Missouri State and Local Taxes and Revenues

A Fifty-State Comparison for 2002

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MISSOURIANS pay less in total state and local taxes than do residents of most other states. Taxation, however, is a continuing subject of debate within the state and also nationally. Taxes are not the only source of revenues for state and local governments. Most governments charge fees for some activities or services, such as a fishing license, water service or university tuition. Governments also use nontax revenues, such as lotteries, revenues from legal settlements and revenues received from the federal government. Governments also may issue debt for capital projects.

The objective of this report is to provide basic information to the citizens of the state about Missouri's state and local revenues, with emphasis on the tax system. The report also ranks Missouri among the 50 states and compares it with the national average and the median. Half of the states fall above the median and half fall below. Because there are 50 states, the median falls between the states ranked 25th and 26th.

Missouri is considered a relatively low-tax state when compared with all states in the United States. In 2002 it ranked 42nd in state and local taxes as a percentage of personal income. In 1997 Missouri ranked 43rd in state and local taxes as a percentage of personal income. Tax as a percentage of personal income is often used as a measure of tax effort.

Among the 30 industrialized countries that are members of the Organization for Economic Cooperation and Development, the United States ranks fourth lowest in taxes as a percentage of gross national product. All federal, state and local taxes are 28.9 percent of gross national product. Only Japan (27.3 percent), Korea (27.2 percent) and Mexico (18.9 percent) rank lower (OECD, 2005).

Not only is the overall level of taxes in a state important, but also the mix of taxes. A heavy reliance on one

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Missouri at a glance

The major source of revenue for the state of Missouri is the individual income tax. For local government the major source of revenue is the property tax, but this varies by type of local government.

The state and local tax system of Missouri is regressive. Lower income families pay a higher percentage of their income in state and local taxes than do higher income families.

Among the 50 states, Missouri ranks

- 42nd in state and local taxes as a percentage of personal income. Missouri citizens pay on average 9.52 percent of their personal income. This is below the national median of 10.41 – 10.39 percent. In 1997 Missouri ranked 43rd at 9.6 percent of personal income in state and local taxes. Of its neighbors, only Tennessee (49th) ranks lower than Missouri in taxes as a percentage of personal income.
- 35th in state and local taxes per capita. The average Missouri citizen paid $2,667 in all state and local taxes for fiscal year 2002, below the national median of $2,941 – $2,837. In 1997 Missouri ranked 36th in taxes per capita.
- 22nd in sales taxes (all general and selective sales taxes) as a percentage of personal income, 3.80 percent, and 27th in per capita sales taxes.
- 24th in individual income tax as a percentage of personal income, 2.47 percent, and 21st per capita.
- 38th in corporate income plus franchise taxes as a percentage of personal income, 0.20 percent, and 36th per capita.
- 39th in property taxes as a percentage of personal income, 2.44 percent, and 37th in property taxes per capita.

In other revenues Missouri ranks

- 37th in miscellaneous general revenues as a percentage of personal income.
- 40th in debt outstanding as percentage of personal income, 15.26 percent, and 40th per capita, $4,276.
- 22nd in federal revenues as a percentage of personal income, 4.61 percent, and 22nd in federal revenues per capita, $1,293.

type of tax may disadvantage particular individuals or businesses. Because it is a relatively low-tax state and does not rank among the highest on any single tax, the state should be competitive for business.

Missouri's mix of state and local taxes, however, results in a tax system that is regressive — that is, low-income families pay a higher percentage of their income in state and local taxes than do higher-income families. According to analysis for 2002 by the Institute on Taxation and Economic Policy, the lowest-income Missouri families paid about 9.9 percent of their income in state and local taxes while the highest income families paid about 8.8 percent (Table 1). When the federal, state and local tax deductions available for those who itemize on their federal taxes are taken into account, the lowest-income families still pay 9.9 percent of their income in state and local taxes while the highest-income families pay 7.5 percent. This analysis includes only non-elderly families and does not include fees, licenses and charges for services.

This report uses data from the 2002 Census of Governments, the most complete and consistent set of data available across all states. Although dollar amounts of taxes have changed since 2002, the relative ranking of states has probably not changed substantially, because no state has had a major reform of its tax system. Given ongoing budget concerns in many states, some states may reform their tax systems in the near future.

Missouri state taxes

Missouri state taxes in 2002 included the following:

- the individual income tax
- sales and gross receipts taxes
- corporate income tax, franchise tax
- liquor tax, utility revenue
- estate/inheritance tax

Missouri state revenues

In 2002 state revenue sources other than taxes included the following:

- federal revenues
- interest and investment income
- licenses, fees, permits, fines and penalties
- net lottery proceeds
- bond sales

For the state of Missouri, income and sales taxes provided 51.6 percent of state revenues in 2002, while in 1980 they provided 58.6 percent of state revenue (Figure 1). Since 1980 there have been other changes in the sources of state revenues. Miscellaneous revenues grew from 0.0 percent of total Missouri state revenues in 1980 to approximately 5.0 percent in 2002. Contributions and intergovernmental aid increased from 32.8 percent in 1980 to almost 39 percent in 2002. Other revenues have remained relatively constant.

Historically, as economies change, a given tax system may no longer provide sufficient revenues and tax

Table 1. Missouri state and local tax incidence by income group, 2002.

Income group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%
Income range	Less than 16,000	16,000–30,000	30,000–48,000	48,000–77,000	77,000 or more
Average income in group	$8,900	$19,900	$32,900	$52,800	$132,755
Sales and excise taxes	7.1	6.0	5.0	4.2	2.8
General sales – individuals	4.1	3.7	3.2	2.8	1.8
Other sales and excise – individuals	1.0	0.7	0.5	0.4	0.3
Sales and excise taxes on business	2.0	1.6	1.3	1.1	0.7
Property taxes	2.4	1.9	2.2	2.1	2.1
Property taxes on families	2.4	1.8	2.1	2.0	2.0
Other property taxes	0.1	0.1	0.1	0.1	0.2
Income taxes	0.5	1.6	2.3	3.2	3.9
Personal income tax	0.5	1.5	2.3	3.2	3.9
Corporate income tax	0.0	0.0	0.0	0.0	0.0
Total taxes	10.0	9.5	9.5	9.6	8.8
Federal deduction offset	-0.0	-0.1	-0.2	-0.5	-1.3
Total after offset	9.9	9.4	9.3	9.1	7.5

Note: Table shows 2002 tax law at 2000 income levels.
Source: Institute on Taxation and Economic Policy, 2003

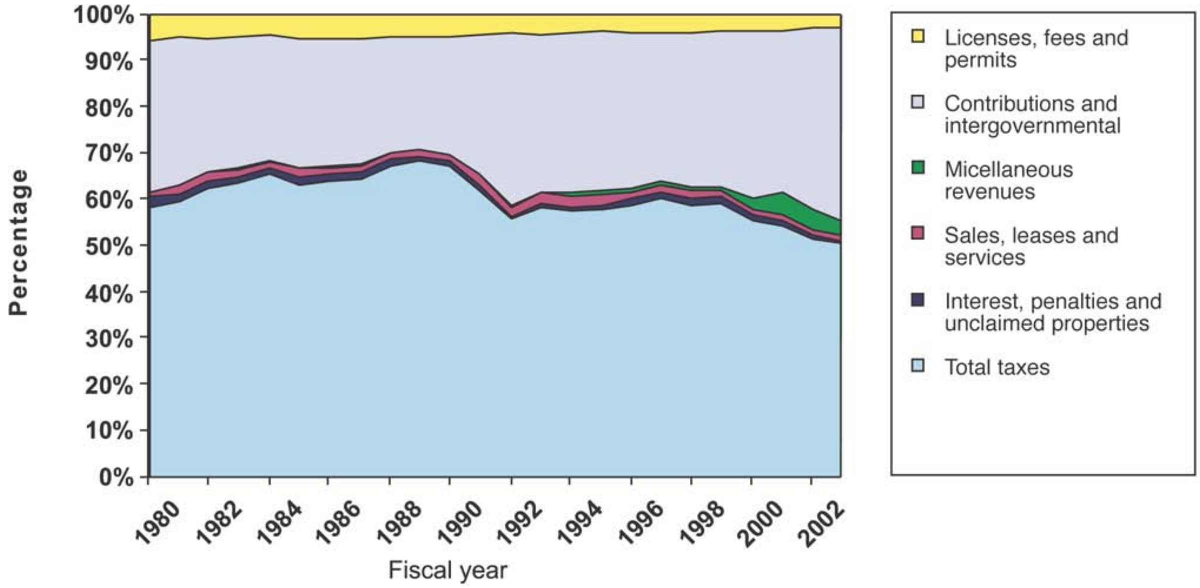

Figure 1. Missouri state revenues by source, 1980–2002.

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, and whether a given tax is restricted to the state or to local governments. In addition, comparing total taxes collected in each state is not useful because states vary in total income and population. To compare taxes among states, this publication uses the following methods:

- 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 governments. To compare property taxes meaningfully across states, all property taxes, both state and local, must be included.
- Tax systems are compared among states by the percentage of personal income paid in taxes. This comparison is useful because incomes vary among states. This is sometimes referred to as tax effort. Tax effort is often used in allocating federal revenues to state and local governments. Government jurisdictions with higher effort may qualify for relatively more federal funds than those with lower efforts.
- Taxes also are compared per resident (per capita) because states have a wide variation in population. The per capita tax is a measure of the taxes for the "average" citizen.
- Because of the wide variety of taxes, similar taxes are aggregated. For example, the Census Bureau aggregates the general sales tax, motor vehicle use tax, hotel and motel tax, other selective sales taxes and gross receipts and excise taxes.
- 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. Data on state tax exports are not available for comparisons across states.
- 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 and that business taxes should be calculated separately. Unfortunately, it is not possible to separate the businesses' share of taxes from the taxes paid by individuals in all cases in all states. In addition, ultimately, all taxes 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 and capital gains taxes on the sale of stocks. Just as not all state residents directly pay property taxes, not all residents directly pay business taxes. The data give an average — some residents pay less (perhaps even zero tax) and others pay more.

systems are modified to fit the new economy. Governments also may look for nontax sources of revenues. In the last 20 years, many states have instituted state lotteries to raise revenues. Governments also may increase fees for services rather than increase taxes. An example is the increase in college tuition nationwide.

Missouri local revenues

Local governments in Missouri rely on a mix of revenue sources. The major tax for both county and municipal governments is the sales tax. Charges are also an important source of revenues for counties and cities (Figure 2).

Local governments in Missouri do not have a personal income tax. The cities of St. Louis and Kansas City, however, do impose an earnings tax on those who work in the city. An earnings tax is based only on wages and salaries and not on other sources of personal income, such as interest and capital gains. Earnings tax revenues are included in miscellaneous revenues for Missouri municipalities.

Federal and state revenues are the largest source of funds for school districts because of state support for public education. Local property taxes are the second largest revenue source for school districts.

Special districts generate most of their revenue through charges and the property tax. Federal and miscellaneous revenues also make up a large share of special districts' revenues. Missouri has more than 1,500 special districts ranging from water, sewer, fire and hospital to Johnson grass control.

The major source of revenue for townships is the property tax. Townships largely use the revenue from this tax for the construction and maintenance of roads.

Overview of state and local taxes

Tax structures among states have many similarities but also some important differences (see "Establishing a basis of comparison"). The most significant difference among states is whether or not they have the following taxes:

- A general sales tax
- An individual income tax
- A corporate income tax

All states tax property, gasoline, tobacco and alcohol at the state or local level or both. Alaska, Delaware, Montana, New Hampshire and Oregon have no general sales tax. Seven states have no individual income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. In addition, New Hampshire and Tennessee tax only interest and dividend income and often are listed among the states with no individual income tax. Nevada, Texas, Washington and Wyoming have neither a corporate income tax nor individual income tax. Although South Dakota has neither an individual income tax nor a broad-based corporate income tax, it does tax banks. Because states choose not to impose certain taxes, they often must impose higher rates on some other tax.

Most state and local governments also have a wide variety of fees, licenses and charges for participating in certain activities. The conceptual difference between a tax and fees, licenses and charges is that fees, licenses and charges are voluntary — they are paid only if the

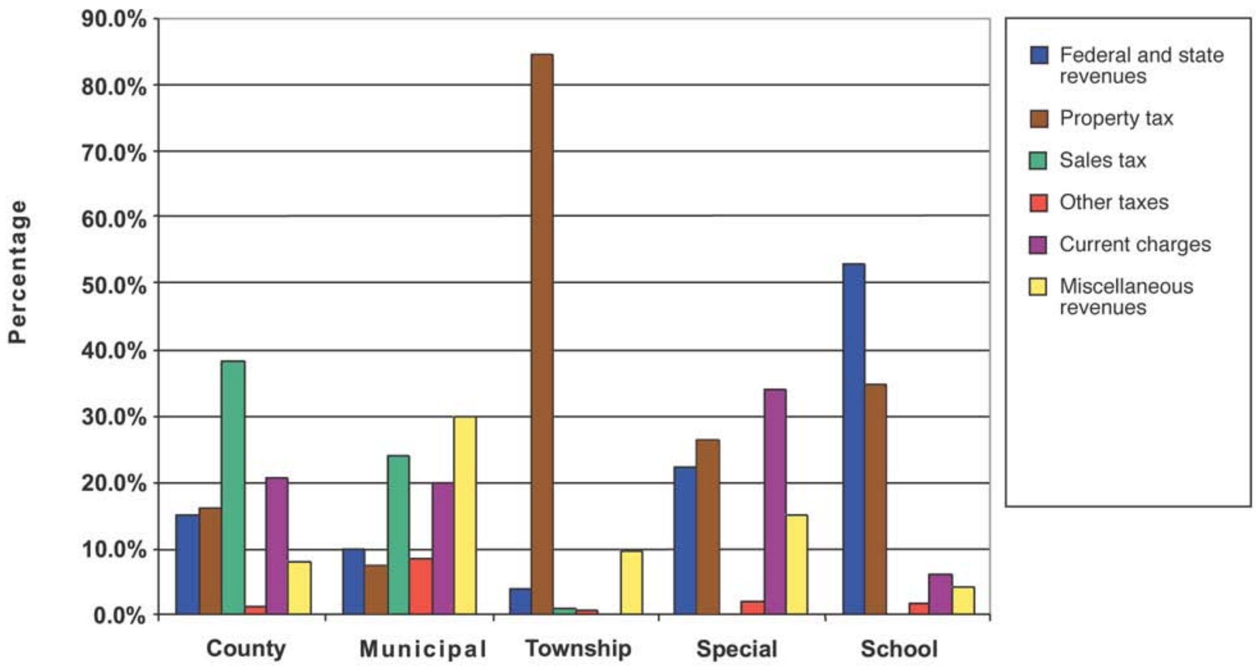

Figure 2. Sources of local government revenues: Percentages for 2002.
Source: U.S. Bureau of the Census, 2002.

person chooses to participate in a particular activity. In practice, the line is not that clear. For example, the cigarette tax is a charge for those who choose to smoke. In addition, the economic impacts of fees, licenses and charges are similar to taxes, and governments may raise a fee to avoid raising taxes. Evidence of this was seen when many states recently raised college tuition and fees rather than raising taxes. For these reasons this publication includes fees, licenses and charges along with taxes in its analysis.

In fiscal year 2002, Missouri ranked 42nd in the nation in state and local taxes as a percentage of personal income (Table 2). Missourians spent 9.52 percent of their personal income in state and local taxes in 2002. (Taxes are reported net of refunds by the Census Bureau data.) Missouri taxes as a percentage of personal income are below both the national average of 10.43 percent and the median, between 10.41 percent in Connecticut and 10.39 percent in Delaware. In 1997 Missourians paid 9.6 percent of personal income in state and local taxes and ranked 43rd in the nation. Maine has the highest state and local taxes as a percentage of income, 13.21 percent (Table 2).

Missouri ranked 35th in per capita state and local taxes in 2002, $2,667 (Table 2). This is $482 less than the national per capita state and local taxes of $3,149. In 1997 Missouri ranked 36th in state and local taxes per capita. Median per capita taxes for 2002 are between $2,941 in Kansas and $2,837 in Iowa. The lowest per capita taxes are in Alabama, $2,170; and the highest are in New York, $4,645. Connecticut ranks 2nd in per capita taxes with $4,373.

Because it is a relatively low-tax state, Missouri generally should be competitive for business, but competitiveness is also affected by a state's mix of taxes and quality of public services. The discussion of individual taxes will show more about the mix of taxes in the state.

Table 2. Total state and local taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	10.43%	$3,149
Median	10.41 - 10.39 Connecticut - Delaware	$2,941 - $2,837 Kansas - Iowa
Maximum	13.21 Maine	$4,645 New York [1]
Minimum	8.37 New Hampshire	$2,170 Alabama
Missouri average and rank	9.52 42	$2,667 35

Source: U.S. Bureau of the Census, 2004

1. Connecticut ranks second with $4,372, New Jersey is third with $4,038, and Massachusetts is fourth with $3,721.

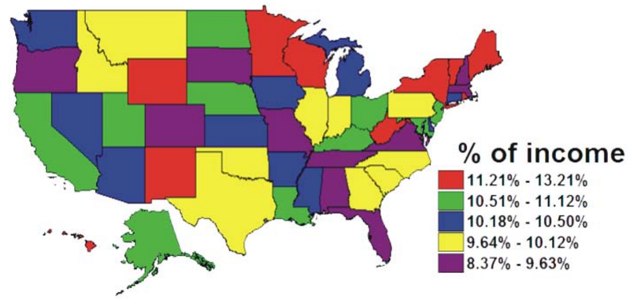

Figure 3. Total state and local taxes as percentage of income.

Property Tax

Property taxes are a major source of revenue for local governments. Eight states (Illinois, Texas, Delaware, Iowa, New York, South Dakota, Tennessee and Utah) have no state property tax. Many more have only a minimal or selective property tax. Virginia, for example, taxes railroad property at the state level only. Missouri has a small state property tax of 3 cents of every $100 assessed valuation on all real estate and tangible personal property in the state. This tax is collected by the counties and paid into the Blind Pension Fund, which is a special state revenue fund.

Another variation among states is whether some part of a home's value is exempt from property taxation by some or all jurisdiction that can tax it. Some states provide various forms of tax relief for homeowners over 65 years old, or for homeowners with special characteristics. Missouri offers a property tax "circuit breaker" for the elderly and disabled through the state income tax. Both homeowners and renters qualify. The credit is based on property taxes relative to income, so some low-income persons may receive a refund from the state for state and local property taxes.

Some businesses receive city and county property tax abatements, as part of economic development activities. Once again there are wide variations among states in how these incentives may be used.

A further difference among states is whether properties are taxed on 100 percent of market value or on a percentage of market value. In some states, different types of properties are taxed on varying percentages of their appraised value. The percentage of the appraised value on which a property is taxed is its assessed value. For states that tax on 100 percent of value, the appraised and assessed values are the same.

Missouri taxes properties on a percentage of their appraised value ("value in money"). The exception is agricultural real property, which is appraised at productive capacity based on the grade of land. Assessed values are a percentage of appraised values (State Tax Commission of Missouri, 2001). Assessed values are calculated for each type of property using the following percentages:

- Real property
  - Residential, 19 percent
  - Agricultural, 12 percent
  - All other real property (utility, commercial, industrial etc.), 32 percent
  - Merchant and manufacturers tax replacement surcharge. Owners of real property assessed at 32 percent also pay a "merchant and manufacturers tax replacement surcharge," which varies widely by jurisdiction.
- Personal property
  - Manufactured homes, 19 percent
  - Farm machinery and livestock, 12 percent
  - Crops (grains), 0.5 percent
  - Vehicles, other, 33.3 percent
  - Historic cars and planes, 5 percent

With property taxes of 2.44 percent of personal income, Missouri ranks 39th in the nation. The state ranked 40th in 1997. The national average is 3.22 percent of personal income (Table 3). Maine has the highest state and local property taxes as a percentage of income, 5.56 percent, and also ranks fourth in property taxes per capita. It is interesting to note that the states that tax property most heavily are in the Northeast (Figure 4).

In 2002 state and local property taxes in the United States averaged $971 per capita. In the same year, the state of Missouri collected $684 per capita in property taxes, ranking 37th. New Jersey property tax per capita is the highest at $1,872. Alabama ranks lowest on both measures, $329 per capita and 1.34 percent of personal income.

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. A state with a relatively high per capita tax and low tax per $1,000 of personal income would indicate a high-income state.

Property taxes are paid directly by property owners. Those not owning property, such as renters, typically pay property taxes indirectly, 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. Property taxes, however, are an integral part of the landlord's cost structure for providing rental space and in the long run must be fully covered by rental income. Hence, the property tax is usually incorporated into rental rates.

The Institute on Taxation and Economic Policy found that in 2002, the property tax in Missouri was regressive (Table 1). Non-elderly families falling in the lowest 20 percent of income paid 2.4 percent of their income in property tax, while families with the highest incomes paid 2.1 percent of their income in property tax.

Table 3. Property tax.

	Taxes as a percentage of personal income	Taxes per capita
United States average	3.22%	$971
Median	3.17% – 3.10% Minnesota – Arizona	$925 – $921 Colorado – Virginia
Maximum	5.56% Maine	$1,872 New Jersey
Minimum	1.34% Alabama	$329 Alabama
Missouri average and rank	2.44% 39	$684 37

Source: U.S. Bureau of the Census, 2004

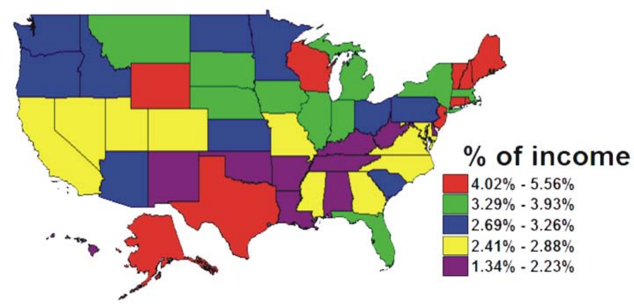

Figure 4. Property tax as percentage of income.

General and selective sales and use taxes, and gross receipts taxes

Because of a wide variety of general sales, selective sales, and use and gross receipts taxes among states, these consumption taxes are aggregated into one category. 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."

The sales tax was originally imposed in Missouri in 1934. It was imposed on the purchaser, not the vendor. In 1965 the tax was changed to a gross receipts tax on the vendor for sales of tangible personal property. Some services are also taxed. For this report, selective sales taxes and excise taxes such as motor fuels, alcohol and tobacco are also included.

Merely comparing the sales tax rate among states does not completely reflect the tax burden, because the burden also depends on how narrow or broad the tax base is. Alaska, Delaware, Montana, New Hampshire and Oregon have no state general sales tax. They do have selective sales, excise, or gross receipts taxes on some specific items such as gasoline, alcohol and tobacco. In some states, the general sales tax applies to all retail sales, including food. In others states, unprepared food and medicines are taxed at a lower rate, or not at all. In Missouri, food is not subject to the 3 percent general sales tax, but is subject to the other state and local sales taxes.

Missouri taxes a limited number of services, including entertainment tickets, lodging, transport tickets, auto rentals, telephone calls and electricity. Texas taxes a wider variety of services, but no state taxes all services. Some states tax particular goods and services, such as hotel rooms and restaurants at higher rates than their general sales tax. Washington has a gross receipts tax with 20 different rates, depending on the type of business activity (Moody, 2003). Tennessee relies heavily on the sales tax and has the highest state sales tax rate in the nation, because it does not have a broad-based personal income tax.

With sales taxes equal to 3.80 percent of personal income, Missouri ranks 22nd in the nation, above the national median between 3.64 percent and 3.61 percent (Table 4). Missouri ranked 21st in 1997. Louisiana ranks highest in sales and gross receipts taxes as a percentage of personal income (Table 4). Louisiana is a major tourist destination and receives sales and gross receipts tax revenues from nonresident tourists. Oregon ranks lowest. Oregon has only selective sales taxes but no general sales tax (Figure 5).

Washington has the highest per capita sales and gross receipts taxes, at $1938 (Table 4). Missouri ranks 27th in per capita sales and gross receipts taxes. In 1997 it ranked 20th. The median per capita sales tax is between North Dakota at $1,086 and Alabama at $1,072. Oregon again ranks lowest at $252 per capita.

Missouri's total sales and gross receipts tax revenues break down as follows:

- General sales 70.25 percent
- Selective sales
  - Motor fuel 11.51 percent
  - Public utilities 5.90 percent
  - Tobacco products 2.05 percent
  - Alcoholic beverages 0.43 percent
  - Other 9.86 percent

In 34 states, local governments can also impose sales taxes. Often the total rate that can be imposed by all local governments in a given geographic area is restricted. This can lead to competition among local governments in the area to raise sales tax rates. Missouri allows local governments to raise sales tax rates for specific purposes, if approved by voters. Technically, there is no cap on the total sales tax rate that a local jurisdiction can impose, but there are caps on taxes that it can impose for specific purposes.

The Missouri state sales tax rate is the lowest among its neighboring states. The local option taxes could affect the competitiveness of its retail, particularly in its two major cities, which sit on the state's borders with Illinois and Kansas. Both of these states, however, also allow local option sales taxes.

Table 4. Sales and gross receipts taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	3.37%	$1,127
Median	3.64% – 3.61% Rhode Island – Iowa	$1,086 – $1,072 N. Dakota – Alabama
Maximum	6.34% Louisiana	$1,938 Washington
Minimum	0.91% Oregon[1]	$252 Oregon
Missouri average and rank	3.80% 22	$1,066 27

Source: U.S. Bureau of the Census, 2004

1. Alaska, Delaware, Montana, New Hampshire and Oregon have no state general sales tax, only selective sales, excise and gross receipts taxes.

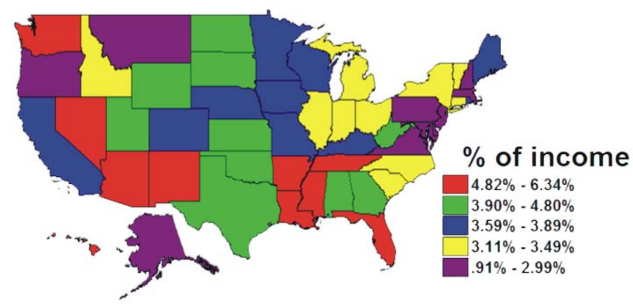

Figure 5. Sales and gross receipts taxes as percentage of income.

The sales taxes that businesses pay on their purchases increase their costs, and could make them less competitive with businesses in other states. Because equipment and materials for manufacturing and for farm and ranch use are exempted from sales tax, those industries can remain competitive.

The Institute on Taxation and Economic Policy estimates that in fiscal 2002, low-income families in Missouri paid 7.0 percent of their income in sales and excise taxes while the highest-income families paid less than 3 percent (Table 1). Lower-income families must spend a high percentage of their income on basic retail goods. Higher-income families spend a lower percentage of their income on basic retail and a higher percentage on services, many of which are not taxed.

Personal income tax

A major difference between state tax systems is whether or not they have a personal income tax. States without personal income taxes include Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming (Figure 6). New Hampshire and Tennessee also have no broad-based income tax, but do tax interest and dividend income. Local governments in 14 states can also impose an individual income tax. In most states, the state (and local) personal income tax is "piggybacked" on the federal income tax to minimize collection costs.

Local governments in Missouri do not have a personal income tax. The cities of St. Louis and Kansas City, however, do impose an earnings tax on those who work in the city. An earnings tax is only on wages and salaries and not on other sources of personal income, such as interest and capital gains.

Nationally, state and local personal income taxes are 2.34 percent of personal income (Table 5). Taxes are reported net of tax refunds. The median personal income tax is between 2.41 percent and 2.43 percent of income. Missouri ranks 24th among the states in personal income tax at 2.47 percent of personal income. In 1997 Missouri ranked 23rd. New York ranks highest in the nation; the personal income taxes are 4.41 percent of personal income.

The national average state and local personal income tax per capita is $706 (Table 5). Missouri ranks 21st at $693 per capita. The median is lower, between $662 and $668 per capita. The highest per capita individual income tax is $1,579 in New York. Of the states imposing a broad-based individual income tax; the minimum is $315 per capita in North Dakota.

Table 5. Personal income taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	2.34%	$706
Median	2.43% – 2.41% Indiana – Kansas	$668 – $662 Nebraska – Vermont
Maximum	4.41% New York	$1579 New York[1]
Minimum	0.09% Tennessee[2]	$25 Tennessee[2]
Missouri average and rank	2.47% 24	$693 21

Source: U.S. Bureau of the Census, 2004

1. Maryland ranks second with $1,402, Massachusetts is third with $1,232, and Minnesota ranks fourth with $1,083.

2. Texas, Alaska, Florida, Nevada, South Dakota, Washington and Wyoming do not have an individual income tax. Tennessee and New Hampshire only tax dividends and interest.

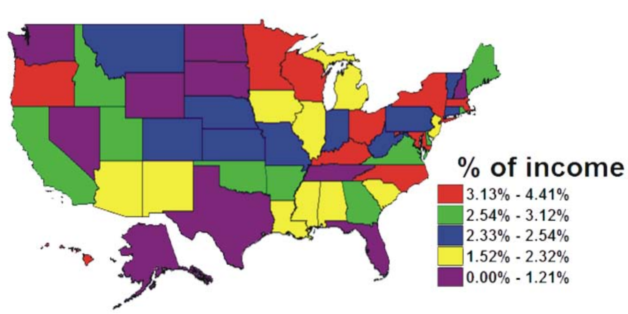

Figure 6. Personal income taxes as percentage of income.

Another difference among states is that some states, including Missouri, allow federal income taxes (or some portion of them) to be deducted from income for state tax purposes. Higher income families are more likely to use this deduction. This deduction reduces the progressive nature of many states' personal income tax. Still, the personal income tax in Missouri is somewhat progressive (Table 1).

The federal personal income tax also allows state income taxes to be deducted from income when calculating federal taxes. States without a personal income tax often rely on the sales tax, which until tax year 2004, was not deductible for federal income tax purposes. As a result, citizens in states without a state personal income tax in the past have paid more federal income taxes.

Corporate income taxes and corporate franchise tax

Corporate taxes are indirectly paid by individuals as stockholders of the corporations. This is because the corporate income tax is paid before dividends, resulting in lower dividends. In addition, stockholders pay federal personal income taxes on dividends at the rate of 15 percent. It is often argued that this double taxation is unfair. But the federal government also taxes earnings twice, through the personal income and the social security tax. Ultimately, all taxes are paid out of personal income so that, indirectly, income is taxed many times.

Four states do not have a corporate income tax: Nevada, Texas, Washington and Wyoming. South Dakota's corporate income tax is not broad-based; it applies only to banks. Only New York has a local, in addition to a state, corporate income tax.

The Census Bureau reports corporate income taxes net of refunds, which takes into account the tax exemptions in the tax code. Missouri's ranking is a combination of tax rates, tax exemptions and credits that are available to businesses. In fiscal year 2002, the Missouri Department of Economic Development (DED) approved $161 million in tax credits, based on Missouri laws (DED, 2003). There are other exemptions and credits not administered by DED. In addition to corporate tax rates, corporate tax revenues can also be influenced by the number and size of corporations in the state.

In addition to the corporate income tax, most states impose a license or franchise tax on corporations for the privilege of doing business within the state. In half of the states this is a nominal fee for a license, but in the other twenty-five states the franchise tax is more a tax than a nominal fee. For example, in Texas, which does not have a corporate income tax, the corporate franchise tax has two separate bases (one is roughly net worth and the other is profits plus executives' income) each with a separate tax rate. Firms must calculate the tax by both methods and pay the higher of the two. North Dakota is the only state without a corporate franchise tax.

In Missouri the corporation franchise tax is paid by corporations that engage in business in Missouri and have assets in, or apportioned to, Missouri of over $1,000,000. The tax is calculated on two bases and the tax on the greater of the two is paid: (1) the total assets of the corporation or (2) the value of its paid-up capital stock. For corporations with assets in more than one state, these are then multiplied by an allocation factor. The allocation factor is the portion of the corporation's total assets that are in the state of Missouri (EPARC and Department of Revenue).

A high corporate franchise tax can affect the economy of a state in two ways. First, 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. Second, incorporated businesses may respond to the cost disadvantage of the tax and restructure 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 or small corporations.

Missouri ranks 38th in corporate income and franchise taxes as a percentage of personal income, 0.20 percent. In 1997 Missouri ranked 34th. Only two of Missouri's neighbors rank lower: Kansas (41st) and Iowa (43rd). Delaware ranks highest on the corporate taxes at 3.04 percent of income (Table 6). The national median is 0.30 percent.

Delaware also ranks first in corporate taxes per capita at $974 (Table 6). Missouri ranks 36th in per capita corporate taxes with $57. Once again, among Missouri's neighbors, only Kansas ($56) and Iowa ($41) rank lower.

Table 6. Corporate income and franchise taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	0.39%	$118
Median	0.30% Arkansas – New Mexico	$77 – $71 Montana – Georgia
Maximum	3.04% Delaware [1]	$974 Delaware [2]
Minimum	0.01% Washington	$3 Washington
Missouri average and rank	0.20% 38	$57 36

Source: U.S. Bureau of the Census, 2004

1. Alaska is second with 1.38 percent and New Hampshire is third with 0.89 percent.

2. Alaska ranks second with $422, and New Hampshire third with $300.

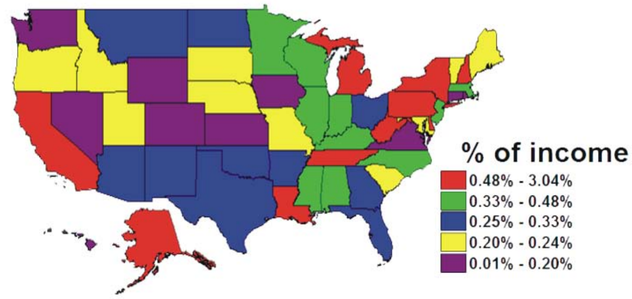

Figure 7. Corporate income and franchise taxes as percentage of income.

In 2002, as in 1997, Washington ranks lowest on the combined taxes because it has no corporate income tax and only a nominal fee for a corporate franchise tax. Instead, it relies on a gross receipts tax with 20 different rates, depending on the type of business activity (Moody, 2003).

In 2002 Missouri ranked 38th in corporate income taxes and 38th in combined corporate and franchise taxes as a percentage of personal income. In 1997 Missouri ranked 38th in corporate income taxes and 34th in combined corporate and franchise taxes.

Because corporate income taxes are low in Missouri, they are a negligible percentage of taxes paid by families of any income level (Table 1).

Licenses and miscellaneous taxes

State and local governments require licenses for many activities. The difference between a license and a tax is that licenses are paid only by those who participate in a particular activity, such as driving a car. As noted above, the difference between the two is often not clear. The corporate franchise tax is classified as a license, but this report notes that in about half of the states it is more than a nominal fee and in some states appears to be a partial substitute for a corporate income tax. This category also includes severance taxes and estate taxes. In Alaska, severance taxes are an important part of the state's revenues. Given recent revisions in the estate tax, the importance of this tax will decline for the next several years. There are also many other small taxes used by states and local governments. Although any given tax may be small, when added together, licenses and miscellaneous taxes contribute substantial revenues to state and local governments.

Because of the range of items included, there is a broad range in the amount that state and local governments collect in licenses and miscellaneous taxes. Licenses and miscellaneous taxes are 3.35 percent of personal income in Alaska because of its oil severance taxes (Table 7). Licenses and miscellaneous taxes are lowest as a percentage of income in Indiana, 0.38 percent. Missouri, ranking 36th, collects just under 0.60 percent of personal income in licenses and miscellaneous taxes (Figure 8). The national median is between 0.70 and 0.78 percent.

Alaska also ranks highest in licenses and miscellaneous taxes per capita. In Alaska, a large part of these taxes are severance taxes on oil. That means that Alaska is exporting a large percentage of this tax to consumers in other states; citizens of Alaska are not paying this tax alone. Missouri ranks 38th in licenses and miscellaneous taxes per capita, and Indiana ranks last. The national median is between $216 and $215 in Kentucky and Iowa, respectively.

Because this category contains a broad mix of fees and taxes, it is difficult to evaluate their impact on the economy of a state relative to other states. Also included in this category are taxes that are tailored to the particular conditions of the state. Severance taxes, for example, are imposed by states with large mineral deposits. Eighteen states do not have a severance tax (U.S. Bureau of the Census, 2004). 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 is usually added to the mineral's selling price and paid indirectly by consumers throughout the nation. The producers' ability to export the tax depends on the competitiveness of the mineral's national and international markets. If the market is competitive, only the lowest-cost producers can pass on the full tax.

Table 7. Licenses and miscellaneous taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	0.75%	$226
Median	0.78% – 0.70% Maryland – Vermont	$216 – $215 Kentucky – Iowa
Maximum	3.35% Alaska [1]	$1,028 Alaska [2]
Minimum	0.38% Indiana	$106 Indiana
Missouri average and rank	0.60% 36	$168 38

Source: U.S. Bureau of the Census, 2004

1. Wyoming is second with 2.93 percent and New Mexico is third with 1.64 percent.

2. Wyoming ranks second with $855, Delaware is third with $512, and North Dakota is fourth with $407.

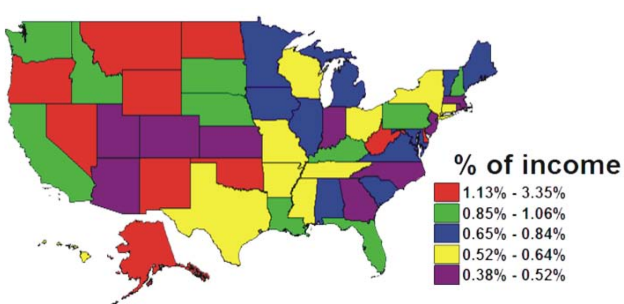

Figure 8. Licenses and miscellaneous taxes as percentage of income.

Miscellaneous general revenues

Miscellaneous general revenues include various revenue sources that can vary from state to state and from year to year. This revenue consists of sources such as interest earnings, special assessments, sale of property and legal settlements. The net proceeds of the lottery also are included in this category. Interest earnings are the largest single portion of these revenues (48 percent).

Alaska ranks highest in miscellaneous general revenues at 13.51 percent of personal income (Table 8). Alaska is an extreme case. In Delaware, which ranks 2nd, these revenues are 4.05 percent of personal income. Missouri ranks 37th with these revenues equal to 1.72 percent of personal income (Figure 9).

In fiscal year 2002, Missouri's miscellaneous general revenues included

- Interest earnings 48 percent
- Special assessments 0.6 percent
- Sale of property 0.5 percent
- Other 50.9 percent
  (includes net lottery revenue)

Table 8. Miscellaneous general revenue.

	Revenues as a percentage of personal income	Revenues per capita
United States average	1.91%	$578
Median	1.94% – 1.92% Arkansas – Kansas	$564 – $554 Ohio – New Hampshire
Maximum	13.51% Alaska [1]	$4,140 Alaska [2]
Minimum	1.14% Tennessee	$305 Tennessee
Missouri average and rank	1.72% 37	$481 39

Source: U.S. Bureau of the Census, 2004

1. Delaware is second with 4.05 percent.

2. Delaware is second with $1,298, Wyoming is third with $1,037, and New Mexico is fourth with $883.

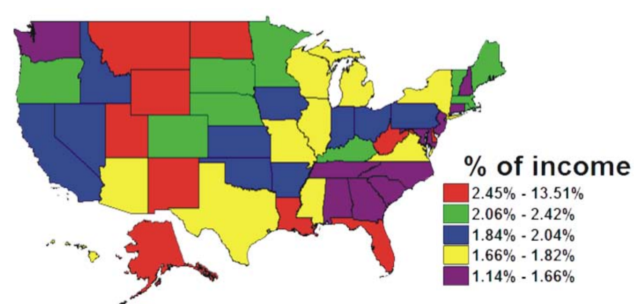

Figure 9. Miscellaneous general revenues as percentage of income.

Current charges and enterprise revenues

State and local governments charge for some services and products within state institutions, such as laboratory fees, education fees and tuition, dormitory charges, public hospital care, highway tolls, rent from public housing, park entrance fees, etc. In addition, state and local governments may operate enterprises, such as utilities or liquor stores that provide revenues, beyond the costs of the enterprise, to the government. Taxes on these enterprises, such as the alcohol tax or a tax on utilities, are included in the sales and gross receipts taxes above; they are not included here.

Although the charges are for specific goods or services provided by the government, some of these services are also supported in part by taxes. Thus, if tax revenues fall, the government may increase the charges for these goods and services. A clear example of this is the number of states that raised college tuition in recent years and reduced tax funding of public colleges and universities. Thus, looking only at taxes does not give a complete picture of how one state compares with another because one may rely more heavily on tax revenues and the other may rely more on charges.

Unlike some states, Missouri does not have state liquor stores. Missouri ranks 41st in current charges and enterprise revenues at 3.22 percent of personal income (Table 9). Nebraska ranks the highest with 7.64 percent of personal income (Figure 10). The national median is between 4.15 and 4.03 percent of personal income in Arkansas and New York, respectively.

Nebraska also ranks highest in charges and enterprise revenue per capita with $2,189. Washington is second with $1,938. The median is between $1,157 and $1,152, Pennsylvania and Michigan. Missouri is 42nd with $903.

Missouri's current charges and enterprise revenues and their percentages of total state and local current charges and enterprise revenues are as follows:

Charges:

Education	27.8 percent
Hospitals	22.1 percent
Sewerage and solid waste management	9.0 percent
Transportation fees	5.4 percent
Parks and recreation and natural resources	2.0 percent
Housing and community development	1.0 percent
Other	8.6 percent

Utilities:

Electric power	12.3 percent
Water supply	9.0 percent
Gas supply	2.0 percent
Transit	less than 1 percent

Table 9. Current charges and enterprise revenues.

	Taxes as a percentage of personal income	Taxes per capita
United States average	4.16%	$1,255
Median	4.15% – 4.03% Arkansas – New York	$1,157 – $1,152 Pennsylvania – Michigan
Maximum	7.64% Nebraska	$2,189 Nebraska
Minimum	1.56% Connecticut	$647 Rhode Island
Missouri average and rank	3.22% 41	$903 42

Source: U.S. Bureau of the Census, 2004

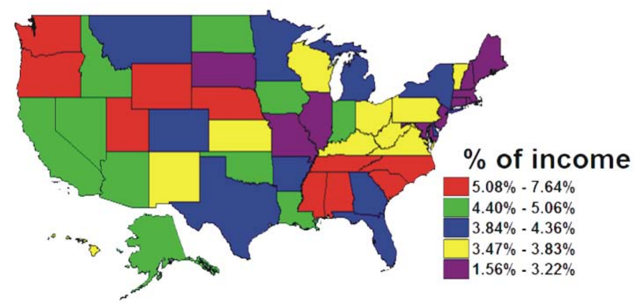

Figure 10. Current charges and enterprise revenues as percentage of income.

It is difficult to evaluate the effect of these charges and enterprise revenues on the competitiveness of the state's economy because they vary so much by state. For example, this ranking is influenced by how many utilities are privately versus publicly owned in a state. In addition, the category includes such things as liquor store revenues, which probably do not affect the competitiveness of the state, but could have an impact on the profitability of restaurants and bars. Missouri does not own state liquor stores. On the other hand, consumers have little choice on utilities, and the cost of utilities affects the competitiveness of businesses. Continued utility deregulation will affect utility costs in the future. No analysis of the impact of these enterprises and charges on families of different incomes is available.

Debt outstanding

In addition to tax revenues and revenues from licenses and charges, governments may also borrow. Just as consumers borrow to buy a house, it may be reasonable for governments to issue bonds to fund capital projects like roads, buildings, bridges, etc. The borrowed funds plus the interest are repaid by future taxes and charges. Thus, measures of debt can be important in comparing states as they provide some indication of future revenue needs.

Alaska ranks highest in state and local debt as a percentage of personal income. It is about 16 percentage points higher than New York, which ranks second. Alaska's high rank may in part be the result of being a large state with a small population and the need to maintain public infrastructure under severe conditions. Missouri ranks 40th in the nation on debt outstanding as a percentage of personal income (Table 10). Missouri's neighbor Iowa ranks lowest on debt as a percentage of income. Four of Missouri's neighboring states, Kentucky (3rd), Illinois (15th), Kansas (36th) and Nebraska (38th), rank higher than Missouri while the remaining four neighbors rank lower.

Alaska also ranks highest in debt per capita. It holds $3,182 more in debt per capita than second-ranking New York. Missouri again ranks 40th in debt per capita, and Idaho ranks lowest.

Table 10. Debt outstanding.

	Debt as a percentage of personal income	Debt per capita
United States average	19.43%	$5,867
Median	18.46% – 18.28% Maine – Montana	$4,915 – $4,901 Vermont – Maine
Maximum	44.02% Alaska [1]	$13,488 Alaska [2]
Minimum	11.88% Iowa	$2,967 Idaho
Missouri average and rank	15.26% 40	$4,276 40

Source: U.S. Bureau of the Census, 2004
1. New York ranks second with 28.80%.
2. New York ranks second with $10,306, Massachusetts third with $10,172, and Connecticut fourth with $8,028.

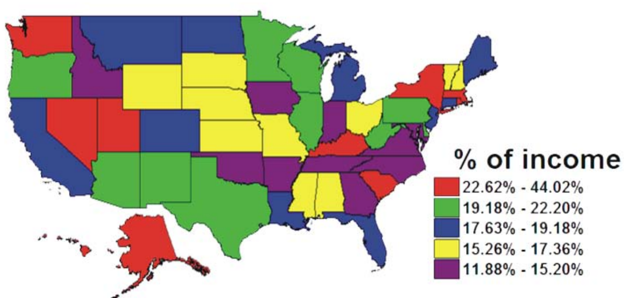

Figure 11. Debt outstanding as percentage of income.

Federal revenues

The final major source of revenues for state and local governments is revenues from the federal government. These revenues are usually designated for specific programs that the state or local government administers for, or in partnership with, the federal government, such as highway and airport funds, healthcare, and income maintenance programs. Some of federal funds, such as Medicaid, are received in proportion to the amount of state money spent on the program. Other revenues, such as community development block grants, are not directly tied to use in a specific federal program. Federal revenues also include payments-in-lieu-of-taxes on federal property and federal grants for projects such as water systems and sewers (U.S. Bureau of the Census, 2000). These revenues do not include federal expenditures on programs managed by the federal government, such as military bases and projects managed by the Corps of Engineers, nor does it include payments by the federal government directly to individuals and institutions, such as Social Security and Medicare.

Missouri receives revenues from the federal government equal to 4.61 percent of personal income, ranking 22nd in the nation. In 1997 Missouri ranked 38th in the nation. For most states a small change in federal revenues received can cause a noticeable change in rankings. Alaska receives the most federal revenues as a percentage of personal income, 9.11 percent. Michigan receives the least; federal revenues amount to 2.08 percent of personal income.

On average, the federal government provides $1,245 per capita in revenues to state and local governments. Missouri receives more than this, $1,293 per capita, and ranks 22nd in the nation on a per capita basis (Table 11). In 1997 Missouri ranked 42nd in the nation. Alaska receives the most per capita, $2,791, and Michigan receives the least per capita, $615.

To evaluate the impact of federal revenues, it is not enough to compare the relative rank of states on revenues received. It is also necessary to compare the taxes and fees that the citizens and businesses in each state send to the federal government. In other words, such an evaluation requires the use of net, rather than gross, revenues.

Table 11. Federal revenues.

	Revenues as a percentage of personal income	Revenues per capita
United States average	4.15%	$1,245
Median	4.36 – 4.35 Hawaii – Idaho	$1,235 – $1,233 Iowa – North Carolina
Maximum	9.11 Alaska	$2,791 Alaska
Minimum	2.08 Michigan	$615 Michigan
Missouri average and rank	4.61 22	$1,293 22

Source: U.S. Bureau of the Census, 2004

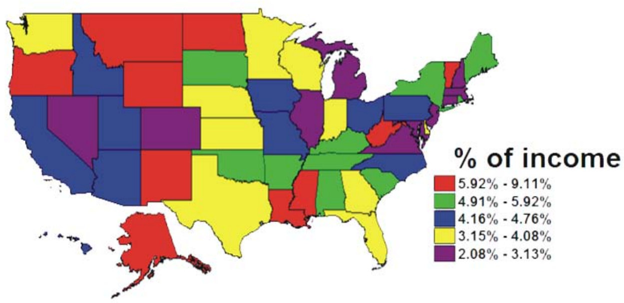

Figure 12. Federal revenues as percentage of income.

Summary

The United States ranks low on taxes compared with 30 other industrialized countries. Compared with the state and local taxes paid by the average U.S. resident, Missouri taxes are relatively low. The state ranks 42nd in the United States on state and local taxes as a percentage of personal income. In 1997 the state ranked 43rd. The state ranks 35th on state and local taxes per capita. In 1997 it ranked 36th. Of its neighbors, only Tennessee ranks lower than Missouri in taxes as a percentage of personal income. Despite its relatively low rank on state and local taxes, taxation continues to be a major issue in Missouri.

In addition to its low overall rank, Missouri does not rank exceptionally high on any given tax. Thus, in general, the state should be competitive with other states to retain and attract businesses.

The Missouri state and local tax system is regressive. The Institute on Taxation and Economic Policy estimates that in fiscal 2002, the lowest-income, non-elderly families in Missouri paid about 9.9 percent of their incomes in state and local taxes compared with about 7.5 percent by the very highest-income, non-elderly families. While this analysis does not include all of the taxes, licenses, and charges, those included account for the vast majority of tax revenues for Missouri state and local governments and for the state and local governments of all 50 states.

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