Which States Rely on Which Tax

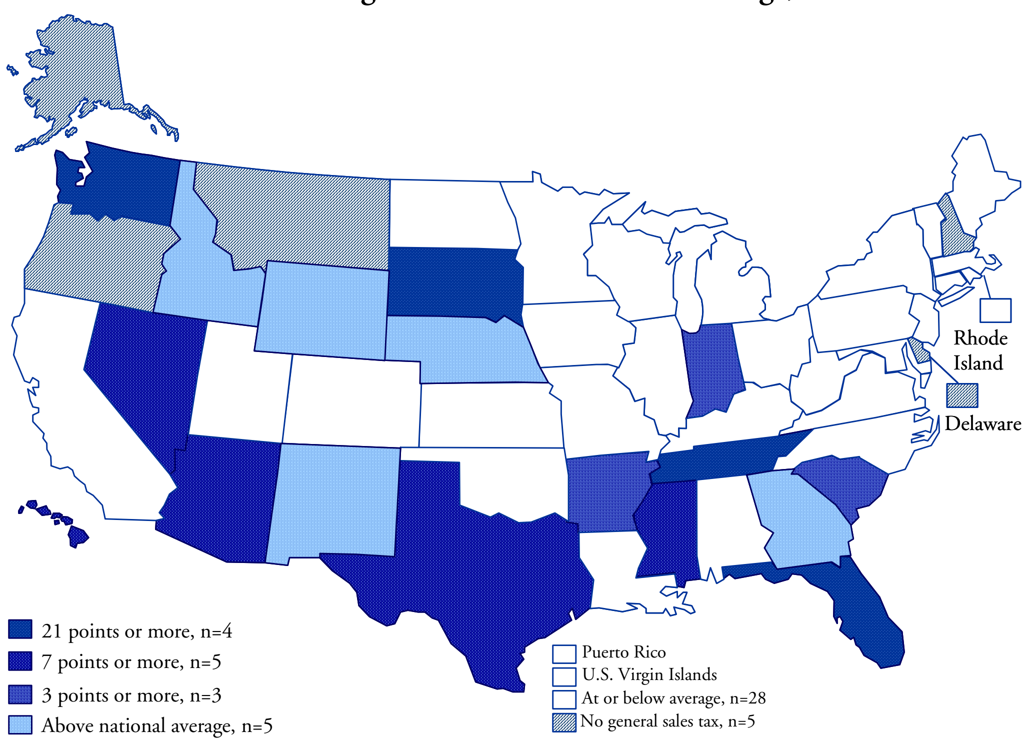
As a whole, state governments rely on individual income and general sales taxes for most of their tax revenue, with individual income taxes making up a slightly larger share. This, of course, is not the case across all 50 states. Many states rely significantly more on either sales or income taxes. Some states don't tax general sales; others exempt personal and/or corporate income from taxes. In addition, other taxes such as property taxes, severance taxes, or other taxes on corporations that in national aggregate appear insignificant, make up large shares of tax revenue for some individual state governments.

In considering which state tax systems rely more on which taxes, states can be broken down into three main groups: general sales tax states, individual income tax states, and "other" tax states. Throughout this discussion it should be remembered that the comparisons here are focused on the designs of tax systems, not on the overall tax burdens of those systems.

General Sales

General sales taxes are an important revenue source for many states. Forty-five states currently tax general sales. The five exceptions are Alaska, Delaware, Montana, New Hampshire and Oregon.[1] On average, states collect a third of their tax revenue from general sales taxes. Some states rely on these taxes for a much higher percentage of their total tax revenue. The degree of that reliance is shown in figure 1 below.[2]

Figure 1. States with above Average Reliance on General Sales Taxes: Percentage Points above National Average, FY 2007



Source: NCSL calculations based on Bureaus of the Census data, 2008.

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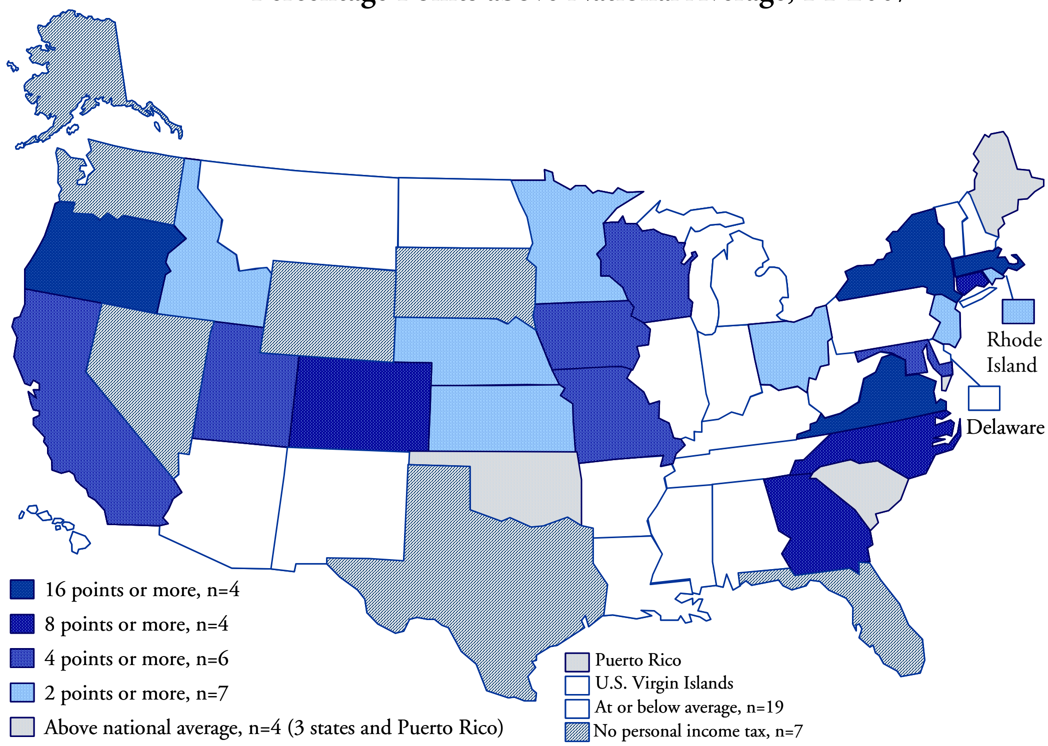
1. This is not to say that there are no sales taxes levied within the borders of these states. Alaska does not levy sales and use taxes at the state level, but local governments tax both general and selective sales (Alaska Department of Revenue). In Montana, New Hampshire, and Oregon, sales on goods or services included in the general sales tax category of many states are considered a selective sales tax. In each case the taxes are levied on goods and services related to tourism. In Montana, hotel rooms, campgrounds and rental cars are taxed (Montana Code 15-68-102). Certain local communities meeting the definition of a "resort town" can levy general sales taxes on tourist goods and luxury items referred to as "resort taxes," Montana Code 7-6-1500). (Resort towns are those with populations of 3,000 or less that rely mainly on tourism. Taxes must not exceed 3 percent.) New Hampshire levies taxes on hotel rooms, restaurant meals and motor vehicle rentals (New Hampshire RSA 78-A). Oregon also collects statewide lodging taxes of 1 percent on hotel/motel rooms, bed and breakfast facilities, camping sites, etc. (Oregon Department of Revenue)
2. National averages used to create the distinctions in tax category reliance discussed in this section and shown in the maps are means of state percentages. That is, they are not percentages of the sum of national collections. This controls for differences in the size of tax collections among the diverse 50 states.

Washington collected the greatest percentage of total tax revenue from general sales taxes at 61 percent in FY 2007. General sales taxes in Florida and Tennessee also accounted for around 60 percent of their total state tax revenue in FY 2007. Hawaii, Nevada and Texas relied on general sales for more than 50 percent of their respective tax revenue. The first state to use the general sales tax, Mississippi, collected just under half of its tax revenue from general sales in FY 2007.

Personal Income

The other mainstay for many state tax systems is the personal (or individual) income tax. The average state collected just under 37 percent of its tax revenue from individual income in FY 2007. How much each state relies on individual income taxes is shown in figure 2 below.

Figure 2. States with Above Average Reliance on Individual Income Taxes: Percentage Points above National Average, FY 2007



Source: NCSL calculations based on Bureaus of the Census data, 2008.

Seven states do not tax personal income—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Besides these seven states, New Hampshire and Tennessee tax investment income but not wages and salaries. Individual income tax collections in New Hampshire and Tennessee, respectively, accounted for 5 and 2 percent of their total tax revenues in FY 2007.

Oregon collected 72.3 percent of its tax revenue from personal income taxes in FY 2007, the highest percentage of any state. Colorado, Massachusetts, New York and Virginia each received more than 50 percent of their tax revenue from individual income taxes during FY 2007. California, Connecticut, Georgia, Missouri, and North Carolina each collected over 45 percent.

"Other"

Property, corporate, and severance taxes together represented around 11 percent of total state tax collections in FY 2006 and 2007. These taxes represent small shares of the tax collections for most states, none of them averaging over 7 percent of tax revenue for states in FY 2007. However, each of these taxes represents much more for the states shown in table 1 below.

Table 1. "Other" Tax Reliance: Percentage of Total State Tax Revenue, FY 2006 and FY 2007 Averages				
State/Jurisdiction	**Property**	**Corporate Income**	**Corporate License**	**Severance**
U.S. Average	**2.2%**	**7.3%**	**1.2%**	**4.9%**
Alaska		28.4%		57.9%
Delaware		10.4%	21.2%	
Michigan	9.6%			
Montana	8.9%			11.5%
New Hampshire	18.1%	26.8%		
New Mexico				17.2%
North Dakota				21.7%
Oklahoma				12.7%
Puerto Rico		24.6%		
Vermont	34.5%			
Washington	9.7%			
Wyoming	11.8%			44.5%

Notes: National averages are means of state percentages, not percentages of the sum of national collections.
Reliance is shown by averages of 2006 and 2007 percentages due to the year to year volatility of tax collections in these categories. Severance and corporate income tax collections can be particularly erratic.
Source: NCSL calculations based on Bureaus of the Census data, 2008; Puerto Rico Treasury Department, 2008.

Property taxes are very significant for state and local collections when considered together. Almost a third of all state and local tax revenue comes from levies on property. However, when that is divided between the two levels of government the *direct* impact of property taxes on state tax systems is quite small. Still, for a few state governments, property taxes are a significant share of their total tax revenue.

For fiscal years 2006 and 2007, Vermont's property tax collections have averaged 34.5 percent of state tax revenue—the highest in the nation. New Hampshire's reliance on property taxes was the second highest at 18 percent of total state tax revenue in FY 2006 and FY 2007. Wyoming's reliance is nearly 12 percent. Washington, Michigan, and Montana each count on property taxes for roughly 10 percent of their total tax collections.

Corporate license and income taxes are other tax categories that do not represent major revenue sources for the states as a whole or on average. Combined they make up a little over 8 percent of total state tax collections. Nor are they the majority of taxes businesses pay: income and license taxes accounted for around 16 percent of state and local collections from businesses in FY 2008.[3]

However, for Alaska, New Hampshire, and especially Delaware, these two taxes are quite important. Delaware collected an average of 32 percent of total state tax revenue from corporate license and income taxes in FY 2006 and FY 2007. Alaska collected an average of 28 percent of its tax revenue from corporate income taxes those two years, and New Hampshire's collections from corporate income levies averaged more than a fourth of its tax revenue (27 percent) during the same period.

Again, it should be pointed out that in this section we are discussing tax mixes, not tax levels or burdens. The greater reliance on these taxes for state revenue does not necessarily represent a higher overall tax burden for individuals or corporations in the states. Higher reliance on one category is offset by lower reliance on others.

Alaska, Delaware and New Hampshire are good examples. Each of these states has a higher than average reliance on corporate income. However, they do not levy taxes on, or collect very little from, major tax categories that are large portions of state revenue for other states. In the case of Alaska, there are no statewide general sales or personal income taxes. Delaware does not collect property taxes at the state level, nor does it collect general sales taxes. In New Hampshire, there is no general sales tax, and personal income taxes make up only 5 percent of tax revenue.

3. Cline, Robert; Thomas Neubig; and Andrew Phillips. "Total State and Local Business Taxes: 50-State Estimates for Fiscal 2008." Ernst and Young, January 2009

Severance taxes, even among these "other" taxes, stand out as unique. They are different from other taxes in what they tax and in how much revenue they generate.[4]

Severance taxes are levied on activities that "sever" natural resources from the land. Extractions of oil, gas, coal, metal ore, timber, and fish are all subject to severance taxes in a number of states. Decisions of how much to tax severance activities are made by elected officials, but in many states there are no major natural resources about which to make decisions. Unlike other taxes, the ability to levy a severance tax depends on geography and the nature and extent of natural resources found within a state's borders.

Severance taxes are also unique in the amount of tax revenue that they generate. They contribute much larger percentages of total tax revenue for some states than do property or taxes on corporations. Alaska received an average of 58 percent of all its tax revenue from severance taxes in FY 2006 and FY 2007. Wyoming relied on severance taxes for an average of 45 percent of its tax revenue, and North Dakota collected an average of 22 percent from severance taxes during the same period. Montana, New Mexico, and Oklahoma all received on average between 11 to 17 percent of total tax revenue from severance taxes in FY 2006 and FY 2007.

4. See Judy Zelio's *State Energy Revenues Update* for a more comprehensive discussion of severance taxes and details on their revenue generation.