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Historically, cities in the United States began using business licensing as a mechanism for regulation, especially of those trades deemed to have an impact on public health (e.g., food, alcohol, etc.). Since their inception, the connection between the regulatory function and the need for levying the fee has become blurred to say the least.

Here in North Carolina, the debate about the demise of the business privilege license tax has focused on the loss of revenue for municipalities. However, there are some fundamental unresolved (albeit related) issues that we should be wrestling with:

- Is the primary purpose of the privilege license fee to regulate business activity, generate funding, or both?
- If it serves a regulatory function, what is the financial case for that regulation?
- If cities are forced to identify alternative sources to make up that revenue, will consumers be left holding the bag?

Reading news accounts, one comes away with a sense that the fee was simply a revenue source for municipalities. As a citizen, I’m left pondering the fees through the lense of one of two traditional principles - one as a form of benefit tax to pay for local services; or the other as a payment for the right

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Chapter 160A of the NC General Statutes empowers municipalities to tax and to regulate businesses in separate provisions. Thus, the intent of the Legislature seems to have been for the privilege tax to serve the narrow purpose of the first principle - to tax businesses. So, by design we have a decoupling of the function of regulation of activity from a mechanism for funding said regulation. As to the first principle, one can make the case that fees should be levied commensurate with the costs of administering and enforcing a regulation system.

It’s easy enough to quantify the higher level of services [and thereby costs to cities] required by industry. Off the top of my head - subsidized transportation that funnels consumers to shopping destinations, implementation of safety patrol, operation of sanitation services for high traffic downtown areas, increased police services for popular night life areas and industry wastewater monitoring services. Nonetheless, are those regulatory costs sufficiently covered by municipal property taxes, and thereby making the privilege tax redundant?

At a minimum, licensing merely provides a source of information about business activities that can then be used for more specific regulatory purpose, as well as, for service delivery planning and coordination. On the flip side, coupling the license with a fee is arguably a necessary mechanism for ensuring the provision of critical services and infrastructure. As is the case with many things, a careful research study is definitely in order to determine which is the case. Not to mention a review of the statutes to determine if the decoupled nature of the statutes warrants a fresh look. Unfortunately, our public discourse has left us high
and dry without much of any understanding of the issue.

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