

Subject: Taxes
December 27, 2023

I want to talk about taxes as we go toward the new year, specifically sales tax revenues. The Town of Highlands is projected to take in about 1.6 million dollars in sales tax for this fiscal year. We will also take in about 3 million in property tax that also goes to the town. These revenues, coupled with various fees and state grants, make up our general operating fund revenues.

Sales tax revenues are about 25% of the Highlands general fund. But that isn't the whole picture. The current sales tax rate for Macon County is 6.75 cents per dollar for certain retail sales transactions. Neither Highlands nor Macon County gets all that revenue. The state of North Carolina keeps 4.75 cents of the 6.75 cents per dollar collected.

The remaining 2 cents go to individual counties, and they allocate some of the tax to towns within a county. Macon County uses a formula to distribute a portion of sales tax to the municipalities of Franklin and Highlands. The county retains the rest. This budget year, Macon County will realize about 12 million dollars in sales tax revenue, or 87% of the sales tax sent from the state.

The county could use a per capita formula to distribute the sales tax revenue. If that were the case, Highlands, with only 1075 permanent residents, would see a significant reduction in sales tax revenue. Thankfully, the county uses the ad valorem formula for sales tax distribution, and given the high property tax valuations in Highlands, the town fairs well when it comes to the 1.6 million dollars in sales tax revenues. Highlands get about 6.53% of the sales tax the state sends to Macon County. Based on the ad valorem formula, Franklin receives 5.7%, although they have a population of 4,216. I might add the visitors center gets a similar amount of room tax revenue from the county to promote tourism here on the plateau.

Over the last decade, the town has seen a steady increase in sales tax revenue. If those increases were graphed on a chart, they would be an ascending straight line. About a decade ago, when I first became mayor, that number was around 1 million dollars. I remember back then, legislators proposed a bill that would have returned more sales tax revenue to Raleigh, even more than the current 4.75 cents. The proposed legislation would have cost Highlands about 628,000 in lost sales tax. Almost every mayor in the state, as well as the North Carolina League of Municipalities, was in strong opposition to this sales tax legislation.

The legislature found a way to work around that municipal outcry. They did not change the sales tax on goods already being taxed. Instead, they passed a law taxing additional services such as auto and appliance repairs. All of that new sales tax revenue went directly to the state coffers. So, the state legislature did an end run around existing sales tax items in order to increase the amount the state

retained. Towns, cities, and counties did not benefit from the sales tax on these new areas either.

Now, some folks would attribute our sales tax revenue to our robust tourist market. In fact, much of tourist spending does significantly contribute to sales tax revenue. But on the other hand, permanent residents buying local goods also contribute to the sales tax budget. It's problematic to try to separate the two, as both groups make significant contributions.

It is also hard to pinpoint where the lion's share of sales taxes come from in the county. The Highlands Plateau is a strong tourist area for room tax revenue, generating about 70% of the Macon County revenue. I suspect the Franklin area, with a large part of the county's population, generates a sizable amount of Macon County sales tax, while the Highlands Plateau generates almost half of the ad valorem tax for the county.

The good news is that the area economy is strong, and sales tax revenue reflects that strength. During times of recession, spending drops, and so does sales tax revenues.

I would like to see the sales tax in Macon County increase from 6.75 to 7 cents. Surrounding counties have already voted for that option and increased sales tax to 7 cents. Revenues from that quarter-of-a-cent increase would stay in Macon County to help fund important educational initiatives. In 2022, Macon County voters narrowly rejected a referendum to increase the sales tax by 0.25 cents. That revenue would have generated about two million dollars a year. Maybe it is time to reconsider this option and put it back on the ballot in 2024.