A COMMISSION REPORT

LOCAL NONPROPERTY TAXES AND THE COORDINATING ROLE OF THE STATE

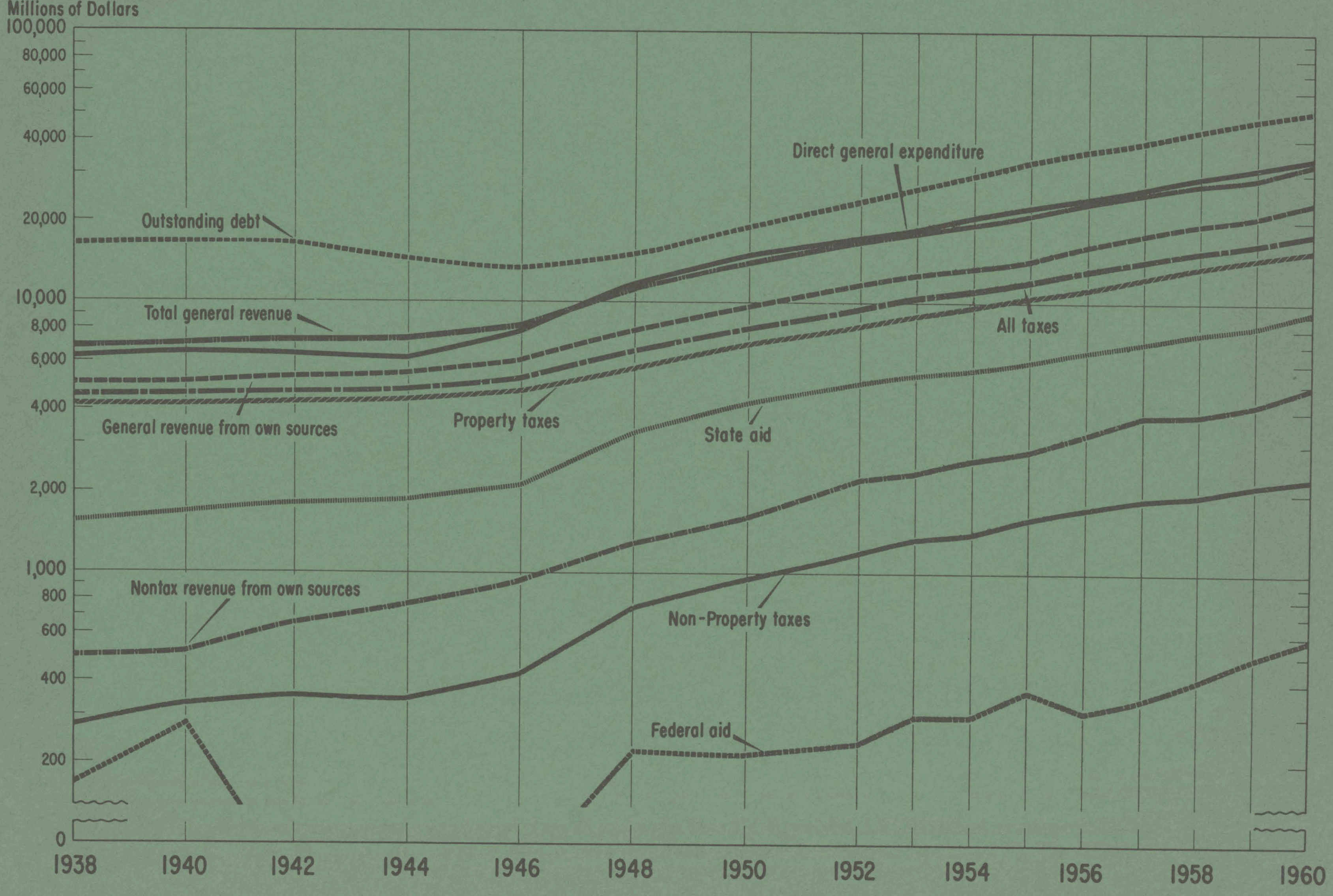
ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

September 1961

A-9 *

SOURCES OF LOCAL GOVERNMENT FINANCING

Selected F.Y. 1938 - 1960



A COMMISSION REPORT

LOCAL NONPROPERTY TAXES AND THE COORDINATING ROLE OF THE STATE

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

September 1961

A-9*

* Implementing Suggested State Legislation Added

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
Washington 25, D. C.

PREFACE

Under Public Law 86-380 the Advisory Commission on Intergovernmental Relations has the duty, among others, "to recommend methods of coordinating and simplifying tax laws and administrative practices to achieve a more orderly and less competitive fiscal relationship between the levels of government and to reduce the burden of compliance for taxpayers." In this report the Advisory Commission recommends some policy guidelines on the coordination of local nonproperty taxes for the consideration of the Governors and State legislatures.

The term "nonproperty taxes" includes a variety of local levies such as those on sales, incomes, cigarettes, liquors, motor fuels, public utility services and admissions to places of amusement. Inter-local and State-local coordination of these taxes is one of the pressing intergovernmental problems in many States. The problem has come to the fore principally during the last decade, as local governments have sought to relieve the growing pressure on their traditional revenue producer, the general property tax, by recourse to miscellaneous nonproperty taxes.

With the possible exception of the large city, a local government finds it difficult to use these taxes effectively because they involve it in competition with neighboring jurisdictions as well as high enforcement costs and heavy taxpayers' compliance burdens. This report explains how State governments can help their political subdivisions to overcome some of these obstacles. In addition, it brings together the basic data on the use of local nonproperty taxes in the fifty States, in line with the Commission's obligation to serve as a clearinghouse of information on intergovernmental problems.

The staff work for this report was conducted by L. L. Ecker-Racz, Research Associate.

This report was adopted at a meeting of the Commission held in Washington, D. C. on September 15, 1961.

Frank Bane
Chairman

CONTENTS

		Page
	Sources of Local Government Financing	Frontispiece
	Preface	iii
	List of Tables	v
1.	STATEMENT OF THE PROBLEM	1
2.	CONCLUSIONS AND RECOMMENDED GUIDELINES	5
3.	LOCAL GOVERNMENT EXPENDITURES	8
4.	SOURCES OF LOCAL FINANCING	13
	Indebtedness	13
	Current Revenues	13
	State Aid	16
	Federal Aid	18
	Revenues from Own Sources	18
	Property Taxes	19
5.	LOCAL NONPROPERTY TAXES	24
	Historical Development	24
	Types of Nonproperty Taxes	28
	Consumer Taxes	33
	Income Taxes	37
6.	THE COORDINATING ROLE OF THE STATE	40
	Inter-local Coordination	42
	Statewide Coordination	44
	Technical Assistance	45
	Tax Administration	45
	Tax Supplement	46
	Tax Credit	47
	Tax Sharing	49
7.	SUMMARY OF FINDINGS	51
8.	STATISTICAL AND BIBLIOGRAPHICAL NOTE	55
9.	APPENDIX TABLES	57
10.	SUGGESTED STATE LEGISLATION	69

TABLES

Page

1. PUBLIC EMPLOYMENT AND PAYROLLS, BY LEVEL OF GOVERNMENT: Selected Years 1946 - 1960.............. 8

2. LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURE: Selected Fiscal Years 1927 - 1960.................... 10

3. LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURE, BY FUNCTION: Selected Fiscal Years 1927 - 1960....... 11

4. LOCAL GOVERNMENT GENERAL REVENUE, BY SOURCE: Selected Years 1927 - 1960............................ 14

5. PERCENTAGE DISTRIBUTION OF THE GENERAL REVENUE OF LOCAL GOVERNMENTS, 1957............................ 15

6. STATE AID AS A PERCENT OF LOCAL GENERAL REVENUE, 1960: Frequency Distribution of States............... 16

7. STATE INTERGOVERNMENTAL EXPENDITURE, BY FUNCTION: Selected Years 1932 - 1960............................ 17

8. LOCAL TAX COLLECTIONS AS PERCENT OF STATE-LOCAL TAX COLLECTIONS, 1960: Frequency Distribution of States... 19

9. PROPERTY TAXES IN LOCAL GENERAL REVENUE............... 20

10. CITY GOVERNMENT TAX COLLECTIONS: 1950 - 1960......... 21

11. LOCAL NONPROPERTY TAXES AS PERCENT OF TOTAL LOCAL TAXES, 1960: Frequency Distribution of States........ 23

12. LOCAL TAX COLLECTIONS BY MAJOR SOURCES: Selected Years 1927 - 1960............................ 26

13. TAX REVENUES OF CITIES, 1960, By Population Size Classes........................... 27

14. TAX COLLECTIONS OF THE 50 LARGEST CITIES, 1960........ 29

15. COUNTYWIDE PER CAPITA NONPROPERTY TAX REVENUES OF ALL LOCAL GOVERNMENTS, BY 1960 POPULATION SIZE CLASSES, BY STATES, 1957......................... 31

TABLES (concluded)

Page

16. TAX REVENUE OF LOCAL GOVERNMENTS BY TYPE OF TAX, 1957 32

17. LOCAL GENERAL SALES TAX RATES, January 1, 1961 34

18. LOCAL GASOLINE TAX RATES, January 1, 1961 36

19. MUNICIPAL INCOME TAXES: TAX RATES, April 1, 1961 38

APPENDIX TABLES

1. LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURE BY STATE: AMOUNT, PER CAPITA, PER $1,000 OF PERSONAL INCOME, AND AS A PERCENT OF STATE AND LOCAL DIRECT GENERAL EXPENDITURE - 1960 57

2. STATE INTERGOVERNMENTAL EXPENDITURE BY STATE: TOTAL, PER CAPITA AND AS A PERCENT OF STATE GENERAL EXPENDITURES AS A PERCENT OF LOCAL GENERAL REVENUE - 1960 59

3. LOCALLY COLLECTED GENERAL REVENUE BY STATE: AMOUNT, PER CAPITA, AND PER $1,000 OF PERSONAL INCOME - 1960 61

4. LOCAL GOVERNMENT TAX REVENUE BY STATE: AMOUNT, PER CAPITA, PER $1,000 OF PERSONAL INCOME, AND AS A PERCENT OF STATE AND LOCAL REVENUE - 1960 63

5. TAX COLLECTIONS OF LOCAL GOVERNMENTS BY STATES - 1960. 65

6. NONPROPERTY TAX REVENUE OF LOCAL GOVERNMENTS BY STATE: AS A PERCENT OF STATE AND LOCAL TOTAL TAX REVENUE AND NONPROPERTY TAX REVENUE - 1960 67

7. FIGURE: STATE AND LOCAL GOVERNMENT FINANCES 69

LOCAL NONPROPERTY TAXES AND THE COORDINATING ROLE OF THE STATE

1. STATEMENT OF THE PROBLEM

Financing local government in the years ahead poses one of the more pressing intergovernmental problems. Local governments' needs are increasing rapidly and will continue to out pace their resources. It will require intergovernmental action to correct this imbalance between local needs and local resources.

In 1960 the political subdivisions of the fifty States disbursed $33.9 billion in providing general government service. Ten years ago they were spending only $14.8 billion; twenty years ago only $6.5 billion. During the 1950 decade their general government expenditures increased, on the average, 8.9 percent per year. This increase notwithstanding, broadly based pleas for additional and improved governmental programs went unheeded in many communities.

Local governments' revenue needs will continue to expand at a fast rate, certainly through the 1960's. The nation's population is increasing and concentrating in urban places where unit costs are high. The role of government is widening and in the United States civil government is primarily a State-local responsibility. Local governments' share is two-thirds of the State-local total. A continuation of the expenditure growth rate recorded during the 1950's, (4.6 percent per annum at constant prices) would raise local expenditures to $53 billion by 1970, even without any allowance for further price increases.

Growth is not peculiar to local governments. The expenditure statistics cited quantify a familiar national phenomenon. Increasing governmental costs have not been confined to a single level of government, nor limited to the postwar years. Growth in the volume of government activity has been a general occurrence throughout most of our lifetime. Nor has the behavior of governmental activity differed materially from that of other phases of national economic life. Production, employment, consumption, savings, economic activity generally, are each attaining levels few anticipated as recently as ten years ago.

National economic growth, of which rising local expenditure is but one manifestation, generates part of its own fiscal solution.

It automatically increases the revenue yield of existing tax rates. A substantial revenue gap, however, remains because local requirements are increasing faster than the economy while the revenue yield of local taxes does not even keep pace with it. Local governments find it difficult to bridge this gap in the context of existing institutional and economic restraints. It remains for adjustments in intergovernmental arrangements to slacken these restraints.

In 1960, when local governments spent $33.9 billion on general government service, they raised only $22.9 billion from their own general revenue sources. They depended for $10 billion, nearly one-third of their total financing requirements, on intergovernmental aids. To state this fact is not to imply that it is cause for concern in itself. Ours is a cooperative federalism in which the adjustment of functional responsibilities and intergovernmental aids is a continuing process. It serves to give financial balance to the family relationship between States and their political subdivisions and to the interdependence of the Federal, State, and local governments. The social, economic, and political transformation since World War II has affected unevenly the needs and resources of the governments comprising this federalism, broadening the need for these readjustments. Here we are concerned with adjustments required to accommodate the increasing task of local governments without jeopardy to the delicate balance between the division of powers and responsibilities among constituent governments,--an intergovernmental task.

While all governments--Federal, State, and local--have shared and will continue to share in expenditure increases, the financing of these increases poses particularly difficult problems for local governments. They have only such taxing powers as their respective State constitutions and legislatures have granted them. In most States, they are severely restricted and with few exceptions are largely limited to the property tax. While these limitations are of each State's own choosing, they are nonetheless real. Moreover, the property tax itself labors under serious handicaps, some real, some contrived.

In 1960, local governments relied on nonproperty taxes for one-eighth of the tax revenue they raised themselves. Most of them find such taxes difficult to impose and enforce. Nonetheless, local governments across the country are searching for more of them. Some, in a few States, have made substantial strides in this direction.

The development of local nonproperty taxes encounters serious restraints stemming out of the limited territorial jurisdiction of local governments. It entails some hazards for State and national economic policies over and above the aggravated tax overlapping, for it affects the competitive relationship of local business enterprises. It involves, moreover, heavy compliance burdens for taxpayers and the uneconomical use of local governments' limited tax enforcement resources.

The imbalance at the local level between rapidly rising revenue requirements and limited taxing resources has long been recognized as the central problem in State-local relations. A redressing of this balance will necessarily involve numerous variables, combined in differing proportions in the several States.

Interstate variety in State-local fiscal relations is the hallmark of our governmental system. Many would say, and with good reason, that it is its strength. Under the system, each State develops its own arrangements for enabling its local governments to discharge the obligations it places upon them. The State develops these arrangements with benefit of a kit of tools and techniques. The contents of the kit are more or less common among the States. It is their application--the combinations and permutations in their use, their adaptation to the different circumstances prevailing in the several States--that varies.

In this report it is the Commission's objective to assess some of these tools, those in the tax area, to identify their strength and weakness. Our purpose is to uncover the opportunities available to States to facilitate the use of nonproperty taxes by local governments. Specifically, we seek to identify techniques, devices and procedures available to State governments for assisting their political jurisdictions in making effective use of consumer, income and excise taxes with minimum violence to local fiscal autonomy, effective tax administration, taxpayers' convenience, and competitive business relationships between communities.

We emphasize the restricted scope of the present report. State-local relations involve many aspects of public policy and we shall be returning to them, one by one, as the Commission makes progress in complying with its mandate from the Congress.

The satisfactory resolution of the revenue needs of local governments, their ability to function in a manner compatible with State and national interests, will involve more than tax mechanics. It will depend on progress in numerous directions, including the reorganization of local governmental units themselves into structures more appropriate for contemporary and prospective requirements. Another area requiring attention is the intergovernmental division of functional responsibilities and financial resources. We shall necessarily need to address ourselves to these problems as well, in the not too distant future. Here their existence can only be recognized; it cannot be dealt with.

Within the more restricted area of taxation itself, a variety of problems require consideration, many of which we bypass at this time. Perhaps the most important of these at the local government level relates to the property tax, to the policies and practices which would enable this historic workhorse of local government finance to perform more fairly and in better harmony with economic and fiscal goals. In recognition of its urgency, we have already assigned it a high priority in our work program.

To give perspective to the role of nonproperty taxes in local government financing, we follow the statement of our conclusions with a panoramic view of recent local expenditure and financing developments before examining these local taxes in detail.

2. CONCLUSIONS AND RECOMMENDED GUIDELINES

This is a report on State-local tax relations. It concerns the coordinating techniques State governments can use to assist their political subdivisions in making more effective and less damaging use of such nonproperty taxes as those on retail sales, tobacco products, admissions, personal incomes and business activities.

The fiscal problem at the local level can be simply put. Local governments have a large share of the responsibility for civil government but lack commensurate revenue resources. For every dollar they spend, they raise only 70 cents from their own local sources.

In 1960, when civil government in the United States cost about $63 billion, 54 percent of the expenditure took place at the local level, 28 percent at the State and 18 percent at the Federal level. The expenditures at the State level were financed, in part, with Federal financial aid (grants) and at the local level, with benefit of State and Federal aid.

Local expenditures have increased from $6.5 billion in 1940 and $14.8 billion in 1950, to around $40 billion this (1961-62) fiscal year. They will continue to rise rapidly, to outrun the yield of local governments' own traditional revenue sources.

In 1960, the $32.9 billion local revenue available for general government came 48 percent from property taxes, 30 percent from State and Federal aid, 7 percent from nonproperty taxes and 15 percent from non-tax sources. Despite the record yield of property taxes and despite sharp increases in State grants-in-aid and shared revenues, many local jurisdictions were able to finance their own operations only by recourse to nonproperty taxes, which generally are not well suited for local use.

While local nonproperty tax collections now aggregate annually only around $2.5 billion, they are certain to grow because local requirements will continue to mount and because more fundamental adjustments in the State-local divisions of responsibility for functions and in State financial aid are likely to lag.

The mushrooming of miscellaneous kinds of local taxes across the country poses problems of public policy and affords State governments an opportunity to foster State and national objectives by maximizing the effectiveness and minimizing the adverse results of local tax practices.

Local sales, income, and excise taxes add still another layer to existing tax overlapping. While a clear cut separation of revenue sources, under which each level of government has its own tax preserve immune from encroachment by other levels, is an unrealistic objective, the case for avoiding needless tax overlapping needs no demonstration.

Many local nonproperty taxes distort competitive business relationships because the local taxing jurisdiction, even the very large city, is typically smaller than the economic area of which it is a part. Its taxes, therefore, handicap local business firms in their competition with firms beyond the city line. Local taxes typically entail high administrative costs for government and heavy compliance burdens for taxpayers, and all the while are not well administered. Furthermore, the widespread use of these taxes handicaps State government itself, through its adverse impact on the State's economy and by limiting its freedom in shaping its own tax system.

The interstate variation in division of functions, taxes and financing arrangements and the intrastate variation among different local jurisdictions preclude the formulation of generally applicable prescriptions for State coordination of local taxes. No solution is likely to be useful in all situations in all States. It is practicable, however, to set forth some general guidelines, potentially applicable to some situation in some States. We suggest the following:

(1) The case for most nonproperty taxes is strongest in the large urban places. Even here, these taxes are best imposed cooperatively by a group of economically interdependent jurisdictions. Therefore, the city and the other jurisdictions comprising an economic area should be provided with (a) uniform taxing powers and (b) authority for cooperative tax enforcement. The States should take active leadership in promoting the pursuit of coordinated tax policies and practices by these economically interdependent jurisdictions.

(2) In States where a particular tax, such as the sales or income tax, is in widespread use by local governments and is simultaneously used also by the State, the most promising coordinating device is the local tax supplement to the State tax. It gives local jurisdictions access to the superior enforcement resources of the State and eases taxpayer compliance but leaves the decision to impose the tax to local initiative.

(3) In situations where a particular nonproperty tax is widely used locally but the State does not itself use the same tax, the State can nonetheless help local jurisdictions by facilitating the pooled administration of the separate local taxes by a State administrative agency; alternatively, it can authorize local jurisdictions to join in creating such an administrative agency for themselves.

(4) States can minimize needless variety among local nonproperty taxes by accompanying the authorization for using them with generally applicable specifications with respect to their structure (tax base, exemptions, etc.) and administrative features.

(5) Individual States' tax policy should aim to limit local government to the more productive taxes. Local jurisdiction should be discouraged from levying many kinds of different taxes, none of which produces enough to warrant reasonably good enforcement. Extensive tax diversification is not practicable at the local level, especially in the smaller jurisdictions.

(6) States should provide their local units with technical assistance by serving as a clearinghouse of information on tax experience in other parts of the State and country, by providing training facilities for local tax personnel, by giving them access to State tax records, and where appropriate, by employing sanctions against State taxpayers who fail to comply with local tax requirements.

(7) While the tax sharing device may run a poor second to grants-in-aid where the objective is to provide State financial assistance to local units on a stable basis, it has distinct advantages as a substitute for locally imposed taxes where they are widespread within the State, especially if the independently imposed local tax rates tend to be uniform.

(8) The tax credit device affords little scope for State-local tax coordination. Its chief value is in coordinating the use of the same tax by overlapping local units, as for example, county and city sales taxes, and for reconciling the competing taxing jurisdiction of two or more States, as in the case of State taxation of the income of nonresidents.

3. LOCAL GOVERNMENT EXPENDITURES

In fiscal year 1960 State and local governments expended $51.9 billion for general government purposes. The Federal Government contributed about $7 billion in grants and shared revenues to the financing of these expenditures.

The Federal Government's own direct expenditures for civil government account for a relatively small part of national civil government aggregates and of its own fiscal operations. Apart from war connected costs, major national security, veterans' benefits, and interest and the $7 billion financial aid to State and local governments noted above, Federal expenditures in fiscal year 1960 aggregated less than $11 billion. The corresponding total was about $7 billion in 1950. That year State and local expenditures (including interest) were just short of $23 billion. Thus, between 1950 and 1960, when the direct expenditures of State and local government increased by 128 percent, Federal direct expenditures for civil government (which excludes grants-in-aid) rose less than 50 percent. The provision of civil government services is largely a State and local activity.

Statistics on government employment illuminate this situation. In October 1960, the Federal Government accounted for only 27.5 percent of public civilian employment and for 33.5 percent of non-military governmental payrolls. During the 1950 decade, when Federal civilian employment (including employees abroad) increased less than 15 percent, the number of State and local government employees, each, increased by about 50 percent. While the Federal civilian payroll rose by 82 percent, that of State and local governments moved up by 142 percent.

TABLE 1. PUBLIC EMPLOYMENT AND PAYROLLS, BY LEVEL OF GOVERNMENT
Selected Years 1946 - 1960

	EMPLOYEES (in thousands)				MONTHLY PAYROLL (in millions)			
October of year	Federal (civilian) 1/	State and local 2/ Total	State	Local	Federal (civilian) 1/	State and local 2/ Total	State	Local
1946	2,434	3,567	804	2,762	$ 571.5	$ 584.0	$128.0	$ 456.0
1948	2,076	3,966	963	3,002	533.9	795.1	184.9	610.1
1950	2,117	4,285	1,057	3,228	613.4	914.6	218.4	696.2
1952	2,583	4,522	1,103	3,418	855.9	1,123.7	270.8	852.9
1954	2,373	4,859	1,198	3,661	784.8	1,318.3	314.6	1,003.6
1956	2,410	5,275	1,322	3,953	943.7	1,565.7	381.6	1,184.1
1958	2,405	5,892	1,469	4,423	1,091.4	1,885.8	465.3	1,420.5
1960	2,421	6,387	1,592	4,795	1,117.8	2,215.0	544.9	1,670.1

1/ Includes civilian employees outside the United States.
2/ Statistics for local governments are subject to sampling variation.

Source: Bureau of the Census, Governments Division.

The development of local expenditures in recent years and their relationship to State and local expenditure aggregates is summarized in Table 2. They remained relatively stable around $6 billion per year from the late 1920's through World War II. Thereafter they increased rapidly, approaching $15 billion by 1950 and $30 billion by 1958. This fiscal year (1962) they are expected to approximate $40 billion.

The local share of combined State-local expenditures has remained fairly stable over most of this period. Throughout the postwar years it has been constantly around 66 percent. It had been higher before World War II, around 85 percent at the turn of the century, 80 percent in the 1920's, and 70 percent in the late 1930's, where it remained until the end of the War.

The postwar increase in local expenditure aggregates has been the result of many factors, including population increases, growing urbanization, an improved level of service and rising prices. On a per capita basis, local expenditures approximately doubled during the 1950's, from $97 to $189. In terms of constant prices, the per capita increases were less marked, from $116 in 1950 to $152 in 1960, about 31 percent.

Since the War, the share of national income devoted to the local government function has moved upward. Currently local expenditures are equivalent to about eight percent of national income. This is about a third higher than the six percent for the early 1950's and is about the same as the relationship during the years immediately preceding World War II. Considerably higher ratios prevailed, of course, during the depression years when national income contracted at a faster rate than local expenditures.

Table 3 makes clear that by far the costliest local government function is education. It is responsible for 45 percent of local expenditures. Its relative role has risen rapidly, from 35 percent in 1940 and nearly 40 percent in 1950. During the 1950's when total local expenditure rose by 133 percent, education costs increased 167 percent. Investment in school plant has been an important factor. The only other functions which maintained their relative importance in local expenditures during the 1950's were health and hospitals and parks and recreation. Both increased at a faster rate than local expenditures in the aggregate.

No local function even approaches education in costliness. In 1960, highways, the second costliest activity, accounted for 9.9 percent of expenditures, followed by police and fire protection, 7.7 percent, public welfare, 6.4 percent, and health and hospitals,

TABLE 2. LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURE
Selected Fiscal Years 1927 - 1960

Fiscal year	Local gen. expenditure ($000,000)	State & local gen. expenditure ($000,000)	Local as a % of State & local gen. expenditure 1/	Per capita local gen. expenditure 2/	Local gen. expenditure as a % of national income	Per capita local gen. expenditure in 1954 prices 3/
1927	5,830	7,210	80.9	$ 48.98	n.a.	n.a.
1932	5,800	7,765	74.7	46.46	13.6	$117.03
1934	5,172	7,181	72.0	40.93	10.6	95.63
1936	5,421	7,644	70.9	42.33	8.4	100.31
1938	6,181	8,757	70.6	47.61	9.1	109.70
1940	6,499	9,229	70.4	49.19	8.0	112.05
1942	6,421	9,190	69.9	47.61	4.7	95.60
1944	6,197	8,863	69.9	44.78	3.4	82.01
1946	7,875	11,028	71.4	55.70	4.4	88.41
1948	11,498	17,684	65.0	78.41	5.1	98.88
1950	14,754	22,787	64.7	97.27	6.1	116.21
1952	17,444	26,098	66.8	111.09	6.0	117.18
1953	18,616	27,910	66.7	116.62	6.1	119.61
1954	20,593	30,701	67.1	126.79	6.8	126.79
1955	22,534	33,724	66.8	136.35	6.8	133.41
1956	24,392	36,711	66.4	145.83	7.0	134.28
1957	26,604	40,375	65.9	156.22	7.3	136.80
1958	29,257	44,851	65.2	168.89	8.0	143.98
1959	31,421	48,887	64.3	178.16	7.9	148.10
1960	33,931	51,876	65.4	188.53	8.1	151.80

n.a. - Not available

1/ To eliminate duplication, transactions between State and local governments have been excluded.

2/ Computations based on estimates of the population of continental United States as of July 1 of the years indicated. For reported years from 1940 through 1955, the population figures so used are inclusive of armed forces overseas. Exclusion of these forces beginning with 1956 data makes the per capita amounts shown for that year about 0.5 percent greater than they would be if computed on the same basis as the 1940-1955 amounts.

3/ On the basis of U. S. Department of Commerce implicit price deflators for State and local government purchases of goods and services.

Source: Bureau of the Census, Governments Division.

TABLE 3. LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURE, BY FUNCTION: Selected Fiscal Years 1927 to 1960
(Dollar Amounts in Millions)

Item	1927		1940		1950		1960		Percentage increase 1950 to 1960
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	
Education	$2,017	34.6	$2,263	34.8	$5,819	39.4	$15,162	44.7	160.6
Highways	1,295	22.2	780	12.0	1,745	11.8	3,358	9.9	92.4
Public welfare	111	1.9	629	9.7	1,374	9.3	2,183	6.4	58.9
Health and hospitals	185	3.2	309	4.8	801	5.4	1,899	5.6	137.1
Police and local fire protection	466	8.0	566	8.7	1,179	8.0	2,607	7.7	121.1
Sanitation	312	5.4	207	3.2	834	5.7	1,727	5.1	107.1
Natural resources	---	---	74	1.1	202	1.4	347	1.0	71.8
Local parks and recreation	153	2.6	162	2.5	304	2.1	770	2.3	153.3
Housing & community redevelopment	---	---	230	3.5	452	3.1	850	2.5	88.1
General control	316	5.4	410	6.3	724	4.9	1,459	4.3	101.5
Interest on general debt	501	8.6	523	8.0	349	2.4	1,134	3.3	224.9
Other and unallocable 1/	474	8.1	346	5.3	971	6.6	2,434	7.2	150.7
Total direct general expenditure	5,830	100.0	6,499	100.0	14,754	100.0	33,931	100.0	130.0

1/ Includes expenditure for non-highway transportation, general public buildings, libraries, civil defense and disaster relief, regulatory activities, etc.

Source: Bureau of the Census, Governments Division.

5.6 percent. These five items account for three-fourths of the cost of local government. National aggregates for local expenditures obscure wide interstate variations, which in turn are the result of differences in the division of responsibilities between the State and its political subdivisions, in the quantity, quality and variety of services provided, and in price and wage levels.

It was noted above that local governments account for nearly two-thirds of State and local direct expenditures for general government. This average, however, embraces significant differences between the States. In 1960, the local government share ranged from 34 percent in Hawaii and 38 percent in Delaware to 77 percent in New Jersey.

The statistics on local expenditures on a per capita basis and in relation to personal income, presented in Appendix Table I, document the difficulty of generalizing about the relationship between interstate variations in local expenditures and the division of responsibility among State and local governments.

Per capita expenditures in 1960 ranged from $85 in North Carolina to $282 in New York. In North Carolina local governments accounted for a relatively small part and in New York for a relatively large share of governmental expenditures. In North Carolina these expenditures absorbed a relatively small part, and in New York a relatively large part of personal incomes. In New Jersey, on the other hand, where local governments carried a larger share of governmental costs than in any other State, per capita local expenditures ranked eleventh among the 50 States. New Jersey is one of the high income States and the expenditures of its local governments in terms of personal income were exceeded in 34 States.

We cite these variations to underscore the fact that the problem of financing local government embraces more than the division of responsibilities between the State and its political subdivisions. It involves also differences in economic resources available for taxation and in the share of those resources allocated to local governments. Accordingly, we turn next to methods employed in financing local government.

4. SOURCES OF LOCAL FINANCING

Local governments finance their activities from locally raised revenues, State and Federal aid, and borrowing. Generally, they may not engage in deficit financing of operation and maintenance costs and borrow only for capital outlay purposes. Some engage in short term borrowing in anticipation of tax collections.

Indebtedness. In recent years, the security flotations of local governments have ranged around $6 billion a year. This includes borrowings for public utility and toll enterprises, as well as general government facilities. The volume of their borrowing has about doubled during the past decade. Annual debt retirements now exceed $2.5 billion. Between the end of 1950 and 1960, the indebtedness of local governments has risen from $18.8 billion to $51.2 billion. The $32.4 billion increase in liabilities is about equal to half of the $65 billion invested in capital improvements during the decade.

Current Revenues. The current revenue of local governments for general government purposes totaled $32.9 billion in 1960. It has been rising at a rapid rate, paralleling the rise in expenditures. The corresponding total was $21 billion five years earlier, $14 billion in 1950 and about $7 billion during the War years (Table 4). Local governments raise about 70 percent of their current revenues from their own sources. This proportion has not changed since the War. It had been higher in earlier years, around 90 percent before the depression and around 75 percent thereafter, including the War years.

Approximately 30 percent of the current revenue of local governments is State and Federal aid, chiefly the former. State aid includes, of course, some funds which originated in Federal aid to States. The composition of current revenues for general government purposes (derived from Table 4) was as follows in 1960:

	Amount (billions)	Percent of total
State aid	$ 9.4	28.5
Federal aid1/	0.6	1.8
From local sources		
Property taxes	15.8	48.1
Other taxes	2.3	6.9
Non-tax revenues	4.8	14.7
Total............	$ 32.9	100.0

1/ Includes only grants-in-aid directly to local governments. Federal expenditures for capital improvements in communities, as reported in the Budget Message of the President for 1960 (Page M 18), including long term loans under various programs and highway grants in urban areas, aggregated about $2 billion in 1960.

TABLE 4. LOCAL GOVERNMENT GENERAL REVENUE, BY SOURCE: Selected Years 1927 to 1960

Fiscal year	Intergovernmental Revenue		From local sources					Total general revenue	Increase or decrease (-) in debt during year
	From Federal government	From State governments	Total	TAXES			Other general revenue		
				Total	Property	Other			
			Amount ($000,000)						
1927	9	596	$ 5,298	$ 4,479	$ 4,360	119	819	5,903	929
1932	10	801	4,879	4,274	4,159	115	605	5,690	9
1934	83	1,318	4,419	3,933	3,803	130	486	5,820	-826
1936	229	1,417	4,533	4,083	3,865	218	450	6,179	306
1938	167	1,516	4,968	4,473	4,196	277	495	6,651	6
1940	278	1,654	5,007	4,497	4,170	327	510	6,939	162
1942	56	1,780	5,286	4,625	4,273	352	661	7,122	-337
1944	28	1,842	5,470	4,703	4,361	342	767	7,340	-1,080
1946	53	2,092	6,082	5,157	4,737	420	925	8,227	-600
1948	218	3,283	7,872	6,599	5,850	749	1,273	11,373	1,133
1950	211	4,217	9,586	7,984	7,042	942	1,602	14,014	1,979
1952	237	5,044	11,671	9,466	8,282	1,185	2,205	16,952	1,332
1953	300	5,384	12,687	10,356	9,010	1,344	2,331	18,371	2,731
1954	298	5,635	13,629	10,978	9,577	1,401	2,651	19,562	3,374
1955	368	5,987	14,737	11,886	10,323	1,563	2,851	21,092	3,738
1956	309	6,590	16,238	12,992	11,282	1,710	3,246	23,137	2,909
1957	343	7,196	17,866	14,286	12,385	1,901	3,580	25,406	3,323
1958	404	7,828	19,345	15,461	13,514	1,946	3,885	27,577	3,798
1959	489	8,250	20,733	16,531	14,417	2,114	4,202	29,472	4,387
1960	592	9,361	22,912	18,081	15,798	2,283	4,831	32,866	4,232
			Percentage Distribution						
1927	0.2	10.1	89.8	75.9	73.9	2.0	13.9	100.0	
1932	0.2	14.1	85.7	75.1	73.1	2.0	10.6	100.0	
1934	1.4	22.6	75.9	67.6	65.3	2.2	8.4	100.0	
1936	3.7	22.9	73.4	66.1	62.6	3.5	7.3	100.0	
1938	2.5	22.8	74.7	67.3	63.1	4.2	7.4	100.0	
1940	4.0	23.8	72.2	64.8	60.1	4.7	7.3	100.0	
1942	0.8	25.0	74.2	64.9	60.0	4.9	9.3	100.0	
1944	0.4	25.1	74.5	64.1	59.4	4.7	10.4	100.0	
1946	0.6	25.4	73.9	62.7	57.6	5.1	11.2	100.0	
1948	1.9	28.9	69.2	58,0	51.4	6.6	11.2	100.0	
1950	1.5	30.1	68.4	57.0	50.2	6.7	11.4	100.0	
1952	1.4	29.8	68.8	55.8	48.9	7.0	13.0	100.0	
1953	1.6	29.3	69.1	56.4	49.0	7.3	12.7	100.0	
1954	1.5	28.8	69.7	56.1	49.0	7.2	13.6	100.0	
1955	1.7	28.4	69.9	56.4	48.9	7.4	13.5	100.0	
1956	1.3	28.5	70.2	56.2	48.8	7.4	14.0	100.0	
1957	1.4	28.3	70.3	56.2	48.7	7.5	14.1	100.0	
1958	1.5	28.4	70.1	56.1	49.0	7.1	14.1	100.0	
1959	1.7	28.0	70.3	56.1	48.9	7.2	14.3	100.0	
1960	1.8	28.5	69.7	55.0	48.1	6.9	14.7	100.0	

Source: Bureau of the Census, Governments Division

These are aggregates for the 90,000 local jurisdictions which comprise local government in the United States. The patterns of financing vary, not only among the different categories of local government but within each category from State to State. The percentage distribution of general revenues in 1957, the last year for which detail for all categories is available, illustrates the range of variation.

TABLE 5. PERCENTAGE DISTRIBUTION OF THE GENERAL REVENUE OF LOCAL GOVERNMENTS, 1957

	Total	Counties	Municipalities	Townships	School districts	Special districts
Intergovernmental	29.7	38.0	18.9	24.8	42.1	14.1
Property tax	48.7	46.5	46.3	63.6	50.1	29.1
Other taxes	7.6	3.2	17.3	4.5	0.7	--
Non-tax revenue	14.1	12.3	17.5	7.2	7.1	56.8
Total......	100.0	100.0	100.0	100.0	100.0	100.0

The property tax is the major producer for all categories except special purpose districts, which rely chiefly on service charges and some of which have no taxing powers. Intergovernmental financial aid is of special importance in school district and county financing. In the case of the counties, it is related to their important role in such functions as public welfare, education, local highways, and health and hospitals. Nonproperty taxes play a significant role only in municipalities, as we shall have occasion to note later.

The development of the principal revenues of local governments is depicted on a ratio scale on the frontispiece. Equal slopes on this scale indicate equal percentage rates of growth irrespective of the absolute amount of the variable. A 50 percent increase from $100 million to $150 million produces the same slope as an increase from $20 billion to $30 billion.

The general uniformity of these curves is striking. The major sources of local financing generally have increased at a remarkably uniform rate since 1950, suggesting that rising requirements exerted revenue pressures which were distributed fairly uniformly among the financing sources available to local governments.

State Aid. State financial aid to local governments totaled \$9.3 billion in 1960, nearly \$52 per capita, and accounted for 29 percent of total local general revenues. This term covers State payments to local units for their use in financing specific functions or for general local government support, as well as State imposed and collected taxes shared with local governments, and reimbursements for services performed for the State. The role of State aid as a source of local general revenue varied widely among the States, reflecting the prevailing variety in State-local fiscal relations, as the following summary for 1960 derived from Appendix Table 2 makes clear.

TABLE 6. STATE AID AS A PERCENT OF LOCAL GENERAL REVENUE, 1960
Frequency Distribution of States

Under 20%		20% to 30%				30% to 40%				40% or more	
N.H.	7.9	Vt.	22.5	Fla.	26.9	Colo.	31.0	Alaska	34.9	Wash.	40.5
S.D.	10.2	Texas	23.8	Idaho	27.0	Utah	31.1	Ga.	36.1	Hawaii	40.9
N.J.	13.6	Kans.	24.0	Ind.	27.7	Minn.	32.6	Mich.	36.1	S.C.	44.2
Conn.	15.1	Iowa	24.3	Mass.	28.4	Md.	32.7	Okla.	36.3	Del.	44.9
Me.	15.4	N.D.	25.1	Va.	28.4	Calif.	33.6	Tenn.	37.6	N.Mex.	45.2
Mont.	16.1	N.Y.	25.7	N.C.	28.8	Wyo.	34.4	Wisc.	38.1	Ala.	46.8
R.I.	17.6	Nev.	26.3	Penn.	28.8	Ariz.	34.6	Ark.	38.7	Miss.	47.9
Neb.	18.4	Ohio	26.5	Ky.	29.5	W.Va.	34.6			La.	48.9
Ill.	18.9	Oreg.	26.7								
Mo.	19.1										
No. of States	10			17				15			8

The largest share (\$5.3 billion) of State aid was earmarked for education in 1960. Next in importance were \$1.5 billion for public welfare and \$1.2 billion for highways. The remainder went for health and hospitals, and other specified functions and for general support of government.

The evolution of State aid for individual functions over the past three decades is summarized in Table 7. It now finances

TABLE 7. STATE INTERGOVERNMENTAL EXPENDITURE, BY FUNCTION: Selected Years 1932 - 1960

Item	1932	1940	1950	1955	1960
AMOUNT ($000,000)					
Total	801	1,654	4,217	5,986	9,283
General local government support	140	181	482	591	806
Public welfare	28	420	792	1,046	1,483
Education	398	700	2,054	3,150	5,300
Highways	229	332	610	911	1,247
All other	6	21	279	288	447
PERCENT DISTRIBUTION					
Total	100.0	100.0	100.0	100.0	100.0
General local government support'	17.5	10.9	11.4	9.9	8.7
Public welfare	3.5	25.4	18.8	17.5	16.0
Education	49.7	42.3	48.7	52.6	57.1
Highways	28.6	20.1	14.5	15.2	13.4
All other	0.7	1.3	6.6	4.8	4.8
PERCENT OF TOTAL STATE GENERAL EXPENDITURE					
Total	29.0	37.7	34.4	34.9	29.4
General local government support	5.1	4.1	3.9	3.4	2.6
Public welfare	1.0	9.6	6.5	6.1	4.7
Education	14.4	16.0	16.8	18.3	16.8
Highways	8.3	7.6	5.0	5.3	3.9
All other	0.2	0.5	2.3	1.7	1.4
RELATION TO SELECTED ITEMS OF LOCAL GOVERNMENT FINANCE					
Total State intergovernmental expenditure as percent of total local general revenue	14.1	23.8	30.1	28.4	27.9
State intergovernmental expenditure for selected functions as percent of local general expenditure for:					
Public welfare	7.6	66.8	57.6	66.7	62.7
Education	19.6	30.9	35.3	31.5	34.1
Highways	25.5	42.6	35.0	35.6	37.4

Source: Bureau of the Census, Governments Division.

over 60 percent of local expenditure for public welfare, 37 percent for highways and 34 percent for education (State aid for public welfare is financed, in part, from Federal public assistance grants to the States). While the amount of State aid for each of these functions has increased in recent years, the share of local expenditures covered by it has not changed materially because local expenditures have been increasing at an approximately equal rate.

Federal Aid. Federal payments directly to local governments have also increased over the years, but have not assumed significant proportions in terms of local financing. In 1960 Federal grants and payments in lieu of taxes to local governments totaled less than $600 million and provided less than 2 percent of local general revenues. Grants accounted for most of it. The 1961 Federal legislation should increase these magnitudes significantly during the next several years. The comparable total was $200 million in 1950 and $300 million in 1953 and 1954. These amounts exclude loans, repayable advances and Federal grants to States for programs which ultimately benefit local governments.

Nearly 40 percent of the $600 million 1960 aggregate represented Federal payments for school operations ($163 million) and for school construction ($70 million) under the special Federal aid program to Federally affected areas (P. L. 815 and P. L. 874). The other significant Federal aid programs were low-rent housing contributions ($123 million), slum clearance and urban renewal, including urban planning ($103 million), waste treatment facilities ($40 million), and airport construction ($35 million). The enumerated five programs were responsible for 90 percent of all Federal aid directly to local governments.

Revenues from Own Sources. Local governments raise about 70 percent of their current general revenues from local sources, divided between taxes and other sources approximately in the ratio of 4:1. The 1960 totals were $18.1 billion from taxes and $4.8 billion from non-tax sources. The latter consists of user charges, sale of commodities, services and real estate, special assessments for public improvements, interest earnings, etc. As indicated earlier, the relative contributions of the major components have not changed materially in recent years. The amount contributed by each has increased. Comparative State-by-State data on the amount of locally raised general revenues are presented in Appendix Table 3.

The $18.1 billion local government tax take in 1960 compared with $8 billion in 1950 and under $5 billion during the War years. Taxes now supply about 55 percent of local governments' general revenues. Their role has stabilized at this level after World War II. It had been somewhat higher before that time (Table 4).

Comparative data on local tax revenue by States are presented in Appendix Table 4. The variations are wide, explained in part by interstate differences in economic capacity and tax effort reflected in the level of government services provided, as well as the degree of local reliance on State financial aids and the local governments' relative role in providing governmental services. The percentage of State and local tax revenue raised by local governments, summarized below, is one indication of this variation.

TABLE 8. LOCAL TAX COLLECTIONS AS PERCENT OF STATE-LOCAL TAX COLLECTIONS, 1960
Frequency Distribution of States

Under 30%		30% to 40%		40% to 50%		50% to 60%				Over 60%	
Hawaii	18.2	Miss.	31.4	Nev.	42.9	Vt.	50.0	Iowa	53.1	S.D.	60.8
Del.	20.6	W.Va.	33.1	Utah	43.1	Wisc.	50.1	Me.	53.9	N.H.	61.4
S.C.	23.9	Okla.	33.3	Fla.	43.3	Ohio	51.5	Conn.	56.1	Neb.	62.9
Alaska	26.0	Ga.	34.0	Md.	44.5	N.D.	51.6	Kans.	56.4	N.J.	71.1
N.Mex.	26.4	Tenn.	36.6	Va.	45.2	Calif.	51.8	Mont.	56.4		
La.	26.5	Ky.	36.8	Idaho	45.6	Ind.	52.5	Mass.	59.3		
N.C.	26.5	Ariz.	39.9	Mich.	46.3	Mo.	52.5	N.Y.	59.5		
Ala.	28.9			Wyo.	46.9	Colo.	52.6	Ill.	59.9		
Wash.	29.3			Penn.	47.4	Minn.	52.6				
Ark.	29.6			Oreg.	47.8						
				R.I.	49.1						
				Texas	49.2						
No. of States	10		7		12			17			4

Property Taxes. Taxation at the local level in most parts of the country continues to be largely synonymous with property taxation. With few exceptions, it is the most important single revenue producer in local jurisdictions. It was the mainstay of local tax systems at the beginning of the century, and remains so today. It has been aptly called the beast of the local tax burden for it generally manages to carry whatever portion of the revenue load remains after the contribution of the other revenue sources has been budgeted.

The tax has been the object of severe criticism for decades. Some have in fact predicted its gradual demise. Instead, it is putting in a remarkable performance in terms of productivity. It held its relative position as a revenue producer even during the decade of the 1950's, when new taxes were being enacted and expanded by local jurisdictions on a large scale. Its yield increased from $7 billion in 1950 to $16 billion in 1960, by nearly 125 percent. Several factors contributed to this performance, including new construction, higher property values, improved tax administration, increased tax rates, and of course, public insistence on more adequate financing of certain programs, notably public education, even at the cost of heavier property taxes.

As a percentage of all local taxes, the property tax accounted for 97 percent during the 1920's and until 1934, after which it declined gradually to 88 percent, where it has remained for ten or more years. In 1960, it supplied 87.4 percent of local tax revenues, 58 percent of local general revenues from their own sources, and 48 percent of all local general revenues.

TABLE 9. PROPERTY TAXES IN LOCAL GENERAL REVENUE

	1927	1940	1948	1950	1960
Property tax revenue as a percent of:					
Total tax revenue	97.3%	92.7%	88.6%	88.2%	87.4%
Revenue from local sources	76.1	72.0	60.5	60.3	58.2
Total general revenue	73.9	60.1	51.4	50.2	48.1

The postwar years have witnessed a quest for nonproperty tax sources by local governments and an effort to escape from exclusive dependence on property taxes. This continues a general trend discernible since the 1920's.

The pressure for nonproperty tax revenues has been particularly strong in States where the property tax base is shared by more than two overlapping jurisdictions, as for example, by cities, counties, and school districts. In these cases the pressure has come 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.

TABLE 10. CITY GOVERNMENT TAX COLLECTIONS: 1950 to 1960

Year	Total tax collections	Property taxes	Non-property taxes: Total	Sales and gross receipts: Total	Sales and gross receipts: General	Sales and gross receipts: Selective	Licenses and other
			AMOUNT ($000,000)				
1950[1/]	$3,628	2,792	837	456	n.a.	n.a.	381
1951[1/]	3,856	2,948	908	513	n.a.	n.a.	395
1952	4,183	3,144	1,038	598	360	239	440
1953	4,552	3,375	1,177	685	418	267	492
1954	4,796	3,585	1,211	659	389	270	552
1955	5,100	3,767	1,334	728	433	295	606
1956	5,447	3,986	1,460	833	521	313	627
1957	5,908	4,297	1,610	934	602	332	676
1958	6,242	4,570	1,672	972	628	343	700
1959	6,596	4,823	1,773	1,041	676	365	732
1960	7,109	5,197	1,912	1,217	797	420	695[2/]
			PERCENTAGE DISTRIBUTION				
1950	100.0	77.0	23.1	12.6	n.a.	n.a.	10.5
1951	100.0	76.5	23.5	13.3	n.a.	n.a.	10.2
1952	100.0	75.2	24.8	14.3	8.6	5.7	10.5
1953	100.0	74.1	25.9	15.0	9.2	5.9	10.8
1954	100.0	74.7	25.3	13.7	8.1	5.6	11.5
1955	100.0	73.9	26.2	14.3	8.5	5.8	11.9
1956	100.0	73.2	26.8	15.3	9.6	5.7	11.5
1957	100.0	72.7	27.3	15.8	10.2	5.6	11.4
1958	100.0	73.2	26.8	15.6	10.1	5.5	11.2
1959	100.0	73.1	26.9	15.8	10.2	5.5	11.1
1960	100.0	73.1	26.9	17.1	11.2	5.9	9.8

n.a. - Not available.

1/ Partially estimated (cities with less than 25,000 inhabitants).
2/ Not entirely comparable with back-year amounts, due to change in classification.

Source: Bureau of the Census, Governments Division.

The reluctance to leave the entire burden of rising local tax revenue requirements on property is motivated by various considerations. Doubtless the appeal of tax diversification for its own sake is one of them. Another is the tendency to judge tax rates in terms of earlier years' levels and to confuse the contribution of tax rate charges to the increases in property tax bills with that of higher property values. The consideration of tax equity also plays a part. The base of the property tax consists largely of only one form of wealth, real property. It burdens these property owners regardless of their income status, as for example, retired homeowners with reduced incomes, and leaves untouched those with large amounts of wealth in other forms.

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 repeated expressions of fear that high property taxes will deter new business have a restraining influence on local governing bodies. A related factor is public dissatisfaction with the administrative shortcoming 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.

Efforts since World War II to develop nonproperty tax sources have had a significant cumulative impact on the tax revenues of the larger urban jurisdictions, but their effect on aggregate local revenues has not been striking. In spite of a 15-fold increase in local taxes and continued searching for new forms of revenue, the great bulk of locally levied tax revenues comes from the same source as a half century ago.

The role of the property tax varies among categories of local government. In the last Census of Governments year (1957) property taxes constituted 100 percent of total taxes for special districts, 99 percent for school districts, 94 percent for townships, 94 percent for counties, and 73 percent for municipalities. The decline in dependence on property taxes has been more marked in cities than in other local governments, from 77 percent in 1950 to 73 percent in 1960 (Table 10). In the five cities with more than 1,000,000 population, the property tax supplied only 63 percent of tax revenues in 1960.

TABLE 11. LOCAL NONPROPERTY TAXES AS PERCENT OF TOTAL LOCAL TAXES, 1960
Frequency Distribution of States

Under 5%		5% to 10%		10% to 15%		15% to 20%		20% or more	
Ind.	0.6	Mont.	5.5	Md.	10.2	Wash.	16.8	Va.	21.4
Me.	0.6	S.D.	6.0	W.Va.	11.1	Ky.	16.9	La.	21.9
Conn.	0.7	Wyo.	6.0	Tenn.	11.6	Miss.	17.2	Nev.	22.2
N.H.	0.9	Ark.	6.6	Ga.	11.7	Mo.	18.2	N.Y.	23.0
Mich.	1.3	Texas	6.8	Ill.	12.0	Fla.	18.9	N.Mex.	24.3
Iowa	1.5	Colo.	7.1	Calif.	13.0			Penn.	25.9
Mass.	1.5	Utah	7.4					Hawaii	27.1
Wisc.	1.7	Del.	7.6					Alaska	29.5
R.I.	1.9	Neb.	7.7					Ala.	43.7
N.D.	2.3	S.C.	8.4						
Idaho	2.4	N.J.	9.0						
Kans.	2.5	Ariz.	9.4						
Minn.	2.8	Ohio	9.9						
Vt.	3.2								
Oreg.	3.5								
N.C.	3.8								
Okla.	4.2								
No. of States	17		13		6		5		9

There is considerable variation among the States in the extent to which local governments tap tax sources other than property. In 9 States, over half in New England, nonpropety taxes contribute less than two percent of all local tax revenues. The percentage is high in some southern States because their local governments make wide use of license taxes. In New York and Pennsylvania special circumstances prevail, as we shall note later. Interstate variations in the role of nonproperty taxes are affected also by the degree to which States share their taxing powers with their local subdivisions. Comparative data are presented in Appendix Table 6. We turn next to an examination of the use of nonproperty taxes by local governments.

5. LOCAL NONPROPERTY TAXES

The headline story in local financing for well-nigh a quarter century has been the advent of local nonproperty taxes, chiefly levies on sales, income and utility services. Their appearance has centered in the larger urban places in about half of the States, scattered thinly in most, thickly in few. Most came on the scene in an atmosphere of fiscal crisis, first to meet depression generated relief needs, later to finance burgeoning postwar requirements. Espoused with enthusiasm in many communities which employ them, these local taxes have failed to generate anything resembling a national movement. They supplied 12 percent of local governments' tax collections in 1950 and 13 percent in 1960. To have kept their relative position during a decade when the total local tax take more than doubled was a fair performance, but not more than that.

Historical Development. Local nonproperty taxes came to national notice with the adoption of retail sales taxes by New York City in 1934 and New Orleans in 1938 and the income tax by Philadelphia. (The District of Columbia's income tax, excluded from these local government statistics, was also enacted in 1939.) These enactments were based on enabling legislation limited to the particular cities. Five California cities resorted to sales taxes in 1945-46 under home rule and general law powers (after the State reduced its three percent rate to two and one-half percent) and were followed by other California cities in rapid succession. About the same time (1946) Toledo adopted an income tax under Ohio's broad home rule provisions and other cities within the State soon followed suit.

Broad permissive legislation sanctioning wide scale use of nonproperty taxes by local jurisdiction came after the War (1947), notably in New York and Pennsylvania. In that year New York authorized its counties and cities to tax retail sales, restaurant and bar receipts, utility services, alcoholic beverages, admissions, passenger motor vehicles, gross receipts of business and hotel rooms. Also in 1947, Pennsylvania authorized its cities, boroughs, townships and school districts to "tax anything not taxed by the State."

The extensive use of local sales taxes along with State imposed sales taxes in several States prompted suggestions for State administration of the local taxes. A proposal to this effect was first agitated in California in 1949, but was there not adopted until 1955. It had been meanwhile adopted in Mississippi in 1950 and, in 1955, Illinois' legislature authorized its cities to add their levies to the State's sales tax. These statewide developments were accompanied by nonproperty tax enactments in individual cities in various States. The impact of this development on the revenue structure of local governments is summarized historically in Table 12.

Before the depression of the 1930's, nonproperty taxes supplied only three percent of the tax revenues of local governments. As a result of depression-time enactments, their share increased to seven percent by the War years. Postwar enactments raised the percentage to around 13 percent by the early 1950's, where it has remained ever since. During the 1950's, the aggregate contribution of these taxes increased from less than $1 billion to $2.3 billion, the increase being accounted for largely by consumer taxes. Income taxes represent only about one-ninth of total nonproperty tax collections.

The local nonproperty tax development, while moderate in terms of national aggregates, has had a significant cumulative impact on local tax revenues in some States and on the tax revenues of the larger urban places.

The contribution of these taxes to local tax revenues by States in 1960 was summarized in Table 11. The range is wide from less than one percent in four States to 44 percent in Alabama. In one-third of the States nonproperty taxes produce less than five percent of local tax revenues. Their contribution exceeds 20 percent in only nine States and 25 percent in only four. Some of the relatively high percentages reflect relatively low property taxes as much as high nonproperty taxes.

Apart from local license taxes, which are widespread mostly in the southern States, and income and sales taxes in a few States, the nonproperty tax is principally a large city phenomenon. The detail on city revenues, classified by size of city, shown in Table 13, leaves little doubt on this point. In 1960, when per capita local nonproperty tax revenues in the nation averaged less than $13, the average for cities with a population in excess of 1,000,000 was $49 and dropped quickly as the size of the city declined. For cities under 25,000 population it averaged only $6 per capita and half of this was composed of the miscellaneous category, chiefly business license taxes.

The relative role of these taxes in the total tax revenue of cities reveals a similar but less marked differentiation among cities of varying size. In 1960, nonproperty taxes supplied 26.9 percent of all city tax revenues. For cities of 1,000,000 and over, the percentage was 37.2 percent and dropped to 26.6 percent for the next population size (½ million to 1 million). For all cities

TABLE 12. LOCAL TAX COLLECTIONS BY MAJOR SOURCES, SELECTED YEARS 1927--1960

Fiscal year	Amount of collections ($000,000)						Percentage distribution of collections					
	Total	Property taxes	Nonproperty taxes				Total	Property taxes	Nonproperty taxes			
			Total	Sales & gross receipts	Income taxes	All other taxes			Total	Sales & gross receipts	Income taxes	All other taxes
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
1960	18,081	15,798	2,283	1,339	254	692	100	87	13	7	1	4

* Less than 0.5 percent.

Source: Bureau of the Census, Governments Division.

TABLE 13. TAX REVENUES OF CITIES, 1960
By population size classes

Item	Total	1,000,000 or more	500,000 to 999,999	300,000 to 499,999	200,000 to 299,999	100,000 to 199,999	50,000 to 99,999	25,000 to 49,999	Less than 25,000
		Cities having a 1960 population of --							
				Total ($000,000)					
Taxes:									
Property taxes	5,197	1,444	760	369	206	487	600	487	844
Nonproperty taxes:	1,912	857	275	133	71	94	128	114	239
Gen. sales & gross receipts	797	542	57	21	16	30	36	34	60
Selective sales & gross receipts	420	121	86	43	29	25	32	32	51
Other taxes, including licenses	695	193	132	69	26	39	60	48	128
Total	7,109	2,301	1,035	502	277	581	729	600	1,083
				Per capita					
Taxes:									
Property taxes	$ 44.80	$ 82.60	$ 65.44	$ 44.54	$ 48.31	$ 52.30	$ 47.98	$ 38.37	$ 21.18
Nonproperty taxes:	16.48	49.00	23.70	16.12	16.68	10.11	10.29	8.91	6.00
Gen. sales & gross receipts	6.87	31.03	4.89	2.55	3.75	3.26	2.92	2.66	1.50
Selective sales & gross receipts	3.62	6.95	7.44	5.22	6.75	2.70	2.59	2.50	1.28
Other taxes, including licenses	5.99	11.02	11.37	8.35	6.18	4.15	4.78	3.75	3.22
Total	61.28	131.60	89.13	60.67	64.99	62.41	58.27	47.28	27.19
				Percentage distribution					
Taxes:									
Property taxes	73.1	62.8	73.4	73.5	74.4	83.8	82.3	81.2	77.9
Nonproperty taxes:	26.9	37.2	26.6	26.5	25.6	16.2	17.6	19.0	22.1
Gen. sales & gross receipts	11.2	23.6	5.5	4.2	5.8	5.2	4.9	5.7	5.5
Selective sales & gross receipts	5.9	5.3	8.3	8.6	10.5	4.3	4.4	5.3	4.7
Other taxes, including licenses	9.8	8.4	12.8	13.7	9.4	6.7	8.2	8.0	11.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bureau of the Census, Governments Division.

under 200,000 the corresponding percentages were below 20 percent except in the smallest size group where licenses are relatively large contributors.

The role of nonproperty taxes in the 1960 tax revenues of the 50 largest cities which had a 1960 population of 250,000 or more are shown in Table 14. Philadelphia, St. Louis, New Orleans, Columbus, Louisville, and Toledo each obtained half or more of their tax revenues from nonproperty taxes.

These taxes are important revenue producers for four of the cities with population in excess of one million. Detroit is the conspicuous exception. (In Michigan, State aid is the important supplement to local property taxes.) The uniformity is less apparent among the smaller cities. There are striking variations even among cities within the same State. While Cincinnati raised 48.3 percent, Columbus 74.9 percent, Toledo 62.5 percent and Dayton 49.7 percent from these sources, the percentage for Cleveland was only 4.3 percent and for Akron 4.9 percent. The percentages for San Francisco and Los Angeles were 18.5 percent and 44.7 percent, respectively; for Pittsburgh and Philadelphia 25.5 percent and 53.4 percent, respectively. In some States, however, the large cities made approximately equal use of these sources: Minneapolis and St. Paul, 8.4 percent and 9.5 percent; Kansas City and St. Louis, 49.2 percent and 54.1 percent.

The comparability of tax collection statistics for cities is somewhat impaired by the differences in the division of tax raising activities between cities and overlapping local jurisdictions. The data for county areas presented in Table 15 are free of this limitation for they include taxes collected by all local governments within the county area. These data, available for only the year 1957, underscore the urban character of local nonproperty taxes. The populous counties, it will be remembered, are generally those containing large cities. In a general way, per capita nonproperty tax revenues increase with population size. Generally also, per capita collections in the most populous counties exceed the statewide average by a substantial margin.

Types of Nonproperty Taxes. Local governments employ a variety of nonproperty taxes. The most detailed classification available pertains to 1957 collections (Table 16). Apart from general sales and income taxes, some use is made of selective excise taxes. Of these, only public utility levies produce significant amounts. In 1957 the local gasoline, liquor, tobacco, amusement and insurance taxes each produced less than $50 million in the aggregate; most substantially less. The data on tax collections exclude the profits of proprietary enterprises such as liquor stores and public utilities which are closely akin to consumer taxes.

TABLE 14. TAX COLLECTIONS OF THE 50 LARGEST CITIES, 1960 1/

(Dollar amounts in thousands)

City	Tax Collections: Total	Property	Nonproperty	Nonproperty as a percent of total taxes
Cities having more than 1,000,000 inhabitants in 1960				
New York	$1,594,215	$1,004,042	$ 590,173	37.0
Chicago	246,770	148,153	98,617	40.0
Los Angeles	152,032	84,070	67,962	44.7
Philadelphia	181,408	84,493	96,915	53.4
Detroit	126,438	123,376	3,062	2.4
Total	$2,300,863	$1,444,134	$ 856,729	37.2
Cities having 500,000 to 1,000,000 inhabitants in 1960				
Baltimore	$ 118,872	$ 104,034	$ 14,838	12.5
Houston	49,705	43,835	5,870	11.8
Cleveland	48,163	46,108	2,055	4.3
St. Louis	65,204	29,934	35,270	54.1
San Francisco	102,608	83,674	18,934	18.5
Milwaukee	45,279	43,346	1,933	4.3
Boston	146,868	144,087	2,781	1.9
Dallas	39,039	33,846	5,193	13.3
New Orleans	31,528	14,475	17,053	54.1
Pittsburgh	40,692	30,301	10,391	25.5
San Antonio	16,701	15,658	1,043	6.2
San Diego	24,668	14,084	10,584	42.9
Seattle	25,184	14,304	10,880	43.2
Buffalo	50,824	46,586	4,238	8.3
Cincinnati	38,660	19,983	18,677	48.3
Honolulu	25,847	16,280	9,567	37.0
Total	$ 869,842	$ 700,535	$ 169,307	19.5

TABLE 14. (concluded) TAX COLLECTIONS OF THE 50 LARGEST CITIES, 1960 1/

(Dollar amounts in thousands)

City	Tax Collections			Nonproperty as a percent of total taxes
	Total	Property	Nonproperty	
Cities having 250,000 to 500,000 inhabitants in 1960				
Memphis	$ 28,236	$ 21,366	$ 6,870	24.3
Denver	34,660	24,445	10,215	29.5
Atlanta	20,512	13,177	7,335	35.8
Minneapolis	32,787	30,000	2,787	8.5
Indianapolis	24,916	24,677	239	1.0
Kansas City, Mo.	27,564	14,007	13,557	49.2
Columbus	17,949	4,506	13,443	74.9
Phoenix	13,024	7,789	5,235	40.2
Newark	72,437	63,534	8,903	12.3
Louisville	22,485	9,856	12,629	56.2
Portland, Oreg.	19,317	15,268	4,049	21.0
Oakland	26,531	17,780	8,751	33.0
Fort Worth	14,123	12,947	1,176	8.3
Long Beach	15,971	9,322	6,649	41.6
Birmingham	10,779	5,602	5,177	48.0
Oklahoma City	7,498	5,904	1,594	21.3
Rochester	31,587	30,438	1,149	3.6
Toledo	15,057	5,653	9,404	62.5
St. Paul	31,079	28,116	2,963	9.5
Norfolk	23,826	14,944	8,882	37.3
Omaha	12,103	9,533	2,570	21.2
Miami	25,507	17,492	8,015	31.4
Akron	10,188	9,684	504	4.9
El Paso	12,477	11,059	1,418	11.4
Jersey City	40,779	37,062	3,717	9.1
Tampa	13,804	7,447	6,357	46.1
Dayton	16,906	8,499	8,407	49.7
Tulsa	6,716	5,496	1,220	18.2
Wichita, Kans.	9,603	8,304	1,299	13.5
Total	$638,421	$473,907	$164,514	25.8
Total 50 Cities	$3,809,126	$2,618,576	$1,190,550	31.3

1/ Excludes Washington, D. C., which derived 64.1 percent of its tax revenue from nonproperty tax sources in 1960.

Source: Derived from Bureau of the Census, Governments Division, Compendium of City Government Finances in 1960.

TABLE 15. COUNTYWIDE PER CAPITA NONPROPERTY TAX REVENUES OF ALL LOCAL GOVERNMENTS, BY 1960 POPULATION SIZE CLASSES, BY STATES, 1957

State	State-wide	Counties having a 1960 population of--- Under 5,000	5,000 to 9,999	10,000 to 14,999	15,000 to 19,999	20,000 to 24,999	25,000 to 49,999	50,000 to 99,999	100,000 to 249,999	250,000 or more	Median county
Alabama	11.56	----	----	4.36	4.08	5.20	7.18	13.85	16.50	16.59	6.45
Arizona	5.17	----	2.13	2.78	----	----	5.31	1.72	-----	5.74	2.86
Arkansas	3.50	2.10	1.22	1.68	2.38	2.59	3.81	4.37	6.71	----	2.46
California	15.37	7.66	7.75	9.27	6.90	2.67	6.20	8.82	11.30	16.58	10.30
Colorado	8.46	2.69	2.49	3.61	3.74	4.04	----	4.22	4.49	19.34	3.46
Connecticut	1.38	----	----	----	----	----	----	1.02	0.92	1.49	1.21
Delaware	1.85	----	----	----	----	----	----	2.36	-----	1.62	2.59
Florida	14.50	6.14	4.43	6.58	9.07	12.56	8.82	10.38	14.05	17.46	7.62
Georgia	5.32	1.07	2.20	2.66	2.75	3.30	4.46	5.41	8.32	8.69	2.40
Idaho	2.55	1.87	1.88	1.55	2.10	3.00	3.34	2.48	-----	----	2.10
Illinois	15.12	2.39	3.46	4.20	5.81	5.13	6.79	7.48	8.60	20.57	6.24
Indiana	1.39	0.24	0.40	0.65	1.09	1.28	1.25	1.49	1.36	1.69	1.41
Iowa	2.34	----	1.30	1.48	1.54	1.73	2.16	3.33	3.06	4.06	1.46
Kansas	3.50	1.96	1.71	1.93	2.70	2.59	3.25	4.34	4.25	6.14	1.77
Kentucky	7.07	0.37	1.33	1.78	2.23	2.02	2.90	4.77	11.29	21.88	2.23
Louisiana	9.38	----	1.04	1.49	2.18	1.35	3.11	3.36	10.88	24.08	2.80
Maine	1.26	----	----	----	0.63	0.71	1.17	1.32	1.41	----	0.66
Maryland	8.21	----	----	----	3.82	6.34	2.80	3.83	4.76	10.19	4.33
Massachusetts	2.83	5.93	6.41	----	----	----	----	3.41	2.84	2.81	2.52
Michigan	1.95	1.34	0.87	1.24	1.18	1.18	1.37	1.38	1.71	2.28	1.43
Minnesota	3.60	1.56	1.15	1.34	1.55	1.69	2.94	2.80	3.30	5.84	4.87
Mississippi	5.93	3.50	4.52	3.57	3.71	3.54	5.59	8.58	10.57	----	3.48
Missouri	12.31	1.05	1.04	1.56	3.13	3.06	4.26	6.75	10.16	21.57	3.10
Montana	9.29	7.08	7.57	6.93	7.65	----	7.51	8.02	----	----	8.78
Nebraska	7.68	6.70	5.85	7.37	8.01	8.96	7.21	----	8.39	9.47	7.96
Nevada	21.94	17.33	9.95	15.46	----	----	----	26.66	24.84	----	11.92
New Hampshire	1.99	-----	----	-----	2.71	----	2.03	1.70	2.13	-----	2.16
New Jersey	13.76	-----	----	-----	----	----	15.37	13.06	15.92	13.38	11.38
New Mexico	8.64	7.79	5.44	4.50	3.53	3.16	5.86	6.96	-----	16.82	5.14
New York	31.51	4.03	----	-----	1.36	1.33	1.85	3.01	5.18	39.13	2.69
North Carolina	1.57	0.42	0.65	0.52	0.74	0.50	1.03	1.59	2.24	3.08	0.60
North Dakota	2.79	2.36	1.88	3.12	2.49	3.62	3.09	3.86	----	----	2.21
Ohio	8.76	----	----	3.40	2.32	2.67	3.53	3.13	5.17	12.87	2.88
Oklahoma	2.43	0.66	0.52	0.99	1.29	1.45	1.88	2.63	----	4.15	1.46
Oregon	4.33	1.22	1.58	1.85	3.50	2.79	3.25	2.35	2.36	8.43	3.05
Pennsylvania	18.08	6.93	9.01	6.84	7.34	----	7.53	7.67	11.50	24.02	10.35
Rhode Island	2.39	----	----	----	----	----	2.27	2.97	2.54	2.24	2.54
South Carolina	2.47	----	1.35	1.00	1.58	1.29	1.73	2.28	3.69	----	1.38
South Dakota	8.04	9.38	6.02	7.82	14.98	6.42	8.62	7.99	----	----	5.97
Tennessee	5.34	0.77	1.62	1.55	1.96	3.24	2.86	4.24	9.55	8.15	2.51
Texas	5.69	12.54	9.22	8.15	8.13	6.72	7.02	5.32	4.04	4.51	8.42
Utah	3.37	1.83	2.64	2.08	1.90	2.88	2.03	1.08	3.00	4.65	2.50
Vermont	2.94	3.26	2.94	3.41	2.21	2.25	2.93	3.65	----	----	3.16
Virginia	9.86	5.30	5.14	5.76	7.81	3.96	3.94	13.96	16.56	14.45	1.83
Washington	11.01	3.02	5.14	4.25	3.95	5.94	5.83	8.47	7.41	14.48	8.76
West Virginia	4.99	0.65	1.21	0.68	2.01	1.12	2.36	5.53	15.52	9.24	2.70
Wisconsin	2.76	1.42	2.51	2.39	2.08	2.27	2.42	2.26	2.28	4.08	2.44
Wyoming	6.31	4.38	4.58	6.21	5.96	8.78	7.20	7.23	----	----	8.18

Source: Bureau of the Census, Governments Division.

TABLE 16. TAX REVENUE OF LOCAL GOVERNMENTS BY TYPE OF TAX, 1957

Type of tax	Amount ($000,000)	Percent
Property	12,385	86.7
Sales and gross receipts	1,031	7.2
General	656	4.6
Selective	376	2.6
Motor fuels	26	0.2
Alcoholic beverages	21	0.1
Tobacco products	46	0.3
Insurance	11	0.1
Public utilities	225	1.6
Amusements	26	0.2
Other and unallocable	21	0.1
Income taxes	191	1.3
Death taxes	11	0.1
Motor vehicle and operators licenses	96	0.7
Alcoholic beverage licenses	47	0.3
Building and equipment permits	68	0.5
Parking meter charges (on-street)	105	0.7
Other licenses	254	1.8
Other taxes	98	0.7
Total tax revenue	14,286	100.0

Source: Bureau of the Census, Governments Division.

Consumer Taxes. The larger part of local nonproperty revenues is derived from consumer taxes and of these, the most important is the general sales tax. The general sales tax is now imposed at the local level in 12 States (and the District of Columbia). Early in 1961 it was reported in use in about 1,800 local jurisdictions, including five of the 15 largest cities. The contribution of general sales taxes reached $875 million in 1960 and may be reaching the $1 billion level this fiscal year.

Except in New York, Virginia and Alaska, 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. These local sales taxes typically employ one-half percent and one percent rates but some higher rates are also in use (Table 17).

These local consumers' taxes generally entail relatively high costs of collection with relatively poor quality of enforcement except in the large cities or where they are collected by the State together with its own consumers' tax. Moreover, where they are imposed in one jurisdiction but not in another within the same trading area, they tend to affect intercommunity trade relations.

Local governments also employ selective sales taxes on a variety of commodities and services, 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 of taxes on public utility services, imposed in some cases on the gross receipts of the business organization, in others on consumers' utility bills. The aggregate yield of utility taxes exceeded a quarter billion dollars in 1960. Apart from the local taxes on motor fuel and tobacco products, none of the others is nationally a significant revenue producer. The motor fuel taxes produced $33 million. Available information indicates that over 400 cities and counties in eight States levy such a tax (Table 18).

Cigarette and tobacco taxes are imposed by local governments in at least 10 States. Revenues from this source amounted to $65 million in 1960. Taxes on alcoholic beverages are imposed locally in at least four States and accounted for $23 million. Local jurisdictions also operate liquor stores. They reported total receipts of $136 million in 1960, for a net margin of receipts over expenditures of around $20 million.

TABLE 17. LOCAL GENERAL SALES TAX RATES[1/]
January 1, 1961

State	State Tax Rate[2/]	Local Tax Rates[2/]				
		1/2%	3/4%	1%	2%	3%
Alabama	3%					
63 Municipalities[3/]		2	-	14	-	-
13 Counties		2	-	11	-	-
Alaska	-					
32 Municipalities		-	-	2	22	8
4 School Districts		-	-	2	2	-
Arizona	3					
6 Municipalities		3	1	2	-	-
California[4/]	3					
364 Municipalities		-	-	364	-	-
56 Counties		-	-	56	-	-
Colorado	2					
2 Municipalities		-	-	2	-	-
Illinois[5/]	3½					
1120 (approx.) Municipalities		1120	-	-	-	-
56 Counties		56	-	-	-	-
Louisiana[6/]	2					
10 Municipalities		-	-	10	-	-
3 Parishes		-	-	3	-	-
Mississippi	3					
99 Municipalities		74	-	25	-	-
New Mexico	2					
15 Municipalities		-	-	15	-	-
New York[7/]	-					
6 Municipalities		-	-	1	4	1
5 Counties		-	-	1	3	1
Utah[8/]	2½					
54 Municipalities		54	-	-	-	-
11 Counties		11	-	-	-	-
Virginia	-					
1 Municipality (Bristol)		-	-	-	-	1

Source: Commerce Clearing House, State Tax Reporter and State Tax Guide; Municipal Finance Officers Association, Mimeograph Paper (1960).

1/ This tabulation includes only those local sales taxes about which authoritative information is available. The following cities with a population of 50,000 or more impose a sales tax: Albuquerque, Baton Rouge, Denver, Huntsville, Jackson, Mobile, Montgomery, New Orleans, New York, Niagara Falls, Phoenix, Pueblo, Salt Lake City, Syracuse, Tucson, and all cities of 50,000 or over in California and Illinois.

2/ The rates shown are those applicable to sales of tangible personal property at retail. The State rate shown for Illinois includes a 1% additional tax, effective July 1, 1961, through June 30, 1963; the present rate is 3% (including a ½% additional tax). The 2½% rate shown for Utah is not effective until July 1, 1961; the present rate is 2%.

3/ Tax rate information not available for 47 municipalities. A county tax (Lauderdale, 1% except in Florence where the rate is ½%, and Colbert, ½%) is levied in two of the 16 municipalities imposing a tax (Florence, ½%, and Sheffield, ½%). The combined county-municipal tax rate is 1% in both Florence and Sheffield. In 9 counties and 2 cities the tax is administered by the State department of revenue.

4/ The 56 counties are conforming counties and all but five of the 364 municipalities imposing a tax are in these conforming counties. The five remaining municipalities (Dunsmuir, Fort Jones, Mount Shasta, Weed, and Yreka) impose locally-administered taxes of 1%. Both counties and municipalities levy a sales tax in conforming counties, but the municipal tax is credited against the county rate. Therefore, the combined county-municipal tax rate is 1%. Sales in unincorporated areas are subject only to the 1% county tax. Non-conforming counties may not levy a sales tax.

5/ The tax imposed by the 56 counties is applicable only to unincorporated areas.

6/ Three of the 10 municipalities, namely, Baker, Baton Rouge, and Zachary, are located in East Baton Rouge Parish, which is one of the three parishes imposing a tax. The East Baton Rouge Parish tax does not apply to the three municipalities.

7/ A county tax (Jefferson, 2% except in Watertown where the rate is 1%) is levied in one of the six municipalities imposing a tax (Watertown, 1%). The combined municipal-county tax rate is 2% in Watertown.

8/ Eleven counties and 54 municipalities in these counties each impose a ½% sales tax. The municipal tax is credited against the county tax. Sales in unincorporated areas and in municipalities not imposing a tax are subject only to the county tax. Municipalities cannot levy the tax until imposition by the county.

TABLE 18. Local Gasoline Tax Rates

January 1, 1961

(Per gallon)

State	State tax rate	Local Tax Rates: Less than ½¢	½¢	7/10¢	1¢	1¼¢	1½¢	2¢	3¢	3½¢	4¢	5¢
Alabama[1/]	7¢											
193 Municipalities		1	4	-	170	-	2	16	-	-	-	-
12 Counties [2/]		-	-	-	10	1	-	1	-	-	-	-
Florida	7¢											
2 Municipalities		-	-	-	2	-	-	-	-	-	-	-
Hawaii	5¢[3/]											
4 Counties		-	-	-	-	-	-	-	1	1	1	1
Mississippi	7¢											
3 Counties		-	-	-	-	-	-	2	1	-	-	-
Missouri	3¢											
108 Municipalities		6	32	1	63	-	4	2	-	-	-	-
Nevada	6¢[4/]											
17 Counties		-	-	-	17[4/]	-	-	-	-	-	-	-
New Mexico	6¢											
60 Municipalities		-	9[5/]	-	51	-	-	-	-	-	-	-
Wyoming	5¢											
12 Municipalities		-	2	-	10	-	-	-	-	-	-	-

Source: Committee on Public Affairs of the American Petroleum Institute, Tax Compendium (mimeograph TC9, revised) January 1, 1961; Commerce Clearing House, State Tax Reporter.

1/ The rates shown apply only in the town or city. Rates in police jurisdictions are generally lower, usually one-half the town or city rate.

2/ A total of 25 municipalities in 8 of these 12 counties also levy a tax. These municipal levies are independent of the county levy except in Mobile County where the municipal tax is allowed as a credit against the county tax. The combined county- municipal rates in the 25 municipalities are as follows: 1½¢ in two municipalities; 1 3/4¢ in one; 2¢ in 18; 2½¢ in two; 2 3/4¢ in one, and 3¢ in one municipality.

3/ Except in the county of Hawaii where the State rate is 8¢ per gallon; the county rate is 3¢ per gallon.

4/ Nevada levies and collects a 1¢ gasoline tax for all of its 17 counties. This 1¢ tax is included in the 6¢ State rate shown.

5/ Includes the ½¢ tax of Los Alamos County which is applicable only in the city limits of the municipality of Los Alamos.

Income Taxes. Municipal income taxation originated in Philadelphia in 1939 and is still most widely used in Pennsylvania. Under the Local Enabling Act of 1947, over 800 cities, boroughs, townships, and school districts have imposed income taxes. More than 50 Ohio cities now impose such a tax, which was first used there in 1946. Significantly, neither Pennsylvania nor Ohio has a State personal income tax. Income is taxed locally also by nine Kentucky cities, St. Louis, and Gadsden, Alabama. In these cases the local taxes overlap a State imposed tax (Table 19).

Local income taxes produced $254 million in 1960, a small part of which, perhaps $10 million, came from corporations. 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 do not apply to investment income, and in the case of salaries and wages are typically collected through withholding at the source.

While the contribution of income taxes to aggregate local tax revenues is still small, these taxes are significant producers in Pennsylvania and Ohio. In several 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 against recipients of small earned incomes. They disregard taxpaying ability also because they allow neither personal exemptions nor deductions and are imposed at 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 withhold 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 and subject to differing withholding requirements. These conditions pose corresponding problems for tax administration, particularly disproportionate where the taxing jurisdiction is small.

TABLE 19. MUNICIPAL INCOME TAXES: TAX RATES
April 1, 1961

State and City	Rate
Alabama	
Gadsden	1.0%
Kentucky	
Catlettsburg	1.0
Covington	1.5
Frankfort	1.0
Hopkinsville	1.0
Lexington	1.5
Louisville	1.25
Jefferson County 1/	1.25
Newport	2.0
Owensboro	1.0
Paducah	1.0
Missouri	
St. Louis	1.0
Ohio	
Cities of 50,000 population and over:	
Canton	.6
Cincinnati	1.0
Columbus	1.0
Dayton	.75
Hamilton	.8
Lima	.75
Springfield	1.0
Toledo	1.0
Warren	.5
Youngstown	1.0
51 cities and villages (with less than 50,000 population)	Ranges from .5% to 1%
Pennsylvania	
Cities of 50,000 population and over:	
Allentown	1.0
Altoona	1.0
Bethlehem	1.0
Erie	1.0
Johnstown	1.0
Lancaster	.5 2/
Philadelphia	1.625
Pittsburgh 3/	1.0
Scranton	.5 4/
York	1.0
Approximately 20 other cities, 240 boroughs, 40 townships and 800 school districts	Ranges from .25% to 1%

Source: CCH State Tax Reporter; Ohio Department of Taxation "Municipal Income Taxes in Ohio," July 1, 1960

1/ A taxpayer subject to the 1.25% tax imposed by the city of Louisville may credit this tax against the 1.25% tax levied by Jefferson County.

2/ Lancaster city tax is .5%. The Lancaster township school tax is 1%.

3/ Beginning with the tax year 1962, a Pittsburgh school district income tax of 0.5% is levied.

4/ The city's rate if .5% and the city school district rate is .5%.

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 nonetheless 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 nonresident 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.

6. THE COORDINATING ROLE OF THE STATE

In the preceding section we have sketched the development of local nonproperty taxation principally since the end of World War II. In a few States, notably in California and Ohio, it emerged under broad home rule provisions enjoyed by local governments; in most States, under special enabling legislation limited to selected local jurisdictions, coaxed out of legislatures by varying pressure combinations.

The revenue requirements of local governments within individual States are increasing unevenly. Generally, the increases are more marked in the rapidly growing urban centers, where large numbers, possibly higher unit costs, and insistence on better governmental programs generated by rising personal incomes, are raising governmental requirements faster than in the less populous sections of the State. Legislation enabling individual jurisdictions to finance programs locally postpones the necessity to provide financing for statewide programs. This accords with the natural reluctance of political leadership to recognize the emergence of costly statewide problems--its preference to leave solutions to local governments. It harmonizes also with a deeply rooted inclination to keep government decision-making close to the people, which expresses itself in appeal for home rule and local self-determination. What possible objection can the legislature have, so the argument runs, to permitting a city to tax itself. In many instances, legislation authorizing special local taxes receives strong support from (if it is not initiated by) organizations of citizens interested in more adequate financing of particular functions, principally public schools.

The mushrooming of the miscellany of nonproperty taxes produced by these pressures across the country gives some cause for public concern. A count in Pennsylvania now three years old (1958) turned up 5,200 separate city, borough, township, town and school district nonproperty tax enactments, including 845 income taxes, 671 real property transfer taxes, 2,597 per capita taxes, 382 trailer taxes and 367 admissions taxes, to mention only the more numerous categories. While no State approaches Pennsylvania in the variety of its nonproperty tax smorgasbord and in number and variety of local jurisdictions who may partake of it, the difference is only one of degree. A 1959 New York State list of local nonproperty taxes contains over a dozen different categories, some with several subcategories of levies in force in one or more local jurisdictions.

Excessive variety, as in Pennsylvania, may give pause to those who see the solution to local jurisdictions' fiscal problems in broad legislative license to levy nonproperty taxes.

As a people, we have a desire for simplicity and symmetry in governmental finances and we express this prejudice in an aversion to overlapping taxes. A separation of revenue sources under which each level of government is assigned its own tax preserve, safeguarded against encroachment from other levels, is the cherished hope of many who frequently wax eloquent on the subject. That this utopia, if it be that, bears no resemblence to attainable reality (and under this governmental system never will) does not dampen the ardor of its advocates.

The use of consumer, income, and excise taxes by local governments, however, does labor under real handicaps which should be recognized. Some of these stem from the limited territorial jurisdiction of local governmental units. Counties, cities, town and school districts are typically far smaller than the economic areas of which they are a part. The nonproperty taxes they impose generally affect business relationships within the entire economic area. Consumer taxes, whether broadly based sales taxes or levies on selected commodities or services, are likely to affect business competition between the trading jurisdiction and the surrounding areas. Taxes on wages and salaries affect competitive relationships between the employment centers within and without the taxing jurisdiction. Even within the employment city they raise problems, involving equities between workers residing within and outside of that city.

The influence of tax considerations on the location decisions of business are frequently exaggerated, to be sure, particularly when the rate of the tax is low and is associated with substantial differences in the quality of local governmental services beneficial to business. In a very real sense, however, the distorting effects of taxes on business decisions are no less damaging when based on misinformation or inadequate information than when they are founded on fact.

Most consumer and income taxes imposed at rates practicable for use at the local level entail relatively high administrative costs. More correctly, they would involve high costs if administration consistent with good enforcement were provided, except where responsibility for enforcement can be shifted to others, as for instance, to employers directed to withhold wage taxes or business enterprises required to collect taxes from consumers of utility services. Low rate retail sales taxes pose difficult enforcement problems except where the superior collection facilities of the State administration are available.

The uncoordinated use of consumer and income taxes typically results in compliance burdens for taxpayers and business enterprises, as for example, where employers are required to withhold one or more local wage taxes on top of the Federal and State taxes from the compensation of individual employees.

Finally, State governments are themselves disadvantaged by the heterogeneity of local tax measures because it tends to restrict their own tax freedom and may conflict with their economic development programs. The prevalence of local income taxes in Pennsylvania was said to have swung the balance in favor of the State sales tax rather than an income tax, while the reliance of New York City and other local jurisdictions on two percent and three percent general sales taxes may effectively bar New York State from this tax area. Where general sales taxes, income taxes, or selective excises are imposed by a significant number of local jurisdictions, the State has this additional hurdle to surmount in its own decision to tap the particular or a closely related tax area.

These adverse features of local nonproperty taxes can in some measure be mitigated through State action. Local governments are creatures of the State. In an historical sense, they are an administrative arm of the State and as such can be coordinated and integrated by the State to a degree alien to State-Federal relations. States can attain by direction objectives which the Federal Government can approach only by indirection.

We turn next to these possibilities, first at the inter-local level, then some statewide possibilities.

Inter-local Coordination

The shadow of intercommunity competition can effectively restrain a jurisdiction within a larger economic area from using nonproperty taxes. Just as frequently, the use of these taxes actually distorts normal economic patterns within the area. To avoid such results, two or more jurisdictions within the economic area may desire to use a particular tax, may in fact be prepared to move in harmony by adopting a substantially identical tax measure, but are precluded from doing so for lack of authority to act in concert or because of disparities in their respective taxing powers under the State constitution or enabling legislation. Contiguous cities, counties, and towns frequently possess disparate taxing powers. To meet just this kind of situation the Virginia legislature was unsuccessfully urged some years ago to grant the two counties in the northern part of the State sales tax powers comparable to those possessed by the two adjoining cities, in order that the four tax jurisdictions comprising the Virginia segment of the National Capital area might impose these taxes simultaneously and under identical terms.

The adverse impact of locally imposed consumer and income taxes on economic activity and competitive relationships could in some measure be relieved if the jurisdictions comprising the economically integrated area were granted parallel taxing powers. Many of the Standard Metropolitan Statistical Areas could benefit from such legislation, although economically more meaningful groupings of local jurisdictions probably could be developed to meet individual State conditions.

Some States already have authorized groups of adjoining jurisdictions to undertake jointly functional activities they are authorized to engage in singly. In 1959, the New York electorate approved a constitutional amendment empowering the legislature to authorize municipalities, school districts and other districts to provide and finance jointly any service which each can provide separately. In its report on "Government Structure, Organization and Planning in Metropolitan Areas," this Commission has recommended the enactment of State legislation authorizing two or more units of local government to exercise jointly or cooperatively any power possessed by one or more of the units concerned and to contract with one another for rendering of governmental service. We are here discussing the application of this technique to the revenue raising activities of local jurisdictions.

A timely illustration of this approach was provided by the 1961 session of the Colorado legislature. It authorized a group of counties to band together into a capital improvement district and to levy an area-wide sales tax (not to exceed two percent) to finance improvements. The district court was empowered to authorize an election on the establishment of the capital improvement district upon the petition of any county. Approval of the majority in the district rather than in each of the counties affected is sufficient to establish the district.

When, as in the Colorado legislation, the instrumentality for intercommunity cooperation is a special district, it must necessarily bear the onus of adding to the proliferation of local governmental units.

Authority to enable adjoining local jurisdictions to move in unison on nonproperty taxes would relieve intercommunity competition but might not relieve the high cost of administration and the heavy compliance burden of local taxes. Quite possibly these are insurmountable hurdles because income and sales taxes are not economical to administer at the low rates used by local governments. The problems can in some measure be mitigated, however. As a minimum, where several political subdivisions have authority to employ any of these taxes, the State by generally applicable legislation could prescribe standard definitions of taxpayers, tax bases, exemptions, penalties, credits, jurisdictional rules and administrative powers to minimize uncertainty and confusion and to prevent intrastate inconsistency. Where appropriate, it could prescribe procedural rules (referendum, etc.) for implementing cooperative taxation policies as well as allocation rules for the sharing of collections among the cooperating jurisdictions.

In States where payroll taxes on wages and salaries are typically imposed by two or more overlying jurisdictions, the compliance burden on employers and administrative costs could be reduced also by pooled administration. One of the jurisdictions, preferably the larger one, could administer the tax for all of them. This arrangement appears to have been developed in some Pennsylvania areas through local initiative. The scope of the problem is warrant for State initiative, to which we next turn.

Statewide Coordination

The proposition that the State should actively assist its subdivisions in improving the effectiveness of tax sources it makes available to them requires no demonstration. The parental relationship of the State to its subdivision is adequate justification. If more were needed, it could readily be found in the case for mitigating the adverse effect of the uncoordinated local use of the nonproperty taxes on the State's economy.

If State assistance to local tax administration is viewed with skepticism at all, that skepticism is likely to stem from the local governments themselves. Their sensitivity to home rule, their attachment to local autonomy, breeds suspicion of State intervention in local tax matters. At the very least, it dampens local enthusiasm for seeking State help in tax administration.

Another barrier is the absence of a common interest among some adjoining jurisdictions, stemming in part from differences in the urgency of finding additional revenue and in part from the unequal impact of most taxes on adjoining jurisdictions. The improved effectiveness of local sales taxes is likely to interest the jurisdiction which serves as the area's trading center; it is not likely to elicit support from the residential suburb. Similar conflicts of interest are likely to prevail between employment centers and residential suburbs with respect to local income or earnings taxes. The association of a tax with a service potentially beneficial to the total area, as in the Colorado sales tax legislation described above, may be prerequisite to areawide solidarity in tax policy but entails the weakness of taxes earmarked for specific uses. An alternative, as noted above, is the prescription of revenue allocation rules by the legislature.

Technical Assistance. The State can assist local tax areas in various ways short of taking a direct hand in tax collections. It can serve as a clearinghouse of information on the experience of other jurisdictions. It can provide training facilities for local personnel. It can provide technical advice on tax administration. It can afford local jurisdictions access to relevant State tax and related records. In some situations it can employ sanctions on behalf of local jurisdictions. Local administration of personal property taxes on automobiles would be measurably eased if evidence of their payment was made prerequisite to State registration of motor vehicles. Where local registration fees are imposed, evidence that the local tags had been purchased before State tags are issued would be equally effective.

Tax Administration. A special situation prevails where local use of a particular nonproperty tax is statewide or nearly so, and where reasonably uniform tax bases and rates are or can be employed. The conspicuous example is Pennsylvania, where as noted earlier, more than 800 cities, boroughs, townships and school districts impose income taxes, frequently overlapping. Ohio with more than 50 city income taxes is another example. In these situations, a statewide administration appears to be indicated. In neither Pennsylvania nor Ohio is income subject to State taxation and the question has been raised whether the constitutional provisions which have been invoked against the enactment of State income taxes would not also bar State administration of local income taxes. It is not for us to pass judgment on the constitutional question if one should exist. It appears to be clear, however, that nothing in the constitution precludes the State from assisting its political subdivisions in organizing a joint tax administration for themselves.

The local income tax situation in Pennsylvania and Ohio is unique. More generally, the local taxes overlap State taxes and provide ready scope for cooperation in tax administration. The most promising device of this kind is the tax supplement.

The Tax Supplement. Where a particular tax (base) is used for both State and local purposes, a logical administrative device is the tax supplement. The local rate is added to the State rate, both are collected by the State administration, and the allocate share of the collections (on the basis of geographic origin) is credited to the account of the local taxing jurisdiction. The classic American example is the manner in which some States still share the property tax with their political subdivisions. Administration in these cases is generally local, occasionally State. In Alabama, municipalities can provide by ordinance (and most of the large cities have provided) for the assessment and collection of personal property taxes through the State assessment and collection machinery.

In Nevada the State collects a one cent gasoline tax for the counties, which they have the privilege (by resolution) not to impose. None has taken advantage of the privilege.

The tax supplement has important advantages. It involves the use of identical tax definitions (taxpayer, tax base, etc.), those employed by the State, by all local jurisdictions. While some State definitions may leave scope for improvement, the advantages of uniformity for ease of compliance are self-evident. The local supplement is collected together with the State tax, eliminating the need for duplicate administration, with corresponding alleviation of compliance burdens. Where the local jurisdiction is charged a fee for the collection of its tax, these funds supplement the State's own, typically inadequate appropriations for tax enforcement.

The tax supplement, moreover, leaves the responsibility for imposing the tax and fixing its rate (generally within limits prescribed by the State) with the local jurisdiction. It enables the electorate in each jurisdiction to balance the case for the tax against the need for the additional local services and thus leaves scope for intrastate differences in the level of governmental services (necessarily at the cost of intrastate tax rate differentials). However, as will be noted later, the degree of local autonomy exercised in these situations may be ephemeral only. Experience suggests that frequently when local governing bodies are granted authority (without referendum requirement) to add local tax supplements, the tendency is to utilize the authority. This appears to be the burden of the experience with local sales tax supplements in Mississippi and Illinois. The California experience can be similarly interpreted. Examples can be cited, however, to demonstrate the contrary, particularly if the authority is subject to electoral approval.

Since the proceeds of local supplements accrue by definition to the imposing jurisdiction (the revenues are left in the jurisdictions where they are collected), problems of allocation among jurisdictions present in grants-in-aid and shared revenues are avoided. (By the same token, however, variations in need relative to local resources are disregarded.)

Recent experience with tax supplements has been particularly successful with sales taxes. The device was first used by Mississippi in 1950 and has spread to four other States. It has been in use in California since 1956 where both county and city taxes prevail. In that State, the legislative limit on both the county and city rate is one percent but the city tax is allowed as a tax credit against the county tax. Thus the net county rate may vary from one percent, where the city eschews the tax altogether, to zero if the city levies the one percent rate. Today the one percent local supplement to the three percent California State tax is virtually statewide, with the cities' share ranging from one-half percent to the full one percent. A few jurisdictions, however, still collect their own tax.

In Illinois, the privilege to add a local supplement to the State's sales tax was utilized (as of the first of this year) by approximately 1,120 municipalities and 56 counties. In Alabama, where 13 counties and 63 municipalities impose sales taxes, nine of the county and two of the city taxes are administered by the State Department of Revenue as a supplement to the State's tax.

While tax supplements have received most public notice in connection with sales taxes, the technique has potential in other areas where local taxes duplicate a State tax. Moreover, local use of the tax need not be statewide. The supplement would appear to have considerable scope with respect to motor vehicle registration fees where local licensing of vehicles is a widespread practice. The device has been discussed also in connection with local income taxes. It presents some problem here because States tax the total income of their residents from whatever geographic source derived, while local income taxes generally apply to earnings from employment within the taxing jurisdiction.

<u>The Tax Credit</u>. The tax credit is a device by which a taxing jurisdiction invites a subordinate jurisdiction to share with it a prescribed portion of a tax area. It is used also to enable two coordinate jurisdictions to share a portion of the tax.

The purpose of the credit is accomplished by permitting the taxpayer to discharge a specified portion of his tax liability to one (the superior) jurisdiction with receipts for an identical kind of tax paid to other (subordinate) jurisdictions. The credit, it will be noted, is to the taxpayer, and not to the taxing jurisdiction. Since the taxpayer's liability is the same whether the subordinate jurisdiction uses the tax (which gives rise to a credit) or not, the availability of the credit exerts a strong compulsion on the subordinate jurisdiction to impose the tax up to the limit of the credit. Why forgo the tax when it adds nothing to the tax burden of the local citizen; when it merely diverts to the local treasury revenues which otherwise would go to the State?

While the tax credit was used as early as 1918 to minimize international double taxation of Federal income taxpayers, its use in tax coordination among the constituent governments of the United States dates from 1924 when it was first employed to give States a share of the Federal estate tax. In 1936 it was also employed to insure that all States would set up unemployment compensation programs.

The tax credit has had only limited application in State-local relations. Two States (California and Utah) are using it to limit the aggregate of city and county sales taxes, by requiring the county to allow credit for the sales tax paid to cities. A bona fide example of the use of the tax credit in State-local tax relations is the Florida cigarette tax credit. In 1949 Florida authorized municipalities to levy cigarette taxes at a rate not exceeding the five cent per package State rate, with a corresponding tax credit against the State tax. All jurisdictions promptly imposed five cent cigarette taxes. In Florida the State collects the tax, withholds three percent of collections to cover administration costs, and returns the balance to municipalities in proportion to collections. Proceeds for the tax in areas outside municipalities are reserved for the State. Other incidental uses of the credit occur here and there. Virginia, for example, allows municipal taxes on shares in incorporated banks to be credited against the corresponding State tax.

In view of its coercive aspects, the tax credit is closely akin to a State imposed tax shared with subordinate jurisdictions on the basis of collections. In its Florida application, the tax credit in effect produces a State collected, locally shared cigarette tax.

In its more familiar application, as in the Federal estate and unemployment insurance taxes, the credit is consistent with, and in fact, contemplates, local tax rates in excess of the tax credit. In a State-local context, a case could be made for limiting local rates to the amount of the credit.

While the local and State taxes based on a tax credit are separately administered, the benefits of superior State administration spill over to local jurisdictions so long as the State retains a significant enough share of the tax to leave it with an incentive to make an enforcement effort. This would not be the case where the credit absorbs substantially all of the nominal State tax liability.

Perhaps the strongest feature of the tax credit is its tendency to equalize tax rates among jurisdictions, thereby curtailing intercommunity tax competition. While tax rate differentials are precluded only if the local tax rates cannot exceed the credit, some equalizing tendency prevails even in the absence of local rate ceilings. The tax credit enables each jurisdiction to impose a tax rate up to the amount of the credit without affecting the combined State-local tax liability. This serves as a floor below which competitive tax rate cutting is eliminated because the tax credit makes it pointless.

Tax Sharing. The most familiar intergovernmental device in State-local tax relations is the shared tax. The tax is imposed by the State and its yield shared with local governments. Typically the tax is State administered. On occasions, however, as in the case of some State death duties, it is sometimes locally administered with a portion of collections retained by the administering jurisdiction.

The advantages of a State imposed and locally shared tax over separately imposed State and local taxes are several. Dual tax administration is eliminated. Local governments are afforded the benefit of the State's superior enforcement facilities. It eliminates scope for intercommunity tax rate competition and results in a statewide tax rate level deemed consistent with State policy. These benefits are obtained without destroying local independence with respect to expenditures.

Local sharing of State taxes, however, is not without its shortcomings. Local fiscal independence is impaired to the extent that the decision respecting the kinds of taxes employed, tax rates, etc., are removed from local determination. Conceivably some jurisdictions have no need for the revenue or would prefer to do without the tax burden and the revenue. The basis of sharing, moreover, poses difficulties akin to those present in grants-in-aid and exposes local jurisdictions to the fortunes of the political power balance in State councils. Tax sharing does have a practical advantage over a grant-in-aid in that it avoids the periodic budget debate over how much should be appropriated for it.

A common basis for tax sharing is collections within each jurisdiction. This is readily workable with respect to such revenues as motor vehicle registration fees or taxes on utility services. Here the geographic origin of the revenue can be readily identified. The task is more difficult, however, in the case of general sales taxes since the distribution of revenues on the basis of collections will overstate the contribution of the marketing areas. It is most difficult in the case of income taxes because a resident normally files his tax return in the jurisdiction where he resides and a business organization where its headquarters are located while the income of both may and probably does represent activity scattered over a larger area.

Because of these kinds of considerations, distribution of revenues on bases other than collections is not uncommon. Sometimes population is employed. In the case of automotive taxes, the distribution formulas may be related to highway needs. Objective standards for distribution, however, are elusive. Where the bases of distribution are collections or population within each jurisdiction, the result may be at marked variance with relative need resulting in excessive distributions to some jurisdictions, inadequate shares to others.

Finally, since distributions are on the basis of collections, the yield of shared taxes fluctuates from year to year and shifts the burden of adjusting expenditure levels from the State, which typically is better able to absorb it, to local jurisdictions. This consideration, however, has more relevance in comparing shared taxes with grants-in-aid, than with other State-local tax arrangements.

While the tax sharing device may run a poor second to grants-in-aid where the objective is to provide State financial assistance to local units on a stable basis, it has distinct advantages as a substitute for locally imposed taxes where they are widespread within the State, especially if the independently imposed local tax rates tend to be uniform. In 1961, Maryland increased its State cigarette tax by three cents, the approximate rate of the prevailing county cigarette taxes, and earmarked the added revenue for counties, on the basis of collections. At the same time, it prohibited the further imposition of local cigarette taxes. By this measure, it made the State's more efficient and economical enforcement resources available to the counties, and eliminated intrastate tax rate differentials.

7. SUMMARY OF FINDINGS

The focus of this report is the imbalance between the revenue needs and revenue resources of local governments.

Under our system, civil government is largely a State and local responsibility. In 1960, for example, when civil government cost about $63 billion, 54 percent of these expenditures took place at the local, 28 percent at the State and only 18 percent at the Federal level. A portion of Federal appropriations for civil government (not included in the 18 percent) was for grants-in-aid, actually disbursed by State and local governments.

Many functions of civil government are traditionally local and their cost has out paced the yield of local governments' own revenue sources. Local expenditures tripled between 1948 and 1960 from $11.5 billion to $34.4 billion and this fiscal year are probably around $40 billion. Despite substantial increases in the amount of State and Federal aid ($10 billion, accounting for 30 percent of local general revenues in 1960), many cities, counties, school districts, etc., have been able to finance their burgeoning activities only by recourse to taxes not well suited for local use.

The revenue requirements of local governments will continue to mount as the quantity and quality of their programs is brought into better conformity with the further growth and urbanization of the population and with rising living standards. Significant adjustments in State-local fiscal relations will be required to prevent the aggravation of disparities between local needs and local resources.

The realignment of fiscal resources at the local level is a State responsibility. It is a continuing process and embraces adjustments in the State-local division of functional responsibilities as well as intergovernmental financial aids and taxing powers. The realignment of fiscal resources takes different forms reflecting interstate variations in institutional arrangements and preferences and takes place at different times.

In States where the imbalance between needs and resources is of significant proportions and widespread among local jurisdictions, constructive remedy in the future, as in the past, will probably entail readjustment in functional responsibilities by relieving local units of some of their obligations or increased State financial aids to local jurisdictions.

Pressures to increase locally raised revenues will inevitably persist, however, because intergovernmental fiscal institutions are slow to change, tax diversification has much appeal, the inclination to exercise home rule is strong, and the need for additional financing resources at the local level is immediate and pressing.

Local government finance in the United States is a most heterogenous institution, nationally as well as within most individual States. Our sketchy description of State-local tax arrangements involving some 90,000 separate governmental entities makes this abundantly clear. It underscores also the improbability that local fiscal problems are susceptible to common solutions. This study has certainly failed to uncover them. It has provided, however, a basis for some general appraisal of the merits of the more common techniques in State-local tax relations, some general guidelines which can be readily synthesized. Each of these is believed to have potential usefulness in some situations in some States, probably none in all of the States. Arrangements appropriate for particular situations can be prescribed only in the context of circumstances prevailing then and there.

In many parts of the country, significant amounts of additional local revenue can be obtained from property taxation. The amount of these taxes has increased substantially in recent years to be sure, but the magnitude of government operations has increased even more. In 1960, property taxes supplied not quite 15 percent of the aggregate tax revenues of all governments in the United States. Property tax rates were more often below than above 1.5 percent of market values. While the Commission's study of property taxation is not sufficiently advanced to warrant specific recommendations, we have no reason to doubt the need to improve the structure and administration of this tax along the lines of the recommendations emanating with such regularity and consistency from tax study groups across the country.

Realism counsels that we proceed on the assumption that in the future, as in the immediate past, local governments will continue to have recourse to nonproperty taxes; principally general and selective consumer taxes and income taxes although most local jurisdictions are too small and their economies too sensitive to intercommunity tax differentials to permit effective use of them. We turn therefore to the ways and means by which States can help their political subdivisions to make reasonably effective use of them.

The case for most local nonproperty taxes is strongest and the need for additional revenue most pressing in the large urban jurisdictions. The relatively large scale of their operations enhances (but does not insure) the feasibility of providing a fair quality of tax administration at reasonable enforcement costs. Moreover, the large city is likely to occupy a key role in the economy of the area of which it is a part. In most situations, however, the economic area extends beyond the territorial jurisdiction of the large city. It can therefore make effective use of local consumer and income taxes only in cooperation with its neighbors, only if the adjoining jurisdictions pursue complementary tax policies. In many situations, local jurisdictions presently lack authority to do so. States should make it available to them. They should provide them with uniform taxing powers and authority for cooperative tax enforcement, buttressed by State leadership in promoting the pursuit of coordinated tax policies and practices by the large city and the neighboring jurisdictions entwined with it economically.

Jurisdictions comprising the economic area and pursuing coordinated tax policies would benefit also from authority to pool their tax enforcement resources. Where appropriate, the largest jurisdiction might undertake to perform the tax administration function for the surrounding jurisdictions, on a reimbursement basis. They should be provided with authority to do so.

Where local sales, excise, or income taxes are relatively widespread within a State and duplicate a similar tax used by the State, the tax supplement is a potentially fruitful instrument of tax coordination. It affords local jurisdictions access to the superior enforcement resources of the State, permits some variation in local tax rates, and enables the State to prescribe uniform tax definitions for local jurisdictions, with commensurate benefit to taxpayers.

In those situations where the use of a nonproperty tax is widespread but the particular tax is not used also by the State, the case for statewide administration may nonetheless be strong. Such administration can be provided either by one of the State tax administration agencies or, alternatively, by authorizing local jurisdictions to join in creating one cooperatively.

Intrastate variations in structural and administrative provisions of local taxes aggravate the compliance burden they impose totally out of proportion to their worth for the exercise of local autonomy. Therefore, States in which local jurisdictions may impose nonproperty taxes should mandate by legislation the essential structural (tax bases, exemptions, etc.) and administrative features of such local taxes.

Experience suggests also that States would be well advised to limit their political subdivisions in the kinds of nonproperty taxes they may employ and to disregard the affinity of home rule extremists for a wide array of local tax choices with little revenue potential.

Finally, States can provide their local units with technical assistance by serving as a clearinghouse of information on tax practice elsewhere, by providing personnel training facilities, by giving them access to State tax records, and by exercising a variety of sanctions against State taxpayers who take liberties with local tax requirements.

Our examination indicates relatively little scope for the tax credit device in State-local relations. It is an instrument of coercion. It forces a particular tax upon all eligible local units and therefore produces the same result as a State imposed tax shared with local jurisdictions on the basis of collections. It, however, compares unfavorably with a shared tax for it involves the duplication of the State's tax administration. This is not to gainsay that the tax credit is helpful in coordinating the use of the same tax by overlapping local jurisdictions, much as it is now used to minimize double taxation of income by two or more States.

8. STATISTICAL AND BIBLIOGRAPHICAL NOTE

State and local financial statistics employed in this report were drawn almost exclusively from the publications of the Governments Division of the Bureau of the Census. Since our analysis pertains primarily to activities of general government, we disregard some receipts and expenditures generally included in aggregate data on State and local fiscal operations. The principal items excluded, as falling outside general government activity, are utility operations, liquor store operations and insurance trust fund activities (except where they contribute to general revenues or where their deficits are covered out of general revenues).

Our analysis of local governments' revenue needs is in terms of "direct expenditures," the amount expended by these governments, other than as payments to other governments, regardless of the source of the financing. Thus, at the local level, direct expenditures include those financed with grant-in-aid receipts. At the State level they exclude grants and shared revenues distributed to local governments, but include funds obtained in Federal aid and not redistributed in grants to local governments. At the Federal level, direct expenditures exclude grants and payments in lieu of taxes to State and local governments.

Our analysis of local governments' revenues distinguishes between locally-raised and intergovernmental revenues. Taxes and other revenues collected by the local jurisdiction itself fall into the first category; those collected by the State and shared with local governments are treated, with State and Federal grants, as the intergovernmental revenue of the local jurisdiction. Among locally raised tax revenue, we distinguish between property taxes and all other taxes, designated for brevity as "nonproperty" taxes. These include general sales taxes, taxes on specific commodities and services such as tobacco, liquor, motor fuel and admissions to places of amusement, income taxes, per capita and poll taxes, licenses and other business taxes, to mention only the more common varieties. The designation "non-tax revenue" embraces service charges and a wide variety of miscellaneous revenue available for purposes of general government.

The data on types of taxes imposed by local jurisdictions and statutory provisions on State-local tax relations were derived from Commerce Clearing House, <u>State Tax Reporter</u>, and from a variety of publications relating to taxation in particular States, too numerous to list here. Detail on the local use of nonproperty taxes in Pennsylvania and New York was obtained, respectively, from the reports of the Commonwealth of Pennsylvania, Department of Internal Affairs entitled Pennsylvania Local Government Taxes Levied under Act 481 in 1958 (Harrisburg, February 1961), and of the State of New York Department of Taxation and Finance entitled New York State and Local Tax System 1959 (Albany, July 1, 1959).

We record our indebtedness, also, to the many public officials and students of local finance who have shared their experience and findings on this subject with readers of the Proceedings of the annual conferences of the National Tax Association and of the several professional journals in this field.

APPENDIX TABLE 1

LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURE BY STATE: AMOUNT, PER CAPITA, PER $1,000 OF PERSONAL INCOME, AND AS A PERCENT OF STATE AND LOCAL DIRECT GENERAL EXPENDITURE - 1960

State	Local general expenditure						
	Amount	Per capita1/		Per $1,000 of personal income 2/		As a % of State and local gen. expen.	
	($000,000)	Amount	Rank	Amount	Rank	Amount	Rank
Alabama	380.5	$116.25	45	$ 79.52	30	53.5	32
Alaska	39.0	171.05	24	62.00	45	49.6	38
Arizona	246.7	187.18	16	93.09	11	60.5	21
Arkansas	172.0	96.20	47	71.76	37	48.6	41
California	4,424.7	279.16	2	101.84	6	73.5	4
Colorado	421.6	239.82	5	103.36	4	69.7	7
Connecticut	467.8	183.59	18	64.13	41	58.9	23
Delaware	57.7	128.51	42	42.65	43	38.3	49
Florida	914.0	182.80	19	91.97	12	64.6	15
Georgia	524.3	132.77	38	82.58	25	59.7	22
Hawaii	80.8	125.86	44	56.03	49	34.1	50
Idaho	106.6	158.87	28	88.46	16	55.9	28
Illinois	2,038.9	201.61	9	77.16	34	70.3	5
Indiana	795.6	170.11	25	78.06	32	66.5	14
Iowa	493.7	178.81	22	89.26	14	60.9	19
Kansas	421.8	193.66	12	93.65	10	66.7	12
Kentucky	279.8	91.83	48	59.51	47	46.3	47
Louisiana	501.3	153.30	32	95.58	9	47.5	44
Maine	124.1	127.41	43	67.04	39	49.8	37
Maryland	581.0	186.46	17	77.88	33	69.3	9
Massachusetts	1,059.5	205.05	8	81.40	27	69.0	10
Michigan	1,582.0	201.58	10	86.80	18	66.7	13
Minnesota	785.9	229.39	6	111.70	2	69.7	8
Mississippi	290.2	133.12	37	113.49	1	57.6	26
Missouri	591.3	136.53	35	62.10	44	58.8	24
Montana	120.4	177.58	23	88.01	17	53.1	33
Nebraska	254.0	179.63	20	85.01	21	66.9	11
Nevada	70.6	245.14	4	86.20	19	58.3	25
New Hampshire	80.2	131.69	39	63.50	42	47.9	43
New Jersey	1,208.7	198.18	11	74.35	35	77.2	1
New Mexico	155.4	162.04	27	89.83	13	52.5	34
New York	4,749.7	282.27	1	101.21	7	75.4	3
North Carolina	387.0	84.81	50	53.87	50	43.5	48
North Dakota	113.7	179.34	21	102.99	5	48.6	42
Ohio	1,871.2	192.13	13	82.15	26	70.3	6

APPENDIX TABLE 1 (concluded)

LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURE BY STATE: AMOUNT, PER CAPITA, PER $1,000 OF PERSONAL INCOME, AND AS A PERCENT OF STATE AND LOCAL DIRECT GENERAL EXPENDITURE - 1960

State	Local general expenditure						
	Amount ($000,000)	Per capita 1/		Per $1,000 of personal income 2/		As a % of Staee and local gen. expen.	
		Amount	Rank	Amount	Rank	Amount	Rank
Oklahoma	338.6	145.14	34	78.53	31	51.4	35
Oregon	338.2	190.75	15	84.44	22	55.6	29
Pennsylvania	1,783.9	157.27	29	69.41	38	61.3	18
Rhode Island	112.2	130.92	41	58.77	48	51.2	36
South Carolina	215.5	90.09	49	64.50	40	49.2	40
South Dakota	101.4	148.68	33	80.73	28	49.3	39
Tennessee	470.2	131.60	40	85.15	20	60.6	20
Texas	1,475.9	153.47	31	79.74	29	62.3	17
Utah	152.2	169.87	26	88.95	15	55.4	30
Vermont	60.3	154.22	30	82.94	23	47.2	46
Virginia	531.1	133.51	36	72.25	36	62.7	16
Washington	547.6	191.47	14	82.64	24	57.5	27
West Virginia	191.6	103.18	46	61.63	46	47.5	45
Wisconsin	868.7	219.15	7	100.95	8	75.5	2
Wyoming	82.5	248.49	3	106.45	3	54.7	31
Total	33,661.5	187.83		84.64		65.2	

1/ Based on provisional estimates of population (exclusive of armed forces overseas) as of July 1, 1960.

2/ Based on personal income estimates reported in U. S. Department of Commerce, Survey of Current Business, August 1961.

Source: Bureau of the Census, Governments Division.

APPENDIX TABLE 2
STATE INTERGOVERNMENTAL EXPENDITURE BY STATE: TOTAL, PER CAPITA, AND AS A PERCENT OF STATE GENERAL EXPENDITURE, AND AS A PERCENT OF LOCAL GENERAL REVENUE - 1960

State	1960 expenditure			
	Total ($000)	Per Capita 1/	As a percent of total State gen. expenditure	As a percent of total local gen. revenue
Alabama	167,614	$51.21	33.7	46.8
Alaska	10,194	44.71	20.4	34.9
Arizona	79,587	60.38	33.1	34.6
Arkansas	65,002	36.35	26.3	38.7
California	1,454,643	91.78	47.7	33.6
Colorado	126,526	71.97	40.8	31.0
Connecticut	63,056	24.75	16.2	15.1
Delaware	20,230	45.06	17.9	44.9
Florida	222,568	44.51	30.7	26.9
Georgia	176,535	44.70	33.3	36.1
Hawaii	26,297	40.96	14.4	40.9
Idaho	27,824	41.47	24.8	27.0
Illinois	350,734	34.68	29.0	18.9
Indiana	208,419	44.56	34.2	27.7
Iowa	112,749	40.84	26.2	24.3
Kansas	102,124	46.89	32.6	24.0
Kentucky	82,169	26.97	20.2	29.5
Louisiana	231,227	70.71	29.4	48.9
Maine	20,028	20.56	13.8	15.4
Maryland	175,045	56.18	40.4	32.7
Massachusetts	310,423	60.08	39.4	28.4
Michigan	551,600	70.29	41.1	36.1
Minnesota	238,914	69.74	41.2	32.6
Mississippi	122,369	56.13	36.5	47.9
Missouri	105,731	24.41	20.3	19.1
Montana	20,403	30.09	16.1	16.1
Nebraska	42,374	29.97	25.2	18.4
Nevada	17,906	62.17	26.1	26.3
New Hampshire	5,973	9.81	6.4	7.9
New Jersey	159,295	26.12	30.8	13.6

APPENDIX TABLE 2 (concluded)
STATE INTERGOVERNMENTAL EXPENDITURE BY STATE: TOTAL, PER CAPITA, AND AS A PERCENT OF STATE GENERAL EXPENDITURE, AND AS A PERCENT OF LOCAL GENERAL REVENUE - 1960

State	1960 expenditure			
	Total ($000)	Per Capita 1/	As a percent of total State gen. expenditure	As a percent of total local gen. revenue
New Mexico	70,543	$73.64	33.4	45.2
New York	1,225,114	72.81	44.2	25.7
North Carolina	100,985	22.13	16.7	28.8
North Dakota	25,938	40.91	17.7	25.1
Ohio	450,922	46.30	36.3	26.5
Oklahoma	115,861	49.66	26.6	36.3
Oregon	90,141	50.84	25.0	26.7
Pennsylvania	474,888	41.87	29.6	28.8
Rhode Island	20,405	23.81	16.0	17.6
South Carolina	92,775	38.79	29.4	44.2
South Dakota	10,745	15.76	9.3	10.2
Tennessee	154,489	43.24	33.6	37.6
Texas	332,528	34.58	27.1	23.8
Utah	44,172	49.30	26.5	31.1
Vermont	13,505	34.54	16.7	22.5
Virginia	138,007	34.69	30.4	28.4
Washington	216,326	75.64	34.9	40.5
West Virginia	64,786	34.89	23.4	34.6
Wisconsin	315,610	79.62	52.9	38.1
Wyoming	27,413	82.57	28.6	34.4
Total	9,282,712	51.80	34.1	28.9

1/ Based on provisional estimates of population (exclusive of armed forces overseas) as of July 1, 1960.

Source: Bureau of the Census, Governments Division

APPENDIX TABLE 3
LOCALLY COLLECTED GENERAL REVENUE BY STATE: AMOUNT, PER CAPITA, AND PER $1,000 OF PERSONAL INCOME - 1960

State	Locally collected general revenue				
	Amount ($000,000)	Per capita [1/]		Per $1,000 of personal income [2/]	
		Amount	Rank	Amount	Rank
Alabama	187.1	$ 57.18	47	$ 39.10	45
Alaska	17.5	76.75	38	27.82	48
Arizona	147.8	112.14	26	55.77	25
Arkansas	100.5	56.21	48	41.93	41
California	2,835.0	178.86	2	65.25	10
Colorado	275.9	156.94	6	67.64	8
Connecticut	348.2	136.66	13	47.73	32
Delaware	26.3	58.57	46	19.44	50
Florida	600.6	120.12	23	60.43	17
Georgia	303.7	76.91	37	47.83	31
Hawaii	39.1	60.90	45	27.12	49
Idaho	74.2	110.58	28	61.58	15
Illinois	1,490.3	147.36	10	56.40	22
Indiana	537.3	114.88	24	52.72	28
Iowa	374.2	135.53	15	67.66	7
Kansas	322.7	148.16	9	71.65	5
Kentucky	189.5	62.19	43	40.30	43
Louisiana	237.7	72.69	40	45.32	38
Maine	110.8	113.76	25	59.86	19
Maryland	349.0	112.00	27	46.78	33
Massachusetts	812.6	157.27	5	62.43	14
Michigan	994.3	126.69	19	54.56	27
Minnesota	498.9	145.62	11	70.91	6
Mississippi	133.0	61.01	44	52.01	29
Missouri	440.2	101.64	34	46.23	35
Montana	103.5	152.65	8	75.66	1
Nebraska	192.8	136.35	14	64.52	12
Nevada	47.7	165.63	4	58.24	21
New Hampshire	75.0	123.15	21	59.38	20
New Jersey	1,025.4	168.13	3	63.08	13
New Mexico	72.3	75.47	39	41.79	42
New York	3,506.9	208.41	1	74.73	3
North Carolina	248.0	54.35	49	34.52	46
North Dakota	79.6	125.55	20	72.10	4
Ohio	1,251.5	128.50	18	54.94	26

APPENDIX TABLE 3 (concluded)
LOCALLY COLLECTED GENERAL REVENUE BY STATE: AMOUNT, PER CAPITA, AND PER $1,000 OF PERSONAL INCOME - 1960

State	Locally collected general revenue				
	Amount ($000,000)	Per capita[1/]		Per $1,000 of personal income[2/]	
		Amount	Rank	Amount	Rank
Oklahoma	193.7	83.03	35	44.92	39
Oregon	240.1	135.42	16	59.95	18
Pennsylvania	1,167.1	102.89	33	45.41	37
Rhode Island	94.0	109.68	29	49.24	30
South Carolina	115.4	48.24	50	34.24	47
South Dakota	94.9	139.15	12	75.56	2
Tennessee	251.6	70.42	41	45.56	36
Texas	1,043.7	108.53	30	56.39	23
Utah	95.5	106.58	32	55.82	24
Vermont	47.1	120.46	22	64.79	11
Virginia	323.7	81.37	36	44.03	40
Washington	305.9	106.96	31	46.17	34
West Virginia	122.6	66.02	42	39.43	44
Wisconsin	522.0	131.69	17	60.66	16
Wyoming	50.9	153.31	31	65.68	9
Total	22,717.3	126.76		57.12	

1/ Based on provisional estimates of population (exclusive of armed forces overseas) as of July 1, 1960.

2/ Based on personal income estimates reported in U. S. Department of Commerce, Survey of Current Business, August 1961.

Source: Bureau of the Census, Governments Division.

APPENDIX TABLE 4
LOCAL GOVERNMENT TAX REVENUE BY STATE: AMOUNT, PER CAPITA, PER $1,000 OF PERSONAL INCOME, AND AS A PERCENT OF STATE AND LOCAL TAX REVENUE - 1960

State	Local Tax Revenue					
	Amount ($000,000)	Per capita[1/]		Per $1,000 of[2/] personal income		As a percent of stated local tax revenue
		Amount	Rank	Amount	Rank	
Alabama	111.2	$33.97	49	$23.24	45	28.9
Alaska	9.5	41.67	44	15.10	49	26.0
Arizona	109.7	83.23	29	41.40	27	39.9
Arkansas	66.6	37.25	47	27.78	43	29.6
California	2,284.9	144.16	3	52.59	12	51.8
Colorado	213.8	121.62	8	52.41	14	52.6
Connecticut	304.6	119.54	10	41.75	25	56.1
Delaware	18.4	40.98	45	12.86	50	20.6
Florida	398.2	79.64	33	40.07	30	43.3
Georgia	189.9	48.09	39	29.91	39	34.0
Hawaii	27.7	43.15	43	19.21	48	18.2
Idaho	57.8	86.14	27	47.97	17	45.6
Illinois	1,247.3	123.34	6	47.20	20	59.9
Indiana	440.8	94.25	25	43.25	23	52.5
Iowa	301.5	109.20	16	54.51	11	53.1
Kansas	267.8	122.96	7	59.46	5	56.4
Kentucky	133.1	43.68	42	28.31	42	36.8
Louisiana	163.6	50.03	37	31.19	38	26.5
Maine	101.5	104.21	20	54.84	10	53.9
Maryland	275.6	88.45	26	36.94	31	44.5
Massachusetts	716.9	138.75	4	55.08	9	59.3
Michigan	787.5	100.34	22	43.21	24	46.3
Minnesota	390.9	114.10	12	55.56	7	52.6
Mississippi	89.0	40.83	46	34.81	34	31.4
Missouri	345.9	79.87	31	36.33	32	52.5
Montana	83.8	123.60	5	61.26	3	56.4
Nebraska	154.6	109.34	15	51.74	15	62.9
Nevada	33.8	117.36	11	41.27	28	42.9
New Hampshire	66.3	108.87	17	52.49	13	61.4
New Jersey	896.6	147.01	2	55.16	8	71.1

APPENDIX TABLE 4 (concluded)
LOCAL GOVERNMENT TAX REVENUE BY STATE: AMOUNT, PER CAPITA PER $1,000 OF PERSONAL INCOME, AND AS A PERCENT OF STATE AND LOCAL TAX REVENUE - 1960

State	Local Tax Revenue					
	Amount ($000,000)	Per capita[1/] Amount	Per capita[1/] Rank	Per $1,000 of[2/] personal income Amount	Per $1,000 of[2/] personal income Rank	As a percent of stated local tax revenue
New Mexico	44.1	$46.03	41	$25.49	44	26.4
New York	2,877.5	171.00	1	61.32	2	59.5
North Carolina	165.3	36.23	48	23.01	46	26.5
North Dakota	64.9	102.37	21	58.79	6	51.6
Ohio	926.3	95.11	24	40.67	29	51.5
Oklahoma	137.7	59.02	36	31.93	36	33.3
Oregon	190.5	107.45	19	47.57	18	47.8
Pennsylvania	930.6	82.04	30	36.21	33	47.4
Rhode Island	83.2	97.08	23	43.58	22	49.1
South Carolina	73.8	30.85	50	22.09	47	23.9
South Dakota	82.1	120.38	9	65.37	1	60.8
Tennessee	176.0	49.26	38	31.87	37	36.6
Texas	768.0	79.86	32	41.50	26	49.2
Utah	76.0	84.82	28	44.42	21	43.1
Vermont	43.5	111.25	13	59.83	4	50.0
Virginia	240.9	60.56	35	32.77	35	45.2
Washington	191.4	66.92	34	28.89	40	29.3
West Virginia	89.2	48.03	40	28.69	41	33.1
Wisconsin	428.6	108.12	18	49.81	16	50.1
Wyoming	36.7	110.54	14	47.35	19	46.9
Total	17,915.6	99.97		45.05		49.8

1/ Based on provisional estimates of population (exclusive of armed forces overseas) as of July 1, 1960.

2/ Based on personal income estimates reported in U. S. Department of Commerce, Survey of Current Business, August 1960.

Source: Bureau of the Census, Governments Division.

APPENDIX TABLE 5
TAX COLLECTIONS OF LOCAL GOVERNMENTS BY STATE - 1960
(Dollar amounts in millions)

State	Taxes			Nonproperty as a percent of total taxes
	Total	Property	Nonproperty	
Alabama	$111.2	$ 62.6	$ 48.6	43.7
Alaska	9.5	6.7	2.8	29.5
Arizona	109.7	99.4	10.3	9.4
Arkansas	66.6	62.2	4.4	6.6
California	2,284.9	1,988.5	296.4	13.0
Colorado	213.8	198.6	15.2	7.1
Connecticut	304.6	302.4	2.2	0.7
Delaware	18.4	17.0	1.4	7.6
Florida	398.2	322.9	75.3	18.9
Georgia	189.9	167.6	22.3	11.7
Hawaii	27.7	20.2	7.5	27.1
Idaho	57.8	56.4	1.4	2.4
Illinois	1,247.3	1,097.4	149.9	12.0
Indiana	440.8	438.1	2.7	0.6
Iowa	301.5	296.9	4.6	1.5
Kansas	267.8	261.1	6.7	2.5
Kentucky	133.1	110.6	22.5	16.9
Louisiana	163.6	127.8	35.8	21.9
Maine	101.5	100.9	0.6	0.6
Maryland	275.6	247.6	28.0	10.2
Massachusetts	716.9	706.3	10.6	1.5
Michigan	787.5	777.4	10.1	1.3
Minnesota	390.9	379.9	11.0	2.8
Mississippi	89.0	73.7	15.3	17.2
Missouri	345.9	283.0	62.9	18.2
Montana	83.8	79.2	4.6	5.5
Nebraska	154.6	142.7	11.9	7.7
Nevada	33.8	26.3	7.5	22.2
New Hampshire	66.3	65.7	0.6	0.9
New Jersey	896.6	815.2	81.4	9.0

APPENDIX TABLE 5 (concluded)
TAX COLLECTIONS OF LOCAL GOVERNMENTS BY STATE - 1960
(Dollar amounts in millions)

State	Taxes			Nonproperty as a percent of total taxes
	Total	Property	Nonproperty	
New Mexico	$ 44.1	$ 33.4	$ 10.7	24.3
New York	2,877.5	2,214.5	663.0	23.0
North Carolina	165.3	159.1	6.2	3.8
North Dakota	64.9	63.4	1.5	2.3
Ohio	926.3	834.6	91.7	9.9
Oklahoma	137.7	131.9	5.8	4.2
Oregon	190.5	183.8	6.7	3.5
Pennsylvania	930.6	689.5	241.1	25.9
Rhode Island	83.2	81.6	1.6	1.9
South Carolina	73.8	67.6	6.2	8.4
South Dakota	82.1	77.2	4.9	6.0
Tennessee	176.0	155.5	20.5	11.6
Texas	768.0	715.6	52.4	6.8
Utah	76.0	70.4	5.6	7.4
Vermont	43.5	42.1	1.4	3.2
Virginia	240.9	189.3	51.6	21.4
Washington	191.4	159.3	32.1	16.8
West Virginia	89.2	79.3	9.9	11.1
Wisconsin	428.6	421.3	7.3	1.7
Wyoming	36.7	34.5	2.2	6.0
Total	17,915.6	15,738.1	2,177.5	12.2

Source: Bureau of the Census, Governments Division.

APPENDIX TABLE 6
NONPROPERTY TAX REVENUE OF LOCAL GOVERNMENTS, AS A PERCENT OF STATE AND LOCAL TOTAL TAX REVENUE, AND NONPROPERTY TAX REVENUE BY STATES - 1960

State	Local nonproperty tax revenue	
	As a percent of State and local total tax revenue	As a percent of State and local nonproperty tax revenue
Alabama	12.6	15.7
Alaska	7.7	9.5
Arizona	3.8	7.0
Arkansas	2.0	2.7
California	6.7	12.9
Colorado	3.7	7.7
Connecticut	0.4	0.9
Delaware	1.6	2.0
Florida	8.2	13.0
Georgia	4.0	5.7
Hawaii	4.9	5.7
Idaho	1.1	2.1
Illinois	7.2	15.2
Indiana	0.3	0.7
Iowa	0.8	1.7
Kansas	1.4	3.3
Kentucky	6.2	9.6
Louisiana	5.8	7.6
Maine	0.3	0.7
Maryland	4.5	7.8
Massachusetts	0.9	2.1
Michigan	0.6	1.2
Minnesota	1.5	3.2
Mississippi	5.4	7.5
Missouri	9.5	17.3
Montana	3.1	7.3
Nebraska	4.8	15.7
Nevada	9.5	14.8
New Hampshire	0.6	1.5
New Jersey	6.5	18.3

APPENDIX TABLE 6 (concluded)
NONPROPERTY TAX REVENUE OF LOCAL GOVERNMENTS, AS A PERCENT OF STATE AND LOCAL TOTAL TAX REVENUE, AND NONPROPERTY TAX REVENUE BY STATES - 1960

State	Local nonproperty tax revenue	
	As a percent of State and local total tax revenue	As a percent of State and local nonproperty tax revenue
New Mexico	6.4	8.5
New York	13.7	25.3
North Carolina	1.0	1.4
North Dakota	1.2	2.5
Ohio	5.1	10.0
Oklahoma	1.4	2.1
Oregon	1.7	3.1
Pennsylvania	12.3	18.9
Rhode Island	0.9	1.8
South Carolina	2.0	2.6
South Dakota	3.6	8.5
Tennessee	4.3	6.3
Texas	3.4	6.5
Utah	3.2	5.7
Vermont	1.6	3.1
Virginia	9.7	15.6
Washington	4.9	7.0
West Virginia	3.7	5.2
Wisconsin	0.9	1.8
Wyoming	2.8	6.0
Total	6.1	11.1

Source: Bureau of the Census, Governments Division.

COLLECTION OF LOCAL NON-PROPERTY TAXES BY THE STATE

Over the past few years an increasing number of states have authorized local governments to levy non-property taxes as a means of securing additional revenues. Today many cities, counties, and even school districts levy the same kinds of taxes that are levied by the state. In order to levy such taxes, local governments typically have set up tax collection machinery which creates added administrative costs and increases the cost of tax compliance to the tax-paying public, while at the same time the effectiveness of local tax collection is hampered because of the limited local funds available for tax administration.

In the sales tax field, states such as California, Illinois Mississippi, New Mexico, and Utah have, for some time, authorized a state agency to collect locally levied sales taxes. In addition to sales taxes, a number of states permit local governments to levy taxes on income, gasoline, alcoholic beverages, cigarettes and tobacco, amusements, motor vehicles, and others. During 1963, Colorado enacted broad legislation which would permit a state agency to collect any non-property tax for a local government where the state and local government levy the same tax.

The suggested legislation below is based on the Colorado statute. It should clearly be noted that this legislation does not in any sense constitute an authorization for local government to levy non-property taxes. It merely provides for a procedure where the state, on a reimbursable basis, can collect local government non-property taxes where such taxes are otherwise authorized by state law.

Suggested Legislation

[Title should conform to state requirements]

(Be it enacted, etc.)

Section 1. Authority to contract. The director of [tax department] is hereby authorized to negotiate and contract with any political subdivision of the state for the purpose of arranging for the collection by the [tax department] of any tax levied by a political subdivision of the state which is also levied and collected by the [tax department] for the state. Such agreements shall include a fee to be paid by the political subdivision to the [tax department] in such amount as may be necessary fully to cover the cost of collection of the local portion of the tax by the [tax department.] Pursuant to the agreement the director shall transmit to such political subdivisions on or before [date] all taxes so collected on behalf of such political subdivisions less the agreed upon collection fee.

PUBLISHED REPORTS OF THE ADVISORY COMMISSION
ON INTERGOVERNMENTAL RELATIONS 1/

Coordination of State and Federal Inheritance, Estate and Gift Taxes. Report A-1. January 1961. 134 pp., printed.

Modification of Federal Grants-in-Aid for Public Health Services. Report A-2. January 1961. 46 pp., offset. (Out of print; summary available)

Investment of Idle Cash Balances by State and Local Governments. Report A-3. January 1961. 61 pp., printed.

Investment of Idle Cash Balances by State and Local Governments--A Supplement to Report A-3. January 1965. 16 pp., offset.

Interest Bearing U. S. Government Securities Available for Investment of Short-Term Cash Balances of Local and State Governments. September 1963. 5 pp., printed. (Prepared by U. S. Treasury Dept.)

Intergovernmental Responsibilities for Mass Transportation Facilities and Services. Report A-4. April 1961. 54 pp., offset. (Out of print; summary available)

Governmental Structure, Organization, and Planning in Metropolitan Areas. Report A-5. July 1961. 83 pp., U. S. House of Representatives, Committee on Government Operations, Committee Print, 87th Congress, 1st Session.

State and Local Taxation of Privately Owned Property Located on Federal Areas: Proposed Amendment to the Buck Act. Report A-6. June 1961. 34 pp., offset. (Out of print)

Intergovernmental Cooperation in Tax Administration. Report A-7. June 1961. 20 pp., offset.

Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments. Report A-8. June 1961. 67 pp., offset. (Reproduced in Hearings on S.2114 before U. S. Senate, Subcommittee on Intergovernmental Relations of the Committee on Government Operations, January 14, 15, and 16, 1964, 88th Congress, 2d Session.)

Local Nonproperty Taxes and the Coordinating Role of the State. Report A-9. September 1961. 68 pp., offset.

State Constitutional and Statutory Restrictions on Local Government Debt. Report A-10. September 1961. 97 pp., printed.

Alternative Approaches to Governmental Reorganization in Metropolitan Areas. Report A-11. June 1962. 88 pp., offset.

State Constitutional and Statutory Restrictions Upon the Structural, Functional, and Personnel Powers of Local Governments. Report A-12. October 1962. 79 pp., printed.

Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas. Report A-13. October 1962. 135 pp., offset.

State Constitutional and Statutory Restrictions on Local Taxing Powers. Report A-14. October 1962. 122 pp., offset.

Apportionment of State Legislatures. Report A-15. December 1962. 78 pp., offset.

Transferability of Public Employee Retirement Credits Among Units of Government. Report A-16. March 1963. 92 pp., offset.

*The Role of the States in Strengthening the Property Tax. Report A-17. June 1963. (2 volumes), printed. ($1.25 each)

Industrial Development Bond Financing. Report A-18. June 1963. 96 pp., offset.

The Role of Equalization in Federal Grants. Report A-19. January 1964. 258 pp., offset.

Grant-in-Aid Programs Enacted by the 2nd Session of the 88th Congress--A Supplement to Report A-19. March 1965. 22 pp., offset.

Impact of Federal Urban Development Programs on Local Government Organization and Planning. Report A-20. January 1964. 198 pp., U. S. Senate, Committee on Government Operations, Committee Print. 88th Congress, 2d Session.

Statutory and Administrative Controls Associated with Federal Grants for Public Assistance. Report A-21. May 1964. 108 pp., printed.

The Problem of Special Districts in American Government. Report A-22. May 1964. 112 pp., printed.

The Intergovernmental Aspects of Documentary Taxes. Report A-23. September 1964. 29 pp., offset.

State-Federal Overlapping in Cigarette Taxes. Report A-24. September 1964. 62 pp., offset.

*Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs. Report A-25. January 1965. 253 pp., offset. ($1.25)

Relocation: Unequal Treatment of People and Businesses Displaced by Governments. Report A-26. January 1965. 141 pp., offset.

Factors Affecting Voter Reactions to Governmental Reorganization in Metropolitan Areas. Report M-15. May 1962. 80 pp., offset.

*Measures of State and Local Fiscal Capacity and Tax Effort. Report M-16. October 1962. 150 pp., printed. ($1.00)

*Directory of Federal Statistics for Metropolitan Areas. Report M-18. June 1962. 118 pp., printed. ($1.00)

*Performance of Urban Functions: Local and Areawide. Report M-21. September 1963. 283 pp., offset. ($1.50)

*Tax Overlapping in the United States, 1964. Report M-23. July 1964. 235 pp., printed. ($1.50)

1965 State Legislative Program of the Advisory Commission on Intergovernmental Relations. Report M-24. October 1964. 298 pp., offset.

State Technical Assistance to Local Debt Management. Report M-26. January 1965. 80 pp., offset.

1/ Single copies of reports may be obtained without charge from the Advisory Commission on Intergovernmental Relations, Washington, D. C., 20575. Multiple copies of items marked with asterisk (*) may be purchased from the Superintendent of Documents, Government Printing Office, Washington, D. C., 20402.

☆ U. S. GOVERNMENT PRINTING OFFICE : 1965 O - 752-511(260)

STATE AND LOCAL GOVERNMENT FINANCES

Selected F. Y. 1938-1960