

# ESTIMATES OF THE UNIFORM AND EQUAL PROPERTY TAX BASE BEFORE EXEMPTIONS\*

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If any tax could have been eliminated by adverse criticism, the general property tax should have been eliminated long ago. One searches in vain for one of its friends to defend it intelligently. . . . No writer of repute on state and local taxation in the United States has failed to offer his bit of derogatory testimony. . . . Yet the tax persists (Jensen, 1931, p. 478).

## INTRODUCTION

FOR MUCH OF AMERICA'S HISTORY, THE PROPERTY tax was the main source of revenue for state and local governments. The tax was well suited for use in the sparsely populated subsistence economies, which characterized most states when state and local governments were established.

Typically, the state legislature divided the state into counties and gave them the responsibility of enforcing the state's laws, including the responsibility of collecting taxes for the state and local governments. State law also outlined procedures for establishing "optional" governments such as municipalities or special districts. The result was a profusion of property tax financed governments.

According to Fisher (1997) the idea of taxing all property in the United States at uniform *ad valorem* rates evolved under the unusual set of circumstances that existed in North America. Although the property tax has become increasingly unpopular, it remains the principal source of revenue and autonomy for local governments. The property tax was originally intended to be a tax on the stock of wealth, in essence all property – real and personal, tangible and intangible. According to Waldo and Yoho (1977, p. 2) “[a] tax imposed on all forms of wealth, levied at a uniform rate, and based on the prevailing market value of all property would be a ‘general’ property tax.” Benson, Benson, McClelland, and Thomson (1965, p. 34) have concluded

that: “The major tax movement of the nineteenth century was the adoption by many states of the ‘general property tax,’ which laid equal rates of assessment and taxation on all property.” Regarding this time period, they go on to assert that “the cry for taxation of all property was not simply the idealistic assertion of the fundamental principle of equality. It was just as much a bitter reaction against many real and imagined exemptions” (Benson, Benson, McClelland, and Thomson (1965, p. 35). In 1908 Derthick (1914, p. 139) noted that “[f]or two generations the farmers of the United States have in large majority cherished the belief that a uniform rate upon all property at its true value in money was the highest conception of fairness and justice between man and man.” A comprehensive property tax with few exemptions was believed to be the most equitable form of taxation.

In 1907 the International Tax Association, later renamed the National Tax Association (NTA, 1908, p. x), convened its first International Conference on State and Local Taxation in Columbus, Ohio. According to Ohio Governor Andrew Harris, the permanent chairman of the conference, the purposes of the conference were as follows:

- To secure an authoritative and exhaustive discussion of the subject of state and local taxation in all its details.
- To produce a volume of proceedings containing the best thought of those who, by reason of their special educational training and practical experience, are qualified to speak with authority upon the specific branch of the subject they may elect to discuss.
- To furnish to the members of this Legislatures of the several States a concrete, up-to-date statement of the economic and business principles that should be applied in state and local tax legislation, to be used as a guide for their action when considering proposals to improve the tax laws of their respective States and in the administration of the same.

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\*Erratum: This article should have appeared in *Proceedings of the 100<sup>th</sup> Annual Conference on Taxation*. The editors apologize for this oversight.

- By this means to secure the application of correct economic and business principles in all tax legislation, and thus develop a high degree of uniformity in the tax laws of the several states.
- By securing uniformity in state tax laws, to eliminate the evil of changes in legal residence and in the location of business undertaken induced by differences in state tax laws, and to create conditions of high value in aid of the effective and economical management of the financial affairs of all state and local governments.

Ironically, according to Fisher (1996, p. 10) that first conference “was devoted largely to denouncing the property tax as ‘unsound in theory and practice,’ but it is impossible to cite a document that spells out the theory being denounced.”

Subsequently, at the Second International Conference in 1908 the International Tax Association (NTA, 1914, p. 25) proceeded to conclude and resolve that:

*Whereas*, The greatest inequalities have arisen from laws designed to tax all the widely differing classes of property in the same way and such laws have been ineffective in the production of revenue, and whereas the appropriate taxation of various forms of property is rendered impossible by the restrictions upon the taxing power contained in the constitutions of many of the states:

*Resolved*, That all State constitutions requiring the same taxation of all property, or otherwise imposing restraints upon the reasonable classification of property, should be amended by the repeal of such restrictive provisions.

According to Ellis (1991, pp. 150-151) the NTA’s primary criticisms of the general property tax were:

- It deprived legislatures of the right to tax different types of property at different rates.
- The courts were allowing this legislative paralysis to continue by allowing fair-market-value assessment of all property at uniform rates.
- Economic conditions demanded a modernized tax structure to support business growth

and generate greater infrastructure-building revenues.

- The general property tax unfairly discriminated among differing types of property, businesses, individuals, and states.
- “Fair market value” was easier to ascertain for certain properties than others.
- Some property was more easily hidden from assessors, resulting in evasion.
- Vigorous enforcement caused intangible property to move out of state.
- High property tax rates during this period encouraged evasion.
- Property tax rates fluctuated widely from year-to-year causing business uncertainty.
- Millions paid no direct property taxes.
- Local assessors were castigated as untrained, underpaid, part-time non-experts, dedicated to serving their provincial, selfish party leaders, regardless of the cost to the public welfare.

Concerning universality, Fisher (1996, p. 11) notes that “[t]he general property tax is applied to all property—real and personal, tangible and intangible. According to Fisher (1996, p. 122), “it appears that systematic and organized criticism of the property tax began in about 1875. That was the year that Nebraska and New Jersey adopted uniformity clauses and it was several years before seven states in the northern and western parts of the country adopted constitutions containing uniformity clauses.”

However, in Kansas as in most states, the property tax base deviates significantly from this ideal. Leland (1928, p. 12) suggests that “[t]he defects of the general property tax were recognized almost as soon as it was employed. Complaints of inequalities in the assessment of the land tax and the failure to consider improvements emanated from fiscal officers in Virginia prior to 1630. Leland (1928, p. 13) asserts that “[t]he defects of the general property tax fall naturally into two classes: those inherent in the theoretical basis of the tax, and those arising from its administration.” He goes on to conclude that “[t]he fundamental reasons for failure are found in the defects in theory” (Leland, 1928, p. 13). Specifically, the property tax: (1) adopts

a false test of faculty, (2) ignores income from property, (3) assumes property is homogeneous, and (4) does not heed incidence (Leland, 1928, pp. 14-18). Leland (1928, p. 6) further posits that “[t]he exemption of property has been one of the important problems in fiscal democracy.”

More specifically, Myers (1967, p. 274) finds that the “[e]xemption of intangibles represented a major swing away from the general property tax concept.” According to Leland (1928, p. 26) “[t]he attempted assessment of intangibles under the general property tax has been a tale of continual failure, dating back almost to colonial times.” Nevertheless, Bullock (NTA, 1914, p. 128) concluded in 1908 that “forty years of able and insistent criticism of the workings of the general property tax in the American States have not seriously shaken the belief of the average citizen that all, or substantially all, property should be taxed.” However, Bullock (NTA, 1914, p. 129) also conjectured that “the property tax is already moribund, that it is becoming virtually a tax on real estate, and that we are approaching the practical if not legal exemption of personal property—or at least of intangible property.” Similarly, Myers (1967, p. 277) concludes that “[i]f there is a central theme that runs through the exemption patten in the United States it is that real estate will be all that is left of the local property tax base.” Furthermore, in 1973 the NTA (p. 2) found that “[a] review of state statutes reveals that exemptions are rarely repealed. Instead the trend is in the direction of adding new exemptions. . . . The tendency is clearly that of removing real property from the tax base instead of providing equal burdens for all property owners.”

Estimating the property tax base without any exemptions or other legal deviations from market value is an exercise that permits the discussion to return to the original concept of a “uniform and equal” property tax on all property, including the original constitutional exemptions. However, Myers (1928, p. 7) cautions that “[i]t is difficult to estimate the extent of exemptions in each state because few states require the listing of property which is not taxed.” Notwithstanding, Myers (1967, p. 277) asserts that “wealth estimate figures are probably as good an approximation as can be developed to indicate the size of the potential real and tangible personal property tax base in the United States.” Although no previous attempt to estimate this total “theoretical” property tax base in Kansas could be

found, an admittedly imprecise initial estimate was derived based on a series of estimating assumptions.

### THE EVOLUTION OF THE PROPERTY TAX BASE IN KANSAS<sup>1</sup>

In 1930, property taxes funded 82 percent of state and local governments in Kansas, but since that time, state government has turned to other sources of revenue, notably sales and income taxes, with the property tax providing only a small part of state revenue.

Along with the shift to other taxes as a source of state revenue, there has been a major shift in the property tax base. Originally, there was a strong belief that a uniform tax on all forms of property—real and personal, tangible and intangible—was the fairest tax, and provisions requiring that form of taxation were written into most state constitutions. Over the years, administrative problems, concerns about double taxation, and the belief that certain kinds of property were less able to bear the burden have led to many modifications of the “uniform tax on all property” idea.

State constitutions and statutes, including those in Kansas, usually provide for the taxation of all property not specifically exempted. Property is exempted when, in the minds of the lawmakers, the property provides some benefit to the community that justifies special treatment. The Wyandotte Constitution of 1859 advanced the ideal of uniform and equal taxation of property with clarity and simplicity. Governor Thomas Carney (1863-65) championed the constitutional ideal in 1862, as follows, “Let all protected by the State share equally its burdens in proportion to their property.” (Carney, 1864) According to the original provisions of the Kansas Constitution (1859):

#### Article 11—Finance and Taxation

Section 1: The legislature shall provide for a uniform and equal rate of assessment and taxation; but all property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent and charitable purposes, and personal property to the amount of at least two hundred dollars for each family, shall be exempted from taxation.

Section 2: The legislature shall provide for taxing the notes and bills discounted or purchased, mon-

eys loaned, and other property, effects, or dues of every description (without deduction) of all banks now existing, or hereafter to be created, and of all bankers; so that the property employed in banking shall bear a burden of taxation equal to that imposed upon the property of individuals.

The 1866 Kansas tax statute, which replaced a statute borrowed from territorial laws, included a long list of exemptions, but the drafters attempted to limit the breadth of this exemption by liberal use of the word *exclusively*. Property of religious, benevolent, educational, and governmental organizations had to be used *exclusively* for the stated purpose.

The only exemption for individually owned property was the \$200.00 per family exemption required by the constitution and an exemption for family libraries and schoolbooks. An exemption of \$500.00 for widows, which was in territorial law, was eliminated and this resulted in one of the first public controversies over an exemption. A group of Lawrence widows protested that it was taxation without representation and asked that the exemption be restored or that women be given the right to vote. A special Senate committee considered the issue at some length and, on a divided vote, refused to recommend a change. Since that time, there has been a constant stream of court decisions, legislative enactments, Board of Tax Appeals decisions, and administrative actions, interpreting or changing the taxable status of property. In 1871, the Kansas Supreme Court put it this way:

The obligation to pay taxes is coextensive with the protection received. An exemption from taxation is a release from this obligation. It is the receiving of protection without contributing to the support of the authority which protects it. It is an exception to a rule and is justified and upheld upon the theory of peculiar benefits, received by the state from the property exempted. Nevertheless, it is an exception: and they who claim under an exception must show themselves within its terms (*Washburn College v. Commissioners of Shawnee County*).

Since the adoption of the Wyandotte Constitution in 1859, the constitution's finance and taxation article has been successfully amended on only eight occasions concerning matters of property taxation (twice in 1924, 1964, 1974, 1976, twice in 1986, and again in 1992). These eight amendments,

however, have departed from uniform and equal assessment and taxation of property for the benefit of at least 23 specific property interests.

These constitutional departures from uniform and equal assessment and taxation have benefited mineral interests, banking and private finance, homeowners, agricultural landowners, merchants, manufacturers, farmers, ranchers, commercial and industrial property owners, mineral leaseholders, nonprofit organizations, and public utilities, among others. Of the 23 departures, 14 targeted benefits to business property, 5 to agricultural property, 3 to homeowners, and 1 to nonprofit organizations.

Thirteen of the constitutional departures from uniform and equal assessment and taxation benefit personal property. The 1986 economic development exemption (Article 11, Section 13) benefits both real and personal property. The classification amendments of 1986 and 1992 provide differential assessment for five categories of real property: residential, commercial and industrial, agricultural, public utility, and nonprofit.

In addition to constitutional departures from uniform and equal taxation of property, state lawmakers have enacted at least 51 statutory exemptions to the property tax. In some cases, these exemptions have interpreted and implemented constitutional provisions. In other cases, lawmakers have created completely new exemptions within the realm of their constitutional authority and over time have expanded or extended those exemptions. These statutory exemptions may be categorized as:

- 20 exemptions benefiting business property;
- 17 exemptions benefiting agricultural property; and
- 15 exemptions benefiting the property of individuals.

#### **ESTIMATES OF THE UNIFORM AND EQUAL PROPERTY TAX BASE BEFORE EXEMPTIONS**

The following section provides estimates of the uniform and equal property tax base in Kansas.

##### **Sector Definitions**

Estimates for total assets of households and nonprofit organizations were computed based on data from the Board of Governors of the Federal

Reserve (various years, Tables B.100, B.102, B.103). The households and nonprofit organizations sector consists of individual households and nonprofit organizations such as charitable organizations, private foundations, schools, churches, labor unions, and hospitals. Nonprofits account for about 6 percent of the sector's total financial assets, according to recent estimates, but they own a larger share of some of the individual financial instruments held by the sector. The value of vehicles was computed based on data from the U.S. Bureau of Economic Analysis (2007a, Table 8.1) and the U.S. Department of Energy (Davis and Diegel, 2007). These values were then rescaled for Kansas based on population estimates from the U.S. Bureau of Economic Analysis (2007b).

Estimates for total assets of businesses were computed by combining data from non-farm corporate businesses and non-farm non-corporate businesses based on data from the Board of Governors of the Federal Reserve System (various years). The non-farm nonfinancial corporate business sector comprises all private domestic corporations except corporate farms, which are part of the farm business sector, and financial institutions; it includes holding companies, S corporations, and real estate management corporations. The sector is the largest component of the total nonfinancial business sector, alone accounting for roughly half of all net private investment in the U.S. economy. On the other hand, the non-farm noncorporate business sector comprises partnerships and limited liability companies, sole proprietorships, and individuals who receive rental income. Limited liability companies combine the corporate characteristic of limited liability for all owners with the pass-through tax treatment of partnerships, and they offer more organizational flexibility than S corporations. The non-farm noncorporate business sector is often thought to be composed of small firms, but some of the partnerships included in the sector are large companies. These values were then rescaled for Kansas based on the number of businesses from the U.S. Bureau of the Census (various years). Estimates for total assets of farms were computed based on data from the U.S. Department of Agriculture (various years). These values were then rescaled for Kansas based on the number of farms.

The actual values of Kansas assessed property valuation, property tax collections, and property tax rate were taken from the Kansas Department of Revenue (various years).

### **Estimated Value of Total Assets and Property Tax Base by Sector**

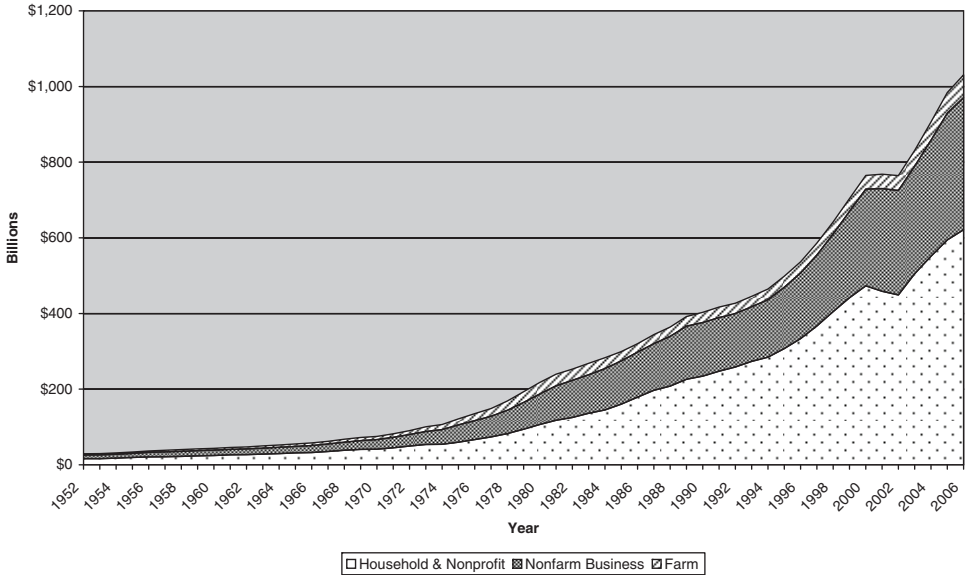
The estimated value of total assets in Kansas for 2006 was \$1,031.0 billion. Between 1952 and 2006 the estimated value of total assets grew at a compound annual growth rate (CAGR) of 6.8 percent. Of this total, \$501.3 billion was comprised of tangible assets and \$529.8 billion was comprised of financial assets. Tangible assets grew at a CAGR of 6.5 percent, while financial assets grew at a CAGR of 7.2 percent. Of the total value, individuals and nonprofits comprised \$621.3 billion, while businesses comprised \$349.2 billion, and farms comprised \$60.6 billion. Exhibit 1 shows the estimated value of total assets by sector from 1952 to 2006.

On the other hand, the estimated value of the property tax base in Kansas for 2006 was \$74.2 billion. Thus, the property tax base only includes 7.2 percent of total assets. Of the total value, individuals and nonprofits comprised \$26.8 billion, while businesses comprised \$45.8 billion, and farms comprised \$1.6 billion. However, after adjusting for other exempt real property (\$21.8 billion), economic development exemptions and industrial revenue bonds (\$3.5 billion), state assessed public utilities (\$6.2 billion), and the school property tax homestead (\$13.8 billion), this value is reduced to \$28.9 billion. After adjusting for these exemptions, the property tax base only includes 2.8 percent of total assets. Between 1952 and 2006 the estimated value of the property tax base grew at a compound annual growth rate of 3.6 percent. The significant declines in the property tax base in 1989 and 1994 were the result of two constitutional amendments altering the reappraisal and classification of property in the state. Exhibit 2 shows the estimated value of the property tax base by sector from 1952 to 2006.

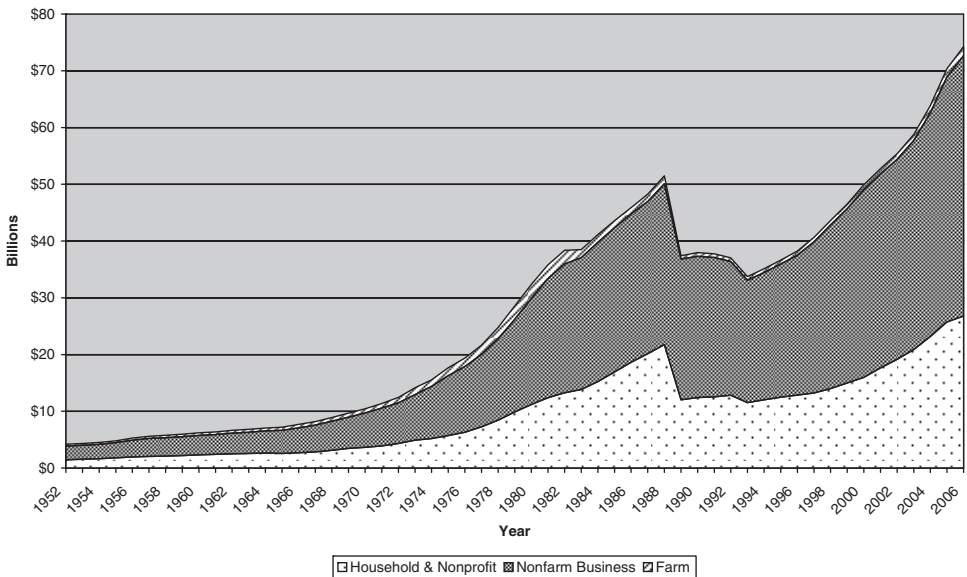
Individuals and nonprofits accounted for 60.3 percent of total assets, while businesses accounted for 33.9 percent, and farms accounted for 5.9 percent of total assets in Kansas in 2006. In 1952 individuals and nonprofits accounted for 55.0 percent, while businesses accounted for 33.7 percent, and farms accounted for 11.3 percent of total assets. Exhibit 3 shows the estimated composition of total assets by sector from 1952 to 2006.

Meanwhile, individuals and nonprofits accounted for 36.1 percent of the gross property tax base, while businesses accounted for 61.7 percent, and farms accounted for 2.2 percent of the property tax base in Kansas in 2006. In 1952, individuals

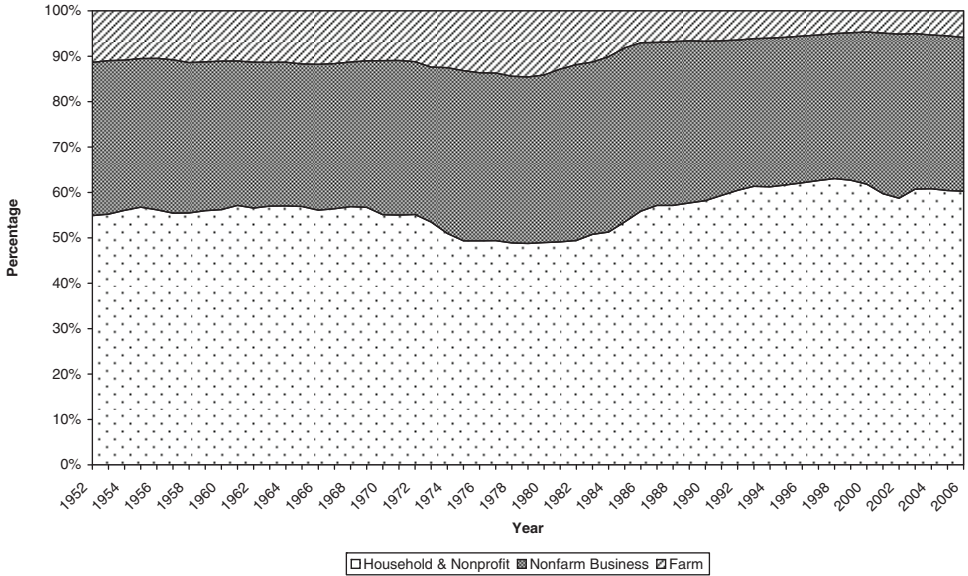
**Exhibit 1: Estimated Value of Total Assets by Sector  
Kansas, 1952-2006**



**Exhibit 2: Estimated Value of Property Tax Base by Sector  
Kansas, 1952-2006**



**Exhibit 3: Estimated Composition of Total Assets by Sector  
Kansas, 1952-2006**



and nonprofits accounted for 37.2 percent, while businesses accounted for 55.8 percent, and farms accounted for 7.0 percent of the gross property tax base. Thus, the proportion of the tax base borne by farms has increased significantly, while the proportion borne by businesses has decreased significantly, even before taking into consideration EDXs and IRBs. Exhibit 4 shows the estimated composition of the property tax base sector from 1952 to 2006.

**Estimated Components of Total Assets and Property Tax Base by Source**

Households and nonprofits accounted for \$621.3 billion in total assets in Kansas in 2006. Of this amount, household real estate accounted for \$186.4 billion, nonprofit real estate accounted for \$18.1 billion, nonprofit equipment and software accounted for \$2.1 billion, consumer durable goods accounted for \$35.3 billion, vehicles accounted for \$12.7 billion, and financial assets accounted for \$379.3 billion of the total.

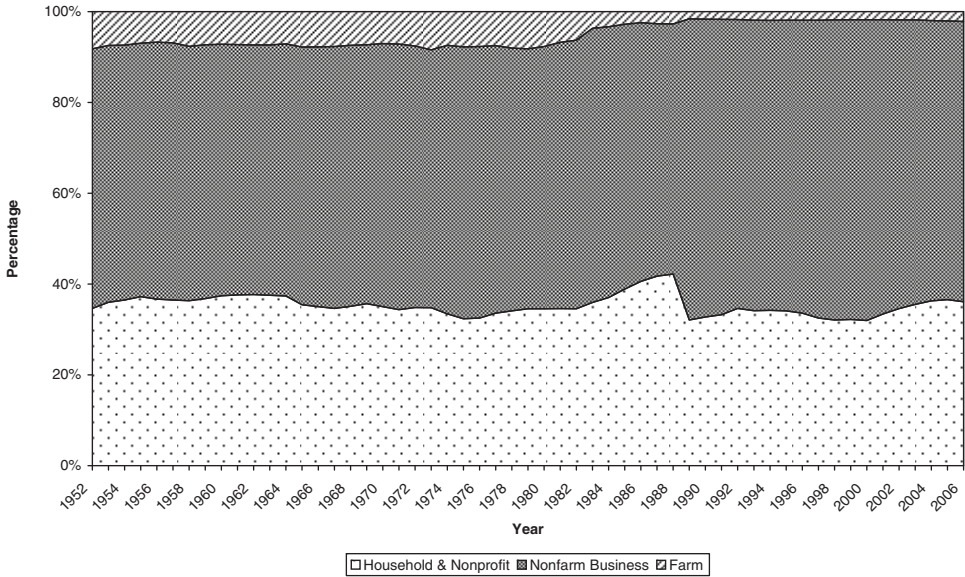
On the other hand, households and nonprofits accounted for \$26.8 billion of the property tax base

in Kansas in 2006. Of this amount, household real estate accounted for \$21.4 billion, nonprofit real estate accounted for \$2.2 billion, nonprofit equipment and software accounted for \$0.6 billion, and vehicles accounted for \$2.5 billion. The significant declines in the property tax base in 1989 and 1994 were due to the special treatment of individuals and nonprofits from two constitutional amendments altering the reappraisal and classification of property in the state.

Non-farm businesses accounted for \$349.2 billion in total assets in Kansas in 2006. Of this amount, real estate accounted for \$142.2 billion, equipment and software accounted for \$41.2 billion, inventories accounted for \$17.5 billion, and financial assets accounted for \$148.2 billion of the total.

Meanwhile, non-farm businesses accounted for \$45.8 billion of the gross property tax base in Kansas in 2006. Of this amount, real estate accounted for \$35.5 billion and equipment and software accounted for \$10.3 billion of the total. Note that although businesses benefited from the exclusion of inventories from the property tax base due to the constitutional amendment adopted in 1986,

**Exhibit 4: Estimated Composition of Property Tax Base by Sector  
Kansas, 1952-2006**



the declines in value in 1989 were proportionately much less than for individuals and nonprofits.

In 2006 farms accounted for \$60.6 billion in total assets in Kansas. Of this amount, real estate accounted for \$51.5 billion, livestock and poultry accounted for \$2.5 billion, machinery and motor vehicles accounted for \$3.5 billion, crops accounted for \$0.7 billion, purchased inputs accounted for \$0.2 billion, and financial assets accounted for \$2.3 billion of the total.

However, farms only accounted for \$1.6 billion of the gross property tax base in 2006. Of this amount, real estate accounted for \$1.5 billion and purchased inputs accounted for \$0.1 billion. Clearly, farms were the most significant beneficiary of the 1986 constitutional provision mandating the use value assessment of farm land.

**Estimated Value of Exempt Property by Beneficiary**

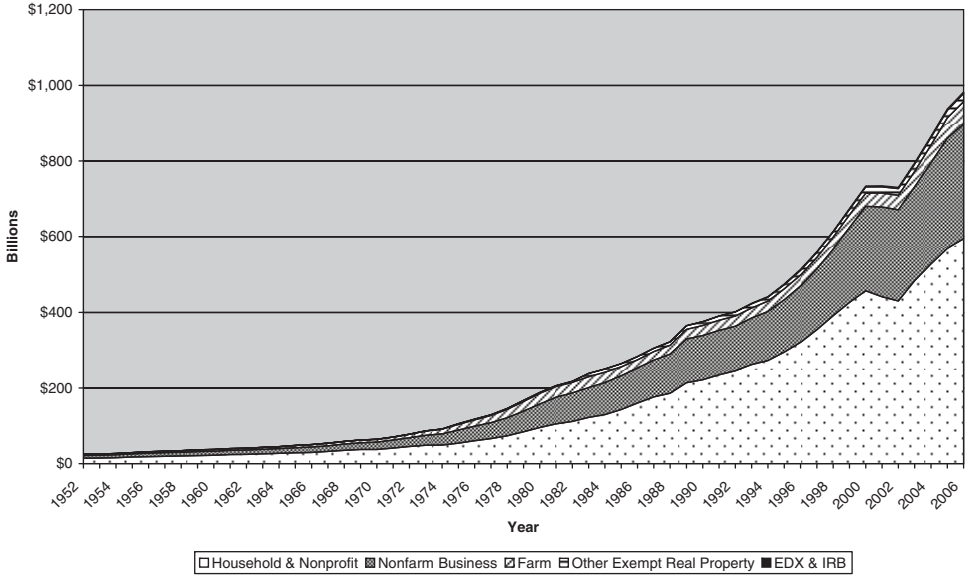
The estimated value of exempt property in Kansas for 2006 was \$956.8 billion. Thus, exempt property comprises 92.8 percent of total assets. Of the total value, individuals and nonprofits comprised \$594.5 billion, while businesses comprised

\$303.3 billion, and farms comprised \$59.0 billion. However, after adjusting for other exempt real property (\$21.8 billion), economic development exemptions and industrial revenue bonds (\$3.5 billion), state assessed public utilities (\$6.2 billion), and the school property tax homestead (\$13.8 billion), this value is increased to \$1,002.1 billion. After adjusting for these exemptions, the property tax base only includes only 2.8 percent of total assets. Between 1952 and 2006 the estimated value of property tax exemptions grew at a compound annual growth rate of 7.1 percent. Exhibit 5 shows the estimated value of exemptions by beneficiary from 1952 to 2006.

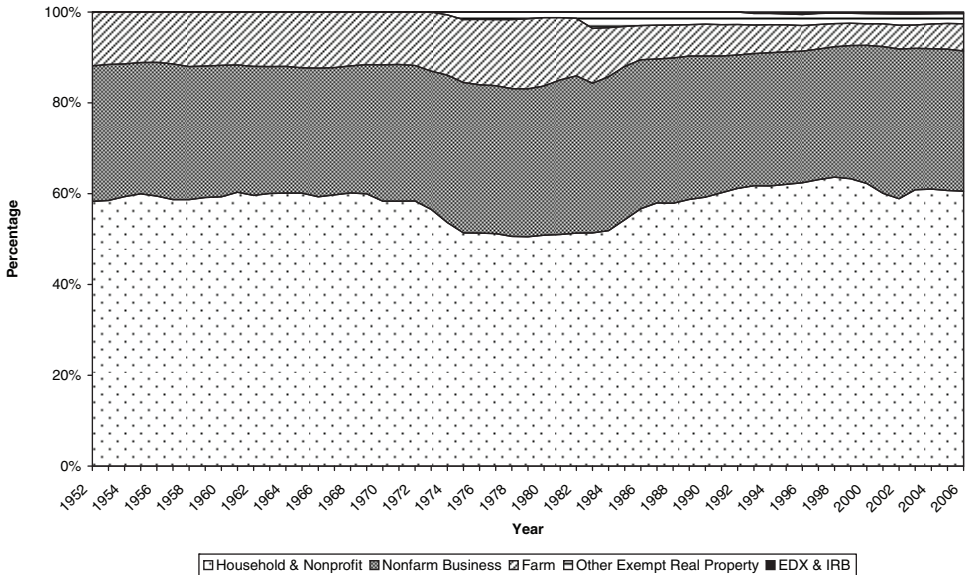
Households and nonprofits accounted for 62.1 percent of gross exempt property, while businesses accounted for 31.7 percent, and farms accounted for 6.2 percent of total exemptions in Kansas for 2006. In 1952, individuals and nonprofits accounted for 58.1 percent, while businesses accounted for 29.8 percent, and farms accounted for 12.1 percent of exempt property. Thus, the proportion of exempt property held by farms has decreased significantly, while the proportion held by individuals and nonprofits and businesses have increased. Exhibit 6



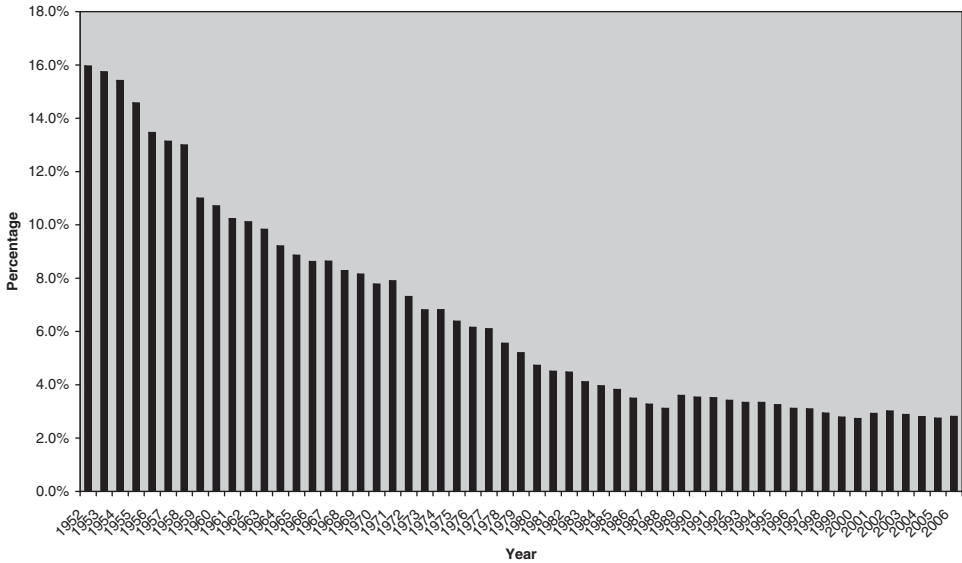
**Exhibit 5: Estimated Value of Exemptions by Beneficiary  
Kansas, 1952-2006**



**Exhibit 6: Estimated Composition of Exemptions by Beneficiary  
Kansas, 1952-2006**



**Exhibit 7: Actual Assessed Valuation as a Percentage of Estimated Total Assets  
Kansas, 1952-2006**



shows the estimated composition of exemptions by beneficiary from 1952 to 2006.

Households and nonprofits accounted for \$594.5 billion of exempt property in Kansas in 2006. Of this amount, household real estate accounted for \$165.0 billion, nonprofit real estate accounted for \$16.0 billion, nonprofit equipment and software accounted for \$1.5 billion, consumer durable goods accounted for \$35.3 billion, vehicles accounted for \$10.2 billion, and financial assets accounted for \$379.3 billion.

Non-farm businesses accounted for \$303.3 billion of exempt property in Kansas in 2006. Of this amount, real estate accounted for \$106.6 billion, equipment and software accounted for \$30.9 billion, inventories accounted for \$17.5 billion, and financial assets accounted for \$148.2 billion of the total.

Farms accounted for \$59.0 billion of exempt property in Kansas in 2006. Of this amount, real estate accounted for \$50.0 billion, live-stock and poultry accounted for \$2.5 billion, machinery and motor vehicles accounted for \$3.5 billion, crops accounted for \$0.7 billion, purchased inputs accounted for \$0.1 billion, and financial assets accounted for \$2.3 billion of the total.

**Estimated Total Value of Assets  
Compared to Actual Assessed Valuation**

In 2006 the estimated total value of assets was \$1,031.0 billion, while actual assessed valuation was \$29.0 billion. In 1952 the estimated total value of assets was \$29.1 billion, while actual assessed valuation was \$4.6 billion. Thus, actual assessed valuation was 2.8 percent of estimated total assets in 2006, while actual assessed valuation was 16.0 percent of estimated total assets in 1952. The actual statewide average mill levy was 118.0 mills in 2006, while the estimated mill levy based on estimated total assets would have been only 3.3 mills. Thus, the estimated mill levy based on estimated total assets would have been 2.8 percent of the actual mill levy. Exhibit 7 shows the actual assessed valuation as a percentage of estimated total assets from 1952 to 2006.

**CONCLUSION**

In 1963 the Advisory Commission on Intergovernmental Relations (ACIR, pp. 11-12) recommended that:

- In order that the taxpayers may be kept informed, each State should require the regular assessment of all such tax exempt property,

compilation of the totals for each type of exemption by taxing districts, computation of the percentages of the assessed valuation thus exempt in each taxing district and publication of the findings. Such publication should also present summary information on the function, scope and nature of exempted activities.

- Outright grants, supported by appropriations, ordinarily are more in keeping with sound public policy and financial management, more economical, and more equitable than tax exemptions and should be used in preference to the latter, with allowance for such exceptions as are clearly indicated by the public interest. No tax exemption for secular purposes should be initiated or continued which would not be justifiable as a continuing State budget appropriation.
- In the instance of mandatory tax exemptions extended to individuals for such purposes as personal welfare aid and expressions of public esteem, the States should reimburse the local communities for the amounts of the tax “loss.”
- Approximations by States to local governments, organizations, or individuals ordinarily are more in keeping with sound public policy and financial management, less costly, and more equitable than tax exemptions, and should be used normally in preference to the latter.
- Exemptions of real property should apply only to that owned and used exclusively for a tax exempt activity or purpose. No tax exemption of real property used for secular and business purposes should be initiated or continued which would not be justifiable as a continuing State or local budget appropriation.
- The States should reimburse local taxing jurisdictions for the amounts of tax “loss” arising from State-mandated tax exemptions extended to individuals for such purposes as personal welfare, aid, and expressions of public esteem.
- If property tax relief is to be granted for low-income home owners and renters, it should be given by the States without increasing the property tax burden of other owners and users of taxable property. The property tax relief should take the form of cash payments and/or income tax credits by States, the cash payment to be the amount by which the property tax relief exceeds the income tax liability. States without an income tax would provide cash payments equal to the total amount of property tax relief. The property tax liability of the relief recipients to the local jurisdictions involved should not be affected.

Further, the National Tax Association (NTA, pp. 47-48) restated these recommendations in 1973:

- State Constitutions should not mandate the exemption of real property, and should restrict the exemptions which legislatures may authorize.
- In order that the taxpayers may be kept informed, each State at regular intervals should value (or require and finance the valuation of) all tax-exempt real property at full market value (or approximation thereof), compile the total for each type of exemption by taxing districts, by land separate from improvements, compute the percentages of the total valuation thus exempt in each taxing district, and publish the findings. Such publication should also present summary information on the function, nature and extent of exempted activities. The tax exempt roll should constitute a public record.
- Any exemption of privately owned real property should require an annual application and justification.
- Even when not otherwise generally used, service (user) charges based on cost should be paid on all institutional and governmentally owned tax exempt property for those public services which can be identified and allocated.

In 2006 the estimated total value of assets was \$1,031.0 billion, while actual assessed valuation was \$29.0 billion. In 2006 actual assessed valuation was 2.8 percent of estimated total assets, while in 1952 actual assessed valuation was 16.0 percent of estimated total assets. In 2006 the actual mill levy was 118.0 mills, while the estimated mill levy based

on estimated total assets would have been 3.3 mills. In 2006 the estimated mill levy based on estimated total assets would have been 2.8 percent of the actual mill levy. The results shown above reveal that the Kansas constitution and statutes currently exempt or otherwise do not tax approximately 97.2 percent of estimated total assets. The current classifications account for part of this deviation from uniform and equal assessment and taxation. Taxing all property would encompass the following types of assets currently untaxed: the difference between the currently allowed agricultural use value and full market value; tangible personal property, including household goods, business inventories, and farm equipment and animals; and personal and business intangible personal property including bank account balances, securities holdings, and other intangible assets.

In summary, Kansas taxes an estimated 2.8 percent of the total possible property tax base.

## Note

<sup>1</sup> Adapted from Fisher and Gile (2006).

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