

## FINANCING STATE AND LOCAL GOVERNMENT

**POSITION:** The League supports a balanced system of taxation that considers the ability of the taxpayer to pay and which produces sufficient revenues to fund essential services. Constitutional taxation provisions should be broad and sufficiently flexible to meet future revenue needs.

**Background:** Tennessee state and local governments fund services through a variety of taxes and fees. At the state level, the sales tax is the primary revenue source, a portion of which is shared with the local governments. The local governments can impose their own taxes, the primary ones being a property tax and a local option sales tax. Property tax is the largest source of revenue for local governments. Disparities in the property and sales tax bases, however, remain significant among counties. In addition, some tax exemptions and incentive programs impose an unfair tax burden on residents. Tax systems need to be reviewed and updated periodically to reflect changes in demographics and consumer practices.

Our position of “Constitutional taxation provisions should be broad and sufficiently flexible to meet future revenue needs” remains unchanged. However, in 2014 Tennessee passed a constitutional amendment prohibiting any form of income tax, making it unlikely that this form of revenue could be implemented anytime in the near future. Since 2016, the Hall Income Tax, which taxes interest and dividend income from investments, is being reduced by 1% per year until 2021 when it will be eliminated.

Therefore, the state position includes the following:

- **State Income Tax:** The League supports a broad-based personal income tax and repeal of the Hall income tax in order to enhance the equity and balance of the tax structure and to produce adequate state and local government revenue. An occupational privilege tax (payroll tax) and retention of the Hall income tax is a less desirable second choice. The League opposes the levy of local option income or payroll taxes. The corporate excise (income) tax should be retained.
- **Sales Tax:** Because of its regressivity, the League opposes continued and increased reliance on sales tax for revenue. The sales tax on food for home consumption has been reduced but ideally should be eliminated. Broadening of the sales tax base and any raise in rate should be contingent upon the exemption of tax on food.
- **Property Tax:** The League supports classification of property for tax purposes into real, tangible personal, and intangible personal. (Tangible personal property includes business property that can be moved or touched such as equipment, machinery, vehicles, and inventory. Intangible personal property includes property items such as ownership in or debts of a business.) The League opposes subclassification of real property and erosion of the property tax base. Income producing property, including that owned by religious and nonprofit charitable organizations but not used for religious and/or charitable nonprofit purposes (investment property), should be subject to the property tax. The League supports a mandatory periodic reappraisal program, accomplished by professional assessors, that is equitable statewide, and supports increased involvement of the state in the local reappraisal process. Property tax relief for low-income persons and families should continue.

- **User Fees:** The League supports expanded local government levies of user fees providing they meet accepted League taxation criteria.
- **Intergovernmental Revenue:** State services mandated and performed by local government should be fully state funded. State/local transfer formulas should be equitable and consider the recipient local government's tax capacity and effort.

The League used the following criteria to evaluate a system of taxation:

- Ability of the taxpayer to pay
- Diversity of revenue sources
- Economy of administration
- Simplicity and convenience
- Certainty
- Sufficiency
- Elasticity

Each tax should be considered and evaluated in relationship to all other state and local taxes including its impact on local governments, whether urban, suburban or rural. No single tax will meet all of the above criteria.

Adopted 1971, Amended 1977, 1983, 2021.