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FISCAL PROVISIONS OF STATE CONSTITUTIONS

Material Prepared for the
Subcommittee on Taxation and Finance
of the
State Constitution Committee
Hawaii Statehood Commission

December, 1947
Legislative Reference Bureau
University of Hawaii

STATE OF HAWAII

JAN 31 2018

LEGISLATIVE REFERENCE BUREAU

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FISCAL PROVISIONS OF STATE CONSTITUTIONS

There is no general pattern to be found in the tax provisions of the forty-eight state constitutions. At one extreme are a few states--Connecticut, Rhode Island, Vermont, and Iowa--whose constitutions contain no clauses specifically dealing with taxation. At the other extreme, the constitutions of Alabama, California, Georgia, Louisiana, and South Carolina particularize in many pages the taxing power of the legislature, exemptions, tax limits for both state and local governments, earmarking of revenues, and prescribe the agencies and occasionally the details of fiscal administration.

In the earliest state constitutions generally little was said about the fiscal powers of government. After the financial difficulties confronting many states during the mid-nineteenth century and again in the early 1930's, the tendency was for the state constitutions to incorporate detailed limitations upon the taxing and borrowing powers. The current trend, to judge by the constitutional revisions of the past ten years, has been to reduce the length and complexity of constitutional requirements, leaving a larger area of discretion to the legislature and to local governments in establishing and administering their revenue systems.¹

1. The Taxing Power

The Model State Constitution prepared by the Committee on State Gov-

¹The article on "Taxation" (Art. X) of the constitution adopted by Missouri in 1945 has fifteen sections, compared with twenty-six in the superseded article. While still unusually lengthy, the article on "Finance, Taxation, and Public Debt" (Art. VII) of the Georgia constitution of 1945 is appreciably less detailed than the articles it replaced. The New Jersey constitution, adopted by the voters in November of this year, contains but three sections pertaining to finance. Article XVI on "Taxation" of the New York Constitution, adopted in 1938, consists of five brief sections.

ernment of the National Municipal League contains but a single reference to taxation, providing that "the power of taxation shall never be surrendered, suspended, or contracted away." This provision is found in the constitutions of ten states,² including three which revised their constitutions in recent years-- Georgia, Missouri, and New York. Ten additional states limit the applicability of this provision to taxes upon corporations.³

Several constitutions also provide that every law imposing a tax shall state distinctly its nature and the "objects" of the tax. Some of these provisions (as in Arizona, Iowa, Michigan, New York) further state that "it shall not be sufficient to refer to any other law to fix such tax or object," in drawing up tax legislation. A companion provision often declares that "no moneys arising from a tax levied for one purpose shall be used for another purpose." Fairly commonly the constitution explicitly states that the "purpose" of the tax collection must be a public one.⁴

Another section commonly found in state constitutions requires equality or uniformity in the imposition of taxes. "Some require equal and uniform taxation, some that property shall be taxed in proportion to its value, some that all taxes shall be uniform upon the same class or objects within the limits of the levying authority, and others provide for equal and uniform rate of assessment and taxation."⁵ A larger degree of flexibility in their

²Arizona, California, Florida, Georgia, Kentucky, Maine, Minnesota, Missouri, New York, and Oklahoma.

³Arkansas, Louisiana, Idaho, Montana, North Dakota, South Dakota, Pennsylvania, Texas, Virginia, and Washington. Listed by Martin Saxe in "Tax Provisions in State Constitutions," Bulletin of the National Tax Association, Feb. 1938, pp. 146-149.

⁴Saxe, op. cit. p. 147. Missouri's constitution, for example, states: "Taxes may be levied and collected for public purposes only." (Art. X, Sec. 3.)

⁵Ibid.

property tax systems is achieved in approximately two-thirds of the states by granting constitutional authority to classify property subject to taxation.⁶ The distinction between tangible and intangible property for tax purposes is commonly made.

To ensure the constitutionality of graduated taxes in the face of express or implied requirements of tax uniformity, twenty-one states have adopted provisions in their constitutions specifically enabling the legislature to enact income and inheritance taxes.⁷ (See Appendix I.) Eight other states have successfully imposed graduated income taxes, without making explicit constitutional provision for their enactment, and but four of the forty-two states with progressive inheritance taxes have express constitutional sanction for graduated rates upon legacies. In Illinois, Michigan, Pennsylvania, Tennessee, and Washington, however, court decisions have prohibited graduated income taxes or classification of property, holding that such measures violated the "uniformity" clause.

There is no specific provision concerning the taxing power in the Organic Act establishing the government of the Territory of Hawaii. The legislative power as defined by Section 55, however, extends "to all rightful subjects of legislation not inconsistent with the Constitution and laws of the United States locally applicable." This section has been held by the courts to confer upon the legislature the same comprehensive authority to tax which is vested in the legislatures of the states.⁷⁸

⁶W. Brooke Graves, American State Government. Third ed., p. 540.

⁷The Florida Constitution, on the other hand, expressly forbids taxes upon income. (Art. IX, Sec. 11.)

⁸In re Craig (1911) 20 Hawaii 483; W. C. Peacock and Co. v. Pratt (Hawaii 1903) 121 F. 772, 58 CCA 48; In re Kalanda (1914) 22 Hawaii 96; Cassels v. Wilder (1915) 23 Hawaii 61.

2. Tax Exemptions

A large part of the fiscal provisions of many state constitutions concern exemptions, especially from the property tax. Florida, for example, devotes six sections to the exemption of widows, disabled persons, homesteads, new factories, and motion picture studios, in addition to the common exemptions afforded property used for public, educational, scientific, or religious purposes. The southern and mid-western states, more frequently than in other areas, have attempted to attract new industries by offering constitutional immunity from property taxation during the first years of plant operation.⁹

Homesteads are also frequently afforded property tax immunity, although in varying degrees. Constitutional measures to this effect are, again, most common among the southern and south-central states, with Arkansas, Florida, Georgia, Louisiana, Oklahoma, and Texas exempting homesteads ranging from \$1,000 in Oklahoma to \$5,000 in Florida. The Utah constitution grants the legislature power to exempt from the property tax homes and homesteads valued up to \$2,000. (Art. XIII, Sec. 2.)

Veterans have been granted special constitutional exemption from property taxes in seven states. All honorably discharged veterans are afforded exemptions in Arizona, California, New Jersey, New Mexico, and Oklahoma; the exemptions varying from \$200 in Oklahoma to \$2,000 in Arizona and New Mexico. Disabled veterans are granted a \$500 exemption in Florida and an exemption of \$3,000 in Utah, while the New Jersey constitution declares persons with ser-

⁹ A study of "Property Tax Exemption," which considers together both constitutional and statutory provisions, is made by K. P. Sanow in State Government, April, 1946, pp. 108-114. Only constitutional provisions are referred to herein.

vice - connected disabilities are entitled to further exemption "as from time to time may be provided by law." (Art. VIII, Sec. 1.)

A majority of the state constitutions grant outright property tax exemptions to governmental, educational, charitable, scientific, and religious institutions, or authorize the legislature to make such exemptions by statute. In most cases, the constitution requires that all exempted property shall not be used for profit, but exclusively for the purposes specified by law.

The Missouri constitution well illustrates the language of these sections granting exemptions to public and institutional property: "All property, real and personal, of the state, counties and other political subdivisions, and non-profit cemeteries, shall be exempt from taxation; and all property, real and personal, not held for private or corporate profit and used exclusively for religious worship, for schools and colleges, for purposes purely charitable, or for agricultural and horticultural societies may be exempted from taxation by general laws." (Art. X, Sec. 6.)

Seven states have written into their constitutions explicit tax exemption for property of the federal government located within their borders.¹⁰ For more than a century after the Supreme Court decision in the landmark case of McCulloch v. Maryland (1819) 4 Wheaton 316, such constitutional exemptions were no more than acknowledgments of the complete tax immunity of the federal government.

In recent years, however, Congress has limited the immunity of federal property. A series of congressional acts requires the payment to state and local taxing units of a varying percentage of federal income from the public domain, including national forests, grazing and mineral lands, and other

¹⁰ Arizona, Idaho, Montana, Nevada, North Dakota, Oklahoma and South Dakota.

large tracts.¹¹ This method of percentage in-lieu payments has also been applied to the power facilities of the Tennessee Valley Authority. A 1940 amendment to the TVA Act requires the Authority to pay five per cent of its gross revenues from power sales to the states comprising the Tennessee Valley. The Federal Public Housing Authority was directed by Congress to pay "tax equivalents" to state and local governments upon its housing projects, and such in-lieu payments have also been made on the rural resettlement centers developed by the Farm Security Administration.

During World War II Congress further consented to full state and local taxation of real property held by the federal lending agencies. Section 610 of Title 15 of the U. S. Code, for example, provides with respect to holdings of the Reconstruction Finance Corporation that "any real property of the Corporation shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed."¹²

With continuing interest on the part of both the federal government and the states in the problems of inter-governmental fiscal relationships, it is quite likely that the traditional tax immunity of the United States will be further waived by Congress, in the interest of bolstering the taxing power of the states and their subdivisions. To be in a position to take advantage of any such concessions, California in 1944 removed from its constitution a

¹¹This discussion follows an article by Walter W. Heller on "The Taxation of Federally Owned Real Estate" in the 1945 Proceedings of the National Tax Association, pp. 139 ff.

¹²Public Law 132 enacted in 1947 reduced the tax liability of the R.F.C. by exempting pipelines, power lines, machinery, and other real property owned by the Corporation. The 80th Congress also cut appropriations for in-lieu payments to municipalities.

prohibition against state taxation of federal property. (Art. XIII, Sec. 1.)

Seeking to curb multiplication of tax exemptions, the constitutions of several states delimit the power of the legislature to enact new exemptions. The Missouri constitution, for example, after listing the types of property which may be granted tax immunity (see page 5 above) provides: "All laws exempting from taxation property other than the property enumerated in this article, shall be void." (Art. X, Sec. 6.)

Other states, however, allow the legislature great latitude in extending or removing exemptions, requiring only that they be treated in general laws. The New York State provision is of this nature. "Exemptions from taxation may be granted only by general laws. Exemptions may be altered or repealed, except those exempting real or personal property used exclusively for religious, educational or charitable purposes. . . ." (Art. XVI, Sec. 1.)

While the bulk of exemption provisions relate to the property tax, the constitutions of several states also specify the exemptions to be granted under other tax laws. Thirteen states thus provide for personal exemptions in their income taxes, and four states provide for inheritance tax exemptions. (See Appendix I.)

✓The Revised Laws of Hawaii 1945, as amended, grant complete or partial exemptions under the real property tax to homes (Sec. 5149); schools, hospitals, religious and charitable institutions, and eleemosynary trusts (Sec. 5151); lepers (Sec. 5150); persons with impaired sight (Sec. 5150A); property of the American Legion and Veterans of Foreign Wars (Sec. 5151); and forest lands (Sec. 5152). Coffee lands and cement manufacturing plants are granted property tax immunity until 1949 (Secs. 5148 and 5147.01).

Realty of the United States, not under lease for a year or more to

private persons, is tax-free, "provided, . . . , that real property belonging to the United States shall be taxed if and when the Congress of the United States shall so permit, to the extent so permitted and in accordance with any conditions or provisions prescribed in such act of Congress." (Sec. 5154.) Territorial and county property is also exempted by this section, as is realty leased by the Territory or its subdivisions, when the lease requires the lessee to pay property taxes.

Blind persons are granted immunity up to \$2,000 annually under the general excise tax (Sec. 5460) and under the compensation-dividends tax (Sec. 5344). Lepers are also exempt from the general excise tax (Sec. 5459). Section 5459 further exempts the non-profit activities of several groups from the general excise tax, including fraternal benefit societies; religious, educational, scientific, and charitable institutions; business leagues, chambers of commerce, etc.; cooperative associations; and building and loan associations. National banks, public utilities, and insurance companies, all taxed separately upon their property, income, or net worth under other chapters, are also exempted by this section.7

3. Tax Limits

Under the vigorous sponsorship of taxpayer organizations, a number of states adopted property tax limits during the depression of the 1930's. Frequently these limits were written into the constitutions, providing ceilings upon the property tax rates of the state government, its subdivisions, or on the combined rates of both levels of government. The more stringent combined, or "over-all", limit is now embodied in the constitutions of nine states, with maximum rates ranging from five mills on certain types of property in West Virginia to 50 mills in Nevada. (See Appendix II.)

More commonly, tax limits have been applied to local governments alone, as the bulk of the states have virtually abandoned the property tax to their subdivisions. Such limits, however, have in periods of financial stress merely made it more difficult for local governments to raise required revenues, but have not prevented effective stretching of the tax limit.¹³

Limits upon taxes other than property levies are occasionally found in the state constitutions, usually with respect to income and inheritance tax rates. The Alabama constitution, for example, provides in its income tax article that the rate of tax shall not exceed five per cent, nor three per cent on corporate earnings. (Art. XXII.) In Louisiana, a constitutional provision freezes the maximum income rates at the levels set by the tax statute of 1934, a scale graduated from two to six per cent (Art. X, Sec. 1); while in North Carolina the top rate is set at ten per cent. (Art. V, Sec. 3.)

Louisiana also establishes constitutional maxima upon inheritance taxes: three per cent as to descendants or surviving spouse, ten per cent as to collateral heirs, and fifteen per cent upon other legatees. The Constitutions of both Alabama and Florida provide that the tax upon inheritances

¹³ Some of the methods used by cities to escape constitutional tax limits were described by the New York State Constitutional Committee. "One expedient, practiced on a large scale by New York City, has been to siphon tax funds into the accounts of municipal undertakings in order to take advantage of the fact that debt service is exempt from the tax limit. Thus the water supply system may earn the requirement for debt service, but the funds may be spent for general purposes and the debt service requirements levied outside the tax limit as if the utility had not earned enough to cover them. This action has the double effect of increasing the permissible tax levy and of reducing the expenditure financed out of the levy subject to the limit. . . . A second expedient has been to issue deficiency bonds late in the fiscal year to be paid out of the following year's revenue. Their repayment would then be considered debt service and the necessary taxes levied outside of the tax limit. . . . A third expedient has been to raise assessed valuations of property or to keep them high." Problems Relating to Taxation and Finance, pp. 234-235.

and estates shall not exceed "in the aggregate the amounts which may by federal law be credited against or deducted from" similar taxes levied by the United States. (Alabama, Amendment 23; Florida, Art. IX, Sec. 11.)

4. Earmarking of Revenues

Another means by which constitutional restraints are placed upon the financial powers of the legislative branch of state governments is through earmarking certain tax revenues for specified funds or purposes. While by no means of recent origin, the device of "dedicated" revenues became widespread after the general adoption of the state gasoline tax, originated by Oregon in 1919. The usual justification of earmarking tax receipts is that it guarantees that the yield of a tax will actually be used to benefit the groups subject to taxation, and so reduces taxpayer resistance. In many cases, however, there is no obvious relationship between the incidence of the tax and the purpose to which its revenue is dedicated.

A study recently made by the Constitution Revision Project of Louisiana,¹⁴ a state which leads in the use of tax dedications, shows that twenty-three of the forty-eight states employ this device. The most frequently earmarked revenues are those from the gasoline and motor vehicle license taxes, with a dozen states dedicating their receipts from one or both of these sources. (See Appendix III).

Ad valorem property taxes are dedicated by six states, according to the Louisiana survey, while poll tax revenues are earmarked for school funds by the constitutions of nine states (Appendix III.) In Louisiana itself, it

¹⁴Revenue, Finance, and Taxation--Dedicated Revenue: A Comparative Study, Constitutional Problems, No. 42.

was estimated that more than half of the state's revenues in 1946 were dedicated by the constitution.¹⁵

[In the Territory, motor fuel taxes are placed in two special funds, as provided by Section 5260 of the Revised Laws of Hawaii 1945, as amended. These funds are used for highway and airport financing. A fraction of the revenue from the compensation dividends tax, constituting either twenty-five or thirty per cent of total collections, is earmarked for the public welfare fund. (Secs. 4812 and 5358.)]

5. Debt Limits

All but five state constitutions provide limits upon the authority of the legislature to incur public debts.¹⁶ In twenty-six states, there are constitutional prohibitions against borrowing, except for stated purposes. In eight others a stated debt limit is prescribed, while in five states the legislature may borrow only up to a certain percentage of the assessed value of property in the state, or (in Wyoming) no more than the total tax revenues for the current fiscal year. The Delaware constitution contains a "put-and-take" provision which authorizes the legislature to borrow up to two-thirds of the amount by which the debt was reduced in the previous biennium. Massachusetts and South Dakota set up barriers to borrowing by requiring a two-third vote in each house upon all debt-creating legislation, while in

¹⁵ Ibid., p. 2. It has been stated that almost 90 per cent of Colorado's tax collections are earmarked. (Proceedings of the National Tax Association, 1944, p. 345.)

¹⁶ No provisions relating to the state debt appear in the constitutions of Connecticut, Vermont, Mississippi, New Hampshire, and Tennessee. It may be noted that the first two of these states also have no explicit provision for taxing in their constitutions. (See page 1, above.)

Delaware three-fourths of the legislators must approve bond measures. Among the constitutions which explicitly provide for a state debt, only the Maryland constitution sets no debt limit or super-majority vote, qualifying legislative carte blanche only by the requirement that when a debt is incurred, provision be made concurrently for taxes to pay interest and principal.¹⁷

In every case in which the state constitution sets limits upon the power of the legislative branch to incur debts, it nevertheless also provides exceptions to those limits. As Appendix IV indicates, in twenty of the twenty-six states with constitutional prohibitions against borrowing other than for stated purposes, the legislature may incur debts to cover casual or "temporary" deficits, while all but two of this group (Arkansas and South Carolina) permit borrowing to repel invasion, suppress insurrection, or defend the state. Refunding operations are expressly permitted by thirteen of the "no-borrowing" constitutions.

Several of the states also place restrictions upon the debt-creation which may be authorized by the electorate. In New Mexico, Virginia, and Wyoming, bond issues approved by popular referenda must not exceed one per cent of the assessed value of taxable property. A dozen constitutions require that referenda extending the borrowing power also provide for interest payment and debt retirement. In twenty states a constitutional amendment is necessary to increase the legal debt limit.¹⁸

¹⁷The General Assembly, however, without levying a tax, can borrow up to \$50,000 to meet "temporary deficiencies in the Treasury, and may contract debts to any amount that may be necessary for the defence of the State." (Art. III, Sec. 34.)

¹⁸Cf. Ratchford, B. U., American State Debts, pp. 430-431. A summary of state constitutional debt limits appears in Constitutional Limitations on the Creation of State Debt, The Governor's Committee on Preparatory Research for the New Jersey Constitutional Convention, 1947.

[The Hawaiian Organic Act contains a provision similar to that found in most state constitutions which permits the territorial government to incur indebtedness in order to "pay the interest upon the existing indebtedness, to suppress insurrection, or to provide for the common defense."

(Sec. 55.) In addition, the Territory and its subdivisions are empowered to borrow for designated public purposes. The annual limit of borrowing for non-emergency purposes is set at one per cent of the assessed value of property in the Territory. Maximum debt under this provision is set at ten per cent of assessed valuations in respect to territorial borrowing, while each subdivision may borrow up to five per cent of the value of property within its jurisdiction. By Congressional authority, revenue bonds and issues to finance such projects as slum clearance and the Honolulu sewer system are excluded from these debt limits. (49 Stat. 516; 50 Stat. 507 and 508.)]

6. Locally Shared Taxes

The practice of sharing tax revenues with local governments has become widespread during the past decades, but there are relatively few constitutional provisions covering the allocation of shared funds. Most divisions of revenues among state subdivisions are prescribed by statute.

The following table shows the state tax levies which are divided entirely or in part among local governments by constitutional mandate. It may be observed that such provisions are most frequently embodied in the constitutions of the southern states, and that school districts are more often favored than are other subdivisions of the states.

Table 1: Constitutional Provisions for Local Tax Shares*

State	Tax	Shared With	Citation
Alabama	Property	School districts	XIV-260
	Poll	School districts	XIV-259
Arkansas	Property	School districts	XIV-3
	Poll	School districts	XIV-3
Delaware	Poll	Counties	VIII-5
Florida	Gasoline	Counties	IX-16
Louisiana	Bank	Municipalities	X-9
	Motor Vehicle	Parishes	VI-22g
	Severance	Parishes	X-21
Missouri	Property	Counties	X-4
Ohio	Income	Cities & counties	XII-9
South Carolina	Poll	School districts	XI-6
Texas	Poll	School districts	VII-3
Utah	Income	School districts	XIII-3

*Data from Revenue, Finance and Taxation: A Comparative Study, Study No. 42 of Constitutional Revision Project of Louisiana, Louisiana State University, 1947 (mimeo.).

Other provisions, while not making tax-sharing mandatory upon the state government, give the legislature explicit authority to allocate part of its revenues to local governments. In Florida, for example, the constitution grants express power to share the inheritance tax and the levy on intangibles. (Art. IX, Sec. 11.) Most states, however, have assisted their subdivisions with shares or grants-in-aid without benefit of specific constitutional authority.

✓ In the territorial tax system, the legislature has allocated all property tax revenues to the counties or for their benefit, under Section

5254 of the Revised Laws of Hawaii, 1945. In addition, a share of the general excise, consumption, and compensating use tax collections is turned back to the counties. (Sec. 5254.) Each county collects the Vehicle Weight Tax from its residents, the proceeds accruing to the county road fund. (Sec. 5713.) Disbursements from the territorial highway fund (see page 11, above) are made to the counties to cover payment of interest and principal upon their highway bonds. (Sec. 5260.)

7. Control Over Local Finance

Fiscal activities of local governments are treated at length in the constitutions of several states, usually to define and limit the taxing and borrowing powers of municipalities, counties, school districts, and other local authorities. In Arkansas, for example, the constitution limits local property tax levies for general purposes to five mills. There are similar constitutional limits of fifteen mills in Michigan,¹⁹ ten mills in Ohio, and fifteen mills in Oklahoma. West Virginia has a limit on local property taxation which ranges from five mills on personalty to twenty mills for urban realty. In some of the states having over-all tax limits (see page 8, above) the local governments must take what is left after the state government has imposed its tax rate.

Local governments, as political creations and subordinates of the state, may impose only those taxes allowed them by the state government. The Florida constitution authorizes the legislature to grant localities power to levy property and license taxes, and no other. By its constitution, Kentucky limits its municipalities to license, excise, and property taxes. In most

¹⁹ Except for home-rule cities.

states the powers of local governments to raise revenue have been "rigidly construed by the courts."²⁰

State constitutions also commonly impose ceilings on the debts which may be incurred by local governments. The typical restriction is to limit local borrowing to a fixed percentage of the assessed valuation of property within its jurisdiction. In other states, the same purpose is achieved by limiting local expenditures. In California, this is enforced by requiring a two-thirds vote of the electors of the locality, or consent of the Board of Equalization, whenever local expenditures for any year exceed those of the preceding year by more than five per cent. (Art. XI, Sec. 20.)

In New York State, however, the constitution merely authorizes the legislature to prescribe by statute for the fiscal control of local governments. Article IX states: "It shall be the duty of the Legislature to provide for the organization of cities and incorporated villages . . . and . . . to restrict the power of taxation, assessment, borrowing money, contracting debts, and loaning the credit of such municipal corporations, so as to prevent abuses in taxation and assessments and in contracting debt by such municipal corporations. . . ." (Sec. 9.)

As legal creatures of the state, local governments are subject to regulation and control of their fiscal administration by the state. In many states this power has been exercised primarily as a means of enforcing compliance with constitutional and statutory requirements. There has been, however, an increasing tendency in recent years to make the relationship between state and local authorities one of cooperation and service, as well as supervision.

²⁰Carl H. Chatters, in Proceedings of the National Tax Association, 1944, p. 346.

The demand for a larger degree of local flexibility in managing county and municipal fiscal problems, within an area delimited and supervised by the state, has often been linked with a plea for home rule, preferably guaranteed by constitutional enactment. One authority, however, claims that constitutional provision for home rule is less helpful than statutory measures in establishing the required flexibility in the operation and control of local financial systems:

Paradoxically, state supervision under statutory codes and administrative rules can permit a larger degree of home rule than under the constitution, because constitutional home rule provides for uniform state laws governing local finance.

New York state is at present codifying her local finance laws under the handicap that the home rule provisions for her constitution require uniformity in state laws which govern local debt and other fiscal subjects. Mr. A. W. Moffat, Chairman of the New York State Commission for Codification of Municipal Finance Laws, declares that 'the effect of the new home rule amendment will be to limit and decrease home rule because, on those topics wherein the legislature believes it must establish firm standards, it must make those standards applicable alike to every municipality. It cannot make any exception no matter how desirable that exception may be.'

Constitutional home rule has been adopted by 17 states without settling the problem of supervisory relationships. The gains from home rule have been worth while in authorizing municipalities to draft their own charters and in minimizing, if not eliminating, special and local legislation by state legislatures. Another gain, sometimes dubious and always uncertain in extent, is in allowing cities to exercise a variable number of municipal powers. Under constitutional home rule, however, the tax, debt, and other financial powers are usually reserved for immediate or ultimate control by the state. Without exception, all the states with constitutional home rule perform at least one type, and often several types, of administrative supervision over local finance.²¹

✓ No grant of taxing power to local governments is made in the Organic Act of Hawaii, which merely provides that "the legislature may create county and town and city municipalities within the Territory of Hawaii and provide

²¹Kilpatrick, Wylie, State Supervision of Local Finance, p. 47.

for the government thereof. . . ." (Sec. 56.) Within the limits of Section 55 of the Organic Act, the legislature has authorized the issuance of bonds by county governments in Section 6041 of the Revised Laws of Hawaii, 1945. The same chapter, however, goes on to specify that this authority to borrow does not "empower the counties, or any one of them, to levy and impose taxes." (Sec. 6061.)

8. State Constitutional Barriers to Federal Aid

During the depression years and again during the late war, several states found that their own constitutions set up obstacles to receiving grants from the federal government. A large part of the difficulty encountered was due to constitutional tax and debt limits, discussed above, which made it difficult and sometimes impossible for a state to raise the additional funds necessary to match federal grants for welfare, highway, or housing programs.

Additional barriers to federal aid are discussed by Jane P. Clark in her analysis of federal-state relationships:

Limitations on methods of appropriation may likewise obstruct state action. In New York, if appropriations for grant-in-aid services are not on the governor's program, they have small chance of enactment, as his proposals must be given precedence over all others before the legislature.

The establishment by the constitution of a rigid relationship between state and county governments leads to especial difficulty in setting up a state grant-in-aid program, particularly with regard to the newer grants-in-aid, where state-wide uniformity is required. The various programs have had to make concessions to these difficulties, thus inevitably slowing up cooperative work. . . . State-county relationships are of particular importance in the development of grants for such purposes as relief and social security, where there is need for state-wide uniformity in program because individuals are no longer chained to one locality. In such instances as those in which the Social Security Act requires a state plan to be mandatory upon the entire state and administered and supervised by a single state agency, it has also run afoul of the constitutionality bound state-county relationship. . . .

A third type of state constitutional restriction may clog

federal and state cooperation. Delegation of power by the legislative to the executive or the judicial branches of state government is forbidden by the doctrine of separation of powers, specifically embodied in some state constitutions, as, for example, in California and Nebraska. Despite the need for flexibility and responsiveness to change, the constitutional embodiments of this doctrine rise to limit activity under grants-in-aid. For example, a Nebraska law of 1935 aimed to raise funds to match federal appropriations given under federal relief and social security legislation, primarily for old-age assistance. The law of the state, granting the State Assistance Committee power to allocate funds at its discretion for relief purposes, was held unconstitutional as a delegation of legislative power made without any limitations or rules for the allocation of funds. . . .²²

9. State Tax Systems

While differing widely in their rates and relative dependence upon various types of taxes, the revenue structures of the states have taken on an increasing degree of similarity, if not uniformity. As of the beginning of 1947, all of the states imposed alcoholic beverage, gasoline, and motor vehicle taxes. Each of the states but Nevada has adopted a tax upon inheritances. Thirty-nine states tax tobacco, with eight enacting cigarette tax laws during the present year alone.

During the depression of the 1930's, many states imposed "emergency" general sales taxes which have been incorporated into the tax structure. Currently twenty-seven states impose sales and gross receipts taxes. Thirty-three states and the District of Columbia rely heavily upon progressive income taxes.

Personal property taxation, once a mainstay of state finance, has largely been allocated to local government. While forty-five states collected property taxes in 1947, receipts from these levies constituted less than five per cent of total state tax revenues. Severance taxes upon the removal

²²The Rise of a New Federalism, pp. 240-242.

of minerals and timber, imposed by twenty-two states, provided less than two per cent of state tax collections, exclusive of payroll taxes.

Table 2: Relative Importance of State Taxes*

T a x	Number of States Imposing	Percentage of Total Tax Revenues in Fiscal 1947
Admission and amusement	28	0.3
Alcoholic beverage	48	7.1
Chain store	19	0.1
Franchise	47	2.2
Gasoline	48	19.4
Income (net)	33	15.2
Inheritance, estate, and gift .	47	2.9
Insurance	48	2.9
License	43	3.9
Motor vehicle	48	9.3
Pari-mutuels	20	2.0
Property (state tax only) . . .	45	4.5
Sales, use, and gross receipts.	27	20.3
Severance	22	1.6
Tobacco	39	4.2
Utility	38	2.8
Miscellaneous	48	1.3
Total		100.0

* Data from U. S. Bureau of the Census, State Tax Collections in 1947 and Tax Administrators News, January 1947, p. 1. Social Security contributions are excluded.

The pattern of state taxes, other than social security contributions, shown above in Table 2, also reveals that twenty-eight of the states tax admissions and amusements, and twenty tax pari-mutuel betting. Special taxes are levied upon insurance companies in all states, while nineteen have adopted chain-store taxes. All states but Arizona impose some form of tax upon corporate franchises, and thirty-eight have special taxes on utility companies.

Aside from payroll taxes collected to finance social security programs, the forty-eight states have collectively relied most heavily upon income, general sales, and gasoline taxes. Other important sources of revenue have been motor vehicle taxes, and levies upon liquor, property, tobacco, and public utilities, in that order.²³

10. State Tax Administration

The constitutions of the states, for the most part, leave to the discretion of the legislature the establishment of administrative agencies to enforce the tax laws. A few states, however, have made constitutional provision for tax commissions or boards of equalization. In Nebraska, the Governor is directed to appoint a Tax Commissioner, to "have jurisdiction over the revenue laws of the State." (Art. V, Sec. 28.) The Missouri constitution places the Department of Revenue in charge of administering all state taxes but that on property. (Art. IV, Sec. 22.) The California Board of Equalization is established as a five-man agency, consisting of the

²³For detailed provisions of state taxes, see Tax Systems of the World. Collections for the past fiscal year are tabulated by the Bureau of the Census in State Tax Collections in 1947, August, 1947. A condensed tabular view of the "Tax System of the Forty-eight States as of 1945" is presented in Graves, American State Government, pp. 562-563.

Controller and four elected members. (Art. XIII, Sec. 9.)

In Oklahoma and Colorado the constitution provides for an ex-officio Board of Equalization made up of state officers.²⁴ A study of the government of Oklahoma, made by the Brookings Institution in 1935, had this to say about the appropriateness of such a Board:

At one point in drafting the revenue article, the Constitutional Convention of 1907 fell down badly. When they reached Section 21, they set up a permanent Board of Equalization for the assessment of railroad and public service corporations and for the equalization of property assessments throughout the state. The Board was to consist of the Governor, State Auditor, Treasurer, Secretary of State, Attorney General, State Inspector and Examiner, and President of the Board of Agriculture. They could hardly have selected a worse aggregation for the performance of the highly specialized functions assigned to it. The results have been somewhat mitigated by the creation of a State Tax Commission in 1931, which is authorized to perform the work of the Board of Equalization and to 'report its findings' to this Board for approval.²⁵

Integration of tax administration agencies has been a marked tendency in the past decade. With the growth of complex state revenue structures, it became apparent that a proliferation of assessment and collection agencies was inefficient, expensive, and burdensome to the taxpayer. By 1947, nine states had completely integrated their administration of major taxes into a single agency, while seventeen others maintained two tax revenue departments. A tabular summary of the extent of integration in each of the states is presented in Appendix V.

11. Summary and Comments

Reflecting differing financial needs and dissimilarity of attitudes toward the desirability of extensive checks upon the fiscal powers of govern-

²⁴The Colorado Constitution (Art. X, Sec. 15) establishes a five-member board, consisting of the Governor, State Auditor, Treasurer, Secretary of State, and Attorney-General.

²⁵Organization and Administration of Oklahoma, p. 418.

ment, the constitutions of the states show a great degree of variation in their provisions relating to taxation and public debt. Common requirements are that the purpose and objects of each tax be stated distinctly, and that the purpose be a public one. Equality or uniformity of taxation is usually required, but exemptions are numerous, typically including governmental, educational, charitable, scientific, and religious institutions, and in several states, homesteads and property of veterans. Earmarking of tax revenues for specified funds or expenditures is frequently accomplished by constitutional provision.

Constitutional tax and debt limits narrow the fiscal authority of both state and local governments in many states, with widespread adoption of such ceilings during the 1930's. Local governments are further restricted by the constitutions in their imposition of taxes, and are subject to supervision and auditing by state officials. Ten state constitutions, on the other hand, guarantee local governments all or part of specified tax revenues, while others authorize the legislature to make such allocations.

Within these constitutional frameworks, the tax systems of the states have evolved, greatly varied in detail, but revealing an increasing degree of uniformity. Income, sales, and gasoline taxes have yielded the largest revenues, as the states have gradually relinquished the field of property taxation to their subdivisions. Usually by statutory enactment, rather than constitutional revision, state tax administration has become increasingly integrated.

While many subjects pertaining to the field of taxation continue to remain highly controversial, there is a large measure of agreement that many state constitutions are unduly detailed, complex, and verbose in their fiscal provisions. This comment was made by Professor Harley L. Lutz in a

paper read before the National Tax Association in 1928:

Taxation provisions and references in our state constitutions have become too numerous, too complicated and too rigid for the best results, and . . . the efforts of those concerned with sound and equitable taxation should be expended in the direction of simplifying, and even of eliminating altogether the existing constitutional verbiage on this subject. . . . The most familiar argument . . . for a lengthy tax code in a state constitution, is the popular fear that without it the legislature may commit all manner of indiscretion and abuses. This argument loses its force for the student of American taxation, who has learned of many instances in which rigid constitutional provisions on taxation have not prevented legislative indiscretions and abuses, and who has seen, also, these water-tight constitutional tax provisions used as a complete alibi for legislative indifference and failure to meet and deal effectively with glaring instances of escape from taxation. . . . I conclude that from the standpoint of sound taxation, that constitution is best which says least about taxation. . . .²⁶

In more general terms, another admonition against over-detailed constitutional provisions was stated by Charles Poletti, Chairman of the New York State Constitutional Convention Committee of 1938:

Perhaps the most valuable service which this compilation can perform is to warn delegates, and the public as well, against the inclusion of certain types of detailed provisions in the basic law. This volume discloses that such clauses almost invariably require amendment and reamendment. Still further detailed provisions are often added until what should be a fundamental law becomes a welter of conflicting and overlapping provisions. The experience of the states which have suffered most from this tendency indicates that, unless the practice is checked, the distinction between a constitution and a statute law may be altogether broken down.²⁷

Agreeing with the general policy of leaving the legislature a wide degree of discretion in framing revenue measures, some students would nevertheless place constitutional restrictions upon adopting taxes which they

²⁶ Proceedings of the National Tax Association, 1929, pp. 6-8.

²⁷ New York State Constitutional Convention Committee, Constitutions of the States and United States, Albany, 1938, p. v. (Quoted in Taxation--the Tax Clause, monograph No. 32 of the Governor's Committee on Preparatory Research for the New Jersey Constitutional Convention, 1947, p. 28.)

think should be avoided. This opinion is voiced by Martin Saxe in an article upon the "Tax Provisions of State Constitutions." Finding that "the true field of constitutional provisions has, in most states, been rather overrun by much that more properly should be treated through statutory enactment," he concludes, however, that:

State legislatures should be inhibited from retrogressing and re-adopting old systems which have been outmoded by long experience. Just as poll taxes are expressly prohibited in some states, others might well consider inhibiting methods which experience has demonstrated are impracticable, as for instance the application of the general property tax to intangibles. . . . To avoid retardation of a state's economic development through taxation there is room in state constitutions for the expression of fundamentally sound principles of taxation and modern administrative practices.²⁸

²⁸Bulletin of the National Tax Association, Feb. 1938, pp. 148-149.

APPENDIX I

CONSTITUTIONAL PROVISIONS FOR INCOME AND INHERITANCE TAXATION *

State	Income Tax Authorized	Inheritance Tax Authorized
Alabama	Amend. XXV ^a	Amend. XXI
Arizona	IX-12	IX-12 ^{b, c}
California	XIII-11 ^a	--
Colorado	X-17	--
Florida	--	IX-11 ^b
Kansas	XI-2 ^a	--
Kentucky	Sec. 174	--
Louisiana	X-1 ^a	X-7 ^{b, c}
Massachusetts	XLIV ^a	--
Missouri	X-4	--
Montana	XII-1a ^a	--
New Hampshire	--	Part II, Art. 6
North Carolina	V-3 ^a	--
Ohio	XII-8 ^a	XII-7 ^{b, c}
Oklahoma	X-12	X-12 ^c
South Carolina	X-1	--
South Dakota	XI-2 ^a	--
Tennessee	II-28	--
Texas	VIII-1	--
Utah	XIII-3 ^a	--
Virginia	Sec. 170 ^a	--
West Virginia	X-1 ^a	--
Wisconsin	VIII-1 ^a	--

* Roman numeral indicates article; Arabic number, section.

^aAllows exemptions on income tax.

^bAllows exemptions on inheritance tax.

^cAllows graduated rates.

APPENDIX II

OVER-ALL PROPERTY TAX LIMITS IN
STATE CONSTITUTIONS¹

State	Year Adopted	Maximum Rate (mills)	Exemptions from Limit
Alabama	1901	16.5 to 19	Debt
Arkansas	1874	38 to 48	Prior debt
Michigan	1932	15	Prior debt
Missouri	1945	26	Bonded debt
Nevada	1936	50	--
New Mexico	1933	20	Debt
Ohio	1933	10	Prior debt
Oklahoma	1933	15	Prior debt
West Virginia . .	1932	5 to 20	Prior debt

¹ Adopted in part from Over-All Tax Limitation, Publication No. 110, Research Department, Kansas Legislative Council, 1941.

APPENDIX III

CONSTITUTIONAL PROVISIONS EARMARKING TAX REVENUES¹

State	Gasoline Tax	Motor Vehi- cle Tax	Property Tax	Poll Tax	Other
Alabama	XX-A; XLIV	XX	XIV-260	XIV-259	--
Arkansas	--	--	XIV-3	XIV-3	--
California	XXVI-1	XXVI-2	--	--	--
Delaware	--	--	--	VIII-5	--
Florida	IX-16	--	--	--	--
Louisiana	VI-22; VI-A; XII-14	VI-22	XII-14, 17	--	X-21 ^a ; X-9 ^b ; XII-17 ^c
Maine	LXII	LXII	--	--	--
Michigan	X-22	X-22	--	--	--
Minnesota	--	--	--	--	IX-1 ^a
Mississippi	--	--	--	XII-243	--
Missouri	--	IV-30	III-47	--	X-4 ^b
Nevada	IX-5	IX-5	--	--	--
New Hampshire . .	Pt. II, 6	Pt. II, 6	--	--	--
North Carolina .	--	--	--	V-2	--
Ohio	i	i	--	--	XII-9 ^d
Oklahoma	--	--	--	X-12	--
Pennsylvania . .	IX-18	IX-18	--	--	--
South Carolina .	--	--	--	XI-6	XI-12 ^e
Tennessee	--	--	--	II-28; XI-12	--
Texas	--	--	III-51	VII-3	VII-3 ^f
Utah	--	--	--	--	XIII-3 ^e

CONSTITUTIONAL PROVISIONS EARMARKING TAX REVENUES¹--continued

State	Gasoline Tax	Motor Vehi- cle Tax	Property Tax	Poll Tax	Other
Washington . . .	II-40	II-40	--	--	--
West Virginia . .	--	--	--	--	XII-4 ^h

¹ Adopted from Revenue Finance and Taxation--Dedicated Revenue: A Comparative Study, Constitution Problems No. 42, Louisiana State University, 1947. In citations, Roman numeral refers to article, Arabic number to section.

^aSeverance tax

^bBank tax

^cInsurance Co. tax

^dIncome and Inheritance tax

^eLiquor licenses

^fOccupations tax

^gIncome and intangibles tax

^hCorporation revenue tax

ⁱBy constitutional amendment,
approved November 4, 1947

EXCLUSIVE REFERENCE SECTION

EXCLUSIVE REFERENCE SECTION

APPENDIX IV

CONSTITUTIONAL DEBT LIMITS AND THEIR EXCEPTIONS¹

State	Limit on Legislature	Exceptions to Limit **	Except to Defend State	Except to Refund Debt
Alabama	*	\$ 300,000	X	X
Arizona	*	\$ 350,000	X	--
Arkansas	*	--	--	X
California . . .	\$ 300,000	--	X	--
Colorado	*	\$ 100,000	X	X
Connecticut . .	No provision in constitution			
Delaware	3/4 vote re- quired	a	X	X
Florida	*	--	X	--
Georgia	*	\$ 4,000,000 ^b	X	X
Idaho	\$2,000,000	--	X	--
Illinois	*	\$ 250,000	X	--
Indiana	*	a	X	--
Iowa	*	\$ 250,000	X	--
Kansas	\$1,000,000	--	X	--
Kentucky	*	\$ 500,000	X	X
Louisiana	*	\$ 2,000,000	X	X
Maine	\$2,000,000	\$36,000,000 ^c	X	--
Maryland	No limit ^d	--	X	--
Massachusetts .	2/3 vote re- quired	--	X	--
Michigan	*	\$ 250,000	X	--
Minnesota	*	\$75,250,000 ^c	X	--
Mississippi . .	No provision in constitution			
Missouri	*	\$ 250,000 ^e	X	X
Montana	\$ 100,000	--	X	--
Nebraska	*	\$ 100,000	X	--
Nevada	1% of assessed property	--	X	--
New Hampshire .	No provision in constitution			
New Jersey . . .	1% of general appropriation act	--	X	--
New Mexico . . .	*	\$ 200,000	X	--

CONSTITUTIONAL DEBT LIMITS AND THEIR EXCEPTIONS¹--continued

State	Limit on Legislature	Exceptions to Limit **	Except to Defend State	Except to Refund Debt
New York . . .	*	--	X	X
North Carolina.	f	a	X	X
North Dakota .	\$2,000,000	\$10,000,000 ^g	X	--
Ohio	*	\$ 750,000	X	X
Oklahoma . . .	*	\$ 400,000	X	--
Oregon	11% of assessed property	--	X	--
Pennsylvania .	*	\$ 1,000,000	X	X
Rhode Island .	\$ 50,000	--	X	--
South Carolina.	*	a	--	--
South Dakota .	$\frac{1}{2}\%$ of assessed property ^h	\$ 100,000	X	X
Tennessee . . .	No provision in constitution			
Texas	*	\$ 200,000	X	X
Utah	$1\frac{1}{2}\%$ of assessed property	a	X	X
Vermont	No provision in constitution			
Virginia	*	--	X	X
Washington . .	*	\$ 400,000	X	--
West Virginia .	*	\$50,000,000 ⁱ	X	X
Wisconsin . . .	*	\$ 100,000	X	--
Wyoming	Anticipated tax revenues ^j	--	X	--

¹Adopted from B. U. Hatchford, American State Debts, pp. 430-431.

*Legislature may not borrow.

**To cover casual deficits, unless otherwise noted.

^aMust levy tax to cover interest.

^bNo stated limit on casual deficits.

^cIncluding \$3,500,000 to pay school teachers.

^dIncluding issues of highway bonds.

^eAnnually, for emergencies.

^f $\frac{2}{3}$ of amount debt reduced last biennium.

^gFor state enterprises.

^hAlso requires $\frac{2}{3}$ vote in each house.

ⁱFor highways.

^jAnd no more than 1% of assessed values of property.

APPENDIX V

ADMINISTRATION OF MAJOR STATE TAXES IN 1947¹

State	Number of Agencies	Number of Taxes Administered by Chief Agency ²	Percentage of Total Major Taxes Collected by Major Agency ²
Alabama	2	7 out of 8	99
Arizona	4	4 out of 8	89
Arkansas	2	7 out of 8	92
California	4	4 out of 7	68
Colorado	1	7 out of 7	100
Connecticut	2	5 out of 7	62
Delaware	4	2 out of 5	50
Florida	3	3 out of 6	45
Georgia	1	7 out of 7	100
Idaho	4	3 out of 7	42
Illinois	3	5 out of 7	88
Indiana	5	1 out of 7	45
Iowa	3	6 out of 8	54
Kansas	2	7 out of 8	88
Kentucky	1	7 out of 7	100
Louisiana	2	7 out of 8	89
Maine	3	3 out of 6	62
Maryland	3	4 out of 6	78
Massachusetts	1	7 out of 7	100
Michigan	4	2 out of 6	57
Minnesota	3	4 out of 6	77
Mississippi	2	6 out of 8	64
Missouri	2	2 out of 7	59
Montana	3	4 out of 6	76
Nebraska	4	1 out of 5	51
Nevada	2	3 out of 4	82
New Hampshire	4	3 out of 7	24
New Jersey	2	4 out of 5	63
New Mexico	2	7 out of 8	89
New York	1	7 out of 7	100
North Carolina	2	5 out of 7	86
North Dakota	3	6 out of 8	75
Ohio	2	6 out of 7	86

ADMINISTRATION OF MAJOR STATE TAXES IN 1947¹--continued

State	Number of Agencies	Number of Taxes Administered by Chief Agency ²	Percentage of Total Major Taxes Collected by Major Agency ²
Oklahoma	1	8 out of 8	100
Oregon	4	2 out of 6	60
Pennsylvania	1	7 out of 7	100
Rhode Island	2	5 out of 6	69
South Carolina	2	6 out of 7	95
South Dakota	3	3 out of 7	36
Tennessee	1	7 out of 7	100
Texas	3	4 out of 6	66
Utah	1	8 out of 8	100
Vermont	3	4 out of 7	33
Virginia	2	4 out of 6	47
Washington	3	4 out of 6	66
West Virginia	2	5 out of 6	90
Wisconsin	3	4 out of 7	75
Wyoming	5	2 out of 6	43

¹Based on data from Tax Administrators News, July 1947, p. 1; U. S. Bureau of the Census, State Finance 1946, Vol. 2, August 1947; Tax Systems of the World; and Barthell and Campbell, State Organization for Tax and Revenue Administration, p. 8. "Major" taxes include income, sales, gasoline, alcoholic beverage, tobacco, general property, motor vehicle, and death taxes.

²In 1946.

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