

SPECIAL REPORT

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State Tax Collections and Rates

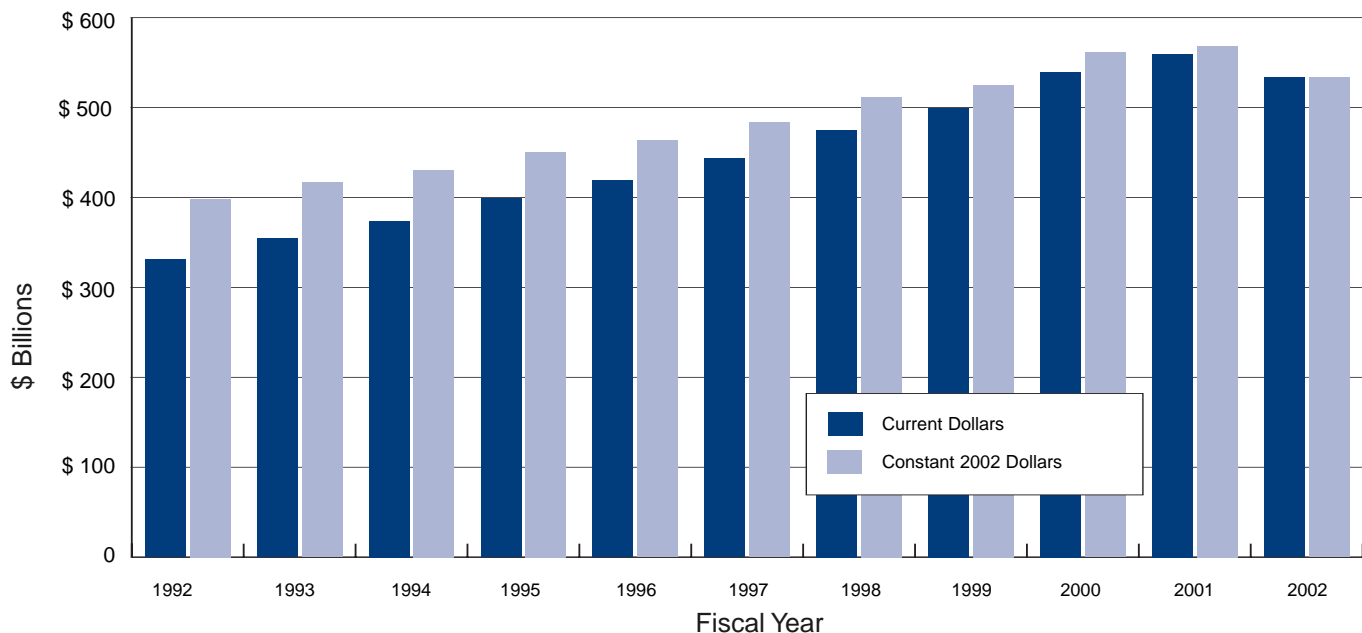
Recession and September 11th Combine to Send FY 2002 State Tax Collections Down by 4.7 Percent

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For most states, fiscal year 2002 stretched from July 2001 through June 2002, a period that saw a significant economic slowdown and the substantial economic repercussions of the September 11th attacks. The economic slowdown and recession in FY 2002 had a profound effect on state tax collections, with collections from taxes on individual and corporate income suffering the most significant losses.

Although some states refrained from raising taxes when their taxpayers were struggling through a recession, some states responded to the drop in revenue with tax hikes. State tax increases for FY 2003 were estimated at \$8.3 billion. However, revenue collections fell far short of their initial estimates in fiscal year 2003. States saw widening gaps between planned expenditure and the revenue required to fund this spending. As for FY

Figure 1
Total State Tax Collections, Fiscal Years 1992-2002
Current Dollars and Constant 2002 Dollars in Billions



Source: Department of Commerce, Bureau of the Census.

2004, states have so far enacted \$9.6 billion in higher taxes, which include \$2.6 billion in sales tax increases, \$2.4 billion in personal income tax increases, and a \$1.8 billion increase in fees.¹

It is in this context that we look back at state tax revenue in FY 2002, for which Census Bureau data are now final. During FY 2002, states that depend predominantly on the income tax experienced considerable cuts in revenue, as individual income tax revenue fell by an enormous 11.1 percent, the largest drop in over a decade. This struggling economy also led to lower consumer spending, which hurt the coffers of states dependent on the sales tax.

State Tax Collections in Fiscal Year 2002

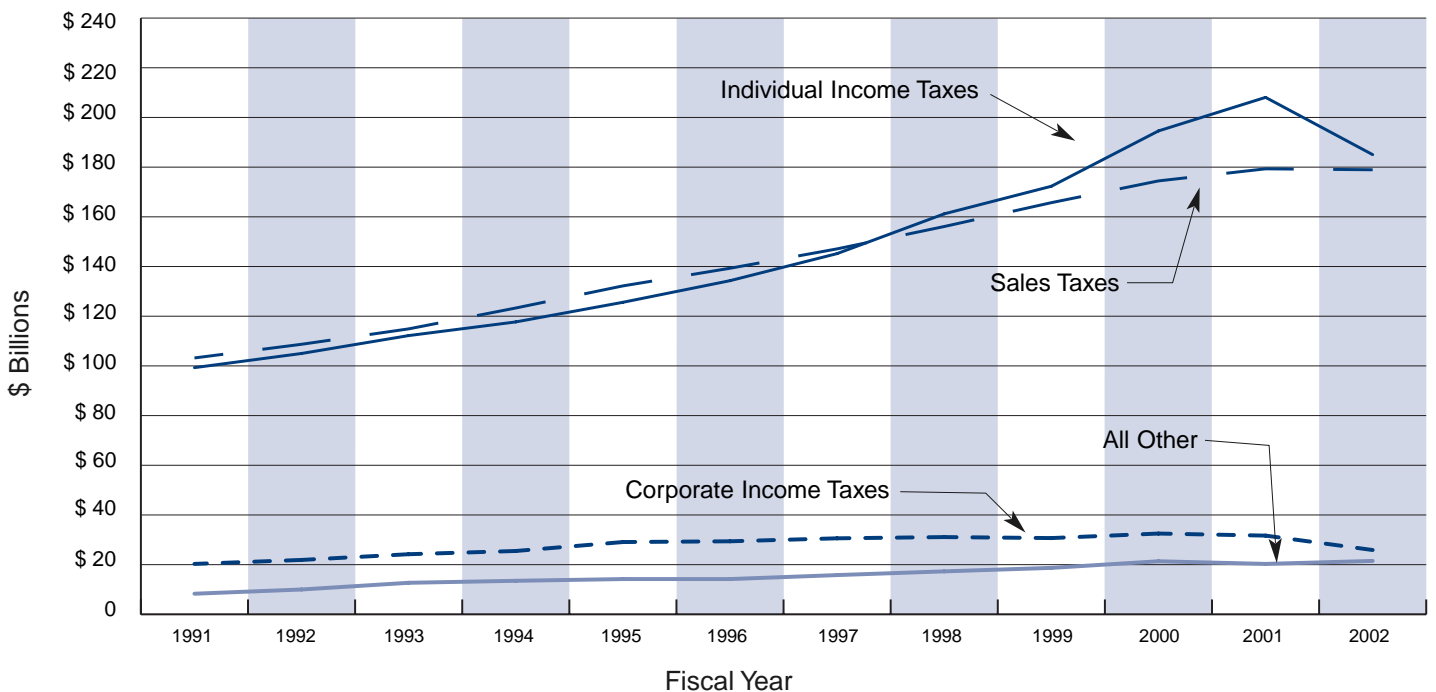
State tax and fee collections were 6.1 percent lower in FY 2002 than in FY 2001, the first year in a decade in which revenue actually declined. See Table 1. Six sources of revenue experienced a decline: general sales taxes, indi-

vidual income taxes, corporate income taxes, state-level property taxes, estate and gift taxes, and severance taxes. It was the individual income tax that dropped precipitously, with an 11.1 percent reduction, compared to a 0.2 percent drop in general sales tax revenue. Some revenue sources produced increases: license taxes, insurance taxes and public utility taxes. Adjusted for inflation, the decline in overall tax collections was 6.1 percent.

Over the longer run, though, the trend has been one of rising revenue. Between FY 1992 and FY 2002, the fastest growing category of state tax collections was individual income taxes. They rose at an average annual rate of 5.8 percent, even including the recent drop. The second fastest growing revenue source was estate and gift taxes which averaged 5.2 percent increases per year. General sales tax revenue grew 5.1 percent per year, while all "other taxes" rose at an annual average rate of 7.9 percent. "Other taxes" is a catch-all category that includes amusement sales, pari-mutuel sales, documen-

¹"The Fiscal Survey of States," The National Governors Association and the National Association of State Budget Officers, December 2003.

Figure 2
State Government Tax Collections by Source, Fiscal Years 1991-2002
Constant 2002 Dollars in \$Billions



Source: Department of Commerce, Bureau of the Census.

tary and stock transfer taxes and miscellaneous taxes (mostly other sales taxes).

The growth in the individual income tax accelerated from FY 1995 through FY 2001 before declining sharply in FY 2002. By FY 1998, individual income taxes had overtaken general sales taxes as the single largest source of state tax collections, and they continued to grow at a faster rate until FY 2001.

Individual Income Tax Revenue fell by an enormous 11.1%, the largest drop in over a decade.

State-by-state collections for FY 2002 are reported in Table 2 along with the distribution by source. Although some states manage without a sales tax or without an individual income tax, the overall distribution of taxes confirms that these two sources provide the majority of tax collections. General sales taxes provided 33.5

percent of all collections, and individual income taxes provided 34.7 percent.

States that relied on the sales tax for over 50 percent of their tax collections in FY 2002 were Washington (62.6%), Tennessee (60.0%), Florida (58.1%), and South Dakota (53.6%) Nevada (52.5%), Texas (50.8%) and Arizona (50.6%). On the other hand, states that collected over half their revenue with the individual income tax are Oregon (71.5%), New York (59.1%), Massachusetts (53.4%), Virginia (52.5%) and Colorado (50.2%).

State Tax Collections Compared to Taxpayers' Income

In most years, taxpayers' total income (NNP) has usually grow slightly faster than state governments' tax collections. The average difference over the past decade is 0.06 percent, with income growth outpacing tax growth. This trend became more significant as we moved into in FY 2002, as taxpayers' total income grew 6.84 percent faster than state tax collections. See Table 3.

Table 1
State Government Tax Collections by Type (\$Billions)
Fiscal Years 1992-2002

| Type of Tax | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 92-02 | 01-02 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|-------------|--------------|
| General Sales | \$108.7 | \$114.9 | \$123.3 | \$132.2 | \$139.3 | \$147.1 | \$156.1 | \$165.7 | \$174.46 | \$179.32 | \$178.94 | \$ 5.1% | -0.2% |
| Individual Income | 105.0 | 112.2 | 117.7 | 125.6 | 134.3 | 145.2 | 161.2 | 172.3 | 194.57 | 208.08 | 185.03 | 5.8% | -11.1% |
| Corporate Income | 21.9 | 24.2 | 25.5 | 29.1 | 29.4 | 30.6 | 31.1 | 30.7 | 32.52 | 31.69 | 25.89 | 1.7% | -18.3% |
| Motor Fuels | 22.3 | 23.6 | 24.5 | 25.4 | 26.0 | 27.1 | 28.3 | 29.2 | 29.97 | 31.03 | 31.91 | 3.7% | 2.8% |
| Licenses | 21.6 | 23.2 | 24.2 | 26.1 | 27.0 | 28.2 | 29.7 | 30.4 | 32.60 | 32.87 | 35.13 | 5.0% | 6.9% |
| Insurance | 7.8 | 8.0 | 8.6 | 8.6 | 9.1 | 9.0 | 9.2 | 9.6 | 9.75 | 10.26 | 11.13 | 3.6% | 8.4% |
| Public Utilities | 7.8 | 8.3 | 8.5 | 8.1 | 8.6 | 8.6 | 8.8 | 8.9 | 9.23 | 8.97 | 9.72 | 2.3% | 8.4% |
| Property | 7.4 | 7.8 | 8.4 | 9.5 | 10.0 | 10.3 | 10.7 | 11.3 | 11.00 | 10.43 | 9.47 | 2.5% | -9.2% |
| Tobacco | 6.1 | 6.2 | 6.6 | 7.3 | 7.3 | 7.5 | 7.7 | 8.2 | 8.39 | 8.64 | 8.90 | 3.8% | 3.0% |
| Severance | 4.6 | 4.9 | 4.3 | 4.5 | 4.4 | 4.6 | 4.2 | 3.1 | 3.70 | 6.41 | 4.23 | -0.9% | -34.0% |
| Estate and Gift | 4.5 | 4.7 | 5.0 | 4.9 | 5.3 | 5.9 | 6.9 | 7.5 | 8.00 | 7.50 | 7.38 | 5.2% | -1.6% |
| Alcohol | 3.6 | 3.6 | 3.6 | 3.6 | 3.7 | 3.7 | 3.8 | 3.9 | 4.10 | 4.17 | 4.26 | 1.7% | 2.2% |
| All Other | 10.0 | 12.7 | 13.5 | 14.2 | 14.2 | 15.8 | 17.3 | 18.7 | 21.36 | 20.3 | 21.5 | 7.9% | 5.6% |
| Total State Taxes | \$ 331.2 | \$ 354.3 | \$ 373.8 | \$ 399.2 | \$ 418.6 | \$ 443.5 | \$ 475.0 | \$ 499.5 | \$ 539.66 | \$ 559.7 | \$ 533.4 | 4.9% | -4.7% |
| Annual % Change | 6.4% | 7.0% | 5.5% | 6.8% | 4.9% | 5.9% | 7.1% | 5.2% | 8.0% | 3.7% | -4.7% | * | * |
| Total State Taxes (Constant 2002\$) | \$ 398.5 | \$ 416.7 | \$ 430.5 | \$ 450.4 | \$ 463.7 | \$ 483.2 | \$ 511.8 | \$ 525.2 | \$ 561.0 | \$ 568.3 | \$ 533.4 | 3.0% | -6.1% |
| Annual % Change | 9.0% | 4.6% | 3.3% | 4.6% | 2.9% | 4.2% | 5.9% | 2.6% | 6.8% | 1.3% | -6.1% | * | * |

Note: Does not include the District of Columbia.

Source: Tax Foundation, based on data from the Department of Commerce, Bureau of the Census.

*Table 2
State Tax Collections by Source, by State
Fiscal Year 2002*

| | Total (\$Thousands) | General Sales & Use | Individual Income | Corporate Income | Motor Fuels | Licenses | All Other (c) |
|--------------------------|------------------------|------------------------|----------------------|---------------------|-------------|----------|---------------|
| All States (a) | \$ 533,432,378 | 33.5% | 34.7% | 4.9% | 6.0% | 6.6% | 14.3% |
| Alabama | \$ 6,878,923 | 25.4% | 34.9% | 4.7% | 7.4% | 5.7% | 21.8% |
| Alaska | 1,089,504 | 0.0 | 0.0 | 24.7 | 3.7 | 6.8 | 64.8 |
| Arizona | 8,477,001 | 50.6 | 24.7 | 4.1 | 7.4 | 3.2 | 10.1 |
| Arkansas | 5,034,109 | 38.1 | 29.6 | 3.2 | 8.2 | 4.7 | 16.2 |
| California | 77,755,376 | 30.6 | 42.5 | 6.9 | 4.2 | 7.3 | 8.4 |
| Colorado | \$ 6,923,171 | 27.5% | 50.2% | 3.0% | 8.2% | 4.0% | 7.1% |
| Connecticut | 9,032,787 | 33.7 | 40.8 | 1.7 | 4.7 | 4.5 | 14.7 |
| Delaware | 2,173,600 | 0.0 | 33.0 | 11.6 | 5.0 | 35.9 | 14.6 |
| Florida | 24,815,964 | 58.1 | 0.0 | 4.9 | 7.3 | 6.3 | 23.5 |
| Georgia | 13,772,147 | 35.1 | 47.1 | 4.1 | 4.7 | 3.6 | 5.4 |
| Hawaii | \$ 3,420,671 | 47.1% | 32.5% | 1.5% | 2.3% | 3.3% | 13.3% |
| Idaho | 2,271,075 | 35.0 | 37.1 | 3.4 | 9.4 | 9.8 | 5.3 |
| Illinois | 22,460,190 | 28.6 | 30.9 | 9.2 | 6.1 | 8.5 | 16.7 |
| Indiana | 9,994,595 | 38.0 | 35.4 | 6.7 | 6.7 | 3.0 | 10.2 |
| Iowa | 5,006,251 | 34.9 | 35.3 | 1.8 | 6.9 | 10.4 | 10.8 |
| Kansas | \$ 4,808,361 | 37.4% | 38.6% | 2.5% | 7.8% | 4.8% | 8.9% |
| Kentucky | 7,974,690 | 29.0 | 33.6 | 3.8 | 5.8 | 6.8 | 21.1 |
| Louisiana | 7,345,994 | 31.7 | 24.2 | 3.6 | 7.6 | 7.0 | 25.9 |
| Maine | 2,626,830 | 31.8 | 40.8 | 2.9 | 7.3 | 5.7 | 11.4 |
| Maryland | 10,821,276 | 24.9 | 43.5 | 3.3 | 6.5 | 4.0 | 17.8 |
| Massachusetts | \$ 14,819,794 | 24.9% | 53.4% | 5.5% | 4.5% | 3.4% | 8.3% |
| Michigan | 21,864,052 | 35.6 | 28.0 | 9.4 | 5.0 | 5.9 | 16.0 |
| Minnesota | 12,936,369 | 28.9 | 42.1 | 4.2 | 4.8 | 6.7 | 13.3 |
| Mississippi | 4,728,905 | 49.5 | 20.8 | 4.1 | 8.7 | 6.4 | 10.5 |
| Missouri | 8,678,611 | 32.9 | 41.7 | 3.5 | 8.0 | 5.4 | 8.6 |
| Montana | \$ 1,442,731 | 0.0% | 35.9% | 4.7% | 13.3% | 13.8% | 32.3% |
| Nebraska | 2,992,522 | 35.7 | 38.5 | 3.6 | 10.3 | 6.5 | 5.3 |
| Nevada | 3,945,329 | 52.5 | 0.0 | 0.0 | 6.7 | 11.1 | 29.7 |
| New Hampshire | 1,883,924 | 0.0 | 3.8 | 20.0 | 6.4 | 9.1 | 60.7 |
| New Jersey | 18,328,814 | 32.7 | 37.3 | 6.0 | 2.9 | 5.2 | 15.9 |
| New Mexico | \$ 3,628,055 | 36.9% | 27.1% | 3.4% | 5.5% | 4.7% | 22.4% |
| New York | 43,262,137 | 19.9 | 59.1 | 5.2 | 1.1 | 2.4 | 12.2 |
| North Carolina | 15,535,277 | 20.7 | 46.8 | 4.3 | 7.8 | 5.7 | 14.8 |
| North Dakota | 1,117,299 | 30.0 | 17.9 | 4.5 | 9.9 | 9.2 | 28.5 |
| Ohio | 19,616,569 | 32.6 | 42.5 | 3.9 | 7.0 | 8.0 | 6.1 |
| Oklahoma | \$ 6,052,680 | 25.3% | 37.8% | 2.9% | 6.8% | 13.6% | 13.7% |
| Oregon | 5,139,322 | 0.0 | 71.5 | 3.8 | 7.8 | 9.7 | 7.3 |
| Pennsylvania | 22,135,537 | 33.1 | 30.4 | 5.4 | 7.9 | 9.4 | 13.7 |
| Rhode Island | 2,127,609 | 34.4 | 38.7 | 1.3 | 6.1 | 4.3 | 15.1 |
| South Carolina | 5,748,585 | 40.6 | 34.0 | 3.8 | 7.2 | 5.4 | 9.1 |
| South Dakota | \$ 976,596 | 53.6% | 0.0% | 4.2% | 12.6% | 13.6% | 16.0% |
| Tennessee | 7,797,681 | 60.0 | 1.9 | 6.5 | 10.4 | 10.7 | 10.6 |
| Texas | 28,662,395 | 50.8 | 0.0 | 0.0 | 9.9 | 13.2 | 26.1 |
| Utah | 3,925,382 | 38.2 | 40.9 | 2.8 | 8.6 | 3.8 | 5.7 |
| Vermont | 1,533,982 | 14.0 | 24.4 | 2.4 | 5.6 | 4.5 | 49.0 |
| Virginia | \$ 12,781,149 | 21.9% | 52.5% | 2.4% | 6.6% | 4.2% | 12.3% |
| Washington | 12,628,567 | 62.6 | 0.0 | 0.0 | 5.9 | 5.0 | 26.5 |
| West Virginia | 3,551,756 | 27.1 | 29.1 | 6.2 | 8.4 | 4.9 | 24.2 |
| Wisconsin | 11,813,832 | 31.3 | 42.1 | 4.4 | 8.1 | 5.5 | 8.6 |
| Wyoming | 1,094,402 | 40.7 | 0.0 | 0.0 | 6.9 | 8.7 | 43.7 |
| District of Columbia (b) | \$ 3,215,289 | 20.3% | 30.5% | 3.6% | 1.0% | 0.7% | 43.9% |

(a) Does not include the District of Columbia.

(b) Based on Quarterly data.

(c) The "all other" category is a subtraction of the 5 other sources of revenue from the total collection of taxes. Not comparable to "all other" in Table 1.

Table 3
State Tax Revenue Growth Compared to Income Growth, by State
Fiscal Years 1992 - 2002

| | Avg. Annual Tax Growth FY 1992-2002 (Real 2002\$) | Avg. Annual Income Growth FY 1992-2002 (Real 2002\$(c)) | Avg. Annual Growth of Taxes Relative to Income FY 1992-2002 (Real 2002\$(c)) | Tax Growth Rank FY 1992-2002 | Avg. Annual Tax Growth FY 2001-2002 (Current \$) | Avg. Annual Income Growth FY 2001-2002 (Current \$) | Growth of Taxes Relative to Income FY 2001-2002 (Current \$(a)) | Tax Growth Rank FY 2001-2002 |
|----------------------|--|--|---|---------------------------------------|---|--|---|------------------------------------|
| All States (b) | 3.07% | 3.12% | -0.06% | - | -4.70% | 2.14% | -6.84% | |
| Alabama | 3.09% | 2.58% | 0.50% | 28 | 8.02% | 2.55% | 5.47% | 1 |
| Alaska | -5.55 | 1.85 | -7.41 | 50 | -23.74 | 3.63 | -27.37 | 50 |
| Arizona | 3.85 | 5.19 | -1.34 | 11 | 0.24 | 3.56 | -3.32 | 10 |
| Arkansas | 4.29 | 2.99 | 1.30 | 9 | 2.51 | 3.00 | -0.49 | 5 |
| California | 3.43 | 3.06 | 0.37 | 22 | -14.04 | 1.72 | -15.76 | 48 |
| Colorado | 5.00% | 5.36% | -0.36% | 5 | -8.51% | 1.54% | -10.05% | 42 |
| Connecticut | 2.17 | 2.71 | -0.54 | 42 | -14.71 | 1.66 | -16.37 | 49 |
| Delaware | 3.03 | 3.00 | 0.04 | 29 | -0.04 | 2.46 | -2.50 | 12 |
| Florida | 3.65 | 3.54 | 0.11 | 17 | -0.49 | 3.16 | -3.65 | 17 |
| Georgia | 4.65 | 4.61 | 0.04 | 8 | -4.15 | 2.35 | -6.50 | 36 |
| Hawaii | 0.48% | 0.97% | -0.49% | 49 | -2.48% | 3.51% | -6.00% | 27 |
| Idaho | 3.10 | 4.27 | -1.17 | 27 | -11.22 | 3.02 | -14.24 | 45 |
| Illinois | 3.32 | 2.83 | 0.49 | 24 | -2.98 | 1.47 | -4.45 | 31 |
| Indiana | 2.52 | 2.86 | -0.34 | 37 | -2.05 | 2.03 | -4.09 | 25 |
| Iowa | 1.45 | 2.45 | -1.00 | 47 | -2.96 | 2.31 | -5.27 | 30 |
| Kansas | 3.61% | 2.57% | 1.04% | 18 | -3.71% | 2.17% | -5.88% | 35 |
| Kentucky | 2.69 | 2.95 | -0.25 | 34 | 1.58 | 2.68 | -1.11 | 7 |
| Louisiana | 3.69 | 2.59 | 1.10 | 14 | 2.11 | 4.00 | -1.88 | 6 |
| Maine | 2.75 | 2.55 | 0.20 | 33 | -1.58 | 3.87 | -5.45 | 21 |
| Maryland | 3.30 | 3.01 | 0.29 | 26 | 0.33 | 3.61 | -3.28 | 9 |
| Massachusetts | 2.20% | 3.36% | -1.15% | 40 | -13.96% | 1.16% | -15.13% | 47 |
| Michigan | 4.88 | 2.70 | 2.18 | 6 | -1.80 | 1.14 | -2.94 | 23 |
| Minnesota | 3.74 | 3.77 | -0.03 | 12 | -4.42 | 2.62 | -7.04 | 37 |
| Mississippi | 4.65 | 3.31 | 1.34 | 7 | -0.43 | 3.10 | -3.54 | 16 |
| Missouri | 3.46 | 2.83 | 0.64 | 21 | -1.79 | 2.24 | -4.04 | 22 |
| Montana | 2.35% | 2.72% | -0.37% | 38 | -3.55% | 3.58% | -7.13% | 33 |
| Nebraska | 2.78 | 2.87 | -0.09 | 32 | -1.18 | 2.77 | -3.94 | 19 |
| Nevada | 6.08 | 6.12 | -0.04 | 2 | 2.95 | 3.53 | -0.58 | 4 |
| New Hampshire | 6.22 | 3.81 | 2.41 | 1 | 6.09 | 2.13 | 3.95 | 2 |
| New Jersey | 1.75 | 2.99 | -1.23 | 46 | -4.80 | 2.64 | -7.44 | 39 |
| New Mexico | 3.03% | 3.37% | -0.35% | 30 | -9.35% | 4.90% | -14.25% | 44 |
| New York | 1.79 | 2.25 | -0.46 | 45 | -3.55 | 0.68 | -4.23 | 34 |
| North Carolina | 3.66 | 3.90 | -0.24 | 15 | -0.58 | 1.85 | -2.43 | 18 |
| North Dakota | 2.10 | 2.23 | -0.14 | 43 | -9.24 | 1.76 | -11.00 | 43 |
| Ohio | 3.01 | 2.17 | 0.85 | 31 | -0.01 | 1.59 | -1.59 | 11 |
| Oklahoma | 2.65% | 2.63% | 0.01% | 35 | -4.56% | 2.15% | -6.71% | 38 |
| Oregon | 2.57 | 3.55 | -0.97 | 36 | -12.79 | 1.72 | -14.51 | 46 |
| Pennsylvania | 1.24 | 2.16 | -0.92 | 48 | -1.89 | 2.60 | -4.49 | 24 |
| Rhode Island | 3.31 | 2.42 | 0.89 | 25 | -5.16 | 3.27 | -8.42 | 40 |
| South Carolina | 1.96 | 3.34 | -1.38 | 44 | -6.49 | 2.72 | -9.21 | 41 |
| South Dakota | 3.69% | 2.88% | 0.80% | 13 | -0.09% | 1.20% | -1.29% | 13 |
| Tennessee | 3.66 | 3.47 | 0.19 | 16 | -0.31 | 2.22 | -2.53 | 14 |
| Texas | 3.41 | 4.32 | -0.91 | 23 | -2.58 | 2.04 | -4.63 | 28 |
| Utah | 5.08 | 4.57 | 0.51 | 4 | -3.44 | 2.53 | -5.97 | 32 |
| Vermont | 5.64 | 3.10 | 2.54 | 3 | -1.21 | 3.32 | -4.53 | 20 |
| Virginia | 4.22% | 3.43% | 0.79% | 10 | -2.32% | 2.92% | -5.24% | 26 |
| Washington | 2.17 | 3.82 | -1.65 | 41 | -0.40 | 2.27 | -2.68 | 15 |
| West Virginia | 2.30 | 1.88 | 0.41 | 39 | 3.77 | 3.15 | 0.61 | 3 |
| Wisconsin | 3.57 | 3.09 | 0.49 | 19 | 0.39 | 2.61 | -2.22 | 8 |
| Wyoming | 3.48 | 3.14 | 0.34 | 20 | -2.66 | 3.92 | -6.58 | 29 |
| District of Columbia | 0.91% | 1.30% | -0.38% | - | -3.15% | 3.28% | -6.43% | - |

(a) If tax growth exceeds income growth, the relationship will be positive; and if income growth exceeds tax growth, the relationship will be negative.

(b) Does not include the District of Columbia.

(c) Income is defined as net national product allocated by state and adjusted into fiscal years.

Source: Tax Foundation, based on data from the Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

Table 4
State Tax Collections Per Capita and Per \$1,000 of Total Income With Corresponding Ranks
Fiscal Year 2002

| | Total (\$Thousands) | Per Capita (c) | Per \$1,000 of Income (c) | Rank | |
|----------------------|------------------------|-------------------|------------------------------|---------------|--------------------------|
| | | | | Per Capita | Per \$1,000 of Income |
| All States (a) | \$ 533,432,378 | \$ 1,863 | \$ 59.56 | - | - |
| Alabama | \$ 6,878,923 | \$ 1,536 | \$ 60.84 | 42 | 25 |
| Alaska | 1,089,504 | 1,705 | 53.37 | 34 | 40 |
| Arizona | 8,477,001 | 1,575 | 59.35 | 40 | 30 |
| Arkansas | 5,034,109 | 1,863 | 79.21 | 21 | 6 |
| California | 77,755,376 | 2,231 | 66.75 | 8 | 18 |
| Colorado | \$ 6,923,171 | \$ 1,549 | \$ 45.64 | 41 | 49 |
| Connecticut | 9,032,787 | 2,620 | 60.32 | 3 | 28 |
| Delaware | 2,173,600 | 2,710 | 82.38 | 2 | 4 |
| Florida | 24,815,964 | 1,500 | 49.91 | 44 | 45 |
| Georgia | 13,772,147 | 1,623 | 55.76 | 38 | 36 |
| Hawaii | \$ 3,420,671 | \$ 2,768 | \$ 91.85 | 1 | 1 |
| Idaho | 2,271,075 | 1,706 | 67.56 | 32 | 16 |
| Illinois | 22,460,190 | 1,788 | 52.83 | 24 | 42 |
| Indiana | 9,994,595 | 1,627 | 57.26 | 37 | 34 |
| Iowa | 5,006,251 | 1,706 | 60.36 | 33 | 27 |
| Kansas | \$ 4,808,361 | \$ 1,775 | \$ 60.73 | 25 | 26 |
| Kentucky | 7,974,690 | 1,954 | 75.92 | 19 | 7 |
| Louisiana | 7,345,994 | 1,641 | 64.73 | 36 | 20 |
| Maine | 2,626,830 | 2,038 | 73.08 | 14 | 10 |
| Maryland | 10,821,276 | 1,996 | 54.84 | 16 | 38 |
| Massachusetts | \$ 14,819,794 | \$ 2,310 | \$ 58.19 | 6 | 31 |
| Michigan | 21,864,052 | 2,180 | 71.50 | 10 | 13 |
| Minnesota | 12,936,369 | 2,586 | 75.66 | 4 | 8 |
| Mississippi | 4,728,905 | 1,650 | 73.71 | 35 | 9 |
| Missouri | 8,678,611 | 1,535 | 52.73 | 43 | 43 |
| Montana | \$ 1,442,731 | \$ 1,591 | \$ 63.48 | 39 | 23 |
| Nebraska | 2,992,522 | 1,735 | 58.14 | 29 | 33 |
| Nevada | 3,945,329 | 1,847 | 59.99 | 22 | 29 |
| New Hampshire | 1,883,924 | 1,487 | 42.75 | 45 | 50 |
| New Jersey | 18,328,814 | 2,144 | 53.79 | 12 | 39 |
| New Mexico | \$ 3,628,055 | \$ 1,969 | \$ 82.27 | 18 | 5 |
| New York | 43,262,137 | 2,263 | 62.02 | 7 | 24 |
| North Carolina | 15,535,277 | 1,880 | 67.23 | 20 | 17 |
| North Dakota | 1,117,299 | 1,758 | 65.74 | 27 | 19 |
| Ohio | 19,616,569 | 1,720 | 58.16 | 30 | 32 |
| Oklahoma | \$ 6,052,680 | \$ 1,738 | \$ 68.16 | 28 | 15 |
| Oregon | 5,139,322 | 1,469 | 50.68 | 46 | 44 |
| Pennsylvania | 22,135,537 | 1,797 | 56.49 | 23 | 35 |
| Rhode Island | 2,127,609 | 1,998 | 63.89 | 15 | 21 |
| South Carolina | 5,748,585 | 1,407 | 55.00 | 47 | 37 |
| South Dakota | \$ 976,596 | \$ 1,286 | \$ 47.16 | 50 | 47 |
| Tennessee | 7,797,681 | 1,351 | 49.03 | 48 | 46 |
| Texas | 28,662,395 | 1,328 | 45.98 | 49 | 48 |
| Utah | 3,925,382 | 1,709 | 69.69 | 31 | 14 |
| Vermont | 1,533,982 | 2,494 | 83.92 | 5 | 2 |
| Virginia | \$ 12,781,149 | \$ 1,764 | \$ 53.26 | 26 | 41 |
| Washington | 12,628,567 | 2,094 | 63.54 | 13 | 22 |
| West Virginia | 3,551,756 | 1,972 | 83.32 | 17 | 3 |
| Wisconsin | 11,813,832 | 2,178 | 72.12 | 11 | 11 |
| Wyoming | 1,094,402 | 2,204 | 71.54 | 9 | 12 |
| District of Columbia | \$ 3,215,289 | \$ 5,621 | \$ 131.29 | - | - |

(a) Does not include the District of Columbia.

(b) Based on quarterly data.

(c) Population and total income figures adjusted into fiscal years.

Source: Tax Foundation, based on data from the Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

However, the growth rates of income and tax collections vary dramatically from state to state. Due to the reduction in the individual income tax, Alaskans' total income grew 27.37 percent faster than the state's tax collections. Other states where growth in income outpaced state tax collections by a significant amount were California, Connecticut, Idaho, Massachusetts and New Mexico.

From FY 2001 to FY 2002, the three states where state tax collections grew faster than taxpayers' income were Alabama, New Hampshire and West Virginia.

Ranking State Tax Collections

Table 4 breaks down state tax collections by state and expresses the data per capita and per \$1,000 of income. Both measurements are useful since they illustrate two different aspects of the same picture, with one controlling for differences in population and the other controlling for differences in income.

States with the highest per capita tax collections in FY 2002 include Hawaii, Delaware and Connecticut, while states with the lowest tax collections include South Dakota, Texas and Tennessee. States with the highest levels of tax collections per \$1,000 of income include Hawaii, Vermont, and West Virginia, while states with the lowest levels of tax collections include New Hampshire, Colorado, and Texas.

Various measurements of state tax collections can differ substantially. For example, Maryland and Mississippi show an almost equally large disparity between their rankings "per capita" and "per \$1,000 of income" but in opposite directions. This disparity can be explained by the difference in income per capita in the two states.

Income per capita in Mississippi is approximately 83 percent of that in Maryland. As a result, Mississippi is ranked 35th in tax collections per

capita, but in terms of tax collections per \$1,000 of income, it is ranked as the 9th highest. On the other hand, Maryland is ranked 16th in tax collections per capita but only 38th in tax collections per \$1,000 of income.

In some cases, taxes are high by any measure. If Washington, D.C. were a state, it would have the highest tax collections of any state, whether measured per capita or per \$1,000 of income.

Changes in State Tax Rates During 2003

Several state governments showed concern for their taxpayers by responding with tax cuts, mostly small ones, to encourage economic growth. Meanwhile other state governments focused on their own short-term revenue needs and raised taxes. Some did a little of both. Tables 5, 6 and 7 summarize the tax rates in force in each state at the end of 2003, highlighting the states that made significant changes during the year.

Individual Income Taxes

New Mexico reduced its top rate by a half of a percentage point, from 8.2 to 7.7 percent. That applies to all income over \$42,000. The District of Columbia raised its top two income tax rates. All income over \$10,000 is now taxed at 7.5 percent instead of 7.0 percent, and income over \$30,000 is taxed at 9.3 percent, up from 9.0 percent. Eight states adjusted their individual income tax brackets for inflation during calendar year 2003, as they do every year: Arkansas, California, Iowa, Maine, Minnesota, Montana, North Dakota and Wisconsin.

- Arkansas has six brackets and levied a top rate of 7 percent on income over \$27,889, up from \$26,700 in 2002.
- California also has six brackets and levied a top rate of 9.3 percent on income over \$39,133, up from \$38,291 in 2002.
- Iowa has nine brackets and levied an 8.98 percent tax on income above \$55,850, up from \$54,495 in 2002.
- Maine widened all four of its brackets, raising its top bracket to \$16,950 from \$16,699 and

maintained a top tax rate of 8.5 percent.

- Minnesota widened all three of its brackets. Its top tax rate is 7.85 percent on all income over \$62,440, up from \$61,460 in 2002.
- Montana widened seven of its ten brackets, including the top bracket, the threshold of which went from \$76,200 to \$77,800. The rate on that income is still 11 percent. Most states without sales taxes have high income taxes, and some states have local income taxes, but this is the highest state-level income tax in the country.
- North Dakota widened all five of its brackets, and its top tax rate of 5.54 percent is applied to income above \$311,950, compared to the last year's threshold of \$307,050.
- Wisconsin's topmost bracket of nine has a new income threshold of \$55,850, up from \$54,495. Its top tax rate remains 8.98 percent.

Utah also widened all six of its brackets, and it raised the income threshold for its top rate from the unusually low \$3,750 to a still-low \$4,313. Its top tax rate is 7 percent. See Table 5.

Corporate Income Taxes

Not one state reduced its corporate income tax rate, (although in 1998, Michigan began a 23-year phase-out of its 2.3 percent single business tax (SBT) by reducing the rate 0.1 percent each year. However, for FY 2003 the state's stabilization fund fell below \$250 million, and therefore the corporate rate was not reduced.)

Meanwhile, four states and the District of Columbia increased their corporate income tax rates:

- Alabama increased its flat rate one half of a percentage point, from 6 to 6.5 percent.
- Indiana increased its flat rate to 8.5 percent.
- North Dakota increased its rate on financial institutions by two percentage points, from 5 to 7 percent.
- Tennessee increased its flat rate one half of a percentage point, from 6 to 6.5 percent.
- The District of Columbia increased its flat rate from 9.5 to 9.975 percent. See Table 6 for more details.

Table 5
Individual Income Tax Rates, As of December 31, 2003
(2003's noteworthy changes in bold)

| State | Federal Deductibility | Marginal Rates and Tax Brackets for Single Filers | Standard Deduction | | Personal Exemptions | |
|-----------------------|-----------------------|--|---------------------|---------------------|---------------------|---------------------|
| | | | Single | Joint | Single (b) | Dependents |
| Alabama | Yes (z) | 2% > \$0; 4% > \$500; 5% > \$3K | \$ 2,000 | \$ 4,000 | \$ 1,500 | \$ 300 |
| Alaska | No | None | n.a. | n.a. | n.a. | n.a. |
| Arizona | No | 2.87% > \$0; 3.20% > \$10K; 3.74% > \$25K; 4.72% > \$50K; 5.04% > \$150K | \$ 4,050 | \$ 8,100 | \$ 2,100 | \$ 2,300 |
| Arkansas | No | 1% > \$0; 2.5% > \$3,299; 3.5% > \$6,699 4.5% > \$9,999; 6% > \$16,699; 7% > \$27,899 (l)(w) | \$ 2,000 | \$ 4,000 | \$ 20 (c) | \$ 20 (c) |
| California | No | 1.0% > \$0; 2% > \$5,962; 4% > \$14,133 6% > \$22,306; 8% > \$30,965; 9.3% > \$39,133(w) | \$ 3,070(w) | \$ 6,140(w) | \$ 80(c)(w) | \$ 251 (c)(w) |
| Colorado | No | 4.63% of federal taxable income. | n.a. | n.a. | n.a. | n.a. |
| Connecticut | No | 3.0% > \$0; 5.0% > \$10K | n.a. | n.a. | \$ 12,500 (e) | \$ 0 |
| Delaware | No | 2.2% > \$2K; 3.9% > \$5K; 4.8% > \$10K 5.2% > \$20K; 5.55% > \$25K; 5.95% > \$60K | \$ 3,250 | \$ 6,500 | \$ 110 (c) | \$ 110 (c) |
| Florida | No | None | n.a. | n.a. | n.a. | n.a. |
| Georgia | No | 1% > \$0; 2% > \$750; 3% > \$2,250 4% > \$3,750; 5% > \$5,250; 6% > \$7K | \$ 2,300 | \$ 3,000 | \$ 2,700 | \$ 2,700 |
| Hawaii | No | 1.4% > \$0; 3.2% > \$2K; 5.5% > \$4K 6.4% > \$8K; 6.8% > \$12K; 7.2% > \$16K 7.6% > \$20K; 7.9% > \$30K; 8.25% > \$40K | \$ 1,500 | \$ 1,900 | \$ 1,040 | \$ 1,040 |
| Idaho (g) | No | 1.6% > \$0; 3.6% > \$1,086; 4.1% > \$2,172; 5.1% > \$3,259 6.1% > \$4,345; 7.1% > \$5,432; 7.4% > \$8,148; 7.8% > \$21,730 | \$ 4,750 | \$ 9,500 | \$ 3,050 | \$ 3,050 |
| Illinois | No | 3% of federal adjusted gross income with modification. | n.a. | n.a. | \$ 2,000 | \$ 2,000 |
| Indiana | No | 3.4% of federal adjusted gross income with modification. | n.a. | n.a. | \$ 1,000 | \$ 1,000 |
| Iowa | Yes | 0.36% > \$0; 0.72% > \$1,242; 2.43% > \$2,484 4.5% > \$4,968; 6.12% > \$11,178; 6.48% > \$18,630 6.8% > \$24,840; 7.92% > \$37,260; 8.98% > \$55,890 | \$ 1,550 (w) | \$ 3,830 (w) | \$ 40 (c) | \$ 40 (c) |
| Kansas | No | 3.5% > \$0; 6.25% > \$15K; 6.45% > \$30K | \$ 3,000 | \$ 6,000 | \$ 2,250 | \$ 2,250 |
| Kentucky | No | 2% > \$0; 3% > \$3K; 4% > \$4K; 5% > \$5K; 6% > \$8K | \$ 1,830 | \$ 1,830 | \$ 20 (c) | \$ 20 (c) |
| Louisiana | Yes | 2% > \$0; 4% > \$10K; 6% > \$50K | n.a. | n.a. | \$ 4,500 (m) | \$ 1,000 |
| Maine | No | 2% > \$0; 4.5% > \$4,250; 7% > \$8,450; 8.5% > \$16,950 | \$ 4,750 | \$ 7,950 | \$ 2,850 (w) | \$ 2,850 (w) |
| Maryland | No | 2% > \$0; 3% > \$1K; 4% > \$2K; 4.75% > \$3K | \$ 2,000 (n) | 4,000 (n) | \$ 2,400 | \$ 2,400 |
| Massachusetts | No | 5.3% or 12% (f) | n.a. | n.a. | \$ 3,300 | \$ 1,000 |
| Michigan | No | 4.0% of federal adjusted gross income with modification. | n.a. | n.a. | \$ 3,100 | \$ 3,000 |
| Minnesota | No | 5.35% > \$0; 7.05% > \$19,010; 7.85% > \$62,440 | \$ 4,750 (y) | \$9,500(y) | \$ 3,000 (y) | \$ 3,000 (y) |
| Mississippi | No | 3% > \$0; 4% > \$5K; 5% > \$10K | \$ 2,300 | \$ 4,600 | \$ 6,000 | \$ 1,500 |
| Missouri | Yes (aa)(z) | 1.5% > \$0; 2% > \$1K; 2.5% > \$2K; 3% > \$3K; 3.5% > \$4K 4% > \$5K; 4.5% > \$6K; 5% > \$7K; 5.5% > \$8K; 6% > \$9K | \$ 4,750 (y) | \$ 9,500 (y) | \$ 2,100 | \$ 1,200 |
| Montana | Yes (p) | 2% > \$0; 3% > \$2,200; 4% > \$4,400; 5% > \$8,900; 6% > \$13,300 7% > \$17,800; 8% > \$22,200; 9% > \$31,100 10% > \$44,500; 11% > \$77,800 | \$ 3,330 (p)(w) | \$ 6,660 (p)(w) | \$ 1,780 (w) | \$ 1,780 (w) |
| Nebraska | No | 2.56% > \$0; 3.57% > \$2,400; 5.12% > \$17K; 6.84% > \$26,500 | \$ 4,750 (y) | \$ 7,950 (y) | \$99(c)(q) | \$ 99 (c)(q) |
| Nevada | No | None | n.a. | n.a. | n.a. | n.a. |
| New Hampshire | No | 5% > \$0 (h) | n.a. | n.a. | \$ 2,400 | n.a. |
| New Jersey | No | 1.4% > \$0; 1.75% > \$20K; 3.5% > \$35K 5.525% > \$40K; 6.37% > \$75K | n.a. | n.a. | \$ 1,000 | \$ 1,500 |
| New Mexico | No | 1.7% > \$0; 3.2% > \$5,500; 4.7% > \$11K 6% > \$16K; 7.1% > \$26K; 7.7% > \$42K | \$ 4,750 (y) | \$ 9,500(y) | \$ 3,050(y) | \$ 3,050(y) |
| New York | No | 4% > \$0; 4.5% > \$8K; 5.25% > \$11K 5.9% > \$13K; 6.85% > \$20K | \$ 7,500 | \$ 14,600 | n.a. | \$ 1,000 |
| North Carolina | No | 6% > \$0; 7% > \$12,750 7.75% > \$60K; 8.25% > \$120K | \$ 3,750 | \$ 6,100 | \$ 1,050 (r) | \$ 1,050 (r) |
| North Dakota | No | 2.1% > \$0; 3.92% > \$28,400; 4.34% > \$68,800 5.04% > \$143,500; 5.54% > \$311,950 | \$ 4,750 (y) | \$ 7,950 (y) | \$ 3,050(y) | \$ 3,050(y) |
| Ohio | No | 0.743% > \$0; 1.486% > \$5K; 2.972% > \$10K 3.715% > \$15K; 4.457% > \$20K; 5.201% > \$40K 5.943% > \$80K; 6.9% > \$100K; 7.5 % > \$200K (u) | n.a. | n.a. | \$ 1,250 (g) | \$ 1,250 (g) |

Table 5 (Continued)
Individual Income Tax Rates, As of December 31, 2003
(2003's noteworthy changes in bold)

| State | Federal Deductibility | Marginal Rates and Tax Brackets for Single Filers | Standard Deduction | | Personal Exemptions | |
|----------------------|--------------------------|---|--------------------|-----------------|---------------------|---------------|
| | | | Single | Joint | Single (b) | Dependents |
| Oklahoma | Yes (d) | 0.5% > \$0; 1% > \$1K; 2% > \$2,500; 3% > \$3,750 4% > \$4,900; 5% > \$6,200; 6% > \$7,700; 7% > \$10K | \$ 2,000 (s) | \$ 2,000 (s) | \$ 1,000 | \$ 1,000 |
| Oregon | Yes | 5% > \$0; 7% > \$2,500; 9% > \$6,300 | \$ 1,670 | \$ 3,345 | \$ 142 (c)(w) | \$ 142 (c)(w) |
| Pennsylvania | No | 2.8% > \$0 (ab) | n.a. | n.a. | n.a. | n.a. |
| Rhode Island | No | 25% of federal income tax liability. | \$ 4,750 | \$ 7,950 | \$ 3,050 | \$ 3,050 |
| South Carolina | No | 2.5% > \$0; 3% > \$2,400; 4% > \$4,800 5% > \$7,200; 6% > \$9,600; 7% > \$12,000 | \$4,750 (y) | \$ 7,950 (y) | \$ 3,050 (y) | \$ 3,050 (y) |
| South Dakota | No | None | n.a. | n.a. | n.a. | n.a. |
| Tennessee | No | 6% > \$0 (h) | n.a. | n.a. | \$ 1,250 | n.a. |
| Texas | No | None | n.a. | n.a. | n.a. | n.a. |
| Utah | Yes | 2.3% > \$0; 3.3% > \$863; 4.2% > \$1,726 5.2% > \$2,588; 6% > \$3,450; 7% > \$4,313 | \$ 4,750 | \$ 9,500 | \$ 2288 (v) | \$ 2,288 (v) |
| Vermont | No | 3.6% > \$0; 7.2% > \$28,400; 8.5% > \$68,800 9% > \$143,500; 9.5% > \$311,950 | n.a. | n.a. | \$ 3,000 | n.a. |
| Virginia | No | 2% > \$0; 3% > \$3K; 5% > \$5K; 5.75% > \$17K | \$ 3,000 | \$ 5,000 | \$ 800 | \$ 800 |
| Washington | No | None | n.a. | n.a. | n.a. | n.a. |
| West Virginia | No | 3% > \$0; 4% > \$10K; 4.5% > \$25K; 6% > \$40K; 6.5% > \$60K | n.a. | n.a. | \$ 2,000 | \$ 2,000 |
| Wisconsin | No | 4.60% > \$0; 6.15% > \$8,280 6.50% > \$16,560; 6.75% > \$126,420 | \$ 7,790 (k) | \$ 14,030 (k) | \$ 700 | \$ 700 |
| Wyoming | No | None | n.a. | n.a. | n.a. | n.a. |
| Dist. of Col. | No | 5% > \$0; 7.5% > \$10K; 9.3% > \$30K | \$ 1,000 | \$ 2,000 | \$ 1,370 | \$ 1,370 |

Note: Bold, Italics indicate notable tax changes.

- (a) Applies to single taxpayers and married people filing separately. Most states double brackets for married filing joint.
- (b) Except for Delaware and Mississippi, married-joint filers receive double the single exemption. Delaware is a flat \$110 tax credit and Mississippi is \$9,500 for joint.
- (c) Tax Credit.
- (d) Rates listed assume that taxpayers opt not to deduct their federal income tax liability. In Oklahoma, if a filer chooses to deduct his federal liability, then he faces a range of rates from 0.5%-10% on income up to \$1,000 and over \$16,000 respectively.
- (e) The single personal exemption will increase to \$12,625 as of the beginning of the 2004 tax year.
- (f) The 12% rate applies to short-term capital gains, long- and short-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes.
- (g) Taxpayers receive a \$20 tax credit per exemption in addition to the normal exemption amount.
- (h) Applies to interest and dividend income only.
- (k) Deduction phases out to zero for single filers at \$41,000 and joint filers at \$76,000.
- (l) Rates apply to regular tax table. A special tax table is available for low-income taxpayers that reduce their tax payments.
- (m) Standard deduction and personal exemptions are combined: \$4,500 for single and married filing separately; \$9,000 married filing jointly and head of household.
- (n) The standard deduction is 15 percent of income with a minimum of \$1,500 and a cap of \$2,000 for single filers, married filing separately filers and dependent filers earning more than \$13,333. The standard deduction is capped at \$4,000 for married filing jointly filers, head of household filers and qualifying widowers earning more than \$26,667.
- (p) Can claim either the standard deduction or the amount of federal taxes withheld, whichever is greater.
- (q) The \$99 personal exemption credit is phased out for filers with adjusted gross income of \$70,000 or more.
- (r) Exemptions are based on federal standard deductions but are adjusted according to income and filing status.
- (s) The deduction given is applicable to all filers, excluding those married filing separately, with adjusted gross income (AGI) over \$13,333. For those with AGI between \$6,666 and \$13,333 the standard deduction is 15% of AGI and for those with AGI of less than \$6,666 the standard deduction is \$1,000. For married filing separately, the standard deduction is \$500 or 15% of AGI, but not to exceed \$1,000.
- (u) Under Ohio law, when the state ends its fiscal year with a significant budget surplus, that surplus is refunded to taxpayers through a temporary reduction in the income tax rates. Normal rates range shown.
- (v) Three-fourths federal exemption.
- (w) Indexed for Inflation.
- (x) All filers must pay \$10 for the permanent building fund tax.
- (y) Deductions and exemptions tied to Federal tax system. Federal deductions and exemptions are indexed for inflation.
- (z) Residents should deduct the federal income tax liability as shown on their 2003 federal income tax return, less any federal Advance Child Tax Credit for 2003.
- (aa) If you checked Box A, B, D, E, F, or G on Line 9, your federal tax deduction is limited to \$5,000. If you checked Box C on Line 9, your federal tax deduction is limited to \$10,000.
- (ab) Tax rate changes from 2.8% to 3.07% in 2004.

Sources: State tax forms and instructions, Commerce Clearing House, Federation of Tax Administrators.

Table 6
Corporate Income Tax Rates, As of December 31, 2003
(2003's noteworthy changes in bold)

| State | Tax Rates and Brackets | Special Rates or Notes |
|-------------------------|--|--|
| Alabama | 6.5% | Federal Deductibility |
| Alaska | 1% > \$0; 2% > \$10K; 3% > \$20K; 4% > \$30K; 5% > \$40K; 6% > \$50K; 7% > \$60K; 8% > \$70K; 9% > \$80K; 9.4% > \$90K | |
| Arizona | 6.968% | Minimum tax is \$50. |
| Arkansas | 1% > \$0; 2% > \$3K; 3% > \$6K 5% > \$11K; 6% > \$25K; 6.5% > \$100K | Corporations with net incomes exceeding \$100,000, 6.5% of entire net income. |
| California | 8.84% | 10.84% on financial institutions. Minimum tax is \$800. The tax rate on S-Corporations is 1.5% (3.5% for banks). |
| Colorado | 4.63% | |
| Connecticut | 7.5% | |
| Delaware | 8.7% | |
| Florida | 5.5% | 3.3% alternative minimum rate. An exemption of \$5,000 is allowed. |
| Georgia | 6% | |
| Hawaii | 4.4% > \$0; 5.4% > \$25K; 6.4% > \$100K | 4% capital gains rate, 7.92% on financial institutions. |
| Idaho | 7.6% | Minimum tax is \$20. |
| Illinois | 7.3% | Includes 2.5% income replacement tax. |
| Indiana | 8.5% | |
| Iowa | 6% > \$0; 8% > \$25K; 10% > \$100K; 12% > \$250K | 5% on financial institutions; 7.2% alternative minimum rate; 50% federal deductibility. |
| Kansas | 4% | 3.35% surtax over \$50,000; Banks 2.25% plus 2.125% surtax over \$25,000. |
| Kentucky | 4% > \$0; 5% > \$25K; 6% > \$50K 7% > \$100K; 8.25% > \$250K | |
| Louisiana | 4% > \$0; 5% > \$25K; 6% > \$50K; 7% > \$100K; 8% > \$200K | Federal deductibility. |
| Maine | 3.5% > \$0; 7.93% > \$25K 8.33% > \$75K; 8.93% > \$250K | 27% of federal alternative minimum tax liability. |
| Maryland | 7% | |
| Massachusetts | 9.50% | Rate includes 14% surtax, as does the following: an additional tax of \$7.00 per \$1,000 on taxable tangible property (or net allocable to state, for intangible property corporations); minimum tax of \$456. 10.5% on financial institutions; 10.91% on savings and loan associations. |
| Michigan | 1.9% > \$45K | Modified VAT applies to gross receipts. Must file if gross receipts over \$250K. \$45K deductible. Annual tax rate reduction by 0.1 percent was legislated in 1998 when rate was 2.3 percent, with intent to phase tax out over 23 years. If state's Budget Stabilization Fund balance falls below \$250 million for a fiscal year, the next calendar year's reduction is canceled. |
| Minnesota | 9.8% | 5.8% alternative minimum tax rate. A minimum tax is levied based on Minnesota property, payroll and sales. |
| Mississippi | 3% > \$0; 4% > \$5K; 5% > \$10K | Franchise tax of \$2.50 per \$1,000 with minimum tax of \$25. |
| Missouri | 6.25% | 7% on financial institutions; 50% of federal tax deductible. |
| Montana | 6.75% | 7% for corporations filing under a water's edge election. Minimum tax is \$50. Minimum tax for small business corporations is \$10. |
| Nebraska | 5.58% > \$0; 7.81% > \$50K | |
| Nevada | None | |
| New Hampshire | 8.5% > \$50K; 9.25% > \$150K | Its two corporate taxes – the Business Profits Tax (BPT) and the Business Enterprise Tax (BET) – have different rates and bases. The BPT rate is 8.5% on gross income over \$50K. The BET rate is either 0.75% on gross income over \$150K, or 0.75% on total compensation paid out, including dividends and interest, over \$75K, making 9.25% the top rate a corporation may face. |
| New Jersey | 9% | This is the corporation business franchise tax rate. Minimum tax is \$500. Alternative Minimum Assessment based on gross receipts applies if greater than corporate franchise tax. Corporations not subject to the franchise tax are subject to a 7.25% income tax. Corporations with net income under \$100,000 are taxed at 6.5%. Tax on S corporations being phased out as follows: tax on firm with entire net income not subject to federal corporate income tax in excess of \$100,000 will remain at 1.33% for privilege periods ending on or before June 30, 2006, falling to 0.67% the next year, and then repealed for privilege periods ending on or after July 1, 2007. If entire net income not subject to federal corporate income tax is \$100,000 or less, the repeal date is also July 1, 2007. |
| New Mexico | 4.8% > \$0; 6.4% > \$500K; 7.6% > \$1,000K | |
| New York | 7.5% | The tax rate on entire net income (ENI) for a small business taxpayer with ENI of \$200,000 or less will be reduced from 7.5% to 6.85% for tax years beginning after June 30, 2003. The tax rate on ENI for a small business taxpayer with ENI greater than \$200,000 will be reduced from 7.5% to a rate between 6.85% and 7.5% for tax years beginning after June 30, 2003. 2.5% surtax rate. |
| North Carolina | 6.9% | |
| North Dakota | 3% > \$0; 4.5% > \$3K; 6% > \$8K; 7.5% > \$20K; 9% > \$30K; 10.5% > \$50K | 7% for financial institutions plus 2% surtax rate; Federal deductibility. Minimum tax is \$50. As of 2004, the following rates and brackets apply: 2.6% > \$0; 4.1% > \$3K; 5.6% > \$8K; 6.4% > \$20K; 7% > \$30K |
| Ohio | 5.1% > \$0; 8.5% > \$50K | For financial institutions, 0.015 times value of stock. Minimum tax is \$50. The net worth rate for corporations other than financial institution is 4 mills. The net worth rate for financial institutions is thirteen mills. Financial institutions are exempt from the net income base. |
| Oklahoma | 6% | |
| Oregon | 6.6% | Minimum tax is \$10. |
| Pennsylvania | 9.99% | Imposes a capital stock and franchise tax of 0.724% on taxable income over \$ 150K. |
| Rhode Island | 9% | 9% of net income apportioned to Rhode Island; or an annual franchise tax on its authorized capital stock at the rate of \$2.50 for each \$10,000.00 or fractional part thereof or a minimum of \$250.00, whichever amount shall yield the greatest tax. |
| South Carolina | 5% | 4.5% for banks; 6% for savings and loans. |
| South Dakota | None | 6%-0.25% on a bank's net income. Minimum tax is \$500 per location (banks). |
| Tennessee | 6.5% | |
| Texas | None | |
| Utah | 5% | Minimum tax is \$100. |
| Vermont | 7% > \$0; 8.1% > \$10K; 9.2% > \$25K; 9.75% > \$250K | Minimum tax is \$250. |
| Virginia | 6% | |
| Washington | None | Gross receipts tax. The 20 different rates range from 0.011% – 5.029% depending on business activity. |
| West Virginia | 9% | Business franchise tax of \$0.70 per \$100 of taxable capital, or a minimum of \$50. |
| Wisconsin | 7.9% | |
| Wyoming | None | |
| District of Col. | 9.975% | Minimum tax is \$100. Includes 5% surtax. |

Table 7
Various State Tax Rates, As of December 31, 2003
(2003's noteworthy changes in bold)

| | Sales Tax (Percent) | Gasoline Tax (Cents per Gallon) | Cigarette Tax (Cents per 20-pack) | Spirits Tax (Dollars per Gallon) | Table Wine Tax (Dollars per Gallon) | Beer Tax (Dollars per Gallon) |
|-----------------------------|------------------------|---------------------------------------|---|--|---|-------------------------------------|
| Alabama | 4% | 16¢ | 16.5¢ | (b) | \$ 1.70 | \$ 0.52 |
| Alaska | None | 8 | 100 | \$ 5.60 | 2.50 | 0.35 |
| Arizona | 5.6 | 18 | 118 | 3.00 | 0.84 | 0.16 |
| Arkansas (o) | 6 | 21.5 | 31.5 | 2.50 | 0.75 | 0.23 |
| California | 7.25 | 18 | 87 | 3.30 | 0.20 | 0.20 |
| Colorado | 2.9% | 22¢ | 20¢ | \$ 2.28 | \$ 0.33 | \$ 0.08 |
| Connecticut | 6 | 25 | 151 | 4.50 | 0.60 | 0.19 |
| Delaware | None | 23 | 24 | 5.46(r) | 0.97 | 0.16 |
| Florida | 6 | 13.9 | 33.9 | 6.50 | 2.25 | 0.48 |
| Georgia | 4 | 7.5 | 37 | 3.79 | 1.51 | 0.48 |
| Hawaii | 4% | 16¢ | 130¢ | \$ 5.98 | \$ 1.38 | \$ 0.93 |
| Idaho | 6 | 25 | 57(s) | (b) | 0.45 | 0.15 |
| Illinois | 6.25 | 30 | 98 | 4.50 | 0.73 | 0.19 |
| Indiana | 6 | 18 | 55 | 2.68 | 0.47 | 0.12 |
| Iowa | 5 | 20 | 36 | (b) | 1.75 | 0.19 |
| Kansas | 5.3% | 24¢ | 79¢ | \$ 2.50 | \$ 0.30 | \$ 0.18 |
| Kentucky | 6 | 15 | 60 | 1.92 | 0.50 | 0.08 |
| Louisiana | 4 | 20 | 36 | 2.50 | 0.11 | 0.32 |
| Maine | 5 | 22 | 100 | (b) | 0.60 | 0.35 |
| Maryland | 5 | 23.5 | 100 | 1.50 | 0.40 | 0.09 |
| Massachusetts | 5% | 21¢ | 151¢ | \$ 4.05 | \$ 0.55 | \$ 0.11 |
| Michigan | 6 | 19 | 125 | (b) | 0.51 | 0.20 |
| Minnesota | 6.5 | 20 | 48 | 5.03 | 0.30 | 0.15 |
| Mississippi | 7 | 18 | 18 | (b) | 0.35 | 0.43 |
| Missouri | 4.225 | 17 | 17 | 2.00 | 0.30 | 0.06 |
| Montana | None | 27¢ | 70¢ | (b) | \$ 1.02 | \$ 0.14 |
| Nebraska | 5.5%(m) | 24.6(a) | 64 (h) | \$ 3.75 | 0.95 | \$ 0.31 |
| Nevada | 6.5 (p) | 23 (t) | 80 | 3.60 | 0.70 | 0.16 |
| New Hampshire | None | 18 | 52 | (b) | (b) | 0.30 |
| New Jersey | 6 | 10.5 | 205 | 4.40 | 0.70 | 0.12 |
| New Mexico | 5% | 17¢ | 91¢ | \$ 6.06 | \$ 1.70 | \$ 0.41 |
| New York | 4 | 32.7 | 150 | 6.44 | 0.19 | 0.11 |
| North Carolina | 4.5 (n) | 24.2 (a) | 5 | (b) | 0.79 | (c) |
| North Dakota | 5 | 21 | 44 | 2.50 | 0.50 | 0.16 |
| Ohio | 6(q) | 24(u) | 55 | 3.38 (b) | 0.30 | 0.18 |
| Oklahoma | 4.5% | 16¢ | 23¢ | \$ 5.56 | \$ 0.72 | \$ 0.40 |
| Oregon | None | 24 | 128 | (b) | 0.67 | 0.08 |
| Pennsylvania | 6 | 12 | 100 | (b) | (b) | 0.08 |
| Rhode Island | 7 | 30 | 171 | 3.75 | 0.60 | 0.10 |
| South Carolina | 5 | 16 | 7 | 2.72 | 1.08 (d) | 0.77 |
| South Dakota | 4% | 16¢ | 53¢ | \$ 3.93 | \$ 0.93 | \$ 0.27 |
| Tennessee | 7(l) | 20 | 20 | 4.40 | 1.21 | 0.14 |
| Texas | 8.25 | 20 | 41 | 2.40 | 0.20 | 0.20 |
| Utah | 4.75 | 24.5 | 69.5 | (b) | 13% (b) | 0.41 |
| Vermont | 6 | 19 | 119 | (b) | 0.55 | 0.27 |
| Virginia | 4.5%(v) | 17.5¢ | 2.5¢ | (b) | \$ 1.51 | \$ 0.26 |
| Washington | 6.5 | 28 | 142.5 | (b) | 0.86 | 0.26(e) |
| West Virginia | 6 | 20.5 | 55 | (b) | 1.00 | 0.18 |
| Wisconsin | 5 | 28.5 (a) | 77 | \$ 3.25 | 0.25 | 0.07 |
| Wyoming | 4 | 14 (f) | 60 | (b) | (b) | 0.02 |
| District of Columbia | 5.75% | 20¢ | 100¢ | \$ 1.50 | \$ 0.30 | \$ 0.09 |

(a) The gas tax is indexed for inflation in Nebraska, North Carolina, and Wisconsin. Nebraska's indexed rate is revised quarterly. North Carolina's indexed rate is revised every six months. Wisconsin's indexed rate is revised every April 1.
 (b) States where the state government controls all sales.
 (c) North Carolina's beer tax is \$0.48387 per gallon in barrels holding at least 7.75 gallons, but \$0.53376 per gallon in barrels holding less than 7.75 gallons.
 (d) South Carolina's rate of \$1.08 includes 18 cents additional tax.
 (e) Since July 1, 1997, Washington has collected an additional beer tax of \$4.78 per barrel.
 (f) Wyoming's rate is lowered by 1 cent per gallon if certain environmental funds are adequately funded.
 (g) Returns to 34 cents on October 1, 2004.
 (h) Rate rose from 6% to 7% on July 1, 2002, but the rate on food remained 6%.
 (i) Was scheduled to drop to 5.0% on October 1, 2003, however, did not.
 (j) The 2003 North Carolina General Assembly has enacted legislation that extends the additional _% State rate of sales and use tax until July 1, 2005. The additional _%, resulting in a combined State rate of 4_%, was effective October 16, 2001 and was originally scheduled to

expire on June 30, 2003. As a result of the current legislation, the additional _% State tax will not expire as originally scheduled, and the 4_% State rate of sales and use tax will remain in effect until July 1, 2005.
 (o) Residents inside the city limits of Texarkana the state rate is 6.125%.
 (p) 2.0% sales tax, 2.25% local school support tax, 0.50 Basic City-County Relief Tax, 1.75 Supplemental City-County Relief Tax.
 (q) To remain in effect until June 30th 2005.
 (r) For spirits with more than 25% alcohol.
 (s) To remain in effect until June 30th 2005, when it will return to 57 cents per pack of 20.
 (t) County taxes are added to this. County taxes vary from an additional 5 cents to 10 cents.
 (u) Increases to 26 cents per gallon on July 1st 2004, and then to 28 cents on July 1st 2005.
 (v) Includes statewide local add-on of 1%.

Source: State Revenue Departments; Commerce Clearing House; Federation of Tax Administrators; Department of Agriculture, American Petroleum Institute

Sales Tax Rates

Six states increased their sales tax rates during 2003. Idaho's rate went from 5 to 6 percent, Kansas's rate increased from 4.9 percent to 5.3 percent, and Nebraska increased its rate by a half of a percentage point, from 5 to 5.5 percent. Ohio raised its sales tax rate from 5 to 6 percent, Tennessee went from 6 to 7 percent, and Vermont increased its sales tax rate from 5 to 6 percent. See Table 7.

Excise Tax Rates

Although most states continue to rely on sales and income taxes as the mainstays of their tax systems, they are also collecting substantial revenue from excise taxes, principally on gasoline, cigarettes, distilled spirits, wine and beer.

During 2003, seven states raised their gasoline tax rates, and seven lowered them. Illinois increased its gasoline tax from 19 to 30 cents per gallon in 2003. Washington increased its gasoline tax by 5 cents, from 23 cents to 28 cents per gallon. Indiana and Kansas both increased their gasoline taxes by 3 cents, Indiana to 18 cents per gallon and Kansas to 24 cents. North Carolina increased its gas tax rate from 22.1 to 24.2 cents per gallon, and Rhode Island raised its rate by 2 cents from 28 cents to 30 cents per gallon. New York increased its gas tax by a fraction, from 32.35 cents to 32.7 cents per gallon.

On the other hand, Pennsylvania lowered its gasoline tax rate by 12.7 cents, from 26.6 cents to 13.9 cents per gallon. Florida cut its rate by 9.9 cents, from 13.9 cents to 4 cents per gallon, and South Dakota lowered its gasoline tax by 6 cents, from 22 to 16. New Jersey reduced its tax by 4 cents from 14.5 cents to 10.5 cents per gallon, while Wisconsin dropped its rate from 30.3 cents to 28.5 cents per gallon. Oklahoma and Vermont lowered their gasoline taxes by 1 cent, Oklahoma from 17 to 16 cents and Vermont from 20 to 19 cents per gallon.

Fourteen states raised their cigarette tax rates, with eight of them - Connecticut, Montana, Nevada, New Jersey, New Mexico, Rhode Island, West Virginia and Wyoming - increasing the cigarette tax by more than 35 cents per pack of 20 cigarettes. See Table 7 for details.

Methodology

Fiscal year 2002 state tax collections are based on data from the Bureau of the Census. Census data records the tax collections received from various taxes levied at the state level. While excellent for a state-by-state comparison of state-level tax systems, the data are not sufficient for a computation of the actual tax burdens borne by taxpayers in each state. Tax burden calculations require tax incidence analysis, which account for the many ways that tax burdens can be shifted onto non-residents.

For example, income taxes paid by corporations to the state of California are not fully borne by the residents of California. Some portion of the real tax burden will be borne by residents of other states, whether as customers, out-of-state employees, or shareholders. Similarly, the severance taxes levied by the state of Alaska are not borne in full by Alaskan residents but instead by consumers of oil-based products throughout the country.

The Census data used in this report make no adjustment for this effect. For a more complete state-by-state tax incidence analysis, refer to the "Tax Freedom Day" study published every April by the Tax Foundation in the *Special Report* series, which is also available on the web at www.taxfoundation.org/taxfreedomday.html.



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