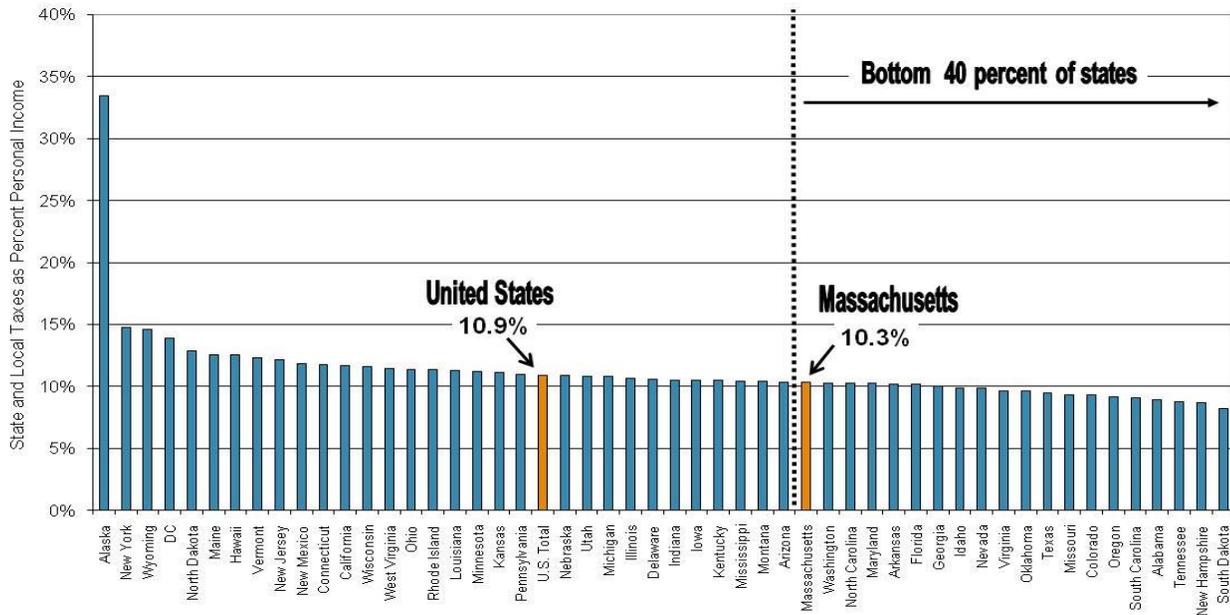


## Massachusetts Ranks 31<sup>st</sup> in Taxes in FY 2008

This week the U.S. Census Bureau released its annual update of State and Local Government Finances, providing national data for Fiscal Year 2008. The amount of state and local taxes paid in Massachusetts as a share of total personal income was 10.3 percent in FY 2008. By this measure, Massachusetts had lower taxes than 30 other states (see Figure 1).<sup>1</sup> Measuring taxes as a share of total personal income allows for a meaningful comparison among states (see “Technical Notes” at the end of this document).

Taxes are the amount that each resident pays toward -- and the primary source of funding for -- everything the people of a state choose to provide together through government, such as: public education; police and fire protection; roads, bridges and other infrastructure; environmental protection, parks, playgrounds, libraries; and a safety net to protect access to health care and other supports families depend on -- particularly when they are faced with acute challenges.

**In 2008, Massachusetts ranked in the bottom 40 percent of all states for taxes as a share of State Personal Income**



<sup>1</sup> Center on Budget and Policy Priorities analysis of new Census Bureau data. The Census data can be found at: <http://www.census.gov/govs/estimate/>. Alaska’s very high ratio of state and local taxes to State Personal Income (33.4 percent) is the result of taxes collected from corporations on oil extracted from public lands.

Looking at the new Census data, we can see that Massachusetts' level of taxation (10.33 percent) was well below the national average (10.91 percent) in FY 2008. Had Massachusetts taxed its residents at the national average, the state would have raised an additional \$1.9 billion in that fiscal year.<sup>2</sup>

Since 2008, Massachusetts has increased several types of state taxes. At the same time, however, with ongoing revenue shortfalls, 29 other states have enacted tax increases of their own since the start of the recession.<sup>3</sup> Therefore, while nationwide data more current than 2008 are not available, it is likely that Massachusetts' ranking still remains well below the U.S. average, even given Massachusetts' recent tax increases.

### Technical notes

The comparisons in this fact sheet present taxes as a share of income. This measure is used -- rather than per-capita taxes -- because the per-capita measure conflates two separate elements: tax rates and incomes. This issue is most easily understood in the context of the income tax. If one state has an income tax rate of 5 percent and an average (taxable) income of \$50,000, then the per-capita tax is \$2,500. If a state where the average (taxable) income is lower -- for example, \$30,000 -- has a tax rate of 6 percent, then the per-capita tax in that state is \$1,800. Thus, even though tax rates are higher in the low income state (6 percent rather than 5 percent), a per-capita ranking would show the state with the higher tax rate as having "lower taxes." Using taxes as a share of income avoids this problem.

The Census data and the analysis we present in this fact sheet differ somewhat from that presented by a commonly cited source, the Tax Foundation. The Tax Foundation, like *MassBudget*, uses the basic structure of comparing taxes as a share of income. The Tax Foundation, however, makes a number of adjustments to the data. Two of these adjustments are particularly important. First, the Tax Foundation attempts to project current-year taxes as a percent of current-year income (which we don't do because we choose to report actual data -- which lags by several years -- rather than provide projections). Second, it seeks to estimate the taxes paid by residents of a state rather than taxes collected in the state. The second adjustment means that property taxes paid by a Massachusetts resident on a vacation home in Maine would count as Massachusetts taxes. While there are contexts in which such an adjustment may be helpful, for comparing tax policies of state and local government, it makes the most sense to look at the taxes collected by those governments.

Finally, one important shortcoming in the state personal income data (compiled by the U.S. Bureau of Economic Analysis) that is used for calculations in this fact sheet is that these data omit income derived from capital gains. The tax data (compiled by the U.S. Census), by contrast, include all taxes, including the taxes paid on capital gains income. As a result, the measures presented in this fact sheet overstate the share of economic resources paid in taxes, making public services appear more costly to state residents than they in fact are.

<sup>2</sup> In fiscal year 2008, BEA state personal income in MA was \$329.2 billion. If the MA tax rate had been at the national average of 10.91 percent (0.58 percent higher than it was), MA would have taken in an additional \$1.91 billion ( $0.58 \times \$329.2 = \$1.91$ ).

<sup>3</sup> See [Center on Budget and Policy Priorities, "Update on State Budget Cuts," May 25, 2010, pg 4: http://www.cbpp.org/files/3-13-08sfp.pdf](http://www.cbpp.org/files/3-13-08sfp.pdf)