

Approved February 12, 1991  
Date

MINUTES OF THE House COMMITTEE ON Taxation

The meeting was called to order by Joan Wagnon at  
Chairperson

9:10 a.m./p.m. on Friday, February 1, 1991 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Conferees appearing before the committee:

Chairman Wagnon called the committee to order at the rail for the purpose of introduction of bills.

Rep. Bruce Larkin moved and Rep. Ken Grotewiel seconded the motion to introduce two classification amendments requested by Subcommittee I and three bills requested by Governor Finney. Motion carried.

The committee recessed until the full House concluded.

Committee work resumed at 9:30. Rep. Elizabeth Baker requested the introduction of two bills. The first bill dealt with local option sales tax and the second called for amending the tax increment financing statute.

Rep. Pottorff moved introduction of the bills and Rep. Snowbarger seconded. Motion carried.

Rep. Henry Helgerson requested introduction of a bill giving additional exemption for low-producing oil and gas wells.

Rep. Pottorff moved introduction of the bill and Rep. Grotewiel seconded. Motion carried.

Rep. Joan Adam gave a report on Subcommittee I (Classification). The subcommittee determined classification should take effect in tax year 1991 with the proposed amendments placed on the April 2, 1991 election ballot. She compared two versions from previous session: SCR 1648 and House version of SCR 1648. Further, the subcommittee recommended introducing two resolutions to change assessment percentages. The subcommittee submitted three handouts for the full committee's consideration (attachments 1 - 3).

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation

room 519-S, Statehouse, at 9:10 a.m./~~p.m.~~ on Friday, Feb. 1

Rep. Larkin gave a progress report on Subcommittee II (rollback) (attachment 4). The subcommittee was in general agreement on the need for a rollback. The subcommittee is going to consider the Governor's proposal. There is some general agreement on the need to lessen the reliance on property taxes. The subcommittee recommends seeking a rough ratio of 1/3 for each of the three major tax sources: sales, income, property. The subcommittee proposed that tax relief should work through state aid to school districts.

Rep. Grotewiel gave a report on Subcommittee III (Lids/local options) (attachment 5). The subcommittee suggested keeping the current lid, limiting IRB/Constitutional property tax exemptions, requiring payment in-lieu-of-taxes for exempt IRB property and increasing public exposure to the budget process. The subcommittee determined that new unfunded state mandates may cause property tax increases and that reappraisal system improvements are needed. The subcommittee discussed whether a penalty on counties whose COD's are not within an accountable range would improve sales ratios, but was divided on the issue. Giving additional local option taxing authority was not recommended.

The committee adjourned at 10:15 a.m.



GUEST LIST

Invitations Committee		2/1/91
Stuffy	Reverend	Jopela
Ed Engel	self	"
Tommy Humphrey	KMHA	Topcha
Ed Roup.	United	Jopela

This list was not continued  
around the room.

## SUBCOMMITTEE REPORT

**TO: House Committee on Taxation**

**FROM: Representative Joan Adam, Chairperson  
Subcommittee on Classification**

**RE: Classification Recommendations**

### Committee Activity

The subcommittee on classification has met a number of times over the last two weeks to consider proposed changes to the classification amendment. Staff from Legislative Research and the Department of Revenue provided 1990 property tax data.

The subcommittee spent a good deal of time discussing the impact of classification and the types of property which were relatively advantaged and disadvantaged starting in tax year 1989. Conferees also were given the opportunity to testify before the subcommittee. Representative Kerry Patrick appeared just yesterday to advocate a county-option classification proposal which had been modified somewhat from similar proposals last Session. Because of the time constraints, the subcommittee has not had time to discuss this proposal at this time.

### Conclusions and Recommendations

Because of major differences in the various classification amendments considered during the 1990 Session, the subcommittee has recommended two proposals for consideration by the Committee. Under one of these proposals, merchants' and manufacturers' inventories would be returned to the tax rolls but the first \$150,000 of appraised valuation would remain exempt. Under the second proposal, inventories would continue to remain totally exempt. The attached materials compare the features of the two proposals with current classification and with several of the major proposals from last Session. Also attached are statewide estimates of the impact of the two plans by class of property.

By way of comparison, please note that both plans propose to raise the assessment level on multifamily residential real property, lower the assessment level on commercial and industrial real property, increase the assessment level on utility real and personal property (and return utility inventories to the tax rolls), and increase the level on commercial and industrial machinery and equipment. Non-multifamily residential real property would receive either a lower assessment level or a \$5,000 exemption.

The subcommittee also makes a strong recommendation that any classification changes be effective for tax year 1991. Both proposals of the subcommittee therefore call for an election on April 2, 1991.

COMPARISON OF CURRENT CLASSIFICATION

With Various Versions of 1990 S.C.R. 1648, 1990 H.C.R. 5052 and 1991 Subcommittee Recommendations

Current Classification		S.C.R. 1648	S.C.R. 1648	H.C.R. 5052	1991 Subcommittee	
		House Version	Senate Version	As Amended by House COW	Recommendations	Recommendations
					1-E	2-C
Residential Real						
Single	12%	10%	11.5%	10%	12% (\$5,000 exempt)	11%
Multi	12%	12%	15%	10%	15%	15%
Ag Land	30% of use-value	Same	Same	Same	Same	Same
Vacant Lots	12%	Same	Same	10%	12%	11%
Commercial and Industrial	30%	21% in 1990 23% in 1991 25% in 1992 and thereafter	First \$50,000 -- 20% Excess over \$50,000 -- 25%	20%	20%	20%
Mobile Home Parks	12%	10%	11.5%	10%	20%	20%
Improvements on land devoted to agric. uses	30%	same as C&I, above	same as C&I, above	30%	30%	30%
Fraternal Benefit Societies	30%	12%	12%	12%	15%	15%
Utility Real	30%	33%	33%	35%	35%	35%
Railroad Real	30%	Average of All Comm'l. and Ind.	Average of all Comm'l. and Ind.	Average of all Comm'l. and Ind.	Avg. C&I	Avg. C&I
Other Real	30%	25%	25%	25%	30%	30%
Mobile Homes Used as Residences	12%	10%	11.5%	10%	12% (\$5,000 exempt)	11%
Mineral Leaseholds	30%	Same	Same	Same	Same	Same
Utility Personal	30%	33%	33%	35%	35%	35%
Railroad Personal	30%	Average of all C&I	Average of all C&I	Average of all C&I	Avg. C&I	Avg. C&I
Motor Vehicles	30%	Same	Same	Same	Same	Same

Current Classification	S.C.R. 1648 House Version	S.C.R. 1648 Senate Version	H.C.R. 5052 As Amended by House COW	1991 Subcommittee Recommendations		
				1-E	2-C	
Comm'l. and Ind. Mach. & Equip.	20% of retail cost when new, depreciated	30% of retail cost when new, depreciated	30% of retail cost when new, depreciated	30% 7-year deprec.	30% 15-year deprec.	
Inventories Merchants'	exempt	to extent of 60% of value in excess of \$100,000: 18% in 1990 12% in 1991 6% in 1992 exempt in 1993 and thereafter	exempt	to extent of 40% of value in excess of \$100,000: 25% <sup>(a)</sup>	all value in excess of \$150,000; <sup>(b,c)</sup> 25%	
Farm Implement Dealers'	exempt	exempt	exempt	exempt	exempt	
Manufacturers'	exempt	in excess of \$100,000: 18% in 1990 12% in 1991 6% in 1992 exempt in 1993 and thereafter	exempt	to extent of value in excess of \$100,000: 25% <sup>(a)</sup>	all value in excess of \$150,000; <sup>(b)</sup> 25%	
Utility	exempt	?	?	35%	35%	
Livestock	exempt	same	same	exempt	exempt	
Other Personal Property	30%	same	same	same	same	
Tax Year Effective	1989	1990	1990	1991	1991	
Date of Election	Nov. 4, 1986	June 12, 1990 Special Election	August 7, 1990 Primary Election	June 12, 1990 Special Election	April 2, 1991	April 2, 1991

- a) Legislature would have authority to subclassify inventories and to exempt all or any portion of this value.
- b) Legislature could by 2/3 majority vote change the dollar amount of the \$150,000 exemption.
- c) Legislature could exempt or impose an in-lieu-of tax on motor vehicle dealers' inventories and inventories moving in interstate commerce (freeport).

Agricultural Improvements

Data have not been broken off separately to analyze the impact of assessing ag improvements at 30 percent while reducing the "all other" assessment level to 20 percent. To the extent that these data are currently within the "other commercial" subclass data, the run shows the impact of reducing these ag improvements to 20 percent, as well.

Residential \$5,000 Exemption

Based on data provided by the Department of Revenue, it is assumed that a \$5,000 owner occupied exemption for non multi-family residential property would reduce the tax base by \$396 million -- \$332.64 million for urban property and \$63.36 million for rural.

Merchants' Inventory

Assessed at 25 percent above \$150,000 of appraised valuation per taxpayer with 40 percent write-down eliminated.

Use 1988 merch inv data -- Assume \$150,000 threshold eliminate exactly 60 percent of the assessed value in each county.

Divide the 25 percent assessment level by 60 percent to eliminate the write down (which had been implicit in Dale's data). Multiply this figure (41.67 percent) by .4 to account for the 60 percent threshold elimination.

So the computer was told to use 16.67 percent.

(Note: Policy questions re M Veh and Farm Implement Dealers)

Manufacturers' Inventory

Assessed at 25 percent above \$150,000 of appraised valuation per taxpayer.

Use 1988 manuf inv data -- Assume \$150,000 threshold eliminate exactly 40 percent of the assessed value in each county.

Multiply by .4 to account for adjustment.

So the computer was told to use 15 percent.

	88 ASSESSED ACTUAL	% OF TOTAL		90 ASSESSED ACTUAL (a)	% OF TOTAL	PROP RATIO	90 ASSESSED PROPOSED	% OF TOTAL
URBAN REAL ESTATE			URBAN REAL ESTATE					
ALL OTHER	2,491,767,058	21.94%	RESID MULTI-FAM	266,211,556 e	1.88%	15.00%	332,764,445 e	2.38%
VACANT LOTS	55,585,441	0.49%	RESID OTHER	3,768,212,847 e	26.55%	12.00%	3,435,572,847 e, f	24.53%
COMMERCIAL AND INDUSTRIAL	1,123,448,429	9.89%	VACANT LOTS	122,918,921	0.87%	12.00%	122,918,921	0.88%
TOTAL URBAN REAL ESTATE	3,670,800,928	32.32%	FRATERNAL BENEFIT	8,343,202 e	0.06%	15.00%	4,171,601 e	0.03%
			OTHER COMM'L	2,632,268,596 e	18.54%	20.00%	1,754,845,731 e	12.53%
			AGRICULTURAL	6,086,423	0.04%	30.00%	6,086,423	0.04%
			TOTAL URBAN REAL ESTATE	6,804,041,545	47.93%		5,656,359,967	40.39%
RURAL REAL ESTATE			RURAL REAL ESTATE					
HOME SITES/PLANNED SUB DIV	338,344,275	2.98%	RESID MULTI-FAM	3,788,394 e	0.03%	15.00%	4,735,493 e	0.03%
AG LAND	1,373,221,632	12.09%	RESID OTHER	781,942,607 e	5.51%	12.00%	718,582,607 e, f	5.13%
AG IMPROVEMENTS	285,964,795	2.52%	VACANT LOTS	21,729,961	0.15%	12.00%	21,729,961	0.16%
SPOT COMMERCIAL	156,387,083	1.38%	FRATERNAL BENEFIT	619,362 e	0.00%	15.00%	309,681 e	0.00%
TOTAL RURAL REAL ESTATE	2,153,917,785	18.97%	OTHER COMM'L	468,308,415 e	3.30%	20.00%	312,205,610 e	2.23%
			AGRICULTURAL	1,416,202,028	9.98%	30.00%	1,416,202,028	10.11%
			TOTAL RURAL REAL ESTATE	2,692,590,768	18.97%		2,473,765,380	17.66%
TANGIBLE PERSONAL PROPERTY			TANGIBLE PERSONAL PROPERTY					
			URBAN					
GAS AND OIL	1,132,435,207	9.97%	GAS AND OIL	3,354,180	0.02%	30.00%	3,354,180	0.02%
BUSINESS MACHINERY & EQUIP	873,729,421	7.69%	BUS MACH & EQ	540,554,964	3.81%	30.00%	810,832,446	5.79%
			ALL OTHER PERSONAL	60,626,519	0.43%	30.00%	60,626,519	0.43%
			MOBILE HOMES	31,304,145	0.22%	12.00%	31,304,145	0.22%
			MOTOR VEHICLES	49,943,291	0.35%	30.00%	49,943,291	0.36%
			TOTAL URBAN PERSONAL	685,783,099	4.83%		956,060,581	6.83%
			RURAL					
			GAS AND OIL	1,363,463,016	9.61%	30.00%	1,363,463,016	9.74%
			BUS MACH & EQ	217,701,586	1.53%	30.00%	326,552,379	2.33%
			ALL OTHER PERSONAL	40,925,565	0.29%	30.00%	40,925,565	0.29%
			MOBILE HOMES	17,284,849	0.12%	12.00%	17,284,849	0.12%
			MOTOR VEHICLES	66,767,651	0.47%	30.00%	66,767,651	0.48%
			TOTAL RURAL PERSONAL	1,706,142,667	12.02%		1,814,993,460	12.96%
			EXEMPT PROPERTY					
MERCHANTS' INVENTORY	371,149,155	3.27%	MERCHANTS INVENTORY	0	0.00%	16.67%	206,410,087	1.47%
MANUFACTURERS' INVENTORY	382,172,899	3.37%	MANUFACTURERS INV	0	0.00%	15.00%	190,831,556	1.36%
LIVESTOCK	115,669,322	1.02%	LIVESTOCK	0	0.00%	0.00%	0	0.00%
			MOTOR VEH DEALERS INV	0	0.00%	0.00%	0	0.00%
			FEEDLOTS	0	0.00%	0.00%	0	0.00%
ALL OTHER PERSONAL	322,915,490	2.84%	FARM MACHINERY	0	0.00%	0.00%	0	0.00%
			BUSINESS AIRCRAFT	0	0.00%	0.00%	0	0.00%
			TOTAL EXEMPT PERSONAL	0	0.00%		397,241,643	2.84%
TOTAL PERSONAL	3,198,071,494	28.16%	TOTAL PERSONAL	2,391,925,766	16.85%		3,168,295,684	22.62%
STATE ASSESSED			STATE ASSESSED					
PUBLIC SERVICE CORP	2,333,823,827	20.55%	PUBLIC SERVICE CORP (a)	2,305,886,647	16.24%	35.00%	2,660,237,620	19.00%
			UTILITY INVENTORY (a)	0	0.00%	35.00%	45,953,334	0.33%
			TOTAL STATE-ASSESSED (a)	2,305,886,647	16.24%		2,706,190,954	19.32%
TOTAL ASSESSED VALUATION	11,356,614,034	100.00%	TOTAL ASSESSED VALUATION (a)	14,194,444,726	100.00%		14,004,611,984	100.00%

a) Adjusted to reflect utility inventories and railroads.

e) Estimated, based on 1989 percentages.

f) \$5,000 owner-occupied exemption.



**Assumptions -- Run 2-C**

**Agricultural Improvements**

Data have not been broken off separately to analyze the impact of assessing ag improvements at 30 percent while reducing the "all other" assessment level to 20 percent. To the extent that these data are currently within the "other commercial" subclass data, the run shows the impact of reducing these ag improvements to 20 percent, as well.

**Machinery and Equipment**

The Committee has requested information on a 15-year straight-line depreciation schedule with an assessment level of 30 percent. This table assumes that such a provision would provide the same assessed value as an assessment level of 35 percent with the 7-year depreciation maintained.

	88 ASSESSED ACTUAL	% OF TOTAL		90 ASSESSED ACTUAL (a)	% OF TOTAL	PROP RATIO	90 ASSESSED PROPOSED	% OF TOTAL
URBAN REAL ESTATE			URBAN REAL ESTATE					
ALL OTHER	2,491,767,058	21.94%	RESID MULTI-FAM	266,211,556 e	1.88%	15.00%	332,764,445 e	2.41%
VACANT LOTS	55,585,441	0.49%	RESID OTHER	3,768,212,847 e	26.55%	11.00%	3,454,195,110 e	25.03%
COMMERCIAL AND INDUSTRIAL	1,123,448,429	9.89%	VACANT LOTS	122,918,921	0.87%	11.00%	112,675,678	0.82%
TOTAL URBAN REAL ESTATE	3,670,800,928	32.32%	FRATERNAL BENEFIT	8,343,202 e	0.06%	15.00%	4,171,601 e	0.03%
			OTHER COMM'L	2,632,268,596 e	18.54%	20.00%	1,754,845,731 e	12.72%
			AGRICULTURAL	6,086,423	0.04%	30.00%	6,086,423	0.04%
			TOTAL URBAN REAL ESTATE	6,804,041,545	47.93%		5,664,738,987	41.06%
RURAL REAL ESTATE			RURAL REAL ESTATE					
HOME SITES/PLANNED SUB DIV	338,344,275	2.98%	RESID MULTI-FAM	3,788,394 e	0.03%	15.00%	4,735,493 e	0.03%
AG LAND	1,373,221,632	12.09%	RESID OTHER	781,942,607 e	5.51%	11.00%	716,780,723 e	5.19%
AG IMPROVEMENTS	285,964,795	2.52%	VACANT LOTS	21,729,961	0.15%	11.00%	19,919,131	0.14%
SPOT COMMERCIAL	156,387,083	1.38%	FRATERNAL BENEFIT	619,362 e	0.00%	15.00%	309,681 e	0.00%
TOTAL RURAL REAL ESTATE	2,153,917,785	18.97%	OTHER COMM'L	468,308,415 e	3.30%	20.00%	312,205,610 e	2.26%
			AGRICULTURAL	1,416,202,028	9.98%	30.00%	1,416,202,028	10.26%
			TOTAL RURAL REAL ESTATE	2,692,590,768	18.97%		2,470,152,666	17.90%
TANGIBLE PERSONAL PROPERTY			TANGIBLE PERSONAL PROPERTY					
			URBAN					
GAS AND OIL	1,132,435,207	9.97%	GAS AND OIL	3,354,180	0.02%	30.00%	3,354,180	0.02%
BUSINESS MACHINERY & EQUIP	873,729,421	7.69%	BUS MACH & EQ	540,554,964	3.81%	35.00%	945,971,187 n	6.86%
			ALL OTHER PERSONAL	60,626,519	0.43%	30.00%	60,626,519	0.44%
			MOBILE HOMES	31,304,145	0.22%	11.00%	28,695,466	0.21%
			MOTOR VEHICLES	49,943,291	0.35%	30.00%	49,943,291	0.36%
			TOTAL URBAN PERSONAL	685,783,099	4.83%		1,088,590,643	7.89%
			RURAL					
			GAS AND OIL	1,363,463,016	9.61%	30.00%	1,363,463,016	9.88%
			BUS MACH & EQ	217,701,586	1.53%	35.00%	380,977,776 n	2.76%
			ALL OTHER PERSONAL	40,925,565	0.29%	30.00%	40,925,565	0.30%
			MOBILE HOMES	17,284,849	0.12%	11.00%	15,844,445	0.11%
			MOTOR VEHICLES	66,767,651	0.47%	30.00%	66,767,651	0.48%
			TOTAL RURAL PERSONAL	1,706,142,667	12.02%		1,867,978,452	13.54%
			EXEMPT PROPERTY					
MERCHANTS' INVENTORY	371,149,155	3.27%	MERCHANTS INVENTORY	0	0.00%	0.00%	0	0.00%
MANUFACTURERS' INVENTORY	382,172,899	3.37%	MANUFACTURERS INV	0	0.00%	0.00%	0	0.00%
LIVESTOCK	115,669,322	1.02%	LIVESTOCK	0	0.00%	0.00%	0	0.00%
			MOTOR VEH DEALERS INV	0	0.00%	0.00%	0	0.00%
			FEEDLOTS	0	0.00%	0.00%	0	0.00%
ALL OTHER PERSONAL	322,915,490	2.84%	FARM MACHINERY	0	0.00%	0.00%	0	0.00%
			BUSINESS AIRCRAFT	0	0.00%	0.00%	0	0.00%
			TOTAL EXEMPT PERSONAL	0	0.00%		0	0.00%
TOTAL PERSONAL	3,198,071,494	28.16%	TOTAL PERSONAL	2,391,925,766	16.85%		2,956,569,096	21.43%
STATE ASSESSED			STATE ASSESSED					
PUBLIC SERVICE CORP	2,333,823,827	20.55%	PUBLIC SERVICE CORP (a)	2,305,886,647	16.24%	35.00%	2,660,237,620	19.28%
			UTILITY INVENTORY (a)	0	0.00%	35.00%	45,953,334	0.33%
			TOTAL STATE-ASSESSED (a)	2,305,886,647	16.24%		2,706,190,954	19.61%
TOTAL ASSESSED VALUATION	11,356,614,034	100.00%	TOTAL ASSESSED VALUATION (a)	14,194,444,726	100.00%		13,797,651,702	100.00%

2-C

Attachment 3-2

a) Adjusted to reflect utility inventories and railroads.

e) Estimated, based on 1989 percentages.

n) 30 percent at 15-year depreciation.

SUBCOMMITTEE II

ROLLBACK

1. ITEMS OF GENERAL AGREEMENT

1. We need some type of rollback for property tax relief.
2. We should consider sources in addition to those mentioned in the Governor's plan.

Sales Tax: rate increase:  
eliminate some/all exemptions to  
broaden base to include all services;  
consider food exemption or lower rate for food.

Personal income taxes: third bracket;  
rate increase.

Corporate income taxes: another bracket  
rate increase

Intangible tax: Mandate state-wide, but return to local  
units

3. Should have a mechanism to ensure that the money is used for property tax relief both from the state and local level.
4. Should work toward lessening reliance on property taxes until sales/income/property taxes are each roughly one-third.
5. Primary conduit for property tax relief should be through schools.
6. No general consensus as to a percentage or dollar figure for a rollback.
7. No general consenses as to what the formula should be.
8. Began work on sales to exemption list using the premise that everything should be taxed unless the committee decided to continue the exemption.  
  
3 items have been pulled from list:
  1. Text books - 3606h
  2. Utilities used in Production - 3602 b
  3. Tangible personal property taxed by another excise tax- 3606a
9. Had teleconference call with officials from Iowa and ASFCME Union on the problems that Iowa and Massachusetts have had in extending sales tax to services.
- 10, Have assigned individual sub-committee members to review the various sections of the service tax list. We anticipate at some future meeting to have reports and recommendations from the sub-committee members.

**BOLD AND CREATIVE IDEAS:**

**Budget/Tax Lids, Exemptions:**

keep present budget lid and

- a) reduce exemptions, starting with motor vehicles
- b) require public vote to use home rule powers
- c) extend law for 4 years

limit IRB/Constitutional property tax exemptions

- a) shorter maximum length (2 years)
- b) limit the total amount of tax exemption (50%)
- c) include direct competition prohibition clause

require a "payment in-lieu-of-taxes" for exempt IRB property  
(should be calculated as part of wealth under SDEA)

increase public exposure and input to budget process

- a) public meeting of all taxing authorities
- b) extensive public notice of property tax increases  
prior to meeting

Honorable Mention:

new unfunded state mandates are property tax increases

**Reappraisal System Improvements:**

state cannot overturn the dismissal of a county appraiser

penalty for variance from COD targets

- a) lose up to 50% of state reappraisal maintenance \$
- b) be given a demerit

Honorable Mention:

look at certificate of values/sales verification forms  
pay counties for timely submission of Nov. abstracts  
disallow valuation appeal while paying under protest

**Tax Relief:**

expand homestead property tax refund program

- a) increase income level to \$20,000 (\$6.5 M)
- b) use KAGI (eliminate other income now incl.)

**New Local Funding Options:**

situs tax (sales tax), automobiles only

local option income taxes

excise tax on rental cars



HOUSE TAXATION  
Attachment #5  
02/01/91