THE GOVERNOR PROPOSES; THE LEGISLATURE DISPOSES

A Study of Legislative Action on the Governors' Tax Proposals, 1951

Note

This survey of legislative action on the governors' tax proposals of 1951 is a sequel to our earlier study: The Governor Reports: A Roundup of Governors' Messages to 1951 Legislatures.

In addition to following up the action on the proposals of the governors, this survey also covers other major tax legislation of the 1951 sessions of the 39 state legislatures included in the study.

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I. INTRODUCTION

"I stand irrevocably committed to the proposition that while our nation is in peril, I shall not advocate the imposition of any new or additional taxes upon our people, and this means taxes now known or yet to be discovered." -- Governor Murray, Oklahoma

"The question, quite frankly, has ceased to be whether we will need new taxes. The question is how large—or better, let us say, how small—the new levy will be." -- Governor Shivers, Texas

These quotations indicate the diversity in messages sent by governors to their 1951 legislatures. Some governors favored complete retrenchment and a reduction in tax rates; others were of the opinion that increased or new taxes were unavoidable; while still others thought it would be possible to hold the line and maintain present tax rates. The legislatures had their own views, however, and often did not follow the recommendations of the governors. The following summary discusses the governors' major tax recommendations, as expressed in their budget messages to the legislatures of 39 states, and the extent to which such recommendations were adopted. Three of the state legislatures are still in session at this writing. Nine states are not included in this survey. Either they did not have legislative sessions in 1951, or else information was not available in time to incorporate it herein. For simplicity's sake, relatively minor tax changes are omitted.

The governors of the 39 states included in this survey, recommended 33 specific tax increases. The incomplete box score of the legislatures is: 14 of these increases passed, 13 defeated, and six still pending. A total of 12 new taxes were suggested by the governors. As of this writing, four (including Washington's corporate income tax which was later declared unconstitutional) have passed, five have been defeated, and no action has been taken to date on the other three.

The governors of four states merely recommended "increased taxes" without being more specific. One of these states has passed an increase and a new tax. Another has passed one increase and the legislature is still in

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a. Alabama, Arizona, Florida, Kentucky, Louisiana, Maryland, Mississippi, Rhode Island, and Virginia.
session so it is likely that other increases will be forthcoming. The third has passed one new tax but has made reductions in three other taxes. The fourth has passed one new tax and has made permanent 18 temporary increases. Six specific tax reductions were recommended by the governors. Three of these reductions were enacted by the legislatures and the remaining three were rejected. One governor requested the abolishment of a tax but this was not effected by the legislature.

No change in tax rates was the stand taken by 11 governors and five of the state legislatures approved of this program.

In addition to the action taken on the governors' recommendations, legislatures of these 39 states have, up to the present time, passed 21 tax increases, 11 new taxes, one of which was restricted, eight reductions, and one repeal. The above summary does not include any of the taxes that are being considered by the Pennsylvania legislature nor any of the taxes which might be passed to finance bonuses in Missouri and Oklahoma.

The following detailed discussion sets forth the analysis of legislative action by state and by type of tax.
Arkansas

In Arkansas, Governor McMath recommended a 100 per cent increase in personal income taxes, increases in cigarette and alcoholic beverage taxes, and a new two cents per bottle soft drink tax. The personal income tax increase and the soft drink tax were both rejected by the legislature but a two cents per pack increase in the cigarette tax and a three per cent special excise tax upon all retail receipts from the sale of liquor and wines was passed. At the same time, the spread between the wholesale and retail price of liquor was reduced by three per cent. The major tax proposal before the Arkansas legislature was an increase from two per cent to three per cent in the sales tax but this was beaten by large majorities in both houses of the legislature.

California

Governor Warren of California recommended no major changes in existing tax rates and, although there were many proposals introduced for new taxes or increases, all such changes were either killed in committee or defeated in the legislature.

Colorado

The Colorado legislature abided by Governor Thornton's recommendation and made no increase in state taxes. State individual and corporation taxes will continue the 20 per cent reduction made in 1949 for another two-year period.

Connecticut

Connecticut's Governor Lodge suggested an increase in corporate income taxes and a one per cent increase in the retail sales tax. Neither of these recommendations was passed by the legislature, although the sales tax law was amended to have the tax apply to casual sales, which previously had been exempt. More personal property exemptions and lower rates on interest and dividend income of domestic insurance companies were also voted by the legislature.

Delaware

Governor Carvel of Delaware recommended that the expired gross income tax should not be revived and it was not revived by the legislature with the result that the old income tax law with lower rates, is again in effect.
Delaware legislature also raised the domestic corporation franchise tax by ten per cent.

Georgia

In Georgia, Governor Talmadge recommended that the legislature enact a three per cent sales tax. The legislature complied with this recommendation, but reduced the gas tax by one cent, repealed the chain store tax, and decreased the taxes on alcoholic beverages.

Idaho

Idaho's Governor Jordan advised no major tax changes, but a new weight mileage truck tax was passed by the legislature. An increase in automobile registration fees from $5 to $10 was also passed by the legislature but was vetoed by the Governor.

Illinois

Governor Stevenson of Illinois recommended an increase in the gas tax of two cents per gallon as well as increased truck fees. The legislature voted a one cent gas tax increase effective August 1, 1951, and another one cent increase effective January 1, 1953. The legislature also increased truck fees. A cigarette use tax, recommended by the Governor, was passed; but a temporary injunction has been granted. On its own initiative, the legislature increased the pari-mutuel tax.

Indiana

The Indiana Legislature followed the recommendations of Governor Schricker and made no major changes in tax rates.

Iowa

Iowa's legislature also went along with Governor Beardsley's endorsement of no important tax changes.

Kansas

In Kansas also, the legislature followed the recommendation of Governor Arn in passing no new or increased taxes.

Maine

In Maine, Governor Payne recommended that a two per cent retail sales tax be enacted and also recommended repealing the tobacco tax. The legislature did enact the two per cent sales tax but no action was reported on the tobacco tax.
Massachusetts

Governor Dever of Massachusetts proposed a total of eight new or increased taxes including a gas tax increase of 1.5 cents per gallon, an increase in motor vehicle registration and license fees, an increase to six percent in the capital gains tax as well as a broadening of the base to include gains on real estate, a wine tax increase, and elimination of the deduction for Federal taxes paid for state income tax purposes. The proposed new taxes were a dividend tax on Massachusetts Investment Trust shares, an automobile dealers excise tax at a rate of one percent of the total sales price, and a graduated income tax amendment which would require legislative approval before being submitted to the electorate. The wine tax increase was defeated by the legislature and a bill, subjecting utilities to a four percent net income tax was passed. No final action has been taken on any of the other proposals before the legislature as of this date.

Michigan

Michigan's Governor Williams made only one tax recommendation—the passage of a corporate income tax—and this was killed in the legislature. The legislature did, however, increase the corporation franchise tax from 2.5 mills to 3.5 mills and removed the upper limit from this tax. A 1.5 cents increase in the gas tax was also passed—over a veto by the Governor. Petitions are now being circulated to force a referendum on the gas tax increase.

Minnesota

In Minnesota, Governor Youngdahl recommended increases in the beer and iron ore taxes and increased personal income tax exemptions. These recommendations were all rejected by the Minnesota legislature although it did create a commission to study the iron ore tax and it added a few relatively insignificant credits to the personal income tax.

Missouri

Increased truck fees and a two cents per gallon increase in the gas tax were recommended by Governor Smith of Missouri. The legislature in Missouri is still in session but as of this time, the House has passed a one cent per gallon gas tax increase while there has been no Senate action. The House has also passed legislation which slightly increases truck fees but the Senate is
considering a much stronger bill. Legislation calling for many additional
taxes to finance a soldiers' bonus has passed the House and is pending in
Senate committee. If approved by the Senate this legislation would still have
to be voted upon by the electorate. The only definite tax legislation enacted
by the legislature has been the reenactment of a two per cent tax on the sale
of new and used motor vehicles. A similar tax was in effect in 1949 but was
thrown out by the State Supreme Court.

Montana

Governor Bonner of Montana recommended no increases except as needed
for highways. The legislature followed this recommendation by adding only a
vehicle tax. The tax on new cars ranges from .375 per cent of factory list
price to 1.5 per cent of such price while the rate for trucks, busses and other
heavy vehicles varies according to weight and usage.

Nebraska

No major changes in Nebraska's tax rates was the policy of Governor
Peterson. The legislature made only a slight increase in the tax on
manufacturers and wholesalers of alcohol and spirits.

Nevada

Governor Russell of Nevada recommended the imposition of either
a severance or advalorem tax on oil and gas and a reduction of the property
tax rate. The legislature lowered the rate of the property tax but no action
was taken on an oil and gas tax.

New Hampshire

In New Hampshire, Governor Adams called for higher taxes and the
legislature increased the gas tax from four cents to five cents per gallon. A
$5 head tax on every individual between the ages of 21 and 70 inclusive was
also passed by the legislature. Proposals for increases in tobacco, beer and
racing taxes and a one per cent sales tax were introduced in the legislature
but were all rejected.

New Jersey

New Jersey's legislature followed the recommendation of Governor
Driscoll and made no major changes in tax rates.

New Mexico

Governor Mechem of New Mexico recommended a reduction in the gas
tax and a one-cent reduction was approved by the legislature. Increased
alcoholic beverage taxes were voted by the legislature, however, as well as a bill allowing municipalities to impose a one-cent cigarette tax.

New York

In New York, Governor Dewey’s recommendations called for no major tax changes but a new truck tax was passed by the legislature.

North Carolina

An increase in the sales tax by repealing most exemptions other than food was advocated by Governor Scott of North Carolina but the legislature declined to remove the present exemptions.

North Dakota

Governor Aandahl of North Dakota did not recommend any specific increases but said that any tax increase would likely be on gasoline. The legislature did increase the gas tax by one cent and also increased the cigarette tax by the same amount.

Ohio

Ohio’s Governor Lausche recommended that sales of 13 cents through 40 cents be taxed under the sales tax, that the pari-mutuel tax be increased, and that higher truck taxes be imposed. The legislature voted only to extend the present sales tax to include the casual sale of used automobiles but did not include sales from 13 cents through 40 cents. Increased truck license fees were approved by the legislature but an increase in the pari-mutuel tax was defeated.

Oklahoma

With the exception of increasing the tax on beer from $7 to $10 per barrel, the Oklahoma legislature followed Governor Murray’s recommendations of no major changes in tax rates. If the constitutional amendment authorizing a bonus for veterans of both World Wars and the Korean action is passed by the people at the election in November of next year, however, it will be necessary to increase taxes on severance of natural resources, and on tobacco and beverages, and to raise both corporate and personal income tax rates.

Oregon

Governor McKay of Oregon, recommended that the Federal income tax deduction on state personal income tax returns be eliminated. This Federal credit
was not eliminated by the legislature. A three-cent cigarette tax was passed by the Oregon legislature but sufficient names were filed to restrain its operation until the voters decide the issue in the November, 1952, elections.

**Pennsylvania**

Governor Fine of Pennsylvania stated that higher taxes would be required. The legislature recessed until September 17 without completing its tax program. The Senate Finance Committee killed the Governor's bill authorizing a flat personal income tax. The only definite action taken as of this date has been to increase the corporate income tax from four per cent to five per cent. Pending before the legislature is an alternate method of raising revenue suggested by a Senate Committee. This latter program, to which much opposition has arisen and in which the House has thus far refused to concur, would further increase the corporate net income tax from five per cent to six per cent, double the beer tax, impose a one per cent tax on real estate transfers, levy new and increased taxes on cigars and tobacco, and increase the gross receipts tax on utilities. A bill is still pending which would provide for a referendum to determine voters preference between a one per cent general sales tax exempting food and a one-half per cent personal income tax.

**South Carolina**

Higher taxes were also recommended by South Carolina's Governor Thurmond and the legislature enacted a three per cent sales and use tax. Beer and cigarette taxes were reduced, however, and additional income tax deductions were allowed.

**South Dakota**

Governor Mickelson's only recommendation for South Dakota was a one cent per gallon gas tax increase and the legislature adopted this recommendation. It also passed an additional tax on the registration of motor vehicles. After October 1 of this year, however, tax levies for the retirement of veterans' bonuses will be eliminated. As a result, two mills will be taken off the property tax for 1951 valuations; the sales and use tax will be two per cent instead of three per cent; the ore severance tax will drop from five per cent to four per cent; motor vehicle registration tax will be two per cent instead of three per cent and alcoholic beverages and cigarettes will not be subject to the sales tax. It was not expected originally that there would be sufficient
funds to retire the indebtedness until 1953.

**Tennessee**

Governor Browning of Tennessee made several tax recommendations to the legislature including an increase of two cents per pack in the cigarette tax, higher fees for motor vehicle operators' licenses, elimination of the deductibility of the Federal corporate income tax for state income tax purposes, the enactment of a special ton-mile truck tax, and the enactment of a severance tax on timber and minerals. The Tennessee legislature went along with the first three of these proposals but neither the truck tax nor the severance tax was passed.

**Texas**

In Texas, Governor Shivers stated that higher taxes would be required and the legislature enacted a new occupation tax on persons engaged in gathering gas used in Texas. The legislature also made 18 temporary tax increases a permanent part of the state tax structure.
Utah

Utah's Governor Lee recommended that existing personal income tax exemptions should be increased from $600 to $750 and food and prescriptions should be exempted from the sales tax; or else the personal income tax should be abolished in favor of a three per cent, instead of the present two per cent, sales tax. The Utah legislature followed none of these recommendations. It did, however, pass measures allowing credit for personal income taxes paid elsewhere but imposed a tax on non-residents' income from salaries, wages, rents, and professions earned in Utah. The legislature also increased the gas tax one cent per gallon.

Vermont

In Vermont, Governor Emerson recommended a one-half cent per gallon increase in the gas tax and called for increased vehicle taxes. The legislature took no action on the proposed gas tax increase, but did raise motor vehicle registration fees for 1952. It also levied a fifteen per cent surtax on existing income and franchise taxes for the years 1951 and 1952.

Washington

A tax on corporate profits and authorization for localities to levy sufficient taxes to provide for their services were the recommendations of Governor Langlie of Washington. The legislature passed laws allowing school districts and counties to increase taxes so as to provide greater support for schools, and also enacted a temporary corporate excise tax of four per cent. This corporation income tax was declared unconstitutional by the state Supreme Court however, and the legislature passed several substitute measures. These include a 20 per cent surtax on the business and occupation tax; a ten per cent surtax on the public utilities tax; an increase in the wholesale grain dealers' business and occupation tax from .01 per cent to .25 per cent of gross proceeds on wheat, oats, corn and barley; and a ten per cent tax on retail sales of alcoholic beverages by state liquor stores.

West Virginia

Governor Patterson of West Virginia called for a one cent gas tax increase and higher cigarette and alcoholic beverage taxes. The legislature enacted no gas tax legislation but it did increase the cigarette tax by three cents per pack, direct the Liquor Control Commission to increase liquor prices,
impose an additional beer tax of $2.75 per barrel, enact a two per cent use tax and levy an excise tax of one cent on each 16 fluid ounces of bottled soft drink.

**Wisconsin**

In Wisconsin, Governor Kohler's budget messages originally recommended that the surtax on individual income of 25 per cent be continued, but later revised the amount downward to a ten per cent surtax. He recommended also that all dividends be subject to the state individual income tax law and that the three per cent privilege dividend tax, a tax borne by the dividend receiver, expire. The legislature approved the new method of taxing all dividends as individual income, but completely eliminated the 25 per cent surtax on individual incomes.

**Wyoming**

Although Governor Barrett recommended no major tax changes, the Wyoming Legislature increased the gas tax by one cent and imposed a new tax of two cents per pack on cigarettes.
III. ANALYSIS BY TYPE OF TAX

The above break-down has been by states. Following is a break-down of 1951 state tax legislation by taxes:

GASOLINE

An increase in gasoline tax rates seemed to have had the greatest appeal to governors as a method of raising additional revenue. Seven governors, (Illinois, Massachusetts, Missouri, North Dakota, South Dakota, Vermont and West Virginia) recommended increases in this tax. Legislatures in seven states (Illinois, Michigan, New Hampshire, North Dakota, South Dakota, Utah and Wyoming) approved increases in this tax and another such increase is still pending (Missouri). One governor (New Mexico) recommended that the gas tax be reduced and such a reduction was effected by two legislatures (Georgia and New Mexico).

SALES

The sales tax appealed to five governors (Connecticut, Georgia, Maine, North Carolina and Ohio) as a possible source of new or increased revenue. Three states (Georgia, Maine and South Carolina) adopted this as a new tax and three others (Connecticut, Ohio and West Virginia) expanded the coverage of this tax. One governor (Utah) recommended more exemptions from the sales tax, but no legislatures granted additional exemptions.

TRUCK

Increased or new truck fees were recommended by five governors (Illinois, Missouri, Montana, Ohio and Tennessee) and two state legislatures (Illinois and Ohio) voted to increase these fees. Another increase is pending (Missouri) and three states (Idaho, Montana and New York) approved new truck taxes. Included in one of these (Montana) is also a tax on new cars. No governor suggested reducing truck fees and no legislature took such action.

ALCOHOLIC BEVERAGE

Alcoholic beverage taxes were suggested as an increased revenue source by four governors (Arkansas, Massachusetts, Minnesota and West Virginia) and five legislatures (Arkansas, Nebraska, New Mexico, Oklahoma and West Virginia) passed such increases. A new alcoholic beverage tax was passed by
one state legislature (Washington). Two states (Georgia and South Carolina) reduced their alcoholic beverage taxes although no governor made such a recommendation.

**CIGARETTE**

Governors of four states (Arkansas, Illinois, Tennessee and West Virginia) asked for increased cigarette taxes. Five legislatures (Arkansas, Illinois, North Dakota, Tennessee and West Virginia) passed increases in this tax and two legislatures (Wyoming and Oregon) passed new cigarette taxes. One of these (Oregon), however, has been restrained until the voters pass upon it. One governor (Maine) recommended that the state's tobacco tax be abolished, but there is no record that the legislature followed this recommendation. One state legislature (South Carolina) made a reduction in the cigarette tax.

**MOTOR VEHICLE**

Increased motor vehicle license or registration fees were recommended by three governors (Massachusetts, Tennessee and Vermont) and such increases were passed by three legislatures (Tennessee, Vermont and South Dakota). No governor recommended a reduction of these fees and no reductions were granted by any legislature.

**INDIVIDUAL INCOME**

Governors of two states (Arkansas and Wisconsin) recommended that legislation be passed which would increase the effectiveness of personal income taxes and one other governor (Massachusetts) asked his legislature to approve a graduated income tax amendment. Two states (Utah and Vermont) passed legislation increasing the effectiveness of the personal income tax but no action has yet been taken by the state asked to approve a graduated personal income tax amendment. Three governors (Delaware, Minnesota and Utah) suggested that the legislature reduce the effectiveness of this tax and such action was taken by three state legislatures (Delaware, South Carolina and Utah).

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a. The Utah legislature passed measures allowing credit for personal income taxes paid elsewhere but also imposed a tax on certain income of non-residents earned in Utah.
FEDERAL CREDIT

Three governors (Massachusetts, Oregon and Tennessee) recommended that their states discontinue the practice of allowing credit, on state income tax returns, for Federal taxes paid but only one state legislature (Tennessee) adopted this recommendation.

CORPORATION

While only one governor (Connecticut) suggested higher corporation taxes, four state legislatures (Delaware, Michigan, Pennsylvania and Vermont) acted to increase the yield from these taxes. Two governors (Michigan and Washington) recommended that their legislatures enact a new corporation income tax but one state legislature (Michigan) rejected this proposal and, while the second state legislature (Washington) adopted this tax, it was later declared unconstitutional.

OTHER

Individual governors recommended increases in iron ore (Minnesota) capital gains (Massachusetts) and pari-mutuel taxes (Ohio), but none of these was adopted by these state legislatures, although one other legislature (Illinois) increased the pari-mutuel tax on its own initiative. Two governors (Nevada and Tennessee) recommended new severance taxes while one (Arkansas) recommended a new soft drinks tax and another (Massachusetts) recommended a new automobile dealers excise tax and a new dividend tax. None of the recommendations was adopted by these state legislatures but different legislatures did enact a new soft drinks tax (West Virginia) and an excise tax on motor vehicles (Missouri). A head tax, a utilities tax, and an occupation tax were enacted as a new tax by New Hampshire, Massachusetts, and Texas respectively, and, in addition, increases were made by Washington in each of the latter two taxes. One governor (Nevada) suggested that the property tax be lowered and two legislatures (Connecticut and Nevada) enacted legislation of this nature. Finally, one legislature (Connecticut) reduced its tax on dividend and interest income of domestic insurance companies and another legislature (Georgia) repealed its chain store tax.
IV. SUMMARY

A total of 35 major tax increases have been passed by these 39 states as of this date. Fourteen were in line with specific recommendations of the governors and 21 on their own initiative (including two in states where the governors recommended increased taxes in general).

Fifteen new taxes have been passed by these state legislatures; four of these were specifically requested by governors and three others were in states where the governors recommended increased taxes without being more specific.

These state legislatures made reductions in 11 taxes. Of these, three had been recommended by the governors and the remaining eight decreases were initiated by the legislature.

One tax was repealed by a state legislature. This abolishment was effected without a specific recommendation by the governor.