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Fiscal Research Center

A Local Dimension to State Tax Reform


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Overview

- Pathways for state tax reform to affect local revenue
- Platform for local government in state reform
 - Size of local government and revenue structure
- What have states been up to?
- Focus: Property tax

Some Pathways for State Reforms to Affect Local Revenue

- Base sharing:
 - Sales/Excise tax – expansion/contraction could affect local revenue
 - 45 States plus DC have a state sales tax; in 36 states there is a local sales tax
 - Much piggybacking with respect to the base
- Crowding:
 - State sales tax rate increases could crowd out local ability to raise rates

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- State level fees and charges could crowd out increases in local fees and charges
 - State income tax could influence the net cost of local property tax where it is deductible
 - Carbon taxes?
- Intergovernmental finance: changes to state revenue could impact flow throughs

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- Mandates
 - TELs
 - School funding and ptax
 - Status of non-profits
 - Lots of ways for state reforms to impact local government revenue

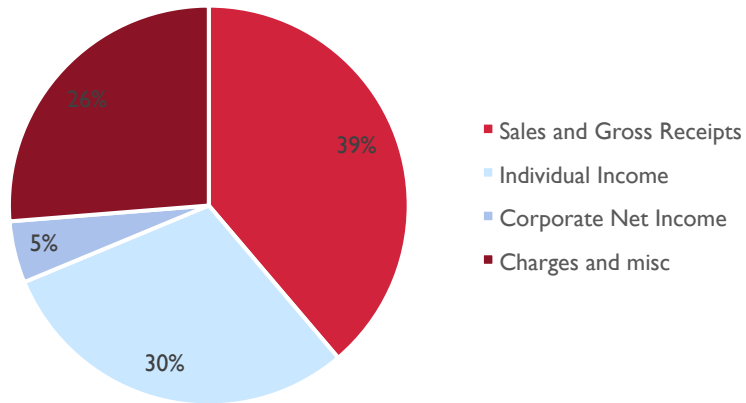
How important are local governments?

- Federal expenditures (2014): \$3.4 trillion
- State: \$2.0 trillion
- Local: \$1.7 trillion

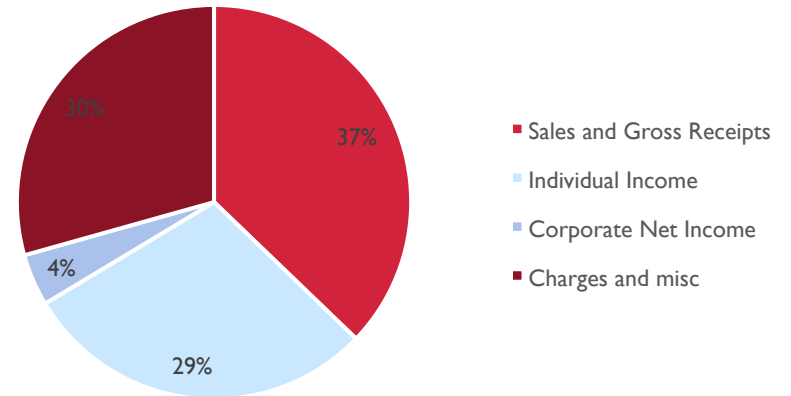
- Local Governments are a player

Composition of OSR

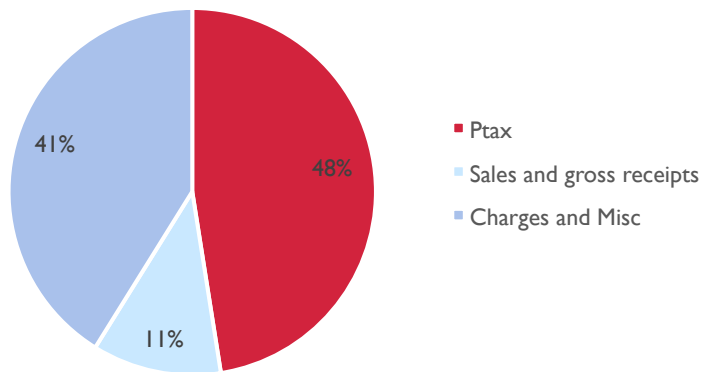
State 2000



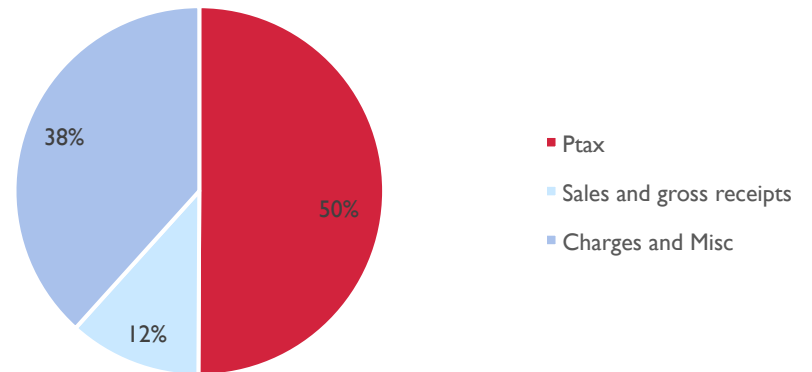
State 2013



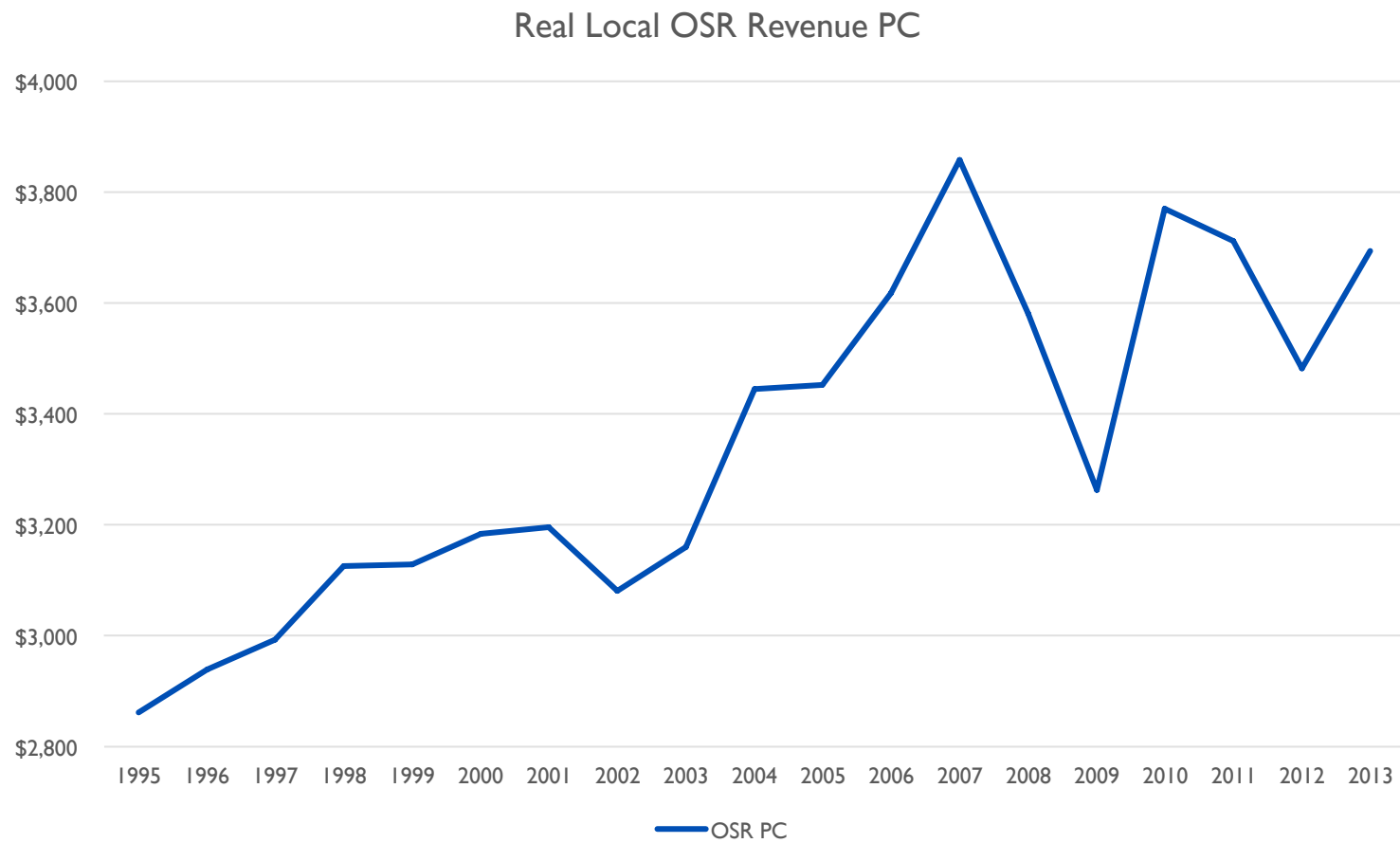
Local 2000



Local 2013



Where have local taxes been headed?



State reforms

- What have states been up to?
 - Dealing with the recession has made state tax reforms tough
 - Personal income tax – typical part of reform packages
 - Sales and use tax – new favorite tax?
 - Corporate taxes – out with the old?
 - Revenue triggers, administrative simplification, estate tax, school finance

With state reform as a backdrop-- what about local taxes?

- Overall revenue reduction (PIT, CIT) could provide more fiscal space for locals
- But—loading up on sales tax and potential for over-use?
- Is there fiscal space for locals?
 - Ptax as the go-to tax
 - Seems to be somewhat less affected by traditional state tax reforms

Property tax-any movement?

- The Great Recession layered on top of tax that is not popular
- Pressures to: reduce compliance, rationalize assessments, respond to calls for equity in school funding, deal with growth of the elderly population, deal with TELs

Can Property Taxes Add Air to the Local Revenue Balloon?

- Property tax may be *the* poster grandfather of TELs
 - Implications?
- States still hold some strings:
 - Non-profit status of property
 - Administration of parts of tax: assessment, capping rates, etc.

Movements?

- North Dakota
- DC discussion
- Connecticut diversification
- Georgia

Resources

- <http://cslf.gsu.edu/files/2016/01/State-Tax-Reform-Efforts-January-2016.pdf?wpdmdl=7207> (State tax reforms, Pathel, Bourdeaux, Wallace, Larson)
- http://www.lincolnst.edu/sites/default/files/pubfiles/property-tax-assessment-limits-full_0.pdf (Ptax limits, Haveman and Sexton)