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Adrianne E. Slaymaker

TAX BURDEN AND INCIDENCE IN THE HISTORY OF TAXATION BY STATE GOVERNMENTS

by
Adrianne E. Slaymaker
Wayne State University

At the state level, taxpayers have more influence over their relative tax burden and tax incidence than they do at the federal level. While this influence has existed since the formation of the United States, recently taxpayers have organized revolts against property taxation. The advent of the passage of California's "Proposition 13" in 1978 best illustrates this revolt.

The objective of this paper is to view the twentieth century changes in the structure of state taxation in a historical perspective to understand the tax burden acceptable at the state level and the incidence of that tax incidence from proportional to progressive taxes and vice versa. The tax burden and incidence in four different states from four different regions of the country, California, Indiana, Kentucky, and New York, will then be compared for the decade of the 1970's to determine if a pattern of change in the tax burden and tax incidence existed at the time of the revolts.

TAX INCIDENCE FROM 1770-1970

Historically, in the incidence of taxation by the states, progressive property taxation varied inversely with the state's more proportional taxation of income in a cyclical pattern. In the colonial period, when there was a relative equality of wealth among the taxpayers, a proportional poll tax was considered equitable and widely used. As the relative equality of wealth shifted, taxes were adopted to increase the progressiveness of the tax and shift the tax burden to the wealthier persons. This led to the adoption of taxes on property income as a method for taxing the wealth of property owners. When the tax burden born by property owning taxpayers became disproportionate to that of the artisans and tradesmen, a "faculty" tax was initiated to tax the income producing ability of the artisans and tradesmen.

In the late eighteenth and early nineteenth centuries the tax on income from real and personal property was gradually changed by most states to a tax on the market value of the property. The property tax which emerged yielded a steady and predictable income to the states. The tax base was the assessed value. The rates were determined to provide the expected expenditures. Since the "faculty" tax was more difficult to assess and collect the new concept of property taxation led to the general demise of the proportional faculty tax.

The early nineteenth century witnessed the adoption of laws for flat or proportional taxation of income by a few of the southern states. During the period from 1820 to 1837 many states incurred substantial debt, issuing bonds to initiate internal improvement projects with the expectation that the debt would be retired by the generation of future revenue from those projects.

The "panic of 1837" caught many of the states with unfinished projects. The projected income from these unfinished projects was not forthcoming to repay the extensive debt incurred. Some of the states turned to a more proportional taxation of income to provide the additional revenue, while others increased the rate of their more progressive property taxes. The southern states, in which the landowners had considerable wealth and influence, were the adopters of proportional income taxes while the northern states relied on increasing the rates of their progressive property taxes.

The Civil War necessitated increasing taxation by all the states. The northern states increased their property tax rates still further. The southern states increased the rates of their income taxes until their loss. After the Civil War, the landowners in the south were no longer wealthy nor influential and the tax structure throughout the south shifted towards the progressive property tax which was popular in the northern states. Thereafter, taxation of incomes by the states generally declined by repeal of the laws or by lack of enforcement.

The decline in importance of the income tax during the last quarter of the nineteenth century increased the problems associated with dependence on the property tax. During this period, state governments provided an increasing number of services requiring rate increases for taxes on real and personal property. The inequity of taxing only property, and indirectly the income from the property, led to the concealment of ownership of intangible property and suggestions that a more progressive income tax should be added to supplement the progressive property tax.

In the early twentieth century the sentiments toward adoption of a tax to replace the "inequitable" personal property tax turned increasingly toward progressive income taxes patterned after the newly enacted federal income tax. As the state expenditures for education and roads expanded, the pressure for alternative taxes increased. The sentiments were that the property tax level should remain constant and that the increased tax revenues should come from other sources. Since most states were still adverse to the idea of income taxation they increased their revenue through newly enacted gasoline and motor vehicle taxation.

During the depression period of the 1930's state property tax and use tax collections lagged. To maintain services, more states began to enact progressive income tax laws. The Tax Policy League provided the philosophical basis for this trend, stating in 1935 that;

> Property and income are both valid and practical indexes of taxpaying ability. The state and local tax system should rest squarely on both bases and equally on both [1935 p. 7].

While the trend toward state taxation of incomes was slowed when the federal tax rates were increased substantially, the initiation of withholding of income taxes encouraged most states to adopt an income tax by the end of the second world war.

TAX BURDEN AND INCIDENCE – THE 1970's

As illustrated in the historical perspective, the incidence of the tax burden within a state has varied from property to income and vice versa. The acceptable tax burden is difficult to quantify but the tax incidence relative to the tax base and the tax structure can be examined. For this study the states of California, Indiana, Kentucky, and New York will be compared. Both California and Indiana had visible taxpayer revolts during the 1970's. Kentucky and New York had legislative change without a visible revolt during the 1970's.

In the 1960's the states further expanded their level of services in conjunction with the prevailing federal impetus toward the "great society". The expansion of services necessitated an increase in revenues. Unlike the early years of the century when the states could impose new taxes on the motor vehicles used on the roads which required the additional revenues, most states could rely on no new tax sources. Most of the few states which had been reluctant to enact income taxes did so, trying to equalize the tax incidence between the incomes from property and labor.

During the latter 1960's the higher progressive tax rates of the federal income tax was increasing the progressiveness of the tax incidence to all states. As the economy slowed in the early 1970's the states resisted raising the property tax rates. Instead they increased the tax base, the assessed property values. At the level of taxation from all sources, many voters became increasingly sensitive to tax increases, especially taxation of property. The frequent failure of property tax measures for financing education was indicative of the resistance to increased taxation.

At the beginning of the 1970's the total tax collections from the four states are given in Table 1. The tax burden of these taxes can be evaluated by use of either the per capita tax or the tax per $1,000 of personal income.

Table 1: The Tax Revenue for California, Indiana, Kentucky, and New York 1972

	California	Indiana	Kentucky	New York
Total Property Tax	6729552	1246376	244398	5292321
Total Sales Tax	4046687	771452	558280	4125964
Total Indiv. Income Tax	1838503	283669	219591	3320187
Total Tax Revenue	14105540	2434437	1166146	14471878
Percent of Total Revenues				
Property	47.71%	51.20%	20.96%	36.57%
Sales	28.69%	31.69%	47.87%	28.51%
Indiv. Income	13.03%	11.65%	18.83%	22.94%
Total	89.43%	94.54%	87.66%	88.02%
Per Capita Taxes:				
Property	328.78	235.57	74.08	288.16
Sales	197.71	145.81	169.22	224.65
Indiv. Income	89.82	53.61	66.56	180.78
Total	616.31	434.99	309.86	693.59
Per $1000 Personal Income				
Property	67.45	54.64	23.31	54.62
Sales	40.56	33.82	53.25	42.58
Indiv. Income	18.43	12.44	20.94	34.27
Total	126.44	100.90	97.50	131.47

Source: U.S. Bureau of Census, Census of Government, 1972.

In both measurements, the greatest tax burden was for New York and the least was for Kentucky. (see Table 1)

By the mid 1970's the total tax revenues collected had increased in all four states. (see Table 2) The relative tax burden per capita and per $1,000 in personal income had remained the same with New York the highest and Kentucky the lowest. The question becomes why did California and Indiana have the strong taxpayer revolts against the property tax during the 1970's?

Indiana's revolt occurred in the early 1970's (1972) when the property tax was significantly reduced and the income tax modified towards a more proportional tax. California's revolt occurred in the later 1970's (1978)

Table 2: The Tax Revenue for California, Indiana, Kentucky, and New York 1977

	California	Indiana	Kentucky	New York
Total Property Tax	10057671	1270693	390084	8062557
Total Sales Tax	7244938	1434431	862208	6155893
Total Indiv. Income Tax	3620933	514388	469362	5863564
Total Tax Revenue	23875304	3454376	2078872	22489616
Percent of Total Revenues				
Property	42.13%	36.79%	18.76%	35.85%
Sales	30.34%	41.53%	41.47%	27.37%
Indiv. Income	15.17%	14.89%	22.58%	26.07%
Total	87.64%	93.20%	82.82%	89.29%
Per Capita Taxes:				
Property	459.53	237.51	112.48	449.62
Sales	331.02	268.11	248.62	343.29
Indiv. Income	165.44	96.15	135.34	326.99
Total	955.99	601.77	496.44	1119.90
Per $1000 Personal Income				
Property	64.13	39.89	21.71	62.60
Sales	46.20	45.03	47.99	47.80
Indiv. Income	23.09	16.15	26.12	45.53
Total	133.41	101.07	95.82	155.92

Source: U.S. Bureau of Census, Census of Government, 1977.

despite the decline of 12 percent in the total revenues collected derived from the property tax.

The answer to the question can be seen in the relative percent of the total revenues collected from each of the three major state taxes, property, sales and individual income. Both California and Indiana had relatively high property tax percentages when compared to the percentage of tax collections from their income taxes in the 1972 census of state governments (for the fiscal year 1971). Kentucky and New York had a smaller variance. (see Table 1)

When Indiana changed its tax structure in the early 1970's it lowered the percent of total taxes collected from property taxes and raised those collected from income taxes. (see Table 2) When California changed its tax structure, it dramatically lowered the percent of total taxes collected from the property tax and increased that of the income taxes. (see Table 3)

Table 3: The Tax Revenue for California, Indiana, Kentucky, and New York 1982

	California	Indiana	Kentucky	New York
Total Property Tax	8293761	1720850	556771	10106904
Total Sales Tax	12069270	1978557	1191491	8572376
Total Indiv. Income Tax	7467709	801548	802516	9195204
Total Tax Revenue	32452537	4829054	3136684	31443261
Percent of Total Revenues				
Property	25.56%	35.64%	17.75%	32.14%
Sales	37.19%	40.97%	37.99%	27.26%
Indiv. Income	23.01%	16.60%	25.58%	29.24%
Total	85.76%	93.21%	81.32%	88.65%
Per Capita Taxes:				
Property	350.42	313.45	152.12	575.63
Sales	509.94	360.39	325.54	488.23
Indiv. Income	315.52	146.00	219.26	523.70
Total	1175.88	819.84	696.92	1587.57
Per $1000 Personal Income				
Property	28.86	32.02	17.83	49.94
Sales	42.00	36.82	38.16	42.36
Indiv. Income	25.99	14.91	25.70	45.44
Total	96.84	83.75	81.69	137.73

Source: U.S. Bureau of Census, Census of Government, 1982.

Both New York and Kentucky were also lowering their relative reliance on the property tax. However, since the difference between the percent collections from these two taxes was not as great as in Indiana and California, these states did not experience the taxpayer revolts. (see Tables 1-3)

CONCLUSION

Throughout the history of the United States, the states have relied heavily on income and property taxation for revenues. The type of taxes collected had depended on the relative influence of the property owner versus the laborer. During the 1970's as the total tax burden increased, the taxpayers became sensitized to the incidence of the tax burden.

During the 1970's two states which had a disproportionately large share of taxation from the property tax, California and Indiana experienced taxpayer revolts toward equalization of the percent of the total taxes collected from properties and incomes. Two others, New York and Kentucky, in which the percent collections from the property and income taxes were more equal did not experience the taxpayer revolts. However, all four states did experience a decline in the percent of taxes collected from property taxes.

In summary, the total tax burden borne by state residents does not promote a tax revolt. The incidence of the tax given by the proportion of total tax revenues that the particular tax comprises creates an atmosphere for tax revolt. Thus, as the percent of total tax collections from the property tax rose to disproportionately high levels in comparison to the income tax the taxpayers revolted.

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★★★

OSAMU KOJIMA DIES

Japan's most noted accounting historian and a former trustee of the Academy of Accounting Historians, Osamu Kojima, died of heart failure on February 21, 1989, at the age of 76. Kojima was one of five life members of the Academy. He also established the Academy's Research Endowment Fund in 1981 with a contribution of $2,000 to commemorate his retirement from Kwansei Gakuin University in Nishinomiya, Japan. Professor Kojima had been a regular attendee at the quadrennial World Congresses of Accounting Historians, but was unable to attend the recent meeting in Sydney because of illness. He was to have been the coordinator for the 1992 Congress in Japan. His Japanese colleagues will now carry out his intentions as it was Professor Kojima's dying wish that the 1992 World Congress be a success.

Memorials may be made to Professor Kojima with contributions to the Academy's Endowment Fund. Send memorials to Dr. Ashton Bishop, Secretary, School of Accounting, James Madison University, Harrisonburg, VA 22807.

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