Faculty Paper Series

TEXAS TAXES:

A COMPARISON WITH OTHER STATES

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Executive Summary:

The major source of revenue for the state of Texas is sales taxes. The major source of revenue for local governments 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 $2126.

Texas ranks 40th in state and local taxes per $1,000 of personal income. For every $1000 of personal income, the average Texas pays $99 in state and local taxes or about 10 percent of personal income. This is below the national median of $106.

Texas ranks twentieth in property taxes per capita, $748. Texas ranks twentieth in property taxes per $1000 of personal income, $38.

Texas ranks ninth in sales taxes (all general and selective sales taxes) per capita, $951. Texas ranks tenth in the nation with sales taxes of $9 per $1000 of personal income.

Texas ties for fifth and sixth in state general sales tax rate–6.25 percent.

Texas ranks twenty-second in the nation with a gasoline tax of 20 cents per gallon

Texas ranks eleventh in the nation in alcohol taxes per capita with $22.

Texas ranks fifteenth in the nation with a per pack cigarette tax of 41 cents. The per capita cigarette tax in Texas is $34, ranking Texas ninth in the nation.

Texas does not have a corporate income tax.

Texas ranks thirty-third in combined corporate income and franchise taxes, $68 per capita. Texas also ranks thirty-third in combined corporate income and franchise taxes, $3 per $1000 of personal income.

Texas ranks ninth in severance taxes, with a per capita tax of $65.

Texas does not have a personal income tax. The national average individual income tax per capita is $478.

Although it is a low-tax state, Texas ranks high on certain taxes. Because it chooses not to impose certain taxes, it must impose higher rates for other taxes. The high property and sales taxes disadvantage certain types of businesses.

TEXAS TAXES: A COMPARISON WITH OTHER STATES

Judith I. Stallmann and Lonnie L. Jones

ABSTRACT: This document is part of an educational series on Texas taxes. State and local taxes in Texas are compared with those of the fifty states and the District of Columbia. Taxes are compared per capita and per $1,000 of personal income. The taxes include: all state and local taxes, property taxes, sales and gross receipts taxes, personal income taxes, corporate income taxes and corporate franchise taxes. For each tax the national average, median, maximum and minimum are given along with the corresponding tax for Texas and Texas's rank nationally. Texas state revenue comes primarily from the sales tax and local revenue from the property tax. It is one of only four states with neither a corporate nor a personal income tax. For all state and local taxes, Texas ranks 35th per capita and 40th per $1,000 of personal income. Despite this relatively low rank among all states, tax reform is a continuing priority issue in Texas. The reason for this may be the heavy reliance on sales and property taxes to support state and local governmental services. While the overall tax burden is relatively low, the burden of these two taxes ranks relatively high and may disadvantage certain industries.

Texas Taxes: A Comparison with other States

Judith I. Stallmann and Lonnie L. Jones

Citizen concern about taxation continues to be a major issue in Texas politics. In Texas, state and local taxes have been debated by the state legislature in each recent session. In 1997, the 75th legislature adopted several changes in the state's property tax system. More recently, another select committee on taxation has been established to examine further changes in the state and local tax systems for consideration in the 76th legislative session. It is likely that study and debate of tax issues will continue into the future.

Given the ongoing nature of tax debates, at both the national and state levels, a comparison of the Texas state and local tax systems with those of other states may be helpful. This publication is the third in a series of documents for the public about the Texas tax system. The first document of this series provided basic information on the major state and local taxes in Texas (Jones, Stallmann and Tanyeri-Abur). The second explained the constitutional amendment on property taxes that citizens passed by voter referendum in August, 1997 (Stallmann). While the previous two documents discussed tax issues in Texas only, the purpose of this document is to compare the major state and local taxes of Texas with those of other states.

State tax systems vary in terms of types of taxes, tax rates and tax levies. To compare taxes among states, a basis of comparison must be established. There are at least two ways to compare taxes among states: (1) comparing the average tax paid per resident of each state or, (2) comparing the average tax per $1,000 of personal income for residents of each state.

Because state populations vary, reporting total taxes collected by each state is not a useful comparison. Instead, the average tax on an individual resident of the state, a per capita tax, is a more useful means of comparing the relative burden of a tax system on the state's residents. The per capita tax is a measure of the average tax burden. The per capita calculation does not, however, reflect the distribution of taxes among different groups within the state, such as low, medium and high income groups. For the state of Texas this comparison can be found in Jones, Stallmann and Tanyeri-Abur.

Another way of comparing tax systems among states is 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 as a criterion in allocating revenues from the federal government to state and local governments (Kraemer and Newell). Government jurisdictions with higher effort may qualify for relatively more federal funds than those with lower efforts.

Comparing taxes across states may seem straightforward, but taxes and types of taxes are not uniform from state to state. Generalizations must be made in order to make comparisons. One generalization is that similar taxes must be aggregated. For example, the general sales tax, the motor vehicle and manufactured home sales tax, the hotel and motel tax and other selective sales taxes in Texas are aggregated as sales taxes (Census Bureau).

A second generalization is that individual and business taxes of a similar type 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. The owners of unincorporated businesses (individuals) pay the 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 residents of the state 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. (House Research Organization)

A third generalization is that 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 states with high levels of tourism, these tax revenues can be substantial. Part of business property taxes, corporate income taxes, and corporate franchise taxes are paid by out-of-state business owners and stockholders. The more a state can export its taxes to out-of-state residents, the lower the actual tax burden will be on state residents. The export of taxes to out-of-state residents, however, will not be reflected in this report due to lack of information on tax exporting.

A fourth generalization is that the state and local taxes are reported together rather than separately. Once again this is due to differences among states. In some states the property tax, for example, is collected by both local and state governments, whereas in other states it is only collected by local government. To meaningfully compare property taxes across states, all property taxes, both state and local, must be included.

This paper begins with a general comparison of Texas state and local taxes with those of other states. Then the major state and local taxes in Texas are compared with those of other states. Generally, the tax information is from fiscal year 1993, because it is the most complete information available. If 1993 data are not available, data from another year are used. While the dollar amount of taxes paid has changed since 1993, in most cases the increases are not dramatic. In addition, no state has had major tax reform since that time, so the relative ranking of states has remained fairly stable.

Texas has had one tax reform since 1993 that should be noted. In 1993 manufacturing firms paid sales taxes on machinery, equipment, and raw materials. Since 1995 these items are exempt from sales taxes. For the 1998-1999 fiscal year these exemptions are expected to total approximately $7 billion (House Research Organization). This change is not likely to significantly affect the relative ranking of Texas because of other changes in the sales tax, such as increases in sales tax rates by local governments.

Each comparison made in this paper provides the national per capita tax or the national average tax per $1,000 of personal income. The national per capita tax was calculated by summing the total taxes paid across all states and dividing by the national population. The national average tax per $1,000 of personal income was summed as above and divided by national personal income. The median tax and the state with that tax are also presented. The median is defined as the halfway point. Half of 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 that state which ranks twenty-sixth. The tables for each tax also report the highest and lowest tax amount and the state for each. In addition, the dollar value of the tax for Texans and the relative rank of Texas among the fifty states and the District of Columbia is reported.

Overview of State and Local Taxes in the United States

While there are many similarities in tax structures among states, there are some important differences also. The most significant differences among states are whether or not they have: 1) a general sales tax, 2) an individual income tax, and 3) a corporate income tax. In all states property, gasoline, tobacco and alcohol are taxed. In some states these are taxed by the state, in others by local governments, and in still others by both.

In 1993 Alaska, Delaware, Montana, New Hampshire, and Oregon had no general sales tax (Table E22, Fleenor). Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming had no individual income tax. New Hampshire and Tennessee tax only interest and dividend income and are often listed among the states without an individual income tax (Tables E22 and E23, Fleenor). Nevada, Texas, Washington, and Wyoming have no corporate income tax (Tables E22 and E25, Fleenor). These four states also have no individual income tax. In addition, South Dakota does not have a broad-based corporate income tax, but does tax banks (Table E25, Fleenor).

Because states choose not to impose certain taxes, often they must impose higher rates for other taxes. For example, Texas, without an individual or corporate income tax, has one of the highest sales taxes and also imposes one of the highest property taxes (Table E37, Fleenor).

Total State and Local Taxes

State taxes in Texas include the general sales and motor vehicle and manufactured-home taxes, the motor fuels tax, and the corporate franchise. These taxes provided 85 percent of state tax revenues in 1996 (Jones, Stallmann, and Tanyeri-Abur). 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 (House Research Organization). Local governments may also impose, within state regulated limits, a general sales tax, a hotel/motel tax, and a mixed-drink tax.

Texas ranked thirty-fifth in the nation in state and local taxes per capita (Figure 1). The average Texan paid $1,933 in all state and local taxes for fiscal year 1993 (Table 1). This is below the national average of $2,300 per capita, and below the median of $2,126 per capita. Thus, Texas is often described as a low tax state. The lowest tax state is Mississippi at $1,535, and Alaska is the highest at $4,929. It is important for the reader to recall that per capita state and local taxes include both individual and business taxes. In the case of Alaska, oil and mineral taxes, most of which are exported to fuel consumers in other states, are a substantial part of state tax revenues.

Table 1: State and Local Taxes, Fiscal 1993

	Tax Per Capita and State	**Tax Per $1000 of Personal Income and State**
United States Average	$2300	$108
Median	2126 Kansas	106 Maryland
Maximum	4929 Alaska	216 Alaska
Minimum	1535 Mississippi	87 Missouri
Texas Average and Rank	1933 35	99 40

Source: Table D25, p.151; Table D26, p.152, Fleenor

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). Texas ranks fortieth in state and local taxes per $1,000 of personal income. By either measure, it qualifies as a low tax state (Figure 2). It is interesting to note that Alaska has the highest per capita tax and also ranks highest in taxes per $1,000 of income. A large share of Alaska's taxes are oil and mineral severance taxes, however, so much of the tax burden is exported from the state to fuel consumers elsewhere. Mississippi, which has the lowest per capita tax, ranks thirty-first in terms of 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 the mix of taxes in the state. Because it has neither a personal income tax nor a corporate income tax, Texas relies heavily on sales taxes and property taxes. These taxes may have larger impacts on some sectors of the economy than others, reducing the competitiveness of the most affected sectors. In addition, the heavy reliance 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 (Jones, Stallmann, and Tanyeri-Abur).

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 (Delaware, Iowa, New York, South Dakota, Tennessee, Texas and Utah) and many more have only a minimal or selective property tax (Table E29, Fleenor). In Virginia, for example, the state taxes railroad property (Spar).

Another difference among states, and even among local governments within a state, are the exemptions and special treatments for property taxes. For example, some states give exemptions for some portion of the value of a home. In Texas the constitution recently was amended to provide a $15,000 exemption on homes for the school property tax. Homeowners over 65 years of age may also receive special exemptions and local school districts may give home owners additional exemptions (House Research Organization). City and county property tax exemptions may be given to some businesses (Report of the Staff Work Group).

State and local property taxes in the U.S. average $731 per capita. The $748 per capita property tax in Texas, which is a local property tax only, exceeds the national average (Table 2). Texas ranks twentieth in property taxes per capita (Figure 3). The District of Columbia per capita property tax, $1,750, is the highest in the nation, and is $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 who do not own property, for example renters, do not directly pay property tax. Renters 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 upon supply and demand

Table 2: State and Local Property Taxes, Fiscal, 1993

	Tax Per Capita and State	Tax Per $1000 of Personal Income and State
United States Average	$731	$34
Median	685 Arizona	33 Washington
Maximum	1750[1] District of Columbia	62 New Hampshire
Minimum	183 Alabama	11 Alabama
Texas Average and Rank	748[2] 20	38 20

Source: Table D25, p. 151; Table D26, p.152, Fleenor

[1] New Hampshire is second with 1412

[2] In Texas all property taxes are local

conditions in the local rental market. In the short run, if there is a high vacancy rate, the landlord may not be able 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 incorporated into rental rates in a typical situation.

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

In Texas property taxes per $1,000 of personal income are $38, twentieth 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; it ranks second in property taxes per capita. Alabama ranks lowest on both measures (Table 2).

Local governments in Texas rely heavily on the taxation of real property. This may reduce the competitiveness of capital-intensive firms. In addition, 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 (Jones, Stallmann, and Tanyeri-Abur).

General and Selective Sales Taxes and Gross Receipts Taxes

As explained earlier in this report, because of differences among states, it is necessary to aggregate similar taxes into categories. The category of sales taxes includes general sales, all selective sales taxes and gross receipts taxes. These taxes are defined 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" (Census Bureau pp.7-8).

Texas does not have a gross receipts tax as many other states do. The general sales tax and the gross receipts tax are aggregated because both are based on the gross receipts from a business activity. In addition, selective sales taxes, such as motor fuels, alcohol, tobacco, public utility, hotel and motel, and mixed drinks taxes, are included in this category.

The major revenue source for state government in Texas is sales taxes. With sales taxes of $951 dollars per capita, Texas ranks ninth 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, $1,511; West Virginia has the median per capita tax, $748; and Oregon has the lowest per capita tax, $196. Hawaii is one of the nation's leading tourism states. Hence, a significant portion of its sales and gross receipts taxes is paid by non-residents.

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 tenth in the nation (Table 3). The national average is $38 of sales and gross receipts taxes per $1,000 of personal income and the national

Table 3: State and Local Sales and Gross Receipts Taxes, Fiscal 1993

	Tax Per Capita and State	Tax Per $1000 of Personal Income and State
United States Average	$813	$38
Median	748 West Virginia	37 Minnesota
Maximum	1511 Hawaii	67 Washington
Minimum	196 Oregon	10 Oregon
Texas Average and Rank	951 9	49 10

Source: Table D25, p. 151; Table D26, p.152, Fleenor

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.

It is not surprising that 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 these tax rates vary within a state, they 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 (Jones, Stallmann, and Tanyeri-Abur).

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

Because the general sales tax is broad-based on consumer goods it does not affect consumer 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.

Table 4: State[1] General Sales and Use Tax Rates, January 1995

	Percent and State
United States Average	N/A
Median	5 13 States
Maximum	7 Mississippi
Minimum	0[2] 5 States
Texas Rate and Rank	6.25 5/6 tie with Illinois

Source: Table E27, p. 203, Fleenor
[1] Many states allow sales taxes as a local option.
[2]Alaska, Delaware, Montana, New Hampshire, Oregon do not have a state-level general sales taxes

The sales taxes businesses pay on their purchases increase their costs, reducing their competitiveness with businesses in other states. Equipment and materials for manufacturing and for farm and ranch use are exempted from sales tax, maintaining the competitiveness of those industries. People with higher incomes pay a lower percentage of their income in sales taxes. Sales taxes are regressive (Jones, Stallmann, and Tanyeri-Abur).

Fuels: The tax on motor fuels is a selective sales tax that is based on the quantity, not on the value, of fuel sold. In Texas the tax is 20 cents per gallon of gasoline (Table 5). Texas ranks twenty-second in gasoline taxes, just above the

Table 5: State and Local Motor Fuels Taxes, Fiscal 1993

	Tax Per Capita and State	**Tax Per Gallon of Gasoline January 1995**
United States 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 Table D27, p.153 B3, p.27; Table E27, p.203; Fleenor
[1] Florida's rate varies by county, above the state rate

median of 19 cents. The tax on gasoline ranges from 38 cents per gallon in Connecticut to 5 cents in Florida. However, the rate for Florida does not reflect that counties can also tax gasoline.

The national per capita fuel tax is $94 and the median is $106. (Table 5). Texas ranks eighteenth in per capita fuel taxes, $116. This may be due in part to the higher than average tax rate and the long distances that drivers drive, resulting in higher fuel consumption and higher total taxes paid. New York has the lowest per capita fuels tax, in part because it has one of the lowest tax rates, 8 cents, and perhaps because large numbers of people in New York City use public transportation.

The state-to-state differences in gasoline taxes are not large, relative to other cost differences. Thus, this tax does not have a major impact on the competitiveness of Texas businesses. The tax is regressive, based on per capital income (Jones, Stallmann, and Tanyeri-Abur). However, fuel taxes are levied on fuel sales for transportation on public roads and people who use the roads more, pay more. In this sense, it is progressive.

Alcohol Taxes: 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 are not labeled separately. In some states, the alcohol tax is a sales tax on the quantity 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 is included in the mark-up. Because some states sell through state stores with a mark-up, a meaningful national average tax per gallon cannot be calculated.

Table 6: State and Local Alcoholic Beverages Taxes Per Capita, Fiscal 1993

	Tax Per Capita and State
United States Average	$15
Median	12 Louisiana
Maximum	39 Florida
Minimum	2 Wyoming
Texas Average and Rank	22 11

Source: Calculated from Tables D27, p. 153, and B3, p.27, Fleenor

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

Tobacco Taxes: The current national and state lawsuits against tobacco companies may have increased interest in the variation in tobacco taxes across the country. It is not surprising that the states in which tobacco is grown have the lowest tobacco tax rates. Virginia has the lowest tax on cigarettes (the most common manner of using tobacco) at 2.5 cents per pack (Table 7). The highest is 81.5 cents per pack in the state of Washington. The national median is 31.5 cents. Texas ranks fifteenth in the nation with a per pack cigarette tax of 41 cents.

Even though Washington has the highest per pack tax, it is Maine that has the highest per capita cigarette tax, $40 (Table 7). Maine has a tax per pack of 37 cents.

Table 7: State and Local Tobacco Taxes, Fiscal 1993

	Tax Per Capita and State	Tax Per Pack of 20 Cigarettes, January 1995
United States 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 Table D27, p. 153; Tables E27, p.203, and B3, p.27, Fleenor

The lowest is $4 per capita in the state of Kentucky, which has a tax per pack of 3 cents, the second lowest tax per pack (Table E27, Fleenor). The per capita tax in Texas is $34, ranking Texas ninth in the nation.

As with sales taxes, few consumers cross state lines to purchase alcohol and tobacco, so the competitiveness of Texas retailers is not affected. These taxes are the most regressive taxes in the Texas tax system (Jones, Stallmann, and Tanyeri-Abur).

Corporate Income Tax

The national 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 do not have a corporate income tax (Table E22, Fleenor). South Dakota does not have a broad-based corporate income tax, but does tax the net income of banks (Table E25, Fleenor,).

Table 8: State and Local Corporate Income Taxes Per Capita, Fiscal 1993

	Tax Per Capita and State	Tax Per $1000 of Personal Income and State
United States Average	$103	$5
Median	67 Kentucky	3 Alabama
Maximum	1458 Alaska	64[3] Alaska
Minimum	0[1] 5 states[2]	0 5states
Texas Average and Rank	0 N/A	0 N/A

Source: Table D25, p. 151; Table D26, p.152, Fleenor
[1] Of states with a corporate income, Missouri's tax is lowest at $37 per capita
[2] Nevada, Texas, Washington and Wyoming. South Dakota taxes only banks.(Table E25, pp.199-200, Fleenor)
[3] Next highest is New York with $10

The national average corporate income tax per $1,000 of personal income is $5; ranging 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.

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 to limited-liability companies. The Texas corporate franchise tax has two separate bases and a separate tax rate applies to each base. A tax rate of $2.50 per $1,000 of dollars 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 levies. Twenty five states have a tax similar to the franchise tax in Texas (Kraemer and Newell).

There is wide variation in the corporate franchise tax per capita. The tax ranges from $407 per capita in Delaware to 30 cents in Idaho (Table 9). The state with the second highest rate is Pennsylvania with $77 per capita. Three states--North Dakota, Utah and District of Columbia--do not have a corporate license tax. One reason for the wide variation is that in some states this is a tax, while in others it is a nominal fee. Texas ranks third in the nation with a corporate franchise tax of $68 per capita. In comparison the national average is $18 per capita and the median is $4 per capita.

There is also a wide range in the corporate franchise tax per $1,000 of personal income. 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 other states without a corporate income tax, Nevada, South Dakota, Washington and Wyoming, have much lower corporate franchise taxes, less than $7.00 per capita.

Combined 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 summed together for each state (Figure 8). When this is done, Alaska still ranks first in

Table 9: Corporate Franchise Tax, Fiscal 1993

	Tax Per Capita and State	Tax Per $1000 of Personal Income and State
United States Average	17	$.79
Median	4 Georgia	.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: Calculated from Tables E37, p.219-220; B3, p.27 and B11, p.35-36, Fleenor

[1] Pennsylvania ranks second with $77

[2] North Dakota, Utah, District of Columbia

[3] Louisiana ranks second with less than $4.00

Table 10: Combined Corporate Income and Franchise Taxes, Fiscal 1993

	Tax Per Capita and State	Tax Per $1000 of Personal Income and State
United States Average	$119	$6
Median	78 Ohio	4 Arkansas
Maximum	1460 Alaska	64 Alaska
Minimum	2 Washington	.08 Washington
Texas Average and Rank	68 33	3 33

Source: Calculated from D23, p.149; E37, pp.219-220; B3, p.27; and B11, pp.35-36, Fleenor.

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 thirty-third in the nation.

Texas also ranks thirty-third in combined corporate income and franchise taxes per $1,000 of personal income (Table 10). Alaska, once again 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 when compared with the corporate income tax in other states (Jones, Stallman, and Tanyeri-Abur).

The Texas corporate franchise tax is paid only by corporations and limited-liability companies. Other businesses producing the same products or services do not pay the tax, giving them a cost advantage. Since both corporations and non-corporations must sell products in a competitive market, at similar prices, those corporations with non-corporate competitors cannot pass this tax forward to consumers by adding it to the price of their products. This gives un-incorporated businesses a competitive advantage in the market place.

This is likely to have two effects in the economy. First, corporations paying the franchise tax earn less profit per unit than those businesses that are not taxed. This affects the quantity of funds available for distribution to shareholders, reinvestment or other uses. The second effect is that businesses with corporate franchises may respond to the cost disadvantage of the tax and re-structure the business into an organization that is not subject to the tax. Of course, larger corporations may be unable to take this option, but the franchise tax may affect the development of new and/or small corporations.

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. Even though the tax is paid by the mineral producer, the tax (or a portion of the tax) may be added to the mineral selling price. The ability of producers to export the tax is dependent upon the competitiveness of national and international markets in the mineral. For example, oil moves internationally from many sources to many consumers. Since all producers must sell at the international price of oil, producers in a given area cannot pass along a new severance tax unless they are very low-cost producers. In other minerals, say diamonds, there are very few sources of supply and limited competition in the market. In this case, 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 and out-of-state residents.

The importance of severance taxes ranges from about 2 percent of state revenues in Texas to 71 percent in Alaska (Hanson). Alaska has the highest per capita severance tax of $1,881 (Table 11). However, it is likely that much of this tax is exported to residents outside Alaska. Texas ranks ninth with a per capita tax of $65. Seventeen states do not have a severance tax.

Table 11: State Severance Taxes, Fiscal 1993

	Tax Per Capita and State	Tax Per $1000 of Personal Income and State
United States Average	$19	$.0009
Median	.83 Ohio	.000004 Ohio
Maximum	1881 Alaska	.14 Alaska
Minimum	0[1] 17 states	0 17 states
Texas Average and Rank	65 9	.0002 17

Source: Calculated from E40, p.225; B3, p.27; and B11, p.35-36, 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 does not have a personal income tax. Other states without an individual income tax are: Alaska, Florida, Nevada, South Dakota, Washington, and Wyoming (Figure 10). New Hampshire and Tennessee also do not have a broad-based income tax, but do tax interest and dividend income (Table E22, Fleenor). 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. The minimum, of the states that have a broad-based individual income tax, 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 that have a broad-based

Table 12: State and Local Individual Income Taxes, Fiscal 1993

	Tax Per Capita and State	Tax Per $1000 of Personal Income and State
United States Average	$478	$23
Median	491 Georgia	24 South Carolina
Maximum	1037 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: Table D25, p. 151; Table D26, p.152, Fleenor

[1] The lowest of states that have 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.

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. While the absence of an individual income tax is often used as a selling point for Texas, in fact reliance on sales taxes for state revenue increases the federal income tax that Texans pay. The federal government allows state income taxes paid to be deducted from federal taxable income, lowering the federal tax paid. This affects the competitiveness of the state because that money leaves the state rather than being spent by consumers on products and services within the state.

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:

When compared with state and local taxes in other states, Texas ranks as a low-tax state. However, Texas ranks high on certain taxes, particularly the sales tax and the property tax. Texans have chosen not to impose a personal income tax, nor a broad based corporate income tax. Texas does impose a corporate license or franchise tax on corporations and limited liability companies. While this is not a nominal tax, Texas still ranks low when compared with other states on the combined corporate income and license taxes.

There are many taxes that are paid by businesses in addition to the corporate income tax. These include 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 necessary in order to determine the impact of the state’s tax structure on the competitiveness of its businesses.

Despite the relatively low state and local taxes paid by Texans, 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. While the overall tax burden is relatively low, the burden of these two taxes ranks relatively high. In addition the burden of these two taxes may disadvantage certain types of businesses.

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