

Overview of State and Local Taxation

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(Designed for quick reference and deeper study)

1. Why State & Local Taxes Exist

Purpose	Description
Revenue Generation	Fund public services (education, transportation, public safety, health, welfare).
Policy Tools	Influence behavior (e.g., incentives for renewable energy, tobacco taxes).
Fiscal Autonomy	Allow states & municipalities to address local priorities without relying solely on federal funds.

2. Main Types of State & Local Taxes

Tax Type	Level	Typical Base	Common Rates / Structures	Key Features
Income Tax	State (and some cities)	Individual & corporate earnings	- Progressive brackets (e.g., 1% - 13.3%) - Flat rates in a few states (e.g., Colorado 4.55%) - State rate (4-7% typical) + local additions (0-4%+)	Most states have a filing threshold; many offer credits for taxes paid to other states.
			Use tax applies to out-of-state purchases used locally	
Sales & Use Tax	State, county, city, special districts	Sale of tangible personal property & certain services		Exemptions (groceries, prescription drugs) vary widely.

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Property Tax	Primarily local (counties, cities, school districts)	Real property (land & structures) and sometimes personal property (e.g., business equipment)	- Assessed value × mill rate (mills = \$1 per \$1,000 of value) - Mill rates differ by jurisdiction	Primary funding source for K-12 schools and local services.
Excise Taxes	State & local	Specific goods (fuel, alcohol, tobacco, cigarettes, gaming)	Per unit (e.g., cents per gallon) or ad valorem (percentage of price)	Often earmarked for related programs (e.g., highway trust funds).
Estate & Inheritance Taxes	State (rare)	Transfer of decedent's estate	Varies; many states have exemption thresholds (e.g., \$5-\$10M)	Separate from the federal estate tax.
Business & Licensing Taxes	State & local	Gross receipts, net profits, or specific activities	- Gross receipts tax (e.g., Ohio) - Franchise tax (e.g., Delaware)	May include fees for professional licenses, permits, and permits for specific industries.
Other Local Taxes	Municipalities & special districts	Hotel occupancy, rental car, utility, stormwater, etc.	Usually flat fees or percentages of the transaction	Often used to fund tourism, infrastructure, or environmental projects.

3. Constitutional & Legal Foundations

Source	Relevance
U.S. Constitution – Commerce Clause	Limits states from unduly burdening interstate commerce; informs “nexus” rules for sales tax.
U.S. Constitution – Supremacy Clause	Federal tax law preempts conflicting state law.

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Source

Relevance

14th Amendment – Equal Protection / Due Process

Courts evaluate discriminatory tax schemes.

State Constitutions

Many contain “taxpayer protection” clauses (e.g., “no tax without representation”).

Key Supreme Court Cases

- *South Dakota v. Wayfair* (2018) – Allows states to tax remote sellers without physical nexus.
- *National Federation of Independent Business v. Sebelius* (2012) – Clarifies limits of federal tax