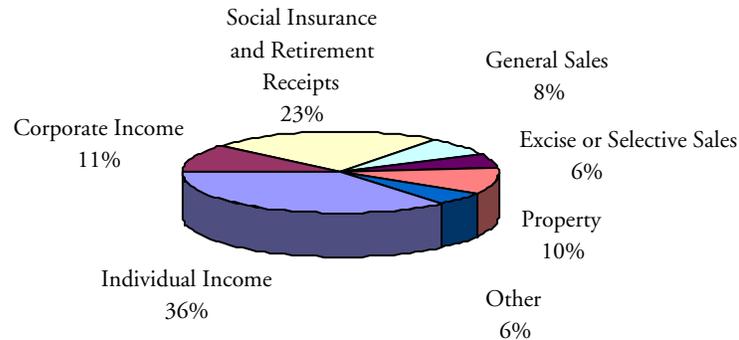


State, Federal and Local Taxes

What states tax is related to what, and how much, federal and local governments tax. Taxes in the United States are levied primarily on income, sales and property. As shown in figure 1 below, taxes on individual and corporate income account for almost half of total U.S. collections. Another quarter is represented by social insurance receipts, a federal tax source.

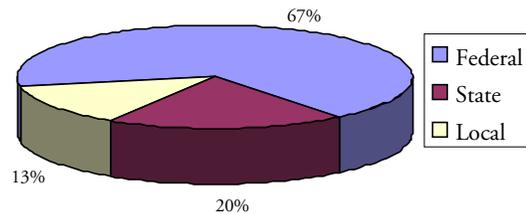
Figure 1. Components of Total U.S. Tax Collections, FY 2006
(State Federal and Local Tax Collections Combined)



Sources: NCSL calculations based on data from the [Bureau of the Census](#), and [Office of Budget and Management](#), 2008.

Over two thirds (67 percent) of taxes in the United States are collected by the federal government. Local government taxes account for 13 percent of total US taxes. The remaining 20 percent are collected by states, as shown in figure 2 below.

Figure 2. State, Federal and Local Shares of Total US Tax Collections, FY 2006



Sources: NCSL calculations based on data from the [Bureau of the Census](#), and [Office of Budget and Management](#), 2008.

States share a significant portion of their tax bases with the other two levels of government. As shown in table 1 below, income taxes are primarily the province of the federal government, consumption taxes (general sales and excise taxes) of state governments and property taxes of local governments. (See shaded areas).

Revenue Source	Total Government Amount	Federal Amount	State Amount	Local Amount
Total Tax Collections	3,602.6	2,407.3	710.9	484.4
Income	2,557.1	2,235.6	293.3	28.2
Individual Income	1,312.5	1,043.9	245.9	22.7
Corporate Income	406.8	353.9	47.5	5.5
Social Insurance and Retirement Receipts	837.8	837.8	N/A	N/A
Consumption/Sales	486.1	74.0	333.0	79.1
General Sales	282.2	N/A	226.7	55.5
Excise/Selective Sales	203.9	74.0	106.3	23.7
Property	359.1	N/A	11.8	347.3
Other (motor vehicle, etc)	200.2	97.7	72.7	29.7

N/A—not applicable.
Sources: NCSL calculations based on data from the [Bureau of the Census](#), and [Office of Budget and Management](#), 2008.

State tax systems operate within two important dynamics shown in table 1 above. The first and most restrictive of these is the federal government's vast collections of, and almost complete reliance on, income taxes (which include social insurance and retirement receipts). The second is local government reliance on property taxes.

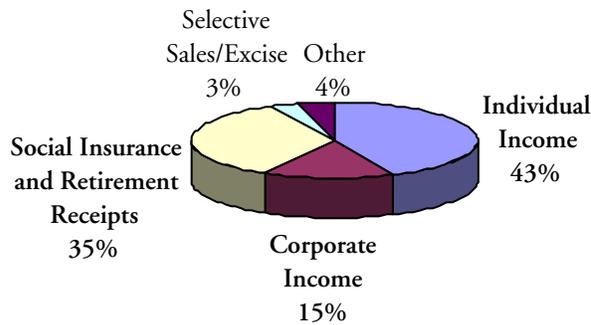
Income Taxes and the Federal Government

As shown in figure 1 above, income taxes are the largest tax base in the United States. Income taxes (including taxes on individual and corporate income; and for the federal government, deductions from payrolls for social insurance and retirement) are a major source of revenue for federal, state and local governments.¹ Income taxes accounted for around \$2.6 billion or 70 percent of all government tax collections in FY 2006.

The federal government occupies the majority of the income tax base, receiving 87 percent of all income tax revenue in FY 2006. The federal government does not levy a general sales tax, nor does it tax property. Instead, it relies almost entirely on income levies for its collections. As shown in figure 3 below, social insurance and retirement, corporate, and individual income taxes combined for over 93 percent of all federal tax collections in FY 2006.

1. "Social Insurance and Retirement Receipts" include collections for well-known programs like social security and Medicare. These collections come from mandatory payroll deductions. They can be, and are, thought of as fees paid to receive benefits from the government, rather than taxes. However, this argument could be broadly applied to other taxes as well. Given the compulsory nature of their collection, and to simplify this overview of U.S. taxation, these deductions from income are considered taxes here. Specifically, they are treated as "income taxes" throughout this section for purposes of general classification and for arriving at the percentages in this and the following paragraph. If social insurance and retirement receipts are not considered as tax revenue, income taxes account for 61 percent of all government taxes, and 58 percent of federal collections. Separately, social insurance and retirement receipts account for 35 percent of federal tax revenue.

Figure 3. Components of Federal Tax Collections, FY 2006



Sources: NCSL calculations based on data from the [Office of Budget and Management](#), 2008.

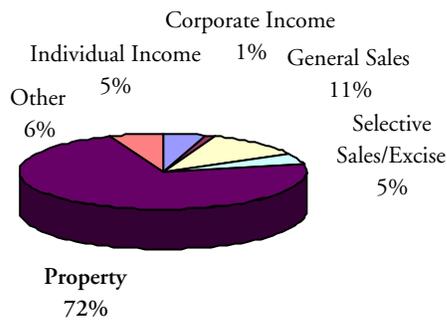
In FY 2006, states collected most of the remainder of income taxes—\$293 million, or 11 percent of the total levied by all levels of government. Taxes on individual and business income are a major revenue source for states—they accounted for 41 percent of state tax collections that same fiscal year. Local governments also tax income, but at \$28 million in FY 2006 personal and corporate income taxes made up only 6 percent of their total tax revenue.

Property Taxes and Local Governments

The second reality mentioned earlier that affects state tax policy is the heavy reliance on property taxes by local governments. Property taxes are almost entirely levied by local governments. In FY 2006, they received 97 percent of the property tax revenue collected in the United States. The remaining 3 percent was collected by states.

Local governments depend on property taxes for their greatest share of tax revenue. As shown in figure 4 below, property taxes accounted for 72 percent of local tax collections in FY 2006.

Figure 4. Components of Local Tax Collections, FY 2006

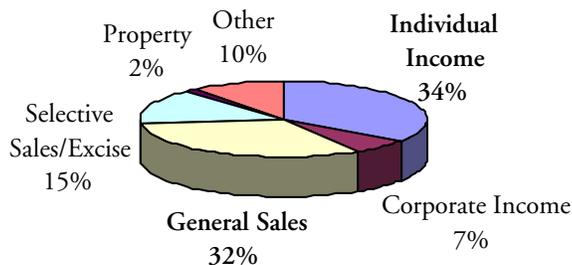


Sources: NCSL calculations based on data from the [Bureau of the Census](#), 2008.

State Taxation

While states collect taxes from a number of sources—death taxes, levies on the severance of natural resources from the state, gambling taxes, etc—most of their tax revenue comes from two sources—income and sales taxes. Together, sales and income taxes accounted for 88 percent of state collections in FY 2006.

Figure 5. Components of State Tax Collections, FY 2006



Sources: NCSL calculations based on data from the [Bureau of the Census](#), 2008.

As mentioned above, states rely on individual and corporate income taxes for around 41 percent of their tax revenue. General sales combined with selective sales taxes, more commonly known as excise taxes, make up 47 percent, or a little less than half of all state tax revenue.²

In FY 2006, states received more than 68 percent of all government sales tax collections. Sales taxes are a mainstay for the revenue systems of most states. The majority of state sales tax collections come from taxes on general sales. General sales taxes alone account for around a third of state tax revenue—second only to personal income taxes. Local governments also tax general sales, providing around 11 percent of their tax revenue.

Excise taxes are collected by federal, state, and local governments. In FY 2006, states collected more in excise taxes than federal and local governments combined—\$106 million. As shown in the chart above, excise taxes provided states with around 15 percent of their tax revenue; making excise taxes the third largest individual tax category for states after personal income and general sales.

2. Excise or selective sales taxes are those levied on motor fuels, alcohol, tobacco, etc. General sales taxes are applied to the majority of other common goods and services.