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State and Local Tax Burdens Hit 25-Year High

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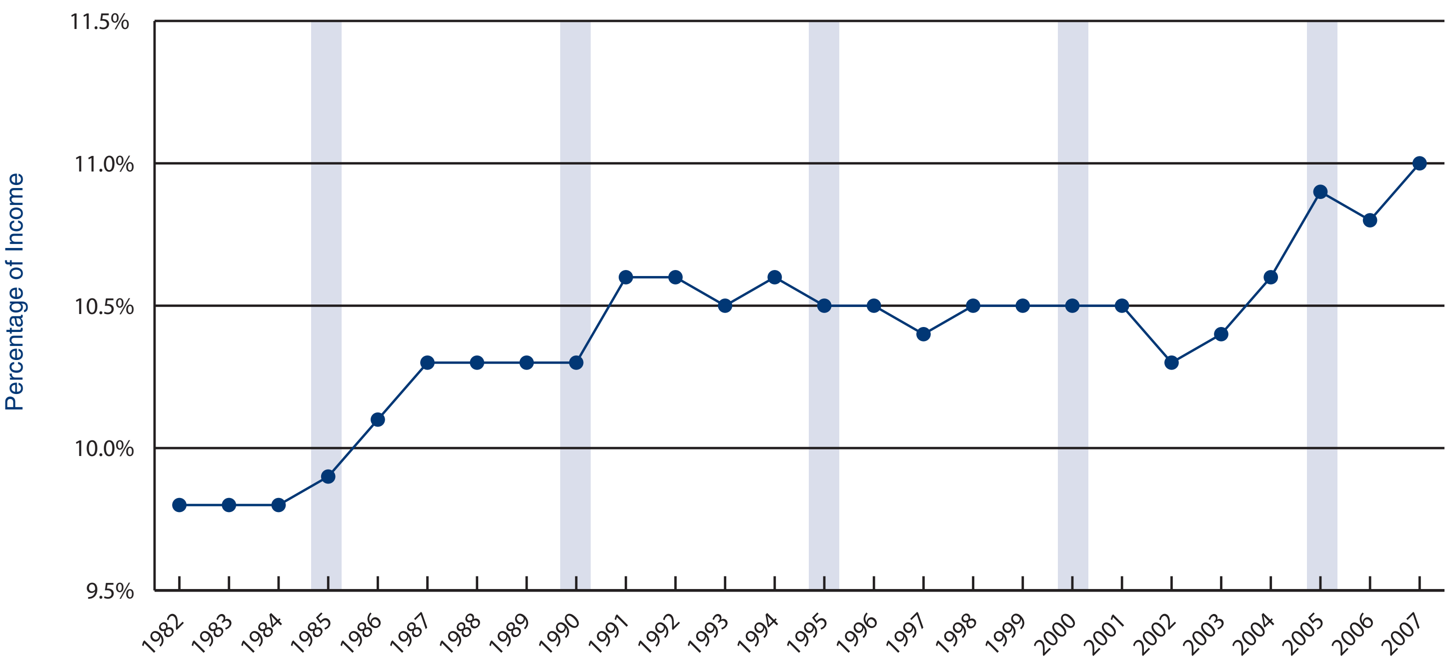
Introduction

State and local taxes will consume a record-setting 11 percent of the nation's income in 2007. Since 1986, the state-local tax burden had never fallen below 10 percent or risen above 10.9 percent. Figure 1 charts the course of the nation's state-local tax burden since 1982.

This estimate of state-local tax burdens at an all-time high comes at a time when personal and corporate incomes have risen for almost four consecutive years, sometimes at a remarkable pace. Along with low unemployment, these rising incomes have boosted tax collections substantially and helped most states meet their revenue expectations with ease since 2004.

Figure 1
Total State and Local Tax Burden
Calendar Years 1982-2007



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

Trends That Explain the Nationwide Trend of Higher State-Local Tax Burdens

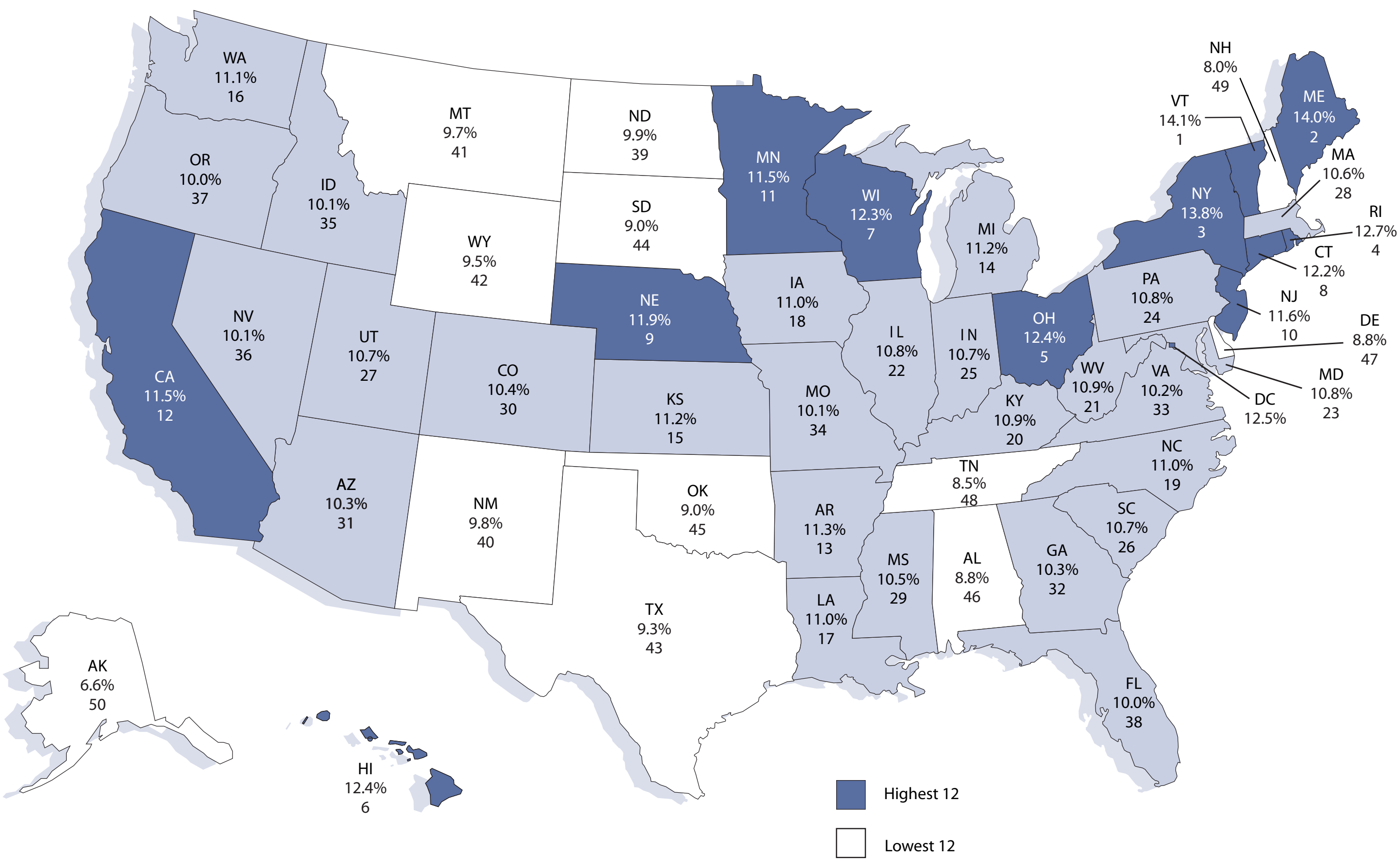
Economists would expect states with the most steeply graduated income tax rates to experience big revenue surges when good economic times push individual and corporate incomes up into higher tax brackets. Many states have multiple-rate personal income taxes, or they mirror the progressivity of the federal system by taking a percentage of federal tax liability.

However, even as the economy has thrived and progressive income taxes have increased the tax burden, some states have accelerated the trend by enacting new or higher state-level tax rates. Meanwhile, other states have taken advantage of the good economy by cutting tax rates or allowing temporary tax hikes to expire. See round-up of state tax actions on page 8.

Property tax collections have risen significantly for several years, as local government officials apparently did not ratchet down rates enough to prevent a surge of revenue as the value of real estate soared between 2001 and 2006.

Of course, every state has a different mix of taxes and a different fiscal picture. Some states operate large government programs with state-level taxes that are funded by local taxes elsewhere. As a result, states' tax burdens should only be compared by combining the different levels of government, counting every tax and comparing those totals to a proper measure of income, as do the burdens presented here. See Methodology for more on the merits of various state tax comparisons.

Figure 2
State-Local Tax Burdens and Ranks
Calendar Year 2007



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

Ranking State-Local Tax Burdens

The 50 state-local tax burdens are mostly very close to each other, which is logical because they all fund similar activities: public education, transportation, prison systems, health programs, etc. The 26 state-local tax burdens clumped in the middle of this tight distribution, ranking from 13th highest to 38th highest, vary only from 11.3 percent to 10.0 percent of income. Therefore, slight differences in the state-local tax burdens of these middle states can translate into differences of several ranks (see Table 1 and Figure 2). Table 1 shows the tax burden for each state as a percentage of income, and where that percentage ranks each state. The per-capita dollar amounts of income and tax in the rightmost columns can be divided to calculate the burden as a percentage of income.

Table 1

State-Local Tax Burdens by Rank
Calendar Year 2007

	Tax Burden as a Percentage of Income	Rank	Per Capita Tax Burden	Per Capita Income
United States	11.0%	-	$4,422	$40,348
Vermont	14.1%	1	$5,387	$38,306
Maine	14.0	2	5,045	36,117
New York	13.8	3	6,522	47,176
Rhode Island	12.7	4	5,291	41,809
Ohio	12.4	5	4,597	37,020
Hawaii	12.4%	6	$5,014	$40,455
Wisconsin	12.3	7	4,736	38,639
Connecticut	12.2	8	6,756	55,536
Nebraska	11.9	9	4,549	38,373
New Jersey	11.6	10	5,991	51,605
Minnesota	11.5%	11	$4,971	$43,121
California	11.5	12	4,965	43,338
Arkansas	11.3	13	3,514	31,145
Michigan	11.2	14	4,202	37,538
Kansas	11.2	15	4,330	38,732
Washington	11.1%	16	$4,604	$41,530
Louisiana	11.0	17	3,808	34,501
Iowa	11.0	18	4,085	37,068
North Carolina	11.0	19	3,933	35,705
Kentucky	10.9	20	3,568	32,673
West Virginia	10.9%	21	$3,401	$31,198
Illinois	10.8	22	4,594	42,428
Maryland	10.8	23	5,341	49,324
Pennsylvania	10.8	24	4,405	40,942
Indiana	10.7	25	3,887	36,169
South Carolina	10.7%	26	$3,520	$32,790
Utah	10.7	27	3,452	32,249
Massachusetts	10.6	28	5,419	51,297
Mississippi	10.5	29	3,103	29,582
Colorado	10.4	30	4,509	43,512
Arizona	10.3%	31	$3,603	$34,836
Georgia	10.3	32	3,615	35,210
Virginia	10.2	33	4,460	43,710
Missouri	10.1	34	3,678	36,341
Idaho	10.1	35	3,367	33,274
Nevada	10.1%	36	$4,127	$40,916
Oregon	10.0	37	3,747	37,356
Florida	10.0	38	3,962	39,782
North Dakota	9.9	39	3,626	36,635
New Mexico	9.8	40	3,251	33,163
Montana	9.7%	41	$3,353	$34,415
Wyoming	9.5	42	4,340	45,881
Texas	9.3	43	3,533	38,005
South Dakota	9.0	44	3,435	38,072
Oklahoma	9.0	45	3,248	36,077
Alabama	8.8%	46	$3,090	$35,007
Delaware	8.8	47	3,804	43,471
Tennessee	8.5	48	3,054	35,960
New Hampshire	8.0	49	3,504	43,745
Alaska	6.6	50	2,729	41,469
Dist. of Columbia	12.5%	-	$7,873	$62,852

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

However, that still leaves some states, a dozen at either end, where the tax burdens are significantly higher or lower than in much of the country.

States with the Highest State-Local Tax Burdens

In 2007, three states stand well above the rest, with the highest state-local tax burdens in the nation: Vermont, Maine and New York. In fact, New York's third-highest tax burden is 1.1 percentage points higher than fourth-ranked Rhode Island.

Vermont residents are paying the nation's highest state-local tax burden this year, 14.1 percent of their income. Maine and New York had dominated the top two spots for many years before Vermont's ascension in 2006. Maine's taxpayers aren't paying less in taxes. Indeed, their burden has risen five consecutive years to an all-time high of 14.0 percent in 2007. New Yorkers' burden ranked first or second highest every year between 1970 and 2005, but it ranked third in 2006 and again this year.

A second group of five states' taxpayers shoulder state-local tax burdens between 12 and 13 percent of income. Rhode Island (12.7 percent), Ohio (12.4 percent), Hawaii (12.4 percent), Wisconsin (12.3 percent) and Connecticut (12.2 percent) rank fourth through eighth.

In the third group, four states' taxpayers are paying between 11.5 percent and 12.0 percent of their income in taxes. Nebraska's taxpayers rank ninth highest at 11.9 percent, New Jersey's tenth at 11.6 percent, Minnesota's taxpayers eleventh at 11.5 percent, and California's taxpayers twelfth at 11.5 percent.

States with the Lowest State-Local Tax Burdens

Taxpayers in the 12 lowest-tax states all pay less than a dime on a dollar for government. They may be viewed in four groups.

Table 2

State and Local Tax Burden as a Percentage of Income
Selected Calendar Years 1970-2007

	1970	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007
Total	10.0%	9.5%	10.3%	10.5%	10.5%	10.3%	10.4%	10.6%	10.9%	10.8%	11.0%
Alabama	8.3%	8.6%	8.6%	9.2%	9.1%	8.6%	8.5%	8.6%	8.9%	8.8%	8.8%
Alaska	11.3	9.5	8.2	6.8	6.7	6.5	6.5	6.6	6.7	6.6	6.6
Arizona	10.9	10.3	11.7	10.4	10.5	10.3	10.4	10.5	10.6	10.3	10.3
Arkansas	8.4	8.7	9.2	10.5	10.5	10.3	10.0	10.5	11.2	11.1	11.3
California	11.1	9.4	10.1	11.2	11.1	10.5	10.5	10.8	11.4	11.3	11.5
Colorado	10.1%	9.1%	10.2%	9.7%	9.5%	9.3%	9.2%	9.2%	9.7%	10.1%	10.4%
Connecticut	9.0	8.7	9.8	11.2	10.9	10.8	11.1	11.3	11.9	12.0	12.2
Delaware	7.8	8.8	8.0	8.2	8.1	7.8	8.0	8.4	8.7	8.7	8.8
Florida	8.9	7.9	9.3	9.5	9.5	9.5	9.9	9.9	10.1	9.9	10.0
Georgia	8.7	9.3	10.3	10.5	10.4	10.0	9.9	10.1	10.2	10.2	10.3
Hawaii	10.7%	11.0%	12.1%	12.2%	12.4%	11.9%	12.0%	12.2%	12.4%	12.2%	12.4%
Idaho	9.8	8.8	10.2	11.0	10.6	10.1	10.3	10.4	10.5	10.1	10.1
Illinois	10.2	9.7	10.2	10.1	10.3	10.2	10.1	10.5	10.8	10.7	10.8
Indiana	9.7	8.4	9.8	10.0	10.2	10.1	10.1	10.2	10.6	10.6	10.7
Iowa	10.9	10.2	11.0	10.8	10.9	10.4	10.4	10.4	10.9	10.8	11.0
Kansas	10.1%	9.4%	10.2%	10.5%	10.5%	10.6%	10.8%	11.0%	11.1%	11.0%	11.2%
Kentucky	9.0	8.5	9.9	10.3	10.5	10.3	10.2	10.2	10.5	10.7	10.9
Louisiana	8.4	8.1	9.4	10.5	10.5	10.4	10.4	10.4	12.3	10.8	11.0
Maine	10.9	10.5	11.6	13.2	13.2	13.0	12.8	13.0	13.6	13.7	14.0
Maryland	10.1	9.9	10.2	10.5	10.6	10.3	10.4	10.5	10.7	10.7	10.8
Massachusetts	10.5%	11.3%	10.3%	10.3%	10.2%	9.8%	10.0%	10.2%	10.5%	10.5%	10.6%
Michigan	10.2	9.9	10.5	10.3	10.2	10.1	10.1	10.4	10.8	11.0	11.2
Minnesota	10.6	10.3	11.6	11.6	11.6	11.2	10.9	10.8	11.2	11.4	11.5
Mississippi	10.4	9.1	9.7	10.5	10.4	10.2	10.1	10.1	10.4	10.3	10.5
Missouri	8.8	8.3	9.1	9.9	10.0	9.7	9.6	9.8	10.0	10.0	10.1
Montana	10.5%	10.0%	10.2%	10.1%	9.5%	9.4%	9.3%	9.6%	9.9%	9.7%	9.7%
Nebraska	10.5	10.5	10.7	11.0	11.1	11.3	11.3	11.5	11.9	11.8	11.9
Nevada	9.9	8.6	9.5	9.4	9.6	9.8	10.0	10.1	10.1	10.0	10.1
New Hampshire	8.7	7.4	8.6	7.8	7.9	8.1	8.3	8.1	8.0	8.0	8.0
New Jersey	9.0	9.4	10.5	10.5	10.6	10.5	10.7	10.9	11.2	11.2	11.6
New Mexico	10.2%	9.2%	10.5%	11.1%	10.4%	10.0%	10.0%	10.0%	10.1%	9.8%	9.8%
New York	12.5	13.3	13.5	12.9	13.0	13.0	13.3	13.5	14.0	13.7	13.8
North Carolina	8.9	9.1	9.6	10.0	10.1	10.0	10.1	10.2	10.5	10.7	11.0
North Dakota	11.5	10.0	9.5	10.1	10.0	9.8	9.3	9.7	9.7	9.8	9.9
Ohio	8.2	8.2	9.8	11.0	11.3	11.1	11.0	11.3	11.8	12.1	12.4
Oklahoma	8.1%	7.8%	9.5%	9.8%	9.6%	9.5%	9.3%	9.2%	9.3%	9.0%	9.0%
Oregon	9.8	9.7	11.1	10.0	9.7	9.4	9.6	9.7	10.0	9.9	10.0
Pennsylvania	8.8	9.2	9.3	10.0	10.1	10.0	10.1	10.3	10.7	10.6	10.8
Rhode Island	9.7	10.3	10.5	11.7	11.7	11.4	11.5	11.8	12.4	12.5	12.7
South Carolina	8.6	9.2	10.0	10.1	10.1	9.9	10.0	10.2	10.5	10.5	10.7
South Dakota	12.2%	10.4%	9.2%	9.4%	9.4%	9.4%	8.9%	8.7%	8.9%	8.9%	9.0%
Tennessee	8.7	8.1	8.3	8.3	8.3	8.2	8.3	8.4	8.5	8.4	8.5
Texas	8.0	7.7	9.7	9.1	9.4	9.5	9.4	9.4	9.4	9.1	9.3
Utah	10.5	10.0	10.7	11.3	11.0	10.6	10.7	10.9	11.1	10.7	10.7
Vermont	12.5	10.6	11.7	11.6	11.5	11.3	11.4	12.8	13.9	13.9	14.1
Virginia	9.0%	8.7%	9.7%	10.1%	9.9%	9.7%	9.7%	9.9%	10.2%	10.1%	10.2%
Washington	10.6	9.4	11.4	10.5	10.6	10.4	10.4	10.4	11.0	10.9	11.1
West Virginia	9.7	10.0	10.0	10.7	10.6	10.3	10.4	10.5	10.8	10.7	10.9
Wisconsin	12.0	10.5	11.9	12.1	11.9	11.7	11.7	11.8	12.1	12.2	12.3
Wyoming	11.1	11.3	10.0	9.9	10.3	10.3	9.7	9.7	10.0	9.5	9.5
District of Columbia	10.6%	13.3%	14.2%	13.4%	12.3%	12.1%	13.0%	13.4%	13.1%	12.6%	12.5%

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

In seven states, residents pay between 9 and 10 percent of income, ranging from North Dakota (9.9 percent) which ranks 39th highest, to Oklahoma (9.0 percent) which ranks 45th highest, with New Mexico, Montana, Wyoming, Texas and South Dakota in between.

Three states' taxpayers in the next tier pay even less, between 8.5 and 9.0 percent. Taxpayers in Alabama pay 8.8 percent, in Delaware 8.8 percent, and in Tennessee 8.5 percent, ranking as the 46th, 47th and 48th highest tax burdens.

Each of the two lowest-tax states is really in a category by itself. New Hampshire's residents pay only 8.0 percent of their income in taxes, and Alaska stands apart with the nation's lowest tax burden, 6.6 percent.

Table 3

State and Local Tax Burden Ranks
Selected Calendar Years 1970-2007

State	1970	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007
Alabama	46	40	47	45	46	46	46	46	46	46	46
Alaska	6	22	49	50	50	50	50	50	50	50	50
Arizona	11	12	5	25	21	18	20	19	24	30	31
Arkansas	45	38	44	23	23	22	29	15	14	13	13
California	7	24	25	10	9	13	14	13	11	11	12
Colorado	25	31	22	41	41	45	44	43	42	33	30
Connecticut	34	37	32	9	13	10	8	8	9	8	8
Delaware	50	34	50	48	48	49	49	48	47	47	47
Florida	36	47	41	42	43	39	35	35	36	38	38
Georgia	41	27	17	17	24	31	34	32	32	31	32
Hawaii	12	4	2	3	3	3	3	4	5	5	6
Idaho	28	35	21	12	14	28	21	21	30	34	35
Illinois	21	21	23	30	27	25	23	17	19	24	22
Indiana	30	42	31	35	29	27	26	27	25	26	25
Iowa	10	13	10	15	12	15	15	23	18	17	18
Kansas	23	26	19	22	19	11	11	10	15	14	15
Kentucky	32	41	29	28	22	20	22	28	28	22	20
Louisiana	44	46	40	18	20	16	16	20	6	18	17
Maine	9	6	6	1	1	2	2	2	3	2	2
Maryland	24	18	20	19	16	19	19	18	22	21	23
Massachusetts	17	2	18	27	31	35	32	29	27	28	28
Michigan	22	19	16	26	30	26	24	24	21	15	14
Minnesota	13	10	7	6	6	8	10	14	12	10	11
Mississippi	19	32	34	21	25	24	27	31	31	29	29
Missouri	39	43	45	38	36	37	39	37	37	35	34
Montana	16	16	24	32	42	43	41	41	40	41	41
Nebraska	18	8	12	13	10	6	7	7	8	9	9
Nevada	26	39	38	44	40	36	31	33	35	36	36
New Hampshire	42	50	46	49	49	48	48	49	49	49	49
New Jersey	33	23	14	24	15	14	13	11	13	12	10
New Mexico	20	28	13	11	26	29	33	34	34	40	40
New York	2	1	1	2	2	1	1	1	1	3	3
North Carolina	37	33	36	36	33	30	28	30	29	20	19
North Dakota	5	17	39	29	35	34	42	40	41	39	39
Ohio	47	44	30	14	8	9	9	9	10	7	5
Oklahoma	48	48	37	40	39	41	43	44	44	44	45
Oregon	27	20	9	34	38	42	38	38	38	37	37
Pennsylvania	38	29	42	37	32	32	25	25	23	25	24
Rhode Island	31	11	15	5	5	5	5	5	4	4	4
South Carolina	43	30	27	31	34	33	30	26	26	27	26
South Dakota	3	9	43	43	45	44	45	45	45	45	44
Tennessee	40	45	48	47	47	47	47	47	48	48	48
Texas	49	49	33	46	44	40	40	42	43	43	43
Utah	15	14	11	8	11	12	12	12	16	23	27
Vermont	1	5	4	7	7	7	6	3	2	1	1
Virginia	35	36	35	33	37	38	37	36	33	32	33
Washington	14	25	8	20	17	17	17	22	17	16	16
West Virginia	29	15	26	16	18	21	18	16	20	19	21
Wisconsin	4	7	3	4	4	4	4	6	7	6	7
Wyoming	8	3	28	39	28	23	36	39	39	42	42

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

Explaining 2007's Ranking and the Movement of Recent Years

Although the exact reasons for each state's rising or falling tax burden are not evident in the tax and income data, we can make some reasonable observations based on economic conditions, recent legislative actions at the state level and the trends in property taxes at the local and state levels. Tables 2, 3 and 4 show how each state's tax burden and ranking has changed over time.

Table 4

State-Local Tax Burden Rank Changes 1970 to 2007 and 2000 to 2007

State	Rank Change 1970-2007	Rank Change 2000-2007
Alabama	0	-1
Alaska	-44	0
Arizona	-20	-6
Arkansas	32	10
California	-5	-2
Colorado	-5	11
Connecticut	26	1
Delaware	3	1
Florida	-2	4
Georgia	9	-15
Hawaii	6	-3
Idaho	-7	-23
Illinois	-1	8
Indiana	5	10
Iowa	-8	-3
Kansas	8	7
Kentucky	12	8
Louisiana	27	1
Maine	7	-1
Maryland	1	-4
Massachusetts	-11	-1
Michigan	8	12
Minnesota	2	-5
Mississippi	-10	-8
Missouri	5	4
Montana	-25	-9
Nebraska	9	4
Nevada	-10	8
New Hampshire	-7	0
New Jersey	23	14
New Mexico	-20	-29
New York	-1	-1
North Carolina	18	17
North Dakota	-34	-10
Ohio	42	9
Oklahoma	3	-5
Oregon	-10	-3
Pennsylvania	14	13
Rhode Island	27	1
South Carolina	17	5
South Dakota	-41	-1
Tennessee	-8	-1
Texas	6	3
Utah	-12	-19
Vermont	0	6
Virginia	2	0
Washington	-2	4
West Virginia	8	-5
Wisconsin	-3	-3
Wyoming	-34	-3

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

States with the Highest State-Local Tax Burdens

Vermont's taxpayers are the most heavily taxed in the nation at the state-local level for the second consecutive year. Property taxes are certainly one of the culprits. Ten years ago a court ruled that the state funding of public education with local property taxes was unconstitutional. In response, Vermont's Act 60 abolished the portion of local property taxes that funded education, instituting a heftier property tax statewide to replace it. For six years both state and local property taxes rose rapidly, which led to the passage in 2003 of Act 68. It split the state property tax into two categories, homesteads and non-residential property, so that a higher rate could be levied on non-residential property, and it also increased the state's general sales tax rate from 5 percent to 6 percent. Vermont also has the type of multiple-rate personal income tax that extracts suddenly larger fractions of income when incomes are growing.

Maine taxpayers have recently tried but come up short in efforts to get spending and taxes under control despite popular initiatives and a welter of public finance studies. Its tax rates remain uncompetitively high in most areas.

New York's most significant tax action in the last couple years was allowing two temporary income tax rates to expire on schedule, rates that had taxed incomes over $100,000 at 7.375 percent and incomes over $500,000 at 7.7 percent. At the local level, many New York counties levy unusually high sales taxes, between 3 and 5 percent. Also, the latest Census property tax collection data and surveys show New York counties extracting some of the highest property tax payments in the country.

Rhode Island's income tax is as steeply progressive as the federal code, and absent legislative action, the tax burden will almost always increase rapidly during the sort of good economic times that have prevailed in the U.S. since mid-2003. Since 1970, Rhode Island's state-local tax burden has gone from below average to one of the highest, rising 27 places in the ranking.

Ohio taxpayers have seen their tax burden rise substantially since 1970, when only three states taxed less. It rose 33 places in the ranking between 1970 and 2000, and then another 9 places since 2000. This year only four states' taxpayers pay more. In 2005 the state enacted a massive re-organization of its tax system that is phasing in over several years. It lowers individual income tax rates by 21 percent and replaces the corporate income tax with a gross receipts tax, with effects as yet uncertain for the state's economy and tax burden.

Since 1970 Wisconsin taxpayers have paid a comparatively high state-local tax burden, never ranking out of the top ten. However, since 2000 Wisconsin has fallen three places in the ranking as taxpayers in states such as neighboring Ohio have started paying more.

New Jersey broke into the top ten in 2007, probably because of a massive tax hike passed in July 2006. The legislation raised the general sales tax from 6 to 7 percent, increased cigarette taxes and imposed a 4-percent surtax on the corporate income tax. Half of the revenue from the sales tax increase, about $600 million, was slated for property tax relief.

States with the Lowest State-Local Tax Burdens

Alaskans not only pay no state-level tax on income; they actually get checks at tax time from a reserve fund of billions in oil tax revenue. There's also no state-level general sales tax in Alaska, but it does have a special, prodigious source of revenue: severance taxes on oil extraction. Of course, the burden of Alaska's taxes on oil extraction do not fall mostly on Alaskans but on the consumers of gasoline and heating oil, as well as on all the oil company employees and investors. See Methodology for a description of how those Alaskan oil taxes are counted.

With no special source of revenue, New Hampshire taxes neither general sales nor wages. Oddly, New Hampshire is sandwiched between the two highest-taxed states in the country—Vermont and Maine.

Tennessee, Delaware and Alabama usually rank among the lowest-tax states. Tennessee has no tax on wages, Delaware no sales tax and Alabama an unusually strict constitutional restraint on local taxation.

Other States That Have Moved Rapidly in the Ranking

Climbing more than 20 places in the ranking over the 1970-to-2007 period were Arkansas (32 places from 45th highest to 13th highest), Louisiana (27 places from 44th highest to 17th highest) and Connecticut (26 places from 34th highest to 8th highest). In contrast, Arizona's tax burden fell 20 places from 11th to 31st.[1]

Between 2000 and 2007 seven states' tax burdens increased ten or more places in the ranking: North Carolina (17 places from 36th highest to 19th highest), New Jersey (14 places from 24th to 10th), Pennsylvania (13 places from 37th to 24th), Michigan (12 places from 26th to 14th), Colorado (11 places from 41st to 30th), Indiana (10 places from 35th to 25th) and Arkansas (10 places from 23rd to 13th). Illinois (30th to 22nd), Kentucky (28th to 20th) and Nevada (44th to 36th) all increased eight places in the ranking since 2000.

North Carolina's jump of 17 places in seven years is especially startling. The likely culprit is the "temporary" increase in both its individual income and sales taxes. Expiration dates have long passed since enactment in 2001, and both taxes raise large amounts of revenue. Despairing of expiration, the state has now scheduled smaller decreases in both taxes for 2007 and 2008.

Five states' tax burdens dropped more than 10 spots in the same time span. New Mexico led the way, dropping 29 places from 11th highest to 40th highest. Idaho fell 23 spots from 12th to 35th, Utah 19 places from 8th to 27th, Georgia 15 places from 17th to 32nd, and North Dakota fell 10 from 29th to 39th.[2]

1 Alaska's, Montana's, New Mexico's, North Dakota's, South Dakota's, and Wyoming's tax burdens fell more than 20 ranks as well. This was mainly due to their ability to export their severance tax liability to taxpayers across the country as oil and other resources' prices rose and severance taxes became a larger portion of their tax collections.

2 See Methodology to learn more about why rankings for past years released previously might differ from the rankings detailed in this year's report.

Changes in State Tax Rates During 2006

Other clues to why various states' tax burdens in 2007 have grown or shrunk may be gleaned from a round-up of tax action from last year. Overall, a growing economy helped keep taxes from rising in 2006, as few states made changes to their tax rates.

Individual Income Taxes

- Arizona reduced rates at each of its five brackets. The top rate fell from 5.04 percent to 4.79 percent.
- New Mexico lowered it top rate from 5.7 percent to 5.3 percent.
- New York allowed for the expiration of two temporary top rates of 7.7 percent and 7.375 percent on income over $500,000 and $100,000 respectively. The top rate now rests at 6.85 percent on income over $20,000.
- Ohio continued to phase down its rates on all of its nine brackets. The top rate is now 6.87 percent over $200,000. Rates for all brackets will continue to fall until 2010.
- The District of Columbia lowered all three of its rates and the top rate is now 8.7 percent over $40,000.

Corporate Income Taxes

- Connecticut instituted a one-year surcharge of 20 percent on tax liability.
- Texas instituted a gross receipts tax, called the Margins Tax, to replace the Corporate Franchise Tax.
- Vermont lowered rates on all four bracket levels. The top rate fell from 9.75 percent to 8.9 percent.

Sales Tax Rates

Three states increased sales taxes in 2006, and all did so by promising lower property tax bills.

- New Jersey increased its sales tax from 6 percent to 7 percent in the face of a government shutdown due to budgetary shortfalls. Half of the $1.2 billion is slated for property tax relief.
- Idaho increased its sales tax from 5 percent to 6 percent as part of a tax swap as well.
- South Carolina increased its sales tax from 5 percent to 6 percent effective July 1, 2007. Much of the revenue is earmarked to lower property taxes.
- North Carolina allowed half of a temporary 0.5 percent tax increase to expire. The rate went from 4.5 percent to 4.25 percent.

Excise Tax Rates

A favorite revenue-enhancing tool of states in recent years has been to raise excise taxes. States refrained from tax increases on gas and alcoholic beverages in 2006, but cigarettes were a popular target as nine states raised the tax.

- Alaska raised its cigarette tax from $1.60 to $1.80 per pack of 20.
- Arizona's tax went from $1.18 to $2.00 per pack of 20.
- Hawaii's tax went from $1.40 to $1.60 per pack of 20 and will continue to increase until 2011 when it is scheduled to reach $2.60.
- Minnesota increased its tax from $1.23 to $1.493 per pack of 20. This includes the $0.75 per pack health care "fee."
- New Jersey's went from $2.40 to $2.575.
- North Carolina's increased from $0.30 to $0.35.
- South Dakota increased its rate $1.00 from $0.53 to $1.53 per pack of 20.
- Texas also increased its tax $1.00 from $0.41 to $1.41.
- Vermont's tax increased from $1.19 to $1.79 and will increase another $0.20 on July 1, 2007.

Tax Burdens by Geographical Region

Different regions of the country often get a reputation as high-tax or low-tax, and sometimes that reputation is deserved, sometimes not. Figure 3 combines the state-local tax burdens of each state into regional averages. The eight regions are defined by the Bureau of Economic Analysis.

Perhaps better known as the mid-Atlantic, the Mideast states have the highest tax burden, followed by the Great Lakes, New England, the Far West, the Plains, the Rocky Mountains, the Southeast and Southwest.

The Mideast (12.2 percent) can point to New York and New Jersey and the District of Columbia for the dubious distinction of highest-taxed region. New York's massive economy and tax burden outweigh the middle-of-the-road tax burdens in Maryland and Pennsylvania, and the low tax burden in Delaware.

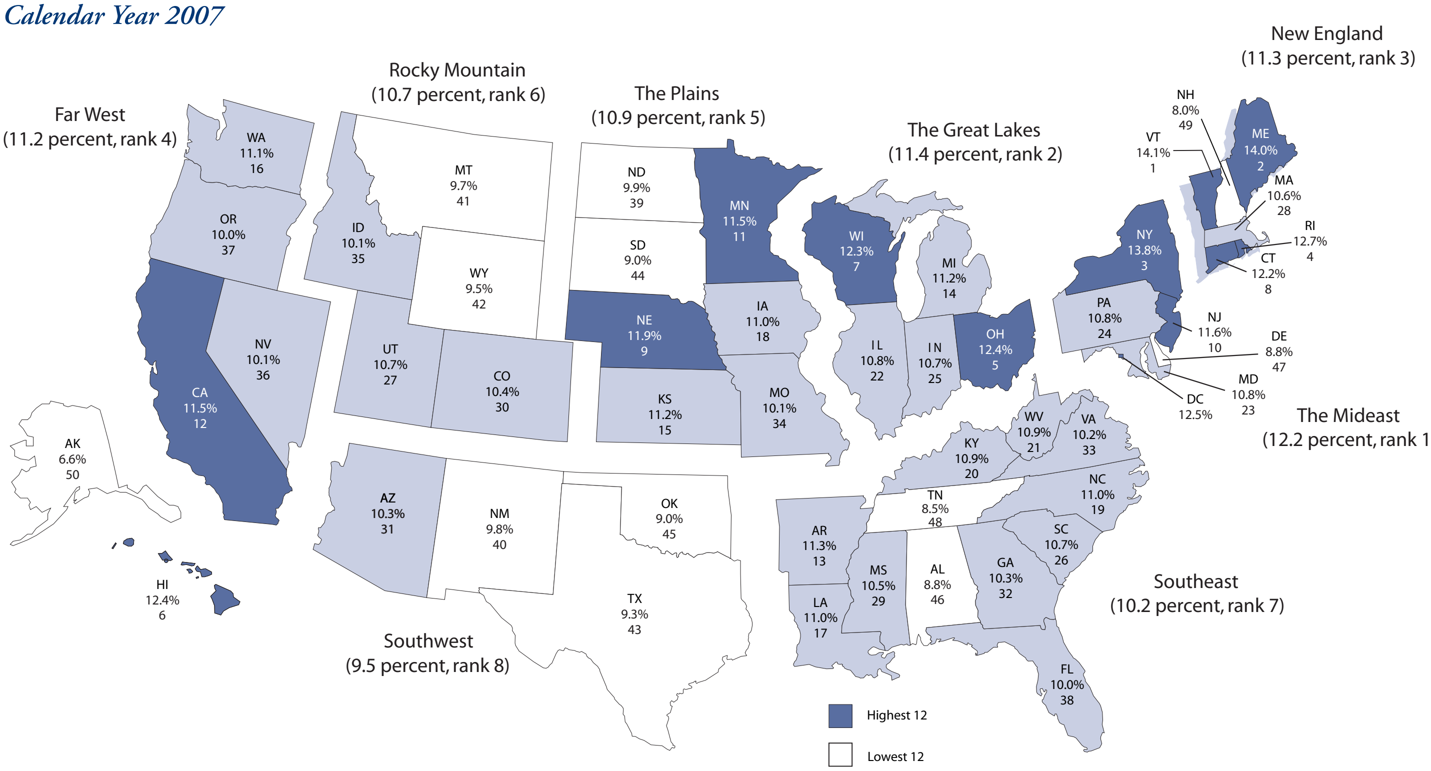
The Great Lakes (11.4 percent) has three high-tax states in Ohio (5th), Wisconsin (7th) and Michigan (14th), and these states outweigh the average tax burdens in Illinois and Indiana—22nd and 25th respectively—giving the Great Lakes region the second highest regional burden.

Typically, New England (11.3 percent) is thought to be the highest-taxed region, and its biggest state economy, Massachusetts, once famously acquired the nickname Taxachusetts. Now the moderate tax burden in Massachusetts teams with the low burden in New Hampshire to prevent New England from being an especially high-tax region, despite the huge tax burdens in four smaller states—Vermont, Maine, Rhode Island and Connecticut.

Although the Far West (11.2 percent) includes three of the highest-taxed states—Washington (16th), California (12th) and Hawaii (6th)—its regional burden is only fourth highest because of low-tax states Alaska (50th), Nevada (36th) and Oregon (37th).

The Plains (10.9 percent) has the fifth highest tax burden. The seven-state region has four states with fairly high state-local tax burdens: Iowa (18th), Kansas (15th), Minnesota (11th) and Nebraska (9th). But the three low-tax states South Dakota (44th), North Dakota (39th) and Missouri (34th) keep the region's burden low.

Figure 3
Regional State-Local Tax Burdens by Rank
Calendar Year 2007



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

In the Rocky Mountain region (10.7 percent), Utah is the only state with a tax burden near the average (27th). The region has two of the lowest-taxed states, Montana (41st) and Wyoming (42nd), in addition to Idaho (35th) and Colorado (30th) which also have below-average tax burdens.

The Southeast (10.2 percent) has the next-to-lowest regional burden. It is home to traditionally low-tax states like Alabama (46th), Georgia (32nd), Tennessee (48th), Virginia (33rd) and Florida (38th). Arkansas (13th) and North Carolina (19th) are the outliers in the region.

The lowest regional tax burden is in the Southwest (9.5 percent). Arizona has the highest tax burden in the region, yet ranks 31st highest. The rest of the states score in the bottom ten.

Methodology

The Tax Foundation's state-local burden series, published annually since 1990 and using historical data to calculate back to 1970, is one of the most widely cited measures of taxation. The calculations use the latest and most authoritative government data, and they include all state and local taxes.

The Tax Foundation series always calculates burdens as a percentage of income. That is because it can be deceptive to make interstate comparisons in dollar amounts. For example, a $4,000 tax burden in Connecticut, where per-capita income is $55,536, would be one of the lowest tax burdens. However, in Mississippi where per-capita income is just over half as high, $29,582, that same $4,000 tax burden would be one of the nation's highest.

Comparisons to Census Data

A common source of confusion among users of state tax rankings is the difference between *tax collections*, for which the Census Bureau is the usual source, and *tax burdens*, such as those calculated in this report. While the two measures are related, there are substantial differences between them that lawmakers, journalists and taxpayers need to be aware of.

The most important difference is that the tax burdens measure what economists call "economic incidence" while the Census Bureau figures measure what is called "legal incidence." The legal incidence of taxes is borne by those with the legal obligation to remit tax payments to state and local governments. Legal incidence is established by law and specifies which individuals or companies are legally responsible to remit tax payments to state and local authorities.

As a result, the focus of the Census Bureau's state and local tax collection data is the tax collector: how much each state and locality collects, no matter where that taxpayer lives. Tax Foundation tax burdens are focused on the taxpayer, making all the adjustments possible to show how high taxes are for the residents of each state, no matter which state or locality collected the money.

For some states, the difference between legal and economic incidence can be large. Alaska provides the best example. According to the Census Bureau, Alaska's state and local tax collections are among the nation's highest. However, many oil companies are located in Alaska and the state levies high severance taxes on them. The legal incidence of these taxes is counted in Alaska by the Census Bureau because they are collected there. But the economic incidence of these taxes falls on individuals across the country when they fill up their gas tanks or heat their homes, not to mention employees of the companies and the companies' shareholders.

Therefore, to correctly portray how low the residents of Alaska's tax burden is, we allocate Alaska's oil severance tax to other U.S. states based on oil and gas consumption, providing a much more accurate measure of the economic incidence of these taxes. Once the economic incidence is accounted for, Alaska's tax burden falls from among the nation's highest to 50th place in the rankings, the nation's lowest burden. Taxes levied on oil and mining companies in other mining-dependent states have similar but less dramatic effects.

In addition to severance taxes on mineral extraction, the tax burdens also allocate corporate income taxes and tourism taxes away from the state of collection to the state of the taxpayers' residences. Corporate income taxes are allocated based on each state's total personal income, output and income from investments.

In this area, Delaware is found to collect the largest share of non-resident taxes. Many corporations are headquartered there, but the burden of those corporate tax payments remitted to the State of Delaware is actually borne by people across the country.

Table 5

State and Local Tax Incidence Results by State ($Millions of Dollars and as a Percentage of Total Tax Collections)
Calendar Year 2007

	Tax Incidence Imported/ (Exported) $Millions	Percentage of Total Tax Collections Imported/ (Exported)
Alabama	$352.3	2.53%
Alaska	(2,907.6)	-61.17
Arizona	451.6	2.02
Arkansas	235.7	2.43
California	(1,628.0)	-0.88
Colorado	$782.3	3.72%
Connecticut	430.7	1.84
Delaware	(834.0)	-20.23
Florida	2,602.1	3.70
Georgia	1,443.1	4.36
Hawaii	$14.5	0.22%
Idaho	165.2	3.40
Illinois	553.5	0.94
Indiana	497.7	2.06
Iowa	556.3	4.77
Kansas	$217.9	1.85%
Kentucky	(305.9)	-1.99
Louisiana	(707.6)	-4.16
Maine	116.8	1.77
Maryland	624.9	2.11
Massachusetts	$294.9	0.85%
Michigan	(151.0)	-0.35
Minnesota	250.9	0.98
Mississippi	(77.7)	-0.85
Missouri	1,127.3	5.50
Montana	($102.6)	-3.12%
Nebraska	244.9	3.12
Nevada	181.7	1.74
New Hampshire	(301.0)	-6.07
New Jersey	(708.7)	-1.33
New Mexico	($745.4)	-10.41%
New York	(1,403.0)	-1.10
North Carolina	113.8	0.32
North Dakota	(256.3)	-10.03
Ohio	270.3	0.51
Oklahoma	($313.6)	-2.61%
Oregon	531.8	3.94
Pennsylvania	161.6	0.30
Rhode Island	123.3	2.22
South Carolina	588.7	3.98
South Dakota	170.6	6.74%
Tennessee	(373.6)	-1.97
Texas	(4,662.5)	-5.23
Utah	236.8	2.71
Vermont	55.3	1.66
Virginia	$1,519.9	4.61%
Washington	1,729.2	6.16
West Virginia	(735.4)	-10.63
Wisconsin	435.9	1.67
Wyoming	(807.1)	-26.42
District of Columbia	($60.4)	-1.30%

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

The incidence of tourism taxes is determined using data on the size of each state's tourism industry and the amount of taxes paid by out-of-state visitors. Nevada, California and Florida collect the most from non-residents in hotel taxes, rental car taxes and other tourism-related taxes. Those tax payments are shifted back from these tourist destinations to the home states of the tourists.

Table 5 shows how much of their tax burden each state either imports or exports based on the economic incidence analysis. A negative number means it exports its tax burden, like Alaska, and a positive number means it imports other states taxes, like Alabama. See *Tax Foundation Fiscal Fact,* No. 59: "Economic vs. Legal Incidence: Comparing Census Bureau Figures with Tax Foundation Burdens."

There are two other differences between Census Bureau data and Tax Foundation burden estimates. First, the Census Bureau data is typically released after a significant time lag—sometimes more than two years. The tax burdens are forecasted up to the current year in order to provide policy makers the most current estimates of their tax burdens. Secondly, the tax burdens are based on the regular calendar year, the time frame most individuals associate with their tax burden, while Census figures are based on fiscal years.

Why Revise Previous Years' Burdens and Rankings?

Careful observers of Tax Foundation burden rankings will notice that we have revised our estimates of previous years' burdens using the newest government reports of income and taxes.

The state-local tax burdens are calculated with data from the Census Bureau and the Bureau of Economic Analysis' (BEA) National Income and Product Accounts (NIPA). The Census Bureau releases new data on state and local tax collections each year, and the new data is used to make the burden estimates more accurate. The BEA updates data on tax collections and income several times through-out the year. Tax burden calculations reflect the most recent data available at the time of release, and past data is updated to reflect revisions in NIPA data.

The state-local burdens are tightly distributed; therefore even minor revisions can cause states to change several ranks. Therefore, even relatively small changes in the underlying data, taken from government sources such as the Bureau of Economic Analysis and the Census Bureau, routinely cause revisions that alter previous years' rankings.

For example, in April of 2006, the best available government data put Indiana's state-local tax burden at 11.0 percent of income. That ranked 12th highest. Due to revisions in the official government data on income and taxes, we now show Indiana's 2006 tax burden at 10.6 percent. This 0.4 percent revision results in a significant re-ranking, however, from 12th to 26th because so many states are clumped in the middle of the distribution.

The principal lesson for students of public finance at the state and local levels is that the newest data is always essential, even for studying years long past.

Implications for State Economies

Some policy analysts cite high tax burden estimates to prove that their states need to cut taxes, but sometimes a state is most in need of lower tax rates when the economy is in the doldrums, and at those times, the tax burden is usually falling as income shrinks.

Several authoritative studies support the view that modest tax burdens correlate positively with healthy economic development.[3] Also, data from the Bureau of Economic Analysis show that states with lower tax burdens in this study have faster rates of per capita income and output growth than states with higher tax burdens.[4]

For a more detailed description of the State and Local Tax Burden methodology please see *Tax Foundation Working Paper,* No. 4 at www.taxfoundation.org

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3 See Feldstein, Martin, "The Effects of Taxes on Efficiency and Growth," NBER Working Paper 12201, http://www.nber.org/papers/w12201, May 2006; Bartik, Timothy, "Small Business Start-Ups in the United States: Estimates of the Effects of Characteristics of States," *Southern Economic Journal, pp. 1004-1018,* April 1989; Desai, Mihir A., C. Fritz Foley and James R. Hines. "Taxation and Multinational Activity; New Evidence, New Interpretations." *Survey of Current Business* 86, no. 2 (February 2006): 16-22; and Hubbard, R. Glenn and W.M. Gentry, "'Success Taxes', Entrepreurial Entry, and Innovation," NBER Working Paper 10551, http://www.nber.org/papers/w10551, June 2004.

4 From 2000 to 2006, per-capita personal income in states with the 25 lowest tax burdens grew 25.3 percent but only 22.9 percent in the 25 highest-taxed states, a 2.3 percentage point difference. From 2000 to 2005, per-capita output growth exhibited similar patterns: output grew 3.2 percentage points faster in the 25 lowest-taxed states than in the 25 highest-taxed states—25.7 percent to 22.5 percent.