

Short Report

City Revenues and State Laws

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The federal and state governments are primarily financed with revenues from the Income Tax—a tax on realized wealth. (You actually receive the income you are taxed on)!

City governments are primarily financed with revenues from the Property Tax – a tax on unrealized wealth. (You would actually have to sell your property to receive the money based on its value)!

Nationally – State revenues come primarily from three (3) sources:

The Income Tax (About 1/3)

The Sales Tax (About 1/3)

User Fees and Charges, and Federal Government revenues (About 1/3)

These are taxes on realized wealth, taxes on primarily small purchases, fees paid by citizens using state services, and funds from the Federal Government.

At the City level – Local revenues come primarily from one (1) source:

The Property Tax - In 42 States 60% to 98% of all City revenues come from this single source.

Other local government revenues come primarily from the following four (4) sources:

Sales Taxes (Varies from State to State, and sometimes from City to City, if allowed at all).

Hotel/Motel Room Taxes (Varies from City to City, and from State to State).

Real Estate Transfer Tax (Also varies from City to City, and from State to State).

User Fees and Charges (Varies from City to City in every State).

The types of local revenues vary greatly from State to State, depending upon their laws. For example:

34 States allow a local Sales Tax – and 16 DO NOT!

Most States impose a Sales Tax, and keep all of it.

Some States impose a Sales Tax, and return a portion of it to their Cities.

Many States do not even allow or, if they do, keep the Hotel/Motel Room Tax.

Some States allow a Real Estate Transfer Tax, while others do not (36 States allow one, and 14 States do not!!!).

All States need to decrease the reliance of their local governments on the property tax by:

Returning a reasonable portion of the Sales Tax to Cities.

Returning ALL of the Hotel/Motel Room taxes to Cities.

Allowing a small tax on the sale of real estate in Cities.

Encouraging their Cities to develop reasonable User Fees and Charges for their services.

In my state for example, the State of Connecticut, the state government has access to 21 different taxes to assist its elected officials in financing their state government's operations. These include: the Income Tax, the Sales Tax, the Corporate Tax, the Public Service Corporation Tax, Inheritance and Estate Taxes, Insurance Company Taxes, Cigarette Taxes, the Petroleum Corporation Taxes, Alcohol Beverage Taxes (i.e., for the sale of beer, wine, and liquor), Cabaret Taxes, Motor Fuel Taxes, Real Estate Conveyance Tax, and nine other miscellaneous taxes. (Source: The CT Conference of Municipalities, which is located in New Haven, CT. It is the state's league of cities, but goes by a different name).

Many states rebate some form of their taxes back to their cities, the point-of-origin of the tax. For example, when I lived in California, the state government rebated a portion of the Sales Tax back to its cities based on where it was generated from. They also rebated the Hotel/Motel Room Tax back to cities, based on where the hotel and motel that generated the tax was geographically located. When I lived in California, property taxes represented 67% of the local government revenue pie. Now that I live in Connecticut, and the state keeps all of these funds, there is a heavy municipal alliance on property taxes. In the State of Connecticut, property taxes represent 98% of the local government revenue pie.

Seems like the goal of our nation's state governments should be to provide revenue options for their municipal governments, where a city can decrease its reliance on its property taxes if its elected officials choose to do so. Such action would also serve as an incentive to stimulate economic development. Local elected officials may pursue shopping centers and hotels and motels if they received a portion of the revenues that are generated from them. This would also benefit the state government! While Property Taxes and Sales Taxes, and Hotel/Motel Room Taxes would increase for cities, the state government gets to keep 100% of the income taxes generated from the new jobs that would be created by these municipal developments.

This should be done by all States throughout the Nation --- NOW!!!