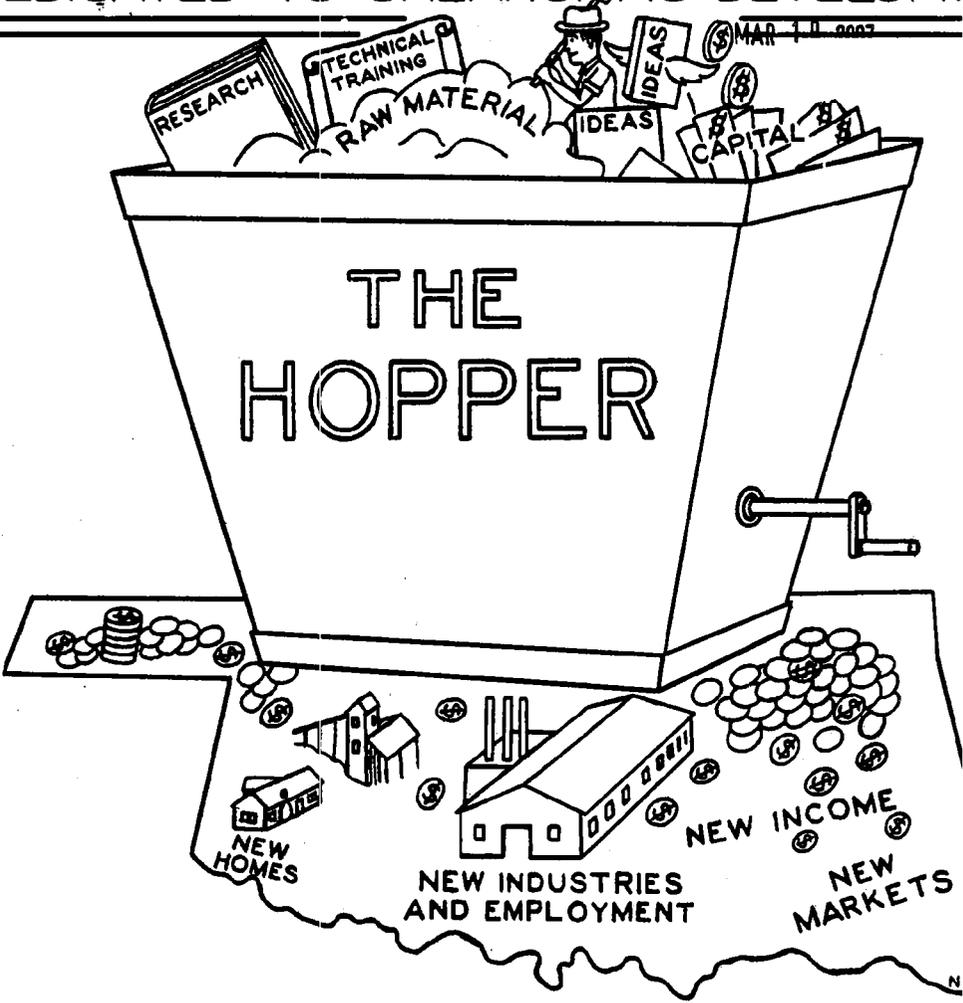


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TRENDS IN STATE TAXES, OKLAHOMA AND OTHER STATES
by

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(This article summarizes a study prepared by Mr. Hargrove on the subject of taxes in Oklahoma and other states. The detailed study will be published soon by the Bureau of Business Research, University of Oklahoma. Persons interested in receiving the final study should contact the Bureau of Business Research.)

Prior to World War I the collection of taxes by federal, state, and local governments was a relatively unimportant phase of the economic activity of the United States. Largely as the result of two world wars and a deep, prolonged depression, government taxing and spending programs have become increasingly important. Government taxes currently account for a fourth or fifth of our national income and there seems little likelihood that taxes will decline in importance in the near future. Total taxes have risen rapidly, both in dollar amount and as a percentage of our national income.

Tax collections and expenditures are made at three levels: federal, state, and local. During the past few decades there have been big, continuing shifts in relative importance. Two decades ago local governments collected about half of the total taxes, state governments accounted for about a fifth, and the remainder was collected by the federal government. The entire tax structure has shifted so that at the present time state governments account for only one-eighth, local governments about one-eighth, while the federal government collects the remainder.^{1/} This study deals

^{1/} The Tax Foundation, Facts and Figures on Government Finance, 1948-1949.

only with tax collection and expenditures made at the state level, and, therefore, does not contain a complete picture of the tax and expenditures policies of other levels of government.

Per Capita State Tax Collections

During the fiscal year 1948 the national average of per capita state taxes collected was slightly over \$46, about three times the per capita state tax collection two decades earlier. In Oklahoma per capita state taxes collected in 1948 were \$58, more than four times the amount collected in 1929. The rate of increase of per capita state tax collections in Oklahoma was greater than any of the surrounding states but may be explained in part by a decrease in population in Oklahoma from 1929 to 1948.

Per capita taxes collected in Colorado and New Mexico in 1948 tripled the amount collected two decades earlier and they were the only states of those surrounding Oklahoma that consistently maintained per capita tax collections above the national average during the period from 1929 to 1948. Beginning with 1944 per capita tax collections in Oklahoma were significantly above the national average as well as above all the surrounding states, with the exception of Colorado and New Mexico. In 1948 only six states in the nation collected higher per capita state taxes than Oklahoma.

Among Oklahoma's neighbors, only Arkansas and Missouri consistently maintained a lower per capita tax collection than the average for the nation. Texas, however, followed closely behind Arkansas and Missouri, being above the national average only in 1930 and 1931. It should be pointed out that the rate of increase in per capita tax collections was greater in Arkansas and Missouri than in Texas. Arkansas followed the national average closely in rate of increase, having tripled the per capita tax

collections during the two decade period, while the per capita tax collections in Missouri were roughly two-and-one-half times as large in 1948 as they were in 1929. Texas, on the other hand, reflected the smallest rate of increase of all the surrounding states, having doubled the per capita tax collections during the same period.

Per Capita Taxes as a Per Cent of Per Capita Income

The average per capita state taxes as a per cent of per capita state income payments for the entire nation increased very little during the two-decade period. It is significant to note that Oklahoma, but none of the surrounding states, more than doubled the per capita state tax collection as a per cent of per capita state income during the two-decade period. This large increase, however, occurred in the first decade.

Oklahoma and all the surrounding states, with the exception of Missouri and Texas, were consistently above the national average in per capita taxes as a per cent of per capita state income during the entire two-decade period. The rate of increase for Oklahoma, however, was not only greater than the average for the nation, but also greater than each of the surrounding states. In 1948 only two states in the United States had a higher per capita tax as a per cent of per capita income than Oklahoma. In general it seems that the lower income states have higher per capita tax collections as a per cent of per capita income. By using the following example the effect of low per capita income may be more forcefully presented. If the per capita income of Oklahoma had been equal to the national average in 1948, and if the dollar volume of Oklahoma state taxes had remained unchanged, the percentage of per capita state taxes collected as a per cent of per capita state income in Oklahoma for 1948 would have been 2.4 per cent as compared with the national average of 3.3 per cent. Actually,

per capita taxes in 1948 amounted to 5.6 per cent of the per capita income of the state.

Only Missouri, of all the surrounding states, maintained a level of per capita taxes as a per cent of per capita income that was lower than the national average during the entire period for 1929 to 1948, although Texas has been below the national average since 1942. It is significant to note also that Texas was the only state of the surrounding states experiencing a decrease in per capita taxes as a per cent of per capita income from 1929 to 1948. This decrease in Texas is at least partly explainable by the relatively large increase in population in Texas during the two-decade period and the relatively large increase in per capita income during the same period.

Sources of State Taxes

In 1929 there were four major sources of state taxes in the United States. These were, in order of importance: (1) business and non-business license tax; (2) general property tax; (3) inheritance and estate tax; and (4) special property tax.

The most important source of tax collections at the state level in 1929, for the United States and Oklahoma, was business and non-business license taxes. Over 50 per cent of the taxes collected by the forty-eight states in 1929 came from this source. This tax has become less important as a source of taxes at the state level, but has not decreased to the extent of the general property tax. By 1937 business and non-business license taxes had decreased significantly, and accounted for only 20 per cent of the total taxes collected at the state level in the forty-eight states, and by 1948 accounted for only 13 per cent of the total.

In 1929, motor fuel tax accounted for one-third of the total taxes collected from business

and non-business license taxes in the United States. In 1937 the motor fuel tax was transferred from the business and non-business license tax classification and placed under sales tax. This transfer accounts for a large portion of the decline of business and non-business license taxes as a source of taxes for the states, beginning with 1937.

In Oklahoma, business and non-business license taxes were more important as a source of taxes at the state level in 1929, but in later years the importance of this tax declined at a more rapid rate than that for the nation as a whole. Over 75 per cent of the total taxes collected at the state level in Oklahoma for the year 1929 were from business and non-business taxes, as compared with 13 per cent in 1937 and 12 per cent in 1948.

The general property tax has been a diminishing source of tax at the state level. In 1929 the nation as a whole collected over 20 per cent of all state taxes from the general property tax, as compared with 7 per cent in 1937, and only 4 per cent in 1948.^{2/} In Oklahoma, the general property tax has been even less important as a source of tax collections at the state level than that for the nation. Only 15 per cent of the total taxes collected in Oklahoma in 1929 were from general property taxes, as compared with less than one-half of one per cent in 1937, and none in 1948.

Revenues from inheritance, estate and gift taxes amounted to slightly less than 10 per cent of the total state taxes collected in 1929 for the nation as a whole. The declining importance of state inheritance, estate and gift taxes since 1929 is indicated not only in the total amounts collected, but also in the state's diminishing reliance on these taxes for revenue at a time when increased

^{2/} Four per cent in 1948 includes general, selective, and special property taxes.

funds were being sought by most states. In 1937 only 4 per cent of all state taxes came from these sources, as compared with 3 per cent in 1948. Inheritance, estate and gift taxes were insignificant in Oklahoma during all years under consideration, having accounted for about 2 per cent of the total taxes collected in 1929, less than one per cent in 1937, and one per cent in 1948.

State income taxes were relatively unimportant as a source of state taxes in 1929, but there has been an increase in the importance of income taxes as a source of income for the states during the last two decades. In 1929, 5 per cent of the taxes collected in the United States was derived from income taxes, both individual and corporation, as compared with 8 per cent in 1937, and 14 per cent in 1948. In Oklahoma, income taxes, both individual and corporate, accounted for 3 per cent of all taxes collected at the state level in 1929, but by 1937 this figure had increased to 12 per cent with a slight decrease in 1948 to 11 per cent.

The largest single source of state taxes in 1937 was the sales tax, representing over 40 per cent of all taxes collected in the United States at the state level. More than one-half of the taxes collected from sales taxes in the United States in 1937 were derived from the motor fuel tax.^{3/} Oklahoma was above the national average in 1937, with sales taxes accounting for one-half of the state taxes collected. Slightly under one-half of the taxes collected from sales taxes in Oklahoma during 1937 were derived from the motor fuel tax.

Sales taxes continued to hold the highest place of importance as a source of state tax collections in 1948, accounting for over one-half of

^{3/} United States Bureau of the Census, Financial Statistics of States, 1937 (U. S. Government Printing Office, Washington, D. C.) p. 36.

the total tax collection in all forty-eight states. Oklahoma remained above the national average with sales taxes accounting for 60 per cent of total taxes collected by the state in 1948.

While the severance tax was relatively unimportant as a source of taxes for the United States, having accounted for only one per cent of the total taxes collected in the United States for the year 1937, it is an important source of revenue in Oklahoma. In 1937, severance taxes accounted for 20 per cent of the total taxes collected in the state of Oklahoma. In 1948 a slight decrease in severance was experienced in Oklahoma. Of the total taxes collected in the state during 1948, severance taxes accounted for about 13 per cent, as compared with the national average of less than 2 per cent for the same year. It is significant to note that ninety per cent of the state severance taxes collected in the United States in 1937 came from four states--Louisiana, Oklahoma, Texas, and West Virginia.

Unemployment compensation taxes increased since their inauguration in 1936, to a high of 1.7 billion dollars in 1943. This increase is at least partly explainable by the increase in the wage level during the war and the increased rates applied during the war to offset possible unemployment caused from readjustment after the war. The decline after the war reflects, in part, a termination of the higher rates.

Oklahoma has lagged considerably behind the national average in the percentage of total taxes collected going into the unemployment compensation fund. In 1937 Oklahoma collected unemployment compensation taxes amounting to slightly more than 6 per cent of the total taxes collected, as compared with 5 per cent in 1948. The relatively low position occupied by Oklahoma in unemployment compensation tax collections may be explained, at least in

part, by the smaller number of persons covered by the unemployment compensation law as compared with the more highly industrialized states.

Per Capita Federal Grants in Aid

During the fiscal year 1948, federal grants-in-aid to the states amounted to slightly less than \$10 per capita, for the entire nation, as compared with per capita grants of \$.97 in 1929. Oklahoma and all the surrounding states were above the national average in most years. The principal exception to this statement is that Arkansas was somewhat below the national average from 1930 through 1946, but in the last two years for which information is available, per capita grants in Arkansas have also been well above the national average. On a per capita basis, federal grants to Oklahoma have exceeded the national average in every year beginning with 1930, and in 1948 federal grants to Oklahoma were considerably more than twice the national average. Per capita grants in New Mexico and Colorado in 1948, were also about twice the national average. In 1929 per capita federal grants to New Mexico were more than five times as great as the national average. Most of the increase may be traced to larger federal contributions for public welfare and highways. In 1948 only two states received greater per capita grants than Oklahoma. Nevada received the highest per capita grant of any state in the nation for each year during the past two decades. Wyoming was also higher than Oklahoma in 1948.

Major Categories of State Government Expenditures

Expenditures on highways, public welfare, and schools now account for somewhat more than half of total state expenditures in the United States, and for a considerably larger part of total expenditures in Oklahoma and the surrounding states. In 1929 expenditures for these items accounted for three-fourths of all state government spending.

Highway Expenditures

In 1929 state spending for highways was the largest single item of state government expenditures, although by 1948 this item ranked third among governments costs. State expenditures for highways in the United States rose from \$750 millions in 1929, to about \$2 billions in 1948. In Oklahoma and the surrounding states the dollar amount of spending on highways during the past two decades has shown substantial increases. As a percentage of total state spending, however, highway spending has declined during the past two decades. For the United States as a whole, highway spending accounted for 36 per cent of all state spending in 1929, but dropped to 19 per cent in 1948. The reason for the percentage drop is that spending for other programs, especially those programs connected with the Social Security Act of 1935, have risen sharply, and now account for a large part of total state spending.

In Oklahoma expenditures for highways dropped from 37 per cent of total state expenditures in 1929, to 20 per cent in 1948. Highway spending accounted for a declining part of total state spending in all states surrounding Oklahoma during the last two decades, the largest relative decline occurring in Missouri where highway spending dropped from 45 per cent in 1929, to 15 per cent in 1948.

Public Welfare

The largest portion of state expenditures for public welfare purposes were accounted for by public assistance. Included in public assistance are such items as: (1) old-age assistance, accounting for the largest portion; (2) aid to dependent children; (3) aid to the blind; (4) veterans aid; and (5) general relief.

State spending for public welfare rose from 10

per cent of total state expenditures in 1929 to 15 per cent in 1948. In Oklahoma and most of the surrounding states, however, the increase in public welfare spending has been much more pronounced. Public welfare spending rose from 13 per cent of total expenditures in Oklahoma in 1929, to 35 per cent in 1948. Spending on public welfare in Oklahoma accounts for more than twice as large a percentage of total expenditures as is true for the nation as a whole. Such spendings in Oklahoma also make up a substantially larger share of the total than in all surrounding states except Colorado. Among the surrounding states, only New Mexico and Arkansas spend a smaller share of total state funds on public welfare than the national average.

Schools

In 1948 the financing of school systems accounted for a larger share of total state expenditures than any other single item, whereas in 1929 schools were the second largest expenditure item. State School expenditures have risen from \$550 millions in 1929 to more than \$2.3 billions in 1948, and in the latter year accounted for 22 per cent of all state government spending in the United States.

Per Capita State Expenditures

In the fiscal year 1948 the average per capita expenditure of the forty-eight state governments amounted to \$71.00, more than four times the amount spent two decades earlier. Per capita expenditures by the State of Oklahoma in 1948 amounted to \$84, about 6 times the per capita expenditures in 1929. In 1929 per capita expenditures by Oklahoma were below the national average and below the expenditures of all surrounding states. By contrast, in 1948 per capita expenditures in Oklahoma were greater than the national average, and also much greater than all the surrounding states except Colorado and New Mexico.