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Taxation in South Dakota: A Preliminary Report

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TAXATION IN SOUTH DAKOTA

A Preliminary Report

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TAXATION IN SOUTH DAKOTA

INTRODUCTION

The demands for tax-supported services in South Dakota are ever increasing while the tax redeipts to finance such services are not increasing accordingly. The upward trend in the cost of education , highway and public welfare programs are prime examples of the additional revenue requirements. Methods of financing these programs and the effect of financial policies on those paying the tax bills will be the subject of this report.

Voters and state legislators need to know the effects of alternative programs for collecting and spending state revenues. In this report an attempt will be made to point out the major services that are received from taxation as well as how much these services are costing. Major emphasis will be placed on taxes paid by South Dakota citizens, with particular consideration given to the affects of various tax policies on the farmers.

In the operation of the economic system in this country a very large percentage of the decisions made by individuals, either to buy or to sell goods or services, is left to the discretion of those buying and selling. If buyers feel that the price of a desired item is too high, they either attempt to get along without it or possibly buy a cheaper substitute. Such decision making is and has been an important factor in raising the level of living in this country.

An exception to this important aspect of economic activity can be found in the field of taxation. How often do people evaluate the services they are receiving when making tax payments? Do they consider whether a good tax purchase is being made or do they feel that the product or service offered for sale is overpriced?

To have a system of taxation that is thought by all taxpayers to be

one that distributes the burden of payments fairly, is an ideal probably never attainable. However a constant effort should be made to reach that goal. By so doing the inequalities that do exist can be minimized.

In order to make a meaningful appraisal of a tax system, or any aspects thereof, there must be some uniformity of ideas relative to what is right or desirable and what is wrong or undesirable in tax policy.

It is proper therefore that generally accepted principles or underlying thoughts relative to the goodness or badness of tax policies or tax proposals be pointed out. Five of these more commonly accepted views are listed below:

1. A good tax system is one that tends to equalize the burden of tax payments within groups and between groups.
2. Tax obligations should be imposed in accordance with the taxpayer's ability to pay.
3. Net income received during a specified period of time is one of the best tools to use in measuring ability to pay. Net income does not necessarily have to be monetary gain.
4. The tax burden can best be measured in terms of how such tax payments fit in with the total tax bill paid by groups or individuals.
5. Benefits received from tax expenditures should be taken into account when determining who should bear the burden of taxation.

CHAPTER I

MAJOR TAX LEVIES IN SOUTH DAKOTA

South Dakota taxpayers are obligated to pay taxes of many different types. From the standpoint of governmental units levying taxes they may be broadly classified into four groups--Federal, State, County and Local. The County and Local taxes are often included together and referred to as Local taxes which are primarily the property tax levies for schools, county roads and other county and city administered services.

When one considers the many different types of taxes in each group, and the wide variation in laws pertaining to the many types, it is no wonder that most taxpayers find it difficult to understand our tax system.

The major taxes to which citizens of South Dakota are subject, as well as the amount that was collected from each type of tax in 1950, 51, and 52 can be found in table I . The per cent of Federal, State and Local taxes to total taxes paid in South Dakota in 1952 was 46% Federal, 23% State, and 31% Local.

Table I shows that the taxes collected in South Dakota in 1952 yielded about $164,000,000. In that year the population in this state was about 650,000, which would result in an everage per capita tax of about $250. Great differences do exist in taxes paid among individuals as well as among groups in South Dakota. However, the total tax bill in relation to the relatively small number of people in this state to pay the bill, frequently presents a problem. This relationship between population and the total tax bill makes it especially necessary that the tax receipts be spent as wisely as possible, and that the burden of payments be distributed with every consideration toward fairness.

From the standpoint of the total amount of taxes paid to governmental units, federal taxes in South Dakota account for the largest percentage. For the fiscal year beginning July 1, 1951 and ending June 30, 1952 the

Table I .

Federal, State and Local Tax Levies in South Dakota for Selected Years

Type of Taxes	1952 (000)	1951 (000)	1950 (000)
Federal	$ 76,069	$ 64,282	$ 56,718
(per cent of total)	(46%)	(43%)	(41%)
State			
Sales taxes	14,128	16,172	14,904
Motor Fuel, Licenses*	9,602	7,924	6,706
2% Auto Registration, use, store tax, or private car line, etc.	4,148	5,863	5,416
Cigarette	1,799	1,794	1,788
Liquor License & Tax*	1,695	2,405	2,169
Motor Carrier Compensation	1,614	1,466	1,401
Insurance Premiums Tax	1,143	1,042	995
Other State Licenses & Taxes	2,802	4,518	4,416
Total State	$ 36,931	$ 41,184	$ 37,795
(per cent of total)	(23%)	(27%)	(27%)
Local			
County	17,008	13,395	13,421
Townships	2,735	2,794	2,883
School Districts	23,102	21,411	20,311
City & Towns	7,279	6,532	6,058
Miscellaneous	651	606	583
Total Local	$ 50,775	$ 44,738	$ 43,256
(per cent of total)	(31%)	(30%)	(32%)
Grand Total Taxes	$ 163,775	$150,204	$ 137,769
Total Per Cent	(100%)	(100%)	(100%)

*Refunds Deducted

Sources:

Federal Data - United States Department of Commerce, Bureau of Census, Statistical Abstract of the U. S. 1953

State Data - Greater South Dakota Association Bulletin, September 25, 1953.

Local Data - State of South Dakota, Annual Reports of the Department of Finance, Fiscal Year 1951, 52, 53.

personal income taxes paid in South Dakota amounted to $60,108,000, the corporate income taxes totaled $11,157,000 and other federal miscellaneous income tax receipts tallied $4,804,000 in this state. 1/

Local taxes followed federal levies in importance in terms of total taxes levied by governmental units, while state-levied taxes yielded less than either federal or local.

State and local taxes amounted to almost 93 million dollars in 1953. About 60 per cent of this amount was local taxes with the remaining 40 per cent state taxes.

The pie chart on page 6 reveals the percentage of state and local tax revenue collected from the major types of taxes imposed by these two governments in 1953.

Changes have been and seem to be occurring relative to the proportions of the total tax bill paid in Federal, State and Local Taxes. In dollar amounts all three types of taxes since 1941 have shown a steady increase. In terms of the percentage of total bill the trend has been for local and state taxes to decline while the federal part of the total tax obligations has been upward.

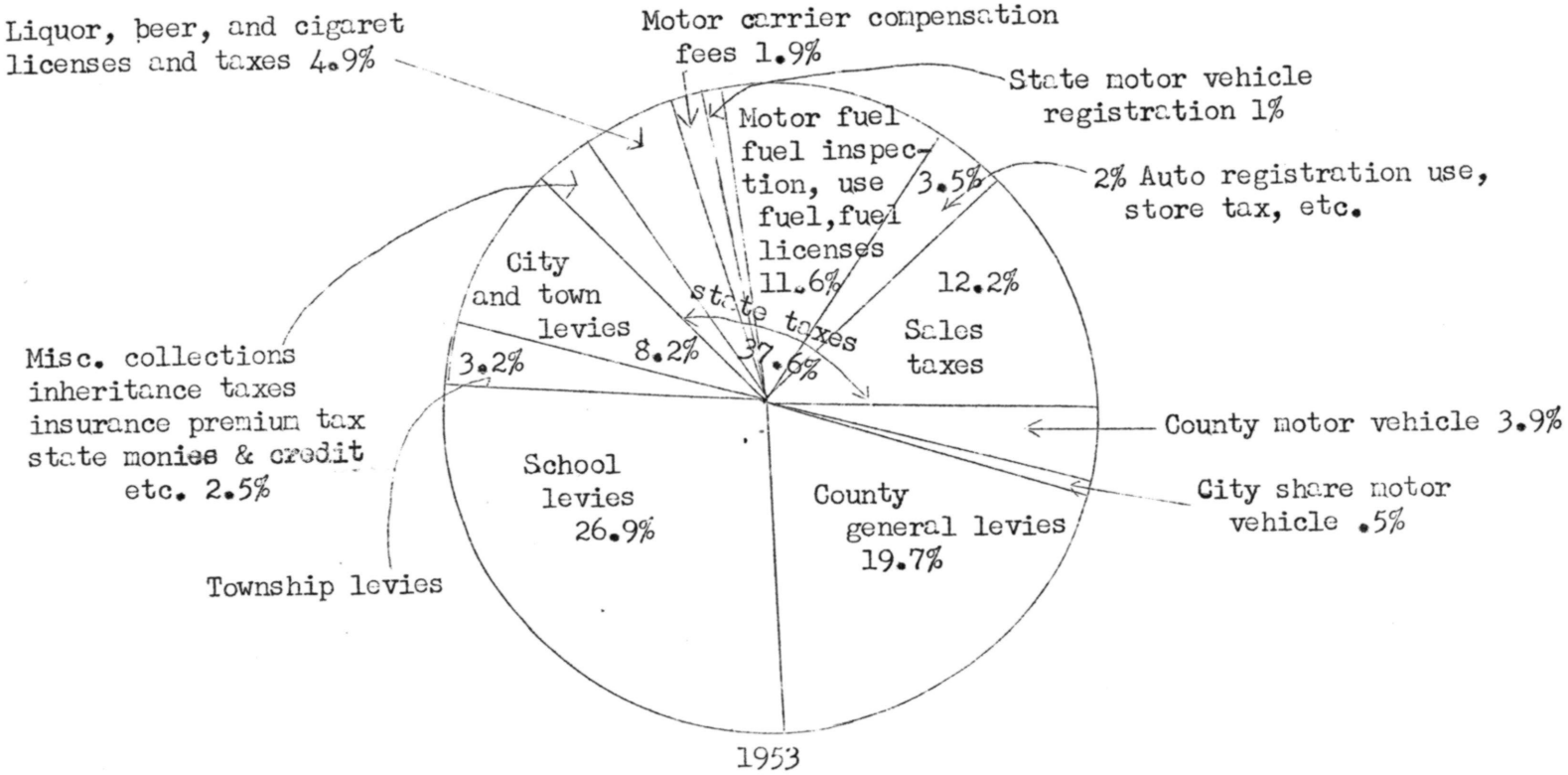
The federal, state, and local taxes paid in South Dakota from 1941 to 1953, and the percentage of the total tax payments that each type accounted for during those years, is prepared in table II, page 7 .

1/ U. S. Department of Commerce, Bureau of Census, Statistical Abstract of the United States, 1953.

Figure I

S. D. State and Local Taxes, Licenses, Fees, etc.
for 1953

State Total	$ 92,932,396.38 1/
State Taxes	34,931,230.28
Local Taxes	58,001,348.10



1/ Refunds on motor fuel taxes and liquor taxes not deducted.
Source: Greater South Dakota Association, Membership Bulletin.

Table II

The Dollar Amount and Percentage of Total taxes Paid in Local, State, and Federal Taxes in South Dakota from 1941 to 1952

Year	Local a/		State		Federal b/		Total	
	Amount (in thous)	Per Cent	Amount (in thous)	Per Cent	Amount (in thous)	Per Cent	Amount (in thous)	Per Cent
1941	$ 22,577	49.1	$ 16,538	36.0	$ 6,870	14.9	$ 45,985	100
1942	22,802	39.7	15,591	27.2	19,031	33.1	57,424	100
1943	21,965	31.0	16,143	22.8	32,657	46.2	70,765	100
1944	22,609	31.4	14,786	20.5	34,654	48.1	72,049	100
1945	23,761	27.6	16,187	18.8	46,119	53.6	86,067	100
1946	26,910	29.2	19,512	21.2	45,619	49.6	92,041	100
1947	29,188	27.7	24,447	23.2	51,902	49.1	105,537	100
1948	38,358	26.6	29,704	20.5	76,212	52.9	144,274	100
1949	42,816	30.6	32,789	23.5	64,148	45.9	139,753	100
1950	46,671	32.2	41,511	28.6	56,718	39.2	144,900	100
1951	48,413	30.8	44,383	28.2	64,282	41.0	157,078	100
1952	55,087	32.0	41,065	23.8	76,069	44.2	172,221	100
1953	58,001	34.5	38,962	23.2	71,051 c/	42.3	168,014	100

Sources - Local & State Data: Greater South Dakota Association Bulletins Nov. 2, 1952 and Sept. 25, 1953

Federal Data: Statistical Abstract of U.S. For years covered

a/ Includes county and city share of motor vehicle, county, school, township, city and town levies, road poll, school poll, dog tax, grain tax, city and town special assessment, irrigation districts.

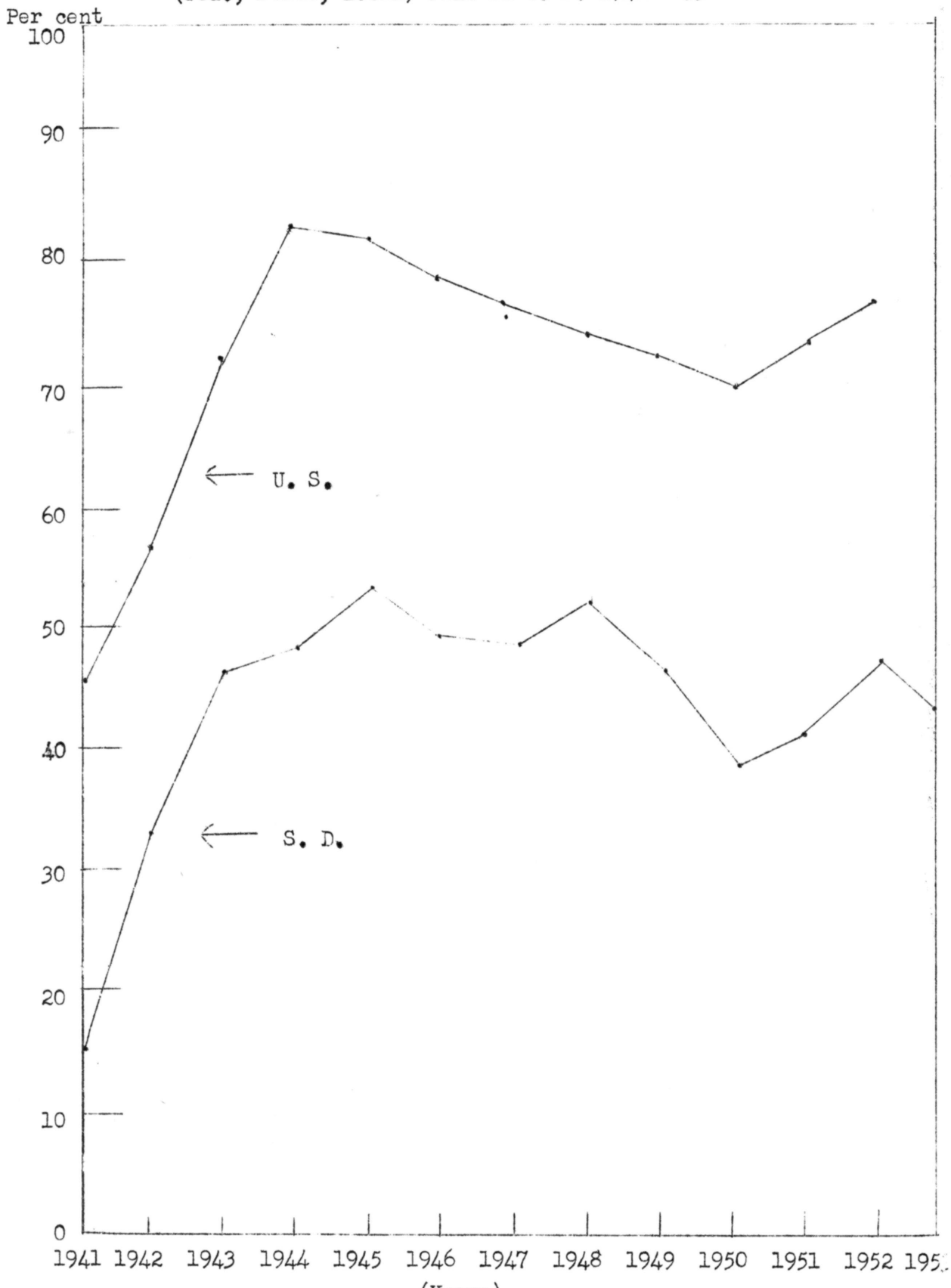
b/ Includes corporation income tax, social security tax and miscellaneous, internal revenue taxes.

c/ Preliminary data from the South Dakota Director of Internal Revenue.

In terms of what the average of all states pay in federal, state and local taxes, South Dakota pays more than the average in state and local taxes and less than the average in federal taxes. Figures II, III & IV below show South Dakota's position relative to these three kinds of taxes paid by the average of all states in the union.

Figure II

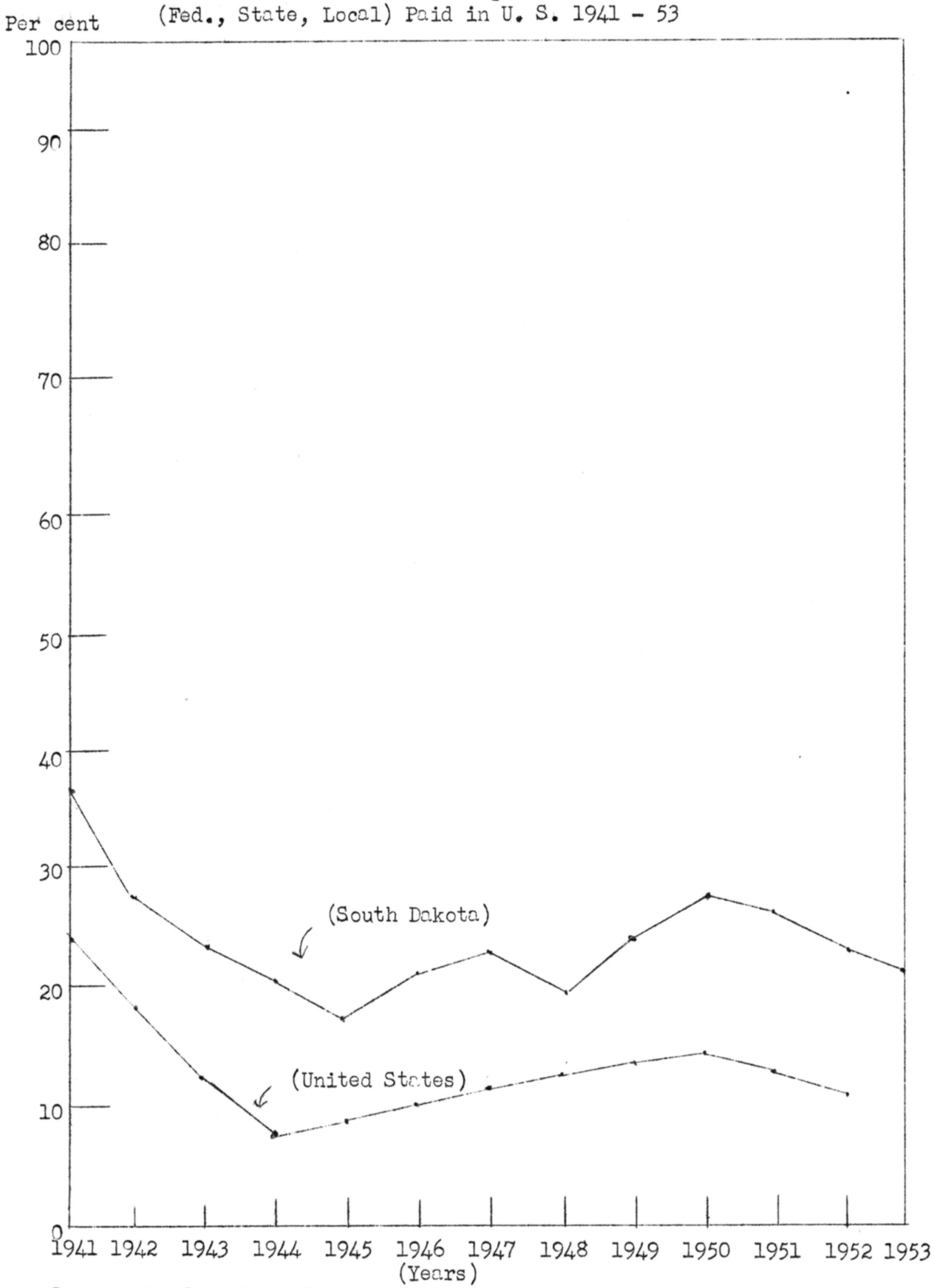
Federal Taxes as a Percentage of Total Taxes Paid in South Dakota and Federal Taxes as a Percentage of Total Taxes (Fed., State, Local) Paid in U. S. 1941 - 53



Sources: U. S. Data - Tax Institute "Tax Policy" Sept. 1953, p. 5.
S. D. Data - Table I above.

Figure III

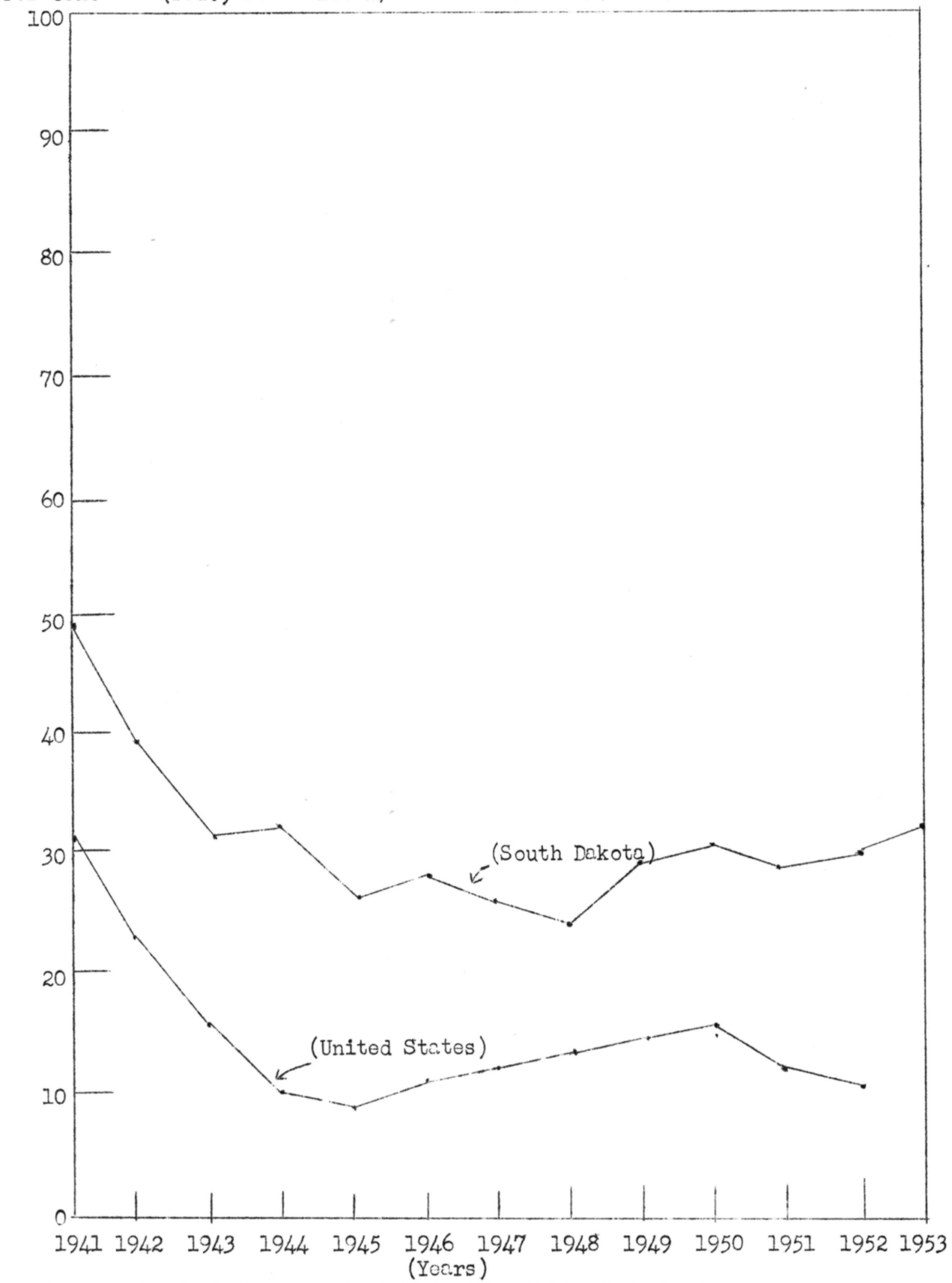
State Taxes as a Percentage of Taxes Paid in South Dakota
and State Taxes as a Percentage of Total Taxes
(Fed., State, Local) Paid in U. S. 1941 - 53



Source: U. S. Data - Tax Institute "Tax Policy" Sept. 1953, p. 5.
S. D. Data - Table I above.

Figure IV

Local Taxes as a Percentage of Taxes Paid in South Dakota and Local Taxes as a Percentage of Total Taxes (Fed., State Local) Paid in U. S. 1941 - 53



Source: U. S. Data - Tax Institute "Tax Policy" Sept. 1953, p. 5.
S. D. Data - Table I above.

CHAPTER II

GOVERNMENT EXPENDITURES IN SOUTH DAKOTA

A large part of federal taxes paid by citizens of South Dakota reverts back to this state in various forms of federal aid. The federal government may itself spend the money, or it may grant the money to the state or local governments for them to spend in specific ways. The state and local governments are thus relieved, by the federal government, of some of their revenue-collecting obligations.

While this study is mainly concerned with state and local taxes and expenditures, the following section on federal aid is included for a more complete picture of all government expenditures within the state.

A. Federal Aid to State and Local Governments in South Dakota

Total federal revenue allocated to South Dakota state and local governments, excluding individual payments, amounted to more than 19 million dollars for fiscal 1953. Federal funds to individuals totaled approximately 12 million, making a combined total of more than 31 million dollars. 1/

The amount of federal revenue allocated to South Dakota state and local governments and to individuals, by governmental departments, for fiscal year 1953 is shown in the following table.

1/ Annual Report of the U. S. Secretary of Treasury 1953.

Table 3. Federal Funds Allocated to South Dakota State and Local Governments to Individuals by Various Departments for Fiscal Year 1953.

Dept.of Fed. Gov't. Granting Funds	To State or Local Gov't. Amount	% of Total	To Individuals a/ Amount	%
Dept. of Agriculture	$1,359,813	7.05	$4,929,497	41.23
Dept. of Commerce	9,111,886	47.25	209,765	1.75
Dept. of Defense	18,897	.10	745,356	6.23
Dept. of Interior	355,319	1.84	----	--
Dept. of Labor	515,115	2.67	218,277	1.83
Dept. of Health, Education & Welfare	7,925,008	41.09	5,853,687	48.96
Total	$ 19,286,038	100.00	$11,956,582	100.00

Source: U. S. Secretary of Treasury, Annual Report.
a/ Not direct Grant or Loan.

The total amount of funds as shown in Table 3 does not include federal expenditures for building of federal government projects in this state, such as for dams, bridges, irrigation projects, and does not include direct payments to federal employees working in the state. The total is rather the federal funds that are channelled through the state treasury.

A portion of the federal funds going to state and local governments has to be matched by state and/or local funds. The matching provisions vary widely by type of funds available to the state or local units. Table 4 reveals the amount of federal funds received by South Dakota state and local governments and the type of matching provisions connected with the funds.

Table 4. Matching Provisions of Federal Funds to South Dakota State and Local Governments (Excluding Individual Payments) Fiscal Year 1953.

Provision	Federal Funds*	State Matching Obligation	
Matched by state (50-50)	11,389,156	11,389,156	
No matching	1,302,276	none	
State share double fed. share	529,248	1,058,496	
State share one-half fed. share	158,933	79,466	
Part matched dollar for dollar	623,428		a/
State contributes part of payment	6,104,468		b/
State & Local Gov't. match fed. funds	44,102		c/
Total	20,151,611		d/

* Taken from the Annual Report of the State Auditor, 1953, p. 9

a/Some funds are multi-purpose, part is matched dollar for dollar, part is grant, part may be at other than dollar for dollar matching.

b/Federal Government pays administration costs and part of Welfare payments.

c/State and local governments together match federal fund. No specified portion paid by state.

d/Unable to determine due to lack of specific matching and other provisions mentioned in a/, b/, and c/above.

South Dakota appears to have benefited more than many other states from federal grants-in-aid arrangements. Table 5 below indicates the states, which, in 1947 benefited the most and least when making such comparisons.

Table 5. Relationship Between Grants and Tax Payments, 1947.

States Most Benefited			States Least Benefited		
	Rank in per capita grants	Rank in Federal income tax payments per capita		Rank in per capita grants	Rank in Fed. income tax payments per capita.
Okla.	(2)	(35)	N. Y.	(45)	(2)
N. Mex.	(10)	(41)	Conn.	(44)	(4)
S. Dak.	(11)	(37)	N. J.	(48)	(11)
Utah	(8)	(33)	Ohio	(41)	(9)
Wyo.	(3)	(27)	Ill.	(36)	(5)
Ariz.	(4)	(30)	Pa.	(43)	(12)
Idaho	(5)	(29)	Md.	(46)	(16)
Mont.	(7)	(24)	R. I.	(42)	(13)

Source - From the Council of State Governments, "Federal Grants-in-Aid." Report of the Committee on Federal Grants-in-Aid. 1949 p. 87

In a study Federal Grants-in-Aid prepared by the Council of State Governments in 1949, it is reported that in "the relationship between per capita grants, income, and tax collections in 1947 .... thirteen states appear to have benefited substantially. Five of these states (Arizona, New Mexico, Oklahoma, South Dakota and Utah) received large per capita grants in conjunction with low per capita federal tax payments." The fact that some states enjoy a more favorable relationship than others, the study continues, "should not be construed as a criticism of the existing pattern of federal aid. They merely point up certain well known aspects of the federal aid system as it has developed. Congress consciously developed grants for highways and airports so that the sparcely settled states of the west would not be burdened unduly." 1/

In 1952 South Dakota's position relative to federal grants compared with per capita federal tax payments was still comparatively favorable.

Only seven states received a larger per capita federal grant than South Dakota, while 43 states had a higher per capita federal income tax to pay in 1952.

Table 6 .

Comparison and Rank of South Dakota with Other Selected States in Per Capita Income, Per Capita Grants, and Per Capita Federal Tax.

Per Capita Income		Per Capita Fed. Grants		Per Capita Fed. Tax a/		Fed. Grants % of State Gov't Rev.	
Income	Rank	Grants	Rank	Tax	Rank	State %	Rank
High Del. 2132	(1)	Nev. 75.31	(1)	Md. 752	(1)	Nev. 35	(1)
S.D. S.D. 1342	(32)	S.D. 28.92	(8)	S.D. 91	(44)	S.D. 27	(4)*
Low Miss. 764	(48)	D.C. 7.82	(48)	Miss. 47	(48)	Del.)	
						Conn.)13	(48)
						Mich.)	
U.S.		U.S.		U.S.		Ind.)	
Ave. 1553		Ave. 17.44		Ave. 232			

* S.D., Colo., Georgia and Kentucky have same percentage.

a/ Computed on basis of federal individual income taxes, (includes Social Security and self employment taxes) Annual Report of Commissioner of Internal Revenue, 1953, p. 62, and Estimated Population as of July 1, 1952. (U. S. Department of Commerce, Statistical Abstract of U. S., 1953, p. 14.)

1/ The Council of State Governments, Federal Grants-in-Aid, Report of the Committee on Federal Grants-in-Aid, 1949 pp. 87 and 88.

B. State Aid to Local Governments in South Dakota

Some of the revenue collected by the state is appropriated back to local governmental units. Like state and local expenditures most of the funds are appropriated for education, highways and public welfare. The provisions or basis upon which appropriations are made and the amounts so appropriated for the various causes are prepared in the following table.

Table 7 .
Detail of State Payments to Local Governments, 1952
(In thousands)
South Dakota

Function (Some items of less than $20 thousand are omitted)	Amount
PUBLIC WELFARE (Counties)	
1. Alcoholic beverage sales and license taxes.-- One-half of proceeds from taxes on non-intoxicating beer and wine, less certain deductions, distributed in proportion to population, for general relief:	
Counties	$ 201
EDUCATION* (School Districts)	
1. Teacher and Attendace aid*. Amount appropriated, distributed one-half in proportion to number of supreintendents, principals, and teachers, and one-half in proportion to number of pupils enrolled:	
School districts	1,750
2. Income from permanent school fund.--Amount available distributed in proportion to population of school age:	
School districts	1,830
3. Reimbursement for loss of tax revenue.--Amounts appropriated, distributed to school districts containing certain tax exempt State and county school lands and tax exempt Indian lands (a) in amounts sufficient to reimburse them for tax losses sustained from exemption of school lands, and (b) in proportion to acreage of Indian lands:	
School districts	185
4. Vocational education:--Federal funds distributed in fixed ratio to local expenditure for approved programs:	
School districts	179

(Continued)

Table 7 .
Detail of State Payments to Local Governments, 1952
(In thousands) South Dakota
(continued)

Function (Some items of less than $20 thousand are omitted)	Amount
5. Indian education.--Federal funds distributed as payment for tuition of Indians attending public schools:	
School districts	$ 116
6. School lunch program.--Federal funds distributed as reimbursement of local expenditure, subject to specified maximum amount per unit of food served:	
School districts	272
HIGHWAYS (Counties)	
1. Motor fuel sales tax.--One-eighth of proceeds distributed in proportion to county assessed valuations:	
Counties	1,170
NON-HIGHWAY TRANSPORTATION (Cities, counties)	
1. Airport construction.--Federal funds distributed in fixed ratio to local expenditure for approved projects:	
Cities and Counties	68
GENERAL PURPOSES (Cities, counties, and townships)	
1. Alcohlic beverage sales tax.--One-fourth of proceeds distributed to city or town of origin. Any amounts so allocated to unincorporated towns located within organized townships distributed to townships; any amounts so allocated to unincorporated towns located within uncrganized townships distributed to counties:	
Cities	325
Counties	5
Townships	26
2. Reimbursement for loss of tax revenue.--Amount appropriated, distributed to counties containing certain tax exempt State and county school lands in amounts sufficient to reimburse them for tax losses sustained from exemption of such lands:	
Counties	222

Table 7 .
Detail of State Payments to Local Governments, 1952
(In thousands) South Dakota
(continued)

Function (Some items of less than $20 thousand are omitted)	Amount
MISCELLANEOUS AND COMBINED PURPOSES (Cities and counties)	
1. Insurance premiums tax.--Proceeds from tax on fire insurance companies distributed to cities on basis of collections relating to insurance on property within each city, for use of fire departments or for firemen's pensions:	
Cities	$ 116
2. Federal forest reserve revenue.--Twenty-five per cent of Federal revenue from national forests within the State is returned to the State. State's share is redistributed to counties in which such forests are located, for schools and roads:	
Counties	91
3. Federal flood control revenue.--Seventy-five per cent of Federal revenue from lease of land taken over for flood control purposes is returned to the State. State's share is redistributed to counties in which projects are located, for schools and roads:	
Counties	24

* Basis for distribution of teacher and attendance aid changed and become effective for fiscal year 1954. The teacher and attendance aid appropriated is distributed (a) at specified rates per teacher, rate depending on type of teaching certificate held by teacher, and (b) the remainder in proportion to number of pupils enrolled.

Source: State Payments to Local Governments in 1952, U. S. Department of Commerce, Bureau of the Census. Table 2, pp.58-59.

C. State and Local Expenditures

From the standpoint of state and local services, expenditures for roads, schools and public welfare accounted for approximately 75 per cent of the receipts from federal aid and state and local taxes. Of the total expenditures, road expenses accounted for about 31%, schools 32% and public assistances about 12% in 1952. The remaining twenty-five per cent of total tax expenditures in South Dakota is divided up among state and local government administration, debt reduction, and other miscellaneous expenses. A more detailed and accurate division of

the expenditures for state and local services can be observed in Tables 8 , 9 , and 10 , and Figure V . The major expenditures as well as the main sources used in securing tax revenue will be treated separately and in more detail later in the text.

Table 8 .
Federal, State and Local Appropriations to Highways in South Dakota, Calendar Year 1952

Highway System	Federal Funds	State Funds	Local Funds a/	Total
State Highways	$6,943,623	$14,856,615	$	$21,800,238
County Highways	2,321,658	3,268,800	5,535,500	11,125,958
Local Rural Roads	-----	1,364,314	2,641,000	4,005,314
City Streets & Alleys	-----	487,255	2,140,000	2,627,255
Total	$9,265,281	$19,976,984	$10,316,500	$39,558,765

Source: South Dakota Highway Statistics.
a/ Estimated

Table 9 .
Federal, State and Local Appropriations for Education in South Dakota, Fiscal Year 1952-1953

Type of School	Federal Funds	State Funds	Local Funds	Total
Grade & High Schools	$1,202,820.56	$4,111,611.44	$29,465,806.29 a/	$34,780,238.29
Colleges & Universities	669,044.46	5,030,352.81 b/	----------	5,699,397.27 c/
Total	$1,871,865.02	$9,141,964.25	$29,465,806.29	$40,479,635.56

Sources: Grade & High School Data - Department of Public Instructions, Research Bulletins.
College & University Data - Annual Reports of State Auditor 1953.
a/ Includes Debt Services $2,954,918.75 Excludes Bond Sales $1,887,435.52.
b/ Includes appropriations to Board of Regents and Schools for Blind and Deaf.
c/ Does not include local and endowment receipts for Colleges, Universities, and special schools.

Table 10.
Federal, State and Local Appropriations for
Public Welfare, Fiscal Year 1952-1953

Type of Service	Federal Funds	State & Local	Total
Aid to Blind	71,656.49	40,000.00	111,656.49
Aid to Dependent Children	1,786,049.65	807,092.51	2,593,142.16
Aid to Disabled	124,900.21	18,729.50	143,629.71
Child Welfare	76,561.00	-----	76,561.00
Crippled Children	91,061.00	-----	91,061.00
Maternal & Child Health	83,305.06	75.00	83,380.06
Old Age Assistance	4,038,556.55	2,710,531.00	6,749,087.55
Public Welfare Admin.	-----	593.43	593.43
County Poor Relief	-----	175,472.05	175,472.05
Employment Security	515,115.34	3,194.89	518,310.23
U.S. Public Health	158,933.00	525.00	159,458.00
Sanatorium & Soldier's Home Bd.	-----	6,994.85	6,994.85
State Soldiers Home	-----	237,884.23	237,884.23
State Sanatorium	-----	640,988.57	640,988.57
Yankton State Hospital	-----	1,568,720.01	1,568,720.01
State Training School	-----	185,953.52	185,953.52
State Penitentiary	-----	450,817.54	450,817.54
Redfield State Hospital & School	-----	664,982.43	664,982.43
State Dept. of Health	529,248.14	218,835.60	748,083.74
Total	7,475,386.44	7,731,390.13	15,206,776.57

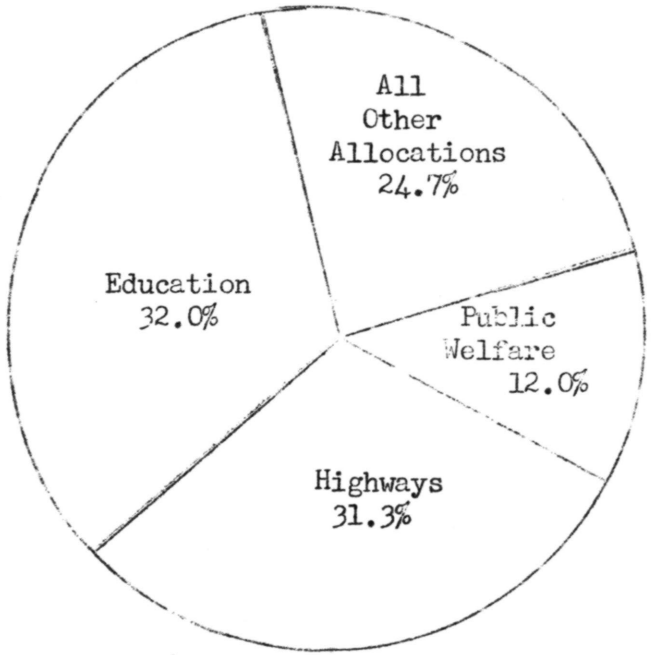
Source: South Dakota State Treasurers Annual Report, 1953.

Summary Table 11.
Federal, State and Local Appropriations for Highways, Schools and
Public Welfare in South Dakota, 1953 a/

Type of Service	Federal Funds	State & Local	Total
Highway System	9,265,281.00	30,293,484.00	39,558,765.00
Educational System	1,871,865.02	38,607,770.54	40,479,635.56
Public Welfare	7,475,386.44	7,731,390.13	15,206,776.57
Total	18,612,532.46	76,632,644.67	95,245,177.13

Source: Tables 8, 9, & 10 above.
a/ Highway data was for calendar year 1952, and Education & Public Welfare data was for fiscal year 1952-1953.

Figure V.
Allocations of Receipts of State and
Local Governments from Federal Aid and
State and Local taxes. South Dakota, Fiscal Year 1952-53



Receipts from Federal Aid and State and Local taxes $126,435,402.93.

Source: Table 11 , p. 19 and annual report of State Treasurer, State Auditor and Department of Finance.

Since 1950 the federal collections as a percentage of total tax receipts have increased for the average of all states as well as for South Dakota. State and local taxes do not show such an increase -- the trend actually being in the opposite direction.

Table 12.
Per cent of Total Tax Collections by Governmental Units

	Federal	State	Local	Total	
	Per cent	Per cent	Per cent	Amount	Per cent
1950					
United States a/	69.92	14.99	15.09	$52,903,000	100
South Dakota b/	41.--	27.--	32.--	137,769	100
1951					
United States a/	73.14	13.67	13.19	$65,354,000	100
South Dakota b/	43.--	27.--	30.--	150,204	100
1952					
United States a/	76.13	12.18	11.69	$80,946,000	100
South Dakota b/	46.--	23.--	31.--	163,775	100

a/ U. S. Data from "Tax Policy" September 1953 Vol. XX No. 9 (Exclusive of Payroll Taxes for Social Security).
b/ South Dakota data from Table 1 above.

CHAPTER III

EXPENDITURES FOR EDUCATION

South Dakota citizens have assumed the obligation of providing equal educational facilities for all its children, at least through the twelfth grade. For various reasons the cost of this education is constantly rising, giving the state a continuous problem of providing adequate revenue for educational purposes. Because of the importance of this problem in any consideration of public finance, this special section on expenditures for education has been added.

A. Four Year High School Financing

From statistics gathered by the Department of Public Instruction it has been found that during the school year 1951-52, 69.7 per cent (138 of 198) of the independent districts which operated a four-year high school levied the maximum legal limit of 40 mills. In general independent districts are those operating a four-year high school. Twenty-one and seven-tenths per cent of the 292 districts operating four-year high schools were classified by that same organization as financially distressed -- having more outstanding warrents at the end of the school year than cash on hand. Of those so classified the total warrent indebtedness was $952,615.80 and the total cash on hand for these same districts was $15,215.22.

The smaller four-year high schools, in general, were and are the ones having the greatest difficulty financing their enterprise. The distressed schools had enrollment ranging from 8 to 96. The average enrollment of the schools so classified was 28.3 students.

B. Common School District Financing

In general the common schools are in better financial position than are the independent and independent consolidated schools. However, the common schools in many cases have arrived at their maximum legal mill levy

limit of twenty mills and several others are approaching that level. The assessed valuation in many districts is so low that when the maximum levy limit is applied to it the revenue forthcoming is inadequate to carry on the operations of the school.

Our State Department of Public Instruction has found that the 1952-53 costs of operating a one-room rural school in South Dakota averaged $3,316.86. Since they also indicate that 84.85 per cent of the revenue for operating the school was raised locally, the districts share of operating such a school would be $2,814.35. In order to raise this particular amount, when applying the 20 mill levy, a district must have a total assessed valuation of at least $140,718. For the 15 mill levy the assessed valuation would have to be $187,623. One hundred and forty-eight common school districts in South Dakota did not have an assessed valuation in 1952-53 in excess of $100,000 -- a valuation insufficient to cover the average costs of operating even one school in the district when applying either the 15 or 20 mill levy. The number of districts having less than $150,000 assessed valuation accounted for 23.3 per cent of 3,031 districts in South Dakota.

Like the independent and independent consolidated schools, the high per-pupil costs of education occurs most frequently in common schools having a relatively low enrollment. Sparsely settled areas therefore often experience the greatest financial difficulty.

C. The Reasons Responsible for Financing Problems

In South Dakota as in other states several factors may be pointed out as the main reasons for the problem we have of providing the type of education that we want for our children. South Dakota citizens assumed what they think is a worthwhile obligation: to provide education to all those willing to take advantage of the facilities, at least through the 12th grade. They are concerned also, with maintaining a high quality educational

system. Achievement of these goals has been made difficult in recent years by such factors as increased school enrollment, migration (both rural-urban and interstate), and inflation.

Increased Enrollment

In 1944-45 the enrollment in South Dakota of the first twelve grades was 112,824. In 1952 the total enrollment of the same grades rose to 125,322, an increase of 11.07 per cent in the eight year period. From the school year 1951-52 to 1952-53 there was an increase of 3.2 per cent. 1/

When one studies the data on number of births in South Dakota since 1940 it is apparent that the school enrollment will increase, barring any mass out-migration. The number of births from 1947 to 1952 increased 11 per cent in South Dakota. A very large percentage of this increase is not enrolled in schools as yet. There was a 52 per cent increase in total number of births from 1940 to 1953.

From the following table one can observe the upward trend in number of births in South Dakota since 1940, and the estimated number surviving at age 14, 16 and 18 years of age in South Dakota.

Table 13. Total Births in South Dakota, by Years 1940-1952, and Number Expected to Survive Beyond Ages 14, 16 and 18.

Year	Total Births in S. Dak.	Estimated No. Surviving at Age: 14 years	16 years	18 years
1940	12,054	11,692	11,451	11,367
1941	12,159	11,794	11,552	11,466
1942	12,424	12,051	10,803	11,716
1943	12,816	12,432	12,175	12,085
1944	12,769	12,386	12,131	12,041
1945	12,460	12,086	11,837	11,750
1946	14,580	14,143	13,851	13,749
1947	16,539	16,043	15,712	15,596
1948	16,405	15,913	15,585	15,470
1949	17,211	16,695	16,350	16,230
1950	17,884	17,347	16,990	16,865
1951	18,520	17,964	17,600	17,464
1952	18,360	17,809	17,442	17,313

Source: College Agricultural Population Trends 1940-1970. The American Association of Collegiate Registrars and Admissions Offices-1953.

1/ Department of Public Instruction, Pierre, South Dakota.

In terms of number of children to educate, it appears that no relief may be expected in the near future in financing education. However, as will be noted in the following section, this problem of increased enrollment exists primarily in the larger urban areas. The real problem in many rural areas arises from a decrease in enrollment.

Migration

Another factor accounting for the increase in educational costs is migration within the state. The rural-to-urban movement in this state has had the effect of leaving many rural schools with too few pupils for efficient operation and many urban schools have experienced a need for more space to adequately handle the influx of new students.

From the Census of Population reports it can be observed that in general the counties having the largest urban centers have had the largest population growth. Pennington County, in which Rapid City is located had a 43 per cent increase in population from 1940 to 1950. Minnehaha County (Sioux Falls) gained 22 per cent in population during that same period. Most of the counties not having a large urban center or centers have declined in population from 1940 to 1950.

For South Dakota the total population from 1940 to 1950 increased from 642,961 to 652,740 or an increase of 9,779. The increase of births over deaths in South Dakota for that same period, barring any interstate migration, should have given an increase in population of 89,000. This indicates that there was a net out-migration in South Dakota of about 80,000 inhabitants from 1940 to 1950. One might conclude that such a loss does not materially affect our educational program as the state total did not change but about 1½ per cent. However, this loss of population seemed to take its toll primarily in the rural areas as may be observed in the following table. Also the school census reports seem to indicate that the loss did not occur in the school-age population.

Table 14.
Births, Deaths, Natural Increase and Net Migration and Their Influence Upon the Rural and Urban Population of South Dakota, 1940-50

	State	Rural	Urban
Population, April 1, 1940	642,961	484,874	158,087
Births, April 1, 1940-March 30, 1950	145,142	100,540	44,602
Deaths, 1940-49, inclusive	56,328	37,201	19,127
Natural increase, 1940-50	88,814	63,339	25,475
Expected population, April 1, 1950	731,775	548,213	183,562
Population, April 1, 1950*	652,740	454,048	198,692
Net migration, number	-79,035	-94,165	15,130
Net migration, per cent, based on 1940 population	-12.3	-19.4	9.6

*Rural and urban population figures were adjusted in accord with the 1940 definition of urban areas.

Source: Reprinted from "The Influence of Migration Upon South Dakota's Population 1930-1950", Rural Sociology Department, Agricultural Experiment Station, South Dakota State College, Bulletin 431, July 1953. p. 13.

The effect of this rural loss of population was that many schools did not have enough students for efficient operation and the number of rural inhabitants required to bear the costs of education decreased to the point where the burden on those remaining in several rural districts necessarily increased. Also as previously mentioned the migration to urban centers together with the natural increase in population found many urban schools with a shortage of school space.

Other Factors Causing Increased Educational Costs

Migration and increasing numbers of children to educate are not, of course the only reasons for the high educational costs. Such things as inflation, modernization of school buildings and equipment, and the teacher shortage also contributed to increased costs.

The State Department of Public Instruction has reported that the average expenditures of all counties in South Dakota, for the period 1941 to 1951, increased 149.4 per cent. The average assessed valuation of these counties increased only 44.6 per cent during the same period. Hence, it was necessary for the mill rate to be raised in order for the counties to

obtain sufficient revenue to cover their expenses. The increase in costs, as far as schools are concerned, can be traced to at least four main types of educational expenses. They are: expenditures for salaries, operating supplies, equipment, and new buildings.

D. Sources of School Revenues

As was mentioned earlier 84.85 per cent of the school support in South Dakota in 1952-53 was obtained from local sources. Almost all of the local revenue for school support is obtained from the property tax. Raising the mill levy on the assessed valuation should therefore increase the total revenue from local sources if the assessed valuation remains the same or increases. With the increase in costs of providing education for the youth in South Dakota the mill levy has been raised several times in previous years. Such an action has not been completely successful in getting the desired revenue.

In the past it has been observed that as the mill levy was raised the assessed valuation decreased, thus the total revenue received did not increase as much as had been anticipated from such action. The following tabulation is the assessed valuation of all property in South Dakota since 1920.

Year	Equalized State Valuation of all Property	Year	Equalized State Valuation of all Property
1920	$ 2,257,853,656	1945	1,046,784,943
1925	1,876,078,532	1950	1,331,359,768
1930	1,689,898,995	1951	1,382,823,091
1935	1,051,393,100	1952	1,438,726,402
1940	944,500,687	1953	1,445,937,220

From the above tabulation it can be observed that the assessed valuation of all property in South Dakota since 1920 has actually decreased. With the large private and commercial building which has transpired, the sizeable increase in machinery and livestock inventory, and the increase in value of all other property together with inflation since 1920, we know that this result has come from a gradual downward assessment of total

property rather than a decrease in the actual value of that property.

In attempting to determine the cause of this phenomenon it is easy and convenient to place the blame on methods used by local assessors in not assessing property at its true and full value. This undoubtedly has been one of the major weaknesses in property tax administration in this state. There is a natural tendency for local units of government to compete for low assessments. However, another factor that must not be overlooked is how the tax burden affects owners of property. There is a limit to which taxes can be levied on property, beyond which taxation becomes confiscatory and discourages ownership of property. It is not intended to imply that South Dakota property taxes are approaching that critical point, but there is no doubt that this consideration has prompted other states to shift the emphasis from the property tax to other sources of revenue for school support.

For the past several years in the United States there has been a gradual decrease in the percentage of public school support from local sources of revenue while state sources have shown a steady increase. The percentage of federal assistance has not shown the pronounced trend either upward or downward found in the state and local statistics.

The trend from local support to state assistance for public schools has not been as pronounced for South Dakota as it has for the average of all states. This does not necessarily indicate that South Dakota has not experienced many of the same financial problems that have existed in other states in the financing of schools. It is possible to continue to have an educational program without this state assistance. Some states may have a larger property tax base from which to obtain revenue, the property may be more severely taxed, the quality of education may be reduced, or other source of revenue may be used for financing public schools.

Table 15.
Per cent of Revenue Receipts from Federal, State, and Local Sources for United States and South Dakota Public Schools, 1927-54.

School Year	Source of Revenue: All States a/ Federal	State	Local	South Dakota b/ Federal	State	Local
1927-28	1.6	15.2	83.2	.2	9.6	90.2
1929-30	.4	16.9	82.7	.4	9.7	89.9
1931-32	.4	19.9	79.7	.2	12.5	87.3
1933-34	1.2	23.4	75.4	.2	8.9	
1935-36	.5	29.4	70.1	.4	10.9	88.7
1937-38	1.2	29.5	69.3	.6	17.9	81.5
1939-40	1.7	30.3	68.0	1.7	16.0	82.3
1941-42	1.5	31.4	67.1	1.9	17.9	80.2
1943-44	1.4	33.0	65.5	1.1	11.3	87.6
1945-46	1.3	34.7	64.0	.9	9.0	90.1
1947-48	2.8	38.9	58.3	1.0	17.5	81.5
1949-50	2.9	39.8	57.3	2.2	12.1	85.7
1951-52				3.7	11.4	84.9
1953-54				3.5	11.7	84.8

Source: a/ Federal Security Agency, United States Office of Education, Biennial Survey of Education in the United States, Washington, D. C.
b/ Department of Public Instruction, Pierre, South Dakota

Some possibilities for improving the financial support of education would be to increase the sales tax, establish a state income tax, improve the property tax, or some combination of these three alternatives.

These possibilities will receive more attention later in this report.

CHAPTER IV

EXPENDITURES FOR HIGHWAYS

Highway financing in South Dakota is taking more and more of the tax revenue as a result of an increase in highway traffic together with an upward trend in highway and maintenance costs. Vehicle-miles traveled has almost doubled in the twelve year period from 1940 to 1952. The increase in highway and construction costs for the same period has been even greater. 1/

The problem of financing highways is aggravated by the relatively small proportion of population in South Dakota to the large area of the state.

The expense of maintaining and expanding the highway system in this state was $37 million in 1952. The source of the revenue for this expenditure was as follows: Federal aid accounted for 21.4 per cent, highway-users taxes (such as motor fuel taxes, registration fees, and compensation fees) produced 45.5 per cent, and transfers from other collected funds accounted for 33.1 per cent.

In South Dakota there are approximately 94,000 miles of highway to maintain. The number of miles of Federal, State, County and Local rural highways as well as mileage of city streets and alleys is prepared in Table 16 . The expenditures for these various classes of roads is also included therein.

1/ South Dakota Highway Commission in Cooperation with U. S. Department of Commerce, Bureau of Public Roads, South Dakota Highway Statistics 1953, Highway Planning Survey, Pierre, South Dakota.

Table 16. The Mileage and Expenditures By Classification of Highways in South Dakota for 1952

Classification of Highways	Number of Miles*	Expenditures** (000)	Per cent of Total Number of miles	Per cent of Total Expenditures
State	6,424	19,407	6.9	52
County	20,394	11,126	22.0	30
Local Rural	64,046	4,005 a/	68.9	11
City Streets & Alleys	2,033	2,627 b/	2.2	7
Total	92,897	37,165	100	100
Federal	1,020			
Total all Highways	93,917			

Sources: *United States Department of Commerce, Highway Statistics 1952, U. S. Government Printing Office, Washington, D. C. 1953, p. 129.
**State Highway Commission, South Dakota Highway Statistics 1953, Pierre, South Dakota, pages 46-58.
a/ Includes $2,548,000 local levies and $50,000 borrowed funds.
b/ Includes $1,500,000 local levies and $325,000 borrowed funds.

The breakdown of expenditures for highways in South Dakota in 1952 was 59.8 per cent for construction, 32.8 per cent regular maintenance, 6.2 per cent administration and 1.2 per cent went for debt retirement and interest. These various types of highway expenditures by State, county, and local rural roads, and city streets and alleys is prepared in Table 17.

Table 17. Expenditures of Highway Funds in South Dakota, by Highway Classification, 1952.

Classification	Regular maintenance (000)	Administration (000)	Construction (000)	Debt Service (000)	Total (000)
State	$5,524	$ 647	$13,820	$	$19,991
County	3,445	1,050	5,229		9,724
Local Rural	1,950	65	1,585	375	3,975*
City streets and alleys	1,025	500	1,100	69	2,694*

Source: State Highway Commission, South Dakota Highway Statistics, 1953.
* Estimated.

Federal aid for highways is available only for construction or re-construction of Federal approved highways and, generally, must be matched by the state or county on a dollar for dollar basis. 1/ South Dakota has 16,051 miles of Federal approved highways which is 17% of the total highway system in South Dakota. This is under the national average of 20%. 2/

In 1952 South Dakota received $7.9 million in federal aid for highways. For the fiscal year beginning July 1, 1955 South Dakota is scheduled to get $10,814,995 in federal assistance to be received as funds are matched and highway improvements are made. 3/

Taxpayers in South Dakota are subject to both federal and state taxes and licenses levied for the purpose of financing or as an assistance in financing the highway program. The products taxed for highway financing, the rate of tax and the amount collected from such taxes are included in Table 18 .

One way of measuring the quality of the highways in South Dakota is to compare our roads with the roads in surrounding states. Table 19. makes an attempt at this type of comparison by showing the miles of roads with the principal qualities of surfacing in each state of this region. Although South Dakota does not compare very favorably with the more densely populated neighboring states the variations are not so great when compared with North Dakota, Nebraska and Montana for instance.

1/ United States Department of Commerce, Highway Statistics, 1952. p. 133.
2/ Loc. Cit.
3/ Associated Press NewsRelease, Statement by United States Secretary of Commerce, Weeks, Washington, D. C. June 30, 1954.

Table 18. Federal and State Tax Rates & Receipts on Motor Vehicles and Related Products 1952

Product Taxed	Federal Tax Rate	Federal Amount Collected	State Tax Rate	State Amount Collected	Total Collected
Gasoline & Diesel Fuel (Per gal.)	2¢	$3,474,000	5¢	$9,268,000	$12,742,000
Autos & Motor Cycles (% of Sale Price)	10¢	2,545,000	2%	1,465,000	4,010,000
Busses, Trucks & Trailers (% of Sale Price)	8%	730,000	2%	a/	730,000
Parts & Accessories (% of sale price)	8%	756,000	2%	400,000 b/	1,156,000
Licenses & Compensation Plates	0	0	c/	6,210,000	6,210,000
Lubricating Oil (per gal.)	6¢	208,000	0	0	208,000
Tires & Tubes (per lb.) tires	5¢				
tubes	9¢	583,000	0	0	583,000
Total collected		$8,296,000		$17,343,000	$25,639,000

Source: United States Department of Commerce, Bureau of Public Roads, Highway Statistics 1952.

a/ State collections from the Sale Price on Busses, Trucks and Trailers included in total state collections on autos and motor cycles.

b/ Appropriated from the State General Fund in lieu of Sales Tax.

c/ Varies in accordance with age, weight, and type.

Table 19. Highway Systems By Types and Percentages of Total, for Selected States, 1952 a/

State	Total miles	Unsurfaced	% of total	Gravel	% of Total	Black top b/	% of Total	c/ Paved	% of Total
S. Dak.	93,917	59,919	64	29,439	31	2,498	3	2,061	2
Iowa	111,148	29,036	26	70,215	63	2,551	3	9,346	8
Minn.	121,021	24,676	20	76,967	64	10,385	9	8,993	7
Mont.	70,630	48,133	68	15,560	22	3,888	6	3,049	4
Nebra.	105,352	65,663	62	33,134	31	3,195	3	3,360	4
N. Dak.	116,451	84,370	72	29,311	25	957	1	1,813	2
Wyom.	26,933	17,648	66	4,032	15	1,712	6	3,541	13
Seven State Average			51		40		4		5

a/ United States Department of Commerce, Highway Statistics, 1952, page 131.

b/ Black top is highways treated with oil or bituminous, with non rigid base.

c/ Paved highways are concrete, bituminous, block, or brick with rigid base.

CHAPTER V

PUBLIC WELFARE EXPENDITURES

The financing of Public Welfare programs in the United States since 1930 has undergone radical changes. In 1929-30 local governments bore about 95 per cent of the cost for general public relief. By 1938 the federal government provided over 65 per cent of the total, while the state and local governments were contributing 28 per cent and 7 per cent respectively. 1/

During the fiscal year 1953-54 in South Dakota the federal government contributed $6,364,453.95 toward this states' public welfare program. This sum amounted to about 64 per cent of total welfare expenditures which was $9,945,228.00. 2/

The particular program costing the most in South Dakota was the Old Age Assistance. In 1953-54 the expenditures for this purpose were $5,996,269.65, which in itself amounted to 60.3% of total welfare expenditures in South Dakota.

The amount of money spent by selected types of welfare programs for fiscal year 1953-54 in South Dakota is prepared in Table 20.

Table 20. Public Welfare Expenditures by Type of Assistance in South Dakota Fiscal Year 1953-54.

Type of Assistance	Expenditures	Per cent of Total
Old Age Assistance	$ 5,996,269.65	60.3
Aid to Dependent Children	2,652,986.50	26.7
Aid to Blind	104,795.00	1.0
Aid to Disabled	262,972.50	2.6
Foster Care for Children	84,866.63	.9
Child Welfare Services	131,562.67	1.3
General Administration	711,775.32	7.2
Total	$ 9,945,228.27	100

Source: Associated Press News Release, Argus Leader, August 4, 1954.

1/ The Committee on Federal Grants in Aid, Federal Grants-in-Aid, The Council of State Governments, 1949, p. 148.

2/ Associated Press News Release, Argus Leader, August 4, 1954.

In connection with the above mentioned welfare programs the State Department of Health maintains many departments whose aims are to promote better health among the citizens of South Dakota. The Departments are Dental Health, Laboratories, Maternal and Child Health, Crippled Children's Service, Preventable Disease Control, Local Health Service, Hospital Facilities, Mental Health, Public Health Nursing, Public Health Statistics and Sanitary Engineering. The State Department of Health receives its funds from the federal government, state government and local governments in the following proportion: Federal government 70.5 per cent, State 19.8 per cent, and local 7.7 per cent. Private funds in the State Treasury provides 2 per cent of the total. 1/

1/ State Department of Health, South Dakota's Health Crop, Reminder Publishing Co., Pierre, p. 13.

CHAPTER VI

OVERLAPPING TAXES

As the economy of this country has grown so have the demands for more public services. With such demands several different types of tax measures have been employed which has resulted in overlapping taxes between Federal, state, and local units of government. Whether such a development is necessarily good or bad should depend on how such a program affects those paying taxes.

In determining the fairness or the quality of any one type of tax all taxes paid by individuals must be taken into consideration. No one type of tax which we are using today should be judged separately. Its merits must be considered as part of a total tax system. The incidence or burden of various types of taxes varies between occupational and economic groups, between individuals within groups and between geographical areas inhabited by individuals subject to federal, state, and local tax levies.

There is a school of thought that believes for instance that a state income tax should not be used, as the federal government is already using such a tax to capacity or nearly so, and this tax should be reserved only for federal use. A similar belief is often expressed in relation to the use of a federal sales tax which is often thought of as one reserved primarily for state use. Such reasoning in either case is not complete. The criterion of a good tax is not based on what governmental unit employs such a tax. Rather, it is how the tax fits in with the total tax system to represent the closest balance possible between benefits which people require from tax expenditures and the sacrifices required to make the payments to get such benefits. Population, resources, and economic structures of states and even the attitudes of the people in a state should be taken into consideration in an appraisal of any one tax or the total tax system. Shifting

from one type of tax to another may be just a technique used in changing the burden of tax payments, not necessarily an action to raise more money. Some states, for instance, have found a state income tax desirable and are receiving a large portion of their state revenue from such taxes.

Table 21. State Personal Income Tax Revenues of Iowa, Wisconsin, Minnesota, South Dakota, and Kansas, Fiscal Years 1941, 1945, and 1950

	Collections (in thousands)			Percent of Total Tax Revenue in each state a/		
	1941	1945	1951	1941	1945	1951
Iowa	$4,568	$6,867	$18,582	7.0	10.2	11.4
Wisconsin	8,541	20,897	53,735	9.1	17.4	23.9
Minnesota	7,707	12,077	42,898	9.6	13.4	19.9
South Dakota	614	108 b/	---	4.0	0.7 b/	.0
Kansas	1,542	5,501	10,224	3.9	11.7	8.3
Total, four states c/	22,358	45,342	125,439	8.0	14.0	17.1

a/ Exclusive of unemployment compensation taxes.
b/ Personal income tax repealed in 1942. Amounts shown for 1945 represent collection of back taxes.
c/ Totals exclude South Dakota for all years.

Source: United States Bureau of the Census, Compendiums of State Finances, 1941, 1945 and 1950.

Income taxes have and are being used by many states. In 1953, 29 states and the District of Columbia, or approximately 60 percent of the states, imposed individual income taxes.

The important thing then is not what governmental units impose the tax but rather what effect such taxes have on those paying the taxes in relation to their total tax bill. Because there is overlapping of a particular type of tax does not mean that such a tax is necessarily bad.

Some of the principal types of taxes which overlap between the federal government and state governments and to some extent local governments are

individual and corporate income taxes, inheritance, estate and gift taxes, liquor, tobacco, and gasoline taxes. (Table 22)

Table 22 illustrates the extent to which federal, state and local governments secure revenue from the same tax bases in the United States.

In the Treasury report from which Table 22 was taken, it is emphasized "that any statistical summation of tax overlapping exaggerates its extent." This necessarily follows from the fact that a grouping of the wide variety of taxes employed by the numerous taxing jurisdictions within the United States into a manageable number of classes brings together, within any one category imposts which are familiar in general characteristics but differ in other important respects. 1/

A. Individual, and Corporate Income Taxes

For many states having state individual and corporation income taxes there is considerable overlapping of such taxes between federal and state levies. This is not the case in South Dakota as the amount of income tax paid in South Dakota by financial institutions is a very small percentage of the state revenue, (less than one half of one percent).

B. Inheritance, Estate and Gift Taxes

Inheritance, estate and gift taxes are also types of levies where federal, state, and local overlapping occurs. This duplication of type of payment is reduced somewhat however due to the federal provision granting credit to individuals paying similar taxes to states. The amount of credit that an individual can get on his federal estate tax liability due to estate taxes imposed by the states is computed under a 1926 law which provided a $100,000 exemption and rates ranging up to 20 percent. The federal rates have increased substantially while the credit is still

1/ Analysis Staff, Tax Division, U. S. Treasury Department, Overlapping Taxes in the United States, January 1, 1954, p. 7

Table 22. Federal, State, and local tax revenues, by sources, fiscal year 1953 a/

Tax	Amount (millions)				Distribution among governments			
	Total	Federal	State	Local b/	Total	Federal	State	Local b/
					%	%	%	%
Net income								
Individual	$30,838	$29,784	$ 969	$ 85	100.0	96.6	3.1	0.3
Corporate	22,057	21,239	810	8	100.0	96.3	3.7	#
Inheritance & gift	1,106	881	222	3	100.0	79.7	20.1	.3
Tobacco	2,119*	1,652	467	**	100.0	78.0	22.0	**
Alcoholic beverages	3,268*	2,723 c/	545 c/	**	100.0	83.3	16.7	**
Gasoline	2,908*	891	2,017	**	100.0	30.6	69.4	**
Amusements	434*	416 d/	18 e/	**	100.0	95.9	4.1	**
Other selective excises	5,887	4,825 f/	804	258	100.0	82.0	13.7	4.4
General sales	2,802	--	2,433	369	100.0	--	86.8	13.2
Property	8,647	--	365	8,282	100.0	--	4.2	95.8
Other	2,353	--	1,892	461	100.0	--	80.4	19.6
Total	82,419	62,411	10,542	9,466	100.0	75.7	12.8	11.5

Reprinted from Treasury Department, Analysis Staff, Tax Division Report, Overlapping Taxes in the United States, January 1, 1954. Source: Federal: Review of the 1954 budget, August 27, 1953; Treasury Bulletin, December 1953. Data on internal revenue refunds from tabulations to be published in Annual Report of the Commissioner of Internal Revenue for fiscal year 1953; data on customs refunds from tabulations to be published in Annual Report of the Secretary of The Treasury for fiscal year 1953. State: Bureau of the Census, State Tax Collections in 1953, August 31, 1953. Local: Bureau of the Census, Summary of Governmental Finances in 1952, November 2, 1953.

* Exclusive of local governments.

** Distribution not available; amounts included in "Other selective excises."

\# Less than .05 percent.

a/ Exclusive of social insurance contributions. Tax collections include penalties and interest but are net of refunds which are substantial in amount in the case of Federal income taxes and State gasoline taxes.

b/ Local tax revenues for fiscal year 1952. Includes collections for Washington, D. C.

c/ Includes, in addition to excises, Federal occupational or special taxes amounting to $21.5 million and State licenses amounting to $79 million.

d/ Includes taxes on admissions to theaters, concerts, cabarets, etc., club dues and initiation fees, bowling alleys, pool tables, and coin-operated devices.

e/ Includes both excises and licenses but does not include amounts collected from admissions by the 17 States which tax admissions under the general sales tax.

f/ Includes customs duties which amount to $596 million.

computed under the 1926 rate scheme. Therefore as the credit device now operates, taxes paid to states satisfy only about 10 percent of the federal estate tax liability. About one-half of the taxes paid to states do not qualify as a credit toward the federal liability and thus the total tax levy is greater. 1/

Federal gift taxes since 1932 have consistently been 75 percent of estate tax rates. A lifetime exemption of $30,000 is reserved for the donor in addition to an annual exclusion of $3,000 for each donee.

South Dakota has an inheritance tax which provides various exemptions. Rates are established taking into account relationship of donor to donee or donees. Thetype of rate and exemption provisions can be observed in the following table.

Table 23. Inheritance Tax Rates in South Dakota, 1953

Amount	Wife, child or adopted child a/	Husband or lineal ancestor	Brother or sister or descendent of brother or sister	Aunt, uncle or cousins	No blood relation
Up to $15,000	1%	2%	3%	4%	5%
$15,000 to 50,000	2%	4%	6%	8%	10%
$50,000 to 100,000	3%	6%	9%	12%	15%
Over $100,000	4%	8%	12%	16%	20%
Deductions allowed to each	$10,000	hus. $10,000 lin.a. 3,000	$500	$200	$100

a/ For adopted children-Adoption must take place before the 15th birthday and be at least 10 years in donation

Source: Commerce Cleaning House, South Dakota, 1946

1/ Kenneth W. Gemmill, Federal, State, Local Tax Correlation, "Importance of Intergovernmental Tax Relations," Symposium Conducted by Tax Institute, Princeton, December 3 and 4, 1953.

The amounts of federal estate and gift taxes plus state inheritance taxes that were paid in South Dakota for the fiscal years 1952 and 1953 is prepared in Table 24 .

Table 24 . Federal Estate and Gift Taxes and State Inheritance Taxes Paid in South Dakota for Fiscal Years 1952 and 1953

Year	Federal			State	Local (share of)	
	Estate	Gift	Total	Inheritance	Inheritance a/	Total
1952	$846,240	$29,641	$875,881	$471,674.88	$52,408.32	$1,399,964.20
1953	971,077	20,834	991,911	616,178.83	68,464.31	1,676,554.14

a/ County Treasurers permitted by law to retain 10 percent of all inheritance taxes collected.

Sources: Annual Report, South Dakota Department of Finance (State and Local data) United States Treasury Department, Annual Report of Commissioner of Internal Revenue) (Federal data)

C. Highway Support Taxes

Another case where there is federal and state taxing of the same products is in the field of taxes levied for highway support. The federal government levies 2 cents per gallon on gasoline and diesel fuel used in highway vehicles and a 6 cent per gallon tax on lubrication oils. The estimated amounts of federal motor fuel and lubricating oil taxes paid by highway users in South Dakota in 1952 was $3,474,000 for highway gasoline and diesel fuel and $208,000 for lubricating oil, or approximately 3½ million dollar total.1/

South Dakota imposes a 5 cent tax on gasoline and diesel fuel for highway use. In 1952 the state revenue received from this source was $9,268,000. 2/

1/ Highway Statistics, Bureau of Public Roads, United States Department of Commerce, 1952, pp. 68 and 70.
2/ United States Department of Commerce, Highway Statistics, 1953.

It is often argued that the federal government should get out of the road tax field and leave it to the states. For South Dakota this may be a costly move as our federal aid for highway in 1952 was $7,062,663.13, 1/ while the federal taxes paid in highway fuel and lubricating oil taxes was about $3.6 million 2/in that same year. The federal government does however levy taxes on the sale of autos, motorcycles, buses, truck, trailers, tires, tubes and parts and accessories which may or may not be considered in the proposal for the federal government to lift the taxes levied in relation to financing highways. The taxes collected in South Dakota on the sale of these related items amounted to $4,614,000 in 1952. 3/ Thus, if the federal taxes collected from the sale of these related goods is added to the federal taxes paid on gasoline, diesel fuel, andlubricating oil in South Dakota, the total would be slightly higher than the amount received in federal highway aid in 1952.

The federal fund appropriations have increased over the 1952 figure. For fiscal year 1952-53 the federal aid receipts for highways was $10,728,138.44, 4/ and for fiscal year 1955-56 South Dakota is scheduled to receive $10,814,995 in matching funds. 5/

D. Cigarette and Alcoholic Beverage Taxes

Cigarettes and alcoholic beverages are also taxed by both the federal government and South Dakota. The bulk of the federal tax is hidden in the sale price of the goods sold. Federal taxes paid by manufacturers on these goods account for no small part of the sale price. Wholesalers and re-

1/ Annual Report of the State Auditor, 1953, p. 9.
2/ United States Department of Commerce, Highway Statistics, 1953.
3/ Op. cit.
4/ Annual Report of the State Auditor, 1953, p. 9.
5/ Secretary of Commerce, Weeks, News Release, Washington, June 30, 1954.

tailers of merchandise in South Dakota are also subject to federal licenses and floor taxes. It is estimated that this indirect federal revenue from the sale of cigarettes in South Dakota during fiscal year 1952-53 was $4,670,650. 1/

The federal revenue indirectly paid in purchases of alcoholic beverages in South Dakota for the same year is estimated between 9 and 10 million dollars. 2/

State taxes on cigarettes, beverages and liquors are more accurately determined from state reports on collections. During the fiscal year 1953, the state received from cigarette stamps and licenses $1,821,768.78. From alcoholic beverages and liquor revenue stamps, licenses, and from 10 per cent occupational gross receipts tax the state collected $2,708,148.70 for the same period. 3/

Table 25. Federal and State Collections from Cigarette and Alcohol Beverage Stamps and Licenses

Tax and Licenses	South Dakota Collections	United States Collections	Total
Cigarettes	$1,821,768.78	$4,670,650.00	$6,492,418.78
Alcohol beverages	2,708,148.70	9,500,000.00	12,208,148.70
Total	4,529,917.48	14,170,650.00	18,700,567.48

Source: State collections, Annual Report of South Dakota State Auditor, 1953. Federal collections, Estimates from Annual report of U.S. Director of Internal Revenue Bureau.

1/ Cigarette sales in South Dakota were computed from cigarette tax receipts. An estimate was then made of the federal manufacturers tax on the computed sale volume. Federal rate obtained from annual report of Collector of Internal Revenue, fiscal year 1953, p. 72.

2/ This estimate was obtained by multiplying the percentage of national income received in South Dakota by the total federal alcohol taxes paid. The federal alcohol taxes include wholesalers and retailers and dealers licenses, federal stamps, floor taxes, etc. This figure was also estimated by multiplying federal rates by estimated sales of alcoholic beverages.

3/ Annual report of the South Dakota State Auditor, 1953, pp. 21 and 22.

E. Other Types of Overlapping Taxes in South Dakota

The amusement tax is also a type of tax imposed by federal, state and local governments.

In the United States for the fiscal year ending June 30, 1953 federal revenues from amusement taxes amounted to about 416 million dollars. The federal tax revenue on admissions to theaters, concerts, etc. accounted for 313 million of the total, followed by admissions to cabarets, roof gardens, etc. 47 million; club dues and initiation fees 37 million; coin operated devices 17 million and the balance 3 million from bowling alleys, pool tables, etc. The federal tax rate is 20 percent of the receipts from the above mentioned types of amusement fees except in the case of bowling alleys, pool tables, etc. which pay $20 per alley or table, and for coin operated amusement and gaming devices $10 and $250 per device. 1/

South Dakota imposes a tax on virtually every type of amusement mentioned above. The rate is 2% on the gross receipts, or in effect a classified sales tax. Vending machine license fees are $5 for those permitting 1¢ to 10¢ deposits and $10 where 10¢ or more can be inserted. The federal and state taxes paid in South Dakota on the classified amusements are prepared in Table 26 .

Table 26
Amusement Taxes Collected in South Dakota 1953

	Federal tax & License	State tax a/& Licenses	Total
Admission	1,083,079	108,308	1,191,387
Leases of Boxes	324	32	356
Roof Gardens	50,653	5,065	55,718
Vending machines, pool tables, bowling alleys	82,976	16,995 b/	99,971
Club dues and initiation fees	22,272	2,227	24,499
Total	1,239,304	132,627	1,371,931

Source: Federal data: Annual Report Commissioner of Internal Revenue.
State data: Annual Report of State Treasurer and Department of Finance

a/ State data estimated at 10% of federal revenue - Federal tax rate 20%
State tax rate 2%

b/ License receipts, does not include the 2% tax on gross earnings of vending machines.

1/ U. S. Treasury Department, Annual Report of the Commissioner of Internal Revenue, Fiscal year ending June 30, 1953, p. 87.

Excise taxes also have overlapping characteristics. Although most of such taxes are hidden in the price stemming from manufacturers tax obligations, some are imposed at the retail level and very noticeable in the purchases of certain items such as furs, jewelry, luggage and toilet goods. In the United States manufacturers' federal excise taxes and retailers' federal excise taxes for fiscal year 1953 amounted to $2,862,788,097 and $496,009,003 respectively. In South Dakota the federal excise taxes collected at the retail level for fiscal 1953 was over one million dollars. 1/

Table 27.

Federal Retailers Excise Taxes Collected in South Dakota
Fiscal Year 1953

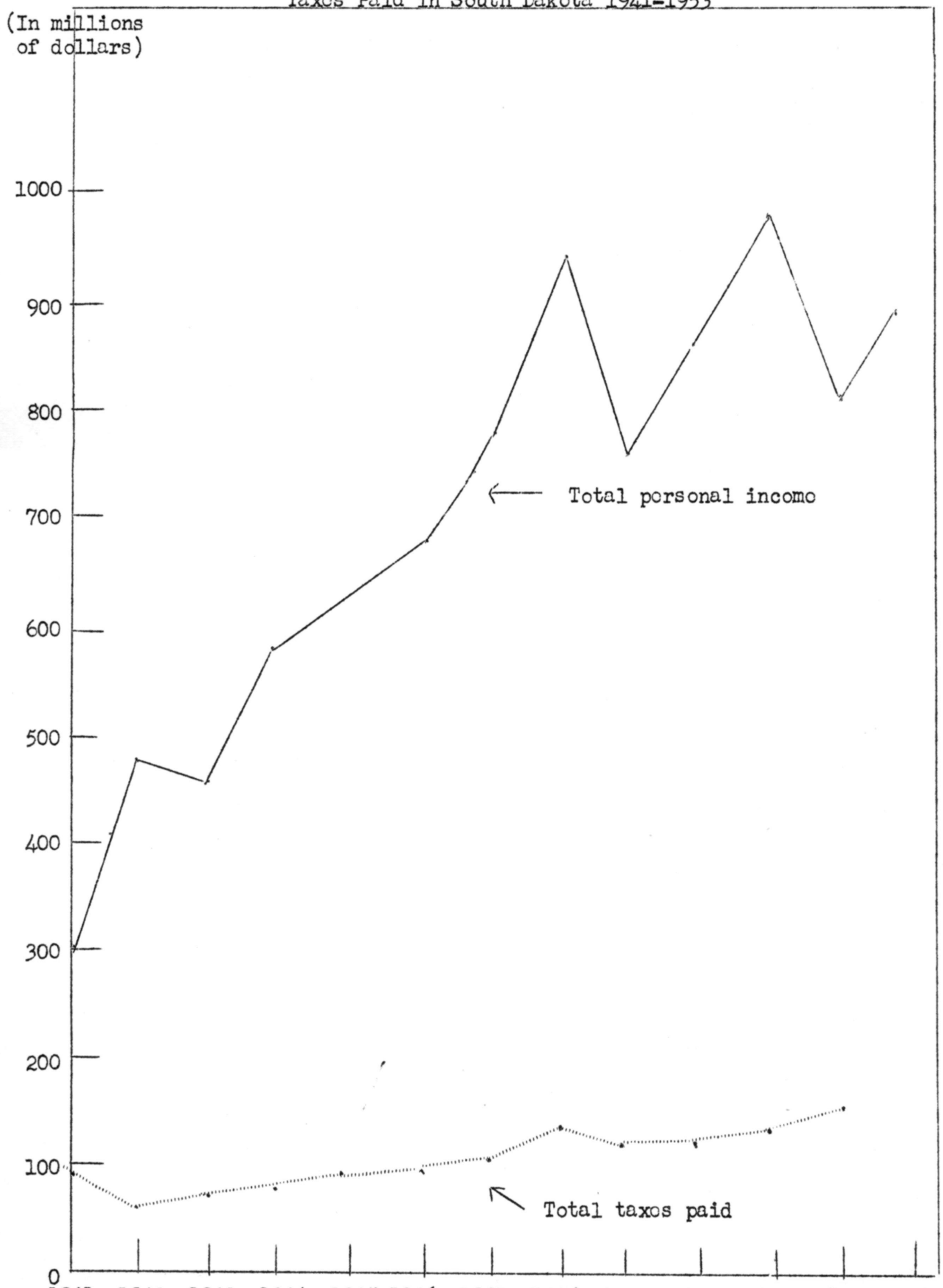
Item	Federal tax
Furs	71,417
Jewelry	526,883
Luggage	130,555
Toilet goods	240,967
Local telephone service	139,122
Total	1,108,944

Source: U. S. Treasury Department, Annual Report of the Commissioner of Internal Revenue, Fiscal Year Ending June 30, 1953, pages 83, 84.

1/ U. S. Treasury Department, Annual Report of the Commissioner of Internal Revenue, Fiscal Year Ending June 30, 1953, pages 83, 84 and 107.

Figure VI

Total Income Payments To Individuals and Total Taxes Paid in South Dakota 1941-1953



Sources: United States Department of Commerce - Survey of Current Business.
: Table 2, page 7.

CHAPTER VII

THE BURDEN OF TAXES IN RELATION TO INCOME

Federal, state and local taxes become more meaningful when considered in terms of peoples income. Such a relationship is often used in measuring ability to make tax payments.

A tax program can be successful only if the persons or property upon which the levies are placed, possess the ability to meet the tax obligation. It is necessary therefore that tax policy be in line with the income or tax paying ability of those taxpayers.

The sources of income in the United States are many. Income is received for common labor, professional services, ownership of income earning property, use of savings, and income resulting through many types of trading, only to mention a few. The amount of income from any one of these various sources often changes with the passage of time. There is an advantage then in a tax program that is flexible enough to cope with such changes, thus obtaining more equality of tax burden. On the other hand, such flexibility may in some cases result in instability of tax revenue needed to provide the services demanded. In the figure, page 47, one can observe the variation in total personal income in South Dakota contrasted with the relative stability in tax payments.

From the standpoint of total taxes paid, including federal, state and local, in relation to personal income in South Dakota, the percentage of income taken for taxes in 1930 was greater than in 1950. If the percentage of income taken for taxes is a measure of the burden of tax payments, statistics indicate that in this respect the burden of tax payments in 1930 was greater than was the case in 1950.

Since 1930 however, total tax payments as a percentage of total income payments in South Dakota have fluctuated considerably. The low in 1942 was 12.2 per cent while in 1932 it was 37.6 per cent. In

1952 the tax payments in South Dakota amounted to 20.6 per cent of the total income payments, while for the nation it averaged 31.7 per cent for that same year.

Table 28

Selected Type of Tax Payments, as a Per cent of Total Income Payments, for South Dakota and the United States, 1952

Type of Tax Payment	Tax Payments as a Per cent of Total Income Payments	
	the Nation	South Dakota
Local	3.7	6.6
State	3.9	4.9
Federal	24.1	9.1
Total	31.7	20.6

Sources: Income Data - United States Department of Commerce, Survey of Current Business, August, 1953.
Tax Data - Tax Institute, Tax Policy Volume XX No. 9, Sept. 1953

An important consideration to keep in mind in reviewing the above table is that because the percentages for South Dakota are either higher or lower than for the Nation, it does not necessarily follow that South Dakotans are paying too much or too little in any given tax, or even in the total tax. Both the benefits from government and the burden of tax payments vary between individuals depending on their income, occupations and geographical location.

A large percentage of the income in this state is from agricultural production. Hence, the burden of tax payments, as measured by a percentage of income, is very responsive to farm production, production costs, and prices received from the sale of farm goods.

Measuring the relative burden of tax payments in terms of taxes as a percentage of personal income, is not the only means of making annual comparisons of burden of taxes. One can compare the value of income remaining after taxes, or the absolute amount of the taxes themselves. Because of the changing price levels, the dollar income compared with

the size of the tax bill from one year to the next, does not form perfect comparisons. By expressing money in terms of the goods and services which it will buy, the tax burden can be approximated through the use of price indexes, by which income figures for several years can be adjusted to represent purchasing power in a designated year.

In 1930 the average per capita income in South Dakota was $382. In 1950 or 20 years later it was $1,275. Although the per capita income went up substantially from 1930, the goods and services that could be purchased with the income in 1950 did not increase proportionately.

Adjusting the 1930 and 1950 after-tax income to 1947-1949 prices, the purchasing power of the 1930 income after taxes would be $437 compared with $1,025 in 1950. The purchasing power of the income after taxes for a more recent year, 1952, compared with 1930, indicates that the 1952 figure was about twice as large as the earlier date. See Table 29.

Another approach to measuring tax burden is to compare the purchasing power of the total tax bill for selected periods of time. In other words, in terms of goods and services that could be purchased with the amount of tax payments, what was relinquished when paying taxes in 1930 and 1950?

From this standpoint Table 29 shows that, assuming 1947-49 prices, the purchasing power of the tax payments in 1930 was $98 and in 1950 it was $215. The purchasing power of the per capita tax in 1952 was about two and one-third times the figure in 1930. Thus in terms of goods and services that may be purchased with the income taken in the form of taxes for the two years, the per capita obligation was considerably more in 1952 than in 1930.

Using the same techniques in comparing the 1940 taxes with 1952 does not show such a marked variation. It does indicate however that the

burden of taxes, measured in terms of percentage of income paid in taxes, was slightly higher in 1952 than in 1940, but measured in terms of purchasing power of per capita income after taxes it was considerably lower. The purchasing power of the average per capita tax bill was substantially greater in 1952 than in 1940; that is, the average taxpayer's 1952 tax bill would purchase more goods and services than would the tax bill in 1940.

From the following table one can make these types of comparisons for any of the years between 1930 and 1952.

Table 29 . Tax Payments as a Percentage of Per Capita Income with Adjustments for Changes in Purchasing Power Using 1947-49 Prices 1930-1952

Year	Per Capita Income a/	Per Capita Tax b/	% of Per Capita Income Paid In Taxes c/	Per Capita Income Less Tax	Purchasing Power in Terms of 1947-9 Prices d/ Per Capita Income Less Tax	Per Capita Tax
1930	382	70	18.3	312	437	98
1931	289	72	24.9	217	334	111
1932	171	64	37.6	107	183	110
1933	172	56	32.3	116	210	101
1934	232	55	23.7	177	309	96
1935	273	60	21.8	212	361	102
1936	294	58	19.8	236	398	98
1937	306	56	18.1	250	407	91
1938	318	63	19.8	255	423	104
1939	351	72	20.5	279	470	121
1940	379	74	19.4	305	509	124
1941	492	75	15.3	417	663	119
1942	822	101	12.2	721	1034	145
1943	820	121	14.8	699	945	164
1944	1048	132	12.6	916	1218	176
1945	1153	159	13.8	994	1293	207
1946	1222	166	13.6	1056	1266	199
1947	1347	185	13.7	1162	1217	194
1948	1583	244	15.4	1339	1303	237
1949	1175	226	19.2	949	932	222
1950	1275	221	17.4	1054	1025	215
1951	1492	243	16.4	1249	1125	219
1952	1258	259	20.6	999	880	228

a/ Obtained by dividing total income paid to individauls by total population. Sources-U.S. Census of Population and Survey of Current Business.

b/ Obtained by dividing total tax payments by population. Sources-Table 1 above, and U.S. Census of Population.

c/ Obtained by dividing per capita tax by per capita Income.

d/ The index used was the revised series for 1947 to 1949 as prepared by the Bureau of Labor Statistics, The Economic Almanac 1953-1954.

CHAPTER VIII

THE PROPERTY TAX IN SOUTH DAKOTA

Property tax receipts in South Dakota accounted for almost 60 per cent of all state and local tax payments in 1953. 1/

For many years property, both personal and real, has been used as a basis upon which to levy taxes. The revenue from such taxes have in general been used for local purposes.

In questioning the adequacy or equality of our present system of levying taxes on property it is interesting to consider why property is used as a base for such a large percentage of our revenue. The philosophy today about taxation is probably not significantly different from the philosophy held by those first using property as a basis for taxation. This philosophy was and is that taxes should be levied in accordance with ability to pay.

During the development of western Europe, when taxation on property was very popular, property owned was probably a much more accurate measure of ability to pay than is the case today. A man's wealth during that period was in large part measured by his land and household ownership. Today much of our income is derived from sources other than land and the legal title to many types of properties does not reflect the same ability to pay as did land ownership during the earlier periods.

Many states, however, are continuing to place major emphasis on property taxes and in many cases are not considering the actual burden carried by selected groups.

In our complex economy of today, where income is derived from such a large variety of sources, a point is reached when additional levies on property increases inequality in sharing the tax burden. Additional

1/ See Table 30 .

property levies may even eventually discourage and curtail ownership of property. The tendency of the past few years has been, therefore, to shift some of the burden of taxation to other tax bases and/or taxing units.

In South Dakota the trend from the reliance on the property tax to other taxes in meeting total tax obligations can be observed in Table 30 .

Table 30. South Dakota Property Taxes and Percentage of Property Taxes to Total Taxes and Total Revenue for State and Local (In Thousands of Dollars)

Year	Total Tax State-Local a/	Property Tax State & Local b/	Property Tax as Per cent of Total Tax	General Revenue State & Local c/	Property Tax as Per cent of Gen. Rev.
1926	42,617	34,267	80.41	46,135	74.28
1927	40,299	33,121	82.19	44,012	75.25
1928	41,832	34,039	81.37	46,147	73.76
1929	47,215	35,781	75.78	52,296	68.42
1930	47,708	35,910	75.13	52,944	67.83
1932	43,783	30,054	68.64	47,785	62.89
1933	37,430	27,676	73.94	40,817	67.81
1936	37,323	21,984	58.90	40,366	54.46
1937	35,150	21,897	62.30	38,522	56.84
1938	39,448	23,784	60.29	44,198	53.81
1941	39,115	20,793	53.15	62,456	33.29
1942	39,774	21,033	52.88	60,837	34.57
1943	38,108	20,577	54.00	49,243	41.79
1945	39,948	22,528	56.39	49,493	45.52
1946	46,422	25,672	55.30	67,654	37.95
1947	53,636	27,633	51.52	66,123	41.79
1948	68,062	36,335	53.39	83,609	43.46
1949	75,605	40,272	53.27	94,945	42.42
1950	84,822	44,978	53.03	128,237	35.07
1951	91,173	46,500	51.00	114,729	40.53
1952	95,050	50,497	53.13	121,234	41.65
1953	90,291*	53,548	59.31	114,608	46.72

a/ South Dakota Treasurer's Annual Report
b/ Department of Finance, Annual Report
c/ South Dakota Treasurer's Annual Report and South Dakota Budget.
* Estimated

It is interesting to note from Table 30 that in 1926 almost 75 per cent of the state and local general revenue was obtained from the property tax compared with less than 50 per cent in 1953.

In making this same type of relationship for states surrounding South Dakota as well as an average for all states it can be seen that South Dakota, in 1948-50 was relying more heavily on the property tax than was true for the average of all states or for the average of eight selected states in this area.

Table 31.
Estimated State and Local Property Taxes in Eight Mid-Western States and All States, 1948-50
(Dollar Amounts in Millions)

States	Annual Average 1948-50 Property Tax Levies	Total Revenues Exclusive of Aids	Property Tax Levies as per cent of total revenues
Illinois	$ 520	$ 1,050	49.7%
Iowa	140	340	40.7
Kansas	113	240	47.5
Minnesota	179	400	45.3
Missouri	135	370	37.0
Nebraska	77	140	54.0
South Dakota	39	80	46.4
Wisconsin	211	470	44.7
Total Eight States	1,414	3,090	45.8
Total 48 States	6,779	17,820	38.0

Source: Bureau of Business and Economic Research, A Comparative Study of the Tax Systems of Iowa and the Surrounding States, State University of Iowa, Iowa City, 1952, p. 241

As was previously mentioned almost all of our property taxes are paid to county and smaller governmental units.

Table 32 shows the revenue received from property taxes by governmental units in South Dakota in 1952.

Table 32 .
Property Tax Levies by Classes of Taxes for Year Ending December 31, 1951 - Payable in 1952

	Dollars	Per cent
State	99,352.28	.2
County Taxes	17,045,095.45	33.8
Organized Townships	2,734,752.79	5.5
School District	23,101,568.85	45.7
Cities and Incorporated Towns	7,342,406.74	14.5
Other (special assessments)	173,832.62	.3
Total	50,497,008.73	100.0

Source: Twenty-Seventh Annual Report of the State Department of Finance, Fiscal Year 1951-1952.

A. Property Taxes Paid by Farmers and Non-Farmers in South Dakota

The property tax is a tax that yields a large amount of revenue in South Dakota and is often considered unfair by both farmers and non-farmers. Many of the individual and group differences of opinion may be reduced if each has a better understanding of the taxes they pay in relation to the burden carried by others in our economy.

An estimate has been made of the per cent of total property taxes paid by farmers and non-farmers. In making such an estimate, it was necessary to consider real estate taxes and personal property taxes paid by each group separately, since personal property tax data are not broken down by farm and non-farm groups.

Farm real estate taxes amounted to $19,611,000, or 53.2 per cent of the total real property taxes payable in the state in 1953. 1/ For personal property, tax estimates were arrived at indicating that approximately $8,801,171 personal property tax was levied against farmers in 1953. 2/ This figure represents 57.2 per cent of the total farm plus non-farm personal property tax payments in South Dakota.

1/ United States Department of Agriculture, Agricultural Statistics 1953, p. 626.

2/ This estimate was computed by determining what part of the personal property the farmer owned and multiplying an estimated mill rate for farm personal property by the total assessed valuation of such holdings.

Table 33. Estimated Real Estate and Personal Property Taxes Paid by Farmers and Non-Farmers in South Dakota, 1953.

	Real Estate Taxes	Personal Property Taxes	Total Taxes	Per cent of Total Taxes
Farmers	$19,611,000.--	$8,801,171.--	$28,412,171	54.4
Non-farmers	17,235,543.-- a/	6,593,588.--	23,829,131	45.6
Total	$36,846,543.--	$15,394,759.--	$52,241,302	100.0

a/ Includes railroad, telegraph, sleeping car, electric light, power, water, gas, telephone within corporate limits, county grain, dog, special assessments, and the non-farm share of other county, state school district, organized township and city, and incorporated town taxes.

Property taxes, both real and personal, have become a very important part of farm operating costs. From 1940 to 1953 the taxes on farm real estate increased almost 90 per cent. In the period 1950 to 1953 the increase was 8.8 per cent. As reduction of costs is an important factor to be considered in increasing the net profit of the farming enterprise, it is well that those paying the taxes have a rather complete understanding of the present property tax system. Such understanding can facilitate in reducing many obvious inequalities that exist in the field of farm property taxation.

Inequalities in Farm Personal Property Taxation

Personal property taxation paid by farmers and ranchers in this state accounts for an important part of total farm property taxes. In the eastern areas of the state personal property tax revenue comes mainly from farm machinery and livestock, while in western South Dakota, the bulk of such taxes are obtained from livestock assessments - mainly cattle.

The assessed valuation of the farm personal property - cattle, other livestock, farm machinery and miscellaneous farm personal property - was approximately 75 per cent of the total assessed value of all personal property in the state, and cattle alone made up almost one-half of the total farm personal property assessments. 1/

1/ Annual report of the South Dakota Secretary of Finance, 1953.

Since the tax rates vary between rural and urban properties, the proportions of the total personal property tax paid by each group does not equal the rural-urban proportions of the total assessed valuation. Estimates previously mentioned in this report indicate that the personal property burden was shared in the ratio of about 57 per cent for farmers and 43 per cent non-farmers in 1953. (See page 55)

The types of personal property upon which the largest share of farm personal property taxes are paid are cattle and other livestock followed by farm machinery. This is in general true of the nation as well as for South Dakota.

Table 34. Percentage Distribution of Taxes Levied on Farm Personal Property, by Classes and Regions, 1949

Region	Cattle	Other livestock	Farm Machinery	Automobiles and trucks	Household furniture and miscellaneous	All Classes
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
New England	50.8	21.0	14.0	10.5	3.7	100.0
Middle Atlantic	40.0	17.0	24.3	0	18.7	100.0
East North Central	53.1	10.0	24.5	9.6	2.8	100.0
West North Central	45.4	8.4	29.1	7.0	10.1	100.0
South Atlantic	23.1	14.4	16.7	34.9	10.9	100.0
East South Central	10.3	12.0	2.8	72.9	2.0	100.0
West South Central	51.9	12.7	16.0	14.9	4.5	100.0
Mountain	50.0	12.5	27.0	6.3	4.2	100.0
Pacific	41.5	13.0	38.7	0	6.8	100.0
United States	45.5	10.9	25.9	10.9	6.8	100.0

Based on data from State reports.
Source: Ronald Bird, Taxation of Personal Property Owned by Farmers in the United States 1940-49, "Agricultural Finance Review" United States Department of Agriculture, Vol. 15, November 1952 p. 41.

For South Dakota the percentage distribution of personal property taxes paid by farmers is similar to the national pattern.

Table 35. Percentage Distribution of Taxes Levied on Farm Personal Property in South Dakota 1949 and 1953.

Year	Cattle	Other Livestock	Farm Machinery	Auto-mobiles & Trucks	Household furni-ture, etc. a/	All Classes
1949	51.0	9.2	29.4	0	10.4	100
1953	48.8	6.5	31.9	0	12.8	100

Source: Annual Report of South Dakota Department of Finance
a/ Pro rated according to population.

The inequalities that exist between farmers in sharing the burden of personal property taxation stems from several sources. The property tax is used primarily for local services, a large portion of which goes toward school support. Because of the variation in assessed valuation of property in school districts, as well as a wide variation in the cost of providing school facilities, a wide range of mill levies exists between districts. Thus some farmers pay much more than others per dollar of assessed valuation on their personal property.

The variation in tax payments per dollar of assessed valuation may be considered a case of inequality if the view is held that all people in the state should share equally in the education of the elementary and secondary school children.

Inequalities also exist among personal property taxes paid by farmers due to the lack of uniformity in the method of assessing personal property. This problem is not confined to personal property taxation for farmers, however.

The inequality that exists in personal property taxation between farm and non-farm groups is most apparent when one considers the total property taxation of the farm enterprise, a considerable portion of which is personal property levies, and compares these tax levies with the personal

property taxes paid by other occupational groups.

This inequality may best be observed in the following hypothetical table prepared by the Department of Public Instruction, Pierre, South Dakota. (See page 60.)

It must be emphasized that the above table does not present the total tax picture between these two occupational groups. Rather it is a hypothetical case pertaining only to a selected property tax situation. It does, however, suggest that considerable inequality does exist in personal property tax assessment between the two groups.

Inequalities in Farm Real Estate Taxation

Taxation in South Dakota, on farm real estate, has and is being levied with little or no consideration given to the productive capacity of various lands, or buildings on that land. If taxes on real estate should be levied in accordance with the ability of that property to produce, a more equitable farm real estate tax system must be worked out in this state. Dr. Myers, Head of the Agricultural Economics Department, South Dakota State College, has pointed out that, "in some townships every acre of farm land is assessed at the same dollar figure, despite great variations in soil types, productivity, or location." 1/

If the market value of farm property is a reflection of the earning power of that property, which is usually considered the case, then taxes should fluctuate in accordance with changes in market value.

The imposing of taxes in this manner achieves the important objective of raising taxes when farmers are most able to pay them and easing the burden when their earnings become lower. It does have the disadvantage of reducing stability of tax receipts needed for schools and other services.

1/ Myers, Max, Is South Dakota's Tax System Basically Sound? Mimeographed report of statement presented to Legislative Research Council Committee on taxation, Pierre, South Dakota, October 28, 1953, Agricultural Economics Department, South Dakota State College.

Table 36.

Farm Taxpayers Who Live in a School District Containing Town Taxpayers are Penalized By Our Present Property Tax System

Classification Of Property Assessed	Town Taxpayer Whose Income Depends Entirely Upon His Wages,	Farm Taxpayer Whose Income Depends Entirely Upon His Business Investment
Which in these instances are assumed to be ------	$3,000.00	------$3,000.00
Agricultural land outside corporate limits, improvements and structures on same		915.19
City and town lots and improvements on same	1,323.78	
Electric refrigerators, residence, 1@ 86.86	86.86	86.86
Radio sets, 1@ 20.06	20.06	20.06
Household furniture, rugs, provisions, etc.	203.39	203.39
Horses and mules, 2@ 22.73		45.46
Cows, all ages, 75 head @ 67.51 a/		5,063.25
Bulls, 2@ 146.99 b/		293.98
Tractor, small 2-3 plow, 1@ 440.65		440.65
Agr. implements, tools, machinery, harness, saddles, wagons c/		100.00
Agr. land, outside corp. limits, 1500 acres @ $3.00 per acre d/		4,500.00
Total	1,634.09	11,668.84

a/ 75 cows with an 80% calf crop would produce 60 calves @ a market value of $50.00 each thereby producing a gross income of $3,000.00.

b/ 2 bulls would be necessary for 75 cows.

c/ No state averages are available for this item, so an estimate was supplied.

d/ The state average for agricultural land is 14.80. Since a cattle ranch represents a typical western South Dakota farm situation, and since the assessed valuation per acre is much lower in this area, a valuation of $3.00 per acre was placed upon this land. It is estimated that it takes 20 acres of land to feed one cow per year.

Independent, independent consolidated, and reorganized community school districts which contain a rural area and an incorporated town area where the same mill levy is attached to all classifications of property for school purposes present this inequality of tax burden.

Source: Department of Public Instruction, Pierre, South Dakota.

Such stability could be achieved however, by using other types of tax measures for the support of services deemed desirable.

As may be expected the taxes on farm real estate in South Dakota has shown wide variations when considered in terms of taxes per $100 value of real estate since 1910, while the per acre tax for that same period has not reflected such marked changes. (Figure VII)

In 1952 the taxes levied on farm real estate in South Dakota, (payable in 1953) was approximately $.51 per acre. In terms of $100 value of farm real estate the tax was about $1.20. The average per acre value of farm real estate was thus about $42.50 in South Dakota in 1952. An example of the inequality that exists in tax levies on rural lands can be observed in the following tabulation which compares the average taxes levied per acre in 1952, on land separated only by a road but in different townships.

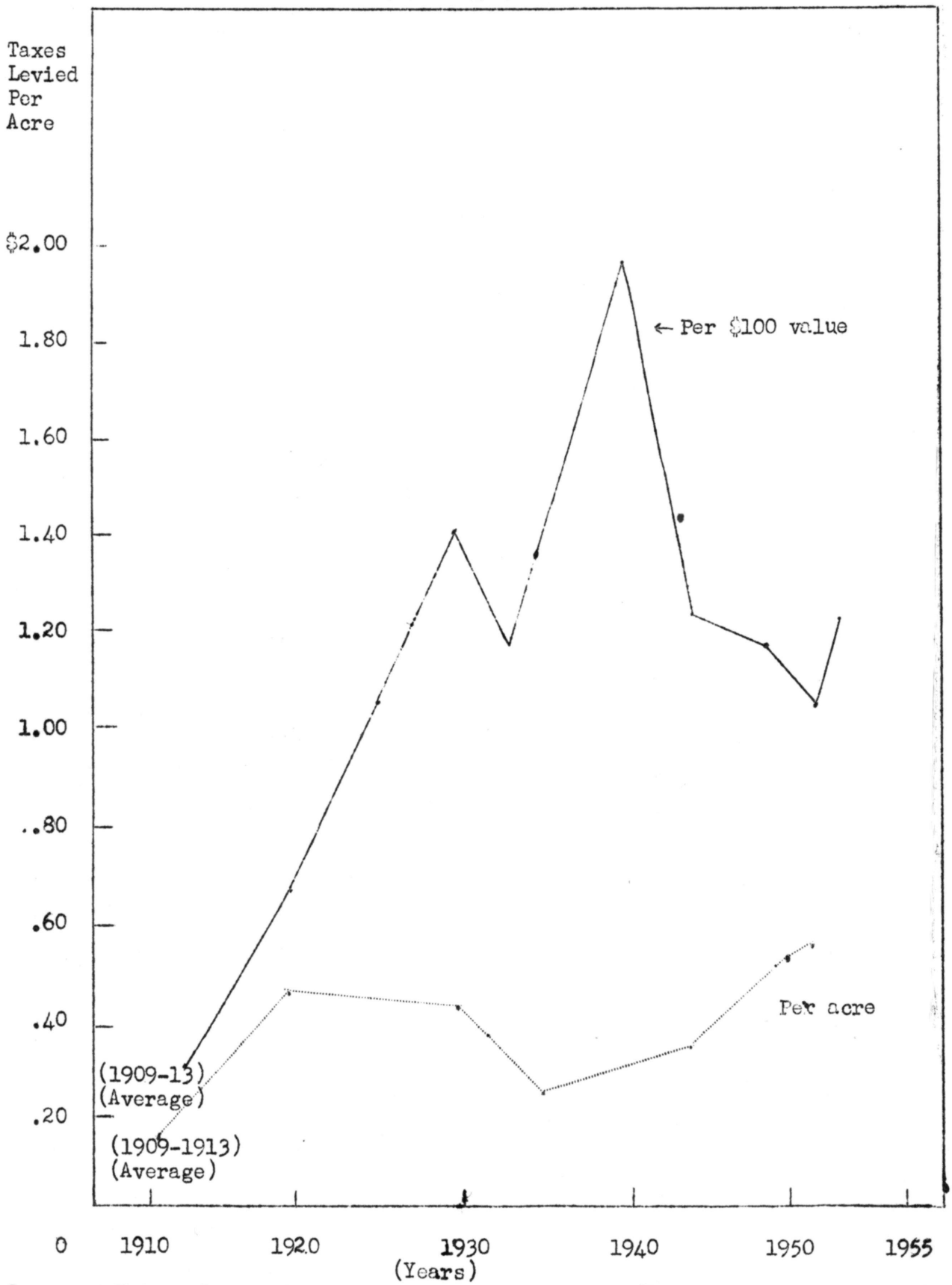
Beadle County	Assessed Value Per Acre	Levy Mills	Av. Tax Per Acre
South tier in Bonilla Twp.	$21.72	$42.50	$0.92
North tier in Allen Twp.	18.76	29.09	0.54
Hand County			
South tier in Alpha Twp.	12.43	31.27	0.38
North tier in Miller Twp.	18.74	29.76	0.56

As further evidence of the inequality in tax payments on farm property one can compare the highest and lowest tax bills per $1,000 of assessed valuation in selected counties in South Dakota. These comparative assessments for 1950 apply to rural school districts in selected counties.

Counties	Tax bills per $1,000 assessed valuation Lowest	Highest
Brookings	$14.00	$34.65
Beadle	19.97	40.95
Clay	15.28	27.53
Haakon	12.66	32.66

Figure VII.

Farm Real Estate Taxes in South Dakota
(1910-1952)



Source: United States Department of Agriculture-BAE "Farm Real Estate Taxes." September 1953.

The present method of assessment of farm buildings is another case where inequalities of tax levies is very apparent upon investigation. As was previously mentioned little consideration is given to the income earning capacity of farm buildings in levying procedures. A method for making an equitable comparison between buildings on different farms is also much needed.

South Dakota law stipulates that all property shall be assessed at its true and full value in money. This stipulation is not being complied with.

In 1952, in Hand County, St. Lawrence Township, 38 sets of farm buildings were assessed at less than $1,000 with none above that figure. In Miller Township, 38 sets of farm buildings were assessed above $1,000 (the highest $1,308) and 43 sets were below $1,000. It is obvious that in some cases farm buildings are grossly under assessed. Such is in general true of farm assessments and non-farm assessments over the state.

Under assessment as such does not necessarily mean that there will be or is inequality in tax payments. However, it does tend to make it more difficult to equalize levies between properties.

Another consideration that should be included in comparing the burden of taxes for these two groups is to compare the income received by farmers and non-farmers with the respective portions of the property tax burden.

The net income of farm proprietors in 1953 was $290,875,000. 1/ Net income of farm proprietors includes value of change in inventories of crops and livestock, farm wages, net income to farm proprietors, and net rents to landlords living on farms.

1/ United States Department of Commerce, Survey of Current Business, August 1954, Office of Business Economics. Agricultural income was 32.5 per cent of total personal income in 1953. This percentage figure was multiplied by total payments to individuals which was $895,000,000 in 1953.

The non-farm income was $604,125,000. 1/ This figure comprises income received by individuals in the form of wages and salaries, net income of proprietors (excluding farmers), dividends, interest, net rents, and other items such as social insurance benefits, relief, veterans pensions and benefits, and allotment payments to dependents of military personnel.

These figures indicate that the net farm income was 32.5 per cent of total personal income, and of course non-farm income was the remaining 67.5 per cent. Yet farmers paid an estimated 54.4 per cent of all property taxes in South Dakota and non-farmers paid the remaining 45.6 per cent. Also the rural farm population in South Dakota in 1950 was 39 per cent of the total state population. 2/

Table 37
Per cent of Net Income, Population and Property Tax Paid by Farm and Non-Farm Population in South Dakota 1952

Group	Per cent of Total		
	Net Income	Population (1950)	Property Tax Paid
Farm	32.5	39	54.4
Non-Farm	67.5	61	45.6
Total	100.0	100	100.0

It must be emphasized at this point that the above statistics of taxes paid by either group are not in themselves proof of unequal sharing of the tax burden. They are merely an indication of the proportion of property taxes paid by farmers and non-farmers. All types of taxes paid by farmers and non-farmers must be considered if fairness of the total tax burden is to be determined.

1/ United States Department of Commerce, Survey of Current Business, August 1954, Office of Business Economics. Agricultural income was 32.5 per cent of total personal income in 1953. This percentage figure was multiplied by total payments to individuals which was $895,000,000 in 1953.

2/ United States Department of Commerce, 1950 United States Census of Population - South Dakota, Table 10.

B. Improving Procedures In Farm Land Assessing

Inequality in the system of levying taxes on farm lands, buildings, and personal property has been pointed out. One might ask the question, then how can greater equality in tax levies on these three types of farm properties be attained?

Improving assessment practices may go a long way in attaining such desired equality. As has been suggested above, the tax payments that are made on property in South Dakota, in many cases do not reflect the differences in the value of that property. Two conditions are responsible for the amount one pays in property taxes; one is the assessed valuation of the property and the other the mill rate placed on the assessed valuation. Thus, one naturally looks to these two factors in attempting to improve the inequalities that seem to exist in payments of property taxes between individual farmers as well as between farm and non-farm groups.

The mill rate placed on the assessed valuation of property is dependent upon the total assessed valuation of that property. Therefore, attempting to obtain equality of tax payments through the use of varying mill rates for selected properties would be very difficult when assessments are not made equitable to start with. Indeed, in some cases the use of such a technique aggravates rather than corrects existing inequalities.

The assessed valuation of farm real estate and to a large extent other property, has for many years been rather static, with assessments changing little in accordance with changes in market value of property. It is interesting to note that in 1928 E. P. Crossen relates in a bulletin, "Taxation and Public Finance in South Dakota," as follows:

> "A study of representative sales of farm land showed that farms sometimes sold for more, sometimes for less, than they were assessed. Frequently the same farm was given the same assessed valuation year after year, in spite of a tendency in recent years for land values in the state to increase. It would seem that a larger assessment unit might overcome some of these

defects..... It might be feasible for a county to employ a full time County Assessor and to offer a salary large enough to attract men well qualified to carry on the work." 1/

The condition in this respect has virtually remained unchanged since Crossen's observation was made in 1928.

In comparing average assessed valuation of farms with the average sale price of farms in four selected counties in South Dakota it can be seen in figure VIII, IX, X, XI that little change has occurred in the assessed valuation noteably since 1940 while the average sale prices have increased substantially.

Assessment-Sale Ratio Procedure

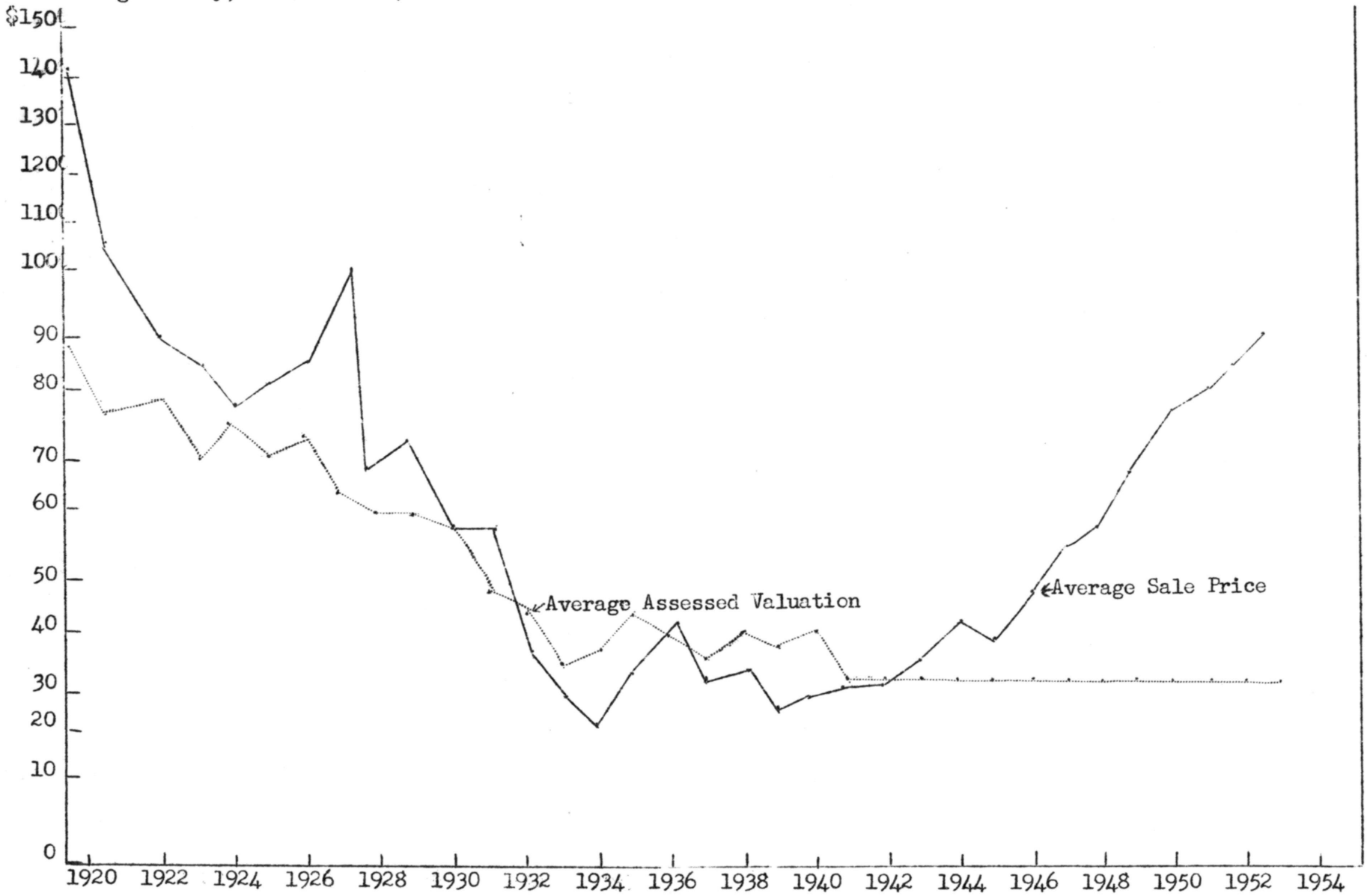
Through a study of assessed valuations and sale prices of land a technique can be used in gaining more equality between farm land assessments in the state and even between states. From such a study adjustments can be made in the assessed valuation of property to arrive at a uniform assessment sale ratio. For example, in 1953 the average assessed valuation of farm real estate in Hand County was approximately $11 per acre while the average sale price was approximately $34 per acre. Thus the assessed valuation as a percentage of the sale price or assessment-sale ratio was about 32 per cent.

The program of assessment-sales studies has been used in Iowa to assist County and City assessors. When the assessors recognize the wide disparity between the high ratios and low ratios they can revise the assessments on the lands responsible for the disparity and have a measure to use in such revisions. A short schooling for assessors in Iowa was set up to acquaint the assessors with the assessment sales studies and how they might use this tool for their local situation. They found that once an assessor had participated in the ratio study and grasped the

1/ E. P. Crossen, Taxation and Public Finance in South Dakota, "Farm Economics Department, Agricultural Experiment Station, South Dakota State College of Agriculture and Mechanic Arts", 1928, p. 28.

Figure VIII

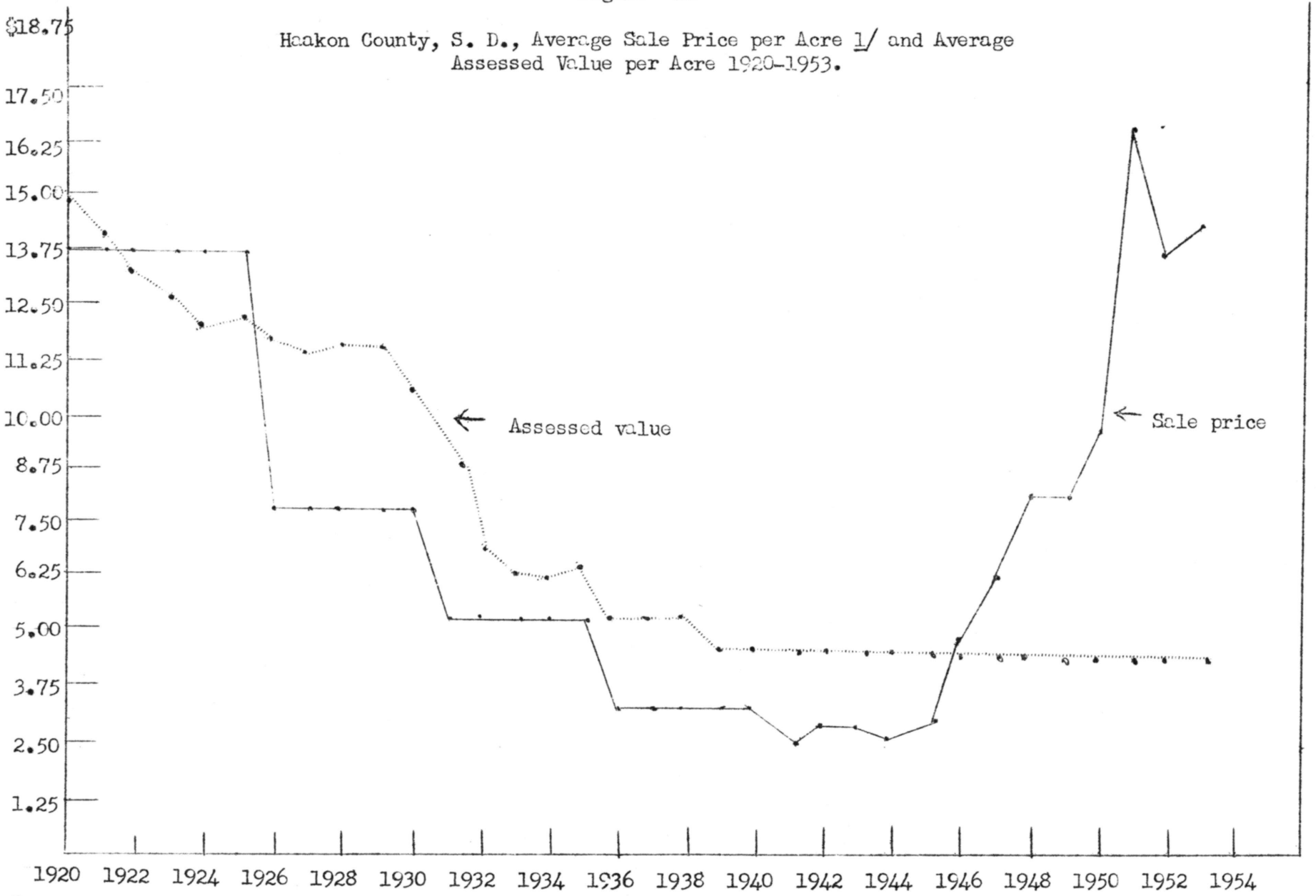
Brookings County, South Dakota, Average Sale Price Per Acre, and Average Assessed Value Per Acre. 1920-1953



Source: County Records

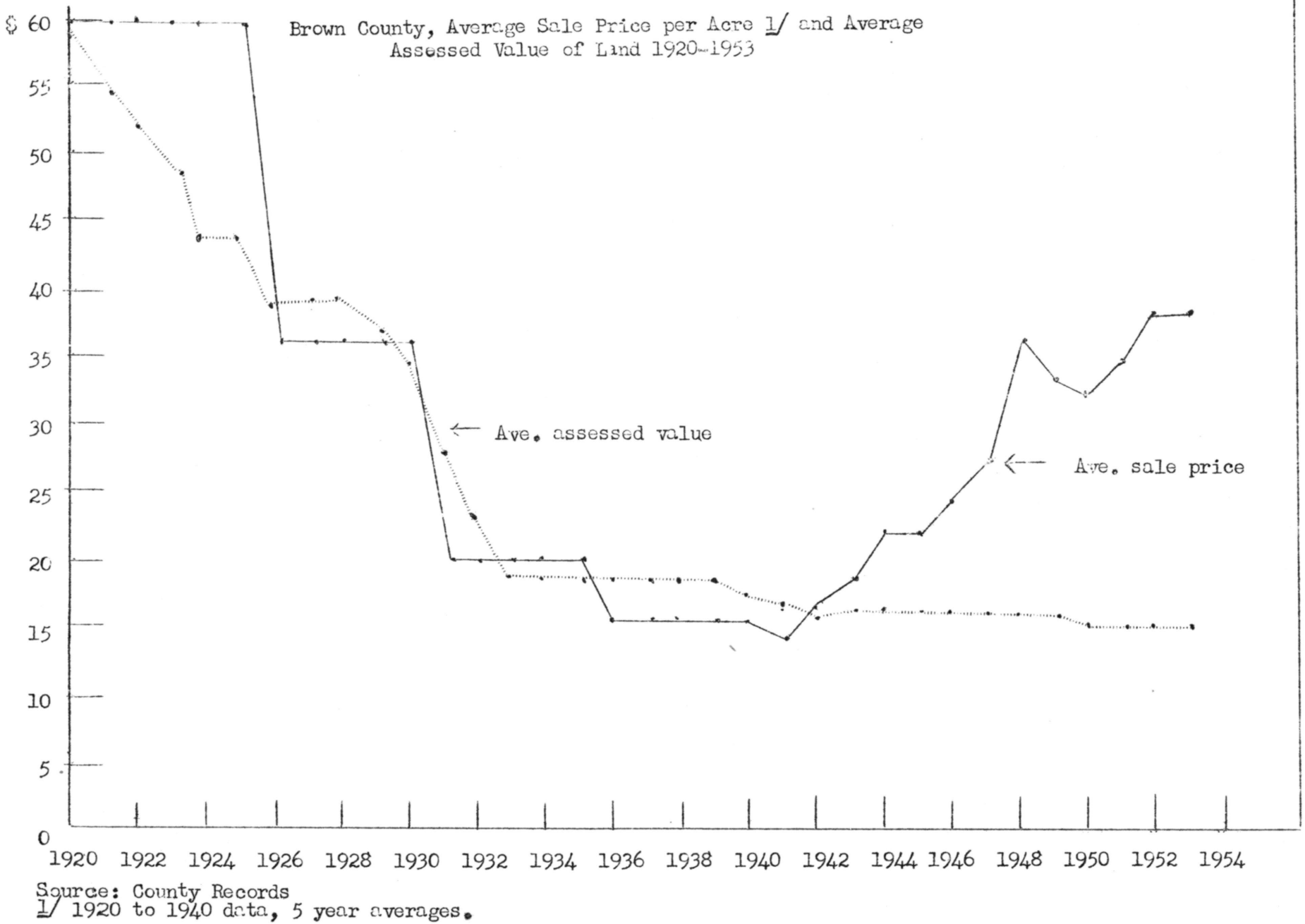
Figure IX

Haakon County, S. D., Average Sale Price per Acre 1/ and Average Assessed Value per Acre 1920-1953.



Source: County Records
1/ 1920 to 1940, 5 year averages.

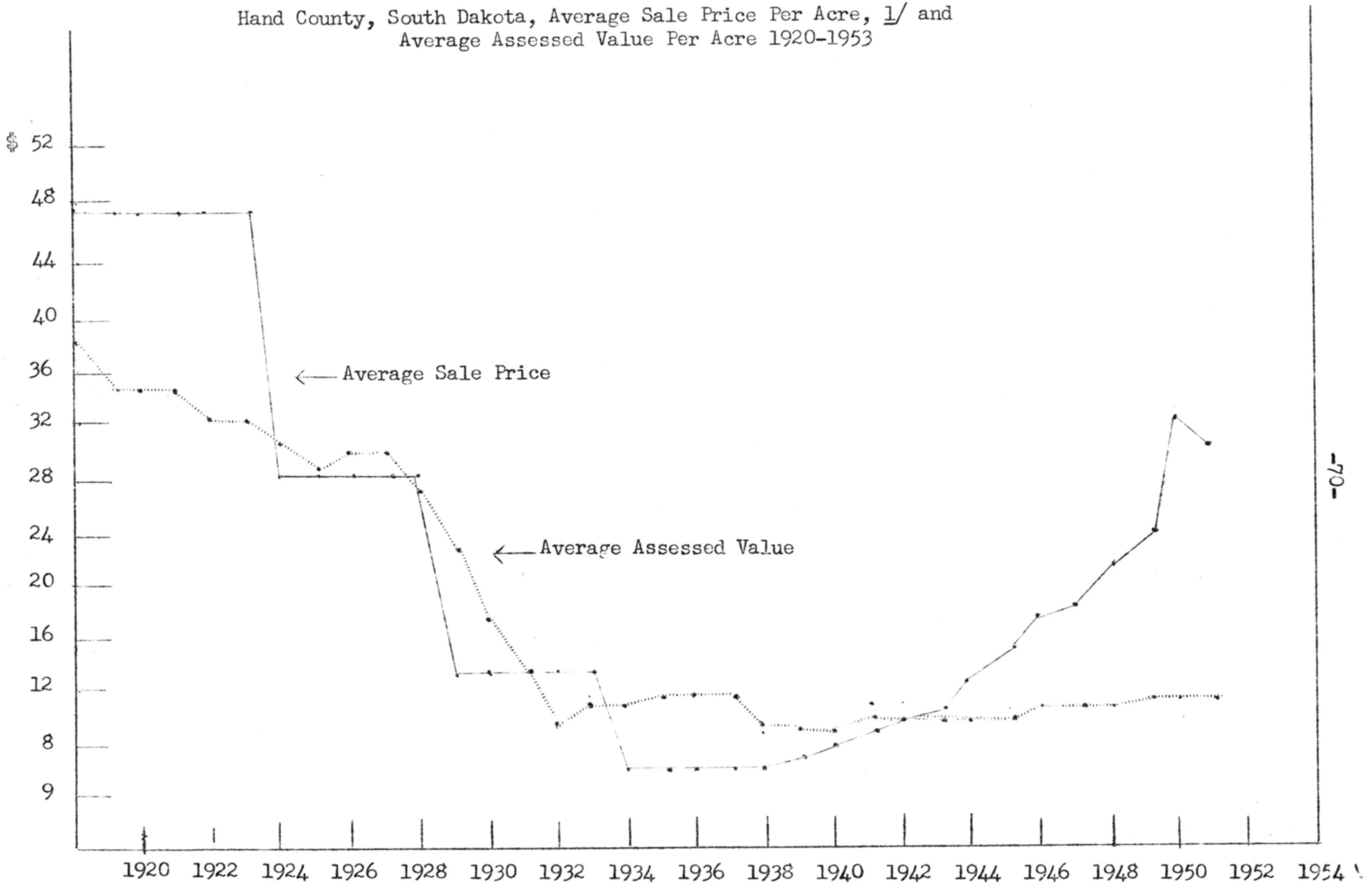
Figure X



Source: County Records
1/ 1920 to 1940 data, 5 year averages.

Figure XI

Hand County, South Dakota, Average Sale Price Per Acre, 1/ and Average Assessed Value Per Acre 1920-1953



Source: County Records

1/ 1920-1940 Average 5 year averages.

significance of the results, he would be likely to apply the findings to his own district. Richard A. Cherney, County Assessor for Grundy County, Iowa commented on the usefulness of the ratio in his work:

> "I have found the sales ratio a very valuable tool for the assessor. After working with this ratio and using it, I would not be without it. Its greatest value is as a means of establishing a factual level of assessed value -- 31.7% of current farm selling price in Grundy County. This percentage enables us to convert assessed values into current selling prices or vice versa, which is an excellent means of checking the accuracy of assessment." 1/

An assessment-sale ratio comparison has been made for four counties in South Dakota from 1920 to 1953. The average ratios for Brown, Haakon, Hand and Brookings Counties for that thirty-four year period was 87.33 per cent, 122.57 per cent, 98.41 per cent and 87.04 per cent respectively. The variation between these counties was not as great in 1953 as was true for some earlier years. The assessment-sale ratios for these four counties for selected years is prepared in Table 38.

Table 38. Assessment-Sale Ratios for Brown, Haakon, Hand and Brookings Counties for Selected Years

	Assessment Value as Per cent of Sale Value for Counties			
Year	Brown	Haakon	Hand	Brookings
1920	96.7	105.7	78.8	60.6
1925	74.2	87.2	67.7	88.1
1930	96.4	137.8	95.0	100.4
1935	92.8	125.7	84.5	119.9
1940	121.5	152.7	147.2	134.2
1945	69.0	168.5	89.6	80.5
1950	47.7	50.2	42.4	42.8
1951	43.0	28.9	39.7	41.3
1952	38.8	35.7	31.6	40.5
1953	38.7	34.3	32.9	37.6

Source: County Records

From the above table it can be observed that from time to time a considerable amount of inequality seemed to exist between Counties, while in 1953 the inequality between the four Counties studied did not reflect

1/ William G. Murry, National Tax Journal, "Improvement in Real Estate Taxation Through Assessment-Sales Studies, "Volume V, No. 1, March 1952, pp.86-92.

a great variation. While the small variation between Counties may seem to indicate that our assessment procedures are not too objectionable, the greatest inequalities usually exist within taxing districts rather than between districts, counties or even states. Equalization between counties is important but probably even more important is equalization between individuals and even districts. J. P. Jensen in his writing on government finance states, "There is no possibility of equalizing unequal individual assessments by means of blanket increases or decreases. The only way to equalize assessments is to make them equal in the first place."1/ Many other writers on public finance express essentially the same thought. H. M. ~~Grows~~ Groves states, after commenting on the difficulties of equalizing assessments between counties, that, "Much more serious, usually, are inequalities among taxpayers within the same district." 2/

Economic Rating of Farm Land For Tax Purposes

Another technique that can be used to achieve more equality in taxation of farm land is to attach various ratings to the land and tax the land accordingly.

Several methods have been devised whereby land can be rated taking into consideration such factors as type of soil, slope of land, expected amount of precipitation on that land, stoniness of soil, type of roads leading to the land, drainage condition of the soil, type of land use and its location in relation to trading centers and schools.

Probably the most important factors to be taken into consideration in rating land for assessment purposes in South Dakota are those related to soil productivity. The ability of land to produce sufficiently to enable it to withstand tax assessments is conditioned in no small part on

1/ J. P. Jensen, Government Finance, (New York: Thomas Y. Crowell Company, 1937), p. 259.
2/ H. M. Grows, Financing Government, (3rd ed. New York: H. Holt & Company, 1950), p. 59.

the inherent qualities of the land. The degree of goodness or badness of soil is measurable and can be used as a tool in determining, in large part at least, the extent to which land can be taxed to achieve the greatest amount of tax equality.

The productive classification of land can be made from soil surveys. In South Dakota such work is being carried on by the Agronomy Department of the Agricultural Experiment Station, State College, and the Soil Conservation Service, United States Department of Agriculture. Personnel of these specialized organizations trained for soil analysis work collect all available information about the soils in an area and prepare a soil survey report.

An explanation of the soil survey work in South Dakota is best explained in a report prepared by Klingelhoets and Westin of the Agronomy Department, Agricultural Experiment Station, South Dakota State College, entitled "Soil Survey and Land Valuation for Tax Purposes."

The explanation is as follows:

> "A soil survey consists of a soil map and report. The map shows the extent and distribution of soil types and other soil mapping units. It also shows the lay of the land or topography, natural drainage of the area, degree of wind and water erosion that has occurred (as measured by the depth of top soil remaining), stoniness, depressions and lakes, location of farmsteads and other buildings, kinds of roads, railroads, and present land use. The accompanying report describes the natural and cultural features of the area surveyed; it describes the important characteristics of soils; predicts the adaptability of soils to various crops, grasses, and trees; predicts their behavior and productivity under different management practices, and predicts the yields which may be expected under defined management systems.
>
> By determining the productive capacity of each soil type or separation on the map a soil survey furnishes the best available basis for reliable estimates of future production and for comparisons of different tracts of land." 1/

From the information gathered in the soil survey, it is possible to determine a productive rating for all lands surveyed.

1/ A. J. Klingelhoets and F. C. Westin, Soil Survey and Land Valuation for Tax Purposes, Agronomy Department, Agricultural Experiment Station, South Dakota State College, College Station, South Dakota.

The productive rating plus other economic and social considerations make it possible finally to make an economic rating of land, a base upon which taxes can be levied with improvements resulting in the equity of tax payments. Some of the economic and social consideration such as types of roads in the area, and location of schools and churches in the proximity of the land considered, can also be obtained from soil survey information. Other economic and social factors such as costs of crop production, and expected prices from the production of various crops, can be estimated from prepared studies of these various aspects. The desirability of the community in which the land is located may be an advantage or disadvantage influencing the value of the land and should also be considered. Such a consideration may most accurately be measured from the attitudes expressed by those living in or near the area. It is desirable therefore that assessment of lands are made including the views of such people as county commissioners and other local groups often-times familiar with the value of particular areas of land to be assessed.

Several techniques have been followed in determining the relative economic classification of lands. A hypothetical example was used in explaining the procedure that could be applied to any county in South Dakota in the previously mentioned report, "Soil Survey and Land Valuation for Tax Purposes." 1/ The hypothetical example therein used assumed 100 acres of Kranzburg soil with a 3 to 5 per cent slope planted to various acreages of corn, oats, and hay. These crops were multiplied by an estimated yield per acre to obtain total production of the various crops selected. Predicted prices were then multiplied by the production to attain the gross income from the crop production. From the gross profit was subtracted the cost of production to obtain the net income in farming that particular type of soil. This net income would then be compared with

1/ Klingelhoets and Westin, op. cit.

the net profit that may be expected by farming in the same way the same number of acres of the most productive type of soil. Through such a comparison a relative economic classification for Kranzburg soil, for instance, could be estimated.

The same type of "relative economic rating of Kranzburg loam used for pasture could be determined in a similar manner except that its value should be based upon the number of acres required per animal unit during a normal grazing season rather than on yield per acre. When land is used for crops, costs per acre is relatively easy to determine, whereas when land is used for pasture the costs are per herd."1/

The success of the use of the soil survey for assessment purposes is suggested in the experiences with this technique in Taylor and Allamakee Counties, Iowa. A. R. Aandahl, Soil Survey Division, Bureau of Plant Industry outlined his experiences with tax assessment in Iowa where the County Assessor System was adopted. He reported at a legislative research committee meeting in North Dakota, February 1952, investigating rural land assessments, that a number of counties in Iowa had called in professional advisors to help in reassessment but the counties still were not satisfied with these evaluations, especially the land values established. "Modern soil surveys were available in Taylor and Allamakee Counties, Iowa. The county assessors of these counties with the aid of state and U.S.D.A. soils personnel, based their land assessment values on these surveys. They have been satisfied with the values arrived at, and since that time several other counties have undertaken a similar program." 2/

The procedure using soils survey information in determining the relative economic classification for crops and pastures in Allamakee County, Iowa, was essentially the same as the procedure suggested for South Dakota

1/ Klingelhoets and Westin, Op. Cit.
2/ Report to the Legislative Sub-Committee Investigating Rural Land Assessment, North Dakota Agricultural Experiment Station.

by Klingelhoets and Westin. (See footnote 1 , page 73).

In summarizing a review of the use of the soil survey as a tool for valuation of land for tax purposes, Mr. Aandahl relates that one of the last and most important steps in the procedure is to consider the factors related to location. "These include roads, distances to market, community schools, churches, etc. In analyzing these adjustments the people in the area must furnish the necessary judgments. It is how they feel about the various factors that determine the values in land. . . . To a large extent, it (the procedure) is based upon normal farm appraisal procedure with such modifications as are necessary to accelerate the preparation of the classification. . . . The more facts which we have, the better we can make these decisions." 1/

Another more detailed but similar study suggesting a procedure to use in determining an equitable assessment of farm land is one prepared by Quintin W. Lindsey "A Procedure for the Equitable Assessment of Nebraska Farm Land." 2/

The general economy of Nebraska is in many respects similar to the economy in South Dakota. Therefore many and possibly all of the suggestions mentioned in the bulletin prepared for Nebraska would be workable in South Dakota.

In general the suggested procedures incorporated in all of the studies mentioned on improving our system of assessing farm land follow the same pattern. An attempt is made to determine what the true market value of farm land is or should be. Taxes can then be levied on the land accordingly, attaining more equity in sharing the tax burden.

1/ Andrew R. Aandahl, Proceedings Land Valuation Conference, "Soil Survey as a Basis for Valuation of land for Tax Purposes," Fort Collins, Colorado, June 17-19, 1952, pp. 17-21.

2/ Quintin Lindsey, A Procedure for the Equitable Assessment of Nebraska Farm Land, Agricultural Experiment Station, University of Nebraska, College of Agriculture, Lincoln, Nebraska, Bulletin 400, December, 1950.

CHAPTER IX

THE BURDEN OF STATE SALES TAXES

A. History & Scope of the Sales Tax

State sales taxes have shown a very significant growth since 1930. In 1933 only four states used sales taxes and raised only about $23,225,000. In 1952 sales taxes in many of the states was the most important single tax levy upon taxpayers.

Thirty-one states in 1952 were levying a general sales or gross receipts tax. The total revenue from this source was $2,229,295,000. This figure was 35.6 per cent of the total tax revenue raised by sales tax states. The state of Washington raised the largest per cent of its tax revenue in 1952 from this source (54.3 per cent) while North Carolina raised the lowest percentage of its tax revenue from sales tax accounting for 18.6 per cent. The sales tax as a per cent of total state tax payments in South Dakota for the same year was 41.4 per cent. 1/

The rates of sales and use taxes in the various states is in general two or three per cent within the minimum taxable sale between 10 and 25 cents.

The burden of a sales tax, as is true of any type of tax, cannot be weighed with complete accuracy. As has been suggested, burdensomeness is a relative concept and is therefore not viewed in the same perspective by all taxpayers. The sales tax is a regressive type of tax and does not conform to the principal of ability to pay. People with small incomes generally spend a larger percentage of that income on goods so taxed than do those with larger incomes.

Sales taxes in South Dakota are most often paid at the point of final personal utility or consumption and such tax payments are made by individual purchases in accordance with a particular price schedule. The business

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1/ U. S. Department of Commerce, "Statistical Abstract of the U. S.," 1953, p. 404.

Table 39. Rates of Sales and Use Taxes in the Various States, July, 1952

State	Rate (Per cent)	Minimum Taxable Sale (Cents)	State	Rate (Per cent)	Minimum Taxable Sale (Cents)
Alabama	3	11	Mississippi	2 b/	--
Arizona	2	--	Missouri	2	--
Arkansas	2	13	New Mexico	2 b/	--
California	3	--	North Carolina	3 c/	10
Colorado	2	19	North Dakota	2	25
Connecticut	2	25	Ohio	3	41
Florida	3	11	Oklahoma	2	--
Georgia	3	--	Rhode Island	2 d/	25
Illinois	2	--	South Carolina	3	11
Indiana	5/8 a/	--	South Dakota	3 e/	15
Iowa	2	15	Tennessee	2	15
Kansas	2	15	Utah	2	20
Louisiana	2	25	Washington	3½	14
Maine	2	25	West Virginia	2¼ f/	6
Maryland	2	51	Wyoming	2	25
Michigan	3	17			

Source: PH and CCH Tax Service Guides.

a/ Rates ranged from ½ of 1 per cent to 1¼ percent--5/8 per cent is the tax on retailings.

b/ General retail rates 2 per cent, but varying rates downward for wholesale transactions.

c/ Maximum tax on a single article is $15.00.

d/ Two per cent until May 31, 1952, thereafter 1 per cent.

e/ Was lowered to 2 per cent upon payment of the Veteran's bonus 1953.

f/ Includes ½ of 1 per cent business and occupation tax.

managers collecting the tax revenue make payments to the state director of taxation on the basis of total sales of taxable items, however. 1/

In general the sales tax is a direct consumer burden. Business firms can usually shift the tax to the buying public through higher prices.

In addition to the variation of sales tax burden between income groups there is also wide differences in the burden between occupational groups.

B. Sales Tax Burden on Farmers in South Dakota

The purchases by farmers in South Dakota, may be divided into two groups. These purchases are either for agricultural production or for personal consumption purposes.

In the case of purchases for personal or family consumption items the farmers as a group probably do not carry an undue share of the burden of sales tax. However, because of the many necessary taxable purchases that farmers make for production purposes, it may well be that as a group, the farmers are carrying a disproportionate share of the sales tax load.

Not all goods purchased by farmers for production purposes are taxable items, however. Several types of purchases are sales tax exempt.

An important consideration that should be taken into account when comparing burden of the sales tax on farmers and retailers is that farmers are generally less able to pass on the burden of the sales tax than are retailers. Any sales tax paid by the retailer may be offset through an increase in the price of the product he sells. The farmer, on the other hand, is usually the ultimate user of the goods he buys and thus cannot pass the tax on. When the consumer pays the sales tax the burden cannot be shifted.

1/ A business may gain or lose on the sales tax depending on the makeup of total sales. If the major portion of total sales are below 15 cents, the minimum taxable sale price, the firm may not collect sufficient tax revenue to pay the 2 per cent rate on total sales. On the other hand, if many of the sales are between 15 cents and $1.00, a businessman is likely to collect more in taxes than he would have to pay quarterly to the state division of taxation.

The following tabulation indicates some of the main types of operating and more permanent expenses of farmers which are taxed and exempt under the existing South Dakota sales tax law:

Selected Farm Purchases Taxed	Selected Farm Purchases Tax Exempt
Machinery and tools 1/	Livestock
Seed	Fuel for agricultural purposes
Fertilizers	Feed
Insecticides, fungicides and veterinary supplies	
Chemical weed spray	
Machinery repairs	
Electricity and telephone	
Bldg. repairs	
Auto and truck repairs	

The amount of money spent by farmers for the production goods listed above which are subject to the sales tax varies widely due to differences in scale of operation between farmers.

Data gathered in connection with a farm record study being carried on in the South Dakota State College, Agricultural Economics Department indicates that the purchases by farmers of production items subject to sales tax are a very important part of the farmers cost of operation. In 1953 the average expenditure for machinery purchased and upkeep of machinery by farmers included in the farm record study was $1,957. 2/ The group of farmers used in the farm record study are considered to be above average farmers.

A two per cent tax on this amount would amount to approximately $39 annually for these two items. Many non-farm families probably do not spend more than this amount in sales tax on their total purchases subject to the tax. Two-thirds of an income of $3,000 would have to be spent on sales tax items to exceed thirty-nine dollars. In comparing sales tax exemption provisions on various types of purchases for agricultural production in South Dakota with other states, it can be observed that

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1/ Only on new machinery, trade in machinery exempt when resold.

2/ Date obtained from records of farms in the Southeastern and North Central Areas of South Dakota.

South Dakota is more or less an exception to the general practice in taxing fertilizers and seeds, Table 40. On the other hand, there is more uniformity with other sales tax states in our taxing of machinery and tools, gas, and electricity. Also like South Dakota, about 65 per cent of the states exempt feed purchases from the sales tax.

Table 40.
Selected Types of Transactions Subject to the Sales Tax in South Dakota, Compared with the Percentage of Sales Tax States Taxing the Same Transactions

Type of Transactions	South Dakota Sales Tax Policy	Approximate Percentage of Sales tax states taxing such Transactions
Machinery	Taxed a/	90
Fuel b/	Taxed d/	78
Fertilizer c/	Taxed	35
Seeds	Taxed	32
Feed	Exempt	35
Gas and Electricity	Taxed	50 e/

a/ Sales tax paid only on new machinery for South Dakota.
b/ Used directly in producing agricultural products for resale.
c/ Used in the direct production of a crop or product for sale.
d/ Except motor fuel, including kerosene, tractor fuel, and distillate used for agricultural purposes, which is exempt.
e/ Many exceptions by type of transaction.

Eight states provided exemption for grocery purchases by all consumers from sales taxes in 1952. A farmer probably has a sales tax advantage in relation to grocery purchases because he may produce a portion of his own food consumption that escapes such a tax.

CHAPTER X

THE BURDEN OF STATE INCOME TAXES

The burden of state income taxes, like most types of taxes, varies between states imposing such a levy and between individuals living in income tax states. State income tax laws, and income distribution are important factors to be considered in any attempt to measure the burden of income taxes.

The graduated income tax is a progressive tax. Progression in itself is a technique used in attempting to get at ability to pay and attain greater equality of burden. It is interesting to note, however, that in 1950 less than 2 per cent of South Dakota's total tax revenue was obtained from progressive taxation in South Dakota as compared with 43.2 per cent in Wisconsin.

Table 41
Per cent of 1950 State Tax Revenue Derived From Progressive and Regressive Taxation

	Regressive taxes*	Progressive taxes*
Illinois	98.3	1.7
Nebraska	98.2	0.3
South Dakota	97.1	1.4
Kansas	89.6	10.3
Iowa	85.9	14.0
Missouri	84.9	15.1
Minnesota	63.5	28.1
Wisconsin	56.8	43.2
United States Average	80.7	16.6

Source: Johnson, Robert H. and Wagner, Lewis E. "A Comparative Study of the Tax Systems of Iowa and the Surrounding States," New Series No. 3, Bureau of Business and Economic Research, State University of Iowa, Iowa City, Iowa, p. 44.

* A comparison of the taxes classified as progressive are death and gift and individual and corporate net income taxes. Classified regressive are sales, licenses and privilege taxes, and property taxes. Severence and miscellaneous taxes were not classified.

Less than one-half of one per cent of our state tax revenue is obtained from our state income tax, which is on the net profits of banks and other

financial corporations. 1/ The burden of state income taxes in South Dakota is thus highly selective and of little consequence when considered in the total state tax picture. It must be emphasized, however, that this does not make our tax system either especially desirable or undesirable. Tax revenue must be raised to finance the services we are demanding and the final test is in the fairness of the total tax burden on those having to pay the taxes. If the income tax attains this objective more closely than some other type of tax, it should be more intensively used.

Income tax revenue, both individual and corporate, accounted for more of the tax revenue in our American tax system in 1952 than any other source. The total income tax revenue received by federal, state and local governmental units in 1952 amounted to more than 50 billion dollars. Seventy-nine billion in total tax revenue was collected. 2/

There are 35 states having either or both a state individual income tax and a state corporation income tax. Thirty-one states have an individual income tax. Thirty-three have a corporation income tax. Four have a state corporation income tax but no individual income tax, and two have a state individual income tax but no state corporation income tax. 3/

Approximately 58 per cent of the population in the United States live in states imposing a state individual income tax. The total revenue collected from this source in 1952 was $905,472,000. State income taxes on the net profits of incorporated and unincorporated businesses accounted for $830,235,000 in that same year. Thus the total state income tax revenue collected from individual income and from net incomes of incorporated and unincorporated businesses, was more than 1.7 billion dollars

1/ In 1952 this tax yielded approximately $161,000 or .041 per cent of the total tax revenue.

2/ U. S. Department of Commerce, Statistical Abstract of the U. S., 1953, pp. 349, 404.

3/ Op. cit. p. 404.

in 1952. 1/

The total state tax revenue for 31 individual income tax states was $6,065,368,000. The state individual income taxes paid in these states accounted for 14.9 per cent of this figure. Adding the state corporation net income taxes and the individual income taxes of the thirty-one states the total, $1,577,520,000, accounted for 26.0 per cent of the total tax revenue figure. 2/

The total personal income of a state or nation is an indication of the ability of the state or nation to pay taxes.

In comparing South Dakota with other states relative to total personal income and income tax payments (both Federal and State) it appears that more emphasis may be placed on the income tax in South Dakota.

Only seven states in the United States paid less federal income tax per capita in 1950 than South Dakota. Yet South Dakota ranked 25 in the nation in personal income per capita. In 1950 South Dakota income tax per capita was $62 while the average of all states was $121. The per capita income payments in 1950 for South Dakota was $1,275 compared with the United States average of $1,440.

In the states having state and corporate income taxes the revenue from these two sources accounted for about 28 per cent of their total tax receipts. In terms of percentage of individual income taken in state income taxes in the income tax states the average was .65 of one per cent. If this same percentage of the individual income in South Dakota ($835,000,000 in 1952) were taken in state income taxes this state could collect about 5½ million dollars. This amount would be about 15% of our tax revenue for the state budget.

1/ U. S. Department of Commerce, Statistical Abstract of the U. S., 1953, p. 404.

2/ States having state corporation net income taxes but no individual income taxes were not included in these percentage computations.

Federal income tax provisions may be used in designing a program for paying state income taxes. Utilizing these records may be a way of reducing costs of administrating a state income tax. For instance South Dakota taxpayers could be required to pay to the state an income tax amounting to a certain percentage of the federal income tax payments. Several states are incorporating various aspects of the federal income tax provisions in their state income tax programs. Some states that do so are Oregon, Utah, California, Minnesota and New Mexico. Under federal law income tax returns are open to inspection by state and local tax officials upon application by the governor of the state to the Commissioner of Internal Revenue. Most states in the income tax field avail themselves of this information.

The federal income tax paid in South Dakota for the fiscal year beginning July 1, 1952 and ending June 30, 1953 was as follows:

Individual (includes Social Security tax)	$ 59,929,449.32
Corporation	11,121,163.57
Total	$ 71,050,612.89

Source: U. S. Treasury Department, Office of Director of Internal Revenue, Aberdeen, South Dakota.

A rough estimate of how much could be collected in state income tax in South Dakota by using the federal returns can be made by multiplying the total by various percentages. For instance 20 per cent of the grand total ($71,050,612.89) would yield approximately 14 million dollars, approximately the amount collected from the 2 per cent sales tax in South Dakota in 1952.

CHAPTER XI

SALES AND STATE INCOME TAX CONSIDERATIONS FOR FARMERS

Along with the demands that are made for more tax supported services and the increased cost of providing these services go the demand for more tax revenue. In South Dakota indications point toward a growing state government through expansion of services such as education, public welfare and highway programs.

When demands for more revenue are made in this State various sources that may be used in raising revenue are examined. Raising revenue from the use, or increase in use, of the sales or state income tax is often considered. Each type of tax has particular advantages over the other depending on such things as the amount of income that each taxpayer has, the occupation he is in and even the method of making payments.

A study prepared in Wisconsin will help to indicate the effect of a sales and an income tax on farmers with different levels of income. 1/

Wisconsin has a personal income tax and is now considering increasing the income tax or levying a sales tax.

It is estimated that a three per cent sales tax in Wisconsin on almost everything but food would bring in about the same amount of money as a 20 per cent increase in the present income tax. In South Dakota a two per cent sales tax would approximately equal the revenue from 20 per cent of the Federal income tax payments. The one per cent difference may be largely due to the fact that in South Dakota grocery purchases are not sales tax exempt.

An estimate can be made of how farmers with different incomes in South Dakota would be affected by a state income tax computed at 20 per cent of the Federal income tax and by an additional 2 cent sales tax. Either

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1/ Harold M. Groves, "Sale or Income Tax -- Which for Farmers?" Economic Information for Wisconsin Farmers. Vol. 22, No. 5.

action should bring in between 12 and 15 million dollars in South Dakota.

It is assumed that four farmers have net incomes of $2,000, $3,000, $4,000 and $5,000, respectively, and that each has three dependents - wife and two children.

Using these assumptions the normal personal state income tax for each farmer would be:

A. ($2,000) .....none

B. ($3,000) $12.00

C. ($4,000) $32.00

D. ($5,000) $57.00

Assumptions have to be made relative to the scale of operation that each of the imaginary farmers above would have in determining how much each of these farmers would pay if the State raised the sales tax 2 cents. The production and consumption purchases subject to the income tax levy would undoubtedly vary between farmers.

In South Dakota the type of purchases made by farmers which are subject to sales taxes, and which yield the greatest amount of sales tax revenue from the standpoint of farm purchases, include new machinery and automobiles, machinery and building repairs, groceries, clothing, household goods, fertilizers, insecticides and chemical weed sprays. It is assumed that the farmer realizing $2,000 net income would not pay as much in sales tax as those earning $5,000 and over, yet the percentage of the gross earnings being paid in sales tax would probably be higher for the farmer making $2,000 than would be the case for those having higher earnings.

For the farmer with $2,000 net profit it is obvious that a state income tax would be to his financial advantage. It is certain that he would make some purchases subject to the sales tax, while under the exemption provisions of the income tax he would not have to pay any state income tax if the Federal records were used.

The farmer making $3,000 net income would have to pay an estimated $12 in state income tax. If he paid an equivalent in sales tax, he would purchase $600 worth of sales-tax goods. It is very probable that a farmer making $3,000 net profit would purchase more goods subject to sales tax than $600 worth. Thus the farmer making $3,000 net would very likely pay less state income tax based on 20 per cent of the Federal returns than he would with an increase in sales tax of 2 per cent.

The farmer with a $4,000 net income would have to pay an estimated state income tax amounting to $32.00. Therefore, if his purchases subject to the sales tax exceeds $1,600 it would be to his advantage to pay the income tax rather than the sales tax.

Finally the farmer with a net income of $5,000, having to pay an estimated $57.00 in state income tax, would be better off with a two per cent increase in sales tax only if the sales tax purchases were less than $2,850.

Based on a sample of farm records in the north central part of the State, the average expenditures for farm production goods subject to sales tax amounted to slightly more than $3,700. Average sales per farm, average expenditures for farm production goods, and average net income per farm family in the sample closely approximates United States Department of Agricultural Statistics for South Dakota as a whole. Thus, in addition to the sales taxes paid on consumption goods, the average farm family pays approximately $74.00 in sales tax on farm production goods based on the 2 per cent tax.

From the information gathered in the sample of farmers it would appear then that on the average farmers would pay less in state income tax, computed at 20 per cent of the federal returns, than he would have to pay if the sales tax rate were increased from two to four per cent.

CHAPER XII

ESTIMATES OF SELECTED TYPES OF TAX OBLIGATIONS OF FARMERS IN SOUTH DAKOTA

The burden of taxation is a relative concept. The extent of the burden can be measured by relating the amount of the payments to several factors which influence the degree of hardship involved in making these payments. The amount of money that one has from which to make tax payments, the number of persons called upon to contribute, the method used in levying the tax as well as the attitude one takes toward a given type of levy are only some of the factors influencing the degree of burden in making tax payments. Because of the several conditions affecting the burden of taxation, the hardship in meeting levies varies between individual farmers as well as between farm and non-farm groups.

In considering the taxes paid by farmers in South Dakota it is well to consider the role they play in the economy of this state. In 1950 the farm population consisted of 39 per cent of the total population. 1/ His income (agricultural income) in 1953 accounted for 32.5 per cent of the total net income. 2/

Although the population or income of farmers does not account for the majority of the state population or income totals, the economic activity connected with agriculture, such as the production, processing and distribution of agricultural products, is the most important aspect of economic activity in South Dakota. The farmer in this state is thus not only significant from the standpoint of the income he receives or the part of the population that he makes up, he is a generating factor and a very important link in our main chain of economic activity.

1/ United States Department of Commerce, Bureau of the Census, 1950 United States Census of Population (South Dakota, General Characteristics) Table 10 p. 41-27.

2/ United States Department of Commerce, Survey of Current Business, August 1954 p. 11. This report considers agricultural income as the net income of farm proprietors (including value of change in inventories of crops and livestock), farm wages, and net rents to landlords living on farms.

The type of tax policy that the farmer is subject to can influence the pattern of the farmer's operation in various ways. For the farmer, or the agricultural industry as a whole, some types of tax measures may be especially burdensome, while other tax policies may have little or no harmful or undesirable effects.

An attempt is made to determine how selected tax policies in South Dakota affect the individual farmer and the farm business.

The farmer is subject to several types of taxes as are many other occupational groups. Many of these types of taxes are indirect in the sense that they are hidden in the price of products or services purchased. No attempt is made to weigh the burden of such taxes on the farmer. Other taxes which are direct in character and which effect the farmers the greatest are considered. Three types of taxes in this group are the property tax, the sales tax, and the federal income tax.

A. Estimated Property Taxes Paid by Farmers in South Dakota

Probably the most burdensome type of tax levied on the farmer in South Dakota is the property tax. The farmer is a relatively heavy property owner and in many areas the support of local services, mainly educational support, has to be carried almost exclusively by the farmer under our taxing system.

When considering total property tax payments in South Dakota it has been estimated that farmers pay 54.4 per cent of the bill. Taxes levied on farm real estate in South Dakota in 1952, payable in 1953, amounted to $19,611,000. 1/ This total accounts for about 53 per cent of the real estate taxes levied in 1953 in South Dakota. If the property taxes levied on utilities were not included in such a computation the farmer's share of the real estate tax burden for the same year would be 59 per cent. 2/

1/ United States Department of Agriculture, Agricultural Statistics 1953. p. 626.

2/ Real estate taxes paid in South Dakota are reported annually by the South Dakota Secretary of Finance. Data used in this computation can be found in the "Twenty-Eighth Annual Report," for fiscal year 1952-1953. p. 187

The amount of personal property taxes that the farmer pays had to be estimated by determining what part of the personal property the farmer owned and multiplying an estimated mill rate for farm personal property by the total assessed valuation of such holdings. Using this procedure it was found that 57.2 per cent of the personal property tax burden in 1953 was placed on the farmers.

In total the real and personal property taxes levied on the farmers in South Dakota in 1953 was estimated at $28,412,171 while non-farmers were subject to $23,829,131.

Table 42
Real and Personal Property Taxes for Farm and Non-Farm Groups in South Dakota Payable in 1953.

Group	Real Estate Taxes	Per cent of Personal Property Total	Personal Property Taxes	Per cent of total	Total Property Taxes	Per cent of total
Farm	$19,611,000	53.2	$7,902,322	57.2	$28,412,171	54.4
Non-farm	17,235,543 a/	46.8	6,593,588	42.8	23,829,131	45.6
Total	$36,846,543	100	$15,394,759	100	$52,241,302	100

a/ Includes railroad, telegraph, sleeping car, electric light, power, water gas, telephone within corporate limits, county grain, dog, special assessment, and the non-farm share of other county, state, school district, organized township and city and incorporated town taxes.

B. Estimated Sales Tax Paid by Farmers in South Dakota

Sales and use tax collections for fiscal 1952-53 in South Dakota totalled about $12 million. As the tax is paid on the total retail sales, except as legal provisions exempt certain types of transactions, and no record is kept of receipts by occupational groups, the sales and use tax that farmers pay must be estimated. Such an estimate is made through a study of farm records in South Dakota including the main types of purchases farmers make. Estimating the amount of purchases subject

to the sales tax and multiplying this total by the 2 per cent levy gives an estimate of the amount that farmers in South Dakota pay in sales taxes.

In 1950 there were 66,452 farmers in South Dakota. From data gathered in connection with a farm record study at South Dakota State College, it is estimated that the average purchase of farm machinery of the farmers reporting, was $1,957. When one considers the other purchases that farmers make, which are subject to the sales tax, such as purchases of seeds, fertilizers, insecticides, fungisides, veterinarian supplies, chemical weed sprays, building and machinery repairs, automobiles, household merchandise, and groceries, one might assume that the average farmer purchases in sales tax goods would total in the neighborhood of $4,000. Multiplying this estimate by the number of farmers in South Dakota results in sales tax purchases by this group of $265,808,000. Two per cent of this figure would yield the state $5,316,160. This would be an average sales tax obligation for farmers of $80 per year. Also it would be about 44.3 per cent of the approximated $12 million sales tax receipts in South Dakota.

It must be emphasized here that the amount of purchases by farmers subject to the sales tax has been estimated from rather incomplete data. Therefore it is only on the bases of the estimated $4,000 figure that the above estimates are made.

C. Estimated Federal Income Taxes Paid by Farmers in South Dakota

Federal income tax payments in South Dakota for fiscal year beginning July 1, 1952, ending June 30, 1953 amounted to $71,050,612.89. 1/ Of this amount $11,121,163.57 was paid by corporations leaving $59,929,499.32 payable by farmers and other non-farm tax payers. This latter figure also

1/ United States Treasury Department, Office of Director of Internal Revenue, Aberdeen, South Dakota.

includes the social security tax withheld from wages.

It is reported that wage earners paid in federal income taxes, including income and Social Security taxes, $28,107,691.66 during the fiscal year July 1, 1952 to June 30, 1953. 1/

Subtracting this amount from $59,929,449.32 leaves a balance of $31,821,757.66 which would be approximately the amount paid by non-incorporated businessmen plus farmers.

Of the $31,821,757.66 paid by non-incorporated business men and farmers $12,525,639.91 was reported as payments on a declaration of estimated tax. Such a tax is paid by business men, farmers and all individuals operating their own businesses, who have incomes which are not subject to withholding tax. Also are included individuals with large salaries in excess of an estimated $7,000.00 who are liable for filing a declaration of estimated tax.

It is assumed that very few farmers file a declaration of estimated tax. The regulations connected with a declaration of estimated income tax for the farmer is more complicated than the other methods by which he can pay taxes. Adjustments have to be made for overage or underage in payment of taxes under this plan. Also there may be a penalty invoked if the estimates are too low. If it is discovered that the farmer has underestimated his tax by more than 33⅓ per cent a penalty may be imposed. Also the declaration of estimated income tax must be made by the same time as their returns for the previous year must be filed.

Thus, subtracting the $12,525,639.91 from the $31,821,757,66 leaves $19,296,117.75 an amount which is estimated to be no larger than what the farmers contributed in federal income taxes in South Dakota for fiscal year 1952-1953. To determine what part of the $19,296,117.75 that

1/ United States Treasury Department, Office of Director of Internal Revenue, Aberdeen, South Dakota.

farmers pay is difficult as other types of self employed people may also pay part of this amount.

When considering the net agricultural income in South Dakota for 1953, and estimating what the average farmer in South Dakota might pay on his share of that income, it would seem that the largest portion of the $19 million would be paid by farmers.

An estimate of the net income of farmers in South Dakota varies in accordance with the type of data used. In the Survey of Current Business Report prepared by the United States Department of Commerce for August 1954 the Agricultural income payments in South Dakota is reported at $290,875,000 for 1953.

An ~~estimate~~ can also be made of the farmers ~~net~~ income by subtracting the farm production costs from ~~gross~~ returns. In South Dakota in 1953 the cash receipts ~~from~~ farm marketings was $549,049,000. 1/ The production ~~expenses~~ for the United States for the same year was about 64 per cent of the gross farm income. 2/ Assuming that this percentage would approximate the same type of relationship in South Dakota, the net profit from agricultural production would be about $200 million.

Thus in one case the estimate of net farm income for 1953 was $290 million while using a different method in computing such a total results in a lower figure of $200 million. In the first case it is very possible that farmers would not pay taxes on the $290 million net as the taxable net income of farmers is probably lower than the net income actually obtained or estimated in the Survey of Current Business. Agricultural income in this publication consists of net income of farm proprietors (including value of change in inventories of crops and livestock), farm wages, and net rents to landlords living on farms. The farmer has sev-

1/ United States Department of Agriculture, Agricultural Marketing Service, The Farm Income Situation March 1954. p. 15

2/ United States Department of Agriculture, Bureau of Agricultural Economics, Agricultural Outlook Charts 1953 October 1952. p. 10

eral deductions he can take advantage of in paying his taxes, some of which are probably not considered in the $290 million dollar estimate.

In the second case, where the estimated net is $200 million, no consideration is given to income that farmers may receive from sources other than from farm production.

When considering these two net income figures one may, for purposes of estimating how much farmers pay in federal income tax in South Dakota, arbitrarily assume that the total net is $250 million which is approximately mid-point between the two estimates.

Dividing the number of farmers by this estimate would result in an estimated average net income per farm in South Dakota at about $3,762.00.

The average size farm family in South Dakota in 1950 was 3.88. 1/ Multiplying the 600 tax exemption per dependent by 3.88, the average farmer could claim about $2,328 tax exempt income for dependents plus about 10 per cent personal deductions for contributions, etc. Thus the adjusted total income subject to the federal income tax would be about:

$$3,762 - (2,328 + 438) = 1002$$

This total, $1002, would demand on the tax payment schedule in 1953 about $225 which would be the average estimated federal income tax liability per farmer in that year. This amount multiplied by the 66,452 farmers would yield $14,752,344 in farm income taxes in South Dakota in 1953. This would be about 20.8 per cent of the federal income taxes paid in that year in this state.

Again this is a computation from estimated averages which should not be considered the actual burden on individual farmers and indeed is not to be considered the actual income taxes paid by farmers.

In summary the farm income, population, and estimated amount of property, sales and federal income tax that he pays in South Dakota is prepared in Table 43 .

1/ U. S. Department of Commerce, 1950 United States Census of Population (South Dakota), P-B 41 p. 41-27.

Table 43.
Farm Net Income and Population, and Estimated Property, Sales, and Federal Income Taxes Paid by Farmers and Non-Farmers in South Dakota in 1953

Class	Population		Income		Taxes							
					Property c/		Sales		Income e/		Total	
	Number a/	Per cent of Total	Amount b/	Per cent of Total	Amount	Per cent of Total	Amount d/	Per cent of Total	Amount	Per cent of Total	Amount	Per cent of Total
Farmer	253,545	39	$290,875,000	32.5	$28,412,171	54.4	$5,316,160	44.3	$14,752,344	24.6	$48,480,675	39.0
Non-farmer	399,195	61	604,125,000	67.5	23,829,131	45.6	6,683,840	55.7	45,177,106	75.4	75,690,077	61.0
Total	652,740	100	895,000,000	100	52,241,302	100	12,000,000	100	59,929,450	100	124,170,752	100

a/ United States Department of Commerce, 1950 United States Census of Population (South Dakota).
b/ United States Department of Commerce, Survey of Current Business, August 1954.
c/ Estimated.
d/ Estimated.
e/ Estimated, non-farm excludes corporation net income tax.

From the statistics prepared above it may be estimated that on the average the farmer paid about $428 in property taxes, $70 in sales taxes and $225 in federal income tax for a total of $723 in 1953. On the other hand the non-farm families paid on the average about $192 in property tax, $54 in sales taxes, and $364 in federal income tax, for a total of about $610.