MassBudget
Massachusetts Budget and Policy Center
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FACTS AT A GLANCE

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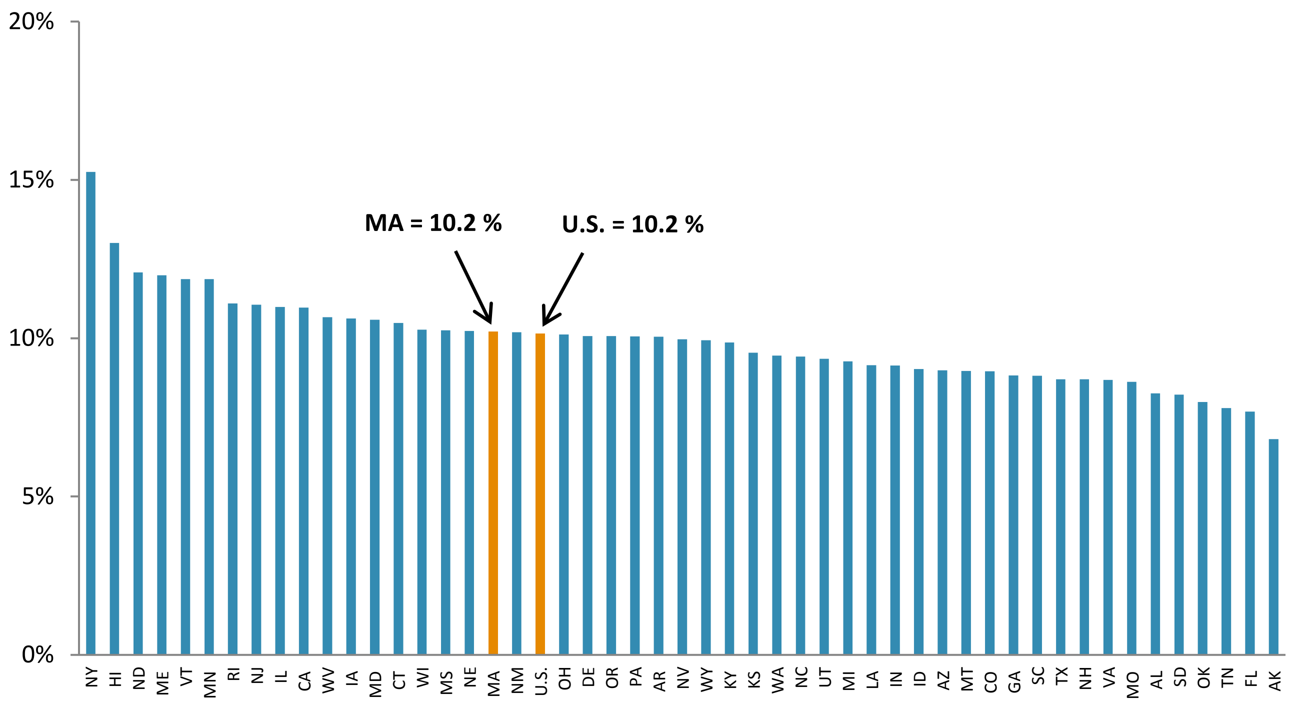
MA Taxes on Par with U.S. Average in FY 2016

The U.S. Census Bureau has released its annual update of State and Local Government Finances, providing nationwide, state-level data for Fiscal Year (FY) 2016. The amount of state and local taxes paid in Massachusetts as a share of total personal income was 10.2 percent in FY 2016. By this measure, Massachusetts was on par with the national average (as was New Mexico) and had lower taxes than 17 other states (see chart below).[1] Notably, Massachusetts tax levels also are lower than the levels in most other northeastern states. Measuring taxes as a share of total personal income allows for a meaningful comparison of tax levels among the states (see "Technical Notes" at the end of this fact sheet and MassBudget's fact sheet, *Adjusting for Personal Income*).

Taxes are what we all pay toward—and are the primary source of funding for—everything the people of a state choose to provide together through their state and local governments, such as: public education; roads, bridges, and public transit; police and fire protection; libraries, parks, and playgrounds; and programs to protect access to health care as well as other supports that families may depend on – particularly when they face acute challenges.

MA on Par with U.S. Average for State and Local Taxes, FY 2016

State and local taxes as a percent of state personal income, FY 2016



Source: U.S. Census Bureau (tax data), U.S. Bureau of Economic Analysis (income data)

TECHNICAL NOTES

A. This fact sheet presents taxes as a share of total state personal income. This measure provides insight into the ability of each state's economy to support the given level of taxation in that state. Use of this measure allows us to answer a number of important questions: What share of each state's overall economic capacity (state personal income) is used to support public goods and services (through tax collections)? How does this share compare to that in other states? (Note: When examining the data, it is important to remember that the level of taxation in a state affects the range and quality of public services provided in that state. The residents of some states may elect to pay fewer taxes but, as a consequence, those states will be able to provide less support for schools, roads, public safety, etc. When two states differ markedly in their relative tax levels, they are likely to differ markedly in the scope and quality of their public investments.)

MassBudget also chooses to present taxes as a share of state personal income because it avoids a number of the problems associated with other, commonly-used measures, such as per-capita tax measures. By their nature, per-capita measures suggest they provide information about the actual amount of tax paid by each individual in a state. In fact, the per-capita measure does not and cannot provide meaningful insight into this question; the underlying data on which per-capita measures are based are insufficient for this level of granular analysis. The per-capita measure reveals little or nothing about the actual tax amounts paid by taxpayers in a state.

Implicit in the notion of a "per person" (i.e., per-capita) tax amount is a further suggestion about the relative fairness of different states' tax systems. The suggestion is that a state with a higher per-capita tax level requires the typical taxpayer to contribute more of her income in taxes than a state with lower per-capita taxes does. This, however, is not necessarily the case (and in any event, ignores the important question of the relative levels of public investment in the two states, discussed above). Again, the gross-level data from which per-capita measures are calculated do not offer information about how people at different income levels are affected by a state's tax system. It may well be that the state with higher per-capita taxes collects a far larger share of its tax revenue from upper-income households, leaving most middle- and lower-income households with a smaller tax bill than similarly situated households in the state with lower per-capita taxes.

Part of the reason per-capita tax measures can confuse rather than clarify state-to-state comparisons is that they conflate two separate elements: tax rates and incomes. This issue is most easily understood in the context of the income tax. If one state has an income tax rate of 5 percent and an average (taxable) income of $50,000, then the per-capita tax is $2,500. If a state where the average (taxable) income is lower—for example, $30,000—has a tax rate of 6 percent, then the per-capita tax in that state is $1,800. Thus, even though tax rates are higher in the lower-income state (6 percent rather than 5 percent), a per-capita ranking would show the state with the higher tax rate as having "lower taxes." Using taxes as a share of income avoids this problem. For a more complete discussion of this issue, see MassBudget's resource: *Adjusting for Personal Income*.

B. The Census data and the analysis we present in this fact sheet differ somewhat from that presented by a commonly-cited source, the Tax Foundation. The Tax Foundation, like MassBudget, uses the basic structure of comparing taxes as a share of income. The Tax Foundation, however, makes a number of adjustments to the data. Among the most important of these adjustments is their use of taxes paid by residents of a state rather than taxes collected in the state. This means, for example, that property taxes paid by a Massachusetts resident on a vacation home in Maine would count as

Massachusetts taxes in the Tax Foundation model. While there are contexts in which such an adjustment may be helpful, for comparing tax policies of state and local government it makes most sense to look at the taxes collected by those governments.

C. One important shortcoming in the state personal income data (compiled by the U.S. Bureau of Economic Analysis) that are used for calculations in this fact sheet is that these data omit income derived from capital gains. The tax data (compiled by the U.S. Census), by contrast, include all taxes, including the taxes paid on capital gains income. In other words, every dollar of tax collected within a state is factored into the calculations, while a substantial source of income (capital gains) that makes those taxes more affordable, is excluded. As a result, the measures presented in this fact sheet overstate the share of economic resources paid in taxes, making public services appear less affordable for state residents than they in fact are.

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[1] Specifically, in FY 2016, state and local taxes collected in Massachusetts were equivalent to 10.20 percent of the total personal income generated in the state. The same ratio for the U.S as a whole was 10.15 percent. The ratio for New Mexico was 10.19 percent. All three ratios round to 10.2 percent and are labeled as such in the chart provided. Their relative rankings are displayed according to the more precise ratios noted above.

The U.S. ratio (10.15 percent in FY 2016) is a nationwide average, presenting all state and local taxes collected nationwide (the numerator) as a share of all personal income generated nationwide (the denominator). This nationwide average does not fall precisely in the middle of the 50, state-level ratios. Instead, the higher ratios of several states with large economies (i.e., large amounts of state personal income) push the overall, U.S. average upward. While a number of other large states with below-average ratios "pull" the U.S. average down (TX, FL), this effect is less pronounced, as these states' ratios are only a little lower than the ratios of states in the middle. New York, by contrast, has a ratio much higher than the average.

In addition, because states in the middle half of the ranking share very similar ratios, any change in an individual state's ratio can change its ranking significantly. Similarly, as the U.S. average is pushed upward, even modestly, by the tax levels in NY and CA (among others), this results in a significant shift away from the middle, in terms of the U.S.'s rank order. For these reasons, the U.S. average does not fall precisely in the middle of the state rankings.

U.S. Census data on state and local taxes can be found at: https://www.census.gov/data/datasets/2016/econ/local/public-use-datasets.html .

Personal income data can be found at the Bureau of Economic Analysis (BEA) website: https://apps.bea.gov/iTable/iTable.cfm?acrdn=6&isuri=1&reqid=70&step=1#reqid=70&step=1&isuri=1