UNIVERSITY OF MISSOURI
Extension

LOCAL GOVERNMENT AND PUBLIC POLICY

Missouri State and Local Taxes and Revenues: A 50-State Comparison for 2012

Missourians pay less in total state and local taxes than residents of most other states. Taxation, however, continues to be a subject of debate. Taxes are not the only source of revenue 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 can also issue debt for capital projects.

The objective of this report is to provide Missourians with basic information about Missouri's state and local revenues, with an emphasis on the tax system. The report ranks Missouri among the 50 states and compares it with the national average and the national 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 compared with the rest of the United States. In 2012, it ranked 43rd in state and local taxes as a percentage of personal income. In 2002, it ranked 42nd. Taxes as a percentage of personal income is often used as a measure of tax effort.

In 2011, among the 34 industrialized countries that are members of the Organization for Economic Cooperation and Development, the United States ranked third lowest in taxes as a percentage of gross domestic product. All federal, state and local taxes were 24.01 percent of gross domestic product. Only Chile (21.21 percent) and Mexico (19.72 percent) ranked lower (OECD, 2014).

Although the overall level of taxes in a state is important, so too is the mix of taxes. A heavy reliance on one type of tax might disadvantage particular individuals or businesses. Because it is a relatively low-tax state and does not rank among the highest on any single tax, Missouri should be competitive for business.

However, Missouri's mix of state and local taxes creates a tax system that is regressive, which means low-income families pay a higher percentage of their income in state and local taxes than higher-income families. According to

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Missouri revenues at a glance

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

The state and local tax systems of Missouri are regressive, meaning lower income families pay a higher percentage of their income in state and local taxes than higher income families.

Among the 50 states, Missouri ranks

- 43rd in state and local taxes as a percentage of personal income. Missouri citizens pay on average 8.48 percent of their personal income in taxes. This is below the national median of 9.72 to 9.67 percent. In 2002, Missouri ranked 42nd at 9.52 percent of personal income in state and local taxes. Of its neighbors, only Oklahoma (44th) and Tennessee (49th) rank lower than Missouri in taxes as a percentage of personal income.
- 41st in state and local taxes per capita. The average Missouri citizen paid $3,388 in state and local taxes for fiscal year 2012, below the national median of $4,053 to $3,988. In 2002, Missouri ranked 35th in taxes per capita.
- 32nd in sales taxes (all general and selective sales taxes) as a percentage of personal income at 3.16 percent and 39th in per capita sales taxes.
- 25th in individual income tax as a percentage of personal income at 2.27 percent and 27th per capita.
- 44th in corporate income plus franchise taxes as a percentage of personal income at 0.18 percent and 45th per capita.
- 38th in property taxes as a percentage of personal income at 2.39 percent and 36th in property taxes per capita.

In other revenues, Missouri ranks:

- 27th in miscellaneous general revenues as a percentage of personal income and 34th in miscellaneous general revenues per capita.
- 25th in debt outstanding as a percentage of personal income at 19.24 percent and 28th per capita.
- 25th in federal revenues as a percentage of personal income at 4.75 percent and 27th in federal revenues per capita.

Table 1. Missouri state and local tax incidence by income group in 2013.

Income group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Income	**Less than $17,000**	**$17,000-$31,000**	**$31,000-$50,000**	**$50,000-$81,000**	**$81,000-$148,000**	**$148,000-$366,000**	**$366,000 or more**
Average income in group	**$10,100**	**$24,300**	**$40,000**	**$63,500**	**$103,600**	**$210,100**	**$941,100**
Sales and excise taxes	**5.9%**	**5.1%**	**4.2%**	**3.6%**	**2.7%**	**1.7%**	**0.9%**
General sales — individuals	3.5%	3.2%	2.7%	2.4%	1.8%	1.2%	0.6%
Other sales and excise — individuals	0.7%	0.5%	0.4%	0.3%	0.2%	0.1%	0.0%
Sales and excise on business	1.6%	1.4%	1.1%	0.9%	0.7%	0.4%	0.2%
Property taxes	**3.1%**	**2.3%**	**2.4%**	**2.4%**	**2.5%**	**2.3%**	**1.6%**
Property taxes on families	3.0%	2.2%	2.3%	2.3%	2.3%	2.0%	0.8%
Other property taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.7%
Income taxes	**0.6%**	**1.9%**	**2.6%**	**3.1%**	**3.5%**	**3.9%**	**4.5%**
Personal income tax (state and local)	0.6%	1.9%	2.6%	3.1%	3.5%	3.8%	4.4%
Corporate income tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Total taxes	**9.6%**	**9.3%**	**9.2%**	**9.2%**	**8.6%**	**7.9%**	**6.9%**
Federal deduction offset	**-0.0%**	**-0.1%**	**-0.2%**	**-0.5%**	**-1.0%**	**-1.1%**	**-1.5%**
OVERALL TOTAL	**9.6%**	**9.2%**	**9.0%**	**8.7%**	**7.6%**	**6.8%**	**5.4%**

Data source: Institute on Taxation & Economic Policy, 2013

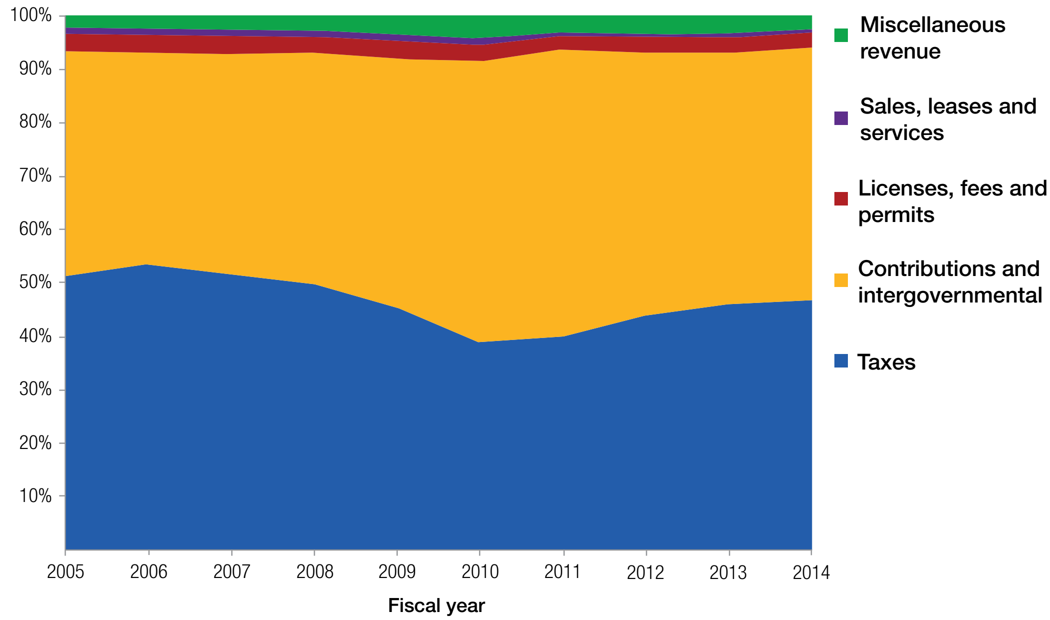

Figure 1. Missouri state revenue by source from 2005 to 2014.
Data source: State of Missouri Office of Administration (2014).

analysis for 2013 by the Institute on Taxation and Economic Policy, the lowest-income Missouri families paid about 9.6 percent of their income in state and local taxes while the highest income families paid about 6.9 percent (Table 1). When the federal, state and local tax deductions available for those who itemize on their federal taxes were taken into account, the lowest-income families still paid 9.6 percent of their income in state and local taxes while the highest-income families paid 5.4 percent. This analysis includes only non-elderly families and does not include fees, licenses and charges for services.

This report uses data from the 2012 Census of Governments for fiscal year 2012, the most complete and consistent set of data available across all states. The dates of the fiscal year vary by state, but in 46 states the fiscal year is July 1 to June 30 (Barnett et al, 2014). Although dollar amounts of taxes have changed since 2012, the relative ranking of states has probably not changed more than a rank or two except for individual states. Though states made changes to tax laws, the overall net revenue change was small (Rafool, 2015). The exceptions are California and Kansas. California increased its sales and income taxes,

Table 2. Per capita income in 2012.

United States average	$44,200
Median	$43,271 (Texas) $42,475 (Wisconsin)
Maximum	$60,223 (Connecticut)
Minimum	$33,446 (Mississippi)
Missouri average and rank	$39,933 (31st)

Data source: Bureau of Economic Analysis

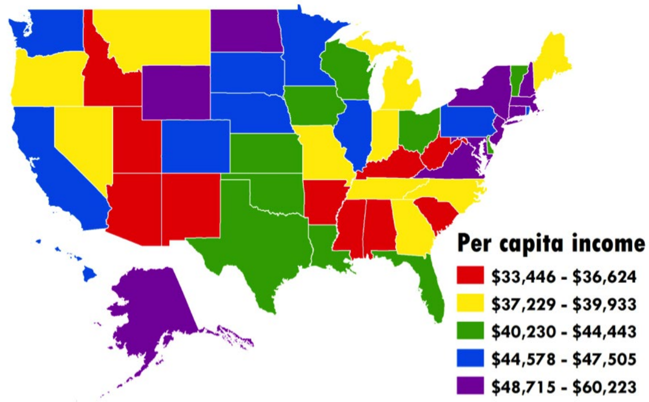

Figure 3. Per capita income in 2012.
Data source: Bureau of Economic Analysis

Comparing taxes across states might 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. 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 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 might qualify for relatively more federal funds than those with lower efforts.

Taxes are compared per resident.
Because states have wide variations in population, taxes are compared on a per resident, or per capita, basis. The per capita tax is a measure of the taxes for the average citizen.

Similar taxes are aggregated.
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.
Many taxes are paid by out-of-state residents. For example, out-of-state tourists pay sales taxes and hotel and 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 severance tax on minerals and oil is paid by the users, not by the citizens of the state. The more a state exports its taxes to out-of-state residents, the lower the actual tax paid by 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. 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. Businesses include their property tax as a cost of business and try to cover it with the prices they charge. 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.

effective in 2013. Kansas lowered income taxes, effective in 2013. Given ongoing budget concerns in many states, some states might reform their tax systems in the near future.

Missouri state taxes

Major Missouri state taxes in 2012 included the following:

- Individual income taxes: $5.13 billion
- General sales and gross receipts taxes: $3.1 billion
- Motor fuels sales taxes: $708 million
- Amusements sales tax: $390 million
- Corporation income taxes: $301 million
- Insurance premiums sales tax: $270 million
- Motor vehicle license: $267 million

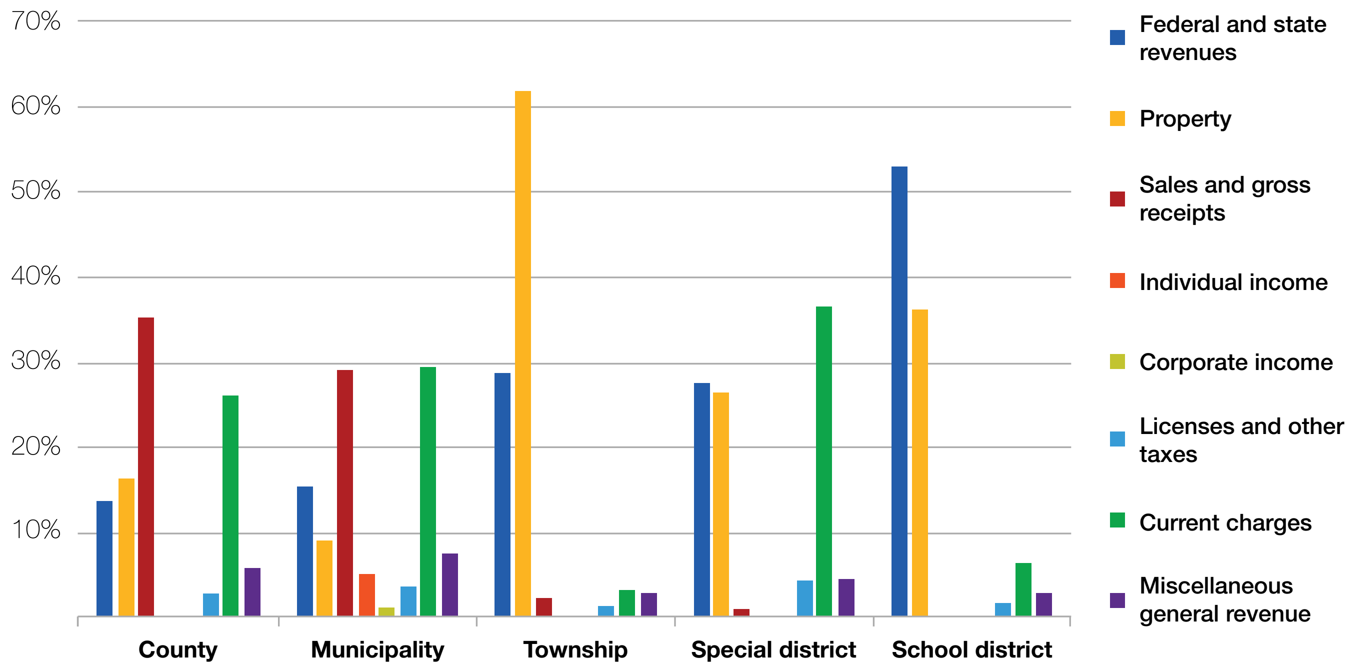

Figure 2. Sources of local government revenues for 2012.
Data source: U.S. Bureau of the Census (2012)

Missouri state revenues

In 2012, 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, taxes provided 46.63 percent of state revenues in 2014. Taxes as a percent of state revenue declined in 2010 to 38.71 percent from 51.09 percent in 2005 (Figure 1). Contributions and intergovernmental aid increased from 41.85 percent in 2005 to 47.10 percent in 2014. Contributions and intergovernmental aid have been increasing since the 1980s (32.8 percent in 1980). Other revenues are a small percentage of the total and have remained relatively constant.

Historically, as economies change, a given tax system might no longer provide sufficient revenues, so tax systems are modified to fit the new economy. Governments also might look for nontax sources of revenues. Over the past 20 years, many states have instituted state lotteries to raise revenues. Governments might also increase fees for services rather than increase taxes, such as increasing college tuition.

Missouri local revenues

Local governments in Missouri rely on a mix of revenue sources. The major tax for 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. 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, not on other sources of personal income, such as interest and capital gains. The two cities also have business profits earnings tax.

Intergovernmental revenues, mainly state and some federal funds, are the largest source of funds for school districts because of state support for public education. Local property taxes are the second largest source of revenue for school districts.

Special districts generate most of their revenue through charges for the services they offer. The property tax and intergovernmental revenues are also major sources of revenue. Missouri has more than 1,800 special districts ranging from water, sewer, fire and hospital to various economic development regions or zones and airport and port authorities (U.S. Bureau of the Census, 2013).

The major source of revenue for townships is the property tax. Townships use the revenue from this tax for the construction and maintenance of roads. The majority of counties in Missouri do not have townships.

Overview of state and local taxes

Tax structures among states have many similarities but also some important differences (see **Establishing a basis of comparison** on page 3). The most significant difference among states is whether they have the following taxes:

- Sales and gross receipts taxes
- 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.

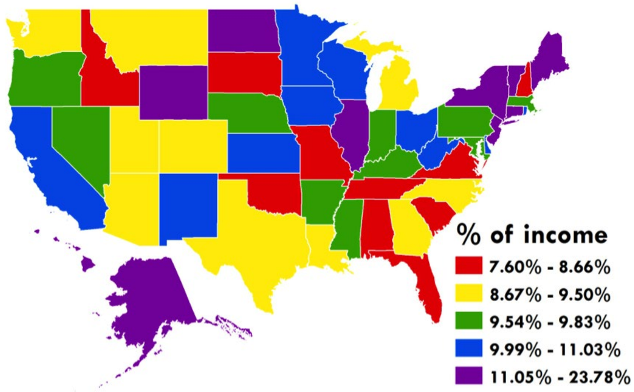

Figure 4. Total state and local taxes as percentage of income in 2012.
Data source: U.S. Bureau of the Census (2012)

Table 3. Total state and local taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	10.01%	$4,422.65
Median	9.72% (Mississppi) 9.67% (Arkansas)	$4,052.56 (Virginia) $3,988.20 (New Hampshire)
Maximum	23.78% (Alaska)	$11,869.08 (Alaska)
Minimum	7.60% (South Dakota)	$2,950.74 (Alabama)
Missouri average and rank	8.48% (43rd)	$3,387.94 (41st)

Data source: U.S. Bureau of the Census (2012)

New Hampshire and Tennessee only tax interest and dividend income and often are listed among the states with no individual income tax. Nevada, Texas, Washington and Wyoming do not have a corporate income tax or an 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 can choose not to impose certain taxes, they often must impose higher rates on some other tax.

Most state and local governments also have a variety of fees, licenses and charges for participating in certain activities. The conceptual difference between taxes and fees, licenses and charges is that fees, licenses and charges are voluntary; they are paid only if the person chooses to participate in a particular activity. For example, the cigarette tax is a charge for those who choose to smoke. In practice, the line is not that clear because the economic impacts of fees, licenses and charges are similar to taxes, and governments might raise them to avoid raising taxes. For example, many states 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 2012, Missouri ranked 43rd in the nation in state and local taxes as a percentage of personal income (Table 3). Missourians spent 8.48 percent of their personal income in state and local taxes in 2012. (Taxes are reported net of refunds in the Census of Governments data.) Missouri taxes as a percentage of personal income were below both the national average of 10.01 percent and the median, between 9.72 percent in Mississippi and 9.67 percent in Arkansas. In 2002, Missourians paid 9.52 percent of personal income in state and local taxes and ranked 42nd in the nation. Alaska had the highest state and local taxes as a percentage of income (Table 3). Alaska collects both severance taxes and royalties on minerals; mainly oil. The Bureau of the Census classifies severance taxes as miscellaneous taxes and royalties as miscellaneous revenues. (Bureau of the Census, 2006). A portion of revenue is invested through the Alaska Permanent Fund, from which citizens are paid dividends (Cole, 2015).

Missouri ranked 41st in per capita state and local taxes in 2012 with $3,388 (Table 3). This was $1,035 less than the national per capita state and local taxes of $4,423. In 2002, Missouri ranked 35th in state and local taxes per capita. Median per capita taxes for 2012 were between $4,053 in Virginia and $3,988 in New Hampshire. Alabama had the lowest per capita taxes with $2,951, and Alaska had the highest with $11,869. North Dakota ranks 2nd in per capita taxes with $9,449. Because the majority of the oil is not used in Alaska and North Dakota, it is paid by the users in other places. The taxes that Alaska and North Dakota residents pay are not as high as they appear. In addition, North Dakota currently has many workers who are not residents of the state but pay taxes in North Dakota. This is a second factor that makes North Dakota taxes on residents appear higher than what they actually pay.

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.

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. For example, Virginia taxes railroad property at the state level only. Missouri has a small state property tax of 3 cents per $100 of 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 jurisdictions that can tax it. Some states provide various forms of tax relief for homeowners over the age of 65, 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

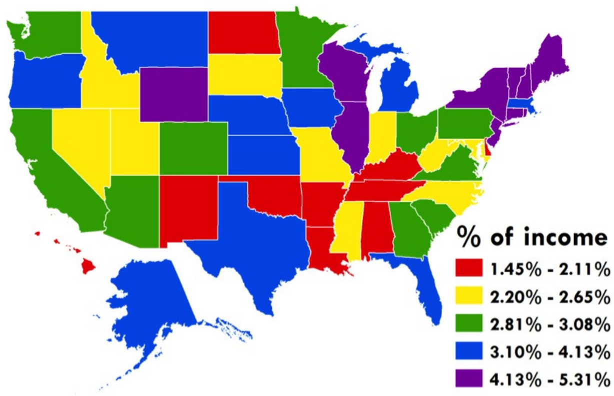

Figure 5. Property tax as percentage of income in 2012.
Data source: U.S. Bureau of the Census (2012)

income, so some low-income persons might 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, but there are wide variations among states in how these incentives can 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 100 percent of value, the appraised and assessed values are the same.

Missouri taxes property on a percentage of its 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

Note: 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
Historic cars and planes	5 percent
Crops (grains)	0.5 percent
Vehicles and other property	33.3 percent

With property taxes at 2.39 percent of personal income, Missouri ranks 38th in the nation. The state ranked 39th in 2002. The national average is 3.22 percent of personal income (Table 4). New Jersey has the highest state and local property taxes as a percentage of income at 5.31 percent

Table 4. Property tax.

	Taxes as a percentage of personal income	Taxes per capita
United States average	3.22%	$1,421.27
Median	2.89% (Colorado) 2.86% (California)	$1,337.20 (Pennsylvania) $1,290.96 (Oregon)
Maximum	5.31% (New Jersey)	$2,919.04 (New Jersey)
Minimum	1.45% (Oklahoma)	$530.01 (Alabama)
Missouri average and rank	2.39% (38th)	$956.07 (36th)

Data source: U.S. Bureau of the Census (2012)

and also ranks first in property taxes per capita. Oklahoma ranks lowest with property taxes of 1.45 percent of personal income. It is interesting to note that the states with the highest property taxes are in the Northeast (Figure 5).

In 2012, state and local property taxes in the United States averaged $1,421 per capita. In the same year, the state of Missouri collected $956 per capita in property taxes, ranking 36th. New Jersey property tax per capita is the highest at $2,919. Alabama ranks lowest at $530 per capita.

States with higher per capita incomes generally have higher-valued properties than those with lower per capita incomes. Thus, a high per capita property tax might not reflect high tax rates, but rather higher-than-average incomes and property values 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 might be unable to pass the tax on to the renter. Property taxes are an integral part of the landlord's cost structure for providing rental space and must be fully covered by rental income in the long run. Therefore, the property tax is usually incorporated into rental rates.

The Institute on Taxation and Economic Policy found that in 2013, the property tax in Missouri was regressive (Table 1). Non-elderly families falling in the lowest 20 percent of income paid 3.1 percent of their income in property tax, and families with the highest incomes paid 1.6 percent of their income in property tax.

General and selective sales and use taxes and gross receipts taxes

Because of a wide variety of general sales taxes, selective sales and use taxes and gross receipts taxes among states, these consumption taxes are aggregated into one category. The Bureau of the Census defines these taxes as "taxes on

Table 5. Sales and gross receipts taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	3.43%	$1,517.96
Median	3.39% (Michigan) 3.37% (Iowa)	$1,445.82 (West Virginia) $1,439.84 (Pennsylvania)
Maximum	6.41% (Hawaii)	$2,859.40 (Hawaii)
Minimum	1.16% (Oregon)	$454.06 (Oregon)
Missouri average and rank	3.16% (32nd)	$1,262.85 (39th)

Data source: U.S. Bureau of the Census (2012)

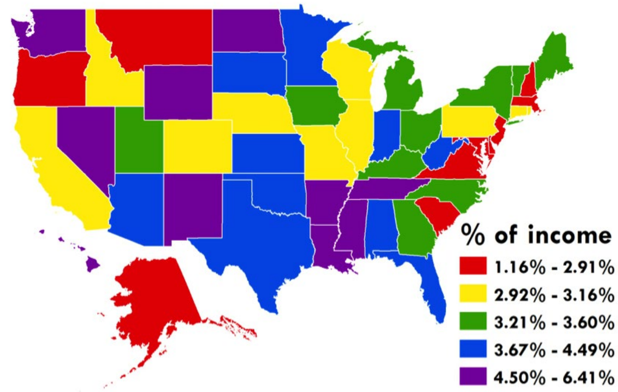

Figure 6. Sales and gross receipts taxes as percentage of income.
Data source: U.S. Bureau of the Census (2012)

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."

Missouri's sales tax was originally imposed 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. In 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 provide a complete picture, because how narrow or broad the tax base is varies from state to state. Alaska, Delaware, Montana, New Hampshire and Oregon have no state general sales tax. They do have selective sales, excise or gross receipts taxes on 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 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 3.16 percent of personal income, Missouri ranks 32nd in the nation and is above the national median between 3.39 percent in Michigan and 3.37 percent in Iowa (Table 5). Missouri ranked 22nd in 2002. Hawaii ranks highest in sales and gross receipts taxes as a percentage of personal income. Hawaii is a major tourist destination and receives sales and gross receipts tax revenues from nonresident tourists, so the residents are not paying all of these taxes. Oregon ranks lowest and has only selective sales taxes but no general sales tax (Figure 6).

Hawaii has the highest per capita sales and gross receipts taxes at $2,859 (Table 5). Missouri ranks 39th in per capita sales and gross receipts taxes. In 2002, it ranked 27th. The median per capita sales tax is between West Virginia at $1,446 and Pennsylvania at $1,440. Oregon again ranks lowest at $454 per capita.

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

General sales	68.63 percent
Selective sales	
Motor fuel	9.32 percent
Public utilities	6.72 percent
Tobacco products	1.56 percent
Alcoholic beverages	0.45 percent
Other	13.32 percent

In 34 states, local governments can also impose sales taxes. The total rate that can be imposed by all local governments in a given geographic area is often 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 general sales tax rate is the lowest among its neighboring states. However, the local option sales 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 also allow local option sales taxes, so local tax rates become important on the borders.

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, 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 year 2015, the lowest-income families in Missouri paid 5.9 percent of their income in sales and excise taxes while the highest-income families paid less than 1 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 goods and a higher percentage on services, many of which are not taxed.

Personal income tax

A major difference between state tax systems is whether they have a personal income tax. States without personal income taxes include Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming (Figure 7). New Hampshire and Tennessee 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, state and local personal income taxes are 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, 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. The earnings tax is included in the income tax revenues. Nationally, state and local personal income taxes are 2.22 percent of personal income (Table 6). Taxes are reported net of tax refunds. The median personal income tax is between 2.27 percent and 2.24 percent of income. Missouri ranks 25th among the states in personal income tax at 2.27 percent of personal income. In 2002, Missouri ranked 24th. New York ranks highest in the nation with personal income taxes at 4.48 percent of personal income.

The national average state and local personal income tax per capita is $979 (Table 6). Missouri ranks 27th at $905 per capita. The median is higher, between $940 and $933 per capita. New York has the highest per capita individual income tax with $2,426. Of the states imposing a broad-based individual income tax, the minimum is $472 per capita in Arizona.

Table 6. Personal income taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	2.22%	$979.17
Median	2.27% (Missouri) 2.24% (Arkansas)	$939.53 (Colorado) $932.66 (Indiana)
Maximum	4.48% (New York)	$2,426.03 (New York)
Minimum	0.07% (Tennessee)	$28.23 (Tennessee)
Missouri average and rank	2.27% (25th)	$905.11 (27th)

Data source: U.S. Bureau of the Census (2012)

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 in tax year 2004 became deductible on federal income taxes for those states.

Corporate income taxes and corporate franchise tax

Corporate taxes are indirectly paid by individuals as stockholders of the corporations. The corporate income tax is paid before dividends, which results in lower dividends. Stockholders also pay federal personal income taxes on dividends, which some argue is double taxation. 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 income is indirectly 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 corporate income tax, in addition to a state corporate income tax. In Missouri, the earnings tax in Kansas City and St. Louis also applies to businesses and is included as part of the corporate income tax in these data.

The Bureau of the Census reports corporate income taxes net of refunds, which takes into account exemptions in the tax code. Missouri's ranking is the result of a combination of tax rates, exemptions and credits available to businesses. In fiscal year 2012, it was estimated that $629 million in tax credits would be redeemed (Missouri Tax Credit Review Commission, 2012). Corporate tax revenues are also influenced by the number and size of corporations in the state, not just the corporate tax rate.

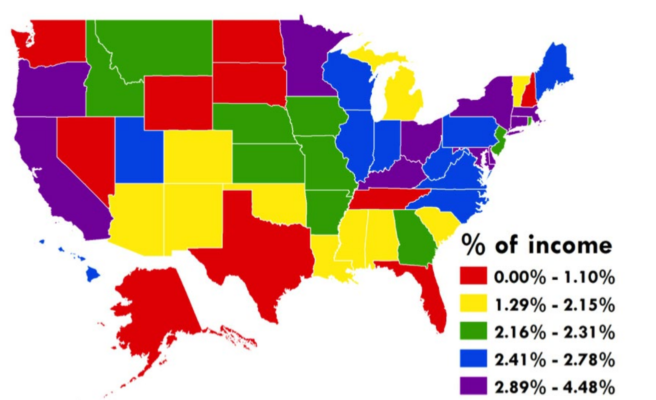

Figure 7. Personal income taxes as a percentage of income.
Data source: U.S. Bureau of the Census (2012)

Table 7. Corporate income and franchise taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	0.43%	$191.91
Median	0.34% (Idaho) 0.33% (Oregon)	$145.30 (New Mexico) $140.47 (Nebraska)
Maximum	2.62% (Delaware)	$1,153.69 (Delaware)
Minimum	0.01% (Washington)	$4.36 (Washington)
Missouri average and rank	0.18% (44th)	$73.25 (45th)

Data source: U.S. Bureau of the Census (2012)

In addition to the corporate income tax, most states impose a license or franchise tax on corporations for the privilege of doing business in the state. In a little more than half of the states, this is a nominal fee for a license, but in the others 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, each with a separate tax rate (one is roughly net worth and the other is profits plus executives' income). 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.

Missouri's corporation franchise tax is paid by corporations that engage in business in the state 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, 2009; Missouri Department of Revenue, n.d.).

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 might respond to the cost disadvantage of the tax and restructure the business into an organization not subject to the tax. Larger corporations might be unable to do so, but a high franchise tax might impede the development of new or small corporations.

Missouri ranks 44th in corporate income and franchise taxes as a percentage of personal income at 0.18 percent. In 2002, Missouri ranked 38th. Missouri ranked lowest among its neighbors in 2012. Delaware ranks highest on the corporate taxes at 2.62 percent of income (Table 7). The national median is 0.43 percent. Delaware also ranks first in corporate taxes per capita at $1,154. Missouri ranks 45th in per capita corporate taxes with $73. In 2002, Missouri ranked 36th per capita.

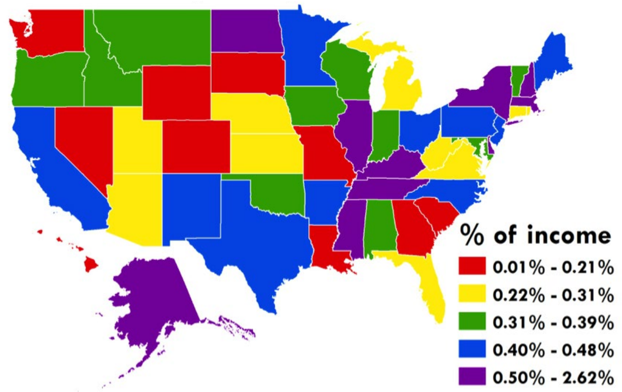

Figure 8. Corporate income and franchise taxes as percentage of income.
Data source: U.S. Bureau of the Census (2012)

In 2012, Washington ranked lowest on the combined taxes on both measures, as it has for some years, 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).

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. The difference between the two is often unclear. 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. Miscellaneous taxes include severance taxes and estate taxes. In Alaska and North Dakota, severance taxes and royalties are an important part of the state's revenues. Changes in the estate tax have reduced its importance. There are a variety of other taxes used by states and local governments that individually might be small but when added together contribute substantial revenues to state and local governments.

Missouri's total licenses and miscellaneous taxes revenues break down as follows:

Motor vehicle license	23.56 percent
All other taxes	76.44 percent

Because of the range of items included, there is a wide gap in the amount that state and local governments collect in licenses and miscellaneous taxes. Alaska's licenses and miscellaneous taxes are 16.35 percent of personal income because of its oil severance taxes (Table 8). Licenses and miscellaneous taxes are lowest as a percentage of income in Georgia at 0.23 percent. Missouri, ranking 41st, collects 0.48 percent of personal income in licenses and miscellaneous taxes.

Alaska also ranks highest in licenses and miscellaneous taxes per capita. Because of severance taxes on oil, Alaska exports a large percentage of this tax to consumers in other states; Alaska citizens are not paying this tax alone. Missouri also ranks 41st in licenses and miscellaneous taxes per capita, and Georgia again ranks last. The national median is between $268 and $260 per capita in Massachusetts and New Hampshire, 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 and royalties, for example, are imposed by states with large mineral deposits. Fifteen states do not have a severance tax. Severance taxes are a way of exporting taxes if a significant portion of minerals produced is sold outside the state. Although paid by the mineral producer, the tax is a cost for the business. The tax and royalty are usually added to the mineral's selling price and paid indirectly by consumers throughout the nation.

Table 8. Licenses and miscellaneous taxes.

	Taxes as a percentage of personal income	Taxes per capita
United States average	0.71%	$312.35
Median	0.63% (Florida) 0.61% (Maine)	$268.33 (Massachusetts) $260.16 (New Hampshire)
Maximum	16.35% (Alaska)	$8,157.49 (Alaska)
Minimum	0.23% (Georgia)	$85.95 (Georgia)
Missouri average and rank	0.48% (41st)	$190.66 (41st)

Data source: U.S. Bureau of the Census (2012)

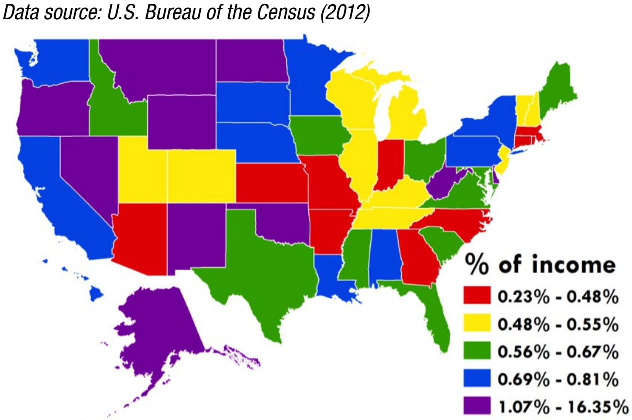

Figure 9. Licenses and miscellaneous taxes as percentage of income.
Data source: U.S. Bureau of the Census (2012)

Miscellaneous general revenues

Miscellaneous general revenues include various revenue sources that can vary from state to state and year to year. (The definition of miscellaneous general revenues used in the Census of Government differs from that used by the state of Missouri.) This revenue consists of sources such as interest earnings, special assessments, sale of property and legal settlements. The net proceeds of the lottery are also included in this category. Interest earnings are the largest single component of miscellaneous revenues for all states at 25.63 percent.

Alaska ranked highest in miscellaneous general revenues at 10.88 percent of personal income (Table 9). Alaska is an extreme case. In Wyoming, which ranked second, these revenues were 3.73 percent of personal income. Missouri ranked 27th with these revenues equal to 1.37 percent of personal income (Figure 10).

In fiscal year 2012, Missouri's miscellaneous general revenues included:

Interest earnings	33.41 percent
Special assessments	1.60 percent
Sale of property	1.05 percent
Other (includes net lottery revenue)	63.94 percent

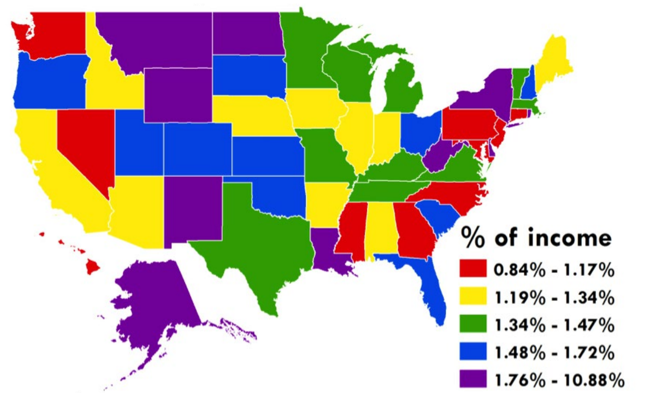

Figure 10. Miscellaneous general revenues as percentage of income.
Data source: U.S. Bureau of the Census (2012)

Table 9. Miscellaneous general revenues.

	Taxes as a percentage of personal income	Taxes per capita
United States average	1.43%	$632.77
Median	1.38% (Texas) 1.38 (Wisconsin)	$598.96 (Texas) $594.44 (Ohio)
Maximum	10.88% (Alaska)	$5,427.77 (Alaska)
Minimum	0.84% (Connecticut)	$351.06 (Mississippi)
Missouri average and rank	1.37% (27th)	$548.89 (34th)

Data source: U.S. Bureau of the Census (2012)

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 federal funds, such as Medicaid, are distributed proportionally 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, 2006; U.S. Department of the Interior, 2014). The payment in-lieu-of-taxes are currently renewed by Congress on a year-by-year basis. 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, such as Social Security, made directly to individuals and institutions.

Missouri receives revenues from the federal government equal to 4.75 percent of personal income, ranking 25th in the nation. In 2002, Missouri ranked 22nd in the nation. For most states, a small change in federal revenues received can cause a noticeable change in rank. Alaska receives the most federal revenues as a percentage of personal income and Virginia receives the least.

On average, the federal government provides $1,862 per capita in revenues to state and local governments. Missouri receives $1,897 per capita and ranks 27th in the nation on a per capita basis (Table 10). In 2002, Missouri ranked 22nd in the nation. Alaska receives the most per capita at $4,329, and Nevada receives the least per capita at $1,235.

Table 10. Federal revenues.

	Taxes as a percentage of personal income	Taxes per capita
United States average	4.21%	$1,862.21
Median	4.75% (Missouri) 4.73% (Arizona)	$1,926.68 (Nebraska) $1,908.06 (Alabama)
Maximum	8.68% (Alaska)	$4,329.37 (Alaska)
Minimum	2.70% (Virginia)	$1,234.57 (Nevada)
Missouri average and rank	4.75% (25th)	$1,896.58 (27th)

Data source: U.S. Bureau of the Census (2012)

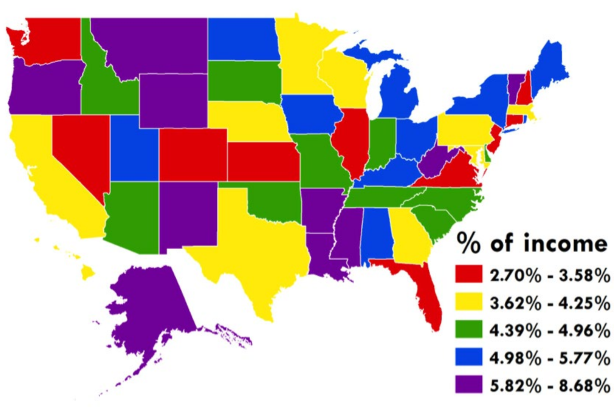

Figure 11. Federal revenues as percentage of income.
Data source: U.S. Bureau of the Census (2012)

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 include other federal revenues, such as Social Security, and subtract the taxes and fees that individuals and businesses in each state send to the federal government. Such an evaluation requires the use of net, rather than gross, revenues.

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 and highway tolls, among others. State and local governments might 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 alcohol or utility taxes, are included in the sales and gross receipts taxes but are not included here.

Some of these fees are dedicated to a particular purpose, such as college tuition, and are not part of general revenue as defined by the state of Missouri. But some of these services are also supported in part by taxes from general revenues. If tax revenues fall, the government might increase charges for these goods and services. For example, many states have raised college tuition in recent years and reduced tax funding of public colleges and universities.

Taxes alone do not provide a full account of how states compare with one another, because some rely more heavily on tax revenues and others rely more on charges.

Missouri's individual current charges and enterprise revenues as a percentage of total state and local current charges and enterprise revenues are as follows:

Charges	
Education	25.94 percent
Hospitals	24.36 percent
Sewerage and solid waste management	9.06 percent
Transportation fees	4.35 percent
Parks and recreation and natural resources	1.62 percent
Housing and community development	0.64 percent
Other	8.86 percent
Utilities	
Electric power	14.70 percent
Water supply	8.15 percent
Gas supply	1.55 percent
Transit	0.79 percent

Missouri ranks 31st in current charges and enterprise revenues at 3.85 percent of personal income (Table 11). Nebraska ranks highest with 7.83 percent of personal income (Figure 12). The national median is between 4.10 and 4.01 percent of personal income in Louisiana and Hawaii, respectively.

Nebraska also ranks highest in charges and enterprise revenue per capita with $3,594. Wyoming is second with $3,594. The median is between $1,744 and $1,702 per capita in Oklahoma and Indiana, respectively. Missouri is 36th with $1,539 per capita.

It is difficult to evaluate the effects of these charges and enterprise revenues on the competitiveness of a state's economy because they vary so much from state to state. For example, this ranking is influenced by how many utilities in a state are private rather than public enterprises. The category also includes such things as liquor store revenues, which probably do not affect the competitiveness of the state but could affect the profitability of restaurants and bars. Missouri does not have state-owned 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, but there is no available analysis of the impact of these enterprises and charges on families of different incomes.

Table 11. Current charges and enterprise revenues.

	Taxes as a percentage of personal income	Taxes per capita
United States average	4.23%	$1,869.72
Median	4.10% (Louisiana) 4.01% (Hawaii)	$1,744.20 (Oklahoma) $1,702.44 (Indiana)
Maximum	7.83% (Nebraska)	$3,594.37 (Nebraska)
Minimum	1.73% (Connecticut)	$1,042.46 (Connecticut)
Missouri average and rank	3.85% (31st)	$1,538.63 (36th)

Data source: U.S. Bureau of the Census (2012)

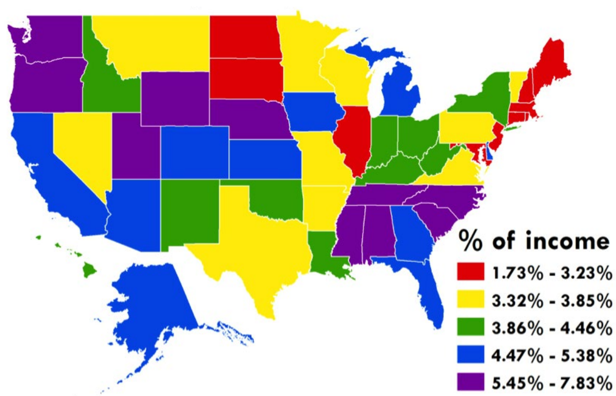

Figure 12. Current charges and enterprise revenues as percentage of income.
Data source: U.S. Bureau of the Census (2012)

Debt outstanding

In addition to tax revenues and revenues from licenses and charges, governments can also borrow. Just as consumers borrow to buy a house, governments can issue bonds to fund capital projects such as roads, buildings, bridges, etc. Borrowed funds are repaid plus interest by future taxes and charges. Measures of debt can be important in comparing states because they provide some indication of future revenue needs.

New York ranks highest in state and local debt as a percentage of personal income. It is about 5 percentage points higher than Kentucky, which ranks second. New York's high rank might in part be due to its use of authorities to manage public infrastructure, and it faced increased costs combined with revenue falls after 9/11 (Ward, 2006). Missouri ranks 25th in the nation on debt outstanding as a percentage of personal income (Table 12). Wyoming ranks lowest on debt as a percentage of income. Three of Missouri's neighboring states — Kentucky (2nd), Illinois (6th) and Kansas (17th) — rank higher than Missouri, and the remaining five neighbors rank lower.

New York also ranks highest in debt per capita. It holds $2,998 more in debt per capita than second-ranking Massachusetts. Missouri ranks 28th in debt per capita, and Idaho ranks lowest.

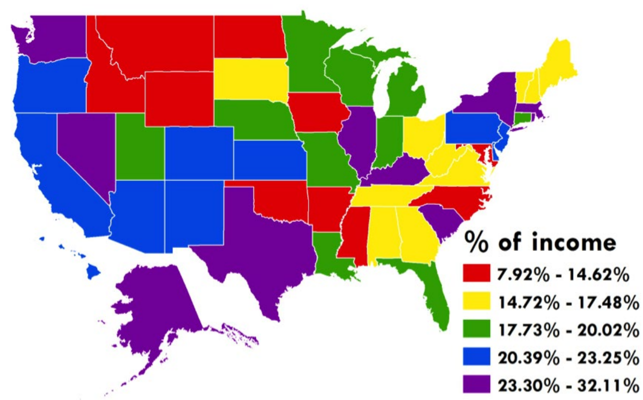

Figure 13. Debt outstanding as percentage of income.
Data source: U.S. Bureau of the Census (2012)

Table 12. Debt outstanding.

	Taxes as a percentage of personal income	Taxes per capita
United States average	21.21%	$9,374.14
Median	19.24% (Missouri) 19.23% (Louisiana)	$7,834.78 (Maryland) $7,810.82 (Louisiana)
Maximum	32.11% (New York)	$17,372.84 (New York)
Minimum	7.92% (Wyoming)	$3,915.21 (Idaho)
Missouri average and rank	19.24% (25th)	$7,683.20 (28th)

Data source: U.S. Bureau of the Census (2012)

Summary

The United States ranks low on taxes compared with 33 other industrialized countries (OECD 2014). Missouri taxes are also relatively low compared with the state and local taxes paid by the average U.S. resident. Missouri state ranks 43rd in the United States on state and local taxes as a percentage of personal income in 2012. In 2002, it was 42nd. Missouri ranks 41st on state and local taxes per capita. In 2002, it was 35th. Of Missouri's neighbors, only Oklahoma and Tennessee rank lower 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 above the median on any given tax. Missouri's highest rank is 25th, which is the median, on personal income taxes. In general, Missouri 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 year 2013, the lowest-income, non-elderly families in Missouri paid about 9.6 percent of their incomes in state and local taxes compared with about 5.4 percent by the highest-income, non-elderly families. Although this analysis does not provide detailed rankings for all taxes, licenses and charges, the rankings reported account for the vast majority of tax revenues for Missouri's state and local governments and for the state and local governments of all 50 states.

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