

Evaluation/Analysis of County Replacing Property Tax Entirely with Sales Tax

The County Commissioners have fielded a multitude of questions recently from citizens asking if the County could eliminate the property tax in favor of raising the sales tax rate. While there is some merit to this as this would eliminate the property tax burden from our citizens, our initial assessment and evaluation of this proposal hi-lights that it would be cost prohibitive and would serve to undermine and deteriorate our local economy.

Currently, Counties do not have authority to increase the Sales Tax rate. This would require State authorization via the legislature. The Sales Tax rate in Rutherford County is currently set at 7%. The State retains 4.75% and the remaining 2.25% is split between the County, municipalities, and the Fire Service Districts. Out of the total Sales Tax collections in FY2021-2022 of approximately \$59 million, the portion available to the County, municipalities and Fire Service Districts was approximately \$19 million whereas our property tax (Ad Valorem) collections were approximately \$47 million. For the County to collect the full amount of Sales Tax to cover the full amount of \$66 million, and assuming that the State would increase their percentage of Sales Tax collections sufficient to cover their costs for collecting the additional Sales Tax for distribution to the local governments, we could be looking at a Sales Tax rate pushing 18-20%. \$66 million assumes 100% of collections to the County but as the Rutherford County municipalities and the Fire Service Districts also receive a portion of the County's Sales Tax collections, it would be necessary to increase the local Sales Tax rate even further to make up for this loss of revenues to cover County operational expenditures. While it is true that the closure of the Revenue Tax Office would remove the related expenditures from this Department from the budget, the expenditures from this department are only a small portion of the County budget and the impact to the formulary for determining a Sales Tax rate for the County would be minimal.



COUNTY COMMISSIONERS

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Unlike Ad Valorem tax revenues, which remain stable year to year (for the most part), Sales Tax revenues are not stable year to year especially during downturns in the economy and during recessions. To ensure that revenues are sufficient to cover the costs for County operations/management, it would be necessary to adjust the Sales Tax rate every year, if not twice a year and possibly even quarterly. If we were to enter another economic recession similar to the 2008 recession, it is probable that the County would drastically reduce our operations costs, which translates to a reduction in services/programs, but we would have to drastically increase the Sales Tax rate just to cover the programs/services mandated by the State that we cannot reduce expenditures for (the County is a subdivision of the State and we do not have sovereignty from the State government to decline providing the State mandated services and program).

A Sales Tax increase as proposed would not have as significant of an impact on citizens purchasing small ticket items, but our citizens and private sector businesses would notice a significant increase if they purchased items in bulk or in large quantities. Increases in their bulk purchases would be passed on to the customer/consumer. It is very plausible that for big ticket items (e.g., furniture, appliances, commercial lawnmowers, etc.) or if they are buying in bulk/large quantities, citizens would travel out of the county to purchase these items, which further erodes our Sales Tax revenues here and which would require us to raise the Sales Tax rate even further. This would also impact a large number of our businesses that sell items in bulk or that sell large items (e.g., out buildings/sheds, commercial & residential lawnmowers, appliances, furniture, etc.), which would greatly diminish their sales and could lead to several Rutherford County businesses closing their doors. Also, online sales may be taxed based on delivery address so citizens would be hit with an adjustment on their online purchases as well. This means that we would have to increase the sales tax rate even further to make up for these lost revenues. This would put us in a never-ending domino effect scenario made worse by our close proximity to a neighboring State.

US Legislators continue to consider federal legislation to create a national sales tax, which proposes a complete overhaul of our federal tax system by implementing a national Sales Tax

rate of approximately 30% (for more information, click [here](#)). If this happens, a federal sales tax rate coupled with a local sales tax rate could push the overall rate up in Rutherford County to over 50%.

Denise Canada with the North Carolina Association of County Commissioners advises that currently, there are no states without a property tax and that it would be cost prohibitive to replace property tax with sales tax, even if we had the legal authority to raise the sales tax rate this high.

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