Importance of Major State Taxes

States collect revenue from a number of tax categories. These include taxes on mining, business licenses, and taxes on the transfer of wealth at death, among others. Of the various tax categories, states as a whole rely on two for the majority of their collections—sales and income.

Combined, sales and income taxes represented 88 percent of total state collections in fiscal year (FY) 2008. Most of that came from taxes on general sales and individual income. The relative importance of these and other major tax categories to the states in aggregate can be seen in table 1 below:

Table 1. State Tax Collections, FY 2008

	Millions of Dollars	Percentage of total
Total Tax Collections	781,787	100.0%
Property taxes	12,719	1.6%
Sales and gross receipts	356,292	45.6%
General sales and gross receipts	240,626	30.8%
Excise taxes (selective sales)	115,666	14.8%
Licenses	48,806	6.2%
Income taxes	332,488	42.5%
Individual income	280,683	35.9%
Corporation net income	51,805	6.6%
Other taxes	31,482	4.0%

Source: Bureau of the Census, NCSL calculations from Bureau of the Census data, 2008.

Sales taxes accounted for 46 percent of total state tax revenue in FY 2007, most of this (about two thirds) coming from general sales taxes. General sales taxes are those attached to a wide range of goods and, in some cases, services. They are usually calculated as a percentage of the price of the good. Which goods are subject to general sales taxes is most easily understood when contrasted with goods that usually fall under the excise, or selective sales tax, category.

Excise taxes are those levied on goods such as tobacco, alcohol and gasoline. These goods are treated differently than others for various social and economic reasons. Excise taxes are also often calculated differently than general sales taxes. Excise taxes are usually levied on a per unit basis rather than as a function of the price of a good (as general sales taxes are usually calculated). For example: an excise tax of $1.25 per pack of cigarettes regardless of its final retail price, versus a general sales tax of 5 percent of the final retail price of a book.[1]

After sales, income taxes are the second most important tax to states in terms of revenue generation. Despite sharing this tax base with the federal government, states still receive more than 40 percent of their tax revenue from collections on income. Most of this comes from taxes on individual, or personal, income rather than from taxes on the income of corporations.

After collections on sales and income, the rest of state tax revenue comes from taxes on property, licenses and taxes on other economic goods or activities. Together they make up just under 12 percent of total state tax revenue.

Property taxes are not a major revenue source for states, contributing just 1.6 percent of total state tax revenue in FY 2008. This is largely due to the current arrangement of state and local fiscal relations. In recent state tax actions there has been a significant amount of movement in property taxes. States are increasingly responding to appeals for lower property tax burdens and shifting public education funding from local, to state taxation. This trend has a number of implications for both state and local governments.

1. This per unit accounting is largely for historical and administrative reasons. Excise taxes existed before general sales taxes, some of them centuries before. This is one reason for the volume basis of the tax. The other reason is that they are collected, or administered, at the wholesale level, where the final price is unknown.

"Other taxes," which represent only 4 percent of total state collections, include severance taxes (on mining or other natural resource extraction or production). Severance taxes constitute the largest tax revenue source in a few states, and a significant portion of total tax collections in a few more. The "other taxes" category also includes the well-known estate, or death, tax.