State Revenue and Taxation: Issues for Supporting Public Service in the 21st Century

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July 2001

FOREWORD

For the last six years, our state governments have experienced a time of tremendous prosperity. Revenues have grown and taxes have been lowered. Coupled with a growing federal surplus, it seemed that the time was ripe for a real increase in investment in public services to improve the quality of life for all our citizens. A slowing economy and a massive federal tax cut that mostly benefits the privileged classes have changed the nature of this environment. State tax revenues are not growing at the same rate as in previous years. The $1.35 trillion federal tax cut will lead to less federal revenue in at least some areas of public service. Because of the links between state tax systems and the federal tax structure, the tax cut will also mean lower state tax revenues. By itself, the elimination of the estate tax will cause states to lose an additional $50 billion to $100 billion from their own tax collections over the next 10 years.

As a result, states can expect harder times—and in many cases they are already experiencing them. Lower revenues affect both the quality of services provided by the states and the very standard of living of our members. These harder times come when states need to recruit and retain the next generation of public servants, rebuild hospitals, schools and other public infrastructure, and improve health care, education, environmental quality and public safety.

This report is one of the steps our union has taken to give members and leaders the tools they need to fight for adequate state revenue to accomplish these goals. It describes the importance of the federal government in providing state funds and assesses each of the major taxes states use to raise revenue. For those unfamiliar with tax issues, the report provides a set of evaluative criteria to use in judging the merits of any tax proposal.

Changes in demographics are reshaping the face of government and its work force. Technology is changing the capabilities of government while placing new demands on our society. Such changes also have an effect on taxes. It is essential for our leaders, at all levels of the union, to keep abreast of these changes and become more familiar with tax and revenue projections. Since these issues are at the heart of the political process, it is essential that we maintain our commitment to legislative and political action to defend quality services and help ensure the fairness and adequacy of the tax structure.

The Federation of Public Employees/AFT Revenue and Taxation Task Force has spent considerable time and effort researching the tax and revenue issues affecting the delivery of quality government services. The recommendations of the task force and the information provided by this report are welcome steps forward on vital issues affecting the lives of our members and their families. The implementation of this report can only serve to improve the effectiveness of our union and the institutions where our members work.

Sandra Feldman
President

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Executive Summary

Federal and state tax cuts have dealt a severe blow to the ability of state governments to provide services. Throughout the 1990s, revenues grew 29 percent after adjusting for population and inflation. The prosperity opened the door for important improvements in the quality of government services. Had states taken that step, they could have extended the reach of medical care to those who are unprotected, expanded education programs that help children achieve, protected our environment, and begun to repair and improve aging transportation systems. Instead, states responded with limited improvements while opting for $28 billion in tax cuts in six straight years lowering taxes by more than 1 percent for a given year. Now the balance has shifted, and states are failing to meet revenue expectations as the economy cools. Some are even looking at cutting programs and laying off workers to rebalance their budgets.

Compounding the problem of the state economic slowdown is the potentially devastating impact President Bush's $1.35 trillion federal tax cut will have on state revenues. State tax systems are often linked to the federal tax system, and one quarter of every dollar states spend providing services comes from federal sources. Within weeks of the tax bill's enactment, the consequences already are threatening to unbalance state revenues. For example, states will lose as much as $37 billion per year by 2011, as a result of the repeal of the estate tax. The federal government is hard-pressed to fund its own programs, let alone fill gaps left by state tax cuts and the slowing economy.

The prospect of budget cuts arising so quickly after record surpluses in state coffers confounds reason. It underscores just how crucial state revenues are as a source of funding for the services AFT members provide to the public. The availability of adequate revenues is a key to quality in our institutions.

In an effort to increase understanding of the nature of this important source of funding, the Federation of Public Employees (FPE) program and policy council created a task force to study state revenues. The task force's mission was to analyze the structure of state revenue systems, the factors that affect the amount of revenue raised and recent developments in state fiscal policy. In this report, the task force provides an overview of state revenue systems and a set of recommendations.

- **Advocate for adequate federal funds for state programs. The quality of state services will shrink without proper federal support for the states.**

— One-quarter of the dollars that are spent to provide public services in states originate with the federal government, and most are targeted for health care, children, education and infrastructure development.

- **Support the passage of tax reform that will allow states to collect tax on electronic commerce transactions.**

— States are expected to lose $10 billion in uncollected tax revenues per year by 2003, as a result of the growth of e-commerce. State and local tax codes must be combined and simplified so "e-tailers" can collect taxes on goods and credit the proper authorities.

- **Advocate to ensure that corporate tax incentives to support economic development are better regulated.**

— State incentives to corporations total $16 billion per year—half of the revenue generated at the state level by corporate taxation! These incentives are supposed to improve the economic climate of a state. Too often this proves to be a hollow promise, a hole, down which resources needed for vital services disappear.

- **Work to make your state's revenue and tax policy adequate and fair.**

— Meet and work with those responsible for state revenue estimation and use information gained to advocate before the legislature for the goal of adequate, stable and progressive tax systems that tax as broad a base as possible.

- **Make political and legislative involvement a priority so that candidates who support fair and adequate revenues for state services get the support they need to get elected.**

— Political involvement is crucial. Without it there is no opportunity to advocate effectively for the revenues needed by the institutions in which our members work or for the services they provide to the citizens in our nation.

FPE/AFT members can identify regressive taxes in their systems with the information in this report. Be aware that each tax is an important component of a state's tax system that attempts to provide a stable and adequate revenue structure. When assessing these conflicts, the task force recommends placing a given tax proposal within the context of the state's overall revenue system, and evaluating the total system's progressivity, not just some of the parts.

Look for these elements in tax systems:

1. **Adequacy** of revenue to meet state service needs.

2. **Stable** system of taxes that will minimize the effect of minor changes in the economy.

3. **Broad** base for taxes spread across the commerce of the entire community.

4. **Progressivity** that enables the share of taxes paid to rise as income and wealth rise.

Five issues worth watching:

1. Federal tax cuts affect state revenues. Through changes in the estate tax and the income tax, the federal tax cuts will cost the states more than $35 billion annually by 2011.

2. The graying of the baby boom generation affects overall economic growth and demographic shifts within and across the states.

3. Electronic commerce will reach $140 billion annually by 2003, causing states to lose $10 billion in revenues.

4. Business tax credits for economic development are largely unregulated by legislatures and too often leave states holding an empty purse.

5. Revenue estimates based on economic forecasts can include exaggerations or errors predicting economic downturn. This can cause unnecessary layoffs and cuts in services.

State Revenue Facts

- In 1998, total state general revenue was $865 billion, or $3,206 per capita. Alaska had the highest per capita revenue in 1998, at $12,986, followed by Delaware at $5,222. Texas was the lowest at $2,433, with Florida next to the bottom at $2,466.

- Federal Payments equal a quarter of total state revenues. Medicaid is the largest program at $120.9 billion, while Temporary Assistance for Needy Families provides $16,886 in support. Wyoming gets 35.6 percent of its revenue from federal sources as the most dependent. Alaska gets a mere 13 percent as the lowest dependent state.

- Fees, miscellaneous revenues and other charges provides $150 billion in state revenue per annum, is the most rapidly growing category of revenues. The largest segment of this category—30 percent—is from the $1.3 billion in tuition collected by state's public universities and colleges.

- State tax structures vary widely between states, but average 34 percent from individual income taxes, 33 percent from general sales taxes, 15 percent from selective sales taxes, 7 percent from corporate taxes, 6 percent from licenses and 5 percent from all other sources.

- Property taxes used primarily at the local level, provide $209 billion, or 45 percent of local government revenues.

- State general fund revenues in 1990, were $518 billion, but grew to $865 billion by 1998, an increase of two-thirds.

- On a per-capita basis, state general fund revenues increased by 54 percent, from $2,188 to $3,206 during the same period.

- The tax that has grown the most is the income tax, up by 23 percent between 1990 and 1998. General sales tax revenue grew by 15 percent. Licensing tax revenue grew by 16 percent. Selective sales tax revenue grew by 10 percent and corporate income taxes grew by just 5 percent.

- The two most progressive taxes—the income tax and the corporate income tax—were at opposite ends of the growth spectrum. The more regressive sales taxes showed moderate growth.

Recommendations of the Task Force

- **FPE/AFT leaders, staff and members at all levels should work to ensure adequate federal funding of state programs.** Federal dollars currently provide 25 percent of total state revenues, and the maintenance of this funding is vital to the work being done by FPE/AFT members.

- **FPE/AFT should support efforts at the state and federal level to allow for the collection of taxes from e-commerce**. This is a rapidly growing area of commerce that is not consistently subject to state tax collection. It is estimated that states will lose more than $10 billion in lost sales and use taxes in the year 2003, as a result of electronic commerce. The National Governors Association, National Conference of State Legislatures and others are working on a program that would meet the current judicial criteria for state action, but this effort will need enabling federal legislation before it can succeed.

- **FPE/AFT should support efforts to better regulate corporate tax incentives for economic development**. It is estimated that state incentives to corporations total $16 billion per year. These incentives are designed to foster job creation and economic development, yet there is little state oversight of them.

- **FPE/AFT leaders, staff and members at all levels should increase their knowledge of and activism on state revenue and tax policy issues.** Maintaining sufficient revenues is vital both to the work being done by FPE/AFT members and to their very livelihood. As a first step, FPE/AFT affiliates should meet those responsible for their state's revenue estimates to understand the process the state uses to predict its available revenue. Affiliates should become advocates at their state legislatures and in their communities for an adequate and fair revenue structure, particularly in response to proposals that would threaten adequacy of funds or progressivity of the tax system. The task force recommends that affiliates evaluate tax proposals on the basis of how they help the state tax system reach four goals: adequacy, breadth, progressivity and stability.

- **For FPE/AFT local unions to have an impact on the revenue and tax debate, it is essential that our union play an active role in political and legislative action at all levels of government**. Tax and revenue issues by their very nature are political issues determined by political leaders and advocacy groups of all stripes. In particular, FPE/AFT local unions should work to elect candidates who will support providing fair and adequate revenues for public services. Through this legislative and political action, we can work to shape the debate and protect the interests of our members and their families and defend the quality of services to the public.

Introduction

The past several years have seen a remarkable growth in state revenues. A recent Urban Institute report found that, controlling for the consumer price index and population growth, state revenue grew by 29 percent between 1988 and 1997 (Merriman, 2000). Throughout the late 1990s, revenue growth consistently exceeded various forecasts and estimates. This allowed for states to embark on six straight years of tax cutting, sometimes lowering taxes by more than 1 percent for a given year.

Recent State Tax Cuts	
Fiscal Year	**Value of Tax Cuts (in dollars)**
2000	7.3 billion
1999	7.1 billion
1998	7.1 billion
1997	2.6 billion
1996	4.0 billion
Source: National Conference of State Legislatures, 2000	

TABLE 1

With the economy slowing and the stock market churning, some states are experiencing revenue shortfalls for the first time in years. A National Conference of State Legislatures (NCSL) survey has found that 19 states had not met their revenue forecasts as of February 2001. Eleven of these states reported that budget cuts might result from these revenue shortfalls (NCSL, 2001). A May 2001 report from the Rockefeller Institute found that only one of the 50 states was meeting its revenue goals (Jenny and Boyd, 2001). Even though state revenues are predicted to continue to grow in the next five years, there will be a substantial decline in the rate of that growth according to economic forecasters.[1]

The prospect of budget cuts underscores just how crucial state revenues are as a source of funding for the services AFT members provide to the public, particularly the services state and local government employees provide. The quality of these services depends on adequate resources. Because this is as true in transportation as it is in health care, public safety, education, recreation or environmental protection, conflicts over budgetary resources are common among those concerned with the quality of public service. By working to ensure adequate revenues, it is possible to ensure that all public services will be adequately supported.

In an effort to increase understanding of the nature of this important source of funding, the Federation of Public Employees (FPE) program and policy council created a task force to study state revenues. The task force's mission was to analyze the structure of state revenue systems, the factors that affect the amount of revenue raised and recent developments in state fiscal policy. The task force also was charged with making recommendations about AFT policy in this area.

[1] Between 1995 and 2000, state real economic growth was 4.1 percent on average. Regional Financial Associates, an economic forecasting company, predicts that real average annual economic growth will be just 2.9 percent (Boyd, 2000).

The task force was composed of FPE members who had a particular expertise in state revenue issues; the task force received support from both the AFT Public Employee Department and the Research and Information Services Department. Two task force meetings were held, one at AFT headquarters in Washington, D.C., and one at the Rockefeller Institute in Albany, N.Y. At each meeting, the task force heard presentations from experts in revenue and taxation. These included Robert McIntyre of Citizens for Tax Justice, Don Boyd of the Rockefeller Institute, Marcia Howard of Federal Funds Information for States, Brian Dabson of the Corporation for Enterprise Development, Robert Megna of the New York State Division of the Budget and Greg LeRoy of Good Jobs First.[2]

This report is a result of the task force's deliberations. It provides an overview of state revenue systems and a set of recommendations. The first and most important recommendation is that AFT leaders, staff and members at all levels increase their knowledge of state revenue and tax policy issues, and become advocates for an adequate and fair revenue structure. The maintenance of state revenues is vital both to the work our members do and to their very livelihood. To help those who are unfamiliar with these policy issues, the task force recommends a set of four goals to be used in evaluating revenue systems generally and specific proposals in particular. These goals are *adequacy*, *breadth*, *progressivity* and *stability*. Any change in the state's revenue system should be evaluated on how it contributes to each of these criteria.

The task force has also made specific recommendations concerning taxation of electronic commerce and the use of corporate tax incentives for the purposes of economic development. These are issues at the cutting edge for states, and it is important that AFT affiliates become involved in order to ensure a tax code that not only provides adequate revenues but is also fair.

This report is intended to provide FPE members, staff and leaders with better information with which to evaluate tax and revenue at the state level. Although it underscores the regressivity of some of the taxes that states now use, it also highlights the importance of each component of a state's tax system in creating a stable and adequate revenue structure. The task force spent considerable time discussing the conflicts between the different principles it espouses, especially adequacy and progressivity. When assessing these conflicts, the task force recommends placing a given tax proposal within the context of the state's overall revenue system. The more progressive a state's tax system, the more it can afford to add an element that is not progressive.

[2] More information about these organizations can be found at their Web sites: Citizens for Tax Justice (www.ctj.org); Federal Funds Information for States (www.ffis.org); The Rockefeller Institute (www.rockinst.org); The Corporation for Enterprise Development (www.cfed.org) and Good Jobs First (www.goodjobsfirst.org).

Principles of Effective Tax Policy

Adequacy. Simply stated, the tax structure should produce enough revenue to meet a state's needs.

Stability. A stable tax system allows a state to weather difficulties in a particular economic sector or shortfalls in any particular tax that might result from bumps in the economy. The tax code should be structured so that it is not overly dependent on one particular revenue stream or one particular type of economic activity. In states that rely heavily on one industry, questions regarding the stability of the tax system will remain. While no tax structure will ever be completely immune to economic downturns, the goal of a stable tax system is to limit the impact that minor changes in the economy will have on state revenue streams.

Breadth. A state's tax base includes everything that is taxed. If, for example, a state exclusively relied on an income tax, and the total income earned by citizens of the state was $10 billion then the tax base of the state would be that $10 billion. It is in the best interest of states to have as broad a tax base as possible.

The breadth of a tax base determines how widely the state spreads its tax burden across the community. A broad tax base means that the rates for any particular type of tax or classification of taxpayer will be as low as possible. Breadth also contributes to the stability of the tax system. The federal government's tax reform in 1986, which closed various individual loopholes while lowering overall corporate tax rates, is an example of how broadening a tax base is supposed to lead to overall lower rates.

Progressivity. In taxation, progressivity simply means that the share of income paid in taxes should rise as income rises. An example of a progressive tax is the federal government's graduated income tax, which applies a higher rate to the income of wealthier persons than it does to the income of the poor. A regressive tax is one in which the share of income devoted to a tax goes down as the taxpayer's wealth increases. An example is the sales tax. Although a millionaire will buy more goods than will someone making the minimum wage, the total sales taxes paid by the millionaire will be a smaller proportion of his or her wealth than they would be for the minimum wage worker.

The main reason to support progressivity is its inherent fairness. Adam Smith wrote that citizens "of every state ought to contribute toward the support of government as nearly as possible in proportion to their respective abilities." Progressive tax codes are also seen by some as a way to limit the gap between rich and poor.

Overview of State Revenues

In 1998, total state general revenue was $865 billion, or $3,206 per capita (U.S. Census Bureau, 2000a). To put this in perspective, federal revenues for the same year were approximately $1.65 trillion. Local government revenue was, in 1996, another $709 billion (U.S. Census Bureau, 2001). From these figures it is possible to see that state revenues account for roughly one-fourth of the dollars raised to provide public services. They are the primary source of funding for many of the services provided by AFT members. [3]

Although the average amount of state revenue was $3,206 per capita, this does not reflect the variation among states; some states raise more revenue than average and others raise less. These variations are a result of more than differences in population size. A state's demographics, resources, political culture, need for services and the responsibility it assigns to local governments all affect the need for and ability to raise revenue. Alaska, with its abundant natural resources, far-flung population, challenging climate and varied ecology has the highest per-capita revenue—almost $13,000. Texas has the lowest, just over $2,400. Table 2 shows the states with the highest and lowest per-capita revenues.

States with the Highest and Lowest Per-Capita Revenue, 1998			
Highest Per-Capita Revenue		**Lowest Per-Capita Revenue**	
State	**Per-Capita Revenue**	**State**	**Per-Capita Revenue**
Alaska	12,986	Illinois	2,805
Delaware	5,222	Colorado	2,758
Wyoming	4,859	Missouri	2,737
Hawaii	4,588	Nevada	2,642
New York	4,441	Georgia	2,639
Connecticut	4,414	Tennessee	2,594
Massachusetts	4,197	Arizona	2,530
New Mexico	4,103	New Hampshire	2,505
North Dakota	3,969	Florida	2,466
Rhode Island	3,825	Texas	2,433
		U.S. Average	**3,206**
Source: U.S. Census Bureau, 2000a			

TABLE 2

The largest component of state revenues is taxation. The second largest component is transfers from other governments, particularly the federal government. The remaining revenues consist of fees, charges and a variety of other sources. The following pie chart indicates, on average, the sources of state revenue.

[3] There is some double counting in these figures, because 28 percent of the state revenue is a transfer from federal and local governments, and 34 percent of local revenues are transfers from state and federal governments.

Federal Payments

The vast majority of intergovernmental transfers are payments from the federal government. Although there are more than 200 federal grant-in-aid programs that provide revenue to states and localities, the 44 largest of these programs account for 90 percent of such aid. These major programs cover services from adoption to airport improvement. Table 3 describes the 12 largest programs.

Largest Federal Grant Programs for States and Localities, 2001	
Program	**(Millions of Dollars)**
Medicaid	120,973
Temporary Assistance for Needy Families	16,886
Food Stamps	16,030
Pell Grants	8,756
Title I (Local Portion)	8,602
Surface Transportation	7,208
Medicaid Administration	6,420
IDEA (Special Education)	6,340
Head Start	6,200
National Highway System	6,130
School Lunches	5,387
Interstate Highway Maintenance	5,046
Source: FFIS, 2001	

TABLE 3

These payments are 25 percent of total state revenues on average, but some states depend on them more than others. Reliance on federal revenue is again a function of demographics as well as of the amount of revenue a state raises from other sources. Some federal programs also provide money based on state spending in a particular program area. In Medicaid for example, the federal government provides roughly a one-to-one match to the commitment made by states, so the more a state commits from its own revenue, the more federal revenue it will generate. Table 4 shows the states that are the most and least dependent on federal revenues.

States Most and Least Dependent on Federal Revenue, 1997			
Most Dependent		**Least Dependent**	
State	**Percent of Revenue From Federal Government**	**State**	**Percent of Revenue From Federal Government**
Wyoming	35.6	Maryland	21.2
Tennessee	35.5	New Jersey	21.1
Mississippi	33.2	Wisconsin	20.8
West Virginia	32.8	Massachusetts	20.6
South Dakota	31.7	Connecticut	20.3
Montana	31.6	Minnesota	19.3
Louisiana	31.4	Virginia	17.6
North Dakota	30.6	Nevada	16.9
Oregon	30.3	Delaware	16.8
Vermont	30.2	Alaska	13.0
		U.S. Average	**25.0**
Source: U.S. Census Bureau, 2001			

TABLE 4

As of this writing, the 2001 federal budget debate is not over. However, the proposed budget submitted by President Bush would have a deleterious effect on state revenue from the federal government. The Economic Policy Institute (EPI) estimates that the president's FY 2002 proposal calls for cuts of almost 7 percent in real funding provided to state and local governments (Mishel, 2001). This real reduction occurs because spending is not keeping pace with inflation and population growth. It is likely that Congress will choose to spend more than the president has proposed in some areas such as education, but there is still the real threat of an overall decline in federal support for states. According to the EPI report, Arkansas will feel the worst pinch from the Bush budget and Arizona will feel the least. If states are to maintain the same level of services, they will have to find more revenue from their own coffers.

States Most and Least Affected By Proposed Federal Spending Cuts			
Most Affected		**Least Affected**	
State	**Percentage Loss in Federal Revenue to States and Localities**	**State**	**Percentage Loss in Federal Revenue to States and Localities**
Arkansas	15.7	Georgia	6.6
Michigan	12.2	Virginia	6.5
Florida	11.6	Alaska	6.4
Oklahoma	11.1	Texas	6.4
West Virginia	9.5	Massachusetts	6.4
Wyoming	9.4	Maryland	6.3
Vermont	9.1	California	6.3
Delaware	8.8	Minnesota	6.1
New Hampshire	8.6	Colorado	5.6
Mississippi	8.5	Arizona	5.2
		U.S. Average	**6.9**
Source: EPI, 2001			

TABLE 5

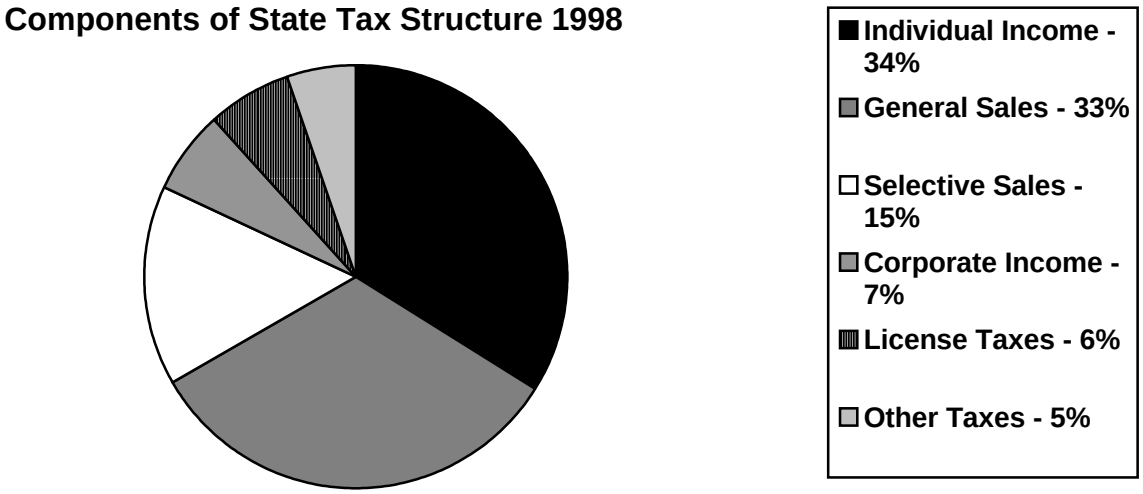
Fees, Miscellaneous Revenues and Other Charges
This category, which accounts for almost $150 billion in state revenue per annum, is the most rapidly growing category of revenues. It includes highway tolls, hospital charges, and port and airport fees. But the fee that generates the most revenue typically is college tuition. For example, in New York just under $4.5 billion were generated in fees per annum in the mid to late 1990s. In 1995, the state's public universities and colleges collected $1.3 billion in tuition, or 30 percent of the total revenue derived from fees (New York State Education Department, 1997).

Fees raise a progressivity issue. Increased revenue from fees indicates a cost shift from the state back to the individuals who are receiving particular services from the state, even when these services are also an investment in the overall capacity of the state.

State Tax Structures

Taxes account for just over 55 percent of state revenue. In 1998, the average revenue raised by state taxes was $1,759 per capita, but there is much state-to-state variation. New Hampshire has the smallest per-capita state tax revenue at $850. Hawaii, at $2,668, has the largest (U.S. Census Bureau, 2000a).

Just as important as variation in the amount of tax revenue is variation in the types of taxes used to raise it. Although states rely on a variety of different taxes to collect this money, the most important are the income tax and the sales tax. Income taxes accounted for 33.9 percent of total state tax collections in 1998. General sales taxes accounted for 32.9 percent of state revenue, and selective sales and excise taxes (on luxury items, for example) accounted for another 15 percent. Corporate taxes raised only 6 percent of state tax revenue, ostensibly because high corporate taxes hinder business development and encourage firms to move elsewhere. Of course, not everyone accepts the validity of these arguments. The balance of state revenue is derived from licensing, property taxes, inheritance and other taxes.



Each of the taxes that states use has different advantages and disadvantages. The main components of state tax systems are examined below.

The General Sales Tax

There are 45 states that use a general sales tax. Although this tax generates about a third of all state tax revenue, the degree to which states depend on it varies considerably. Washington state derives almost 60 percent of its revenue from the sales tax. Five states have no sales tax at all (see Table 6).

States Most and Least Dependent on the Sales Tax, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Revenue From Sales Tax**	**State**	**Percent of Revenue From Sales Tax**
Washington	58.5	Maryland	23.5
Tennessee	57.6	Virginia	21.1
Florida	57.4	New York	21.1
Nevada	53.2	Massachusetts	20.5
South Dakota	53.1	Vermont	20.3
Texas	50.7	Alaska	0.0
Mississippi	48.0	Delaware	0.0
Hawaii	44.9	Montana	0.0
Arizona	43.9	New Hampshire	0.0
New Mexico	40.7	Oregon	0.0
		U.S. Average	**32.9**
Source: U.S. Census Bureau, 2000a			

TABLE 6

Sales tax rates vary considerably among states. One of the factors that affects this variation is whether localities charge additional sales taxes above the state tax. More than 30 states have local option sales taxation.

Highest and Lowest State Sales Tax Rates, 2000 (local taxes not included)			
Most Dependent		**Least Dependent**	
State	**Sales Tax Rate (%)**	**State**	**Sales Tax Rate (%)**
Mississippi	7.00	Colorado	2.90
Rhode Island	7.00	Virginia	3.50
Minnesota	6.50	Alabama	4.00
Nevada	6.50	Georgia	4.00
Washington	6.50	Hawaii	4.00
Illinois	6.25	Louisiana	4.00
Texas	6.25	New York	4.00
Connecticut, Florida, Kentucky, Michigan, New Jersey, Pennsylvania, Tennessee, West Virginia	6.00	North Carolina	4.00
		South Dakota	4.00
		Wyoming	4.00
Source: Federation of Tax Administrators, 2001a			

TABLE 7

The sales tax has a number of advantages. It raises substantial amounts of revenue and can be a broad-based tax. It is widely perceived as being fair. In part, this is because on any given day a person does not have to buy the goods that are taxed. As Minnesota Gov. Jesse Ventura recently said: “I’m a believer in sales tax because I get to choose to pay it. You know, when I have an income tax, I don’t get no choice. It’s deducted from me” (Sweeney, 2001). Because sales taxes are paid in small portions over time as part of a variety of transactions, it is harder to notice their cumulative effect—especially when compared to the property tax, which is paid in one lump sum, or the income tax, which is summarized every year as a result of the tax return process. Although merchants carry an

administrative burden with the sales tax, the actual taxpayer does not. This explains why many of the recent shifts in state tax policy include adoption or expansion of the sales tax. For example, in 1994, Michigan's Legislature and Gov. John Engler lowered state property taxes and raised statewide sales taxes. In 2000, Arizona voters approved a sales tax increase to better fund education.

That said, the sales tax also has significant disadvantages. The first is that despite its popularity as a "fair" tax, the sales tax takes a disproportionate amount of money from poor people than it does from wealthy people. Because the poor have to spend a greater share of their income, more of it is exposed to taxation. A 1993 analysis by Citizens for Tax Justice revealed, for example, that a Florida family in the lowest 20 percent of the income distribution paid more than 6 percent of its income in sales taxes. A family in the top 1 percent of the income distribution paid only about 1 percent of its income in sales taxes. The analysis concludes that a 6 percent sales tax is "the equivalent of an income tax with a 4.5 percent rate on the poor, a 3 percent rate on the middle class, and a 1 percent income tax rate for the rich" (Etlinger, et al., 1993). This makes it the most regressive of generally used state taxes.

How states determine the types of sales of goods and services to tax also affects the progressivity and the breadth of the sales tax. For example, most states do not apply their sales tax to food that is purchased for home consumption (i.e., food bought at the grocery store). While this narrows the sales tax base, it ameliorates some of the regressiveness of the sales tax. The states that still tax food purchases are listed in Table 8.

States Taxing the Sale of Food for Home Consumption, 2000

Taxed, but at a lower rate than the general sales tax	Taxed, but with rebates or credits for the poor	Fully taxed
Illinois, Louisiana, Missouri, Virginia	Idaho, Kansas, Oklahoma, South Dakota, Wyoming	Alabama, Arkansas, Hawaii, Mississippi, New Mexico, South Carolina, Tennessee, Utah, West Virginia

Source: Johnson, 2000

TABLE 8

The other main way that states narrow the tax base is by excluding services from taxation. When Minnesota adopted its sales tax in 1967, approximately 40 percent of personal consumption was for services and 60 percent was for goods. Only the latter were subject to the sales tax. Today, according to the Minnesota Department of Revenue, those percentages have nearly switched. This means the sales tax is capturing a narrower stream of purchases (Minnesota Department of Revenue, 2001). Gov. Ventura has proposed applying the tax to services. Because this would broaden the base considerably, it would also allow the state to reduce sales tax rates.

The sales tax is volatile in part because of its dependence on consumer confidence. When families merely fear an economic downturn, it can lead to declines in sales of big-ticket items such as cars or major appliances; this will affect sales tax revenues. In 2001, many states are experiencing revenue shortfalls in part for this reason. Another issue is the relationship between sales taxes and economic growth. Since money is spent on items

that are not taxed and some income is saved, not consumed, especially when incomes are increasing, sales taxes will not generate increased revenue at the same rate as overall economic growth.

For FPE leaders and activists concerned with public support for the services their members provide, the sales tax poses a somewhat thorny question. It is relatively regressive, not particularly stable and will not necessarily raise new revenue in proportion to future state economic growth. However, it may be the broadest and most viable tax for a state to adopt given the relative amount of political support for it. For states with inadequate revenue, it can be an important tool.

Selective Sales Taxes

Selective sales taxes, also known as excise taxes, are applied to particular goods. Cigarettes, gasoline and alcohol are typical goods subject to excise taxes. In 1998, states raised 15 percent ($71.4 billion) of their total tax revenue through excise taxes, although some states depended more on these taxes than did others.

States Most and Least Dependent on Excise Taxes, 1998

Most Dependent		Least Dependent	
State	**Percent of Revenue From Excise Taxes**	**State**	**Percent of Revenue From Excise Taxes**
New Hampshire	49.4	Delaware	12.9
Nevada	31.2	Indiana	12.9
Texas	30.1	Oklahoma	12.9
North Dakota	27.9	Kansas	12.3
South Dakota	26.3	Alaska	9.9
Alabama	24.8	Massachusetts	9.8
Vermont	24.0	Michigan	9.1
West Virginia	23.3	Georgia	8.6
Montana	20.7	Wyoming	7.9
Rhode Island	20.6	California	7.7
		U.S. Average	**15.0**

Source: U.S. Census Bureau, 2000a

TABLE 9

The types of goods that are taxed vary across states, as do the tax rates that are applied to these goods. Some items, such as cigarettes, are taxed everywhere. Cigarettes provide a good example of how tax rates vary across states (see Table 10).

Excise taxes have a number of advantages. The first is that they can raise substantial amounts of revenue. Like a sales tax, excise taxes raise revenue in relatively small

States with the Highest and Lowest Cigarette Tax Rates, 2000			
Highest Rate		**Lowest Rate**	
State	**Cigarette Tax Per Pack (in dollars)**	**State**	**Cigarette Tax Per Pack (in dollars)**
New York	1.11	Missouri	.17
Alaska	1.00	West Virginia	.17
Hawaii	1.00	Alabama	.165
California	.87	Tennessee	.13
Washington	.85	Georgia	.12
New Jersey	.80	Wyoming	.12
Massachusetts	.76	South Carolina	.07
Michigan	.75	North Carolina	.05
Maine	.74	Kentucky	.03
Rhode Island	.71	Virginia	.025
Source: Federation of Tax Administrators, 2001b			

TABLE 10

portions from taxpayers, and taxpayers always have the choice, at least in the short run, not to purchase the item that is taxed. This creates a perception of fairness. The administrative burden on the taxpayer is small. Excise taxes can also be tied, at least symbolically, to public sector activities in a way that increase the perception of their fairness. For example, federal gasoline taxes go into the federal Highway Trust Fund, which is used for highway construction and mass transit. Since the money paid by drivers is used to maintain and build the very roads they're driving on, the tax is easier to justify.[4] Excise taxes can also be used as engines of social policy. Taxing cigarettes typically leads to lower rates of smoking and to increases in state revenue.

Unlike general sales taxes, the excise tax is often applied on a per-unit basis rather than a percentage basis. Thus cigarettes are taxed per pack, not on the basis of their price. This actually makes the excise tax more regressive than the general sales tax. For example, per-bottle taxes on wine raise the exact same revenues from wine that only wealthy connoisseurs can afford as they do from inexpensive table wines. Applying the tax to the unit also means that the excise tax will not keep pace with inflation. As the price of a pack of cigarettes increases, the excise tax stays the same. Put another way, as there are increases in the price of public services that the tax is funding, the tax will stay the same. For example, a 1991 tobacco industry study found that in 1955 excise taxes represented about 45 percent of the cost of cigarettes. By 1991 this had dropped to just more than 25 percent. Recent tax increases have reversed the trend somewhat (Tobacco Institute, 1991).

Another problem with excise taxes is that they are narrow and thus vulnerable to a narrow set of economic changes. If prices for a commodity that is subject to an excise tax

[4] Earmarking revenues for specific expenditures can be a politically astute way to generate support for new taxes. However, earmarked revenues do not always lead to the expected real increases in funding for the projects they are supposed to help. This is because most general fund money is fungible, meaning that it can be moved from account to account. The earmarking of federal gas tax money for highway construction may simply mean that other federal revenues are not going to be spent on highways.

increase at a rate much faster than general inflation, there will be pressure from angry consumers to remove the burden. As a result of higher gasoline prices, for example, there have been consistent calls for lower gasoline taxes. Last year, Connecticut lowered its excise tax on gasoline. Illinois and Indiana, which had applied the general sales tax to gasoline purchases, also chose to exempt gasoline from taxation (NCSL, 2000).

The Individual Income Tax

Along with the sales tax, the income tax is the bulwark of state revenue systems, raising $160.7 billion in 1998, roughly a third of state tax revenues. The degree to which a state relies on the income tax varies; four states receive more than half of their revenue through income taxes. Seven states have no income taxes whatsoever. State income tax bases typically are linked to the federal government's income tax base. As that tax base expands or narrows, state tax bases will similarly expand and contract. This means that those concerned with state revenues need to be concerned not just with federal payments to the states, but also with the construction of the federal income tax base.

States Most and Least Dependent on Income Taxes, 1998

Most Dependent		Least Dependent	
State	**Percent of Tax Revenue From Individual Income Tax**	**State**	**Percent of Tax Revenue From Individual Income Tax**
Oregon	68.8	North Dakota	16.5
Massachusetts	55.4	New Hampshire*	6.1
Virginia	51.3	Tennessee*	2.3
New York	50.6	Alaska	0.0
Colorado	48.9	Florida	0.0
Georgia	45.9	Nevada	0.0
Wisconsin	45.3	South Dakota	0.0
Maryland	45.0	Texas	0.0
North Carolina	44.2	Washington	0.0
Indiana	41.7	Wyoming	0.0
		U.S. Average	**33.9**

* Limited to interest and investment earnings

Source: U.S. Census Bureau, 2000a

TABLE 11

Most states use an income tax system that increases the tax rate as a taxpayer's income increases. For example, a rate of 2 percent might be applied to the first $20,000 a taxpayer earns. A higher rate is applied to the next $10,000 and an even higher rate might be applied to all earnings above $30,000. Under this system, called a graduated income tax, everyone pays the same tax rate on that first $20,000 of their annual income. The wealthy only pay higher rates on income made above and beyond that level. This system makes the income tax the most progressive of a state's tools for generating revenue.

Table 12 shows the highest and lowest top income tax rates and the income thresholds at which they apply. The amount of revenue and the progressivity of the tax are a function of both the size of the rate and the income threshold where they kick in.

States with Highest and Lowest Top Income Tax Rates, 2000					
Highest Top Rate			**Lowest Top Rate**		
State	**Rate (%)**	**On Income More Than ($)**	**State**	**Rate (%)**	**On Income More Than ($)**
North Dakota	12.00	200,000	Arizona	5.04	150,000
Montana	11.00	26,500	Alabama	5.00	3,000
California	9.30	35,792	Mississippi	5.00	9,000
Oregon	9.00	5,850	Maryland	4.80	3,000
Iowa	8.98	52,290	Colorado	4.63	10,000
Hawaii	8.50	40,000	Connecticut	4.50	57,710
Maine	8.50	16,500	Michigan	4.20	0
Idaho	8.20	20,000	Indiana	3.40	0
New Mexico	8.20	20,000	Illinois	3.00	0
Minnesota	7.85	10,000	Pennsylvania	2.80	11,550
Source: Federation of Tax Administrators, 2001c					

TABLE 12

The income tax has a number of advantages over other taxes. It generates a great deal of revenue. It is broad based, typically capturing wages, earnings from interest and dividends, business income, rental income and capital gains. The income tax is also relatively stable. Because it is linked to actual earnings, it has a built-in index for inflation and economic growth.[5] Based on the criteria recommended in this report, it is one of the best taxes that states have at their disposal. Because a state can apply various deductions and credits, for example for families with children, the income tax is typically administered more fairly than other taxes. The chief drawback of the income tax may be the bureaucracy required to manage it, with the taxpayer having to file a return. This makes taxpayers more aware of their income tax burden than they are of their sales or excise tax burden.

Corporate and Other Business Taxes

Legislatures are generally reluctant to tax corporations, in part because of a fear that the corporation will pass along the costs of any tax incurred in the creation of a product to the consumers of that product. For example, if a furniture company is charged $5 in taxes when it purchases the raw materials to make a sofa, it will simply add the $5 to the price tag. Consumers in turn will pay a tax on the total amount, including the $5 in passed-on tax. This is why businesses are typically exempted from the general sales tax. Taxes on corporate profits, which occur after the transaction with the consumer is completed, are the states' preferred way to tax businesses.

Even so, there is a concern that corporate taxes will discourage investment and business formation. High taxes are not exactly a selling point for corporations, and there are business-oriented interest groups that rate a state's business climate based largely on the

[5] Because of the income tax's graduated nature, the revenue that it creates can outpace inflation and economic growth through a phenomenon known as "bracket creep." As inflation increases earnings, a taxpayer is moved into a higher bracket even though his or her actual buying power has not been increased. This phenomenon can provide a justifiable reason for indexing tax brackets to inflation.

corporate tax structure. This concern, coupled with corporate lobbying, limits the degree to which states tax corporate profits. As a result, while taxes on corporate income are an integral part of the revenue structure in 46 states, they raise only a little bit more than 6.5 percent of total state tax revenue.

Corporate income taxes are not just applied by a state to companies that are headquartered within its borders. Instead, states attempt to tax all corporations that do business in their state. To do so, each state with a corporate tax has developed a formula to determine what part of a corporation's profit should be allocated to that state and thus be subject to taxation. The formula includes the percentage of the company's payroll, assets and sales that are based in the state.

States Most and Least Dependent on the Corporate Income Tax, 1998

Most Dependent		**Least Dependent**	
State	**Percent of Revenue From Corporate Income Tax**	**State**	**Percent of Revenue From Corporate Income Tax**
New Hampshire	23.4	Oklahoma	4.2
Alaska	23.3	Maryland	4.1
Michigan	11.1	Iowa	4.1
Delaware	10.4	Rhode Island	3.8
Illinois	9.9	South Carolina	3.8
Indiana	9.5	Hawaii	1.9
Massachusetts	9.4	Nevada	0.0
Tennessee	8.7	Texas	0.0
New York	8.7	Washington	0.0
California	8.3	Wyoming	0.0
		U.S. Average	**6.6**

Source: U.S. Census Bureau, 2000a

TABLE 13

Corporate income taxes have a number of advantages. They add to the progressivity of a state tax system, since stockowners (who are the beneficiaries of corporate profits) tend to be wealthier. Taxing corporate profit also creates a broader tax base. It allows the state to collect taxes from all corporations doing business and taking advantage of public services in a state even if those businesses are not incorporated in the state. The tax formula also links a corporation's tax liability to the amount of business it does in the state.

There are disadvantages as well. Corporate taxes are not particularly stable. Because they are linked to profits, they tend to decline when the economy is in recession. By taking advantage of differences in states' tax policies and smart accounting, corporations can limit their exposure to taxes by assigning profit and loss to different parts of their operations in a way that minimizes their exposure to the tax. Loopholes and incentives in the states' tax codes, often in the form of tax credits, allow corporations to pay much less in taxes than the application of the tax rate would indicate. Corporate tax credits are given to encourage certain behaviors, such as investing in new equipment, hiring new workers, operating with better energy efficiency or greater environmental conscientiousness. This

can create a number of fairness and accountability problems. The task force has recommended that FPE/AFT members and leaders spend more time monitoring the use of these corporate tax breaks. The table below shows the highest and lowest top rates that states charge for corporate income tax.

States with Highest and Lowest Top Corporate Tax Rates, 2000					
Highest Top Rate			**Lowest Top Rate**		
State	**Rate (%)**	**On Income More Than ($)**	**State**	**Rate (%)**	**On Income More Than ($)**
Iowa	12.00	250,000	Oklahoma	6.00	0
North Dakota	10.50	50,000	Tennessee	6.00	0
Pennsylvania	9.99	0	Virginia	6.00	0
Minnesota	9.80	0	Florida	5.50	0
Vermont	9.75	250,000	Alabama	5.00	0
Massachusetts	9.50	0	Mississippi	5.00	10,000
Alaska	9.40	90,000	South Carolina	5.00	0
New Jersey	9.00	0	Utah	5.00	0
Rhode Island	9.00	0	Colorado	4.63	0
West Virginia	9.00	0	Kansas	4.00	0
Source: Federation of Tax Administrators, 2001d					

TABLE 14

License Taxes

The last major category of state tax revenue is the taxes on various licenses. These range from permits for operating a particular business to operating a vehicle to hunting or fishing. Many people equate license taxes with fees, because it is assumed that the charge for a particular license underwrites the state's cost of administering the license. Like excise taxes, license taxes are often earmarked for particular purposes that are related to the type of license being granted. For example, in Wisconsin, fishing licenses are used for fish and game management programs as well as for parks and recreation. License taxes generate just over 6 percent of state tax revenues.

States have licenses for a large variety of business activities, from beautician to bounty hunter. Kentucky, for example, has more than 600 business licenses that might apply to a particular operation, although many of these do not require fees. While some complain that licensing creates bureaucratic red tape and inhibits business creation, the extent of these claims is sometimes exaggerated, and states can take steps to simplify licensing procedures. Very few of Kentucky's 600 licenses will be needed by any particular business. Many require no fee, and the state has a Web site that provides a thorough and easy-to-use guide to the different licenses that apply to different businesses.[6]

[6] See http://www.sos.state.ky.us/onestop.htm.

States Most and Least Dependent on License Taxes, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Revenue From Corporate Income Tax**	**State**	**Percent of Revenue From Corporate Income Tax**
Delaware	32.8	Virginia	4.3
Texas	14.4	Connecticut	3.8
Oklahoma	14.1	Maryland	3.8
South Dakota	12.6	Utah	3.4
New Hampshire	12.4	Georgia	3.4
Montana	11.8	Arizona	3.4
Nevada	10.8	Massachusetts	3.1
Pennsylvania	10.6	Hawaii	2.9
Oregon	10.1	New York	2.7
Idaho	9.5	Indiana	2.2
		U.S. Average	**6.6**
Source: U.S. Census Bureau, 2000a			

TABLE 15

License taxes are not progressive. A fishing license costs the same no matter the income level of the angler. Some license taxes are quite stable; drivers' licenses are a good example. Others, including those for leisure activities, are less so. For example, a license that a tourist needs in order to hunt will not generate much revenue if there is a severe enough recession that hunters decide to stay at home. The amount of revenue the fee generates is fixed and not likely to keep pace with inflation unless it is adjusted regularly.

Lotteries

In 1998, there were 37 states with lotteries. These states took in more than $33 billion and paid out just over $19 billion. After administration costs were accounted for, the lotteries added $12 billion to state revenues, or about 1 percent of total revenue. Some states depend on the lottery far more than others (U.S. Census Bureau, 2000b). About 5 percent of Delaware's total revenues come from the lottery. All told, Americans spent $120 per capita on lotteries in 1998, with $45 of that going to state coffers. The states that raise the most revenue per capita (after prizes are awarded) are listed in Table 16.

Lotteries are a form of gambling that is legalized and heavily taxed. They are akin to sin taxes in that they are viewed as a fair way to raise revenue because no one is compelled to play them. Lotteries raise a great deal of revenue but in many ways they are like a regressive tax. Poorer players will spend a greater portion of their wealth on the lottery than will those wealthy persons who choose to play. Because not everyone chooses to play the lottery, the $120 per capita spending figure masks the fact that a relatively small number of regular players spend much more. A 1995-96 study by the Virginia Lottery found 8 percent of the adult population of the state made 61 percent of the state's lottery purchases. These players tended to be less educated than the rest of the state population and more likely to have incomes under $15,000. Yet they still managed to spend $1,200 per year on lottery tickets (Chinoy and Babington, 1998).

States Raising the Most and Least Lottery Revenue Per Capita, 1998			
Most Dependent		**Least Dependent**	
State	**Revenue Per-Capita from Lottery**		**Revenue Per-Capita from Lottery**
Delaware	$ 282	New York	$ 84
Oregon	$ 168	Connecticut	$ 79
South Dakota	$ 131	New Jersey	$ 79
Massachusetts	$ 122	Ohio	$ 78
Rhode Island	$ 114	Maryland	$ 78
Source: U.S. Census Bureau, 2000b			

TABLE 16

The Property Tax

Although primarily a local tax, the property tax casts a shadow over each state's revenue system. In 1996, when the last Census of Governments was completed, it was reported that the property tax raised $209 billion, or 45 percent of local governments' own revenue (U.S. Census Bureau, 2001). Because state constitutions and laws determine the split of responsibilities between state and local governments, the property tax and the public services it funds can be seen as components in the state's overall fiscal health and in the tax burden it places on its citizens. For example, in an effort to reduce the inequities in education funding between property-rich and property-poor communities, states in some instances are increasing the amount of funding for K-12 education that comes from their general fund. This can allow for some measure of property tax relief, but it can also place strains on other sources of state revenue.

The three components in determining how much property tax is levied are the types of property that are taxed, the value of that property and the tax rate. States typically allow for the taxation of real property (both private and commercial buildings and land) and personal property (including automobiles). The value of the property is determined by an assessment; the degree to which assessments match the actual value of a property can vary. Assessments can become out of date, for example, and local politics can affect the environment in which assessors operate. The way that rates are applied to property varies considerably among states as well. Rates typically are expressed as "mills" or thousandths of a dollar. If a tax rate is 10 mills, property is being taxed at one cent on the dollar of taxable assessed value.

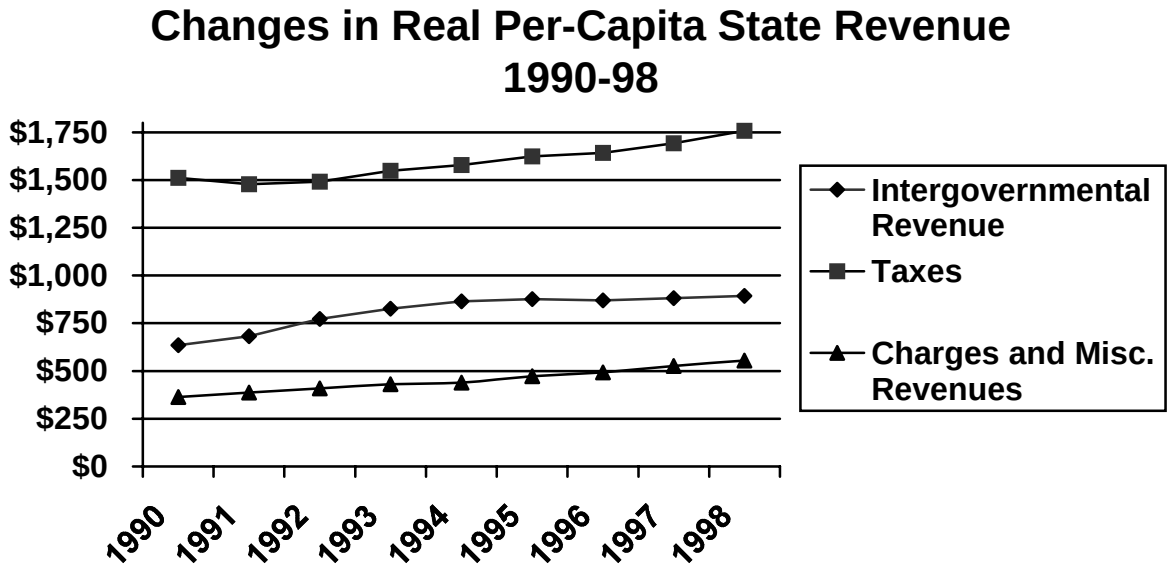
The property tax is one of the most unpopular taxes with the public. It can be difficult to administer for both taxpayer and collector. Because it is paid in a lump sum, it is far more noticeable than the sales tax. It has a reputation as a progressive tax because lower-income renters are often immune from it. Middle-income families, however, are more likely to pay a greater share of their wealth in property taxes than are wealthier families. One method of providing some progressive relief is the homestead exemption, which decreases by a set amount the assessed value of homes for purposes of taxation. The vast majority of states have an even more progressive system of "circuit breakers" that limit the amount of tax that lower-income property owners will pay. Although these measures add progressivity, they limit the income generated by the tax.

Trends in State Revenues

According to the U.S. Bureau of the Census, state general fund revenues in 1990 were $518 billion. In 1998, they were $865 billion or two-thirds more than they had been in 1990. This change is not adjusted for inflation or growth in the number of citizens that state governments had to serve. On a per-capita basis, state general fund revenues increased by 54 percent, from $2,188 to $3,206. When changes in inflation as measured by the Consumer Price Index are controlled for, the real increase in per-capita revenue is 23 percent. Although this increase occurs at a time when states are taking on new responsibilities as a result of both devolution and the inequalities in education systems that are locally funded, this is still a sizable increase. The growth has occurred in each of the major revenue streams that state governments rely on, but it has not been uniform.

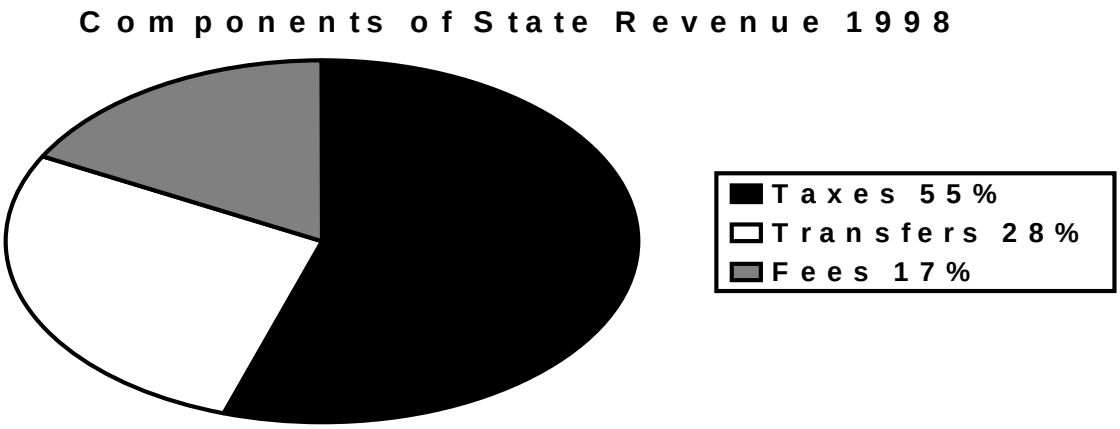
In the early 1990s, there was a dip in the value of state taxation as a result of rapid inflation. As inflation cooled in the mid 1990s, per-capita tax revenues increased. Intergovernmental revenues, most notably federal funds, increased substantially in the early 1990s but have leveled off since. Miscellaneous revenues have shown the most constant growth.

The tax that has grown the most is the income tax. Per-capita income tax revenues increased by 23 percent between 1990 and 1998. This does not mean that tax rates were increased; in many cases they were decreased. Real growth in income and, in some instances, bracket creep are responsible for this growth. General sales tax revenue grew by 15 percent. Licensing tax revenue grew by 16 percent. Selective sales tax revenue grew by 10 percent and corporate income taxes grew by just 5 percent. The net effect on



the overall fairness of the tax system is somewhat mixed. The two most progressive taxes—the income tax and the corporate income tax—were at opposite ends of the growth spectrum. The more regressive sales taxes showed moderate growth.

Analysts from the Center on Budget and Policy Priorities take a slightly different perspective. They looked at the tax cuts that states have implemented in the latter part of the 1990s and found that states were more likely to cut income taxes rather than the more regressive sales and excise taxes (Johnson and Lav, 1997). Between 1990 and 1993, when states were raising taxes, there were half again as many increases in the more regressive taxes as there were in the progressive ones. However, the analysts found that when the states began cutting taxes in 1994, there were four times as many cuts to progressive taxes than to regressive ones. This is an issue of concern.



Issues in Taxation

The Federation of Public Employees/AFT Revenue and Taxation Task Force discussed a number of emerging issues in taxation that either currently affect state revenue or potentially will play a role in determining state revenue. Here is an overview of each of these issues:

Federal Tax Cuts Will Lower State Revenues. State tax systems are often linked to the federal tax system. As a result, changes in federal tax law affect state tax structures. The estate and gift tax as well as the income tax are examples of this. Every state collects estate and gift tax revenue through a "pick-up tax." In essence, the federal government forwards estate tax revenue to a state's general fund. Twelve states have an additional supplemental estate tax that they also levy. The majority of states that use the income tax use federal definitions of income or even tax liability to determine what income to tax and how much to collect. This means changes in federal law over deductions and adjustments can affect state revenues.

One of the least discussed ramifications of President Bush's tax cuts is their impact on state tax revenues. State structures are linked at a number of points to the federal tax code. The most prominent example is the estate and gift tax. The revenue from the pick-up tax will be lost with the repeal of the estate tax, and the supplemental state taxes will be endangered as well. An analysis by Citizens for Tax Justice (CTJ) shows that states will lose more than $15 billion per year in lost pick-up taxes once the estate tax repeal is fully in place. If the supplemental taxes are eliminated as a result, states will lose another $3 billion. On average, states will lose 1.4 percent of their general revenues. Table 17 shows the states most and least affected by the repeal of the estate tax.

The repeal of the estate and gift tax will also affect state income tax collection. As CTJ points out, the gift tax made it prohibitive for wealthy people to "give" part of their fortunes to entities or persons living in states that have low state income taxes, or none at all, and who then receive a "gift" back after interest or capital gains had been realized. The repeal of the gift tax will make income tax avoidance much easier and should lead to a relative decline in income that is available for the federal government and for states to tax. By 2011, CTJ estimates that income tax avoidance facilitated by the lack of the gift tax will cost the states $16 billion per year.

States Most and Least Affected By Repeal of the Estate Tax			
Most Affected		**Least Affected**	
State	**Percentage Loss of General Revenue in 2011**	**State**	**Percentage Loss of General Revenue in 2011**
New Hampshire	4.5	New Jersey	2.2
Pennsylvania	2.9	Vermont	2.0
Connecticut	2.7	Delaware	1.6
New York	2.7	Massachusetts, Ohio, Oklahoma	1.4
Florida	2.6		
		U.S. Average	**1.4**
Source: CTJ, 2001			

TABLE 17

The estate tax is the most dramatic example of how a change in federal tax structure can affect state revenues. Another example is the income tax. Only five of the states with an income tax do not base their structures on the federal tax at all. Among the others, there is a varying degree of dependence. Most states apply their income tax to federal adjusted gross income. States then apply their own system of deductions and tax rates to that income. Eight states use federal taxable income. This means that they use the standard deductions and/or specific itemizations allowed on the federal tax return to determine the amount of taxable income. Changes to the federal tax structure as far as allowable deductions will affect the revenue of these states. In 2001, for example, the changes to the federal standard deduction to eliminate the so-called marriage penalty could affect taxable income in those states. Some states have chosen not to recognize certain changes in the IRS code pertaining to either adjusted gross income or taxable income in order to avoid the effects of different rules changes.

Going into 2001, North Dakota, Rhode Island and Vermont based their income tax on the payer's federal tax liability. Here the tax owed to the state was a proportion of the tax owed to the federal government, so the federal tax rates were the states' de facto rates. A shift in rates caused a shift in state revenues. Fearing the effect of the Bush tax cuts on state revenues, each state's legislature has taken action to unlink from federal tax liability. Table 18 shows the different linkages to the federal income tax system.

Linkages Between State and Federal Income Taxes, 2000				
Federal Tax Liability*	**Federally Adjusted Gross Income**	**Federal Taxable Income**	**No Federal Starting Point**	**No Income Tax**
North Dakota, Rhode Island, Vermont	Arizona, California, Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, Nebraska, New Mexico, New York, Ohio, Oklahoma, Virginia, West Virginia, Wisconsin	Colorado, Hawaii, Idaho, Minnesota, North Carolina, Oregon, South Carolina, Utah	Alabama, Arkansas, Mississippi, New Jersey, Pennsylvania	Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, Wyoming
* Each of these states has taken action in 2001 to decouple its income tax from federal tax liability.				
Source: FTA				

TABLE 18

The Impact of a Graying Population. The strength of future state tax collections is dependent on a number of factors that are largely independent of the state tax code. In particular, overall economic growth and demographic shifts within and across the states will affect the overall economy and state tax revenues.

One of the most important issues in the provision of public services is the graying of the baby boom generation. It is widely acknowledged that this will put a number of pressures on public service providers. An aging population will lead to the retirement of skilled workers, exacerbating shortages in areas such as teaching and nursing. It will also increase the demand for public services, in particular for health care. What is not often discussed is the impact this will have on revenue structures. Retirees make fewer purchases, have lower income and generally are less engaged in the economy. In the next 30 years, an increasing percentage of the population will fall into this category, leading to lower state revenues.

Electronic Commerce. The buyer in retail sales is responsible for paying sales taxes, but it is the retailer who collects them. The retailer has the appropriate state and local tax information and a process for forwarding taxes to the state. Retailers using the Internet to sell their product ("e-tailers") do not have the same responsibility, which creates the possibility of sales tax shortfalls as electronic commerce grows. The underlying problem in the e-commerce sales tax debate is that there are more than 700 different state and local sales tax codes. Each jurisdiction taxes different products at different rates, creating an unreasonable burden for remote sellers such as catalog companies and e-tailers. Because the sellers cannot have perfect knowledge of these codes, and since improper collection would subject them to penalties and fines, these sellers are exempt from having to collect sales tax, unless they have significant physical presence in a taxing jurisdiction. This presence is called "nexus." These principles are contained in federal rulings first applied to catalog sales but which also apply to electronic commerce. Bill Fox of the

University of Tennessee and Moody's Investor Service, in separate analyses, estimate that by 2003 the states will be losing $10 billion per year in sales and use tax revenues on e-commerce sales of $140 billion.

More than half of the states have banded together to devise a system that would allow them to collect sales tax on electronic commerce. They also are working to create a uniform definition of goods and services for purposes of taxation. By creating a simpler and uniform set of definitions, the states hope to dramatically reduce an e-tailer's uncertainty about the type of tax rate to apply to a particular good. Coupled with computer technology to keep track of different state and local tax rates, this Streamlined Sales Tax Project should allow the states to meet the standard the courts have set for the collection of tax revenue on remote sales. Kansas, Michigan, North Carolina and Wisconsin are already participating in a pilot project to get this off the ground. Once the system is viable, the states hope Congress will allow states to collect sales tax on Internet transactions.

The task force has recommended that FPE/AFT affiliates support state participation in the Streamlined Sales Tax Project. The task force also recommends that AFT affiliates work with the state legislatures that are modifying their sales tax codes to ensure, at a minimum, that the sales tax base is not narrowed. Finally, the task force recommends that the AFT continue to lobby the Congress to allow the collection of state and local sales taxes on electronic commerce.

State Tax Credits for Economic Development. Governors and legislatures have been engaged in a decades-long struggle to attract investment and jobs to their states, even taking to the airwaves to lure companies located in other states. In one CNN ad, Brereton Jones, then governor of Kentucky, told manufacturers that if they moved their plants to Kentucky the state would reimburse their entire investment. He finished with "call me for more details about Kentucky. In Kentucky, we're serious about jobs." In order to attract this kind of investment, states are willing to provide a variety of tax credits and incentives. A recent example of this is the package of incentives that was given to Boeing by Illinois in the state's successful effort to get the airplane manufacturer to relocate. The cost of the incentives, according to the *Chicago Tribune*, has been estimated at more than $30 million and includes an exemption from property taxes. The use of such incentives to attract investment is known as "smokestack chasing."

These incentives include tax abatements, reductions and moratoria. Enterprise zones are the most well known vehicle for targeting these incentives to areas that are in need of assistance for economic development. Even here, however, states have been generous with their definition of "areas in need of assistance." Ohio, for example, has more than 300 such areas. It is estimated that the states spend as much as $16 billion per year on these incentives. This is equal to 50 percent of the value of state revenue from corporate income taxes. Many are critical of these incentives because while they attract jobs from one state, it is often at the expense of the jobs of workers in another and at the cost of taxpayers generally. Because corporations often do not live up to the promises that they

make when the incentives are offered, these deals are not necessarily effective tools for economic development.

There are many policy proposals to end this problem. These include federal legislation to mandate that no federal funds be used to lure companies across state lines, and agreements among states not to use incentives to attract each other's companies. A simpler approach is to aggressively audit companies to see if they are complying with their commitments as part of the deal that brought them the tax benefits. This should be followed up with modifications or penalties if the company has not lived up to its word on job creation. This approach is advocated by an organization called Good Jobs First, which analyzed audits of economic development programs that provide corporations with a variety of tax and non tax benefits (LeRoy et al., 2000). Among the findings: States do not conduct enough audits, do not collect appropriate data and do not focus on cost-effectiveness. Even so, the review of state audits found that companies are not fulfilling promises to create good jobs. More troubling is the finding that states are not learning from the results of these audits. The task force recommends that FPE advocate for stricter regulations on corporations receiving these benefits.

Revenue Estimates. An integral part of each state's budget process is the revenue estimate. These estimates provide the parameters for state budgetary decisions. The estimate is based on an economic forecast that includes growth in the various economic activities that are taxed by the state. The generosity of support for public sector activities and workforce development, the size of tax cuts and the possibility of tax hikes all depend in part on this estimate. Some states employ their own analysts; others depend on outside consultants. The process can be complex, but it plays an important role in shaping the budget debate.

As with any survey or poll, even the best revenue estimates will deviate from actual revenue, and a small deviation can be worth millions or even billions of dollars depending on the size of the state budget. Revenue estimates at the end of the 1990s and into 2000 were consistently lower than actual revenues. This was the result of stronger than expected economic performance and consumer confidence. These factors led to greater income and sales tax collections. The income tax, in particular, was driven by the performance of the stock market.

Revenue estimators who are working for legislatures or governors have a tendency to err on the conservative side because a report that overestimates the amount of revenue a state will receive can create far more problems than a report that underestimates the amount of revenue. An overestimation can lead to budget cuts and broken promises. Underestimation might mean an eventual windfall that can be used for popular programs or tax cuts. This year, however, the opposite trend has taken hold. The economy slowed at a faster rate than was expected, and states are now finding that their 2001 revenue predictions were overly optimistic. According to the Rockefeller Institute, only North Dakota can expect to see more revenue in 2001 than was estimated at the start of the year, in part because the state's revenue projection was more pessimistic than the others.

In its meetings, the FPE task force heard from one of the staff preparing revenue estimates for New York. He explained the process by which the state's estimate was made. He also provided a candid assessment of the strengths and weaknesses of the process and the state's track record in accurate forecasting. This kind of meeting can be valuable for a state federation or local union that is examining revenue issues. The AFT Research and Information Services Department also works with a number of economic forecasting services, including Consensus Forecasts U.S.A., Economy.Com and Blue Chip Economic Indicators. The information from these forecasts, which is available to AFT affiliates, can be helpful in evaluating the economic forecast that a state is using.

The Business Climate. When the Chamber of Commerce or other business organization discusses taxation it often does so in terms of the effect that the tax will have on the state's business climate. A bad business climate discourages investment and drives away jobs. For some, a healthy business climate means less regulation, less taxation and more direct support of business activities by the state. One trade publication, *Site Selection Magazine*, ranks business climate through a survey of executives, asking them: "Based on your experience, what are the top 10 state business climates, taking into consideration such factors as lack of red tape, financial assistance and government officials' cooperation?" As noted, financial assistance often comes in the form of tax breaks that are designed to encourage job creation.

It is appropriate for legislators and other elected officials to want to have a healthy business climate. However, there is more to the business climate than merely low taxes and less regulation. The quality of the work force, the infrastructure, public safety, and amenities that are found in a given area all play a role in determining the business climate as well. Since many of these factors are dependent on state revenues, overly low taxes can actually detract from a state's business climate.

Competing Rankings of States' Business Climate, 2000

Site Selection Magazine's Top Ten	Corporation for Enterprise Development Rankings Honor Roll
California	Colorado
Texas	Connecticut
Illinois	Delaware
Florida	Massachusetts
Georgia	Michigan
New York	Rhode Island
North Carolina	Utah
Pennsylvania	Virginia
Massachusetts	Washington
Virginia	

Sources: Lyne, 2000 and CFED, 2001

TABLE 19

The Corporation for Enterprise Development (CFED) conducts its own rankings of state business climate. It bases these on three broad areas: economic performance, business vitality and development capacity. Economic performance includes the employment rate, salaries and job quality, and quality of life. This is very different from some measures that focus instead on corporate earnings or number of plant openings. CFED's business

vitality measure focuses on areas such as entrepreneurial energy (new business start-ups) and longevity. Development capacity measures a state's infrastructure, financial capital, quality of the work force, natural resources and amenities. While tax policy may affect a state's performance in many of these categories, CFED paints a more complex picture. High taxes might affect vitality, but they also might provide the higher education or technical college capacity that makes for a high-quality work force.

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Appendix: Selected Revenue and Tax Information for the 50 States

States, Per-Capita Revenue, 1998			
Highest Per-Capita Revenue		**Lowest Per-Capita Revenue**	
State	**Per-Capita Revenue**	**State**	**Per-Capita Revenue**
Alaska	12,986	Iowa	3,082
Delaware	5,222	**Pennsylvania**	3,069
Wyoming	4,859	Mississippi	3,052
Hawaii	4,588	Arkansas	3,043
New York	4,441	**Maryland**	3,036
Connecticut	4,414	South Carolina	2,976
Massachusetts	4,197	**Kansas**	2,961
New Mexico	4,103	Idaho	2,923
North Dakota	3,969	Nebraska	2,904
Rhode Island	3,825	**Indiana**	2,901
Minnesota	3,779	**Ohio**	2,881
Vermont	3,717	Alabama	2,857
Michigan	3,676	South Dakota	2,843
Maine	3,670	Virginia	2,837
New Jersey	3,494	Oklahoma	2,812
Wisconsin	3,478	**Illinois**	2,805
Oregon	3,435	**Colorado**	2,758
West Virginia	3,426	**Missouri**	2,737
California	3,401	Nevada	2,642
Montana	3,385	Georgia	2,639
Washington	3,354	Tennessee	2,594
Kentucky	3,295	Arizona	2,530
North Carolina	3,174	New Hampshire	2,505
Utah	3,156	Florida	2,466
Louisiana	3,124	Texas	2,433
		U.S. Average	**3,206**
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			

States Most and Least Dependent on Federal Revenue, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Revenue From Federal Government**	**State**	**Percent of Revenue From Federal Government**
Wyoming	35.6	**Missouri**	24.8
Tennessee	35.5	North Carolina	24.5
Mississippi	33.2	Utah	23.8
West Virginia	32.8	Hawaii	23.8
South Dakota	31.7	Nebraska	23.6
Montana	31.6	**Colorado**	23.5
Louisiana	31.4	**Illinois**	23.4
North Dakota	30.6	Idaho	23.4
Oregon	30.3	**Kansas**	23.2
Vermont	30.2	Oklahoma	22.3
New York	30.1	Iowa	21.8
Georgia	29.5	**Indiana**	21.6
Arkansas	29.2	Florida	21.6
Maine	28.3	**Michigan**	21.6
New Hampshire	28.3	Washington	21.2
Alabama	28.2	**Maryland**	21.2
Rhode Island	27.8	**New Jersey**	21.1
Texas	27.6	**Wisconsin**	20.8
New Mexico	27.0	**Massachusetts**	20.6
Ohio	27.0	**Connecticut**	20.3
South Carolina	26.6	Minnesota	19.3
Kentucky	26.6	Virginia	17.6
Pennsylvania	25.4	Nevada	16.9
California	25.0	Delaware	16.8
Arizona	24.8	**Alaska**	13.0
		U.S. Average	**25.0**
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			

States Most and Least Affected by the President's Proposed 2002 Budget			
Most Affected		**Least Affected**	
State	**Percent Decline in Revenues, Adjusted for Inflation and Population**		**Percent Decline in Revenues, Adjusted for Inflation and Population**
Arkansas	15.7	**Illinois**	7.4
Michigan	12.2	Iowa	7.3
Florida	11.6	**Maine**	7.2
Oklahoma	11.1	**North Dakota**	7.2
West Virginia	9.5	Oregon	7.2
Wyoming	9.4	**Connecticut**	7.1
Vermont	9.1	**Wisconsin**	7.0
Delaware	8.8	Nebraska	6.9
New Hampshire	8.6	**Indiana**	6.9
Mississippi	8.5	South Carolina	6.8
Montana	8.5	**Kansas**	6.8
Washington	8.2	**New Jersey**	6.7
Idaho	8.1	North Carolina	6.7
Rhode Island	8.1	New Mexico	6.7
Pennsylvania	7.9	Nevada	6.7
Alabama	7.9	Georgia	6.6
Tennessee	7.9	Virginia	6.5
Louisiana	7.8	**Alaska**	6.4
New York	7.7	Texas	6.4
Utah	7.7	**Massachusetts**	6.4
Hawaii	7.6	**Maryland**	6.3
South Dakota	7.6	California	6.3
Kentucky	7.5	Minnesota	6.1
Ohio	7.4	**Colorado**	5.6
Missouri	7.4	Arizona	5.2
		U.S. Average	**6.9**
States in **Bold** have FPE/AFT locals			
Source: EPI, 2001			

States Most and Least Dependent on the Sales Tax, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Tax Revenue From Sales Tax**	**State**	**Percent of Tax Revenue From Sales Tax**
Washington	58.5	California	31.5
Tennessee	57.6	**Ohio**	31.4
Florida	57.4	**Pennsylvania**	30.6
Nevada	53.2	**New Jersey**	30.5
South Dakota	53.1	**Rhode Island**	28.9
Texas	50.7	**North Dakota**	28.7
Mississippi	48.0	West Virginia	28.4
Hawaii	44.9	**Illinois**	28.3
Arizona	43.9	Minnesota	28.2
New Mexico	40.7	**Kentucky**	27.8
Wyoming	39.2	Alabama	27.4
South Carolina	38.1	**Wisconsin**	27.3
Utah	37.5	**Colorado**	26.0
Arkansas	37.3	Oklahoma	25.1
Michigan	35.7	North Carolina	23.6
Maine	35.1	**Maryland**	23.5
Nebraska	34.9	Virginia	21.1
Kansas	34.7	**New York**	21.1
Georgia	34.5	**Massachusetts**	20.4
Louisiana	32.6	Vermont	20.3
Indiana	32.4	**Montana**	0.0
Connecticut	32.3	New Hampshire	0.0
Missouri	32.0	Oregon	0.0
Iowa	31.8	Delaware	0.0
Idaho	31.7	**Alaska**	0.0
		U.S. Average	**32.9**
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			

States Most and Least Dependent on Excise Taxes, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Tax Revenue From Excise Taxes**	**State**	**Percent of Tax Revenue From Excise Taxes**
New Hampshire	49.4	Washington	15.0
Nevada	31.1	Minnesota	14.7
Texas	30.1	Idaho	14.6
North Dakota	27.9	Arkansas	14.5
South Dakota	26.2	Iowa	14.3
Alabama	24.8	**Missouri**	14.3
Vermont	24.0	New Mexico	13.9
West Virginia	23.3	**Wisconsin**	13.8
Montana	20.7	Arizona	13.8
Rhode Island	20.6	Oregon	13.4
Louisiana	20.0	**Colorado**	13.4
New Jersey	18.5	**New York**	13.3
Tennessee	18.5	Utah	13.2
Maryland	18.3	**Maine**	13.1
Mississippi	18.0	South Carolina	12.9
Connecticut	18.0	Delaware	12.9
Kentucky	17.9	Oklahoma	12.9
Illinois	17.8	**Indiana**	12.8
Florida	17.8	**Kansas**	12.3
North Carolina	17.8	**Alaska**	9.8
Pennsylvania	16.4	**Massachusetts**	9.7
Virginia	16.0	**Michigan**	9.1
Ohio	15.8	Georgia	8.6
Hawaii	15.3	Wyoming	7.9
Nebraska	15.1	California	7.7
		U.S. Average	**15.0**
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			

States With Highest and Lowest Cigarette Tax Rates, 2000			
Highest Rate		**Lowest Rate**	
State	**Cigarette Tax Per Pack (in dollars)**	**State**	**Cigarette Tax Per Pack (in dollars)**
New York	1.11	Arkansas	0.34
Alaska	1	Nebraska	0.34
Hawaii	1	Florida	0.339
California	0.87	South Dakota	0.33
Washington	0.85	**Pennsylvania**	0.31
New Jersey	0.8	Idaho	0.28
Massachusetts	0.76	Delaware	0.24
Michigan	0.75	**Kansas**	0.24
Maine	0.74	**Ohio**	0.24
Rhode Island	0.71	Louisiana	0.24
Oregon	0.68	Oklahoma	0.23
Maryland	0.66	New Mexico	0.21
Wisconsin	0.59	**Colorado**	0.2
Arizona	0.58	Mississippi	0.18
Illinois	0.58	**Montana**	0.18
Utah	0.515	**Missouri**	0.17
Connecticut	0.5	West Virginia	0.17
Minnesota	0.48	Alabama	0.165
North Dakota	0.44	Tennessee	0.13
Vermont	0.44	Georgia	0.12
Texas	0.41	Wyoming	0.12
New Hampshire	0.37	South Carolina	0.07
Indiana	0.36	North Carolina	0.05
Iowa	0.36	**Kentucky**	0.03
Nevada	0.35	Virginia	0.025
States in **Bold** have FPE/AFT locals			
Source: Federation of Tax Administrators, 2001b			

States Most and Least Dependent on Income Taxes, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Tax Revenue From Individual Income Tax**	**State**	**Percent of Tax Revenue From Individual Income Tax**
Oregon	68.8	**New Jersey**	35.8
Massachusetts	55.4	Oklahoma	35.6
Virginia	51.3	**Illinois**	35.3
New York	50.6	Arkansas	34.3
Colorado	48.9	Hawaii	34.1
Georgia	45.9	**Kentucky**	34.0
Wisconsin	45.3	**Montana**	33.5
Maryland	45.0	Alabama	31.3
North Carolina	44.2	**Michigan**	29.8
Indiana	41.7	**Pennsylvania**	29.2
Minnesota	41.3	West Virginia	28.8
California	41.0	Arizona	26.8
Missouri	41.0	Louisiana	23.9
Rhode Island	40.4	New Mexico	22.4
Ohio	39.5	Mississippi	20.0
Utah	39.3	**North Dakota**	16.5
Delaware	38.4	New Hampshire*	6.1
Iowa	38.3	Tennessee*	2.3
Maine	38.2	Nevada	0.0
Vermont	38.2	Texas	0.0
Idaho	37.9	South Dakota	0.0
Kansas	37.4	Florida	0.0
Nebraska	37.0	Washington	0.0
South Carolina	36.7	**Alaska**	0.0
Connecticut	36.3	Wyoming	0.0
*Limited to interest and investment earnings			
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			

States Most and Least Dependent on Corporate Income Taxes, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Tax Revenue From Corporate Income Tax**	**State**	**Percent of Tax Revenue From Corporate Income Tax**
New Hampshire	23.4	**Connecticut**	5.7
Alaska	23.2	Florida	5.6
Michigan	11.1	Oregon	5.6
Delaware	10.4	Nebraska	5.4
Illinois	9.9	Utah	5.3
Indiana	9.5	New Mexico	5.0
Massachusetts	9.4	Vermont	4.8
Tennessee	8.7	**Kentucky**	4.7
New York	8.7	**Colorado**	4.6
California	8.3	South Dakota	4.6
North Dakota	7.7	**Maine**	4.5
Arizona	7.6	**Missouri**	4.4
Pennsylvania	7.6	**Ohio**	4.3
New Jersey	7.5	Alabama	4.3
West Virginia	7.4	Virginia	4.2
North Carolina	7.2	Oklahoma	4.2
Kansas	6.6	**Maryland**	4.1
Minnesota	6.5	Iowa	4.1
Georgia	6.4	**Rhode Island**	3.8
Arkansas	6.2	South Carolina	3.8
Wisconsin	6.1	Hawaii	1.9
Louisiana	5.9	Nevada	0.0
Montana	5.9	Texas	0.0
Mississippi	5.8	Washington	0.0
Idaho	5.7	Wyoming	0.0
		U.S. Average	**33.9**
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			

States Most and Least Dependent on License Taxes, 1998			
Most Dependent		**Least Dependent**	
State	**Percent of Tax Revenue From License Taxes**	**State**	**Percent of Tax Revenue From License Taxes**
Delaware	32.8	**Kentucky**	6.3
Texas	14.3	**Illinois**	6.1
Oklahoma	14.1	North Carolina	6.1
South Dakota	12.6	Arkansas	5.9
New Hampshire	12.4	**Wisconsin**	5.7
Montana	11.8	West Virginia	5.3
Nevada	10.8	New Mexico	5.3
Pennsylvania	10.6	**Michigan**	5.2
Oregon	10.1	**Maine**	5.0
Idaho	9.5	**New Jersey**	4.8
Iowa	9.4	**Rhode Island**	4.8
Tennessee	9.4	**Colorado**	4.7
Wyoming	9.2	California	4.6
Ohio	8.3	**Kansas**	4.6
Alaska	8.0	Washington	4.5
Minnesota	7.6	Virginia	4.3
Alabama	7.6	**Connecticut**	3.8
Louisiana	7.5	**Maryland**	3.8
North Dakota	7.4	Utah	3.4
South Carolina	7.1	Georgia	3.4
Mississippi	7.1	Arizona	3.4
Missouri	7.0	**Massachusetts**	3.1
Vermont	6.8	Hawaii	2.9
Florida	6.4	**New York**	2.7
Nebraska	6.4	**Indiana**	2.2
		U.S. Average	**6.6**
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			

States Raising the Most and Least Lottery Revenue Per Capita, 1998			
Most Dependent		**Least Dependent**	
State	**Revenue Per-Capita from Lottery ($)**		**Revenue Per-Capita from Lottery ($)**
Delaware	282	California	24
Oregon	168	**Colorado**	24
South Dakota	131	**Wisconsin**	24
Massachusetts	122	Washington	20
Rhode Island	114	**Kansas**	20
New York	84	Idaho	17
Connecticut	79	Arizona	16
New Jersey	79	Minnesota	13
Ohio	78	Iowa	12
Maryland	78	New Mexico	12
Georgia	72	Nebraska	11
Michigan	63	**Montana**	7
Pennsylvania	56	Alabama	0
Texas	55	**Alaska**	0
Florida	53	Arkansas	0
West Virginia	49	Hawaii	0
New Hampshire	48	Mississippi	0
Illinois	42	Nevada	0
Kentucky	40	North Carolina	0
Virginia	40	**North Dakota**	0
Vermont	38	Oklahoma	0
Maine	38	South Carolina	0
Indiana	32	Tennessee	0
Missouri	28	Utah	0
Louisiana	26	Wyoming	0
		U.S. Average	**45**
States in **Bold** have FPE/AFT locals			
Source: U.S. Census Bureau, 2000a			