



# State Tax Structures: A Regional Overview

Presentation to the Arkansas Tax Reform and Relief Task Force

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NATIONAL CONFERENCE OF STATE LEGISLATURES

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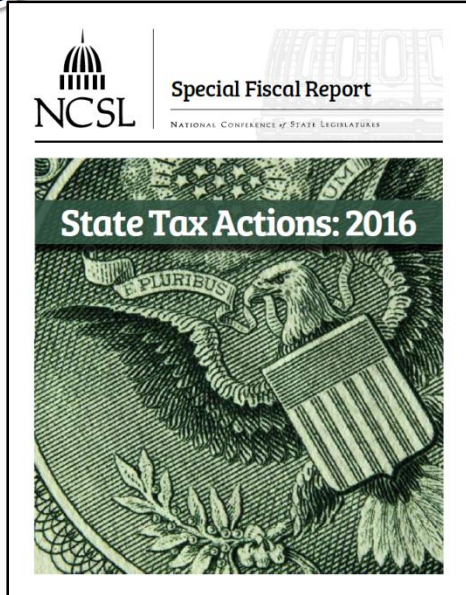


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***State Tax Actions***



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***State Budget Actions***

# Overview



State Tax  
Sources

Regional  
Overview of  
State Tax  
Structures

Recent Tax  
Reform  
Efforts



# Review of State and Local Tax Sources

Individual Income Taxes

Corporate Income Taxes

General Sales and Use Taxes

Selective Sales and Excise Taxes

- Insurance premiums
- Public utilities
- Motor fuel
- Tobacco
- Alcoholic beverages

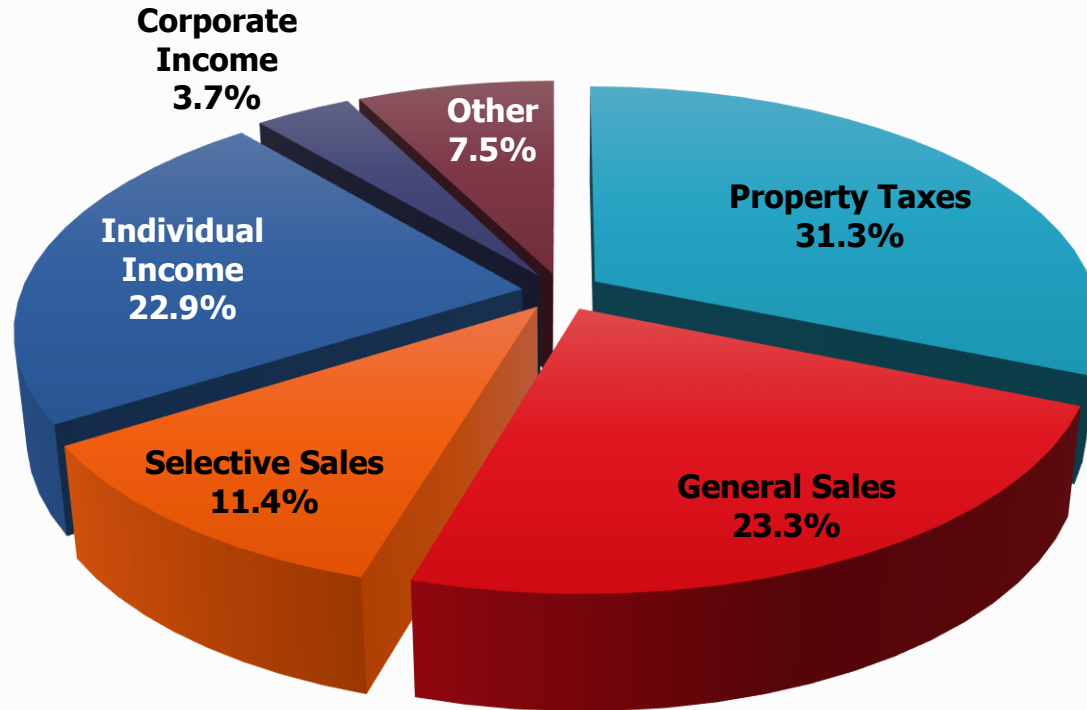
Property Taxes

Other Taxes

- Severance taxes
- Real estate transfer taxes
- Estate taxes
- License taxes (motor vehicle, casinos)

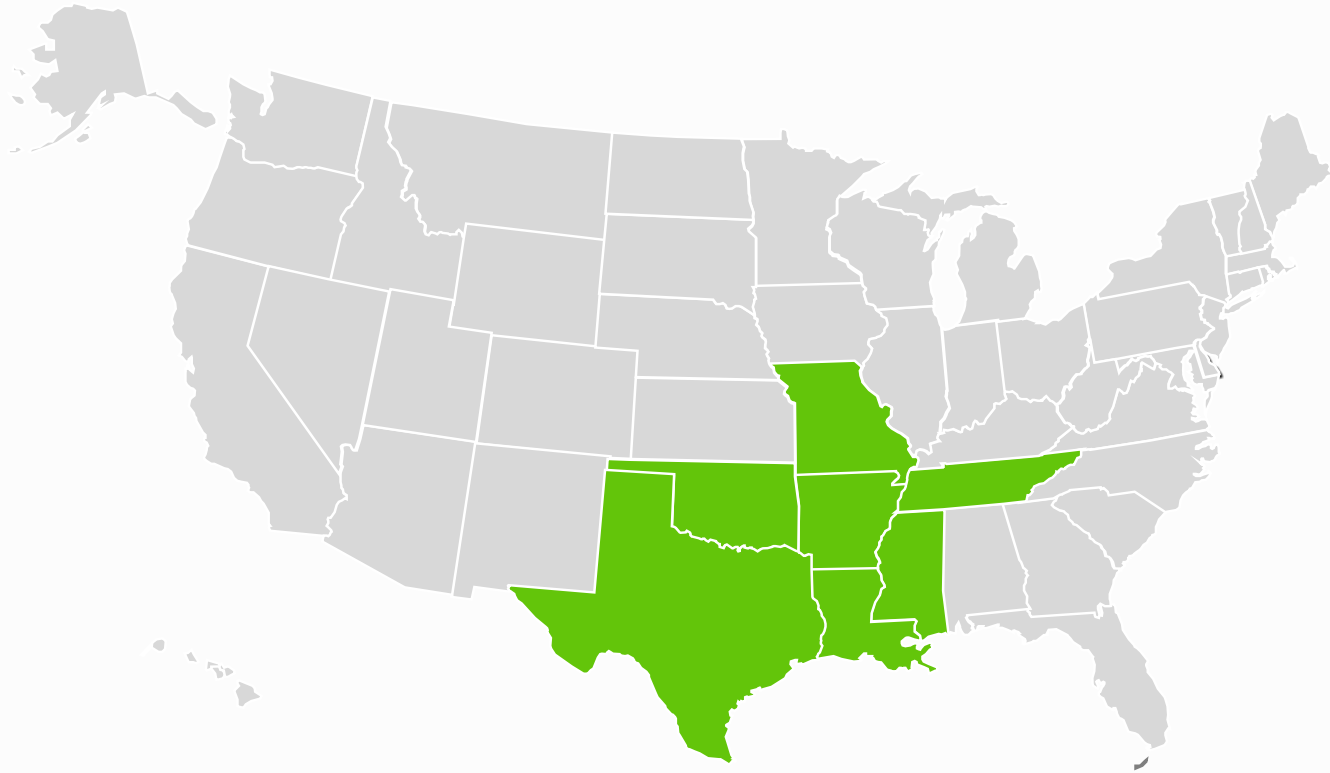


# State and Local Tax Reliance, 2014: U.S. Average



Source: U.S. Census Bureau, *State and Local Tax Collections*, 2014.

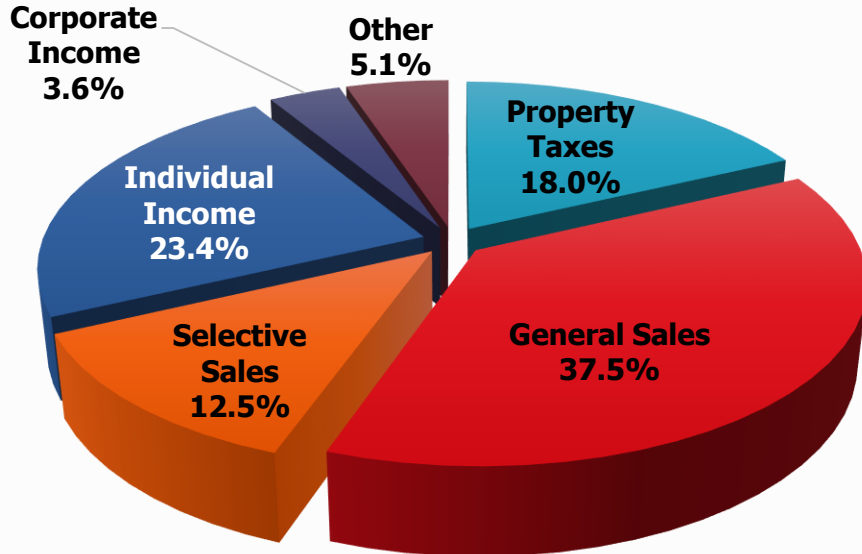
# Regional State Tax Structures



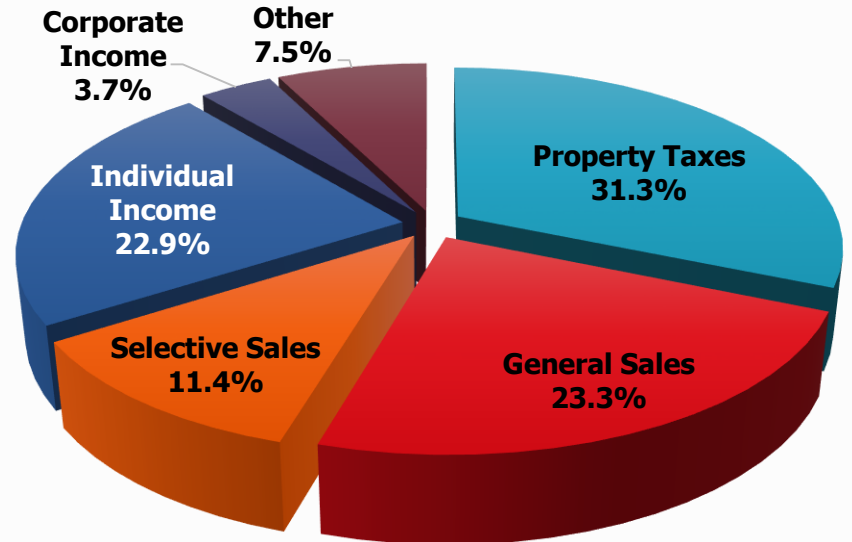
# State and Local Tax Reliance, 2014: Arkansas



## Arkansas State and Local Tax Reliance, 2014



## Total State and Local Tax Collections by Category, 2014





# Arkansas



## Personal Income Tax

- 6 brackets; from 0.9 - 6.9%, (indexed annually for inflation)
- Lowest income bracket is \$4,299; Highest is \$35,100

## Corporate Income Tax

- 6 brackets; from 1.0 - 6.5%
- NOL (Net Operating Loss) deduction - 0 back, 5 forward
- Lowest tax bracket is \$3,000; highest is \$100,001
- Apportionment - three factor formula with double weighted sales

# Arkansas



## General Sales and Use

- State rate: 6.5%
- Local Option Allowed; Range: 0-3.5%
- Combined Rate (2016): 9.30%

## Selective Sales

Motor Fuel - \$0.218 per gallon

Beer - \$0.23 per gallon

Cigarettes - \$1.15 per pack

Wine - \$0.75 per gallon

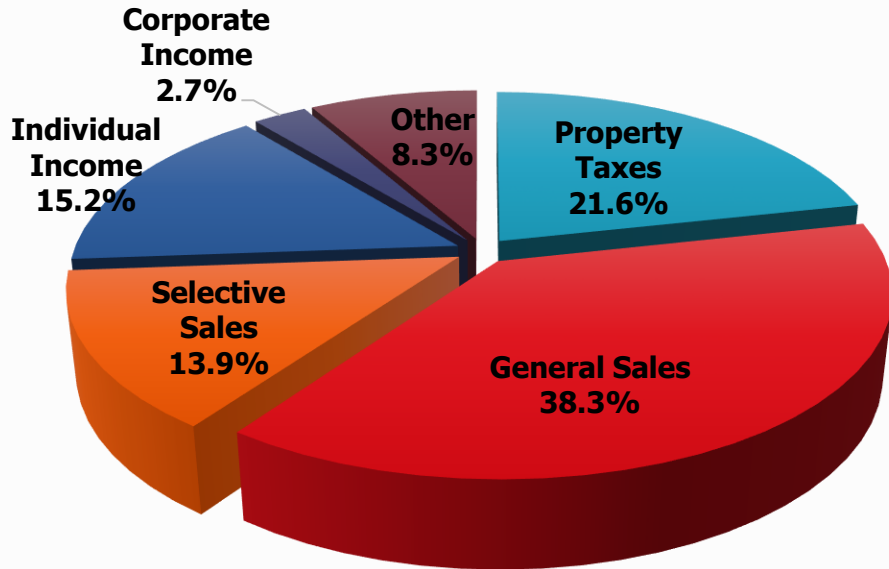
Insurance Premiums – 2.5%

Spirits - \$2.50 per gallon

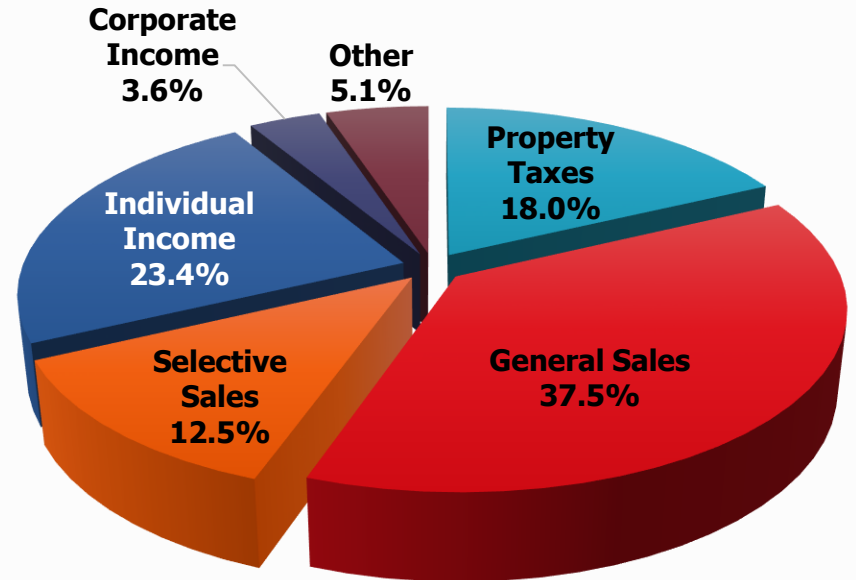


# State and Local Tax Reliance, 2014: Louisiana

## Louisiana State and Local Tax Reliance, 2014



## Arkansas State and Local Tax Reliance, 2014



# Louisiana



## Personal Income Tax

- 3 brackets; from 2.0 - 6.0%
- Lowest income bracket is \$12,500; Highest is \$50,001
- Federal Income Tax Deductible

## Corporate Income Tax

- 5 brackets; from 4.0 - 8.0%
- NOL deduction - 3 back, 15 forward
- Lowest tax bracket is \$25,000; highest is \$200,001
- Apportionment - three factor formula
- Federal Income Tax Deductible

# Louisiana



## General Sales and Use

- State rate: 5.0%
  - Will decrease to 4.0% July 1, 2018
- Local Option Allowed; Range: 0-7.5%
- Combined Rate (2016): 9.0%

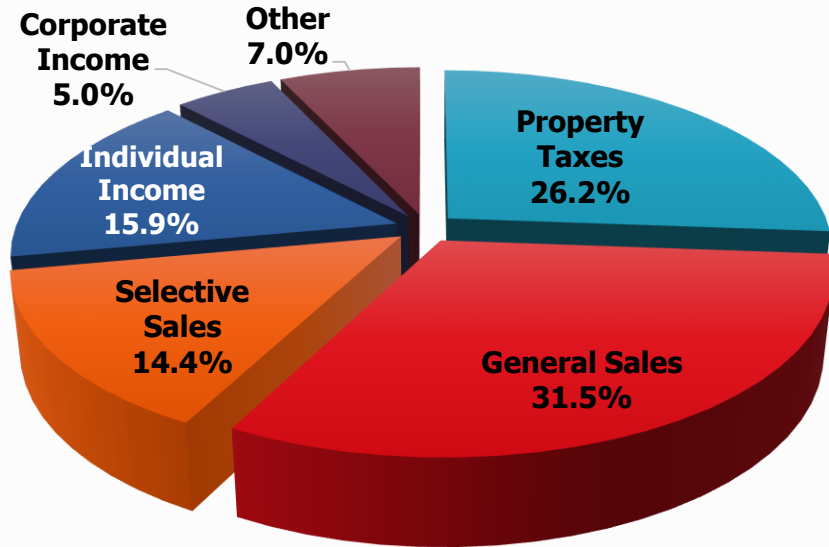
## Selective Sales

Motor Fuel - \$0.201 per gallon	Beer - \$0.40 per gallon
Cigarettes - \$1.08 per pack	Wine - \$0.76 per gallon
Insurance Premiums – 0.25%	Spirits - \$3.03 per gallon

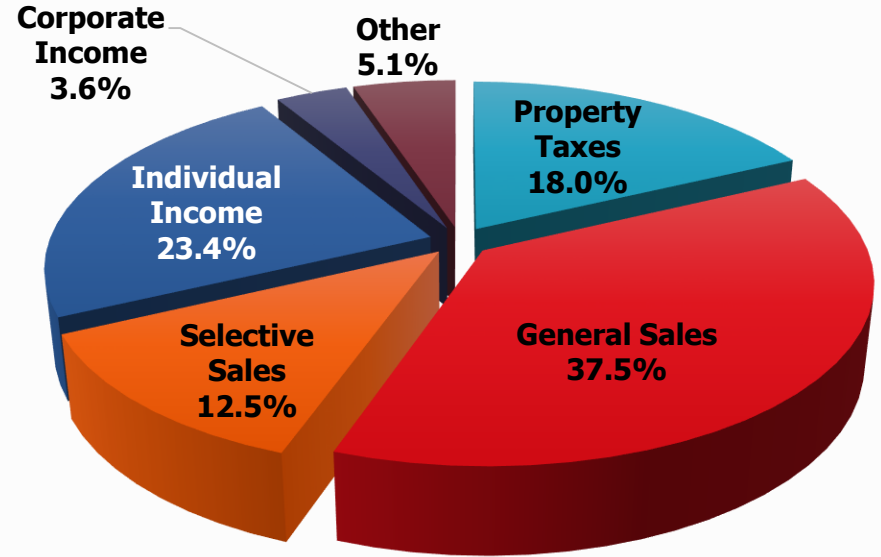
# State and Local Tax Reliance, 2014: Mississippi



## Mississippi State and Local Tax Reliance, 2014



## Arkansas State and Local Tax Reliance, 2014



# Mississippi



## Personal Income Tax

- 3 brackets; from 3.0 - 5.0%
- Lowest income bracket is \$5,000; Highest is \$10,001

## Corporate Income Tax

- 3 brackets; from 3.0 - 5.0%
- Lowest income bracket is \$5,000; Highest bracket starts at \$10,001
- NOL Deduction: 2 back, 20 forward
- Different apportionment formulas based on type of business. If no business formula is specified, then single sales is used.

# Mississippi



## General Sales and Use

- State rate: 7.0%
- Local Option Allowed; Range: 0-1.0%
- Combined Rate (2016): 7.07%

## Selective Sales

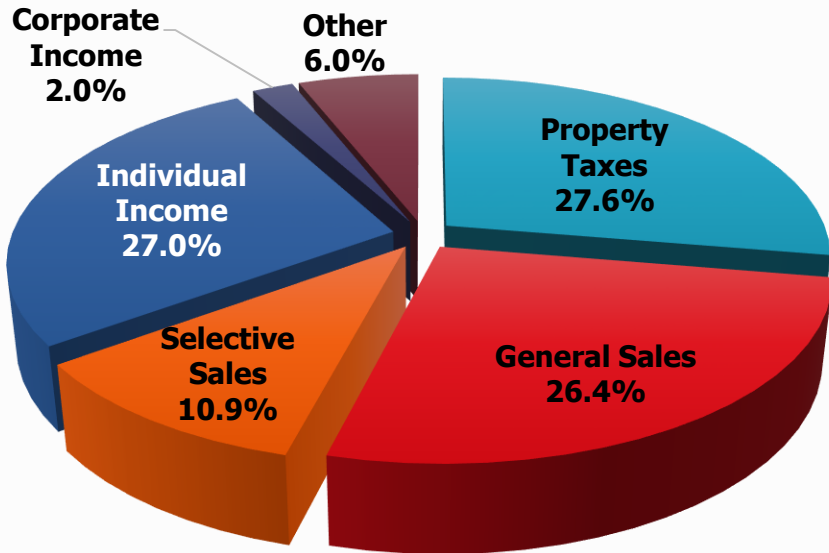
Motor Fuel - \$0.184 per gallon	Beer – \$0.427 per gallon
Cigarettes - \$0.68 per pack	Wine - \$0.35 per gallon
Insurance Premiums – 3.0%	Spirits - State Controls Sales



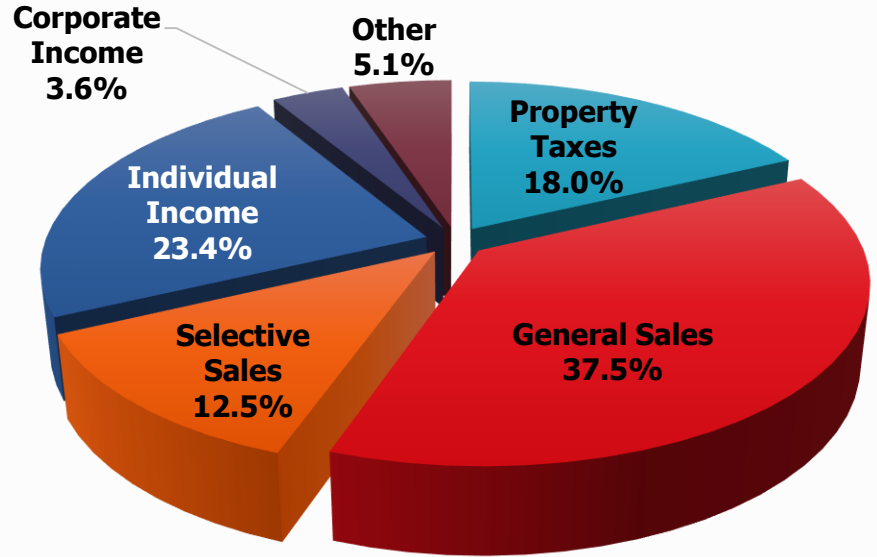


# State and Local Tax Reliance, 2014: Missouri

## Missouri State and Local Tax Reliance, 2014



## Arkansas State and Local Tax Reliance, 2014



# Missouri



## Personal Income Tax

- 10 brackets; from 1.5 - 6.0%
- Lowest income bracket is \$1,000; Highest is \$9,001
- Federal Income Tax Deductible (limited to \$5,000 single \$10,000 joint)

## Corporate Income Tax

- Flat Rate, 6.25%; 7% for financial institutions
- NOL deduction - 2 back, 20 forward
- Apportionment - three factor formula

# Missouri



## General Sales and Use

- State rate: 4.225%
- Local Option Allowed; Range: 0-6.638%
- Combined Rate (2016): 7.86%

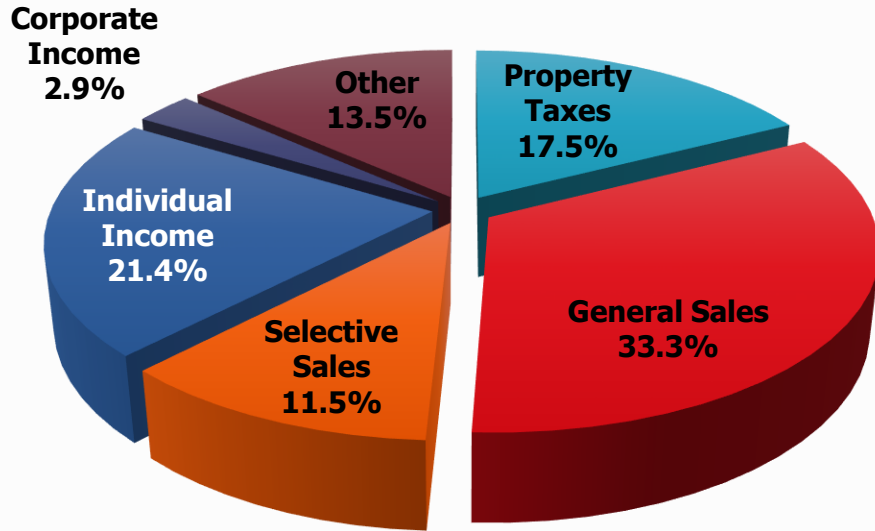
## Selective Sales

Motor Fuel - \$0.173 per gallon	Beer - \$0.06 per gallon
Cigarettes - \$0.17 per pack	Wine - \$0.42 per gallon
Insurance Premiums – 2.0%	Spirits - \$2.00 per gallon

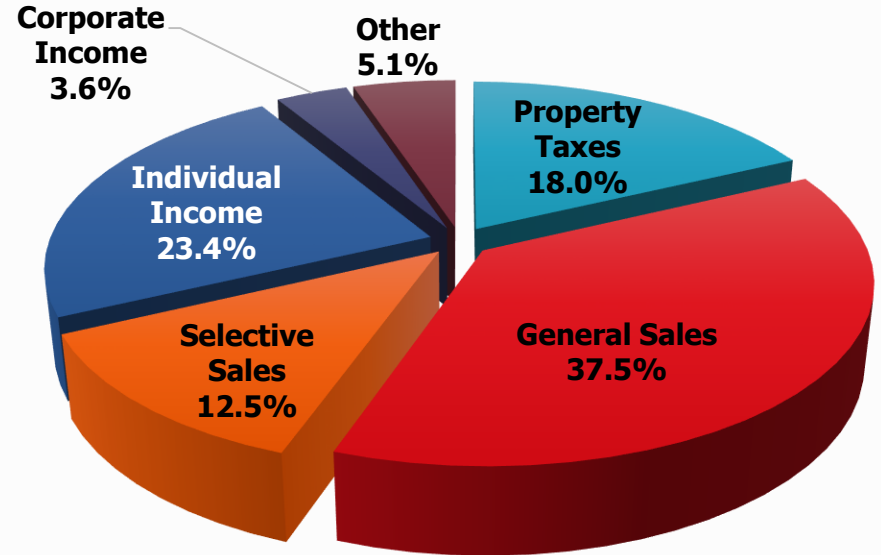
# State and Local Tax Reliance, 2014: Oklahoma



## Oklahoma State and Local Tax Reliance, 2014



## Arkansas State and Local Tax Reliance, 2014



# Oklahoma



## Personal Income Tax

- 6 brackets; from 0.5 - 5.0%
- Lowest income bracket is \$1,000 ; Highest is \$7,200

## Corporate Income Tax

- Flat rate; 6.0%
- NOL deduction - 2 back, 20 forward
- Apportionment - three factor formula

# Oklahoma



## General Sales and Use

- State rate: 4.5%, 1.25%
  - Motor Vehicle Sales are taxed at a state rate of 1.25%
- Local Option Allowed; Range: 0-6.5%
- Combined Rate (2016): 8.82%

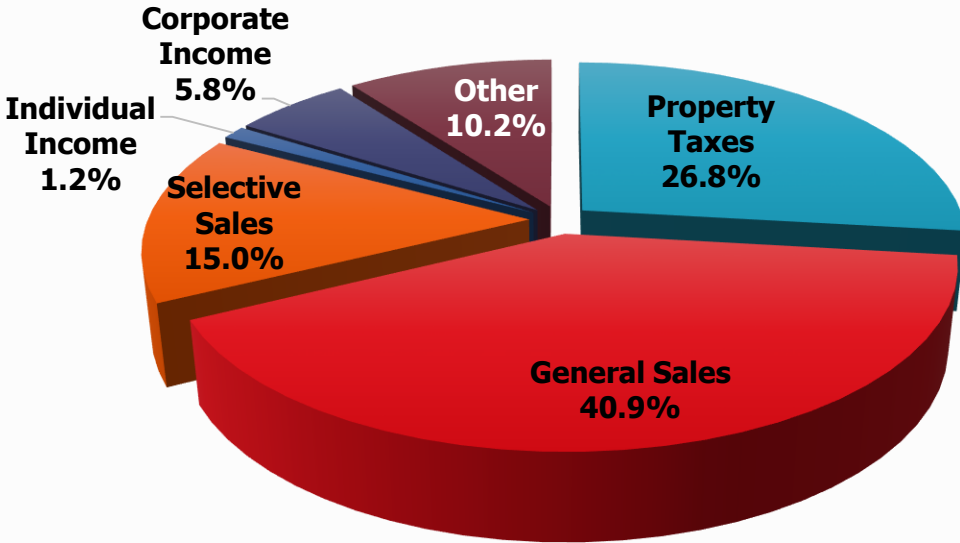
## Selective Sales

Motor Fuel - \$0.170 per gallon	Beer - \$0.40 per gallon
Cigarettes - \$1.03 per pack	Wine - \$0.72 per gallon
Insurance Premiums – 2.25%	Spirits - \$5.56 per gallon

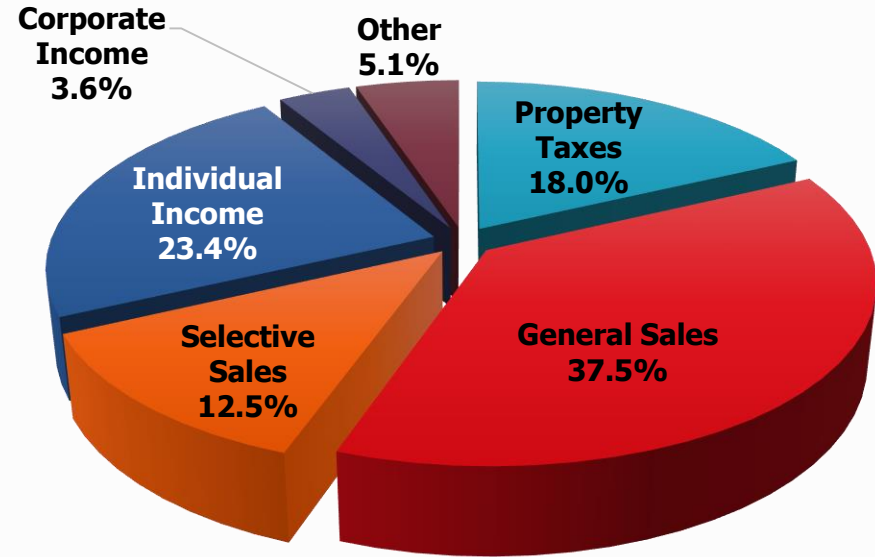
# State and Local Tax Reliance, 2014: Tennessee



## Tennessee State and Local Tax Reliance, 2014



## Arkansas State and Local Tax Reliance, 2014



# Tennessee



## Personal Income Tax

- 5.0% on dividends and interest income only
- Reform measure decreases this tax by 1% annually
- Will be eliminated in 2022.

## Corporate Income Tax

- Flat rate; 6.5%
- NOL deduction - 0 back, 15 forward
- Apportionment - three factor formula, triple weighted sales



# Tennessee



## General Sales and Use

- State rate: 7.0%
- Local Option Allowed; Range: 0-2.75%
- Combined Rate (2016): 9.46%

## Selective Sales

Motor Fuel - \$0.254 per gallon

Cigarettes - \$0.62 per pack

Insurance Premiums – 2.5%

Beer - \$1.29 per gallon

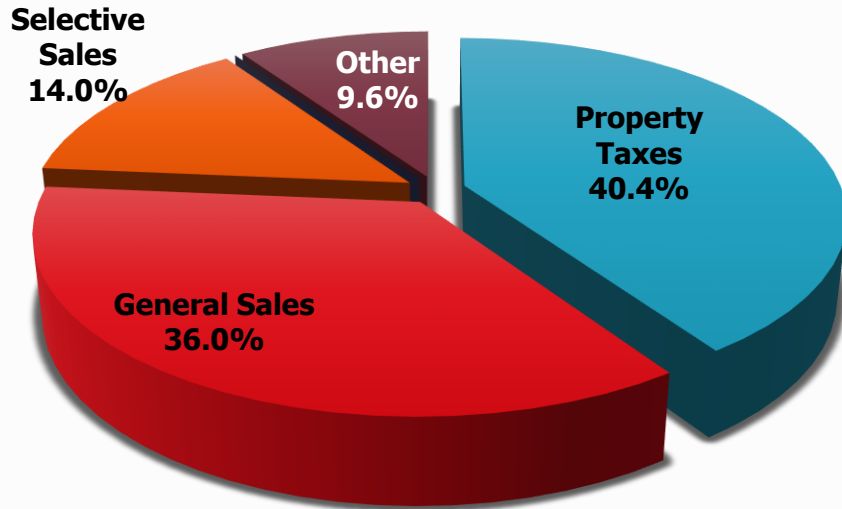
Wine - \$1.21 per gallon

Spirits - \$4.40 per gallon

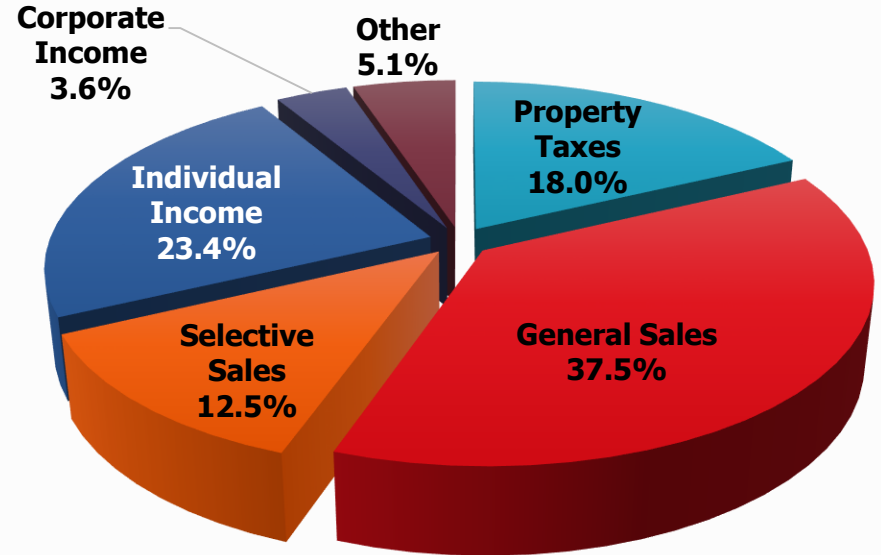


# State and Local Tax Reliance, 2014: Texas

## Texas State and Local Tax Reliance, 2014



## Arkansas State and Local Tax Reliance, 2014



# Texas



No Personal Income Tax

No Corporate Income Tax

- Imposes the “Texas Franchise Tax”, also called the “Texas Margin Tax”

# Texas



## General Sales and Use

- State rate: 6.25%
- Local Option Allowed; Range: 0-2.0%
- Combined Rate (2015): 8.17%

## Selective Sales

Motor Fuel - \$0.20 per gallon

Cigarettes - \$1.41 per pack

Insurance Premiums – 1.6%

Beer - \$0.20 per gallon

Wine - \$0.20 per gallon

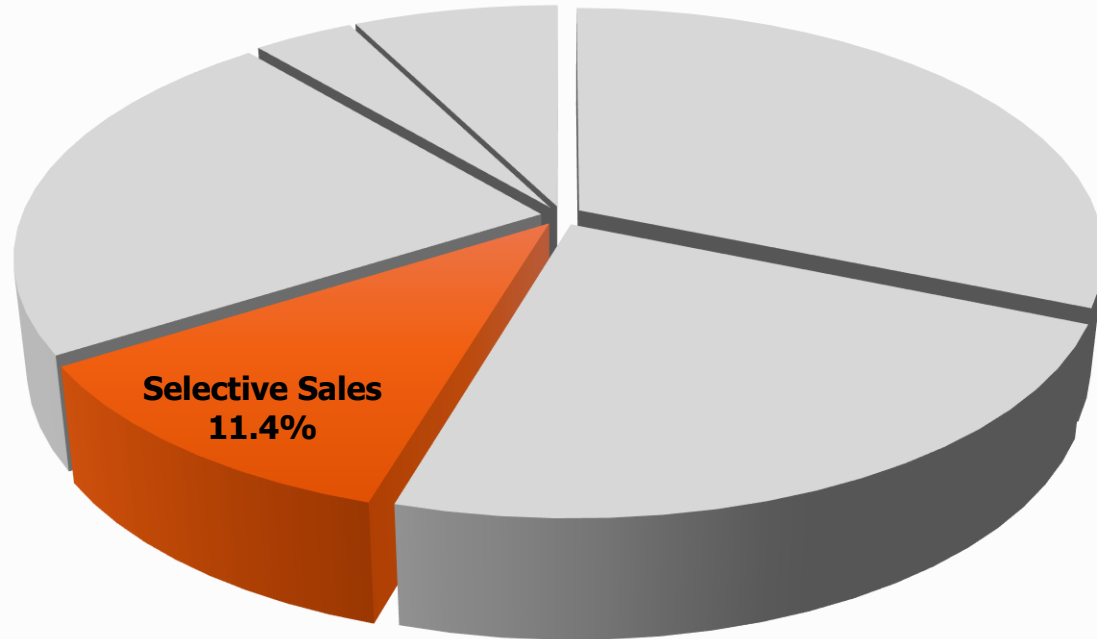
Spirits - \$2.40 per gallon

# Regional Ranking of State and Local Combined Sales Tax Rates



State	Combined State/Local Sales Tax Rate
Tennessee	9.46%
Arkansas	9.30%
Louisiana	9.00%
Oklahoma	8.82%
Texas	8.17%
Missouri	7.86%
Mississippi	7.07%
<b>United States Median</b>	<b>6.89%</b>

# State and Local Tax Reliance, 2014: U.S. National Average

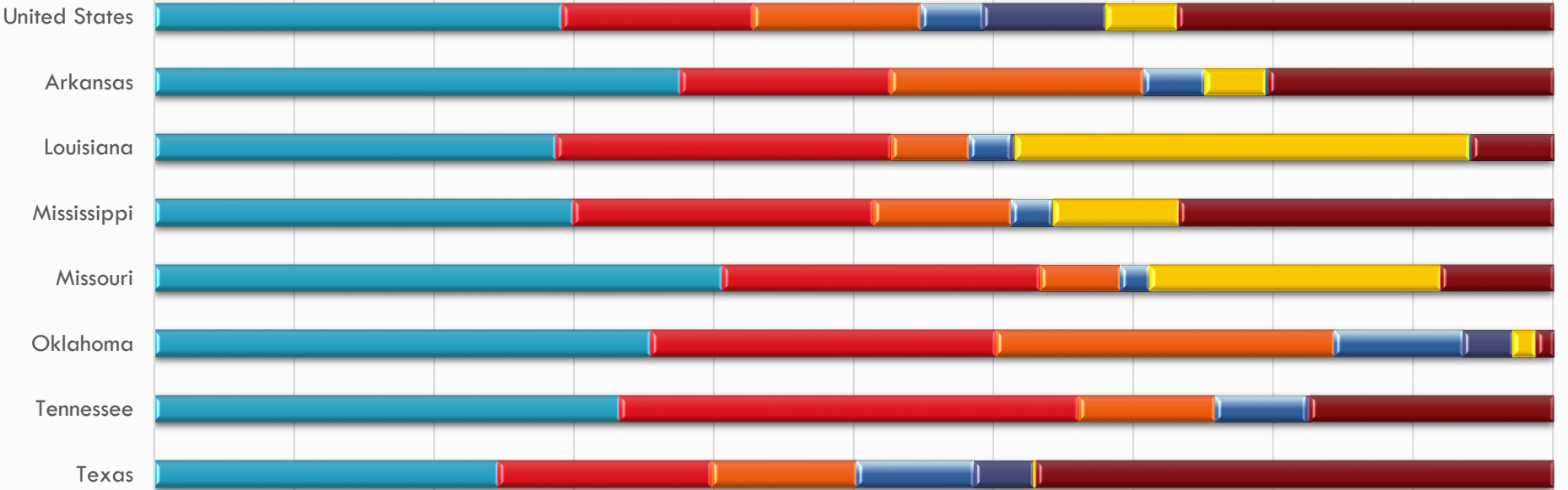


# State Selective Sales Tax Reliance, 2016



- Motor Fuels Tax
- Insurance Premiums Tax
- Tobacco Products Tax
- Alcoholic Beverages Tax
- Public Utilities Tax
- Amusements Tax
- Pari-mutuels Tax
- Other

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



Source: U.S. Census Bureau, *State Tax Collections*, 2016.



# Motor Fuel Tax Regional Rate Comparison

State	Motor Fuel Tax Rate (Per Gallon)
<b>United States Median</b>	<b>\$0.25</b>
<b>Tennessee</b>	<b>\$0.254</b>
<b>Arkansas</b>	<b>\$0.218</b>
<b>Louisiana</b>	<b>\$0.201</b>
<b>Texas</b>	<b>\$0.20</b>
<b>Mississippi</b>	<b>\$0.184</b>
<b>Missouri</b>	<b>\$0.173</b>
<b>Oklahoma</b>	<b>\$0.17</b>

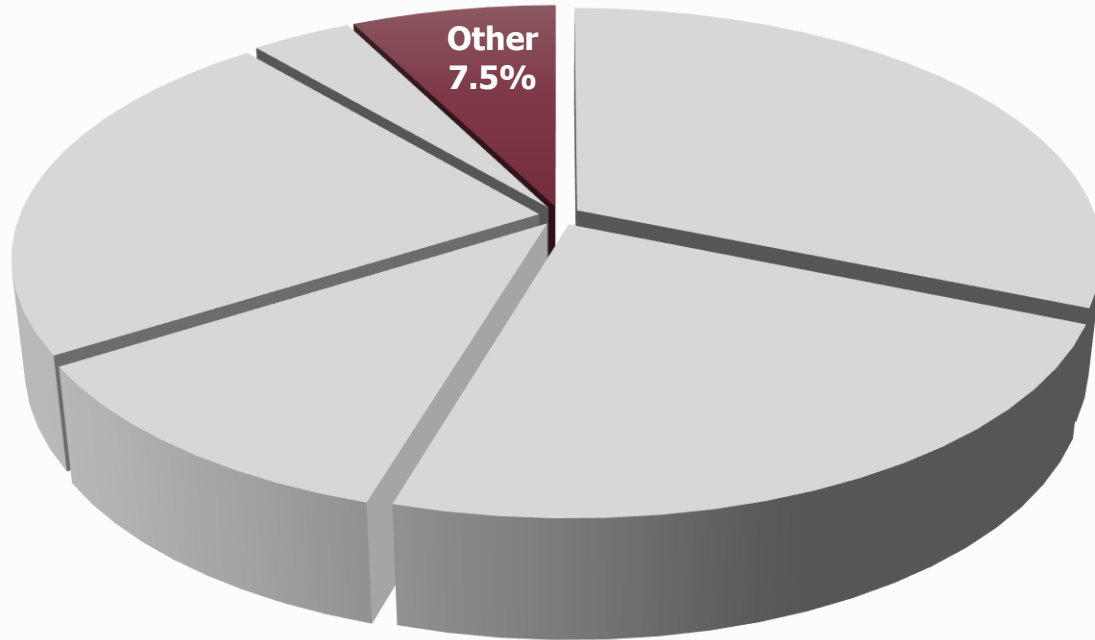


# Cigarette Tax Regional Rate Comparison



State	Cigarette Tax Rate (Per Pack)
<b>United States Median</b>	<b>\$1.53</b>
<b>Texas</b>	<b>\$1.41</b>
<b>Arkansas</b>	<b>\$1.15</b>
<b>Louisiana</b>	<b>\$1.08</b>
<b>Oklahoma</b>	<b>\$1.03</b>
<b>Mississippi</b>	<b>\$0.68</b>
<b>Tennessee</b>	<b>\$0.62</b>
<b>Missouri</b>	<b>\$0.17</b>

# State and Local Tax Reliance, 2014: U.S. National Average

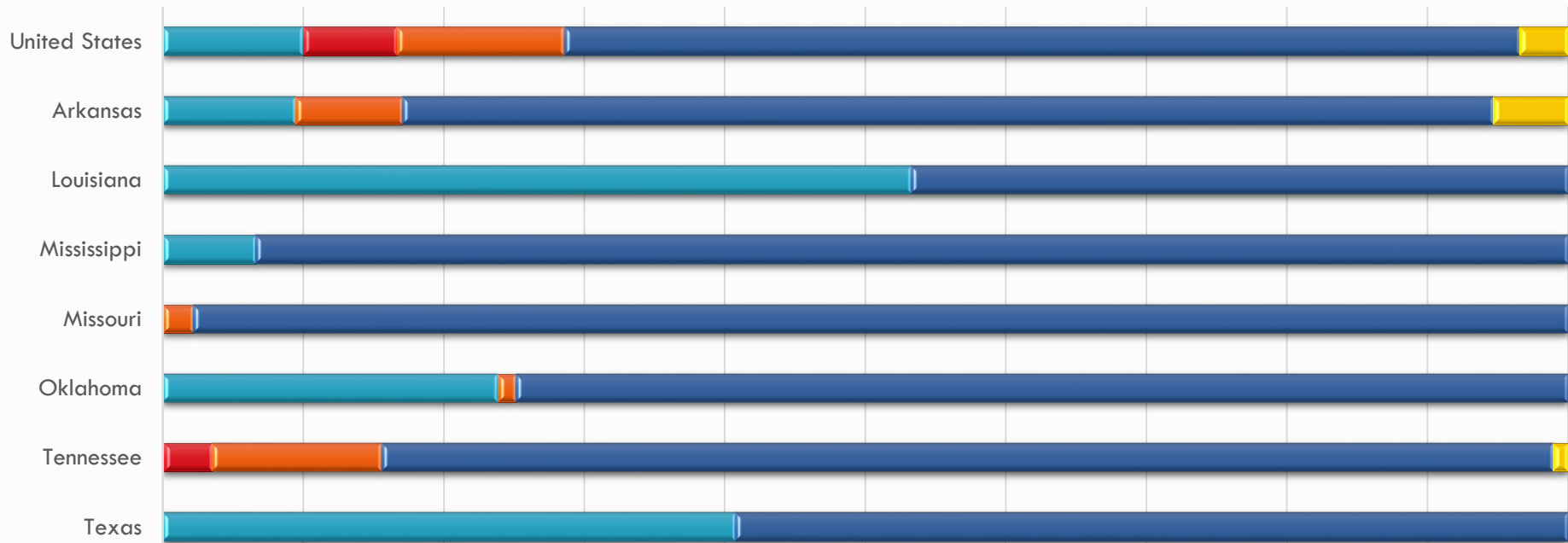


# State “Other” Tax Reliance, 2016



Severance Taxes    Death and Gift Taxes    Documentary and Stock Transfer Taxes    License Taxes    Other

0.0%    10.0%    20.0%    30.0%    40.0%    50.0%    60.0%    70.0%    80.0%    90.0%    100.0%



Source: U.S. Census Bureau, *State and Local Tax Collections*, 2014.

# Severance Tax Reliance



State	Reliance on Severance Tax for Total State Tax Collections, 2016
Louisiana	4.9%
Texas	4.5%
Oklahoma	3.9%
<b>U.S. Average</b>	<b>0.8%</b>
Mississippi	0.5%
Arkansas	0.5%
Tennessee	0.01%
Missouri	0.0%

Source: Federation of Tax Administrators, *State Tax Rates*, 2017.



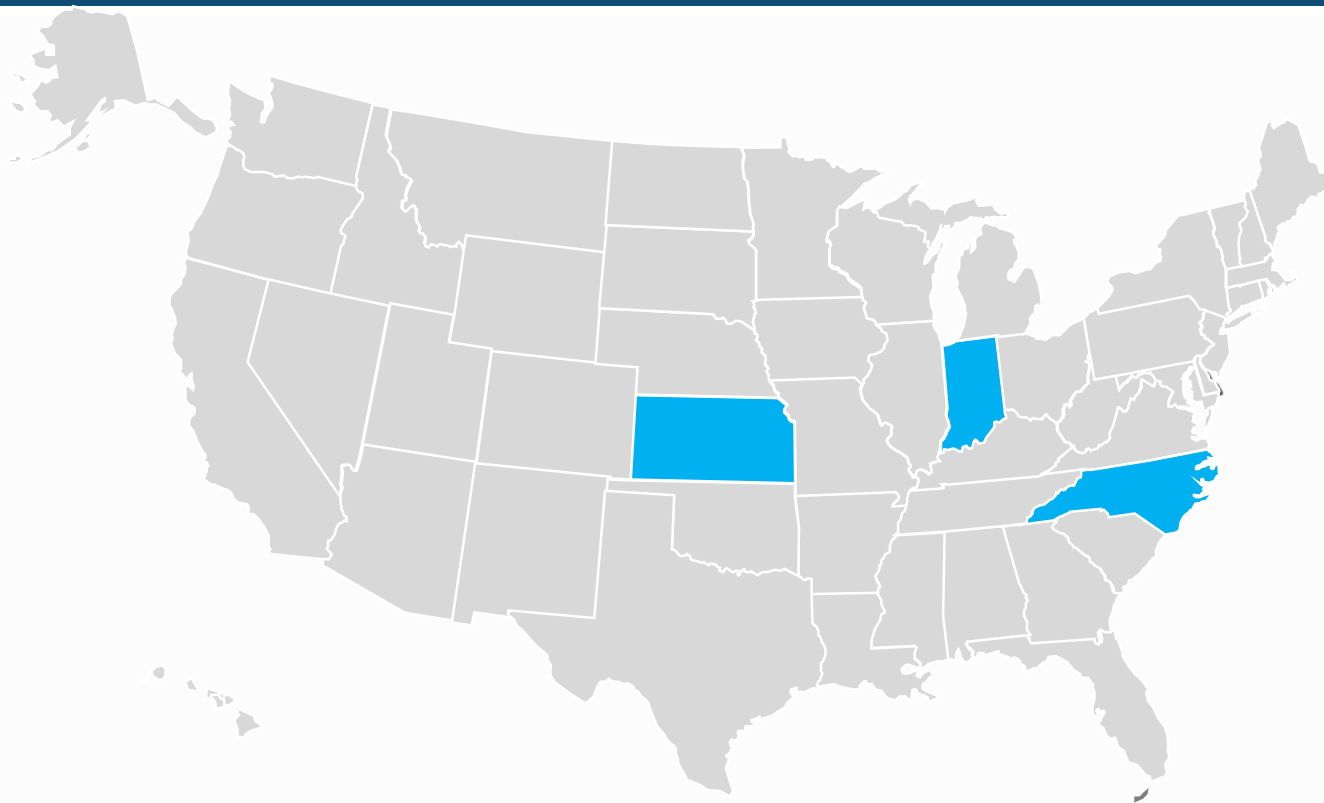
# Regional Property Tax Reliance, FY 2014

State	Property Taxes Per \$1,000 of Personal Income, FY 2014
Texas	\$38.39
<b>United States Average</b>	<b>\$33.16</b>
Mississippi	\$27.52
Missouri	\$24.18
Tennessee	\$21.55
Louisiana	\$21.01
Arkansas	\$18.80
Oklahoma	\$14.74

# Post-Recession National Tax Trends



# Recent Reform Efforts



# Kansas



2012

- Restructured Personal Income Tax
- Highest Rate Reduced from 6.45% to 4.9%

2015

- Raised the state sales tax from 6.15% to 6.5%
- Increased cigarette tax
- Slowed scheduled rate cuts and repealed itemized deductions

2013

- Further Reduced Personal Income Tax
- Sales Tax Rate Drops
- Eliminated Income Taxes on Pass Through Entities

2017

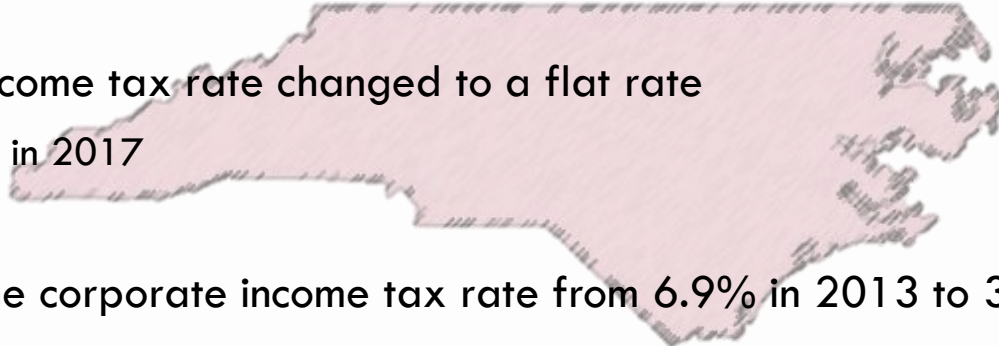
- Raised personal income taxes to 5.2 % and replaced third bracket
- Repealed the pass-through exemption



# North Carolina



- Enacted a personal and corporate income tax reform measure by lowering rates and broadening the base.
  
- Personal income tax rate changed to a flat rate
  - ▣ 5.499% in 2017
  
- Lowered the corporate income tax rate from 6.9% in 2013 to 3.0% in 2017
  - ▣ Uses a revenue trigger to enact cuts
  
- Repealed the estate tax





# Tax Triggers

- Implement tax cuts when revenue meets established threshold
  
- Triggers have been used by many states
  - ▣ Missouri
    - On track for personal income tax rate reduction and 5% deduction on business income based on FY 2017 returns
  - ▣ North Carolina
    - Corporate income tax reduced from 4% to 3% after meeting revenue trigger
  - ▣ Oklahoma
    - Repealed trigger in 2017 legislative session, keeping rate at 5% until economy stabilizes

# Indiana



2011

- Enacted corporate income tax rate reduction phase-in from 8.5% to 6.5%

2014

- Local option exemption for some business personal property

2013

- More corporate income tax cuts. Rate to 4.9% by 2022
- Phased-in personal income tax rate reductions
- Repealed inheritance tax

2015

- Made the business personal property exemption statewide



# Concluding Remarks

- ❑ State economies vary, making tax structures unique
  
- ❑ However, there are some themes among peer group
  - Sales Tax Reliance
  - Low Reliance on Property Tax
  - Low to moderate excise tax rates
  
- ❑ Tax Structure is an important consideration in reform
  - Phasing-in tax cuts to major revenue sources
  - Targeted big cuts to taxes that provide a lesser percentage of revenue



Thank You!

Questions?