

State of Iowa

1956

**Report of the Iowa Taxation Study Committee
to
The Governor and the General Assembly of Iowa**

PART I

IOWA'S TAX SYSTEM — A FACTUAL SURVEY

**Committee appointed by authority of
Senate Joint Resolution No. 7 of the 56th General Assembly**

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LETTER OF TRANSMITTAL

October 18, 1956

TO: The Governor and

The 56th and 57th General Assemblies
of the State of Iowa:

The Iowa Taxation Study Committee appointed under provisions of Senate Joint Resolution 7, 56th General Assembly, submits herewith the first part of its final report. The final report is made up of two parts as follows:

Part I. Iowa's Tax System — A Factual Survey

Part II. Findings, Recommendations and Bills

The publication of Part II is scheduled to follow shortly after the publication of Part I.

The present volume, Part I, provides the background material which the Committee has used in analyzing and considering the various proposed changes in our tax system. The reader should recognize that it was not possible to use the same year all through the report in making state comparisons. In general, the most recent year's data were used which meant 1956 figures on state tax revenues, 1955 figures on state expenditures, and 1953 figures on local revenues. State figures issued by Federal agencies were used for state comparisons because they have been prepared for this purpose. When state issued and Federal issued figures conflict, the reader will find that the differences are not significant.

The Committee has approved Part I as published in this volume.

Respectfully submitted,

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CHAPTER I

Governmental Revenues and Expenditures in Iowa, 1946-1956: A summary

The Nature of Iowa's "Fiscal Problems"

The factors which led the 56th General Assembly to provide for a general study of the "equity and adequacy" of the State and local tax system of Iowa were varied and complex. But the conditions which give rise to the need for the present tax study did not develop suddenly. In fact, the more important aspects of current Iowa "tax problems" reflect the culmination of post-war trends in tax yields, demands for governmental services, and the general economy of the State of Iowa.

The nature of the major issues confronting the Taxation Study Committee can best be introduced in terms of a summary review of the major trends in revenues and expenditures from the end of World War II, to the present. Detailed description and analysis of the principal sources of revenue and expenditures are presented in later sections of part I of the Report. An analysis of the Iowa economy, and a discussion of changes in the nature of the State's economy are also presented in a later section, particularly as these basic economic factors affect the State's tax problems.

This chapter of Part I of the Report is designed to present an overall picture of postwar trends in the State's tax receipts and governmental expenditures.

Table 1. State and Estimated Local General Revenues from "Own Sources", and Federal Aids to the State Government, Iowa: Selected Years, 1942-1955. (In millions)

	General Revenues from "Own Sources"		Federal Aid to State*	Total State and Local plus Federal Aid to State*
	State ^a	Local ^b	State ^c	
1942	\$ 84	\$ 92	\$14	\$190
1944	79	100	18	198
1946	97	117	14	228
1948	152	147	32	331
1950	170	181	44	395
1951	188	199	43	430
1952	194	222	42	458
1953	197	242	45	484
1954	217	259	47	522
1955	228	270	49	547

^aState General Revenues from "Own Sources" include all State taxes, and charges for services, such as education and hospitals; interest earnings; sale of property; and miscellaneous receipts. However, contributions to State-operated insurance trust and retirement programs are excluded from general revenues. Net profits from State owned liquor stores are included. Data are for fiscal years ending June 30.

Source: U. S. Department of Commerce, Bureau of the Census.

^bLocal General Revenues from "Own Sources" include locally imposed property taxes, after deduction of Homestead and Agricultural land tax credits, charges for services (other than utilities) provided by local governments; interest earned; sales of property, and special assessments. Receipts from utilities, and insurance trust revenues are excluded. Local Revenues from "Own Sources," as shown in this table are estimates based on net local levies on properties for collection in the years shown. These levies comprised over 80 percent of Local Revenues from Own Sources in the years shown. Estimate based on data from Iowa State Tax Commission, Iowa State Comptroller, and U. S. Department of Commerce, Bureau of the Census.

^cSource: U. S. Department of Commerce, Bureau of the Census.

^dThe estimates of Total "State and Local General Revenues" shown in the last column of the table exclude any duplications from state to local, local to state, and local to local transfers of funds, such as state aids for schools, highways and property tax credits, county payments to the state for institutional care, and tuition charges paid by one school district to other districts. Thus, the totals represent aggregate net funds available from State, local and Federal sources for the support of General Government services in the State of Iowa.

1. General Revenues of State and Local Governments in Iowa

Broadly defined, the total revenues of State and local governments in Iowa were almost \$550 million in 1955, or over \$200 per resident of the State. This total is exclusive of over \$20 million of revenue received by the State for the unemployment compensation insurance trust fund, and public employee retirement funds. The total also excludes more than \$30 million of gross revenue from municipally owned and operated utilities. Only the net profits, rather than the gross receipts, of the State owned liquor stores are included in the total general revenue figure.

Receipts of the insurance trust funds are excluded for the reason that neither the gross revenues, nor the excess of receipts over benefit payments is available for expenditures on general government functions. Gross receipts of local utilities do not, of course, represent funds available for general government expenditures. Most of the receipts are required to pay operating expenses of the utilities. For similar reasons, only the net profit of the State owned liquor store system is included in general revenue raised at the State level.

Total general revenues as defined above, are shown in Table 1, for selected years from 1942 through 1955. The composition of the totals is described in somewhat greater detail in the footnotes to Table 1. The compilation of the totals for the year 1955 is illustrated below. The data for all other years have been compiled in the same manner.

State general revenue from own sources (1955):		(,000 omitted)
Taxes, exclusive of retirement and unemployment compensation revenues.....		\$197,850
Charges and miscellaneous revenues:		
Earnings on property and investments	\$ 1,725	
Current charges for services:		
Higher education:		
Commercial activities	10,494	
Other activities (largely tuition)	3,976	
Highways	730	
State hospitals	2,365	
All other charges & misc. revenue.....	3,236	22,526
Net profits of state liquor stores		7,465
Total State Revenues from own sources.....		\$227,841
Local revenues from own sources:		
Net levies on property	\$220,707	
Estimated, nonproperty taxes and charges, and misc. revenue from own sources	49,392	
Total local revenue from own sources.....		270,099
Federal Aids to State		48,574
Grand total, State and local general revenues, exclusive of intra-state transfers among governmental units, 1955		\$546,514

The last column in Table 1 represents a reasonably accurate measure of the total revenues from: a) State taxes and charges, b) local taxes and charges, and c) Federal aids—available to finance the functions performed by all State and local governmental agencies in Iowa. From 1942, to 1955, total revenues, as shown in Table 1, increased 188 percent; State revenues increased at a somewhat slower rate (172 percent) than local revenues (192 percent). But the most rapid increase in revenues available to Iowa governments occurred in Federal aids, which rose 250 percent from 1942 to 1955. However, if the comparison is confined to the postwar period, 1946-1955, State revenues rose more rapidly (148 percent), than local revenues (132 percent).

The most rapid annual rates of increase in State government revenues occurred in the immediate postwar years, from 1946 to 1950, when State revenues rose 75.0 percent, local revenues, 55.3 percent, Federal aids, 215 percent, and total revenues, 74.0 percent.

From 1950, to 1955 the rate of increase was less rapid in all three of the sources shown in Table 1. In this 5-year period, Federal aids rose only 9 percent, while State revenues increased 34 percent, and local revenues 49 percent.

The varying rates of increase in general revenues from

State, local, and Federal sources are reflected in the following tabulation, which shows the percentage of total general revenues derived from each of the three sources for selected years.

	State	Local	Federal Aid	Total
1942	44.0%	48.7%	7.3%	100.0%
1946	42.6	51.2	6.2	100.0
1948	45.9	44.3	9.8	100.0
1950	43.0	45.8	11.2	100.0
1955	41.7	49.4	8.9	100.0

From 1946 to 1948, local tax and nontax revenues supplied a decreasing percentage of total general revenue, while State revenues and Federal aids supplied larger shares. From 1948 through 1955, however, an increasing share of a rising total revenue has been raised at the local level in Iowa. From almost 46 percent of total general revenue in 1948, the share raised at the State level declined to less than 42 percent in 1955.

To a considerable degree, public demands for property tax relief reflect the added share of rising total revenues of Iowa governments derived from local—largely property tax—sources in the period from 1948 to 1955. The trend toward increased reliance on locally raised revenues in this period may be attributed to two major factors:

CHART I. STATE TAX REVENUES AND NET LOCAL PROPERTY TAX LEVIES IN IOWA, 1942-1956

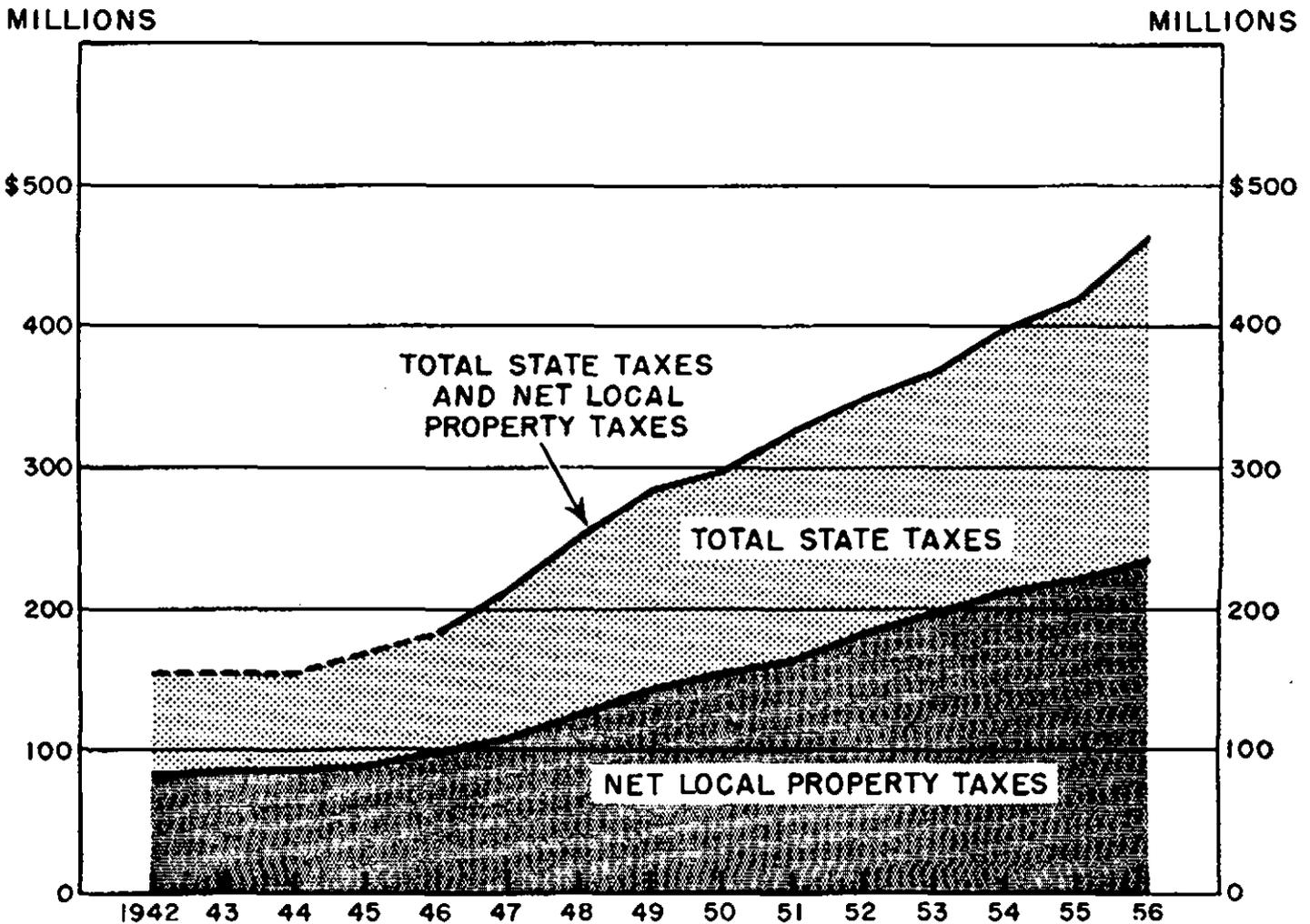


TABLE 2. STATE TAX REVENUES AND GROSS AND NET LOCAL PROPERTY TAX LEVIES IN IOWA
1942, 1944, and 1946-1956
(Dollar amounts in thousands)

	Total State Tax Revenues ^{a/}	Local Property Tax Levies ^{b/}	Credits Against Property Tax Levies:		Net Local Property Tax Levy ^{b/c/}	Total State Taxes and Net Local Property Taxes
			Homestead	Agri. Land		
1942	\$ 71,032	\$ 94,838	\$ 13,900	0	\$ 80,938	\$ 151,970
1944	65,213	100,511	14,371	0	86,140	151,353
1946	82,127	114,517	15,657	0	98,860	180,987
1947	104,000	123,967	16,418	500	107,049	211,049
1948	127,552	142,030	17,216	2,000	122,814	250,366
1949	139,287	163,585	17,898	2,000	143,687	282,974
1950	146,437	176,341	21,015	4,500	150,826	297,263
1951	162,409	188,954	21,601	5,000	162,353	324,762
1952	168,244	208,542	22,461	5,000	181,081	349,325
1953	169,353	225,681	22,900	5,000	197,781	367,134
1954	187,972	240,095	23,708	5,000	211,387	399,359
1955	197,850	249,859	24,152	5,000	220,707	418,557
1956 ^{d/}	230,379	265,300	25,000	10,500	229,800	460,179
Percent Increase:						
1942 to 1956	224.3	179.7	79.9	-----	183.9	202.8
1946 to 1951	97.8	65.0	38.0	-----	64.2	79.4
1951 to 1956	41.9	40.4	15.7	110.0	41.5	41.7
1955 to 1956	16.4	6.2	3.5	110.0	4.1	9.9

^{a/}. State tax collections are on a fiscal year base. Source: U. S. Department of Commerce, and Treasurer of State of Iowa.

^{b/}. Local property taxes are shown by year in which payment is due; levies are made in preceding year. The figures shown are total levies by all governmental units other than the State of Iowa. For convenience in presentation, all of the Homestead Tax Credit is shown as a deduction from local levies, although this credit is applicable to the total levy rather than that made by local governments. For most of the years shown in this table levies by local governments comprise almost the entire levy on property. "Net Local Property Taxes" computed from data supplied by Iowa Tax Commission.

^{c/}. Local levies on property equal to total levies (column 2) less Homestead and Agricultural Land Tax Credits.

^{d/}. Figures shown for 1956 are partly estimated from preliminary data.

1. The rapid rates of increase in public school and general city government expenditures, both of which are financed largely from locally raised revenues.
2. The slowing down of the rate of increase in Personal Income and general business activity in Iowa in the years following 1948. The growth in revenues from some of the major State taxes—the sales and use, and the income taxes—are very closely related to changes in income of the State's residents.

The comparative growth rates of State taxes, and of local property taxes are presented in the following section, together with data indicating the role of property tax credits in the relief of local property taxation. Also, data are presented in the following section to indicate the degree to which the changes in the State tax structure enacted by the 56th General Assembly have affected the trend toward increased reliance on local revenue sources which prevailed from 1948 to 1955.

2. Total State and Local Tax Receipts

Tax receipts comprise the most important source of total State and local governmental revenue in Iowa, as

in other states. In 1953, for example, taxes supplied over 86 percent of total State and local general revenues raised in Iowa.* Moreover, taxes—rather than charges for current services and miscellaneous receipts—are the focal point of interest in most studies of governmental revenue systems. Accordingly, a somewhat narrower definition of governmental revenue—tax revenue—is employed in this section.

Total tax collections of the State government of Iowa, and the gross and net property tax levies of local units of government are presented in Table 2, and in Chart I. The State tax revenues presented in the table and in Chart I include all receipts from taxes imposed by the State government, even though some of these taxes, such as motor vehicle licenses, and the State levy on property for retirement of the Soldiers Bonus bonds are actually paid to county officials. The revenues shown for the State also include taxes which are earmarked for special purposes, such as the gasoline tax and motor vehicle license fees which are earmarked for the Road Use Tax Fund, as well as those tax revenues which go into the General

*U.S. Department of Commerce, Bureau of the Census, *State and Local Government Revenue in 1953*, Table 2, p. 11.

Fund of the State of Iowa.* However, the figures shown do not include earmarked receipts for government employee retirement plans, unemployment insurance funds, or earnings on the investment of the reserves of these funds. Nor do the tax revenues include aids from other governments, or receipts from charges imposed on individuals for the use of State and local facilities. Total general revenues, including receipts from charges for services and miscellaneous sources, as well as tax collections, as defined above, are shown in Table 1.

From the fiscal year ending June 30, 1942, to the fiscal year ending June 30, 1956, the tax revenues of the State of Iowa increased from a little over \$71 million, to almost \$230 million, an increase of 224 percent. In the same period, local property taxes, after deduction of Homestead and Agricultural Land Tax credits, rose from \$81 million, to almost \$230 million, an increase of 184 percent.

In the first five years of the postwar period, from 1946 to 1951, the tax collections of the State government increased more rapidly than net local property taxes; however, from 1951 through 1956, net local levies on property rose at about the same rate as receipts from taxes imposed at the State level.

In the case of the taxes collected at the State level, the increases noted are attributable to the following factors:

- 1). Increases in the price level which have been particularly important in raising the sales and income tax revenues;
- 2). Increases in real income and in the physical volume of goods purchased affecting the yield from practically all State taxes; and
- 3). Higher tax rates, and broadened coverage of certain tax bases.

Beginning with the fiscal year 1948, the effective rates of the personal income tax were raised from 50 percent of the full 1 to 5 percent tax rates, to 75 percent of the full rate schedules. The tax rate on cigarettes was raised from 2 cents per pack to 3 cents per pack in 1953, and the gasoline tax rate from 4 cents to 5 cents per gallon in the same year. These were the only major changes in State tax rates from the end of World War II, to 1955, when the 56th General Assembly made several modifications.

In the case of the net local levy on property, the increase since 1946 has reflected both higher millage rates, and increased valuation. Local property taxes payable in 1948 were levied on a total assessed value of \$3,061 million, at an average rate of 36.66 mills; for taxes payable in 1956, the assessment base was \$4,554 million, and the average millage rate was approximately 58. Thus, from 1946 to 1956, assessed values rose roughly 48 percent; the average millage rate for the state as a whole increased 58 percent.

The postwar increases in State and local taxes in Iowa were comparable to the increases in the 48 states as a whole. For example, from 1946 to 1955, tax revenues of the Iowa State Government rose almost 141 percent; for the 48 states the increase was 135 percent. Local tax revenues in Iowa increased approximately 123 percent from 1946 to 1955, and the same rate of increase was recorded for local units in the 48 states as a group. However, from 1948 to 1955, State tax receipts rose less rapidly in Iowa (55 percent), than in the 48 states (72 percent). Between 1948 and 1955, local tax collections rose more rapidly in Iowa (almost 80 percent), than for similar units of government in the United States as a whole (74 percent). Taking State and local tax revenues together, the rate of increase in Iowa was above the na-

tional rate for the 1946 to 1955 period, but below the rate in the nation as a whole from 1948 to 1955.

Quite clearly, the most rapid annual rates of increase in Iowa State and local tax revenues were registered in the immediate postwar fiscal years, 1947 and 1948. These were also years in which the Personal Income of the State's residents grew most rapidly, consumers' durable goods were returning to the market and prices were rising.

As was noted in connection with the total general revenue data presented in Table 1, the rates of increase in general revenues have not been uniform at all levels of government. The same tendency is apparent in the tax revenue data shown in Table 2. For the 1942 to 1956 period as a whole, State tax revenues rose more rapidly than net local property taxes; but from 1948 to 1955, net local levies increased almost 80 percent, while State tax revenues were rising only 55 percent. Largely as a result of the tax revisions made by the 56th General Assembly, the tendency for State tax revenues to increase more slowly than net local tax revenues was reversed from 1955 to 1956. In 1956, State tax revenues increased 16.0 percent, while net local property taxes payable in 1956 were only 4.1 percent above the taxes collectible in 1955.

The varying rates of change in total State tax revenues, and net local levies on property are reflected in the following tabulation for Iowa and the 48 states as a whole. In this tabulation the sum of State tax collections plus local levies on property is taken as 100 percent in each year; local levies on property are expressed as a percentage of this total for selected years beginning with 1942, for Iowa and the 48 states.

Year	Local Property Tax as Percent of Total State Tax and Local Property Tax Revenues	
	Iowa ^a	48 states ^b
1942	53.3%	52.3%
1944	58.9	51.7
1946	54.6	49.0
1948	49.1	46.5
1950	50.7	47.0
1952	51.8	45.7
1954	52.9	46.3
1955	52.7	47.1
1956	50.0	N.A.

^aSource: Computed from data in Table 2.

^bSource: U.S. Department of Commerce, *Historical Statistics on State and Local Government Finances, 1902-1955*; and *Summary of Governmental Finances in 1954*.

The percentage comparisons presented above point up two significant characteristics of the Iowa tax system:

First, in all years for which comparable data are available, heavier reliance was placed on local property taxation in the total State and local revenue system in Iowa, than in the 48 states as a whole.

Second, from 1948 to 1954, local property taxes supplied an increasing share of rising total State and local tax revenues in Iowa; in contrast, local property taxes accounted for a decreasing fraction of total state and local revenues in the 48 states as a whole from 1942 through 1952. However, from 1952 to 1954, local property taxes contributed an increasing percentage of total state and local property tax revenues in the 48 states as a whole, as well as in Iowa.

Changes in the relative importance of local property taxes, in Iowa as well as in other states, reflect changes in state tax revenues, state aid programs, and local needs for revenues.

The tax revenues of all states respond automatically—but in varying degrees—to changes in private income and expenditures. Income and sales tax revenues, in particular, are very responsive to changes in the level

*Receipts and expenditures for the State General Fund are presented in Section 3.

TABLE 3. RECEIPTS OF GENERAL FUND, STATE OF IOWA
Fiscal Years Ending June 30,
(in thousands of dollars)

Special taxes:	1946	1947	1948	1949	1950	1951
Beer tax	1,550	1,629	3,420	8,274	3,310	3,219
Chain store tax	36	33	27	28	19	30
Cigarette tax	3,586	4,212	4,746	4,904	4,961	5,054
Equipment car tax	49	69	79	95	95	84
Income tax - corporation	1,292	1,918	2,640	2,936	2,676	2,961
Income tax - individual	6,373	10,268	15,735	16,679	15,728	18,582
Inheritance tax	2,250	2,753	3,205	3,184	3,419	3,649
Insurance premium tax	2,265	2,661	3,301	3,739	4,052	4,279
Oleomargarine tax	275	340	646	611	619	580
Sales tax	27,957	36,772	44,887	48,663	47,542	52,564
Use tax	1,810	4,332	6,160	8,118	8,626	9,538
Total Special Taxes	47,442	64,987	84,836	92,232	91,046	100,538
Less: Diversion to R. U. T. F. d/						
Sales tax, 10%	-----	-----	-----	-----	4,731	5,204
Use tax, motor vehicles	-----	-----	-----	-----	5,326	6,384
					10,057	11,588
Net Special taxes to Gen. Fund	47,442	64,987	84,836	92,282	80,989	88,950
From County Treasurers	4,269	4,021	4,927	5,772	5,784	7,431
Transfers from Liquor Con. Com.	3,500	3,500	5,000	3,900	6,400	5,000
Interest from Gen. Fund Invest.	-----	-----	251	468	584	644
Fees from State Offices	1,395	1,896	1,818	2,021	2,326	2,487
Miscellaneous receipts	44	29	59	117	115	127
Grand Total, Annual	56,650^{e/}	74,434^{c/}	96,891	104,510	96,149	104,640
Grand Total, Biennial		131,084^{e/}		201,400		200,789

a/. Estimates of State Comptroller, July 1, 1955.

b/. Combined estimated yield of sales and use taxes, net of diversion to Road Use Tax Fund.

c/. Actual Revenues, as reported by the State Comptroller, July, 1956.

d/. Road Use Tax Fund

e/. Prior to the fiscal year ending June 30, 1948, the General Fund did not include all of the receipts included since that time. The data for the 1946 and 1947 fiscal years are presented here as they would have appeared if the General Fund had been defined in the same way in 1946 and 1947 as in later years.

of income and business activity. Thus, when private income is rising rapidly, state tax revenues tend to increase more rapidly than local levies on property. This tendency is reflected in increased state aids to local governments in periods of expanding business activity and rising state tax receipts.

Local property taxes, on the other hand, rise only when local units of government find it necessary to raise additional revenues to supplement state aids, and nontax revenues. In this sense, local property taxes are a residual, or balancing, form of taxation. Thus, local levies tend to rise at precisely those times at which state tax revenues are increasing least rapidly. These tendencies are apparent in the percentages shown above.

The most rapid rate of increase in Iowa income and business activity occurred in the period 1946 to 1948; this was also the period in which reliance on local property taxation showed the sharpest decline in Iowa. From 1948 through 1954, private income in Iowa rose much less rapidly than in the nation as a whole; and in this more recent period, the relative importance of local property taxes rose in Iowa, but fluctuated without any clear-cut trend in the nation.

The tax revisions enacted by the 56th General Assembly, including increased school aids and the 110 percent increase in Agricultural Land Tax Credits, reduced the relative importance of net local property tax levies, but did not reduce the absolute amount of local property

REPORT OF THE IOWA TAXATION STUDY COMMITTEE

TABLE 3. (CONT.) RECEIPTS OF GENERAL FUND, STATE OF IOWA
Fiscal Years Ending June 30.
(in thousands of dollars)

Special taxes:	1952	1953	1954	1955	Est.	Actual	Percent Change	
					1956 _{a/}	1956 _{c/}	1946-1955	1946-1956
Beer tax	3,094	3,200	3,233	3,214	3,175	3,189	+107.4	+105.7
Chain store tax	32	33	32	33	32	31	- 8.3	- 13.9
Cigarette tax	5,022	5,232	7,336	7,020	7,150	7,119	+ 95.8	+ 98.5
Equipment car tax	93	109	101	103	103	101	+110.2	+106.1
Income tax - corporation	2,884	2,800	2,232	2,284	3,650	3,190	+ 76.8	+146.9
Income tax - individual	19,703	19,000	20,797	21,956	25,400	25,139	+244.5	+294.5
Inheritance tax	3,939	4,854	5,157	4,701	5,300	4,759	+108.9	+111.5
Insurance premium tax	4,466	4,676	5,209	5,441	6,543	5,794	+140.2	+155.8
Oleomargarine tax	617	619	1	-----	-----	-----	-----	-----
Sales tax	52,508	52,674	53,561	55,825	68,925 _{b/}	69,221	+ 99.7	+147.6
Use tax	7,942	8,000	9,541	10,514	-----	11,362	+480.9	+527.7
Total Special Taxes	100,300	101,198	107,200	111,091	120,278	129,905	+134.2	+173.8
Less: Diversion to R. U. T. F. _{d/}								
Sales tax, 10%	5,256	5,267	5,363	5,583	-----	6,925		
Use tax, motor vehicles	4,624	4,500	5,715	6,506	-----	6,502		
	9,880	9,767	11,078	12,089		13,427		
Net Special Taxes to Gen. Fund	90,420	91,431	96,122	99,002	120,278	116,478	+108.7	+145.5
From County Treasurers	7,126	7,323	8,589	8,376	9,308	9,850	+ 89.4	+130.7
Transfers from Liquor Con. Com.	4,500	4,250	4,500	4,000	4,000	5,000	+ 14.3	+ 42.9
Interest from Gen. Fund, Invest.	1,086	-----	-----	1,456	-----	273	-----	-----
Fees from State Offices	2,954	3,032	3,439	3,492	3,440	3,817	+146.6	+173.6
Miscellaneous receipts	130	129	398	140	100	258	-----	-----
Grand Total, Annual	106,215	106,165	113,048	116,466	137,126	135,676	+104.9	+139.5
Grand Total, Biennial		212,380		229,514				

a/. Estimates of State Comptroller, July 1, 1955.

b/. Combined estimated yield of sales and use taxes, net of diversion to Road Use Tax Fund.

c/. Actual Revenues, as reported by the State Comptroller, July, 1956.

d/. Road Use Tax Fund

e/. Prior to the fiscal year ending June 30, 1948, the General Fund did not include all of the receipts included since that time. The data for the 1946 and 1947 fiscal years are presented here as they would have appeared if the General Fund had been defined in the same way in 1946 and 1947 as in later years.

taxes payable in 1956. For 1956, net local property tax levies will supply a smaller percentage of total State and local property tax revenues than at any time since 1948; and the share of net local property levies in total tax revenues will be smaller in 1956 than in 1942, or 1946.

Although the changes in the State's tax system enacted by the 56th General Assembly have had the effect of reducing the relative importance of local property taxation, demands for property tax relief continue for at least two reasons:

1). The absolute amount of the net local levy on property continues to increase, rising by approximately \$9 million from 1955, to 1956, and by \$107 million from 1948 to 1956;

2). Declining income from agriculture, which bears a relatively stable (44 to 48 percent) share of rising local property taxation, has intensified the tax burden.

3. Receipts and Appropriations, State of Iowa General Fund, 1946-1956.

The tax and nontax revenues of the State government are allocated to several different "funds," or accounts. The major accounts are the "General Fund," the "Road Use Tax Fund," and the "Primary Road Tax Fund." Receipts and expenditures of the State General Fund are analyzed in this section, and an analysis of the road tax fund is presented in Section 4.

In many respects the General Fund is the focal point

of interest in State fiscal affairs. The receipts of this fund comprise the resources over which the legislative branch exercises discretionary powers. Most of the tax and nontax revenues of the State government—with the important exception of the highway user taxes and license fees—go into the General Fund. And it is from the General Fund that appropriations are made for the support of State institutions and services, tax relief payments to property owners, and aids to local units of government. It is primarily on the basis of projected General Fund receipts and expenditures that legislative decisions are made with respect to changes in State taxes, and the appropriations of the General Assembly are determined. Therefore, the trend of revenues and expenditures for the General Fund merit rather detailed consideration.

Receipts. Total annual receipts of the State General Fund, and total receipts for each biennium, by major categories of revenue, are shown in Table 3, for the fiscal years 1946-1956. The data presented in this table have been compiled from Iowa State Budgets, except the estimated and actual revenues for the fiscal year 1956, which were supplied by the State Comptroller.

From 1946, to 1956, the annual yield of the "special taxes," shown in Table 3, increased by over \$82 million. The most rapid rates of increase were registered by the personal income tax, up 295 percent, and the use tax, up 528 percent. The very high rate of increase in the yield of the use taxes from 1946 to 1956 reflects the fact that many types of consumers' and producers' durable goods—particularly automobiles—were virtually unavailable during a large part of the fiscal year 1946.

For the fiscal year 1946, the effective rates of personal income tax ranged from .5 percent, to 2.5 percent of net taxable income. The rates were raised to .75 percent, to 3.75 percent for the fiscal years 1948-1955, inclusive. For the fiscal year 1946, the rates were again raised to a range of .8 percent, to 4.0 percent. Thus, a part of the increase in the personal income tax was attributable to the fact that the rate structure was 60 percent higher in 1956, than in 1946. Also, effective with the fiscal year 1956, capital gains were made taxable for the first time, and dividend income was subjected to a greater degree of taxation.

But the major factors responsible for the high rate of increase in the revenue from the personal income tax were the marked increase in income received by residents of Iowa and the change in the effective tax rates. Percentage-wise, and in dollar amounts, the increase from 1946 to 1948 was larger than for the entire period from 1948 through the fiscal year 1955.

From 1946 to 1956, the total revenues from the "special taxes" shown in Table 3 increased 174 percent. However, the diversion of 10 percent of the sales tax, and the use tax on motor vehicles to the Road Use Tax Fund, beginning in 1950, held down to 145 percent the rate of increase in the net receipts of the General Fund from these sources.

In addition to special tax revenues, several sources of nontax revenue are allocated to the General Fund. County payments for the care of patients in State institutions comprise the most important source of nontax revenue. From 1946 to 1956, General Fund receipts from county treasurers increased by more than \$5.5 million, or approximately 131 percent. These payments are made from funds raised by local property taxation.

A part of the profits of the State Liquor Control Commission are regularly transferred to the General Fund. Another part, about one-third, or \$2.4 million in recent years, is used to reimburse local governments for tax losses resulting from military service exemptions. Al-

though the liquor profits going to the General Fund vary from year to year, there has been no clearcut tendency for the amount to increase since 1948.

Fees from State offices include a wide variety of receipts, collected principally by the Departments of Agriculture and Public Safety, The Insurance Commission, and The Secretary of State. General Fund receipts from State offices have increased steadily since 1946. From a total of slightly less than \$1.4 million in 1946, fees increased 174 percent to \$3.8 million in 1956.

Changes in the relative importance of the major sources of receipts of the General Fund are shown in Table 4. The sale and use taxes comprised the most important source of General Fund revenue throughout the period. The decline in the relative importance of this source from the biennium ending June 30, 1949, to subsequent periods reflects the diversion of sales and use tax receipts to the Road Use Tax Fund. Even with the higher sales and use tax rates in effect during the fiscal year 1956, the relative importance of this source of revenue was not restored to the pre-1950 level.

The income taxes accounted for a larger percentage of General Fund receipts at the end of the period covered in Table 4, than in the earlier years. The growth in the relative importance of this source reflects higher incomes, and increased rates. The relative importance of other special taxes, as a group, did not change significantly during the period, 1947 to 1955. In 1956, however, the relative importance of other special taxes declined, primarily as a result of the higher sales, use, and income tax rates. Nontax revenues have accounted for a relatively stable percentage of General Fund revenues through the period.

Table 4. Percent of General Fund Receipts from Sales and Use Taxes, Income Taxes, Other Taxes, and Nontax Sources.

	Biennial Periods, ending June 30					
	1947	1949	1951	1953	1955	1956*
Net Sales & Use Taxes	54	54	48	48	46	49
Income taxes	15	19	20	21	21	21
Other Special taxes	17	16	17	17	18	15
Nontax revenues	14	12	15	14	15	14
Total	100	100	100	100	100	100

Source: Computed from data in Table 3.

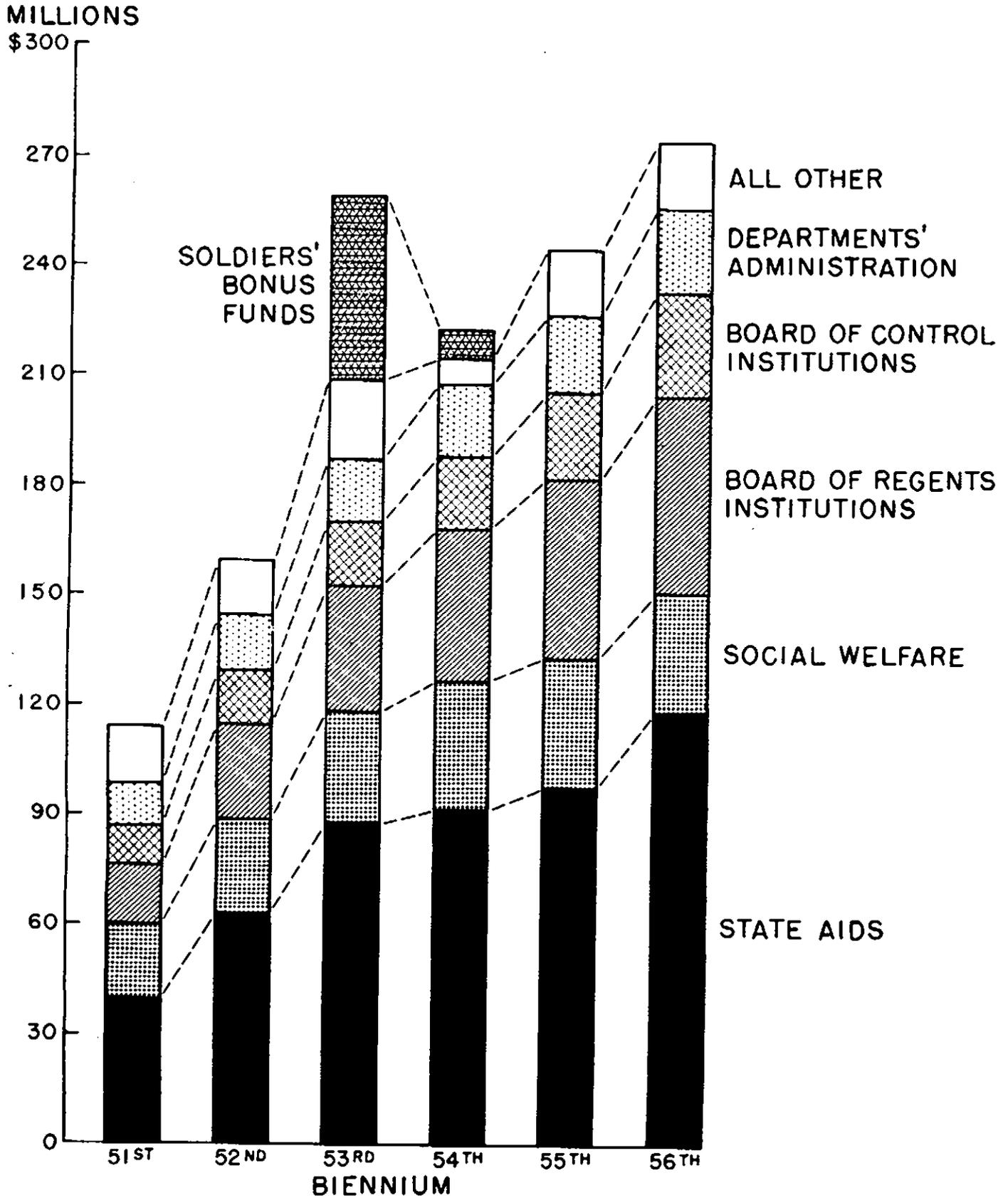
*Data for fiscal year ending June 30, 1956.

Appropriations. Appropriations from the General Fund of the State of Iowa are shown in Table 5, by major category of appropriation, for each biennium since July 1, 1945. The relative rates of growth in each class of appropriation, and the relative importance of each type of appropriation are indicated in the last three columns of the table. The trends in appropriations are shown graphically in Chart 2.

For the 56th Biennium (July 1, 1955, to June 30, 1957), the various State aids comprised the largest appropriation from the General Fund—over 43 percent of the total, as compared with about 35 percent of the total in the 51st biennium. The growing importance of this class of appropriation is further evidenced in the "percentage change" columns of Table 5. From the 51st to the 55th Biennium, State aids increased almost 149 percent, while total appropriations increased by only 115 percent. From the 55th to the 56th Biennium, State aids increased more than any other category of appropriations shown in Table 5, over 20 percent.

Appropriations for support of State institutions under the Board of Regents comprise the second most important component of General Fund appropriations, accounting for almost 20 percent of the total in the 56th biennium, as compared with about 14 percent of the total in

CHART 2. APPROPRIATIONS: GENERAL REVENUE FUND, STATE OF IOWA, 51ST THROUGH 56TH BIENNIUM



SOURCE: TABLE 5.

TABLE 5. GENERAL REVENUE FUND APPROPRIATIONS
By Biennial Periods, July 1, 1945 to June 30, 1957
By Major Categories.
(In thousands)

	51st Biennium July 1, 1945 to June 30, 1947	52nd Biennium July 1, 1947 to June 30, 1949	53rd Biennium July 1, 1949 to June 30, 1951	54th Biennium July 1, 1951 to June 30, 1953	55th Biennium July 1, 1953 to June 30, 1955	56th Biennium July 1, 1955 to June 30, 1957	Percentage 51st to 55th	Changes 55th to 56th	Percent of Total 56th Biennium
Departments									
Administration	\$ 11,016	\$ 15,103	\$ 17,302	\$ 18,826	\$ 20,594	\$ 23,015	+ 86.9	+ 11.8	8.4
Board of Control									
Institutions <u>a/</u>	10,592	15,050	17,308	19,672	23,505	28,090	+ 121.9	+ 19.5	10.3
Board of Regents									
Institutions <u>a/</u>	15,785	25,711	33,946	41,620	49,410	53,513	+ 213.0	+ 8.3	19.6
Social Welfare	21,290	25,590	30,800	34,420	34,640	33,070	+ 62.7	-- 4.5	12.1
State Aids <u>b/</u>	39,418	63,450	88,145	92,645	97,935	118,079	+ 148.5	+ 20.6	43.2
Capital Improvements	13,903	9,624	12,094	1,379	9,858	9,493	-- 29.1	-- 3.7	3.5
Standing: Tax Refunds	800	2,000	3,000	3,000	4,720	4,520	+ 490.0	-- 4.2	1.7
Budget and Financial Control Com.	750	2,000	1,000	2,000	2,000	2,000	+ 166.7	---	0.7
Legislative Expense and Special Committees	362	464	750	781	844	975	+ 133.1	+ 15.5	0.4
Miscellaneous and Claims	67	111	139	104	286	96	+ 252.2	- 59.3	<u>d/</u>
Deficiency <u>c/</u>	----	1,612	-----	----	----	----	-----	-----	----
Service Compensation Fund	----	-----	50,000	8,000	----	----	-----	-----	----
Primary Road Fund	----	-----	5,000	----	----	----	-----	-----	----
Public Employees Retirement Fund	----	----	----	----	1,000	200	----	-----	0.1
Total for Biennium	\$113,984	\$160,714	\$259,484	\$222,447	\$244,742	\$273,051	+ 114.7	+ 11.6	100.0

a/. For support only. Excludes capital appropriations.

b/. Includes school aids, homestead and agricultural land tax credits, mental aids and other minor aids.

c/. Deficiency appropriations have been allocated to specific departments for other biennia.

d/. Less than .05 percent.

Source: Iowa State Budget and Iowa State Comptroller's Office.

the 51st biennium. From the 51st biennium to the 55th biennium, appropriations for support of Board of Regents institutions increased 213 percent. However, for the 56th biennium, the increase was only 8 percent.

Other major categories of General Fund appropriations include those for social welfare (12 percent of the total in the 56th biennium); support for Board of Control institutions (10 percent of the total); and appropriations for the various departments of State government (8 percent of the total). Appropriations for social welfare and State administrative departments have risen less rapidly than total appropriations in the period covered by Table 5; appropriations for Board of Control institutions have increased at a rate slightly higher than the rate of increase in total appropriations.

1. In the 51st Biennium, ending June 30, 1947, 53.3 percent of the expenditures from the General Fund of Iowa went back to local communities in the form of social welfare outlays, school aids, tax credits, and miscellaneous aids. In the 56th Biennium, which will end June 30, 1957, approximately 55 percent of the General Fund outlays will go back to local communities, while 45 percent will be used for general State purposes.

From the 51st to the 56th Biennium, total appropriations increased by slightly more than \$159 million; of the total increase, \$9.4 million, or 57 percent, represented increases in funds returned to local communities.

The growth in appropriations from the General Revenue Fund of the State of Iowa from the 51st biennium to the 56th biennium may be attributed to several factors, of which the following are most significant:

1. The price level of goods and services purchased by state and local governments rose by more than 50 percent during the period covered in Table 5.
2. Appropriations for the 51st biennium were at abnormally low levels as a result of the war-induced shortages of manpower and materials, and reduced enrollments in institutions of higher education.
3. The growth of State aids for schools and for the relief of local property taxation, reflecting higher local school costs.
4. The extension and qualitative improvement of State services.

From October, 1946, to October, 1955, full-time State and local government employment rose from approximately 54,000, to almost 75,000; over the same period monthly payrolls more than doubled, rising from about \$10 million in October, 1946, to more than \$21 million in October, 1955, for all units of government in Iowa. Of the increase in total employment noted above, about 8,000 employees were added at the State level, and over 12,500 by local units of government.* The growth in employment and payrolls from 1946 to 1955 reflects: (a) the shortage of manpower available to State and local governments in 1946; (b) the rising level of wages; and (c) the expansion of functions in the postwar years.

Revenue-Expenditure Comparisons and the Balance of the General Revenue Fund. Receipts of and appropriations from the General Revenue Fund are compared in Table 6. During the period from July 1, 1945 through June 30, 1949, receipts of the Fund exceeded appropriations by almost \$58,000,000. However, in the following three biennia appropriations exceeded receipts by a cumulative total of almost \$84,000,000. Although the full effects of the tax rate increases and tax revisions enacted by the 56th General Assembly were not reflected in the General Fund Receipts for the fiscal year ending June 30, 1956, actual revenues were slightly smaller than the average annual appropriations for the 56th biennium.

*U.S. Bureau of the Census, "Public Employment in October, 1946," May, 1947, pp. 8-9; "State Distribution of Public Employment in 1955," March, 1956, p. 13.

With collections for a full year at the higher rates, and assuming no change in general business conditions during the second year of the 56th Biennium, it is anticipated that General Fund receipts for the entire Biennium will exceed appropriations by roughly \$2.5 million.

Table 6. Receipts and Appropriations, General Revenue Fund, State of Iowa
(In thousands)

	Receipts	Appropriations	Receipts less Approp- riations
51st Biennium, 1945-1947:	\$131,084	\$113,984	+\$17,100
52nd Biennium, 1947-1949:	201,400	160,714	+ 40,686
53rd Biennium, 1949-1951:	200,789	259,484	- 58,695
54th Biennium, 1951-1953:	212,380	222,447	- 10,067
55th Biennium, 1953-1955	229,514	244,742	- 15,228
Fiscal year 1956:	135,676*	136,526*	- 850

Appropriations in excess of current receipts for three successive biennia—the 53rd, 54th and 55th—were made possible by the large balance in the General Revenue Fund at the end of the fiscal year 1949. This balance was accumulated during World War II, and in the immediate postwar years, when receipts were raised by inflation and increased business activity, and expenditures were limited by war-induced restrictions on expenditures.

The excess of appropriations over General Revenue Fund receipts is reflected in the declining balances of the General Revenue Fund. The net and unencumbered balances, including the Special Reserve Fund balances, are shown in Table 7, for the years 1948 to 1956. It will be noted that year-to-year changes in the balances in the General Revenue Fund do not "match" the deficits or surpluses of the General Revenue Fund receipts and appropriations, shown in the last column of Table 6. This discrepancy results primarily from the fact that actual expenditures from the General Fund may be either in excess of, less than appropriations in any particular year, or biennium.

But the trend in General Fund balances, and the cumulative total of surpluses and deficits move in parallel fashion. For example, the net balance of the General Revenue Fund declined from \$120 million on July 1, 1949, to about \$40 million on July 1, 1955, a reduction of approximately \$80 million. In the same period, appropriations exceeded receipts of the General Revenue Fund by almost \$84 million.

Three special non-recurring appropriations accounted for a major portion (79 percent) of the reduction in the General Revenue Fund Balance:

- 1). For the 53rd biennium, covering the period from July 1, 1949, to June 30, 1951, an appropriation of \$50,000,000 was made from the General Revenue Fund to the Service Compensation Fund for the purpose of paying the World War II soldiers' bonus.
- 2). In the same biennium, an appropriation of \$5,000,000 was made from the General Revenue Fund to the Primary Road Fund.
- 3). In the 54th biennium, an additional appropriation of \$8,000,000 was made to the Service Compensation Fund.

*Actual collections during twelve months ending June 30, 1956. Collections during the following twelve months will be somewhat larger—assuming no change in general business conditions—as tax rate changes enacted by 56th General Assembly are fully reflected in collections.

*One-half of total appropriations for 56th Biennium.

Table 7. General Revenue Fund: Cash and Unencumbered Balances (in thousands)

	Net	Plus	Less	Estimated
	balance	Transfers	Net Prior Appropriation Liabilities	Unencumbered Balance
July 1:				
1948	\$101,783	\$	\$29,687	\$72,096
1949	120,226		25,483	94,743
1950	65,096	496	26,207	39,386
1951	57,128	456	19,158	38,426
1952	53,378		16,490	36,888
1953	51,040	2,006	15,141	37,905
1954	47,716		20,521	27,195
1955	39,923	51	10,982	28,991
1956	42,428			

Source: Office of State Comptroller.

The postwar trends in General Revenue Fund receipts and expenditures presented above, and summarized in Table 6, suggest the basic nature of the current "tax problem" in Iowa. The trends also point up the long-run developments which led the 56th General Assembly to establish the Taxation Study Committee and to charge it with the responsibility for the study of the State's revenue system, and the formulation of recommendations to improve its "equity and adequacy."

The implications of the data presented above may be summarized as follows:

- 1.) During the war and early postwar years, a net balance of more than \$120 million was accumulated in the General Revenue Fund of the State of Iowa as a result of a) substantial increases in revenues, reflecting inflationary trends in the economy, and b) war-induced restrictions on expenditures.
- 2.) For three successive biennia, covering the period from July 1, 1949, to July 1, 1955, appropriations exceeded receipts of the General Revenue Fund. Thus, for a period of six years, it was possible to increase expenditures without commensurate increases in taxes.
- 3.) By 1955, the balance of the General Fund of the State of Iowa had been reduced to a level which is no larger than is generally considered necessary for an adequate working balance.
- 4.) With the end of the 55th biennium, the period of "easy finance" also came to an end. The surplus available to cover appropriations in excess of General Revenue Fund receipts was depleted; and the inflationary rise in prices which had operated to produce "automatic increases" in revenues without increasing tax rates had been arrested.
- 5.) For the first time since the biennium ending June 30, 1949, the appropriations made by the 56th General Assembly were "covered" by estimated receipts of the General Fund. In order to achieve this balance, however, it was necessary to raise tax rates, and extend the coverage of certain taxes.
- 6.) The shift from a six-year period of financing the excess of appropriations over current receipts of the General Fund from an accumulated surplus, to a period in which appropriations must be covered from current receipts has generated an acute public awareness of the State's fiscal position which was not always present during the earlier period.
- 7.) Finally, it may be noted that the "fiscal crisis", which posed a threat of a State general property levy, and led the 56th General Assembly to raise tax rates as an alternative to a property levy, did not arise suddenly. It was the culmination of trends which began in 1949, and which were brought to an end by the depletion of the surplus in the General Revenue Fund.

4. Highway Revenues: The Road Use Tax Fund and the Primary Road Fund.

As noted in an earlier section, the major portion of the

tax and nontax revenues of the State of Iowa are channeled into either the General Revenue Fund, or the Road Use Tax and/or Primary Road Fund. A brief statement of revenues available for highways, roads, and streets is presented in this section.

The Road Use Tax Fund comprises the major channel through which the various State highway user tax revenues move from collection to disposition for road purposes. This fund, established by the 53rd General Assembly, is made up of the net proceeds from the registration of motor vehicles, the motor vehicle fuel taxes, the compensation tax on motor vehicle carriers, all net revenue derived from the use tax on new motor vehicles and trailers and 10 percent of the sales tax receipts. However, the Road Use Tax Fund receipts do not include the 5th and 6th cents of gasoline tax imposed by the 55th and the 56th General Assemblies, respectively. Receipts from these additional gasoline taxes are channeled directly to the Primary Road Fund.

The receipts of the Road Use Tax Fund are shown in Column 1 of Table 8. This table also contains, in Column 2, certain additional data for Primary Road Fund receipts which are not channeled through the Road Use Tax Fund. Local property tax levies for road purposes are presented in Column 3 of Table 8, and Federal aids for all types of roads and streets are shown in Column 4. The last column of Table 8 shows the totals from these various sources available for highways, roads, and streets for the years 1950 to 1956, inclusive.

In 1950 receipts of the Road Use Tax Fund were slightly in excess of \$59 million. These receipts increased sharply in 1951, but remained substantially unchanged for the following three years. However, the revenues have again increased substantially in the last two years. From 1950 to 1956, Road Use Tax Fund revenues increased by approximately 65 percent. From 1955 to 1956 alone, the increase was 22 percent. These increases may be compared with the growth in the General Revenue Fund of Iowa which increased by only 41 percent from 1950 to 1956 and by 16.5 percent from 1955 to 1956. In addition to the growth in the Road Use Tax Fund, revenues from the 5th and 6th cents of gasoline tax, earmarked directly for the Primary Road Fund, supplied \$16.6 million in 1956.

The first two columns of Table 8 show the highway revenues raised at the State level of government. From 1950 to 1956, revenues raised by State taxes and licenses increased by almost 93 percent. In 1956, State revenues accounted for approximately 70 percent of the total amount shown in the last column, as compared with only 60 percent from State sources in 1950.

Table 8. Revenues for Highways, Roads and Streets, 1950-56 (In thousands)

Years	Road Use Tax Fund	Additional Primary Road Funds*	Local Road Levies ^b	Federal Aids ^c	Total Revenues Available
1950	\$59,091	\$ 125	\$26,523	\$14,557	\$ 98,296
1951	70,716	68	28,200	11,500	110,484
1952	70,479	174	29,923	10,326	110,902
1953	69,492	276	31,048	11,731	112,547
1954	73,156	7,491	31,716	9,739	122,102
1955	79,849	8,645	31,047	14,539	134,074
1956	97,441	16,595	31,152	17,933	163,121
Percentage changes:					
1950-56	+64.9	.....	+17.5	+23.2	+ 65.9
1955-56	+22.0	+92.0	+ 0.3	+23.4	+ 21.7

*Exclusive of Federal aids and transfers from Road Use Tax Fund. Since 1953, includes chiefly receipts from 5th and 6th cents gasoline tax.

^bLevies for collection in years shown.

^cAids for all types of roads and streets.

Sources: Local road levies, Iowa State Tax Commission; All other data, Iowa State Highway Commission.

Although the revenues raised by local property tax levies have increased by 17.5 percent from 1950, to 1956, property tax levies provided a substantially smaller fraction of total road funds in 1956 than in 1950.

Of the total increase of \$38.4 million in the receipts of the Road Use Tax Fund from 1950 to 1956, one-half was allocated to counties for local roads, and 8 percent was earmarked for cities and incorporated towns. Forty-two percent of the Road Use Tax Fund is allocated to the Primary Road Fund. From 1950 to 1956, the revenues raised by property taxation for road purposes at the county level increased 17.5 percent; funds available from State sources for county road purposes increased almost 65 percent during the same period.

The increases noted in Table 8 are attributable to a number of factors of which the following are the most important:

1. The increased number of motor vehicles registered in the State;
2. The rapid post-war increase in the volume of gasoline consumption;
3. The higher sales tax rate and, in general, the increased volume of retail sales which, since 1950, have affected the receipts of the Road Use Tax Fund. With the establishment of the Road Use Tax Fund 10 percent of retail sales tax revenues and the use tax revenues from motor vehicles have been earmarked for the Road Use Tax Fund. As a consequence of this diversion of general receipts to the Road Use Tax Fund, the receipts of the Fund have been made more sensitive to changes in the general level of business activity. Although the use tax rate on new motor vehicles was not increased in 1955, the additional $\frac{1}{2}$ percent sales tax rate contributed to the growth of Road Use Tax Fund revenues in 1956.

A summary statement of net receipts, expenditures, and balances of the Primary Road Fund is presented in Table 9. From 1946 to 1956, the receipts of this fund increased by approximately 305 percent. During the same period expenditures from this fund rose 271 percent. In the more recent period, 1950 to 1956, receipts of the Primary Road Fund increased by 92 percent while expenditures rose 88 percent. Over the same period, receipts of the Road Use Tax Fund shown in Table 8 increased by almost 65 percent. Thus, in recent years, modifications in highway user taxes, Federal aids, and other sources of highway funds, have operated to increase the Primary Road Fund receipts at a rate considerably in excess of the rate of increase in aggregate receipts for all road purposes.

The balances in the Primary Road Fund shown in Table 9 merit a brief explanation. The amounts shown in the last column of the table are balances on hand on June 30 of the years shown. But a very substantial portion of these balances are usually obligated as of this date. As construction contracts are completed, and maintenance expenditures are made during the summer and fall, the balances are reduced to much smaller amounts. In the ensuing winter and spring months the balances accumulate, as receipts of the fund are in excess of expenditures during these months. Moreover, as Primary Road Fund receipts were increasing sharply during 1954, 1955, and 1956, it was inevitable that the end of the year balances in the Fund rise. Planning, the submission of bids, and construction require time. During this time, receipts accumulate and balances build up. But the increased balances are not, in and of themselves, evidence that the receipts of the Primary Road Fund are "too large."

From 1955 to 1956 receipts of the Primary Road Fund increased by 34 percent as compared with an increase of only 22 percent in the Road Use Tax Fund. The major factor responsible for the higher rate of increase in the

Primary Road Fund has been the imposition of the 5th and 6th cents of gasoline tax which, as noted earlier, are not reflected in the receipts of the Road Use Tax Fund, but are earmarked in their entirety for the Primary Road Fund.

Table 9. Receipts, Expenditures, and Balances,
Primary Road Fund
1946-1956
(In thousands)

Fiscal Years	Balances: Beginning of Year	Net Receipts*	Expenditures	Balances: Close of Year
1946	\$12,671	\$17,212	\$16,273	\$13,611
47	13,611	23,473	23,967	9,380*
48	9,380*	22,426	28,637	3,169*
49	3,169*	29,019	29,230	6,695
1950	6,695	36,193	32,052	10,835
51	10,835	36,993	28,686	19,142
52	19,142	36,071	40,245	14,969
53	14,969	36,363	47,556	3,776
1954	3,776	44,090	36,539	11,327
55	11,327	51,884	46,807	16,403
56	16,403	69,645	60,362	25,686
57	25,686			
Percentage Changes:				
1946-56		+304.6	+270.9	
1950-56		+ 92.4	+ 88.3	
1955-56		+ 34.2	+ 29.0	

*Includes allocations from Road Use Tax Fund, Federal aids, transfers from General Fund and Use Tax, receipts from 5th and 6th cents of Gasoline tax, and miscellaneous revenues.

*Exclusive of \$3,736,000 in U.S. Government bonds.

Source: Iowa State Highway Commission.

In addition to the amounts of road and street revenues shown in Tables 8 and 9 a considerable amount of property tax revenue is raised by cities and towns for the construction, maintenance, and repair of urban streets. These funds are not shown separately in this section but are included with total revenues raised from property tax levies by cities and towns to be shown later. The data presented in Tables 8 and 9 and discussed above may be summarized as follows:

1. In general, in the post-war period, receipts available for expenditures on highways, roads, and streets, have risen more rapidly than receipts of the General Revenue Fund of the State of Iowa.
2. Highway revenues in Iowa have come to be increasingly dependent upon State sources. The revenues raised by local road levies as well as the revenues available from Federal aids of various types contributed a smaller percentage of total highway and street funds in 1956 than in 1950.
3. Since 1953 the revenues available for primary roads have increased more rapidly than those available for other types of roads and streets. This higher rate of increase for primary road purposes is attributable to the imposition of a 5th cent of gasoline tax by the 55th General Assembly, and a 6th cent by the 56th General Assembly with the revenues from both impositions earmarked for use on the primary road system.
4. During the period from roughly 1950 through 1953 the revenues available for primary road purposes remained relatively constant at about \$86 million per year. A similar plateau of relatively stable revenues was reached by the Road Use Tax Fund from 1951 through 1954.

5. Public School Costs and Enrollment in Iowa

The costs of the Iowa public school system, together with outlays on highways, roads and streets, account

for roughly three-fourths of all governmental expenditures by State and local governments in Iowa. The revenues available for highways and roads have been described in summary fashion in the preceding section. A summary of expenses and enrollment in the Iowa public school system is presented in the following paragraphs.

Current operating expenses, capital outlay and debt service, total public school costs, total enrollment, and cost per child enrolled are shown in Table 10 for the school years 1940-41 through 1955-56. From 1941 through 1956 current operating expenditures increased 290 percent. Over the same period capital outlays and debt service increased by almost 774 percent. The very sharp rate of increase in capital outlays reflects the low rate of school construction during the late 1930's and the World War II period. Combined operating and capital outlay expenditures increased 366 percent from 1941 to 1956. During this period, total enrollment increased by slightly less than 9 percent.

From 1948 to 1956 current operating expenditures increased by 99 percent, capital outlays and debt service

744 percent, and total school costs by 156 percent. Confining the comparisons to more recent periods, it may be noted from Table 10 that current operating expenditures increased by 65 percent from 1950 to 1956, while capital outlays rose 214 percent and total costs by 90 percent during the same period. In the most recent comparison, from 1955 to 1956, current operating expenses increased slightly more than 8 percent, capital outlays about 6 percent, while total costs increased by something less than 8 percent.

It may be noted from Column 4 of Table 10 that total enrollment in kindergarten through grade 12 declined from 1941 to the end of the World War II period. In fact, it was not until the school year 1951-1952 that total enrollment was approximately equal to enrollment in the school year 1940-41.

Average total costs per child enrolled are shown in Table 10. These averages have been computed by dividing the annual totals appearing in Columns 1 and 3 by the total enrollment figures appearing in Column 4. Computed in this manner average total cost per child en-

TABLE 10. PUBLIC SCHOOL COSTS, AND ENROLLMENT,
School Years 1940-41 to 1955-56
(Total costs and enrollment in thousands)

School Year Ending	Current Operating Expense	Capital Outlay and Debt Service	Total Public School Costs	Enrollment, K through Grade 12 ^{a/}	Cost per Child enrolled (in dollars)	
					Operating	Total
1941	\$ 39,201	\$ 7,182	\$ 46,382	496	\$ 79	\$ 94
1942	40,794	6,254	47,048	491	83	96
1943	41,831	5,319	47,150	479	87	98
1944	44,538	4,637	49,175	460	97	107
1945	50,332	5,045	55,377	454	111	122
1946	56,100	5,410	61,510	460	122	134
1947	65,082	6,577	71,658	459	142	156
1948	76,845	7,431	84,276	464	166	182
1949	84,852	18,284	103,138	469	181	220
1950	93,123	19,957	113,080	478	195	237
1951	101,471	26,647	128,118	486	209	264
1952	111,868	31,160	143,028	495	226	289
1953	120,844	38,072	158,917	511	236	311
1954	130,565	48,633	179,198	523	250	343
1955 ^{c/}	141,457	59,149	200,606	539	262	372
1956 ^{c/}	153,253	62,755	216,008	<u>b/</u>		<u>b/</u>

Percentage Changes:

1941-1956	+ 290.1	+ 773.8	+ 365.7	+ 8.7 ^{d/}	+ 231.6 ^{d/}	+ 295.7 ^{d/}
1948-1956	+ 99.4	+ 744.5	+ 156.3	+ 16.2 ^{d/}	+ 57.8 ^{d/}	+ 104.4 ^{d/}
1950-1956	+ 64.6	+ 214.5	+ 91.0	+ 12.8 ^{d/}	+ 34.4 ^{d/}	+ 57.0 ^{d/}
1955-1956	+ 8.3	+ 6.1	+ 7.7	----	----	----

^{a/}. Enrollment figures are cumulative over entire school year, and thus include some duplications as a result of children being enrolled in more than one school during a school year.

^{b/}. Comparable figures for 1956 school year not available. On September, 1956, total enrollment was 518,042.

^{c/}. Costs are estimated for 1955 and 1956.

^{d/}. Comparisons of earlier years with 1955.

Source: Iowa Department of Public Instruction.

rolled increased from \$94 in 1941, to \$372 in the most recent year for which the computation can be made, 1955. This represents an increase of about 296 percent in the average cost per child enrolled. Basing the comparison on the period from 1948 to 1955, the increase was 104 percent. From 1950 to 1955, the increase was 57 percent.

Operating costs per child increased less rapidly than total costs per child over most of the period covered in Table 10. From 1941 to 1955, operating costs per child enrolled rose 231.6 percent; 57.8 percent from 1948 to 1955; and 34.4 percent from 1950 to 1955.

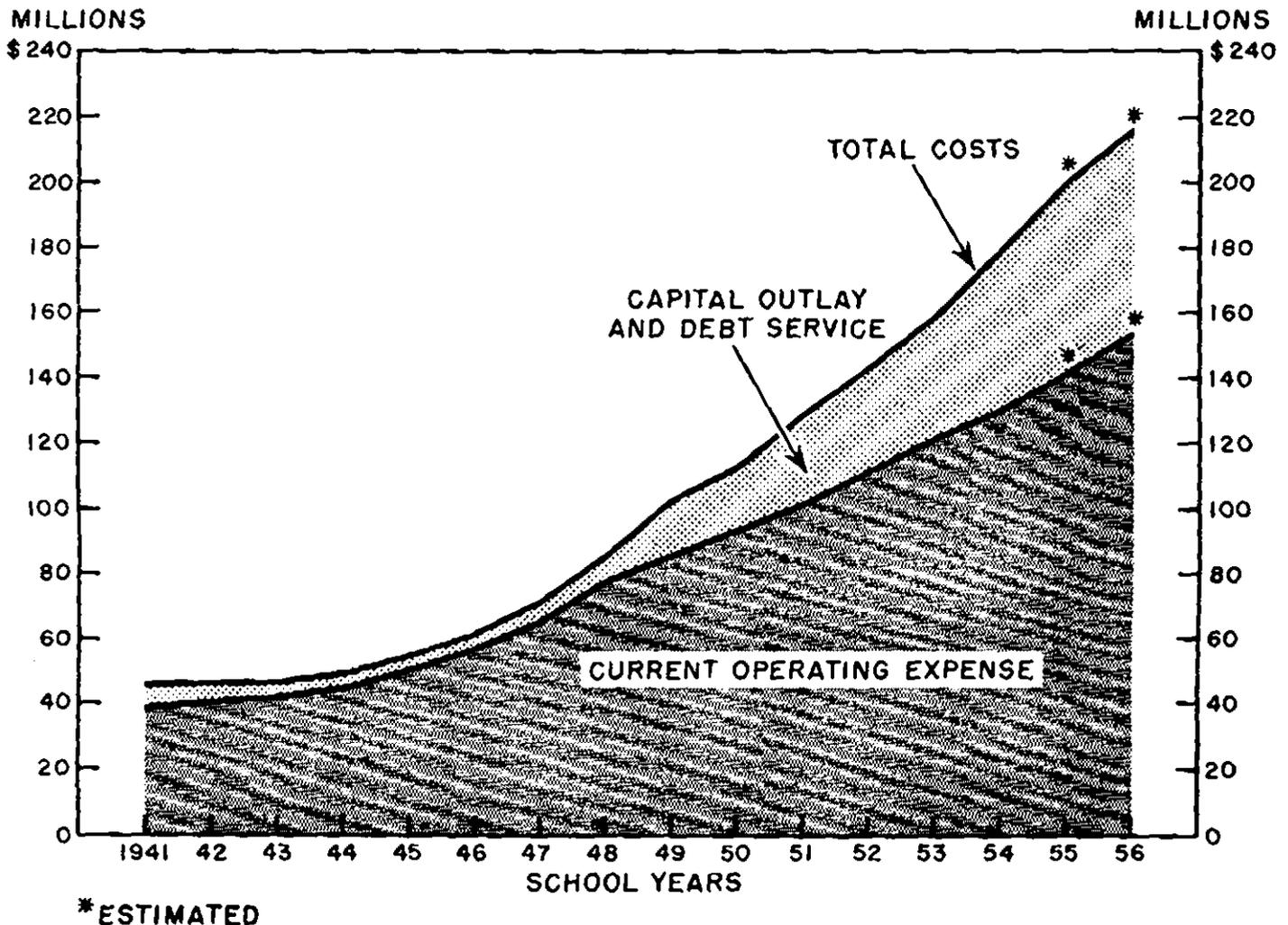
The sharp increases in the costs of operating the public school system of Iowa are attributable to a number of factors. In the first place the price level has risen sharply during the period shown in Table 10. Thus, the higher costs of construction, supplies, and maintenance account for some of the increase. Secondly, teachers' salaries have been raised substantially during the period covered by the comparisons. Third, it should be noted that the increased operating expenditures and capital outlays are not entirely explainable in terms of increased enrollments. In fact, in all but the last three years shown in Table 10, total enrollment has been less than in the

first year, 1940-41, shown in the table. The fact that the total costs have increased much more rapidly than enrollment is clearly reflected in the last two columns in which average cost per child enrolled are shown for the years 1940-41, through 1954-55. Finally, it may be noted that increased expenditures represented improved programs and expanded facilities over the period shown.

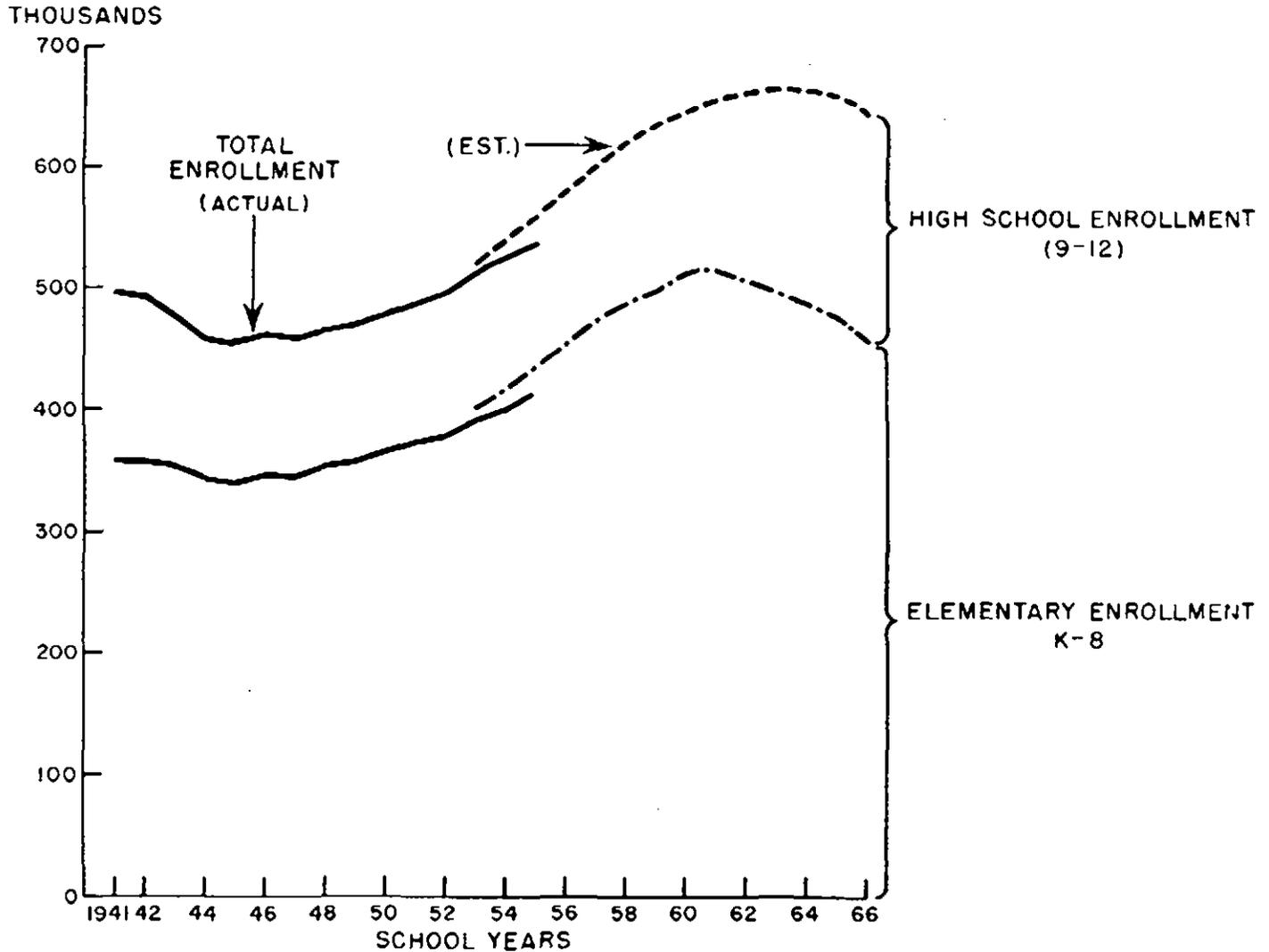
The trend of school costs are shown graphically in Chart 3 for the school years 1940-41, through 1955-56. It will be noted from Chart 3 that most of the increase in capital outlay and debt service has occurred since 1948.

Actual and projected enrollment in the public schools of Iowa are shown in Chart 4, for the school years 1940-41, through 1965-66. In this chart the actual enrollment figures by high school and elementary grades are indicated by the solid lines covering the years 1941 through 1955. The projected enrollment data are represented by the broken line beginning in 1953 and extending through the school year 1965-66. From these projections it appears that elementary enrollment in the Iowa public school system will reach a peak in the school year 1960-61, while high school enrollment will reach a peak after the 1965-66 school year. Total enrollment, on the basis of the projections of the Department of Public Instruction made

**CHART 3. PUBLIC SCHOOL COSTS
SCHOOL YEARS, 1940-41, TO 1955-56**



**CHART 4. ACTUAL AND PROJECTED ENROLLMENT
IN IOWA PUBLIC SCHOOLS**



in September, 1953, will reach a peak about 1964, when total enrollment is expected to be slightly less than 670,000 as compared with actual enrollment of 539,000 in the school year 1954-55. Although the projections of elementary enrollment have been somewhat higher than the actual enrollment figures for the years since the projection was made, the general pattern of changes in total enrollment are probably represented in a reasonably accurate fashion in the projections shown in Chart 4.

The trends in public school costs presented in Table 10, and Chart 3 provide a major portion of the statistical explanation of rising costs of government in Iowa. The growth of expenditures for the public school system are particularly relevant for any explanation of the growth in local property tax levies. The more significant developments presented in this section may be summarized as follows:

1. Since 1950, expenditures of the public school system have increased more rapidly than any other major component of government outlay.
2. In the post-war years, particularly since 1948, outlays for capital purposes and debt service have risen much more rapidly than operating expenditures of the public school

system, as actual and prospective increases in enrollment have required additional facilities.

3. Operating expenditures as well as capital outlays and debt service have risen more rapidly than enrollment in the period covered in Table 10.
4. As a consequence of the higher rate of increase in total public school costs, as compared with the increased enrollment, total costs per child enrolled have increased almost 296 percent from 1941 to 1955, and by 57 percent from 1950 to 1955.

The various sources of public school revenues are discussed in a subsequent chapter of Part I of the Report. Here, it may be noted that the major share of the revenues is provided from local property tax levies.

6. Local Property Tax Levies for Local Governmental Purposes.

The general trend of receipts and expenditures for local units of government is partially reflected in changes in property tax levies for use by these units of government. However, it should be noted that a considerable part of the revenue available for local units of government is supplied from sources other than local levies on property. These nonproperty tax revenues include charg-

TABLE 11. LOCAL PROPERTY TAXES LEVIED,
Including Moneys and Credits Tax, by Type of Levy,
for collection in 1946-1956, inclusive
(In thousands)

Year Tax Collectible	Levies for City Governments	Levies for County Governments	Levies for School Purposes	Levies for Roads	Total Local Tax Levies ^{a/}
1946	\$ 17,461	\$ 18,930	\$ 60,508	\$ 17,617	\$ 114,517
1947	18,797	19,291	66,867	19,012	123,967
1948	20,592	25,728	75,476	20,234	142,030
1949	24,554	32,425	85,013	21,593	163,585
1950	27,574	33,520	88,724	26,523	176,341
1951	30,608	34,364	95,782	28,200	188,954
1952	34,052	36,349	108,219	29,923	208,543
1953	38,880	37,608	118,144	31,048	225,680
1954	40,410	40,188	127,781	31,716	240,095
1955	42,750	41,086	134,976	31,047	249,859
1956	45,518	46,285	142,333	31,152	265,288
Percentage Changes:					
1946-56	+160.7	+144.5	+135.2	+ 76.8	+ 131.7
1950-56	+ 65.1	+ 38.1	+ 60.4	+ 17.5	+ 50.4
1955-56	+ 6.5	+ 12.7	+ 5.5	+ 0.8	+ 6.2
Percent of Total:					
1946	15.2	16.5	52.8	15.4	100.0
1950	15.6	19.0	50.3	15.0	100.0
1956	17.2	17.4	53.7	11.7	100.0

a/. Amounts shown are gross levies, before deductions for Homestead and Agricultural Land Tax Credits.

Source: State Tax Commission

es for services, rendered by these units of government, and aids from other units of government—primarily the State government. To the extent that local revenues are derived from State aids changes in this source of revenue have already been covered in the material on general state fund expenditures in the form of aids.

Local property taxes levied by purpose or type of unit making the levy are shown in Table 11 for the years 1946 through 1955. The data in Column 1 show the levies by city governments, chiefly for general purposes. From 1946 to 1956 levies by this unit of government increased almost 161 percent. In 1946 city levies comprised 15.2 percent of total local property tax levies, as compared with 17.2 percent of the total levy in 1956. Thus, levies by city governments increased more rapidly over the period than the total local levies by all units of government for all purposes.

General county levies are shown in Column 2 of Table 11, for the same period. From 1946 to 1956, county levies increased 144.5 percent. From 1950 to 1956, general county levies increased less rapidly than levies made by cities and towns, or those made for schools. Over the same period, the rate of increase in county levies was also substantially below the average rate of increase in total local levies. But from 1955 to 1956, levies by counties rose more sharply than the levies made by cities and towns, school districts, or levies for roads.

Levies for school purposes are shown in Column 3. These levies comprise the major source of revenue reflected in the increased expenditures shown in Table 10. It will be noted that from 1946 to 1950 school levies declined in relative importance in the overall local property tax levy. However, by 1956, property taxes levied for school purposes comprised an even larger fraction of total local levies than was the case in 1946.

Levies for local roads are shown in Column 4. These levies increased more slowly from 1946 to 1956 than any other major category of levy. The rate of increase from 1950 to 1956 was also substantially less than the rate of increase for all local levies as a whole. Thus, levies for road purposes have declined from 15.4 percent of total local levies in 1946 to 11.7 percent of total levies in 1956.

Over the entire period covered in Table 11, 1946 through 1956, levies for general city government purposes have been the most rapidly increasing component of local property tax levies, followed closely by levies for general county government. From 1950 to 1956, the rate of increase in city government and local school levies was approximately the same, and both were substantially above the rate of increase in local property taxes levied for all purposes.

7. Summary: Trends in Iowa Taxation and Expenditures, 1946-1956.

The material presented in preceding sections of this

chapter outline in a relatively brief fashion the major revenue and expenditure developments in Iowa since the end of World War II. The trends point up some aspects of Iowa's tax problems and suggest, at the same time, the major factors responsible for the establishment of a Taxation Study Committee. These factors may be summarized as follows:

1. Perhaps the most significant development in the State's fiscal experience since the end of World War II has been the very rapid rate of increase in receipts and expenditures in the major areas of State and local finance. For example, total State and local tax revenues have risen by over 150 percent from 1946 to 1956. The receipts and appropriations of the General Revenue Fund of the State of Iowa have increased by roughly 140 percent in the same period. Receipts of the Primary Road Fund increased over 300 percent from 1946 to 1956. Finally, it may be noted that public school costs have risen by over 250 percent from 1946 to 1956. As a result of these increases, there has appeared a growing gap between the demand for funds and the yield of the present tax system. Thus, long-run questions of the adequacy of the present tax system and the possibilities for economy in government are posed.
2. Despite the very rapid rates of increase in receipts and expenditures since the end of World War II, prospective demands indicate that still further increases may be necessary. According to estimates of the State Highway Commission submitted to the Taxation Study Committee in February, 1956, the rebuilding and modernization of the Primary Road System alone will require in excess of \$640,000,000. Additional demands for school revenues may be expected as a result of rising enrollment and increased salaries for teachers. In hearings before the Taxation Study Committee, The Board of Regents has presented estimates of a need for approximately \$50,000,000 for capital outlays during the next decade. Finally, it may be noted that the generally rising wage level can be expected to reflect itself in requests for higher levels of wages throughout the structure of government employment at both the State and local levels. The estimates of need presented above are not forecasts of actual expenditures. Before outlays can be increased, legislative appropriations and/or action by local units of government will be required.
3. The growing gap between present revenue yields and actual and prospective demands for funds to finance government, has been given an air of urgency by the fact that the General Revenue Fund surplus has now been reduced to a minimum working balance level. As a consequence of the disappearance of the surplus and the growing demands for funds, there arose the threat of a general State levy on property in 1955. This threat was averted by the tax increases imposed by the 56th General Assembly.
4. As the need for revenues has risen, and as taxes at the State as well as the local level have been increased, the inequities in the tax system have been intensified. Inequi-

ties which may be tolerable at low levels of taxation produce increased public resistance as it becomes necessary to raise additional revenues through the tax system. The present tax system is substantially the same system which has existed for a period of 20 years. It has been modified from time to time by changes in rates, and the introduction of special credits and aids to relieve the more serious inequities. But it has not been subjected to general revisions which would reflect the higher level of revenue demands being placed upon it and take into account the changing nature of the State's economy since the major revisions in the 1930's.

5. Most of the tax changes enacted by the 56th General Assembly were made for a limited period of time. That is, unless re-enacted by a subsequent General Assembly most of the increases in rates will expire June 30, 1957. Thus the temporary measures taken by the 56th General Assembly did not produce a lasting solution to the State's revenue problems. Unless appropriations can be substantially reduced for the biennium beginning July 1, 1957, it will be necessary to reenact the tax changes made by the 56th General Assembly, or to modify the revenue structure in other ways.
6. As has been demonstrated on a number of occasions, the type of detailed, painstaking study which should form the basis for permanent revisions in the State's revenue structure is extremely difficult to conduct during legislative sessions—regular or special. For this reason as well as the other reasons noted above, the 56th General Assembly saw fit to appoint a special study committee charged with the responsibility for evaluating the adequacy and the equity of the entire revenue structure in the State of Iowa.

The data presented in this chapter, although useful as evidence of the overall growth in governmental revenues and expenditures, are inadequate as measures of the economic significance of trends in the State's tax receipts. Also, the data presented in this chapter do not, in themselves, provide comparisons of revenue trends in Iowa with developments in other states. In the final analysis, growing governmental revenues and expenditures can be evaluated only in terms of the general growth in economic activity and in population underlying the tax base and the demands for governmental services. Accordingly, in Chapter 2 of the Report, an analysis of the Iowa economy is presented.

The significance of the increased revenues and expenditures in Iowa must also be evaluated in terms of changes in governmental costs and revenues in other states. To a very large extent, the factors which have produced increased revenues and expenditures in Iowa have also operated to produce similar trends in the 48 states as a whole. Therefore, in Chapter 3 of the Report, there is presented a comparative analysis of the cost of government in Iowa and ten in other Northcentral states, and in the 48 states as a whole.

CHAPTER II

Iowa: Population and Economic Trends

The volume and composition of services demanded of government depend to a significant degree upon the size of the population to be served, and the occupational and geographical distribution of the population. The ability of the population to support the services demanded of government depends, in turn, upon the volume of private income, the effectiveness with which the tax system transfers funds from private to public uses, and the various sources of income.

Analyses of population trends and trends in economic activity in the State are presented in this chapter as a basis for the evaluation of the Iowa tax and expenditure system. The chapter is divided into five major sections. The first section deals with population trends, the second with income trends, and the third, fourth, and fifth present brief descriptions of developments in agriculture, manufacturing, and trade, respectively.

I. POPULATION TRENDS

Changes in total population. The total population of Iowa has been characterized by a high degree of stability since the beginning of the current century. Population changes for Iowa, ten other Northcentral States, and the United States are shown in Table 12 for selected years from 1900 to 1955. The total population of Iowa, according to the 1950 Census, was only 17.4 percent larger than in 1900. The rate of increase for Iowa was the lowest for any of the eleven states shown in Table 12, and less than one-fifth of the rate of increase in the United States as a whole. In the more recent decade from 1940 to 1950, population in Iowa increased by 3.3 percent as compared with an increase of 14.5 percent in the United States as a whole, and an increase of almost 10 percent in the eleven-state area. However, during the decade from 1940 to 1950 two other Northcentral states—South Dakota and Nebraska—had lower rates of population increase than Iowa.

From April, 1950 to July, 1955, Iowa continued to show a very small rate of increase in total population, less than 3 percent. The rate from 1950 to 1955 was lower in Iowa than in any other state in the eleven-state area, and less than one-third the rate of increase in the United States as a whole.

During most of the period covered in Table 12, Iowa has failed to retain the natural increase in population taking place within the borders of the State. The cumulative effects of migration from Iowa is indicated in the data compiled by the U. S. Bureau of the Census in its 1950 enumeration of population. This enumeration disclosed that in 1950 there were 3,230,275 persons living in the United States who had been born in Iowa. Of this total 1,191,140, or approximately 37 percent lived in some state other than Iowa. Of the 2,509,015 persons for whom place of birth could be ascertained, and who were living in Iowa in 1950, 2,039,135 were born in Iowa while 469,880 were born in some other state. Thus, of the 1950 population of Iowa only 18.7 percent had migrated to the State, as compared with about 37 percent of the persons born in Iowa who had migrated to some other state.

A more detailed tabulation of the net migration and net population changes in eleven Northcentral States is presented in Table 13. This table shows the population in April, 1940, the total births and deaths from 1940 to 1954, and the natural increase over the same period. The natural increase is computed as the total number of births minus the total number of deaths. If there were no migration either into or out of a state the population on July 1, 1954, would have been equal to the population on April, 1940, plus the natural increase. Eight of the eleven states in the Northcentral area failed to grow by as much as the natural increase in population. The amount of the net migration from each state is shown in Table 13 with a minus sign preceding the figure in Column 5. Three of the states not only retained all of the natural increase, but actually gained population from other areas of the country. These states are shown with a plus sign preceding the net migration figure.

During the period covered in Table 13, the natural increase in Iowa was 438,000. As the net increase in population over the period for Iowa was only 125,000, the number of Iowans leaving the State was 313,000 greater than the number of residents of other states migrating to Iowa. The migration from the State may also be expressed as a percentage of the net natural increase. In this comparison Iowa lost 71.5 percent of its net natural increase over the fourteen year period.

Table 12. Population, Eleven Northcentral States,
Selected Years, 1900-1955
(In thousands)

State or Region	April, 1900	April, 1930	April, 1940	April, 1950	July, 1955	Percentage Changes		
						1900 to 1950	1940 to 1950	1950 to 1955
North Dakota	319	681	642	620	642	+ 94.4	- 3.4	+ 3.5
South Dakota	402	693	643	653	677	+ 62.4	+ 1.6	+ 3.7
Nebraska	1,066	1,378	1,316	1,326	1,381	+ 24.4	+ 0.8	+ 4.1
Kansas	1,470	1,881	1,801	1,905	2,060	+ 29.6	+ 5.8	+ 8.1
Minnesota	1,751	2,564	2,792	2,982	3,174	+ 70.3	+ 6.8	+ 6.4
IOWA	2,232	2,471	2,538	2,621	2,692	+ 17.4	+ 3.3	+ 2.7
Missouri	3,107	3,629	3,785	3,955	4,128	+ 27.3	+ 4.5	+ 4.4
Wisconsin	2,069	2,939	3,138	3,435	3,694	+ 66.0	+ 9.5	+ 7.5
Illinois	4,822	7,631	7,897	8,712	9,361	+ 80.7	+10.3	+ 7.4
Michigan	2,421	4,842	5,256	6,372	7,236	+103.2	+21.2	+13.6
Indiana	2,517	3,239	3,428	3,934	4,330	+ 58.3	+14.8	+10.1
Total, 11 States	22,176	31,948	33,236	36,515	39,375	+ 64.7	+ 9.9	+ 7.8
Total, U. S.	75,995	122,775	131,669	150,697	164,280	+ 98.3	+14.5	+ 9.9

Source: U. S. Department of Commerce, Bureau of the Census.

Table 13. Natural Increase, Net Migration, and Net Change in Population, Eleven Northcentral States, and United States, April 1, 1940, to July 1, 1954.

State or Region	Population Apr. 1, 1940	1940 to 1954			Net Migration* (000)	Net Change in Pop. 1940-54 (000)	Population July 1, 1954 (000)	Net Migra. As% of Natural Increase
		Births	Deaths	= Natural Increase				
North Dakota	642	223	74	149	-158	9	633	-106.0
South Dakota	643	222	80	142	-117	25	668	- 82.4
Nebraska	1,316	411	181	230	-183	47	1,363	- 79.6
Kansas	1,801	589	266	323	-126	107	1,998	- 39.0
Minnesota	2,792	966	389	577	-241	336	3,128	- 41.8
IOWA	2,538	810	372	438	-313	125	2,663	- 71.5
Missouri	3,785	1,181	621	560	-304	256	4,041	- 54.3
Wisconsin	3,138	1,078	466	612	-124	488	3,626	- 20.3
Illinois	7,897	2,511	1,301	1,210	+ 68	1,278	9,175	+ 0.6
Michigan	5,256	2,091	806	1,285	+484	1,769	7,025	+ 37.7
Indiana	3,428	1,244	572	672	+133	805	4,233	+ 19.8
Total, 11 States	33,236	11,326	5,128	6,198	-881	5,317	38,553	- 14.2
Total, U.S.	131,669	48,304	20,503	27,801	+927	28,727	160,396	+ 3.3

*Net migration includes net loss of population to armed forces.
Source: U.S. Bureau of the Census, Current Population Reports, Series P-25, Nos. 72 and 124.

Three other states in the area also suffered an extremely high rate of population loss. These were North Dakota, where net migration was 106 percent of the natural increase, South Dakota where net migration exceeded 82 percent of the natural increase, and Nebraska where net migration was almost 80 percent of the natural increase over the period. Iowa ranks fourth from the top in terms of the rate of population loss from net migration.

Population shifts within the State. Although the total population of Iowa has grown very slowly during the past several decades, there have been very significant internal shifts in the population. These shifts have taken three closely related forms: First, the population has shifted from rural to urban areas; second, there has been a significant shift in the occupational distribution of the population; and third, there has been a substantial geographical shift in population from certain parts of the State to other areas within the State. These shifts are discussed in the following paragraphs.

Population gains and losses by counties are shown in Chart 5. It will be noted that there are three figures in each county. The figure "A" shows the percentage change in total population in the county from 1940 to 1950. The figure "B" shows the percentage change in rural population from 1940 to 1950. The figure "C" shows per capita income in the county expressed as a percent of the State average per capita income in 1955.* The 99 counties of the state are tabulated below according to the rate of increase or decrease in population as shown by figure "A".

Distribution of Counties by Rate of Change in Total Population, 1940 to 1950	
Increase of over 20 percent	3 counties
Increase of more than 10, but less than 20 percent	6 "
Increase less than 10 percent	24 "
Decrease of less than 10 percent	53 "
Decrease of more than 10 percent	13 "
99 counties	

*The indexes of per capita income in the 99 counties have been computed from data made available through the courtesy of the publishers of *Sales Management*. Copyright 1958, *Sales Management Survey of Buying Power*; further reproduction not licensed.

Two important qualifications need to be made in an interpretation of the data presented in Chart 5. These qualifications have to do with the rates of population change indicated for Story and Johnson Counties. In the 1940 Census of Population, students attending universities and colleges were not enumerated as residents of the county in which they were attending school, unless this also happened to be their home. However, in 1950 students were enumerated as residents of the place in which they were attending school. This difference in enumeration accounts for a very substantial part of the increase in population from 1940 to 1950 in Story and Johnson Counties.

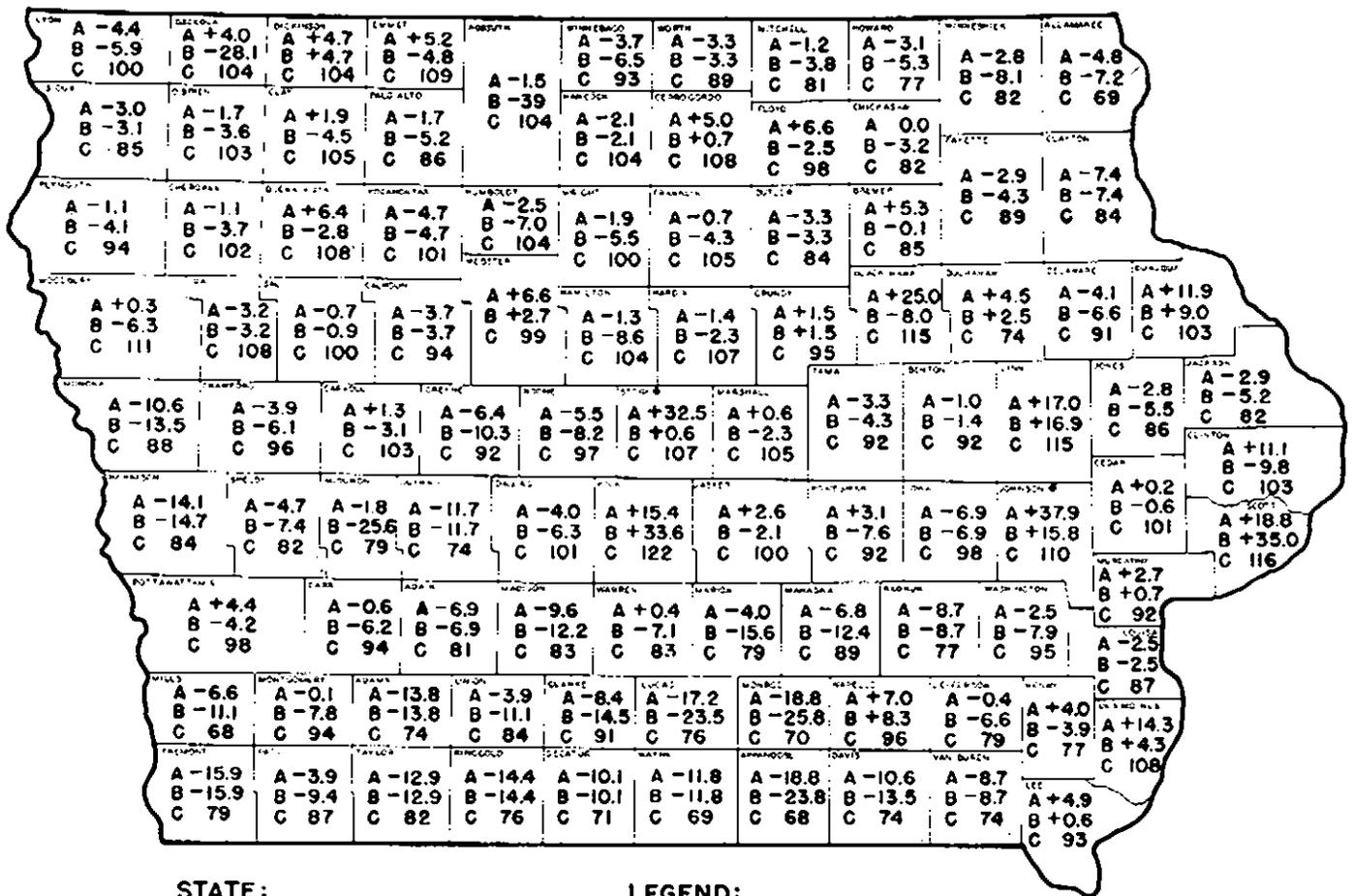
In general, the counties in the southern part of the State suffered a larger out-migration than counties in other parts of the State. Even in those counties in which the loss in total population was comparatively small, the net change in rural population from 1940 to 1950 was usually negative and substantial. With few exceptions the counties in which population gains were registered from 1940 to 1950 were counties which already contained substantial urban centers in 1940, and which also were more heavily industrialized than the average county in Iowa.

In the counties containing major cities it will be noted that not only did total population rise substantially from 1940 to 1950, but there was also an increase in rural population—in many cases as large as, or larger than, the increase in total population. These increases in rural population in such counties as Scott and Polk reflect primarily the development of suburban areas which have not been incorporated either as separate towns or as a part of the larger cities.

Although any generalization is likely to oversimplify the explanation, the major factors responsible for the changing population pattern evidenced in Chart 5 may be summarized as follows:

1. In some of the Southern counties the decline of the coal mining industry has been a major factor leading to the exodus of population.
2. The growth of industry in the State's major cities has created opportunities for additional urban employment and has given rise to secondary and tertiary employment in the trade and service industries.
3. The predominant factor which accounts for the pattern of

CHART 5. PERCENTAGE CHANGE IN TOTAL AND RURAL POPULATIONS, 1940 TO 1950; INDEX OF PER CAPITA INCOME, 1955 (IOWA STATE AVERAGE = 100)



STATE:

- A - 3.3
- B - 4.3
- C 100

LEGEND:

- A, PERCENTAGE CHANGE IN TOTAL POPULATION, 1940-1950
- B, PERCENTAGE CHANGE IN RURAL POPULATION, 1940-1950
- C, PER CAPITA INCOME, AS PERCENT OF STATE AVERAGE, 1955

* NOT STRICTLY COMPARABLE. SEE TEXT.

change shown in Chart 5 is the increased productivity of the agricultural labor force coupled with a much slower rate of increase in the physical output of agricultural products.

The Shift from Rural to Urban Areas. Another aspect of population change within Iowa is reflected in movement of population from rural areas to urban areas. This shift has taken the form of population movements out of predominantly rural counties to counties with larger urban areas. It has also taken the form of movements from the rural areas to the urban areas within individual counties. These tendencies may be observed in Chart 5. For example, in many counties with one or more urban areas, as defined in the Census of Population, it is not uncommon to find an increase in total population with a decrease in rural population.

Taking the State as a whole, the absolute numbers and the percent of total population living in rural areas has declined steadily over the past several decades. The population of the State is shown below, classified on the basis of location in rural or urban areas, for the decades 1920 to 1950.

	Rural		Urban	
	(,000)	Percent	(,000)	Percent
1920	1,529	63.6	876	36.4
1930	1,492	60.4	979	39.6
1940	1,454	57.6	1,084	42.7
1950 (old definition)	1,392	53.3	1,229	46.7
1950 (new definition)	1,370	52.3	1,251	47.7
Farm	783	29.9		
Nonfarm	587	22.4		

At the beginning of this period, approximately 64 percent of the population of Iowa resided in rural areas. Using the same definition of rural and urban areas, rural population had declined to about 53 percent by 1950. With a newer definition of "urban," which includes as urban population individuals living in fringe areas around large cities, whether such areas are incorporated or not, the urban population of Iowa now comprises almost 48 percent of all residents of the State. Employing the new definition of rural areas, in 1950 about 30 percent of the

Iowa population was on farms, 22 percent was nonfarm population residing in rural areas, and almost 48 percent was urban population. If the trends of the past few decades continue, it may be safely assumed that sometime before 1960 there will be more Iowans living in urban areas than residing in rural areas.

Shifts in the Occupational Pattern. The shifts in rural urban population and the geographic shifts shown in Chart 5 have been accompanied by significant shifts in the occupational pattern of the employed labor force in Iowa.

The percent of the total employed workers in each of several major industrial categories is shown below, for 1940 and 1950.

Percent of Employed Workers in Iowa, by Major Industry	Percent of Employed Workers in Iowa, by Major Industry	
	1940	1950
Agriculture	36.0	28.5
Manufacturing	11.4	15.2
Trade and services	25.6	26.3
Professional and related services	7.8	8.7
Public administration	2.5	3.0
All other	16.7	18.3
	100.0	100.0

Iowa population: Age composition. The age composition of the population affects both the demands for governmental services and the economic potential of a state. The percentages of total population in three age brackets is shown in Table 14 for 11 Northcentral States, as of 1950.

It will be observed from this table that 26.9 percent of Iowa's population was under 15 years of age in 1950. This is equal to the national average, but somewhat above the average for the eleven-state area as a whole. Within the Northcentral area, Iowa occupies a median position in terms of the percentage of the population under 15 years of age.

In terms of the population over 65 years of age, Iowa ranks first among the eleven states with 10.4 percent of its population over 65, as compared with an average for the eleven states of 8.9 percent, and an average for the nation as a whole of 8.1 percent. In general, the population under 15 years of age, and over 65 years of age, is likely to require more public expenditures than individuals in other age brackets. In fact, public school costs are almost directly related to the population under 15 years.

The productive age bracket is generally taken to be from 15 to 64 years. It will be noted in Table 14 that Iowa has 62.6 percent of its population in this age bracket as compared with a national average of 65.0 percent, and an average for the eleven-state area of 64.9 percent. Within the eleven-state area, eight of the states have a higher percentage of the population in the productive age bracket of 15 to 64 than does Iowa. Only in North Dakota and South Dakota is the percentage of the population in the 15 to 64 age bracket smaller than it is in Iowa. Although these differences are relatively small, they do reflect importantly in the income potential of the various states and therefore in the ability of the states to support the functions of government. In general, states which lose a larger percentage of their natural increase through migration tend to have a smaller fraction of their total population in the "productive" age brackets than is the case in states, such as Michigan and Illinois, having a net inflow of population from other states.

Table 14. Percentage of Total Population in Selected Age Brackets, Eleven Northcentral States, 1950

	Under 15 years	15 to 64 Years	Over 65 Years
North Dakota	31.0	61.2	7.8
South Dakota	29.2	62.4	8.4
Nebraska	26.3	63.8	9.8
Kansas	26.2	63.6	10.2
Minnesota	27.6	63.4	9.0
IOWA	26.9	62.6	10.4
Missouri	24.9	64.8	10.3
Wisconsin	27.0	64.0	9.0
Illinois	24.0	67.3	8.7
Michigan	27.4	65.4	7.2
Indiana	26.8	64.0	9.2
Total 11 States	26.2	64.9	8.9
Total U. S.	26.9	65.0	8.1

Source: U.S. Bureau of the Census.

Of course not all of the population between the ages of 15 and 64 is in the labor force, while some individuals 65 and over are in the labor force. Therefore a somewhat more precise measure of the relationship of the productive population to the total population is given by the tabulation below:

Percent of Total Population in the Labor Force, 1950	
North Dakota	37.6%
South Dakota	38.6
Nebraska	39.8
Kansas	38.8
Minnesota	39.8
IOWA	39.0%
Average, 11 states	39.8
Average, United States	40.5

From the tabulation presented above, it will be noted that only 3 of the eleven states have a smaller percentage of their total population in the labor force than does Iowa. Iowa with 39 percent of the population in the labor force in 1950 was below the average for the eleven states and also below the average for the United States as a whole.

In general, the per capita income in the various states tends to be higher in those states in which a larger percentage of the population is in the labor force. Conversely, many of the costs of government such as old age assistance programs and public school costs tend to be higher in those states in which a larger percentage of the population is in the very young and the very old age brackets.

The significance of the population shifts described above for the costs of government in Iowa may be summarized as follows:

1. In entire counties, and in the rural parts of other counties, a declining population—not accompanied by proportionate reductions in governmental services—has resulted in "excess capacity in government."
2. In rapidly growing urban areas, large capital outlays for schools, streets and other municipal facilities have become necessary.

2. PERSONAL INCOME OF RESIDENTS OF IOWA.

There is no single measure of the economic capacity of a state or region which is uniformly satisfactory for all purposes. However, the most commonly used measure of state and regional economic activity is the Personal Income series compiled by the Office of Business Economics of the United States Department of Com-

merce. The analysis of the economic status of the State of Iowa contained in the following paragraphs is based upon this Personal Income series.

The major categories of Personal Income are wages and salaries, supplemental earnings of labor, the net earnings of proprietors of unincorporated businesses including farm proprietors, net rental income, including an imputed net rental income from owner-occupied dwellings, dividends, interest, and governmental transfer payments. Transfer payments are disbursements to individuals for which no services are rendered in the current period, such as unemployment compensation, and general public assistance. In the nation as a whole, about 95 percent of Personal Income is in the form of cash receipts, the remainder is income in kind, and imputed income.

A detailed description of the composition of Personal Income is contained in the *Survey of Current Business*, September, 1955. From the description given above, it is apparent that Personal Income covers the entire scope of receipts available to individuals. It is particularly notable for Iowa that the estimates of Personal Income include the proprietary earnings from agriculture, including cash receipts, government payments, the value of food and fuel produced and consumed on farms, the rental value of farm dwellings less farm operating expenses, adjusted for the value of changes in farm inventories of crops and livestock. Thus, the net farm income included in the Personal Income series is a measure which reflects income from current production rather than income realized. That is, in years in which farm inventories are being reduced, income realized will be larger than income from current production. The opposite will be the case in years in which farm inventories are being increased.

By virtue of the fact that estimates of Personal Income include the value of food produced and consumed on farms, the estimates are rendered more nearly comparable as between agricultural and non-agricultural states. However, the value of such food is determined at the prices which would have been received had the products been sold from the farm rather than at the prices which farm families would have paid had the produce been purchased in retail stores. Because of this valuation procedure, there is some understatement of farm income relative to income in urban areas in terms of real income.

Income trends, 1929-1955. Changes in Personal Income in Iowa, ten other Northcentral states, and the United States as a whole are presented in Table 15. It will be noted that this table is divided into 6 different periods corresponding to distinct phases in the nation's recent economic history. During the period of economic decline from 1929 to 1933, the eleven states in the Northcentral area suffered a sharper reduction in Personal Income than was typical for the country as a whole. In fact, only Missouri suffered a smaller-than-national average rate of decline from 1929 to 1933. In Iowa, Personal Income declined 54.5 percent from 1929 to 1933, as compared with a national average decline of 45 percent and an average rate of decline for the Northcentral area of 51.2 percent. Three of the eleven states had a sharper decline than was registered in Iowa: North Dakota, South Dakota, and Michigan.

From 1933 to 1940, the period of economic recovery, the rate of increase in Personal Income in the eleven-state area was substantially higher than in the nation as a whole. For the area as a whole, the rate of increase from 1933 to 1940 was 81.2 percent, as compared with the national rate of increase of 66.6 percent. Iowa, with an increase of 100.9 percent, enjoyed the fourth most rapid rate of increase in income during the recovery period from 1933 to 1940. Three states, South Dakota, North Dakota, and Michigan, had a higher rate of increase in Personal Income from 1933 to 1940. It will be observed that these were the same three states in which the rate of decline from 1929 to 1933 was also sharper than in Iowa. Thus the experience from 1929 to 1940 was essentially one of sharp decline and equally sharp increases in Personal Income for most of the states in the Northcentral area. As a generalization, it may be noted that the rate of decline as well as the rate of increase tended to be larger in the predominantly agricultural states such as North Dakota, South Dakota, Iowa, with Michigan being a notable exception. In Michigan, the cyclically unstable nature of the demand for automobiles was largely responsible for the large downward and upward changes noted in Table 15.

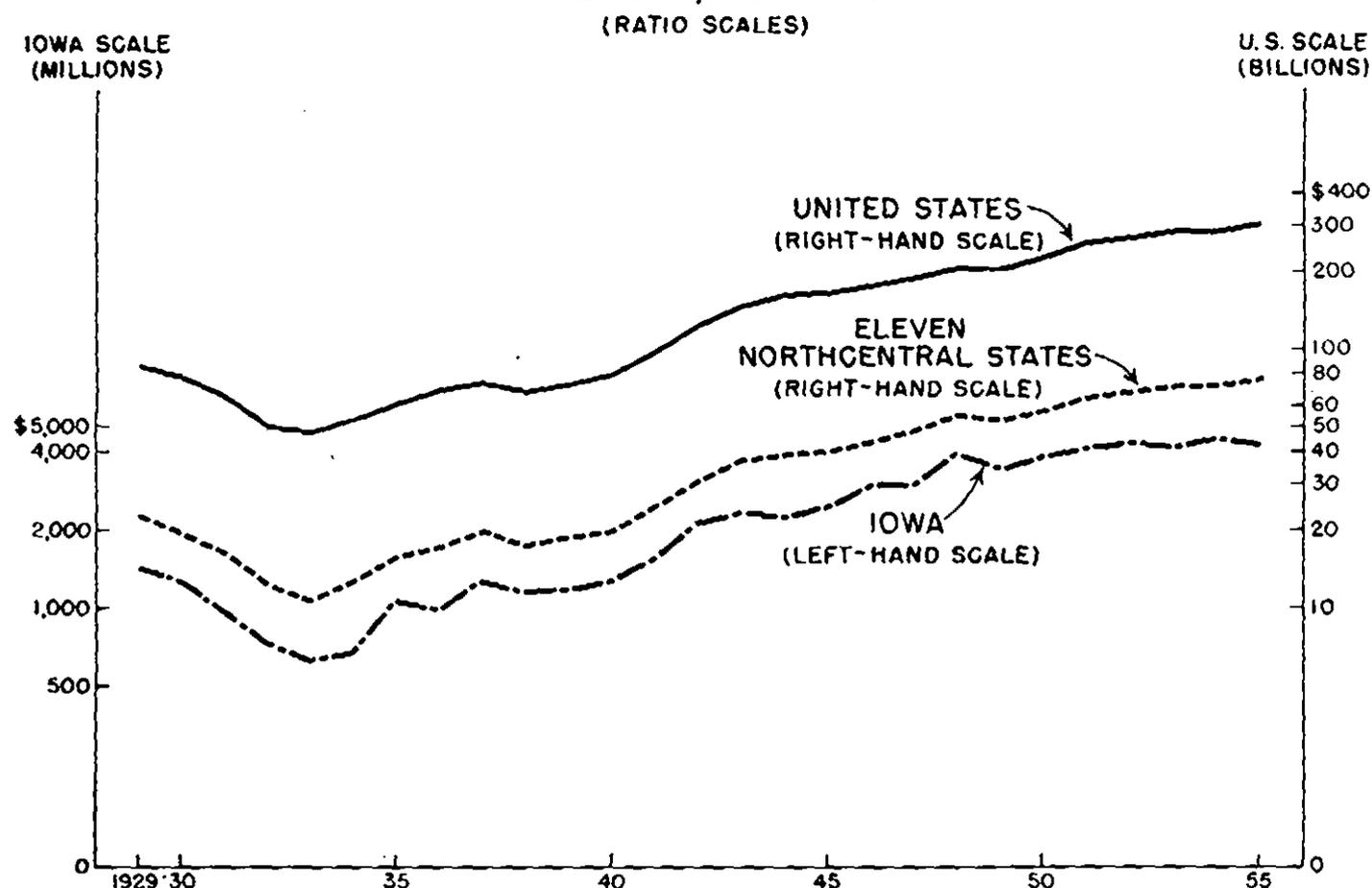
During the war period from 1940 to 1945 the several states also experienced significantly different rates of change in Personal Income. For the Northcentral area as a whole the rate of increase, 102.6 percent, was somewhat below the increase in the nation as a whole, 109.6 percent. Kansas, South Dakota, North Dakota, and Ne-

Table 15. Percentage Changes in Personal Income Eleven Northcentral States, and United States, Selected Periods, 1929-1955.

State	1929 to	1933 to	1940 to	1945 to 1948:	1948 to	1929 to	Rank
	1933:	1940:	1945:	Immediate	1955	1954-55 Av.	
	Depression	Recovery	War	Post-War	Post-War	Long-run	Col. 6
	(1)	(2)	(3)	(4)	(5)	(6)	
Indiana	-50.2	+ 93.3	+125.0	+30.7	+46.9	+300.9	1
Michigan	-56.1	+116.4	+ 99.9	+32.8	+63.2	+291.8	2
Minnesota	-45.9	+ 76.3	+ 90.0	+44.5	+33.9	+243.2	3
Kansas	-52.9	+ 61.8	+161.4	+21.3	+40.4	+240.5	4
North Dakota	-61.3	+128.6	+145.1	+46.1	+10.0	+224.5	5
Missouri	-43.9	+ 55.3	+101.0	+33.6	+42.1	+221.5	6
Wisconsin	-48.9	+ 70.3	+101.8	+32.4	+41.4	+219.4	7
IOWA	-55.4	+100.9	+ 94.0	+59.4	+ 7.1	+205.2	8
South Dakota	-69.1	+158.4	+160.9	+48.0	- 4.3	+204.2	9
Illinois	-52.8	+ 73.7	+ 87.6	+38.3	+35.6	+180.1	10
Nebraska	-52.9	+ 51.3	+143.4	+31.6	+16.0	+170.3	11
Total, 11 states	-51.9	+ 81.2	+102.6	+36.4	+39.1	+226.0	—
Total, United States	-45.0	+ 66.6	+109.6	+25.9	+46.5	+243.3	—

Source: Computed from data published by U.S. Department of Commerce, *Survey of Current Business*, September, 1955, and August, 1956.

CHART 6. PERSONAL INCOME, UNITED STATES, ELEVEN NORTHCENTRAL STATES AND IOWA, 1929-1955



SOURCE: U. S. DEPARTMENT OF COMMERCE.

braska led the rate of increase in the eleven-state area. In Iowa, Personal Income during the war years did not rise as rapidly as in most other states in the area, or as rapidly as in the United States as a whole. In fact, Iowa, with a rate of increase of 94 percent from 1940 to 1945, ranked third from the bottom in the Northcentral states.

The differential rates of growth in income in the eleven states during the war period reflect differences in the structure of the economies of the several states, as well as more or less chance events which are difficult to reduce to generalizations. In the case of Kansas, the high rate of increase was attributable largely to the development of important components of the aircraft industry in that state. Also, some of the states had reached more nearly a level of full employment by 1940 than was the case in other states. Hence, the rate of increase during the war period was limited in those states which had reached substantially full employment levels by 1940. The variable effectiveness of price controls and wage controls in the different types of economic activity represented in the several states was also a factor to be considered in an explanation of the variable rates of growth during the war period.

At the end of the war most of the rather rigid economic controls which had suppressed inflation during the war years were relaxed with the result that prices moved

sharply upward. As might have been expected, some states enjoyed a much higher rate of increase in Personal Income during the immediate postwar period, 1945-1948, than did other states. In this period, Iowa had the highest rate of increase in Personal Income of any state in the Northcentral area, 59.4 percent, as compared with an average for the eleven states of 36.4 percent, and an average for the nation as a whole of 25.9 percent. As has been noted earlier, this was the period in which Iowa's tax yields, particularly at the State level of government, increased most rapidly.

Although inflation did not come to an end in 1948, the rate of price increase has been substantially less during most of the period since 1948 than it was in the immediate post-war period. In fact, during most of the period since 1948, the general trend of agricultural prices has been downward.

The results of the slowing down of the inflationary spiral and the divergent price movements for agricultural products and other types of commodities are quite clearly reflected in the data showing the rates of change in Personal Income in the several states from 1948 to 1955. In this period, those states with predominantly agricultural economies have had a much lower-than-national average rate of increase in Personal Income. Michigan, on the other hand, has enjoyed a very high rate of increase in Personal Income during the period from 1948

to 1955, reflecting chiefly the booming post-war demand for automobiles. The rate has been substantially below the national average in Minnesota, North Dakota, South Dakota, Nebraska, and Iowa. Missouri and Illinois, with more diversified economic structures, have maintained rates of increase in Personal Income roughly similar to the national average rate over the period from 1948 to 1955. The somewhat higher than average rate of increase in Personal Income in Kansas again reflects the continued importance of the aircraft industry in the economy of that state.

During the period from 1948 to 1955, Personal Income received by residents of Iowa increased by only 7.1 percent, as compared with an increase of 39.1 percent in the area as a whole, and an increase of 46.5 percent in the nation as a whole. As has already been suggested, and as will be demonstrated more fully in the following chapter, it is primarily during the period from 1948 to 1955 that the Iowa tax burden as a percentage of Iowans' income has risen to levels which have become a matter of widespread concern. A significant part of the explanation for the rising ratio of State and local taxes to the tax-paying capacity of residents of Iowa is attributable to the low rate of increase in income in the period since 1948. Other states in which the rate of increase has been low have also experienced a rapid increase in the ratio of state and local taxes to Personal Income.

Over the longer period from 1929 to an average for the years 1954 and 1955, the rate of increase in Personal Income received by the residents of Iowa has been substantially below the regional and the national average rates of increase. Within the eleven-state area Iowa ranks eighth from the top in terms of the rate of increase in income over this longer period.

Iowa's relative "loss" in terms of the general growth in income in the United States has been concentrated largely in the period since 1948. The period in which Iowa fell behind the national rate of growth in income is indicated by a brief comparison of the percent of total Personal Income in the nation received by residents of Iowa in selected years. In 1929 residents of Iowa received 1.66 percent of the nation's Personal Income. This percentage declined sharply during the early 1930's, and rose at an equally sharp rate during recovery. By 1940, Iowans were receiving 1.62 percent of the nation's income, about the same fraction as in 1929. During the war years the share dropped to 1.50 percent in 1945, but increased very rapidly in the immediate post-war years. In 1948 Iowans received 1.90 percent of all of the Personal Income received in the nation. In 1955, Iowans received only 1.39 percent of the nation's Personal Income. Thus, over the longer period from 1929 to 1955, the share of the nation's income received by the residents of Iowa has declined from 1.66 percent, to 1.39 percent of the total.

From 1948 to 1955 the various sources of income of residents of Iowa have changed at significantly different rates. The dollar amounts of income from agricultural and nonagricultural sources, and the percentage changes from 1948 to 1955 are shown in Table 16. Total farm income shown in Column 1 of Table 16 declined from \$1,529 million in 1948 to \$692 million in 1955. This represents a decline of 54.7 percent over the period as a whole. It should be explained, however, that farm income fluctuates from year to year partly because of changes in farm inventories. Thus, for most year-to-year comparisons, the changes in farm income from current production, as shown in the first column of Table 16, are greater than the changes in realized income of farmers. But even with this qualification, the reduction in farm income has been very substantial since the post-war peak year of 1948.

Income from private nonfarm sources including manufacturing, trade, property income, and other sources increased by almost 40 percent from 1948 to 1955. Government income disbursements, which include not only wages and salaries of persons employed by Federal, State and local governments but also transfer payments from governments to individuals, increased by over 85 percent from 1948 to 1955. Total Personal Income, the sum of the three components shown in Table 16, increased from \$3,934 million in 1948 to \$4,213 million in 1955, an increase of 7.1 percent.

Table 16. Personal Income of Residents of Iowa, 1948-1955

	Total Farm Income	Private Nonfarm Income	Government		Per Capita Personal Income
			Disbursements	Total Personal Income	
1948	\$1,529	\$2,058	\$347	\$3,934	\$1,547
49	862	2,122	419	3,403	1,320
50	1,093	2,277	429	3,799	1,447
51	1,095	2,546	431	4,072	1,551
51	1,126	2,673	473	4,272	1,617
53	902	2,696	512	4,110	1,546
54	1,133	2,701	615	4,449	1,669
55	692	2,878	643	4,213	1,577
Percentage change, 1948 to					
1955:	-54.7%	+39.8%	+185.3%	+7.1%	+1.9%

Source: U.S. Department of Commerce.

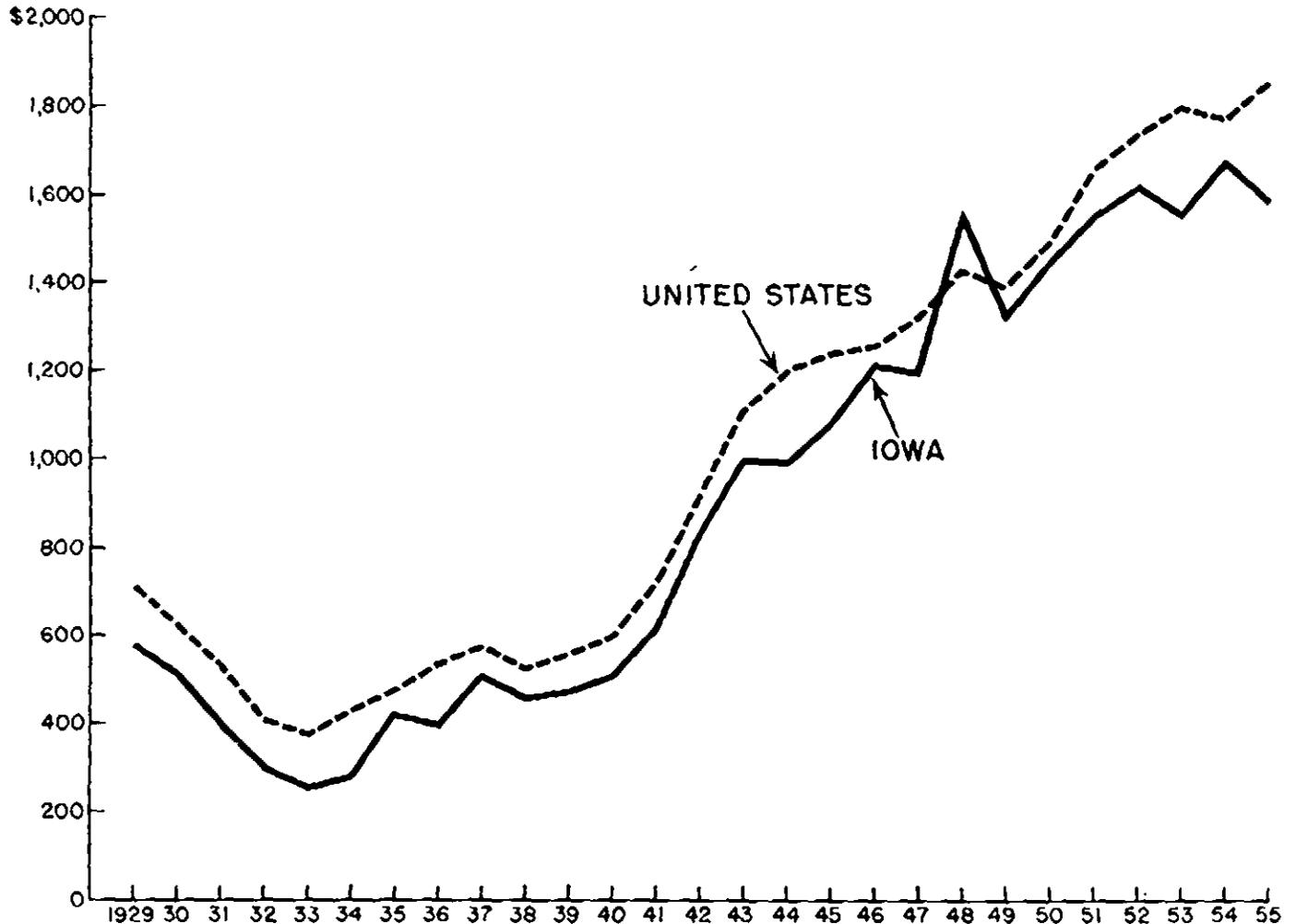
As the population of Iowa also increased from 1948 to 1955, this modest increase in total Personal Income had to be shared by a larger number of individuals. Consequently, the increase in per capita Personal Income was only 1.9 percent from 1948 to 1955. Per capita Personal Income for the United States and for Iowa is shown in Chart 7, by years, from 1929 through 1955. In all but one year of the period covered in this chart, 1948, per capita income in the United States has been higher than in Iowa. During the years of the depression, per capita income fell farther in Iowa than in the United States, but made a somewhat more rapid recovery in the years prior to World War II. During the war years increases in per capita income in Iowa again lagged behind the rate of increase in per capita income in the nation as a whole. But in the immediate post-war years per capita income in Iowa rose more rapidly than in the nation as a whole. During most of the period since 1948, per capita income in Iowa has constituted a decreasing percentage of average per capita income in the nation as a whole.

Although changes in the State-wide average per capita income provide a general measure of fluctuations in the State's economy, the average is by no means typical of all areas within the State of Iowa. Average per capita Personal Income in each of the State's 99 counties is shown in Chart 5, as a percentage of the State Average for 1955.*

County average per capita income varies from 68, to 122 percent of the State average. In general the "low per capita" counties are found in the southcentral and northeastern parts of the State. Counties containing the larger, more heavily industrialized urban centers tend to have per capita averages above the State-wide average. But some of the predominantly agricultural counties of the State—particularly in the northwestern part of the State

*The county per capita income indexes have been computed from data compiled by the publishers of *Sales Management*. Copyright 1956, *Sales Management Survey of Buying Power*; further reproduction not licensed.

CHART 7. PER CAPITA INCOME, UNITED STATES AND IOWA, 1929-1955



SOURCE: U. S. DEPARTMENT OF COMMERCE.

—also have higher-than-State average per capita incomes.

In general, the rate of increase in total Personal Income received by residents of Iowa has lagged behind the rate of increase in Personal Income in the nation as a whole primarily because of declining income from agriculture, together with the higher-than-national average importance of agriculture in the Iowa economy. But even in terms of Personal Income from sources other than agriculture, the rate of increase in Iowa has been significantly below the Northcentral average as well as below the rate of increase in the nation as a whole.

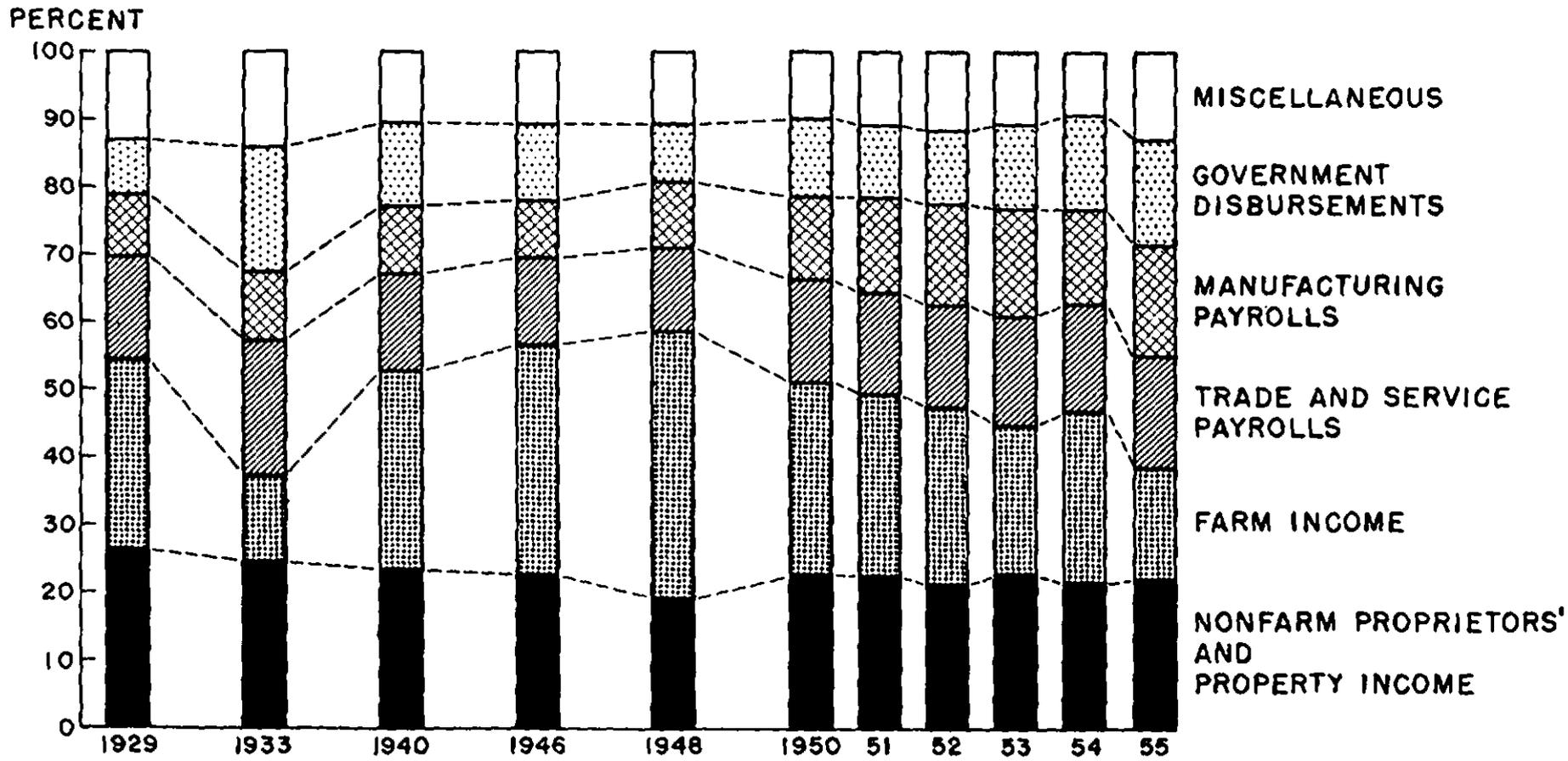
Nonfarm Personal Income is shown in Table 17 for 11 Northcentral states and the United States for the years 1950, 1953, and 1955. From 1950 to 1955 the average rate of increase in nonfarm Personal Income in the United States was 44.2 percent; in the eleven-state area the rate of increase was 37.8 percent. But in Iowa the rate of increase, while substantially above the rate of increase in total Personal Income in the State, was still below the regional and the national average rates of increase. In fact, Iowa ranked 10th in the eleven-state area in terms of the rate of increase in nonfarm Personal Income from 1950 to 1955.

Table 17. Nonfarm Personal Income, Eleven Northcentral States, and the United States: 1950, 1953, and 1955 (Dollar amounts in millions)

State	1950	1953	1955	Percentage change	
				1950 to 1955	1953 to 1955
Kansas	\$ 2,114	\$ 2,942	\$ 3,131	+48.1%	+ 6.4%
Michigan	10,471	14,126	15,332	+46.4	+ 8.5
Indiana	5,532	7,461	7,764	+40.3	+ 4.1
Missouri	5,089	6,510	7,016	+37.9	+ 7.8
Nebraska	1,390	1,691	1,883	+35.5	+11.4
Wisconsin	4,549	5,691	6,124	+34.6	+ 7.6
Illinois	15,185	18,865	20,283	+33.6	+ 7.5
Minnesota	3,613	4,436	4,845	+34.1	+ 9.2
So. Dakota	521	611	679	+30.3	+11.1
IOWA	2,706	3,208	3,521	+30.1	+ 9.8
No. Dakota	436	560	609	+25.3	+ 8.7
Total, 11 States.....	51,656	66,101	71,187	+37.8	+ 7.7
Total, U.S....	200,453	267,100	289,017	+44.2	+ 8.2

Source: U.S. Department of Commerce, *Survey of Current Business*, August, 1956.

**CHART 8. COMPOSITION OF PERSONAL INCOME IN IOWA,
SELECTED YEARS, 1929-1955**



SOURCE: U.S. DEPARTMENT OF COMMERCE.

The rates of increase in nonfarm Personal Income from 1953 to 1955 are also shown in Table 17. In the comparison from 1953 to 1955, Iowa ranks third among the eleven states in terms of the rate of increase in nonfarm Personal Income. In Iowa nonagricultural income increased by 9.8 percent, as compared with a regional average rate of increase of 7.7 percent and a national average rate of increase of 8.2 percent over the period from 1953 to 1955. Thus, while Iowa has lagged behind the region and the nation in terms of nonfarm Personal Income growth over the entire post-war period, the Iowa rate of increase exceeded the area and national averages from 1953 to 1955.

The Changing Composition of Income in Iowa. The composition of Personal Income received by residents of Iowa, by major source of income, is shown graphically in Chart 3 for selected years from 1929 to 1950, and annually from 1950 through 1955. The more significant developments evidenced in Chart 3 may be summarized as follows:

1. The percent of income derived from agriculture dropped precipitously during the 1930's but, by 1940, had risen to its pre-depression level of importance. In the postwar period agriculture provided a much larger percentage of the total income received by the residents of the State than during the 1930's but, since 1950, agriculture has supplied a diminishing percentage of the State's Personal Income. In 1955 agriculture supplied only 16.4 percent of total Personal Income—the smallest percentage since the Mid-Nineteen thirties.
2. Wages and salaries paid by manufacturing establishments supplied only 9.2 percent of the income of Iowans in 1929. This percentage increased slightly during the depression, but fell in the immediate post-war period. Since 1950 manufacturing payrolls have supplied a generally rising percentage of the income of the residents of the State, reaching an all-time high percentage in 1955 when such payments provided Iowans with 16.6 percent of their total Personal Income. It may be noted that in 1955 payrolls of manufacturing establishments contributed a larger amount to the Personal Income of the residents of Iowa than total income from agriculture.
3. Payrolls of retail and wholesale trade and business and personal service establishments have also increased in relative importance since 1950. In 1955 this source of income provided 16.5 percent of total Personal Income in Iowa.
4. Proprietary income of professional workers and the owners of unincorporated nonfarm businesses and property income (dividends, interests, rents and royalties) have pro-

vided a relatively stable percentage of the total income in Iowa since the end of World War II. The amount shown for this component of income for 1955 is partially estimated.

5. The share of income provided by government disbursements in the form of wages and salaries, transfer payments and interest on government securities has provided a substantially larger share of income of residents of the State since the 1930's than was true in 1929. Fundamentally, the increased relative importance of government disbursements reflects the expanded activities of Federal, State and local government as well as the enlarged welfare programs—Federal and State.

The relative importance of the various sources of income in total Personal Income received by the residents of the Northcentral states is shown in Table 18, for the year 1954. North Dakota, South Dakota, Nebraska, and Iowa are more dependent upon agricultural income than the other states in the Northcentral area. On the other hand, these same states derive a smaller fraction of their income from manufacturing and miscellaneous sources than is the case in the nation as a whole.

Summary: Personal Income Trends. The major characteristics of Iowa's Personal Income as they relate to the State's tax problems may be summarized as follows:

1. Income payments received by the residents of Iowa are subject to greater fluctuations in the business cycle than is true for income received by residents of the nation as a whole. This observation has important implications for the design of the State's tax system. It means, for example, that extreme reliance on income and sales taxation will render tax receipts unstable in periods of general economic fluctuation.
2. Although changes in total and per capita income in Iowa have generally paralleled those in the nation as a whole, it is significant that per capita income in Iowa has consistently been lower than the average for the nation as a whole. Since 1948 Iowans have received a diminishing share of the nation's total Personal Income. The slower rate of growth in Iowa's Personal Income since 1948 has contributed significantly to the growing ratio of taxation to the economic capacity of the residents of the state.
3. Declining income from agriculture has been a major factor in Iowa's lagging income since 1948 but from 1950 to 1955 Iowa also had a lower-than-national average rate of increase in nonagricultural sources of income.
4. Since 1953, nonagricultural sources of income in Iowa have risen at a rate higher than the regional and the national average rates.

Table 18. Composition of Personal Income, Eleven Northcentral States, and United States, 1954
(Percent of total from each source)

	Farm Income	Mfg. Payrolls	Trade & Serv. P-R	Trans. Com. & Pub. Util Payrolls	Nonfarm Proprietors' Income	Property Income	Gov't. Payments	All other Income
North Dakota	21.2	2.8	20.2	7.8	11.4	11.0	21.2	4.4
South Dakota	28.6	4.7	16.8	4.1	10.8	10.4	19.8	4.8
Nebraska	20.6	9.8	17.4	7.5	10.5	12.0	16.3	5.9
Kansas	11.9	16.6	15.0	7.9	11.2	11.8	17.7	7.9
Minnesota	11.4	17.0	19.1	7.3	10.0	11.7	14.7	8.8
IOWA	25.5	14.3	15.2	5.2	10.0	11.5	13.8	4.5
Missouri	7.4	21.0	19.8	7.6	9.7	12.1	14.6	7.8
Wisconsin	7.2	30.0	16.3	5.0	9.3	12.1	13.2	6.9
Illinois	4.5	27.5	19.6	6.8	8.4	11.9	12.6	8.7
Michigan	2.1	38.3	16.4	4.5	8.1	10.2	12.6	7.8
Indiana	7.9	32.7	15.6	5.8	8.0	10.2	12.6	7.2
United States	5.3	23.1	18.4	6.2	9.1	12.4	16.9	8.6

TABLE 19. EMPLOYMENT, PAYROLLS, VALUE ADDED, AND CAPITAL OUTLAYS IN MANUFACTURING, Eleven Northcentral States, 1954, with Rates of Change from 1947 to 1954

	Manufacturing Employment:		Manufacturing Payrolls:		Value Added:		Capital Outlay, New Plant and Equipment	
	Number, 1954 (,000)	Change, 1947 to 1954 (Percent)	Amount, 1954 (000,000)	Change 1947 to 1954 (Percent)	Amount, 1954 (000,000)	Change 1947 to 1954 (Percent)	Amount, 1954 (000,000)	Change 1947 to 1954 (Percent)
North Dakota	5.6	7.8	\$ 19.3	56.1	\$ 36.9	25.3	\$ 16.2	622.3
South Dakota	11.6	12.7	41.2	59.9	78.2	52.2	3.5	2.6
Nebraska	56.9	21.0	213.7	78.2	400.3	53.6	36.1	100.0
Kansas	126.0	69.6	530.4	159.0	1,001.8	117.2	52.9	43.9
Minnesota	204.0	13.3	839.0	67.3	1,604.7	56.9	82.5	- 0.3
IOWA	161.7	15.2	641.2	72.2	1,219.1	81.6	73.5	13.6
Missouri	370.4	13.1	1,423.9	72.1	2,726.8	68.0	123.7	- 6.4
Wisconsin	428.0	2.3	1,805.8	52.5	3,314.1	46.6	161.1	- 1.1
Illinois	1,183.4	- 0.1	5,155.0	43.8	9,641.6	44.3	556.0	16.2
Michigan	1,009.0	3.6	4,924.3	59.3	8,733.6	68.1	814.1	90.3
Indiana	582.9	6.3	2,505.6	57.8	4,614.6	55.0	301.5	- 0.2
11 States	3,908.0	5.9	18,099.5	57.2	33,371.9	57.2	2,221.0	29.8
U. S. Total	16,135.0	12.9	66,011.0	66.3	116,001.0	55.8	7,757.0	29.2

Source: U. S. Bureau of the Census, Census of Manufactures: 1954. Preliminary State Reports.

5. Although Iowans have been deriving an increasing percentage of their total income from nonagricultural sources since 1948, agriculture still supplies the largest component of Personal Income received by residents of the State in most years. From 1950 through 1954 farm income supplied between 22 and 39 percent of the State's total Personal Income as compared with only 16.4 percent in 1955.

3. MANUFACTURING TRENDS IN IOWA.

Changes in the relative importance of manufacturing payrolls as a source of Personal Income of the residents of Iowa are shown in Chart 8. Manufacturing payrolls have increased in relative importance from 9.2 percent of Personal Income in 1929, to 16.6 percent of Personal Income in 1955. In the latter year manufacturing payrolls surpassed total income from agriculture in importance as a source of Iowa income. However, the full significance of manufacturing growth in Iowa is not readily apparent from Chart 8. For example, the increase in the relative importance of manufacturing payrolls as a source of income in Iowa might simply reflect declining income from other sources. Thus, in order to evaluate the growth of manufacturing in Iowa relative to manufacturing growth in surrounding states and the nation as a whole, additional data are required.

Growth of manufacturing in Iowa, the Northcentral area and the United States Compared. Comparative statistics showing employment, payrolls, value added, and capital outlays in manufacturing establishments for Iowa, the Northcentral states, and the United States are presented in Table 19. Alternate columns in Table 19 show the percentage rates of change for each of the various indexes, or measures, of manufacturing activity from 1947 to 1954.

Total manufacturing employment is shown in Column 1 of Table 19 for eleven Northcentral states and for the United States, in thousands of employees. The rate of change in total employment from 1947 to 1954 is shown in the second column. Kansas and Nebraska led the eleven-state area in the rate of increase in manufacturing employment over this period, with Iowa ranking third. The rate of increase in employment in Iowa, 15.2 percent, was two and one-half times the rate of increase in the Northcentral area as a whole, and substantially above the rate of increase in the United States as a whole.

Manufacturing payrolls for the year 1954 and the rate of increase in payrolls from 1947 to 1954 are shown in Columns 3 and 4, respectively. In this measure, as in terms of the rate of growth in employment, Iowa ranked third from the top in the eleven-state area, with an increase in payrolls of 72.2 percent, as compared with an average rate of increase for the eleven states as a whole of 57.2 percent, and an increase of 66.3 percent in the nation as a whole.

"Value-added by manufacture" is a more comprehensive measure of the economic significance of manufacturing activity than either employment or payrolls. As used in Table 19, the value added concept measures the increase in the value of raw materials supplies, parts, and purchased products taking place within each state's manufacturing establishments. It is computed by subtracting from the value of shipments the value of purchases from suppliers and other business firms. Thus, "value added by manufacture" provides a measure of the contribution of manufacturing to the ultimate market value of goods and services and, at the same time, it provides a measure of the flow of income to labor and the owners of capital from manufacturing activities.

Value-added by manufacture in Iowa in 1954 was \$1,219 million. This represented an increase of almost 82 percent over value added in 1947 in Iowa. This rate of in-

crease was the second highest—exceeded only in the State of Kansas—in any of the eleven states for which separate data are shown in Table 19. From 1947 to 1954, the rate of increase in value added in Iowa was approximately 50 percent higher than the rate of increase in the nation as a whole.

A final measure of the rate of growth in manufacturing activity is provided by outlays on new plant and equipment. From 1947 to 1954 Iowa manufacturers increased their expenditures for new plant and equipment by 13.6 percent. This rate was less than half the rate in the Northcentral area as a whole and in the nation as a whole. In terms of the rate of increase in new capital outlay from 1947 to 1954, Iowa ranked sixth among the eleven states in the Northcentral area.

Manufacturers' expenditures for new plant and equipment show considerable variation from year to year. Therefore, the fact that the increase in the rate of expenditure from 1947 to 1954 was lower in Iowa than in the nation, or the Northcentral area, does not necessarily mean that the growth of manufacturing in Iowa is lagging.

The figures for "capital outlay on new plant and equipment" include only those outlays made by firms in operation in 1954. Thus, outlays by new firms, not yet in operation, are excluded. For the years 1951 through 1954, inclusive, manufacturers' capital outlays for new plant and equipment per employee in Iowa were 91 percent of outlays per employee in the nation as a whole. In 1947 and 1951 capital outlays per employee in Iowa exceeded the national average capital output per employee in the same years.

Table 20. Manufacturing Employment, Payrolls Value Added, and Expenditures for New Plant and Equipment in Iowa, as Percentages of United States Totals: 1939, 1947, and 1954

	1939	1947	1954
Manufacturing employment total .....	.92	.98	1.00
Manufacturing payrolls .....	.90	.94	.97
Value added by manufacture .....	.99	.90	1.05
Capital outlay for new plant and equipment		1.08	.95

The relative rates of growth in employment, payrolls, value-added, and new capital outlays for Iowa and the United States are presented in a slightly different form in Table 20. In this table, each of the four measures of manufacturing activity in Iowa is presented as a percentage of the comparable measure for the United States as a whole. This brief tabular comparison indicates that from 1939 to 1947 and again from 1947 to 1954 Iowa increased its share of the national totals of manufacturing employment and payrolls. From 1947 to 1954 Iowa registered a sharp increase in the share of value added by manufacturing in the State. This table also indicates that capital outlays on new manufacturing plant and equipment in Iowa were a larger share of the national total in 1947 than in 1954.

The rates of increase in employment, payrolls, and value added have been consistently higher in Iowa than in the nation as a whole in the years since 1947, with the exception of the period from 1952 to 1953, when the rate of increase was higher in the nation than in Iowa.

The data presented in Tables 19 and 20 as well as the trends portrayed in Chart 8 indicate two major conclusions: First, manufacturing activity is increasing in importance as a source of income of the residents of the State of Iowa. Second, since 1947, Iowa has increased its share of the national totals of manufacturing employment, payrolls, and value added.

Location of Manufacturing activity in Iowa. Manufacturing activity in Iowa is by no means uniformly dispersed over the State. As a matter of fact, in terms of employment, manufacturing activity in Iowa is heavily concentrated in a relatively small number of counties. In 1953 approximately 42.5 percent of all manufacturing employees were found in only four counties of the state: Polk, Linn, Blackhawk, and Scott. Over 72 percent of all manufacturing employees were to be found in only ten counties in Iowa including, in addition to the four counties listed above, Dubuque, Des Moines, Woodbury, Wapello, Lee, and Jasper.

Comparative employment data for 1947 and 1954 are shown in Table 21 for the seven leading manufacturing counties in Iowa. In 1954 these counties accounted for almost 60 percent of all manufacturing employment in Iowa, as compared with 57.2 percent of manufacturing employment in the same counties in 1947. The remaining 92 counties of the State accounted for slightly more than 40 percent of Iowa's manufacturing employment in 1954, as compared with almost 43 percent in 1947. Thus, from 1947 to 1954, the seven most important manufacturing counties increased in importance, relative to the remainder of the State as a whole. The higher rate of growth in the counties which were already heavily industrialized in 1947 is evidenced in the last column of Table 21 in which are shown the percentage changes in manufacturing employment from 1947 to 1954. The highest rate of increase in the top seven counties was registered by Des Moines County with an increase of almost 88 percent from 1947 to 1954. Polk, Scott, and Linn counties also registered rates of increase substantially higher than the average for all counties.

The seven top counties as a whole registered an increase of slightly more than 20 percent in manufacturing employment from 1947 to 1954, as compared with an increase of only 8.6 percent in the remaining 92 counties as a whole, and an increase of 15.2 percent in manufacturing employment in the State as a whole. Thus, over the period from 1947 to 1954, when total manufacturing employment in the State of Iowa increased by 21,310, the seven top counties accounted for almost 76 percent of the total increase in manufacturing employment.

A comparison of the counties shown in Table 21 with the rates of population change and indexes of average county per capita income shown in Chart 5 suggests some of the major factors responsible for shifting population and intrastate differences in per capita income.

Table 21. Manufacturing Employment in Leading Industrial Counties in Iowa, 1947 and 1954

County	Employment		Rank		Percent Change 1947 to 1954
	1954	1947	1954	1947	
Polk	22,717	16,090	1	2	+41.2
Linn	18,373	14,313	2	3	+28.4
Blackhawk	16,680	17,859	3	1	- 6.4
Scott	12,530	9,272	4	5	+35.1
Dubuque	9,813	9,225	5	6	+ 6.4
Woodbury	9,441	9,889	6	4	- 4.5
Des Moines	6,954	3,705	7	12	+87.7
Total, seven counties	96,508	80,353			+20.1
Percent of State Total	59.7	57.2			
Total, all other counties	65,199	60,044			+ 8.6
Percent of State Total	40.3	42.8			
Total, all counties	161,707	140,397			+15.2

Source: U.S. Bureau of the Census, *Census of Manufactures: 1954 Preliminary State Report for Iowa*, Table 4.

4. AGRICULTURAL TRENDS

Trends in the agricultural component of the Iowa economy reflect the operation of the same basic forces which have modified the role of agriculture in the national economy. Selected measures of agriculture's share in the national economy are presented in Table 22.

Table 22. Agriculture's Share of National Income, Population, Labor Force, and Productive Assets, The United States, Selected Years, 1910-1955.

Years	National Income ^a	Population ^a	Agriculture as percent of national totals	
			Labor Force ^b	Productive Assets ^b
1910	16.3	34.7	31.1	42.3
1920	14.0	30.0	27.0	33.8
1930	8.4	24.8	20.9	23.9
1932	7.6	25.1	.....	.....
1940	8.2	23.1	17.1	21.3
1948	10.6	17.7	.....	.....
1950	8.1	16.5	11.9	26.0
51	8.2	15.7	11.2	.....
52	7.4	15.5	10.8	26.1
53	6.3	14.2	10.3	.....
54	6.0	13.5	10.1	23.0
55	5.4	13.4	10.1	22.4

Sources: ^a U.S. Department of Agriculture, *The Farm Income Situation*, No. 159, July, 1956, pp. 22-3;
^b John D. Black, "Agriculture in the Nation's Economy," *American Economic Review*, March, 1958, p. 24.

The declining fraction of the national income originating in agricultural production, and the reduction in farm population and the percentage of the nation's labor force engaged primarily in agriculture have resulted from the fact that output per man hour of farm labor has increased much more rapidly than the total output of the nation's farms. Indexes of those two measures are shown below:

Changes in Output per Man hour and Total Output of Farms, United States, 1930-1954, (Index numbers, 1930 = 100)

Year	Output per Man hour	Total output for marketing and home consumption
1930	100	100
40	128	111
45	159	138
50	207	138
1951	209	.....
52	222	144
53	228	151
54	233	151

^aU.S. Department of Agriculture, as reported in *Statistical Abstract of the United States: 1955*, Tables 802 and 804 pp. 658, 659.

Agriculture in the Northcentral Region. The number of farms, value of farm land and buildings, and cash receipts from farm marketings are shown in Table 23 for eleven Northcentral states and the United States. This table also shows percentage changes in the various agricultural statistics from the pre-war year 1940, to the most recent year for which information is available.

Iowa, with approximately 193,000 farms, accounted for about three and one-half percent of the total number of farms in the nation in 1954. In the nation as a whole, as well as in the eleven-state area, the number of farms

has been declining in recent years. From 1940 to 1950 the total number of farms in the United States declined by approximately 12 percent. From 1940 to 1954 the decline in the Northcentral area was 18 percent. The number of farms in Iowa declined slightly less than 10 percent from 1940 to 1954, the lowest rate of decline of any of the states in the Northcentral area.

The value of land and buildings of Iowa farms was almost \$7.0 billion in 1954. From 1940 to 1954, the total value of land and buildings increased 158 percent in Iowa, as compared with an increase of 170 percent in the Northcentral area. In terms of the value of land and buildings, Iowa ranks second among the eleven states in the Northcentral region. Iowa accounts for seven percent of the nation's total value of land and buildings, as compared with only three and one-half of the number of farms in the nation. Thus, on the average, the value of land and buildings per farm in Iowa is approximately twice that in the nation as a whole.

In 1955 Iowa farmers received \$2,071 million from the sale of livestock and livestock products and crops. Cash

receipts in Iowa accounted for approximately seven percent of total receipts from cash marketings in the nation as a whole. From 1940 to 1955 cash receipts from farm marketings increased by approximately 210 percent in Iowa, as compared with an increase of 237 percent in the Northcentral area and almost 251 percent in the nation as a whole. The rate of increase was substantially higher in North and South Dakota, Nebraska, Indiana, and Missouri than in Iowa, or the nation. Minnesota, Wisconsin, and Illinois registered about the same, or slightly higher, rates of increase in cash receipts than was registered in Iowa. In the eleven-state area only Michigan registered a smaller percentage increase in cash receipts from farm marketing from 1940 to 1955 than that registered in Iowa. However, from 1940 to 1953 and from 1940 to 1954 the rate of increase in cash receipts from farm marketings in Iowa was more nearly equal to that in the United States as a whole. Thus, the lower rate of increase over the longer period from 1940 to 1955 reflects the sharp decline in cash receipts in Iowa from 1954 to 1955, rather than a persistent tendency for

Table 23. Number of Farms, Value of Farm Land and Buildings, 1954, Cash Receipts from Farm Marketings, 1955, and Rates of Change Since 1940, Eleven Northcentral States.

State	Farms		Value of Land & Buildings		1955 (,000,000)	Cash Receipts Percent Change 1940 to 1955
	Number, 1954	Percent change 1940 to 1954	1954 (,000,000)	Percent Change 1940 to 1954		
North Dakota	61,943	-16.3	\$ 1,517	+209.6	\$ 533	+319.7
South Dakota	62,520	-13.7	1,793	+254.8	500	+316.7
Nebraska	100,846	-16.7	3,469	+204.8	974	+336.8
Kansas	120,167	-23.1	4,171	+193.5	835	+240.8
Minnesota	165,225	-16.3	3,478	+141.0	1,208	+217.8
IOWA	192,933	- 9.6	6,963	+158.1	2,071	+209.5
Missouri	201,614	-21.3	2,715	+145.2	986	+258.5
Wisconsin	153,558	-17.8	2,276	+ 91.5	975	+213.5
Illinois	175,543	-17.8	7,177	+182.9	1,713	+215.4
Michigan	138,922	-25.9	2,149	+135.4	640	+173.5
Indiana	153,593	-16.8	3,880	+210.0	1,039	+275.0
Total, 11 states	1,526,864	-18.1	39,581	+169.5	11,474	+237.0
Total, U.S.	5,382,162 ^a	-11.7 ^b	75,260 ^a	+123.7 ^b	29,401	+250.8

^a Data shown are for 1950; 1954 figures not available.
^b Percentage change from 1940 to 1950.

Table 24. Total Net Income of Farm Operators From Farming, Eleven Northcentral States, 1949-1954 (In Millions)

	1949	1950	1951	1952	1953	1954
North Dakota	\$ 175.0	\$ 265.2	\$ 249.4	\$ 173.5	\$ 161.1	\$ 137.8
South Dakota	167.0	248.4	343.1	184.4	219.9	217.6
Nebraska	369.1	531.7	454.9	500.1	350.9	414.0
Kansas	396.9	501.3	416.4	546.8	268.4	341.4
Minnesota	504.2	515.5	659.1	574.0	513.6	538.2
IOWA	790.3	1,044.7	1,014.1	1,081.5	797.5	1,041.8
Missouri	498.0	569.1	585.2	498.9	444.6	468.9
Wisconsin	463.3	452.1	615.3	574.3	454.2	429.5
Illinois	648.3	730.9	893.3	815.9	700.0	799.2
Michigan	327.2	278.9	373.5	339.9	303.9	235.6
Indiana	439.4	441.1	553.9	482.8	511.9	545.5
11-State	4,778.7	5,579.2	6,158.2	5,771.5	4,728.0	5,169.5
U.S.	12,866.	13,716.	16,111	14,888	12,813	12,307

Source: U.S. Department of Agriculture, Farm Income Situation, December, 1955.

the growth in cash receipts in Iowa to lag the rate of increase in cash receipts in the nation as a whole.

In summary, Iowa with about three and one-half percent of the nation's farms has approximately seven percent of the total value of farm land and buildings in the nation, and in 1955, received about seven percent of the nation's cash receipts from farm marketings.

Net income of farm operators. Total net income of farm operators derived from farming is shown in Table 24 for eleven Northcentral states for the years from 1949 to 1954, inclusive.

The net income of farm operators is computed as follows: Cash receipts from farm marketings, government payments, the value of home consumption and the estimated rental value of farm dwellings are totaled to give realized gross farm income. From this total is subtracted farm production expenses leaving realized net farm income. From this total is subtracted the market value of any reduction in farm inventories during the year; any increases in farm inventories are added to realized net farm income. The resulting total is defined by the U. S. Department of Agriculture as the "total net income of farm operators from farming."

Iowa's share of total net income of farm operators varied from 6.1 percent of the national total in 1949 to a high of 8.5 percent in 1954 with the other years falling between these limits. In general, the net income of farm operators in Iowa tends to vary with changes in the income of farm operators in the nation as a whole.

Official figures on net income of farm operators for 1955 are not available but on the basis of preliminary data it is estimated that the net income of farm operators in Iowa will be approximately \$610 million for 1955—a decline of approximately 40 percent from the figures shown in Table 24 for the year 1954. As already noted in connection with the discussion of Table 23, the cash receipts of farm operators in Iowa declined sharply from 1954 to 1955. Cash receipts together with farm operating expenses are the major determinants of the net income of farm operators. Farm production expenses as a percent of realized gross farm income are shown below for Iowa and the United States from 1949 to 1954. Two characteristics of this table merit comment. First, it may be noted that production expenses comprise a higher percentage of realized gross income in Iowa than in the nation as a whole for four of the six years shown in the tabulation above. Secondly, it may be noted that production expenses as a percent of gross income have tended to rise from 1949 to 1954 in both Iowa and in the nation as a whole. This tendency will undoubtedly be continued in the data for 1955.

Farm Production Expenses, as Percent of Realized Gross Farm Income, Iowa and the United States, 1949-1954

Year	Iowa	United States
1949	56.6	56.7
50	60.5	60.0
51	63.3	60.0
1952	67.1	62.0
53	58.6	62.0
54	65.4	65.2

Source: U. S. Department of Agriculture, *Farm Income Situation*, December 1955, Table 10.

Indexes of the estimated value per acre of farm real estate in the 11 Northcentral states are shown in Table 25 for selected years beginning with 1940. For each state, the average value per acre of farm real estate is taken as 100 for the period 1947-1949. Thus the index for each state measures the change in value per acre as compared with the base period of 1947-1949. It will be noted

from Table 25 that average value per acre of Iowa farm real estate increased by 32 percent from 1947-1949 to 1955, about the same rate registered in most of the other states in the Northcentral area, but slightly higher than the rate of increase in the nation as a whole.

Table 25. Indexes of Estimated Value per Acre of Farm Real Estate, Eleven Northcentral States, March 1, 1940, 1945, 1950, and 1952-55.
(Index numbers, 1947-49 = 100)

	1940	1945	1950	1952	1953	1954	1955
North Dakota	48	71	107	133	136	134	132
South Dakota	47	69	111	145	140	135	139
Nebraska	47	68	104	136	136	127	134
Kansas	45	70	106	131	133	125	129
Minnesota	55	74	109	137	134	127	135
IOWA	50	73	108	132	128	124	132
Missouri	50	78	106	138	132	121	123
Wisconsin	58	76	101	119	119	113	111
Illinois	50	74	108	138	140	139	142
Michigan	46	73	100	123	126	128	133
Indiana	44	73	103	135	137	135	144
United States	50	75	102	128	127	122	125

Source: *Statistical Abstract of the United States*: 1955, p. 632.

Family incomes in farm and urban categories. In the census of Population for 1950 an effort was made to obtain income data for the population. A summary of the results for Iowa is presented in Table 26. Although the statistical reliability and accuracy of these sample estimates obtained in the 1950 Census of Population leave something to be desired, they are about the only data available giving a reasonably satisfactory measure of the difference in income between rural and urban residents. When families and unrelated individuals are considered together the median income in urban areas of Iowa was \$2,784 per unit in urban areas as compared with \$2,476 for farm families and unrelated individuals.* The urban median income for the combined group was 16 percent above the farm category. Both urban and farm residents reported higher income per unit than families and unrelated individuals in rural non farm residences.

Table 26. Median Incomes of Rural and Urban Families and Unrelated Individuals in Iowa, 1950

	Urban	Nonfarm	Farm	State
Families and unrelated individuals	\$2,874	\$2,209	\$2,476	\$2,612
Families	3,419	2,630	2,670	3,068
Unrelated individuals	973	737	972	901

Source: U. S. Bureau of the Census, *Census of Population: 1950, Report P-B 15, Table 32.*

When family units only are considered the discrepancy between urban and farm income levels is greater. The median income of urban families as reported in the Census for Iowa was \$3,419, as compared with the median income for farm families of \$2,670; urban family income exceeded farm family income by approximately 28 percent. For unrelated individuals, that is, individuals not living as members of a family group, the difference between urban and farm median incomes was negligible. But both urban and farm unrelated individuals had incomes substantially higher than unrelated individuals in rural nonfarm residences.

* The "median income" is that income above and below which one-half of the units fall.

Table 27. Retail and Wholesale Sales and Payrolls, 1954, Eleven Northcentral States.

	Sales				Payrolls			
	Retail % Change		Wholesale % Change		Retailing % Change		Wholesaling % Change	
	1954	1948 to 1954	1954	1948 to 1954	1954	1948-54	1954	1948-54
	(\$,000,000)		(\$,000,000)		(\$,000,000)		(\$,000,000)	
North Dakota	\$ 662	+ 8.8	\$ 783	-16.7	\$ 60	+23.6	\$ 33	+32.0
South Dakota	679	+ 9.1	782	- 1.2	61	+22.8	28	+29.8
Nebraska	1,588	+20.5	2,641	+12.2	153	+35.2	83	+28.2
Kansas	2,200	+30.2	2,015	- 3.3	207	+36.4	89	+45.0
Minnesota	3,450	+18.7	5,430	+ 8.0	366	+25.5	240	+44.1
IOWA	3,078	+20.4	3,730	+11.2	279	+24.2	137	+38.0
Missouri	4,525	+26.8	8,156	+ 9.9	477	+30.4	380	+35.2
Wisconsin	3,924	+21.1	3,554	+25.6	404	+30.4	196	+42.5
Illinois	11,019	+25.1	20,286	+11.8	1,252	+27.8	934	+35.5
Michigan	8,168	+37.3	10,092	+50.9	879	+37.1	478	+56.8
Indiana	4,513	+27.8	4,327	+34.1	498	+37.9	224	+54.3
11 States	43,804	+25.9	61,806	+16.9	4,637	+31.1	2,822	+41.4

Source: U.S. Bureau of the Census.

5. RETAIL AND WHOLESALE TRADE AND PAYROLLS.

Sales and payrolls of retail and wholesale establishments in the Northcentral states are shown in Table 27 for the year 1954. In 1954 Iowa ranked 7th in the Northcentral area in total retail sales. In the same year, Iowa ranked 6th in the area in terms of wholesale sales.

From 1948 to 1954 both retail and wholesale sales increased somewhat more slowly in Iowa than in the Northcentral area as a whole. In 1948 sales by Iowa retailers accounted for 7.3 percent of total retail sales in the area; in 1954 Iowa retailers accounted for only 7 percent of such sales. Wholesale establishments in Iowa accounted for 6.4 percent of total area sales in 1948, as compared with 6.0 percent in 1954. The slower rate of growth in Iowa retail and wholesale sales is also indicated in Table 27. From 1948 to 1954 retail sales in Iowa increased 20.4 percent as compared with an increase of almost 26 percent in the eleven-state area as a whole. Iowa ranked 8th among the eleven states in terms of the rate of growth in retail sales from 1948 to 1954. Sales by wholesalers increased much more slowly than sales by retailers from 1948 to 1954. Iowa wholesale establishments increased sales by 11.2 percent over this period as compared with an increase of almost 17 percent in the eleven-state area as a whole.

The comparatively less rapid rate of growth in Iowa wholesale and retail sales is also reflected in the growth of payrolls by these establishments. From 1948 to 1954 payrolls of Iowa retail establishments increased 24.2 percent as compared with an increase of 31.1 percent in the eleven-state area as a whole. Payrolls of wholesaling establishments in Iowa increased 38 percent from 1948 to 1954, as compared with an increase of 41.4 percent in the eleven-state area as a whole.

In general, year-to-year changes and long-run trends in retail sales reflect quite accurately changes in Personal Income received by the residents of a state. A comparison of the rates of change in Personal Income shown in Table 15 with the rates of change in retail sales shown in Table 27 indicates that the states which enjoyed the least rapid rates of increase in income have also been the states in which retail sales have increased least rapidly.

5. SUMMARY.

Comparative growth rates of population and various measures of economic activity for Iowa, eleven Northcentral states, and the United States are presented in

Table 28. The data presented in this table are taken from the various tables included in this chapter and from the sources cited in those tables. The major characteristics of the Iowa economy as presented in the various tables in this chapter, may be summarized as follows:

Table 28. Comparative Growth Rates of Population and Economic Activity, Iowa, Eleven Northcentral States, and the United States

Series	Period	(Percent change)		
		Iowa	Northcentral States	United States
Total population:	1900 to 1950	+ 17.4	+ 64.7	+ 98.3
	1940 to 1950	+ 3.3	+ 9.9	+ 14.5
	1950 to 1955	+ 2.7	+ 7.8	+ 9.9
Personal income, total:	1929 to 1954-55	+205.5	+226.0	+243.3
	1945 to 1948	+ 59.4	+ 36.4	+ 25.9
	1948 to 1955	+ 7.1	+ 39.1	+ 46.5
Personal income, nonfarm:	1950 to 1955	+ 30.1	+ 37.8	+ 44.2
	1953 to 1955	+ 9.8	+ 7.7	+ 8.2
Personal income, farm:	1950 to 1955	- 36.0	- 23.3	- 10.3
	1953 to 1955	- 20.4	*	- 10.4
	1954 to 1955	- 38.9	- 19.6	- 5.0
Manufacturing:				
Employment, total	1947 to 1954	+ 15.2	- 5.9	+ 12.9
Payrolls, total	1947 to 1954	+ 72.2	+ 57.2	+ 6.3
Value added	1947 to 1954	+ 81.6	+ 57.2	+ 55.8
Investment in new plant	1947 to 1954	+ 13.6	+ 29.8	+ 29.2
Agriculture:				
Number of farms	1940 to 1954	- 8.6	- 18.1	*
Value of land & bldgs.	1940 to 1954	+158.1	+169.5	*
Cash receipts	1940 to 1954	+209.5	+237.0	+250.8
Net income of farm operators	1949 to 1954	+ 31.8	+ 8.2	- 4.3
Trade:				
Retail sales	1948 to 1954	+ 20.4	+ 25.9	*
Wholesale sales	1948 to 1954	+ 11.2	+ 16.9	*

* Comparable data not available.

Sources: See sources given for tables in Chapter II.

REPORT OF THE IOWA TAXATION STUDY COMMITTEE

1. *Population growth in Iowa has taken place at a much slower rate than in the nation as a whole in the period since 1900.*
2. *With the exception of the immediate post-war period from 1945 to 1948, total Personal Income received by residents of Iowa has increased at rates substantially below the rates of increase in Personal Income received by residents of the Northcentral states, and by residents of the nation as a whole.*
3. *From 1950 to 1955 nonfarm sources of Personal Income in Iowa increased less rapidly than in the area and in the nation. However, from 1953 to 1955 income from nonfarm sources increased more rapidly in Iowa than in the nation or the region.*
4. *Personal Income from farming, including proprietors' income and farm wages, has declined more rapidly in Iowa from 1950 to 1955 than in the nation or the region as a whole. Iowa also suffered a bigger drop in Personal Income from farming from 1954 to 1955 than was experienced in the nation as a whole.*
5. *Most measures of manufacturing activity indicate that from 1947 to 1954 Iowa has exceeded the area and the national rate of growth.*
6. *Over a longer period of time, from 1940 to 1954, the number of farms in Iowa declined somewhat less than the number in the eleven-state area. Over the same period of time, the value of land and buildings increased less in Iowa than in the Northcentral area; cash receipts from farm marketings also increased by less in Iowa than in either the area or the nation as a whole. From 1949 to 1954 the net income of farm operators in Iowa increased at a rate substantially above the rates in the Northcentral states or in the United States.*
7. *Retail and wholesale trade increased by smaller percentages in Iowa than in the eleven-state Northcentral region in the period from 1948 to 1954.*

CHAPTER III

The Comparative Tax Burden in Iowa

In general, the costs of State and local government are influenced by the size of the population, the area served by the units of government, the level of services demanded by the population and the efficiency with which these services are performed.

The costs of State and local government in Iowa are high relative to average costs in the 48 states in terms of the commonly accepted measures of tax burden. Obviously, a state such as New York or California will have much larger dollar expenditures for state and local government than a small state such as Rhode Island, or even Iowa. In order to compare costs of state and local government in areas with vastly different populations and/or economic resources, two measures are commonly employed: (1) Costs per capita of the population, and (2) Governmental costs as a percentage of total Personal Income received by residents of the state. The measure of income employed in these comparisons is Personal Income, as defined in the preceding chapter of this Report.

Total and per capita state and local tax revenues for the year 1953 for the Northcentral states are shown in Table 29. In terms of per capita State tax revenues alone, Iowa ranked 29th among the 48 states in 1953, and 7th in the eleven-state area. However, in terms of local per capita tax revenues Iowa ranked 3rd in the Northcentral area and 8th in the nation. In terms of combined State and local per capita tax revenues Iowa ranked 12th in the nation and 4th in the Northcentral area.

In 1953 per capita state tax revenues in Iowa were \$3.71 below the average for all states. At the local level of government in Iowa, per capita tax revenues were \$15.65 above the average for all local governments in 1953. In terms of combined state and local per capita taxes, Iowa was almost \$12 above the average for all state and local governments.

In 1953, Iowa's comparatively high rank of 12th among all states in terms of per capita state and local tax revenues was attributable to the high level of per capita local taxes in the State. In terms of per capita property taxes, the principal source of local tax revenue, Iowa ranked 7th in the nation, with per capita local property tax collections of slightly more than \$80, as compared with a national average for all local governments of \$58. However, in other areas of the country nonproperty taxes play a somewhat more significant role in local revenues than is the case in Iowa.

Taxes as a percent of income. The "burden" of taxes depends not only upon the amount per person collected but upon the relation of collections to the income of the population of taxpayers. Estimated Federal taxes borne by residents of the eleven Northcentral states together with state and local taxes and total taxes borne by the residents of the states are shown in Table 30 for the year 1953. It will be noted that the Federal taxes in each state are the taxes estimated to have been borne by the residents of that state, rather than the amount paid to the government by taxpayers in the various states. For example, residents of all 48 states ultimately bear a share of Federal excises on tobacco and alcoholic beverages. But the collections of revenues from these excises are made from a relatively small number of states.

In 1953, Federal taxes imposed different relative burdens on taxpayers in the eleven states in the Northcentral area. In South Dakota, for example, Federal taxes absorbed less than 22 percent of Personal Income of the

residents of that State, as compared with 27.47 percent of the income of residents of Illinois. Iowa ranked 29th among the 48 states in terms of Federal tax incidence, relative to the income of the population of the respective states.

In 1953, State and local taxes absorbed 9.22 percent of Personal Income in Iowa, as compared with 7.58 percent in all states, and 7.50 percent in the eleven-state area. Iowa ranked 7th in the nation in 1953 in terms of the percentage of Personal Income required to cover the costs of State and local government. Iowa ranked 4th in the Northcentral area on the same basis. In terms of total Federal, State, and local tax burden relative to Personal Income, Iowa ranked 27th in the nation, and 8th in the eleven-state area.

In general, in those states in which state and local taxes are high relative to income, Federal taxes tend to be somewhat low relative to income. In South Dakota, for example, where state and local taxes relative to income are second highest in the nation, Federal taxes relative to income give the state a rank of 39; in terms of total Federal, state, and local taxes, South Dakota ranks near the median, in 22nd position. In Illinois, on the other hand, where Federal taxes are high relative to income, state and local taxes are low relative to income. Several factors account for this tendency.

In the first place, state and local taxes relative to income tend to be highest in agricultural, sparsely populated states. These are precisely the states in which the Federal tax system places a relatively light load, as compared to the burden which the Federal tax system places on heavily industrialized states. Secondly, the impact of the Federal tax system depends upon the distribution of Personal Income as well as upon the totals received by residents of the state. In two states with identical total Personal Incomes, the Federal tax system will tend to collect the larger revenues in those states in which income is least equally distributed. In general, the recipients of large incomes tend to be concentrated in non-agricultural states. Third, the fact that state and local taxes are deductible in the computation of Federal income tax liabilities also tends to equalize the total tax burden along the various states.

The comparisons presented in Table 30 may be summarized for Iowa as follows:

1. *In terms of total Federal, State and local taxes relative to Personal Income the burden borne by Iowans was slightly below the national average rate in 1953.*
2. *In terms of state and local tax burdens, Iowans contributed a larger share of their income for this purpose than the residents of all but 6 other states.*
3. *The Federal tax system places a relatively light burden on Iowans as compared with the burdens borne by the residents of other states.*

State tax collections in 1956. The year 1953 is the most recent one for which comparable local tax collection statistics are available. But state tax revenue data are available annually for the years since 1953. Total and per capita state tax collections in 1956 are shown in Table 31 for the Northcentral states and the United States as a whole. Since 1953, State tax collections have increased more rapidly in Iowa than in the nation or in the eleven-state area as a whole. From 1953 to 1956 the rate of increase in State tax collections was 36 percent in Iowa—the highest rate in the Northcentral area—as

TABLE 29. STATE AND LOCAL TAX COLLECTIONS:
Eleven Northcentral States, 1953

	State Tax Revenue				Local Tax Revenues				Total State & Local Taxes		
	(,000,000)	Per capita	Rank in North- Central Area	Rank in United States	(,000,000)	Per capita	Rank in North- Central Area	Rank in United States	(,000,000)	Per capita	Rank in United States
Michigan	\$ 582.4	\$ 86.83	1	7	\$ 420.5	\$ 62.69	10	24	\$ 1,003.0	\$ 149.52	11
Minnesota	227.6	75.34	2	14	233.9	77.42	5	11	461.5	152.76	9
North Dakota	44.5	74.12	3	17	41.5	69.14	8	19	86.0	143.26	14
Wisconsin	252.9	71.46	4	19	296.7	83.83	1	6	549.6	155.29	6
Indiana	284.1	69.23	5	20	257.6	62.78	9	23	541.7	132.01	25
Kansas	137.2	68.55	6	23	151.5	75.69	7	16	288.8	144.24	13
IOWA	169.4	64.03	7	29	217.2	82.13	3	8	386.6	146.16	12
Illinois	514.4	57.69	8	35	704.3	78.98	4	10	11,218.7	136.66	22
South Dakota	36.1	54.31	9	40	55.4	83.49	2	7	91.5	137.80	20
Missouri	207.2	51.09	10	44	212.0	52.26	11	32	419.2	103.35	38
Nebraska	60.6	44.22	11	47	104.1	75.94	6	15	164.7	120.16	33
Eleven-state area	2,516.4	66.88	--	--	2,694.7	71.61	--	--	5,211.3	138.50	--
United States	\$ 10,552.2	\$ 67.74	--	--	\$ 10,355.6	\$ 66.48	--	--	\$ 20,907.8	\$ 134.22	--

Source: U. S. Bureau of the Census, State and Local Government Revenue in 1953, No. 37, October, 1954.

TABLE 30. FEDERAL, STATE, AND LOCAL TAXES, 1953
As Percentages of Personal Income b/:
Eleven Northcentral States

State	Estimated Incidence of Federal Taxes <u>a/</u> (,000,000)	Federal Tax per \$100 of Personal Income	Rank in 48 States	Combined State and Local Taxes <u>c/</u> (,000,000)	State and Local Taxes per \$100 of Personal Income	Rank in 48 States	Federal, State and Local Taxes (,000,000)	Total Taxes per \$100 of Personal Income	Rank in 48 States
North Dakota	\$ 179	\$ 24.21	23	\$ 86.0	\$ 11.62	1	\$ 265.0	\$ 35.84	4
South Dakota	182	21.77	39	91.5	10.94	2	273.5	32.72	22
Minnesota	1,196	24.37	21	461.5	9.48	5	1,647.5	33.85	12
IOWA	947	22.78	29	386.6	9.22	7	1,333.6	32.00	27
Wisconsin	1,566	25.65	12	549.6	9.00	11	2,115.6	34.66	9
Kansas	748	22.45	33	288.8	8.67	17	1,036.8	31.12	32
Nebraska	535	25.06	18	164.7	7.72	29	699.7	32.77	21
Michigan	3,447	25.18	17	1,003.0	7.33	32	4,450.0	32.51	24
Indiana	1,746	22.65	31	541.7	7.03	35	2,287.7	29.68	38
Illinois	5,239	27.47	4	1,218.7	6.39	41	6,457.7	33.86	11
Missouri	1,758	25.65	13	419.2	6.11	44	2,177.2	31.76	28
Eleven-state Area	17,533	25.23	--	5,211.3	7.50	--	22,744.3	32.73	--
United States	\$ 69,857	\$ 25.32	--	\$ 20,907.8	\$ 7.58	--	\$ 90,764.8	\$ 32.90	--

a/. Federal tax incidence estimate by staff of Commission on Intergovernmental Relations on the following basis: Individual income taxes on the basis of 1951 liabilities; corporate income taxes allocated one-half on basis of income from dividends, one-half on basis of retail sales excise and miscellaneous taxes on basis of sales of taxed articles, collections, and other data. Source: Commission on Intergovernmental Relations, Report to the President, June, 1955, Appendix Table 9, P. 310.

b/. The Personal Income figure used in computing these percentages is an average of the Personal Income total for the calendar years 1952 and 1953. The average - rather than the figures for a single year - are used in order to improve the comparability of the income data and the tax data, which are for the fiscal year 1953. Source: U.S. Department of Commerce, Survey of Current Business, September, 1955.

c/. Source: Table 29.

compared with 23.7 percent in the Northcentral area as a whole and an increase of 26.4 percent for all states.

Per capita State tax collections in Iowa rose from \$64.03 in 1953, to \$85.58 in 1956. In 1953 Iowa ranked 29th in the nation in terms of per capita state tax collections as compared with a ranking of 19 in 1956. Thus, in 1956, unlike 1953, per capita State taxes in Iowa were substantially higher than in the nation as a whole. Although comparable data for individual states are not available, per capita local taxes in Iowa continue to be above the level of local tax collections in the nation as a whole. However, from 1953 to 1956, local taxes have risen somewhat less rapidly in Iowa than in the nation as a whole. In part, a slower rate of increase in local property taxation in Iowa is attributable to the higher than national average rate of increase in State tax collections. That is, a substantial part of the increase in State tax revenues since 1953 has been earmarked for the replacement of locally imposed property taxes.

Table 31. Total and Per Capita State Tax Collection in 1956 Eleven Northcentral States

State	Total tax Collections, 1956 (,000,000)	Percent Change, 1953 to 1956	Per capita tax collections: 1956		
			Dollars	Rank in 11-state Area	Rank in 48 States
Michigan	\$ 758.4	+30.2	\$104.81	1	9
Minnesota	283.9	+24.7	89.44	2	16
Wisconsin	328.5	+29.9	88.94	3	17
IOWA	230.4	+36.0	85.58	4	19
North Dakota	52.3	+17.5	81.40	5	24
Kansas	159.8	+16.4	77.56	6	27
South Dakota	48.4	+34.1	71.44	7	34
Illinois	641.1	+24.6	68.49	8	38
Indiana	277.7	- 2.3	64.13	9	41
Missouri	257.4	+24.2	62.35	10	44
Nebraska	74.5	+22.8	53.92	11	47
Total, 11 States	3,112.2	+23.7	79.04	—	—
Total, 48 States	\$13,335.0	+26.4	81.60	—	—

Source: U.S. Bureau of the Census, *Compendium of State Government Finances in 1953: State Tax Collections in 1956*.

State tax collections for the year 1956 are shown in Table 32 in terms of the amount of tax revenue per \$100 of Personal Income received by the residents of the respective states in the calendar year 1955. In terms of State tax revenues, alone, (excluding local tax revenues) Iowans paid on the average \$5.70 from every \$100 of Personal Income received by residents of the state. This was the third highest rate in the Northcentral States and the 20th highest rate in the nation.

It must be understood that interstate comparisons in terms of state tax revenues alone have very limited usefulness in comparing total state and local tax burdens. There is a very great variation in the distribution of financial responsibility between state and local levels for various governmental services. Some states supply very large amounts of aids which reduce the need for local taxation. In other states, only a very small amount of aid is supplied to local governments from the state level. The extent of this variation is suggested by the fact that the state taxes in North Dakota accounted for almost 52 percent of total state and local taxes in that state in 1953; in South Dakota, state taxes accounted for less than 40 percent of combined state and local tax revenues in the same year.

Table 32. Total State Tax Collections, Fiscal Year 1956, Per \$100 of Personal Income, Calendar Year 1955, Eleven Northcentral States

State	Tax, per \$100 of Personal Income	Rank in 11-state Area	Rank in 48 States
North Dakota	\$5.93	1	12
South Dakota	5.69	2	16
IOWA	5.47	3	20
Minnesota	5.26	4	22
Wisconsin	5.00	5	27
Michigan	4.85	6	29
Kansas	4.71	7	30
Nebraska	3.47	8	42
Missouri	3.40	9	43
Indiana	3.39	10	44
Illinois	3.05	11	47
Average, 11 states	4.10	—	—
Average, 48 states	4.40	—	—

Source: U.S. Bureau of the Census, *State Tax Collections in 1956*; and U.S. Department of Commerce, *Survey of Current Business*, August, 1956.

On the basis of available data it is estimated that combined state and local tax revenues in Iowa in 1956 will be equal to approximately eleven percent of personal income received by residents of the state in the calendar year 1955. For all 48 states, for 1955, state and local tax revenues were equal to 8 percent of 1954-55 Personal Income in the nation. On the basis of state tax collections reported for 1956, and estimates of local tax revenues for 1956, state and local tax revenues in the nation as a whole will be approximately 8.6 percent of 1955 Personal Income.

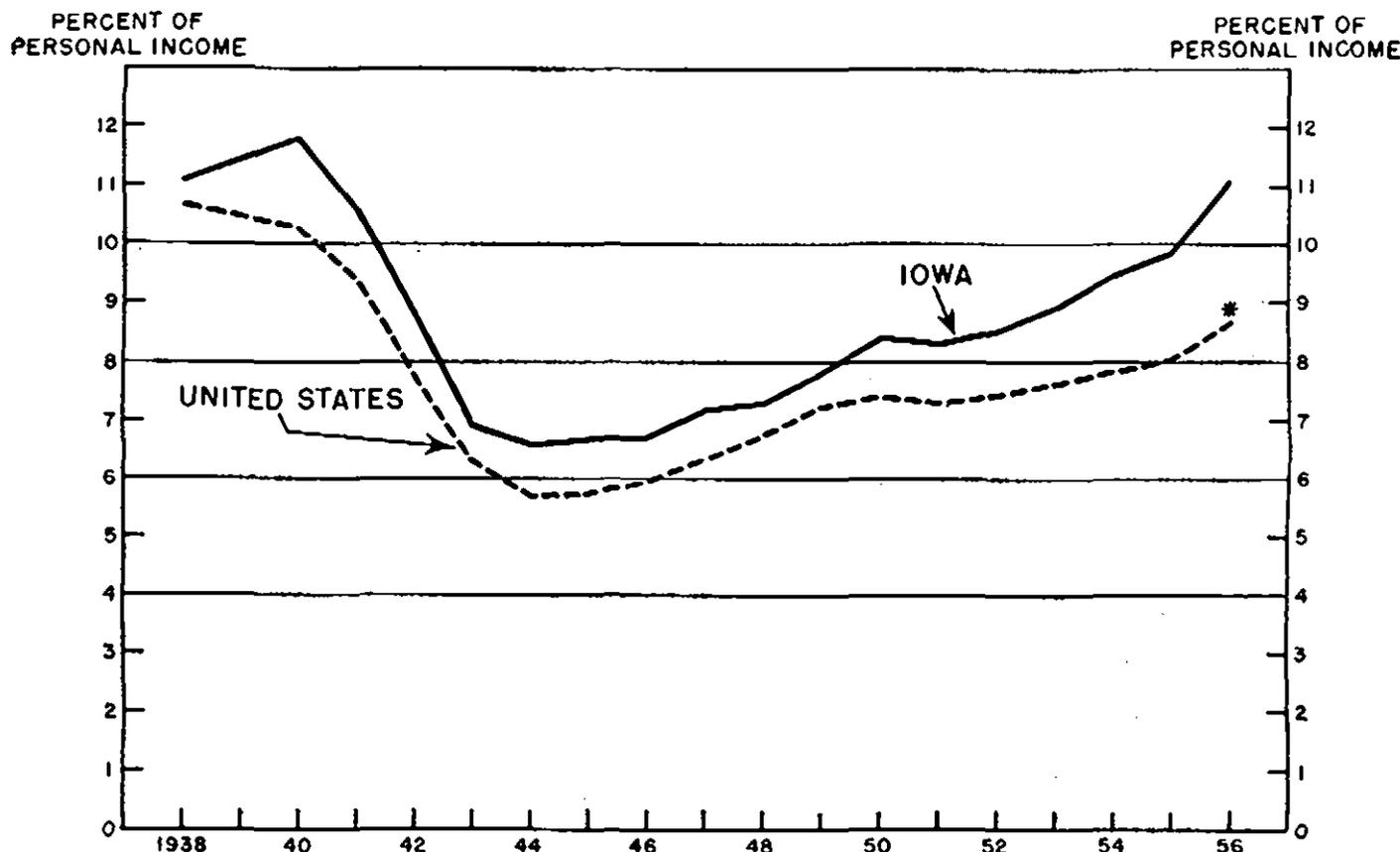
Combined state and local revenues for Iowa and all states as a whole are shown in Chart 9, as percentages of Personal Income.* Tax collections for a given fiscal year are expressed as a percentage of the average income of the two calendar years in which the fiscal year falls, except for tax collections in the fiscal year 1956, which are expressed as a percentage of 1955 calendar year Personal Income.

State and local taxes, as a percent of Personal Income have been higher in Iowa than in the nation as a whole during the entire period. But the differences in this measure of tax "burden" diminished during the early years of World War II, increased during the latter years of the war, and narrowed perceptibly in 1948 and 1949, as Personal Income rose more rapidly in Iowa than in the nation. Since 1949, the relative "burden" of State and local taxation has risen much more rapidly in Iowa than in the nation.

* The data used in the preparation of Chart 9 are from the following sources:

- Iowa State and local tax collections for 1938, and 1940-45; Brookings Institution, *Report, Iowa Postwar Taxation Study Committee*, 1948, p. 39.
- Iowa State tax collections, 1946-1956, U.S. Bureau of the Census, *Revised Summary of State Government Finances, 1942-1950*, p. 18; *Compendium of State Finances (1951-1955)*; and *State Tax Collections in 1956*, p. 5.
- Local taxes in Iowa, estimated from local levies, net of tax credits, for collection in years shown, as reported by the Iowa State Tax Commission. Local nonproperty taxes, including cigarette and beer licenses, dog licenses, franchise taxes, and other city and town license taxes and permits, account for only 2.5 percent of total local taxes.
- State and local taxes in the United States, U.S. Bureau of the Census, *Historical Statistics on State and Local Government Finance, 1902-1953*, p. 17; *Summary of Government Finances, 1952 & 1955*; and *State Tax Collections in 1956*.
- Personal income data for Iowa and the United States, U.S. Department of Commerce, *Survey of Current Business*, September, 1955, and August, 1956.

CHART 9. STATE AND LOCAL GOVERNMENT TAX REVENUES,
AS PERCENT OF PERSONAL INCOME,
IOWA AND THE UNITED STATES: 1938 AND 1940-1956



*PARTLY ESTIMATED

SOURCES: SEE TEXT.

THE FACTORS RESPONSIBLE FOR HIGH COSTS OF GOVERNMENT IN IOWA

Changes in Taxes and Changes in Personal Income. Comparative rates of change of State and local taxes and Personal Income for Iowa and the United States are presented in Table 33. The rates of change have been computed for five different periods. In the first period, from 1946 to 1948, State taxes increased much more rapidly in Iowa than in the nation as a whole. In the same period, local property taxes increased at a lower rate than state taxes in both Iowa and the nation. The rate of increase of local property taxes was approximately the same in Iowa and the nation. Combined State and local tax collections increased more rapidly in Iowa than in the nation as a whole. In both the State and the nation, State and local tax collections increased more rapidly than Personal Income in this period. But the difference was very small in Iowa as compared with the difference in the nation as a whole. Thus, from 1946 to 1948, although State and local taxes increased as a percent of Personal Income in both the State and the nation, the rate of increase in taxes relative to income was slower in Iowa than in the nation as a whole.

From 1948 to 1953 the rate of State tax collections increased more rapidly in the nation as a whole than in the State of Iowa. However, local property taxes increased more rapidly in Iowa than in the nation as a

whole. Combined State and local taxes in Iowa increased less rapidly than in the nation as a whole during the period from 1948 to 1953. But in this period Personal Income received by residents of Iowa increased only 4.5 percent as compared with an increase of 36.7 percent in the personal income of residents of the nation. Thus, during this period, State and local taxes as a percentage of Personal Income rose more sharply in Iowa than in the nation as a whole.

From 1953 to 1955 state tax collections increased more rapidly in Iowa than in the nation. But the rate of increase in local property taxes in Iowa was below the rate of increase in Iowa state taxes, as well as below the rate of increase in local property taxes in the nation as a whole. However, because of increase in State taxes combined State and local taxes in Iowa increased by somewhat more than combined state and local taxes in the nation from 1953 to 1955. But again, as in the preceding period, the rate of increase in Personal Income in the nation as a whole was much higher than the rate of increase in Iowa. As a consequence, the ratio of State and local taxes to Personal Income in Iowa rose more rapidly than in the nation as a whole.

Over the nine-year period from 1946 to 1955, state tax collections and local property tax collections increased somewhat more rapidly in Iowa than in the nation as a whole. As the population of Iowa also increased much

less rapidly than the population in the nation as a whole this has resulted in a substantial increase in total per capita collections in Iowa relative to per capita collections in the nation as a whole. During the period when combined State and local taxes increased by 131 percent in Iowa, total Personal Income increased by less than 42 percent. In the nation as a whole, over the period 1946 to 1955, when state and local taxes increased 127 percent, Personal Income increased by almost 73 percent. As a result of the higher-than-national average rate of increase in state and local taxes, and the lower-than-national average rate of increase in Personal Income, the ratio of taxes to personal income has risen far more rapidly in Iowa than it has in the nation as a whole since 1946.

Many of the most important services of state and local government have to be performed almost without regard to short-run changes in the level of income of the residents of the area. Schools, the administration of justice, the highway program, and many other services cannot be curtailed, or the rate of increase cannot be retarded, because of decreases in income, or a lagging rate of increase. Moreover, the prices paid for materials, supplies, and labor by units of government in Iowa are largely determined by price trends in the nation as a whole. The higher price level which has raised the dollar costs of governmental services in all states has not been matched by increased dollar incomes of the residents of the State of Iowa since 1948. Thus, in order to provide the prevailing levels of services it has been necessary to devote an increasing percentage of the Personal Income of the residents of the State of Iowa to revenues required to cover the costs of State and local government.

Public school costs in Iowa. According to data compiled by the U. S. Office of Education, current revenues for public elementary and secondary schools in Iowa were \$151,268 thousand for the school year 1953-54. This estimate of revenue includes current income from appropriations, taxes, and school funds—Federal, state, and local. It excludes income from the sales of bonds, loans, and the sale of property. Current revenues, as defined, are shown in Table 34 for Iowa, ten other Northcentral States, and the United States as a whole.

Total current revenues for the 1953-54 school year were equivalent to \$57 per capita of the total population in Iowa, as compared with a national average of \$50. On a per capita basis, school revenues in Iowa were 14 per-

Table 34. Current Revenues for Public Elementary and Secondary Schools, School Year 1953-54; Nine Northcentral States and United States

State	Current Revenues (in thousands)	Per Capita Revenue	Revenue as Percent of 1953 Personal Income
South Dakota	\$ 35,564	\$54	4.04
North Dakota	29,045	46	3.77
IOWA	151,268	57	3.68
Minnesota	168,019	55	3.33
Kansas	103,548	52	3.19
Nebraska	63,431	47	3.01
Michigan	390,534	57	2.69
Wisconsin	167,524	48	2.68
Indiana	208,241	50	2.60
Missouri	162,389	40	2.32
Illinois	430,834	48	2.19
United States	7,866,852	50	2.78

Source: U.S. Department of Health, Education and Welfare, Office of Education, Circular No. 480, July, 1956.

TABLE 33. COMPARATIVE RATES OF CHANGE: State and Local Taxes, and Personal Income, Iowa and the United States (Percentage Change)

Period	IOWA				UNITED STATES			
	Total State Taxes	Local Property Taxes a/	State and Local Taxes	Personal Income	Total State Taxes	Local Property Taxes	State and Local Taxes	Personal Income
1946 to 1948	+ 55.3	+ 24.2	+ 38.3	+ 32.1	+ 36.6	+ 23.5	+ 30.2	+ 17.9
1948 to 1953	+ 32.8	+ 61.0	+ 46.6	+ 4.5	+ 56.5	+ 54.0	+ 55.3	+ 36.7
1953 to 1955	+ 16.8	+ 11.6	+ 14.0	+ 2.5	+ 9.9	+ 14.6	+ 12.1	+ 7.2
1955 to 1956	+ 16.4	+ 4.1	+ 9.9	-----	+ 15.0	-----	-----	-----
1946 to 1955	+ 140.9	+ 123.3	+ 131.3	+ 41.5	+ 134.9	+ 117.9	+ 126.6	+ 72.7

a/. After deduction of credits.

Sources: U. S. Bureau of the Census, and Table 2.

cent above the national average. Iowa, with the equivalent of 3.68 percent of its Personal Income going for public school purposes, ranked third in the eleven-state area shown in Table 34. With school revenues per capita higher in Iowa than for the nation as a whole, and with lower-than-national average per capita Personal Income, the costs of Iowa's public schools, as a percent of income received by residents of the State exceeded the national average rate by approximately 32 percent. That is, if the percent of Personal Income devoted to public school costs in the nation as a whole is taken as 100 percent, the Iowa ratio was 132 in 1954.

According to estimates of the State Department of Public Instruction, total expenditures of the State's elementary and secondary schools, including capital outlays and debt service as well as operating expenditures, were \$200,606 thousand for the school year 1954-55. This is equivalent to \$75 per capita, and 4.5 percent of the Personal Income of the people of Iowa. For the nation as a whole, according to estimates of the U. S. Bureau of the Census, total expenditures of state and local governments for public schools were slightly over \$10 billion for the school year 1954-55. This represents a per capita expenditure of \$63 in the nation as a whole and an expenditure of 3.54 percent of the Personal Income received by residents of the nation.* Additional data on school costs for Iowa are presented in Chapter But here it may be noted that school costs are one of the major items of expenditure in total State and local outlays in the State of Iowa, and that relative to other states and to the nation as a whole school costs in Iowa are high whether measured in terms of outlay per capita of the population, costs per child, or school expenditures relative to Personal Income of the State.

Highway costs. Current revenues for highways, roads, and streets derived from State sources are shown in Table 35 for states in the Northcentral area and for the United States. In 1954 revenues raised by the State of Iowa for highway purposes averaged \$34.05 per capita for the population, as compared with a national average of revenues raised by all states of approximately \$24 per capita. On a per capita basis State highway revenues in Iowa were 42 percent above per capita revenues for the 48 states as a whole.

Table 35. Current Revenues for Highways from State Sources, Calendar Year 1954, Eleven Northcentral States.

State	Revenues for Highways		
	State 1954 (in thousands)	Revenues Per Capita	Percent of 1954 Personal Income
South Dakota	\$ 22,932	\$34.13	2.55
North Dakota	15,542	24.48	2.05
IOWA	90,734	34.05	2.04
Nebraska	39,852	29.17	1.78
Minnesota	75,647	24.15	1.46
Kansas	48,870	24.16	1.43
Wisconsin	74,479	20.53	1.20
Indiana	88,519	20.90	1.16
Michigan	155,449	22.12	1.10
Illinois	187,807	20.43	0.95
Missouri	65,381	16.04	0.93
Eleven states	865,212	22.38	1.21
United States	\$3,869,630	24.01	1.36

Source: Bureau of Public Roads, *Highway Statistics: 1954*, Table SP-1.

* U. S. Bureau of the Census, *Summary of Governmental Finances in 1955*, August 20, 1956, Table 8, p. 26.

In 1954 State revenues for highway purposes were equivalent to 2.04 percent of the Personal Income of residents of the State, as compared with a ratio of 1.36 percent of Personal Income for highway purposes in the nation as a whole. During the calendar year 1954 Iowans paid state highway revenue taxes approximately 50 percent higher relative to their income, than paid by the residents of the 48 states as a whole.

The figures shown in Table 35, and the per capita and percentage comparisons made above, are exclusive of highway and street revenues derived from Federal sources as well as revenues derived from local property taxes and other local sources for highway purposes. Therefore, the data in Table 35 are only partial measures of the relative costs of highways and streets in the various states.

Since the calendar year 1954 State-imposed levies for highway purposes have risen substantially in Iowa as a result of increased gasoline taxes and the increase in the sales tax rate. In the fiscal year 1955, total revenues available for highway purposes in Iowa were approximately \$131 million; in 1956 the revenues were almost \$156 million. The sources of these revenues and/or expenditures are shown below:

Funds Available and/or Expenditures for Highways, Roads, and Streets in Iowa (In thousands)		
	1955	1956
Allocations from the Road Use Tax Fund to Secondary, Farm-to-Market Roads and city streets	\$ 46,312	\$ 56,516
Federal aids; (exclusive of Primary)		
Farm-to-market	4,831	5,807
Urban	2,286	1,684
Expenditures from Primary Road Fund....	46,807	60,362
Property taxes levied for Road Purposes	31,047	31,152
	<u>\$131,283</u>	<u>\$155,521</u>

With the exception of the Primary Road Fund for which the figures given are actual expenditures as reported by the State Highway Commission, the other amounts represent simply funds available from the Road Use Tax Fund, from Federal aids, and from county levies for road purposes. If it may be assumed that, on the whole, expenditures were equal to the funds becoming available, then the amounts shown in the tabulation above may be compared with actual expenditures reported for all state and local government units in the United States. In the fiscal year 1955, according to the Bureau of the Census, total expenditures on highways, roads, and streets by all units of government except the Federal government were \$6,452 million, equivalent to 2.27 percent of Personal Income in the United States in the calendar year 1954. In contrast, the Iowa total of \$131,283 thousand for the fiscal year 1955 was equivalent to 2.95 percent of Personal Income received by Iowans in the calendar year 1954. Expenditure data for the nation as a whole are not available for the fiscal year 1956, but the 1956 revenues and/or expenditures in Iowa, as shown above, are the equivalent of 3.69 percent of the Personal Income of the people of the State in the calendar year 1955.

The higher-than-national average per capita expenditures for highways in Iowa is attributable to a number of factors, the most important of which is probably the very large amount of road mileage in the state relative to population, land area, income, and number of vehicles registered. Without regard to size of state there are only 6 other states which have a larger total road mileage,

urban and rural, then the State of Iowa. In terms of primary road mileage, Iowa ranks 18th; but in terms of secondary road mileage, Iowa ranks 5th, giving a rank for total mileage of 7th among the 48 states. In contrast, Iowa ranks 22nd in land area and in population. In 1953 motor vehicle registration in Iowa was the 16th largest of any of the 48 states. In terms of total income out of which the roads, streets, and highways can be financed, Iowa usually ranks between 20th and 24th among the 48 states. In general, high per capita highway costs and a high ratio of highway costs to Personal Income are usually to be found in sparsely populated states having predominantly agricultural sources of income. Sparsity of population and agriculture as a source of income tend to produce a high ratio of highway mileage per person and per dollar of income produced. It may be noted that Iowa has a relative low ratio of population per mile of rural highway although not so low as in the Dakotas and Nebraska. Iowa has a relative high ratio of the number of miles of rural highway per square miles of total area in the State. Additional data on Iowa highway finance by sources of revenue and types of roads are presented in Chapter

Shifts in Population. The declining population in the rural areas of many counties, and the declining total population of entire counties has tended to create excessively high per capita costs for the performance of governmental functions such as roads, schools, and general government administration in the rural areas of the state. There are some functions of government which become cheaper on a per capita basis as population expands, while there are other functions which become necessary only in areas with concentrated population centers. Without attempting to distinguish between each of these types of cost, a comparison of per capita local tax levies was made in three groups of counties experiencing divergent population trends from 1940 to 1950. The results of these comparisons are presented in Table 36. Seven counties in which population decreased by more than 10 percent from 1940 to 1950 were selected at random. Most of these counties are to be found in the Southern and along the Western border of the State. A second group, also made up of seven counties, was selected in which population had changed by less than 2 percent in either direction from 1940 to 1950. Finally a third group of counties was selected, comprising six counties in which population increased by more than 10 percent from 1940 to 1950.

In 1940 per capita levies were highest in the six counties having a population increase of more than 10 percent from 1940 to 1950. These are essentially industrialized, urbanized counties. Per capita levies for collection in 1940 were next highest in the group of counties in which population remained substantially unchanged from 1940 to 1950. In 1940 per capita levies were lowest in the counties which suffered the greatest percentage losses in population from 1940 to 1950. But, by 1950, the rank ordering of per capita levies had exactly reversed. From 1940 to 1950 per capita levies increased 118 percent in the counties which suffered the most rapid decline in population from 1940 to 1950. The rate of increase, 74 percent, was the next highest in the counties in which population had remained substantially unchanged from 1940 to 1950. And the rate of increase in per capita levies was lowest in the six counties in which the largest population gains were registered from 1940 to 1950.

Within the group of counties in which population declined by more than 10 percent from 1940 to 1950, there was no county in which the rate of increase in per capita tax levy was less than 108.9 percent, while the highest rate of increase reached 132.4 percent. Within the group of counties which had substantially stable populations

from 1940 to 1950 the highest rate of increase in per capita tax levy was 101.2 percent and the lowest rate was 60.8 percent. Within the third group of counties, having population growth in excess of 10 percent from 1940 to 1950, and an average increase in per capita tax levy of 55.6 percent, the individual rates of increase ranged from 35.3 percent to 108.1. Thus, the highest rate of increase in the counties having the most rapid rate of population growth was lower than the smallest rate of increase in the group of counties having the largest population loss, percentage wise, from 1940 to 1950.

Table 36. Changes in Per capita Property Taxes and Population, by Counties, 1940 to 1950

County groups	Per capita Levy Collectible:		Percent Increases 1940 to 1950
	1940	1950	
Seven Counties in which population decreased by more than 10% from 1940 to 1950 ^a	\$34.46	\$75.14	118.0
Seven Counties in which population changed by less than 2% (+ or -) from 1940 to 1950 ^b	38.81	67.52	74.0
Six Counties in which population increased by more than 10% from 1940 to 1950. ^c	39.86	62.04	55.6
All (99) Counties.....	36.03	67.28	86.7

Sources: Iowa State Tax Commission Reports; and U.S. Bureau of Census.

^a Appanoose, Davis, Harrison, Monona, Monroe, Ringgold, and Taylor.

^b Benton, Carroll, Chickasaw, Hardin, Marshall, Mitchell, and Sac.

^c Black Hawk, Des Moines, Dubuque, Linn, Polk, and Scott.

In general the counties which have suffered the greatest loss in population are also the counties in which per capita income is below the average for the State as a whole and even further below the average per capita income in the areas which are gaining population. Thus, the shift of population out of predominantly rural counties is a factor in any explanation of high per capita governmental costs and also of the high ratio of taxes to Personal Income in the State of Iowa. The contrast presented in Table 36 gains added significance when it is realized at least some of the State aid programs make substantial contributions to the costs of local government in the less heavily populated counties.

Employment and payrolls. State and local government employment per 10,000 population, converted to a full-time equivalent basis, is shown in Table 37 for Iowa, and the United States. "Full-time equivalent employment" means simply that two half-time employees, for example, are counted as one employee. Total state and local government employment measured in terms of a full-time equivalent basis per 10,000 population varies from a low of 213 in Kentucky to a high of 377 in Wyoming. The average for the United States is 273.2. About half the states had less than 270 full-time equivalent employees per 10,000 population. Iowa, with almost 292 full-time equivalent employees per 10,000 population, ranked 18th among the 48 states and was about 7 percent above the national average. Nebraska, Kansas, and South Dakota in the Northcentral area had total full-time employment per 10,000 population in excess of the Iowa figure. The lowest rates of full-time employment per 10,000 population in the Northcentral area were registered in Missouri, Illinois, Indiana, and Wisconsin.

Table 37. Full-time Equivalent State and Local Government Employment, per 10,000 Population, by function—Iowa and United States: October, 1955

	Iowa	United States	Iowa, as Per- cent of U.S.
Total, all functions.....	291.9	273.2	106.8
Public schools*	126.5	102.1	123.9
Highways	34.0	27.0	125.9
Health and hospitals	27.1	30.6	88.6
General control*	21.9	18.5	118.4
Police	9.4	15.3	61.4
Public welfare	8.5	6.2	137.1
Natural resources	5.9	6.8	86.8
Utilities and liquor stores	11.6	14.2	81.7
All other functions* ..	47.0	52.5	89.5

* Public elementary and secondary education. Includes teaching staff and all administrative, clerical, maintenance, and transportation employees.

† Includes officials and employees engaged in legislative, executive, judicial, fiscal management, and general administrative activities.

‡ Includes fire, sanitation, parks and recreation housing and community development, higher education and miscellaneous functions.

Source: U.S. Bureau of the Census, *State Distribution of Public Employment in 1955*, Table 11, p. 21.

Two functions stand out rather clearly as being responsible for the fact that full-time equivalent employment of State and local governments in Iowa is in excess of the national average. These functions are public schools and highways. In October, 1955, the number of full-time equivalent employees per 10,000 population required to operate the public school system of Iowa was approximately 24 percent above the average number required to operate the public school systems in the nation as a whole. In terms of employment in highway functions, Iowa exceeded the national average rate by approximately 26 percent. Employment in general control and public welfare services was also high in Iowa relative to the national average but the absolute number of employees involved in both of these functions is rather small. Hence, the excess does not contribute significantly to an explanation of why Iowa's total exceeds the national average total for all functions.

For the month of October, 1955, total State and local payrolls in Iowa were \$22.2 million equivalent to .53 percent of the total income of residents of Iowa in the calendar year 1955. In comparison, the October, 1955, monthly payrolls of state and local governments in the nation as a whole were equal to only .47 percent of Personal Income in the nation as a whole during 1955. The fact that State and local employment in Iowa, relative to the size of population, is higher than in the nation as a whole and per capita income in Iowa is below that in the nation as a whole would result in an even higher ratio of government payrolls to Personal Income were it not for the fact that the average full-time employment pay per person employed is somewhat below the national average in Iowa. On a full-time equivalent basis the total number of State and local government employees in Iowa was 78,570 in October, which with the payroll of \$22.2 million indicates an average monthly pay per full-time equivalent of \$283. The national average computed in the same manner was \$316.

SUMMARY

The material presented in this chapter may be summarized as follows:

1. In 1953, the latest year for which comparable data are available for state and local units of government in all 48 states, total State and local per capita tax revenues in Iowa were 9 percent above the average for the 48 states as a

whole. In terms of State per capita tax revenues Iowa ranked 29th; in terms of per capita local tax revenues, Iowa ranked 8th; and in terms of combined State and local per capita tax revenues, Iowa ranked 12th among the 48 states.

2. State and local tax revenues in Iowa in 1953 were equal to 9.22 percent of Personal Income in the State, as compared with a ratio of 7.58 percent for State and local governments in the entire nation. As measured by the percent of Personal Income devoted to State and local tax collections, Iowa ranked 7th among the 48 states. However, because the Federal tax system bears somewhat less heavily on Iowa taxpayers, in terms of Personal Income, the combined Federal, state, and local tax revenue in Iowa was slightly below the average for all 48 states. In terms of the combined Federal, State and local tax burden borne by Iowans in 1953, as a percentage of their income, Iowa ranked 27th among the 48 states.
3. State tax revenues increased by a larger percentage in Iowa from 1953 to 1956 than in any other state in the Northcentral area. The rate of increase in Iowa, 36 percent, may be compared with the rate of increase of 26.4 percent for all 48 states. However, the total State and local tax burden in Iowa has not increased as rapidly as State tax collections because local property taxes have risen less rapidly from 1953 to 1956. As a result of the rapid increase in State tax collections, Iowa ranked 19th in terms of per capita tax collections in 1956, as compared with a rank of 29th in terms of the same measure in 1953.
4. From 1946 to 1955 both State and local tax collections rose more rapidly in Iowa than in the nation as a whole. On the other hand, population and Personal Income increased less in Iowa than in the nation as a whole. As a consequence, State and local taxes in Iowa have increased more rapidly than in the nation as a whole whether measured in terms of per capita revenue, or as a percentage of Personal Income.
5. The high level of governmental costs in Iowa as reflected in per capita tax collections and tax revenues as a percent of income, is primarily attributable to substantially higher-than-national average revenues for two major State and local governmental functions: highways and the public school system. For the school year 1953-54 current revenues for elementary and secondary schools were \$57 per capita of the population in Iowa as compared with \$50 per capita in the nation as a whole. In the calendar year 1954 current revenues for various categories of highways, roads, and streets derived from State sources amount to \$34.05 per capita in Iowa as compared to 24.01 per capita in the nation as a whole. As per capita Personal Income in Iowa is below the national average, these higher-than-national average per capita revenue rates mean that Iowans are devoting a substantially larger percentage of their Personal Income to these two functions than is true in the nation as a whole.
6. Per capita county property tax levies have increased much more sharply in counties with declining populations than in those counties containing urban centers in which there is substantial growth of population.
7. For all functions of State and local government, Iowa requires a larger number of employees relative to the population than is true of State and local government in the United States as a whole. In October, 1955, for all functions, Iowa required almost 7 percent more employees per 10,000 employees than the average for all states. The employment data substantiate the financial data in indicating that it is primarily in the public school system and in the State and local highway and street functions that governmental costs in Iowa are above national average level.

CHAPTER IV

Sources of Governmental Revenues in Iowa

1. STATE AND LOCAL GENERAL REVENUES.

Combined state and local tax and nontax revenues for 1955 are shown in Table 38 for Iowa and for the United States. As presented in this table, "general revenue" includes all taxes, charges and miscellaneous revenues, and financial aids from the federal to state governments. Insurance trust fund revenues and the receipts of state liquor store systems are excluded from this measure of

general revenue. Federal aids paid directly to local units of government are also excluded from the figures for both Iowa and the nation. Finally, all transfers of revenues between state governments and subsidiary units of local government are excluded to avoid double counting in the measure of revenues. As a consequence of the exclusion of transfers of revenue among various units of government, the data presented in Table 38 cannot be used to show the use or expenditure of funds at the vari-

TABLE 38. SOURCES OF STATE AND LOCAL GENERAL REVENUES, 1955:
Iowa and the United States

Sources	IOWA			UNITED STATES		
	Amount (, 000)	Percent of Gen. Revenue	Percent of all tax Revenue	Amount (000, 000)	Percent of Gen. Revenue	Percent of all tax Revenue
Total State and Local general revenue	<u>\$539,047 a/</u>	<u>100.0</u>		<u>\$30,704</u>	<u>100.0</u>	
State:	<u>\$268,950</u>	<u>49.9</u>		<u>\$15,967</u>	<u>52.0</u>	
Aids from federal government	48,574	9.0		2,762	9.0	
Charges and miscellaneous revenues	22,526	4.2		1,608	5.2	
Taxes:	197,850	36.7	46.7	11,597	37.8	49.4
General sales & use	65,666	12.2	15.5	2,637	8.6	11.2
Highway user b/	83,813	15.5	19.8	3,537	11.5	15.1
Individual & Corp. income	24,184	4.5	5.7	1,831	6.0	7.8
Death and Gift	4,701	0.9	1.1	249	0.8	1.1
Property	133	d/	d/	412	1.3	1.8
Alcoholic beverage, incl. licenses	3,287	0.6	0.8	491	1.6	2.1
Tobacco products	7,020	1.3	1.7	508	1.7	2.2
All other state taxes	9,046	1.7	2.1	1,932	6.3	8.2
Local General Revenue from "own sources":	<u>270,097</u>	<u>50.1</u>		<u>14,737</u>	<u>48.0</u>	
Charges & miscellaneous revenues	43,940 c/	8.2		2,851	9.3	
Taxes:	226,157	41.9	53.3	11,886	38.7	50.6
Property	220,707	40.9	52.0	10,323	33.6	44.0
All other taxes	5,450 c/	1.0	1.3	1,563	5.1	6.6
Addendum:						
Total State & local taxes	\$424,007	78.7	<u>100.0</u>	\$23,483	76.5	<u>100.0</u>

a/. Differs from amount shown in Table 1 because total shown in this table is exclusive of profits of State liquor stores, \$7.5 million in 1955. Total also excludes direct Federal aids to local governments, utility and liquor store revenues, and insurance trust revenues for Iowa and the United States.

b/. Motor vehicle fuel taxes, vehicle and operators' licenses.

c/. Estimated on basis of amount reported by U. S. Bureau of Census for 1953. It is assumed that local "charges and miscellaneous revenues", and local non-property taxes have increased by same percentage as local property taxes from 1953 to 1955.

d/. Less than .05 percent.

Sources: U. S. Bureau of the Census and Iowa State Tax Commission.

ous levels of government in the State of Iowa or in the nation as a whole.

In general, the overall structure of State and local revenue in Iowa is quite similar to the average pattern of revenue for state and local governments in the nation as a whole. Approximately one-half of all state and local general revenue is raised at the State level in Iowa, as compared with 52 percent at the State level in the nation as a whole. The changes in the State tax system enacted by the 56th General Assembly, which are not reflected in the data for 1955, have probably had the effect of bringing the Iowa revenue structure even more closely into conformance with the average for all states.

Charges and miscellaneous revenues provide a somewhat smaller portion of total State general revenue in Iowa than is the case in the nation as a whole. In 1955, taxes were also slightly less important as a source of general revenue for the State of Iowa than in the 43 states as a whole. The composition of State tax revenues in Iowa differs significantly from the average for all states.

A slightly larger percentage of total State and local revenue is raised at the local level in Iowa than is raised locally in the nation as a whole. Moreover, within the total of locally raised revenues, taxes play a more important role and charges and miscellaneous revenues a less important role in Iowa than in the nation. Perhaps the most significant difference between the Iowa and the national average pattern of revenues as presented in Table 38 is the heavier reliance on property taxation as a source of local revenue in Iowa than in the nation as a whole. In Iowa almost 41 percent of combined State and local general revenue is supplied by locally imposed property taxes, as compared with only 33.6 percent of state and local general revenue from property taxation in the nation as a whole. A part of this difference is attributable to the fact that nonproperty forms of local taxation are much more widely used in other states than in Iowa. In Iowa nonproperty taxes supply an estimated 2.5 percent of total local taxes. In the nation as a whole nonproperty taxes supplied about 13 percent of total local taxes in 1955; in the nation's cities, nonproperty tax sources supply approximately 26 percent of total city tax revenues. The major nonproperty forms of local taxation are sales taxes and income taxes, neither of which is used by local governments in Iowa.

In Iowa, taxes of all types accounted for 78.7 percent of total State and local general revenue, as compared with 76.5 percent of the general revenue of state and local governments in the nation as a whole.

The relative importance of the various sources of tax revenue of State and local governments in Iowa and in the United States is shown in Columns 3 and 6, respectively, of Table 38. In 1955, the State government of Iowa received 46.7 percent of all State and local tax revenues, as compared with 53.3 percent received by local units of government, almost all of the latter being taxes on property. In the United States as a whole, in the same year, state governments accounted for 49.4 percent of combined state and local tax levies as compared with

50.6 percent accounted for by local taxation. Nonproperty forms of taxation supplied a substantially larger fraction of total local taxes in the nation as a whole than in Iowa.

2. COMPARATIVE SOURCES OF STATE TAX COLLECTIONS IN 1956.

The various sources of state tax revenue in eleven Northcentral states and in the United States as a whole are presented in Table 39. It should be noted that these data exclude local tax revenues. The sum of the row for each state adds to 100 percent. Thus the figures may be read as the percent of total state tax revenue derived from each of the various sources shown across the heading of Table 39.

The tax systems of the 48 states demonstrate an almost infinite variety of tax sources. Within the eleven-state area the major patterns of state tax sources are fairly well represented. There are four states which make no use of either individual or corporate income taxes; four states employ both income and sales taxation; two states employ relatively heavy income taxation but use no general sales taxes; and one state—Nebraska—employs neither general sales nor income taxes. To facilitate comparison, these groupings are shown separately in Table 39.

In 1956 the State government of Iowa derived approximately 35 percent of its total tax revenues from the retail sales and use taxes, as compared with an average for all 48 states of about 23 percent from this source. Iowa also differs from the average for the 48 states in the importance of highway-user taxes in the State's tax structure. Iowa derived almost 42 percent of all State tax revenues from motor vehicle fuel taxes and motor vehicle and vehicle operators' licenses in 1956, as compared with slightly less than 30 percent from these same sources in the 48 states as a whole.

The Iowa individual income tax produced almost 11 percent of total State tax revenues in 1956. In the nation as a whole, including the seventeen states which do not levy individual income taxes, this source of revenue accounted for 10.3 percent of state tax collections. The corporation net income tax is a less important source of State tax revenue in Iowa than in either Kansas or North Dakota, and much less important as a source of state tax revenue than in Wisconsin or Minnesota. The very minor contribution of the corporate net income tax to total tax revenues in South Dakota reflects the fact that the South Dakota tax is applicable only to certain financial institutions and not to corporations in general as is the case in Iowa and most other states levying a corporate net income tax. In the nation as a whole, corporate net income taxation provided 6.6 percent of state tax revenues in all states, as compared with 1.4 percent in Iowa.

Within the eleven-state area only Nebraska derived a major portion of revenue from state levies on property. Property taxes, together with highway-user taxes, provide 82 percent of all state tax revenues in Nebraska. However, a number of states in the Northcentral area,

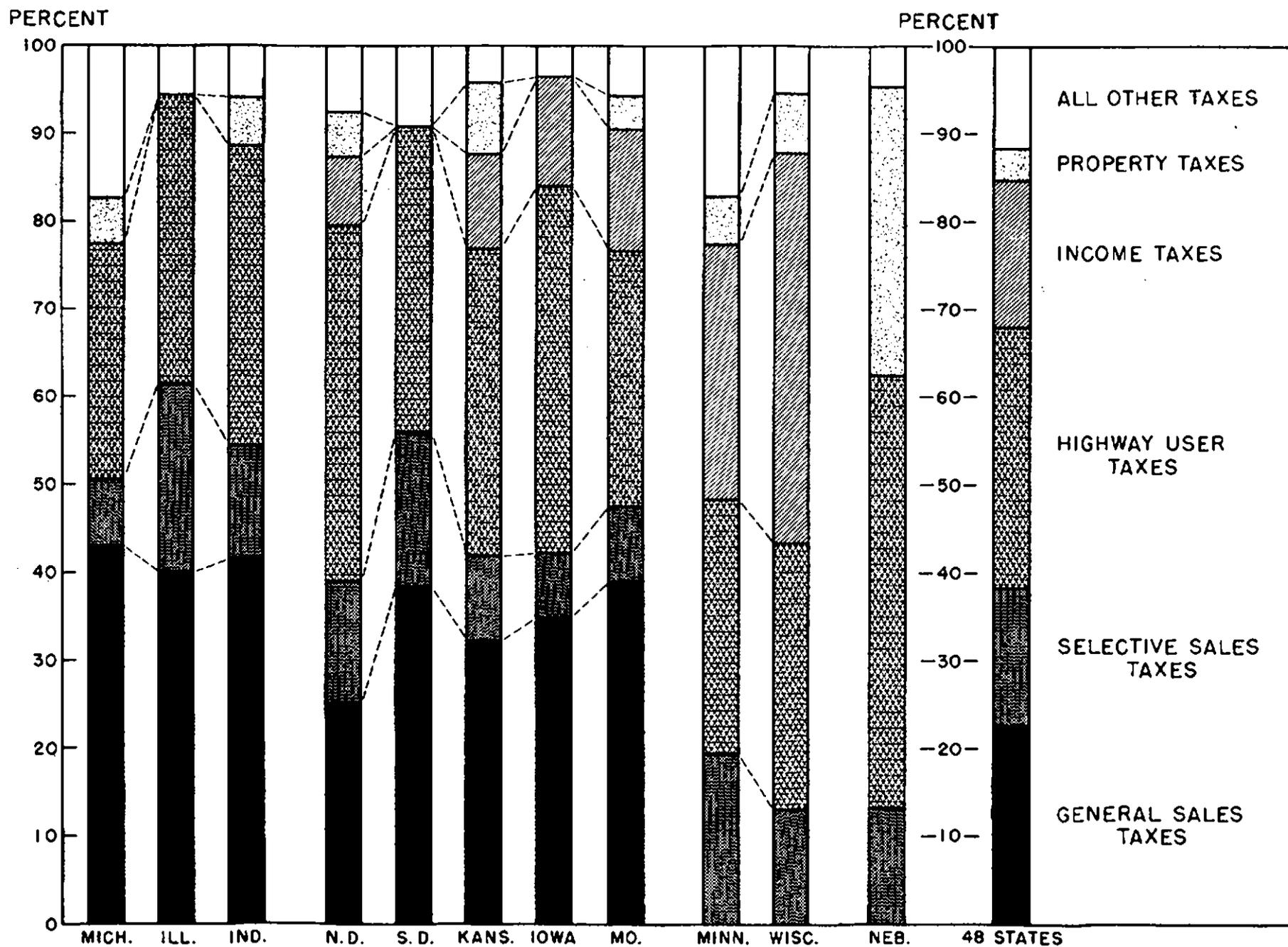
TABLE 39. SOURCES OF STATE TAX COLLECTIONS, 1956
 Eleven Northcentral States and United States
 (Percent of total tax collections)

State	General Sales and Use Taxes				Selective Excises					
	General Sales and Use Taxes	Highway User Taxes <u>a/</u>	Individual Income	Corporation Income	Property Tax	Alcoholic Beverages	Tobacco Products	Insurance Premiums	Gen. Corp. and other licenses <u>b/</u>	All Other Taxes and Licenses
States with no income taxes:										
Michigan	43.0	26.8	---	---	5.2	1.0	3.5	2.2	8.2	10.1 <u>e/</u>
Indiana	41.8	34.1	---	---	5.4	5.0	5.0	2.8	3.9	2.0
Illinois	40.1	32.9	---	---	0.1	4.1	5.1	3.8	2.4	11.5 <u>f/</u>
South Dakota <u>c/</u>	38.7	34.9	---	0.4 <u>e/</u>	1.5	4.8	3.8	3.0	4.5	8.4 <u>g/</u>
States with income and sales taxes:										
Missouri	39.0	29.2	13.8 <u>d/</u>	<u>d/</u>	3.8	2.3	2.0	4.1	4.9	0.9
IOWA	35.0	41.9	10.9	1.4	0.1	1.4	3.1	2.5	1.6	2.1
Kansas	32.3	35.0	8.0	2.8	8.1	3.1	3.4	3.0	2.8	1.5
North Dakota	25.2	40.8	5.5	2.3	5.2	5.5	5.6	2.3	3.5	4.3
States with no general sales tax:										
Wisconsin	---	30.2	29.4	15.2	6.9	4.0	4.3	2.2	2.3	5.5
Minnesota	---	28.8	21.7	7.2	5.6	5.4	4.5	2.6	3.0	21.2 <u>h/</u>
States with neither general sales nor income taxes:										
Nebraska	---	49.5	---	---	32.5	3.5	5.3	4.3	3.4	1.6
United States (48 States)	22.7	29.8	10.3	6.6	3.5	4.1	3.8	3.0	5.5	10.7 <u>i/</u>

- a/. Motor vehicle fuel taxes, and vehicle and operators' licenses.
- b/. Includes general corporation licenses, and licenses for public utilities, alcoholic beverages, chain stores, places of amusement, hunting and fishing, other occupations and businesses, and miscellaneous.
- c/. South Dakota imposes a corporate income tax only on certain financial businesses.
- d/. Individual income tax includes corporation income tax collections.
- e/. Tax on adjusted business receipts (value added) account for 7.8 percent of Michigan tax collections.
- f/. Selective excises imposed on sales of public utilities, and on parimutuels account for 5.8 percent, and 2.5 percent, respectively, of tax collections in Illinois.
- g/. Tax on motor vehicles accounts for 4.5 percent of tax collection in South Dakota; severance tax, 1.4 percent.
- h/. Severance taxes and tax on receipts of public utilities account for 12.2 percent, and 7.0 percent, respectively, of tax collections in Minnesota.
- i/. Includes taxes on: Receipts of public utilities, 2.3 percent; parimutuels, 1.5 percent; severance of natural resources, 2.7 percent; and estates, inheritances and gifts, 2.3 percent.

Source: U. S. Bureau of the Census, State Tax Collections in 1956.

CHART 10. SOURCES OF STATE TAX REVENUES, 1956 (PERCENT OF TOTAL)



SOURCES OF GOVERNMENTAL REVENUES IN IOWA

including Wisconsin, Minnesota, Kansas, Michigan and Indiana, derive significant revenues from general levies on property. Iowa and Illinois have, for all practical purposes, abandoned state levies on property for general revenue purposes.

In general, the states which impose a retail sales tax do not derive as large percentages from selective excises as is the case in states which do not impose general retail sales and gross receipts taxes. Iowa derives a smaller percentage from the selective excises shown in Table 39 than any other state with the exception of Michigan. However, if the profits of the Iowa liquor store system are included with alcoholic beverage excise taxes, Iowa derives approximately 4.5 to 5 percent of its total tax revenue from profits and taxes on alcoholic beverages. The inclusion of profits from state-operated liquor stores in Michigan would also raise the alcoholic beverage figure for that state to more than 5 percent. Thus, the tax data for Michigan and Iowa understate the importance of revenues from alcoholic beverages in the revenue systems of the states shown in Table 39.

The percentages of tax revenue derived from a variety of tax sources and licenses are presented in the final column of Table 39. The footnotes to this column provide brief explanations where substantial fractions of total tax collections are involved. In South Dakota a major portion of the 8.4 percent of miscellaneous tax revenues is accounted for by a sales tax imposed on motor vehicles. In Iowa, and in most other sales tax states, similar revenues are included as a part of general sales and use tax receipts. In Michigan the major source of revenue included in the final column, is the Michigan tax on adjusted business receipts, or tax on value added. In Minnesota, the bulk of the miscellaneous category of tax revenue is accounted for by severance taxes and taxes on receipts of public utilities. The latter is included in the general retail sales and use tax classification in Iowa and some other states.

3. RETAIL SALES AND USE TAXES.

The retail sales and use taxes are second only to highway-user taxes as a source of State tax revenue in Iowa. Sales and use tax receipts provided 49 percent of the revenue available to the General Fund of Iowa and, in addition, provided \$13.4 million of revenue for the Road Use Tax Fund in the fiscal year 1956.

The major role of sales and use taxes in the Iowa tax system is by no means unique. During the fiscal year ending June 30, 1956, 33 states derived significant revenues from one or more forms of sales or gross receipts taxation. Approximately two-thirds of these states enacted their sales taxes during the 1930's. Ten states have enacted sales taxes since the end of World War II. The rates, yields, and two measures of the relative impact of general sales and gross receipts taxes are shown in Table 40 for the 33 states employing such taxes during the fiscal year 1956.

Types of Taxes. Although the various taxes included in Table 40 have many characteristics in common, there are four rather distinct types represented in the table. The most common type of tax is the retail sales tax. Typically this tax is a one-stage levy imposed on the sales of tangible personal property to final consumers. It is by no means uncommon to find some services, such as public utility services and admissions, included in the retail sales tax base. Iowa is a rather typical state in this respect. In most states employing retail sales taxes, goods for use in further processing and goods for resale are usually exempt from the tax. Other common exemptions under retail sales taxes include sales to governmental agencies and nonprofit organizations; sales of farm products by original producers; and sales of feeds,

seeds, fertilizers and other supplies used in agriculture. Nine states exempt some or all food from the retail sales taxes. In general, the states which have enacted retail sales taxes since the end of World War II have tended to exempt food to a greater extent than the states which enacted such taxes earlier. Certain types of clothing are exempt in two states, while medicine is exempt in six states. Beer, cigarettes, oleomargarine, motor vehicle fuels and other commodities subject to special excise taxes are typically exempt from the general retail sales taxes. However, there is an increasing tendency to remove these exemptions, as has been done in Iowa.

Retail sales tax rates range from .5 percent in Indiana to 3.33 percent in the State of Washington. The number of states using the various rates is shown in the tabulation below:

Rate on Retail Sales	Number of States
.5 percent	1 (Indiana)
2.0 "	16
2.5 "	2 (Illinois and Iowa)
3.0 "	12
3.33 "	1 (Washington)

Until recently, retail sales tax rates were usually 2 percent. But the majority of the states which have enacted the tax since the end of World War II have imposed higher rates, and many of the states which formerly employed the 2 percent rates have raised the rate in recent years. In addition to the rates shown in the tabulation above, several of the states permit local units of government to levy additional sales taxes for local purposes.

The second type of tax for which data are presented in Table 40 is the general sales tax. This form of taxation is employed in Arizona, Mississippi, North Carolina, and West Virginia. In addition to being applicable to retail sales, the general sales tax also applies to wholesale transactions and sales of extractive and/or manufacturing industries. States employing general sales taxes typically use several different rates for the various types of transactions subject to the tax. In Arizona, for example, the 2 percent rate applicable to retail sales also applies to receipts from rental of hotel rooms and other lodging places, and to receipts from amusements. But certain wholesale sales are taxed at .25 percent, and mining, printing, publishing, restaurants, contracting, transportation and public utility receipts are taxable at 1 percent.

In Mississippi wholesalers, jobbers, and sub-contractors are taxed at 1.25 percent of receipts; sales of farm tractors, gas or electricity for industrial use, and contractors are taxed at 1 percent. The Mississippi tax is also applicable to several types of services, including hotel and lodging places, laundries and dry cleaning establishments, exterminating and installation services and auto repairs. In North Carolina wholesalers' sales are taxable at a rate of .05 percent. The retail rate of 3 percent in North Carolina is limited to a maximum tax of \$15 on any one article. Food is also exempt from the retail sales tax in North Carolina. The ceiling and the exemption of food account for the rather moderate yield of sales taxation in North Carolina despite the high retail rate and the inclusion of wholesalers' sales in the tax base.

In West Virginia where this type of taxation has been employed longer than in any other American state there is a complex set of rates applicable to the various types of businesses. The retail sales tax of 2 percent is supplemented by an additional tax of .5 percent on retailers' receipts. The extraction of minerals is taxed at rates ranging from 1.3 percent to 7.8 percent. Manufacturers'

TABLE 40.
GENERAL SALES AND GROSS RECEIPTS TAX RATES AND COLLECTIONS,
Fiscal Year 1956, by States.

State	Rates, Fiscal Year, 1956		Sales Tax Collections, 1956		
	Retail Sales	Other Transactions	Amount (,000)	Per Capita	Percent of Pers. Income
Alabama	3%	a/	\$ 68,128	\$ 22.46	1.85
Arizona f/	2	.25 to 2.0%	31,872	32.52	2.01
Arkansas	2	---	31,835	17.79	1.66
California b/f/	3	---	564,876	43.34	1.92
Colorado f/	2	---	40,472	26.13	1.48
Connecticut b/c/	3	---	70,313	31.38	1.28
Florida b/c/	3	---	86,095	24.94	1.45
Georgia	3	---	119,230	32.93	2.44
Illinois e/f/	2.5	---	257,021	27.46	1.22
Indiana	.5	.25 to 1.0%	116,101	26.81	1.42
IOWA	2.5	---	80,582	29.93	1.91
Kansas	2	---	51,593	25.04	1.52
Louisiana f/	2	---	73,576	25.14	1.88
Maine b/	2	---	16,009	17.69	1.11
Maryland b/	2	---	41,691	15.62	0.76
Michigan	3	---	326,476	45.12	2.09
Mississippi f/	3	.125 to 2.0%	45,101	21.36	2.23
Missouri	2	---	100,440	24.33	1.33
Nevada	2	---	6,699	29.77	1.17
New Mexico f/	2	.125 to 2.0%	33,545	42.19	2.96
North Carolina b/	3	.05	71,485	16.68	1.33
North Dakota	2	---	13,152	20.48	1.49
Ohio b/	3	---	229,931	25.65	1.25
Oklahoma	2	---	49,159	22.67	1.48
Pennsylvania b/d/f/	1	---	34,651	3.10	0.17
Rhode Island b/	2	---	14,855	17.58	0.93
South Carolina	3	---	52,880	23.16	2.07
South Dakota	3	---	18,728	27.66	2.20
Tennessee	3	---	89,096	26.07	2.08
Utah	2	---	21,994	28.16	1.78
Washington f/	3.33	.016 to .8%	187,281	72.87	3.62
West Virginia	2	.195 to 7.8%	71,446	35.69	2.80
Wyoming	2	---	9,317	30.45	1.70
Total, 33 States	---	---	3,025,660	27.70	1.53

a/. The rate is 1 percent on certain motor vehicles.

b/. Sales of food exempt in varying degrees.

c/. Partial exemption of clothing; children's clothing in Florida, clothing costing less than \$10 in Connecticut.

d/. Tax not in effect for full fiscal year.

e/. Rate applies to 98 percent of sales.

f/. Local units of government also levy general sales taxes at rates in addition to those shown.

Sources: U. S. Bureau of the Census, State Tax Collections in 1956; the Tax Foundation, Facts and Figures on Government Finance, 1954 - 1955, and Tax Review, October, 1955.

sales are taxed at 39 percent, receipts of public utilities at rates ranging from 1.3 to 5.2 percent, contractors at 2 percent, receipts from amusements at .65 percent, and service businesses, rents, and royalty payments are taxable at 1 percent. Hotel rentals, personal services, and a variety of business services in addition to those specifically noted above, as well as printing and publishing, are taxable under the general sales taxes in West Virginia but are not taxable under the retail sales rate.

A third type of tax, the **gross receipts tax**, is imposed in the States of Washington and New Mexico. Gross receipts taxes have an even broader base than the general sales taxes discussed above. This type of tax applies not only to retail sales and the receipts of other types of businesses, but also to personal and professional services. New Mexico, in addition to a 2 percent tax on retail sales, levies a tax of .125 percent on the gross receipts of wholesalers, .25 percent on manufacturing and lumbering, .5 percent on extractive industries, smelting, and cleaning and threshing of agricultural products, and 1 percent on sales of new or second-hand automobiles, trucks, and tractors. Virtually all receipts from commissions, factors, agents and brokers' fees and service businesses, amusements and utilities are taxed at the 2 percent rate.

The State of Washington makes the most intensive and extensive use of taxes on sales and gross receipts of any of the 33 states employing this form of taxation. In addition to the highest rate of taxation on retail sales, 3 1/3 percent, retailers are subject to a gross receipts tax of .4 percent along with wholesalers, extractive industries, manufacturers, printing and publishing, and road construction. Grain wholesalers are subject to a rate of taxation of .016 percent. Practically all services, including professional, medical, legal and dental and all other businesses are taxable at a rate of .8 percent of gross receipts. The rates as designated above include a 60 percent surtax effective during the fiscal year 1956.

The fourth type of tax included in Table 40 is the **gross income** (sometimes called the gross transaction) tax employed in Indiana. The Indiana gross income tax may be characterized as a combination flat rate personal income tax and a classified tax on business receipts. Three rates are employed. Sales for resale, receipts from industrial processing, sales of drugs, medical and dental preparations for use by hospitals, doctors, dentists and barbers, sales of material and supplies used in industrial cleaning, sales of tangible personal property used in the production of public utility services, receipts from display advertising, and sales of farm products in the normal channels of trade are taxable at .25 percent. The receipts of laundry and dry cleaning establishments and retail merchants selling at retail are taxable at 5 percent. All other receipts are taxable at a rate of 1 percent. Transactions taxable at 1 percent include receipts of electrical, gas, water, and sewage utilities, gross income from transportation and communication, the gross earnings of financial institutions and grain handlers, and gross income from professional services, personal services, sales of real estate, rentals, funds received for performance of contracts, investment of capital, and in general, wage and salary income.

The Yield of Sales and Gross Receipts Taxes. The yield from the various types of taxes shown in Table 40 are determined by the coverage of the tax, the level of income in the various states, the rates employed, exemptions and the effectiveness of tax administration. In the 33 states listed in Table 40, the yield ranges from \$72.87 per capita in the State of Washington to less than \$20 per capita in several states. The exceptionally low per capita yield in the State of Pennsylvania is explained in the footnotes to Table 40. The average per

capita yield of sales and gross receipts taxes in the 33 states is \$27.70. One-half the states have a per capita yield of more than \$26. Iowa ranks 10th from the top among the 33 states in terms of per capita yield with receipts per person of slightly less than \$30 in the fiscal year 1956. Most of the states which rank higher than Iowa in terms of per capita yield are states in which the rate is 3 percent, or states in which some type of general sales or gross receipts tax is applied to transactions in addition to the tax on sales at retail. It will be noted that a number of states with 3 percent rates have lower per capita yields than is found in Iowa. This may be attributable to one or both of two factors: (1) the states have very low per capita income and hence tend to have low per capita retail sales, or (2) the states exempt food from the retail sales tax.

An alternative measure of the economic impact of general sales and gross receipts taxation is provided in the last column of Table 40. In this column total collections from these taxes are expressed as a percent of the Personal Income received by residents of the states. In the 33 states employing retail and/or general sales and gross receipts taxes, such levies were equivalent to 1.53 percent of Personal Income in 1956. Approximately one-half of the states collected an amount greater than 1.66 percent of Personal Income. Iowa ranks 12th from the top among the 33 states in terms of the ratio of sales tax collections to Personal Income. In this measure it will be noted that some states such as Mississippi, which ranked well below Iowa on a per capita basis, rank above Iowa in terms of the percentage of income absorbed by sales and receipts taxes. The top 3 states—Washington, New Mexico, and West Virginia—all employ multi-stage sales and receipts taxes. Georgia ranks 4th in terms of the measure shown in the last column, primarily as a result of the high rate, the fact that food is not exempt, and the lower-than-national average level of per capita income in this state. Most of the other states which rank higher than Iowa either employ multi-stage taxes or impose rates higher than the 2.5 percent rate in Iowa.

There is also a tendency for sales and gross receipts taxes to be higher relative to Personal Income in states with low per capita income than in states with high per capita income. The states which rank low in terms of the percent of Personal Income absorbed by sales and gross receipts taxes are generally those states employing a 2 percent rate and/or exempting food from the sales tax levy. Florida, for example, despite the fact that it employs a rate of 3 percent, ranks well down the list in terms of the measures shown in the last column of Table 40. This low ranking is attributable primarily to the exemption of food and certain types of clothing.

Stability of Yield of Sales Taxes. In view of the fact that sales taxes supply an important share of general revenue in Iowa and in some 30 other states, the question of the stability of the yield from these taxes has become a significant one. The yield from these taxes fluctuates roughly in proportion to changes in the dollar volume of business. In turn, the volume of transactions subject to these taxes is closely related to the amount of total Personal Income.

In the tabulation below changes in the sales tax yields of a number of representative states are measured relative to changes in Personal Income. The figures in the last column of this tabulation show the average percentage change in tax yield accompanying a 10 percent change in Personal Income in the respective states, assuming all features of the tax, such as coverage, the definition of the tax base, and the rate structure remain unchanged. The measures shown in the final column have

been adjusted to exclude the long-run effects of changes in population, economic growth, and changing consumption habits. Thus, the measure reflects only the cyclical variability of sales tax revenues. In general, sales tax revenues tend to vary roughly in proportion to changes in Personal Income. To the extent that changes in Personal Income represent merely changes in the general price level, sales taxes would yield a comparatively constant volume of tax revenue measured in terms of the purchasing power of that tax revenue.*

Stability of Yield of Sales Taxes in Selected States

State	Period Covered	Percent change in tax yield with a 10 percent change in Personal Income
Ohio	1937-48	9.9 percent
North Carolina	1940-49	10.0
IOWA	1935-49	10.2
Missouri	1938-49	10.3
Michigan	1934-49	10.9
California	1934-49	11.1
Illinois	1934-48	11.1

Because of the importance of sales and use tax revenues in the Iowa state tax system, as well as the presence of other taxes which tend to vary roughly in proportion to changes in Personal Income, the yield of the Iowa State tax system as a whole tends to rise or fall approximately 8 percent with an increase, or decrease, of 10 percent in the Personal Income of the residents of the State. Combined State and local tax revenues in Iowa are much less sensitive than state tax collections to changes in Personal Income. For the combined State and local tax system a change of 10 percent in Personal Income tends to be accompanied by a change of only 5 percent in total tax revenue. The foregoing measures of stability are all computed on the basis of the tax system as it existed in 1948.

The total tax system of the State of Iowa is somewhat more sensitive to changes in Personal Income than the tax systems of Illinois, Michigan, and Ohio where individual and corporate net income taxes are not employed. The Iowa system has about the same degree of stability, relative to changes in income, as the tax systems of Indiana and Minnesota. However, the Iowa tax system is less sensitive to changes in the level of income than the tax system of the state of Wisconsin.

The Regressive Incidence of Sales Taxes. One of the major objections which is usually brought against sales taxes of the type employed in Iowa is that such taxes impose a heavier burden on taxpayers in the lower income groups than on taxpayers with larger incomes. The regressivity of sales taxation stems primarily from the fact that low income groups spend a larger percentage of their income on taxable goods and services than is spent by individuals in higher income brackets.

The estimated incidence of a 2 percent sales tax, by level of disposable income, is shown in Table 41. The lowest income group, with average income of \$705 after Federal and State income taxes, paid sales taxes, under a 2 percent rate, equivalent to 2.10 percent of disposable income in Case I. Sales taxes paid, as a percentage of income, decline as the income level rises, reaching a rate of 1.22 percent for incomes of over \$10,000. Case I, as presented in this table, represents an assumed retail sales tax base virtually identical to the present Iowa retail sales tax base.

* The measure of tax stability are taken from H. M. Groves and C. H. Kahn, "The Stability of State and Local Tax Yields," *The American Economic Review*, March, 1952, p. 90.

Table 41. Estimated Burden of a Two Percent Sales Tax, by Level of Disposable Income

Disposable Income Levels*	Average Income at Each Level	Sales Tax, as Percent of Disposable Income	
		Case I ^b	Case II ^c
Under \$1,000	\$ 705	2.10	1.25
1,000-1,999	1,572	1.53	.97
2,000-2,999	2,666	1.30	.88
3,000-3,999	3,544	1.55	1.00
4,000-4,999	4,742	1.36	.92
5,000-5,999	5,554	1.53	1.05
6,000-7,499	6,698	1.46	1.00
7,500-9,999	8,549	1.39	.94
Over 10,000	14,131	1.22	.99
All levels	4,193	1.44	.98

* Disposable income is money income after Federal and State individual income taxes.

^b Case I. Broad base, food, cigarettes, alcoholic beverages, taxable. Roughly same base as present Iowa retail sales tax.

^c Case II. Food for home consumption, alcoholic beverages, and tobacco exempt.

Source: U.S. Bureau of Labor Statistics data, as reported in *Business News Notes*, School of Business Administration, University of Minnesota, July, 1955. Data in this table are for 207 urban families in Minneapolis and St. Paul, Minnesota.

The major reason for the regressive tendency noted in Table 41 for Case I is the fact that food is subject to the sales tax. With food exempt (Case II), the heavier impact of sales taxation on the lower income families virtually disappears. With the exception of the very lowest level of income, a sales tax with food exempt exacts a tax burden roughly proportional to disposable income.

The sample of family expenditures on which the computations shown in Table 41 have been based comprised 207 urban families in Minneapolis and St. Paul. These data were compiled by the United States Bureau of Labor Statistics and represent family spending patterns in 1950. Similar studies have been made in a number of other urban areas in the country with generally similar results. While the data presented in Table 41 may represent with a reasonable degree of accuracy the incidence of sales taxes on urban families in Iowa, it does not necessarily follow that the pattern of incidence would be similar for rural families, particularly if all taxable expenditures for farm equipment and building materials were included.

The relative importance of the tax revenue from sales of food is suggested by the data presented in Table 42. In the fiscal year 1955 almost 22 percent of the total collections from the Iowa sales tax were derived from businesses classified as food stores. It may be assumed that a significant part of the sales of these stores - particularly the modern food supermarket - are sales of items other than food for human consumption. On the other hand, there are undoubtedly some food sales made by stores classified in other categories by the State Tax Commission. The exemption of food for consumption in homes would probably reduce the yield of present sales tax revenues by approximately 20 percent. This percentage, it may be noted, is about the same reduction that has been experienced in other states where food, originally taxable, has been made exempt.

With respect to the regressive feature of retail sales taxes of the type employed in Iowa, the major issues may be summarized as follows:

1. The tax is regressive, that is, it bears more heavily on lower income groups than upon those in higher income brackets because lower income groups tend to spend a

Table 42. Retail Sales Tax Collections in Iowa, 1955.
by Type of Business

Business Classification	Amount (,000)	Percent
		of Total
Food group, except restaurants	\$11,864	21.6
Restaurants, cafes, lunch rooms	2,214	4.0
Apparel stores	2,513	4.6
General merchandise group:	14,182	25.9
Department and general stores	4,717	8.8
Hardware, implements, and farm machinery	4,444	8.1
Drug stores	1,634	3.0
Household appliance, electric stoves	1,440	2.6
Variety stores, toy shops	1,019	1.9
Other general merchandise	928	1.7
Furniture, fixtures and equipment	2,211	4.0
Motor vehicle, accessories, repairs	5,145	9.4
Lumber and building materials	5,785	10.5
Service group	1,520	2.8
Public utilities	4,490	8.2
State liquor stores	746	1.4
Taxed gasoline sales	939	1.7
All other, less refunds	3,265	5.9
Total, net of refunds	\$54,874	100.0

Source: State Tax Commission.

larger fraction of their income for taxable commodities. This feature of the tax can be mitigated by the exemption of food. But such an exemption tends to complicate administration and to reduce the yield by approximately 20 percent.

2. The regressivity of sales taxes of the type employed in Iowa is to some extent offset by the use of State and Federal individual income taxes imposed at progressive rates. Thus, the regressivity of a sales tax, which might be considered a serious objection if this were the sole source of tax revenue, may not be of decisive importance when the sales tax is employed as one part of a diversified tax system which contains progressive elements, such as the individual income tax. In this connection, it may be noted that present Iowa individual income taxes rather generally exempt the very low income groups in which the regressivity of sales taxes is most noticeable.

3. At present levels of income and employment relatively few taxpayers fall in the very low brackets in which regressivity is most serious. However, it should be noted that many retired individuals do have incomes in these lower brackets and thus, sales taxation imposes comparative heavy burdens on individuals.

Taxation of Services. Most of the states which employ a single stage retail sales tax such as is employed in Iowa, tax very few services. Nine of the states using this type of tax levy the tax on receipts of hotels, and other lodging places. Thirteen apply the tax to receipts from leases or rentals of one form or another. Five states apply their retail sales taxes to the transportation of persons: four to type setting; three to repair services, auto storage and parking lots, auto refinishing, and laundries and dry cleaning establishments. Two states apply retail sales taxes to receipts of painters and paperhangers; receipts from installation services; auto washing and lubrication; funeral services; exterminating services; advertising agencies; and newspaper sales are subject to retail sales taxes in at least one state.

In states employing gross receipts taxes virtually all of these services, as well as other services, are subject to tax. Hospital services are the only category which are not taxable in any state under any of the sales or gross

receipts types of taxes. In states employing gross income taxes most services are subject to taxation. The greatest degree of taxation of services is to be found in the states of Louisiana, Washington and West Virginia.*

Use Tax. Virtually all of the states shown in Table 40 impose use taxes, with the tax base defined in roughly the same manner as the tax base for the sales or gross receipts tax. The purpose of the use taxes is generally to prevent avoidance of the sales tax by out-of-state purchases and, incidentally, to afford some degree of protection to merchants in border areas of the states. One of the major problems encountered in connection with the use tax in Iowa and in other states is the problem of discovering certain types of transactions and securing payment. In general, it is probably true that for most consumers' goods brought into the states, only a very small fraction is reported for use tax purposes. The various sources of use tax collections for Iowa for the fiscal year 1955 are shown below:

Use Tax Collections, Iowa: 1955		
	Amount (,000)	Percent of Total
Consumers:		
Construction contractors	\$ 293	2.8
Industrial	682	6.5
Retailers, wholesalers	400	3.8
Utilities	275	2.6
Other	229	2.2
Retail, including mail order	2,129	20.2
New motor vehicles	6,506	61.9
Total	\$10,514	100.0

The use tax collections are reported in three major categories: (1) use taxes paid by users, (2) taxes paid by out-of-state sellers, including mail order houses, for sales to residents of Iowa where such transactions are subject to the tax, and (3) use taxes collected on new motor vehicles. The rate is the same as the retail sales tax rate (2.5 percent) for the first two of these categories but the present rate is only 2 percent on new motor vehicles. As shown in the tabulation above, the use tax on new motor vehicles accounted for almost 62 percent of the total in 1955, while sales or use taxes paid by vendors accounted for approximately 20 percent of the total.

The major issue in Iowa use tax coverage has to do with the applicability of the tax to such items as contractors' equipment and industrial and utility machinery and equipment "not readily obtainable in Iowa." So long as such items are exempt when not purchased in Iowa, but are taxable under the sales tax if bought from Iowa suppliers it is argued that present or potential Iowa suppliers are at a competitive disadvantage. In many cases buyers are uncertain as to whether or not a given item is available in Iowa, thus complicating tax administration and compliance. The exemption of all industrial utility and construction machinery and equipment would, of course, entail some considerable loss of revenue under both the sales and use taxes. But to make all such purchases taxable under either the sales or the use tax, regardless of whether obtainable in Iowa or not, would impose substantial tax costs on new and expanding businesses making substantial outlays for complex and expensive machinery and equipment.

In general, the states employing use taxes follow one or the other of two rules, or principles, in drawing the line of distinction between those transactions which are

* Institute of Public Affairs, State University of Iowa, *State Sales Taxes on Services*

TABLE 43. INDIVIDUAL INCOME TAX RATES AND COLLECTIONS.
Fiscal Year 1956, by States

State	Rates for 1956 Returns (Percent)	Federal Tax Deductible	Splitting of Income	Withholding of Tax	Tax Collections, 1956		
					Amount (,000)	Per Capita	Percent of Pers. Inc.
Alabama	1.5 to 5.0	Yes	No	Yes	\$ 27,596 <u>a/</u>	\$ 9.10	0.75
Arizona	1.0 to 4.5	Yes	Yes	Yes	14,664 <u>a/</u>	14.96	0.92
Arkansas	1.0 to 5.0	No	No	No	5,166	2.89	0.27
California	1.0 to 6.0	No	Yes	Yes	127,908	9.81	0.43
Colorado	.8 to 8.0	Yes	No	Yes	20,325	13.12	0.74
Delaware	1.0 to 6.0	Limited <u>c/</u>	No	No	15,420	39.84	1.57
Georgia	1.0 to 6.0	No	No	No	22,858	6.31	0.47
Idaho	1.5 to 8.0 <u>d/</u>	Yes	Yes	Yes	9,313	15.29	1.04
IOWA	.8 to 4.0	Yes	No	No	25,139	9.33	.60
Kansas	1.0 to 4.0	Yes	No	No	12,787	6.21	0.38
Kentucky	2.0 to 6.0	Yes	No	Yes	30,387	10.11	0.82
Louisiana	2.0 to 6.0	Yes	Yes	No	24,256 <u>a/</u>	8.29	0.62
Maryland	2.0 and 5.0 <u>e/</u>	No	No	Yes	60,561	22.69	1.11
Massachusetts	<u>f/</u>	Yes	No	No	107,286	21.39	1.07
Minnesota	1.0 to 10.0 <u>g/</u>	Yes	No	No	61,714	19.44	1.14
Mississippi	2.0 to 6.0 <u>h/</u>	No	No	No	4,647	2.20	0.23
Missouri	1.0 to 4.0	Yes	No	No	35,390 <u>a/</u>	8.57	0.47
Montana	1.0 to 4.0	Yes	No	Yes	7,577	11.97	0.65
New Hampshire	4.25 <u>b/</u>	No	No	No	1,479 <u>b/</u>	2.66 <u>b/</u>	0.15 <u>b/</u>
New Mexico	1.0 to 4.0	Yes	Yes	No	4,579 <u>a/</u>	5.76	0.40
New York	2.0 to 7.0 <u>i/</u>	No	No	No	447,330	27.74	1.23
North Carolina	3.0 to 7.0	No	No	No	47,810	11.16	0.89
North Dakota	1.0 to 11.0	Yes	No	No	2,876	4.48	0.33
Oklahoma	1.0 to 6.0	Yes	No	No	12,120	5.59	0.36
Oregon	2.0 to 8.0 <u>j/</u>	Yes	No	Yes	68,780	41.21	2.22
South Carolina	2.0 to 5.0	Limited <u>k/</u>	No	No	15,558	6.81	0.61
Tennessee	4.0 to 6.0 <u>b/</u>	No	No	No	3,939 <u>b/</u>	1.15 <u>b/</u>	0.09 <u>b/</u>
Utah	1.0 to 5.0	Yes	No	No	8,389	10.74	0.68
Vermont	2.0 to 7.5	No	No	Yes	8,503	22.49	1.50
Virginia	2.0 to 5.0	No	No	No	46,306	12.94	0.84
Wisconsin	1.0 to 8.5 <u>m/</u>	Limited <u>l/</u>	No	No	96,719	26.18	1.47
Total, 31 States					\$1,377,382 <u>a/</u> /	14.69	1.47

a/. Receipts include corporate net income tax revenues in five states. Not segregable.

b/. Tax applies only to income from interest and dividends.

c/. Federal tax deduction limited to \$300 on a single return, \$600 on a joint return.

d/. Plus a surtax of 7.5 percent of tax.

e/. 5 percent rate applicable to investment income over \$500; all other income taxable at 2 percent.

f/. Massachusetts rates: Business income, 2.5 percent; annuity income, 1.5 percent; capital gains, 6 percent; interest and dividends, 6 percent; plus a surtax of 23 percent of tax bill.

g/. Plus 5 percent surtax applied before deduction of personal credits, plus 5 percent surtax applied after deduction of personal credits, plus \$5.00.

h/. Plus surtax of 10.5 percent of tax for calendar year 1955; 14 percent in subsequent years.

i/. Net capital gains taxable at one-half of the rates shown.

j/. Plus surtax of 45 percent of normal tax.

k/. Deduction limited to \$500.

l/. Deduction limited to 3 percent of net income.

m/. Plus surtax of 20 percent of tax liability. After deduction of personal credits.

Sources: U. S. Bureau of the Census, State Tax Collections in 1956; and income tax regulations and forms of the 31 states.

and those which are not subject to the tax. Under one of these rules, tangible personal property is exempt from the use tax (and also the sales tax) if it is purchased for resale, or if it is physically incorporated as a raw material or component part of a product which will ultimately be sold "at retail." The majority of the states levying sales and use taxes follow this rule.

An alternative line of distinction is used by a few states, including Michigan and Ohio. In these states, tangible personal property used directly in agricultural production and manufacturing is exempt from the sales and use taxes. To be exempt, it is not necessary that the tangible personal property be actually physically incorporated into the final product.

Under the first rule, electric motors purchased for use in, say, domestic laundry equipment manufactured for resale would be exempt from both sales and use taxes; electric motors purchased by the same manufacturer for use, say, in a drill in the factory would be taxable under the first rule, but exempt under the second. The Iowa use tax law is something of a compromise between these two rules. In general, it follows the physical incorporation principle. But the exemption from use tax of items "not readily obtainable in Iowa," in effect, removes from the use tax base a large, but undetermined, amount of tangible personal property used in Iowa.

North Dakota follows rather closely the first rule described above. The new Illinois use tax, which became effective July 1, 1955, also follows the physical incorporation principle in setting exemptions to the use tax. Michigan makes an outright exemption not only for materials, parts, etc., physically incorporated in products, but also for tangible personal property used in agricultural and industrial production where the tangible personal property does not become a permanent part of real property. A similar exemption—from sales and use taxes—is permitted in Ohio.

In Missouri the use tax applies only to new automobiles, thus, industrial machinery, equipment, and supplies purchased from out-of-state suppliers are not taxable under the use tax. In Kansas the use tax exemptions are the same as for the sales tax in general. Both follow the physical incorporation rule.

4. INDIVIDUAL INCOME TAX.

The major characteristics of the state individual income taxes, collections, and measures of relative economic impact are presented in Table 43 for the fiscal year 1956. Of the 31 states employing individual income taxes, 29 make general levies on income from all sources, although the rates are sometimes differentiated according to source of income. Two states—Tennessee and New Hampshire—tax only income from interest and dividends. The rates range from .8 percent in the first bracket in Iowa and Colorado, to top bracket rates of 11 percent in North Dakota, almost 12 percent in Oregon, including a 45 percent surtax, and to approximately 10.2 percent in Wisconsin, inclusive of a 20 percent surtax. Including two separate surtaxes, each of 5 percent, the top rate in Minnesota is also approximately 11 percent. Iowa, with a top bracket rate of 4 percent, has one of the lowest top rates of any of the states. Progression of rates also stops at 4 percent in Kansas, Missouri, and Montana.

The effective rates of income taxation, as distinguished from the nominal rates shown in Column 1, can be determined only in the light of provisions with respect to the deductibility of Federal income taxes in the computation of the state tax liability, the splitting of income by married taxpayers, deductions from income, and the definition of the taxable base. Seventeen of the 31 states employing income taxation allow all Federal income taxes as deductions from taxable income in the computation

of state tax liability. Iowa is one of the 17 states. In addition, three other states—Delaware, South Carolina, and Wisconsin—allow partial deductibility subject to limits noted in the footnotes to Table 43. Eleven states do not allow the deduction of any of the Federal tax payment. In general, with a given set of rates and deductible expenses, the effective rate of taxation will be higher in states which do not allow the deduction of the Federal tax liability.

Five of the 31 states levying individual income taxes are community property states, which means that for purposes of computation of income tax liability married individuals may split their income even though all of the income is earned by one of the spouses. This provision reduces substantially the effective rate of taxation for taxpayers in the middle income brackets.

Ten states now require withholding of taxes on wages and salaries at the source of such payments. In most states this requirement for withholding has been enacted since the end of World War II. In general, the withholding provisions require employers to retain and pay to the state something less than 100 percent of the probable tax liability of employees on wages and salaries earned. Most states enacting withholding laws have patterned their procedures after those of the Federal Government, with tables usually available for the use of employers.

Exemptions and personal credits. Twenty-seven of the 31 states using individual income taxation provide for personal exemptions for married taxpayers in amounts ranging from \$1,000 in Vermont, to \$6,000 in Mississippi; \$500 (Vermont) to \$4,000 (Mississippi) for a single taxpayer; and no exemption (Mississippi) to \$600 for each dependent in a number of states. Four states—Iowa, Kentucky, Minnesota, and Wisconsin—do not provide for personal exemptions but rather, provide personal credits which are deductible from the tax liability as computed. For a married couple with two children, the personal credit is \$48 in Iowa, \$50 in Minnesota, \$60 in Kentucky, and \$28 in Wisconsin. In general, the use of personal credits in lieu of tax exempt amounts of income renders the tax structure somewhat more progressive with a given set of rates. For example, a \$600 personal exemption is equivalent to a \$6 personal credit for a taxpayer in an income bracket with a 1 percent rate. But the same \$600 personal exemption would be worth \$30 in tax reduction to a taxpayer with income in a higher bracket taxable at 5 percent.

Comparative Individual Income Tax Collections, 1956. Individual income tax collections in dollar amounts, per capita, and as a percent of personal income are shown in the last three columns of Table 43. The impact of individual income taxes, as measured in terms of per capita tax collections and income tax collections as a percent of personal income, depends not only on the severity of rates, but also upon the definition of taxable income, the liberality of exemptions and deductions, the distribution of income, and the effectiveness of administration.

In terms of per capita income tax collections, Iowa ranks 18th among the 31 states. Per capita collections in the State of Oregon, which ranks first in this measure, were over four times as large as in Iowa. Individual income tax collections in Iowa, as a percent of personal income, ranked 20th among the 31 states. The relatively light impact of individual income taxes in Iowa is attributable to the low rates applied, the full deductibility of federal taxes, the above average personal credits against tax, and the absences of great disparities in income distribution.

The number of individual income "tax pay" and "no pay" returns and the tax revenue, by occupational groups, were as follows for the fiscal year 1955:

SOURCES OF GOVERNMENTAL REVENUES IN IOWA

Iowa Individual Income Tax Returns,
Year ended June 30, 1955

Occupational group	No Pay Returns (number)	Pay Returns	Tax Revenue (,000)	Percent
Clerical	18,213	35,458	\$ 735	3.4
Contractors	3,502	3,482	335	1.5
Executives	1,621	16,652	2,440	11.2
Farmers	112,601	79,407	4,861	22.3
Laborers	74,644	152,996	3,961	18.1
Manufacturers	321	682	157	0.7
Professional	7,364	21,008	2,247	10.3
Public employees	18,639	54,558	1,497	6.9
Retailers	13,218	15,163	1,459	6.7
Salesmen, saleswomen	11,402	21,786	992	4.5
Service	11,219	11,572	839	3.8
Transportation	10,468	24,807	708	3.2
Wholesalers	788	1,571	234	1.1
Miscellaneous	11,081	8,148	529	2.4
Unclassified	1,591	2,124	192	0.9
Subtotal	296,672	449,414	21,186	97.0

Delinquent and additional tax	22,653	647	3.0
Total	296,672	472,067	\$21,833
Percent of returns:	38.6%	61.4%	100.0

Source: State Tax Commission.

No tax was due on approximately 39 percent of the total of 768,739 returns filed in the fiscal year 1955. The high ratio of "no pay" returns is partly attributable to the rather high personal credits for taxpayers and their dependents, the liberal allowances for deductible business and nonbusiness expenses, and to the comparatively low level of farm income in the calendar year 1954.

For the tax year ending June 30, 1953, there were 960,696 federal individual returns filed from Iowa, on which federal taxes of \$358,389,000 were paid. The fact that the total number of federal returns was larger than the number of Iowa returns reflects the lower "filing limit" under the federal tax. The federal withholding system is an additional factor in producing a larger number of federal returns.

The computed state tax liabilities of a hypothetical taxpayer at seven different levels of income are shown

Table 44. Comparative Personal Income Tax Bills in 29^a States, For Taxable Year, 1955^b

\$3,000		\$5,000		\$10,000		\$15,000	
State	Tax	State	Tax	State	Tax	State	Tax
1 Oregon	\$25.52	1 Oregon	\$101.14	1 Vermont	\$445.00	1 Vermont	\$820.00
2 Vermont	20.00	2 Vermont	100.00	2 Oregon	373.87	2 Wisconsin	769.50
3 Minnesota	14.54	3 Minnesota	89.79	3 Minnesota	363.43	3 Oregon	733.77
4.5 N. Carolina	12.00	4. N. Carolina	76.00	4 Wisconsin	343.80	4 Minnesota	690.37
4.5 Virginia	12.00	5 Virginia	52.00	5 N. Carolina	324.00	5 N. Carolina	648.00
6 Wisconsin	9.78	6 IOWA	51.20	6 Virginia	250.00	6 New York	569.00
7 Kansas	6.00	7 Kentucky	49.59	7 Kentucky	247.71	7 Virginia	500.00
8 Idaho	5.05	8 Wisconsin	48.00	8 New York	245.00	8 Kentucky	474.54
9.5 Utah	4.80	9 New York	41.00	9 S. Carolina	215.00	9 S. Carolina	465.00
9.5 Delaware	4.80	10 Idaho	40.45	10 IOWA	210.15	10 Idaho	436.15
11 Colorado	3.84	11 Mass.	36.47	11 Utah	202.60	11 N. Dakota	432.60
12 Montana	2.80	12 Maryland	36.00	12 Idaho	201.50	12 Delaware	405.00
13 N. Dakota	1.80	13 S. Carolina	34.00	13 Delaware	162.00	13 Utah	390.78
14 S. Carolina	1.60	14 Utah	32.59	14 Mass.	157.93	14 Georgia	388.00
		15 Delaware	23.00	15 Alabama	157.91	15 IOWA	360.27
In 17 other states including Iowa, a taxpayer at this income level would pay no state income tax.		16 Colorado	21.37	16 Georgia	142.00	16 Alabama	345.18
		17 Kansas	20.80	17 Maryland	136.00	17 Colorado	303.02
		18 Montana	18.80	18 N. Dakota	116.67	18 Mass.	272.63
		19 N. Dakota	17.80	19 Montana	114.99	19 Montana	263.12
		20 N. Mexico	15.80	20 Colorado	113.56	20 Miss.	243.10
		21 Oklahoma	14.80	21 Missouri	101.91	21 Maryland	236.00
		22 Missouri	14.24	22 Miss.	88.40	22 Missouri	224.83
		23 Alabama	13.24	23 Kansas	80.64	23 Arkansas	219.00
		24 Arizona	12.80	24 Oklahoma	78.16	24 Oklahoma	186.20
		25 Georgia	8.00	25 Arkansas	76.00	25 Kansas	173.79
		26 California	7.00	26 Arizona	74.49	26 Arizona	168.50
		27 Arkansas	3.00	27 California	57.00	27 Louisiana	126.76
		28 Louisiana	-0-	28 N. Mexico	55.08	28 California	114.00
		29 Miss.	-0-	29 Louisiana	52.39	29 N. Mexico	92.00

^a Personal Income Taxes are imposed in 31 states. For this comparison, two of the states, New Hampshire and Tennessee, are excluded because the levies in these states apply only to interest and dividend income.

^b The computed tax bills for each state and at each of the seven assumed levels of "taxable income" have been made on the basis of the following assumptions:

1. The "taxpayer" is married and has two children.
2. Wife has no income.
3. No income from dividends or capital gains.
4. The "taxable income" is after deduction of whatever "nonbusiness deductions" the various states and the federal government allow, but before any personal exemption, or credit, and before either federal or state income taxes.

REPORT OF THE IOWA TAXATION STUDY COMMITTEE

Table 44. (ctd.) Comparative Personal Income Tax Bills in 29 States, For Taxable Year, 1955*

\$25,000		\$50,000		\$100,000	
State	Tax	State	Tax	State	Tax
1 Wisconsin	\$1,758.90	1 Wisconsin	\$4,232.40	1 Wisconsin	\$9,179.40
2 Vermont	1,570.00	2 Vermont	3,445.00	2 Vermont	7,195.00
3 Oregon	1,448.40	3 N. Carolina	3,098.00	3 N. Carolina	6,598.00
4 Minnesota	1,375.44	4 New York	3,019.00	4 New York	6,519.00
5 N. Carolina	1,348.00	5 Oregon	2,981.38	5 Mississippi	5,624.45
6 New York	1,269.00	6 Minnesota	2,843.99	6 Georgia	5,488.00
7 N. Dakota	1,141.14	7 Georgia	2,488.00	7 Oregon	5,102.71
8 Idaho	1,027.25	8 Mississippi	2,309.45	8 Minnesota	4,896.09
9 Virginia	1,000.00	9 N. Dakota	2,306.72	9 Virginia	4,750.00
10 Georgia	988.00	10 Virginia	2,250.00	10 S. Carolina	4,715.00
11 S. Carolina	965.00	11 S. Carolina	2,215.00	11 N. Dakota	4,692.16
12 Delaware	905.00	12 Idaho	2,162.95	12 Delaware	4,655.00
13 Kentucky	884.07	13 Delaware	2,155.00	13 Arkansas	4,315.00
14 Colorado	850.85	14 Colorado	1,922.33	14 California	4,242.00
15 Utah	730.22	15 Arkansas	1,815.00	15 Idaho	3,734.92
16 Mississippi	718.25	16 Kentucky	1,665.86	16 Colorado	3,412.67
17 Alabama	694.79	17 Utah	1,378.34	17 Kentucky	2,743.59
18 IOWA	630.72	18 Alabama	1,330.00	18 Oklahoma	2,356.91
19 Arkansas	612.00	19 California	1,285.00	19 Utah	2,265.87
20 Montana	535.26	20 Oklahoma	1,282.30	20 Alabama	2,219.19
21 Oklahoma	505.18	21 IOWA	1,143.61	21 Maryland	1,936.00
22 Missouri	493.67	22 Montana	1,044.73	22 IOWA	1,848.72
23 Massachusetts	479.04	23 Missouri	1,005.36	23 Arizona	1,798.17
24 Maryland	436.00	24 Arizona	1,002.83	24 Montana	1,749.88
25 Arizona	426.10	25 Maryland	936.00	25 Missouri	1,709.72
26 Kansas	399.26	26 Kansas	910.10	26 Kansas	1,613.96
27 California	321.00	27 Massachusetts	867.96	27 Massachusetts	1,402.02
28 Louisiana	260.61	28 Louisiana	512.29	28 Louisiana	857.94
29 N. Mexico	158.92	29 N. Mexico	368.62	29 N. Mexico	771.96

Source: Computed from individual tax forms for each state. See footnotes on page 55.

in Table 44. At each income level the states are ranked in the order of the size of the state individual income tax liability as computed under the assumptions noted in the table. At the \$3,000 level of income, a married taxpayer with two dependents would have no tax obligation in Iowa, or in sixteen other states levying a general individual income tax. However, at the \$5,000 level of income the liability in Iowa would be the 6th highest in any of the 29 states. As income increases, the relative position of Iowa drops to the point where, at a level of income of \$50,000, only 8 states impose a smaller individual income tax liability than is imposed in Iowa.

Of the ten states imposing the heaviest tax at the \$50,000 level of income, only two—Oregon and North Dakota—allow full deductibility of the federal tax in the computation of state tax liability. The effect of the federal tax deductibility provision in the Iowa income tax law is further illustrated by the fact that for the hypothetical taxpayer the Iowa individual income tax at the \$10,000 level of income is 2.1 percent of income before federal or state tax. At the \$100,000 level of income the individual income tax liability in Iowa is a little over 1.8 percent of income before federal or state taxes.

5. THE CORPORATION NET INCOME TAX.

Some of the principle characteristics of the state corporation net income taxes and the yields from these taxes are shown in Table 45. Some additional features of the tax in certain states are described briefly in the footnotes to the table. The yield of the corporate net in-

come taxes is shown in dollar amounts, per capita of the total population, and as a percent of personal income. The relative importance of the corporate net income tax in the total tax structure of the various states depends upon the importance of corporate business in the economic structure of the state, the way in which taxable income is defined, the allocation formulae employed in allocating the net income of multi-state businesses, the rates, and the provisions for deductibility of the federal income tax liability.

The corporate net income tax is not a major source of tax revenue in the State of Iowa. In 1956 corporate net income taxes provided only 1.38 percent of total state tax collections in Iowa, as compared with an average for all 48 states of 6.6 percent of tax collections from this source. Iowa derives a smaller fraction of its total state tax revenue from the corporate net income tax than any other state levying a general tax on all corporations.

In 1956 corporate income tax collections in Iowa were \$1.18 per capita of the population as compared with collections of \$8.17 in the 32 states employing corporate net income taxation. On a per capita basis, Iowa also ranks at the bottom among the states employing general corporate net income taxation. In 1956, corporate net income tax revenues in Iowa were equivalent to .08 percent of the personal income of the residents of the state, as compared with an average for all the states employing corporate net income taxes of .46 percent of personal income.

TABLE 45. CORPORATION NET INCOME TAX RATES AND COLLECTIONS.
Fiscal Year 1956, by States

State	Rate	Federal Tax Deductible	Factors in Allocation Formulae ^{1/}	Tax Collections, 1956		
				Amount (,000)	Per Capita	Percent of Pers. Inc.
Alabama	3.0	Yes	A C E	\$ 930 ^{u/v/}	\$ 0.31	0.02
Arizona	1.0 to 5.0	Yes	A C D	^{v/}	^{v/}	^{v/}
Arkansas	1.0 to 5.0	No	A E	8,668	4.84	0.45
California	4.0	No	A C D ^{i/}	157,340	12.07	0.53
Colorado	5.0	Yes	B C	6,071	3.92	0.22
Connecticut	3.75	No	B C D ^{j/}	28,507	12.72	0.52
Georgia	4.0	No	B D ^{k/}	18,481	5.10	0.38
Idaho	1.5 to 8.0 ^{a/}	Yes	A C D	3,645	5.98	0.41
IOWA	8.0	Yes	A	3,190	1.18	.08
Kansas	2.0	Yes	B C E ^{l/}	4,421	2.15	0.13
Kentucky	4.5	Yes	B C D	11,855	3.95	0.32
Louisiana	3.0	Yes	A C D	^{v/}	^{v/}	^{v/}
Maryland	4.0	No	A C D	23,574	8.83	0.43
Massachusetts	^{b/}	No	B C D	24,723 ^{w/}	4.93	0.25
Minnesota	6.0 ^{c/}	Yes	A B C D ^{m/}	20,452	6.44	0.38
Mississippi	2.0 to 6.0 ^{d/}	No	A C D ^{n/}	11,762	5.57	0.58
Missouri	2.0	Yes	B	^{v/}	^{v/}	^{v/}
Montana	3.0	Yes	A C D	3,005	4.75	0.28
New Mexico	2.0	Yes	B C ^{o/}	^{v/}	^{v/}	^{v/}
New York	^{e/}	No	B C D	223,077	13.84	0.62
North Carolina	6.0	No	A B C E ^{p/}	44,134	10.30	0.82
North Dakota	3.0 to 6.0	Yes	C ^{g/}	1,205	1.88	0.14
Oklahoma	4.0	Yes	B C ^{r/}	9,801	4.52	0.29
Oregon	8.0	No	A C D	16,381	9.82	0.53
Pennsylvania	5.0	No	B C D	137,628	12.33	0.66
Rhode Island	5.0 ^{f/}	No	B C D	7,560	8.95	0.47
South Carolina	5.0	No	A B C E ^{p/}	16,283	7.13	0.64
Tennessee	3.75	No	A B C E ^{s/}	13,819	4.04	0.32
Utah	4.0 ^{g/}	Yes	B C D	3,657	4.68	0.30
Vermont	5.0	No	A C D	1,907	5.04	0.34
Virginia	5.0	No	B C	27,876	7.79	0.51
Wisconsin	2.0 to 7.0	Yes ^{n/}	A C E	50,045	13.55	0.76
Total, 32 States				\$ 880,191 ^{v/}	8.17 ^{v/}	0.46 ^{v/}

^a Plus 7.5% surtax.
^b Highest of:
 1) 0.5% of Corporate excess of Massachusetts tangible property and 3.5% of apportioned income.
 2) 0.05% of capital stock plus 3% apportioned income.
 3) 0.05% of apportioned gross receipts plus 3% apportioned income.
^c Plus 1% surtax plus \$3.00 + 3% special surtax for veterans compensation.
^d Plus 10.5% surtax.
^e Highest of:
 1) 5.5%;
 2) 1 mill times total capital.
 3) 5.5% of apportioned part of (gross income plus compensation of officers minus any net losses minus \$15,000) times 30%.
^f Or 4 mills times corporate excess.
^g Plus 0.05% tangible property in Utah.
^h Federal tax deductible to limit of 10% of taxable income.
ⁱ Property factor omitted by service enterprises.
^j Service enterprises use only gross receipts.
^k Also average inventories of product for sale.
^l Merchandising businesses use selling costs.

^m If no manufacturing in Minnesota, and only gross receipts.
ⁿ Trading businesses use only sales factor.
^o Also "operating" costs.
^p Manufacturers use only manufacturing costs. Trading corporations use only sales and service. Others use only gross receipts.
^q Also "business done."
^r Also direct costs.
^s Manufacturers use only manufacturing costs; merchandising corporations use two sales factors: delivery point and sales activity.
^t A, Sales and services within the state as a percentage of total sales and services;
 B, Gross receipts within the state as a percentage of total gross receipts;
 C, Property within the state as a percentage of total property;
 D, Payrolls within the state, as a percentage of total payrolls;
 E, Manufacturing costs within the state, as a percentage of total manufacturing costs.
^u Amount shown is corporation net income tax on financial institutions only; receipts from other corporations not segregable.
^v Corporate net income tax collections not separately available for five states.
^w Portion of corporation tax measured by net income only.

Measured in terms of contribution to total state tax revenues or in terms of collections per capita of the population, the corporate net income tax is most important in Pennsylvania, New York, Wisconsin, Connecticut, California and Oregon.

The low rate of yield of the corporate net income tax in Iowa is attributable to a number of factors. In the first place, Iowa is not a heavily industrialized state in which the corporate form of business organization and operation is dominant as is the case in Pennsylvania, New York, and other states deriving larger percentages of their total tax collections from the corporate net income tax. Secondly, the rates in Iowa are among the lower rates in the 32 states employing corporate net income taxes. A lower rate, 2 percent, is employed in Kansas, Missouri, and New Mexico. Most of the other states employ higher rates or progressive rates in which the top bracket is substantially above the rate employed in Iowa. Third, the method used in allocating net income of multi-state businesses to Iowa for purposes of income taxation minimizes the Iowa Tax base. Thirty of the 32 states levying general corporation net income taxes use 2 or more factors in determining the amount of income of multi-state businesses subject to the tax in the state. The most common factor employed is the ratio of property within the state to total property in all states. Sales within and payrolls within, as percentages of total sales and payrolls, respectively, are also widely used as allocators in determining taxable income in the various states. Iowa and Missouri are the only two states which rely upon a single factor in the allocation of net income for tax purposes. In Iowa the fraction of total corporate net income subject to the tax in this state is the ratio of sales for delivery in Iowa to total sales for delivery in all states. In Missouri the ratio is determined by using all of sales within Missouri plus one-half of sales from Missouri for shipment outside the state as a percentage of total sales.

In 1951 total corporate net income reported for federal income tax purposes from Iowa was almost \$301 million, on which a total tax liability of over \$130 million was incurred. During the calendar year 1955 corporation net income taxes reported from Iowa were almost \$131 million. However, it should be noted that federal returns filed in a particular state are not necessarily a complete coverage of all corporations having their principle place of business within the state. A corporation may file federal returns either in the state in which it has its principle place of business, or in a state in which it has its principle office or agency. Thus, the amount of federal returns is not an exact measure of the magnitude of corporate income in Iowa. But it does serve to indicate, in a rough way, the relative impacts of the state and the federal corporate net income taxes in Iowa. In any case, the amount of income allocable to a state would be different in most cases from the total income of corporations reporting income from that state in federal returns.

6. OTHER STATE TAX SOURCES

Approximately 47.3 percent of the tax revenues of the State of Iowa are obtained from the sales and use taxes and the personal and corporate net income taxes described in preceding sections of this chapter. These taxes, together with the highway user taxes, (to be described more fully in Chapter VI), account for almost 90 percent of the state's tax revenues. Some of the minor sources of tax revenue of the State of Iowa are described briefly in this section of Chapter IV.

The Cigarette Tax. Iowa, along with 41 other states, imposed taxes on one or more tobacco products. Eleven of the 42 states impose a tax on cigars and

Table 46. Iowa Corporation Net Income Tax Returns and Revenues, by Type of Business, 1955

Business	Number of Returns	Revenues	
		(,000)	Percent of Total
Contractors	257	49	2.2
Finance	383	112	4.9
Manufacturing	949	474	20.8
Newspapers	78	54	2.4
Utilities	201	514	22.6
Retailing	1,434	389	17.1
Service	879	137	7.0
Transportation	116	147	6.5
Wholesaling	930	257	11.3
Miscellaneous	266	44	1.9
Unclassified	95	101	4.4
Total	5,588	\$2,276	100.0

Source: State Tax Commission.

smoking tobacco in addition to the tax on cigarettes. Iowa imposes a tobacco tax only on cigarettes. Forty of the 42 states taxing cigarettes impose the rate at so many cents per package of cigarettes; two states - New Hampshire and Washington - impose rates based on the selling price of the cigarettes. The present Iowa rate of 4 cents per package of twenty is near the median rate among the states taxing cigarettes on this basis. On September 1, 1954, 21 states employed a rate of less than 4 cents per package, while 20 states imposed a rate of 4 cents per package or higher. The top rate of 8 cents per package of twenty cigarettes is found in Louisiana. North Dakota and Arkansas employ a rate of 6 cents per package. The rate in the State of Washington, 2 cents for each 10 cents of retail price or fraction thereof, amounts to 4 or 5 cents per package on most brands of cigarettes.

In the fiscal year 1956, per capita collections from the Iowa cigarette tax were \$2.64, as compared with an average for all 42 states imposing this form of taxation of \$3.75. The per capita yield of tobacco taxes is higher than in Iowa in 34 of the 42 states levying such taxes. In most of the states in which the per capita yield of this form of taxation is higher than in Iowa the states tax several tobacco products, and/or impose higher rates than are found in Iowa. The highest per capita yield is found in Louisiana, which also has the highest rate on cigarettes and imposes, in addition, a tax on cigars which ranges from \$1.20 to \$40.00 per thousand. Louisiana also imposes a rather heavy tax on smoking tobacco.

Taxes on cigarettes and other tobacco products, although not major sources of revenue in most states are an exceedingly stable source of revenue. The stability of tobacco tax revenues is attributable primarily to two factors: First, and most important, the demand for this category of commodities is an exceptionally stable one being only very little affected by either changes in income or changes in prices; the second factor which tends to make the yield from tobacco taxes stable is the fact that most states, including Iowa, impose the tax at so many cents per physical unit sold, rather than as a percentage of the selling price. Thus, changes in the prices of cigarettes have no direct impact of the yield of the tax. This type of taxation may be contrasted with sales taxation for which changing prices of commodities produce automatic changes in tax yields. Partly as a result of the stability of yield of the tobacco taxes, the receipts from this source of revenue are earmarked in almost half the states employing such taxes. The earmarked receipts are most commonly employed for education, veterans' bonuses and services, local governmental uses in general, and welfare purposes.

Inheritance Taxes. In the fiscal year 1956, the Iowa inheritance tax produced revenue of \$4,759 thousand, equivalent to 2.1 percent of total State tax collections. Inheritance taxation produced a larger percentage of state tax collections in only two of the Northcentral states, Wisconsin (2.8 percent) and Illinois, (3.1 percent). In the United States as a whole, death and gift taxes imposed by state governments produced revenues equal to 2.3 percent of total state tax collections. In general, taxes of this type are a much more important source of revenue in the Eastern states than in the Midwest.

The Iowa inheritance tax produced revenue of \$1.77 per capita of the population in 1956. The average per capita yield of death and gift taxes in the 47 states which levy such taxes was \$1.86. In this comparison, Iowa ranked 17th among the 47 states, and 3rd among the 11 states in the Northcentral area. In terms of per capita death and gift tax revenues, Delaware ranks first with collections, in 1956, of \$15.44 followed by Connecticut, \$4.98, Pennsylvania, \$3.32, Massachusetts, \$3.42, and New York, \$3.33. Thus, inheritance taxation, while much less productive of revenue in Iowa than in some of the Eastern states, is about average or slightly above average for the Northcentral region of the country.

The relative impact of inheritance taxation in Iowa can be indicated by some comparisons of exemptions and rates for various categories of heirs. For a spouse the Iowa Exemption is \$40,000. Only one other state, Kansas has a higher rate of exemption for the spouse of the deceased. The exemption for a child is \$15,000 in Iowa which is exceeded in one other state, Illinois, and equalled by the exemption in Kansas. The exemption for parents is \$10,000 in Iowa, an amount which is equaled or exceeded in 13 other states. Iowa inheritance tax provides for a \$5,000 exemption for lineal heirs other than children and parents. The exemption is this large, or larger, in 22 other states. The exemption for brothers and sisters - \$1,000 - is as high, or higher, in 21 other states.

In Iowa the top rate applicable to inheritances of the spouse and lineal heirs is 8 percent. In 13 other states, the inheritance tax structures reach a higher rate level for this category of heirs. A higher rate is imposed for heirs other than the spouse and lineal heirs in about 18 other states than is imposed in Iowa. However, the maximum rate in Iowa is applicable at a somewhat lower level of inheritance than is typically true in the states imposing this type of tax. Of the 36 states imposing inheritance taxes, the maximum rate is applicable at a lower level in Iowa than in all but 8 other states.

Taxation of Alcoholic Beverages. Iowa, in common with most of the other states which operate liquor store systems, does not impose excise taxes on alcoholic beverages sold through these stores. Therefore, the only alcoholic beverage taxes in Iowa is that imposed on malt beverages. The tax rates per gallon of malt beverage in the 16 states operating liquor store systems are shown below.

Malt Beverage Tax Rates in States Operating Liquor Stores, 1954

State	Cents per Gallon
Alabama	10.7
Idaho	10.0
Iowa	8.0
Maine	16.0
Michigan	4.0
Montana	3.2
New Hampshire	9.7
Ohio	8.1
Oregon	4.2
Pennsylvania	8.0
Utah	12.9

Vermont	15.0
Virginia	10.0
Washington	3.2
West Virginia	17.7
Wyoming	2.0

Facts and Figures on Government Finances, 1954-55, p. 171.

The Iowa rate of \$2.43 per barrel of 31 gallons (8 cents per gallon) is somewhat below the typical rate imposed in most of these states. However, in Iowa, unlike many of the states, sales of beer are subject to an additional sales tax which adds materially to the effective tax rate on alcoholic beverages.

The 8 cent per gallon excise on beer produced 1.4 percent of total tax collections of the State of Iowa in 1956. The profits of the state liquor store system were equal to 3.8 percent of total state tax collections in the fiscal year 1955, and a somewhat smaller fraction of total tax collections in the fiscal year 1956. The net sales and the net income, or profit, from operations are shown in Table 47 for the 16 state liquor store systems. Iowa, with profits of approximately 20 percent of net sales, ranks near the median position among the 16 states.

Insurance Premiums Tax. All 48 states impose taxes on insurance premiums. Although the detailed provisions of these taxes, different from state to state, the yield per capita is remarkably uniform in the various states. For all 48 states as a whole, the average per capita yield of insurance premiums taxes was \$2.45 in 1956, as compared with an average of \$2.15 in Iowa. On a per capita basis insurance premiums taxes were higher in 28 of the 48 states than in Iowa. However, the range of variation is extremely small from the highest per capita state to the lowest per capita state.

The yield of insurance premiums taxes as a percent of total state tax collections in the eleven Northcentral states is shown in Table 39.

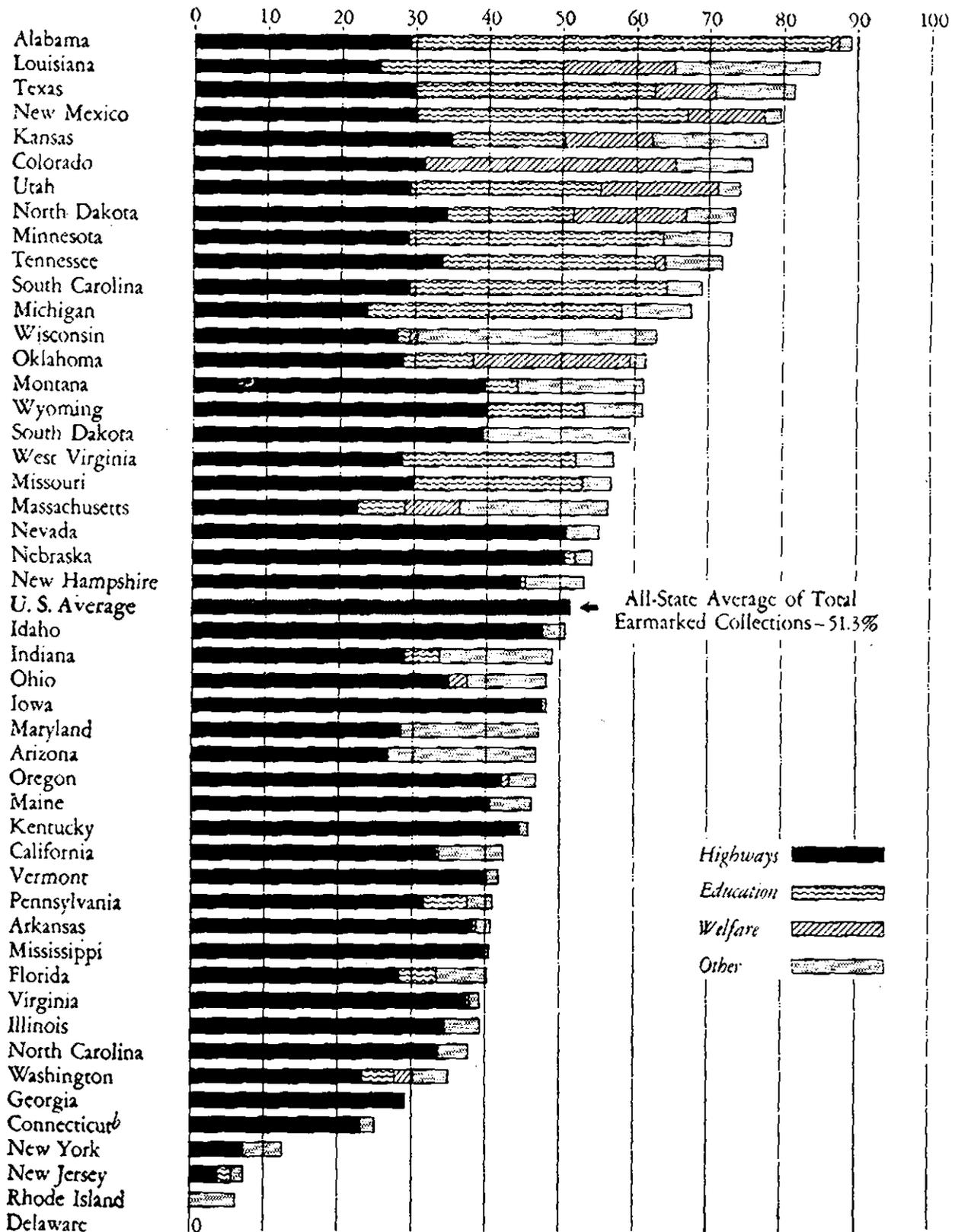
7. EARMARKING OF STATE TAXES

The practice of earmarking, or dedicating, the receipts from certain taxes to specified uses is very widespread among the 48 states. All but two of the states earmark the receipts from highway-user taxes for purposes of construction and maintenance of highways, roads, and streets. Delaware and Rhode Island are the exceptions to this general practice. Thirty-two of the states allocate the highway-user taxes in their entirety to highways, while in fourteen states a part of highway-user tax revenue is dedicated for highway use, with some portion earmarked for other purposes or simply for the general fund of the state government.

Twenty of the thirty-two states imposing general sales or gross receipts taxes earmark some part of these receipts for various purposes; the most common purposes are education and welfare functions. Excise taxes on alcoholic beverages are earmarked in twenty-three of the forty-eight states imposing such taxes. Insurance premiums are earmarked in twenty-two states, and receipts from sales or gross receipts taxes imposed on utilities are earmarked in thirteen of the thirty-six states using such taxes. Individual income taxes are earmarked in fourteen of thirty-one states, while corporation net income taxes are earmarked in ten of thirty-three states. Property taxes imposed by state governments are earmarked in twenty-nine states while severance taxes are dedicated to specific purposes in seven-teen of the twenty-five states employing such taxes. Iowa with only a relatively small fraction of sales and use tax revenues earmarked, stands out as a glaring exception to the general practice of earmarking in the vast majority of the states.

The percentage of state tax collections earmarked by

CHART 11
PERCENTAGE OF STATE TAX COLLECTIONS EARMARKED BY PURPOSE^a
 FISCAL YEAR 1954



(a) For each state, the percentages are based upon those taxes yielding 1% or more of total tax collections.

(b) No statutory or constitutional dedication, but by practice highway-user revenues are allocated for highway purposes from a special fund.

purpose of expenditure, is shown in Chart 11 for each of the 48 states.* In Alabama almost 90 percent of total state tax revenues are earmarked, leaving legislative discretion restricted to a little more than 10 percent of tax revenues. At the opposite extreme, Delaware has no earmarked tax revenues while only very small percentages are earmarked in several states in the Middle Atlantic and New England regions. As will be noted from Chart 11, virtually all of the earmarking in Iowa is for highway purposes. In fact, only 3 other states - Nevada, Nebraska, and Idaho - earmark a larger percentage of total state tax revenues for highway purposes than is done in Iowa. But earmarking for purposes other than highways is virtually nonexistent in Iowa.

The practice of earmarking revenue sources is generally criticized on several grounds. In the first place, and most importantly, when receipts from major taxes are dedicated to specific uses, the legislative body loses a measure of control over the rate of expenditure for the purpose for which the funds are dedicated. This may mean that certain functions are receiving revenues beyond demonstrable need for such funds, while the earmarking has made it impossible for legislative bodies to supply adequate revenues for those purposes for which current needs are most pressing. A second objection rests on the uncertainty of revenues which may be available to a specific function when the source of revenue is an earmarked tax, rather than an appropriation of the legislative body. A third objection arises from the rigidity or lack of flexibility which earmarking introduces into the fiscal system of a state. The needs in various areas of governmental services changes from time to time. Yet, once a source of revenue is earmarked, it is extremely difficult to revoke this earmarking with the result that when the pattern of need shifts from one function to another it may become necessary to levy additional and frequently inferior taxes to meet the needs in the expanding area, while the area receiving earmarked funds may be overextended or overfinanced. Finally, it is notable that when major tax sources are earmarked, increasing pressures for expanded expenditures in other areas may force legislative bodies to overwork remaining, undedicated tax sources.*

SUMMARY

The descriptive material and the statistical data presented in this chapter covering the major sources of tax revenues of the State of Iowa outline the major characteristics of the tax structure. It may be noted from the data presented in this chapter that Iowa does not rank near the top position among the states in terms of the rate structure or the economic impact of any individual tax discussed in this chapter. Iowa owes its relatively high ranking in terms of total per capita taxes and taxes as a percent of personal income to the large number of taxes employed at the state level and the relatively heavy burden of local property taxation, rather than to the fact that any one of the taxes imposed at the state level is levied at unusually high rates, or on a base which makes the yield of the tax unusually large in comparison to the yield of similar taxes in other states.

Iowa, levying a large number of taxes, without depending exclusively upon the yield from any one or two sources of revenue, has one of the more diversified tax

Table 47. Net Sales and Net Income of State Liquor Store system: 1955

State	Net Sales of Goods (,000)	Net Income From Operations	
		Amount* (,000)	Percent of State Taxes
Alabama	38,285	\$ 10,077	26.3
Idaho	11,408	2,978	26.1
IOWA	37,494	7,465	19.9
Maine	21,228	4,674	22.0
Michigan	161,966	33,367	20.6
Montana	17,075	3,185	18.7
New Hampshire	19,243	4,013	20.8
Ohio ^a	179,888	19,231	10.7
Oregon	43,019	11,844	27.5
Pennsylvania ^b	208,420	38,199	18.3
Utah	13,787	3,841	27.9
Vermont ^b	7,112	259	3.6
Virginia	100,066	15,000	15.0
Washington	60,324	14,846	24.6
West Virginia	35,285	6,649	12.4
Wyoming ^b	7,030	594	8.4
Total, 16 States	960,590	\$176,222	18.3

^a Also imposes a tax on wines, but not distilled spirits.

^b Taxes all alcoholic beverages.

Source: U.S. Bureau of the Census, *Compendium of State Government Finance in 1956*, Tables 5 and 33.

systems to be found in the Northcentral area, or in the nation as a whole. In comparison with other states taken as a whole, Iowa depends somewhat more heavily on sales and highway-user taxation than do other states, and depends to about the same degree as other states on individual income taxes. The corporate net income tax is much less important in the Iowa tax system than in the system of the 48 states taken as a whole. Death and gift taxation in Iowa is of roughly average importance in the state's tax system.

One of the more striking features of the Iowa State tax system is the virtual absence of property taxation in the total state tax structure. Although the majority of states have greatly reduced their reliance on property taxation, most of the states make somewhat greater use of the tax than is made in Iowa. One state in the Northcentral area, Nebraska, derives almost one-third of its total state tax revenue from levies on property.

The tax system of Iowa is somewhat unique in one other respect, the comparative absence of earmarking of tax revenues for specific expenditure purposes other than highways. All of the highway-user taxes are earmarked for highway purposes; the limited state levy on property is earmarked for retirement of state debt incurred for payment of veterans' bonuses; and 10 percent of the general sales tax and all of the use tax on new motor vehicles are allocated to highway purposes. But the remainder of state tax collections are channeled directly into funds requiring biennial appropriations as a condition for expenditure. The relative scarcity of earmarked taxes in the Iowa system retains direct legislative control over expenditures much more effectively than is the case when substantial portions of state revenue are placed outside of regular legislative control through a process of dedication of tax revenues to specific functions.

* Chart 11 is reproduced by permission of Tax Foundation, Inc., New York.

* The data and views on earmarked state taxes presented above are taken from a recent study of The Tax Foundation, Inc. *Earmarked State Taxes*, project not No. 38, November, 1955.

CHAPTER V

Public Schools: Expenditures and Revenues

The total cost of public schools in Iowa has been considered briefly in Chapters I and II in connection with the post-war growth in tax revenues in Iowa, and as a factor in the relatively high cost of government in Iowa. More detailed statistics and comparative data for public schools costs in Iowa and the other 47 states are presented in this chapter.

The Office of Education, United States Department of Health, Education, and Welfare issues periodic reports on the operations of the public school systems of the 48 states. The interstate comparisons made in this chapter are based upon the most recent available information, for the school year 1953-54. Except as noted, the data are taken from Circular No. 480, issued by the Office of Education in July, 1956.

I. Comparative School Costs in Iowa.

Comparative data showing current expenditure per pupil in average daily attendance are presented in Table 48, for the 48 states. Current expenditures, as shown in this table, include expenditures for administration at the state, intermediate, and local levels; instruction costs; outlays for operation and maintenance of plant; fixed charges; and the costs of school services, including transportation, health, and food services. Only those costs which are allocable to pupils are employed in computing the averages shown in the table. In most states the major share of the costs of current operations is allocable to students.

Since the end of World War II the average cost per pupil in Iowa has been consistently above the average in the nation as a whole. In the school year 1945-46 Iowa ranked 21st among the 48 states, with per pupil cost 6 percent above the national average. From 1945-46 to the school year 1948-49, per pupil cost in Iowa increased by 42 percent as compared with an increase of almost 46 percent in the nation as a whole. In the latter school year Iowa's rank dropped to 24th. However, from 1948-49 to the school year 1950-51 per pupil cost increased 21 percent in Iowa, while the average for the nation as a whole rose slightly more than 13 percent. Thus, Iowa's rank in 1950-51 was 17th among the 48 states, with expenditures in Iowa at \$248, as compared with a national average of \$224 per pupil in average daily attendance. In the 1950-51 school year per pupil costs in Iowa were almost 11 percent above the national average.

From the school year 1950-51, to the school year 1951-52, per pupil cost increased less rapidly in Iowa than in the nation as a whole with the result that Iowa dropped to a ranking of 18th. In the school year 1951-52 the average cost per pupil in Iowa was 7 percent above the national average.

In the most recent year for which data are available for all states on a comparable basis, the school year 1953-54, average expenditure per pupil in average daily attendance in Iowa was \$274, as compared with a national average of \$265. In this year Iowa's cost per pupil exceeded the national average by only 3.4 percent—the smallest margin since the end of World War II. In the school year 1953-54 Iowa again ranked 21st in the nation as a whole.

Since the end of World War II the spread between the high per capita expenditure states and the low-ranking per pupil expenditure states has narrowed. In the school year 1945-46 Montana, with per pupil expenditures of \$215, spent almost five times as much per pupil as Mis-

issippi. In 1953-54 the top ranking state, New York, spent \$362 as compared with \$123 for the State of Mississippi, approximately three times as much in the former as in the latter state. In general, these two comparisons illustrate the basic trends in relative per capita expenditures since 1945-46. The rate of increase has been significantly greater in the states which ranked near the bottom in the earlier period, while the states with high per capita expenditures in 1945-46 have shown somewhat more modest rates of increase in expenditures per pupil since that time.

Average expenditure per pupil in average daily attendance in Iowa increased by approximately 90 percent from 1945-46 to the school year 1953-54. Iowa ranked 26th among the states in the rate of increase over this period. It will be noted in the last column of Table 48 that the states which rank highest in terms of the rate of increase are the Southern states, while the New England states have shown more modest rates of increase. Over the period compared, the rate of increase has been 5 percent less in Iowa than in the nation as a whole.

State and Local "Effort" for Public School Purposes. Although there is no completely satisfactory measure of the ability of the various states to support public schools, Personal Income received by residents of the several states is widely employed for this purpose.

The average amount of Personal Income per pupil enrolled in public schools in the school year 1953-54 is shown in Table 49 for each of the 48 states. In the state having the greatest "ability" to support education, Delaware, with \$15,368 of Personal Income per pupil enrolled, the economic capacity was four and one-third times as great as in the poorest state, Mississippi, with only \$3,584 per pupil enrolled.

The figures showing Personal Income per pupil vary for three reasons: First, and most important, the differences in Personal Income per pupil represent differences in the level of per capita income of the total population. Second, the differences in income per pupil enrolled reflect the fact that the various states have different ratios of children to total population. In terms of the ratio of children of school age (5-17) to total population Iowa is slightly above the nation's average. Third, there is a significant difference in the percentage of children of school age attending public schools in the various states. In some states a much larger percentage of children of school age attend private schools of one type or another than is the case in other states. In general, the states with lower Personal Income available per pupil are states in which there is a relatively high percentage of the school age population attending public schools.

Current state and local revenues for the support of public schools are also shown in Table 49, expressed as percentages of Personal Income. This is perhaps the most meaningful measure of the degree of effort which various states make in the financial support of public schools. In this comparison it will be noted that Iowa ranks 6th from the top in terms of the effort made to provide financial support for public education. The ratio of public school costs to Personal Income in Iowa is over 35 percent above the national average, and higher in only five other states. In contrast, Iowa ranks 29th in terms of the Personal Income available per pupil enrolled in the school year 1953-54.

Contrary to rather widespread belief, it is not the Southern states which are currently making the greatest

Table 48. Average Current Expenditure Per Pupil in Average Daily Attendance, Public Elementary and Secondary Schools

Rank	School year 1945-46		School year 1953-54		Percentage increase, 1945-46 to 1953-54		Rank
	State	Amount	State	Amount	State	Increase	
1	Mont.	\$215	N. Y.	\$362	Ga.	172	1
2	N. J.	212	Oreg.	337	Miss.	167	2
3	N. Y.	210	N. J.	333	La.	145	3
4	Wash.	183	Wyo.	330	S. C.	138	4
5	Mass.	180	Mont.	328	Fla.	122	5
6	Ill.	175	Del.	825	Ala.	119	6
7	Conn.	174	Ill.	319	N. C.	118	7
8	Wyo.	171	Calif.	315	Tenn.	118	8
9	Calif.	169	Wash.	305	Ark.	114	9
10	Nev.	162	Penna.	299	Del.	114	10
11	R. I.	161	Mass.	298	Oreg.	113	11
12	Minn.	158	Conn.	297	Md.	113	12
13	Oreg.	158	Nev.	254	Tex.	111	13
14	S. D.	154	Wisc.	293	Va.	110	14
15	Del.	152	Minn.	293	Penn.	106	15
16	Wisc.	148	Mich.	283	Colo.	106	16
17	Ohio	147	Ariz.	282	Ariz.	106	17
18	Mich.	147	Colo.	280	Idaho	103	18
19	Ind.	145	Ind.	280	Okla.	100	19
20	Penna.	145	S. D.	275	Vt.	99	20
21	IOWA	144	IOWA	274	Wisc.	98	21
22	Nebr.	142	Md.	268	N. M.	96	22
23	Kans.	141	R. I.	268	Ind.	93	23
24	N. D.	138	N. M.	265	Wyo.	93	24
25	Ariz.	137	Kans.	264	Mich.	93	25
26	Mo.	137	Nebr.	262	IOWA	90	26
27	Colo.	136	N. D.	262	N. D.	90	27
28	N. H.	135	N. H.	256	N. H.	90	28
29	N. M.	135	Ohio	254	Kans.	87	29
30	Utah	129	Tex.	249	Calif.	86	30
31	Md.	126	La.	247	Nebr.	85	31
32	Vt.	123	Vt.	245	W. Va.	84	32
33	Tex.	118	Idaho	238	Utah	84	33
34	Idaho	117	Mo.	233	Maine	83	34
35	Okla.	112	Fla.	229	Ill.	82	35
36	Maine	109	Okla.	224	Minn.	82	36
37	Fla.	103	Utah	208	Nev.	82	37
38	W. Va.	101	Maine	199	S. D.	79	38
39	La.	101	Va.	193	Ky.	78	39
40	Va.	92	W. Va.	186	Ohio	73	40
41	Ky.	86	Ga.	177	N. Y.	72	41
42	N. C.	81	N. C.	177	Conn.	71	42
43	Tenn.	76	S. C.	176	Mo.	70	43
44	S. C.	74	Tenn.	166	Wash.	67	44
45	Ala.	69	Ky.	153	R. I.	67	45
46	Ark.	65	Ala.	151	Mass.	66	46
47	Ga.	65	Ark.	139	N. J.	57	47
48	Miss.	46	Miss.	123	Mont.	53	48
	U.S.	136	U.S.	265	U.S.	95	

Source: U.S. Department of Health, Education and Welfare, Office of Education, *Summary of 1953-54 Statistics of State School Systems*, Circular No. 480, July, 1956.

effort for state and local support of public schools. In fact in the top ten states, as measured by effort made, only one state, Louisiana, is in the South. The remainder are in the Rocky Mountain Region, the Southwest, and the Northcentral part of the country. However, most Southern states do make somewhat greater than national-average effort as measured by this index.

The fact that expenditure per pupil in average daily attendance in Iowa is only slightly above the national average, while the percent of Personal Income taken for school revenues is very high in Iowa, as compared with the national average, is explainable largely in terms of

two factors: First, income available per child as well as income per capita of the entire population in Iowa is well below the national average; Secondly, the number of children enrolled in public schools in Iowa, as a percent of the total population, is above the national average of public school enrollment as a percent of the population. The ratio of public school enrollment to total population is higher in only 19 other states than in Iowa. Most of these 19 states are located in the South.

Composition of Public School Expenditures in Iowa. Expenditures per pupil in average daily attendance in Iowa and neighboring states are shown in Table 50, by

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Table 49. Personal Income per Pupil Enrolled in Public Schools, and State and Local Revenues for Public Schools as Percent of Personal Income:
(School year 1953-54 and Personal Income for Calendar 1953)

Rank	State	Personal Income Per Pupil	Rank	State	School Revenues as Percent of Pers. Income
1	Del.	\$15,368	1	Utah	4.30
2	Conn.	14,662	2	S. D.	3.87
3	N. Y.	14,444	3	N. M.	3.74
4	Ill.	14,431	4	Ariz.	3.68
5	N. J.	14,372	5	N. D.	3.65
6	R. I.	13,919	6	IOWA	3.59
7	Mass.	13,127	7	La.	3.57
8	Calif.	12,450	8	Oreg.	3.55
9	Penn.	11,857	9	Okla.	3.47
10	Ohio	11,748	10	Idaho	3.45
11	Md.	11,748	11	N. C.	3.37
12	Mich.	11,697	12	Wash.	3.34
13	Wisc.	11,217	13.5	Calif.	3.24
14	Nev.	10,500	13.5	Colo.	3.24
15	N. H.	10,386	15	Minn.	3.20
16	Wash.	10,215	16	S. C.	3.18
17	Mo.	9,943	17	W. Va.	3.16
18	Ind.	9,867	18	Wyo.	3.15
19	Oreg.	9,374	19	Mont.	3.13
20	Mont.	9,263	20	Vt.	3.04
21	Minn.	9,147	21	Kans.	3.00
22	Colo.	8,623	22	Ark.	2.98
23	Vt.	8,469	23	Del.	2.97
24	Nebr.	8,424	24	Nebr.	2.91
25	Tex.	8,113	25	Tex.	2.88
26	Wyo.	8,044	26	Ga.	2.84
27	Fla.	8,027	27	Fla.	2.82
28	Kans.	7,988	28	Ala.	2.73
29	IOWA	7,859	29	Miss.	2.66
30	Maine	7,680	30	Tenn.	2.63
31	Va.	7,511	31	Wisc.	2.61
32	Ariz.	7,278	32	Mich.	2.59
33	S. D.	6,883	33.5	N. Y.	2.58
34	La.	6,741	33.5	Va.	2.58
35	Okla.	6,545	35	Ind.	2.53
36	Idaho	6,493	36	Nev.	2.50
37	N. D.	6,268	37	Maine	2.42
38	Utah	6,246	38	Md.	2.33
39	Ky.	6,155	39.5	N. H.	2.30
40	N. M.	6,098	39.5	Ky.	2.30
41	Tenn.	5,656	41	Penn.	2.26
42	W. Va.	5,635	42	Mo.	2.20
43	Ga.	5,520	43	Ohio	2.17
44	N. C.	5,046	44.5	N. J.	2.15
45	Ala.	4,750	44.5	Ill.	2.15
46	S. C.	4,718	46	Mass.	2.03
47	Ark.	4,359	47	Conn.	1.79
48	Miss.	3,584	48	R. I.	1.65
	U. S.	9,819		U. S.	2.65

Source: U. S. Office of Education, and U. S. Department of Commerce.

major categories of outlay. The several categories of dollar expenditure per pupil are also shown as percentages of total outlay to facilitate comparison among states. The composition of expenditures in Iowa is not significantly different from the pattern in other states in the Northcentral area, or from the average for the 48 states. Iowa is somewhat high on administrative costs, but below nine of the ten other states in the Northcentral region and below the national average on instruction costs per pupil in average daily attendance. Iowa also ranks high in terms of per pupil costs for fixed expenditures and other services such as transportation, health,

and food services. The fact that the instructional cost per pupil in average daily attendance is lower in Iowa than in most other states in the Northcentral region, and also lower than the average in all states, reflects the below average salary levels of the instructional staff in Iowa.

Average Salary of Instructional Staff in Public Schools. Average annual salaries of supervisors, principals, teachers and other instructional staff are shown in Table 51 for all states. In the school year 1945-46 the average salary was \$1,676 in Iowa, as compared with a national average of \$1,995. In this year the average Iowa salary

was 16 percent below the national level; Iowa ranked 28th in the nation in terms of average salaries. In the school year 1953-54 the average salary had risen to \$2,897 in Iowa, but the national average had risen even more rapidly to \$3,825. In 1953-54 Iowa ranked 37th in the nation as a whole; Iowa salaries were 24.3 percent below the national average.

From the school year 1945-46 to the school year 1953-54 Iowa salaries increased by approximately 73 percent, as compared with an average increase of approximately 92 percent in the nation as a whole. As in the case of changes in cost per pupil in average daily attendance, the most rapid rates of increase in instructional salaries have occurred in the Southern states, while the lowest rates have generally occurred in the states such as California and New York which ranked at the top in terms of average salaries in the year 1945-46. These states have not lost their top ranking but salaries have not increased as rapidly percentage-wise as in the states near the bottom of the scale. In terms of the rate of increase from 1945-46 to 1953-54 Iowa ranked 39th among the 48 states.

Since the school year 1953-54 the average annual salary of instructional staff in the Iowa public school system has been improved, according to estimates of the National Education Association. It is emphasized that these estimates of the Association are not strictly comparable with those presented for earlier years from the United States Office of Education, but they are indicative of recent trends. In the school year 1954-55 the average salary in Iowa was \$3,260 as compared with a nationwide average of \$3,932. In this year Iowa ranked 34th with salaries approximately 17 percent below the national average. In the school year 1955-56 Iowa salaries are estimated to have been \$3,446 as compared with a national average of \$4,100. In 1955-56 Iowa ranked 33rd among the 48 states with the Iowa average 16 percent below the national average.

The foregoing comparisons of average salaries of public school instructional staffs in Iowa and the nation, and the significance of the differentials noted should be evaluated in terms of several factors.

In the first place, the data presented are indicative of money income, rather than real income, or the purchasing power of income. To some extent differences in average money income may be offset by differences in living costs. This is particularly likely when salaries in states in which the instructional staff is concentrated in large cities are compared with average salaries in states in which a larger percentage of the staff is located in small towns and rural areas.

Secondly, the average salary in any state is affected by the composition and distribution of the instructional staff, as well as the salary rates for particular positions. For example, suppose that in one state the average salary in school districts operating high schools is \$3,900 per year, the average salary in districts not operating high schools is \$2,400 per year, and that two-thirds of the total staff is in high school districts. The statewide average would be \$3,400 per year. In another state, with identical averages for the two types of districts, but with three-fourths of the instructional staff in high school districts, and only one-fourth in the non-high school districts, the statewide average would be \$3,525—or 125 higher than in the first case. Yet, for the same type of position, in the same type of district, salaries might be identical.

Finally, the average annual instructional staff salaries must be evaluated in terms of the economic status of other occupational groups in the state, and of the state's general income position relative to other states and the nation as a whole.

Using the National Education Association estimates

Table 50. Composition of Public School Expenditures, per Pupil in Average Daily Attendance, Eleven Northcentral States, School Year 1953-54.

State	Total Expenditure	Administration ^a		Instruction		Maintenance and Operation of Plant		Fixed and other ^b	
		Amount of Total ^c	Percent	Amount of Total ^c	Percent	Amt.	Percent of Total	Amount of Total ^c	Percent
Illinois	\$319	\$15	4.7	\$208	65.4	\$52	16.2	\$44	13.7
Wisconsin	293	13	4.6	195	66.4	47	16.0	38	13.0
Minnesota	287	16	5.6	187	65.2	46	16.0	38	13.1
Michigan	283	14	4.8	195	68.8	45	16.0	29	10.5
Indiana	230	5	1.9	178	63.8	53	19.1	43	15.3
South Dakota	275	16	6.0	188	68.4	41	14.8	30	10.9
IOWA	274	17	6.2	172	62.9	43	15.7	42	15.2
Kansas	264	9	3.5	184	69.7	37	14.0	34	12.9
Nebraska	262	16	6.0	181	68.9	41	15.5	24	9.6
North Dakota	262	10	4.0	184	70.2	41	15.5	27	10.4
Missouri	233	11	4.5	156	67.1	33	14.3	33	14.1
U.S.	265	12	4.6	178	67.0	35	13.4	40	15.0

^a. Includes administrative costs at all levels: state, intermediate and local.

^b. Includes expenditures for transportation, health, and food services.

^c. Percentages computed from unrounded data.

Source: U. S. Office of Education.

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Table 51. Average Annual Salary of Instructional Staff of Public Schools, by States, 1945-46, and 1953-54.

Rank	School year, 1945-46		School year, 1953-54		Percent increase 1945-46 to 1953-54		Percent
	State	Amount	State	Amount	State		
1	Calif.	\$2,987	Calif.	\$4,787	Ga.		165
2	N. Y.	2,946	N. Y.	4,658	S. C.		144
3	N. J.	2,561	Ariz.	4,401	Texas		137
4	Wash.	2,541	Ill.	4,353	La.		128
5	Mass.	2,512	Wash.	4,334	Tenn.		123
6	Conn.	2,393	Conn.	4,274	Fla.		120
7	Mich.	2,337	N. J.	4,271	Ala.		118
8	Ill.	2,280	Oreg.	4,163	Miss.		118
9	Md.	2,262	Md.	4,148	Ark.		114
10	Del.	2,202	N. M.	4,127	N. H.		113
11	Ariz.	2,167	Ind.	4,086	Wyo.		112
12	Ohio	2,165	Penn.	4,074	N. M.		109
13	Oreg.	2,164	Del.	4,042	N. C.		109
14	Ind.	2,143	Ohio	4,012	Ariz.		103
15	Penn.	2,124	Mass.	4,006	Idaho		100
16	R. I.	2,098	Mich.	3,999	Colo.		100
17	Utah	2,016	Texas	3,886	Minn.		96
18	Wisc.	2,002	R. I.	3,881	Va.		96
19	Nev.	1,992	Wisc.	3,840	Kans.		96
20	N. M.	1,970	Nev.	3,786	Ky.		95
21	Minn.	1,878	Fla.	3,785	Nebr.		93
22	Mont.	1,838	Utah	3,756	Ore.		92
23	Colo.	1,822	Minn.	3,687	Mont.		92
24	Okla.	1,796	Colo.	3,640	Wisc.		92
25	Mo.	1,793	Mont.	3,530	Penn.		92
26	Fla.	1,719	Wyo.	3,512	Ill.		91
27	Vt.	1,692	La.	3,504	Ind.		91
28	IOWA	1,676	N. C.	3,354	Nev.		90
29	W. Va.	1,676	Idaho	3,350	Utah		86
30	Idaho	1,672	Okla.	3,271	Ohio		85
31	Kans.	1,666	Kans.	3,258	R. I.		85
32	Wyo.	1,654	N. H.	3,252	Del.		84
33	Tex.	1,640	Mo.	3,188	Md.		83
34	N. C.	1,602	Va.	3,082	W. Va.		82
35	Va.	1,574	W. Va.	3,058	Okla.		82
36	La.	1,537	Nebr.	2,922	N. D.		81
37	N. H.	1,530	IOWA	2,897	Conn.		79
38	S. D.	1,530	Tenn.	2,875	Mo.		78
39	Nebr.	1,514	Ga.	2,862	IOWA		73
40	N. D.	1,469	Vt.	2,820	S. D.		72
41	Maine	1,409	S. C.	2,815	Maine		72
42	Ky.	1,295	Ala.	2,783	Mich.		71
43	Tenn.	1,287	N. D.	2,659	Wash.		71
44	Ala.	1,276	S. D.	2,638	N. J.		67
45	S. C.	1,152	Ky.	2,526	Vt.		67
46	Ga.	1,081	Maine	2,427	Calif.		60
47	Ark.	1,068	Ark.	2,286	Mass.		59
48	Miss.	856	Miss.	1,864	N. Y.		58
	U. S.	1,995	U. S.	3,825	U. S.		92

Source: U.S. Office of Education.

for the school year 1955-56, the average salary in Iowa (\$3,446) was 16 percent below the national average (\$4,100). In the calendar year 1955, per capita Personal Income in Iowa was approximately 15 percent below the national average. Thus, the difference between the Iowa and the national averages for salaries of instructional staff are roughly similar to the per capita Personal Income differential for the entire population.

The average weekly gross earnings in manufacturing industries in Iowa and in the nation as a whole have differed less than per capita Personal Income, or average instructional staff salaries in recent years, as shown below:

	Average Weekly Gross Earnings in Manufacturing Industries	
	Iowa	U. S.
1950	\$58.16	\$59.33
1951	64.81	64.71
1952	67.08	67.97
1953	69.08	71.69
1954	71.01	71.86
1955	75.71	76.52

Source: Bureau of Labor Statistics.

The following tabulation of median incomes of workers, by type of industry, also throws some light on the

income status of educational workers, relative to other categories of workers in Iowa:

1949 Median Income of Experienced Labor Force,
by Industry and Sex: Iowa

Industry	Male	Female
Agriculture	\$2,196	\$ 769
Mining	2,274	—
Construction	2,556	1,291
Manufacturing	3,052	1,731
Transportation, communication, utilities..	3,126	1,718
Wholesale and retail trade	2,789	1,191
Finance, insurance and real estate.....	3,523	1,738
Business and repair services.....	2,642	1,544
Personal services	2,213	692
Entertainment and recreation services.....	2,107	903
Professional and related services	2,959	1,643
Medical and Health	3,353	1,392
Educational services, government	2,954	1,938
Educational services, private	2,598	966
Public administration:		
Federal	3,220	1,873
State and Local	2,731	1,897

Source: U.S. Bureau of the Census, 1950 Census of Population, Vol. II, Characteristics of the Population, Part 15, Iowa, Table 86.

It should be noted that the data presented above are median rather than average incomes. Moreover, for the "Educational services, government" category the median is for all workers, rather than instructional staff. While the data shown in this tabulation probably understate income in all occupations, they do provide a rough measure of the relative income position of workers in various industrial classifications.

Degree of Teacher Utilization. Instructional costs per pupil in average daily attendance as well as total costs per pupil are significantly affected by the average salary of the instructional staff and the average number of pupils per staff member. Data presented above indicate that Iowa salaries are substantially below the national average. This factor, alone, should make instructional costs and total costs in Iowa substantially lower than national average levels. On the other hand, the number of pupils in average daily attendance per member of the instructional staff is extremely low in Iowa as compared with the national average ratio, or the ratio in most other states. In the school year 1953-54 the average number of pupils in daily attendance per member of the instructional staff was 18.0 in Iowa as compared with a national average of 23.3. The Iowa ratio was 23 percent below the national average, with Iowa ranking 45th among the 48 states. The pupil teacher ratio was lower in only three other states: South Dakota, North Dakota, and Nebraska. Two other states—Montana and Wyoming—had pupil teacher ratios approximately the same as the Iowa ratio. While the low level of salaries in Iowa makes for low per pupil cost, this is more than offset by the lower than average ratio of pupils to teachers.

The effect of the below average level of salaries on instructional costs is illustrated in the computations shown on Table 52. In the first column of this table, actual instructional cost per pupil in average daily attendance is shown for the year 1953-54. In the second column instructional salaries in the various states are shown as a percent of the U. S. average. In the third column instructional costs are shown as they would appear if: a) each state maintained its present ratio of pupils to teachers, and b) if each state paid the national average instructional salary per teacher. Within the Northcentral group of states Iowa had next to the lowest actual instructional cost per pupil in 1953-54. If the teach-

ing staff had been utilized to the same degree, but had been paid salaries equivalent to the national average Iowa would have had the 4th highest instructional cost per pupil in 1953-54. In this computation it is assumed that instructional cost would change in proportion to the change in average salary. The purpose of this computation is simply to indicate the degree to which lower than average salary compensates for the low ratio of pupils to teachers in the Iowa public school system. The figures for the other states shown in Table 52 may be interpreted in a similar fashion. It will be noted that South Dakota, North Dakota, and Nebraska, which rank below Iowa in terms of the ratio of pupils to teachers, rank above Iowa in the "standard" instructional cost which has been adjusted to eliminate differences in salaries.

Table 52. Effects of Salary Level and Teacher Utilization on Instruction Costs.

State	Instr. Cost per pupil in ADA, 1953-54	Instr. Salaries as percent of U.S. Av., 1953	"Standard" Instructional Cost Per Pupil in ADA	Rank
South Dakota.....	\$188	69.0	\$273	1
North Dakota.....	184	69.5	265	2
Nebraska.....	181	76.4	237	3
IOWA.....	172	75.7	228	4
Kansas.....	184	85.2	216	5
Minnesota.....	187	96.4	194	6
Wisconsin.....	195	100.4	194	7
Missouri.....	156	83.3	187	8
Michigan.....	195	104.5	186	9
Illinois.....	208	113.8	183	10
Indiana.....	178	106.8	167	11
U. S.....	178	100.0	178	

In the school year 1953-54 the instructional staff of the Iowa public school system totaled 25,763 persons, at an average annual salary of \$2,897. Thus, the total indicated expenditure for instructional staff was approximately \$74.6 million. If the same number of persons had been employed but had been paid the national average rate for instructional staff (\$3,825) the total instructional staff expenditure would have been \$98.5 million, or almost \$24 million greater than it was. If the ratio of pupils in average daily attendance to instructional staff could have been raised to the national average of 23.3, the total staff could have been reduced from 25,763 to about 19,880, a reduction of 5,883 staff members. At the prevailing average salary in Iowa this would have reduced instructional staff expenditures from \$74.6 million to \$57.6 million, a reduction of about \$17 million. It is of interest to note that with an instructional staff of 19,880, but average instructional salary of \$3,825 per staff member—the national average for 1953-54—the total expenditure for instructional staff in Iowa would have been about \$76 million or less than \$2 million above the amount actually spent.

The computations presented in the paragraph above are for illustrative purposes only. It is more difficult to attain a high ratio of pupils per teacher in sparsely populated rural areas than more heavily populated urban centers.

2. Sources of Public School Revenues.

The sources of current revenues for public schools in the eleven Northcentral states and in the nation as a whole are shown in Table 53. In this table the states are ranked according to the percent of total current rev-

venues supplied from state sources. In the Northcentral area, Michigan ranks first with revenue from the state level supplying slightly more than 50 percent of total current revenues. Nebraska, with state revenue sources providing only 6 percent of total current revenues not only ranks lowest in the Northcentral area but second lowest in the nation as a whole. Only two states in the Northcentral area exceed the national average rate of revenue derived from state sources; Michigan and Minnesota. In general, Federal revenues provide a somewhat smaller percent of total current revenues in the Northcentral states than in the nation as a whole, while local and intermediate levels of government provide substantially higher than national average shares of current revenues in the Northcentral area.

In its computations of current revenues derived from state sources, the U. S. Office of Education does not consider the Agricultural Land Tax Credit as a state aid for education. In the 1955-56 school year the indicated current revenues for public schools in Iowa, as based on property levies, State aid, and estimated Federal aid, are approximately \$168 million. If the same classification as that used by the United States Office of Education is employed, that is, if neither the Agricultural Land Tax Credit nor any part of the Homestead Tax Credit is considered as a form of State aid to schools, the estimates noted above indicate that approximately 85 percent of all current school revenues were derived from local sources, with 13.3 percent coming from State sources and the balance from Federal sources. However, if Agricultural Land Tax Credit be included as a form of State aid to local schools the percentages are changed to 73.3 percent from local sources, 19.6 percent from State sources, with the remainder from Federal sources. Thus, even if the Agricultural Land Tax Credit be included as a form of State revenue for public schools the ratio of State to total sources in Iowa would be only a little more than one-half the average ratio for all states in the nation as a whole.

Although the Homestead Tax Credit is not specifically related to local levies for educational purposes—as is the Agricultural Land Tax Credit—both types of credits do provide State funds for the relief of local property tax loads. As approximately 53 percent of total property tax levies are for school purposes, the current rate of Home-

stead Tax Credit payments of \$24.5 million provides about \$13 million of State funds for school operations.

If this amount, \$13 million, be included with Agricultural Land Credit payments, and the "school aids" proper, the share of the costs of public schools paid from State funds is raised to approximately 27 percent, on the basis of estimated total revenues of \$168 million for the school year 1955-56.

Certain pertinent statistical comparisons for public schools in Iowa and the United States are presented in summary form in Table 54. In brief, the characteristics of public school finance and operation in Iowa may be summarized as follows:

1. In terms of effort, as measured by public school revenue as a percent of Personal Income, Iowa ranks 8th among the 48 states with an effort of 35.5 percent above the national average level for all 48 states.
2. Expenditure per pupil in average daily attendance is moderately higher in Iowa than in the nation as a whole, but the rate of increase from 1945-46 to 1953-54 has been lower in Iowa than in the nation as a whole. In 1953-54 Iowa ranked 21st among the 48 states on the basis of average cost per pupil.
3. The slightly higher than national average level of cost per pupil in Iowa results from the effects of two factors: a) the number of pupils in average daily attendance per member of the instructional staff is only 77.3 percent of the national average in Iowa to give the State a rank of 45th among all states. This factor, in itself, makes for high per pupil costs; b) average salary of the instructional staff in the Iowa public school system was approximately 24 percent below the national average for the school year 1953-54 to give the state a rank of 37th in the nation.
4. In some measure, the high ratio of public school costs to the income of the people of the State of Iowa reflects the fact that public school enrollment as a percent of population is higher in Iowa than it is for the nation as a whole.
5. The amount of Personal Income per child enrolled in the school year 1953-54 was only \$7,859 in Iowa—20 percent below the average for all states.

3. Organization of Public Schools in Iowa.

The number of school districts, schools, instructional staff, and enrollment in the Northcentral states and in the United States as a whole are shown in Table 55. In

Table 53. Sources of Current Revenues^a for Public Schools, Eleven Northcentral States: School year 1953-54.

State	Federal		State		Local and intermediate ^b		All sources	
	Amount (,000)	Percent	Amount (,000)	Percent	Amount (,000)	Percent	Amount (,000)	Percent
Michigan	\$14,573	3.7	\$ 197,787	50.6	\$ 178,174	45.6	\$ 390,534	100.0
Minnesota	6,409	3.8	66,925	39.8	94,684	56.4	168,019	100.0
Indiana	5,884	2.8	67,811	32.6	134,546	64.6	208,241	100.0
Missouri	8,248	5.1	49,908	30.7	104,233	64.2	162,389	100.0
North Dakota	879	3.0	8,055	27.7	20,111	69.2	29,045	100.0
Kansas	6,098	5.9	23,986	23.2	73,464	70.9	103,548	100.0
Illinois	8,470	2.0	74,933	17.4	347,431	80.6	430,834	100.0
Wisconsin	4,313	2.6	23,826	15.4	137,386	82.0	167,524	100.0
IOWA	3,533	2.3	18,613	12.3	129,122	85.4	151,268	100.0
South Dakota	1,475	4.1	3,754	10.6	30,335	85.3	35,564	100.0
Nebraska	2,152	3.4	3,949	6.2	57,331	90.4	63,431	100.0
U.S.	\$335,237	4.5	\$2,944,103	37.4	\$4,567,512	58.1	\$7,866,852	100.0

^a. Current revenues include receipts from appropriations, taxes, permanent funds, and school land leases; exclude receipts from borrowing, bond sales, and sale of property.

^b. Includes minor receipts from patrons, and gifts.

Source: U. S. Office of Education, Circular No. 480, July, 1956.

Table 54. Selected Statistical Comparisons for Public Schools: Iowa and the United States

	United States	Iowa		Rank in 48 States
		Measure	Percent of U.S.	
Public school enrollment as percent of population, 1953-54	18.21%	19.64%	107.8%	20th
Personal income per child enrolled, 1953-54	\$9,819	\$7,859	80.0	29th
State and local revenue for schools, as percent of Personal Income	2.65%	3.59%	135.5	6th
Average annual salary of instructional staff:				
School year, 1945-46	\$1,995	\$1,676	84.0	28th
School year, 1953-54	\$3,825	\$2,897	75.7	37th
Percent increase, 1945-46 to 1953-54	91.7%	72.9%	79.4	39th
Current expenditure per pupil in average daily attendance:				
School year, 1945-46	\$136	\$144	105.9	21st
School year, 1953-54	\$265	\$274	103.5	21st
Percent increase, 1945-46 to 1953-54	94.9%	90.3%	95.2	26th
Pupils in average daily attendance, per member of instructional staff, 1953-54	23.3	18.0	77.3	45th

Sources: U.S. Office of Education, and U.S. Department of Commerce.

the eleven Northcentral states are to be found over 65 percent of all the school districts in the United States. In five of these states—Iowa, Nebraska, South Dakota, North Dakota, and Wisconsin—are located 33 percent of all the school districts in the nation. In contrast, these same five states account for only 5.5 percent of the nation's total public school enrollment. In the school year 1953-54 only three states—Nebraska, Wisconsin, and Minnesota—had a larger number of school districts than Iowa. In terms of the number of schools in operation, Iowa ranked 5th in the Northcentral area in elementary schools and 1st in secondary schools. In 1953-54 there were only eight other states in the nation as a whole which had a larger number of high schools than were to be found in the State of Iowa. The State of Illinois, for example, with total enrollment of more than two and one-half times enrollment in Iowa, operated only two-thirds as many high schools as were operated in the State of Iowa.

The Northcentral states also contain more than a proportionate number of the remaining one-teacher schools in the nation. In Table 55 the states are ranked in the order of the percent of elementary schools operated as one-teacher schools. The range in the area is from almost 93 percent in Nebraska to about 7 percent in Indiana. In the region as a whole are to be found approximately 64 percent of all one-teacher schools in the entire nation. In the nation as a whole the number of one-teacher schools is equivalent to 38.6 percent of the total number of elementary schools as contrasted with 61.6 percent in the eleven-state region as a whole.

In contrast to the major share of school districts and number of schools to be found in the Northcentral states, the area accounts for only 23 percent of total public school enrollment and 25.2 percent of the total instructional staff in the nation's public school system. In the eleven-state area only 3 states—Illinois, Michigan, and Indiana—employ larger instructional staffs than is employed in Iowa. Wisconsin, Minnesota, and Missouri—all

Table 55. Number of School Districts, Schools, and Instructional Staff for Public Schools: Eleven Northcentral States, 1953-54

State	School Districts	Number of Schools		One-teacher schools		Instructional Staff	Enrollment (,000)
		Elementary	Secondary	Number	Percent of all Elem. Schools		
Nebraska	6,007	4,082	479	3,789	92.8	12,780	250
South Dakota	3,383	3,023	271	2,775	91.8	7,651	128
North Dakota	2,096	2,681	378	2,447	91.3	7,166	123
IOWA	4,417	5,058	905	3,594	71.1	25,763	523
Wisconsin	4,895	5,237	559	3,699	70.6	23,191	557
Kansas	3,685	3,046	648	1,934	63.5	18,854	407
Minnesota	4,752	5,508	572	2,831	51.4	22,902	552
Michigan	4,345	5,333	703 ^a	2,538	47.6	49,380	1,241
Missouri	3,928	6,000 ^b	702 ^b	2,694	44.9	25,598	704
Illinois	2,480	2,189	616	772	35.3	54,122	1,363
Indiana	1,090	2,036	797	150	7.4	28,855	812
Northcentral states	41,078	44,191	6,630	27,223	61.6	276,262	6,661
United States	62,989	110,875	25,637	42,825	38.6	1,098,320	28,836
Northcentral states as Percent of United States	65.2%	39.9%	25.9%	63.6	—	25.2	23.1

^a. Data for school year 1951-52.^b. Estimated.

Source: U.S. Office of Education, Circular No. 480, July, 1956.

states in which public enrollment exceeds that in Iowa—employ smaller instructional staffs than Iowa.

The trends in the total number of districts, the number of high school districts, and operating and nonoperating rural districts are shown in Chart 12 for Iowa. In the school year 1945-46 the State of Iowa was organized into 4,795 school districts. The total number of districts declined to 3,949 in the school year 1955-56, and to 3,679 as of July 1, 1956. During the school year 1955-56 the number of high school districts in operation was 65 less than ten years earlier. The decrease in the number of rural districts was 781. As shown in Chart 12, not all of the rural districts actually operate schools. The number of nonoperating districts reached a peak of almost 1,700 in the school year 1953-54. The decline in the number of nonoperating districts since that time reflects the reduction in the number of districts through reorganizations rather than the opening up of operating units with-

in districts which formerly did not operate schools. The composition of school districts in Iowa, as of July 1, 1956, is shown below.

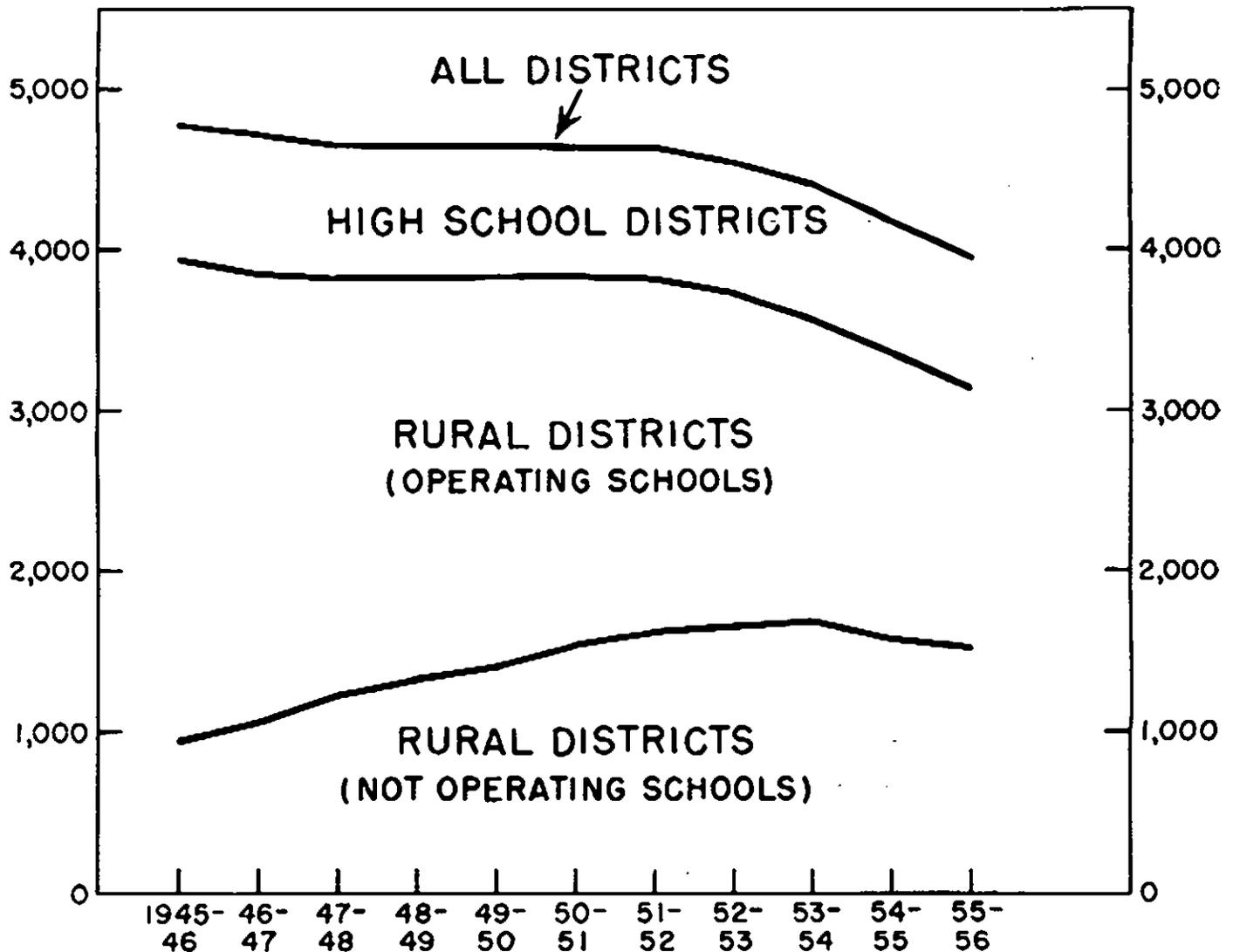
School Districts in Iowa
July 1, 1956

Type of District	Number
Community	188
Consolidated*	355
City, town, and village ^b	427
Township	698
Rural	2,011
Total	3,679

*. Some consolidated districts do not maintain high schools.
^b. Some in rural areas.
 Source: State Department of Public Instruction.

**CHART 12. SCHOOL DISTRICTS IN IOWA:
SCHOOL YEARS, 1945-46 TO 1955-56**

NUMBER OF
DISTRICTS



High School Enrollment and Cost by Size of School. Enrollment, the number of pupils enrolled per teacher, and average cost per pupil as computed for tuition purposes are shown in Table 56. The data in this table were compiled at the beginning of the school year 1955-56.

In September, 1955, 494 or 61 percent of the 808 high school districts in Iowa had total enrollment of less than 100 students. These same districts accounted for slightly less than 23 percent of the total number of students enrolled but employed 32.3 percent of the State's total high school teaching staff.

The average number of students enrolled per teacher varies from a low of only 6.0 in the high schools with total enrollment of less than 25, to a high of 20.7 pupils per teacher in high schools with enrollment of over 600 students. In general, the average cost per student, as computed for tuition purposes, varies inversely with the ratio of pupils per teacher. The minimum average cost per student is reached in the high schools having enrollment between 400 and 500 students. Beyond this size average cost increases slightly, primarily because of the fact that the largest schools are located in larger towns in which average salaries for the instructional staff are higher than for high school staff located in the smaller towns, and because of differences in educational programs.

Table 56. High School Tuition Costs, and Enrollment per Teacher, by Size of School, 1955-56.

High School Enrollment, Class	Number of Districts	Number Enrolled	Pupils Enrolled per Teacher	Average Tuition Costs* Per pupil
0-24	26	463	6.0	\$711
25-49	161	6,148	8.9	544
50-74	170	10,504	10.8	480
75-99	137	11,704	11.7	459
100-149	138	16,655	13.1	436
150-199	48	3,326	14.1	408
200-399	50	11,570	15.7	411
300-399	32	10,774	16.8	381
400-499	18	7,968	19.0	372
500-599	7	3,866	18.6	379
Over 600	21	39,209	20.7	420
Total	808	127,187	14.9	\$470

* Average tuition costs are computed on basis of costs in preceding school year, as provided by law. The computed value may exceed the maximum permissible charge in some cases.

Source: State Department of Public Instruction.

The data presented in Table 56 do not provide any answer to the question as to the relative quality of instruction in high schools of various sizes, nor do the averages mean that costs are uniformly higher in the smaller schools than in the larger schools. The range or variation in cost per pupil is extremely great, particularly in the smaller schools. For example, in one high school having a total enrollment of more than twenty-five but less than fifty, the cost per student as computed for tuition purposes is \$1,202. In the same size category the lowest cost per student as computed for tuition purposes is \$277. But in general, there is a clear-cut tendency for both the average cost by size of school and the median within each size category to decline to a minimum figure in the 400 to 500 enrollment size. The major factor which explains this decline is the fact that the larger schools can provide a higher degree of teacher utilization as reflected in the column in Table 56 show-

ing the number of pupils enrolled per teacher.

Elementary Enrollment and Pupil Teacher Ratios. Elementary enrollment, teaching staff, and number of pupils per teacher in the Iowa public school system are shown in Table 57, by type and size of district. Average tuition costs per elementary pupil are also shown in Table 57 for elementary pupils in districts maintaining high schools.

Approximately 85 percent of all elementary pupils in the Iowa school system are enrolled in schools operated by districts maintaining high schools. Elementary enrollment, classified by size of high school enrollment, is shown in the upper portion of Table 57. In general, the number of students enrolled per teacher is greater in the elementary grades maintained in the larger high school districts. However, the variation is much smaller between the lowest and the highest ratio than in the case of the high school pupil-teacher ratios. For all elementary schools in high school districts the average ratio of pupils enrolled per teacher was almost 26 in the school year 1955-56. In contrast, the average ratio of pupils to teachers was less than sixteen in rural elementary schools, and less than fourteen in rural schools with only one teacher. For all elementary grades the average for the state as a whole is 23.6 pupils enrolled per teacher.

Total elementary and secondary enrollment per teacher in the Iowa school system was 20.7, as compared with an average of 27.7 in the nation as a whole. Thus,

Table 57. Ratio of Elementary Enrollment to Teachers and Tuition Costs Per Pupil, by Size and Type of School, 1955-56

Type and Size of District	Elementary Enrollment	Elementary Teachers	Enrollment Per Teacher	Average Tuition Costs Per Pupil
Districts maintaining High Schools: By size of High school enrollment				
0-24	2,384	119	20.0	\$295
25-49	16,628	774	21.5	263
50-74	26,771	1,169	22.9	238
75-99	29,175	1,163	25.1	233
100-149	41,134	1,573	26.2	223
150-199	19,310	723	26.7	206
200-299	24,602	944	26.0	209
300-399	24,101	934	25.8	222
400-499	17,971	707	25.3	207
500-599	8,694	330	26.4	213
Over 600	123,039	4,449	27.7	246
Totals for elementary Grades in High School districts	333,809	12,887	25.9	\$236
Non-high school Districts:				
Rural, one teacher	40,393	2,903	13.9	
Rural, two or more teachers	16,653	742	22.0	
Totals, non-high school districts	57,046	3,645	15.7	
Grand total, all Elementary	390,855	16,532	23.6	

Source: State Department of Public Instruction.

in the nation as a whole the number of pupils per teacher was approximately one-third greater than in Iowa. It should be noted that the Iowa and national data just presented are pupils enrolled per teacher, rather than average daily attendance per teacher used in earlier comparisons. In general, average daily attendance is usually from 85 to 90 percent of enrollment.

The public school system of Iowa is characterized by a high degree of decentralization in administration as well as in finance. Major characteristics of the system may be summarized as follows:

1. Despite the fact that the average annual salary of instructional staff in the Iowa public school system is below the average salary in the nation as a whole, public school costs in Iowa are high relative to costs in the nation as a whole.
2. Iowans make a far greater than average financial effort for the support of public schools as measured in terms of State and local revenues for public schools as a percent of Personal Income of the State's residents. In the school year 1953-54 public school revenues were equivalent to 3.59 percent of the Personal Income of the State's residents. The ratio of public school revenues to Personal Income was higher in only five of the other 47 states.
3. In the school year 1953-54, the ratio of pupils in average daily attendance per member of the instructional staff was 18 in Iowa, the 4th lowest ratio among the 48 states. If the Iowa public school system paid salaries equal to the national level, but with the same pupil-teacher ratio now prevailing, the instructional cost per pupil in average daily attendance in Iowa would be one of the highest in the Northcentral region and in the nation.
4. The Iowa public school system derives a much below average fraction of its revenue from state sources. At the local level of government in Iowa, levies on property comprise the sole source of tax revenue.
5. The public school system of Iowa is characterized by one of the largest numbers of school districts of any state in the nation. In proportion to enrollment, Iowa maintains an excessive number of both elementary and secondary schools. Approximately 8.4 percent of all of the one-teacher schools in the nation are to be found in Iowa, more than in any other state with the exception of Nebraska and Wisconsin.
6. The largest 106 high school districts accounted for over 50

percent of all elementary and high school enrollment in September, 1955.

7. In September, 1955, there were 185 high school districts with total elementary and secondary enrollment of 500 students or more. While these districts comprise a very small percentage of the total number of districts their enrollment accounted for 59 percent of all students in the Iowa public school system. In the same year, there were 379 districts with total enrollment of 300 or more. These districts, approximately 10 percent of the total number of districts in the State, educated 74 percent of all the children enrolled in the Iowa public school system.

4. State Appropriations for Institutions of Higher Education

In addition to outlays for elementary and secondary education, all of the states in the Northcentral make substantial expenditures for higher education. While the cost of elementary and secondary public education is primarily a local financial responsibility in the eleven Northcentral states, most publicly supported institutions of higher education depend upon state rather than local governments for their revenues.

The growth in state appropriations for support of institutions of higher education, and changes in enrollment are shown in Table 58, for fourteen of the major state supported schools in the eleven Northcentral states. The changes in appropriations and enrollment are for the period from the school year 1939-40, to the school year 1954-55. The appropriation data were compiled from the session laws of the various states by the Iowa State Board of Regents. Although every effort has been made to compile the data on a comparable basis, it is recognized that the allocation of certain items as between "operations," and "capital improvements" is, in some cases, a matter of judgment.

The appropriations for operations include agricultural extension and experiment stations, and university hospitals except where the appropriation is specifically designated for the care of indigent patients and medical services on a statewide basis.

The State University of Iowa, and the Iowa State College ranked 12th and 13th, respectively, among the

Table 58. Percentage Change in State Appropriations and Fall Enrollment, Fourteen State Supported Institutions of Higher Education: 1939-40 to 1954-55

Institution	Increase in State Appropriations for Operations*, 1939-40 to 1954-55		Increase in Fall Enrollment, 1939-40 to 1954-55		Increase in Appropriations per student enrolled, 1939-40 to 1954-55	
	Percent	Rank	Percent	Rank	Percent	Rank
Michigan State	569.1	1	133.5	1	186.6	8
University of Kansas	546.4	2	65.3	4	291.1	2
University of Illinois	526.1	3	64.5	5	280.7	4
University of South Dakota.....	409.2	4	82.1	3	179.6	10
Purdue University	404.4	5	48.3	8	240.1	5
University of Michigan.....	391.6	6	55.6	6	216.0	6
Indiana University	383.2	7	95.4	2	147.2	13
University of Minnesota.....	355.3	8	18.6	13	284.0	3
North Dakota University	332.7	9	51.8	7	185.0	9
University of Nebraska.....	330.4	10	6.2	14	305.4	1
University of Wisconsin.....	265.9	11	25.6	12	191.2	7
State University of Iowa.....	234.6	12	26.4	10	164.7	11
Iowa State College	228.5	13	28.7	9	155.2	12
University of Missouri.....	142.5	14	26.2	11	98.2	14

*. Includes all appropriations except capital.

Source: State Board of Regents, *Supplemental Observations*, submitted to Taxation Study Committee, August 8, 1956, p. 6; and *Report*, submitted February 8, 1956. Increase in appropriations per student computed by Taxation Study Committee.

fourteen state supported institutions of higher education shown in Table 58, in terms of the percentage increase in operating appropriations from 1939-40, to 1954-55. The rate of increase was lower than for the Iowa institutions only for the University of Missouri.

Iowa State College ranked 9th, and the State University of Iowa ranked 10th among the fourteen institutions in terms of the rate of increase in enrollment during the Fall term. In terms of the increase in State appropriations per student enrolled, the State University ranked 11th, and the State College 12th among the fourteen institutions.

Two rough measures of the relative importance of State support for higher education are presented in Table 59, for each of the eleven states in the Northcentral area. The appropriation figures in Table 59 are for operations in all the state-supported institutions, including not only the institutions listed in Table 58, but also teachers colleges, technical schools, and other types of higher educational institutions.

In terms of state appropriations for operations as a percent of Personal Income, Iowa ranked 4th from the top in the eleven-state area, with appropriations for the school year 1954-55 equivalent to .411 percent of Personal Income of the residents of the State in the calendar year 1954. Two states which rank high in terms of the rate of growth in appropriations (Michigan and Illinois), rank below the median level of the "effort" to support higher education, as measured by appropriations as a percent of Personal Income. Iowa, although ranking near the bottom among the eleven states in terms of the rate of increase in total and per student appropriations, put forth a relatively strong "effort" for the support of higher education, as measured by the fraction of Personal Income denoted to this function.

The high rank of the State of Iowa in the measure of effort results from a below average rate of growth in income, and not from an exceptionally high—or even average—rate of increase in State Appropriations for the support of higher education.

Iowa also ranked 4th in terms of appropriations as a percent of State general expenditures in the fiscal year 1954-55. The percentages presented in the fourth column of Table 59, and the rankings based upon them, must be interpreted with caution, however. These percentages reflect not only the relative emphasis placed upon the financial support of higher education in the various states, but also the overall level of state expenditures, and very

Table 59. State Appropriations for Higher Education, Eleven Northcentral States, 1954-55.

State	Amount* (,000)	Percent of Personal Income, 1954 (Per- cent) (Rank)	Percent of State General Expenditures, 1954-55 ^c (Per- cent) (Rank)
North Dakota	\$ 5,146	.677 1	5.6 8
South Dakota	4,823	.535 2	6.4 6
Kansas	16,531	.485 3	7.4 2
IOWA	18,289	.411 4	6.6 4
Nebraska	8,995	.402 5	8.3 1
Minnesota	20,555	.398 6	5.9 7
Michigan	48,808	.344 7	5.5 9
Indiana	25,899	.340 8	6.7 3
Wisconsin	19,536	.314 9	5.4 10
Illinois	45,406	.229 10	6.5 5
Missouri	11,087	.157 11	3.3 11

* Includes all appropriations except capital and appropriations for care of indigent patients and statewide services.

^b State "General Expenditures" exclude liquor store and insurance trust expenditures; include both operating expenditures and capital outlays, and direct expenditures and aids to local units of government.

Sources: (1) Appropriations: Report of State Board of Regents, to Taxation Study Committee, February 8, 1956. (Materials supplied in answer to question 8S).

(2) Personal Income: U.S. Department of Commerce, *Survey of Current Business*, August, 1956, p. 10.

(3) State General Expenditures: U.S. Department of Commerce, *Compendium of State Government Finances in 1955*, p. 22.

importantly, the allocation of financial responsibility between states and their political subdivisions. In Nebraska, for example, the State government plays a much less important role in financing general expenditures of state and local government than is the case in other states in the Northcentral area. This difference in the division of financial responsibility between the State of Nebraska and its political subdivisions is an important factor in accounting for the high ratio of outlays for higher education to total state general expenditures.

In short, the percentages shown in Column 4 of Table 59 indicate only the relative importance of appropriations for higher education in total state general expenditures - nothing more.

Table 60. Cumulative State Appropriations for Capital Improvements at State Supported Institutions of Higher Education, 1939-41 through 1953-55; Eleven Northcentral States.

State	Amount* (,000,000)	(rank)	Per capita (Amount*)	(rank)	Annual average, as Percent of Personal Income, 1955 (Percent)	(rank)
Illinois	\$104.0	1	\$11.11	4	.031	5.5
Michigan	56.3	2	7.68	8	.023	9
Indiana	40.9	3	9.44	6	.031	5.5
Minnesota	33.7	4	10.61	5	.039	4
Wisconsin	28.8	5	7.79	7	.027	7.5
Missouri	27.0	6	6.54	10	.022	10
Kansas	25.7	7	12.45	2	.047	3
IOWA	14.4 ^b	8	5.33	11	.021	11
Nebraska	9.3	9	6.76	9	.027	7.5
North Dakota	9.3	10	14.47	1	.066	1
South Dakota	8.1	11	11.89	3	.059	2

* Exclusive of appropriations for hospitals and medical centers in all states.

^b Excludes interim committee allocations.

^c Appropriations for the 16 year period, divided by population estimates for July 1, 1955.

Sources: State Board of Regents Report; U.S. Department of Commerce (population and Personal Income).

Capital appropriations for state supported institutions of higher education in the Northcentral states are presented in Table 60, for the sixteen-year period beginning July 1, 1939 through June 30, 1955. In general, appropriations for hospitals and medical centers are excluded in all the states; allocations made for capital outlays by the interim Budget and Financial Control Committee are excluded from the Iowa appropriations. From the biennium 1939 - 41, through the 1953 - 55 Biennium, the cumulative allocations to the three Iowa institutions of higher education were \$726,137.58. Of this amount, \$348,059.76 was allocated for the repair of the fire damage of the Chemistry building at the State University. Approximately \$181 thousand of the total allocation was for remodeling of facilities for pediatrics and for polio treatment at the University Hospital. This amount was, in effect, replaced by reversions from RR and A funds, and by a transfer from SS and M funds of the University Hospital.

In terms of total appropriations over the period as a whole, Iowa ranks 8th among the eleven states. However, the eleven states vary widely in population, economic resources, and enrollment in their respective institutions of higher education. In an effort to render the

capital appropriation data somewhat more comparable, two relative measures are presented in Table 60. It is emphasized that both of these measures are rather crude, and both have only limited usefulness as a basis for interstate comparisons.

For the sixteen-year period as a whole, capital appropriations per capita of the total population on July 1, 1955, varied from \$14.47 in North Dakota, to a low of \$5.33 in Iowa. In terms of the annual average capital appropriation over the sixteen-year period, expressed as a percent of Personal Income in the calendar year 1955, North Dakota again ranks first, and Iowa ranks last among the eleven states.

Thus, while state appropriations for operation of institutions of higher education, expressed as a percent of Personal Income, were higher in Iowa than in seven of the eleven states in the Northcentral area in 1954-55, average annual appropriations for capital improvements over a sixteen-year period have been lower for the Iowa institutions than for the institutions in any other Northcentral state, relative to 1955 population and Personal Income in the respective states.

CHAPTER VI

Highway Revenues and Expenditures in Iowa

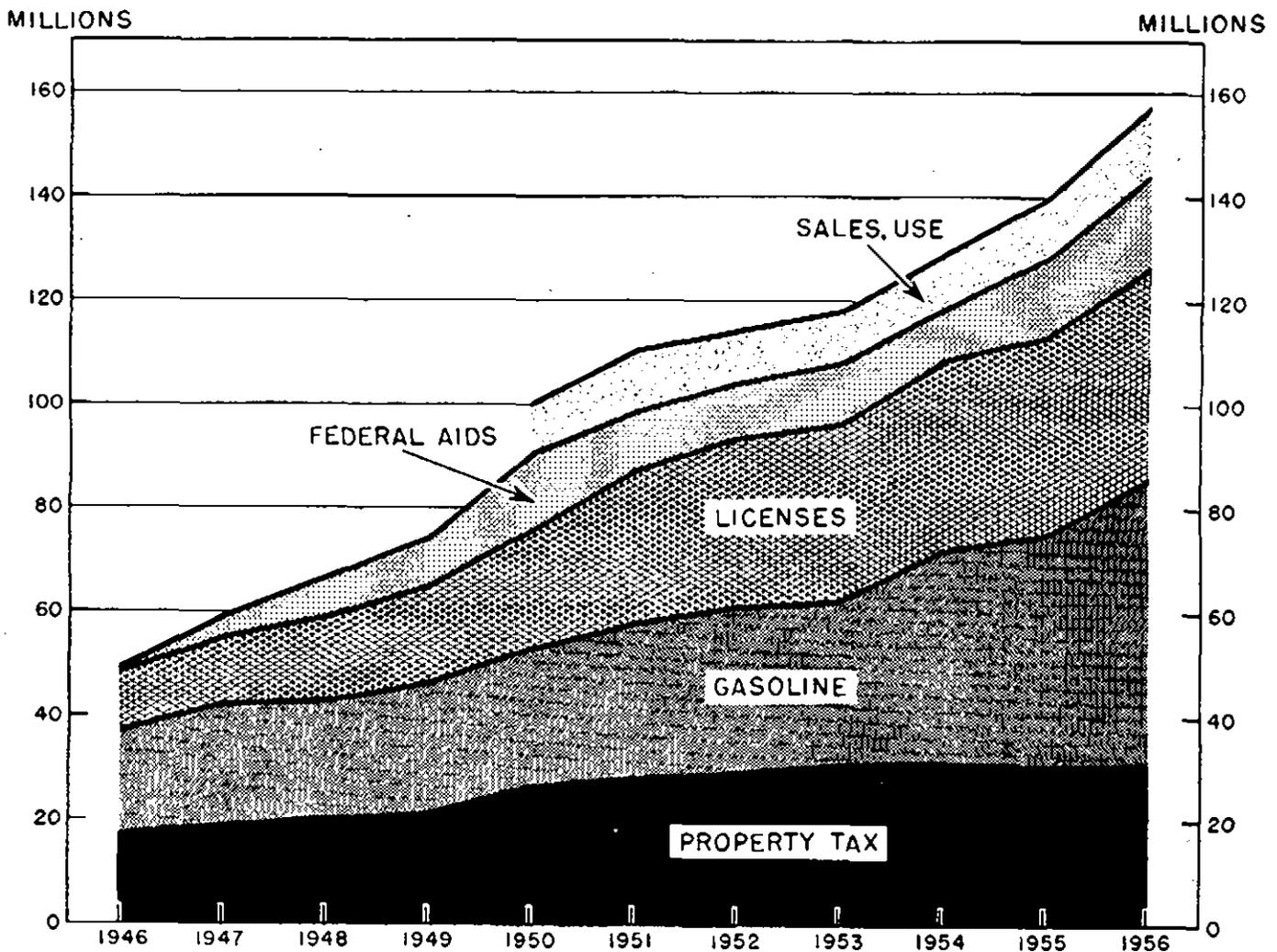
Some aspects of highway finance in Iowa have been discussed in preceding chapters. The major features presented earlier were as follows: (1) The contribution of the growth in highway revenues to the general postwar increase in taxes in Iowa was described in section 4 of Chapter 1 (See Tables 8 and 9); (2) The significance of highway costs as one factor contributing to the high level of governmental costs in Iowa was discussed in Chapter 3. Comparative state tax revenues for highway purposes in Iowa and other Northcentral states were shown in Table 35 of Chapter 3. In this chapter it was also noted that, relative to Personal Income, estimated expenditures for highways, roads and streets during the fiscal year 1956, were substantially higher in Iowa than in the nation as a whole; (3) The relative importance of highway user taxes in total state tax collections was shown in Table 39 of Chapter 4 for Iowa and ten other Northcentral states.

In general, the growth of highway revenues has accounted for a very substantial part of the overall growth in Iowa tax revenues; highway revenues and expenditures are higher in Iowa on a per capita basis and as a percentage of income received by residents of the State than is true in the nation as a whole; and the State government of Iowa relies more heavily than most states on highway taxes. More detailed revenue and expenditure statistics, and comparative taxes on selected types of motor vehicles are presented in the following sections of this chapter.

1. Revenue Sources.

The major sources of revenues for highways, roads, and streets in Iowa are shown in Chart 13 for the years 1946 through 1956. The sales and use tax allocation for highway purposes, and Federal aids for all types of highways and roads are taken from data supplied by the Iowa State Highway Commission. Revenues from

CHART 13. MAJOR SOURCES OF HIGHWAY REVENUES IN IOWA: 1946-1956



motor vehicle licenses and gasoline taxes are from annual reports of the United States Bureau of the Census. Property taxes levied at the county level for road purposes are those reported by the Iowa State Tax Commission.

As will be noted in Chart 13, highway revenues from the sources shown have risen from slightly less than \$50 million in the fiscal year 1946, to almost \$160 million in the fiscal year 1956. The increase has occurred in all of the major tax sources, with the exception of county levies for road purposes which have been substantially unchanged since 1952.

Several minor sources of revenue available for highways, roads, and streets have been omitted from Chart 13. These omitted revenue sources include property levies of urban governments, special assessments for road and street purposes, funds made available for street purposes through general appropriations from municipal funds, bridge tolls, and miscellaneous receipts at both the local and the State levels. A condensed summary of reported and estimated revenues for highways and streets for the fiscal year 1956 is shown in the tabulation below.

Revenues for Highways, Roads, and Streets, 1956.

Source of Funds	Amount (,000,000)	Source of Data
Vehicle registration		
fees	\$45.5	Iowa Highway Commission
Vehicle fuel taxes	53.1	Iowa Highway Commission
Sales and use taxes.....	13.4	Iowa Highway Commission
Federal aids	17.9	Iowa Highway Commission
County road levies	31.2	Iowa Tax Commission
Sub-total	\$161.1	
Estimated Urban Property		
Levies and special		Bureau of Public Roads
Assessments	7.2	Estimate for calendar
		year, 1953
Total	168.3	

It is emphasized that the figures shown above are funds becoming available rather than receipts from current taxes. For example, the funds made available from

vehicle registration fees were substantially larger during the fiscal year 1956, than the actual collections from this source during the same period.

Revenues available which can be recorded with a fairly high degree of accuracy totaled slightly more than \$161 million in the fiscal year 1956. These sources of funds were reported by the agencies noted in the tabulation above. The amount shown for county road levies is for collection in the calendar year, 1956. Iowa is one of a number of states for which complete, accurate data for local revenues for streets are not available. In the calendar 1953, the United States Bureau of Public Roads estimated that urban property levies and special assessments for roads and streets were \$7.2 million. It is highly probable that this amount was at least as large in 1956 as it was in 1953. Thus, conservatively estimated, total revenues available for highways, roads, and streets were at least \$168 million in the fiscal year 1956. This figure does not include any estimate for appropriations from general funds by local urban governments for street purposes. Nor does it include other miscellaneous urban street revenues reported to have been \$2.4 million in 1953.*

Per Capita Revenues from Major Highway-User Taxes, 1956. Total and per capita receipts from the two major sources of state highway revenues are shown in Table 61 for the fiscal year, 1956. On a per capita basis, the motor vehicle fuel tax produced slightly more than \$20 in Iowa, the second highest per capita yield in the eleven-state Northcentral area. The per capita yield of motor vehicle fuel taxes is influenced by the number of motor vehicles per capita of the population, the degree of use of vehicles, the revenues collected from transient motorists and truckers, and a wide variety of minor factors. Several states in the Northcentral area have motor vehicle fuel tax rates as high as the rate in Iowa, but have substantially lower per capita tax collections. In all but one of these states—Michigan—the ratio of registered vehicles to population is lower than in Iowa.

At the beginning of the calendar year 1956, the motor vehicle fuel tax rates in the 48 states and the District of Columbia were distributed as follows:

*U.S. Bureau of Public Roads, *Highway Statistics: 1954*, Table UF-R-1, p. 89.

Table 61. Total and Per Capita Revenues from Major Highway-User Taxes, Fiscal Year, 1956: Eleven Northcentral States.

State	Motor Vehicle Fuel Taxes			Motor Vehicle License Revenues			Combined Fuel and License Taxes	
	Amount (,000)	Rate: ¢ per gallon ^a	Per Capita Revenue	Amount (,000)	Per Capita Revenue	Per Vehicle Reg. in 1954	Per Capita License Taxes	Rank
North Dakota	\$ 12,052	6 ^b	\$18.77	\$ 8,426	\$13.12	\$28.11	\$31.89	2
South Dakota	11,224	5	16.58	5,638	8.33	17.92	24.91	8
Nebraska	30,388	6	22.00	5,097 ^c	3.69	8.00	25.69	6
Kansas	35,066	5	17.02	19,386 ^d	9.41	19.36	26.43	5
Minnesota	47,899	5	15.09	32,386	10.20	24.79	25.29	7
IOWA	54,472	6^b	20.23	40,692	15.12	35.59	35.35	1
Missouri	40,688	3	9.86	31,859 ^e	7.72	22.22	17.58	11
Wisconsin	62,371	6 ^d	16.88	36,028	9.75	26.95	26.63	4
Illinois	123,152	5	13.69	80,711 ^e	8.62	26.14	22.31	9
Michigan	132,990	6 ^b	18.38	67,573	9.34	23.73	27.72	3
Indiana	60,557	4	13.99	34,104 ^f	7.88	20.27	21.88	10

^a Rates in effect during fiscal year 1956.

^b Rate on diesel fuel, 7¢ per gallon.

^c Rate raised 1¢ per gallon during 1955.

^d Rate raised 2¢ per gallon during 1955.

^e Rate raised 1.5¢ per gallon during 1955.

^f Includes operators' licenses.

^g Motor vehicles also subject to property taxes.

Sources: U.S. Bureau of the Census, *State Tax Collections in 1956*; Bureau of Public Roads, *Highway Statistics: 1954*.

Rate: cents per gallon	Number of states	
3.0	1	(Missouri)
4.0	4	
5.0	12	
5.5	1	(Vermont)
6.0	17	(Including Iowa)
6.5	3	
6.58	1	(Oklahoma)
7.0	10	
	49	

Average of rates, 48 states and the District of Columbia, 5.77c per gallon.

Fourteen states impose higher rates than the Iowa rate, seventeen impose the same rate, and eighteen states impose rates of less than 6 cents per gallon. The Iowa rate is only fractionally above the unweighted average for the forty-eight states and the District of Columbia.

The net per capita yield of the motor vehicle fuel tax is also affected by statutory provisions and prevailing practices in the various states with respect to exemptions and refunds of the tax on fuels for nonhighway uses. According to the United States Bureau of Public Roads, refunds have been claimed for from 20 to 25 percent of all motor vehicle fuel sold in Iowa in recent years. The exemption and/or refund ratio has been in the same bracket in Kansas and Montana. The ratio is substantially higher in South Dakota (from 25 to 30 percent of total gallons sold), and in North Dakota (from 40 to 45 percent). In contrast, the ratio of refunds is only 5 to 10 percent in Indiana and Michigan; 10 to 15 percent in Missouri, Nebraska, and Wisconsin; and 15 to 20 percent in Illinois and Minnesota.

On a per capita basis, as well as on the basis of the average license revenue per motor vehicle registered, Iowa had the highest motor vehicle license receipts of any state in the Northcentral area. In terms of combined per capita motor vehicle fuel taxes and license fee revenue Iowa also ranked first in the eleven-state area.

One factor which accounts for the high per capita level of highway-user revenues in Iowa is the large number of automobiles and other vehicles relative to the population of the State. In 1954, Iowa ranked 8th in the nation in terms of civilian population per passenger car. In general, agricultural states in the Midwest tend to have more automobiles relative to population than some of the more heavily urbanized states, and the low income Southern states. Although Iowa ranked very high in terms of automobiles relative to population in 1954, the rate of increase in passenger car registrations in Iowa from 1941 to 1954 was the lowest in the nation—29.1 percent as compared with a national average rate of increase of 63.5 percent.**

Revenue Sources by Level of Government. Revenues for highways and streets, exclusive of receipts from borrowings, are shown in Table 62 for eleven Northcentral states by the level of government receiving the revenue. The state revenues are for the calendar year 1954. Local revenues of rural governments and of urban governments are for the calendar year 1953. The local revenues of urban governments for Iowa are estimates of the U. S. Bureau of Public Roads based on available data from State sources. In Iowa, approximately 42 percent of the highway revenue of local rural governments was received in the form of aid from other levels of government, primarily the State. Local urban governments in Iowa received a little over one-third of their total road

**Automobile Manufacturers Association, *Automobile Facts and Figures*, 35th edition, 1955, p. 23.

Table 62. Revenues for Highways and Streets, Exclusive of Borrowings, Eleven Northcentral States, Calendar Years, Level of Government.

State	State Revenues: 1954			Local Revenues: Rural, 1953			Local Revenues: Urban, 1953		
	Total (,000)	From State Taxes & Licenses ^a (,000)	From Federal Aids ^b (,000)	Total (,000)	From Local Sources ^c (,000) ^d		Total (,000)	From Local Sources ^e (,000) ^f	
					Other Current Revenues (,000) ^g	From Other Gov'ts. (,000) ^h		From Other Gov'ts. (,000) ⁱ	From Other Gov'ts. (,000) ^j
North Dakota	\$ 23,921	\$ 15,542	\$ 6,763	\$13,397	\$ 8,667	\$ 4,730	\$ 3,007	\$ 2,963	\$ 44
South Dakota	31,646	22,932	7,474	14,829	9,624	5,205	3,216	2,618	588
Nebraska	50,596	39,852	8,898	21,697	7,561	14,136	12,234	10,648	1,586
Kansas	67,594	48,870	14,653	38,951	28,405	10,546	12,556	9,898	2,658
Minnesota	95,049	75,647	14,875	44,821	30,471	14,350	23,457	21,867	1,590
IOWA	105,593	90,734	14,453	60,121	34,686	25,455	16,824 ^k	10,905 ^l	5,919 ^m
Missouri	84,531	65,381	17,502	21,816	19,209	2,607	18,339	16,678	1,661
Wisconsin	92,508	74,479	13,303	55,518	34,816	20,702	25,920	14,701	11,219
Illinois	219,257	187,807	26,030	73,582	42,552	31,030	58,184	33,576	24,608
Michigan	175,108	155,449	14,169	62,999	13,723	49,276	55,034	29,237	25,797
Indiana	101,805	88,519	10,176	25,823	1,959	23,864	15,529	4,432	11,097

^a Includes receipts from motor fuel taxes, motor vehicle licenses, carrier taxes, tolls, appropriations from general funds of state governments, and other taxes earmarked specifically for highway purposes. In Iowa, includes allocations of sales and use tax revenue to Road Use Tax Fund.

^b Includes transfers from local to state governments, and miscellaneous receipts.

^c Includes property taxes levied for roads, special assessments, appropriations from general funds of local governments, tolls, and miscellaneous receipts. In the eleven states shown above, the major share of local rural revenues is derived from levies on property.

^d Almost exclusively aids from state governments, but includes some minor transfers from urban governments and the federal government. Does not include federal aid for secondary road funds. These aids are shown in state receipts from federal sources.

^e Includes property taxes, special assessments, appropriations from local general funds, local motor vehicles fuel taxes and licenses, wheel taxes, tolls, parking meter tolls (where available for use on local streets), and miscellaneous revenues.

^f Primarily aids from state governments, but also includes some transfers of funds from counties, townships, etc. Does not include federal-aid urban funds.

^g Partially estimated.

Source: U. S. Bureau of Public Roads, *Highway Statistics: 1954*, Tables SE-1, LF-R-1, and UF-R-1.

and street revenue from State sources in the calendar year 1953, according to the Bureau of Public Roads.

2. Sources and Disposition of State Highway Revenues.

The major sources and uses of state highway revenues for the calendar year 1954 are shown in Table 63, for Iowa and states in the Northcentral area. In 1954, Iowa derived a smaller percentage of its revenue from motor vehicle fuel taxes than all but two other states in the Northcentral area. The fraction of total state highway-user revenues derived from fuel taxes was also substantially lower in Iowa than in the nation as a whole. In 1954 only one other state in the Northcentral area, Wisconsin, received a larger fraction of its total state highway user revenue from licenses and carrier taxes than was received in Iowa.

The composition of state highway revenues in Iowa is also characterized by a greater than average percentage of revenue from State taxes other than the motor vehicle fuel and license taxes. In 1954, allocations of receipts from sales and use taxes supplied 11.1 percent of State highway revenues in Iowa. South Dakota derived almost 10 percent of highway revenues from general fund appropriations and a use tax on motor vehicles purchased out of the state. Michigan also received a significant fraction, almost 5 percent, of its highway revenues from sources other than the gasoline tax and license fees. In the nation as a whole, receipts from toll roads account for a substantial part of highway receipts other than fuel taxes and license fees.

During 1954, the Iowa motor vehicle fuel tax rate was 5 cents per gallon. The higher current rates of 6 cents per gallon for gasoline, and 7 cents per gallon for diesel fuel have increased the relative importance of the fuel taxes as a source of State highway-user revenues. In the fiscal year ended June 30, 1956, fuel taxes accounted for approximately 43 percent, license fees 32 percent, sales and use taxes 11 percent, and Federal aids 14 percent of total State highway revenues. Thus, recent—and temporary—increases in the fuel tax rates have brought the pattern of Iowa highway revenues closer to the "average" national pattern. But the substantial amounts of revenue from the sales and use tax source continue to make the Iowa pattern somewhat unique among the states.

Highway revenues collected by the various states are expended for state-administered highways and roads, including urban extensions of primary and secondary roads under state control, for allocations to county and other local roads and, in some states, to municipalities for construction and maintenance of streets. The Iowa pattern of allocation of State-collected highway revenues is quite different from the national average pattern. The more important differences were as follows in the calendar year 1954:^a

First, the percentage of State highway revenues allocated to local governments for county and other rural roads was higher in Iowa than in any other state. In 1954, slightly more than 43 percent of total disbursements from State highway revenues in Iowa was made in the form of transfers to counties, as compared with a national average of 13.9 percent.

Second, the percentage of State highway revenues expended for State-administered primary roads and extensions of primary roads in municipalities was lower in Iowa than in any but one other state—Tennessee. In 1954, almost 75 percent of state highway revenues was expended on state-administered roads in the nation as a whole; in Iowa, only 47.4 percent was spent for this category of roads.

^a Allocations for 1954, U.S. Bureau of Public Roads, *Highway Statistics: 1954*, Table SF-2.

Table 63. Sources and Disposition of State Revenues^a Applicable to Highways Eleven Northcentral States, Calendar Year 1954

State	Revenue Sources					Disposition				
	Total Amount ^b (^c ,000)	Motor Fuel Taxes (Percent)	Carrier Taxes (Percent)	Licenses and State Revenues (Percent)	Other State Aids (Percent)	Total Disbursement (^d ,000)	State-adm. Highways (Percent)	Local Roads (Percent)	Other County & Streets (Percent)	Nonhighway Purposes (Percent)
North Dakota	\$ 22,331	36.7	32.2	0.7	30.3	\$ 23,558	66.3	31.6	0.0	2.1
South Dakota	30,406	36.3	29.4	9.8 ^b	24.6	33,140	74.0	23.2	1.6	1.2
Nebraska	48,765	59.3	22.4	0.0	18.2	48,236	55.5	36.6	5.7	2.1
Kansas	63,841	50.6	26.0	0.5	23.0	69,478 ^b	69.5 ^b	21.8	4.0	4.8
Minnesota	90,751	48.4	35.0	0.3	16.4	86,595	70.7	26.0	0.3	3.0
IOWA	105,442	38.8	36.4	11.1 ^c	13.7	93,687	47.4	43.2	7.2	2.2
Missouri	84,143	44.3	32.4	1.5	21.8	92,147 ^b	95.7 ^b	2.2	0.0	2.1
Wisconsin	86,085	44.7	39.9	0.3	15.1	92,777	52.8	26.5	10.9	9.8 ^b
Illinois	214,595	53.4	34.1	0.4	12.1	227,154 ^b	61.0 ^b	18.0 ^b	16.7	4.2
Michigan	171,799	52.1	34.8	4.9 ^d	8.2	218,955 ^b	60.6 ^b	25.2	11.5	2.7
Indiana	101,473	56.1	31.2	2.7	10.0	123,775 ^b	65.0 ^b	21.4	9.9	3.7
48 states	\$4,488,848	51.0	29.9	6.1 ^e	13.0	\$5,699,138 ^b	74.8 ^b	13.9 ^b	4.5	7.2

Source: U.S. Bureau of Public Roads, *Highway Statistics: 1954*, Tables SF-1 and SF-2.
^a Revenues are exclusive of borrowings and transfers from local governments.
^b Includes appropriations from general fund, and use tax on motor vehicles purchased out of state.
^c Chiefly allocations from sales and use tax revenues.
^d Includes tolls, appropriations from general funds, and miscellaneous nontax receipts.
^e Miscellaneous nontax receipts.
^f Major component is tolls, but also includes appropriations from state general funds, earmarked taxes in Iowa, Louisiana, Mississippi, Oklahoma, South Dakota, and West Virginia.
^g Includes expenses of administering and collecting highway revenues.
^h Includes interest and bond retirement expenditures for types of roads indicated.
ⁱ 5.3 percent to local general funds; 4 percent for expense of collection and administration.

Third, the percentage of State highway revenues transferred to cities and towns was higher in Iowa than in forty of the forty-eight states; a larger percentage of state revenues was transferred to city governments for local streets in only seven states—Illinois, Indiana, Maryland, Michigan, Ohio, Tennessee, and Wisconsin.

The share of State highway revenues used for State-administered roads and urban extensions in Iowa has risen since 1954, as the result of the imposition of an additional one cent gasoline tax the receipts from which are allocated to the primary road system. On the basis of receipts from the various sources of State highway revenues for the fiscal year 1956, and existing statutory provisions for the allocation of these revenues, almost 53 percent of the total will be available for expenditure on the State-administered primary road system and urban extensions of this system, 41 percent will be available to the counties, and approximately 6 percent to cities and towns for local streets. Thus, recent changes in gasoline tax rates, together with the earmarking of the receipts therefrom for primary roads, have brought the Iowa pattern of allocation somewhat closer to the national average pattern. But, in comparison to other states, Iowa allocations are still "heavy" for local county roads, and "light" for the State-administered primary system.

An appraisal of the pattern of highway revenue distribution in Iowa must be based upon a number of factors, including the nature of the State's economy, the distribution of population, and traffic density. In addition, consideration must be given to the portion of the total mileage administered by the State, by the counties, and by the cities.

According to the Bureau of Public Roads, 8.8 percent of Iowa's total road mileage is administered by the State. This includes 8,662 miles of primary roads, 1,050 miles of primary extensions in towns and cities, and 113 miles of other roads in parks, institutional grounds, etc. Roads and extensions included in the state-administered systems comprise a much larger share of total road and street mileage in most states than is the case in Iowa. In 1954, the ratio was lower than in Iowa, with 8.8 percent, in only five other states—Kansas, Michigan, New Jersey, North Dakota, and South Dakota. In contrast Delaware, North Carolina and Virginia have approximately 90 percent of their total mileage under state administration, and transfer virtually no state revenues to local governments for road purposes. Missouri, where only 2.2 percent of state revenues was disbursed as aids to local governments in 1954, has 20 percent of its total mileage, including about 13,000 miles of secondary roads, in the state-administered system. In the nation as a whole slightly more than 19 percent of all road and street mileage was in state-administered systems in 1954.

Thus, one factor to be taken into account in any appraisal of the allocation of road money in Iowa is the fact that the State-administered system comprises a smaller fraction of the total road mileage of the State of Iowa than is the case in most other states. Iowa ranks 26th among the 48 states in terms of the number of miles under State administration, but 6th among the 48 states in terms of rural miles under local administration. (See Table 68.)

The contribution of State highway revenues to the costs of urban streets must be evaluated in terms of the expenditures for urban extensions of primary roads, as well as the percent of State highway revenues allocated to towns and cities for street purposes. Approximately \$7.0 million of primary road system expenditures were made on extensions in cities and towns in the calendar year 1955. From 1943 through 1955, expenditures for primary extensions in towns and cities averaged over \$4.0 million per year, and comprised 18.8 percent of total

primary road expenditures over the period as a whole.* These amounts were in addition to the allocations to towns and cities from the Road Use Tax Fund.

Four of the eleven states in the Northcentral area allocate substantially larger percentages of state revenues for urban streets than is done in Iowa. However, six of the states allocate only minor revenues for urban street purposes. Missouri, which provides for no allocation for city streets from state revenues, does permit local governments to impose gasoline taxes which provide important revenues for local units of government in that state. In 1953, urban highway-user taxes provided \$9.5 million of revenue in Missouri municipalities.**

None of the eleven states in the Northcentral area diverts any substantial amount of highway revenues to non-highway purposes. Most of the amounts shown in the last column of Table 63 are allocations for collecting and administering highway revenue funds. Wisconsin is an exception to this general statement, with 5.8 percent of highway funds allocated to local general funds for unspecified purposes.

Road Use Tax Fund: Receipts and Allocations. A major portion of total highway revenues in Iowa is channeled through the Road Use Tax Fund. With the exception of the 5th and 6th cents of the motor vehicle fuel tax, virtually all State highway-user revenues are placed in the Road Use Tax Fund from which allocations are made to four separate funds.

The sources of receipts and the allocations from the Road Use Tax Fund are shown graphically in Chart 14 for the year 1956.*** Of the total Road Use Tax Fund receipts of \$97.4 million, almost 47 percent was received from registration fees, transferred to the Fund from County Treasurers and the Department of Public Safety. Fuel taxes supplied the other major component of Road Use Tax Fund receipts.

Receipts from the motor carriers compensation tax are included in registration fees in Chart 14. The receipts from this source have declined sharply since 1951, and comprised only a minor fraction of Road Use Tax Fund receipts in the fiscal year 1956. Motor carrier compensation tax receipts, truck registration fees, and the number of trucks registered for the full year are shown below:

Year	Compensation Tax Revenue ^a	Truck Registration Fees ^b	Number of Trucks registered ^c
1951	.....\$601,141	\$10,324,842	152,644
52	..... 510,681	11,054,482	151,709
53	..... 172,584	11,670,909	157,605
54	..... 160,581	12,269,563	177,595
55	..... 149,637	13,068,737	182,415
56	..... 162,080	not available	

^a For fiscal years, as reported by State Highway Commission, August, 1956.

^b For registration years (December 1 to November 30).

Source: State Department of Public Safety.

The Primary Road Use Tax Fund is allocated 42 percent to the Primary Road Fund, 35 percent to the Secondary Road Construction Fund, 15 percent to the Farm-to-Market Road Fund, and 8 percent to cities and incorporated towns. As the entire receipts are allocated each year the Road Use Tax Fund does not hold a balance at the end of the year.

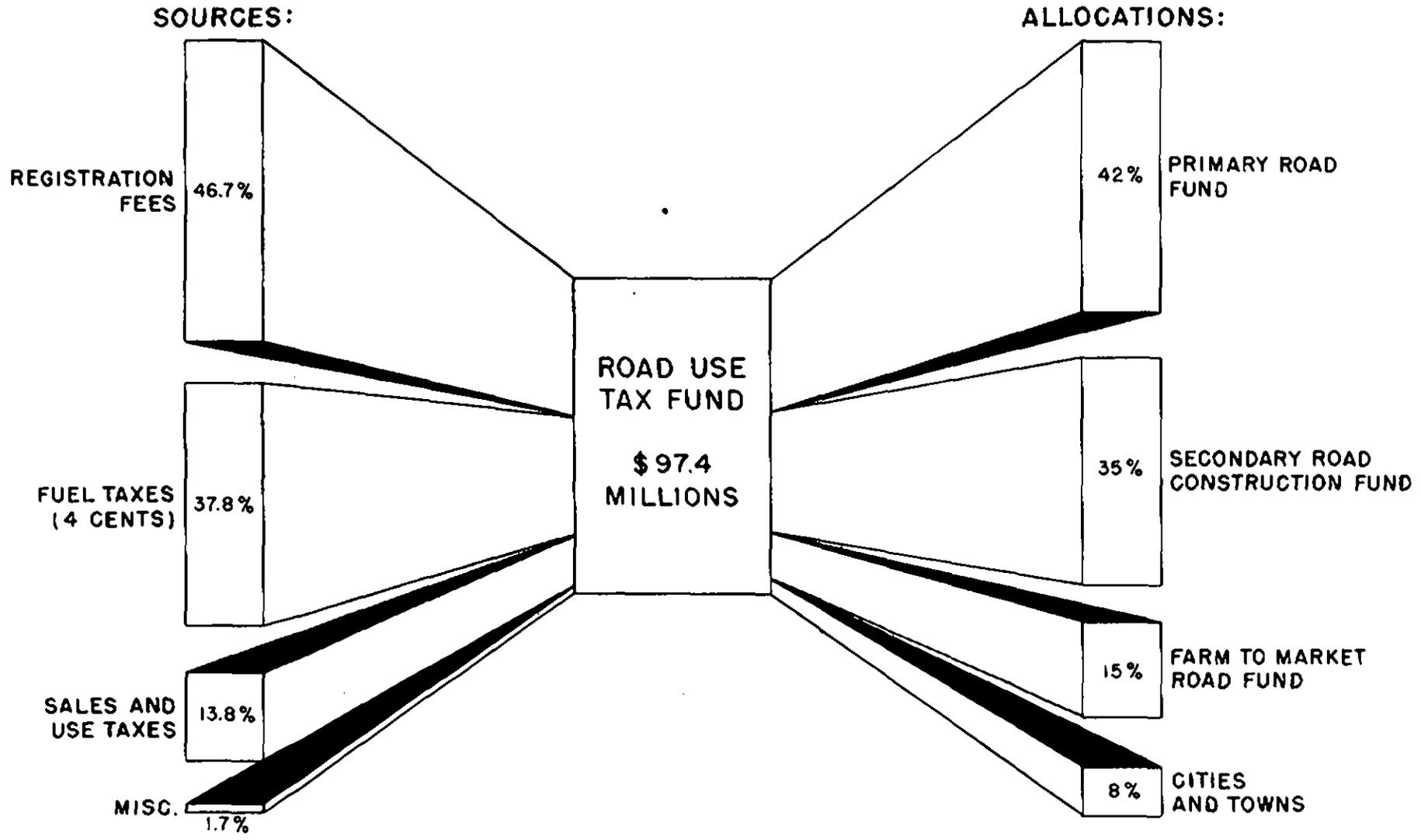
Receipts and Disposition of Funds: The Primary Road Fund. Receipts of the Primary Road Fund, by source, and uses or disposition of receipts, by type of outlay, are shown graphically in Chart 15. In the fiscal year

^c State Highway Commission, Report to the Transportation Subcommittee, Taxation Study Committee, February 2, 1956.

** U.S. Bureau of Public Roads, *Highway Statistics*: 1954.

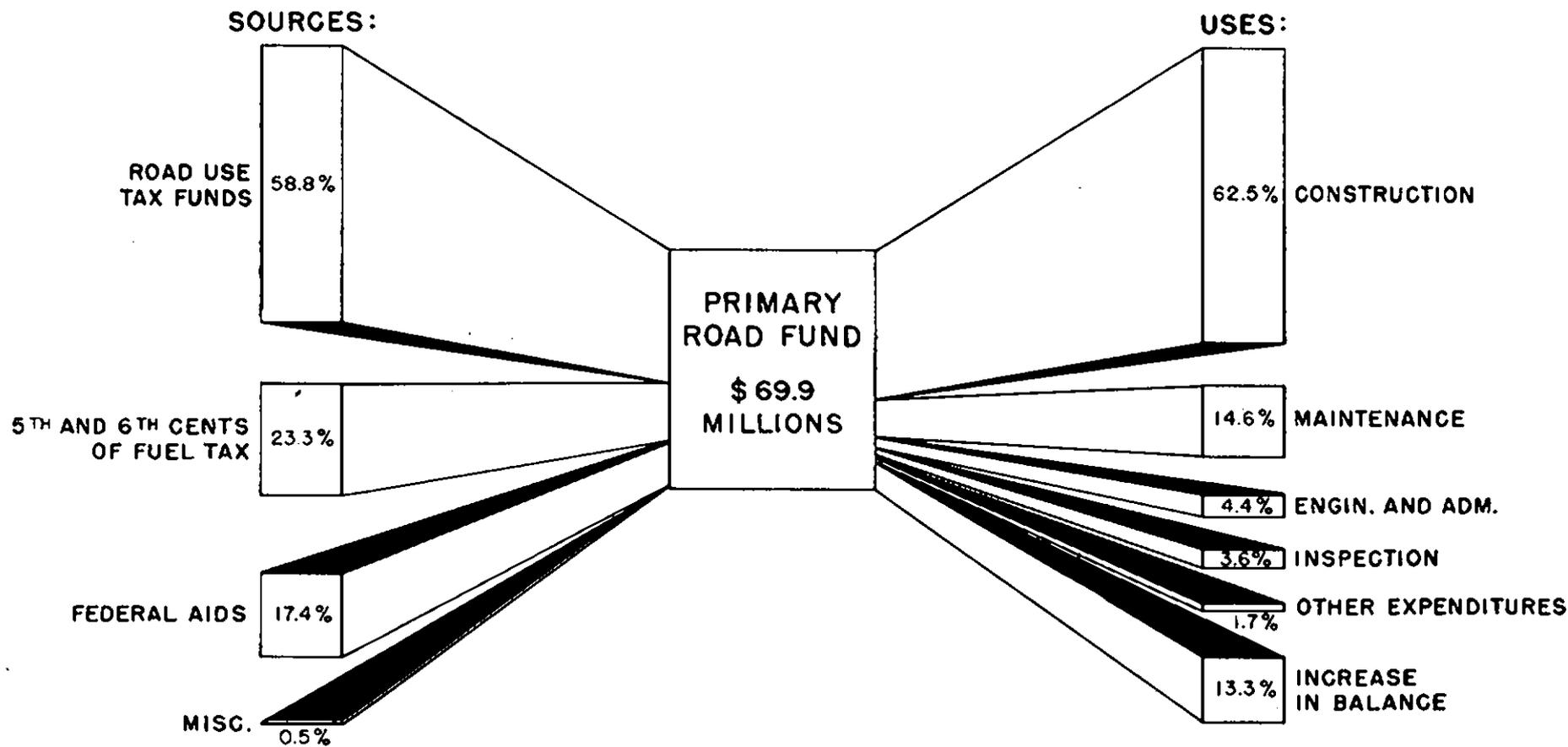
*** Chart 14 prepared from data supplied the Taxation Study Committee by the State Highway Commission, August, 1956.

CHART 14. ROAD USE TAX FUND: SOURCES AND ALLOCATIONS, 1956



SOURCE: STATE HIGHWAY COMMISSION

CHART 15. PRIMARY ROAD FUND: SOURCES AND USES, 1956



SOURCE: STATE HIGHWAY COMMISSION

1956, total receipts of the Primary Road Fund were \$69.6 million, of which almost 59 percent represented allocations from the Road Use Tax Fund; 23.3 percent of total receipts was derived from the temporary 5th and 6th cents of the gasoline tax, 17.4 percent from Federal aids, and .5 percent from miscellaneous sources.

Approximately 62.5 percent of Primary Road Fund receipts was expended for construction during 1956; maintenance expenditures accounted for 14.6 percent of receipts. During the fiscal year 1956, the increase of \$9.3 million in the end-of-year balance of the Road Use Tax Fund was equivalent to 13.3 percent of receipts during the period.*

3. Comparative Taxes, by Type of Vehicle.

The total state and local tax cost of owning, registering and operating various types of motor vehicles depends upon license fees, gasoline tax rates, personal property taxes on the vehicle, and "third-structure" taxes, such as carrier taxes, permit fees, or ton-mile taxes imposed on commercial vehicles. In view of the fact that all of these taxes except the motor vehicle fuel tax are imposed upon such a variety of bases (various measures of weight, type of tires, number of axles, value, and piston displacement) a direct comparison of tax rates and license fees in the various states is virtually impossible. However, the effective rates of taxation of motor vehicles in the various states can be compared by computing the tax liabilities incurred for the ownership, registration, and operation of certain standard types of vehicles in each state.

Comparative taxes on selected types of passenger vehicles, light trucks, and heavy trucks are shown in Tables 64, 65, and 66 for Iowa, and ten other states in the Northcentral area. For comparative purposes, the lowest, the average, and the highest rates in the United States are also shown.

The majority of states in the Northcentral area do not levy property taxes on motor vehicles. The states which do levy property taxes on motor vehicles are indicated in the tables. In terms of total taxes, including

property taxes in those states in which vehicles are subject to property taxation, the total 1956 license, fuel, and other taxes on a light weight passenger car were \$63.56 in Iowa, as compared with a national average of \$61.57. For this class of vehicle Iowa ranks 19th among the 48 states and the District of Columbia. In terms of the taxes imposed on a medium weight passenger car, Iowa ranks 29th with a total tax bill of \$81.44, just slightly above the national average of \$81.00. For a pickup truck used in farm service registered at a gross vehicle weight of 4,700 pounds the total tax in Iowa is \$1.23 above the national average of \$46.99, with Iowa ranking 22nd in the nation. The same vehicle used off the farm would pay taxes of \$61 in Iowa as compared with a national average tax on the same type and use of vehicle of \$67. In this comparison Iowa ranks 33rd in the nation.

Total taxes on stake trucks and single unit van trucks are shown in Table 65. For a stake truck used in farm service the Iowa tax is \$103, as compared with a national average of \$77.89. In this category Iowa ranks 6th in the nation as a whole. The same truck used in private operations other than farming would pay taxes in Iowa of approximately \$150, slightly less than the average in the nation as a whole, to give Iowa a rank of 25th in the nation.

A single unit van truck used in private operations would pay the 13th heaviest tax in Iowa of any state in the nation. The same truck used as a contract carrier vehicle would pay substantially larger taxes in both Iowa and the nation. However, for a single unit van truck employed as a contract carrier, the rate in Iowa is slightly below the national average; Iowa ranks 23rd in the nation.

The comparative tax bills of two types of heavier trucks are shown in Table 66. For a tractor—semitrailer with three axles, registered at 40,000 pounds gross vehicle weight, the average total tax in Iowa would be \$975, almost \$100 above the all-state average for a truck employed in private operations. In this comparison Iowa

* Chart 15 constructed from data supplied by the State Highway Commission, August, 1956.

Table 64. Comparative Taxes* on Selected Types of Motor Vehicles Eleven Northcentral States, 1956.

State	Light Weight Passenger Car ^c		Medium Weight Passenger Car ^d		Pickup Truck* Farm Service		Pickup Truck* Private Operation	
	Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.
Indiana ^b	\$86.11	3	\$115.31	3	\$75.86	1	\$ 84.38	5
Kansas ^b	76.20	10	100.79	11	57.65	8	71.51	14
Nebraska ^b	71.93	12	92.01	15	39.00	38	70.64	16
IOWA	63.56	19	81.44	29	48.22	22	61.00	33
North Dakota	62.06	23	81.94	23	44.22	29	57.00	37
Illinois ^b	61.11	24	93.10	13	53.17	11	68.54	18
Minnesota	52.25	35	75.45	29	40.00	34	55.25	38
South Dakota	50.80	37	69.20	36	41.85	31	52.50	43
Wisconsin	50.56	38	59.44	41	33.22	44	71.00	15
Missouri ^b	48.13	41	74.44	30	36.29	41	51.68	46
Michigan	45.06	42	56.74	42	39.72	35	65.70	27
Lowest in U.S.	38.04	—	46.20	—	30.09	—	46.00	—
Average, U.S.	61.57	—	81.00	—	46.99	—	67.00	—
Highest in U.S.	99.59	—	132.41	—	75.86	—	100.94	—

* Includes motor vehicle fuel taxes, registration fees, property taxes, and other licenses and fees. Exclusive of all Federal taxes, which are uniform in all states.

^b Motor vehicles subject to property taxation.

^c A light weight club coupe passenger car.

^d A medium weight sedan passenger car.

* A truck registered for 4,700 lbs. gross vehicle weight.

Source: U.S. Bureau of Public Roads, "Road User and Property Taxes on Selected Motor Vehicles, 1956," *Public Roads*, August, 1956.

ranks 15th in the nation. The same truck employed in contract carrying would pay slightly higher taxes in both Iowa and the nation. In this comparison Iowa ranks 22nd.

A tractor-semitrailer, four axle, diesel-powered truck registered at 50,000 pounds gross vehicle weight would be taxed at a rate slightly higher than the national average if privately employed in Iowa, but at a rate somewhat below the national average if employed in contract carrying. In the former comparison, Iowa ranks 17th in the nation; in the latter comparison Iowa ranks 24th.

The comparisons presented in Tables 64, 65, and 66 have been compiled by the Bureau of Public Roads as a means of measuring differentials in state license fees, gasoline tax rates, "third structure taxes," and property taxes. The assumed characteristics of the vehicles, miles traveled, and miles per gallon of fuel consumed are identical in all the states for purposes of this comparison. The gasoline tax rates used in compiling the data in these tables are the rates in effect January 1, 1956. Thus, for Iowa and the other states shown in the tables, the rates are those also currently in effect.

The total tax on most types of vehicles is slightly higher in Iowa than in the nation as a whole. In particular, the taxes on light trucks used in farm service are substantially higher in Iowa than in most other states for trucks used for the same purposes—primarily because of the higher license fees in Iowa. For the heavier type of truck the Iowa tax is somewhat above the national average where such trucks are privately used, but the Iowa rates are near, or below, the national average where such trucks are used as contract carriers.

The near-national average levels of total vehicle taxes in Iowa are largely attributable to the fact that motor vehicles are not subject to property taxation in Iowa. Exemption from property taxation offsets the relatively high levels of registration fees in Iowa. The rank of Iowa in terms of the tax paid for registration and use of motor vehicles is shown in Table 67 in terms of total taxes (the basis of the comparison used in the preceding tables), and solely in terms of road-user taxes. In this table, road-user taxes are all taxes paid on vehicles except property taxes. If the comparisons be restricted to road-user taxes Iowa ranks near the top in terms of the severity of motor vehicle taxation, particularly for light weight and medium weight passenger cars, light trucks for farm use, stake trucks for farm use, and single unit vans not employed as contract carriers.

The comparisons presented in Table 67 help to explain why the total cost of owning and operating vehicles in Iowa is not significantly out of line with national averages while, at the same time, more narrowly defined road-user revenues per vehicle, per capita, and relative to Personal Income are very high in Iowa. The explanation lies in the fact that property taxes, where levied on motor vehicles are generally not earmarked for highway purposes.

Registration fees, rather than an abnormally high rate of motor vehicle fuel taxation account for the high ranks of Iowa in road-user taxation.

For the standard light weight passenger car used in the computations shown in Table 64, the average license fee in Iowa is \$29.00, the highest in the Northcentral area, and only \$2.61 below the highest in the nation. For the medium weight passenger vehicle, the Iowa fee of \$38.00 is the third highest in the eleven-state area, but \$4.50 below the top rate in the nation. For a pick up truck used in farm service the registration fee in Iowa is \$25.00, the highest in the eleven-state area. Four of the eleven states impose a higher registration fee on vehicles of this type for nonfarm than for farm use. The total tax costs are higher for nonfarm than for farm use

Table 65. Comparative Taxes* on Selected Types of Trucks, Eleven Northcentral States, 1956.

State	Stake Truck* Farm Service		Stake Truck* Private Operation		Single Unit Van Truck* Private Operation		Single Unit Van Truck* Contract Carrier	
	Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.
Illinois ^b	\$128.94	1	\$173.34	13	\$319.06	16	\$396.01	26
Indiana ^b	121.45	3	152.74	22	295.35	18	380.95	32
IOWA	103.00	6	149.98	25	328.42	13	425.76	23
Kansas ^b	79.62	20	142.89	27	254.40	30	366.35	34
Wisconsin	68.00	30	219.98	2	353.42	8	455.76	18
North Dakota	66.75	32	141.73	28	224.67	44	372.01	33
South Dakota	62.60	37	196.65	5	390.35	3	477.30	16
Minnesota	61.35	39	116.90	44	195.60	47	280.05	46
Michigan	60.50	41	140.48	31	246.22	34	388.56	28
Nebraska ^b	59.76	43	202.50	3	342.59	11	449.93	20
Missouri ^b	49.20	48	84.51	49	224.67	44	257.74	48
Lowest in U.S.	48.50	—	84.51	—	183.28	—	244.84	—
Average, U.S.	77.89	—	153.11	—	283.92	—	431.49	—
Highest in U.S.	128.94	—	253.88	—	403.92	—	736.41	—

* Includes fuel taxes, licenses, property taxes, ton-mile and carrier taxes, where imposed.

^b Motor vehicles subject to property taxation.

^c Stake truck registered for 12,500 lbs. gross vehicle weight.

^d Van registered for 19,000 lbs. gross vehicle weight.

Sources: U.S. Bureau of Public Roads, "Road User and Property Taxes on Selected Motor Vehicles, 1956," Public Roads, August, 1956.

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Table 66. Comparative Taxes* on Selected Types of Heavy Trucks Eleven Northcentral States, 1956.

State	Tractor-Semitrailer Private Operation		Three Axle ^c Contract Carrier		Tractor-Semitrailer Four Axle, Diesel Powered			
	Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.	Private Operation		Contract Carrier	
					Total Taxes	Rank in U.S.	Total Taxes	Rank in U.S.
Illinois ^b	\$1,103.26	5	\$1,103.26	14	\$1,411.48	10	\$1,411.48	17
Nebraska ^a	1,045.14	9	1,075.14	20	1,357.92	14	1,387.92	21
North Dakota	1,035.00	10	1,090.00	17	1,503.75	8	1,558.75	14
South Dakota	983.50	15	993.50	22	1,359.50	13	1,369.50	22
IOWA	975.00	16	980.00	24	1,295.00	17	1,300.00	24
Wisconsin	985.00	17	985.00	23	1,220.00	22	1,240.00	28
Kansas ^a	906.05	22	906.05	29	1,520.78	7	1,520.78	15
Michigan	776.40	32	896.40	30	970.50	38	1,150.50	32
Minnesota	760.50	37	768.00	39	1,010.50	35	1,018.00	38
Indiana ^a	698.83	41	722.83	42	981.19	36	1,005.19	39
Missouri ^b	619.38	46	644.38	45	907.41	42	932.41	42
Lowest in U.S.	522.00	—	522.00	—	682.00	—	682.00	—
Average, U.S.	878.11	—	970.12	—	1,233.63	—	1,379.19	—
Highest in U.S.	1,470.91	—	1,514.33	—	2,533.70	—	2,611.83	—

* Includes fuel taxes, registration fees, property taxes, and carrier taxes and ton-mile taxes where applicable.

^b Motor vehicles subject to property taxation.

^c 40,000 gross vehicle weight.

^d 50,000 pounds gross vehicle weight.

Source: U.S. Bureau of Public Roads, "Road User and Property Taxes on Selected Motor Vehicles, 1956." *Public Roads*, August, 1956.

because larger amounts of fuel taxes are paid in the former use.

Table 67. Comparative Ranking of Iowa Taxes on Motor Vehicles, Inclusive and Exclusive of Property Taxes, 1956.

Vehicle Type and use	Rank of Iowa in United States	
	In terms of Total Taxes on Vehicle	In terms of Road User Taxes only ^a
Light weight passenger car	19	4
Medium weight passenger car	29	5
Pickup truck, 4,700 lbs. G.V.W. ^b		
Farm use	22	6
Nonfarm private use	33	12
Stake truck, 12,500 lbs. G.V.W.:		
Farm use	6	4
Nonfarm private use	25	17
Single unit van, 19,000 lbs. G.V.W.:		
Private use	13	5
Contract carrier	23	17
Tractor-semitrailer, three-axle Combination, 40,000 lbs. G.V.W.:		
Private use	16	9
Contract carrier	24	19
Tractor-semitrailer, four-axle, Diesel-powered combination, 50,000 lbs. G.V.W.:		
Private use	17	8
Contract carrier	24	18

^a Total taxes on vehicle, minus property taxes.

^b G.V.W.: Gross vehicle weight for registration.

Source: *Public Roads*, August, 1956.

For a stake truck of 12,500 pounds gross vehicle weight, the Iowa license of \$70.00 is the highest in the eleven-state area for farm use. But for private operation off the farm, three Northcentral states impose a rate higher than Iowa's.

In general, for the larger trucks, the Iowa registration fees, while somewhat above the national average, are not so high, relative to fees in other states, as is the case for passenger vehicles and the lighter commercial type vehicles.

4. Comparative Road Mileages, and Population, Area, Income, and Vehicle Registration.

Data presented in Chapter III, and in this chapter, indicate that Iowans make relatively heavy tax payments for the support of the State's highways, roads and streets. The principal factor responsible for the high cost of Iowa's highway system is the large amount of mileage in the system—particularly that part of the system under local control. Comparable data in terms of which the highway system of the states may be measured relative to population, income, area, and vehicle registration are presented in Table 68. Figures are shown for each of the eleven Northcentral states, and the United States as a whole.

Iowa, with 1.88 percent of the nation's land area, 1.64 percent of the nation's 1955 civilian population, and 1.39 percent of Personal Income in 1955, contains 3.31 percent of all the public roads and streets in the entire United States. Regardless of area, population or income, only six states have larger total rural and municipal mileages—California, Illinois, Kansas, Minnesota, North Dakota, and Texas. All but two of these states—North Dakota and Kansas—have larger resources than Iowa from which to meet the costs of highway construction, maintenance and operation.

The primary road mileage of Iowa, including 1,050 miles of primary extensions in urban areas, is not excessive—relative to land area, population, vehicle registration and the income of residents of the State. Twenty-

Table 68. Population, Income, Land Area, Vehicle Registration and Miles of Roads and Streets: Eleven Northcentral States

State	Population, 1955 (,000)	Personal Income, 1955 (,000,000)	Land Area: Square Miles	Vehicles Registered in 1954 (,000)	Miles of Roads and Streets			All roads and streets			
					State Adminis- tered ^a	Locally Administered Rural	Municipal	Miles	Population Per Mile	sq. Mile Land Area	Pers. Income Per Mile
North Dakota	642	882	70,057	299.7	6,624	108,900	2,096	118,104 ^b	5.4	1.69	\$ 7,468
South Dakota	677	850	76,536	314.6	6,756	81,751	2,084	91,706 ^b	7.4	1.20	9,269
Nebraska	1,381	2,147	76,663	637.0	9,904	89,303	5,086	104,552 ^b	13.2	1.36	20,535
Kansas	2,060	3,393	82,108	1,001.6	9,989	115,950	7,761	133,712 ^b	15.4	1.63	25,375
Minnesota	3,174	5,394	80,009	1,306.5	13,077	97,343	10,879	122,726 ^b	25.9	1.53	43,952
IOWA	2,692	4,213	56,045	1,143.5	9,830	92,200	10,138	112,168	24.0	2.00	37,560
Missouri	4,128	7,560	69,226	1,433.9	22,505	76,706	10,471	110,296 ^b	37.4	1.59	68,543
Wisconsin	3,694	7,569	54,705	1,936.8	11,393	76,134	8,356	96,289 ^b	38.4	1.76	68,222
Illinois	9,361	20,988	55,935	3,087.8	12,287	93,391	17,289	122,967	76.1	2.20	170,676
Michigan	7,236	15,632	57,022	2,847.7	9,355	85,065	13,313	107,733	67.2	1.89	145,103
Indiana	4,330	8,201	36,205	1,682.4	10,657	76,093	11,257	98,007	44.2	2.71	83,678
United States	164,280	303,391	2,974,736	58,589.9	647,663	2,331,356	323,879	3,394,561 ^b	48.40	1.14	\$ 89,375
Iowa, percent of United States	1.64	1.39	1.88	1.95	1.52	4.0	3.13	3.31	—	—	—
Iowa, rank in 48 states	22nd	22nd	22nd	17th	26th	6th	14th	7th	—	—	—

^a Includes rural roads administered by states, and municipal extensions of state systems.

^b Includes minor mileages under federal control, not shown separately.

Sources: Population: U.S. Bureau of the Census.

Personal Income: U.S. Department of Commerce.

Vehicle registration and road mileage: Bureau of Public Roads, *Highway Statistics*: 1954.

five states have a larger mileage of state-administered roads than Iowa. But only five states—Illinois, Kansas, Minnesota, North Dakota, and Texas—have more mileage of locally administered rural roads. Iowa, with 1.88 percent of the nation's land area, contains 4.0 percent of the nation's locally administered rural roads.

Although Iowa is not generally thought of as an urbanized state, it contains 3.13 percent of the nation's locally administered street mileage in addition to the 1,050 miles of urban streets included in the State-administered system.

Population per mile of rural and urban roadway is 24 in Iowa, as compared with over 48 in the nation as a whole. In the eleven-state area, North Dakota, South Dakota, Nebraska, and Kansas have less population per mile of road.

Iowa maintains almost twice as many miles of roads and streets per square mile of land area as the nation as a whole. But the Personal Income of the State's residents per mile of road is less than one-half the national average.

CHAPTER VII

Property Taxation

Although the relative importance of taxes on real and personal property has declined significantly in Iowa and in other states since the 1920's, the property tax is still the most important single source of state and local tax revenue in Iowa and in the United States as a whole.

Some of the major features of property taxation in Iowa, and recent trends in property taxation have been presented in earlier chapters of Part I of the Report. The trend of gross and net levies on property, and total State and local property tax revenues were presented in Table 2, and Chart 1 of Chapter I. The trend of local property tax levies, by type of governmental unit, was shown in Table 11 of Chapter I. More detailed data are presented in this chapter showing changes in the relative importance of the property tax in Iowa's tax structure, the importance of property taxation in Iowa as compared with property taxation in other states, the sources of property tax revenue in Iowa by major types of property and the assessment ratios for urban and rural properties in the 99 counties of the State.

1. The Relative Importance of Property Taxation in Iowa.

Data showing the changing relative importance of property taxation in Iowa and in the United States as a whole are presented in Table 69, from the late 1920's through the most recent year for which data are available. In 1929 and until the mid-1930's property tax collections from current and delinquent levies accounted for approximately 80 percent of all tax revenues collected in the State of Iowa. In 1927, in the 48 states as a whole, property tax collections accounted for about 78 percent of total state and local tax revenues. During the 1930's there was a marked shift away from reliance on property taxation at the state level of government. Many states, including Iowa, imposed new forms of taxes, primarily sales and income taxes, which replaced property levies as the major sources of state tax revenue. In the majority of the states the taxation of real and personal property was left largely to local units of government following the tax revisions of the mid-1930's.

In 1942, property tax collections supplied approximately 55 percent of all State and local tax revenues in Iowa, as compared with about 53 percent in the nation as a whole. Since 1942 the ratio of property tax revenues to total State and local taxes has declined in both Iowa and the nation as a whole, although the rate of decline has been somewhat greater in the nation than in Iowa. In Iowa, the property tax reached a position of minimum relative importance, as measured by the percent of total State and local tax revenue derived from property taxation, in 1948. By 1953, property taxes had risen in relative importance in Iowa, although the general decline continued at a very modest rate in the nation as a whole until 1955.

Throughout most of the period from the late 1920's up to the present time property taxation has been a relatively more important source of tax revenue in Iowa than in the nation as a whole. Iowa shares this characteristic with several other neighboring states having predominantly agricultural economies.

The decline in the relative importance of property taxation as a source of total state and local tax revenues is attributable to a number of fiscal developments. In the first place, the declines noted in Iowa and in the nation as a whole have resulted largely from the decreased im-

Table 69. Relative Importance of State and Local Property Taxes in Iowa and the United States, Selected Years, 1929 to 1956, by Year of Collection.
(Dollar Amounts in millions)

	Property Taxes: Iowa (,000,000)	All State and Local Taxes: Iowa ^d (,000,000)	Property Taxes in Iowa (Percent)	Property Taxes as Percent of All State and Local Taxes in United States ^e (Percent)
1929 ^a	\$101	\$127	80	78 ^f
1932 ^a	107	136	79	73
1938 ^b	78	134	58	58
1940 ^b	86	145	59	57
1942 ^b	85	155	55	53
43 ^b	85	149	57	—
44 ^b	86	152	57	52
45 ^c	89	158	56	52
46	99	183	54	49
47	107	214	50	48
48	123	254	48	46
49	150	286	52	46
50	151	301	50	46
51	162	328	49	45
52	133	354	52	45
53	200	372	54	45
54	214	405	53	45
55	223	424	53	46
56	232	466	50	

^a Amounts of property taxes for 1929 and 1932 are collections of current and delinquent taxes. Source: Brookings Institution, Report, *Survey of Administration in Iowa, "The Revenue System,"* 1933, p. 17.

^b Property Taxes for 1938, 1940, and 1942-1944 are collections. Source: Brookings Institution, Report, Committee on Postwar Taxation, 1946, p. 91.

^c Data for 1943 and subsequent years are state and local levies for collection in the years shown, less the amounts of Homestead and Agricultural Land Tax Credits applicable to the levies for each year. Source: Iowa State Tax Commission, and State Comptroller's Office.

^d Exclusive of unemployment insurance taxes. Includes all other State taxes, fees, licenses, etc., local property taxes and estimated nonproperty taxes, licenses, and fees of local units.

^e Source: U.S. Bureau of the Census.

^f Percentage for 1927; 1929 figure not available.

portance of property taxation in the State tax structure. For example, in 1927, in the nation as a whole, 23 percent of all state tax revenue was derived from property taxation. In 1955 property taxes supplied only 3.6 percent of all state tax revenues. In contrast, local levels of government, which derived 97.3 percent of their tax revenue from property taxation in 1927, were still relying on property taxation for about 87 percent of their total tax revenue in 1955.

A second factor responsible for the declines noted in Table 69 has been the higher rate of increase in state tax revenues as compared with the rate of increase in local tax revenues since the end of the 1920's. From 1927 to 1955 state taxes in the nation as a whole increased by 621 percent, while local taxes increased by only 165 percent. As nonproperty taxes have always been more important in state tax structures than in local tax struc-

tures, and as most of the increase in state tax revenues has been from nonproperty sources, the differential rates of change in state and local tax revenues have tended to reduce the relative importance of property tax revenues in the combined tax receipts of the two levels of government.

A third factor which has accompanied the decline in the relative importance of property taxation has been the increase—in absolute and relative terms—in the amount of state aids to local units of government. In a large measure these aids have been used to cover local governmental costs which, in the absence of the aids, would have been financed by local levies on property. In the United States as a whole local governments received 9.4 percent of their total revenue in the form of state aids in 1927; in 1955, local governments received 24.8 percent of their total revenue in the form of state aids.

Finally, it may be noted that the declining relative importance of property taxation in state and local revenue structures reflects a tendency for important governmental functions to shift from the local level to the state level. Thus, these functions are financed to an increasing degree from nonproperty tax sources. In the nation as a whole, two of the most important functions which have tended to gravitate from local administration and finance to state and/or federal levels have been various types of public welfare services and public highways, particularly those highways designated as primary roads.

Interstate Comparisons of Property Tax Revenues. The role of property taxation in the total tax structures of eleven Northcentral states is shown in Table 70, for each of the different levels of government in the several states. In 1953, levies on property accounted for approximately 54 percent of combined state and local tax collections in Iowa, as compared with a national average of 44.8 percent. In the Northcentral area only three states—Nebraska, South Dakota, and Wisconsin—placed a greater reliance on revenues from the taxation of property than was the case in Iowa. However, all but two of the states in the Northcentral area—Michigan and Missouri—depend more heavily on property taxes as a source of revenue than is the case in the nation as a whole.

Table 70. Property Tax Revenues, As Percentages of Total State and Local Tax Revenue, 1953; By Level of Government, Eleven Northcentral States

State	Property Tax Revenues as Percent of All Tax Revenues					
	State and Local	State	All Local	School Dis-Counties	tricts	Cities
Nebraska	71.7	35.8	92.6	85.6	100.0	81.8
South Dakota	56.6	0.3	93.2	86.0	99.7	88.3
Wisconsin	55.5	7.8	96.1	98.8	100.0	92.0
IOWA	54.9	0.1	97.6	99.3	100.0	88.2
Kansas	52.9	5.5	95.8	97.0	100.0	84.5
Illinois	51.9	0.1	89.8	98.1	100.0	68.2
Minnesota	51.4	5.1	96.3	99.6	100.0	88.6
North Dakota	50.3	7.3	96.3	98.3	100.0	80.3
Indiana	49.1	4.9	97.8	98.9	99.8	93.1
Michigan	44.1	5.4	97.6	99.0	100.0	95.0
Missouri	42.5	3.5	80.5	97.0	97.0	57.4
United States	44.8	3.5	87.0	95.3	98.5	74.1

Source: U.S. Bureau of the Census, *State and Local Government Revenue in 1953*, Table 7.

For state governments only, there is only one state in the Northcentral area in which a major share of revenue is derived from levies on property—Nebraska—where such revenues provided almost 36 percent of all state tax revenues in 1953. South Dakota, Iowa, and Illinois derive only token revenues from this source.

For all local units of government combined (county, school districts, townships, cities and special districts) property taxes supplied almost the sole source of tax revenue in all of the eleven Northcentral states except Missouri. For these units of government the Northcentral area relies more heavily on property taxation than is the case in the nation as a whole. Aside from aids and miscellaneous revenues, taxes provide almost the sole source of tax revenue in all of the states in the Northcentral area, and in the nation as a whole. The heavy reliance on property tax revenues also characterizes school districts in the Northcentral area and in the nation as a whole.

A somewhat more varied pattern of tax revenues is to be found at the city level of government, not only in the Northcentral area but in the nation as a whole. For all city governments in the United States property taxes supplied 74 percent of all tax revenue in 1953. In the states comprising the Northcentral area the dependence on property taxes at the city level was greater than the national average, except in Illinois and Missouri. In four states in the area—South Dakota, Minnesota, Indiana and Michigan—cities derive a larger percentage of their tax revenue from property than is the case in Iowa. The below-average percentage of tax revenue from levies on property in Illinois cities is primarily attributable to the use of several nonproperty forms of taxation in the City of Chicago during the year 1953. More recently, several other towns and cities in Illinois have imposed a $\frac{1}{2}$ of 1 percent sales tax which will further reduce the average ratio of property taxes to total city tax revenues in that state. In Missouri, the low percentage of city tax revenue derived from levies on property is primarily attributable to the income tax levied in St. Louis and a local gasoline tax imposed in several Missouri towns and cities.

Property Taxes as a Source of Local Revenue. The percentages of total general revenue derived from local property taxes, charges and miscellaneous revenues, and aid from other governments primarily state governments, are shown in Table 71 for cities, counties, and school districts in the Northcentral area. It should be noted that, in Table 71, local property taxes in the various types of government are expressed as a percentage of general revenue while in Table 70 local property taxes are expressed as a percentage of local tax revenue.

The major characteristics of local revenue structures as presented in Table 71 may be summarized as follows:

1. City governments in Iowa derive an "average" percentage of their total general revenue from local property tax levies. In seven of the eleven states in the Northcentral area cities depend to a larger extent on local property taxes than is the case in the State of Iowa. However, city governments in Iowa derive a substantially higher percentage of their total general revenue from charges and miscellaneous sources than is the case with cities in the nation as a whole. Charges and miscellaneous revenues include amounts received from the public for performance of specific services benefiting the person charged, and amounts received from the sales of commodities and services except utility services. Aids from other governments, principally state aids, accounted for 17.6 percent of general city revenue in Iowa in 1953, as compared with 18.6 percent for all cities in the nation as a whole. In the

Northcentral area cities derive a larger percentage of their general revenue from aids in Wisconsin and Michigan than is the case in Iowa. In all other states aids are a less important source of general city revenue than in Iowa.

2. County governments in Iowa derive a substantially larger percentage of their general revenue from local property taxes, and receive a smaller percentage in the form of aids from other governments than is the case for counties in the nation as a whole. The percentage of general revenue derived from charges and miscellaneous sources is about the same in Iowa as for county governments in the nation as a whole. County governments derive a larger percentage of their general revenue from levies on property in South Dakota and Missouri than do county governments in Iowa, but county governments in all of the other Northcentral states depend less heavily on local property tax levies than is the case in Iowa.
3. With respect to school districts, general revenues derived from local property taxes account for 65.5 percent of general revenue in Iowa as compared with about 51 percent in the nation as a whole. School districts in South Dakota, Nebraska, and Illinois derive larger fractions of their total general revenue from property taxes imposed at the local level than do school districts in Iowa. On the other hand, in these same three states a smaller fraction of school district general revenue is derived from aids than is the case in Iowa. It may be noted that the 27.7 percent of school district general revenue in Iowa received in the form of aids from other governments includes not only the general and supplemental State school aids, but also includes other State funds becoming available to school districts through property tax relief, as well as Federal aids.

2. Growth of Property Tax Levies, by Type of Levy: 1948-1956.

Property taxes levied for collection in 1948, 1956, and the growth of such levies are shown in Table 72, by major type of levy, and in detail for the various components

of the county tax levy. The levies shown in Table 72 are before the application of tax credits for both 1948 and 1956.

Property tax levies in 1947, for collection in 1948, were slightly over \$142 million. From 1947, to 1955, total levies increased by \$122 million, to a total levy, in 1955, for collection in 1956, of \$264 million, an increase of almost 86 percent. Over the same period, levies for school purposes increased by slightly more than 86 percent, while levies for city purposes increased by almost 117 percent. County levies for construction and road maintenance increased by 54 percent, while general county levies for the purposes shown in Table 72, increased 77 percent. Of the major county levies, the most rapid increases were registered in the poor tax levy, levies for State and county institutions, and for soldiers' relief. All of these levies increased by more than 120 percent between 1947 and 1955. Miscellaneous levies increased by approximately 200 percent over the same period.

Of the total increase of slightly more than \$122 million in property tax levies, the increased levies for school purposes accounted for 53.4 percent; levies by cities for almost 20 percent; levies for road construction and maintenance almost 9 percent; and levies for county purposes 16.2 percent. As a result of the differential rates of growth in levies by the various taxing bodies, property taxes levied by city governments increased from 14.5 percent of the total in 1947 to almost 17 percent in 1955. Levies for road purposes and county levies accounted for a smaller fraction of total property levies in 1955 than in 1947. The state levy for servicing the soldiers' bonus bond issue accounted for .8 percent of the total property tax levy in 1955, and was responsible for 1.7 percent of the net increase in taxes on property between 1947 and 1955.

3. Distribution of Taxable Values and Tax Levies in 1954 for Collection in 1955.

The distribution of net taxable values of real and tangible personal property, by rural areas and cities and towns is shown in Table 73. The gross levies on these categories of property are also shown in Table 73. About 90 percent of all assessed values are determined locally,

Table 71. Property Taxes as a Source of General Revenue of Selected Units of Local Government in Eleven Northcentral States: 1953
(Percent of General Revenues)

State	Cities			Counties			School Districts		
	Local Property Taxes	Charges and Miscell. Revenues	Aid from Other Governments	Local Property Taxes	Charges and Miscell. Revenues	Aid from Other Governments	Local Property Taxes	Charges and Miscell. Revenues	Aid from Other Governments
North Dakota	41.3	43.6	4.9	61.2	6.3	31.5	51.0	2.6	46.4
South Dakota	55.4	27.8	9.5	76.3	2.3	9.3	75.9	4.6	19.8
Nebraska	56.4	23.6	7.2	39.6	8.2	45.5	78.8	4.3	18.9
Kansas	53.6	22.8	13.8	54.6	4.0	39.7	59.1	4.0	36.8
Minnesota	55.1	25.6	12.2	54.1	5.2	40.5	50.1	6.5	43.4
IOWA	49.2	26.3	17.6	63.1	9.6	26.9	65.5	6.9	27.7
Missouri	45.2	14.4	7.0	71.8	19.3	6.6	52.1	7.0	39.3
Wisconsin	48.4	12.8	34.6	42.3	10.9	46.2	62.2	5.0	32.9
Illinois	51.0	9.9	15.4	48.2	10.2	40.7	73.2	6.5	20.4
Michigan	51.1	20.8	25.4	42.2	13.3	44.1	42.1	6.4	51.5
Indiana	66.7	12.2	14.0	38.4	15.7	45.5	63.6	5.8	30.4
United States	48.9	15.4	18.6	46.6	10.8	40.3	50.9	6.2	42.1

Source: U.S. Bureau of the Census, *State and Local Government Revenue in 1953*, Table 7.

PROPERTY TAXATION

Table 72. Total Levies on Property, for Collection in 1948 and 1956, by Type of Levy, Exclusive of Tax on Monies and Credits.
(Dollar amounts in thousands)

Type of Levy	Levy for Collection in 1948	Percent of Total Levy, 1948	Levy for Collection in 1956	Percent of Total Levy, 1956	Dollar Change, 1948-56	Percentage Change, 1948-56	Percent of Total dollar change 1948-56 ^c
State Levy	0	0	\$ 2,049	0.8%	+\$ 2,049	—	1.7%
School Taxes	\$ 75,496	53.2%	140,687	53.3	+ 65,191	+ 86.4%	53.4
City Taxes	20,592	14.5	44,637	16.9	+ 24,045	+ 116.8	19.7
Road taxes	20,233	14.3	31,152	11.8	+ 10,919	+ 54.0	8.9
County taxes	25,709	18.1	45,519	17.2	+ 19,810	+ 77.1	16.2
General county	7,297	5.1	8,929	3.4	+ 1,632	+ 22.4	1.3
Court expense	1,424	1.0	2,538	1.0	+ 1,114	+ 78.2	0.9
Poor	3,629	2.6	8,739	3.3	+ 5,110	+ 120.8	4.2
State and county institutions ^a	5,719	4.0	12,602	4.8	+ 6,883	+ 120.4	5.6
Soldiers' relief	835	0.6	2,011	0.8	+ 1,176	+ 140.8	1.0
General county bonds	1,617	1.1	805	0.3	- 812	- 50.2	0.7
County assessor	1,723	1.2	1,952	0.7	+ 229	+ 13.3	0.2
Court house	150	0.1	219	0.2	+ 69	+ 46.0	0.1
Emergency	1,627	1.2	1,968	0.7	+ 341	+ 21.0	0.3
Bang's disease	37	—	407	0.2	+ 370	+1,000.0	0.3
Bovine T.B. eradication	126	0.1	140	0.1	+ 14	+ 11.1	—
County libraries	28	—	100	—	+ 72	+ 257.1	0.1
Drainage	211	.2	131	—	- 80	- 37.9	0.1
Miscellaneous ^b	1,256	.9	3,766	1.4	+ 2,510	+ 199.8	2.1
Public employees retirement—county	30	—	1,211	0.5	+ 1,181	+3,936.7	1.0
Total, all levies	\$142,030	100.0	\$264,045	100.0	+\$122,015	+ 85.9	100.0

^a Includes county levies for payments for patients in State mental health institutions, county insane hospitals, and county hospitals.
^b Includes levies for: cemeteries, 4-H clubs and fairgrounds, fire equipment, library expense, municipal and township halls, orphans, widows, and juveniles, township levies, and miscellaneous purposes.
^c Total increase of \$122,015,000 from 1948 to 1956 = 100.0 percent.
 Source: Iowa State Tax Commission.

Table 73. Net Taxable Values, and Taxes Levied in 1954, for Collection in 1955
(In thousands of dollars)

Type of Property	Net Taxable Values				Total Tax Levies			
	Rural	Cities and Towns	Total	Percent of Total	Rural	Cities and Towns	Total	Percent of Total
Locally Assessed:								
Agricultural land and bldgs. ^a	\$1,951,294	\$ 27,638	\$1,978,932	44.3	\$ 86,456	\$ 1,367	\$ 87,823	35.3
Business and commercial lots & buildings	9,521	317,825	327,346	7.3	422	23,364	23,786	9.6
Residential lots and bldgs.	42,428	841,260	883,688	19.8	1,880	61,843	63,723	25.6
Industrial and manufacturing real and personal property	32,577	159,283	191,860	4.3	1,443	11,709	13,153	5.3
Other personal property	373,157	270,802	643,959	14.4	16,534	19,907	36,441	14.6
Assessed by State Tax Commission:								
Railroads, interurban, sleeping car, & express	102,993	20,802	123,795	2.8	4,563	1,529	6,093	2.4
Telephone & telegraph	56,136	10,507	66,643	1.5	2,487	772	3,260	1.3
Electric property, and transmission lines	79,462	89,204	168,666	3.8	3,521	6,558	10,078	4.0
Pipe lines	46,433	2,433	48,866	1.1	2,057	179	2,236	0.9
Gas property	686	22,679	23,366	0.5	30	1,663	1,693	0.7
Other utility property	154	7,909	8,062	0.2	7	581	588	0.2
Total, real and tangible personal property	\$2,694,842	\$1,770,281	\$4,465,122	100.0	\$119,401	\$129,473	\$248,873	100.0
Monies and credits, bank stock, & bldg. and local association shares	68,685	563,835	632,521	—	343	2,696	3,040	—
Grain handled (.25 mill per bushel)	—	—	—	—	14	73	92	—
Grand total	\$2,763,527	\$2,334,116	\$5,097,643	—	\$119,758	\$132,247	\$252,005	—

^a Includes "Forest and fruit tree reservations."
 Source: Iowa State Tax Commission. Annual Report: 1955.

by county and city assessors. In 1954, the public utility properties for which the State Tax Commission fixes taxable value accounted for almost 10 percent of total assessed values.

Of the locally assessed properties, the most important category is agricultural lands and buildings, which accounted for 44.3 percent of total assessed value of real and personal property in 1954. The amounts and percentages for other categories of property are shown in Table 73. For total real and tangible personal property approximately 54 percent is found in rural areas, while 46 percent is located in towns and cities. These percentages include public utility properties but exclude monies and credits. Although more than one-half of all taxable values are located in rural areas, the total taxes levied on properties in rural areas account for slightly less than 50 percent of the total tax levy because millage levies are higher in towns and cities than in the rural areas.

For taxes levied in 1954, for collection in 1955, more than one-third was levied on agricultural lands and buildings, and about one-fourth on residential lots and buildings—primarily in cities and towns. A substantial amount of residential housing is of course included in the category of agricultural lands and buildings. Personal property exclusive of that in industrial and manufacturing establishments accounted for about 14.6 percent of total levies for collection in 1955. The taxes levied on public utilities assessed by the State Tax Commission accounted for 9.6 percent of the total property tax levy in the same year. The actual value of monies and credits, the taxable value of bank stock and the actual value of building and loan association shares produced revenue equivalent to 1.2 percent of the gross levy on real and tangible personal property. Approximately 89 percent of the value of intangibles, and about the same percentage of the revenue from the tax on intangibles was in cities and towns.

The data presented in Table 73 do not disclose fully the distribution of the property tax load among the major sectors of the State's economy for the following reasons: (1) personal property is not distributed among the major categories, and (2) the data in Table 73 do not reflect the effects of two important forms of property tax credits—the Homestead Tax Credit and the Agricultural Land Tax Credit.

The data presented in Table 73 have been regrouped

into five major categories in Table 74, representing, in so far as is possible, industrial, or economic sectors. It is recognized that the regrouped data are only approximations, but the items for which classification is somewhat difficult are not of major importance in the totals. Thus, the groupings shown in Table 74 represent reasonably accurate estimate of distribution of the gross and net property tax levy as it falls on agriculture, business and commercial operations, residential property, manufacturing, and public utilities.

In the "agricultural" category shown in Table 74 farm machinery, taxable livestock, one-half of the value of home freezers and one-fourth of the value of radios, television sets, and musical instruments, have been included with the value of agricultural lands and buildings. On the basis of this sub-total the gross levy on real and personal property owned in the agricultural sector of the economy was \$104 million in 1954. This represented almost 42 percent of the total gross levy on real and tangible personal property in the State of Iowa.

The business and commercial category comprises the assessed value of lots and buildings and personal property in the form of merchandise inventories and store fixtures. This category of property accounted for 15.5 percent of the gross levy. Residential lots and buildings, exclusive of personal property in such buildings, accounted for 25.6 percent of the gross levy. Manufacturing and industrial plants, including all property not assessed as real property, accounted for 5.3 percent of the gross levy. Public utility properties assessed by the State Tax Commission accounted for 9.6 percent, and miscellaneous categories of personal property for 2.2 percent of the gross levy. The miscellaneous categories of personal property include the assessed value of buildings on lands leased for less than three years, contractors' equipment, household goods, office equipment, oil station equipment, and several other minor types of personal property.

Total tax credits against property levies applicable to collections in 1955, were \$29,152 thousand. According to the State Tax Commission, \$7,082 thousand of the Homestead Tax Credit was allocable to rural properties, and \$17,070 thousand was allocable to residential properties in towns and cities. However, not all of the Homestead Tax Credit allocable to rural areas represents a credit against agricultural lands and buildings. Approximately

Table 74 Estimated Distribution of Gross and Net Property Tax Levy, by Major Types of Property (1954 Levies, for Collection in 1955)

Categories of Property	Gross Levy (,000)	Percent of Gross Levy Percent	Tax Credits (,000)	Net Tax Levy (,000)	Percent of Net Tax Levy
Agricultural lands and buildings, farm machinery, livestock, home freezers, and radios, T.V. and musical instruments ^a	\$104,017	41.8	\$ 8,541 ^b	\$ 95,476	43.5
Business and commercial lots and buildings, and merchandise and store fixtures.....	38,459	15.5	—	38,459	17.5
Residential lots and buildings.....	63,723	25.6	20,611 ^b	43,112	19.6
Manufacturing and industrial plants and buildings, and personal property.....	13,153	5.3	—	13,153	6.0
Public utility property (State assessed).....	23,948	9.6	—	23,948	10.9
Miscellaneous personal property.....	5,573	2.2	—	5,573	2.5
Total, exclusive of moneys and credits.....	\$248,873	100.0	\$29,152^c	\$219,722	100.0

^a It is arbitrarily estimated that one-half of the assessed value of home freezers, and one-fourth of the assessed value of T.V., radios and musical instruments are in farm homes.

^b All of the Agricultural Land Tax Credit, and \$3,541,000 of the Homestead Tax Credit deducted from Agricultural Land & Buildings; the remainder of the Homestead Tax Credit (\$20,611,000) deducted from residential lots and buildings. According to the State Tax Commission, \$7,082,000 of the Homestead Tax Credit was allocated to owner-occupied dwellings in rural areas; but the U.S. Census of Housing, 1950, showed slightly less than one-half of owner-occupied rural dwellings were occupied by farmers.

^c The annual appropriation for the Agricultural Land Tax Credit was increased from \$5 million, to \$10.5 million, effective on 1955 levies collectible in 1956. Also, the Homestead Tax credit is higher for the 1955 levy, than for the 1954 levy. Total credits applicable to 1955 levies, collectible in 1956, are approximately \$35.5 million.

Source: Estimated from data published in the 1955 annual Report, Iowa State Tax Commission.

one-half thousand of the Homestead Tax Credit is a credit against non-farm residential lots and buildings located in rural areas.

Subtracting the tax credits available on agricultural lands and residential properties reduces significantly the total share of the net property tax levy borne by residential property. However, agricultural lands and buildings and personal property allocated to agriculture, bore a larger share of the total net levy than of the total gross levy in 1954. As there are no property tax credits available to types of property other than agricultural lands and owner-occupied dwellings the share of the net levy borne by the other categories of property was raised by the application of the credits.

The significance of the share of the net property tax levy borne by the various categories of property is extremely difficult to evaluate for a number of reasons. In the first place, the share of the property tax borne by agriculture includes residential as well as property used in production. In the business and commercial and the manufacturing components, however, residential property is generally not included. The same is true of public utility property. Thus about all that can be concluded with respect to the distribution of the net property tax levy in Iowa is that the agricultural component of the economy bears approximately 44 percent of the total property tax load while the non-agricultural segments bear the remainder, or about 56 percent of the total.

4. Comparative Taxes on Agricultural Properties: Iowa and the Northcentral Area.

Direct comparisons of millage rates among the various states—or even within the majority of the states—are virtually meaningless because of the wide range of variation in assessment ratios. For a given type of property, such as agricultural lands and buildings, the ratios of assessed values to market value vary within the states, and between states. Moreover, the assessment ratios for different kinds of property show a wide range of variation within most states. In some cases, as in Minnesota, different assessment ratios are provided for by statute; in other states, the ratios vary because of differences in assessment practices.

For the most important category of property in Iowa—agricultural lands and buildings—interstate comparisons can be made in terms of U. S. Department of Agriculture data compiled on a uniform basis in all states. Levies

on farm real estate (lands and buildings) in Iowa, ten other states in the Northcentral area, and the United States are shown in Table 75 for two years: 1950 and 1955. The levies shown are generally collectible in the following years, that is, 1951 and 1956.

The dollar amount of the levy per acre on Iowa farm lands and buildings was the second highest in the Northcentral area in both 1950 and 1955. In the former year, the Iowa levy of \$1.92 per acre was 2.8 times the national average; in the latter year, the Iowa levy of \$2.27 per acre was 2.6 times the national average. However, from 1950 to 1955, the rate of increase in the levy per acre in Iowa was lower than the national average rate of increase, and the second lowest in any of the states in the Northcentral area.

Levies per \$100 of full value. In general, the comparisons just presented provide an inadequate basis for the measurement of interstate differences in tax loads. Property taxation applies to value, rather than land area, and the average value per acre of farm lands and buildings differs in the several states. Therefore, the last four columns of Table 75 provide a more significant basis for comparison than the average levies per acre. The "full value" data which underlie these figures are essentially market, or sales, values as compiled by the U. S. Department of Agriculture.

Although the average levy per acre was higher in Iowa than in any other state in the Northcentral area, in terms of the levy per \$100 of full value, Iowa ranked eighth in the eleven-state area in 1955, and tied with Illinois for the fifth rank in 1950.

Relative to full value of farm lands and buildings, the rate of increase in levies from 1950 to 1955 was lower in Iowa than in all but two states—North Dakota and Indiana—in the Northcentral area. The rate of increase in Iowa (8 percent) was only slightly above the national average rate (7 percent).

Levies relative to farm income. The property tax is not a tax on income, or even a tax which is related in any direct manner to income. Nevertheless, the property tax levies on specific types of property may be compared with income received by the owners of such property as a basis for measuring year-to-year changes and interstate differentials in the "burden" of property taxes.

Levies on farm real and personal properties, relative to realized net and gross farm income, are shown in Chart 16, for Iowa and the United States. Levies made in 1948, for collection in 1949 are expressed as dollars

Table 75. Property Taxes on Farm Real Estate, by Year of Levy, Eleven Northcentral States.

State	Levy Per Acre			Levy Per \$100 of Full Value			
	1950	1955	Percent Change 1950-1955	1950	1955	Percent Increase 1950-1955	Rank 1955 Levy
Wisconsin	\$1.57	\$1.93	+23%	\$1.58	\$1.82	+15%	1
Minnesota	1.33	1.67	+26	1.34	1.42	+ 6	2
South Dakota .....	.47	.58	+23	1.17	1.28	+ 9	3
Nebraska .....	.66	.91	+38	.95	1.24	+31	4
Illinois	2.08	2.97	+43	1.02	1.23	+21	5
North Dakota .....	.43	.45	+ 5	1.31	1.19	- 9	6
Kansas .....	.72	.95	+32	.97	1.13	+16	7
IOWA	1.92	2.27	+18	1.02	1.10	+ 8	8
Michigan .....	.77	1.22	+58	.69	.84	+22	9
Indiana	1.35	1.75	+30	.83	.84	+ 1	10
Missouri .....	.51	.70	+37	.68	.82	+21	11
United States .....	.69	.87	+26	.86	.92	+ 7	—

Source: U.S. Department of Agriculture, "Taxes Levied on Farm Real Estate in 1955," August, 1956, Tables 2 and 4.

per \$100 of net and gross income for the calendar year 1949, and so on. (For definitions of the income measures, see footnotes to Table 76).

In Iowa, levies on farm real and personal property rose from \$7.05 per \$100 of realized net income in 1949, to \$11.61 in 1955, an increase of 65 percent; during the same period levies in the nation as a whole rose from \$5.90 to \$9.60 per \$100 of realized net income, an increase of 63 percent.

Levies on Iowa farm real and personal property were equivalent to \$3.06 per \$100 of realized gross farm income in 1949. In 1955, the levies had risen to \$4.07 per \$100 of realized gross income, an increase of 33 percent. Over the same period, the comparable ratio for the nation as a whole rose from \$2.55 to \$3.30 per \$100 of realized gross income, an increase of 29 percent.

Although levies on farm real and personal property, relative to realized net and gross farm income, have been consistently higher in Iowa than in the nation as a whole, the rates of increase from 1949 to 1955 have been very similar in Iowa and the nation as a whole.

Levies on farm real and personal property, realized gross and net farm income, and total net farm income, inclusive of the value of changes in farm inventories, are presented in Table 76, for Iowa, ten other North-central states, and the United States. The tax levies are those made in 1953, while the income data are for 1954, the year in which the levies were payable.

As compared with the other states in the Northcentral area (states in which the general economic structure, governmental organization, and tax systems are similar), Iowa's taxes on farm properties are generally low, relative to all three measures of income. In terms of property taxes relative to realized gross farm income, the rate is higher than in Iowa in seven of the eleven Northcentral states. The Iowa rate is only 22 percent above the national average; by comparison, the Nebraska rate is 35 percent above the national average.

In terms of farm taxes relative to realized net farm income, Iowa also ranked eighth from the top in the eleven-state area. In terms of taxes relative to total net

farm income (realized net income adjusted for the value of changes in farm inventories) Iowa ranked ninth in the eleven-state Northcentral area, with taxes of \$8.62 per \$100 of total net farm income—only 1.06 percent above the national average rate of \$8.53 per \$100 of total net income.

Although levies on farm real and personal property have risen—in Iowa and in the nation as a whole—relative to gross and net farm income since 1949, the ratio of Iowa levies—relative to farm income in Iowa—were among the lowest ratios in the Northcentral area in 1954.

Changes in assessed values and millage levies. From 1949 to 1955, levies on farm real estate in Iowa rose from \$61,751 thousand, to \$77,076 thousand, an increase of almost 25 percent; from 1949 to 1954, levies on farm personal property rose from \$9,901 thousand to \$14,900, an increase of 50 percent.* The increase in farm property taxes has resulted primarily from higher millage rates, and increases in assessed values of farm personal property, rather than higher assessed values on farm realty.

In 1949, the assessed value of all farm lands and buildings, net of exemptions, was \$1,976 million; in 1955, assessed values had risen to \$2,004 million, an increase of 1.4 percent. During the same period, 1949 to 1955, the average millage levy in rural districts of Iowa rose from 34.373 to 46.245, an increase of 34.5 percent. The fact that total net levies on farm realty increased by a smaller percentage (25 percent) than the increase in rural millage rates (34.5 percent) from 1949 to 1955 results from the increase of \$6.0 in Agricultural Land Tax Credits over the period.

From 1949 to 1955, the U. S. Department of Agriculture index of average value of Iowa farm lands and buildings per acre rose from 106 to 133 (1947-1949 = 100), an increase of about 25.5 percent. But in the same comparison, the assessed value of farm lands and buildings increased by only 2.4 percent, from \$57.57 per acre in 1949, to \$58.95 per acre in 1955.

During the period from 1949 to 1955, taxes on farm realty rose about 25 percent in Iowa. But during the same period the

* U. S. Dept. of Agriculture.

Table 76. Total Levies on Farm Real and Personal Property, 1953, and Gross and Net Farm Income, 1954: Eleven North-central States, and United States.

State	Total Levy on Farm Real and Personal Property ^a	Realized Income		Total Net Farm Income ^d (000,000)	Tax Levy Per \$100 of:		
		Gross ^b (000,000)	Net ^c (000,000)		Realized	Realized	Total
					Gross Income	Net Income	Net Income
North Dakota	\$ 23,797	\$ 489.7	\$ 138.6	\$ 138.1	\$4.86	\$17.42	\$17.23
Kansas	55,419	1,030.4	347.2	373.1	5.38	15.96	14.85
Illinois	96,948	1,978.9	658.6	735.3	4.90	14.72	13.18
South Dakota	29,196	604.3	224.8	236.7	4.83	12.99	12.33
Wisconsin	53,423	1,124.1	409.8	434.4	4.75	13.04	12.30
Minnesota	63,479	1,370.6	489.6	549.4	4.63	12.97	11.55
Nebraska	48,165	1,125.4	347.1	431.7	4.28	13.88	11.16
Indiana	44,436*	1,181.5	417.7	491.8	3.76	10.64	9.04
IOWA	93,271	2,401.2	872.0	1,081.9	3.88	10.70	8.62
Missouri	28,509	1,113.3	437.7	419.4	2.56	6.51	6.80
Michigan	17,527	790.2	280.0	262.6	2.18	6.16	6.57
United States	\$1,064,761	\$33,463.0	\$12,021.0	\$12,487.0	\$3.18	\$ 8.86	\$ 8.53

^a Property taxes levied on farm real and personal property in 1953. In general, these levies are payable in the year following. Source: U. S. Department of Agriculture, "Taxes Levied on Farm Real Estate in 1955," August, 1956, Table 3; and special tabulation, (for personal property) supplied by Agricultural Research Service, U. S. Department of Agriculture.

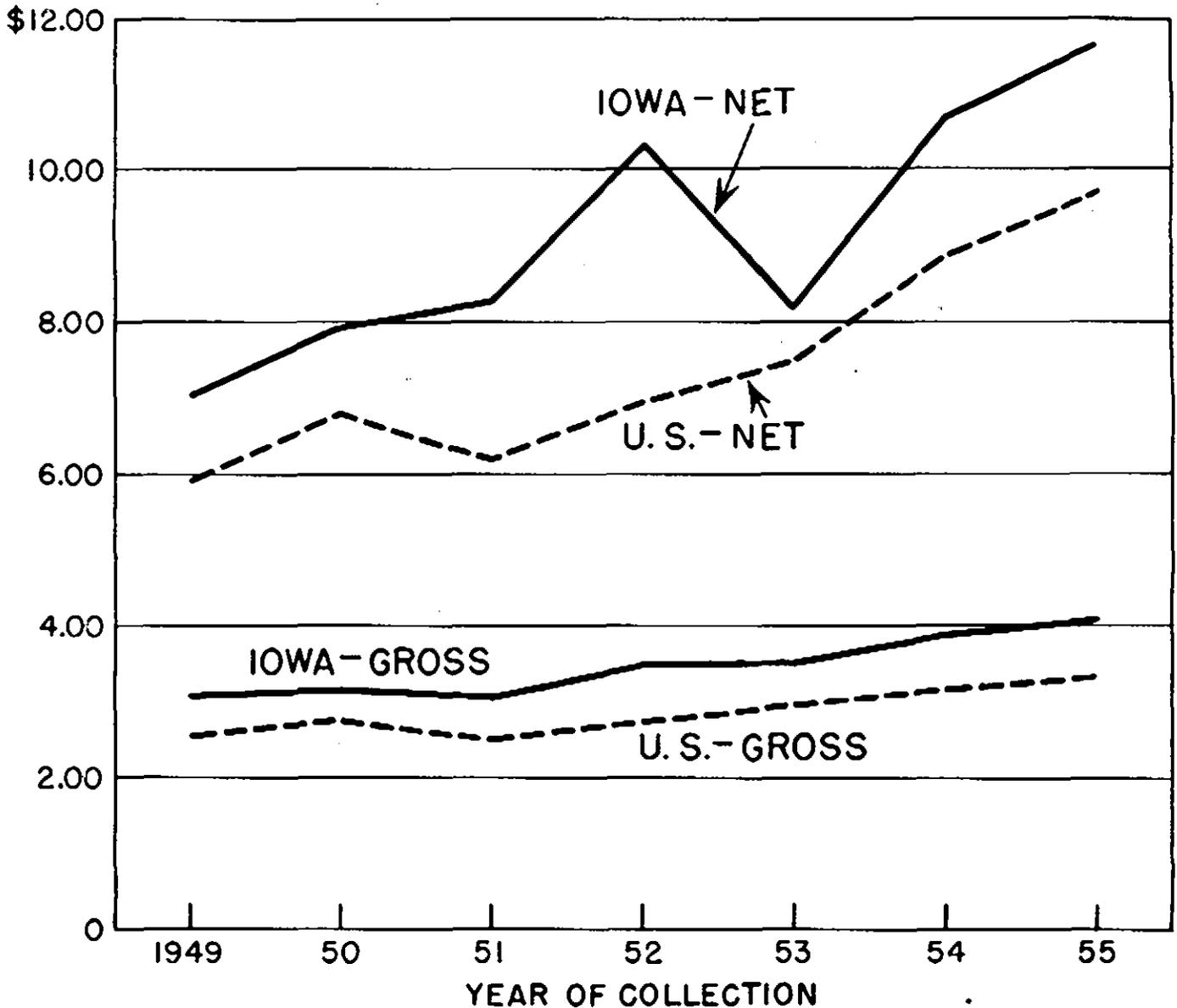
^b "Realized Gross Farm Income" = cash receipts from farm marketings, plus government payments, plus value of home consumption, plus rental value of farm dwellings. Source: U. S. Department of Agriculture, *The Farm Income Situation*, No. 160, September 17, 1956.

^c "Realized Net Farm Income" = Realized Gross Farm Income minus farm production expense. Source: Same as ^b.

^d "Total Net Farm Income" = Realized Net Farm Income plus (minus) net increases (decreases) in farm inventories. Source: Same as ^b.

* Levies on personal property in Indiana are estimated.

CHART 16. FARM REAL AND PERSONAL PROPERTY TAXES, PER \$100 OF REALIZED NET AND GROSS FARM INCOME: IOWA AND THE UNITED STATES, 1949-55



actual value of farm lands and buildings increased by roughly the same percentage. Thus, levies on farm realty represented about the same percentage of actual value per acre in 1955, as in 1949. The fact that the average millage rate applicable to farm properties has risen reflects the failure of assessed values to move upward along with the increase in actual values per acre, rather than an increase in the ratio of the net amount of taxes levied on farm realty to the actual value of such properties.

5. Assessment Ratios, Rural and Urban Properties, By Counties

The Iowa State Tax Commission has compiled data for the actual sales values and the assessed values of rural

and urban properties during the calendar years 1952, 1953, and 1954. The data represent 24,719 transfers of property in urban areas, and 10,539 transfers in rural areas, for a total of 35,258. Total transfers involved consideration (sales values) of \$384.2 million, and assessed values of \$104.6 million.

County averages of the ratio of assessed values to sales values are presented in Chart 17. For each county, three ratios are shown. The top figure is the ratio of assessed value to sales value for transfers of urban property, primarily residential properties. The second figure is the ratio for rural property transfers, and the bottom figure is the average ratio for all transfers in the county.

For the State as a whole, the average ratio of assessed

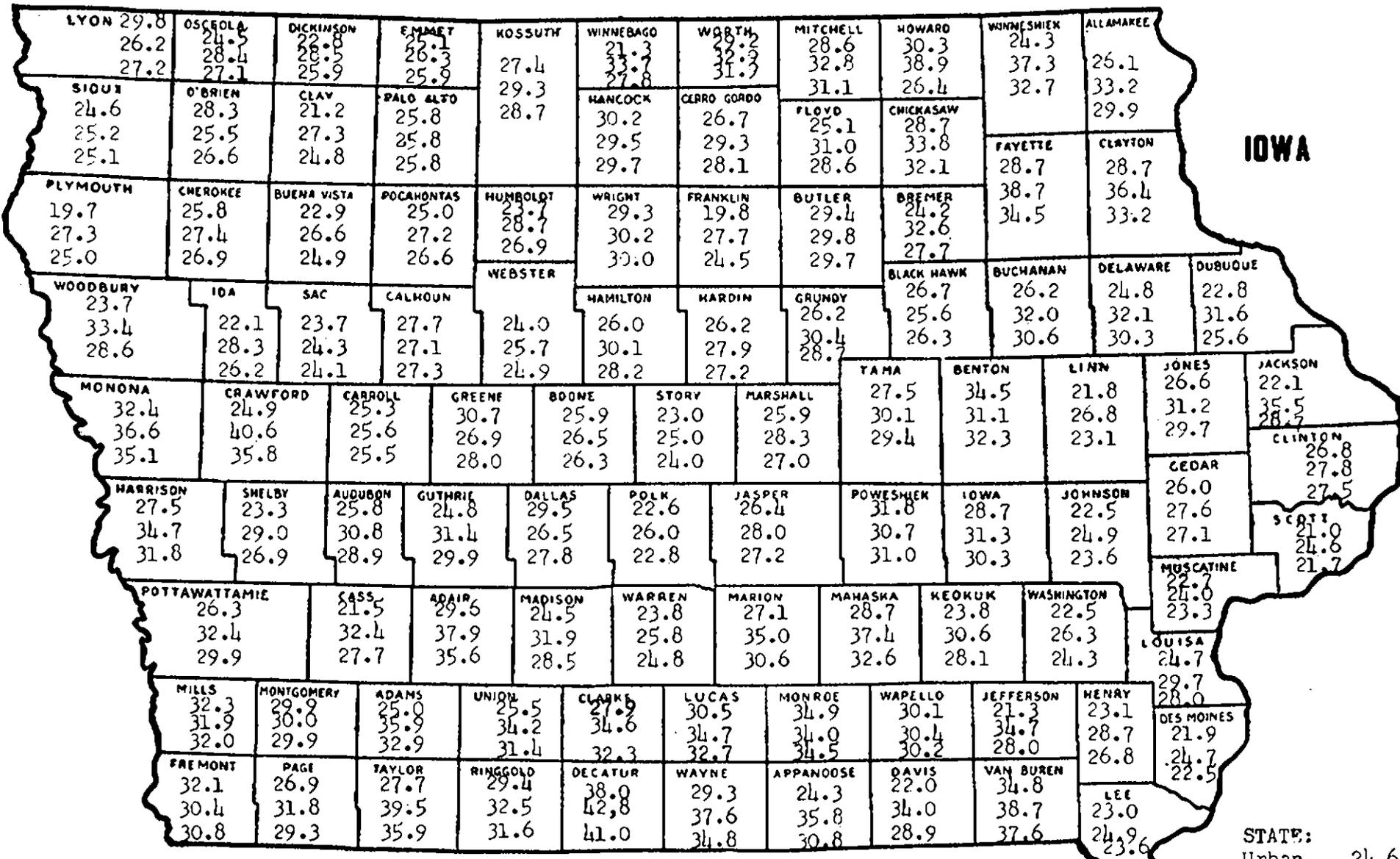


Chart 17. Assessed Values as Percent of Sales Values, Urban, Rural and Countywide Averages; (Data for years 1952-54)

STATE: 27.2
 Urban 24.6
 Rural 29.9
 Average 27.2

to market value was 27.2 percent during the three-year period, 1952-54; for urban properties the average ratio in the State was 24.6 percent, as compared with a rural average of 29.9 percent. However, there are significant differences among the counties in the average ratios for both rural and urban properties. In most counties, rural properties were assessed at higher ratios to sales values than were urban property. For example, in Davis County the ratio was 54 percent higher for rural than for urban properties; in Plymouth and Franklin Counties the rural ratios exceeded the urban ratios by about 40 percent. These differences are significant. They indicate that for millage rates levied at uniform rates over the entire counties, the taxes imposed on rural properties will be from 40 to 50 percent greater per dollar of market value, than for urban properties. The differences also mean that properties in rural areas must make a greater tax contribution, relative to market values of the respective properties, before becoming eligible for school aids.

In some counties, such as Calhoun, Palo Alto, Sac, Carroll, and Poweshiek, the assessment ratios are very uniform as between rural and urban properties.

For the same type of property, there are also significant variations among the 99 counties. The general pattern of variation is presented in Table 77. The assessment ratios for urban properties vary from less than 20 percent in Plymouth and Franklin Counties, to a high of 38 percent in Decatur County—a difference of almost 100 percent. However, in 77 of the 99 counties the assessment ratio for urban property varies within the relatively narrow range of 22 percent, to 30 percent of market value.

Rural properties are assessed at ratios of less than 25 percent of sales values in a number of counties, including Sac, Scott and Des Moines; at the other extreme, the assessment ratio exceeds 42 percent in Decatur County, and 35 percent in several counties located principally in the Southcentral and Northeastern parts of the State. Rural properties are assessed at from 24 percent to 36 percent of sales values in 89 of the State's 99 counties.

Table 77. Distribution of Assessment Ratios, Urban, Rural and Total, by Counties: 1952-54.

Assessed Values, as Percent of Sales Values	Number of Counties		
	Urban Properties	Rural Properties	All Properties: Rural and Urban
18-19.99	2	0	0
20-21.99	7	0	1
22-23.99	19	0	6
24-25.99	22	15	14
26-27.99	20	18	21
28-29.99	16	12	24
30-31.99	6	19	14
32-33.99	3	12	9
34-35.99	3	11	7
36-37.99	0	6	2
38-39.99	1	4	0
40-41.99	0	1	1
42-43.99	0	1	0
	99	99	99
State averages:	24.6%	29.9%	27.2%

Source: Iowa State Tax Commission.

The countywide average assessment ratios, including rural and urban properties, range from a low of 21.7 percent in Scott County, to a high of 41 percent in Decatur County. In addition to Scott County, Polk, Linn, Johnson, Muscatine, and Des Moines Counties had countywide av-

erage assessment ratios of less than 24 percent. The tendency for most of the State's more heavily urbanized counties to fall below the State average assessment ratio is explained by the fact that: (1) urban properties are generally assessed at a lower ratio than rural properties, and (2) urban property transactions comprise a larger fraction of the total number of property transfers in the urbanized counties. On the basis of the countywide averages, 89 of the State's 99 counties were assessed at ratios ranging from 24 percent, to 36 percent of market values.

Assessment ratios, by size of sale. Assessed values, expressed as a percent of sales values, vary from county to county, and from one type of property to another, even within the same county. Not only is rural property generally assessed at a higher ratio than urban property, within each of the two categories, but the less valuable properties are assessed at higher ratios of market value than is the case for the more valuable properties. The number of sales, total consideration (sales value), assessed value and the assessment ratios for about 12,400 property transfers are shown in Table 78, classified by the size of the consideration. The data in Table 78 are for only one year—the calendar year 1954.

Table 78. Assessment Ratios, 1954, by Size of Sales, All Counties.

RURAL SALES				
Range	Number of Sales	Total Consid- eration	Assessed Value	Ratio
\$ 0-\$ 5,000	581	\$1,784,876	\$ 718,375	40%
5,001- 10,000	689	5,277,283	1,925,691	36
10,001- 15,000	518	6,563,675	2,264,933	35
15,001- 20,000	505	8,925,399	2,807,141	31
20,001- 25,000	339	8,902,225	2,607,580	29
25,001- 30,000	270	7,447,515	2,131,766	29
30,001- 35,000	160	5,215,205	1,428,539	27
35,001- 40,000	164	6,180,064	1,659,068	27
40,001- 45,000	98	4,185,117	1,109,547	27
45,001- 50,000	30	3,839,575	962,276	25
50,001- 55,000	44	2,291,075	550,667	24
55,001- 60,000	33	1,894,463	422,868	22
60,001- 65,000	27	1,698,009	399,971	24
65,001- 70,000	11	759,500	188,183	25
70,001- 75,000	7	512,500	111,073	22
75,001- 80,000	5	386,340	91,238	24
80,001- 85,000	5	411,620	103,722	25
85,001- 90,000	6	526,620	124,538	24
90,001- 95,000	1	91,970	23,440	25
95,001- 100,000	2	192,000	48,768	25
100,001 and over	8	1,051,851	258,470	25
Average	3,603	\$68,136,882	\$19,937,854	29
URBAN SALES				
Range	Number of Sales	Total Consid- eration	Assessed Value	Ratio
\$ 0-\$ 5,000	3,321	\$ 9,185,765	\$ 2,899,991	32%
5,001- 10,000	2,996	22,267,411	5,672,505	25
10,001- 15,000	1,758	21,480,085	4,864,335	23
15,001- 20,000	501	8,533,127	1,869,452	22
20,001- 25,000	119	2,667,781	595,652	22
25,001- 30,000	37	988,408	222,475	23
30,001- 35,000	19	616,022	172,995	28
35,001- 40,000	14	553,818	119,520	22
40,001- 45,000	6	253,000	59,901	24
45,001- 50,000	5	242,000	66,480	27
50,001- 55,000	3	158,750	42,450	27
55,001- 60,000	2	115,000	20,186	18
60,001- 65,000	3	194,500	63,106	32
65,001- 70,000	1	69,750	16,795	24
70,001- 75,000	2	141,500	39,982	28
75,001 and over	5	461,250	103,726	22
Average	8,792	\$67,928,167	\$16,829,551	25

For rural sales in which the consideration was less than \$5,001 per transaction, the average assessment ratio was 40 percent in 1954. The ratio declines steadily to the \$55,001 to \$60,000 size sale, for which the average assessment ratio for rural properties was 22 percent, or 55 percent of the ratio for the lowest priced properties. For rural properties selling for more than \$60,000 there was no persistent tendency for assessment ratios to rise or fall as the value of the sale increased. The relatively small number of transactions recorded at the higher values is responsible for the somewhat erratic class-to-class differences in assessment ratios.

A similar tendency for low-priced properties to be assessed at higher percentages of sales values is also apparent for urban properties. Urban properties selling for less than \$5,001 were assessed, on the average, at 32 percent of sales price. This ratio declined to 22 percent at the \$20,001 to \$25,000 level of sales value. However, for urban properties selling at more than \$25,000 the average ratio of assessed to market value rises above the 22 percent level for all but a few transactions. However, the relatively small number of transactions at the higher sales prices is not adequate to support any firm generalization. Moreover, some of the transactions in the higher price brackets of urban properties are probably transfers of nonresidential properties, for which sales ratios may not be comparable with those shown for properties at the lower sales prices.

Assessment ratios for properties other than rural real estate and urban residential dwellings. Little or no information is available from which assessment-to-sales value ratios can be computed for some important categories of the Iowa property tax base. The properties of public utilities, manufacturing and industrial plants, and many types of personal property are not bought and sold with sufficient frequency to yield adequate bases for statistical comparisons.

In testimony presented to the Taxation Study Committee, Mr. L. G. Hewkins of the Iowa Utilities Association indicated that public utilities were assessed at "approximately 45 percent—(of the) current actual value of the property."

Although it is widely alleged that merchandise inventories, and assessable livestock and farm machinery are assessed at higher ratios to current market value than either farm realty or urban residential properties, the Committee has compiled no data which permit the computation of comparable assessment ratios.

Finally, it may be noted that there is almost a complete lack of data indicating the assessment levels for manufacturing and industrial properties. In many counties, manufacturing and industrial assessments were combined with "town lots and buildings" in the assessment reports until very recently. It can not be ascertained with confidence that all industrial plants are reported separately even for 1955.

The assessed value of separately reported manufacturing plants and buildings has risen from just under \$34 million at the beginning of 1947, to slightly over \$137 million at the beginning of 1955. An undetermined part of the increase in the reported value of such property represents reclassifications in the reports of the counties and State Tax Commission. And some part represented a real increase in the tax base.

The following tabulation indicates the general magni-

tude of investment in new manufacturing plant and equipment in Iowa in recent years. The data were compiled by the U. S. Department of Commerce, and published in the *Census of Manufactures*, and the annual *Survey of Manufactures*.

It is noted that the Department of Commerce data on "investment in new plant and equipment" may not be exactly comparable with the State Tax Commission figures showing changes in assessed value of manufacturing properties other than personal property. The two series may differ because some outlays reported by the Department of Commerce may be classified as personal property in the assessment data.

	Reported Investment Department of Commerce (in millions)	Assessed Value At Beginning of Year; Real Estate only (in millions)
1947	\$65	\$34
48	**	40
49	**	85
50	**	89
51	89	97
52	60	103
53	65	131
54	74	134
55	**	137

** Data not available.

Assuming that investment in new plant and equipment averaged \$60 million per year in 1948, 1949, and 1950, a period for which data are not available, the total new investment for the years 1947 through 1954 would be \$533 million. From 1947 to 1955, the assessed value of manufacturing plant and equipment rose by \$103 million, including whatever amount is represented by the reclassification of such property. But, taking the reported increase of \$103 million in assessed value of manufacturing real property at face value, the increase was equivalent to less than 20 percent of the reported and estimated new investment in manufacturing plant and equipment over the period from 1947 through 1954.

Summary. The major characteristics of assessment in Iowa may be summarized as follows:

1. Although assessment is more uniform for given types of property in the various counties than is the case in most states, a study of assessment-sales ratios for 1952-54 indicated that urban properties were assessed at average ratios ranging from less than 20 percent in two counties, to 38 percent in one county. Assessment ratios in rural areas range from between 24 and 26 percent in fifteen counties, to over 40 percent in two counties.
2. Rural properties are generally assessed at higher levels, relative to sales values, than urban counties. But in the vast majority of counties the differential is relatively small. In approximately a half-dozen counties, the assessment ratios for urban and rural properties are virtually the same. In a few counties urban properties are assessed at higher ratios than rural properties.
3. For both urban and rural properties the lower-priced properties are assessed at higher ratios to sales values than the more valuable properties.
4. On the basis of fragmentary information and the allegations of representatives of the industries, it appears that public utility property and merchandise inventories are assessed at somewhat higher ratios to current values than are urban residential and rural real properties.

* Testimony presented September 27, 1955, appearing on page 7 of the transcription.

CHAPTER VIII

Tax Exemptions and Credits

The final distribution of the total costs of State and local government depends upon the nature and scope of tax exemptions and credits, as well as upon the types of taxes levied and the rates at which such taxes are imposed. Iowa is not in a unique position, by virtue of the extensive exemptions granted from the various taxes imposed; all states exempt some categories of property, income, or transactions from their tax bases. However, Iowa differs from the majority of the states in the degree to which tax revenues collected at the State level of government are employed to provide tax "credits" for the payment of local levies on property. But, even in this respect, many other states attain the same objective—that is, the financing of local governmental functions with revenues derived from statewide tax sources—by state aids and/or the sharing of revenues with local units of government.

Although the real differences among the various states in the matter of tax exemptions and credits are probably less marked than the comparison of the apparent differences would indicate, they are significant. Moreover, the "equity" of the tax system of each state must be evaluated in terms of the exemptions and credits which have become a part of the revenue structure. For these reasons, and for general informational purposes, the principal forms of tax exemptions and credits in the Iowa revenue system are presented in this chapter of the Report.

I. Bases for Exemptions

It is well established in Iowa that the General Assembly may determine the manner in which taxes are to be imposed, including the items to be subject to, and those to be exempt from the tax. In the absence of constitutional restrictions, the only limitation on the power to exempt is that the exemption shall serve some public purpose.*

The "serving of the public interest" may take many forms. Some of the more common reasons for the granting of exemptions may be noted.

a. In some cases, exemptions, or exclusions, are written into tax laws for purposes of administrative convenience and/or economy. For example, "casual sales" are commonly exempt from sales taxation for the reason that it would not be feasible to enforce the collection of the tax on transactions of this type. The exclusion of incomes below a certain level from the obligation of reporting and/or tax payment under the personal income tax is sometimes justified, in part, by the argument that the exclusion reduces administrative costs by more than it reduces tax revenue.

In some states, intangibles and household goods have been exempted from the "general property tax" on the grounds that effective administration is impossible and ineffective administration tends to lower taxpayer morale and make it difficult for the assessor to achieve equity in assessment. It may be noted that the degree of taxpayer resentment of particular forms of taxation, the costs of enforcement, the efficiency of tax-administering agencies and the pressure of the need for revenue have a great deal of influence on the determination of what forms of taxation are "administratively feasible."

b. Special exemptions, credits, exclusions, deductions, etc., are widely granted for the purpose of encouraging some types of activity deemed to be socially desirable.

Broadly interpreted, there are probably more exemptions, etc., which have been justified on this ground than on any other in the State of Iowa. Some of the quantitatively more important are noted below:

- (1). **The Homestead Tax Credit:** to encourage home ownership.
- (2) **The Agricultural Land Tax Credit:** to encourage improved organization of schools.
- (3). **The exemption of properties owned by charitable, educational, religious, and scientific organizations:** to encourage activities which raise the quality of the population and/or relieve demands on the public treasury.

c. Exemptions, etc., granted to prevent, or relieve, inequities. Many exemptions, credits, etc., originate in attempts to mitigate existing—or potential—inequities. To some extent the Homestead and Agricultural Land Tax Credits have been justified as measured to reduce the heavy burden on certain categories of property. The exclusion of banks and certain other types of corporate businesses from the income tax reflects, in part, the special position of these businesses under the monies and credits tax. Similarly, the exemption of automotive vehicles from property taxation is sometimes justified on the ground that this particular type of personal property is subject to special highway-user taxes. The alleged double taxation of dividend income (once as corporate profit, and again as personal income) is cited as justification for the complete, or partial, exclusion of dividend income from the personal income tax. Finally, it may be noted that the exemption of the securities of certain corporations from the monies and credits tax in Iowa has been defended on the ground that the real and tangible personal property represented by the securities is taxable, and, to tax both tangibles and intangibles would represent one type of "double taxation."

d. Special Tax Treatment to Encourage Economic Development. Actually, this category of reasons might be viewed as a special case of 2, above. The Iowa tax system contains numerous provisions for special tax treatment which might be defended in terms of their real, or supposed, effects on the encouragement of certain types of businesses. These include: (1) the non assessment for property taxes of REA distribution lines and the exemption of municipally owned utilities; (2) exemption of that portion of the profits of cooperatives distributed as patronage dividends from income taxation; (3) exemption of a part of general corporate net income of interstate businesses (equal to the fraction of their sales outside Iowa) from the corporate net income tax; (4) exemption, from use tax, of producers' equipment and supplies purchased from non-Iowa sellers, if not readily obtainable in Iowa; (5) exemption—from sales and use taxes—of commercial fertilizers, agricultural limestone, and seed, and (6) exemption—from sales and use taxes—of materials and component parts used in production of tangible property for ultimate sale at retail.

In a less formal and uniform manner, special treatment may be accorded various types of businesses by preferential treatment in the assessment of real and/or personal property. By statute, certain types of personal property used in production are exempt, or given special tax treatment which results in lower effective taxation than is applied to other property. For example, inventories in the hands of manufacturers are assessed only

* Dickinson v. Porter, 31 NW 2d, 110; 240 Iowa 393.

on that portion of their value represented by costs of materials, purchased parts, etc.

Livestock, swine, and poultry are largely exempt (except for breeder stock, hogs over nine months, and cattle over 12 months of age). Crops in the hands of producers are also exempt for a period of one year. Grain in the hands of dealers and/or processors is subject to taxation, but at a preferential rate of 1/4 mill per bushel.

In all of these ways - as well as others - exemptions, credits, deductions, etc., are employed as measures to reduce costs of Iowa producers. The presumed justification is that such inducements will encourage output and stimulate growth in income to a degree that the total tax base will be increased by more than enough to compensate for the loss in revenue resulting from the special tax treatment. Thus, the exemptions are presumed to "serve the public interest."

e. Any listing of the factors responsible for the granting of tax concessions would be incomplete unless it noted the use of exemptions, credits, deductions, and exclusions which have been designed to mitigate inequalities in the personal distribution of income. Such a purpose is reflected in the fixing of a "non-reportable" level of income, the use of credits (or exemptions) for dependents, and progressive rate structures in the personal income tax. In those 8 or 9 states which exempt food from the sales tax, the effect is quite definitely to favor the lower income groups.

In the case of the Homestead Tax Credit, the percentage tax saving to the low-income, low-value home owner is greater than to the owner-occupant of more valuable residential property. The veterans' exemption is also more favorable, percentagewise, to the less wealthy veteran than to the veteran of more substantial means.

f. Finally, it may be noted that substantial amounts of property, sales, income, and highway-use are exempt from taxation because of legal limits on the taxing powers of state and local governments. In part, this type of exemption stems from the prohibition in the Federal constitution against state interference with interstate commerce. What constitutes "interference," taxwise, and what constitutes "interstate commerce" are both moot questions.

Local governments generally have no powers (except those specifically granted) to tax property owned by the state or Federal governments. Purchases by governments and governmental bodies are usually exempt from sales, and use, taxes and special excises.

In one view, there would be little point in one type of government levying taxes on the property, income, or transactions of another, as the taxation would merely transfer tax revenues from "one pocket to another." But this view can be defended only if the exempt tax base is uniformly distributed among all subsidiary units of government, or if there is only one government, or if there is only one government empowered to levy all taxes. The opposite view - and a more defensible one - is that a large concentration of say, state, or Federal property in a relatively small local government unit relying heavily on property taxation to supply services used by the general public throws heavy burdens on the remaining tax base of privately owned taxable property.

2. Exempt Real and Tangible Personal Property.

The principal categories of real and tangible personal property presently exempt from taxation in Iowa are shown in Table 79. The values of the tax exempt properties are estimates of the Iowa State Tax Commission. In general, the values are for the year 1955. The estimates represent actual values, compiled in several different ways, from a variety of sources. The values shown

are not those at which the properties would be assessed if they were subject to taxation.

It must be recognized that the values are, in most instances, extremely rough; some of the estimates are more soundly based on objective evidence than others. By the very nature of some of the exempt types of property, it is impossible to arrive at market values, original cost, income-producing potentiality, or some other common indexes of valuation employed in assessment. The Iowa Taxation Study Committee has made no attempt to verify the accuracy of the estimate, but presents them merely as a matter of general information.

Table 79. Real and Tangible Personal Property Exempt from Taxation in Iowa, Based on Tax Commission Report to the Budget and Financial Control Committee of the 55th General Assembly.

Type of Property	Estimated "Actual" Value (in millions)
Property owned by the Federal government,	\$ 208
Property owned by the State government	200
Property owned by Counties,	69
Property owned by Cities & towns,	295
Property owned by school districts,	374
Property owned by Fair organizations	7
Total Governmentally Owned*	\$1,153
Rural Transmission lines financed by REA, not assessed	\$ 80
Property owned by religious, charitable and private educational institutions:	
Religious organizations	\$ 150
Private educational institutions	30
Hospital associations	100
Fraternal, charitable, and social organizations	25
Privately controlled cemeteries	25
Total religious, charitable, etc.	\$ 330
Miscellaneous Personal Property:	
Livestock, poultry, & farm crops (1/1/54).....	\$1,062
Farm machinery, \$300 exempt (1/1/55).....	75
Mechanics tools, etc., \$300 exempt (1/1/55).....	25
Exemption (\$300 plus specific items) of household goods (1/1/55)	750
Labor and overhead costs embodied in manufacturers' inventories	50
Motor vehicles in hands of operators & dealers	1,168
Military service exemptions,	325
Exemptions of "forest and orchard reserves".....	2
Airlines and equipment of commercial airlines	25
Total, miscellaneous personal property	\$3,482
Grand total, real and personal property categories listed above	\$5,042
Addendum:	
Final, adjusted Taxable Values: 1955	
Real Property	\$3,380
Personal Property	710
Public Utilities	464
Grand total, excluding M & C	\$4,554
Moneys and credits, net	489
Value of bank stock	154
Bldg. & Loan Assn. shares	34

* Also exempt-but not included in values shown-are: Lands used for roads, streets, alleys, and improvements thereon; property of drainage districts; cemeteries; sewer systems, sidewalks; and bridges.

Source: Iowa State Tax Commission, Study of Property Tax Exemptions Under the Provisions of the Code of Iowa, 1955.

If it could be assumed that the estimates of "actual values" shown in Table 79 are reasonably accurate, the total value of exempt property in Iowa is in excess of \$5 billion. Further, if all such property were assessed at the prevailing ratio of roughly 30 percent, the tax base would have been increased from approximately \$4.5 billion, to \$6.0 billion in 1955.

However, it is unrealistic to contemplate the removal of all the categories of property from the exempt status they now hold. Property owned by governmental units, as well as non-income producing properties of private educational, religious, and charitable organizations are not likely to be subjected to taxation.

If the list of exemptions is to be shortened, it would appear that the most significant - in terms of revenues - areas for consideration would be: (a) motor vehicles, (b) livestock, poultry, and crops in the hands of producers, (c) the exemption of \$300 worth of farm machinery and mechanics tools per individual taxpayer, (d) household goods, and (e) the military service exemptions. Any removal - or limitations - of these exemptions would encounter resistance from large segments of the population. Moreover, the removal of the exemptions noted above would move directly counter to the historical trends in property taxation. Almost without exception, the "general" property tax is tending to become a tax on land, buildings, and improvements. Attempts to tax intangibles on the same basis as other property have failed almost universally; and the application of the general property tax to tangible personal property is being limited to an increasingly smaller number of items.

3. Exemption of Intangibles in Iowa

According to the State Tax Commission the "present value of moneys and credits owned by Iowans, or based upon loans or investments in Iowa property, is not less than \$12,000,000,000. Of this amount probably \$2,000,000,000 is taxable." A portion of the \$10,000,000,000 difference is exempt by virtue of the following factors: (1) the flat \$5,000 personal exemption, (2) mortgages on Iowa property not held by residents of the State, (3) securities of the Federal, State of Iowa, and Iowa local government are exempt, and (4) securities of certain corporations with taxable property in Iowa are exempt.

In 1954, actual assessments of moneys and credits was about \$823,000,000 - or a little over 5 percent of the estimated total value of moneys and credits before exemptions, and about 31 percent of the estimated value of legally taxable moneys and credits. Clearly, exemptions and non-assessment of taxable monies and credits have virtually eliminated this form of "property" from the tax base.

Approximately one-fourth of assessed moneys and credits is accounted for by bank stock, surplus and capital reserves. Much of the remainder is accounted for by assessment of other financial institutions, the current accounts receivable of Iowa merchants and the taxable moneys and credits disclosed in the liquidation of estates. There is little prospect that the extensive exemptions in this field can be revoked. For one thing, Federal securities - which can not be taxed - are readily available as an alternative form of investment if any serious attempt to tax moneys and credits is made.

4. The Effects of Property Tax Exemptions.

In general, the statutory exemption of certain categories of property tends to increase the tax rate on other classes of property, assuming the total revenue from the taxation of property to be given. But it does not follow that all groups, all areas, or all industries will benefit equally - or in any uniform manner - from the exemption of certain classes of property. For example, the

exemption of livestock below certain ages reduces the personal property tax base, and throws additional burdens on real property and the taxable categories of personal property. The total property taxes paid by some farmers may be about the same whether livestock is exempt or taxable. But, for the vast majority, the exemption of livestock will change the total property tax bill upward, or downward, depending upon the relative importance of livestock and other (taxable) forms of wealth.

In the case of statewide levies on property - or state aids distributed in some proportion (usually inverse) to millage rates, the exemption of certain categories of property will redistribute the net tax load geographically.

In general, exemptions show an almost universal tendency to increase the longer a particular tax is in force. For over a century, the history of the "General Property Tax" has been marked by a persistent "erosion of the tax base" to the point where the tax is currently levied primarily on real property. It is noted that, with each exemption, the arguments for still more exemptions are strengthened, as the burdens on remaining forms of taxable property are increased.

5. Exemptions from Nonproperty Forms of Taxation

The Sales and Use Taxes. Tax exemption is not confined to the field of property taxation. Several classes of transactions are excluded from the Iowa sales and use taxes. The more important exemptions include:

- a). Exemption of tangible personal property for resale or for processing, or for generation of electricity. If it is intended that the retail sales and use taxes be a tax only on final consumption, it is proper that those exemptions be made in order to avoid multiple taxation.
- b). Exemption from the use tax of machinery and equipment, etc., used in processing purchased from non-Iowa sellers if such items are "not readily obtainable in Iowa."
- c). Exemption, from the use tax, of tangible property used in interstate transportation or commerce. The language in the use tax differs from that employed in the sales tax, with respect to the exclusion of transaction the taxation of which is (or might be) forbidden to the states by the Federal Constitution.
- d). Transactions in second-hand merchandise, including the "trade-in" value of automobiles sold by franchised dealers, household appliances, and other consumer's durable goods (and, presumably, machinery and equipment used by producers) are exempt from sales taxation.
- e). Exemption, from the use tax, of property purchased with intent to use it in another state but which, in fact, is subsequently brought to Iowa for use in Iowa.

With the exception of utility services (water, gas, telephone, and electricity) purchased by ultimate consumers, the Iowa sales and Use Taxes do not include services.

Insurance Premiums Taxes. The Iowa Gross Premiums Tax specifically exempts three types of insurance business:

- a). Fraternal beneficiary associations,
- b). County mutual associations,
- c). Nonprofit hospital and medical associations.

Personal Income Tax. The Iowa Personal Income Tax has about as few categories of exempt income as any of the state income taxes. Both capital gains and dividend income are taxable; many states exempt one or both of these forms of income. The major exemptions are those of income from Federal securities, and dividends from a number of governmental and quasi-governmental financial corporations such as the Commodity Credit

Corporation, the Federal Land Banks, and the Federal Housing Administration.

The personal credits, and credits for dependents - although much larger in terms of exempt income than those allowed on the Federal tax - are not out of line with exemptions allowed in other states.

For a single individual, the personal credit of \$12.00 is roughly equivalent to \$1,250 of tax-free income at the first and second brackets of taxable income; the exemption is higher in about eight other states, and lower in roughly seventeen other states. About 5 states have comparable exemptions or credits. However, the credit for dependents (\$12 per dependent) is probably the highest, in terms of tax free income for those in the lower income brackets, to be found in any state.

The Corporate Net Income Tax. The following types of organizations and corporations are exempt from the Iowa tax on corporate net income:

- a). Banks, credit unions, title insurance and trust companies, building and loan associations, insurance companies, fraternal beneficiary associations, cemetery corporations. Banks and other financial institutions are subject to monies and credits taxation in lieu of income taxes.
- b). Organizations established for religious, charitable, scientific, and educational purposes;
- c). Nonprofit business, labor, and civic organizations, such as chambers of commerce, labor unions;
- d). Clubs, organizations or associations organized and operated for pleasure, recreation, and other non-profitable purposes, where no part of the net earnings goes to private stockholders or members.
- e). Agricultural marketing cooperatives.

In addition to the exclusion of certain types of corporations and associations from the Iowa Corporation Net Income Tax, certain categories of income are exempt even when received by corporations which, in general, are subject to the tax. The major categories of income exempt from the Iowa Corporate Net Income Tax are:

- a). Interest income on obligations of the Federal government and its instrumentalities.
- b). Income derived from the manufacture or sale of tangible personal property "not allocable to Iowa" is exempt from the Iowa Corporate Net Income Tax. Of course, no state can tax all of the net income of multistate businesses operating - or domiciled - within its borders. Some method of allocation of income must be employed. The method employed in Iowa is different in that it takes into account only one factor, sales, and defines "sales" in a more restrictive way than is done in other states using a one factor allocation formula. The effect of the present allocation formula is to exclude more of the net income of corporations doing business in national markets than is allocated to Iowa for income tax purposes.

Tobacco Taxes: Forty-one states impose special excises on tobacco products. All of these states tax cigarettes. Eleven of the forty-one states also tax cigars; nine tax smoking tobacco; and eight tax chewing tobacco and snuff. In Iowa, cigarettes are the only form of tobacco subject to special taxation.

In those states levying a special excise on cigars, the rates are set in one of two ways: (1) some states levy the tax at so much per 1,000 cigars (the rates range from \$1 per 1,000 to \$40 per 1,000, with the rate in the states being graduated according to weight, value, etc.); (2) a flat percentage rate, applied to value (rates range from 15 percent to 20 percent of retail value). Smoking tobacco is taxed at various rates, ranging from 5 percent of retail price to 20 percent of retail price, and also at rates per ounce.

6. The Effects of Exemptions, and Exclusions from Taxation.

The exemption - or exclusion - of some types of income, transactions, or commodities from income, sales, or excise taxes does not automatically - and directly - increase the absolute burden on taxpayers with taxable incomes, transactions, or purchases of taxable commodities. For example, the rate of taxation on taxable income is not automatically increased if further exemptions are granted. The expansion, of exemptions, credits, and exclusions, is simply reflected in decreased revenue from the tax. In this respect the exemptions from income and sales taxes have different immediate effects than exemptions from the property tax.

However, in a broader, more fundamental sense, that is, in the sense that total tax revenues will have to be maintained from one source or another, an exemption from any kind of tax will require replacement at some other point in the tax system. Failure to recognize this interdependency is basically responsible for much of the popular demand for increased exemption. In other words, the public frequently confuses tax exemption with general reduction in total tax burden. While tax exemption can not reduce total taxation, it may - and generally does - modify the distribution of the tax load.

In general, the total revenue required by government depends on the quantity and quality of public services and the efficiency with which the functions of government are performed. In a very general way, the demands of the electorate determine the scope of governmental services. Whether or not the public will "demand" some new service, or an expansion of an existing function is influenced by many factors. One of these factors is the anticipated additional (tax) cost of the new or expended service.

To the extent that exemptions, credits, and exclusions relieve, or reduce, the tax loads borne by substantial numbers of people (or even if such tax privileges only lead the electorate to believe that they can escape some or all of the additional costs) the balance of public preference may be tipped in favor of the proposed increase in expenditure. As many of the exemptions, credits, and exclusions (1) have involved the substitution of hidden, indirect taxes for direct, readily apparent payments to support government, and (2) have benefitted large segments of the population while shifting the increased costs of government to small segments of the population, exemptions, credits and deductions tend to facilitate the expansion of governmental services and, hence, to raise the level of taxation.

7. Military Service Exemptions and Credits.

Property - real and personal - owned by veterans is accorded a partial exemption in Iowa. In all, 26 states grant some form of property tax relief to veterans.

In Iowa, eighteen separate major and minor military actions are recognized for the purpose of defining eligibility for military service exemptions. The amount of the exemptions are: \$3,000 of assessed value for veterans of the Civil War (of which there were still 109 claimants in 1954); \$1,800 for veterans of the war with Spain and several military actions in the nineteenth century; \$750 for veterans of World War I; and \$500 for veterans of World War II, the Korean conflict, and several minor military actions in the 1920's.

In ten states, including Iowa, some exemptions are available to veterans without regard to age, disability, income, or total value of property owned. In sixteen states eligibility for exemption and/or the amount of the exemption is conditional upon physical disability, incompetency, or old age. Seven states allow an exemption only if the total value of the veterans property is below

some specified amount, ranging from \$3,600 in Idaho, to \$8,000 in Massachusetts. Several states apply more than one of the tests in the determination of eligibility.

The amount of the exemption varies from \$200 in Oklahoma, to a high (before 1954) of \$5,000 in Louisiana. In general, the amount of the exemption is larger in those states having a disability requirement. In many states the exemption extends only to levies imposed by the state government, or county and municipal levies. A number of states granting exemptions from levies for general governmental purposes do not extend the exemptions to levies for school purposes.

For the year 1954, there were 182,231 military service exemption claims in Iowa, for an amount of \$98.1 million of assessed value. On this assessed value, local taxing bodies were entitled to receive reimbursement from State funds in the amount of \$2.4 million.* Prorated payments were slightly in excess of \$2 million.

The total tax on the property exempt by virtue of the military service of the owner would have been approximately \$6.5 million, at the millage levies for 1954, collectible in 1955. The net effects of the military service exemption may be summarized as follows: (1) about \$2.0 million of the \$6.5 million property tax liability is shifted from veterans who are property owners to individuals, including veterans, in proportion to their tax contributions to the State General Fund; (2) the remaining \$4.0 of property tax liability is shifted to non exempt forms of property, including veterans' property not removed from the tax base by the limited military service exemption.

In 1954, 52,968 military service claims were filed by veterans of World War I, for which the maximum exemption was \$750; 127,629 were filed by veterans of World War II, for which the exemption was \$500. As of October, 1949, there were an estimated 366,000 veterans in Iowa. Although the number of veterans is undoubtedly larger now than in 1949, the number of exemptions in the most recent year for which data are available (1954) was only one-half as large as the number of veterans in Iowa in 1949.

8. The Homestead Tax Credit

Unlike the exemption extended to veterans, and the exemptions of the various types of property listed in Table 79, the Homestead Tax Credit does not remove property from the tax rolls. The state simply assumes the property tax obligation of homeowners up to a maximum of 25 mills on \$2,500 of assessed value.

About one-fourth of the states grant some form of preferential tax treatment to home owners. In this majority of these states the value of homesteads up to a certain "ceiling" is exempted only from levies by the state governments; in a smaller number of states, the exemption also extends to levies by cities and towns, counties, and other local taxing bodies. In general, most states do not reimburse local governments for the loss of revenue (or the shrinkage in tax base) resulting from the exemption of homesteads. In these states, the exemption of homesteads has the net effect of shifting a portion of the property tax burden from homeowners to the owners of other types of taxable property.

A special feature of tax treatment accorded homesteads in Iowa is the provision for the reimbursement of local taxing bodies for the full amount of the homeowner's tax saving. The Iowa Homestead Tax Credit has the effect of shifting a portion of the costs of local government from homeowners to the General Fund of the State of Iowa. Thus, the shifted portion of local governmental costs comes to be borne by all taxpayers in the State,

* Funds for the payment of the military service tax credit are allocated from the profits of the State liquor stores, in an amount equal to 5 percent of sales.

in proportion to their contributions to State tax revenues going to the General Fund.

Since its inception, in 1936, the amount required to pay the Iowa Homestead Tax Credit has risen from just over \$11 million, to more than \$24.5 million per year. The latter figure is an estimate of the payments from the State General Fund to be made on 1955 tax levies, payable in 1956. The increase amount of the credit reflects: (1) the increase in the number of owner-occupied homes on which the credit is claimed—from just over 300,000, in 1936, to more than 520,000 in 1954; (2) the increase in the average assessed values of homes from \$1,538 in 1936, to \$1,859 in 1954; and (3) increases in millage levies. From 1936, to 1954, the number of rural homes on which the credit was claimed increased only seventeen percent; over the same period, the number of urban homes for which claims were filed more than doubled. In 1954, slightly more than 70 percent of the Homestead Tax Credit was allocated on urban homes.

The Homestead Tax Credit was established in a period of economic stress, during which many residents of the State had experienced difficulty in meeting tax payments on their homes—as well as on other types of property. It has generally been accepted that the Credit would operate to encourage home ownership. In fact, the ratio of owner occupancy was higher in Iowa in 1950 than in 37 of the 48 states. In the same year, the ratio was higher than in Iowa in 10 states. The ratios for the 10 highest ranking states, Iowa, ranking 11th, and the United States average are shown below:

Owner-Occupied Dwelling Units as Percent of All Occupied Dwelling Units, 1950

State	Percent Owner Occupied
Michigan	67.5%
Minnesota	66.4
North Dakota	66.2
Indiana	65.5
Idaho	65.5
Oregon	65.3
Utah	65.3
Washington	65.0
Kansas	63.9
Wisconsin	63.5
IOWA	63.4
U.S. Average	55.0

In the ten states with owner occupancy ratios above the Iowa ratio, there are only two states which offer some form of tax relief to home owners. In North Dakota, farm buildings and other improvements—but not land—are exempt from property taxation. But this exemption is available regardless of the tenancy status of the property. In Minnesota, homesteads are exempt from state levies, except those made for the retirement of debt incurred before January 1, 1937, in an amount not to exceed \$4,000; the exemption does not extend to levies by other taxing bodies. In addition to the exemption from state levies, homestead properties are assessed at lower ratios to "full and true value" on the first \$4,000 of value than are nonhomestead properties.

From 1940 to 1950, the number of owner-occupied homes in Iowa—as measured by the increase in Homestead Tax Credit claims filed—rose by 36 percent. During the same period, the number of owner-occupied dwellings in the United States increased 55 percent, according to the Bureau of the Census. However, the number of households in the nation as a whole increased 23 percent from 1940 to 1950; the increase in Iowa was only 11 percent.

Changes in the ratio of owner-occupancy of dwellings, and interstate differences in these ratios are influenced by many factors—of which tax inducements are only one. Other factors which have influenced the ratio of owner-occupied to total occupied dwellings in recent years include: 1) rent controls which retarded the construction of rental housing in the early post-war years, 2) low interest rates, 3) readily available housing credit, facilitated by government guarantees of loans, and 4) high levels of income.

9. The Agricultural Land Tax Credit

Some form of tax relief is accorded agricultural property in several states. As noted above, buildings and other improvement on agricultural lands—but not the land itself—are exempt in North Dakota. In Montana and Minnesota, statutory assessment ratios are lower for agricultural properties than for some other types of property. In Minnesota, the statutory rate is 40 percent for the major categories of urban property, and 33 1/3 percent for rural real estate. The rates are 25 percent, and 20 percent respectively, for the first \$4,000 of value of urban and rural properties qualifying as homesteads.

The Iowa Agricultural Land Tax Credit does not result in the removal of property from the assessment rolls. In this respect it operates like the Homestead Tax Credit. But the Agricultural Land Tax Credit differs from the Homestead Tax Credit in at least three important respects.

First, the State pays only that portion of the tax on agricultural land which is attributable to general school levies in excess of 15 mills. The Homestead Credit, in contrast, is not restricted to any particular type of levy.

Second, the Agricultural Land Tax Credit is not limited, in so far as the amount available to any one taxpayer is concerned. The Credit to which a landowner is entitled is determined by the assessed value, the millage levy in excess of 15 mills for the general school fund, and the adequacy of the legislative appropriation to meet all claims. In contrast, no homestead can receive a credit in excess of 25 mills on \$2,500 of assessed value, a maximum of \$62.50.

Third, the Homestead Tax Credit is paid from an "open-end appropriation," i. e., any amount available in the General Fund may be used to pay the Homestead credit, up to a maximum of \$62.50 per claimant. But payments of the Agricultural Land Tax Credit was limited to a fixed appropriation—\$10.5 million per year for the 1955-57 biennium. The amount appropriated has been less than the total claims filed in all but one or two years. Thus, it has been necessary to prorate the available funds among the claimants.

PURPOSE. The Agricultural Land Tax Credit was instituted, with the first payments of \$500,000 being made in 1946, for the purpose of relieving agricultural property of some of the school tax levy in "high tax" school districts. As the assessed value of farm property per child in rural areas is, on the average, larger than the assessed value of urban property per child in urban areas, the inclusion of rural and urban areas in a consolidated district typically results in higher millage rates for farm property, and lower rates for urban property. The Agricultural Land Tax Credit has come to be regarded as a means for overcoming this financial barrier to reorganization.

The payments have risen from \$500,000 in 1946, to \$2,000,000 in each of the years 1947 and 1948, \$4,500,000 in 1949, \$5,000,000 in each of the years from 1950 through 1954, and to \$10,500,000 for each of the years 1955 and 1956. As the Agricultural Land Tax Credit is paid from a standing appropriation, the amount will continue at the \$10,500,000 annual rate, unless changed by subsequent

General Assemblies. In 1949, all claims were paid in full. But prorating has been necessary in all other years, partly because of the continued increase in school levies, but also because of the larger amounts of agricultural lands being included in reorganized districts and therefor generally subject to higher millage rates.

The Agricultural Land Tax Credit is not available to pay any part of the levies for the school house fund, the special courses fund, or levies for any other school purposes except the general fund. Nor is it available for levies made on personal property for any purpose.

Testimony presented to the Taxation Study Committee has been divided on the matter of the effectiveness of the Agricultural Land Tax Credit as a means for encouraging school districts reorganization. On the one hand, the view has been expressed that several important reorganizations could be attributed to the Agricultural Land Tax Credit which, in effect, sets an upper limit of 15 mills on the general school fund levy to be imposed on real property used for agricultural purposes. On the other hand, the view was presented that uncertainties with respect to future appropriations for the Credit, and the tendency for each year's prorating to be at a lower percentage of total claims reduced the effectiveness of the Agricultural Land Tax Credit as an inducement to reorganization. It has also been pointed out that in view of the fact that the Credit is available to all agricultural lands on the same terms, it may operate to perpetuate inefficient, uneconomical districts by relieving the owners of agricultural lands of a significant part of the tax cost of inefficient school units.

Although the Iowa Agricultural Land Tax Credit is somewhat unique as a form of tax relief for agricultural property, it has, or would have if all claims were paid in full, about the same effects as another device used in several states. For example, the imposition of a ceiling of 15 mills for the levy for the general school fund, with provision that the balance of the required revenue be supplied by state and would accomplish about the same results as the Agricultural Land Tax Credit.

10. Possible Limitations of Tax Credits

In the aggregate, between \$37 and \$38 million of State funds will be used to pay local property taxes levied in 1955, for collection in 1956. Total credits for the 1955 levy were equivalent to approximately 14 percent of the total levy on property.

Of this amount, the major portion—over \$24.5 million—will be required to pay the Homestead Tax Credit. The amount of State revenue required to pay the Homestead Credit is likely to rise by an average of about \$700,000 per year over the next few years.

The appropriation for payment of the Agricultural Land Tax Credit, which was raised from \$5.0 million to \$10.5 million by the 56th General Assembly, is already inadequate to pay all claims in full.

In addition, local taxing bodies have filed claims of approximately \$2.5 million as partial reimbursement for property removed from the tax base by virtue of the military service exemption. This amount may be expected to increase as more veterans of World War II, and the Korean conflict, acquire property on which exemptions are claimed.

In view of the already substantial, and rising, demands on State revenues for the payment of property tax credits, the Committee has considered several methods—some of which are employed in other states—for limiting the payment of credits. It is emphasized that the following methods are presented without recommendations as to their adoption.

The elimination, or marked reduction, of State payments for property tax credits can probably be accom-

plished only as a part of a general tax revision which would reduce local property taxes on all types of property. But the annual requirements on State funds for the payment of the credits might be reduced—or at least prevented from growing—by some of the following measures:

- a). The present "open-end appropriation" for the Homestead Tax Credit might be sealed at some pre-determined level, say \$25,000,000. This would require that all claims be prorated in another year or two, thus reducing the credit of all home-owners by an equal percentage.
- b). The ceiling of the Homestead Tax Credit might be reduced from 25 mills on a maximum of \$2,500 of assessed value to some lower figure, say \$2,000 of assessed value. This modification would reduce the present level of total credits by approximately \$3.0. Most of the reduction in the credit would fall on the owners of higher priced homes.
- c). The period of time for which any one individual would be allowed a tax credit on a homestead

might be limited to a specified period, such as ten years. In addition the Homestead Tax Credit might also be made available to homeowners over 65 years of age, or physically disabled persons.

- d). Eligibility of agricultural lands for the tax credit might be limited to those lands in high school districts meeting approved standards. Alternatively, the amount of tax credit on agricultural land might be limited to some specified number of mills, or to a maximum number of dollars per landowner.
- e). The military exemption and/or tax credit might be limited in a number of ways, some of which are employed in other states. These include: (1) restriction of the exemption to a limited period of time after service in the armed forces, (2) restriction of the exemption to disabled veterans and/or veterans over some specified age, (3) restriction of the exemption to veterans with total property, or income, below a certain level, and (4) the exemptions granted to widows and heirs of veterans might be more limited than is presently the case.