

SPECIAL REPORT

November 1992

Survey of State Tax Rates and Collections

\$5.5 Billion Tax Increase Legislated for FY1993; Ten-Year Tax Rise Outpaces Income Growth in 43 States

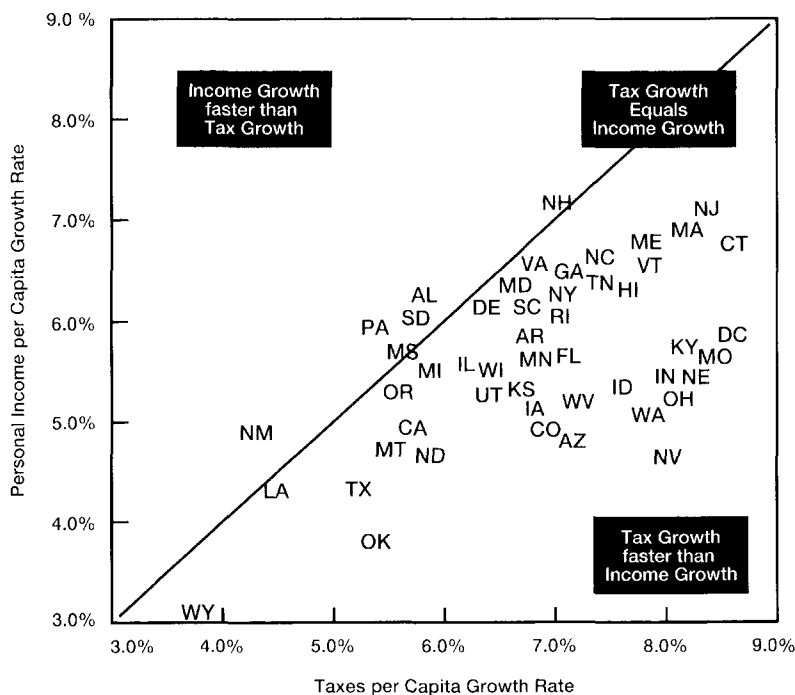
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Following the record tax increase of \$17 billion for FY'92, state governments have enacted tax increases for FY'93 that will total \$5.5 billion. Taxpayer anger at the large hikes in FY'91 and FY'92 has forced many states to

moderate new demands this year, despite current budgetary stress caused by record state spending and a weak economy. The largest increases this year were in general sales taxes, motor fuel taxes, and health care provider taxes.

This year's tax increase will further erode after-tax personal income. From 1981 to 1991, state taxes grew at 6.6 percent annually while personal income grew at a lower 5.7 percent clip. Tax growth outpaced income growth in 43 states (see Figure 1 and Table 6).

Figure 1
Personal Income Growth vs. Tax Growth for 50 States (a)
Fiscal Years 1981-1991



Tax Increases for FY1993

While 35 states have enacted tax increases for FY'93, nine states cut taxes for FY'93. The largest tax hikes, on a per capita basis, occurred in Kansas, Louisiana, Tennessee, Iowa, New York, and Maryland. New Jersey, Massachusetts, and Pennsylvania have enacted the largest tax cuts for FY'93 (see Table 2).

Louisiana, New York, Rhode Island, and the District of Columbia boosted taxes significantly for the second year in a row. However, many states that substantially boosted taxes for FY'92 avoided large hikes for FY'93. These included California, Delaware, Maine, Nevada, Pennsylvania, and Vermont. After hitting California taxpayers with a \$6.6 billion dollar tax increase last year, that state's government adopted a budget in September with no major tax increases. And two years after New Jersey enacted the largest state tax increase in its history, the New Jersey legislature partly reversed this increase by cutting its sales tax for FY'93.

Sales Taxes

Five states raised sales tax rates for FY'93, while two states lowered rates. Mississippi

(a) Alaska not shown; District of Columbia included.

Source: Tax Foundation (see data in table 6).

*Table 1
Major State Taxes and Rates
As of October 1, 1992*

State	Corporate	Individual	General Sales and Use Tax	Gasoline Tax (per gallon)	Cigarette Tax (per pack of 20)
Alabama	5% (F)	2 to 5% (F)	4% (a)	16 cents	16.5 cents
Alaska	1 to 9.4	none	none	8	29
Arizona	9.3	3.8 to 7	5 (a)	18	18
Arkansas	1 to 6.5	1 to 7	4.5 (a)	18.5	22
California	9.3 (b)	1 to 11 (b)	6 (a)	16	35
Colorado	5 to 5.1	5 (b)	3 (a)	22	20
Connecticut	11.5 (c)	4.5 (d)	6	26	45
Delaware	8.7	3.2 to 7.7	none	19	24
Dist. of Columbia	10 (c)	6 to 9.5	6	20	50
Florida	5.5 (b)	none	6 (a)	11.6 (a,g)	33.9
Georgia	6	1 to 6	4 (a)	7.5 (h)	12
Hawaii	4.4 to 6.4	2 to 10	4 (a)	24.8 to 32.5 (g)	46 (i)
Idaho	8	2 to 8.2	5	22 (g)	18
Illinois	4.8	3	6.25 (a)	19 (h)	30
Indiana	3.4	3.4	5	15	15.5
Iowa	6 to 12 (F)	.4 to 9.98 (b,F)	5 (a)	20	36
Kansas	4 (c)	4.4 to 7.75	4.9 (a)	18	24
Kentucky	4 to 8.25	2 to 6	6 (a)	15	3
Louisiana	4 to 8 (F)	2 to 6 (F)	4 (a)	20	20
Maine	3.5 to 8.93 (c)	2 to 8.6 (f)	6	19	37
Maryland	7	2 to 6	5	23.5	36
Massachusetts	9.5	5.95 (e)	5	21	26
Michigan	2.35 (k)	4.6	4	15	25
Minnesota	9.8 (b)	6 to 8.5 (b)	6.5 (a)	20	48
Mississippi	3 to 5	3 to 5	7	18	18
Missouri	5 (F)	1.5 to 6 (F)	4.225 (a)	13	13
Montana	6.75 (c)	2 to 11 (F,f)	none	20 (h)	19.26
Nebraska	5.58 to 7.81	2.37 to 6.92	5 (a)	24 (g)	27
Nevada	none	none	6.5 (a)	23 (a)	35
New Hampshire	8	5 (d)	none	18	25
New Jersey	9 (c)	2 to 7	7	10.5	40
New Mexico	4.8 to 7.6	1.8 to 8.5	5	16	15
New York	9 (b,c)	4 to 7.875	4 (a)	8	39
North Carolina	7.75 (c)	6 to 7.75	4 (a)	21.9 (g)	5
North Dakota	3 to 10.5 (b,f)	2.67 to 12 (F)	5	17	29
Ohio	5.1 to 8.9	.743 to 6.9	5 (a)	21 (g)	18
Oklahoma	6	5 to 7 (F)	4.5 (a)	17 (g)	23
Oregon	6.6	5 to 9 (F)	none	22	28
Pennsylvania	12.25	2.8	6	12	31
Rhode Island	9 (e)	4.125 to 9.92 (j)	7	26	37
South Carolina	5	2.5 to 7	5 (a)	16	7
South Dakota	none	none	4 (a)	18	23
Tennessee	6	6 (d)	6 (a)	22.4	13
Texas	none	none	6.25 (a)	20	41
Utah	5	2.55 to 7.2 (F)	5 (a)	19.5 (g)	26.5
Vermont	5.5 to 8.25	4.2 to 10.5 (j)	5	15	20
Virginia	6	2 to 5.75	3.5 (a)	17.5	2.5
Washington	none	none	6.5 (a)	23	34
West Virginia	9	3 to 6.5 (b)	6	15.5	17
Wisconsin	7.9	4.9 to 6.93	5 (a)	22.2	38
Wyoming	none	none	3 (a)	9	12

(F) Allows federal income tax as a deduction.

(a) Local taxes are additional.

(b) Alternative minimum tax imposed.

(c) Corporate surtax is imposed. CT - 10%, DC - 5%, KS - 3.5%, NJ - 0.375%, NY - 15%, NC - 3%, ME - 10%, MT - 2.3%, RI - 11%.

(d) In NJ and TN, rates apply to income from dividends and interest only. In CT, lower rates applied to income from interest and dividends.

(e) Tax of 12% on income derived from interest, dividends, and capital gains.

(f) Income surtax imposed. ME - 5-15%, MT - 2.3%.

(g) Includes additional taxes or fees.

(h) Does not include additional taxes or surcharge.

(i) 40% of wholesale. About 46 cents in 1992.

(j) Approximate rates included for comparison purposes. Actual RI rate is 27.5% of federal income tax; VT rate is 28% of federal income tax.

(k) Rate applies to a broader base than income.

Source: Compiled by Tax Foundation from survey of state revenue offices.

increased its rate from 6 to 7 percent, matching Rhode Island for the highest rate in the nation. New Jersey avoided the onus of having the nation's highest rate by lowering it from 7 to 6 percent, bringing an estimated \$605 million of relief to state taxpayers. New Jersey's reduction came as the legislature overrode Governor Florio's veto of the sales tax reduction, partially softening the blow of the \$2.8 billion tax increase passed in 1990.

In scheduled rate reductions, Connecticut's general sales tax rate fell from 8 to 6 percent, and the rate fell from 6.5 to 6 percent in Minnesota.

In Iowa, the state legislature prevailed in a fight with Governor Branstad and boosted the sales tax from 4 to 5 percent. The hike will increase tax revenues an estimated \$274 million in FY'93.

The sales tax rate went up in Kansas from 4.25 to 4.9 percent, and the rate increased from 5.75 to 6.5 percent in Nevada. In a planned temporary tax increase in Tennessee, the sales tax went up to 6 percent. It is scheduled to fall back to 5.5 percent on July 1, 1993.

Some of the biggest sales tax windfalls for FY'93 will come from states broadening sales tax coverage, rather than directly raising rates. Maryland will boost revenues \$110 million by imposing sales taxes on building cleaning, cellular phones, and other services. Florida will hit burglar protection, pest control, phone, and other services to boost sales tax revenues by \$107.2 million in FY'93.

Excise Taxes

Nine states and the District of Columbia hiked motor fuel taxes for FY'93. Alabama, California, Connecticut, the District of Columbia, Kansas, Maryland, Missouri, Nevada, and Oregon all raised the gasoline excise tax. Alabama and Maryland's 5 cent per gallon increases were the largest.

Maryland raised its cigarette tax from 16 to 36 cents per pack. The District of Columbia also boosted the cigarette tax 20 cents, from 30 to 50 cents per pack. Five other states increased the cigarette tax: Connecticut, Minnesota, Montana, Vermont, and Wisconsin.

Corporate Income Taxes

With the exception of New York, few states targeted corporate income taxes for increased revenue in FY'93. By postponing a scheduled decrease in its 15 percent corporate surtax until June 1993, New York will bring in an additional \$294 million in FY'93 revenue.

Kansas lowered its corporate income tax rate by 0.5 percent but increased the surtax by 1.25 percent, resulting in a small net tax increase. West Virginia lowered its corporate tax

rate from 9.15 to 9.0 percent. Rhode Island extended its "temporary" 11 percent corporate income surtax.

*Table 2
Projected Fiscal 1993 State Revenue Gains and Losses Resulting from 1992 Enactments*

	Revenue (\$Millions)	Per Capita
Alabama	\$121.9	\$29.81
Alaska	4.8	8.42
Arizona	-3.8	-1.01
Arkansas	0	0
California	0	0
Colorado	62.5	18.51
Connecticut	53.5	16.26
Delaware	-2.0	-2.94
Florida	521.7	39.29
Georgia	158.0	23.86
Hawaii	0	0
Idaho	2.9	2.79
Illinois	343.0	29.71
Indiana	80.0	14.26
Iowa	269.0	96.24
Kansas	377.6	151.34
Kentucky	29.9	8.05
Louisiana	485.7	114.23
Maine	0	0
Maryland	450.3	92.65
Massachusetts	-211.5	-35.27
Michigan	-30.0	-3.20
Minnesota	177.9	40.14
Mississippi	166.0	64.04
Missouri	144.8	28.07
Montana	73.8	91.34
Nebraska	-1.3	-.82
Nevada	0	0
New Hampshire	0	0
New Jersey	-183.8	-23.69
New Mexico	1.1	.71
New York	1,684.3	93.27
North Carolina	5.6	.83
North Dakota	-.4	-.63
Ohio	63.9	5.84
Oklahoma	1.5	.47
Oregon	0	0
Pennsylvania	-459.6	-38.42
Rhode Island	50.2	50.00
South Carolina	24.5	6.88
South Dakota	2.7	3.84
Tennessee	559.1	112.88
Texas	0	0
Utah	5.8	3.28
Vermont	7.1	12.52
Virginia	17.5	2.78
Washington	3.4	.68
West Virginia	118.3	65.69
Wisconsin	34.0	6.86
Wyoming	-.4	-.87
District of Columbia	37.2	62.21
Total	\$5,458.7	\$21.65

Populations as of July 1, 1991.

Source: National Conference of State Legislatures, and Tax Foundation.

Personal Income Taxes

This year, New York and Kansas hit individual taxpayers with the year's largest personal income tax increases. Kansas expects to collect an additional \$120.4 million in FY'93 from its higher personal income tax rates. The rates for individuals will range from 4.4 - 7.75 percent rather than the current 3.65 - 5.15 percent.

In New York, a scheduled cut in the top rate to 7.5 percent, from the current 7.875 percent, was postponed until April 1993. The action will generate \$730 million for the New York treasury in FY'93, and is part of the state's \$1.684 billion tax increase. Other states boosting income taxes on individuals include Montana, Rhode Island, and Maryland, where the top rate rose to 6 percent from 5 percent.

Pennsylvania dropped its flat income tax rate to 2.8 percent by eliminating a 0.3 percent surtax. Massachusetts allowed a temporary rise in the earned income rate to expire; this will bring \$210 million of relief to taxpayers in FY'93.

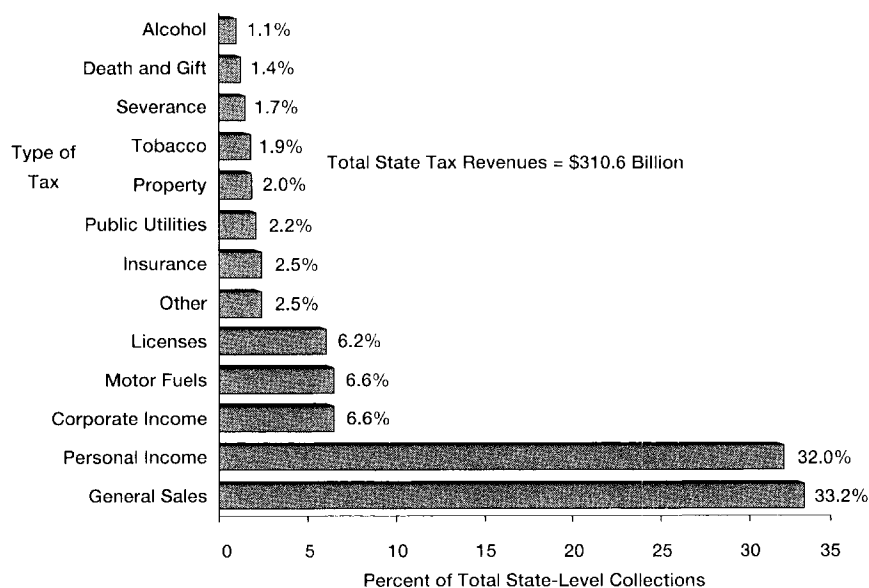
Health and Environmental Taxes

Two areas of increasing state tax action are health and environmental taxes and fees. States have enacted increases for FY'93 of \$1.783 billion and \$173.3 million respectively, in these two areas.

Most of the health tax increases take the form of levies on health care providers. These taxes enable states to maximize federal matching money for Medicaid. While Congress has now passed legislation to reduce this incentive for states, this new tax source will probably continue to be tapped by the states. Large state revenue increases for FY'93 from health taxes will occur in Illinois, New York, and Tennessee.

Twenty-one states will boost FY'93 tax receipts from increased environmental and waste charges. The largest increase will occur in Florida where \$104.4 million will be collected from a tax on leaky storage tanks.

*Figure 2
Percentage Distribution of State Government Tax Collections by Source
Fiscal Year 1991*



Source: Department of Commerce, Bureau of the Census and Tax Foundation.

*Table 3
State Government Tax Collections by Type
Fiscal Years 1981-1991
(\$Billions)*

Type of Tax	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	Average Growth Rate % 81-91	Growth Rate % 90-91
Total State Taxes	\$149.8	\$162.6	\$171.5	\$196.9	\$215.9	\$228.1	\$246.5	\$264.1	\$284.4	\$300.8	\$310.6	7.6%	3.3%
Annual % Change	9.3%	8.5%	5.4%	14.8%	9.6%	5.6%	8.1%	7.2%	7.7%	5.8%	3.3%		
General Sales	\$46.4	\$50.4	\$53.6	\$62.6	\$69.6	\$74.8	\$79.2	\$87.1	\$93.5	\$99.9	\$103.2	8.3%	3.3%
Personal Income	40.9	45.7	49.8	59.0	63.9	67.4	76.2	80.1	88.8	96.1	99.3	9.3	3.3
Corporate Income	14.1	14.0	13.2	15.5	17.6	18.4	20.5	21.6	23.9	21.8	20.4	3.7	-6.4
Motor Fuels	9.7	10.5	10.8	12.4	13.3	14.1	15.7	17.2	18.1	19.4	20.6	7.8	6.2
Licenses	9.5	10.1	10.7	12.0	13.8	14.9	15.9	17.0	17.7	18.8	19.4	7.4	3.2
Other	3.4	3.7	3.9	5.2	6.0	6.4	7.1	7.4	7.7	7.9	7.9	8.8	0
Insurance	3.3	3.5	3.9	4.1	4.5	5.5	6.3	6.9	7.4	7.4	7.7	8.8	4.1
Public Utilities	4.3	4.9	5.7	5.9	6.2	6.0	6.0	6.2	6.2	6.5	6.8	4.7	4.6
Property	2.9	3.1	3.3	3.9	4.0	4.4	4.7	5.0	5.3	5.8	6.2	7.7	6.9
Tobacco	3.9	4.0	4.0	3.9	4.4	4.5	4.6	4.8	5.1	5.5	6.0	4.4	9.1
Severance	6.4	7.8	7.4	7.2	7.2	6.1	4.0	4.3	4.1	4.7	5.4	-1.7	14.9
Death and Gift	2.2	2.4	2.5	2.2	2.3	2.5	3.0	3.2	3.5	3.8	4.3	6.8	13.2
Alcohol	2.6	2.7	2.7	2.9	3.0	3.1	3.1	3.2	3.1	3.2	3.4	2.7	6.2

Source: Department of Commerce, Bureau of the Census and Tax Foundation.

Tax Collections in FY1991

Recently released tax collection data for FY'91 indicate state tax revenues rose 3.3 percent over FY'90. This was the lowest increase

in more than a decade and prompted the record tax hikes for FY'91 and FY'92.

Personal income taxes and general sales taxes both increased 3.3 percent in FY'91. The sales and income taxes are the primary sources of

*Table 4
State Tax Collections
Percentage Distribution by Source
Fiscal Year 1991*

State	General Sales	Individual Income	Corporate Income	Motor Fuels	Licenses	Other
Alabama	26.6%	29.8%	4.3%	7.4%	9.7%	22.3%
Alaska	0	0	14.1	2.2	4.6	79.1
Arizona	42.6	26.4	4.1	7.7	6.1	13.1
Arkansas	37.1	33.6	5.2	9.5	6.4	8.3
California	32.0	37.5	9.9	4.5	4.7	11.5
Colorado	26.3	45.6	3.6	10.3	6.9	7.3
Connecticut	48.9	9.5	10.4	6.6	5.4	19.1
Delaware	0	39.7	10.5	5.7	30.8	13.4
Florida	59.1	0	4.2	6.0	6.8	23.9
Georgia	37.1	41.2	5.8	6.3	2.7	6.8
Hawaii	48.5	33.1	4.4	2.0	1.3	10.8
Idaho	33.5	37.0	5.0	9.3	8.8	6.4
Illinois	31.3	34.1	7.1	7.7	6.1	13.6
Indiana	41.1	35.3	5.0	9.4	3.5	5.7
Iowa	28.3	39.0	5.9	9.6	9.4	7.8
Kansas	32.8	31.5	7.6	8.4	6.1	13.5
Kentucky	25.8	33.6	6.3	6.9	5.4	22.0
Louisiana	30.4	18.7	7.6	10.3	8.9	24.2
Maine	31.9	37.3	4.9	8.3	6.0	11.6
Maryland	24.1	45.8	4.0	6.9	3.7	15.5
Massachusetts	19.7	55.2	7.4	4.8	4.0	8.9
Michigan	28.7	34.1	14.3	6.6	6.3	9.9
Minnesota	27.8	42.2	6.5	6.5	7.4	9.6
Mississippi	45.5	19.5	5.7	12.4	6.5	10.4
Missouri	37.3	36.6	4.5	7.3	7.4	6.8
Montana	0	34.6	8.7	13.4	11.9	31.4
Nebraska	35.3	34.1	4.6	12.6	6.3	7.0
Nevada	49.1	0	0	7.1	10.3	33.5
New Hampshire	0	5.9	19.5	14.6	15.8	44.2
New Jersey	34.7	29.1	8.9	3.4	5.0	18.8
New Mexico	45.0	17.7	2.3	8.4	6.4	20.1
New York	20.3	51.2	7.2	1.8	3.3	16.2
North Carolina	21.5	45.0	6.4	10.5	6.5	10.1
North Dakota	31.1	15.1	6.8	10.1	7.7	29.3
Ohio	30.9	36.5	5.5	9.0	7.1	11.0
Oklahoma	25.0	31.5	3.6	8.6	9.7	21.6
Oregon	0	65.5	4.9	8.5	12.4	8.6
Pennsylvania	32.2	25.2	7.8	5.6	10.5	18.8
Rhode Island	35.6	34.1	3.7	6.0	5.8	14.8
South Carolina	36.5	35.3	3.8	8.6	6.2	9.6
South Dakota	47.0	0	7.4	15.0	12.3	18.4
Tennessee	54.8	2.3	8.0	14.7	10.5	9.6
Texas	51.8	0	0	9.4	10.3	28.4
Utah	39.8	38.4	4.4	7.0	4.0	6.3
Vermont	18.4	37.7	3.9	7.6	7.9	24.5
Virginia	22.8	47.2	4.2	9.0	5.5	11.3
Washington	59.5	0	0	7.3	5.4	27.7
West Virginia	35.1	24.7	8.2	8.8	6.0	17.1
Wisconsin	28.9	42.8	6.3	7.8	4.7	9.5
Wyoming	27.9	0	0	5.7	9.1	57.3
Exhibit: District of Columbia	18.7	25.5	5.6	1.2	1.7	47.2

Source: Department of Commerce, Bureau of the Census, and Tax Foundation computations.

state revenue, together accounting for 65.2 percent of state tax revenue in FY'91 (see Figure 2 and Table 3). The distribution of tax revenue by source varies considerably from state to state (see Table 4).

State Tax Rankings for Fiscal Year 1991

The average U.S. state tax burden per capita rose to \$1,234 in FY'91 from \$1,211 in FY'90. Alaskans pay the highest per capita taxes in the country, \$3,172 per person. Alaska is followed by Hawaii (\$2,324), and Delaware (\$1,713). The lightest state tax burdens per capita can be found in New Hampshire (\$565), South Dakota (\$751), and Tennessee (\$870) (see Table 5).

An alternative way to measure the tax burden is to measure state taxes per \$1,000 of personal income. Alaska ranks first by this measure, as well; Alaskans pay \$150.48 to the state government in taxes for each \$1,000 in personal income. Alaska is followed by Hawaii (\$109.71), and New Mexico (\$91.99). The lowest state taxes, measured this way, can be found in New Hampshire (\$25.96), South Dakota (\$46.71), and Colorado (\$49.16). The average for

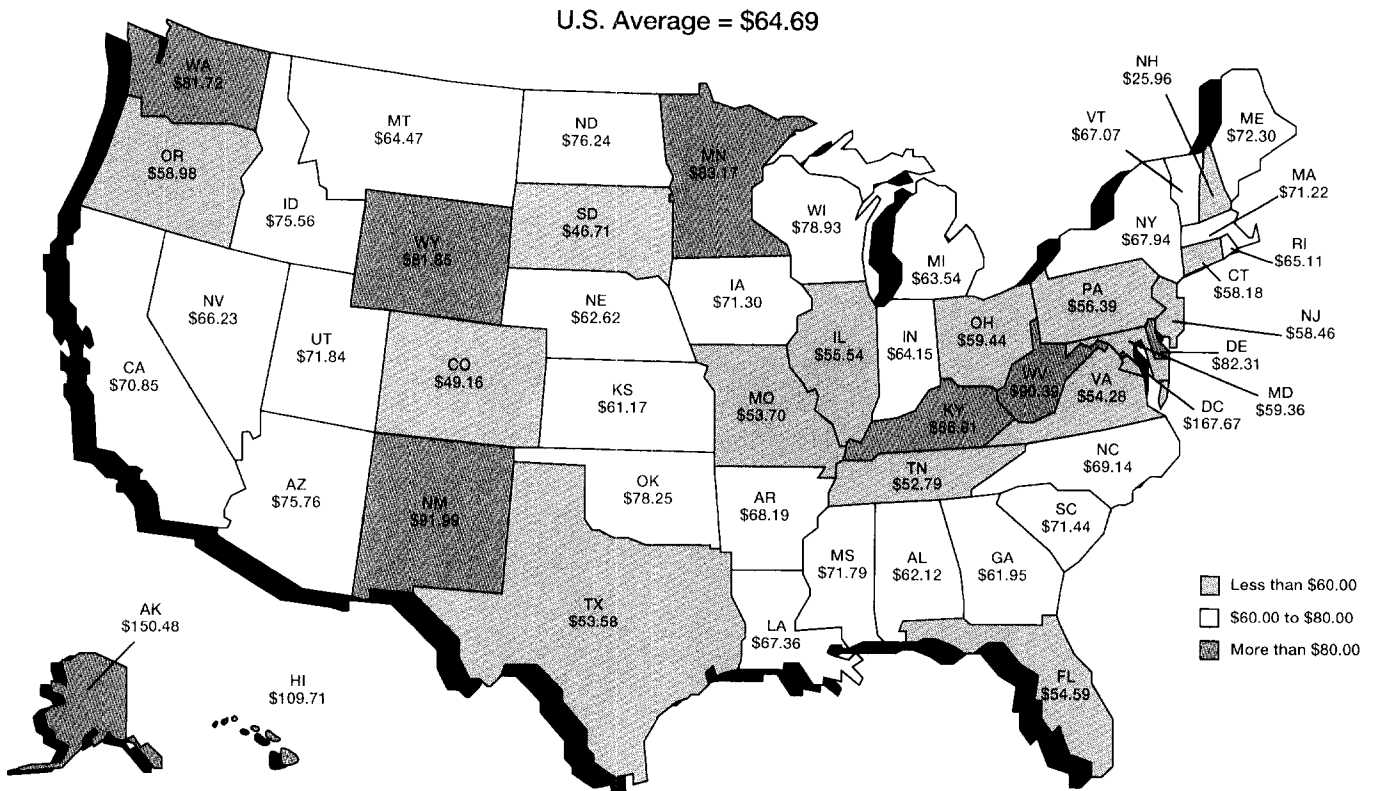
the states in FY'91 was \$64.69 per \$1,000 of personal income (see Figure 3 and Table 5).

Some poorer states rank low on per capita taxes, but rank as higher-taxing states when taxes are measured against income. Arkansas, for example, ranks 42nd on per-capita taxes, but jumps up to 24th on taxes per \$1,000 of income. Conversely, wealthy states such as Connecticut, New Jersey, and Massachusetts impose heavy taxes on their citizens, on a per-capita basis, but because the generally higher incomes earned in these states give citizens a greater ability to pay, these states rank lower when the burden is measured as a percentage of income.

Ten-Year Tax Trends Show Rising Tax Bite in 43 States

From 1981 to 1991, state tax collections grew faster than personal income in 43 states (see Table 6). Therefore, state taxes take a larger percentage bite out of income in 43 states, than one decade ago. Only Alabama, Alaska, Mississippi, New Hampshire, New Mexico, Pennsylvania, and South Dakota held tax

*Figure 3
State Government Tax Collections Per \$1,000 of Personal Income
Fiscal Year 1991*



Source: Tax Foundation.

Table 5
Total State Tax Collections
Fiscal Year 1991

	Total State Tax Collections (\$Millions)	Taxes per Capita	Taxes per \$1,000 Personal Income	Rank per Capita	Rank per \$1,000 Personal Income
Total 50 States	\$310,540	\$1,234	\$64.69		
Alabama	3,942	964	62.12	44	33
Alaska	1,808	3,172	150.48	1	1
Arizona	4,710	1,256	75.76	19	13
Arkansas	2,366	997	68.19	42	24
California	44,874	1,477	70.85	10	20
Colorado	3,213	951	49.16	45	48
Connecticut	4,983	1,514	58.18	8	40
Delaware	1,165	1,713	82.31	3	7
Florida	13,764	1,037	54.59	38	43
Georgia	7,154	1,080	61.95	35	34
Hawaii	2,638	2,324	109.71	2	2
Idaho	1,204	1,159	75.56	27	14
Illinois	13,291	1,151	55.54	28	42
Indiana	6,182	1,102	64.15	32	30
Iowa	3,447	1,233	71.30	21	18
Kansas	2,796	1,121	61.17	29	35
Kentucky	5,043	1,358	86.91	13	5
Louisiana	4,309	1,013	67.36	40	25
Maine	1,558	1,262	72.30	18	15
Maryland	6,401	1,317	59.36	15	37
Massachusetts	9,684	1,615	70.21	4	21
Michigan	11,103	1,185	63.54	25	31
Minnesota	7,050	1,591	83.17	6	6
Mississippi	2,461	949	71.24	46	19
Missouri	4,996	969	54.03	43	45
Montana	817	1,011	64.47	41	29
Nebraska	1,767	1,109	62.62	30	32
Nevada	1,682	1,310	66.23	16	27
New Hampshire	624	565	25.96	50	50
New Jersey	11,644	1,501	58.46	9	39
New Mexico	2,085	1,347	91.99	14	3
New York	28,299	1,567	69.74	7	22
North Carolina	7,850	1,165	69.14	26	23
North Dakota	755	1,189	76.24	24	12
Ohio	11,555	1,056	59.44	36	36
Oklahoma	3,861	1,216	78.25	22	11
Oregon	3,029	1,037	58.98	39	38
Pennsylvania	13,021	1,089	56.39	34	41
Rhode Island	1,256	1,251	65.11	20	28
South Carolina	3,933	1,105	71.44	31	17
South Dakota	528	751	46.71	49	49
Tennessee	4,310	870	52.79	48	47
Texas	16,016	923	53.58	47	46
Utah	1,860	1,051	71.84	37	16
Vermont	684	1,206	67.07	23	26
Virginia	6,852	1,090	54.28	33	44
Washington*	7,989	1,592	81.72	5	9
West Virginia	2,328	1,293	90.39	17	4
Wisconsin	7,016	1,416	78.93	11	10
Wyoming	637	1,385	81.85	12	8
Exhibit: District of Columbia	2,414	4,037	167.67		

* Note: Rankings include only state-level taxes. In Washington and other states, combining state with local taxes would yield significantly different results.

Source: Tax Foundation computations based on Bureau of the Census data.

increases to below income growth. (These six states are above the diagonal line in Figure 1.)

Per-capita income in the 50 states grew an average of 5.7 percent over the decade, while state tax revenues were growing at a faster rate, 6.6 percent. As a result, an average American taxpayer paid 6.5 percent of his or her income to state governments in 1991, compared to 6.0 percent in 1981.

Table 6 indicates the significant differences in tax growth across the 50 states. Whereas per capita taxes grew faster than 8 percent annually in six states (Connecticut, Kentucky, Massachusetts, Missouri, Nebraska, and Ohio), four states held annual tax growth to under 5 percent (Alaska, Louisiana, New Mexico, and Wyoming). However, the level of tax growth alone does not tell us whether a particular state is taking a larger or smaller percentage from taxpayers' incomes. For this purpose, the Fiscal Constraint Indicator (see Figure 1 and Table 6) compares tax growth with income growth.

New Hampshire and Oklahoma provide an illustration. New Hampshire's state taxes grew at an average annual rate of 7.0 percent over the past decade, faster than Oklahoma's 5.4 percent tax growth. However, faster income growth in New Hampshire meant that an individual's after-tax income grew more in New Hampshire than in Oklahoma.

Outlook

During periods of strong income growth, state government revenues tend to rise quickly without legislative action, as income and sales taxes fill state coffers. Unfortunately for state taxpayers, economic slowdowns not only directly impact their incomes, but slowdowns tend to cause state governments to ratchet up tax rates, thereby reducing take-home income even further.

After legislating \$27.3 billion in new taxes for FY'91 and FY'92 state governments eased up slightly on new tax burdens for FY'93. Unfortunately, this moderation may not last since many states have simply pushed current budget problems into next year. End-of-year state balances are the lowest in over ten years and continuing pressure to increase spending on health, corrections, education, and other fast-growth programs may precipitate larger tax increases in the coming year.

*Table 6
Fiscal Constraint Indicator by State
Tax Growth vs. Income Growth
1981-1991*

	Average Annual Growth Rate Per Capita		Fiscal Constraint Indicator (Tax Growth minus Income Growth) (a)	Fiscal Constraint Rank
	Personal Income	State Taxes		
Total 50 States	5.66%	6.56%	.90	
Alabama	6.26	5.81	-.46	3
Alaska (b)	3.22	-5.43	-8.65	1
Arizona	4.92	7.05	2.13	42
Arkansas	5.82	6.76	.94	25
California	4.96	5.75	.79	21
Colorado	4.94	6.96	2.02	41
Connecticut	6.77	8.62	1.85	38
Delaware	6.15	6.36	.21	9
Florida	5.67	7.11	1.44	35
Georgia	6.50	7.13	.63	15
Hawaii	6.32	7.65	1.32	34
Idaho	5.36	7.58	2.21	43
Illinois	5.58	6.20	.62	14
Indiana	5.47	7.95	2.48	45
Iowa	5.01	6.92	1.91	40
Kansas	5.22	6.74	1.53	36
Kentucky	5.75	8.15	2.41	44
Louisiana	4.31	4.46	.15	8
Maine	6.78	7.81	1.03	27
Maryland	6.37	6.62	.26	10
Massachusetts	6.90	8.10	1.20	32
Michigan	5.52	5.86	.34	12
Minnesota	5.75	6.84	1.09	29
Mississippi	5.70	5.69	-.01	7
Missouri	5.67	8.28	2.61	47
Montana	4.85	5.58	.73	20
Nebraska	5.51	8.09	2.58	46
Nevada	4.66	7.99	3.33	50
New Hampshire	7.17	7.00	-.17	6
New Jersey	7.01	8.25	1.24	33
New Mexico	4.91	4.30	-.62	2
New York	6.38	7.06	.68	16
North Carolina	6.60	7.30	.70	19
North Dakota	4.73	5.68	.95	26
Ohio	5.31	8.08	2.76	48
Oklahoma	3.82	5.37	1.54	37
Oregon	5.31	5.57	.26	11
Pennsylvania	5.87	5.44	-.43	4
Rhode Island	6.16	6.97	.81	22
South Carolina	6.33	6.76	.43	13
South Dakota	6.06	5.69	-.37	5
Tennessee	6.42	7.48	1.05	28
Texas	4.34	5.23	.90	24
Utah	5.32	6.49	1.17	30
Vermont	6.59	7.79	1.20	31
Virginia	6.28	6.96	.68	17
Washington	5.22	7.99	2.77	49
West Virginia	5.21	7.12	1.91	39
Wisconsin	5.47	6.31	.84	23
Wyoming	3.11	3.80	.69	18
Exhibit: District of Columbia	5.85	8.56	2.71	

The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has been monitoring tax and fiscal activities at all levels of government since 1937.

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(a) If tax growth exceeds income growth, the Fiscal Constraint Indicator will be positive. If income growth exceeds tax growth, the Indicator will be negative.

(b) Alaska's taxes, derived mainly from oil production, were unusually high in 1981.

Note: Calculations include only state-level taxes. Combining state with local taxes may yield different results.

Source: Tax Foundation.