

Who Pays?

A Distributional Analysis of the
Tax Systems in All 50 States



Institute on Taxation & Economic Policy

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Carl Davis

Kelly Davis

Matthew Gardner

Robert S. McIntyre

Jeff McLynch

Alla Sapozhnikova

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Institute on Taxation and Economic Policy

1616 P Street, NW • Washington, D.C. 20036 • (202) 299-1066

www.itepnet.org

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Around the nation, state lawmakers are facing budget shortfalls on a larger scale than at any time in recent memory. As elected officials evaluate tax-reform strategies for balancing state budgets, the question of who pays the most – and the least – of their income in state and local taxes is especially relevant.

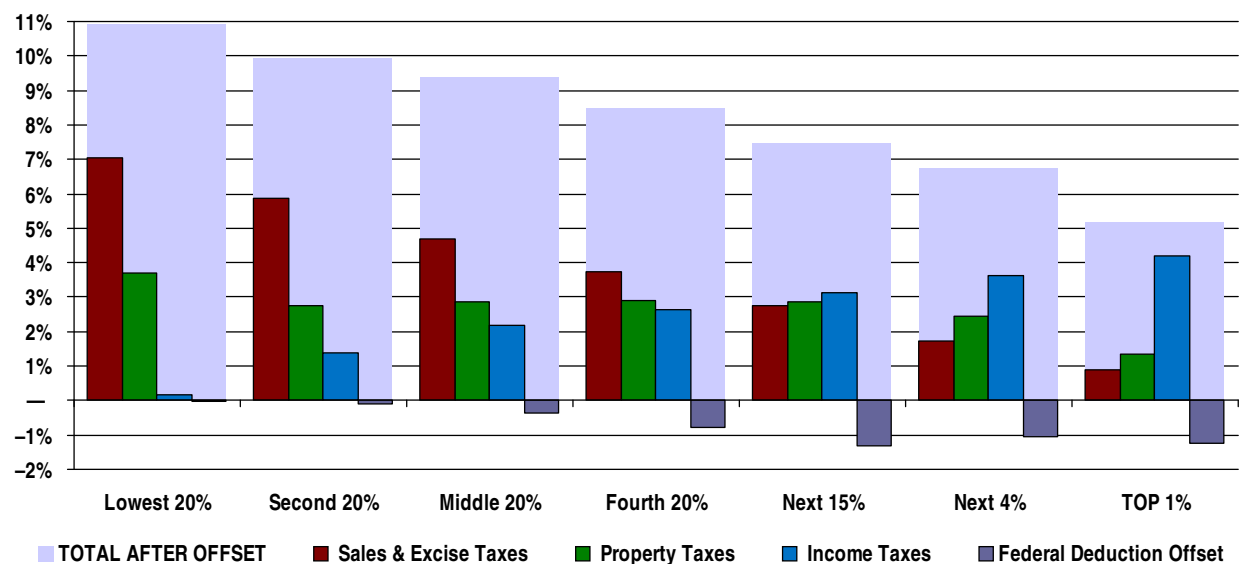
This study assesses the fairness of each state’s tax system, measuring the state and local taxes paid by different income groups in 2007 (including the impact of tax changes enacted through October of 2009) as shares of income for every state and the District of Columbia. The report provides valuable comparisons among the states, showing which states have done the best – and the worst – job of providing a modicum of fairness in their tax systems overall.

The study’s main finding is that nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy. That is, when all state and local income, sales, excise and property taxes are added up, most state tax systems are *regressive*.

Fairness is, of course, in the eye of the beholder. Yet almost anyone would agree that the best-off families should pay at a tax rate at least equal to what low- and middle-income families pay. Virtually every state fails this basic test of tax fairness: as this study documents, only two states require their best-off citizens to pay as much of their incomes in taxes as their very poorest taxpayers must pay, and only one state taxes its wealthiest individuals at a higher effective rate than middle-income families have to pay.

State & Local Taxes in 2007, All States

State and local taxes imposed on own residents, as shares of income



Nationwide, effective state and local tax rates on non-elderly families¹ follow a strikingly regressive pattern:

The average state and local tax rate on the best-off one percent of families is 6.4 percent before accounting for the tax savings from federal itemized deductions for state and local taxes. After accounting for this tax savings – an effect commonly referred to as the “federal offset” – the effective tax rate on the top one percent is a mere 5.2 percent.

The average tax rate on families in the middle 20 percent of the income spectrum is 9.7 percent before the federal offset and 9.4 percent after – almost twice the effective rate that the richest people pay.

The average tax rate on the poorest 20 percent of families is the highest of all. At 10.9 percent, it is more than double the effective rate on the very wealthy. This group generally derives no benefit from the federal offset.

The 10 Most Regressive Tax States

Ten states – Washington, Florida, South Dakota, Tennessee, Texas, Illinois, Arizona, Nevada, Pennsylvania, and Alabama – are particularly regressive. These ten states ask their poorest residents – those in the bottom 20 percent of the income scale – to pay up to six times as much of their income in taxes as they ask the wealthy to pay. Middle-income families in these states pay up to three times as high a share of their income as the wealthiest families. (These figures are before the tax benefits the wealthy enjoy from federal itemized deductions.)

The Ten Most Regressive State Tax Systems Taxes as shares of income by income for non-elderly residents					
Income Group	Taxes as a % of Income on			Poor/ Top 1%	Middle/ Top 1%
	Poorest 20%	Middle 60%	Top 1%		
Washington	17.3%	9.5%	2.9%	599%	327%
Florida	13.5%	7.8%	2.6%	514%	297%
South Dakota	11.0%	6.9%	2.1%	534%	332%
Tennessee	11.7%	7.6%	3.3%	356%	230%
Texas	12.2%	7.6%	3.3%	365%	228%
Illinois	13.0%	9.7%	4.9%	264%	197%
Arizona	12.5%	8.5%	5.6%	224%	151%
Nevada	8.9%	6.1%	2.0%	451%	309%
Pennsylvania	11.3%	8.9%	5.0%	227%	180%
Alabama	10.2%	8.6%	4.8%	213%	179%

¹The study’s scope is limited to non-elderly families (singles and couples, with and without children) because state tax systems often treat elderly families very differently from other families.

What Makes a State's Tax System Regressive?

What characteristics do states with particularly regressive tax systems have in common? Looking at the ten most regressive tax states, several important factors stand out:

Six of the ten states do not levy a broad-based personal income tax.

The remaining four states do levy income taxes, but have structured them in a way that makes them much less progressive than in other states. Two of the four states have flat-rate income taxes, which tax the income of the wealthiest family at the same marginal rate as the poorest wage-earner, and two have graduated tax rates that are among the lowest in the nation.

Four of the ten most regressive tax systems — those of Washington, South Dakota, Tennessee, and Nevada — rely very heavily on regressive sales and excise taxes. These states derive between half and two-thirds of their tax revenue from these taxes, compared to the national average of 35 percent.

The Least Regressive States

Just as the combination of flat (or non-existent) income taxes and high sales and excise taxes tends to make for very regressive tax systems, the most noticeable features of the *least* regressive tax states are exactly the opposite: they have progressive income taxes and rely less on sales and excise taxes. For example, Vermont's tax system is among the least regressive in the nation because it has a highly progressive income tax and low sales and excise taxes. Vermont's tax system is also made less unfair by the state's refundable Earned Income Tax Credit (EITC). In contrast, Delaware's income tax is not very progressive, but its high reliance on income taxes and very low use of consumption taxes nevertheless results in a tax system that is only slightly regressive overall.

New York and the District of Columbia each achieve a close-to-flat tax system overall through the use of generous EITC's and an income tax with relatively high top rates.

It should be noted that even the least regressive states generally fail to meet what most people would consider minimal standards of tax fairness. In each of these states, at least some lower- or middle-income groups pay more of their income in state and local taxes than the wealthiest families must pay.

Characteristics of the Least Regressive Tax Systems			
	Personal Income Tax		Low Use of Sales & Excise Taxes
	Very Progressive	Other Details	
Delaware		High reliance	✓
District of Columbia	✓	Ref. Credits*	✓
New York	✓	Ref. Credits*	
Vermont	✓	Ref. Credits*	✓
*Refundable credits are allowed even if they exceed a low-income family's income tax liability.			

The Kind of Tax Matters

State and local governments seeking to fund public services have historically relied on three broad types of taxes — personal income, property, and consumption (sales and excise) taxes.² As can be seen by our analysis of the most and least regressive tax states, the fairness of state tax systems depends primarily on which of these three taxes a state relies on most heavily. Each of these taxes has a distinct distributional impact, as the table on this page illustrates:

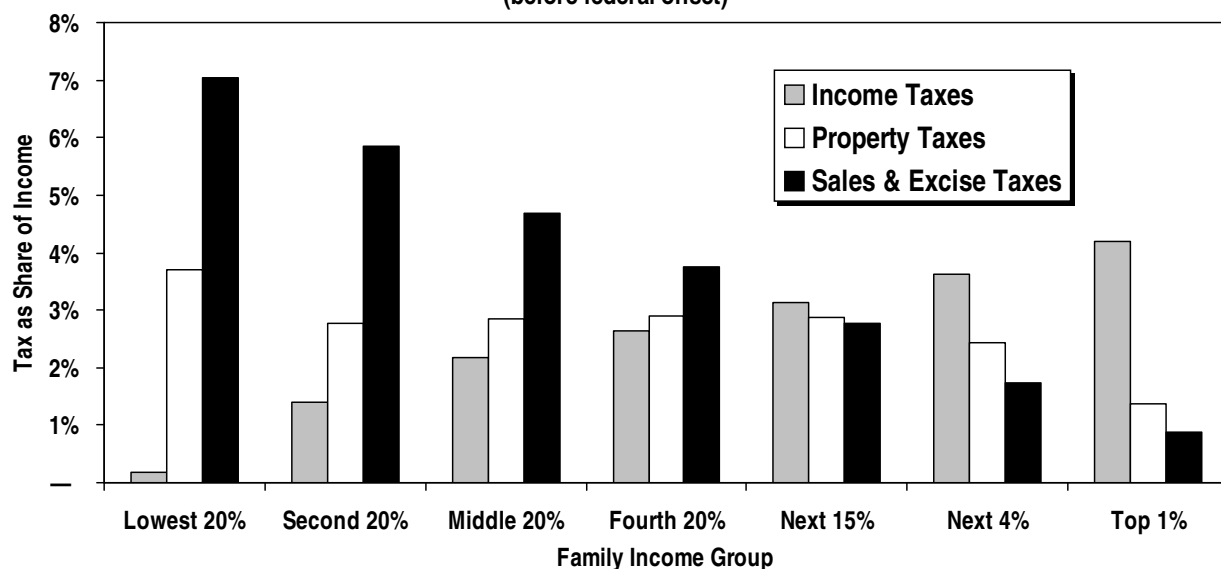
State income taxes are typically progressive — that is, as incomes go up, effective tax rates go up. On average, poor families pay only a tenth of the effective income tax rate that the richest families pay, and middle-income families pay about half of the effective rate on the well-to-do. Of the three major taxes used by states, the personal income tax is the only one for which the effective tax rates typically rise with income levels.

Property taxes, including both taxes on individuals and business taxes, are usually somewhat regressive. On average, poor homeowners and renters pay more of their incomes in property taxes than do any other income group — and the wealthiest taxpayers pay the least.

Sales and excise taxes are very regressive. Poor families pay almost eight times more of their incomes in these taxes than the best-off families, and middle-income families pay more than four times the rate of the wealthy.

Comparing Types of Taxes: Averages for All States

(before federal offset)



²States also rely on non-tax revenue sources such as user fees, charges, and gambling revenues. A few states rely heavily on non-traditional tax sources, such as severance taxes on the extraction of natural resources, which are not included in this analysis.

A state's tax fairness is only partially determined by the mix of these three broad tax types. Equally important is how states design the structure of each tax. Some personal income taxes are far more progressive than others, simply because lawmakers chose to design them that way. The same is true, to a lesser extent, of property and sales taxes: while any state relying heavily on these taxes is likely to have a regressive tax structure, lawmakers can take steps to make these taxes less regressive than other states' sales and property taxes. The overall regressivity of a state's tax system, therefore, ultimately depends both on a state's reliance on the different tax sources and on how the state designs each tax.

For example, California's level of reliance on each of the three major tax types is fairly typical. But the state income tax is more progressive than most – and this makes California's tax system one of the least regressive in the country.

Delaware, on the other hand, is one of the most progressive tax states not because any one of its taxes is exceptionally progressive, but because it relies so heavily on a modestly progressive income tax and relies very little on regressive sales and excise taxes.

Income Taxes

State personal income taxes – with their counterpart, corporate income taxes – are the main progressive element of state and local tax systems. In 2009, 41 states and the District of Columbia use broad-based personal income taxes to partially offset the regressivity of consumption taxes and property taxes. Yet some states have been noticeably more successful than others in creating a truly progressive personal income tax – one in which effective tax rates increase with income. Some states, such as California or Vermont, have very progressive income taxes. Others have only nominally progressive taxes. A very few states, such as Alabama and Pennsylvania, actually have what are effectively *regressive* income taxes.

These differences in the fairness of state income taxes are due to three broad policy choices made by lawmakers: the use of either a graduated or flat-rate tax structure, the use of exemptions and tax credits that primarily benefit low-income taxpayers, and in a number of states, the use of regressive tax loopholes that primarily benefit the wealthiest taxpayers.

Of the states currently levying a broad-based personal income tax, all but seven have chosen to apply *graduated* tax rates – in which higher tax rates are applied at higher income levels. The remaining seven states – Colorado, Illinois, Indiana, Massachusetts, Michigan, Pennsylvania, and Utah – tax income at one flat rate. While most of the “terrible ten” most regressive states achieve membership in this club by having no income taxes at all, two of them – Pennsylvania and Illinois – achieve this dubious honor through their use of a flat-rate tax.

Income Taxes (or not) in the 10 Most Regressive States

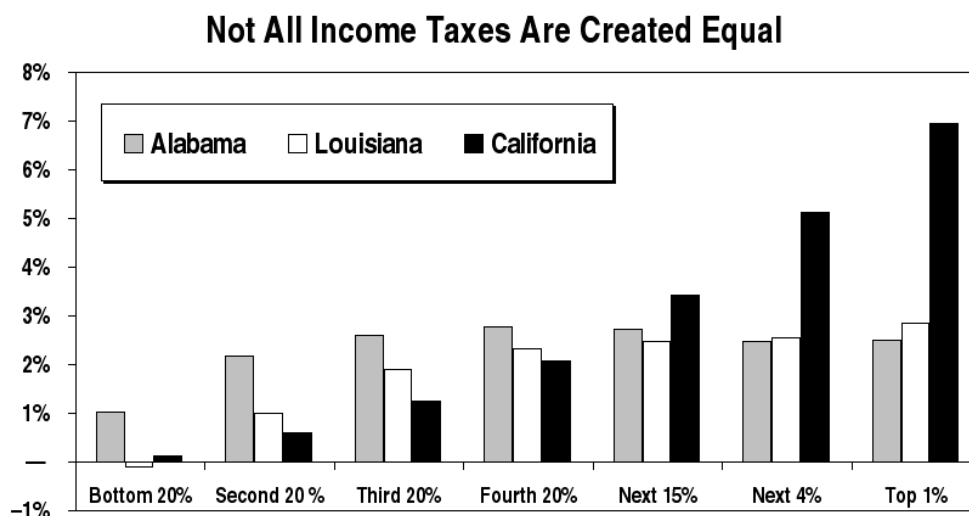
State	Little or No Income Tax	Flat-Rate Tax	Low Top Rate
Washington	✓		
Florida	✓		
South Dakota	✓		
Tennessee	✓		
Texas	✓		
Illinois		✓	
Arizona			✓
Nevada	✓		
Pennsylvania		✓	
Alabama			✓

However, using a graduated rate structure is not enough to guarantee an income tax that is progressive overall. Some graduated-rate income taxes are about as fair as a flat tax — and some nominally graduated state income taxes are actually *less* progressive than some flat-rate taxes. The level of graduation in state income tax rates varies widely. The chart below shows three state income taxes — those of Alabama, California, and Louisiana — that apply graduated rate structures with very different distributional impacts.

California's income tax is quite progressive. Its seven graduated tax rates range from 1 percent to 10.3 percent. (Temporary legislation enacted in 2009 increased these rates slightly.) Because the top tax rate of 10.3 percent is a “millionaire’s tax,” most Californians pay at a much lower rate.

Louisiana's income tax has fewer tax brackets (three) over a narrower range (2 to 6 percent), and the top rate begins at \$100,000 of taxable income for a married couple. The tax is progressive for low- and middle-income families, but is basically flat across the top 20 percent of the income distribution. (The use of a small Earned Income Tax Credit results in an effective tax rate that is slightly negative for low-income Louisianans.)

Alabama is a good example of a state with nominally graduated income tax rates that don't mean much in practice. The state's top tax rate of 5 percent is not much lower than Louisiana's top rate — but the top rate kicks in at just \$6,000 of taxable income for married couples. As a result, 66 percent of Alabama families pay at the top rate. In combination with special tax breaks targeted to upper-income families, this essentially-flat-rate structure results in a effective income tax rate that actually declines slightly at upper income levels, making this income tax less progressive than even some flat taxes.



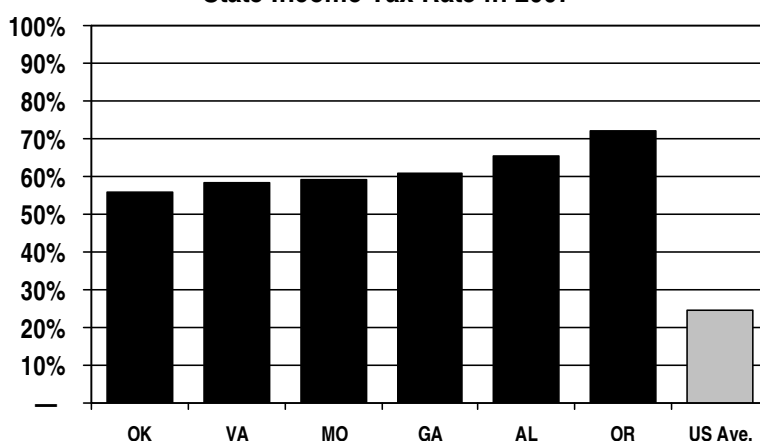
In addition to using graduated rates, many states also enhance income tax progressivity by providing low-income tax breaks. Personal and dependent exemptions and standard deductions can have substantial progressive effects. Colorado, for instance, has a single flat tax rate, but allows large exemptions and deductions based on federal income tax rules. Although this does not make Colorado's income tax one of the most progressive, the state's generous exemptions make this otherwise flat tax more equitable than some nominally graduated income taxes.

Perhaps the most important factor enhancing the fairness of income taxes in recent years has been the proliferation of low-income tax credits. These credits are most effective when they are *refundable* — that is, they allow a taxpayer to have a negative income tax liability which offsets sales and property taxes — and are adjusted for inflation so they do not erode over time.

Notably, 23 states and the District of Columbia allow an earned-income tax credit (EITC) patterned after the federal credit. Because this credit is targeted to low-income families and is usually refundable, it can substantially improve the fairness of a state's income tax. The use of low-income tax credits like the EITC is an important indicator of tax progressivity: only one of the ten most regressive state income taxes has a permanent EITC, while eight of the ten most progressive state income taxes currently provide a permanent EITC.³

In contrast to states that try to improve tax fairness with tax credits for low-income families, more than a dozen states currently allow substantial tax breaks that undermine tax progressivity by targeting their benefits to the wealthy. Two of the most regressive state income tax loopholes are capital gains tax breaks and deductions for federal income taxes paid. In combination with a flat (or only nominally graduated) rate structure, these tax breaks can

Percent of Families Paying the Top Marginal State Income Tax Rate in 2007



sometimes create the odd — and unfair — result of the highest income taxpayers paying less of their income in income taxes than middle-income taxpayers must pay. For example:

Alabama allows a deduction for federal income taxes paid. Although Alabama's income tax is essentially flat, the federal income tax is still progressive. So Alabama's deduction for federal income taxes disproportionately benefits the state's wealthiest taxpayers. As a result, effective marginal income tax rates in Alabama actually decline at higher income levels. Notwithstanding the 5 percent top tax rate, the effective income tax rate on the very wealthiest taxpayers is actually less than 3 percent. Like Alabama, two other states allow a full deduction for federal taxes; three other states have a partial deduction.

Wisconsin allows a deduction for 30 percent of capital gains income. Because capital gains are realized almost exclusively by the wealthiest 20 percent of taxpayers, this deduction makes the state income tax much less progressive. Seven other states allow substantial capital gains tax breaks. In a welcome development, several states (including Wisconsin) pared back or eliminated capital gains tax breaks in 2009.

³The other two progressive income taxes, California and North Carolina, achieve fairness by applying a comparatively high top income tax to a relatively small group of upper-income taxpayers. North Carolina does offer an EITC at present, but that credit is set to expire in 2013.

Sales and Excise Taxes

Sales and excise taxes are the most regressive element in most state and local tax systems. Because sales taxes are levied at a flat rate, and because spending as a share of income falls as income rises, sales taxes inevitably take a larger share of income from low- and middle-income families than they take from the rich.⁴ Thus, while a flat-rate general sales tax may appear on its face to be neither progressive nor regressive, that is not its practical impact. Unlike an income tax, which generally applies to most income, the sales tax applies only to a portion of income that is spent – and exempts income that is saved. Since the rich are able to save a much larger share of their incomes than middle-income families – and since the poor can rarely save at all – the tax is inherently regressive.

The average state's consumption tax structure is equivalent to an income tax with a 7.1 percent rate for the poor, a 4.7 percent rate for the middle class, and a 0.9 percent rate for the wealthiest taxpayers. Obviously, no one would intentionally design an income tax that looks like this – yet by relying on consumption taxes as a revenue source, this is effectively the policy choice lawmakers nationwide have made.

The single most important factor affecting the fairness of different state **sales taxes** is the treatment of groceries. Taxing food is a particularly regressive strategy because poor families spend most of their income on groceries and other necessities. Of the ten most regressive sales taxes in the country, eight apply to groceries in some form.

Sales taxes are usually calculated as a percentage of the price of a fairly broad base of taxable items. **Excise taxes**, by contrast, are imposed on a small number of goods, typically ones for which demand has a practical per-person maximum (for example, one can only use so much gasoline). Thus, wealthy people don't keep buying more of these goods as their income increases. Moreover, excise taxes are typically based on volume rather than price – per gallon, per pack and so forth. Thus better-off people pay the same absolute tax on an expensive premium beer as low-income families pay on a run-of-the-mill variety. As a result, excise taxes are usually the most regressive kind of tax.

Overall, state excise taxes on gasoline, cigarettes and beer take about 1.6 percent of the income of the poorest families, 0.8 percent of the income of middle-income families, and just 0.07 percent of the income of the very best-off. In other words, these excise taxes are 22 times harder on the poor than the rich, and 11 times harder on middle-income families than the rich.

Sales Taxes in the 10 Most Regressive States

State	Heavy reliance on sales tax	Food in base
Washington	✓	
Florida	✓	
South Dakota	✓	✓
Tennessee	✓	✓
Texas		
Illinois		✓
Arizona	✓	
Nevada		
Pennsylvania		
Alabama		✓

⁴A few states have enacted preferential tax rates for taxpayers perceived to have less ability to pay – for example, South Carolina's sales tax rate is lower for taxpayers over 85 – but these special rates usually apply to taxpayers regardless of income level. Arkansas exempts some utilities for low-income taxpayers.

In addition to being the most regressive tax, excise taxes are relatively poor revenue-raising tools because they decline in real value over time. Since excise taxes are levied on a per-unit basis rather than *ad valorem* (percentage of value), the revenue generated is eroded due to inflation. That means excise tax rates must continually be increased merely to keep pace with inflation, not to mention real economic growth. Policy makers using excise tax hikes to close fiscal gaps should recognize that reliance on excise tax revenues means balancing state budgets on the back of the very poorest taxpayers — and that these revenues represent a short-term fix rather than a long-term solution.

Property Taxes

Property taxes have historically been the most important revenue source for state and local governments. Today, a state's property tax base typically includes only a subset of total wealth: primarily homes and business real estate and, in some states, cars and business property other than real estate. Our analysis shows that, overall, the property tax is a regressive tax — albeit far less regressive than sales and excise taxes. There are several reasons for this:

For average families, a home represents the lion's share of their total wealth. At high income levels, however, homes are only a small share of total wealth. Because the property tax usually applies mainly to homes and exempts most other forms of wealth, the tax applies to most of the wealth of middle-income families, and hits a smaller share of the wealth of high-income families.

For homeowners, home values as a share of income tend to decline at higher incomes. Thus, a typical middle-income family's home might be worth three times as much as the family's annual income, while a rich person's home might be valued at one-and-a-half times his or her annual income or less.

Renters do not escape property taxes. A portion of the property tax on rental property is passed through to renters in the form of higher rent — and these taxes represent a much larger share of income for poor families than for the wealthy. This adds to the regressivity of the property tax.

The regressivity of the property tax is reduced by the business tax component, which generally falls on owners of capital, and to a significant degree is “exported” to residents of other states. On average, this study finds that about 40 percent of a typical state's property taxes fall on business (excluding the portion of apartment taxes that is assigned to renters).

The regressivity of property taxes is dependent on factors within the control of policy makers, such as the use of exemptions, tax credits, and preferential tax rates for homeowners, and on external factors such as housing patterns in the state. The fairest property taxes are generally those that use the following tax relief strategies:

Homestead exemptions

The most frequently used form of broad-based state property tax relief for homeowners is the homestead exemption, which usually exempts a flat dollar amount, or a flat percentage of home value, from property tax. Some states apply the exemption only to certain types of property tax levies, such as school taxes, while other states apply the exemption to all homeowner property taxes.

Allowing a generous homestead exemption is what sets less regressive property-tax states apart from the most regressive states. Five of the 10 most regressive state tax systems did not include an all-ages homestead exemption in 2009.

While several states have increased the value of their homestead exemptions in recent years, many other states have allowed the real value of their homestead exemptions to diminish, as growing home values made fixed-dollar exemptions less valuable.

Low Income Credits

A majority of states now offer some kind of credit designed to assist low-income taxpayers in paying their property tax bills. Many of these credits come in the form of a “circuit breaker,” a relatively inexpensive — and more precisely targeted — form of property tax relief that is allowed only when property tax bills exceed a certain percentage of a person’s income. Unfortunately, as with all low-income property tax credits, many circuit breakers are made available only to elderly taxpayers. Only nine states offer substantial circuit breakers to all low-income property taxpayers regardless of age or disability. Notably, not a single one of the ten most regressive states has a low-income circuit breaker.

Property Tax Relief (or not) in the 10 Most Regressive States

State	Homestead Exemption	Low Income Credit
Washington		
Florida	✓	
South Dakota		
Tennessee		
Texas	✓	
Illinois	✓	
Arizona	✓	
Nevada		
Pennsylvania		
Alabama	✓	

Federal Itemized Deduction Offset

State and local personal income and property taxes (and, temporarily, general sales taxes) are allowed as itemized deductions in computing federal income taxes. This means that federal itemizers — a mostly better-off group — can effectively export part of their state tax burden to the federal government. This has a significant impact on the real tax burdens facing better-off state taxpayers, and on cross-state differences in total tax burdens.

On average, a fifth of all state personal income and individually-paid property taxes are exported to the federal government (and to taxpayers nationwide) as a result of itemized federal deductions. For the very best-off taxpayers, up to 35 percent of their state and local income and property tax bills are effectively paid by the federal government.

For example, if a wealthy family pays \$5,000 in state personal income tax, they get a deduction from federal taxable income of \$5,000. So \$5,000 is reduced from income that would be taxed at a rate much higher than the state rate.

For a typical taxpayer in the top federal tax bracket, about 20 percent of the \$5,000 state tax is essentially paid by the federal government. The state receives the \$5,000 from the taxpayer but the taxpayer only pays \$4,000, or eighty percent of the state tax bill. Since federal itemizers tend to be wealthier, and because state income taxes vary in the degree to which their burdens fall on these wealthy itemizers, some states are better than others at exporting part of their tax load to the federal government.

Low Taxes or Just Regressive Taxes?

This analysis has focused on the most regressive state and local tax systems and the factors that make them so. Aside from their regressivity, however, many of these states have another trait in common: they are frequently cited as “low-tax” states by the media or by their elected officials, often with an emphasis on their lack of an income tax. But this raises the question: “low tax” for whom?

No-income-tax states like Washington, Texas and Florida do, in fact, have average to low taxes overall. Can they also be considered “low-tax” states for poor families? Far from it. In fact, these states’ disproportionate reliance on sales and excise taxes make their taxes among the *highest* in the entire nation on low-income families.

The table to the right shows the ten states that tax poor families the most. Washington State, which does not have an income tax, is the *highest-tax state in the country* for poor people. In fact, when all state and local sales, excise and property taxes are tallied up, Washington’s poor families pay 17.3 percent of their total income in state and local taxes. Compare that to neighboring Idaho and Oregon, where the poor pay 8.6 percent and 8.7 percent, respectively, of their incomes in state and local taxes — far less than in Washington.

Florida, also a no-income-tax state, taxes its poor families at a rate of 13.5 percent, ranking second in this dubious category. Illinois, which relies heavily on consumption taxes, ranks third in its taxes on the poor, at 13.0 percent.

The bottom line is that many so-called “low-tax” states are high-tax states for the poor, and most of them do not offer a good deal to middle-income families either. Only the wealthy in such states pay relatively little.

The Ten States with the Highest Taxes on the Poor

Washington	17.3%
Florida	13.5%
Illinois	13.0%
Arizona	12.5%
Texas	12.2%
Hawaii	12.2%
Arkansas	12.1%
Ohio	12.0%
Connecticut	12.0%
Indiana	11.9%

How Have Recent Tax Changes Affected State Tax Fairness?

State lawmakers have enacted a wide variety of tax changes in the last five years, many of which have dramatically reshaped state and local tax fairness. Several prominent trends are worth noting.

- Several states, including Rhode Island and Utah, have sharply reduced their income tax rates for upper-income families. In these states, personal income taxes – and the tax system overall – have become more regressive as a result.
- Other states, including Arizona and Ohio, have reduced income tax rates “across the board.” While these tax changes have provided some benefit to lower- and middle-income families, by reducing a progressive tax, they have also made the tax system more regressive overall.
- A few states have increased income tax rates on the best-off taxpayers. These states include Maryland and Connecticut.
- A number of states have introduced low-income refundable tax credits such as the Earned Income Tax Credit (or have expanded existing credits) in a way that makes their tax systems fairer at a minimal cost.
- Several states, including Indiana and South Carolina, have increased general sales tax rates. These changes serve to increase the role of the most regressive tax levied by these states – and have made each of these states’ tax systems more regressive overall.
- In the past two years alone, more than a dozen states have increased their cigarette tax.
- Other states have chosen to alter the base, rather than the rate, of their sales taxes. Arkansas, New Mexico, South Carolina, Tennessee, and Utah have lowered or eliminate their sales tax on groceries. These changes have made each of these states’ sales tax less unfair.

Looking forward, legislators would do well to focus more clearly on real tax reform that achieves both improved tax fairness and long-term revenue stability. The alternative – increasing a wide range of taxes in times of fiscal difficulty but reducing mainly progressive taxes in times of plenty – undermines both progressivity and revenues.

Conclusion

The main finding of this report — that virtually every state’s tax system is fundamentally unfair — comes with a silver lining. In a growing number of states, awareness of this problem is building among lawmakers, the media, and the public. And many states are now considering progressive tax reforms, including a low-income tax credits and high-end income tax increases, that would make state and local taxes at least somewhat less unfair.

Yet the same lawmakers have continued to use regressive sales and excise tax hikes to fund essential services, swamping the progressive impact of such low-income credits. The bleak reality is that of the twenty three states and the District of Columbia that have taken steps to reduce the tax burden on the working poor by enacting state earned-income tax credits, nine still require their poorest taxpayers to pay a higher effective tax rate than any other income group. And many of the states that have been more generous in enacting low-income tax credits have provided even greater benefits to the wealthiest taxpayers in the form of income tax rate reductions.

The current economic slowdown will likely force many states to undertake a thorny debate over revenue-raising tax reforms over the next year. The results of this study should provide an important blueprint for lawmakers seeking to understand the inequitable tax structures enacted by their predecessors. States may ignore these lessons and continue to balance state budgets on the backs of their poorest citizens. Or they may decide instead to ask wealthier families to pay tax rates more commensurate with their incomes. In either case, the path that states choose in the near future will have a major impact on the well-being of their citizens — and on the fairness of state and local taxes.

DETAILED STATE-BY-STATE TABLES

A Roadmap to the State-by-State Tables

The following pages show state-by-state estimates of the distribution of state and local taxes by income group for non-elderly taxpayers.⁵ For each state, two pages of tax information are presented.

The first page for each state shows the distribution of state and local taxes in 2007.⁶ In each distributional chart, the non-elderly population is divided into income quintiles (groups of 20 percent of the population). The wealthiest quintile is further subdivided into three groups: the wealthiest one percent, the next wealthiest four percent, and the next wealthiest 15 percent. This is done because the wealthiest quintile received more than 60% of all income in 2007 – and because income is distributed unequally within the top quintile.

The second page includes additional charts and information that help clarify what makes each state’s tax system unfair and points to options for progressive tax reform. Since each state’s tax system is unique, a variety of different charts are used. The majority of these charts display state-specific information about topics discussed generally in the report. While most of these charts are self-explanatory, two may require some clarification:

- Charts depicting “Select State and Local Taxes Relative to the National Average” compare specific taxes across states based on the portion of taxpayer income collected by those taxes. State and local property taxes, for example, were 3.4 percent of personal income

⁵As noted in footnote 1, the study’s scope is limited to non-elderly families (including singles and couples, with and without children) because state tax systems often treat elderly families very differently from the vast majority of families.

⁶The 2007 figures show the effects of state and local tax laws, modified to account for permanent changes in tax law through October of 2009, at 2007 income levels (the latest year for which complete state-by-state personal income data is available). Changes that are slated to expire in the future are not reflected in these figures.

nationwide. If the state being examined instead collects fifty percent more than that amount, or 5.1% of taxpayer income, through property taxes, this chart will indicate that the tax is 50% above the national average.

- Charts labeled, “Effective State Earned Income Tax Credit (EITC) Rates” display the *effective* rate of the state EITC, which in some states noticeably differs from the *statutory* rate because of non-refundability or other rules diminishing the value of the credit.

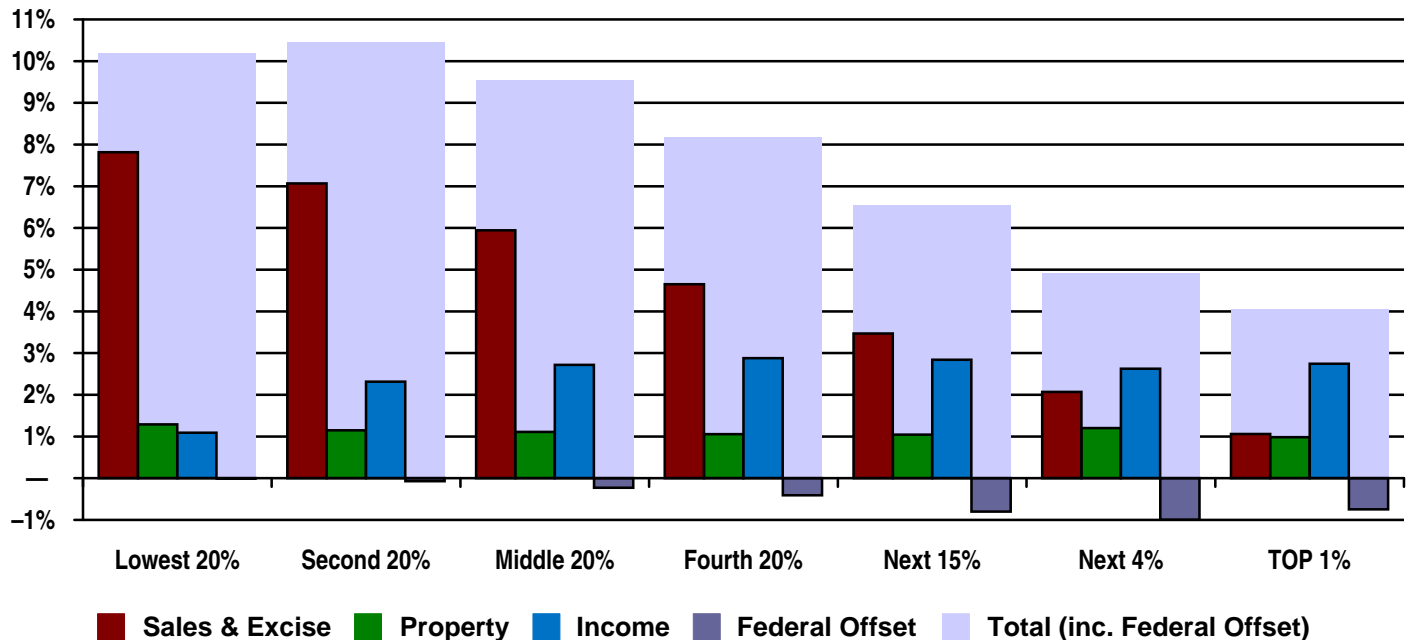
The second page for each state also includes two pie-charts showing the shares of each state’s total tax revenues that came from each major type of tax in fiscal 1997 and fiscal 2007.

Finally, an addendum table starting on page 119 shows trends in both tax and “non-tax” revenues as shares of *total* state and local own-source revenues. This differs from the data in the rest of the report which focuses solely on taxes. The table covers the period from fiscal 1997 to fiscal year 2007 (the latest U.S. Census data currently available). Shifts towards non-tax revenues, such as fees for state college tuition and lottery revenues, can be meaningful, because such revenue sources are usually regressive ways to pay for state and local programs.

Alabama

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$26,000	\$26,000 – \$46,000	\$46,000 – \$78,000	\$78,000 – \$153,000	\$153,000 – \$384,000	\$384,000 or more
Average Income in Group	\$10,400	\$21,000	\$34,600	\$59,300	\$103,200	\$211,500	\$1,196,200
Sales & Excise Taxes	7.8%	7.1%	5.9%	4.6%	3.5%	2.1%	1.1%
General Sales—Individuals	4.0%	3.7%	3.3%	2.7%	2.0%	1.2%	0.6%
Other Sales & Excise—Ind.	2.0%	1.7%	1.3%	0.9%	0.7%	0.4%	0.2%
Sales & Excise on Business	1.8%	1.6%	1.4%	1.1%	0.8%	0.5%	0.3%
Property Taxes	1.3%	1.1%	1.1%	1.1%	1.0%	1.2%	1.0%
Property Taxes on Families	1.3%	1.1%	1.0%	1.0%	1.0%	1.0%	0.4%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.5%
Income Taxes	1.1%	2.3%	2.7%	2.9%	2.8%	2.6%	2.7%
Personal Income Tax	1.1%	2.3%	2.7%	2.9%	2.8%	2.6%	2.5%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	10.2%	10.5%	9.8%	8.6%	7.4%	5.9%	4.8%
Federal Deduction Offset	-0.0%	-0.1%	-0.2%	-0.4%	-0.8%	-1.0%	-0.7%
TOTAL AFTER OFFSET	10.2%	10.5%	9.5%	8.2%	6.6%	4.9%	4.0%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Alabama

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides one of the largest property tax homestead exemptions in the country

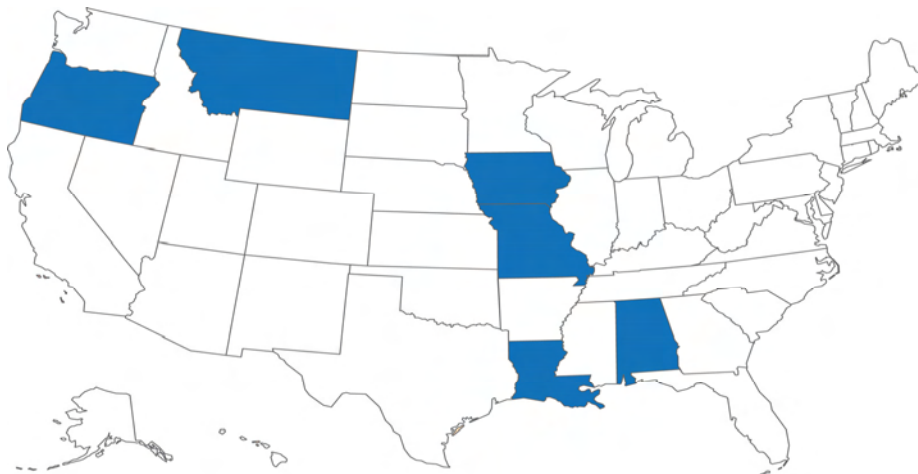
Regressive Features

- ✗ Narrow income tax brackets mean majority of taxpayers pay top income tax rate
- ✗ Offers an income tax deduction for federal income taxes paid
- ✗ Sales tax base includes groceries

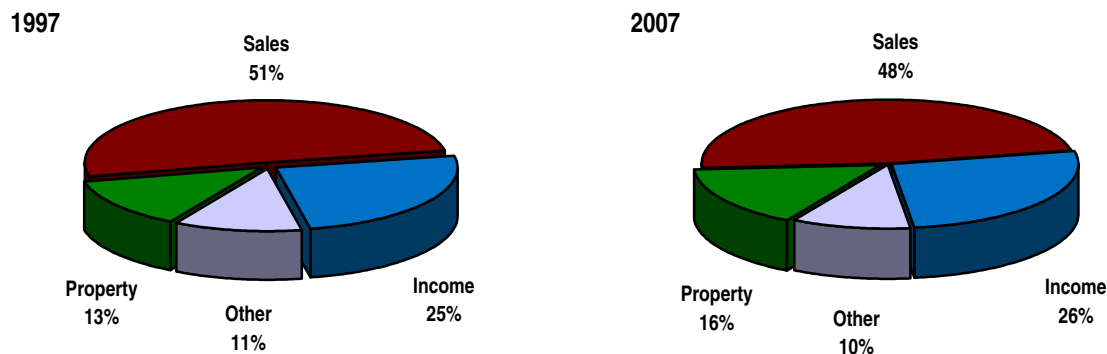
Recent Developments

- ▲ Increased standard deduction for low- and moderate-income taxpayers
- ▲ Increased dependent exemption for low- and moderate-income taxpayers

States Offering a Deduction for Federal Income Taxes Paid



Change in the Composition of Tax Revenue

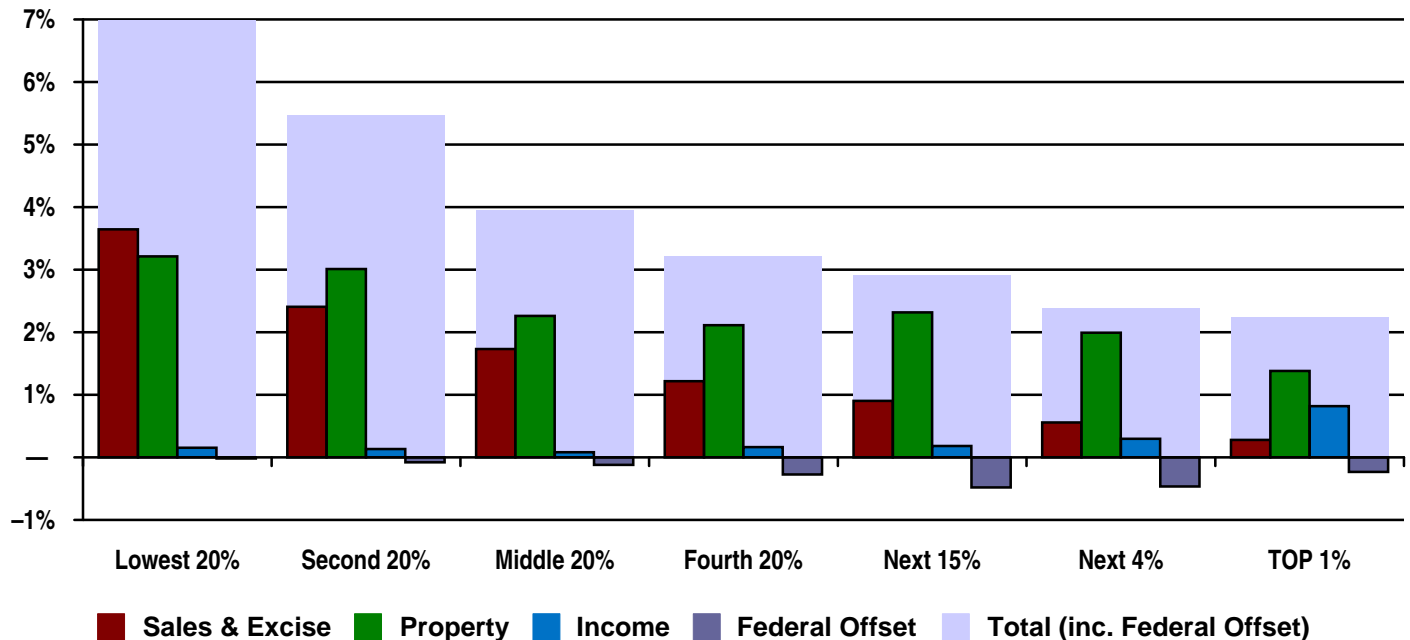


Source: U.S. Census Bureau, Government Finances

Alaska

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$22,000	\$22,000 – \$35,000	\$35,000 – \$61,000	\$61,000 – \$108,000	\$108,000 – \$188,000	\$188,000 – \$399,000	\$399,000 or more
Average Income in Group	\$13,600	\$26,900	\$47,500	\$83,200	\$137,800	\$244,700	\$1,135,200
Sales & Excise Taxes	3.6%	2.4%	1.7%	1.2%	0.9%	0.6%	0.3%
General Sales—Individuals	0.9%	0.8%	0.6%	0.5%	0.4%	0.3%	0.2%
Other Sales & Excise—Ind.	2.3%	1.3%	0.9%	0.5%	0.4%	0.2%	0.1%
Sales & Excise on Business	0.4%	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%
Property Taxes	3.2%	3.0%	2.3%	2.1%	2.3%	2.0%	1.4%
Property Taxes on Families	3.0%	2.9%	2.2%	1.9%	2.1%	1.7%	0.5%
Other Property Taxes	0.2%	0.2%	0.1%	0.2%	0.2%	0.3%	0.9%
Income Taxes	0.2%	0.1%	0.1%	0.2%	0.2%	0.3%	0.8%
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	0.2%	0.1%	0.1%	0.2%	0.2%	0.3%	0.8%
TOTAL TAXES	7.0%	5.5%	4.1%	3.5%	3.4%	2.8%	2.5%
Federal Deduction Offset	-0.0%	-0.1%	-0.1%	-0.3%	-0.5%	-0.5%	-0.2%
TOTAL AFTER OFFSET	7.0%	5.5%	4.0%	3.2%	2.9%	2.4%	2.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Alaska

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ No statewide sales tax
- ✓ Requires the use of combined reporting

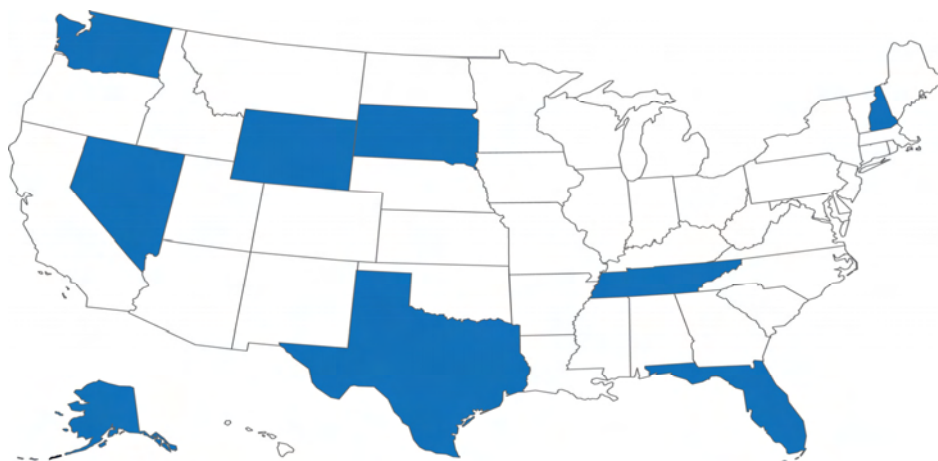
Regressive Features

- ✗ No personal income tax
- ✗ Localities impose separate sales taxes

Recent Developments

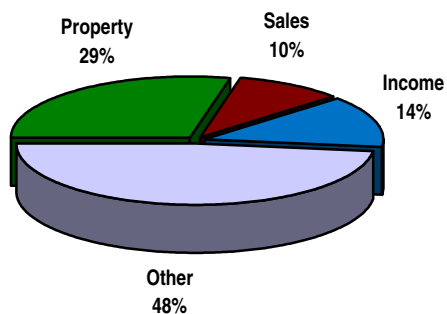
- ▲ Enacted an expanded petroleum profits tax
- ▲ Increased cigarette taxes

States without a Broad-Based Personal Income Tax

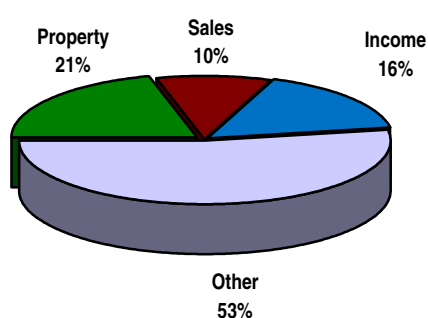


Change in the Composition of Tax Revenue

1997



2007

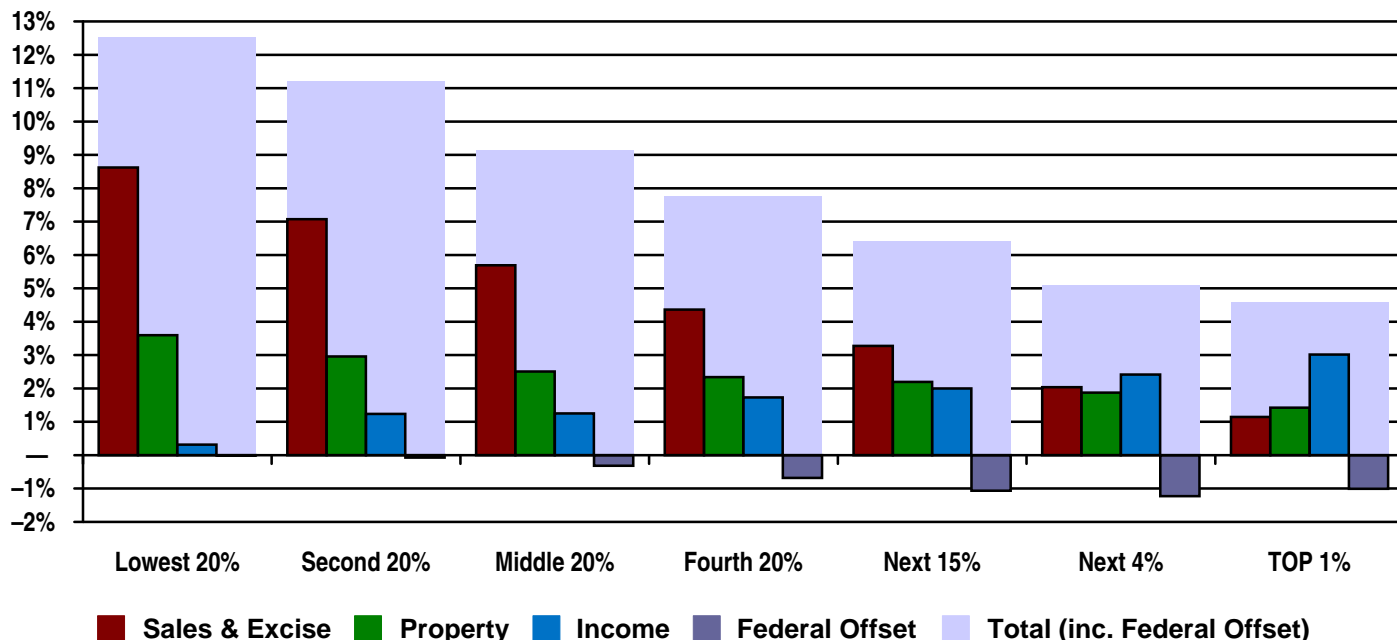


Source: U.S. Census Bureau, Government Finances

Arizona

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$33,000	\$33,000 – \$52,000	\$52,000 – \$86,000	\$86,000 – \$174,000	\$174,000 – \$437,000	\$437,000 or more
Average Income in Group	\$12,500	\$27,500	\$40,600	\$66,300	\$115,300	\$256,400	\$1,460,400
Sales & Excise Taxes	8.6%	7.1%	5.7%	4.4%	3.3%	2.0%	1.1%
General Sales—Individuals	3.9%	3.5%	2.9%	2.3%	1.8%	1.1%	0.7%
Other Sales & Excise—Ind.	1.4%	0.9%	0.6%	0.5%	0.3%	0.2%	0.1%
Sales & Excise on Business	3.3%	2.7%	2.1%	1.6%	1.2%	0.7%	0.4%
Property Taxes	3.6%	3.0%	2.5%	2.3%	2.2%	1.9%	1.4%
Property Taxes on Families	3.3%	2.7%	2.2%	2.1%	1.9%	1.6%	0.5%
Other Property Taxes	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.9%
Income Taxes	0.3%	1.2%	1.3%	1.7%	2.0%	2.4%	3.0%
Personal Income Tax	0.3%	1.2%	1.2%	1.7%	2.0%	2.4%	2.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	12.5%	11.3%	9.4%	8.4%	7.5%	6.3%	5.6%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.7%	-1.1%	-1.2%	-1.0%
TOTAL AFTER OFFSET	12.5%	11.2%	9.1%	7.8%	6.4%	5.1%	4.6%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Arizona

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides an income tax credit to reduce the impact of the sales tax
- ✓ Sales tax base excludes groceries

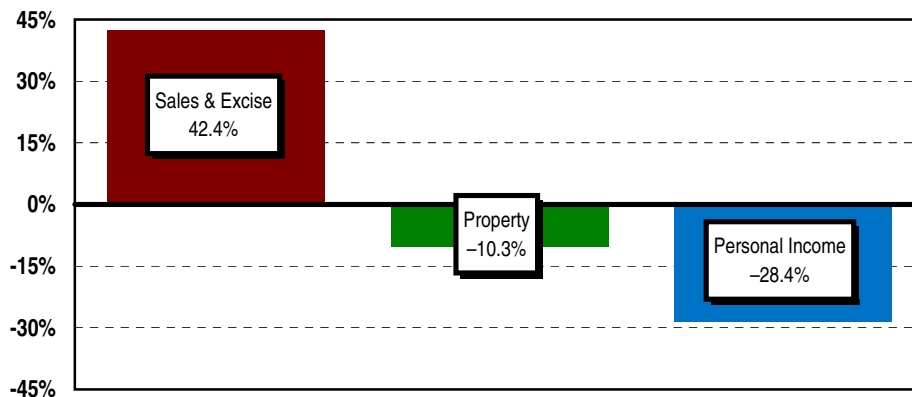
Regressive Features

- ✗ Comparatively high reliance on sales taxes
- ✗ Comparatively high cigarette tax rate
- ✗ Fails to provide an earned income tax credit (EITC)

Recent Developments

- ▲ Reduced all personal income tax rates by 10 percent
- ▲ Now indexes standard deduction to inflation

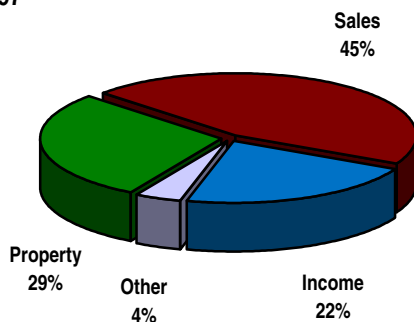
Select State and Local Taxes Relative to the National Average



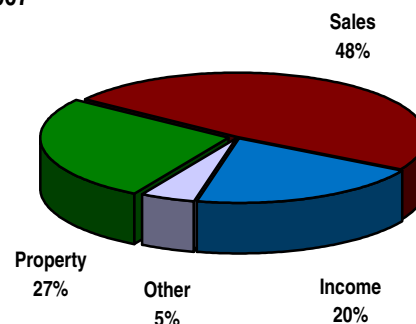
Source: Government Finances, US Department of Census

Change in the Composition of Tax Revenue

1997



2007

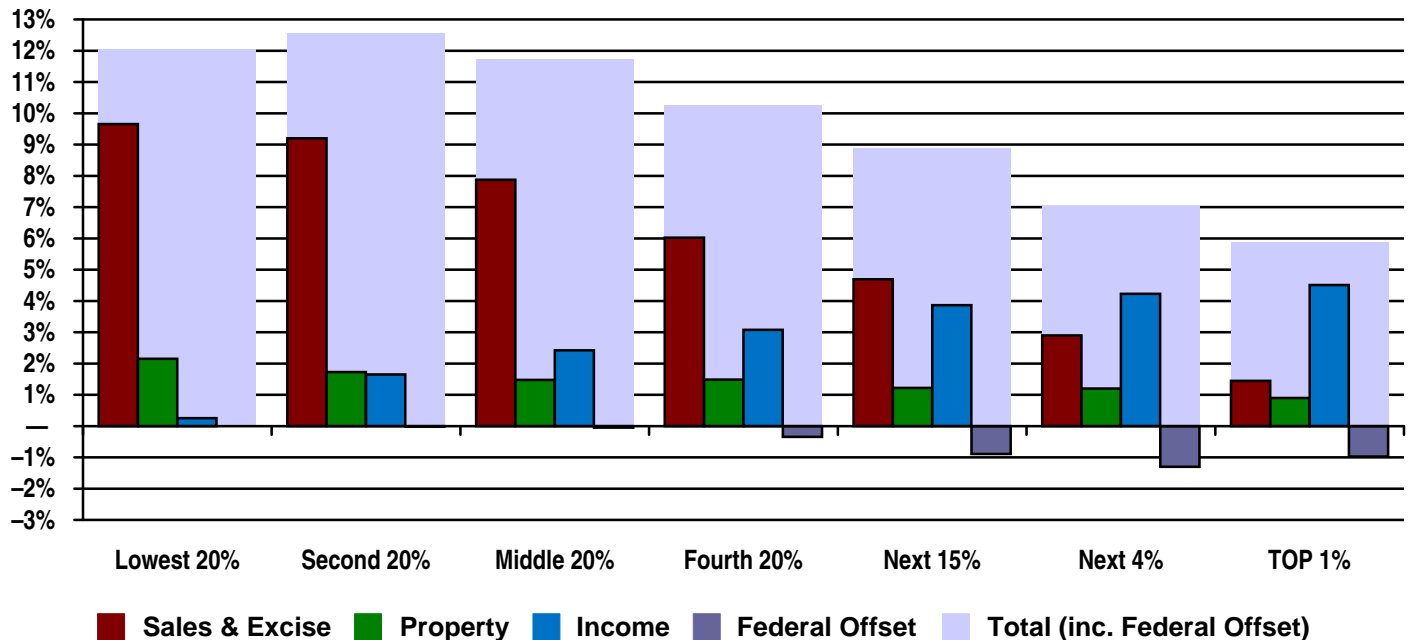


Source: U.S. Census Bureau, Government Finances

Arkansas

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



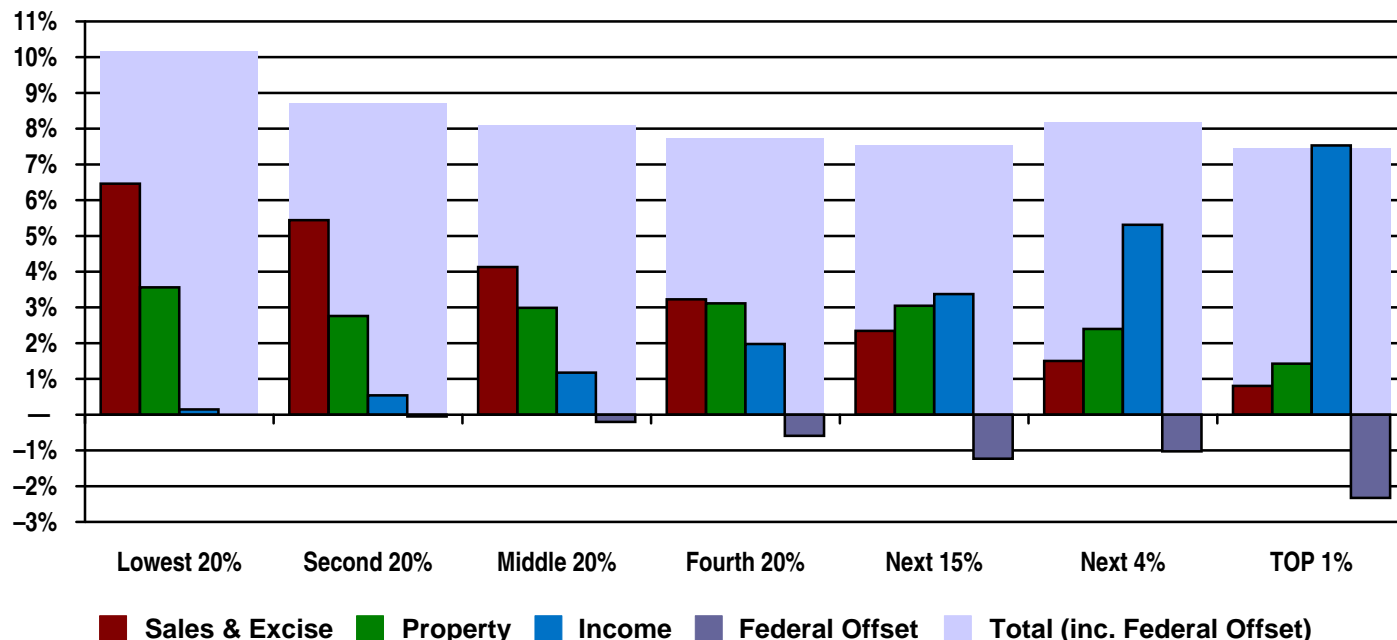
Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$26,000	\$26,000 – \$42,000	\$42,000 – \$70,000	\$70,000 – \$145,000	\$145,000 – \$368,000	\$368,000 or more
Average Income in Group	\$8,600	\$20,600	\$33,800	\$54,400	\$95,000	\$203,600	\$911,500
Sales & Excise Taxes	9.7%	9.2%	7.9%	6.0%	4.7%	2.9%	1.4%
General Sales—Individuals	5.5%	5.5%	4.9%	3.9%	3.1%	1.9%	1.0%
Other Sales & Excise—Ind.	1.9%	1.6%	1.1%	0.8%	0.6%	0.3%	0.1%
Sales & Excise on Business	2.2%	2.1%	1.8%	1.3%	1.0%	0.6%	0.3%
Property Taxes	2.1%	1.7%	1.5%	1.5%	1.2%	1.2%	0.9%
Property Taxes on Families	2.1%	1.7%	1.4%	1.5%	1.1%	1.0%	0.5%
Other Property Taxes	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.4%
Income Taxes	0.3%	1.6%	2.4%	3.1%	3.9%	4.2%	4.5%
Personal Income Tax	0.2%	1.6%	2.4%	3.1%	3.8%	4.1%	4.3%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	12.1%	12.6%	11.8%	10.6%	9.8%	8.3%	6.8%
Federal Deduction Offset	—	-0.0%	-0.1%	-0.3%	-0.9%	-1.3%	-1.0%
TOTAL AFTER OFFSET	12.1%	12.6%	11.7%	10.2%	8.9%	7.0%	5.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

California

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$22,000	\$22,000 – \$36,000	\$36,000 – \$58,000	\$58,000 – \$99,000	\$99,000 – \$216,000	\$216,000 – \$600,000	\$600,000 or more
Average Income in Group	\$13,200	\$28,500	\$46,000	\$75,700	\$139,100	\$328,800	\$2,180,900
Sales & Excise Taxes	6.5%	5.4%	4.1%	3.2%	2.3%	1.5%	0.8%
General Sales—Individuals	3.2%	2.9%	2.3%	1.9%	1.4%	0.9%	0.5%
Other Sales & Excise—Ind.	0.8%	0.6%	0.4%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.4%	1.9%	1.4%	1.0%	0.7%	0.5%	0.3%
Property Taxes	3.6%	2.8%	3.0%	3.1%	3.0%	2.4%	1.4%
Property Taxes on Families	3.5%	2.7%	2.9%	3.0%	2.9%	2.1%	0.7%
Other Property Taxes	0.1%	0.0%	0.1%	0.1%	0.1%	0.3%	0.7%
Income Taxes	0.1%	0.5%	1.2%	2.0%	3.4%	5.3%	7.5%
Personal Income Tax	0.1%	0.5%	1.1%	1.9%	3.3%	5.1%	7.1%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.5%
TOTAL TAXES	10.2%	8.7%	8.3%	8.3%	8.8%	9.2%	9.8%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.6%	-1.2%	-1.0%	-2.3%
TOTAL AFTER OFFSET	10.2%	8.7%	8.1%	7.7%	7.5%	8.2%	7.4%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

California

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides personal income tax credits in place of personal and dependent exemptions
- ✓ Sales tax base excludes groceries

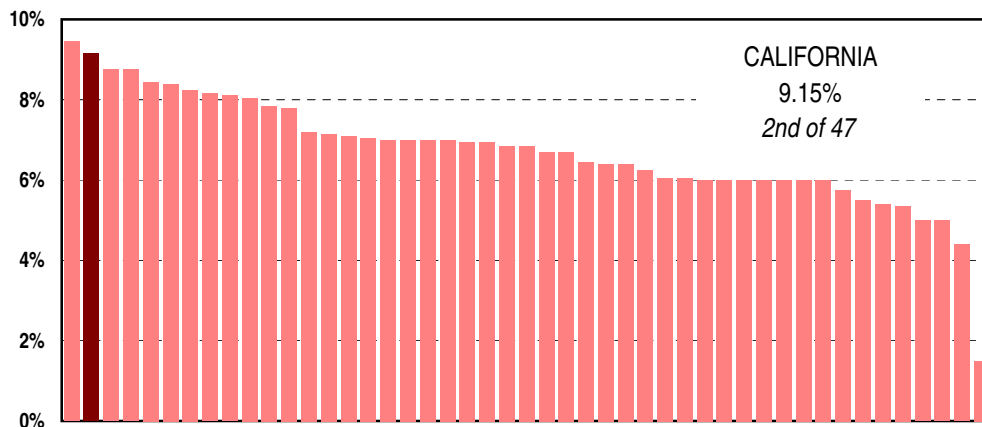
Regressive Features

- ✗ Fails to provide a property tax “circuit breaker” credit to non-elderly taxpayers
- ✗ Comparatively high combined state and local sales tax rate

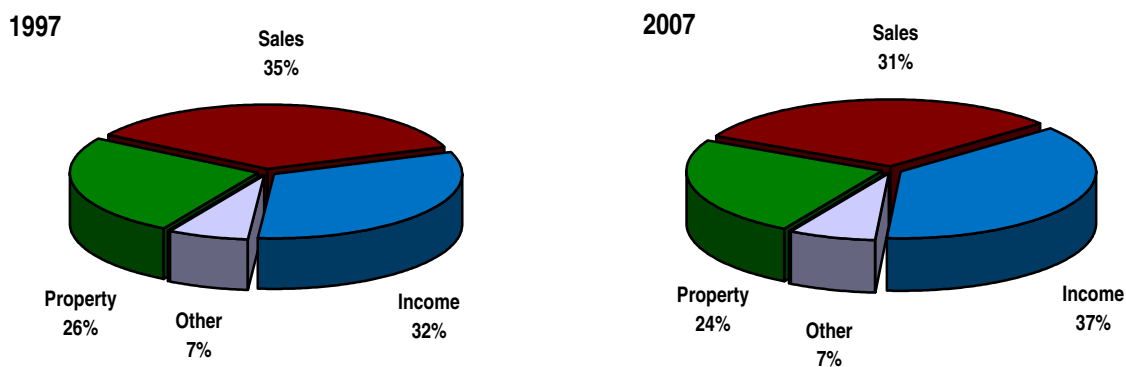
Recent Developments

- ▲ Added a new income tax bracket for income in excess of \$1 million
- ▲ Increased income tax rates and sales tax rate on a temporary basis

Combined State and Local Sales Tax Rates



Change in the Composition of Tax Revenue

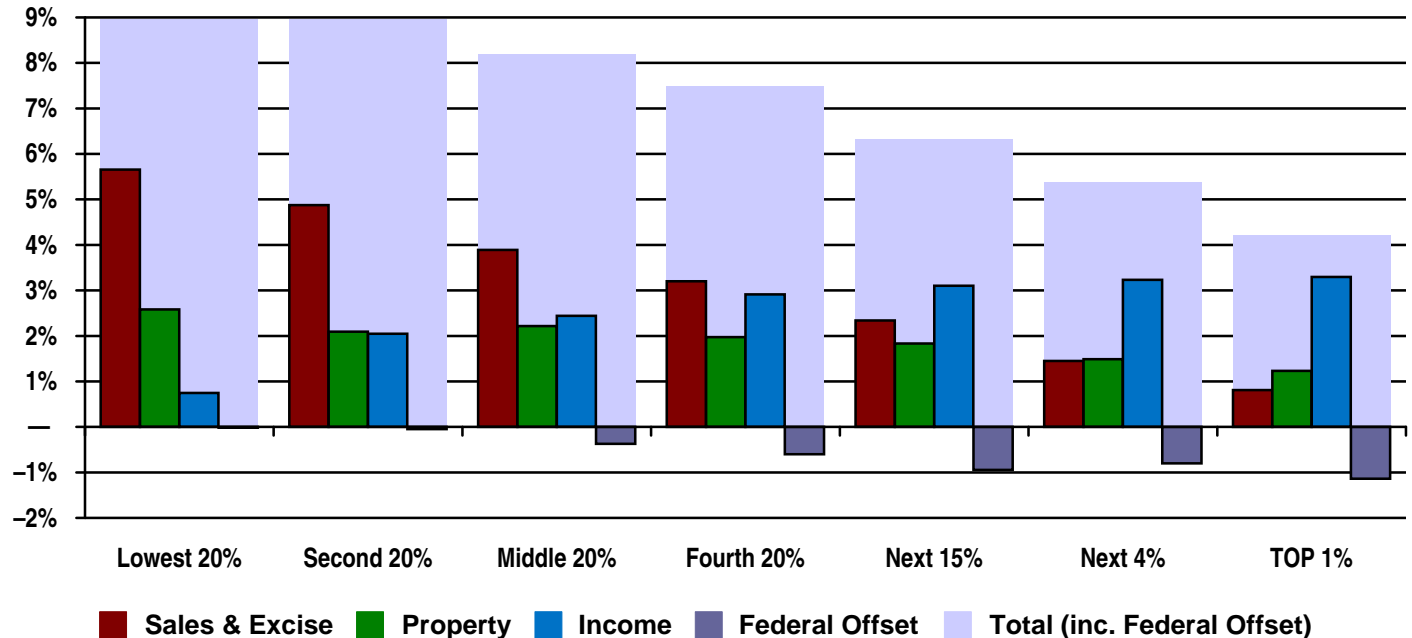


Source: U.S. Census Bureau, Government Finances

Colorado

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



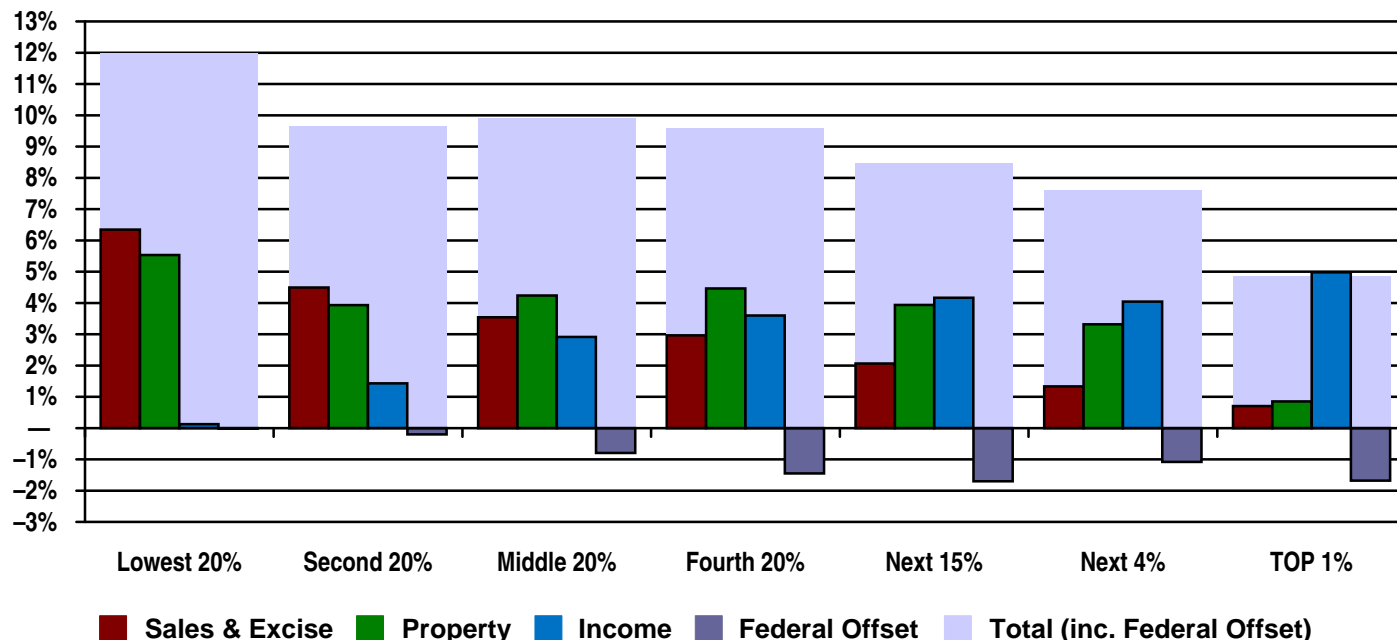
Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$39,000	\$39,000 – \$59,000	\$59,000 – \$99,000	\$99,000 – \$209,000	\$209,000 – \$557,000	\$557,000 or more
Average Income in Group	\$11,400	\$28,700	\$48,500	\$76,200	\$134,500	\$315,000	\$1,975,800
Sales & Excise Taxes	5.7%	4.9%	3.9%	3.2%	2.3%	1.4%	0.8%
General Sales—Individuals	2.7%	2.5%	2.1%	1.8%	1.4%	0.9%	0.5%
Other Sales & Excise—Ind.	0.9%	0.6%	0.5%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.1%	1.7%	1.3%	1.0%	0.7%	0.5%	0.3%
Property Taxes	2.6%	2.1%	2.2%	2.0%	1.8%	1.5%	1.2%
Property Taxes on Families	2.6%	2.1%	2.1%	1.9%	1.7%	1.1%	0.3%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.4%	0.9%
Income Taxes	0.7%	2.0%	2.4%	2.9%	3.1%	3.2%	3.3%
Personal Income Tax	0.7%	2.0%	2.4%	2.9%	3.1%	3.2%	3.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	9.0%	9.0%	8.5%	8.1%	7.3%	6.2%	5.3%
Federal Deduction Offset	-0.0%	-0.0%	-0.4%	-0.6%	-0.9%	-0.8%	-1.1%
TOTAL AFTER OFFSET	9.0%	9.0%	8.2%	7.5%	6.3%	5.4%	4.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Connecticut

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$26,000	\$26,000 – \$44,000	\$44,000 – \$75,000	\$75,000 – \$121,000	\$121,000 – \$302,000	\$302,000 – \$1,355,000	\$1,355,000 or more
Average Income in Group	\$12,700	\$34,500	\$58,100	\$95,900	\$170,300	\$460,500	\$3,164,200
Sales & Excise Taxes	6.3%	4.5%	3.5%	3.0%	2.1%	1.3%	0.7%
General Sales—Individuals	2.3%	2.0%	1.6%	1.5%	1.1%	0.7%	0.4%
Other Sales & Excise—Ind.	2.0%	1.0%	0.8%	0.6%	0.4%	0.2%	0.0%
Sales & Excise on Business	2.1%	1.5%	1.1%	0.9%	0.6%	0.4%	0.2%
Property Taxes	5.5%	3.9%	4.2%	4.5%	3.9%	3.3%	0.9%
Property Taxes on Families	5.5%	3.9%	4.2%	4.4%	3.8%	3.0%	0.4%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%	0.5%
Income Taxes	0.1%	1.4%	2.9%	3.6%	4.2%	4.0%	5.0%
Personal Income Tax	0.1%	1.4%	2.9%	3.6%	4.1%	4.0%	4.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
TOTAL TAXES	12.0%	9.9%	10.7%	11.0%	10.2%	8.7%	6.5%
Federal Deduction Offset	-0.0%	-0.2%	-0.8%	-1.5%	-1.7%	-1.1%	-1.7%
TOTAL AFTER OFFSET	12.0%	9.7%	9.9%	9.6%	8.5%	7.6%	4.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Connecticut

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides comparatively large personal exemptions and credits for low- and middle-income taxpayers
- ✓ Provides a property tax "circuit breaker" credit for low-income taxpayers
- ✓ Sales tax base excludes groceries

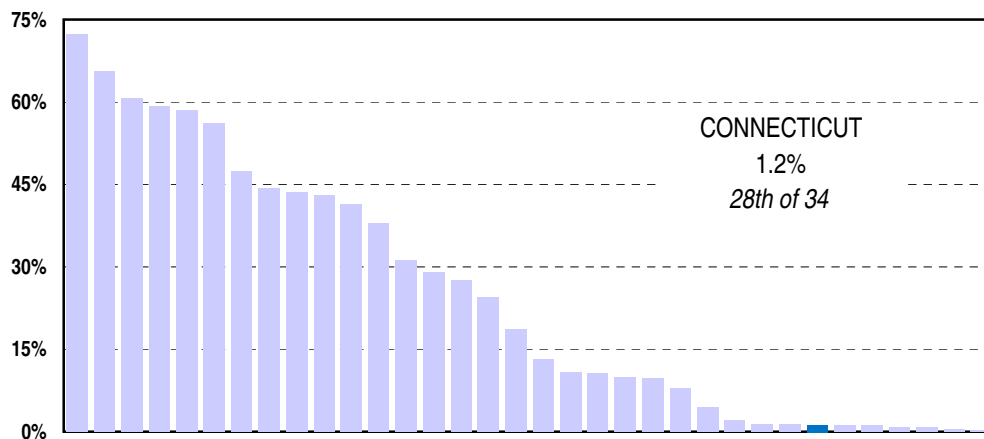
Regressive Features

- ✗ Fails to provide an earned income tax credit (EITC)
- ✗ Comparatively high reliance on property taxes
- ✗ Comparatively high cigarette tax rate

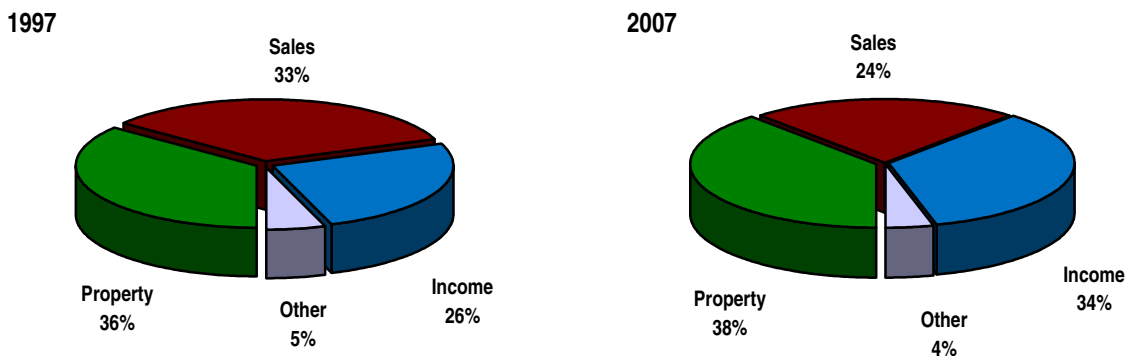
Recent Developments

- ▲ Added a new top income tax bracket for millionaires
- ▲ Sales tax rate may fall to 5.5 percent if certain revenue targets are reached

Percent of Taxpayers Paying Top Personal Income Tax Rate



Change in the Composition of Tax Revenue

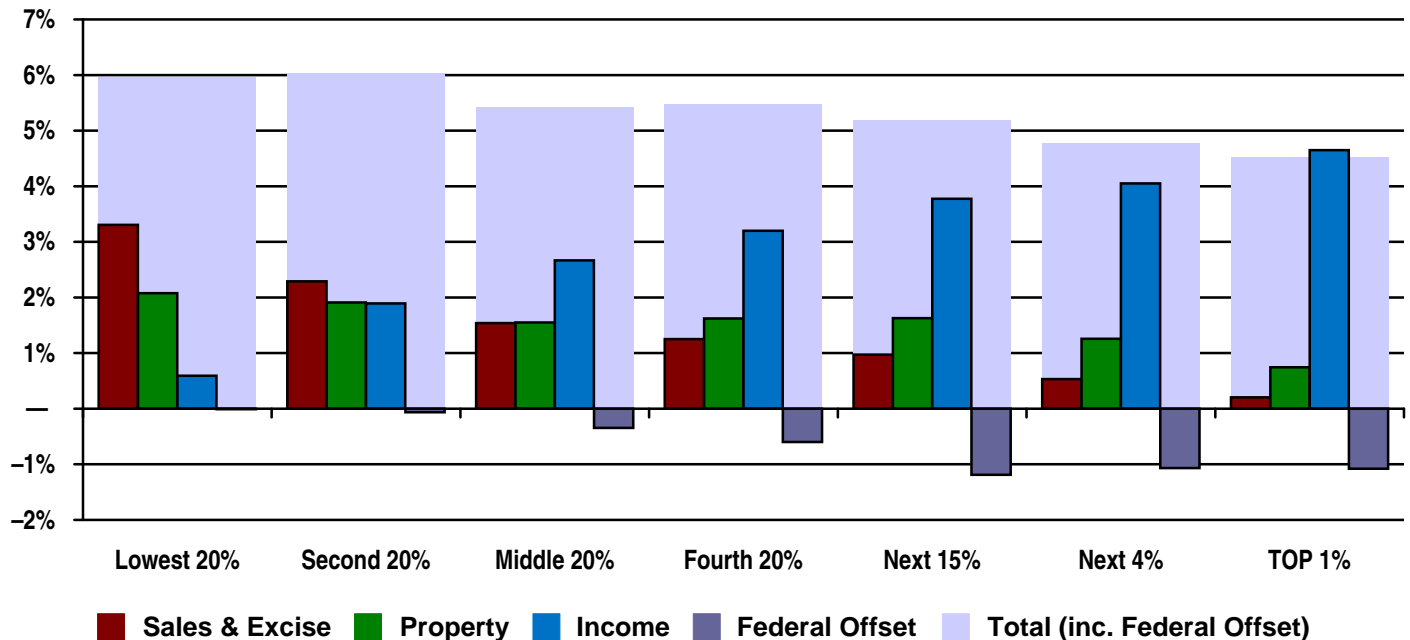


Source: U.S. Census Bureau, Government Finances

Delaware

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$33,000	\$33,000 – \$56,000	\$56,000 – \$90,000	\$90,000 – \$171,000	\$171,000 – \$422,000	\$422,000 or more
Average Income in Group	\$10,100	\$25,000	\$44,600	\$71,700	\$118,000	\$251,700	\$1,613,700
Sales & Excise Taxes	3.3%	2.3%	1.5%	1.3%	1.0%	0.5%	0.2%
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	2.5%	1.7%	1.1%	0.9%	0.7%	0.3%	0.1%
Sales & Excise on Business	0.8%	0.6%	0.5%	0.4%	0.3%	0.2%	0.1%
Property Taxes	2.1%	1.9%	1.6%	1.6%	1.6%	1.3%	0.7%
Property Taxes on Families	2.1%	1.9%	1.5%	1.6%	1.6%	1.2%	0.4%
Other Property Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
Income Taxes	0.6%	1.9%	2.7%	3.2%	3.8%	4.1%	4.7%
Personal Income Tax	0.6%	1.9%	2.6%	3.2%	3.7%	4.0%	4.3%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	6.0%	6.1%	5.8%	6.1%	6.4%	5.8%	5.6%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.6%	-1.2%	-1.1%	-1.1%
TOTAL AFTER OFFSET	6.0%	6.0%	5.4%	5.5%	5.2%	4.8%	4.5%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Delaware

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides an exemption credit in place of personal exemption
- ✓ No statewide sales tax

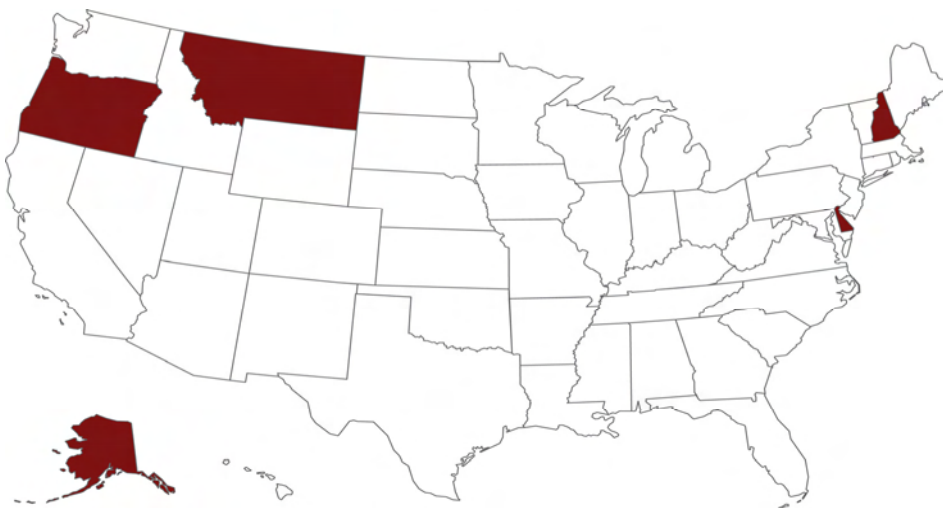
Regressive Features

- ✗ Fails to offer refundable income tax credits to offset the impact of excise and property taxes

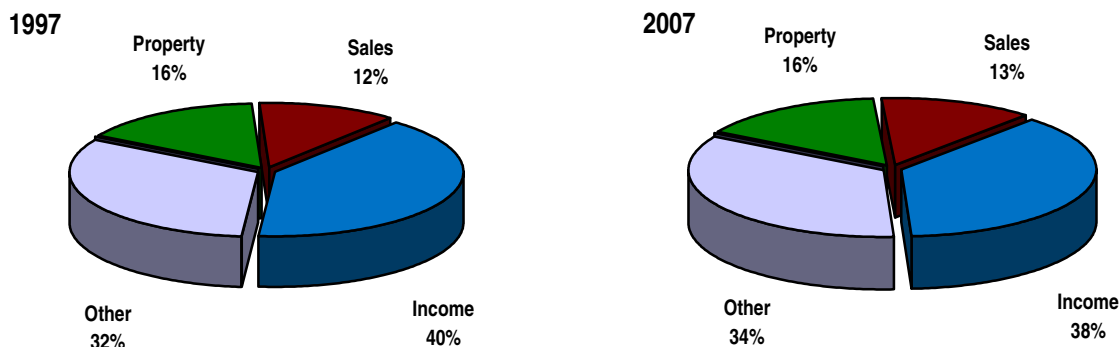
Recent Developments

- ▲ Increased its top income tax rate on a temporary basis
- ▲ Created a non-refundable earned income tax credit (EITC), equal to 20 percent of the federal credit
- ▲ Increased cigarette taxes

States without a Statewide Sales Tax



Change in the Composition of Tax Revenue

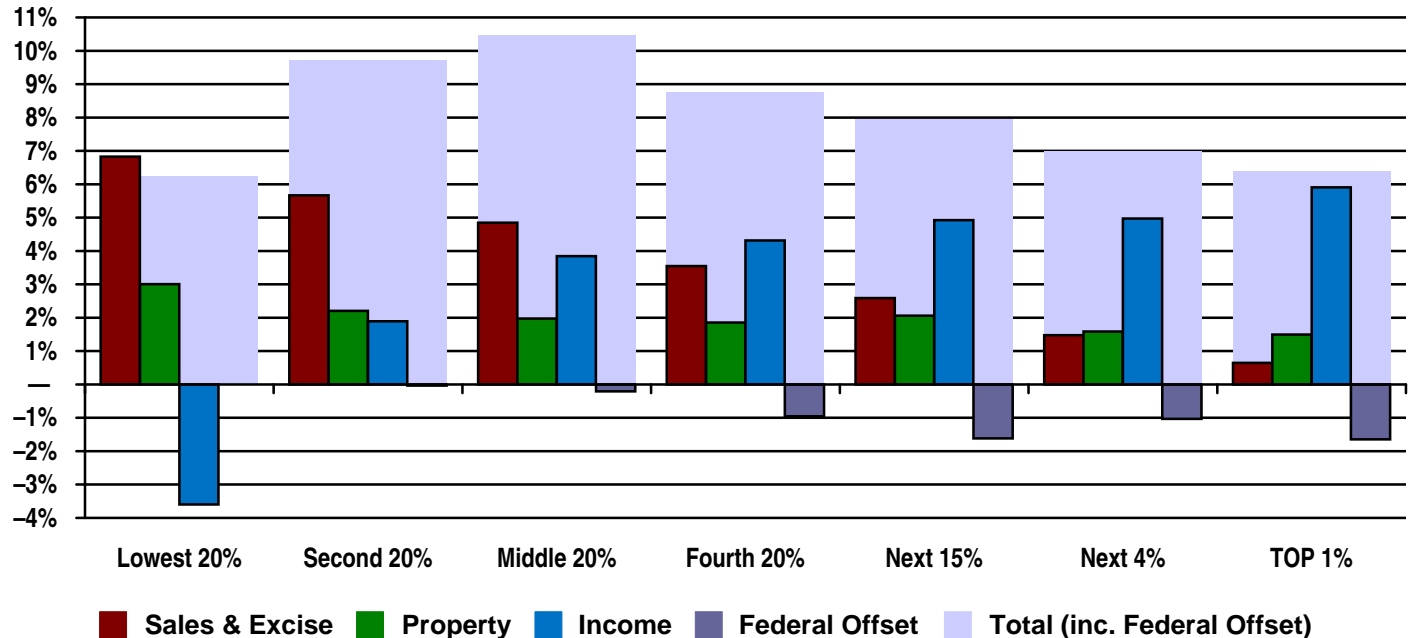


Source: U.S. Census Bureau, Government Finances

District of Columbia

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$33,000	\$33,000 – \$57,000	\$57,000 – \$97,000	\$97,000 – \$252,000	\$252,000 – \$1,543,000	\$1,543,000 or more
Average Income in Group	\$12,400	\$26,300	\$45,400	\$75,500	\$143,200	\$443,700	\$2,708,300
Sales & Excise Taxes	6.8%	5.7%	4.8%	3.5%	2.6%	1.5%	0.6%
General Sales—Individuals	2.9%	2.4%	2.1%	1.7%	1.3%	0.8%	0.3%
Other Sales & Excise—Ind.	1.2%	1.0%	0.8%	0.5%	0.3%	0.2%	0.1%
Sales & Excise on Business	2.7%	2.3%	1.9%	1.4%	0.9%	0.5%	0.3%
Property Taxes	3.0%	2.2%	2.0%	1.9%	2.1%	1.6%	1.5%
Property Taxes on Families	2.1%	1.4%	1.4%	1.4%	1.7%	1.2%	0.7%
Other Property Taxes	0.9%	0.8%	0.6%	0.4%	0.3%	0.4%	0.8%
Income Taxes	-3.6%	1.9%	3.8%	4.3%	4.9%	5.0%	5.9%
Personal Income Tax	-3.6%	1.9%	3.8%	4.3%	4.9%	4.9%	5.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	6.2%	9.8%	10.7%	9.7%	9.6%	8.0%	8.0%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-1.0%	-1.6%	-1.0%	-1.6%
TOTAL AFTER OFFSET	6.2%	9.7%	10.5%	8.8%	8.0%	7.0%	6.4%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

District of Columbia

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Provides a refundable property tax “circuit breaker” credit for low-income and elderly taxpayers
- ✓ Sales tax base excludes groceries

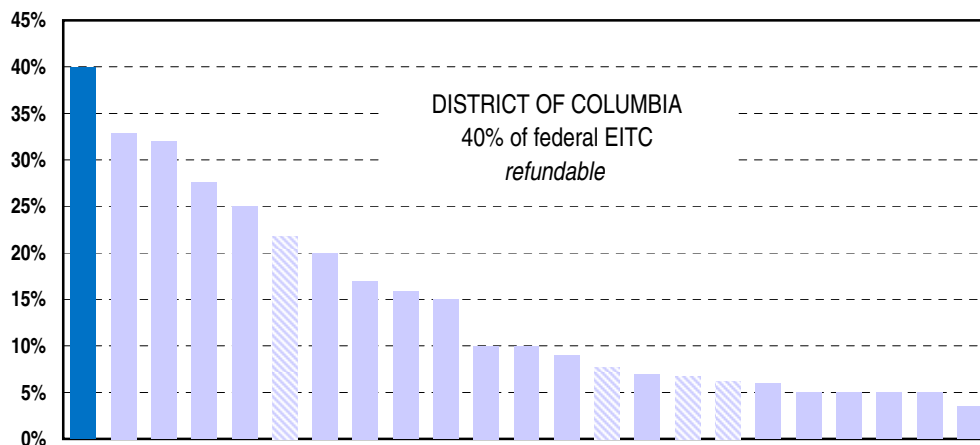
Regressive Features

- ✗ Comparatively high cigarette tax rate

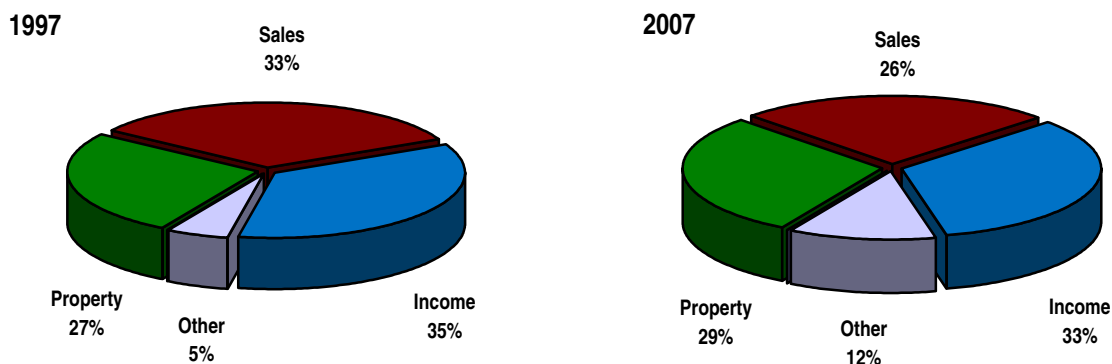
Recent Developments

- ▲ Reduced personal income tax rates; increased standard deduction and personal exemption
- ▲ Increased its EITC to equal 40 percent of the federal credit
- ▲ Increased sales tax rate on a temporary basis
- ▲ Increased cigarette taxes

Effective State Earned Income Tax Credit (EITC) Rates



Change in the Composition of Tax Revenue

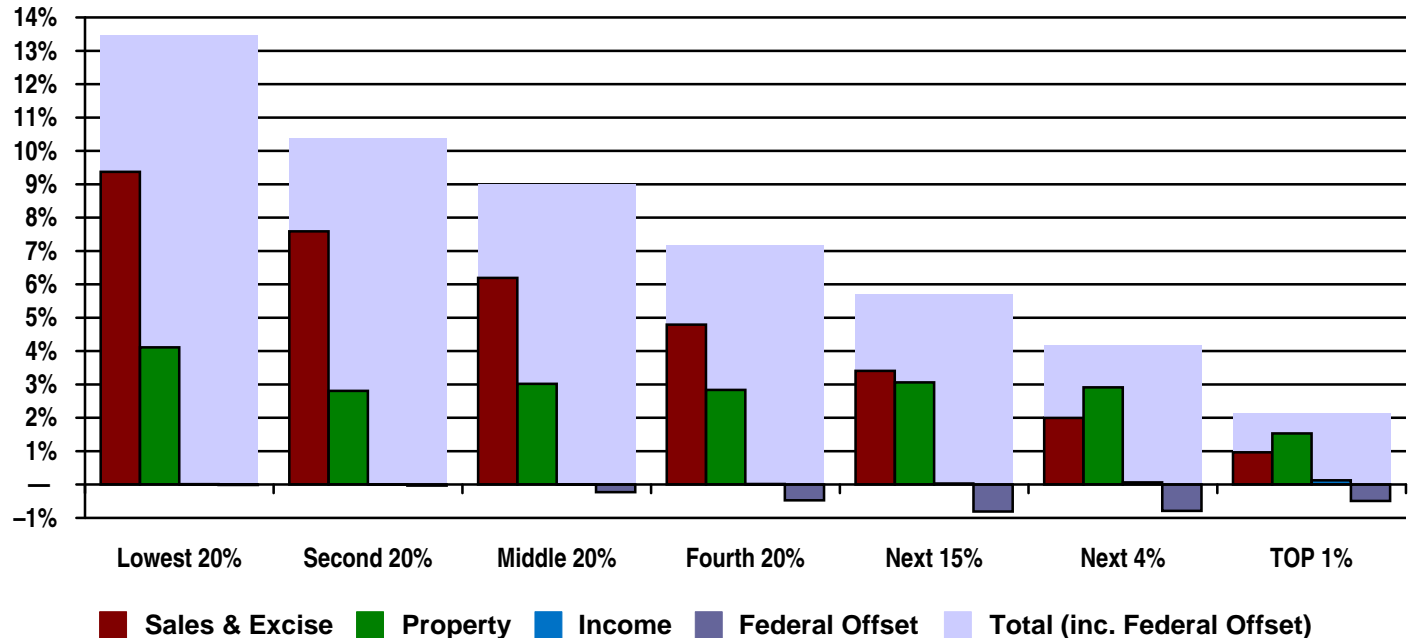


Source: U.S. Census Bureau, Government Finances

Florida

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



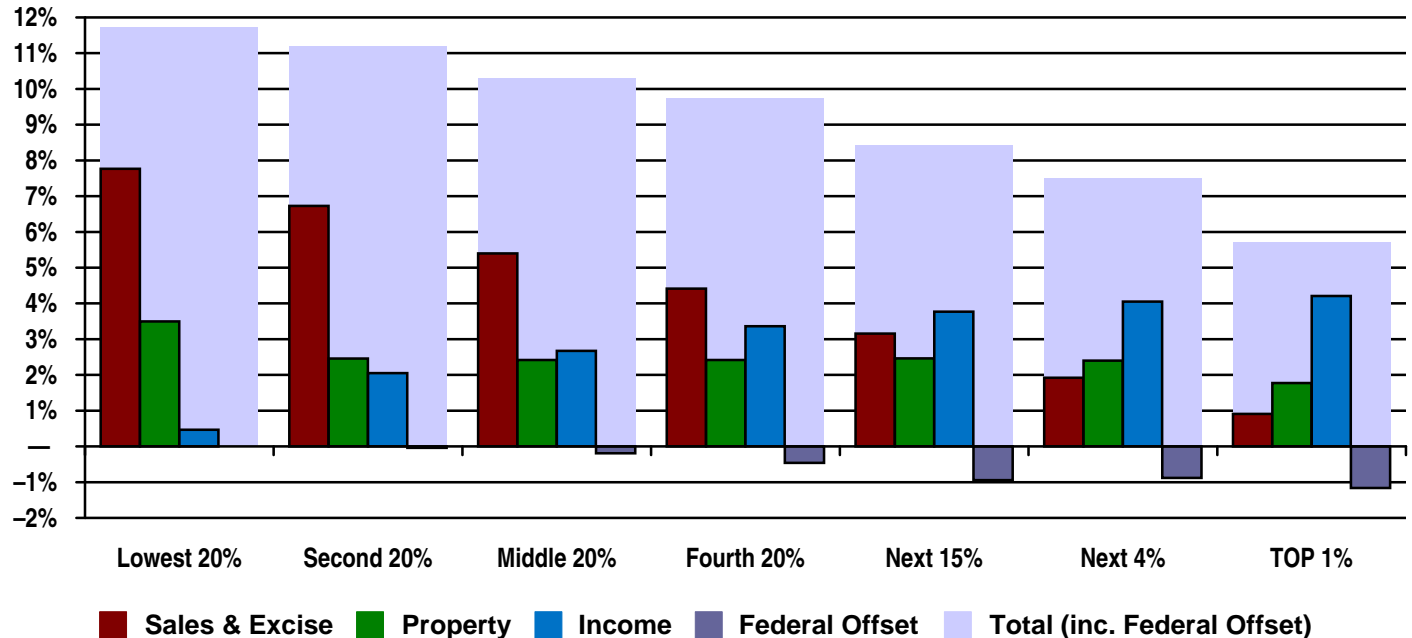
Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$29,000	\$29,000 – \$47,000	\$47,000 – \$81,000	\$81,000 – \$179,000	\$179,000 – \$509,000	\$509,000 or more
Average Income in Group	\$10,500	\$23,200	\$37,400	\$61,800	\$113,300	\$284,300	\$2,444,400
Sales & Excise Taxes	9.4%	7.6%	6.2%	4.8%	3.4%	2.0%	1.0%
General Sales—Individuals	3.6%	3.2%	2.7%	2.2%	1.6%	1.0%	0.5%
Other Sales & Excise—Ind.	2.6%	1.8%	1.3%	1.0%	0.6%	0.3%	0.1%
Sales & Excise on Business	3.2%	2.6%	2.2%	1.7%	1.2%	0.7%	0.4%
Property Taxes	4.1%	2.8%	3.0%	2.8%	3.1%	2.9%	1.5%
Property Taxes on Families	3.8%	2.5%	2.7%	2.5%	2.7%	2.4%	0.7%
Other Property Taxes	0.4%	0.3%	0.3%	0.3%	0.4%	0.5%	0.8%
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
TOTAL TAXES	13.5%	10.4%	9.2%	7.6%	6.5%	5.0%	2.6%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.5%	-0.8%	-0.8%	-0.5%
TOTAL AFTER OFFSET	13.5%	10.4%	9.0%	7.2%	5.7%	4.2%	2.1%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Georgia

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$29,000	\$29,000 – \$48,000	\$48,000 – \$82,000	\$82,000 – \$171,000	\$171,000 – \$433,000	\$433,000 or more
Average Income in Group	\$9,800	\$21,800	\$38,300	\$62,700	\$113,900	\$256,100	\$1,351,700
Sales & Excise Taxes	7.8%	6.7%	5.4%	4.4%	3.2%	1.9%	0.9%
General Sales—Individuals	4.4%	3.9%	3.2%	2.7%	2.0%	1.2%	0.6%
Other Sales & Excise—Ind.	0.9%	0.7%	0.5%	0.4%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.5%	2.1%	1.7%	1.3%	0.9%	0.5%	0.3%
Property Taxes	3.5%	2.5%	2.4%	2.4%	2.5%	2.4%	1.8%
Property Taxes on Families	3.4%	2.4%	2.3%	2.4%	2.3%	2.1%	0.8%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	1.0%
Income Taxes	0.5%	2.1%	2.7%	3.4%	3.8%	4.1%	4.2%
Personal Income Tax	0.5%	2.0%	2.7%	3.3%	3.7%	4.0%	4.0%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.7%	11.2%	10.5%	10.2%	9.4%	8.4%	6.9%
Federal Deduction Offset	—	-0.0%	-0.2%	-0.5%	-0.9%	-0.9%	-1.2%
TOTAL AFTER OFFSET	11.7%	11.2%	10.3%	9.7%	8.4%	7.5%	5.7%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Georgia

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable low-income tax credit
- ✓ State sales tax base excludes groceries

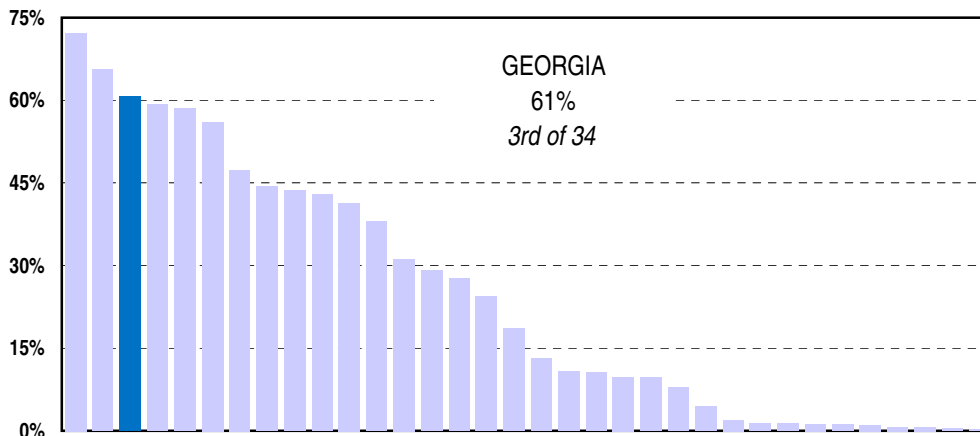
Regressive Features

- ✗ Narrow income tax brackets mean majority of taxpayers pay top income tax rate
- ✗ Fails to index income tax provisions to inflation

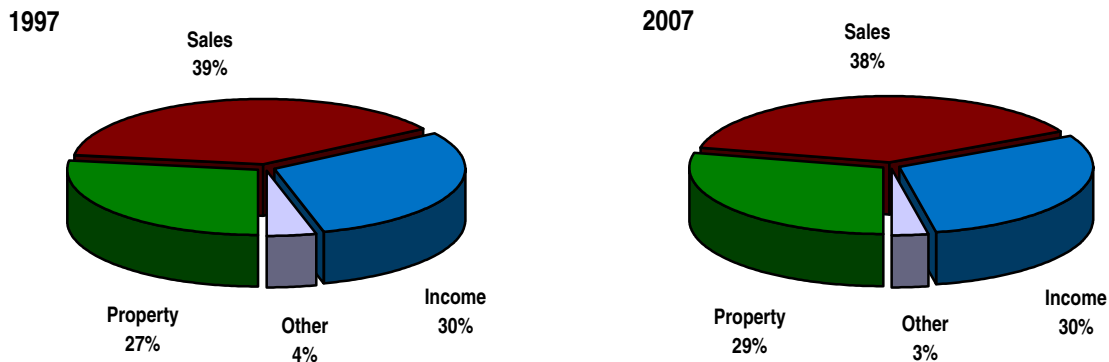
Recent Developments

- ▲ Suspended state-funded homeowner property tax exemption
- ▲ Enacted an income tax credit for child and dependent care expenses

Percent of Taxpayers Paying Top Personal Income Tax Rate



Change in the Composition of Tax Revenue

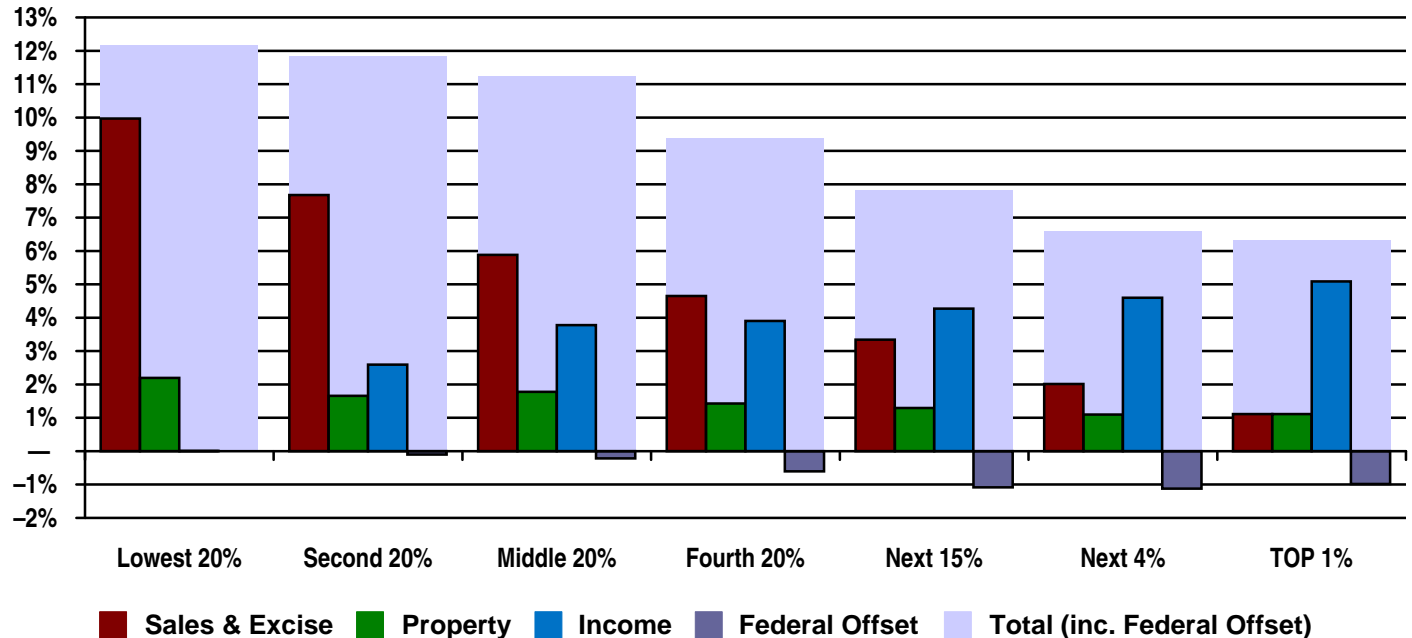


Source: U.S. Census Bureau, Government Finances

Hawaii

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$33,000	\$33,000 – \$51,000	\$51,000 – \$85,000	\$85,000 – \$176,000	\$176,000 – \$400,000	\$400,000 or more
Average Income in Group	\$9,800	\$24,700	\$41,400	\$65,900	\$117,800	\$251,100	\$1,040,300
Sales & Excise Taxes	10.0%	7.7%	5.9%	4.7%	3.3%	2.0%	1.1%
General Sales—Individuals	4.5%	3.5%	2.7%	2.1%	1.5%	0.9%	0.5%
Other Sales & Excise—Ind.	2.2%	1.5%	1.1%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	3.3%	2.7%	2.1%	1.7%	1.3%	0.8%	0.5%
Property Taxes	2.2%	1.7%	1.8%	1.4%	1.3%	1.1%	1.1%
Property Taxes on Families	2.1%	1.6%	1.7%	1.4%	1.2%	0.9%	0.4%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.7%
Income Taxes	0.0%	2.6%	3.8%	3.9%	4.3%	4.6%	5.1%
Personal Income Tax	0.0%	2.6%	3.8%	3.9%	4.3%	4.6%	5.0%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	12.2%	11.9%	11.4%	10.0%	8.9%	7.7%	7.3%
Federal Deduction Offset	—	-0.1%	-0.2%	-0.6%	-1.1%	-1.1%	-1.0%
TOTAL AFTER OFFSET	12.2%	11.8%	11.2%	9.4%	7.8%	6.6%	6.3%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Hawaii

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides refundable income tax credits to reduce impact of sales, excise, and property taxes

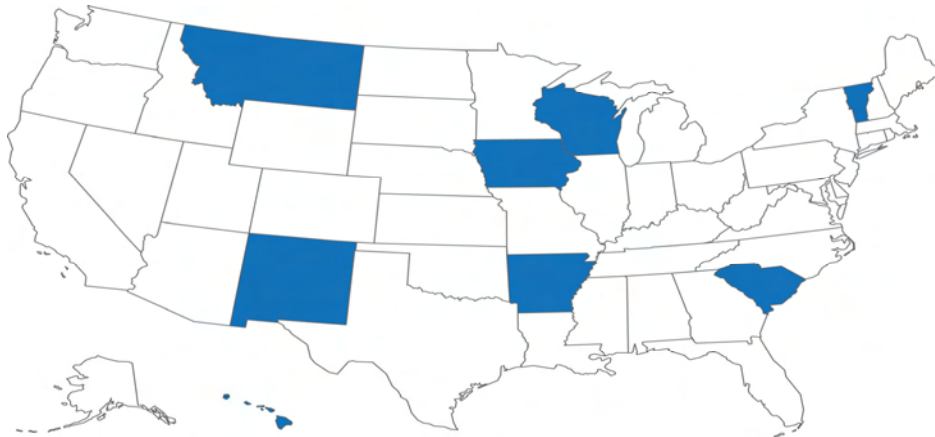
Regressive Features

- ✗ Provides preferential income tax rates for income from capital gains
- ✗ Comparatively high reliance on sales and excise taxes
- ✗ Sales tax base includes groceries

Recent Developments

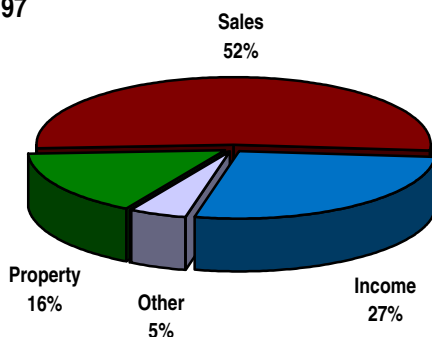
- ▲ Increased standard deduction and personal exemption on a temporary basis
- ▲ Added several new upper-income tax brackets on a temporary basis
- ▲ Increased value of, and expanded eligibility for, the state's "grocery tax" credit

States with Notable Capital Gains Income Tax Preferences

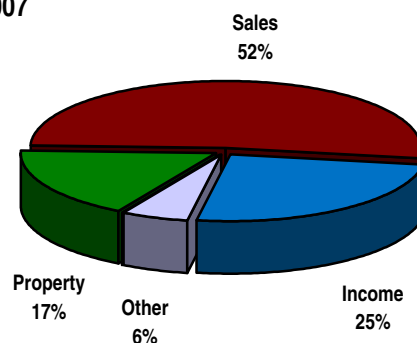


Change in the Composition of Tax Revenue

1997



2007

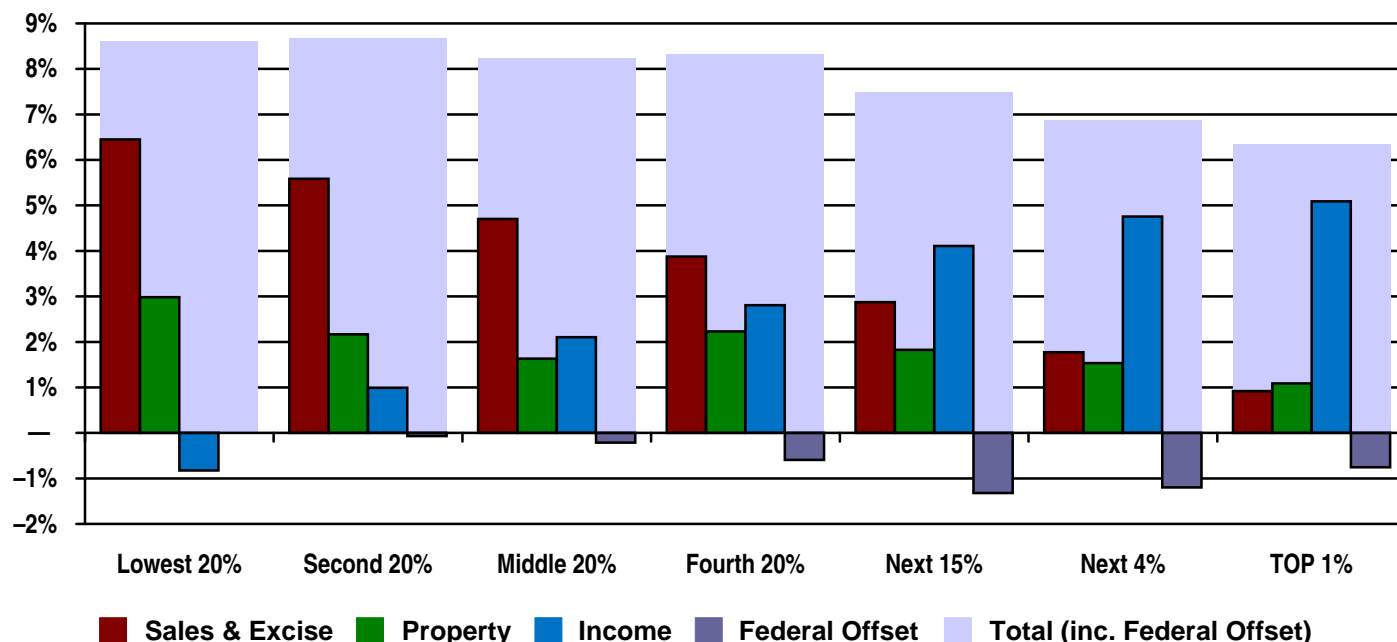


Source: U.S. Census Bureau, Government Finances

Idaho

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$32,000	\$32,000 – \$49,000	\$49,000 – \$82,000	\$82,000 – \$162,000	\$162,000 – \$418,000	\$418,000 or more
Average Income in Group	\$10,800	\$25,000	\$41,400	\$64,100	\$106,200	\$236,200	\$1,287,900
Sales & Excise Taxes	6.5%	5.6%	4.7%	3.9%	2.9%	1.8%	0.9%
General Sales—Individuals	3.9%	3.5%	3.0%	2.6%	1.9%	1.2%	0.6%
Other Sales & Excise—Ind.	1.1%	0.8%	0.7%	0.5%	0.3%	0.2%	0.1%
Sales & Excise on Business	1.5%	1.3%	1.0%	0.8%	0.6%	0.4%	0.2%
Property Taxes	3.0%	2.2%	1.6%	2.2%	1.8%	1.5%	1.1%
Property Taxes on Families	3.0%	2.1%	1.6%	2.1%	1.7%	1.3%	0.5%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%	0.6%
Income Taxes	-0.8%	1.0%	2.1%	2.8%	4.1%	4.8%	5.1%
Personal Income Tax	-0.8%	1.0%	2.1%	2.8%	4.1%	4.7%	4.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	8.6%	8.7%	8.4%	8.9%	8.8%	8.1%	7.1%
Federal Deduction Offset	—	-0.1%	-0.2%	-0.6%	-1.3%	-1.2%	-0.8%
TOTAL AFTER OFFSET	8.6%	8.7%	8.2%	8.3%	7.5%	6.9%	6.3%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Idaho

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides an income tax credit to offset the impact of its sales tax on groceries
- ✓ Requires the use of combined reporting
- ✓ Provides a property tax homestead exemption

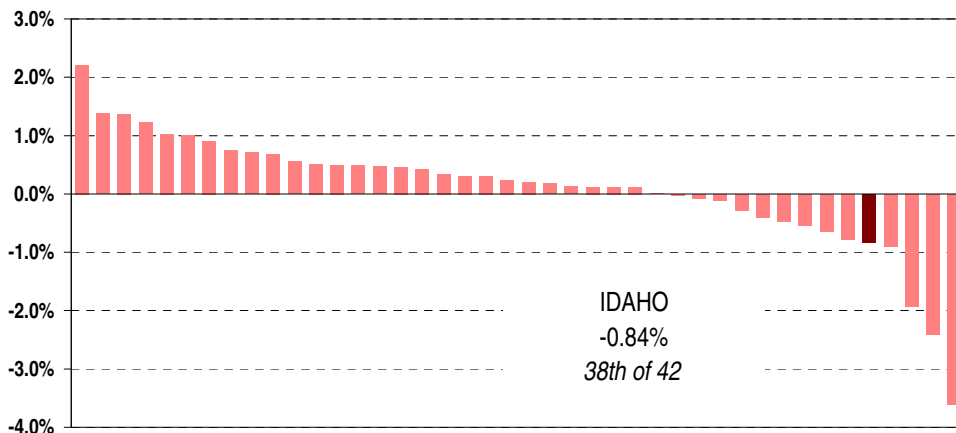
Regressive Features

- ✗ Sales tax base includes groceries

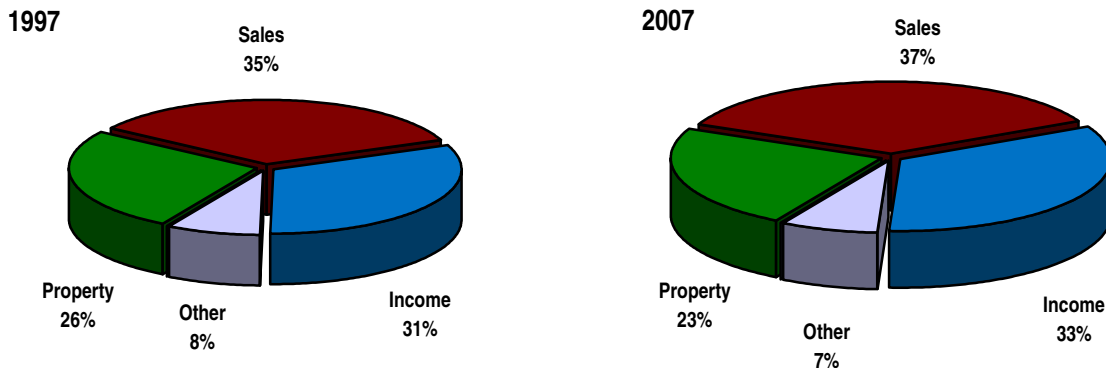
Recent Developments

- ▲ Increased property tax homestead exemption
- ▲ Increased income tax credit designed to offset impact of sales tax on groceries

State Income Taxes as a Share of Income Among the Poorest Fifth of Families



Change in the Composition of Tax Revenue

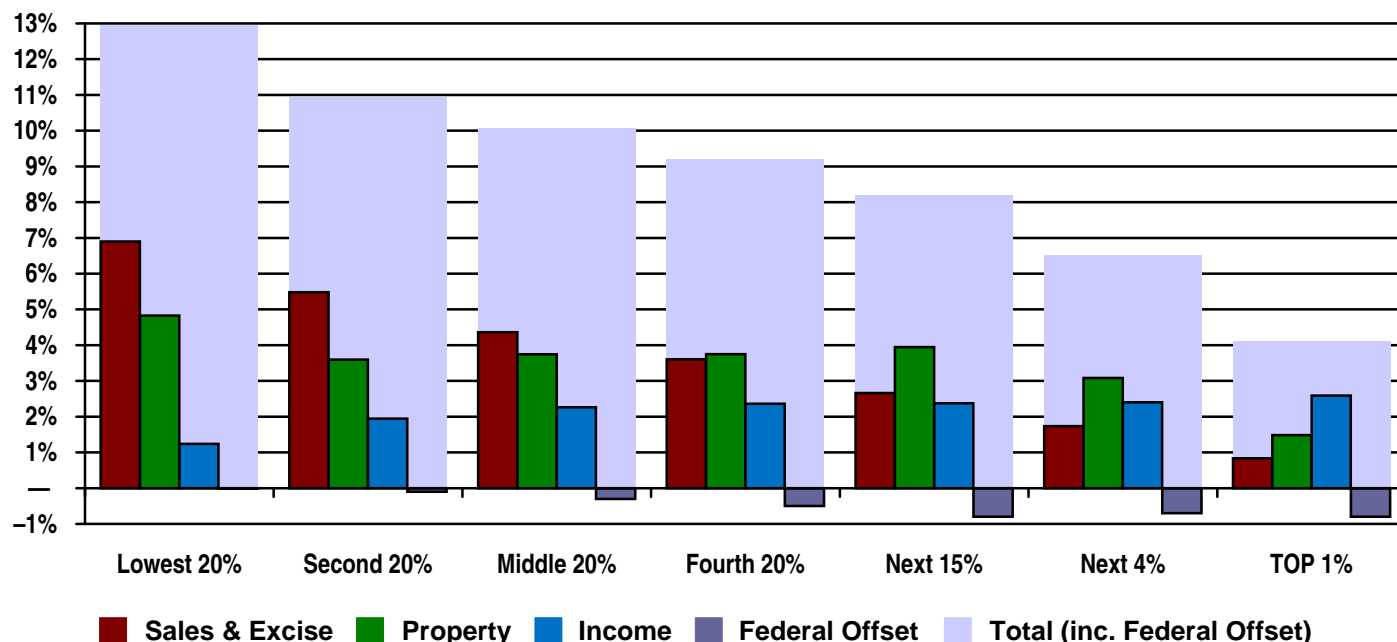


Source: U.S. Census Bureau, Government Finances

Illinois

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$36,000	\$36,000 – \$58,000	\$58,000 – \$95,000	\$95,000 – \$196,000	\$196,000 – \$500,000	\$500,000 or more
Average Income in Group	\$10,100	\$26,600	\$47,000	\$74,700	\$128,900	\$300,700	\$2,084,700
Sales & Excise Taxes	6.9%	5.5%	4.4%	3.6%	2.7%	1.7%	0.8%
General Sales—Individuals	3.5%	3.0%	2.5%	2.2%	1.7%	1.1%	0.5%
Other Sales & Excise—Ind.	1.7%	1.0%	0.7%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.7%	1.4%	1.1%	0.9%	0.6%	0.4%	0.2%
Property Taxes	4.8%	3.6%	3.7%	3.7%	3.9%	3.1%	1.5%
Property Taxes on Families	4.7%	3.4%	3.6%	3.5%	3.7%	2.7%	0.6%
Other Property Taxes	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.8%
Income Taxes	1.2%	1.9%	2.3%	2.4%	2.4%	2.4%	2.6%
Personal Income Tax	1.2%	1.9%	2.2%	2.3%	2.3%	2.3%	2.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.4%
TOTAL TAXES	13.0%	11.0%	10.4%	9.7%	9.0%	7.2%	4.9%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.5%	-0.8%	-0.7%	-0.8%
TOTAL AFTER OFFSET	13.0%	10.9%	10.1%	9.2%	8.2%	6.5%	4.1%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Illinois

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refundable earned income tax credit (EITC)

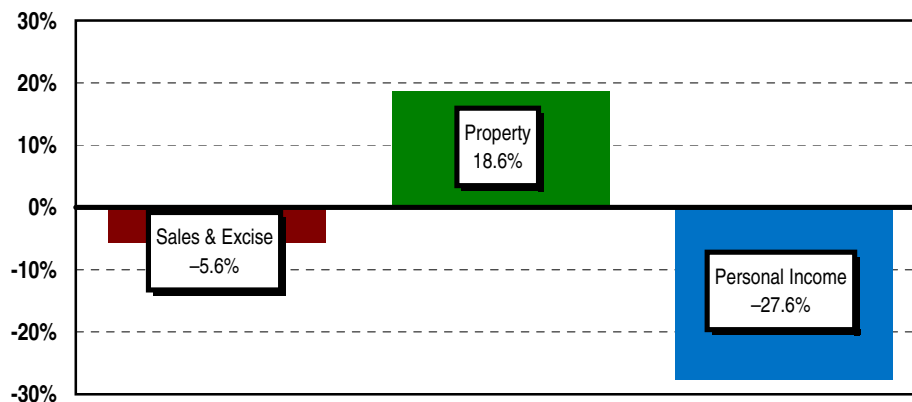
Regressive Features

- ✗ Income tax uses a single rate structure
- ✗ Comparatively low income tax exemptions
- ✗ Provides a non-refundable property tax credit
- ✗ Comparatively high combined state and local sales tax rate
- ✗ Groceries taxed at a uniform statewide local tax rate of 1.25 percent in addition to any local option sales taxes

Recent Developments

- ▲ Increased alcohol taxes
- ▲ Extended property tax assessed value caps.

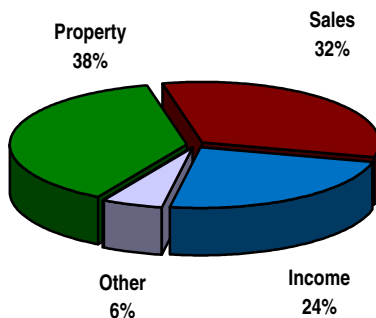
Select State and Local Taxes Relative to the National Average



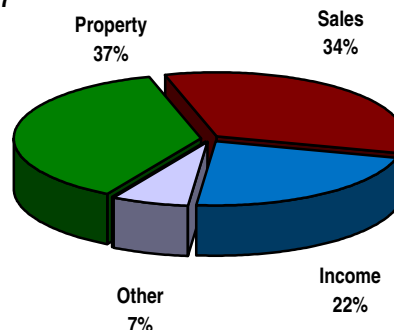
Source: Government Finances, US Department of Census

Change in the Composition of Tax Revenue

1997



2007

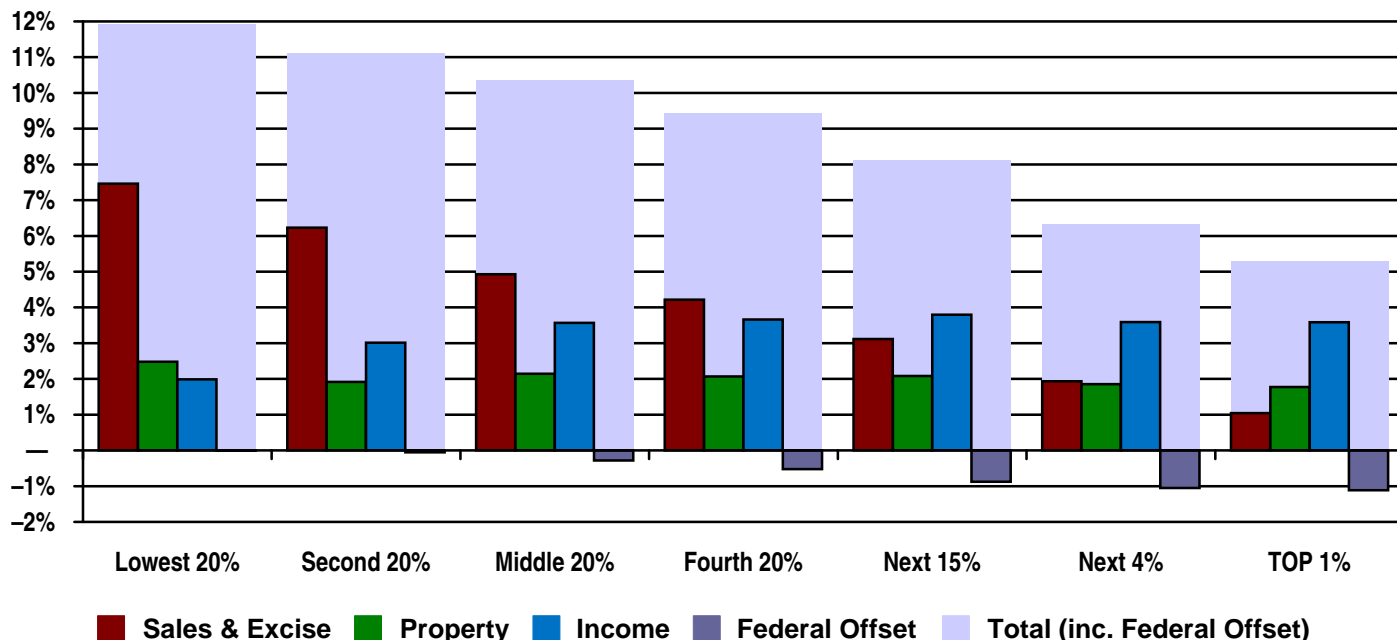


Source: U.S. Census Bureau, Government Finances

Indiana

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$33,000	\$33,000 – \$54,000	\$54,000 – \$82,000	\$82,000 – \$152,000	\$152,000 – \$340,000	\$340,000 or more
Average Income in Group	\$10,300	\$25,500	\$43,000	\$66,400	\$107,200	\$209,700	\$1,024,800
Sales & Excise Taxes	7.5%	6.2%	4.9%	4.2%	3.1%	1.9%	1.0%
General Sales—Individuals	4.2%	3.8%	3.1%	2.8%	2.0%	1.3%	0.7%
Other Sales & Excise—Ind.	1.8%	1.2%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.4%	1.2%	1.0%	0.8%	0.6%	0.4%	0.3%
Property Taxes	2.5%	1.9%	2.1%	2.1%	2.1%	1.9%	1.8%
Property Taxes on Families	2.1%	1.5%	1.8%	1.7%	1.6%	1.3%	0.6%
Other Property Taxes	0.3%	0.4%	0.4%	0.3%	0.5%	0.6%	1.2%
Income Taxes	2.0%	3.0%	3.6%	3.7%	3.8%	3.6%	3.6%
Personal Income Tax	2.0%	3.0%	3.5%	3.6%	3.8%	3.5%	3.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.9%	11.2%	10.6%	9.9%	9.0%	7.4%	6.4%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.5%	-0.9%	-1.1%	-1.1%
TOTAL AFTER OFFSET	11.9%	11.1%	10.4%	9.4%	8.1%	6.3%	5.3%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Indiana

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Sales tax base excludes groceries

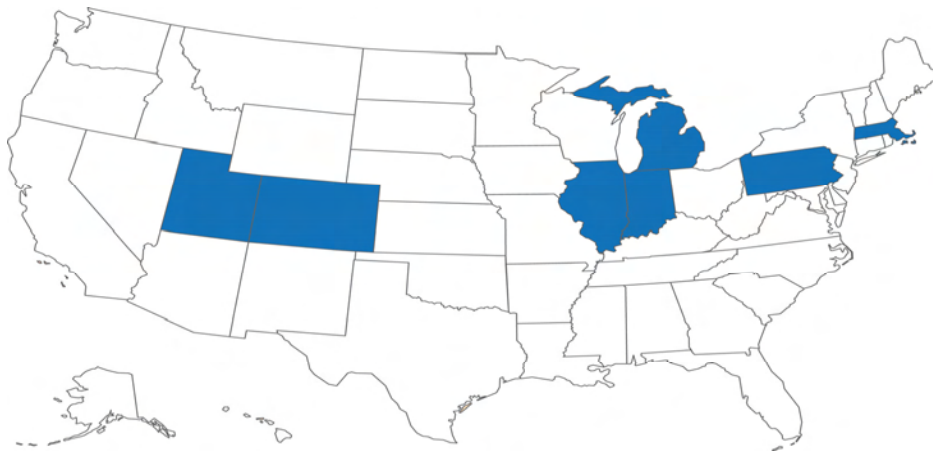
Regressive Features

- ✗ Income tax uses a single rate structure
- ✗ Comparatively low income tax exemptions

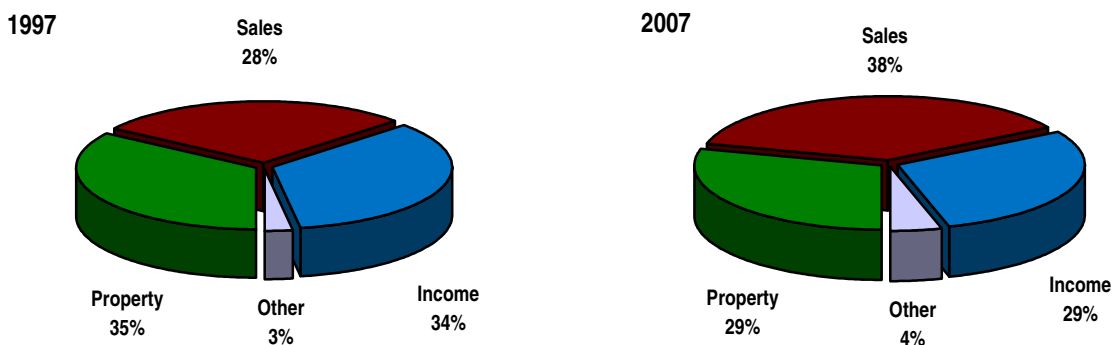
Recent Developments

- ▲ Increased its EITC to equal 9 percent of the federal credit
- ▲ Expanded renters' property tax deduction
- ▲ Increased state sales tax rate
- ▲ Imposed new limitations on assessed values for property tax purposes

States with a Flat Rate Personal Income Tax



Change in the Composition of Tax Revenue

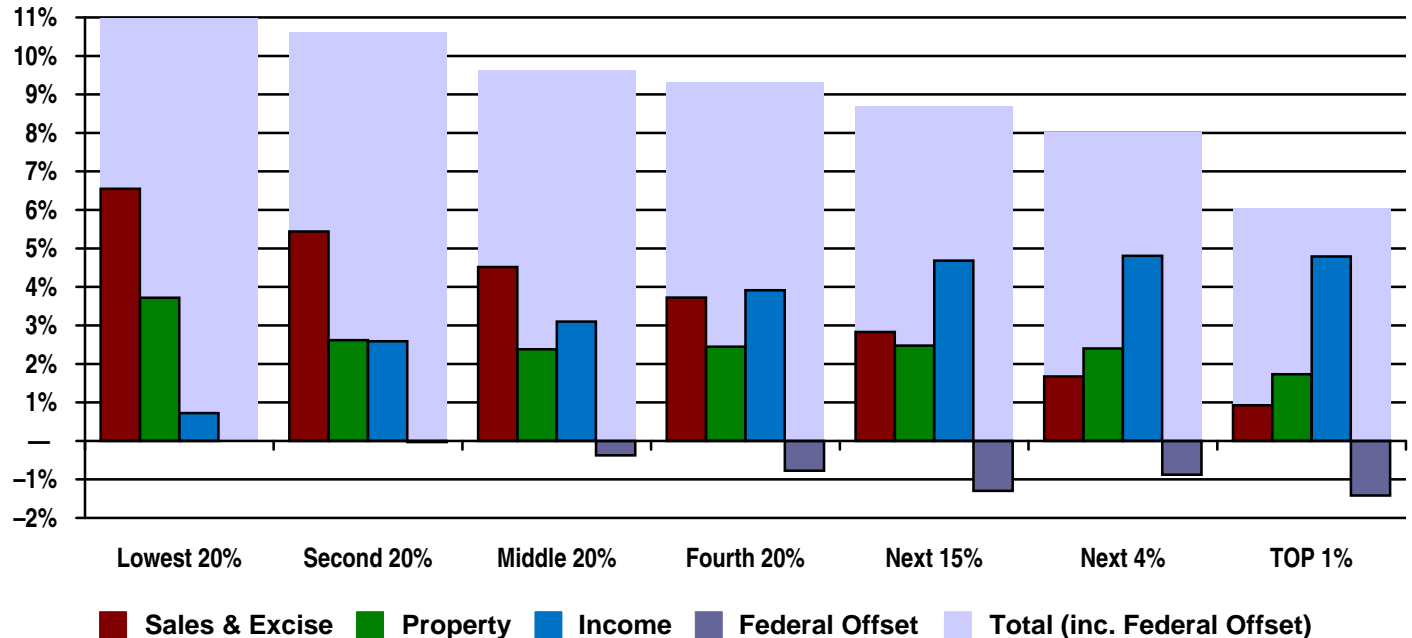


Source: U.S. Census Bureau, Government Finances

Iowa

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$37,000	\$37,000 – \$56,000	\$56,000 – \$86,000	\$86,000 – \$146,000	\$146,000 – \$365,000	\$365,000 or more
Average Income in Group	\$10,500	\$29,300	\$45,800	\$69,300	\$107,400	\$209,200	\$989,200
Sales & Excise Taxes	6.5%	5.4%	4.5%	3.7%	2.8%	1.7%	0.9%
General Sales—Individuals	3.6%	3.2%	2.8%	2.4%	1.8%	1.1%	0.6%
Other Sales & Excise—Ind.	1.5%	1.0%	0.7%	0.5%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.5%	1.3%	1.0%	0.8%	0.6%	0.4%	0.2%
Property Taxes	3.7%	2.6%	2.4%	2.4%	2.5%	2.4%	1.7%
Property Taxes on Families	3.6%	2.5%	2.2%	2.2%	2.2%	1.8%	0.7%
Other Property Taxes	0.1%	0.2%	0.1%	0.2%	0.2%	0.6%	1.1%
Income Taxes	0.7%	2.6%	3.1%	3.9%	4.7%	4.8%	4.8%
Personal Income Tax	0.7%	2.6%	3.1%	3.9%	4.7%	4.7%	4.6%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.0%	10.6%	10.0%	10.1%	10.0%	8.9%	7.4%
Federal Deduction Offset	0.0%	-0.0%	-0.4%	-0.8%	-1.3%	-0.9%	-1.4%
TOTAL AFTER OFFSET	11.0%	10.6%	9.6%	9.3%	8.7%	8.0%	6.0%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Iowa

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Sales tax base excludes groceries

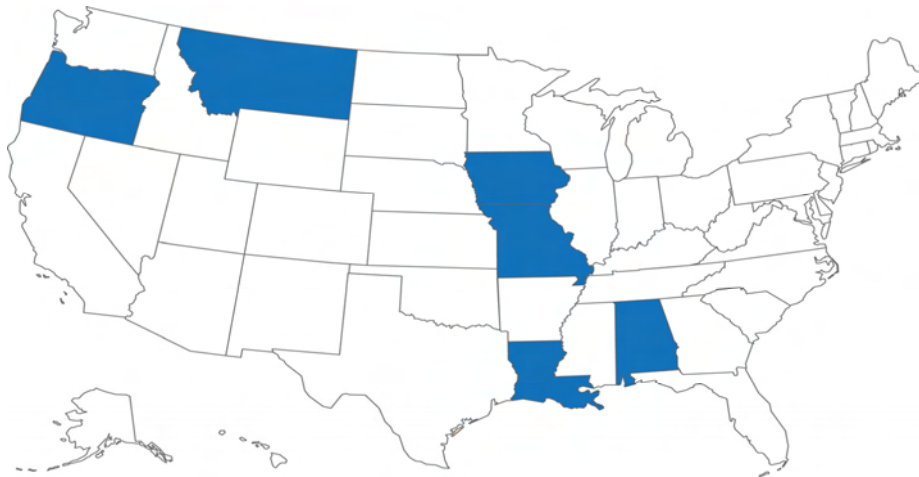
Regressive Features

- ✗ Offers an income tax deduction for federal income taxes paid
- ✗ Completely excludes certain types of capital gains income from taxation

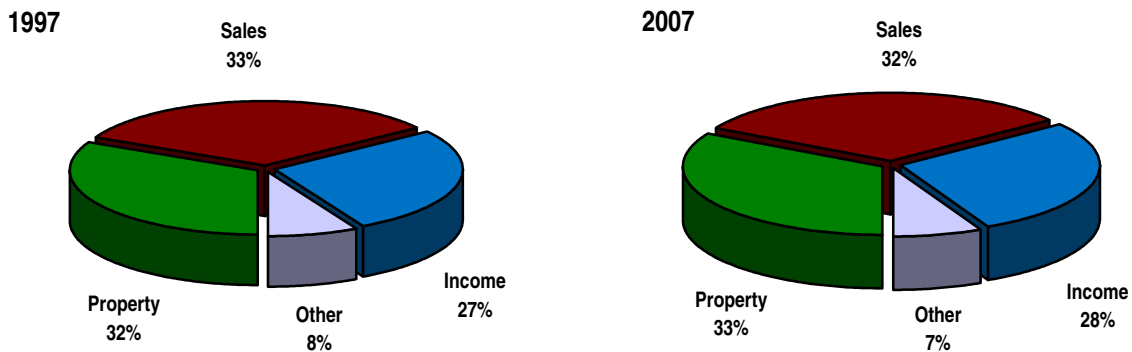
Recent Developments

- ▲ Increased its EITC to 7 percent of the federal credit
- ▲ Increased cigarette taxes

States Offering a Deduction for Federal Income Taxes Paid



Change in the Composition of Tax Revenue

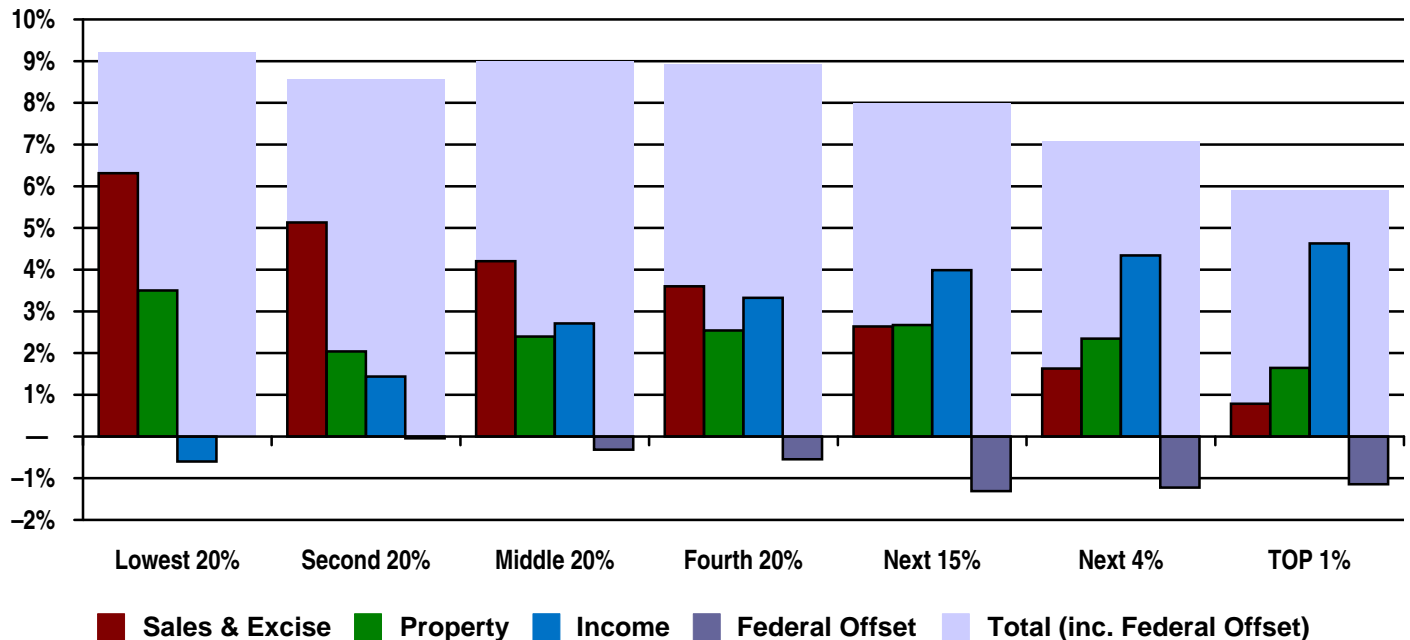


Source: U.S. Census Bureau, Government Finances

Kansas

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$35,000	\$35,000 – \$56,000	\$56,000 – \$90,000	\$90,000 – \$169,000	\$169,000 – \$424,000	\$424,000 or more
Average Income in Group	\$10,100	\$27,600	\$45,500	\$72,000	\$119,000	\$247,600	\$1,236,400
Sales & Excise Taxes	6.3%	5.1%	4.2%	3.6%	2.6%	1.6%	0.8%
General Sales—Individuals	3.6%	3.1%	2.6%	2.3%	1.7%	1.1%	0.5%
Other Sales & Excise—Ind.	1.0%	0.7%	0.5%	0.4%	0.3%	0.1%	0.0%
Sales & Excise on Business	1.7%	1.4%	1.1%	0.9%	0.7%	0.4%	0.2%
Property Taxes	3.5%	2.0%	2.4%	2.5%	2.7%	2.3%	1.6%
Property Taxes on Families	3.3%	2.0%	2.3%	2.4%	2.5%	1.9%	0.7%
Other Property Taxes	0.2%	0.1%	0.1%	0.2%	0.2%	0.4%	1.0%
Income Taxes	-0.6%	1.4%	2.7%	3.3%	4.0%	4.3%	4.6%
Personal Income Tax	-0.6%	1.4%	2.7%	3.3%	3.9%	4.2%	4.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.2%	8.6%	9.3%	9.5%	9.3%	8.3%	7.1%
Federal Deduction Offset	—	-0.0%	-0.3%	-0.5%	-1.3%	-1.2%	-1.1%
TOTAL AFTER OFFSET	9.2%	8.6%	9.0%	8.9%	8.0%	7.1%	5.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Kansas

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Provides an income tax credit to reduce the impact of its sales tax on groceries
- ✓ Offers an income tax credit for child and dependent care expenses

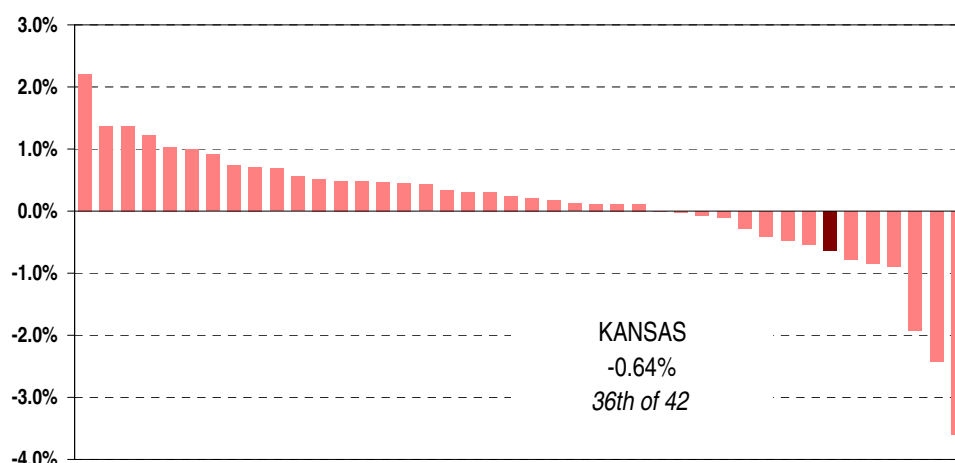
Regressive Features

- ✗ Sales tax base includes groceries

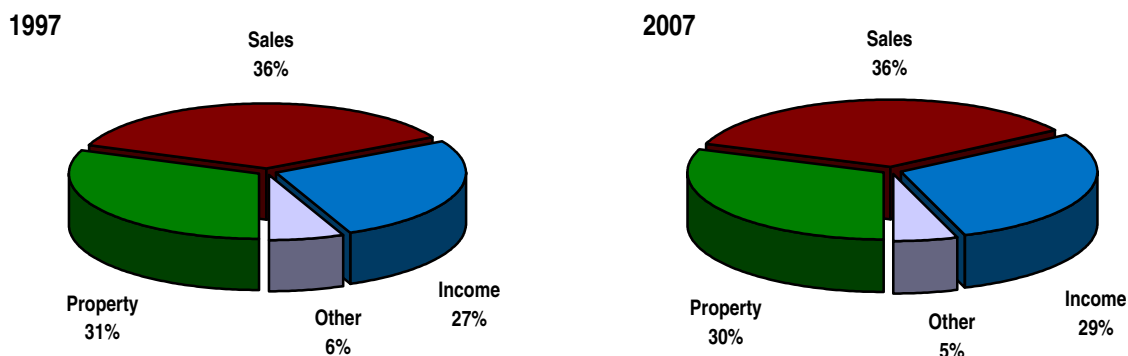
Recent Developments

- ▲ Increased its EITC to equal 17 percent of the federal credit

State Income Taxes as a Share of Income Among the Poorest Fifth of Families



Change in the Composition of Tax Revenue

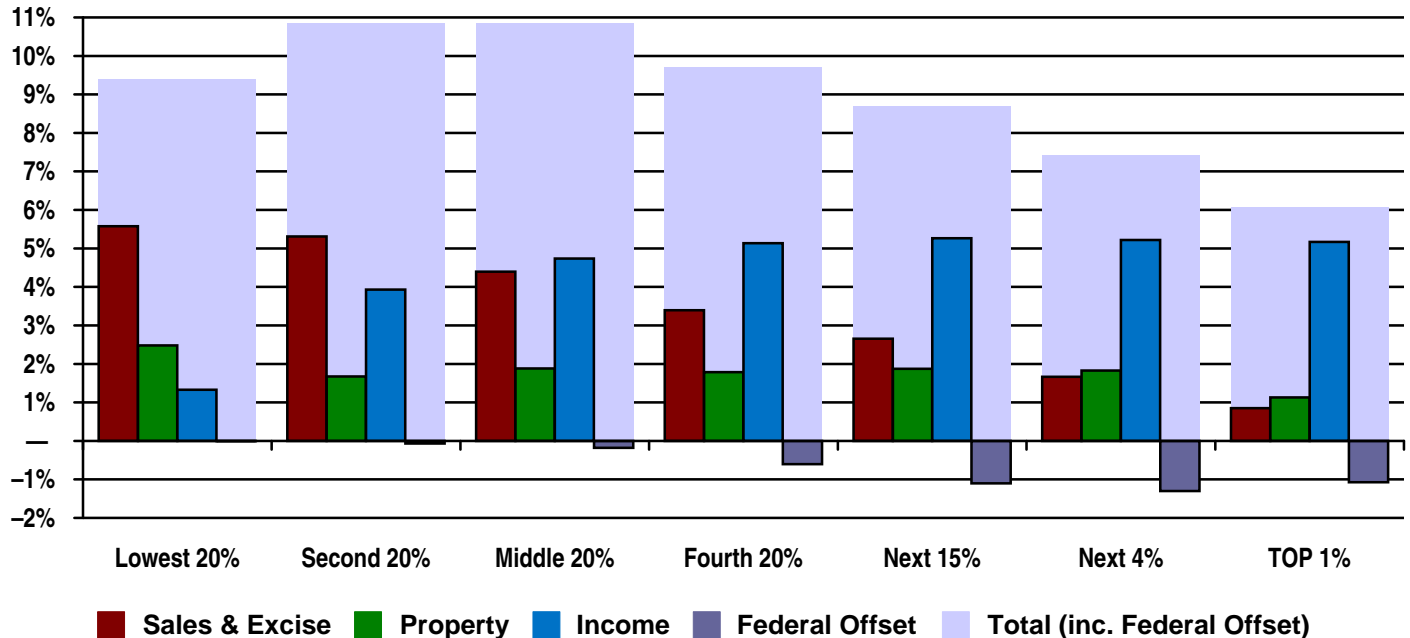


Source: U.S. Census Bureau, Government Finances

Kentucky

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$29,000	\$29,000 – \$47,000	\$47,000 – \$77,000	\$77,000 – \$140,000	\$140,000 – \$346,000	\$346,000 or more
Average Income in Group	\$8,300	\$21,700	\$36,300	\$59,700	\$99,100	\$203,500	\$957,500
Sales & Excise Taxes	5.6%	5.3%	4.4%	3.4%	2.7%	1.7%	0.9%
General Sales—Individuals	2.6%	2.7%	2.3%	1.9%	1.5%	1.0%	0.5%
Other Sales & Excise—Ind.	1.3%	1.0%	0.7%	0.5%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.7%	1.7%	1.3%	1.0%	0.8%	0.5%	0.3%
Property Taxes	2.5%	1.7%	1.9%	1.8%	1.9%	1.8%	1.1%
Property Taxes on Families	2.4%	1.6%	1.8%	1.7%	1.8%	1.6%	0.6%
Other Property Taxes	0.1%	0.0%	0.0%	0.0%	0.1%	0.2%	0.5%
Income Taxes	1.3%	3.9%	4.7%	5.1%	5.3%	5.2%	5.2%
Personal Income Tax	1.3%	3.9%	4.7%	5.1%	5.2%	5.1%	4.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	9.4%	10.9%	11.0%	10.3%	9.8%	8.7%	7.1%
Federal Deduction Offset	-0.0%	-0.1%	-0.2%	-0.6%	-1.1%	-1.3%	-1.1%
TOTAL AFTER OFFSET	9.4%	10.8%	10.8%	9.7%	8.7%	7.4%	6.1%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Kentucky

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Offers an income tax credit for child and dependent care expenses
- ✓ Provides a low-income tax credit linked to the federal poverty level
- ✓ Sales tax base excludes groceries

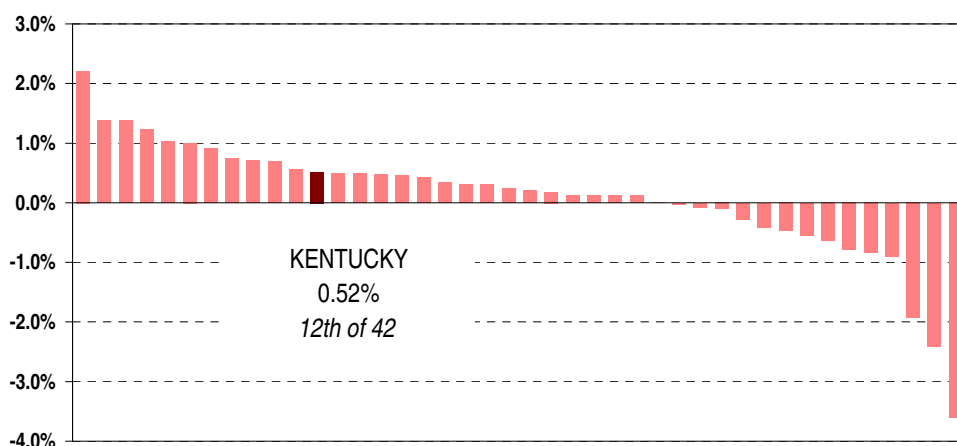
Regressive Features

- ✗ Fails to provide refundable income tax credits to offset impact of sales and property taxes

Recent Developments

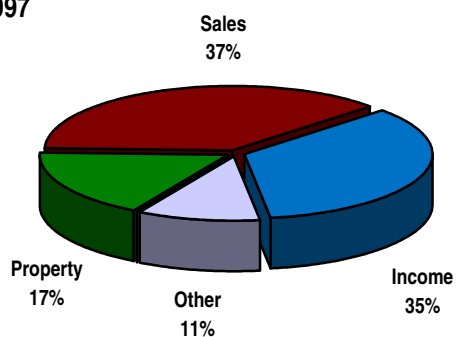
- ▲ Added a new top income tax bracket
- ▲ Expanded its low-income tax credit
- ▲ Increased cigarette and alcohol taxes

State Income Taxes as a Share of Income Among the Poorest Fifth of Families

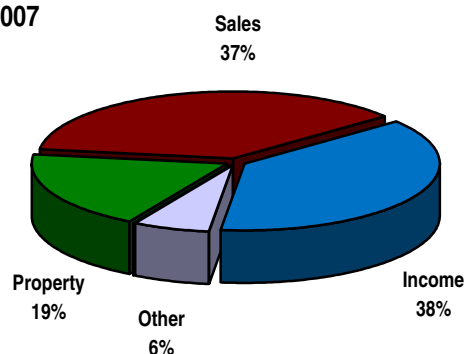


Change in the Composition of Tax Revenue

1997



2007

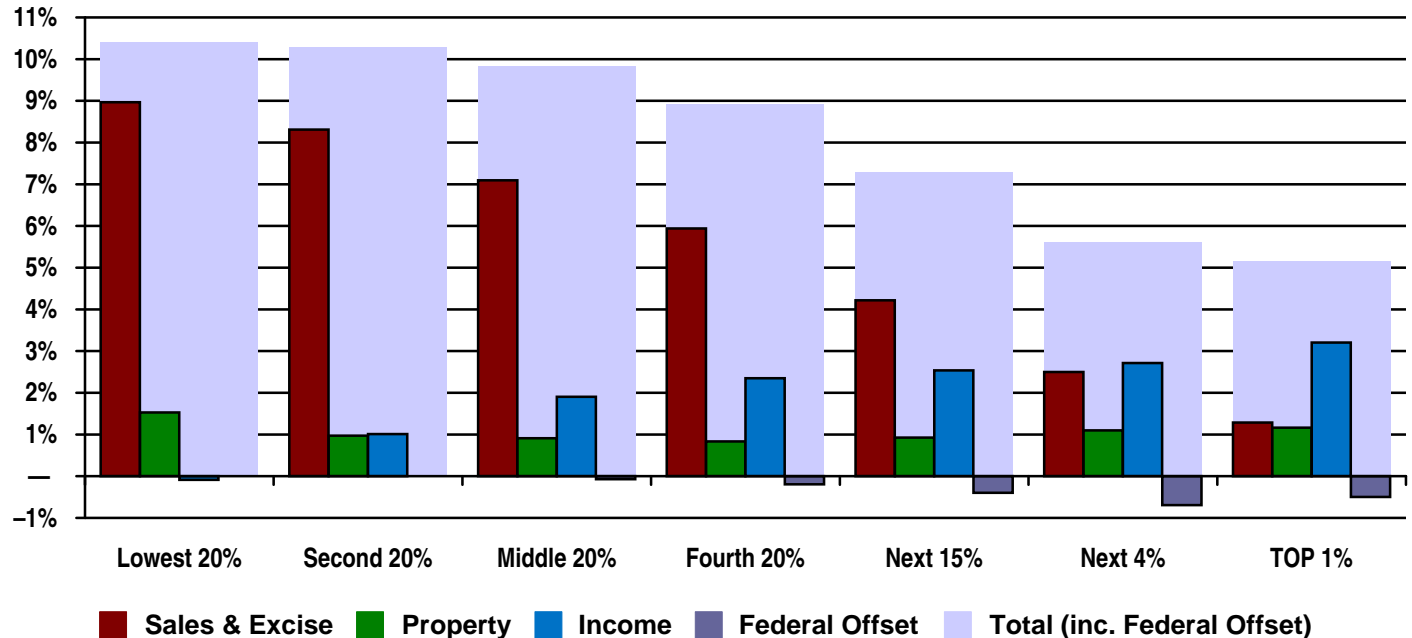


Source: U.S. Census Bureau, Government Finances

Louisiana

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$29,000	\$29,000 – \$46,000	\$46,000 – \$83,000	\$83,000 – \$162,000	\$162,000 – \$418,000	\$418,000 or more
Average Income in Group	\$9,800	\$21,300	\$36,600	\$60,900	\$110,600	\$228,700	\$1,027,100
Sales & Excise Taxes	9.0%	8.3%	7.1%	5.9%	4.2%	2.5%	1.3%
General Sales—Individuals	6.1%	5.7%	5.1%	4.4%	3.1%	1.9%	1.0%
Other Sales & Excise—Ind.	0.8%	0.7%	0.5%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.0%	1.9%	1.5%	1.2%	0.8%	0.5%	0.3%
Property Taxes	1.5%	1.0%	0.9%	0.8%	0.9%	1.1%	1.2%
Property Taxes on Families	1.5%	0.9%	0.9%	0.8%	0.8%	0.8%	0.4%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%	0.7%
Income Taxes	-0.1%	1.0%	1.9%	2.3%	2.5%	2.7%	3.2%
Personal Income Tax	-0.1%	1.0%	1.9%	2.3%	2.5%	2.6%	2.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.4%
TOTAL TAXES	10.4%	10.3%	9.9%	9.1%	7.7%	6.3%	5.7%
Federal Deduction Offset	—	—	-0.1%	-0.2%	-0.4%	-0.7%	-0.5%
TOTAL AFTER OFFSET	10.4%	10.3%	9.8%	8.9%	7.3%	5.6%	5.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Louisiana

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides refundable income tax credits to reduce impact of sales, excise, and property taxes
- ✓ Sales tax base excludes groceries and utilities

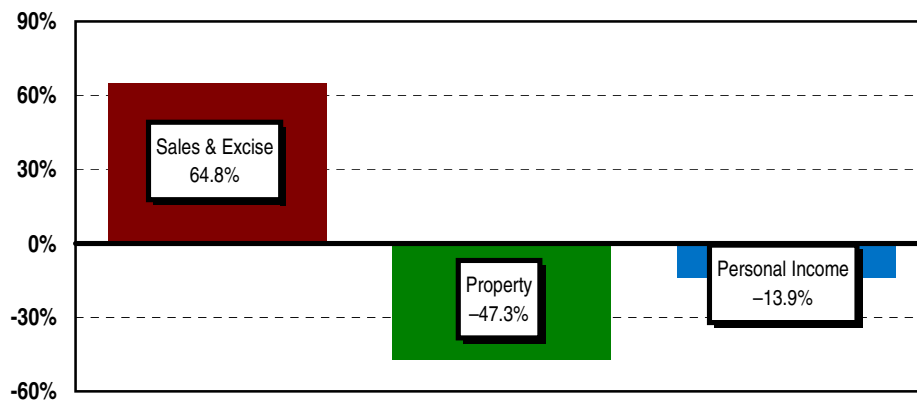
Regressive Features

- ✗ Comparatively high reliance on sales and excise taxes
- ✗ Offers an income tax deduction for federal income taxes paid

Recent Developments

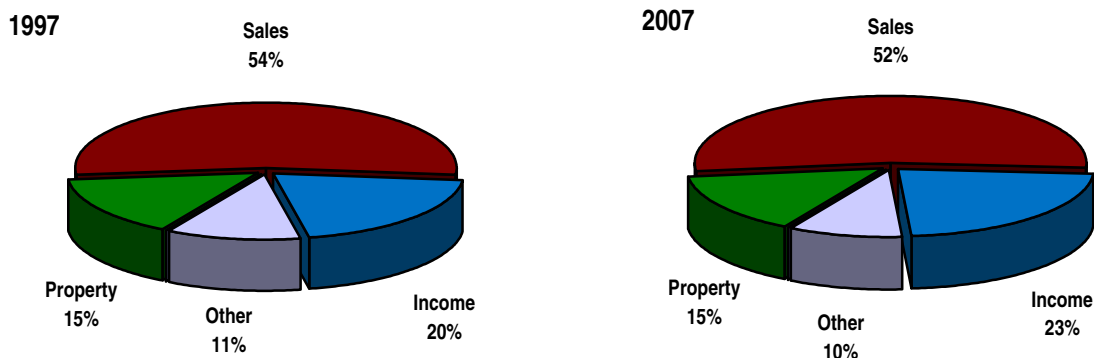
- ▲ Reinstated income tax deduction for federal itemized deductions in excess of federal standard deduction
- ▲ Changed income tax brackets to reduce the amount of income subject to state's top income tax rate
- ▲ Instituted a refundable state earned income tax credit (EITC)

Select State and Local Taxes Relative to the National Average



Source: Government Finances, US Department of Census

Change in the Composition of Tax Revenue

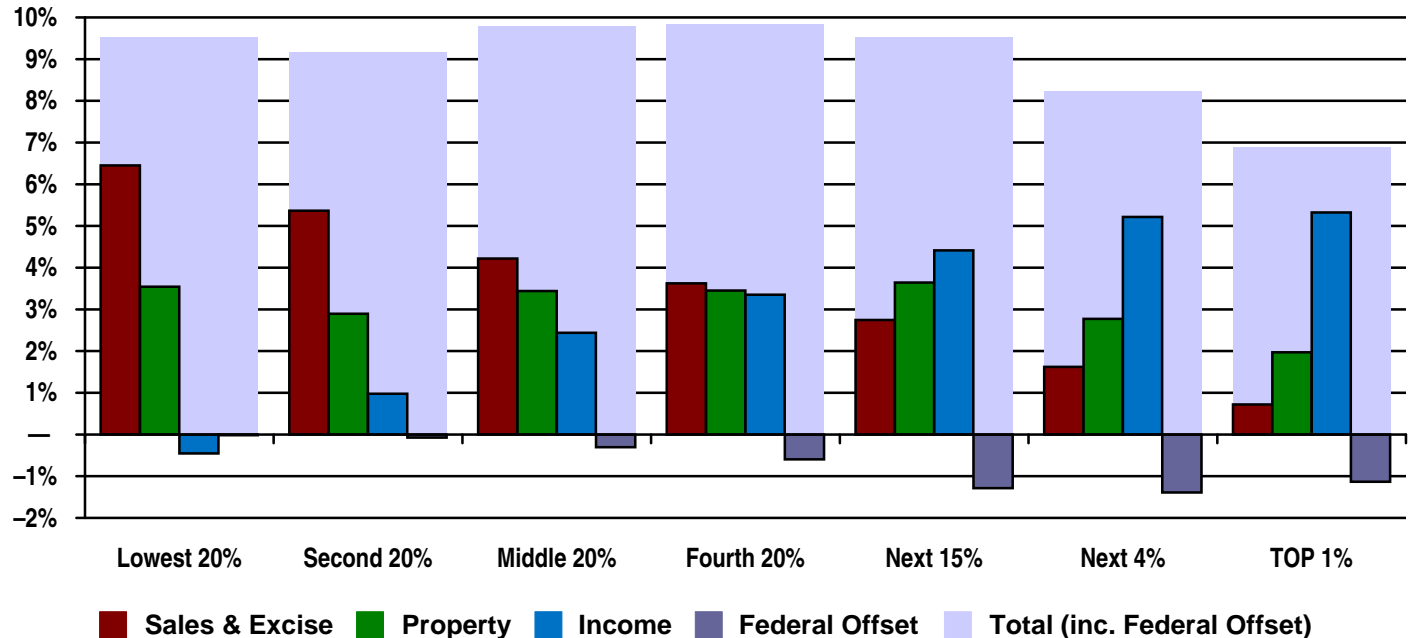


Source: U.S. Census Bureau, Government Finances

Maine

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$30,000	\$30,000 – \$48,000	\$48,000 – \$79,000	\$79,000 – \$149,000	\$149,000 – \$393,000	\$393,000 or more
Average Income in Group	\$11,000	\$24,100	\$39,300	\$61,300	\$102,100	\$222,400	\$977,600
Sales & Excise Taxes	6.5%	5.4%	4.2%	3.6%	2.7%	1.6%	0.7%
General Sales—Individuals	2.6%	2.5%	2.1%	1.8%	1.5%	0.9%	0.4%
Other Sales & Excise—Ind.	2.1%	1.4%	1.0%	0.8%	0.6%	0.3%	0.1%
Sales & Excise on Business	1.8%	1.5%	1.1%	1.0%	0.7%	0.4%	0.2%
Property Taxes	3.5%	2.9%	3.4%	3.5%	3.6%	2.8%	2.0%
Property Taxes on Families	3.3%	2.7%	3.2%	3.1%	3.3%	2.2%	1.0%
Other Property Taxes	0.2%	0.2%	0.3%	0.4%	0.4%	0.6%	1.0%
Income Taxes	-0.5%	1.0%	2.4%	3.4%	4.4%	5.2%	5.3%
Personal Income Tax	-0.5%	1.0%	2.4%	3.3%	4.4%	5.1%	5.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.5%	9.2%	10.1%	10.4%	10.8%	9.6%	8.0%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.6%	-1.3%	-1.4%	-1.1%
TOTAL AFTER OFFSET	9.5%	9.2%	9.8%	9.8%	9.5%	8.2%	6.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Maine

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides an earned income tax credit, a property tax “circuit breaker”, and other low-income credits
- ✓ Requires the use of combined reporting

Regressive Features

- ✗ Comparatively high cigarette tax rate

Recent Developments

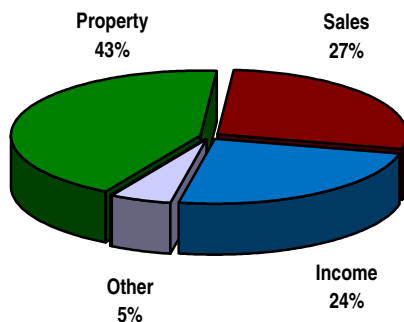
- ▲ Broadened the income tax base by eliminating deductions and exemptions
- ▲ Lowered the top income tax rate from 8.5 to 6.85 percent and raised lowest rates to 6.5 percent
- ▲ Broadened the sales tax base to include a variety of services
- ▲ Increased cigarette taxes

States with Notable Property Tax "Circuit Breaker" Credits

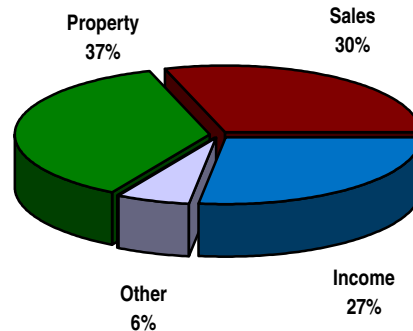


Change in the Composition of Tax Revenue

1997



2007

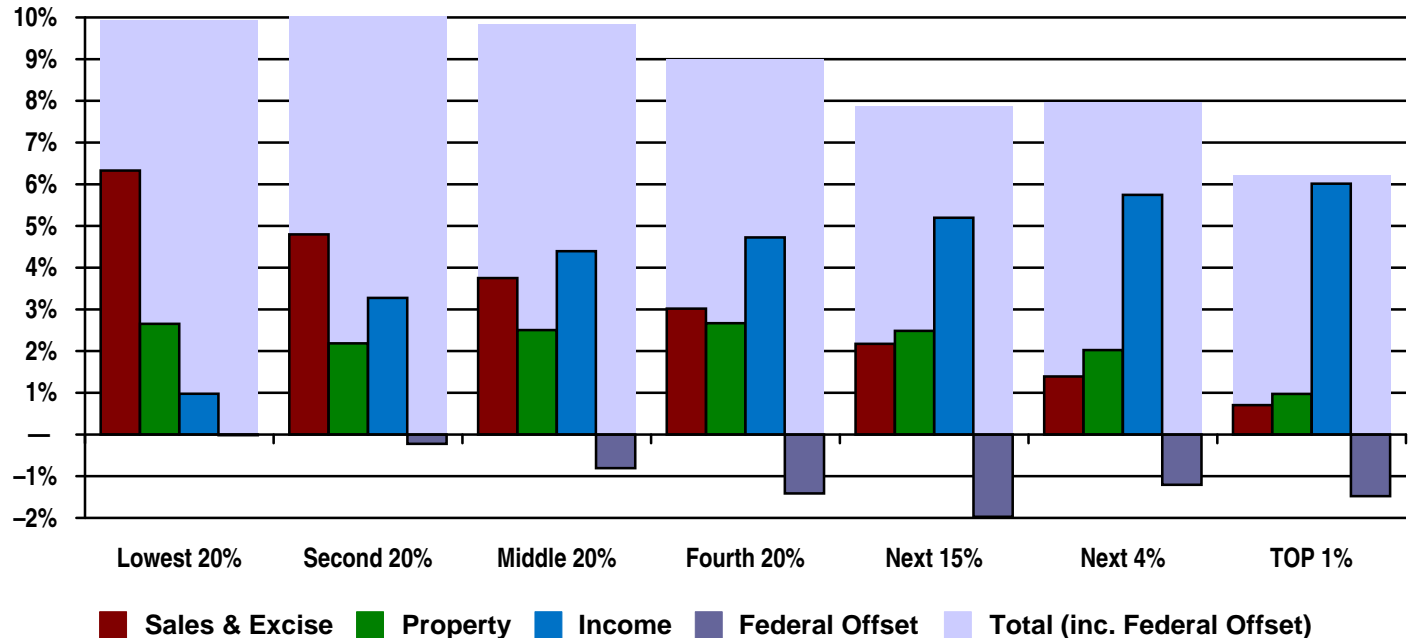


Source: U.S. Census Bureau, Government Finances

Maryland

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$22,000	\$22,000 – \$41,000	\$41,000 – \$64,000	\$64,000 – \$107,000	\$107,000 – \$209,000	\$209,000 – \$476,000	\$476,000 or more
Average Income in Group	\$12,100	\$31,500	\$51,500	\$83,000	\$143,400	\$305,600	\$1,848,200
Sales & Excise Taxes	6.3%	4.8%	3.8%	3.0%	2.2%	1.4%	0.7%
General Sales—Individuals	2.6%	2.2%	1.8%	1.6%	1.2%	0.8%	0.4%
Other Sales & Excise—Ind.	1.8%	1.2%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	2.0%	1.5%	1.1%	0.9%	0.6%	0.4%	0.2%
Property Taxes	2.7%	2.2%	2.5%	2.7%	2.5%	2.0%	1.0%
Property Taxes on Families	2.6%	2.2%	2.5%	2.6%	2.4%	1.9%	0.5%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.5%
Income Taxes	1.0%	3.3%	4.4%	4.7%	5.2%	5.7%	6.0%
Personal Income Tax	1.0%	3.3%	4.4%	4.7%	5.2%	5.7%	5.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	10.0%	10.3%	10.7%	10.4%	9.9%	9.2%	7.7%
Federal Deduction Offset	-0.0%	-0.2%	-0.8%	-1.4%	-2.0%	-1.2%	-1.5%
TOTAL AFTER OFFSET	9.9%	10.0%	9.8%	9.0%	7.9%	8.0%	6.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Maryland

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a partially refundable earned income tax credit (EITC)
- ✓ Sales tax base excludes groceries

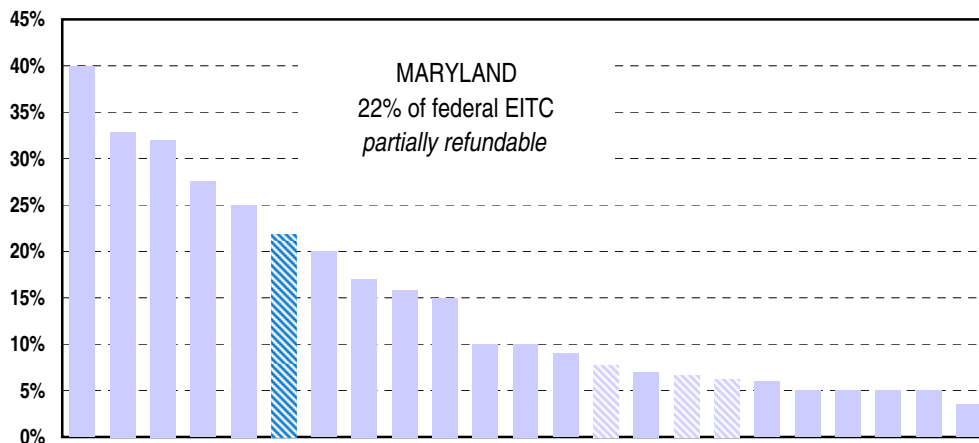
Regressive Features

- ✗ Fails to index income tax provisions to inflation
- ✗ Fails to use combined reporting as part of its corporate income tax

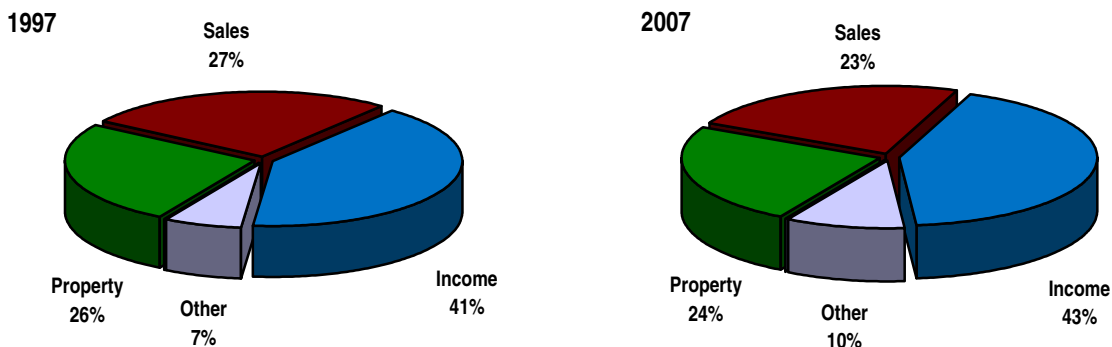
Recent Developments

- ▲ Created three new permanent (and one temporary) top income tax brackets, increased the personal exemption for low-income taxpayers, and expanded eligibility for its refundable EITC
- ▲ Raised sales and corporate income tax rates

Effective State Earned Income Tax Credit (EITC) Rates



Change in the Composition of Tax Revenue

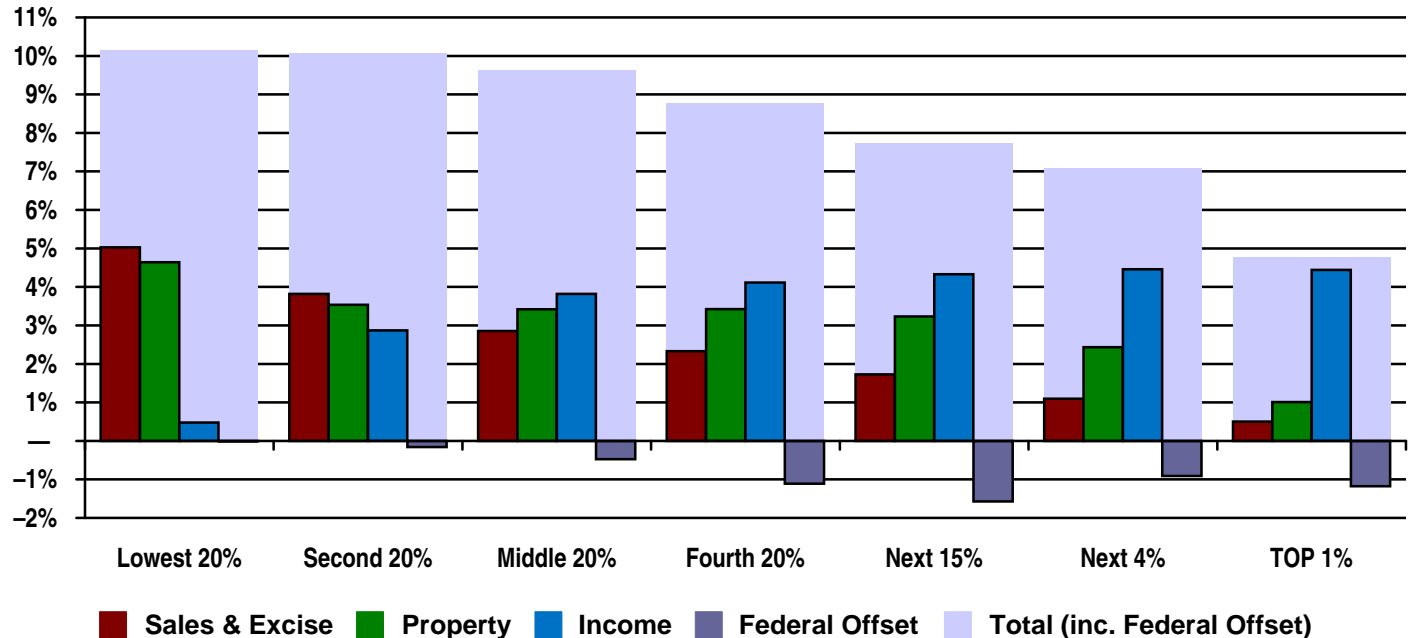


Source: U.S. Census Bureau, Government Finances

Massachusetts

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$41,000	\$41,000 – \$66,000	\$66,000 – \$111,000	\$111,000 – \$243,000	\$243,000 – \$683,000	\$683,000 or more
Average Income in Group	\$11,200	\$31,100	\$52,900	\$86,600	\$151,900	\$369,400	\$2,628,700
Sales & Excise Taxes	5.0%	3.8%	2.9%	2.3%	1.7%	1.1%	0.5%
General Sales—Individuals	2.0%	1.7%	1.4%	1.2%	0.9%	0.6%	0.3%
Other Sales & Excise—Ind.	1.4%	0.9%	0.6%	0.4%	0.3%	0.1%	0.0%
Sales & Excise on Business	1.6%	1.2%	0.9%	0.7%	0.5%	0.3%	0.2%
Property Taxes	4.6%	3.5%	3.4%	3.4%	3.2%	2.4%	1.0%
Property Taxes on Families	4.6%	3.5%	3.4%	3.4%	3.1%	2.2%	0.6%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.2%	0.4%
Income Taxes	0.5%	2.9%	3.8%	4.1%	4.3%	4.5%	4.4%
Personal Income Tax	0.4%	2.9%	3.8%	4.1%	4.3%	4.4%	4.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%
TOTAL TAXES	10.1%	10.2%	10.1%	9.9%	9.3%	8.0%	6.0%
Federal Deduction Offset	-0.0%	-0.2%	-0.5%	-1.1%	-1.6%	-0.9%	-1.2%
TOTAL AFTER OFFSET	10.1%	10.1%	9.6%	8.8%	7.7%	7.1%	4.8%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Massachusetts

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ “No-tax” threshold and low-income credit eliminate income tax liability for poorest taxpayers
- ✓ Sales tax base excludes groceries

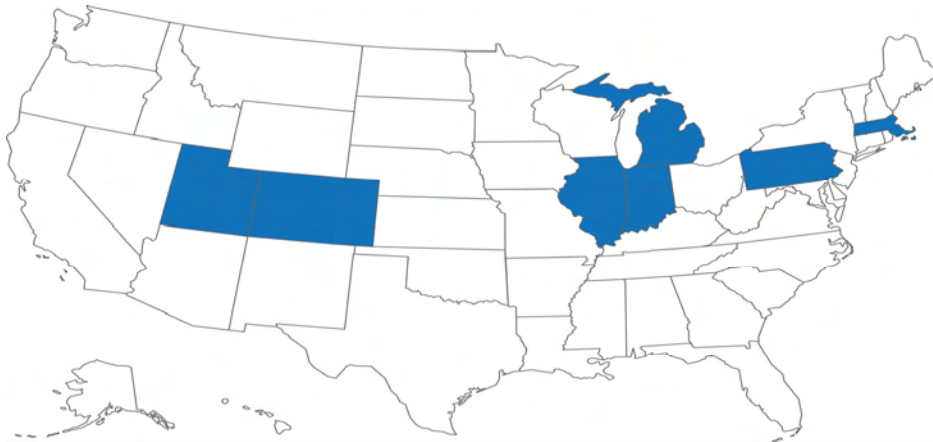
Regressive Features

- ✗ Income tax uses a single rate structure
- ✗ Fails to provide a property tax “circuit breaker” credit to non-elderly taxpayers

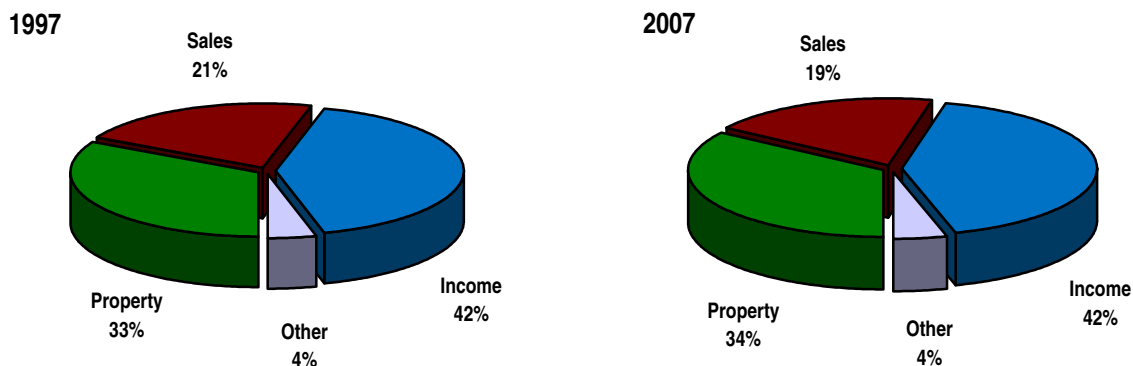
Recent Developments

- ▲ Increased personal exemptions
- ▲ Increased its sales tax rate
- ▲ Mandated the use of combined reporting

States with a Flat Rate Personal Income Tax



Change in the Composition of Tax Revenue

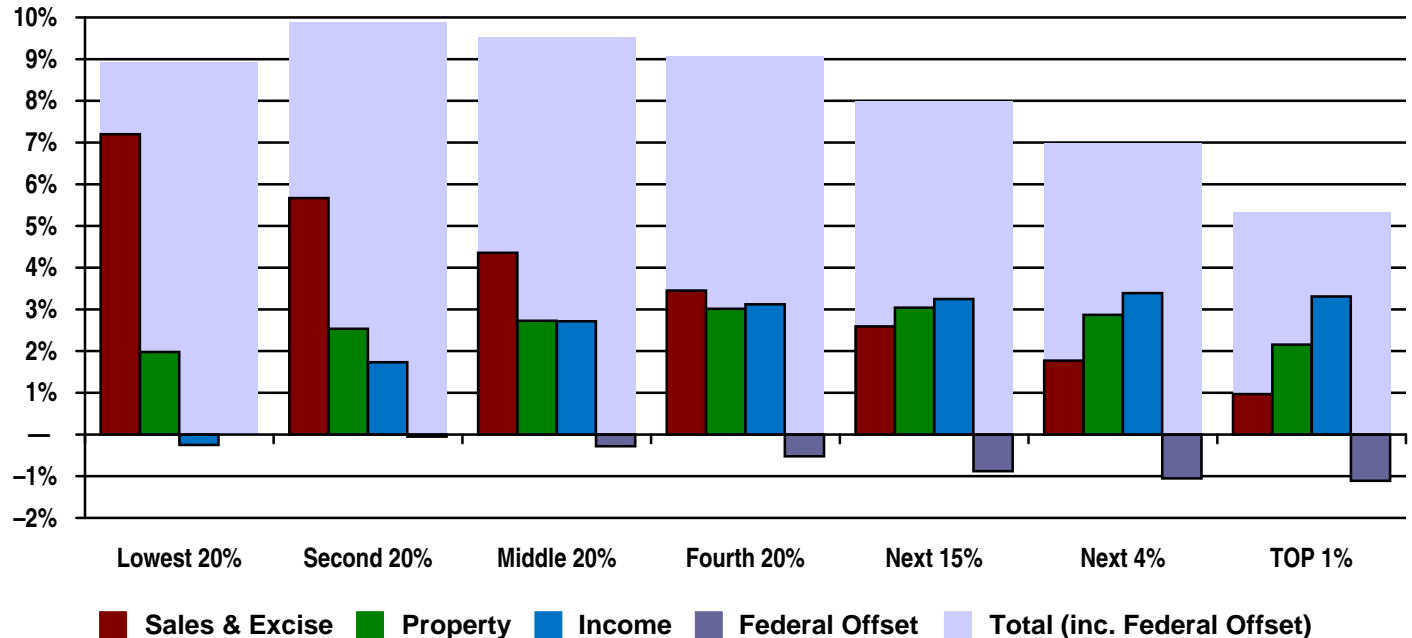


Source: U.S. Census Bureau, Government Finances

Michigan

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$32,000	\$32,000 – \$54,000	\$54,000 – \$86,000	\$86,000 – \$160,000	\$160,000 – \$365,000	\$365,000 or more
Average Income in Group	\$8,700	\$23,300	\$41,900	\$68,100	\$112,700	\$221,900	\$1,099,200
Sales & Excise Taxes	7.2%	5.7%	4.4%	3.5%	2.6%	1.8%	1.0%
General Sales—Individuals	2.9%	2.7%	2.2%	1.8%	1.4%	0.9%	0.5%
Other Sales & Excise—Ind.	2.7%	1.7%	1.1%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.5%	1.3%	1.0%	0.9%	0.7%	0.5%	0.3%
Property Taxes	2.0%	2.5%	2.7%	3.0%	3.0%	2.9%	2.2%
Property Taxes on Families	1.9%	2.3%	2.6%	2.9%	2.9%	2.5%	1.0%
Other Property Taxes	0.1%	0.2%	0.2%	0.1%	0.2%	0.4%	1.2%
Income Taxes	-0.3%	1.7%	2.7%	3.1%	3.2%	3.4%	3.3%
Personal Income Tax	-0.3%	1.7%	2.7%	3.1%	3.2%	3.3%	3.1%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	8.9%	9.9%	9.8%	9.6%	8.9%	8.0%	6.4%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.5%	-0.9%	-1.1%	-1.1%
TOTAL AFTER OFFSET	8.9%	9.9%	9.5%	9.1%	8.0%	7.0%	5.3%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Michigan

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Provides a refundable property tax "circuit breaker" credit to low-income and elderly taxpayers
- ✓ Income tax exemptions are indexed to inflation

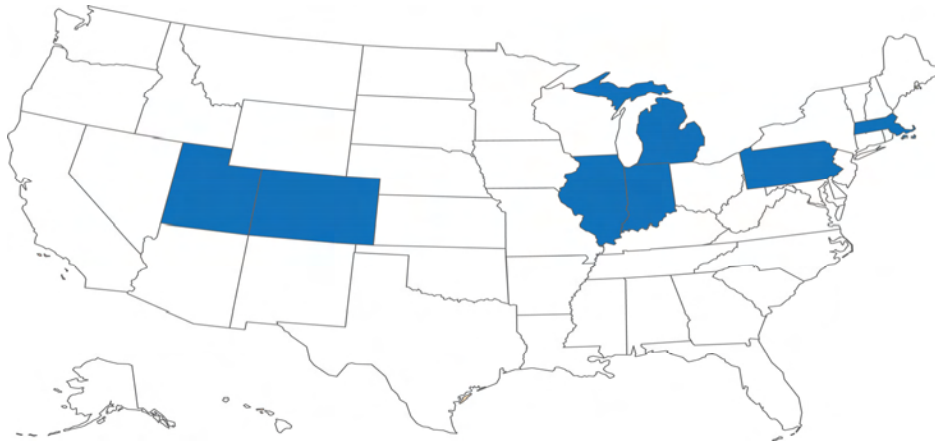
Regressive Features

- ✗ Income tax uses a single rate structure

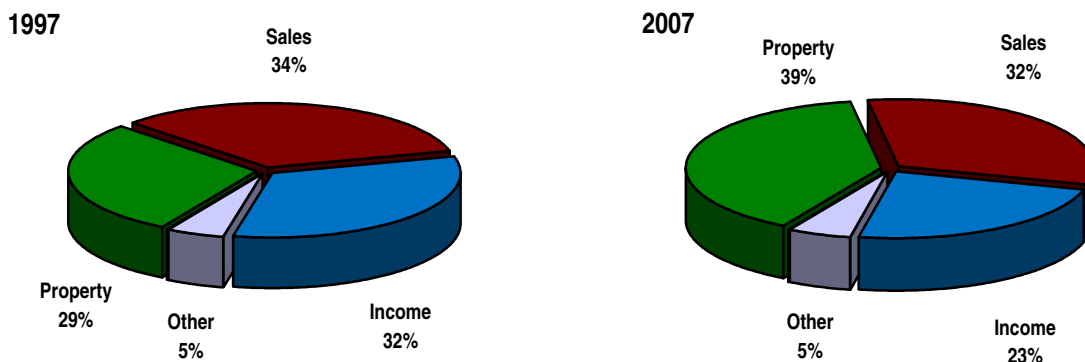
Recent Developments

- ▲ Increased the income tax rate on a temporary basis
- ▲ Replaced Single Business Tax with Michigan Business Tax
- ▲ Increased cigarette taxes
- ▲ Created a refundable EITC equal to 20 percent of the federal credit

States with a Flat Rate Personal Income Tax



Change in the Composition of Tax Revenue

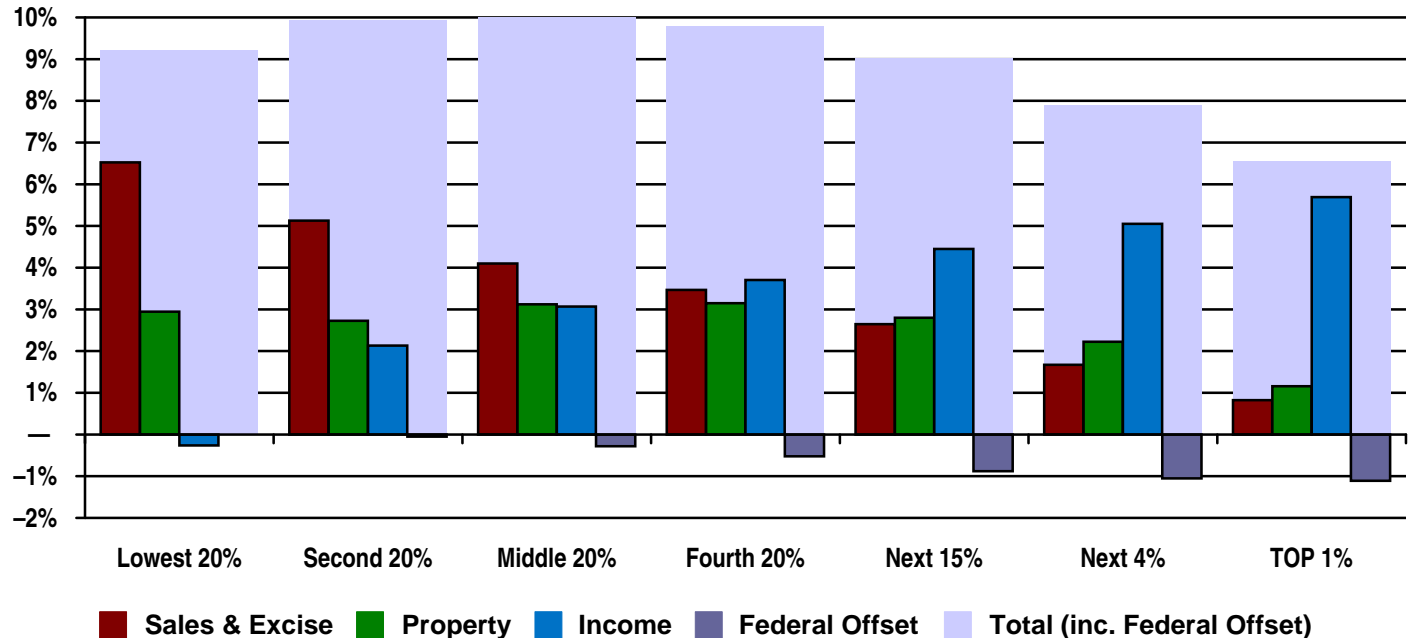


Source: U.S. Census Bureau, Government Finances

Minnesota

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$23,000	\$23,000 – \$40,000	\$40,000 – \$62,000	\$62,000 – \$96,000	\$96,000 – \$191,000	\$191,000 – \$480,000	\$480,000 or more
Average Income in Group	\$12,100	\$30,900	\$51,400	\$78,000	\$126,100	\$285,700	\$1,607,700
Sales & Excise Taxes	6.5%	5.1%	4.1%	3.5%	2.6%	1.7%	0.8%
General Sales—Individuals	2.8%	2.4%	2.1%	1.9%	1.5%	0.9%	0.5%
Other Sales & Excise—Ind.	1.4%	0.9%	0.6%	0.5%	0.3%	0.2%	0.1%
Sales & Excise on Business	2.3%	1.8%	1.4%	1.1%	0.8%	0.5%	0.3%
Property Taxes	2.9%	2.7%	3.1%	3.1%	2.8%	2.2%	1.2%
Property Taxes on Families	2.7%	2.5%	2.9%	2.9%	2.5%	1.8%	0.4%
Other Property Taxes	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.8%
Income Taxes	-0.3%	2.1%	3.1%	3.7%	4.4%	5.1%	5.7%
Personal Income Tax	-0.3%	2.1%	3.0%	3.7%	4.4%	4.9%	5.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	9.2%	10.0%	10.3%	10.3%	9.9%	8.9%	7.7%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.5%	-0.9%	-1.1%	-1.1%
TOTAL AFTER OFFSET	9.2%	9.9%	10.0%	9.8%	9.0%	7.9%	6.6%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Minnesota

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Income tax brackets, standard deduction, and exemptions are indexed to inflation
- ✓ Provides a refundable property tax credit and a refundable working families tax credit
- ✓ Provides a property tax "circuit breaker" credit for low-income taxpayers
- ✓ Requires the use of combined reporting

Regressive Features

- ✗ Comparatively high state sales tax rate

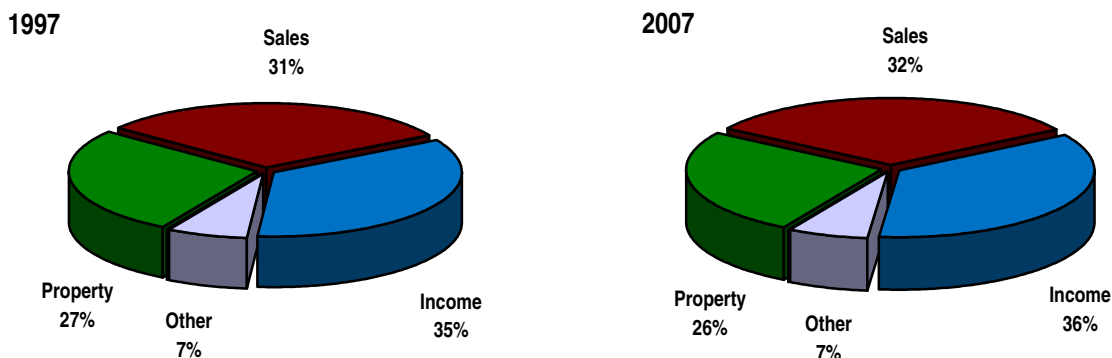
Recent Developments

- ▲ Increased cigarette and gas taxes
- ▲ Created a refundable income tax credit for low-income families to mitigate impact of gas tax increase

States with Notable Property Tax "Circuit Breaker" Credits



Change in the Composition of Tax Revenue

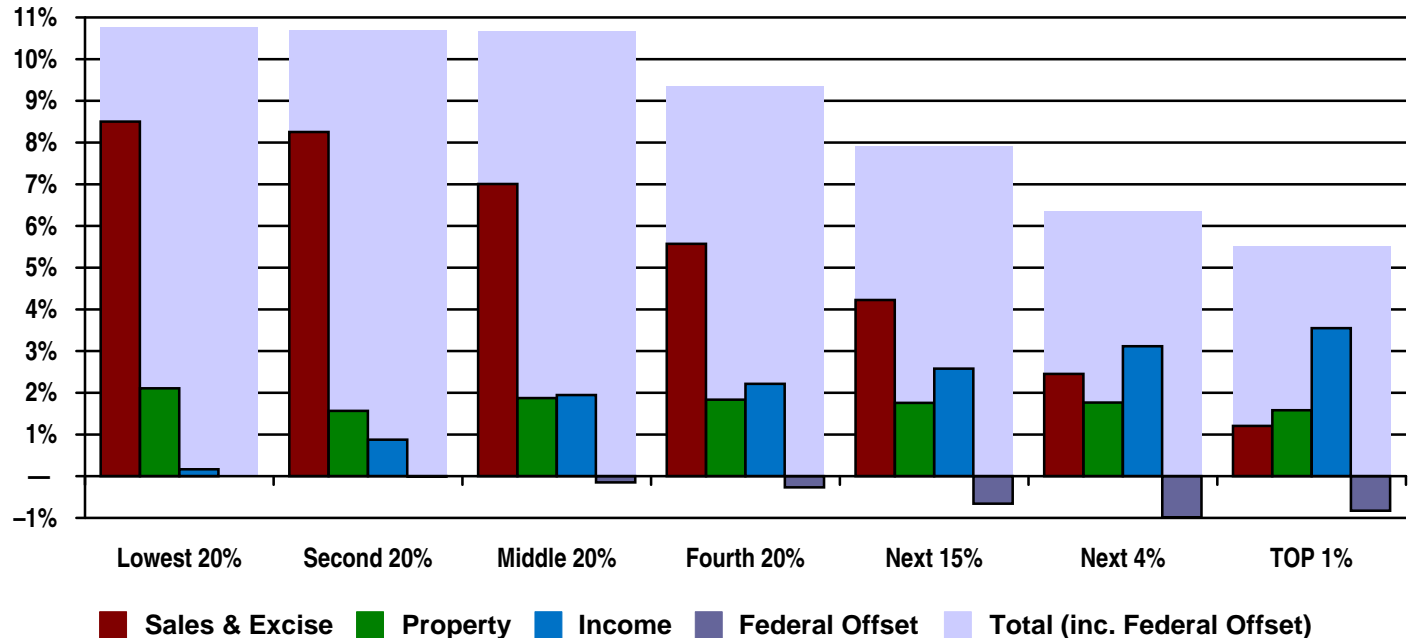


Source: U.S. Census Bureau, Government Finances

Mississippi

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$24,000	\$24,000 – \$39,000	\$39,000 – \$70,000	\$70,000 – \$135,000	\$135,000 – \$319,000	\$319,000 or more
Average Income in Group	\$9,100	\$19,000	\$31,600	\$53,600	\$94,500	\$184,200	\$806,700
Sales & Excise Taxes	8.5%	8.3%	7.0%	5.6%	4.2%	2.5%	1.2%
General Sales—Individuals	5.0%	5.1%	4.4%	3.6%	2.8%	1.6%	0.8%
Other Sales & Excise—Ind.	1.6%	1.2%	0.9%	0.7%	0.4%	0.3%	0.1%
Sales & Excise on Business	2.0%	2.0%	1.7%	1.3%	1.0%	0.6%	0.3%
Property Taxes	2.1%	1.6%	1.9%	1.8%	1.8%	1.8%	1.6%
Property Taxes on Families	2.0%	1.5%	1.8%	1.8%	1.6%	1.3%	0.6%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.2%	0.5%	0.9%
Income Taxes	0.2%	0.9%	1.9%	2.2%	2.6%	3.1%	3.6%
Personal Income Tax	0.1%	0.8%	1.9%	2.2%	2.5%	3.0%	3.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%
TOTAL TAXES	10.8%	10.7%	10.8%	9.6%	8.6%	7.3%	6.3%
Federal Deduction Offset	—	-0.0%	-0.1%	-0.3%	-0.7%	-1.0%	-0.8%
TOTAL AFTER OFFSET	10.8%	10.7%	10.7%	9.4%	7.9%	6.4%	5.5%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Mississippi

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure

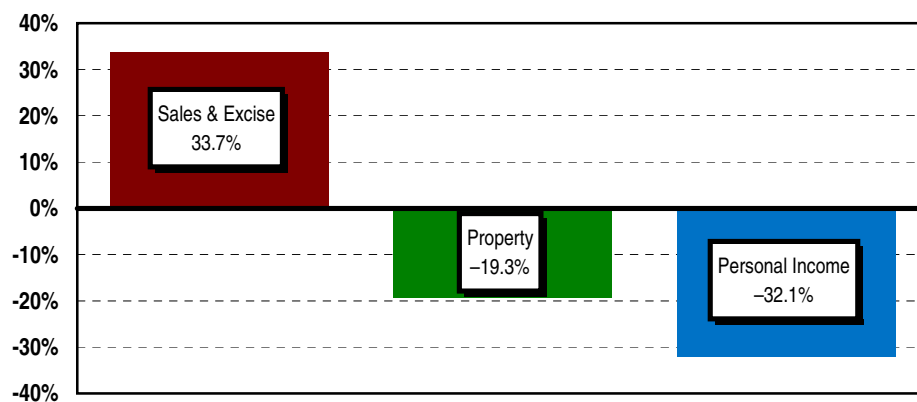
Regressive Features

- ✗ Fails to provide refundable income tax credits to offset impact of sales, excise, and property taxes
- ✗ Narrow income tax brackets mean majority of taxpayers pay top income tax rate
- ✗ Comparatively high reliance on sales taxes
- ✗ Sales tax base includes groceries

Recent Developments

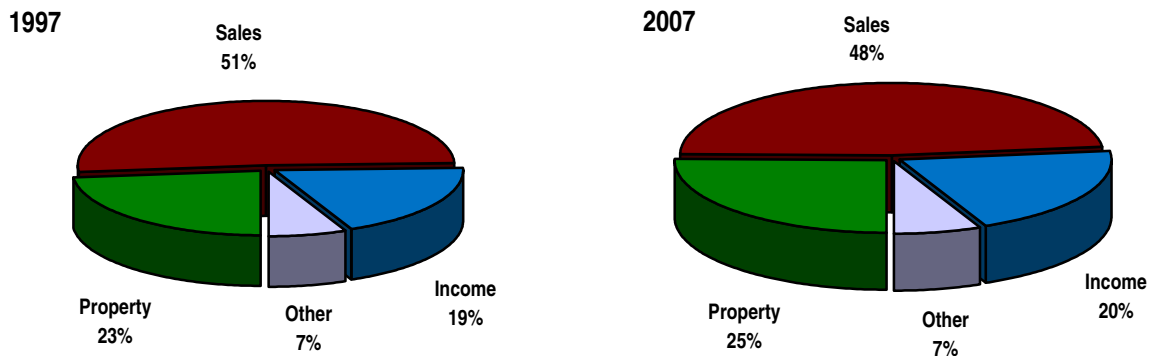
- ▲ Increased cigarette taxes

Select State and Local Taxes Relative to the National Average



Source: Government Finances, US Department of Census

Change in the Composition of Tax Revenue

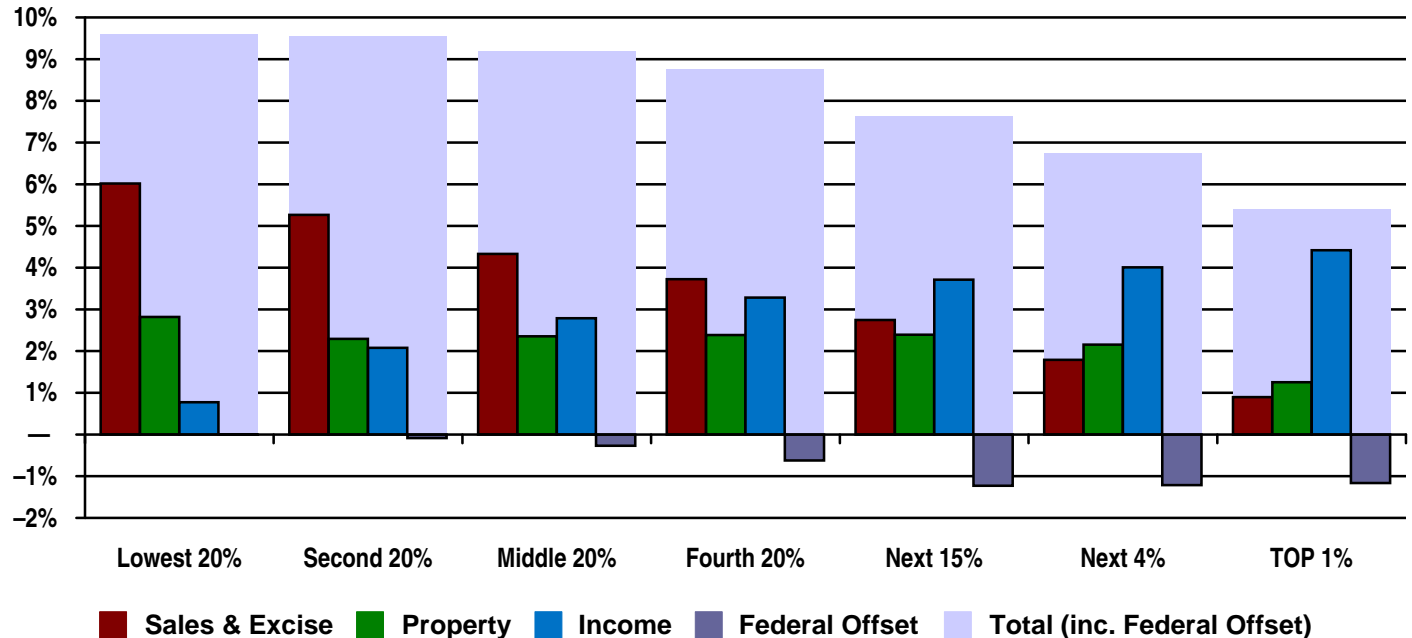


Source: U.S. Census Bureau, Government Finances

Missouri

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$31,000	\$31,000 – \$50,000	\$50,000 – \$81,000	\$81,000 – \$156,000	\$156,000 – \$412,000	\$412,000 or more
Average Income in Group	\$10,000	\$24,200	\$40,400	\$64,300	\$107,300	\$226,900	\$1,170,600
Sales & Excise Taxes	6.0%	5.3%	4.3%	3.7%	2.7%	1.8%	0.9%
General Sales—Individuals	3.6%	3.3%	2.8%	2.5%	1.8%	1.2%	0.6%
Other Sales & Excise—Ind.	0.7%	0.5%	0.4%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	1.7%	1.5%	1.2%	1.0%	0.7%	0.5%	0.3%
Property Taxes	2.8%	2.3%	2.4%	2.4%	2.4%	2.2%	1.3%
Property Taxes on Families	2.8%	2.2%	2.3%	2.3%	2.3%	1.9%	0.7%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.6%
Income Taxes	0.8%	2.1%	2.8%	3.3%	3.7%	4.0%	4.4%
Personal Income Tax	0.8%	2.1%	2.8%	3.3%	3.7%	4.0%	4.3%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	9.6%	9.6%	9.5%	9.4%	8.9%	8.0%	6.6%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.6%	-1.2%	-1.2%	-1.2%
TOTAL AFTER OFFSET	9.6%	9.5%	9.2%	8.8%	7.6%	6.7%	5.4%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Missouri

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ State sales tax base excludes groceries

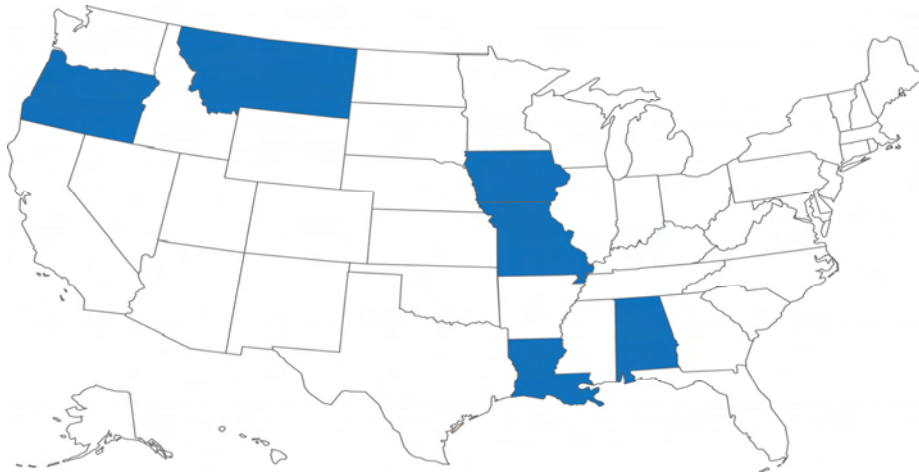
Regressive Features

- ✗ Offers an income tax deduction for federal income taxes paid
- ✗ Narrow income tax brackets mean majority of taxpayers pay top income tax rate
- ✗ Fails to offer refundable income tax credits to non-elderly taxpayers

Recent Developments

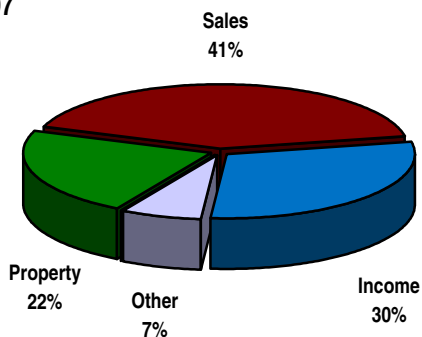
- ▲ Enacted a new means-tested exemption for public pensions

States Offering a Deduction for Federal Income Taxes Paid

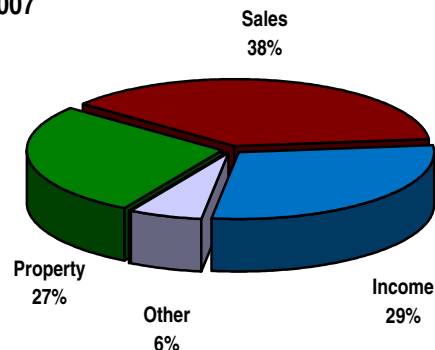


Change in the Composition of Tax Revenue

1997



2007

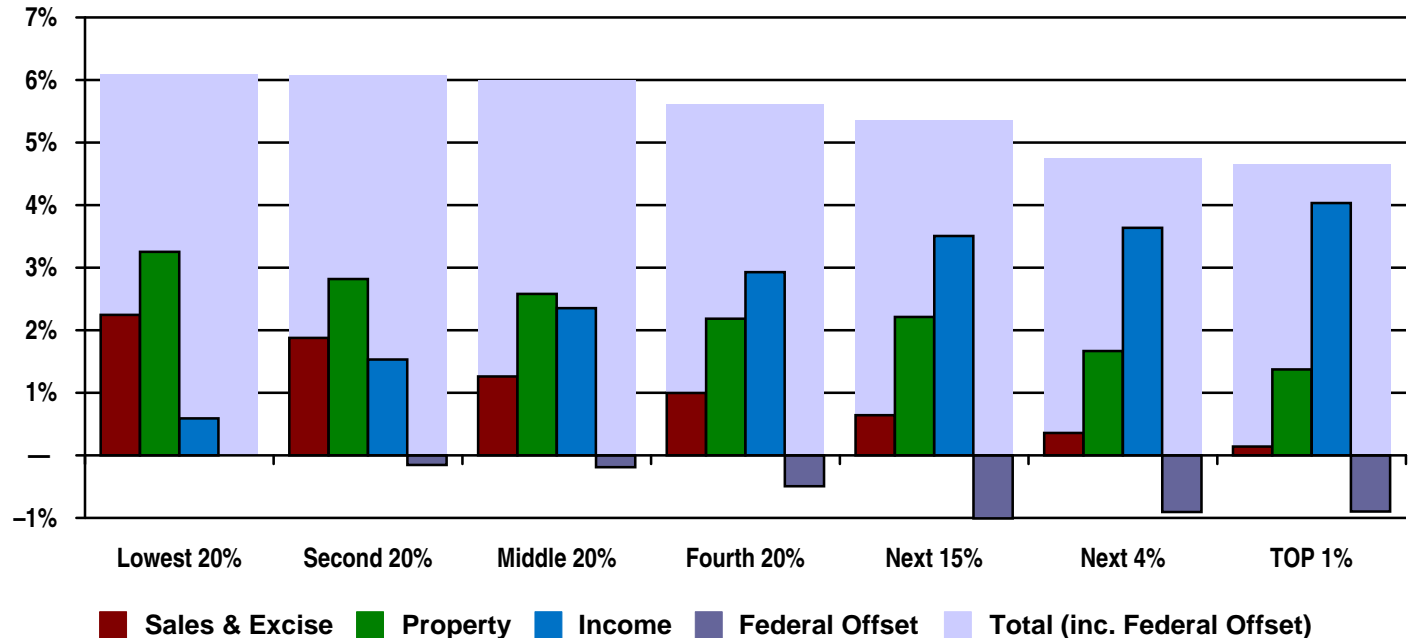


Source: U.S. Census Bureau, Government Finances

Montana

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$31,000	\$31,000 – \$47,000	\$47,000 – \$76,000	\$76,000 – \$151,000	\$151,000 – \$434,000	\$434,000 or more
Average Income in Group	\$8,700	\$22,500	\$37,500	\$60,300	\$101,900	\$231,900	\$1,097,200
Sales & Excise Taxes	2.2%	1.9%	1.3%	1.0%	0.6%	0.4%	0.1%
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	1.9%	1.6%	1.0%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.0%
Property Taxes	3.3%	2.8%	2.6%	2.2%	2.2%	1.7%	1.4%
Property Taxes on Families	2.7%	2.3%	2.1%	1.8%	1.8%	1.1%	0.5%
Other Property Taxes	0.5%	0.5%	0.4%	0.4%	0.4%	0.6%	0.9%
Income Taxes	0.6%	1.5%	2.4%	2.9%	3.5%	3.6%	4.0%
Personal Income Tax	0.6%	1.5%	2.3%	2.9%	3.5%	3.5%	3.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	6.1%	6.2%	6.2%	6.1%	6.4%	5.7%	5.5%
Federal Deduction Offset	—	-0.2%	-0.2%	-0.5%	-1.0%	-0.9%	-0.9%
TOTAL AFTER OFFSET	6.1%	6.1%	6.0%	5.6%	5.4%	4.8%	4.6%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Montana

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ No statewide sales tax

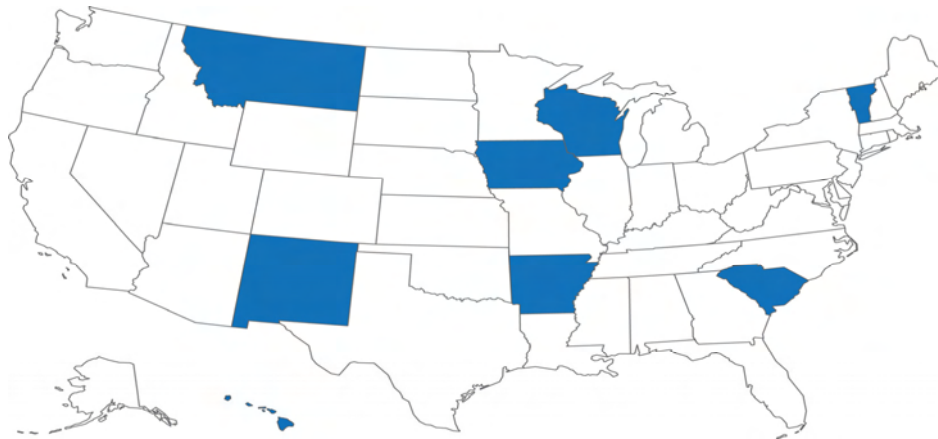
Regressive Features

- ✗ Offers a deduction for federal income taxes paid
- ✗ Provides an income tax credit based on capital gains income
- ✗ Property tax lacks adequate relief mechanisms for low- and middle-income taxpayers

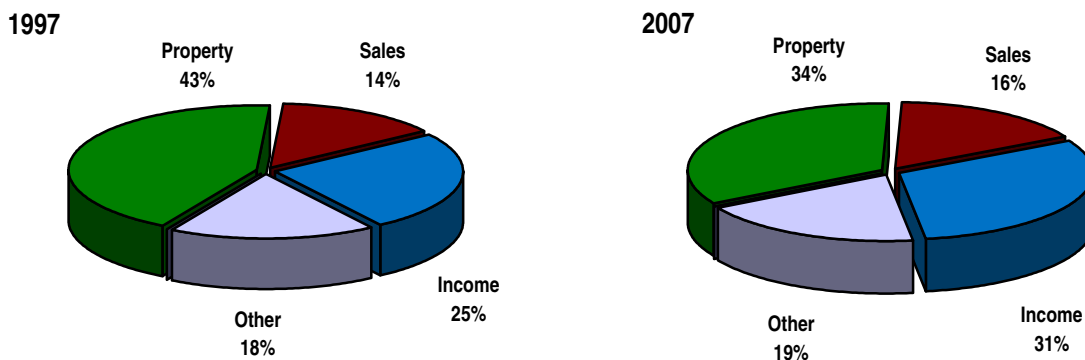
Recent Developments

- ▲ Made its personal income tax rate structure less progressive by reducing the number of brackets and lowering income tax rates
- ▲ Increased cigarette taxes

States with Notable Capital Gains Income Tax Preferences



Change in the Composition of Tax Revenue

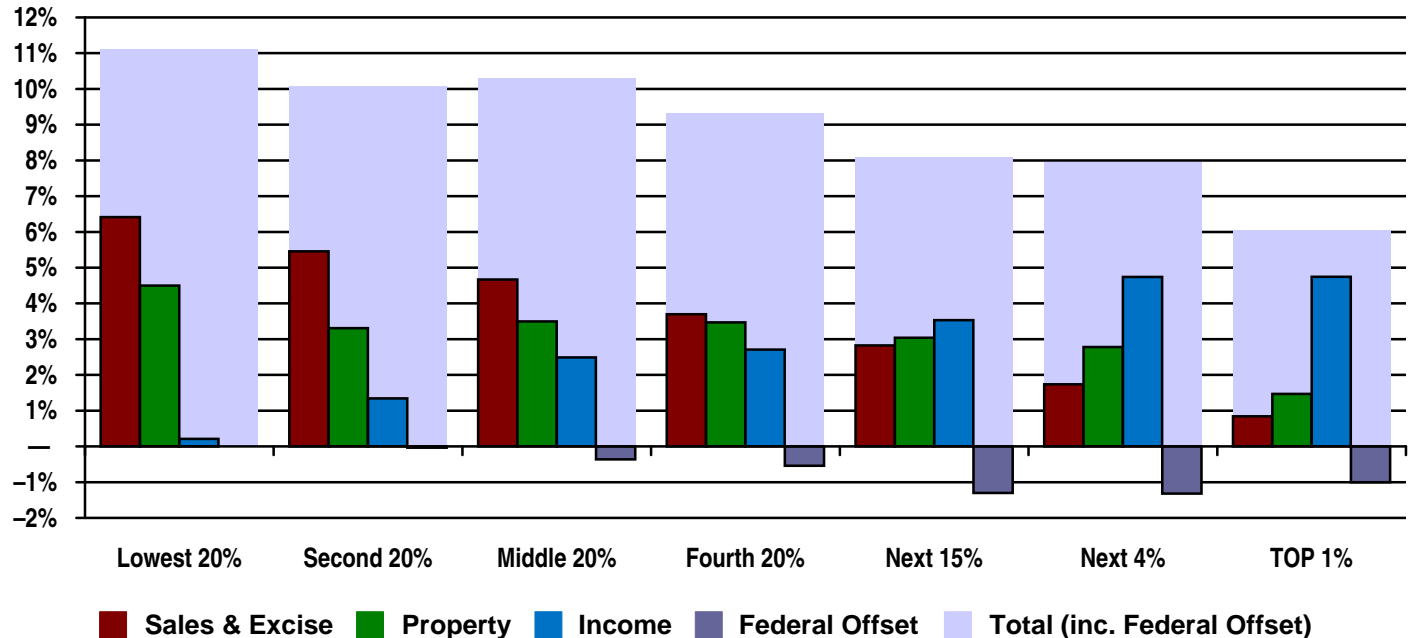


Source: U.S. Census Bureau, Government Finances

Nebraska

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$34,000	\$34,000 – \$57,000	\$57,000 – \$88,000	\$88,000 – \$163,000	\$163,000 – \$381,000	\$381,000 or more
Average Income in Group	\$10,700	\$27,300	\$44,700	\$69,800	\$115,000	\$233,000	\$1,426,000
Sales & Excise Taxes	6.4%	5.5%	4.7%	3.7%	2.8%	1.7%	0.8%
General Sales—Individuals	3.5%	3.1%	2.8%	2.3%	1.7%	1.1%	0.5%
Other Sales & Excise—Ind.	1.0%	0.6%	0.6%	0.4%	0.3%	0.2%	0.0%
Sales & Excise on Business	2.0%	1.7%	1.4%	1.0%	0.8%	0.5%	0.2%
Property Taxes	4.5%	3.3%	3.5%	3.5%	3.0%	2.8%	1.5%
Property Taxes on Families	4.5%	3.3%	3.4%	3.3%	2.9%	2.3%	0.6%
Other Property Taxes	0.0%	0.0%	0.1%	0.2%	0.1%	0.4%	0.8%
Income Taxes	0.2%	1.3%	2.5%	2.7%	3.5%	4.7%	4.7%
Personal Income Tax	0.2%	1.3%	2.5%	2.7%	3.5%	4.7%	4.6%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.1%	10.1%	10.7%	9.9%	9.4%	9.3%	7.1%
Federal Deduction Offset	—	-0.0%	-0.4%	-0.5%	-1.3%	-1.3%	-1.0%
TOTAL AFTER OFFSET	11.1%	10.1%	10.3%	9.3%	8.1%	7.9%	6.1%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Nebraska

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Offers an income tax credit for child and dependent care expenses
- ✓ Requires the use of combined reporting

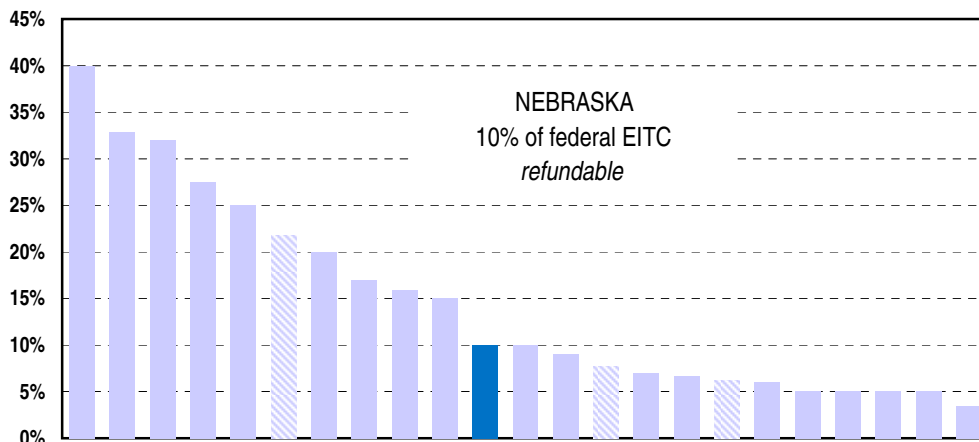
Regressive Features

- ✗ Comparatively high reliance on property taxes

Recent Developments

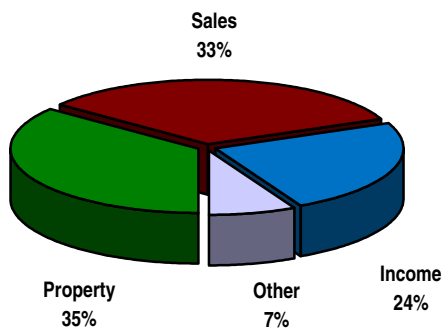
- ▲ Adjusted income tax brackets and increased standard deduction for married couples
- ▲ Created an EITC and subsequently increased it to 10 percent of the federal credit

Effective State Earned Income Tax Credit (EITC) Rates

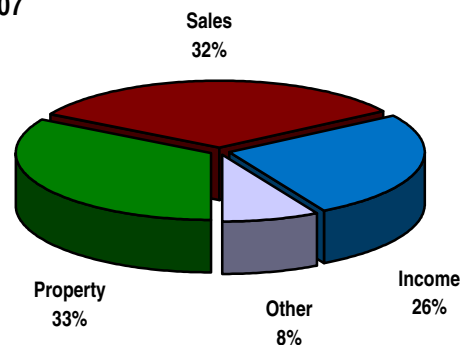


Change in the Composition of Tax Revenue

1997



2007

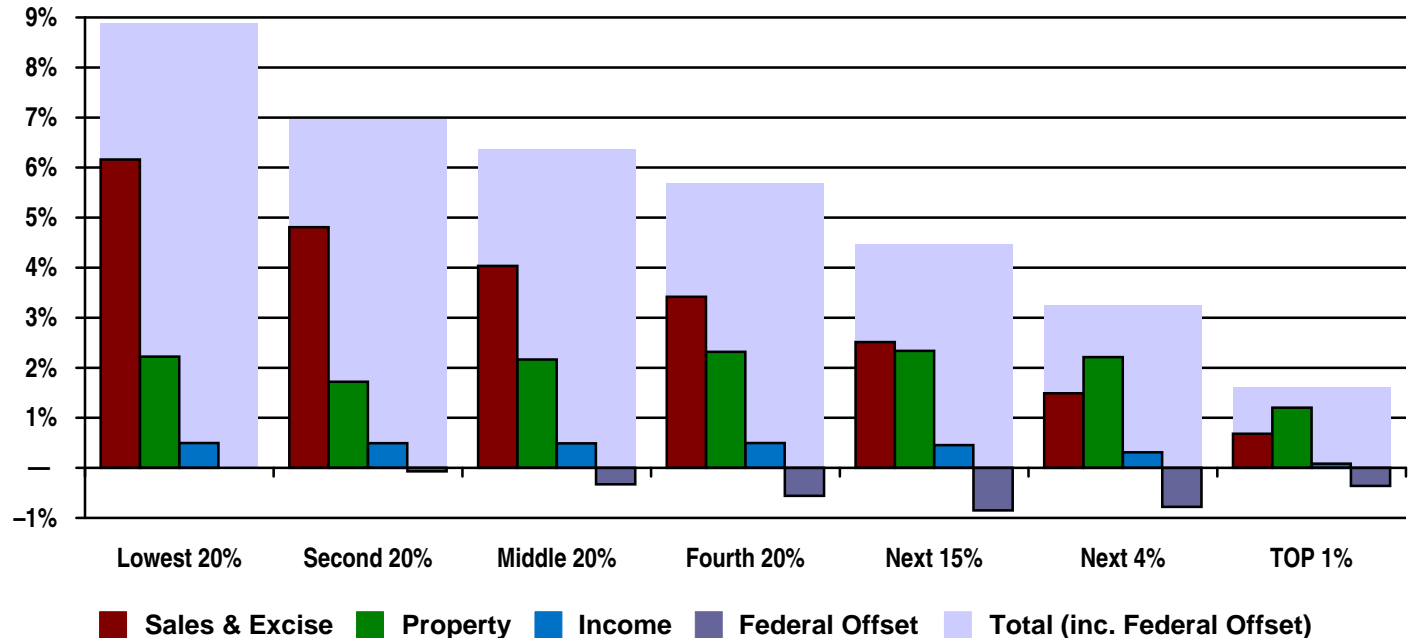


Source: U.S. Census Bureau, Government Finances

Nevada

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$21,000	\$21,000 – \$34,000	\$34,000 – \$53,000	\$53,000 – \$86,000	\$86,000 – \$166,000	\$166,000 – \$574,000	\$574,000 or more
Average Income in Group	\$14,000	\$27,300	\$42,900	\$67,800	\$116,800	\$268,900	\$2,368,100
Sales & Excise Taxes	6.2%	4.8%	4.0%	3.4%	2.5%	1.5%	0.7%
General Sales—Individuals	3.4%	2.9%	2.5%	2.2%	1.6%	1.0%	0.5%
Other Sales & Excise—Ind.	1.2%	0.8%	0.6%	0.5%	0.3%	0.2%	0.0%
Sales & Excise on Business	1.5%	1.2%	1.0%	0.8%	0.6%	0.3%	0.2%
Property Taxes	2.2%	1.7%	2.2%	2.3%	2.3%	2.2%	1.2%
Property Taxes on Families	2.2%	1.7%	2.1%	2.2%	2.2%	1.9%	0.5%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.4%	0.7%
Income Taxes	0.5%	0.5%	0.5%	0.5%	0.5%	0.3%	0.1%
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	0.5%	0.5%	0.5%	0.5%	0.5%	0.3%	0.1%
TOTAL TAXES	8.9%	7.0%	6.7%	6.2%	5.3%	4.0%	2.0%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.6%	-0.9%	-0.8%	-0.4%
TOTAL AFTER OFFSET	8.9%	7.0%	6.4%	5.7%	4.5%	3.2%	1.6%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

State & Local Taxes

Progressive Features

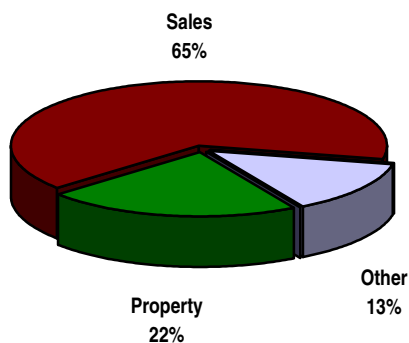
- ✓ Sales tax base excludes groceries

- ✗ No personal income tax
- ✗ Comparatively high reliance on sales and excise taxes
- ✗ Imposes a business payroll tax in lieu of a corporate profits tax

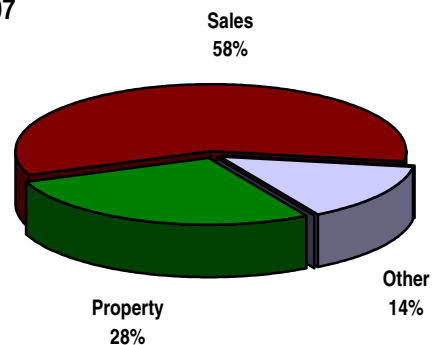
- ▲ Raised sales and payroll taxes on a temporary basis
- ▲ Increased room occupancy taxes

A map of the United States where states are colored either blue or white. The blue states are Washington, Nevada, Colorado, Nebraska, Kansas, Texas, Tennessee, Florida, and Vermont. The white states are Oregon, California, Idaho, Montana, Wyoming, Utah, Arizona, New Mexico, Oklahoma, Missouri, Arkansas, Louisiana, Mississippi, Alabama, Georgia, South Carolina, North Carolina, Virginia, West Virginia, Maryland, Delaware, Pennsylvania, New Jersey, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire, Maine, and Alaska. Hawaii is also shown in white.

1997



2007

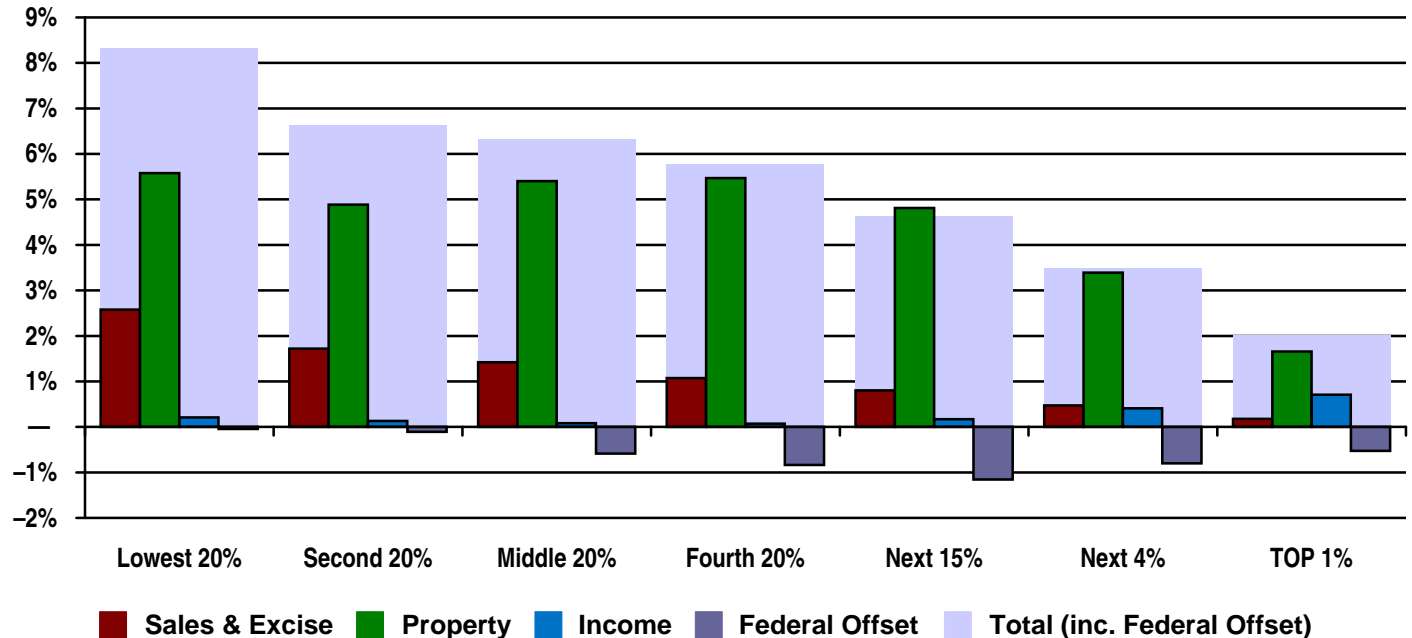


Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 3rd edition

New Hampshire

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$25,000	\$25,000 – \$40,000	\$40,000 – \$65,000	\$65,000 – \$102,000	\$102,000 – \$204,000	\$204,000 – \$480,000	\$480,000 or more
Average Income in Group	\$14,100	\$32,800	\$51,600	\$82,800	\$137,100	\$297,200	\$1,646,900
Sales & Excise Taxes	2.6%	1.7%	1.4%	1.1%	0.8%	0.5%	0.2%
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	2.2%	1.4%	1.1%	0.9%	0.6%	0.4%	0.1%
Sales & Excise on Business	0.4%	0.3%	0.3%	0.2%	0.2%	0.1%	0.0%
Property Taxes	5.6%	4.9%	5.4%	5.5%	4.8%	3.4%	1.7%
Property Taxes on Families	5.4%	4.8%	5.3%	5.3%	4.6%	3.0%	1.0%
Other Property Taxes	0.2%	0.1%	0.1%	0.1%	0.2%	0.4%	0.7%
Income Taxes	0.2%	0.1%	0.1%	0.1%	0.2%	0.4%	0.7%
Personal Income Tax	0.2%	0.1%	0.1%	0.0%	0.1%	0.3%	0.4%
Corporate Income Tax	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%
TOTAL TAXES	8.4%	6.7%	6.9%	6.6%	5.8%	4.3%	2.5%
Federal Deduction Offset	-0.0%	-0.1%	-0.6%	-0.8%	-1.2%	-0.8%	-0.5%
TOTAL AFTER OFFSET	8.3%	6.6%	6.3%	5.8%	4.6%	3.5%	2.0%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through June 2009.

New Hampshire

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ No statewide sales tax

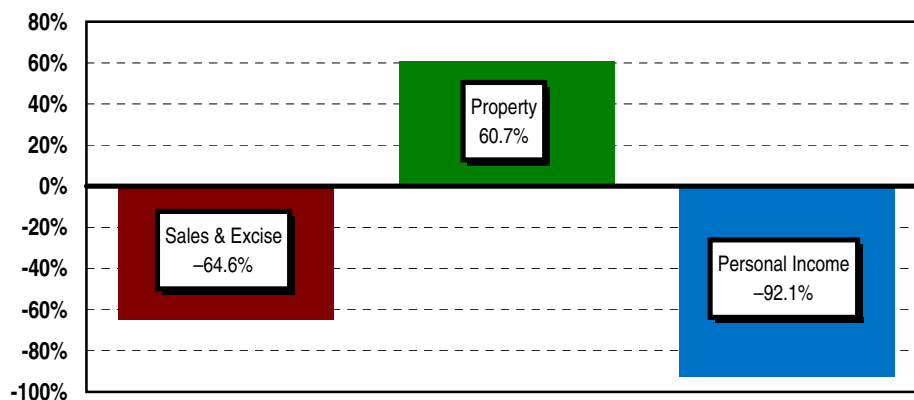
Regressive Features

- ✗ No broad-based personal income tax
- ✗ Comparatively high reliance on property taxes

Recent Developments

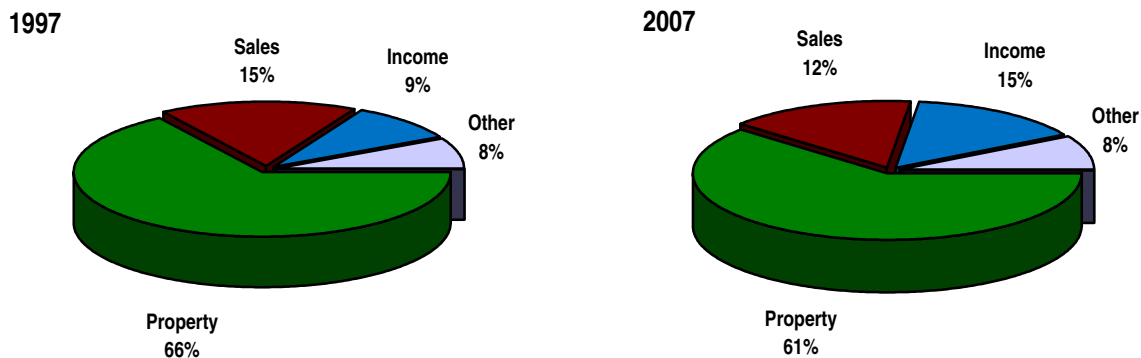
- ▲ Increased cigarette taxes
- ▲ Increased meals and rentals (M&R) tax rate

Select State and Local Taxes Relative to the National Average



Source: Government Finances, US Department of Census

Change in the Composition of Tax Revenue

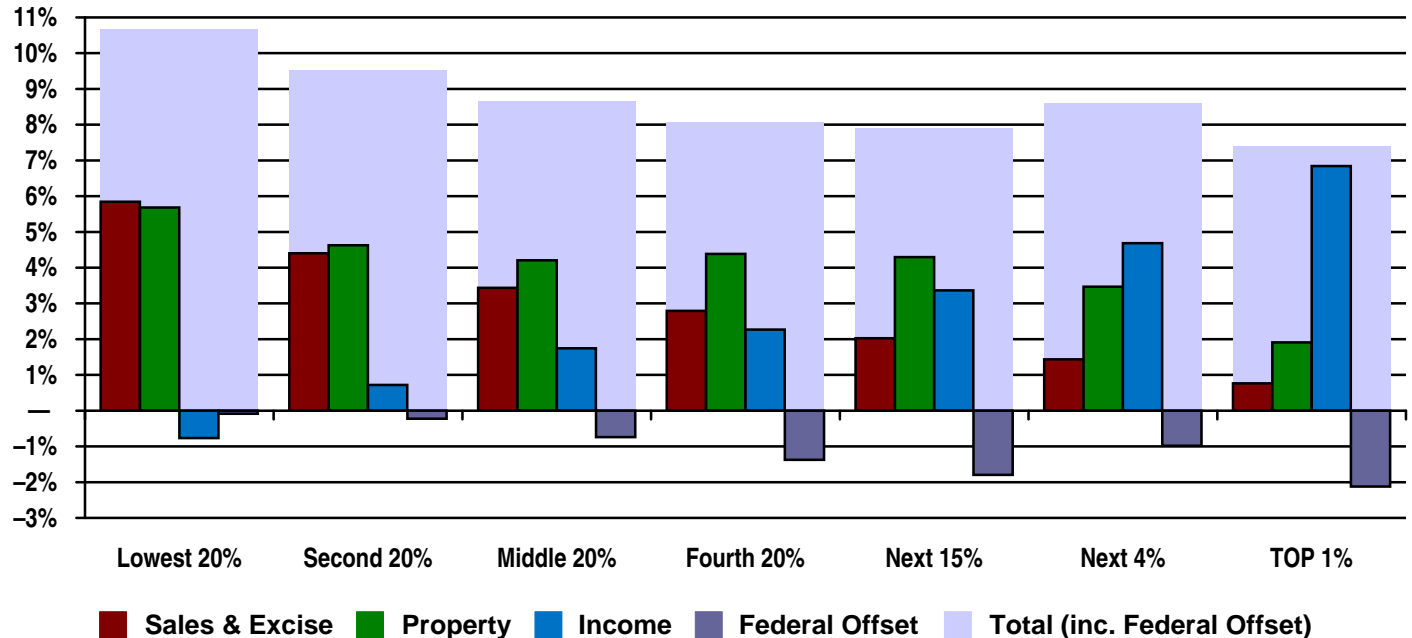


Source: U.S. Census Bureau, Government Finances

New Jersey

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$21,000	\$21,000 – \$41,000	\$41,000 – \$69,000	\$69,000 – \$116,000	\$116,000 – \$261,000	\$261,000 – \$732,000	\$732,000 or more
Average Income in Group	\$12,400	\$30,800	\$54,000	\$90,200	\$161,600	\$382,400	\$2,258,300
Sales & Excise Taxes	5.8%	4.4%	3.4%	2.8%	2.0%	1.4%	0.8%
General Sales—Individuals	2.9%	2.4%	2.0%	1.7%	1.3%	0.9%	0.5%
Other Sales & Excise—Ind.	1.4%	0.8%	0.5%	0.4%	0.2%	0.1%	0.0%
Sales & Excise on Business	1.6%	1.2%	0.9%	0.7%	0.5%	0.4%	0.2%
Property Taxes	5.7%	4.6%	4.2%	4.4%	4.3%	3.5%	1.9%
Property Taxes on Families	5.6%	4.6%	4.1%	4.3%	4.1%	3.0%	0.8%
Other Property Taxes	0.0%	0.1%	0.1%	0.1%	0.2%	0.5%	1.1%
Income Taxes	-0.8%	0.7%	1.7%	2.3%	3.4%	4.7%	6.8%
Personal Income Tax	-0.8%	0.7%	1.7%	2.2%	3.3%	4.5%	6.5%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%
TOTAL TAXES	10.8%	9.7%	9.4%	9.4%	9.7%	9.6%	9.5%
Federal Deduction Offset	-0.1%	-0.2%	-0.7%	-1.4%	-1.8%	-1.0%	-2.1%
TOTAL AFTER OFFSET	10.7%	9.5%	8.6%	8.1%	7.9%	8.6%	7.4%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

New Jersey

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable earned income tax credit (EITC)

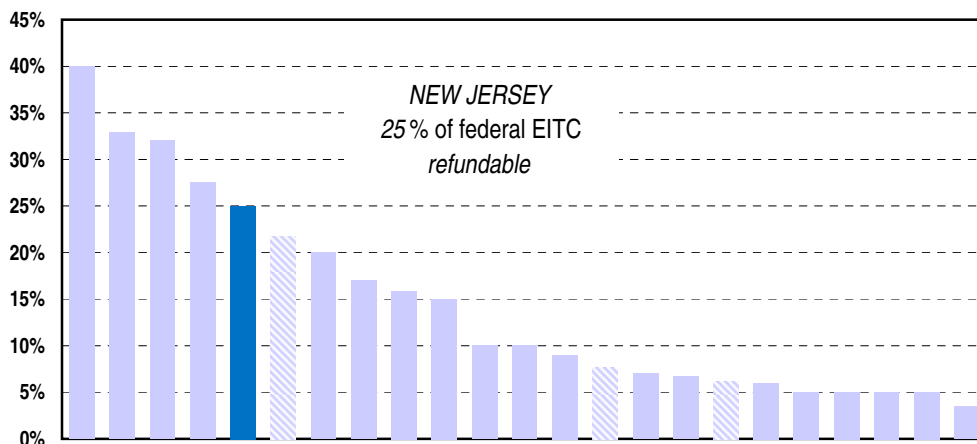
Regressive Features

- ✗ Comparatively high reliance on property taxes
- ✗ Comparatively high cigarette tax rate

Recent Developments

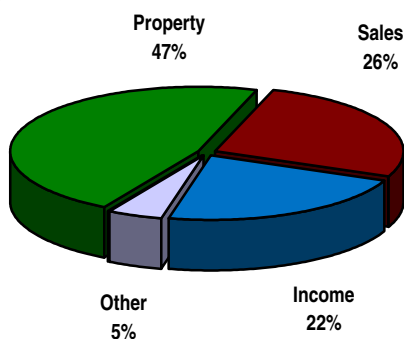
- ▲ Increased its top income tax rates on a temporary basis
- ▲ Increased value of its EITC to 25 percent of the federal credit and expanded eligibility
- ▲ Increased cigarette taxes

Effective State Earned Income Tax Credit (EITC) Rates

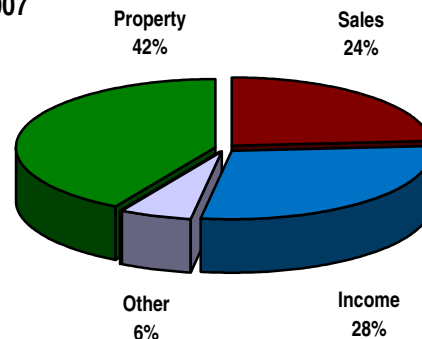


Change in the Composition of Tax Revenue

1997



2007

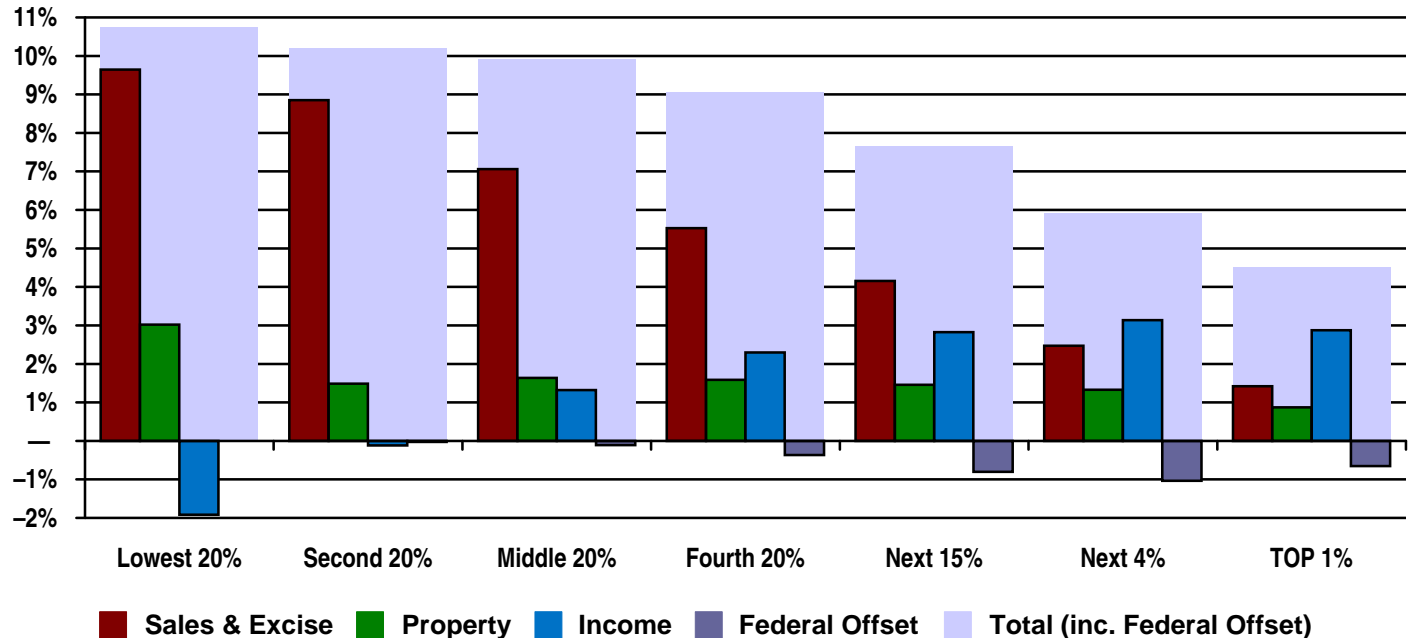


Source: U.S. Census Bureau, Government Finances

New Mexico

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$29,000	\$29,000 – \$45,000	\$45,000 – \$77,000	\$77,000 – \$148,000	\$148,000 – \$395,000	\$395,000 or more
Average Income in Group	\$9,900	\$22,300	\$35,700	\$59,100	\$103,200	\$211,900	\$1,032,100
Sales & Excise Taxes	9.6%	8.9%	7.1%	5.5%	4.2%	2.5%	1.4%
General Sales—Individuals	5.6%	5.3%	4.3%	3.5%	2.6%	1.6%	0.9%
Other Sales & Excise—Ind.	0.9%	0.6%	0.5%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	3.2%	2.9%	2.3%	1.7%	1.3%	0.8%	0.4%
Property Taxes	3.0%	1.5%	1.6%	1.6%	1.5%	1.3%	0.9%
Property Taxes on Families	3.0%	1.4%	1.6%	1.5%	1.4%	1.1%	0.4%
Other Property Taxes	0.0%	0.0%	0.1%	0.0%	0.1%	0.2%	0.5%
Income Taxes	-1.9%	-0.1%	1.3%	2.3%	2.8%	3.1%	2.9%
Personal Income Tax	-1.9%	-0.1%	1.3%	2.3%	2.8%	3.0%	2.5%
Corporate Income Tax	0.0%	0.0%	0.1%	0.0%	0.1%	0.2%	0.4%
TOTAL TAXES	10.8%	10.2%	10.0%	9.4%	8.4%	6.9%	5.2%
Federal Deduction Offset	—	-0.0%	-0.1%	-0.4%	-0.8%	-1.0%	-0.7%
TOTAL AFTER OFFSET	10.8%	10.2%	9.9%	9.0%	7.6%	5.9%	4.5%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

New Mexico

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Provides a refundable low-income tax credit

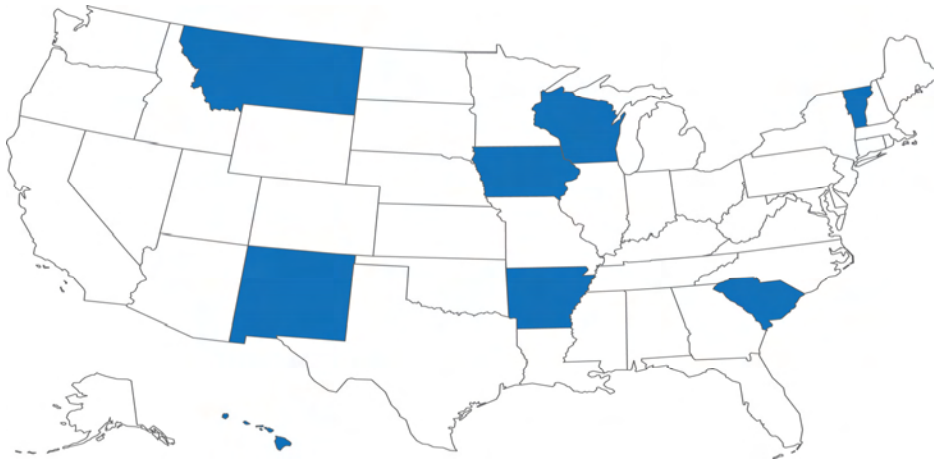
Regressive Features

- ✗ Provides an income tax exclusion equal to at least half of capital gains income
- ✗ Comparatively high reliance on gross receipts taxes

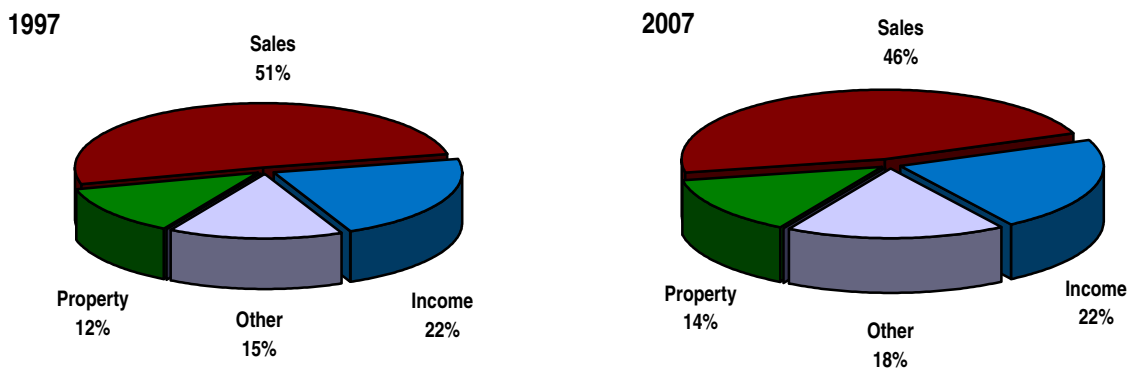
Recent Developments

- ▲ Diminished the progressivity of its income tax by reducing tax rates for upper-income taxpayers
- ▲ Created a refundable EITC equal to 10 percent of the federal credit
- ▲ Adopted targeted personal income tax exemption for middle-income taxpayers

States with Notable Capital Gains Income Tax Preferences



Change in the Composition of Tax Revenue

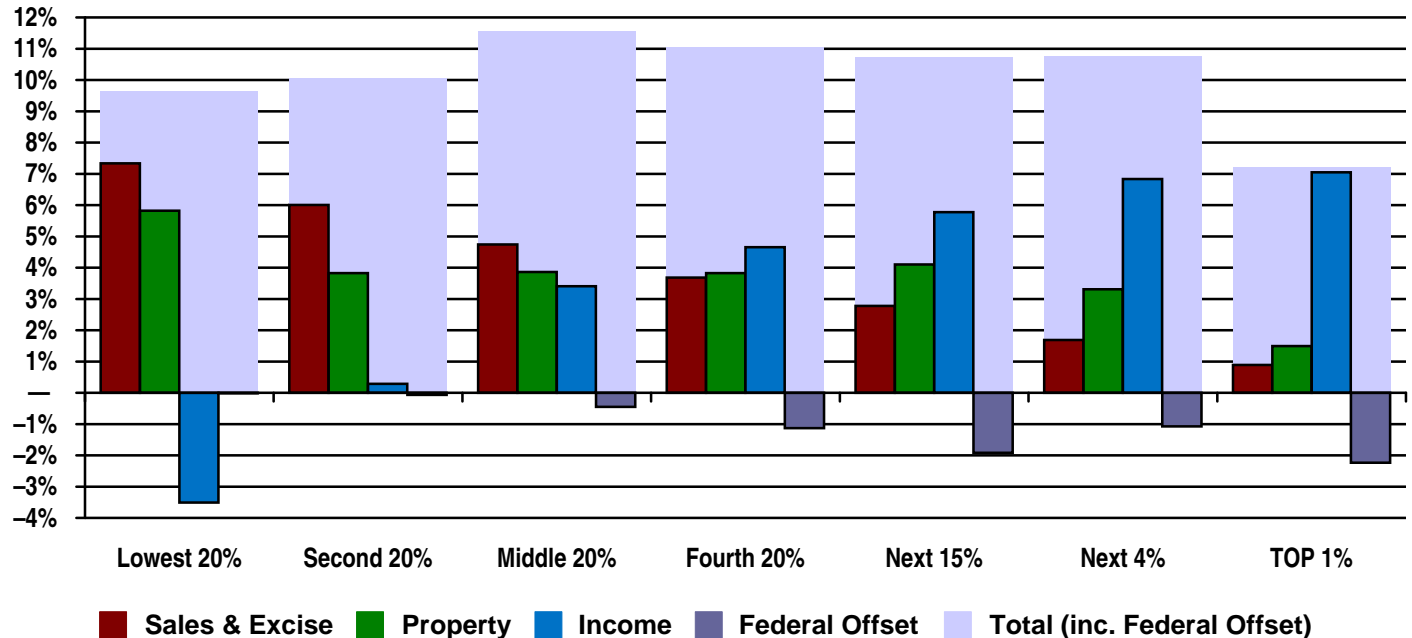


Source: U.S. Census Bureau, Government Finances

New York

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$33,000	\$33,000 – \$56,000	\$56,000 – \$95,000	\$95,000 – \$209,000	\$209,000 – \$633,000	\$633,000 or more
Average Income in Group	\$9,600	\$24,400	\$43,800	\$73,100	\$133,000	\$338,100	\$3,065,800
Sales & Excise Taxes	7.3%	6.0%	4.7%	3.7%	2.8%	1.7%	0.9%
General Sales—Individuals	3.6%	3.34%	2.8%	2.3%	1.8%	1.1%	0.6%
Other Sales & Excise—Ind.	1.5%	0.9%	0.6%	0.4%	0.3%	0.1%	0.0%
Sales & Excise on Business	2.2%	1.8%	1.4%	1.0%	0.7%	0.4%	0.2%
Property Taxes	5.8%	3.8%	3.9%	3.8%	4.1%	3.3%	1.5%
Property Taxes on Families	5.3%	3.3%	3.4%	3.4%	3.6%	2.6%	0.6%
Other Property Taxes	0.5%	0.5%	0.5%	0.5%	0.5%	0.8%	0.9%
Income Taxes	-3.5%	0.3%	3.4%	4.7%	5.8%	6.8%	7.0%
Personal Income Tax	-3.5%	0.3%	3.4%	4.6%	5.7%	6.6%	6.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%	0.4%
TOTAL TAXES	9.6%	10.1%	12.0%	12.2%	12.7%	11.8%	9.4%
Federal Deduction Offset	-0.0%	-0.1%	-0.5%	-1.1%	-1.9%	-1.1%	-2.2%
TOTAL AFTER OFFSET	9.6%	10.0%	11.6%	11.0%	10.7%	10.8%	7.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

New York

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable earned income tax credit (EITC)

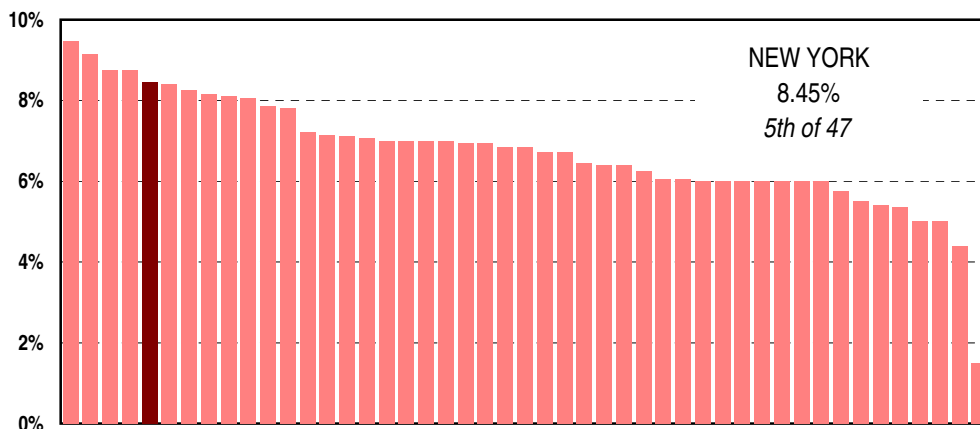
Regressive Features

- ✗ Comparatively high combined state and local sales tax rates

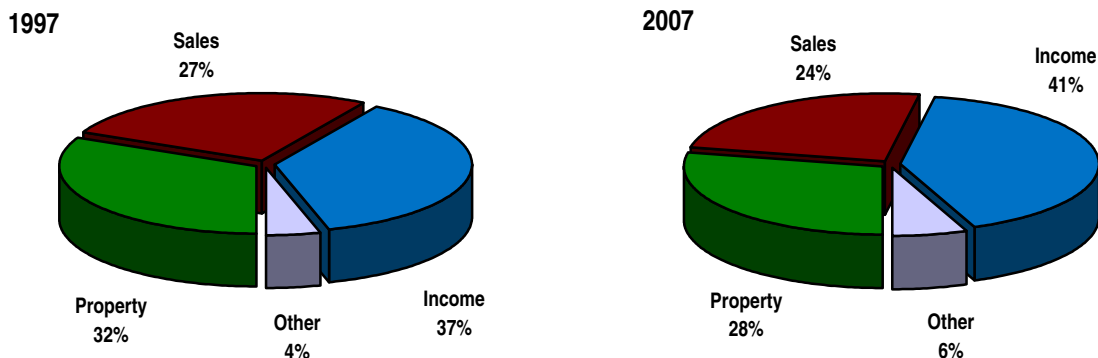
Recent Developments

- ▲ Added two new top income tax brackets on a temporary basis and further limited itemized deductions
- ▲ Adopted a refundable child tax credit
- ▲ Increased the standard deduction for married couples
- ▲ Mandated the use of combined reporting

Combined State and Local Sales Tax Rates



Change in the Composition of Tax Revenue

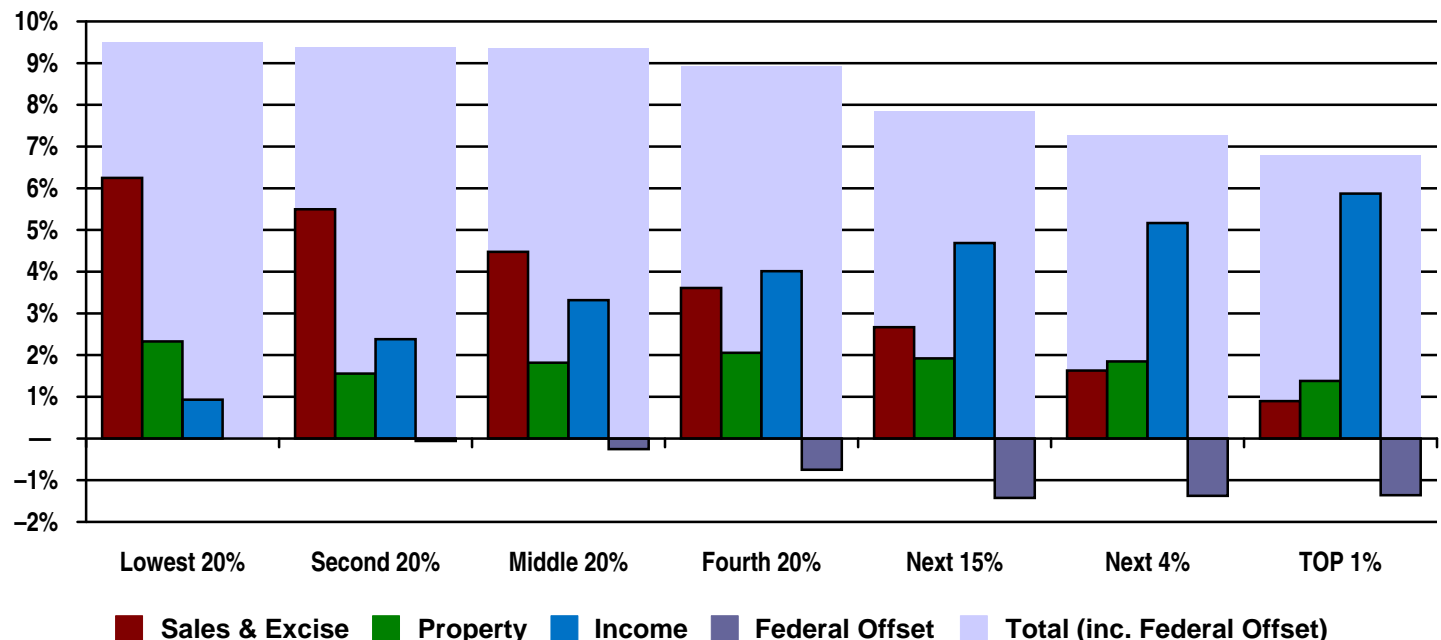


Source: U.S. Census Bureau, Government Finances

North Carolina

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$29,000	\$29,000 – \$48,000	\$48,000 – \$79,000	\$79,000 – \$165,000	\$165,000 – \$398,000	\$398,000 or more
Average Income in Group	\$10,300	\$22,800	\$37,300	\$61,500	\$108,200	\$239,400	\$1,150,400
Sales & Excise Taxes	6.2%	5.5%	4.5%	3.6%	2.7%	1.6%	0.9%
General Sales—Individuals	3.2%	2.8%	2.4%	2.0%	1.5%	1.0%	0.6%
Other Sales & Excise—Ind.	1.3%	1.1%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.8%	1.6%	1.2%	1.0%	0.7%	0.4%	0.2%
Property Taxes	2.3%	1.6%	1.8%	2.1%	1.9%	1.8%	1.4%
Property Taxes on Families	2.3%	1.5%	1.8%	2.0%	1.8%	1.7%	0.7%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%	0.7%
Income Taxes	0.9%	2.4%	3.3%	4.0%	4.7%	5.2%	5.9%
Personal Income Tax	0.9%	2.4%	3.3%	4.0%	4.7%	5.1%	5.6%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	9.5%	9.4%	9.6%	9.7%	9.3%	8.6%	8.1%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.8%	-1.4%	-1.4%	-1.4%
TOTAL AFTER OFFSET	9.5%	9.4%	9.4%	8.9%	7.9%	7.3%	6.8%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

North Carolina

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a refundable earned income tax credit (scheduled to expire in 2013)
- ✓ State sales tax base excludes groceries

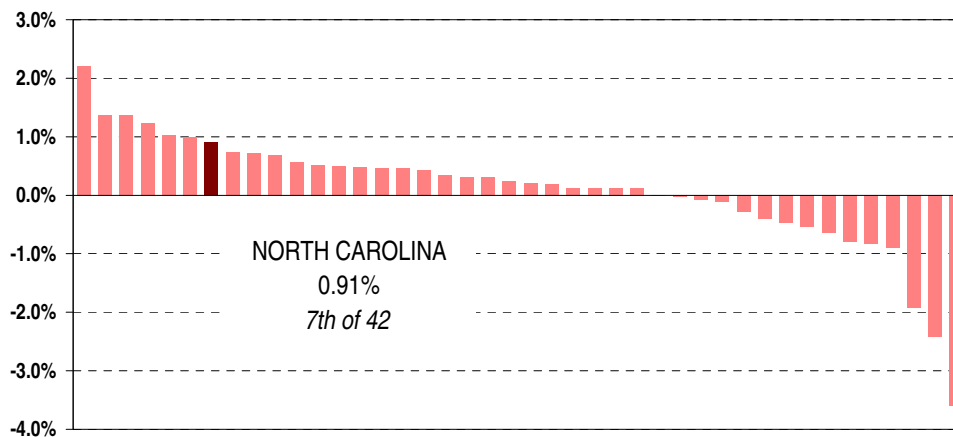
Regressive Features

- ✗ Comparatively high state and local sales tax rates

Recent Developments

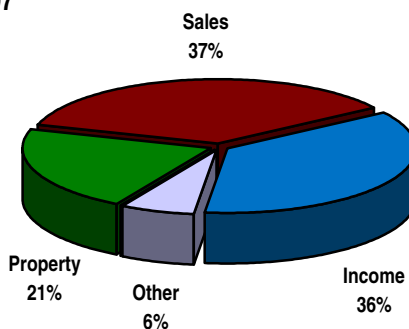
- ▲ Imposed a temporary income tax surcharge of up to 3 percent on high-income taxpayers
- ▲ Reduced permanent top income tax rate to 7.75 percent
- ▲ Increased temporary refundable earned income tax credit (EITC)
- ▲ Temporarily increased sales tax rate and raised cigarette taxes.

State Income Taxes as a Share of Income Among the Poorest Fifth of Families

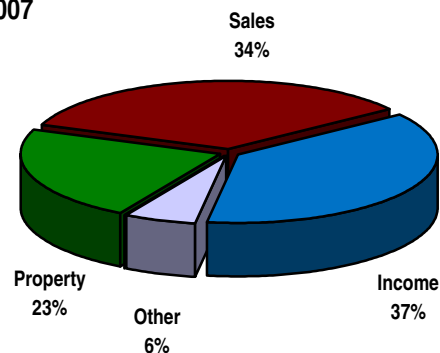


Change in the Composition of Tax Revenue

1997



2007

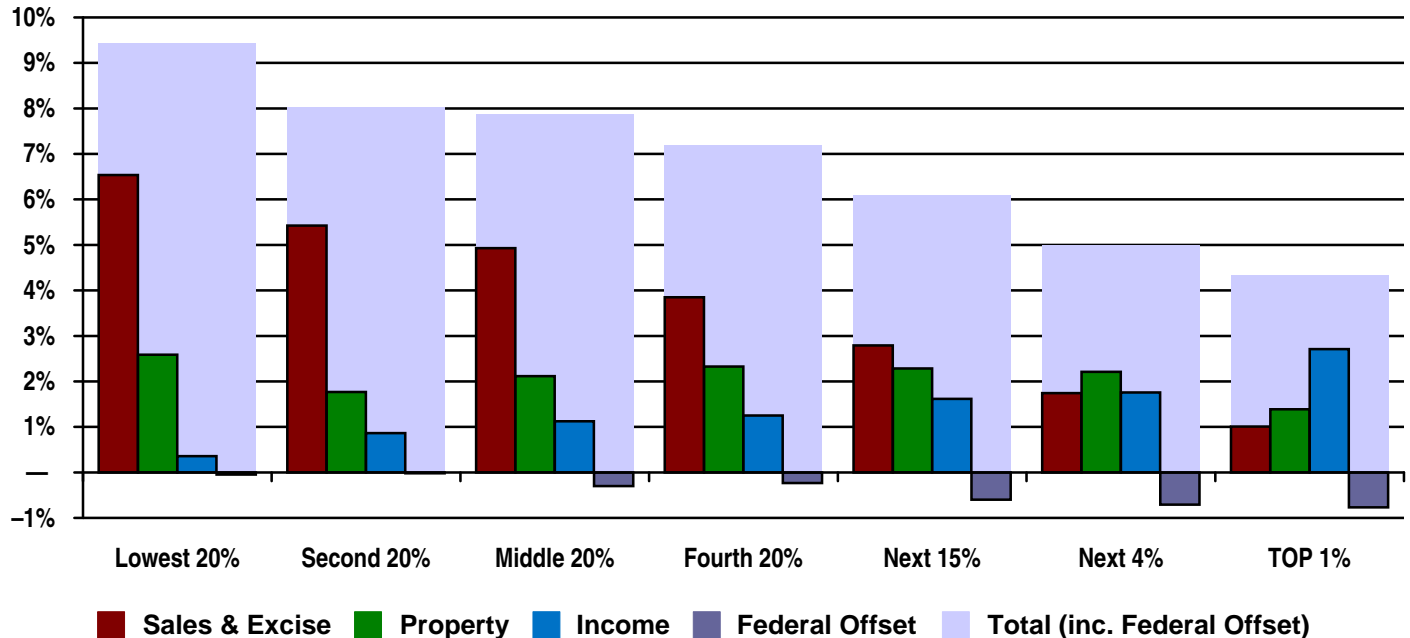


Source: U.S. Census Bureau, Government Finances

North Dakota

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$21,000	\$21,000 – \$35,000	\$35,000 – \$59,000	\$59,000 – \$88,000	\$88,000 – \$167,000	\$167,000 – \$406,000	\$406,000 or more
Average Income in Group	\$13,200	\$28,000	\$46,400	\$73,200	\$110,800	\$229,300	\$1,014,300
Sales & Excise Taxes	6.5%	5.4%	4.9%	3.8%	2.8%	1.7%	1.0%
General Sales—Individuals	3.0%	2.6%	2.4%	1.9%	1.5%	0.9%	0.6%
Other Sales & Excise—Ind.	0.9%	0.7%	0.6%	0.4%	0.3%	0.2%	0.1%
Sales & Excise on Business	2.7%	2.2%	1.9%	1.5%	1.0%	0.6%	0.4%
Property Taxes	2.6%	1.8%	2.1%	2.3%	2.3%	2.2%	1.4%
Property Taxes on Families	2.5%	1.7%	2.0%	2.2%	2.0%	1.7%	0.6%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.2%	0.6%	0.8%
Income Taxes	0.4%	0.9%	1.1%	1.2%	1.6%	1.8%	2.7%
Personal Income Tax	0.3%	0.9%	1.1%	1.2%	1.5%	1.6%	2.5%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.2%
TOTAL TAXES	9.5%	8.1%	8.2%	7.4%	6.7%	5.7%	5.1%
Federal Deduction Offset	-0.0%	-0.0%	-0.3%	-0.2%	-0.6%	-0.7%	-0.8%
TOTAL AFTER OFFSET	9.4%	8.0%	7.9%	7.2%	6.1%	5.0%	4.3%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

North Dakota

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Sales tax base excludes groceries

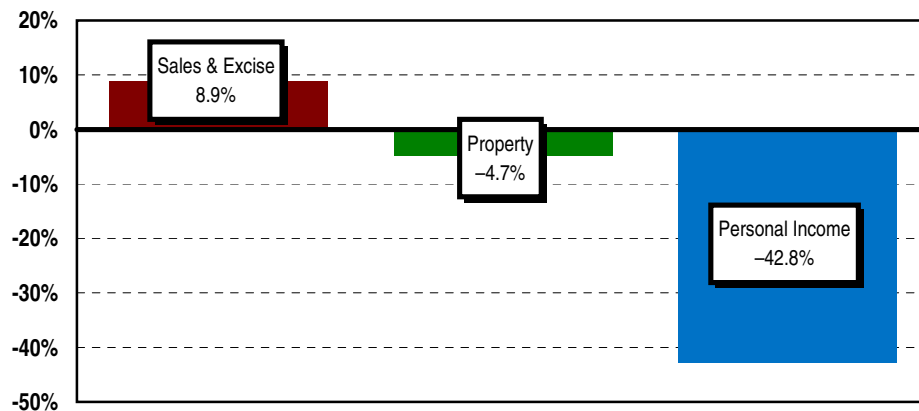
Regressive Features

- ✗ Fails to provide refundable income tax credits to offset impact of sales and excise taxes

Recent Developments

- ▲ Adopted a "marriage penalty" tax credit
- ▲ Reduced income tax rates and broadened income tax brackets
- ▲ Eliminated deduction for federal income taxes paid

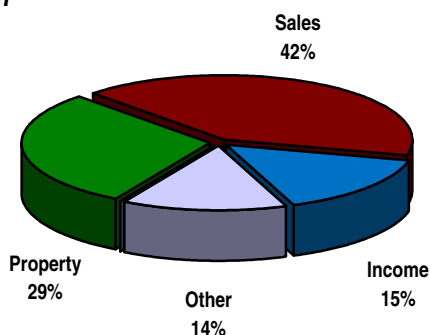
Select State and Local Taxes Relative to the National Average



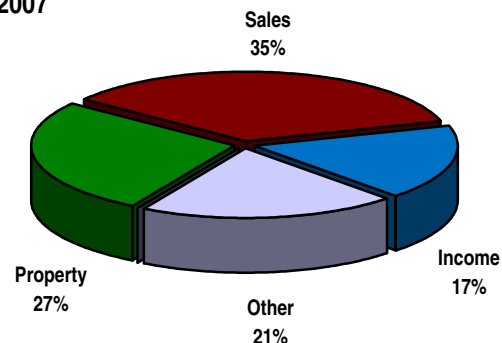
Source: Government Finances, US Department of Census

Change in the Composition of Tax Revenue

1997



2007

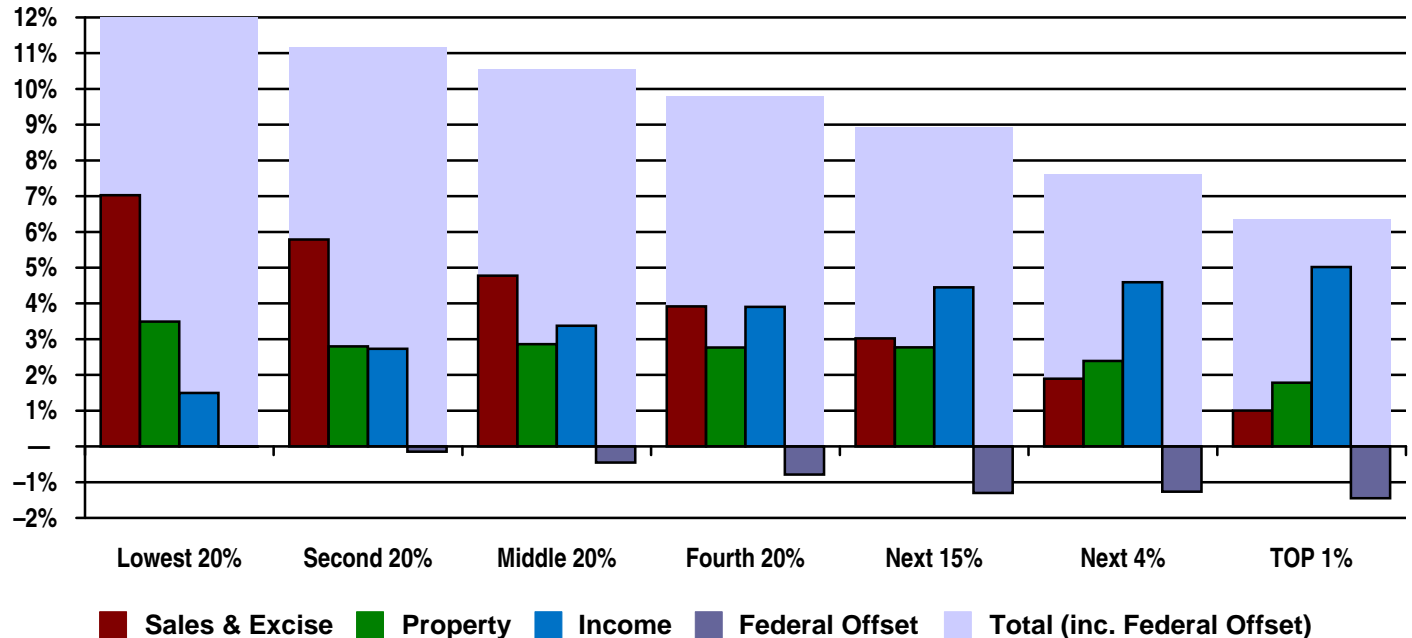


Source: U.S. Census Bureau, Government Finances

Ohio

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$32,000	\$32,000 – \$50,000	\$50,000 – \$79,000	\$79,000 – \$147,000	\$147,000 – \$352,000	\$352,000 or more
Average Income in Group	\$9,600	\$24,000	\$40,500	\$62,400	\$102,100	\$210,000	\$995,300
Sales & Excise Taxes	7.0%	5.8%	4.8%	3.9%	3.0%	1.9%	1.0%
General Sales—Individuals	2.8%	2.6%	2.3%	2.0%	1.6%	1.0%	0.6%
Other Sales & Excise—Ind.	2.4%	1.6%	1.2%	0.9%	0.7%	0.4%	0.2%
Sales & Excise on Business	1.9%	1.6%	1.3%	1.0%	0.8%	0.5%	0.3%
Property Taxes	3.5%	2.8%	2.9%	2.8%	2.8%	2.4%	1.8%
Property Taxes on Families	3.4%	2.7%	2.8%	2.7%	2.6%	2.1%	0.9%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.9%
Income Taxes	1.5%	2.7%	3.4%	3.9%	4.4%	4.6%	5.0%
Personal Income Tax	1.5%	2.7%	3.4%	3.9%	4.4%	4.6%	5.0%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	12.0%	11.3%	11.0%	10.6%	10.2%	8.9%	7.8%
Federal Deduction Offset	-0.0%	-0.1%	-0.5%	-0.8%	-1.3%	-1.3%	-1.4%
TOTAL AFTER OFFSET	12.0%	11.2%	10.6%	9.8%	8.9%	7.6%	6.4%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Ohio

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Offers an income tax credit for child and dependent care expenses

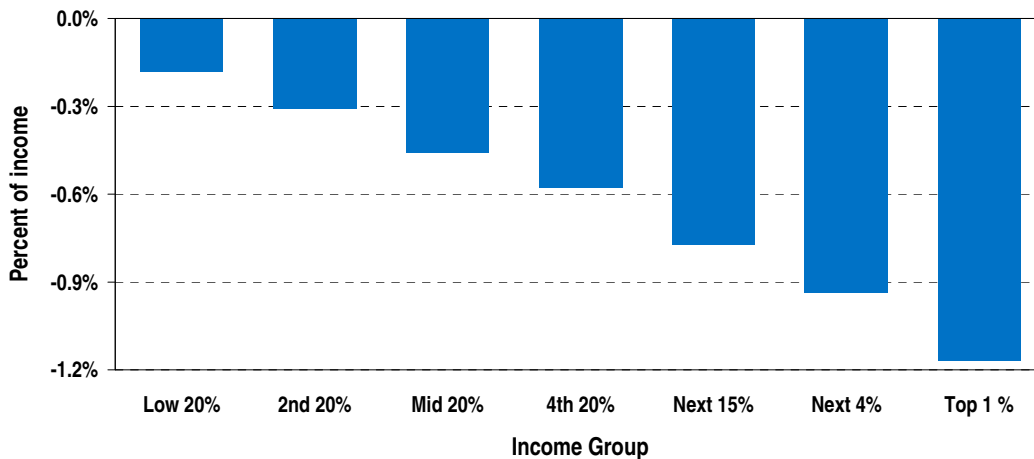
Regressive Features

- ✗ Fails to provide refundable tax credits to offset the impact of sales, excise, and property taxes

Recent Developments

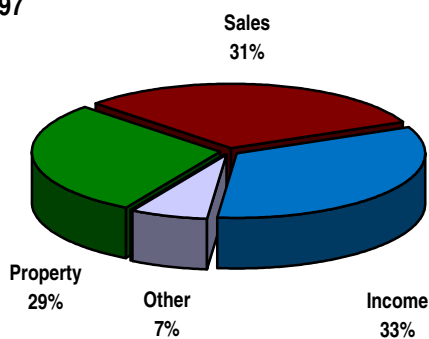
- ▲ Reduced income tax rates by 20 percent across the board
- ▲ Replaced the tangible personal property tax on businesses and the corporate franchise tax on non-financial businesses with a commercial activity tax (CAT) on Ohio gross receipts
- ▲ Instituted a non-refundable low-income tax credit

Incidence of Recent Personal Income Tax Rate Reductions (Assuming Full Implementation)

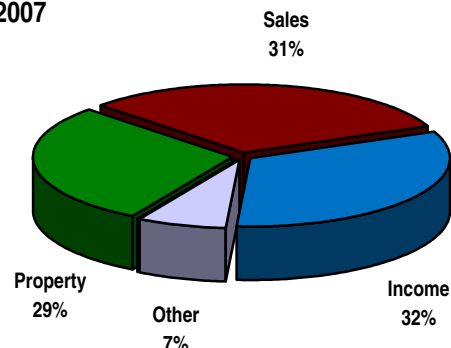


Change in the Composition of Tax Revenue

1997



2007

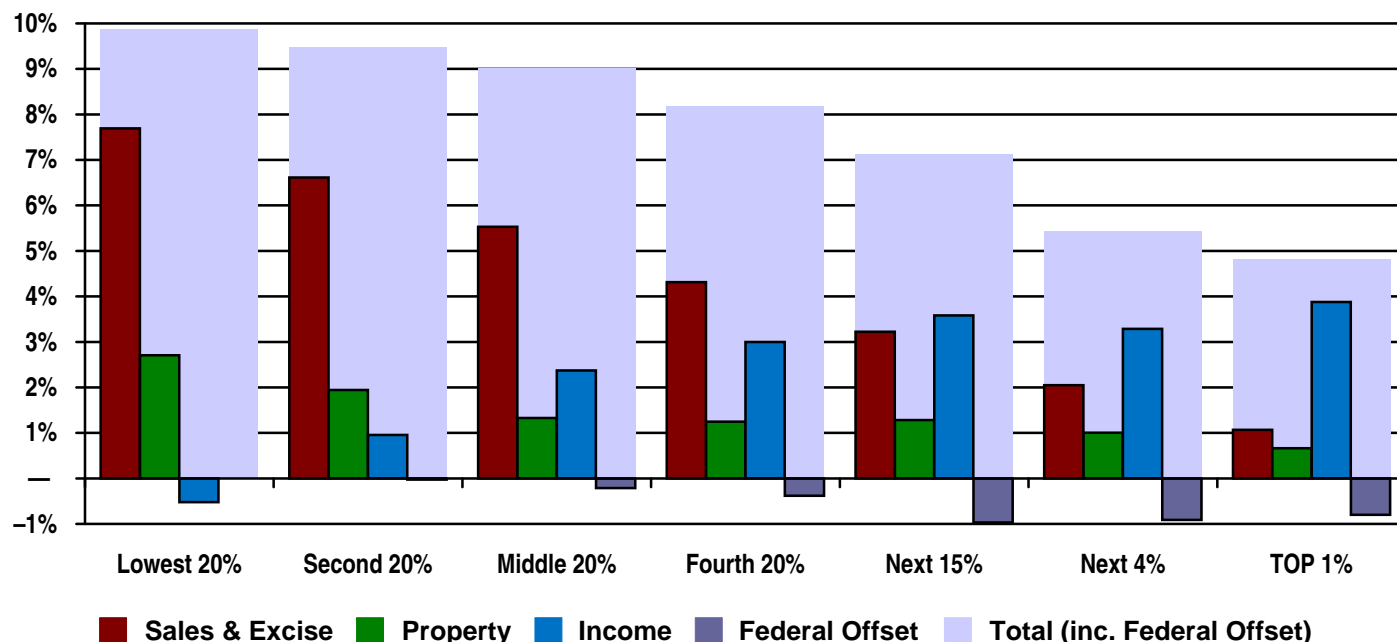


Source: U.S. Census Bureau, Government Finances

Oklahoma

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$28,000	\$28,000 – \$48,000	\$48,000 – \$79,000	\$79,000 – \$165,000	\$165,000 – \$412,000	\$412,000 or more
Average Income in Group	\$8,800	\$21,100	\$37,200	\$62,000	\$107,600	\$230,200	\$1,370,200
Sales & Excise Taxes	7.7%	6.6%	5.5%	4.3%	3.2%	2.0%	1.1%
General Sales—Individuals	4.7%	4.2%	3.6%	2.9%	2.2%	1.4%	0.8%
Other Sales & Excise—Ind.	1.1%	0.7%	0.5%	0.4%	0.2%	0.1%	0.0%
Sales & Excise on Business	1.8%	1.7%	1.4%	1.1%	0.8%	0.5%	0.3%
Property Taxes	2.7%	1.9%	1.3%	1.2%	1.3%	1.0%	0.7%
Property Taxes on Families	2.7%	1.9%	1.3%	1.2%	1.2%	0.9%	0.3%
Other Property Taxes	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%
Income Taxes	-0.5%	1.0%	2.4%	3.0%	3.6%	3.3%	3.9%
Personal Income Tax	-0.5%	0.9%	2.4%	3.0%	3.5%	3.2%	3.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.9%	9.5%	9.2%	8.6%	8.1%	6.3%	5.6%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.4%	-1.0%	-0.9%	-0.8%
TOTAL AFTER OFFSET	9.9%	9.5%	9.0%	8.2%	7.1%	5.4%	4.8%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Oklahoma

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ Provides a refundable tax credit to reduce the impact of its sales tax on groceries

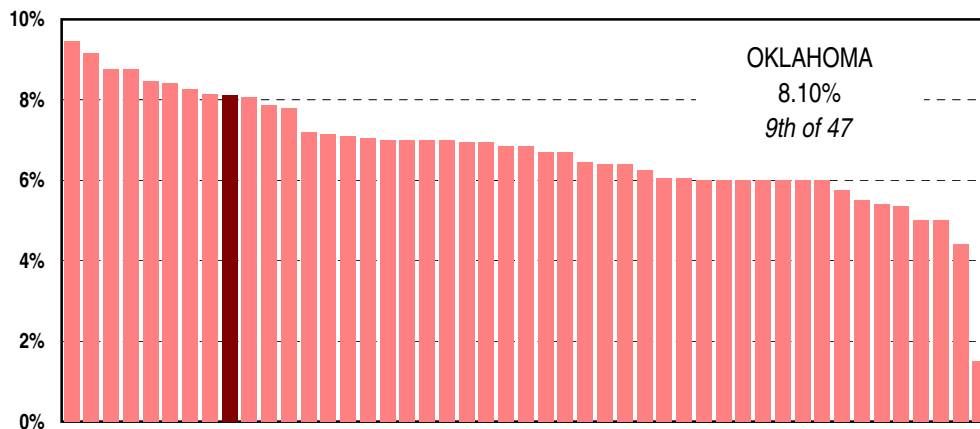
Regressive Features

- ✗ Fails to index income tax brackets to inflation
- ✗ Sales tax base includes groceries
- ✗ Comparatively high combined state and local sales tax rate

Recent Developments

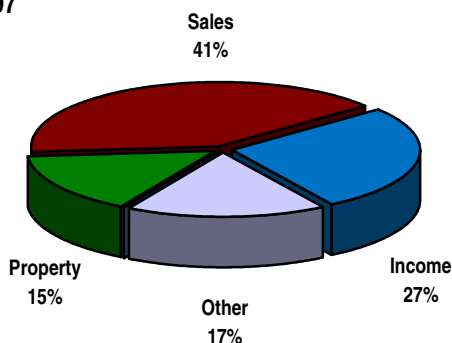
- ▲ Eliminated two-tier income tax rate structure and reduced highest income tax rates
- ▲ Eliminated income tax deduction for federal income taxes paid
- ▲ Increased standard deduction, with additional increases scheduled to occur through 2010

Combined State and Local Sales Tax Rates

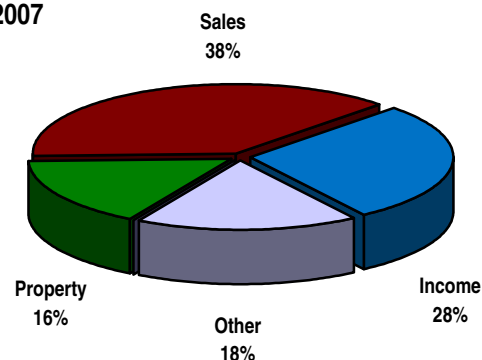


Change in the Composition of Tax Revenue

1997



2007

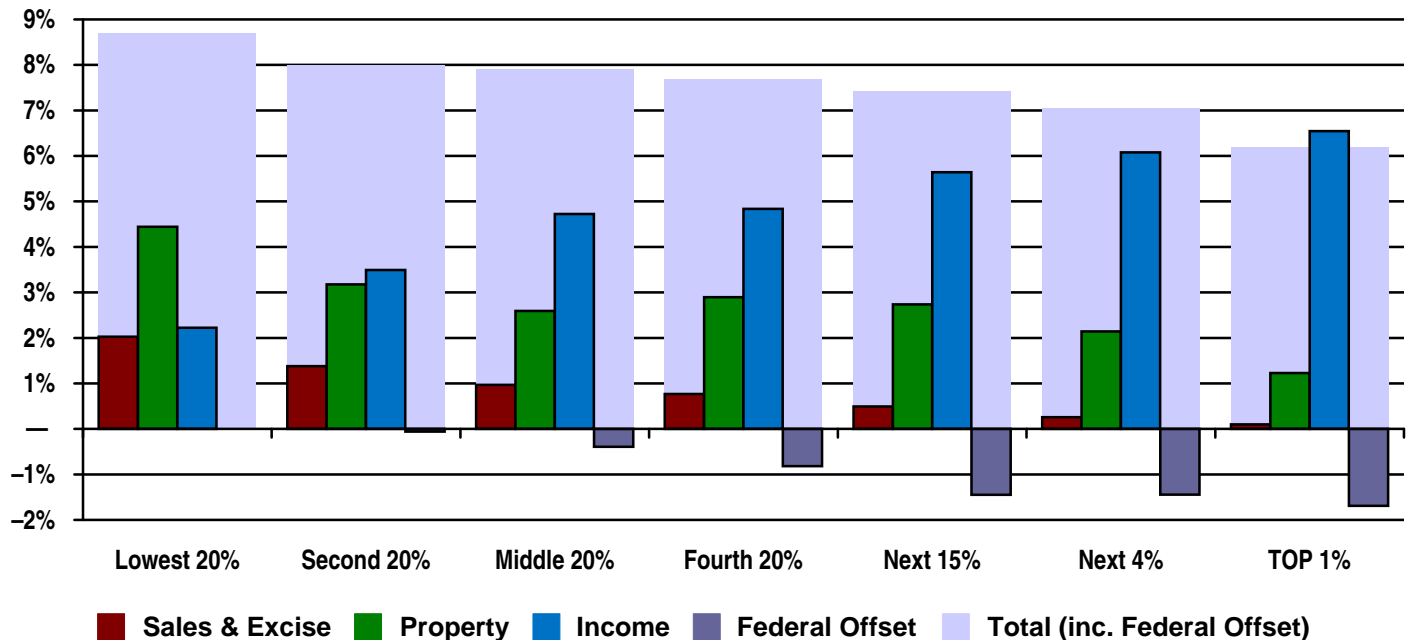


Source: U.S. Census Bureau, Government Finances

Oregon

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$32,000	\$32,000 – \$53,000	\$53,000 – \$86,000	\$86,000 – \$173,000	\$173,000 – \$417,000	\$417,000 or more
Average Income in Group	\$10,200	\$24,600	\$41,500	\$67,600	\$116,500	\$250,900	\$1,216,500
Sales & Excise Taxes	2.0%	1.4%	1.0%	0.8%	0.5%	0.3%	0.1%
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	1.8%	1.2%	0.8%	0.7%	0.4%	0.2%	0.1%
Sales & Excise on Business	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%
Property Taxes	4.4%	3.2%	2.6%	2.9%	2.7%	2.1%	1.2%
Property Taxes on Families	4.2%	3.0%	2.5%	2.7%	2.5%	1.8%	0.6%
Other Property Taxes	0.2%	0.1%	0.1%	0.2%	0.2%	0.4%	0.6%
Income Taxes	2.2%	3.5%	4.7%	4.8%	5.6%	6.1%	6.5%
Personal Income Tax	2.2%	3.5%	4.7%	4.8%	5.6%	6.0%	6.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	8.7%	8.0%	8.3%	8.5%	8.9%	8.5%	7.9%
Federal Deduction Offset	—	-0.1%	-0.4%	-0.8%	-1.4%	-1.4%	-1.7%
TOTAL AFTER OFFSET	8.7%	8.0%	7.9%	7.7%	7.4%	7.0%	6.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Oregon

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax brackets, standard deduction, and “exemption” credit indexed to inflation
- ✓ No statewide sales tax

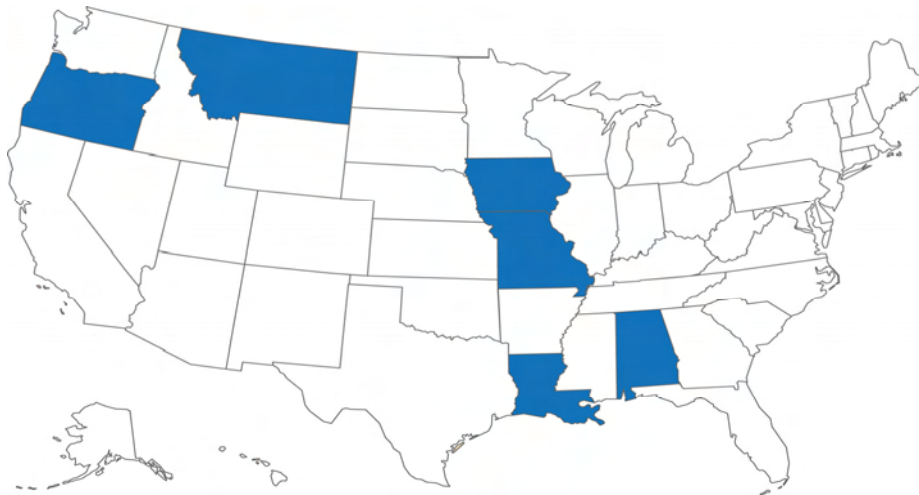
Regressive Features

- ✗ Offers a limited income tax deduction for federal income taxes paid
- ✗ Fails to provide a property tax “circuit breaker” credit for non-elderly taxpayers

Recent Developments

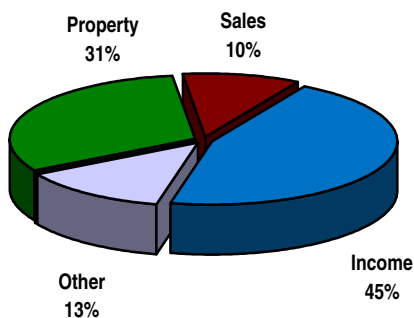
- ▲ Contingent upon voter approval, will create a new top personal income tax rate, further limit the deduction for federal income taxes paid, create a new top corporate income tax rate, and raise corporate minimum taxes
- ▲ Adopted a reduced “exemption” credit for upper-income taxpayers

States Offering a Deduction for Federal Income Taxes Paid

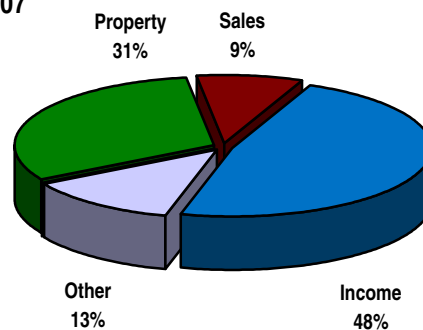


Change in the Composition of Tax Revenue

1997



2007

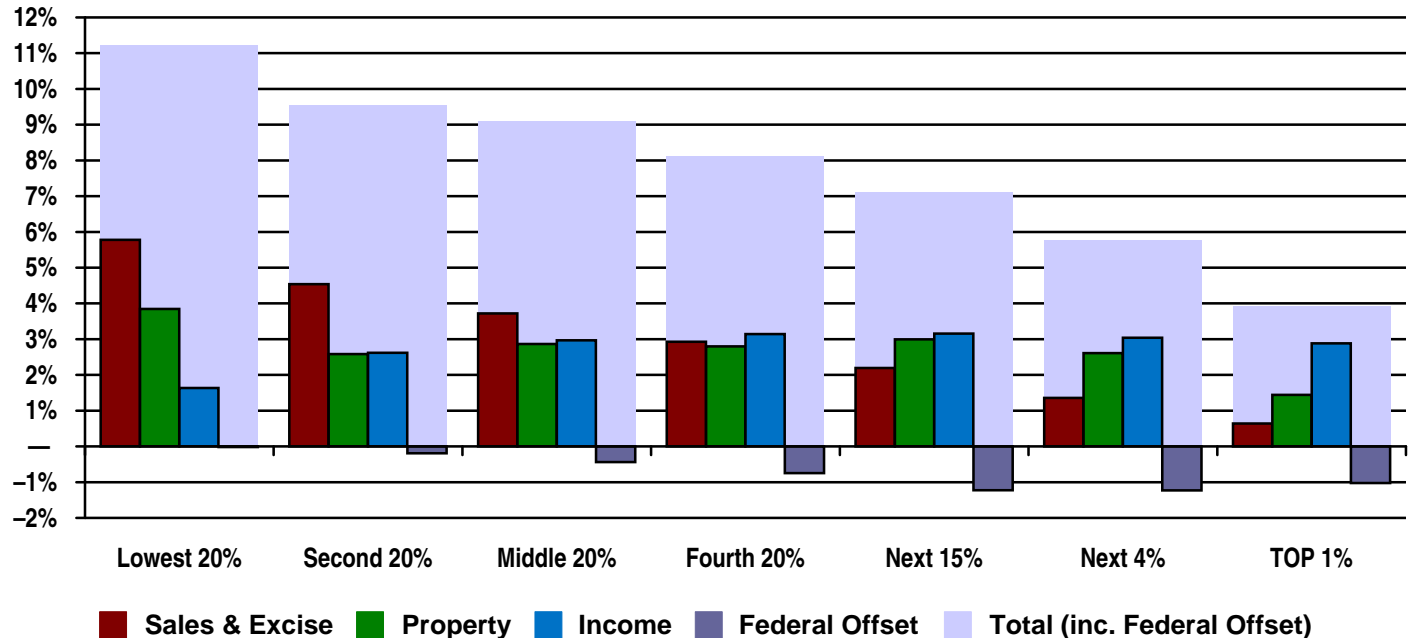


Source: U.S. Census Bureau, Government Finances

Pennsylvania

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$35,000	\$35,000 – \$56,000	\$56,000 – \$89,000	\$89,000 – \$175,000	\$175,000 – \$428,000	\$428,000 or more
Average Income in Group	\$10,500	\$26,500	\$45,200	\$70,900	\$119,300	\$257,100	\$1,369,600
Sales & Excise Taxes	5.8%	4.5%	3.7%	2.9%	2.2%	1.4%	0.6%
General Sales—Individuals	2.1%	2.0%	1.8%	1.5%	1.2%	0.8%	0.4%
Other Sales & Excise—Ind.	2.0%	1.2%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.6%	1.3%	1.1%	0.8%	0.6%	0.4%	0.2%
Property Taxes	3.8%	2.6%	2.9%	2.8%	3.0%	2.6%	1.4%
Property Taxes on Families	3.8%	2.5%	2.8%	2.7%	2.9%	2.4%	0.8%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.2%	0.6%
Income Taxes	1.6%	2.6%	3.0%	3.1%	3.2%	3.0%	2.9%
Personal Income Tax	1.6%	2.6%	2.9%	3.1%	3.1%	2.9%	2.5%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.4%
TOTAL TAXES	11.3%	9.7%	9.6%	8.9%	8.3%	7.0%	5.0%
Federal Deduction Offset	-0.0%	-0.2%	-0.4%	-0.7%	-1.2%	-1.2%	-1.0%
TOTAL AFTER OFFSET	11.2%	9.5%	9.1%	8.1%	7.1%	5.8%	3.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Pennsylvania

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a non-refundable “tax forgiveness” credit to low-income taxpayers

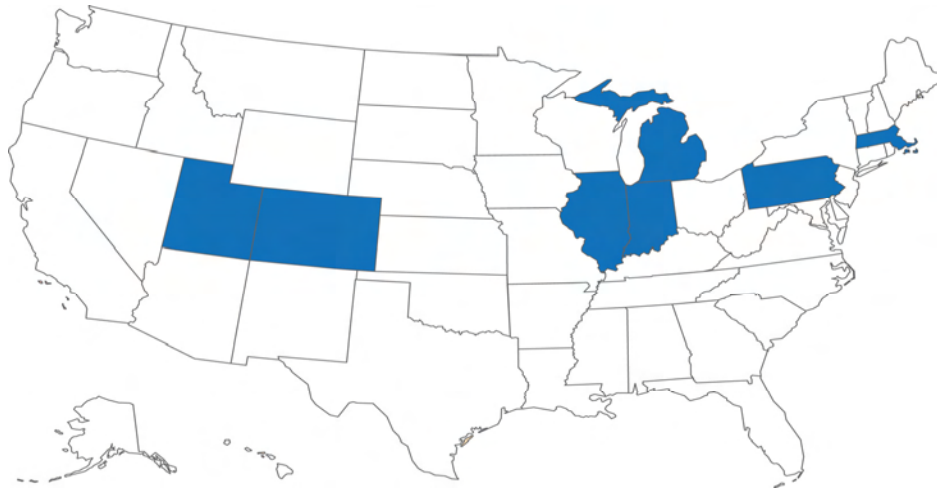
Regressive Features

- ✗ Income tax uses a single rate structure
- ✗ Fails to use combined reporting as part of its corporate income tax

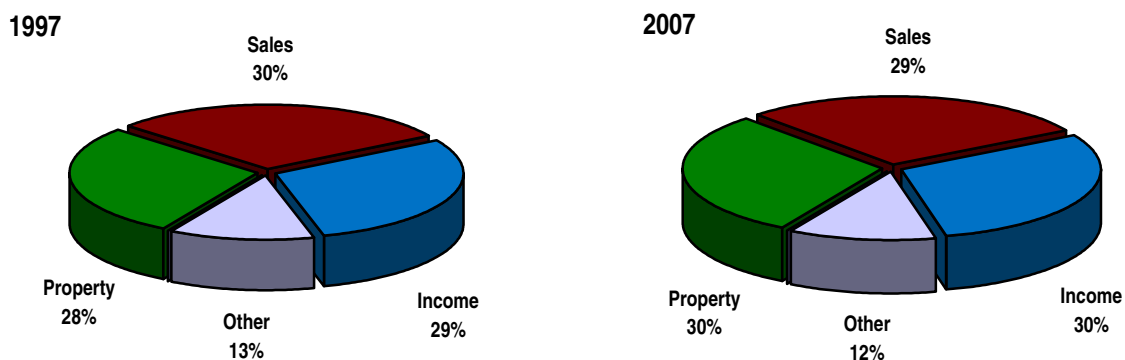
Recent Developments

- ▲ Increased cigarette taxes
- ▲ Temporarily increased certain business taxes through 2011

States with a Flat Rate Personal Income Tax



Change in the Composition of Tax Revenue

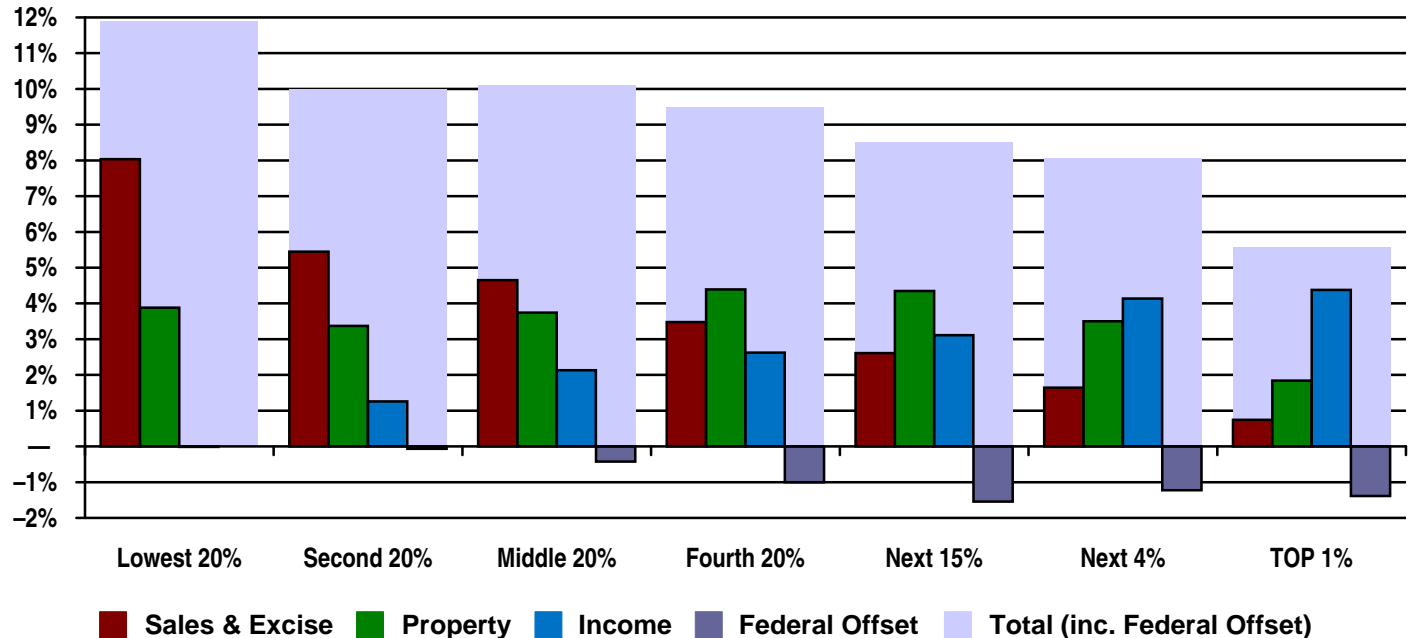


Source: U.S. Census Bureau, Government Finances

Rhode Island

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$31,000	\$31,000 – \$51,000	\$51,000 – \$85,000	\$85,000 – \$167,000	\$167,000 – \$419,000	\$419,000 or more
Average Income in Group	\$9,500	\$23,500	\$41,700	\$66,600	\$113,000	\$248,100	\$1,211,300
Sales & Excise Taxes	8.0%	5.4%	4.7%	3.5%	2.6%	1.6%	0.7%
General Sales—Individuals	3.4%	2.5%	2.3%	1.8%	1.4%	0.9%	0.4%
Other Sales & Excise—Ind.	2.8%	1.6%	1.3%	0.8%	0.6%	0.3%	0.1%
Sales & Excise on Business	1.8%	1.3%	1.1%	0.8%	0.6%	0.4%	0.2%
Property Taxes	3.9%	3.4%	3.7%	4.4%	4.3%	3.5%	1.8%
Property Taxes on Families	3.8%	3.2%	3.6%	4.2%	4.1%	3.1%	1.0%
Other Property Taxes	0.1%	0.1%	0.1%	0.2%	0.3%	0.4%	0.8%
Income Taxes	-0.0%	1.3%	2.1%	2.6%	3.1%	4.1%	4.4%
Personal Income Tax	-0.0%	1.2%	2.1%	2.6%	3.1%	4.1%	4.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.9%	10.1%	10.5%	10.5%	10.1%	9.3%	7.0%
Federal Deduction Offset	-0.0%	-0.1%	-0.4%	-1.0%	-1.5%	-1.2%	-1.4%
TOTAL AFTER OFFSET	11.9%	10.0%	10.1%	9.5%	8.5%	8.1%	5.6%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Rhode Island

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Comparatively high standard deduction, personal exemption, and dependent exemption
- ✓ Provides a partially refundable earned income tax credit (EITC)

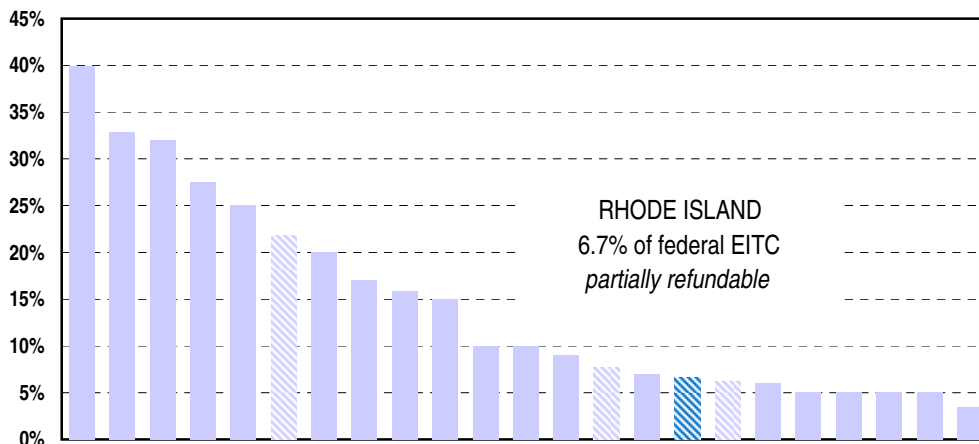
Regressive Features

- ✗ Comparatively high cigarette tax rate

Recent Developments

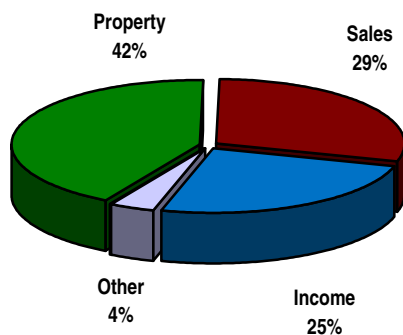
- ▲ Instituted a second, alternative income tax in 2006, with a single flat rate that is scheduled to fall to 5.5 percent by 2011
- ▲ Eliminated its preferential tax rates for income from capital gains
- ▲ Raised gas taxes

Effective State Earned Income Tax Credit (EITC) Rates

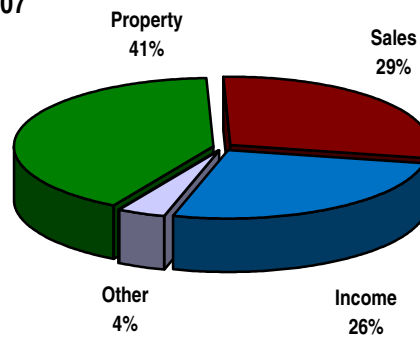


Change in the Composition of Tax Revenue

1997



2007

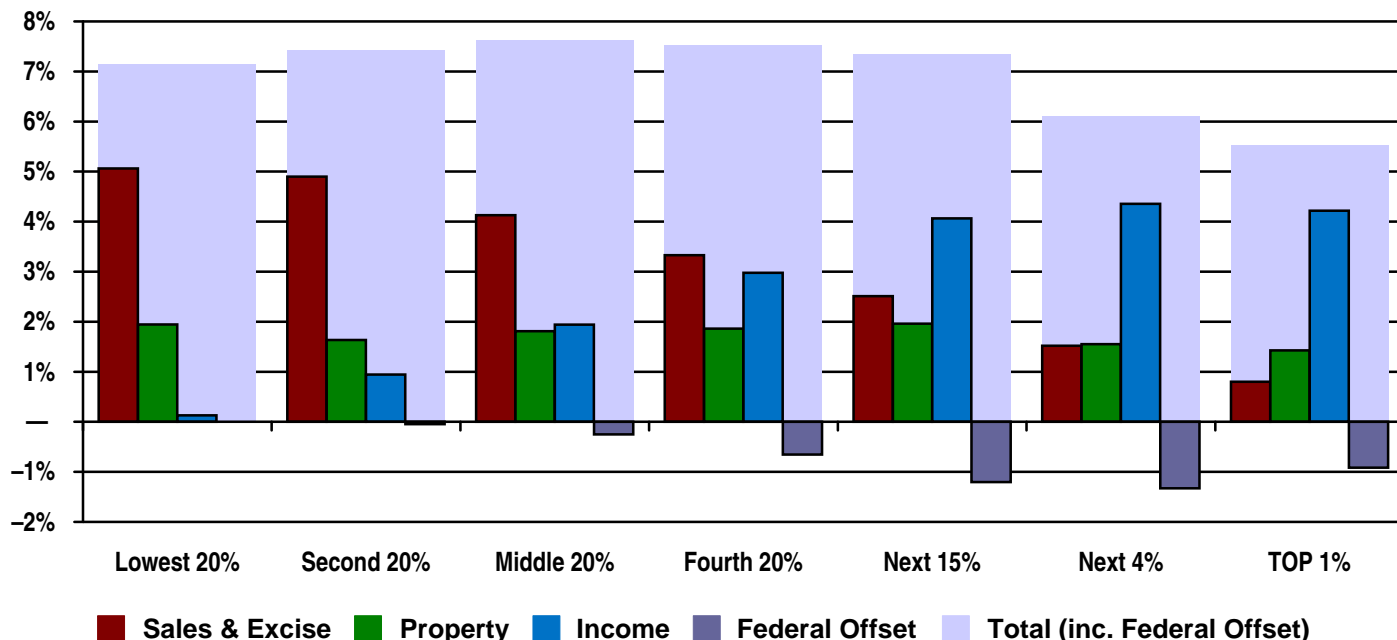


Source: U.S. Census Bureau, Government Finances

South Carolina

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



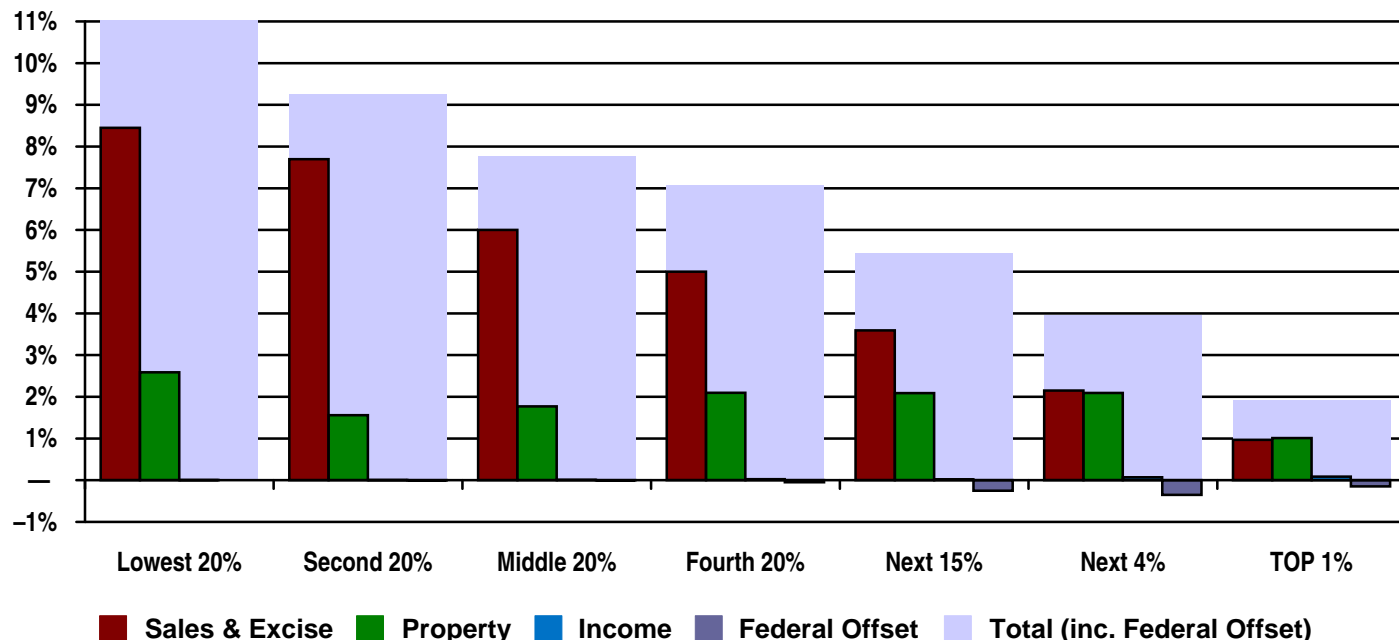
Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$27,000	\$27,000 – \$44,000	\$44,000 – \$74,000	\$74,000 – \$150,000	\$150,000 – \$390,000	\$390,000 or more
Average Income in Group	\$9,500	\$21,600	\$34,100	\$57,000	\$100,300	\$214,200	\$1,076,900
Sales & Excise Taxes	5.1%	4.9%	4.1%	3.3%	2.5%	1.5%	0.8%
General Sales—Individuals	3.0%	2.9%	2.5%	2.1%	1.6%	1.0%	0.5%
Other Sales & Excise—Ind.	0.7%	0.6%	0.5%	0.4%	0.3%	0.2%	0.1%
Sales & Excise on Business	1.4%	1.3%	1.1%	0.8%	0.6%	0.4%	0.2%
Property Taxes	1.9%	1.6%	1.8%	1.9%	2.0%	1.6%	1.4%
Property Taxes on Families	1.9%	1.6%	1.8%	1.8%	1.8%	1.2%	0.5%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.3%	1.0%
Income Taxes	0.1%	0.9%	1.9%	3.0%	4.1%	4.4%	4.2%
Personal Income Tax	0.1%	0.9%	1.9%	3.0%	4.1%	4.3%	4.1%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	7.1%	7.5%	7.9%	8.2%	8.5%	7.4%	6.4%
Federal Deduction Offset	—	–0.0%	–0.3%	–0.7%	–1.2%	–1.3%	–0.9%
TOTAL AFTER OFFSET	7.1%	7.4%	7.6%	7.5%	7.3%	6.1%	5.5%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

South Dakota

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$33,000	\$33,000 – \$52,000	\$52,000 – \$84,000	\$84,000 – \$150,000	\$150,000 – \$423,000	\$423,000 or more
Average Income in Group	\$10,400	\$25,500	\$43,000	\$65,800	\$105,700	\$226,800	\$1,300,000
Sales & Excise Taxes	8.4%	7.7%	6.0%	5.0%	3.6%	2.2%	1.0%
General Sales—Individuals	4.3%	4.0%	3.3%	2.8%	2.1%	1.3%	0.6%
Other Sales & Excise—Ind.	1.3%	1.1%	0.7%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	2.8%	2.6%	2.0%	1.6%	1.2%	0.7%	0.3%
Property Taxes	2.6%	1.6%	1.8%	2.1%	2.1%	2.1%	1.0%
Property Taxes on Families	2.6%	1.5%	1.7%	1.9%	1.9%	1.6%	0.4%
Other Property Taxes	0.0%	0.0%	0.1%	0.2%	0.2%	0.5%	0.6%
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
TOTAL TAXES	11.0%	9.3%	7.8%	7.1%	5.7%	4.3%	2.1%
Federal Deduction Offset	—	-0.0%	-0.0%	-0.1%	-0.3%	-0.4%	-0.2%
TOTAL AFTER OFFSET	11.0%	9.3%	7.8%	7.1%	5.5%	4.0%	1.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

South Dakota

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refund for low-income taxpayers designed to offset the impact of its sales tax on groceries

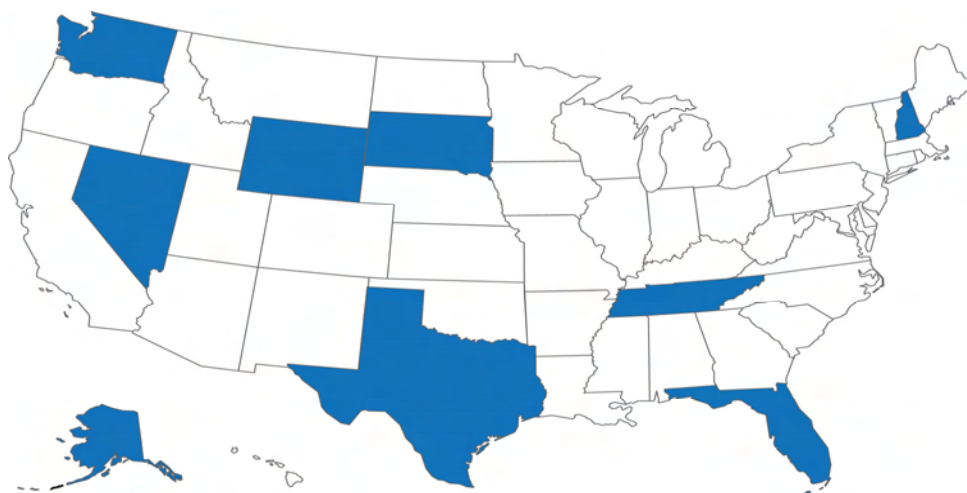
Regressive Features

- ✗ No personal income tax
- ✗ Sales tax base includes groceries
- ✗ No corporate income tax

Recent Developments

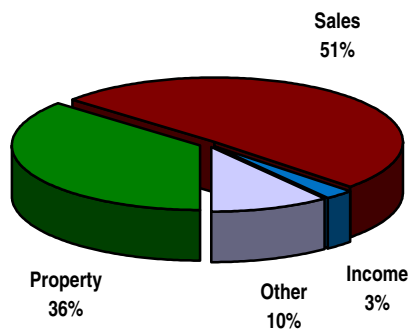
- ▲ Increased cigarette taxes

States without a Broad-Based Personal Income Tax

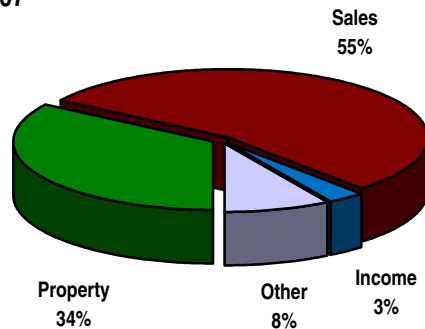


Change in the Composition of Tax Revenue

1997



2007

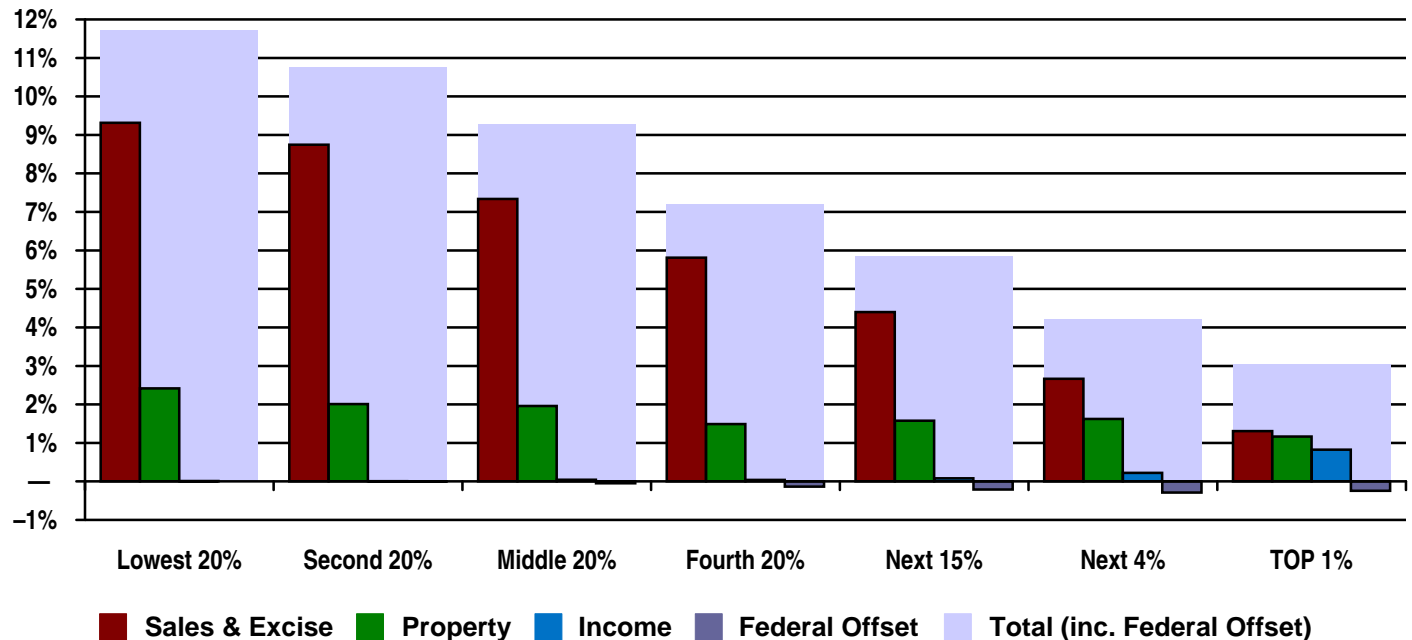


Source: U.S. Census Bureau, Government Finances

Tennessee

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$29,000	\$29,000 – \$47,000	\$47,000 – \$76,000	\$76,000 – \$155,000	\$155,000 – \$414,000	\$414,000 or more
Average Income in Group	\$10,200	\$23,100	\$38,000	\$59,600	\$103,100	\$228,700	\$1,365,800
Sales & Excise Taxes	9.3%	8.7%	7.3%	5.8%	4.4%	2.7%	1.3%
General Sales—Individuals	5.7%	5.5%	4.7%	3.9%	2.9%	1.8%	0.9%
Other Sales & Excise—Ind.	1.2%	0.9%	0.7%	0.5%	0.3%	0.2%	0.0%
Sales & Excise on Business	2.4%	2.3%	1.9%	1.5%	1.1%	0.7%	0.4%
Property Taxes	2.4%	2.0%	2.0%	1.5%	1.6%	1.6%	1.2%
Property Taxes on Families	2.4%	2.0%	1.9%	1.4%	1.5%	1.4%	0.4%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.7%
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.8%
Personal Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.4%
TOTAL TAXES	11.7%	10.8%	9.3%	7.3%	6.1%	4.5%	3.3%
Federal Deduction Offset	-0.0%	-0.0%	-0.1%	-0.1%	-0.2%	-0.3%	-0.2%
TOTAL AFTER OFFSET	11.7%	10.8%	9.3%	7.2%	5.8%	4.2%	3.1%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Tennessee

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Taxes interest and dividend income

Regressive Features

- ✗ No broad-based personal income tax
- ✗ Comparatively high reliance on sales taxes
- ✗ Groceries included in sales tax base, albeit taxed at a lower rate than other items

Recent Developments

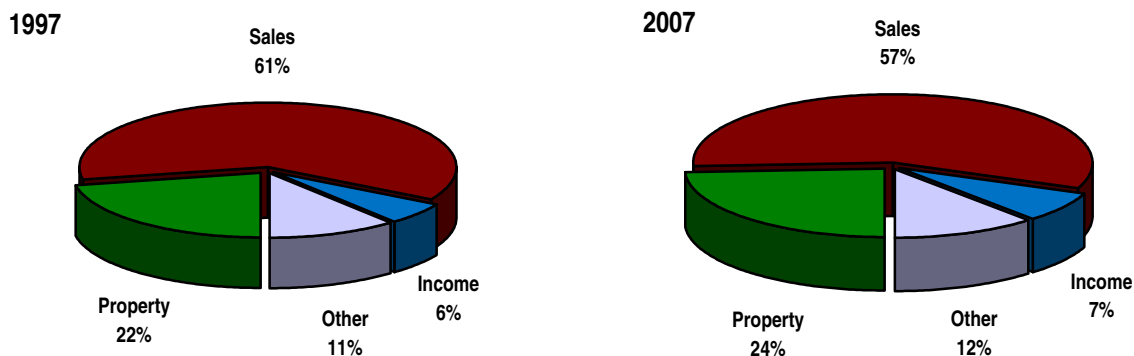
- ▲ Increased cigarette taxes
- ▲ Reduced the sales tax rate for groceries

Select State and Local Taxes Relative to the National Average



Source: Government Finances, US Department of Census

Change in the Composition of Tax Revenue

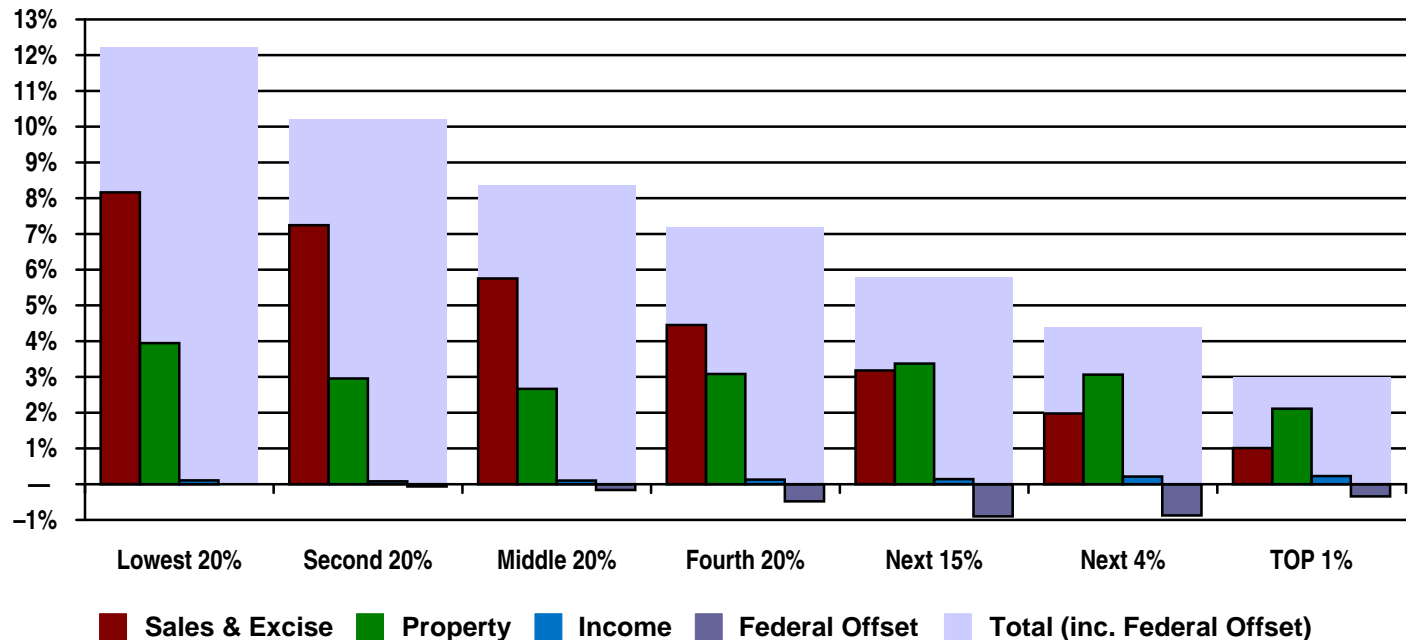


Source: U.S. Census Bureau, Government Finances

Texas

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$31,000	\$31,000 – \$51,000	\$51,000 – \$89,000	\$89,000 – \$186,000	\$186,000 – \$463,000	\$463,000 or more
Average Income in Group	\$11,200	\$24,500	\$40,000	\$66,900	\$122,500	\$277,600	\$1,753,600
Sales & Excise Taxes	8.2%	7.2%	5.8%	4.5%	3.2%	2.0%	1.0%
General Sales—Individuals	3.4%	3.3%	2.7%	2.2%	1.6%	1.1%	0.6%
Other Sales & Excise—Ind.	2.0%	1.5%	1.1%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.7%	2.5%	1.9%	1.4%	1.0%	0.6%	0.3%
Property Taxes	3.9%	3.0%	2.7%	3.1%	3.4%	3.1%	2.1%
Property Taxes on Families	3.8%	2.8%	2.5%	2.9%	3.1%	2.5%	0.8%
Other Property Taxes	0.2%	0.1%	0.2%	0.2%	0.2%	0.5%	1.3%
Income Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%
TOTAL TAXES	12.2%	10.3%	8.5%	7.7%	6.7%	5.3%	3.3%
Federal Deduction Offset	-0.0%	-0.1%	-0.2%	-0.5%	-0.9%	-0.9%	-0.3%
TOTAL AFTER OFFSET	12.2%	10.2%	8.4%	7.2%	5.8%	4.4%	3.0%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Texas

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Sales tax base excludes groceries
- ✓ Requires the use of combined reporting

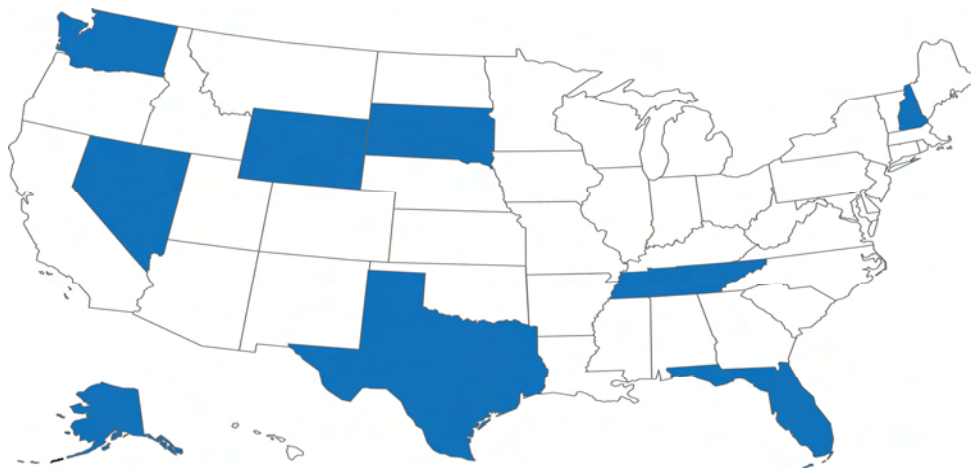
Regressive Features

- ✗ No personal income tax
- ✗ Fails to provide a property tax "circuit breaker" credit for non-elderly taxpayers

Recent Developments

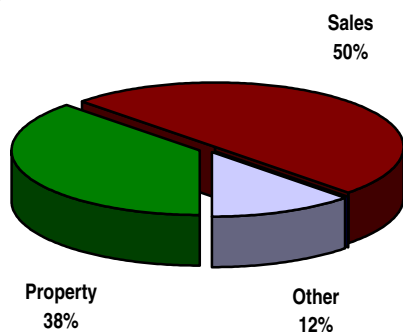
- ▲ Enacted a "margins tax," based on business gross receipts, to replace part of the revenue lost from a one-third reduction in school property tax rates
- ▲ Increased cigarette taxes

States without a Broad-Based Personal Income Tax

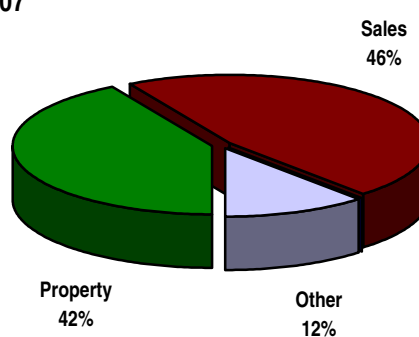


Change in the Composition of Tax Revenue

1997



2007

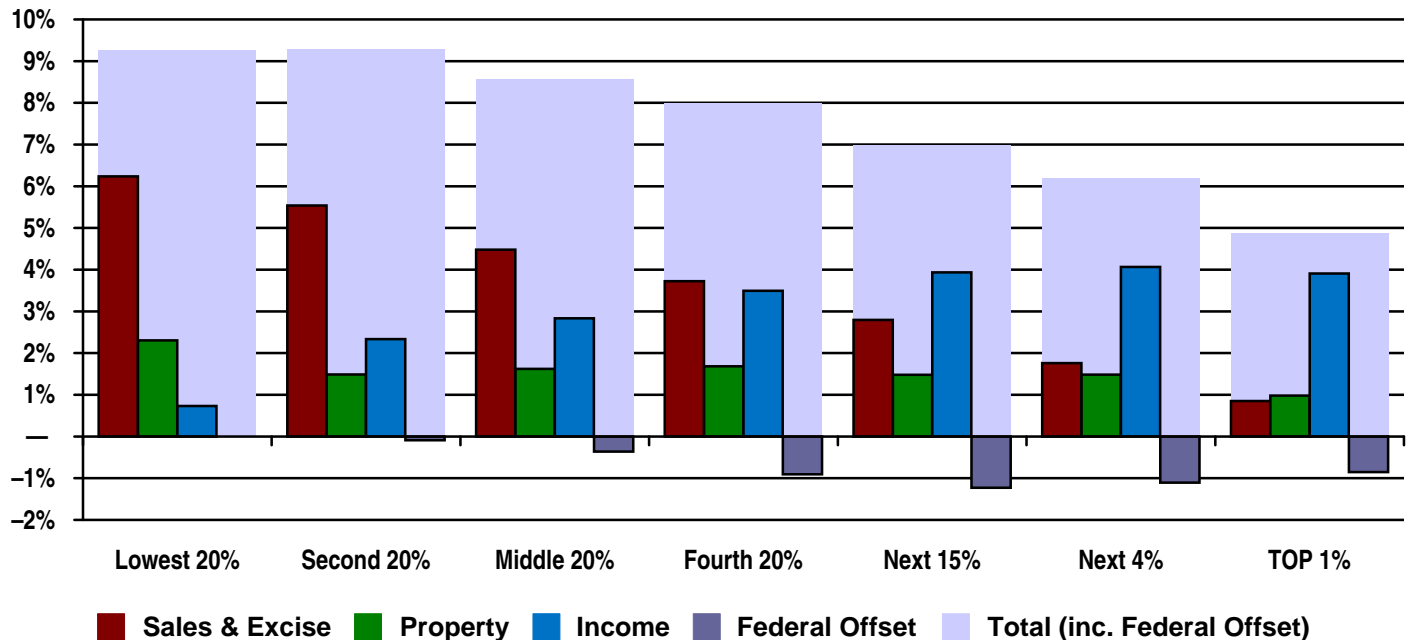


Source: U.S. Census Bureau, Government Finances

Utah

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$34,000	\$34,000 – \$56,000	\$56,000 – \$88,000	\$88,000 – \$175,000	\$175,000 – \$434,000	\$434,000 or more
Average Income in Group	\$11,500	\$27,500	\$44,200	\$70,200	\$117,100	\$252,400	\$1,579,900
Sales & Excise Taxes	6.2%	5.5%	4.5%	3.7%	2.8%	1.8%	0.8%
General Sales—Individuals	3.6%	3.3%	2.7%	2.3%	1.8%	1.1%	0.5%
Other Sales & Excise—Ind.	0.7%	0.6%	0.5%	0.3%	0.3%	0.1%	0.0%
Sales & Excise on Business	1.9%	1.6%	1.3%	1.0%	0.8%	0.5%	0.3%
Property Taxes	2.3%	1.5%	1.6%	1.7%	1.5%	1.5%	1.0%
Property Taxes on Families	2.3%	1.4%	1.6%	1.6%	1.4%	1.2%	0.3%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.3%	0.6%
Income Taxes	0.7%	2.3%	2.8%	3.5%	3.9%	4.1%	3.9%
Personal Income Tax	0.7%	2.3%	2.8%	3.5%	3.9%	4.0%	3.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.3%	9.4%	8.9%	8.9%	8.2%	7.3%	5.7%
Federal Deduction Offset	—	-0.1%	-0.4%	-0.9%	-1.2%	-1.1%	-0.9%
TOTAL AFTER OFFSET	9.3%	9.3%	8.6%	8.0%	7.0%	6.2%	4.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

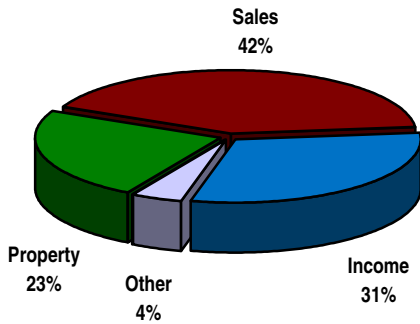
Features, Developments, and Comparisons

- ✓ Requires the use of combined reporting

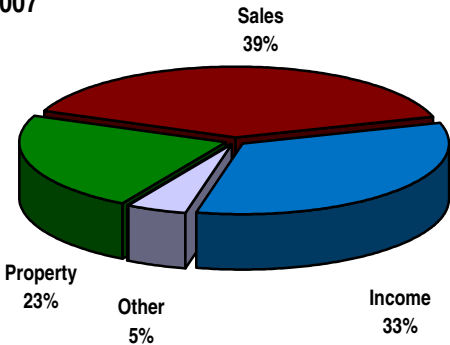
- ✗ Income tax uses a single rate structure
- ✗ Fails to provide refundable income tax credits to offset impact of sales, excise, and property taxes
- ✗ Groceries included in sales tax base, albeit taxed at a lower rate than other items

- ▲ Switched from a dual income tax system to a single rate income tax
- ▲ Converted standard deduction, itemized deductions, personal exemptions and dependent exemptions to credits

1997



2007

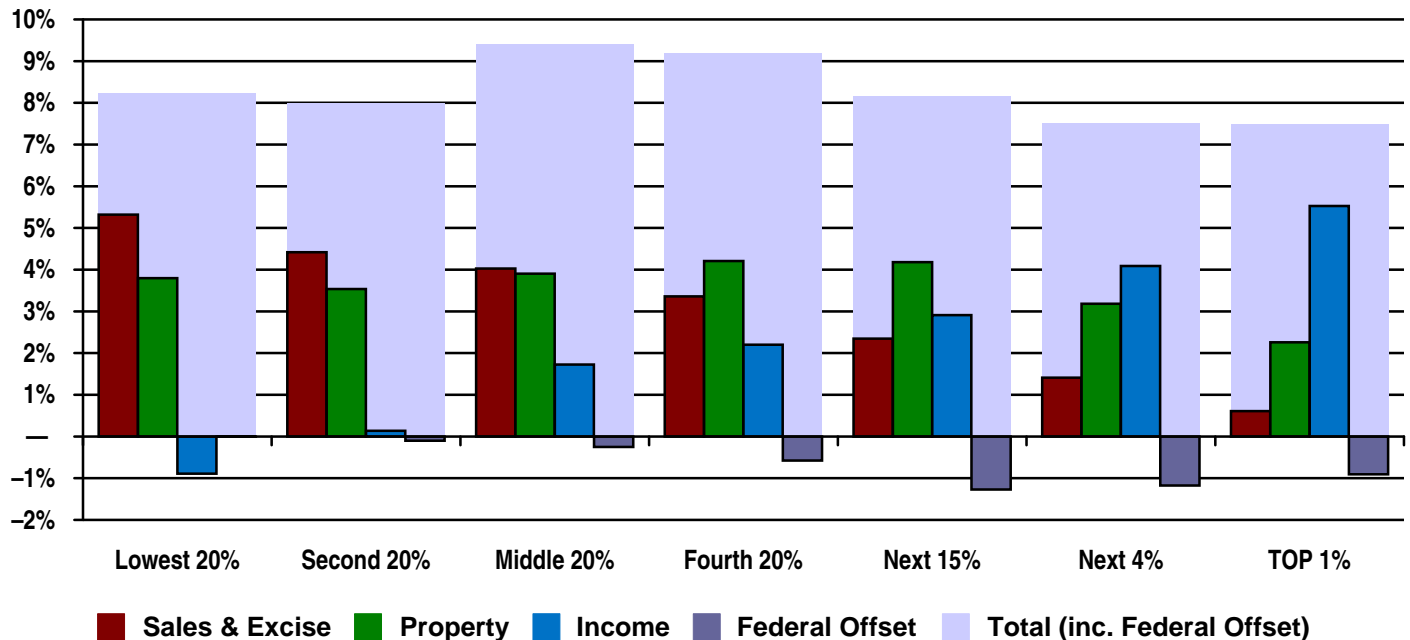


Source: U.S. Census Bureau, Government Finances

Vermont

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$34,000	\$34,000 – \$54,000	\$54,000 – \$85,000	\$85,000 – \$168,000	\$168,000 – \$412,000	\$412,000 or more
Average Income in Group	\$11,200	\$26,400	\$43,600	\$65,800	\$112,000	\$249,000	\$1,250,000
Sales & Excise Taxes	5.3%	4.4%	4.0%	3.4%	2.3%	1.4%	0.6%
General Sales—Individuals	2.2%	2.2%	2.1%	1.9%	1.4%	0.8%	0.4%
Other Sales & Excise—Ind.	1.8%	1.1%	0.9%	0.7%	0.5%	0.2%	0.1%
Sales & Excise on Business	1.3%	1.1%	1.0%	0.8%	0.5%	0.3%	0.2%
Property Taxes	3.8%	3.5%	3.9%	4.2%	4.2%	3.2%	2.3%
Property Taxes on Families	3.6%	3.3%	3.7%	3.9%	3.8%	2.6%	0.9%
Other Property Taxes	0.2%	0.2%	0.2%	0.3%	0.4%	0.6%	1.3%
Income Taxes	-0.9%	0.1%	1.7%	2.2%	2.9%	4.1%	5.5%
Personal Income Tax	-0.9%	0.1%	1.7%	2.2%	2.9%	4.0%	5.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	8.2%	8.1%	9.7%	9.8%	9.4%	8.7%	8.4%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.6%	-1.3%	-1.2%	-0.9%
TOTAL AFTER OFFSET	8.2%	8.0%	9.4%	9.2%	8.2%	7.5%	7.5%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Vermont

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a large, refundable earned income tax credit (EITC)
- ✓ Offers a refundable property tax “circuit breaker” credit to low-income taxpayers

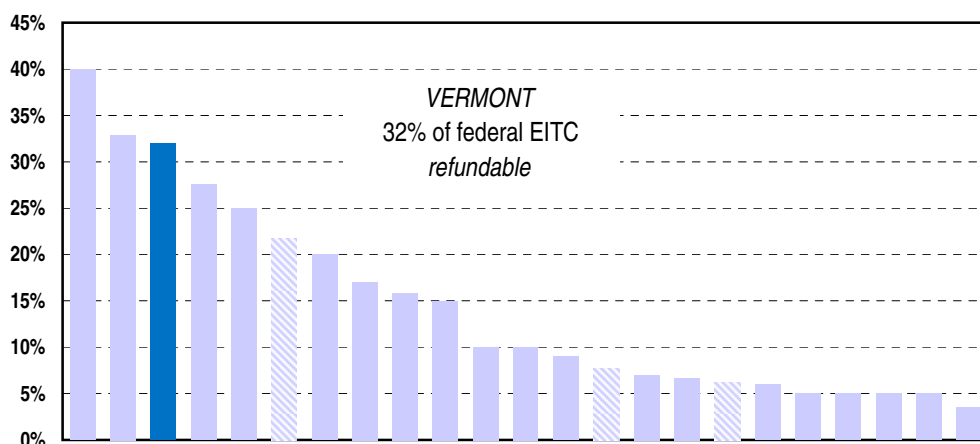
Regressive Features

- ✗ Comparatively high cigarette tax rate

Recent Developments

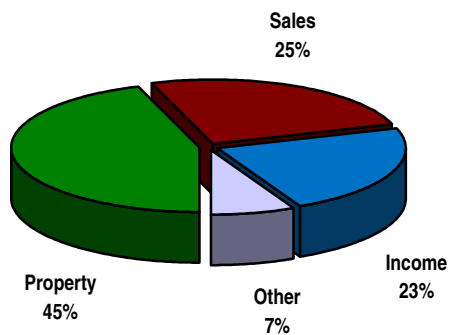
- ▲ Reduced income tax rates
- ▲ Reduced capital gains exclusion from 40 percent of such income to \$5,000
- ▲ Mandated the use of combined reporting

Effective State Earned Income Tax Credit (EITC) Rates

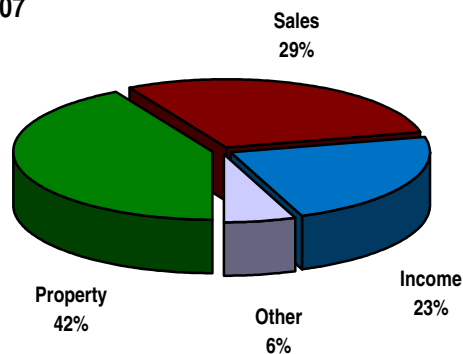


Change in the Composition of Tax Revenue

1997



2007

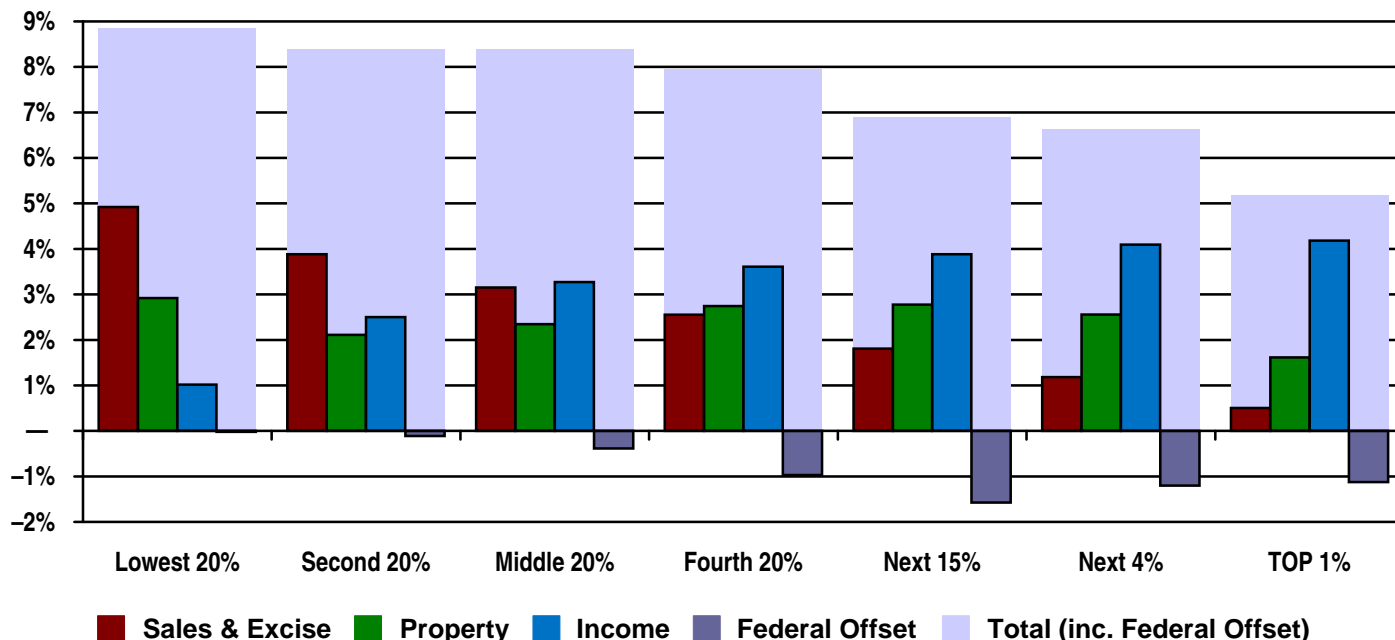


Source: U.S. Census Bureau, Government Finances

Virginia

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$36,000	\$36,000 – \$59,000	\$59,000 – \$100,000	\$100,000 – \$211,000	\$211,000 – \$529,000	\$529,000 or more
Average Income in Group	\$11,100	\$26,800	\$46,300	\$77,700	\$138,500	\$300,700	\$1,557,700
Sales & Excise Taxes	4.9%	3.9%	3.2%	2.6%	1.8%	1.2%	0.5%
General Sales—Individuals	2.8%	2.3%	2.0%	1.6%	1.2%	0.8%	0.3%
Other Sales & Excise—Ind.	1.0%	0.7%	0.5%	0.4%	0.3%	0.2%	0.1%
Sales & Excise on Business	1.1%	0.9%	0.7%	0.5%	0.4%	0.2%	0.1%
Property Taxes	2.9%	2.1%	2.3%	2.7%	2.8%	2.6%	1.6%
Property Taxes on Families	2.8%	2.0%	2.3%	2.6%	2.7%	2.3%	0.7%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.9%
Income Taxes	1.0%	2.5%	3.3%	3.6%	3.9%	4.1%	4.2%
Personal Income Tax	1.0%	2.5%	3.3%	3.6%	3.9%	4.1%	4.0%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
TOTAL TAXES	8.9%	8.5%	8.8%	8.9%	8.5%	7.8%	6.3%
Federal Deduction Offset	-0.0%	-0.1%	-0.4%	-1.0%	-1.6%	-1.2%	-1.1%
TOTAL AFTER OFFSET	8.8%	8.4%	8.4%	7.9%	6.9%	6.6%	5.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Virginia

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides a non-refundable earned income tax credit (EITC)

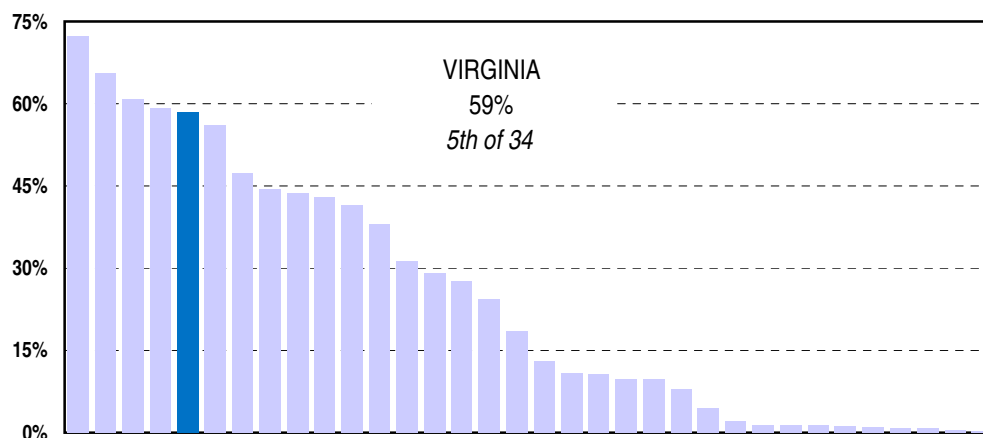
Regressive Features

- ✗ Narrow income tax brackets mean majority of taxpayers pay top income tax rate
- ✗ Fails to provide refundable income tax credits to offset the impact of sales, excise, and property taxes
- ✗ Groceries included in sales tax base (albeit taxed at a lower rate than other items)

Recent Developments

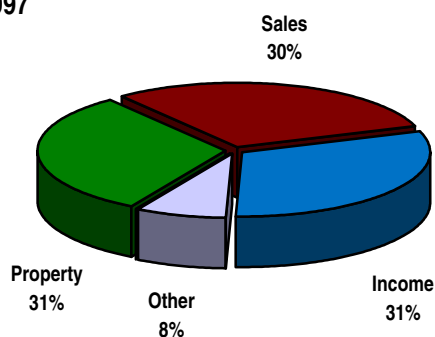
- ▲ Increased both the personal exemption and the standard deduction
- ▲ Created a non-refundable EITC equal to 20 percent of the federal credit
- ▲ Reduced the sales tax rate for groceries

Percent of Taxpayers Paying Top Personal Income Tax Rate

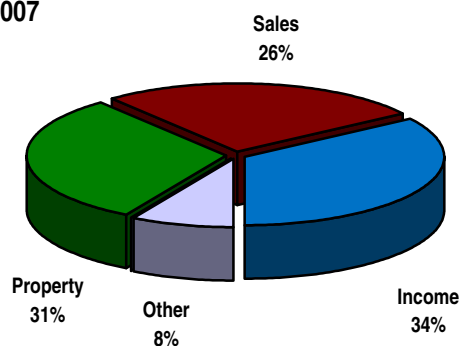


Change in the Composition of Tax Revenue

1997



2007

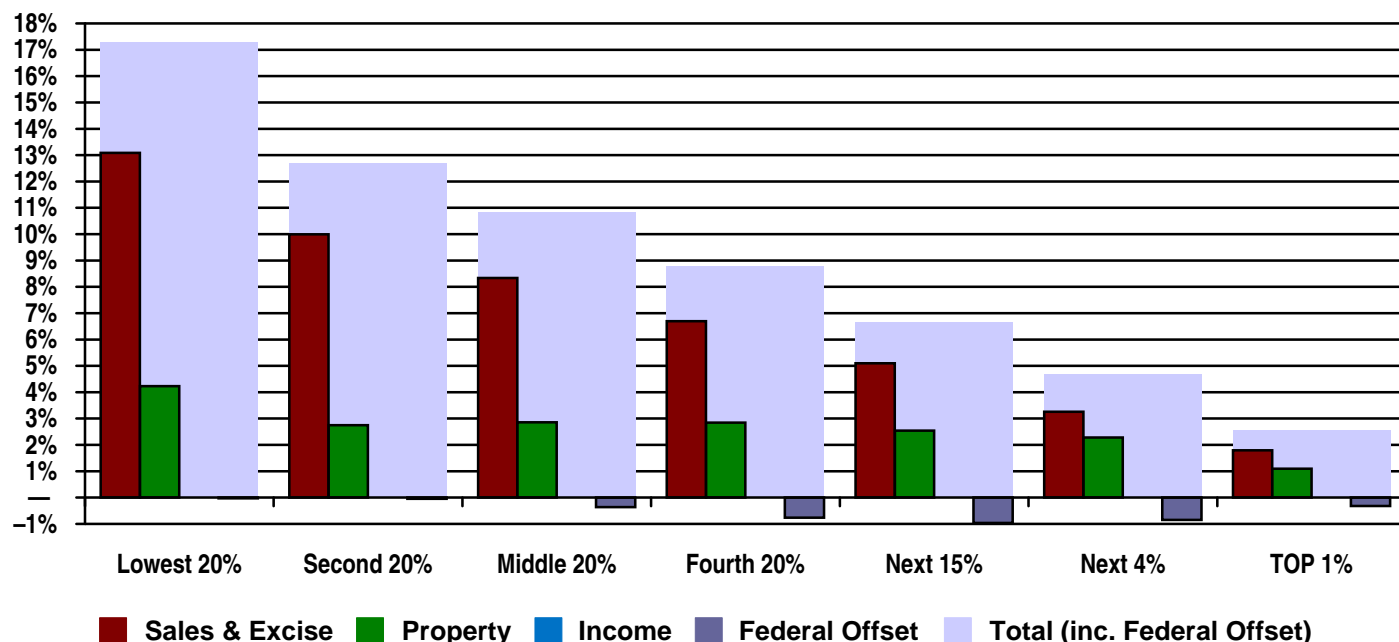


Source: U.S. Census Bureau, Government Finances

Washington

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$37,000	\$37,000 – \$62,000	\$62,000 – \$99,000	\$99,000 – \$198,000	\$198,000 – \$537,000	\$537,000 or more
Average Income in Group	\$11,000	\$28,200	\$49,900	\$78,900	\$132,100	\$294,600	\$1,795,000
Sales & Excise Taxes	13.1%	10.0%	8.3%	6.7%	5.1%	3.3%	1.8%
General Sales—Individuals	4.4%	3.6%	3.2%	2.6%	2.0%	1.3%	0.7%
Other Sales & Excise—Ind.	3.9%	2.7%	2.2%	1.8%	1.3%	0.8%	0.3%
Sales & Excise on Business	4.8%	3.7%	3.0%	2.4%	1.8%	1.2%	0.8%
Property Taxes	4.2%	2.7%	2.9%	2.8%	2.5%	2.3%	1.1%
Property Taxes on Families	4.2%	2.7%	2.8%	2.8%	2.4%	2.0%	0.5%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.2%	0.6%
Income Taxes	—	—	—	—	—	—	—
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	—	—	—	—	—	—	—
TOTAL TAXES	17.3%	12.7%	11.2%	9.5%	7.6%	5.5%	2.9%
Federal Deduction Offset	-0.0%	-0.0%	-0.4%	-0.8%	-1.0%	-0.9%	-0.3%
TOTAL AFTER OFFSET	17.3%	12.7%	10.8%	8.8%	6.7%	4.7%	2.6%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Washington

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides a refundable earned income tax credit (EITC) contingent upon state appropriation

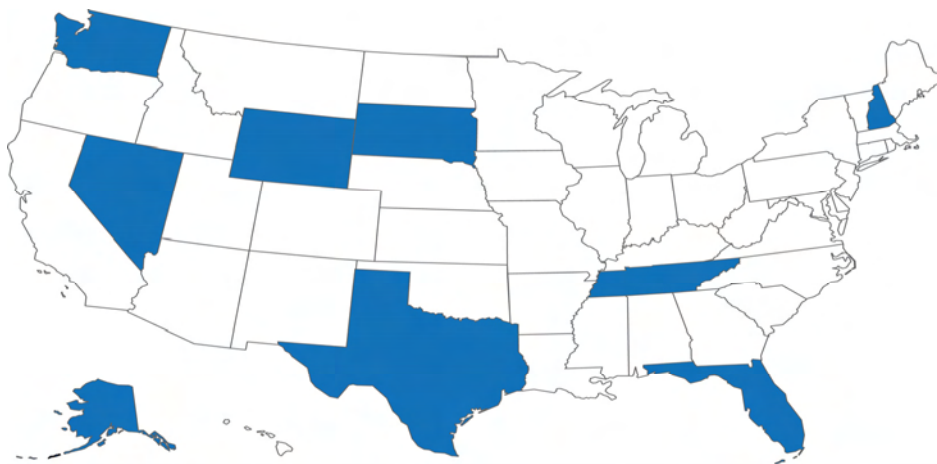
Regressive Features

- ✗ No personal income tax
- ✗ Comparatively high reliance on sales taxes
- ✗ Comparatively high combined state and local sales tax rate

Recent Developments

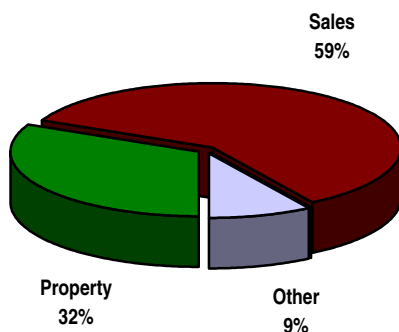
- ▲ Increased cigarette taxes
- ▲ Created a refundable EITC equal to 10 percent of the federal credit contingent upon state appropriation

States without a Broad-Based Personal Income Tax

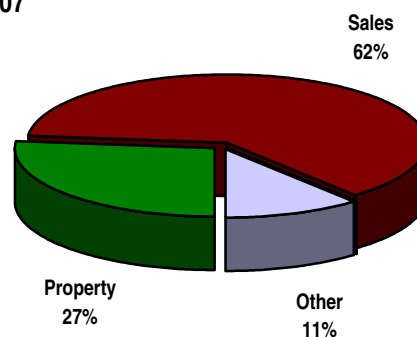


Change in the Composition of Tax Revenue

1997



2007

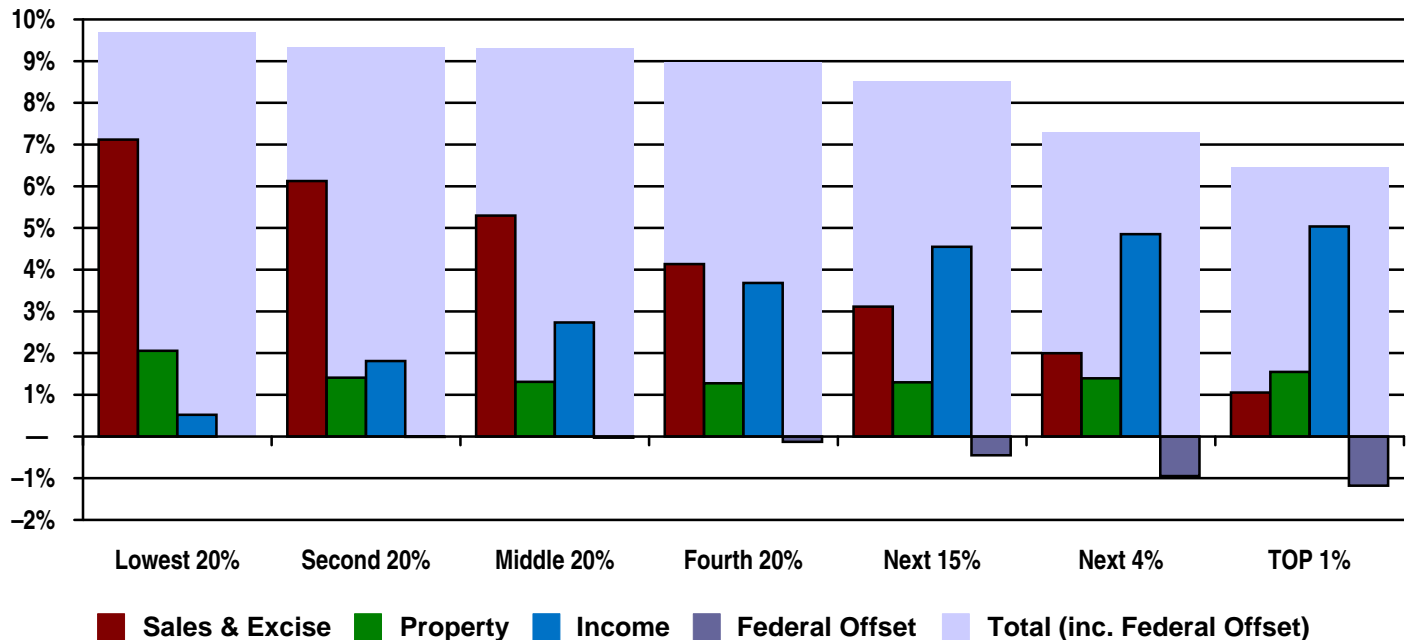


Source: U.S. Census Bureau, Government Finances

West Virginia

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$14,000	\$14,000 – \$27,000	\$27,000 – \$43,000	\$43,000 – \$69,000	\$69,000 – \$133,000	\$133,000 – \$298,000	\$298,000 or more
Average Income in Group	\$8,300	\$19,900	\$33,400	\$55,300	\$90,500	\$172,900	\$660,300
Sales & Excise Taxes	7.1%	6.1%	5.3%	4.1%	3.1%	2.0%	1.1%
General Sales—Individuals	3.7%	3.4%	3.1%	2.5%	1.9%	1.2%	0.7%
Other Sales & Excise—Ind.	2.3%	1.7%	1.3%	1.0%	0.7%	0.4%	0.1%
Sales & Excise on Business	1.1%	1.0%	0.9%	0.7%	0.6%	0.4%	0.2%
Property Taxes	2.1%	1.4%	1.3%	1.3%	1.3%	1.4%	1.5%
Property Taxes on Families	1.9%	1.3%	1.2%	1.2%	1.2%	1.0%	0.5%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.4%	1.0%
Income Taxes	0.5%	1.8%	2.7%	3.7%	4.5%	4.9%	5.0%
Personal Income Tax	0.5%	1.8%	2.7%	3.7%	4.5%	4.8%	4.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.7%	9.3%	9.3%	9.1%	9.0%	8.2%	7.6%
Federal Deduction Offset	—	–0.0%	–0.0%	–0.1%	–0.5%	–0.9%	–1.2%
TOTAL AFTER OFFSET	9.7%	9.3%	9.3%	9.0%	8.5%	7.3%	6.5%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

West Virginia

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Requires the use of combined reporting

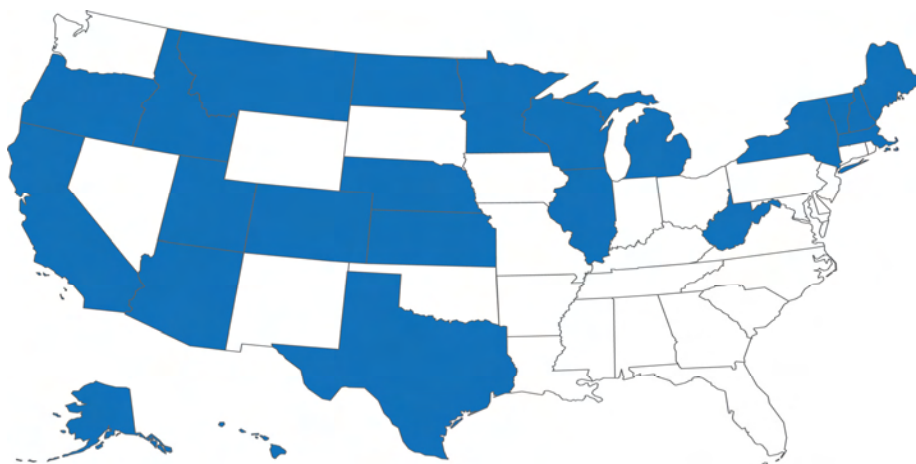
Regressive Features

- ✗ Groceries included in sales tax base, albeit taxed at a lower rate than other items

Recent Developments

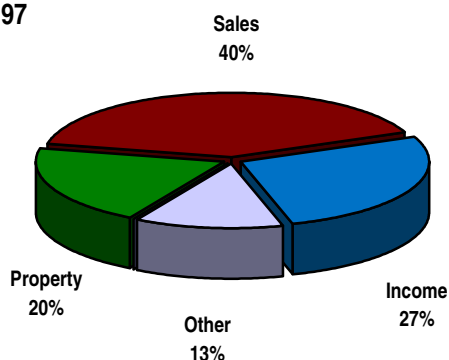
- ▲ Adopted a family tax credit targeted to low-income families
- ▲ Reduced the sales tax rate for groceries
- ▲ Mandated the use of combined reporting
- ▲ Reduced the corporate income tax rate

States Using Combined Reporting

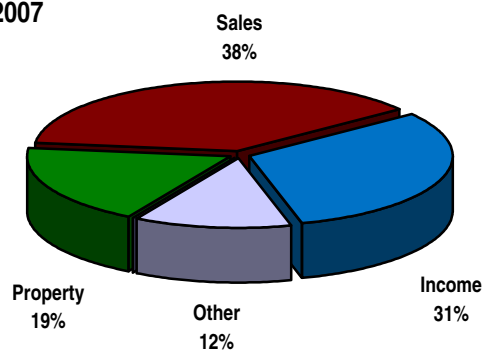


Change in the Composition of Tax Revenue

1997



2007

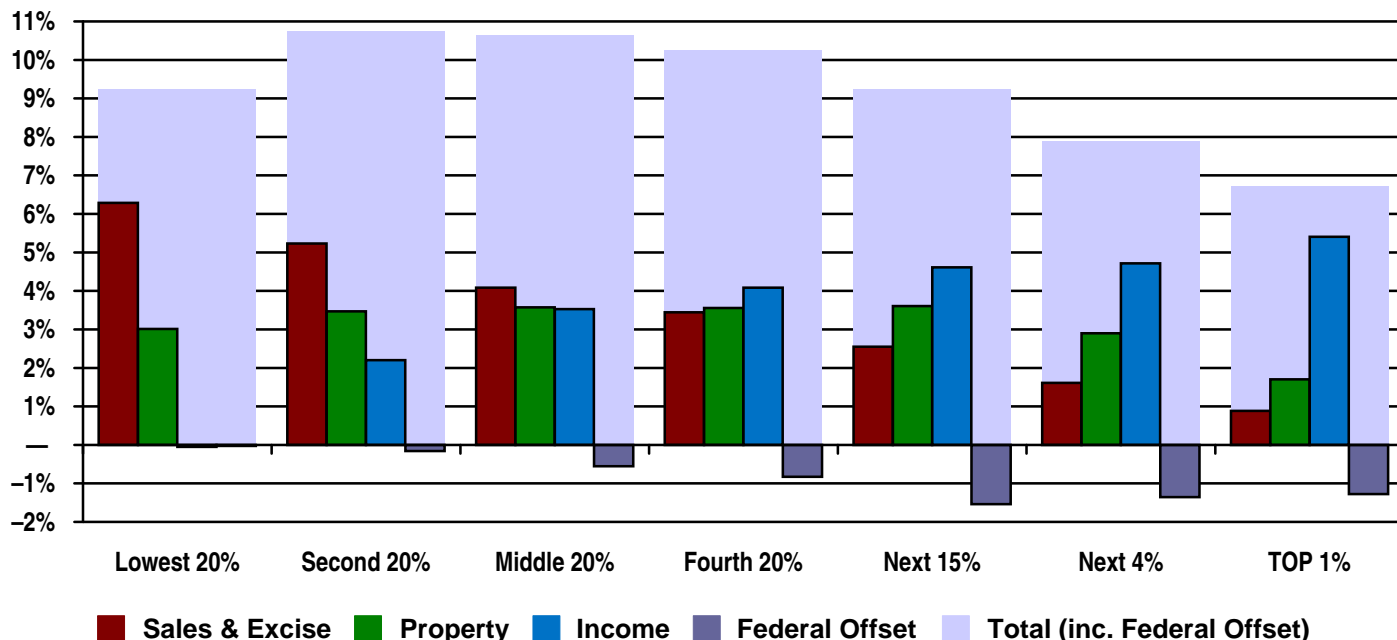


Source: U.S. Census Bureau, Government Finances

Wisconsin

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



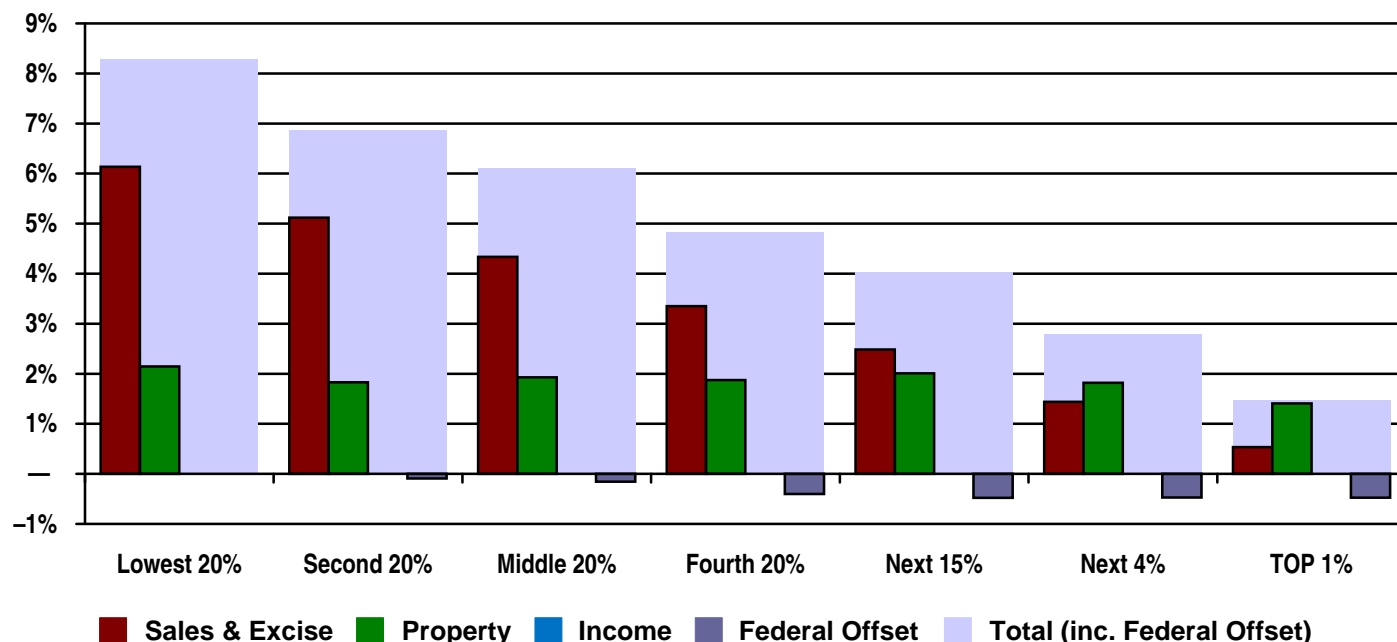
Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$35,000	\$35,000 – \$57,000	\$57,000 – \$88,000	\$88,000 – \$159,000	\$159,000 – \$388,000	\$388,000 or more
Average Income in Group	\$12,700	\$27,600	\$46,300	\$70,900	\$110,700	\$227,100	\$1,116,000
Sales & Excise Taxes	6.3%	5.2%	4.1%	3.4%	2.6%	1.6%	0.9%
General Sales—Individuals	2.5%	2.3%	2.0%	1.8%	1.4%	0.9%	0.5%
Other Sales & Excise—Ind.	2.1%	1.5%	1.0%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.6%	1.4%	1.0%	0.9%	0.6%	0.4%	0.2%
Property Taxes	3.0%	3.5%	3.6%	3.6%	3.6%	2.9%	1.7%
Property Taxes on Families	2.9%	3.4%	3.5%	3.5%	3.5%	2.5%	0.9%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.4%	0.8%
Income Taxes	-0.0%	2.2%	3.5%	4.1%	4.6%	4.7%	5.4%
Personal Income Tax	-0.1%	2.2%	3.5%	4.1%	4.6%	4.6%	5.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.2%	10.9%	11.2%	11.1%	10.8%	9.2%	8.0%
Federal Deduction Offset	-0.0%	-0.2%	-0.6%	-0.8%	-1.5%	-1.4%	-1.3%
TOTAL AFTER OFFSET	9.2%	10.7%	10.6%	10.3%	9.2%	7.9%	6.7%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Wyoming

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$22,000	\$22,000 – \$42,000	\$42,000 – \$64,000	\$64,000 – \$102,000	\$102,000 – \$178,000	\$178,000 – \$552,000	\$552,000 or more
Average Income in Group	\$13,100	\$32,400	\$53,700	\$81,300	\$126,600	\$285,700	\$2,832,200
Sales & Excise Taxes	6.1%	5.1%	4.3%	3.4%	2.5%	1.4%	0.5%
General Sales—Individuals	3.3%	3.0%	2.5%	2.0%	1.5%	0.9%	0.3%
Other Sales & Excise—Ind.	0.8%	0.4%	0.4%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.1%	1.7%	1.4%	1.1%	0.8%	0.5%	0.2%
Property Taxes	2.1%	1.8%	1.9%	1.9%	2.0%	1.8%	1.4%
Property Taxes on Families	1.9%	1.6%	1.6%	1.5%	1.6%	1.1%	0.4%
Other Property Taxes	0.3%	0.2%	0.3%	0.3%	0.4%	0.8%	1.1%
Income Taxes	—	—	—	—	—	—	—
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	—	—	—	—	—	—	—
TOTAL TAXES	8.3%	6.9%	6.3%	5.2%	4.5%	3.3%	1.9%
Federal Deduction Offset	—	–0.1%	–0.2%	–0.4%	–0.5%	–0.5%	–0.5%
TOTAL AFTER OFFSET	8.3%	6.9%	6.1%	4.8%	4.0%	2.8%	1.5%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Wyoming

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Sales tax base excludes groceries

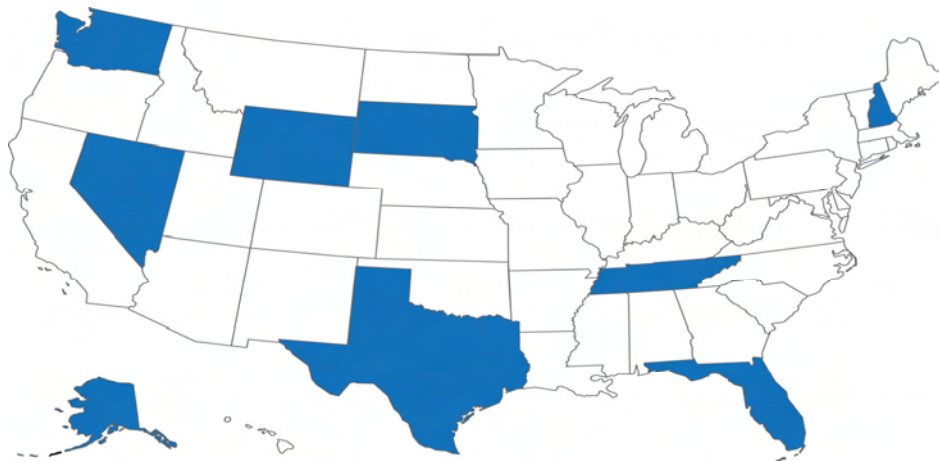
Regressive Features

- ✗ No personal income tax
- ✗ No corporate income tax

Recent Developments

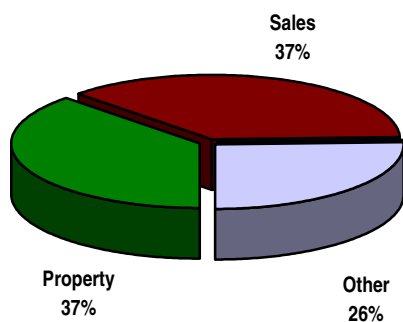
- ▲ Removed groceries from the state sales tax base
- ▲ Increased cigarette taxes

States without a Broad-Based Personal Income Tax

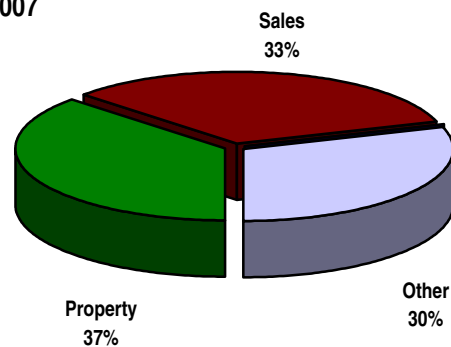


Change in the Composition of Tax Revenue

1997



2007

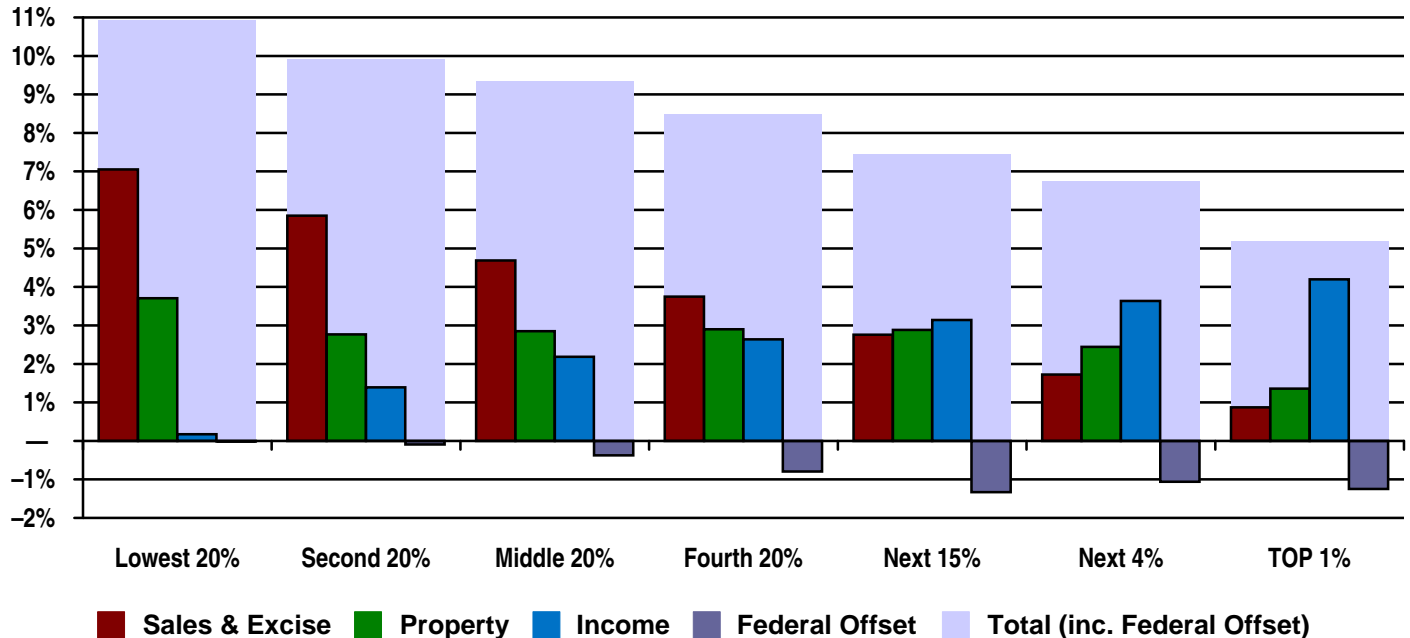


Source: U.S. Census Bureau, Government Finances

Averages for All States

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$33,000	\$33,000 – \$54,000	\$54,000 – \$90,000	\$90,000 – \$185,000	\$185,000 – \$476,000	\$476,000 or more
Average Income in Group	\$10,700	\$25,500	\$42,900	\$69,900	\$122,400	\$277,900	\$1,768,000
Sales & Excise Taxes	7.1%	5.9%	4.7%	3.7%	2.8%	1.7%	0.9%
General Sales—Individuals	3.3%	3.0%	2.5%	2.1%	1.6%	1.0%	0.5%
Other Sales & Excise—Ind.	1.6%	1.1%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	2.1%	1.8%	1.4%	1.1%	0.8%	0.5%	0.3%
Property Taxes	3.7%	2.8%	2.9%	2.9%	2.9%	2.4%	1.4%
Property Taxes on Families	3.6%	2.7%	2.7%	2.8%	2.7%	2.1%	0.7%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.7%
Income Taxes	0.2%	1.4%	2.2%	2.6%	3.1%	3.6%	4.2%
Personal Income Tax	0.2%	1.4%	2.2%	2.6%	3.1%	3.5%	3.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	10.9%	10.0%	9.7%	9.3%	8.8%	7.8%	6.4%
Federal Deduction Offset	-0.0%	-0.1%	-0.4%	-0.8%	-1.3%	-1.1%	-1.2%
TOTAL AFTER OFFSET	10.9%	9.9%	9.4%	8.5%	7.4%	6.7%	5.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

ADDENDUM:
Changes in the Composition of State and Local General Own-Source Revenue, 1997-2007
(including non-tax revenues)

	Fiscal year 1997						Fiscal Year 2007						Change in non-tax share
	Taxes					Non-Tax Revenues	Taxes					Non-Tax Revenues	
	Property	Sales	Income	Other	Total		Property	Sales	Income	Other	Total		
Alabama	7.9%	30.7%	15.1%	6.8%	60.5%	39.5%	8.9%	27.4%	15.2%	5.9%	57.4%	42.6%	+3.1%
Alaska	8.8%	3.0%	4.2%	14.8%	30.8%	69.2%	9.9%	4.7%	7.8%	25.0%	47.4%	52.6%	−16.6%
Arizona	20.9%	33.2%	15.9%	3.0%	73.0%	27.0%	19.1%	34.7%	14.5%	3.3%	71.6%	28.4%	+1.4%
Arkansas	10.9%	33.8%	19.7%	3.9%	68.4%	31.6%	10.2%	37.1%	19.2%	3.1%	69.7%	30.3%	−1.3%
California	17.8%	24.6%	22.3%	4.8%	69.5%	30.5%	16.4%	21.3%	25.4%	4.9%	68.0%	32.0%	+1.5%
Colorado	19.3%	24.9%	18.1%	3.3%	65.7%	34.3%	19.1%	22.2%	17.8%	3.7%	62.8%	37.2%	+2.9%
Connecticut	29.5%	27.6%	21.4%	4.3%	82.8%	17.2%	31.2%	19.2%	27.7%	3.5%	81.6%	18.4%	+1.2%
Delaware	9.7%	7.3%	24.6%	19.5%	61.1%	38.9%	8.9%	7.3%	21.6%	19.6%	57.4%	42.6%	+3.6%
Dist. of Col.	21.3%	26.4%	28.3%	4.3%	80.3%	19.7%	22.5%	19.7%	25.6%	9.1%	76.9%	23.1%	+3.3%
Florida	22.6%	34.1%	2.3%	6.4%	65.4%	34.6%	24.2%	32.2%	2.2%	7.2%	65.9%	34.1%	−0.5%
Georgia	18.7%	26.5%	20.7%	2.8%	68.7%	31.3%	19.6%	26.3%	20.2%	2.1%	68.3%	31.7%	+0.4%
Hawaii	11.3%	37.5%	19.4%	3.4%	71.6%	28.4%	12.7%	38.0%	18.5%	4.1%	73.3%	26.7%	−1.7%
Idaho	17.3%	22.8%	20.7%	5.4%	66.2%	33.8%	14.9%	22.8%	21.4%	4.7%	63.9%	36.1%	+2.4%
Illinois	28.6%	24.3%	17.9%	4.3%	75.1%	24.9%	27.5%	25.1%	16.7%	5.0%	74.2%	25.8%	+0.9%
Indiana	23.7%	19.5%	23.6%	1.7%	68.5%	31.5%	18.3%	23.4%	18.5%	2.7%	62.9%	37.1%	+5.6%
Iowa	21.5%	21.8%	18.2%	5.1%	66.6%	33.4%	20.9%	20.0%	17.7%	4.6%	63.3%	36.7%	+3.3%
Kansas	21.6%	25.2%	18.6%	4.4%	69.8%	30.2%	21.6%	25.1%	20.5%	3.8%	71.0%	29.0%	−1.2%
Kentucky	11.9%	26.1%	23.9%	7.3%	69.2%	30.8%	12.8%	25.1%	25.5%	4.4%	67.7%	32.3%	+1.5%
Louisiana	9.2%	33.1%	12.5%	7.1%	61.8%	38.2%	10.0%	35.8%	15.2%	6.4%	67.4%	32.6%	−5.5%
Maine	32.6%	20.7%	18.5%	4.0%	75.8%	24.2%	26.6%	21.9%	20.0%	4.4%	72.9%	27.1%	+3.0%
Maryland	19.4%	19.9%	30.6%	4.9%	74.7%	25.3%	18.4%	17.8%	32.3%	7.5%	75.9%	24.1%	−1.1%
Massachusetts	24.7%	16.0%	31.3%	3.1%	75.1%	24.9%	24.9%	13.9%	30.5%	3.2%	72.5%	27.5%	+2.6%
Michigan	20.1%	23.3%	22.5%	3.5%	69.4%	30.6%	24.8%	20.3%	14.8%	3.4%	63.3%	36.7%	+6.2%
Minnesota	19.2%	22.0%	24.6%	4.8%	70.6%	29.4%	17.9%	22.1%	24.7%	4.7%	69.4%	30.6%	+1.2%
Mississippi	15.2%	33.0%	12.3%	4.4%	64.9%	35.1%	15.8%	29.9%	12.7%	4.1%	62.4%	37.6%	+2.5%
Missouri	16.1%	29.8%	21.3%	5.0%	72.2%	27.8%	18.2%	25.0%	19.2%	4.0%	66.4%	33.6%	+5.8%
Montana	27.3%	9.2%	16.2%	11.3%	64.0%	36.0%	21.5%	10.4%	19.6%	12.0%	63.4%	36.6%	+0.6%
Nebraska	24.1%	22.5%	16.3%	5.1%	68.0%	32.0%	21.9%	21.2%	17.1%	5.3%	65.5%	34.5%	+2.5%
Nevada	14.9%	44.2%	—	9.1%	68.2%	31.8%	18.7%	39.6%	—	9.7%	68.0%	32.0%	+0.3%

(continued on next page)

Changes in the Composition of State and Local General Own-Source Revenue, 1997-2007 (continued)

	Fiscal year 1997						Fiscal Year 2007						Change in non-tax share
	Taxes					Non-Tax Revenues	Taxes					Non-Tax Revenues	
	Property	Sales	Income	Other	Total		Property	Sales	Income	Other	Total		
New Hampshire	45.8%	11.6%	6.6%	5.5%	69.4%	30.6%	42.4%	10.7%	10.2%	5.7%	69.1%	30.9%	+0.3%
New Jersey	34.1%	19.3%	16.3%	3.5%	73.2%	26.8%	32.1%	18.4%	21.9%	4.6%	77.0%	23.0%	−3.7%
New Mexico	7.8%	32.3%	13.7%	9.4%	63.3%	36.7%	8.5%	29.5%	13.8%	11.0%	62.9%	37.1%	+0.4%
New York	23.6%	19.7%	27.4%	3.2%	74.0%	26.0%	21.5%	18.3%	31.0%	4.7%	75.5%	24.5%	−1.5%
North Carolina	14.6%	24.4%	24.7%	4.4%	68.1%	31.9%	15.2%	23.0%	25.3%	4.0%	67.5%	32.5%	+0.6%
North Dakota	18.9%	26.4%	9.7%	9.1%	64.1%	35.9%	17.4%	22.7%	11.3%	13.4%	64.7%	35.3%	−0.6%
Ohio	20.8%	22.6%	24.1%	4.7%	72.2%	27.8%	20.0%	21.5%	22.4%	5.0%	68.9%	31.1%	+3.3%
Oklahoma	10.4%	27.2%	18.1%	11.7%	67.4%	32.6%	10.5%	24.7%	18.1%	11.5%	64.8%	35.2%	+2.5%
Oregon	18.9%	6.2%	27.2%	7.8%	60.1%	39.9%	18.7%	5.2%	28.7%	7.6%	60.1%	39.9%	−0.1%
Pennsylvania	20.4%	21.5%	21.2%	9.0%	72.0%	28.0%	20.8%	20.1%	21.0%	8.4%	70.2%	29.8%	+1.8%
Rhode Island	31.5%	22.0%	18.8%	2.9%	75.3%	24.7%	29.3%	20.5%	18.9%	2.8%	71.5%	28.5%	+3.7%
South Carolina	16.7%	22.8%	17.3%	5.2%	61.9%	38.1%	17.7%	20.1%	14.7%	4.5%	56.9%	43.1%	+5.0%
South Dakota	24.1%	33.6%	1.7%	6.8%	66.1%	33.9%	22.1%	34.8%	2.1%	5.5%	64.4%	35.6%	+1.7%
Tennessee	14.7%	41.1%	3.8%	7.4%	67.0%	33.0%	15.1%	35.4%	4.6%	7.2%	62.3%	37.7%	+4.7%
Texas	25.6%	34.1%	—	8.5%	68.2%	31.8%	27.4%	30.7%	—	7.6%	65.6%	34.4%	+2.6%
Utah	15.5%	27.4%	20.2%	2.9%	65.9%	34.1%	13.9%	23.8%	20.2%	2.9%	60.9%	39.1%	+5.1%
Vermont	32.2%	18.3%	16.4%	5.2%	72.1%	27.9%	30.5%	21.2%	16.5%	4.3%	72.6%	27.4%	−0.4%
Virginia	21.3%	20.6%	20.9%	5.4%	68.1%	31.9%	21.1%	18.0%	23.4%	5.7%	68.2%	31.8%	−0.1%
Washington	22.1%	41.2%	—	6.1%	69.3%	30.7%	17.9%	41.4%	—	7.4%	66.7%	33.3%	+2.6%
West Virginia	13.1%	26.7%	17.8%	8.4%	65.9%	34.1%	11.5%	23.4%	19.3%	7.6%	61.8%	38.2%	+4.1%
Wisconsin	24.6%	20.8%	24.4%	3.9%	73.7%	26.3%	25.6%	19.5%	22.1%	3.9%	71.1%	28.9%	+2.6%
Wyoming	20.2%	19.8%	—	13.8%	53.8%	46.2%	22.9%	20.5%	—	18.7%	62.1%	37.9%	−8.3%
All States	21.0%	25.0%	18.5%	5.3%	69.7%	30.3%	20.6%	23.6%	18.8%	5.6%	68.5%	31.5%	+1.2%

NOTE: Non-tax state and local revenues include: charges for education and hospitals (34% of the total non-tax revenues nationwide in fiscal 2006); interest earnings (13% of the total); sewer and trash fees (9% of the total); lottery revenues (4% of the total); highway user fees (3% of the total); and a variety of other charges and user fees.

The Institute on Taxation & Economic Policy has engaged in research on tax issues since 1980, with a focus on the distributional consequences of both current law and proposed changes. ITEP's research has often been used by other private groups in their work, and ITEP is frequently consulted by government estimators in performing their official analyses. Since 1994, ITEP has built a microsimulation model of the tax systems of the U.S. government and of all 50 states and the District of Columbia.

What the ITEP Model Does

The ITEP model is a tool for calculating revenue yield and incidence, by income group, of federal, state and local taxes. It calculates revenue yield for current tax law and proposed amendments to current law. Separate incidence analyses can be done for categories of taxpayers specified by marital status, the presence of children and age.

In computing its estimates, the ITEP model relies on one of the largest databases of tax returns and supplementary data in existence, encompassing close to three quarters of a million records. To forecast revenues and incidence, the model relies on government or other widely respected economic projections.

The ITEP model's federal tax calculations are very similar to those produced by the congressional Joint Committee on Taxation, the U.S. Treasury Department and the Congressional Budget Office (although each of these four models differs in varying degrees as to how the results are presented). The ITEP model, however, adds state-by-state estimating capabilities not found in those government models.

Below is an outline of each area of the ITEP model and what its capabilities are:

The Personal Income Tax Model analyzes the revenue and incidence of current federal and state personal income taxes and amendment options including changes in:

- rates, including special rates on capital gains,
- inclusion or exclusion of various types of income,
- inclusion or exclusion of all federal and state adjustments,
- exemption amounts and a broad variety of exemption types and, if relevant, phase-out methods,
- standard deduction amounts and a broad variety of standard deduction types and phase-outs,
- itemized deductions and deduction phase-outs, and
- credits, such as earned-income and child-care credits.

The Consumption Tax Model analyzes the revenue yield and incidence of current sales and excise taxes. It also has the capacity to analyze the revenue and incidence implications of a broad range of base and rate changes in general sales taxes, special sales taxes, gasoline excise taxes and tobacco excise taxes. There are more than 250 base items available to amend in the model, reflecting, for example, sales tax base differences among states and most possible changes that might occur.

The Property Tax Model analyzes revenue yield and incidence of current state and local property taxes. It can also analyze the revenue and incidence impacts of statewide policy changes in property tax, including the effect of circuit breakers, homestead exemptions, and rate and assessment caps.

The Corporate Income Tax Model analyzes revenue yield and incidence of current corporate income tax law, possible rate changes and certain base changes.

Local taxes: The model can analyze the statewide revenue and incidence of aggregate local taxes (not, however, broken down by individual localities).

Addendum 1: Data Sources

The ITEP model is a “microsimulation model.” That is, it works on a very large stratified sample of tax returns and other data, aged to the year being analyzed. This is the same kind of tax model used by the U.S. Treasury Department, the congressional Joint Committee on Taxation and the Congressional Budget Office. The ITEP model uses the following micro-data sets and aggregate data:

Micro-Data Sets:

IRS 1988 Individual Public Use Tax File, Level III Sample; IRS Individual Public Use Tax Files 1990 and later; Current Population Survey: 1988-93; Consumer Expenditure Survey, 1988-90 and 1992-93; U.S. Census, 1990; American Community Survey, 2004-2007.

Partial List of Aggregated Data Sources:

Miscellaneous IRS data; Congressional Budget Office and Joint Committee on Taxation forecasts; other economic data (Moody's Economy.com, Commerce Department, WEFA, etc.); state tax department data; data on overall levels of consumption for specific goods (Commerce Department, Census of Services, etc.); state specific consumption and consumption tax data (Census data, Government Finances, etc.); state specific property tax data (Govt. Finances, etc.); American Housing Survey; Census of Population Housing; etc.

Addendum 2: *The ITEP Tax Inequality Index*

The ITEP tax inequality index measures the effects of each state's tax system on income inequality. Essentially, it answers the following question: Are incomes more or less equal after state taxes than before taxes? For each state, the index compares incomes by income group before and after state and local taxes (not counting the tax savings from deducting state and local taxes on federal tax returns).

The index for each state equals one minus the average of the following ratios: (1) the after-tax income of the richest one percent as a share of pretax income over the after-tax income of the poorest 20 percent as a share of pretax income; (2) the after-tax income of the richest one percent as a share of pretax income over the after-tax income of the middle 60 percent as a share of pretax income; and (3) the after-tax income of the best-off 20 percent as a share of pretax income over the after-tax income of the poorest 40 percent as a share of pretax income, half-weighted.

States with regressive tax structures have negative tax inequality indexes, meaning that incomes are less equal in those states after state and local taxes than before. States with progressive tax structures have positive tax inequality indexes; incomes are more equal after state and local taxes than before.

A more detailed description of the ITEP Microsimulation Tax Model can be found on the ITEP internet site at www.itepnet.org.

The Institute on Taxation and Economic Policy

The Institute on Taxation & Economic Policy has engaged in research on tax issues since 1980, with a focus on the distributional consequences of both current law and proposed changes. ITEP's research is relied on by the public, policymakers and the media — and ITEP is frequently consulted by government estimators in performing their official analyses.

ITEP's Microsimulation Tax Model is based on a very large sample of federal tax returns, Census data, Consumer Expenditure Survey data and information from many other sources. It encompasses 690,000 statistically-matched records, selected to produce reliable results on a state-by-state basis. The ITEP Model includes all significant current national, state and local tax laws, and is equipped to evaluate changes to those laws.

This third edition of *Who Pays?* uses the ITEP Model for its distributional analyses of state and local taxes.



INSTITUTE ON TAXATION AND ECONOMIC POLICY

1616 P Street, NW • Washington, D.C. 20036
202-299-1066 • www.itepnet.org