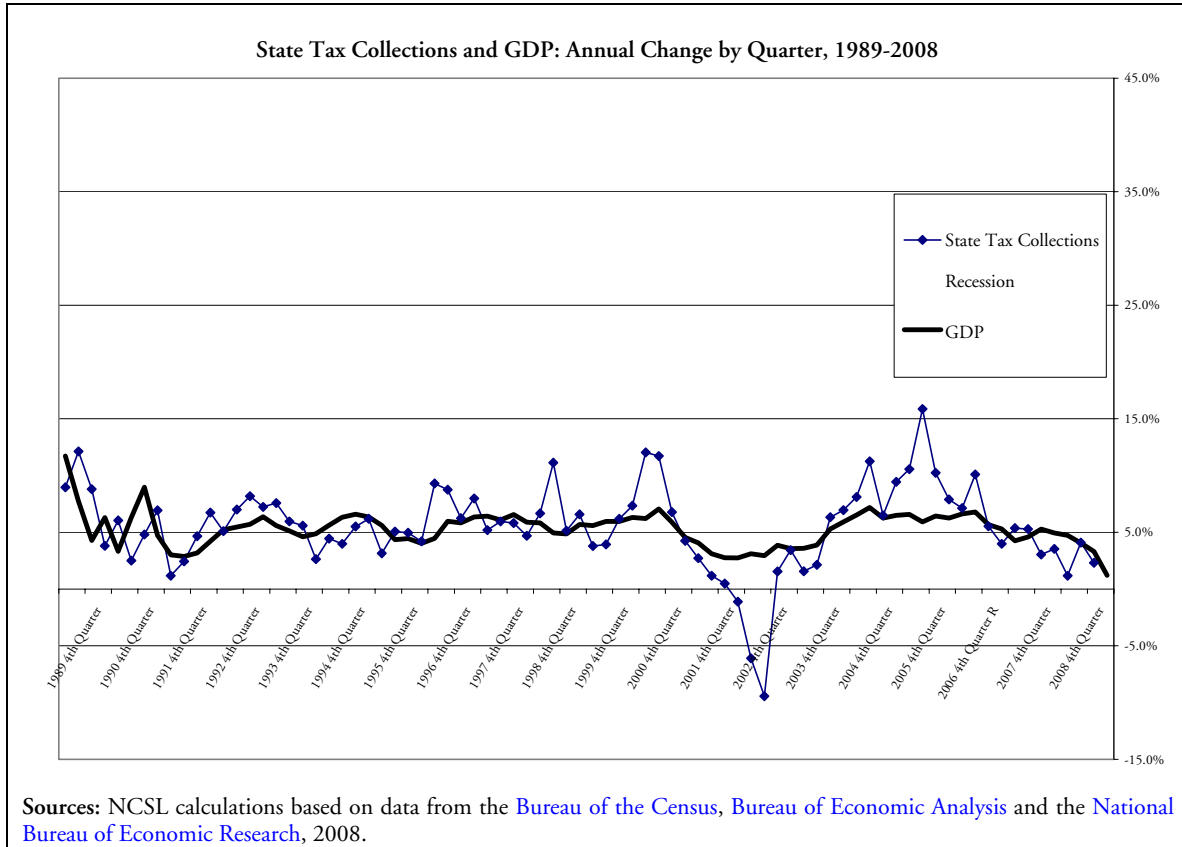


Taxes and the Economy

The performance of state tax revenue reflects the performance of the overall economy. This is shown in figure 1 below where changes in state tax revenue are compared to changes in gross domestic product (GDP) from 1989 to 2008.



It is apparent from the graph above, and important to note, that while tax collections track the general direction of the economy, increases and decreases in GDP result in sharper changes (higher increases and lower decreases) in tax revenue. In other words, tax collections are elastic—a change in what is being taxed (economic activity) results in a larger change in tax collections. This is particularly visible in the periods 2001 to 2005 when tax collections followed the direction of the economy during the recession and subsequent recovery, but dropped and rose further than changes in the GDP in both periods.¹

One way to gain a sense of the size of state tax collections is to compare them to gross domestic product (GDP)—the value of all recorded economic activity within the country. The state equivalent is gross state product (GSP).

Combined federal, state and local tax revenues from fiscal year (FY) 2006 were the equivalent of 28.4 percent of U.S. GDP in 2006. Federal collections made up the bulk of that at 19.2 percent of GDP — more than twice the combined amount of state and local government tax collections that year.²

1. For a brief definition of elasticity as used in economics see the following page from the [Economist](#). For a thorough discussion of elasticity and taxes see Steve Gold, *The Income Elasticity of State Tax Systems: New Evidence* (Albany, N.Y: State University of New York, Center for the Study of the States, 1995), and Snell, *New Realities in State Finance*. Denver: National Conference of State Legislatures, 2004 pp. 44-45.

2. For a historical perspective of government taxation, size and relationship to market fluctuations see *New Realities in State Finance* as well as *State Finance in the Great Depression*—both by Ronald Snell.

State and local governments collected \$1.2 trillion in tax revenue during FY 2006, equal to 9.2 percent of the domestic economy as measured by GDP. State governments alone collected \$710 billion in taxes— the equivalent of 5.5 percent of 2006 GDP.

How much each state and their local governments collect in taxes in relation to economic production varies by region and by state, as shown in table 1 below.

Table 1. State and Local Taxes as Percentage of GDP, 2006					
(Amounts in millions of dollars)					
	GDP/GSP	State and Local Taxes	State and Local Taxes as Percentage of GDP/GSP	State Tax	State Tax as Percentage of GDP/GSP
United States	13,031,764	1,195,254	9.2%	710,864	5.5%
New England	712,051	68,263	9.6%	42,355	5.9%
Connecticut	204,964	19,872	9.7%	12,132	5.9%
Maine	46,340	5,806	12.5%	3,599	7.8%
Massachusetts	335,313	30,636	9.1%	19,395	5.8%
New Hampshire	56,073	4,517	8.1%	2,081	3.7%
Rhode Island	45,733	4,680	10.2%	2,742	6.0%
Vermont	23,628	2,753	11.7%	2,407	10.2%
Middle Atlantic	2,302,681	249,438	10.8%	130,205	5.7%
Delaware	59,589	3,618	6.1%	2,861	4.8%
Maryland	257,577	25,789	10.0%	14,625	5.7%
New Jersey	448,426	47,308	10.5%	26,266	5.9%
New York	1,028,320	123,661	12.0%	57,403	5.6%
Pennsylvania	508,769	49,063	9.6%	29,051	5.7%
Great Lakes	1,873,436	176,658	9.4%	103,800	5.5%
Illinois	583,990	52,144	8.9%	28,129	4.8%
Indiana	238,693	22,950	9.6%	13,626	5.7%
Michigan	375,759	36,017	9.6%	23,715	6.3%
Ohio	451,600	43,247	9.6%	24,536	5.4%
Wisconsin	223,394	22,300	10.0%	13,795	6.2%
Plains	827,926	72,994	8.8%	46,678	5.6%
Iowa	121,945	10,256	8.4%	6,119	5.0%
Kansas	110,645	10,452	9.4%	6,275	5.7%
Minnesota	242,095	22,491	9.3%	17,331	7.2%
Missouri	220,092	18,312	8.3%	10,180	4.6%
Nebraska	75,290	6,875	9.1%	3,961	5.3%
North Dakota	25,851	2,368	9.2%	1,622	6.3%
South Dakota	32,008	2,241	7.0%	1,189	3.7%
Southeast	2,964,029	252,337	8.5%	156,138	5.3%
Alabama	158,566	12,768	8.1%	8,530	5.4%
Arkansas	90,864	8,747	9.6%	7,016	7.7%
Florida	716,505	66,695	9.3%	37,202	5.2%
Georgia	376,410	31,025	8.2%	17,034	4.5%
Kentucky	146,415	13,558	9.3%	9,953	6.8%
Louisiana	203,167	15,724	7.7%	9,651	4.8%
Mississippi	84,586	8,180	9.7%	5,990	7.1%
North Carolina	380,932	30,013	7.9%	20,603	5.4%
South Carolina	146,211	12,444	8.5%	7,760	5.3%
Tennessee	235,753	17,240	7.3%	10,650	4.5%
Virginia	368,604	30,059	8.2%	17,192	4.7%
West Virginia	56,016	5,882	10.5%	4,558	8.1%
Southwest	1,507,771	113,904	7.6%	61,410	4.1%
Arizona	237,397	19,940	8.4%	11,890	5.0%
New Mexico	72,161	6,974	9.7%	5,111	7.1%
Oklahoma	130,094	11,257	8.7%	7,817	6.0%
Texas	1,068,119	75,732	7.1%	36,592	3.4%
Rocky Mountain	434,568	36,165	8.3%	21,375	4.9%

Table 1. State and Local Taxes as Percentage of GDP, 2006					
(Amounts in millions of dollars)					
	GDP/GSP	State and Local Taxes	State and Local Taxes as Percentage of GDP/GSP	State Tax	State Tax as Percentage of GDP/GSP
Colorado	226,266	17,224	7.6%	8,522	3.8%
Idaho	48,441	4,503	9.3%	3,143	6.5%
Montana	31,994	3,020	9.4%	2,126	6.6%
Utah	97,963	8,283	8.5%	5,462	5.6%
Wyoming	29,904	3,136	10.5%	2,122	7.1%
Far West	2,409,301	220,949	9.2%	148,904	6.2%
Alaska	43,117	3,665	8.5%	2,484	5.8%
California	1,742,172	163,749	9.4%	111,347	6.4%
Hawaii	58,676	6,199	10.6%	4,919	8.4%
Nevada	123,054	9,764	7.9%	6,153	5.0%
Oregon	150,984	12,403	8.2%	7,590	5.0%
Washington	291,298	25,169	8.6%	16,411	5.6%
Jurisdictions					
District of Columbia	88,174	4,545	5.2%	N/A	N/A
Note: U.S. GDP includes the District of Columbia; GDP/GSP for calendar year 2006, tax collections for fiscal year 2006.					
Sources: NCSL calculations of data from the Bureau of Economic Analysis and Bureau of the Census , 2008.					

The amount of combined state and local government collections as a percentage of GSP is fairly similar across most states.³ In 2006 it was over 10 percent of GSP in 10 states, between 8 and 10 percent in 32 states, and under 8 percent in the remaining 8 states. When considered without local taxes, state taxes show more variation ranging from 10.2 percent in Vermont to 3.4 percent in Texas. This generally reflects differences in delegations of fiscal powers and responsibilities between state and local governments rather than differences in total tax burdens.

3. Links to federal government income tax collections as bases for state income tax liability may partially explain the similarity in tax revenue compared to GDP across regions and states. Interstate competition, especially between neighboring states with similar resources and economies, likely also keeps local and state tax collections within the margins shown in table 1.