

The State of Local Taxes

Presentation to the Alaska Municipal League 2023 Tax Conference
September 27–28, 2023

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About ITEP



March 30, 2023

ITEP Launches Local Tax Team

NEWS RELEASE

The Institute on Taxation and Economic Policy

- Non-profit, non-partisan research organization
- Federal, state, and local tax policy analysis

Mission:

- Ensure elected officials, media, and the general public have access to accurate, timely, and straightforward information to understand the effects of current and proposed tax policies with an emphasis on tax incidence analysis.

ITEP's Work in Alaska

Distributional Analyses of Revenue Options for Alaska

Institute on Taxation & Economic Policy
April 2016

Aidan Russell Davis
Carl Davis
Matthew Gardner

About The Institute on Taxation & Economic Policy

The Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization that works on federal, state, and local tax policy issues. ITEP's mission is to ensure that elected officials, the media, and the general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies. ITEP's work focuses particularly on issues of tax fairness and sustainability.

This study was made possible by a grant from the Rasmuson Foundation.

2016

Comparing the Distributional Impact of Revenue Options in Alaska

Institute on Taxation & Economic Policy
April 2017

Carl Davis
Aidan Russell Davis

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2017

Assessing the Distributional Consequences of Alaska's House Bill 115 (Version L)

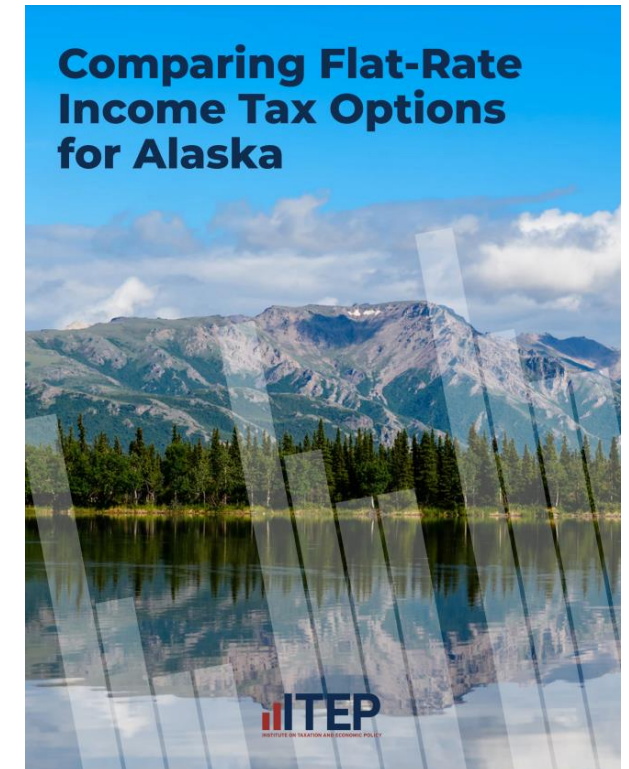
Institute on Taxation & Economic Policy
March 2017

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2017



2020

How Alaska Compares: A Look at Local Tax Policy

BRIEF March 2023



How Local Governments Raise Revenue—and What it Means for Tax Equity

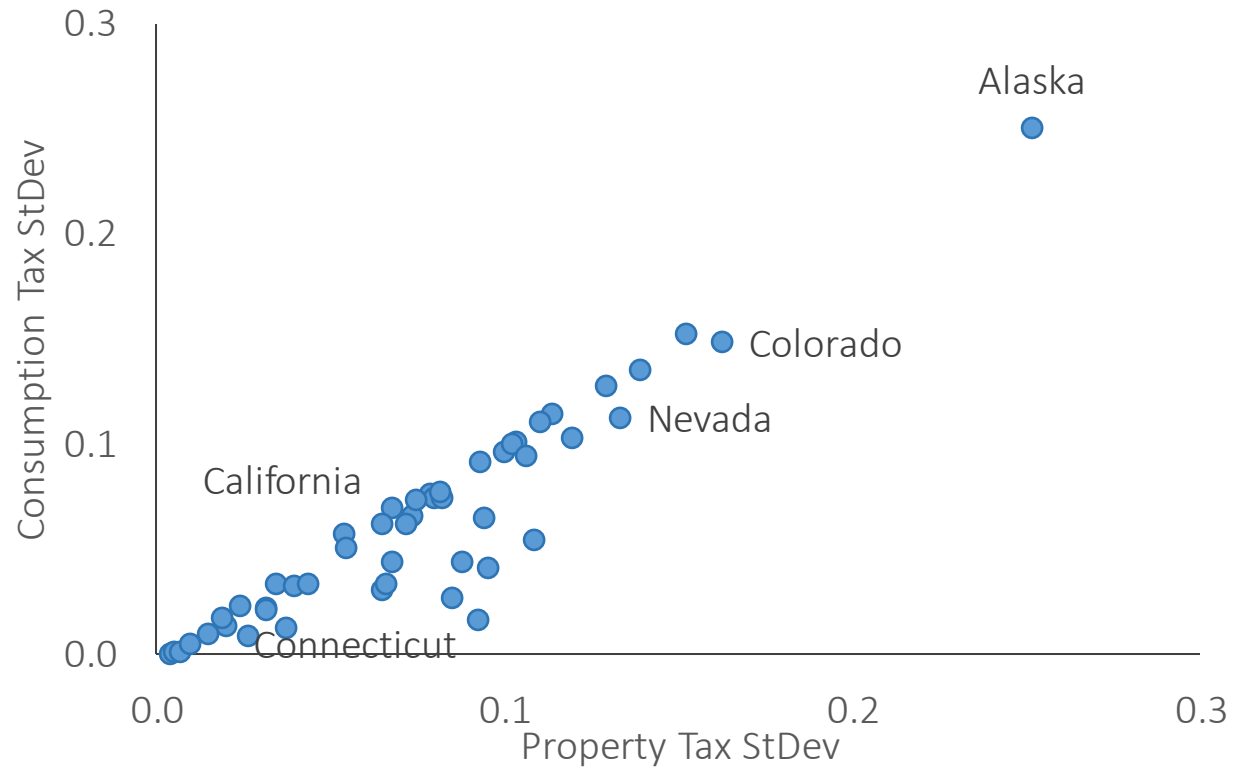
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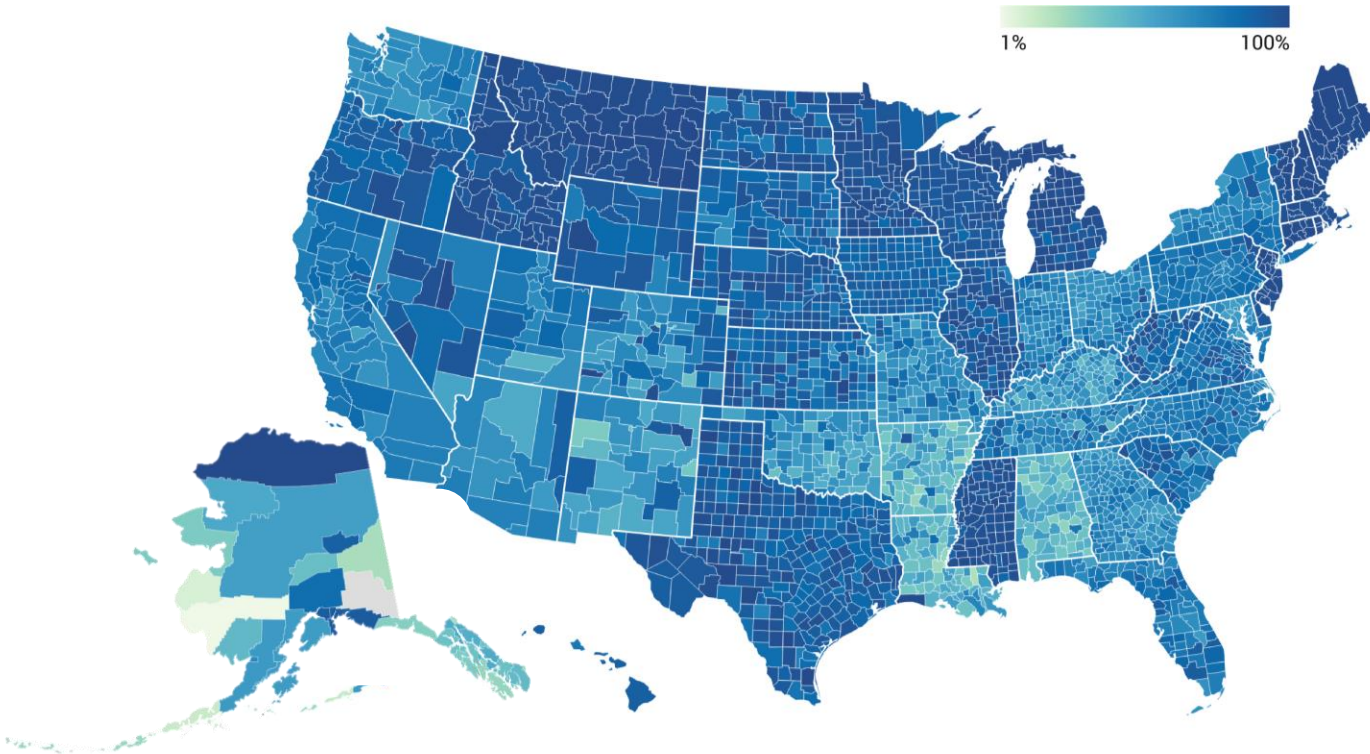
How Alaska Compares: A Look at Local Tax Policy

Variation in tax revenue composition between local areas



Source: ITEP analysis of U.S. Census Bureau data

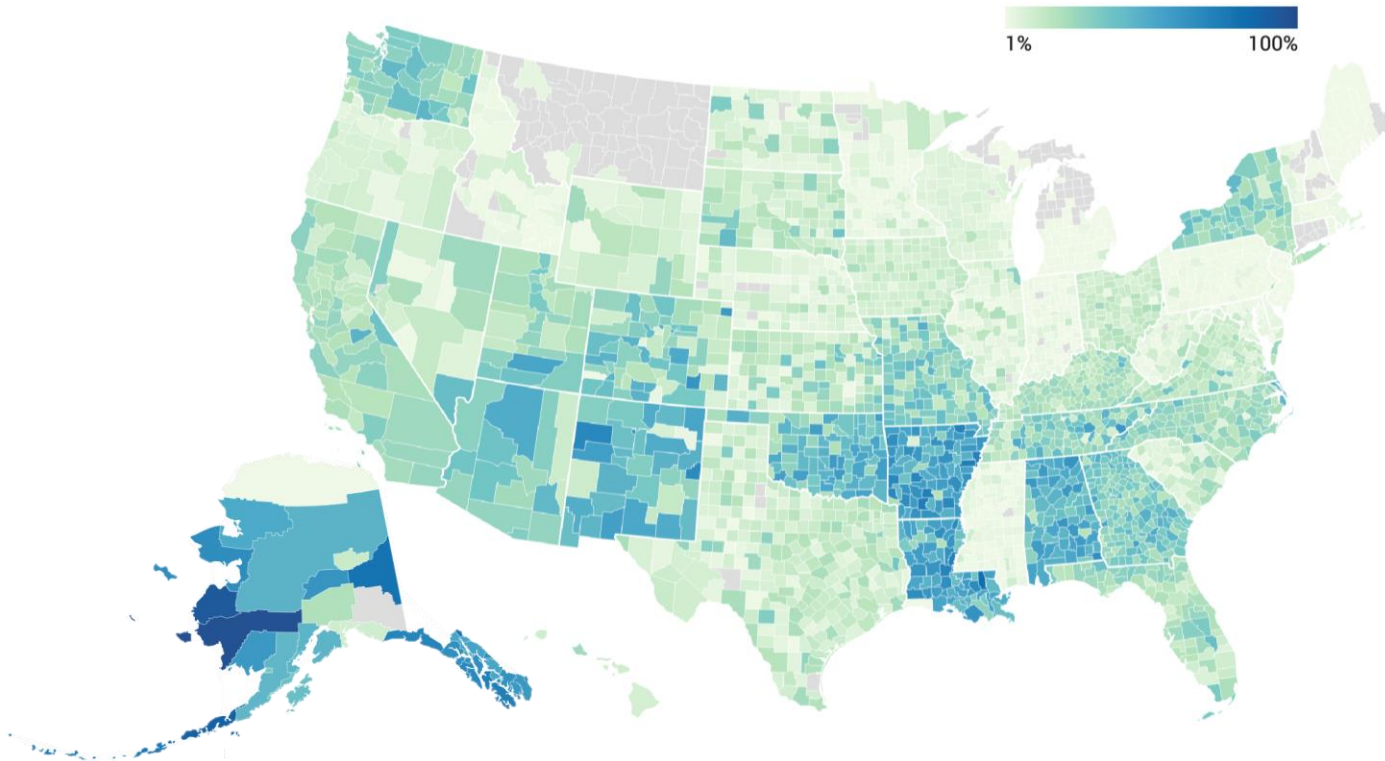
Property Taxes



Source: ITEP analysis of U.S. Census Bureau 2017 Census of Governments and government financial reports

- Largest local tax source in 94% of the U.S.
- 78% of local tax dollars in AK, 73% nationwide
- Real estate: Residential, commercial, industrial, agriculture + tangible property

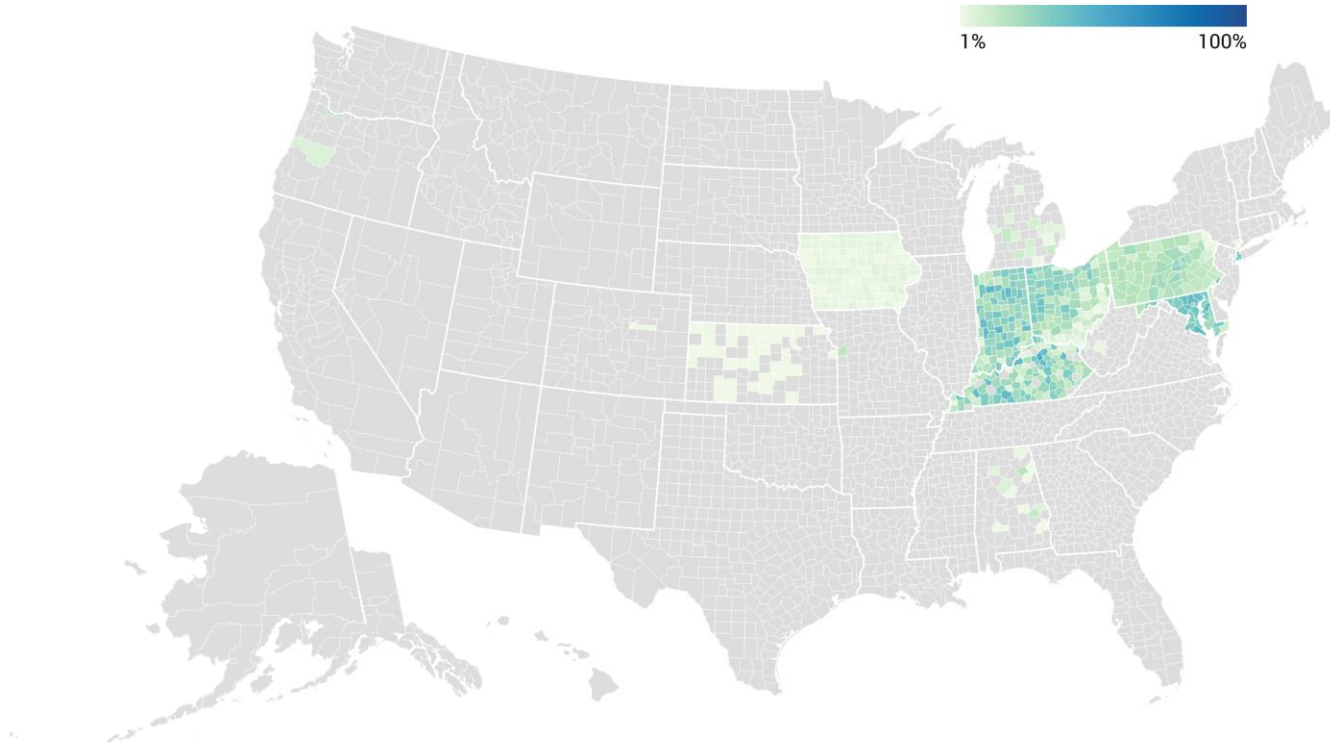
Sales and Excise Taxes



Source: ITEP analysis of U.S. Census Bureau 2017 Census of Governments and government financial reports

- Second-largest local tax revenue source nationwide
- 20% of local tax dollars in AK, 17% nationwide
- General sales and gross receipts taxes
- Selective taxes: Hotel, meals, utilities, tobacco, alcohol, etc.

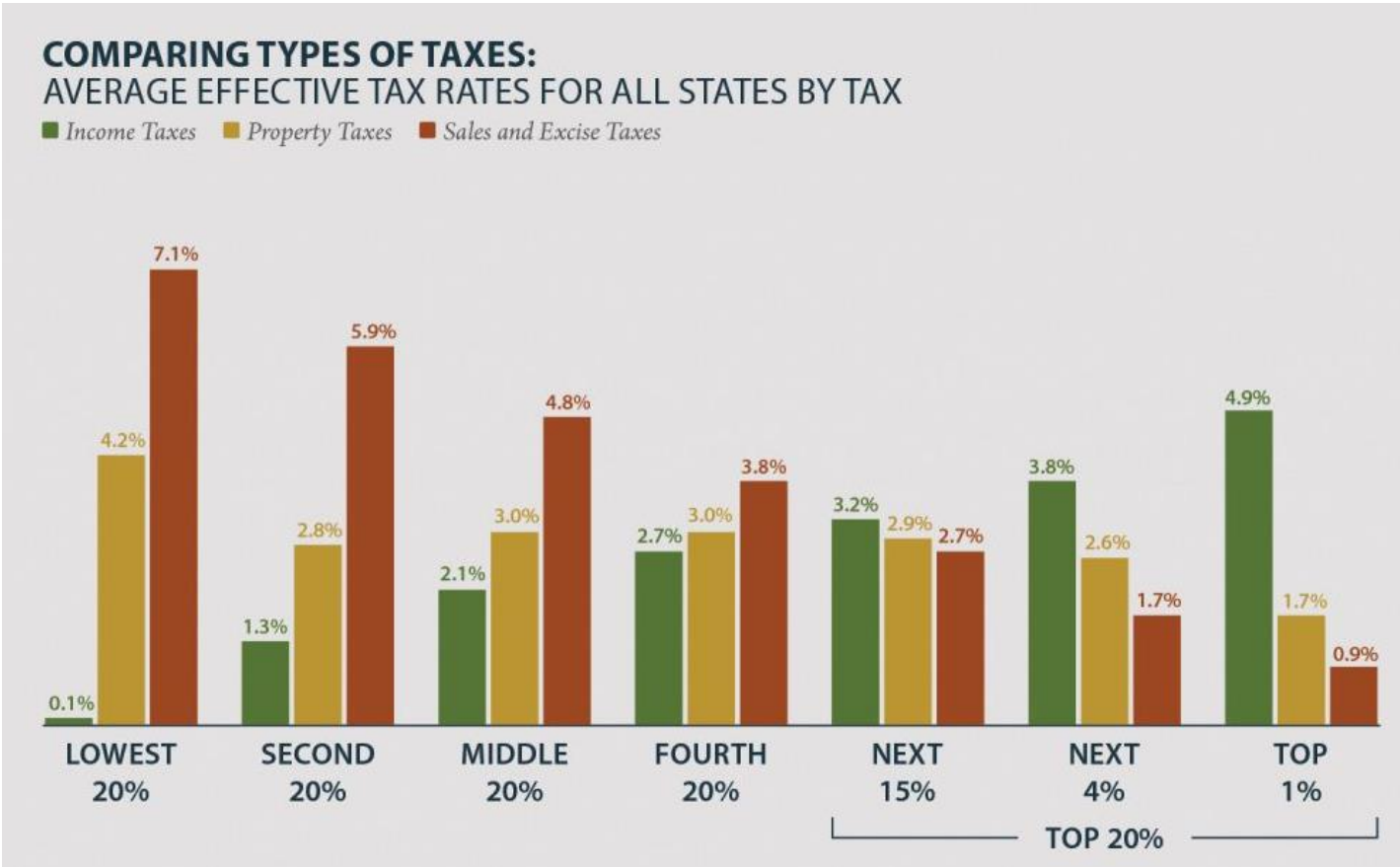
Local Income Taxes



Source: ITEP analysis of U.S. Census Bureau 2017 Census of Governments and government financial reports

- Present in 1 in 5 local areas
- Typically a locality's second-largest tax source after property, displacing sales tax
- Types: Individual income, business income, payroll taxes

Challenge: Regressive Local Taxes



Source: Institute on Taxation and Economic Policy, "Who Pays? 6th Edition," October 2018

- Higher effective tax rates on low- and middle-income households
- Lower effective tax rates for higher-income households
- Results in less equal income distribution

When and Why are Property Taxes Regressive?

1. Housing expenses are a larger share of income for lower-income households
2. Renters ineligible for tax relief
3. Inequitable assessments
4. Wealth disparities between communities
5. Poorly-targeted tax preferences

Not inevitable

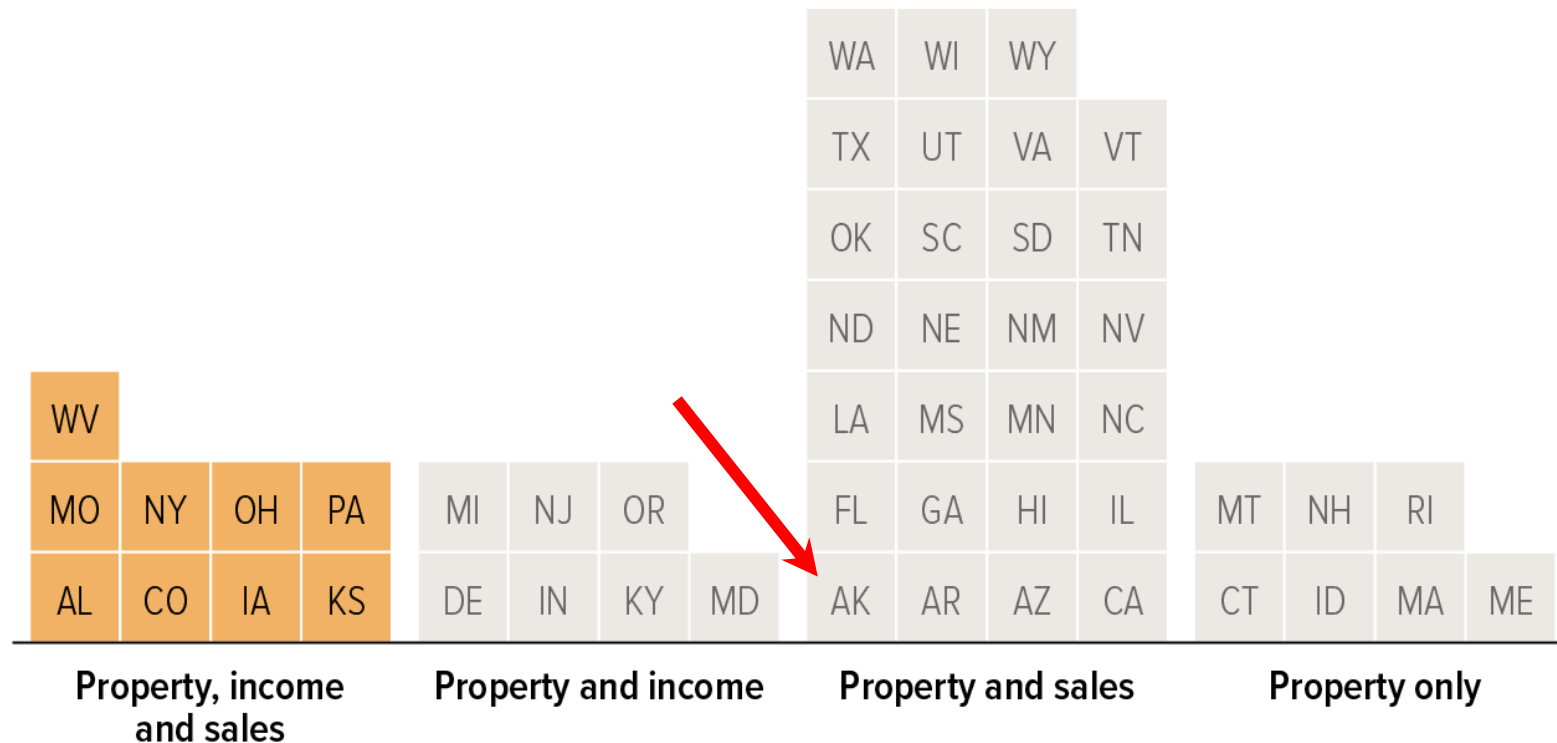
Strategies to Address Regressive Local Taxes

- Growing momentum for correcting assessment inequities
- Graduated real estate transfer taxes
- Reforming economic development tax subsidies
- Removing or loosening sales tax “caps”
- Income-based credits: Property tax circuit breaker, EITC

Challenge: Revenue Adequacy & Tax Limits

Localities in Only 9 States Can Levy All Three Major Types of Taxes

Local general taxing authority by state



Source: Center on Budget and Policy Priorities, "Easing State Restraints on Local Taxing Power Can Strengthen Democracy, Promote Prosperity and Equity," March 28, 2023

Local Tax Limitations

AS 43.20.290

- “No tax may be levied and collected upon the *net income* of resident or nonresident individuals”

AS 29.45.090(a)

- “All property on which an ad valorem tax is levied shall be *taxed at the same rate* during the year.”

AS 29.45.090 and AS 29.45.590

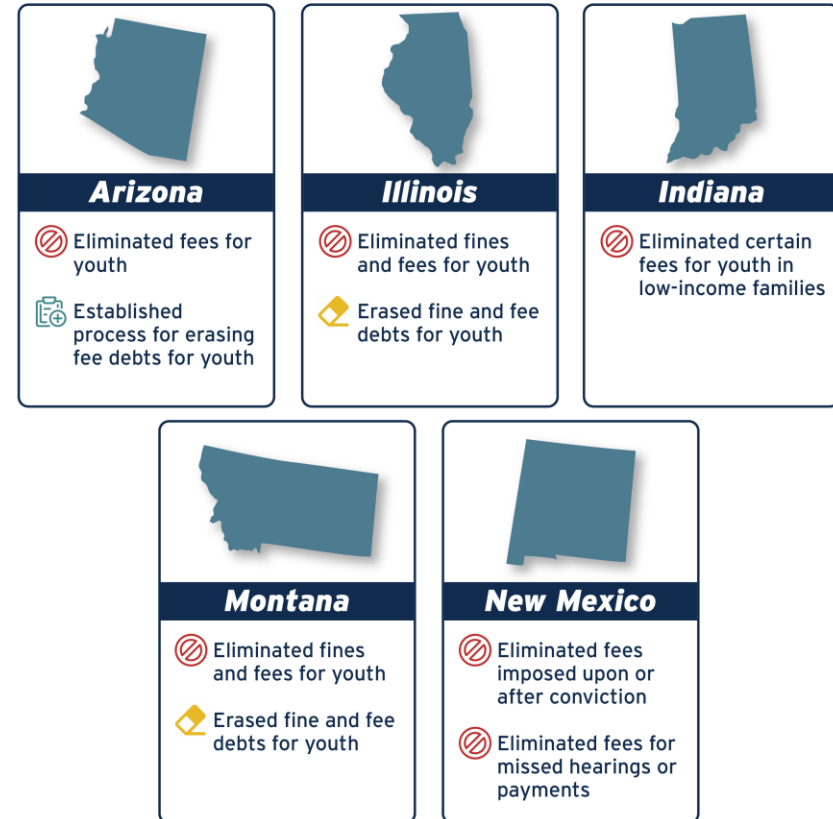
- Various property tax rate and revenue limitations

Bottom line: Change in state law would be needed before localities can levy graduated property tax rates, split roll property taxes, investment income taxes, or business profits taxes. Gross income taxes may be feasible.

Non-tax Revenue: Justice System Fees & Fines

- 1.4% of revenue for municipalities, 0.9% of revenue for counties
- Outsize harm to poorer, disadvantaged communities
- Misaligned incentives; costs outweigh benefits
- Growing momentum for reform

2023's Biggest State Fine and Fee Reforms



Addressing Revenue Needs: Local Examples

City of Seattle Revenue Stabilization Workgroup Completes Work, Issues Report with Options to Address Seattle's Revenue Gap

by [Jamie Housen](#) on August 9, 2023

2022-2023

DC Tax Revision Commission

Appointed by the DC Council and the Mayor, we are an independent body that will provide recommendations for improving the DC tax code.

More ITEP Resources

Preventing an Overload: How Property Tax Circuit Breakers Promote Housing Affordability



Policy Brief

*Informing the debate over
tax policy nationwide*

August 2011

How Property Taxes Work

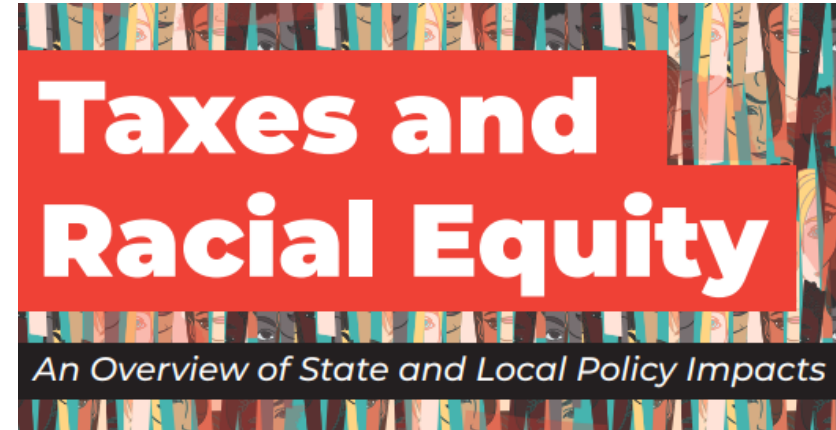


Policy Brief

*Informing the debate over
tax policy nationwide*

September 2011

Split Roll Property Taxes



JUST TAXES BLOG

Voters Could Approve Local Capital Gains Tax in Oregon

Thank You!

Andrew Boardman

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