

# FINANCING STATE AND LOCAL GOVERNMENT

## TEXT SUMMARY

State and local governments collect taxes to pay for the many services they provide. The Federal Constitution, the Fourteenth Amendment, and State constitutions limit taxing. State legislatures decide what taxes the State and localities will levy and at what rates.

A **sales tax** is a tax placed on the sale of various commodities; the purchaser pays it. Sales tax is a **regressive tax**—one that does not vary according to a person's ability to pay. Everyone in a State pays the same sales tax on any item.

An **income tax** is collected on the earnings of individuals and corporations. It provides about one third of State tax revenues. Individual income tax is usually a **progressive tax**—that is, the higher your income, the more tax you pay. Corporate income tax rates are usually a fixed percentage of income.

Local governments' largest source of income is the **property tax**—a levy on real property, such as land, or personal property, which includes bank accounts. The process of determining the value of the property to be taxed is called **assessment**. In California, property taxes raise much less money than income and sales taxes because Proposition 13 restricts property taxes. An **estate tax** is levied directly on the full value of an estate.

Other sources of State and local revenues include license taxes, document transfer taxes, and amusement taxes. State and local governments also receive nontax revenue through federal grants and publicly operated enterprises such as toll roads. A **budget** is a financial plan for the use of public money, personnel, and property.

### THE BIG IDEA

**States and local governments use taxes to collect the revenue that pays for services.**

## GRAPHIC SUMMARY: State and Local Taxes

Type of Tax	What It Taxes
Sales tax	Various commodities
Income tax	Individual and corporate earnings
Property tax	Real or personal property
Estate tax	A full estate

The taxes levied by the State of California contributes substantially to State revenue.

### REVIEW QUESTIONS

1. What nontax sources provide State and local governments with revenue?

2. **Chart Skills** What type of tax is levied on corporate earnings?