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0044 Taxing Personal Property

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Report to the Colorado General Assembly:

TAXING PERSONAL PROPERTY



COLORADO LEGISLATIVE COUNCIL

RESEARCH PUBLICATION NO. 44

November 1960

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OF THE
COLORADO GENERAL ASSEMBLY

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Lyle C. Kyle, Director

* * * * *

The Legislative Council, which is composed of five Senators, six Representatives, and the presiding officers of the two houses, serves as a continuing research agency for the legislature through the maintenance of a trained staff. Between sessions, research activities are concentrated on the study of relatively broad problems formally proposed by legislators, and the publication and distribution of factual reports to aid in their solution.

During the sessions, the emphasis is on supplying legislators, on individual request, with personal memoranda, providing them with information needed to handle their own legislative problems. Reports and memoranda both give pertinent data in the form of facts, figures, arguments, and alternatives.

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LEGISLATIVE COUNCIL
REPORT TO THE
COLORADO GENERAL ASSEMBLY
TAXING PERSONAL PROPERTY

Research Publication No. 44
November, 1960

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REP. RAYMOND H. SIMPSON
REP. ALBERT J. TOMBIC

November 17, 1960

To Members of the Forty-third Colorado General Assembly:

As directed by Senate Joint Resolution No. 27, 1959 session, the Legislative Council submits herewith its report and recommendations concerning the taxation of personal property.

The report of the subcommittee appointed to carry out this assignment was adopted by the Legislative Council at its meeting November 17 for transmission to the Forty-third General Assembly.

Respectfully submitted,

Charles Conklin
Chairman

COLORADO GENERAL ASSEMBLY



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REP. GUY POE
REP. RAYMOND H. SIMPSON
REP. ALBERT J. TOMBIC

Honorable Charles Conklin, Chairman
Colorado Legislative Council
State Capitol
Denver 2, Colorado

Dear Mr. Chairman:

Your Committee on Assessment Methods submits herewith the findings and recommendations of its Subcommittee on Taxation of Personal Property. The report of the subcommittee was adopted by the Committee on Assessment Methods at its meeting November 10, 1960 for transmission to the Legislative Council.

The Committee on Assessment Methods has held periodic meetings with the Colorado Tax Commission concerning the implementation of the recommendations made by the committee in 1959. Although progress has been slow because of delay in securing qualified personnel, the equalization program is expected to proceed more rapidly now that the new position of Director of Appraisals and Equalization has been filled.

Plans are being made by the Tax Commission for a training school for local assessors to be held in January, 1961.

Respectfully submitted,

David J. Clarke
Chairman

FOREWORD

This study was made under the provisions of Senate Joint Resolution No. 27 passed at the first session of the Forty-second General Assembly. This resolution directed the Legislative Council to conduct a study of other possible means of taxing personal property as a substitute for the present method.

The Legislative Council assigned this study to the committee on Assessment Methods. In May, 1959 a three-man subcommittee was appointed to concentrate on personal property tax problems. Members of the subcommittee were Senator T. Everett Cook, Canon City, chairman; Representative Ray H. Black, Loveland; and Representative Yale Huffman, Wheatridge. In March, 1960 the membership of the subcommittee was expanded to include Senator Richard F. Hobbs, Pueblo; Senator David J. Clarke, Denver; Senator Fay DeBerard, Kremmling; and Representative James French, Del Norte, as well as the three members appointed in 1959.

The report and recommendations which follow are the result of hearings, staff research, and committee study. The subcommittee has emphasized in its recommendations the immediate need for improving administration of the present personal property tax. Although some attention was given to substitute means of taxing personal property, the subcommittee did not have adequate information for a complete study of the problem and consequently has recommended that more data be compiled for future study.

Lyle C. Kyle
Director

November 17, 1960

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Committee Findings and Recommendations

This study was conducted by a subcommittee of the Legislative Council Committee on Assessment Methods. Its purpose was twofold: (1) to explore ways of improving the administration of the present personal property tax and (2) to study alternative types of taxes.

The subcommittee began its study of improvements in administration with a review of the 1958 report of the Committee on Assessment Methods regarding assessment of personal property. Hearings were held in Pueblo, Colorado Springs, and Denver at which representatives of business and industry testified concerning the personal property tax. Interest centered around the personal property tax on inventories, which constitutes nearly half of the personal property tax base. The consensus of these hearings appeared to be that the tax on inventories is inequitable, that steps should be taken to reduce the inequities, and that either immediate or gradual elimination is desirable if a suitable replacement tax can be found.

Recognizing that the immediate problem is the reduction of the inequities in administration of the present tax, the subcommittee recommends, first, that legislation be enacted which would base the appraisal of inventories on the average of twelve monthly figures, derived either from physical or computed inventories. The computation of inventory would often be under the "retail inventory" system already familiar to most taxpayers.

Secondly, the subcommittee feels that the assessment level for inventories may be high in comparison with the assessment level for other types of property. Consequently, a gradual equalization program should be begun immediately.

In a study of personal property taxes in other states it was found that only a few states have deviated from the traditional method of applying general property tax rates to the value of personal property. Four states (Delaware, Hawaii, New York and Pennsylvania) do not tax tangible personal property. A few states classify property for purposes of taxation. Other states allow exemptions of various kinds of personal property, but only four (Massachusetts, Arizona, Alabama and Maryland) exempt sizable portions of business personal property.

The subcommittee considered the possibility of eliminating the personal property tax but was immediately confronted with the number of problems it would raise. First, an amendment to the constitution would be required in order to exempt personal property from the property tax. Second, there would be a considerable loss in local tax revenues if the tax were repealed. Estimates show that local governments derived an estimated \$34½ million

from the property tax on personal property in 1959, and the state derived an estimated \$14 million. An alternative tax which would produce an equal amount of revenue for local governments is not easy to find. Third, removal of the \$605 million personal property valuation from the tax rolls would effect limits on bonded indebtedness.

In spite of these obstacles, the subcommittee proceeded to explore variations and replacement taxes which have been used or proposed in other states. There are, in general, three possibilities, each with a number of variations: property tax classification, gross receipts tax, and gross profits tax. These are described in some detail in the report.

The subcommittee recognizes the need for continued study of the personal property tax. Although the subcommittee has considered various replacement taxes in general terms, no information was available from which to determine the size of the tax base and the rates required for each of the proposed replacements. The subcommittee recommends that data be compiled from the State Revenue Department so that replacement taxes can be studied more thoroughly in the future with reference to rates and revenues.

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TAXING PERSONAL PROPERTY

The 41st General Assembly directed the Legislative Council to review methods of assessing property for tax purposes including public utilities, locally assessed real property and personal property. In the course of that study it became apparent that consideration should be given to different means of taxing personal property. Consequently, a separate subcommittee on personal property taxation was established by the Council in 1959 for the express purpose of exploring alternative ways of taxing personal property as well as further exploring means of improving the administration of present laws on the subject.

Committee Procedure

Early in its deliberations the personal property subcommittee outlined the points needing exploration including: 1) a review of that part of the report of the Committee on Assessment Methods pertaining to personal property; 2) hearings around the state to isolate specific problems in the minds of taxpayers; 3) a determination of the amounts of state and local revenues that would have to be replaced if the property tax on personal property were removed; 4) a review of practices in other states in taxing personal property; and 5) a review of alternative means of taxing personal property.

Summary of 1958 Report on Assessment of Personal Property

The Legislative Council Committee on Assessment Methods submitted a report in 1958 which included a chapter on the assessment of personal property. That chapter has been one of the major sources of information for this subcommittee and therefore portions of its contents are included in this report.

The Assessment of Personal Property

Personal property, for purposes of assessment, includes all taxable property which is neither land nor improvements thereon, which is affixed to neither land nor improvements. As a class, it is characterized by easy mobility, frequent change of ownership, lack of public record of ownership, great variety in nature, rapid fluctuation of value because of aging, wear and tear, obsolescence, loss and destruction, and the operation of the law of supply and demand in the market. All of these characteristics tend to complicate the problem of assessing this class of property, and of evaluating the results achieved.

Exempt Personal Property

Many types of personal property have been removed from the taxable class by specific exemption. Much personal property is subject to exemption according to its ownership or use, along with real estate of the same ownership or use. Other broad classes of personal property have been exempted from property taxation because of the unsuitability of that form of taxation, and have been subjected to other forms of taxation instead.

All personal property which is publicly-owned or is owned by banks or county fair associations is exempt by reason of such ownership. All personal property which is used solely and exclusively for religious, non-profit school, or strictly charitable purposes is exempt by reason of such use. Household furnishings and personal effects which are not used for the production of income at any time have been exempted. Intangible personal property was exempted from the property tax with the adoption of the state income tax. Motor vehicles, trailers and semi-trailers, except those in the process of manufacture, or in storage, or in the hands of manufacturers, distributors or dealers, were exempted from property tax with the adoption of the specific ownership tax.

Taxable Personal Property

All other personal property is subject to assessment. For the purposes of analyzing assessment policy and practice, there are three major classifications of personal property, of distinctly different characteristics, that can best be considered separately. They are: 1) merchandise and manufactures; 2) livestock; and 3) all other personal property.

Merchandise and Manufactures. The basis of the assessment of merchandise and manufactures is the average amount of moneys and credits invested during the year. It is not the value of the merchandise in the hands of a merchant on any given date. Nor is it the value of merchandise purchased or sold during any period of time. Nor is it the value of the business as might be determined by the profit it produces, as affected by such factors as mark-up, rate of turnover, and overhead cost. It is, purely and simply, the amount invested, on the average, in merchandise. Nor is the amount of the investment limited to the amount of cash investment, but includes any credit obligation for any merchandise in possession.

The policy of the tax commission on assessment of merchandise and manufactures is stated in an annual publication known as Circular No. 1. This circular contains "recommendations" for the assessment of most classes of personal property. These recommendations are adopted following consultation by the tax commission with the county assessors as a group, acting through the Colorado Assessors' Association. Circular No. 1 prescribes the use of a

standard form for the return of merchandise inventory information by the owners of merchandise. It recommends that fifty per cent of the average inventory be taken as the assessed valuation. It insists that opening and closing inventories be secured direct from the state income tax return of the taxpayer. It suggests that if the latter is not done a higher percentage of assessment may be used.

The prescribed form, known as a Statement of Personal Property, provides spaces for the taxpayer owning merchandise to enter the following information relating to value: amount of beginning inventory, amount of closing inventory, and the average of the two. Additional space is provided for listing of additional inventories, which may be as frequently as monthly, if available.

Not stated in the 1958 Circular No. 1, but a policy of many years' standing, is that a merchandise assessment must be based upon at least two inventories, opening and closing, but that it is permissible, and more desirable, to base it upon the average of more inventories, up to twelve, if the same can be obtained.

The suggestion that an assessment of more than fifty per cent be used, if opening and closing inventories are not secured direct from the income tax return of the taxpayer, is designed to encourage taxpayers to reveal at least that much information. It is also based upon the belief that a taxpayer return of an unconfirmed amount of inventory may be understated and that, therefore, a higher rate of assessment is justified.

Investigation has shown that all assessors, except one, are using the recommended fifty per cent basis of assessment. That is, no evidence was found that any other assessors were, as a matter of policy, assessing merchandise and manufactures at a lower percentage of the average inventory returned. Some were using a higher percentage on unconfirmed merchandise returns.

Aside from the percentage used, the main factors to be considered in judging practices in the assessment of merchandise are: 1) efficiency in determining the amount of money and credit invested; and 2) the manner of determining the average amount of money and credit invested. These two factors, however, are so inter-related that they cannot be treated separately.

There can be no equalization of merchandise as a class with other classes of property unless the entire investment in merchandise is assessed. It is not likely that any owners of merchandise are escaping assessment. However, the amount of investment reported may be short of the actual amount of investment. And the policy used by the assessor in determining an average may cause assessments to be higher or lower than they otherwise would be.

Some counties, in order to insure a full return of merchandise investment, require absolute proof of the amount returned. This involves an actual inspection of the books of a merchant by a

qualified tax accountant to verify the accuracy of the return, where such books are present in the county. In the case of merchants whose books are located elsewhere, the return must be certified. One county even requires the submission of photostatic copies of the records, which are kept in strict confidence.

Some assessors, particularly those who do not have the services of qualified tax accountants to inspect the books of merchants, at least attempt to verify the returns by comparing them with income tax returns filed with the state, which is permitted by law. Other assessors, unable to employ tax accountants, not having such qualifications themselves, and being beset with a multiplicity of other problems, are inclined to accept whatever return is made to them.

Considerable variation in practice regarding the determination of average amount of money invested is found. Such a determination varies with the number of inventories used. It can be based upon opening and closing inventories for the preceding year only. Or it can be based upon a greater number of physical inventories, if available, up to twelve. Or it can be based upon a calculation of monthly inventories from actual physical opening and closing inventories, using monthly purchases and sales as factors. Or it can be based upon monthly perpetual inventories, if available.

In all counties at least a part of the assessments are based upon a simple average of opening and closing inventories. In some counties, all assessments are based upon this method. It is a simple method, involving merely the averaging of two amounts which are available from every merchant and can be verified. All merchants take at least these two inventories and are required to report them for state income tax computation. The amounts returned for income tax can be obtained from the department of revenue for comparison with the merchandise return to the assessor.

The use of the average of two inventories, however, does not necessarily provide the assessor with an average of the amount of money invested during the year. Some merchants have higher inventories at the time annual inventories are taken than at any other time in the year. An average of the two inventories would be higher under those circumstances than the average during the year. Others, especially those whose businesses are more active in the summer months, have lower inventories at the time of the annual inventories than at any other time of the year. An average of the two annual inventories would be too low. It would appear then, that the use of only two inventories would not produce equalized assessments among merchants on the basis of the average amount invested.

The use of an average of twelve monthly inventories is the best method from the point of view of assessment results. It more nearly reflects the true average of the amount invested during the year. However, it is a method which is more difficult to use because of the difficulty of determining the twelve inventories. Some large merchants take a physical inventory monthly, and they can easily

report them, and are glad to do so, if it will result in a lower assessment. Some other merchants maintain a perpetual inventory, adding to the inventory account all merchandise purchased, as purchased, and deducting all merchandise sold, as sold, at cost. They can easily report the status of this perpetual inventory at the end of each month.

In the case of merchants who neither take monthly inventories, nor maintain perpetual inventories, it is possible to calculate monthly inventories if the amount of monthly purchases and sales is known. The following formula is used. First, a cost-of-goods-sold factor is determined as follows:

Beginning Inventory	\$ 50,000
Plus Purchases during the year	<u>200,000</u>
	\$250,000
Less Closing Inventory	<u>70,000</u>
Cost of Goods Sold	\$180,000

Cost of Goods Sold (\$180,000) divided by Total Sales for Year (\$240,000) equals Cost of Goods Sold Factor (75%).

In other words, on the average, the goods which were sold cost the merchant 75% of his selling price.

Next, the cost of merchandise purchased during the first month is added to the opening inventory. Seventy-five per cent of the sales price of merchandise sold during the first month (the cost of goods sold) is deducted. The result is the calculated inventory at the end of the first month.

Opening Inventory	\$ 50,000	
Plus Purchases during January	<u>15,000</u>	
	\$ 65,000	
Less 75% of January sales (\$10,000)	<u>7,500</u>	
Inventory January 31	\$ 57,500	\$57,500
Plus Purchases during February	<u>12,000</u>	
	\$ 69,500	
Less 75% of February sales (\$12,000)	<u>9,000</u>	
Inventory February 28	\$ 60,500	\$60,500
Plus Purchases during March	<u>18,000</u>	
	\$ 78,500	
Less 75% of March sales (\$30,000)	<u>22,500</u>	
	\$ 56,000	\$56,000

and so forth for the remainder of the year.

In some cases, averages may be based on quarterly inventories, instead of annual or monthly ones, if the former are available.

The assessor obviously cannot inventory all the merchandise in his county. Nor can he calculate for each merchant in his county a set of monthly inventories as illustrated above without

a greatly increased expenditure of time. The volume of work involved in either case would be beyond the capacity of many assessors' officers in the state. Therefore, the assessor is forced to rely upon whatever information he can obtain from the taxpayer. In some cases the information obtainable is in the form of a report of monthly inventories, either physical, perpetual, or calculated. In other cases, the great majority, it is in the form of opening and closing inventories only.

In view of this situation, is it equitable for some merchants to be assessed on the basis of opening and closing inventories only, and for others to be assessed upon the basis of a larger number of inventories? Table I illustrates the difference in individual merchandise assessments when assessed on the basis of two inventories, as compared with twelve inventories. Each line of the table represents the actual assessment of a merchant in one of the larger counties. The statements of these merchants supplied not only the opening and closing inventories, but also a twelve-month average.

The assessments actually made were at fifty per cent of the average of twelve inventories, column "B." Column "A" shows what the assessments would have been at fifty per cent of the average of two inventories, and Column "D" shows the percentage that such assessments would be of the assessments actually made. Note that the percentage would vary from 55.9% to 179.6% in individual cases, and that the total assessment of all these merchants by the one method would be 99.3% of the total assessments by the other method. This latter is a minor variation, but the variations in individual assessments would be quite significant.

Column "C" shows what the assessments would have been at sixty-five per cent of the average of two inventories, and column "E" shows the percentage that such assessments would be of the assessments actually made. Note that the percentage would vary from 70.6% to 233.5% in individual cases. The total valuation would be 129.1% of the valuation by the method in use. This is a significant variation. The policy of assessing at sixty-five per cent of the average of two inventories is actually used in this county when no more than two inventories are submitted. Therefore, the latter percentage relationships are the ones that would be applicable.

Thirty-eight counties assess on the basis of the average of as many inventories as are submitted, fourteen of them assessing at 50% in all cases, twenty-four of them assessing at 50% if more than two inventories are submitted, at 65% or more, up to 100%, if only two are submitted. Twenty-five of them use only the opening and closing inventories, assessing at 50% of the average of the two.

The biggest problem involved in making assessments based on average inventories is in obtaining the necessary information. At present, as stated above, the assessments vary considerably from county to county according to how successful the assessor is in obtaining the information. In all counties a large part of the

TABLE I

COMPARISON OF MERCHANDISE ASSESSMENTS BY DIFFERENT METHODS

Assessed Valuations			Ratios	
A	B	C	D	E
Based on 50% of Average of 2 Inventories	Based on 50% of Average of 12 Inventories	Based on 65% of Average of 2 Inventories	A is x% of B	C is x% of B
\$ 25,060	\$ 25,640	\$ 32,580	97.7%	127.1%
30,670	31,700	39,870	96.8	125.8
74,650	68,110	97,050	109.6	142.5
11,190	9,820	14,540	114.0	148.1
57,650	58,140	74,950	99.2	128.9
36,190	44,500	47,040	81.3	105.7
67,400	75,130	87,610	89.7	116.6
5,230	5,950	6,800	87.9	114.3
32,660	18,180	42,450	179.6	233.5
9,950	12,620	12,930	78.8	102.5
183,900	183,910	239,070	100.0	130.3
86,080	80,790	111,910	106.5	138.5
27,260	26,040	35,440	104.7	136.1
40,950	43,820	53,230	93.5	121.5
36,670	52,940	47,670	69.3	90.0
36,170	31,760	47,020	113.9	148.0
15,040	13,420	19,550	112.1	145.7
190	340	240	55.9	70.6
19,500	20,370	25,350	95.7	124.4
13,370	11,110	17,380	120.3	156.4
18,230	19,580	23,700	93.1	121.0
<u>\$828,010</u>	<u>\$833,870</u>	<u>\$1,076,380</u>	<u>99.3%</u>	<u>129.1%</u>

assessments are based on a simple average of two inventories. As has been demonstrated, this does not provide a true average of the amount of money invested. Some counties attempt to assess on the basis of the best information available, making different assessments in different ways in order to make use of what is available. The result is inequitable treatment of the merchants within the county.

Other counties adhere to the use of the simple average of two inventories, which is the only information which is available for all inventories. In doing so, they are treating the taxpayers equally, but they are certainly not obtaining the true average of money invested.

Why does such a problem exist? Most merchants take inventory only once a year. They cannot afford the expense of more frequent inventory-taking. Therefore, the number of merchants who can submit to the assessor more actual inventories than the opening and closing ones is very small. The calculation of monthly inventories is not a common practice among merchants. In order to calculate them, in addition to opening and closing inventories, the amounts of monthly purchases and sales are needed. Many small merchants do not keep records of purchases and sales in such a form that they are able to report them to the assessor. Therefore, all that is reported is the two inventories.

Another problem confronting the assessors in the assessment of merchandise is that of assessing what are commonly referred to as chain stores. Individuals, companies or corporations may own more than one store, and these stores may be in different counties. Some chains may be found in nearly every county. The owners of these chains make a separate return of the merchandise kept in each county to the assessor of that county. In preparing income tax returns, on the other hand, the operations of all stores are consolidated into one return. Therefore, when an assessor attempts to verify the inventories returned to him for property tax purposes with the income tax return, he finds that the inventory shown on the latter represents the total of all the merchandise owned by the chain in Colorado. There is no way for him to determine what part of it is in his county. Therefore, he feels that the return made to him may not include a true statement of the merchandise present in his county.

There seems to be much dissatisfaction among merchants throughout the state with the present basis of assessing merchandise. This dissatisfaction usually takes two forms: 1) a dissatisfaction with the use of fifty per cent or more of the average inventory as the basis of assessment, when other property may be assessed at a much lower percentage of market value; and 2) the feeling that average investment as a basis of assessment is not an equitable basis of assessment as between merchants.

Regarding the first objection, that fifty per cent is too high, it should be pointed out that the fifty per cent is applied to

the wholesale cost of the merchandise. When comparing this percentage with a sales ratio on some form of real estate, which may be thirty per cent, a fair comparison is not possible. The thirty per cent is based upon a gross retail sales price of real estate, while the fifty per cent figure is based upon the wholesale cost of merchandise. Probably at least ten per cent should be deducted from the sales price of real estate before determining a ratio for such comparison. This factor of ten per cent would be in recognition of broker's commissions and other costs of making a sale. However, such a ten per cent deduction from a sales price producing a thirty per cent ratio would only increase the ratio to 33.3%, which is still low in relation to the fifty per cent used on the wholesale cost of merchandise.

While it would seem, by this comparison, that fifty per cent is excessive, another approach provides a different answer. Present assessments of all classes of property are supposedly made at the 1941 level of prices. The procedure that is followed in appraising residences, for instance, is based on 1941 building costs. Fifty per cent of the present cost of merchandise is comparable to the 1941 cost of merchandise.

The second objection is that average investment as a basis of assessment is not an equitable basis of assessment as between merchants. This method does not take into consideration the volume of business done during the year, the rate of gross or net profit on business done, or the amount of overhead expenses. Yet business having the same amount of average inventory may vary with reference to these other factors.

The dissatisfaction, then, stems from the knowledge that assessments of the inventory of several firms do not vary in amount in proportion to the ability of the firms to pay taxes as determined by the profit realized. In this connection it should be emphasized that the property tax is not based on the ability to pay. There is no way in which assessments on merchandise can be "tailored" to match the profit derived from the merchandise. The only solution to the problem within a property tax framework, is to endeavor to achieve more nearly correct assessments upon the basis of average investment in inventory.

Livestock. The policy of the tax commission with reference to the determination of the valuation of all classes of livestock is also promulgated in Circular No. 1. For the assessment of livestock, the circular contains recommendations of minimum average assessed valuations per head for various classes of livestock. These recommended valuations are not minimum valuations. If they were, no assessment of livestock would be made lower than the recommended valuations. Instead, they are minimum average valuations. It is intended that in each county, the average valuation per head for all livestock of a particular classification, such as registered herd bulls, should not fall below the recommended average. However, many individual assessments may be lower, and

many higher, so long as the average is not below the recommended average. With this limitation, the county assessors are expected to assess each herd of cattle or band of sheep according to its true value. Presumably some should be assessed considerably higher than others.

The weakness of this sort of recommendation is the likelihood that county assessors will tend to take the recommended minimum average valuation as a standard valuation per head to be used in all or most assessments. When this is done, actual variations in value are not recognized. True equalization is sacrificed, and in its place there is a false equalization in which all livestock of a particular class are assessed at exactly the same valuation. This is exactly what has happened.

In general, the assessors are assessing the majority of livestock uniformly at the recommended minimum average valuations with little variation therefrom. This represents a commendable compliance with a prescribed policy. However, such compliance is of a mechanical nature, and it is evident that assessors, in general, are giving insufficient attention to the actual variations in value of herds because of varying quality of livestock. It is not likely that livestock are as uniform in value from county to county as the assessment statistics would indicate.

Another factor influencing the value of livestock, in addition to its quality, is the distance to market. The cost of marketing livestock from different parts of the state varies considerably according to distance, and the freight-rate structure which applies. This variation in marketing cost influences the value of the livestock itself, and in turn, should influence the level of assessed valuation. Under present assessment practice, this factor is given no consideration.

Still another factor affecting the assessment of livestock is the fact that such assessment is an inter-county problem. Livestock, being very mobile in nature, and requiring different pastures for each season of the year, is moved during the year from one county to another. By statutory provision, when such movement occurs, each county assesses a part of each herd so moved according to the length of time that it is within the county. Equalization requires that a given herd be assessed at the same valuation per herd in each county wherein it spends any time during the year. For practical purposes, the county assessors have found that the best way to achieve this equality is to assess at a uniform valuation per herd. This is probably the most important cause of the uniformity of assessed valuation referred to before.

It is also important whether all livestock are actually assessed. An equitable rate of valuation per head may be used in such a manner as to properly reflect the true value of each individual head of livestock which is assessed. Yet, if some of the livestock in the state escapes assessment, livestock as a class will be under-assessed

in relation to other classes. In general, investigation shows that county assessors as a group are conscientious in their efforts to assess all livestock within their jurisdiction. Yet, to do so is very difficult. Due to the mobility of livestock, a complete determination of the number of livestock present in a county on the assessment date or which are moved into a county during the year is impossible. That is, an assessor cannot be sure that he has a complete assessment without more man power than is available to him. The only way this could be done with certainty would be by an actual inventory of the livestock. There are no statistics available from any source which can be used as a satisfactory guide as to the number of livestock that should be assessed in any county.

Personal Property Other Than Livestock and Merchandise. Personal property other than livestock and merchandise is very miscellaneous in nature. However, most of such property has certain common characteristics which make it possible to use a common method of appraisal. It consists of various kinds of furniture, fixtures, machinery and equipment. These types of property derive value from utility and their value can be measured by a combination of original cost, allowance for price inflation or deflation, and depreciation and obsolescence.

In general, three methods of assessing furniture, fixtures, machinery and equipment are approved by the tax commission and are in use by the assessors. They are: 1) conversion of original cost to the 1941 level of cost and allowance of annual depreciation; 2) forty per cent of original cost; and 3) eighty per cent of book value. Only the first of these produces equalized assessments within the class of property. However, this one is not widely used because of its difficulty of administration. It requires that more detailed information be obtained, and it requires much more computation than the other two methods. The use of all three methods and some variations of each has the added disadvantage that there is not even uniformity of treatment of individual taxpayers. From the taxpayer's point of view, however, in those counties where all three methods are used, the taxpayer has the privilege of choosing the method he prefers with the provision that once having selected the method he is not permitted to change it.

No single cost conversion table when applied uniformly to all types of personal property will produce the desired result of actually converting to the true level of cost in a year different than the year of purchase. The rate of inflation has varied for different types of equipment. Some equipment may have only doubled in cost; other types may have tripled. Two cost conversion tables are in common use -- one for furniture and fixtures, machinery and equipment such as is usually found in office, mercantile, service and light industrial establishments and one for heavy industrial machinery and equipment, usually appraised by the tax commission industrial engineer. Actually, for the achievement of better equalization there should be a greater number of conversion tables developed and used for different categories of personal property.

No uniform practice of allowing for depreciation can truly reflect the actual loss of value which has occurred with reference to any particular equipment. A certain type of equipment, which has a normal estimated life of ten years, may be worn out and discarded within five years by one taxpayer, and be used profitably for twenty years by another. Furthermore, machinery and equipment may be subject to obsolescence. The development of improved models may cause a loss of value in older models which cannot be accounted for by age or physical condition alone. Therefore, an assessor must temper the use of a mechanical method of appraisal with judgment and recognition of non-typical conditions, and adjust assessments accordingly. As a result of this need, the problem of equalization is further complicated by the fact that poor judgment or lack of time or inclination to consider non-typical conditions may result in one of two things. Either unjustifiable adjustments may be made in assessments, or adjustments which are justified are not made.

Circular No. 1 of the tax commission contains specific recommendations for the assessment of particular types of personal property. These recommendations are a hodge-podge of different methods, some of which conform to one of the three general methods referred to as having been approved, and some of which are deviations from one of the three. Many of them represent a percentage of original cost, some represent a variation of the life schedule method, some represent a conversion to the 1941 cost level, and some represent a combination of two or more methods.

At present, the preferred method as recommended by the tax commission for most personal property, and as used by the assessors, is 40% of cost without conversion to any standard level of cost, and without annual depreciation.

Subcommittee Hearings

Hearings were held in Pueblo, Colorado Springs, and Denver in November, 1959. The purpose of these meetings was to hear representatives of business and industry, Chambers of Commerce, and assessors on the subject of the property tax on business and industrial personal property. About 75 to 85 persons attended each of the three hearings.

The testimony at these hearings centered around five points:

- 1) the personal property tax (particularly the tax on inventories) is inequitable, both in the nature of the tax and in its administration;
- 2) the Colorado tax climate (particularly the inventory tax) is unfavorable to the development of industry in the state;
- 3) either immediate or gradual elimination of the tax on inventories is desirable, if a suitable replacement tax can be found;
- 4) assuming that the personal property tax cannot be eliminated immediately, steps should be taken to reduce the inequities which exist;
- and 5) possible replacement taxes include the net income tax, sales tax, or gross transactions tax.

Inequities

There was general agreement that the personal property tax is inequitable. Objections were raised regarding the unfairness of a tax on inventories which does not take into account such factors as turnover, controllability of inventory, and the general nature of the business.

In addition to complaints about the rationale of the tax, there were objections to administrative inequities. The administrative ruling recommending the taxation of inventories at 50% of cost was heavily criticized as too high in relation to the average sales ratio of 27-28% on real property. Some persons also objected to the practice of assessing at 65% where the average inventory figure is based on fewer than four monthly inventories. A further criticism of administrative inequities was that assessment practices vary widely from county to county and should be made uniform.

Industrial Development

Persons testifying at the hearings seemed to agree that the tax climate of a state is a major factor influencing industry location. Numerous instances were cited in which the Colorado tax structure may have discouraged the location of new industries in Colorado or resulted in the removal of Colorado industries to other states.

The personal property tax was mentioned as one of the taxes which tend to discourage industrial development in Colorado. It was claimed that this tax is more burdensome and more aggressively enforced in Colorado than in competing states. Persons concerned with industrial development suggested the reduction or elimination of this tax as a means of providing more incentive for industrial location in Colorado.

Elimination of the Inventory Tax

Some persons testified in favor of immediate elimination of the inventory tax. Others who favor eventual elimination of the tax felt that, in view of the large amount of revenue involved and the need for developing a replacement tax, the reduction should be gradual over a period of years. One proposal was that the tax on personal property for state purposes be eliminated, leaving the tax for local purposes only.

The subcommittee emphasized the fact that the exemption of inventories or the complete abolishment of the personal property tax could not be effected by the General Assembly alone. It would require a constitutional amendment.

Improvements in Administration of the Present Tax

Improvements in the administration of the present tax were suggested in the event that the tax cannot be eliminated for several years. These included the gradual lowering of the 50% assessment on cost of inventories to the level of assessment on other types of property; the immediate equalization of assessments on machinery, furniture, fixtures, equipment, etc., with assessments on other property; and more detailed statutory direction to encourage uniformity of assessment of personal property throughout the state.

Replacement Taxes

The revenue loss resulting from a constitutional amendment eliminating the personal property tax probably would exceed \$36 million. Most of the persons attending the hearing agreed that a replacement tax would be necessary, assuming that local communities are not willing to lower their budgets and that real property taxes should not be increased to compensate for the revenue loss.

Proposed replacements for the personal property tax, or at least for the inventory tax, included a net income tax, an additional cent on the sales tax, and a gross transactions tax with rates varying according to turnover and type of business. It was also suggested that increased business activity resulting from the elimination of the personal property tax might broaden the tax base for sales and income taxes and thus serve as a partial replacement.

It was pointed out that if the replacement tax is collected at the state level, there will be the problem of finding a suitable formula for the distribution of revenues to local governments.

Taxing Mail Order Branch Officers or Catalog Stores

A specific problem mentioned during the hearings and discussed at length by the subcommittee was the taxation of mail order branch offices or catalog stores. Some mail order houses maintain catalog stores in small towns throughout the state. Local taxing districts are unable to tax the inventory of the mail order house even though the branch office is in effect competing with local merchants who pay the local inventory tax. These communities are seeking a means of taxing catalog stores -- either through the property tax or through some other kind of business tax.

The subcommittee has found no means of taxing the merchandise sold through the catalog store if orders are delivered directly from the main office to the purchaser. The branch office would carry no inventory in this case, and there appears to be no way to allocate any part of the value of the inventory of the main office to the district in which the branch office is located. Personal property

is taxed at its location or at the principal place of business of the owner, and since neither of these requirements is met by the branch office, the mail order house pays its inventory tax in some other taxing district, either inside or outside the state. It does not escape the inventory tax; its competitive position is affected only to the extent that the tax rate it pays is more or less than that of the district in which the branch office is located.

However, if the goods ordered are delivered from the main office to the catalog store for distribution to the customers, the catalog store has an inventory which might be made subject to taxation. A recent decision of the Supreme Court of Iowa (Sears, Roebuck and Company v. City of Fort Madison, 102 NW2d 916) held that such inventories are taxable. In that case the court held that the goods were taxable as the property of the seller until they were paid for and delivered to the customer. The court further held that the goods were not in interstate commerce while being held in the catalog store and therefore were not exempt from local taxation.

Another possibility for reaching mail order branch offices is the imposition of a license or privilege tax on this type of business activity. However, no precedent was found in other states for the imposition of a privilege tax limited to the taking of sales orders. Privilege taxes are usually applied to all retailers, or to large segments of the business activity of the district.

State and Local Revenues From Personal Property Tax

County assessors do not keep their records in such a way as to readily determine the precise amount of dollars collected from the personal property tax. Consequently, the committee endeavored to estimate total collections as nearly as possible.

The Colorado Tax Commission reports each year the total assessed valuation of personal property in each county by the type of property. In order to arrive at revenue estimates the assessed valuation of all merchandise stocks, industrial machinery and supplies, and furniture, fixtures and furnishings were assumed to be located in urban areas. The valuations of these three classes of personal property were multiplied by the average urban mill levy in each county.

Assessed valuations on livestock and farm machinery and implements were multiplied by the average rural levy in each county. The small miscellaneous personal property class in each county was multiplied by the average county levy.

In 1959 Colorado state and local governments derived an estimated \$36 million from the property tax on personal property. Table II on the following page shows the revenue derived from each type of personal property in each county. Approximately \$1½ million of the \$36 million was state revenue and \$34½ million was local revenue.

TABLE II

ESTIMATED REVENUE DERIVED FROM PERSONAL PROPERTY TAXATION IN COLORADO, 1959

County	Merchandise Stocks	Machinery & Supplies (Industrial)	Furniture, & Fixtures Furnishings	Livestock	Farm Machinery and Implements	Other Personal Property	Total -- All Personal Property	
							Assessed Valuation	Estimated Revenue
Adams	\$ 876,277	\$ 406,501	\$ 194,917	\$ 83,529	\$ 94,410	\$ 18,400	\$ 25,002,960	\$ 1,674,034
Alamosa	54,133	19,407	17,004	32,557	32,929	1,241	2,758,555	157,271
Arapahoe	487,447	269,263	150,926	24,384	20,115	22,816	14,781,430	974,951
Archuleta	19,280	24,371	2,743	25,117	8,761	1,221	1,402,177	81,493
Baca	24,645	2,701	5,561	45,824	44,523	1,325	2,935,770	124,579
Bent	19,761	23,570	4,864	40,732	23,121	1,643	2,532,257	113,691
Boulder	373,125	137,823	150,661	57,184	44,970	1,373	12,626,010	765,136
Chaffee	34,994	20,809	13,128	12,297	4,779	3,706	1,562,770	89,713
Cheyenne	11,381	3,235	4,614	35,707	22,671	1,992	1,859,050	79,600
Clear Creek	15,020	6,645	9,712	1,318	175	6,636	511,950	39,506
Conejos	13,792	8,963	2,525	34,860	17,525	5,282	1,694,445	82,947
Costilla	8,983	--	1,808	18,527	19,141	3,507	757,280	51,966
Crowley	12,824	3,143	886	34,378	22,969	2,681	1,461,470	76,881
Custer	2,269	3,928	1,451	25,148	8,420	1,160	813,976	42,376
Delta	77,625	51,317	12,317	70,752	46,294	6,392	4,413,790	264,697
Denver	7,647,407	2,690,755	2,222,042	--	--	306,404	231,097,170	12,866,608
Dolores	8,056	14,774	1,668	11,763	12,711	936	840,780	49,908
Douglas	22,469	35,957	3,363	41,343	19,516	2,527	2,281,900	125,175
Eagle	11,650	21,791	1,887	30,632	7,349	3,241	1,569,611	76,550
Elbert	13,120	15,306	6,554	119,894	67,575	4,074	3,589,942	226,523
El Paso	933,691	492,581	447,997	93,396	25,443	47,233	30,818,490	2,040,341
Fremont	74,614	66,739	24,811	30,457	12,028	7,838	3,569,440	216,487
Garfield	69,735	164,142	24,173	70,427	20,068	5,843	6,322,630	354,388
Gilpin	3,251	1,415	3,000	1,160	667	1,017	130,545	10,510
Grand	13,655	9,579	13,060	33,156	8,044	1,018	1,576,685	78,512

County	Merchandise Stocks	Machinery & Special (Industrial)	Furniture, & Fixtures Furnishings	Livestock	Farm Machinery and Implements	Other Personal Property	Total -- All Personal Property	
							Assessed Valuation	Estimated Revenue
Gunnison	\$ 18,869	\$ 20,712	\$ 8,924	\$ 57,154	\$ 9,162	\$ 3,591	\$ 2,280,090	\$ 118,412
Hinsdale	403	4,845	1,734	5,408	936	423	338,040	13,749
Huerfano	26,536	2,210	9,037	51,779	20,761	2,270	1,874,695	112,593
Jackson	10,014	33,098	2,013	57,296	8,760	750	2,511,561	111,931
Jefferson	610,864	589,014	236,709	35,531	20,084	59,637	21,549,130	1,551,839
Kiowa	9,652	1,956	1,716	25,862	16,112	3,059	1,397,330	58,357
Kit Carson	35,715	--	10,362	89,172	73,155	2,842	4,356,415	211,246
Lake	42,064	902,655	15,572	1,476	2,458	3,370	11,018,310	967,595
La Plata	218,846	188,835	57,067	40,477	23,083	4,865	9,059,780	533,173
Larimer	343,993	128,229	79,583	88,990	70,725	3,950	13,981,200	715,470
Las Animas	97,529	132,179	28,097	177,172	24,643	5,091	5,196,441	464,711
Lincoln	38,460	3,546	5,064	97,917	50,659	11,447	3,588,500	207,093
Logan	186,564	176,384	26,431	114,090	110,266	1,009	10,135,735	614,744
Mesa	600,131	621,514	88,115	104,443	61,891	7,382	20,436,600	1,483,476
Mineral	1,127	2,234	1,472	3,555	363	518	194,817	9,269
Moffat	56,459	138,449	15,506	52,813	17,547	6,487	5,471,245	287,261
Montezuma	117,513	75,623	30,421	36,763	32,314	9,299	4,857,745	301,833
Montrose	78,403	259,619	30,510	73,800	46,068	9,401	7,777,760	497,801
Morgan	154,218	68,772	46,264	91,169	93,373	7,008	11,018,650	460,804
Otero	192,058	39,685	49,677	60,240	68,671	10,443	6,500,410	420,774
Ouray	2,683	14,154	3,110	14,881	3,582	1,875	705,586	40,285
Park	5,948	27,891	3,206	37,784	7,391	7,893	1,801,105	90,113
Phillips	22,518	--	5,951	18,058	49,627	1,634	2,268,310	97,788
Pitkin	17,685	37,822	14,772	14,050	5,985	2,765	1,504,880	93,079
Prowers	63,878	27,200	12,578	56,757	53,828	2,049	4,006,900	216,290
Pueblo	1,599,909	630,719	168,876	73,322	36,348	9,102	33,083,230	2,518,276
Rio Blanco	23,540	223,011	4,969	38,228	11,465	3,162	6,169,510	304,375
Rio Grande	66,173	27,051	8,942	37,782	36,473	992	3,252,003	177,413
Routt	35,102	68,353	16,615	70,467	33,688	14,499	5,036,120	238,724
Saguache	12,436	14,428	1,758	67,336	15,313	152	1,940,950	111,423

County	Merchandise Stocks	Machinery & Supplies (Industrial)	Furniture, & Fixtures Furnishings	Livestock	Farm Machinery and Implements	Other Personal Property	Total -- All Personal Property	
							Assessed Valuation	Estimated Revenue
San Juan	\$ 3,611	\$ 12,883	\$ 3,872	\$ 1,949	\$ 75	\$ 373	\$ 283,550	\$ 22,763
San Miguel	21,853	54,075	3,466	17,039	3,543	2,988	1,883,170	102,964
Sedgwick	63,976	1,059	7,411	26,204	42,893	1,417	2,706,180	142,960
Summit	3,670	51,917	3,176	5,745	4,440	3,682	1,205,855	72,630
Teller	11,367	48,002	9,421	13,492	2,532	13,560	1,191,510	98,374
Washington	18,581	102,932	3,540	64,865	71,090	1,254	6,162,407	262,262
Weld	450,493	204,118	59,845	342,689	336,977	2,386	27,385,150	1,396,508
Yuma	42,111	5,287	12,461	83,581	74,377	1,064	4,837,960	218,881
Total	\$16,134,156	\$9,435,176	\$4,409,915	\$3,223,878	\$2,124,862	\$683,195	\$605,879,913	\$36,011,182

Percentage of Total Personal Property Revenue	45%	26%	12%	9%	6%	2%	100%
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The \$605 million personal property valuation was approximately 17 per cent of the total property valuation in 1959. Assessed valuation is the basis for limits on bonded indebtedness, statutory limits on mill levies, and specified levies such as the 12-mill county wide school levy. Therefore, reductions in the personal property tax base must be approached with caution, even if the revenue loss could be replaced by another tax. Emphasis should be placed on the fact that to exempt personal property from the property tax would require more than a legislative enactment. It would involve an amendment to the state constitution.

Personal Property Taxes in Other States

The subcommittee has reviewed the laws of other states regarding the taxation of personal property. It was found that only a few states have deviated from the traditional method of applying general property tax rates to the value of personal property.

A few states classify property for purposes of taxation. Others allow exemptions of various kinds of personal property. Table III shows the major categories of personal property and a general classification as to the tax status (exempt or taxable) of each category in each state. There are exceptions to these generalizations, but few have been noted in the table because of the need for brevity and simplicity. It should be kept in mind that exemptions from the personal property tax are the exception rather than the rule.

States With No Personal Property Tax

Four states do not tax tangible personal property (Delaware, Hawaii, New York and Pennsylvania) and of these four, only Pennsylvania taxes intangibles. The remaining forty-six states tax at least part of the personal property tax base in some way.

Major Business Exemptions in Personal Property Tax States

Very few of the 46 personal property tax states completely exempt inventories, industrial machinery or furniture and fixtures. This type of business property is productive of revenue, as indicated by estimated Colorado revenues of 83% of the personal property tax tax from these sources in 1959. Only Massachusetts, Arizona, Alabama and Maryland exempt sizable portions of business personal property.

Massachusetts exempts personal property owned by domestic or foreign business corporations and manufacturing corporations. An individual or a partnership pays personal property taxes on machinery, merchandise and other personal property, while a corporation does not. (A non-manufacturing business corporation must pay on machinery used in the conduct of its business). Corporations do pay a state corporate excise tax of \$5 per \$1,000 of corporate excess or of tangible personal property, whichever is higher, plus a 5½ per cent tax on income.

Arizona exempts inventories of manufacturers in the state and Alabama exempts a large portion of its manufacturing inventories. In Maryland, raw materials and manufactured products in the hands of a manufacturer and tools and machinery used in manufacturing may be exempted by any city or county.

Exemption of Farm Machinery and Livestock

Farm machinery and implements and livestock are taxable in most personal property tax states. In some of these states a small exemption is allowed on such property. Only exemptions of \$1,000 or more will be noted here.

Mississippi, Vermont and Wisconsin completely exempt farm machinery and implements from the personal property tax. Connecticut exempts all farm machinery to the value of \$3,000; Maryland exempts farming implements to the value of \$1,500; Massachusetts exempts farm machinery to a value of \$1,000 and Michigan exempts farm equipment and stock up to \$1,000. Alabama, Connecticut and Mississippi completely exempt livestock. Livestock under a certain age is exempted in many states.

Exemption of Household Goods

Several states, including Colorado, exempt household goods which do not produce income. Several others permit an exemption of from \$100 to \$500 for a householder or on household goods. Connecticut, Idaho, Kentucky, Louisiana, Maine, Mississippi, New Hampshire, Ohio, Oregon, South Carolina, Utah, Washington and Wisconsin exempt household goods. Among the larger partial exemptions are: Florida, \$1,000; Massachusetts, \$5,000; Tennessee, \$1,000; Michigan, \$5,000; and Vermont, \$3,000.

Exemption of Intangibles

An analysis of the taxation of intangibles in other states is difficult because of the many exemptions, special taxes and lack of enforcement. Approximately 15 - 20 states exempt intangibles completely or in large part from the personal property tax. Some of the remaining states impose the tax on intangibles at the same rate as other property, while some lower the rate on intangibles.

Industrial Incentive Exemptions

A number of states permit five or ten year property tax exemptions for new industries. These may be permissive for local governments or statewide. They may apply to all new industries or only to certain specified industries. States which permit industrial incentive exemptions are: Alabama, Alaska, Arkansas, Florida, Louisiana, Kentucky, Mississippi, Rhode Island, South Carolina, and Vermont.

TABLE III

Personal Property Taxes -- Taxability of Eight Categories of Personal Property

	<u>Merch. Inv.</u>	<u>Mfrs. Inv.</u>	<u>Indus. Mach. & Supp.</u>	<u>Furn. Fix. etc.</u>	<u>Farm Mach. & Impl.</u>	<u>Live- stock</u>	<u>House- hold Goods</u>	<u>Intang.</u>
Alabama	T	E ²	T	T	T ⁸	E	T ¹⁶	T
Alaska	T	T	T	T	T	T	T ¹⁷	T
Arizona	T	E	T	T	T	T	T	E
Arkansas	T	T	T	T	T	T	T	T
California	T	T	T	T	T	T	T ¹⁸	E
Colorado	T	T	T	T	T	T	E	E
Connecticut	T	T	T	T	T ⁹	E	E	E
Delaware	E	E	E	E	E	E	E	E
Florida	T	T	T	T	T	T	T ¹⁹	T
Georgia	T	T	T	T	T	T	T ²⁰	T
Hawaii	E	E	E	E	E	E	E	E
Idaho	T	T	T	T	T	T	E	T
Illinois	T	T	T	T	T	T	T	T
Indiana	T	T	T	T	T	T	T	T
Iowa	T	T	T	T	T ¹⁰	T	T ²¹	T
Kansas	T	T	T	T	T	T	T ²²	T
Kentucky	T	T ³	T ³	T	T	T	E	T
Louisiana	T	T	T	T	T	T	E	E
Maine	T	T	T	T	T	T	E	T
Maryland	T	T ⁴	T ⁷	T	T ¹¹	T	T ²³	E
Massachusetts	T ¹	T ¹	T ¹	T ¹	T ¹²	T	T ²⁴	E
Michigan	T	T	T	T	T ¹³	T	T ²⁵	T
Minnesota	T	T	T	T	T	T	T ²⁶	E
Mississippi	T	T	T	T	E	E	E	T
Missouri	T	T ⁵	T ⁵	T	T	T	T	T
Montana	T	T	T	T	T	T	T	T
Nebraska	T	T	T	T	T	T	T ²⁷	T
Nevada	T	T	T	T	T	T	T	E
New Hampshire	T	T	T	T	T ¹⁴	T	E	E
New Jersey	T	T	T	T	T	T	T	E

	<u>Merch. Inv.</u>	<u>Mfrs. Inv.</u>	<u>Indus. Mach. & Supp.</u>	<u>Furn. Fix. etc.</u>	<u>Farm Mach. & Impl.</u>	<u>Live- stock</u>	<u>House- hold Goods</u>	<u>Intang.</u>
New Mexico	T	T	T	T	T	T	T	T
New York	E	E	E	E	E	E	E	E
North Carolina	T	T	T	T	T	T	T ²⁸	T
North Dakota	T	T	T	T	T	T	T	T
Ohio	T	T	T	T	T	T ¹⁵	E	T
Oklahoma	T	T	T	T	T	T	T ²⁹	T
Oregon	T	T ⁶	T	T	T	T	E	E
Pennsylvania	E	E	E	E	E	E	E	T
Rhode Island	T	T	T	T	T	T	T	T
South Carolina	T	T	T	T	T	T	E	T
South Dakota	T	T	T	T	T	T	T	T
Tennessee	T	T	T	T	T	T	T ³⁰	T ³⁰
Texas	T	T	T	T	T	T	T ³¹	T
Utah	T	T	T	T	T	T	E	E
Vermont	T	T	T	T	E	T	T ³²	E
Virginia	T	T	T	T	T	T	T	T
Washington	T	T	T	T	T	T	E	E
West Virginia	T	T	T	T	T	T	T ³³	T
Wisconsin	T	T	T	T	E	T	E	E
Wyoming	T	T	T	T	T	T	T ³⁴	T

See footnotes on following page.

Footnotes

1. Massachusetts - Personal property owned by domestic or foreign business corporation and manufacturing corporations is exempt.
2. Alabama - Raw material produced during the calendar year, stocked at any plant for manufacturing purposes in Alabama, is exempt. Manufactured articles in the hands of the producer or manufacturer are exempt for 12 months after their production or manufacture.
3. Kentucky - Machinery and products in course of manufacture including raw materials on hand are subject to state taxation only.
4. Maryland - Raw materials and manufactured products in the hands of a manufacturer may be exempted by any city or county.
5. Missouri - The manufacturers license tax does not apply to manufacturers whose raw materials, finished products, tools, machinery and appliances in the aggregate are valued at less than \$1,000.
6. Oregon - Taxes on manufacturers' inventories can be offset against the corporate franchise (income) tax, up to 1/3 of the 6% income tax.
7. Maryland - Tools and machinery used in manufacturing may be exempted by any city or county.
8. Alabama - Farming tools to the value of \$500 are exempt.
9. Connecticut - Farming tools to the value of \$500 are exempt, and all farm machinery, except motor vehicles, to the value of \$3,000 is exempt.
10. Iowa - Farm equipment to the value of \$300 is exempt.
11. Maryland - Farming implements to the value of \$1,500 are exempt.
12. Massachusetts - Farm machinery to a total value of not more than \$1,000 is exempt.
13. Michigan - Farm equipment and stock up to \$1,000 is exempt.
14. New Hampshire - Vehicles other than motor vehicles, farm tractors, and trailers, in excess of the aggregate of \$100 are taxable.
15. Ohio - Resident individuals receive an exemption of the amount of \$100 from the aggregate listed value of their domestic animals.

16. Alabama - Furniture is exempt to the value of \$500.
17. Alaska - Household furniture of the head of the family, not exceeding \$200 in value, is exempt.
18. California - Personal property of a householder in the amount of \$100 is exempt.
19. Florida - Household goods and personal effects of residents to the value of \$1,000 are exempt.
20. Georgia - Clothing, household furniture, domestic animals and tools of manual laborers to the amount of \$300 are exempt.
21. Iowa - Household furniture to the value of \$300 is exempt.
22. Kansas - Personal property to the amount of \$200 for each family is exempt.
23. Maryland - Household furniture to the value of \$100 is exempt from county and municipal taxes and entirely exempt from other taxation.
24. Massachusetts - Household furniture and effects to a total amount of \$5,000 are exempt.
25. Michigan - Household furniture, provisions, and fuel up to \$5,000 are exempt.
26. Minnesota - Household property to extent of \$100 is exempt; county board may completely exempt household goods from taxation.
27. Nebraska - Household goods to the value of \$200 are exempt.
28. North Carolina - Wearing apparel, household goods, mechanical and agricultural instruments, libraries and scientific instruments, provisions and livestock are exempt to \$300.
29. Oklahoma - Household goods, tools, implements and livestock not exceeding \$100 are exempt.
30. Tennessee - Personal property is exempt to the extent of \$1,000.
31. Texas - Household furniture is exempt to the extent of \$250.
32. Vermont - Household furniture and equipment is exempt to \$3,000.
33. West Virginia - Household goods to \$200 and food stores for family use are exempt.
34. Wyoming - Household property up to \$100 is exempt.

Alternatives to the Present System of Taxing Personal Property

The subcommittee has studied a number of possible alternatives to the personal property tax. The first step was to look at states which do not have a personal property tax, in order to ascertain how these states have structured their taxes to provide the necessary revenue. The second step was to study types of variations and replacements used or proposed in other states or other jurisdictions.

States Which Do Not Tax Tangible Personal Property

As was indicated in the preceding section, only four states have completely abandoned the tax on tangible personal property. Thus only in those four states can any tax be considered an "in lieu" tax.

The four states are Delaware, Hawaii, New York, and Pennsylvania. Two of them (New York and Pennsylvania) permit extensive local non-property taxation which helps to compensate for the local revenue loss. Local non-property taxation in the other two states is relatively minor.

Delaware. Delaware does not impose a personal property tax. Apart from real property taxes, there are no general provisions for local taxes. Municipal taxing powers are governed entirely by local legislation and charter provisions. There are no income, sales, or similar taxes imposed by the principal cities, although business and occupational licenses are common. It is well known that the state of Delaware supplies a much larger proportion of local school money than do most state governments.

Merchants and manufacturers pay a state license privilege tax measured by their gross receipts or gross purchases. This tax produces a very small portion of state revenue, but its provisions may be of interest in considering replacement taxes.

Manufacturers and processors, retail and wholesale merchants, produce dealers, branch stores, warehouses and distributing depots are taxable. Exemptions are provided for the producers of liquor, utilities, and agricultural products.

For manufacturers and processors the rate of tax includes a \$5 license fee per year, plus the payment of 1/40 of 1 per cent on the aggregate gross receipts for the year. For retail and wholesale merchants the rate of tax is \$5 for the license, plus 1/7 of 1 per cent of the aggregate cost value of merchandise in excess of \$5,000. Produce dealers pay 30 cents per \$1,000 of the cost value of commodities purchased and receive a credit of \$5 for the license fee. The license fee for branch stores, warehouses and distributing depots is \$10 for each place of business, plus 1/7 of 1 per cent of the aggregate cost value of merchandise in excess of \$5,000.

The Delaware state tax structure includes the following taxes which produced these percentages of state tax collections for the fiscal year ending June 30, 1959:

Personal income tax	41.263%
Franchise tax	14.038
Gasoline tax	12.187
Corporate income tax	7.743
Motor vehicle fees	6.187
Alcoholic beverage taxes	3.168
Cigarette tax	2.794
Insurance tax	2.374
Merchants and manufacturers tax	1.162
Other taxes and fees	9.084

Hawaii. The tax system of Hawaii is unlike that of most other states in that the power to tax remains almost exclusively in the hands of the state government. There are no statutes allowing counties to levy taxes on their own. School districts, towns, townships, special administrative districts and other forms of local government common to the mainland states are nonexistent in Hawaii. The maximum amount of annual property taxes is determined by the legislature. The revenues to be sought each year are determined by the county budgets, subject to statutory limits. Tax rates for each county are computed on the basis of the amounts authorized for collection under the annual county budgets and the net taxable value of real property assessed by the State Department of Taxation. The personal property tax was repealed in 1947. It had gradually diminished in significance over the years due to an increasing number of exemptions.

The state of Hawaii has a general excise tax which is a privilege tax imposed on anyone engaged in business and other activities in the state, based on value of products, gross proceeds of sales or gross income. This tax produces 42 per cent of Hawaii's revenue. The incidence of the tax is on the seller, not the consumer. The rates vary for different types of business as follows:

Manufacturers who mill or process sugar	2½%
Pineapple canners	2½
All other manufacturers	1
Retailers of tangible personal property	3½
Wholesalers of tangible personal property	¾ of 1%
Producers	1
Contractors	3½
Theaters and amusements	3½
Radio broadcasting stations	3½
Sales representatives (commission basis)	3½
Service businesses (not otherwise taxed)	3½
Professions	3½
All other sources	3½

The state tax structure is made up of the following taxes:

General Excise Tax (Gross Income) and Compensating and Consumption Taxes	42.391%
Net Income Tax	24.416
Real Property Tax	14.026
Fuel Tax	10.226
Other Taxes	8.941

The four counties are the only political subdivisions in Hawaii. They receive all of the property tax and various percentages of the gross income and motor fuel tax collections from the State for their support. In their own behalf, they are authorized to levy only a motor vehicle weight tax, a public utility franchise tax, a liquor license tax, and a variety of other business license fees.

New York. In New York, local governments cannot tax personal property but are permitted to levy a variety of special taxes, including sales and use taxes, motor vehicle use taxes, admissions taxes, taxes on coin-operated amusement machines, hotel room occupancy taxes, consumers' utility taxes, taxes on the privilege of selling liquor wine or beer at retail, and various license fees. The state tax commission has set up model resolutions and regulations for the imposition of these taxes.

New York City is permitted to levy most of the above taxes, and also imposes a gross receipts tax on the privilege of carrying on or exercising any trade, business, profession, vocation or commercial activity, or any financial business, within the City of New York. The tax is not imposed on those trades, businesses, professions, vocations or commercial activities where the gross receipts do not exceed \$10,000 per year, nor on a financial business where the gross income does not exceed \$5,000 per year.

The rate is $\frac{2}{5}$ of 1 per cent of gross taxable receipts in excess of \$10,000 of a trade, business or profession other than a financial business. However, dealers in merchandise where the spread or difference between the cost of goods sold and the sale price is in the nature of a commission and more than 3 per cent but not more than 7 per cent are taxed at the rate of $\frac{3}{20}$ of 1 per cent of gross receipts in excess of \$10,000.

The rate is $\frac{1}{2}$ per cent on taxable gross income in excess of \$5,000 of any financial business other than an investment company. Investment companies are taxed at $\frac{3}{5}$ of 1 per cent of gross income in excess of \$5,000.

State taxes in New York are as follows:

Personal income tax	36.126%
Franchise tax, business corporations, etc.	14.271

Motor fuel tax	8.963%
Motor vehicle registration fees	8.088
Alcoholic beverage tax	5.067
Cigarette and tobacco products taxes	4.399
Insurance companies tax	3.605
Stock transfer tax	3.492
Tax on utility services	3.061
Other	12.928

Pennsylvania. Tangible personal property is not taxable in Pennsylvania although intangible personal property is taxed by counties at a uniform statewide rate.

Local governments (except counties) are permitted to levy various special taxes not pre-empted by the state. These include income taxes, license taxes, amusement and admissions taxes, transfer, document and registry taxes, and mercantile license and business privilege taxes. Rate maximums are set for some of these permissive taxes, and millage equivalent limitations have been established for the aggregate amount to be collected from special taxes.

An example of a mercantile license tax is the Philadelphia tax levied on wholesale and retail dealers or vendors in goods, wares and merchandise, on manufacturers, and on all other persons engaged in business. The rate is 3 mills on each dollar of the annual gross volume of business for all businesses. An optional rate (after deducting cost of goods and cost of labor) is 3 per cent for wholesalers, or wholesalers and retailers, and 2 per cent for manufacturers, or manufactureres and retailers.

The state tax system includes the following taxes:

Selective sales and use tax	24.383%
Gasoline tax	18.489
Corporate net income tax	14.299
Motor vehicle registration fees	9.231
Cigarette tax	6.926
Alcoholic beverages tax	5.942
Capital stock tax (domestic corporations)	4.880
Inheritance and estate tax	4.565
Insurance tax	3.166
Other	8.119

Types of Variations and Replacement Taxes

A survey of variations on the personal property tax and possible replacement taxes shows that there are, in general, three possibilities in addition to improvements in administration of the present tax.

1. Property tax classification system

2. Gross receipts tax.

3. Gross profits tax.

Property Tax Classification Systems. A few states have statutory property tax classification systems which usually result in lower valuations or lower rates for at least some types of tangible personal property.¹ Colorado has no statutory classification system; all property is required to be assessed and taxed uniformly. Although in Colorado inventories are usually assessed at 50 per cent of cost value and realty is assessed at an average of 27 per cent of sales value, this is an administrative, not a statutory differentiation.

The classification systems described in this section differ from the Colorado method in at least three respects. First, in some of these states personal property is taxed or assessed at a lower level than real property rather than at an equal or higher level. Second, the classification has been legislatively determined. And third, the states described do not treat all types of tangible personalty in the same way, e.g., stocks of merchandise may be taxed or assessed at one level while household goods or manufacturing machinery are taxed at a different level.

In Minnesota, Montana, Ohio and Arizona the assessed value of different classes of property varies according to a statutory schedule of percentages of full value. In West Virginia, Kentucky, and Virginia the assessed value is uniformly determined, but different rates are applied to the various classes of property and in some cases certain classes of property are made subject to state taxation but exempted from local taxation.

It should be emphasized that the adoption of a classification system providing lower valuations, lower rates or exemption from local taxation for personal property would result in a loss of revenue. A substitute form of taxation would be required to produce the same amount of revenue for state and local government purposes.

Minnesota

In Minnesota, all property is assessed at its true and full value and is then classified for purposes of taxation at certain percentages of this value. The schedule is given below.

1. Many states classify intangible personal property for a lower rate, but since Colorado exempts intangibles, this kind of classification system will not be discussed in this report.

Class	Description	Per cent of "full and true" value
1. Personal Property		
1.	All mined iron ore in stockpile	50
1A.	Direct products of blast and open hearth furnaces, not further processed	15
2.	Household goods and other personal property actually used for personal and domestic purposes or for the furnishing and equipment of the family residence	25
3.	Business property, including stocks of merchandise together with the furniture and fixtures used therewith; manufacturers' materials and manufacturers' articles; all agricultural products not in the hands of the producer; all tools and implements; and all machinery not permanently attached to, and a part of the real estate, except agricultural products in the hands of the producer and farm tools and implements and machinery used by the owner in any agricultural pursuit	33 1/3
3A.	All agricultural products in the hands of the producer	10
3D.	All livestock and poultry and all agricultural tools, implements and machinery used by the owner in any agricultural pursuit	20
4.	Structures on railway land not owned by railroads; private property on urban public lands; water craft; transmission and distribution systems of utility and pipeline companies; billboards and other advertising devices; and other taxable personalty	40
None given	Electric distribution lines, for sale of electricity to farmers at retail	5
	Other rural electric transmission lines	33 1/3
	Personal property of petroleum refineries	17

II. Real Property

1.	Unmined iron ore	50
1A.	"Low grade" iron ore, with "tonnage recovery" below 50 per cent, maximum rate of assessment to decrease 1½ per cent for each 1 per cent decrease in "tonnage recovery" (ratio of weight of post-beneficiation concentrate to the weight of low grade ore), up to a minimum	48½ to 30
3.	Non-homestead real estate which is rural in character, devoted or adaptable to rural but not necessarily agricultural use	33 1/3
3B.	First \$4,000 of "true and full" value of rural homesteads	20

3C.	First \$4,000 of "true and full" value of urban homesteads	25
3CC.	First \$8,000 of "true and full" value of all real estate with special fixtures adapted for occupancy by permanently disabled veterans	5
4.	Urban real estate and urban homesteads on "true and full" value above \$4,000, urban homesteads of totally disabled veterans above \$8,000	40
None given	Real property of petroleum refineries	27

Personal property of every household up to \$100 of assessed value is exempt. The state does not levy any tax on Class 2 property (household goods, etc.), and the county board of any county may exempt from taxation all Class 2 property situated within the county.

Intangible personal property is not subject to the property tax in Minnesota.

Montana

Property is assessed at its full cash value and then classified and taxed at various percentages.

Class 1.	net proceeds of mines, mineral rights and royalties	100%
Class 2.	household goods, agricultural and commercial machines, meter vehicles, and boats	20%
Class 3.	livestock, poultry and unprocessed products of both, merchandise, furniture and fixtures in stores, offices and hotels	33 1/3%
Class 4.	real estate and improvements and manufacturing and mining machinery	30%
Class 5.	moneys and credits, cooperative rural electrical associations, unprocessed agricultural products	7%
Class 6 and 7.	other property	40%

Ohio

In Ohio, real property is valued at its true value in money (100%). Personal property is assessed at the following percentages of true value:

At 50% of true value:

1. The average value of all articles purchased, received or otherwise held by a manufacturer for the purpose of being used in manufacturing, combining, rectifying, or refining.
2. The average of all articles which were at any time manufactured or changed in any way by the taxpayer, either by combining or rectifying, or refining or adding thereto, but not including finished products unless kept or stored at the place of manufacture or at a warehouse in the same county therewith.
3. Agricultural products on farms.
4. Engines, machinery, tools and implements:
of a manufacturer;
used in mining;
used in stone plants and gravel plants;
used in agriculture;
used in laundries, towel and linen supply and dry cleaning plants;
used in radio and television broadcasting.
5. Domestic animals used in agriculture.

At 100% of true value:

Boilers, machinery, equipment and personal property used for the generation or distribution of electricity.

At 70% of true value:

All other personal property used in business.
Domestic animals not used in agriculture.

Arizona

Arizona has classified certain machinery and equipment for assessment at a lower percentage of true value. All property is required by statute to be assessed at its full cash value in Arizona. However, machinery and equipment used exclusively in operating a manufactory are assessed at 50 per cent of book value, but in any event not less than 10 per cent of cost, plus capitalization.

West Virginia

All property in West Virginia is assessed at true and actual value. The classification is in the rates applied to the various types of property.

The basic rate of tax consists of an aggregate rate which is the sum of all the rates for state, county, city, district, etc. This basic rate is applied to Class I property, which includes agricultural personal property and products and intangibles. Twice the basic rate is applied to Class II property, which includes

certain residential property and farms. All other property is either Class III or Class IV, depending upon whether it is located inside or outside a city. Four times the basic rate is applied to Class III and Class IV property, but as to Class III property the city rate would not be included in the aggregate rate.

Kentucky

State tax rates in Kentucky are not uniform on all classes of property, although local rates apparently are uniform. The state rates are as follows:

Bank deposits	0.1 cents per \$100
Real property, unmanufactured agricultural products, and tobacco	5 cents per \$100
Indebtedness to brokers of securities	10 cents per \$100
Money in hand, shares of stock, notes, bonds, accounts and other credits, secured or unsecured	25 cents per \$100
Motor vehicles	3% of 90% of retail price
Crude petroleum	½ of 1% of market price
All other property	50 cents per \$100

Some property is subject to state taxes only. This includes:

1. Accounts receivable by brokers of securities on marginal transactions;
2. Bank deposits; money, notes, bonds, accounts and other credits, and shares of stock (other than banks and domestic life insurance companies);
3. Machinery and products in course of manufacture including raw materials on hand;
4. Nonmanufactured agricultural products over the value or amount of any unpaid nonrecourse loan granted by the U. S.;
5. Capital stock of building and loan associations;
6. Farm implements and machinery used in the operation of a farm; livestock and domestic fowls.

The tangible personalty which is not subject to local taxation thus receives preferential treatment although it is not completely exempted.

Virginia

In Virginia the governing body of any county, city or town may impose varying rates of levies on real estate, tangible personal property or merchants' capital. Counties may also classify farm machinery, tools or livestock. Counties and municipalities may

classify household items separately from other tangible personal property and fix a rate thereon (not to exceed rate imposed on other tangibles), or may exempt household items from tax.

Virginia also has a state-local classification of taxable property similar to Kentucky's.

Property subject to local taxation includes:

1. Real estate;
2. Tangible personal property;
3. Tangible personal property of public service corporations (except rolling stock of corporations operating steam railroads);
4. Capital of merchants.

Property subject to state taxation includes:

1. Insurance companies;
2. Intangible personal property (this includes capital employed in a trade or business, except merchants' capital);
3. Rolling stock of all corporations operating railroads by steam;
4. All other classes of property not specifically enumerated as being taxable locally.

Gross Receipts Tax. A gross receipts tax is often mentioned as a substitute for the personal property tax. Most states use gross receipts taxes in addition to personal property taxes, rather than as a substitute, but it would be possible to impose a gross receipts tax to replace personal property tax revenues.

There are numerous variations on the gross receipts tax. The four principal factors involved are tax base, incidence, jurisdictional level, and rates.

A gross receipts tax could be levied on the gross receipts of retailers only, as in most sales taxes. Or it could be extended to include wholesalers, manufacturers, services, professions and others.

It could place the legal incidence on the consumer, as in the sales tax, or on the seller or other businessman, as in gross transactions taxes or license taxes measured by gross receipts.

The tax could be levied and administered by the state (e.g., an additional one or two per cent on the sales tax) and distributed to local governments by earmarking or by other measures of state aid. On the other hand, it could be administered and collected at the local level. A locally administered tax could be either permissive or mandatory.

A gross receipts tax could be levied on all businesses at a uniform rate, or at different rates set for different types of business, taking into consideration such factors as markup, turnover, and overhead. Differing levels of local property tax rates might also be taken into consideration. For example, a gross receipts tax

at the local level could involve the application of property tax rates to varying percentages of gross receipts (the percentage to be determined by turnover and other factors).

An interesting example of the use of a gross receipts tax which uses property tax rates is the turnover tax in Saint John, New Brunswick. In that city, nearly all personal property except motor vehicles is exempt from property taxation. Twenty per cent of the city's tax revenue comes from two rather unusual taxes, the business tax and the turnover tax. Both of these taxes provide methods of determining values to which the general property tax rate is applied.

The turnover tax is levied against retail and wholesale merchants or traders and is based on the volume of sales for the previous year. It is computed by applying specific percentage rates to the previous year's gross sales. This produces the amount of assessable value to which the general tax rate is applied to compute the amount of tax payable.

The various types of businesses are classified according to the markup or percentage of profit on the merchandise they sell. There are six classifications for retailers and three for wholesalers, with percentage rates ranging from 10 per cent to 25 per cent and 7½ per cent to 12 per cent respectively.

The business tax is levied against all persons doing business within the City of Saint John other than merchants and traders. Those liable for it include professional persons such as doctors, lawyers, accountants, manufacturers, banks, insurance companies, and many others.

They are divided into three categories, each group being given a special percentage rate, namely 60 per cent, 112 per cent, and 150 per cent. The designated percentage is applied to the assessed value of the premises occupied. This produces the valuation to which the property tax rate is to be applied in computing the amount of business tax.

Gross Profits Tax. A proposal for a gross profits tax has been under consideration for several years, but no state has adopted such a tax. The proposal was intended primarily as a substitute for the inventory tax. All merchants engaged in the business of selling merchandise within the taxing jurisdiction would be subject to a "merchants license tax" based on the gross merchandise profit realized from the sale of their merchandise. The gross profit subject to such tax would be the excess of sales over the cost of such sales. The rate to be applied to gross profit would depend on the revenue needed.

The late Mr. Joseph Martel, Vice President, McKesson and Robbins, Incorporated, a proponent of the gross profits tax, listed some of its advantages as:

1. A new and different tax would be imposed dedicated solely as a substitute for the ad valorem tax on merchandise inventories.
2. Under this proposal effect is given to the amount of profit in the inventory as well as the turnover of the merchandise, thereby giving much greater effect to the principle of ability to pay.
3. The goal of equalization and uniformity in the tax burden on inventories would be more perfectly achieved.
4. Imported merchandise exempt from the general property tax would be taxed on a gross profit basis the same as any other merchandise.
5. Administration of the tax on inventories would be much simplified, since sales within the taxing jurisdiction could generally be determined and verified and since the cost of sales could be checked in the manner stated above. Returns filed on a gross profit basis could be more expeditiously audited than on an ad valorem basis.
6. Collection of the tax would be greatly expedited, since the license tax would be computed on and remitted with the license tax return.
7. Predetermination of the tax and a greater degree of certainty as to the amount of tax, resulting in greater satisfaction to the taxpayers thereby avoiding sources of irritation between the taxpayer and the tax administrator.

Mr. Martel said that the only objection to such system of taxation is that based on ability to pay it does not spread the burden so fairly and equitably as an income tax since it does not allow for selling, distributive and administrative expenses. However, many jurisdictions presently impose an income tax and an additional one for this purpose would be too confusing and would affect other businesses not involving inventories.

Subcommittee Recommendations

1. The subcommittee has centered its attention around the taxation of merchandise and manufacturing inventories. Inventories constitute nearly half of the personal property tax base and it is for this type of property that the need for a change is considered most urgent. Since the exemption of inventories from the property tax would be a matter for constitutional amendment, we have given considerable attention to immediate needs for improvement in the administration of the present tax. We have studied the 1958 report of the Committee on Assessment Methods, testimony at the hearings, and other sources of information regarding inequities in assessments.

The subcommittee recommends legislation which would base the appraisal of inventories on the average of twelve monthly figures, derived either from physical or computed inventories. The computation of inventory would often be under the "retail inventory" system already familiar to most taxpayers. A bill to require monthly inventories under regulations prescribed by the Tax Commission has been prepared and is recommended for consideration.

2. The subcommittee recognizes the need for continued study of the personal property tax. Although the subcommittee has considered various replacement taxes in general terms, no information was available from which to determine the size of the tax base and the rates required for each of the proposed replacements. The subcommittee recommends that data be compiled from the State Revenue Department so that replacement taxes can be studied more thoroughly in the future with reference to rates and revenues.

3. The subcommittee feels that the assessment level for inventories may be high in comparison with the assessment level for other types of property. Consequently, a gradual equalization program should be begun immediately.

A BILL FOR AN ACT

RELATING TO ASSESSMENT OF MERCHANDISE AND MANUFACTURES, AND TO

AMEND 137-3-25 AND 137-3-26, COLORADO REVISED STATUTES 1953.

Be It Enacted by the General Assembly of the State of Colorado:

SECTION 1. 137-3-25, Colorado Revised Statutes 1953, is hereby amended to read:

137-3-25. Average of merchandise. In ascertaining the amount of moneys of any taxpayer invested in merchandise or in manufactures, the assessor shall ascertain the average amount during the ~~fiscal~~ CALENDAR year ~~for which the tax is to be levied~~ ENDING WITH THE LAST DAY OF DECEMBER PRECEDING THE ASSESSMENT DATE. The ~~average~~ amount of money invested in such merchandise or manufactures ~~during~~ AT THE END OF EACH OF THE twelve CALENDAR months ending with the last day of December ~~of such fiscal year~~ PRECEDING THE ASSESSMENT DATE shall be AVERAGED AND THE RESULTING AMOUNT SHALL BE taken as a true measure of the value of such merchandise or manufactures for ~~such fiscal year~~ SAID ASSESSMENT DATE; PROVIDED, HOWEVER, THAT IF THE TAXPAYER HAS NOT BEEN ENGAGED IN BUSINESS FOR THE ENTIRE TWELVE MONTHS PERIOD ENDING WITH THE LAST DAY OF DECEMBER PRECEDING THE ASSESSMENT DATE, THEN THE AVERAGE SHALL BE ASCERTAINED AS PROVIDED IN SECTION 137-3-26. ~~Provided, however, that~~ Neither the term "merchandise" nor the term "manufactures" shall be deemed to include livestock and agricultural or livestock products in a raw or unprocessed state, except such agricultural or livestock products as are held by a retailer for sale to the ultimate consumer.

SECTION 2. 137-3-26, Colorado Revised Statutes 1953, is hereby amended to read:

137-3-26. Average of moneys invested. In listing the credits and moneys invested in merchandise or manufactures, the person making the list shall state the ~~average~~ AMOUNT of such moneys and credits invested in such merchandise or manufactures, ~~during-each calendar-month~~ AT THE END OF EACH OF THE TWELVE MONTHS of the CALENDAR year ending with the last day of December PRECEDING THE ASSESSMENT DATE AND THE AVERAGE OF SUCH AMOUNTS SHALL BE SET FORTH. If he has not been a resident of the county or has not been engaged in the business of merchandising ~~so-long~~ THROUGHOUT SUCH TWELVE MONTHS PERIOD, then he shall ~~take-the-average~~ STATE THE AMOUNT OF OF MONEYS AND CREDITS INVESTED AT THE END OF EACH MONTH during such ~~time~~ PERIOD as he may have been so resident or engaged AND THE AVERAGE THEREOF SHALL BE OBTAINED; OR IF HE COMMENCES BUSINESS AFTER THE LAST DAY OF DECEMBER, HE SHALL STATE THE AMOUNT OF MONEYS AND CREDITS INVESTED AT THE END OF EACH MONTH FROM THE DATE OF COMMENCING BUSINESS TO THE ASSESSMENT DATE; ~~and~~ OR if he be commencing BUSINESS ON THE ASSESSMENT DATE, he shall take the value of the property on hand ~~at-the-time-of-listing~~ ON THE ASSESSMENT DATE. EACH MERCHANT OR MANUFACTURER SHALL FILE WITH THE ASSESSOR AN AFFIDAVIT SETTING FORTH HIS OPENING AND CLOSING INVENTORY, GROSS SALES, AND COST OF GOODS SOLD, TOGETHER WITH A COPY OF DEPRECIATION SCHEDULE, AS SHOWN ON HIS STATE INCOME TAX RETURN FOR THE LAST CALENDAR OR FISCAL YEAR ENDING PRIOR TO THE ASSESSMENT DATE. SAID AFFIDAVIT SHALL BE STRICTLY CONFIDENTIAL AND SHALL ONLY BE

AVAILABLE TO THE ASSESSOR, THE COUNTY BOARD OF EQUALIZATION, AND THE STATE TAX COMMISSION. Any person who purchases, receives, or holds personal property of any description for the purpose of adding to the value thereof by any process of manufacturing, reducing, extracting, refining, purifying, or by the combination of different materials with the view of making gain or profit by so doing and by selling the same, shall be held to be a manufacturer for the purpose of assessment and collection of taxes, and he shall list for taxation the average value of such property in his hands ~~estimated~~ IN THE SAME MANNER as merchants are directed by section 137-3-25 to ~~estimate~~ STATE the amount invested in merchandise. Provided, however, that the grading, sorting, classifying, or packaging of raw unprocessed agricultural or livestock products shall not constitute one a "manufacturer".

SECTION 3. Constitutionality clause. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, such invalidity shall not affect other provisions or applications of the act which can be given effect without the invalid provision or application, and to this end the provisions of this act are declared to be severable.

SECTION 4. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.