

Info Sheet 1

Transaction, Income, and Property Taxes

Theme 4: What Is Taxed and Why
Lesson 1: Federal/State/Local Taxes

State and local governments rely on a combination of three different types of taxes: transaction, income, and property taxes.

REVENUE SOURCES FOR STATE AND LOCAL GOVERNMENTS			
Type of Tax	Definition	Examples	Revenues Support
Transaction taxes	Taxes on economic transactions, such as the sale of goods and services. These can be based on a set of percentages of the sales value (sales taxes), or they can be a set amount on physical quantities (“per unit”—gasoline taxes).	<ul style="list-style-type: none"> • Retail sales taxes • Excise taxes on vehicles, boats, gasoline, and tobacco • “Value added” taxes imposed on goods at each stage of processing • Restaurant and hotel taxes 	<ul style="list-style-type: none"> • State and local services, such as education, welfare, Medicaid, police, employment services, parks, fish and wildlife • Gasoline taxes are often earmarked for state highway construction and maintenance.
Income taxes	Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).	<ul style="list-style-type: none"> • Federal, state or local withholding taxes • Taxes on interest or dividend payments • Taxes on awards or prizes • Taxes on profits and earnings in businesses 	<ul style="list-style-type: none"> • Increasingly supplementing or taking the place of some sales taxes to support state expenses • Beginning to be used on local level as well, largely to support education and welfare programs
Property taxes	Taxes on personal and business property	<ul style="list-style-type: none"> • Taxes on property, especially real estate (land and buildings) and also boats, recreational vehicles, business inventories, or stocks and bonds (“intangibles”) 	<ul style="list-style-type: none"> • Traditional source of funding for schools and local services (police, fire, libraries, parks, water, and sanitation)