

A TAXING ISSUE: MUNICIPAL REVENUE SOURCES

by Richard Sheets

Municipalities provide many services that are vital to our society. Unlike services provided by the private sector, most municipal services cannot be paid for through user charges. However, municipalities must have money to pay for materials and the operational costs needed to maintain a transportation system, a police department, a fire department and the myriad of other services they provide. How do municipal governments raise revenue to provide these services? They levy taxes. Taxes are not popular, but citizens generally accept them when they know what services will be provided. This article summarizes the various taxes Missouri municipalities are authorized to impose and how they can be used.

Municipal Sales Taxes

Missouri municipalities have six sales taxes available for different municipal purposes: general revenue, economic development, capital improvements, transportation, storm water/parks and fire protection. A majority of the voters must approve each of these taxes prior to their imposition. The Missouri statutes also dictate the rate at which these taxes may be imposed and the use of funds generated from their imposition. In addition, the statutes require that specific language be included on the ballot, as detailed in the respective statute. All the above sales taxes are applied to the receipts from the sale at retail of all tangible personal property or taxable services at retail within any city adopting such a tax as defined in Chapter 144 RSMo.

General Revenue Sales Tax – All cities, towns and villages, except those located in St. Louis County, are authorized to collect a general revenue sales tax. Under the “City Sales Tax Act,” Sections 94.500-94.550 Missouri Revised Statutes (RSMo), municipalities may impose a general revenue sales tax at a rate of one-half of 1 percent, seven-eighths of 1 percent or 1 percent.

Capital Improvements Sales Tax – Section 94.575-94.577 RSMo allows all municipalities, except those located in St. Louis County, to levy a capital improvement sales tax. The tax may be imposed at a rate of one-eighth, one-fourth, three-eighths or one-half of 1 percent. Funds generated under this tax may only be used for the funding, operation or maintenance of a capital improvement and the repayment of bonds to finance a capital improvement. The statutes define a capital improvement as “... any capital or fixed asset having an estimated economic useful life of at least two years.”

Economic Development Sales Tax – Section 67.1305 RSMo allows municipalities to enact a sales tax of up to one-half of 1 percent for the purpose acquiring land, installing and improving infrastructure and public facilities relating to a long term economic development project. Revenue derived from the sales tax can not be used for any retail development project, unless the project is a redevelopment of a downtown area or historic district. Funds also may be used for marketing.

Transportation Sales Tax – Sections 94.700-94.755 RSMo authorizes the imposition of a transportation sales tax for all Missouri municipalities with a population of 200 or greater, except for the city of St. Louis or Kansas City (see 94.600-94.655 RSMo). Municipalities located in St. Louis County are not authorized to impose a transportation sales tax. The transportation sales tax may not exceed one-half of 1 percent and is to be used solely for transportation purposes. As with the capital improvements sales tax, revenue from the transportation tax also may be used to retire bonds used for transportation purposes as long as such use is mentioned in the ballot language. The statutes define transportation purposes to include public mass transportation systems; the construction, repair and maintenance of streets, bridges and airports; and the acquisition of land and rights-of-way for these purposes.

Storm Water/Parks Sales Tax – Sections 644.032-644.033 RSMo provides for a municipal storm water/parks sales tax. The tax may be used for storm water control, parks or both, provided the particular use of the tax is included in the ballot language. The tax may not exceed one-half of 1 percent.

Fire Protection Sales Tax – Section 321.242 RSMo grants municipalities the power to enact a sales tax of up to one-fourth of 1 percent on all retail sales for fire protection purposes. Funds from the tax must be deposited in a special trust fund and are to be used solely for the operation of the municipal fire department.

Local Use Tax – The local use tax (Sections 144.757-144.761 RSMo) is applied in lieu of the local sales tax on transactions that individuals and businesses conduct with out-of-state vendors including catalog, Internet and direct market sales. The rate of the use tax is applied at the same rate as the local sales tax and items that are exempt from the sales tax also are exempt from the use tax. As is the case with all local taxes, the use tax must be approved by the voters before it can be implemented.

The method of collection for the use tax depends on the transaction. If the out-of-state vendor has a facility in Missouri, the vendor will collect the local use tax along with the state use tax and remit both to the Missouri Department of Revenue (DOR). If the out-of-state vendor does not have a facility in Missouri the purchaser must file a use tax return with DOR but only if the individual or business has more than \$2,000 in such purchases during the calendar year. Under the law, the state Director of Revenue collects both the state and city use taxes. City taxes, less charges for collection, are sent back to the city imposing the tax. A city receives only the amount of tax imposed by it and collected from residents and businesses located in the municipality.

Municipal Property Taxes

Property tax rates are set each year by local governments within the limits set by the Missouri Constitution and statutes. They are based on the revenues permitted for the prior year with an allowance for growth based on the rate of inflation and new development. The resulting tax rate becomes the permitted rate for the year if it falls within the ceiling permitted by the local government. A public hearing must be held before the levy can be set. For municipalities whose taxes are collected by the county, the tax rate must be given to the county by September 1.

General Operating Levy – The general operating levy is provided for under several statutes depending on the classification of the municipality. Villages are covered under Section 80.460 RSMo, fourth class cities under Section 94.250 RSMo, third class cities under Section 94.060 RSMo, special charter cities under Section 94.340 RSMo and constitutional charter cities under Section 94.400 RSMo. For all municipalities except villages, the general operating levy may be imposed at a rate of up to \$1.00 per \$100 of assessed value. Villages are limited to \$0.50 per \$100 of assessed value. In addition, all municipalities (including villages) may impose an additional levy of up to \$0.30 per \$100 of assessed value over their respective maximum for a period of up to four years if approved by a two-thirds majority of the voters.

Parks/Recreation Levy – Sections 67.750-67.780 RSMo allow for a tax levy of up to \$0.20 on every \$100 of assessed value for park and recreation purposes. The passage of such a levy requires the submission and approval of a two-thirds majority of the voters.

Sections 90.500-90.570 RSMo establish another levy for the purchase and maintenance of park lands for cities with under 30,000 persons or cities of the third class. This levy must be combined with the creation of an administrative park board of nine members who will have authority over the use of funds generated from this tax. This levy may be set at any amount approved by a majority of the voters. Prior to election on this levy, a petition of at least 100 voters must be submitted to the mayor and council asking that an annual tax be levied for the establishment and maintenance of free public parks in the municipality.

Health/Solid Waste/Museums Levy – Municipalities have the authority to establish levies not to exceed \$0.20 on every \$100 of assessed value for hospitals, public health, solid waste and museum purposes. The statutes that authorize this tax are dictated by a municipality's classification. Villages are covered under Section 80.460 RSMo, fourth class cities under Section 94.250 RSMo, third class cities under Section 94.060 RSMo, special charter cities under Section 94.340 and constitutional charter cities under Section 94.400 RSMo.

Library Levy – Sections 182.140-182.301 RSMo allows the imposition of a library levy. The establishment of such levy requires a petition signed by at least 5 percent of the total votes cast for governor in the last gubernatorial election followed by the approval of the majority of the voters. The amount of the levy is to be included on the petition. Funds generated under such levy are to be used solely for library purposes and authority for the disbursement of such funds shall be solely under the control of the library board.

Municipal Motor Vehicle License Taxes

Upon voter approval a municipality is authorized to impose a motor vehicle license tax. Section 301.340 RSMo establishes the basis for the license tax – either a flat rate or based on horsepower. In larger municipalities the tax rate usually is levied on horsepower; while smaller municipalities usually levy the tax on a flat rate.

Business License

Revenue from occupation, merchant and manufacturers' licenses is a productive source of revenue for Missouri municipalities. The tax can be based on a percentage of gross receipts, number of employees, square footage of a business or a flat rate depending on the type of business.

Section 71.610 RSMo provides that no municipal corporation shall have the power to impose a license tax upon any business avocation, pursuit or calling unless it is specifically named as taxable by charter or statute. A statutory list of taxable occupations is provided for each class of statutory city (for third class cities see Section 94.110, for fourth class cities see Section 94.270). Although each list provides for the licensing and taxation of "all other businesses," it has been held that these words have no effect and that only specifically named businesses may be licensed. In addition, the Hancock Amendment to the Missouri Constitution requires that an increase in business license fees must be put before a vote of the people.

Liquor License

Section 311.220 RSMo provides that municipalities may charge up to one and one-half times the rate charged by the state to license liquor providers. Many municipalities could increase their rates to this level and gain more income without increasing administrative costs.

Municipal Utility Gross Receipts Taxes

Most Missouri municipalities levy a utility tax on the basis of gross receipts but a few levy the tax by a flat fee arrangement. Generally, municipalities tax privately owned utilities on their gross receipts; 5 percent is the most common rate, but many municipalities (especially the larger ones) levy a higher tax. Also, city-owned utilities often contribute either a percentage of gross receipts or a transfer from the utility fund to the general fund in lieu of taxes.

Municipal utility gross receipts taxes are levied in some cities under specific statutory authority (business license). Others are able to do so under the general authority to regulate the use of the street or to protect public health (franchise). Confusion sometimes exists about which authority a municipality utility gross receipts tax is based on. Neither the Constitution nor the statutes limit the rate municipalities can levy upon utility corporations. Statutes also require that a municipality must reduce the utility tax rate when the Public Service Commission approves a rate increase in excess of 7 percent unless the governing body adopts an ordinance to maintain the existing rate (Section 393.275 RSMo).

Motor Vehicle Fuel Tax

All municipalities over 100 population share in 15 percent of the state highway fund that includes revenues from the motor fuel tax, license and registration fees and one-half of the regular state sales tax on automobiles.

Hotel/Motel Tax

For many years only home rule cities and those municipalities with specific authorization from the Missouri General Assembly could levy a hotel/motel tax. Recently, legislation was adopted granting municipalities that meet prescribed criteria the ability to adopt a hotel/motel tax. The criteria can be found in Sections 67.1000-67.1003 RSMo.

Revenue Sources at a Glance

Sales Taxes

General revenue sales tax – Sections 94.500-94.550 RSMo.

Capital Improvements sales tax – Sections 94.575-94.577 RSMo.

Transportation sales tax – Sections 94.700-94.755 RSMo.

Storm Water/Parks sales tax – Sections 644.032-644.033 RSMo.

Fire Protection sales tax – Section 321.242 RSMo.

Local Use Tax – Sections 144.757-144.761 RSMo.

Municipal Property Taxes

General Operating Levy – Villages Section 80.460 RSMo; fourth class cities Section 94.250 RSMo; third class cities Section 94.060 RSMo; special charter cities Section 94.340 RSMo; and constitutional charter cities Section 94.400 RSMo.

Parks/Recreation Levy – Sections 67.750-67.780 RSMo.

Health/Solid Waste/Museums Levy – Villages Section 80.470 RSMo; fourth class cities Section 94.260 RSMo; third class cities Section 94.070 RSMo; special charter cities Section 94.350 and constitutional charter cities Section 94.400 RSMo.

Library Levy – Section 182.140-182.301 RSMo.

Business License – Third class cities Section 94.110 RSMo; fourth class cities Section 94.270 RSMo.

Liquor License – Section 311.220 RSMo.

Motor Vehicle Fuel Tax – Article IV, Section 30(a)(2) Missouri Constitution.

Hotel/Motel Tax – Sections 67.1000-67.1003 RSMo.