



FF12: Local and State Taxes

State and Local Taxes — How We Fund Government Close to Home

Taxes Beyond Washington: Who Really Pays What

When Americans talk about taxes, they often focus on the federal government: income tax brackets, IRS forms, and national debates over spending. But for most people, some of the most impactful taxes they pay are collected by **states and local governments** — often without the same visibility.

State and local taxes fund public schools, police and fire departments, roads, libraries, public transit, trash pickup, and dozens of other everyday services. They make up about **one-third of all taxes Americans pay**. But how those taxes are structured — and how much you pay — can vary dramatically depending on where you live.

Just because a state doesn't have an income tax doesn't necessarily mean it's a "low-tax" state. And just because another has a high property tax doesn't mean people there pay more overall. Understanding the trade-offs between **income taxes**, **property taxes**, and **sales taxes** is essential to making sense of local policy — and holding decision-makers accountable.

Three Main Tools: Income, Property, and Sales Taxes

Most state and local governments rely on a mix of **three primary taxes** to fund services:

1. **Income Taxes** – based on how much you earn
2. **Property Taxes** – based on the value of your home or land
3. **Sales Taxes** – based on what you buy

Each has its own strengths and weaknesses, and each comes with different effects on different people.



State Income Taxes: Progressive, Flat, or None at All

Most states levy a **personal income tax**. Some, like **California** and **New York**, have progressive tax brackets where higher earners pay a higher percentage. Others, like **Utah** and **Colorado**, have **flat income taxes**, where everyone pays the same rate regardless of income level.

And then there are states that **don't levy any personal income tax at all**: Alaska, Florida, Nevada, New Hampshire (on wages), South Dakota, Tennessee, Texas, Washington, and Wyoming. These states often attract residents looking to lower their tax bills — **but it's not the full story**.

To make up for lost income tax revenue, these states often rely more heavily on other forms of taxation, like **higher sales taxes or property taxes**. In Florida, for example, while you might not pay state income tax, you'll find **high sales tax rates and a broad tax base** that includes services and tourism.

So while income tax may be the most visible, it's not the only — or even always the largest — tax burden people face.

Property Taxes: Local Government's Workhorse

Property taxes are the most common source of **local government revenue** in the United States. They fund schools, fire departments, police, libraries, local roads, and parks. These taxes are usually based on the assessed value of your home, business, or land — and are collected annually.

States like **New Jersey**, **Illinois**, and **New Hampshire** have some of the **highest property tax rates** in the country. Meanwhile, states like **Hawaii**, **Alabama**, and **Colorado** keep property taxes relatively low — often because they lean more on income or sales taxes instead.

What makes property taxes unique is that they're **very stable**. Property values don't fluctuate as dramatically as income or sales, so local governments can count on them to keep basic services running. But they can also be a **burden on homeowners** — especially seniors on **fixed incomes** or families living in **rapidly appreciating neighborhoods**.

Local officials have to carefully balance the need for predictable revenue with fairness and affordability — particularly in places where housing prices have skyrocketed.



Sales Taxes: Simple to Collect, Easy to Overuse

Sales taxes are a major source of revenue in most states. They're collected on most goods (and some services) at the time of purchase. Sales taxes are straightforward and reliable: the more people buy, the more the state collects.

But they can also be **regressive** — meaning they take a **larger share of income from lower-income households**, who spend more of their earnings on necessities. That's why some states exempt essentials like groceries or prescription drugs from sales tax.

Sales tax rates can vary wildly. States like **California** and **Tennessee** have combined state-and-local rates that top **9%**, while states like **Oregon** and **New Hampshire** have **no state sales tax at all**.

Additionally, local governments — cities and counties — often add their own sales taxes on top of the state rate. That's why you might pay 6% in one town and 9.5% in the next, depending on where you shop.

The Balancing Act: No Perfect Mix

It's important to remember that **no state or city runs on just one tax**. Each locality chooses a mix based on its values, priorities, and economic base.

Some places value low property taxes to encourage homeownership. Others raise property taxes to keep income taxes low. A state with no income tax might have high gas taxes or fees on vehicle registration, hotel stays, or tourism. A city might lower sales tax rates but raise parking fees, fines, or utility taxes.

In theory, the goal is to strike a balance between:

- **Stability** (so governments can plan and budget)
- **Fairness** (so no group is overburdened)
- **Economic competitiveness** (so jobs and businesses aren't pushed away)
- **Transparency** (so taxpayers understand what they're paying for)

In practice, it's complicated. States and cities adjust tax systems all the time — in response to court rulings, voter initiatives, economic changes, or political pressure.



Case Study: Comparing States With and Without Income Tax

Imagine this: a **married couple** with **two kids**, living the American dream. They bring in a **\$100,000 annual income**, own a cozy **\$300,000 home**, and spend about **\$30,000 a year** on **taxable purchases**—from groceries to back-to-school supplies.

In the chart below, you can see how this scenario would play across different states. In some, they face a **high income tax** but enjoy **lower property taxes**. In others, there's **no income tax at all**—but have **steep sales** and **property taxes**.

State	Income Tax (%)	Sales Tax (%)	Property Tax (%)	Est. Total Tax (\$)
Texas	0	8.2	1.68	\$9,700
Florida	0	7	0.91	\$7,600
Tennessee	0	9.55	0.71	\$8,000
Illinois	4.95	8.8	2.27	\$11,500
California	9.3	8.82	0.74	\$10,500
New York	6.85	8.5	1.72	\$12,000
Washington	0	9.29	0.92	\$8,300
New Jersey	10.75	6.6	2.21	\$11,800
Massachusetts	5	6.25	1.14	\$9,400
Colorado	4.4	7.77	0.52	\$9,000

This family's financial reality **shifts dramatically** based on their state's tax mix. The **same paycheck, same house**, and **same spending habits**—but **very different outcomes**. It's an example of how tax policy isn't just abstract—it's **deeply personal**.

History: How We Got Here

- **Property taxes** date back to colonial times, when landownership was tied to wealth and voting rights. They've remained a constant source of local revenue.
- **Sales taxes** came later — most were adopted during the **Great Depression**, when governments needed new revenue sources to survive shrinking income taxes. Today, 45 states have a general sales tax.
- **State income taxes** became more common in the 20th century, especially after the ratification of the **16th Amendment** allowed the federal income tax. States followed suit to fund growing responsibilities — especially education, health care, and infrastructure.



Why It Matters for Voters and Policymakers

For elected officials — especially at the state and local level — choosing a tax structure isn't just about dollars and cents. It's about trade-offs.

Cutting one tax may mean raising another, reducing services, or increasing debt. Raising one may drive people or businesses away. The most responsible leaders focus on **balancing these tensions**, not just scoring headlines.

For citizens, it's important to look beyond slogans. "No income tax" doesn't always mean lower taxes. And "high tax state" might refer to one type of tax, not the overall burden.

That's why informed civic participation matters. Budgets and tax codes may not be flashy, but they shape everything — from the schools we send our kids to, to the streets we drive on, to the water coming out of our taps.

Conclusion: The Price of Public Services

Taxes are never popular. But they are necessary — not just to fund the government, but to maintain the basic infrastructure of a free society. Roads don't build themselves. Teachers don't work for free. Public safety doesn't run on donations.

The real debate isn't whether we should tax — it's how we do it, who bears the burden, and whether the result is **fair, transparent, and sustainable**.

In the end, good tax policy doesn't punish success or discourage growth. It reflects the shared priorities of a community — and a commitment to pay for the things we expect the government to do.

The best tax systems aren't the ones that hide the burden. They're the ones that balance responsibility with restraint — and earn the trust of the people who pay the bill.