

NORTH CAROLINA'S RELATIVE TAX BURDEN

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It is important for public policymakers to know the tax burden of North Carolina, and how North Carolina's tax burden compares to those of other states. It is also important to know how North Carolina's tax burden and ranking have changed over time.

But how can a state's tax burden be measured? There are numerous taxes and tax rates, and most of them differ from state to state.

The most direct way to measure a state's tax burden is to calculate taxes paid as a percent of income earned by the state's residents. This is a commonsensical measure because it indicates how many cents from each dollar of personal income is paid in taxes.

Because public functions performed by state and local governments vary among states, the combined state and local tax burden is calculated for each state. This method ensures an "apples to apples" comparison.

Last, specifically labeled taxes, like the income, sales, and property taxes, are included in the tax burden, and state and local government fees and charges are also part of the tax burden. However, revenues to public utilities, state liquor stores, and insurance trust funds are not included.

Changes in North Carolina's Tax Burden

Table 1 shows North Carolina's tax rate in fiscal year 1999-2000 compared to its tax burden in fiscal year 1991-92. Both periods are years when the U.S. Census Bureau did a complete survey of state taxes.

Table 1. North Carolina's Tax Burden, Measured as Taxes Paid as a Percent of State Personal Income, 1991-1992 and 1999-2000

	1991-1992	1999-2000
All Taxes, Fees, & Charges	15.4%	15.8%
Individual & Corporate Income Taxes	3.7%	4.1%
Sales Tax	2.6%	3.0%
Property Tax	2.3%	2.3%
Motor Fuel & Vehicle License Taxes	1.0%	0.7%
Other Taxes	1.3%	0.4%
Fees & Charges	4.5%	5.3%

State and local taxes, fees, and charges combined
 Personal income measured in fourth quarters of 1991 and 1999
 Source: Author's calculations from U.S. Census Bureau data

North Carolina's overall tax burden increased over the eight year period, from 15.4% of personal income in 1991-92 to 15.8% of personal income in 1999-00. Among individual taxes, the tax burden increased for income taxes, the sales tax, and fees and charges. The tax burden declined for the motor fuel and vehicle license taxes and other taxes and remained constant for the property tax.

Changes in North Carolina's Tax Burden Ranking Among All States

Table 2 shows North Carolina's tax burden ranking among the fifty states in fiscal years 1991-92 and 1999-00.

Table 2. North Carolina's Tax Burden Ranking Among the Fifty States, 1991-1992 and 1999-2000

	1991-1992	1999-2000
All Taxes, Fees, & Charges	39	30
Individual & Corporate Income Taxes	11	9
Sales Tax	29	26
Property Tax	41	41
Motor Fuel & Vehicle License Taxes	13	23
Other Taxes	27	40
Fees & Charges	40	20

Rankings based on tax as a percent of personal income
 State and local taxes, fees, and charges combined
 Personal income measured in fourth quarters of 1991 and 1999
 Source: Author's calculations from U.S. Census Bureau data

North Carolina's tax burden ranking rose over the eight year period, from 39th in 1991-92 to 30th in 1999-00. The tax burden ranking rose for income and sales taxes and for fees and charges, fell for motor fuel and vehicle license taxes and other taxes, and was unchanged for the property tax.

In 1991-92, North Carolina ranked in the top fifteen of states in income taxes and in the motor fuel and vehicle license taxes, and ranked in the bottom half of states in the sales, property, and other taxes and in fees and charges. By 1999-00, the state had moved up two levels in the income tax ranking to now be in the top ten of states, rose three levels in the sales tax ranking, and moved ahead twenty levels in the ranking of fees

and charges. The state's rankings dropped for the motor fuel and vehicle license taxes and other taxes.

Changes in North Carolina's Tax Burden Among Southeastern States

It is equally, if not more, important to compare North Carolina's tax burden to those of neighboring states in the Southeast. North Carolina often competes with these states for new businesses.

Table 3 shows the tax burden of the six Southeastern states - Virginia, North Carolina, South Carolina, Tennessee, Georgia, and Florida - in fiscal years 1991-92 and 1999-00, and Table 4 shows North Carolina's tax burden ranking among those six states.

Table 3. The Tax Burden of Six Southeastern States, Measured as Taxes Paid as a Percent of State Personal Income, 1991-1992 and 1999-2000.
1991-1992

	Florida	Georgia	NC	SC	Tennessee	Virginia
All Taxes	15.7	15.7	15.4	16.1	14.5	14.5
Income	0.3	3.0	3.7	2.8	0.5	2.8
Sales	3.4	3.1	2.6	2.7	4.1	1.6
Property	3.9	3.2	2.3	3.0	2.1	3.3
Vehicle	0.8	0.4	1.0	0.7	1.1	0.8
Oth. Tax.	1.9	1.0	1.3	1.2	1.7	1.5
Fees/Chg	5.4	5.0	4.5	5.7	5.0	4.5

1999-2000

	Florida	Georgia	NC	SC	Tennessee	Virginia
All Taxes	15.1	15.3	15.8	16.8	13.1	14.8
Income	0.3	3.3	4.1	2.9	0.6	3.6
Sales	4.7	4.1	3.0	3.5	4.6	2.5
Property	3.3	2.8	2.3	2.9	2.0	2.9
Vehicle	0.8	0.4	0.7	0.5	0.8	0.6
Oth. Tax.	0.8	0.3	0.4	0.6	0.8	0.6
Fees/Chg	5.2	4.4	5.3	6.4	4.3	4.6

State and local taxes combined

Personal income measured in fourth quarters of 1991 and 1999

Source: Author's calculations from U.S. Census Bureau data

Table 4. North Carolina's Tax Burden Ranking Among Six Southeastern States, 1991-1992 and 1999-2000

	1991-1992	1999-2000
All Taxes, Fees, & Charges	4	2
Individual & Corporate Income Taxes	1	1
Sales Tax	5	5
Property Tax	5	5
Motor Fuel & Vehicle License Taxes	2	3
Other Taxes	4	5
Fees & Charges	5	2

Rankings based on tax as a percent of personal income
 State and local taxes, fees, and charges combined
 Personal income measured in fourth quarters of 1991 and 1999
 Source: Author's calculations from U.S. Census Bureau data

Table 3 shows the tax burden of North Carolina, South Carolina, and Virginia rose from 1991-92 to 1999-00, while the tax burden of Florida, Georgia, and Tennessee fell. Consequently, North Carolina's Southeastern tax burden ranking rose from 4th in 1991-92 to 2nd in 1999-00 (Table 4). The increase was primarily due to a rise of three levels in the ranking for fees and charges. The ranking fell one level for other taxes, fell one level for motor fuel and vehicle license taxes, and the rankings for the other components of North Carolina's tax burden remained constant in the two years.

Looking at both years, among Southeastern states North Carolina has a low ranking for the sales, property, and other taxes and a high ranking for the income and

motor fuel and vehicle license taxes. North Carolina's ranking was low for fees and charges in 1991-92 but was high in 1999-00.

Conclusion

Although North Carolina's tax burden ranking is still in the lower half of states, the state's ranking did increase significantly in the 1990s. The rise in the state's ranking was driven by increases in rankings for the income and sales taxes and fees and charges.

Among six Southeastern states, North Carolina's tax burden ranking also increased, from 4th to 2nd, in the 1990s. The main reason was an increase in the ranking for fees and charges.

North Carolina is still a relatively low tax state among the fifty states but is now a high tax state in the Southeast. As the world becomes smaller due to modern communication and transportation technologies, businesses increasingly can consider virtually any geographical area for location of their activities. This means a state's tax burden can be a more important factor in business locations decisions, and recent surveys of economic development professionals support this conclusion. For this reason and others, continued measurement and monitoring of North Carolina's tax burden and tax burden ranking are warranted.