Overview

- Local option sales taxes (LOSTs) are permitted in 36 states
  - Very often they are viewed as extremely inequitable
  - So the natural question is who wins and who loses?

- I will discuss:
  - Background of LOSTs, specifically in NC
  - Previous literature
  - Identification strategy
  - Analysis
  - Discussion of results
Brief Background on NC LOSTs

- Local option sales taxes (LOSTs) in NC are composed of many “articles” or smaller LOSTs
  - Rates vary between 2% and 2.25% with 3 counties having additional 0.5% for transit
  - Base 2% tax food unlike the state level sales tax
- One article is partially earmarked for counties
  - For education capital
  - Revenue is distributed on a (weighted) per capita basis
    - This is a change! There used to be more distributed and earmarked like this
  - Municipalities are not constrained
- State collects revenue and distributes it back to counties and municipalities
  - Per capita versus ad valorem basis

Who Generates the Most Revenue?

- Do urban areas do better?
- Do your neighbors matter?
- Are tourism areas different?
- How does LOST revenue raising capacity interact with property tax capacity?
Urban Areas

- Are urban areas actually better off?

- Total dollars vs per capita

Regional Effects

Population

Property Tax Revenue per capita

LOST Revenue

LOST Revenue per capita
So if you are...

- Urban or “high” population:
  - In terms of per capita revenue you do not do so well
    - Exceptions are Mecklenburg, Buncombe, and Forsyth
  - True for suburban too

- Rural with little tourism:
  - Very low in terms of real dollars and per capita dollars

- Tourism rich:
  - Do very well in terms of real dollars and especially in per capita terms
Who is Paying?

- Why do urban and tourism rich areas generate more money?
- Residents versus Non-Residents
  - Commuters
  - Tourists
- Which is more volatile?
  - Tourists.

Revenue Raising Capacity

- Relationships between primary revenue sources
  - Property taxes and sales taxes
- Want to know not just what revenue you collect, but what you could be collecting
  - The idea of capacity
Property Tax versus Sales Tax

- Can any imagine a scenario where:
  - The jurisdiction has high property tax capacity and low sales tax capacity?
  - The jurisdiction has low property tax capacity and high sales tax capacity?

Revenue Raising Capacity

<table>
<thead>
<tr>
<th>Average Property Tax and LOST Revenue</th>
<th>In total dollars (000s)</th>
<th>In per capita dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
<td>Suburban</td>
</tr>
<tr>
<td>LOST</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>Property tax revenue</td>
<td>Property Value</td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>14,700</td>
<td>291,709</td>
</tr>
<tr>
<td>Suburban</td>
<td>5,463</td>
<td>41,237</td>
</tr>
<tr>
<td>Rural</td>
<td>3,020</td>
<td>19,948</td>
</tr>
<tr>
<td>Tourism rich</td>
<td>8,953</td>
<td>60,061</td>
</tr>
<tr>
<td>Tourism rich</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The suburban and rural counties that have been re-coded as tourism are not included in the suburban and rural averages. The totals are presented in thousands of dollars, the per capita terms are not.
Further Considerations

- Sales taxes are often seen as extremely inequitable
  - It appears they are
    - But not on the dimension previously discussed
  - One caveat:
    - Tourism rich and urban areas have a lot of non-resident traffic
    - This means they are able to export a portion of the burden
    - However they also have large populations coming and using resources and services they do not pay traditional taxes
  - Statistically…
    - There is no difference between the overall revenue raising capacity of these different classifications

Proposals to Change Distribution

- What has North Carolina been discussing?
  - Why?

- What changes have we seen?
Thank you!