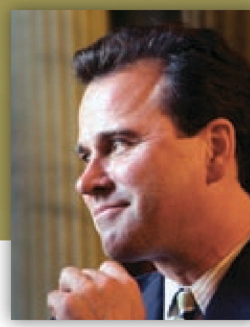
Why Taxes Matter

TAX FOUNDATION

Since 1937

Why Taxes **Matter**

By Scott A. Hodge, President, Tax Foundation



Beyond giving everybody a collective headache when April rolls around, taxes have a tremendous influence on the American way of life. From daily decisions like where to shop to life's major decisions – where to buy property, where to establish a business, when and where to retire, and how to plan for death – taxes are there to push you one way or the other, often practically dictating what you can do.

Progressively higher income tax rates – "taxing the rich" – cause many productive people to work less and retire earlier, draining the economy and destroying jobs. These stair-step tax rates also bump married couples into higher tax brackets, take an unfairly large chunk out of a one-time spike in income, and increase tax evasion.

It has been said that democracy is two wolves and a lamb voting on what to have for dinner, and many sages have warned that the majority in a democracy may oppress the minority.

We have seen this scenario play out in tax policy many times. Some of the most foolish taxes have been enacted by the many on the few. This was true of the income tax in 1913, it was true of the Alternative Minimum Tax in 1969, and it will be true of the tax increases that Congress is proposing right now. For a century now, it has always been just a handful of "the rich" or "greedy corporations" that will supposedly bear a new tax, but over time we learn that almost everyone is paying those taxes and that we should have defended the rights of the few more vigorously.

"The mode of taxation is, in fact, quite as important as the amount. As a small burden badly placed may distress a horse that could carry with ease a much larger one properly adjusted, so a people may be impoverished and their power of producing wealth destroyed by taxation, which, if levied in any other way, could be borne with ease."

— Henry George,
19th-century American economist

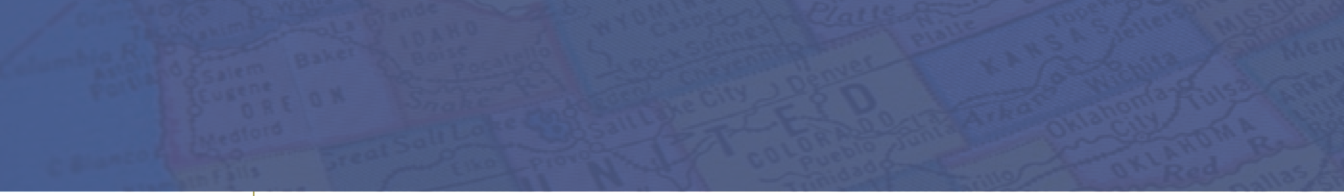
The estate tax is another such tax, and one of the cruelest, forcing people to make colossally complex tax-imposed decisions when facing the death of a loved one. Even the recent effort to give relief has backfired, giving us a complex phase-out and just one year's repeal in 2010. It's easy to see the stress this 12-month window puts on families with elderly or unhealthy estate holders. Similar tax provisions abroad caused a wave of falsified death certificates, and they raise truly disturbing ethical dilemmas for families and doctors, simply because of poorly designed federal tax policy.

At every level of government, cigarette smokers have become the unpopular minority that politicians love to tax. New York and New Jersey have taken the lead, enacting taxes of about $3 per pack over the past five years. The resulting boom of smuggling has spawned a wave of violent crime that includes murder and has diverted millions of dollars from honest businesses and government coffers into the pockets of criminals. It is no joking matter that counterfeit cigarette stamps were found in the apartment of the first World Trade Center bombers in 1993.

Even "good taxes" affect behavior, but our current tax system does far more damage than it has to while extracting revenue. "The mode of taxation is, in fact, quite as important as the amount," American economist Henry George once wrote. "As a small burden badly placed may distress a horse that could carry with ease a much larger one properly adjusted, so a people may be impoverished and their power of producing wealth destroyed by taxation, which, if levied in any other way, could be borne with ease."

The Tax Foundation knows that every tax matters. This is why we fight for a tax system with moderate rates that apply evenly to everyone, and with enforcement that is comparatively easy. In short, taxes should interfere as little as possible with the decisions of free people in the marketplace.

In the rest of this booklet, we examine taxes from a variety of angles, often highlighting how dramatically different the state-local tax climate is around the country. We hope you find it useful, and as always, please check our website at www.TaxFoundation.org for the latest tax data.

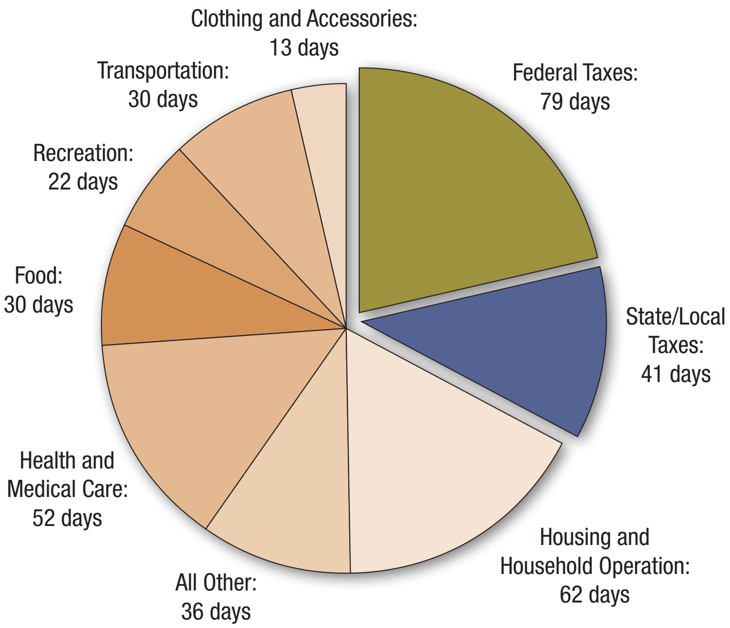


Tax Freedom Day®

Quick: How much have you paid in taxes this year?

Income taxes probably came to mind first: federal, state and even local income taxes in many places. If you are a homeowner your thoughts likely turned to property taxes as well. And most everything we buy is subject to sales or excise taxes, from leisure items such as books and CDs to necessities such as clothing and gasoline. If you've sipped alcohol or smoked tobacco this year, you paid "sin" taxes, and if you rented a car or stayed at a hotel, you paid soaring tourism taxes. Does your state tax food? Even if it doesn't tax regular groceries, carry-out food is often double-taxed.

How Many Days America Works to Pay Taxes Compared to Other Major Spending Categories, Calendar Year 2007



Source: Tax Foundation calculations based on data from the Department of Commerce, Bureau of Economic Analysis

While some taxes are easy to measure, others may remain hidden as you go about your daily life. Look at your pay stub and notice how much was deducted for payroll taxes, but don't forget that the amount deducted isn't the full amount you pay. Your employer pays an identical amount in payroll taxes as well, money your employer otherwise could have used to pay you a higher salary.

Did you do any traveling for your job this year? If so, you might owe "jock taxes" — taxes that states originally imposed on high-salaried traveling athletes but which are now spreading to other professions.

How about corporate taxes? Don't own a business? You probably paid some corporate tax anyway, because businesses pass their tax burdens on to their customers, employees, and shareholders.

Seem mind-boggling? Overwhelming?

If so, you're not alone. Albert Einstein once said, "The hardest thing in the world to understand is the income tax." He could have added "the corporate tax, the AMT, the . . ." The list goes on. Einstein's frustration over taxes certainly reflects most Americans' feelings that the tax code is next to impossible to understand. The Tax Foundation has been educating taxpayers for 70 years and maybe—just maybe—we can make taxes easier to understand than quantum physics.

One of the ways we do that is our best-known product: Tax Freedom Day®. Each year, the Tax Foundation uses the latest government data to calculate how many days into the year Americans have to work before they earn enough to pay all their taxes. When calculating Tax Freedom Day, we are answering the question, "What price is the nation paying for government?"

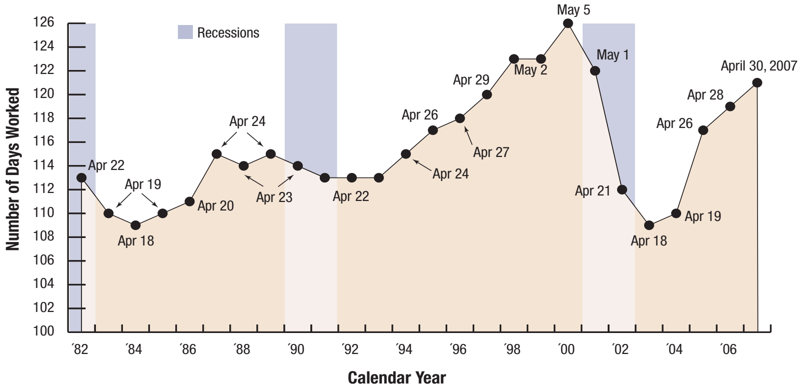
The Tax Foundation has retroactively calculated Tax Freedom Day all the way back to 1900, at which point the day fell on January 22. In 2007, it wasn't until April 30 that Americans began working for themselves.

Tax freedom came two days later in 2007 than it did in 2006 and fully 12 days later than in 2003, when tax cuts caused Tax Freedom Day to arrive comparatively early, on April 18. Even this year's comparatively late Tax Freedom Day of April 30 is earlier than in 2000. That was the all-time high, when the economic boom, the tech bubble and higher tax rates pushed tax burdens to a record high, and Tax Freedom Day was postponed until May 5. And that doesn't even count the 6 billion hours Americans spent complying with the tax code — gathering receipts, trying to decipher the instructions, filling out forms, and hiring accountants. After all, time is money, and we spend a significant chunk of time on taxes.

Florida businessman Dallas Hostetler conceived of Tax Freedom Day in 1948. He was frustrated with Floridians who seemed to think that because the state didn't tax wages, it had no taxes at all. He calculated Tax Freedom Day himself for many years, and when he retired in 1971, he transferred the intellectual property to the Tax Foundation. We have promoted his clever illustration of the tax burden ever since.

Following the Tax Foundation's example, many other organizations in countries throughout the world now produce their own Tax Freedom Day reports, including in Great Britain, Canada, South Africa, the Czech Republic, Lithuania, India and Australia.

Tax Freedom Day, 1982–2007



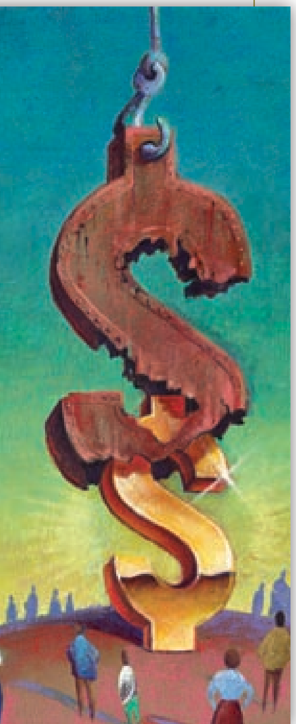
Notes: Leap day is omitted. For full study, see www.TaxFoundation.org/taxfreedomday.html
Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and Congressional Budget Office

Tax Freedom Day and Days Worked, Top Ten and Bottom Ten States, Calendar Year 2007

	Days Spent Working to Pay Taxes	Tax Freedom Day	Rank
United States	120	April 30	–
Connecticut	140	May 20	1
New York	136	May 16	2
New Jersey	130	May 10	3
Vermont	129	May 09	4
Rhode Island	129	May 09	5
Nevada	128	May 08	6
California	127	May 07	7
Washington	126	May 06	8
Massachusetts	126	May 06	9
Minnesota	124	May 04	10
Idaho	109	April 19	41
Texas	109	April 19	42
South Dakota	106	April 16	43
Louisiana	106	April 16	44
New Mexico	105	April 15	45
Tennessee	105	April 15	46
Alaska	103	April 13	47
Mississippi	103	April 13	48
Alabama	102	April 12	49
Oklahoma	102	April 12	50

Notes: Leap day is omitted. For full study, see www.TaxFoundation.org/taxfreedomday.html.

Source: Tax Foundation calculations based on data from the Department of Commerce, Bureau of Economic Analysis



What Is a Good Tax?

In evaluating taxation, the Tax Foundation is guided by principles that apply just as well to state and local tax systems as to federal taxes. All levels of government should enact tax systems that work together as harmoniously as possible by using consistent definitions, procedures and rules.

These are the key criteria that all taxes should meet:

Transparency

A good tax system requires informed taxpayers who understand how taxes are assessed, collected and complied with. It should be clear to taxpayers who and what is being taxed, and how tax burdens affect them and the economy. Tax legislation should be based on careful economic analysis, and legislative procedures should include open hearings with ample opportunity for the public to comment.

Neutrality

The fundamental purpose of taxes is to raise necessary revenue for programs, not to micromanage a complex market economy with subsidies and penalties. The tax system's central aim should be to collect that money while interfering as little as possible with the decisions of free people in the marketplace.

Simplicity

The tax system should be as simple as possible. The cost of tax compliance is a real cost to society, and complex taxes create perverse incentives to shelter and disguise legitimately earned income.

Stability

Tax law should not change continuously. A rapidly changing tax system frustrates long-term planning and increases uncertainty in the economy.

No Retroactivity

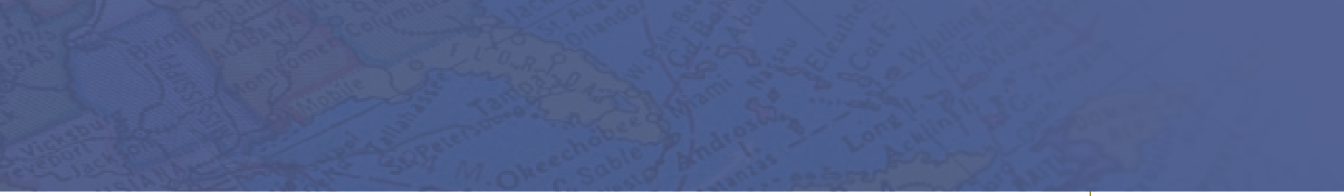
Changes in tax law should not be retroactive. As a matter of fairness, taxpayers should rely with confidence on the law as it exists when contracts are signed and transactions are made.

Low Rates, Broad Bases

It makes a difference how large a share of national income is taken by government in taxes. The private sector is the source of all wealth and improvements in the standard of living. Taxes should consume as small a portion of national income as possible and should be broadly based so that tax rates can be moderate at all points. The current federal individual income tax system ignores more than half of all income, mostly so that politicians can curry favor with voters. The result is high tax rates on the remaining income, rates more than twice as high as they could be.

Don't Inhibit Trade

In our increasingly global marketplace, the U.S. tax system must be competitive with those of other developed countries. Our tax system should not penalize or subsidize imports, exports, U.S. investment abroad or foreign investment in the U.S. Taxes on corporations, individuals, and goods and services should be competitive with other nations.



Who Pays What?

Since both taxes and spending affect the well-being of Americans — taxes make people worse off, and government spending on useful things makes people better off — it's not enough to simply ask which Americans bear the nation's tax burden. We also need to know which Americans receive the most dollars of government spending.

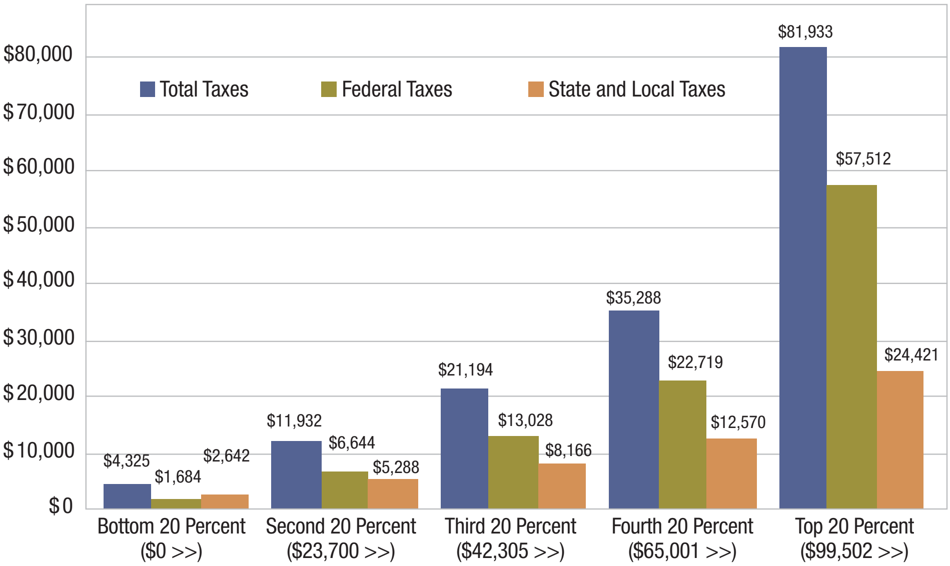
Our research has explored how taxes vary by income level, age, and geographic region. Lawmakers need this information before trying to reform the tax code and address issues like the looming entitlement crisis.

Tax and Spending by Income Class

America's highest-earning households receive just 41 cents in government spending for every dollar of taxes paid. Meanwhile, the lowest-earning one-fifth of households receives $8.21 for each dollar paid. Households with middle-incomes receive $1.30 per tax dollar.

Overall, about a trillion dollars' worth of government spending is transferred each year from high- to low-income groups.

Average Dollars of Taxes Paid by Households in Each Income Group in 2004



Source: *Tax Foundation Special Report*, No. 151, "Who Pays America's Tax Burden, and Who Gets the Most Government Spending?" See www.TaxFoundation.org/publications/show/2286.html

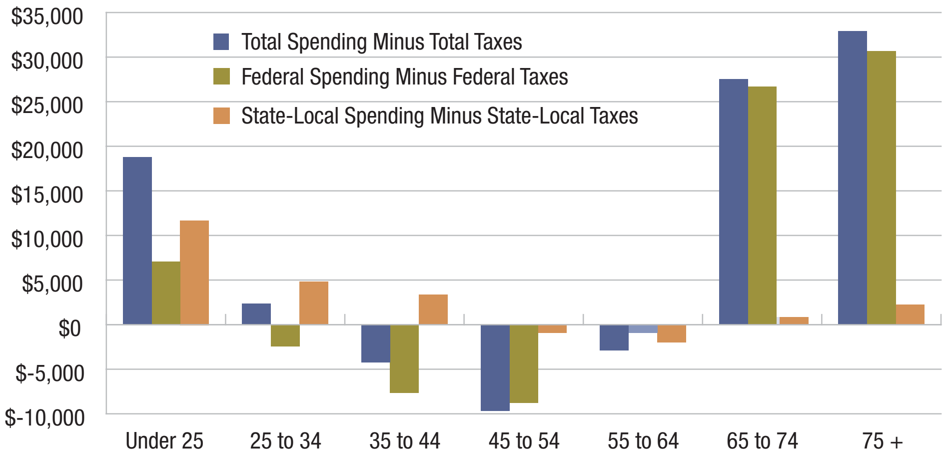
Tax Fact:
Number of income tax returns filed in 2005 that reclaimed every dollar withheld during the year, ultimately paying zero: 43.8 million, one third of all returns.

Tax and Spending by Age

As the Baby Boom generation prepares to retire, lawmakers should be aware of the distribution of taxes and government spending across age groups as well, especially when considering entitlement reform.

America's youngest households, ones with a head of household 25 and under, received $2.32 in government spending for each dollar of taxes paid in 2004. Middle-aged households aged 45 to 54 received 73 cents per tax dollar, and America's oldest households aged 75 and over received $4.93 per dollar of taxes paid.

Some Households Receive More in Government Spending than They Pay in Taxes, and Some Receive Less



Source: *Tax Foundation Special Report*, No. 156, "Generational Equity: Which Age Groups Pay More Tax, and Which Receive More Government Spending?" See www.TaxFoundation.org/publications/show/22428.html

"We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

—Winston Churchill

Tax and Spending by Geography

Meanwhile, Americans in some cities, counties and congressional districts bear a much heavier burden to finance federal spending than in others. In a recent year, households in San Francisco paid an average of $36,409 in federal taxes, and in San Jose the tab was $34,577. America's lowest-tax city area surrounds Mission, Texas, where the average household paid $7,238 in federal taxes.

The congressional voting district with the highest federal taxes is Connecticut's 4th district, represented by Christopher Shays (R). The second highest and the absolute lowest are both in New York: the 14th district represented by Carolyn Maloney (D) pays the second highest federal taxes, and the lowest-paying district is New York's 16th district, represented by Jose Serrano (D).

Top Ten and Bottom Ten Counties in Average Federal Tax Burden Per Household, Calendar Year 2004

Rank	County	Average Federal Tax Burden Per Household
1	Teton, WY	$60,364
2	Pitkin, CO	$57,100
3	Fairfield, CT	$50,374
4	New York, NY (Manhattan)	$47,177
5	Westchester, NY	$43,514
6	Marin, CA	$42,568
7	Somerset, NJ	$40,073
8	Morris, NJ	$39,436
9	San Mateo, CA	$39,068
10	Fairfax, VA*	$37,600
3103	Elliot, KY	$4,049
3104	Grant, NE	$4,032
3105	Jefferson, MS	$3,887
3106	McCreary, KY	$3,805
3107	Owsley, KY	$3,744
3108	Zavala, TX	$3,673
3109	McDowell, WV	$3,561
3110	Hancock, TN	$3,388
3111	Kalawao, HI	$3,020
3112	Starr, TX	$2,788

* Inludes Fairfax County, Fairfax City, and Falls Church

Note: A full list of federal tax burdens by county is available at www.TaxFoundation.org/taxdata/show/2229.html.

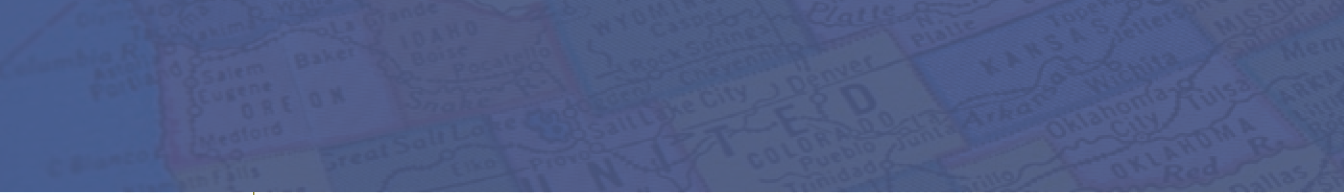
Source: Tax Foundation calculations based on data from Internal Revenue Service; Bureau of Economic Analysis; Census Bureau; Centers for Disease Control and Prevention; Bureau of Labor Statistics; and Department of Energy

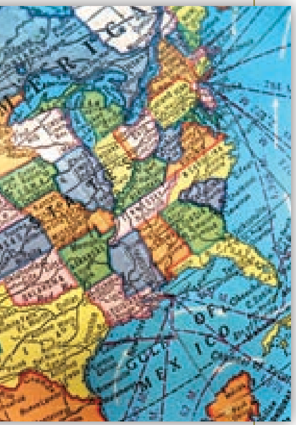
Top Ten and Bottom Ten Major City Areas in Average Federal Tax Burden Per Household, Calendar Year 2004

Rank	Major City Area (MSA)	Average Federal Tax Burden Per Household
1	Stamford-Norwalk, CT	$82,745
2	San Francisco, CA	$36,409
3	San Jose, CA	$34,577
4	Naples, FL	$31,630
5	Danbury, CT	$31,110
6	Nassau-Suffolk, NY	$30,732
7	Bergen-Passaic, NJ	$28,657
8	Middlesex-Somerset-Hunterdon, NJ	$28,455
9	Boston, MA-NH	$27,740
10	Newark, NJ	$27,712
322	Gadsden, AL	$9,281
323	Pine Bluff, AR	$9,181
324	Steubenville-Weirton, OH-WV	$9,174
325	Johnstown, PA	$9,161
326	Danville, VA	$9,135
327	Sumter, SC	$8,821
328	Jamestown, NY	$8,709
329	Cumberland, MD-WV	$8,465
330	Brownsville-Harlington-San Benito, TX	$7,676
331	McAllen-Edinburg-Mission, TX	$7,238

Note: A full list of federal tax burdens by MSA is available at www.TaxFoundation.org/taxdata/show/2228.html.

Source: Tax Foundation calculations based on data from Internal Revenue Service; Bureau of Economic Analysis; Census Bureau; Centers for Disease Control and Prevention; Bureau of Labor Statistics; and Department of Energy





Politicians are always appealing to the "middle class," but it is important to keep in mind that the type of taxpayers in the middle has been changing. Today, the statistical "middle class" is completely reversed from what it was in 1960. Two generations ago, the middle was mostly married couples with children, but now single-headed households predominate, and only 18 percent are couples with children.

These demographic changes have contributed to the perception of widening income disparity in America because dual-earner families file only one tax return and look "rich." They are joined at the high end of the income spectrum by many empty-nest Baby Boomers nearing their peak earning years. Meanwhile, there are more single taxpayers than ever before, and they make up the vast majority of the lower-income groups.

As lawmakers look for solutions to the economic challenges facing today's "middle class," they would do well to consider the way in which taxes are contributing to the problem.

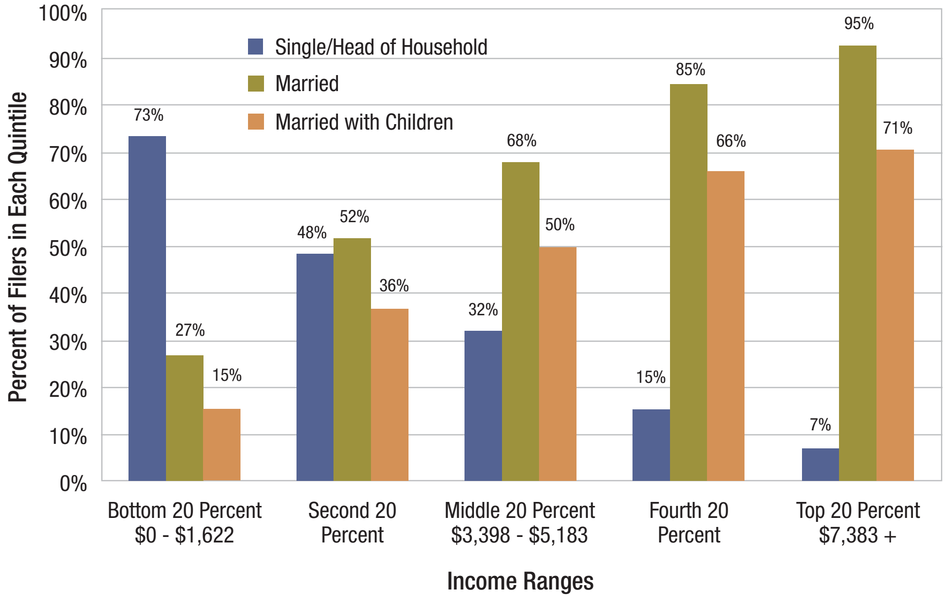
Top Ten and Bottom Ten Congressional Districts in Average Federal Tax Burden Per Household, Calendar Year 2004

Rank	Member (Party) in 2007	Cong. District	Average Federal Tax Burden Per Household
1	Christopher Shays (R)	CT-4	$58,943
2	Carolyn Maloney (D)	NY-14	$56,199
3	Henry Waxman (D)	CA-30	$53,485
4	Anna Eshoo (D)	CA-14	$51,728
5	Nita Lowey (D)	NY-18	$49,306
6	Mark Kirk (R)	IL-10	$46,289
7	Rodney Frelinghuysen (R)	NJ-11	$42,097
8	Jerrold Nadler (D)	NY-8	$41,551
9	John Campbell (R)	CA-48	$40,013
10	Chris Van Hollen (D)	MD-8	$37,551
427	Mike Ross (D)	AR-4	$8,670
428	Marion Berry (D)	AR-1	$8,423
429	Bennie Thompson (D)	MS-2	$8,394
430	Jim Costa (D)	CA-20	$8,145
431	Jo Ann Emerson (R)	MO-8	$8,145
432	Dan Boren (D)	OK-2	$7,982
433	Ruben Hinojosa (D)	TX-15	$7,822
434	Nick Rahall (D)	WV-3	$7,751
435	Harold Rogers (R)	KY-5	$6,668
436	Jose Serrano (D)	NY-16	$4,571

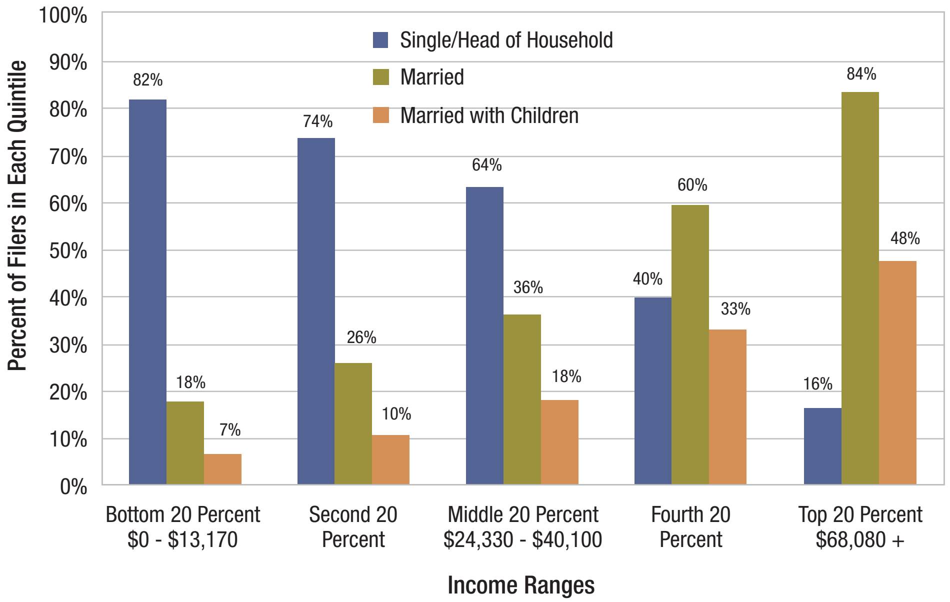
Note: A full list of federal tax burdens by congressional district is available at www.TaxFoundation.org/taxdata/show/2230.html. This list includes Washington, D.C., in addition to the 435 congressional districts.

Source: Tax Foundation calculations based on data from Internal Revenue Service; Bureau of Economic Analysis; Census Bureau; Centers for Disease Control and Prevention; Bureau of Labor Statistics; and Department of Energy

In 1960, Most Statistically "Middle-Class" Tax Returns Were Filed by Married Couples and Families with Children



Today, the Majority of Statistically "Middle-Class" Tax Returns Are Filed by Singles; Families With Children Are "Upper-Class"



What Do Americans Think About Taxes?

More than three out of four Americans believe that the federal tax system needs "major changes" or a "complete overhaul," according to a recent Harris Interactive® survey conducted on behalf of the Tax Foundation.

Despite the widely held perception that Americans are too wedded to their favorite tax deductions to support an effort to simplify the tax code, the poll found that roughly half of U.S. adults (48 percent) would be willing to give up some of their federal tax deductions — including the cherished home mortgage interest deduction — if doing so meant they'd receive an across-the-board cut in federal income tax rates. That compares with just 22 percent who would not accept such a bargain, and 31 percent who weren't sure.

"People who complain about taxes can be divided into two classes: men and women."

—Author Unknown

Surprisingly, those with the highest incomes of $75,000 per year and up were more willing to give up tax deductions (59 percent) than those with lower incomes, despite the fact that upper-income taxpayers receive the most powerful tax savings from deductions. We also found that the willingness to give up deductions rose with education level, and those who take the standard deduction when they file their taxes are more willing to give up deductions (54 percent) than those who itemize (49 percent).

Fifty-eight percent of U.S. adults say the amount of federal income tax they pay is too high. Those most likely to say so included people in their peak earning years, ages 45 to 54 (65 percent), as well as those in the top income group of $75,000 and up (64 percent). Married couples (61 percent) were more likely to say federal income taxes are too high compared to singles (48 percent).

While few taxes are popular, some are viewed as much more unfair than others. At the federal level, people named the federal estate tax as the least fair, giving it a 3.9 on a scale of 1 to 5 where 5 is terribly unfair. That may help to explain why two-thirds of U.S. adults (66 percent) said they favor complete elimination of the estate tax, compared to just 19 percent who oppose elimination. The gasoline tax was viewed as the most unfair state or local tax, scoring a 3.8 on the same unfairness scale.

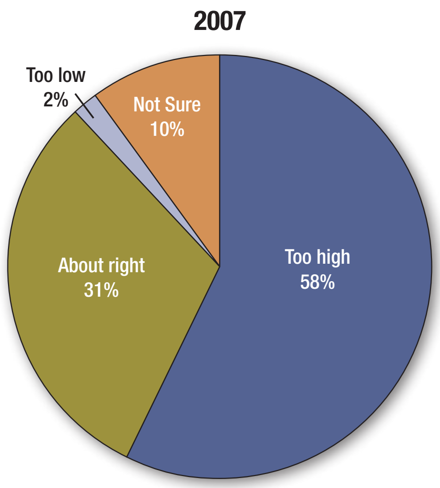
When asked, "How complex do you think the current federal income tax is?" an overwhelming 83 percent said the federal income tax is very complex or somewhat complex.

The survey, which covered a nationwide cross section of 2,012 U.S. adults aged 18 or older, also asked, "Considering all government services on the one hand and taxes on the other, would you like to increase taxes and services, decrease them, or keep them about the same?"

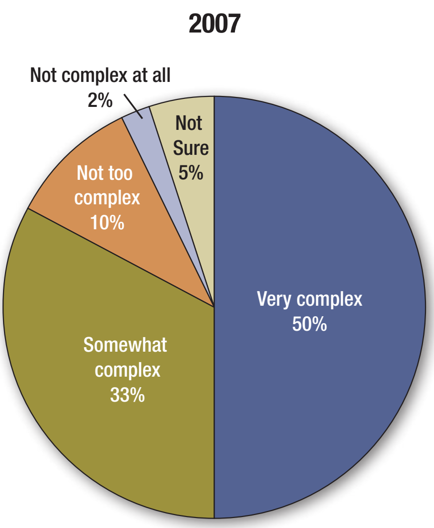
Thirty-two percent of U.S. adults say they would like to decrease government services and lower taxes. Only 8 percent said the reverse, that they favored more government services and higher taxes. A large plurality, 41 percent, favors the status quo and wishes to keep taxes and government services about where they are today. Twenty percent were unsure.

The poll results show that tax policy continues to be a key issue in the minds of the American public. For members of Congress looking for ways to improve the nation's tax code, these results offer a useful starting point for fundamental tax reform.

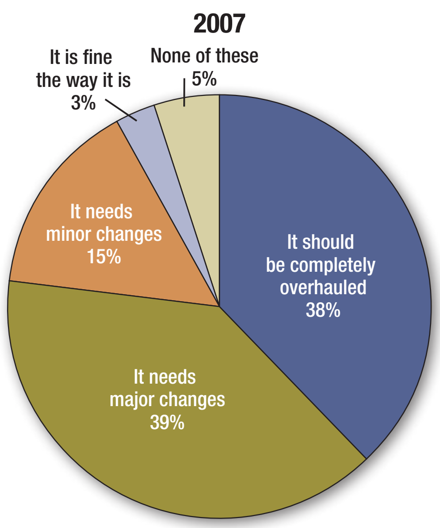
Do you consider the amount of federal income tax you have to pay as . . . ?



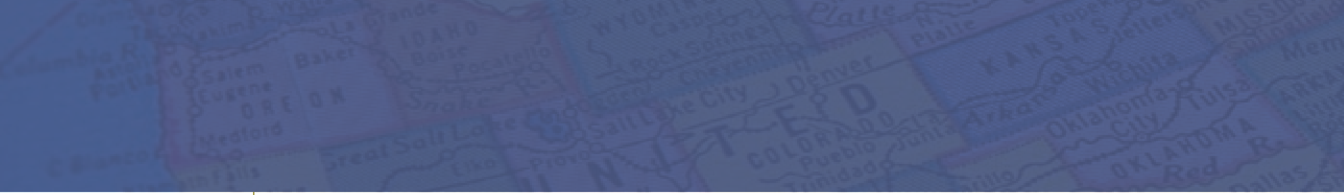
How complex do you think the current federal income tax is?



Which of the following statements best describes your opinion of the federal tax system?



Source: *Tax Foundation Special Report*, No. 154, "What Does America Think About Taxes? The 2007 Annual Survey of U.S. Attitudes on Taxes and Wealth," at www.TaxFoundation.org/publications/show/22331.html



Best States for Low Tax Burdens

The Tax Foundation's estimate of state-local tax burdens, published annually since 1990 and using historical data to calculate back to 1970, is one of the most widely cited measures of state-local taxation. We use the latest and most authoritative government data, and the estimates include every state and local tax.

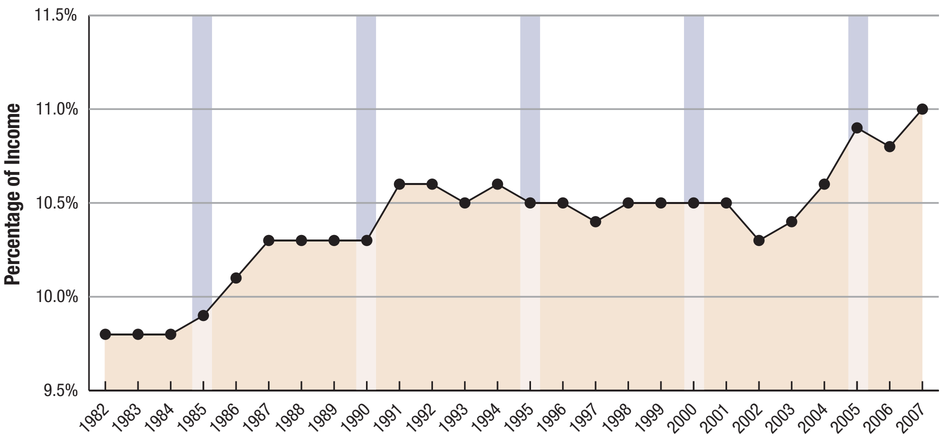
The benchmark statistics of a good economy are low inflation and unemployment, and that's what we have now, as we have for several years. Tax collections have grown too, and taken together, state and local taxes are consuming a record-setting 11 percent of the nation's income in 2007. For over 20 years, the state-local tax burden had been steady, vacillating between 10 and 10.9 percent, so breaking the 11-percent barrier should make taxpayers wary.

This estimate of high state-local tax burdens comes at a time when personal and corporate incomes have risen for almost four consecutive years, sometimes at a remarkable pace. Along with low unemployment, these rising incomes have boosted tax collections substantially and helped most states meet their revenue expectations with ease since 2004.

So Which States Have the Highest and Lowest Taxes?

Regionally, the Mideast states have the highest tax burdens, followed by the Great Lakes, New England, the Far West, the Plains, the Rocky Mountains, the Southeast and Southwest.

Total State and Local Tax Burden, Calendar Years 1982-2007



Source: *Tax Foundation Special Report*, No. 156, "State and Local Tax Burdens Hit 25-Year High."
See www.TaxFoundation.org/publications/show/22320.html

With 14.1 percent of income going to pay all state and local taxes, Vermont is the highest-tax state in 2007, eking out Maine (14.0%) and New York (13.8%). Rhode Island, Ohio and Hawaii formed a high-tax group that finished fourth, fifth and sixth but with tax burdens still considerably below the first three.

Since 2000, New Jersey citizens' tax burden has increased the fastest. They ranked in the middle of the pack seven years ago but have jumped from twenty-fourth highest to tenth. Arkansas and Indiana have both risen ten places over that seven-year period.

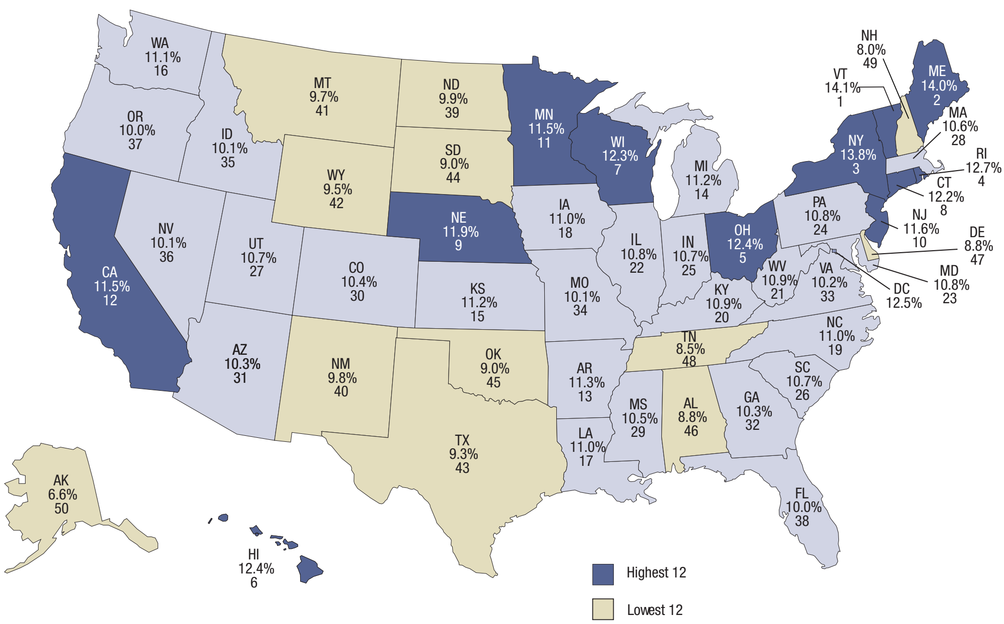
Not much has changed in the ranking of low-tax states recently. Alaska has relied on its oil wealth to tax its citizens the least. No such special advantage is enjoyed by the other four lowest-tax states: New Hampshire, Tennessee, Delaware and Alabama.

What Causes the State-Local Finance Roller Coaster of Deficits and Surpluses?

Many states have multiple-rate personal income taxes, or they mirror the stair-step rate structure of the federal system by taking a percentage of federal tax liability. These states with the most steeply graduated income tax rates experience the wildest fluctuations in revenue. They get the biggest, most sudden revenue surges when a good economy pushes individual and corporate incomes up into higher tax brackets, but they have the worst, most sudden deficits when the economy is flat or shrinking.

However, even as the economy has thrived and multiple-rate income taxes have increased the tax burden, some states have

State-Local Tax Burdens and Ranks, Calendar Year 2007



Source: *Tax Foundation Special Report*, No. 156, "State and Local Tax Burdens Hit 25-Year High." See www.TaxFoundation.org/publications/show/22320.html

Tax Fact:

Counting out Manhattan's federal tax bill by hand would require 41 pennies to be stacked on each and every square inch of Manhattan.

accelerated the trend by enacting new or higher state-level tax rates. Meanwhile, other states have taken advantage of the good economy by cutting tax rates or allowing temporary tax hikes to expire.

At the local level, the big issue is property taxes. Property tax collections rose precipitously for several years, as many local government officials failed to ratchet down rates enough to prevent a surge of revenue when real estate soared in value between 2001 and 2005. With the housing market now cool, local government officials who foolishly started new spending programs will be looking to raise property tax rates.

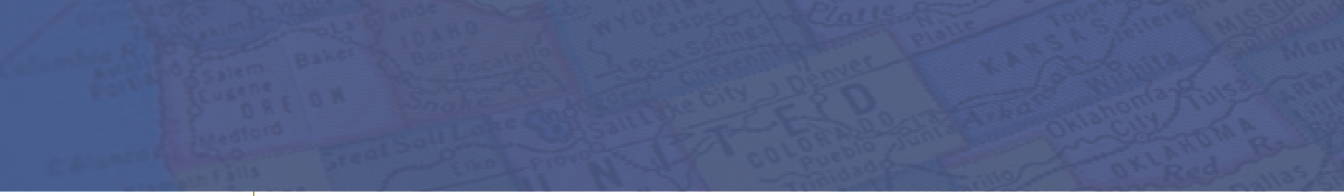
State-Local Tax Burdens, Top Ten and Bottom Ten States, Calendar Year 2007

	Tax Burden as a Percentage of Income	Rank	Per Capita Tax Burden	Per Capita Income
United States	11.0%	-	$4,422	$40,348
Vermont	14.1%	1	$5,387	$38,306
Maine	14.0%	2	$5,045	$36,117
New York	13.8%	3	$6,522	$47,176
Rhode Island	12.7%	4	$5,291	$41,809
Ohio	12.4%	5	$4,597	$37,020
Hawaii	12.4%	6	$5,014	$40,455
Wisconsin	12.3%	7	$4,736	$38,639
Connecticut	12.2%	8	$6,756	$55,536
Nebraska	11.9%	9	$4,549	$38,373
New Jersey	11.6%	10	$5,991	$51,605
Montana	9.7%	41	$3,353	$34,415
Wyoming	9.5%	42	$4,340	$45,881
Texas	9.3%	43	$3,533	$38,005
South Dakota	9.0%	44	$3,435	$38,072
Oklahoma	9.0%	45	$3,248	$36,077
Alabama	8.8%	46	$3,090	$35,007
Delaware	8.8%	47	$3,804	$43,471
Tennessee	8.5%	48	$3,054	$35,960
New Hampshire	8.0%	49	$3,504	$43,745
Alaska	6.6%	50	$2,729	$41,469

Source: *Tax Foundation Special Report*, No. 156, "State and Local Tax Burdens Hit 25-Year High."
See www.TaxFoundation.org/publications/show/22320.html

State Individual Income Tax Rates for Singles, As of December 31, 2006

State	Marginal Rates and Tax Brackets for Single Filers
Alabama	2% > $0
	4% > $500
	5% > $3K
Alaska	None
Arizona	2.73% >$0
	3.04% > $10K
	3.55% > $25K
	4.48% > $50K
	4.79% > $150K
Arkansas	1% > $0
	2.5% > $3,600
	3.5% > $7,200
	4.5% > $10,800
	6% > $18,000
	7% > $30,100
California	1.0 > $0
	2% > $6,622
	4% > $15,698
	6% > $24,776
	8% > $34,394
	9.3% > $43,467
	10.3% > $1,000,000
Colorado	4.63% of federal taxable income
Connecticut	3.0% > $0
	5.0% > $10K
Delaware	2.2% > $2K
	3.9% > $5K
	4.8% > $10K
	5.2% > $20K
	5.55% > $25K
	5.95% > $60K
Florida	None
Georgia	1% > $0
	2% > $750
	3% > $2,250
	4% > $3,750
	5% > $5,250
	6% > $7K
Hawaii	1.4% > $0
	3.2% > $2K
	5.5% > $4K
	6.4% > $8K
	6.8% > $12K
	7.2% > $16K
	7.6% > $20K
	7.9% > $30K
	8.25% > $40K
Idaho	1.6% > $0
	3.6% > $1,198
	4.1% > $2,396
	5.1% > $3,594
	6.1% > $4,793
	7.1% > $5,991
	7.4% > $8,986
	7.8% > $23,963
Illinois	3% of federal adjusted gross income with modification
Indiana	3.4% of federal adjusted gross income with modification
Iowa	0.36% > $0
	0.72% > $1,300
	2.43% > $2,600
	4.5% > $5,200
	6.12% > $11,700
	6.48% > $19,500
	6.8% > $26,000
	7.92% > $39,000
	8.98% > $58,500
Kansas	3.5% > $0
	6.25% > $15K
	6.45% > $30K
Kentucky	2% > $0
	3% > $3K
	4% > $4K
	5% > $5K
	5.8% > $8K
	6% > $75K



State	Marginal Rates and Tax Brackets for Single Filers
Louisiana	2% > $0
	4% > $12,500
	6% > $25,000
Maine	2% > $0
	4.5% > $4,450
	7% > $9,100
	8.5% > $18,250
Maryland	2% > $0
	3% > $1K
	4% > $2K
	4.75% > $3K
Mass.	5.3%
Michigan	3.9% of federal adjusted gross income with modification
Minnesota	5.35% > $0
	7.05% > $21,510
	7.85% >$67,360
Mississippi	3% > $0
	4% > $5K
	5% > $10K
Missouri	1.5% > $0
	2% > $1K
	2.5% > $2K
	3% > $3K
	3.5% > $4K
	4% > $5K
	4.5% > $6K
	5% > $7K
	5.5% > $8K
	6% > $9K
Montana	1% > $0
	2% > $2,400
	3% > $4,300
	4% > $6,500
	5% > $8,800
	6% > $11,300
	6.9% > $14,500

State	Marginal Rates and Tax Brackets for Single Filers
Nebraska	2.56% > $0
	3.57% > $2,400
	5.12% > $17,500
	6.84% > $27K
Nevada	None
New Hampshire	5% > $0 (taxes only interest, dividends)
New Jersey	1.4% > $0
	1.75% > $20K
	3.5% > $35K
	5.525% > $40K
	6.37% > $75K
	8.97% > $500K
New Mexico	1.7% > $0
	3.2% > $5,500
	4.7% > $11K
	5.3% > $16K
New York	4% > $0
	4.5% > $8K
	5.25% > $11K
	5.9% > $13K
	6.85% > $20K
North Carolina	6% > $0
	7% > $12,750
	7.75% > $60K
	8.25% > $120K
North Dakota	2.1% > $0
	3.92% > $30,650
	4.34% > $74,200
	5.04% > $154,800
	5.54% > $336,550
Ohio	0.681% > $0
	1.361% > $5K
	2.722% > $10K
	3.403% > $15K
	4.083% > $20K
	4.764% > $40K
	5.444% > $80K
	6.32% > $100K
	6.87% > $200K

State	Marginal Rates and Tax Brackets for Single Filers
Oklahoma	0.5% > $0
	1% > $1K
	2% > $2,500
	3% > $3,750
	4% > $4,900
	5% > $7,200
	6.25% > $8,700
Oregon	5% > $0
	7% > $2,750
	9% > $6,850
Penn.	3.07% > $0
Rhode Island	3.75% > $0
	7% > $30,600
	7.75%> $74,200
	9% > $154,800
	9.9% >$336,550
South Carolina	2.5% > $0
	3% > $2,570
	4% > $5,140
	5% > $7,710
	6% > $10,280
	7% > $12,850
South Dakota	None
Tenn.	6% > $0 (taxes only interest and dividends)
Texas	None
Utah	2.3% > $0
	3.3% > $1,000
	4.2% > $2,000
	5.2% > $3,000
	6% > $4,000
	6.98% > $5,500
Vermont	3.6% > $0
	7.2% > $30,650
	8.5% > $74,200
	9% > $154,800
	9.5% > $336,550

State	Marginal Rates and Tax Brackets for Single Filers
Virginia	2% > $0
	3% > $3K
	5% > $5K
	5.75% > $17K
Wash.	None
West Virginia	3% > $0
	4% > $10K
	4.5% > $25K
	6% > $40K
	6.5% > $60K
Wisconsin	4.60% > $0
	6.15% > $9,160
	6.50% > $18,320
	6.75% > $137,410
Wyoming	None
D.C.	4.5% > $0
	7% > $10K
	8.7% > $40K

Notes: All brackets shown are for singles. Couples' brackets double in about half of the states; in the rest there is some degree of marriage penalty. Most states have some standard deduction or exemption or credit that creates a zero bracket. Some states permit local governments to levy income tax. They are highest in Maryland, Ohio, Pennsylvania and Indiana. Some states permit the tax filer to deduct his federal tax payment on his state return. For these and other details on state taxes, see *Tax Foundation Background Paper*, No. 57, "2008 State Business Tax Climate Index" (Fifth Edition) at www.TaxFoundation.org/publications/show/22658.html, or for just state income taxes, see www.TaxFoundation.org/taxdata/show/228.html.

Source: State tax forms.

Tax Fact:
Length of 1040 form and instructions in 1913: 4 pages. Today: 144 pages.

Best States and Counties for Property Taxes

No tax riles the American people more than property taxes, especially real estate taxes that are based on the value of their homes and land.

What partly explains this loathing is taxpayers' more acute awareness of what property taxes cost them. Sometimes, property taxes are paid into an escrow account without much personal attention from the taxpayer, but often property taxes involve the actual writing of a big check to the local government. Regardless of the reason for this intense anti-tax sentiment, the most heated debates in recent years throughout state capitals and local governments have been over rising property tax bills.

Governors run on campaign platforms that appeal to voters' desires to cut property taxes. The issue of property taxes dominates school board elections and local referenda. All manner of legislation has been justified by the claim that it will provide property tax relief, including new taxes on income, new sales taxes, new slot machines or lotteries, and new cigarette taxes. The list goes on and on. It is no wonder that politicians are talking so much about property taxes. Recent tax collection data is a chronicle of rapidly rising property taxes.

Property tax on real estate is almost entirely the province of local governments, especially school districts. State-level property taxes do exist in 38 states, but those are rarely levied on real property. Rather, they are levied on personal property such as cars and boats. Even these taxes are fairly trivial, providing less than one percent of total state revenue.

Local governments, on the other hand, collect an enormous portion of their tax revenue from property taxes — 73 percent in the most recent year. Even counting the significant amount of non-tax revenue that local governments receive from federal and state governments, local property taxes still amount to 25 percent of all local revenue.

Property tax collections have grown faster than any other major tax source over the past five years. During the economic boom of the 1990s, personal income growth outpaced property tax growth in nearly every year. However, since the bursting of the stock market bubble in 2000 and the recession that followed, annual increases in property tax bills have far exceeded personal income growth. This is mostly due to the fact that while personal and business incomes were growing modestly or stagnating between 2001 and 2003, housing prices were soaring.

"I … shall never use profanity except in discussing house rent and taxes. Indeed, upon second thought, I will not use it then, for it is unchristian, inelegant, and degrading—though to speak truly I do not see how house rent and taxes are going to be discussed worth a cent without it."

— Mark Twain

Property Taxes on Owner-Occupied Housing*, Top Ten and Bottom Ten Counties, 2006

County	State	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Hunterdon County	NJ	$7,999	1	$475,300	1.7%	105	$101,955	7.8%	5
Nassau County	NY	$7,706	2	$506,800	1.5%	149	$95,430	8.1%	3
Westchester County	NY	$7,626	3	$581,600	1.3%	213	$103,847	7.3%	10
Somerset County	NJ	$7,318	4	$457,000	1.6%	125	$104,152	7.0%	12
Bergen County	NJ	$7,237	5	$493,400	1.5%	172	$93,441	7.7%	6
Essex County	NJ	$7,148	6	$409,300	1.7%	92	$86,286	8.3%	2
Rockland County	NY	$7,041	7	$502,300	1.4%	186	$93,527	7.5%	7
Morris County	NJ	$6,852	8	$488,900	1.4%	188	$101,670	6.7%	15
Union County	NJ	$6,703	9	$419,000	1.6%	126	$85,327	7.9%	4
Passaic County	NJ	$6,663	10	$406,300	1.6%	114	$79,505	8.4%	1
McKinley County	NM	$164	774	$67,400	0.2%	758	$32,908	0.5%	767
Walker County	AL	$162	775	$77,300	0.2%	764	$42,212	0.4%	775
DeKalb County	AL	$160	776	$80,700	0.2%	767	$33,095	0.5%	768
Calcasieu Parish	LA	$158	777	$90,500	0.2%	774	$51,062	0.3%	780
Terrebonne Parish	LA	$157	778	$98,600	0.2%	776	$52,132	0.3%	781
Rapides Parish	LA	$151	779	$97,500	0.2%	777	$45,270	0.3%	779
Lafourche Parish	LA	$150	780	$102,100	0.1%	779	$51,007	0.3%	783
Iberia Parish	LA	$145	781	$79,000	0.2%	770	$41,317	0.4%	778
Apache County	AZ	$135	782	$66,700	0.2%	766	$26,351	0.5%	764
St. Landry Parish	LA	$131	783	$77,700	0.2%	775	$29,324	0.4%	771

* The figures in this table are for property taxes paid by households on owner-occupied housing. As a result, they exclude property taxes paid by businesses, renters, and others. Full table of 783 counties with populations greater than 65,000 located at www.TaxFoundation.org/taxdata/show/1888.html. There are 3,077 total counties in the United States. "Median Property Taxes Paid on Homes" is the median real estate tax paid on owner-occupied housing units for that county. The home value statistic used is the median value of owner-occupied housing units for that county. The income statistic used is the median household income for those households that are owner-occupied housing units.

Source: U.S. Census Bureau, 2006 American Community Survey; Tax Foundation calculations.

Property taxes are the highest in the Northeast, Texas, Illinois, and Wisconsin while they tend to be lower in the South as well as Delaware, Hawaii and New Mexico.

The housing market has cooled, and some analysts are predicting that home values will continue to decline. If so, property taxpayers beware. Local governments and school districts will have three possible responses: (1) raise the tax rates to extract the revenue they've budgeted for, (2) cut spending, and/or (3) request funds from higher levels of government.

But the mere possibility of property values dropping suddenly, and property tax revenues with them, should serve as a warning to local governments. Hopefully, local governments have not become overly dependent on boom-time revenue streams.

"As a citizen, you have an obligation to the country's tax system, but you also have an obligation to yourself to know your rights under the law."

— Donald C. Alexander, former IRS commissioner

Property Taxes on Owner-Occupied Housing, Top Ten and Bottom Ten States*, 2006

State	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
New Jersey	$5,773	1	$366,600	1.57%	5	$82,116	7.03%	1
New Hampshire	$4,136	2	$253,200	1.63%	4	$71,779	5.76%	2
Connecticut	$4,049	3	$298,900	1.35%	10	$79,678	5.08%	4
New York	$3,301	4	$303,400	1.09%	16	$70,092	4.71%	7
Massachusetts	$3,195	5	$370,400	0.86%	23	$77,591	4.12%	9
Rhode Island	$3,186	6	$295,700	1.08%	17	$69,166	4.61%	8
Illinois	$3,061	7	$200,200	1.53%	7	$64,598	4.74%	5
Vermont	$3,036	8	$193,000	1.57%	6	$57,890	5.24%	3
Wisconsin	$2,845	9	$163,500	1.74%	2	$60,137	4.73%	6
California	$2,510	10	$535,700	0.47%	46	$75,472	3.33%	17
Wyoming	$792	42	$148,900	0.53%	39	$56,846	1.39%	46
Kentucky	$749	43	$111,000	0.67%	34	$48,372	1.55%	41
New Mexico	$747	44	$141,200	0.53%	40	$49,948	1.50%	42
South Carolina	$703	45	$122,400	0.57%	38	$49,896	1.41%	43
Oklahoma	$677	46	$94,500	0.72%	31	$48,234	1.40%	45
Arkansas	$469	47	$93,900	0.50%	42	$45,166	1.04%	47
Mississippi	$437	48	$88,600	0.49%	43	$42,646	1.02%	48
West Virginia	$422	49	$89,700	0.47%	45	$41,901	1.01%	49
Alabama	$328	50	$107,000	0.31%	49	$47,977	0.68%	50
Louisiana	$179	51	$114,700	0.16%	51	$49,446	0.36%	51

* The figures in this table are for property taxes paid by households on owner-occupied housing. As a result, they exclude property taxes paid by businesses, renters, and others. See full table at www.TaxFoundation.org/taxdata/show/1913.html. "Median Property Taxes Paid on Homes" is the median real estate tax paid on owner-occupied housing units for that state. The home value statistic used is the median value of owner-occupied housing units for that state. The income statistic used is the median household income for those households that are owner-occupied housing units.

Source: U.S. Census Bureau's 2006 American Community Survey; Tax Foundation calculations

Best States for Business

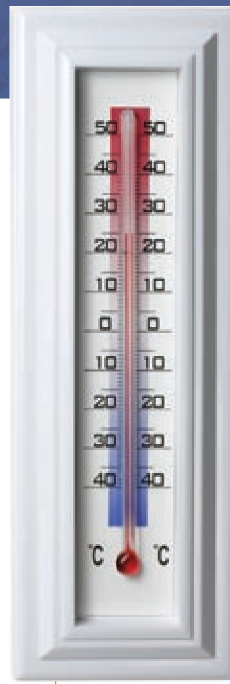
While Americans pay close attention to individual tax rates, there is a tendency among many to tune out when the conversation turns to business taxes. This is a mistake. The tax climate for business should be important to all Americans, regardless of whether they actually own businesses themselves.

Anybody who owns stock in a company stands to lose if higher tax rates reduce that company's earnings growth. Additionally, basic economics tells us that a corporation forced to pay high taxes must offset that cost by taking one of three courses of action. Charge higher prices, although competitive pressures can limit this option. Pay less in profit to investors, but investors' funds are nimbly re-invested elsewhere when profits dip. Finally, the company can pay lower salaries, give less generous employee benefits, or hire fewer people. In the increasingly dynamic economy, it could also mean that businesses relocate to places where the tax climate is more inviting.

It is for this reason that each year the Tax Foundation publishes the State Business Tax Climate Index. This annual study ranks the 50 states in terms of their tax-friendliness to business. The index is a tool for lawmakers, the media, and individuals alike to assess how their states' tax systems compare. Policymakers can use the index to pinpoint changes to their tax systems that will explicitly improve their states' standing in relation to competing states.

Although the market is now global, the Department of Labor reports that most mass job relocations are from one U.S. state to another rather than to an overseas location. This means that state lawmakers must be aware of how their states' business climates match up to their immediate neighbors and to other states within their regions.

Rather than focus on a single tax which would only give part of the picture of how tax-friendly a state is to businesses, the index takes five components into account: corporate taxes, individual income taxes, sales taxes, unemployment taxes, and property taxes.



Which States Have the Most and Least Competitive Business Tax Climates?

Wyoming is providing the best tax climate for businesses in 2008, with South Dakota, Nevada, Alaska, Florida, Montana, New Hampshire, Texas, Delaware, and Oregon rounding out the top ten.

Property taxes and unemployment insurance taxes are levied in each of these states, but Wyoming, Nevada and South Dakota have no corporate or individual income tax; Alaska has no individual income or state-level sales tax; Florida and Texas have no individual income tax; and New Hampshire, Delaware, Oregon and Montana have no sales tax.

Rhode Island holds the distinction of having the worst tax climate for businesses, with New Jersey, New York, California, Ohio, Iowa, Vermont, Nebraska, Minnesota and Maine comprising the rest of the bottom ten.

Rhode Island has the worst unemployment tax system, the third worst property tax system, and the fourth worst individual income tax system. New Jersey has the second worst individual income tax system and the second worst property tax system.

New York has the second worst sales tax system and the fifth worst unemployment tax system.

The ideal tax system—whether at the local, state or federal level—is simple, transparent, stable, neutral to business activity, and pro-growth. In such an ideal system, individuals and businesses would spend a minimum amount of resources to comply with the tax system, understand the true cost of the tax system, base their economic decisions solely on the merits of the transactions, without regard to tax implications, and not have the tax system impede their growth and prosperity.

While no state will realize this ideal, the most competitive tax systems, and the ones that score best in the index, are those that create the fewest economic distortions by enforcing the most simple, pro-growth tax systems characterized by broad bases and low rates.

Major Components of the State Business Tax Climate Index, Top Ten and Bottom Ten States, FY 2008

State	Overall Rank	Corporate Tax Index Rank	Individual Income Tax Index Rank	Sales Tax Index Rank	Unemployment Insurance Tax Index Rank	Property Tax Index Rank
Wyoming	1	1	1	9	34	30
South Dakota	2	1	1	38	33	11
Nevada	3	1	1	43	41	13
Alaska	4	26	1	5	47	22
Florida	5	14	1	19	2	18
Montana	6	16	20	3	21	8
New Hampshire	7	50	9	1	38	36
Texas	8	47	7	28	14	27
Delaware	9	48	32	2	7	7
Oregon	10	20	35	4	32	14
Maine	41	43	38	13	40	41
Minnesota	42	44	39	40	39	19
Nebraska	43	33	33	46	17	42
Vermont	44	32	46	15	16	46
Iowa	45	45	45	20	37	31
Ohio	46	37	48	36	11	44
California	47	40	50	42	15	5
New York	48	23	41	49	46	43
New Jersey	49	41	49	44	24	49
Rhode Island	50	34	47	33	50	48

Note: States without a particular tax rank equally as number 1. Source: *Tax Foundation Background Paper*, No. 57, "2008 State Business Tax Climate Index" (Fifth Edition) at www.TaxFoundation.org/publications/show/22658.html.

Tax Fact:
The federal income tax code and regulations grew from 718,000 words in 1955 to over 7 million in 2005.

Retirement

There are many reasons people relocate after retiring: the weather, proximity to family, cultural and recreational resources, and, of course, taxes. We hate the idea of people being pushed around by taxes, but there is no denying that the current tax system — federal, state and local — can have a significant impact on a retiree's quality of life.

There is no one-size-fits-all approach to choosing a state for retirement based on taxes. People have vastly different financial situations, and a complex interplay of factors determines the impact a state's tax system will have on a specific individual.

Income Taxes

A retiree must consider not only a state's income tax rate, but also which types of income are taxed. Of course, the seven states with no income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) are the most retiree-friendly in this regard. Tennessee and New Hampshire tax only interest and dividends, so they are also tax-friendly destinations. Many other states offer exemptions or credits for individuals over a certain age.

State Personal Income Taxes on Retirement Income, 2005

State	Military Pension Exclusion	Social Security Exclusion	Private Pension Exclusion
Alabama	Full	Full	Income from defined benefit plans
Alaska	Full – no personal income tax	Full – no personal income tax	Full – no personal income tax
Arizona	$2,500	Full	None
Arkansas * †	$6,000	Full	$6,000, including IRA distributions after age 59 and a half
California	None	Full	None
Colorado * †	65+: $24,000; 55-65: $20,000	65+: $24,000; 55-65: $20,000	65+: $24,000; 55-65: $20,000
Connecticut	50% exclusion beginning in tax year 2008	Taxed above an income threshold	None
Delaware * †	60+: $12,500; Under 60: $2,000	Full	60+: $12,500; Under 60: $2,000
D.C.	62+: $3,000	Full	None
Florida	Full – no personal income tax	Full – no personal income tax	Full – no personal income tax
Georgia * †	62+: $25,000 (2006)	Full	62+: $25,000 (2006)
Hawaii	Full	Full	Full for contributory plans
Idaho †	65+ (62+ if disabled): $21,900 single, $32,850 joint	Full	None
Illinois	Full	Full	Full for qualified retirement plans
Indiana	62+: $2,000 single, $4,000 joint	Full	None
Iowa *	55+: $6,000 single, $12,000 joint Beginning 2007: 65+: $18,000 single, $24,000 joint	50% taxable above an income floor; taxation phased out entirely from 2007 through 2014	55+: $6,000 single, $12,000 joint Beginning 2007: 65+: $18,000 single, $24,000 joint

State	Military Pension Exclusion	Social Security Exclusion	Private Pension Exclusion
Kansas	Full	Taxable to extent federally taxed	None
Kentucky *	Full for benefits earned before 1/1/98. Capped at $41,110 for tax year 2006 and later	Full, subject to income exclusion cap of $41,110	Full for benefits earned before 1/1/98. Capped at $41,110 for tax year 2006 and later
Louisiana	Full	Full	65+: $6,000 single, $12,000 joint
Maine *	$6,000 per taxpayer minus Social Security/railroad benefits	Full	$6,000 exclusion applies to 401(a), 403, 457(b) plans
Maryland *	65+: $21,500 per person minus Social Security/railroad benefits (2006); $5,000 exclusion at age 65 (2006)	Full	65+: $21,500 per person minus Social Security/railroad benefits. Not applicable to IRA, Roth IRA, SEP or Keogh plans
Massachusetts	Full	Full	None
Michigan	Full	Full	$38,550 single, $77,100 joint (minus public retirement benefits)
Minnesota	None	Taxable to extent federally taxed	None
Mississippi	Full	Full	Full for qualified plans
Missouri * †	$6,000 single, $12,000 joint, reduced as income rises	Taxable to extent federally taxed	$4,000 (counted toward the $6,000 cap if applicable)
Montana *	Up to $3,600 for filers whose Adjusted Gross Income is less than $30,000	Taxable if income including SS exceeds $25,000 single, $32,000 joint.	Up to $3,600 for filers whose Adjusted Gross Income is less than $30,000
Nebraska	None	Taxable to extent federally taxed	None
Nevada	Full – no personal income tax	Full – no personal income tax	Full – no personal income tax
New Hampshire	Full – taxes only interest, dividends	Full – taxes only interest, dividends	Full – taxes only interest, dividends
New Jersey	Full	Full	62+: $15,000 single, $20,000 joint. Income limits apply
New Mexico *	62+: $10,000 single, $16,000 joint, phased out as income rises and none if AGI over $25,500 single and $51,000 joint	62+: $10,000 single, $16,000 joint, phased out as income rises and none if AGI over $25,500 single and $51,000 joint	Railroad income exempt. 62+: $10,000 single, $16,000 joint, phased out as income rises and none if AGI over $25,500 single and $51,000 joint
New York	Full	Full	$20,000 for taxpayers aged 59 years six months and older
North Carolina *	$4,000 single; $8,000 joint	Full	$2,000 single; $4,000 joint
North Dakota	$5,000 minus any Social Security benefit	Taxable to extent federally taxed	None
Ohio	Tax credits -- see note	Full	Tax credits -- see note
Oklahoma	Greater of 50% or $10,000 for retirees with income below $37,500 (single) and $75,000 (joint).	Full	Greater of 50% or $10,000 For retirees with income below $37,500 (single) and $75,000 (joint).
Oregon	Tax credit up to 9% of taxable pension income – see note	Full	Tax credit up to 9% of taxable pension income – see note
Pennsylvania	Full	Full	Full
Rhode Island	None	Taxable to extent federally taxed	None

State	Military Pension Exclusion	Social Security Exclusion	Private Pension Exclusion
South Carolina	65+: $10.000; Under 65: $3,000	Full	65+: $10.000; Under 65: $3,000
South Dakota	Full – no personal income tax	Full – no personal income tax	Full – no personal income tax
Tennessee	Taxes only interest, dividends; 65+: $16,200 single, $27,000 joint	Taxes only interest, dividends; 65+: $16,200 single, $27,000 joint	Taxes only interest, dividends; 65+: $16,200 single, $27,000 joint
Texas	Full – no personal income tax	Full – no personal income tax	Full – no personal income tax
Utah *	65+: $7,500 single, $15,000 joint; Under 65: $4,800 single, $9,600 joint	65+: $7,500 single, $15,000 joint; Under 65: $4,800 single, $9,600 joint	65+: $7,500 single, $15,000 joint; Under 65: $4,800 single, $9,600 joint
Vermont	None	Taxable to extent federally taxed	None
Virginia *	65+: $12,000; 62-64: $6,000	Full	65+: $12,000; 62-64: $6,000
Washington	Full – no personal income tax	Full – no personal income tax	Full – no personal income tax
West Virginia	$22,000	Taxable to extent federally taxed	None; see note
Wisconsin	Full	Currently up to 50%; Full exemption in tax year 2008 and thereafter	None
Wyoming	Full – no personal income tax	Full – no personal income tax	Full – no personal income tax

* Exemption levels apply to total retirement income, not to each type of income.

† Social Security and Railroad Retirement income exempted

Notes:

Colorado: Social Security and Railroad Retirement income not taxed by the federal government is not added back to AGI for state income tax purposes.

Georgia: $4,000 of the amount can be earned income. Exclusion will rise to $30,000 for tax year 2007 and $35,000 for tax year 2008 and subsequent years.

Missouri: The income caps are $25,000 single, $32,000 married filing jointly.

New Jersey: Taxpayers over 62 are entitled to an additional income exclusion to allow them to reach the amount of the pension exclusion. The sum of the pension exclusion and the additional exclusion may exceed the pension exclusion if the recipient is ineligible to receive Social Security retirement payments. NJ Statutes 54A-6-15. Income limits (added by legislation in 2005) end the exclusion for joint filers with more than $100,000 in income and single filers with more than $50,000.

Ohio: 65+: tax credit of $25 per return, and a one-time tax credit for lump-sum distributions -- $50 multiplied by remaining life expectancy. Retirement income tax credit up to $200, depending on income.

Oregon: Tax credit of up to 9 percent of taxable pension income is available to recipients of pension income, including most private pension income, with household income less than $22,500 single, $45,000 joint and receiving less than $7,500/$15,000 in SS or RR benefits. The credit is the lesser of tax liability or 9 percent of taxable pension income.

South Carolina: 65+ entitled to total income exemption of $15,000 single, $30,000 joint, less the retirement income exemption claimed.

Utah: 65+: income exemption $7,500 single, $15,000 joint, reduced by 50 percent of federal AGI, plus 50 percent of any lump-sum distribution reported as federal income, plus federal tax-exempt income in excess of $25,000 single, $32,000 joint. Under 65: exemption caps for qualifying retirement income are $4,800 single, $9,600 joint.

Virginia: The $6,000 deduction will not be available to those who turn 62 after January 1, 2004. For future beneficiaries, there will be a dollar-for-dollar reduction in the benefit as modified federal AGI, which excludes Social Security, rises above $75,000 for joint filers and $50,000 for single filers.

West Virginia: Each taxpayer over 65 can claim an $8,000 exemption, from which the pension exclusions noted in the table must be deducted. Through 2006 only, West Virginia created an income exclusion to benefit persons who retired under private sector defined benefit plans that have failed to provide benefits as originally scheduled, with the amount of the benefit based upon the loss of potential income.

Wisconsin: State and local pensions and federal civilian and military pension income exemptions exist for those who retired before January 1, 1964 or who receive a pension benefit from an account established before that date. A military retirement pension benefit enacted in 2001 will become effective on January 1, 2002.

Source: National Conference of State Legislatures

Of the states with full personal income taxes, Pennsylvania could be considered the friendliest to retirees, as it exempts all three common types of retirement income: Social Security, private pensions and military pensions.

Other states that have made substantial tax concessions are New York, New Jersey, Mississippi, Michigan, Louisiana, Illinois, Hawaii, Georgia and Alabama. Less-friendly states are Minnesota, Nebraska, New Mexico, Rhode Island and Vermont.

Many retirees also receive dividends, interest and capital gains income. In fact, reliance on these types of income grows with age (see www.TaxFoundation.org/publications/show/1255.html). However, most states treat them just like wages. That highlights all the more the tax-friendliness of seven states. Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming have no individual income tax at all, so these common sources of retirement income go untaxed. Meanwhile, Tennessee and New Hampshire forgive the tax on wages and capital gains, but they do tax dividends and interest. See www.TaxFoundation.org/taxdata/show/228.html for a complete state listing.

While income taxes can consume significant portions of retirees' income, they are hardly the whole picture. Other taxes must also be taken into consideration.

Property Taxes

Many people dream of buying a beautiful home after retiring, and they will need to think about property taxes. Most property taxes are levied locally, so one state can have many different rates, but there are still some general trends across states. Property taxes are highest in the Northeast, Texas, Illinois, and Wisconsin, and New York and New Jersey top the list of high-tax counties (see pages 20–22).

Every state except Vermont and Wisconsin offers some sort of special property tax prevision for seniors. This takes different forms in different states: it can be an exemption or a credit, it can simply allow seniors the opportunity to defer property tax payments, it can apply at age 65 or younger, it can apply at varying income levels, and it can be implemented at the state level or the county level.

Visit our Web site for more on property taxes: www.TaxFoundation.org/taxdata/topic/89.html.

"A government which lays taxes on the people not required by urgent public necessity and sound public policy is not a protector of liberty, but an instrument of tyranny. It condemns the citizen to servitude."

— Calvin Coolidge

Sales and Excise Taxes

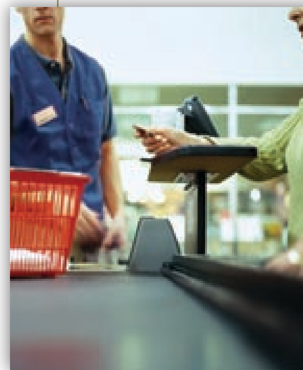
Retirees looking for a good tax deal should also examine their spending habits and the sales or excise taxes of the states they are considering. Dining in restaurants, staying in hotels while traveling, using gasoline for long car trips, buying expensive gifts for the grandkids, buying alcohol or tobacco products, and even basics like buying groceries and medicine can add up to a hefty tax bill.

Many people underestimate the impact of sales and excise taxes. For example, if a married couple, both of whom smoke a pack of cigarettes a day, move from New Jersey to South Carolina, they will save over $1,800 a year in cigarette taxes alone. (It is illegal to ship them in.)

Excise tax rates for tobacco, alcohol and gas are available on our Web site at www.TaxFoundation.org/taxdata/show/245.html.

The chart below displays the five states with the highest combined state-local sales tax rates and the five with the lowest or no sales taxes (a full list can be found at www.TaxFoundation.org/taxdata/show/245.html). The chart also shows which of these states tax groceries, restaurant food, prescription medication and nonprescription medication.

While many retirees no doubt pay attention to the amount of tax they pay at the checkout counter, exemptions for groceries—or any other good or service—drive up the sales tax rate on other products, benefit grocers more than customers, and add complexity to the tax code. However, until fundamental tax reform is enacted, it is understandable that consumers, especially retirees on a fixed income, take sales and excise taxes into account when choosing a place to live.



Sales Tax Rates, Top Five and Bottom Five States, As of December 31, 2006

State	State Rate	Avg. of Local Rates	Typical Total Rate	Rank	Tax Applies to Most Groceries	Tax Applies to Restaurant Meals	Tax Applies to Medicine Prescription/ Over the Counter
Tennessee	7.0%	2.4%	9.4%	1	Yes, 6%	Yes	No/Yes
Washington	6.5%	2.1%	8.6%	2	No	Yes	No/Yes
New York	4.0%	4.1%	8.1%	3	No	Yes	No/No
Louisiana	4.0%	4.0%	8.0%	4	No	Yes	No/Yes
California	6.25%	1.7%	7.95%	5	No	Yes	No/Yes
Colorado	2.9%	0.9%	3.8%	46	No	Yes	No/Yes
Delaware	None	None	None	50	NA	NA	NA
Montana	None	None	None	50	NA	3% in resort restaurants that serve alcohol	NA
New Hampshire	None	None	None	50	NA	8% meal tax	NA
Oregon	None	None	None	50	NA	Local only	NA

See 50-state list of state-level sales tax rates at www.TaxFoundation.org/taxdata/show/245.html

Source: Commerce Clearinghouse; Federation of Tax Administrators; state revenue department Web sites

Estate Tax

Another state tax that some retirees must worry about is the estate tax, called a death tax in some states. Retirees who are already planning for the federal estate tax may also have to consider state inheritance taxes.

No area of taxation is so complex. The 10-year changes in the federal estate tax passed as part of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) have affected state estate taxes, and many states that previously tied their rates to the federal tax have now "decoupled." Uncertainty about the one-year repeal of the federal estate tax in 2010 can cause estate-planning nightmares for residents of states that have not decoupled. However, if the federal estate tax is repealed beyond 2010, then residents of decoupled states will be at a disadvantage.

For more information on the estate tax and the reasons it constitutes poor tax policy, see our Web site: www.TaxFoundation.org/research/topic/99.html.

Retirees who take taxes into account when relocating should keep in mind that special provisions for seniors can change the relative weight of various taxes. A taxpayer who faced a steep income tax bill and relatively low property taxes before retirement may find himself with a property tax bill that overshadows his income taxes if he moves to a state that exempts all or most retirement income from taxation but levies high property taxes—even after special provisions for seniors—on his expensive new home.

Ideally, fundamental tax reform would eradicate all or most of the deductions, credits and exemptions that currently litter the federal and state tax codes, allowing tax rates to fall for everyone. This would let taxpayers have a more even tax burden throughout their lifetime and invest more money early on so they're better prepared for retirement and can choose a new state to live in based solely on the things that matter most (family, culture, etc.)—not taxes.

"Excessive taxation … will carry reason and reflection to every man's door, and particularly in the hour of election."

— Thomas Jefferson

Conclusion

Why do we even bother asserting that taxes matter? Everyone knows it, don't they? Alas, the nation is filled with politicians and reporters who think they don't matter. It's only the rest of us who know how crucial they are.

It's fitting that we closed our booklet with a denunciation of the estate tax because that's the one that closes all of us out, often bringing a taxing close to an overtaxed life.

In 1937, at the height of the New Deal when federal spending had grown 170 percent in the previous decade, the Tax Foundation was founded to monitor the growth of government.

From our founding day, we have been grounded in the belief that accurate information about government finance is the foundation of good policy in a free society.

We educate taxpayers about tax rates, tax collections, tax reform proposals, and of course the cost of government which ultimately drives tax policy. We advise lawmakers, reporters and citizens about how to improve tax systems at the federal, state and local levels. Our research and educational efforts have stood the test of time, and our annual calculation of Tax Freedom Day® remains one of the most widely used tools for illustrating America's tax burden.

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