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State-Local Tax Burdens Dip As Income Growth Outpaces Tax Growth

New Jersey's Citizens Pay the Most, Alaska's Least

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Introduction

For 18 consecutive years the Tax Foundation has published an estimate of the combined state-local tax burden shouldered by the residents of each of the 50 states. For each state, we calculate the total amount paid by the residents in taxes, and we divide those taxes by the total income in each state to compute a "tax burden" measure.

We make this calculation not only for the most recent year but also for earlier years because tax and income data are revised periodically by government agencies, and in the case of the current report, we have changed our own methodology to take advantage of new datasets.

The goal is to focus not on the tax collectors but on the taxpayers. That is, we answer the question: What percentage of their income are the residents of this state paying in state and local taxes? We are not trying to answer the question: How much money have state and local governments collected? The Census Bureau publishes the definitive comparative data answering that question.

Here are some examples of the difference between collections (focusing on the tax collector) and burdens (focusing on the taxpayer).

- When Connecticut residents work in New York City and pay income tax there to both the state and the city, the Census Bureau will duly tally those amounts as New York tax collections, but we will count them as part of the tax burden of Connecticut's residents.
- When Illinois and Massachusetts residents own second homes in nearby Wisconsin or Maine, local governments in Wisconsin and Maine will tally those property tax collections, but we will shift those payments back to the states of the taxpayers.
- When people all over the country vacation in Disney World or Las Vegas, tax collec-

Key Findings

- *The true measure of the tax burden in any state must include the taxes paid by residents to other states. Much larger than commonly supposed, those payments are included in this study of how much each state's residents pay in state-local taxes.*
- *Tax burdens are down from 9.9 percent of income in 2007 to 9.7 percent in 2008, mostly because income growth outpaced tax growth as the macroeconomy slowed.*
- *In 2008, the residents of New Jersey pay the most, 11.8 percent of their income. New York and Connecticut are the only other states where residents pay more than 11 percent, compared to a national average of 9.7 percent. Maryland and Hawaii round out the top five.*
- *Alaskans pay the least, 6.4 percent in 2008, Nevadans pay 6.6 percent, and residents of Wyoming, Florida, New Hampshire and South Dakota pay between 7 and 8 percent of their income in state-local taxes.*

Table 1

State and Local Tax Burdens by Rank
Fiscal Year 2008

State	State-Local Tax Burden	Rank
US average	9.7%	–
New Jersey	11.8%	1
New York	11.7	2
Connecticut	11.1	3
Maryland	10.8	4
Hawaii	10.6	5
California	10.5%	6
Ohio	10.4	7
Vermont	10.3	8
Wisconsin	10.2	9
Rhode Island	10.2	10
Pennsylvania	10.2%	11
Minnesota	10.2	12
Idaho	10.1	13
Arkansas	10.0	14
Maine	10.0	15
Georgia	9.9%	16
Nebraska	9.8	17
Virginia	9.8	18
Oklahoma	9.8	19
North Carolina	9.8	20
Kansas	9.6%	21
Utah	9.6	22
Massachusetts	9.5	23
Delaware	9.5	24
Kentucky	9.4	25
Oregon	9.4%	26
Michigan	9.4	27
Indiana	9.4	28
West Virginia	9.3	29
Illinois	9.3	30
Iowa	9.3%	31
Missouri	9.2	32
North Dakota	9.2	33
Colorado	9.0	34
Washington	8.9	35
Mississippi	8.9%	36
South Carolina	8.8	37
Alabama	8.6	38
New Mexico	8.6	39
Montana	8.6	40
Arizona	8.5%	41
Louisiana	8.4	42
Texas	8.4	43
Tennessee	8.3	44
South Dakota	7.9	45
New Hampshire	7.6%	46
Florida	7.4	47
Wyoming	7.0	48
Nevada	6.6	49
Alaska	6.4	50
Dist. of Columbia	10.3%	(8)

Notes: Fiscal Year 2008 figures are advanced estimates. As a unique state-local entity, D.C. is not included in rankings, but the figure in parentheses shows where it would rank.
Sources: Tax Foundation calculations using data from multiple sources, primarily Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.

tors will tally the receipts from lodging, rental car, restaurant and general sales taxes in Florida and Nevada, but we will use economic tools to tally those payments in the states where the vacationers live.

Every state's economic activity is different, as is every state's tax code. As a result, they vary in their ability to "export their tax burden," that is, to collect revenue from non-residents. Economists have been studying this phenomenon since at least the 1960s when Charles McLure (1967) estimated that states were extracting between 15 and 35 percent of their tax revenue from non-residents.

In 2008, the residents of three states stand above the rest, paying the highest state-local tax burdens in the nation: New Jersey, New York and Connecticut. They're the only three states where taxpayers give up more than 11 percent of their income in state-local taxes, compared to a national average of 9.7 percent.

Much of this interstate tax collecting occurs through no special effort by state and local legislators or tax collectors. Tourists spend as they travel, and all those transactions are taxed. People who own property out of state naturally pay property tax out of state. And the burden of business taxes is borne by the employees, shareholders and customers of those businesses, wherever they live.

However, many states have made a conscious effort for years to raise taxes on non-residents, and that effort seems to be accelerating. In fact, many campaigns for tax-raising legislation in the last several years have explicitly advertised the preponderance of non-voting, non-resident payers as a reason for resident voters to accept the tax.

This beggar-thy-neighbor effort has been mostly legislative, exemplified by a wave of tax hikes on tourism: hotel rooms, rental cars, restaurant meals, and local sales taxes in resort areas. States and localities have also enacted separate, higher tax rates for non-residents' property and income. The effort to soak non-residents has also been administrative, as departments of revenue have pursued non-resident income tax revenue from individuals and corporations with far more zeal than in years past.

In some cases the tax exporting is a wash from the tax collector's perspective. That is, a state collects about the same amount from non-residents as its own residents pay to out-of-state governments. But in many cases there's a significant difference.

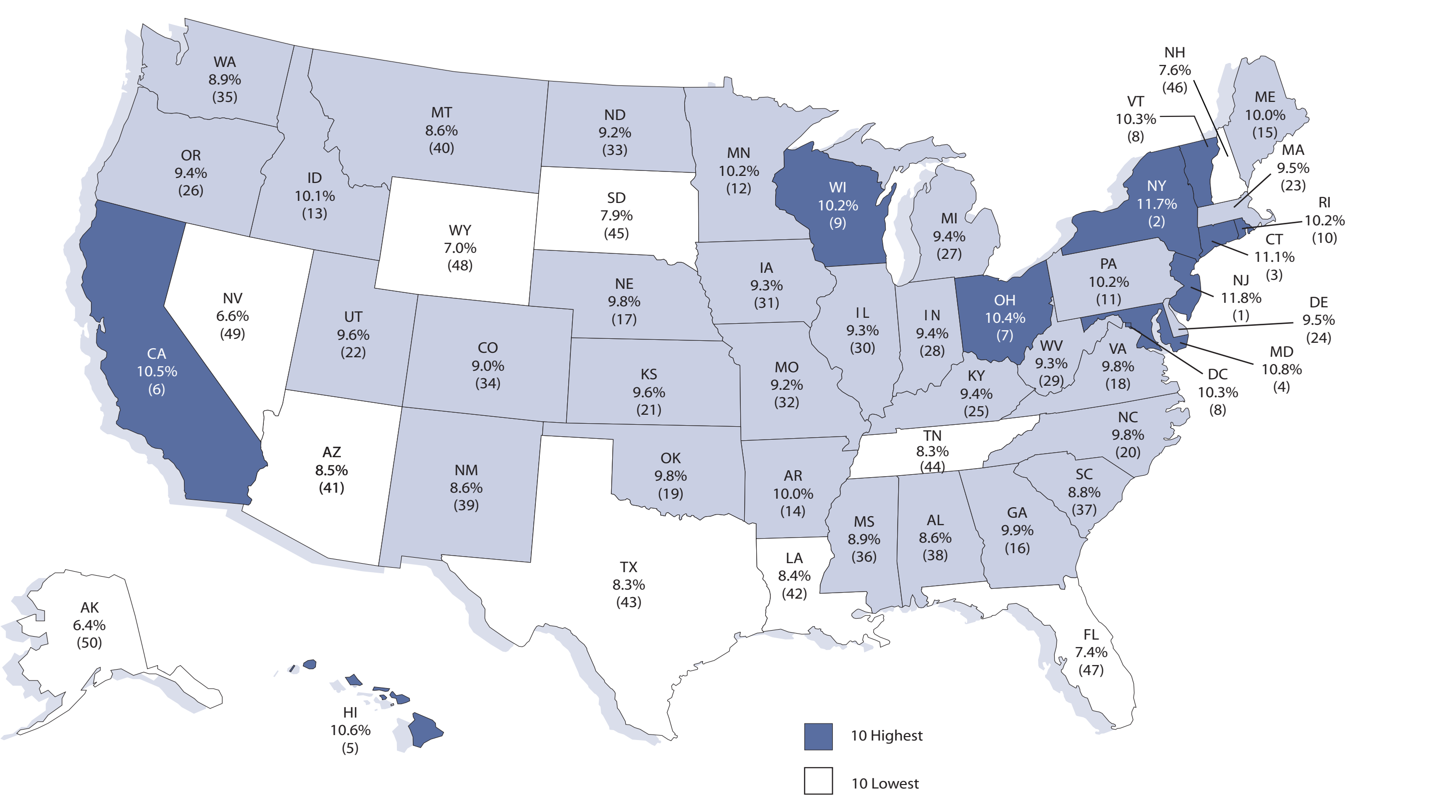
By tallying tax payments in the taxpayers' home states, this annual tax burden report allows policymakers, researchers, media, and citizens to go beyond a tally of collections to the question of which states' residents are most burdened by state and local taxes.

Ranking State-Local Tax Burdens

The 50 state-local tax burdens are mostly very close to each other. This is logical because state and local governments fund similar activities: public education, transportation, prison systems, health programs, etc, often under the same federal mandates. Also, in any state where the residents bear a tax burden dramatically higher than in similar, nearby states, the population of resident business and individual taxpayers in that high-tax state is likely to shrink. Even modest tax differentials cause out-migration according to many studies.

Therefore, it is not surprising to find 15 state-local tax burdens clumped in the middle of a tight distribution. Ranking from 17th highest (Nebraska) to 31st highest (Iowa), they vary only from 9.8 percent of income to 9.3 percent, hovering around the national average of 9.7 percent. Among these 15 states with

Table 1
State and Local Tax Burdens by Rank
Fiscal Year 2008



middling tax burdens, then, slight changes in taxes or income could translate into apparently dramatic shifts in rank. However, that still leaves the other 35 states where the tax burdens are significantly higher or lower than in much of the country.

Table 2

State and Local Tax Burdens Fiscal Year 2008

State	State-Local Tax Burden	Rank	Taxes Paid to Home State (per capita)	Taxes Paid to Other States (per capita)	Total Taxes Paid (per capita)	Income (per capita)	Income Rank
US average	9.7%	–	$ 2,924	$ 1,358	$ 4,283	$ 44,254	–
Alabama	8.6%	38	$ 1,977	$ 1,168	$ 3,144	$ 36,372	43
Alaska	6.4	50	1,433	1,438	2,871	44,872	18
Arizona	8.5	41	2,170	1,074	3,244	38,174	35
Arkansas	10.0	14	2,315	1,036	3,351	33,395	48
California	10.5	6	3,683	1,345	5,028	47,706	11
Colorado	9.0%	34	$ 2,684	$ 1,675	$ 4,359	$ 48,300	9
Connecticut	11.1	3	4,498	2,509	7,007	63,160	1
Delaware	9.5	24	2,364	1,889	4,253	44,889	17
Florida	7.4	47	2,384	1,057	3,441	46,293	15
Georgia	9.9	16	2,579	1,156	3,735	37,850	38
Hawaii	10.6%	5	$ 3,699	$ 1,221	$ 4,920	$ 46,512	14
Idaho	10.1	13	2,374	1,296	3,670	36,492	42
Illinois	9.3	30	2,948	1,398	4,346	46,693	13
Indiana	9.4	28	2,348	1,154	3,502	37,279	40
Iowa	9.3	31	2,263	1,327	3,589	38,636	32
Kansas	9.6%	21	$ 2,460	$ 1,451	$ 3,911	$ 40,784	24
Kentucky	9.4	25	2,201	1,042	3,243	34,339	47
Louisiana	8.4	42	2,093	1,193	3,286	39,116	29
Maine	10.0	15	2,701	1,135	3,835	38,309	34
Maryland	10.8	4	4,062	1,607	5,669	52,709	6
Massachusetts	9.5%	23	$ 3,609	$ 1,768	$ 5,377	$ 56,661	2
Michigan	9.4	27	2,536	1,158	3,694	39,273	28
Minnesota	10.2	12	3,328	1,360	4,688	46,106	16
Mississippi	8.9	36	1,773	1,061	2,834	31,836	50
Missouri	9.2	32	2,261	1,248	3,508	38,084	37
Montana	8.6%	40	$ 1,960	$ 1,199	$ 3,158	$ 36,793	41
Nebraska	9.8	17	2,611	1,371	3,983	40,499	25
Nevada	6.6	49	1,952	1,293	3,245	49,371	7
New Hampshire	7.6	46	1,824	1,818	3,642	48,033	10
New Jersey	11.8	1	4,376	2,234	6,610	56,116	3
New Mexico	8.6%	39	$ 2,051	$ 1,063	$ 3,114	$ 36,031	44
New York	11.7	2	4,845	1,573	6,419	55,032	4
North Carolina	9.8	20	2,597	1,066	3,663	37,508	39
North Dakota	9.2	33	2,167	1,470	3,637	39,612	26
Ohio	10.4	7	2,937	1,112	4,049	38,925	31
Oklahoma	9.8%	19	$ 2,280	$ 1,481	$ 3,761	$ 38,415	33
Oregon	9.4	26	2,538	1,181	3,719	39,444	27
Pennsylvania	10.2	11	3,054	1,409	4,463	43,796	20
Rhode Island	10.2	10	2,900	1,633	4,533	44,463	19
South Carolina	8.8	37	2,048	1,079	3,127	35,419	46
South Dakota	7.9%	45	$ 1,645	$ 1,434	$ 3,079	$ 39,103	30
Tennessee	8.3	44	1,779	1,382	3,160	38,090	36
Texas	8.4	43	2,082	1,498	3,580	42,796	21
Utah	9.6	22	2,305	1,140	3,446	35,971	45
Vermont	10.3	8	3,072	1,337	4,410	42,626	22
Virginia	9.8%	18	$ 3,281	$ 1,388	$ 4,669	$ 47,666	12
Washington	8.9	35	2,957	1,377	4,334	48,574	8
West Virginia	9.3	29	1,982	1,018	3,000	32,145	49
Wisconsin	10.2	9	3,047	1,147	4,194	40,953	23
Wyoming	7.0	48	1,925	1,788	3,714	53,163	5
Dist. of Columbia	10.3%	(8)	$ 4,344	$ 2,964	$ 7,308	$ 70,730	(1)

Notes: As a unique state-local entity, D.C. is not included in rankings, but the figure in parentheses shows where it would rank.

Sources: Tax Foundation calculations using data from multiple sources, primarily Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.

States Where Residents Bear the Lowest and Highest Tax Burdens

In 2008, the residents of three states stand above the rest, paying the highest state-local tax burdens in the nation: New Jersey, New York and Connecticut. They're the only three states where taxpayers give up more than 11 percent of their income in state-local taxes.

New Jersey residents are paying the most, 11.8 percent of their income in 2008. New York and Connecticut are next highest at 11.7 and 11.1 percent respectively. Maryland, Hawaii, California, Ohio, Vermont, Wisconsin and Rhode Island round out the list of ten states where residents pay the most in state-local taxes.

Alaskans pay the least, 6.4 percent in 2008, but Nevada is close at 6.6 percent. In four states – Wyoming, Florida, New Hampshire and South Dakota – the residents pay between 7 and 8 percent of their income in state-local taxes. Four other states round out the bottom ten: Tennessee, Texas, Louisiana and Arizona. See Table 1 and Figure 1.

Explaining Tax Burdens and "Exported" Taxes

Alaska is the only state where residents actually pay more to out-of-state governments than to their own. That's not because Alaskans pay so much to out-of-state governments; it's because they pay so little to their own. There's no state-level general sales tax in Alaska, and while in 43 states, the taxpayers are busy filing income tax returns in April, Alaskans are instead receiving checks from a reserve fund of billions built up from years of large severance taxes on oil extraction. Of course, the burden of Alaska's oil taxes does not fall mostly on Alaskans but rather on energy consumption nationwide.

Resource-rich states are only the most dramatic examples of tax exporting. The residents of all states pay surprisingly high shares of their total tax burden out of state. Major tourist destinations like Nevada and Florida are also states where residents pay almost as much to out-of-state governments as to their own. Even in high-tax Connecticut, residents pay an estimated $7,007 per capita in taxes in 2008, and of that $2,509 goes directly or indirectly to out-of-state governments.

Table 2 includes the per-capita dollar amounts of income and tax that are divided to compute the burden as well as the breakdown of in-state and out-of-state payments.

Tax burdens are down from 2007 to 2008, mostly because income growth outpaced tax growth as the macroeconomy slowed. The largest drops were in Florida, Utah and the District of Columbia where the taxpayers' burden dropped by 0.5 percentage points between 2007 and 2008. Most state residents' tax burdens inched down a couple tenths of a percent, mirroring the national average which dipped from 9.9 percent to 9.7 percent.

Despite the economic and tax downturn in 2008, New Jersey, New York and Connecticut remain at the top of the list for two principal reasons, high spending by the home state governments and high tax payments to out-of-state governments. The governments of New Jersey, New York, and Connecticut have established high levels of spending that require high taxes. Also, the residents of all three states have much higher capital incomes than the national average. As a result, when taxes on corporate profits are collected in other states, residents of Connecticut, New Jersey and New York bear some of the burden.

On the flip side, states where residents pay the least are those that have either committed themselves to frugality and efficiency or where the governments can collect large amounts from non-residents. New Hampshire, fifth lowest in tax burden, has no special revenue source from non-residents, but the citizens' approval of limited government spending has kept the tax burden low.

All four states where the tax burden is lower than New Hampshire's have an ability to extract substantial revenue from out of state, although some have a zeal for limited government as well. Alaska and Wyoming have taxes on oil and coal that produce substantial revenue from out-of-state consumers. Florida and Nevada have massive tourism industries that enable governments to collect much of their sales, hotel, restaurant and rental car tax revenue from visitors. There is no tax on wage income in any of these five states where taxpayers pay the least. Nevada and Wyoming also do without a corporate income tax; and Alaska and New Hampshire have no general state sales tax.

Alaskans pay the least, 6.4 percent in 2008, but Nevada is close at 6.6 percent. In four states – Wyoming, Florida, New Hampshire and South Dakota – the residents pay between 7 and 8 percent of their income in state-local taxes.

Not every state with an infusion of non-resident money uses it to lighten the tax load of its own residents. Maine and Vermont have the largest shares of vacation homes in the country, and they collect a large fraction of their property tax revenue on those properties, mostly from residents of Connecticut, Massachusetts and other New England states. Nevertheless, rank 8th and 15th highest in this burden study, and they maintain some of the highest statutory tax rates in the country. Sales taxes in the District of Columbia are another example, a large fraction of which are paid by Marylanders and Virginians who work in the nation's capital.[1]

Another major factor in a state's ability to foist its tax burden onto non-residents is the degree to which businesses initially pay the tax. When a business pays a tax, it first tries to pass that cost along in the price of its goods. In this study, we assume that it is able to, so that customers bear the burden of business taxes. In many cases, a substantial fraction of those customers are non-residents.

Finally, in some states, many people's jobs are out of state, and that's where they pay their state individual income taxes. Where a metropolis attracts workers from nearby states, a

1 The District of Columbia is prohibited by Congress from taxing the wages of nonresident commuters.

large portion of wage income in a state can be earned by border-crossing commuters. Some states have reciprocity agreements, saving each other the trouble and agreeing to tax their own residents no matter where they work, but in cases where the commuting is lopsided, states rarely pass up the chance to collect from non-residents.

Table 3

State and Local Tax Burdens by State Selected Fiscal Years 1977–2008

	1977	1980	1985	1990	1995	2000	2005	2006	2007	2008
US average	10.3%	9.5%	9.7%	9.9%	10.2%	9.5%	9.8%	9.9%	9.9%	9.7%
Alabama	8.9%	8.6%	8.8%	8.9%	8.8%	8.6%	8.6%	8.7%	8.8%	8.6%
Alaska	12.8	8.9	7.0	6.7	6.3	5.8	5.7	6.4	6.5	6.4
Arizona	10.4	9.4	9.3	9.5	9.5	8.7	8.9	8.8	8.7	8.5
Arkansas	9.7	9.2	9.3	9.3	9.8	9.6	10.1	10.2	10.3	10.0
California	11.6	10.1	10.1	10.4	10.7	10.5	10.5	10.8	10.8	10.5
Colorado	10.5%	9.6%	9.7%	9.9%	9.7%	9.1%	9.1%	9.4%	9.3%	9.0%
Connecticut	10.2	9.1	9.6	9.9	11.8	10.9	11.5	11.4	11.3	11.1
Delaware	9.7	9.3	9.1	8.6	9.0	8.5	9.5	9.9	9.7	9.5
Florida	8.4	7.7	7.8	8.1	8.6	7.9	8.0	8.0	7.9	7.4
Georgia	9.6	9.2	9.3	9.9	9.9	9.5	9.4	9.9	10.1	9.9
Hawaii	10.6%	10.7%	10.1%	10.8%	11.0%	10.3%	10.2%	10.4%	10.6%	10.6%
Idaho	10.8	9.8	10.2	11.0	10.9	10.4	10.3	10.0	10.2	10.1
Illinois	9.9	9.4	9.4	9.7	9.7	8.9	9.3	9.5	9.4	9.3
Indiana	9.4	8.3	9.2	9.3	9.4	8.9	9.2	9.4	9.5	9.4
Iowa	10.4	9.6	9.9	10.3	10.5	9.3	9.7	9.6	9.4	9.3
Kansas	9.8%	9.0%	9.2%	9.6%	9.9%	9.3%	9.9%	10.0%	9.9%	9.6%
Kentucky	10.0	9.2	9.4	9.6	10.5	9.8	9.8	9.7	9.6	9.4
Louisiana	7.9	7.6	8.2	8.1	8.1	8.3	8.2	9.6	8.7	8.4
Maine	9.6	9.4	9.8	10.3	10.4	10.3	11.0	10.8	10.3	10.0
Maryland	11.1	10.5	10.3	10.6	10.8	10.2	10.5	10.6	10.8	10.8
Massachusetts	11.4%	10.7%	9.9%	10.2%	10.6%	9.3%	9.9%	9.9%	9.8%	9.5%
Michigan	10.0	9.8	10.3	9.8	9.6	9.4	9.7	9.6	9.5	9.4
Minnesota	11.5	10.4	11.1	10.9	11.0	10.2	9.9	10.5	10.4	10.2
Mississippi	10.3	9.2	9.1	9.0	9.5	9.2	9.3	9.3	9.2	8.9
Missouri	9.3	8.8	8.7	9.2	9.7	9.2	9.5	9.5	9.4	9.2
Montana	10.4%	9.1%	9.1%	9.8%	9.5%	8.7%	8.8%	8.7%	8.6%	8.6%
Nebraska	10.9	10.0	9.6	10.1	10.2	9.4	10.4	10.2	10.1	9.8
Nevada	7.9	6.7	6.9	7.1	7.5	6.8	7.1	6.9	6.9	6.6
New Hampshire	8.7	7.8	7.7	8.2	8.8	7.3	7.8	7.8	7.7	7.6
New Jersey	11.1	10.1	10.1	10.5	11.5	10.4	11.4	11.8	11.9	11.8
New Mexico	8.7%	8.3%	8.2%	9.5%	9.5%	9.3%	9.0%	9.0%	8.8%	8.6%
New York	12.8	12.2	12.1	12.2	12.4	11.2	11.9	11.8	11.7	11.7
North Carolina	10.0	9.4	9.5	9.9	10.2	9.5	9.8	10.1	10.0	9.8
North Dakota	10.2	8.7	8.9	9.2	9.8	9.2	9.0	8.9	9.0	9.2
Ohio	8.7	8.2	9.3	9.6	10.2	9.9	10.3	10.5	10.5	10.4
Oklahoma	8.9%	8.6%	9.0%	9.8%	9.9%	9.7%	9.6%	9.8%	10.0%	9.8%
Oregon	11.0	10.2	10.7	10.6	10.4	9.6	9.6	9.9	9.6	9.4
Pennsylvania	10.2	9.8	9.8	9.8	10.4	9.6	10.3	10.4	10.3	10.2
Rhode Island	10.2	9.7	9.8	10.0	10.7	10.2	11.2	10.9	10.5	10.2
South Carolina	9.4	9.2	9.3	9.5	9.2	9.1	9.1	9.0	9.2	8.8
South Dakota	10.3%	9.2%	8.9%	8.9%	8.6%	7.8%	7.8%	7.8%	7.7%	7.9%
Tennessee	9.2	8.2	8.4	8.2	8.3	7.8	8.3	8.5	8.4	8.3
Texas	8.1	7.4	7.7	8.5	8.9	8.0	8.2	8.2	8.3	8.4
Utah	10.7	10.2	10.3	10.3	10.5	10.3	10.2	10.3	10.1	9.6
Vermont	11.0	9.6	9.8	10.0	10.0	9.5	10.5	10.9	10.6	10.3
Virginia	9.7%	9.2%	9.2%	9.4%	9.7%	9.4%	9.7%	9.7%	10.0%	9.8%
Washington	10.0	9.2	9.4	9.9	10.3	8.5	9.0	9.2	9.1	8.9
West Virginia	9.9	9.7	10.4	9.4	9.1	9.2	9.5	9.5	9.4	9.3
Wisconsin	11.9	10.7	11.3	11.1	11.4	10.9	10.7	10.7	10.4	10.2
Wyoming	9.1	8.3	8.8	7.7	7.3	6.9	6.6	7.3	7.0	7.0
Dist. of Columbia	10.9%	11.5%	11.3%	11.4%	11.1%	11.2%	10.9%	11.2%	10.8%	10.3%

Note: Fiscal Year 2008 figures are advanced estimates; FY 2007 figures are preliminary estimates.

Sources: Tax Foundation calculations using data primarily from Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.

Historical Trends

Some states' taxpayers are paying the same share of their income now as they were three decades ago, but some have paid steadily more and others less. The tax burden in every state changes as years pass for a variety of reasons, including changes in tax law, state economies and population, both in state and out of state.

Table 4

State-Local Tax Burden Rankings by State
Selected Fiscal Years 1977–2008

	1977	1980	1985	1990	1995	2000	2005	2006	2007	2008
Alabama	43	39	41	40	42	39	41	42	39	38
Alaska	2	36	49	50	50	50	50	50	50	50
Arizona	17	21	27	30	36	38	39	40	40	41
Arkansas	32	25	26	36	26	18	16	16	13	14
California	4	9	11	9	9	4	9	6	4	6
Colorado	15	19	19	20	28	34	34	34	33	34
Connecticut	24	33	20	17	2	3	2	3	3	3
Delaware	33	24	34	42	40	41	29	22	24	24
Florida	47	47	46	46	44	44	45	45	45	47
Georgia	36	28	30	19	25	19	30	20	16	16
Hawaii	14	4	12	5	5	7	14	12	7	5
Idaho	12	12	9	3	7	6	12	18	15	13
Illinois	30	20	24	26	31	35	31	32	30	30
Indiana	37	42	31	35	37	36	33	33	27	28
Iowa	16	18	14	10	13	28	22	28	31	31
Kansas	31	35	33	27	23	26	19	19	22	21
Kentucky	26	29	25	28	14	14	21	25	26	25
Louisiana	50	48	44	47	47	42	44	29	41	42
Maine	35	22	17	12	16	9	5	7	14	15
Maryland	8	5	6	7	8	12	7	9	5	4
Massachusetts	6	2	13	13	11	27	18	23	23	23
Michigan	27	14	8	23	32	24	24	27	28	27
Minnesota	5	6	3	4	6	11	17	11	11	12
Mississippi	19	30	36	39	34	29	32	35	35	36
Missouri	39	37	42	37	30	31	27	30	29	32
Montana	18	34	35	22	33	37	40	41	42	40
Nebraska	11	11	21	14	19	22	10	15	18	17
Nevada	49	50	50	49	48	49	48	49	49	49
New Hampshire	44	46	47	45	43	47	47	46	46	46
New Jersey	7	10	10	8	3	5	3	1	1	1
New Mexico	46	41	45	31	35	25	36	37	38	39
New York	1	1	1	1	1	1	1	2	2	2
North Carolina	28	23	22	21	21	20	20	17	19	20
North Dakota	21	38	38	38	27	30	37	39	37	33
Ohio	45	44	28	29	20	13	11	10	8	7
Oklahoma	42	40	37	25	24	15	25	24	20	19
Oregon	10	8	4	6	15	17	26	21	25	26
Pennsylvania	22	13	16	24	17	16	13	13	12	11
Rhode Island	23	15	15	16	10	10	4	5	9	10
South Carolina	38	31	29	32	38	33	35	38	34	37
South Dakota	20	27	39	41	45	46	46	47	47	45
Tennessee	40	45	43	44	46	45	42	43	43	44
Texas	48	49	48	43	41	43	43	44	44	43
Utah	13	7	7	11	12	8	15	14	17	22
Vermont	9	17	18	15	22	21	8	4	6	8
Virginia	34	32	32	33	29	23	23	26	21	18
Washington	25	26	23	18	18	40	38	36	36	35
West Virginia	29	16	5	34	39	32	28	31	32	29
Wisconsin	3	3	2	2	4	2	6	8	10	9
Wyoming	41	43	40	48	49	48	49	48	48	48
Dist. of Columbia	(11)	(2)	(2)	(2)	(5)	(1)	(6)	(4)	(4)	(8)

Note: Fiscal Year 2008 figures are advanced estimates; FY 2007 figures are preliminary estimates.
Sources: Tax Foundation calculations using data primarily from Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.

Similarly, the ranking is likely to change over time. See Tables 3 and 4.

States Where the Tax Burden Has Fallen

Once again, Alaska is the extreme example. Before the Trans-Alaska pipeline was finished in 1977, the taxpayers in Alaska ranked as bearing the second-highest tax burden in the country. By 1980, with oil tax revenue a certified bonanza, Alaska repealed its personal income tax and started sending out checks instead. The tax burden plummeted, and now Alaskans are the least taxed.

These are some of the other states where the burden rankings have dropped the most:

- From 1977 to the present, South Dakota's tax burden ranking has dropped 25 places from 20th highest to 45th, primarily by maintaining a zero rate on individual and corporate income.
- The tax burden ranking in Arizona has dropped 24 places from 17th highest to 41st, and the residents there now pay the tenth lowest tax burden. Most of the change came in the wake of a property tax limitation in 1980, and their ranking has changed little since.
- Montana has dropped 22 places, primarily by maintaining a zero rate on general sales.
- Colorado has dropped 19 places in the ranking over the last 30 years. It levies every major tax, but the rate on each is among the lowest in the country. Spending discipline in the form of a so-called TABOR (Taxpayer Bill of Rights) has helped the state keep tax rates low.
- Two politically liberal states have dropped sharply: Oregon and Massachusetts. Oregon has done so by never enacting a sales tax, dropping 16 ranks from 10th highest to 26th. Massachusetts has dropped 17 places by imposing a property tax limitation and keeping a lid on its personal income tax rate, living down its "Taxachusetts" nickname.

States Where the Tax Burden Has Risen

Ohio taxpayers have gone from one of the least taxed in the 1970s to one of the most heavily taxed now, climbing 38 places from 45th highest to 7th highest. The state is currently in the midst of a five-year tax makeover that lowers personal income tax rates and eventually repeals the regular corporate income tax. Meanwhile, a new gross receipts tax on business is phasing in. During the transition the state is levying both of the business taxes.

Other states where the taxpayers' burden ranks much higher than it used to:

Table 5

U.S. State and Local Tax Collections by Major Tax Source and Total Income Fiscal Years 2004 – 2008

Major Tax Sources	2004 Total	2005 Total	2005 Annual Increase	2006 Total	2006 Annual Increase	2007 Total	2007 Annual Increase	2008 Total	2008 Annual Increase
Property Taxes	$ 317.8 billion	$ 333.6 billion	5.0%	$ 356.7 billion	6.9%	$ 381.2 billion	6.9%	$ 397.3 billion	4.2%
Sales Taxes (General and Selective)	$ 360.1 billion	$ 383.4 billion	6.5%	$ 411.0 billion	7.2%	$ 428.8 billion	4.3%	$ 436.2 billion	1.7%
Individual Income Taxes	$ 216.3 billion	$ 241.7 billion	11.7%	$ 269.6 billion	11.5%	$ 290.3 billion	7.6%	$ 298.0 billion	2.7%
Corporate Income Taxes	$ 34.1 billion	$ 43.6 billion	27.9%	$ 53.3 billion	22.3%	$ 59.2 billion	10.9%	$ 55.3 billion	-6.6%
Total Taxes	$ 1,017.5 billion	$ 1,102.0 billion	8.3%	$ 1,200.0 billion	8.9%	$ 1,270.9 billion	5.9%	$ 1,301.3 billion	2.4%
Total Income	$ 10,381.7 billion	$ 11,253.3 billion	8.4%	$ 12,084.3 billion	7.4%	$ 12,853.2 billion	6.4%	$ 13,412.3 billion	4.4%

Note: The local portions of tax collection figures for fiscal years 2007 and 2008 rely on projections.
Sources: Census Bureau, state government websites, Rockefeller Institute, and Tax Foundation calculations.

Table 6

State and Local Tax Collections Per Capita Fiscal Year 2008

State	Total State and Local Tax Collections (per capita)	Rank	Taxes Collected from Residents (per capita)	Rank	Taxes Collected from Non-residents (per capita)	Rank
US average	$ 4,294	–	$ 2,924	–	$ 1,370	–
Alabama	$ 2,949	50	$ 1,977	42	$ 972	48
Alaska	7,864	1	1,433	50	6,431	1
Arizona	3,286	43	2,170	35	1,116	36
Arkansas	3,284	44	2,315	29	969	49
California	4,752	10	3,683	6	1,069	39
Colorado	$ 3,989	26	$ 2,684	18	$ 1,305	27
Connecticut	6,081	5	4,498	2	1,583	19
Delaware	4,670	11	2,364	27	2,306	5
Florida	3,613	33	2,384	25	1,230	32
Georgia	3,612	34	2,579	21	1,033	43
Hawaii	$ 5,284	6	$ 3,699	5	$ 1,585	18
Idaho	3,400	40	2,374	26	1,026	44
Illinois	4,428	16	2,948	14	1,479	23
Indiana	3,459	39	2,348	28	1,110	37
Iowa	3,763	28	2,263	32	1,500	22
Kansas	$ 4,185	22	$ 2,460	24	$ 1,725	13
Kentucky	3,205	46	2,201	34	1,004	45
Louisiana	4,374	17	2,093	37	2,281	6
Maine	4,543	15	2,701	17	1,842	9
Maryland	4,945	8	4,062	4	883	50
Massachusetts	$ 5,227	7	$ 3,609	7	$ 1,617	16
Michigan	3,751	29	2,536	23	1,215	34
Minnesota	4,623	12	3,328	8	1,295	29
Mississippi	3,076	48	1,773	48	1,303	28
Missouri	3,327	42	2,261	33	1,066	40
Montana	$ 3,670	31	$ 1,960	43	$ 1,710	14
Nebraska	4,144	23	2,611	19	1,532	21
Nevada	4,023	25	1,952	44	2,071	7
New Hampshire	3,747	30	1,824	46	1,923	8
New Jersey	6,127	4	4,376	3	1,752	12
New Mexico	$ 3,890	27	$ 2,051	39	$ 1,839	10
New York	7,206	2	4,845	1	2,361	4
North Carolina	3,570	36	2,597	20	973	47
North Dakota	4,618	13	2,167	36	2,451	3
Ohio	4,084	24	2,937	15	1,147	35
Oklahoma	$ 3,620	32	$ 2,280	31	$ 1,340	26
Oregon	3,525	37	2,538	22	987	46
Pennsylvania	4,303	20	3,054	11	1,249	31
Rhode Island	4,586	14	2,900	16	1,685	15
South Carolina	3,133	47	2,048	40	1,085	38
South Dakota	$ 3,209	45	$ 1,645	49	$ 1,563	20
Tennessee	3,033	49	1,779	47	1,254	30
Texas	3,502	38	2,082	38	1,420	24
Utah	3,354	41	2,305	30	1,048	42
Vermont	4,852	9	3,072	10	1,780	11
Virginia	$ 4,345	18	$ 3,281	9	$ 1,063	41
Washington	4,331	19	2,957	13	1,374	25
West Virginia	3,596	35	1,982	41	1,614	17
Wisconsin	4,270	21	3,047	12	1,223	33
Wyoming	6,947	3	1,925	45	5,022	2
Dist. of Columbia	$ 8,316	(1)	$ 4,344	(3)	$ 3,972	(3)

Notes: As a unique state-local entity, D.C. is not included in rankings, but the figures in parentheses shows where it would rank. The local portions of tax collection figures rely on projections.
Sources: Tax Foundation calculations using data from multiple sources, primarily Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.

- Oklahoma's taxpayers have gone from 42nd to 19th in the tax burden rankings over the period of this study. During the 1970s Oklahoma residents ranked in the bottom ten for state-local tax burden. During the '80s they hovered in the below-average range, and since the mid-'90s they mostly paid a slightly above-average tax burden.

- Maine's taxpayers have risen 20 places in the rankings, from 35th in 1977 to 15th this year. It had risen further, reaching 5th highest in 2005, but it has dropped 10 places since then due to property tax reforms.

- Connecticut, currently 3rd highest, has risen 21 places over the last three decades. Similarly, Georgia, at 16th, has risen 20 places. Arkansas has risen 15 places from 32nd highest in 1977 to 14th in 2008.

Recent Trends in Tax Collections

Despite the importance of non-resident collections and the increasing efforts to boost them, the driving force behind a state's long-term rise or fall in the tax burden rankings is usually internal, and most often a deliberate policy of raising government spending backed by higher taxes.

Although final collection data are not complete for fiscal year 2008 (ending last June 30 in most states), total collections appear to have increased by 2.4 percent over 2007's level. Corporate income tax collections, always the most volatile major tax source, are estimated to have fallen 6.6 percent after rising 27.8 percent in 2005, 22.3 percent in 2006, and 10.9 percent in 2007. Meanwhile, others are projected to have grown, albeit at a much slower pace than in previous years (see Table 5).

A 2.4 percent rate of tax revenue growth is less than half the 5.9 percent rate from FY 2006 to 2007. To the government officials who pretended that the 8-to-9 percent annual increases common during between 2004 and 2006 would continue indefinitely, FY 2008's growth rate is intolerably small.

While most states show modest revenue growth, and a few are showing actual declines, the revenue boom actually persisted in 10 or more states, especially those whose severance

Table 7

Comparing Tax Burden Measures: Tax Foundation and the Federation of Tax Administrators
Fiscal Year 2008

State	Tax Foundation's Tax Burden Measure: Taxes Paid by Residents Divided by Their Income	Rank	FTA's "Tax Burden" Method: Taxes from Residents and Non-residents Divided by Residents' Income	Rank
United States	9.7%	–	10.9%	–
Alabama	8.6%	38	8.9%	48
Alaska	6.4%	50	19.0%	1
Arizona	8.5%	41	9.9%	41
Arkansas	10.0%	14	10.6%	26
California	10.5%	6	11.2%	16
Colorado	9.0%	34	9.5%	43
Connecticut	11.1%	3	11.0%	21
Delaware	9.5%	24	11.5%	14
Florida	7.4%	47	9.3%	45
Georgia	9.9%	16	10.7%	25
Hawaii	10.6%	5	13.2%	5
Idaho	10.1%	13	10.7%	24
Illinois	9.3%	30	10.7%	23
Indiana	9.4%	28	10.1%	37
Iowa	9.3%	31	10.5%	30
Kansas	9.6%	21	11.1%	18
Kentucky	9.4%	25	10.1%	38
Louisiana	8.4%	42	12.1%	9
Maine	10.0%	15	13.3%	4
Maryland	10.8%	4	10.5%	28
Massachusetts	9.5%	23	10.4%	34
Michigan	9.4%	27	10.6%	27
Minnesota	10.2%	12	11.0%	20
Mississippi	8.9%	36	10.4%	33
Missouri	9.2%	32	9.5%	44
Montana	8.6%	40	11.1%	17
Nebraska	9.8%	17	11.1%	19
Nevada	6.6%	49	9.7%	42
New Hampshire	7.6%	46	8.9%	50
New Jersey	11.8%	1	12.2%	8
New Mexico	8.6%	39	12.0%	10
New York	11.7%	2	14.8%	3
North Carolina	9.8%	20	10.4%	31
North Dakota	9.2%	33	12.6%	7
Ohio	10.4%	7	11.5%	13
Oklahoma	9.8%	19	10.3%	36
Oregon	9.4%	26	9.9%	39
Pennsylvania	10.2%	11	10.9%	22
Rhode Island	10.2%	10	11.4%	15
South Carolina	8.8%	37	9.9%	40
South Dakota	7.9%	45	9.2%	46
Tennessee	8.3%	44	8.9%	49
Texas	8.4%	43	9.2%	47
Utah	9.6%	22	10.5%	29
Vermont	10.3%	8	13.0%	6
Virginia	9.8%	18	10.4%	35
Washington	8.9%	35	10.4%	32
West Virginia	9.3%	29	11.9%	11
Wisconsin	10.2%	9	11.6%	12
Wyoming	7.0%	48	15.5%	2
District of Columbia	10.3%	(8)	13.3%	4

Notes: As a unique state-local entity, D.C. is not included in Tax Foundation rankings, but the figure in parentheses shows where it would rank. The local portions of tax collection figures rely on projections. The figures presented here as the "FTA Method" are calculations by the Tax Foundation using 2008 data or projections thereof, replicating the methodology that the Federation of Tax Administrators uses each year to calculate each state's tax burden. The most recent year FTA has published is 2006.
Sources: Tax Foundation calculations using data from multiple sources, primarily Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.

tax payments have grown rapidly thanks to the booming petroleum sector. See Table 6.

Conclusion

When measuring the burden imposed on a given state's residents by state and local taxes, one cannot merely look at collections figures for the governments located within that state. There is a significant amount of tax shifting across states, and the shifting is not uniform.

This paper only attempts to measure the amount of shifting that occurs, and how it affects the distribution of state and local tax burdens across states. It is not an endorsement of policies that attempt to export tax burdens. From the perspectives of the economy and political efficiency, states create myriad problems when they blatantly shift tax burdens to residents of other jurisdictions, the value of services provided to non-residents being necessarily small compared to the tax payments.

Methodology

The state and local tax burden estimates for FY 2008 presented in this paper use the most recent data available on July 30, 2008, from the Census Bureau, the Bureau of Economic Analysis, state government websites, and other sources.[2] For all major tax and income categories (except local property taxes), data was available on a state-by-state basis through the second quarter of calendar year 2008. Nevertheless, we use BEA timing terminology and refer to the FY 2008 figures presented here as advanced estimates and the FY 2007 figures as preliminary estimates.

This geographic determination of who bears the tax burden is similar to the work done by such organizations as the Congressional Budget Office and the Urban-Brookings Tax Policy Center when they measure tax burdens by income group. In both cases, researchers start with official data on who wrote checks for how much, but then attempt to account for how those legal payers shift the burden to others, possibly someone in another income group or in another state.

Why shouldn't tax collections reported by state and local governments and published by the Census Bureau's Government Finances Division be compared to income to determine the tax burden? Simply because the true tax burden of each state's residents must include the substantial taxes they pay directly or indirectly to out-of-state governments.

Alaska provides the best example. According to the Census Bureau, Alaska's state and local tax collections are among the nation's highest. If those tax collections are compared to Alaskans' income, the burden appears much higher than in many other states. No one finds these rankings more laughable than Alaskans who know full well how low their taxes are.

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. And 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.

This study assumes the economic burden of those Alaskan oil taxes falls not primarily on Alaskans but rather on consumers across the country when they fill up their gas tanks or heat their homes. Therefore, to correctly portray how low the Alaskan residents' tax burden is, we allocate Alaska's oil severance tax to other U.S. states based on oil and gas consumption. Once this allocation is made, Alaskans' tax burden falls from among the nation's highest to the lowest. Taxes levied on mineral extraction in other states have similar but less dramatic effects.

In addition to allocating severance taxes to other states, this study also allocates taxes on corporate income, commercial and residential property, tourism and non-resident personal income away from the state of collection to the state of the taxpayers' residences.

Tax burden measurements such as these are important, and they should not be confused with tax collections which are the best measure of the size of government in a state. Total revenue figures from the Census are the best source for collection data.

Table 7 shows how the Tax Foundation estimates of state and local tax burdens differ from a popular "tax burden" measure published by the Federation of Tax Administrators (FTA). Operating naturally from the tax collector's perspective, the FTA divides tax collections for each state by the state's personal income (BEA measure). This is not a valid measure of the tax burden because a significant fraction of total collections comes from people out of state. In other words, much of the tax revenue in each state's coffers was not paid out of the state residents' personal income, so it wasn't their burden.

Many states have made a conscious effort to raise taxes on non-residents. This beggar-thy-neighbor effort has included tax hikes on tourism, separate, higher property tax rates on non-residents, and higher income tax rates on cross-border, commuting workers.

The reason the FTA and Tax Foundation series show tax burdens of a different magnitude is that the FTA uses such a small definition of income. The Tax Foundation's definition, outlined below and in great detail in Tax Foundation Working Paper No. 3, includes much income that BEA excludes from the "personal income" figure that BEA publishes.

Each year state and local governments and federal agencies publish more complete data on public finances, and each year the Tax Foundation improves its estimates of the state-local burden in each state by quantifying more precisely the portion of each state's tax burden that goes out of state into the coffers of other state and local governments. For this reason, the entire series of state-local burden estimates is revised each year. This year's state-local tax burden methodology has been further revised, reflecting an overall commitment to using the latest advances in data availability.

2 The only corrections to Census's data incorporated into this report are property tax estimates for Indiana in fiscal years 2005 and 2006 that were implausible and that we replaced with data from state officials in Indiana.

What Is a Tax?

The tax burden estimates include those items defined as a state and local tax by the Bureau of Economic Analysis, which is essentially equivalent to the Census Bureau's definition of a tax (codes T01, T09, etc.) plus special assessments. Note that this includes licenses such as occupational and business licenses, as well as motor vehicle licenses. The time frame for the estimates is the standard state fiscal year, July 1 through June 30, not the calendar year as in previous reports in this series. Data from the few states that use a different fiscal calendar have been adjusted to the standard, July 1 – June 30 fiscal year.

Despite the importance of non-resident collections, the driving force behind a state's long-term rise in the tax burden rankings is always internal, and most often a deliberate policy of raising government spending backed by higher taxes.

No measure of the tax burden is perfect. Our tax exporting estimates do not account for the federal deductibility of state and local taxes paid within the federal individual and corporate tax codes. Essentially, payers of high state and local taxes get a large deduction on their federal tax returns, and that money is then made up with payments from people who have a small state-local tax deduction. This disproportionately favors high-income individuals because of the progressivity of the federal individual income tax.

Another component of an ideal tax burden study would be compliance costs and economic efficiency losses. Neither is included here. Also, the tax burden estimates presented here do not weigh the value of the government services provided with tax revenue. This is the norm in such studies. No organization that regularly estimates tax burdens at either the federal or state/local level attempts to account for the compliance and economic costs (i.e. deadweight loss or excess burden) of taxation, or the value of government services provided that are financed by those tax dollars.

What Is Income?

The definition of income used in this study is different from the one used in previous Tax Foundation state-local burden estimates. It is a hybrid between the Bureau of Economic Analysis's calculation of "personal income" and the income concept used by the Congressional Budget Office in its annual "Effective Federal Tax Rates" study.

The income measure used here adds to personal income the following: capital gains realizations, pension and life insurance distributions, corporate income taxes paid, and taxes on production and imports less subsidies. It subtracts from personal income the non-fungible portion of Medicare and Medicaid, as well as the estimated Medicare benefits that are provided via supplementary contributions (the same for veterans' life insurance). This measure also subtracts the initial contributions to pension income and life insurance from employers, as well as the annual investment income of life insurance carriers and pensions (much of which is imputed by BEA) that is included in personal income. Note that some small fraction of income is still double-counted over a lifetime, most notably the contributions of individual employees to pension and life insurance funds. Also, there is a timing problem with respect to the corporate income taxes paid that is included in the income concept here and the fact that capital gains realizations are used as opposed to retained earnings (accrued capital gains). In Tax Freedom Day, we used the latter; but in this paper, due to the fact that there are systematic movements across geographies over life-cycles (e.g. Arizona, Florida, etc.) and the fact that we are only looking at state and local taxes where the corporate income tax is relatively minor compared to the federal government, we use capital gains realizations.

For more methodological discussion, see Tax Foundation Working Paper, No. 4.

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