

FISCAL RESEARCH CENTER

REVENUE STRUCTURES OF STATES WITHOUT AN INCOME TAX

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Revenue Structures of States Without an Income Tax

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Revenue Structures of States Without An Income Tax

Executive Summary

Introduction

Recently, suggestions have been made that Georgia should eliminate its income (personal and corporate) tax, which is expected to account for 48.9 percent of Georgia's state revenue for FY 2008. One question that arises regarding the proposal to eliminate income taxes is: How would Georgia finance government in the absence of an income tax? One approach to this question is to consider the states without an income tax and study how these states are able to get along without this source of revenue.

There are 7 states that do not impose a state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, New Hampshire and Tennessee have very limited personal income taxes, taxing only interest and dividend income. The experiences of these states might be instructive as Georgia considers whether to eliminate its income tax.

We first considers several explanations for how these states manage to operate government without an income tax. Second, we explore whether these states offer a model for how Georgia could replace its income tax revenue.

Differences in State and Local Government Revenue

There are several possible explanations for how states are able to get along without an income tax. To explore these possibilities we compare the 9 states listed above to Georgia.

One way to survive without an income tax is to simply raise less revenue. None of the 9 states raises less state and local revenue per capita than does Georgia. While for most states general revenue per capita is no more than about 10 percent greater than Georgia's general revenue, three states raise at least 20 percent more than Georgia. Washington, for example, had general revenue per capita of \$6,405, which was \$1,097 or 20.7 percent more than Georgia.¹

¹ The revenue data used for the analysis is for FY 2004 and are obtained from *State Government Tax Collections*, U.S. Bureau of the Census, available at <http://www.census.gov/govs/www/statetax.html>.

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A second way that a state could get along without an income tax is if the Federal government provided substantial grant revenue. Several of these states are much more reliant on Federal grants than is Georgia. In particular, Alaska and Wyoming had Federal grants per capita that are more than 3 times larger than for Georgia. Only Florida and Nevada had federal grants per capita that were less than Georgia's. Thus, to some extent states without a full income tax seem to rely on the Federal government more than does Georgia.

A third way a state could get along without an income tax is by shifting more responsibilities for funding services to local governments. For example, the state could provide less money for schools, requiring local school systems to raise more revenue. But these states have not imposed a substantially larger burden for raising revenue on local governments.

This analysis suggests that the states with no income tax or a limited personal income tax rely on other sources of state revenue to make up most of the revenue forgone by not having an income tax. Thus, we turn to a discussion of how these states raise their own source revenue.

State Own Source Revenue

Table A presents the share of revenue by detailed revenue categories, including various taxes, licenses, and fees, for each of the 9 states plus Georgia.² Table B presents the same revenue but in per capita terms. We compare Georgia to each of the 9 states in order to identify the differences in the revenue sources the states rely on, that is, as compared to Georgia, how do these states make up for the absence of an income tax. In the following discussion only significant differences are highlighted.

² State own source revenue refers to all revenue collected by the state government, i.e., it excludes federal grants. Revenue from state operated utilities and liquor stores are not included.

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TABLE A. SHARE OF STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Property Tax	1.1%	0.7%	0.3%	2.3%	14.7%	0.0%	0.0%	0.0%	8.4%	6.7%
General Sales & Gross Receipts Tax	0.0%	42.9%	25.8%	39.5%	0.0%	35.2%	49.2%	33.7%	46.2%	22.2%
Alcoholic Beverages	0.7%	1.5%	0.8%	0.6%	0.4%	0.7%	0.8%	1.3%	1.1%	0.1%
Amusements	0.1%	0.0%	0.0%	15.2%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Insurance Premiums	1.1%	1.8%	1.7%	3.4%	2.4%	3.3%	3.0%	2.5%	1.9%	0.9%
Motor Fuels	0.9%	5.1%	4.0%	5.2%	3.9%	7.6%	7.0%	6.4%	5.1%	3.4%
Pari-Mutuels	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Public Utilities	0.1%	4.3%	0.0%	0.2%	2.0%	0.1%	0.0%	1.7%	1.9%	0.1%
Tobacco Products	1.0%	1.1%	1.2%	2.3%	3.0%	1.7%	1.0%	1.2%	1.9%	0.9%
Other Selective Sales Taxes	0.0%	1.9%	0.5%	0.7%	8.4%	3.3%	0.8%	6.9%	1.5%	0.0%
Alcoholic Beverages Lic.	0.0%	0.1%	0.0%	0.0%	0.5%	0.0%	0.0%	0.1%	0.1%	0.0%
Amusements Lic.	0.0%	0.0%	0.0%	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Corporation Lic.	0.0%	0.4%	0.3%	0.9%	0.1%	0.2%	4.3%	4.1%	0.1%	0.3%
Hunting & Fishing Lic.	0.5%	0.0%	0.1%	0.1%	0.3%	1.3%	0.2%	0.2%	0.2%	1.3%
Motor Vehicle Lic.	1.0%	2.8%	1.5%	2.5%	2.5%	2.5%	2.1%	2.7%	1.8%	2.4%
Motor Vehicle Operators Lic.	0.0%	0.4%	0.2%	0.3%	0.4%	0.1%	0.4%	0.2%	0.3%	0.1%
Public Utilities Lic.	0.0%	0.1%	0.0%	0.0%	0.2%	0.1%	0.1%	0.0%	0.1%	0.0%
Occupation & Business Lic.	0.2%	0.6%	0.6%	5.4%	1.8%	3.5%	1.7%	1.5%	1.0%	0.7%
Other Licenses Tax	0.1%	0.0%	0.5%	0.1%	0.1%	0.6%	0.0%	0.1%	0.2%	0.0%

Table A continues next page...

Revenue Structures of States Without an Income Tax

TABLE A (CONTINUED). SHARE OF STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Individual Income Tax	0.0%	0.0%	35.7%	0.0%	1.6%	0.0%	1.2%	0.0%	0.0%	0.0%
Corporation Net Income Tax	7.7%	3.6%	2.6%	0.0%	12.2%	2.8%	5.8%	0.0%	0.0%	0.0%
Death & Gift Taxes	0.1%	1.0%	0.3%	0.4%	0.9%	0.6%	0.8%	0.3%	0.8%	0.3%
Documentary & Stock Transfer Taxes	0.0%	8.0%	0.0%	1.7%	4.3%	0.0%	1.5%	0.0%	3.5%	0.0%
Severance Taxes	15.7%	0.1%	0.0%	0.7%	0.0%	0.1%	0.0%	4.1%	0.2%	32.8%
Taxes, NEC	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%
Charges	8.5%	9.2%	12.5%	10.7%	21.6%	12.6%	12.9%	15.3%	15.8%	5.9%
Miscellaneous Revenue	61.2%	14.3%	11.2%	6.2%	18.5%	23.7%	6.9%	17.7%	8.0%	22.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Bureau of the Census, *State Government Tax Collections, 2004*, available at <http://www.census.gov/govs/www/statetax.html>.
NEC = Not Elsewhere Classified.

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TABLE B. PER CAPITA STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Property Tax	71.99	15.92	7.30	56.78	379.98	0.00	0.00	0.00	245.95	276.30
General Sales & Gross Receipts Tax	0.00	985.25	551.84	961.22	0.00	760.56	991.89	687.98	1,357.04	914.71
Alcoholic Beverages	49.77	34.03	16.80	14.52	9.42	16.13	15.62	26.78	31.03	2.63
Amusements	3.67	0.00	0.00	369.27	1.37	0.03	0.00	1.03	0.01	0.00
Insurance Premiums	75.79	40.91	35.60	83.25	61.16	71.78	59.58	50.31	55.68	35.64
Motor Fuels	61.79	116.29	84.77	125.84	100.01	163.45	141.21	129.89	149.14	138.29
Pari-Mutuels	0.00	1.54	0.00	0.00	3.17	1.14	0.00	0.52	0.29	0.45
Public Utilities	6.02	98.50	0.00	4.14	50.49	2.53	0.81	35.29	56.89	5.96
Tobacco Products	65.69	25.85	25.49	55.32	76.99	35.85	20.28	23.79	56.80	36.72
Other Selective Sales Taxes	0.00	44.17	10.86	16.26	216.52	70.80	16.95	140.03	43.50	0.00
Alcoholic Beverages Licenses	2.78	1.98	0.26	0.00	13.48	0.38	0.41	1.71	1.62	0.01
Amusements Licenses	0.00	0.26	0.00	41.01	0.27	0.17	0.13	0.31	0.01	0.00
Corporation Licenses	2.00	9.29	5.97	22.61	3.11	3.53	86.00	84.38	3.00	12.50
Hunting & Fishing Licenses	36.04	0.84	2.69	3.07	6.95	28.70	4.24	3.56	4.90	54.94
Motor Vehicle Licenses	66.54	64.70	31.40	59.78	65.00	54.69	43.29	54.85	53.85	100.36
Motor Vehicle Operators Licenses	0.00	8.73	4.14	6.23	10.05	2.43	7.08	4.28	7.70	3.77
Public Utilities Licenses	0.43	1.59	0.00	0.00	5.01	1.16	1.06	0.77	2.39	0.00
Occupation & Business Licenses	13.81	14.70	13.16	132.38	47.42	75.22	34.49	30.33	30.69	29.42
Other Licenses Tax	5.66	0.00	11.64	2.12	2.03	13.84	0.73	1.50	6.45	0.00
Individual Income Tax	0.00	0.00	765.92	0.00	42.16	0.00	23.76	0.00	0.00	0.00

Table B continues next page...

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TABLE B (CONTINUED). PER CAPITA STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Corporation Net Income Tax	516.05	82.91	55.47	0.00	313.78	61.10	117.90	0.00	0.00	0.00
Death & Gift Taxes	3.42	22.25	7.40	10.52	23.51	12.09	16.38	6.73	22.53	11.94
Documentary & Stock Transfer Taxes	0.00	183.86	0.05	41.45	111.91	0.18	29.56	0.00	103.12	0.00
Severance Taxes	1,059.87	2.80	0.00	15.93	0.00	2.61	0.18	84.41	6.06	1,350.21
Taxes, Not Elsewhere Classified	0.00	0.00	3.07	0.00	0.00	0.00	5.47	0.00	0.00	0.00
Charges	573.70	211.50	267.80	259.40	557.00	272.00	260.90	312.70	465.00	241.00
Miscellaneous Revenue	4,127.00	329.00	241.00	149.60	475.70	513.00	138.80	362.60	236.00	904.60
Total	6,742.02	2,296.86	2,142.64	2,430.71	2,576.49	2,163.37	2,016.73	2,043.75	2,939.66	4,119.47

Source: U.S. Bureau of the Census, *State Government Tax Collections, 2004*, available at <http://www.census.gov/govs/www/statetax.html>.

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Alaska

Alaska not only has no personal income tax, but it has no sales tax. Most (88 percent) of Alaska's tax revenue is raised through severance taxes on oil and fishing and corporate income taxes. Given Alaska's reliance on revenue from oil, Alaska is not a feasible model for Georgia to look to for how to replace its income tax revenue.

Florida

Florida's state sales tax raises nearly 1.8 times the revenue per capita as does the sales tax in Georgia. Florida has a 6 percent state sales tax rate as compared to Georgia's 4 percent rate, and Florida has a broader sales tax base than Georgia. In addition, Florida's per capita income is 9.6 percent greater than Georgia's, and this should translate into a larger sales tax base. Florida also has more visitors from out of state than does Georgia.³ On a per capita basis, Florida's visitor spending was 1.83 times larger than Georgia's. While Florida does not have an individual income tax, it does have a corporate income tax and raises nearly 50 percent more corporate tax revenue per capita than does Georgia.

Nevada

Nevada also collects more in sales tax revenue than Georgia, about 1.74 times what Georgia collects on a per capita basis. Nevada has a sales tax rate of 6.5 percent and has more tourists than Georgia. In 2002, on a per capita basis Nevada visitor spending was 5 times larger than for Georgia.⁴ Nevada raises substantial revenue from gambling. And, while Nevada does not have an income tax, it collects a substantial amount of revenue from occupational taxes.

New Hampshire

New Hampshire has a limited personal income tax and no sales tax. The state relies instead on property taxes, transfer taxes, corporate taxes, fees and charges, and a set of miscellaneous taxes and revenues sources. In addition to an 8.5 percent

³ Travel Industry Association of America, <http://www.tia.org>.

⁴ Travel Industry Association of America, <http://www.tia.org>.

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corporate income tax (compared to Georgia's 6 percent rate), New Hampshire levies a 0.75 percent tax on a firm's payroll, interest payments, and dividends paid.

South Dakota

South Dakota relies on its sales tax and miscellaneous revenue sources to make up for the absence of a personal income tax. South Dakota raises about 1.38 times more revenue from its sales tax than Georgia does. The sales tax rate is 4 percent in both states, but South Dakota's sales tax base is much broader than Georgia's, e.g., it taxes food for home consumption.

Tennessee

Tennessee also relies heavily on its sales tax, and generates revenue that is 1.8 times Georgia's sales tax revenue on a per capita basis. Tennessee has a sales tax rate of 7 percent, taxes food for home consumption (but at a 6 percent rate) and taxes more services than does Georgia. Tennessee does have a corporate income tax with a top rate of 6.5 percent.

Texas

On a per capita basis, Texas collects only about 25 percent more revenue from its sales tax than does Georgia, even though the sales tax rate in Texas is 6.25 percent. Texas taxes 81 services compared to Georgia's 36, and has a slightly higher per capita income than does Georgia. These factors suggest that Texas' per capita sales tax revenue should be substantially greater than Georgia. We cannot explain why per capita sales tax revenue is not higher in Texas. Texas generates more severance tax revenue than Georgia, but nothing close to what Alaska collects on a per capita basis.

Washington

Washington relies heavily on sales and gross receipts taxes. Unlike the other states listed in Table B, Washington imposes a gross receipts tax, which is levied on the gross receipts of all businesses in Washington, with most firms paying a rate of 0.43 percent. About 26 percent of the sales and gross receipts revenue reported in

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Table B is generated from the gross receipts tax. This implies that per capita sales tax revenue in Washington is about 1.81 times Georgia's sales tax revenue per capita. Washington has a sales tax rate of 6.5 percent, taxes more services, and has a per capita income that is 17 percent larger than Georgia's. Washington also relies more heavily on the property tax at the state level as compared to Georgia.

Wyoming

A third of Wyoming revenue comes from severance taxes. It also collects 66 percent more sales and gross receipts tax revenue per capita than Georgia. Although reported as state revenue by the Census, part of the sales tax revenue is collected for local governments, so that state sales tax revenue per person in Wyoming is only 7.6 percent more than in Georgia. This larger amount is due in part to the fact that Wyoming taxes food for home consumption and includes 62 services in its tax base.

How Georgia's State Revenue Would Change If It Did Not Have an Income Tax

We turn to a discussion of how Georgia's revenue structure would change if Georgia eliminated its personal income tax and modeled its tax structure to match one of the states without a personal income tax or a limited income tax. Given Alaska's and Wyoming's reliance on severance taxes, these two states are clearly not models that Georgia might follow. But there is no obvious reason why the other seven states could not be a model for Georgia's tax structure if it were to replace the revenue from its income tax, although in comparison to Georgia, Florida and Nevada has greater tourism and Texas can rely on severance tax revenue.

Because there are substantial differences in own source revenue structures across the 7 states, there are exceptions to every generalization regarding how Georgia would have to change its tax structure in order to replace its personal income tax. But the following conclusions can be drawn from comparisons of Georgia's revenue structure to each of the 7 states:

- There is no one revenue source that would make up the difference for not having a personal income tax. Thus, Georgia would likely have to increase revenue from several sources.

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- There is no common set of a few revenue sources that make up for the absence of revenue from a personal income tax. In other words, the 7 states have different revenue structures.
- With the exception of New Hampshire, all of the 7 states rely much more heavily on sales taxes than does Georgia. Thus, it would be expected that Georgia's sales tax revenue would have to substantially increase if the personal income tax was eliminated and total revenue did not change.

Other than Washington, it is possible to point to something that is unique in the other states, at least relative to Georgia. Florida has a large tourism base, as does Nevada. Nevada has gambling. Texas has severance taxes. South Dakota is a very rural state, with a very different economic base. New Hampshire does not have a sales tax and it taxes businesses very heavily. Tennessee and New Hampshire have a corporate income tax and a limited personal income tax. Thus, Washington is perhaps the state that might be looked to for guidance regarding the revenue structure Georgia might have if it eliminated its personal income tax.

Table C shows the dollar and percentage change that would be necessary for each revenue source in order for Georgia to make up the revenue that would be lost from eliminating both its corporate and personal income taxes and have a revenue structure like Washington's. The revenue sources in Table C were ordered according to the dollar magnitude of the tax change. The column total equals the per capita revenue Georgia generated from the corporate and personal income taxes.

To match Washington's revenue structure Georgia would have to add a gross receipts tax; increase its sales tax rate and base; increase the state's property tax from 0.25 mills to 5.9 mills; add a state-level transfer tax; increase the charges made for public services such as higher education (tuition), health care, maps, entrance fees for parks, camping fees, etc.; and increase its license fees.

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TABLE C. REQUIRED NET CHANGE IN GEORGIA'S REVENUE STRUCTURE

	-----Required Change-----	
	-----Dollar-----	-----Percent-----
General Sales & Gross Receipts Tax	\$437.27	79.2%
Property Tax	171.97	2,355.1%
Documentary & Stock Transfer Taxes	75.12	159,497.8%
Charges	71.13	26.6%
Public Utilities	41.47	NC
Motor Fuels	23.93	28.2%
Other Selective Sales Taxes	20.85	192.0%
Tobacco Products	15.90	62.4%
Occupation & Business Licenses	9.21	69.9%
Death & Gift Taxes	9.02	121.8%
Motor Vehicle Licenses	7.85	25.0%
Alcoholic Beverages	5.82	34.7%
Insurance Premiums	4.99	14.0%
Severance Taxes	4.42	NC
Public Utilities Licenses	1.74	NC
Motor Vehicle Operators Licenses	1.48	35.7%
Alcoholic Beverages Licenses	0.92	351.3%
Hunting & Fishing Licenses	0.88	32.5%
Pari-Mutuels	0.21	NC
Amusements Licenses	0.01	NC
Amusements	0.01	NC
Taxes, Not Elsewhere Classified	-3.07	-100.0%
Corporation Licenses	-3.78	-63.4%
Other Licenses Tax	-6.94	-59.6%
Miscellaneous Revenue	<u>-68.99</u>	-28.6%
Total	821.39	

NC: cannot be calculated since base is zero.

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Summary and Conclusions

There are 7 states that do not impose a personal income tax and two other states that have limited personal income taxes. We considered the questions of how these states are able to finance government without an income tax and how Georgia's revenue structure would change if it eliminated its income tax and adopted the revenue structure of one of those states. Alaska and Wyoming rely heavily on severance taxes, which is not something that Georgia could do. The other states rely more heavily on most non-income tax revenue sources than does Georgia, although the sales tax is the principal revenue source in the absence of an income tax.

Excluding Alaska and Wyoming, which rely heavily on special taxes such as severance taxes, there are 5 states that finance state government without a personal income tax, and 3 states that do so without a corporate or personal income tax. Other than Washington, these 5 states do have some unique characteristics relative to Georgia. But nonetheless, each of the states other than Alaska and Wyoming could be used to illustrate how Georgia's revenue structure would look if it eliminated the personal and or the corporate income tax. Georgia's revenue structure would differ substantially depending on which state was used as a model.

How Georgia's revenue structure might change as a result of eliminating its income tax is just one issue that needs to be considered in deciding whether to eliminate the income tax. The effects of the elimination of the income tax on such issues as the distribution of the tax burden, the state's economy, economic incentives, revenue stability, the federal tax offset, and tax administration and compliance also need to be considered.

Revenue Structures of States Without an Income Tax

I. Introduction

Recently, suggestions have been made that Georgia should eliminate its income tax. Income taxes are a very important source of government revenue in Georgia. For FY 2008, income tax revenue (personal and corporate) is expected to account for 48.9 percent of Georgia's state revenue. One question that arises regarding the proposal to eliminate income taxes is: How would Georgia finance government in the absence of an income tax? One approach to this question is to consider the states without an income tax and study how these states are able to get along without this source of revenue.

There are 7 states that do not impose a state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, New Hampshire and Tennessee have very limited personal income taxes, taxing only interest and dividend income. At one level the answer to the question of how these states are able to get along without an income tax is simple: these states must either spend less or rely more heavily on other taxes. But the experiences of these states might be instructive as Georgia considers whether to eliminate its income tax.

This report compares the level, on a per capita basis, and the composition of revenue for these states with that of Georgia. The report first considers several explanations for how these states manage to operate their governments without an income tax. Second, the report explores whether these states offer a model for how Georgia could replace its income tax revenue. There are a host of issues that should be considered in making the decision regarding the elimination of the income tax, including equity, federal tax offset, and economic incentive effects. However, this report focuses on just one aspect of the decision to eliminate the income tax, funding of public services.

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II. Differences in State and Local Government Revenue

There are several possible explanations for how states are able to get along without an income tax, including:

- the states might raise less revenue;
- the states might rely more heavily on federal grants;
- the states might rely more heavily on local government;
- the states might rely more heavily on a specific non-income revenue source, such as a sales tax;
- the states might be able to rely on the existence of unique situations, such as the presence of oil reserves.

To explore these possibilities we compare the 9 states listed above to Georgia.

One way to survive without an income tax is to simply raise less revenue. Column 1 of Table 1 shows total state and local general revenue per capita in Georgia and each of the 7 states without an income tax and the two states with limited income taxes.¹ General revenue includes intergovernmental grants, taxes, fees and licenses, and a few other revenue sources; revenues from utilities and state run liquor stores are not included.

¹ These data are from the Bureau of the Census for FY 2004, and are used because the data are comparable across states. They are the most current data available.

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TABLE 1. STATE AND LOCAL GENERAL REVENUE PER CAPITA, 2004

State	State & Local General Revenue per Capita	Federal Grants per Capita	Local Own Source Revenue per Capita	Local Own Source Revenue as a Percent of State and Local Own Source Revenue	State Own Source Revenue Per Capita
Georgia	5,308	1,110	2,054	48.9	2,144
Alaska	12,962	3,678	2,541	27.4	6,743
Florida	5,908	1,103	2,508	52.2	2,297
Nevada	5,686	823	2,433	50.0	2,430
New Hampshire	5,727	1,210	1,940	42.9	2,577
South Dakota	5,658	1,764	1,758	44.8	2,163
Tennessee	5,372	1,616	1,739	46.3	2,017
Texas	5,519	1,231	2,244	52.3	2,044
Washington	6,405	1,246	2,218	43.0	2,941
Wyoming	11,192	3,916	3,156	43.3	4,120

Source: Bureau of the Census, *State and Local Government Finances, 2004*, available at <http://www.census.gov/govs/www/estimate.html>.

None of the 9 states raises less state and local revenue per capita than does Georgia. While for most states general revenue per capita is no more than about 10 percent greater than Georgia's general revenue, three states raise at least 20 percent more than Georgia. Washington, for example, had general revenue per capita of \$6,405, which was \$1,097, or 20.7 percent, more than Georgia. Alaska and Wyoming have general revenue per capita that is substantially larger, more than twice Georgia's per capita revenue. Clearly, the absence of an income tax does not mean that state and local revenue is less, or at least not less than Georgia's.

A second way that a state could get along without an income tax is if the Federal government provided substantial grant revenue. Of course states have little control over this source of revenue. Column 2 shows federal grants per capita. Several of these states are much more reliant on Federal grants than is Georgia. In particular, Alaska and Wyoming had federal grants per capita of \$3,678 and \$3,916, respectively, which are more than 3 times larger than for Georgia. Only Florida and Nevada had federal grants per capita that were less than Georgia's. Thus, to some extent states without a full income tax seem to rely on the Federal government more than does Georgia.

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A third way a state could get along without an income tax is by shifting more responsibilities for funding services to local governments. For example, the state could provide less money for schools, requiring local school systems to raise more revenue. This of course would mean that the state has shifted the burden of the income tax to the property tax or local sales tax. Column 3 of Table 1 shows local government own source revenue per capita, while column 4 shows the local government own source revenue as a percent of state and local own source revenue. Own source revenue is general revenue net of intergovernmental grants, and consists of taxes, licenses and fees collected by the state.

Only three states had local government own source revenue per capita that was smaller than Georgia. However, for 6 of the 10 states, local government's share of total own source revenue was less than Georgia's. Thus, these states have not imposed a substantially larger burden for raising revenue on local governments.

Column 5 of Table 1 presents state-level own source revenue per capita. The effect of Federal grants and any shift of the responsibility for raising revenue to local governments can be seen by comparing columns 1 and 5. The difference between the values in column 1 and column 5 represents the contribution of federal grants and local revenues to total state and local revenue. Recall that no state had state and local general revenue per capita smaller than Georgia's. But in the case of Tennessee and Texas, state own source revenue per capita is smaller than Georgia's, and for three other states, Florida, South Dakota, and Wyoming, state own source revenue per capita is closer to Georgia's than is state and local general revenue per capita. Thus, the differences in the level of federal grants and in the responsibilities of local governments account for part of how the states without a full income tax finance services. But, the data in column 5 does not suggest that these states, with the exception of Tennessee and Texas, raise less for state government purposes than does Georgia.

III. State Own Source Revenue

The analysis in Section II suggests that the states with no income tax or a limited personal income tax rely on other sources of state revenue to make up most of the revenue forgone by not having an income tax. Thus, we turn to a discussion of how these states raise their own source revenue. Table 2 presents the share of revenue and per capita revenue derived from major revenue categories, including various taxes, licenses, and fees, for each of the 9 states plus Georgia. Tables 3 and 4 provide the same information but by more detailed revenue categories. We compare Georgia to each of the 9 states in order to identify what revenue sources the 9 states rely on to make up for the absence of an income tax.

Alaska

Alaska not only has no personal income tax, but it has no sales tax. As compared to Georgia, Alaska has much larger revenue per capita from severance taxes, corporate taxes, and miscellaneous revenue sources. Nearly all of these revenues are from oil; in fact, over 50 percent of the state revenue is from oil. Most of Alaska's tax revenue is raised through severance taxes on oil and fishing and corporate income taxes. But in addition, other taxes are entirely or substantially from oil. For example, all of the property tax revenue is from oil-related property, and nearly all of the corporate income tax revenue is from oil related businesses. Alaska has a top corporate income tax rate of 9.3 percent (Georgia's top rate is 6 percent). The miscellaneous revenue, which accounts for 61.2 percent of total revenue comes largely from investments of the state, including royalty income. Only about 12 percent of Alaska's own source revenue is from sources other than oil and investments. Given Alaska's reliance on revenue from oil, Alaska is not a feasible model for Georgia to look to for how to replace its income tax revenue.

Florida

Florida's own source revenue per capita is about 7 percent larger than Georgia's. The state sales tax in Florida raises nearly 1.8 times the revenue per capita as does the sales tax in Georgia. Florida has a 6 percent state sales tax rate as

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TABLE 2. STATE OWN SOURCE REVENUE BY MAJOR CATEGORIES, 2004

Panel A. Revenue Share

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
General Sales & Gross Receipts Tax	0.0%	42.9%	25.8%	39.5%	0.0%	35.2%	49.2%	33.7%	46.2%	22.2%
Income Taxes	7.7%	3.6%	38.3%	0.0%	13.8%	2.8%	7.0%	0.0%	0.0%	0.0%
Excise Taxes	2.7%	9.7%	6.4%	23.9%	15.8%	13.3%	9.6%	15.8%	9.6%	4.3%
Other Taxes	18.1%	15.9%	2.5%	8.7%	24.3%	4.1%	5.6%	8.6%	16.7%	40.8%
Licenses	1.9%	4.4%	3.2%	11.0%	6.0%	8.3%	8.8%	8.9%	3.8%	4.9%
Charges	8.5%	9.2%	12.5%	10.7%	21.6%	12.6%	12.9%	15.3%	15.8%	5.9%
Miscellaneous Revenue	61.2%	14.3%	11.2%	6.2%	18.5%	23.7%	6.9%	17.7%	8.0%	22.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Panel B. Revenue Per Capita

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
General Sales & Gross Receipts Tax	0.00	985.25	551.84	961.22	0.00	760.56	991.89	687.98	1,357.04	914.71
Income Taxes	516.05	82.91	821.39	0.00	355.94	61.10	141.66	0.00	0.00	0.00
Excise Taxes	180.91	221.88	137.92	581.21	407.48	287.40	194.06	322.04	280.76	178.09
Other Taxes	1,217.09	364.23	53.42	212.07	627.04	89.19	111.98	176.73	490.24	1,680.06
Licenses	127.26	102.09	69.26	267.21	153.33	180.13	177.44	181.70	110.61	201.01
Charges	573.70	211.50	267.80	259.40	557.00	272.00	260.90	312.70	465.00	241.00
Miscellaneous Revenue	4,127.00	329.00	241.00	149.60	475.70	513.00	138.80	362.60	236.00	904.60
Total	6,742.02	2,296.86	2,142.64	2,430.71	2,576.49	2,163.37	2,016.73	2,043.75	2,939.66	4,119.47

Source: U.S. Bureau of the Census, *State Government Tax Collections, 2004*, available at <http://www.census.gov/govs/www/statetax.html>.

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TABLE 3. SHARE OF STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Property Tax	1.1%	0.7%	0.3%	2.3%	14.7%	0.0%	0.0%	0.0%	8.4%	6.7%
General Sales & Gross Receipts Tax	0.0%	42.9%	25.8%	39.5%	0.0%	35.2%	49.2%	33.7%	46.2%	22.2%
Alcoholic Beverages	0.7%	1.5%	0.8%	0.6%	0.4%	0.7%	0.8%	1.3%	1.1%	0.1%
Amusements	0.1%	0.0%	0.0%	15.2%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Insurance Premiums	1.1%	1.8%	1.7%	3.4%	2.4%	3.3%	3.0%	2.5%	1.9%	0.9%
Motor Fuels	0.9%	5.1%	4.0%	5.2%	3.9%	7.6%	7.0%	6.4%	5.1%	3.4%
Pari-Mutuels	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Public Utilities	0.1%	4.3%	0.0%	0.2%	2.0%	0.1%	0.0%	1.7%	1.9%	0.1%
Tobacco Products	1.0%	1.1%	1.2%	2.3%	3.0%	1.7%	1.0%	1.2%	1.9%	0.9%
Other Selective Sales Taxes	0.0%	1.9%	0.5%	0.7%	8.4%	3.3%	0.8%	6.9%	1.5%	0.0%
Alcoholic Beverages Lic.	0.0%	0.1%	0.0%	0.0%	0.5%	0.0%	0.0%	0.1%	0.1%	0.0%
Amusements Lic.	0.0%	0.0%	0.0%	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Corporation Lic.s	0.0%	0.4%	0.3%	0.9%	0.1%	0.2%	4.3%	4.1%	0.1%	0.3%
Hunting & Fishing Lic.	0.5%	0.0%	0.1%	0.1%	0.3%	1.3%	0.2%	0.2%	0.2%	1.3%
Motor Vehicle Lic.	1.0%	2.8%	1.5%	2.5%	2.5%	2.5%	2.1%	2.7%	1.8%	2.4%
Motor Vehicle Operators Lic.	0.0%	0.4%	0.2%	0.3%	0.4%	0.1%	0.4%	0.2%	0.3%	0.1%
Public Utilities Lic.	0.0%	0.1%	0.0%	0.0%	0.2%	0.1%	0.1%	0.0%	0.1%	0.0%
Occupation & Business Lic.	0.2%	0.6%	0.6%	5.4%	1.8%	3.5%	1.7%	1.5%	1.0%	0.7%
Other Licenses Tax	0.1%	0.0%	0.5%	0.1%	0.1%	0.6%	0.0%	0.1%	0.2%	0.0%
Individual Income Tax	0.0%	0.0%	35.7%	0.0%	1.6%	0.0%	1.2%	0.0%	0.0%	0.0%

Table 3 continues next page...

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TABLE 3 (CONTINUED). SHARE OF STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Corporation Net Income Tax	7.7%	3.6%	2.6%	0.0%	12.2%	2.8%	5.8%	0.0%	0.0%	0.0%
Death & Gift Taxes	0.1%	1.0%	0.3%	0.4%	0.9%	0.6%	0.8%	0.3%	0.8%	0.3%
Documentary & Stock Transfer Taxes	0.0%	8.0%	0.0%	1.7%	4.3%	0.0%	1.5%	0.0%	3.5%	0.0%
Severance Taxes	15.7%	0.1%	0.0%	0.7%	0.0%	0.1%	0.0%	4.1%	0.2%	32.8%
Taxes, NEC	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%
Charges	8.5%	9.2%	12.5%	10.7%	21.6%	12.6%	12.9%	15.3%	15.8%	5.9%
Miscellaneous Revenue	61.2%	14.3%	11.2%	6.2%	18.5%	23.7%	6.9%	17.7%	8.0%	22.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Bureau of the Census, *State Government Tax Collections, 2004*, available at <http://www.census.gov/govs/www/statetax.html>.
NEC = Not Elsewhere Classified.

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TABLE 4. PER CAPITA STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Property Tax	71.99	15.92	7.30	56.78	379.98	0.00	0.00	0.00	245.95	276.30
General Sales & Gross Receipts Tax	0.00	985.25	551.84	961.22	0.00	760.56	991.89	687.98	1,357.04	914.71
Alcoholic Beverages	49.77	34.03	16.80	14.52	9.42	16.13	15.62	26.78	31.03	2.63
Amusements	3.67	0.00	0.00	369.27	1.37	0.03	0.00	1.03	0.01	0.00
Insurance Premiums	75.79	40.91	35.60	83.25	61.16	71.78	59.58	50.31	55.68	35.64
Motor Fuels	61.79	116.29	84.77	125.84	100.01	163.45	141.21	129.89	149.14	138.29
Pari-Mutuels	0.00	1.54	0.00	0.00	3.17	1.14	0.00	0.52	0.29	0.45
Public Utilities	6.02	98.50	0.00	4.14	50.49	2.53	0.81	35.29	56.89	5.96
Tobacco Products	65.69	25.85	25.49	55.32	76.99	35.85	20.28	23.79	56.80	36.72
Other Selective Sales Taxes	0.00	44.17	10.86	16.26	216.52	70.80	16.95	140.03	43.50	0.00
Alcoholic Beverages Lic.	2.78	1.98	0.26	0.00	13.48	0.38	0.41	1.71	1.62	0.01
Amusements Lic.	0.00	0.26	0.00	41.01	0.27	0.17	0.13	0.31	0.01	0.00
Corporation Lic.	2.00	9.29	5.97	22.61	3.11	3.53	86.00	84.38	3.00	12.50
Hunting & Fishing Lic.	36.04	0.84	2.69	3.07	6.95	28.70	4.24	3.56	4.90	54.94
Motor Vehicle Lic.	66.54	64.70	31.40	59.78	65.00	54.69	43.29	54.85	53.85	100.36
Motor Vehicle Operators Lic.	0.00	8.73	4.14	6.23	10.05	2.43	7.08	4.28	7.70	3.77
Public Utilities Lic.	0.43	1.59	0.00	0.00	5.01	1.16	1.06	0.77	2.39	0.00
Occupation & Business Lic.	13.81	14.70	13.16	132.38	47.42	75.22	34.49	30.33	30.69	29.42
Other Licenses Tax	5.66	0.00	11.64	2.12	2.03	13.84	0.73	1.50	6.45	0.00
Individual Income Tax	0.00	0.00	765.92	0.00	42.16	0.00	23.76	0.00	0.00	0.00

Table 4 continues next page...

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TABLE 4 (CONTINUED). PER CAPITA STATE OWN SOURCE REVENUE BY SOURCE, 2004

	AK	FL	GA	NV	NH	SD	TN	TX	WA	WY
Corporation Net Income Tax	516.05	82.91	55.47	0.00	313.78	61.10	117.90	0.00	0.00	0.00
Death & Gift Taxes	3.42	22.25	7.40	10.52	23.51	12.09	16.38	6.73	22.53	11.94
Documentary & Stock Transfer Taxes	0.00	183.86	0.05	41.45	111.91	0.18	29.56	0.00	103.12	0.00
Severance Taxes	1,059.87	2.80	0.00	15.93	0.00	2.61	0.18	84.41	6.06	1,350.21
Taxes, NEC	0.00	0.00	3.07	0.00	0.00	0.00	5.47	0.00	0.00	0.00
Charges	573.70	211.50	267.80	259.40	557.00	272.00	260.90	312.70	465.00	241.00
Miscellaneous Revenue	4,127.00	329.00	241.00	149.60	475.70	513.00	138.80	362.60	236.00	904.60
Total	6,742.02	2,296.86	2,142.64	2,430.71	2,576.49	2,163.37	2,016.73	2,043.75	2,939.66	4,119.47

Source: U.S. Bureau of the Census, *State Government Tax Collections, 2004*, available at <http://www.census.gov/govs/www/statetax.html>.
NEC = Not Elsewhere Classified.

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compared to Georgia's 4 percent rate (Table 5). If the per capita sales tax bases were the same in the two states, this rate differential would imply that Florida should raise 1.5 times as much revenue as Georgia. But in addition, Florida's per capita income is 9.6 percent greater than Georgia's, and this should translate into a larger sales tax base. The combined higher sales tax rate and larger income suggests that Florida sales tax revenue per capita should be 1.64 percent larger.

Furthermore, Florida has a broader sales tax base than Georgia. For example, out of 168 services that at least one state includes in its sales tax base, Georgia taxes 36 while Florida taxes 62 (Table 5).

TABLE 5. STATE SALES TAX RATES AND NUMBER OF SERVICE TAXED

State	State Sales Tax Rate 2006	Number of Services Included in Sales Tax Base, 2004
Alaska	NA	NA
Florida	6.0%	62
Georgia	4.0%	36
Nevada	6.5%	15
New Hampshire	NA	NA
South Dakota	4.0%	146
Tennessee	7.0%	67
Texas	6.25%	81
Washington	6.5%	157
Wyoming	4.0%	62

Source: Federation of Tax Administrators website: <http://www.taxadmin.org>.
NA: not applicable.

Florida also has more visitors from out of state than does Georgia and thus Florida has a larger sales tax base and generates a much larger percentage of its sales tax revenue from tourists. In 2002, estimated visitor spending in Florida was 3.57 times larger than in Georgia, \$54.5 billion compared to \$15.3 billion.² On a per capita basis, Florida's visitor spending was 1.83 times larger than Georgia's.

While Florida does not have an individual income tax, it does have a corporate income tax and raises nearly 50 percent more corporate tax revenue per

² Travel Industry Association of America, <http://www.tia.org>.

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capita then does Georgia. Florida also raises substantially more revenue from its document and stock transfer tax, in part due to a tax rate that is 7 times larger than Georgia's 0.1 percent rate; in Georgia revenue from the transfer tax goes mostly to local governments.

Nevada

Nevada also collects more in sales tax revenue than Georgia, about 1.74 times what Georgia collects. Nevada's sales tax rate is 6.5 percent, which suggests that Nevada should collect 1.63 times as much revenue as Georgia given Georgia's 4 percent sales tax rate. But Nevada only taxes 15 services, so its tax base may not be as broad as Georgia's. On the other hand, Nevada has more tourists than Georgia. In 2002, estimated visitor spending in Nevada was 1.33 times larger than in Georgia, \$20.2 billion compared to \$15.3 billion.³ On a per capita basis Nevada visitor spending was 5 times larger.

Nevada raises substantial revenue from gambling. For example, amusement tax revenue per capita was \$369.27 for Nevada, compared to zero for Georgia. And, while Nevada does not have an income tax, it collects a substantial amount of revenue from occupational taxes.

New Hampshire

New Hampshire has a limited personal income tax and no sales tax. The state relies instead on property taxes, transfer taxes, corporate taxes, fees and charges, and a set of miscellaneous taxes and revenues sources. In addition to an 8.5 percent corporate income tax, New Hampshire levies a 0.75 percent tax on a firm's payroll, interest payments, and dividends paid. Its transfer tax is 1.5 percent compared to Georgia's 0.1 percent (the revenue from which goes mostly to Georgia's local governments).

³ Travel Industry Association of America, <http://www.tia.org>.

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South Dakota

South Dakota relies on its sales tax and miscellaneous revenue sources to make up for the absence of a personal income tax. South Dakota raises about 1.38 times more revenue from its sales tax than Georgia does. The sales tax rate is 4 percent in both states, but South Dakota's sales tax base is much broader than Georgia's. South Dakota taxes food for home consumption and includes 146 of the 168 identified services in its sales tax base.

Tennessee

Tennessee also relies heavily on its sales tax, and generates revenue that is 1.8 times Georgia's sales tax revenue. Tennessee sales tax rate is 7 percent, which implies that Tennessee should generate 1.75 times the revenue Georgia raises. Tennessee taxes food for home consumption (but at a 6 percent rate) and taxes 67 of the 168 identified services, both of which suggest Tennessee should collect more revenue per capita per penny sales tax than Georgia does. Per capita incomes are essentially the same for Tennessee and Georgia, so that should not be a factor. Tennessee does have a corporate income tax with a top rate of 6.5 percent. On a per capita basis, estimated expenditures by tourists in Tennessee is essentially the same as in Georgia.⁴

Texas

On a per capita basis, Texas collects only about 25 percent more revenue from its sales tax than does Georgia, even though the sales tax rate in Texas is 6.25 percent. Texas taxes 81 services compared to Georgia's 36, and has a slightly higher per capita income than does Georgia. These factors suggest that Texas' per capita sales tax revenue should be substantially greater than Georgia. We cannot explain why per capita sales tax revenue is not higher in Texas. Texas relies more heavily on miscellaneous excise taxes and other revenue sources than does Georgia. Texas generates more severance tax revenue than Georgia, but nothing close to what Alaska collects on a per capita basis.

⁴ Travel Industry Association of America, <http://www.tia.org>.

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Washington

Washington relies heavily on sales and gross receipts taxes. Unlike the other states listed in Table 2, Washington imposes a gross receipts tax, which is levied on the gross receipts of all businesses in Washington. Most firms pay a rate of 0.43 percent, but service businesses pay a rate of 1.5 percent. About 26 percent of the sales and gross receipts revenue reported in Table 2 is generated from the gross receipts tax. This implies that per capita sales tax revenue in Washington is about \$1,000, or 1.81 times Georgia's sales tax revenue per capita. Washington has a sales tax rate of 6.5 percent and has a per capita income that is 17 percent larger than Georgia's, which suggests that Washington should collect 1.73 times what Georgia collects. In addition, Washington taxes 157 services, which explains at least some of the remaining difference in sales tax revenue.

Washington also collects about 74 percent more in charges than does Georgia, and Washington has a state transfer tax rate of 1.33 percent and imposes numerous selective sales taxes. Washington also relies more heavily on the property tax at the state level as compared to Georgia.

Wyoming

A third of Wyoming revenue comes from severance taxes. It also collects 66 percent more sales and gross receipts tax revenue per capita than Georgia. However, part of that revenue is collected for local governments, and thus doesn't reflect the amount of revenue collected through Wyoming's state sale tax rate of 4 percent. Making an adjustment for this based on information from the annual report of the Wyoming Department of Revenue, suggests that state sales tax revenue per person in Wyoming is about \$593, which is about 7.6 percent more than in Georgia. This larger amount is due in part to the fact that Wyoming taxes food for home consumption and includes 62 services in its tax base. Wyoming's miscellaneous revenue is \$904 as compared to \$241 for Georgia.

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Summary

Alaska and Wyoming rely heavily on severance taxes. But these are the only two states that are able to employ such a state-specific tax base to largely replace the revenue from not having an income tax. The other somewhat unique state-specific tax bases are: 1) visitors to Florida; 2) legalized gambling in Nevada; 3) oil in Texas.

Other than these unique state-specific sources of revenue, the states without an income tax or a limited income tax generally rely more heavily on the sales tax by imposing a higher tax rate and/or using a broader base than does Georgia. But in addition, all of these states collect more revenue per capita than Georgia from nearly all other revenue sources listed in Table 3

IV. How Georgia's State Revenue Would Change If It Did Not Have an Income Tax

In this section we turn to a discussion of how Georgia's revenue structure would change if Georgia eliminated its personal income tax and modeled its tax structure to match one of the states without a personal income tax or a limited income tax. Note that the analysis in this section assumes that Georgia would retain its corporate income tax; some of the states without a personal income tax have a corporate income tax. It is assumed that Georgia would fully replace the revenue from the income tax. Given Alaska's and Wyoming's reliance on severance taxes, these two states are clearly not models that Georgia might follow, and thus we do not consider them. But there is no obvious reason why the other seven states could not be a model for Georgia's tax structure if it were to replace the revenue from its income tax, although in comparison to Georgia, Florida and Nevada have greater tourism and Texas can rely on severance tax revenue.

To investigate how Georgia's structure of state own source revenue would have to change to match any of the 7 "model" states, we start with the per capita revenues by source in Table 4. For the two states with personal income tax revenue, New Hampshire and Tennessee, we subtracted the revenue from the personal income tax to get total revenue from non-income tax sources. For each of the 7 "model" states other than Georgia we adjusted each revenue line for that state so that the total revenue per capita for each state equaled total Georgia revenue per capita (including its personal income tax revenue). For example, total revenue per capita for Florida was \$2,296.86 and for Georgia it was \$2,142.64. We divided the Georgia revenue by the Florida revenue to get a factor of 0.932. Each Florida value in Table 4 was multiplied by this amount. The resulting per capita adjusted total for Florida equals the Georgia total.

The results are reported in Table 6. We include Georgia's current revenue structure for comparison. Each non-Georgia column is one of the 7 alternative models for what Georgia's revenue structures could be in order to raise \$2,142.64 in revenue per capita without an income tax. For example, if Georgia adopted the

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TABLE 6. CHANGE REQUIRED FOR GEORGIA TO MATCH THE MODEL STATE

	FL	GA	NV	NH	SD	TN	TX	WA
Property Tax	14.85	7.30	50.05	321.25	0.00	0.00	0.00	179.27
General Sales & Gross Receipts Tax	919.09	551.84	847.30	0.00	753.27	1,066.38	721.26	989.11
Alcoholic Beverages	31.75	16.80	12.80	7.97	15.97	16.80	28.08	22.62
Amusements	0.00	0.00	325.51	1.16	0.03	0.00	1.08	0.01
Insurance Premiums	38.16	35.60	73.39	51.71	71.09	64.06	52.74	40.58
Motor Fuels	108.48	84.77	110.93	84.55	161.88	151.82	136.17	108.71
Pari-Mutuels	1.44	0.00	0.00	2.68	1.13	0.00	0.55	0.21
Public Utilities	91.88	0.00	3.65	42.68	2.50	0.87	37.00	41.47
Tobacco Products	24.11	25.49	48.76	65.09	35.51	21.80	24.94	41.40
Other Selective Sales Taxes	41.20	10.86	14.34	183.06	70.12	18.22	146.81	31.70
Alcoholic Beverages Lic.	1.85	0.26	0.00	11.40	0.38	0.45	1.80	1.18
Amusements Lic.	0.25	0.00	36.15	0.23	0.17	0.14	0.32	0.01
Corporation Lic.	8.66	5.97	19.93	2.63	3.49	92.45	88.47	2.19
Hunting & Fishing Lic.	0.78	2.69	2.71	5.88	28.43	4.56	3.73	3.57
Motor Vehicle Lic.	60.36	31.40	52.70	54.95	54.17	46.55	57.50	39.25
Motor Vehicle Operators Lic.	8.14	4.14	5.50	8.49	2.41	7.61	4.49	5.61
Public Utilities Lic.	1.49	0.00	0.00	4.24	1.15	1.13	0.81	1.74
Occupation & Business Lic.	13.71	13.16	116.69	40.09	74.50	37.08	31.80	22.37
Other Licenses Tax	0.00	11.64	1.87	1.72	13.71	0.79	1.57	4.70
Individual Income Tax	0.00	765.92	0.00	0.00	0.00	0.00	0.00	0.00

Table 6 continues next page...

Revenue Structures of States Without an Income Tax

TABLE 6 (CONTINUED). CHANGE REQUIRED FOR GEORGIA TO MATCH THE MODEL STATE

	FL	GA	NV	NH	SD	TN	TX	WA
Corporation Net Income Tax	77.34	55.47	0.00	265.29	60.51	126.76	0.00	0.00
Death & Gift Taxes	20.75	7.40	9.28	19.87	11.97	17.61	7.05	16.42
Documentary & Stock Transfer Taxes	171.52	0.05	36.54	94.61	0.18	31.78	0.00	75.16
Severance Taxes	2.61	0.00	14.04	0.00	2.58	0.19	88.49	4.42
Taxes, NEC	0.00	3.07	0.00	0.00	0.00	5.88	0.00	0.00
Charges	197.30	267.80	228.66	470.91	269.39	280.49	327.83	338.93
Miscellaneous Revenue	306.91	241.00	131.87	402.18	508.08	149.22	380.14	172.01
Total	2,142.64	2,142.64	2,142.64	2,142.64	2,142.64	2,142.64	2,142.64	2,142.64

NEC = Not Elsewhere Classified.

Revenue Structures of States Without an Income Tax

Florida revenue structure, we would need to raise \$14.85 per capita in property taxes instead of the current \$7.30.

Subtracting the revenue amount for Georgia for each revenue source from the value for one of the other states yields the change in the amount of that revenue source required for Georgia to have a revenue structure equal to the structure for that state. What is perhaps more informative is the required percentage change in Georgia's non-income tax revenue sources. To calculate this, we took the required change in each revenue source and divided it by Georgia's current revenue from that source. The results are reported in Table 7.

For example, suppose that Washington was the model that Georgia wanted to follow. In that case, Georgia would have to impose state property taxes of \$179.30 per capita (Table 6). Current state property tax per capita in Georgia is \$7.30, and thus the required increase would be \$172, which implies an increase in Georgia's property taxes of 2,355 percent (Table 7).

Because there are substantial differences in own source revenue structures across the 7 states, there are exceptions to every generalization regarding how Georgia would have to change its tax structure in order to replace its personal income tax. But the following conclusions can be drawn:

- There is no one revenue source that would make up the difference for not having a personal income tax. Thus, Georgia would likely have to increase revenue from several sources.
- There is no common set of a few revenue sources that make up for the absence of revenue from a personal income tax.
- With the exception of New Hampshire, all of the 7 states rely much more heavily on sales taxes than does Georgia. Thus, it would be expected that Georgia's sales tax would have to substantially increase if the personal income tax was eliminated and total revenue did not change.

The above analysis considered only the elimination of the personal income tax. If Georgia was to eliminate both the corporate and personal income tax, then Washington might be a good example on which to focus. One can also point to something that is unique in the other 6 states, at least relative to Georgia. Florida has a large tourism base, as does Nevada. Nevada has gambling. Texas has severance

Revenue Structures of States Without an Income Tax

TABLE 7. PERCENTAGE CHANGE REQUIRED FOR GEORGIA TO MATCH THE MODEL STATE

	FL	NV	NH	SD	TN	TX	WA
Property Tax	103.4%	585.5%	4299.5%	-100.0%	-100.0%	-100.0%	2355.1%
General Sales & Gross Receipts Tax	66.5%	53.5%	-100.0%	36.5%	93.2%	30.7%	79.2%
Alcoholic Beverages	89.0%	-23.8%	-52.6%	-4.9%	-0.0%	67.2%	34.7%
Amusements	NC	NC	NC	NC	NC	NC	NC
Insurance Premiums	7.2%	106.2%	45.3%	99.7%	79.9%	48.2%	14.0%
Motor Fuels	28.0%	30.9%	-0.3%	91.0%	79.1%	60.6%	28.2%
Pari-Mutuels	NC	NC	NC	NC	NC	NC	NC
Public Utilities	NC	NC	NC	NC	NC	NC	NC
Tobacco Products	-5.4%	91.3%	155.3%	39.3%	-14.5%	-2.2%	62.4%
Other Selective Sales Taxes	279.4%	32.0%	1585.8%	545.7%	67.8%	1251.9%	192.0%
Alcoholic Beverages Lic.	608.1%	-100.0%	4261.0%	45.5%	70.6%	587.4%	351.3%
Amusements Lic.	NC	NC	NC	NC	NC	NC	NC
Corporation Lic.	45.1%	234.0%	-55.9%	-41.5%	1449.0%	1382.2%	-63.4%
Hunting & Fishing Lic.	-71.1%	0.6%	118.2%	955.4%	69.3%	38.5%	32.5%
Motor Vehicle Lic.	92.2%	67.8%	75.0%	72.5%	48.3%	83.1%	25.0%
Motor Vehicle Operators Lic.	96.8%	32.8%	105.2%	-41.8%	84.0%	8.4%	35.7%
Public Utilities Lic.	NC	NC	NC	NC	NC	NC	NC
Occupation & Business Lic.	4.2%	786.6%	204.6%	466.0%	181.7%	141.6%	69.9%
Other Licenses Tax	-100.0%	-84.0%	-85.2%	17.8%	-93.2%	-86.5%	-59.6%
Corporation Net Income Tax	39.4%	-100.0%	378.2%	9.1%	128.5%	-100.0%	-100.0%

Table 7 continues next page...

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TABLE 7 (CONTINUED). PERCENTAGE CHANGE REQUIRED FOR GEORGIA TO MATCH THE MODEL STATE

	FL	NV	NH	SD	TN	TX	WA
Death & Gift Taxes	180.3%	25.3%	168.5%	61.8%	137.9%	-4.8%	121.8%
Documentary & Stock Transfer Taxes	364088.9%	77482.3%	200792.3%	284.6%	67382.6%	-100.0%	159497.8%
Severance Taxes	NC	NC	NC	NC	NC	NC	NC
Taxes, NEC	-100.0%	-100.0%	-100.0%	-100.0%	91.6%	-100.0%	-100.0%
Charges	-26.3%	-14.6%	75.8%	0.6%	4.7%	22.4%	26.6%
Miscellaneous Revenue	27.3%	-45.3%	66.9%	110.8%	-38.1%	57.7%	-28.6%

NC: Percentage change cannot be calculated since the value is zero for Georgia.
 NEC = Not Elsewhere Classified.

Revenue Structures of States Without an Income Tax

taxes. South Dakota is a very rural state, with a very different economic base. New Hampshire does not have a sales tax and it taxes businesses very heavily. Tennessee has a corporate income tax and a limited personal income tax. Thus, Washington is perhaps the state that we might look to for guidance regarding the revenue structure Georgia might have if it eliminated its personal and corporate income tax.

Table 8 shows the dollar and percentage change that would be necessary for each revenue source in order for Georgia to make up the revenue that would be lost from eliminating both its corporate and personal income taxes and have a revenue structure like Washington State's. The revenue sources in Table 8 were ordered according the dollar magnitude of the tax change. The column total equals the per capita revenue Georgia generated from the corporate and personal income taxes.

To match Washington's revenue structure Georgia would have to add a gross receipts tax; increase its sales tax rate and base; increase the state's property tax from 0.25 mills to 5.9 mills; add a state-level transfer tax; and increase the charges made for public services such as higher education (tuition), health care, road maps, entrance fees for parks, camping fees, etc.; and increase its license fees.

Revenue Structures of States Without an Income Tax

TABLE 8. REQUIRED NET CHANGE IN GEORGIA'S STATE REVENUE STRUCTURE

	-----Required Change-----	
	Dollars per Capita	Percent Change in Revenue per Capita
General Sales & Gross Receipts Tax	\$437.27	79.2%
Property Tax (State Only)	171.97	2,355.1%
Documentary & Stock Transfer Taxes	75.12	159,497.8%
Charges	71.13	26.6%
Public Utilities	41.47	NC
Motor Fuels	23.93	28.2%
Other Selective Sales Taxes	20.85	192.0%
Tobacco Products	15.90	62.4%
Occupation & Business Licenses	9.21	69.9%
Death & Gift Taxes	9.02	121.8%
Motor Vehicle Licenses	7.85	25.0%
Alcoholic Beverages	5.82	34.7%
Insurance Premiums	4.99	14.0%
Severance Taxes	4.42	NC
Public Utilities Licenses	1.74	NC
Motor Vehicle Operators Licenses	1.48	35.7%
Alcoholic Beverages Licenses	0.92	351.3%
Hunting & Fishing Licenses	0.88	32.5%
Pari-Mutuels	0.21	NC
Amusements Licenses	0.01	NC
Amusements	0.01	NC
Taxes, Not Elsewhere Classified	-3.07	-100.0%
Corporation Licenses	-3.78	-63.4%
Other Licenses Tax	-6.94	-59.6%
Miscellaneous Revenue	<u>-68.99</u>	-28.6%
Total	821.39	

NC: cannot be calculated since base is zero.

V. Summary and Conclusions

There are 7 states that do not impose a personal income tax and two other states that have limited personal income taxes. We considered the questions of how these states are able to finance government without an income tax and how Georgia's revenue structure would change if it eliminated its income tax and adopted the revenue structure of one of those states. The 9 states do, on average, receive more grants from the Federal government and rely more heavily on local governments. These states do not raise less revenue per capita than does Georgia. Alaska and Wyoming rely heavily on severance taxes, which is not something that Georgia could do. The other states rely more heavily on most non-income tax revenue sources than does Georgia, although the sales tax is the principal revenue source in the absence of an income tax.

Excluding Alaska and Wyoming, which rely heavily on special taxes such as severance taxes, there are 5 states that finance state government without a personal income tax, and 3 states that do so without a corporate or personal income tax. Other than Washington, these 5 states do have some unique characteristics relative to Georgia. But nonetheless, each of the states other than Alaska and Wyoming could be used to illustrate how Georgia's revenue structure would look if it eliminated the personal and or the corporate income tax. Georgia's revenue structure would differ substantially depending on which state was used as a model.

How Georgia's revenue structure might change as a result of eliminating its income tax is just one issue that needs to be considered in deciding whether to eliminate the income tax. The effects of the elimination of the income tax on such issues as the distribution of the tax burden, the state's economy, economic incentives, revenue stability, the federal tax offset, and tax administration and compliance also need to be considered.

About the Author

David L. Sjoquist is Professor of Economics, holder of the Dan E. Sweat Distinguished Scholar Chair in Educational and Community Policy, and Director of the Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University. He has published widely on topics related to state and local public finance and urban economics. He holds a Ph.D from the University of Minnesota.

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