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WITHOUT A STATE INCOME TAX, OTHER TAXES ARE HIGHER

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States without an income tax have higher sales or property taxes, on average, than states with an income tax. No-income-tax states have property taxes that are 8 percent to 12 percent above the national average and sales taxes 18 percent to 21 percent above the national average.

These data are of particular relevance in the three Plains states – Kansas, Oklahoma, and Nebraska – that are considering proposals to sharply reduce and/or gradually eliminate their state income taxes. In those states, income taxes represent about one-third to one-half of all general fund tax revenues and pay a huge share of the cost of services that benefit taxpayers and that businesses and economies rely on, including K-12 education, higher education, services for the elderly and disabled, public safety and the courts, and much more. Since states must balance their budgets, cutting or eliminating the income tax will result in steep cuts in those areas, increases in property and sales taxes, or – most likely – a combination of cuts in services and tax increases. Those three states now have lower sales and property taxes than most no-income-tax states, a circumstance that will likely change if they repeal or deeply cut their income taxes.

States That Don't Levy an Income Tax Rely More Heavily on Other Taxes

A good way to gauge how other taxes will fare if income taxes in Kansas, Nebraska or Oklahoma are repealed or sharply cut is to see how other states without income taxes finance public services.

Individuals and businesses in states without an income tax pay more in property taxes than people in other states, on average.

- In fiscal year 2009, the nine states without an income tax had property taxes that were an average of 12 percent higher per capita and 8 percent higher as a share of personal income than the national average, U.S. Census Bureau data show.

- Five of the nine states had above-average property taxes, by either measure.

Sales taxes are higher, too.

- Sales taxes in the nine no-income-tax states were 21 percent higher per capita and 18 percent higher as a share of personal income than the national average.

Table 1:								
Property and Sales Taxes Per Capita and as a Share of Personal Income								
	Property Taxes				Sales Taxes			
States Without an Income Tax	Per Capita	Rank	% of Personal Income	Rank	Per Capita	Rank	% of Personal Income	Rank
Plains States								
South Dakota	$1,098	32	2.8%	34	$1,274	7	3.3%	10
Texas	$1,461	14	3.9%	14	$1,071	14	2.8%	13
Wyoming	$2,321	4	4.9%	5	$2,238	1	4.7%	1
Other Regions								
Alaska	$1,714	10	3.9%	13	$288	46	0.7%	46
Florida	$1,593	13	4.1%	12	$1,111	12	2.9%	12
Nevada	$1,331	21	3.5%	19	$1,134	10	2.9%	11
New Hampshire	$2,424	3	5.6%	1	$0	47	0.0%	47
Tennessee	$746	42	2.2%	43	$1,318	6	3.8%	7
Washington	$1,217	26	2.8%	33	$1,850	3	4.3%	3
Average 9 States	*$1,545*		*3.7%*		*$1,143*		*2.8%*	
% above national average	*11.9%*		*7.7%*		*20.5%*		*18.4%*	
National Average	**$1,381**		**3.5%**		**$948**		**2.4%**	
Plains States w/Income Tax Cut Proposals								
Kansas	$1,354	19	3.4%	20	$1,048	15	2.7%	17
Oklahoma	$598	48	1.7%	49	$1,018	17	2.8%	15
Nebraska	$1,443	17	3.6%	17	$1,000	20	2.5%	21

Source: Center on Budget and Policy Priorities tabulations based on data from the Bureau of the Census and the Bureau of Economic Analysis.

- Sales taxes were above average in each of the states without an income tax that has a state sales tax. (Two states, Alaska and New Hampshire, have neither income taxes nor state sales taxes; their property taxes are particularly high.)

In particular, people in states without an income tax generally pay more in property or sales taxes than people in Kansas, Oklahoma, and Nebraska.

- In five of the nine states without an income tax, property taxes (per capita or as a share of personal income) were higher in 2009 than in Kansas, Oklahoma, and Nebraska.

- In seven of the nine states without an income tax, sales taxes (per capita or as a share of personal income) were higher than in those three states. (The other two states without an income tax do not levy a state sales tax.)

Higher sales and property taxes can occur in at least two ways. The state legislature, faced with the need to fund schools, health care and other services and without the income tax revenue, may increase sales taxes or property taxes (as well as other revenue sources such as fees or excise taxes) itself. Or, the legislature may reduce funding to local governments and school districts or shift spending obligations to localities, which in turn may raise taxes locally.

Higher Sales and Property Taxes Will Disproportionately Affect Middle- and Lower-income Families and Businesses

Families with moderate and low incomes pay more sales and property taxes, as a share of their incomes, than higher-income families because they spend a higher proportion of their earnings on taxable goods and housing. Thus, increased sales and property taxes would shift a larger share of the responsibility for paying for schools, health care, and other services onto those with relatively less ability to afford it.

Higher sales and property taxes will affect businesses, too. In every state, a substantial share of sales taxes comes from business-to-business purchases, and a large share of property taxes is paid directly by businesses too. Any reduction in income tax on business profits is likely to be offset, at least in part, by higher taxes on business purchases and on agricultural and commercial property.

Businesses and families could be harmed even if income tax cuts or elimination didn't lead to higher sales or property taxes. The income tax (personal and corporate) is a major share of all general fund tax revenue in Kansas (46 percent), Oklahoma (35 percent), and Nebraska (45 percent). Without raising other taxes, those states would have to pay for the income tax cuts with reductions in education, health care, and other services—areas already hard hit by recession-induced budget cuts. For example, each of these states just reduced per pupil education funding by hundreds of dollars from last year's levels.[1] They will be hard-pressed to continue cutting investments like these that are so important to business success, family well-being, and long-term economic prosperity.

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[1] Phil Oliff and Michael Leachman, 2011, "New School Year Brings Steep Cuts in State Funding for Schools," Center on Budget and Policy Priorities, http://www.cbpp.org/cms/index.cfm?fa=view&id=3569.