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Texas Agricultural Extension Service

The Texas A&M University System

OUR TAXES

Comparing Texas with Other States

Over all, Texas ranks as a low-tax state. However, tax reform is a continuing issue in Texas, perhaps because of the state's heavy reliance on sales and property taxes to support state and local governmental services. Although the overall tax burden is relatively low, the burden of these two taxes ranks relatively high.

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Our Taxes: Comparing Texas with Other States

Judith I. Stallmann and Lonnie L. Jones*

Texans are concerned about taxes. Texas ranks 35th in the nation in state and local taxes per capita (Figure 1). Although considered a low-tax state when comparing all state and local taxes in the United States, Texas ranks high on certain taxes, particularly the sales tax and the property tax. Texans have chosen not to impose a personal income tax or a broad-based corporate income tax.

Despite the relatively low state and local taxes Texans pay, tax reform is a continuing issue in the state. The reason for this may be the heavy reliance on sales and property taxes to support state and local governmental services. Although the overall tax burden is low compared to other states, the burden of these two taxes ranks relatively high. In addition, the burden of these two taxes may disadvantage certain types of businesses.

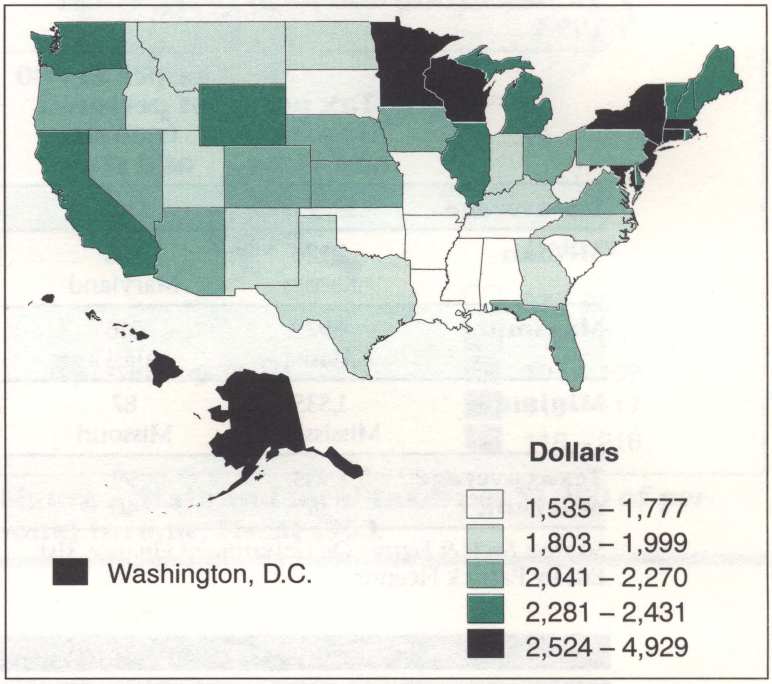

Figure 1. State and local taxes per capita, Fiscal 1993.

Overview of U.S. state and local taxes

Comparing Texas taxes with those of other states may help those debating tax reform within the state (see page 4, "Establishing a basis of comparison"). The tax burdens of the various states can be compared by examining each state's taxes paid:

- Per resident; or
- Per $1,000 of residents' personal income.

Although tax structures among states have many similarities, they also have some important differences. The most significant differences among states are whether or not they have:

- A general sales tax;
- An individual income tax; and
- A corporate income tax.

All states tax property, gasoline, tobacco and alcohol, either by the state, by local governments, or by both.

Alaska, Delaware, Montana, New Hampshire and Oregon have no general sales tax. Texas is one of seven states with no individual income tax. The others are Alaska, Florida, Nevada, South Dakota, Washington and Wyoming. Because New Hampshire and Tennessee tax only interest and dividend income, they are often listed among the states with no individual income tax.

Texas, Nevada, Washington and Wyoming have no corporate income tax or individual income tax. Also, South Dakota has no broad-based corporate income tax, but does tax banks.

Because states choose not to impose certain taxes, they often must impose higher rates for other taxes. For example, although it has no individual or corporate income tax, Texas has among the highest sales and property taxes.

Total state and local taxes

Texas state taxes include the general sales tax, motor vehicle and manufactured-home tax, motor fuels tax and corporate franchise tax. These taxes provided 85 percent of state tax revenues in 1996. The major tax for all local governments and special districts is the property tax, which provides 85 percent of all local and special district tax revenues. Within state-regulated limits, local governments may also impose a general sales tax, a hotel/motel tax and a mixed-drink tax.

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The average Texan paid $1,933 in all state and local taxes for fiscal year 1993 (Table 1), the year with the most complete information available. Texans averaged $377 less than the national average of $2,300 per capita, which is calculated by adding the total taxes paid across all states and dividing by the national population. Per capita state and local taxes include both individual and business taxes.

Table 1: State and local taxes, Fiscal 1993.

	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	$2,300	$108
Median	2,126 Kansas	106 Maryland
Maximum	4,929 Alaska	216 Alaska
Minimum	1,535 Mississippi	87 Missouri
Texas average and rank	1,933 35	99 40

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor

Of all U.S. states, Texas taxes also rank below the median, which is defined as the halfway point. Half the states have a tax higher than the median, and half have a tax lower than the median. Because the comparisons include the District of Columbia, the median state is the one ranking 26th. Median state and local taxes per capita are $2,126.

The lowest tax state is Mississippi, at $1,535; the highest, Alaska, at $4,929. In Alaska, oil and mineral taxes, most of which are exported to fuel consumers in other states, are a substantial part of state tax revenues.

Texas ranks 40th in state and local taxes per $1,000 of personal income. For every $1,000 of personal income, the average Texan pays $99 in state and local taxes, or about 10 percent of personal income. This is below the national average of $108 and below the median of $106 (Table 1). By either measure, the state qualifies as a low-tax state (Figure 2).

Establishing a basis of comparison

Comparing taxes across states may seem straightforward, but state tax systems vary in types of taxes, tax rates and tax levies. To compare taxes among states requires establishing a basis of comparison:

■ **Taxes are measured per resident.**

Because state populations vary, comparing total taxes collected by each state is not useful. Instead, the average tax on an individual resident of the state – a per capita tax – is a better way to measure the relative burden of a state's tax system on its residents. The per capita tax is a measure of the average tax burden.

■ **Taxes are also measured per $1,000 of personal income.**

Tax systems may also be compared among states by the amount of taxes paid per $1,000 of personal income. This comparison is useful because average incomes vary among states. A state with low per capita income may also have a low per capita tax, but its tax per $1,000 of income, or its tax as a percentage of income, may be high. This is sometimes referred to as tax effort. Tax effort is often used in allocating revenues from federal to state and local governments. Government jurisdictions with higher effort may qualify for relatively more federal funds than those with lower efforts.

■ **Similar taxes must be aggregated.**

For example, the Census Bureau aggregates the general sales tax, motor vehicle and manufactured home sales tax, hotel and motel tax and other selective sales taxes in Texas.

■ **State and local taxes are reported together rather than separately.**

In some states, for example, the property tax is collected by both local and state governments, whereas in other states it is collected only by local government. To compare property taxes meaningfully across states, all property taxes, both state and local, must be included.

Alaska has both the highest state and local taxes per capita ($4,929) and the highest per $1,000 of income ($216). Because a large share of Alaska's taxes are oil and mineral severance taxes, much of the tax burden is exported from the state to fuel consumers elsewhere. Mississippi, with the lowest per capita tax ($1,535), ranks 31st in taxes per $1,000 of income, reflecting a relatively low average per capita income in the state.

Because it is a low tax state, Texas is generally competitive for business. But competitiveness is also affected by a state's mix of taxes. Because it has neither a personal income tax nor a corporate income tax, Texas relies heavily on sales and property taxes. These taxes may affect some sectors of the economy more than others, reducing the competitiveness of the most affected sectors.

In addition, relying heavily on sales taxes makes the Texas tax system regressive. That is, lower-income families pay a higher percentage of their income in taxes than do higher-income families.

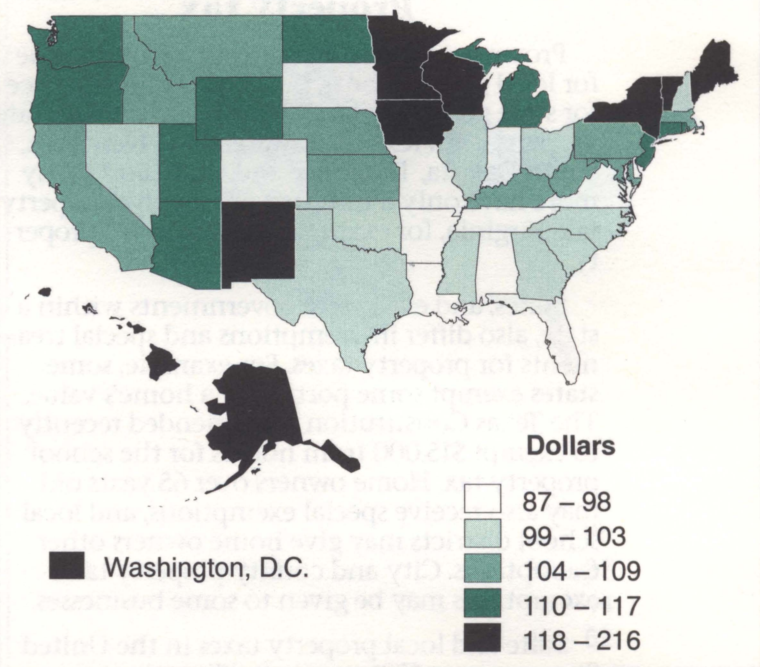

Figure 2. State and local taxes per $1,000 of personal income, Fiscal 1993.

- **All taxes collected by a state are counted as being paid by residents of that state.**

In fact, many taxes are paid by out-of-state residents. For example, out-of-state tourists pay sales taxes and hotel/motel taxes. For popular tourism states, these tax revenues can be substantial. Out-of-state business owners and stockholders pay part of business property taxes, corporate income taxes and corporate franchise taxes.

The more a state exports its taxes to out-of-state residents, the lower the actual tax burden is on state residents. Exporting taxes to out-of-state residents, however, is not reflected in this report because of lack of information on tax exporting.

- **Individual and business taxes are aggregated.**

Property taxes, for example, include those paid by both individuals and businesses. It might seem that only individual taxes should be included in the per capita calculation and that business taxes should be calculated separately, as an average per business. Individual and business taxes, however, are aggregated because all taxes, including business taxes, ultimately are paid by individuals.

Owners of unincorporated businesses (individuals) pay business taxes. Corporate stockholders pay business taxes in the form of personal income taxes on dividends, capital gains taxes, and lower dividends, because dividends are allocated after corporate taxes are paid.

Just as not all state residents pay property taxes, not all residents pay business taxes. The data give an average, some residents pay less (perhaps even zero tax) and others pay more. In Texas, individuals pay 40 percent of all state and local taxes and businesses pay 60 percent.

Businesses pay other taxes in addition to the corporate income tax, including severance taxes, sales taxes on their purchases and property taxes. Unfortunately, it is not possible to separate the businesses' share of some of these taxes from the taxes paid by individuals. A similar calculation would be needed for every state. This would be needed to determine the impact of the state's tax structure on the competitiveness of its businesses.

Property tax

Property taxes are a major source of revenue for local governments, but only a minor source for state governments. Seven states have no state property tax (Texas, Delaware, Iowa, New York, South Dakota, Tennessee and Utah) and many more have only a minimal or selective property tax. Virginia, for example, taxes railroad property.

States, and even local governments within a state, also differ in exemptions and special treatments for property taxes. For example, some states exempt some portion of a home's value. The Texas Constitution was amended recently to exempt $15,000 from homes for the school property tax. Home owners over 65 years old may also receive special exemptions, and local school districts may give home owners other exemptions. City and county property tax exemptions may be given to some businesses.

State and local property taxes in the United States average $731 per capita. Texas imposes $748 per capita in property tax, which is a local property tax only (Table 2). Texas ranks 20th in property taxes per capita (Figure 3).

At $1,750, the District of Columbia property tax per capita is the highest in the nation, $338 higher than the next highest, New Hampshire. Alabama has the lowest state and local property tax per capita, $183.

Property taxes are paid by property owners. Those not owning property, such as renters, do not pay property tax directly. They typically pay property taxes indirectly, however, as part of their rent. Whether a landlord is able to pass the property tax on to the tenant as part of the rent depends on supply-and-demand conditions in the local rental market. In the short run, if the vacancy rate is high, the landlord may be unable to pass the tax to the renter. However, property taxes are an integral part of the landlord's cost structure to provide rental space, which must be fully covered by rental income. Hence, the property tax is usually incorporated into rental rates.

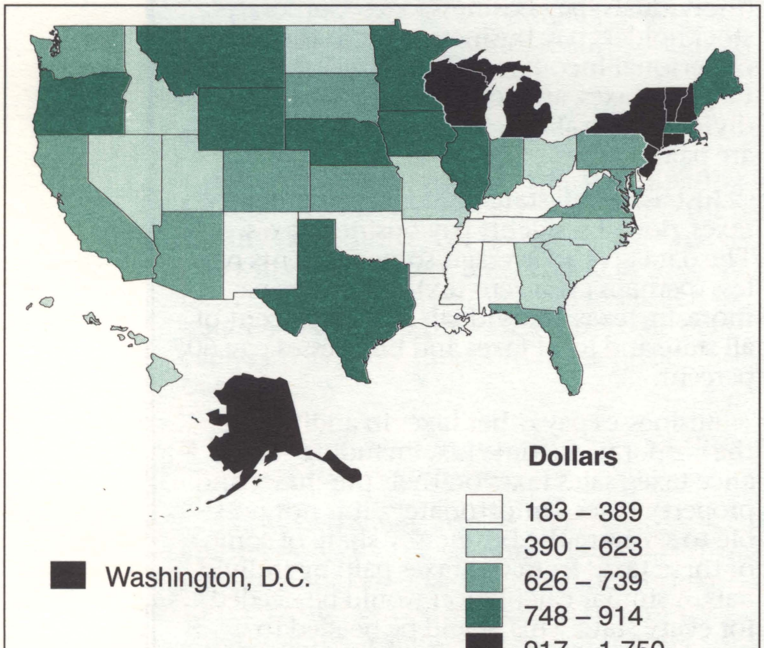

Figure 3. State and local property taxes per capita, Fiscal 1993.

Table 2: State and local property taxes, Fiscal 1993.

	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	$731	$34
Median	685 Arizona	33 Washington
Maximum	1,750[1] District of Columbia	62 New Hampshire
Minimum	183 Alabama	11 Alabama
Texas average and rank	748[2] 20	38 20

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

1 New Hampshire is second with $1,412.

2 In Texas all property taxes are local.

People with higher incomes generally own higher-valued properties than those with lower incomes. Thus, a high per-capita property tax may reflect, not high tax rates, but higher-than-average incomes in the state. To compensate for varying levels of income among states, state and local property taxes are compared per $1,000 of personal income. A state with a relatively high per capita tax and low tax per $1,000 of personal income would indicate a high-income state.

Texas property taxes per $1,000 of personal income are $38, ranking it 20th in the nation. Thus, Texas has the same rank on both property tax measures (Figure 4). The national average is $34, and the median is $33, per $1,000 of personal income. New Hampshire has the highest state and local property taxes per $1,000 of income, at $62; it ranks second in property taxes per capita. Alabama ranks lowest on both measures (Table 2), with $183 per capital and $11 per $1,000 of personal income.

Local governments in Texas rely heavily on property taxes. This may reduce the competitiveness of capital-intensive firms. Also, not all types of property are taxed. Individual personal property and intangible property, held as financial instruments, are not taxed. This may cause inefficiencies in the economy because it shifts investment away from taxed real property to untaxed intangible property.

The property tax in Texas is a progressive tax: As family income increases, so does the percentage of income paid in property taxes.

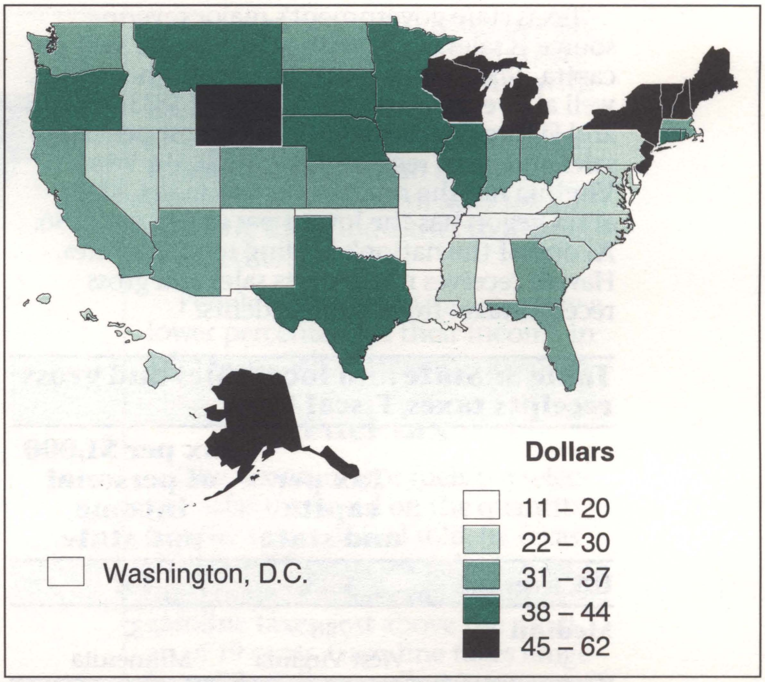

Figure 4. State and local property taxes per $1,000 of personal income, Fiscal 1993.

General and selective sales taxes and gross receipts taxes

Because of differences among states, similar taxes must be aggregated into categories. The sales tax category includes the general sales tax, all selective sales taxes and gross receipts taxes. The Census Bureau defines these taxes as: "Taxes on goods and services, measured on the basis of the volume or value of their transfer, upon gross receipts or gross income therefrom, or as an amount per unit sold (gallon, package, etc.); and related taxes based upon use, storage, production, importation, or consumption of goods and services. Includes licenses levied at more than minor rates."

The mixed drinks tax and the utilities tax are examples of a gross receipts tax. The general sales and gross receipts taxes are aggregated because both are based on the gross receipts from a business activity. A sales tax counts the gross receipts only from specified business activities. Also included in this category are selective sales taxes such as motor fuels, alcohol, tobacco, public utility, hotel and motel, and mixed-drinks taxes.

Texas taxes at a glance

Texas' major source of revenue is sales taxes. For local governments, the major source of revenue is the property tax.

Texas is one of only four states with neither a corporate nor a personal income tax.

Texas ranks:

- 35th in state and local taxes per capita. The average Texan paid $1,933 in all state and local taxes for fiscal year 1993, below the national median of $2,126.
- 40th in state and local taxes per $1,000 of personal income. For every $1,000 of personal income, the average Texan pays $99 in state and local taxes, or about 10 percent of personal income. This is below the national median of $106.
- 20th in property taxes per capita, $748, and 20th in property taxes per $1,000 of personal income, $38.
- 9th in sales taxes (all general and selective sales taxes) per capita, $951, and 10th in sales taxes per $1,000 of personal income, $9.
- 5th or 6th (tied) in state general sales tax rate 6.25 percent.
- 18th in the nation with a gasoline tax of 20 cents per gallon, and 22nd in fuel taxes per capita, $116.
- 11th in alcohol taxes per capita with $22.
- 9th in cigarette taxes per capita, $34, and 15th in the nation with a per pack cigarette tax of 41 cents.
- 33rd in combined corporate income and franchise taxes, $68 per capita, or $3 per $1,000 of personal income.
- 9th in severance taxes, with a per capita tax of $65.

Texas state government's major revenue source is sales taxes. With sales taxes of $951 per capita, Texas ranks ninth highest in the nation, well above the national average of $813 (Table 3 and Figure 5). Hawaii has the highest per capita sales and gross receipts taxes, at $1,511; West Virginia has the median per capita tax, $748; and Oregon has the lowest per capita tax, $196. As one of the nation's leading tourism states, Hawaii receives much of its sales and gross receipts taxes from non-residents.

Table 3: State and local sales and gross receipts taxes, Fiscal 1993.

	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	$813	$38
Median	748 West Virginia	37 Minnesota
Maximum	1,511 Hawaii	67 Washington
Minimum	196 Oregon	10 Oregon
Texas average and rank	951 9	49 10

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

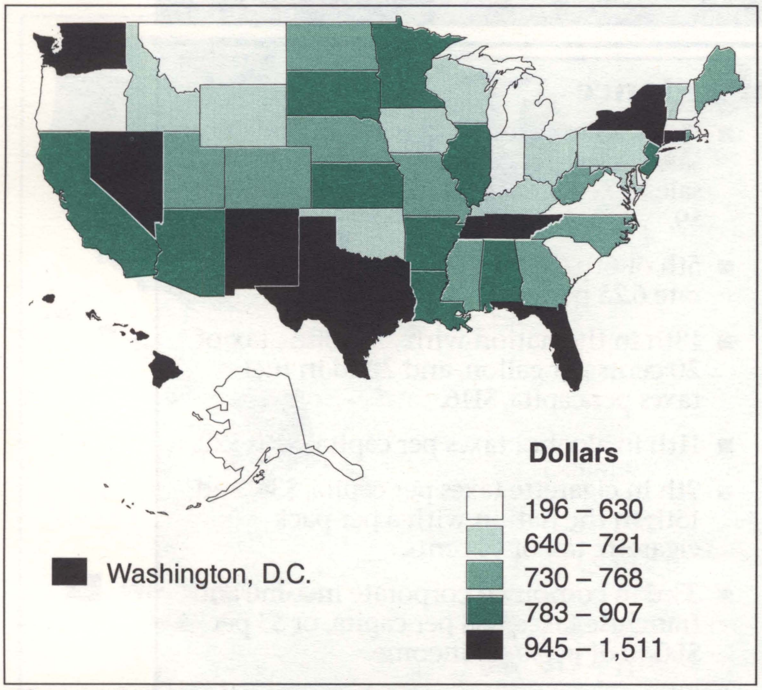

Figure 5. State and local sales and gross receipts taxes per capita, Fiscal 1993.

Texas also ranks high on sales taxes per $1,000 of personal income (Figure 6). Texans pay $49 of every $1,000 of personal income in sales taxes (both general and selective). Texas ranks 10th in the nation (Table 3). The national average is $38 of sales and gross receipts taxes per $1,000 of personal income; the national median is $37. Two neighboring states have the highest and lowest sales and gross receipts taxes per capita: Washington with $67 per $1,000 of income, and Oregon with $10.

General sales tax

Texas ties for the fifth- or sixth-highest state general sales tax rates in the nation – 6.25 percent of taxable sales (Table 4). The highest is 7 percent in Mississippi and the median is 5 percent. Five states – Alaska, Delaware, Montana, New Hampshire and Oregon – had no state general sales tax in 1993, but did have some selective sales taxes (Figure 7).

In some states, local governments can also impose sales taxes. Because they vary within a state, these taxes are not included in Table 4. In Texas, local sales taxes imposed by cities and counties may not exceed a total rate of 2 percent.

Table 4: State[1] general sales and use tax rates, January 1995.

	Percent and state
Median	5 13 states
Maximum	7 Mississippi
Minimum	0[2] 5 states
Texas rate and rank	6.25 5/6 tie with Illinois

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

[1]Many states allow sales taxes as a local option.

[2]Alaska, Delaware, Montana, New Hampshire and Oregon have no state-level general sales taxes.

The sales tax rate does not completely reflect the tax burden because the burden also depends on how narrow or broad the tax base is. In Texas, the general sales tax applies to some services and to all goods except unprepared foods and prescription drugs. This is a fairly broad base relative to other states.

Because the general sales tax applies to most consumer goods, it does not affect consumer

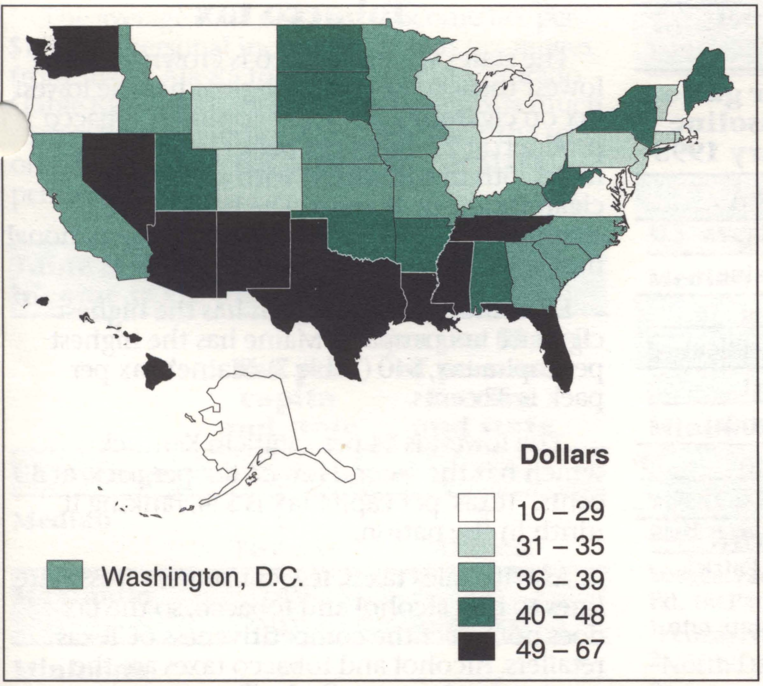

Figure 6. State and local sales and gross receipts taxes per $1,000 of personal income, Fiscal 1993.

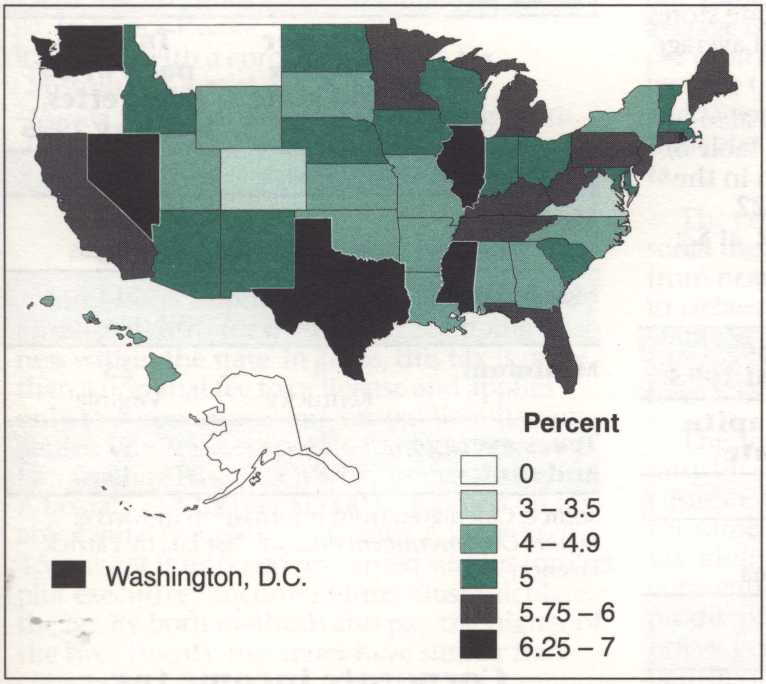

Figure 7. General sales tax rate, January 1995.

choices of goods. The narrower base in services may lead both consumers and businesses to choose untaxed services over taxed services, causing inefficiencies. The tax does not affect the competitiveness of Texas retailers because consumers generally do not cross state lines to shop, except along borders.

The sales taxes businesses pay on their purchases increase their costs, making them less competitive with businesses in other states. Equipment and materials for manufacturing and for farm and ranch use are exempted from sales tax, allowing those industries to remain competitive.

People with higher incomes pay a lower percentage of their income in sales taxes. Sales taxes are regressive.

Fuel tax

The tax on motor fuels is a selective sales tax based on the quantity, not the value, of fuel sold. In Texas the tax is 20 cents per gallon of gasoline (Table 5). Texas ranks 22nd in gasoline taxes, just above the median of 19 cents. Gaso-line taxes range from 38 cents per gallon in Connecticut to 5 cents in Florida. However, Florida's rate does not reflect that counties also can tax gasoline.

The national fuel tax per capita is $94; the median, $106. (Table 5). Texas ranks 18th in per-capita fuel taxes at $116, perhaps because the tax rate is above the median and because Texas motorists drive long distances, consuming more fuel and paying more total taxes. New York has the lowest per-capita fuel tax, in part because it has one of the lowest tax rates, 8 cents, and perhaps because many New Yorkers use public transportation.

State-to-state differences in gasoline taxes are not large relative to other cost differences. Thus, this tax has little effect on the competitiveness of Texas businesses. The tax is regressive, because everyone pays the same rate regardless of income. However, because fuel taxes are levied on fuel sales for transportation on public roads, they can also be considered progressive. People who use the roads more pay more.

Alcohol tax

Most states have selective sales taxes for beer, wine, distilled spirits and mixed drinks. These taxes are included in the marked price of the product and not labeled separately. In some states, the alcohol tax is a sales tax on the quan-

Table 5: State and local motor fuels taxes, Fiscal 1993.

	Tax per capita and state	Tax per gallon of gasoline January 1995
U.S. average	$94	N/A
Median	106 Colorado	19¢ Maine
Maximum	143 Nevada	38 Connecticut
Minimum	27 New York	5[1] Florida
Texas average and rank	116 18	20 22

Source: Calculated from information in *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

[1]Florida's rate varies by county, above the state rate.

tity or value sold, by private vendors. In other states certain alcoholic products are sold only through state liquor stores and the tax is a percentage of the value and included in the markup. Because some states sell through state stores with a mark-up, a meaningful national average tax per gallon cannot be calculated.

The national average state and local alcoholic beverages taxes per capita is $15 (Table 6). The median tax is $12. Texas ranks 11th in the nation in alcohol taxes per capita, at $22. Wyoming has the lowest per capita tax, at $2; and Florida the highest, $39.

Table 6: State and local alcoholic beverages taxes per capita, Fiscal 1993.

	Tax per capita and state
U.S. average	$15
Median	12 Louisiana
Maximum	39 Florida
Minimum	2 Wyoming
Texas rate and rank	22 11

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

Tobacco tax

The states where tobacco is grown have the lowest tobacco tax rates. Virginia has the lowest tax on cigarettes (the most common tobacco product) at 2.5 cents per pack (Table 7). Texas ranks 15th in the nation with a per-pack cigarette tax of 41 cents. The highest is in Washington, at 81.5 cents per pack. The national median is 31.5 cents.

Even though Washington has the highest cigarette tax per pack, Maine has the highest per capita tax, $40 (Table 7). Maine's tax per pack is 37 cents.

The lowest is $4 per capita in Kentucky, which has the second lowest tax per pack, at 3 cents. Texas' per capita tax is $34, ranking it ninth in the nation.

As with sales taxes, few consumers cross state lines to buy alcohol and tobacco, so the tax does not affect the competitiveness of Texas retailers. Alcohol and tobacco taxes are the most regressive taxes in the Texas tax system.

Table 7: State and local tobacco taxes, Fiscal 1993.

	Tax per capita and state	Tax per pack of 20 cigarettes, January 1995
U.S. average	$25	N/A
Median	24 Nebraska	31.5¢ Arkansas
Maximum	40 Maine	81.5 Washington
Minimum	4 Kentucky	2.5 Virginia
Texas average and rank	34 9	41 15

Source: Calculated from information in *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

Corporate income tax

The average state-level corporate income tax is $110 per capita (Table 8). The tax ranges from $1,458 in Alaska to less than $37 per capita in Missouri. The median is $67 per capita. Texas, Nevada, Washington and Wyoming have no corporate income tax. South Dakota has no broad-based corporate income tax, but does tax the net income of banks.

The average state corporate income tax per $1,000 of personal income is $5. This tax ranges from $64 in Alaska to less than $2 in Colorado (Table 8). Alaska's corporate income tax is much higher than any other state. New York, the second highest state, has a tax of $10 per $1,000 of personal income.

Table 8: State and local corporate income taxes per capita, Fiscal 1993.

	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	$103	$5
Median	67 Kentucky	3 Alabama
Maximum	1,458 Alaska	64[3] Alaska
Minimum	0[1] 5 states[2]	0 5 states
Texas average and rank	0 N/A	0 N/A

Source: *Facts & Figures On Government Finance,* 31st Ed., by Patrick Fleenor

[1]Of states with a corporate income tax, Missouri's is lowest at $37 per capita.

[2]Nevada, Texas, Washington and Wyoming. South Dakota taxes only banks.

[3]Next highest is New York with $10.

Corporate franchise tax

Most states impose a license or franchise tax on corporations for the privilege of doing business within the state. In Texas, this tax is more than a nominal fee for a license and applies only to corporations and limited-liability companies. The Texas corporate franchise tax has two separate bases, each with a separate tax rate. A tax rate of $2.50 per $1,000 is imposed on taxable capital (roughly net worth). A tax rate of 4.5 percent is imposed on earned surplus (profits plus executives' income). Firms must calculate the tax by both methods and pay the higher of the two. Twenty-five states have similar franchise taxes.

The corporate franchise tax per capita varies widely. It ranges from $407 per capita in Delaware to 30 cents in Idaho (Table 9). The second highest rate is in Pennsylvania, with $77 per capita. Three states – North Dakota, Utah and District of Columbia – have no corporate franchise tax. One reason for the wide variation is that in some states it is a tax, and in others it is a nominal license fee.

Table 9: Corporate franchise tax, Fiscal 1993.

	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	17	$0.86
Median	4 Georgia	0.17 West Virginia
Maximum	407[1] Delaware	17.00[3] Delaware
Minimum	0 3 states[2]	0 3 states
Texas average and rank	68 3	3.47 4

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

[1]Pennsylvania ranks second with $77.

[2]North Dakota, Utah, District of Columbia.

[3]Louisiana ranks second with less than $4.00.

Texas ranks third in the nation, with a corporate franchise tax of $68 per capita. The national average is $18 per capita and the median is $4 per capita. The other states without a corporate income tax, Nevada, South Dakota, Washington and Wyoming, have much lower corporate franchise taxes than Texas, less than $7 per capita.

The corporate franchise tax per $1,000 of personal income also varies widely. The tax ranges from nearly $17 per $1,000 of personal income in Delaware to less than 2 cents in Colorado (Table 9). The Texas corporate franchise tax of $3.47 per $1,000 of personal income, ranks fourth in the nation.

The Texas corporate franchise tax is paid only by corporations and limited-liability companies. Other businesses in the state producing the same products or services do not pay the tax, giving them a cost advantage. Because both corporations and non-corporations must sell products in a competitive market at similar prices, corporations with non-corporate competitors cannot pass on this tax to consumers by adding it to their products' prices. This gives unincorporated businesses a competitive advantage over corporate businesses in the state.

This can affect the state economy in two ways:

- Corporations paying the franchise tax earn less profit per unit than businesses not taxed. This reduces the money available for shareholders, reinvestment or other uses.

- Businesses with corporate franchises may respond to the cost disadvantage of the tax and re-structure the business into an organization not subject to the tax. Of course, larger corporations may be unable to take this option, but the franchise tax may impede the development of new and/or small corporations.

Corporate income and corporate franchise taxes

To compare the corporate franchise tax of Texas with the corporate income tax used in other states, corporate franchise taxes and the corporate income taxes were added together for each state (Figure 8). Alaska still ranks first in combined corporate taxes per capita at $1,460 (Table 10). There is a wide range in combined corporate taxes, with the lowest combined tax per capita of $2 in Washington and a median of $78. Texas, with a tax of $68 per capita, ranks 33rd in the nation.

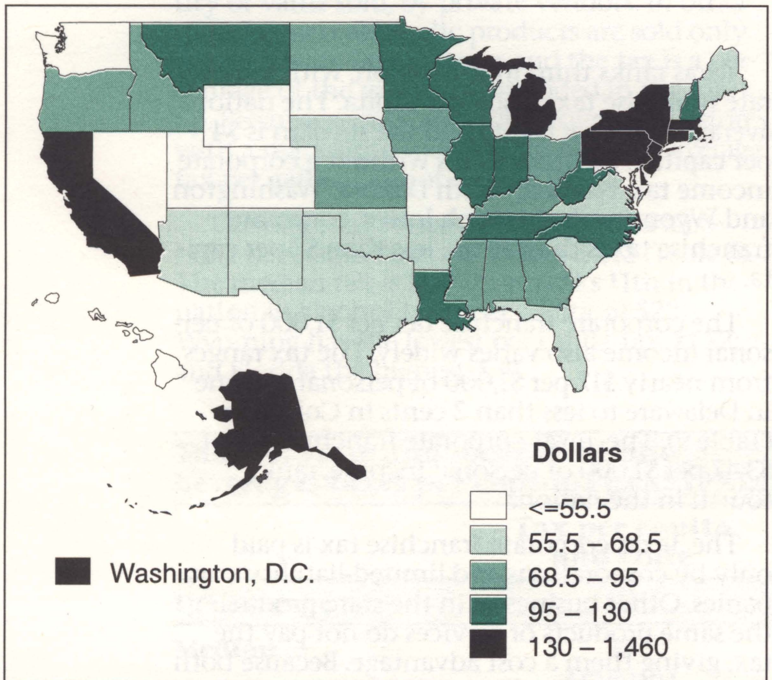

Figure 8. Corporate income and franchise taxes per capita, Fiscal 1993.

Texas also ranks 33rd in combined corporate income and franchise taxes per $1,000 of personal income (Table 10). Again, Alaska ranks highest and Washington the lowest (Figure 9). Washington has only a nominal corporate license tax and no corporate income tax. The corporate franchise tax does not appear to affect the competitiveness of Texas businesses

Table 10: Combined corporate income and franchise taxes, Fiscal 1993.

	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	$120	$6
Median	78 Ohio	4 Arkansas
Maximum	1,460 Alaska	64 Alaska
Minimum	2 Washington	.08 Washington
Texas average and rank	68 33	3 33

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

when compared to the corporate income tax of other states.

Severance taxes

States with large mineral deposits tend to impose severance taxes. Severance taxes are a way of exporting taxes, if a significant portion of minerals produced are sold outside the state. Although paid by the mineral producer, the tax (or a portion of it) may be added to the mineral's selling price.

The producers' ability to export the tax depends on the competitiveness of the mineral's national and international markets. For example, oil moves internationally from many sources to many consumers. Because all producers must sell at the international price of oil, producers in a given area cannot pass along a new severance tax unless their costs are very low.

For other minerals, such as diamonds, supply sources are few and competition in the market limited. For these, much more of a severance tax can be exported to the consumer. Unfortunately, no data are available on how much of the severance tax is paid by in-state as compared to out-of-state residents.

Severance taxes range from about 2 percent of state revenues in Texas to 71 percent in Alaska, which also has the highest per capita severance tax of $1,881 (Table 11). However, much of this tax is likely to be exported to residents outside Alaska. Texas ranks ninth with a per capita tax of $65. Seventeen states have no severance tax.

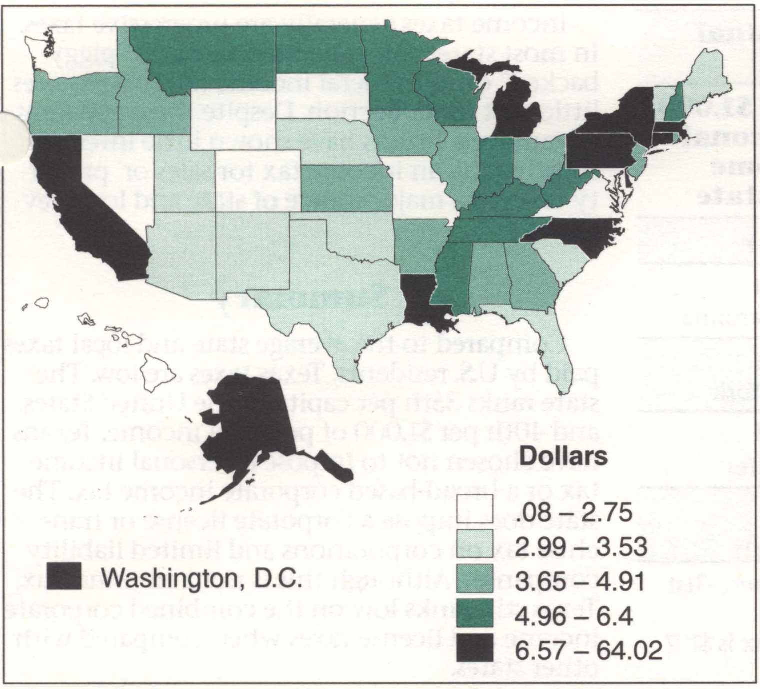

Figure 9. Corporate income and franchise taxes per $1,000 of personal income, Fiscal 1993.

Table 11: State severance taxes, Fiscal 1993.

	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	$19	$0.0009
Median	0.83 Ohio	0.000004 Ohio
Maximum	1,881 Alaska	.14 Alaska
Minimum	0[1] 17 states	0 17 states
Texas average and rank	6 9	0.0002 17

Source: Calculated from *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.
[1]Of states with the tax, Missouri is lowest with less than 1 cent per capita.

Individual income tax

A major difference between Texas and most states is that Texas has no personal income tax. Other states without individual income taxes are Alaska, Florida, Nevada, South Dakota, Washington and Wyoming (Figure 10). New Hampshire and Tennessee also have no broad-based income tax, but do tax interest and dividend income.

The national average state-level individual income tax per capita is $478 (Table 12). The median is similar, $491. The highest per capita income tax is $1,037 in New York. Of states imposing a broad-based individual income tax, the minimum is $197 per capita in North Dakota.

Nationally, the average individual income tax per $1,000 of personal income is $23 (Table 12). The median is similar, $24. Among the states with a broad-based individual income tax, the tax per $1,000 of personal income ranges from $41 in New York to $12 in North Dakota (Figure 11).

In lieu of an individual income tax, Texas relies heavily on the sales tax, which is not deductible for federal income taxes. Although the lack of an individual income tax is often used as a selling point for Texas, in fact, relying on sales taxes for state revenue increases the federal income tax Texans pay. The federal government allows people to deduct their state income taxes paid from federal taxable income, lowering the federal tax paid. This affects the state's competitiveness, because that money leaves the state rather than being spent by consumers on products and services within it.

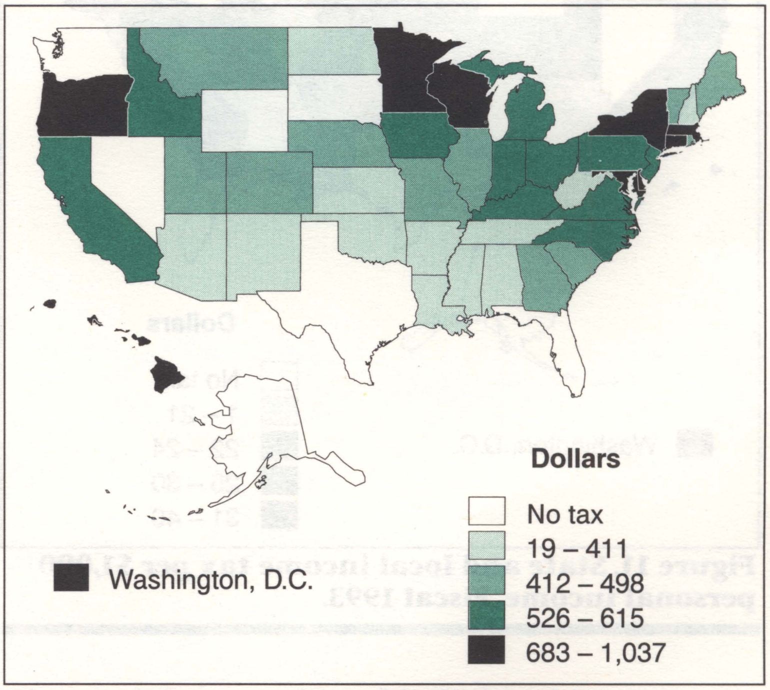

Figure 10. State and local individual income taxes per capita, Fiscal 1993.

Table 12: State and local individual income taxes, Fiscal 1993.	Tax per capita and state	Tax per $1,000 of personal income and state
U.S. average	$478	$23
Median	491 Georgia	24 South Carolina
Maximum	1,037 New York	41 New York
Minimum	0[1] 7 states[2]	0[3] 7 states
Texas average and rank	0 N/A	0 N/A

Source: *Facts & Figures On Government Finance*, 31st Ed., by Patrick Fleenor.

[1]The lowest of states with a broad-based tax is $197 in North Dakota.

[2]Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Tennessee and New Hampshire tax only interest and dividends.

[3]Among states with a broad-based tax, the lowest tax is $12 in North Dakota.

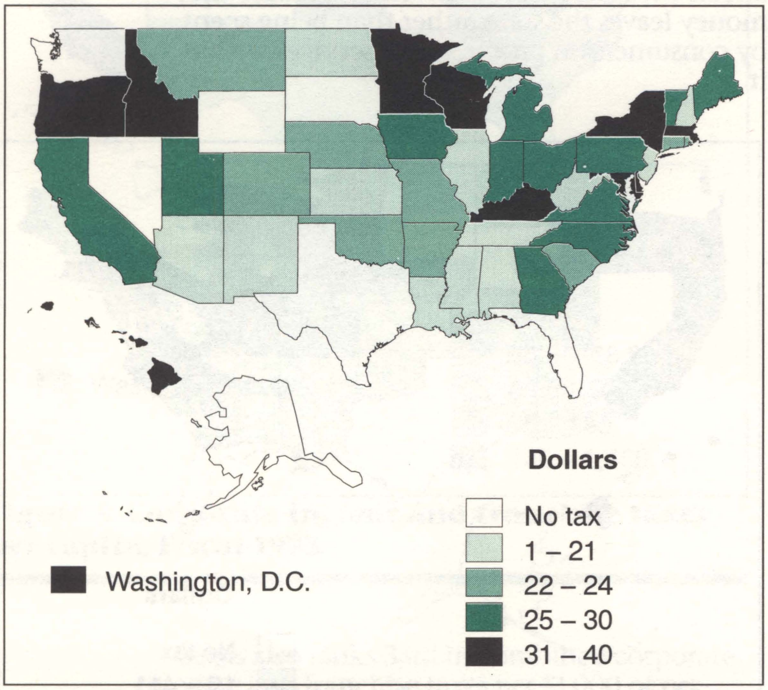

Figure 11. State and local income tax per $1,000 personal income, Fiscal 1993.

Income taxes generally are progressive taxes. In most states, the state income tax is "piggy-backed" on the federal income tax and requires little cost for collection. Despite these apparent advantages, Texans have shown little interest in substituting an income tax for sales or property taxes as a major source of state and local revenues.

Summary

Compared to the average state and local taxes paid by U.S. residents, Texas taxes are low. The state ranks 35th per capita in the United States, and 40th per $1,000 of personal income. Texans have chosen not to impose a personal income tax or a broad-based corporate income tax. The state does impose a corporate license or franchise tax on corporations and limited liability companies. Although this is not a nominal tax, Texas still ranks low on the combined corporate income and license taxes when compared with other states.

Despite this low ranking, taxation continues to be a major issue in Texas. The reason for this may be the heavy reliance on sales and property taxes to support state and local governmental services. Texas ranks high on sales and property taxes. Although the overall tax burden is low, the burden of these two taxes ranks relatively high, and may disadvantage some industries.

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Produced by Agricultural Communications, The Texas A&M University System

Issued in furtherance of Cooperative Extension Work in Agriculture and Home Economics, Acts of Congress of May 8, 1914, as amended, and June 30, 1914, in cooperation with the United States Department of Agriculture. Chester P. Fehlis, Deputy Director, Texas Agricultural Extension Service, The Texas A&M University System.
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