Different levels of government are assigned various service responsibilities

- Revenues are needed to achieve objectives

- Assignment of revenue sources is, to some degree, coordinated among levels of government

- State and governments have considerable autonomy in revenue decisions
Tax System Design

• Guidelines for designing a good tax system
  – Sufficient to meet public service needs
  – Equity
  – Economic efficiency (minimize distortions to behavior)
  – Collection costs (to collector & to society)
  – Simplicity and transparency

Efficiency

Evasion (illegal) and Avoidance (legal)

Examples of Avoidance

Work vs. non-work: High tax rates on wage income may induce a preference for non-work activities.

Business operations: Taxes should not (generally) affect business practices.

Shopping and business location: Sales taxes and excises may affect shopping patterns and business location.

Personal financial management: People manage activities and finances to minimize tax burden.

A general rule: Keep the base broad and rate low
## Sources of Revenue

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Level of Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>Federal/State</td>
</tr>
<tr>
<td>Sales and Excise Taxes</td>
<td>State</td>
</tr>
<tr>
<td>Property Tax</td>
<td>Local</td>
</tr>
<tr>
<td>Business Taxes</td>
<td>Federal/State</td>
</tr>
<tr>
<td>Charges</td>
<td>Federal/State/Local</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>Federal/State/Local</td>
</tr>
<tr>
<td>Federal (or State) Aid</td>
<td>State/Local</td>
</tr>
</tbody>
</table>

## State and Local Autonomy

- Considerable Autonomy
  - Variation across the state and local governments in how revenues are collected
    - Differences in economic structures
    - Differences in citizen preferences
    - Differences in inter-jurisdictional competition
State and Local Autonomy

- Differences in tax reliance as well as tax base and rate definitions
  - 5 of 50 states do not collect a general sales tax
    - Food and various services are often exempt from the sales tax
    - Sales tax rates vary substantially across the states
  - 7 of 50 states do not have a broad-based income tax
    - States often link their income tax base to federal tax base
    - Rates and tax brackets vary from state to state

Federal State and Local Revenues

- Total Revenue: $4,809.1 billion
- Federal 45%
- State 27%
- Local 28%
State and Local Tax Effort

State and Local Taxes as Percent of Personal Income, 1972-2007

Year
- 1972
- 1974
- 1976
- 1978
- 1980
- 1982
- 1984
- 1986
- 1988
- 1990
- 1992
- 1994
- 1996
- 1998
- 2000
- 2002
- 2004
- 2006

Percent
- 7
- 9
- 11
- 13
- 15
- 17
- 19

Sources of Federal Tax Revenue, Fiscal Year 2008

- Individual Income Tax: 45%
- Payroll Taxes: 36%
- Corporate Income Tax: 12%
- Excise Taxes: 4%
- Other Taxes: 3%

Federal Revenues

State and Local Government Program, MSU Extension
State Government Revenues

State Government General Revenue Sources, 2007

- Intergovernmental revenue: 30%
- General sales: 16%
- Selective sales: 8%
- License taxes: 2%
- Individual income tax: 18%
- Corporate income tax: 2%
- Other taxes: 2%
- Current charges: 10%
- Miscellaneous general revenue: 1%

Local Government Revenues

- Not All Local Governments Are the Same
- Numerous Types and Purposes of Local Government
  - Counties
  - Municipalities
  - Townships (not all states)
  - Special Districts
  - School Districts
Local Government Revenues: Counties

### County Government Revenues, 2007

- **Intergovernmental revenue**: 37%
- **Property**: 26%
- **Sales and gross receipts**: 8%
- **Charges and miscellaneous general revenue**: 26%

Local Government Revenues: Municipalities

### Municipal Government Revenues, 2007

- **Intergovernmental revenue**: 27%
- **Property**: 21%
- **Sales and gross receipts**: 12%
- **Charges and miscellaneous general revenue**: 29%
Local Government Revenues: Townships

Township Government Revenues, 2007

- Intergovernmental revenue: 22%
- Property: 56%
- Charges and miscellaneous general revenue: 16%

Local Government Revenues: Special Districts

Special District Government Revenues, 2007

- Intergovernmental revenue: 32%
- Property: 11%
- Charges and miscellaneous general revenue: 51%
Local Government Revenues: School Districts

School District Revenues, 2007

- Intergovernmental revenue: 55%
- Property: 35%
- Charges and miscellaneous general revenue: 9%

Final Thoughts

- Trained/skilled government leaders is essential, including the local level
- Local autonomy has both costs and benefits
- Assignment of public service responsibilities...goes hand in hand with...
- Options for generating revenues
- Expenditure and revenue patterns persist over time, but change can and does occur

DISCUSSION