the city-county of San Francisco.

<sup>5</sup> Three of the 14 municipalities, namely, Baker, Baton Rouge, and Zachary, are located in East Baton Rouge Parish, which is one of the four parishes imposing a tax. The East Baton Rouge Parish tax does not apply to the three municipalities.

<sup>6</sup> Includes Watertown, the only sales tax city located in a county (Jefferson) that also has a local sales tax. The Jefferson County 2 percent tax is reduced to 1 percent in Watertown.

<sup>7</sup> Excludes Warren County's 2-percent tax, suspended during litigation. Although the tax was upheld by the Court of Appeals, it had not been activated by the end of 1963.

<sup>8</sup> Erie County. The county 1-percent rate is reduced to ¾ of 1 percent in Buffalo because of Buffalo's 2¼ percent consumers' utility tax.

<sup>9</sup> Norfolk has adopted a 2-percent sales tax, effective July 1, 1964.

palities in 1955. That same year Illinois authorized its municipalities to add a one-half of 1 percent sales tax to the State tax and it extended the authorization to counties in 1959, applicable only in unincorporated areas.



TABLE 46.—Statutory Provisions Governing Imposition of General Sales Taxes by Local Governments, January 1, 1964

State and type of local government	Statutory authority	Number using	Scope	Rate limits	Apportionment of proceeds	Voter approval	Administration
Alabama: Municipalities.....	Business and occupational license	77	Sales and use.	None.....	No overlapping 1...	No.....	Local 2
Counties.....	Specific 3.....	18	do.....	1% 1.....	do.....	Yes 3.....	State 2
Alaska: Municipalities.....	Specific.....	32	Sales.....	3% 4.....	No overlapping.....	Yes.....	Local
School districts 5.....	do.....	4	do.....	2.....	do.....	do.....	Do.
Arizona: Municipalities 6.....	Home rule.....	9	do.....	None.....	Not applicable.....	No.....	Do.
California: Municipalities.....	Specific.....	385	Sales and use.....	1% 8.....	Shared 8.....	do.....	State
Counties.....	do.....	7 58	do.....	1% 8.....	do.....	do.....	Do.
Colorado: Municipalities 6.....	Home rule.....	6	do.....	None.....	Not applicable.....	do.....	Local 9
Illinois: Municipalities.....	Specific.....	1,170	Sales.....	0.5%.....	No overlapping.....	do.....	State
Counties.....	do.....	68	do.....	0.5%.....	do.....	do.....	Do.
Louisiana: Municipalities.....	do.....	14	Sales and use.....	1%.....	do.....	Yes.....	Local
Parishes.....	do.....	4	do.....	1%.....	do.....	do.....	Do.
School districts.....	do.....	1	do.....	1%.....	do.....	do.....	Do.
Mississippi: Municipalities.....	do.....	151	Sales.....	0.5% or 1%.....	Not applicable.....	Yes 10.....	State
New Mexico: Municipalities.....	do.....	23	do.....	1%.....	do.....	No 11.....	State 12
New York: Municipalities.....	do.....	8	Sales and use.....	2% 13.....	Shared 14.....	No.....	Local 15
Counties.....	do.....	5	do.....	2% 13.....	do 14.....	do.....	Do. 15
School districts 16.....	do.....	1	do.....	2% 13.....	do 14.....	No 11.....	Local
Oregon: Municipalities 17.....	do.....	.....	Sales.....	None.....	Not applicable.....	No.....	Local
Tennessee: Municipalities.....	do.....	.....	do.....	1% 18.....	Shared 19.....	Yes.....	State 20
Counties.....	do.....	2	do.....	1% 18.....	do 19.....	do.....	Do. 20
Utah: Municipalities.....	do.....	133	do.....	0.5%.....	No overlapping 21.....	No.....	State
Counties.....	do.....	24	do.....	0.5%.....	do 21.....	do.....	Do.
Virginia: Municipalities 22.....	Specific 22.....	1	do.....	3%.....	Not applicable.....	do.....	Local

1 County rates specified in legislative enactments take account of any city sales taxes. The rate in Marion County is 2%.

2 The statutes applicable to individual counties usually require State administration, but not always. In some instances, city sales taxes are required by special legislation to be collected by the State Department of Revenue.

3 Specific statutory authority is given to individual counties. Voter approval is required in some cases.

4 First class cities, and first and second class boroughs; otherwise 2%.

5 Applies only to territory outside cities.

6 Home rule cities only.

7 Includes the city-county of San Francisco.

8 A city tax may be at any rate up to 1% and must be credited against the countywide 1% tax.

9 Cities may contract with the State for collection.

10 Required for the 1% rate, but not for the 0.5% rate unless twenty percent of voters so petition.

11 Not required unless a specified percentage of voters petition.

12 State may refuse to collect a city tax if the latter differs in coverage from the State tax.

13 Four percent in New York City and 3% in Monroe County.

14 Shared equally: 1 percent each to cities and counties, unless school districts are also levying the tax, in which case each taxing unit receives one-third of the maximum rate.

15 Joint county-city administration is authorized.

16 School districts that are coterminous with or partly within cities of less than 125,000 population.

17 Cities with population of 9,000-10,500 only, but none is presently using this authority.

18 Maximum of \$5 on a single transaction.

19 Half the county tax must be used for schools and the other half is divided between the county and any municipalities in the county. See text.

20 Optional.

21 The city tax (0.5%) must be credited against the county tax.

22 The city of Bristol only, under special legislative authorization. The city of Norfolk has adopted a 2% sales tax, effective July 1, 1964.

California adopted a similar measure, also in 1955. Under California's 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 cities and the county levy a tax, a credit against the county tax for the amounts paid under the municipal taxes 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. All 57 counties and the city-county of San Francisco now levy a sales tax, as do all of the cities in California.

In 1959 Utah authorized county and city sales tax supplements similar to the California provisions, but at a rate of one-half of 1 percent. In 1963 Tennessee enacted a "local option revenue act," which allows counties and cities to adopt a local sales tax of up to 1 percent, with a \$5 tax limitation on any single transaction. The local sales tax ordinance may provide for State administration. Half of the county tax must be used for school purposes, the other half to be divided be-

TABLE 47.—*Local General Sales Tax Collections, 1952–62*  
(Dollar amounts in millions)

Year	All local governments		New York City		All local governments, except New York City		
	Amount (1)	Percent of nonproperty taxes (2)	Amount (3)	Percent of nonproperty taxes (4)	Amount (5)	Percent of nonproperty taxes (6)	Percent of all local general sales taxes $(5) \div (1)$ (7)
1962.....	\$974	38.2	\$514	82.1	\$460	23.9	47.2
1961.....	921	37.8	486	81.1	435	23.7	47.2
1960.....	875	38.3	477	80.8	398	22.0	45.5
1959.....	747	37.3	387	83.6	360	23.4	48.2
1958.....	699	38.0	370	83.3	329	23.6	47.1
1957.....	656	36.5	367	82.7	289	21.4	44.0
1956.....	546	34.0	346	80.5	200	17.0	36.6
1955.....	453	31.0	312	79.4	141	13.2	31.1
1954.....	408	31.4	300	80.9	108	11.6	26.5
1953.....	427	34.1	328	81.6	99	11.7	23.1
1952.....	369	33.7	280	83.6	89	11.7	24.1

Source: U.S. Bureau of Census, Governments Division.

tween the county and any municipalities in the county. Cities can levy their own sales taxes only if the county fails to enact a countywide 1-percent tax. If the county tax is less than 1 percent, cities may take up the difference between the county tax and 1 percent.

Colorado in 1963 authorized cities to contract with the State for collection of their sales taxes.<sup>10</sup> New Mexico, on the other hand, enacted a law in 1963 which allows the State to refuse to collect a city sales tax if the latter differs in coverage from the State tax.

Local sales taxes duplicate or overlap State sales taxes in 10 States, and, like the State sales taxes, they overlap certain selective excises imposed by the Federal Government. In addition, some overlap

<sup>10</sup> An earlier attempt in Colorado to provide for areawide administration of local sales taxes failed. The 1961 session of the State's legislature authorized 4 counties in the Denver area to band together into a capital improvement district and to levy an areawide sales tax to finance improvements. Such a district was established and approved by a majority of all those voting in a special election. However, the State Supreme Court declared the State enabling law unconstitutional on the ground that it interfered with the home rule powers granted by the State Constitution to one of the municipalities encompassed by the capital improvement district whose voters had rejected the proposal.

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.

Local general sales taxes yielded almost \$1 billion in 1962, about two-fifths of all local nonproperty tax revenue; and by June 1963 the annual local sales tax yield topped \$1 billion. Sales tax collections of all local governments in 1962 were more than 2½ times the 1952 total but changed little in relation to total tax revenue because of the dominance of property taxes in the local tax structure. More than half of all local sales taxes in 1962 was accounted for by New York City (table 47). If the New York City figures are excluded, local sales tax revenue quintupled since 1952, from \$89 million to \$460 million in 1962. Thus, outside of New York City the importance of sales taxes to local financing changed considerably—from a little over 10 percent of local nonproperty taxes in 1952 to almost one-fourth in 1962. Nevertheless, the general sales tax is primarily a large-city phenome-

TABLE 48.—State Collected, Locally Shared General Sales Taxes, 1962

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Alabama.....	\$96,785	9% of first \$4 million, 1/2 equally among counties and 1/2 in proportion to population.	Counties.....	\$378	Health and agricultural extension.
Arizona.....	75,939	25% to cities and towns in proportion to population. 60% of remainder after city distribution and certain other appropriations, in proportion to collections in each county.	Cities..... Counties.....	12,425 16,699	} General purposes.
Florida.....	181,701	Amount required by formula distributed in proportion to number of instructional units.	School districts.....	24,255	Education
Hawaii.....	65,942	Of proceeds equal to 1% of tax base of all collections made at rate of 2% or more, a specified percentage distributed to Honolulu and to each county.	City (Honolulu).... Counties.....	10,357 8,474	} General purposes.
Kansas.....	79,765	Of residue in "retail sales tax fund," <sup>1</sup> \$12.5 million distributed, 1/2 in proportion to county population and 1/2 in proportion to countywide assessed valuations, and redistributed within each county to all taxing units in proportion to property tax levies.	Cities..... Counties..... Townships..... Special districts.... School districts.....	<sup>2</sup> 1,860 <sup>2</sup> 4,481 <sup>2</sup> 449 <sup>2</sup> 33 <sup>2</sup> 5,562	} General purposes <sup>3</sup> Education <sup>3</sup>
Michigan.....	426,310	1/6 of sales tax proceeds (excluding use tax) in proportion to population <sup>4</sup> .....	Cities..... Townships.....	35,879 17,040	} General purposes.
North Dakota....	14,787	7/12 on basis of a school equalization formula.	School districts.....	11,494	Education
Ohio.....	262,840	Specified amount (currently \$24 million annually) distributed among counties: 3/4 in proportion to assessed values within municipalities and 1/4 in proportion to county population subject to a specified minimum amount per county (currently \$40 thousand). Counties redistribute among various taxing units as determined by county budget commissions. In counties of less than 100,000 population, not less than 10% to townships.	Various units.....	24,000	General purposes
Tennessee.....	112,602	8.3% less specified amount for use of University of Tennessee Municipal Technical Advisory Service, in proportion to population.	Cities.....	9,304	General purposes
Total.....	1,316,671	.....	.....	182,690	.....

Note: Excludes Wisconsin, which, effective March 1, 1963, appropriates \$55 million annually from its sales tax proceeds to compensate cities, towns, and villages for local tax credits granted property taxpayers.

<sup>1</sup> "Retail sales tax fund" receives 80% of proceeds from general sales tax, 24% of proceeds from cigarette tax, and all cereal malt beverage tax collections, and is used mainly for welfare and education. Only the \$12.5 million "residue" is reported here as shared taxes.

<sup>2</sup> Includes cigarette and cereal malt beverage taxes. See footnote 1.

<sup>3</sup> Must be applied to reduction of property tax levies.

<sup>4</sup> In addition, most of the remainder of the sales tax proceeds, together with other earmarked taxes, is distributed to school districts under various formulas.

Source: U.S. Bureau of the Census, *State Payments to Local Governments*, 1962 Census of Governments, Vol. VI, No. 2.

non. In 1962, 78 percent of all local general sales tax revenue accrued to the cities with 1960 populations of 50,000 and over. The 1962 sales tax yields of the six largest sales tax cities, as a percentage of their total tax revenues, were as follows: New York, 30 percent; Chicago, 9 percent; Los Angeles, 26 percent; Washington, D.C., 14 percent; San Francisco, 15 percent; and New Orleans, 28 percent.

### *Shared Taxes*

In fiscal 1962, nine States shared portions of their State general sales taxes directly with their local governments (table 48). Those States (Alabama, Arizona, Florida, Hawaii, Kansas, Michigan, North Dakota, Ohio, and Tennessee) distributed to their municipalities, counties, and school districts 13.9 percent of the \$1.3 billion general sales tax revenue they collected in 1962. Starting in fiscal 1963, Wisconsin distributes to all its local governments \$55 million of its annual collections from its new State sales tax. However, the States distribute considerably more of their general sales tax revenue to local governments than the \$183 million shown in table 48 as directly shared general sales taxes.

Most States place their general sales tax proceeds in general treasury funds together with revenue from other sources. These funds are then available for appropriation by the legislatures to finance the various State government programs, including State aid for education, public welfare and, in some instances, general

local government support. In some States general sales tax revenue goes into special funds, together with other specific taxes, for education, welfare, or other specified purposes. Kansas and Michigan, both of which share some of their sales tax revenue directly, are examples.

In Kansas 80 percent of the sales tax revenue is placed in the "retail sales tax fund." Into this fund also go all the cereal and malt beverages tax and a portion of the cigarette tax. Amounts are allocated from the "retail sales tax fund" to the State welfare department and the school finance fund which, in turn, distribute funds to local governments under various educational and public assistance grant-in-aid programs. State aid for education and public welfare amounted to over \$90 million in fiscal 1962, but only \$12.5 million was distributed to local governments directly from the "retail sales tax fund."

Michigan collected \$426 million from its general sales tax in fiscal 1962 (excluding the use tax which is not distributed), but distributed only \$53 million directly to its municipalities. However, most of the remainder, together with other specific taxes, was earmarked for distribution to school districts under various educational grant formulas. Michigan paid \$337 million to school districts in fiscal 1962.

An examination of the relationship between State aid programs and sales tax collections suggests that in the fiscal year 1962 as much as \$1.6 billion of State sales tax revenues found their way into local treasuries in addition to the \$183 million earmarked for them as shared taxes.

## Chapter 8

### 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, 36 States and the District of Columbia tax personal incomes. This count includes New Hampshire and Tennessee, which tax only income from intangibles, and New Jersey where the so-called "commuters' tax" applies to New York residents earning their income in New Jersey.<sup>1</sup> The count includes also Indiana, whose flat-rate net income tax was enacted in 1963.

Local income taxes are largely a post-World War II development. They are now levied at low flat rates by cities and other local units in 6 States and differ in basic characteristics from the Federal and State taxes.

Almost 94 percent of the \$48.6 billion individual income tax collections in fiscal 1962 accrued to the Federal Government. Of the remainder, \$2.7 billion, or 5.6 percent, was collected by the States and only \$308 million, about one-half of 1 percent, by local governments.

#### *The Federal Tax*

For some years the individual income tax has been the most important single source of Federal revenue. It produced

<sup>1</sup> New Jersey residents earning their income in New York are allowed a credit against the New Jersey tax, but since New Jersey and New York tax liabilities are the same, they pay no New Jersey tax.

\$47.6 billion in the fiscal year 1963 and accounted for about 55 percent of total Federal tax revenues exclusive of employment taxes. The President's Budget for the fiscal year 1965, taking into account the 1964 tax revision program, projects individual income tax collections at \$48.5 billion. The evolution of the income tax into the mainstay of the Federal tax system is one of the major tax developments of recent decades. When first enacted, following ratification of the 16th amendment in 1913, it consisted of a 1-percent normal tax, from which corporate dividends were exempt, and of a surtax ranging from 1 to 6 percent. Since that time, it has undergone numerous changes in structure as well as in rates and exemptions. World War I brought rate increases and a decline in exemptions. Immediately thereafter taxes were lowered; this occurred seven times between 1919 and 1928. The downward 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 brought the introduction of withholding which, together with reduced exemptions and sharply increased tax rates, converted the income tax into a major revenue producer affecting for the first time the majority of income recipients in the country. Between 1939 and 1944 the number of taxable returns rose from 4 million to 42 million and tax collections

from \$1 billion to almost \$20 billion. After reaching a peak in 1944, the wartime rates were reduced, first in 1945 and again in 1948. However, as a result of increased defense requirements associated with hostilities in Korea, rates were again increased in 1950 and 1951. The Korean legislation left the \$600 per capita exemption unchanged but increased rates. The Revenue Act of 1951 increased the rate applicable to 1952 and 1953 incomes to 22.2 percent on the first \$2,000 of taxable income and up 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, where it remained until the 1964 tax rate reductions.

The 1964 legislation reduced tax rates and made significant structural changes, including the provisions governing the deductibility of State and local taxes. The new rates, which will become effective in two installments (1964 and 1965), range from 14 percent to 70 percent. The first \$2,000 tax bracket (\$4,000 for joint returns) has been split into four brackets. The rate reductions, together with the other changes, it is estimated, will reduce annual individual income tax liabilities between \$9 and \$10 billion.

#### *The State Taxes*

State individual income taxes produced almost \$3 billion in 1963. They have experienced a greater rate of increase in recent years than any other major State tax source, reflecting largely a doubling of aggregate personal income since 1951 and a notable upward shift of the low-income population on the income scale. Higher statutory tax rates, lower personal and dependency exemptions, and more effective enforcement, notably through the

introduction of withholding at the source and exchange of tax records with the Federal Government, also played a part. The States' individual income tax collections rose 224 percent between 1952 and 1963, compared with an increase of 114 percent in their other taxes. The share of individual income taxes in total State tax collections (exclusive of unemployment compensation taxes) grew from 9 percent in 1952 to 13 percent in 1963 (table 49).

The case of Delaware, with a seven-fold increase in individual income tax collections since 1952, highlights the elements that contributed to the enlarged revenue producing strength of State income taxes. Withholding had been introduced in 1949. Statutory rates in 1952 were 1 percent on the first \$3,000, 2 percent on the next \$7,000, and 3 percent on the remaining net income (over \$10,000). Present rates, reflecting successive increases, range from 1½ percent on the first \$1,000 to 11 percent on the excess over \$100,000. Personal exemptions were lowered in 1953, and partly to offset simultaneous increases in rates, Delaware provided for the deductibility of Federal income taxes (limited to \$300 per taxpayer). Since during this period (1951-61) adjusted gross income reported on Federal tax returns from Delaware increased only 68 percent, the major portion of Delaware's increase in personal income tax collections was apparently accounted for by rate and structural changes.

To demonstrate the net effect of changes in statutory rates and in personal and dependency exemptions, table 50 presents estimated effective rates in 1954 and 1964 at various income levels for a married couple with two dependents.<sup>2</sup> Effective

<sup>2</sup> For this purpose the "effective rate" is defined as the ratio of tax liability to adjusted gross income (that is, income after business cost deductions but before personal exemptions and other allowable deductions).

**TABLE 49.—State Individual Income Tax Collections, by State, 1952 and 1963**  
(Dollar amounts in thousands)

State	1952		1963 (prelim.)		Percent increase 1952 to 1963
	Amount	Percent of total State tax collections	Amount	Percent of total State tax collections	
Alabama.....	<sup>1</sup> \$16,258	( <sup>2</sup> )	\$29,497	9.2	( <sup>2</sup> )
Alaska.....	n.a.	n.a.	13,006	33.2	( <sup>2</sup> )
Arizona.....	4,915	7.1	14,000	6.7	184.8
Arkansas.....	4,149	4.2	14,046	7.4	238.5
California.....	91,176	8.6	321,921	12.6	253.1
Colorado.....	14,053	13.2	46,450	20.0	230.5
Delaware.....	4,607	19.1	36,641	37.5	795.3
Georgia.....	15,856	7.0	49,368	11.2	211.4
Hawaii.....	n.a.	n.a.	31,570	23.7	( <sup>2</sup> )
Idaho.....	6,752	17.6	21,605	28.4	220.0
Indiana <sup>3</sup> .....					
Iowa.....	19,703	11.7	45,523	15.7	131.0
Kansas.....	10,941	8.2	28,281	11.8	158.5
Kentucky.....	18,112	14.0	47,163	14.0	160.4
Louisiana.....	<sup>1</sup> 22,766	( <sup>2</sup> )	18,530	3.6	( <sup>2</sup> )
Maryland.....	22,240	14.5	112,917	25.9	407.7
Massachusetts.....	74,555	23.7	186,283	32.1	149.9
Minnesota.....	45,761	19.7	144,586	32.7	216.0
Mississippi.....	5,226	4.8	7,990	3.6	52.9
Missouri.....	<sup>1</sup> 25,436	( <sup>2</sup> )	65,776	15.9	( <sup>2</sup> )
Montana.....	5,325	14.3	13,934	18.9	161.7
New Hampshire.....	1,228	4.8	1,743	3.7	41.9
New Jersey.....			7,434	1.6	( <sup>2</sup> )
New Mexico.....	2,235	3.5	<sup>1</sup> 14,210	( <sup>2</sup> )	( <sup>2</sup> )
New York.....	296,989	29.0	1,018,704	40.6	243.0
North Carolina.....	36,468	13.1	103,925	17.7	185.0
North Dakota.....	4,091	9.1	6,148	9.0	50.3
Oklahoma.....	9,695	5.2	16,820	5.2	73.5
Oregon.....	42,825	33.4	99,938	44.3	133.4
South Carolina.....	12,088	8.2	32,621	12.4	169.9
Tennessee.....	3,608	2.0	6,773	1.9	87.7
Utah.....	7,303	13.4	18,747	15.4	156.7
Vermont.....	7,042	24.7	13,461	26.2	91.2
Virginia.....	24,595	14.8	<sup>4</sup> 128,925	31.4	424.2
West Virginia.....			17,205	7.6	( <sup>2</sup> )
Wisconsin.....	57,132	23.4	218,752	36.5	282.9
Total.....	<sup>1</sup> 913,130	19.3	<sup>1</sup> 2,954,493	<sup>1</sup> 13.4	223.6

n.a.—Data not available.

<sup>1</sup> Includes an unsegregable amount of corporation income taxes for 3 States in 1952 (Alabama, Louisiana, and Missouri) and for 1 State in 1963 (New Mexico). Furthermore, the total for 1952 excludes Alaska and Hawaii, for which data are not available. Excluding those six States from the totals, and excluding the New Jersey and West Virginia amounts from the 1963 total, the comparable totals are: 1952, \$846.4 million; 1963, \$2,757.3 million; and percent increase, 1952-1963, 225.8%. Combined individual and corporation income tax collections by the 4 States for which corporation income taxes cannot be separated out for the two years are as follows (the Alabama amount for 1952 includes the tax on financial institutions, which was reported separately):

State	1952 (000)	1963 (000)	Percent increase 1952-63
Alabama.....	\$17,351	\$39,429	127.2
Louisiana.....	22,766	36,046	58.3
Missouri.....	25,436	76,226	199.7
New Mexico.....	3,506	14,210	305.3

<sup>2</sup> Not computed; data are not comparable.

<sup>3</sup> Tax effective after fiscal year 1963.

<sup>4</sup> Includes 3 months' collections on 1963 income in addition to a full year's collections on 1962 income; withholding effective January 1, 1963.

Source: U.S. Bureau of the Census, *Compendium of State Government Finances in 1952*; and *State Tax Collections in 1963*, August 1963.

TABLE 50.—State Individual Income Taxes: Effective Rates at Selected Adjusted Gross Income Levels, 1954 and 1964, Married Couple with Two Dependents (Percent)

State	Adjusted gross income <sup>1</sup>							
	\$5,000		\$7,500		\$10,000		\$25,000	
	1954	1964	1954	1964	1954	1964	1954	1964
Alabama*	0.2	0.2	0.8	0.8	1.4	1.4	2.3	2.3
Alaska.....	.8	1.3	1.2	1.9	1.4	2.2	1.9	3.1
Arizona* <sup>2</sup>	.3	.2	.5	.4	.6	.6	1.3	1.3
Arkansas.....	.....	.3	.3	.9	.6	1.3	1.9	2.5
California.....	.1	.1	.4	.3	.5	.5	1.0	1.6
Colorado*.....	.3	.5	.6	1.1	.9	1.6	2.6	3.0
Delaware* <sup>2</sup>	.3	.6	.6	1.3	1.1	2.2	2.9	4.8
District of Columbia.....	.....	.8	.3	1.3	.6	1.6	1.3	2.4
Georgia.....	.2	.1	.8	.5	1.3	1.0	3.3	3.1
Hawaii.....	n.a.	1.4	n.a.	2.2	n.a.	2.8	n.a.	3.7
Idaho*.....	.4	1.3	.9	2.1	1.3	2.8	2.5	4.5
Indiana.....	( <sup>3</sup> )	.5	( <sup>3</sup> )	1.0	( <sup>3</sup> )	1.3	( <sup>3</sup> )	1.7
Iowa*.....	.9	.9	1.6	1.6	1.9	1.9	2.0	2.0
Kansas*.....	.4	.5	.5	.8	.8	1.1	1.3	1.6
Kentucky*.....	.7	.3	1.7	1.4	2.3	2.1	3.0	2.9
Louisiana*.....	.....	.....	.02	.02	.4	.4	.9	.9
Maryland.....	.5	.8	1.0	1.5	1.3	1.9	1.5	2.2
Massachusetts* <sup>2</sup>	.7	.7	1.3	1.3	1.6	1.6	1.6	1.6
Minnesota*.....	1.1	1.5	2.1	2.7	2.7	3.4	4.3	5.0
Mississippi.....	.....	.....	.3	.....	.7	.5	1.9	1.7
Missouri*.....	.2	.2	.6	.6	.9	.9	1.6	1.6
Montana* <sup>2</sup>	.3	.5	.6	1.1	.9	1.5	1.8	3.0
New Jersey <sup>4</sup>	( <sup>3</sup> )	.6	( <sup>3</sup> )	1.5	( <sup>3</sup> )	2.2	( <sup>3</sup> )	5.0
New Mexico* <sup>2</sup>	.2	.5	.4	.7	.5	.8	.5	.8
New York.....	.5	.6	1.4	1.5	2.2	2.2	4.1	5.0
North Carolina.....	1.1	1.1	2.1	2.1	2.9	2.9	4.4	4.4
North Dakota* <sup>2</sup>	.3	.3	.5	.5	1.0	1.0	3.5	3.5
Oklahoma*.....	.2	.2	.4	.4	.6	.6	1.5	1.5
Oregon*.....	1.3	1.4	2.2	2.3	3.0	3.1	3.8	4.1
South Carolina*.....	.5	.4	1.1	1.0	1.7	1.5	3.2	3.8
Utah*.....	.5	.5	1.1	1.1	1.6	1.7	2.4	2.5
Vermont.....	1.2	1.6	2.1	2.7	2.8	3.7	3.7	4.9
Virginia.....	.9	.9	1.5	1.5	2.3	2.3	3.3	3.3
West Virginia.....	( <sup>3</sup> )	.5	( <sup>3</sup> )	.7	( <sup>3</sup> )	.8	( <sup>3</sup> )	1.2
Wisconsin.....	1.0	1.9	1.9	2.7	2.9	3.5	4.5	5.5
Median State.....	.4	.5	.8	1.1	1.3	1.6	2.3	2.9

Note: In computing income taxes, it was assumed that all income was from wages and salaries and earned by one spouse, and that the optional standard deduction was used except for the \$25,000 income class where it was assumed that deductions are itemized. Itemized deductions were assumed to be \$3,475, excluding the State individual income tax. For those States that allow deductions of the Federal tax, the State tax was assumed to be \$500 in computing the Federal tax liability; except that where the State individual income tax is itself deductible in computing the State income tax liability, the actual State tax liability was added to the \$3,475 for both Federal and State tax computations. New Hampshire and Tennessee are excluded from this table since their personal income taxes apply only to interest and dividend income. "Effective rates" are computed as the ratio of tax liability to adjusted

gross income (i.e., income after business deductions but before personal exemptions and other allowable deductions).

n.a.—Data not available.

\* Federal income tax deductible.

<sup>1</sup> Adjusted gross income is income after business deductions but before personal exemptions and other allowable deductions.

<sup>2</sup> Since there was no standard deduction in 1954, the standard deduction authorized under present law was used in computing the 1954 tax liability.

<sup>3</sup> No individual income tax in 1954.

<sup>4</sup> Tax applies to New York residents who derive income from New Jersey sources.



rates rose moderately in more than half of the States with income taxes in both years, and generally at all income levels. However, the rates of increase have been greatest at the lower income levels, and the degree of progressivity has tended to decline. In only 5 States has there been any appreciable increase in the span between lowest and highest effective rates (Arizona, California, Georgia, Kentucky, and South Carolina). These are among the 6 States that have reduced effective rates at one or more income levels; the other is Mississippi. The above-mentioned 5 States either have applied most of the reduction to the lower income brackets or have actually increased effective rates at the higher brackets.

State individual income tax structures retain a moderate degree of graduation. At the \$5,000 income level effective rates range from zero in two States to 1.9 percent in 1, and at the \$25,000 level the range is from 0.8 percent to 5.5 percent. For the hypothetical median State, the effective rate at the \$25,000 level is almost six times that at the \$5,000 level.<sup>3</sup> The graduated nature of the State income taxes has made them responsive as revenue producers to upward shifts in income levels (table 51). On the basis of Federal tax returns, those reporting less than \$5,000 of adjusted gross income accounted for 73 percent of income and 44 percent of tax liability in 1946. By 1961 their share had declined to 26 percent and 14 percent, respectively. During this period the share of income reported on returns with over \$10,000 increased from 16 percent to 31 percent. All States shared in these trends.

<sup>3</sup> In general, however, the State income taxes are progressive up to the \$25,000 or \$50,000 adjusted gross income level and become regressive above those levels. Deductibility of the Federal income tax has a particularly regressive effect at the higher income levels. See discussion under "Deductibility" on page 129.

The States vary considerably in their use of the individual income tax as a source of tax revenue. In 1963, when 13.4 percent of all State tax collections came from individual income taxes, 5 States relied on them for less than 5 percent, but 11 States obtained more than one-fourth of their tax collections from that source (table 49). In 1952 only 2 States derived as much as 25 percent of their tax revenue from individual income taxes.

Significantly, not a single new State individual income tax had been enacted in nearly a quarter century prior to 1961, when West Virginia adopted this tax and New Jersey adopted it in limited form.<sup>4</sup> More than one-third of the U.S. population is still free of State 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 are all without State individual income taxes.

*Structure.*—Individual income taxes imposed by the States resemble 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 (except the Tennessee tax on dividends and interest) allow personal exemptions (table 52). The exemption is generally in the form of a deduction from income, but 5 States express the exemption in the form of a tax credit. New York supplements its personal exemption with a tax credit.

Twelve of the income tax States use the Federal \$600 per capita exemption system.

<sup>4</sup> Alaska adopted an individual income tax in 1949, when it was a Territory. South Dakota and West Virginia had enacted individual income taxes in 1935 but repealed them in 1943. South Dakota, unlike West Virginia, has not resumed income taxation.

In the other States exemptions for a single person, a married couple, or head of family are generally higher. The exemption for dependents is higher than the \$600 Federal allowance in only four States.

The size distribution of personal ex-

emptions allowed by the States and the District of Columbia is shown below. For the 5 States which express the exemption in the form of a tax credit, the credits have been converted into their deduction equivalents at first bracket rates.

*State Individual Incomes Taxes: Frequency Distribution of Exemptions, January 1, 1964*<sup>1</sup>

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
\$435	1	\$870	1	None	1
500	1	1,000	1	\$200	1
600	13	1,200	12	300	3
750	1	1,500	2	333	1
800	2	1,600	2	400	3
833	1	1,700	1	405	1
1,000	7	2,000	7	500	4
1,200	1	2,333	1	514	1
1,500	4	2,400	1	600	16
1,750	1	2,500	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	.....	.....

<sup>1</sup> Includes District of Columbia, but excludes New Hampshire and Tennessee, which tax income from intangibles only. New Hampshire allows a \$600 exemption to single and married persons, but no credit for dependents. Tennessee allows no personal or dependency exemptions.

<sup>2</sup> 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.

With few exceptions, State income tax rates are graduated, but none approaches even the first bracket rate of the Federal schedule. The highest State rate is 11 percent; in 23 States the rates are no higher than 7 percent; and 6 States have maximum rates of less than 5 percent. In the District of Columbia the maximum rate is 5 percent. Approximately three-fourths of the States terminate graduation at \$15,000 of taxable income or below; graduation extends beyond the \$25,000 level in only 6 States (table 53).<sup>5</sup> As has been noted, the statutory rates shown in

<sup>5</sup> In view of the 1964 Federal income tax rate reductions, Alaska has, effective January 1, 1964, replaced its previous income tax, expressed as 16% of Federal tax liability, with an independent rate structure equal to 16% of the pre-1964 Federal tax rates. West Virginia made a similar change in 1963.

table 53 do not reflect adequately the degree of graduation in State income taxes. The amount of income tax an individual pays, particularly in the lower and middle income areas, depends on the size of the personal and dependency exemption, and on the deductions allowed in arriving at taxable income. A high-rate structure, particularly in the upper brackets, with deduction of the Federal income tax, may be no more onerous than a low-rate structure without such deduction. However, even flat-rate income taxes (Indiana, Maryland, and Massachusetts) contain some graduation as a result of personal and dependency exemptions (see table 50).

While State income tax rates and exemptions vary, there is substantial structural similarity. Since adoption of the

TABLE 51.—Income Distribution for Families and Unrelated Individuals, 1949 and 1959

State	Percent distribution								Median income	
	Under \$3,000		\$3,000 to \$5,999		\$6,000 to \$9,999		\$10,000 and over		1959	1949
	1959	1949	1959	1949	1959	1949	1959	1949		
Alabama	46.3	75.5	29.4	19.8	17.6	3.5	6.8	1.2	\$3,349	\$2,635
Alaska	35.8	n.a.	22.7	n.a.	23.0	n.a.	18.7	n.a.	4,880	n.a.
Arizona	33.1	60.6	30.9	31.6	24.6	5.5	11.4	2.3	4,688	2,406
Arkansas	55.3	80.7	27.5	15.6	12.7	2.5	4.6	1.1	2,629	1,348
California	27.5	49.6	27.3	37.9	28.8	9.6	16.4	2.9	5,527	3,023
Colorado	31.4	58.9	31.6	31.9	25.7	6.5	11.3	2.6	4,812	2,532
Connecticut	20.9	46.5	28.9	40.3	32.3	9.5	17.9	3.8	6,014	3,181
Delaware	27.7	55.5	29.5	32.6	26.9	8.3	15.7	3.5	5,312	2,698
District of Columbia	32.0	50.5	33.5	33.8	20.7	11.3	13.8	4.5	4,532	2,975
Florida	40.2	69.2	31.7	24.0	19.2	4.8	8.8	2.2	3,815	1,954
Georgia	44.1	74.3	30.1	20.4	18.2	3.9	7.6	1.5	3,518	1,667
Hawaii	31.2	55.7	30.6	30.6	23.0	10.2	15.2	3.6	4,710	2,728
Idaho	31.9	56.2	35.2	34.8	24.2	6.6	8.6	2.3	4,580	2,700
Illinois	26.3	46.5	28.2	39.3	29.4	10.5	16.2	3.7	5,589	3,185
Indiana	28.9	53.3	32.0	37.3	27.6	7.3	11.6	2.1	5,084	2,827
Iowa	36.8	57.3	32.5	33.7	22.2	6.7	8.5	2.3	4,240	2,629
Kansas	34.6	61.6	33.0	30.7	23.0	5.6	9.6	2.3	4,442	2,410
Kentucky	46.2	73.3	29.8	21.5	17.4	3.8	6.6	1.4	3,350	1,790
Louisiana	44.6	70.1	28.6	22.8	18.7	5.0	8.2	2.0	3,513	1,830
Maine	36.9	67.5	36.6	26.9	20.6	4.0	6.0	1.5	4,021	2,229
Maryland	26.7	53.5	29.6	34.4	27.8	9.2	16.0	3.0	5,417	2,813
Massachusetts	26.6	51.8	31.5	37.5	28.6	7.8	13.3	2.8	5,322	2,907
Michigan	26.1	45.2	29.7	42.2	30.1	10.0	14.3	2.8	5,534	3,228
Minnesota	33.2	55.9	31.4	34.8	25.2	6.9	10.2	2.3	4,674	2,693
Mississippi	58.7	84.5	24.8	12.5	12.3	2.2	4.3	.9	2,324	1,032
Missouri	38.3	64.2	30.2	28.2	22.1	5.5	9.3	2.0	4,186	2,221
Montana	33.5	54.9	33.8	35.3	23.8	7.0	9.0	2.9	4,502	2,727
Nebraska	37.5	61.8	33.8	30.2	20.7	5.7	8.1	2.2	4,065	2,436
Nevada	25.9	50.3	28.9	37.6	28.9	9.1	16.2	3.1	5,539	2,982
New Hampshire	30.1	62.9	35.3	30.6	25.7	4.9	8.7	1.5	4,729	2,420
New Jersey	21.8	43.5	28.7	41.2	31.4	11.4	18.1	3.9	5,954	3,332
New Mexico	33.4	61.4	30.3	29.2	24.4	6.7	11.9	2.6	4,638	2,340
New York	26.1	48.9	30.5	37.5	27.7	9.7	15.7	4.0	5,407	3,065
North Carolina	45.8	72.1	31.5	22.5	16.9	3.9	5.8	1.5	3,334	1,868
North Dakota	40.1	59.6	34.6	30.4	18.5	7.2	6.7	2.8	3,782	2,497
Ohio	26.4	49.4	30.4	39.3	29.9	8.5	13.3	2.6	5,442	3,027
Oklahoma	42.1	66.9	30.7	26.4	19.1	4.8	8.1	1.9	3,741	2,056
Oregon	29.6	51.1	31.6	38.6	27.7	7.8	11.0	2.5	5,070	2,933
Pennsylvania	28.0	53.6	34.0	36.4	26.5	7.8	11.4	2.3	5,031	2,833
Rhode Island	32.0	57.3	34.1	34.3	24.9	6.4	9.0	2.1	4,640	2,655
South Carolina	48.5	73.7	29.6	21.4	16.5	3.6	5.3	1.2	3,125	1,671
South Dakota	44.8	62.5	32.1	29.4	17.2	5.9	6.0	2.3	3,441	2,370
Tennessee	46.2	73.0	30.0	21.4	17.2	3.9	6.5	1.5	3,333	1,762
Texas	38.8	62.0	30.3	29.0	21.3	6.2	9.7	2.7	4,058	2,307
Utah	26.4	50.0	33.5	41.3	28.8	6.9	11.3	1.9	5,266	3,002
Vermont	38.0	69.4	35.1	25.5	20.0	3.8	6.8	1.4	3,985	2,109
Virginia	38.7	64.9	30.1	26.5	20.6	6.7	10.4	2.0	4,043	2,192
Washington	29.1	50.7	29.7	38.9	28.5	8.0	12.7	2.4	5,244	2,955
West Virginia	40.7	65.0	31.3	28.7	20.8	4.8	7.2	1.4	3,931	2,360
Wisconsin	28.8	52.7	31.1	37.5	28.4	7.5	11.6	2.3	5,173	2,857
Wyoming	27.4	50.6	32.6	38.8	28.2	7.7	11.9	2.9	5,162	2,966
United States	32.5	56.6	30.4	33.3	25.1	7.5	12.0	2.6	4,791	2,635

n.a.—Data not available.

Source: U.S. Bureau of the Census, 1960 Census of Population, Series PC(1)-1c to 52c.

TABLE 52.—State Individual Income Taxes: Personal Exemptions, January 1, 1964

State	Personal exemption		Additional exemption on account of—		
	Single	Married (joint return)	Dependents	Age <sup>1</sup>	Blindness <sup>1</sup>
Alabama.....	\$1,500	\$3,000	\$300		
Alaska.....	600	1,200	600	\$600	\$600
Arizona.....	1,000	2,000	600	1,000	500
Arkansas <sup>2</sup> .....	17.50 (1,750)	35 (3,250)	6 (300)		
California.....	1,500	3,000	600		600
Colorado.....	750	1,500	750	750	750
Delaware.....	600	1,200	600	600	600
Georgia.....	1,500	3,000	600	600	600
Hawaii.....	600	1,200	600	<sup>3</sup> 600	5,000
Idaho.....	600	1,200	600	600	600
Indiana.....	1,000	<sup>4</sup> 2,000	500	500	500
Iowa <sup>2</sup> .....	15 (1,500)	30 (2,333)	7.50 (333)	<sup>5</sup> 15	<sup>5</sup> 15
Kansas.....	600	1,200	<sup>6</sup> 600	600	600
Kentucky <sup>2</sup> .....	20 (1,000)	40 (2,000)	20 (1,000)	20 (1,000)	20 (1,000)
Louisiana <sup>7</sup> .....	2,500 (50)	5,000 (100)	<sup>6</sup> 400 (8)		<sup>8</sup> 1,000 (20)
Maryland.....	800	1,600	<sup>9</sup> 800	800	800
Massachusetts <sup>10</sup> .....	2,000	2,500-4,000	<sup>6</sup> 400		2,000
Minnesota <sup>2</sup> .....	10 (833)	30 (1,700)	15 (514)	( <sup>11</sup> )	( <sup>11</sup> )
Mississippi.....	5,000	7,000			
Missouri.....	1,200	2,400	400		
Montana.....	600	1,200	<sup>6</sup> 600	600	600
New Hampshire <sup>12</sup> .....	600	600			
New Jersey <sup>13, 14</sup> .....	600	1,200	<sup>6</sup> 600	600	600
New Mexico.....	600	1,200	<sup>6</sup> 600	600	600
New York <sup>14</sup> .....	600	1,200	<sup>6</sup> 600	600	600
North Carolina.....	1,000	<sup>15</sup> 2,000	300		1,000
North Dakota.....	600	1,500	600	600	600
Oklahoma.....	1,000	2,000	500		
Oregon.....	600	1,200	<sup>16</sup> 600	( <sup>17</sup> )	<sup>17</sup> 600
South Carolina.....	800	1,600	<sup>18</sup> 800	800	800
Tennessee <sup>12</sup> .....					
Utah.....	600	1,200	<sup>6</sup> 600		600
Vermont.....	500	1,000	500	500	500
Virginia.....	1,000	2,000	<sup>19</sup> 200	600	600
West Virginia.....	600	1,200	<sup>6</sup> 600	600	600
Wisconsin <sup>2</sup> .....	10 (435)	20 (870)	10 (405)	<sup>20</sup> 5	
District of Columbia.....	1,000	2,000	500	500	500

<sup>1</sup> In most States an identical exemption is allowed for a spouse if she meets the age and blindness conditions. In Massachusetts the deduction is allowed against business income only. In Hawaii the \$5,000 blindness deduction is allowed in lieu of the personal exemption.

<sup>2</sup> 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 dependency exemptions, 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.

<sup>3</sup> Individuals establishing residence in Hawaii after the age of 65 are subject to tax on income from Hawaii sources only (the tax is imposed on the entire taxable income of resident individuals, estates, and trusts).

<sup>4</sup> Each spouse is entitled to the lesser of \$1,000 or adjusted gross income.

<sup>5</sup> Single person, \$833; married couple, \$1,167.

<sup>6</sup> The exemption is allowed for students regardless of age or income.

<sup>7</sup> The exemptions and credits for dependents are deductible from the lowest income bracket and are equivalent to the tax credits shown in parentheses.

<sup>8</sup> An identical exemption is allowed for a spouse or for a dependent.

<sup>9</sup> The exemption is allowed for students regardless of age or income, and an additional credit of \$800 is allowed for each dependent 65 years of age or over.

<sup>10</sup> 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 al-

(Footnotes to table 52 concluded)

lowed against nonbusiness income if income from all sources for a single person exceeds \$5,000 and for a married person exceeds \$7,500.

<sup>11</sup> 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.

<sup>12</sup> The tax applies only to interest and dividends.

<sup>13</sup> Applies to commuters only, New Jersey-New York area.

<sup>14</sup> In addition to the personal exemptions, the following tax credits are granted: Single persons, \$10; married taxpayers and heads of households, \$25.

<sup>15</sup> An additional exemption of \$1,000 is allowed a married woman with separate income.

Federal tax simplification program in 1944, an increasing number of States have tended to pattern their methods of tax computation after the Internal Revenue Code. In most States, taxpayers have 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 and applying a prescribed tax rate schedule (table 54).

The trend toward adopting 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. Fourteen of the 36 individual income tax States now use the Federal tax base—Alaska, Hawaii, Idaho, Indiana, Iowa, Kentucky, Minnesota, Montana, New Jersey, New Mexico, New York, North Dakota, Vermont, and West Virginia (table 55). In these situations, State taxpayers typically modify the adjusted gross income figure, as reported on Federal tax returns, by subtracting interest on Federal securities and other non-taxable income and by adding (1) interest from obligations of other States and their political subdivisions and (2) State income taxes that were deducted in arriving at the Federal base. Moreover, some States use the same standard deduction and per-

<sup>16</sup> A credit of \$1 is allowed for each \$100 actually contributed by the taxpayer as partial support of a person who could qualify (except for the chief support requirement) as a dependent. The credit shall not exceed \$6.

<sup>17</sup> 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 (if also blind) are allowed an additional \$600 exemption plus a tax credit of \$18 each.

<sup>18</sup> 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.

<sup>19</sup> Exemption for one dependent of unmarried person is \$1,000, if dependent is father, mother, son, daughter, sister or brother.

<sup>20</sup> Single person, \$218; married couple, \$405.

sonal exemptions as the Internal Revenue Code. In the most complete integration with the Federal tax, the State tax is stipulated as a constant percentage of Federal tax liability, adjusted for that part of the taxpayers' income not taxable by the State. As originally enacted, the West Virginia personal income tax, was 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. The law was amended in 1963, however, to provide tax brackets and graduated rates which correspond to about 6 percent of those in the Federal system before the 1964 tax reductions. Alaska has converted its tax of 16 percent of the Federal tax liability to a bracket system, effective January 1, 1964.

Even in States that do not make direct use of adjusted gross income as defined for Federal tax purposes, specific statutory provisions (capital gains and losses, depreciation, depletion, deductions for charitable contributions, medical expenses, interest, etc.) are often similar to or identical with the Federal provisions. In many instances the correspondence with the Federal income tax provision was closer when the State income taxes were first enacted. They have drifted apart as the States failed to keep legislative pace with amendments to the Federal law. In several States consideration continues to be given to defining taxable income for State income tax purposes by reference to the Federal rev-

TABLE 53.—State Individual Income Taxes: Rates, January 1, 1964

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Standard deduction allowed <sup>1</sup>	Special rates or features
Alabama	First \$1,000	1.5	X	X	
	\$1,001-\$3,000	3			
	\$3,001-\$5,000	4.5			
Alaska	Over \$5,000	5		X	The income brackets are for single persons, and married couples filing separate returns. The size of brackets is double for married couples filing joint returns.
	First \$2,000	3.2			
	\$2,001-\$4,000	3.52			
	\$4,001-\$6,000	4.16			
	\$6,001-\$8,000	4.80			
	\$8,001-\$10,000	5.44			
	\$10,001-\$12,000	6.08			
	\$12,001-\$14,000	6.88			
	\$14,001-\$16,000	7.52			
	\$16,001-\$18,000	8.00			
	\$18,001-\$20,000	8.48			
	\$20,001-\$22,000	8.96			
	\$22,001-\$26,000	9.44			
	\$26,001-\$32,000	9.92			
	\$32,001-\$38,000	10.40			
	\$38,001-\$44,000	11.04			
	\$44,001-\$50,000	11.52			
	\$50,001-\$60,000	12.00			
	\$60,001-\$70,000	12.48			
	\$70,001-\$80,000	12.96			
\$80,001-\$90,000	13.44				
\$90,001-\$100,000	13.92				
\$100,001-\$150,000	14.24				
\$150,001-\$200,000	14.40				
Over \$200,000	14.56				
Arizona <sup>2</sup>	First \$1,000	1	X	X	
	\$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		X	
	\$3,001-\$6,000	2			
	\$6,001-\$11,000	3			
	\$11,001-\$25,000	4			
	Over \$25,000	5			
California <sup>2</sup>	First \$2,500	1		X	
	\$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	X	X	Surtax on income from intangibles in excess of \$5,000, 2 percent. Beginning with tax year 1963, taxpayers are allowed a credit equal to 1/2 of 1 percent of net taxable income on the first \$9000 of taxable income.
	\$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	7.5			
Over \$10,000	8				

See footnotes at end of table.

TABLE 53.—State Individual Income Taxes: Rates, January 1, 1964—Continued

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Standard deduction allowed <sup>1</sup>	Special rates or features
Delaware.....	First \$1,000.....	1.5	X <sup>8</sup> .....	X.....	.....
	\$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	.....	X.....	.....
	\$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 <sup>4</sup> .....	First \$500.....	3	.....	X.....	Alternative tax on capital gains: Deduct 50 percent of capital gains and pay an additional 3 percent on such gains. The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to income classes twice as large.
	\$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 <sup>2</sup> .....	First \$1,000.....	3.4	X.....	X.....	A \$10 filing fee is imposed on each return.
	\$1,001-\$2,000.....	5.5			
	\$2,001-\$3,000.....	7.2			
	\$3,001-\$4,000.....	8.25			
	\$4,001-\$5,000.....	9.35			
	Over \$5,000.....	10.5			
Indiana.....	Adjusted gross income.....	2	.....	.....	A \$6 tax credit is allowed each taxpayer and each dependent for sales tax paid on food and prescription drugs.
Iowa.....	First \$1,000.....	0.75	X.....	X.....	.....
	\$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	X.....	X.....	The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to income classes twice as large.
	\$2,001-\$3,000.....	2.5			
	\$3,001-\$5,000.....	3			
	\$5,001-\$7,000.....	4			
	Over \$7,000.....	5.5			
	.....	.....			
Kentucky.....	First \$3,000.....	2	X.....	X.....	.....
	\$3,001-\$4,000.....	3			
	\$4,001-\$5,000.....	4			
	\$5,001-\$8,000.....	5			
	Over \$8,000.....	6			
Louisiana <sup>2</sup> .....	First \$10,000.....	2	X.....	X.....	.....
	\$10,001-\$50,000.....	4			
	Over \$50,000.....	6			
Maryland.....	Ordinary income.....	3	.....	X.....	Rate on ordinary income increased to 4 percent, effective January 1, 1965.
	Investment income: First \$500.....	3	.....	.....	.....
Massachusetts <sup>4</sup> .....	Balance.....	5	.....	.....	.....
	Earned income and business income.....	3.075	X <sup>5</sup> .....	.....	Rates include the following additional taxes: 3 percent permanent surtax on all types of income; and, through June 30, 1965, 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				

See footnotes at end of table.

TABLE 53.—State Individual Income Taxes: Rates, January 1, 1964—Continued

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Standard deduction allowed <sup>1</sup>	Special rates or features
Minnesota	First \$500	1	X	X	A 15-percent surtax for taxable years starting before 1965. 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 surtax 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.
	\$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	X	X	The maximum rate for later years will be: 1965, 3.5 on income in excess of \$10,000; 1966 and after, 3 on income in excess of \$5,000. 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
	\$5,001-\$10,000	3			
	Over \$10,000	4			
Missouri	First \$1,000	1	X	X	
	\$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	X	X	
	\$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 Jersey	First \$1,000	2	X	X	Tax applies to commuters only, New Jersey-New York area.
	\$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			
	\$13,001-\$15,000	9			
	Over \$15,000	10			
New Mexico <sup>2, 4</sup>	First \$10,000	1.5	X	X	Net income (of married taxpayer filing joint return and single taxpayer with one or more dependents) under \$1,500 nontaxable.
	\$10,001-\$20,000	3.0			
	\$20,001-\$100,000	4.5			
	Over \$100,000	6			
		6			
New York	First \$1,000	2	X	X	Capital gains treatment is similar to that provided under Federal law. Income from unincorporated business is taxed at 4 percent. The following credit is allowed: If tax is— Credit is— \$100 or less... Full amount of tax. \$100-\$200... Difference between \$200 and amount of tax. \$200 or more... No credit.
	\$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			
	\$13,001-\$15,000	9			
	Over \$15,000	10			
		10			
North Carolina	First \$2,000	3	X	X	
	\$2,001-\$4,000	4			
	\$4,001-\$6,000	5			
	\$6,001-\$10,000	6			
	Over \$10,000	7			
		7			

See footnotes at end of table.



TABLE 53.—State Individual Income Taxes: Rates, January 1, 1964—Continued

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Standard deduction allowed <sup>1</sup>	Special rates or features				
North Dakota	First \$3,000	1	X	X					
	\$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							
Oklahoma <sup>4</sup>	Over \$15,000	11	X	X	The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to income classes twice as large.				
	First \$1,500	1							
	\$1,501-\$3,000	2							
	\$3,001-\$4,500	3							
	\$4,501-\$6,000	4							
	\$6,001-\$7,500	5							
Oregon	Over \$7,500	6	X	X	The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to income classes twice as large.				
	First \$500	3							
	\$501-\$1,000	4							
	\$1,001-\$1,500	5							
	\$1,501-\$2,000	6							
	\$2,001-\$4,000	7							
South Carolina	\$4,001-\$8,000	9	X <sup>6</sup>	X					
	Over \$8,000	9.5							
	First \$2,000	2							
	\$2,001-\$4,000	3							
	\$4,001-\$6,000	4							
	\$6,001-\$8,000	5							
Tennessee	\$8,001-\$10,000	6			Dividends from corporations having at least 75 percent of their property subject to the Tennessee ad valorem tax are taxed at 4 percent.				
	Over \$10,000	7							
Tennessee	Interest and dividends	6							
	Utah	First \$1,000				1	X	X	
		\$1,001-\$2,000				2			
		\$2,001-\$3,000				3			
		\$3,001-\$4,000				4			
Over \$4,000		5							
Vermont <sup>4</sup>	First \$1,000	2		X	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		X					
	\$3,001-\$5,000	3							
	Over \$5,000	5							
West Virginia	First \$2,000	1.2		X	The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to income classes twice as large.				
	\$2,001-\$4,000	1.3							
	\$4,001-\$6,000	1.6							
	\$6,001-\$8,000	1.8							
	\$8,001-\$10,000	2.0							
	\$10,001-\$12,000	2.3							
	\$12,001-\$14,000	2.6							
	\$14,001-\$16,000	2.8							
	\$16,001-\$18,000	3.0							
	\$18,001-\$20,000	3.1							
	\$20,001-\$22,000	3.4							
	\$22,001-\$26,000	3.5							
	\$26,001-\$32,000	3.7							
	\$32,001-\$38,000	3.9							
	\$38,001-\$44,000	4.1							
	\$44,001-\$50,000	4.3							
	\$50,001-\$60,000	4.5							
	\$60,001-\$70,000	4.7							
	\$70,001-\$80,000	4.9							
	\$80,001-\$90,000	5.0							
	\$90,001-\$100,000	5.2							
	\$100,001-\$150,000	5.3							
	\$150,001-\$200,000	5.4							
Over \$200,000	5.5								

See footnotes at end of table.

TABLE 53.—State Individual Income Taxes: Rates, January 1, 1964—Concluded

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Standard deduction allowed <sup>1</sup>	Special rates or features
Wisconsin <sup>4</sup> .....	First \$1,000 .....	2.3	.....	X.....	.....
	\$1,001-\$2,000 .....	2.55			
	\$2,001-\$3,000 .....	2.8			
	\$3,001-\$4,000 .....	3.8			
	\$4,001-\$5,000 .....	4.3			
	\$5,001-\$6,000 .....	4.8			
	\$6,001-\$7,000 .....	5.3			
	\$7,001-\$8,000 .....	6.3			
	\$8,001-\$9,000 .....	6.8			
	\$9,001-\$10,000 .....	7.3			
	\$10,001-\$11,000 .....	7.8			
	\$11,001-\$12,000 .....	8.3			
	\$12,001-\$13,000 .....	8.8			
	\$13,001-\$14,000 .....	9.3			
\$14,001-\$15,000 .....	9.9				
Over \$15,000 .....	10.0				
District of Columbia ..	First \$5,000 .....	2.5	.....	X.....	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			

<sup>1</sup> See table 54.

<sup>2</sup> Community property State in which, in general, 1/2 the community income is taxable to each spouse.

<sup>3</sup> Limited to \$300 for single persons and \$600 for married persons filing joint returns.

<sup>4</sup> Allows deduction of State individual income tax itself in computing State tax liability.

<sup>5</sup> Limited to taxes paid on professional or business income.

<sup>6</sup> Limited to \$500 per taxpayer.

enue code, obviating the need for new State legislation with every Federal change. A significant factor in a State's consideration of the pros and cons of adopting the Federal revenue code for State tax purposes is that it contains an array of special provisions at the expense of foregoing substantial revenue. Moreover, the constitutionality of such a procedure has been questioned on the ground that it is delegation by the State legislature of powers it must reserve to itself. New York State adopted a constitutional amendment in 1959 which expressly authorizes the legislature to define income for tax purposes by reference to the Federal code, and the New York income tax contains such a provision, making it unnecessary to change the law in order to conform with the Federal definition at any particular time.<sup>6</sup>

<sup>6</sup> See James O. Huber, "Constitutionality of a Federalized State Income Tax," *Wisconsin Law Review*, Vol. 1963, No. 3, May 1963, for a detailed discussion of this problem.

There is considerable uniformity regarding the date by which income tax returns must be filed. Twenty-nine States and the District of Columbia require calendar year reports to be filed by the Federal filing date, April 15.

Withholding as a means of collecting income taxes from wage and salary recipients at the source is rapidly becoming a universal feature of State individual income tax laws, being used by 28 States and the District of Columbia. In addition, California and Iowa require withholding from income of nonresidents earned within their borders, and Kansas requires fiduciaries operating in the State to withhold from earnings distributed to nonresidents (table 55). Except for Hawaii and New York, which require monthly returns from employers, all States withholding from residents required quarterly returns as of January 1, 1964. Oregon has adopted monthly payments, effective March 1, 1964, and

TABLE 54.—State Individual Income Taxes: Use of Standard Deduction and Optional Tax Table, January 1, 1964

State	Size of standard deduction				Optional tax table
	Percent <sup>1</sup>	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 <sup>2</sup> .....	*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	.....
Indiana.....	.....	.....	.....	.....	.....
Iowa.....	*5	250	250	250	X
Kansas.....	*10	400	400	400	X
Kentucky <sup>3</sup> .....	(*)	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 Jersey.....	10	1,000	1,000	1,000	.....
New Mexico.....	10	1,000	500	1,000	.....
New York.....	10	1,000	( <sup>4</sup> )	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	X
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	( <sup>4</sup> )	1,000	X
Wisconsin.....	10	1,000	500	1,000	.....
District of Columbia.....	10	1,000	500	1,000	X

Note: Excludes New Hampshire and Tennessee where the tax applies to interest and dividends only.

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

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

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

.....

<sup>3</sup> In lieu of other deductions except Federal income 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 optional tax table.

<sup>4</sup> 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.

New Mexico and Vermont have done so, effective July 1, 1964. In a few States monthly withholding is required when the amount withheld exceeds a specified amount per month. More than half of the

States that now have withholding provisions adopted them between 1959 and 1963.

Withholding has undoubtedly resulted in better enforcement of State income tax

TABLE 55.—State Individual Income Taxes: Administrative Features, January 1, 1964

State	Filing date (calendar year returns)	Use of Federal tax base	Agreements for Federal-State cooperative use of returns	Withholding			Credit allowed for income taxes paid other States		
				Required	Year adopted	Periodicity of employer returns	Resident (a)	Non-resident (b)	Reciprocity required
Alabama.....	April 15	—	—	X	1956.....	Quarterly....	X	—	—
Alaska.....	April 15	X	—	X	1949.....	do.....	X	—	—
Arizona.....	April 15	—	—	X	1954.....	do.....	X	X	(a) —, (b) X <sup>1</sup>
Arkansas.....	May 15	—	—	( <sup>2</sup> )	—	—	X	X	—
California.....	April 15	—	X	( <sup>3</sup> )	—	Annually <sup>3</sup> ...	X	X	X <sup>1</sup>
Colorado.....	April 15	—	X	X	1954.....	Quarterly....	X	—	—
Delaware.....	April 30	—	—	X	1949.....	do.....	X	X	X
Dist. of Columbia.....	April 15	—	X	X	1956.....	do.....	X <sup>4</sup>	—	—
Georgia.....	April 15	—	—	X	1960.....	do.....	X	—	—
Hawaii.....	April 20	X	—	X	1957.....	Monthly <sup>5</sup> ...	X	—	(a) X
Idaho.....	April 15	X	—	X	1955.....	Quarterly....	X	X	X <sup>1</sup>
Indiana.....	April 15	X	X	X	1963.....	do.....	X	X	(a) X <sup>1</sup> , (b) X
Iowa.....	April 30	X	X	( <sup>6</sup> )	—	do <sup>3</sup> .....	X	—	—
Kansas.....	April 15	—	X	( <sup>6</sup> )	—	—	X <sup>7</sup>	—	—
Kentucky.....	April 15	X	X	X	1954.....	do <sup>8</sup> .....	X	X	X <sup>1</sup>
Louisiana.....	May 15	—	—	X	1961.....	do.....	X	—	—
Maryland.....	April 15	—	X	X	1955.....	do.....	X	X	X <sup>1</sup>
Massachusetts.....	April 15	—	X	X	1959.....	do <sup>9</sup> .....	X <sup>10</sup>	—	—
Minnesota.....	April 15	X	X	X	1961.....	do.....	X	—	—
Mississippi.....	April 15	—	—	—	—	—	X	—	—
Missouri.....	April 15	—	X	X	1961.....	do.....	X	—	—
Montana.....	April 15	X	X	X	1955.....	do <sup>11</sup> .....	X	—	—
New Hampshire.....	May 1	—	—	—	—	—	—	—	—
New Jersey.....	April 15	X	—	X	1961.....	do.....	X	—	—
New Mexico.....	April 15	X	—	X	1961.....	do <sup>12</sup> .....	X	X	(a) —, (b) X
New York.....	April 15	X	X	X	1959.....	Monthly....	X	—	—
North Carolina.....	April 15	—	X	X	1959.....	Quarterly....	X	—	—
North Dakota.....	April 15	X	—	—	—	—	X	—	—
Oklahoma.....	April 15	—	X	X	1961.....	do.....	X <sup>13</sup>	—	—
Oregon.....	April 15	—	X	X	1948.....	do <sup>14</sup> .....	X	—	X <sup>1</sup>
South Carolina.....	April 15	—	—	X	1959.....	do.....	X	—	—
Tennessee.....	April 15	—	X	—	—	—	—	—	—
Utah.....	April 15	—	X	X	1959.....	do.....	X	—	—
Vermont.....	April 15	X	—	X	1951.....	do <sup>15</sup> .....	X	X	(a) X <sup>1</sup> , (b) X
Virginia.....	May 1	—	X	X	1963.....	do.....	X	X	X <sup>9</sup>
West Virginia.....	April 15	X	X	X	1961.....	do <sup>16</sup> .....	X	X	(a) X <sup>1</sup> , (b) X
Wisconsin.....	April 15	—	X	X	1962.....	do.....	X	—	—

X denotes "yes"; — denotes "no" or "not applicable."  
<sup>1</sup> Some reciprocity provisions are negative in effect—credit is given if the other State does *not* give credit.  
<sup>2</sup> Withholding may be required in special circumstances.  
<sup>3</sup> Withholding applies to nonresidents only.  
<sup>4</sup> For income and intangibles taxes required to be paid a State as a domiciliary.  
<sup>5</sup> The Director of Taxation may grant permission to employers having a payroll of not more than \$1,500 per month, to make returns and payments on a quarterly basis.  
<sup>6</sup> Except that Kansas fiduciaries distributing to nonresidents must withhold.  
<sup>7</sup> Deductions limited.  
<sup>8</sup> Except that employers withholding income taxes amounting to \$100 or more per month are required to remit withheld income taxes on or before the 15th of the following month.  
<sup>9</sup> Except that returns and payment of taxes withheld by any em-

ployer who can reasonably expect that taxes withheld will exceed \$600 for the calendar year are due monthly.  
<sup>10</sup> Limited to taxes paid on professional or business income.  
<sup>11</sup> If total quarterly taxes withheld are less than \$10, an employer may make an annual return.  
<sup>12</sup> Changed to monthly, effective July 1, 1964.  
<sup>13</sup> Limited to taxes paid on compensation for personal services.  
<sup>14</sup> Beginning with the calendar quarter in April, 1964, employers withholding income taxes amounting to \$100 or more per month will be required to remit withheld income taxes on or before the 15th of the following month.  
<sup>15</sup> Changed to monthly, effective July 1, 1964, where the amount withheld is at least \$200 per calendar month or exceeds \$600 per calendar quarter.  
<sup>16</sup> The Tax Commission may by regulation provide for returns and payment on the 15th day of each month for employers withholding taxes of \$100 or more for the preceding calendar month.

laws. Another device for improving enforcement is the accessibility to State tax officials of Federal income tax returns. Twenty-one States and the District of Columbia now have agreements with the Internal Revenue Service for cooperative use of returns (table 55); similar agreements are in process of negotiation with additional States. Further improvement will occur when the States avail themselves of the opportunity to enroll their

enforcement personnel in training programs conducted by the Internal Revenue Service, authorized by Federal legislation that was recommended by the Advisory Commission on Intergovernmental Relations (Public Law 87-870). The same law allows the Internal Revenue Service to perform statistical and related services for State tax agencies on a reimbursement basis.

To avoid the possibility that the same

TABLE 56.—Individual Income Taxes: Effect of Federal and State Deductibility, for a Married Couple at Selected Taxable Income Levels, Federal and New York Tax Rates, 1963 <sup>1</sup>

Taxable income <sup>3</sup>	1. EFFECTIVE RATE OF TAX (percent) <sup>2</sup>				
	Federal (assuming no State tax)	New York	Combined Federal and New York		
			No deduction allowed by New York for Federal tax	Assuming New York allowed deduction for Federal tax	
	(1)	(2)	(3)	(4)	
\$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 100.0-(1)	Combined Federal and New York		No deduction allowed by New York for Federal tax (5)-(6) ÷ (5)	Assuming New York allowed deduction of Federal tax (5)-(7) ÷ (5)
		No deduction allowed by New York for Federal tax 100.0-(3)	Assuming New York allowed deduction for Federal tax 100.0-(4)		
(5)	(6)	(7)	(8)	(9)	
\$25,000.....	71.1	66.7	68.4	6.2	3.8
\$100,000.....	46.4	43.7	45.2	5.8	2.6
\$1,000,000.....	14.0	13.1	13.9	6.4	.7

<sup>1</sup> 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.

<sup>2</sup> Tax liability as a percent of taxable income (see footnote 3). Note that this definition of "effective rate" differs from that applied in table 50.

<sup>3</sup> Income after all deductions (except income taxes) and personal exemptions. Computations of Federal tax allow for income splitting.

income will be taxed under the income tax laws of more than one State, States either allow a credit for income taxes paid by their residents to other States or reciprocally exempt one another's residents (table 55). Only Alaska, New Hampshire, and Tennessee have no such provision, but the latter two States tax income from only interest and dividends. More than half of the income tax States provide for the credit whether or not the other State reciprocates.

**Deductibility.**—The Federal income tax allows deduction of State income taxes in computing net income for Federal tax purposes. In addition, approximately one-half of the income tax States allow taxes paid to the Federal Government to be deducted in computing State tax liability, and 6 States allow the State individual income tax itself to be deducted (table 53).

The deductibility feature, whether applicable under the Federal tax alone or on a mutual basis, affects the overall burden of the taxpayer and the distribution

of the combined net revenues among Federal and State governments.

Table 56 shows the effect of deductibility of individual income taxes at selected income levels. New York does not permit deductions of the Federal income tax, but for purposes of illustration the combined Federal and New York taxes have been computed in two ways: (1) with no deduction allowed for Federal tax and (2) assuming that New York allowed deduction for Federal tax.

It will be noted that at the \$1 million taxable income level the net increase in the combined effective rate resulting from the State tax for residents of New York, which does not allow a deduction of Federal taxes, is 0.9 of 1 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 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 56 that for an individual subject to the 9.3 percent New York tax 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 56. 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 of 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 by 2.6 percent.

The foregoing discussion illustrates the effect of deductibility on the aggregate Federal and State income tax burdens at various income levels in terms of 1963 tax rates. Also significant, particularly because of its impact on investment decisions, is the effect of deductibility on the marginal tax rate—that is, the rate applicable to additional amounts of income. The table below shows the effect of deductibility at the margin on the basis of the new Federal rates, effective with respect to income earned in 1965. Where Federal taxes are deductible from a State tax with a 10 percent marginal rate, the addition of the State tax raises the combined marginal rate by about 2½ percentage points (from 50 to 52.63 percent) at the \$25,000 income level and by slightly less than 1 percentage point (from 70 to 70.97 percent) at the \$200,000 income level.

A large proportion of Federal taxpayers, particularly at lower income levels, do not itemize their deductions but elect instead the 10 percent standard deduction (with an upper limit of \$1,000). Currently about three-fifths of all filers of tax returns with incomes under \$10,000 use the standard deduction (61.9 percent for 1962). Although such taxpayers do not benefit directly from the deductibility feature, the standard deduction is itself fixed at a level that takes account of the deduction of State income taxes. Also, there is an upward trend in the number of taxpayers who itemize their deductions.

*Effect of the Deductibility of a State 10 Percent Marginal Tax Rate on Combined Federal and State Individual Marginal Income Tax Rates, at Selected Net Income Levels Under 1965 Rates<sup>1</sup>*

(Percent)

Federal taxable income before additional dollar of income	Federal marginal rate for a single individual	State does not allow deduction of Federal tax			State allows deduction of Federal tax		
		Percentage of additional dollar of income paid to—			Percentage of additional dollar of income paid to—		
		Federal Government	State Government	Federal and State	Federal Government	State Government	Federal and State
\$25,000	50	45.0	10.0	55.0	47.37	5.26	52.63
50,000	53	47.7	10.0	57.7	50.37	4.96	55.33
50,000	62	55.8	10.0	65.8	59.49	4.05	63.54
100,000	70	63.0	10.0	73.0	67.74	3.23	70.97
200,000	70	63.0	10.0	73.0	67.74	3.23	70.97

<sup>1</sup> The marginal rate is the rate applicable to the additional taxable income resulting from an additional dollar of income. The Federal Government allows taxpayers to deduct State income taxes in computing net taxable income for Federal purposes. More than half of the income tax States allow deduction of Federal tax in computing the State tax. The top State rate is as high as 10% in only

8 States. In 3 of these the rate is 10%. In 2 States the top rate is 10.5 percent, and in 2 it is 11 percent. In Alaska a rate of 14.56 percent is applicable to income above \$200,000.

Source: Office of Tax Analysis, the Secretary of the Treasury.

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 that permit deductibility of Federal taxes allow the standard deduction in addition (table 54).

Deductibility of the Federal income tax for State tax purposes tends to suppress rate progressivity. It need not do so, however, because rates and exemptions can be set at such a level as to offset its influence. This is illustrated by the effective rate data in table 50 for Minnesota and Vermont—at least up to the \$25,000 income level. Minnesota allows deduction of the Federal tax; Vermont does not. Yet the effective rates are almost identical at the four income levels for which they have been computed. Minnesota's statutory rate structure is considerably more highly graduated than is Vermont's, and the former allows larger personal exemptions than does the latter (tables 52 and 53).

The effect of deductibility of Federal

income taxes is illustrated dramatically in a recent study by Emanuel Melichar of the impact of alternative provisions of State individual income taxes on burdens, progressions, and yields.<sup>7</sup> To measure the real impact of State income taxes, taking account of the effect of deductibility of State income taxes on Federal returns, Melichar computed the "net burden" of the State income tax at each of 15 adjusted gross income levels for a single person and a married couple. The "net burden" was then computed as a percentage of the residual income (that is, adjusted gross income less Federal tax if no State tax were levied). The results of these computations for selected adjusted gross income levels (on the basis of 1960 tax provisions) are presented in table 57. In all the States that allow deduction of the Federal tax the ratio of "net burden" to "residual

<sup>7</sup> *State Individual Income Taxes* (Monograph 2; Storrs: The University of Connecticut, Agricultural Experiment Station, July 1963). Melichar defines "net burden" as the difference between the combined State and Federal income taxes paid and the Federal income tax that would have been paid if no State tax were levied.

income" increases at successive levels of adjusted gross income to \$25,000, and in most of them it declines rapidly at the higher income levels. In most States that do not allow deduction of the Federal tax the ratio continues to increase to the \$50,000 level and in some to the \$100,000 level, declining gradually for higher incomes. The Melichar study concludes that, in general, State income tax structures are more or less progressive at the lower and middle income brackets and become regressive at the higher brackets, and that allowance of Federal income tax deductibility reduces progressiveness at the lower brackets and accentuates regressiveness at the higher brackets.

#### *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. The \$2.7 billion individual income taxes collected by State governments in the fiscal year 1962 equalled 6 percent of Federal tax collections. The ratio of State to Federal taxes has edged up in recent years, as the following table shows, but even the present 6 percent ratio represents only a 1½-percentage-point change in the first-bracket rate of the Federal tax. The fact that State individual income taxes have increased relative to Federal tax collections reflects the 1954 drop in Federal rates and a general upward trend in State rates. The Federal rates have remained unchanged during this period since 1954.

The Library of Congress has developed data on the geographic incidence of Federal revenue sources, making it possible to compute roughly the ratio of State individual income tax collections to Federal

#### *Federal and State Individual Income Tax Collections, Selected Years, 1952-62* (dollar amounts in millions)

Year	Federal	State	
		Amount	Percent of Federal
1962.....	\$45,571	\$2,728	6.0
1960.....	40,715	2,209	5.4
1958.....	34,724	1,544	4.4
1956.....	32,188	1,374	4.3
1954.....	29,542	1,004	3.4
1952.....	27,921	913	3.3

Note: Data for years prior to 1960 exclude Alaska and Hawaii.

collections in each State.<sup>8</sup> Average annual Federal individual income tax collections (net of refunds) for the three fiscal years from July 1, 1958 through June 30, 1961 were allocated to the States of origin in proportion to the amount of "income tax after credits," as tabulated from unaudited individual income tax returns for 1959. This procedure does not provide a totally satisfactory distribution by State of origin because taxpayers may file their Federal returns from States where they are employed and not necessarily where they reside. As a result, taxes reported for Federal purposes do not always conform to liability for State taxes and are probably somewhat overstated for the more industrialized States and understated for the less industrialized States.

Despite these limitations there is a sufficiently wide interstate variation in the level of State individual income tax collections to make some valid comparisons of percentage relationships between State and Federal income tax collections. Average annual State collections for the years 1959-61 (the period for which Federal collections were computed) were about 10

<sup>8</sup> I. M. Labovitz, *Federal Revenues and Expenditures in the Several States; Averages for the Fiscal Years 1959-1961* (The Library of Congress, Legislative Reference Service, Sept. 19, 1962).



TABLE 57.—*Net Burden of State Individual Income Tax as a Percent of Residual Income, for a Married Couple at Selected Adjusted Gross Income Levels, by State, 1960*  
(Percent)

State	Adjusted gross income						
	\$5,000	\$10,000	\$25,000	\$50,000	\$100,000	\$500,000	\$1,000,000
Alabama*	0.23	1.28	1.98	1.61	1.13	0.29	0.26
Alaska	1.70	2.14	2.61	3.07	3.59	3.19	4.16
Arizona*	.34	.72	1.26	1.23	.91	.25	.23
Arkansas	.46	1.35	2.14	2.33	2.24	1.40	1.72
California	.28	.65	1.55	2.49	2.83	1.92	2.39
Colorado*	1.46	2.34	3.34	2.84	2.08	.54	.48
Delaware* <sup>1</sup>	1.03	2.79	4.44	4.18	3.81	2.26	2.77
Dist. of Columbia	1.15	1.73	2.17	2.34	2.25	1.40	1.72
Georgia	.37	1.40	2.93	2.98	2.78	1.68	2.07
Hawaii	2.45	3.31	3.75	3.67	3.76	2.48	3.08
Idaho*	1.90	2.96	3.83	3.13	2.26	.58	.51
Iowa*	.75	1.61	1.71	1.29	.87	.22	.19
Kansas*	.73	1.08	1.56	1.52	1.14	.31	.28
Kentucky*	1.37	2.69	3.34	2.64	1.86	.47	.42
Louisiana*		.44	.76	.86	.70	.21	.22
Maryland	1.60	2.07	2.02	1.72	1.47	.85	1.04
Massachusetts* <sup>2</sup>	.76	1.40	1.43	1.07	.71	.18	.16
Minnesota*	1.70	3.16	4.15	3.59	2.68	.70	.63
Mississippi		.37	1.53	2.28	2.48	1.65	2.05
Missouri*	.31	.88	1.43	1.22	.86	.23	.20
Montana*	.91	1.87	2.77	2.27	1.62	.41	.37
New Mexico*	.25	.45	.46	.42	.35	.14	.13
New York	1.24	2.64	4.76	4.90	4.64	2.80	3.45
North Carolina	1.47	2.80	3.92	3.68	3.34	1.97	2.43
North Dakota*	.43	1.16	3.38	3.21	2.45	.65	.59
Oklahoma*	.34	.72	1.43	1.54	1.20	.33	.30
Oregon*	1.90	3.14	3.80	3.12	2.25	.57	.51
South Carolina* <sup>3</sup>	.74	1.91	3.55	3.53	3.27	1.97	2.42
Utah*	.91	1.96	2.22	1.71	1.17	.29	.26
Vermont	2.40	4.15	4.73	4.15	3.67	2.13	2.60
Virginia	.92	2.05	2.89	2.66	2.39	1.41	1.73
Wisconsin	1.31	2.73	4.98	4.95	4.63	2.78	3.42

\* Federal income tax deductible.

<sup>1</sup> Deductibility of Federal income tax limited to \$300 for an individual and \$600 for married persons filing joint returns.

<sup>2</sup> Deductibility of Federal income tax limited to taxes paid on professional or business income.

<sup>3</sup> Deductibility of Federal income tax limited to \$500 per taxpayer.

Source: Emanuel Melichar, *State Individual Income Taxes*, (Monograph 2; Storrs: The University of Connecticut, Agricultural Experiment Station, July 1963).

percent of Federal individual income tax collections in the 33 States with personal income taxes. In 8 States the ratio of State to Federal collections was less than 5 percent, and in another 9 between 5 and 10 percent. In 16 States this percentage exceeded 10 percent, and in half of these, 15 percent (table 58).

The wide variation in the relative weight of State income taxes is 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. About half of the relatively high-yield State taxes also allow this deduction but compensate for it by imposing relatively high statutory rates on lower and middle incomes.

These statistics illuminate the divergence in State attitudes toward the personal income tax as a source of State revenue.

TABLE 58.—*Individual Income Taxes: State Collections as a Percent of Federal Collections, Averages for 1959-61*

Under 5 percent	5-10 percent	10-15 percent	15 percent and over
Arizona ..... 4.7	Alabama ..... 6.7	Colorado ..... 11.0	Alaska ..... 21.0
Louisiana ..... 2.7	Arkansas ..... 5.6	Kentucky ..... 12.5	Delaware ..... 15.8
Mississippi ..... 4.5	California ..... 5.0	Maryland ..... 10.6	Hawaii ..... 22.1
Missouri ..... 4.5	District of Columbia... 8.9	Massachusetts ..... 11.7	Idaho ..... 16.5
New Hampshire ..... 1.3	Georgia ..... 7.8	Minnesota ..... 13.8	North Carolina ..... 16.1
New Mexico <sup>1</sup> ..... 3.2	Iowa ..... 7.9	New York ..... 13.6	Oregon ..... 21.6
Oklahoma ..... 4.5	Kansas ..... 6.1	South Carolina ..... 11.1	Vermont ..... 19.7
Tennessee ..... 1.2	Montana ..... 8.9	Virginia ..... 11.9	Wisconsin ..... 16.4
	North Dakota ..... 6.2		
	Utah ..... 9.5		
Number of States ..... 8	10	8	8

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.

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

Fourteen States choose not to use the income tax and have held to this view even in the past 20 years, when the pressure for revenue was great; 2 choose to tax only income from intangibles; and 1 only the income of commuters. The remaining 33 States use broadly based taxes but with varying degrees of intensity, ranging from about 3 percent of Federal tax liabilities in Louisiana to over 21 percent in Alaska, Hawaii, and 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*

Income taxes are levied by local governments in 6 States, but they are widely used in only 2, Ohio and Pennsylvania (table 59). In 1963 Oklahoma authorized municipalities to impose income taxes, but none had done so before 1964.

Ten of the 43 largest cities (with popu-

lations of over 300,000) use this source of revenue.<sup>9</sup> Twenty-nine cities with populations of 50,000 and over impose income taxes. In addition to the District of Columbia, 11 of these cities are located in Ohio, 9 in Pennsylvania, 3 in Kentucky, 2 in Michigan, 2 in Missouri, and 1 in Alabama (table 59).

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 jurisdictions could levy individual income taxes. Approximately 45 cities and 350 boroughs do so, as do about 145 townships and almost 1,300 school districts. Frequently the tax is imposed by coterminous units, and in such cases the combined rate is limited to one percent. Where school districts, for example, are coterminous with the cities, boroughs, and townships, the 1-percent rate is shared among them on the basis of their respective revenue needs as determined by mutual agreement.

<sup>9</sup> Detroit, Philadelphia, Pittsburgh, St. Louis, Kansas City (Mo.), Cincinnati, Columbus, Toledo, Louisville, and Washington, D.C.

TABLE 59.—Municipal Income Tax Rates, January 1, 1964

State and city	Rate (percent)	Income tax as percent of total tax revenue, 1962 (cities over 50,000 population)	State and city	Rate (percent)	Income tax as percent of total tax revenue, 1962 (cities over 50,000 population)
Alabama: Gadsden.....	2.0	42.2	Ohio—continued.		
Kentucky:			Cities of 50,000 population and over—continued.		
Catlettsburg.....	1.0	XX	Lima.....	0.75.....	61.2
Covington.....	1.5	28.2	Springfield.....	1.0.....	64.1
Frankfort.....	1.0	XX	Toledo.....	1.0.....	64.1
Hopkinsville.....	1.0	XX	Warren.....	.5.....	64.4
Lexington.....	1.5	51.2	Youngstown.....	1.0.....	54.8
Louisville.....	1.25	47.1	72 cities and villages (with less than 50,000 population)	Ranges from 0.5 to 1 percent.	XX
Jefferson County <sup>1</sup> .....	1.25	XX	Pennsylvania:		
Mayfield.....	.67	XX	Cities of 50,000 population and over:		
Maysville.....	1.0	XX	Allentown.....	1.0.....	28.4
Newport.....	2.0	XX	Altoona.....	1.0.....	21.3
Owensboro.....	1.0	XX	Bethlehem.....	1.0.....	24.6
Paducah.....	1.0	XX	Erie.....	1.0.....	20.7
Pikesville.....	1.0	XX	Johnstown.....	1.0.....	17.2
Princeton.....	1.0	XX	Lancaster.....	<sup>3</sup> .5.....	27.1
Michigan:			Philadelphia.....	1.625.....	40.4
Detroit.....	1.0	( <sup>2</sup> )	Pittsburgh.....	<sup>4</sup> 1.0.....	21.1
Flint.....	1.0	( <sup>2</sup> )	Scranton.....	<sup>5</sup> .5.....	17.9
Hamtramck.....	1.0	XX	Approximately 35 other cities, 350 boroughs, 145 townships, and 1,265 school districts.	Ranges from 0.25 to 1.0 percent.	XX
Missouri:					
Kansas City.....	.5	( <sup>2</sup> )			
St. Louis.....	1.0	30.1			
Ohio:					
Cities of 50,000 population and over:					
Akron.....	1.0	( <sup>2</sup> )			
Canton.....	.6	53.9			
Cincinnati.....	1.0	39.7			
Columbus.....	1.0	66.0			
Dayton.....	.75	46.0			
Hamilton.....	.8	49.0			

Note: Excludes Washington, D.C., which has a graduated net income tax that is more closely akin to a State tax than to these municipal income taxes (see table 53).

<sup>1</sup> 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.

<sup>2</sup> Tax went into effect after fiscal year 1962.

<sup>3</sup> The Lancaster city tax is 0.5 percent. The Lancaster township school tax is 1 percent.

<sup>4</sup> The Pittsburgh city tax is 1 percent. The Pittsburgh school district tax is 0.5 percent.

<sup>5</sup> The Scranton school district rate is also 0.5 percent.

The first local income tax in Ohio was imposed by Toledo in 1946. At last count 83 Ohio municipalities were imposing income taxes at rates ranging from one-half 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. Kansas City was authorized to levy an income tax in 1963 and did so, effective January 1, 1964.

In Kentucky the city income taxes are

levied as "occupational license taxes."<sup>10</sup> This form of tax was first adopted by Louisville in 1948. Twelve 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 tax-

<sup>10</sup> This form of tax is levied because it is believed to be debatable whether Kentucky's Constitution permits the State to delegate the authority to levy an income tax to its subdivisions. The Constitution enumerates the taxes which can be delegated but does not include the income tax among them. Authority to delegate license powers to the municipalities is explicit.

TABLE 60.—Municipal Income Tax Bases, January 1, 1964

State	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		Non-residents	Residents		Non-residents	(1) Property (2) Gross receipts (3) Pay-rolls	(1) Gross receipts (2) Pay-rolls
	Income earned within city	All earned income regardless of origin <sup>1</sup>	Income earned within city	Activities conducted within city	Activities wherever conducted	Activities conducted within city		
Alabama: Gadsden <sup>2</sup> .....	X.....	.....	X.....	X.....	.....	X.....	.....	.....
Kentucky: <sup>2</sup> 7 cities and 1 county <sup>3</sup> .....	X.....	.....	X.....	X.....	.....	X.....	.....	X.....
6 cities <sup>4</sup> .....	X.....	.....	X.....	.....	.....	.....	.....	.....
Michigan: 3 cities <sup>5</sup> .....	.....	X.....	X.....	.....	X.....	X.....	X.....	.....
Missouri: St. Louis and Kansas City .....	.....	X.....	X.....	.....	X.....	X.....	X.....	.....
Ohio cities .....	.....	X.....	X.....	.....	X.....	X.....	X <sup>6</sup> .....	.....
Pennsylvania local governments .....	.....	X.....	X <sup>7</sup> .....	.....	X.....	X <sup>7</sup> .....	.....	.....

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

<sup>2</sup> The taxes in Gadsden, Alabama, and in Kentucky cities are imposed as occupational license taxes.

<sup>3</sup> Cattlesburg, Frankfort, Lexington, Louisville, Owensboro, Pikesville, Princeton, and Jefferson County.

<sup>4</sup> Covington, Hopkinsville, Mayfield, Maysville, Paducah, and Newport. In most of these cities businesses and professions are taxed under a separate business license tax.

<sup>5</sup> Detroit, Flint, and Hamtramck.

<sup>6</sup> Dayton substitutes for the payroll factor total production costs.

<sup>7</sup> School districts in Pennsylvania are not allowed to tax nonresidents.

payers subject to the Louisville tax a credit for that tax. Gadsden, Alabama also levies its tax as an "occupational license tax."

In Michigan, Ohio, and Pennsylvania there is no overlapping State tax. The latter two 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. Michigan and Ohio levy neither an individual nor a corporate income tax at the State level, and the cities in those States are permitted to tax corporations as well as individuals.

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

All municipal income taxes are imposed at low flat rates. Gadsden, Alabama and Newport, Kentucky impose the highest rate—2 percent. The maximum rate that may be imposed in Pennsylvania is 1 percent (except in Philadelphia, where the current rate is 1 5/8 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 is 1 percent and in Kansas City one-half of 1 percent. In Kentucky cities the rates range from 1 to 2 percent; in the three Michigan cities with an income tax the rate is 1 percent.

The local taxes are generally levied on gross earnings of individuals and net profits of professions and unincorporated businesses. Net profits of cor-

porations are also taxed by Ohio cities, some Kentucky cities, Kansas City and St. Louis, Mo., and Detroit, Flint, and Hamtramck, Mich. (table 60). 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 Federal, 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 that 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 a 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 individuals 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.<sup>11</sup> Net rentals from real

<sup>11</sup> In some of the Ohio cities (Toledo, Columbus, and Canton, for example) capital gains and losses are not considered in arriving at net profits.

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.<sup>12</sup> 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 are 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 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.<sup>13</sup> The community of

<sup>12</sup> For example, in Cincinnati if gross rentals exceed \$1,200 a year, the entire net income from rentals is taxed; but if gross rentals are less than this amount, it is assumed that such rentals are not a business activity and therefore are not taxable.

<sup>13</sup> 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*, (Chicago: Public Administration Service, 1955).

residence is thus given a priority. In Philadelphia, however, a nonresident gets no credit against the Philadelphia tax for a 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 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 Michigan and Ohio cities the place of employment is given priority. Residents are given a credit for a tax paid to another city or are allowed to exclude from the tax base income on which a tax has been paid to another city. Some cities in Ohio limit the credit to 50 percent of the tax liability and require reciprocity.<sup>14</sup> The extent to which tax credits are al-

<sup>14</sup> For example, Toledo and its neighboring city of Maumee both have a 1 percent rate. Residents of one city employed in the other pay one-half of 1% of their income to each.

<sup>15</sup> Michigan enacted legislation, effective January 1, 1965, authorizing all cities to adopt a uniform local income tax of 1% on residents and ½% on nonresidents. Under the new Michigan law, an individual living in one city and employed in another, both with local income taxes, pays ½% to his city of residence and ½% to the city where he is employed.

lowed, if any, as well as reciprocity arrangements, are subject to local determination.<sup>15</sup>

All of the cities that 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 two factors—gross receipts and payrolls—are used (table 60).

Income taxes are second only to sales taxes as a source of local nonproperty tax revenue. In 1962 total revenue from municipal income taxes (including the District of Columbia) was \$308 million. Although insignificant nationally, income taxes contribute importantly to local finances in Pennsylvania and Ohio and in a number of cities in other States. Almost half of the local income tax revenue in 1962 was collected by municipalities and school districts in Pennsylvania (\$151 million) and almost a fourth by cities in Ohio (\$73 million). In many of the cities that use it, the income tax has become the most important source of revenue, outstripping the property tax. Eight of the 24 largest cities (population of over 50,000) with income taxes in 1962 obtained more than one-half, and 10 obtained between 25 and 50 percent of their tax revenue from the income tax (table 59). Detroit, which initiated its income tax in fiscal 1963, collected over \$30 million that year—about 20 percent of its tax revenue.

### *Shared Taxes*

Five States (Maryland, New Hampshire, South Carolina, Tennessee, and Wisconsin) shared about \$71 million of their individual income tax collections directly with local governments in the fiscal year 1962 (table 61). This represented almost

TABLE 61.—State Collected, Locally Shared Individual Income Taxes, 1962

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Maryland.....	\$99,257	Equivalent of 1.7% of taxed investment income and 0.68% of taxed other income of taxpayers residing in city of Baltimore distributed to Baltimore; share of proceeds equal to same percentages of taxed income of taxpayers residing outside cities distributed to counties; and share of proceeds equal to same percentages of taxed income of taxpayers residing in cities other than Baltimore divided equally between counties and such cities.	Cities..... Counties...	\$8,018 14,213	} General purposes.
New Hampshire.....	1,689	Proceeds, less administrative costs, distributed to city or town of residence of taxpayer.	Cities..... Towns.....	476 1,132	} General purposes.
South Carolina.....	<sup>1</sup> 47,350	Percentage of proceeds (except from banks), as determined annually by legislature, distributed in proportion to population.	Counties...	<sup>1</sup> 3,459	General purposes.
Tennessee.....	6,450	$\frac{9}{8}$ distributed to city of origin or to county of origin where taxpayer resides outside city.	Cities..... Counties...	1,451 216	} General purposes.
Wisconsin.....	144,412	$\frac{33}{8}$ distributed, $\frac{1}{8}$ to county of origin and $\frac{5}{8}$ to city or town of origin.	Cities or towns... Counties...	<sup>2</sup> 35,092 <sup>2</sup> 7,018	} General purposes.
Total.....	299,158	.....	.....	71,075	.....

<sup>1</sup> Includes corporation income taxes.  
<sup>2</sup> Estimated individual income tax portion of combined individual and corporate income tax distribution.

Source: U.S. Bureau of the Census, *State Payments to Local Governments*, 1962 Census of Governments, Vol. VI, No. 2.

one-fourth of the personal income tax revenue of these States but only 3 percent of all State individual income tax collections in 1962. The amount of directly shared income taxes, as in the case of general sales taxes, is only a small portion of the total that finds its way into local treasuries. Several States, including Massachusetts, Minnesota, and Utah, earmark all or part of their individual and corporation in-

come tax proceeds for aid to education. Furthermore, in those States where income taxes are placed in general funds, they are included in amounts appropriated for various State aid purposes, including education. It is estimated that, in addition to the directly shared individual income taxes, about \$900 million was distributed in 1962 as grants-in-aid to local governments.

## Chapter 9

### CORPORATION INCOME TAXES

The modern Federal corporation income tax originated with the excise tax of 1909, which was levied at a 1-percent rate on corporate net income above \$5,000.<sup>1</sup> A few States had experimented with corporation income taxes earlier, but the first successful State corporation income tax was imposed by Wisconsin in 1911. This form of taxation is now imposed by 37 States and the District of Columbia.<sup>2</sup> With the exception of New Hampshire and West Virginia, all States that tax individual income also tax corporate income. Four States (Connecticut, New Jersey, Pennsylvania, and Rhode Island) do not tax individual income but do tax corporation incomes.<sup>3</sup>

Corporate income taxes are also imposed by St. Louis and Kansas City (Missouri), 7 cities and 1 county in Kentucky, 3 cities in Michigan, and approximately 80 Ohio cities.<sup>4</sup> 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.

In 1963 the Federal and State governments collected \$23.1 billion from corporation income taxes. The corporate income tax accounted for 25 percent of Federal tax revenues. This percentage contrasts with State corporate tax yields of \$1.5 billion, representing 6.8 percent of their tax revenues, exclusive of levies for unemployment compensation.

#### *Federal Taxes*

Under the recently enacted changes in the Internal Revenue Code, the Federal corporate income tax now consists of a 22-percent normal tax rate (previously 30 percent) applicable to total taxable income, and a surtax of 28 percent (previously 22 percent), which applies to corporate income in excess of \$25,000. These new rates, totaling 50 percent for corporate income in excess of \$25,000, became effective January 1, 1964, and represent a 2-percentage-point decrease from the previous 52 percent combined normal and surtax rates. Effective January 1, 1965, the surtax will drop to 26 percent, reducing the new total (normal and surtax) rate to 48 percent. When fully effective, these rate decreases, discounting any secondary revenue effects that may result from business expansion, are expected to reduce

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

<sup>2</sup> 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 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.

<sup>3</sup> New Jersey's limited "commuters'" personal income tax is described in chapter 8.

<sup>4</sup> See chap. 8, table 60.



annual corporate income tax yields by about \$2.2 billion.

The Internal Revenue Code amendments also provide for the gradual completion of the shift to a pay-as-you-go basis initiated in 1950 for the collection of taxes from corporations with estimated annual tax liabilities in excess of \$100,000. This acceleration of the tax payment schedule, to start in 1964 and become fully effective in 1970, requires that these corporations pay one-fourth of their estimated tax liability in each of the four quarters of the taxable year. Under the 1950 Act all corporations already have been on a partial pay-as-you-go basis, being required to pay one-fourth of their estimated tax bill in each of the September and December quarters of the year in which the income is earned and in the following March and June quarters. Corporations with less than a \$100,000 tax liability will continue to defer a part of their tax payments until the year following that in which the income is earned. The cumulative acceleration during this transition period will total \$7.5 billion, varying from \$260 million for the fiscal year 1964 to a peak of \$1.5 billion in each of the 1966, 1967, and 1968 fiscal years, and dropping to \$40 million in 1971.

A number of States have also shifted in recent years to a current basis for the collection of corporation income taxes, requiring declarations of estimated income from all corporations or from those with estimated tax liabilities above a specified amount. The States that provide for current payment of corporate income taxes are California, Colorado, Connecticut, Delaware, Georgia, Hawaii, Massachusetts, New York, Oklahoma, and Wisconsin.

Corporate income and profits taxes assumed an important role in Federal rev-

enues during the war years, reflecting in part higher levels of corporate earnings and in part higher tax rates coupled with excess profits taxation. Except for the expiration of the excess profits tax at the end of the calendar year 1953, the only changes in Federal corporate income tax rates have been the aforementioned reductions of this year. While Federal corporate tax yields declined considerably in the fiscal years 1955 and 1959, reflecting the recessions of 1954 and 1958, they have tended upward since that time.

During the fiscal year 1963 Federal corporate income tax collections amounted to \$21.6 billion (net of refunds), an increase of 5.4 percent over the previous year, when corporate income tax collections felt the effects of the 1961 recession, but only slightly greater than the tax collected from this source in 1960. Federal Budget estimates for the fiscal years 1964 and 1965, which take account of the 1964 tax revisions, are \$23.7 and \$25.8 billion, respectively.

#### *State and Local Taxes*

Of the 37 States (and the District of Columbia) that tax corporate income, 30 apply flat rates and 8, graduated rates (table 62). The rates of tax are relatively low compared with the Federal levy, ranging between 1.75 percent and 10.5 percent, the most common being 5 percent and 4 percent. A comparison with State corporate income tax rates in effect as of January 1, 1952, reveals that 32 States (not counting Alaska and Hawaii) and the District of Columbia had corporate income taxes at that time, of which 6 applied graduated rates. Rates in this earlier period varied from 2 to 8 percent, but the most com-

mon rates were also 5 and 4 percent, as shown in the following tabulation:<sup>5</sup>

Rate (percent)	Number of States <sup>1</sup>	
	January 1, 1952 <sup>2</sup>	January 1, 1964
1.75.....	—	1
2.0.....	4	2
3.0.....	4	2
3.5.....	—	1
3.75.....	1	—
4.0.....	5	6
4.5.....	2	1
4.6.....	1	—
5.0.....	1 6	1 11
5.5.....	2	3
6.0.....	4	5
6.3.....	1	—
6.765.....	1	1
7.0.....	—	2
8.0.....	2	—
9.36.....	—	1
10.23.....	—	1
10.5.....	—	1

<sup>1</sup> Includes District of Columbia.

<sup>2</sup> Excludes Alaska and Hawaii.

Alaska, the only State that tied its corporation income tax directly to the Federal tax (18 percent of the Federal tax liability) changed its tax, effective January 1, 1964, to avoid a loss in tax revenue as a result of the Federal tax reduction. Under the new system, which retains the tax at its previous level, corporations pay a normal tax of 5.4 percent on all taxable income and a surtax of 3.96 percent on taxable income in excess of \$25,000.

The new Indiana corporation net income tax (adjusted gross income tax) has been characterized as essentially a tax on interstate business only. The reason is that corporations are liable for payment of either the gross income tax (at 1/2 of 1 percent or at 2 percent, depending on the nature of their business) or the adjusted gross income tax, whichever is greater. The tax liability under the gross income tax will generally exceed that under the corporation income tax for Indiana corporations confined largely to intrastate business.

All the taxes imposed by local governments are low, flat-rate taxes (in no case

<sup>5</sup> For the States that apply graduated rates, the highest bracket rate is shown.

more than 1 1/2 percent), and only in Kansas City and St. Louis and in 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. Sixteen of the 37 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.

### *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 37 States levying such taxes permit taxes paid to the Federal Government to be deducted in computing State tax liability, and 9 States allow the State corporation tax itself to be deducted (table 62).

Table 63 illustrates the effect of deductibility of corporate income taxes at selected levels of net income. Pennsylvania does not allow deduction of the Federal tax, but for purposes of illustration, the combined Federal and Pennsylvania tax have been computed in two ways: (1) with no deduction for Federal tax and (2) assuming that 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 percent and does not allow the Federal tax as a deduction, the combined effective rate of both taxes is 52.68 percent,

TABLE 62.—State Corporation Income Tax Rates, January 1, 1964

State	Rate (percent)	Federal tax deductible <sup>1</sup>	Related provisions
Alabama	5	X	
Alaska	First \$25,000 . . . . . 5.4 Over \$25,000 . . . . . 9.36	—	
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	X	
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 <sup>2</sup>	5	—	If tax yield is greater, 2.5 mills per dollar of capital employed in Connecticut. Minimum tax: \$25.
Delaware	5	—	
Georgia	4	—	Rate increased to 5 percent, effective Jan. 30, 1964.
Hawaii <sup>2</sup>	First \$25,000 . . . . . 5 Over \$25,000 . . . . . 5.5	—	Capital gains entitled to alternative tax treatment are taxed at 2¾ percent. A \$10 filing fee is imposed.
Idaho	10.5	X	
Indiana	2	—	
Iowa	3	X	
Kansas	3.5	X	
Kentucky	First \$25,000 . . . . . 5 Over \$25,000 . . . . . 7	X	
Louisiana	4	X	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	—	Domestic corporations are allowed credit for franchise taxes in excess of \$25.
Massachusetts <sup>2</sup>	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) ½ of 1 percent of the fair value of capital stock, plus 3 percent of allocable income; or (2) ½ of 1 percent of allocable gross receipts, plus 3 percent of allocable income; or (3) \$25 each plus the 23 percent total surtaxes.
Minnesota	<sup>3</sup> 10.23	X	Includes the 7.5-percent basic rate plus, for taxable years beginning prior to Jan. 1, 1965, 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 Over \$10,000 . . . . . 4	—	The maximum rate for later years will be: 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	X	
Montana	4.5	—	Minimum tax: \$10.
New Jersey	1.75	—	All corporations pay additional tax on net worth.
New Mexico <sup>2</sup>	3	X	

See footnotes at end of table.

TABLE 62.—State Corporation Income Tax Rates, January 1, 1964—Concluded

State	Rate (percent)	Federal tax deductible <sup>1</sup>	Related provisions
New York, .....	5.5 percent plus tax of 1/2 mill per \$1 of allocated subsidiary capital.	—	Corporations are subject to the 5 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 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 .....	X	
	\$3,001-\$8,000 .....		
	\$8,001-\$15,000 .....		
	Over \$15,000 .....		
Oklahoma <sup>2</sup> , .....	4	X	
Oregon, .....	4 <sup>6</sup>	—	Manufacturers may claim an offset of up to one-third of the tax for Oregon personal property taxes paid on raw materials, goods in process, and finished products.
Pennsylvania <sup>3</sup> , .....	6	—	
Rhode Island, .....	6	—	Alternative tax: 40 cents per \$100 on corporate excess, if tax yield is greater. Minimum tax: \$10.
South Carolina, .....	5	—	
Tennessee <sup>2</sup> , .....	4	—	
Utah, .....	4	X	Corporations are subject to the 4-percent tax or a tax of 1/20 of 1 percent of the value of tangible property within the State, whichever is greater. Minimum tax: \$10. Subject to reduction if there is sufficient surplus in general fund. Minimum tax: \$25.
Vermont <sup>2</sup> , .....	5	—	
Virginia, .....	5	—	
Wisconsin <sup>2</sup> , .....	First \$1,000 .....	X <sup>5</sup>	
	\$1,001-\$2,000 .....		
	\$2,001-\$3,000 .....		
	\$3,001-\$4,000 .....		
	\$4,001-\$5,000 .....		
	\$5,001-\$6,000 .....		
	Over \$6,000 .....		
District of Columbia, .....	5	—	

X Denotes "yes"; — denotes "no."

<sup>1</sup> 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.

<sup>2</sup> Allows deduction of State corporation income tax itself

or 2.88 percentage points above the Federal tax alone. Assuming that 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 63. For example, in the case of a \$250,000 net corporate income subject only to Federal tax, 50.2 percent

in computing State tax liability.

<sup>3</sup> Bank rate is 12.54%.

<sup>4</sup> Rate on banks and financial institutions is 8%.

<sup>5</sup> Limited to 10 percent of net income before Federal tax.

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 to 47.3 percent, a reduction of 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 by 3 percent.

TABLE 63.—*Corporation Income Taxes: Effect of Federal and State Deductibility, at Selected Net Income Levels, Federal and Pennsylvania Tax Rates, 1963*<sup>1</sup>

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)	(2)	(3)	(4)	
\$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			
100.00-(1)	100.00-(3)	100.00-(4)	(5)-(6)÷(5)	(5)-(7)÷(5)	
(5)	(6)	(7)	(8)	(9)	
\$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

<sup>1</sup> 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, column (4) shows the effective rate of combined Federal and Pennsylvania taxes, assuming that Pennsylvania permitted deduction of the Federal tax.

### Federal-State Duplication

In relation to the Federal tax, the weight of State corporate income taxation is moderate. In the 36 States and the District of Columbia which taxed corporate income throughout the three-year period 1959-61, State revenues averaged 8.2 percent of Federal corporate income tax collections. The individual State-Federal ratios are shown in table 64 and range from 1.5 percent in Iowa to 15.4 percent in North Carolina.

These ratios have been derived from data contained in a recent study of Federal revenues and expenditures in the United

States.<sup>6</sup> In contrast to the more obvious, but less valid, method of allocating Federal corporate income taxes to the various States on the basis of tax collections, this study allocated 50 percent of Federal corporate income tax revenue to the States on the basis of retail sales and 50 percent on the basis of dividends received by individual residents of the States. This was done on the assumption (admittedly arbitrary) that about half of the incidence of the corporate income tax is on consumers

<sup>6</sup> I. M. Labovitz, *Federal Revenues and Expenditures in the Several States; Averages for the Fiscal Years 1959-61* (The Library of Congress, Legislative Reference Service, Sept. 19, 1962).

TABLE 64.—Corporation Income Taxes: State Collections as a Percent of Federal Collections, Averages for 1959-61

Under 5 percent	5 to 10 percent	10 to 15 percent	15 percent and over
Alabama ..... 4.7	Arkansas ..... 9.3	Alaska ..... 12.6	North Carolina ..... 15.4
Arizona ..... 4.6	Colorado ..... 7.3	California ..... 11.3	
Delaware ..... 4.0	Connecticut ..... 6.6	Hawaii ..... 10.8	
Iowa ..... 1.5	District of Columbia... 6.4	Minnesota ..... 10.1	
Kansas ..... 4.4	Georgia ..... 8.3	Mississippi ..... 14.0	
Massachusetts ..... <sup>1</sup> 4.1	Idaho ..... 9.9	Oregon ..... 12.3	
Missouri ..... 2.1	Kentucky ..... 9.4	Pennsylvania ..... 10.0	
New Jersey ..... 3.1	Louisiana ..... 7.8	South Carolina ..... 14.2	
New Mexico ..... <sup>2</sup> 3.2	Maryland ..... 5.7	Wisconsin ..... 13.1	
North Dakota ..... 3.3	Montana ..... 6.2		
Vermont ..... 4.9	New York ..... 8.9		
	Oklahoma ..... 7.1		
	Rhode Island ..... 7.7		
	Tennessee ..... 8.2		
	Utah ..... 8.0		
	Virginia ..... 8.3		
Number of States..... 11	16	9	1

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.

<sup>1</sup> 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.

<sup>2</sup> 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.

and half on stockholders. Data on Federal corporate income tax collections by States leave much to be desired because corporations typically file a single Federal tax return at their headquarters or principal place of business, covering their total activities. Since a substantial number of corporations derive income in more than one State, the data tend to exaggerate the ratio of State to Federal collections in the rural States and to understate it in the industrialized States.

On a national basis, comparing State collections in the income tax States with Federal collections from all States, the percentage relationship is significantly smaller. As the following table indicates, aggregate State collections in 1963 amounted to 7 percent of Federal collections. This is equivalent to about 3½ percentage points of the Federal tax rate. On this basis, the net cost of State taxes to corporations, after allowing for the deductibility of State taxes for Federal income tax purposes, is of the general magnitude of 2 percentage points in Federal tax rates.

Federal and State Corporation Income Tax Collections, 1953-63  
(Dollar amounts in millions)

Year	Federal	State	
		Amount	Percent of Federal
1953.....	\$21,238	\$810	3.81
1954.....	21,101	772	3.66
1955.....	17,861	737	4.13
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	1,266	6.04
1962.....	20,523	1,308	6.37
1963.....	21,579	1,507	6.98

#### State Taxation of Multi-State Corporations

The question of how to allocate among the States for tax purposes the income derived from interstate business operations has long been a knotty one for State tax administrators. That a State has the right to tax income of an out-of-State corporation doing business within its borders has been enunciated by the courts on numerous occasions. Much effort has gone into the problem of allocating interstate in-

come for tax purposes, and a number of formulas have been worked out. Three allocation factors are commonly used: payrolls, sales, and property values. These are used by the States in varying proportions.

In 1959, when the Supreme Court of the United States held that a State could impose a net income tax on an out-of-State company whose only activities in the State involved solicitation of orders, business sought relief from Congress. A law was enacted (Public Law 86-272) which in essence provides that a State may not impose an income tax on an out-of-State company which does no more than solicit business

in the State. That law also provides for a Congressional study of the impact of State income taxation on interstate commerce. Later, the scope of the study was broadened to encompass all forms of taxation affecting interstate commerce. The findings of that study (conducted by a special subcommittee of the House Judiciary Committee), to be reported before June 30, 1965, are expected to provide the basis for advancing a resolution of this long-standing tax jurisdiction issue.<sup>7</sup>

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<sup>7</sup> The first portion of this study was released on June 15, 1964. *State Taxation of Interstate Commerce*, Report of the Special Subcommittee on State Taxation of Interstate Commerce of the Committee on the Judiciary, House of Representatives, 88th Cong., 2d Sess., H.Rpt. No. 1480.

## Chapter 10

### INHERITANCE, ESTATE, AND GIFT TAXES

Federal and State governments derived about \$2.8 billion from death and gift taxes in the fiscal year 1963. The Federal share amounted to \$2.2 billion (net after refunds), or 2.5 percent of total Federal tax revenues. The States' share was nearly \$600 million, 2.7 percent of State tax revenues. In 1963 the share of State tax revenues derived from death and gift taxes ranged from less than 1 percent in 11 States to more than 5 percent in only 3.

#### *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.<sup>1</sup> 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. Initially graduated to 10 percent, the rates 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.

<sup>1</sup> 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.

*State Death and Gift Tax Collections as a Percent of Total State Tax Collections, by State, 1963*

Alabama .....	0.3	Montana .....	2.8
Alaska .....	.1	Nebraska .....	.9
Arizona .....	.6	Nevada .....	—
Arkansas .....	.2	New Hampshire .....	4.2
California .....	3.6	New Jersey .....	8.5
Colorado .....	3.5	New Mexico .....	.5
Connecticut .....	7.7	New York .....	3.6
Delaware .....	5.6	North Carolina .....	2.5
Dist. of Columbia .....	2.2	North Dakota .....	.6
Florida .....	1.0	Ohio .....	1.2
Georgia .....	.5	Oklahoma .....	2.2
Hawaii .....	1.3	Oregon .....	2.7
Idaho .....	.8	Pennsylvania .....	4.1
Illinois .....	3.0	Rhode Island .....	4.8
Indiana .....	2.0	South Carolina .....	.9
Iowa .....	2.9	South Dakota .....	1.9
Kansas .....	1.7	Tennessee .....	3.0
Kentucky .....	2.1	Texas .....	1.3
Louisiana .....	1.1	Utah .....	1.2
Maine .....	4.9	Vermont .....	2.3
Maryland .....	1.5	Virginia .....	1.4
Massachusetts .....	4.8	Washington .....	2.6
Michigan .....	1.5	West Virginia .....	1.6
Minnesota .....	3.4	Wisconsin .....	3.0
Mississippi .....	.3	Wyoming .....	1.2
Missouri .....	1.6	United States ...	2.7



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 spread to others and 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 not only reduced estate tax rates and raised the exemption to \$100,000 but permitted 80 percent of the remaining Federal estate tax liability to be offset, 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. Since the combined State and Federal liability would in any event remain 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 that declined to do so was merely bestowing a bounty on the National Treasury at the expense of its own revenues.

In 1932 Federal estate tax rates were increased to a maximum of 45 percent by the imposition of 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 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 to exceed 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. 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,

TABLE 65.—Federal Estate Tax Rates and Exemptions 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	2 1/4	\$112
5	10	1	100	7	500	5 1/4	375
10	20	1	200	11	1,600	8 1/4	1,200
20	30	1	300	14	3,000	10 1/2	2,250
30	40	1	400	18	4,800	13 1/2	3,600
40	50	1	500	22	7,000	16 1/2	5,250
50	60	2	700	25	9,500	18 3/4	7,125
60	100	2	1,500	28	20,700	21	15,525
100	200	3	4,500	30	50,700	22 1/2	38,025
200	250	4	6,500	30	65,700	22 1/2	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	26 1/4	135,525
600	750	6	31,500	35	233,200	26 1/4	174,900
750	800	6	34,500	37	251,700	27 3/4	188,775
800	1,000	7	48,500	37	325,700	27 3/4	244,275
1,000	1,250	8	68,500	39	423,200	29 1/4	317,400
1,250	1,500	8	88,500	42	528,200	31 1/2	396,150
1,500	2,000	9	133,500	45	753,200	33 3/4	564,900
2,000	2,500	10	183,500	49	998,200	36 3/4	748,650
2,500	3,000	11	238,500	53	1,263,200	39 3/4	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	44 1/4	1,378,650
4,000	5,000	14	503,500	63	2,468,200	47 1/4	1,851,150
5,000	6,000	15	653,500	67	3,138,200	50 1/4	2,353,650
6,000	7,000	16	813,500	70	3,838,200	52 1/2	2,878,650
7,000	8,000	17	983,500	73	4,568,200	54 3/4	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	.....	57 3/4	.....
Specific exemption .....		\$100,000		\$60,000		\$30,000	

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 65). 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 when 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 the

fiscal year 1950, but rose thereafter to a high of \$2.2 billion in the fiscal year 1963.

#### State Death and Gift Taxes

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

TABLE 66.—Types of State Death Taxes

Type of tax	State
"Pickup" tax only ..... (5)	Alabama, Arizona, Arkansas, Florida, Georgia.
Estate tax only ..... (2)	North Dakota, Utah.
Estate tax and "pickup" tax ..... (4)	Mississippi, New York, Oklahoma, <sup>1</sup> South Carolina.
Inheritance tax only ..... (2)	South Dakota, West Virginia.
Inheritance tax and "pickup" tax ..... (35)	Alaska, California, <sup>1</sup> Colorado, <sup>1</sup> Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, <sup>1</sup> Maine, Maryland, Massachusetts, Michigan, Minnesota, <sup>1</sup> Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, <sup>1</sup> Ohio, Pennsylvania, Tennessee, <sup>1</sup> Texas, Vermont, Virginia, <sup>1</sup> Washington, <sup>1</sup> Wisconsin, <sup>1</sup> Wyoming.
Estate tax and inheritance tax ..... (1)	Oregon. <sup>1</sup>
Inheritance, estate and "pickup" taxes ..... (1)	Rhode Island. <sup>1</sup>
No tax ..... (1)	Nevada.

<sup>1</sup> Also has gift tax (12).

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, in contrast 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 since 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 as time went on.

The diverse State death tax provisions accumulated over the years fill many thousands of closely printed pages and can be sketched here only cursorily. In general outline, these taxes fall into several categories (table 66). 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.

Four States use estate taxes and 35 (including the District of Columbia) use inheritance taxes, supplementing each

TABLE 67.—State Estate Tax Rates and Exemptions, January 1, 1964 <sup>1</sup>

State	Rates	Maximum rate applies above	Exemption
Alabama.....	80 percent of 1926 Federal rates.....	\$10,000,000	\$100,000
Arizona <sup>2</sup> .....	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 <sup>2</sup> .....	2-21 percent.....	10,100,000	( <sup>3</sup> )
North Dakota.....	2-23 percent.....	1,500,000	( <sup>4</sup> )
Oklahoma <sup>2</sup> .....	1-10 percent.....	10,000,000	15,000
Oregon.....	1-10 percent.....	500,000	15,000
Rhode Island <sup>2</sup> .....	1 percent.....	( <sup>5</sup> )	10,000
South Carolina.....	4-6 percent.....	100,000	60,000
Utah.....	3-10 percent.....	125,000	10,000

<sup>1</sup> Excludes States shown in table 68 which, in addition to their inheritance taxes levy an estate tax to assure full absorption of the 80-percent Federal credit.

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

<sup>3</sup> \$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.

<sup>4</sup> 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.

<sup>5</sup> Entire estate above exemption.

with a "pickup" statute to absorb any unused credit; 2 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 three: An inheritance tax, an estate tax, and a "pickup" tax, 1 an estate tax and an inheritance tax but no "pickup" tax, while still 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 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 6 percent to 23 percent <sup>2</sup> (table 67). The inheritance tax exemptions range from as much as \$75,000 to no exemptions at all for certain types of heirs. In some States, benefits to certain heirs are totally exempt from the inheritance tax. Tax rates range up to 40 percent on inheritances of distantly related or unrelated beneficiaries (table 68). The "pickup" tax rates range from 0.8 to 16 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 tax-

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

tion everywhere save in Nevada. Overlapping is substantially complete also (in 44 out of 50 States) in the case of net estates of 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 \$2.8 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. 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.

There is much interstate variation in gift tax exemptions, annual exclusions, and rates (table 69). 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 \$12,000 for gifts to a minor child, 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.

#### *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 re-

duced. 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.

Another contributing factor was the Federal gifts 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 using 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 70. Between 1931 and 1961 the percentage of Federal estate tax liability represented by credits claimed for taxes paid to the States declined from about 75 percent in the early 1930's to about 10 percent in recent years. 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 States. For returns filed in 1961, for example, the Federal credit as a percentage of tentative Federal estate tax ranged from a low of 3.8 in Idaho to a high of 13.9 in Delaware (table 71).

Some States have sought to increase death tax revenues through tax enactments over and above the tax credit. Most States impose death taxes on small



Vermont <sup>3</sup> .....	15,000	15,000	15,000	15,000	None	2-6	2-6	2-6	12	25,000	250,000
Virginia <sup>3</sup> .....	5,000	5,000	5,000	2,000	1,000	1-5	1-5	2-10	5-15	50,000	1,000,000
Washington <sup>3,4</sup> .....	16 5,000	16 5,000	16 5,000	6 1,000	None	1-10	1-10	3-20	10-25	25,000	500,000
West Virginia <sup>3,*</sup> .....	15,000	5,000	5,000	None	None	3-13	3-13	4-18	10-30	50,000	1,000,000
Wisconsin <sup>3,17</sup> .....	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	(10)	(10)

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

<sup>2</sup> Imposes only estate tax. See table 67.

<sup>3</sup> Exemptions are deductible from the first bracket.

<sup>4</sup> Community property passing to the surviving spouse is not taxable.

<sup>5</sup> 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.

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

<sup>7</sup> An additional 30-percent surtax is imposed.

<sup>8</sup> Rate shown is for spouse only. A minor child is taxed at the rates applying to an adult child.

<sup>9</sup> Estates of less than \$1,000 after deduction of debts are not taxable.

<sup>10</sup> Entire share.

<sup>11</sup> Additional taxes, equal to 23 percent of the inheritance tax, are also imposed.

<sup>12</sup> Transfers of real property to class I beneficiaries are taxed at  $\frac{3}{4}$  of the indicated tax rates.

<sup>13</sup> No tax imposed.

<sup>14</sup> Imposes also an estate tax. See table 67.

<sup>15</sup> In the absence of a spouse, the children may claim the \$1,000 exemption.

<sup>16</sup> An additional \$5,000 exemption is allowed to the class as a whole.

<sup>17</sup> 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.

TABLE 69.—State Gift Tax Rates and Exemptions, for Selected Categories of Donees,  
January 1, 1964

State	Donor's lifetime exemption					Rates (percent)				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.....	\$5,000	\$12,000	\$5,000	\$2,000	\$50	2-10	2-10	6-18	10-24	\$4,000.
Colorado *.....	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 *.....	4 25,000	(4)	(4)	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.....	4 25,000	(4)	(4)	(4)	(4)			2-9		\$3,000.
Tennessee *.....			None			1-7	1-7	5-15	5-15	\$10,000 spouse, child. <sup>5</sup> \$5,000 brothers and sisters, others. <sup>5</sup>
Virginia * 2.....			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.....		6 10,000		6 1,000	None	.9-8.1	.9-8.1	2.7-18	9-22.5	\$3,000.
Wisconsin 2 7.....	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.

<sup>1</sup> Half of community property transferred to surviving spouse is not taxable.

<sup>2</sup> Exemptions or exclusions are deductible from the first bracket.

<sup>3</sup> The following tax credits are allowed: wife, \$300; minor child, \$75; adult child, \$20; brother or sister, \$30; other than relative, \$20. The tax may not exceed 35 percent of the full value of the gift.

<sup>4</sup> Only the \$25,000 lifetime exemption for all classes of donees combined.

<sup>5</sup> Only 1 annual exclusion is allowed each class of donee. One class includes spouse, lineal ancestor or descendant; all others are in the other class. Exemptions are deductible from the first bracket.

<sup>6</sup> 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.

<sup>7</sup> 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.



**TABLE 70.—Federal Estate Tax Liability Before State Death Tax Credit, and State Death Tax Credit, Returns Filed During 1929–61**  
(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	.....	n.a.	.....
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	.....	n.a.	.....
1953	.....	n.a.	.....
1954	868,643	85,842	9.88
1955	872,471	86,249	9.89
1956	.....	n.a.	.....
1957	1,353,262	146,769	10.85
1958	.....	n.a.	.....
1959	1,346,297	131,479	9.77
1960	.....	n.a.	.....
1961	1,847,044	195,581	10.59

n.a.—Data not available.

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

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 the Federal tax. On the other hand, many States provide for deduction of the Federal estate tax before computing the State inheritance tax (table 72). 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, but here the similarity ends.

Under its original 1926 formulation, the credit for State taxes was limited to 80 percent of the Federal tax liability of each estate regardless of size. 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. 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

TABLE 71.—Credit for State Death Taxes as a Percent of Federal Estate Tax Liability Before Credits, by State, Returns Filed During Selected Years 1949–61

State	1949	1950	1951	1954	1955	1957	1959	1961
Alabama	11.03	5.84	6.04	8.34	7.37	6.18	6.94	7.75
Alaska							1.85	5.63
Arizona	7.29	4.82	4.78	7.10	7.83	7.88	7.64	8.73
Arkansas	7.74	5.90	5.25	5.31	6.66	7.15	6.31	6.25
California	12.71	8.18	9.05	8.80	8.48	11.54	9.68	9.34
Colorado	10.69	5.96	7.29	7.65	6.52	9.62	9.55	6.61
Connecticut	11.87	9.43	10.00	11.71	11.47	12.53	12.31	12.42
Delaware	16.30	15.63	9.92	13.41	8.89	11.36	9.31	13.93
Florida	12.18	10.99	7.68	9.41	10.53	8.40	8.91	8.53
Georgia	9.12	10.52	8.00	7.93	8.71	8.37	7.02	8.23
Hawaii							9.12	9.07
Idaho	1.42	5.68	4.04	3.03	5.83	3.80	4.45	3.84
Illinois	7.67	8.41	8.29	8.80	11.77	9.03	9.21	9.58
Indiana	7.24	6.88	7.16	5.42	7.18	8.66	7.90	7.08
Iowa	4.89	5.17	4.19	5.05	4.74	5.74	5.42	6.50
Kansas	5.68	5.46	6.38	4.72	7.16	7.61	10.23	9.53
Kentucky	6.28	8.32	6.87	8.40	7.32	11.76	7.31	8.38
Louisiana	7.75	5.28	9.64	7.28	9.56	8.50	7.43	9.11
Maine	5.33	7.37	8.57	6.89	7.90	6.89	7.69	10.69
Maryland	8.06	8.63	9.27	7.56	9.43	11.15	8.90	7.95
Massachusetts	10.47	8.39	10.25	9.91	9.34	11.03	9.57	10.54
Michigan	8.68	10.17	9.47	13.83	9.29	9.26	14.02	11.08
Minnesota	5.65	7.43	10.26	7.67	8.03	7.82	11.62	9.84
Mississippi	5.56	5.21	6.05	5.27	5.64	5.62	6.21	8.20
Missouri	8.53	9.38	8.50	8.22	8.56	8.87	8.27	8.79
Montana	2.28	6.95	5.06	5.30	8.04	5.96	8.16	4.89
Nebraska	5.69	6.39	4.44	5.01	6.91	7.69	6.45	7.92
Nevada	4.07	.28	7.35	.09	.55	2.91	2.36	.34
New Hampshire	6.83	11.80	6.80	7.13	7.12	8.47	5.23	7.62
New Jersey	10.88	9.74	10.48	9.17	8.80	7.89	10.29	12.53
New Mexico	4.89	6.63	4.85	4.64	9.58	7.74	7.16	8.52
New York	11.11	9.96	11.36	11.23	11.67	12.62	10.90	12.88
North Carolina	6.49	7.22	8.41	12.35	6.92	9.41	8.89	6.52
North Dakota	7.28	2.02	4.50	5.30	2.62	5.71	3.61	4.08
Ohio	11.24	9.43	8.91	10.56	8.61	9.14	9.86	9.68
Oklahoma	6.29	11.62	11.54	5.41	7.92	7.06	8.76	10.88
Oregon	6.76	5.61	9.43	6.22	9.17	6.63	6.29	7.64
Pennsylvania	9.54	10.18	12.91	10.52	10.42	13.75	9.48	10.00
Rhode Island	11.52	10.42	12.39	10.90	9.59	14.94	10.94	13.69
South Carolina	10.48	4.76	7.16	5.00	15.88	6.95	5.92	9.77
South Dakota	6.09	8.65	5.78	4.15	4.96	6.24	4.02	5.73
Tennessee	7.29	6.70	9.73	8.39	8.48	6.33	7.00	9.50
Texas	9.39	10.02	10.47	8.46	11.01	10.53	9.00	13.66
Utah	6.32	2.05	6.28	4.68	4.75	8.54	11.70	7.33
Vermont	4.78	9.95	7.06	8.67	4.16	8.61	8.86	10.03
Virginia	9.56	5.79	9.03	12.11	6.85	9.30	6.51	8.25
Washington	6.67	6.48	4.35	7.83	6.65	7.24	8.19	8.87
West Virginia	5.61	4.96	6.39	5.77	9.04	7.28	8.00	7.69
Wisconsin	6.93	7.93	11.59	8.84	8.12	8.61	7.42	9.82
Wyoming	8.78	5.85	3.26	7.29	5.14	6.41	8.64	5.65
Total <sup>1</sup>	10.37	9.17	10.02	9.88	9.89	10.85	9.77	10.59

<sup>1</sup> Total includes District of Columbia and a few tax returns filed from outside the United States.

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

TABLE 72.—Deductibility of Federal Estate Tax for Purposes of State Inheritance and Estate Taxes, January 1, 1964

State	Federal estate tax deductible	State	Federal estate tax deductible
Alabama.....	—	Missouri.....	X
Alaska.....	X	Montana.....	X
Arizona.....	—	Nebraska.....	X
Arkansas.....	—	Nevada.....	( <sup>1</sup> )
California.....	—	New Hampshire.....	X
Colorado.....	—	New Jersey.....	—
Connecticut.....	—	New Mexico.....	—
Delaware.....	—	New York.....	—
District of Columbia.....	X	North Carolina.....	—
Florida.....	—	North Dakota.....	X
Georgia.....	—	Ohio.....	X
Hawaii.....	—	Oklahoma.....	—
Idaho.....	X	Oregon.....	—
Illinois.....	X	Pennsylvania.....	—
Indiana.....	—	Rhode Island.....	—
Iowa.....	X	South Carolina.....	X
Kansas.....	X	South Dakota.....	—
Kentucky.....	X	Tennessee.....	—
Louisiana.....	—	Texas.....	—
Maine.....	X	Utah.....	—
Maryland.....	X	Vermont.....	X
Massachusetts.....	X	Virginia.....	X
Michigan.....	—	Washington.....	—
Minnesota.....	X	West Virginia.....	X
Mississippi.....	—	Wisconsin.....	X
		Wyoming.....	X

X denotes "yes"; — denotes "no."

<sup>1</sup> No tax imposed.

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 and 10 percent at \$1 million, and approaches 20 percent on estates over \$10 million (table 73).

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 in the number 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 1961 the tax credits on three over \$5 million Texas estates exceeded by a substantial amount the sum of all tax credits claimed on all estate tax returns filed from 21 low-wealth States.

#### *Coordination Proposals*

For some years the relationship of Federal and State death taxes has had many critics but no defenders. The States feel that their share of the yield of these taxes

TABLE 73.—Credit for State Death Taxes as a Percent of Federal Estate Tax Liability, by Size of Estate, Returns Filed During 1961

(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.....	1,917	101,308	1.9
\$150-\$200.....	3,315	108,216	3.1
\$200-\$300.....	8,714	180,564	4.8
\$300-\$400.....	8,617	133,496	6.5
\$400-\$500.....	7,901	104,251	7.6
\$500-\$600.....	6,853	82,512	8.3
\$600-\$700.....	6,143	68,924	8.9
\$700-\$800.....	5,394	57,116	9.4
\$800-\$900.....	4,641	46,065	10.1
\$900-\$1,000.....	4,391	42,715	10.3
\$1,000-\$2,000.....	32,097	260,616	12.3
\$2,000-\$3,000.....	18,313	128,524	14.2
\$3,000-\$4,000.....	12,540	84,845	14.8
\$4,000-\$5,000.....	6,111	38,693	15.8
\$5,000-\$7,000.....	12,825	82,756	15.5
\$7,000-\$10,000.....	12,236	71,137	17.2
\$10,000-\$20,000.....	15,285	82,638	18.5
\$20,000 or more.....	28,246	140,475	20.1
All taxable returns <sup>1</sup> .....	195,581	1,847,044	10.6

<sup>1</sup> Includes returns under \$100,000.

should be increased. Some are concerned because interstate tax differentials may intrude on decisions as to 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 probably have outnumbered all the other coordination suggestions that have emanated from a 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.<sup>3</sup>

The Commission examined the full gamut of proposals for the coordination of these taxes against the background of a full array of objectives. Among the criteria it considered germane to the selection of a plan of coordination were: (1) preserving the combined contribution of these taxes to Federal-State revenues; (2) increasing and stabilizing State revenues, improving their distribution among the States, and increasing the States' share of total death tax collections; (3) reducing jurisdictional conflicts between States and minimizing interstate tax competition; (4) preserving Congressional freedom to shape future Federal taxes as national policy requires; and (5) easing taxpayer compliance and tax administration burdens. Needless to say, it found

<sup>3</sup> *Coordination of State and Federal Inheritance, Estate, and Gift Taxes*, January 1961.

some of these objectives difficult to reconcile.

The Commission's analysis of the possible coordination alternatives ranged all the way from the Federal Government's vacating the field for exclusive State use—the course frequently urged by 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.

*Revenue separation.*—On balance, exclusive Federal taxation appeared to hold the edge over exclusive State taxation. Taxpayers have a strong propensity for migrating out from under high State taxes, and if the protective umbrella of the Federal tax credit were removed, interstate competitive tax reduction would quickly dissipate this revenue source. Federal taxation is necessary also to prevent an unfair distribution of revenues because, while large estates are the product of economic activity conducted on a national scale, wealth is concentrated in a few highly industrial States. Death tax revenues fluctuate widely, and States are ill-equipped to absorb their unstabilizing budgetary effect.

A conclusion in favor of national over State taxation of estates was not the answer desired by most advocates of revenue source separation. Their aim is exclusive State taxation. To quote the Commission (p. 85):

We are thus confronted with a troublesome dilemma. On logical grounds there is little to justify universal tax overlapping in an area which produces less than 2 percent of tax revenues and at the same time requires very exacting tax administration. Were the problem being posed anew, without the background of over a century of precedent and three decades of disregard of the States' grievance, the decision would probably be revenue separation with national taxation. Under prevailing circumstances,

however, a coordination arrangement which gives at least partial recognition to both groups of contenders, the States and the Federal Government, appears to possess a priority claim, at least as the first step, on grounds of usage and custom, if not economy and efficiency. This was the remedy selected when this issue was last confronted in the 1920's. We are agreed that another concerted effort should be made to revitalize it. This would not foreclose a reexamination of the question at some future time when the States' "appropriate share" of these revenues has been reestablished and some tangible progress in Federal-State fiscal coordination has succeeded in placing this issue into better perspective.

The Commission examined also a special form of revenue separation, one that would leave both the national and the State governments in the field. It would divide the revenue among them on the basis of size of estates, giving the States exclusive tax jurisdiction over the low- and middle-tax brackets and the National Government over the high-tax brackets. This kind of separation would have some basis in logic since States obtain a large part of their revenue from small- and middle-sized estates, while the Federal Government obtains most of its revenue from large estates. A division along these lines would reduce sharply the number of Federal estate tax returns. It would, moreover, ease compliance burdens because the smaller estates would be subject to State taxes only. It would leave the States with exclusive jurisdiction in the area where interstate competition does not threaten their revenues.

Such revenue separation could be accomplished either by raising the Federal exemption to the level desired or by providing a tax credit against Federal liability equal to 100 percent of that liability in the brackets reserved for the States. The Federal exemption route would deprive the States of Federal enforcement aid,

which some State tax administrators value highly. The tax credit route would tend to produce somewhat the same result. The Commission was apprehensive that if the Internal Revenue Service had no revenue interest in small estates, it would have no incentive to deploy any part of its limited enforcement resources on these "credit only" tax returns. Perhaps the telling argument against dividing the cloth between the States and the National Government in this way, to quote the Commission, is that "it is too small for that purpose."

*Revenue sharing.*—Revenue sharing as a coordination device survived the Commission's deliberations only a little better than did revenue separation. While revenue sharing could accomplish the objective of providing State governments with added revenue, it would separate political responsibility for raising revenue from political responsibility for expenditures. Revenue sharing is troublesome on practical grounds as well for it requires a consensus on what is a fair basis for allocating revenues among the 50 States. Canada's experience with its tax rental arrangements was also believed to offer little encouragement. In the end the Commission concluded in favor of retaining the tax credit mechanism, after a revision that would increase its revenue contribution to the States and improve the distribution and stability of the States' share of these revenues. The Commission examined five alternative ways of increasing the tax credit by testing them on a sample of over 7,000 matched Federal and State tax returns.

The Commission's recommendations are embodied in bills introduced in the 87th and reintroduced in the 88th Congress.<sup>4</sup> Specifically the Commission re-

<sup>4</sup> H.R. 5089, H.R. 6206, and H.R. 6207.

commended 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-sized 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, that is, the amount of additional revenue that 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 88th Congress would provide for an 80-percent credit in the taxable brackets up to \$150,000, and a 20-percent credit in the remaining brackets. On the basis of 1961 returns, these rates would have resulted in an annual Federal revenue loss of about \$500 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 and 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 in-

crease 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 immigration 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 that 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 for others. A few would be able to accomplish them simply by amending their present “pick-up” 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 lines 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, 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.

There is some likelihood that after a higher tax credit and State revenue level have become established, some States will prefer to forego their independently collected taxes for a corresponding share of Federal collections. The Commission considered this an inviting prospect and recommended that the U.S. Treasury be prepared to afford the States an option to forego 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.

*Gift tax credit.*—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. The States are concerned because the Federal tax system encourages lifetime property distributions by imposing lower taxes on gifts than on bequests. This reduces the amount of property to which the 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 on the 38 States that do not now employ them. Such compulsory tax overlapping would be all the more regrettable because in many States the gift tax would produce only negligible revenues and would not materially contribute to safeguarding State death taxes against avoidance by gifts. The Commission 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 the property that their decedents might have distributed during life.

#### *Legislative Prospects*

The outlook for legislative implementation of the Commission's program cannot yet be assessed. The dockets of the Congressional tax-writing committees are filled to overflowing with the Administration's legislative proposals.

The Administration's position on the estate tax coordination proposal, if indeed it has been formulated, has not yet been made public. While it would ultimately involve relinquishing several hundred million dollars of Federal revenue to the States, the budgetary impact of the loss would be spread over several years and would be inconsequential for the first 2 or 3 years.

The Commission considered and rejected the idea of cushioning the budgetary impact of its proposal by a corresponding transfer of financial responsibility for Federal grant programs to the States. This was a component of the ill-fated proposal of the previous Administration

for transferring part of the Federal tax on local telephone service to the States. The amount of additional revenue involved in the estate tax credit proposal for most States is small, and its State-by-State distribution bears no resemblance to that of any of the Federal grant programs.

It is recognized that the estate tax credit proposal contains some element of coercion, primarily in requiring the States with inheritance taxes to replace them with estate taxes. This may provoke some opposition, particularly from inheritance tax administrators and practitioners disinclined to speed the obsolescence of their personal expertise. Canada has recently had occasion to observe that the repeal of familiar tax institutions inevitably inflicts short-term inconveniences on some groups.

The program's differential impact on the several States may also occasion some debate. This matter apparently concerned the Commission, for it concluded its recommendations with this plea for mutual forbearance:

The coordination of any single group of taxes will inevitably affect some jurisdictions somewhat more favorably than others. Variations in existing taxes and in the distribution of taxable resources make this inevitable. We urge those at both the State and National level to hold always in view that these tax proposals are but a first step; that others will follow; and that as we proceed from tax to tax and with the other aspects of intergovernmental fiscal relations, burdens and benefits can be better balanced. Only with forbearance by all, as each brick is put in place, can this Nation reestablish the harmonious Federal, State, and local fiscal system it so urgently desires.



## Chapter 11

### AUTOMOTIVE TAXES

A variety of automotive taxes are levied by the Federal, State, and local governments. They fall into two major classes. The primary class comprises the group of taxes known collectively as "highway-user taxes," including motor fuel taxes, motor vehicle and operators' licenses, and special taxes on motor carriers. These taxes are dedicated by the Federal and State governments almost exclusively for highway construction and maintenance, and they are often characterized as taxes imposed upon motor vehicle owners and operators for the privilege of operating their vehicles on the public streets and highways.

The second major class consists of property taxes and sales and gross receipts taxes under which motor vehicles are taxed in the same manner as all generally taxable items. In a few States motor fuel is also taxed under general sales tax laws. Rarely are the proceeds from these kinds of automotive taxes used for highway purposes.

The most productive of the automotive taxes is the motor fuel tax, levied by the Federal Government, all 50 States, the District of Columbia, and by some local governments. The Federal manufacturers' excise tax on gasoline was introduced in 1932 as an emergency revenue measure, but has been retained in continuous use. State excise taxes on gasoline antedate the Federal levy; Oregon enacted the first State gasoline tax in 1919, and by 1929 all 48 States had imposed similar taxes. Enact-

ment of gasoline taxes by Hawaii in 1932 and by Alaska in 1946, rounded out the picture. Local gasoline taxes exist in 7 States; and, in one, Alabama, there are a few situations where both counties and the municipalities located within them impose gasoline taxes. In these cases motor fuel is taxed at four levels of government. The early motor fuel taxes applied only to gasoline, but with the development and widespread use of diesel oil and other liquid fuels, the tax has been extended to these products.<sup>1</sup>

About as widely used as motor fuel taxes, but not as productive of revenue, are motor vehicle registration and operators' license fees, imposed by all States except Hawaii, where the counties impose them, and motor vehicle registration fees levied by local governments in at least 14 States, but not by the Federal Government. State motor vehicle registration systems were introduced in most States between 1901 and 1910 and in the remaining States and Alaska by 1915.

The sale of motor vehicles is taxed at the manufacturing level by the Federal Government and quite often by State and local governments at the retail sales level. Eight States and the District of Columbia have selective sales taxes on motor vehicles; another 31 States and local governments in

<sup>1</sup> In 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.

11 States include such sales in the base of their general sales tax. Motor vehicles are subject to general property taxation in 21 States and to special property taxation, at uniform statewide rates, in 10 States (including Kentucky where they are subject to general property taxes for local purposes and to special property taxes for State purposes). Table 74 summarizes the incidence of various kinds of State and local automotive taxes.

### Highway-User Taxes

The Federal, State, and local governments collected \$9.1 billion from highway-user taxes in 1963, of which the Federal Government received about one-third, the States about two-thirds, and the local governments an insignificant amount. Motor fuels accounted for about 70 percent of the total and motor vehicle registration fees for most of the remainder, as shown by the following table:

*Highway-User Tax Collections, 1963*  
(in millions of dollars)

Federal excise taxes deposited in highway trust fund:	
Gasoline .....	\$2,372
Diesel fuel .....	113
Tires, tubes and tread rubber .....	399
Trucks, buses, and trailers .....	303
Use tax on vehicles weighing over 26,000 lbs. . .	99
Total .....	3,286
State:	
Motor fuel .....	3,845
Motor vehicle registration <sup>1</sup> .....	1,642
Motor vehicle operators' licenses .....	137
Gross receipts taxes on motor carriers <sup>2</sup> .....	28
Total .....	5,652
Local:	
Motor fuel .....	<sup>3</sup> 37
Motor vehicle registration and operators' licenses .....	<sup>3</sup> 123
Total .....	<sup>3</sup> 160
Total, all governments .....	9,098

<sup>1</sup> Includes flat fee, weight-distance, and passenger-mile taxes on motor carriers, as well as an unsegregable amount of gross receipts taxes on motor carriers.

<sup>2</sup> Includes an unsegregable amount of taxes on carriers other than motor carriers. See also footnote 1.

<sup>3</sup> Data are for 1962.

*Federal taxes.*—The Federal highway-user taxes are those excise taxes that are placed in the highway trust fund for dis-

tribution to the States under the Federal aid highway program. These consist of all the Federal excises on motor vehicles and related products other than those on passenger automobiles, parts and accessories for passenger automobiles and trucks, and lubricating oil, which altogether yielded \$1.9 billion to the Federal treasury in 1963, in addition to the \$3.3 billion deposited in the highway trust fund.

Except for the \$3 per 1,000 pounds highway use tax imposed on motor vehicles (over 26,000 pounds) and the 4 cents per gallon tax on diesel fuel for highway use, Federal highway-user taxes are manufacturers' excise taxes. The Federal tax on gasoline, as enacted in 1932, imposed a rate of 1 cent per gallon. The rate was 1½ cents from June 18, 1933 to January 1, 1934, when 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 it to 2 cents per gallon and the Highway Act of 1956 to 3 cents. It was further increased to 4 cents on October 1, 1959. The present 4 cents per gallon retail tax on diesel fuel intended for highway use has also been in effect since October 1, 1959. Trucks and buses are taxed at 10 percent of the manufacturer's sales price. Tires for use on highways are taxed at a rate of 10 cents a pound, other tires at a 5 cents per pound rate. Inner tubes are taxed at 10 cents per pound.

*State and local taxes.*—State gasoline tax rates range from 5 cents a gallon in six States to 8 cents a gallon in one, Alaska (table 75). The most common rate is 6 cents a gallon, imposed by 20 States and the District of Columbia, but a 7 cents a gallon rate is also becoming common; 17 States now tax gasoline at this rate. Over the last 4 years, five States have increased their gasoline tax to 7 cents a gallon.

TABLE 74.—State and Local Automotive Taxes, by Type and by State, January 1, 1964

State	Highway-user taxes					Property and sales taxes applicable to motor vehicles			
	Motor fuels		Motor vehicle registration & operators' licenses		State special taxes on motor carriers <sup>1</sup>	Property taxes		Sales taxes	
	State	Local	State	Local		General	Special <sup>2</sup>	General	Selective
Alabama.....	X	X <sup>3</sup>	X	—	X	X	—	X <sup>4</sup>	—
Alaska.....	X <sup>5</sup>	—	X	—	—	X	—	X <sup>6</sup>	—
Arizona.....	—	—	X	—	—	—	X	X <sup>4</sup>	—
Arkansas.....	X	—	X	X	—	X	—	X <sup>4</sup>	—
California.....	X	—	X	—	—	—	X <sup>2</sup>	X <sup>4</sup>	—
Colorado.....	X	—	X	—	X	—	X	X <sup>4</sup>	—
Connecticut.....	X	—	X	—	—	X	—	X	—
Delaware.....	X	—	X	—	—	—	—	X	—
District of Columbia.....	X	—	X	—	X	—	—	—	X
Florida.....	X	X	X	—	X	—	—	X	—
Georgia.....	X <sup>5</sup>	—	X	—	—	X	—	X	—
Hawaii.....	X <sup>5</sup>	X	—	X	—	—	—	X	—
Idaho.....	X	—	X	—	—	—	—	—	—
Illinois.....	X <sup>5</sup>	—	X	X	—	X	—	X <sup>4</sup>	—
Indiana.....	X	—	X	X	—	X	—	—	—
Iowa.....	X	—	X	—	—	—	—	X	—
Kansas.....	X	—	X	—	—	X	—	X	—
Kentucky.....	X	—	X	—	—	X	X <sup>2</sup>	X <sup>4</sup>	—
Louisiana.....	X	—	X	—	—	(7)	X	X <sup>4</sup>	—
Maine.....	X	—	X	—	—	—	X	X <sup>4</sup>	—
Maryland.....	X	—	X	—	—	—	—	—	X
Massachusetts.....	X	—	X	—	—	—	X	—	—
Michigan.....	X <sup>5</sup>	—	X	—	—	—	—	—	—
Minnesota.....	X	—	X	—	—	—	—	—	—
Mississippi.....	X <sup>5</sup>	X	X	X	X	X	—	X <sup>4</sup>	—
Missouri.....	X	X <sup>6</sup>	X	X	—	X	—	X	—
Montana.....	X	—	X	—	X	X	—	—	X
Nebraska.....	X	—	X	X	—	—	—	—	—
Nevada.....	X	X	X	—	—	(9)	X <sup>2,9</sup>	X	—
New Hampshire.....	X	—	X	—	—	—	X	—	—
New Jersey.....	X	—	X	—	X	—	—	—	—
New Mexico.....	X	X	X	—	X	—	—	—	X
New York.....	X <sup>5</sup>	—	X	X	X	—	—	X <sup>6</sup>	—
North Carolina.....	X	—	X	—	X	—	—	X	—
North Dakota.....	X	—	X	—	—	—	—	—	—
Ohio.....	X	—	X	—	—	—	—	X	—
Oklahoma.....	X	—	X	—	—	—	—	—	X
Oregon.....	X	—	X	X	X	—	—	—	—
Pennsylvania.....	X	—	X	—	—	X	—	X	—
Rhode Island.....	X	—	X	—	—	—	—	X	—
South Carolina.....	X	—	X	X	X	X	—	X	—
South Dakota.....	X	—	X	X	X	—	—	—	X
Tennessee.....	X	—	X	—	—	X	—	X	—
Texas.....	X	—	X	—	—	X	—	—	X
Utah.....	X	—	X	—	—	X	—	X <sup>4</sup>	—
Vermont.....	X	—	X	—	—	—	—	—	X
Virginia.....	X	—	X	X	X	X	—	X <sup>6</sup>	—
Washington.....	X	—	X	—	—	—	X <sup>2</sup>	—	—
West Virginia.....	X	—	X	—	—	X	—	—	X
Wisconsin.....	X	—	X	—	—	—	—	X	—
Wyoming.....	X	X	X	—	X	—	X	X	—

A dash (—) signifies "none."

<sup>1</sup> Weight-distance, passenger-mile, and gross receipts taxes on motor carriers. Flat-rate registration fees on vehicles owned by motor carriers (based on weight or horsepower) and fees for certificates of convenience and necessity or permits to operate are imposed by all States.

<sup>2</sup> Ad valorem taxes imposed at a uniform statewide rate. Except in California, Kentucky, Nevada, and Washington, these taxes are locally administered; and, except in Kentucky, the proceeds are shared with local governments.

<sup>3</sup> In a few counties there are overlapping county and municipal gasoline taxes.

<sup>4</sup> Imposed by both State and local governments.

<sup>5</sup> Taxable also under State or local general sales taxes.

<sup>6</sup> Local general sales tax only.

<sup>7</sup> Municipalities (but no other local governments) can subject motor vehicles to general property taxation.

<sup>8</sup> Under a recently enacted constitutional amendment, local gasoline taxes now require two-thirds voter approval. To date, no city has submitted a proposed tax for voter approval.

<sup>9</sup> Subjected to a statewide 4 mill property tax in lieu of the general property tax, effective June 1, 1963.

TABLE 75.—State Gasoline Tax Rates, January 1, 1964<sup>1</sup>  
(Per gallon)

5¢	5½¢	6¢	6½¢	7¢	7½¢	8¢
Illinois Hawaii <sup>2</sup> Kansas <sup>1</sup> Missouri Texas <sup>1</sup> Wyoming <sup>1</sup>	Massachusetts	Arizona Colorado Connecticut Delaware Idaho Indiana Iowa <sup>1</sup> Maryland <sup>3</sup> Michigan Minnesota Montana <sup>1</sup> Nevada New Jersey New Mexico New York <sup>1</sup> North Dakota Oregon South Dakota <sup>1</sup> Utah Wisconsin District of Columbia	Arkansas Georgia Oklahoma (6.58¢) Vermont	Alabama California Florida Kentucky Louisiana Maine Mississippi <sup>1</sup> Nebraska New Hampshire <sup>4</sup> North Carolina Ohio Pennsylvania Rhode Island South Carolina <sup>4</sup> Tennessee <sup>1</sup> Virginia West Virginia	Washington	Alaska
Total....6	.....1	.....21	.....4	.....17	.....1	.....1

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

<sup>2</sup> In Hawaii County, the State tax rate is 8¢.  
<sup>3</sup> Rate increased to 7¢, effective June 1, 1964.

<sup>4</sup> The rates shown include temporary rates scheduled to expire as follows: New Hampshire, 1¢, June 30, 1966; South Carolina, 1¢, June 30, 1972.

Changes in State gasoline rates that have occurred since 1952 are shown in table 76. These changes reflect the rates in effect at the start of each calendar year.

Diesel fuel and liquified petroleum are taxed by the District of Columbia and all States except Vermont. But Vermont does impose additional highway registration fees for motor vehicles using fuels other than gasoline. The rate on diesel fuel is the same as the gasoline rate in all but nine States, where it is higher. Liquified petroleum gases are taxed at the same rate as gasoline in all but a few States.

All motor fuel sales are not taxed, and some are given special treatment. Interstate sales, export sales, and sales to governmental units are commonly exempt. Tax refunds are generally allowed for motor fuel purchased for nonhighway uses (for example, agriculture, manufacturing, construction, and marine use). All States except Alabama and Vermont provide tax relief for aviation fuel. In half of the States this relief is in the form of tax exemption or refunds of taxes paid;

but in the rest of the States aviation fuel is subject to a low preferential rate, and the proceeds are earmarked for aviation purposes. In calendar year 1963 total refunds of motor fuel taxes in the 50 States were about \$200 million, or 4.9 percent of gross motor fuel tax collections. The proportion of tax refunds to tax collections varies from State to State, from a low of 0.3 percent in Florida to a high of 28 percent in North Dakota.<sup>2</sup>

The collection of taxes on special fuels (diesel fuels, liquified petroleum gases, etc.) has created administrative and compliance problems. Special fuels for non-highway use (kerosene and heating oil, for example) are generally exempt from the special fuel tax. Special fuel taxes imposed on the use of fuel by motor carriers, intrastate and interstate, are based on the amount of fuel consumed, but not necessarily bought within the State. In some States fuel taxes are paid at the time of purchase, but refunds on (unused) exported fuel are not given. In other

<sup>2</sup> Federation of Tax Administrators, *Tax Administrators News*, March 1964, p. 29.

States the tax is collected on a use basis, including fuel imported in the vehicle fuel supply tank. (Several States with use tax features in their statutes allow an exemption for such importation in amounts ranging from 20 to 50 gallons.) Occasions arise, therefore, where some fuel which is exported out of a State in a motor carrier's tank and which has already been taxed becomes subject to tax again in the importing State, to the extent that it exceeds the exempted amount. This problem and the great diversity in motor carrier invoice (or receipt) requirements to show proof of tax paid have led to suggestions for uniformity in State enforcement, collection, and audit procedures. In recent years the North American Gasoline Tax Conference has proposed reform in this area. The NAGTC has also proposed, as an aid in simplifying the enforcement problem relating to nonhighway use of special fuels, that the States adopt a uniform special fuel-tax law which would advance the collection of the tax from the consumer or service station level to the bulk plant level.

A bill introduced in the 88th Congress (H.R. 8858) would sanction State compacts on motor fuels consumed by interstate buses. It would provide that interstate bus fleets pay a pro rata share of their motor fuel taxes to the party States on the basis of the amount of gasoline consumed, as indicated by the number of miles traveled in each. A tax credit would be granted for motor fuel purchased within the party State. A few States have already taken action, however: In 1963, four (Maine, Massachusetts, New Hampshire, and Pennsylvania) enacted a "Compact on Taxation of Motor Fuel Consumed by Interstate Buses," which enables the party States to prorate taxes on interstate

bus motor fuels on the basis of fuel usage.

State motor vehicle license taxes are of three broad types: Motor vehicle registration license taxes on private passenger cars and commercial vehicles, motor vehicle operators' license taxes, and special motor carrier taxes. All States but Hawaii impose motor vehicle registration and motor vehicle operators' license taxes. In Hawaii these taxes are levied by the counties.

Motor vehicle registration taxes on private passenger cars are commonly based on weight, but in a few States the horsepower of the vehicle, or its value, or a combination of these factors and weight serve as the basis of the tax. Registration taxes on commercial vehicles are based on weight, carrying capacity, or both. Farm vehicles are usually exempt from these taxes or are subject to them at reduced rates, as are logging, mining, and well-drilling vehicles in those States where such activities are important.

Motor carrier taxes, like other motor vehicle registration fees, are imposed for the privilege of using the States' highways. For purposes of registration and taxation, motor carriers are divided into three classes: Common carriers, which operate for hire over regularly scheduled routes; contract carriers, which operate for hire, but not over fixed routes or on regular schedules; and private carriers, which are usually defined to include all other commercial carriers. Some States tax all three classes on the same basis; some tax only the first two classes; some provide similar tax treatment for the last two classes; and yet other States tax only freight carriers. For regulatory purposes, carriers are usually required to obtain a certificate of convenience and necessity or an operating permit for which they pay flat rate fees.

TABLE 76.—State Gasoline Tax Rates as of January 1—1953 through 1964  
(cents)

State	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Alabama.....	6			7								7
Alaska.....	2			5								8
Arizona.....	5								7	8		6
Arkansas.....	6.5											6.5
California.....	4.5	6										7
Colorado.....	6											6
Connecticut.....	4			6								6
Delaware.....	5									6		6
District of Columbia.....	5	6										6
Florida.....	7											7
Georgia.....	6			6.5								6.5
Hawaii.....	4			5								5
Idaho.....	6											6
Illinois.....	5					6						5
Indiana.....	4											6
Iowa.....	4	5		6								6
Kansas.....	5											5
Kentucky.....	7											7
Louisiana.....	7			7								7
Maine.....	6											7
Maryland.....	5	6										6
Massachusetts.....	5					5.5						5.5
Michigan.....	4.5			6								6
Minnesota.....	5											6
Mississippi.....	7											7
Missouri.....	3											5
Montana.....	6			7						5		6
Nebraska.....	5	6				7				5		7
Nevada.....	5.5			6								6
New Hampshire.....	5					6		7				7
New Jersey.....	3											6
New Mexico.....	6						5					6
New York.....	4		4							6		6
North Carolina.....	7											7
North Dakota.....	5			6								6
Ohio.....	4	5										7
Oklahoma.....	6.58				(1)			7				6.58
Oregon.....	6											6
Pennsylvania.....	5			6		5						6
Rhode Island.....	4						6			7		7

South Carolina.....	7																			7
South Dakota.....	5																			6
Tennessee.....	7																			7
Texas.....	4	5																		5
Utah.....	5																			6
Vermont.....	5	5.5																		6.5
Virginia.....	6																			7
Washington.....	6.5	6																		7.5
West Virginia.....	5	6																		7
Wisconsin.....	4																			6
Wyoming.....	5																			5

Note: A blank space (.....) indicates no rate change since previous rate shown. See table 75 footnotes for situations pertaining to particular States.

<sup>1</sup> Temporary 7.58¢ rate, July 1, 1957–December 31, 1957 only.

In addition, about half of the States impose special motor carrier taxes on a weight-distance or passenger-mile basis, or on a gross receipts basis for the proportion of income received from business done within the State.

As a means of lessening the compliance problem of interstate motor carriers in meeting the various State vehicle registration and licensing requirements, a group of 13 Western States and British Columbia have entered into "The Uniform Vehicle Registration Proration and Reciprocity Agreement." Under its provisions, interstate motor carriers are permitted to prorate their motor vehicle registration fees on the basis of the proportion of total fleet miles operated within each State. H.R. 8858, mentioned above, would consent to similar State reciprocity agreements relating to registration taxes on interstate bus fleets, thereby eliminating any doubt as to the constitutionality of State action in this tax area. But the States have not waited for congressional action. In addition to the aforementioned agreement among the Western States, which includes interstate buses, three Northeastern States (Maine, New Hampshire, and Pennsylvania) during 1963 have entered into a "Bus Taxation Proration and Reciprocity Agreement" similar to the Federal proposal and to the Western States agreement. Furthermore 20 States, located mostly east of the Mississippi have unilaterally enacted legislation enabling them to prorate interstate bus registration and license taxes on a basis similar to that achieved by the interstate agreements.

At the local level, highway-user taxes consist of gasoline taxes and motor vehicle license taxes. Local gasoline taxes are imposed by approximately 300 municipalities

and by 36 counties in seven States (Alabama, Florida, Hawaii, Mississippi, Nevada, New Mexico, and Wyoming). Municipal gasoline taxation is widespread in only two States, however (Alabama and New Mexico), which account for over 200 of the cities now imposing such taxes (table 77). Until recently, over 100 cities in Missouri were also levying gasoline taxes at rates ranging from less than one-half cent to 2 cents a gallon. But under a new constitutional amendment in Missouri, approved by the voters in March 1962, cities now receive one-fifth of the proceeds from the State's 5-cent gasoline tax, which was increased from the previous 3 cents. Cities may continue to impose their own tax if approved by two-thirds of the voters; to date, none has initiated such action.

The most common local gasoline tax rate is 1 cent a gallon. In Alabama, however, where 12 counties and some of the municipalities located within them are both imposing gasoline taxes, the combined county-city rate in a few instances exceeds 2 cents a gallon. In Nevada all 17 counties receive gasoline tax revenue; the tax is actually a State-imposed, locally shared tax, in addition to the regular State gasoline tax. It is classed here as a local tax because the counties have the option to refuse it.

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

Fourteen States permit at least some of their local governments to impose registration fees for revenue purposes on the operation of motor vehicles, including private passenger automobiles. (This authorization is in addition to municipal regula-



TABLE 77.—Local Gasoline Tax Rates, January 1, 1964  
(Per gallon)

State	State tax rate (cents)	Local tax rates							
		½¢	1¢	1½¢	2¢	3¢	3½¢	4¢	5¢
Alabama <sup>1</sup>	7								
Municipalities <sup>2</sup>			13	1	7				
12 counties <sup>3</sup>			9	1	2				
Florida	7								
1 municipality			1						
Hawaii	45								
4 counties						1	1	1	1
Mississippi	7								
3 counties					2	1			
Nevada	6								
17 counties			5	17					
New Mexico	6								
61 municipalities		6	55						
Wyoming	5								
Municipalities <sup>7</sup>			2						

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

<sup>2</sup> Cities of importance only. Details are not available on the approximately 200 municipalities which levy gasoline taxes.

<sup>3</sup> Some municipalities in at least 4 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 a few instances

exceed 2 cents per gallon.

<sup>4</sup> Except in the county of Hawaii where the State rate is 8¢ per gallon; the county rate is 3¢ per gallon.

<sup>5</sup> 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.

<sup>6</sup> Includes the ½¢ tax of Los Alamos County which is applicable only in the city limits of the municipality of Los Alamos.

<sup>7</sup> Casper and Cheyenne only. Details are not available on the other municipalities which impose gasoline taxes.

tory powers, under which cities in most States may impose, for instance, registration fees on taxicabs.) These local motor vehicle license fees are similar to those imposed by the States. But the amount of duplication is limited: Hawaii does not impose these fees at the State level; their applicability at the local level in Nebraska is restricted to charter cities; only bond-financed "seawall" counties in Mississippi may impose them; in South Carolina, only cities of over 70,000 population; and in New York the authorization to impose them, dating back to 1947, has been little used. Widespread use of locally imposed motor vehicle license fees is found in only three States—Illinois, Missouri, and Virginia. However, in a few States (including Alabama, Mississippi, Nebraska, South Dakota, and Texas) local governments collect

the State motor vehicle license taxes and retain a portion for their own use.

#### Other Automotive Taxes

In addition to the highway-user taxes, motor vehicles and related products are included in the base of a variety of generally applicable property and sales and gross receipts taxes. The Federal manufacturers' excise taxes on passenger automobiles (10 percent), auto parts and accessories (8 percent) and lubricating oil (6 cents per gallon) have been mentioned previously.

Thirty-one States, and local governments in 3 additional States, have general sales and use taxes that include motor vehicles in their tax base (see table 74). Eight States and the District of Columbia impose selective sales taxes on motor vehicles. They usually are auto titling taxes and are

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
I. MOTOR FUEL TAXES					
Alabama.....	\$76,317	Minor amount to cities in proportion to population, and $\frac{3}{4}$ of remainder equally among counties.	Cities..... Counties...	\$63 26,997	} High-ways.
Arizona.....	28,360	30% to counties in proportion to motor fuel sales. Of the amount received by counties, $\frac{1}{3}$ redistributed to cities in proportion to population of cities and towns within county.	Cities..... Counties...	2,802 5,604	} High-ways.
Arkansas.....	42,092	Amount equivalent to 7.7% of net proceeds plus $\frac{1}{4}$ cent per gallon distributed $\frac{1}{3}$ in proportion to area, $\frac{1}{3}$ in proportion to population, and $\frac{1}{3}$ in proportion to motor vehicle license revenue.	Counties...	4,774	Highways
Delaware.....	10,317	Amount appropriated equivalent to 1¢ tax, but not to exceed \$1,200,000 annually, to cities, $\frac{2}{5}$ in proportion to population and $\frac{3}{5}$ in proportion to street mileage.	Cities.....	1,200	Highways
Florida.....	131,949	1. Proceeds of 2¢ tax allocated to counties, $\frac{1}{3}$ in proportion to area, $\frac{1}{3}$ in proportion to population, and $\frac{1}{3}$ in proportion to county contributions to the cost of State road construction, and paid to State Board of Administration as agent for the individual counties, for required service of county highway debt administered by the State Board. Of any amount remaining in each county's account after payment of debt service, 20% to the county for highway maintenance and construction (the other 80% to the State Highway Department).	Counties...	12,418	Highways
	See above	2. Proceeds of 1¢ tax allocated in the same manner as the 2¢ tax and 20% to counties for highway maintenance and construction.	Counties...	1,263	Highways
Illinois.....	149,942	Proceeds from the 5¢ tax distributed 32% to municipalities in proportion to population; 11% to counties with more than 500 thousand population (Cook County); 12% to counties with less than 500 thousand population in proportion to motor vehicle license tax collections; and 10% to townships in proportion to secondary and feeder road mileage, provided such townships impose a minimum specified tax levy for road and bridge purposes.	Cities..... Counties... Townships.	44,351 35,521 13,251	} Highways
Kansas.....	42,833	Proceeds from 1¢ tax and from $\frac{1}{2}$ of 7¢ special fuels tax distributed (a) the first \$2.5 million to cities in proportion to population, (b) the next \$4 million to counties in proportion to secondary road mileage, and (c) the remainder; $\frac{1}{2}$ to cities and $\frac{1}{2}$ to counties in same proportion as above.	Cities..... Counties...	3,232 4,732	} High-ways.
Louisiana.....	66,379	1. Proceeds from 1¢ tax distributed on the basis of the number of gallons of motor fuel sold in each parish during the preceding year.	Parishes and cities.	9,220	Highways
	See above	2. $\frac{1}{20}$ of 1¢ tax distributed to Lake Charles Harbor and Terminal District. In addition, $\frac{9}{20}$ of 1¢ is distributed to the New Orleans Harbor and Terminal District, a State agency.	Special districts.	449	Special district purposes.

See footnotes at end of table.

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Mississippi.....	48,746	1. After deduction of State requirements for debt service, refunds and administration, $\frac{5}{14}$ of proceeds distributed $\frac{1}{3}$ in proportion to number of registered motor vehicles, $\frac{1}{3}$ in proportion to area, and $\frac{1}{3}$ in proportion to population; subject to specified maximum amount per county. Of each county's share, a specified amount per capita of municipal population in the county, plus a specified portion of the proceeds allocated to the State Highway Department, to cities in proportion to population, subject to a specified maximum amount per city. Excess after above distribution, to counties, $\frac{1}{3}$ equally, $\frac{1}{3}$ in proportion to population, and $\frac{1}{3}$ in proportion to area.	Cities,..... Counties...	1,443 16,098	} Highways.
	See above	2. $\frac{1}{2}$ of State Highway Department's share of motor fuel tax collections arising in certain "seawall" counties to county of origin for construction and maintenance of sea walls to protect highways, and for debt service on sea wall bonds.	Counties...	417	
Missouri.....	63,018	Proceeds from 1¢ of 5¢ tax allocated $\frac{1}{4}$ to counties, $\frac{1}{2}$ in proportion to county road mileage and $\frac{1}{2}$ in proportion to rural land valuation; and $\frac{3}{4}$ to cities of over 200 population in proportion to population (effective April 1962).	Cities.....	1,959	Highways
Nebraska.....	39,516	15% of proceeds from 7¢ tax to counties on a statutory percentage basis for maintenance, repair, and improvement of mail routes; and 24% of remainder allocated to counties on the same statutory percentage basis and redistributed (a) at a specified per capita rate to cities and villages with populations of 25 thousand or less, (b) 40% of county allocation to cities of 25 thousand to 200,000, (c) 75% of county allocation to cities of over 200,000 population, and (d) remainder to the county for road and bridge purposes.	Counties...	2,15,112	Highways
Nevada.....	9,666	Proceeds from $\frac{1}{2}$ cent tax distributed $\frac{1}{4}$ in proportion to area, $\frac{1}{4}$ in proportion to population, $\frac{1}{4}$ in proportion to road mileage and $\frac{1}{4}$ in proportion to vehicle miles of travel. In addition, an optional tax of 1¢ per gallon is imposed in counties which do not reject this tax and is distributed to county of origin. Counties must redistribute a proportionate share of the 1¢ tax to cities on the basis of assessed valuation.	Counties...	2,337	Highways
New York.....	231,906	(a) an amount equal to 10% of proceeds from motor fuel tax, distributed in proportion to highway mileage outside cities and villages; (b) an amount equal to \$400 per mile for total street and highway mileage to New York City.	City (New York City). Counties...	3,173 22,473	} Highways
North Carolina.....	107,809	Amount appropriated, equivalent to proceeds of $\frac{1}{2}$ ¢ tax from previous year, distributed $\frac{1}{2}$ in proportion to population and $\frac{1}{2}$ in proportion to street mileage.	Cities.....	7,356	

See footnotes at end of table.

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
North Dakota.....	12,151	1/3 of proceeds of 6¢ motor vehicle fuel tax to counties in proportion to motor vehicle registration and 21% of proceeds from 6¢ special fuel tax distributed as follows: (a) an amount totaling that distributed for 1959-60 fiscal year to counties in proportion to motor vehicle registration; (b) 50% of excess after above distribution to counties in proportion to motor vehicle registration; and (c) remainder to cities and villages in proportion to population.	Cities and counties.	2,128	Highways
Ohio.....	220,265	Of proceeds from first 2¢ tax, 30% to cities in proportion to motor vehicle registrations, and 25% equally among counties. Of proceeds from additional 2¢ tax, 7 1/2% to cities in proportion to motor vehicle registrations, 7 1/2% equally among counties, and 17 1/2% equally among townships.	Cities..... Counties... Townships.	23,324 21,621 11,147	} Highways
Oklahoma.....	62,627	1. Of proceeds of 4¢ gasoline tax, 22% to counties, 2/3 in proportion to county road mileage and 1/3 in proportion to population and area; and 5% to cities in proportion to population. Of proceeds from special fuel use tax, 24 1/4% to counties in proportion to population and area.	Cities..... Counties...	1,774 8,323	
	See above	2. Proceeds of 1¢ gasoline tax distributed, 1/3 in proportion to area, 1/3 in proportion to rural population, and 1/3 in proportion to county road mileage.	Counties...	9,866	Highways
	See above	3. Proceeds of 1/2¢ gasoline tax distributed, 2/3 in proportion to county road mileage, and 1/3 in proportion to population and area.	Counties...	4,700	Highways
Pennsylvania.....	232,844	1. Amount equal to 1/2¢ per gallon of taxed fuel distributed in proportion to average amounts returned to counties during preceding three years. Counties may redistribute portions of this allocation to their political subdivisions, 1/2 in proportion to road and street mileage and 1/2 in proportion to population.	City (Philadelphia). Counties...	2,286 11,962	} Highways
	See above	2. Amount equal to 20% of proceeds from motor fuels sales tax to cities and townships, 3/5 on basis of road mileage and 2/5 on basis of population, subject to minimum annual distribution.	Cities..... Townships.	11,383 18,651	
South Carolina.....	53,320	Proceeds from 1¢ tax distributed in proportion to motor vehicle license tax collections, subject to certain minimum and maximum limitations.	Counties...	7,231	Highways
South Dakota.....	15,745	1/8 of proceeds distributed in proportion to county assessed valuations.	Counties...	1,937	Highways
Tennessee.....	80,502	(a) Proceeds from 2¢ tax to counties, 1/2 equally among counties, 1/4 in proportion to population, and 1/4 in proportion to area, and (b) proceeds from 1¢ tax to cities in proportion to population.	Cities..... Counties...	11,359 22,718	} Highways
Texas.....	198,237	From 1/4 of proceeds, amounts as required are allocated to pay debt service on county debt incurred to finance highways now in State highway system, and a specified amount (\$7,300 thousand for fiscal 1962) distributed 2/10 in proportion to area, 4/10 in proportion to rural population, and 4/10 in proportion to lateral road mileage.	Counties...	7,910	

See footnotes at end of table.

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Vermont.....	9,279	1. Amount appropriated equal to 2½¢ of the motor fuel sales tax, distributed (a) at specified rate per mile of State aid for construction, and (b) the remainder for construction and maintenance of State-aid highways at discretion of State Highway Board, and in fixed ratio to local expenditure for winter maintenance and for bridge repair and construction.	Cities..... Towns.....	25 1,001	} High-ways.
	See above	2. Amount appropriated equal to 2¢ of the motor fuel sales tax, distributed in proportion to town (or city) highway mileage, subject to local expenditure of specified minimum amount per mile, for maintenance and construction of highways.	Cities..... Towns.....	70 3,005	
Virginia.....	93,825	Amount based on motor fuel sales tax proceeds received by county in 1931, plus proportionate share of increase in proceeds since that date, to two counties electing to maintain their own local highways.	Counties...	2,292	Highways
Washington.....	74,981	Proceeds from 6½¢ tax, after deduction for State administration of ¾ of 1%, 35% to counties (after certain deductions applying to specific counties) ¼ <sub>10</sub> equally among counties, ¾ <sub>10</sub> in proportion to motor vehicle registration, and ¼ <sub>10</sub> in proportion to trunk highway mileage adjusted for variance among counties in highway costs; and 11.2% to cities and towns in proportion to population. In addition, proceeds of ½¢ tax to cities and towns in proportion to population, with requirement for local matching of ¼ of this amount.	Cities..... Counties...	12,118 19,612	} High-ways.
Wyoming.....	8,285	23% of proceeds from 4¢ tax to counties, ⅓ in proportion to population, ⅓ in proportion to area, and ⅓ in proportion to assessed valuation. 2% of proceeds from 4¢ tax and 25% of proceeds from additional 1¢ tax to cities in proportion to population.	Cities..... Counties...	536 1,464	
Total.....	2,110,911			453,688	

2. MOTOR VEHICLE AND OPERATORS' LICENSE TAXES

California.....	n.a.	Proceeds from trailer coach license fees distributed to county of origin. Counties must redistribute ⅓ to cities and ⅓ to school districts from which collections originate (½ to school districts, where collections originate outside a city).	Cities, counties, and school districts.	4,319	} General purposes and education.
Colorado.....	n.a.	Proceeds from temporary special motor vehicle registration fee to be collected during the calendar years 1960, 1961, and 1962, to counties and municipalities on basis of residence of registrants.	Cities and counties.	1,554	
Connecticut.....	423	¾ of proceeds from motor vehicle operator examination fees distributed at a specified rate per pupil enrolled in such course.	Cities..... Towns..... School districts..	47 66 3	} Education

See footnotes at end of table.

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Florida.....	54,836	1. Amount required by formula, distributed from proceeds of motor vehicle license taxes, in proportion to number of instructional units (as determined under the minimum foundation program), for school construction or for debt service on school bonds.	School districts.	17,640	Education
	1,162	2. After deduction of 25% for the State general fund and minor amounts for cities and towns, proceeds of auto transportation mileage tax allocated to counties in proportion to mileage traveled by licensees in each county and paid to the State Board of Administration to be used in the same manner as the 2¢ motor-fuel sales tax.	Counties...	686	Highways
	n.a.	3. Proceeds from additional fee levied on motor vehicle operators' permits, distributed as reimbursement for costs of program.	School districts.	1,254	Education
Kansas.....	876	After specified deductions, proceeds from motor carrier license taxes distributed to counties in proportion to road mileage.	Counties...	582	Highways
Kentucky.....	4,425	½ of proceeds from truck licenses distributed equally among counties.	Counties...	1,993	Highways
Louisiana.....	1,732	½ of proceeds from motor vehicle operators' license fees paid by residents of the city of New Orleans distributed to New Orleans.	City (New Orleans).	123	Police pensions.
Maryland.....	27,725	Fixed portion of each registration fee distributed to city of Baltimore or county of origin. Outside city of Baltimore, ½ of county's share of fees originating in cities to city of origin.	City (Baltimore).	1,866	} General purposes.
			Counties...	6,020	
Mississippi.....	6,338	Proceeds from privilege license on trucks, trailers, and buses distributed ⅓ in proportion to number of registered motor vehicles, ⅓ in proportion to area, and ⅓ in proportion to population.	Counties...	3,853	Highways
Nevada.....	1,927	Specified amount per registration to county of origin.	Counties...	57	Highways
New Mexico.....	11,204	1. After deduction for administration, 15% of proceeds of motor vehicle license taxes to county of origin for redistribution among taxing units therein in proportion to the property taxes they levy.	Cities.....	227	} General purposes. Education
			Counties...	698	
			School districts.	360	
	See above	2. After deduction for administration, 37½% of proceeds of motor vehicle license taxes to counties, ½ to county of origin and ½ in proportion to county road mileage; and 10% of proceeds to county of origin for redistribution to cities in proportion to assessed valuation.	Cities.....	857	} Highways.
			Counties...	3,213	
	958	3. After deduction of a specified portion of fee for each motor vehicle operator's license, ½ of amount collected in cities and Los Alamos County to city or county of origin.	Cities.....	4270	General purposes.
New York.....	137,486	Amount appropriated, equal to 25% of collections from motor vehicle fees, to the counties and New York City in proportion to such collections.	City (New York City).	10,280	} Highways
			Counties...	22,820	
North Carolina.....	n.a.	Proceeds from additional automobile license fees, distributed on basis of enrollment in approved driver-training courses.	Counties...	1,546	Education

See footnotes at end of table.

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
North Dakota.....	10,135	After deduction for administration, 41% of proceeds distributed as follows: (a) an amount equal to that distributed for 1959-60 fiscal year to counties in proportion to motor vehicle registrations; (b) 35% of excess after above distribution to counties in proportion to motor vehicle registrations and (c) remainder of excess to counties for redistribution to cities and villages in proportion to population upon application of city or village for its share.	Cities and counties.	4,002	Highways
Ohio.....	78,249	1. After deduction for administration and other State purposes, proceeds of motor vehicle registration tax distributed as follows: 47% to county of origin, 34% to city of origin or to county of origin (where registrations originate outside municipalities), 9% to counties in proportion to county road mileage, 5% equally among counties, and 5% to townships in proportion to township road mileage.	Cities..... Counties... Townships.	17,759 56,357 3,901	} Highways
	1,108	2. After certain deductions 50% of proceeds of motor transportation license tax to counties and cities through which taxpayers' routes lie, in proportion to mileage of such routes.	Counties...	\$ 73	
Oklahoma.....	25,720	1. 95% of proceeds from automobile and farm truck licenses to county of origin for redistribution to school districts in proportion to average daily attendance.	School districts.	24,386	Education
	n.a.	2. Of proceeds from commercial licenses and bus mileage tax, 52¼ percent distributed to counties, 2% in proportion to county road mileage and 3% in proportion to population and area; and 23¾ percent distributed to counties in proportion to county population for redistribution to cities in proportion to population.	Cities..... Counties...	2,672 5,876	} Highways.
South Carolina.....	1,004	Proceeds from motor transportation taxes distributed in proportion to population, subject to a specified minimum allocation for county seats and a specified maximum allocation for any one city.	Cities.....	810	
Utah.....	7,142	1. Amount appropriated from proceeds (\$2 million annually) plus, after deduction for State purposes, ¼ of remainder, distributed 45% in proportion to population, 45% in proportion to road or street mileage, and 10% in proportion to area.	Cities..... Counties...	1,161 2,303	} Highways.
	See above	2. Amount required from proceeds of motor vehicle license tax (additional \$1 tax), distributed as reimbursement of local expenditure for approved driver education courses, up to a specified maximum amount per pupil.	School districts.	396	
Total.....	372,450			200,030	

See footnotes at end of table.

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
<b>3. COMBINED HIGHWAY USER REVENUES</b>					
California.....	n.a.	1. \$5,400,000 times ratio of latest calendar year motor vehicle registration to such registration in 1946, distributed (1) specified amounts to certain counties at statutory percentages for snow removal, (2) specified amounts to certain counties at statutory percentages for heavy rainfall and storm damage, and (3) the remainder to all counties in proportion to motor vehicle registrations. 2. Equivalent of 1¢ per gallon of taxed gasoline distributed \$50,000 to each county (of which \$20,000 may be spent only for administrative and engineering costs) and the remainder in proportion to motor vehicle registrations. 3. Equivalent of 3/8¢ per gallon of taxed gasoline distributed (1) to counties not receiving at least \$300 per mile of maintained roads—excluding the \$20,000 allocation—from the 1¢ distribution in amounts sufficient to bring their receipts up to this level; (2) 1/2 of the remainder to all counties in proportion to motor vehicle registrations; and (3) the other half in proportion to road mileage to counties not receiving \$600 per mile of maintained road—excluding the \$20,000 allocation—from both the adjusted \$5,400,000 distribution and the 1¢ distribution. 4. Equivalent of 3/8¢ per gallon of taxed gasoline appropriated to State Highway Department and distributed to cities in proportion to population.	Counties...  Counties...  Counties...  Cities.....	13,435  56,292  21,110  33,479	Highways  Highways  Highways  Highways
Colorado.....	n.a.	After deduction for maintenance of highway patrol, 30% to counties, 1/3 in proportion to rural motor vehicle registrations and 1/3 in proportion to rural highway mileage; and 5% to cities, 2/3 in proportion to urban motor vehicle registrations and 1/3 in proportion to street mileage. <sup>5</sup>	Cities..... Counties...	4,708 12,601	} Highways.
Idaho.....	n.a.	30% of proceeds to cities and counties as follows: (a) 91% to counties of which 10% is divided equally among the counties, 45% in proportion to previous year's collection from motor vehicle license taxes, and 45% in proportion to improved highway mileage; and (b) 9% to cities in proportion to population.	Cities..... Counties...	722 7,302	} Highways.
Indiana.....	n.a.	After specified deductions, 15% of proceeds to cities on basis of population, and 32% to counties as follows: 5% equally among all counties; 65% on basis of road mileage; and 30% on basis of motor vehicle registrations.	Cities..... Counties...	20,086 42,850	} Highways.
Iowa.....	n.a.	Of the proceeds (consisting largely of the motor fuel sales tax, motor vehicle license tax, and 10% of the general sales tax), 2% for the 6 months July–December 1961 was distributed prior to any other apportionment to the cities in proportion to population; remainder distributed 8% to cities in proportion to population and 35% to counties in proportion to area.	Cities..... Counties...	12,422 33,102	} Highways.

See footnotes at end of table.



TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Maryland.....	n.a.	After distribution of motor vehicle license taxes in lieu of personal property tax and certain other deductions, 30% of proceeds distributed to city of Baltimore, and 20% to counties in proportion to county road mileage. Counties must redistribute to their cities a share equal to the proportion of county road mileage lying in each city. In certain counties, where the State maintains the county road system, the allocations are made to the State Road Commission, rather than to the local governments.	Cities..... Counties...	22,020 9,258	} High-ways.
Michigan.....	n.a.	53% of proceeds from 4½¢ motor fuel sales tax and from motor vehicle registration fees, after allocation of a specified portion for snow removal, and 25% of proceeds from 1½ cents motor fuel sales tax and from weight tax on certain vehicles, distributed 35/63 to counties and 18/63 to cities. Amount for counties distributed as follows: (a) specified flat amount to each county; (b) ¼ of the remainder distributed 75% in proportion to motor vehicle license tax collections, 10% in proportion to primary road mileage and 15% equally among counties; and (c) remainder distributed 65% in proportion to local road mileage, and 35% in proportion to rural population. Amount for cities distributed 60% in proportion to population, 29½% in proportion to major street mileage, and 10¼% in proportion to State highway mileage.	Cities..... Counties...	38,919 75,086	} High-ways.
Minnesota.....	n.a.	29% of proceeds allocated to counties and, after deductions for State administrative expenses and "disaster relief", distributed 10% equally among counties, 10% in proportion to motor vehicle registration, 30% in proportion to "State-county aid" and road mileage, and 50% in proportion to computed "money needs" for construction; and 9% of proceeds to cities, 50% in proportion to population and 50% in proportion to computed "money needs" for construction and maintenance.	Cities..... Counties...	7,979 29,034	} High-ways.
Oregon.....	n.a.	Of proceeds credited to State highway fund, 19% to counties in proportion to motor vehicle registrations and 10%, less \$250,000 deducted annually for State expenditure within cities, to cities in proportion to population, subject to limitation for city of Portland of credit for only 70% of its population in computing amount due. The limitation for Portland is to be increased at the rate of 4% per year until 1971 and succeeding years when its total population will be counted.	Cities..... Counties...	6,146 12,240	} High-ways.

See footnotes at end of table.

TABLE 78.—State Collected, Locally Shared Highway-User Taxes, 1962—Concluded

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Wisconsin.....	n.a.	1. Of proceeds from highway-user revenue in excess of specific allocations for State highway purposes and other highway aids, 18% to counties (2/3 in proportion to motor vehicle registrations and 1/3 in proportion to rural highway mileage); 18% to towns, 18% to cities and 6% to villages in proportion to amounts received for street improvement. 2. Amount appropriated from highway-user revenue, equivalent to 11% of proceeds from truck license taxes and 20% of proceeds from all other motor vehicle license taxes, distributed in proportion to collection of such taxes, subject to a minimum distribution of at least as much as local motor vehicle property tax collections in 1930. Part of amount distributed to city of Milwaukee, redistributed to school district serving that city.	Cities.....	14,410	} Highways
			Counties....	10,977	
Towns.....	10,977				
			Cities.....	4,456	} General purposes.
			Towns.....	2,127	
			School district (Milwaukee).	329	Education
Total.....	n.a.	.....	.....	502,065	.....

n.a.—Data not available.

<sup>1</sup> Excludes substantial amounts allocated to counties and cities but not distributed by June 30, 1962.

<sup>2</sup> Includes an amount redistributed to cities.

<sup>3</sup> Includes an amount for cities.

<sup>4</sup> Includes an amount for Los Alamos County.

<sup>5</sup> After January 1, 1963, county share is 26% and city share, 9%.

Source: U.S. Bureau of the Census, *State Payments to Local Governments*, 1962 Census of Governments, Vol. VI, No. 2.

paid when the motor vehicles are registered. State selective sales tax rates on motor vehicles range from 1½ percent of retail sales price in New Mexico to 3 percent in Vermont and West Virginia. Six of these 8 States (Maryland, Oklahoma, New Mexico, South Dakota, Texas, and West Virginia) and the District of Columbia with selective motor vehicle sales taxes include in their general sales tax base automotive parts and accessories, but exclude motor vehicles. The other 2 States, Montana and Vermont, do not have a general sales tax. Motor fuel is subject to the general sales tax in only 7 States.

Twenty-one States include motor vehicles in the general property tax base, and in 10 States (including Kentucky, which also taxes them under the general property tax laws) they are subject to special property taxes at uniform statewide rates.

Nevada shifted from general to special property taxation in 1963. The general property taxes on motor vehicles are locally administered in all States, and in only 4 States (California, Kentucky, Nevada, and Washington) are the special property taxes State-collected. California, Nevada, and Washington share the proceeds from the special property taxes with their local governments.

#### *Federal and State Aid for Highways*

The Federal Government has been making grants for highway construction to the States since 1916. Until 1956, these grants had been made from the general funds of the Federal Government. But in that year, in conjunction with the enactment of the Federal-Aid Highway Act of 1956, the collections from the Federal motor-fuel taxes and from certain other

Federal automotive taxes were earmarked for the Federal Highway Trust Fund. In 1963 Federal highway grants to the States from this fund totaled \$3.0 billion.

The States also earmark part of their revenue from automotive taxes for highway aid to the local governments. In 1963 State intergovernmental expenditures on highways totaled \$1.4 billion. Table 78

details State highway-user tax receipts shared with local governments for 1962. Not much significance can be attached to the effect of these intergovernmental transfers, however, since all expressways or roads constructed or maintained by one level of government are also physically located within the jurisdiction of other subordinate governmental units.

## Chapter 12

### TOBACCO TAXES

Total governmental revenue from tobacco taxes in 1962 was \$3,160 million, divided among the three levels of government as follows:

	<i>Amount (millions)</i>	<i>Percent distribution</i>
Federal.....	\$2,022	64.0
State.....	1,075	34.0
Local.....	63	2.0
Total.....	3,160	100.0

About two-thirds of all tobacco taxes accrued to the Federal Government, the other one-third going almost entirely to the States. A third of the \$63 million tobacco taxes collected by local governments went to Florida municipalities, where the local tax is allowed as a credit against the State tax. Most of the remainder was collected by New York City (\$24 million).

Cigarettes are the primary source of revenue from the taxation of tobacco products. They are taxed (as of January 1, 1964) by the Federal Government, 47 States, the District of Columbia, and some 500 municipalities in 8 States (including over 300 in Florida). By contrast, only 17 States, a few local governments, and the Federal Government impose taxes on other tobacco products. The three States totally without tobacco taxes on January 1, 1964 were Colorado, North Carolina, and Oregon. In Colorado, however, a number of municipalities impose them under home rule powers.<sup>1</sup>

<sup>1</sup> Colorado has adopted a 3-cent State cigarette tax effective July 1, 1964. The authority of municipalities to impose such taxes was left undisturbed.

#### *Administration of Tobacco Tax Collections*

Federal tobacco taxes are collected directly from the manufacturer, while State taxes are collected from wholesale distributors of tobacco products (jobbers). All but four of the States imposing cigarette and/or tobacco taxes require that stamps be affixed to the packages as evidence of tax payment. The Federal Government, Alaska, Hawaii, Massachusetts, and Michigan do not use stamps.

All States except Hawaii allow distributors a discount, based either on the face value of stamps purchased or on the liability, to defray the cost of affixing stamps and other expenses incurred in complying with tobacco tax regulations. Discounts range from one-half of 1 percent in Massachusetts (for chain stores; the allowance for wholesalers is 2 percent) to 10 percent in Mississippi (table 79). There is no discount under the Federal tobacco excise.

As State cigarette tax rates have increased over the past decade, discounts have tended to drop to reduce the amount of windfall given distributors, since a higher tax rate increases the denomination of the tax stamp and the amount of capital immobilized, without necessarily adding to the tax compliance burden. It is estimated that distributors realized almost \$40 million from discounts on State cigarette taxes in 1962.

In conjunction with their tobacco taxes, most States require the annual licensing of tobacco distributors, wholesalers, and re-

TABLE 79.—State Cigarette Tax Revenue and Discounts, Calendar Year 1962  
(Dollar amounts in thousands)

State	Estimated gross revenue	Discount rate (percent)	Estimated amount retained by distributors	Net revenue <sup>1</sup>
Alabama	\$18,570	7.5	\$1,393	\$17,177
Alaska	2,071	1.0	21	2,050
Arizona	3,718	5.0	186	3,532
Arkansas	10,943	6.0	657	10,286
California	72,874	2.0	1,457	71,417
Colorado				
Connecticut	19,622	<sup>2</sup> 3.1	608	19,014
Delaware	3,892	3.0	117	3,775
District of Columbia	3,773	6.0	226	3,547
Florida	37,142	<sup>2</sup> 5.0	1,857	35,285
Georgia	21,764	3.0	653	21,111
Hawaii	2,378			<sup>3</sup> 2,378
Idaho	4,079	5.0	204	3,875
Illinois	58,499	<sup>2</sup> 5.0	2,925	55,574
Indiana	20,827	<sup>2</sup> 7.5	1,562	19,265
Iowa	12,602	5.0	630	11,972
Kansas	10,156	5.0	508	9,648
Kentucky	9,759	6.0	586	9,173
Louisiana	29,801	9.0	2,682	27,119
Maine	8,367	3.0	251	8,116
Maryland	23,169	5.0	1,158	22,011
Massachusetts	43,660	<sup>4</sup> 0.5-2.0	799	42,861
Michigan	59,659	1.0	597	59,062
Minnesota	26,521	<sup>2</sup> 2.5	663	25,858
Mississippi	13,276	10.0	1,328	11,948
Missouri	22,731	3.0	682	22,049
Montana	6,569	5.0	328	6,241
Nebraska	6,867	5.0	343	6,524
Nevada	4,665	4.0	187	4,478
New Hampshire	4,616	5.0	231	4,385
New Jersey	61,655	<sup>2</sup> 3.0	1,850	59,805
New Mexico	7,768	<sup>2</sup> 4.0	311	7,457
New York	127,475	<sup>5</sup> 2.4-2.8	3,509	124,416
North Carolina				
North Dakota	3,968	5.0	198	3,770
Ohio	65,319	2.67	1,744	63,575
Oklahoma	19,264	4.0	771	18,493
Oregon				
Pennsylvania	84,718	<sup>2</sup> 1.5	1,271	83,447
Rhode Island	7,552	4.0	302	7,250
South Carolina	10,757	5.0	538	10,219
South Dakota	3,865	<sup>2</sup> 7.0	271	3,594
Tennessee	20,146	<sup>2</sup> 5.0	1,007	19,139
Texas	90,664	5.0	2,040	88,624
Utah	2,628	<sup>2</sup> 5.0	131	2,497
Vermont	3,641	<sup>2</sup> 3.75	137	3,504
Virginia	15,261	5.0	763	14,498
Washington	20,983	2.5	525	20,458
West Virginia	12,070	4.0	483	11,587
Wisconsin	26,812	<sup>2</sup> 3.125	838	25,974
Wyoming	1,818	6.0	109	1,709
Total	1,148,934		39,187	1,109,747

<sup>1</sup> Differs from Census data because of difference in reporting period and exclusion here of tobacco taxes other than on cigarettes.

<sup>2</sup> Revised discount rates were enacted in 1963, as follows: Connecticut, 2.7%; Florida, 5% on first \$160,000 tax and 3½% on excess; Illinois, 5% on first \$700,000 tax, 4% on next \$700,000, and 3% on excess; Indiana, 6%; Minnesota, 3¼% on first \$150,000 tax and 2.5% on excess; New Jersey, 2.8%; New Mexico, 4% on first \$24,000 tax (monthly), 3% on next \$24,000, and 2% on excess; Pennsylvania, 3%;

South Dakota, 5%; Tennessee, 4.15%; Utah, 4%; Vermont, 3.5%; Wisconsin, 2.6%.

<sup>3</sup> Includes an unsegregable amount from tobacco taxes other than on cigarettes.

<sup>4</sup> One-half percent for chain stores, 1% for vending machine operators, and 2% for wholesalers.

<sup>5</sup> 2.4% on first \$300,000 tax, 2.8% on excess.

Source: National Tobacco Tax Association, *Comparative Tobacco Tax Collections 1962*, (RM-375, July 1963), Table V.

TABLE 80.—State Cigarette Tax Rates as of January 1—1952 through 1964  
(cents per standard package of 20)

State	1952	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Alabama	3			4				6				6
Alaska	3			5						8		8
Arizona	2											2
Arkansas	6											6
California	—	—	—	—	—	—	—	3				3
Colorado <sup>1</sup>	—	—	—	—	—	—	—	—	—	—	—	—
Connecticut	3									5		6
Delaware	2	3								5		5
Dist. of Col.	1		2									2
Florida	5											8
Georgia	3			5								5 <sup>3</sup>
Hawaii												
Idaho	3			4				5		6		7
Illinois	3							4	3	4		4
Indiana	3											4
Iowa	2	3						4				5
Kansas	3					4						4 <sup>3</sup>
Kentucky	4		3						2½			2½ <sup>2</sup>
Louisiana	8											8
Maine	4			5						6		6
Maryland	—	—	—	—	—	—	3			6		6
Massachusetts	5						6					6
Michigan	3					5			6	5	7	8
Minnesota	4							5½		7		7
Mississippi	4			5			6				8	8 <sup>5</sup>
Missouri	—	—	—	2						4		4
Montana	4					8						8
Nebraska	3					4						6
Nevada	3									7		7
New Hampshire												
New Jersey	3				5					7		8
New Mexico	4			5						8		8
New York	3							5				5
North Carolina	—	—	—	—	—	—	—	—	—	—	—	—
North Dakota	6											7
Ohio	2				3			5				5
Oklahoma	5									7		7
Oregon	—	—	—	—	—	—	—	—	—	—	—	—
Pennsylvania	4			5				6				8
Rhode Island	3						5		6			6 <sup>6</sup>
South Carolina	3							5				5
South Dakota	3			3¼				5				6
Tennessee	5											7
Texas	4			5				8				8
Utah	2		4									8
Vermont	4					5		7				8
Virginia	—	—	—	—	—	—	—	—	3			3
Washington	7			8				6		7		7
West Virginia	4				5					6		6
Wisconsin	3			4		5				6		8
Wyoming	2					3		4				4
No. of States with tax <sup>9</sup>	44	44	44	45	45	45	46	47	48	48	48	48

Note: A blank space (.....) indicates no rate change since previous rate shown. A dash (—) indicates no cigarette tax was in effect as of January 1.

<sup>1</sup> Colorado enacted a 3¢ tax, effective July 1, 1964.

<sup>2</sup> Increased to 8¢, effective March 1, 1964.

<sup>3</sup> Increased to 6¢, effective April 1, 1964.

<sup>4</sup> Prior to July 1, 1954 the statutory rate was 1¢ for each 10¢ or fraction of the retail price.

<sup>5</sup> Increased to 9¢, effective July 1, 1964.

<sup>6</sup> Increased to 8¢, effective June 1, 1964.

<sup>7</sup> The statutory rate was 2¢ for each 10¢ or fraction of the retail price.

<sup>8</sup> The statutory rate was 2½¢ for each 10¢ or fraction of the retail price.

<sup>9</sup> Includes District of Columbia; also includes Alaska and Hawaii for the period prior to attaining statehood.

TABLE 81.—State Cigar Tax Rates, January 1, 1964

State	Weighing not more than 3 pounds per 1,000 (tax per 1,000)	Weighing more than 3 pounds per 1,000		Tax per 1,000
		Intended retail price (cents)		
		Over	Not over	
Alabama	\$2.00		3 1/3	\$1.50
		3 1/3	5	3.00
		5	8	4.50
		8	10	7.50
		10	20	15.00
		20		20.25
Arizona	\$1.00		5	3.33 1/3
		5		10.00
Georgia	\$2.00		3 1/3	1.50
		3 1/3	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
Minnesota	10 percent of wholesale price	10 percent of wholesale price		
Mississippi	(1)		3 1/3	1.60
		3 1/3	5	3.20
		5	8	4.80
		8	10	8.00
		10	20	16.00
		20		22.40
New Hampshire	15 percent of retail price	15 percent of retail price		
North Dakota	10 percent of wholesale price	10 percent of wholesale price		
Oklahoma	\$3.50		3 1/3	10.00
		3 1/3		20.00
South Carolina	\$1.00		5	1.00
		5		10.00
Tennessee	\$1.00		3 1/3	1.00
		3 1/3	5	2.00
		5	9	3.00
		9	10	5.00
		10	20	10.50
		20		13.50
Texas	\$1.00		3 1/3	7.50
		3 1/3		15.00
Utah	25 percent of mfr's. price	25 percent of manufacturer's price		
Vermont	20 percent of wholesale price	20 percent of wholesale price		
Virginia	\$1.00		3 1/3	1.00
		3 1/3	5	2.00
		5	8	3.00
		8	10	5.00
		10	20	10.00
		20		13.50
Washington	25 percent of wholesale price	25 percent of wholesale price		

<sup>1</sup> The rates are the same as those shown for large cigars.

tailers. Ordinarily these fees are nominal in amount and are imposed to facilitate tax administration.

*State and Federal Tax Rates*

Cigarette taxes are imposed by the Fed-

eral Government at \$4 per thousand, or 8 cents per standard package of 20, and by the States at rates ranging from 2 cents to 8 cents per standard package. Only two States (Hawaii and New Hampshire) base their cigarette taxes directly on gross sales.

TABLE 82.—State Tax Rates on Smoking and Chewing Tobacco and Snuff, January 1, 1964

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 1⅓¢ 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.....	10 percent of wholesale price..	10 percent of wholesale price..	2¢ per 1¼ oz. or fraction.
Oklahoma.....	25 percent of factory list price.	20 percent of factory list price.	
South Carolina.....	1¢ per package retailing for 5¢ or less, plus 1¢ for each additional 5¢ or fraction of retail price.	1¢ per 3 oz. or fraction.....	1¢ per 3 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.	
Utah.....	25 percent of manufacturer's price.	25 percent of manufacturer's price.	25 percent of manufacturer's 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.

The State cigarette tax rates, as of January 1, 1964, are shown in table 80, and were distributed, by rate, as follows:

Rate (cents)	No. of States <sup>1</sup>
2.....	2
2½.....	1
3.....	2
4.....	5
5.....	6
6.....	10
7.....	7
8.....	13

<sup>1</sup> Includes District of Columbia, but excludes Hawaii, which has a rate of 20 percent of wholesale price (estimated at about 3.7 cents per standard package of 20), and New Hampshire, with a rate of 15 percent of retail price (about 3 cents per standard package).

State cigarette tax rates have been creeping upward steadily in recent years (table 80). The most common rate is now 8 cents per standard package. Two years ago only 5 States levied that rate; by the end of 1963, 13 States matched the 8 cents Federal rate. In none of those 13 States, except Florida and New Jersey (Atlantic City), do local governments impose cigarette taxes. And in Florida, municipal cigarette taxes are not additional to the

State tax but are credited in full against it.

The recent emphasis on the health hazards of smoking has occasioned some curtailment of State cigarette tax revenues. Similar experience in earlier years materialized in only temporary declines, partly because of the tendency toward higher State tax rates—a trend that can be expected to continue.

A total of 17 States tax cigars (table 81). In seven 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) 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 are graduated according to the intended retail price. In 10 States large cigars are taxed at rates graduated accord-



TABLE 83.—*Local Cigarette Tax Rates, January 1, 1964*<sup>1</sup>  
(per standard package of 20 cigarettes)

State	State rate (cents)	1¢	2¢	3¢	4¢	5¢
Alabama:	6					
99 municipalities <sup>2</sup> .....		11	83	4	1	
6 counties.....		2	2	2		
Colorado: 33 municipalities.....		2	24	7		
Florida: Municipalities <sup>3</sup> .....	8					
Missouri: 38 municipalities.....	4	1	33	2	1	1
New Jersey: 1 municipality (Atlantic City).....	8		1			
New York: 1 municipality (New York).....	5				1	
Tennessee:	7					
1 municipality (Memphis).....		1				
1 county (Shelby County) outside corporate limits of Memphis.....		1				
Virginia: 6 municipalities.....	3		5	1		

<sup>1</sup> A total of 18 counties and municipalities in 4 of the States listed (Alabama, Colorado, Florida, and New Jersey) levy taxes on other tobacco products as well, as do 1 city and 2 counties in Maryland. Over 1/2 of these are in Alabama.

<sup>2</sup> The rates shown apply only in the town or city. Rates in police jurisdictions are generally lower, usually 1/2 the city or town rate.

<sup>3</sup> The municipal 8¢ tax is allowed as a tax credit against the 8¢ State tax.

ing to the intended retail price. The specific rates on small cigars range from \$1 to \$3.50 per thousand, or one-half cent to 1 3/4 cents per standard package of five cigars. Taxes on large cigars intended to retail at 10 cents each range from 2 1/2 cents to 10 cents per standard package of five cigars. The Federal tax on large cigars varies from \$2.50 to \$20 per thousand, depending on the intended retail price. Small cigars are taxed at the rate of 75 cents per thousand.

Smoking tobacco, chewing tobacco, and snuff are subject to State excises in 15, 14, and 12 States, respectively (table 82). These taxes generally are either of the ad valorem variety (a specified percentage of either the retail, wholesale, or factory list price) or the specific type (a specified amount per given weight). Some States employ rates graduated according to weight or retail price. The Federal Government taxes the manufacture of tobacco, including chewing tobacco and snuff, at 10 cents a pound.

Thirty-five of the 47 States with cigarette taxes employ also a general sales tax. Only 13 of these exempt cigarette sales

from the general sales tax. Among the States that tax cigars, smoking tobacco, chewing tobacco, and snuff, 13 levy a general sales tax, and only 4 of the 13 (North Dakota, Oklahoma, Tennessee, and Texas) exempt sales of these tobacco products from their general sales tax. Some of the States which subject tobacco sales to their general sales tax exclude Federal and State tobacco taxes from the sales tax base.

#### *Local Cigarette Taxes*

Cigarette and other tobacco taxes are levied by some 500 municipalities and counties in at least 8 States, namely, Alabama, Colorado, Florida, Missouri, New Jersey (Atlantic City only), New York (New York City only), Tennessee (Memphis and Shelby County only), and Virginia (table 83). A large number of municipalities in Alabama and, as already noted, virtually all incorporated 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.

TABLE 84.—State Collected, Locally Shared Cigarette Taxes, 1962

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
Alaska.....	\$1,895	After allocation of part to State schools: (a) a specified amount to each school unit, and (b) the remainder, 1/2 in proportion to average daily attendance and 1/2 in proportion to number of professional employees.	Cities..... School districts.	\$294 881	School construction.
Kansas.....	9,498	37 1/2% to counties in proportion to population, and 1/2 of each county's share redistributed among cities in proportion to population.	Cities..... Counties...	1,795 1,795	General purposes.
Louisiana.....	<sup>1</sup> 27,943	37 1/2% in excess of \$1 million: (a) to cities at specified rates per capita, graduated according to population size of city; (b) any surplus remaining to parishes in which there are no incorporated municipalities, at a specified rate per capita; and (c) any additional surplus remaining is used to increase the per capita allocations to cities. From the remaining 62 1/2%, an additional 50¢ per capita to cities of over 100 thousand population.	Cities and parishes.	19,938	Do.
Maryland.....	22,456	1/2 to city of Baltimore and counties on basis of population.	City..... Counties...	3,605 7,649	Do.
Minnesota.....	24,294	1/4 to cities and counties in proportion to population.	Cities..... Counties...	3,887 1,746	
Nevada.....	4,253	5 1/2% to county of origin and 28 1/2% to cities and counties in proportion to population.	Cities..... Counties...	834 603	Do.
New Mexico.....	7,043	1/8 to city and county of origin.....	Cities..... Counties...	758 66	Recreation. General purposes.
North Dakota.....	<sup>1</sup> 3,706	1/2 mill per cigarette distributed in proportion to population.	Cities.....	551	
Wyoming.....	1,737	All to city or county of origin.....	Cities..... Counties...	1,538 126	Do.
Total.....	102,825	.....	.....	36,066	.....

<sup>1</sup> Includes an amount from taxes on tobacco products other than cigarettes.

Source: U.S. Bureau of the Census, *State Payments to*

*Local Governments*, 1962 Census of Governments, Vol. VI, No. 2.

The State collects the tax, withholds 4 percent of collections to cover administrative costs, and returns the balance to the municipalities in proportion to actual sales. The proceeds of the State tax in areas outside the municipalities are reserved for the State.

Of the eight States in which localities levy cigarette taxes, four (New Jersey, New York, Tennessee, and Virginia) permit only specified local governments to do so. In the other four States local cigarette taxes are levied under broader State statutory authority, including home rule powers in the case of Colorado municipalities. Specifically prohibited by State

law from imposing cigarette taxes are local governments in 10 States (California, Iowa, Kansas, Maryland, Mississippi, Nevada, New Mexico, Washington, West Virginia, and Wyoming).

Most local cigarette tax rates range between 1 and 3 cents per standard package of 20 cigarettes. The most common rate is 2 cents, except in Florida, where, as already noted, an 8-cents-per-standard-package rate is uniform throughout the State and is in reality a State-collected, locally shared tax. The aggregate (Federal, State, and local) cigarette tax rate now ranges from 8 cents per standard package in North Carolina and Oregon (where

neither State nor local taxes are imposed) to 18 cents per standard package in one Alabama and one New Jersey municipality.

### *Shared Taxes*

As an alternative to specifically authorizing local cigarette taxes nine States share their taxes directly with cities and counties (not including the Florida taxes described above). In most instances, shared State

cigarette taxes are distributed in proportion to population, but three States return all or part of the local share to the localities in which the tax collections originated. The nine States distributed a total of \$36.1 million to local governments in 1962 under direct cigarette tax sharing provisions, about one-third of their cigarette tax collections. Details are shown in table 84.

## Chapter 13

### 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. In addition, many of the States having general sales and use taxes apply them to sales of the alcoholic beverages, which are subject also to the higher rate special excises.

Federal taxes on distilled spirits and beer have been in effect continually since 1862. Wine has been taxed by the Federal Government since 1914. State excise taxation of alcoholic beverages is of more recent origin. Prior to prohibition, the States derived revenue from alcoholic beverages by means of license fees. After prohibition, they rapidly imposed excise taxes or set up monopoly distribution systems. Most municipalities and some counties derive revenue from license fees, and an increasing, albeit still small, number also levy excise taxes on alcoholic beverages.

In the fiscal year 1962 the Federal, State, and local governments received an estimated \$4.5 billion revenue from alcoholic beverages, as follows (in millions):

Source	Federal	State	Local	Total
Excises.....	\$3,248	\$740	\$25	\$4,013
Licenses.....	20	91	53	164
Monopoly profits <sup>1</sup> .....	—	252	22	274
Total.....	3,268	1,083	100	4,451

<sup>1</sup> Net revenue of state and local liquor stores.

The Federal share was \$3.3 billion, constituting the largest single source of Federal excise revenue, despite its decline in recent years relative to both total Federal excise and total Federal tax revenue. The States' share was \$1.1 billion, of which \$740 million represented excise taxes levied generally in conjunction with the licensing system of alcoholic beverage distribution, although some States with monopoly systems of liquor distribution also impose excises. State license taxes contributed \$91 million. Profits on the operation of liquor stores in the States with monopoly systems added another \$252 million to alcoholic beverage revenues. Local governments collected an estimated \$100 million revenue from alcoholic beverages, of which about half represented occupational license fees, the balance divided about equally between excises and liquor store monopoly profits. Local governments in 24 States obtained another \$100 million from the redistribution (sharing) of State alcoholic beverage revenues, of which two-thirds came from State excise and license receipts and a third from monopoly profits (table 85).

#### *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

TABLE 85.—State Collected, Locally Shared Alcoholic Beverage Revenues, 1962

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
1. EXCISE TAXES					
Alabama .....	\$4,259	¼ of proceeds of beer gallonage tax distributed equally among counties.	Counties ...	\$1,013	General purposes. Do.
Indiana .....	14,071	½ of proceeds from gallonage tax on alcoholic beverages to cities in proportion to population.	Cities .....	3,326	
Kansas .....	n.a.	¾ of proceeds from 2½% retail sales tax to counties, ½ in proportion to population and ½ in proportion to assessed valuation. Each county redistributes ½ of its share to cities in proportion to population.	Cities .....	512	} Do.
			Counties ...	512	
Maryland .....	7,379	Share of proceeds equal to 50 cents per gallon of distilled spirits sold in city of Baltimore and counties returned to city of Baltimore and county of origin.	City .....	1,069	} Do.
			Counties ...	1,336	
Minnesota .....	19,568	30% of proceeds from alcoholic beverage excises to cities and townships in proportion to population.	Cities .....	2,634	} Do.
			Townships ..	1,184	
Montana .....	n.a.	Proceeds from 4% tax on retail liquor sales to counties in proportion to gross sales in county. County retains ¼ and distributes remainder to municipalities in county in proportion to gross sales in municipality.	Cities .....	503	} Law enforcement and liquor control.
			Counties ...	168	
North Carolina .....	21,217	47½% of proceeds from tax on beer and 50% of proceeds from tax on fortified wine to cities and counties in which sale of such beverages may be licensed, on basis of population.	Cities .....	1,427	} General purposes.
			Counties ...	1,564	
Oklahoma .....	12,090	⅓ of 97% of proceeds of alcoholic beverage excise tax distributed to counties in proportion to area and population and redistributed to cities and towns in proportion to population.	Cities .....	1,849	Do.
Oregon .....	1,513	1. ⅔ (30¢ of each \$1.30 tax) of proceeds from tax on malt beverages and 10% of proceeds from tax on wine distributed to cities and counties not prohibiting sale of liquor, in proportion to population.	Cities .....	155	} Do.
			Counties ...	126	
	See above	2. 75% of proceeds of alcoholic beverage sales taxes remaining after distribution to cities and counties for general purposes and less administrative expenses of the State Liquor Control Commission, distributed in proportion to population.	Counties ...	900	Public welfare.
Rhode Island .....	623	50% of proceeds from manufacturers' excise tax on alcoholic beverages in proportion to population.	Cities .....	187	} General purposes.
			Towns .....	90	
South Carolina .....	17,167	20% of proceeds of liquor excise taxes to counties and 15% to cities in proportion to population.	Cities .....	1,421	} Do.
			Counties ...	1,895	
	8,567	7% of proceeds of beer and wine excise taxes to counties and 8% to cities in proportion to population.	Cities .....	596	} Do.
			Counties ...	522	
South Dakota .....	1,950	½ of proceeds distributed to cities and towns in proportion to population.	Cities .....	975	Do.
Tennessee .....	3,121	1. ⅔ of proceeds of beer excise taxes equally among counties and ⅓ of proceeds to cities in proportion to population.	Cities .....	341	} Do.
			Counties ...	341	

See footnotes at end of table.

TABLE 85.—State Collected, Locally Shared Alcoholic Beverage Revenues, 1962—Continued

State	Tax revenue (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
	6,045	2. After deduction of 15% of proceeds from tax on products of Tennessee distilleries (distributed to county of origin) 1/2 proceeds from tax of 25¢ per gallon of wine and 70¢ per gallon of distilled spirits, and 35% proceeds from additional tax of 35¢ per gallon of wine and \$1.00 per gallon of distilled spirits distributed to counties, 3/4 in proportion to population and 1/4 in proportion to area; except that in certain counties, 60% of their shares from the additional taxes must be redistributed to certain of their cities.	Cities <sup>1</sup> ..... Counties...	123 1,983	} Do.
Virginia.....	913	3/5 of proceeds from wine excise tax to cities and counties in proportion to population.	Cities..... Counties...	209 358	} Do.
Washington.....	19,458	35% of proceeds of alcoholic beverage sales tax distributed 1/5 to "wet" counties in proportion to rural population, and 4/5 to "wet" cities in proportion to population.	Cities..... Counties...	3,046 761	} Do.
Wisconsin.....	15,625	After deduction of 7/10 cost of State administration, 50% of proceeds of alcoholic beverage sales tax in proportion to population.	Cities and towns.	5,952	
Total.....	145,801	.....	.....	37,078	.....

2. LICENSE TAXES

Alaska.....	\$291	All to city of origin.....	Cities.....	\$299	General purposes.
Arizona.....	375	1/3 distributed to county of origin.....	Counties...	154	Do.
California.....	13,250	90% to city and county of origin.....	Cities..... Counties...	7,616 1,877	} Do.
Indiana.....	5,000	2/3 of proceeds from retail licenses issued for businesses in cities to city of origin; and 2/3 of proceeds from retail licenses for businesses outside cities to county of origin.	Cities <sup>2</sup> .....	2,296	Do.
Ohio.....	9,186	Proceeds from liquor control permits to city of origin or to township of origin (where permits originate outside municipalities).	Cities..... Townships.	7,488 1,567	} Do.
Oregon.....	604	1. 60% to city of origin or to county of origin (where licensee is located outside incorporated city).	Cities..... Counties...	268 102	} Do.
	n.a.	2. 1/2 of proceeds in proportion to population. (Liquor purchase permits.)	Cities.....	165	Do.
Pennsylvania.....	8,151	Proceeds from specified license taxes distributed to city, borough, or township of origin.	Cities and boroughs. Townships.	4,847 1,214	} Do.
South Dakota.....	391	1/2 of proceeds from taxes on nonintoxicating beer and wine, less certain deductions, in proportion to population.	Counties...	139	Public welfare.
Total.....	37,248	.....	.....	28,032	.....

See footnotes at end of table.

TABLE 85.—State Collected, Locally Shared Alcoholic Beverage Revenues, 1962—Concluded

State	Monopoly profits <sup>3</sup> (thousands)	Distribution formula	Recipient local governments	Amount distributed (thousands)	Local use of funds
3. MONOPOLY PROFITS					
Alabama.....	\$3,908	Of the first \$2 million, 10% is divided equally among the counties, 20% to cities in which stores are located in proportion to profits of such stores. The next \$200 thousand to all cities and towns in proportion to population. Remainder as follows: 10% to counties in proportion to population; 16⅔% to all cities and towns in proportion to population; and 3⅓% to cities in which stores are located, in proportion to population.	Cities..... Counties...	\$1,993 897	} General purposes.
Idaho.....	\$3,538	7½% to cities and villages on population basis. 50% to counties in proportion to population. In counties with junior college districts, ½ of their share to such districts, and ½ of remainder to cities on population basis. In all other counties, ½ of their share to cities on population basis.	Cities..... Counties... School districts.	1,383 1,046 158	
Iowa.....	\$13,241	1. Amount equal to 5% of gross sales in proportion to population. 2. Military service tax credit reimbursement: Amount equal to 5% of gross sales to all taxing units in proportion to their losses arising from military service tax credits.	Cities..... All taxing units.	2,212 2,230	} General purposes. Do.
Oregon.....	\$18,010	After specified deduction, 12½% to "wet" cities and 5% to "wet" counties in proportion to population.	Cities..... Counties...	2,306 927	
Utah.....	\$4,794	First \$1 million of profits in excess of \$2,250 thousand distributed in proportion to population.	Cities..... Counties...	734 266	Do.
Virginia.....	\$14,886	⅔ of profits, after certain deductions, to cities and counties in proportion to population.	Cities..... Counties...	5,201 6,405	Do.
Washington.....	\$24,013	After deduction of up to \$500 thousand for administration of liquor control, 10% to "wet" counties in proportion to population of unincorporated areas, and 40% to "wet" cities in proportion to population.	Cities..... Counties...	8,040 2,010	Do.
Total.....	\$82,390			35,808	

n.a.—Data not available.

<sup>1</sup> Nashville and Memphis only.

<sup>2</sup> Includes an amount for counties.

<sup>3</sup> Net revenue of State liquor stores.

Source: U.S. Bureau of the Census, *State Payments to Local Governments*, 1962 Census of Governments, Vol. VI, No. 2.

law are scheduled to expire on July 1, 1965. 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 a barrel, compared with the previous tax of \$8. Light wines are taxed at 17 cents a gallon and fortified wines at 67 cents, compared with previous rates of 15 and 60 cents, respectively. The rate of \$2.25 a 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 a gallon, depending on whether the wine is artificially or naturally carbonated. Liqueurs and cordials are taxed at the rate of \$1.92 a gallon.

The Federal Government also levies an-

nual occupational taxes on retail and wholesale dealers, brewers, and rectifiers. Retail dealers in beer pay an annual tax of \$24; retailers of liquor pay \$54 yearly. The comparable rates for wholesale dealers in beer and liquor are \$123 and \$255, respectively. Brewers pay occupational taxes of \$110 annually for each brewery (\$55 if it produces less than 500 barrels a year), manufacturers of stills pay \$55 yearly, plus \$22 per still or condenser for distilling, and rectifiers of distilled spirits or wine pay yearly occupational taxes of \$220 (\$110, if less than 20,000 proof gallons per year).

### *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, and all of these States levy a gallonage tax on distilled spirits except Hawaii, which imposes an ad valorem tax (table 86). Gallonage excises range from \$1 per gallon (excluding warehouse charges) in Georgia to \$4 per gallon in Alaska, with a median rate of \$1.68.<sup>2</sup> Hawaii's 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.

Between the 1959 and 1963 State legislative sessions, tax-rate increases applicable to distilled spirits have occurred in 18 of the 32 license States and the District of Columbia. In nine States present excise tax rates on distilled spirits are no higher than they were ten years ago (table 87).

Seventeen States exercise monopoly rights over the distribution of distilled

<sup>2</sup> Effective March 1, 1964 the rate in Georgia has been increased to \$3.75 per gallon and the warehouse charge has been eliminated.

spirits, and one State (Mississippi) prohibits the sale of all alcoholic beverages except those of low alcoholic content.<sup>3</sup> Of the 17 monopoly States, 16 have State-operated stores. North Carolina has county- and municipally-operated stores supervised by the State. Eleven of the monopoly States (Alabama, Michigan, Montana, North Carolina, Ohio, Pennsylvania, Utah, Vermont, Virginia, Washington, and Wyoming) levy also 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 88). Most States tax both light and strong beer at the same rate. The rates range from 62 cents a barrel in Wyoming to over \$13 a barrel in Alabama, Mississippi, and South Carolina. The rates are less than \$2 a barrel in approximately one-third of the States, and less than \$3 a barrel in 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 (containing not more than 14 percent alcohol) and fortified wines (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 89). The rates on light wines are less than 30 cents a gallon in 19 States, and on fortified wines are at least 50 cents a gallon in 19 States. A few of the license States (Arkansas, Kansas, Massachusetts, and South Dakota) 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 sub-

<sup>3</sup> For a list of these States, see footnote to table 86.



TABLE 86.—State Tax Rates on Distilled Spirits, January 1, 1964<sup>1</sup>  
(Per gallon)

\$1 to \$1.50	\$1.50 to \$2	\$2 to \$2.50	\$2.50 to \$3	\$4	16 percent of wholesale price
Arizona Delaware Georgia <sup>6</sup> Kansas <sup>8</sup> Kentucky <sup>11</sup> Missouri Nevada South Dakota <sup>14</sup>	California Colorado Illinois Louisiana Maryland Nebraska New Jersey New Mexico New York Texas District of Columbia	Connecticut Indiana <sup>6</sup> Massachusetts <sup>9</sup> Oklahoma Rhode Island <sup>13</sup> Wisconsin	Arkansas <sup>2</sup> Florida <sup>3</sup> Minnesota <sup>4</sup> North Dakota <sup>7</sup> South Carolina <sup>10</sup> Tennessee <sup>12</sup>	Alaska	Hawaii
Total ..... 8	..... 10	..... 6	..... 6	..... 1	..... 1

<sup>1</sup> 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- and municipally-operated stores supervised by the State; and Mississippi prohibits the sale of distilled spirits. The rates used in this table are those applicable to distilled spirits of standard alcoholic content.

<sup>2</sup> There is a 5¢ per gallon additional tax on the blending, rectifying, or mixing and transportation of distilled spirits, and also a wholesaler's tax of 20¢ per case. Arkansas also levies a 3-percent tax on retail receipts from sales of liquor, cordials, liqueurs, specialties, and wines.

<sup>3</sup> Includes a tax of \$1.53, and two additional taxes of 72¢ and 25¢. The tax on distilled spirits containing more than 48 percent alcohol by weight is \$5, consisting of a basic tax of \$3.06, and 2 additional taxes of \$1.44 and 50¢.

<sup>4</sup> Includes a 15-percent surtax effective through June 30, 1965.

<sup>5</sup> Excludes a \$2.25 per gal. warehouse charge. The tax on distilled spirits manufactured in the State is 50¢ per gallon. Effective Mar. 1, 1964, the rate on distilled spirits has been increased from \$1 to \$3.75 per gal., that on distilled spirits manufactured in the State has been increased from 50¢ to \$1.875 per gal., and the warehouse charge has been eliminated.

ject to general sales taxes as well as excises. The 32 States that use the license system for the distribution of distilled spirits and the 4 liquor monopoly States (North Carolina, Ohio, Oregon, and Washington) and Mississippi that use it for the distribution of some or all wines impose excises on these beverages. Twenty-three of these same States overlap their alcoholic beverage excise taxes with general sales taxes that include alcoholic beverages in their tax base. Another 6 of the license States (Colorado, Kansas, North Carolina, North Dakota, South Dakota, and Texas) also

<sup>6</sup> Includes an enforcement tax of 8¢ per gallon.

<sup>7</sup> 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.

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

<sup>9</sup> Includes a temporary additional tax of 25¢ per gallon scheduled to expire on June 30, 1965. In addition, every corporation, association or organization which is licensed by any city or town to sell alcoholic beverages, except certain corporations and chartered veterans' organizations maintaining quarters for the exclusive use of members, is taxed on the gross receipts from the sale of alcoholic beverages at the rate of ¼ of 1 percent, plus a 23-percent surtax.

<sup>10</sup> Also, wholesalers of alcoholic beverages are taxed at the rate of \$4 per case.

<sup>11</sup> 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.

<sup>12</sup> In addition, a tax of 15¢ per case is imposed upon sales at wholesale.

<sup>13</sup> 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.

<sup>14</sup> In addition, there is a 10-percent tax on the gross receipts from sales of intoxicating liquors excluding beer.

have general sales taxes but exempt some or all sales of distilled spirits and wine from the tax. In one of these (Kansas), however, the exemption provision is offset by an enforcement tax of 2½ percent on gross retail sales; and South Dakota imposes a 10 percent tax on the gross receipts from the sale of intoxicating beverages. A few of the States that do not exclude sales 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.

TABLE 87.—Tax Rates on Distilled Spirits for States with Licensing Systems, as of January 1—1953 through 1964  
(Dollars per gallon)

States:	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Alaska.....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.50		4.00		4.00
Arizona.....	1.20										1.44	1.44
Arkansas.....	2.50											2.50
California.....	.80			1.50								1.50
Colorado.....	1.60							1.80				1.80
Connecticut.....	1.00									2.00		2.00
Delaware.....	1.00	1.15										1.15
Dist. of Columbia.....	.75		1.00		1.25						1.50	1.50
Florida.....	2.17											2.50
Georgia.....	1.00											1.00
Hawaii.....	( <sup>1</sup> )					( <sup>2</sup> )						( <sup>2</sup> )
Illinois.....	1.00					1.02		1.52				1.52
Indiana.....	2.08											2.08
Kansas.....	1.00									1.20		1.20
Kentucky.....	1.28											1.28
Louisiana.....	1.58				1.68							1.68
Maryland.....	1.25			1.50								1.50
Massachusetts.....	2.25											2.25
Minnesota.....	2.75							2.875				2.875
Missouri.....	.80									1.20		1.20
Nebraska.....	1.20											1.60
Nevada.....	.80									1.40		1.40
New Jersey.....	1.50											1.80
New Mexico.....	1.30											1.50
New York.....	1.50											1.50
North Dakota.....	2.50											2.50
Oklahoma.....	—	—	—	—	—	—		2.40				2.40
Rhode Island.....	1.50						2.00					2.00
South Carolina.....	2.72											2.72
South Dakota.....	.75											1.25
Tennessee.....	2.00											2.50
Texas.....	1.408							1.68				1.68
Wisconsin.....	2.00											2.25

Note: A blank space (.....) indicates no rate change since previous rate shown. A dash (—) indicates no tax was in effect as of January 1.

See table 86 footnotes for special situations in particular States.

n.a.—Data not available.

<sup>1</sup> 12% of wholesale price.

<sup>2</sup> 16% of wholesale price.

TABLE 88.—State Tax Rates on Beer, January 1, 1964<sup>1</sup>  
(per barrel)

Less than \$1	\$1 to \$2	\$2 to \$3	\$3 to \$4	\$4 to \$6
Maryland Missouri Wyoming	California Colorado Illinois Montana Nebraska Nevada New Jersey New York Oregon Rhode Island <sup>5</sup> Washington Wisconsin District of Columbia	Arizona Connecticut Delaware Indiana <sup>2</sup> Iowa Kentucky Massachusetts <sup>4</sup> New Mexico Ohio Pennsylvania	Kansas Minnesota New Hampshire Tennessee <sup>3</sup>	Arkansas Idaho Texas Utah Virginia West Virginia
Total ..... 3	..... 13	..... 10	..... 4	..... 6
\$6 to \$8	\$8 to \$10	\$10 to \$12	\$12 to \$14	16 percent of wholesale price
Alaska Maine <sup>6</sup> Michigan North Dakota <sup>7</sup> Vermont	Florida Georgia South Dakota	Louisiana North Carolina Oklahoma	Alabama Mississippi South Carolina	Hawaii
Total ..... 5	..... 3	..... 3	..... 3	..... 1

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

<sup>2</sup> Includes, in addition to excise taxes of 8¢ per gallon, an enforcement tax of ¾ of 1¢ per gallon.

<sup>3</sup> The tax on sales of beer at wholesale is 17 percent of the wholesale price.

<sup>4</sup> In addition, every corporation, association or organization which is licensed by any city or town to sell alcoholic

beverages, except certain corporations and certain veterans' organizations, are taxed on the gross receipts from the sale of alcoholic beverages at the rate of ¼ of 1 percent, plus 23 percent surtax.

<sup>5</sup> Malt beverages imported into the State are taxed on the basis of reciprocity. The current rate, as fixed by the Liquor Control Commission, is \$1 per barrel.

<sup>6</sup> The tax on malt liquors manufactured in the State is 5½¢ per gallon.

<sup>7</sup> Includes additional taxes scheduled to expire on July 1, 1967.

A similar situation exists with respect to the taxation of beer.

Taxation of alcoholic beverages by local governments occurs in only a few States. Some Alabama local governments have explicit statutory authority to impose excise taxes on brewed or malt beverages. New Orleans has specific authority to impose taxes of 40 cents a gallon on distilled spirits, 5 cents a gallon on light wines, and 10 cents a gallon on fortified wines, and an excise of \$1.50 a barrel on beer having an alcoholic content of 6 percent or less. Louisiana parishes and municipalities also have authority to impose a similar \$1.50 tax on beverages of not more than 6 percent alcoholic content. Fourth class

(seashore resort) cities in New Jersey impose a retail sales tax on alcoholic beverages. West Virginia cities may impose an excise tax, not to exceed the State tax, on intoxicating liquors sold in State stores. Garrett County in Maryland has specific statutory authority to levy a tax on beer.

More common, however, is general sales taxation of alcoholic beverages by local governments. In all but 2 of the 12 States in which general sales taxes are collected by one or more local governments, alcoholic beverages are included in the base of these taxes.

At least five States (Maryland, Minnesota, North Carolina, South Dakota, and Wisconsin) permit municipalities and

TABLE 89.—State Tax Rates on Wines, January 1, 1964<sup>1</sup>  
(per gallon)

LIGHT WINES

1¢	10¢ to 30¢	30¢ to 50¢	50¢ to 80¢	80¢ and over	16 percent of wholesale price
California	Colorado Connecticut Illinois <sup>5</sup> Kansas <sup>8</sup> Louisiana Maryland Minnesota <sup>12</sup> Missouri Nebraska New Jersey New York Ohio Oregon Rhode Island <sup>14</sup> South Dakota <sup>15</sup> Texas Washington <sup>16</sup> Wisconsin District of Columbia	Arizona Indiana <sup>2</sup> Mississippi <sup>6</sup> Nevada New Mexico <sup>10</sup> Oklahoma	Alaska Arkansas <sup>3</sup> Kentucky Massachusetts <sup>9</sup> North Carolina North Dakota <sup>11</sup> Tennessee <sup>13</sup>	Delaware Florida <sup>4</sup> Georgia <sup>7</sup> South Carolina	Hawaii
Total .....	19	6	7	4	1

FORTIFIED WINES

2¢	10¢ to 30¢	30¢ to 50¢	50¢ to 80¢	80¢ and over	16 percent of wholesale price
California	Connecticut <sup>17</sup> Louisiana Maryland Missouri New Jersey New York Rhode Island <sup>14</sup> Texas Washington <sup>16</sup>	Arizona Colorado Indiana New Mexico <sup>10</sup> Ohio Wisconsin District of Columbia	Alaska Arkansas <sup>3</sup> Illinois <sup>5</sup> Kansas <sup>8</sup> Kentucky Massachusetts <sup>9</sup> Minnesota <sup>12</sup> Nebraska Nevada North Carolina <sup>18</sup> North Dakota <sup>11</sup> Oklahoma South Dakota <sup>15</sup> Tennessee <sup>13</sup>	Delaware Florida <sup>4</sup> Georgia <sup>7</sup> South Carolina	Hawaii
Total .....	9	7	14	4	1

<sup>1</sup> 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 alcohol 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.

<sup>2</sup> Includes an enforcement tax of 2¢ per gallon.

<sup>3</sup> 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.

<sup>4</sup> Light and fortified wines manufactured in Florida from local products are taxed at 23¢ and 35¢ per gallon, respectively.

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

<sup>6</sup> 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.

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

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

<sup>9</sup> Includes a temporary additional tax of 45¢ per gallon scheduled to expire on June 30, 1965. The tax rate on wines containing 3–6 percent alcohol is 30¢ per gallon. Massachusetts also imposes a tax on the gross receipts of every corporation, association or organization which is

(Footnotes to table 89, continued)

licensed by any city or town to sell alcoholic beverages, except certain corporations and certain chartered veterans' organizations, at the rate of  $\frac{1}{4}$  of 1 percent, plus 23-percent surtax.

<sup>10</sup> An 8¢ per gallon tax is levied on the growers of grapes who sell wine.

<sup>11</sup> Includes a temporary additional tax of 20¢ per gallon scheduled to expire July 1, 1967, and a wholesale transactions tax of 20¢ per gallon.

<sup>12</sup> Includes a 15-percent surtax effective through June 30, 1965.

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

counties to operate liquor stores. At present (early 1964) 9 counties in Maryland, 394 municipalities in Minnesota, 36 counties and 27 municipalities in North Carolina, and 164 municipalities in South Dakota operate liquor dispensaries for revenue purposes. No Wisconsin municipalities currently operate liquor stores.

License fees are levied by State or local governments and not infrequently by both. They are required at various levels of distribution, including from distillers, brewers, manufacturers of wine, importers, wholesalers, retailers, restaurants, taverns, and dining cars. Their rates 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 but in some jurisdictions are not unimportant revenue producers.

### *Intergovernmental Relations*

At the time of repeal of the 18th amendment, a number of proposals were made that the manufacture of alcoholic beverages be taxed exclusively by the Federal Government and the revenues shared with the States. Such proposals were included, for example, in the Fosdick-Scott study,<sup>4</sup> the report of the Interstate Commission on Conflicting Taxation,<sup>5</sup> and the Graves-Edmonds plan. These plans were not adopted, however, and Federal and State governments have developed their alcohol

<sup>14</sup> 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.

<sup>15</sup> In addition, there is a 10-percent tax on the gross receipts from sales of intoxicating liquors, except beer in excess of 3.2 percent.

<sup>16</sup> The tax of 10¢ per gallon is applicable only to domestic wines.

<sup>17</sup> Sparkling wine is taxed at 50¢ per gallon.

<sup>18</sup> 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.

tax and control systems independently. Consequently, as indicated above, there is a wide diversity in State and local tax rates, types of retail and wholesale outlets permitted, and types of alcoholic beverages permitted to be sold. In addition, there are scattered areas where the sale of alcoholic liquors is prohibited. Different fiscal needs and social attitudes have thus become imbedded in the individual State and local systems.

Any system of coordination that might now be proposed must take due account not only of the varying revenue stakes of the governmental units in this field but of the vested interests of specific functional groups for which such revenues are earmarked. Little is now heard about reducing tax overlapping. Recent discussions appear to take it for granted that the Federal Government and the States will continue their separate paths in the taxation of alcoholic beverages. Taxation of liquor is closely tied to regulation of liquor consumption, which, under the 21st amendment and Federal legislation, has been left entirely to State determination.

Because of the wide interstate variation in taxation of liquor which inevitably results from State sovereignty in liquor consumption policy, the possibilities in intergovernmental relations, at least for the present, appear to be limited to administrative cooperation.

<sup>4</sup> R. B. Fosdick and A. L. Scott, *Toward Liquor Control*, New York, 1933, p. 122.

<sup>5</sup> *Conflicting Taxation*, the 1935 progress report of the Interstate Commission on Conflicting Taxation, p. 6.

## Chapter 14

### 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 most significance with respect to admissions to horse racing, boxing, wrestling, and athletic exhibitions and with respect to the taxes on 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 pari-mutuel wagering licensed under State law and thus reserves this important source of revenue for the States. In the fiscal year 1963, as many as 26 States obtained revenue from pari-mutuel betting at race tracks, and the \$319 million collected represented over 90 percent of State amusement tax revenue (exclusive of that derived from admissions taxed under general sales taxes).

#### *Federal Taxes*

The Federal tax on admissions was adopted in 1917. It is applicable to all types of admissions, including admissions to motion picture theaters, legitimate theaters and opera houses, and 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 thereof 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 thereof, of admission charges has been in effect since 1917, except for the period from 1944 to 1954, when 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 admission charges 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), including 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 it 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 a year on the occupation of accepting wagers 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 imposed in 1921 by Connecticut in the form of a tax supplement equal to one-half of 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 31 States (table 90). Among these, only Maryland, Mississippi, North Carolina,

South Carolina, Tennessee, and Texas tax admissions in general under a special admissions or amusement tax. Eighteen 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 both under 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 motion pictures, operas, plays, etc., and 51 cents or less to other amusements except racing and similar 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-seven States and the District of Columbia 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 90). 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

TABLE 90.—State Tax Rates on Admissions, January 1, 1964

State	Rate on admissions <sup>1</sup>	Special taxes on admissions to—	
		Boxing and wrestling	Horse and dog racing
Alabama*	4 percent	17½ percent	
Alaska	½ of 1 percent <sup>2</sup>		
Arizona*	3 percent	2 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	13/100 of 1 percent <sup>3</sup>	5 percent	
Delaware		5 percent <sup>4</sup>	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*	2 percent (except athletic events).	10 percent	
Iowa*	2 percent		
Kansas*	2½ percent (except boxing and wrestling).	5-10 percent <sup>5</sup>	
Kentucky*	3 percent (except racing under Commission).	5 percent	15¢ per admission.
Louisiana*	2 percent	5 percent	10¢ per admission.
Maine	1/10 of 1 percent <sup>6</sup>		
Maryland	½ of 1 percent <sup>7</sup>	3 percent (boxing only)	
Massachusetts		10 percent	
Michigan	7¾ mills <sup>8</sup>	5 percent (boxing only)	
Minnesota		10 percent <sup>9</sup>	
Mississippi	10 percent (3 percent on motion picture admissions.) <sup>10</sup>	5 percent (boxing only)	
Missouri*	3 percent	5 percent	
Montana		5 percent (boxing only)	
Nebraska		10 percent	15¢ per admission to horseracing. <sup>11</sup>
Nevada		3 percent	
New Hampshire		5 percent	
New Jersey		10 percent <sup>12</sup>	
New Mexico*	3 percent		10 percent of admission to horseracing.
New York		5 percent	15 percent of admission to horseracing.
North Carolina	3 percent <sup>13</sup>		
North Dakota*	2¼ percent	5 percent	
Oklahoma*	2 percent		
Pennsylvania		5 percent	5 percent of admission to harness racing.
Rhode Island	1/6 of 1 percent <sup>14</sup>	5 percent <sup>15</sup>	
South Carolina	10 percent <sup>16</sup>		
South Dakota*	2 percent	10 percent	
Tennessee	1 percent <sup>17</sup>	2 percent	
Texas	10 percent <sup>18</sup>	3 percent	
Utah*	3 percent		
Vermont		5 percent (boxing only)	
Virginia		5 percent	
Washington*	4 percent <sup>19</sup>	5 percent	
	1 percent (except boxing, wrestling, horseracing). <sup>20</sup>		
West Virginia*	3 percent <sup>21</sup>	5 percent	
	65/100 of 1 percent. <sup>22</sup>		
Wisconsin*	3 percent <sup>23</sup>	5 percent (boxing only)	
Wyoming	2 percent	5 percent (boxing only)	
District of Columbia		10 percent (boxing only)	

See footnotes on next page.



<sup>1</sup> 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.

<sup>2</sup> The business license tax on the gross receipts of businesses including amusement businesses. The rate is \$25 plus  $\frac{1}{2}$  of 1 percent of the gross receipts in excess of \$20,000 but not more than \$100,000, and  $\frac{1}{4}$  of 1 percent of the gross receipts in excess of \$100,000.

<sup>3</sup> The unincorporated business tax on the gross income of unincorporated businesses, including amusement businesses. The rate is \$1.30 per \$1,000 or fraction of gross income up to, and inclusive of, \$60,000, and \$2.60 per \$1,000 or fraction of gross income in excess of \$60,000.

<sup>4</sup> The rate is 10 percent for championship matches.

<sup>5</sup> The State Athletic Commission is authorized to fix a rate of not less than 5 percent but not more than 10 percent.

<sup>6</sup> The special gross receipts tax on operators of theatres, music and opera houses, moving picture shows, skating rinks, and similar places of amusement is a flat fee license tax whose amount varies with the volume of business, roughly equivalent to  $\frac{1}{10}$  of 1 percent.

<sup>7</sup> 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¢.

<sup>8</sup> The business activities tax on the adjusted receipts of businesses, including amusement businesses (with an allowable tax credit). The first \$12,500 of such receipts are tax exempt.

<sup>9</sup> The rate is 5 percent for national or international championship matches.

<sup>10</sup> The special admissions tax.

taxes is 5 percent, the rates range from 2 percent in Tennessee to  $17\frac{1}{2}$  percent in Alabama. The rates of the special taxes on racing are either 10, 15, or 20 cents per admission, or 5, 10, or 15 percent of the admission receipts.

Pari-mutuel betting on thoroughbred, harness, and dog racing is now subject to tax in 29 States (table 91). Twenty-six of these States received revenue from taxes on pari-mutuel betting at race tracks in the fiscal year 1963. Another State (Nevada) has no tracks in operation but does earn revenue from similar taxes on off-the-track betting. The other two States (Idaho and Montana) reported no State pari-mutuel tax revenue in 1963. Pari-mutuel taxes are commonly expressed as a percentage of the daily total wagers at the race track. A few States, however, apply a graduated tax according to the volume of

<sup>11</sup> Applicable only to races held in counties having a population of 200,000 or over.

<sup>12</sup> The State Athletic Commission is authorized to reduce the rate to 5 percent when a championship title is at stake.

<sup>13</sup> 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 and vaudeville shows are exempt; however, they are subject to a license tax which is not based on gross receipts.

<sup>14</sup> 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).

<sup>15</sup> The rate for amateur exhibitions is 2 percent on the first \$1,000 and 5 percent on the balance of gross receipts.

<sup>16</sup> The special admissions tax. Motion-picture theaters are exempt; however, they are subject to a license tax which is not based on gross receipts.

<sup>17</sup> The special tax on the gross receipts of operators of theaters, motion pictures, and vaudeville shows.

<sup>18</sup> The special admissions tax. Admissions of \$1.05 or less to motion pictures, operas, plays, etc. are exempt, as well as admissions of 51¢ or less to other amusements (except racing and like exhibitions).

<sup>19</sup> Includes, but is not limited to, golf, pool, billiards, skating, ski lifts and tows, but excludes bowling and admissions charges subject to county or city admissions taxes. Those activities not subject to the retail sales tax remain taxable under the State business and occupation tax at 1 percent.

<sup>20</sup> The business and occupation tax on the gross income (in excess of \$600 per bimonthly period) of businesses, including amusement businesses.

<sup>21</sup> The 3-percent rate includes a 1-percent additional tax effective through June 30, 1965.

<sup>22</sup> The business and occupation tax on the gross receipts of businesses, including amusement businesses (a tax credit of \$50 per year is allowed).

<sup>23</sup> Admissions of 75¢ or less to motion-picture theaters are exempt.

betting. Flat-rate pari-mutuel taxes on thoroughbred racing vary from 3 to 8 percent. The range for States with graduated rates is wider, varying from a low of one-fourth of 1 percent for the first \$10,000 in Montana to a high of 11 percent of daily wagering at New York tracks. In addition to these taxes on pari-mutuel wagering, States also impose license fees on the operation of pari-mutuels.

New Hampshire gained national attention in 1963 when it enacted authority for a State-operated race track lottery. The lottery is to be based upon two sweepstakes races annually, for which tickets will be sold at \$3 each. It is estimated that the State will net \$4 million a year, to be earmarked for aid to local schools. Several other States, including Colorado and Rhode Island, considered but did not enact similar measures.

Twenty-three States and the District of

TABLE 91.—State Pari-Mutuel Tax Rates, January 1, 1964

State	Tax rate <sup>1</sup>	Breakage <sup>2</sup>	
		In excess of multiples of: (cents)	State share of breakage
Arizona.....	Thoroughbred and harness racing: 4% of first \$100,000 6% of the excess.	10	None
Arkansas.....	Dog racing: 6% .....	10	None
	Thoroughbred and dog racing: 5% ..	10	$\frac{2}{3}$ ( $\frac{1}{3}$ to State, $\frac{1}{3}$ to city with track)
California.....	Thoroughbred racing (based on amount wagered annually) .....	10	$\frac{1}{2}$ of first \$24 million; all thereafter
	5% of first \$10 million		
	6% of next \$10 million		
	7% of next \$55 million		
	7.5% of next \$50 million		
	8% of all in excess of \$125 million		
Colorado.....	Thoroughbred racing: 5% .....	10	None
Delaware.....	Thoroughbred and harness racing: 4.5%.	10	$\frac{1}{2}$
Florida.....	Thoroughbred racing: 8% <sup>3</sup> .....	5	All
	Dog racing: 7% <sup>3</sup> .....	5	All
Idaho.....	Thoroughbred racing: 5% <sup>4</sup> .....	n.a.	None
Illinois.....	Thoroughbred racing: 6% <sup>5</sup> .....	10	$\frac{1}{2}$
	Harness racing: 5.5% .....	10	None
Kentucky.....	Thoroughbred and harness racing: 4% of the first \$18 million (annually) 6% of the excess.	10	None
Louisiana.....	Thoroughbred racing: 5% of the first \$201,000 <sup>6</sup> 6% of the next \$200,000 <sup>6</sup> 7% of all amounts wagered for pari mutuels over \$401,000. <sup>6</sup>	10	None
Maine.....	Thoroughbred and harness racing: 6%.	10	None
Maryland.....	Thoroughbred racing: 5.5% .....	10	$\frac{1}{2}$
	Harness racing: 3.5% of the first \$125,000. 7% of the excess.	10	All
	County fair and agricultural exhibition racing: 1% of the first \$1,500,000 (annually). 6% of the excess.	10	$\frac{1}{2}$
Massachusetts <sup>7</sup> .....	Thoroughbred racing: 7% .....	10	$\frac{1}{2}$
	Harness racing: 5.5% of the first \$400,000. 6.75% of the next \$50,000. 7.25% of the next \$50,000. 7.75% of the next \$50,000. 8.25% of the next \$50,000. 8.75% of the next \$50,000. 9.25% of the excess over \$650,000.	10	$\frac{1}{2}$
	Dog racing: 5.5% of the first \$75,000. 7% of the next \$35,000. 8% of the next \$30,000. 9% of the next \$110,000. 10.25% of the next \$125,000. 10.75% of the excess over \$375,000.	10	$\frac{1}{2}$
	Racing at State or county fairs: ... 5.5% of the excess over \$65,000.	10	$\frac{1}{2}$
Michigan.....	Thoroughbred racing: 8% <sup>8</sup> .....	10	$\frac{1}{2}$
	Harness racing: 5% .....	10	$\frac{1}{2}$

See footnotes at end of table.

TABLE 91.—State Pari-Mutuel Tax Rates, January 1, 1964—Continued

State	Tax rate <sup>1</sup>	Breakage <sup>2</sup>	
		In excess of multiples of: (cents)	State share of breakage
Montana.....	Thoroughbred racing (Fairs only): .. 0.25% of the first \$10,000. 0.50% of the next \$5,000. 0.75% of the next \$5,000. 1% of the next \$5,000. 2% of the next \$10,000. 3% of any excess over \$35,000.	n.a.	None
Nebraska.....	Thoroughbred and harness racing: 3% of the excess over \$1,000,000. <sup>9</sup>	10	None
Nevada.....	Thoroughbred racing: <sup>10</sup> 3% .....	10	None
New Hampshire.....	Thoroughbred and harness racing: 7% .....	10	½
New Jersey.....	Thoroughbred racing: .....	10	All
	7.5% for the first \$40,000,000 (annually). 8.5% for the excess.		
	Harness racing: .....	10	All
	6% for the first \$40,000,000 (annually). 7% for the excess.		
New Mexico.....	Thoroughbred racing: .....	10	None
	1% of the first \$250,000. 2% of the next \$100,000. 3% of the next \$50,000. 5% of all in excess of \$400,000.		
New York.....	Thoroughbred racing: Zone I: 11% .....	5	¾
	Zone II: .....	5	½
	5% of the first \$175,000. 7% of the next \$125,000. 8% of the next \$100,000. 9% of the next \$100,000. 10% of the next \$100,000. 11% of all in excess of \$600,000.		
	Harness racing: .....	5	½
	5% of the first \$175,000. 7% of the next \$125,000. 8% of the next \$100,000. 9% of the next \$100,000. 10% of the next \$100,000. 11% of all in excess of \$600,000.		
Ohio.....	Thoroughbred racing: <sup>11</sup> .....	10	½ <sup>12</sup>
	4.25% of the first \$10,000. 5.25% of the next \$40,000. 6.25% of the next \$50,000. 7.25% of the next \$300,000. 8.25% of all in excess of \$400,000.		
	Harness racing: <sup>11</sup> .....	10	½ <sup>12</sup>
	3% of the first \$10,000. 4% of the next \$40,000. 5% of the next \$50,000. 6% of the next \$300,000. 7% of all in excess of \$400,000.		

See footnotes at end of table.

TABLE 91.—State Pari-Mutuel Tax Rates, January 1, 1964—Concluded

State	Tax rate <sup>1</sup>	Breakage <sup>2</sup>	
		In excess of multiples of: (cents)	State share of breakage
Oregon.....	Thoroughbred, harness, and dog racing: ..... Nonprofit organizations, State and County Fairs 1½%. Option I (when flat fees are prepaid): 3% of the first \$66,000. 4% of the next \$67,000. 5% of the next \$67,000. 6% of all in excess of \$200,000. Option II (when flat fees are not prepaid with application): 5% of the first \$133,000. 6% of the next \$67,000. 7% of all in excess of \$200,000.	5	None
Pennsylvania.....	Harness racing: 5% <sup>13</sup>	10	½ <sup>12</sup>
Rhode Island.....	Thoroughbred and harness racing: 8% <sup>14</sup>	10	½ <sup>12</sup>
South Dakota.....	Thoroughbred and dog racing: <sup>15</sup>	10	None
Vermont.....	Thoroughbred and harness racing: 8%.....	10	½
Washington.....	Thoroughbred racing: 5%.....	5	None
West Virginia.....	Thoroughbred racing: 5.75% <sup>16</sup>	10	None

n.a.—Data not available.

<sup>1</sup> Stated as a percentage of amount wagered, i.e., of daily pari-mutuels (unless otherwise stated).

<sup>2</sup> Winning ticket holders at parimutuels are commonly paid, per dollar of wager, in multiples of 10 cents (sometimes 5¢). The excess of the calculated amount over the track pay-out ratio is termed "breakage." For example, after deduction of pari-mutuel taxes and the track's commission, a winning \$2 ticket may have a calculated value of \$4.18. Per dollar of wager, this amounts to \$2.09, and the breakage (for multiples of 10¢) would be 9 cents, but 18 cents for the \$2 ticket. The breakage is generally shared between the State and the track.

<sup>3</sup> However, tracks having an average daily pool of less than \$400,000 pay fixed fees.

<sup>4</sup> But only 1% when the race meet is operated by fair boards.

<sup>5</sup> But only 4% when the daily pari mutuels do not exceed \$300,000.

<sup>6</sup> In parishes having less than 350,000 population, the rates are: 5% of the portion exceeding \$30,000 on daily pools up to \$200,000; 6% of the next \$100,000; and 7% of daily pools in excess of \$300,000.

<sup>7</sup> Rates include an additional 2% tax, effective through 1964.

<sup>8</sup> But 6% only outside the Detroit city area.

<sup>9</sup> The gross sum wagered on the whole race meet.

<sup>10</sup> Applicable to off-track betting.

<sup>11</sup> Additional taxes: ½ of 1% for the State fair fund; 1/10 of 1% where total wagering is less than \$5 million, and 15/100 of 1% where wagering is \$5 million or more.

<sup>12</sup> The track retains the first \$2,000 of breakage.

<sup>13</sup> An additional 2% tax is imposed on tracks located within the Philadelphia school district, for school district purposes.

<sup>14</sup> Alternative taxes, expressed in terms of the percentage of total wagers and as flat fees per day, are imposed on harness racing tracks using the auction mutuel system. These taxes vary from 1 to 2% of total wagers and from \$20 to \$200 per day, depending on the class of race.

<sup>15</sup> The State retains ¼ of all monies withheld by the track as its commission on horse racing, ¼ of the first \$1 million of track commission on dog racing, and ¼ of all dog track commissions in excess of \$1 million (excluding breakage).

<sup>16</sup> Except that tracks which averaged no more than \$150,000 daily pari mutuels in the previous calendar year pay a flat fee of \$4,000 on the first \$150,000 for the current year.

Columbia impose special license, privilege, or occupation taxes on coin-operated amusement devices, and 25 States and the District of Columbia impose such taxes on either billiard and pool operators or bowling alley operators or both (table 92). 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 taxes are applicable to these charges or payments.

#### Local Taxes

Admissions taxes are imposed by local

**TABLE 92.—State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys, January 1, 1964<sup>1</sup>**  
(rate per year)

State	Coin-operated amusement devices or machines	Billiard and pool tables, and bowling alleys
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 similar 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: \$30 plus; each penny machine, \$15; each machine operated by 5¢ or more, \$25. Music machine owners: nickel machines, \$30 per machine; dime machines, \$50 per machine.	Billiard and pool tables, bowling alleys, and shuffleboards: 1st table, alley, or board, \$40; 2d table, alley or board, \$25; each additional table, alley, or board, \$15.
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, \$10 per coin slot.	.....
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, and other games or devices, \$15 per table, alley, or device.

See footnotes at end of table.

TABLE 92.—State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys, January 1, 1964<sup>1</sup>—Continued  
(rate per year)

State	Coin-operated amusement devices or machines	Billiard and pool tables, and bowling alleys
Maine.....	Mechanical rides, \$15 per device.	
Maryland.....	Free-play pinball machines: Caroline, Kent, and Queen Anne Counties, \$10 per machine; Baltimore, Dorchester, Montgomery, Talbot, and Wicomico Counties, and Baltimore City, \$20 per machine; Washington County, \$30 per machine; Harford County, \$40 per machine. Free-play console machines: Caroline, Kent, and Queen Anne Counties, \$25 per machine; Baltimore, Dorchester, Talbot Counties, and Baltimore City, \$35 per machine; Washington County, \$50 per machine; Harford County, \$70 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, \$50 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), \$10 per table.
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, bowling alleys, \$5 per table or alley.

See footnotes at end of table.

TABLE 92.—State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys, January 1, 1964<sup>1</sup>—Continued  
(rate per year)

State	Coin-operated amusement devices or machines	Billiard and pool tables, and bowling alleys
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, \$8 per set.	Billiard and pool halls, \$5.
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 (other than music) 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 Allegheny 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; non-pay-out 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). Coin-operated "kiddy" rides, \$5 per device.	Billiard tables, pool tables, bagatelle tables, 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. Bowling alleys: \$10 per alley, up to six alleys; \$50 for six alleys; \$5 for each additional alley.
Texas.....	Coin-operated machines for music, skill or pleasure, \$10 per machine.	Billiard tables, \$5 per table; ninepin and tenpin bowling alleys, \$10 per alley.
Vermont.....	Amusement or gaming machines, \$100 per machine; music machines (except coin-operated radios in guest houses), \$25 per machine.	

See footnotes at end of table.

TABLE 92.—State Taxes on Coin-Operated Amusement Devices or Machines, Billiard and Pool Tables, and Bowling Alleys, January 1, 1964<sup>1</sup>—Concluded  
(rate per year)

State	Coin-operated amusement devices or machines	Billiard and pool tables, and bowling alleys
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), \$1,000.	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.
West Virginia.....	Slot and automatic machines or devices: penny machines or devices, \$2 each for four or fewer machines, \$25-\$600 per operator, according to class, for number of machines over four; all other machines or devices, \$5.50 each for nine or less, \$175-\$1,800 per operator, according to class, for ten or more machines.	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.

<sup>1</sup> 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 of charges derived from the amusements covered in

this table are taxed under general sales taxes in some States (see table 44, chap. 7); 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.

governments in approximately 11 States but are widely used in only Ohio, Pennsylvania, and Washington.<sup>1</sup>

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 (now 1/2 cent for each 10 cents). Other local governments in Pennsylvania make extensive use of admissions taxes under the broad taxing powers conferred on them in 1947.

<sup>1</sup> Available information is incomplete regarding local admissions taxes in those States where limited use is made of them.

Over 400 jurisdictions (including cities, boroughs, townships, and school districts) now levy such taxes. The rates range from 1 to 10 percent, with over half of the jurisdictions imposing a 10 percent rate. When combined rates for overlapping jurisdictions would exceed 10 percent, the State act provides for an equal division of this maximum unless the jurisdictions agree to a different division.

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.<sup>2</sup>

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, but allows an exemption of 90 cents for motion-picture theater admissions.<sup>3</sup>

Cities in Tennessee are authorized to levy a special tax on admissions to theaters of not 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 (on its special amusement tax) 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.

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<sup>2</sup> 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 rate in Ohio cities is 3 percent and rates range up to 5 percent in Washington cities.

<sup>3</sup> 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 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 a year. Admission charges at race tracks, boxing and wrestling matches, and dramatic or musical performances are exempt from tax.

Richmond's rate is 5 percent. In Maryland, localities (including counties) are permitted to add an additional levy to the State admissions tax. These additional levies, imposed by 5 counties and 6 municipalities, range from 1½ to 20½ percent.

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,<sup>4</sup> 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 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 amusement; and (2) cover, minimum or entertainment charges 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 the fiscal year ending June 30, 1963, Federal

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<sup>4</sup> 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.

revenues from amusement taxes were as follows (in millions):

Admissions .....	\$42
Cabarets .....	40
Coin-operated amusements and gaming devices.....	20
Pool tables, bowling alleys, etc. ....	5
Club dues and initiation fees .....	71
Wagering taxes .....	6
Total .....	184

Amusement taxes are a minor source of revenue for State governments. Collections in the fiscal year 1963 amounted to \$348 million. Since \$319 million of this

total represented pari-mutuel 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 15

### DOCUMENTARY TAXES

The Federal Government and about one-third of the States, as well as the District of Columbia, and a considerable number of other local governments in five States, impose a group of taxes known collectively as documentary taxes. These include taxes on real estate and capital stock transfers and on the issuance of corporate bonds and other evidences of indebtedness, such as mortgages. Usually expressed as a number of cents or dollars per unit of value (for example, 55 cents per \$500 worth of property transferred), the Federal and most State laws require that stamps be affixed to the document (deed, stock share, bond) as evidence that the tax was paid. Details on Federal and State documentary taxes are shown in table 93.

In total, Federal and State documentary taxes amounted to about \$260 million in the fiscal year 1963—\$140 million Federal and \$120 million State. The State figure does not include locally retained shares of locally collected documentary taxes, nor the locally imposed real estate transfer taxes in five States. Also omitted from this total is the 2-percent tax on real estate sales in Indiana, collected only from corporations that are taxed under that State's gross income tax. If those taxes are included, the total exceeds \$300 million. More than half the amount of documentary taxes accruing to State governments in 1963 (\$65.9 million) was collected by New York State from its stock transfer tax.

#### *Stock Transfer Taxes*

Although only four States impose stock transfer taxes (Florida, New York, South Carolina, and Texas), practically all stock market transactions are subject both to the Federal tax of 4 cents per \$100 and to State taxes since 90 percent of such transactions are consummated on the two exchanges in New York City. Unlike the Federal tax, the New York rate is a flat amount per share, but graduated according to its selling price: 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. The rates in the other States are: Florida, 15 cents per \$100; South Carolina, 4 cents per \$100; and Texas, 3.3 cents per \$100. Stock issues and bond issues are subject to documentary taxes by the Federal Government, and by the States of Alabama, Florida, and South Carolina.

#### *Real Estate Transfer Taxes*

Deeds of conveyance representing the transfer of real estate valued in excess of \$100 are subject to a Federal tax of 55 cents on each \$500 of value (selling price), less the amount of any liens or encumbrances assumed as part of the transaction. Similar taxes are imposed by the District of Columbia and the States of Alabama, Florida, Indiana, Maryland, Massachusetts, Minnesota, Pennsylvania, South Carolina, Tennessee, Virginia, Washington, and West Virginia.

TABLE 93.—Federal and State Documentary Taxes, 1963

State and type of tax	Rate Jan. 1, 1964	Use of stamps	Distribution of receipts		Collections 1963 (thousands) <sup>1</sup>
			State	Local	
Federal Government:					
Issuance of capital stock.....	10¢/\$100 <sup>2</sup>	Yes.....	XX.....	XX.....	\$140,371
Transfer of capital stock.....	4¢/\$100.....	Yes.....	XX.....	XX.....	
Issuance of corporate bonds.....	11¢/\$100 <sup>2</sup>	Yes.....	XX.....	XX.....	
Transfer of corporate bonds.....	5¢/\$100.....	Yes.....	XX.....	XX.....	
Transfer of real estate.....	55¢/\$500 <sup>3</sup>	Yes.....	XX.....	XX.....	
Premium on policies issued by foreign insurers.	1¢ or 4¢/\$1 <sup>4</sup>	Yes.....	XX.....	XX.....	
Alabama:					
Transfer of property.....	50¢/\$500 <sup>3</sup>	No.....	2/3.....	1/3.....	1,448
Mortgages.....	15¢/\$100.....	No.....	2/3.....	1/3.....	
Issuance of stocks and bonds.....	25¢/\$100.....	No.....	All.....	All.....	
Transfer of mineral leaseholds.....	5-15¢/acre <sup>5</sup>	No.....	All.....	All.....	
Colorado: Transfer of real estate.....	Repealed in 1963 <sup>6</sup>				18
District of Columbia: Transfer of real estate.....	0.5%.....	No.....		All.....	1,700 <sup>7</sup>
Florida:					
Issuance and transfer of stocks and bonds.....	15¢/\$100.....	Yes.....	All.....		18,718
Transfer of real estate.....	30¢/\$100.....	Yes.....	All.....		
Indiana: Transfer of real estate.....	2¢ <sup>3</sup>	Yes.....	All.....		n.a.
Kansas: Mortgages.....	25¢/\$100.....	No.....		All.....	
Maryland: <sup>8</sup>					
Transfer of property.....	55¢/\$500.....	Yes.....		All <sup>9</sup>	56
Mortgages.....	55¢/\$500.....	Yes.....		All <sup>9</sup>	
Massachusetts: Transfer of real estate.....	55¢/\$500 <sup>3</sup> 10	Yes.....	All.....		1,494
Minnesota:					
Transfer of real estate.....	55¢/\$500 <sup>3</sup> 11	Yes.....	All.....	(12)	1,206
Mortgages.....	15¢/\$100.....	No.....	1/6.....	5/6.....	
Mississippi: Transfer of mineral leaseholds.....	6-8¢/acre <sup>5</sup>	Yes.....		All.....	
New York: <sup>13</sup>					
Transfer of stock.....	1-4¢/share <sup>14</sup>	Yes.....	All.....		65,878
Mortgages.....	50¢/\$100.....	No.....		All.....	
Oklahoma: Mortgages.....	2-10¢/\$100.....	No.....		All.....	
Pennsylvania: <sup>15</sup> Transfer of real estate.....	1¢ <sup>3</sup>	Yes.....	All.....		19,523
South Carolina:					
Issuance of stocks and bonds.....	10¢/\$100.....	Yes.....	All.....		1,657
Transfer of stocks.....	4¢/\$100.....	Yes.....	All.....		
Transfer of real estate.....	\$1/\$500 <sup>3</sup>	Yes.....	All.....		
Tennessee:					
Transfer of real estate.....	\$1.50/\$1000.....	No.....	All.....		1,830
Mortgages.....	10¢/\$100.....	No.....	All.....		
Texas: Transfer of stock.....	3.3¢/\$100.....	Yes.....	All.....		284
Virginia: <sup>16</sup>					
Transfer of real estate.....	15¢/\$100.....	No.....	All.....		4,840
Mortgages.....	15¢/\$100.....	No.....	All.....		
Washington: <sup>17</sup> Transfer of real estate.....	50¢/\$500.....	Yes.....	All.....		1,077
West Virginia: Transfer of real estate.....	\$1.10/\$500.....	Yes.....	All.....		487
Federal.....					\$140,371
State.....					120,216
Total.....					260,587

n.a.—Data not available.

XX—Not applicable.

<sup>1</sup> Excludes amounts collected and retained by local governments. Data are preliminary.

<sup>2</sup> Rate is 4¢/\$100 on certain regulated investment companies.

<sup>3</sup> Exclusive of assumed mortgages. The Indiana tax is applicable only to corporations subject to the gross income tax.

<sup>4</sup> Depending on type of policy.

<sup>5</sup> Depending on length of lease.

<sup>6</sup> Rate was 1¢/\$100.

<sup>7</sup> Tax went into effect in May 1962.

<sup>8</sup> The city of Baltimore and 7 specified counties are authorized to supplement the State tax.

<sup>9</sup> Except that tax on recordation of instruments granting encumbrances on property situated in two or more counties, as security for corporate bonds of public utilities, are paid to the State.

<sup>10</sup> Rate is \$1 on first \$500.

<sup>11</sup> Rate is \$1.10 on first \$1,000.

<sup>12</sup> Except that the tax on mortgages that are secured by property exempt from property taxation is paid to the State.

<sup>13</sup> New York City imposes a tax of 0.5% on transfers of real property where the consideration exceeds \$25,000. Assumed mortgages are excluded in computing the tax.

<sup>14</sup> Depending on value per share. See text.

<sup>15</sup> Local governments are authorized to impose a real estate transfer tax up to 1% and more than 700, mainly school districts, have done so.

<sup>16</sup> Counties and cities levy a tax of 1/3 the State tax (5¢/\$100).

<sup>17</sup> Counties are authorized to levy a 1% real estate sales tax; all 39 counties have done so.

Source: U.S. Bureau of the Census, *Detail of State Tax Collections in 1963*; and U.S. Commissioner of Internal Revenue, *Annual Report, 1963*. (Pub. No. 55.)

State real estate transfer taxes vary from 50 cents per \$500 in Alabama and Washington to 2 percent of the selling price in Indiana. The Indiana real estate transfer tax is at the same rate as the newly imposed retail sales tax but is levied under that State's gross income tax and applies only to corporations that are subject to that tax. As in the case of most of the State real estate transfer taxes, Indiana requires the stamps to be affixed before a deed can be recorded and excludes from the tax base any assumed mortgages.

Local real estate transfer taxes are authorized in Maryland, New York, Pennsylvania, Virginia, and Washington. In Maryland the local power to tax such transfers applies, by special State legislation, to certain counties and the city of Baltimore, and the New York authorization is for New York City only. Pennsylvania has provided the broadest local authorization, and more than 700 local governments levy realty transfer taxes of up to 1 percent of the selling price. Counties and cities in Virginia may levy a tax of one-third the State rate, and Washington allows counties to impose a 1-percent real estate sales tax, the proceeds to be used for public schools. One-third of the proceeds from the Alabama State tax is retained by the local governments.

The requirement that deeds of conveyance must have Federal documentary stamps affixed as evidence of tax payment has been a useful tool to property tax administrators in determining the selling price of transferred property for the pur-

pose of sales-assessment ratio studies. The fact that assumed mortgages are excluded from the tax base detracts somewhat from the usefulness of Federal stamps for assessment ratio studies; and a number of States as well as the District of Columbia apply their own real estate transfer tax to the full consideration, as indicated in table 93. In some cases, as in Pennsylvania, the State tax is tied directly to the implementation of assessment ratio studies, which measure the degree of uniformity of property tax assessments. Data derived from such studies provide a means for improving property tax administration and for statewide equalization of local property tax assessments among assessing jurisdictions.

#### *Mortgage Taxes*

Mortgages constitute the third type of instrument subject to documentary taxes. While the Federal documentary stamp taxes do not embrace mortgages, eight States levy this kind of tax at rates ranging from 2 cents per \$100 in Oklahoma to 50 cents per \$100 in New York. Except in Maryland, mortgage taxes do not involve attachment of stamps. Mortgage taxes are paid to county officials at the time of recording, and except in Alabama, Minnesota, Virginia, and Tennessee, all the proceeds are retained as local revenue. In Alabama, as in the case of real estate transfer taxes, one-third of the tax revenue is retained locally; in Minnesota 5/6 of the proceeds is retained locally; and in Virginia and Tennessee all the proceeds go into the State treasuries.

## Chapter 16

### 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*

Twenty-one of the 37 States which impose general sales taxes apply this tax to charges for local telephone service. The most common rate is 3 percent. Michigan's business activities tax also applies to this service.

Telephone companies are subject to gross receipts taxes in 27 States and the District of Columbia.<sup>1</sup> The rates of gross receipts taxes range from three-tenths of 1 percent to 7 percent, and only 10 States have rates in excess of 4 percent. These taxes are not limited to telephone companies but apply also to other types

of utilities. In some States they are levied in lieu of property taxes or general corporation taxes; in other cases they are imposed in addition to these taxes. Of the 37 States and the District of Columbia which impose income taxes on corporations, only 6 exempt all telephone companies from this tax. Another 12 exclude mutual or cooperative telephone companies from the tax, and 1 other State exempts rural telephone companies. In the remaining 19 States and the District of Columbia having corporate income taxes, telephone companies are subject to the tax. Table 94 shows the extent of overlapping of State corporate income taxes with State gross receipts taxes and general sales taxes applicable to local telephone service.

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, is found in home rule charter provisions, or takes the form of local sales taxes applicable to telephone service.

At present, one or more units of local government in about 23 States impose nonproperty taxes on local telephone service.<sup>2</sup> For the most part these are gross receipts taxes, but in a few States the local

<sup>1</sup> In 6 additional States low-rate gross receipts taxes are imposed for purposes of paying the cost of regulation.

<sup>2</sup> Complete information is not available with respect to the local telephone tax in those States where it is used by only a few cities.

TABLE 94.—Selected State Taxes on Local Telephone Service, January 1, 1964

United States	Gross receipts taxes	General sales taxes	Corporation net income taxes
Alabama	X		X
Alaska	X		X
Arizona	X <sup>1</sup>	X	X
Arkansas	X <sup>1</sup>	X	X <sup>2</sup>
California			X
Colorado	X <sup>1</sup>	X	X
Connecticut	X		
Delaware			X
District of Columbia	X		X
Florida	X		
Georgia		X	X <sup>2</sup>
Hawaii	X		X
Idaho			X
Illinois	X		
Indiana		X	X
Iowa		X	X
Kansas		X	X <sup>2</sup>
Kentucky	X <sup>1</sup>	X	X <sup>3</sup>
Louisiana	X		X <sup>2</sup>
Maine	X		
Maryland	X		X
Massachusetts			X
Michigan	X <sup>4</sup>		
Minnesota	X		X <sup>2</sup>
Mississippi		X	X
Missouri		X	X <sup>2</sup>
Montana	X		X <sup>2</sup>
Nevada	X <sup>1</sup>		
New Jersey	X		
New Mexico		X	X
New York	X		
North Carolina	X		X <sup>2</sup>
North Dakota		X	X <sup>2</sup>
Ohio	X		
Oklahoma		X	X
Oregon	X <sup>5</sup>		X <sup>2</sup>
Pennsylvania	X	X	X
Rhode Island	X	X	
South Carolina	X	X	X <sup>2</sup>
South Dakota	X	X	
Tennessee	X	X	X
Texas	X		
Utah	X <sup>1</sup>	X	X <sup>2</sup>
Vermont	X		
Virginia	X		
Washington	X		
West Virginia	X		
Wisconsin	X	X	X
Wyoming		X	

Note: Excludes Nebraska and New Hampshire which do not tax local telephone service by the methods covered in this table.

<sup>1</sup> Low-rate gross receipts taxes are imposed for regulatory purposes.

<sup>2</sup> Mutual or cooperative telephone companies are exempt from tax.

<sup>3</sup> Rural telephone companies are exempt from tax.

<sup>4</sup> A business receipts tax, imposed upon all persons en-

gaged in business activity including service and professional occupations.

<sup>5</sup> Applicable only to rural telephone companies exercising the option to be taxed on the basis of gross receipts in lieu of property taxes. Entire proceeds are remitted to local districts in which companies electing the option operate. A low-rate gross receipts tax is imposed on all telephone companies for regulatory purposes.

governments levy sales taxes applicable to telephone service. Gross receipts taxes are most widely used by municipalities in California, Florida, Missouri, New York, Oregon, Texas, Virginia, and Washington. In some States (Florida, New York, Texas, Virginia, and Washington, for example) these taxes overlap State gross receipts taxes on telephone companies. Local sales taxes applicable to telephone service are common in Alaska, Mississippi, and Utah and in two of these States (Mississippi and Utah) they overlap similar State taxes.

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 15 New York cities impose a 3-percent consumer's 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 the fiscal year 1963, the Federal tax on local telephone service yielded \$516 million, 3.8 percent of total excise tax collections and about 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.<sup>3</sup> 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 that date, Congress enacted legislation postponing the scheduled termination of the tax. Meanwhile, 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 was also authorized to levy such a tax. Retention of the Federal tax has prevented the New York provision from going into effect.

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<sup>3</sup> For a description of the alternative proposals, see the *Final Report of the Joint Federal-State Action Committee*, February 1960, pp. 108-09.



# PART III



## Chapter 17

### STRENGTHENING TAXATION AT THE LOCAL LEVEL

The financial capabilities of governmental units are limited, in the first instance, by the taxable resources within their borders. Because local governments derive their powers from their respective States, they can draw upon revenue and other financing resources only in ways and within bounds prescribed by their State constitutions and statutes. Because local governments function in close proximity to one another in an interdependent society and economy, the effectiveness with which they employ financing resources is enhanced through inter-community cooperation and impaired by a lack of it. The extent to which local governments pursue harmonious tax policies and otherwise act in concert is itself shaped and guided by State policies. By the same token, local government effectiveness is to an important degree influenced by the support given it by the State's stronger and more developed administrative facilities.

The most important single factor in the ability of local governments to finance their activities is the property tax because it provides, on the average, seven-eighths of all locally raised tax revenues. For this reason, this Commission has urged each State to take a hard and critical look at its property tax system. In its report on *The Role of the States in Strengthening the Property Tax*, the Commission set forth a number of guidelines to assist the States in proceeding expeditiously with property

tax reform.<sup>1</sup> In its report on *State Constitutional and Statutory Restrictions on Local Taxing Powers*, this Commission pointed up the incongruity of property-tax-rate limitations in modern fiscal administration and recommended that they be removed from constitutions and statutes.

Local governments in every State yearn for more fiscal independence, particularly for additional local tax sources. Some would relieve the pressure on currently employed taxes; others would supplement them. The revenue requirements of local governments are increasing unevenly, even within individual States. Generally the increases are more marked in the rapidly growing urban centers, where larger numbers, possibly higher unit costs, and insistence on better government programs, generated by enlarged personal aspirations, are raising governmental requirements faster than in the less populous sections.

The quest for more local tax sources to enable individual jurisdictions to finance programs locally has diverse motivations. It postpones the need to provide financing for statewide programs and thus accords with the natural reluctance of political leadership to recognize the emergence of costly statewide problems and with their preference to leave solutions to local gov-

<sup>1</sup> Described herein, chap. 6, above.

ernments. It harmonizes also with a deeply rooted inclination to keep government decisionmaking close to the people, which expresses itself in appeals 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 (and at times is initiated by) organizations of citizens interested in more adequate financing of particular functions, principally public schools.

How the States have responded to these pressures by authorizing local nonproperty taxes, was detailed in chapter 4. Where it is relevant, the individual tax chapters discuss briefly the methods by which particular States authorize local nonproperty taxes and the limitations they place upon them. Additional details are provided in another Commission report.<sup>2</sup>

Most States that have enabled their local governments to impose nonproperty taxes have restricted the authority to particular local governments and with respect to particular taxes. Pennsylvania is the conspicuous exception. It has authorized practically all local governments, except counties, to impose a wide variety of taxes. In consequence, several thousand income, admissions, per capita, and real property transfer taxes are now being collected by Pennsylvania cities, boroughs, townships, and school districts. In a number of instances cities and school districts have established joint collection systems. New York authorizes almost as wide a variety of nonproperty taxes as Pennsylvania but is more restrictive as to which local governments may use them. It assigns prior

<sup>2</sup> Advisory Commission on Intergovernmental Relations, *State Constitutional and Statutory Restrictions on Local Taxing Powers*, October 1962.

rights to the counties for certain taxes and to cities for others. It allows joint county-city administration of any of the taxes authorized and provides for State technical assistance to localities.

In the above-mentioned report on local tax restrictions the Advisory Commission enunciates the following basic principle, which the States should heed in granting nonproperty taxing powers to their local governments:<sup>3</sup>

Most local governments are smaller than the economic area in which they participate and therefore are handicapped in individually making use of income, sales, excise, and similar nonproperty taxes. Accordingly, local governments should be enabled to use these taxes only where required in the interest of the desired distribution of the combined State-local tax burden among the several bases of taxation (property, income, consumption, and business activity), and more specifically, only where increasing demands for local services cannot be reasonably met from available property tax sources or where property already bears an inordinate share of the local tax burden. Where these conditions necessitate the use of nonproperty taxes by local governments, it is incumbent upon the State to help those local governments to overcome the handicaps which necessarily attach to independently administered nonproperty taxes.

This statement reflects the Commission's evaluation of some of the handicaps attaching to the use of consumer, income, and excise taxes by local governments. County, city, town, and school district nonproperty taxes 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 taxing jurisdiction and the communities which surround it. Taxes on wages and salaries

<sup>3</sup> *Ibid.*, pp. 12-13.

affect competitive relationships between the employment centers within and those without the taxing jurisdiction. Even within the employment city they raise problems, involving equities between workers residing within and those 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 government services directly and indirectly 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 required to withhold wage taxes or public utility enterprises required to collect taxes from their consumers. 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 excessive 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 on a 4-percent general sales tax and of other local jurisdictions on 2 percent and 3 percent taxes may effectively bar New York State from this potentially very productive revenue source. 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 non-property 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.

The following are some of these possibilities at the inter-local level and statewide.

#### *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 want 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 have 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 of 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. A similar request (relating to a consumers' utility tax) was turned down by the legislature in its most recent session (1964).

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 taxing 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. New York required a constitutional amendment to empower its legislature to authorize municipalities, school districts, and other districts to provide and *finance* jointly any service which each can provide separately. This Commission's recommendation in its report on *Governmental Structure, Organization, and Planning in Metropolitan Areas* that States enact legislation authoriz-

ing 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 embraces the revenue-raising activities of local jurisdictions.

Property tax administration provides numerous examples of inter-local cooperation. Collection is exclusively a county function in 20 States, where the county collector bills the property taxes for all jurisdictions in the county. The county is also the primary assessing jurisdiction in most States. Under these circumstances, municipalities, school districts, and special districts use the county assessment roll against which to apply their property tax rates.

In the nonproperty tax area, however, inter-local cooperation is the exception rather than the rule. The authorization in New York of joint county-city administration of local nonproperty taxes has been mentioned. A 1961 enactment in Colorado authorizing a group of counties in the Denver area to band together into a capital improvement district and to levy an area-wide sales tax was invalidated by the State supreme court.

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 could prescribe, by generally applicable legislation, stand-

ard definitions of taxpayers, tax bases, exemptions, penalties, credits, jurisdictional rules, and administrative powers to minimize uncertainty and confusion and to prevent intrastate inconsistency. Where it is appropriate, the State 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 overlapping jurisdictions both 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. Because of its scope, the problem calls for State initiative.

#### *Statewide Coordination*

The proposition that the State should actively assist its subdivisions in improving the effectiveness of the tax sources it makes available to them requires no demonstration. The parental relationship of the State to its subdivisions 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 economic development and efficient use of governmental resources.

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 suburbs. 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 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 experiences 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 use sanctions on behalf of local jurisdictions. Local administration of personal property taxes on automobiles would be measurably eased, for example, if evidence of their payment were made a 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.

There are many opportunities for State

technical assistance in the property tax field. More than half of the States are now conducting periodic assessment-ratio studies, which provide information on the uniformity of local assessments. Most States cooperate in the conduct of annual schools for assessors. Many States provide uniform assessment records and help prepare tax maps and other tools essential to effective property valuation.

*Tax administration.*—A special situation prevails where local use of a 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 more than 1800 cities, boroughs, townships, and school districts impose income taxes, frequently overlapping. Ohio with more than 80 city income taxes is another example. In these situations a statewide administration warrants consideration. In neither Pennsylvania nor Ohio is income subject to State taxation, and the question has been raised whether the constitutional provisions which have been invoked 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 exists. In any event, 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. Property tax assessment administration is a particularly fertile field for active State leadership and direction. Only one State, Hawaii, administers the local property tax at the State level, but assessment of utility property is a State function in many States. Mary-

land comes close to having a State-administered property assessment system through county supervisors of assessments who are responsible to the State Department of Taxation and Assessments.

*Tax supplement.*—A special and highly developed application of cooperation in tax administration is the tax supplement device. 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 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, tax calendar, etc.) by all local jurisdictions. While some State definitions may leave scope for improvement, 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 jurisdictions. 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 government 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 California and Illinois. And even in Mississippi, where a 1-percent local rate can be imposed only with electoral approval (a rate of  $\frac{1}{2}$  of 1 percent can be voted by the governing body but citizens have the right to initiate a referendum), 151 municipalities now levy local sales taxes, and the voters in three-fourths of them have approved the higher rate. 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 in sales taxation. The device was first used by Mississippi in 1950 and has spread to five other States. Since 1955 it has been in use in California, 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 credit against the county tax. Thus the net county rate within a city 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 statewide, all cities and counties levying it.

In Illinois the privilege of adding a local supplement to the State's sales tax was utilized (as of January 1, 1964) by approximately 1,170 out of 1,251 municipalities and by 68 out of 102 counties. The sales-tax supplement is used also in New Mexico, Tennessee, and Utah.

In Alabama, where 18 counties and 77 municipalities impose sales taxes, a number of the county and city taxes are administered by the State Department of Revenue. Colorado in 1963 authorized cities imposing local sales taxes to contract with the State to collect their sales taxes for them.

While tax supplements have received their greatest public notice in connection with sales taxes, the technique has potential in other areas where local taxes duplicate State taxes. 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. It 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 in-

come 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 forego 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 (chapter 10). In 1936 it was also employed to encourage the States to establish unemployment compensation programs.

The tax credit has had only limited application in inter-local and 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. The city of Louisville and Jefferson County, Kentucky, provide an example in the local income tax field. Both the city and the county impose an income tax ("occupational license") at the same rate. Jefferson County allows taxpayers subject to the Louisville tax a credit for that tax. 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 State rate of 5 cents a package (increased to 8 cents by the 1963 legislature), with a corresponding tax credit against the State tax. All jurisdictions promptly imposed 5-cent cigarette taxes (now 8 cents). In Florida the State collects the tax, withholds 4 percent of collections to cover administration costs, and returns the balance to municipalities in proportion to collections. Proceeds of 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, State 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 and automotive license fees, 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 with-

out impairing 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 decisions as to the kinds of taxes used, 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 used. 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 effect may be at marked variance with relative need, with excessive distributions to some jurisdictions and 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.

Tax sharing may well serve as a substitute for locally imposed taxes where they are widespread within the State, especially if the 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 population. 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 Possibilities*

In its report on *Local Nonproperty Taxes and the Coordinating Role of the States*, this Commission 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. Admittedly 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 heterogeneous institution, nationally as well as within most individual States. Our sketchy description of State-local tax arrangements involving some 80,000 separate taxing entities makes this abundantly clear. While the Commission recognized the improbability that local fiscal problems are susceptible to common solutions, it had no difficulty in identifying a number of techniques with substantive potential in at least some States and tax areas. Accordingly it set forth a number of general guidelines it believes to have potential usefulness in some situations in some States, probably none in all of the States. Specifically, the Commission suggested that:<sup>4</sup>

(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

<sup>4</sup> Advisory Commission on Intergovernmental Relations, *Local Nonproperty Taxes and the Coordinating Role of the States*, September 1961, p. 6.

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 non-property 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 different kinds of 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 it is 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 nonresidents.

## Appendix

## AGENCIES ADMINISTERING MAJOR STATE TAXES, JANUARY 1, 1964

<i>State</i>	<i>Income</i>	<i>Sales</i>	<i>Gasoline</i>	<i>Motor Vehicle</i>	<i>Tobacco</i>	<i>Death</i>	<i>Alcoholic Beverage</i>
Alabama	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Alcoholic Beverage Control Board
Alaska	Department of Revenue	.....	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue
Arizona	Tax Commission	Tax Commission	Highway Department	Highway Department	Tax Commission	Treasurer	Tax Commission
Arkansas	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue
California	Franchise Tax Board	Board of Equalization	Board of Equalization	Department of Motor Vehicles	Board of Equalization	Department of Revenue	Board of Equalization
Colorado	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	.....	Department of Revenue	Department of Revenue
Connecticut	Tax Commissioner	Tax Commissioner	Tax Commissioner	Commissioner of Motor Vehicles	Tax Commissioner	Tax Commissioner	Tax Commissioner
Delaware	Tax Department	.....	Highway Department	Commissioner of Motor Vehicles	Tax Department	Tax Department	Alcoholic Beverage Control Commission
Florida	.....	Revenue Commission	Revenue Commission	Commissioner of Motor Vehicles	Beverage Department	Comptroller	Beverage Department
Georgia	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue
Hawaii	Department of Taxation	Department of Taxation	Department of Taxation	County Treasurer	Department of Taxation	Department of Taxation	Department of Taxation
Idaho	Tax Collector	.....	Tax Collector	Department of Law Enforcement	Tax Collector	Tax Collector	Tax Collector
Illinois	.....	Department of Revenue	Department of Revenue	Secretary of State	Department of Revenue	Attorney General	Department of Revenue
Indiana	Department of Revenue	Department of Revenue	Department of Revenue	Secretary of State	Department of Revenue	Department of Revenue	Alcoholic Beverage Commission
Iowa	Tax Commission	Tax Commission	Treasurer	Department of Public Safety	Tax Commission	Tax Commission	Tax Commission
Kansas	Department of Revenue	Department of Revenue	Department of Revenue	Highway Commission	Department of Revenue	Department of Revenue	Department of Revenue/ Director, Alcoholic Beverage Control
Kentucky	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue
Louisiana	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Local	Department of Revenue
Maine	.....	Bureau of Taxation	Bureau of Taxation	Secretary of State	Bureau of Taxation	Bureau of Taxation	Liquor Commission
Maryland	Comptroller	Comptroller	Comptroller	Commissioner of Motor Vehicles	Comptroller	Local	Comptroller
Massachusetts	Commissioner of Corporation and Taxation	.....	Commissioner of Corporation and Taxation	Registrar of Motor Vehicles	Commissioner of Corporation and Taxation	Commissioner of Corporation and Taxation	Commissioner of Corporation and Taxation
Michigan	.....	Department of Revenue	Department of Revenue	Secretary of State	Department of Revenue	Department of Revenue	Liquor Control Commission
Minnesota	Department of Taxation	.....	Department of Taxation	Secretary of State	Department of Taxation	Department of Taxation	Liquor Control Commission
Mississippi	Tax Commission	Tax Commission	Motor Vehicles Comptroller	Motor Vehicles Comptroller	Tax Commission	Tax Commission	Tax Commission
Missouri	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue
Montana	Board of Equalization	.....	Board of Equalization	Registrar of Motor Vehicles	Board of Equalization	Board of Equalization	Liquor Control Board
Nebraska	.....	.....	Department of Agriculture and Inspection	Department of Roads and Irrigation	Department of Agriculture and Inspection	Tax Commissioner	Liquor Control Commission
Nevada	.....	Tax Commission	Tax Commission	Department of Motor Vehicles	Tax Commission	.....	Tax Commission
New Hampshire	.....	.....	Commissioner of Motor Vehicles	Commissioner of Motor Vehicles	Tax Commission	Tax Commission	Liquor Commission
New Jersey	.....	.....	Department of Treasury	Department of Law and Public Safety	Department of Treasury	Department of Treasury	Department of Treasury
New Mexico	Bureau of Revenue	Bureau of Revenue	Bureau of Revenue	Department of Motor Vehicles	Bureau of Revenue	Bureau of Revenue	Bureau of Revenue
New York	Department of Taxation and Finance	.....	Department of Taxation and Finance	Department of Motor Vehicles	Department of Taxation and Finance	Department of Taxation and Finance	Department of Taxation and Finance
North Carolina	Department of Revenue	Department of Revenue	Department of Revenue	Department of Motor Vehicles	.....	Department of Revenue	Department of Revenue
North Dakota	Tax Commissioner	Tax Commissioner	Auditor	Highway Department	Tax Commissioner	Tax Commissioner	Treasurer
Ohio	.....	Tax Commissioner	Tax Commissioner	Registrar of Motor Vehicles	Tax Commissioner	Tax Commissioner	Tax Commissioner

Oklahoma	Tax Commission	Tax Commission	Tax Commission	Tax Commission	Tax Commission	Tax Commission	Tax Commission
Oregon	Tax Commission	.....	Department of Motor Vehicles	Department of Motor Vehicles	.....	Treasurer	Liquor Control Commission
Pennsylvania	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue
Rhode Island	Department of Administration	Department of Administration	Department of Administration	Registrar of Motor Vehicles	Department of Administration	Department of Administration	Department of Administration
South Carolina	Tax Commission	Tax Commission	Tax Commission	Highway Commission	Tax Commission	Tax Commission	Tax Commission
South Dakota	.....	Department of Revenue	Department of Revenue	Department of Motor Vehicles	Department of Revenue	Department of Revenue	Department of Revenue
Tennessee	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue	Department of Revenue
Texas	.....	Comptroller	Comptroller	Highway Department	Comptroller	Comptroller	Liquor Control Board
Utah	Tax Commission	Tax Commission	Tax Commission	Tax Commission	Tax Commission	Tax Commission	Tax Commission
Vermont	Commissioner of Taxes	.....	Motor Vehicles	Motor Vehicles	Commissioner of Taxes	Commissioner of Taxes	Commissioner of Taxes
Virginia	Department of Taxation	.....	Department	Department	Department of Taxation	Department of Taxation	Department of Taxation
Washington	.....	Tax Commission	Division of Motor Vehicles	Division of Motor Vehicles	Department of Taxation	Department of Taxation	Department of Taxation
West Virginia	Tax Commissioner	Tax Commissioner	Department of Licenses	Department of Licenses	Tax Commission	Tax Commission	Liquor Control Board
Wisconsin	Department of Taxation	Department of Taxation	Tax Commissioner	Department of Motor Vehicles	Tax Commissioner	Tax Commissioner	Liquor Control Commission
Wyoming	.....	Department of Taxation	Department of Taxation	Motor Vehicles	Department of Taxation	Department of Taxation	Department of Taxation
District of Columbia	Finance Officer	Department of Revenue	Department of Revenue	Department	Department of Revenue	Department of Revenue	Liquor Commission
		Finance Officer	Finance Officer	Department of Revenue	Finance Officer	Finance Officer	Finance Officer

Source: Federation of Tax Administrators, *Tax Administrators News*, Vol. 27, No. 7, July 1963 (updated to January 1, 1964).

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## PUBLISHED REPORTS OF THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS<sup>1</sup>

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- Interest Bearing U.S. Government Securities Available for Investment of Short-Term Cash Balances of Local and State Governments.* September 1963. 5p., printed. (Prepared by U.S. Treasury Dept.)
- Intergovernmental Responsibilities for Mass Transportation Facilities and Services.* Report A-4. April 1961. 54p., offset. (Out of print; summary available.)
- Governmental Structure, Organization, and Planning in Metropolitan Areas.* Report A-5. July 1961. 83p., U.S. House of Representatives, Committee on Government Operations, Committee Print, 87th Congress, 1st session.
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