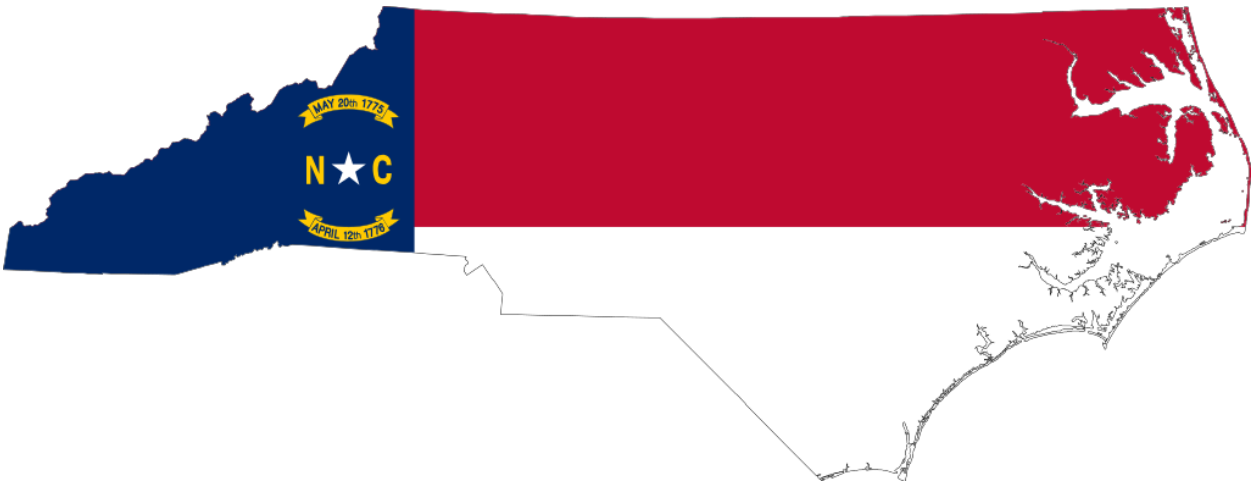
The Future of Local Option Taxes in North Carolina

Policy Considerations for the Modification of Local Sales Taxes and the Expansion of Local Option Taxes



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Overview

The property tax remains the most productive local tax in the United States, however, we have witnessed decreased reliance on the property tax since the tax revolts that began in the 1970's.[1] This begs the question, what have local governments increased reliance on? There is no single answer because there is a great deal of diversity in how local governments raise revenue across the United States. On average, 61% is generated from property taxes, 16% comes from sales taxes, 7% is generated from income taxes, and the remaining 16% comes from other taxes such as occupancy taxes. However, there are only 37 states that permit local governments to levy sales taxes and only 11 states permit local governments to levy an income tax.[2] In North Carolina, 73% of local tax dollars are generated from the property tax, followed by 21% from the sales tax, and the remaining 6% coming from other sources.[3] This report discusses elements of North Carolina's local sales taxes that policymakers may wish to revisit and highlights some of the anticipated outcomes if they were to be adjusted. It also presents many of the additional local revenues that are available in other states including expanded local sales tax offerings. This report highlights many considerations and tax options that are based on existing literature, research, and policies that other states have adopted. It does not endorse or recommend an particular course of action.

Local Sales Taxes

In North Carolina local sales taxes are an important source of revenue for both counties and municipalities. Table 1 presents an overview of local sales taxes in North Carolina. In 2019 local sales taxes made up just under 10% of total revenues for municipalities and approximately 14% for counties. Local sales taxes have also been subject to a great deal of policy attention and adjustments in North Carolina. While there are many elements of North Carolina's laws, some of which are typical and others that are uncommon, this report would like to highlight four features that may be of particular interest to policymakers.

[1] https://ballotpedia.org/Tax_revolt

[2] Though there are additional states that permit local governments to levy taxes that are similar to local income taxes on payroll, interest earnings, etc. See my forthcoming chapter for more details. Afonso, Whitney. Forthcoming. "Local Option Taxes" For *Research Handbook on City and Municipal Finance*, edited by Craig Johnson, Justin Ross, and Tima Moldogaziev. Edward Elgar Publishing, London, United Kingdom. Expected publication year: 2023.

[3] https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2021/how-local-governments-raise-their-tax-dollars#:~:text=For%20each%20tax%20dollar%20that,entertainment%20and%20alcoholic%20beverages%20licenses.

Table 1: Local Sales Taxes Currently Authorized

	Article 39	Article 40	Article 42	Article 43	Article 46
Rate	1%	0.50%	0.50%	0.25% or 0.5%	0.25%
Distribution	Point-of-sale	Per Capita	Point-of-sale	Point-of-sale	Point-of-sale
Earmarks	No	30% for school capital	60% for school capital	100% to transit	No
Revenue shared with Municipalities	Yes	Yes	Yes	If the municipality has transit	No
Adjustment Factors	No	Yes	Food for home consumption	No	No
Redistribution	Yes	Yes	Yes	No	No
Number of counties levying	100	100	100	4	46

Adapted from: Fiscal Research Division. 2021. Local Sales Tax Articles. North Carolina General Assembly. https://sites.ncleg.gov/frd/wp-content/uploads/sites/7/2022/05/2021_Local_Sales_Tax_Articles_2_Pager.pdf

Revenue earmarks for school capital only apply to the county portion.

The adjustment factors are from G.S. 105-486 in 1987 and the redistribution is from G.S. 105-524 in 2015.

For this discussion, please see Table 2, which presents the revenues from Article 40 for all 100 counties. Article 40 was chosen because it is allocated on a per capita basis but is also subject to the GS 105-524 Adjustment and the GS 105-486 Adjustment. May was selected simply because it is the most recent local sales tax data available. While Table 2 reports the percentage of revenues allocated to the county for the month, those numbers likely would be different in many cases if looking at the annual allocations because of the seasonality of sales tax revenues. This table's purpose is to be illustrative of the impacts of the structure of the tax rather than the distribution of sales taxes by county. The first two columns to the right of the county name are the population of the county and the percentage of the state population residing in the county. This serves as a reference to demonstrate that while population and revenue are highly correlated, population is not fully explanatory of sales tax revenues. This is followed by the amount of revenue generated by Article 40 by point-of-sale in the county and the percentage it makes up of revenue in the state. This is how local sales taxes are allocated in the majority of states. This is followed by the GS 105-524 Adjustment that is pooled from across the state and then redistributed to compensate for tax leakage.[4] Counties like Wake, Alamance, Dare, and New Hanover receive no funds from this pool, whereas Randolph receives 4.27% and Harnett receives 5.17% of the pooled revenues. The per capita adjustments are presented next, but it is important to recall that Article 40 is distributed on a weighted per capita basis. The weights used in addition to the per capita adjustments follow and the adjustment factors (GS 105-486) are also reported. Lastly, the tax allocations for food are reported. The point-of-sale numbers for food are not available but comparing the allocation as a percentage of the state to the population and the point-of-sale revenues provides an idea of how accurate the food allocations may be.

[4] Please see here for more information on the purpose of GS 105-524 and the way the revenues are allocated between the counties: https://www.ncleg.gov/EnactedLegislation/Statutes/PDF/BySection/Chapter_105/GS_105-524.pdf

Table 2: Article 40 Revenues from May 2022

County	Population	Population: Percentage of the State	Point of Sale Revenues	Point of Sale Revenues: Percentage of the State	GS 105-524 Adjustments	Per Capita Adjustments	GS 105-486 Adjustment Factors	GS 105-486 Adjustment	Tax Allocation from Food for Home Consumption	Tax Allocation for Food: Percentage of the State	GS 105-486 Adjustment for Food	Total
Alamance	173877	1.65%	1,644,489.29	1.83%	(45,999.59)	(159,253.83)	1.02	34,001.31	166,501.83	1.64%	3,934.75	1,643,673.76
Alexander	36644	0.35%	145,817.07	0.16%	(4,078.78)	162,098.36	1	1,100.12	35,213.52	0.35%	127.31	340,277.60
Alleghany	11049	0.10%	60,852.56	0.07%	(1,702.16)	31,671.83	1.04	3,968.12	10,520.52	0.10%	459.20	105,770.07
Anson	22060	0.21%	95,621.23	0.11%	(2,674.71)	91,104.99	1	666.32	21,328.58	0.21%	77.11	206,123.52
Ashe	26711	0.25%	162,913.77	0.18%	(4,557.01)	63,445.33	0.97	(5,862.35)	25,688.25	0.25%	(678.41)	240,949.58
Avery	17864	0.17%	202,298.98	0.22%	(5,658.69)	(47,529.36)	1.12	18,430.74	17,240.25	0.17%	2,132.86	186,914.78
Beaufort	44468	0.42%	362,443.86	0.40%	(10,138.26)	20,170.32	1.06	23,717.22	43,110.74	0.43%	2,744.63	442,048.51
Bertie	17505	0.17%	51,346.95	0.06%	(1,436.27)	99,270.72	0.97	(3,947.11)	17,295.93	0.17%	(456.78)	162,073.44
Bladen	29525	0.28%	142,233.41	0.16%	(3,978.54)	107,448.85	1.04	10,737.70	28,468.48	0.28%	1,242.60	286,152.50
Brunswick	144215	1.37%	1,581,816.64	1.76%	(44,246.51)	(385,909.63)	1.17	199,919.97	133,149.22	1.32%	23,135.44	1,507,865.13
Buncombe	271534	2.57%	3,350,864.12	3.72%	(93,730.24)	(993,647.63)	1.06	143,927.62	261,616.80	2.58%	16,655.81	2,685,686.48
Burke	87611	0.83%	450,082.37	0.50%	(12,589.68)	292,457.92	1.02	17,269.43	84,567.12	0.84%	1,998.48	833,785.64
Cabarrus	231278	2.19%	2,285,131.55	2.54%	(63,919.61)	(318,690.48)	1.05	102,035.06	220,063.23	2.17%	11,807.86	2,236,427.61
Caldwell	80463	0.76%	460,889.51	0.51%	(12,891.98)	225,054.44	1.02	15,920.37	77,960.79	0.77%	1,842.36	768,775.49
Camden	10835	0.10%	45,852.41	0.05%	(1,282.58)	42,146.06	0.92	(6,638.50)	10,048.71	0.10%	(768.24)	89,357.86
Carteret	68541	0.65%	830,952.64	0.92%	(23,243.37)	(241,733.90)	1.14	81,250.96	65,418.38	0.65%	9,402.65	722,047.36
Caswell	22714	0.22%	55,359.42	0.06%	(1,548.51)	135,549.38	0.95	(8,808.84)	21,957.32	0.22%	(1,019.40)	201,489.37
Catawba	161723	1.53%	1,477,538.29	1.64%	(41,329.64)	(89,661.90)	0.99	(8,606.70)	155,798.05	1.54%	(996.00)	1,492,742.10
Chatham	77889	0.74%	558,174.99	0.62%	(15,613.24)	97,975.78	1.02	15,143.59	74,156.96	0.73%	1,752.47	731,590.55
Cherokee	29167	0.28%	214,935.04	0.24%	(6,012.15)	31,158.69	0.98	(3,939.02)	27,793.17	0.27%	(455.84)	263,479.89
Chowan	13722	0.13%	97,477.91	0.11%	(2,726.64)	19,717.96	1.09	10,729.76	13,253.16	0.13%	1,241.68	139,693.83
Clay	11309	0.11%	81,208.67	0.09%	(2,271.56)	13,458.40	0.96	(3,366.20)	10,696.69	0.11%	(389.55)	99,336.45
Cleveland	100359	0.95%	675,483.38	0.75%	(18,894.59)	177,664.83	1.01	11,372.32	96,600.26	0.95%	1,316.04	943,542.24
Columbus	50092	0.47%	282,283.18	0.31%	(7,896.01)	145,516.34	0.81	(78,405.36)	48,639.81	0.48%	(9,073.34)	381,064.62
Craven	100674	0.95%	854,092.15	0.95%	(23,890.63)	20,563.55	1.04	37,137.04	98,460.16	0.97%	4,297.62	990,659.89
Cumberland	335508	3.18%	2,680,573.27	2.98%	(74,980.89)	194,610.04	0.98	(45,935.44)	324,112.19	3.20%	(5,315.80)	3,073,063.37

Currituck	29653	0.28%	332,046.28	0.37%	(9,287.98)	(85,412.72)	0.94	(13,380.92)	27,438.80	0.27%	(1,548.49)	249,854.97
Dare	37826	0.36%	1,008,040.40	1.12%	(28,196.86)	(668,416.38)	1.49	152,927.31	35,823.02	0.35%	17,697.28	517,874.77
Davidson	170637	1.62%	866,580.76	0.96%	(24,239.96)	571,429.69	0.98	(23,213.68)	163,791.46	1.62%	(2,686.36)	1,551,661.91
Davie	43533	0.41%	272,130.09	0.30%	(7,612.01)	93,474.39	0.93	(23,803.25)	41,458.40	0.41%	(2,754.60)	372,893.02
Duplin	48515	0.46%	261,750.98	0.29%	(7,321.68)	149,068.65	1.02	9,545.27	46,742.45	0.46%	1,104.61	460,890.28
Durham	326126	3.09%	4,096,754.26	4.55%	(114,594.25)	(1,253,410.16)	1.14	391,701.69	315,374.63	3.11%	45,329.10	3,481,155.27
Edgecombe	48359	0.46%	234,728.81	0.26%	(6,565.82)	178,995.80	1.02	9,633.75	47,175.79	0.47%	1,114.85	465,083.18
Forsyth	385523	3.65%	3,428,159.12	3.81%	(95,892.33)	(125,434.14)	0.96	(116,772.51)	371,065.24	3.66%	(13,513.31)	3,447,612.07
Franklin	71703	0.68%	397,137.93	0.44%	(11,108.72)	189,928.42	0.97	(15,224.72)	66,713.32	0.66%	(1,761.86)	625,684.37
Gaston	230856	2.19%	1,763,443.26	1.96%	(49,326.96)	197,957.17	1.03	64,341.04	221,335.90	2.19%	7,445.78	2,205,196.19
Gates	10366	0.10%	33,428.77	0.04%	(935.06)	54,258.29	0.95	(4,034.58)	10,056.81	0.10%	(466.90)	92,307.33
Graham	8043	0.08%	51,325.03	0.06%	(1,435.66)	17,097.62	0.98	(1,099.45)	7,757.50	0.08%	(127.23)	73,517.81
Granville	61986	0.59%	273,714.93	0.30%	(7,656.34)	243,780.92	1.03	17,174.00	59,079.33	0.58%	1,987.43	588,080.27
Greene	20417	0.19%	51,069.10	0.06%	(1,428.50)	120,880.40	0.95	(7,932.28)	19,772.42	0.20%	(917.96)	181,443.18
Guilford	542410	5.14%	4,923,823.85	5.47%	(137,729.01)	(248,876.57)	0.94	(256,014.77)	524,982.14	5.19%	(29,626.90)	4,776,558.74
Halifax	48272	0.46%	303,994.21	0.34%	(8,503.31)	109,124.94	1.01	5,516.48	46,858.89	0.46%	638.39	457,629.60
Harnett	135966	1.29%	713,007.94	0.79%	(19,944.23)	425,407.92	0.99	(7,157.86)	129,571.17	1.28%	(828.33)	1,240,056.61
Haywood	62476	0.59%	489,670.46	0.54%	(13,697.04)	43,551.50	1.02	12,280.24	60,135.34	0.59%	1,421.11	593,361.61
Henderson	116829	1.11%	935,202.99	1.04%	(26,159.46)	65,377.00	1.04	42,539.87	112,784.51	1.11%	4,922.86	1,134,667.77
Hertford	21278	0.20%	113,377.62	0.13%	(3,171.39)	68,274.80	1.01	2,434.17	20,676.55	0.20%	281.68	201,873.43
Hoke	53114	0.50%	185,233.19	0.21%	(5,181.33)	254,333.01	0.97	(11,490.64)	50,350.88	0.50%	(1,329.74)	471,915.37
Hyde	4508	0.04%	38,281.22	0.04%	(1,070.80)	976.23	0.98	(626.36)	4,419.41	0.04%	(72.49)	41,907.21
Iredell	191968	1.82%	1,818,150.32	2.02%	(50,857.23)	(196,490.59)	0.99	(10,038.46)	181,715.12	1.79%	(1,161.69)	1,741,317.47
Jackson	43410	0.41%	404,623.40	0.45%	(11,318.11)	(32,562.97)	1.05	19,351.33	41,735.82	0.41%	2,239.40	424,068.87
Johnston	226504	2.15%	1,528,670.64	1.70%	(42,759.91)	334,633.28	1	6,585.33	210,788.04	2.08%	762.09	2,038,679.47
Jones	9255	0.09%	30,673.10	0.03%	(857.98)	46,302.85	0.9	(7,355.38)	8,823.63	0.09%	(851.20)	76,735.02
Lee	64138	0.61%	543,074.50	0.60%	(15,190.85)	3,983.08	0.96	(19,369.74)	61,550.76	0.61%	(2,241.54)	571,806.21
Lenoir	54706	0.52%	373,894.20	0.42%	(10,458.55)	96,814.52	0.88	(53,643.20)	53,293.10	0.53%	(6,207.78)	453,692.29
Lincoln	89670	0.85%	674,111.41	0.75%	(18,856.21)	73,680.19	0.97	(19,256.18)	84,378.80	0.83%	(2,228.40)	791,829.61
Macon	37564	0.36%	395,923.71	0.44%	(11,074.76)	(74,244.26)	0.98	(5,090.88)	35,920.22	0.35%	(589.13)	340,844.90
Madison	21502	0.20%	103,213.40	0.11%	(2,887.08)	76,591.62	0.96	(6,450.73)	20,498.36	0.20%	(746.50)	190,219.07
Martin	21754	0.21%	119,304.90	0.13%	(3,337.19)	67,336.64	1.03	6,172.73	21,234.42	0.21%	714.33	211,425.83
McDowell	44717	0.42%	273,599.65	0.30%	(7,653.11)	106,140.12	1.09	34,888.50	43,093.53	0.43%	4,037.41	454,106.10

Mecklenburg	1122276	10.64%	12,016,457.62	13.35%	(336,124.38)	(2,319,074.45)	0.89	(996,053.12)	1,082,566.64	10.69%	(115,266.71)	9,332,505.60
Mitchell	14963	0.14%	97,222.43	0.11%	(2,719.50)	30,086.12	0.95	(5,788.05)	14,427.62	0.14%	(669.81)	132,558.81
Montgomery	25798	0.24%	136,587.51	0.15%	(3,820.62)	82,263.31	0.97	(5,684.90)	24,910.68	0.25%	(657.88)	233,598.10
Moore	102763	0.97%	792,119.07	0.88%	(22,157.12)	67,504.55	1.11	95,246.57	96,936.40	0.96%	11,022.27	1,040,671.74
Nash	95176	0.90%	805,866.37	0.90%	(22,541.66)	11,637.98	0.93	(52,821.38)	91,999.62	0.91%	(6,112.68)	828,028.25
New Hanover	229018	2.17%	3,250,861.47	3.61%	(90,932.97)	(1,267,918.53)	1.07	139,128.98	218,539.47	2.16%	16,100.50	2,265,778.92
Northampton	17129	0.16%	68,427.49	0.08%	(1,914.05)	77,566.77	1	521.69	16,698.58	0.16%	60.37	161,360.85
Onslow	206160	1.95%	1,514,372.46	1.68%	(42,359.96)	241,031.97	1.04	74,801.07	198,317.52	1.96%	8,656.24	1,994,819.30
Orange	148884	1.41%	224,214.03	0.25%	(6,271.70)	1,025,832.39	1.15	191,658.16	144,266.08	1.42%	22,179.35	1,601,878.31
Pamlico	12344	0.12%	70,973.10	0.08%	(1,985.25)	33,404.46	0.99	(655.18)	11,860.01	0.12%	(75.82)	113,521.32
Pasquotank	40821	0.39%	308,182.49	0.34%	(8,620.46)	40,075.71	1	1,228.33	39,317.04	0.39%	142.15	380,325.26
Pender	62815	0.60%	462,480.20	0.51%	(12,936.47)	54,979.68	0.99	(3,226.35)	58,403.01	0.58%	(373.37)	559,326.70
Perquimans	13130	0.12%	49,973.22	0.06%	(1,397.84)	59,727.60	1.06	6,905.75	12,552.54	0.12%	799.16	128,560.43
Person	39127	0.37%	231,513.12	0.26%	(6,475.87)	101,637.21	1	1,182.06	37,836.81	0.37%	136.79	365,830.12
Pitt	172169	1.63%	1,456,583.19	1.62%	(40,743.48)	6,859.49	1.07	104,816.14	164,641.93	1.63%	12,129.70	1,704,286.97
Polk	19656	0.19%	113,890.28	0.13%	(3,185.73)	49,944.81	1	581.32	18,607.07	0.18%	67.27	179,905.02
Randolph	145172	1.38%	880,874.90	0.98%	(24,639.79)	350,496.03	0.99	(7,720.76)	139,760.61	1.38%	(893.47)	1,337,877.52
Richmond	42724	0.40%	242,531.65	0.27%	(6,784.08)	121,475.39	1.09	33,499.95	41,378.42	0.41%	3,876.73	435,978.06
Robeson	116328	1.10%	660,398.27	0.73%	(18,472.63)	326,471.25	1.04	42,308.82	112,171.97	1.11%	4,896.13	1,127,773.81
Rockingham	91266	0.86%	500,031.27	0.56%	(13,986.85)	275,807.87	1.01	10,389.70	88,253.50	0.87%	1,202.33	861,697.82
Rowan	148150	1.40%	914,096.85	1.02%	(25,569.08)	342,669.96	0.92	(94,199.18)	142,589.44	1.41%	(10,901.05)	1,268,686.94
Rutherford	64586	0.61%	419,744.70	0.47%	(11,741.08)	129,452.63	0.98	(8,820.83)	62,238.22	0.61%	(1,020.78)	589,852.86
Sampson	58990	0.56%	321,287.20	0.36%	(8,987.03)	179,442.69	0.96	(17,926.41)	56,964.30	0.56%	(2,074.51)	528,706.24
Scotland	34227	0.32%	203,024.94	0.23%	(5,679.00)	87,181.30	0.98	(4,670.56)	32,954.71	0.33%	(540.50)	312,270.89
Stanly	63425	0.60%	484,575.08	0.54%	(13,554.51)	51,910.57	0.99	(3,343.96)	60,532.22	0.60%	(386.98)	579,732.42
Stokes	44553	0.42%	198,019.11	0.22%	(5,538.98)	179,008.96	1.01	5,067.85	43,047.97	0.43%	586.46	420,191.37
Surry	71152	0.67%	602,893.83	0.67%	(16,864.12)	10,814.21	1.05	32,026.27	69,072.36	0.68%	3,706.19	701,648.74
Swain	14136	0.13%	96,551.68	0.11%	(2,700.73)	23,896.20	1.02	2,784.17	13,633.85	0.13%	322.19	134,487.36
Transylvania	33165	0.31%	266,715.43	0.30%	(7,460.55)	16,013.80	1.1	28,549.43	31,860.24	0.31%	3,303.84	338,982.19
Tyrrell	3254	0.03%	16,201.15	0.02%	(453.17)	10,443.55	0.99	(167.62)	3,034.36	0.03%	(19.40)	29,038.87
Union	243648	2.31%	1,779,939.15	1.98%	(49,788.38)	270,801.20	1.01	27,270.55	231,644.81	2.29%	3,155.85	2,263,023.18
Vance	42185	0.40%	294,280.95	0.33%	(8,231.61)	68,757.66	1.04	15,495.15	41,081.76	0.41%	1,793.15	413,177.06
Wake	1150204	10.90%	11,682,053.6	12.98%	(326,769.95)	(1,856,114.94)	0.96	(345,748.41)	1,098,675.98	10.85%	(40,011.17)	10,212,085.20

Warren	18762	0.18%	73,836.36	0.08%	(2,065.34)	83,517.51	0.97	(4,107.26)	17,997.57	0.18%	(475.31)	168,703.53
Washington	10892	0.10%	48,045.73	0.05%	(1,343.93)	44,644.08	1.04	3,992.56	10,585.32	0.10%	462.03	106,385.79
Watauga	54234	0.51%	594,835.09	0.66%	(16,638.70)	(126,839.39)	1.06	28,713.00	52,191.54	0.52%	3,322.77	535,584.31
Wayne	116835	1.11%	854,237.49	0.95%	(23,894.69)	147,976.16	0.96	(35,643.14)	113,262.39	1.12%	(4,124.75)	1,051,813.46
Wilkes	65806	0.62%	459,109.82	0.51%	(12,842.20)	104,155.44	1.02	13,014.43	63,730.60	0.63%	1,506.07	628,674.16
Wilson	78369	0.74%	679,088.74	0.75%	(18,995.44)	(2,118.94)	0.98	(10,791.43)	76,142.40	0.75%	(1,248.82)	722,076.51
Yadkin	37192	0.35%	152,514.45	0.17%	(4,266.12)	162,402.93	1	1,124.76	36,002.23	0.36%	130.16	347,908.41
Yancey	18757	0.18%	94,191.86	0.10%	(2,634.73)	62,966.49	1.01	2,107.58	17,902.40	0.18%	243.89	174,777.49

First, Article 40 which is a 0.5% local sales tax that is levied by all counties, is distributed on a per capita basis. This is fairly unusual, though some states like South Carolina do distribute a portion of the local sales tax revenue based on population. The per capita distribution helps address concerns around tax leakage and the inequitable revenue raising capacity of the state's local governments.[5] An earlier analysis finds that once socio-economic and demographic factors are included such as unemployment and median income, that low population counties with high tourism activity have the highest revenue raising capacity per person and that suburban counties have the lowest. This finding suggests that a great deal of the tax leakage occurs between suburban and urban counties and less between rural and other counties. In fact, when property tax base is included, to create a broader measure of revenue raising capacity, there are no statistically significant differences in capacity between rural, urban, suburban, and rural tourism rich counties in North Carolina.[6] Of course, from a practical perspective this finding may not be much solace to counties with low median incomes and high unemployment and may not relieve the concerns about their actual revenues, regardless of the causes. The column with the per capita adjustments shows which counties receive less/more revenue than they would based on a point-of-sale structure and the magnitude of the difference. Table 2 highlights a snapshot of the implication of this structure on revenues. The state could consider making all local sales taxes point-of-sale. This would be concerning to some of our communities, however there is new evidence that the *Wayfair* ruling has disproportionately benefitted rural communities where residents may have been doing some of their shopping outside of their home county lowering concerns around tax leakage.[7] It is also worth noting that the population trends pre-pandemic suggested that this redistribution method would become increasingly ineffective. However, with greater remote work it is unclear how migration patterns will be impacted in the near term or log run.

A second feature of North Carolina's local sales tax laws that may warrant consideration, are the adjustment factors that are in place for Article 40. While Article 40's proceeds are distributed on a per capita basis, they are technically distributed on a weighted per capita basis using the adjustment factors put in place in 1987. While 74% of the adjustment factors are within 5% of 100% (which would be a true per capita measure) there is great diversity in the remaining quarter with a county like Columbus only getting 81% of its per capita share and Dare getting 149% of its per capita share. Table 2 presents the G.S. 105-486 adjustment factors for each county and the dollar amount of the adjustment. Once again, Table 2 presents a snapshot of this data. In many respects this adjustment could have been considered a hold harmless. These hold harmless adjustments are typically put in place to allow governments to plan and adjust their behavior before they are phased out. That has not been the case in North Carolina and is something that could be considered and as it lowers the benefit of a per capita distribution to North Carolina's counties with lower point-of-sale revenues.

Third, there is a separate formula for the distribution of revenue generated from the sale of food. Food is taxed under Articles 39, 40, and 42 (for a total of 2%). Revenue generated by the sale of food is distributed in two ways, half of it is distributed on a per capita basis and half of is distributed based on the sales tax of food collected in fiscal year 1998. It is difficult to estimate how much revenue would change if this distribution method altered. There are many options that may be worth considering including

[5] It is important to note that counties that benefit from importing tax revenues from non-residents, especially as it relates to tourism, generate revenues from both North Carolina residents and people from out of state. Furthermore, there are costs that are incurred by non-resident visitors (whether they be tourists, commuters, etc) that are often not captured through traditional local public finance tools such as the property tax or utilities.

[6] Afonso, Whitney. "The equity of local sales tax distributions in urban, suburban, rural, and tourism rich counties in North Carolina." Public Finance Review 44.6 (2016): 691-721.

[7] Agrawal, David R., and Iuliia Shybalkina. "Online Shopping Can Redistribute Local Tax Revenue from Urban to Rural America." Available at SSRN 4110193 (2022).

maintaining this method, updating the formula for the 1% that is distributed based on sales from fiscal year 1998, making it all per capita, making it all point-of-sale, removing food from the sales tax base, and taxing food under all of the local sales taxes (and possibly the state). There are many potential factors that may go into this decision including the ease of updating those estimates from fiscal year 1998, the administrative burden that may exist for vendors related to these purchases being taxed differently, and the likelihood that there is less tax leakage when purchasing food for home consumption.

Fourth, in 2008 the Medicaid Swap was implemented in phases. It phased out counties' ability to levy Article 44 which had a tax rate of 0.5%, it also changed the distribution method of Article 42 from a per capita distribution to a point-of-sale distribution. Importantly, it also laid out hold harmless provisions to the counties, that if their loss in revenues were greater than the gain in the state assuming responsibility for Medicaid, than the state would compensate them. Counties must also hold municipalities harmless for their share of lost revenues. One issue with the current structure is that it is challenging for counties to forecast the revenues they will receive which creates challenges for sound financial management. This is exacerbated by the fact that Medicaid costs have increased at a much slower pace than sales tax revenues and while it is difficult to predict what the Medicaid costs will be in the future, inflation will likely increase this difference in at least the short term.[8] The state may consider revisiting the Medicaid Swap by either returning to the earlier structure or creating more stability and predictability for local governments for their allocations.

Additional Local Sales Tax Considerations

While there are some elements of the current structure of local sales taxes in North Carolina that may be of interest to policy makers, there is also great diversity in the structure of local sales taxes across the United States. There is no one best structure, a glimpse into some of the more common elements may be useful as the future of revenue is considered.

One of the first considerations may be which local governments are permitted to levy a local sales tax. North Carolina has a fairly unusual structure when it comes to revenue sharing between county and municipal governments. While it is not unique, for example Georgia has a similar structure, it is uncommon that counties levy local sales taxes and share the revenue with municipal governments. What is typical, is that more than one local government can levy a local sales tax. Please see Table 3 for information on which level of government is able to levy a sales tax in each state. I will note that there are many states where only select governments are able to levy sales taxes. These restrictions are usually based on population, economic factors such as tourism, and home rule status.[9] By allowing more than just counties to adopt a local sales tax, municipalities and/or special districts would have greater revenue raising capacity and if it required voter approval, it would reflect the priorities and preferences of the community. Disadvantages are that it would likely lead to higher sales tax rates (which are regressive), greater tax rate diversity (which could lead to more tax avoidance and leakage by consumers), greater fiscal illusion (where people do not understand their true tax burden and do not understand which level of government is responsible for levying that tax and expending those tax dollars), and possibly greater

[8] For a very useful look at the data please see slide 20 and 21 here: https://app.powerbigov.us/view?r=eyJrIjoiZTYyY2YzZmYtY2ZkYi00ZmMzLWIwNTctNmZhMmY0YjZjYzZhIiwidCI6ImMxNmEwMGEzLTU2MDktNDdjMC1iMmMyLTcyZDg2MzVlMzQyMyJ9&pageName=ReportSection. This resource was created and is maintained by Keith Lane in Durham County.

[9] For more information on this please see: Afonso, Whitney B. "State LST laws: A comprehensive analysis of the laws governing local sales taxes." Public Budgeting & Finance 37.4 (2017): 25-46.
Afonso, Whitney B. "The barriers created by complexity: A state-by-state analysis of local sales tax laws in light of the Wayfair ruling." National Tax Journal 72.4 (2019): 777-800.

disparities between jurisdictions with larger sales tax bases. Many states, like Texas, impose an overall sales tax rate cap so that the taxes adopted in overlapping jurisdictions (like counties and municipalities) constrain each other to avoid excessive tax rates.

Table 3: LOST Enabling Statutes by State

State	Government Type	Statutory Authorization	Specific Jurisdictions	Home Rule: Municipal	Home Rule: County
Alabama	C M	Ala. Code § 11-3-11.2 Ala. Code §§ 11-51-200 & -205		None	Population
Alaska	C M	Alaska Stat. Ann. § 29.45.650 Alaska Stat. Ann. § 29.45.700		All	All
Arizona	C M S	Ariz. Rev. Stat. § 42-6103 Ariz. Rev. Stat. §§ 42-5029, -6001, -6103 Ariz. Rev. Stat. §§ 48-1910; -4022; -4236, -5314, -5805; -6253, -6406, -6431, -6432, -6654		Population	Population
Arkansas	C M	Ark. Code Ann. §§ 26-75-207, 26-74-407, 26-74-307 Ark. Code Ann. § 26-75-207		Population	All
California	C C, S, M	Cal. Rev. & Tax Code § 7202 Cal. Rev. & Tax Code § 7261		All	All
Colorado	C, M S	Colo. Rev. Stat. § 29-2-104 Colo. Rev. Stat. §§ 29-2-106, 39-26-102, 32-9-119, 32-13-107, 32-15-110, 32-17-113, 32-18-106, 32-19-112, 32-1-1004, 37-50-110		All	All
Florida	C, S	Fla. Stat. § 212.055		All	All
Georgia	C S	Ga. Code Ann. §§ 48-8-85, -102, -141, -110, -202 Ga. Code Ann. § 48-8-240-241		All	All
Hawaii	C	Haw. Rev. Stat. Ann. § 46-16.8		n/a	All
Idaho	M, S	Idaho Code §§ 50-1044, 67-4917C	Resort Cities, Auditorium Districts	None	None

Illinois	M S	55 Ill. Comp. Stat. 5/5-1006; 65 Ill. Comp. Stat. 5/8-11-1, 5/8-11-1.1, 5/8-11-1.3, 5/8-11-1.4, 5/8-11-1.5 70 Ill. Comp. Stat. 3615/4.03		Population	All
Iowa	C	Iowa Code Ann. § 423b.1		All	All
Kansas	C, M C	Kan. Stat. Ann. §§ 12-189, -187 Kan. Stat. Ann. § 12-187		All	All
Kentucky	S	Ky. Rev. Stat. Ann. § 96A.320		All	All
Louisiana	C, M S	La. Stat. Ann. §§ 47:337(3), (4) La. Stat. Ann. § 47:338		All	All
Minnesota	C	Minn. Stat. §§ 297A.992, .993, .99(C)		All	All
Mississippi	M	Miss. Code Ann. § 27-65-241		All	All
Missouri	C, M S	Mo. Rev. Stat. § 32.085 Mo. Rev. Stat. § 238.235		Population	Population
Montana	C, M	Mont. Code Ann. § 7-6-1503	Tourism Dependent Jurisdictions	All	All
Nebraska	C, M	Neb. Rev. Stat. Ann. §§ 77-27,142, 143		None	None
Nevada	C S	Nev. Rev. Stat. §§ 377B.100; 376A.040 Nev. Rev. Stat. §§ 376A.050; 377A.020-.030; 374A.010		None	None
New Jersey	M	N.J. Stat. Ann. § 34:1B-194		All	All
New Mexico	C M	N.M. Stat. Ann. § 7-20E N.M. Stat. Ann. §§ 7-19, 7-19D		Population	None
New York	C, M S	N.Y. Tax Law § 1210(i) N.Y. Tax Law § 1109		All	All
North Carolina	C	N.C. Gen. Stat. §§ 105-465, -483, -498,		None	None

		-536(c)			
	S	N.C. Gen. Stat. § 105-511.3			
North Dakota	C	N.D. Cent. Code § 11-09.1-05.2		Population	All
	M	N.D. Cent. Code § 40-05.1-06.2			
Ohio	C	Ohio Rev. Code Ann. §§ 5739.021.A, .026.A		All	All
	S	Ohio Rev. Code Ann. § 5739.023.A.1			
Oklahoma	C	Okla. Stat. tit. 68 §§ 1370, 1370.1, .2, .2A, 3, .4, .5, .6.		All	None
	M	Okla. Stat. tit. 68 § 2705			
	S	Okla. Stat. tit. 68 §§ 1370.7, .8			
Pennsylvania	M	53 Pa. Cons. Stat. §§ 12720.503 & .508	First Class Cities, Second Class Counties	All	All
	C	16 Pa. Cons. Stat. § 6152-B			
South Carolina	C	S.C. Code Ann. §§ 4-10-90; 40-10-10, -300, -510, -720, -420.A		All	All
	S	S.C. Code Ann. § 4-10-910			
South Dakota	M	S.D. Codified Laws § 10-52-2		All	All
Tennessee	C, M	Tenn. Code. Ann. § 67-6-702		All	n/a
Texas	M	Tex. Tax Code Ann. § 321.101(a)		All	None
	C	Tex. Tax Code Ann. § 323-101(a)			
	S	Tex. Tax Code Ann. § 323-105(a)			
Utah	M, C	Utah Code Ann. §§ 59-12-203, -2202, -2003, -1401, -701, -1401		All	All
	C	Utah Code Ann. §§ 59-12-402.1, -1102			
Vermont	M	Vt. Stat. Ann. tit. 24, § 138	Education Expenditure Criteria	All	None
Virginia	C, M	Va. Code Ann. § 58.1-605		All	All
	S	Va. Code Ann. § 58.1-603.1			

Washington	C, S	Wash. Rev. Code Ann. §§ 82.14.030(1) &(2), .400(1), .460(1)–(3), .475(1), .480(1), .510(1)	All	All
	C, M	Wash. Rev. Code Ann. § 82.14.045(1)		
	C	Wash. Rev. Code Ann. §§ 82.14.0485(1), .360(1), .049(1), .0494(1), .340, .350, .370(1), .420, .450(1), .485(1)		
	M	Wash. Rev. Code Ann. § 82.14.415(1)		
	S	Wash. Rev. Code Ann. §§ 82.14.0455, .0455(2), .390(2)(a), .430(1), .440		
West Virginia	M	W. Va. Code § 8-13C-4	Population	None
	S	W. Va. Code §§ 8-38-12, 7-22-12		
Wisconsin	C	Wisc. Stat. § 77.70	All	All
	S	Wisc. Stat. § 229.64, .823		
Wyoming	C, M, S	Wyo. Stat. Ann. § 39-15-203	All	None
	C	Wyo. Stat. Ann. § 39-15-204		

Note: C = county; M = municipality; S = special district and authorities. All = applies to all jurisdictions; Population = home rule laws vary by population; None = Dillion's Rule or modified Dillion's Rule; n/a = either not specified or the state does not have governments at that level.
Taken from: Afonso, Whitney B. "State LST laws: A comprehensive analysis of the laws governing local sales taxes." Public Budgeting & Finance 37.4 (2017): 25-46.
Home Rule data taken from Krane, Rigos and Hill (2001), please see appendices A1 and A2 for more details on the structural and functional aspects of home rule in the states.

A second consideration are exemptions and/or autonomy over the tax base. Local autonomy is becoming extremely uncommon across states because of the complexity that is introduced by different exemptions in the tax base and the requirements of the *Wayfair* ruling.[10] However, exemptions that are universally applied are feasible. One consideration may be to include food in all Articles, or to eliminate it from all Articles. Possible advantages to including food in all the Articles is that it would be less complex, which is generally viewed as *good* and it increases the size of the tax base which both generates more revenue and is more efficient. Another consideration is the inclusion of food in the tax base is likely a partial explanation for why we do not have larger inequities in revenue raising capacity amongst our local governments and why our local sales tax revenue is less volatile in periods of economic contraction. However, there are also advantages to excluding it from the tax base. It would mirror the state sales tax making the overall sales tax structure in the state less complex and food is often omitted from sales tax bases because it is regressive meaning that it puts a higher burden, proportionately, on low-income households. Additional exemptions include clothing and products associated with healthcare. Additional exemptions may decrease the regressivity of the tax[11], but like food they would also make it more inefficient, complex, and reduce the revenue capacity. Similarly, as discussed elsewhere, the tax base could be expanded to include more services.

A third consideration may be whether to allow additional local sales taxes and whether any additional (or existing) local sales taxes should permit or require local governments to earmark the revenues.[12] Earmarking is very common in local sales taxes. For more information on the areas in which local sales taxes are earmarked in other states, please see Table 4. Some of the most common expenditures areas that local governments are permitted to earmark revenues for are transportation, education, property tax relief, and economic development. Additionally in some states, local governments have the ability to earmark local sales tax revenues on expenditure areas of their choosing. For example, in Georgia counties can adopt a Special Purpose Local Option Sales Tax (SPLOST) where the county determines what the earmarks should be and then the public must approve (or not) the new local sales tax in a referendum. Tax earmarks present new considerations. First, there is evidence that tax increases are more palatable when earmarked for areas of expenditure that are supported by the public. Second, some scholars believe that earmarks help tame "Leviathan" government because they constrain areas of expenditure. Third, in contrast, since money is fungible others believe that earmarks simply help the size of government grow by allowing popular programs to get dedicated funding and replace the monies they would have otherwise been allocated from the general fund. The evidence on these relationships is mixed and is likely due to the visibility of the projects that receive the earmarked funds and whether they are, in fact, programs that would have been supported without the dedicated revenues.[13]

[10] Please see Afonso (2019) for a more detailed analysis.

[11] There is also a national trend of eliminating products like feminine hygiene products from the sales tax base. The so-called "tampon tax" is gaining popularity not because of the regressive nature, but because it only taxes a subset of the population and is considered a necessity.

[12] This is an issue that has received some attention in the state and while it is typically understood that earmarks restrict flexibility, there are examples where it is still preferred given the increased likelihood that taxes will be passed. Please see: https://www.ncleg.gov/Sessions/2019/Bills/Senate/PDF/S267v5.pdf and https://www.citizen-times.com/story/news/local/2018/10/04/asheville-buncombe-tech-community-college-sales-tax-helped-balance-county-budget-despite-promises/1366475002/

[13] For an overview of this literature, please see: Afonso, Whitney B. "Leviathan or flypaper: Examining the fungibility of earmarked local sales taxes for transportation." Public Budgeting & Finance 35.3 (2015): 1-23.

Table 4: Local Sales Tax Earmarks

STATE	LOST Revenue Earmark
Arizona	County: Transportation, jails, capital projects, and judgement bonds
Arkansas	County: Capital projects
California	County: Transportation
Florida	County: Transportation, specified projects, indigent care center, public hospital, fire service, and education capital
Georgia	County: Rapid transit, education, property tax relief, capital projects, transportation, and specified projects
Hawaii	County: Mass transit and ADA compliance
Idaho	Municipal: Property tax relief
Illinois	County: Education capital and public transportation
Iowa	County: Specified purpose or property tax relief
Kansas	County: Specified purpose and health care; Municipal: Specified projects
Louisiana	Specified purpose
Minnesota	County: Transportation
Mississippi	Municipal: Transportation
Montana	Specified purpose
Nebraska	Municipal: Municipal equalization fund, public infrastructure, and economic development
Nevada	County: Specified purpose, open space development, tourism, transportation, and recreation facilities
New Jersey	Municipal: Sports and entertainment facility
New Mexico	County: 19 instruments including roads, indigent care, and infrastructure; Municipal: 9 instruments including infrastructure and higher education facilities
North Carolina	County: Education capital and public transportation
Ohio	County: Specified purposes and criminal and administrative justice
Oklahoma	County: Jail facilities, airports, manufacturing facility acquisition, infrastructure, economic development, and public improvements
South Carolina	County: Property tax relief, county/municipal revenue fund, capital projects, and education capital
Texas	County: Property tax relief; Municipal: Property tax relief, economic development, community facilities, municipal development, and street maintenance
Utah	Numerous LOST instruments for counties and municipalities including health care facilities, airport facility, public transportation, and cultural facilities
Vermont	Municipal: Payment in Lieu of Taxes fund
Virginia	Planning districts: regional transportation projects
Washington	Numerous LOST instruments for counties and municipalities including transportation, criminal justice, stadiums, mental health, and emergency communications facilities
West Virginia	Municipal: Pension relief
Wisconsin	County: Property tax relief
Wyoming	County: Tourism promotion, economic development, and specified purposes

Taken from: Afonso, Whitney B. "State LST laws: A comprehensive analysis of the laws governing local sales taxes." Public Budgeting & Finance 37.4 (2017): 25-46.

Note: Does not include special district LOSTs that must be used on the single function of the special district or authority. Also, some LOST instruments are available to specific jurisdictions and not to others.

Additional Local Taxes

As with local sales taxes, there is also great diversity in the other local option taxes that are available across the United States. Here I will discuss some of the most common local option taxes (please see Table 5).

Local Excise Taxes

Local excise taxes, or selective sales taxes, fall into three main categories: luxury, sin, and benefit based. Exercise taxes are similar to sales taxes but have a much narrower tax base, typically only taxing a narrow type of good or service and may be administered differently. While some excise taxes are point-of-sale and levied as a percentage of the cost of the good, many are a flat per unit cost or calculated by other factors such as potency. This section covers some of the most common excise taxes levied at the local level.

Meals Taxes

Eighteen states either authorize local governments to adopt an optional local meals tax or have a uniformly levied local meals tax. Meals taxes are typically considered luxury excise taxes since they tax prepared food purchased at restaurants or foodstuffs ready for immediate consumption. One of the reasons for the popularity of meals taxes is the fact that they can be partially exported to non-residents, this is especially true in areas with larger tourism industries. In fact, in some states like Florida, local governments have the ability to tax meals served at hotels and motels at a higher rate than those served elsewhere, explicitly to capture non-resident tax dollars. There are prepared food taxes in North Carolina, but they require legislation being passed by the General Assembly. Prepared food taxes are levied in addition to state and local sales taxes. The state could consider permitting local governments to levy prepared food or meals taxes without legislative action. They could also consider changing the requirements around using a portion of the revenues for tourism development to give more flexibility to local governments.

Occupancy Taxes

Occupancy taxes are available in 43 states making it the most common local option tax in the United States and are taxes on short term accommodations like hotels, Airbnbs, and motels. Like the meals tax, but to an even greater extent, much of the burden of an occupancy tax is borne by non-residents making it popular amongst residents. There are local occupancy taxes in North Carolina, but they require being enacted by legislation passed by the General Assembly. While much of the legislation is similar, they are technically governed by distinct legislation. Occupancy taxes are levied on top of state and local sales taxes. The state could consider permitting local governments to levy occupancy taxes without legislation by the General Assembly.

Table 5: Select Local Option Taxes Available by State

State	Meals Tax	Occupancy Tax	"Soda" Tax*	Marijuana Tax	Tobacco Tax	Income Tax**
Alabama		M, C			†	M, C
Alaska		M, C		M, C	M	
Arizona		M		M		
Arkansas	M, C	M				
California		M, C	M	M, C		M
Colorado		M, C	M	M, C	M	M
Connecticut				M		
Delaware		M, C				M
Florida	M, C	M, C				
Georgia		M, C				
Hawaii						
Idaho		M				
Illinois	O	M, C		M, C	†	
Indiana	M, C	C				C
Iowa		M, C				C, O
Kansas		M, C				M, C†††
Kentucky	M	M, C				M, C, O
Louisiana	O	M, C			M, C	
Maine						
Maryland	C	M, C			†	M, C
Massachusetts	M, C	M		M		
Michigan	M, C	M, C				M
Minnesota		M, C				
Mississippi		M, C				
Missouri		M, C			†	M
Montana		M, C		C		
Nebraska		M, C			M††††	
Nevada		M, C				
New Hampshire						
New Jersey	C	M		M		M
New Mexico		M, C				
New York		M, C			M	M, O
North Carolina	M, C	M, C				
North Dakota		M, C			M, C	
Ohio		M, C			C	M, O
Oklahoma		M, C				
Oregon	M	M, C		M		O
Pennsylvania		M, C	M		M	M, O

Rhode Island	U					
South Carolina	M, C	M, C				
South Dakota						
Tennessee		M, C				
Texas		M, C				
Utah	C	M, C				
Vermont	M	M				
Virginia	M, C	M, C		M	M, C	
Washington	C	M, C	M			
West Virginia		M, C				M
Wisconsin	O	M, C				
Wyoming		M, C				

M: Municipal, C: County, U: Uniform tax (not optional) and O: Other (a special district, frequently a "resort area")
Adapted from: Afonso, Whitney. Forthcoming. “Local Option Taxes” For Research Handbook on City and Municipal Finance, edited by Craig Johnson, Justin Ross, and Tima Moldogaziev. Edward Elgar Publishing, London, United Kingdom. Expected publication year: 2023.

Note: The local excise taxes are only considered permitted when they tax the good outside of the sales tax. Also, in many states there are additional restrictions on which local governments can levy these taxes. This table only reports if they are permitted, it does not suggest that they are permitted by all jurisdictions.

*These are the states where local governments have implemented a soda tax. With the exception of California, it is only one jurisdiction per state.

**The local income tax also includes state's that permit localities to adopt a tax on wages, a payroll tax, and/or a tax on interest and dividends.

†Local government had previously been authorized to levy this tax and it is still in place for those who had adopted before the law changed.

††Only for special taxing districts within a limited number of municipalities

†††Kansas cities and counties may tax gross earnings derived from money, notes and other evidence of debt having a tax situs in such county. Kan. Stat. Ann. § 12-1,101

†††† G.S. 13-2813. Municipality or a county may impose a sales and use tax on any item that is taxable by the state. Omaha imposes a 3% tobacco occupational privilege tax.

Tobacco Taxes

Six states allow municipalities to levy tobacco taxes. The structure of tobacco taxes can vary between taxing all tobacco products or a subsample of them. For example, Pennsylvania's tobacco taxes only tax cigarettes, and only Philadelphia levies the local tobacco tax. Pennsylvania's tax is also an example of the flat per-unit cost. In Philadelphia, the city levies a tobacco tax of $2 per pack and the state levies a $2.60 state tobacco tax. In contrast there is no tobacco tax on large cigars.[14] The state could consider allowing local governments to levy local tobacco taxes which are considered a sin tax and Pigouvian (meaning that they also help correct for negative externalities). Typically, tobacco taxes are also earmarked for related expenditures, also often making them benefit based taxes.

Local Income Taxes

In thirteen states, local governments levy local income taxes. In four of those states, the local income tax piggybacks the state tax. In contrast, local governments in eight states levy an earnings or payroll tax that are separate from the state tax entirely. Earnings and payroll taxes are typically a percentage of wages and can be levied on the location of employment rather than the residence. In four states, the local income taxes are levied on employers, not employees. Much like the local sales taxes, the nuances of local income taxes vary tremendously by state.[15] For example, Ohio's municipalities administer and collect the local income taxes, but school districts can levy their own local income taxes, and the state is responsible for administrating those taxes.[16] Most local income taxes are self-administrated. This can make them administratively burdensome for local governments and for residents. The dependence on local income taxes varies from state to state. For example, in Oregon and Kansas, less than 1 percent of own source revenue is generated from the local income tax, while in Maryland over a quarter of own source revenue is generated by the local income tax.

Overall Evaluation of Local Taxes

The primary criteria that taxes can be evaluated on are: efficiency, equity, adequacy, feasibility, and transparency. Additionally, local taxes should also be considered through a lens of the impact on local autonomy, interjurisdictional competition, and vertical competition with the state.[17] Efficiency is typically achieved with broad based taxes and low rates. This is especially relevant for the discussion of local sales taxes, where the efficiency of the tax could be improved by including more services and food into the base. If the base were to be expanded the rate could be lowered to keep it revenue neutral, increasing efficiency, or the rate could be maintained to increase revenue yield. For the excise taxes, they do not typically have broad bases since they are selective taxes though including all similar products would be most efficient, e.g., taxing all tobacco products. The efficiency concerns with some of the other local option taxes are that the rates will increase to a point where it will decrease consumption, change consumption patterns (e.g., if occupancy taxes are too high in one jurisdiction it may encourage visitors to stay in another jurisdiction), and cause people to consume substitutes that are untaxed (e.g., e-cigarettes rather than traditional cigarettes).

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[14] See Afonso (forthcoming) for more examples.

[15] Pinho, R. (2013, October 3). Local option taxes (OLR Research Report 2013-R-0345). Connecticut General Assembly. https://www.cga.ct.gov/2013/rpt/2013-R-0345.htm

[16] Ohio Department of Taxation. (n.d.). Municipal income taxes. https://tax.ohio.gov/wps/portal/gov/tax/business/municipalities/municipalities

[17] There are many excellent resources on tax criteria including: Ross, Justin M. "A Primer on State and Local Tax Policy: Trade-Offs among Tax Instruments." MERCATUS RESEARCH (2014).
For an explicit conversation on local taxes please see: Afonso (forthcoming).

Equity is an important consideration as well and is often in contrast with efficiency. For example, the reason that food is often excluded from sales tax is that it is regressive and a necessity. Tobacco taxes are also regressive, though since they are 1) Pigouvian (making them particularly efficient), 2) sin taxes, and 3) often benefit-based with the revenues being earmarked for related expenditures, people typically have fewer concerns around the regressivity. Meals taxes and occupancy taxes are likely proportional or progressive and thus considered fair to many, though fairness is very challenging to define and agree upon. Income taxes may be the most challenging to gain consensus on the fairness of them.

Adequacy is best achieved with taxes that have a large base, so excellent examples are sales and income taxes. In many jurisdictions, the occupancy tax has a large base and may have the ability to generate sufficient revenues to justify the administrative costs of implementation. That is, of course, less true in jurisdictions with few overnight visitors. Similar concerns arise for meals and tobacco taxes.

Arguably all the taxes discussed here are administratively feasible since they have been implemented in many other jurisdictions in the United States. Some of them come with high costs depending on their structure. For example, increased local autonomy regarding the structure, like for a local income tax would lead to high administrative costs. However, many of these options could either be rolled into existing taxes or piggyback off of the state. Political feasibility is another question and one outside the scope of this report.

Last, is transparency. The most transparent taxes are those 1) that are levied by one unit of government so that it is clear where the money is going, 2) that are simple to understand, and 3) where the full burden of the tax is understood which often means taxes that are not levied in small amounts and are not temporally spaced. Thus, sales taxes are not transparent and income taxes that are withheld from paychecks are not particularly transparent. Though income taxes can be structured in a way to make them more transparent. However, transparent taxes are often the least popular taxes making them less politically feasible, i.e. property taxes.

Unfortunately, there is no *right* tax. However, there are choices that can be made to maximize good tax principles. This report presents many considerations for what local taxes could look like in North Carolina in the future. Many options would increase efficiency like expanding the sales tax base, many increase revenue like introducing new revenue sources such as the local tobacco tax, others simplify the structure like revising how sales tax revenues are allocated, and some increase equity like the possibility of removing food from the sales tax base. Many of these options may lead to short term gains in revenue but have long term implications for the competitiveness of the state. For example, very few states have local income taxes and the introduction of one in North Carolina may make it more difficult to attract and retain workers and businesses.[18] However, the needs of our local governments are diverse as are their economies and populations, thus having options for how to best generate revenue may benefit many of these communities. Therefore, the careful balancing act of values, priorities, and needs must guide policymakers.

[18] There is evidence that subnational income taxes negatively impact in-migration especially of more affluent workers who tend to be more mobile.