

BRIEF NO. 38. EARMARKED SALES TAXES AS A SOURCE OF SCHOOL REVENUE: A SUMMARY OF STATE PRACTICES

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The ever present and increasing requirement for more funds for education and the continuous search for new and stable sources of revenue have resulted in some interest in the sales tax as a source of revenue for the state contribution to public education. The following analysis of public school funds for the year 1953-1954 prepared by the Office of Education of the U.S. Department of Health, Education and Welfare provides some data on this subject which indicates the degree to which such sales taxes were earmarked for educational purposes at that time. This study deals with the 7 states in which sales tax revenues were among the taxes earmarked for educational fund.

I. The Proportion of School Revenues Coming from Various Levels of Government, 1953-54 School Year¹

State	Total	Federal	State	County	Local
Ala.	\$ 95,689,617	\$3,200,000	\$ 72,189,617	\$11,300,000	\$ 9,000,000
Kans.	112,658,654	3,941,464	24,143,190	20,125,000	64,449,000
Mich.	365,239,193	3,000,000	196,739,193	500,000	165,000,000
N.Mex.	41,430,218	672,386	34,856,218	3,780,626	2,120,988
N.Dak.	28,000,000	450,000	8,300,000	6,750,000	12,500,000
Tenn.	106,455,133	3,250,000	69,205,133	24,500,000	9,500,000
W.Va.	86,272,279	1,760,860	55,249,513	29,261,906	0

II. Proportion of School Revenues Coming from Earmarked Taxes, 1953-54 School Year²

State	Total State School Funds	Earmarked State Taxes	% of State Taxes Which Are Earmarked
Alabama	\$ 66,482,400	\$ 65,286,030	98.1
Kansas	23,023,700	21,850,000	94.9
Michigan	190,333,876	84,000,000	44.1
New Mexico	33,707,584	25,735,259	76.3
North Dakota	8,193,110	6,800,000	83.0
Tennessee	64,520,433	43,440,500	67.3
West Virginia	50,674,583	4,454,800	8.8

III. State Sales Tax Revenues Earmarked for Public Elementary and Secondary Schools, 1953-54³

State	Authorization	Sales Taxes Earmarked for Schools	Amount
Ala.	Statute	Educational Trust Fund (sales, use, tobacco, hydroelectric, railroad and express companies, income)	\$59,786,030
Kans.	Statute	Retail sales tax	21,850,000
Mich.	Constitution	Insurance Company, Telephone and Telegraph Company, Express Company and Sales Tax	45,000,000
N. Mex.	Statute	Sales Tax	25,000,000
N. Dak.	Statute	Sales Tax (7/12 of 2% selective sales tax)	6,800,000
Tenn.	Statute	Sales Tax (80% of 2% sales tax)	30,596,000
W. Va.	Statute	Unappropriated balances in the General School Fund (including receipts from sales tax)	654,800

IV. State-by-State Data

- Alabama--All State school revenues are derived from earmarked tax sources and from the Permanent School Fund, except for \$1,000,000 from the State General Fund. The public school fund is derived from the 3-mill State property tax (\$4,500,000), the income tax used in reducing the property tax (\$1,000,000) and the educational trust fund (\$59,786,030). The educational trust fund is derived from the sales tax, the use tax, taxes on tobacco, hydroelectric companies, railroad companies, express companies and the income tax.⁴
- Kansas-- Two separate amounts are earmarked by the constitution for schools from the Retail Sales Tax. The first of these is the amount of \$15,600,000 and goes into the State School Finance Fund. The second in the amount of \$12,500,000, only partially for school, is distributed back to 105 counties of Kansas; 50 percent on the basis of population and 50 percent on equalized tangible assessed valuation. After the counties receive their amounts on these bases of distribution, the amount which they receive is distributed to all the political subdivisions of the county--namely, the county, townships, cities, school districts, drainage districts, sewer districts, etc.--on the basis of general property taxes levied. Since the schools of Kansas levy approximately 50 percent of the taxes which are levied in the state, it follows that they receive about 50 percent of the residue sales tax fund, or \$6,250,000. The total earmarked tax revenue for schools is, therefore, about \$21,850,000 for 1953-54.⁵
- Michigan--The legislature has earmarked certain taxes to pay the interest on the Primary School Fund. Income from these taxes for the Primary School Fund interest plus any balance go into the Primary School Interest Fund. ... In addition to the above revenues, which go into the Primary School Interest Fund the 1946 constitutional amendment provided that one-half cent of the State 3 percent sales tax should go into the Sales Tax Diversion Fund, which is similar to the Primary School Interest Fund. The amount anticipated for 1953-54 for this fund is approximately \$45,000,000.⁶
- New Mexico--All school revenues are derived either from the permanent school fund and school land or from earmarked taxes. The sources of income for the Current School Fund are: (1) income from the permanent school fund and lands, \$7,972,325; (2) State .50-mill tax levy, \$357,883; and (3) fines and escheats, \$5,000. The other funds are derived chiefly from 95 percent of the 2-percent sales tax amounting to about \$25,000,000, 75 percent of 90 percent of the income tax amounting to about \$2,500,000, and the State's share of leases on federally owned mineral lands amounting to about \$3,043,349. Earmarked taxes for education are authorized by statute and directed to the Equalization Fund. Part of these revenues are appropriated for educational functions other than support of public schools.⁷

North Dakota--Seven-twelfths of the State 2 percent selective Sales tax is earmarked for schools and is placed in the State Equalization Fund. This constitutes all the State revenue provided for schools except the income from the State Permanent School Fund. No appropriations for the public schools are made from the State general funds.⁸

Tennessee--While a portion of each of 2 State taxes is earmarked for schools, the proceeds from these taxes go into the general State fund and appropriations are paid from the general fund. Eighty percent of the proceeds of the 2 percent State Retail Sales Tax is earmarked for all public education, while all of the State Tobacco Tax, except 4 percent to administer and collect the tax and \$307,500 to provide sinking funds for the payment of principal and interest on certain bond issues for school purposes, is earmarked for the public school grades 1 through 12. The amount of the estimated receipts of the earmarked taxes for 1953-54 are applicable to the public schools, grades 1 through 12, as follows: 2 percent State Retail Sales Tax, \$30,596,000; and State, Tobacco Tax, \$12,844,500. These taxes are authorized by statute.⁹

West Virginia--A part of the cigarette tax collected, amounting to about \$3,800,000, is earmarked for the public schools. Also, revenue in the General School Fund not otherwise appropriated is set aside for the public schools. For the school year 1953-54 the amount of this fund, including the cigarette tax, is estimated to be \$4,454,800. A sales tax, estimated to produce \$27,400,000 for the public schools is included in the appropriations.¹⁰

¹U.S. Office of Education, Public School Finance Programs of the United States, 1954, p. 13.

²Ibid., p. 20.

³Ibid., p. 22.

⁴Ibid., p. 57.

⁵Ibid., p. 103.

⁶Ibid., p. 127.

⁷Ibid., p. 161.

⁸Ibid., p. 172.

⁹Ibid., p. 203.

¹⁰Ibid., p. 225.