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Comparing Taxes Across States

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People who like to complain about taxes—and that's almost everyone—look for evidence to support their contention that they are particularly and unfairly overburdened. Maybe they are in a higher income tax bracket than their neighbors, or their school district has a higher mill rate, or their cigarettes are taxed at a higher rate than in other states (not a problem so far in South Carolina). Before 2000, South Carolinians complained about property taxes on their cars that were, in fact, high in comparison to other states. That complaint did bring some relief in the form of a lower assessment rate on cars.

While it's true that the particular mix of taxes used by a state and its local governments will affect families in different ways, depending on age, family size, income, spending patterns, and other factors, the most honest and accurate way to compare taxes from one state to another is to look at the total tax burden. Property, sales, excise, and income taxes—add them up. It's important to include local taxes, because a state with relatively low state taxes, like Tennessee, usually leans pretty hard on the property tax to fund education.

The Tax Foundation makes that calculation each year in order to rank states on two measures, state and local taxes as a percent of state personal income and taxes per capita.[1] According to the Tax Foundation, South Carolina ranked 37th among 50 states and the District of Columbia in taxes as a percent of income in 2008. South Carolina's 8.8% of income paid in state and local taxes was lower than the U.S. average of 9.7%. Georgia ranked 16th at 9.9% and North Carolina ranked 20th at 9.8%.

Our two neighboring states with no broad-based individual income tax, Florida and Tennessee, paid a smaller percentage of income in taxes—7.4% in Florida and 8.3% in Tennessee. Alaska had the lowest taxes as a share of income (6.4%) because the state has a lot of natural resource-based nontax revenue to support public services. At the opposite end of the rankings were the top two states, New Jersey and New York, at 11.8% and 11.7%.

[1] The Tax Foundation, "State and Local Tax Burdens: All States, One Year, 1977-2008", August 7, 2008. www.taxfoundation.org.

If you are trying to measure the "burden" of taxation—how much of their income individuals and households have to sacrifice to the state in order to pay for public services—then this is the correct measure to choose. But often people make their comparisons based on the second measure provided by the Tax Foundation and other sources, taxes per capita. How much tax was collected for each person living in the state? That's an interesting measure, too—one by which South Carolina ranks near the bottom, 46th , followed only by New Mexico, South Dakota, West Virginia, Alaska, and Mississippi. South Carolina collected only $3,127 in state and local taxes per capita in 2008, compared to a U.S. average of $4,283.

But per capita taxes do *not* measure tax burdens. Instead, per capita taxes offer a measure of tax *resources*—how much state and local governments have to work with in trying to fund public services. The cost of public services is largely driven by the number of people to be served. Other factors such as the age distribution (lots of elderly citizens or school children), poverty, population density and climate may figure into the cost of public services, but population is the primary driver of the cost of those services we expect in every state—highways, public safety, public education, parks and recreation, environmental protection, libraries, public health. So it makes sense to compare resources by adjusting for differences in population from state to state. Low per capita taxes, unless they are supplemented by nontax revenue sources such as fees, charges, and revenue from natural resources, are likely to mean low levels of services.

What citizens would like to have, of course, are a low tax burden and a high level of public services. Surprisingly, the state that earned one of the best ratings on that combined measure in 2008 is Massachusetts, which ranked 6th in per capita tax collections but only 23rd in taxes as a percent of income, slightly below the national average of 9.7%. When Massachusetts ranked number one, it was jokingly referred to as "Taxachusetts," but that top rank "honor" now goes to New York and New Jersey. In general, wealthier states tend to rank higher in per capita taxes than in taxes as a percent of income, while poorer states will be the opposite—like South Carolina, which ranks 46th in per capita taxes and 37th in taxes as a percent of income.

What do these two measures tell us about taxes in South Carolina? The first thing both measures tell us is that our taxes are not high, whether you are complaining about the burden or complaining about quality of public services that we get from our below-average collections per capita. The second thing that these two measures tell us is that South Carolina has to try harder than other states to fund essential public services that are vital to a healthy economy and a healthy environment and quality of life, such as K-12 and higher education, infrastructure, and public safety. Our legislature and local governments are under greater than average pressure to spend their tax resources wisely because they don't have a lot to work with. Even if the state increased taxes to the national average as a percent of income, the state would still only have $3,436 per capita to work with, about 81% of the U.S. average.

Neither of these measures gives a full picture of taxation. For example, neither measure tells us how the tax burden is distributed across individuals and households, or how much more or less it may cost to serve different kinds of households or communities. Neither measure gives any indication of where taxes might be increased with relatively little pain, or where tax cuts or adjustments would do the most good in terms of fairness or encouraging economic development. Neither measure tells us anything about the quality and mix of public services that those taxes are being used to fund. But as the newly created Tax Realignment Commission begins its work of reviewing the tax structure of South Carolina and making recommendations for improvements, these are two important numbers to keep in the forefront.

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