

CHARTBOOK ON TAXES IN MARYLAND

Fourth Edition

January 2007



www.marylandpolicy.org

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About the Maryland Budget & Tax Policy Institute

The Maryland Budget & Tax Policy Institute (www.marylandpolicy.org) is a nonpartisan research organization that provides timely, accurate, and accessible analysis of Maryland budget and tax issues. In addition to general budget and tax research and analysis, the Institute examines issues affecting vulnerable populations and the important community programs that serve them.

The Institute is a project of the Maryland Association of Nonprofit Organizations (www.marylandnonprofits.org). The Institute is part of the State Fiscal Analysis Initiative (www.statefiscal.org) and the Economic Analysis and Research Network (www.earncentral.org), both of which are national networks of policy research organizations.

For additional information on the Institute, to be added to the e-mail list, or to make a tax-deductible donation, please visit the Web site at www.marylandpolicy.org.

Key Findings

- Maryland collects less public revenue relative to the state's economy than most other states.
- State and local own-source revenue in Maryland has declined over the past quarter of a century relative to the economy, while most other states' revenues have increased.
- Although Maryland's personal income tax collections are higher than most other states', its corporate income, sales, and property tax revenues are lower.
- Despite the significance of the personal income tax, Maryland's tax system is relatively well balanced. No one type of tax provides the majority of revenue.
- Maryland relies more heavily on local taxes than most other states, putting jurisdictions with lower tax bases or greater needs at a disadvantage.
- Maryland's personal income, gasoline, and cigarette tax rates are higher than in most other states, but are not greatly out of line. Its general sales tax rate is average.

Summary

Maryland collects less public revenue relative to the state's economy than most other states.

- All revenues: In 2004, Maryland ranked 48th among the 50 states in total state and local government revenues—including federal funds—as a percentage of personal income. (See Chart 1 on page 8.)
- Own-source revenue: Similarly, when one excludes federal revenues and focuses on those revenues that the state and localities raise themselves—known as “own-source revenue”—Maryland ranks 47th. (See Chart 2 on page 9.)
- Tax revenue only: Total state and local taxes in Maryland equaled 10.5 percent of personal income in the state in 2004, ranking the state 23rd among the 50 states. (See Chart 3 on page 10.)

Neighbor to Neighbor: How does Maryland compare to neighboring states and the District of Columbia?

Looking at state and local taxes:

In 2004, Maryland collected a lower percentage of personal income (10.5%) in total state and local taxes than the District of Columbia (14.3%), West Virginia (10.9%), and Pennsylvania (10.6%); about the same percentage as Delaware (10.5%); and more than Virginia (9.6%). Maryland was below the average for all states (10.7%).

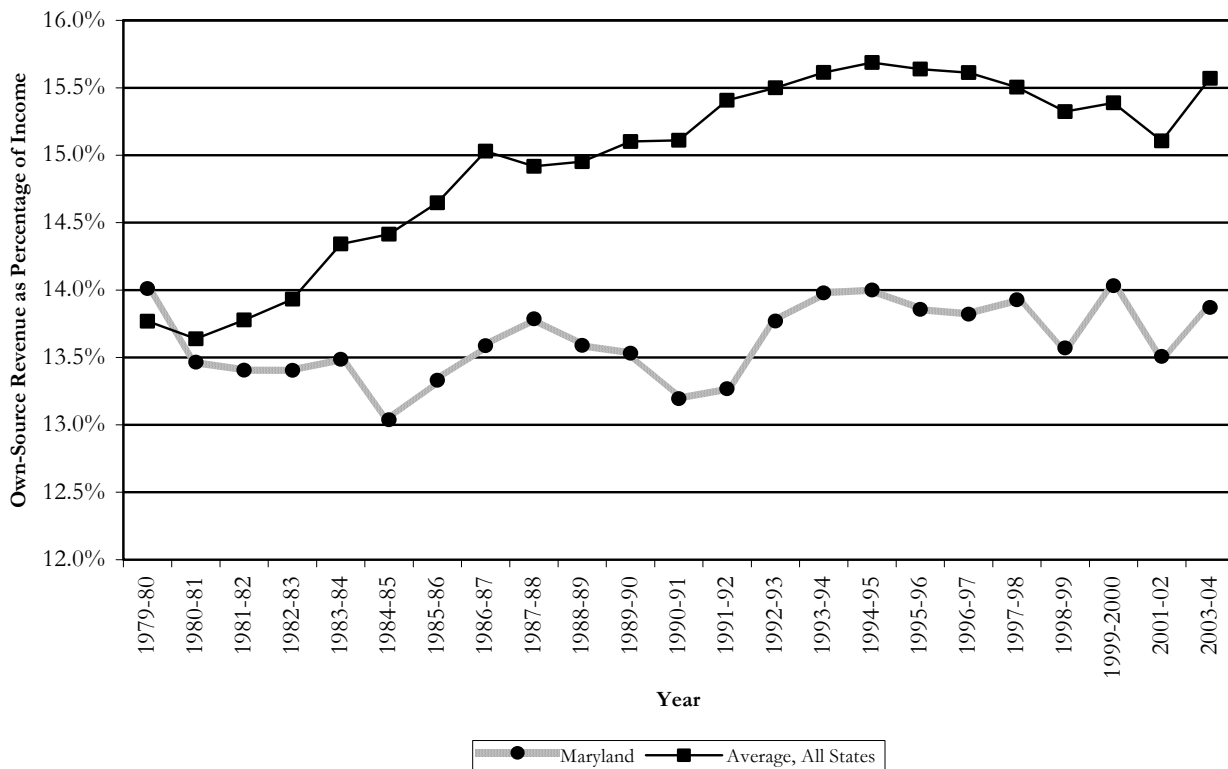
Looking at all state and local own-source revenue:

When one includes not only taxes but also other own-source revenues, Maryland ranks last. In 2004, Maryland collected 13.9 percent of personal income in total own-source revenue, putting it behind West Virginia (18.7%), Delaware (18.1%), the District of Columbia (17.7%), Pennsylvania (15.1%), and Virginia (14.2%). Maryland was well below the average for all states (15.6%).

State and local own-source revenue in Maryland has declined over the past quarter of a century relative to the economy, while most other states' revenues have increased.

- Maryland own-source revenue: Total state and local own-source revenues, including but not limited to taxes, declined—from 14.0 percent to 13.9 percent of personal income—between 1979-80 and 2003-04. (See graph below and Chart 4 on page 11.)
 - All states: While Maryland's own-source revenues declined, the average for all states and the District of Columbia increased dramatically from 13.8 percent to 15.6 percent. Maryland was one of only eight states to see a decline. (See graph below and Chart 4 on page 11.)

Decline in Maryland Own-Source Revenue as Share of Income, 1979-80 to 2003-04



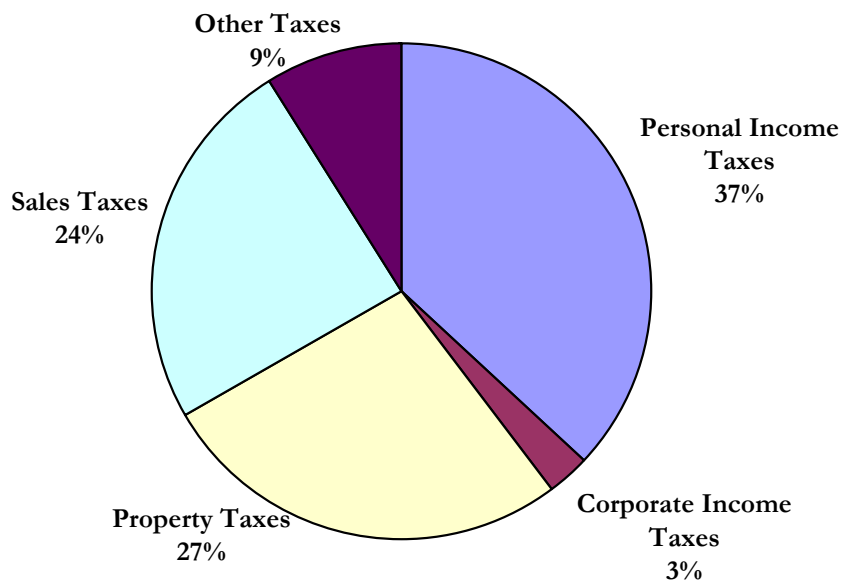
Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau. Data were unavailable for 2000-01 and 2002-03.

- Maryland tax revenue: Between 1979-80 and 2003-04, state and local taxes increased slightly, from 10.4 percent to 10.5 percent of personal income. However, this slight increase was not enough to offset the declines in other state and local own-source revenue. (See Table 2B in Section 2.)
 - All states: The average for all states and the District of Columbia increased from 10.3 percent to 10.7 percent. (See Table 2B in Section 2.)

Although Maryland’s personal income tax collections are higher than most other states’, its corporate income, sales, and property tax revenues are lower.

- Personal income taxes: In 2004, Maryland’s personal income tax collections equaled about 3.9 percent of total personal income in the state, placing Maryland third among the 50 states. (See Table 3A in Section 3.)
- Corporate income taxes: These taxes were only 0.3 percent of total personal income in 2004, which placed Maryland 30th among the states. (See Table 3B in Section 3.)
- Sales taxes: Sales tax collections in 2004 were 2.6 percent of total personal income, ranking Maryland 44th among the states. (See Table 3C in Section 3.)
- Property taxes: Property taxes equaled 2.8 percent of personal income in 2004, ranking Maryland 34th among the states. (See Table 3D in Section 3.)

Sources of Maryland's State and Local Tax Revenue



Despite the significance of the personal income tax, Maryland's tax system is relatively well balanced. No one type of tax provides the majority of revenue.

- The personal income tax is significant, but does not represent a majority. In 2004, it accounted for 37 percent of all tax revenue. (See graph on the preceding page.)
- Maryland is average among states in the percentage of tax revenue that it derives from its largest tax source. (See Table 3F in Section 3.)

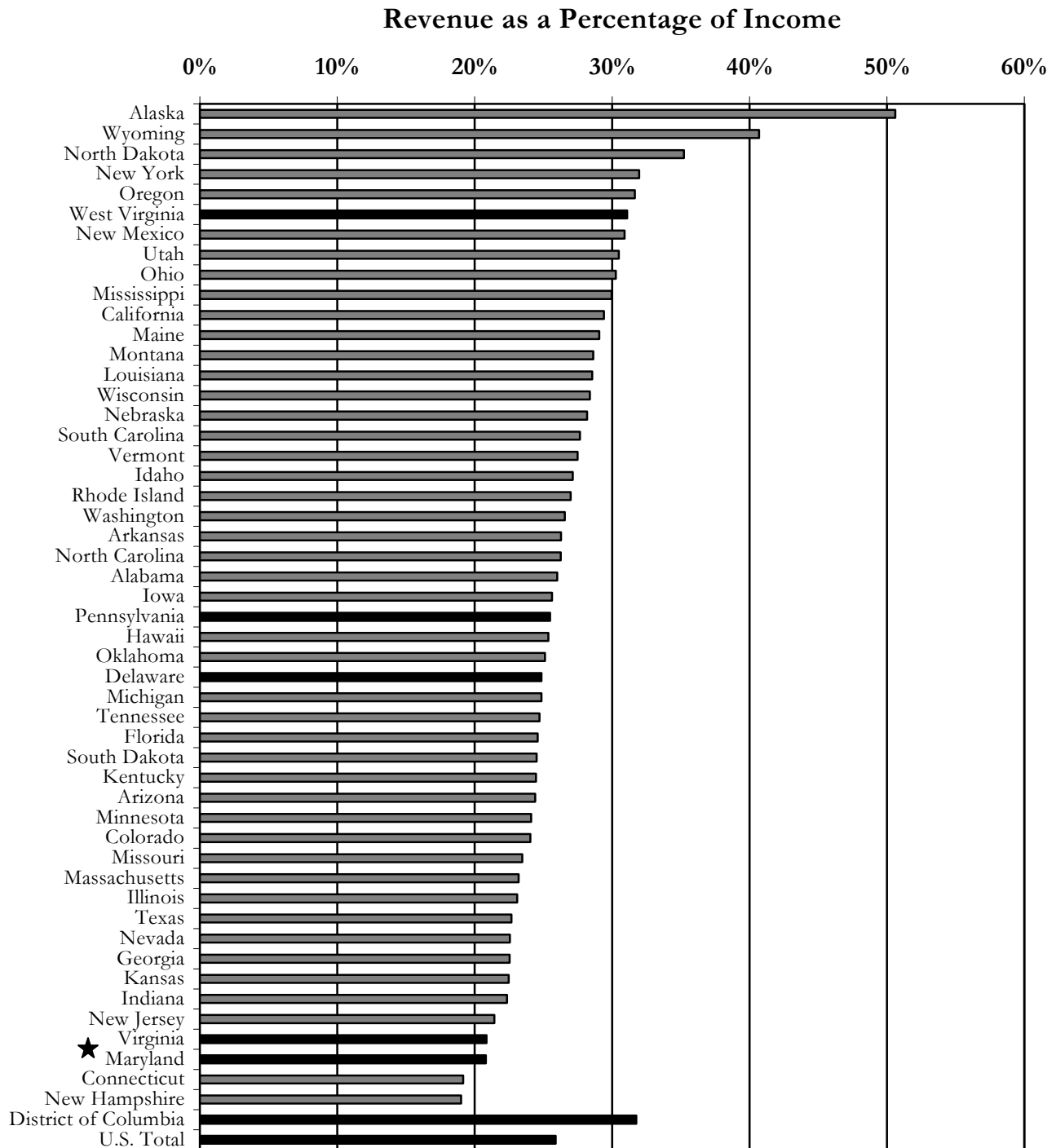
Maryland relies more heavily on local taxes than most other states, putting jurisdictions with lower tax bases or greater needs at a disadvantage.

- Maryland pays for a larger share of public programs and services locally than do most other states. In 2004, 45 percent of all state and local revenue was collected locally, placing Maryland 8th among the 50 states. (See Table 3G in Section 3.)
- As a consequence, jurisdictions that are not as wealthy and have lower tax bases—such as those in western Maryland and the lower Eastern Shore—along with urban jurisdictions that may have greater needs—such as Baltimore City and Prince George's County—are at a disadvantage compared to jurisdictions like Montgomery and Howard Counties.

Maryland's personal income, gasoline, and cigarette tax rates are higher than in most other states, but are not greatly out of line. Its general sales tax rate is average.

- Personal income tax rate: In 2006, Maryland's highest state income tax rate, 4.75 percent, ranked 36th among the 50 states. When top local income tax rates are added, Maryland ranked 13th (See Tables 4A and 4B in Section 4.)
- Gasoline tax rate: Maryland's 23.5 cents per gallon tax rate ranked 18th among the 50 states in 2006. (See Table 4C in Section 4.)
- Cigarette tax rate: In 2006, Maryland ranked 19th among the 50 states with its \$1.00 per pack cigarette tax. During the past five years, Maryland's tax rate increased but several other states' rates increased higher. (See Table 4D in Section 4.)
- Sales tax rate: Maryland's 5 percent retail sales tax ranked 25th among the 50 states as of 2004. In Maryland, food purchased for consumption off-premises is exempt from this tax, as are most services. (See Table 4E in Section 4.)

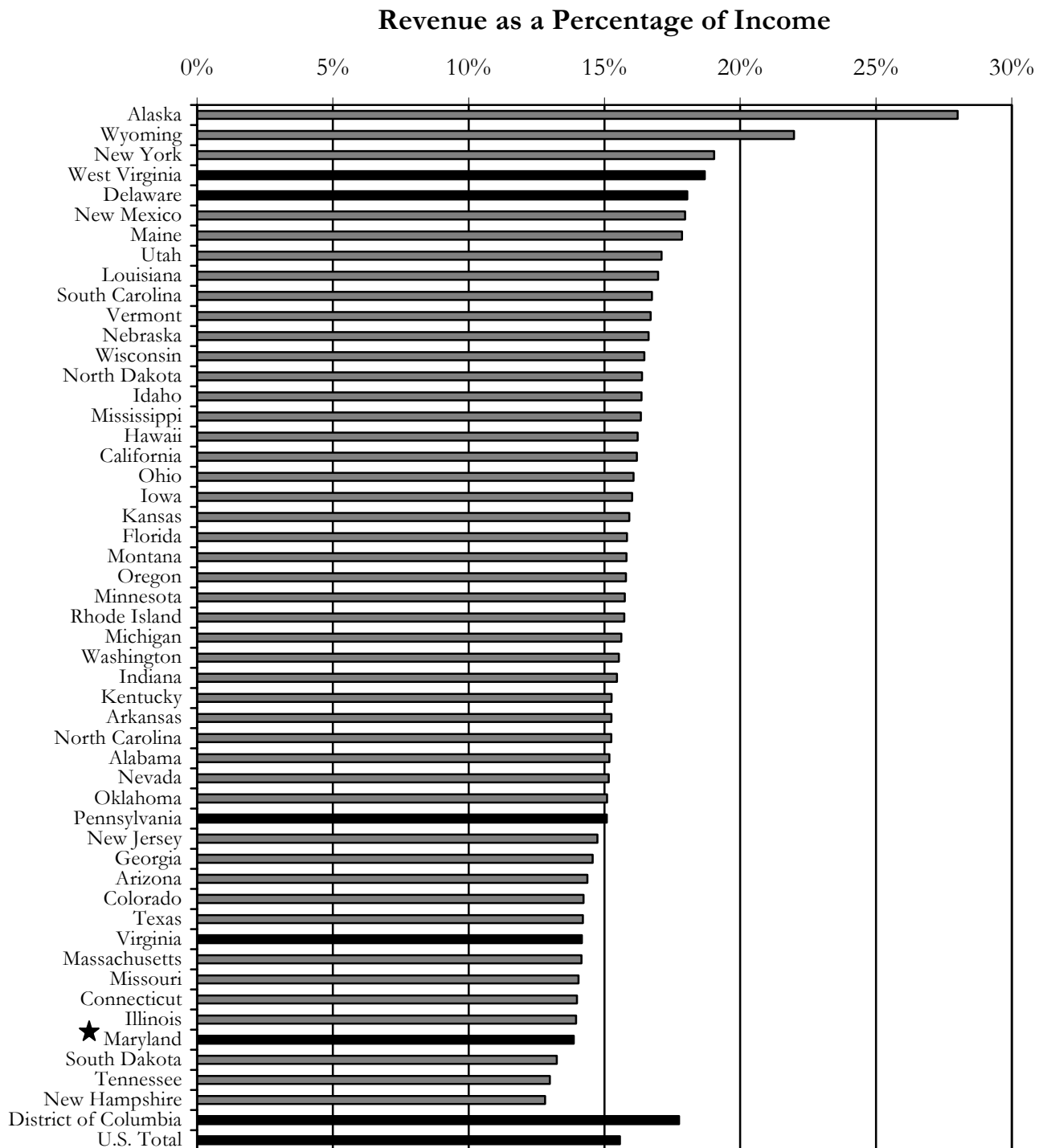
Chart 1: All State and Local Government Revenue, 2004



See also Table 1A in Section 1.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Chart 2: State and Local Own-Source Revenue, 2004

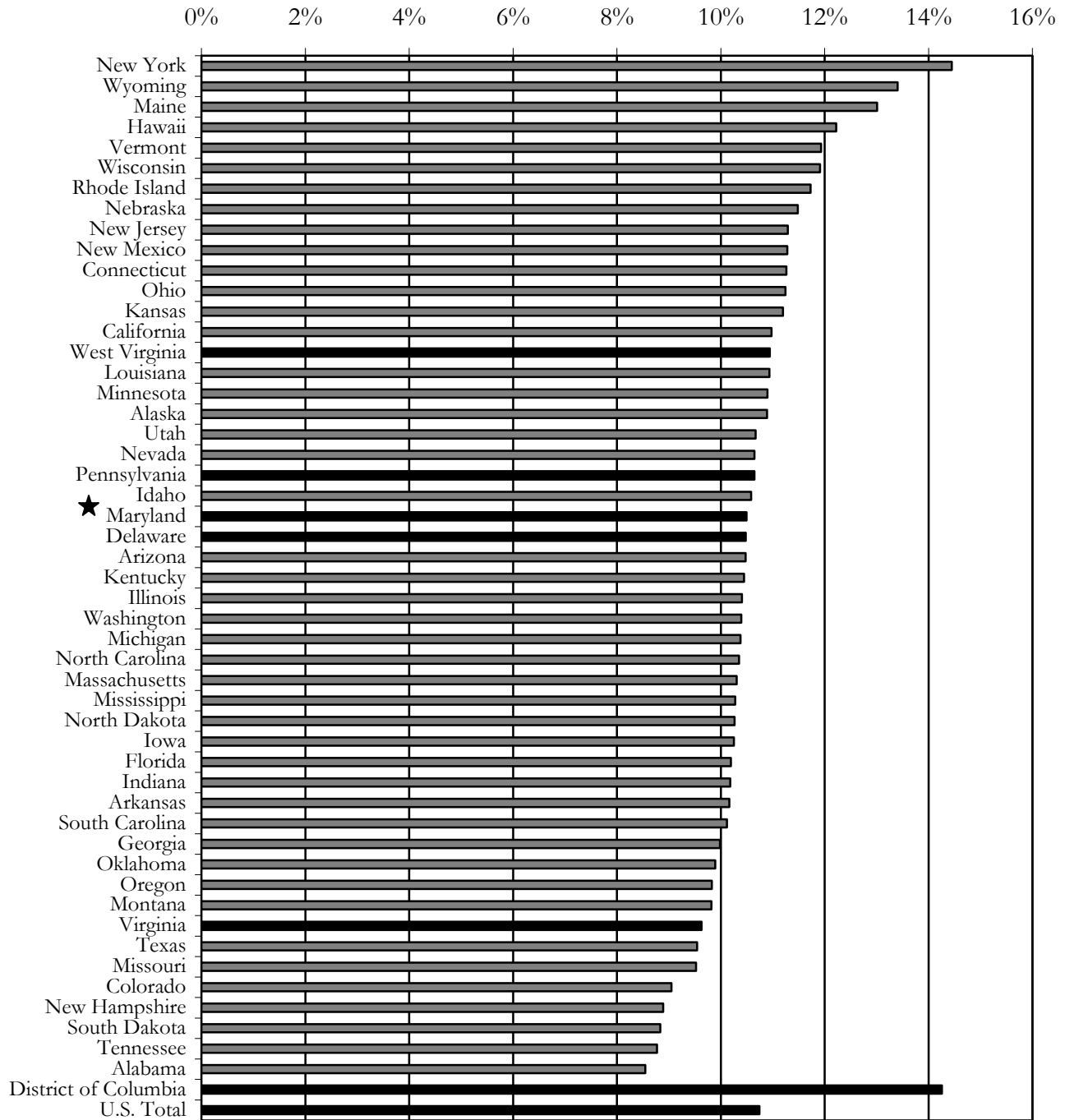


See also Table 1C in Section 1.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Chart 3: State and Local Taxes, 2004

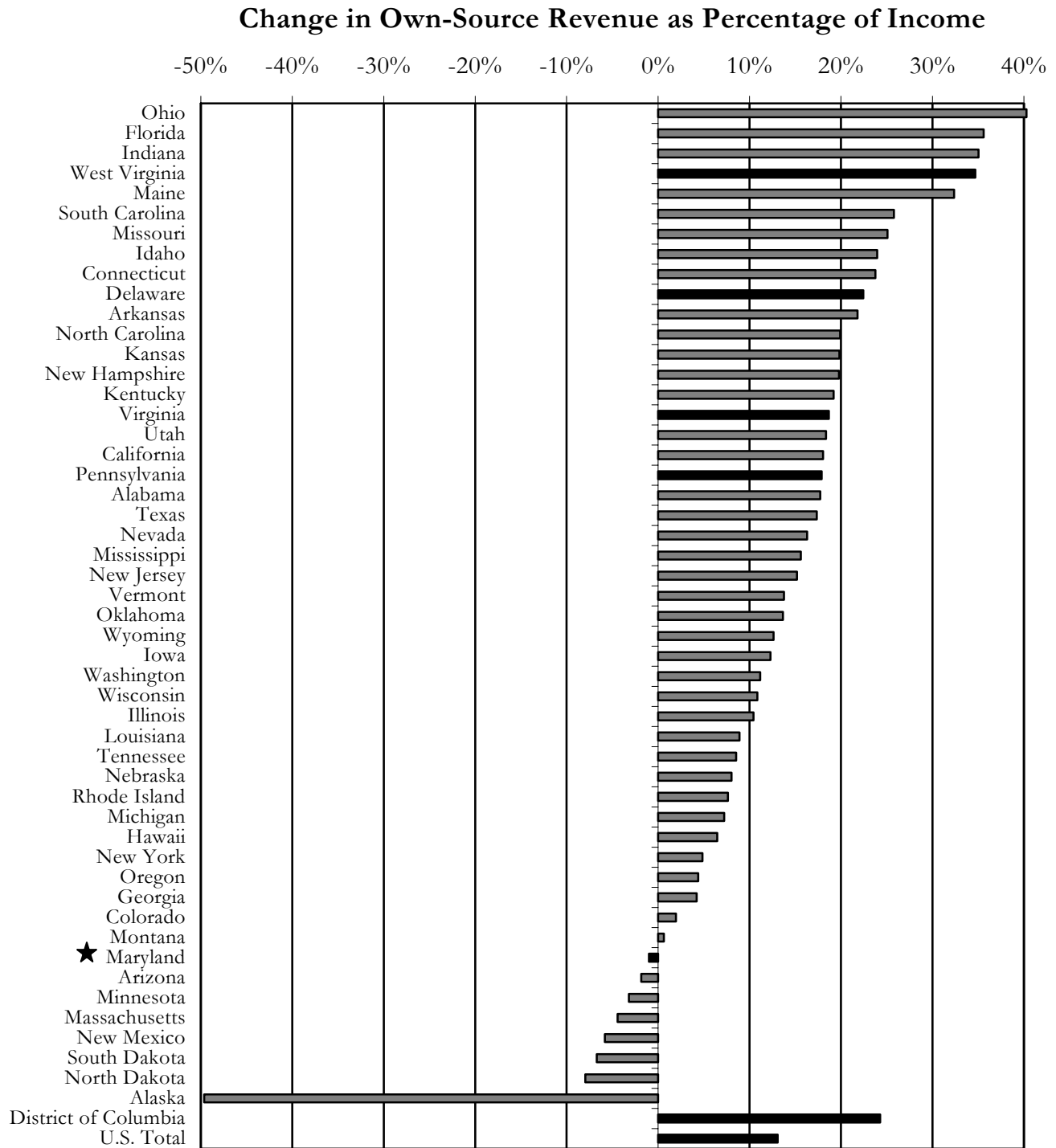
Taxes as a Percentage of Income



See also Table 1D in Section 1.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Chart 4: Own-Source Revenue Change, 1979-80 to 2003-04



See also Table 2A in Section 2.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Investing in the Common Good

All of us—regardless of age, background, health, wealth, or location—depend on a network of public investments and services that we have decided together are most efficiently, effectively, and fairly delivered through our local, state, and national governments. Revenues that state and local governments raise fund essential services and programs that benefit all Maryland residents and businesses.

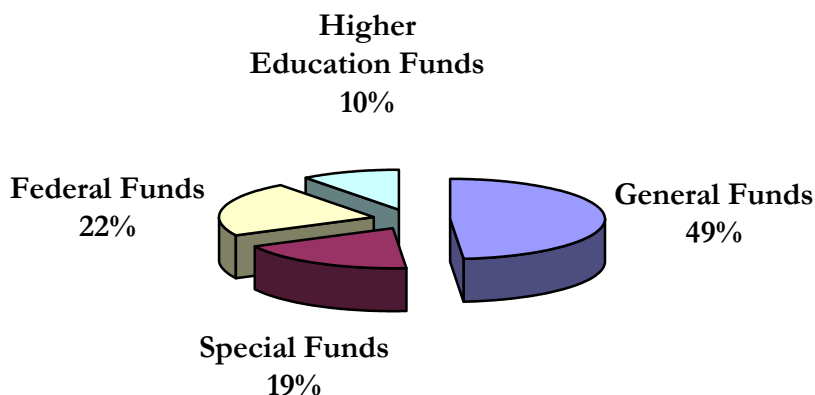
Major functions of state and local governments include the building and maintenance of roads and bridges; the education and training of children and adults in public schools, colleges, and universities; police and fire protection; the administration of justice through the operation of courts and prisons; consumer protection; and health care assistance for poor families, the elderly, and people with disabilities. From garbage collection to fire protection, roads to schools, public health to public safety, tax dollars support the daily upkeep of these investments for the common good.

Maryland's State Budget and Revenue Sources

For example, the State of Maryland's budget is about \$30 billion this year. (This amount includes state funds that go to localities but does not reflect the full budget of Maryland's local jurisdictions.) Though \$30 billion is not nearly as much as the budget of the United States—which is more than \$2 trillion—it is a lot more than most people deal with or think about in their everyday lives.

Unfortunately, state analysts estimate that Maryland's current revenue sources are inadequate to maintain even the current level of state services. In January 2007, these analysts projected a revenue shortfall of \$1.0 billion in the state's General Fund for the next fiscal year (the state's Fiscal Year 2008: July 1, 2007-June 30, 2008), growing to \$1.4 billion the following year.

Sources of Funding for Maryland's Budget



What are the sources of funding for the state’s budget?

- **People and businesses that reside in or visit Maryland** – Four of every five dollars that the State of Maryland takes in every year come from taxes, fees, tuition, and other revenues that individuals and businesses pay. (See graph on the preceding page.)
 - Most of these funds are called “general funds”; they are not dedicated to a particular purpose until the Governor and the General Assembly determine each year how to spend them. (Most of the rest of this chartbook discusses these revenues.)
 - About one tenth of the state budget is tuition and fees collected from higher education students, while another one-fifth are “special funds” that are dedicated to a particular purpose like land preservation or transportation.
- **The federal government** – About one of every five Maryland state budget dollars comes from the United States government. (See graph on the preceding page.)
 - These are dollars that the federal government provides to help the state support education, health care, transportation, and other important activities that are national priorities carried out in partnership with local communities and states.
 - Most federal grants require a state contribution: when Maryland spends a certain amount for a particular purpose, the federal government provides a “matching” grant. The more the state spends, the bigger the federal match (up to a certain point). Medicaid, which supports health care for low-income children and adults, is a good example of this kind of arrangement.

Tax Fairness

When discussing taxes and other revenues, it is useful to know some key terms used to describe the incidence of a tax on certain groups of people.

“Regressive” = The lower your income, the higher percentage of your income you pay.
Example: Sales, gasoline, and cigarette taxes

“Proportional” = Everyone pays the same percentage of their income.
Example: “Flat” tax

“Progressive” = The higher your income, the higher percentage of your income you pay.
Example: Personal income tax

Tables Comparing Maryland to Other States and the District of Columbia

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- Table 5A: Personal Income Per Capita

Section 1: State and Local Revenues

The most comprehensive measures of state and local revenue include not only taxes but also other sources of funding for public investments and services. These other sources include grants from the federal government for highway construction, medical assistance, and other purposes, and non-tax revenue such as tuition at public universities, and highway and bridge tolls. Similarly, a comprehensive measure of taxes includes all forms of taxation, including income taxes, property taxes, sales taxes, and tax-like license fees.

➤ **Maryland collects less public revenue relative to the state's economy than most other states.**

The tables in this section show that, in 2004:

- All revenues: Maryland ranked 48th among the 50 states in total state and local government revenues—including federal funds—as a percentage of personal income. (See Table 1A.)
- Federal revenue: Maryland ranked 45th among the 50 states in the receipt of federal revenues as a percentage of personal income, due in part to its' having one of the very highest average income levels in the nation. (See Table 1B and Section 5.)
- Own-source revenue: When one excludes federal revenues and focuses on those revenues that the state and localities raise themselves—known as “own-source revenue”—Maryland ranked 47th. (See Table 1C.)
- Tax revenue only: Total state and local taxes in Maryland equaled 10.5 percent of personal income in the state in 2004, ranking the state 23rd. (See Table 1D.)
- Neighboring states and the District of Columbia: Maryland collected less own-source revenue than any of its neighbors. Maryland collected 13.9 percent of personal income in total state and local own-source revenue, putting it behind West Virginia (18.7%), Delaware (18.1%), the District of Columbia (17.7%), Pennsylvania (15.1%), and Virginia (14.2%). Furthermore, Maryland was well below the average for all states (15.6%). (See Table 1C.)

Total State and Local Revenue as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 48th among the 50 states in total state and local government revenues as a percentage of personal income (49th when including the District of Columbia).

Total revenue includes income from all sources:

- Grants from the federal government to state and local governments (shown separately in Table 1B);
- Taxes, fees, lottery and other in-state sources of revenue (shown separately in Table 1C); and
- Utility, liquor store, and insurance trust fund revenue.

Maryland collected less total revenue as a percentage of personal income than any of its neighbors: West Virginia, Pennsylvania, Delaware, Virginia, and the District of Columbia. (See also Chart 1 on page 8.)

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 1A

State	Amount	Rank
Alaska	50.6%	1
Wyoming	40.7%	2
North Dakota	35.2%	3
New York	32.0%	4
Oregon	31.7%	5
West Virginia	31.1%	6
New Mexico	30.9%	7
Utah	30.5%	8
Ohio	30.3%	9
Mississippi	30.0%	10
California	29.4%	11
Maine	29.1%	12
Montana	28.6%	13
Louisiana	28.6%	14
Wisconsin	28.4%	15
Nebraska	28.2%	16
South Carolina	27.7%	17
Vermont	27.5%	18
Idaho	27.1%	19
Rhode Island	27.0%	20
Washington	26.6%	21
Arkansas	26.3%	22
North Carolina	26.3%	23
Alabama	26.0%	24
Iowa	25.6%	25
Pennsylvania	25.5%	26
Hawaii	25.4%	27
Oklahoma	25.1%	28
Delaware	24.9%	29
Michigan	24.9%	30
Tennessee	24.7%	31
Florida	24.6%	32
South Dakota	24.5%	33
Kentucky	24.5%	34
Arizona	24.4%	35
Minnesota	24.1%	36
Colorado	24.0%	37
Missouri	23.5%	38
Massachusetts	23.2%	39
Illinois	23.1%	40
Texas	22.7%	41
Nevada	22.6%	42
Georgia	22.5%	43
Kansas	22.5%	44
Indiana	22.3%	45
New Jersey	21.4%	46
Virginia	20.9%	47
Maryland	20.8%	48
Connecticut	19.2%	49
New Hampshire	19.0%	50
District of Columbia	31.8%	
U.S. Total	25.9%	

Federal Revenue to States and Localities as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 45th among the 50 states in the receipt of federal revenues as a percentage of personal income in the state (46th when including the District of Columbia).

These figures include federal highway and other transportation funding, the federal share of Medicaid and welfare programs, and a variety of block grants and other federal funding.

Some federal revenues are provided to states based on the general income levels within each state—with poorer states receiving relatively more federal funds. Therefore, Maryland's low ranking results in part from its high average income. (See Section 5.)

Maryland ranked lower than all but one of its five neighbors—Virginia—in the receipt of federal revenues as a percentage of personal income.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 1B

State	Amount	Rank
Wyoming	11.8%	1
Alaska	11.1%	2
Mississippi	8.2%	3
New Mexico	7.9%	4
Montana	7.6%	5
West Virginia	7.6%	6
Vermont	7.1%	7
North Dakota	7.1%	8
Maine	7.0%	9
New York	6.5%	10
Louisiana	6.4%	11
Arkansas	6.2%	12
South Dakota	6.0%	13
Rhode Island	5.9%	14
Kentucky	5.7%	15
South Carolina	5.6%	16
Tennessee	5.6%	17
Alabama	5.5%	18
Idaho	5.2%	19
Utah	5.2%	20
Oklahoma	5.1%	21
North Carolina	4.9%	22
Iowa	4.9%	23
Arizona	4.8%	24
Missouri	4.7%	25
Ohio	4.7%	26
Michigan	4.7%	27
Hawaii	4.7%	28
Oregon	4.6%	29
Nebraska	4.6%	30
Pennsylvania	4.5%	31
California	4.5%	32
Wisconsin	4.2%	33
Texas	4.1%	34
Minnesota	4.0%	35
Indiana	4.0%	36
Georgia	3.9%	37
Massachusetts	3.8%	38
Delaware	3.8%	39
Kansas	3.8%	40
Washington	3.8%	41
Florida	3.6%	42
Illinois	3.6%	43
New Hampshire	3.4%	44
Maryland	3.4%	45
Colorado	3.2%	46
Connecticut	2.9%	47
New Jersey	2.8%	48
Virginia	2.7%	49
Nevada	2.6%	50
District of Columbia	9.7%	
U.S. Total	4.5%	

State and Local Own-Source Revenue as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 47th among the 50 states in own-source revenue as a percentage of personal income (48th when including the District of Columbia). These revenues totaled \$29.5 billion for Maryland's state and local governments.

Own-source revenue includes all taxes, fees, charges, and other general revenues. Examples include income, sales and property taxes, tuition at public colleges and universities, hospital revenue at publicly-owned hospitals, sewer and solid waste fees, interest earnings, net lottery revenue, and fines collected.

Own-source revenue is a good overall measure of what resources states and localities have available because it includes not only taxes but also some other revenues that may be considered similar to taxes. This measure also makes it easier to compare states that may differ in whether they finance certain programs and services through taxes or fees.

Maryland ranked lower in 2004 than all five of its neighbors in own-source revenue as a percentage of personal income. (See also Chart 2 on page 9.)

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 1C

State	Amount	Rank
Alaska	28.0%	1
Wyoming	22.0%	2
New York	19.0%	3
West Virginia	18.7%	4
Delaware	18.1%	5
New Mexico	18.0%	6
Maine	17.9%	7
Utah	17.1%	8
Louisiana	17.0%	9
South Carolina	16.8%	10
Vermont	16.7%	11
Nebraska	16.6%	12
Wisconsin	16.5%	13
North Dakota	16.4%	14
Idaho	16.4%	15
Mississippi	16.3%	16
Hawaii	16.2%	17
California	16.2%	18
Ohio	16.1%	19
Iowa	16.0%	20
Kansas	15.9%	21
Florida	15.8%	22
Montana	15.8%	23
Oregon	15.8%	24
Minnesota	15.8%	25
Rhode Island	15.7%	26
Michigan	15.6%	27
Washington	15.5%	28
Indiana	15.5%	29
Kentucky	15.3%	30
Arkansas	15.3%	31
North Carolina	15.3%	32
Alabama	15.2%	33
Nevada	15.2%	34
Oklahoma	15.1%	35
Pennsylvania	15.1%	36
New Jersey	14.7%	37
Georgia	14.6%	38
Arizona	14.4%	39
Colorado	14.2%	40
Texas	14.2%	41
Virginia	14.2%	42
Massachusetts	14.2%	43
Missouri	14.0%	44
Connecticut	14.0%	45
Illinois	14.0%	46
Maryland	13.9%	47
South Dakota	13.2%	48
Tennessee	13.0%	49
New Hampshire	12.8%	50
District of Columbia	17.7%	
U.S. Total	15.6%	

State and Local Taxes as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 23rd among the 50 states in total state and local tax collections as a percentage of personal income (24th when including the District of Columbia).

Total state and local tax collections in Maryland were \$22.3 billion in 2004, which equaled about 10.5 percent of Marylanders' personal incomes. This figure does not mean that the average Marylander paid 10.5 percent of income in state and local taxes, because residents of other states and businesses paid some of the taxes. Furthermore, different households within a state pay different percentages of their income in taxes.

This table includes revenue received from personal income, corporate income, property, sales, and other taxes. It also includes motor vehicle license fees. It excludes some relatively minor items sometimes considered to be taxes, including the government's share of revenue from lotteries and some special assessments. These items, however, are included in the table on own-source revenue (see Table 1C).

Maryland collected a lower percentage of personal income than the District of Columbia, West Virginia, and Pennsylvania; about the same percentage as Delaware; and more than Virginia. (See also Chart 3 on page 10.)

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 1D

State	Amount	Rank
New York	14.4%	1
Wyoming	13.4%	2
Maine	13.0%	3
Hawaii	12.2%	4
Vermont	11.9%	5
Wisconsin	11.9%	6
Rhode Island	11.7%	7
Nebraska	11.5%	8
New Jersey	11.3%	9
New Mexico	11.3%	10
Connecticut	11.3%	11
Ohio	11.2%	12
Kansas	11.2%	13
California	11.0%	14
West Virginia	10.9%	15
Louisiana	10.9%	16
Minnesota	10.9%	17
Alaska	10.9%	18
Utah	10.7%	19
Nevada	10.6%	20
Pennsylvania	10.6%	21
Idaho	10.6%	22
Maryland	10.5%	23
Delaware	10.5%	24
Arizona	10.5%	25
Kentucky	10.4%	26
Illinois	10.4%	27
Washington	10.4%	28
Michigan	10.4%	29
North Carolina	10.4%	30
Massachusetts	10.3%	31
Mississippi	10.3%	32
North Dakota	10.3%	33
Iowa	10.3%	34
Florida	10.2%	35
Indiana	10.2%	36
Arkansas	10.2%	37
South Carolina	10.1%	38
Georgia	10.0%	39
Oklahoma	9.9%	40
Oregon	9.8%	41
Montana	9.8%	42
Virginia	9.6%	43
Texas	9.5%	44
Missouri	9.5%	45
Colorado	9.1%	46
New Hampshire	8.9%	47
South Dakota	8.8%	48
Tennessee	8.8%	49
Alabama	8.5%	50
District of Columbia	14.3%	
U.S. Total	10.7%	

Section 2: Changes in State and Local Revenues and Taxes, 1979-80 to 2003-04

In the late 1970s, Maryland ranked near the middle among states in own-source revenues as a percentage of income. Since then, however, revenue from in-state sources has declined as a share of Maryland's economy. This reduction contrasts with the trend in other states, many of which now collect substantially more revenue as a share of their economies than they did in the late 1970s.

- **State and local own-source revenue in Maryland has declined over the past quarter of a century relative to the economy, while most other states' revenues have increased.**

The tables in this section show that, from 1979-80 to 2003-04:

- Own-source revenue: Maryland was one of only eight states in which own-source revenue declined rather than rose. During that time, state and local revenue as a share of Maryland's economy declined one percent. The average for all states rose by 13 percent. (See Table 2A.)
- Tax revenue only: Maryland's state and local tax collections increased slightly—just 1 percent—as a share of personal income. In 1979-80, state and local taxes were 10.4 percent of personal income. In 2003-04, they were 10.5 percent of personal income. As indicated above, however, this slight increase in tax collections was not enough to offset declines in other own-source revenues. (See Table 2B.)
- Neighboring states and the District of Columbia: Among its neighbors, Maryland was the only jurisdiction that reduced its own-source revenue as a share of the economy. In fact, all of the others grew by more than 17 percent. West Virginia's own-source revenue grew the most: 35 percent. (See Table 2A.)

One reason for the decline in own-source revenue as a share of the economy in the past quarter of a century is that many of the state tax cuts enacted during that period—such as sales tax exemptions for business purchases and personal income tax reductions—remain in place while many state tax increases have expired or been repealed.

Another reason is that Maryland's tax base, which is the portion of the economy that is subject to taxation, is declining over time due to structural changes in the economy. Much of the tax system was designed for the "smokestack economy" of previous decades and is poorly-equipped for the global, information-based economy of today. For example, while Marylanders are spending more and more of their incomes buying services, Maryland's sales tax applies mostly to tangible goods, not to services.

These factors were offset by growth in personal incomes, resulting in a slight increase in taxes as a share of the economy over this period.

Change in State and Local Own-Source Revenue as a Percentage of Personal Income, 1979-80 to 2003-04

Maryland was one of only eight states in which state and local own-source revenue declined as a share of the economy rather than rose between 1979-80 and 2003-04.

During that time, state and local revenue in Maryland as a share of the economy declined by one percent. (See also Chart 4 on page 11.)

This table should be considered in conjunction with Chart 2 and Table 1C, which rank the levels for 2004. In 2004, Maryland ranked 47th among the 50 states in own-source revenue as a share of the state's economy.

The revenue shown in this table includes state and local income, sales, and property taxes, as well as a variety of charges and fees—including university tuition, revenue to public hospitals, and highway tolls. It excludes federal aid to state and local governments.

Among its neighbors, Maryland was the only one that reduced own-source revenue as a share of its economy. In fact, all of the others grew by more than 17 percent (the highest, West Virginia, by 35 percent). Maryland trailed the U.S. average of 13 percent.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 2A

State	1979-80	2003-04	Change	Rank
Ohio	11.5%	16.1%	40%	1
Florida	11.7%	15.8%	36%	2
Indiana	11.5%	15.5%	35%	3
West Virginia	13.9%	18.7%	35%	4
Maine	13.5%	17.9%	32%	5
South Carolina	13.3%	16.8%	26%	6
Missouri	11.2%	14.0%	25%	7
Idaho	13.2%	16.4%	24%	8
Connecticut	11.3%	14.0%	24%	9
Delaware	14.7%	18.1%	22%	10
Arkansas	12.5%	15.3%	22%	11
North Carolina	12.7%	15.3%	20%	12
Kansas	13.3%	15.9%	20%	13
New Hampshire	10.7%	12.8%	20%	14
Kentucky	12.8%	15.3%	19%	15
Virginia	11.9%	14.2%	19%	16
Utah	14.5%	17.1%	18%	17
California	13.7%	16.2%	18%	18
Pennsylvania	12.8%	15.1%	18%	19
Alabama	12.9%	15.2%	18%	20
Texas	12.1%	14.2%	17%	21
Nevada	13.0%	15.2%	16%	22
Mississippi	14.1%	16.3%	16%	23
New Jersey	12.8%	14.7%	15%	24
Vermont	14.7%	16.7%	14%	25
Oklahoma	13.3%	15.1%	14%	26
Wyoming	19.5%	22.0%	13%	27
Iowa	14.3%	16.0%	12%	28
Washington	14.0%	15.5%	11%	29
Wisconsin	14.9%	16.5%	11%	30
Illinois	12.6%	14.0%	10%	31
Louisiana	15.6%	17.0%	9%	32
Tennessee	12.0%	13.0%	9%	33
Nebraska	15.4%	16.6%	8%	34
Rhode Island	14.6%	15.7%	8%	35
Michigan	14.6%	15.6%	7%	36
Hawaii	15.2%	16.2%	6%	37
New York	18.2%	19.0%	5%	38
Oregon	15.1%	15.8%	4%	39
Georgia	14.0%	14.6%	4%	40
Colorado	14.0%	14.2%	2%	41
Montana	15.7%	15.8%	1%	42
Maryland	14.0%	13.9%	-1%	43
Arizona	14.6%	14.4%	-2%	44
Minnesota	16.3%	15.8%	-3%	45
Massachusetts	14.8%	14.2%	-4%	46
New Mexico	19.1%	18.0%	-6%	47
South Dakota	14.2%	13.2%	-7%	48
North Dakota	17.8%	16.4%	-8%	49
Alaska	55.6%	28.0%	-50%	50
District of Columbia	14.3%	17.7%	24%	
U.S. Total	13.8%	15.6%	13%	

Change in State and Local Taxes as a Percentage of Personal Income, 1979-80 to 2003-04

Of the 39 states that had growth in state and local tax collections as a share of their economies between 1979-80 and 2003-04, Maryland had the third slightest growth: 1 percent.

In 1979-80, Maryland state and local taxes were 10.4 percent of personal income. In 2003-04, they were 10.5 percent of personal income.

As indicated in Chart 4 (see page 11) and Table 2A, however, this slight increase in tax collections was not enough to offset declines in other Maryland's other own-source revenues.

Among its neighbors, Maryland's experience was less than all but Delaware, which had 0.3 percent growth in tax collections as a percentage of income.

In addition, Maryland's experience was below the average for all states, which was 5 percent growth. Further, Maryland's 2004 level was below the U.S. average.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 2B

State	1979-80	2003-04	Change	Rank
Ohio	8.4%	11.2%	33%	1
Florida	8.2%	10.2%	24%	2
Indiana	8.3%	10.2%	23%	3
Connecticut	9.2%	11.3%	22%	4
Nevada	8.8%	10.6%	21%	5
Maine	10.9%	13.0%	19%	6
Kansas	9.7%	11.2%	16%	7
Idaho	9.3%	10.6%	14%	8
Texas	8.4%	9.5%	14%	9
Missouri	8.5%	9.5%	12%	10
Arkansas	9.1%	10.2%	12%	11
Kentucky	9.4%	10.4%	11%	12
New Hampshire	8.0%	8.9%	11%	13
New Jersey	10.3%	11.3%	10%	14
Wisconsin	11.0%	11.9%	8%	15
Rhode Island	10.9%	11.7%	8%	16
Vermont	11.1%	11.9%	8%	17
Washington	9.7%	10.4%	8%	18
Virginia	9.0%	9.6%	7%	19
North Carolina	9.7%	10.4%	7%	20
Mississippi	9.6%	10.3%	7%	21
West Virginia	10.3%	10.9%	6%	22
Louisiana	10.3%	10.9%	6%	23
Nebraska	10.8%	11.5%	6%	24
Oklahoma	9.3%	9.9%	6%	25
California	10.4%	11.0%	5%	26
South Carolina	9.6%	10.1%	5%	27
Pennsylvania	10.2%	10.6%	5%	28
Tennessee	8.4%	8.8%	5%	29
Wyoming	12.8%	13.4%	4%	30
Georgia	9.6%	10.0%	4%	31
Utah	10.4%	10.7%	3%	32
Hawaii	11.9%	12.2%	2%	33
Illinois	10.2%	10.4%	2%	34
New Mexico	11.1%	11.3%	1%	35
North Dakota	10.1%	10.3%	1%	36
Maryland	10.4%	10.5%	1%	37
Alabama	8.5%	8.5%	0.5%	38
Delaware	10.5%	10.5%	0.3%	39
New York	14.7%	14.4%	-2%	40
Iowa	10.5%	10.3%	-2%	41
Michigan	10.7%	10.4%	-3%	42
Oregon	10.1%	9.8%	-3%	43
Minnesota	11.6%	10.9%	-6%	44
Arizona	11.3%	10.5%	-7%	45
Colorado	9.8%	9.1%	-8%	46
South Dakota	9.8%	8.8%	-10%	47
Montana	11.6%	9.8%	-15%	48
Massachusetts	12.5%	10.3%	-17%	49
Alaska	29.7%	10.9%	-63%	50
District of Columbia	12.2%	14.3%	17%	
U.S. Total	10.3%	10.7%	5%	

Section 3: Revenues by Type of Tax

The three major types of state and local taxes are income taxes, including both personal and corporate; sales taxes, including general and selective; and property taxes levied on the value of real estate, business equipment, and other property. States also assess other, smaller taxes, including a variety of license fees.

States vary widely in their reliance on these different types of taxes. A state that gets very little revenue from one tax source typically raises much more revenue from another tax source. As a result of this variation among the states, rankings on specific taxes are less useful for understanding overall tax levels than are the comparisons in Section 1.

- **Although Maryland's personal income tax collections are higher than most other states', its corporate income, sales, and property tax revenues are lower.**
- **Despite the significance of the personal income tax, Maryland's tax system is relatively well balanced. No one type of tax provides the majority of revenue.**
- **Maryland relies more heavily on local taxes than most other states, putting jurisdictions with lower tax bases or greater needs at a disadvantage.**

The tables in this section show that, in 2004:

- Personal income taxes: Maryland ranked third among the 50 states in state and local personal income tax collections as a share of the economy, with 3.9 percent. (See Table 3A.)
- Corporate income taxes: These taxes were only 0.3 percent of personal income, placing Maryland 30th among the 50 states. (See Table 3B.)
- Sales taxes: Sales tax collections were 2.6 percent of the economy, ranking Maryland 44th. (See Table 3C.)
- Property taxes: Maryland ranked 34th in the percentage of personal income (2.8 percent) it collects through property taxes. (See Table 3D.)

- Other taxes: Maryland collected 0.9 percent of personal income through other taxes, placing it 18th among the states. (See Table 3E.)
- Neighboring states and the District of Columbia: Maryland's personal income tax collections were a greater share of its economy than was true of its neighbors. (See Table 3A.) However, Maryland trailed most of them on collections from corporate income, sales, property, and other taxes. (See Tables 3B, 3C, 3D, and 3E.)
- Largest tax source: Maryland received 37 percent of its tax revenue from the personal income tax. Maryland's tax system is relatively well balanced. No one type of tax provides the majority of its tax revenue. (See Table 3F.)
- Local taxes: Maryland's local jurisdictions collected 45 percent of the total tax revenue in the state, ranking Maryland 8th among the 50 states in how heavily it relies on localities to collect taxes and finance and deliver programs and services. (See Table 3G.)

Personal Income Taxes as a Percentage of Personal Income, 2004

In 2004, Maryland ranked third among the 50 states in the receipt of state and local income taxes as a percentage of personal income in the state.

Maryland's high ranking in personal income taxes is balanced by its relatively low percentage of collections from other taxes shown in this section.

Maryland's reliance on the personal income tax as its largest tax revenue source has some advantages:

- The tax is relatively broad-based: a large portion of earned and unearned income is subject to it. By contrast, other major taxes have relatively narrow bases, so some types of economic activity are taxed while others are not. For example, Maryland's general sales tax is levied principally on the consumption of tangible goods, which represents only a portion of all purchases.
- The tax is progressive: it represents a higher share of income for upper-income families than for poor families. It is the only major progressive tax and, thus, helps to balance the regressivity of sales and property taxes. The income tax reduces, but does not eliminate, the regressivity of the whole tax system.

Maryland ranks higher than its neighbors on personal income tax collections.

Table 3A

State	Amount	Rank
New York	4.4%	1
Oregon	4.1%	2
Maryland	3.9%	3
Ohio	3.5%	4
Massachusetts	3.4%	5
Kentucky	3.3%	6
Minnesota	3.2%	7
North Carolina	3.1%	8
Wisconsin	3.1%	9
Maine	3.0%	10
California	3.0%	11
Hawaii	3.0%	12
Delaware	2.9%	13
Virginia	2.9%	14
Connecticut	2.8%	15
Utah	2.7%	16
Georgia	2.7%	17
Pennsylvania	2.6%	18
Idaho	2.5%	19
Rhode Island	2.5%	20
Arkansas	2.5%	21
Montana	2.4%	22
Oklahoma	2.4%	23
Missouri	2.4%	24
West Virginia	2.4%	25
Kansas	2.3%	26
Indiana	2.3%	27
Iowa	2.3%	28
Nebraska	2.3%	29
Vermont	2.2%	30
South Carolina	2.2%	31
Colorado	2.1%	32
New Jersey	2.1%	33
New Mexico	2.1%	34
Michigan	2.0%	35
Alabama	1.9%	36
Louisiana	1.8%	37
Illinois	1.7%	38
Mississippi	1.5%	39
Arizona	1.5%	40
North Dakota	1.2%	41
New Hampshire	0.1%	42
Tennessee	0.1%	43
South Dakota	0.0%	44
Alaska	0.0%	45
Florida	0.0%	45
Nevada	0.0%	45
Texas	0.0%	45
Washington	0.0%	45
Wyoming	0.0%	45
District of Columbia	3.8%	
U.S. Total	2.3%	

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Corporate Income Taxes as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 30th among the 50 states in the receipt of corporate income taxes as a percentage of personal income (31st when including the District of Columbia).

Corporate income taxes are taxes on the net income of certain businesses, principally publicly-traded corporations. Not all businesses are subject to it. In Maryland, for example, partnerships and certain other kinds of firms are exempt.

Corporate income taxes represent only a portion of all taxes paid by businesses. Businesses also pay property taxes, sales taxes, and license fees.

Maryland's corporate income tax collections as a percentage of personal income are lower than those in Delaware, the District of Columbia, Pennsylvania, and West Virginia, but higher than Virginia.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 3B

State	Amount	Rank
Alaska	1.6%	1
New Hampshire	0.9%	2
New York	0.8%	3
Delaware	0.8%	4
Michigan	0.6%	5
California	0.6%	6
New Jersey	0.5%	7
Massachusetts	0.5%	8
Pennsylvania	0.4%	9
Tennessee	0.4%	10
West Virginia	0.4%	11
Wisconsin	0.4%	12
Minnesota	0.4%	13
Mississippi	0.4%	14
Indiana	0.4%	15
Kentucky	0.3%	16
North Carolina	0.3%	17
Arizona	0.3%	18
Vermont	0.3%	19
Nebraska	0.3%	20
Ohio	0.3%	21
Oregon	0.3%	22
Illinois	0.3%	23
Maine	0.3%	24
Idaho	0.3%	25
New Mexico	0.3%	26
Montana	0.3%	27
Florida	0.3%	28
North Dakota	0.3%	29
Maryland	0.3%	30
Arkansas	0.3%	31
Connecticut	0.2%	32
Alabama	0.2%	33
Utah	0.2%	34
South Dakota	0.2%	35
Kansas	0.2%	36
Louisiana	0.2%	37
Rhode Island	0.2%	38
Georgia	0.2%	39
South Carolina	0.2%	40
Virginia	0.2%	41
Colorado	0.1%	42
Hawaii	0.1%	43
Oklahoma	0.1%	44
Missouri	0.1%	45
Iowa	0.1%	46
Nevada	0.0%	47
Texas	0.0%	47
Washington	0.0%	47
Wyoming	0.0%	47
District of Columbia	0.6%	
U.S. Total	0.4%	

Sales Taxes as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 44th among the 50 states in the percentage of personal income it collects from sales taxes (45th when including the District of Columbia).

Sales taxes include both the state's general sales tax, which is levied at a rate of 5 percent, and its selective sales taxes on such items as gasoline, cigarettes, and utilities.

Maryland's low ranking results in part from its low general sales tax rate of 5 percent. It also results in part from its relatively small sales tax base. Maryland exempts from sales tax food, drugs, repair services, and many other items.

Although some of Maryland's selective sales taxes, such as gas and cigarette taxes, are somewhat higher than in other states, Maryland's overall level of sales taxation is lower.

Maryland's ranking is lower than West Virginia's, the District of Columbia's, Pennsylvania's, and Virginia's, while it is higher than Delaware's.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 3C

State	Amount	Rank
Hawaii	6.6%	1
Washington	6.3%	2
Nevada	6.1%	3
Louisiana	6.1%	4
New Mexico	5.4%	5
Arkansas	5.4%	6
Florida	5.2%	7
Tennessee	5.2%	8
Arizona	5.1%	9
Mississippi	5.0%	10
West Virginia	4.7%	11
South Dakota	4.7%	12
Utah	4.5%	13
Wyoming	4.4%	14
Texas	4.4%	15
Nebraska	4.2%	16
Alabama	4.2%	17
Kansas	4.2%	18
North Dakota	4.0%	19
Idaho	4.0%	20
Kentucky	3.9%	21
Missouri	3.9%	22
New York	3.9%	23
Oklahoma	3.8%	24
Indiana	3.8%	25
California	3.7%	26
North Carolina	3.7%	27
Minnesota	3.7%	28
Georgia	3.7%	29
Rhode Island	3.7%	30
South Carolina	3.6%	31
Vermont	3.6%	32
Ohio	3.5%	33
Illinois	3.5%	34
Maine	3.5%	35
Wisconsin	3.4%	36
Michigan	3.4%	37
Iowa	3.4%	38
Colorado	3.3%	39
Pennsylvania	3.2%	40
Connecticut	3.2%	41
Virginia	2.8%	42
New Jersey	2.8%	43
Maryland	2.6%	44
Massachusetts	2.2%	45
Montana	1.8%	46
Alaska	1.6%	47
New Hampshire	1.5%	48
Delaware	1.4%	49
Oregon	1.0%	50
District of Columbia	4.1%	
U.S. Total	3.8%	

Property Taxes as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 34th among the 50 states in the percentage of personal income it collects through state and local property taxes (35th when including the District of Columbia).

Most property tax collections in Maryland are local. There is a small state property tax whose proceeds are used to pay the state's debt obligations.

Property taxes are based on the value of property, mostly real estate and business property.

Maryland collected a lower percentage of personal income through property taxes than the District of Columbia, Pennsylvania, and Virginia, but more than West Virginia and Delaware.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 3D

State	Amount	Rank
New Hampshire	5.5%	1
Maine	5.5%	2
New Jersey	5.2%	3
Vermont	5.0%	4
Rhode Island	4.9%	5
New York	4.6%	6
Connecticut	4.4%	7
Wisconsin	4.3%	8
Texas	4.2%	9
Illinois	4.1%	10
Wyoming	4.1%	11
Alaska	3.9%	12
Kansas	3.9%	13
Montana	3.9%	14
Massachusetts	3.7%	15
Michigan	3.7%	16
Nebraska	3.7%	17
Iowa	3.6%	18
Florida	3.5%	19
South Carolina	3.4%	20
Indiana	3.3%	21
Oregon	3.2%	22
Ohio	3.2%	23
North Dakota	3.2%	24
Pennsylvania	3.1%	25
Washington	3.1%	26
Arizona	3.1%	27
South Dakota	3.1%	28
Georgia	3.1%	29
Idaho	3.0%	30
Virginia	3.0%	31
Colorado	2.9%	32
Nevada	2.9%	33
Maryland	2.8%	34
California	2.8%	35
Minnesota	2.8%	36
Mississippi	2.7%	37
Utah	2.7%	38
Missouri	2.5%	39
North Carolina	2.5%	40
West Virginia	2.2%	41
Tennessee	2.1%	42
Kentucky	1.9%	43
Louisiana	1.9%	44
Hawaii	1.8%	45
New Mexico	1.7%	46
Oklahoma	1.7%	47
Arkansas	1.6%	48
Delaware	1.6%	49
Alabama	1.3%	50
District of Columbia	3.7%	
U.S. Total	3.4%	

Other Taxes as a Percentage of Personal Income, 2004

In 2004, Maryland ranked 18th among the 50 states in revenues collected from all other taxes—besides income, sales, and property taxes—as a percentage of personal income (19th when including the District of Columbia).

This “all other” category includes certain business taxes and motor vehicle fees, among other things. It includes taxes not included in Tables 3A, 3B, 3C, and 3D.

Among its neighbors, Maryland ranked fourth out of five—higher only than Virginia.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities’ tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 3E

State	Amount	Rank
Wyoming	4.9%	1
Delaware	3.9%	2
Alaska	3.8%	3
Oklahoma	1.8%	4
New Mexico	1.7%	5
Nevada	1.7%	6
North Dakota	1.7%	7
Montana	1.4%	8
Pennsylvania	1.3%	9
West Virginia	1.3%	10
Oregon	1.2%	11
Florida	1.2%	12
Texas	1.0%	13
Nebraska	1.0%	14
Washington	1.0%	15
Tennessee	1.0%	16
Louisiana	0.9%	17
Maryland	0.9%	18
Kentucky	0.9%	19
New Hampshire	0.9%	20
Minnesota	0.9%	21
California	0.9%	22
Virginia	0.8%	23
South Dakota	0.8%	24
Alabama	0.8%	25
Iowa	0.8%	26
Illinois	0.8%	27
New York	0.8%	28
Idaho	0.8%	29
Vermont	0.8%	30
South Carolina	0.7%	31
Maine	0.7%	32
Michigan	0.7%	33
Wisconsin	0.7%	34
Ohio	0.7%	35
Mississippi	0.7%	36
North Carolina	0.7%	37
Hawaii	0.7%	38
New Jersey	0.6%	39
Kansas	0.6%	40
Missouri	0.6%	41
Utah	0.6%	42
Connecticut	0.5%	43
Massachusetts	0.5%	44
Colorado	0.5%	45
Arizona	0.5%	46
Rhode Island	0.5%	47
Arkansas	0.4%	48
Georgia	0.4%	49
Indiana	0.4%	50
District of Columbia	2.0%	
U.S. Total	0.9%	

Share of Tax Revenues from the Largest Tax Source, 2004

In 2004, Maryland received 37 percent of total state and local tax revenue from personal income taxes—more than from any other category. Maryland’s reliance on its largest single tax source was 31st among the 50 states.

What does this figure mean? It is sometimes argued that states should not rely too heavily on any one tax source. Table 3F ranks the states by the degree to which their tax system relies on a single type of tax.

Maryland’s ranking and the fact that just about one-third of its tax revenue comes from the personal income tax support that Maryland’s system is relatively well balanced.

Among Maryland’s neighbors, Delaware, Virginia, Pennsylvania, and the District of Columbia rely less heavily on their own largest tax revenue source.

Maryland is one of just two states—the other’s being Oregon—that derive more revenue from personal income taxes than from any other type of tax. The majority of states rely most heavily on sales taxes.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities’ tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 3F

State	Largest Tax Source	Percentage of Revenue from Largest Source	Rank
New Hampshire	Property	61.9%	1
Washington	Sales	60.7%	2
Tennessee	Sales	59.2%	3
Nevada	Sales	57.3%	4
Louisiana	Sales	55.4%	5
Hawaii	Sales	54.1%	6
Arkansas	Sales	53.3%	7
South Dakota	Sales	53.1%	8
Florida	Sales	51.0%	9
Alabama	Sales	49.5%	10
Mississippi	Sales	48.8%	11
Arizona	Sales	48.5%	12
New Mexico	Sales	48.3%	13
New Jersey	Property	46.1%	14
Texas	Sales	45.8%	15
West Virginia	Sales	43.3%	16
Maine	Property	42.1%	17
Rhode Island	Property	41.9%	18
Utah	Sales	41.8%	19
Oregon	Personal Income	41.7%	20
Vermont	Property	41.6%	21
Missouri	Sales	41.2%	22
Illinois	Property	39.6%	23
Connecticut	Property	39.5%	24
Montana	Property	39.4%	25
North Dakota	Sales	39.0%	26
Oklahoma	Sales	38.6%	27
Kentucky	Sales	37.6%	28
Idaho	Sales	37.5%	29
Indiana	Sales	37.4%	30
Maryland	Personal Income	37.1%	31
Kansas	Sales	37.1%	32
Nebraska	Sales	37.0%	33
Colorado	Sales	37.0%	34
Wyoming	All Other	36.8%	35
Delaware	All Other	36.8%	36
Georgia	Sales	36.7%	37
Wisconsin	Property	36.3%	38
Massachusetts	Property	36.3%	39
Alaska	Property	36.2%	40
South Carolina	Sales	35.9%	41
North Carolina	Sales	35.8%	42
Michigan	Property	35.8%	43
Iowa	Property	35.4%	44
Minnesota	Sales	33.8%	45
California	Sales	33.8%	46
New York	Property	31.9%	47
Ohio	Sales	31.5%	48
Virginia	Property	30.9%	49
Pennsylvania	Sales	30.2%	50
District of Columbia	Sales	29.1%	
U.S. Total	Sales	35.7%	

Local Taxes as a Share of Total State and Local Tax Revenues, 2004

In 2004, Maryland ranked 8th among the 50 states in the share of total state and local tax revenues that its localities collect. Maryland's local communities collected 45 percent of the total tax revenue in the state.

Maryland relies more heavily on localities to collect taxes and finance and deliver programs and services than other states. This reliance has increased. In 1999, Maryland's local communities collected 43 percent of the total tax revenue.

One disadvantage of a greater reliance on localities is that communities and counties with a lower tax base—such as those in western Maryland and the lower Eastern Shore—along with urban jurisdictions that may have greater needs—such as Baltimore City and Prince George's County—are at a disadvantage compared to jurisdictions like Montgomery and Howard Counties.

Maryland relies more heavily on localities than do Virginia, Pennsylvania, West Virginia, and Delaware.

Source: Maryland Budget & Tax Policy Institute, based on Tax Policy Center tabulations of data from the U.S. Census Bureau.

Table 3G

State	Amount	Rank
New York	54.8%	1
Texas	52.5%	2
Colorado	51.6%	3
New Hampshire	50.7%	4
Illinois	47.5%	5
South Dakota	47.3%	6
New Jersey	46.9%	7
Maryland	44.8%	8
Missouri	43.9%	9
Alaska	43.5%	10
Florida	43.2%	11
Georgia	43.2%	12
Virginia	43.1%	13
Kansas	42.8%	14
Rhode Island	42.7%	15
Ohio	42.6%	16
Maine	42.4%	17
Nebraska	42.3%	18
Iowa	42.2%	19
Oregon	41.7%	20
Arizona	41.5%	21
Nevada	40.8%	22
Louisiana	40.7%	23
Pennsylvania	40.7%	24
Connecticut	40.2%	25
South Carolina	39.1%	26
Wisconsin	38.2%	27
Massachusetts	37.7%	28
Utah	36.6%	29
Tennessee	36.2%	30
California	36.0%	31
Indiana	36.0%	32
North Dakota	35.4%	33
Washington	35.1%	34
Alabama	33.4%	35
Montana	33.1%	36
Wyoming	33.0%	37
North Carolina	32.7%	38
Michigan	32.4%	39
Oklahoma	31.9%	40
Idaho	30.4%	41
Mississippi	27.7%	42
New Mexico	26.5%	43
Kentucky	26.2%	44
West Virginia	24.5%	45
Minnesota	24.1%	46
Vermont	22.7%	47
Delaware	20.7%	48
Hawaii	20.0%	49
Arkansas	20.0%	50
U.S. Total	41.6%	

Section 4: Specific Tax Rates

This section compares specific rates for personal income, gasoline, cigarette, and general retail sales taxes in Maryland with those in other states and the District of Columbia. It also shows local personal income taxes that apply in certain states.

While some of these tax rates are higher in Maryland than in other states, they are not greatly out of line.

- **Maryland's personal income, gasoline, and cigarette tax rates are higher than in most other states, but are not greatly out of line. Its general sales tax rate is average.**

The tables in this section show that:

- Personal income tax rate: In 2006, Maryland's highest state income tax rate, 4.75 percent, ranked 36th among the 50 states. When top local income tax rates are added, Maryland ranked 13th. (See Tables 4A and 4B.)
- Gasoline tax rate: Maryland's 23.5 cents per gallon tax rate ranked 18th among the 50 states in 2006. (See Table 4C.)
- Cigarette tax rate: In 2006, Maryland ranked 19th among the 50 states with its \$1.00 per pack cigarette tax. During the past five years, Maryland's tax rate has increased but several other states' rates increased higher. (See Table 4D.)
- General sales tax rate: Maryland's 5 percent general retail sales tax ranked 25th among the 50 states in 2004 (See Table 4E.)

Top State Personal Income Tax Rates, 2006

In 2006, Maryland's highest state income tax rate, 4.75 percent, ranked 36th among the 50 states (37th when including the District of Columbia).

The top income tax rate shown here for each state is the tax paid on an additional dollar of income by the highest-income earners. Due to exemptions, deductions, credits, and graduated rate structures, people in most states actually pay a lower percentage of their incomes in tax than the statutory rate.

In a number of states with relatively higher top income tax rates, the highest rate applies only to higher-income earners—such as those people with taxable income over \$100,000. Maryland's top tax rate, on the other hand, takes effect at taxable income over \$3,000, so virtually all people with state income tax liability pay the top rate of 4.75 percent.

This table shows only state income tax rates. In some states, including Maryland, there are also local income tax rates. For those comparisons, see Table 4B.

Maryland's highest personal income tax rate is lower than those in the District of Columbia, West Virginia, Delaware, and Virginia, but higher than Pennsylvania's.

Source: Maryland Budget & Tax Policy Institute, based on data compiled by the Federation of Tax Administrators.

1/ Rate is 25% of Federal tax liability; level for 2005 is shown here.

2/ Residents may deduct at least some portion of federal income taxes from their state income tax.

Table 4A

State	Top Rate (Percent)	Rank
Rhode Island/ 1	9.9	1
Vermont	9.5	2
California	9.3	3
Oregon/ 2	9	4
Iowa/ 2	8.98	5
New Jersey	8.97	6
Maine	8.5	7
Hawaii	8.25	8
North Carolina	8.25	8
Minnesota	7.85	10
Idaho	7.8	11
Ohio	7.185	12
Arkansas	7	13
South Carolina	7	13
Utah/ 2	7	13
Montana/ 2	6.9	16
New York	6.85	17
Nebraska/ 2	6.84	18
Wisconsin	6.75	19
West Virginia	6.5	20
Kansas	6.45	21
Oklahoma/ 2	6.25	22
Georgia	6	23
Kentucky	6	23
Louisiana/ 2	6	23
Missouri	6	23
Delaware	5.95	27
Virginia	5.75	28
North Dakota	5.54	29
Massachusetts	5.3	30
New Mexico	5.3	30
Arizona	5.04	32
Alabama/ 2	5	33
Connecticut	5	33
Mississippi	5	33
Maryland	4.75	36
Colorado	4.63	37
Michigan	3.9	38
Indiana	3.4	39
Pennsylvania	3.07	40
Illinois	3	41
Alaska	--	--
Florida	--	--
Nevada	--	--
New Hampshire	--	--
South Dakota	--	--
Tennessee	--	--
Texas	--	--
Washington	--	--
Wyoming	--	--
District of Columbia	9	

Note: 2006 levels

Top Combined State and Local Personal Income Tax Rates, 2006

For 2006, Maryland ranked 13th out of the 50 states for the top combined state and local personal income tax rate for a jurisdiction in the state (14th when including the District of Columbia). Maryland's 23 counties and Baltimore City levy personal income taxes. The top local rate, 3.2 percent, applies in Howard, Montgomery, and Prince George's Counties.

This table combines local income tax rates with the state rates in Table 4A. Localities collect personal income taxes in about one-fifth of states. Some states also have a payroll tax on employers.

The top income tax rate for each state shown here is the tax paid on an additional dollar of income by the highest-income earners. Due to exemptions, deductions, credits, and graduated rate structures, people in most states—including Maryland—actually pay a lower percentage of their incomes in tax than the statutory rate.

Among its neighbors, Maryland's top combined state and local tax rate was second to the District of Columbia's top rate but more than Pennsylvania's, West Virginia's, Delaware's, and Virginia's.

Source: Maryland Budget & Tax Policy Institute, based on data compiled by the Federation of Tax Administrators and the Tax Policy Center.

1/ Rate is 25% of Federal tax liability; level for 2005 is shown here.

2/ Residents may deduct at least some portion of federal income taxes from their state income tax.

3/ Local rates range from 1.25 percent (Worcester County) to 3.2 percent (Howard, Montgomery, and Prince George's Counties). Other rates are available www.marylandtaxes.com.

Table 4B

State	Top Local Rate (Percent)	Combined State/Local	Rank
Iowa/ 2	1.796	10.776	1
New York	3.2	10.05	2
Ohio	2.75	9.935	3
Rhode Island/ 1		9.9	4
Vermont		9.5	5
California		9.3	6
Oregon/ 2		9	7
New Jersey		8.97	8
Kentucky	2.75	8.75	9
Maine		8.5	10
North Carolina		8.25	11
Hawaii		8.25	11
Maryland/ 3	3.2	7.95	13
Minnesota		7.85	14
Idaho		7.8	15
Pennsylvania	4.301	7.371	16
Utah/ 2		7	17
South Carolina		7	17
Missouri	1	7	17
Arkansas		7	17
Montana/ 2		6.9	21
Nebraska/ 2		6.84	22
Wisconsin		6.75	23
West Virginia		6.5	24
Kansas		6.45	25
Oklahoma/ 2		6.25	26
Louisiana/ 2		6	27
Georgia		6	27
Alabama/ 2	1	6	27
Delaware		5.95	30
Virginia		5.75	31
North Dakota		5.54	32
New Mexico		5.3	33
Massachusetts		5.3	33
Arizona		5.04	35
Mississippi		5	36
Connecticut		5	36
Michigan	1	4.9	38
Colorado		4.63	39
Indiana		3.4	40
Illinois		3	41
Alaska		--	--
Florida		--	--
Nevada		--	--
New Hampshire		--	--
South Dakota		--	--
Tennessee		--	--
Texas		--	--
Washington		--	--
Wyoming		--	--
District of Columbia		9	

Note: 2006 levels

State Gasoline Tax Rates, 2006

Maryland ranked 18th among the 50 states in gasoline tax per gallon in 2006.

Gasoline tax revenues in Maryland go to the transportation trust fund, which is used to pay for transportation capital and operating expenditures.

Gasoline taxes in this table include statutory gasoline taxes plus additional sales taxes levied on gasoline purchases. They do not include local option taxes. These rankings do not reflect gasoline taxes paid by commercial carriers, which may be different.

Gasoline taxes are regressive, meaning that they consume a higher percentage of the incomes of poorer Marylanders than higher-income Marylanders.

Among its neighbors, Maryland's gasoline tax rate is less than Pennsylvania's and West Virginia's but more than Delaware's, the District of Columbia's, and Virginia's.

Source: Maryland Budget & Tax Policy Institute, based on data compiled by the Federation of Tax Administrators.

1/ Tax rates do not include local option taxes. In AL, 1 - 3 cents; HI, 8.8 to 18.0 cent; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 4.0 to 9.0 cents; OR, 1 to 3 cents; SD and TN, one cent; and VA 2%.

2/ Local taxes for gasoline and gasohol vary from 9.7 cents to 17.7 cents. Plus a 2.07 cent per gallon pollution tax.

Table 4C

State	Cents per Gallon	Rank
Washington	34	1
Wisconsin	32.9	2
Pennsylvania	31.2	3
Rhode Island	31	4
North Carolina	30.15	5
Ohio	28	6
Montana	27	7
Nebraska	27	7
West Virginia	27	7
Maine	25.9	10
Connecticut	25	11
Idaho	25	11
Nevada/ 1	24.805	13
Utah	24.5	14
Kansas	24	15
Oregon/ 1	24	15
New York	23.9	17
Maryland	23.5	18
Delaware	23	19
North Dakota	23	19
Colorado	22	21
South Dakota/ 1	22	21
Arkansas	21.5	23
Tennessee/ 1	21.4	24
Massachusetts	21	25
Iowa	20.7	26
Illinois/ 1	20.1	27
Louisiana	20	28
Minnesota	20	28
Texas	20	28
Vermont	20	28
New Hampshire	19.625	32
Michigan	19	33
New Mexico	18.9	34
Kentucky	18.5	35
Mississippi	18.4	36
Alabama/ 1	18	37
Arizona	18	37
California	18	37
Indiana	18	37
Missouri	17.55	41
Virginia/ 1	17.5	42
Oklahoma	17	43
Hawaii/ 1	16	44
South Carolina	16	44
Georgia	15.3	46
Florida/ 2	14.9	47
New Jersey	14.5	48
Wyoming	14	49
Alaska	8	50
District of Columbia	22.5	
Federal	18.4	

Note: 2006 levels

State Cigarette Tax Rates, 2006

Maryland's \$1.00 per pack tax rate on cigarettes ranked 19th among the 50 states as of 2006. In 2001, Maryland's lower tax rate of 66 cents per pack ranked 12th. In the past five years, Maryland's tax rate increased but several other states' rates increased even higher.

Some states, including Virginia, allow localities to levy additional cigarette taxes, and those taxes are not included in this table.

Like gasoline taxes, cigarette taxes are regressive, meaning that they consume a higher percentage of the incomes of poorer Marylanders than higher-income Marylanders.

Among neighboring states, Pennsylvania has the highest state rate: \$1.35 per pack. Maryland ranks second, along with the District of Columbia.

Source: Maryland Budget & Tax Policy Institute, based on data compiled by the Federation of Tax Administrators.

(1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; NYC \$1.50; TN, 1¢; and VA, 2¢ to 15¢.

(2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and 0.05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.

(3) Tax rate is scheduled to increase to \$0.35 per pack on July 1, 2006.

(4) Plus an additional 25.5-cent sales tax is added to the wholesale price of a tax stamp (total \$1.485).

Table 4D

State	Cents per Pack	Rank
Rhode Island	246	1
New Jersey	240	2
Washington	202.5	3
Maine	200	4
Michigan	200	4
Montana	170	6
Alaska	160	7
Connecticut	151	8
Massachusetts	151	8
New York (1)	150	10
Hawaii	140	11
Pennsylvania	135	12
Ohio	125	13
Minnesota (4)	123	14
Vermont	119	15
Arizona	118	16
Oregon	118	16
Oklahoma	103	18
Maryland	100	19
Illinois (1)	98	20
New Mexico	91	21
California	87	22
Colorado	84	23
Nevada	80	24
New Hampshire	80	24
Kansas	79	26
Wisconsin	77	27
Utah	69.5	28
Nebraska	64	29
Wyoming	60	30
Arkansas (2)	59	31
Idaho	57	32
Indiana	55.5	33
Delaware	55	34
West Virginia	55	34
South Dakota	53	36
North Dakota	44	37
Alabama (1)	42.5	38
Texas	41	39
Georgia	37	40
Iowa	36	41
Louisiana	36	41
Florida	33.9	43
Kentucky (2)	30	44
North Carolina (3)	30	44
Virginia (1)	30	44
Tennessee (1) (2)	20	47
Mississippi	18	48
Missouri (1)	17	49
South Carolina	7	50
District of Columbia	100	
U. S. Median	80	

Note: 2006 levels

State Retail Sales Tax Rates, 2004

Maryland's 5 percent retail sales tax ranked 25th among the 50 states as of 2004.

This table does not reflect local sales tax rates. In some states, but not Maryland, there are also local sales taxes in some jurisdictions.

Sales taxes are regressive, meaning that they consume a higher percentage of the incomes of poorer Marylanders than higher-income Marylanders. Maryland, however, is one of 28 states that, with the District of Columbia, exempt food purchased for consumption off-premises from sales tax.

Among its neighbors, Maryland's sales tax rate ranks lower than Pennsylvania, West Virginia, and the District of Columbia, but higher than Virginia. Delaware does not have this tax.

Source: Maryland Budget & Tax Policy Institute, based on data compiled by the Federation of Tax Administrators and *Congressional Quarterly's State Fact Finder 2006*.

1/ Food purchased for consumption off-premises.

2/ Food exempt from state tax, but subject to local taxes.

* Income tax credit allowed to offset sales tax on food.

** Food taxed at lower rate.

Table 4E

State	Food Items/ 1		Rank
	Taxable (T) Exempt (E)	Rate (Percent)	
Mississippi	T	7	1
Rhode Island	E	7	1
Tennessee	T**	7	1
Minnesota	E	6.5	4
Nevada	E	6.5	4
Washington	E	6.5	4
California	E	6.25	7
Illinois	T**	6.25	7
Texas	E	6.25	7
Arkansas	T	6	10
Connecticut	E	6	10
Florida	E	6	10
Idaho	T*	6	10
Indiana	E	6	10
Kentucky	E	6	10
Michigan	E	6	10
New Jersey	E	6	10
Ohio	E	6	10
Pennsylvania	E	6	10
Vermont	E	6	10
West Virginia	T	6	10
Arizona	E	5.6	22
Nebraska	E	5.5	23
Kansas	T*	5.3	24
Iowa	E	5	25
Maine	E	5	25
Maryland	E	5	25
Massachusetts	E	5	25
New Mexico	T	5	25
North Dakota	E	5	25
South Carolina	T	5	25
Wisconsin	E	5	25
Utah	T	4.75	33
North Carolina	E/ 2	4.5	34
Oklahoma	T	4.5	34
New York	E	4.25	36
Missouri	T**	4.225	37
Alabama	T	4	38
Georgia	E	4	38
Hawaii	T*	4	38
Louisiana	E/ 2	4	38
South Dakota	T*	4	38
Virginia	T**	4	38
Wyoming	T*	4	38
Colorado	E	2.9	45
Alaska	--	--	--
Delaware	--	--	--
Montana	--	--	--
New Hampshire	--	--	--
Oregon	--	--	--
District of Columbia	E	5.75	

Note: 2004 levels

Section 5: Personal Income Per Capita

In 2004, Maryland ranked fourth among the 50 states in personal income per capita (fifth when including the District of Columbia).

That year, personal income per capita in Maryland was about \$38,000. (The median, or typical, *household* income in Maryland also is relatively high. Census data indicate that it was the nation's second highest in 2005.)

Personal income per capita is simply the average amount, or mean, of personal income for each person in the state.

When considering states' levels of taxes and revenues relative to personal income, it is useful context to know how states' personal income levels compare. A particular tax rate yields more revenue when applied to a higher level of personal income.

Among its neighbors, Maryland's personal income per capita is significantly less than that of the District of Columbia (\$50,157), but more than Virginia, Delaware, Pennsylvania, and West Virginia.

Source: Maryland Budget & Tax Policy Institute, based on Center on Budget and Policy Priorities' tabulation of data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis

Table 5A

State	Amount	Rank
Connecticut	\$43,701	1
Massachusetts	\$40,916	2
New Jersey	\$40,346	3
Maryland	\$38,261	4
New York	\$36,413	5
New Hampshire	\$35,239	6
Colorado	\$35,009	7
Minnesota	\$34,964	8
Virginia	\$34,701	9
Delaware	\$34,419	10
Illinois	\$34,159	11
California	\$34,032	12
Washington	\$33,210	13
Rhode Island	\$33,177	14
Alaska	\$33,157	15
Wyoming	\$33,110	16
Pennsylvania	\$32,370	17
Nevada	\$32,090	18
Michigan	\$31,925	19
Nebraska	\$31,430	20
Hawaii	\$31,190	21
Wisconsin	\$31,181	22
Vermont	\$30,841	23
Ohio	\$30,408	24
Florida	\$30,349	25
Kansas	\$30,198	26
Texas	\$30,182	27
Iowa	\$29,792	28
Oregon	\$29,677	29
Missouri	\$29,630	30
South Dakota	\$29,610	31
Indiana	\$29,456	32
Maine	\$29,127	33
North Dakota	\$29,103	34
Tennessee	\$28,919	35
Georgia	\$28,813	36
North Carolina	\$28,295	37
Arizona	\$27,406	38
Alabama	\$27,242	39
Oklahoma	\$27,066	40
Montana	\$26,714	41
Louisiana	\$26,506	42
Kentucky	\$26,487	43
South Carolina	\$26,312	44
Idaho	\$25,770	45
Utah	\$25,632	46
New Mexico	\$25,361	47
West Virginia	\$25,042	48
Arkansas	\$24,951	49
Mississippi	\$23,779	50
District of Columbia	\$50,157	
U.S. Total	\$32,021	

Appendix

There are many ways to measure and compare state and local tax systems. This appendix describes the approach used in this chartbook, identifies alternatives, and explains the rationale for measuring taxes relative to personal income.

State and Local Taxes and Other Revenues

Except where noted, all of the tables in this chartbook are based on U.S. Census Bureau and U.S. Bureau of Economic Analysis figures. Each year, the U.S. Census Bureau publishes data on how the 50 states, the District of Columbia, and tens of thousands of local governments in the United States collect and spend money. Census statisticians collect data from state governments and from a large random sample of local governments, then classify the data according to a uniform system. These data are the basis for the tabulations in this chartbook.

Because states vary widely in their revenue systems and the ways that they allocate responsibilities for different public functions, the aggregate data on revenue collections provide the most reliable and comprehensive way to compare tax levels among states. For example, in some states, elementary and secondary schools are financed primarily at the state level, while other states have largely locally-financed systems. Looking at state and local revenues allows one to make comparisons that are not distorted by differences in state-specific administrative structures such as which level of government pays for which programs.

Timeliness of the Data

The U.S. Census Bureau data that form the basis for most of the tabulations in this chartbook cover 2004 and were released in 2006. Because there are so many local government bodies in the United States, it takes the U.S. Census Bureau considerable time to collect the data necessary to paint a complete picture of state and local revenues in each state. For some specific tax rates in Section 4, the information is from 2006.

Rounding and Ranking

Most figures in this chartbook are rounded uniformly for a given table—many of them to one-tenth of one percent. Rankings, however, are based on unrounded calculations. In those cases in which rounded figures in the tables are the same but rankings are different, the unrounded calculations are different. For example, see Table 3B. In those instances in which rankings are the same, the unrounded calculations are the same. For example, see any of the tables in Section 4.

Revenues and Taxes as a Percentage of Personal Income

Comparing taxes from one state to the next is more complex than it might seem. Simply comparing state tax rates among states ignores the many forms of deductions, exemptions, credits, and exclusions that reduce actual tax levels below statutory rates. (Although specific tax rates are presented in Section 4, they should be considered along with additional information.)

Sections 1, 2, and 3 of this chartbook show state and local revenues and taxes in each state and the District of Columbia relative to the size of the state or district economy, as measured by personal income. This approach is standard in public finance literature and is used by Maryland's Department of Legislative Services.

Other ways of comparing taxes may be misleading. One flawed approach is to compare taxes paid by hypothetical "typical" households. A problem with this approach is choosing who is "typical." It is easy to distort a state's ranking simply by manipulating the choice of family or the assumptions about how they earn and spend their money. Further, different localities within a state may have different local tax rates, so calculating taxes for one family from one city within a state may not be a fair measure of taxes in other parts of the state.

Another less useful approach is to calculate taxes per capita. This approach tends to make states with relatively high average incomes—such as Maryland—appear to have higher taxes than states with lower incomes. The overall cost of living and wage levels tend to be higher in states with above-average incomes. Therefore, these states often spend more per resident than less wealthy states to provide the same level of services. Furthermore, per capita comparisons do not take into account the different abilities of states to raise revenues. For example, if two states with large differences in average income raised the same amount of revenue per resident, the state with the lower average income would be taxing its residents at a higher rate.

The Measure of Personal Income

Personal income data used in this analysis are from the U.S. Commerce Department's Bureau of Economic Analysis (BEA). The BEA uses several data sources to compile estimates of state personal income by quarter. These quarterly personal income figures may then be matched to states' fiscal years. One limitation of the personal income measure is that it does not include income from the realization of capital gains, which have grown as a portion of the tax base. Because the data miss this important income source, state estimates of personal income may be understated, resulting in overestimates of the incidence of state and local taxes as a percentage of personal income. The extent of the overestimate varies from state to state, with capital gains' being a higher share of the tax base in higher-income states like Maryland.

Tax Fairness

This chartbook focuses on aggregate revenue and tax collections relative to personal income, not on who in the state pays what taxes. The variation in the incidence of taxes among households within a state often exceeds the variation in taxation from one state to the next. For instance, analysis by the Institute on Taxation and Economic Policy (www.itep.org) reveals that lower-income families in Maryland pay a higher share of their incomes in state and local taxes than do higher-income families. In addition, various types of taxes affect people with different incomes differently. For example, lower-income Marylanders pay a higher share of their incomes in sales tax than do higher-income Marylanders, while personal income taxes are opposite. These kinds of "tax fairness" issues are an important part of making decisions about Maryland's revenue system and whether and how to change it.

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