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PRELIMINARY AND FOR PURPOSES OF DISCUSSION

Briefing Paper

LOCAL NON-PROPERTY TAX SOURCES

The postwar years have witnessed a quest for non-property tax sources by local governments and a movement away from exclusive dependence on property taxes. This continues a general trend in evidence since the 1920's. Efforts since World War II to develop non-property tax sources at the local level have had a significant cumulative impact on the tax revenues of the larger urban jurisdictions, but their effect on aggregate tax revenues has not been striking.

Historical data on the development of local tax revenues since the turn of the Century are presented in Table 1. Comparative statistics for a postwar year (1948) with the most current year for which data are available (1959) for all local governments, and separately for the larger local units are summarized in Table 2. For ready reference purposes, State and local aggregates are also shown.1/

In the 1920's local governments derived substantially all of their tax revenues (97%) from property taxes. Thirty years later, in the 1950's their dependence on this source declined about 10

1/ Property taxation by State governments has been declining. These taxes now provide less than 4 percent of aggregate State tax collections.

Table 1. **LOCAL TAX COLLECTIONS BY MAJOR SOURCES, 1902 - 1959**

I. **AMOUNTS IN MILLIONS OF DOLLARS** II. **PERCENTAGE DISTRIBUTION**

	I. Amounts		Non-Property Taxes				II. Percentage		Non-Property Taxes			
Year	Total	Property Taxes	Total	Sales & Gross Receipts	Income Taxes	All Other Taxes	Total	Property Taxes	Total	Sales & Gross Receipts	Income Taxes	All Other Taxes
1902	704	624	80	---	---	80	100	89	11	----	---	11
1913	1,308	1,192	116	3	---	113	100	91	9	*	---	9
1922	3,069	2,973	96	20	---	76	100	97	3	1	---	2
1927	4,479	4,360	119	25	---	94	100	97	3	1	---	2
1932	4,274	4,159	115	26	---	89	100	97	3	1	---	2
1934	3,933	3,803	130	30	---	100	100	97	3	1	---	3
1936	4,083	3,865	218	90	---	128	100	95	5	2	---	3
1938	4,473	4,196	277	120	---	157	100	94	6	3	---	4
1940	4,497	4,170	327	130	19	178	100	93	7	3	*	4
1942	4,625	4,273	352	133	30	189	100	92	8	3	1	4
1944	4,703	4,361	342	136	31	175	100	93	7	3	1	4
1946	5,157	4,737	420	183	38	199	100	92	8	4	1	4
1948	6,599	5,850	749	400	51	298	100	89	11	6	1	5
1950	7,984	7,042	942	484	71	387	100	88	12	6	1	5
1952	9,466	8,282	1,185	627	93	465	100	87	13	7	1	5
1953	10,356	9,010	1,345	718	103	523	100	87	13	7	1	5
1954	10,978	9,577	1,401	703	129	569	100	87	13	6	1	5
1955	11,886	10,323	1,563	779	150	634	100	87	13	7	1	5
1956	12,992	11,282	1,710	889	164	657	100	87	13	7	1	5
1957	14,286	12,385	1,901	1,031	191	679	100	87	13	7	1	5
1958	15,461	13,514	1,946	1,079	215	652	100	87	13	7	1	4
1959	16,531	14,417	2,114	1,150	230	734	100	87	13	7	1	4

* Less than 0.5 percent.

Source: Bureau of the Census, Governments Division.

**Table 2. TAX COLLECTIONS OF STATE AND LOCAL GOVERNMENTS
FISCAL YEARS 1948 AND 1959
(Dollar Amounts in Millions)**

Revenue Source	1948	1959	Percentage increase 1959 vs. 1948	Percent of total taxes 1948	Percent of total taxes 1959
(1) All State & Local Governments					
TAXES, Total	$13,342	$32,379	142.7	100.0	100.0
Property	6,126	14,983	144.6	45.9	46.3
Non-Property	7,215	17,397	141.1	54.1	53.7
Sales & gross receipts	4,442	10,437	135.0	33.3	32.2
Licenses & other	2,773	6,961	151.0	20.8	21.5
(2) All Local Governments					
TAXES, Total	$ 6,599	$16,531	150.5	100.0	100.0
Property	5,850	14,417	146.4	88.6	87.2
Non-Property	749	2,114	181.7	11.4	12.9
Sales & gross receipts	400	1,150	187.5	6.1	7.0
Licenses & other	349	964	176.2	5.3	5.8
(3) Cities with 25,000 or more Inhabitants 2/					
TAXES, Total	$ 2,622	$ 5,355	104.2	100.0	100.0
Property	2,058	3,911	90.0	78.5	73.0
Non Property	564	1,443	155.9	21.5	27.0
Sales & gross receipts	346	888	156.6	13.2	16.6
Licenses & other	218	556	155.0	8.3	10.4
(4) 41 Cities with 250,000 or more Inhabitants 1/					
TAXES, Total	$ 1,825	$ 3,525	93.1	100.0	100.0
Property	1,370	2,428	77.2	75.1	68.9
Non-Property	455	1,097	141.0	24.9	31.1
Sales & gross receipts	308	714	132.1	16.9	20.3
Licenses & other	148	383	159.5	8.1	10.9

1/ Based on the 1950 Census of Population.
2/ Data for 1948 relate to cities over 25,000 as of 1940 Census; those for 1959, as of 1950 Census.
Note.--Due to rounding detail will not necessarily add to totals

Source: Bureau of the Census, Governments Division.

percentage points, to 87 percent. During the interval, when the aggregate tax-take of local governments about quadrupled, from about $4 billion to about $16 billion, the contribution of taxes other than those on property increased from around $200 million to over $2 billion.

The rise in State and local tax collections has been especially marked since the War. During this period, from 1948 to 1959, aggregate State and local tax collections rose from $13.3 billion to $32.4 billion; local collections alone, from $6.6 billion to $16.5 billion. The latter represents a one and a half fold increase; the former somewhat less.

The contribution of non-property taxes to the aggregate tax revenues of local governments increased from three-fourths of a billion dollars in 1948 to $2.1 billion in 1959, or 182 percent. These taxes supplied 11.4 percent of all local taxes in 1948 and 12.9 percent in 1959. These national percentages obscure the increasing role of non-property taxes in the larger cities and in the political subdivisions of some States. In a number of jurisdictions, they have displaced the property tax as the most important single revenue producer.

The role of non-property taxes in the 1959 tax revenues of local governments, by States, is summarized in Table 3. They range from less than 2 percent in some of the New England States and

Table 3. TAX COLLECTIONS OF LOCAL GOVERNMENTS BY STATES
FISCAL YEAR 1959
(Dollar Amounts in Millions)

State	TAXES Total	Property	Non-Property	Non-Property as a percent of total taxes
Alabama	$ 108.8	$ 59.9	$ 48.9	44.9
Alaska	9.8	7.2	2.6	26.5
Arizona	100.4	92.5	7.8	7.8
Arkansas	63.5	57.9	5.6	8.8
California	2,059.9	1,791.2	268.7	13.0
Colorado	190.4	175.4	15.1	7.9
Connecticut	268.5	265.8	2.7	1.0
Delaware	16.9	15.8	1.1	6.5
District of Columbia	155.3	54.5	100.8	64.9
Florida	366.2	293.6	72.6	19.8
Georgia	174.4	153.1	21.3	12.2
Idaho	56.9	55.2	1.8	3.2
Illinois	1,053.4	898.4	155.0	14.7
Indiana	402.3	397.4	4.8	1.2
Iowa	278.0	271.9	6.1	2.2
Kansas	253.6	245.0	8.6	3.4
Kentucky	131.9	109.1	22.8	17.3
Louisiana	148.6	114.8	33.8	22.7
Maine	81.1	80.2	1.0	1.2
Maryland	247.9	221.0	26.9	10.9
Massachusetts	673.0	659.9	13.1	1.9
Michigan	759.9	744.9	15.0	2.0
Minnesota	373.3	361.0	12.3	3.3
Mississippi	84.1	69.0	15.1	18.0
Missouri	321.2	263.0	58.2	18.1
Montana	83.2	77.7	5.5	6.6
Nebraska	144.1	132.1	11.9	8.3
Nevada	29.8	23.7	6.1	20.5
New Hampshire	61.5	60.5	1.0	1.6
New Jersey	847.3	765.9	81.4	9.6
New Mexico	39.4	29.3	10.1	25.6
New York	2,583.2	2,046.9	536.4	20.8
North Carolina	154.6	147.1	7.5	4.9
North Dakota	58.0	56.5	1.5	2.6
Ohio	838.3	753.8	84.5	10.1
Oklahoma	127.5	120.5	7.0	5.5
Oregon	184.6	176.3	8.3	4.5
Pennsylvania	890.5	658.7	231.8	26.0
Rhode Island	77.0	75.1	1.9	2.5
South Carolina	69.0	62.4	6.6	9.6
South Dakota	74.9	69.6	5.3	7.1
Tennessee	156.9	136.2	20.7	13.2
Texas	697.2	642.9	54.3	7.8
Utah	69.4	65.2	4.2	6.1
Vermont	39.6	37.9	1.8	4.5
Virginia	221.7	174.4	47.4	21.4
Washington	186.8	152.2	34.7	18.6
West Virginia	77.4	66.9	10.4	13.4
Wisconsin	405.4	395.8	9.6	2.4
Wyoming	33.8	31.6	2.3	6.8
Total.......	16,530.4	14,416.7	2,113.7	12.8

Note:--Due to rounding detail will not necessarily add to totals.
Source:Bureau of the Census, Governments Division.

Indiana to 45 percent in Alabama[1/], and about 25 percent in Alaska, New Mexico and Pennsylvania. These percentages include license taxes, widely used particularly in the Southern States. The interstate variety depicted in Table 3 is the product of many factors, including the division of responsibility for governmental services between the State and its political subdivisions, the role of State financial aids in local revenues, the taxing powers granted local units, and the degree of industrialization and urbanization.

Apart from local license taxes which are widespread, and income and sales taxes in a very few States, the non-property tax is principally a city phenomenon. In 1948, when these kinds of taxes supplied only 11.4 percent of the tax revenue of all local government, their contribution to the tax revenues of cities with over 25,000 population was 21.5 percent, and of the 41 cities with over 250,000 population, nearly 25 percent. By 1959 non-property taxes supplied

1/ Alabama presents a kind of special case. It authorizes its counties and municipalities to impose a variety of sales and gross receipts taxes similar to those levied by the State government. These taxes, the most significant of which are the general sales tax, and sales or gross receipts taxes on motor fuel, tobacco products, public utilities, and alcoholic beverages, are in most cases imposed by the local jurisdictions; in some, however, they are levied on their behalf by the State legislature. In addition, the State motor vehicle license tax is collected by local officials, who retain about half of the collections, turning over to the State only its share. The Census data here employed treats the locally retained share as though it were a local tax. Some of these circumstances prevail also in other States, but with less impact on Statewide aggregates than in Alabama.

27 percent of the tax revenues in cities over 25,000 and 31.1 percent in those over 250,000 population. The fact that the rate of increase since the War has been faster in the smaller than in the larger local jurisdictions, means only that the smaller cities were slower to begin using them.

The contribution of non-property taxes to the 1959 tax revenues of the 41 individual cities which had a 1950 population of 250,000 or more are shown in Table 4. Philadelphia, St. Louis, New Orleans, Columbus, Louisville, Toledo and Washington, D. C. each obtained at least half of their tax revenues from non-property taxes.

The search for local non-property taxes has been motivated by a variety of factors. Financing requirements at the local governmental level have been increasing rapidly, more rapidly than property taxation could readily absorb. Dissatisfaction with the fairness of the property tax has been a factor. Another has been appeal of tax diversification for its own sake.

For long decades the property tax has been the object of severe criticism. Its poor performance during the depression of the 1930's contributed to the low esteem in which it was held on the eve of the postwar increase in financing requirements. Subsequent developments, however, have not confirmed the dire predictions of the more outspoken property tax critics. As the foregoing table makes clear, the property tax has held its own as a State and local revenue producer in the postwar years when various new non-property taxes were enacted and expanded. It supplied 45.9 percent of all State and

Table 4. TAX COLLECTIONS OF THE 41 LARGEST CITIES[1/], 1959
(Dollar Amounts in Thousands)

City	TAXES Total	TAXES Property	TAXES Non-Property	Non-Property as a percent of total taxes
Cities having more than 1,000,000 inhabitants in 1950				
New York	$1,397,606	$ 935,144	$ 462,462	33.1
Chicago	237,036	136,729	100,307	42.3
Philadelphia	179,120	83,602	95,518	53.3
Los Angeles	132,711	75,631	57,080	43.0
Detroit	129,432	125,298	4,134	3.2
Total	$2,075,905	$1,356,404	$ 719,501	34.7
Cities having 500,000 to 1,000,000 inhabitants in 1950				
Baltimore	$ 112,478	$ 97,554	$ 14,924	13.3
Cleveland	47,319	45,113	2,206	4.7
St. Louis	59,744	29,573	30,171	50.5
Washington, D.C.	153,193	54,513	98,680	64.4
Boston	146,963	143,628	3,335	2.3
San Francisco	96,197	77,593	18,604	19.3
Pittsburgh	40,259	29,422	10,837	26.9
Milwaukee	45,210	42,256	2,954	6.5
Houston	48,817	42,763	6,054	12.4
Buffalo	50,811	46,401	4,410	8.7
New Orleans	30,159	14,095	16,064	53.3
Minneapolis	33,777	30,264	3,513	10.4
Cincinnati	37,249	19,368	17,881	48.0
Total	$ 902,176	$ 672,543	$ 229,633	25.5
Cities having 250,000 to 500,000 inhabitants in 1950				
Seattle	$ 25,084	$ 13,761	$ 11,323	45.1
Kansas City, Mo.	27,486	13,836	13,650	49.7
Newark	71,997	63,057	8,940	12.4
Dallas	35,946	30,840	5,106	14.2
Indianapolis	15,914	15,261	653	4.1
Denver	33,393	23,449	9,944	29.8
San Antonio	16,094	14,681	1,413	8.8
Memphis	22,937	16,580	6,357	27.7
Oakland	23,997	14,997	9,000	37.5
Columbus	17,379	4,277	13,102	75.4
Portland, Ore.	21,280	16,849	4,431	20.8
Louisville	22,135	9,646	12,489	56.4
San Diego	23,200	12,649	10,551	45.5
Rochester	29,092	27,785	1,307	4.5
Atlanta	18,956	12,403	6,553	34.6
Birmingham	10,502	5,392	5,110	48.7
St. Paul	30,243	27,260	2,983	9.9
Toledo	13,155	3,962	9,193	69.9
Jersey City	36,870	32,923	3,947	10.7
Fort Worth	14,287	12,746	1,541	10.8
Akron	9,724	9,046	678	7.0
Omaha	12,011	9,156	2,855	23.8
Long Beach	14,858	8,356	6,502	43.8
Total	$ 546,540	$ 398,912	$ 147,628	27.0
Total 41 Cities	$3,524,621	$2,427,859	$1,096,762	31.1

1/ Based on 1950 Census of Population.
Source: Bureau of the Census, Governments Division.

local taxes in 1948 and slightly more, 46.3 percent, in 1959. Its performance has, indeed, exceeded all expectations, due in some measure to new construction, higher tax rates, higher property values, improved tax administration and public insistence on more adequate financing of certain programs, notably public education, even at the cost of heavier property taxes.

In States where the property tax base is shared by two or more overlapping jurisdictions, as for example, by cities, counties, and school districts, the pressure for non-property tax revenues has been particularly strong in the jurisdictions with greater tax autonomy, mainly the cities. The single purpose jurisdictions, notably school districts, typically rely almost wholly on the property tax. This has obliged cities serving the same taxpayers to look to other taxes and to non-tax revenue sources. We are here concerned, however, only with tax sources.

The reluctance to place the entire burden of rising local revenue requirements on property is widespread. It is motivated in part by equity consideration. The base of the property tax consists largely of wealth in the form of real property to the exclusion of other forms of wealth. It, therefore, burdens those with real property regardless of their income status, as for example, retired home owners with reduced incomes, and leave untouched those with large amounts of wealth in forms other than real estate.

Political resistance to property tax increases stems also from concern with its effect on location of businesses. Business property frequently accounts for half or more of the property tax base and the fear that high property taxes will deter new business exercises a restraining influence on local governing bodies. A related factor is public dissatisfaction with the administrative shortcomings of the tax. Recent widespread efforts to improve tax assessment procedures--some locally, some prescribed by State legislatures--have not yet enhanced the national reputation of the tax.

The postwar development of local non-property taxes has been concentrated in the consumption and to a lesser degree in personal income tax areas and has been confined to relatively few States. The more important revenue producers for local governments in fiscal year 1959 are summarized in Table 5.

Consumer taxes

The larger part of local non-property revenues is derived from consumer taxes and of these, the most important is the general sales tax. General sales taxes are now imposed at the local level in 13 States and the District of Columbia. Before World War II these taxes had been tried in New York City and New Orleans. Their contribution reached three-fourths of a billion dollars in 1959 and is rapidly approaching the $1 billion level.

Except in New York and Virginia, these local taxes exist alongside State sales taxes, and in five States are administered by the State in conjunction with the collection of its own sales tax. Mississippi introduced this pattern in 1950. Since then it has made

Table 5. LOCAL GOVERNMENT TAX COLLECTIONS IN DETAIL
FISCAL YEAR 1959
(Dollar Amounts in Millions)

	1959		Per
	Amount	% of Total Taxes	Capita
TAXES, Total	$16,531	100.0	$93.73
Property	14,417	87.2	81.75
Non-Property	2,114	12.8	11.98
Sales & gross receipts	1,150	7.0	6.52
Gen. sales & gross receipts	747	4.5	4.24
Selective sales & gross receipts	404	2.4	2.29
Motor fuel	30	0.2	.17
Alcoholic beverages	20	0.1	.11
Tobacco products	53	0.3	.30
Public utilities	233	1.4	1.32
Other	66	0.4	.37
Income	230	1.4	1.30
Motor vehicle & operators licenses	110	0.7	.62
All other	624	3.8	3.54

Note:--Due to rounding, detail will not necessarily add to totals. Per Capita calculations are based on estimated total population of the United States, excluding armed forces overseas, as of July 1, 1959.

Source: Bureau of the Census, Governments Division.

rapid strides, notably in California, Illinois, New Mexico and Utah. The Colorado legislature's effort to make this facility available to taxing jurisdictions in metropolitan Denver was postponed by the Governor's veto when the Supreme Court declined to rule on its constitutionality. It was subsequently (November, 1960) rejected by the electorate.

These local sales taxes typically employ one-half percent and one percent rates but some higher rates are also in use.

The collection of locally imposed sales taxes in conjunction with the State's collection of its own tax appears to be heading for wider acceptance. The uniform base simplifies compliance problems and the simultaneous collection of the local tax adds little to the State's administrative costs. Nominally, at least, this device has an advantage over a locally-shared State tax because it leaves the decision to impose the tax for local governmental purposes in local hands. It enables the electorate to balance the case for increasing taxes and thus leaves scope for intra-state differences in the level of local governmental services. This group of considerations may prove to have theoretical rather than real significance, for where authority has been granted to add a local supplement to the State's sales tax, the tendency to use it has been strong. This appears to be the burden of the California evidence, where the arrangement is almost akin to a State imposed 4 percent tax, with one quarter of the revenue shared with local jurisdictions on the basis of collections. A similar generalization can be made about Illinois.

Local taxes on selected items of consumption, as for example, public utility services, alcoholic beverages, tobacco products and motor fuel are also gaining increased acceptance. Of these, the most important single producer is the group taxes on public utility services, imposed in some cases on the gross receipts of the business organizations, in others on consumers' utility bills. The aggregate yield of utility taxes was approaching a quarter billion dollars in 1959. Apart from the local taxes on motor fuel, none of the others is nationally a significant revenue producer. (See Table 5.)

<u>Income taxes</u>

Local income taxes which now produce about a quarter billion dollars are employed in five States and in only two of these (Ohio and Pennsylvania) are widespread. In Ohio the tax occurs only in cities but in Pennsylvania is prevalent also in boroughs, townships and school districts. Significantly, neither of these States has a State personal income tax. In the three States where the local income tax overlaps a State tax, it occurs in only one city each in two States (Gadsden in Alabama and St. Louis in Missouri) and in eight jurisdictions in the third (Kentucky). Local income taxes are typically imposed at low rates (½% to 1½%) and generally apply only to salaries and wages and to net profits of unincorporated businesses and professions. They generally do not apply to investment income, and in the case of salaries and wages are typically collected through witholding at the source.

While the contribution of income taxes to aggregate local tax revenues is still small, these taxes are becoming significant producers in Pennsylvania and Ohio. In two-thirds of the Ohio municipalities using the tax, its yield exceeds property tax collections, in some cases by a two-fold margin. This is the situation for example in Columbus and Toledo. The income tax has displaced the property tax as the chief revenue producer in Louisville also.

These local income taxes, more properly designated taxes on earned income, offer most potential in industrial areas where wage and salary income is relatively large, especially if the area is without a State income tax. Local taxes on earned income, however, are strongly opposed on the ground that they discriminate in favor of recipients of small earned incomes. They disregard taxpaying ability also because they allow neither personal exemptions nor deductions and are imposed by a uniform tax rate. The $1,000 earned by a part-time sales clerk, constituting her total income, is taxed at the same rate as the last $1,000 of a highly compensated executive's salary. Moreover, local income taxes impose heavy compliance costs on employers who may be required to withold the taxes of more than one jurisdiction from the compensation of the same employee, sometimes at different tax rates. The compliance burden is likely to be especially high when the firm's payroll office serves several business establishments located in different parts of the State.

These conditions pose corresponding problems for tax administration, particularly disproportionate where the taxing jurisdiction is small.

Local income taxation involves also intergovernmental problems with respect to persons who work in one jurisdiction and reside in another. If both jurisdictions impose earnings taxes, double taxation results unless special provisions prevent it. If the earnings are subjected to taxation in the place of employment, double taxation is not apparent but none the less may be present. The individual paying an earnings tax in the jurisdiction of employment is likely to be required to make a tax contribution to his home community as well, albeit under a different label. On the other hand advocates of local taxation of non-resident employees' earnings are quick to point out that the employer's taxing jurisdiction is entitled to a contribution toward the cost of its governmental services because these services make the employment possible.

General considerations

Efforts to develop non-property tax sources at the local government level raise some broad considerations which require exploration.

The use of consumer or income taxes at the local level typically involves additional tax overlapping, adding in some cases a third layer upon existing national and State taxes as in the case of motor fuel, tobacco, and liquor taxes and less often in the case of personal income taxes. Frequently these taxes cannot be administered effectively at the local level, produce intercommunity tax rate differentials, and almost always involve duplicate tax administration and additional compliance burdens for taxpayers.

On the other hand, it can be said in support of these local taxes that they vest political responsibility close to the people, in proximity to political responsibility for expenditure policies. The quantity and quality of local governmental services desired by the local citizenry varies among jurisdictions and local determination of tax policies broadens the scope for local determination. Moreover, the large size of some local jurisdictions mitigates at least in part the arguments against local non-property taxes listed above. This is not to gainsay the diseconomies from the use of miscellaneous taxes which duplicate those levied at the national and State level and may interfere with business location decisions. While the symmetry of a neat separation of revenue sources under which each level of government relies principally on a single group of taxes (as for example, property taxes at the local level or income taxes at the national level) has much appeal, it unhappily does not match the division of responsibility for financing governmental services.

These and related considerations suggest that efforts to assist local jurisdictions in meeting their growing financial requirements ought not to be limited to merely identifying a group of taxes for potential local use and persuading State legislatures to consent to such use. At best, only the large urban places can make effective and economical use of locally administered consumer and income taxes on a significant scale. The search for local non-property tax revenues, therefore, might properly embrace also an inquiry into the availability of alternative solutions, if any, their merits as compared with all variety of locally administered non-property taxes, and including, particularly, the possibilities for utilizing the States' superior tax enforcement facilities for the administration of locally levied taxes.