ALTERNATIVE SOURCES of LOCAL TAX REVENUE in APPALACHIA

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ABSTRACT

An additional local sales tax or a surtax on State income taxes as an alternative source of revenue for counties would, to a large extent, continue the situation that exists in Appalachia. Although a tax using a combination of the above alternatives would be somewhat more successful, it would still not be satisfactory in reducing the tax burden on real property. Variations in the sales tax base and the income tax base would also result in wide variations in any alternative tax. A few counties could raise a given amount of revenue with a relatively low sales tax or a surtax, while many counties would require a relatively high tax to raise an equivalent amount. This variation between taxing units could be modified if any of these alternatives were levied on a multicounty basis--such as the various State-created planning districts.

Keywords: taxes, county, local, property, income, governments.

PREFACE

Inadequate services provided by local governments are often cited as one of the barriers to improving the well-being of rural people. And the property tax is often pointed to as a major contributor to the financial problems of rural areas. To aid in carrying out the U.S. Department of Agriculture's responsibilities for rural development, therefore, this study of alternatives to the local property tax was undertaken. It provides basic information to help States and localities decide whether to change their tax systems.

This study has been possible only with the cooperation and assistance of many State officials in the 13 States in the Appalachian Region. These officials include primarily personnel in the State tax offices and the State Department of Public Instruction. These officials made available published as well as unpublished data that were used in this study and provided much assistance in understanding these data. In some States, officials of professional educational associations were able to provide additional data and assistance.

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Of three alternatives to relieve the property tax burden in Appalachia, a combination tax of an additional 1/2-cent sales tax and a 5-percent surtax on income tax appears to be the most desirable. However, neither this alternative nor the other two--an additional local sales tax or a local surtax on income tax--is considered satisfactory for reducing the tax pressure on real property. Although in some localities these alternatives could yield significant revenues, in other localities they would have little effect.

Due to wide variations in the sales tax base and personal income tax base, there would be inequities in any locally raised revenues from either a local sales tax or a surtax on personal income tax, or a combination of the two. For example, if revenue equal to 25 percent of the amount received from taxation of real property is to be obtained from an additional sales tax, the tax would vary from 1/2 cent in some counties to more than 3 cents in others. To obtain the same amount from a surtax on personal income tax, the surtax would have to range from 11 percent in one county to 202 percent in another.

Although the combination tax would resolve some inequities, many would still exist. For example, in three States where the tax would yield revenue at least equal to 25 percent of the property tax revenue, the yield per county would vary from 15 to 140 percent.

Making a local sales tax or surtax on income uniform throughout a State does not seem to lessen the inequities. In Mississippi, for example, an additional 1-cent sales tax on taxable sales (based on 1969 data) would yield only $3.29 per capita in one county, compared with $55.65 in another.

The sales tax base--one of the factors contributing to the difficulty in finding an alternative tax to the property tax--varies widely from State to State. In 1969, it ranged from $805 per capita in Pennsylvania to $2,385 per capita in Mississippi. This variation is attributed to the differences in what the States legally include as taxable sales.

Although a sales tax is uniform throughout a State, the amount subject to taxation varies widely. For example, in Virginia, one county had a sales tax base of $329 per capita in 1969, compared with an independent city's base of $4,155 per capita. Frequently, localities with relatively small revenues from a sales tax have limited shopping facilities, so there is a flow of sales tax dollars to other areas.

The current property tax, which localities heavily depend on for local revenues, also varies widely. In 1969, one county in Mississippi was taxing at a rate of $1.44 per $1,000 of full value, while another county in the State required $12.55 per $1,000. Property tax bases (full valuation) in 1969 ranged from almost $1,500 per capita in one county in Tennessee to over $9,750 per capita in Kentucky.

The possibility of levying the tax alternatives at the district level is considered in the study. The variations in revenue per capita would be much less than when levied on a county basis. However, further study is needed on the possibility of providing governmental services at a multicounty level.

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Arthur J. Walrath 1/

INTRODUCTION

For most local governments in the United States, the largest part of locally raised revenue comes from the property tax. An estimated 70 percent of all locally raised revenue was derived from this tax--and actually accounted for 58 percent of all revenue of county governments in 1967. A large part of the revenue derived from the property tax more specifically comes from taxation of real property.

There is a widespread belief that the real property tax is becoming oppressive. The pressure on real property continues as county governments, with few alternatives open to them, have increasing needs for more revenue. Some States have enabling acts that permit a local surtax on the State income tax, while others have permitted use of a local sales tax as a means of reducing the dependency on real estate. These two sources have been widely advocated elsewhere and are considered in this report as possible alternatives for some revenue now derived from the taxation of real property in the Appalachian Region.

Seeking an Alternative to the Property Tax

The intent of this study was to concentrate on the real property tax levied by counties and to examine alternative sources of revenue that counties might use. The data base used is fiscal year 1969. It was recognized that

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both the functions and the taxing powers of counties varied from State to State. In some cases, functions or taxing powers varied within a given State. To a large extent, adjustments could readily be made for variations of functions within a given State. However, it was not feasible to make adjustments between States so that data would be comparable. Because of the differences, it is necessary to remember that the data for any one State are not necessarily comparable with similar data of another State.

For example, in Virginia, road maintenance (with some exceptions, such as Arlington County) is the responsibility of the State. In Mississippi, road maintenance is a county function that is supported in part by State aid and in part by revenue raised locally. For schools, there is a much greater variation in responsibility. Again, in Virginia, most schools are county operated, with the county board of supervisors responsible for levying a tax that includes funds for education. In Georgia, the county school systems have much influence on fiscal operations, including the levying of a property tax to support education. In Pennsylvania and Ohio, the schools are largely responsibilities of townships or even boroughs.

With these variations, as well as others, problems arose as to how to minimize the differences.

The study includes 469 of the 1,053 counties in the 13-State region. If other units in the study area are in the same proportion as the counties, then there are almost 2,300 cities, 1,500 townships (in New York, Ohio, and Pennsylvania), and about 1,300 school districts in the study area. In addition, there are incorporated towns, boroughs, and various authorities or districts. An estimated 6,000 of these 7,100 units have the power to levy property taxes.

It was necessary to limit the study to counties. However, in States with independent school districts, data were obtained on them and incorporated into the county data. Therefore, in these States, any revenue collected as property tax by school districts is shown as county income. This was done in recognition of the fact that school costs are a major expense item in local government. It was not feasible, however, to make other adjustments for road maintenance or welfare costs, for example, to make the data more comparable from State to State.

Defining the Study Area

The basic study area is the Appalachian Region, which includes 397 counties plus five independent cities in Virginia which are not part of a county, or a total of 402 units in 13 States. One phase of the study involved the analysis of the data, using multicounty areas. The State-designated planning districts were selected for this purpose. However, in order to work with complete districts, the number of counties included was expanded whenever a district included some counties within the Appalachian Region and some outside.

At the same time, three counties were omitted since they were relatively small parts of a much larger area, most of which was outside the region. Schoharie County, New York--the only Appalachian county within a district that encompasses New York City--was excluded. Cortland County, New York, was also excluded. Cortland is the only Appalachian county in a district that includes Syracuse. Likewise, Perry County, Pennsylvania, was also excluded, for it is a part of the Lancaster-Harrisburg area, most of which is outside the region.

With the additions and the three exclusions, the area of study was expanded to include 469 counties plus 13 independent cities 2/ in Virginia, or a total of 482 units. Figure 1 shows the total area of study.

Adjusting the Data

Within each individual State, adjustments were made in an attempt to provide data comparable between counties. For example, schools in general are a function of the counties in Virginia. There are, however, several instances where the town has the responsibility for operating a school system within its boundaries. In these instances, county revenues are adjusted to include town revenues that are related to the school system. In other words, data shown for county revenues include all revenues received for operating the schools within a county regardless of whether some of these funds are under control of the town. Within each State, revenue shown for any county is comparable with any other county, so far as the functions that are financed by these revenues are concerned.

However, the assessed valuations as well as the tax rates are not comparable from county to county. County practices vary widely as to assessment methods and the ratio of assessments to market value. Even so, in each State except South Carolina, there has been some estimate of the true valuation or market value of real property. Although there might be some question as to the reliability of these estimates, they do, nevertheless, provide a far superior basis for comparing the tax base from county to county than do the assessed valuations. True valuations or market valuations within any State are comparable from county to county, but assessed valuations are not.

The State sales tax data and the State personal income tax data are comparable from county to county within any State since both the sales tax and the income tax are determined by State laws.

Comparability of county data between States, to a large extent, does not exist. This is due largely to the wide variation in the functions of counties. In some cases, it is possible to make adjustments for these variations. For example, schools in Virginia are a function of the counties, except in a few towns. In Georgia, schools are operated by school districts which are independent of the counties. However, it is possible to make adjustments in all

2/ Unless specifically indicated, the 13 independent cities in Virginia are treated as if they were counties.

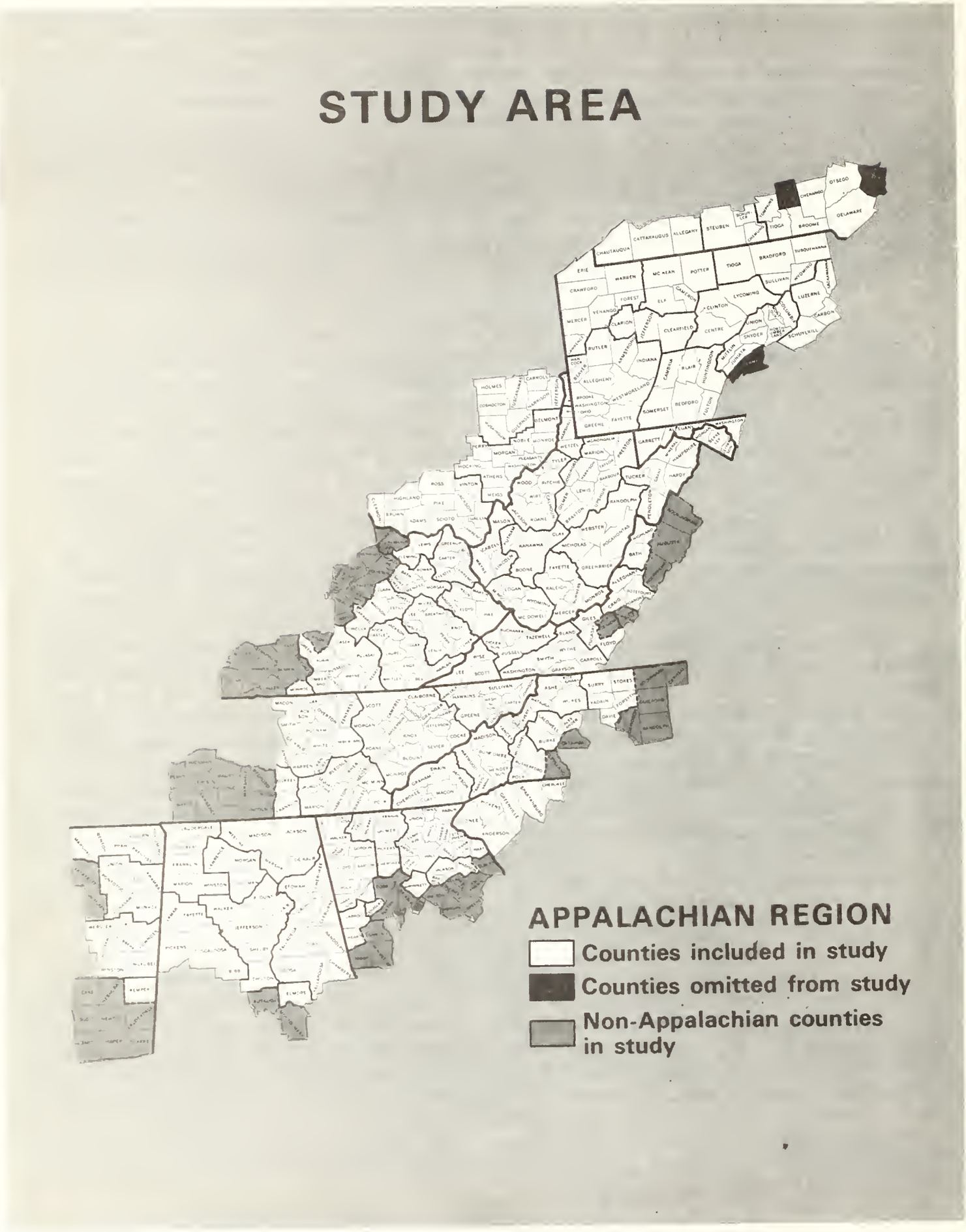
STUDY AREA
APPALACHIAN REGION
Counties included in study
Counties omitted from study
Non-Appalachian counties in study

Figure I

States so that school revenues are included as a part of the adjusted county revenues. In contrast, it is not possible to make similar adjustments for highway maintenance or welfare activities. In other words, the data as presented are not comparable from State to State unless one recognizes the variations in the functions.

Furthermore, as already indicated, county data frequently are adjusted county data. They do not necessarily show the actual revenue that was derived for any one county because of the adjustments required. However, the county tax base reflects the actual county figure as obtained from various official sources.

The sales tax base varies from State to State. In Pennsylvania, clothing and food are exempt as well as certain restaurant meals. In Virginia, all food and clothing are subject to the sales tax. A $1,000-sales base, because of various exemptions, is not the same thing in each of these States. However, the tax yield of an additional 1-cent sales tax is comparable from State to State. The variation in yield reflects to a large extent the variation in exemptions.

Likewise, income tax base varies from State to State. However, the amount of revenue that could be obtained by levying a uniform surtax on the income tax would be comparable from State to State. Ohio, Pennsylvania, and Tennessee are omitted from this part of the analysis since no general income tax is levied in these States. 3/

THE PROPERTY TAX

Local Tax Base Varies

The property tax is the primary source of local revenue for the Appalachian Region. For example, in seven States, property tax revenue accounted for more than 90 percent of all local tax revenue, and in five States, less than 3 percent of the local tax revenue came from other sources. In States with independent school districts, the property tax is also the main source of locally raised funds in these districts.

A large part of this property tax base is in the form of real property. Real property constitutes 75 percent or more of the assessed value of all taxable property in seven States and 90 percent or more in four others. West Virginia has the largest percentage of taxable personal property (37.8 percent).

The typical tax burden on real property can be explained largely in terms of (1) the dependency of the locality upon the property tax for locally

3/ Since this study was initiated, both Ohio and Pennsylvania have adopted a State income tax law.

raised revenues and (2) the proportion of the total tax base that is classified as real property. This is intensified by the fact that statutory limitations restrict the use of other sources of revenue.

Assessed Valuation Computed

The amount of real property per capita varies widely not only from State to State but also within a State. For example, the assessed valuation per capita in 1969 varied from only $195 in South Carolina's Appalachian counties to $2,445 in Kentucky (table 1). Within the various States, the widest range was found in Virginia--$273 to $4,160 per capita, or a ratio of 1 to 15.2. This wide variation arises because of the independent status of Virginia cities. 4/ These cities tend to have greater assessed valuations than Virginia counties. Nevertheless, if this comparison is limited to the legally constituted counties, the ratio is still high--1 to 9.

Although the base for levying property taxes is assessed valuation, these values are of little use if different taxing units are being compared, because assessed valuations are not comparable from county to county in the same State, let alone from State to State. This fact hinges on the relationship of assessed valuation to full valuation. There is considerable variation from county to county in this ratio in all States except Kentucky. In Virginia, for example, assessed valuation ranges from a low of 7.6 percent of full valuation in two counties to a high of 93 percent in one city. 5/

Full Valuation Computed

A better basis for comparison is the full (true or market) value. (In each State except South Carolina, estimates are available on the full value of real property.) Such comparisons may involve absolute figures or the ratio of assessed value to full value. Published State estimates, except for South Carolina, were used in this study. For South Carolina, an estimate of the full value was developed after discussing the situation with a number of property assessors in the State. Even though questions can be raised as to how realistic the full value is in various States, and certain limitations are recognized, the full valuation does provide a far sounder tax base than assessed valuation.

Between States in the Appalachian Region, full valuation of real property in 1969 ranged from $1,564 per capita (South Carolina) to $5,359 (Georgia). For counties, those in Kentucky had the greatest variation--from $1,588 to $9,751 per capita, or a ratio of 1 to 6.1. There were six States where the ratio was 1 to 3 or greater. The least variation was in New York, where the ratio was only 1 to 1.6 (table 2).

4/ Although the term county does have a specific meaning, for purposes of simplicity in this paper, it is used to include the independent cities in Virginia.

5/ Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities--1968 and 1970, Virginia Department of Taxation, 1970.

Table 1--Counties in study with assessed valuation per capita, State average valuation and ranges, Appalachian Region, fiscal year 1969

State	Counties included	State average	Range for counties		Ratio: low/high
			Low	High	
	Number		Dollars		
Alabama	37	858	343	1,411	4:1
Georgia	51	1,934	1,109	2,529	2:3
Kentucky	73	2,445	1,334	8,685	6:5
Maryland	3	2,365	1,894	2,573	1:4
Mississippi	30	455	227	876	3:9
New York	12	1,996	1,232	4,240	3:4
North Carolina	36	2,177	932	3,294	3:5
Ohio	28	1,906	1,181	3,397	2:9
Pennsylvania	51	1,386	564	2,349	4:2
South Carolina	6	195	102	242	2:4
Tennessee	61	882	290	2,084	7:2
Virginia	39	1,115	273	4,160	15:2
West Virginia	55	2,145	1,187	3,906	3:3

Table 2--Full valuation per capita, State average and range for counties, Appalachian Region, fiscal year 1969

State	State average	Range for counties		Ratio: low/high
		Low	High	
	Dollars			
Alabama	4,737	1,853	7,816	4:2
Georgia	5,359	2,840	7,420	2:6
Kentucky	4,860	1,588	9,751	6:1
Maryland	4,881	3,930	5,736	1:5
Mississippi	2,801	2,112	4,637	2:2
New York	4,633	3,608	5,724	1:6
North Carolina	3,836	1,890	5,424	2:9
Ohio	5,134	3,063	7,277	2:4
Pennsylvania	3,438	1,983	9,141	4:6
South Carolina	1,564	N.A.	N.A.	N.A.
Tennessee	3,865	1,489	7,337	4:9
Virginia	4,759	2,861	9,038	3:2
West Virginia	4,040	2,279	7,725	3:4

N.A. = not available.

There were 154 counties in the study area with full valuations of less than $3,000 per capita. Almost 90 percent of these were concentrated in Alabama, Kentucky, Mississippi, North Carolina, Pennsylvania, and Tennessee. At the other extreme, there were 94 counties with full valuations in excess of $5,000 per capita (table 3). Almost 80 percent of these counties were in Georgia, Kentucky, Ohio, and Virginia. The largest number of counties with valuations this high was found in Kentucky, but this State also had a large number of counties with valuations under $3,000 per capita. In Georgia, there were only three counties with valuations of less than $3,000 per capita; in Virginia, one; and in Ohio, none.

Thus, the data show a concentration of counties with a relatively small property tax base per capita in six States and a concentration of counties with a relatively large tax base in four States..

Tax Rate Based on Full Valuation

The tax rate stated in terms of the assessed value (table 4) does not provide a sound basis for making comparisons between areas. 6/ A better measure, even recognizing that there are weaknesses in calculating full values, is the tax rate computed on basis of the full valuation.

The average 1969 tax rate per $1,000 of full value was only $5.14 in Alabama, but in New York, it was $26.72 per $1,000 (table 5). In New York, Tennessee, and Virginia, the variation in full value tax rates between counties was much less than would be indicated if the tax rate per $1,000 of assessed valuation was used. However, in Mississippi, the variation in full value was greater than the assessed value variation.

All counties in Alabama had a tax rate that was less than $7.00 per $1,000 of full value. Other States with a concentration of counties with low tax rates were Kentucky, North Carolina, and Mississippi (table 6). In contrast, all counties in New York and 90 percent of the counties in Pennsylvania had rates in excess of $15.00 per $1,000. Smaller concentrations of counties with high rates were found in Ohio and Tennessee.

With the exception of Virginia, the States with concentration of counties with a low tax rate also had a concentration of counties with a low tax base. Tennessee and Pennsylvania, with relatively high tax rates, had a concentration of counties with a relatively low tax base. These two States were without a statewide income tax at the time of the study.

6/ For the States, the tax rate varies from an average of $7.82 per $1,000 of assessed valuation in Kentucky to $144.43 per $1,000 in South Carolina. There are three States where the range between counties is greater than 1 to 5. The widest range is in Virginia, where the rate varies from a low of $11.01 per $1,000 of assessed value to $91.95, or a ratio of 1 to 8.4 (table 4).

Table 3--Counties according to full valuation per capita, Appalachian Region, by States, fiscal year 1969

State 1/	Full valuation per capita				
	$1,000 to $1,999	$2,000 to $2,999	$3,000 to $3,999	$4,000 to $4,999	$5,000 or more
	Number				
Alabama	1	23	17	4	2
Georgia	0	3	22	14	12
Kentucky	6	14	12	9	32
Maryland	0	0	1	1	1
Mississippi	0	22	6	2	0
New York	0	0	5	4	3
North Carolina	2	12	13	7	2
Ohio	0	0	4	10	14
Pennsylvania	1	29	16	3	2
Tennessee	5	23	15	14	4
Virginia	0	1	10	12	16
West Virginia	0	12	24	13	6
Total	15	139	135	93	94

1/ Data not available for the 6 counties in South Carolina.

Table 4--Tax rate per $1,000 assessed value, State average and range for counties, Appalachian Region, fiscal year 1969

State	State average	Range for counties		Ratio: low/high
		Low	High	
	Dollars			
Alabama	28.43	21.02	38.20	1:8
Georgia	34.20	16.64	42.97	2:6
Kentucky	7.82	4.52	10.60	2:3
Maryland	22.94	21.71	24.80	1:1
Mississippi	41.67	11.85	82.11	6:9
New York	62.03	30.36	100.98	3:3
North Carolina	12.89	9.49	20.92	2:2
Ohio	39.93	25.04	48.89	2:0
Pennsylvania	48.99	35.04	108.54	3:1
South Carolina	144.43	88.49	168.52	1:9
Tennessee	58.28	22.77	168.46	7:4
Virginia	35.51	11.01	91.95	8:4
West Virginia	19.40	9.64	27.56	2:9

Table 5--Tax per $1,000 full value, State average and range for counties, Appalachian Region, fiscal year 1969

State	State average	Range for counties		Ratio: low/high
		Low	High	
	Dollars			
Alabama	5.14	3.82	6.91	1:8
Georgia	12.34	5.11	15.33	3:0
Kentucky	6.63	3.63	8.90	2:5
Maryland	11.12	9.74	13.59	1:4
Mississippi	6.77	1.44	12.55	8:7
New York	26.72	24.45	31.93	1:3
North Carolina	7.31	4.40	10.22	2:3
Ohio	14.82	9.98	21.50	2:2
Pennsylvania	19.75	7.79	24.41	3:1
South Carolina	18.05	N.A.	N.A.	N.A
Tennessee	12.97	5.30	29.87	5:6
Virginia	8.32	3.06	14.10	4:6
West Virginia	10.30	5.45	14.18	2:6

N.A. = not available.

Table 6--Counties, according to tax rate per $1,000 of full valuation, Appalachian Region, fiscal year 1969

State 1/	Tax rate per $1,000 of full value					
	Under $5	$5 to $7.49	$7.50 to $9.99	$10 to $14.99	$15 to $19.99	$20 or more
	Number					
Alabama	16	21	0	0	0	0
Georgia	0	9	23	18	1	0
Kentucky	15	48	10	0	0	0
Maryland	0	0	1	2	0	0
Mississippi	8	11	8	3	0	0
New York	0	0	0	0	0	12
North Carolina	2	23	10	1	0	0
Ohio	0	0	1	12	14	1
Pennsylvania	0	0	1	4	35	11
Tennessee	0	5	16	24	13	3
Virginia	2	16	12	9	0	0
West Virginia	0	6	24	25	0	0
Total	43	139	106	98	63	27

1/ Data not available for the 6 counties in South Carolina.

Tax per Person Ranges Widely

One indication of the size of the tax burden is the amount of tax per capita. For the region, the property tax in 1969 ranged from an average of only $18.97 (Mississippi) per capita to $123.79 (New York). In Mississippi, all counties had a tax that was less than $30 per capita (table 7). Other States with concentrations of counties with a low property tax per capita were Alabama, North Carolina, and Kentucky. States with a concentration of counties with high per capita property taxes were New York, Ohio, and Pennsylvania (table 8). In these three States, 90 percent of the counties had a per capita tax within a 25-percent range of the median tax per capita. All counties in New York had a per capita tax of more than $100.

The variation in taxes per capita was greatest in Kentucky and Tennessee. One county in Kentucky had a tax of $8.66 per capita, compared with another of $63.47, a ratio of 1 to 7.3. The ratio was 1 to 5.6 in Tennessee. Only 25 percent of the counties in Kentucky had a rate that ranged within 25 percent of the median; in Tennessee, 62 percent of the counties were within this range.

Tax Base-Rate Relationship Explored

The question of whether a low property tax base means a high property tax or vice versa was explored. Counties with a per capita property tax base which ranked in the lower quartile of the region were examined, and the relationship between the tax base and amount of per capita property taxes was determined. Overall, a low tax base did not necessarily reflect a heavier tax burden (table 9). Over 59 percent of the counties with a tax base in the first quartile also had property taxes in the same range, and less than 9 percent of the counties with the tax base in the first quartile had property taxes in the fourth quartile.

A parallel situation was found in the fourth quartile. More than 61 percent of the counties with the tax base in the fourth quartile had property taxes that were also in the fourth quartile. Less than 7 percent of the counties had taxes that were in the first quartile range. A large per capita tax base did not mean a relatively lower per capita tax.

There were exceptions, of course. In Alabama, Georgia, Mississippi, and Ohio, 59 percent of the counties with the per capita tax base in the first quartile had relatively higher taxes. This same relationship existed in about 33 percent of the counties in the other States. In Mississippi and Tennessee, 60 percent of the counties with a relatively large per capita tax base had a relatively smaller per capita tax. In the other States, this relationship existed in only 33 percent of the counties.

Table 7--Real property taxes per capita, State average and range for counties, Appalachian Region, fiscal year 1969

State	State average	Range for counties		Ratio: low/high
		Low	High	
	Dollars			
Alabama	24.38	8.25	41.38	5:0
Georgia	66.16	22.85	105.39	4:6
Kentucky	32.20	8.66	63.47	7:3
Maryland	54.27	42.61	55.86	1:3
Mississippi	18.97	6.67	28.06	4:2
New York	123.79	101.76	168.39	1:7
North Carolina	28.05	13.62	37.15	2:7
Ohio	76.12	52.37	139.80	2:7
Pennsylvania	67.89	32.64	109.20	3:3
South Carolina	28.23	10.51	38.54	3:7
Tennessee	51.42	17.71	98.47	5:6
Virginia	39.60	17.75	75.50	4:3
West Virginia	41.61	17.59	85.86	4:9

Table 8--Counties, according to amount of property tax on real property per capita, fiscal year 1969

State	Amount of property tax per capita					
	Less than $20	$20 to $29.99	$30 to $39.99	$40 to $49.99	$50 to $59.99	$100 or more
	Number					
Alabama	31	4	1	1	0	0
Georgia	0	7	20	14	9	1
Kentucky	28	15	16	9	5	0
Maryland	0	0	0	1	2	0
Mississippi	19	11	0	0	0	0
New York	0	0	0	0	0	12
North Carolina	13	18	5	0	0	0
Ohio	0	0	0	0	26	2
Pennsylvania	0	0	7	14	29	1
South Carolina	4	0	2	0	0	0
Tennessee	1	12	24	15	9	0
Virginia	2	11	10	4	12	0
West Virginia	3	14	21	12	5	0
Total	101	92	106	70	97	16

Table 9--Comparison of counties with the property tax base in the first quartile and fourth quartile with property tax per capita, Appalachian Region, fiscal year 1969

State 1/	Tax base in first quartile with tax in--			Tax base in fourth quartile with tax in--		
	First quartile	Central quartiles	Fourth quartile	First quartile	Central quartiles	Fourth quartile
	Number					
Alabama	3	6	0	0	3	6
Georgia	6	6	1	1	4	8
Kentucky	13	5	0	0	2	16
Mississippi	3	1	4	1	5	2
North Carolina	9	3	0	1	3	8
Ohio	3	4	0	0	3	4
Pennsylvania	8	5	0	0	5	8
Tennessee	10	1	4	2	6	7
Virginia	7	3	0	1	3	6
West Virginia	8	5	1	2	4	8
Total	70	39	10	8	38	73

1/ South Carolina not included.

THE SALES TAX

Tax Base Varies Due to Exemptions

The sales tax base does not have a consistent definition from State to State because exemptions vary. In this report, sales tax base is defined as the legally taxable sales within any State where the sales tax rate is uniform. In those States where there are different rates for certain items, the sales tax base is calculated as if the sales tax were at a uniform rate. The amount of taxable sales at the rate lower than the general rate represents an extremely small percentage of total taxable sales.

The per capita sales tax base varied considerably, largely due to the different exemptions permitted in the various States. (See table 10.) Pennsylvania had the lowest sales tax base ($805), and Mississippi the highest ($2,385). Because of differences in the exemptions from the tax, the sales tax base for any State cannot be used as an indication of the ability to pay.

The sales tax base is comparable for counties within any State, however. There was much greater variation of the sales tax base than of the property tax base between counties in all but two States. The smallest variation was in New York, where the sales tax base ranged from $645 per capita to $1,854, a ratio of 1 to 2.9. The widest variation was in Virginia, with a ratio of 1 to 12.6, due to the existence of independent cities (table 11).

Table 10--Amount of deduction permitted for each 1 percent 1/ of the State sales tax for Federal personal income tax, for a family of four, fiscal year 1969

State	State sales tax 2/	Family income			
		$3,000 to $3,999	$5,000 to $5,999	$7,000 to $7,999	$9,000 to $9,999
	Cents	Dollars			
Alabama	4	22.50	29.75	36.00	41.75
Georgia	3	24.00	32.00	38.63	44.62
Kentucky	5	24.00	32.20	29.40	45.80
Maryland	4	13.50	18.50	23.25	27.25
Mississippi	5	24.80	32.60	39.60	46.00
New York	4	14.75	20.00	24.75	29.00
North Carolina	3	20.65	27.31	33.33	38.63
Ohio	4	11.25	16.00	20.50	24.50
Pennsylvania	6	7.33	10.67	13.83	16.83
South Carolina	4	22.50	29.75	36.00	41.75
Tennessee	3/	23.10	30.40	37.08	42.86
Virginia	3	19.50	25.75	31.25	36.25
West Virginia	3	21.67	28.67	35.00	40.67

1/ Calculated by dividing deduction permitted by the tax rate.
2/ From State Tax Guide, Commerce Clearing House.
3/ Tax was 3 percent until June 1, 1971, and 3 1/2 percent thereafter.

Table 11--Sales tax base per capita, State average and range for counties, Appalachian Region, fiscal year 1969

State	State average	Range for counties		Ratio: low/high
		Low	High	
	Dollars			
Alabama	1,337	449	2,577	5:7
Georgia	2,305	471	4,349	9:2
Kentucky	1,151	431	2,179	5:1
Maryland	1,206	731	1,272	1:7
Mississippi	2,385	789	5,565	7:1
New York	1,269	645	1,854	2:9
North Carolina	1,456	460	2,214	4:8
Ohio	896	594	2,314	3:9
Pennsylvania	805	362	1,166	3:2
Tennessee	1,541	357	2,236	6:3
Virginia	1,445	329	4,155	12:6
West Virginia	1,161	369	2,086	5:7

The situation in Virginia clearly shows the importance of the sales tax to cities, for of the 16 taxing units with a sales tax base in excess of $1,250 per capita, 13 were independent cities. There were 10 units where the base was in excess of $2,000 per capita, and all these units were cities. In Virginia, the cities had a relatively high sales tax base compared with the counties.

The county with the smallest sales tax base in the region ($329 per capita) was in Virginia. There were also counties in Pennsylvania, Tennessee, and West Virginia where the sales tax base was less than $400 per capita. In contrast, the sales tax base was over $4,000 per capita in some counties in Georgia, Mississippi, and Virginia. One county in Mississippi had a base of $5,565. Therefore, an additional 1-cent sales tax would yield only $3.29 in the county with the lowest compared with $55.65 in the county with the highest tax base--a ratio of 1 to 16.9.

The greatest concentration of counties with a low sales tax base was in Pennsylvania, due to the large number of exempt items. In this State, 78 percent of the counties had a base of less than $750 per capita. Other concentrations of counties with a low tax base were in Kentucky, Ohio, Virginia, and West Virginia, where 25 percent or more of the counties had a base this low (table 12). In contrast, 73 percent of the counties in Mississippi had a sales tax base of at least $1,500 per capita. Concentrations of counties with high sales tax bases were also found in Georgia and Virginia.

Table 12--Counties by sales tax base per capita, Appalachian Region, by States, fiscal year 1969

State	Amount of sales tax base per capita					
	Less than $500	$500 to $749	$750 to $999	$1,000 to $1,249	$1,250 to $1,499	$1,500 or more
	Number					
Alabama	2	7	17	9	1	2
Georgia	1	4	3	12	10	21
Kentucky	10	19	23	10	5	6
Maryland	0	1	0	1	1	0
Mississippi	0	0	2	1	5	22
New York 1/	0	1	1	4	1	3
North Carolina	2	4	9	15	2	4
Ohio	0	8	16	3	0	1
Pennsylvania	13	27	7	4	0	0
Tennessee	5	8	14	18	5	11
Virginia	1	9	7	6	3	13
West Virginia	7	13	19	6	7	3

1/ Data not available for 2 counties.

Property Tax Base-Sales Tax Base Hypothesis Fails

It was hypothesized that where there was a low property tax base, there was likely to be a low sales tax base. However, examination of the counties with the property tax base in the first quartile does not provide support for this view. Less than 43 percent of the counties with a property tax base in the first quartile had a sales tax base in the first quartile. In other words, 57 percent of the counties with a low property tax base had a sales tax base that was relatively higher than the property tax base. This pattern was evident in seven of the 10 States. In Georgia, Pennsylvania, and West Virginia, almost three-fourths of the counties with a relatively low property tax base had a relatively high sales tax base. In contrast, more than 52 percent of the counties with a high property tax base had a sales tax base that was relatively lower than the property tax base. This pattern was found in seven of the States.

These relationships were most pronounced in Georgia, Mississippi, Pennsylvania, Virginia, and West Virginia (table 13). In West Virginia, for example, 11 out of the 14 counties with a low property tax base had a relatively higher sales tax base. At the same time, nine out of 14 counties with a high property tax base had a relatively lower sales tax base.

Property Tax-Sales Tax Relationship Inconsistent

On a per capita basis, the data show a pattern similar to the relationship between total property tax and total sales tax. Almost 60 percent of the counties with a per capita property tax in the first quartile had a sales tax relatively greater than the property tax (table 14). At the same time, 53 percent of the counties with the property tax in the fourth quartile had a sales tax base relatively smaller than the property tax. However, there was considerable variation from State to State.

THE PERSONAL INCOME TAX

Income Tax Based on Tax Receipts

Nine States are included in the analysis of personal income tax. South Carolina, although it has an income tax, was excluded because data were not available. Tennessee was also excluded, for its tax is limited to only a few sources of income, primarily investment income. Ohio and Pennsylvania were excluded, since neither State had an income tax during the period covered by the study, although both States have enacted an income tax since then.

The basic data used are receipts from personal income taxes levied by the States. Actual receipts are used rather than taxable income because the amount of taxes paid to the State can be considered as a tax base. This is particularly true if, as many have proposed, localities are authorized to levy a surtax on the State income tax or a piggyback tax. In such instances the State tax liability serves as the tax base for the local income tax.

Table 13--Comparison of counties with property tax base per capita in the first and fourth quartiles with the sales tax base, Appalachian Region, fiscal year 1969

State	Property tax base in first quartile with sales tax base in--			Property tax base in fourth quartile with sales tax base in--		
	First quartile	Central quartiles	Fourth quartile	First quartile	Central quartiles	Fourth quartile
	Number					
Alabama	3	6	0	1	1	7
Georgia	4	6	3	1	7	5
Kentucky	11	6	1	0	8	10
Mississippi	3	2	3	1	4	3
North Carolina	8	4	0	2	1	9
Ohio	3	2	2	2	3	2
Pennsylvania	4	8	1	2	6	5
Tennessee	9	5	1	1	7	7
Virginia	3	6	1	4	2	4
West Virginia	3	9	2	3	6	5
Total	51	54	14	17	45	57

Table 14--Comparison of counties with property tax per capita in first and fourth quartiles with the sales tax base, Appalachian Region, fiscal year 1969

State	Property tax in first quartile with sales tax base in--			Property tax in fourth quartile with sales tax base in--		
	First quartile	Central quartiles	Fourth quartile	First quartile	Central quartiles	Fourth quartile
	Number					
Alabama	2	7	0	1	3	5
Georgia	3	8	2	1	8	4
Kentucky	9	7	2	1	8	9
Mississippi	3	4	1	2	2	4
North Carolina	8	4	0	2	1	9
Ohio	2	3	2	2	4	1
Pennsylvania	4	8	1	2	6	5
Tennessee	9	5	1	1	7	7
Virginia	4	6	0	1	3	6
West Virginia	4	9	1	2	6	6
Total	48	61	10	15	48	56

Mississippi had the lowest per capita income tax of the nine States in 1969--only $10.12. In this State, the lowest county average was only $3.32, and the highest, $17.46, a ratio of 1 to 5.3. West Virginia was the only other State where the average income tax was below $20 per capita (table 15). Mississippi, Georgia, Alabama, and West Virginia, had concentrations of counties with an income tax of less than $15 per capita. In fact, more than 50 percent of the counties in each of the four States were in this bracket (table 16).

New York had the highest average per capita income tax--$63.79. The range between the low county to the high county in the State was $46.67 to $79.24, or a ratio of 1 to 1.7. New York, Virginia, and North Carolina had concentrations of counties where the average personal income tax was $20 or more capita.

There was much greater variation in the amount of income tax paid than the ratios indicate. This difference can be seen if the median tax for any State and the variations around the median are considered. In North Carolina, for example, the median tax for the 36 counties was $24.55. Only 28 percent of these counties had a tax that was within a range of 25 percent of this median. In Alabama, the median was $13.03, but 51 percent of the counties had a tax that was within 25 percent of this median. This variation is much greater than the variations for property tax, the property tax base, or the sales tax base.

Property Tax Base-Income Tax Relationship Varies

Overall, 53.6 percent of the counties with a low per capita property tax base had a relatively higher per capita income tax (table 17). Of the counties with a high property tax base, 51.2 percent had a relatively lower per capita income tax.

For all counties within any State, the relationship between the property tax base and income tax varied widely. In Alabama, for example, there appeared to be no relationship between the property tax base and the income tax for those counties where the property tax base was under $3,000 per capita. Above that point, there was a definite tendency for the income tax to increase with the property tax base. In North Carolina, the income tax also tended to increase with an increase in the property tax base, but there was extremely wide dispersion around the trend line. These are the only two States where any relationship between property tax base and income tax was apparent.

Property Tax-Income Tax Relationship Not Well Defined

There was no evidence of a well-defined relationship between the amount of per capita property tax and the amount of per capita income tax. In general, the counties with a relatively high property tax also had a relatively high income tax, but the opposite relationship was not apparent. In Alabama, 7 out of 9 counties with a low property tax had a relatively higher income tax. In Georgia, this relationship held for 10 of 13 counties. For these counties in the two States, a flat surtax on income could result in a greater

Table 15--State personal income tax per capita, range for counties, Appalachian Region, fiscal year 1969

State	State average	Range for counties		Ratio: low/high
		Low	High	
	Dollars			
Alabama	22.85	8.00	40.59	5:1
Georgia	25.70	5.12	44.28	8:6
Kentucky	21.96	5.64	45.02	8:0
Maryland	51.90	27.66	56.38	2:0
Mississippi	10.12	3.32	17.46	5:3
New York	63.79	46.67	79.24	1:7
North Carolina	37.52	10.04	55.08	5:5
Virginia	32.61	10.78	56.61	5:3
West Virginia	18.68	6.32	28.54	4:5

Table 16--Counties according to amount of personal income tax per capita, Appalachian Region, fiscal year 1969

State	Amount of personal income tax per capita				
	Under $10.00	$10.00 to $14.99	$15.00 to $19.99	$20.00 to $29.99	$30.00 or more
	Number				
Alabama	6	16	8	5	2
Georgia	18	19	7	6	1
Kentucky	17	19	18	15	4
Maryland	0	0	0	1	2
Mississippi	21	7	2	0	0
New York	0	0	0	0	12
North Carolina	0	7	0	9	14
Virginia	0	2	5	13	19
West Virginia	8	26	12	9	0
Total	70	96	58	58	54

Table 17--Comparison of counties with property tax base per capita in first and fourth quartiles with the income tax, Appalachian Region, fiscal year 1969

State	Property tax base in first quartile with income tax base in--			Property tax base in fourth quartile with income tax base in--		
	First quartile	Central quartiles	Fourth quartile	First quartile	Central quartiles	Fourth quartile
	Number					
Alabama	5	4	0	0	2	7
Georgia	3	8	2	3	5	5
Kentucky	11	7	0	0	7	11
Mississippi	3	2	3	1	4	3
North Carolina	7	5	0	2	3	7
Virginia	5	5	0	4	3	3
West Virginia	5	9	0	4	5	5
Total	39	40	5	14	29	41

Table 18--Comparison of counties with property tax per capita in first and fourth quartiles with the income tax, Appalachian Region, fiscal year 1969

State	Property tax in first quartile with income tax base in--			Property tax in fourth quartile with income tax base in--		
	First quartile	Central quartiles	Fourth quartile	First quartile	Central quartiles	Fourth quartile
	Number					
Alabama	2	7	0	1	2	6
Georgia	3	9	1	2	4	7
Kentucky	11	7	0	0	6	12
Mississippi	5	3	0	0	2	6
North Carolina	6	6	0	1	4	7
Virginia	6	4	0	1	3	6
West Virginia	7	7	0	2	5	7
Total	40	43	1	7	26	51

reduction in the real property tax than in other counties (table 18). In these two States, 77 percent of the counties with a low per capita property tax had a relatively higher income tax per capita. However, in the other States, this relationship existed in less than 44 percent of the counties.

Low Income Brackets--More Sales Tax

Data presented in table 10 are consistent with the general observation that persons with low incomes pay proportionately more in sales tax than people in higher income brackets. However, except for a group of counties in Alabama and Georgia, most counties in the region with a relatively low income tax base also had a relatively small sales tax base. In Alabama and Georgia, five out of nine and seven out of 13 counties, respectively, had a relatively high sales tax base and a low income tax base. For counties in the seven States with income data, 40 percent with low incomes had a relatively higher sales tax base per capita (table 19). Conversely, 33 percent of the counties with a high level of income had a relatively lower sales tax base.

ALTERNATIVE SOURCES OF REVENUE

Various sources of revenue which localities might use to reduce the tax pressure on real property have been proposed. Some of these include an additional local sales tax, a surtax on income tax, and revenue sharing from the State. At the same time, there have been questions about the size of the local taxing unit and whether certain services might better be performed on a district basis. This suggests another alternative--the possibility of certain taxes on a district basis.

In this section, consideration will be given to an additional local sales tax, 7/ to a surtax on income, and to a combination of these two taxes. The first two alternatives will be examined from two views. First, the amount of tax required to obtain a certain amount of revenue will be determined. Second, the amount of revenue that could be obtained from a uniform rate throughout the State will be determined. In all cases, the amount of revenue that could be derived from the alternatives will be related to the amount of revenue which is collected from the tax on real property.

Local Sales Tax--1/2 Cent to Over 3 Cents

If a certain additional amount of revenue is to be obtained from a local sales tax levied on the presently taxable sales in each State, the sales tax will vary widely. For example, to collect additional revenue equal to 25 percent of the revenue being collected from the real property tax, an additional rate of 1/2 cent per dollar would be needed for 97 counties. For 34 counties, the rate would need to be 3 cents or more (table 20).

7/ The term additional is used even though in some States a local sales tax would be a new tax.

Table 19--Comparison of counties with income tax in first and fourth quartile, with the sales tax base, Appalachian Region, fiscal year 1969

State	Income tax in first quartile with sales tax base in--			Income tax in fourth quartile with sales tax base in--		
	First quartile	Central quartiles	Fourth quartile	First quartile	Central quartiles	Fourth quartile
	Number					
Alabama	4	5	0	0	2	7
Georgia	6	6	1	1	3	9
Kentucky	13	6	0	1	6	11
Mississippi	5	2	1	0	3	5
North Carolina	9	2	1	0	5	7
Virginia	6	4	0	0	3	7
West Virginia	8	6	0	1	3	10
Total	51	31	3	3	25	56

Table 20--Counties according to amount of sales tax required to obtain revenue equal to 25 percent of property tax levy, fiscal year 1969

State	Amount of sales tax needed to obtain revenue equal to 25 percent of property tax levy--cents per dollar					
	0.5	1.0	1.5	2.0	2.5	3.0 or more
	Number					
Alabama	26	11	0	0	0	0
Georgia	7	28	13	3	0	0
Kentucky	11	45	12	4	1	0
Maryland	0	0	3	0	0	0
Mississippi	29	1	0	0	0	0
New York	0	0	0	3	2	5
North Carolina	14	21	1	0	0	0
Ohio	0	1	1	8	9	9
Pennsylvania	0	1	2	11	20	17
Tennessee	2	38	14	5	0	2
Virginia	6	25	4	2	1	1
West Virginia	2	23	22	3	5	0
Total	97	194	72	39	38	34

Counties that could raise the additional revenue with a rate as low as 1/2 cent are concentrated in Alabama, Mississippi, and North Carolina. These three States account for over 71 percent of the counties that would fit into this category. Counties that would require the larger tax rate are concentrated in New York, Ohio, and Pennsylvania--over 76 percent of these counties are in the latter two States. These two States, because of exemptions, have the lowest sales tax bases. In New York, the high rate needed is due to the heavy property tax per capita--63 percent greater than in any other State.

In each State, the local sales tax rate would need to vary. The tax needed in Tennessee and Virginia would vary from 1/2 cent to more than 3 cents. For the other States, the variation from county to county would be less. Such wide variation in the sales tax rate would create difficult problems. For example, the rate needed in one county would be 6 cents. The five counties that surround this one would need rates varying from less than 1 cent to less than 3 cents. With this wide variation, there would be a flow of tax dollars, at least for major purchases, towards areas with lower rates. The net result would be that the areas with the higher rates could not obtain a revenue equal to 25 percent of the revenue now obtained from taxation of real property. At the same time, areas with the lower rates would be able to obtain revenue greater than this figure. Therefore, it may be difficult to use a local sales tax to obtain a uniform percentage reduction in the property tax in all taxing units because of the required variation in rates from one taxing unit to another.

This difficulty seems to suggest the possibility of a uniform rate for a local sales tax. However, the revenue that could be collected from a uniform tax would still vary widely from county to county within the various States. Data in table 11, for example, show that in seven of the States, the ratio of the per capita sales tax base between the low county and the high county would be greater than 1 to 5. In Virginia, the ratio would be 1 to 12.6, with one local unit receiving only $3.29 per capita for each cent of tax and another receiving $41.55. Part of this variation arises from the flow of the sales tax from place of residence to other areas. Therefore, levying an additional local sales tax at a uniform rate will maintain or even magnify the inequalities that already exist.

Local Surtax on Income--11 to 200 Percent

Another possibility is a surtax on the State income tax. To obtain revenue from this source equal to 25 percent of that obtained from the real property tax, residents would have to pay a surtax ranging from 11 percent of their State income tax liabilities 8/ in one county in North Carolina to more than 200 percent in one county in Georgia. Except for counties in New York and Maryland, there would be wide variations. In five of the States, the rate in the high county would be at least five times the rate in the low county (table 21).

8/ This is a surtax rate that is applied on the State income tax liabilities and not on taxable income.

Table 21--Tax revenue from real property by State and additional income surtax required to obtain revenue equal to 25 percent of property tax, average for counties and range for counties, Appalachian Region, fiscal year 1969

State	Revenue from tax on real property	Income surtax required to equal 25 percent of revenue from real property tax			
		State average	Range for counties		Ratio: low/high
			Low	High	
	$1,000	Percent			
Alabama	56,813	26.7	14.0	47.5	3:4
Georgia	158,990	64.4	33.8	202.5	6:0
Kentucky	46,303	36.6	19.5	91.7	4:7
Maryland	11,361	26.1	24.8	38.5	1:6
Mississippi	12,280	46.9	22.3	139.7	6:3
New York	122,027	48.5	41.3	79.2	1:9
North Carolina	49,166	18.7	11.4	56.7	5:0
Virginia	35,196	30.4	17.9	110.7	6:2
West Virginia	72,577	55.7	34.3	181.1	5:3

The rate could be less than 20 percent in 22 counties, with 13 of these counties in North Carolina. But the rate would need to be greater than 100 percent in 21 counties, with 14 of these counties in Georgia. For more than 51 percent of the counties, the rate could be between 20 and 49 percent. The majority of the counties in Alabama, Kentucky, North Carolina, and Virginia would fall in this range.

A uniform rate for local surtax on income in each State would produce similar variations. The real property tax in each State could be reduced by an average of 25 percent with a surtax of only 18.7 percent in North Carolina, but the same reduction would require a surtax of 64.4 percent in Georgia. However, one county in North Carolina would receive revenue from this tax equal to only 8 percent of the return now received from taxation of real property, while another county would receive more than 40 percent. For Georgia, the revenue would vary from less than 8 percent to more than 47 percent of the property tax returns.

In summary, the inequalities that exist in the current tax structure would continue to exist with a local surtax on income. Such a tax would not serve as an equalizing factor.

Combination Tax Would Reduce Variation

A combination tax--an additional local sales tax and a surtax on income--offers another possibility. A combination tax involving a 1/2-cent sales tax and a 5-percent surtax on State income tax has been examined. In

three States, this combination tax would produce revenue that would average less than 20 percent of that now produced by the tax on real property. In West Virginia, for example, the average combination tax would yield a revenue equal to 16 percent of the revenue from real property. For one county in this State, the revenue would amount to only 5.8 percent.

There are three States where the average revenue would be in excess of 25 percent of the revenue now derived from real property--North Carolina, Alabama, and Mississippi. In Mississippi--the only State where the combination tax could provide a revenue that would have a significant effect on the tax burden on real property--the revenue would average 65 percent (table 22). There are 20 counties in the region where the combination tax could provide revenue equal to at least 50 percent of that obtained from real property. In four counties, this revenue would be in excess of the amount obtained from real property.

For four States, the combination tax would not provide adequate revenue to reduce the tax on real property by as much as 25 percent. For 52 of the 55 counties in West Virginia, the revenue would amount to less than 25 percent of that obtained from real property; 43 of the counties would receive less than 20 percent. Georgia, Kentucky, and Virginia are the other States where this combination tax would not make it possible to bring about a 25-percent reduction in the property tax (table 23).

Table 22--Tax revenue from real property by States and revenue from combination tax 1/, with ranges for counties, Appalachian Region, fiscal year 1969

State 2/	Revenue from tax on real property	Revenue from combination tax			
		Total	State	Range for counties	
				Low	High
	$1,000	$1,000	------	Percent	------
Alabama.....	56,813	18,237	32.1	19.4	85.6
Georgia.....	158,990	30,781	19.4	7.9	46.2
Kentucky.....	46,303	9,855	21.3	7.6	46.2
Maryland.....	11,361	1,805	15.9	11.8	16.4
Mississippi.....	12,280	8,048	65.5	22.1	140.6
North Carolina...	49,166	16,047	32.6	15.2	41.9
Virginia.....	35,196	7,872	22.3	6.1	45.1
West Virginia....	75,577	11,755	16.2	5.8	30.3

1/ The combination tax includes a 1/2-cent sales tax plus a 5-percent surtax on income.

2/ Data for New York are inadequate.

Table 23--Counties according to relationship between combination tax 1/ and revenue from tax on real property, Appalachian Region, fiscal year 1969

State	Percent combination tax revenue is of real property tax revenue						
	Less than 10 pct.	10 to 19.9 pct.	20 to 24.9 pct.	25 to 29.9 pct.	30 to 39.9 pct.	40 to 49.9 pct.	50 or more
	Number						
Alabama	0	1	4	9	11	9	3
Georgia	4	22	13	9	2	1	0
Kentucky	3	33	15	14	6	1	1
Maryland	0	3	0	0	0	0	0
Mississippi	0	0	1	0	3	6	20
North Carolina	0	3	7	8	16	2	0
Virginia	2	17	8	6	5	1	0
West Virginia	10	33	9	2	1	0	0
Total	19	112	57	48	44	20	24

1/ The combination tax includes a 1/2-cent sales tax plus a 5-percent surtax on income.

If the combination tax were doubled, with a 1-cent sales tax and a 10-percent surtax on income, the combination tax would provide a revenue that would enable many counties to reduce the pressure on real property. For example, with the higher combination tax, only 20 counties in West Virginia would derive a revenue equal to less than 25 percent of the revenue from real property, compared with 52 counties under the earlier plan.

In Georgia, the number of counties in this bracket would be reduced from 39 to 7; in Kentucky, from 51 to 8; and in Virginia, from 27 to 4.

With a combination tax of a 1-cent sales tax and a 10-percent surtax on income, only 39 of the 324 counties would receive a revenue that would be less than 25 percent of the revenue obtained from real property. Overall, this tax might appear to be a solution, but it is not if the goal is to reduce inequalities, for the variation in revenue received continues under the combination tax. Greater uniformity in the tax load requires the use of some larger taxing base such as the State or district.

District Level Tax a Possibility

In recent years, most States have grouped counties into multicounty districts for various purposes, the primary ones being planning and development. Apparently, though, no district in Appalachia has the power to levy any tax.

Although these districts were delineated on the basis of various economic and social characteristics, the tax base or the tax burden was not generally a consideration. However, to a very large extent, the districts as outlined by the various States appear to have characteristics that could conceivably bring about equalization of the tax burden. The extent of equalization that would be possible with these districts is much greater than anticipated.

In Kentucky, for example, the full valuation in 1969 varied from a low of $1,588 per capita in one county to $9,751 in another, or a ratio of 1 to 6.1. With the counties grouped into districts, the ratio of the low to high district would be reduced to 1 to 3. For eight States, the ratio would be reduced to less than 1 to 2, with four States having a ratio of 1 to 1.5. For five States, the ratio for the districts would be reduced by at least one-half of what it was for the counties (table 24). The smallest reductions would be in Georgia and New York, two States with low county ratios. In other words, there would be a much greater uniformity of the property tax base per capita if the district were the taxing unit.

Even more pronounced is the variation in tax rate per $1,000 of full value. In Mississippi, the rate in the high-rate county was 8.7 times that in the low-rate county. With the tax rate calculated on a district basis, the ratio would be reduced to 1 to 1.4.With the exception of Tennessee, the ratio in all States would be less than 1 to 2. With the rate calculated on a county basis, only two States, Alabama and New York, had a ratio as low as this (table 25).

Table 24--Full valuation per capita, by district, Appalachian Region, fiscal year 1969

State	Range for districts		District ratio: low/high	County ratio: low/high
	Low	High		
	Dollars			
Alabama	3,188	6,708	2:1	4:2
Georgia	3,580	6,218	1:7	2:6
Kentucky	2,165	6,549	3:0	6:1
Mississippi	2,441	2,944	1:2	2:2
New York	4,446	4,754	1:1	1:6
North Carolina	2,961	4,156	1:4	2:9
Ohio	4,833	4,917	1:0	2:4
Pennsylvania	2,454	5,789	2:4	4:6
Tennessee	2,937	5,244	1:8	4:9
Virginia	3,173	5,531	1:7	3:2
West Virginia	2,704	5,298	2:0	3:4

Table 25--Tax rate per $1,000 of full value, by district, Appalachian Region, fiscal year 1969

State	Range for districts		District ratio: low/high	County ratio: low/high
	Low	High		
	Dollars			
Alabama	4.21	5.50	1:3	1:8
Georgia	8.40	13.61	1:6	3:0
Kentucky	5.06	7.71	1:5	2:5
Mississippi	5.32	7.64	1:4	8:7
New York	25.68	27.48	1:1	1:3
North Carolina	6.06	7.74	1:3	2:3
Ohio	14.18	15.63	1:1	2:2
Pennsylvania	15.78	22.90	1:5	3:1
Tennessee	8.13	16.68	2:1	5:6
Virginia	6.01	10.92	1:8	4:6
West Virginia	7.59	13.21	1:7	2:6

Table 26--Real property taxes per capita, by district, Appalachian Region, fiscal year 1969

State	Range for districts		District ratio: low/high	County ratio: low/high
	Low	High		
	Dollars			
Alabama	15.08	35.38	2:3	5:0
Georgia	34.88	84.62	2:4	4:6
Kentucky	13.82	48.06	3:5	7:3
Mississippi	15.67	21.23	1:4	4:2
New York	14.19	130.64	1:1	1:7
North Carolina	18.96	32.18	1:7	2:7
Ohio	69.72	83.98	1:2	2:7
Pennsylvania	41.27	93.57	2:3	3:3
Tennessee	36.56	69.90	1:9	5:6
Virginia	26.04	56.78	2:2	4:3
West Virginia	27.04	58.76	2:2	4:9

Real property taxes per capita do not show the same degree of equalization. In six States, the ratio of taxes per capita in the low district to the high district would be greater than 1 to 2, with the highest ratio of 1 to 3.5 in Kentucky. However, only in New York State was the ratio of the low county to high county less than 1 to 2. For seven States, the ratio of the low county to high county was higher than 1 to 3.5 (table 26).

Levying real property taxes on a district level would result in a more uniform tax base per capita and more uniform tax rates from district to district. The amount of real property taxes per capita would continue to vary from district to district, but this variation would be much less than what now exists between the counties. For seven of these States, taxing at the district level would cut the variation rate by at least one-half.

The sales tax base, as well as the sales tax revenue, followed a pattern similar to the real property tax base. The widest range was found in Kentucky, where the county tax base per capita ranged from $728 to $1,514, or a ratio of 1 to 2.1. For 10 of the 11 States, the ratio could be reduced by one-half or more at the district level (table 27). By taxing at the district level, the greatest reduction in ratios would be in Virginia. In this State, the tax base for the current tax units--the counties and cities--ranged from a low of $329 per capita to a high of $4,155 per capita, a ratio of 1 to 12.6. With the sales tax computed on a district basis, the range would be reduced to $1,014 to $2,029 per capita, a ratio of 1 to 2. This possible reduction in range clearly indicates the influence of the independent cities in Virginia. An additional sales tax for existing taxing units, as has been proposed by many, would be of greatest benefit to the independent cities.

Again, a surtax on personal income levied at the district level would tend to bring about a relatively higher degree of equalization. For five of the eight States, the ratio would be less than 1 to 2, and for each State except New York, ratios for the districts would be less than one-half the county ratios (table 28). The greatest reductions would be in North Carolina, Mississippi, and Georgia.

Combination Tax at District Level Would Reduce Inequality

The combination tax--1/2-cent sales tax plus a 5-percent surtax on income--would yield for all districts in three States a return that would be in excess of 25 percent of the revenue obtained from real property. In the other four States, there would be a total of 20 districts where the yield would be less than 20 percent. Only in West Virginia would all districts receive a yield of less than 25 percent.

For these seven States, 41 percent of the districts would obtain a yield of less than 25 percent of the revenue from real property. This compares with 58 percent of the counties in this same area with a return equally low. However, only 20 percent of the districts would have a return of less than 20 percent of the revenue now obtained from real property. In this same area, 40 percent of the counties would be in this low bracket. A combination tax, levied on the district basis, would result in a much greater degree of equality than exists today. Inequalities would still remain, but they would not be as severe.

Table 27--Sales tax base per capita, by district, Appalachian Region, fiscal year 1969

State	Range for districts		District ratio: low/high	County ratio: low/high
	Low	High		
	- - - - Dollars - - - -			
Alabama	946	1,881	2:0	5:7
Georgia	1,500	2,782	1:9	9:2
Kentucky	728	1,514	2:1	5:1
Mississippi	1,831	2,705	1:5	7:1
New York	1,108	1,569	1:4	2:9
North Carolina	974	1,631	1:7	4:8
Ohio	822	1,058	1:3	3:9
Pennsylvania	470	951	2:0	3:2
Tennessee	1,069	1,842	1:7	6:3
Virginia	1,014	2,029	2:0	12:6
West Virginia	754	1,516	2:0	5:7

Table 28--State personal income tax per capita, by district, Appalachian Region, fiscal year 1969

State	Range for districts		District ratio: low/high	County ratio: low/high
	Low	High		
	- - - - Dollars - - - -			
Alabama	16.94	27.98	1:7	5:1
Georgia	12.48	33.06	2:6	8:6
Kentucky	11.03	33.21	3:0	8:0
Mississippi	7.35	11.23	1:5	5:3
New York	54.97	69.34	1:3	1:7
North Carolina	17.02	44.04	1:3	5:5
Virginia	19.13	43.54	2:3	5:3
West Virginia	12.72	25.25	2:0	4:5

CONCLUSION

An additional local sales tax or a local surtax on income tax could provide alternative sources of revenue for counties in Appalachia, but the use of these alternatives would not greatly change the situation. To a large extent, many taxing units do not have an alternative tax base that would result in a significant change in the tax burden. Frequently, an area with a high per capita property tax would also need a high per capita sales tax or a high per capita surtax on income. Even a combination tax, involving an additional local sales tax and a surtax on income, in connection with the property tax does not offer much relief for the present taxing units.

The size of the tax bases of existing taxing units varies widely, as reflected in per capita revenue. The variations in per capita revenue could not be reduced to any significant extent through the use of an additional local sales tax or a local surtax on income. However, levying taxes on a multicounty basis could offer some possibilities.

Many have advocated consolidation of local governments, normally to obtain more efficiency in functions of the local governments. Consolidation also offers possibilities for reducing the variation in the tax bases. Levying taxes on a multicounty base, such as the planning district, appears to be one way to equalize the tax burden among areas. However, this is an alternative that requires further study.