

NOTES ON KANSAS, OTHER STATES AND INDIVIDUAL INCOME TAXES

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SUMMARY METHOD AND CONCLUSIONS

The question here raised is how Kansas fares with respect to both states that have no state individual income tax (9) and to those states that have an individual income tax (41). The main comparisons involve population, per capita income, growth in per capita income, and unemployment rates. The tax measure consists of per capita revenues paid by residents to state and local governments in the home state as well those paid to other states (data from the Tax Foundation). Such a measure captures reductions in state taxes that are passed on in the form of local taxes and the attempt by other states to levy taxes on home state residents. This paper also presents the share of various tax sources (in per cent) paid by residents in each state.

In order to avoid the period of recent recession the year 2007 (fiscal and calendar) is the basis for the comparisons. Data from this year follow a decade of relatively stable economic growth. Growth rates in state per capita income are computed from the 1997 – 2007 decade. This lapse provides a long-term growth perspective akin to the long-term nature of tax proposals in Kansas.

Statistical tables in the following pages are divided into two parts. The same measures are presented in both parts. Data presented in Tables 1 –3 show Kansas relative to the nine states that have no state individual income tax. Note that some of these states have local individual income taxes. Tables 4–6 deal with Kansas and the other 40 states that have a state income tax.

There are two major conclusions. First, Kansas compares positively with all other states. [As an aside, only 11 states have a lower unemployment rate than Kansas in December, 2011.] Second, it appears in these data that it is prosperity or growth in other revenue sources that enable some states to eliminate individual income taxes. The main other revenue sources are

heavy tourism, gambling, mineral severance fees and corporate income taxes.

BRIEF NOTES ON TABLES

Table 1 shows three no income tax states that have a much smaller population than Kansas. There are two of these states relative to Kansas that have higher per capita tax payments, but all of the nine states have a lower tax rate. This is not surprising since the other states have no individual income tax. The last column shows that five of the nine states have a higher unemployment rate than Kansas and that Florida is almost the same as Kansas. This is a surprise from the viewpoint of anyone who supposes that the absence of state income taxes will have the effect of reducing the unemployment rate.

Table 2 reveals that six of the nine states had a higher rate of growth in per capita income than Kansas. But Kansas outgrew three of these states (*viz.*, Alaska, Nevada, Tennessee).

Table 3 presents the tax revenue data according to source (Tax Foundation). Kansas shows a better balance of tax sources than any of the nine states. Compared with all other states, four of these no income tax states reveal property tax rates that are in the top ten, namely, Florida, New Hampshire, Texas, and Wyoming. The last column shows the percentage of total state and local tax revenues paid in the form of general sales and selective sales taxes combined. Again, among the 50 states, five of these states are among the top ten with respect to the share of revenue from these sales taxes. In the licenses and other tax category seven of the nine no income tax states are in the top 15 of all 50 states (only New Hampshire and South Dakota are excluded from this category).

The highest mineral severance tax states are Alaska, Nevada, and Wyoming. In dollar

payments, Texas received \$2.8 billion in federal fiscal 2007 from severance taxes. Alaska received \$2.2 billion from this source. In sum, every one of these nine states receives a much greater share of revenues than Kansas from one or more the following sources: tourism, gambling, property taxes on out-of-state residents, mineral severance and corporate income taxes. The point is that these states can afford to do without individual income taxes. Four of these states also gave up corporate income taxation. The only possible anomaly to this conclusion is that New Hampshire may have eliminated state individual taxes on income without having substantial revenues from the foregoing sources. The result is super-high property taxes.

Table 4 and Table 5 deal with the 41 states that have state individual income taxes. This comparison is crucial in evaluating Kansas tax policy changes. Table 4 shows that over the same year (2007) as above, the Kansas unemployment rate (4.1 per cent in the last column) is less than that in 23 of the other 40 states. There are 17 states that have a smaller unemployment rate.

Table 5 shows the average annual rates of growth in per capita income for all 41 states that have state individual income taxes. There are 23 states that have a higher growth rate than Kansas (4.558 per cent per annum). These 23 states are used with Table 4 in ascertaining how many of them also have higher tax rates than Kansas. There are 16 of these 23 higher growth states that also have higher tax rates than Kansas (9.4 per cent of income). In the end, if Kansas is to copy tax policy from other states, it is very difficult to know which states to use. These 16 high tax states all outgrew Kansas.

Table 6 deals with the percentage distribution of tax revenues among the same sources used above in Table 3. Six of these 41 states have a property tax share that is in the top ten nationwide (Connecticut, Illinois, Michigan, New Jersey, Rhode Island and Vermont). Five states

are in the top ten of all 50 states for the sum of general and selective sales taxes (Alabama, Arizona, Arkansas, Hawaii, and Louisiana). Recall that five of the no-income-tax states are also in this category. License and other taxes involve eight states that are in the top 15 of all states [Delaware (no general sales tax), Montana (no general sales tax), New Mexico, North Dakota, Oklahoma, Oregon (no general sales tax), Pennsylvania, and West Virginia]. The three states that have no general sales tax have a higher share from income taxes than Kansas. In any case it seems that these three states have eliminated a regressive tax in favor of graduated or progressive income taxes. These data also invite some speculation of which state will be the next to eliminate individual income taxes. Maybe the North Dakota oil boom will have that effect?

TABLE 1

STATES WITH NO INDIVIDUAL INCOME TAX
SALIENT STATISTICS

Area	2007 Population July 1 (1000's)	Fiscal 2007 Per Capita State & Local Taxes (\$)	Tax Rate: Per Capita State & Local Taxes Over Income (%)	Tax Rate Rank Among 50 States (Highest is 1)	Fiscal 2007 Per Capita Taxes Only in Home State (\$)	Calendar 2007 Unemployment Rate (%)
United States	301580	4270	9.8		3081	4.6
Kansas	2776	3783	9.4	25	2545	4.1
Alaska	682	2622	5.9	50	1517	6.1
Florida	18278	4090	8.8	36	2777	4.0
Nevada	2568	3606	7.4	47	2024	4.6
New Hampshire	1317	3651	7.5	46	1933	3.5
South Dakota	797	2839	7.3	48	1628	2.9
Tennessee	6173	2830	7.6	44	1852	4.9
Texas	23838	3114	7.6	45	2155	4.4
Washington	6456	4491	9.2	30	3147	4.6
Wyoming	523	3862	6.8	49	1845	2.8

Note: Alaska, Florida, New Hampshire, South Dakota and Tennessee retain corporate income taxes.

State and local taxes in column 3 include payments in home state and payment to other states.

TABLE 2

STATES WITH NO INDIVIDUAL INCOME TAX
PER CAPITA INCOME AND DECADE GROWTH RATES

Area	Per Capita Income 2007 (\$)	Per Capita Income 1997 (\$)	Annual Rate of Growth (%)
United States	43786	27486	4.766
Kansas	40277	25793	4.558
Alaska	44575	29076	4.365
Florida	46282	27693	5.270
Nevada	48569	31119	4.552
New Hampshire	48392	30639	4.677
South Dakota	39056	23509	5.207
Tennessee	37156	24412	4.290
Texas	40927	25368	4.899
Washington	48669	30023	4.949
Wyoming	56492	26122	8.018

TABLE 3

STATES WITH NO INDIVIDUAL INCOME TAX
TOTAL STATE AND LOCAL TAX REVENUES BY SOURCE, FISCAL 2007
(In Per Cent)

Area	Property Tax	General Sales Taxes	Selective Sales Taxes	Individual Income Taxes	Corporate Income Taxes	Licenses and Other Taxes	General Plus Selective Sales Taxes
United States	30.1	23.5	10.9	22.6	4.7	8.2	34.4
Kansas	30.5	26.6	8.9	24.2	4.6	5.3	35.5
Alaska	20.9	3.7	6.3	0	16.5	52.6	10.0
Florida	36.8	33.2	15.8	0	3.3	11	49.0
Nevada	27.5	33.8	24.4	0	0	14.3	58.2
New Hampshire	61.3	0	15.5	2.3	12.6	8.3	15.5
South Dakota	34.2	40.6	13.5	0	3.2	8.5	54.1
Tennessee	24.2	45.7	11.1	1.5	6.1	11.5	56.8
Texas	41.6	30.8	16	0	0	11.6	46.8
Washington	26.8	47.5	14.6	0	0	11.1	62.1
Wyoming	36.8	28.3	4.8	0	0	30.1	33.1

Property tax includes residential and commercial real estate and tax on personal property.

Major selective sales taxes are levied on motor fuel, tobacco, insurance premiums, public utilities, amusements and alcoholic beverages.

State and local governments generally lump wages, dividends, interest and capital gains together when applying individual income taxes.

The license category includes taxes on auto licenses, business or corporations, and hunting and fishing licenses. The other tax category major revenue sources are severance taxes (natural resources), stock transfer taxes, and estate /gift taxes.

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

TABLE 4

STATES WITH AN INDIVIDUAL INCOME TAX
SALIENT STATISTICS

Area	July 1, 2007 Population (1,000's)	Fiscal 2007 Per Capita Income (\$)	Fiscal 2007 State & Local Per Capita Taxes (\$)	Tax Rate Tax Per Cent of Income (%)	Calendar 2007 Unemployment Rate (%)
United States	301580	43786	4270	9.80	4.6
Alabama	4638	35221	3068	8.70	3.4
Arizona	6362	39243	3638	9.30	3.8
Arkansas	2842	32638	3258	10.00	5.2
California	36226	48758	5281	10.80	5.3
Colorado	4842	48975	4213	8.60	3.7
Connecticut	3489	63867	7140	11.20	4.6
Delaware*	865	44384	4294	9.70	3.5
Georgia	9543	38571	3590	9.30	4.7
Hawaii	1277	45947	4582	10.00	2.7
Idaho	1499	37148	3550	9.60	2.9
Illinois	12779	46856	4448	9.50	5.1
Indiana	6346	36395	3303	9.10	4.6
Iowa	2979	37500	3413	9.10	3.8
Kansas	2776	40277	3783	9.40	4.1
Kentucky	4256	33085	3205	9.70	5.6
Louisiana	4376	36565	3091	8.50	3.8
Maine	1317	37777	3881	10.30	4.7
Maryland	5634	52807	5612	10.60	3.6
Massachusetts	6499	54974	5453	9.90	4.5
Michigan	10051	37587	3529	9.40	7.1
Minnesota	5191	45629	4628	10.10	4.6
Mississippi	2922	30273	2651	8.80	6.2
Missouri	5910	37613	3459	9.20	5.1
Montana*	957	37492	3224	8.60	3.3
Nebraska	1770	40358	3987	9.90	2.9
New Jersey	8636	56098	6639	11.80	4.3
New Mexico	1969	35484	3220	9.10	3.4
New York	19423	52446	6101	11.60	4.5
North Carolina	9064	37925	3790	10.00	4.7
North Dakota	638	37453	3435	9.20	3.1
Ohio	11521	38192	3871	10.10	5.6
Oklahoma	3612	37076	3272	8.80	4.1
Oregon*	3733	39920	3887	9.70	5.2
Pennsylvania	12523	41955	4307	10.30	4.3
Rhode Island	1055	43914	4588	10.40	5.3
South Carolina	4424	35196	3090	8.80	5.6
Utah	2664	36155	3603	10.00	3.7
Vermont	620	42071	4354	10.40	3.9
Virginia	7720	48750	4671	9.60	3.0
West Virginia	1811	30653	2840	9.30	4.2
Wisconsin	5602	41014	4290	10.50	4.8

* No General Sales Tax

TABLE 5

STATES WITH AN INDIVIDUAL INCOME TAX
PER CAPITA INCOME AND DECADE GROWTH RATES

Area	Per Capita Income 2007 (\$)	Per Capita Income 1997 (\$)	Annual Rate of Growth (%)
United States	43786	27486	4.766
Alabama	35221	22209	4.719
Arizona	39234	24295	4.909
Arkansas	32638	20705	4.656
California	48758	29173	5.270
Colorado	48975	30091	4.991
Connecticut	63867	38280	5.252
Delaware*	44384	28584	4.499
Georgia	38571	26071	3.994
Hawaii	45947	28377	4.937
Idaho	37148	23127	4.853
Illinois	46856	30298	4.456
Indiana	36395	24769	3.923
Iowa	37500	24763	4.237
Kansas	40277	25793	4.558
Kentucky	33085	21807	4.257
Louisiana	36565	21584	5.413
Maine	37777	23993	4.644
Maryland	52807	31807	5.200
Massachusetts	54974	32808	5.297
Michigan	37587	27059	3.341
Minnesota	45629	29106	4.599
Mississippi	30273	19446	4.526
Missouri	37613	25236	4.071
Montana*	37492	21498	5.719
Nebraska	40358	26046	4.477
New Jersey	56098	34841	4.878
New Mexico	35484	21937	4.927
New York	52446	31637	5.184
North Carolina	37925	25332	4.118
North Dakota	37453	22246	5.347
Ohio	38192	26163	3.855
Oklahoma	37076	21930	5.391
Oregon*	39920	27000	3.988
Pennsylvania	41955	26836	4.570
Rhode Island	43194	27075	4.782
South Carolina	35196	22675	4.495
Utah	36155	23190	4.541
Vermont	42071	25003	5.341
Virginia	48750	29198	5.260
West Virginia	30653	19864	4.434
Wisconsin	41014	26701	4.386

* No General Sales Tax

TABLE 6

STATES WITH AN INDIVIDUAL INCOME TAX
TOTAL STATE AND LOCAL TAX REVENUES BY SOURCE, FISCAL 2007
(In Per Cent)

Area	Property Tax	General Sales Taxes	Selective Sales Taxes	Individual Income Taxes	Corporate Income Taxes	Licenses and Other Taxes	General Plus Selective Sales Taxes
United States	30.1	23.5	10.9	22.6	4.7	8.2	34.4
Alabama	15.5	29.9	17.9	22.7	3.7	10.2	47.8
Arizona	26.7	40.1	8.3	16.1	4.2	4.6	48.4
Arkansas	14.6	41.3	11.9	23.7	4.0	4.4	53.2
California	24.2	24.2	7.2	30.8	6.5	7.2	31.4
Colorado	30.4	27.1	8.2	25.8	2.7	5.9	35.3
Connecticut	38.2	14.4	9.2	30.0	3.9	4.3	23.6
Delaware*	15.6	0.0	12.7	29.3	8.3	34.1	12.7
Georgia	28.8	29.9	8.6	26.5	3.0	3.2	38.5
Hawaii	17.3	38.9	12.8	23.8	1.5	5.6	51.7
Idaho	23.5	26.8	8.9	29.6	3.9	7.3	35.7
Illinois	37.1	16.6	17.2	17.1	5.3	6.6	33.8
Indiana	29.1	25.7	11.5	24.7	4.7	4.3	37.2
Iowa	33.1	21.2	10.4	25.1	3.0	7.2	31.6
Kansas	30.5	26.6	8.9	24.2	4.6	5.3	35.5
Kentucky	18.9	20.6	16.5	29.5	8.1	6.5	37.1
Louisiana	14.8	40.0	13.0	18.3	4.3	9.6	53.0
Maine	36.5	18.7	11.3	24.2	3.3	6.0	30.0
Maryland	24.2	12.7	10.6	39.7	2.9	9.8	23.3
Massachusetts	34.4	12.7	6.5	35.6	6.5	4.3	19.2
Michigan	39.3	21.5	10.5	18.7	4.7	5.3	32.0
Minnesota	25.8	19.2	12.6	30.5	5.1	6.8	31.8
Mississippi	25.3	36.1	11.7	16.0	4.3	6.5	47.8
Missouri	27.4	26.2	11.4	27.0	2.0	6.1	37.6
Montana*	33.8	0.0	16.4	25.5	5.5	18.8	16.4
Nebraska	33.5	24.3	8.0	23.2	3.0	8.0	32.3
New Jersey	41.7	16.8	7.2	22.7	5.6	6.0	24.0
New Mexico	13.6	36.1	10.9	15.8	6.1	17.5	47.0
New York	28.4	16.4	7.8	31.8	9.3	6.3	24.2
North Carolina	22.5	21.9	12.1	32.7	4.8	6.0	34.0
North Dakota	26.8	21.9	13.3	12.1	5.3	20.7	35.2
Ohio	29.0	20.5	10.9	29.9	2.6	7.2	31.4
Oklahoma	16.2	28.5	9.7	23.2	4.6	17.8	38.2
Oregon*	31.1	0.0	8.6	44.1	3.6	12.6	8.6
Pennsylvania	29.6	17.0	11.6	25.5	4.3	12.0	28.6
Rhode Island	41.1	18.3	10.3	22.8	3.7	3.9	28.6
South Carolina	31.1	24.3	10.9	23.6	2.3	7.9	35.2
Utah	22.9	28.7	10.3	28.7	4.5	4.9	39.0
Vermont	42.1	11.5	17.7	19.9	2.8	6.0	29.2
Virginia	31.0	14.5	11.9	31.6	2.7	8.3	26.4
West Virginia	18.7	18.4	19.3	22.3	8.9	12.4	37.7
Wisconsin	36.0	19.0	8.4	27.1	3.9	5.5	27.4

* No General Sales Tax