



## U.S. Census Bureau State Tax Collections for FY 2005 *Massachusetts' state tax burden ranks 28<sup>th</sup>; below FY 2001 level*

On March 30, the U.S. Census Bureau released its FY 2005 data on tax collections for the fifty states. These data, as well as data for FY 2001 through FY 2004, are examined in the accompanying table. This table attempts to correct for one shortcoming with the Census Bureau's data: rather than express taxes on a per capita basis, this table measures them relative to personal income, a common proxy for the size of a state's economy. Per capita figures are misleading since they do not account for a given state's capacity to pay taxes, as reflected by personal income. This table can not correct for another shortcoming with the Census Bureau's data, however. That is, relying strictly on state data, rather than combined state and local data, is misleading since responsibilities for levying and collecting taxes vary by jurisdiction across states. So, while comparisons among states are more properly made using combined state and local data, the accompanying table nevertheless shows that the state tax burden in Massachusetts is low relative to most states.

### Principal Findings

- In FY 2005, state taxes in Massachusetts amounted to \$65 per \$1,000 of personal income or 30<sup>th</sup> in the country. Such states as Arkansas, Kentucky, Mississippi, and Utah all ranked ahead of the Commonwealth. In fact, if Massachusetts had the same tax burden as Mississippi – where state taxes as a share of personal income equaled roughly \$74 per \$1,000 of personal income – then the Commonwealth would have collected an additional \$2.63 billion in taxes in FY 2003.
- The current tax burden in Massachusetts is also noticeably lower than the level that obtained in FY 2001. State taxes in Massachusetts that year were close to \$70 per \$1,000 of personal income. In other words, even after five years of economic recovery, the state tax burden in Massachusetts is about 7 percent less than what it was in 2001.

### Personal Income vs. Per Capita

One measure of state tax burden is total state taxes per capita (that is, total taxes divided by the number of residents in the state). Yet, measuring taxes on a per capita basis is fundamentally misleading, as it fails to account for the capacity to pay those taxes. A simplified example, presented in the graphic below, shows why. State A and State B each have 1 million residents; State A has a tax rate of 5 percent and State B has a rate of 8 percent. Personal income in State A totals \$800 million, while in State B it sums to \$400 million. If all income is taxed, then taxes in State A are \$40 million and taxes in State B are \$32 million. Consequently, State A has a per capita tax burden of \$40, while State B has one of \$32. Yet, as a share of personal income, taxes in State A amount to 5 percent, noticeably lower than the 8 percent share in State B. Which state faces

a lower tax burden? State B, which has a total tax burden of \$32 million and taxes per capita of \$32, but where taxes as a share of personal income amount to 8 percent, or State A, where the total tax burden may be \$40 million and taxes per capita are \$40, but where taxes are only 5 percent of personal income? The answer is State A, since relative to its total personal income – which, in turn, reflects the size of its economy and, by extension, its ability to bear a particular tax burden – taxes are lower. Thus, the proper way to consider taxes is to compare them to personal income.

		<u>State A</u>	<u>State B</u>
(a)	Population	1 million	1 million
(b)	State Personal Income	\$800 million	\$400 million
(c)	Tax Rate	5%	8%
(d)	Total Taxes [(b)*(c)]	\$40 million	\$32 million
(e)	Per Capita Taxes [(d)/(a)]	\$40	\$32
(f)	Taxes as a Share of Personal Income [(d)/(b)]	5%	8%

### Shortcomings

The figures in the accompanying tables suffer from two significant shortcomings.

First, the data on state personal income, which is collected by the Bureau of Economic Analysis (BEA) at the U.S. Commerce Department, do not include income from capital gains. As a result, estimates of total tax burden as a share of personal income are higher than they would be if such income were included.

Second, the figures in the accompanying tables do not include *local* taxes, such as the property tax. Since the responsibility for generating revenue for each level of government varies from state to state, the most accurate way to assess the tax burdens individuals in different states face is to measure those burdens as a combination of state and local taxes. The most recent year for which such data are available from the Census Bureau is FY 2002. In that year, state and local taxes in Massachusetts amounted to about \$96 per \$1,000 of personal income, or 38<sup>th</sup> out of the fifty states. These combined state and local data are examined in more detail in the MBPC publication *Measuring Up: Taxes and Spending in Massachusetts, FY 2002*, available at <http://www.massbudget.org/measuringupfy02.pdf>.

**Table 1. State Tax Collections, FY 2001-2005**

All figures in current dollars

	FY 2005				FY 2004				FY 2003				FY 2002				FY 2001			
	Total Taxes (in \$1,000's)	Personal Income (in \$M, corrected for state FY's)	Total Taxes Per \$1,000 of Personal Income	Rank	Total Taxes (in \$1,000's)	Personal Income (in \$M, corrected for state FY's)	Total Taxes Per \$1,000 of Personal Income	Rank	Total Taxes (in \$1,000's)	Personal Income (in \$M, corrected for state FY's)	Total Taxes Per \$1,000 of Personal Income	Rank	Total Taxes (in \$1,000's)	Personal Income (in \$M, corrected for state FY's)	Total Taxes Per \$1,000 of Personal Income	Rank	Total Taxes (in \$1,000's)	Personal Income (in \$M, corrected for state FY's)	Total Taxes Per \$1,000 of Personal Income	Rank
United States	648,606,245	10,001,225	\$ 64.85		591,124,862	9,399,224	\$ 62.89		546,694,430	8,978,010	\$ 60.89		534,063,430	8,789,873	\$ 60.76		559,679,125	8,613,913	\$ 64.97	
Alabama	7,799,948	129,257	\$ 60.34	37	7,018,242	123,307	\$ 56.92	41	6,416,351	117,005	\$ 54.84	38	6,509,765	112,863	\$ 57.68	35	6,747,707	109,375	\$ 61.69	32
Alaska	1,850,502	23,035	\$ 80.34	9	1,343,191	21,804	\$ 61.60	33	1,069,319	21,037	\$ 50.83	46	1,089,504	20,392	\$ 53.43	43	1,428,698	19,388	\$ 73.69	17
Arizona	11,008,428	171,935	\$ 64.03	32	9,637,369	157,306	\$ 61.27	35	8,691,761	147,254	\$ 59.03	35	8,477,321	141,520	\$ 59.90	32	8,360,376	136,005	\$ 61.47	33
Arkansas	6,552,449	72,912	\$ 89.87	4	5,580,678	68,495	\$ 81.48	8	5,145,554	64,390	\$ 79.91	4	5,226,050	62,637	\$ 83.43	3	4,986,747	60,498	\$ 82.43	7
California	98,434,685	1,300,553	\$ 75.69	12	85,721,483	1,219,815	\$ 70.27	15	79,198,255	1,160,769	\$ 68.23	16	77,755,376	1,139,145	\$ 68.26	16	90,453,746	1,130,662	\$ 80.00	8
Colorado	7,648,456	171,665	\$ 44.56	49	7,051,457	161,125	\$ 43.76	49	6,636,190	154,280	\$ 43.01	50	6,923,171	152,660	\$ 45.35	49	7,566,919	150,378	\$ 50.32	47
Connecticut	11,584,728	163,606	\$ 70.81	19	10,291,289	153,130	\$ 67.21	21	9,508,645	147,486	\$ 64.47	24	9,032,787	147,035	\$ 61.43	27	9,895,673	145,744	\$ 67.90	24
Delaware	2,725,095	30,533	\$ 89.25	6	2,375,482	28,601	\$ 83.06	4	2,125,504	26,940	\$ 78.90	8	2,173,600	26,106	\$ 83.26	5	2,105,921	24,980	\$ 84.31	4
Florida	33,894,971	569,006	\$ 59.57	39	30,534,283	527,621	\$ 57.87	39	26,905,405	501,915	\$ 53.61	42	24,815,964	486,967	\$ 50.96	45	24,938,748	469,771	\$ 53.09	45
Georgia	15,675,655	274,075	\$ 57.19	43	14,570,573	256,979	\$ 56.70	42	13,411,632	246,946	\$ 54.31	41	13,772,147	243,230	\$ 56.62	36	14,368,505	236,200	\$ 60.83	35
Hawaii	4,434,356	42,756	\$ 103.71	2	3,849,135	39,374	\$ 97.76	1	3,569,824	37,185	\$ 96.00	1	3,240,671	35,760	\$ 95.66	1	3,507,770	34,822	\$ 100.74	1
Idaho	2,934,459	38,905	\$ 75.43	13	2,647,790	35,971	\$ 73.61	13	2,344,344	34,204	\$ 68.54	15	2,271,075	33,374	\$ 68.05	17	2,558,098	32,262	\$ 79.29	9
Illinois	26,411,689	450,380	\$ 58.64	41	23,709,618	434,292	\$ 54.59	45	22,148,339	418,880	\$ 52.88	44	22,460,190	410,387	\$ 54.73	40	23,150,229	405,993	\$ 57.02	43
Indiana	12,853,976	192,000	\$ 66.95	25	11,957,470	183,339	\$ 65.22	26	11,216,456	175,278	\$ 63.99	25	10,200,590	169,400	\$ 60.22	30	10,115,870	167,067	\$ 60.55	38
Iowa	5,750,629	93,798	\$ 61.31	36	5,214,602	87,951	\$ 59.29	37	5,059,449	82,962	\$ 60.99	30	5,006,251	80,806	\$ 61.95	25	5,158,780	78,870	\$ 65.41	28
Kansas	5,598,700	87,716	\$ 63.83	33	5,283,676	82,487	\$ 64.06	30	5,008,411	79,507	\$ 62.99	27	4,808,361	78,059	\$ 61.60	26	4,986,955	76,329	\$ 65.34	29
Kentucky	9,090,882	116,027	\$ 78.35	10	8,463,400	109,616	\$ 77.21	9	8,318,700	104,948	\$ 79.27	5	7,974,690	102,360	\$ 77.91	8	7,850,908	100,312	\$ 78.26	10
Louisiana	8,638,674	126,342	\$ 68.38	22	7,741,289	119,439	\$ 64.81	27	7,447,533	114,100	\$ 65.27	21	7,356,936	111,624	\$ 65.91	20	7,197,380	106,674	\$ 67.47	25
Maine	3,071,161	40,524	\$ 75.79	11	2,870,108	38,287	\$ 74.96	10	2,697,275	36,480	\$ 73.94	11	2,626,830	35,534	\$ 73.92	10	2,668,938	34,224	\$ 77.98	11
Maryland	13,497,281	227,380	\$ 59.36	40	12,327,974	212,862	\$ 57.92	38	10,980,324	201,871	\$ 54.39	40	10,821,276	195,378	\$ 55.39	38	10,785,695	187,658	\$ 57.48	41
<b>Massachusetts</b>	<b>18,014,681</b>	<b>277,148</b>	<b>\$ 65.00</b>	<b>30</b>	<b>16,839,243</b>	<b>262,175</b>	<b>\$ 64.23</b>	<b>29</b>	<b>15,610,825</b>	<b>251,087</b>	<b>\$ 62.17</b>	<b>28</b>	<b>14,822,592</b>	<b>249,234</b>	<b>\$ 59.47</b>	<b>33</b>	<b>17,225,270</b>	<b>247,028</b>	<b>\$ 69.73</b>	<b>22</b>
Michigan	24,340,487	329,605	\$ 73.85	16	23,358,365	322,631	\$ 72.40	14	22,748,159	314,101	\$ 72.42	13	21,864,052	302,011	\$ 72.39	12	22,263,902	298,129	\$ 74.68	15
Minnesota	15,881,131	188,690	\$ 84.17	8	14,734,921	178,140	\$ 82.72	6	13,403,699	169,749	\$ 78.96	6	12,936,369	164,292	\$ 78.74	7	13,534,585	161,411	\$ 83.85	6
Mississippi	5,432,152	72,935	\$ 74.48	14	5,124,730	68,781	\$ 74.51	11	4,947,396	65,100	\$ 76.00	10	4,728,905	63,260	\$ 74.75	9	4,749,481	61,411	\$ 77.34	12
Missouri	9,543,814	180,425	\$ 52.90	46	9,119,664	170,618	\$ 53.45	46	8,627,396	163,742	\$ 52.69	45	8,728,932	158,966	\$ 54.91	39	8,837,196	155,275	\$ 56.91	44
Montana	1,787,889	26,517	\$ 67.43	24	1,625,692	24,792	\$ 65.57	24	1,487,019	23,448	\$ 63.42	26	1,442,731	22,575	\$ 63.91	23	1,495,810	21,524	\$ 69.49	23
Nebraska	3,796,551	57,876	\$ 65.60	29	3,639,811	54,951	\$ 66.24	23	3,347,700	51,751	\$ 64.69	23	2,992,522	49,730	\$ 60.18	31	3,037,408	48,445	\$ 62.70	31
Nevada	5,010,443	83,106	\$ 60.29	38	4,716,660	74,879	\$ 62.99	32	4,129,137	68,713	\$ 60.09	32	3,945,329	65,392	\$ 60.33	29	3,832,227	63,102	\$ 60.73	36
New Hampshire	2,022,146	49,098	\$ 41.19	50	2,005,389	45,836	\$ 43.75	50	1,959,211	43,762	\$ 44.77	49	1,897,021	43,001	\$ 44.12	50	1,755,620	42,263	\$ 41.54	50
New Jersey	22,933,999	372,666	\$ 61.54	35	20,986,204	350,915	\$ 59.80	36	19,936,266	338,659	\$ 58.87	36	18,328,814	336,411	\$ 54.48	41	19,253,297	330,009	\$ 58.34	40
New Mexico	4,471,477	51,564	\$ 86.72	7	4,001,780	48,276	\$ 82.89	5	3,607,156	45,684	\$ 78.96	7	3,628,055	44,700	\$ 81.16	6	4,002,246	42,204	\$ 94.83	2
New York	50,190,396	761,319	\$ 65.93	27	45,826,429	701,371	\$ 65.34	25	40,558,349	677,001	\$ 59.91	34	43,262,137	678,548	\$ 63.76	24	44,858,302	671,595	\$ 66.79	26
North Carolina	18,639,618	258,735	\$ 72.04	18	16,836,454	241,635	\$ 69.68	16	15,848,650	230,348	\$ 68.80	14	15,537,366	226,919	\$ 68.47	14	15,599,964	223,265	\$ 69.87	21
North Dakota	1,403,293	19,440	\$ 72.19	17	1,228,890	18,491	\$ 66.46	22	1,177,727	17,390	\$ 67.73	17	1,117,299	16,559	\$ 67.47	18	1,164,353	16,332	\$ 71.29	19
Ohio	24,006,560	365,322	\$ 65.71	28	22,475,528	348,221	\$ 64.54	28	20,651,597	337,295	\$ 61.23	29	20,130,415	328,866	\$ 61.21	28	19,617,950	323,538	\$ 60.64	37
Oklahoma	6,859,030	101,139	\$ 67.82	23	6,426,713	95,389	\$ 67.37	19	5,905,884	91,269	\$ 64.71	22	6,052,680	90,205	\$ 67.10	19	6,341,714	87,814	\$ 72.22	18
Oregon	6,522,665	113,196	\$ 57.62	42	6,103,071	106,631	\$ 57.24	40	5,701,691	102,470	\$ 55.64	37	5,163,687	100,381	\$ 51.44	44	5,892,963	98,156	\$ 60.04	39
Pennsylvania	27,262,969	424,501	\$ 64.22	31	25,346,879	401,036	\$ 63.20	31	23,187,248	385,887	\$ 60.09	33	22,135,537	377,351	\$ 58.66	34	22,571,889	370,232	\$ 60.97	34
Rhode Island	2,628,747	38,002	\$ 69.17	21	2,408,861	35,828	\$ 67.23	20	2,256,654	34,185	\$ 66.01	19	2,127,609	33,000	\$ 64.47	22	2,246,605	31,747	\$ 70.77	20
South Carolina	7,318,388	117,621	\$ 62.22	34	6,803,568	110,457	\$ 61.59	34	6,353,115	105,550	\$ 60.19	31	5,748,585	102,782	\$ 55.93	37	6,415,080	100,159	\$ 64.05	30
South Dakota	1,110,035	23,915	\$ 46.42	47	1,062,722	22,809	\$ 46.59	47	1,009,888	21,302	\$ 47.41	47	976,596	20,292	\$ 48.13	47	977,469	20,030	\$ 48.80	48
Tennessee	10,007,292	181,083	\$ 55.26	45	9,529,171	170,407	\$ 55.92	43	8,811,612	161,954	\$ 54.41	39	7,797,681	156,799	\$ 49.73	46	8,043,347	152,044	\$ 52.90	46
Texas	32,784,942	716,067	\$ 45.78	48	30,751,860	668,999	\$ 45.97	48	29,098,584	636,144	\$ 45.74	48	28,662,395	622,090	\$ 46.07	48	29,422,936	610,885	\$ 48.16	49
Utah	4,686,381	66,739	\$ 70.22	20	4,195,962	62,060	\$ 67.61	17	3,950,720	58,982	\$ 66.98	18	3,925,382	57,488	\$ 68.28	15	4,072,968	55,192	\$ 73.80	16
Vermont	2,242,902	20,284	\$ 110.58	1	1,766,719	19,151	\$ 92.25	2	1,558,712	18,261	\$ 85.36	2	1,518,479	17,865	\$ 85.00	2	1,552,799	17,384	\$ 89.32	3
Virginia	15,918,847	281,027	\$ 56.65	44	14,233,065	259,255	\$ 54.90	44												