REPORT OF THE

GOVERNOR'S MINNESOTA TAX STUDY COMMITTEE

1962

January 11, 1963

The Honorable Elmer L. Andersen
Governor of the State of Minnesota
St. Paul, Minnesota

Dear Governor Andersen:

It is my pleasure, on behalf of the Committee, to transmit to you the report of the Governor's Tax Study Committee of 1962.

We trust that the information presented, plus the analyses and recommendations will be helpful to you and to others in positions of responsibility, as well as to all citizens of the state.

The Committee has approached its task in the spirit of inquiry coupled with a very real sense of humility in the face of the many complex problems of taxation. The recommendations presented in the report, we believe, point the way to a better tax system in Minnesota, one that will supply the means for supporting necessary governmental expenditures, promote fairness and equity, and provide tax conditions for economic progress.

This report represents the joint efforts of the members of the Committee, all of whom have given unstintingly of their time and energy, as well as their knowledge and wisdom. It has been my distinct pleasure and privilege to have served as their chairman.

Sincerely yours,

Paul V Grambsch

Paul V. Grambsch
Chairman
Governor's Tax Study Committee

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INTRODUCTION

This Committee was organized in the fall of 1961 for the purpose of examining all aspects of Minnesota's tax system and preparing recommendations concerning future courses of action. Governor Andersen in his letter of appointment to the members of the Committee outlined the purposes of its work in the following terms: "In carrying out the functions of your committee, I would expect that you would survey the financial needs of the state and its political subdivisions for the years ahead and to make recommendations as to the tax measures that will support such financial needs, keeping in mind the principles of equity and fairness to all."

The Committee as originally constituted consisted of the following members:

Paul V. Grambsch, Dean, School of Business Administration, University of Minnesota, Chairman

Rolland F. Hatfield, Commissioner of Taxation, State of Minnesota, Executive Secretary

Waite D. Durfee, Vice-President, Baker Properties, Minneapolis. Executive Secretary, Minnesota Legislative Interim Tax Study Committee, 1951-53. Member and former chairman, Tax and Finance Committee, Citizens League of Minneapolis and Hennepin County.

L. E. Felton, President, Green Giant Corporation, Le Sueur

Ralph Fjelstad, Professor of Government and Public Administration, Carleton College, Northfield. Ph. D., Northwestern University, 1948

Carl P. Herbert, Secretary and Director, St. Paul Bureau of Municipal Research

Frank A. Mancina, Regional Manager, Cluett, Peabody and Company, Virginia. Graduate & Professor University of Chicago

Charles McCarthy, Vice-President, Citizens National Bank, Madelia; Director, Watonwan County, Farm Home Administration. Member (36 years) Independent School Board. Former Director, Minnesota School Boards Association, 1954-63.

Orville C. Peterson, Executive Secretary, League of Minnesota Municapalities; Director, Municipal Reference Bureau; Professor of Political Science, University of Minnesota. Former Attorney, League of Minnesota Municipalities, 1937-59.

Ronald V. Powers, Assessor, Ramsey County. Former Deputy Commissioner of Taxation, State of Minnesota

G. Howard Spaeth, Former Commissioner of Taxation, State of Minnesota. President, First State Bank of Ada. Past President of National Association of Tax Administrators and National Tax Association.

In addition to the above-named regular members of the committee, the following members of the 1961 Minnesota Legislature were named as ex officio members:

Representative Fred A. Cina, Aurora

Representative Lloyd Duxbury, Caledonia

Senator Harold W. Schultz, Saint Paul

Senator John M. Zwach, Walnut Grove

The legislative members did not take an active role in the work of the Committee, although their advice and counsel were freely sought and given at those meetings they did attend. Senator Harold Schultz attended several of the early meetings of the Committee, as did Senator John Zwach. Representative Duxbury did not attend any of the sessions and Representative Cina attended only one session at which various problems pertaining to the Iron Range were discussed. The legislative members of the Committee did not participate actively in the major discussions of the Committee or in the preparation of this report. At the various places in this report when the term, "Committee," is used, it should be taken to refer only to the regular members of the Committee, and not to the legislators.

One regular member of the Committee, Mr. Frank A. Mancina of Virginia, was forced to resign due to poor health and he, likewise, did not participate in the deliberations of the Committee or in the preparation of this report.

This Committee has met for full-day sessions thirty-five times over the space of the past fifteen months. It has heard reports from various individuals and from delegations concerning many specific tax problems. Much valuable material was gathered and each member of the Committee was benefited by listening and participating in the discussions with visitors from many segments of the state's economic life.

Research material was made available to the Committee from a wide variety of sources. The Committee considered itself most fortunate in having the complete report of the Governor's Tax Study Committee in 1956*, with the data brought up to date wherever possible. This report, prepared by an excellent staff headed by Dr. Harvey Brazer, now of the United States Treasury Department, was most useful in guiding the discussion of the Committee and in providing background information on every tax in the State. The chapters dealing with the alternative tax proposals as prepared by the research staff from the 1956 report were especially helpful in preparing the recommendations and conclusions of this Committee.

In addition to the <u>1956 Tax Study Report</u>, the Committee has had the benefit of specific analyses prepared by the Research Division of the State Tax Department. These proved to be extremely useful because they represented the most up-to-date source of tax information.

The field of public finance is indeed a large one and there are always relevant studies appearing on the national scene. The National Bureau of Economic Research has recently compiled a volume on public finance which contains many excellent articles.** The chapter by Professor Dick Netzer, for example, on state and local expenditures is extremely interesting and useful. Publications of the Tax Foundation of New York City and "The Tax Administrator," a periodical of the National Association of Tax Administrators, have likewise been helpful.

The Committee had no research staff as such and has depended upon the individual members of the Committee plus the Research Division of the State Department of Taxation for compiling data and providing analyses. As already pointed out, the staff report of the 1956 Tax Study Committee was an important piece of research upon which to build.

No attempt has been made in this report to deal with all taxes in the Minnesota revenue system. The Committee has examined each and every one of

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* <u>Report of the Governor's Minnesota Tax Study Committee,</u> 1956. 618 pp. Documents Section, Department of Administration, State of Minnesota.

** <u>Public Finances: Needs, Sources, and Utilization.</u> National Bureau of Economic Research, New York. Princeton University Press, Princeton, 1961. 512 pp.

these, but it has not made recommendations concerning all of them. In many cases the recommendations of the 1956 Committee have been adopted and this Committee did not see any reason for covering the same ground once again. In the final analysis the amount of time available was the governing factor. The Committee had to make a judgment as to which items it considered most critical and to concentrate on them.

This report deals with broad questions and with subjects of lasting importance. Much consideration has been given to the tax structure itself, and to the ability of the system to perform under various types of conditions. In order to make such appraisals, the Committee had to set forth what it considered to be sound principles upon which to build a tax structure, to proceed from that point to analyze Minnesota's taxes and to make decisions as to how best to strengthen the entire system. The work of the Committee, therefore, it is hoped, reflects the best thinking of all of its members with respect to these tough problems facing the governmental units in the State of Minnesota.

This report represents the consensus of the Committee, but not all the members of the Committee agree with all the statements and recommendations in the report. Furthermore, some of the recommendations are inter-related in their impact and not all the members who favored a particular recommendation would necessarily be in favor of it if the related recommendations were not adopted. This is true, for example, of the recommendation for changing the property assessment date and the recommendation for the elimination of certain personal property inventories.

The logical approach to the study of the revenue problems of the State of Minnesota and its various components required that the Committee attempt to set forth the principles and underlying assumptions which have guided its deliberations and its recommendations. At the same time, the Committee has recognized that any group of citizens might be able to agree on a set of guiding principles and still have widely differing points of view on their particular application or their policy implications. At every step of the way, however, this Committee has attempted to "think from principle" rather than expediency and it is our feeling that this is what is most needed with respect to the Minnesota revenue system.

The guiding principles as adopted by the Committee are as follows:

1. The first essential of the revenue system is that it produce the necessary funds. Legislative bodies of governments, both state and local, must have means of meeting legitimate and proven needs of such things as schools, highways, administrative agencies, etc. While this principle is fairly obvious, it still is worthy of listing.

2. The Committee believes that equity in taxation requires that the entire revenue system, state and local, be based upon (a) ability to pay measured in its broadest sense by the income earned, property owned, and consumable purchases made by each taxpayer, and (b) benefits received measured by some direct use of a service or facility.

   We believe that the concept of ability to pay restricted to the income factor is too narrow to meet the demands of a modern revenue system. Further, we believe that in certain areas of our tax system the concept of payments for benefits received should be expanded. Viewed in this manner a state-local system must have a reasonable balance between the income, property, and sale and excise components to achieve equity.

3. The revenue system should be constituted so as to offer encouragement to the processes of economic growth. In some cases taxes on businesses and other forms of economic activity are shifted to the general public because the tax is built into the cost structure of the product and hence into its price. Unfortunately this is not the case with all business taxes, however, nor is the impact upon all business firms the same. Consequently, some taxes may serve as a drag upon certain of our industries or potential industires in the State of Minnesota. The removal of these obstacles can be interpreted as offering a positive policy towards economic growth.
4. A revenue system should permit efficiency and simplicity in administration with the impartial treatment of all taxpayers.
5. Because of its adverse influence upon the entire revenue system, the Committee believes it is a wise principle to avoid the dedication of tax revenues as much as possible.

Chapter 2

THE MINNESOTA TAX SYSTEM

The Minnesota tax system has evolved from a general tax on property sufficient to meet the initial needs of an infant state to a complex system of taxation necessitated by the tremendous growth and development of the State of Minnesota. Progress - exemplified by an increase in population, urbanization, industrialization, technological advancements (notably in the area of transportation), and the rising standard of living - has resulted in an ever increasing demand for governmental services. These demands - especially in the areas of transportation, health, welfare, and education - have required an enormous increase in expenditures of all governmental units.

The State government has played an increasingly important role in the financing of local expenditures, having in recent years contributed nearly a third of all local revenue. The burden of financing these growing public expenditures has compelled the introduction of new methods of raising revenue, particularly at the state level. The local fiscal units have been limited to the property tax largely because of the administrative problems involved in other forms of taxation. This concentration of the local units upon the property tax has put an extremely burdensome load on the property base and made it imperative that the state search for other means of meeting its fiscal needs. The following brief survey of the state and local tax system will illustrate the increasing dependence of the state upon new revenue sources but the continuing dominance of the property tax in the local tax structure.

Minnesota state and local tax receipts have grown from a level of $19 million in 1903, about $11 per capita, to a total of $856 million in 1962 or about $245 per capita (Tables 2.1 and 2.2). Corresponding figures for State tax receipts, taken separately, indicate an even more spectacular growth with tax receipts jumping from a 1903 level of $4 million, or $2 per capita, to a 1962 total of $394 million, or $113 per capita (Tables 2.3 and 2.4). Table 2.5 shows the tax revenue of the state and local government in Minnesota as of June 30, 1962.

During the decade of the fifties alone, state and local tax receipts doubled, paralleling the boom in state and local expenditures. While much of the boom in expenditures may be attributed to the post-war demand for capital outlays, such as schools and roads, which had been neglected during the forties, thus leading one to expect a falling off of future demand for such capital replacement expenditures, a continuing high level of state and local expenditures may be anticipated in the forthcoming decade. Minnesota's population distribution, exceeding the national average at both ends of the scale, foretells a continuing expansion of education costs and increasing health and welfare expenses. Highway construction and maintenance will also continue to be important items. Thus, although the rate of increase of expenditures may decline slightly, no relief is seen in terms of absolute amounts required in the future.

Property Tax

Property taxes continued to dominate the state-local tax structure in 1962, the real property tax contributing $392 million, or 46% of the state and local tax revenue, and the personal property tax producing an additional $93 million, to total 57% of state-local tax receipts (Table 2.5). Property tax collections have more than quadrupled in the last three decades, advancing from a level of $112 million or $44 per capita, to the present sum of $485 million, or $139 per capita (Tables 2.1 and 2.2).

Although the proportion of state tax revenue generated by the property tax has decreased from 50% in 1903 to the present level of 6% (Table 2.6), the property tax is still responsible for 97% of the local tax receipts (Table 4.2). This explains the dominant role of the property tax in the state-local tax structure. While the property tax has decreased in relative importance from 84% of state-local tax receipts in 1922, to 56% in 1962, it should be noted that the decrease stopped before 1960 and that, in fact since then, an upward trend is suggested (Table 2.7).

The diminishing role of the property tax in the State government's tax structure during the 40 year period preceding 1960 is sustained by the fact that the per capita state property tax receipts not only failed to increase in proportion to the rest of the taxes, but actually suffered some decrease in absolute terms - declining from $4.20 per capita in 1922 to a low of $2.81 in 1949 (Table 2.4). However, this trend was reversed in more recent years - the per capita tax rising to $6.78 in 1962. The local per capita property tax receipts, on the other hand, have displayed an upward trend throughout the entire period, rising from a level of $37 per capita in 1922 to $75 per capita in 1954 and reaching a total of $132 per capita in 1962 (Tables 2.2 and 2.4). This tremendous growth in the local burden on the property tax base has been caused by its use as the residual source for local revenues. Unlike the state, the local units have not been able to expand their revenue sources to include other tax bases.

The shift to new sources of revenue by the State government is best demonstrated by the fact that the five leading revenue producing taxes in 1961 were not in existence in 1920, the taxes of that period now supplying less than 20% of today's state tax revenue. The five primary sources of Minnesota state tax revenue, in order of their importance, are: the individual income, motor fuel, motor vehicle license, corporate income and iron ore taxes. The property tax, which once occupied first place, has slipped to sixth position. This decline has not been caused by a decrease in property tax receipts, but rather is the result of a tremendous increase in the productivity of the foregoing taxes.

Income Tax

The individual income tax has contributed a steadily growing share of the state's revenue since its inception in 1933, and now ranks as the major single source of State tax revenue. Proceeds from the tax increased fivefold in the forties, and more than doubled in the fifties to reach the present level of $123 million in 1962, or nearly a third of the state's tax receipts (Tables 2.5, 2.6, 2.8 -- 2.10).

It is interesting to observe that the percentage of the total number of taxpayers who are earning an income under $6,000 has steadily declined from 75% in 1958 to 67% in 1961, while the income bracket of $6,000 - $10,000 has grown from 19% to 25% in the same four years (Table 2.11). This upward shift in income taxpayers, together with the progressive rates of the tax, suggests a continuing trend of increasing returns and a growing proportion of the total State tax receipts.

Highway User Taxes

Gasoline and motor vehicle taxes provided $103 million, or 26% of State tax revenue in 1962; the former contributing $59.2 million, or 15.1%, and the latter $43.4 million, or 11.0% (Tables 2.5 and 2.6). These revenues have increased at a fairly constant rate since the enactment of the taxes (Table 2.4) and may be expected to increase gradually in absolute amount, but decline slightly in relative importance measured as a percentage of total State tax receipts.

Corporate Income Tax

The corporate income tax ranks fourth on the scale of the most productive State taxes, accounting for $30 million, or about 7.6% of total State tax receipts in 1962. This represents an advance from sixth place in the scale in the late fifties, the collections increasing from $20.9 million in 1957 to $36.8 million in 1960, declining to $32.5 million in 1961, and then to the present level of $33.7 million (Table 2.9).

Although receipts are affected by the state of the national economy and fluctuating corporate profits, an overall trend of gradually increasing revenue and a slightly increased proportion of the total tax receipts may be predicted for the future. This follows from the fact that the corporate, like the individual income tax is correlated with economic growth.

Iron Ore Taxes

The recent history of the iron ore occupation and royalty taxes indicates that this is a highly unstable source of revenue, owing to the fact that the taxes are based on the changing and uncertain production of the mines (Table 2.12). The revenue produced by the iron ore taxes advanced from a level of $23 million in 1953 to a new high of $34 million in 1954, only to plunge the following year to $19 million. By 1958, receipts had again climbed to a record yield of $37 million, but fell sharply during the next year to $20 million, and dropped still lower to $14 million in 1960. The taxes had regained some of their productiveness by 1961, advancing to a level of $26 million, but true to the pattern of fluctuating receipts, again dropped to the present level of $17 million, or less than 4% of state tax collections.

The past decade has seen a drop in the relative position of the iron ore taxes from the fourth most productive source of state revenue to the present rank of ninth (Table 2.6). The future of these taxes is even less encouraging. In addition to being at present a very unstable source of revenue, the mines are in the last stage of depletion, a condition further aggravated by intense competition from higher grade mines and the entry of other products, such as aluminum, into the traditional markets for steel. Professor E. P. Pfleider, Head of the University of Minnesota's School of Mines and Metallurgy and a foremost authority in the field of iron ore mining, has estimated the remaining life of the reserves of natural ores in Minnesota to be less than 10 years, should present production levels be maintained.* Thus, Minnesota will be faced in the near future with the problem of replacing a major source of revenue.

The remainder of the State tax revenue is produced by a group of taxes consisting of the gross earnings tax on railroads, telephone, telegraph, express, and railroad car companies ($21.8 million, or 5.5%of total state tax collections), cigarettes and tobacco ($25.2 million, or 6.4%), inheritance and gift ($9 million, or 2.3%), bank excise ($5 million, or 1.3%), alcoholic beverages ($19.6 million, or 5.0%), insurance premiums ($10.8 million, or 2.7%), and miscellaneous taxes.

In summary, the present Minnesota tax structure is dominated by the property tax, followed by the income taxes and highway user taxes, the property tax producing 97% of the local tax revenues and the three together contributing over 70% of the State tax receipts.

* Minnesota's Mineral Policy, presented at a Hibbing Chamber of Commerce "Town Hall Meeting," June 19, 1962.

Chapter 3

INTERSTATE COMPARISON

Based on a comparison with tax structures in other states, the Committee has concluded that the most significant feature of the Minnesota tax structure is the excessive tax burden placed upon property and income. This conclusion was formed after a careful consideration of comparative data concerning state tax structures and the role and burden of the taxes which comprise these systems. Much of this material is reproduced in this chapter. Although all of the available data confirmed the Committee's findings, particular notice should be given to the property and income burden analysis materials represented by Maps 3.1 thru 3.3 and Tables 3.1 thru 3.3. It is readily apparent from Table 3.1 and Map 3.1 that Minnesota occupies an unenviable position with respect to the burdening of property; it is likewise evident from Map 3.2 and Tables 3.2 and 3.3 that Minnesota imposes an extremely heavy burden on the income of the average taxpaying family.

General

Minnesota has been a high per capita tax state throughout the last half century, always (as measured by several yearly comparisons) exceeding the national average and never ranking less than third among the neighboring states which include Illinois, Wisconsin, Minnesota, Iowa, Missouri, Nebraska, North Dakota, and South Dakota (Table 3.4). If state taxes alone are considered, Minnesota has ranked first or second among the eight states. (Table 3.5 showing 1942, 1953, and 1960). Currently, Minnesota ranks first in per capita combined state and local tax revenue and second in per capita state tax collections, the former amounting to $217 compared to the eight state average of $198 and the national average of $201, and the latter totaling $103, compared to eight state $87 and national average $100. These figures rank Minnesota 13th among all states in per capita combined state and local tax collections and 22nd in per capita state tax revenue (Tables 3.6 and 3.7, Maps 3.4 and 3.5). The tax burden becomes evident when this material is viewed in relation to Minnesota's per capita personal income ranking of 24th (Table 3.6). The gap between the per capita income and the total tax collections ranking is indicative of the relatively heavy tax burden imposed by the Minnesota tax system.

Minnesota's per capita state tax receipts are 10% or more above that of the average of the eight states and the national average from each of the following taxes: individual, corporate income, alcoholic beverages, tobacco products, motor vehicle licenses, severance (iron ore) and public utilities (gross earnings) (Table 3.5).

The contribution of each of these taxes, taken as a percentage of the state total, exceeds the national and the eight state averages by 10% or more (Table 3.8). The property tax accounted for 6.4% of the total tax revenues of the State Government in Minnesota, almost twice that of the national average (3.4%), but slightly less than the average of the eight states (6.7%). However, Minnesota ranked third among the eight states in proportion of state tax receipts remitted by the property tax. This moderate rank was due in part to Nebraska's extraordinary reliance upon the property tax; that state received 30% of its state tax revenue from this source. The role played by a specific tax in the total state tax structure measured by the percentage of total state tax revenue contributed by the tax is an indicator of possible distortion in the tax structure, since concentration on one means of revenue may signify a disproportionate weight of the tax program being forced upon a certain segment of the population.

Perhaps the most distinguishing feature of the Minnesota tax program is the lack of a general sales tax. Since Wisconsin adopted a sales tax in early 1962, Minnesota and Nebraska remain the only states in the eight state region which do not impose such a tax.

The general sales tax produced an average of 34% of the total state tax receipts in Illinois, Iowa, Missouri, North Dakota, and South Dakota in 1960. This tax accounts for the largest share of all state tax revenues, 24%. In comparison, the state income tax contributed 12% (Table 3.8). The corresponding per capita statistics yield similar results, the sales tax providing an average of $24 per capita for all states, compared to $12 per capita received through the use of the individual income tax (Table 3.5).

The number of states levying a sales tax now total 36, of which 23 also tax income. Of the total tax revenues collected by these income-sales tax states, 31.5% accrued by means of the sales tax and 12.8% through the use of the income tax.*

The figures and materials which have been presented suggest a relative imbalance in the Minnesota tax system, an above average reliance on the majority of existing taxes and an exclusion of the largest source of state tax revenue. The absence of the sales tax is responsible for most of the sum by which Minnesota exceeds the national average with respect both to percentage of tax revenues collected by each tax and specific per capita tax collections, 24 percentage points out of a difference of 32 percentage points (Table 3.10) and $24 out of a difference of $36 respectively. This is an admittedly rough measurement, but it is an indication of the comparative imbalance of the tax program and the approximate effect of the major distorting factor.

Property

It was stated at the outset that the Committee considers Minnesota's property tax to be an overworked source of revenue. This conclusion was drawn from an analysis of property tax burden data, the most influential study being represented by the previously mentioned Map 3.1 and Table 3.1. The Committee found the most meaningful indicator of property tax burden to be the ratio of the property taxes to the estimated market value of the property taxed, or the "effective" property tax rate. Minnesota is seen to rank among the top ten states on the effective property tax rate scale in 1959. Minnesota now surpasses Wisconsin on the scale, due to the latter's recent enactment of property tax relief, and has the dubious distinction of having the highest "effective" property tax rate west of the Appalachians.

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* Based on data for 20 states in Fiscal 1960, the most recent available.

SOURCE: Retail Sales and Individual Income Taxes in State Tax Structures, Tax Foundation, Inc., N. Y., January, 1962, p. 14

Although the "effective" rate is the most reliable index of the property tax burden, other indicators were examined and found to yield the same result. The per capita combined state and local property tax receipts of Minnesota ($117) are substantially above the national average ($91) and exceed the per capita average of the eight states ($107)(Table 3.4). The per capita property tax receipts of the State of Minnesota are nearly double the national average (and slightly above the eight state average) (Table 3.5). (The anomalous tax structure of Nebraska has been discussed and the per capita figure for Wisconsin should be reduced as a result of the relief granted earlier this year.) Minnesota ranks far ahead of the remaining states in the region, with only North Dakota approaching the per capita state property tax levy of Minnesota.

Minnesota again relies on the property tax to supply a much greater percentage of both combined state and local tax receipts and state tax revenue than the national average and exceeds the average of the eight state region when allowance is made for Nebraska. This is evidence of an overuse of the property tax and the concomitant neglect of other sources of revenue.

Table 3.9 illustrates a particular aspect of the property burden problem, the comparatively heavy load placed on the property base by the municipalities of Minnesota. The cities of our state rely on the property tax to furnish 89% of their total tax revenue, compared to the corresponding figures of 71% for the eight states and the national average of 73%.

Individual Income Tax

An interstate comparison reveals that the Minnesota individual income tax ranks among the top third of income tax states with respect to both per capita income tax receipts and percentage of personal income taxed. While Minnesota is a comparatively high income tax state overall and all income groups are subjected to a relatively burdensome income tax (Table 3.13), the system of tax credits and the relative steepness, narrow brackets, and high initial rate of the graduated rate schedule compound the burden of the $5,000 to $12,000 income group.

An overall picture of the income tax burden can be obtained by considering Minnesota's relative position in the per capita tax and income, and the percentage of personal income taxed and total personal income rankings (Table 3.13). Minnesota ranked 11th among the 34 income taxing states in per capita income tax receipts in 1961, collecting a total of $28 per capita, compared to the national average of $22 for all states levying the tax. Per capita collections ranged from Delaware's high of $60 to a low of $0.46 in West Virginia. Of the neighboring states, only Wisconsin exceeded Minnesota in per capita income tax receipts; the other states lagged far behind.

Minnesota individual income tax collections amounted to 1.30% of personal income in 1961, placing the state 8th among the 34 taxing states. State percentages ranged from 2.07% in Oregon to 0.03% in West Virginia. Although the 8th position represented a drop from 5th place in 1955, the two new states - Alaska and Hawaii - were added to the rankings above Minnesota and only three states moved ahead of Minnesota. Both the per capita tax rank of 11th and the percentage of personal income taxed rank of 8th should be viewed with regard to Minnesota's rank of 12th among the 34 taxing states and 24th among all states in per capita personal income. The per capita ranking of 11th among the taxing states is the more meaningful when comparison is being made between the income taxing states themselves, and shows Minnesota's per capita income tax to be in line with per capita income. However, when the per capita income tax rank of 11th among the taxing states is compared to the per capita personal income rank of 24th among all states, the gap in the rankings is indicative of an overburdening of the income tax. It should be noted that 6 of the first 12 states and 19 of the 33 in the scale have gaps either approaching or exceeding that of Minnesota, leading one to conclude that the majority of the income taxing states impose burdens disproportionate to their position on the personal income scale.

The relative progressiveness of the Minnesota income tax rates is obvious from an examination of Table 3.11 which describes the tax rate structure of the five income taxing states in our region. Wisconsin is the only state in the region with rates approaching those of Minnesota.

Perhaps the most significant measure of the relative burden imposed by the income tax is the amount of income tax an individual taxpayer pays under the various state tax systems. The comparative data presented in Map 3.2 and Table 3.2 indicates that Minnesota is among the three states which levy the highest income tax on an average American family, a couple with two dependents and an annual income of $6,000. Table 3.12 extends the comparison—setting forth the amount of income tax collected by selected income taxing states from the same type of family, but at levels of annual income ranging from $2,000 to $100,000. Minnesota surpasses the other income tax states of this region in the amount of tax assessed at all levels of income, with the exception of Wisconsin in the $100,000 income group.

The individual income tax accounts for 25% of Minnesota's state tax revenue, more than double the national average (12%) and significantly greater than the average (18%) of the income tax states in the eight state region (Table 3.8). This differential, similar to that of the property tax, is evidence of a relative over-reliance upon the income tax as a source of revenue.

Corporate Income Tax

Minnesota's statutory corporate income tax rate exceeds that of all other states, and although the provision for the reciprocal deductibility of Federal-State taxes greatly reduces the effective marginal rate, giving Minnesota a ranking of 11th among the 35 states levying such a tax, Minnesota clearly remains a high corporate income tax state. Table 3.14 shows the before and after effect of the reciprocal deductibility provision, and gives a comparison of Minnesota's and other states' corporate tax rates.

The burden of the corporate income tax is best illustrated by considering the income tax payments of a number of hypothetical corporations located in various states (Table 3.15). The states in the eight state region have been selected to depict the comparative burden of the tax since these states are natural competitors for industrial location. The hypothetical corporations are: First - An "intrastate" corporation having all its property, payroll, and sales located in the taxing state.

Second - An "export" corporation having 90% of its property and payroll but only 10% of sales in the taxing state. Third - An "import" corporation having no property or payroll, and only 2% of sales located in the taxing state.

The "intrastate" corporate income taxes are estimated for three levels of net income, $10,000, $100,000, and $1,000,000. Minnesota levies the highest tax on the $10,000 corporation in the eight state areas, and is surpassed only by Wisconsin with respect to taxes imposed on the $100,000 and $1,000,000 corporations.

This position is improved only slightly with respect to taxes levied on "export" corporations. Minnesota ranks third, substantially below Wisconsin which levies a tax of more than two and one-half times that of Minnesota, but well ahead of the remaining states. Minnesota levies a tax of more than three times that levied by Missouri which is just below Minnesota in the ranking.

The "import" corporation differs from the other two types by the fact that no property or payroll is attributed to the taxing state; hence, there is less concern about a low tax rate as a location inducement. Minnesota again ranks high, second only to Iowa in taxing these corporations.

It should be noted that the total corporation income tax liability differential between Minnesota and the other states is not as extreme as the state tax comparisons suggests, since the federal corporate income tax authorizes state income taxes to be claimed as a deduction in computing the federal tax.

The corporate income tax contributed 11.3% of the total state tax revenue in 1960, more than twice that of the eight states average of 5.5% and substantially greater than the national average of 6.6% (Table 3.8). These figures indicate a heavy reliance in Minnesota on corporate income as a source of revenue.

Highway User Tax

Highway user taxes (gasoline and motor vehicle taxes) are an important item in the revenue system of every state. Minnesota derives 28% of its tax receipts from this source compared to the national average of 27% and the eight state average of 34% (Table 3.8). Minnesota's per capita highway user tax receipts of $28.59 is slightly lower than the eight state average per capita tax of $29.11 and is a little above the national average of $26.69 (Table 3.5). However, consideration of the two taxes which comprise the highway user charges in Minnesota will disclose that an overall balance is achieved by relatively low gasoline and high motor vehicle revenues.

The compensating roles of the gasoline and motor vehicles taxes in the Minnesota tax program, compared with the average state tax system, is evidenced by the fact that the percentage of total revenue contributed by the gasoline tax is 16%, or significantly lower than the national average of 18.5%, while the corresponding figure for the motor vehicle tax, 11.7% is substantially above the national average of 8.1% (Table 3.8). The two taxes, however, complement one another to make the role of the total highway user taxes approximately the same as in the average tax structure.

Minnesota's gasoline tax rate of 5¢ per gallon, a rate levied by six other states, is lower than that of 44 states. Other state rates range from 5¢ to a high of 11¢. Nineteen states impose a tax rate of 6¢, sixteen of 7¢, and four states at a rate lying within this one-cent spread (Table 3.16). Minnesota's rank has decreased in recent years since four of the five states that ranked below Minnesota in 1955 now tax at a higher rate.

In contrast to per capita gasoline tax revenues, per capita motor vehicle tax proceeds are considerably above the national average ($12 in Minnesota compared to $8 for the U.S.). Table 3.17 also shows motor vehicle tax receipts per vehicle to be significantly above the national average, but ranking fifth among the neighboring eight states. (The differential between the fifth, fourth, and third ranking states is not very significant).

The following table demonstrates the recent trend toward a relatively lighter highway user tax burden in Minnesota.

	Dollars Per Vehicle		Dollars Per Capita	
	1955	1960	1955	1959
Minnesota	$ 55.27	$ 62.76	$ 24.01	$ 28.06
Eight States	55.57	63.77	23.03	28.63
All States	59.56	66.19	21.65	26.67

Alcoholic Beverages and Tobacco Products Taxes

Although Minnesota lacks a general sales tax, the State does levy certain consumption taxes, obtaining 26% of its tax revenue by means of selected excise taxes on gasoline, alcoholic beverages, and tobacco products, compared to the national average of 27% (Table 3.8). The corresponding per capita figures show the same balance, both Minnesota per capita tax receipts and the national average equalling $27. This balance is achieved, as in the case of the highway user taxes, by a compensating over-reliance in Minnesota upon the alcoholic beverage and the tobacco taxes to offset a relatively low gasoline tax.

The Minnesota tax on tobacco products is comparatively high. The per capita tax receipts equal $6, compared to the national average per capita tax of $5. The role of the tax in the state tax structure presents the same situation, Minnesota relying on the tobacco products tax to supply 6% of the total state tax revenue, contrasted with the national average of 5%.

The Minnesota cigarette tax of 7¢ per pack is exceeded by only the six states levying the top rate of 8¢ per pack (Table 3.18). The Minnesota tax rate per pack is the highest in the eight-state region: four of the neighboring seven states (Illinois, Iowa, Missouri, and Nebraska) tax at a rate of 4¢; South Dakota, at 5¢; and two states (North Dakota and Wisconsin), 6¢.

The same high tax position for Minnesota is evident in regard to its tax on alcoholic beverages. Examination of Table 3.20 discloses Minnesota ranking among the highest in the nation with respect to the tax levied on distilled spirits, exceeded only by Alaska and Vermont. Light wines, under 14% alcohol, are taxed at an average level, but Minnesota must be ranked among the higher tax states with respect to fortified wines. Malt beverages are taxed at a moderate level. However, the distinction between "strong" and 3.2% beer taxes, the former being twice the latter, is duplicated by only one other state in the nation. It must be noted that although alcoholic beverages are extremely high priced in Minnesota, the price is more a reflection of the system of regulatory controls rather than the comparatively high taxes.

Chapter 4

PROPERTY TAX ADMINISTRATION

The property tax, both real and personal, has been the backbone of local government financing in the State of Minnesota ever since the first settlement. Until the advent of the income tax, the property tax was a major source of revenue for the State government as well, but since then it has greatly decreased in its relative importance (Table 4.1) although the sum it provides is not inconsequential. In 1962, state property tax revenues in Minnesota amounted to $25 millions.

Real property taxes are levied by the State, municipalities, counties, school districts, and other special districts. Assessment systems vary from county to county involving both locally elected and appointed assessors. Minnesota law uses a classification system which provides for taxable value on the basis of a given percentage of full and true value. The assessor determines the true and full value and then applies the appropriate percentage specified in the classification system. In general, the assessor's full and true value is some fraction of the actual market value of the property, ranging from less than 20% on some items of real property to better than 75% on some items of personal property.

Property taxes are based upon the benefit theory of taxation. It is assumed that the property owner receives the benefits of local governmental services in proportion to the value of the property he owns. If the owner of the property does not use the property himself but rents it to others, it is assumed that the property taxes are shifted to the renters, who in turn receive the benefit of the services of local government. Prior to World War II, dependence upon property taxes as a method of financing government was declining, but in the period since World War II, this trend has been reversed. Property taxes still play an important role in local finances throughout the United States. Minnesota has relied somewhat more upon property taxes and, conversely, somewhat less upon non-property taxes for local financing than other states. The Advisory Commission on Intergovernmental Relations recently reported that Minnesota collects 97% of its local tax revenues from property sources and only 3% from non-property tax sources. (Table 4.2) There are four states in which more than 25% (highest 43.7%) of local tax revenues are from non-property tax sources.

In recent years there have been some questions raised about the extent to which the benefit theory of taxation applies to property taxation. To cite one simple example: the cost of snow removal enters into the property tax levies of most cities and villages, yet the direct benefits of snow removal accrue to automobile owners. All automobile owners benefit from snow removal but not all property owners own automobiles - neither do they benefit from snow removal in proportion to the value of their property. In short, there is a growing realization of the need to examine more carefully the governmental costs which are levied against property in terms of the benefits which property owners receive. Nevertheless, the property tax system will continue to be the backbone of Minnesota local financing. Therefore, the state and local governments must improve the administration of the property tax system. They must eliminate all serious inequities.

Property Tax Administrative Problems

It has already been demonstrated that the property tax plays a most significant role in the total revenue of state and local governments in the State of Minnesota. There is no doubt that many citizens are not fully aware of the fact that over $500 millions are collected annually from this source. Oftentimes, the tax base has to be determined under conditions where personal judgment plays an important role and where even honest intentions make for conditions of inequity in tax burdens. The Committee believes that the property tax requires the finest administrative organization that it is possible to achieve. For this reason it has studied various measures which could make a substantial improvement in property tax administration in Minnesota. In making its recommendations, the Committee is not attempting to castigate any single individual or groups of individuals for the present shortcomings of the system. With so much revenue raised through personal and real property taxes, however, we believe that the citizens of the State of Minnesota have the right to expect equitable property tax administration.

Basically, the Committee is advocating that the State Legislature and local governing bodies consider property tax assessment and administration a professional task. Every effort should be made to secure the services of highly trained professional people; then, support must be given these professional people to enable them to carry out their task in an impersonal manner. It has already been recognized in many other states that property tax administration is far too serious a matter to be left in the hands of many thousands of well-meaning but untrained persons. In order to implement the development of a professional tax administration plan, the Committee is recommending the following specific points:

Recommendation 1. The establishment of a state-wide county assessor system. Each county should be required to employ a full time, fully qualified, adequately compensated person to serve as county assessor. Under our present law, each county has the option of having a county assessor or a county supervisor of assessments. By 1962, 57 out of the 87 counties had appointed county assessors. While it is probably true that a good county supervisor of assessments is better than a poor county assessor, it seems obvious that by placing the responsibility for making the original assessment in one person in each county a greater degree of uniformity within the county can be secured.

Other assessors in the county should be deputy assessors and directly responsible to the county assessor. The county assessor should choose the deputy assessors. The Committee is fully aware of the fact that a state-wide county assessor system is not the entire panacea for good tax administration. However, a good organizational structure does provide the proper climate in which a good tax administration may be set up. A number of our neighboring states are now on a basis such as suggested here, and it is generally considered that these states possess a much better assessment and tax administration system than does Minnesota. For this reason, the Committee has tagged this recommendation "Number 1."

Recommendation 2. The establishment of a new and improved system of tax appeals and tax review. Because property taxes have so many elements of personal judgment involved, it is important that an adequate system of review and appeals be in effect. Many taxpayers are in a position where they (a) find it difficult to read and understand property tax bills, and (b) know little or nothing of the procedure for review and appeal. Furthermore, they are usually not aware of the process by which they can find out what the assessment is on property comparable to their own. In general, the public has been docile and has accepted tax assessments at face value without question. Possibly, this is due to the fact that so many people are required to adopt a "pay as you go" system of payments in which their property tax is collected by the mortgage holder or financial institution which then settles the tax bill. This has made payment of the property tax relatively "painless."

The Committee has discussed several systems of tax review and tax appeal. The important element of any review and appeal system is that it (1) be conducted by competent people, and (2) be easily understood and available to taxpayers. The Committee recommends the establishment of a county board of tax appeals to be assigned the functions of the local boards of review and of the county board of equalization, and the power, presently exercised by county boards, to order abatements of property taxes. The members of this county board of tax appeals could be appointed by the county board of commissioners, or by a conference board similar to that employed in Iowa, consisting of representatives of township boards, cities and villages, and the county board. The appointed members of such a board should be selected on the basis of their competence in the appraisal or assessment field; and they should meet throughout the year as often as is necessary to hear complaints on assessments.

We believe that the following advantages would accrue from the establishment of a county board of tax appeals:

(1) It would afford every property owner an impartial and professional review of his assessment.

(2) It would remove the equalization function from politics.

(3) It would free already overburdened county boards from detailed considerations of technical valuation problems.

(4) It would minimize the need for appeals to courts. The taxpayer would thereby be protected against major court costs and the courts from a heavy burdening of their calendars.

Recommendation 3. The classification of property - A proposed policy. The Committee believes that the present classification system is the cause of many of our property tax problems in Minnesota. The motives behind the creation of the classification system are not criticized but the net effect of the system has been to undermine the basic theory upon which the property tax is based, namely the burdening of each piece of property equally on the assessment of its market value. Supposedly the market value of the property determines the assessment and hence the taxes, regardless of the use, occupancy, or location. The classification destroys this impersonality of the property tax assessment system.

The fact that no other state in the United States has developed a comparable classification system indicates a general rejection of the idea across the nation. Classification creates a cumbersome and incomprehensible system of property taxation.

The Committee fully recognizes that the complete elimination of the classifications in one stroke might create a serious, chaotic condition. Therefore, the Committee recommends that the elimination occur as a result of several steps. As the first step, the Legislative Tax Committees should adopt a resolution stating their intentions to avoid any further expansion of the classifications and to encourage the combining of different classifications wherever possible. We urge the adoption of this policy resolution for we believe the classification system is a major deterrent to overall improvement in property tax administration in Minnesota.

Recommendation 4. <u>Raising the assessment to 100% of market value.</u> Minnesota law requires that property be assessed at its market value. During the recent inflationary era, however, in almost all cases, assessments failed to reflect current values. At present, assessments represent only a fraction of market value. The net result has been to increase property tax rates to a level much higher than that found in most other states. This has caused confusion not only among the people of this State but also in financial circles wherever government securities are bought and sold. Whether this has been a particular disadvantage to the state and its localities is problematical. But the unusually low assessments and the unusually high tax rates have always required detailed explanations for persons not acquainted with our complex and unique system. The Committee is aware that much has been done in recent times to raise assessments; it is hoped that the resulting trend will continue. However, we are now only at the level of 30-40% of market value. The Committee suggests that a 10-year program be adopted to work toward the goal of assessments of 100% of market value, and that the Legislature be given progress reports at each session indicating the current level of assessments.

There have been objections raised to the program of raising assessments to the

100% level. The Committee admits that some of the objections may be valid, at least in part. One of the virtues of the property tax system is its relative stability of income, which, in turn, can reflect a stable revenue base upon which to plan local budgets. If assessments were 100% of market value, the appeal procedure might be severely congested by persons presenting evidence of a market value every time comparable property has been sold and thereby establishing a 100% market price. This could cause an unstable assessment condition and lead to a break down of the entire assessment procedure, but the Committee believes a system can be devised to provide a reasonable period of time between changes in the assessments. Yet, regardless of this problem, the Committee believes that the target of assessments at 100% of market value is a worth-while goal. In achieving this goal, proper adjustments should be made in mill rates, debt limit provisions and salary laws related to the assessment level. The net effect of the change to a 100% of market value assessment would be to establish mill rates more in line with those found in our neighboring states. A mill rate of 50 for example, or possibly 75, would take the place of a mill rate of 250 or 300. The Committee feels certain that raising the assessment level would be widely understood and would present Minnesota's financial picture in a more favorable light.

Recommendation 5. Change the date of assessment from May 1 to January 1. The principal reason for this recommendation is to allow assessors more time to prepare the tax rolls. Also; the movement to the first of January would correspond to the start of a new fiscal year on the part of many business organizations, an appropriate time to make appraisals and assessments. Another change in the timing of assessment is suggested. The assessment of inventories as personal property causes some inequities between various types of businesses on any given date. The present date, May 1, creates some inequities but the new date of January 1 would likewise cause inequities. Therefore, the Committee suggests that a monthly-average inventory be allowed for the assessment at the option of the taxpayer.

In summary, these five recommendations could help to give Minnesota the kind of property tax administration it deserves. They are made in keeping with tried and true ideas as found in other states and the wisdom of the members of this Committee. They do not portend sweeping changes. There is no doubt that any system will have human failings. But with the proper recognition on the part of the state and local governments of the importance of property tax affairs, much can be done to improve the present system.

Chapter 5

PROPERTY TAX BURDEN

In the preceding chapter we recommended modifications and other improvements in the administrative process in property taxation. We recognize that advancements in such matters as equity and fairness among taxpayers can greatly improve the property tax system. But we also recognize that administrative problems deal with only one facet of the problem of property taxes; still needed is an analysis of the property tax burden. This chapter examines the burden from various viewpoints.

The Overall Property Tax Burden in Minnesota

The property tax burden is measured by the tax dollars on each parcel of property as a per cent of its market value. A nation-wide study shows Minnesota to have one of the heaviest burdens (Table 3.1). To be sure, the significance of this comparison is primarily to furnish a frame of reference; state-to-state comparisons of an individual tax, such as a property tax, are not meaningful unless one also considers the entire tax system of each state as a whole. For example, a state might have a heavy property tax burden combined with a light burden of other taxes, resulting in a relatively light overall tax burden. But as we have already seen, this is not the case in Minnesota; here the burden of other taxes is already heavy. Therefore, the heavy burden of the property tax in Minnesota is particularly striking.

What is the impact of this heavy property tax burden upon individuals, farms and businesses in Minnesota?

A property tax can be particularly vulnerable to the charge that individual taxpayers are not treated equally. Assessment of property, even at its very best, still possesses elements of personal judgment. Also, it is subject to a great variety of pressures to negotiate settlements, thereby penalizing the more "cooperative" taxpayers who do not raise a serious protest every time assessment rolls are published. A heavy property tax burden aggravates, of course, any inequities occurring among individuals.

The impact of the high property tax burden upon agriculture is largely expressed through the competitive position of the Minnesota farmer. Assessment procedures are reasonably uniform in agricultural areas. Farms and farm acreage have a relatively well-defined market price; it is not difficult to keep assessments in line between farms. The evaluation of the competitive pressures in agriculture, therefore, is the important criterion for determining whether the high property tax burden has a detrimental effect.

The evidence as presented to the Committee indicates that agriculture in Minnesota is at a competive disadvantage with respect to neighboring states, though the competitive disadvantage may not be very great. The Committee assumes that the State accepts as one of its basic public policies the maintenance of a healthy agricultural economy. It believes, therefore, that steps should be taken to place the Minnesota farmer in a more competitive tax position than that with farmers in Iowa, Wisconsin and other neighboring communities.

The property tax burden upon business and industry is a more complex matter.

First, there is the assessment problem. While there is a market for most commercial and industrial property, it is not as well defined as that for residential or agricultural property. Location, for example, plays an important role in affecting the value of most commercial property. A perfectly constructed building with the finest fixtures will not make up for a poor location. Oftentimes it is difficult for the assessor, however, to take this factor of location into account. Insofar as there are sufficient sales to create an active market, the location factor is built into the assessment, but in the absence of sales the assessor is apt to look largely at the cost of construction and actual square feet of building space when making his assessment.

The assessment of industrial property is subject to the same difficulties as commercial property. Factory buildings and warehouses are often laid out for highly specialized purposes. A sudden shift in technology under these conditions may cause a high degree of obsolescence, which is not always reflected in the assessment. (Undoubtedly, there are also cases of under-assessment.) The major problem stems from some of the difficulties involved in arriving at equitable property assessments between industries and between business and other property.

The second problem is that of tax burden as affected by assessment standards. Different standards between market value and "full and true" value have been legally permissible for different types of property. The courts have held that as long as full and true value did not exceed market value, there was no basis for action. Consequently some assessors have placed some items of property on the tax rolls at a value very close to market value, and other properties, particularly non-business property, at a small fraction of market value. As a result, some business personal property in the larger cities is placed on the tax rolls at 75% of market value, or above, whereas, other property is placed on the tax rolls at approximately 33%. The conclusion is obvious. Per dollar of market value, business property in the major metropolitan centers has been burdened much heavier than other property in those taxing jurisdictions. Recent court decisions, however, seem to indicate that assessment differentials of this type may be at an end.

The impact of this differential property tax burden is difficult to evaluate. In the smaller communities and suburban areas business property, particularly personal property, has not been taxed on quite such a burdensome basis. A stock of goods in inventory, for example, worth $100,000 at market value, might be placed on the tax rolls in the larger metropolitan centers at $75,000; whereas in the smaller areas and in suburban developments they might be placed on the tax rolls at under $50,000. The location effect in these cases is quite clear. Because a number of cases are before the courts, the Committee does not wish to offer any further comments regarding differential assessments.

The third problem concerns the effect of the property tax burden upon the economic health and development of Minnesota business and industry. The property tax becomes a fixed cost of doing business. Because it is part of the cost structure, it can have some effect upon the ultimate profitability of the business, yet it should also be pointed out, that, because the property tax is part of the cost structure, it can be built into the price structure of the goods or service and passed on to the consumer. The major question, therefore, is whether or not the high property tax looms large enough in the total cost structure so that it has a deleterious effect upon the health of the business or industry. Obviously, a complete answer to this question would require many months, if not years, of painstaking research. Some excellent research has been conducted by the Upper Midwest Economic Study, but their interest centered on aggregative effects rather than on individual businesses.

After making this review of the property tax burden, the Committee examined the character of recent trends in property taxes in Minnesota in order to determine if this burden is likely to increase. Evidence indicates that much of the growth in the burden occurred in recent years. In 1956, the Governor's Tax Study Committee projected a trend, based on the 1939 to 1954 pattern, showing that property tax revenue by 1965 would amount to $300-$325 millions. But, in fact, the trend in property tax revenues has already greatly exceeded the 1965 level; in 1962 property tax revenues amounted to $509 millions. This unanticipated increase probably was caused by the combination of three conditions: (1) the explosive growth in urbanization with its attendant needs for schools, streets, etc; (2) the almost complete lack of alternative revenue sources at the local and state level to use in relieving the property tax; and (3) a substantial increase in expenditures.

In the opinion of the Committee there seems to be no way to slow down this growth of the property tax burden without providing other sources of revenue. Certainly, the demand for public services at the local level is not going to decrease greatly and more than likely will increase as the State becomes more and more urban in character. For that reason, the Committee recommends that the rate of growth of the burden on property be retarded by making alternative revenue sources available to the local units. More emphasis should be placed on the role of non-property taxes (Chapter 11). The Committee does not rule out the possibility that some of the other sources of revenue might be tapped by the State and the revenues remitted to the local units. In other words, non-property revenues need not be limited to those collected locally; they could, in effect, be state taxes.

This proposal to retard the growth rate received encouragement from the Committee's concern about the extent to which a key justification for the use of a property tax has lost its appeal, that is, the "benefit theory" of property taxation. Fifty or more years ago the relationship between property taxes and public services or benefits could be clearly seen. But today the relationship is far less apparent although it still exists to some extent.

In summary, the Committee believes that this review of the property tax burden clearly indicates that Minnesota would do well to improve and reform its property tax system in order to create an image of equality and a desirable tax climate, two factors contributing greatly to the maintenance of a healthy economy with a sound level of economic growth. Retarding the growth rate of the already heavy burden on property by encouraging the use of other sources of revenue could be a major factor in achieving a basic adjustment in the revenue system of our local units.

The Tax Burden on Personal Property

In Minnesota we have many categories of personal property including: mined iron ore, household goods, inventories (manufacturer's, retailers, and wholesalers), agricultural products held by the producer, livestock, farm machinery, structures on railways, distribution lines, etc. The tax revenue from these sources totalled over $93 millions in 1962, about one-fifth of our property tax revenues.

How the tax burden on our personal property compares with that in other states could not be determined because of the lack of data. However, we believe it is fair to assume that the overall tax burden comparisons mentioned in the preceding section generally hold for subdivisions such as personal property and therefore place Minnesota among the heavy personal property tax burden states.

The personal property tax has its principal impact upon business and agriculture (household goods account for only 2.74% of the total personal property tax). Of the business personal property tax, roughly 56% is levied on inventory and 44% on non-inventory items, principally machinery. Agriculture personal property consists of two principal categories, farm machinery and farm livestock. These two categories combined account for 16% of the total amount levied on all personal property in 1962.

After reviewing the entire array of personal property categories, the Committee concluded that it should center its attention on the "inventory taxes" shown below:

	Statutory Classification Percentage of True and Full Value	1962 Tax Levy (Millions)
Manufacturers' Inventories	33 1/3%	$ 10.6
Farm Livestock & Agricultural Products	10-20 %	8.1
Wholesalers' Inventories	33 1/3%	6.2
Retailers' Inventories	33 1/3%	11.8
Household Goods	25%	2.6
		$ 39.3

These represented 41% of the total personal property tax levies in 1962 and about 8.1% of the total property tax levy. These inventory taxes cause the greatest difficulties in our personal property taxing system and, excepting household goods, have a harmful effect on the functioning of our business activities.

In searching for a solution to the problem of taxing these inventories, the Committee gave serious thought to the possibilities of completely eliminating or at least substantially reducing the current burdens. But the Committee, recognizing that these taxes make a significant contribution to local governmental coffers, concluded that whatever reductions were proposed would have to be counterbalanced by provisions for obtaining other revenues. In short, the Committee views the problem of replacement as a key factor in any relief or reform program for the tax on business and agricultural inventories. In fact, it has concluded that the limiting factor to any relief or reform program is the availability of replacement revenues.

As a caveat to those who favor complete elimination combined with a replacement fund, the Committee wishes to point out that serious inequities might arise at once in any distribution of replacement funds unless changes in the economic characteristics of each and every community could be reflected in the allocation formula. Keeping informed of these changes, let alone accurately measuring them, would be a major challenge - businesses expand, contract, and move to new locations. If accurate adjustments could not be assured, some communities would suffer while others would enjoy "windfalls" from the replacement fund.

In the event none of these tax bases are completely eliminated, the replacement problem would not exist as far as the mechanics are concerned. If the tax were cut in half, for example, the taxpayer would pay his half and the remainder would come from the State Replacement Fund. It can be readily seen that under such an arrangement the assessment process goes on as before and consequently would report changes in the tax bases. But a proposal such as this does not answer the criticisms of assessment procedures and practices; nor does it answer criticisms concerning the basic theoretical weakness of some aspects of inventories taxes. This would have to be viewed as a relief, not a reform, measure.

It should be noted, therefore, that both outright elimination and a partial elimination of inventory taxes have complex problems attached to them from the standpoint of providing the necessary revenue and still providing equity between taxpayers.

There is a general consensus that manufacturers' inventories taxes are probably the most undesirable element of personal property taxes in our system. They tend to weaken the competitive position of Minnesota manufacturers; they are difficult to assess from the standpoint of determining value; and they are difficult to assess from the standpoint of determining a reasonable assessment date. In 1962 the total tax levy on manufacturers' inventories amounted to $10.6 millions. It is advisable, in the opinion of the Committee, to consider the complete elimination of this tax levy as a positive move toward tax reform.

Inventory taxes are levied upon farm livestock as well as upon other farm commodities. In 1962 the levy on farm livestock and other farm inventory items amounted to approximately $7,500,000. While these are not as difficult to assess as are many items of manufacturers' inventories, there is still sufficient reason to eliminate this tax as a means of improving the competitive position of Minnesota agriculture. A healthy agricultural sector of the economy is important to Minnesota. The Committee also considered the matter of farm machinery, on which there is also levied a personal property tax. There are many complicated issues involved in assessment of agricultural property. As an example, in some parts of the state, where farm tenancy may run as high as 40%, the farm tenant owns the farm machinery and pays the personal property tax upon it. This is his only direct property tax. His real estate tax, if he pays any at all, is paid indirectly through the rental agreements with the landowner. The Committee believes, that some effort should be made to aid and assist all sectors of Minnesota agriculture.

The tax problem on inventories of wholesalers and retailers differs from either farm inventories or manufacturers' inventories. There is a serious problem in choosing an appropriate assessment date, and, in the case of wholesalers, there are problems of competition with firms located in other states where the inventory tax burden is lighter. Many of the problems of both retail and wholesale inventories could be mitigated through equal treatment in determining assessment standards. A major move toward <u>equal</u> treatment would result in a considerable tax reduction to wholesalers and retailers.

With respect to the inventory tax on household goods, the Committee has decided to make no recommendation. Counties now have the option of eliminating this classification and a substantial number of them have done so. The trend seems to be in the direction of elimination of this levy and the Committee sees no need for further action at this time.

Even if it is assumed that greater equity might be accomplished through the development of uniform assessment standards for all elements of property, the question still should be raised as to whether the business inventory tax is appropriate. Elsewhere in this report, the possibility of some type of business activities tax is discussed, which may offer the prospect of an easier method of shifting the tax forward in an equitable manner. The Committee considers it most important that these methods be explored.

To summarize, the items of personal property tax that seem to be most undesirable from the standpoint of the system as a whole and from the viewpoint of the economy are the various inventory taxes. Various issues have been discussed with respect to these inventory taxes and alternatives have been presented. In the concluding chapter the Committee has made specific recommendations for personal property tax relief and reform.

Real Property Tax Relief

The Committee spent much time in discussing the advisability of general property tax relief either in place of personal property tax relief or in addition to it. As in the case of the personal property tax, it assumed that any relief granted would have to be financed out of a property tax replacement fund.

It is the general consensus of the Committee that even though many citizens of the State hold property, property taxpayers are asked to bear an inordinate share of the cost of government. The absence of state-level assessments has, no doubt, made it very difficult to have completely equitable assessments. However, the Committee believes that, in general, real property is asked to bear a somewhat higher burden than is the case in other states. There is good reason to advocate some general lessening of real property tax burdens by prescribing a percentage cut in real property taxes with the difference to be made up in a state property tax replacement fund. A 5% reduction would cost approximately $20,000,000 and a 10% reduction approximately $40,000,000.

The reduction and subsequent control of real property taxes rather than reductions of personal property taxes as proposed earlier would have the effect of giving more widespread property tax relief and would have something of the effect desired to improve the business climate. On the farm, real property tax relief may have some different effects than tax relief upon personal property. The high percentage of farm tenancy (over 40% in several counties) leads to the situation where the tenant pays the personal property tax and the owner pays the real property tax. This means, of course, that if personal property tax relief is granted, the tenant would benefit--but not necessarily the owner, at least in the immediate future. From the standpoint of the farmer, personal property tax relief is most desirable but some real property relief is also desirable.

The Special Problem of the Homestead Exemption

The State of Minnesota Homestead Exemption Law provides for lowering the classification on urban homesteads from 40 to 25% and on rural homesteads from 33 1/3% to 20% of the first $4,000 of full and true value of such property. The effect of this law results in substantial savings to the urban homeowner and an even greater saving to the rural homeowner. With a proportion of 74%, Minnesota is one of the leading states in owner-occupied dwellings.

Most of the state homestead exemption laws had their origins in the depression days of the 1930's. Many were passed as emergency measures designed to help the homeowner over a difficult period in which he was in danger of losing his property.

Also, in some measure, homestead laws were passed to encourage home ownership. Since a widely held value in our society is ownership of one's home, many efforts have been made to achieve this goal, although only 14 states do have homestead exemption provisions. Almost all of the measures taken by the federal government have assisted the movement toward homeownership by making it possible for many individuals to obtain adequate financing. As we move toward a high percentage of homeownership, whether the Homestead Exemption Law has any effect in encouraging the trend is exceedingly doubtful.

Under the homestead laws of most of the other states, the difference between the amount of the tax which would have been paid had there been no homestead law and the amount of tax paid under the homestead law is supplied to the local community from state replacement funds. In some states, for example, replacements are supplied from sales and income taxes. The Minnesota law, however, does not have this provision. Instead, in Minnesota the tax burden is shifted from the homeowner to other property owners. Because of our high percentage of homeownership, this means that a substantial shift takes place between homes and business and commercial establishments. The Committee questions whether this shift is desirable. (The question of business taxes is analyzed elsewhere in this report.)

The shift in the burden of the property taxes as a result of the Homestead Law from the homeowner to the owner of rental property is another important consieration. Insofar as possible, the owner of a rental property will attempt to shift the tax onto the tenant. The economic status of rental property ranges from luxury type apartments to marginal dwellings at the level of slums. One effect of the Homestead Law, therefore, is to shift at least a fraction of the tax from the homeowner to those who are too poor to afford the purchase of a home.

Currently some interest is being expressed in increasing the homestead exemption in order to increase the benefits to homeowners. But as the illustration in Table 5.1 shows, the effect of an increase in the exemption would be to increase the tax burden on the lower cost homes. This would occur because (1) the lower cost homes already are receiving complete coverage under the homestead exemption provision and (2) the mill rates would have to be increased in order to obtain the same total revenue from the property tax base since the base itself would have been reduced somewhat as a result of the benefit given to higher cost homes. The Committee, therefore, does not extend its endorsement to this proposal; it recommends that no change be made in the present Homestead Exemption Law, unless a provision is made to replace any loss in tax revenue rather than to allow a shift to occur to other property holders.

The Special Problem of Property Taxes for the Aged

It has been suggested in recent years that some provision be made to provide property tax relief for taxpayers who are over age 65. These suggestions are based on the belief that there are desirable social values attached to maintaining home ownership for those people over 65, and it is believed that this is not always possible because the income of these taxpayers decreases but the property tax remains at the same or even moves to a higher level.

The Committee does not wish to pass on the merits of the social desirability of this proposal to grant relief. The volume of construction of multi-unit dwellings for the aged would seem to indicate that many plans appear to be running in the opposite direction from home ownership. However, the Committee does not feel competent to judge all aspects of this problem and views this topic only from the standpoint of the tax implications. The Committee has examined several plans and has found them all wanting in one respect or another.

There are two major tax implications: (1) a violation of general principles of property taxation; and (2) the difficulties of administration. We view this in much the same category as the Homestead Exemption. Is the property worth any less because the owner of the property has passed a given birthday? The answer obviously is in the negative. To give property tax relief to the aged, therefore, would seem to fly in the face of the established property tax concept and would tend to be another step in weakening the property tax rather than in strengthening it.

It is easy to visualize the countless number of administrative problems which would arise, especially from cases where children and grandchildren are living with parents. In some cases it might be profitable to transfer the title from children to parents in order to take advantage of the tax relief program. Also, because home ownership among people 65 and over is much less than that of younger age groups, a property tax relief plan would seem to discriminate very sharply between the homeowner and the non-homeowner.

Finally there is the question of replacement. As in the case with the Homestead Exemption, unless there is a replacement fund, the property tax relief granted to older citizens will shift the burden to other property holders. While this amount may not be substantial, the growing proportion of our population over age 65 will make it an even greater amount in the years to come.

For these reasons the Committee recommends that other plans for giving relief to the aged be considered in preference to giving relief from property taxation.

Special Problems of Tax Exempt Property

In recent years there has been a marked increase in the amount of tax exempt property. The growth of schools, church property, hospitals, plus a wide variety of other property used for charitable and public purposes, has been remarkable in the years since World War II. In Ramsey County, for example, in the six year span starting with 1956 and ending in 1962, the total assessed value of non-exempt property rose 18%, whereas the total value of exempt property rose 44%. In St. Louis County there was a decrease of 24% in the assessed value of non-exempt property, while at the same time there was an increase of 48% in the value of exempt property (Table 5.2). With few exceptions counties in Minnesota have reported more substantial increases in assessed value of exempt property than of non-exempt property.

From a revenue standpoint, the effect of removing a parcel of property, whether land or land plus a building, from the tax rolls is to shift the burden to other property. This effect is not serious when a new structure is built on unimproved land, but it may be very serious when a building changes hands and is then used for exempt purposes.

The Committee wishes to call attention to the increasing amount of tax-exempt property and to suggest further study by the Legislature.

Chapter 6

TAXATION OF IRON ORE AND TACONITE

No study of the Minnesota tax system can afford to ignore the taxation of mineral products. Revenue derived from the taxation of iron ore has been a significant factor in State government finances and has been the backbone of tax revenue for those communities with iron ore deposits within their local boundaries. There are many people who might wish to turn back the clock and alter some of the iron ore taxing procedures which have evolved during the past 75 years. However, the Committee is inclined to examine the present situation facing the iron ore and taconite industries and to concern ourselves with ways and means of providing an optimum tax climate, not only for the economic growth and development of the industry which will result in the greatest number of jobs, but also with the appropriate tax revenue which might be derived from this industry. Mineral resources are indeed a part of the natural heritage of Minnesota, which, like all inheritances, must be wisely and prudently managed if they are to maintain their value and possibly even to grow.

In this chapter there is an attempt, first of all, to analyze the relevant factors in the present situation affecting iron ore, followed by an appraisal of the revenue possibilities from iron ore, and concluding with a discussion of the taconite industry and present and potential tax revenue to be derived from taconite.

The Present Situation in Iron Ore

It is generally conceded that the position of natural, high grade Minnesota ores has changed markedly in the years since the middle 1950's. What was once thought of as a near monopoly situation is fast deteriorating into a highly competitive situation in which the natural high grade ores of Minnesota appear daily to be in a worsening position. The implications of these changes for revenue raising purposes are obvious.

The reason for our worsening position seems to stem from three factors which are for the most part beyond the control of the State of Minnesota or any of its political subdivisions. They are not completely beyond control because there are some actions which might be taken to help the situation, but nothing which might restore the old monopoly position.

The first factor is that of changes in the situation of iron ore in the world. The expansion of iron ore mining in Canada, Venezuela, Brazil, with additional possibilities in Africa and other places around the world has considerably increased the total world supply of iron ore. In the short-run this has created a so-called "glut" on the world iron ore market. This is similar to the situation which was created in the oil market during the 1950's. Other countries are going to do everything possible to develop their resources in this important field, and the development and availability of more shipping facilities make it possible to supply customers around the world, including customers within the United States. The best Minnesota can hope for is a vigorous and aggressive iron ore industry to keep Minnesota ores as competitive as possible in the face of these widespread pressures from around the world.

A second factor stems from improvements in steel making technology which are changing the nature of the entire iron ore industry. This new technology is requiring a higher grade of iron ore as a basic raw material, with the result that those ores formerly thought to be "high grade" are rapidly becoming obsolete. In other words, improvements in the steel making process are placing more stringent demands on this very first stage in the steel making process. As a result, all natural ores in Minnesota will need some beneficiation in the years to come, but even then they will probably not meet all the requirements. Instead, a newcomer has entered the field, namely, taconite, which seems to have a decided edge over the best grade natural ore which has been beneficiated. While this is a difficult pill for Minnesota to swallow, it will have to admit that its so-called high grade ore, which was once its pride and joy, is the victim of technological obsolescence.

A third factor which must be taken into account is the apparent growth in the competition for many of the markets which have been traditional markets for steel. Substantial inroads are being made by various substitute products. The use of aluminum, for example, has been growing at a far greater rate than steel. This is also true for plastic, glass, paper, and other materials, which have invaded the market for specific products formerly made only of steel. It is very difficult to know whether anything done by the State of Minnesota or its political subdivisions can have any impact, except through the effect on the cost of mining iron ore. Any reduction in iron ore taxes will have an effect upon iron ore mining costs and hence upon the cost of steel itself. Whether the complete elimination of all iron ore taxes would lower the cost of iron ore production substantially to enable the price of steel to be lowered, and hence recover some of its markets, is a question which cannot be answered except through a long and exhaustive process of checking all costs. The principle that a reduction in iron ore taxes will have an effect on iron ore costs and hence upon steel costs is sound, but the size of the effect is not known.

These three factors, therefore, are combining to place Minnesota iron ore in an unfavorable position.

A still further point which must be made, because it also has a direct bearing upon the entire iron ore industry, is that high grade ores are being rapidly depleted. In light of what has been said earlier, it is probably just as well that this is the case. Otherwise we might have a very large supply of ore which has become technologically obsolete. It should be pointed out that necessity is the mother of invention and one of the reasons why the remaining high grade ore is losing its position is due to the fact that those directly concerned with the technology could foresee this day coming and have made important strides in preparing for it. In any event, the facts seem to indicate that, given the present rate of production, high grade ores will be substantially depleted in Minnesota within the next 5 to 7 years.

At the present time we have several different methods by which iron ore is taxed. The local governmental units in the iron ore region of the state levy ad valorem property taxes on the iron ore reserves which are located within their taxing jurisdiction. These iron ore reserves are subject to true and full assessments on the basis of the Lake Erie market price, and to a taxable value classification under our property tax system of 50 per cent of full and true value, which is the highest of any type of property in the State. The recent 80¢ a ton decrease in the Lake Erie price has already caused some dislocation in the ad valorem property taxes, and with the factor of obsolescence mentioned earlier, plus the gradual depletion of the remaining reserves, we can expect a substantial loss of ad valorem tax revenue now accruing to the local communities on the Iron Range.

At the State level, the State levies occupation taxes which are in part an income tax, and in part a production tax. Also, the State levies a royalty tax paid by the recipient of royalty fees. These taxes are subject to much more fluctuation than the ad valorem property taxes, and this is reflected by examination of the revenues from these sources over the past several years (Table 2.12.) It is hard to predict the future of revenue from the occupation and royalty taxes, but one generally accepted theory is that they may conceivably remain close to the present levels for several years, and then fall off rather sharply. Given the present tax rates and the present tax assessments, this means an annual loss to the local communities, based on the 1961 levies of approximately $27 millions and to the State of Minnesota approximately $15 millions.

In making predictions regarding the future, the Committee has been guided in large measure by the report of the Head of the School of Mines at the University of Minnesota, Dr. Eugene Pfleider. There are numerous other studies, but none of them differ substantially from Dr. Pfleider's report.

The Committee devoted considerable effort to evaluating whether or not the present critical situation in natural iron ore could be alleviated by some changes in tax rates, or in the method of taxation. The Committee examined, for example, possibilities for shifting some of the present ad valorem taxes to production taxes with the return of tax receipts to the appropriate local communities. A production tax, in place of the ad valorem tax, would have the effect of shifting the tax (from the company's point of view) from a fixed to a variable cost in that the greater the amount of production, the greater the amount of taxation, and conversely, the lesser amount of production, the lesser the amount of taxation. A plan of this kind would create considerable problems for the local communities and make their budget dependent upon company production schedules. On the other hand, a production tax with variable rates could be used as a device for promoting orderly and more uniform production throughout the remaining life of the natural ores on the Range. Any plan of this kind would have to provide some incentive for maintaining a given level of production; it would need a tax rate which would require considerable payment if no production was forthcoming but which dropped rather sharply as production increased to the desired level and then rose again sharply as production went past the desired point.

The Committee has concluded that, while there would be substantial gains from a shift to a production type tax from iron ore ad valorem property taxes, the disruption in local government financing might create a chaotic condition. Even if the scheme were possible, there is still a question about the constitutionality of an outright severance tax. Thus, the question as to what to do about taxation during the remaining life of the natural ore remains a very live issue. The Committee recognizes that the local communities, so dependent upon revenue from iron ore taxes, must be given consideration, but at the same time every effort must be made to provide for the orderly production of the remaining iron ore.

The Committee recommends that over several, possibly 10, years gradual reductions be made annually to adjust the classification of unmined iron ore to 40%, the level of other business and industrial property. It recognizes the need for making this adjustment gradually in view of strained economic conditions already faced by many communities on the Iron Range. This adjustment is in keeping with the Committee's earlier recommendation concerning the curtailment of the classification system. Also, it should be recognized that the nature of iron mining today almost invariably involves some processing or beneficiation steps. As a result, iron mining is fast becoming an industry similar to that of any other processing or manufacturing industry. Consequently, it seems reasonable that the classification of this portion of its property should be taxed upon the same basis as that of other business and industrial property.

One final note before turning to the matter of taxes on the taconite industry: because of the obsolescence factor, it may be unwise to attempt any move which would slow down the rate of production with the view of extending the life of the natural iron ore deposits. Improvements in technology would make this dangerous in that, as more taconite becomes available around the world, the drop in value of natural iron ore may be further accelerated.

The Taconite Industry

Taconite offers the greatest promise for the mining industry in Minnesota. It has already been pointed out that the Committee believes that, even with the current favorable tax climate, taconite can be a substantial producer of revenue, both directly and indirectly. But the Committee is divided on the best means of accomplishing the task of getting the taconite plants built and taconite production increased. The Committee does not believe that its function is to make a recommendation concerning the proposed Taconite Amendment, since the Amendment does not deal directly with the question of tax revenue.

There are several recommendations which the Committee wishes to offer:

1. The taconite deposits should be subject to some kind of a reserve law, so that they may not be held indefinitely by any one particular organization or small group of

organizations. The purpose of the reserve law would be to make certain that taconite ore would be available in the event taconite plants are constructed. A reserve law has been suggested by Dr. Eugene Pfleider of the University of Minnesota.

2. It is hoped that every effort be made to prevent the taxing of unmined taconite ore. Modern taxation of minerals is based on the severance principle, avoiding all of the pitfalls and problems of ad valorem property taxes. The present law fully recognizes this principle and the Committee hopes it will be continued.

3. Because the taconite industry is characterized by its processing facilities, the Committee recommends that the Legislature consider it as a processing or manufacturing industry, rather than a mining industry. There are divided viewpoints within the Committee as to the desirability of making a shift to a tax base similar to that used for other processing and manufacturing industries, but it is recognized that the time may come when such a step might prove to be desirable for all concerned.

The most crucial need as far as taconite is concerned is that every effort be made to expand the industry in order to provide for the transition from the production of natural ores in such a way as to benefit the State of Minnesota, the local communities on the Iron Range, and the iron ore companies themselves.

Minnesota has at present two regular taconite plants and one taconite pilot plant of substantial size. These plants and the land and equipment have been subject to a somewhat different tax treatment than iron ore, largely due to the efforts of the State to encourage the industry. The taconite companies are not subject to ad valorem taxation except for a very nominal amount on reserve property not presently being used. On the other hand, the taconite industry is subject to a 5¢ per ton production tax and the regular iron ore occupation tax (excluding the additional 2.25%) based on the same formula as for natural ore. In addition, the taconite railroad used for access to the property is subject to a gross earnings tax.

It may be said that the taconite industry is subject to four taxes:

Taconite Tax (5¢ per ton)
Taconite Occupation Tax (12%)
Taconite Royalty Tax (12%)
Taconite Railroad Tax (5% of gross earnings)

It is estimated for the coming year that revenues from these taxes plus certain local charges will amount to 33¢ per ton or roughly one-third of the amount of tax paid on natural iron ore. The total amount of tax, as seen in Table 6.2, is not a substantial revenue producer. On the other hand, if there were substantial growth in the taconite industry, it might be anticipated that in a short time the revenue from taconite taxes might equal that now obtained from the occupation tax on natural iron ore. As a broad guideline, the Committee strongly recommends making an all-out effort to expand taconite production.

Chapter 7

HIGHWAY USER TAXES AND OTHER EXCISES

The grouping of these taxes in one chapter is not meant to imply that they are to be similarly viewed. Highway taxes are dedicated to specific purposes, whereas excise taxes on tobacco and alcohol are not; likewise, highway taxes do not rest on the same theory of taxation. The grouping was made principally for convenience in handling these particular modes of taxation. The following analysis was designed for the purpose of setting forth some general principles which have guided the Committee in its deliberations with respect to these taxes.

The Highway User Taxes

The State of Minnesota, like most states in the United States, has based its highway user tax program upon the benefit theory of taxation. Through the means of gasoline taxes and motor vehicle licenses highways are paid for by those that use them. Taxes on gasoline and other motor fuel are based upon the degree of use, as reflected by the mileage. The tax on motor vehicles is based on the possession of an automobile which is to be driven upon the roads. The motor vehicle license fee bears no relation to the use of the highways except that it is assumed that people who own automobiles will use them. In 1962, 56.8% of the revenue from these sources came from motor fuel tax collections and 41.6% came from motor vehicle licenses. (Motor vehicle operators' license fees accounted for the remaining 1.6%) (Table 7.1).

Over the years highway use has increased substantially, and the increase in revenue from gasoline taxes has risen on a parallel basis. In comparing Minnesota's gasoline tax with that of other states, however, it must be concluded that almost uniformly across the nation there has been a general increase in the rate of taxation over the past ten or fifteen years, while the rate in Minnesota has remained constant. In 1954, for example, 16 states taxed gasoline at a rate equal to or below Minnesota. In 1962, 9 of these states had moved up and only 7 were equal to or below us. Only Missouri with a rate of 3¢ per gallon remains below us. An increase of 1¢ per gallon in the Minnesota gasoline tax would increase the revenue approximately $12 millions.

Turning to the question of motor vehicle taxes, we find that the situation is somewhat different than with gasoline. The only feasible comparison is one based on taxes per motor vehicle (Table 3.17). Here it should be noted that with our neighboring states Minnesota ranks fairly close to average. It should be pointed out that motor vehicle licenses grow with increases in car registrations, not because of any particular use. Consequently, the Committee believes that it is appropriate for license revenues to be the smaller proportion of the total of license and gasoline tax revenue.

Over the past years, with the growth of the trucking industry, there have been many studies leading to many different controversies about the appropriate method of taxing trucks on the highways. This Committee does not believe it is competent, without considerably more study, to evaluate any of these analyses. Consequently, no recommendations are forthcoming with respect to any change in present methods of highway taxation for trucks. Obviously, any increases in motor fuel taxes should apply to all kinds of motor fuel with trucks being subject to the same taxes as other motor vehicles.

Tobacco Taxes

Taxes on tobacco, principally cigarettes, are a standard part of the revenue system of 47 states in the United States, as well as the federal government. The chief characteristic of tobacco taxes has been their immunity from movements of the business cycle, and, thus, their stability from a revenue point of view. Movements upward, in other words, are more closely associated with population movements than with income effects. The Minnesota tax is levied at the wholesale level and amounts to 7¢ per package of cigarettes. Other tobacco products are not taxed as heavily as cigarettes. The 7¢ rate places Minnesota well above its neighboring states, although in per capita tax levy for every one cent of tax, Minnesota appears to be about average (Table 7.2).

The Committee does not have a specific recommendation, but it does wish to call attention to the fact that the Minnesota cigarette tax is above that of other states.

Taxation of Alcoholic Beverages

In 1962, taxes on beer, wine, and distilled spirits produced $19 millions. There has been a steady increase in tax revenue from these sources. The taxes are levied at the wholesale level and are built into the price of the product. There are all sorts of different income elasticity effects. For example, because the tax on distilled spirits is a flat $2.88 per gallon, regardless of the cost of the product, there is obviously a much higher per cent of tax in the total price of the product among the lower-priced items than among the higher priced items.

The Minnesota Law has one unusual feature which is found only in a relatively small number of states. The taxes on malt beverages with alcoholic content above 3.2% are at a rate twice as high as that of beverages with alcoholic content below 3.2%. In spite of this differential in tax, the total sales of beer over 3.2% has been steadily increasing and now represents one-half of the total. The Committee does not wish to make a firm recommendation with respect to this differential rate, but it wishes to point out that nearly $1½ millions of new tax revenue could be raised if the lower rate were dropped and the high rate made uniform for both classes.

Our tax rates on distilled spirits and wines which account for 77.8% of the total revenue from alcohol taxes do not seem to be out of line with those of other states, although any state-to-state comparison is difficult to make (Tables 3.20 and 7.3). Since a number of states have wholesale liquor monopolies or operate retail package stores, tax rates at the state level are not relevant. The Committee would like to point out that while prices of alcoholic beverages seem to be high in Minnesota this is not due to any unusually high tax rate but, instead, to Minnesota's Resale Price Maintenance Law with respect to alcoholic beverages which does not allow prices to seek the competitive level.

Revenue from alcohol taxes is related to the question of municipal ownership of liquor stores. A discussion of this issue is found in Chapter 11. The fact that many municipalities have found municipal liquor stores to be a lucrative source of income is significant from a revenue point of view. However, the uniform price system, as a result of the Resale Price Maintenance Law, helps to create the relatively high "profitability" of liquor stores owned by municipalities.

The Committee is not suggesting any change in tax rates at this time. The usual standards of measuring burden do not apply to alcohol taxes. Further study should be made of the possibility of incorporating malt beverage tax rates into one single rate, probably at the higher level, which could bring in additional revenue (Table 7.4).

Chapter 8

INDIVIDUAL INCOME TAX

The individual income tax has long served as the backbone of Minnesota's State tax revenues. The growth in personal income in the years since the early 1930's when the tax was adopted has led to a significant growth in the amount of tax revenue raised through the income tax. While the Income Tax Law has been amended from time to time, it is still basically the same law that was first adopted.

The Committee has carefully explored whether the individual income tax could be made more productive. Important provisions in posing this question, however, are due regard for the equity of the income tax burden and the economic development of the State. Though it is obvious that, by merely adjusting income tax rates upward, the individual income tax could raise substantially more revenue, considerations of the long-run effect of a change in individual income tax rates on the Minnesota economy dictate that a much more careful answer be given.

The first section of this chapter is devoted to an analysis of certain features of the present Income Tax Law, and following sections to an analysis of possible modifications in the income tax to make it even more productive.

Analysis of Minnesota's Income Tax Laws

Minnesota's Income Tax has been in existence since 1933. The income tax has been a heavy income producer for the State, starting with a total of $1.2 millions in fiscal 1934, reaching a total of $152.9 millions in 1962* (Tables 2.8-2.10). Most of the revenue is apportioned to the School Districts in the form of school aids (Table 8.1). The dedication of the income tax for schools is said to have been of considerable importance in the passage of the Income Tax Law.

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* Includes corporate income taxes. The corporate income tax provisions are not discussed in this report.

Throughout the years various changes have been made in the Income Tax Law and the tax rates. In the earlier years, before the Federal Income Tax became a significant factor in the lives of most people, the Minnesota State Income Tax Law had many features different from the Federal Law. Since the Federal Law has become so all-pervasive (dating from the beginning of World War II), the State Law has been gradually changed to include many of the same features and interpretations. The most recent changes of significance were the enactment of the withholding system of tax collection and the adoption of Federal adjusted gross income as the point for determining the state income tax liability. Both changes were made by the 1961 Legislature.

Two important features of the Minnesota Income Tax Law are (1) the relatively narrow tax brackets of $1,000, and (2) a normal tax rate which reaches its maximum of 10.5% at $20,000 taxable income. These features of the Law have been in existence since its enactment in 1933. Above the top bracket, which is $20,000, the rate remains the same, making the tax rate on taxable income above $20,000 proportional. Actually, because of the impact of federal deductibility (another feature of the Minnesota Law which will be discussed later), the effective rate of taxation (as measured by the per cent the tax is of total income) tends to decline as income increases above $20,000. The net effect of the progressiveness of the tax, therefore, is to make the State system more progressive than the Federal up to $20,000, above which it becomes less progressive because of no additional steps in the State rate combined with the growing impact of the federal deduction.

Minnesota ranks very high among the income tax states when the steepness of the progressive income tax rates are compared. Most states have much flatter rate schedules than Minnesota; in fact, in a few states the entire rate schedule is either flat or graduated only slightly. While there is certainly no "optimum" degree of progressiveness in income tax rates, it must be pointed out that Minnesota has one of the most progressive rate structures of the income tax states (Table 8.2).

Several other features of the Income Tax Law contribute to making the income tax progressive. Minnesota, along with five other states, provides for family differences by allowing dollar credits against the income tax itself. The present credits are $10 for single persons and $15 each for husband and wife and each dependent. This feature differs from the Federal Law and most state income tax laws, which provide for exemptions from income. The Federal law provides for a $600 exemption per person. The net effect of the Minnesota credit system is to increase the progressivity of the income tax.

The federal deductibility is one feature of the Minnesota Income Tax Law which tends to modify its unusually high progressivity. (The majority of the states levying income taxes provide for federal deductibility.) This fact should be pointed out because federal deductibility contributes to some misunderstanding about the income tax rates. While the Minnesota statutory rate does go up to a maximum of 10.5% (plus a 15% surtax) the effective rate is actually much less.

It has already been pointed out in Chapter 3 that a family of four with an average income of $6,000 ($500 per month) would pay more income tax in Minnesota than in any other income tax state except Oregon. However, this is probably not the case at a slightly lower income, $4,800 for example, or in incomes above $12,000. Broadly viewed, it is fair to say that Minnesota imposes a higher income tax burden than most other states.

Among other features of the Minnesota Income Tax Law, one of the most unique is the $10 "minimum" tax. The 1961 session of the Legislature passed an Act which has the net effect of setting $10 as the minimum income tax for anyone with at least $1,000 of Minnesota adjusted gross income. Its proponents considered this a means to assure that nearly everyone would make some contribution to financing state government. The $10 "minimum" tax has caused much dissatisfaction among taxpayers. A taxpayer who owes $2 in tax and is asked to pay $10 tax is subject to a substantially higher tax rate than that called for by the Income Tax Law. Also, experience has shown that many persons who had a tax liability of less than $10, and possibly had the sum withheld by the employer, simply failed to file tax returns. The cost of enforcing compliance in these cases could throw a substantial burden upon the Taxation Department. The Committee recommends the removal of this feature of the Minnesota Law.

One of the ever-increasing problems in the administration of income tax laws is the rising costs of compliance. Taxpayers are forced to maintain records and file various forms. While no special recommendation is made by the Committee, it is hoped that every effort will be made in the future to simplify these tasks, thereby cutting the cost of complying with the law on the part of the taxpayers, and possibly simplifying the work of the Taxation Department.

Possible Modifications

The Committee believes that there are several possible modifications which might be made in the present Income Tax Law, some of them relatively minor and others of major proportions, that could help to strengthen Minnesota's future economy. The most radical approach, a modified gross income tax, would require considerable departure from the State's present income tax system, but it incorporates many new concepts worth considering. All the plans have one feature in common: that providing for a broader tax base, they classify a much larger number of people as income taxpayers. Some of these measures should be considered whether or not the Legislature decides to use the individual income tax to raise additional revenue. These plans are discussed in the following sections.

Plan A. Shift to a "Federal Type" Income Tax. This is probably the easiest modification because it involves the use of already existing federal income tax provisions as a model upon which to base the Minnesota state income tax. The elements of this plan may be stated as follows:

1. Move to a schedule of $2,000 rate bracket from our present $1,000 brackets. A shift of this kind, if we assumed a two percentage point increase for each of the first four brackets and then one percentage point increase on up to $20,000, would have the effect of extending the progression into higher incomes. A prime consideration here is one of equity. The present $1,000 brackets are such that a person who now has a "middle income" finds himself close to the top of the rate schedule. This situation comes about largely due to our failure to keep up with the change in times. In 1933, when the law was first passed, a salary of $110 a week or a wage of $2.10 an hour certainly was envisioned as top level income. Consequently, the fact that the tax rates jumped up so quickly that people in the $6,000 bracket and upward were paying the highest rates seemed justified. Now, however, we find this particular income group heavily burdened relative to those slightly below as well as those not too far above. These adjustments, therefore, would "modernize" the distribution of the state income tax burden to a considerable extent.

2. Shift from the tax credit system to an exemption system. The Federal Income Tax law and most of the state income tax laws allow an exemption for dependents to be deducted from gross income. In Minnesota, however, we compute the tax without an exemption of this kind and then take a credit on the computed tax.

As measured by the reduction in tax liability, the net effect of the family credit idea is to make the dependents "worth more" to the person with a lower income than to a higher income. A person with a low income, for example, might find that exemptions for his dependents cut his tax liability by 50%, whereas a person with a somewhat higher income would find that the same number of dependents would cut his tax by only 20%.

3. Adopt federal standards for medical deductions. At the present time Minnesota is one of the most liberal governments in allowing tax deductions for medical expenses. The Federal Government allows the medical deduction only for those expenses above 3% of the adjusted gross income and a deduction for drugs only for expenses above 1% of adjusted gross income. The revenue effects of this provision of the Minnesota law are hard to evaluate, but it is obvious that our generosity is certainly greater than that of the Federal Government.

4. Table 8.3 shows the rates that might be adopted, using these particular provisions, to yield the same revenue as collected presently from the income tax. Also, in Table 8.4 a structure of rates is presented which would yield approximately $60 millions more than the present income tax. As pointed out earlier, the Committee suggests that, even if it is decided not to use the income tax for additional revenue, these provisions might be adopted in modifying our present law with a set of rates constructed to bring in the same revenue as presently collected.

Plan B. Shift to a Percentage of the Federal Income Tax. Only two states have adopted such a plan--the new state of Alaska and West Virginia, but this idea is being widely discussed. One principal advantage which will be apparent to every taxpayer of the State is the simplicity of a plan of this kind. One merely has to send a completed copy of his federal income tax return to the State with one simple direct calculation, namely applying the percentage as required by our State Law to the federal tax, deducting the amount withheld by the State and paying any balance due. A law of this kind would certainly simplify the administrative procedures from the standpoint of the State Taxation Department. One of the reasons for this proposal at the present time is the recognition of the fact that the Internal Revenue Service is in the process of installing an electronic computer system which will allow the scanning and routine auditing of all tax returns. At present only a fraction can be audited. It is anticipated that under a system of this kind, cooperation between the Federal and State departments should make for some substantial administrative savings at the State level.

One of the principal objections to this plan is that it makes State income tax revenue dependent upon changes made in the federal income tax law. A cut in federal taxes would result in an automatic cut in state taxes. Because the State Government does not have the borrowing power to the same extent that the Federal Government does, it is possible that an income tax cut at the federal level would require an immediate upward adjustment of income tax rates at the state level. It should be pointed out, however, that changes in the federal law do not, as a general rule, come about quickly and certainly the State Legislature could make the necessary modifications in the State Income Tax Law if it were deemed necessary to do so.

When discussing the matter of tax rates, one problem comes to light immediately. A flat rate of 15% of the federal tax, for example, distributes the tax burden in the State somewhat differently than present tax rates (Table 8.5). This is due to the more steeply progressive tax rates in the Minnesota State income tax than in the Federal income tax.

In the event that it is decided to raise no additional funds through the income tax, a flat rate of approximately 15% would probably be sufficient to raise the same amount of revenue as is raised under the present system. On the other hand, if an additional $60 millions per year were to be raised through the income tax, it would require a rate of 24%.

It should be noted that both plans "A" and "B" make no substantial changes in the remainder of the procedure followed in calculating income or in determining the amount of tax liability. In these plans the net effect is to lessen, to a certain extent, the rate of progression, although in both cases the State tax would be as steeply progressive as the Federal tax and, therefore, certainly would be viewed as a progressive state income tax.

Plan C. Adoption of a Modified Gross Income Tax. This plan is described in Chapter 9. In suggesting a modified gross income tax, the Committee has in mind that it may be useful for it is far less complicated than the present income tax; in addition, it might serve as a principal source of revenue not only by matching the existing income tax revenues but also by providing a sound base for an expansion of income tax revenues.

Summary

The Committee has concentrated on examining the present income tax law and in presenting various suggested modifications. There are many minor changes which could have been suggested. As a general guide line, the Committee believes that the individual income tax system should be improved by broadening the tax base to include a larger proportion of the citizens of the State.

The big problem in all income tax plans, and indeed, in all discussions of Minnesota State income taxes, revolves around the question of the progressive rate structure. The present tax law creates the condition in which 6.9% of the income taxpayers in the State pay 44% of the total income tax (Table 2.11), and approximately 32% of the taxpayers pay about 74% of the tax. Proponents of the existing system maintain that this is a just and equitable arrangement. The Committee recognizes that every person will have to make his own judgment; there are many factors to be considered. One is the impact of progressive rates on personal incentive. It is apparent that the Federal Government has concluded that its highly progressive rates are deterring economic development. Although our State income tax burden is not as heavy, we should evaluate our rate schedule from a similar viewpoint. Another is the need to appreciate that Minnesota competes with other states some of which do not levy as high a direct tax upon their citizens. Whether we have lost citizens because of our highly progressive income tax, or whether we have failed to attract promising newcomers because of it, is difficult to answer. There is evidence that some national organizations have had to pay premium salaries to employees transferred into our State. Whether or not the number of these is significant is not known. It seems obvious, however, that, if our income tax burden should become more out of line with other states, the impact would be felt. For this reason, the State Legislature may wish to consider a modified gross income tax as a means of obtaining as much revenue as our present individual income tax but at the same time strengthening the competitive position of the State in its efforts to devlop its economic base by establishing a more neutral State income tax.

Chapter 9

GROSS INCOME AND BUSINESS ACTIVITIES TAXES

The previous chapters have dealt with Minnesota's tax system and included discussions of Minnesota's tax burden in comparison with other states', with suggestions for reforms in our present tax system. It is clear that the Committee believes that, with the exception of the gasoline tax, the taxes presently being imposed in Minnesota cannot be increased since the burden of these taxes, particularly of the property and income taxes, is at a level at least equal to that of our neighboring states. Therefore, it is the opinion of the Committee that if the Legislature and/or the local governments of Minnesota increase their expenditures beyond the level of the normally-expected increases in present taxes, and/or the Legislature enacts tax reforms which would require a replacement tax fund, the additional revenue needed for these purposes should come from a new tax.

After considerable study of the possible new revenue sources which might be available, it appears that there are only four untapped sources of revenue left in Minnesota which can be given serious consideration: a gross income tax similar to that imposed in the State of Indiana, a business-activities tax similar to that imposed in the State of Washington, a value-added tax similar to that imposed in the State of Michigan, and a general sales tax. It is the purpose of this chapter to discuss the first three of these possible new sources of revenue, while the general sales tax is discussed in the following chapter.

Gross Income Tax

The Indiana gross income tax. Only one state in the United States, Indiana, imposes a tax on gross income. Indiana has no net income tax on either individuals or corporations and no sales tax. A flat exemption of $1,000 is allowed each taxpayer and the rate on gross incomes is 1⅛% on individuals, and 3/8 of 1% or 1⅛% on businesses depending on the type of business. A withholding system, similar to that in states with net income taxes, is used in Indiana and no deduction from gross income is permitted except the flat $1,000 deduction per taxpayer.

The Indiana gross income tax has recently been expanded to include sales of real property. It is our understanding that the tax base consists of gross receipts from the sale of real property, less mortgages outstanding.

As far as the individual, wage-earning taxpayer is concerned, the gross income tax is similar to a combination of a net income tax and a sales tax without exemptions. About 75% of the total receipts from the Indiana gross income tax comes from individuals and about 25% from business. Substantial relief to interstate business under the Indiana gross income tax was granted by a 1938 United States Supreme Court decision which held that gross income from interstate sales was not taxable under the Indiana Act.

The rate of tax on business, generally at 3/8 of 1%,is low, but most economists agree that the tax is highly inequitable and capricious as far as its impact on business activities is concerned. For example, net income is only 2% of the gross receipts of many grocers, whereas the net income of other businesses may be as high as 30%. The Indiana law also imposes a gross income tax on firms which have no net income. It applies to receipts from property sales which are merely the conversion of one's assets. If it is regarded as an income tax paid out of profits, its impact on business firms is exceedingly uneven. In an article appearing in the National Tax Journal for September, 1958, Professor Howard D. Hamilton, Associate Professor of Government, Indiana State Teachers College, presented the following table indicating the relationship of the gross income tax to net income:

GROSS INCOME TAX AS PER CENT OF NET INCOME CLASSIFIED BY TYPE OF BUSINESS

Type of Business	Gross* Income Tax As Per Cent of Net Income
Agriculture	4.03%
Mining and Quarrying	2.67
Bituminous Coal Mining	7.65
Construction	31.25
Manufacturing	4.41
Public Utilities	10.87
Wholesale Trade	13.90**
Retail Trade	10.41
Food	17.85
Department Stores	6.04
Variety Stores	5.20
Apparel and Accessories	10.71
Furniture	9.86
Automobiles	15.62
Drug Stores	11.36
Eating and Drinking Places	10.13
Building Materials and Hardware	9.61
Liquor	17.04
Jewelry	8.15
Hotels	18.29
Motion Pictures	19.74
Banks and Trust Companies	5.60
Insurance Companies	4.60
Real Estate	6.30

* Calculated by dividing the gross income tax rate (3/8 of 1 per cent for agriculture, mining, manufacturing, wholesaling, and retailing; 1½ per cent for other types of business) by the percentage of net income.

** The effective gross income tax rate for grocery wholesalers is considerably less under a 1957 statute which defines gross income of such wholesalers as gross earnings.

As the above table shows, the average ratio of gross income tax payments to net income by type of business ranges from 2.7 per cent to a high in the construction industry of 31 per cent. As Professor Hamilton states, "It would be difficult to design a more inequitable tax." Even the official Indiana Tax Study Commission of 1952 acknowledged that "the tax is tolerable only because of its low rates."

The Indiana individual taxpayer apparently regards the gross income tax as another form of an income tax but it is interesting to note that the Bureau of the Census classifies it as a sales tax. Some persons view this tax as a concealed sales tax but, as Professor Hamilton points out, not all of the tax is shifted to consumers.

The burden varies considerably between income groups according to their expenditures for current consumption.

Because of its inequitable and capricious character, the Indiana-type of gross income tax should not be imposed in Minnesota. However, the Committee did study the possibility of imposing a modified gross income tax on individuals in place of our net income tax on individuals.

A Modified Gross Income Tax. This plan envisions a number of wide-spread changes in our present individual income tax law. Its major provisions are as follows:

1. Adjusted gross income would be computed from gross income by allowing a family exemption. Such an exemption could provide $300 for each dependent to be deducted from gross income, similar to Federal exemption system.
2. The present system of deductions would be curtailed. Possibly, a standard deduction could be allowed. If the standard deduction was not given, it would mean that the rate of taxation would be lowered slightly.
3. Establish a proportional rate of taxation, although possibly some progression could be considered.
4. Provisions would be made for withholding in much the same manner as under the present law.

There are a number of arguments for a tax of this kind. Among them are:

1. It has a broad base encompassing all types of income producers ranging from individual wage-earners to all non-corporate businesses.
2. The tax is easily understood and easily administered.
3. The Legislature would have considerable flexibility in determining the tax burden by varying exemptions and rates.
4. By adopting either or both exemptions and varying rates, charges of regressivity often made of a sales tax would be avoided.

The productivity of a modified gross income tax with a flat rate of 4% and an exemption of $300 for each person (taxpayer and dependent) would exceed that of the present individual income tax by 40%. This tax would produce about $170 millions, enough to provide $50 millions in revenue above that needed to replace the $120 millions currently obtained. If an additional deduction of the Federal income tax payment were allowed, a rate of 4 3/4% plus the same personal exemptions as above would produce about $170 millions. There are strong arguments on both sides of the proposal to deduct the federal income tax payment. From the standpoint of the simplicity of the tax and achieving a more proportional rate structure, it is best not to permit deduction of the federal income tax. From the standpoint of coordinating the federal and state tax systems, allowing the deduction establishes a means to recognize the federal income tax burden. On balance, however, the argument not to permit deduction of the federal income tax seems to be the stronger of the two. Revenue potentials of other variations are shown in Table 9.1

In spite of what merits a modified gross income tax might have, the Committee does not recommend its enactment. Replacement of our current individual income tax with a gross income tax would represent a substantial departure from the progressive income tax rate which Minnesota has had for so many years. Any gross income tax would result in a substantial reduction in taxes paid by persons in the higher income groups and a substantial increase in taxes paid by persons in the lowest income groups, even if Minnesota followed Indiana in not allowing the deduction of federal income taxes. We do not believe that the abandonment of progressivity in our system of income taxation would be either acceptable or desirable.

Business Activities Tax

Since 1935, the State of Washington has imposed a business activities tax which it terms a " business and occupation tax." Actually, the business and occupation tax in Washington consists of several taxes using various bases as the measure of the tax. Various classifications of taxable persons are established with varying rates. While all are excise taxes, no single label (such as gross income tax) can readily be applied to characterize the business and occupation taxes.

The business and occupation tax is imposed upon all persons, unless specifically exempted, engaging in business activities within the state. The law provides that the tax shall be measured by the application of rates against value of products, gross proceeds of sales, and gross income of the business. "Value of products" simply refers to the price they command on the market. "Gross income of the business" means the value accruing by reason of the transaction of business engaged in, including gross proceeds of sales, compensation for the rendition of services, gains realized from trading in stocks, interest, rents, fees, dividends, etc., without any deduction on account of the cost of property sold, cost of materials used, labor costs, etc. "Gross proceeds of sales" means the value accruing from the sale of tangible personal property and/or for services rendered without any deduction on account of property sold, cost of materials used, labor costs, interest, etc. The table below shows, in abbreviated form, the taxable classifications, present applicable rate, and basis of each tax:

Classification	Basis	Effective Rate
Extractors	Value of Products	.0044
Retailers	Gross proceeds of sales	.0044
Manufacturers generally	Value of products	.0044
Wholesaler of wheat, oats, corn and barley	Gross proceeds of sales	.0001
Flour millers	Value of flour manufactured	.00125
Seafood products and manufacturers	Value of products	.00125
Wholesalers generally	Gross proceeds of sales	.0044
Cigarette wholesalers	Gross proceeds of sales	.00176
Printers and publishers	Gross income	.0044
Extractors, processors for hire	Gross income	.0044
Cold storage warehousemen	Gross income	.0044
Lessors of realty	Gross income	.0044
Street & bridge repairers and builders	Gross income	.0044
Miscellaneous businesses and professions (service)	Gross income	.01

Basic exemptions under the business and occupation tax of Washington are of three types:

1. Persons taxable under other specific taxing statutes.

2. Persons wholly exempt.

3. Persons exempt only as to certain prescribed activities.

Utilities and insurance companies are the principal exemptions in the first category, since they are taxable under other statutes. Businesses having less than a minimum volume of $300 per month or $3600 per year and employees or servants are the principal exemptions under the second category of exemptions, and farmers and horticulturists selling their own products at wholesale are in the third category of exemptions.

The principal arguments against the Washington-type business activities tax can be briefly summarized as follows:

1. Like the Indiana Gross Income Tax, this tax is highly inequitable since it ignores differences in profit margins so that it weighs very heavily on low-margin businesses and very lightly on high-margin businesses.

2. The tax has a pyramiding effect and tends to give an advantage to integrated businesses.

3. The tax bears unequally between intrastate and interstate businesses. Between interstate businesses it bears unequally depending upon whether the interstate business is headquartered in Washington or elsewhere.

A great many other objections are made by Washington businessmen but it is our opinion that the three objections mentioned above are basic and seriously impair the equity of such a tax. It is still a good statement of tax policy that "gross taxes cause gross inequities."

An attempt was made by the Department of Taxation to estimate the revenue which could be secured in Minnesota from the imposition of the Washington-type business activities tax (Table 9.2). Applying the Washington business activities tax rates it is estimated that such a tax in Minnesota might raise approximately $91 millions. If such a tax were to replace our Minnesota corporate income tax, the net increase in tax receipts to Minnesota would be in the neighborhood of $61 millions(assuming Minnesota's net corporation tax receipts are $30 million).

It is the unanimous opinion of this Committee that a business activities tax of the type imposed in the State of Washington is not a desirable tax for Minnesota for the following reasons:

1. It is an inequitable tax, as explained above.

2. It could not be used to replace Minnesota's corporate income tax and personal property taxes on business without using a higher rate than 44/100 of 1%, since the total of these two taxes exceeds $120 million in Minnesota. (The tax may be acceptable in the State of Washington because the state has no net income tax and no personal property tax on business.)

3. Its imposition in Minnesota would cause a very drastic shift in the tax burdens of the principal industry groups in Minnesota (Table 9.2).

The Value-Added Tax

The State of Michigan imposes a tax on business generally referred to as a "business activities tax." But it is, in fact, a unique type of business tax which employs the economist's concept of value added by manufacturing or other commercial activity. Because it taxes only the value added at each stage of business activity, it avoids pyramiding.

The "value-added tax" has long been discussed by public finance scholars. It was enacted by the Japanese Diet in 1950 on the recommendation of the Taxation Mission to Japan headed by Professor Carl S. Shoup. Professor Shoup has defined the general nature and rationale of the value-added tax as follows:

"The difference between what the firm gets in sales proceeds and what it has spent in purchasing things from other firms is the value that it adds to those things. Every business firm in the economy thus adds value to what it buys from other firms. The total of value added by all business firms is the value of the total product of the economy. A general tax on value added is thus a tax on the total product, the total output of the community.

"As to any one concern, if we abstract for the moment from the problems caused by depreciation of capital equipment, the value that the firm adds is equivalent to the sum of what it pays out in wages, and in interest and rent paid to individuals (that is, not paid to other business firms), and what the firm earns as profit. These payments of wages, and of interest and rent to individuals, and the profit, reflect the activity of the employees of the firm, the services rendered by the individual creditors and lessors of the firm, and the reward to the firm's owners for bearing risk, waiting, etc.

"For the economy as a whole, total value added is the sum of total wages paid, interest and rent paid to individuals, and profit earned. A value-added tax is ,therefore, a tax on the total income of the economy.

"The value-added tax is, then, either a tax on product or a tax on income, depending from which angle we choose to look at it. This is not surprising; under national-income accounting, total product for the year equals total income paid to the factors of production that turn out the product."*

In his report to the Japanese Diet, Dr. Shoup illustrates the basic defects of the ordinary forms of business taxation by the following hypothetical example, together with a description of the manner in which the value-added tax eliminates these defects:

"Suppose that a small raw materials producer sells raw materials for $10,000 to a small manufacturer. The manufacturer works the materials up into a finished product, which he sells to a small wholesaler for $50,000. The wholesaler sells the goods to a small retailer for $60,000 and the retailer sells them to the public for $100,000. What happens under a transaction (or gross income, etc.) tax? The tax is imposed successively upon $10,000, $50,000, $60,000, and $100,000—that is, on a total of $220,000. Suppose that these independent concerns are competing with a large concern that is vertically integrated, that is, which itself performs all the functions of raw materials producing, manufacturing, wholesaling, and retailing. The large concern pays a transaction (or gross income, etc.) tax only on $100,000. It has a decided competitive advantage under /that/ tax. Under the value-added tax, however, the tax applies to the following amounts: Raw materials producer, $10,000; manufacturer, $40,000 ($50,000-$10,000); wholesaler, $10,000 ($60,000-$50,000); retailer $40,000 ($100,000-$60,000). The total of these taxed amounts is $100,000. And the large vertically integrated concern also pays a value-added tax on $100,000, since its purchases from other firms are zero." (Dollar figures supplied. Illustration from Report on Japanese Taxation By The Shoup Mission, S.C.A.P., Tokyo, 1949; Vol. 11, p. 197.)

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* Carl S. Shoup. "Theory and Background of the Value-Added Tax," Proceedings of the National Tax Association, 1955 (Sacramento, 1956), p. 7.

Although the Michigan law follows the general theory of a value-added tax, it departs from the basic concept of such a tax in several ways: a $10,000 exemption which relieves most small farmers and small businesses from the tax; a special rate for public utilities; a 100% exemption of charities, non-profit associations including unions, etc.; and a general 50% deduction provision. The 50% deduction feature is peculiar to Michigan law. It is not strictly in accordance with the underlying theory of value-added taxation. This deduction provides that in case the permitted deductions do not total at least 50% of gross receipts the taxpayer is entitled to deduct 50% of gross receipts in order to arrive at taxable receipts. Thus, in effect, the taxpayer deducts either the total of allowable deductions or 50%, whichever is greater.

When the value-added tax concept is applied to a state rather than to an entire nation, as it was in Japan, a special provision is required to determine what receipts from interstate sales should be allocated to the state. Since the tax is basically an adjusted income tax on income from sales and services, an apportionment formula is provided in the Michigan law which is the simple average of (1) the ratio of tangible property in the state to total tangible property, (2) the ratio of payrolls in the state to total payrolls, and (3) the ratio of sales in the state to total sales.

The tax base of the Michigan value-added tax is defined as gross receipts less the following:

1. Taxes other than income taxes.
2. Cost of goods sold, not including labor or over-head costs.
3. Electricity and other utilities.
4. Advertising.
5. Insurance.
6. Freight and postage.
7. Interest paid on loans directly connected with the business from which the gross receipts are derived.
8. Miscellaneous expenses and supplies.
9. Bad debts.

10. Repairs (other than those which are capitalized).
11. Rent paid.
12. Dues and payments to business associations and charitable contributions.
13. Travel expenses.
14. Legal and professional services.
15. Payments to a trust when such trust is exempt from federal income taxes.
16. Depreciation and amortization of real property.

The law does not permit the deduction of:

1. Wages, salaries, bonuses, commissions or other compensation paid to employees and officers.
2. Distributions to partners or dividends paid to stockholders.
3. Purchases of capital assets having a normal useful life of more than one year.
4. Depletion charges.
5. Depreciation of personal property.

The Michigan value-added tax rate applied to the tax base is .002 for public utilities and .00775 for all other businesses.

If the Michigan rate of the value-added tax were applied to Minnesota, it is estimated that the tax would raise approximately $25 millions. It is obvious, therefore, that the value-added tax concept if applied to Minnesota business would not bring in sufficient new revenue to be of importance, especially if it were to replace in whole or in part present imposition of personal property taxes in Minnesota.

The analysis of the value-added tax contained in the Report of the Governor's Minnesota Tax Study Committee of 1956 suggests that the value-added tax has much merit as a replacement for at least part of the revenue that would be lost if the current reliance on personal property taxes were to be substantially reduced. In other words, if the Legislature desires to reform the present Minnesota property tax system by the elimination in whole or in part of our personal property taxes but does not wish to replace such lost revenue with the receipts from other taxes, the value-added tax should be seriously considered as a replacement for part, at least, of the personal property tax. It is the opinion of this Committee, and as the 1956 Report indicates it is also the opinion of many businessmen, that the value-added tax is less discriminatory and capricious in its distribution among taxpayers than the personal property tax. The principal objection which can be made to the value-added tax in Michigan is the fact that the concept does not lend itself easily to the limited area of a state and is probably more equitable if applied on a national level. In fact, the tax was passed in Michigan as a temporary solution to a serious revenue deficit but it continues to be levied since the state has not been able to impose an income tax. Because of the excellence of the analysis presented in the 1956 Report, we have included it as an appendix to this report.

Chapter 10

GENERAL SALES TAX

Of the three broadly based taxes imposed by states, the property tax is the oldest, having been imposed from the inception of our country. The State income tax is the next oldest dating from Wisconsin's tax in 1911, and the general sales tax, the most recent. Mississippi imposed the first state general sales tax in 1930; by 1937 twenty-two states had adopted sales taxes. Although 1937 to 1947 was a period of inaction, the post-war years brought forth a new wave of state sales taxes. Today, there are 37 states with general sales taxes*

In Minnesota the sales tax has been the subject of a great deal of debate and, unfortunately, in recent years it has become a political issue. As a consequence, many individuals and organizations have taken strong for or against stands so that one has difficulty in finding an objective discussion of general sales taxes. The purpose of this chapter is to present the essentials of the arguments.

Arguments For The Sales Tax

1. It is a productive tax; each 1% of sales (without exemptions) in Minnesota would bring in revenue in excess of $50 millions.
2. It is a relatively stable tax: consumption expenditures vary less than most other tax bases over a business cycle.
3. It taxes the non-resident who enjoys the use of public services in Minnesota.
4. It taxes persons enjoying incomes totally or partially exempt from income taxes, such as tax-exempt interest, tax-exempt pensions and annuities, and capital gains income.
5. It is convenient and easy to pay since paid in small amounts (except for major purchases such as automobiles and major appliances).
6. It is easy to administer.

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* Tables 10.1 - 10.3 contain data pertaining to this chapter.

Arguments Against the Sales Tax

1. It is regressive. This argument is used in two different senses. In one sense it refers to the fact that, as income rises, a larger percent of one's finances is exempt from a sales tax (such as payments for housing and money saved). In another sense, regressivity refers to the fact that a larger percentage of lower incomes is used for food, a vital necessity of life.
2. Among families on the same income level it imposes a heavier burden on the larger families. This is because a sales tax does not make direct allowances for dependents.
3. It varies with differing patterns of consumption even among persons having similar incomes. For example, the person who buys a washing machine and dryer pays more sales tax than one who hires domestic help.
4. Its burden is heavy on persons required to make unusually large purchases in one year, such as newly-married couples and victims of catastrophes.
5. The effective rate varies greatly, depending upon the sales price.
6. It has to be paid by those receiving welfare payments.
7. If the sales tax were enacted, Minnesota would lose its "competitive advantage" since the State is now entirely surrounded by sales tax states.
8. When many items are exempted, it imposes a heavy administrative burden on the retailer.

After considerable study and discussion, the Committee concluded that of the above arguments against the sales tax the first two — the regressivity of the sales tax and the lack of an allowance for dependents — had the most merit.

As background to the problem of regressivity, the Committee has noted that our present high property taxes are extremely regressive since they impose a heavier burden on persons with modest housing and low incomes. But, it also recognized that among the states our state has the most progressive income tax rates and that our total tax system, including the highly progressive federal income tax, already posesses large measure of progressivity.

One inference of the regressivity argument is a sales tax base should be broadened to include housing payments and savings. Another is that food should be exempted. But since property taxes already are high in Minnesota, adding a sales tax to housing payments would greatly aggravate an already serious condition; and taxing savings (or investments) would be running counter to a basic goal of our tax system — the encouragement of industrial and commercial growth. To be sure, exempting food seems highly desirable but there is one serious disadvantage — such an exemption would not only apply to basic essentials such as milk and hamburger, but also to caviar and costly filet mignon, hardly vital necessities. Thus, the problem of regressivity requires some other solution.

Given the existence of a state income tax system in Minnesota, not only the issue of regressivity but also that of making adjustments for large families can be resolved in a simple and efficient way — the use of a sales tax credit in conjunction with the income tax. The income taxpayer would compute his sales tax credit as a final step in completing his return. Persons not required to pay an income tax could submit a simple application for a sales tax refund.

We believe that most of the regressivity of the sales tax would be eliminated by providing for a credit for each member of the family as follows:

Sales Tax Rate	Per Person Sales Tax Credit	Estimated Annual Revenue
1%	$ 4.00	$ 38,650,000
2%	8.00	77,300,000
3%	12.00	115,950,000

For a family of four, this credit would be $16 for a 1% sales tax, $32 for a 2% sales tax, and $48 for a 3% sales tax. This would be equivalent to exempting the first $1,600 of purchases subject to a sales tax.*

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*For the impact on different income levels see table 10.2; for additional discussion, "A Sales Tax With Credits for Taxpayer, Spouse, and Dependents," Report of the Governor's Minnesota Tax Study Committee, 1956, pp. 474 - 478.

Chapter 11

THE STATE AND ITS LOCAL UNITS

One of the most difficult tasks in our dynamic society is to work out continually satisfactory arrangements among local governments, state governments and the national government. The growth of cities and urban centers is one of the distinguishing characteristics of the 20th century. With this growth has come many complex problems dealing with financial and revenue arrangements which oftentimes are out of date and inadequate to meet current needs. The majority of citizens in Minnesota now reside in urban areas and there is every evidence that in the years to come an even larger majority of the population will be urban dwellers. Because some of the population movements have affected Minnesota only recently, we have not had the experience in attempting to solve these problems that many of the more industrialized states have had. Nevertheless, these are now key issues in our total tax and revenue picture; more effort must be given to the task of solving them. For many reasons, including population growth, increasing urbanization, improved service levels, higher standards, and rising prices, expenses of Minnesota local governments, like those of local governments elsewhere in the country, have mounted rapidly in the post war years. Capital expenditures have increased much more rapidly than operating costs, in part because available revenue has been inadequate to meet mounting current budget needs. This has been true despite efforts to make maximum use of the property tax, efforts which have resulted in very substantial increases in property tax rates for local governments. With disproportionate increases in the school and retired age groups of the population, with greater concentration of people in urban places where per capita costs are relatively high, with rising prices and increased demands for more and higher quality local government services, there is no likelihood that the increase in local government needs will not continue in the next decade.

In any revision or reform of the tax system, the State Government cannot discharge its responsibility by taking care of State needs alone. It has a heavy responsibility to provide adequate tax resources to local governments in order to permit them to discharge effectively their important role in our governmental system. The values inherent in keeping government close to the people require the State to furnish the financial tools by which local governments can be strengthened. These include a productive, efficiently administered and equitable property tax system, shared taxes or grants-in-aid, and enabling authority for local non-property taxes and other revenues.

Ways in which the State's responsibility to local government in the field of revenue might be met are discussed in the following sections of this chapter.

Property Tax Changes

Despite its disadvantages, the property tax has provided a stable productive source of revenue to local governments in Minnesota. There is no reason to believe that it will not continue to be the bulwark of the Minnesota local government revenue system for the forseeable future. Because property tax rates have mounted sharply in recent years, it has become increasingly important to make the property tax as efficient and equitable as possible in order that it may continue to serve as the workhorse of the local government revenue system. Thus, the reforms in the property tax suggested in Chapter 5 are, in the Committee's judgment, an essential and integral part of any tax program that will meet the revenue needs of local government.

A special aspect of this reform of primary interest to local governments involves the state levy on property. For a number of years, the State moved in the direction of eliminating this levy. More recently, as State revenue needs have mounted, the State levy has been increased when other available sources have not been sufficient to close the gap between appropriations and anticipated revenues. Property taxes have become so burdensome that the use of this source by the State tends to make it unavailable to that extent by local government units. Furthermore, its use by the State substantially increases the inequities resulting from lack of uniformity in assessment practice. It is sound policy, therefore, to leave this source of revenue to local governments.

Much of the State mill levy is for the payment of principal and interest on existing certificates of indebtedness. While this must remain on the books for the protection of certificate holders, there is no reason why the actual spreading of the levy cannot be avoided each year if substitute moneys can be made available. Furthermore, for any future issues of obligations supported by the full faith and credit of the State, the Legislature should assume responsibility to provide for payment from non-property tax sources.

During its 1963 session, the Legislature should move as far as possible in the direction of leaving the property tax source exclusively to local government. However, in this connection the State mill levy for the support of the teachers' retirement system poses a special problem. This levy, currently 7.94 mills on non-homestead property, is spread throughout the State except in first class cities whose teachers are not members of the State Teachers' Retirement Fund. Property in the first class cities is subject instead to a local levy to help finance the teachers' retirement plan applicable to those cities. Elimination of the State levy and substitution of a uniform local school district levy to finance the cost would not change the impact upon property in any community but would also not serve any real objective since it would merely add a compensating new local burden through the additional local levy requirement. However, were the local contribution to be fixed on the basis of payroll, as provided in the case of the other major state pension systems in Minnesota, the change would have a varying impact on school districts unless reflected in the formula for state aid. Similarly, if the employers' contribution were to remain a state obligation but be paid from non-property tax revenues, each first class city would have to be allocated an amount equivalent to the proceeds from a local levy calculated at the last State rate for the teachers' retirement fund in order to treat all property in the State equally. These complications may make it impractical under present conditions to eliminate this portion of the State property levy without a careful study of all the consequences and implications, a study which this Committee has not been able to undertake. At any rate, there is no reason why, if substitute revenues could be found, the State could not avoid this part of the State levy by providing alternative sources of revenue for the meeting of the State's obligation to the Teachers' Retirement Fund, (although, in so doing, the Legislature would be required to make a compensating grants-in-aid to the first class cities).

In the absence of local limitations, local levies could, in the aggregate, be increased 10 mills if the State levy were to be reduced by that amount and the property owner would not be additionally burdened. In actual fact, however, the process of taking up this "slack" to the extent needed by local governments is more complicated. In the first place, at least three local governments, the county, school district, and city, village or town are in competition for property tax dollars, and none is legally restricted merely by the fact that another has increased its levy. In the second place, the operation of divergent statutory and charter limitations on levies makes it impossible, without modification of these limits, for some units to utilize the portion of the levy released by the State. The desirability of property tax limits generally and the adequacy and effectiveness of present limitations are worthy of careful study but this Committee has not been able to consider these matters in the time available to it.

One important reason for the tendency to underassess property for purposes of taxation is that the closer a county approaches the statutory assessment standard, the larger the share of the State property levy its property owners must bear. Since this important downward pressure would be removed by the elimination of the State levy, the committee would hope that better state-wide equalization of assessments would be an important by-product of that step. If the State levy is to be continued, it may become necessary to consider the Wisconsin practice of using an adjusted valuation figure for purposes of spreading the State levy among the various counties.

Possible Non-Property Tax Sources of Revenue for Local Government

In approaching the important problem of state-local fiscal relations, the Committee considers of paramount importance the desirability of making local government strong and as independent as possible consistent with the broader public interest. It recognizes that fiscal adequacy is a foundation stone of local government strength. Without adequate revenues, local governments cannot carry out their responsibilities satisfactorily; the inevitable eventual result will be the transfer of functions upward in order to finance them, or the loss of local government virility and independence. Obviously, some adjustment of responsibilities among the various governments is often necessary because of changing conditions, but the Committee believes that this should be prompted by considerations other than fiscal inadequacy since it is within the means of the State to make local government revenue systems sound.

In Minnesota the financial problem of the large cities has been made relatively acute because of the anomalous fact that, unlike municipalities of less than 10,000 population, they are not authorized to establish and operate municipal liquor stores. Over 390 of our smaller municipalities have derived substantial net revenues incidental to regulation of the liquor traffic. Whatever views one may hold on this controversial subject, it is clear that the present 10,000 population limitation on the establishment of municipal liquor stores deprives the larger municipalities of a substantial revenue source. Apart from this example where regulatory objectives should be paramount, the general principle should be observed that the larger cities should not be excluded from enabling revenue-raising legislation. In fact, two arguments in favor of giving more revenue authority to the larger cities rather than all cities are: (1) larger cities have higher unit and per capita costs; and (2) larger cities are better equipped administratively to cope with problems of non-property taxes.

Shared Taxes and Grants-in-Aid

While making the spending governmental unit responsible for raising the revenue that it spends (and to provide the necessary enabling legislation for this purpose) is generally desirable, it is apparent that for various reasons, the State must provide a substantial amount of financial aid to local governments in the form of shared taxes or grants-in-aid. For many years Minnesota has recognized this principle by providing financial assistance to local governments in both categories. Grants-in-aid include, for example, aid to counties for various public welfare programs, aid for local libraries and community health centers, and aid for airports. The principal shared taxes of state-wide interest are (1) the income tax, allocated to local school districts in the form of school aids; (2) the cigarette tax, one fourth (originally one-third) of which is allocated to counties and municipalities according to population; (3) the liquor excise tax, of which 30% (except for the 15% increase voted by the 1959 Legislature and extended by the 1961 Legislature) apportioned among the municipalities and towns according to population; and (4) the gasoline and motor vehicle registration taxes, of which 29% goes to the counties for use on the county-aid highway systems and 9% to municipalities of more than 5,000 population for use on municipal state-aid streets.

These programs provide substantial amounts of money for local government, placing Minnesota currently 18th among the states in the proportion of local revenue (32.6%) derived from state sources. Except for the adoption of the 1958 constitutional amendment which provided a long overdue, but partial, recognition of municipal needs as part of an integrated state highway system, there has been no new municipal tax-sharing program since 1947. In the 1950-1960 period alone, the population of municipalities has increased from an estimated 1,945,965 to 2,518,840, or from 66.52% to 73.78% of the State's total population. The percentage of local government revenues raised from state grants-in-aid and shared taxes has remained relatively constant in the 1950-1960 decade although the large increase in local budgets has forced substantial increases in the hard-pressed property tax in the same period.

If the Legislature were to revise or expand its program of shared taxes, it might consider creating a state-local assistance fund from which amounts now paid from shared taxes would be allocated and into which enough of the state's total non-dedicated taxes would be paid to meet these needs and to provide a reserve for lean years. New York now uses such a plan. It has the advantage of providing a stable and predictable source of revenue for the aided local government units and it also avoids, within constitutional limitations, the earmarking of particular taxes for particular groups of local units, thus permitting the Legislature to make changes in the tax system unhampered by concern over disposition of the revenue. In order to keep the system abreast of current needs, adoption of the plan would require use of a growth formula or a biennial review of the amounts of assistance being provided, assuming the amounts allocated are to increase, with the increase of receipts from State taxes, as under the present system. The alternative is to reflect local needs by providing sharing with local governments of any new tax source developed by the State.

Enabling Authority for Local Taxes

The only local tax now specifically authorized by statute in addition to the property tax (and except for a law applying only to Duluth) is the wheelage tax which cities and villages for many years have been permitted to impose upon motor vehicles owned by residents and other motor vehicles used principally on their streets. The tax is limited to 20% of the State tax except for Minneapolis, where the maximum tax is $15 for trucks and $10 for other vehicles, and Duluth, where the maximum tax is the lower of 25% of the State tax or a tax of $50 for trucks and $5 for other vehicles. Because of the limitations on the rate and because of administrative problems, among other considerations, no city or village in Minnesota has imposed a wheelage tax since the late 1920's, when Duluth and St. Paul experimented with the tax for a brief period.

Partly because of lack of more extensive enabling authority, Minnesota collects less than all but a few other states from locally-imposed non-property taxes. Figures developed by the Advisory Commission on Intergovernmental Relations show that only 2.8% of local tax revenues in Minnesota come from local non-property taxes, thus making Minnesota 38th among the states in this respect.

In order to provide additional revenue to local units without further burdening property and in order to take account of varying local needs and conditions, the Committee believes that additional tax enabling authority should be provided and that this authority should be sufficiently comprehensive to permit local choice amoung several taxes that are appropriate for local administration. In considering this question, the following points should be kept in mind:

(1) While it is possible for home rule cities to provide, by charter, necessary enabling authority for levying non-property taxes consistent with state law, only the State can provide this authority for other local units. Furthermore, even for

home rule cities, it is desirable for the State to grant needed authority in order to minimize questions of conflict with state policy, multiple taxation of the same subject, inconvenience to local taxpayers, and the exploitation of minor unproductive sources with adverse economic effects disproportionate to the revenue received.

(2) Where authority is granted to levy a tax on a source used also by the State, local units authorized to levy the tax should be permitted, perhaps required, to impose it as a local tax supplement to the State tax. This system gives local jurisdictions access to the superior enforcement resources of the State and makes taxpayer compliance easier, but it leaves the decision to impose the tax (and perhaps the rate at which it shall be imposed) to local initiative.

(3) The State's policy should be to limit local government to the more productive taxes rather than to encourage local units to impose many different kinds of taxes, none of which produce enough revenue to warrant reasonably good enforcement.

(4) The enabling authority should permit local choice of one or more among several suitable taxes and, where not imposed as a supplement to the State tax, may provide appropriate uniformity by prescribing general specifications on their structure (tax base, exemptions, etc.) and administrative features. If it is likely that a substantial number of local government units will impose a tax, the State should facilitate the pooling of administration of the separate local taxes by a state-tax collecting agency at local option or permit local jurisdictions to join in creating such a collecting agency for themselves.

(5) To avoid competitive use of the same source, to minimize administrative complexities, and to avoid setting up tax collection machinery in units which have no administrative responsibilities in the tax field except for making a property tax levy, it would seem desirable to confine tax-enabling authority to cities and

villages, and, in a more limited way, to counties. Revenue needs of school districts and other local government units that cannot be met by the property tax should be met through other revenue, including shared taxes and grants-in-aid.

(6) Experience in other states as well as in Minnesota demonstrates quite clearly that a requirement for a mandatory or permissive referendum before a tax goes into effect makes tax-enabling authority of little practical value. No Minnesota municipality has ever approved a non-property tax by referendum, and in other states tax-enabling authority has been little utilized unless the tax could be imposed by the governing body. At most, no referendum should be possible before the tax has been in effect long enough to put into operation the municipal service programs it makes possible; two years should be a minimum period. Since no popular vote requirement is provided for state or federal taxes, the result of attaching a referendum requirement to a local tax is, inevitably, to curtail services, to require additional revenue from other sources, especially from the state, or to force a transfer of functions to a higher level of government with greater financial resources.

Keeping in mind the foregoing principles, the Committee has considered the following local tax possibilities:

1. Wheelage tax. The Committee believes that the law should be amended to make the wheelage tax administratively feasible and to remove the statutory ceiling or to raise it substantially, perhaps as high as the state tax. The law should now be broadened, as permitted since the 1958 constitutional amendment, to permit counties to levy the tax for the support of the county state-aid highway system. The county is, in most instances, a more appropriate administrative unit for such a tax than the municipality. Furthermore, the counties, like the cities and villages, are subject to constantly mounting costs in the construction and maintenance of the road system for which they are responsible. Overlapping levies could be avoided

by permitting a credit against the county tax of the tax paid to any municipality within the county, a system similar to that used in administering local sales taxes in California.

It can be amply demonstrated that proceeds of highway user taxes are far less than total highway construction and maintenance costs, to say nothing of other major costs, such as policing, attributable to the motor vehicle. To authorize counties along with municipalities to levy a wheelage tax would permit them to place on motor vehicles a larger portion of these costs and thus, to that extent, free the property tax for other essential purposes. Even if use of the proceeds were confined to the county and municipal state-aid systems, revenues would not exceed needs in the foreseeable future. Furthermore, the tax would be levied only by those counties and municipalities needing the revenue for the authorized highway purposes.

In the absence of unforeseen administrative complications, it would seem desirable to provide for state collection of local wheelage taxes by the Secretary of State along with state motor vehicle registration taxes.

2. Sales Tax. According to nation-wide experience, one of the two most productive local taxes is the general sales tax, levied extensively in certain areas, particularly in Illinois, Pennsylvania and Mississippi and, to a lesser extent, New York State. While the tax, particularly when levied locally, has a number of disadvantages, it is one of the few taxes that yield enough revenue to have a substantial effect on the make-up of the local revenue system. If the State were to adopt a sales tax, and a local sales tax were also authorized, provision should be made for imposing the tax as a local supplement to the state sales tax and collecting it along with the state tax for reallocation back to the source. Furthermore, because of the problems of intermunicipal tax competition, consideration should be given to use of the tax credit device, as in California, to permit uniform imposition

of the tax over a large enough area to make its use practicable. Under the California system, counties and cities are permitted to levy a supplement to the state sales tax, with the city tax offset against the county tax on sales made within the city. Devices for inter-county cooperation in establishing a uniform policy may be needed to facilitate employment of the tax in an entire economic area, as in the Twin Cities metropolitan area. If it is likely that a substantial number of local units would take advantage of such sales tax authority, an increase in the state sales tax for local government purposes, if a state sales tax is imposed, might be preferable.

3. Local Income Tax. City income taxes, the other most productive non-property tax source, have been imposed by a great number of cities in the United States, notably in Pennsylvania and Ohio, in addition to scattered larger cities in several other states. Unlike the typical state income tax, the typical city income tax is a flat rate levied on earned income, and is commonly referred to as a payroll tax. Simpler to administer and collect, it is highly productive, particularly in those instances where it is imposed on the income of residents, wherever earned, as well as the income of non-residents earned within the city. Apart from its otherwise controversial features, a levy with this dual incidence would require many taxpayers to pay two local payroll taxes if it were universally imposed in areas like the metropolitan area. If it were to be imposed, there would be considerable merit in providing for the levy of such a tax over an entire area with allocation back to the municipality of residence and with a possible provision for sharing a portion with the constituent school districts.

The payroll tax is somewhat easier to collect than a regular income tax and presumably would mean less record-keeping and inconvenience to the taxpayer. However, the Detroit plan, which uses the federal income tax return, is reasonably convenient for the taxpayer if the city defers on questions of interpretation to the federal authorities.

3. Miscellaneous Local Taxes. In their search for additional revenue to solve their financial problems, cities throughout the country have adopted scores of different kinds of taxes. Several of these seem especially suitable for municipal use and might be considered for inclusion in enabling authority here. They include (1) a tax on consumers' utility bills, which yielded an average of $2.05 per capita in the cities using it according to a 1956 compilation by the Municipal Finance Officers' Association; (2) a tax on hotel rooms, which is not very productive but has some appeal in certain cities because it requires non-residents to assume part of the direct cost of city government -- in theory, somewhat analogous to the "ready-to-serve" charge on a utility bill; and (3) a tax or fee imposed on commercial parking lots and garages.

It is apparent from attempts to secure enabling legislation in the past, that anyone who proposes local taxing authority finds himself in somewhat of a dilemma. If the legislation is too comprehensive in the alternatives afforded, it is objected to because it will permit many kinds of "nuisance" taxes that cities should not be employing; if it is limited to one tax, the taxpayers affected will cry that it is discriminatory. The Committee is convinced that the revenue problems of local governments are serious and that substantial enabling authority is one of several required solutions. It suggests that, as in New York, legislation permit local selection among several alternatives, subject to the general principles mentioned in this section.

As pointed out earlier, Minnesota has relied very lightly on non-property local tax revenues. The Committee strongly urges that every effort be made to make more use of these revenue sources rather than to place the burden of added cost on property as has been done in the past.

Chapter 12

CONCLUSIONS AND RECOMMENDATIONS

The Revenue System as a Whole: Observations and Recommendations

From our study of various statistics and analyses, it became evident that many reforms are needed in order to make the Minnesota tax revenue system consistent with the guiding principles in Chapter 1. Some of these reforms are concerned with matters of equity, some with economic growth and development, and some with administration. Many of our tax laws are antiquated. Also, the failure over the years to search out other sources of revenue has caused present sources to be overburdened. It is the view of the Committee that there is a real urgency to implement the reforms proposed in this report.

The most striking feature of the Minnesota tax system as a whole is the heavy dependence placed upon property taxes at the local level and upon income taxes at the state level. Minnesota burdens property with taxes higher than any other state west of the Allegheny Mountains, and, indeed, higher than all but five Eastern and New England States.* There has been a dramatic rise in our property tax revenues during the last seven or eight years. The Staff Report of the 1956 Governor's Tax Study Committee, on the basis of straight line projection of property tax revenue from 1939 to 1954, made a prediction that the total revenue from property in 1965 would be $325 millions, which it considered a high estimate. However, by June 30, 1962, Minnesota had greatly surpassed this estimate: property tax revenues amounted to $509 millions. The Committee is reluctant to see any further increase in property taxes until other sources of revenue are thoroughly explored and the best ones adopted.

At the state level our dependence has been in large measure upon the income tax, although not to the same extent that local dependence has been on the property tax. By comparison with other states, our income tax burden is very high,

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*Wisconsin burdened property more than Minnesota until 1962 when it provided for a 10% average reduction.

especially in income ranges from $5,000 to $12,000. The record seems to indicate, therefore, that the State vis a vis other states is in much the same position with the income tax as the localities are with the property tax.

It is observed that we are rapidly approaching a critical period with respect to some aspects of the taxation of iron ore. The outlook for continued production of natural ores does not appear very bright; in fact, the State stands to lose substantial revenue if iron ore production continues to decrease. The revenue collected from that source, based on 1961 production, was in excess of $13 millions. This amount is less than earlier years, and, depending upon other factors, it may decline to some minimum point in 10 years. Other mineral taxes, such as taxes on taconite, are relatively small and will not serve as replacements unless production of taconite is increased many times over.

In addition to the state's loss in iron ore revenue, the local communities on the Iron Range will face important shifts in their property tax burden. As mineral valuations continue to decline, it is doubtful whether increased mill rates can long prevent a day of reckoning. A restructuring of the property tax burden on the Range appears to be in the offing.

Necessity for Tax Reform

The Minnesota tax system, like that of other states, has grown in a haphazard fashion. The pressures on local governments and on the state government to supply more funds to meet expanding needs is oftentimes accompanied by corresponding pressures not to expand the tax system or increase the tax rates. The resulting forces and counterforces tend to create greater attempts to "get along somehow" within this existing framework. Consequently, expediency rather than principle may be said to "rule the day" in tax matters.

Tax reforms have always come hard, whether in Minnesota or any other state or local body. The nature of reform is such that a shift of taxes usually takes place. People who feel they have something to gain from the shift work hard at justifying their position, whereas the people who might stand to lose, and thus pay more taxes, work to maintain the status quo. If tax reform were merely a simple matter of shifting taxes between individuals or groups or between groups and the public at large, the lines could be rather clearly drawn. However, in the present economy with its greater mobility of both businesses and individuals, the State of Minnesota and its local governments must consider all the implications of their tax decisions. Taxes upon businesses, for example, may have some influence upon the level of economic activity of the particular firms in question, and this reflects upon the economic well-being of the community or the state. Likewise, taxes upon inidividuals, or their property, may have some effect on location decisions both within the State and from outside. Tax reform, therefore, is very complicated, not merely a question as to whether it is right to shift taxes between individuals or from one special group to the state at large.

The general conclusion reached by the Committee after nearly two years of study is that the tax system in Minnesota is in need of reform and that steps should be taken to accomplish reforms in an orderly manner.

In addition to tax reform, the Committee has expressed real concern for the Minnesota tax system in the future. Can we provide out of present sources the amount of revenue which may be needed? The answer, in the opinion of the Committee, is that it is possible but not without dislocation of the economy and disturbing the well-being of the citizens. The Committee, therefore, has considered new taxes for meeting expanded services, along with tax reform and improvements in administration.

The remainder of this chapter is devoted to specific recommendations concerning reform in property tax administration, tax reform, and new revenue sources.*

Recommendations for Reform in Property Tax Administration

The Committee believes most strongly that there must be major reforms in the administration of our property tax. Because the property tax is the largest single source of governmental revenue in Minnesota, it is important that it be administered competently and impartially. The discussion of the recommendations of the Committee are found in Chapters 4 and 5. Here they are summarized with certain specific comments for emphasis. Among the items the Committee feels would represent desirable administrative reform steps are the following:

1. Establish a state-wide county assessor system with fully trained, adequately paid, professional assessors selected in an impartial manner. The Committee believes that assessment is such a complex matter that it should be administered every step of the way by fully trained, competent people.
2. Establish an improved review and appeal procedure.
3. Curtail any further expansion of the classification system. The Committee believes that the classification system weakens the property tax. Every effort should be made to forego further expansion. Positive steps should be taken to reduce the number of classifications.

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* The following is a quote from Chapter 1:
"This Report represents the consensus of the Committee, but not all members of the Committee agree with all the statements and recommendations in the Report. Furthermore, some of the recommendations are inter-related in their impact and not all the members who favored a particular recommendation would necessarily be in favor of it if the related recommendation were not adopted. This is true, for example, of the recommendation for changing the property assessment date and the recommendation for the elimination of certain personal property inventories."

4. Restore "full and true" assessments to 100% of market value as the law provides. The Committee realizes the practical difficulties in accomplishing this task, but it still considers this a most desirable objective and suggests that this target be reached over the next 10 years, with appropriate reduction in mill rates and modification of local-limit laws.
5. Change the assessment date from May 1 to January 1. This is needed in order to enable the assessors to do an improved job in preparing the assessment rolls. In the case of the assessment of inventories* the Committee recommends the use of an average monthly inventory as an option to be decided by the taxpayer as an alternative to the January 1 date.
6. No further increases in the Homestead Exemption should be permitted. As shown in Chapter 5, an increase in the Homestead Exemption would increase taxes on the lower-valued homes.

The Committee is mindful of the fact that the adoption of the measures listed above will not in themselves solve all the property tax administrative problems. However, these measures can make a significant contribution to keeping the property tax system healthy and up to date.

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* The Committee believes that inventory taxes, especially those of manufacturers, rest upon dubious grounds. In the next section proposals are made for their curtailment or elimination.

Recommendations for Tax Reform

Tax reform is different from tax relief. Tax reform improves the system, whereas tax relief recognizes the plight of certain taxpayers and provides some amelioration.

In proposing tax reform the Committee has set up a scale of priorities. All of the items suggested here are worthy and the Committee recommends the adoption of all of the tax reform measures identified in this section. Nevertheless, it is recognized that the Legislature in its discretion may wish to adopt some of these reforms at a more gradual pace, and if so, the Committee recommends the following order:

1. The elimination of the state property tax levy other than that portion now collected to service the teacher retirement programs (See Chapter 11 for discussion). The Committee feels that it is a sound principle for property taxation to be a strictly local matter. That this was recognized in the State Legislature until several years agc is evident in the decreasing state property mill levy. In recent years, however, the levy has been increasing because of the need for funds, coupled with an unwillingness to consider other taxes. The Committee in recommending the elimination of the state levy believes it is necessary to establish the principle that the property tax should be reserved for local use.

It is estimated that the elimination of this part of the state property tax levy will result in an annual loss to the state of approximately $15 millions which must be made up from other sources.

2. The elimination of personal property taxes on manufacturers' inventories.

Manufacturers' inventories are often difficult to assess. Also, many of the inventories do not represent a stock of goods but rather a flow of component parts. This question has been widely discussed. There seems to be a general agreement that the elimination of this tax would (a) improve the competitive position of Minnesota manufacturers, and (b) improve the "tax climate" which may have the effect of retaining and expanding present industries as well as attracting new industries to the state.

Manufacturers' inventories are assessed as personal property; the tax is levied in much the same manner as other property taxes by the local taxing authorities. The revenues lost should be replaced from general sources of revenue from the state. If this is not done, the net effect of any elimination of manufacturers' inventories will be to increase the burden upon other property. During 1962, manufacturers' inventories netted tax revenue of approximately $10,600,000. This is the sum that would need to be replaced.

3. Eliminate the $10 minimum filing fee (so-called "Head Tax").

This element of the income tax is unfair in that it exacts a penalty from anyone who has a tax liability greater than $1, but less than $10. The Committee believes this measure is unsound and therefore recommends its elimination. The annual loss in revenue to the state would be approximately $2 millions.

4. Eliminate personal property taxes on livestock and farm machinery.

The purpose of this reform is to improve the competitive position of Minnesota agriculture. There are many complicated problems associated with personal property in agriculture, and it is recognized that many adjustments will be needed if this recommendation is accepted.

It will be necessary to replace the revenue lost by local communities as a result of this elimination, estimated to be approximately $15 millions.

5. Reduce inventory taxes of wholesalers and retailers by 25% for a period of two years.

This proposal is coupled with a further recommendation that study be given to the possibility of shifting from a personal property tax to an equitable "receipts" or "activities" type of tax. This measure might be considered a relief measure in the first instance, but it is hoped that in short order an entirely new approach might be made. Furthermore, it must be kept in mind that court action may require standardized assessment values for all kinds of property, in which case the inventories taxes of wholesalers and retailers would automatically be reduced.

As in the case with the other personal property taxes, replacements would be necessary. The amount based on 1962 estimates is approximately $5 millions.

6. Eliminate the surtaxes on individual and corporate income taxes.

If it becomes necessary to raise additional funds through the income tax, the normal rates should be adjusted. This is listed as a major tax reform on the basis of principle. Surtaxes come about because of the unwillingness to adjust the rates to meet a given level of expenditures. Most generally, surtaxes have been imposed for a specific need, but, when the need has passed, instead of eliminating the added tax, or adjusting the rate structure, the item is carried forward indefinitely as a surtax. The Committee recommends the abandoning of surtaxes, using instead normal rate changes when raising additional revenue through the income tax.

If the normal income tax rates are not adjusted, the replacement of revenue lost through elimination of surtaxes would require $15 millions annually at the 1962 income level.

These recommendations represent an attempt to set forth the most significant reforms desired in the Minnesota tax system. The Committee has examined many other aspects of the tax system which have been proposed for reform, but in our judgment they were lacking in one respect or another when considering all points of view. The Committee, at every step of the way, has attempted to judge each measure by the guiding principles set forth earlier in Chapter 1.

A secondary approach to the problem of tax reform and tax relief would be to attempt to lessen the burden on property generally, rather than upon specific items as has been listed above. A case can be made for attempting to bring about some element of control in property taxes so as to achieve a better balance from taxes in the entire system. Property tax relief "across-the-board" would accomplish in some measure the reforms which the Committee believes are desirable; on the other hand, it does not go to the heart of the major reform question. It should be pointed out that our neighboring state of Wisconsin adopted a plan whereby relief is given to all property taxes in which the burden is above a certain maximum point. Wisconsin has been fortunate, however, in achieving a much higher degree of state-wide equalization than we have in Minnesota. Also, Wisconsin has already taken some of the reform steps which are recommended here.

It is estimated that a 10% reduction in real property tax would require a replacement fund of approximately $40 millions. State-wide equalization, such as in Wisconsin, would be an essential part of such a measure if it is to approximate equity between taxing districts. Whether a major real property tax relief program could be accomplished, given our present assessment conditions, is problematical. The Committee does believe, however, that some element of control needs to be exercised but not necessarily by the curtailment of various types of governmental services.

The Committee has no specific recommendations to make with respect to taxation of iron ore. The plight of the iron ore industry and the people whom it serves is well known by most citizens of the State. From a purely state revenue point of view, the decrease in iron ore occupation and royalty taxes may become serious in the not-too-distant future. Plans should now be made for prescribing the methods by which these revenues will be replaced.

The Committee urges that all possible measures be taken to encourage the development of taconite, although the citizens of the State must recognize that taconite will not be able to stand the same degree of taxation which natural iron ore has in the past. Given the present taconite tax rates, production would have to increase almost tenfold if the revenue were to come close to replacing the lost revenue from iron ore. This is within the realm of possibility. Every effort should be taken to see that additional plants are built in the very near future.

New Revenue Sources and Minnesota's Way Forward

Throughout its study the Committee asked itself, "What of the future? Does Minnesota need new taxes, and if so, what are the alternative tax plans which may be developed?"

This question has three parts. First, what are the likely needs which will be placed upon the revenue system in the future? Second, what is the likelihood that the present revenue system will be sufficient? Third, what are potential new tax sources which might be available to perform the tasks required? All three parts are important. The Committee has attempted to deal with each in a realistic manner. Obviously, any group of citizens who study this question will have to assess the situation with a given period of time as a reference. Previous tax study committees have examined the situation from earlier time periods. We are now looking at the matter from 1963 forward.

The point of departure must be, of course, an evaluation of the needs which may be placed upon the revenue system in the future. There are always many shades of opinion as to the proper amount of governmental expenditures, both state and local. From one point of view, it might be pointed out that Minnesota ranks above the national average of states in governmental expenditures per capita. It may be argued, therefore, that Minnesota's governmental expenditures, both state and local, might be held in careful check thereby relieving any pressure for new revenue needs.

On the other hand, it must also be noted that the experience of the recent past, particularly of the last 15 years, indicates an increasing level of governmental expenditure of state and local governments all over the country. The needs for better schools, higher teacher salaries, better roads, better hospitals, improved recreation programs, extended welfare programs and all other on-going governmental functions have been the order of the day. Minnesota is no exception in this regard. The growth in state and local expenditures in the years since World War II has been most impressive when compared with federal government expenditures in the non-defense areas. The Committee has no "crystal ball" by which it might foresee future trends. It does not know, for example, about the extent of state aid to local governments nor the extent of federal aid to both state and local governments.

The Committee believes that estimating budgets for state and local governments, both now and in the years to come, is beyond its function. It has concluded, however, that based on national trends plus the various revenue needs which seem to be indicated by various state boards, commissions, and committees, strong upward pressures on expenditures will continue in Minnesota. The extent to which the various local governmental bodies and the state government decide they are going to meet these various needs will have an important bearing upon the question of new taxes.

While it does not have any bearing upon new revenue needs, the question of tax reform does enter into the overall consideration of new taxes. It might be possible to develope certain elements of the reform program from within present tax sources, but this presumes some relatively underburdened tax sources, and the Committee believes that these are not easy to find in the present Minnesota tax system. It would seem, therefore, that tax reform would require in some measure new tax sources in order to be effective.

It must be concluded, therefore, that the answer to "Does Minnesota need new taxes?", is that the potential need exist, providing expenditures cannot be curtailed. We repeat for emphasis, however, that we as a Committee are not advocating any given level of governmental expenditures. We are merely indicating that anticipating a potential level of expenditures at both state and local governments above the anticipated tax revenues from the present system is quite realistic. In many quarters, it might be argued that higher levels are indeed probable. On the other hand, if state and local legislative bodies hold the line on expenditures, a need for new taxes might not develop.

The second element of the question is whether the present revenue system could, if called upon, produce substantial additional revenue by raising the tax burden through increases in rates. It is recognized that the existing system merely by growth will produce some additional revenue. The question here is, however, whether it could do more than that.

Several times in this report, it has been stated categorically that Minnesota property taxes, which are relied on most heavily by local governments, are among the most burdensome in the United States. The Committee cannot, therefore, recommend any substantial increase in property taxes until other sources are explored and developed. At the state level, where the state income tax on both individuals and corporations is the major tax, the same case can be made, although not quite as strongly as in the case of property taxes. Minnesota incomes, especially in the range from $5,000 to $12,000 are burdened distinctly higher than those of residents of most other states. To raise substantially more revenue through the income tax at this time would require a considerable increase in rates which would definitely place us among the top income tax states especially with regard to the middle-income brackets.

With respect to other state sources, outside of the gasoline tax which is dedicated to highway construction, we find that about the same situation exists as with the income tax and the property tax at local levels. In addition, the state has a dark cloud on its present tax revenues in the form of a decline in iron ore production.

While taxes are not always a major factor in the location decisions of individuals and of businesses, they may be the deciding factor in many situations. The mobility of people and businesses and industry is considerably greater now than at any time in previous history of the State of Minnesota or of the United States. Consequently, Minnesota must be mindful, not only of the tax level, but also of the way in which it burdens each and every individual and each and every business. The Committee is certainly not advocating that all states and localities adopt identical taxes although something of this kind would completely remove state and local taxes as a factor in any location decision. It is recognized that Minnesota has wanted higher standards of performance from its governmentally sponsored activities and has been willing to pay the price. We are merely pointing out that our burden upon our major sources of revenue in the State is quite high and we do not believe it is desirable for us to get too far out of line with respect to the other states in the United States.

It must be concluded, therefore, that a major increase in the level of governmental expenditures will place an exceptionally heavy burden upon our present tax system and quite probably will have some undesirable repercussions for the State's economic health and well-being. Once again, the proviso must be stated that we are only talking about substantial increases in governmental expenditures in making this judgment about the present tax system. If expenditures are held in line and carefully controlled, the present tax system accompanied by normal growth (but discounted by the potential loss in iron ore occupation tax) might be able to provide the financing. Even so, it has been pointed out earlier in this chapter that there would still be a need for some rather basic reform, some of which requires a new approach to taxes.

If it should be necessary to turn to new tax sources, the most likely candidates are (1) the general sales tax, (2) gross income tax, and (3) one of several varieties of business receipts taxes. Each of these is discussed in an earlier chapter; only certain salient points will be mentioned in this summary.

1. General Sales Tax. Over a number of years this tax has been widely discussed in Minnesota as in other states. It is now employed in 37 states of the United States. Estimates of its revenue potential depend upon items exempted and, of course, upon the total level of consumer expenditures. This Committee estimates that every 1% of sales tax, providing for exemptions for housing payments and medicines, would raise approximately $50 millions. Thus, a 2% tax would raise $100 millions and a 3% tax, $150 millions.

   It is the consensus of the Committee that some account must be taken of the most objectionable feature of the sales tax, namely the regressive feature. The guiding principles adopted by the Committee require this be done in order to be consistent with other elements of this Report. Some states have attempted to remove the regressive feature by widening the list of exemptions to include food and other items. We favor the plan as recommended first by the 1956 Governor's Tax Study Committee Staff Report, namely the adoption of a tax credit on the income tax. A $4 per person credit per 1% of sales tax makes the entire tax proportional up to the vicinity of $10,000 of income. The Committee believes that the tax credit principle is preferable to a widened range of exemptions because of the many administrative difficulties caused by the latter.

   The general sales tax offers a method whereby the State might assist local governments in the myriad problems of organization.

An additional 1/2%, for example, might be levied to be returned to the local government where the sales occurred to meet increased expenditures and/or for relief of the property tax. This is probably best done on a uniform basis rather than permitting optional arrangements in the various localities. It is foreseen that local governments, particularly in the vacation areas of the State, might be benefited to a considerable extent through this extra amount of tax levied for state assistance to local government.

The Committee believes that the sales tax with a tax credit is entirely feasible for Minnesota. It offers a strong possibility in the event that new taxes are needed.

2. Modified Gross Income Tax. It might be possible to raise substantially more revenue by adopting a fairly low-rate gross income tax with some degree of progression in the system, although not to the same extent as our present net income tax. The details of this plan are suggested earlier. The Committee realizes that it probably would be quite awkward to have both a net income tax and a gross income tax. If a gross income tax plan is considered, the Committee recommends that it be combined with the present net income tax. The effect could be a much simpler form of tax. It would take account of the basic family status of individuals but allow no other exemption. A degree of progressiveness could be built into the rate structure.

The Committee considers this a far reaching proposal with many ramifications that need considerable study. However, it is possible that a plan of this type, which would, in effect, combine a net income and a sales tax, might have more general appeal because of its simplicity.

3. Business Receipts Taxes. The Committee has explored various business activities taxes, such as found in the State of Washington and the State of Michigan. Neither of these states has a corporate income tax. To attempt in Minnesota to generate a substantial amount of income (upwards of $50 millions) from a business activities tax would place an undue burden upon many of the businesses of the State and would probably cause untold difficulty. The Michigan tax, a "value added" tax, is the more desirable of the two, but unless the tax would be adopted by a large majority of the states of the country, if not by all of them, this again could work a hardship on Minnesota's economy.

In the opinion of the Committee our corporate income tax is preferable, although, by dealing strictly with a corporate form of organization, the corporate tax does not reach other forms of business organizations, such as partnerships and proprietorships. (These forms are not taxed under the federal corporate income tax; thus, no precedent exists.) After careful study, therefore, the Committee has concluded that while business activities taxes might be imposed, they are subject to some pitfalls as well. The argument has often been advanced that a business activities tax is in effect a hidden sales tax. It is true that a value-added tax of the Michigan type, if imposed on a national level, would be, in effect, a sales tax, but, when imposed only by one state, it cannot have that effect. It does tend, however, to weaken the interstate competitive position of the firms subject to its levy.

In the event new taxes are needed, it is the consensus of the Committee that consideration might be given to these three plans as suggested here, very likely in the order in which they have been presented.

The sales tax with the tax credit offers probably the most effective method with the least amount of disruption of existing taxes. It would also seem to give us a better balance between income and expenditure type taxes and put us in line to a much greater extent with that of a larger number of the other states. This does not rule out the possibility, however, of substantial changes that could be made in the income tax as suggested in this report. The administrative problems in developing a substantial modification of our income tax would be tremendous, but the long-run effects might be quite beneficial.

TABLE 2.1. TOTAL REVENUE OF STATE AND LOCAL GOVERNMENTS IN MINNESOTA BY MAJOR SOURCE SELECTED FISCAL YEARS 1903-1962

(In Thousands)

Tax Revenue	1903	1922	1932	1949	1954	1960	1961	1962
Real Property	$ 14,486	$ 86,568	$ 99,515	$ 131,219	$ 191,919	$ 335,526	$ 362,402	$ 391,961
Personal Property	2,946	14,092	12,931	34,671	54,131	83,932	87,787	93,219
Individual Income	-	-	-	32,183	50,904	89,328	97,289	122,821
Corporate Income*	-	-	-	16,478	12,628	36,842	32,199	30,047
Bank Excise	-	-	-	1,177	1,877	2,998	4,987	4,943
Gross Earnings	1,714	8,269	5,928	15,737	19,166	21,143	22,417	21,777
Insurance Companies	256	1,055	1,894	4,391	6,431	9,420	10,215	10,819
Inheritance and Gift	3	967	1,828	2,261	4,073	7,335	9,788	9,011
Iron Ore Occupation*	-	-	1,383	11,838	30,089	12,707	22,109	14,645
Iron Ore Royalty	-	-	633	2,074	3,576	1,851	3,209	2,297
Alcoholic Beverages	-	-	-	13,601	13,831	15,321	19,028	19,568
Tobacco Products	-	-	-	8,856	11,326	21,047	22,788	25,154
Gasoline	-	-	11,707	26,157	42,651	56,807	57,989	59,789
Motor Vehicles	-	8,748	10,293	15,139	28,620	41,153	42,285	43,367
Other	-	338	569	597	851	5,526	5,209	6,576
Total Tax Revenue	$ 19,405	$ 120,037	$146,681	$ 316,379	$ 472,072	$ 740,936	$ 799,701	$ 855,994
Non-Tax Revenue								
Special Assessments	$ 1,286	$ 9,651	$ 8,748	$ 5,560	$ 10,705	$ 18,284	$ 19,304	$ 23,738
Licenses and Fines	1,668	1,207	5,739	9,708	13,823	13,678	13,424	13,766
Fees and Service Charges	1,448	N. A.	7,908	40,502	38,746	N. A.	N. A.	N. A.
Interest and Rent	846	N. A.	9,011	11,622	17,389	N. A.	N. A.	N. A.
Federal Aids	73	N. A.	5,757	41,068	50,192	N. A.	N. A.	N. A.
Donations, Gifts, etc.	37	N. A.	1,811	5,992	(21,612	N. A.	N. A.	N. A.
All Other	582	N. A.	-	12,528	(	N. A.	N. A.	N. A.
Total Non-Tax Revenue	$ 5,940	N. A.	$ 38,974	$ 126,980	$ 152,467	N. A.	N. A.	N. A.
Total Revenue	$ 25,345	N. A.	$185,655	$ 443,359	$ 624,539	N. A.	N. A.	N. A.

* Includes taconite taxes

Note: N. A. = Not available

SOURCE: Reports of the Public Examiner and the State Auditor

TABLE 2.2. PER CAPITA REVENUE OF STATE AND LOCAL GOVERNMENTS IN MINNESOTA, BY MAJOR SOURCE, SELECTED FISCAL YEARS 1903-1962

Tax Revenue	1903	1922	1932	1949	1954	1960	1961	1962
Real Property	$ 7.86	$ 35.32	$ 38.54	$ 44.71	$ 61.85	$ 98.28	$ 104.44	$ 112.21
Personal Property	1.60	5.75	5.01	11.81	17.44	24.58	25.30	26.69
Individual Income	-	-	-	10.96	16.40	26.17	28.04	35.16
Corporate Income	-	-	-	5.62	4.07	10.79	9.29	8.60
Bank Excise	-	-	-	.40	.60	.88	1.43	1.42
Gross Earnings	0.93	3.37	2.30	5.36	6.18	6.19	6.46	6.23
Insurance Companies	0.14	0.43	0.73	1.50	2.07	2.76	2.94	3.10
Inheritance and Gift	*	0.39	0.71	0.77	1.31	2.15	2.82	2.58
Iron Ore Occupation	-	-	0.54	4.03	9.70	3.72	6.37	4.19
Iron Ore Royalty	-	-	0.25	0.71	1.15	.54	.92	.66
Alcoholic Beverages	-	-	-	4.63	4.46	4.49	5.48	5.60
Tobacco Products	-	-	-	3.02	3.65	6.16	6.57	7.20
Gasoline	-	-	4.53	8.91	13.75	16.64	16.71	17.12
Motor Vehicles	-	3.57	3.99	5.16	9.22	12.05	12.19	12.42
Other	-	0.14	0.22	0.20	0.27	1.62	1.50	1.88
Total Tax Revenue	$ 10.53	$ 48.97	$ 56.82	$ 107.79	$ 152.13	$ 217.02	$ 230.46	$ 245.06
Non-Tax Revenue								
Special Assessments	$ 0.70	$ 3.94	$ 3.39	$ 1.89	$ 3.45	$ 5.36	$ 5.56	$ 6.80
Licenses and Fines	0.91	0.49	2.22	3.31	4.45	4.01	3.87	3.94
Fees and Service Charges	0.79	N. A.	3.06	13.80	12.49	N.A.	N. A.	N. A.
Interest and Rent	0.46	N. A.	3.49	3.96	5.60	N.A.	N. A.	N. A.
Federal Aids	0.04	N. A.	2.23	13.99	16.18	N.A.	N. A.	N. A.
Donations, Gifts, etc.	0.02	N. A.	0.70	2.04	(6.96	N.A.	N. A.	N. A.
All Other	0.32	N. A.	-	4.27	(	N.A.	N. A.	N. A.
Total Non-Tax Revenue	$ 3.24	N. A.	$ 15.09	$ 43.26	$ 49.13	N.A.	N. A.	N. A.
Total	$ 13.77	N. A.	$ 71.91	$ 151.05	$ 201.26	N.A.	N. A.	N. A.

* Less than $ .005 per capita

Population data from U. S. Bureau of the Census and Minnesota Department of Health, Section of Vital Statistics.

SOURCE: See Table 2.1

TABLE 2.4. PER CAPITA REVENUE OF STATE GOVERNMENT IN MINNESOTA BY MAJOR SOURCE, SELECTED FISCAL YEARS, 1903-1962
(In Thousands)

Tax Revenue	1903	1922	1932	1949	1954	1960	1961	1962
Property Tax	$ 1.02	$ 4.20	$ 3.84	$ 2.81	$ 4.04	$ 6.10	$ 6.85	$ 6.78
Individual Income	-	-	-	10.96	16.40	26.17	28.04	35.16
Corporate Income	-	-	-	5.62	4.07	10.79	9.29	8.60
Bank Excise	-	-	-	.40	.60	.88	1.43	1.42
Gross Earnings	0.93	3.37	2.30	5.36	6.18	6.19	6.46	6.23
Insurance Premiums	0.14	0.43	0.73	1.50	2.07	2.76	2.94	3.10
Inheritance and Gift	*	0.36	0.71	0.77	1.31	2.15	2.82	2.58
Iron Ore Occupation	-	-	0.54	4.03	9.70	3.72	6.37	4.19
Iron Ore Royalty	-	-	0.25	0.71	1.15	0.54	0.92	0.66
Alcoholic Beverages	-	-	-	4.63	4.46	4.49	5.48	5.60
Tobacco Products	-	-	-	3.02	3.65	6.16	6.57	7.20
Gasoline	-	-	4.53	8.91	13.75	16.64	16.71	17.12
Motor Vehicles	-	3.57	3.99	5.16	9.22	12.05	12.19	12.42
Other	-	0.09	0.04	0.20	0.27	1.62	1.50	1.88
Total Tax Revenue	$ 2.09	$ 12.02	$ 16.93	$ 54.08	$ 76.87	$ 100.26	$ 107.57	$112.94
Non-Tax Revenue								
Licenses and Permits	$(0.01	$(0.08	$(0.34	$ 1.24	$ 1.77	$ N.A.	$ N.A.	$ N.A.
Fines, Forfeits & Escheats	(	(	(	0.17	0.21	0.20	0.22	0.22
Use of Money & Property	0.39	N.A.	2.63	3.08	3.78	4.85	5.88	5.98
Federal Grants & Donations	0.04	N.A.	2.67	14.33	15.41	36.32	37.14	35.95
Dept. Fees & Service Charges	0.64	N.A.	0.97	2.99	2.26	N.A.	N.A.	N.A.
All Other	0.19	N.A.	.02	.04	.48	N.A.	N.A.	N.A.
Total Non-Tax Revenue	$ 1.27	N.A.	$ 6.63	$ 21.85	$ 23.91	N.A.	N.A.	N.A.
Total	$ 3.36	N.A.	$ 23.56	$ 75.93	$100.78	N.A.	N.A.	N.A.

* Less than $.005 per capita

Population data from U.S. Bureau of the Census and Minnesota Department of Health, Section of Vital Statistics

SOURCE: See Table 2.3

TABLE 2.3. TOTAL REVENUE OF STATE GOVERNMENT IN MINNESOTA BY MAJOR SOURCE
SELECTED FISCAL YEARS, 1903-1962
(In Thousands)

Tax Revenue	1903	1922	1932	1949	1954	1960	1961	1962
Property Tax	$ 1,905	$ 10,282	$ 9,921	$ 8,245	$ 12,546	$ 20,828	$ 23,761	$ 23,684
Individual Income	-	-	-	32,183	50,904	89,328	97,289	122,821
Corporate Income	-	-	-	16,478	12,628	36,842	32,199	30,047
Bank Excise	-	-	-	1,177	1,877	2,998	4,987	4,943
Gross Earnings	1,714	8,269	5,928	15,737	19,166	21,143	22,417	21,777
Insurance Premiums	256	1,055	1,894	4,391	6,431	9,420	10,215	10,819
Inheritance and Gift	3	874	1,828	2,261	4,073	7,335	9,788	9,011
Iron Ore Occupation*	-	-	1,383	11,838	30,089	12,707	22,109	14,645
Iron Ore Royalty	-	-	633	2,074	3,576	1,851	3,209	2,297
Alcoholic Beverages	-	-	-	13,601	13,831	15,321	19,028	19,568
Tobacco Products	-	-	-	8,856	11,326	21,047	22,788	25,154
Gasoline	-	-	11,707	26,157	42,651	56,807	57,989	59,789
Motor Vehicle	-	8,748	10,293	15,139	28,620	41,153	42,285	43,367
Other	-	208	102	597	851	5,526	5,209	6,577
Total Tax Revenue	$3,878	$ 29,436	$ 43,689	$158,734	$ 238,569	$ 342,306	$ 373,273	$ 394,499
Non Tax Revenue								
Licenses and Permits	$(13	$ (199	$ (872	3,652	$ 5,486	N. A.	N. A.	N. A.
Fines, Forfeits & Escheats	(	(	(	495	653	$ 689	$ 768	$ 771
Use of Money & Property	725	N. A.	6,786	9,039	11,716	16,551	20,405	20,884
Federal Grants & Donations	73	N. A.	6,906	42,048	47,804	123,986	128,856	125,561
Department Fees & Service Charges	1,177	N. A.	2,504	8,780	7,026	N. A.	N. A.	N. A.
All Other	357	N. A.	55	122	1,488	N. A.	N. A.	N. A.
Total Non-Tax Revenue	$2,345	N. A.	$ 17,123	$ 64,136	$ 74,173	N. A.	N. A.	N. A.
Total	$6,223		$ 60,812	$222,870	$ 312,742	N. A.	N. A.	N. A.

* Includes taconite taxes

Note: After 1947 most of the University of Minnesota revenue is reported as local government revenue.

SOURCE: Reports of the Public Examiner and the State Auditor

TABLE 2.5. TOTAL TAX REVENUE OF STATE AND LOCAL GOVERNMENTS IN MINNESOTA, BY TYPE OF TAX, JUNE 30, 1962

(Exclusive of Unemployment Compensation Receipts)

Type of Tax	Amount	Percent of Total
General Property Levy:		
Real Property 1/	$ 391,960,566	45.79%
Personal Property 1/	93,218,762	10.89
Power Companies	2,435,942	.28
Grain	217,396	.03
Mortgage Registry	1,800,418	.21
Coal Docks Occupation	25,552	---
Total Property Levies	$ 489,658,636	57.20%
Sales and Gross Receipts:		
Motor Vehicle Fuel 2/	$ 59,190,579	6.91%
Alcoholic Beverages	19,567,984	2.29
Tobacco Products	25,154,065	2.94
Insurance Companies	10,819,459	1.26
Gross Earnings 3/	21,777,188	2.54
Aviation Gasoline	598,255	.07
Boxing Exhibitions	3,353	---
Oleomargarine	199,125	.02
Total Sales & Gross Receipts Taxes	$ 137,310,008	16.03%
Motor Vehicle Licenses	$ 43,367,081	5,07%
Income Taxes:		
Individual & Fiduciaries	$ 122,820,805	14.35%
Corporations	30,055,364	3.51
Total Income Taxes	$ 152,876,169	17.86%
Bank Excise	$ 4,934,870	.58%
Inheritance Tax	$ 8,261,968	.97%
Gift Tax	$ 748,886	.09%
Severance:		
Iron Ore Occupation	$ 13,057,077	1.53%
Iron Ore Royalty	2,296,971	.27
Taconite	1,588,204	.18
Total Severance Taxes	$ 16,942,252	1.98%
Deed Transfer Tax	$ 853,707	.10%
Mobile Homes Registration	$ 812,343	.09%
Airflight Property Tax	$ 228,343	.03%
Grand Total	$ 855,994,263	100.00%

(Cont.)

1/ Property tax levies on real and personal property by governmental units: State, $24,801,597; County, $127,676,999; City or Village, $107,178,574; Township, 12,823,716; School Districts, $212,670,754 and special Watershead and Hospital levies, $27,688. Total for all governmental units, $485,179,328.

2/ Net after refunds for non-highway use. Refunds amounted to $8,634,214.

3/ Gross Earnings Taxes: Telephone $9,064,246; Telegraph, $278,664; Railroad, $12,078,478; Sleeping Cars $44,352; Freight Lines, $278,281; and Express, $33,167.

Source: State Auditor

TABLE 2.6. PERCENTAGE DISTRIBUTION OF STATE TAX REVENUE OF STATE GOVERNMENT IN MINNESOTA BY MAJOR SOURCE SELECTED FISCAL YEARS, 1903-1962

Source of Tax Revenue	1903	1922	1932	1949	1954	1960	1961	1962
Property Tax	49.1%	34.9%	22.7%	5.2%	5.3%	6.1%	6.4%	6.0%
Individual Income	-	-	-	20.3	21.3	26.1	26.1	31.1
Corporate Income	-	-	-	10.4	5.3	10.8	8.6	7.6
Bank Excise	-	-	-	0.7	0.8	0.8	1.4	1.3
Gross Earnings	44.2	28.1	13.6	9.9	8.0	6.2	6.0	5.5
Insurance Premiums	6.6	3.6	4.3	2.8	2.7	2.8	2.7	2.7
Inheritance and Gift	0.1	3.0	4.2	1.4	1.7	2.1	2.6	2.3
Iron Ore Occupation	-	-	3.2	7.5	12.6	3.7	5.9	3.7
Iron Ore Royalty	-	-	1.4	1.3	1.5	0.5	0.9	0.6
Alcoholic Beverages	-	-	-	8.6	5.8	4.5	5.1	5.0
Tobacco Products	-	-	-	5.6	4.7	6.2	6.1	6.4
Gasoline	-	-	26.8	16.5	17.9	16.6	15.5	15.1
Motor Vehicle	-	29.7	23.6	9.5	12.0	12.0	11.3	11.0
Other	-	0.7	0.2	0.3	0.4	1.6	1.4	1.7
Total Tax Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: See Table 2.3

TABLE 2.7. PERCENTAGE DISTRIBUTION OF TAX REVENUE OF STATE AND LOCAL GOVERNMENTS IN MINNESOTA BY MAJOR SOURCE, SELECTED FISCAL YEARS, 1903-1962

Source of Tax Revenue	1903	1922	1932	1949	1954	1960	1961	1962
Real Property	74.7%	72.1%	67.9%	41.5%	40.7%	45.3%	45.3%	45.7%
Personal Property	15.2	11.7	8.8	11.0	11.5	11.3	11.0	10.9
Individual Income	-	-	-	10.1	10.8	12.1	12.2	14.3
Corporate Income	-	-	-	5.2	2.7	5.0	4.2	3.5
Bank Excise	-	-	-	0.4	0.4	0.4	0.4	0.6
Gross Earnings	8.8	6.9	4.0	5.0	4.0	2.8	2.8	2.5
Insurance Premiums	1.3	0.9	1.3	1.4	1.4	1.3	1.3	1.3
Inheritance and Gift	*	0.8	1.3	0.7	0.9	1.0	1.2	1.1
Iron Ore Occupation	-	-	0.9	3.7	6.3	1.7	2.8	1.7
Iron Ore Royalty	-	-	0.4	0.6	0.8	0.2	0.4	0.3
Alcoholic Beverages	-	-	-	4.3	2.9	2.1	2.4	2.3
Cigarettes	-	-	-	2.8	2.4	2.8	2.8	2.9
Gasoline	-	-	8.0	8.3	9.0	7.7	7.2	7.0
Motor Vehicles	-	7.3	7.0	4.8	6.0	5.6	5.3	5.1
Other Taxes	-	0.3	0.4	0.2	0.2	0.7	0.7	0.8
Total Taxes	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

* less than .05%

Source: See Table 2.1

TABLE 2.8. INDIVIDUAL INCOME TAX COLLECTIONS IN MINNESOTA, 1939-1962

	Normal Tax Collections		Total Collections	
Fiscal Year	Amount (000's)	% Change Year to Year	Amount (000's)	% Change Year to Year
1934-38	*		*	
1939	$ 6,500		$ 6,500	
1940	6,986	7.5%	6,986	7.5%
1941	7,991	14.4	7,991	14.4
1942	10,088	26.2	10,088	26.2
1943	11,238	11.4	11,238	11.4
1944	13,692	21.8	13,692	21.8
1945	13,460	- 1.7	13,460	- 1.7
1946	14,836	10.2	14,836	10.2
1947	20,647	39.2	20,647	39.2
1948	26,103	26.4	26,103	26.4
1949	32,612	24.9	32,612	24.9
1950	31,169	- 4.4	37,797	15.9
1951	36,149	16.0	43,305	14.6
1952	38,437	6.3	45,929	6.1
1953	39,736	3.4	47,504	3.4
1954	42,985	8.2	51,245	7.9
1955	46,231	7.6	54,700	6.7
1956	50,580	9.4	62,020	13.4
1957	57,643	14.0	69,953	12.8
1958	63,994	11.0	70,393	0.6
1959	67,550	5.6	74,305	5.6
1960**	81,418	20.5	89,559	20.5
1961	89,125	9.5	98,037	9.5
1962			126,895	29.4

* Collections for individuals, fiduciaries, and corporations were not kept separately.

** Rate Increase

Note: Includes Fiduciaries

Collection data has been adjusted for Clearance Fund

TABLE 2.9. CORPORATE INCOME TAX COLLECTIONS IN MINNESOTA, 1939-1962

	Normal Tax Collections		Total Collections	
Fiscal Year	Amount (000's)	% Change Year to Year	Amount (000's)	% Change Year to Year
1934-38	*		*	
1939	$ 3,787		$ 3,787	
1940	4,114	8.6%	4,114	8.6%
1941	4,767	15.9	4,767	15.9
1942	6,797	42.6	6,797	42.6
1943	10,009	47.3	10,009	47.3
1944	11,469	14.6	11,469	14.6
1945	9,443	- 17.7	9,443	- 17.7
1946	7,498	- 20.6	7,498	- 20.6
1947	10,377	38.4	10,377	38.4
1948	16,230	56.4	16,230	56.4
1949	16,729	3.1	16,729	3.1
1950	13,957	- 16.6	14,373	- 14.1
1951	16,863	20.8	17,860	24.3
1952	19,301	14.5	20,269	13.5
1953	14,281	- 26.0	15,011	- 25.9
1954	12,904	- 9.6	13,748	- 8.4
1955	13,892	7.7	14,664	6.7
1956	16,093	15.8	18,645	27.1
1957	17,205	6.9	20,933	12.3
1958	18,822	9.4	22,900	9.4
1959	18,143	- 3.6	22,073	- 3.6
1960**	27,081	49.3	33,580	52.1
1961	26,198	- 3.3	32,485	- 3.3
1962			33,682	3.7

* Collections for individuals, corporations, and fiduciaries not kept separately.

** Rate Increase.

Note: Collection data has been adjusted for Clearance Fund and Corporate "Speed Up"

TABLE 2.10. TOTAL INCOME TAX COLLECTIONS IN MINNESOTA, 1934-1962

	Normal Tax Collections		Total Collections	
Fiscal Year	Amount (000's)	% Change Year to Year	Amount (000's)	% Change Year to Year
1934	$ 1,195		$ 1,195	
1935	2,932	145.4%	2,932	145.4%
1936	3,597	22.7	3,597	22.7
1937	5,568	54.8	5,568	54.8
1938	10,115	81.7	10,115	81.7
1939	10,287	1.7	10,287	1.7
1940	11,100	7.9	11,100	7.9
1941	12,758	14.9	12,758	14.9
1942	16,885	32.3	16,885	32.3
1943	21,247	25.8	21,247	25.8
1944	25,161	18.4	25,161	18.4
1945	22,903	- 9.0	22,903	- 9.0
1946	22,334	- 2.5	22,334	- 2.5
1947	31,024	38.9	31,024	38.9
1948	42,333	36.5	42,333	36.5
1949	49,341	16.6	49,341	16.6
1950	45,126	- 8.5	52,170	5.7
1951	53,011	17.5	61,165	17.2
1952	57,738	8.9	66,198	8.2
1953	54,017	- 6.4	62,515	- 5.6
1954	55,889	3.5	64,993	4.0
1955	60,124	7.6	69,364	6.7
1956	66,673	10.9	80,665	16.3
1957	74,848	12.3	90,886	12.7
1958	82,816	10.6	93,293	2.6
1959	85,693	3.5	96,378	3.3
1960*	108,499	26.6	123,139	27.8
1961	115,323	6.3	130,522	6.0
1962			160,577	23.0

* Rate Increase

Note: Collection data has been adjusted for the Clearance Fund and the Corporate "Speed-Up"

TABLE 2.11. DISTRIBUTION OF MINNESOTA INCOME TAXPAYERS BY GROSS INCOME GROUPS, 1958-1961

	Income Taxpayers		Income Tax Liability	
Gross Income Group	Number	Percent of Total	Amount	Percent of Total
1958				
$ 0 - 2,999	158,350	21.54%	$ 2,186,769	3.21%
3,000 - 5,999	393,320	53.50	17,600,416	25.87
6,000 - 9,999	142,994	19.45	17,625,030	25.91
10,000 - 14,999	22,534	3.07	7,761,342	11.41
15,000 - 39,999	15,648	2.13	14,694,668	21.60
40,000 and over	2,276	.31	8,161,142	12.00
Total	735,122	100.00%	$68,029,367	100.00%
1959				
$ 0 - 2,999	148,990	20.15%	$ 2,062,077	2.89%
3,000 - 5,999	386,060	52.22	17,354,880	24.34
6,000 - 9,999	159,725	21.61	19,528,625	27.39
10,000 - 14,999	25,154	3.40	8,586,436	12.04
15,000 - 39,999	16,900	2.29	15,692,786	22.01
40,000 and over	2,410	.33	8,081,410	11.33
Total	739,239	100.00%	$71,306,214	100.00%
1960				
$ 0 - 2,999	182,390	22.97%	$ 3,222,674	3.52%
3,000 - 5,999	375,330	47.27	21,679,485	23.66
6,000 - 9,999	185,019	23.30	26,081,514	28.46
10,000 - 14,999	29,451	3.71	10,952,033	11.95
15,000 - 39,999	19,108	2.40	19,325,764	21.09
40,000 and over	2,751	.35	10,377,147	11.32
Total	794,049	100.00%	$91,638,617	100.00%
1961				
$ 0 - 2,999	177,425	21.90%	$ 3,149,762	3.27%
3,000 - 5,999	370,789	45.78	21,831,863	22.65
6,000 - 9,999	205,535	25.38	28,607,973	29.68
10,000 - 14,999	33,378	4.13	12,043,166	12.49
15,000 - 39,999	19,965	2.46	19,553,780	20.28
40,000 and over	2,887	.35	11,214,040	11.63
Total	809,979	100.00%	$96,400,584	100.00%

TABLE 2.12. MINNESOTA IRON ORE TAXES, 1942 - 1962 (In Thousands)

Fiscal Year	Ad Valorem	Occupation	Royalty	Taconite Tax*	Total
1943	$ 13,244	$ 8,233	$ 2,167	-	$ 23,644
1944	13,300	6,712	1,946	-	21,958
1945	12,477	6,302	1,889	-	20,668
1946	12,588	6,289	1,762	-	20,639
1947	12,733	6,508	1,359	-	20,600
1948	13,924	9,701	1,654	-	25,279
1949	13,258	11,763	1,907	-	26,928
1950	14,902	14,355	2,195	$ 1	31,453
1951	16,566	18,823	1,896	4	37,289
1952	17,241	26,275	2,755	6	46,277
1953	18,721	20,789	2,317	7	41,834
1954	21,040	30,306	3,492	36	54,874
1955	21,622	16,588	2,518	52	40,780
1956	21,848	31,501	3,289	78	56,716
1957	22,171	27,480	3,615	297	53,563
1958	26,587	33,261	3,710	397	63,955
1959	26,663	16,514	2,548	500	46,225
1960	27,057	12,035	1,904	528	41,524
1961	26,989	21,293	3,575	736	52,593
1962	27,472	13,907	2,057	766	44,202

* Taconite tax only; occupation and royalty taxes on taconite production included in preceding columns.

Source: Mining Directory

TABLE 3.1. EFFECTIVE* PROPERTY TAX RATES BY STATE, 1959

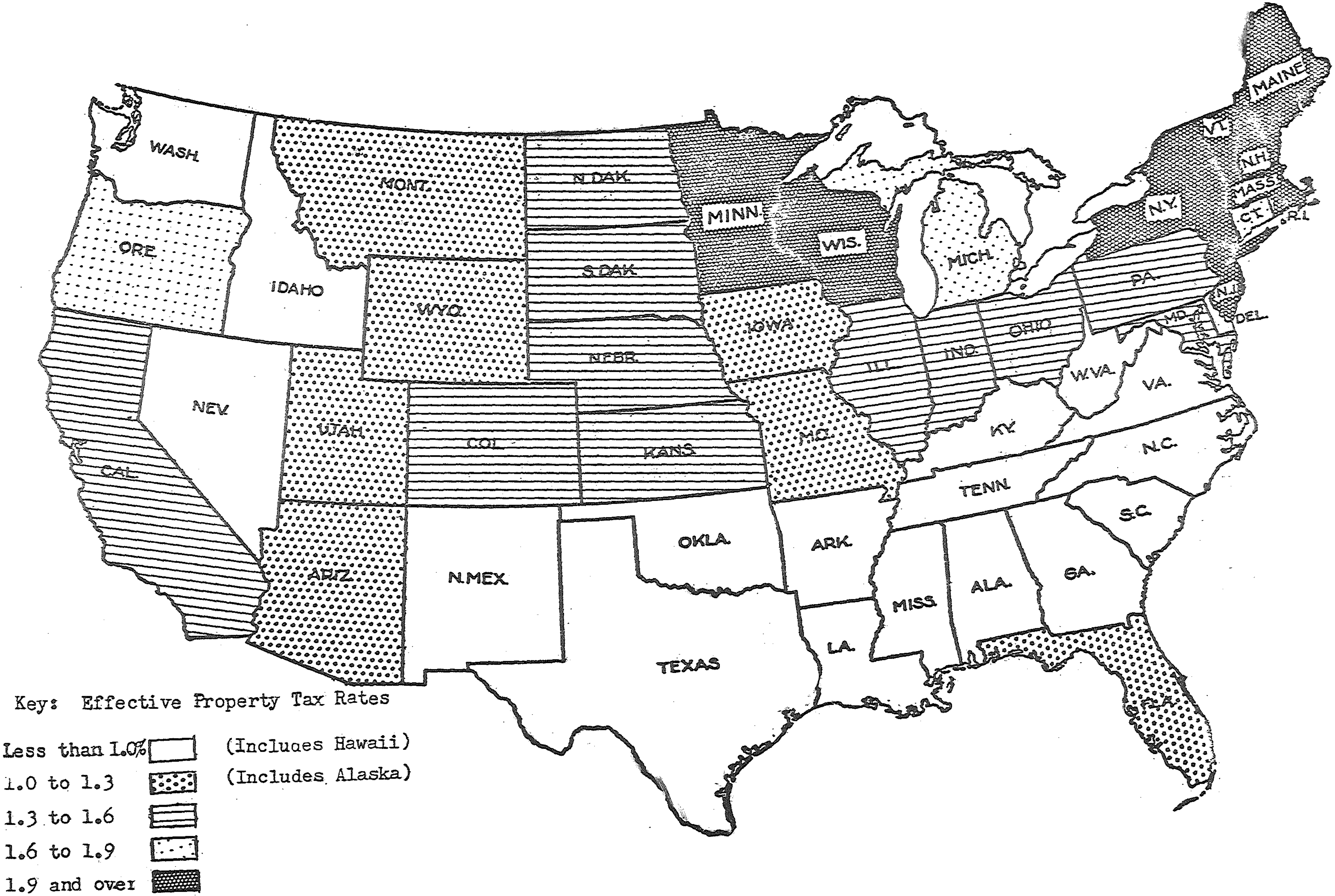
State	Effective Rate	Rank
Massachusetts	2.415%	1
Maine	2.350	2
New Jersey	2.259	3
Vermont	2.106	4
New York	2.084	5
Wisconsin	1.890	6
MINNESOTA	1.886	7
Rhode Island	1.882	8
New Hampshire	1.871	9
Michigan	1.844	10
Oregon	1.593	11
Connecticut	1.569	12
Illinois	1.485	13
Maryland	1.452	14
Colorado	1.444	15
South Dakota	1.420	16
California	1.378	17
Kansas	1.370	18
Ohio	1.368	19
Nebraska	1.362	20
Pennsylvania	1.278	21
North Dakota	1.274	22
District of Columbia	1.261	23
Indiana	1.250	24
Iowa	1.226	25
Arizona	1.182	26
Florida	1.115	27
Alaska	1.108	28
Utah	1.0915	29
Montana	1.0912	30
Missouri	1.056	31
Wyoming	1.001	32
Idaho	.982	33
Tennessee	.968	34
Texas	.963	35
Virginia	.937	36
Georgia	.934	37
Washington	.930	38
Oklahoma	.915	39
West Virginia	.860	40

State	Effective Rate	Rank
Nevada	.855%	41
Kentucky	.849	42
North Carolina	.788	43
Louisiana	.775	44
South Carolina	.764	45
Hawaii	.730	46
Mississippi	.689	47
Delaware	.688	48
Arkansas	.594	49
New Mexico	.581	50
Alabama	.522	51

* "Effective Rate" is the proportion property taxes are of the estimated market value of the property.

Source: Data obtained from the Advisory Commission on Intergovernmental Relations, Washington 25, D.C., 1962.

MAP 3.1. EFFECTIVE PROPERTY TAX RATES BY STATE, 1959



Source: Data obtained from the Advisory Commission on Intergovernmental Relations, Washington 25, D. C., 1962.

TABLE 3.2. STATE INCOME TAX BURDENS ON INDIVIDUALS: MARRIED COUPLE, $6,000 GROSS INCOME, AND TWO CHILDREN. ALL INCOME TAX STATES, 1961.

State	Rank	Income Tax Burden
Vermont	1	$ 124.00
MINNESOTA	2	121.96
Wisconsin	3	120.50
Oregon	4	108.00
Hawaii	5	105.00
Alaska	6	96.00
North Carolina	7	92.00
Idaho	8	90.00
Indiana	9	75.00
Iowa	10	73.13
Virginia	11	69.00
Massachusetts	12	68.65
Maryland	13	66.00
District of Columbia	14	60.00
New Jersey	15	56.00
New York	16	56.00
Kentucky	17	52.70
Delaware	18	47.00
Montana	19	45.00
Utah	20	43.80
South Carolina	21	40.00
Kansas	22	39.00
West Virginia	23	36.00
Arkansas	24	31.00
Alabama	25	26.40
New Mexico	26	25.00
North Dakota	27	24.30
Colorado	28	22.00
Missouri	29	18.50
Arizona	30	16.60
Georgia	31	14.00
Oklahoma	32	13.80
California	33	13.66
Louisiana	34	0.0
Mississippi	34	0.0

Note: Tennessee and New Hampshire tax dividends and interest only.

MAP 3.2. STATE INCOME TAX BURDENS ON INDIVIDUALS: MARRIED COUPLE, $6,000 GROSS INCOME, AND TWO CHILDREN, ALL INCOME TAX STATES
1961

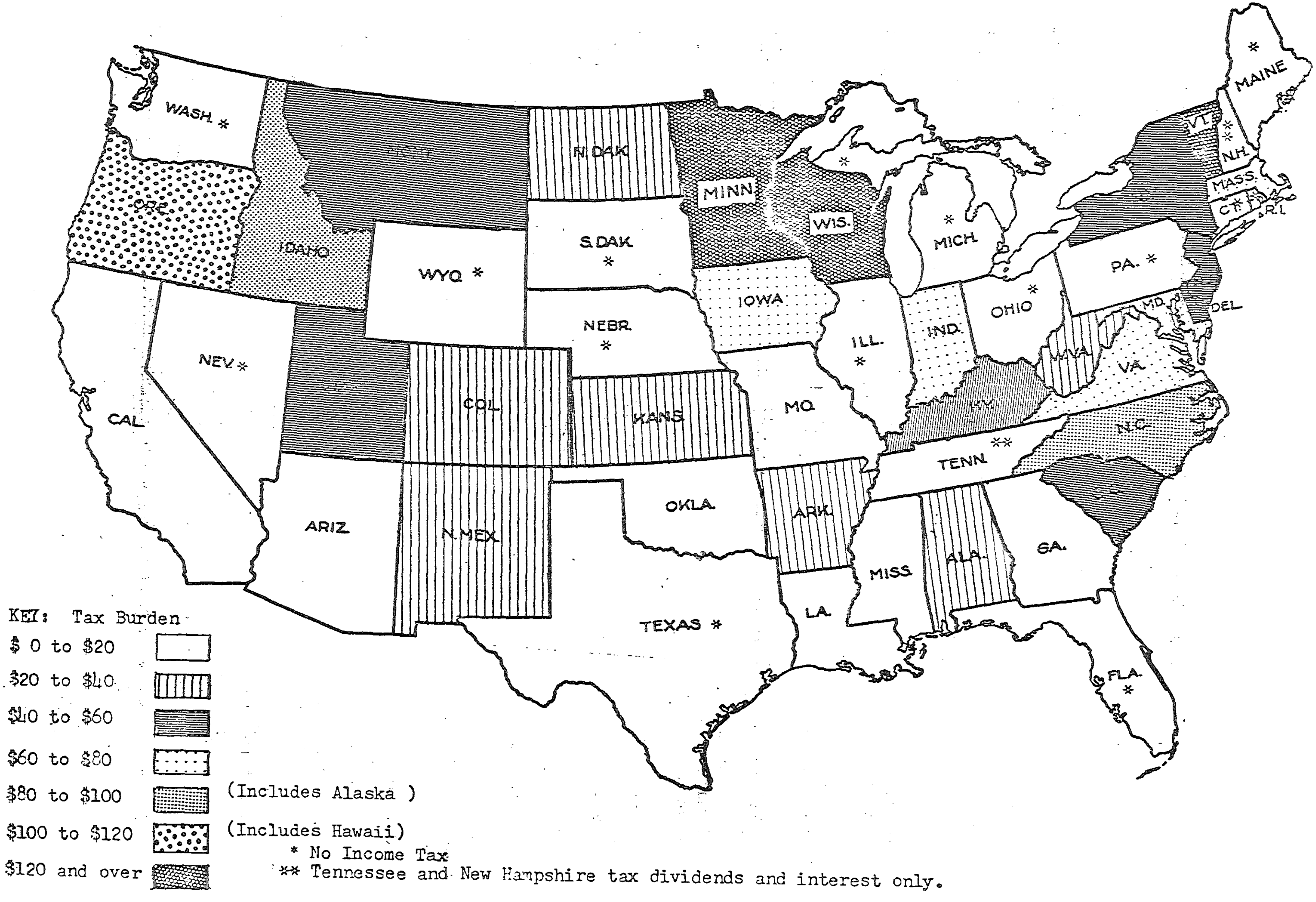
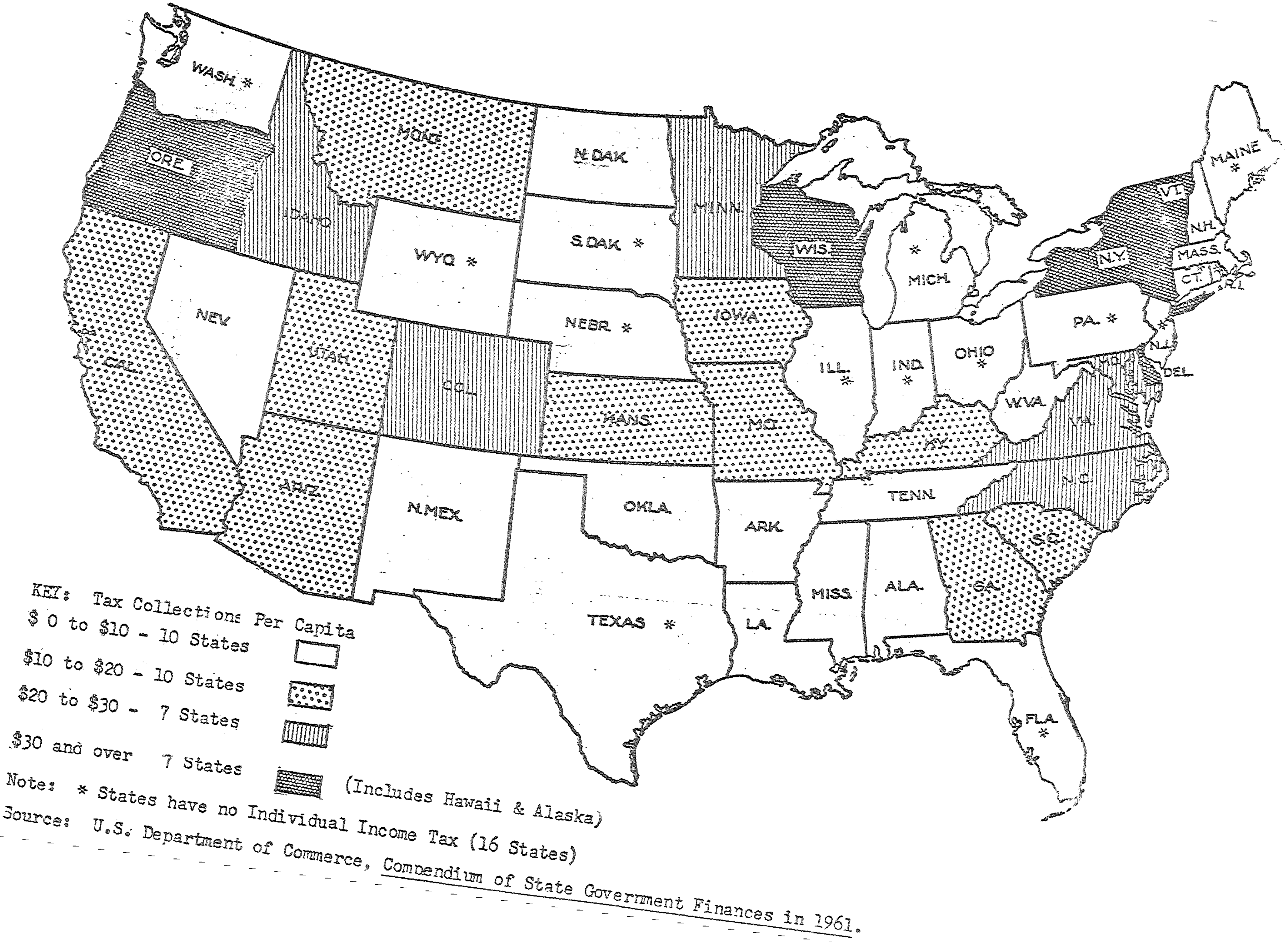


TABLE 3.3. PER CAPITA STATE INDIVIDUAL INCOME TAX COLLECTIONS, ALL INCOME TAX STATES 1961

State	Rank	Per Capita Income Tax Collections
Delaware	1	$ 59.93
Hawaii	2	48.95
New York	3	47.19
Oregon	4	46.96
Alaska	5	44.27
Wisconsin	6	35.89
Vermont	7	30.11
Massachusetts	8	29.76
Colorado	9	29.23
Maryland	10	28.36
MINNESOTA	11	28.04
Idaho	12	27.71
North Carolina	13	20.32
Virginia	14	20.18
Montana	15	19.94
Utah	16	16.85
California	17	16.45
Kentucky	18	15.72
Iowa	19	13.46
Georgia	20	13.17
South Carolina	21	11.60
Kansas	22	10.96
Missouri	23	10.71
Arizona	24	10.68
Alabama	25	7.72
Oklahoma	26	7.58
New Mexico	27	7.56
North Dakota	28	7.38
Arkansas	29	5.82
Louisiana	30	5.09
Mississippi	31	3.58
New Hampshire	32	2.63
Tennessee	33	1.66
West Virginia	34	.46

Source: U.S. Department of Commerce, Compendium of State Government Finances in 1961.

MAP 3.3. PER CAPITA STATE INDIVIDUAL INCOME TAX COLLECTIONS, ALL INCOME TAX STATES, FISCAL 1961



Note: * States have no Individual Income Tax (16 States)

Source: U.S. Department of Commerce, Compendium of State Government Finances in 1961.

TABLE 3.4. PER CAPITA REVENUES OF STATE AND LOCAL GOVERNMENTS MINNESOTA, SEVEN NEIGHBORING STATES, AND EIGHT STATE AND ALL STATE AVERAGES, 1903-1960

Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 States	All States
TAXES										
Property Taxes										
1903	$10.41(2)	$ 9.26(4)	$ 9.46(3)	$ 9.23(5)	$ 7.15(8)	$ 7.47(7)	$ 11.36(1)	$ 8.13(6)	$ 8.67	$ 7.81
1913	11.76(1)	11.09(3)	11.14(2)	11.03(4)	9.53(7)	10.00(5)	9.56(6)	9.37(8)	10.44	12.05
1922	32.69(7)	39.45(6)	41.07(4)	39.57(5)	23.04(8)	41.11(3)	41.58(2)	46.95(1)	38.18	30.55
1932	42.97(2)	42.33(4)	43.55(1)	37.81(5)	27.29(8)	33.65(7)	34.08(6)	42.38(3)	38.01	37.62
1942	39.92(5)	43.28(2)	42.65(3)	39.88(6)	23.19(8)	35.86(7)	50.14(1)	41.22(4)	39.52	34.80
1953	70.27(6)	86.70(2)	77.63(5)	81.43(3)	43.46(8)	87.67(1)	69.61(7)	78.85(4)	74.45	59.21
1957	92.35(5)	95.05(2)	93.62(4)	85.94(7)	57.98(8)	97.95(1)	88.25(6)	94.66(3)	88.23	75.54
1960	108.60(6)	113.95(3)	117.45(2)	108.84(5)	67.93(8)	120.16(1)	105.05(7)	113.20(4)	106.90	91.15
Other										
1903	1.71(3)	1.95(1)	1.90(2)	1.05(7)	1.51(4)	1.07(6)	0.51(8)	1.27(5)	1.34	1.13
1913	2.57(2)	1.66(4)	3.01(1)	1.30(5)	2.14(3)	1.12(6)	0.59(8)	0.89(7)	1.66	1.90
1922	4.69(4)	6.72(2)	8.40(1)	6.04(3)	4.65(5)	2.77(7)	2.83(6)	2.27(8)	4.80	6.39
1932	9.60(6)	18.64(2)	13.93(3)	23.19(1)	10.08(5)	8.80(7)	7.80(8)	10.33(4)	12.80	13.44
1942	32.88(2)	32.90(1)	30.61(3)	27.67(4)	23.36(7)	17.12(8)	24.61(6)	26.52(5)	26.96	30.20
1953	65.09(5)	69.53(2)	73.53(1)	66.97(4)	58.88(7)	34.62(8)	68.81(3)	60.43(6)	62.23	72.84
1957	86.18(4)	88.56(2)	87.24(3)	90.00(1)	72.63(6)	42.10(8)	78.88(5)	68.11(7)	76.71	93.68
1960	97.44(3)	101.69(1)	99.53(2)	96.63(4)	84.18(7)	53.61(8)	93.22(5)	84.90(6)	88.90	109.52
Total Taxes										
1903	12.11(1)	11.21(4)	11.36(3)	10.28(5)	8.66(8)	8.54(7)	11.87(2)	9.40(6)	10.01	8.94
1913	14.33(1)	12.75(3)	14.15(2)	12.33(4)	11.67(5)	11.12(6)	10.15(8)	10.26(7)	12.10	13.95
1922	37.38(7)	46.17(3)	49.47(1)	45.61(4)	27.69(8)	43.88(6)	44.41(5)	49.22(2)	42.98	36.94
1932	52.57(5)	60.97(2)	57.48(3)	61.00(1)	37.37(8)	42.45(6)	41.88(7)	52.71(4)	50.81	51.06
1942	72.80(4)	76.18(1)	73.26(3)	67.55(6)	46.55(6)	52.98(7)	74.75(2)	67.74(5)	66.48	65.00
1953	135.36(6)	156.23(1)	151.16(2)	148.40(3)	102.34(8)	122.29(7)	138.42(5)	139.28(4)	136.68	132.05
1957	178.53(3)	183.61(1)	180.86(2)	175.94(4)	130.61(8)	140.05(7)	167.13(5)	162.77(6)	164.94	169.22
1960	206.04(3)	215.67(2)	216.99(1)	205.47(4)	152.11(8)	173.76(7)	198.26(5)	198.09(6)	195.80	200.67
NON-TAX REVENUE										
Special Assessments										
1903	0.60(3)	0.34(5)	0.70(2)	0.44(4)	0.98(1)	0.22(7)	0.10(8)	0.26(6)	0.44	0.50
1913	1.79(2)	0.59(7)	1.44(3)	1.79(2)	2.21(1)	0.60(6)	0.70(4)	0.62(5)	1.22	1.17
1922	3.38(3)	1.38(6)	3.94(2)	6.89(1)	1.33(7)	2.17(5)	2.38(4)	0.84(8)	2.79	1.89
1932	6.15(1)	2.08(4)	3.39(2)	1.90(6)	1.89(7)	2.47(3)	1.97(5)	1.09(8)	2.62	2.58

TABLE 3.4.Cont.

Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 States	All States
Special Assessments Cont.										
1942	0.37(4)	0.38(3)	0.60(1)	0.36(5)	0.25(7)	0.33(6)	0.38(3)	0.39(2)	0.38	0.47
1953	0.86(7)	2.12(5)	2.49(3)	3.43(2)	0.44(8)	2.26(4)	6.59(1)	1.94(6)	2.52	1.24
1957	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N.A.	N.A.
1960	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N.A.	N.A.
Federal Aid										
1903	0.04(3)	0.03(4)	0.04(3)	0.04(3)	--	0.07(2)	--	0.15(1)	0.06	0.03
1913	0.03(3)	0.05(2)	0.05(2)	0.05(2)	*	0.11(1)	*	0.05(2)	0.04	0.03
1922	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1932	1.28(8)	1.83(6)	2.23(4)	1.80(7)	2.16(5)	3.76(3)	4.95(2)	5.62(1)	2.95	2.00
1942	5.47(8)	6.19(6)	7.99(3)	5.58(7)	6.74(5)	7.60(4)	9.04(2)	10.30(1)	7.36	5.96
1953	12.80(8)	14.97(7)	18.91(4)	17.20(6)	24.21(3)	17.90(5)	27.01(2)	30.44(1)	20.43	16.23
1957	15.08(8)	16.25(7)	23.90(4)	22.29(6)	29.92(3)	23.50(5)	31.95(2)	39.83(1)	25.34	22.57
1960	35.50(7)	30.20(8)	41.86(5)	44.91(4)	45.92(3)	38.12(6)	75.55(1)	63.64(2)	46.96	38.75
Other Revenue										
1903	0.83(8)	0.92(6)	1.66(2)	0.89(7)	1.20(5)	1.37(4)	1.43(3)	2.11(1)	1.25	N.A.
1913	2.15(4)	1.60(7)	2.93(3)	1.23(8)	1.85(5)	1.82(6)	3.64(1)	3.56(2)	2.35	N.A.
1922	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1932	6.18(7)	8.95(1)	8.80(2)	6.28(6)	4.41(8)	6.72(5)	8.10(4)	8.54(3)	7.25	N.A.
1942	3.68(6)	10.56(1)	7.26(3)	7.68(2)	2.85(7)	5.97(5)	6.53(4)	7.68(2)	6.53	N.A.
1953	12.37(7)	22.63(6)	30.68(2)	24.18(3)	11.92(8)	27.72(4)	46.78(1)	23.55(5)	24.47	N.A.
1957	23.44(7)	28.32(6)	39.74(2)	29.57(5)	20.78(8)	31.31(4)	60.04(1)	37.91(3)	33.89	32.32
1960	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Non-Tax Revenue										
1903	1.47(5)	1.29(8)	2.40(2)	1.37(6)	2.18(3)	1.66(4)	1.53(4)	2.52(1)	1.75	N.A.
1913	3.97(5)	2.24(8)	4.43(1)	3.07(6)	4.06(4)	2.53(7)	4.34(2)	4.23(3)	3.61	N.A.
1922	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1932	13.61(4)	12.86(6)	14.42(3)	9.98(7)	8.46(8)	12.95(5)	15.02(2)	15.25(1)	12.82	N.A.
1942	9.52(8)	17.13(2)	15.85(4)	13.62(6)	9.84(7)	13.90(5)	15.95(3)	18.37(1)	14.27	N.A.
1953	26.03(8)	39.72(6)	52.08(3)	44.81(4)	36.57(7)	43.88(5)	80.38(1)	55.93(2)	47.42	N.A.

TABLE 3.4 Con't

Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 States	All States
Total Non-Tax Revenue (Con't)										
1957	38.52(8)	44.57(7)	63.64(3)	51.86(5)	50.70(6)	54.81(4)	91.99(1)	77.74(2)	59.23	54.89
1960	66.79(8)	67.07(7)	95.53(3)	84.93(4)	73.75(6)	80.48(5)	152.06(1)	114.23(2)	91.83	79.95
TOTAL REVENUE										
Own Sources										
1903	13.54(2)	12.47(3)	13.72(1)	11.61(6)	10.84(7)	10.13(8)	13.40(4)	11.77(5)	11.70	N.A.
1913	18.27(2)	14.94(5)	18.53(1)	15.35(4)	15.73(3)	13.54(8)	14.49(6)	14.44(7)	15.67	N.A.
1922	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N.A.	N.A.
1932	64.90(4)	72.00(1)	69.67(2)	69.18(3)	43.67(8)	51.64(7)	51.95(6)	62.34(5)	60.68	N.A.
1942	76.84(4)	87.12(1)	81.12(3)	75.59(6)	49.65(8)	59.28(7)	81.66(2)	75.81(5)	73.39	N.A.
1953	148.59(6)	180.98(3)	184.33(2)	176.01(4)	114.70(8)	148.27(7)	191.79(1)	164.77(5)	163.67	N.A.
1957	201.97(5)	211.93(3)	220.60(2)	205.51(4)	151.39(8)	171.36(7)	227.17(1)	200.68(6)	198.83	201.54
1960	237.33(6)	252.54(3)	270.46(2)	245.49(5)	179.94(8)	216.12(7)	274.77(1)	248.68(4)	240.64	241.87
All Sources										
1903	13.58(2)	12.50(3)	13.76(1)	11.65(6)	10.84(7)	10.20(8)	13.40(4)	11.92(5)	11.76	N.A.
1913	18.30(2)	14.99(5)	18.56(1)	15.40(4)	15.73(3)	13.65(7)	14.49(6)	14.49(6)	15.71	N.A.
1922	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.	N.A.
1932	66.18(5)	73.83(1)	71.90(2)	70.98(3)	45.83(8)	55.40(7)	56.90(6)	67.96(4)	63.63	N.A.
1942	82.32(5)	93.31(1)	89.11(3)	81.17(6)	56.39(8)	66.88(7)	90.70(2)	86.11(4)	80.75	N.A.
1953	161.39(7)	195.95(3)	203.24(2)	193.21(5)	138.91(8)	166.17(6)	218.80(1)	195.21(4)	184.10	N.A.
1957	217.05(6)	228.18(4)	244.50(2)	227.80(5)	181.31(8)	194.86(7)	259.12(1)	240.51(3)	224.17	224.11
1960	272.83(6)	282.74(5)	312.32(2)	290.40(4)	225.86(8)	254.24(7)	350.32(1)	312.32(2)	287.63	280.62

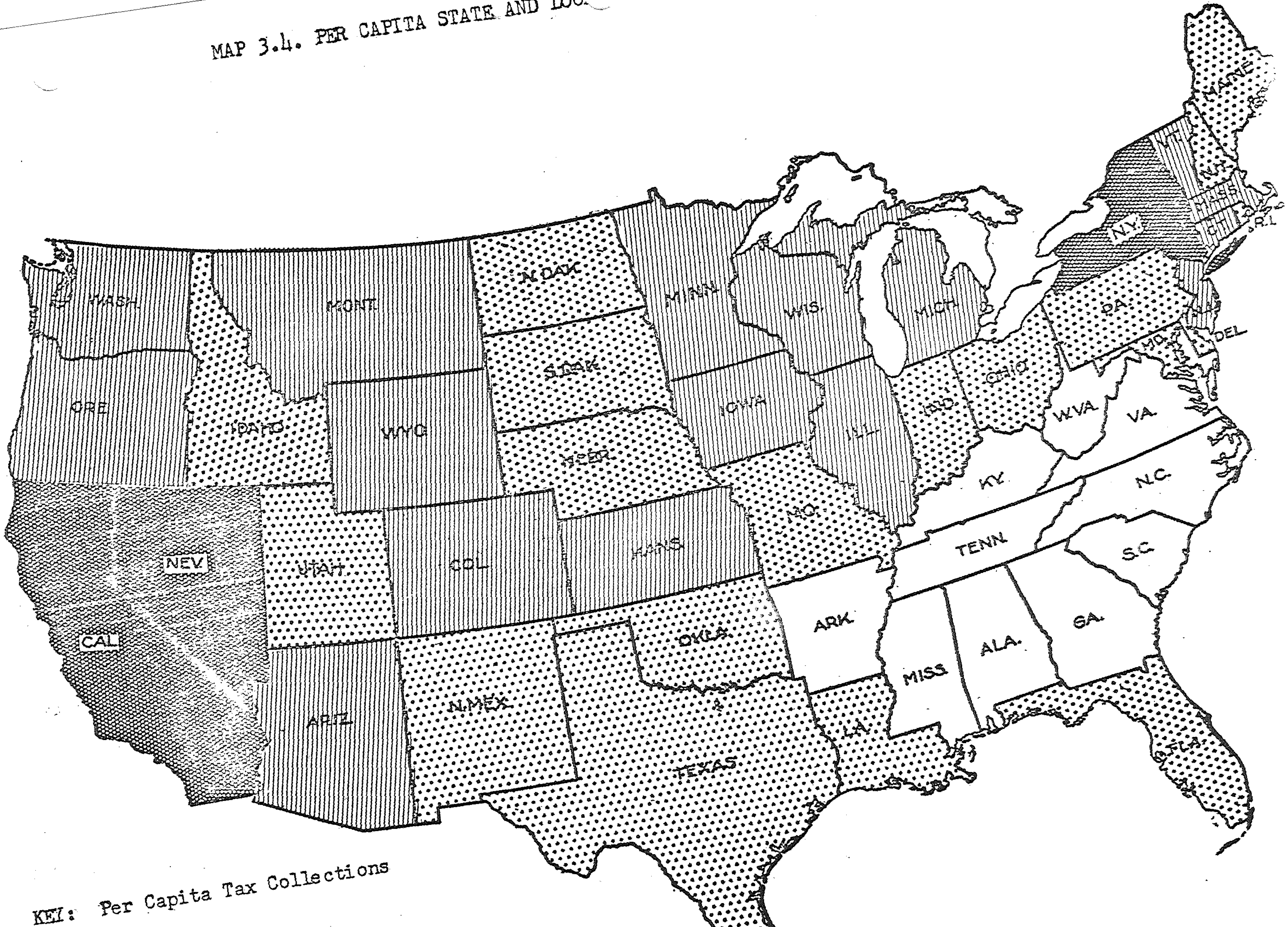
* Less than 0.01 cents.

NOTE: The 8-state average is the average of the states' per capita revenues. If fewer than 8 states impose a tax, the average represents the per capita averages for the number of states imposing it. The All States averages were obtained by dividing total receipts by the population of the U. S. A.

N. A. = Not Available

Source: U. S. Department of Commerce.

MAP 3.4. PER CAPITA STATE AND LOC. TAX COLLECTIONS, ALL STATES



KEY: Per Capita Tax Collections

Less than $150	☐	
$150 to $200	▩	(Includes Alaska)
$200 to $250	▥	(Includes Hawaii)
$250 and Over	■	

Source: U. S. Department of Commerce, Governmental Finances in 1960.

TABLE 3.5. PER CAPITA REVENUES OF STATE GOVERNMENTS, MINNESOTA, SEVEN NEIGHBORING STATES, AND EIGHT STATE AND ALL STATE AVERAGES, 1942, 1953, AND 1960

Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 States	All States
TAX										
General Property										
1942	$0.04(8)	$ 4.74(2)	$ 3.99(4)	$ 1.75(5)	$ 1.21(6)	$ 4.65(3)	$ 8.08(1)	$ 0.48(7)	$ 3.12	$ 2.01
1953	0.05(8)	5.63(2)	3.84(4)	0.05(7)	1.79(5)	16.10(1)	5.26(3)	0.18(6)	4.11	2.31
1960	0.09(7)	7.67(2)	6.57(3)	1.32(6)	2.59(5)	19.22(1)	5.08(4)	*	6.07	3.37
Individual Income										
1942	--	4.61(1)	3.68(2)	2.75(3)	1.94(4)	--	1.67(5)	0.64(6)	2.55	1.85
1953	--	18.20(1)	15.44(2)	6.99(3)	6.32(4)	--	5.73(5)	--	10.54	6.12
1960	--	35.15(1)	26.07(2)	13.28(3)	8.70(4)	--	7.56(5)	--	18.15	12.28
Corporate Income										
1942	--	7.47(1)	2.69(2)	0.45(4)	--	--	--	0.54(3)	2.79	2.03
1953	--	14.55(1)	5.31(2)	0.89(4)	--	--	1.56(3)	0.23(5)	4.51	5.12
1960	--	14.90(1)	11.63(2)	1.38(4)	--	--	2.23(3)	0.58(5)	6.14	6.56
Inheritance & Gift										
1942	1.04(2)	1.34(1)	0.53(4)	0.60(3)	0.39(5)	0.02(8)	0.15(6)	0.14(7)	0.53	0.83
1953	1.38(3)	2.23(1)	1.13(4)	1.78(2)	0.81(6)	0.25(8)	0.27(7)	0.94(5)	1.10	1.40
1960	2.18(3)	3.54(1)	2.14(4)	2.64(2)	1.21(6)	0.26(8)	0.44(7)	1.36(5)	1.72	2.33
Insurance										
1942	0.98(1)	0.81(4)	0.86(3)	0.74(5)	0.90(2)	0.49(8)	0.52(7)	0.55(6)	0.73	0.84
1953	2.06(2)	1.81(7)	1.92(3)	1.85(4)	2.12(1)	1.83(5)	1.64(8)	1.82(6)	1.88	2.02
1960	2.63(5)	2.27(8)	2.75(3)	2.72(4)	3.02(1)	2.63(5)	2.59(7)	2.85(2)	2.68	2.96
Alcoholic Beverages										
1942	2.99(1)	2.21(4)	2.25(3)	0.45(7)	1.32(6)	1.61(5)	2.71(2)	2.25(3)	1.97	1.90
1953	2.70(5)	3.56(4)	4.80(1)	1.20(8)	1.45(7)	2.07(6)	4.69(2)	4.00(3)	3.06	2.94
1960	3.13(5)	3.79(3)	4.47(2)	1.17(8)	1.37(7)	1.90(6)	4.75(1)	3.77(4)	3.04	3.61
Tobacco Products										
1942	1.58(1)	1.30(2)	--	0.95(5)	--	--	1.07(4)	1.15(3)	1.21	.97
1953	3.43(3)	3.02(4)	3.84(2)	1.96(7)	--	3.00(5)	5.65(1)	2.67(6)	3.37	2.96
196	4.88(4)	5.35(3)	6.14(1)	4.16(	2.51(8)	4.22(6)	5.59(2)	4.72(5)	[illegible]	5.13

TABLE 3.5.
(Page 2)

Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 States	All States
Gasoline										
1942	$ 5.62(7)	$ 7.43(4)	$ 7.49(3)	$ 6.19(5)	$ 3.66(8)	$ 9.82(1)	$ 6.06(6)	$ 8.30(2)	$ 6.82	$ 7.00
1953	10.80(6)	10.42(7)	13.09(4)	12.07(4)	8.33(8)	17.75(1)	11.83(5)	15.63(2)	12.49	12.75
1960	14.03(7)	18.22(4)	16.58(6)	21.86(2)	10.59(8)	26.71(1)	17.66(5)	21.31(3)	18.37	18.53
General Sales										
1942	10.85(1)	--	--	8.55(2)	7.57(3)	--	7.56(4)	6.33(5)	8.17	4.70
1953	22.82(2)	--	--	23.19(1)	21.60(3)	--	20.40(4)	18.82(5)	21.37	15.37
1960	37.08(1)	--	--	29.22(2)	27.46(3)	--	25.04(4)	23.09(5)	28.37	23.90
Motor Vehicles										
1942	3.48(4)	5.38(1)	3.79(3)	5.25(2)	3.19(6)	0.77(8)	3.46(5)	1.83(7)	3.39	3.03
1953	7.37(5)	8.58(4)	8.83(3)	13.02(1)	5.40(6)	1.63(8)	11.15(2)	4.16(7)	7.52	5.99
1960	9.91(5)	10.64(4)	12.01(3)	15.80(1)	8.74(7)	4.01(8)	15.12(2)	9.70(6)	10.74	8.16
Severance										
1942	0.05(3)	0.02(4)	3.73(1)	--	--	--	--	1.92(2)	1.43	0.46
1953	--	0.04(3)	7.65(1)	--	--	--	--	0.98(2)	2.89	1.81
1960	--	0.06(5)	4.25(1)	--	0.01(6)	0.96(3)	3.95(2)	0.68(4)	1.65	2.33
Public Utilities										
1942	1.62(2)	0.30(3)	3.51(1)	--	--	--	--	0.01(4)	1.36	0.74
1953	3.27(2)	1.70(3)	5.97(1)	--	0.02(5)	0.01(6)	--	0.05(4)	1.84	1.57
1960	4.80(2)	2.85(3)	6.17(1)	--	0.03(5)	*	*	0.05(4)	2.78	0.13
Other										
1942	1.01(4)	0.76(7)	0.86(6)	0.92(5)	1.07(3)	1.54(2)	0.71(8)	1.61(1)	1.05	3.33
1953	3.27(3)	2.14(7)	2.73(4)	2.01(8)	2.76(6)	2.36(5)	3.14(2)	5.42(1)	2.98	7.87
1960	3.97(6)	3.09(7)	4.13(5)	2.71(8)	6.02(2)	4.49(4)	5.83(3)	9.59(1)	4.98	10.92
Total Tax Revenue										
1942	29.26(4)	36.37(1)	33.38(2)	28.60(5)	21.20(7)	18.91(8)	31.98(3)	25.75(6)	28.18	28.95
1953	57.14(5)	71.88(2)	74.55(1)	65.01(4)	50.59(7)	45.01(8)	71.61(3)	54.89(6)	61.34	66.65
1960	82.70(5)	107.53(1)	102.91(2)	96.26(3)	72.25(7)	64.40(8)	95.84(4)	77.70(6)	87.45	100.21

TABLE 3.5.
(Page 3)

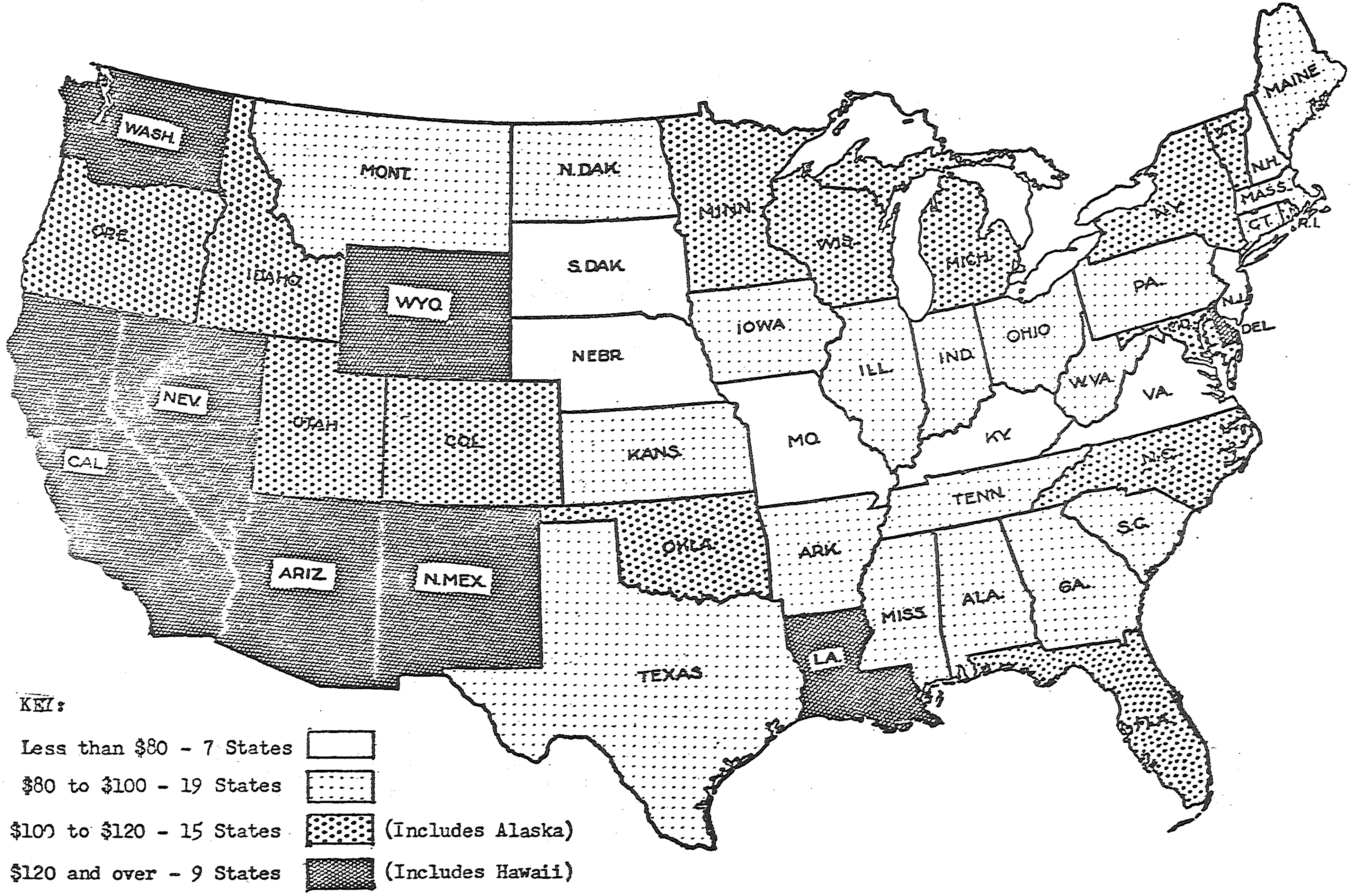
Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 States	All States
NON-TAX REVENUE										
Charges & Misc.										
1942	--	--	--	--	--	--	--	--	--	--
1953	--	--	--	--	--	--	--	--	--	--
1960	$ 7.29(7)	$ 13.37(6)	$ 22.02(3)	$ 13.72(5)	$ 6.08(8)	$ 15.46(4)	$ 53.61(1)	$ 31.89(2)	$ 20.43	$ 14.74
Federal Aid										
1942	5.47(8)	6.19(6)	7.99(3)	5.58(7)	6.74(5)	7.60(4)	9.04(2)	10.30(1)	7.36	5.84
1953	12.80(8)	14.97(7)	18.91(4)	17.20(6)	24.21(3)	17.90(5)	27.01(2)	30.44(1)	20.43	16.23
1960	33.42(7)	29.69(8)	40.21(5)	43.71(4)	43.78(3)	35.45(6)	73.11(1)	60.12(2)	44.94	35.74
Other Aid										
1942	0.58(8)	3.12(3)	3.86(2)	4.13(1)	1.13(7)	2.77(5)	2.63(6)	2.97(4)	2.65	N.A.
1953	2.53(8)	7.55(6)	15.29(3)	11.41(4)	3.08(7)	10.09(5)	39.76(1)	17.46(2)	13.40	N.A.
1960	0.74(7)	2.79(6)	3.07(5)	9.43(1)	0.68(8)	6.47(2)	5.79(3)	4.23(4)	4.15	2.03
Total Non-Tax Revenue										
1942	6.05(8)	9.31(6)	11.85(2)	9.71(5)	7.87(7)	10.37(4)	11.66(3)	13.26(1)	10.01	N.A.
1953	15.32(8)	22.52(7)	34.20(3)	28.61(4)	27.29(6)	27.99(5)	66.77(1)	47.90(2)	33.83	N.A.
1960	41.45(8)	45.85(7)	65.30(4)	66.86(3)	50.54(6)	57.38(5)	132.51(1)	96.24(2)	69.52	52.51
Total Revenue-Own Sources										
1942	29.84(5)	39.49(1)	37.23(2)	32.73(4)	22.33(7)	21.68(8)	34.60(3)	28.71(6)	30.83	N.A.
1953	59.67(6)	79.43(3)	89.84(2)	76.42(4)	53.67(8)	55.10(7)	111.37(1)	72.35(5)	74.73	N.A.
1960	90.73(6)	123.69(3)	128.00(2)	119.41(4)	79.01(8)	86.33(7)	155.24(1)	113.82(5)	112.02	116.98
Total Revenue-All Sources										
1942	35.31(6)	45.68(1)	45.22(2)	38.31(5)	29.07(8)	29.28(7)	43.64(3)	39.01(4)	38.19	N.A.
1953	72.47(8)	94.40(4)	108.75(2)	93.62(5)	77.88(6)	73.00(7)	138.38(1)	102.79(3)	95.16	N.A.
1960	124.15(6)	153.38(5)	168.21(3)	163.12(4)	122.79(7)	121.78(8)	228.35(1)	173.94(2)	156.97	152.72

* Less than .01%

Note: The 8-state average is the average of the states' per capita revenues. If fewer than 8 states impose a tax, the average represents the per capita averages for the number of states imposing it. The All States averages were obtained by dividing tota receipts by the population of the U.S.A.

Source: U. S. Department of Commerce.

MAP 3.5. PER CAPITA STATE TAX COLLECTIONS, ALL STATES
FISCAL 1960



Source: Compendium of State Government Finances in 1960, U.S. Department of Commerce.

TABLE 3.6. PER CAPITA STATE AND LOCAL TAX REVENUES AND PER CAPITA PERSONAL INCOME, 1960

State	Per Capita State and Local Tax Collections	Rank	Per Capita Personal Income	Rank
Alabama	$ 117.60	50	$ 1,462	47
Alaska	160.53	39	2,735	6
Arizona	208.35	17	2,011	28
Arkansas	125.67	48	1,341	49
California	278.18	2	2,741	5
Colorado	231.17	7	2,320	14
Connecticut	213.03	16	2,863	2
Delaware	198.66	22	3,013	1
Florida	183.98	31	1,988	30
Georgia	141,55	42	1,608	42
Hawaii	236.76	4	2,274	16
Idaho	188.97	28	1,796	39
Illinois	206.04	19	2,613	8
Indiana	179.65	32	2,179	21
Iowa	205.47	20	2,003	27
Kansas	217.86	12	2,068	25
Kentucky	118.67	49	1,543	46
Louisiana	188.47	29	1,604	43
Maine	193.43	27	1,900	33
Maryland	198.72	21	2,394	10
Massachusetts	233.79	6	2,519	9
Michigan	216.79	14	2,322	13
MINNESOTA	216.99	13	2,054	26
Mississippi	129.95	46	1,173	50
Missouri	152.11	40	2,199	20
Montana	219.32	11	2,018	27
Nebraska	173.76	36	2,113	23
Nevada	273.26	3	2,844	3
New Hampshire	177.34	33	2,074	24
New Jersey	206.90	18	2,665	7
New Mexico	174.63	35	1,806	38
New York	287.54	1	2,789	4
North Carolina	136.91	43	1,574	44
North Dakota	198.26	23	1,741	40
Ohio	184.73	30	2,339	11
Oklahoma	177.07	34	1,848	35
Oregon	224.93	9	2,259	18
Pennsylvania	173.09	37	2,266	17
Rhode Island	197.55	25	2,228	19
South Carolina	129.31	47	1,397	48

TABLE 3.6 CON'T

State	Per Capita State and Local Tax Collections	Rank	Per Capita Personal Income	Rank
South Dakota	198.09	24	1,842	37
Tennessee	134.51	44	1,545	45
Texas	162.30	38	1,924	31
Utah	196.87	26	1,910	32
Vermont	222.51	10	1,859	34
Virginia	133.89	45	1,848	36
Washington	228.04	8	2,317	15
West Virginia	145.02	41	1,674	41
Wisconsin	215.67	15	2,171	22
Wyoming	235.54	5	2,334	12
UNITED STATES	200.67	--	2,209	---

Source: U. S. Department of Commerce, Governmental Finances in 1960 and Survey of Current Business, August, 1961.

TABLE 3.7. PER CAPITA STATE TAX COLLECTIONS, ALL STATES, FISCAL 1960

State	Rank	Per Capita State Tax Collections
Hawaii	1	$ 196.33
Washington	2	161.49
Delaware	3	158.59
Nevada	4	157.34
Louisiana	5	138.99
California	6	135.16
New Mexico	7	129.55
Arizona	8	126.69
Wyoming	9	125.61
Alaska	10	119.87
Oklahoma	11	118.28
Oregon	12	117.76
New York	13	116.85
Michigan	14	116.82
Utah	15	112.74
Vermont	16	111.63
Maryland	17	110.81
Colorado	18	109.78
Wisconsin	19	107.86
Florida	20	105.36
Idaho	21	103.42
MINNESOTA	22	103.28
North Carolina	23	100.87
Rhode Island	24	100.17
South Carolina	25	98.83
West Virginia	26	96.82
Iowa	27	96.39
Montana	28	96.13
North Dakota	29	96.07
Massachusetts	30	95.39
Kansas	31	94.84
Connecticut	32	93.93
Georgia	33	93.60
Pennsylvania	34	91.25
Ohio	35	89.91
Maine	36	89.69
Mississippi	37	89.20
Arkansas	38	88.52
Indiana	39	85.66
Tennessee	40	85.39
Alabama	41	83.79
Illinois	42	82.96
Texas	43	82.76
South Dakota	44	77.87
Kentucky	45	75.21
Virginia	46	73.52
Missouri	47	72.43
New Hampshire	48	68.80
Nebraska	49	64.52
New Jersey	50	60.20
50 STATE AVERAGE		$101.01

Source: U. S. Department of Commerce,
Compendium of State Government Finances in 1960

TABLE 3.8. PERCENT DISTRIBUTION OF TAX REVENUES OF STATE GOVERNMENTS
MINNESOTA, SEVEN NEIGHBORING STATES, AND EIGHT STATE AND ALL STATE AVERAGES
1942, 1953, AND 1960

Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 State	All States
TAXES										
General Property										
1942	0.1(8)	13.1(3)	11.9(4)	6.1(5)	5.7(5)	24.6(2)	25.3(1)	1.9(7)	11.1	6.9
1953	0.1(7)	7.8(2)	5.1(4)	0.1(7)	3.5(5)	35.8(1)	7.3(3)	0.3(6)	7.5	3.5
1960	0.1(7)	7.1(2)	6.4(3)	1.4(6)	3.6(5)	29.8(1)	5.3(4)	* (8)	6.7	3.4
Individual Income										
1942	-	12.7(1)	11.0(2)	9.6(3)	9.1**	-	5.2**	2.5(4)	9.0	6.4
1953	-	25.3(1)	20.7(2)	10.8(3)	12.5**	-	8.0(4)	-	16.2	9.2
1960	-	32.7(1)	25.3(2)	13.8(3)	12.0(4)	-	7.9(5)	-	18.3	12.3
Corporate Income										
1942	-	20.5(1)	8.1(2)	1.6(4)	**	-	**	2.1(3)	8.1	7.0
1953	-	20.2(1)	7.1(2)	1.4(4)	**	-	2.2(3)	0.4(5)	6.3	7.7
1960	-	13.9(1)	11.3(2)	1.4(5)	3.2(3)	-	2.3(4)	0.7(6)	5.5	6.6
Inheritance and Gift										
1942	3.5(2)	3.7(1)	1.6(5)	2.1(3)	1.9(4)	0.1(7)	0.5(6)	0.5(6)	1.7	2.9
1953	2.4(3)	3.1(1)	1.5(6)	2.7(2)	1.6(5)	0.6(5)	0.4(7)	1.7(4)	1.8	2.1
1960	2.6(3)	3.3(1)	2.1(4)	2.7(2)	1.7(5)	0.4(8)	0.5(7)	1.7(6)	1.9	2.3
Insurance										
1942	3.4(2)	2.2(4)	2.6(3)	2.6(3)	4.2(1)	2.6(3)	1.6(6)	2.1(5)	2.7	2.9
1953	3.6(3)	2.5(7)	2.6(6)	2.8(5)	4.2(1)	4.1(2)	2.3(8)	3.3(4)	3.2	3.0
1960	3.2(4)	2.1(8)	2.7(6)	2.8(5)	4.2(1)	4.1(2)	2.7(7)	3.7(3)	3.2	2.9
Alcoholic Beverages										
1942	10.2(1)	6.1(6)	6.8(4)	1.6(7)	6.2(5)	8.5(3)	8.5(3)	8.8(2)	7.1	6.6
1953	4.8(6)	5.0(5)	6.4(4)	1.8(8)	2.9(7)	4.6(3)	6.5(2)	7.3(1)	4.9	4.4
1960	3.8(4)	3.5(5)	4.3(3)	1.2(8)	1.9(7)	2.9(6)	5.0(1)	4.9(2)	3.4	3.6
Tobacco Products										
1942	5.4(1)	3.6(3)	-	3.3(4)	-	-	3.3(4)	4.5(2)	4.0	3.4
1953	6.0(3)	4.2(6)	5.2(4)	3.0(7)	-	6.7(2)	7.9(1)	4.8(5)	5.4	4.4
1960	5.9(4)	5.0(6)	6.0(3)	4.3(7)	3.5(8)	6.5(1)	5.8(5)	6.1(2)	5.4	5.1

TABLE 3.8. Cont.

Source of Revenue	Illinois	Wisconsin	Minnesota	Iowa	Missouri	Nebraska	No. Dakota	So. Dakota	Average 8 States	All States
Gasoline										
1942	19.2(6)	20.4(5)	22.4(3)	21.6(4)	17.3(8)	52.0(1)	19.0(7)	32.2(2)	25.5	24.3
1953	18.9(3)	14.5(7)	17.6(5)	18.6(4)	16.5(6)	39.4(1)	16.5(6)	28.5(2)	21.3	19.1
1960	17.0(5)	16.9(6)	16.1(7)	22.7(3)	14.7(8)	41.5(1)	18.4(4)	27.4(2)	21.8	18.5
General Sales										
1942	37.1(1)	-	-	29.9(3)	35.7(2)	-	23.6(5)	24.6(4)	30.2	16.2
1953	39.9(2)	-	-	35.7(3)	42.7(1)	-	28.5(5)	34.3(4)	36.2	23.1
1960	44.8(1)	-	-	30.5(3)	38.0(2)	-	26.1(5)	29.7(4)	33.8	23.9
Motor Vehicles										
1942	11.9(4)	14.8(3)	11.4(5)	18.4(1)	15.1(2)	4.1(8)	10.8(6)	7.1(7)	11.7	10.4
1953	12.9(3)	11.9(4)	11.8(5)	20.0(1)	10.7(6)	3.6(8)	15.6(2)	7.6(7)	11.8	9.0
1960	12.0(5)	9.9(7)	11.7(6)	16.4(1)	12.1(4)	6.2(8)	15.8(2)	12.5(3)	12.1	8.1
Severance										
1942	0.2(3)	0.1(4)	11.2(1)	-	-	-	-	7.5(2)	4.7	1.6
1953	-	0.1(3)	10.3(1)	-	-	-	-	1.8(2)	4.1	2.7
1960	-	0.1(5)	4.1(1)	-	*	1.5(3)	4.1(2)	0.9(4)	1.8	2.3
Public Utilites										
1960	5.8(2)	2.6(3)	6.0(1)	-	*	*	*	0.1(4)	2.1	2.0
Other										
1942	9.0(2)	2.8(7)	13.0(1)	3.2(6)	4.8(5)	8.1(3)	2.2(8)	6.2(4)	6.2	11.4
1953	11.4(2)	5.4(4)	11.7(1)	3.1(8)	5.4(5)	5.2(6)	4.8(7)	10.0(3)	7.1	11.8
1960	4.8(5)	2.9(7)	4.0(6)	2.8(8)	5.1(4)	7.1(2)	6.1(3)	12.3(1)	6.4	9.0
Total Taxes										
1942	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		100.0
1953	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		100.0
1960	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		100.0

* Less than .01%

** Individual and corporate income taxes not separated.

NOTE: The 8 state average is the average of the states' percent distribution. If fewer than 8 states impose a tax, the average represents the percent distribution average for the number of states using it. The all states figures were obtained by dividing total tax receipts in all states by the total receipts from the particular tax.

SOURCE: U. S. Department of Commerce

TABLE 3.9. PROPERTY TAX REVENUES AS A PROPORTION OF TOTAL GENERAL REVENUE AND OF TOTAL TAX REVENUE BY LEVEL OF GOVERNMENT, 1957

	Property Tax as Percentage of Total General Revenue*		
	Minnesota	8 States	All States
State	3.4%	2.8%	2.4%
Counties	49.8	49.8	46.6
Municipalities	51.1	45.0	46.3
Townships	83.1	65.2	64.5
School Districts	48.6	65.0	50.0
Special Districts	0.2	61.5	29.5
	Property Tax as Percentage of Total Tax Revenue		
State	5.1%	4.0%	3.3%
Counties	99.3	96.8	93.6
Municipalities	89.3	70.7	72.8
Townships	96.3	97.9	93.6
School Districts	99.5	99.9	98.6
Special Districts	100.0	100.0	100.0

* Includes intergovernmental revenue.

Source: U. S. Department of Commerce, Bureau of the Census, State and Local Government Revenue in 1957.

TABLE 3.10. THE DEVIATION OF MINNESOTA'S STATE TAX SYSTEM FROM THE ALL-STATE PATTERN: 1960

Tax	Minnesota	All-States	Minnesota Above	Minnesota Below
			(Percentage Points)	
General Property	6.4%	3.4%	+ 3.0	
Individual Income	25.3	12.3	+13.0	
Corporate Income	11.3	6.6	+ 4.7	
Inheritance & Gift	2.1	2.3		- 0.2
Insurance Premiums	2.7	2.9		- 0.2
Alcoholic Beverages	4.3	3.6	+ 0.7	
Tobacco Products	6.0	5.1	+ 0.9	
Gasoline	16.1	18.5		- 2.4
General Sales	--	23.9		-23.9
Motor Vehicles	11.7	8.1	+ 3.6	
Severance	4.1	2.3	+ 1.8	
Public Utilities	6.0	2.0	+ 4.0	
Other	4.0	9.0		- 5.0
	100.0%	100.0%	+31.7	-31.7

Source: Based on Table 3.8.

TABLE 3.11. STATE INDIVIDUAL INCOME TAX RATES: MINNESOTA AND NEIGHBORING INCOME TAX STATES, 1961

Rates on Net Taxable Income

MINNESOTA[a]	Rate	Iowa	Rate	Missouri[b]	Rate	North Dakota	Rate	Wisconsin[c]	Rat
First $500	1.15%	1st $1,000	.75%	1st $1,000	1.0%	1st $3,000	1.0%	1st $ 1,000	1.2%
Over $500 but not over $1,000	1.72	2nd $1,000	1.50	2nd $1,000	1.5	next $1,000	2.0	2nd $ 1,000	1.4
Second $1,000	2.88	3rd $1,000	2.25	3rd $1,000	2.0	next $1,000	3.0	3rd $ 1,000	1.8
Third $1,000	4.02	4th $1,000	3.00	next $2,000	2.5	next $1,000	5.0	4th $ 1,000	3.0
Fourth $1,000	5.18	Over $4,000	3.75	next $2,000	3.0	next $2,000	7.5	5th $ 1,000	3.6
Fifth $1,000	6.32			next $2,000	3.5	next $7,000	10.0	6th $ 1,000	4.2
Sixth and Seventh $1,000	7.48			over $9,000	4.0	over $15,000	11.0	7th $ 1,000	4.8
Eighth and Ninth $1,000	8.62							8th $ 1,000	6.0
All over $9,000 and not over $12,500	9.78%							9th $ 1,000	6.6
All over $12,500 and not over $20,000	10.92%							10th $ 1,000	7.2
All over $20,000	12.08%							11th $ 1,000	7.8
								12th $ 1,000	8.4
								13th $ 1,000	9.0
								14th $ 1,000	9.6
								over $14,000	10.2

(a) Rates shown have been approximated to include a 15 percent surtax on the computed tax.
(b) Missouri statutes provide that the rates shown shall be multiplied by the entire taxable income. From this a stated sum, ranging from $5.00 to $135.00 is deducted. This gives the same result as if the bracket method of computation were used.
(c) Rates shown have been approximated to include a 20 percent surtax on the computed tax.

Source: Prentice-Hall, State and Local Tax Service.

TABLE 3.12. STATE INDIVIDUAL INCOME TAX BURDENS: MINNESOTA AND NEIGHBORING INCOME TAX STATES MEASURED FOR MARRIED TAXPAYER WITH TWO DEPENDENTS, VARIOUS INCOME LEVELS, 1961

State	Income 1/	Federal Tax if No State Tax Levied	Total Federal and State Income Tax	State Income Tax Liability	Net Cost of State Tax to Taxpayer	Tax as a% of Net Inc. Before Income Taxes
Iowa						
	2,000	-0-	-0-	-0-	-0-	-0-
	4,000	320.00	332.80	16.00	12.80	.32
	6,000	720.00	779.25	74.06	59.25	.99
	10,000	1,592.00	1,742.06	192.39	150.06	1.50
	30,000	8,348.00	8,746.27	698.72	398.27	1.33
	100,000	51,912.00	52,395.11	1,725.39	483.11	.48
MINNESOTA						
	2,000	-0-	-0-	-0-	-0-	-0-
	4,000	320.00	360.09	50.08	40.09	1.00
	6,000	720.00	842.06	152.58	122.06	2.03
	10,000	1,592.00	1,910.28	408.05	318.28	3.18
	30,000	8,348.00	9,437.47	1,911.64	1,089.47	3.63
	100,000	51,912.00	43,446.69	5,481.02	1,534.69	1.53
Missouri						
	2,000	-0-	-0-	-0-	-0-	-0-
	4,000	320.00	321.61	2.01	1.61	.04
	6,000	720.00	725.95	7.44	5.95	.10
	10,000	1,592.00	1,649.70	73.97	57.70	.60
	30,000	8,348.00	8,697.77	613.63	349.77	1.16
	100,000	51,912.00	52,290.73	1,709.76	378.73	.38
North Dakota						
	2,000	-0-	-0-	-0-	-0-	-0-
	4,000	320.00	327.86	9.82	7.86	.20
	6,000	720.00	740.68	25.85	20.68	.33
	10,000	1,592.00	1,671.09	101.52	79.09	.79
	30,000	8,348.00	9,194.43	1,484.96	846.43	2.82
	100,000	51,912.00	53,226.45	4,694.48	1,314.45	1.30
Wisconsin						
	2,000	-0-	-0-	-0-	-0-	-0-
	4,000	320.00	350.04	37.80	30.04	.75
	6,000	720.00	809.47	111.84	89.47	1.49
	10,000	1,592.00	1,860.16	343.80	268.16	2.68
	30,000	8,348.00	9,396.26	1,839.06	1,048.26	3.49
	100,000	51,912.00	54,075.28	7,725.99	2,163.28	2.16

1/ Taxable Income before deduction of personal exemptions but after all deductions except deductions for income taxes paid.

Updated Pages 286-287, G. T. S. C. Report.

TABLE 3.13. STATE INDIVIDUAL INCOME TAX COLLECTIONS PER CAPITA, INDIVIDUAL INCOME TAX AS A PERCENT OF PERSONAL INCOME, AND PER CAPITA PERSONAL INCOME, 1961

	Individual Income Tax				Personal Income	
State	Per Capita	Rank	As a percent of Personal Income	Rank	Per Capita	Rank
Alabama	$ 7.72	25	.52%	19	$ 1,492	30
Alaska	44.27	5	1.64	5	2,692	4
Arizona	10.68	24	.51	20	2,074	16
Arkansas	5.82	29	.40	24	1,446	31
California	16.45	17	.59	18	2,780	3
Colorado	29.23	9	1.21	10	2,421	7
Delaware	59.93	1	1.99	3	3,013	1
Georgia	13.17	20	.80	16	1,649	24
Hawaii	48.95	2	2.03	2	2,407	8
Idaho	27.71	12	1.53	7	1,807	22
Iowa	13.46	19	.63	17	2,124	15
Kansas	10.96	22	.51	20	2,139	13
Kentucky	15.72	18	.97	14	1,625	27
Louisiana	5.09	30	.31	25	1,626	26
Maryland	28.36	10	1.15	11	2,472	6
Massachusetts	29.76	8	1.15	11	2,598	5
MINNESOTA	28.04	11	1.30	8	2,149	12
Mississippi	3.58	31	.29	26	1,229	33
Missouri	10.71	23	.48	21	2,254	10
Montana	19.94	15	1.02	13	1,963	18
New Hampshire	2.63	32	.12	27	2,130	14
New Mexico	7.56	27	.42	23	1,808	21
New York	47.19	3	1.66	4	2,848	2
North Carolina	20.32	13	1.24	9	1,642	25
North Dakota	7.38	28	.47	22	1,562	29
Oklahoma	7.58	26	.40	24	1,889	20
Oregon	46.96	4	2.07	1	2,273	9
South Carolina	11.60	21	.80	16	1,443	32
Tennessee	1.66	33	.10	28	1,605	28
Utah	16.85	16	.85	15	1,989	17
Vermont	30.11	7	1.59	6	1,899	20
Virginia	20.18	14	1.06	12	1,908	19
West Virginia	.46	34	.03	29	1,690	23
Wisconsin	35.89	6	1.64	5	2,194	11

Source: U. S. Department of Commerce, Compendium of State Government Finances in 1961 and Survey of Current Business.

TABLE 3.14. STATE CORPORATE INCOME TAX: TOP STATUTORY AND EFFECTIVE MARGINAL RATES, 1961

State	Top Statutory Rate	Effective Marginal Rate	Rank by Effective Marginal Rate
Alaska	18.0% of Federal	4.11%	1
Massachusetts	6.765	3.25	2
Wisconsin	7.0	3.02	3
Mississippi	6.0	2.88	4
North Carolina	6.0	2.88	5
Oregon	6.0	2.88	6
Pennsylvania	6.0	2.88	7
California	5.5	2.64	8
New York	5.5	2.64	9
Rhode Island	5.5	2.64	10
MINNESOTA	10.23	2.48	11
Arkansas	5.0	2.40	12
Colorado	5.0	2.40	13
Connecticut	5.0	2.40	14
Delaware	5.0	2.40	15
Maryland	5.0	2.40	16
South Carolina	5.0	2.40	17
Vermont	5.0	2.40	18
Virginia	5.0	2.40	19
Idaho	9.5	2.30	20
Montana	4.5	2.16	21
Georgia	4.0	1.92	22
Tennesse	3.75	1.80	23
Kentucky	7.0	1.67	24
North Dakota	6.0	1.43	25
Arizona	5.0	1.18	26
Louisiana	4.0	0.94	27
Oklahoma	4.0	0.94	28
Utah	4.0	0.94	29
New Jersey	1.75	0.84	30
Kansas	3.5	0.82	31
Alabama	3.0	0.70	32
Iowa	3.0	0.70	33
Missouri	2.0	0.47	34
New Mexico	2.0	0.47	35

NOTE: States having the same effective marginal rate are ranked alphabetically.

TABLE 3.15. STATE AND FEDERAL NET INCOME TAX LIABILITIES OF VARIOUS HYPOTHETICAL CORPORATIONS IN MINNESOTA AND FOUR NEIGHBORING STATES, 1960

	Corporate Income Tax Liability			State Tax Index	Minnesota Tax Liability Differ.	
	State	Federal	Total		State	Total
CASE I "Intrastate" Corporation (100% in-state)						
A. Corporate Net Income - $10,000						
MINNESOTA	$ 622	$ 2,813	$ 3,435	100.0	--	--
Wisconsin	435	2,870	3,305	69.9	$ 187	$ 130
North Dakota	253	2,924	3,177	40.7	369	258
Iowa	212	2,936	3,148	34.1	410	287
Missouri	141	2,958	3,099	22.7	481	336
B. Corporate Net Inc. - $100,000						
MINNESOTA	$5,179	$ 43,807	$ 48,986	100.0	--	--
Wisconsin	6,105	43,325	49,430	117.9	$ - 926	$- 444
North Dakota	3,045	44,917	47,962	58.8	2,134	1,024
Iowa	1,630	45,652	47,282	31.5	3,549	1,704
Missouri	1,081	45,938	47,019	20.9	4,098	1,967
C. Corporate Net Inc. -$1,000,000						
MINNESOTA	$47,397	$489,854	$537,251	100.0	--	--
Wisconsin	62,805	481,841	544,646	132.5	$- 15,408	$- 7,395
North Dakota	29,800	499,004	528,804	62.9	17,597	8,447
Iowa	14,796	506,806	521,602	31.2	32,601	15,649
Missouri	9,812	509,398	519,210	20.7	37,585	18,041
CASE II "Export" Corporation; 90% Prop. & P/R in the State, 10% Sales in the State, Net Income - $1,000,000. 1/						
MINNESOTA	$15,561	$506,408	$521,969	100.0	--	--
Wisconsin	39,705	493,853	533,558	255.2	$- 24,144	$- 11,589
North Dakota	20,580	503,798	524,378	132.3	- 5,019	- 2,409
Iowa	1,459	513,740	515,199	9.4	14,102	6,770
Missouri	5,371	511,707	517,078	34.5	10,190	4,891
CASE III "Import" Corporation; No Prop. or P/R in the State; 2% of Sales in the State, Net Income - $1,000,000 2/						
MINNESOTA	$ 255	$514,369	$514,624	100.0	--	--
Wisconsin	225	514,383	514,608	88.2	$ 30	$ 16
North Dakota	73	514,462	514,535	28.6	182	89
Iowa	291	514,348	514,639	114.1	- 36	- 15
Missouri	194	514,399	514,593	76.1	61	31

1/ Income allocable to the state: Wisconsin $633,333; North Dakota, $700,000; Minnesota, $340,000; Missouri $550,000 and Iowa $100,000.

2/ Income allocable to the state: Iowa, $20,000; Wisconsin, $6,667; Minnesota, $6,167; Missouri, $20,000 and North Dakota, $5,000.

TABLE 3.16.

STATE GASOLINE TAX RATES, 1962

Rate (Cents per Gallon)	State
5	Arizona, Illinois, Kansas, Minnesota, Missouri, Texas, Wyoming
5.5	Massachusetts
6	California, Colorado, Connecticut, Delaware, Idaho, Indiana, Iowa, Maryland, Michigan, Montana, Nevada, New Jersey, New Mexico, New York, North Dakota, Oregon, South Dakota, Utah, Wisconsin
6.5	Arkansas, Georgia, Vermont
6.58	Oklahoma
7	Alabama, Florida, Kentucky, Louisianna, Maine, Mississippi, Nebraska, New Hampshire, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Virginia, West Virginia
7.5	Washington
8	Alaska
8.5	Honolulu County, Hawaii*

* 9¢ Kauai County, 10¢ Maui County, 11¢ Hawaii County

Source: Prentice Hall, State and Local Tax Service.

TABLE 3.17. STATE MOTOR VEHICLE TAX COLLECTIONS: MINNESOTA, NEIGHBORING STATES, AND UNITED STATES TOTAL, 1960

State	Revenue (000)	Per Capita	Per Vehicle
Illinois	$ 100,257	$ 9.91 (5)	$ 27.26 (3)
Iowa	43,631	15.80 (1)	33.67 (1)
Wisconsin	42,180	10.64 (4)	27.25 (4)
MINNESOTA	41,153	12.01 (3)	26.99 (5)
Missouri	37,866	8.74 (7)	21.71 (6)
Nebraska	5,666	4.01 (8)	8.02 (8)
North Dakota	9,587	15.12 (2)	28.29 (2)
South Dakota	6,613	9.70 (6)	18.97 (7)
Total U. S.	$ 1,467,793	$ 8.16	$ 20.53

Source: Compendium of State Government Finances in 1960, U. S. Department of Commerce, Bureau of the Census.

Population Figures: Current Population Reports P-25-230, Department of Commerce, Bureau of the Census.

Vehicle Figures: U. S. Department of Commerce, Bureau of Public Roads, Highway Statistics, 1959.

TABLE 3.18. STATE CIGARETTE TAX RATES: ALL STATES, 1962

Rate (Cents per Package)	STATE
2	Arizona
2.5	Kentucky
3	California, Indiana, Virginia
4	Illinois, Iowa, Kansas, Missouri, Nebraska, Utah, Wyoming
5	Connecticut, Delaware, Florida, Georgia, New York, Ohio, South Carolina South Dakota, Tennessee
6	Alabama, Arkansas, Idaho, Maine, Maryland, Massachusetts, North Dakota, Pennsylvania, West Virginia, Wisconsin
7	Michigan, MINNESOTA, Nevada, New Jersey, Oklahoma, Vermont, Washington
8	Alaska, Louisiana, Mississippi, Montana, New Mexico, Texas

Hawaii - 20% of Wholesale Price

New Hampshire - 15% of usual Selling Price

Source: Prentice Hall, State and Local Tax Service.

TABLE 3.19. TOTAL TOBACCO PRODUCTS TAX COLLECTIONS IN ALL TAXING STATES, 1962

State	Cigarette Tax Collections (000's)	Tobacco Products Tax Collections (000's)	Total (000's)
Alabama	$ 16,984	$ 1,609	$ 18,593
Alaska	1,859		1,859
Arizona	3,439	514	3,953
Arkansas	10,117		10,117
California	68,203		68,203
Connecticut	19,114		19,114
Delaware	3,308		3,308
Dist./Col.	3,379		3,379
Florida	34,810		34,810
Georgia	20,655	639	21,294
Hawaii	2,053	293	2,346
Idaho	3,885		3,885
Illinois	54,630		54,630
Indiana	17,582		17,582
Iowa	11,964		11,964
Kansas	9,498		9,498
Kentucky	8,810		8,810
Louisiana	26,514	1,395	27,909
Maine	8,065		8,065
Maryland	21,812		21,812
Massachusetts	42,607		42,607
Michigan	51,297		51,297
Minnesota	24,282	867	25,149
Mississippi	10,731	1,164	11,895
Missouri	21,964		21,964
Montana	6,208		6,208
Nebraska	6,492		6,492
Nevada	4,248		4,248
New Hampshire	4,344	309	4,653
New Jersey	59,474		59,474
New Mexico	6,963		6,963
New York	123,972		123,972
North Dakota	3,656	42	3,698
Ohio	63,399		
Oklahoma	18,161	2,097	20,258
Pennsylvania	84,533		84,533
Rhode Island	7,257		7,257
South Carolina	10,279	1,814	12,093
South Dakota	3,556		3,556
Tennessee	18,602	806	19,408

TOTAL TOBACCO PRODUCTS TAX COLLECTIONS IN ALL TAXING STATES, 1962 (Cont.)

State	Cigarette Tax Collections (000's)	Tobacco Products Tax Collections (000's)	Total (000's)
Texas	$ 87,299	$ 6,807	$ 94,106
Utah	2,481		2,481
Vermont	3,468	225	3,693
Virginia	14,359	437	14,796
Washington	20,154	1,362	21,516
West Virginia	11,633		11,633
Wisconsin	25,808		25,808
Wyoming	1,735		1,735
All Taxing States	$ 1,085,646	$ 20,380	$ 1,106,026

Source: <u>Cigarette Taxes in the United States</u>, Tobacco Tax Council, 1962.

TABLE 3.20. STATE TAX RATES ON ALCOHOLIC BEVERAGES: ALL STATES, 1960

State	Distilled Spirits (Per Gallon)	Wines (Per Gallon)		Malt Beverages	
		14% or less Alcohol	14%-21% Alcohol	Draught (Per Gallon)	Package (b) (Per Case of 24)
Alabama	------------ 20% of sales price (c) ------------------			$ .213	$ .48
Alaska	$ 3.50	$ .50	$ .50	.25	.562
Arizona	1.20	.36	.36	.075	.169
Arkansas	2.50 (d)	.75 (d)	.75 (d)	.156	.352
California	1.50	.01	.02	.04	.09
Colorado	1.80	.20	.30	.06	.135
Connecticut	1.00	.10	.10	.032	.073
Delaware	1.15 (e)	.35	.35	.065	.145
Florida	2.17	1.00	1.40	.24	.72
Georgia	1.00	1.00	2.00	.29	.96
Hawaii	--------------------------- 16% of wholesale price ---				
Idaho	(c)	(c)	(c)	$ .10	$ .225
Illinois	$ 1.52	$ .23	$ .60	.06	.135
Indiana	2.08 (f)	.40 (f)	.40 (f)	.088 (f)	.197 (f)
Iowa	(c)	(c)	(c)	.08	.18
Kansas	1.00 (g)	.15 (g)	.40 (g)	.10 (g)	.225 (g)
Kentucky	1.28	.50	.50	.081	.181
Louisiana	1.68	.11	.21	.323	.726
Maine	(c)	.24 (c)	.75 (c)	.16	.36
Maryland	1.50	.20	.20	.03	.068
Massachusetts	2.25 (h)	.60 (h)	.60 (h)	.065 (h)	.145 (h)
Michigan	8% of retail price (c)	.50 (c)	.50 (c)	.081 (i)	.181 (i)
MINNESOTA	$ 2.88 (j)	.23 (j)	.69 (j)	.103 (j,k)	.232 (j,k)
Mississippi	(l)	(l,m)	(l)	.427	.960
Missouri	.80	.02	.10	.02	.045

TABLE 3.20. STATE TAX RATES ON ALCOHOLIC BEVERAGES: ALL STATES, 1960

	Distilled Spirits (Per Gallon)	Wines (Per Gallon)		Malt Beverages	
State		14% or less Alcohol	14%-21% Alcohol	Draught (Per Gallon)	Package (b) (Per Case of 24)
Montana	------------ 16% of sales price (c) ------------------			$ .048	$ .109
Nebraska	$ 1.20	$ .20	$ .55	.04	.09
Nevada	.80	.15	.25	.03	.068
New Hampshire	(c)	(c)	(c)	.097	.218
New Jersey	1.50	.10	.10	.033	.075
New Mexico	1.30	.30	.30	.05	.12
New York	1.50	.10	.10	.033	.075
North Carolina	10% of sales price (c)	.60 (c)	.70 (c)	.339	.84
North Dakota	$ 2.50 (n)	.50 (n)	.60 (n)	.08	.36
Ohio	(c)	.12 (c)	.30 (c)	.081	.36
Oklahoma	2.40	.36	.50	.32	.726
Oregon	(c)	.23 (c)	(c)	.042	.094
Pennsylvania	$ 1.00 + 10% of sales price (c)	--- 10% of sales price (c,o) ---		.08	.24
Rhode Island	$ 1.50	$ .20	$ .20	.032	.077
South Carolina	2.72	1.08	1.08	.45	1.44
South Dakota	.75 (p)	.15 (p)	.30 (p)	.065 (p)	.145 (p)
Tennessee	2.00	.70	.70	.11	.247
Texas	1.68	.132	.264	.139	.312
Utah	------------ 4% of sales price (c) ------------------			.129	.29
Vermont	$ 5.10 (c)	$ .20 (c)	$ 1.20 (c)	.20	.45
Virginia	(c,q)	.35 (c,q)	.35 (c,q)	.129	.60
Washington	------------15% of sales price (c,r) -----------------			.032	.073
West Virginia	(c)	(c)	(c)	.177	.399
Wisconsin	$ 2.00	$ .15	$ .30	.032	.073
Wyoming	.80 (c)	.24 (c)	.24 (c)	.02	.045

TABLE 3.20. STATE TAX RATES ON ALCOHOLIC BEVERAGES: ALL STATES, 1960

Footnotes:

(a) In addition to these rates, there are special taxes on manufacturers, processors and dealers, and on components of beverages. In some states, brandy, vermouth, sparkling wines, or other specified beverages are taxed at different rates from general liquors and wines and these rates are excluded. Rates on quantities other than those shown may be at proportionate or higher rates and are excluded, as are rates on distilled spirits in excess of 100 proof, on wines of more than 21% alcohol and malt beverages of more than 4% alcohol. Rates on beverages manufactured in the state are excluded when these rates differ from rates on imported beverages.

(b) Per case of twenty-four 12-ounce containers.

(c) Monopoly state, receives most or all of revenue through mark-up. Tax rates shown are in addition to any state mark-up of price.

(d) In addition, a tax of 3% of sales price is imposed.

(e) On spirits over 25% alcohol; rate on spirits containing 25% or less alcohol is 90 cents per gallon.

(f) Includes enforcement tax.

(g) In addition, an enforcement tax of 2½% of gross receipts from retail sales is imposed.

(h) In addition, a tax (including surtaxes) of 23.25% of gross receipts from sales is imposed.

(i) After June 30, 1961, tax on malt beverages will be 4 cents per gallon or 9.1 cents per case.

(j) Includes surtax of 15% of regular rate.

(k) Beer having not over 3.2% alcoholic content is taxed at 5.2 cents per gallon or 11.6 cents per case.

(l) Dry state.

(m) Light wine (under 4% alcohol) taxed at 42.7 cents per gallon.

TABLE 3.20. STATE TAX RATES ON ALCOHOLIC BEVERAGES: ALL STATES, 1960

Footnotes (continued):

(n) Includes additional transaction taxes.

(o) In addition, a tax of $.005 per unit proof per wine gallon is imposed.

(p) In addition, a tax of 10% of the gross receipts from sale of all beverages over 3.2% alcohol is imposed.

(q) In addition, a tax of 10% of the price charged retail licensees by wholesale wine distributors or Alcoholic Beverage Control Board is imposed from July 1, 1960 to June 30, 1962.

(r) Except domestic wines from fruit products grown in Washington which are taxed at a rate of 10% of the sales price.

SOURCE: Facts and Figures on Government Finance, Tax Foundation, Inc., Eleventh Edition, 1960-1961.

TABLE 4.1 THE STATE PROPERTY TAX IN MINNESOTA: IMPORTANCE AS A STATE TAX REVENUE SOURCE, SELECTED YEARS, 1913-1962
(In Thousands)

Fiscal Year	Total Property Tax For State Purposes (000's)	Total State Tax (000's)	Property Tax as a Percentage of Total State Tax
1913	$ 4,000	$ 9,000	44.44%
1932	10,000	44,000	22.73
1935	14,824	48,690	30.45
1940	11,759	76,531	15.37
1945	4,989	90,277	5.53
1950	11,719	187,118	6.26
1951	12,051	215,581	5.59
1952	11,729	232,648	5.04
1953	11,210	227,589	4.93
1954	15,900	246,467	6.45
1955	14,812	245,391	6.29
1956	15,027	284,450	5.28
1957	15,553	292,567	5.32
1958	19,956	319,777	6.24
1959	19,966	313,678	6.37
1960	23,878	352,583	6.77
1961	22,938	382,976	5.99
1962	24,802	403,394	6.15

Source: Property tax figures from State Auditors Abstract of Taxable Values and Levies for the Several counties.

Total State Tax - U. S. Department of Commerce, Compendium of State Government Finances and Detail of State Tax Collections in 1962.

Property Tax and Total State Tax in 1913 and 1932 from Tax Yields, Tax Institute, University of Pennsylvania.

TABLE 4.2 THE LOCAL PROPERTY TAX: IMPORTANCE AS A LOCAL TAX REVENUE SOURCE, ALL STATES, 1960

State	Property Taxes	Other Taxes	Rank by % Property Taxes are of Total
Alabama	56.3%	43.7%	50
Alaska	70.5	29.5	49
Arizona	90.6	9.4	29
Arkansas	93.4	6.6	21
California	87.0	13.0	36
Colorado	92.9	7.1	23
Connecticut	99.3	0.7	3
Delaware	92.4	7.6	25
Florida	81.1	18.9	41
Georgia	88.3	11.7	34
Hawaii	72.9	27.1	48
Idaho	97.6	2.4	11
Illinois	88.0	12.0	35
Indiana	99.4	0.6	1
Iowa	98.5	1.5	6
Kansas	97.5	2.5	12
Kentucky	83.1	16.9	38
Louisiana	78.1	21.9	43
Maine	99.4	0.6	2
Maryland	89.8	10.2	31
Massachusetts	98.5	1.5	7
Michigan	98.7	1.3	5
Minnesota	97.2	2.8	13
Mississippi	82.8	17.2	39
Missouri	81.8	18.2	40
Montana	94.5	5.5	18
Nebraska	92.3	7.7	26
Nevada	77.8	22.2	44
New Hampshire	99.1	0.9	4
New Jersey	91.0	9.0	28
New Mexico	75.7	24.3	46
New York	77.0	23.0	45
North Carolina	96.2	3.8	16
North Dakota	97.7	2.3	10
Ohio	90.1	9.9	30
Oklahoma	95.8	4.2	17
Oregon	96.5	3.5	15
Pennsylvania	74.1	25.9	47
Rhode Island	98.1	1.9	9
South Carolina	91.6	8.4	27
South Dakota	94.0	6.0	19
Tennessee	88.4	11.6	33
Texas	93.2	6.8	22
Utah	92.6	7.4	24
Vermont	96.8	3.2	14
Virginia	78.6	21.4	42
Washington	83.2	16.8	37
West Virginia	88.9	11.1	32
Wisconsin	98.3	1.7	8
Wyoming	94.0	6.0	20
U.S. Total	87.4%	12.6	

Source: Advisory Commission on Intergovernmental Relations

Note: States with same percentage are ranked alphabetically.

TABLE 5.1. THE ESTIMATED IMPACT OF AN INCREASE IN THE MINNESOTA HOMESTEAD EXEMPTION FROM $4,000 TO $10,000 ON AVERAGE AND ABOVE AVERAGE COST HOMES

$12,000 Home	Present $4,000 Homestead Exemption	Proposed $10,000 Homestead Exemption
True and Full Value	$ 4,000	$ 4,000
Taxable Value	1,000	1,000
Estimated Tax	198	214
$21,000 Home		
True and Full Value	$ 7,000	$ 7,000
Taxable Value	2,200	1,750
Estimated Tax	455	387

Note: State aggregates and average state mill rates were used. Based on 1960 data.

Source: Prepared by the Minnesota Department of Taxation

TABLE 5.2. ASSESSED VALUES OF REAL AND PERSONAL PROPERTY AND EXEMPT PROPERTY

1956 and 1962

	Real & Personal Property Assessed Value			Exempt Property Assessed Value		
County	1956 1/	1962 2/	Increase or Decrease	1956	1962	Increase or Decrease
Aitkin	$ 2,449,096	$ 2,645,922 3/	8.0%	$ 684,430	$ 541,612	- 20.9%
Anoka	17,602,137	37,583,355 3/	113.5	7,097,163	N. A.	-
Becker	10,455,834	12,569,243	20.2	2,151,250	3,348,269	55.6
Beltrami	6,509,128	7,131,896	9.6	1,730,400	3,588,560	107.4
Benton	6,123,944	6,988,265	14.1	715,495	1,083,174	51.4
Big Stone	7,092,679	7,102,926	.1	623,311	1,119,405	79.6
Blue Earth	29,774,850	32,552,261	9.3	11,660,434	7,679,682	- 34.1
Brown	19,446,523	20,857,690	7.3	2,583,385	3,527,225	36.5
Carlton	12,766,343	13,294,536 3/	4.1	2,760,425	2,252,449	- 18.4
Carver	11,734,371	14,490,216	23.5	959,540	2,457,253	51.8
Cass	4,251,719	4,738,878	11.5	555,416	732,989	32.0
Chippewa	13,011,992	13,255,207	1.9	1,072,713	2,218,445	106.8
Chisago	5,597,222	6,402,785	14.4	524,099	1,009,841	92.7
Clay	18,846,855	21,228,311 3/	12.6	6,534,289	6,344,641	- 2.9
Clearwater	2,904,110	3,027,585	4.2	428,821	668,058	55.8
Cook	1,895,527	1,774,415 3/	- 6.4	147,176	206,392	40.2
Cottonwood	13,651,255	15,090,775	10.5	1,370,795	1,969,938	43.7
Crow Wing	13,289,225	14,286,614 3/	7.5	3,873,337	5,669,786	46.4
Dakota	39,118,289	57,809,059 3/	47.8	7,836,909	12,430,114	58.6
Dodge	8,452,856	8,937,203	5.7	566,871	1,253,732	121.2
Douglas	11,346,043	11,895,341	4.8	2,338,611	2,048,598	- 12.4
Faribault	18,202,438	19,742,319	8.5	2,263,914	2,412,590	6.6
Fillmore	15,151,827	15,243,642 3/	.6	1,250,205	1,846,431	47.7
Freeborn	23,533,608	25,311,997 3/	7.6	2,542,627	3,950,468	55.4
Goodhue	21,546,149	23,105,176	7.2	3,859,796	4,876,116	26.3
Grant	5,747,280	6,159,059	7.2	459,899	576,182	25.3
Hennepin	528,682,185	645,913,164 3/	22.2	91,014,328	144,957,893	59.3
Houston	7,009,457	8,049,515	14.8	515,878	507,760	- 1.6
Hubbard	4,256,648	4,783,435	12.4	582,696	1,235,479	112.0
Isanti	4,221,077	4,615,147 3/	9.3	1,073,942	2,220,749	106.8
Itasca	26,924,901	32,345,053 3/	20.1	3,459,669	N. A.	-
Jackson	16,166,858	16,456,188	1.8	1,538,696	1,483,220	- 3.7
Kanabec	2,907,884	3,184,727 3/	9.5	500,077	822,400	64.5
Kandiyohi	17,108,579	17,917,346 3/	4.7	3,910,691	4,579,823	17.1
Kittson	6,342,460	6,553,472	3.3	1,070,578	1,330,732	24.3
Koochiching	6,020,255	6,972,797	15.8	561,340	1,174,147	109.1
Lac Qui Parle	12,058,820	10,939,862	- 9.3	1,181,943	1,264,951	7.0
Lake	3,526,834	3,753,526 3/	6.4	795,492	1,430,529	79.8
Lake/Woods	1,269,194	1,466,144	15.5	269,518	504,542	87.2
Le Sueur	12,336,343	13,624,650	10.4	1,436,044	1,691,745	17.8
Lincoln	7,487,527	7,710,672	3.0	562,374	1,008,732	79.3
Lyon	16,483,472	17,292,775	4.9	2,388,669	3,005,662	25.8
McLeod	15,498,716	17,279,675	11.5	2,352,809	2,894,962	23.0
Mahnomen	1,889,347	2,080,495	10.1	191,795	217,989	13.7
Marshall	7,929,359	7,942,507	.2	1,074,748	2,182,423	103.1

ASSESSED VALUES OF REAL AND PERSONAL PROPERTY AND EXEMPT PROPERTY (Cont.)

1956 and 1962

	Real & Personal Property Assessed Value			Exempt Property Assessed Value		
County	1956 1/	1962 2/	Increase or Decrease	1956	1962	Increase or Decrease
Martin	$ 22,490,531	$ 24,602,984	9.4%	$ 2,865,145	$ 3,522,975	23.0%
Meeker	12,351,897	12,162,076 3/	-1.5	1,296,020	2,213,539	70.8
Mille Lacs	4,640,993	4,942,859 3/	6.5	1,189,335	2,011,348	69.1
Morrison	9,943,237	10,380,038 3/	4.4	2,754,575	3,746,838	36.0
Mower	27,123,388	29,765,155	9.7	3,947,690	4,281,027	8.4
Murray	13,117,050	13,397,530	2.1	894,761	1,097,306	22.6
Nicollet	11,219,834	13,080,504	16.6	2,944,712	3,314,894	12.6
Nobles	18,991,370	19,775,686	4.1	3,142,783	3,039,165	- 3.3
Norman	6,498,735	7,237,731	11.4	587,792	455,201	- 22.6
Olmsted	42,964,457	51,704,314 3/	20.3	13,562,757	15,867,864	17.0
Otter Tail	20,971,904	24,550,490	17.1	4,030,335	5,511,804	36.8
Pennington	5,184,369	5,216,852	.6	1,111,360	3,278,681	195.0
Pine	4,877,549	4,823,486	- 1.1	398,427	909,754	128.3
Pipestone	10,976,095	11,533,206	5.1	1,186,532	1,789,642	50.8
Polk	20,413,744	22,063,693	8.1	4,290,036	4,476,942	4.4
Pope	7,568,065	8,014,020	5.9	867,617	1,115,354	28.6
Ramsey	271,832,639	321,564,557 3/	18.3	67,690,077	97,357,816	43.8
Red Lake	2,764,565	2,458,327	- 11.1	424,498	420,342	- 1.0
Redwood	17,794,816	19,434,539	9.2	2,779,043	3,245,316	16.8
Renville	18,973,467	20,035,182	5.6	2,341,169	2,396,557	2.4
Rice	16,534,890	17,285,845	4.5	11,673,540	13,151,930	12.7
Rock	11,380,669	11,830,338	4.0	859,426	945,488	10.0
Roseau	4,402,691	4,805,996	9.2	452,632	707,809	56.4
St. Louis	231,087,509	175,720,062 3/	-24.0	27,845,404	41,267,287	48.2
Scott	9,283,831	12,407,208 3/	33.6	1,208,421	1,971,947	63.2
Sherburne	4,598,510	5,972,586 3/	29.9	1,083,623	1,335,684	23.3
Sibley	13,247,099	13,962,971	5.4	1,297,896	1,142,588	- 12.0
Stearns	29,557,887	31,608,387 3/	6.9	9,127,000	19,858,020	117.6
Steele	14,055,696	14,568,328 3/	3.6	1,515,046	3,185,228	110.2
Stevens	7,955,930	8,339,919	4.8	1,098,705	2,280,348	107.5
Swift	10,109,505	10,535,726	4.2	1,437,949	1,891,418	31.5
Todd	8,840,089	9,216,889	4.3	951,012	1,194,458	25.6
Traverse	6,025,353	6,161,259	2.3	274,891	240,366	- 12.6
Wabasha	9,125,789	9,842,326	7.9	1,088,535	2,520,958	131.6
Wadena	4,287,391	4,384,903	2.3	1,097,616	1,808,929	64.8
Waseca	10,540,326	10,956,874 3/	3.9	1,830,059	2,344,646	28.1
Washington	18,631,012	26,399,436 3/	41.7	4,090,559	7,237,852	76.9
Watonwan	11,046,261	11,957,555	8.2	1,412,035	2,021,699	43.2
Wilkin	7,736,619	8,083,818	4.5	1,073,246	1,517,649	41.4
Winona	23,180,613	23,221,906 3/	.2	7,099,285	9,307,284	31.1
Wright	13,613,859	15,235,420 3/	11.9	2,028,766	3,070,070	51.3
Yellow Medicine	13,383,990	13,846,557	3.5	1,476,084	2,247,619	52.3

1/ Includes pipeline assessed value.
2/ Before State Board of Equalization changes.
3/ Counties not reporting Class 2 (household goods) assessments.

N.A. Abstracts of exempt property not available for tabulation because corrections are necessary or the abstracts have not been received by the Tax Department.

Source: County Assessment Abstracts

TABLE 6.1. TOTAL ASSESSED VALUE OF UNMINED IRON ORE IN MINNESOTA (MAY 1, ASSESSMENT)

Year	Total Assessed Value
1942	$ 160,494,132
1943	152,388,341
1944	141,030,550
1945	129,306,480
1946	120,344,635
1947	117,853,709
1948	129,310,721
1949	125,777,567
1950	149,368,527
1951	138,701,012
1952	156,815,261
1953	148,278,800
1954	160,590,436
1955	148,838,500
1956	153,997,246
1957	140,327,670
1958	134,595,625
1959	122,228,350
1960	119,299,733
1961	105,319,948
1962	99,106,400

TABLE 6.2. TACONITE PRODUCTION AND TACONITE TAXES, 1956-61

	Taconite Production		Taconite Taxes				
Calendar Year	Total (000's)	Taxable for Occupation Tax (000's)	Taconite Tax	Taconite Occupation Tax	Taconite Royalty Tax	Taconite Railroad Gross Earnings Tax	Total Taxes
1956	5,064	-0-	$ 297,063	-0-	15,898	$ 243,729	$ 556,690
1957	6,811	5,558	397,301	154,427	92,965	374,776	1,019,469
1958	8,572	4,873	499,904	160,961	122,950	574,128	1,357,943
1959	8,417	3,763	486,112	93,030	220,980	562,831	1,362,953
1960	13,383	12,591	773,829	638,489	1,280,553*	815,952	3,508,823
1961	13,182	12,425	766,243	897,507	265,286	977,795	2,906,831
Tax Per Ton of Taxable Production							
1956			-	-	-	-	-
1957			7.15¢	2.78¢	1.67¢	6.74¢	18.34¢
1958			10.26	3.30	2.52	11.78	27.86
1959			12.92	2.47	5.87	14.96	36.22
1960			6.15	5.07	10.17	6.48	27.87
1961			6.17	7.22	2.14	7.87	23.40

* Includes more than one million in payment of prior years' liabilities.

Note: The above table includes only the taxes on the taconite industry collected by the State. In addition to these taxes, the taconite mining companies pay ad valorem taxes on real property such as townsites and certain power facilities and also levies for debt services.

TABLE 7.1 HIGHWAY USER TAX RECEIPTS IN MINNESOTA, 1951 to 1962

		License Tax Revenue		
Fiscal Year	Net Motor Fuel Tax Collections	Motor Vehicles	Motor Vehicle Operators	Total
1951	$ 36,711	$ 25,279	$ 427	$ 62,417
1952	36,421	25,926	684	63,031
1953	39,762	26,953	540	67,255
1954	42,456	28,706	550	71,712
1955	44,870	30,414	611	75,895
1956	47,681	32,942	1,521	82,144
1957	49,877	35,051	1,236	86,164
1958	52,212	37,515	1,160	90,887
1959	53,737	38,841	1,311	93,889
1960	56,412	41,153	2,379	99,944
1961	57,720	42,285	1,963	101,968
1962	59,191	43,367	1,700	104,258

PERCENT DISTRIBUTION

1951	58.82%	40.50%	.68%	100.00%
1952	57.78	41.13	1.09	100.00
1953	59.12	40.08	.80	100.00
1954	59.21	40.03	.76	100.00
1955	59.12	40.07	.81	100.00
1956	58.05	40.10	1.85	100.00
1957	57.89	40.68	1.43	100.00
1958	57.44	41.28	1.28	100.00
1959	57.24	41.37	1.39	100.00
1960	56.44	41.18	2.38	100.00
1961	56.61	41.47	1.92	100.00
1962	56.77	41.60	1.63	100.00

Source: Tax Department and U.S. Department of Commerce.

TABLE 7.2 PER CAPITA CIGARETTE TAX COLLECTIONS, ALL STATES, 1962

State	Tax Rate*	Per Capita** Collections
Alabama	6a	$ 5.14
Alaska	8a	7.94
Arizona	2a	2.47
Arkansas	6	5.63
California	3a	4.16
Colorado	-	-
Connecticut	5	7.31
Delaware	5*b	7.22
Florida	5a	6.67
Georgia	5a	5.18
Hawaii	3.9a	3.12
Idaho	6	5.68
Illinois	4a	5.33
Indiana	3a	3.73
Iowa	4a	4.31
Kansas	4a	4.33
Kentucky	2½a	2.86
Louisiana	8a	7.98
Maine	6	8.13
Maryland	6a	6.84
Massachusetts	6	8.14
Michigan	5a	6.45
Minnesota	7	7.00
Mississippi	6a	4.84
Missouri	4a	5.02
Montana	8	9.10
Nebraska	4	4.54
Nevada	7a	14.21
New Hampshire	3½	7.00
New Jersey	7	9.52
New Mexico	8a	7.08
New York	5	7.28
North Carolina	a	-
North Dakota	6	5.71
Ohio	5	6.42
Oklahoma	7	7.70
Oregon	-	-
Pennsylvania	6	7.37
Rhode Island	6	8.37
South Carolina	5a	4.27
South Dakota	5	5.15
Tennessee	5	5.15
Texas	8	8.92
Utah	4a	2.71
Vermont	7	8.78
Virginia	3	3.54
Washington	7a	6.94
West Virginia	6a	6.29
Wisconsin	6b	6.42
Wyoming	4	5.13
All Taxing States		$ 6.21

*Effective during Fiscal 1962.

**Population December 31, 1961, U. S. Bureau of Census.

a. Cigarettes are subject to state sales and use tax.

b. Rate went into effect after beginning of fiscal year.

SOURCE: Cigarette Taxes in the U. S., Vol. XI, 1962, Tobacco Tax Council.

TABLE 7.3 ALCOHOLIC BEVERAGE TAX COLLECTIONS
1950-1962 (In Thousands)

	LIQUOR		BEER		Total
Fiscal Year	Amount	% of Total	Amount	% of Total	Collections
1950	$ 10,844	79.8%	$ 2,745	20.2%	$ 13,589
1951	13,225	83.9	2,531	16.1	15,756
1952	10,639	80.8	2,522	19.2	13,161
1953	12,196	82.4	2,609	17.6	14,805
1954	11,776	83.6	2,312	16.4	14,088
1955	11,837	81.3	2,722	18.7	14,559
1956	12,566	81.9	2,768	18.1	15,334
1957	13,275	82.9	2,740	17.1	16,015
1958	12,323	81.7	2,759	18.3	15,082
1959	12,523	81.6	2,821	18.4	15,344
1960	11,442	73.6	4,111	26.4	15,553
1961	14,748	77.5	4,280	22.5	19,028
1962	15,228	77.8	4,351	22.2	19,579

Source: Reports of the State Auditor

TABLE 7.4 SALE OF BEER IN MINNESOTA 1935 - 1960
(in barrels of 31 gallons)

Fiscal Year	Low Point (3.2 Percent)	High Point (over 3.2 Percent)	Total	High Point as a Percent of Total Beer
1935	1,223,548	184,108	1,407,656	13.07%
1936	1,487,572	176,897	1,664,469	10.63
1937	1,675,740	159,997	1,835,737	8.71
1938	1,698,886	143,930	1,842,816	7.81
1939	1,597,831	130,408	1,728,239	7.54
1940	1,624,922	138,125	1,763,047	7.83
1941	1,255,516	115,875	1,371,391	8.45
1942	1,184,153	132,415	1,316,568	10.06
1943	1,043,021	157,686	1,200,707	13.13
1944	1,210,654	262,768	1,473,422	17.83
1945	1,136,685	319,049	1,455,734	21.91
1946	1,263,660	375,962	1,639,622	22.93
1947	1,306,160	443,316	1,749,476	25.33
1948	1,382,984	522,420	1,905,404	27.42
1949	1,343,745	536,047	1,879,792	28.51
1950	1,286,363	553,579	1,839,942	30.09
1951	1,200,479	572,107	1,772,586	32.26
1952	1,117,291	603,496	1,720,787	35.07
1953	1,077,629	640,011	1,717,640	37.25
1954	1,052,368	701,581	1,753,949	40.00
1955	1,009,874	730,507	1,740,381	41.97
1956	968,655	767,223	1,735,878	44.20
1957	926,740	775,223	1,701,963	45.55
1958	900,638	801,053	1,701,691	47.07
1959	893,574	853,581	1,747,155	48.86
1960	884,293	874,830	1,759,123	49.73

Source: Derived from State of Minnesota, Office of Liquor Control Commissioner, Biennial Report, Fiscal years 1959 and 1960. (St. Paul, 1960) page 13.
(Data based on sales by wholesalers and manufacturers to retail dealers)

TABLE 8.1. ALLOCATION OF INCOME TAX RECEIPTS BY FUND
1933 TO PRESENT

INDIVIDUALS

Calendar Year	Normal Tax	Surtax	Annual Tax
1933-48	Income Tax School Fund	None	None
1949-54	Income Tax School Fund	Vet's Bonus	Vet's Bonus
1955-56	Income Tax School Fund	Vet's Bonus Gen. Rev. (Surtax after Credit)	Vet's Bonus
1957-58	Income Tax School Fund	Income Tax School Fund	None
1959-60	Income Tax School Fund	General Revenue	None
1961-62	92.75% to Income Tax School Fund and 7.25% to General Revenue Fund.		

CORPORATIONS

Calendar Year	Normal Tax	Additional Tax	Surtax	Annual Tax
1933-48	Income Tax School Fund	-	-	-
1949-54	Income Tax School Fund	-	Vet's Bonus	Vet's Bonus
1955-56	Income Tax School Fund	General Revenue Fund	Vet's Bonus	Vet's Bonus
1957-58	Income Tax School Fund	Income Tax School Fund	General Revenue	-
1959-60	Income Tax School Fund	Income Tax School Fund	-	-
1961-62	92.75% to Income Tax School Fund and 7.25% to General Revenue Fund.			

TABLE 8.2. STATUTORY INDIVIDUAL INCOME TAX RATES ALL TAXING STATES, 1962

State	Minimum State Rate	Maximum State Rate		Federal Tax Deductible
		Rate	Imposed Above	
Alabama	1.5%	5%	$ 5,000	Yes (L) (7)
Alaska	16% of Fed.	16% of Fed.	-	No
Arizona	1.0	4.5	7,000	Yes (L) (7)
Arkansas	1.0	5.0	25,000	No
California	1.0	7.0	15,000	No
Colorado (1)	3.0	9.0	10,000	Yes (L) (7)
Delaware	1.5	11.0	100,000	Yes (L) (8)
Georgia	1.0	6.0	10,000	No
Hawaii	3.0	9.0	30,000	No
Idaho	3.0	9.5	5,000	Yes (L) (7)
Iowa	0.75	3.75	4,000	Yes
Kansas	1.5	3.75	7,000	Yes (L) (7)
Kentucky	2.0	6.0	8,000	Yes (L,P) (7)
Louisiana	2.0	6.0	50,000	Yes (L) (7)
Maryland (2)	3.0	3.0	-	No
Massachusetts (3)	2.5	2.5	-	Yes (L) (9)
MINNESOTA (4)	1.0	10.5	20,000	Yes (L,P) (7)
Mississippi	2.0	5.0	15,000	No
Missouri	1.0	4.0	9,000	Yes (L) (7)
Montana	1.0	7.0	7,000	Yes (L,P) (7)
New Hampshire(5)	4.25	4.25		No
New Mexico	1.5	6.0	100,000	Yes
New York	2.0	10.0	15,000	No
North Carolina	3.0	7.0	10,000	No
North Dakota	1.0	11.0	15,000	Yes (L) (7)
Oklahoma	1.0	6.0	7,500	Yes (L) (7)
Oregon	3.0	9.5	8,000	Yes (L) (7)
South Carolina	2.0	7.0	10,000	Yes (10)
Tennessee	(6)	(6)		No
Utah	1.0	5.0	4,000	Yes
Vermont	2.0	7.5	5,000	No
Virginia	2.0	5.0	5,000	No
West Virginia	6.0 of Fed.	6.0 of Fed.	(1)	No
Wisconsin	2.0	10.0	15,000	No (11)

TABLE 8.2

FOOTNOTES

(1) There is an additional surtax on residents' income from intangibles in excess of $5,000.

(2) 3% on all net income; but 5% on net investment income over $500.

(3) Interest and Dividends, 6%; Annuity Income, 1.5%; Intangible gains, 6%; additional 23% surtax.

(4) Additional 15% surtax.

(5) Only interest and dividends are taxed.

(6) 6% on income from stocks and bonds; 4% on income from corporations assessed on 75% or more of property.

(7) Specifically limited to federal tax on income taxed by state.

(8) Deductible up to $300.

(9) Only federal income taxes paid on business income are deductible.

(10) Deductible up to $500.

(11) Federal income tax is not deductible by individuals for tax years begun after 12-31-61; for tax years begun before 1-1-62, 3% of federal income tax was deductible.

(L) Limited deduction allowable.

(P) Deduction for tax paid only.

Source: Prentice Hall, State and Local Tax Guide.

TABLE 8.3. COMPARISON OF INDIVIDUAL INCOME TAX LIABILITY UNDER FISCAL 1961 LAWS AND PROPOSED RATES (Based on Returns filed in Fiscal 1961)

	Tax Liability - Fiscal 1961		Tax under new rates exemptions, and brackets*	
Gross Income Group	Amount	Percent Distribution	Amount	Percent Distribution
$ 0 - 1,999	$ 777,115	.8%	$ 1,203,650	1.3%
2,000 - 3,999	7,148,518	7.4	8,115,219	8.5
4,000 - 5,999	17,055,992	17.7	18,285,769	19.1
6,000 - 7,999	17,791,359	18.5	16,255,397	17.0
8,000 - 9,999	10,816,614	11.2	9,359,858	9.8
10,000 - 11,999	6,161,219	6.4	5,281,661	5.5
12,000 - 14,999	5,881,948	6.1	5,204,702	5.4
15,000 - 19,999	6,536,403	6.8	6,022,501	6.3
20,000 & over	24,231,416	25.1	25,942,187	27.1
Total	$ 96,400,584	100.0%	$ 95,670,944	100.0%

* Rates are as follows:

First $2,000 of Taxable Income - 2%
Next $2,000 " " " 4%
Next 2,000 " " " 6%
Next 2,000 " " " 8%
Next 2,000 " " " 9%
Next 2,000 " " " 10%
Next 2,000 " " " 11%
Next 2,000 " " " 12%
Next 2,000 " " " 13%
Next 2,000 " " " 14%
All over $20,000 15%

$300 exemption per person, no personal credits.

Note: The present income tax provisions vary from the data on which the above was based in these 2 ways: (1) There is now a "1% Adjusted Gross Income Tax" and (2) Personal credits for dependents are $15 rather than $14. These would not change the distribution pattern too greatly.

TABLE 8.4. COMPARISON OF INDIVIDUAL INCOME TAX LIABILITY UNDER FISCAL 1961 LAW AND PROPOSAL DESIGNED TO INCREASE REVENUE BY $60 MILLION (Based on Returns Filed in Fiscal 1961)

Gross Income Group	Tax Liability Fiscal 1961	Tax Liability Under New Proposal*	Increase Under New Proposal	
			Amount	Percent
$ 0 - 1,999	$ 777,115	$ 2,750,316	$ 1,973,201	253.9%
2,000 - 3,999	7,148,518	17,682,336	10,533,818	147.4
4,000 - 5,999	17,055,992	36,393,669	19,337,677	113.4
6,000 - 7,999	17,791,359	30,620,298	12,828,939	72.1
8,000 - 9,999	10,816,614	16,246,483	5,429,869	50.2
10,000 - 11,999	6,161,219	8,558,296	2,397,077	38.9
12,000 - 14,999	5,881,948	7,818,350	1,936,402	32.9
15,000 - 19,999	6,536,403	8,452,465	1,916,062	29.3
20,000 & over	24,231,416	31,644,012	7,412,596	30.6
Total	$ 96,400,584	$ 160,166,225	$ 63,765,641	66.1%

* Rates are as follows:

First $2,000 of Taxable Income - 4%
Next 2,000 " " " 6%
Next 2,000 " " " 8%
Next 2,000 " " " 10%
Next 2,000 " " " 11%
Next 2,000 " " " 12%
Next 2,000 " " " 13%
Next 2,000 " " " 14%
All over $16,000 15%

$200 exemption per person, no personal credits.

Note: The present income tax provisions vary from the data on which the above was based in these 2 ways: (1) there is now a "1% Adjusted Gross Income Tax" and (2) personal credits for dependents are $15 rather than $14. These would not change the distribution pattern too greatly.

TABLE 8.5. COMPARISON OF INCOME TAX BURDEN UNDER PRESENT INCOME TAX AND UNDER A SYSTEM OF 15% OF FEDERAL TAX (Based on Returns Filed in Fiscal 1961)

Gross Income Group	Federal Income Tax Deducted	Tax @ 15% Of Federal Income Tax	Tax Liability at Fiscal 1961 Rates *	Increase or Decrease	
				Amount	Percent
$ 0 - 999	$ 1,032,900	$ 154,900	$ 96,800	$ 58,100	60.0%
1 - 1,999	11,996,000	1,799,400	680,300	1,119,100	164.5
2 - 2,999	30,274,200	4,541,100	2,372,600	2,168,500	91.4
3 - 3,999	51,327,200	7,699,100	4,775,900	2,923,200	61.2
4 - 4,999	68,627,500	10,294,100	7,383,800	2,910,300	39.4
5 - 5,999	81,005,600	12,150,800	9,672,200	2,478,600	25.6
6 - 6,999	71,679,500	10,751,900	9,609,900	1,142,000	11.9
7 - 7,999	54,638,000	8,195,700	8,181,500	14,200	0.2
8 - 8,999	37,433,700	5,615,100	6,231,100	- 616,000	- 9.9
9 - 9,999	25,479,200	3,821,900	4,585,400	- 763,500	-16.7
10 - 10,999	18,167,500	2,725,100	3,468,800	- 743,700	-21.4
11 - 11,999	13,339,300	2,000,900	2,692,400	- 691,500	-25.7
12 - 12,999	10,781,100	1,617,200	2,255,900	- 638,700	-28.3
13 - 13,999	8,875,900	1,331,400	1,913,400	- 582,000	-30.4
14 - 14,999	7,728,200	1,159,200	1,712,700	- 553,500	-32.3
15 - 19,999	29,125,300	4,368,800	6,536,400	- 2,167,600	-33.2
20 - 29,999	37,872,300	5,680,800	8,414,000	- 2,733,200	-32.5
30 - 39,999	23,025,900	3,453,900	4,603,400	- 1,149,500	-25.0
40 - 49,999	15,563,700	2,334,600	2,823,100	- 488,500	-17.3
50 - 99,999	28,882,200	4,332,300	4,382,900	- 50,600	- 1.2
100,000 & over	27,592,500	4,138,900	4,008,100	130,800	3.3
TOTAL	$ 654,447,700	$ 98,167,100	$ 96,400,600	$ 1,766,500	1.8%

* Tax rates in fiscal 1961 did not include the 5% surtax nor the 1% adjusted gross income tax - these would have raised the total to about $102 million. The total Federal tax is understated because many people required to pay a Federal income tax were not required to file a state return.

TABLE 8.6 ESTIMATED MINNESOTA INCOME TAX BURDEN, BY MARITAL STATUS AND NUMBER OF DEPENDENTS 1962 RATES

		Married, With Dependents:					
Gross Income	Single	0	1	2	3	4	5
$1,000	$ 9.38	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
2,000	20.07	10.00	10.00	10.00	10.00	10.00	10.00
3,000	44.45	25.07	13.22	10.00	10.00	10.00	10.00
4,000	73.85	57.83	45.25	34.96	22.37	10.00	10.00
5,000	111.09	95.11	85.16	73.60	64.86	53.30	41.75
6,000	153.87	142.26	130.70	121.96	110.40	99.59	92.40
7,000	198.32	192.11	181.59	174.46	163.93	156.75	146.22
8,000	248.75	245.93	235.41	228.28	221.09	210.57	203.44
9,000	295.84	299.75	289.23	282.56	276.98	267.49	261.86
10,000	347.82	359.78	350.29	344.56	339.08	329.59	323.96
15,000	615.62	679.62	676.05	672.59	669.02	665.45	661.99
20,000	875.91	1,016.68	1,019.53	1,020.74	1,021.19	1,021.64	1,022.09
25,000	1,125.00	1,352.73	1,357.99	1,363.13	1,366.32	1,369.17	1,371.90
50,000	2,212.63	2,856.90	2,897.74	2,895.48	2,914.70	2,933.91	2,953.26

TABLE 9.1. ESTIMATED REVENUE FROM A MODIFIED GROSS INCOME TAX

	NO FEDERAL TAX DEDUCTION		
TAXABLE INCOME BRACKET	TAXABLE INCOME	POSSIBLE RATES	REVENUE
Less than $5,000	$3,264,000,000	3%	$97,920,000
5,000 to 9,999	546,000,000	5%	27,300,000
10,000 to 14,999	146,000,000	7%	10,220,000
15,000 and over	289,000,000	10%	28,900,000
Total	$4,245,000,000		$164,340,000

	FEDERAL TAX DEDUCTION ALLOWED		
TAXABLE INCOME BRACKET	TAXABLE INCOME	POSSIBLE RATES	REVENUE
Less than $5,000	$2,969,000,000	4%	$118,760,000
5,000 to 9,999	351,000,000	6%	21,060,000
10,000 to 14,999	100,000,000	8%	8,000,000
15,000 and over	145,000,000	10%	14,500,000
Total	$3,565,000,000		$162,320,000

Note: An exemption of $300 per person is allowed. Data from income tax returns filed in fiscal 1961.

TABLE 9.2. ESTIMATED REVENUE FROM A BUSINESS AND OCCUPATION TAX AND THE SHIFT IN MINNESOTA TAX BURDEN WITH ITS SUBSTITUTION FOR THE PERSONAL PROPERTY TAX
1961

Industry Group	Estimated Taxable Receipts 1961 (Millions)	Tax Rates	Estimated Tax (000's)	Estimated Personal Property Tax (000's)	Difference (000's)
Agriculture 1/	Not Taxable			$ 15,485	$ - 15,485
Mining	$ 219	.44%	$ 964	2,994	- 2,030
Construction	1,012	.44	4,453	1,387	+ 3,066
Manufacturing	6,042	.44	26,585	20,225	+ 6,360
Wholesale Trade	7,098	.44	31,231	11,025	+ 20,206
Retail Trade	3,865	.44	17,006	14,530	+ 2,476
Finance 2/	Not Taxable			285	- 285
Insurance Agents	109	.44	480	298	+ 182
Real Estate	467	.44	2,055	876	+ 1,179
Transportation 3/	Not Taxable			1,022	- 1,022
Communications and Public Utilities	Not Taxable			15,187	- 15,187
Services - Total	881	1.00	8,810	5,184	+ 3,626
Selected Services 4/	543	1.00	5,430	4,162	+ 1,268
Medical & Health Serv.	238	1.00	2,380	730	+ 1,650
Other Professional Serv.	100	1.00	1,000	292	+ 708
Total			$91,584	$ 88,498	$+ 3,086

Based on Washington Business and Occupation Tax.

1/ Includes Forestry and Fisheries

2/ Excludes state and national banks

3/ Excludes firms subject to the gross earnings tax

4/ Includes hotels, camps, laundries, employment agencies, repair shops, movie theatres, etc.

Sources: 1958 Census of Business, 1958 Census of Manufactures, Mineral Yearbook, and Minnesota Department of Employment Security.

TABLE 10.1 GENERAL RETAIL SALES TAX BY STATE
YEAR EFFECTIVE AND RATE OF TAX

STATE	YEAR EFFECTIVE	RETAIL RATE (PERCENT) ORIGINAL	RETAIL RATE (PERCENT) 1962
Alabama	1937	1.5	3
Arizona	1933	2	3
Arkansas	1935	2	3
California	1933	2.5	3
Colorado	1935	2	2
Connecticut	1947	3	3.5
Florida	1949[a]	3	3
Georgia	1951[a]	3	3
Hawaii	1935	1.25	3.5
Idaho	1935	2	(b)
Illinois	1933	2	3.5
Indiana	1933	0.25[c]	0.375[c]
Iowa	1934	2	2
Kansas	1937	2	2.5
Kentucky	1960[a]	3	3
Louisiana	1942[a]	2	2
Maine	1951	2	3
Maryland	1947[a]	2	3
Michigan	1933	3	4
Mississippi	1930	0.25	3
Missouri	1934	0.5	2
Nevada	1955	2	2
New Jersey	1935	2	(b)
New Mexico	1935	2	2
New York	1933	2	(b)
North Carolina	1933	3	3
North Dakota	1935	2	2
Ohio	1935	3	3
Oklahoma	1933	1	2
Pennsylvania	1953[a]	3	4
Rhode Island	1947	1	3
South Carolina	1951	3	3
South Dakota	1933	1	2
Tennessee	1947	2	3
Texas	1961	2	2
Utah	1933	0.75	2.5
Vermont	1933	2	(b)
Washington	1933	2	4
West Virginia	1921	2	2
Wisconsin	1962	3	3
Wyoming	1935	2	2

a. Year present tax became effective. Previous tax levied as follows: Florida 1935 - 1941, Georgia 1929 - 1931, Kentucky 1934 - 1936, Louisiana 1931 - 1940, Maryland 1935 - 1936 and Pennsylvania 1932 - 1933.

b. Does not currently impose tax which was repealed or allowed to expire, as follows: Idaho 1936, New Jersey 1935, New York 1934, and Vermont 1935.

c. Gross income tax on retailers.

Source: Prentice Hall Reports

TABLE 10.2 ESTIMATED BURDEN OF A 1% SALES TAX ON A FOUR MEMBER FAMILY

		1% Sales Tax			
Money Income	Taxable Sales*	Amount	% of Money Income	Sales Tax after Credit of $4.00 Per Person	Percent of Money Income
$ 2,000	$ 1,660	$ 16.60	.83%	$ .60	.03%
3,000	2,190	21.90	.73	5.90	.20
4,000	2,800	28.00	.70	12.00	.30
5,000	3,295	32.95	.66	16.95	.34
6,000	3,720	37.20	.62	21.20	.35
7,500	4,260	42.60	.57	26.60	.35
10,000	5,180	51.80	.52	35.80	.36
12,500	5,880	58.80	.47	42.80	.34
15,000	6,560	65.60	.44	49.60	.33
20,000	7,240	72.40	.36	56.40	.28

* Based on Survey of Consumer Expenditures, 1956, Bureau of Labor Statistics. Excluded from the base are: Gasoline, cigarettes, tobacco, liquor, doctor and dentist bills, services, transportation and housing.

TABLE 10.3 ESTIMATED GENERAL SALES TAX REVENUE IN MINNESOTA, WITH VARIOUS RATES

Business	Per Capita Per 1% of Tax	Estimated Revenue		
		1% Tax	2% Tax	3% Tax
Food	$ 3.46	$ 12,006,200	$ 24,012,400	$ 36,018,600
Apparel	.51	1,769,700	3,539,400	5,309,100
General Merchandise	2.96	10,271,200	20,542,400	30,813,600
Furniture, Fixtures and Equipment	.45	1,561,500	3,123,000	4,684,500
Motor Vehicles	1.22	4,233,400	8,466,800	12,700,200
Lumber and Materials	1.17	4,059,900	8,119,800	12,179,700
Vending Machines	.05	173,500	347,000	520,500
Services	.38	1,318,600	2,637,200	3,955,800
Contracting	.05	173,500	347,000	520,500
Public Utility and Transportation	1.31	4,545,700	9,091,400	13,637,100
Miscellaneous	.87	3,018,900	6,037,800	9,056,700
Total Sales Tax	$ 12.43	$ 43,132,100	$ 86,264,200	$ 129,396,300
Use Tax	2.71	9,403,700	18,807,400	28,211,100
Grand Total	$ 15.14	$ 52,535,800	$105,071,600	$ 157,607,400
Credits**		13,880,000	27,760,000	41,640,000
Net Total		$ 38,655,800	$ 77,311,600	$ 115,967,400

* Based on percentage distribution of Iowa's categorical breakdown, assuming the same average sales tax per capita in Minnesota.

** Credits of $4 per person with a 1% sales tax; $8 per person with a 2% sales tax; and $12 per person with a 3% sales tax.

Appendix

THE VALUE-ADDED TAX

In 1953, the State of Michigan enacted a tax which is nearly unique, not only in the United States but throughout the world. The novel characteristic of the Michigan Business Activities Tax (Act 150, P.A. 1953) is that it employs as its measure or base the economist's concept of value added by manufacturing or other commercial activity. Proponents claim that the value-added tax is superior to other types of business taxes because it reaches new wealth never before taxed, avoids pyramiding—the defect of gross receipts taxes, and does not 'penalize efficiency'—the common criticism of corporate income taxes. In view of the widespread interest in it and the search of many states for additional revenue, the value-added tax eventually may become the fourth major species of businesss taxation in the United States, coordinate with gross receipts, corporate franchise, and corporate income taxes.[1]

Interest in "value-added" as a tax base has a long, if sporadic, history. Public finance scholars have toyed with the idea for at least 40 years;[2] a variant of the tax has accounted for roughly 30 per cent of all receipts of the French Fourth Republic;[3] and in 1950 the Japanese Diet enacted such a tax on the recommendation of the Taxation Mission to Japan, headed by Professor Carl S. Shoup. The operation of the tax in Japan, however, has been twice postponed because of strong opposition, particularly from "big business."[4]

Enacted under the pressure of mounting state deficits, the Michigan value-added tax "was not a deliberate attempt to experiment or pioneer in taxation," but rather "it was the surprising product of a bitter and prolonged legislative battle between proponents and opponents of a corporate income tax."[5] This "temporary" alternative to a state corporate income tax was given "permanent" status in 1955.

Rationale and Nature of the Tax

Perhaps more than most taxes, the theoretical foundation of the value-added tax deserves special attention. Professor Carl S. Shoup has defined its general nature too well for his words to be diluted in paraphrase.

" The difference between what the firm gets in sales proceeds and what it has spent in purchasing things from other firms is the value that it adds to those things. Every business firm in the economy thus adds value to what it buys from other firms. The total of value added by all business firms is the value of the total product of the economy. A general tax on value added is thus a tax on the total product, the total output of the community.

SOURCE: Report of the Governor's Minnesota Tax Study Committee - 1956,
Department of Administration, State of Minnesota, Chapter XVIII

" As to any one concern, if we abstract for the moment from the problems caused by depreciation of capital equipment, the value that the firm adds is equivalent to the sum of what it pays out in wages, and in interest and rent paid to individuals (that is, not paid to other business firms), and what the firm earns as profit. These payments of wages, and of interest and rent to individuals, and the profit reflect the activity of the employees of the firm, the services rendered by the individual creditors and lessors of the firm, and the reward to the firm's owners for bearing risk, waiting, etc.

" For the economy as a whole, total value added is the sum of total wages paid, interest and rent paid to individuals, and profit earned. A value-added tax is therefore a tax on the total income of the economy.

" The value-added tax is, then, either a tax on product or a tax on income, depending from which angle we choose to look at it. This is not surprising; under national-income accounting, total product for the year equals total income paid to the factors of production that turn out the product.[6] "

Thus a value-added tax is one based on the dollar value of the contribution of the business, farm or professional enterprise to the output of economic goods and services in the community, state or nation. The logic attaching to the imposition of a tax upon this base rests on the assumption that government services are essential to the operation of any economic endeavor and that a part of the costs involved in providing such services should properly be included in the cost of doing business, irrespective of the profitability of the business. Obviously all taxes paid by business (including farm and professional as well as manufacturing, commercial, financial, transportation, construction, mining and communications) help to defray the cost of public services. But if there is merit in the value-added tax it lies in its ability to relate the firm's tax liability directly to the money value it creates in its operation, a sum which measures directly the extent to which it employs economic resources—labor, capital, natural resources, and entrepreneurial skills and talents.

Since total value-added in the economy is equal to both the value of all final products produced and total income, it may well be argued that if applied at the national level the value-added tax achieves nothing that could not be achieved either by a general national sales tax or a proportionate national income tax applicable to all income created. This argument is not, however, valid at the state level (unless, of course, the tax were to be applied uniformly by all states). Any one state can not, except by means of a value-added tax, reach all incomes arising within its boundaries or the value of all goods and services produced.

In large part the existing tax structure imposed by the State and its local subdivisions in Minnesota, principally the property taxes and the corporate and individual income taxes, do now reach much of the value-added base, directly, as in the case of the income taxes paid by business, and indirectly in the case of the real and personal property taxes. These taxes, however, singly or taken together, impose liabilities which, when expressed as a percentage of value-added, are necessarily different for each taxpayer, varying with the form of business organization employed (corporate or non-corporate) and the relative importance of real and tangible personal property in its operations. In the light of our findings with respect to the comparative tax liabilities of business in Minnesota and other states, the value-added tax, as a means of taxing business, has much to commend it if one or both of the following should be agreed upon:

1. It is desirable to reduce or eliminate reliance upon the personal property tax and to replace the revenue lost, in part, by means of a new tax.

2. Revenue requirements are so great that an increase in business taxes is deemed unavoidable, in the light of economic or equity limitations attaching to other taxes.

Within this framework of thought it is desirable to examine the merits of the value-added tax in a comparative sense, that is, in terms particularly of the shortcomings of the personal property and ccrporate income taxes.

Unlike the assessed value of personal property, value-added by the taxpayer is readily determinable in a manner that can be expected to be reasonably uniform among firms. The record-keeping required of the taxpayer and the information needed by the Department of Taxation for income tax purposes would, with little or no necessary modification, suffice for purposes of the value-added tax. From the point of view of administrative feasibility and equity in the distribution of the tax load, therefore, this tax has much to commend it.

Both the property and value-added taxes rest upon the principle of distributing taxes according to governmental benefits received or enjoyed. Especially with respect to inventories, the value of tangible personal property employed in the business is likely to be highly unreliable as a measure of such benefits. To the extent that there is merit in taxing business according to the ability-to-pay criterion, as measured by income, both of these taxes have serious shortcomings, shortcomings which appear to be less weighty in the case of the value-added than the property tax.

In contrast with the personal property tax, we have seen little or no evidence that suggests that the corporate income tax in Minnesota is so burdensome or inequitable in its impact upon taxpayers as to represent a major deterrent to industrial and general economic expansion in the State. But, in the quest for new revenues, if they should be needed, and in consideration of alternative to some or all of the personal property tax as a means of taxing business, both the value-added and corporate income taxes may be regarded as contenders for legislative action. It is relevant, therefore, to examine the merits of value-added as a tax base relative to corporate income.[7]

The corporate income tax as a business tax is not general in its scope in that it applies only to business employing the corporate form of organization and only to corporations which report net income. As an alternative to the personal property tax it is deficient, therefore, because all businesses, corporate and non-corporate, profitable and unprofitable, are subject to the property tax and would be relieved of part of their tax loads if this tax were reduced or removed. An alternative business tax, therefore, should be one which also applies to all business, as a value-added tax presumably would.

The tax on corporate income may be regarded, in part, as a tax on efficiency. While the value-added tax would also apply to a larger base in the case of the more efficient or more profitable firm, the differential would be smaller. This follows from the fact that, whereas profits constitute the entire base in the one case, they represent only a fraction of the base (for zero profit firms the fraction will be zero) in the other.

In addition, if revenue stability is desired, as it certainly would be for a tax designed to replace part of property tax revenue, again the value-added tax can claim superiority since value-added fluctuates far less than does net income.

A further advantage of the value-added tax, contrasted with both the personal property and corporate income taxes, lies in the fact that the taxpayer is not able to influence its tax liability by manipulating the size of its inventories (where personalty is assessed as of a given date or where the optional-average inventory method is used) or the size of its net income (as may be done in the case of the family or closed corporation by adjusting owner-executives' salaries and bonuses).

Many of the arguments that may be brought to bear against the value-added tax, such as those which suggests that it is "just another sales tax" or "just another income tax", are, as we have pointed out, of much less relevance for state than for national tax policy. More important may be the claim that it represents simply another means of taxing business at a time when it may be desirable to relieve business of taxes in the interest of fostering economic growth in the State. This claim is valid unless it is agreed, for example, that moving from a tax that is capricious and generally regarded as inequitable in its impact on business to one that is not would represent a decided improvement in the business "tax climate."

There is little question but that the distribution of the business tax load in the State would be changed if the value-added tax were substituted for all or part of the personal property tax. Some would pay a larger and some a smaller proportion of the total levied under the one tax than under the other. But this may well represent a step toward a more rather than a less rational distribution among businesses of the tax load.

THE MICHIGAN BUSINESS ACTIVITIES TAX

Since the Michigan "Business Activities Tax" has a base which closely approximates the economist's concept of value-added, a more specific view of the nature of the tax may be gained by reviewing its provisions.[8]

"Adjusted receipts" (the tax base) are defined as gross receipts less the following:

1. Taxes other than income taxes.
2. Cost of goods sold, not including labor or overhead costs.
3. Electricity and other utilities.
4. Advertising
5. Insurance
6. Freight and postage.
7. Interest paid on loans directly connected with the business from which the gross receipts are derived.
8. Miscellaneous expenses and supplies.
9. Bad debts.
10. Repairs (other than those which are capitalized).
11. Rent paid.
12. Dues and payments to business associations and charitable contributions.
13. Travel expenses.
14. Legal and professional services.
15. Payments to a trust when such trust is exempt from federal income taxes.
16. Depreciation and amortization of real property.

The law does not permit the deduction of:

1. Wages, salaries, bonuses, commissions or other compensation paid to employees and officers.
2. Distributions to partners or dividends paid to stockholders.
3. Purchases of capital assets having a normal useful life of more than one year.
4. Depletion charges.
5. Depreciation of personal property.

Thus in Michigan the tax base is the sum of profits or net income before income taxes and compensation paid to employees and officers plus depreciation of fixed assets other than real estate and, where appropriate, depletion charges. The Michigan tax is neither a net nor quite a gross value-added tax, since depreciation is allowed on some assets and not on others. It contains some features that are more consistent with the principles of a net income tax than with those of the value-added tax in that it allows the deduction of expenses such as interest, rent, bad debts and contributions which either do not reduce value-added by the firm or may not be taxable to the recipient. The allowance of depreciation charges is consistent with the concept of a net value-added tax, but the failure to permit depreciation on personal property tends to discriminate inequitably among businesses according to the relative importance to their operations of real versus personal property—the public utility as against the retail or wholesale merchant, for example.

Permitting the deduction of rent and interest paid is acceptable if these payments are included in the tax base of the payee. Permitting the deduction of interest paid, however, involves a differentiation between borrowed and equity capital which, while common under income taxes, is not entirely defensible. Consistency and uniformity would seem to require the allowance of a deduction for implicit interest on owned or equity funds.

A major departure from the use of the value-added base in the Michigan law, principally to the advantage of firms selling services and professional people, involves permitting the taxpayer whose deductions fall short of 50 per cent of gross receipts to deduct a flat 50 per cent of such receipts. An innovation contained in the 1955 amendment goes even further, to permit the taxpayer whose payroll exceeds 50 per cent of his gross receipts to deduct the smaller of one-half of the excess or 10 per cent of his gross receipts. Thus the optional deduction may reach as high as 60 per cent of gross receipts (where gross receipts equal total payrolls). The patently unfair impact of this provision may be seen if one compares, for illustrative purposes, the tax liabilities of two taxpayers, each of whom has gross receipts of $100,000, while one has itemized deductions of $50,000 and the other $25,000. If the payrolls of the second taxpayer equal, say $60,000, he may deduct $55,000 (50 per cent of gross receipts plus one-half of the excess of payrolls over 50 per cent of gross receipts), leaving him with "adjusted receipts" of only $45,000, compared with $50,000 for the first taxpayer, even though value-added, in his case, is $25,000 or 50 per cent higher.

From value-added the taxpayer is permitted to deduct an exemption of $10,000. This exemption, coupled with the minimum 50 per cent deduction from gross receipts allowed in arriving at adjusted receipts results in the complete exemption from the tax of all firms having gross receipts of $20,000 or less and other whose gross receipts exceed that figure if either their payrolls or allowable deductions are greater than 50 per cent of gross receipts.

If adequate separate accounting in the case of interstate firms were available and acceptable, there would be no problem involved in computing value-added attributable to the taxing state. For purposes of feasibility of compliance and administration, however, an arbitrary allocation formula is probably necessary. The Michigan law provides for the allocation to Michigan of adjusted receipts according to the simple average of (1) the ratio of tangible property in the state to total tangible property; (2) the ratio of payrolls in the state to total payrolls; and (3) the ratio of sales in the state to total sales.

To the tax base, established by subtracting from gross receipts either the itemized or the "standard" deductions, allocating to Michigan the portion arrived at by applying the apportionment formula and deducting the $10,000 exemption, the rate of .65 per cent (6.5 mills) is applied, except in the case of public utilities, for which the rate is .15 per cent (1.5 mills).

The law requires quarterly tax payments, the first 3 of which are expected only to be based on "reasonable" estimates.

The Value-Added Tax (page 7)

The Michigan tax in fiscal 1955, its second year of operation, produced approximately $30 million.[9] The tax rates applicable were 4 mills and 1 mill (public utilities), the single factor, sales, was used in allocating adjusted receipts to the state, and no deduction for depreciation was allowed. The total number of taxable returns filed for the year was 100,854. Returns and collections were distributed among taxpayers classified by kind of business organization as follows.[10]

	Returns (number)	Per cent	Collections (thousands) of dollars	Per cent
Individuals	53,221	57	2,321	9
Partnerships	21,811	23	2,348	9
Michigan corporations	15,624	17	11,824	45
Foreign corporations	2,226	2	9,497	37
Others	653	1	65	a
Sub total	93,535	100	26,055	100
Not coded	7,319		3,921	
Total	100,854		29,976	

Tax payments distributed among various types of business activity in the following fashion:[11]

	Collections (thousands) of dollars	Per cent
Manufacturing	12,562	53
Wholesale trade	1,372	6
Retail trade	4,939	21
Services	3,354	14
Professional	342	1
Farming	34	a
Mining	178	1
Miscellaneous	32	a
Public Utilities	695	3
Sub total	23,508	100
Unclassified	6,468	
Total	29,976	

[a] Less than .5 per cent.

These tabulations indicate clearly that the tax is paid largely by corporations engaged in manufacturing, retail and wholesale trade and in the sale of services. The minimum 50 per cent deduction and the $10,000 exemption of adjusted receipts are sufficient to reduce the amount of tax paid by farmers to insignificant proportions and to exempt most persons engaged in independent professional practice.

Under the terms of the law as amended in 1955 it is expected that the tax will yield $60 million in its first full year. The increase in rates, from 4 mills and 1 mill to 6.5 and 1.5 mills, is expected to add $15 to $20 million to receipts, the change in the allocation formula, $10 million, and the allowance of depreciation on real property is expected to cost about $2 million in revenue. These changes, together with an expected increase in the level of business activity will, it is anticipated, account for the difference of $30 million between collections in fiscal 1955 and the revenue forecast for 1956.[12]

INCIDENCE AND ECONOMIC EFFECTS

If the value-added tax were imposed at the federal level or uniformly by all states economic theory would suggest that it would be largely shifted forward and that its incidence would rest on the purchasers of final products. This conclusion follows from the fact that the largest part of the tax base consists of variable costs of production and is applicable under assumptions of either purely competitive or "full-cost" pricing. Complexities and rigidities in market structures and pricing practices might result, however, in both pyramiding (following from the application of fixed-percentage mark-ups) and less than full forward-shifting, particularly with respect to that portion of the tax that is based on profits. As we have seen, if it were applied uniformly throughout the country, the incidence of the value-added tax would be expected to be the same as that of a national general sales tax.

When we contemplate the problem of incidence under circumstances wherein only one or two states impose the tax the answer may be a very different one. Firms whose activities are confined to the one state and which are not selling in competition with out-of-state firms are still likely to be able to shift the tax forward to purchasers. But firms selling in a national or multi-state market or competing locally with firms not subject to the tax are in a rather different postion. Under these circumstances much depends upon the level and structure of all state and local taxes in the one state compared to those in other states. In general it may be expected that that part of a firm's state-local tax liability that represents a positive differential in excess of taxes paid in other states can not be shifted in the multi-state (including the "home state") market.

If the value-added tax is viewed as an alternative to the personal property tax, those firms engaged in an industry in which personal property constitutes a major factor in production will be likely to find their relative tax liabilities reduced and are likely to be in a favorable position to shift the tax. Most, if not all, manufacturing firms would appear to fall into this category. Similarly, retail trade and service firms selling in a local market, to the extent that they do not compete with out-of-state firms, may also be able to shift the tax quite readily. Since personal property, particularly inventories, bulks so large among the assets of wholesaling firms, an alternative value-added tax would probably be at least as readily amenable to shifting as is the personal property tax.

The economic effects of a value-added tax, viewed particularly from the point of view of the competitive position of the state in attracting industry and in encouraging the growth of existing industry, agriculture and commerce, depend upon total liability to be imposed. No tax that is simply additive in its impact on business can be an encouraging influence, but the value-added tax, if, again, it is regarded as an alternative to the personal property tax, is likely to be found, on balance, to be more rather than less attractive. In that it is a tax that varies more closely with the value of the firm's output it is easier to bear in periods of low production or sales and, over time, therefore, may be expected to be less burdensome. It would appear to be especially attractive to farmers and, in general, to firms engaged in industries in which the value of output is highly variable while fixed costs represent a major proportion of total costs. On this count the value-added tax lies somewhere between the income and property taxes.

As we have pointed out above in discussing the merits of the value-added tax, to the extent that it is regarded by businessmen as being less discriminatory and capricious in its distribution among taxpayers than the personal property tax, it is likely to be more conducive to economic expansion.

Finally, the allocation formula applied in apportioning value-added to the taxing state will influence appreciably its effect upon the tax liability of the comparatively mobile multi-plant, national-market firm. If, for example, the original Michigan formula, using sales as the single factor, were adopted, the tax would be least likely to be a deterrent to industrial development. On the other hand, however, differences in tax liabilities would then conform least well to differences among firms in value-added within the state. And the tax would involve very much greater shifts in tax liabilities among firms when compared to those incurred under the personal property tax, shifts that would be difficult to reconcile with its use for replacement purposes and with its rationale in terms of "benefit." An average of the ratios of tangible property in the state to total payrolls would appear to answer most adequately the objections to a simple sales allocation formula. However, from the standpoint of inter-state competition it may be desirable to apply the three-factor formula in the Michigan manner.

Our analysis in this chapter suggests that the value-added tax has much merit as a replacement for at least part of the revenue that would be lost if the current reliance on the personal property tax were to be substantially reduced.

A value-added tax applied in Minnesota, containing the same features as the current Michigan law, could be expected to yield about $15 to $20 million in fiscal 1957-1958, that is, about 30 per cent as much as it may be expected to yield in Michigan.[13]

Neither the minimum 50 per cent deduction from gross receipts nor the $10,000 exemption appear to merit inclusion in a value-added tax that might be considered for adoption in Minnesota. The exemption might well be reduced to $1,000 or $2,000 if the administration of the tax were closely integrated with that of the income taxes and deductions should be permitted only to the extent that they are warranted by the nature of the tax. We have no basis on which to rest estimates of the effects of these changes on revenues. However, it is worth noting that 1955 collections in Michigan would have been close to 10 per cent greater if the exemption allowed in the approximately 100,000 taxpaying returns had been reduced from $10,000 to $2,000.

At least one other change from Michigan practice is called for. If the tax is to be regarded as a net value-added tax depreciation should be permitted with respect to all depreciable assets. Alternatively a depreciation allowance might be denied, in which case careful consideration of the equity aspects of the tax would probably require that rent and interest paid not be deductible either. In the latter event rents and interest received, it would follow, should be exempt in the hands of the payee.

The distinction in Michigan between public utilities and other taxpayers cannot be justified in terms of equity or in terms of the nature of the tax. Its adoption would represent simply a concession to one segment of industry.

Since the personal property tax is now a major source of revenue for school districts, cities, villages, towns and counties, and because the value-added tax does not lend itself readily to local administration, using the latter tax as a replacement tax requires that a satisfactory means of returning revenues to local units of government be devised. Moreover, to the extent that the rationale of the value-added tax rests on the benefit principle, it is probably the benefits derived from local governments that are most relevant. The method of apportioning tax receipts to these local governments that appears to be most appropriate is one that would distribute funds in proportion to the ratio of business and agricultural tangible personalty and real estate in the form of improvements (that is, excluding land) located within each city, village, town and school district to the total of such property in the State. The total amount to be distributed would have to be divided into two parts, one of which would be distributed in the manner suggested among the counties and the other among the above-listed local units within the counties. No system of apportionment of State-collected tax revenue will be fully acceptable, but the nature of this tax and the contemplation here of its use as a means of replacing personal property tax receipts, suggest that the system adopted should be based on a measure designed, at least approximately, to return the receipts to the locale of their origin.

Footnotes

[1] Clarence W. Lock, Donovan J. Rau and Howard D. Hamilton. "The Michigan Value-Added Tax", National Tax Journal, Vol. VIII, No. 4 (December, 1955), p. 357. The authors are Deputy Commissioner, Business Activities Director, and Research Analyst, respectively, in the Michigan Department of Revenue.

[2] Paul Studenski, "Toward a Theory of Business Taxation", Journal of Political Economy, Vol. XLVIII (October, 1940), pp. 651-53 and Arnold J. Zurcher, Jr., History of Value-Added Taxation (pamphlet, September, 1953).

[3] Lock, et al., op. cit., p. 358 and Zurcher, op. cit., p. 16. The value-added character of the French tax lies in the provision allowing a firm's tax liability to be reduced by the relevant amount of production taxes paid by its suppliers.

[4] Lock, et. al., op. cit., pp 357-8 and see M. Bronfenbrenner, "The Japanese Value-Added Sales Tax", National Tax Journal, Vol. III, No. 4 (December, 1950), pp. 298-313.

[5] Lock, et. al., op. cit., pp. 358-9.

[6] Carl S. Shoup, "Theory and Background of the Value-Added Tax", Proceedings of the National Tax Association, 1955 (Sacramento, 1956), p. 7.

[7] The relevant argument in Minnesota differs from those pursued in Michigan in 1953, when the value-added tax was offered as an alternative to a corporate income tax. Here the question centers on alternatives to the personal property tax, of which a higher corporate income tax may be one.

[8] For detailed information on the Michigan Business Activities Tax see: Public Acts, 1953, Act 150; Public Acts, 1955, Act 282; Michigan Department of Revenue, Michigan Business Activities Tax, Rules and Regulations (Lansing, 1955) and Annual Report, 1954-1955 (Lansing, 1955), pp. 29-33; and Lock, et al., op. cit.

[9] Michigan Department of Revenue, Annual Report, 1954-55, p. 32.

[10] Ibid.

[11] Ibid., pp. 64-65.

[12] Ibid., p. 32.

[13] In 1954 personal income in Minnesota was equal to 36.3 per cent of Michigan's and "wage and salary disbursements" 30.6 per cent of such disbursements in Michigan. The latter proportion is preferred because the "proprietors' income" and "farm income" elements of personal income are relatively more important in Minnesota and they are largely exempt in Michigan. Both value-added by manufacturing and wage and salary disbursements in manufacturing in Minnesota were about 16 per cent of the corresponding figures for Michigan in 1954. U. S. Department of Commerce, Survey of Current Business, September, 1955, pp. 20-21, and Statistical Abstract of the United States: 1955, p. 817.