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Where Do State and Local Governments Get Their Tax Revenue?

By Gerald Prante

Introduction

Newly released Census data show how different the 50 states' fiscal systems are. Their reliance on various sources of tax revenue differs widely because they have different endowed resources and policy priorities. These differences are reflected in state-local tax collections no matter how large or small a fraction of the residents' income state and local governments have decided to take in taxes.

States heavily endowed with valuable natural resources, such as Alaska and Wyoming, will usually exploit those tax revenue sources, which they can do without too much fear of driving the activity out of state, given that those natural resources are largely immobile. States seeking a steeply progressive tax code tend to rely heavily on individual income taxes, all else equal.

Tables 1-4 are "top ten" tables, highlighting the states that rely heavily on each of four major categories: property taxes, individual income taxes, general and selective sales taxes,¹ and "licenses and other taxes."² The data are the latest available for states and localities, fiscal year 2007, which stretched from July 1, 2006 to June 30, 2007. Combined state-local data is best for interstate comparison because what some states accomplish with local taxes is accomplished in other states with state-level taxes.

¹ The major selective sales taxes are levied on motor fuel, tobacco, insurance premiums, public utilities (power, telephone service, etc.), amusements and alcoholic beverages.

² Major fees are imposed on motor vehicle licenses, business or corporation licenses, and hunting or fishing licenses. Major tax sources are severance taxes (natural resources), stock transfer taxes, and estate/gift taxes.

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Table 1
Which Ten States Rely Most on
Property Taxes?

State	Fraction of Tax Revenue Coming from Property Taxes
New Hampshire	61.3%
Vermont	42.1%
New Jersey	41.7%
Texas	41.6%
Rhode Island	41.1%
Michigan	39.3%
Connecticut	38.2%
Illinois	37.1%
Florida	36.8%
Wyoming	36.8%

Note: Includes residential and commercial real estate (mostly local revenue) as well as personal property taxes on cars, boats, etc. (mostly state revenue).

Source: Tax Foundation calculations based on data from Census Bureau's government finance data for state and local governments during fiscal year 2007.

Table 2
Which Ten States Rely Most on
General and Selective Sales Taxes?

State	Fraction of Tax Revenue Coming from Sales Taxes (General + Selective)
Washington	62.1%
Nevada	58.2%
Tennessee	56.8%
South Dakota	54.1%
Arkansas	53.2%
Louisiana	53.0%
Hawaii	51.7%
Florida	49.0%
Arizona	48.4%
Alabama	47.8%

Note: The major selective sales taxes are levied on motor fuel, tobacco, insurance premiums, public utilities (power, telephone service, etc.), amusements and alcoholic beverages.

Source: Tax Foundation calculations based on data from Census Bureau's government finance data for state and local governments during fiscal year 2007.

Table 3
Which Ten States Rely Most on
Individual Income Taxes?

State	Fraction of Tax Revenue Coming from Individual Income Taxes
Oregon	44.1%
Maryland	39.7%
Massachusetts	35.6%
North Carolina	32.7%
New York	31.8%
Virginia	31.6%
California	30.8%
Minnesota	30.5%
Connecticut	30.0%
Ohio	29.9%

Note: States and localities generally lump wages, dividends, interest and capital gains together when applying their individual income taxes.

Source: Tax Foundation calculations based on data from Census Bureau's government finance data for state and local governments during fiscal year 2007.

Table 4
Which States Rely Most on Licenses
and Other Taxes?

State	Fraction of Tax Revenue Coming from Licenses & Other Taxes
Alaska	52.6%
Delaware	34.1%
Wyoming	30.1%
North Dakota	20.7%
Montana	18.8%
Oklahoma	17.8%
New Mexico	17.5%
Nevada	14.3%
Oregon	12.6%
West Virginia	12.4%

Note: In license category, taxes are imposed on motor vehicle licenses, business or corporation licenses, and hunting or fishing licenses. In category of other taxes, major revenue sources are severance taxes (natural resources), stock transfer taxes, and estate/gift taxes.

Source: Tax Foundation calculations based on data from Census Bureau's government finance data for state and local governments during fiscal year 2007.

Table 5
State and Local Tax Revenue by Source
Fiscal Year 2007

State	Property Taxes	General Sales Taxes	Selective Sales Taxes	Individual Income Taxes	Corporate Income Taxes	Licenses and Other Taxes
United States	30.1%	23.5%	10.9%	22.6%	4.7%	8.2%
Alabama	15.5%	29.9%	17.9%	22.7%	3.7%	10.2%
Alaska	20.9%	3.7%	6.3%	0.0%	16.5%	52.6%
Arizona	26.7%	40.1%	8.3%	16.1%	4.2%	4.6%
Arkansas	14.6%	41.3%	11.9%	23.7%	4.0%	4.4%
California	24.2%	24.2%	7.2%	30.8%	6.5%	7.2%
Colorado	30.4%	27.1%	8.2%	25.8%	2.7%	5.9%
Connecticut	38.2%	14.4%	9.2%	30.0%	3.9%	4.3%
Delaware	15.6%	0.0%	12.7%	29.3%	8.3%	34.1%
Florida	36.8%	33.2%	15.8%	0.0%	3.3%	11.0%
Georgia	28.8%	29.9%	8.6%	26.5%	3.0%	3.2%
Hawaii	17.3%	38.9%	12.8%	23.8%	1.5%	5.6%
Idaho	23.5%	26.8%	8.9%	29.6%	3.9%	7.3%
Illinois	37.1%	16.6%	17.2%	17.1%	5.3%	6.6%
Indiana	29.1%	25.7%	11.5%	24.7%	4.7%	4.3%
Iowa	33.1%	21.2%	10.4%	25.1%	3.0%	7.2%
Kansas	30.5%	26.6%	8.9%	24.2%	4.6%	5.3%
Kentucky	18.9%	20.6%	16.5%	29.5%	8.1%	6.5%
Louisiana	14.8%	40.0%	13.0%	18.3%	4.3%	9.6%
Maine	36.5%	18.7%	11.3%	24.2%	3.3%	6.0%
Maryland	24.2%	12.7%	10.6%	39.7%	2.9%	9.8%
Massachusetts	34.4%	12.7%	6.5%	35.6%	6.5%	4.3%
Michigan	39.3%	21.5%	10.5%	18.7%	4.7%	5.3%
Minnesota	25.8%	19.2%	12.6%	30.5%	5.1%	6.8%
Mississippi	25.3%	36.1%	11.7%	16.0%	4.3%	6.5%
Missouri	27.4%	26.2%	11.4%	27.0%	2.0%	6.1%
Montana	33.8%	0.0%	16.4%	25.5%	5.5%	18.8%
Nebraska	33.5%	24.3%	8.0%	23.2%	3.0%	8.0%
Nevada	27.5%	33.8%	24.4%	0.0%	0.0%	14.3%
New Hampshire	61.3%	0.0%	15.5%	2.3%	12.6%	8.3%
New Jersey	41.7%	16.8%	7.2%	22.7%	5.6%	6.0%
New Mexico	13.6%	36.1%	10.9%	15.8%	6.1%	17.5%
New York	28.4%	16.4%	7.8%	31.8%	9.3%	6.3%
North Carolina	22.5%	21.9%	12.1%	32.7%	4.8%	6.0%
North Dakota	26.8%	21.9%	13.3%	12.1%	5.3%	20.7%

Ohio	29.0%	20.5%	10.9%	29.9%	2.6%	7.2%
Oklahoma	16.2%	28.5%	9.7%	23.2%	4.6%	17.8%
Oregon	31.1%	0.0%	8.6%	44.1%	3.6%	12.6%
Pennsylvania	29.6%	17.0%	11.6%	25.5%	4.3%	12.0%
Rhode Island	41.1%	18.3%	10.3%	22.8%	3.7%	3.9%
South Carolina	31.1%	24.3%	10.9%	23.6%	2.3%	7.9%
South Dakota	34.2%	40.6%	13.5%	0.0%	3.2%	8.5%
Tennessee	24.2%	45.7%	11.1%	1.5%	6.1%	11.5%
Texas	41.6%	30.8%	16.0%	0.0%	0.0%	11.6%
Utah	22.9%	28.7%	10.3%	28.7%	4.5%	4.9%
Vermont	42.1%	11.5%	17.7%	19.9%	2.8%	6.0%
Virginia	31.0%	14.5%	11.9%	31.6%	2.7%	8.3%
Washington	26.8%	47.5%	14.6%	0.0%	0.0%	11.1%
West Virginia	18.7%	18.4%	19.3%	22.3%	8.9%	12.4%
Wisconsin	36.0%	19.0%	8.4%	27.1%	3.9%	5.5%
Wyoming	36.8%	28.3%	4.8%	0.0%	0.0%	30.1%
D.C.	29.3%	16.1%	9.4%	25.3%	8.1%	11.8%

Notes:

- Property tax includes residential and commercial real estate (mostly local revenue) as well as personal property taxes on cars, boats, etc. (mostly state revenue).
- The major selective sales taxes are levied on motor fuel, tobacco, insurance premiums, public utilities (power, telephone service, etc.), amusements and alcoholic beverages.
- State and local governments generally lump wages, dividends, interest and capital gains together when applying their individual income taxes.
- In license category, taxes are imposed on motor vehicle licenses, business or corporation licenses, and hunting or fishing licenses. In category of other taxes, major revenue sources are severance taxes (natural resources), stock transfer taxes, and estate/gift taxes.

Source: Tax Foundation calculations based on data from Census Bureau's government finance data for state and local governments during fiscal year 2007.

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