Erosion of Property and Sales Tax Bases

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State of the Southeast: Challenges and Opportunities for State and Local Governments

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Percent of Total Taxes, 2015

- Southeast: 70.0%
- US: 60.0%

Property + Sales Tax
The Property Tax

Basic Principles:

- Universality
- Uniformity
Legislated Exemptions

- Intangible personal property
  - 1990: 22 states
  - 2006: 4 states
  - 2017: 3 states
  - GA exempted it in 1996

- Household personal property
  - Exempt in all states
  - GA exempted it in 1970
Legislated Exemptions

- **Inventories**
  - 2007: 15 states
  - 2017: 9 states
  - GA exemption is a local option (2012)

- **Machinery and equipment**
  - 2006: 40 states
  - 2015: 36 states
Legislated Exemptions

- **Motor Vehicles**
  - 2006: 16 states
  - 2015: 11 states
  - GA exempted them in 2012

- **Value in use (Agriculture)**
  - 1955: no state allowed use value
  - 1979: 45 states allowed use value
  - 2017: 50 states allowed use value
  - GA adopted use value in 1991
Legislated Exemptions

- **Tax abatement**
  - 1964: 15 states allowed them
  - 2004: 35 states allowed them
  - 2010: 37 states allowed them
  - Atlanta-4 counties
    - 124 firms
    - $30.7 million abated
    - 29.7% abated
Legislated Exemptions

- Homestead Exemptions (GA)
  - 1937: $2000 homestead exemption
  - 1957: Disabled veteran and surviving spouse
  - 1964: Low-income elderly (non-school)
  - 1974: Low-income elderly (school)
  - 1978: 100% senior exemption for school tax
  - 1994: “Floating” homestead exemption
Legislated Exemptions

- **Assessment limits**
  - 1957: Maryland
  - 1978: California (Prop 13)
  - 2002: 12 states
  - 2008: 20 states
Economic Effects

- Growth in nonprofits
  - Real Estate: nonprofit / (nonprofit + residential)
    - 2000: 9.0%
    - 2016: 12.4%

- Change in prod tech & output comp
  - Private Nonresidential Fixed Assets/ GDP
    - 1982: 1.290
    - 2016: 1.065
Consequences

- Increase in residential share
  - 1981: 52%
  - 2004: 64%
The Sales Tax

Note: 5 states do not have a sales tax
Legislated Exemptions

- Food for home consumption
  - 1971: 15 states
  - 1994: 26 states
  - 2017: 33 states
  - Georgia: 1996
Legislated Exemptions

- Sales tax holidays
  - 1997: New York
  - 2000: 7 states
  - 2010: 19 states
  - 2017: 16 states
  - Georgia: 2002
Legislated Exemptions

- Georgia
  - 2000-2014: 54 new exemptions
  - 43 of these are still in effect
  - Estimated revenue loss (FY2015) = $857 million
Economic Effects

- Decline in consumption of goods
  - 1950: 60.8%
  - 1990: 39.0%
  - 2014: 33.3%

- Growth in online sales
  - 2000: 0.9% of retail sales
  - 2014: 6.4% of retail sales
Consequences

Average of State Sales Tax Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>3.95%</td>
</tr>
<tr>
<td>1990</td>
<td>4.88%</td>
</tr>
<tr>
<td>2000</td>
<td>5.17%</td>
</tr>
<tr>
<td>2017</td>
<td>5.67%</td>
</tr>
</tbody>
</table>
Consequences

State Sales Tax Revenue as a Percent of Income

That's all Folks

Thank You!