



# Total state and local business taxes

50 state estimates for fiscal year 2008

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## The authors

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This study was prepared by the Quantitative Economics and Statistics practice (QUEST) of Ernst & Young in conjunction with the Council On State Taxation (COST).

QUEST is a group of economists, statisticians and tax policy researchers within Ernst & Young LLP's National Tax Practice, located in Washington, D.C. QUEST provides quantitative advisory services and products to private and public sector clients that enhance business processes, support regulatory compliance, analyze proposed policy issues and provide litigation support.

COST is a nonprofit trade association based in Washington, D.C. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of more than 600 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multi-jurisdictional business entities.



# Executive summary

This study presents detailed, state-by-state estimates of the state and local taxes paid by businesses for fiscal year 2008. This is the seventh annual report prepared by Ernst & Young in conjunction with the Council On State Taxation (COST). In addition to presenting tax estimates for the most recent fiscal year, the study also compares changes in business taxes over the past six years. This six year period covers the economic recovery and expansion following the 2001 recession to the initial six months of the current recession that began in December 2007. This comparison provides a perspective on the changes in state and local taxes over the most recent economic expansion.

Businesses paid \$590 billion of state and local taxes in fiscal year 2008, a level 2.7% higher than the prior fiscal year. Reflecting the slowing growth of both state economies and most state and local taxes (nonbusiness taxes increased by only 3.3% in 2008), this rate of growth was significantly below the average annual business tax growth rate of 7.4% for the prior five years. These and other business tax estimates presented in this study provide state legislatures and policy-makers with a broad perspective on the combined burden of state and local taxes currently. This is important information to have as legislators confront the challenges of closing state budget deficits over the next few years.

To provide a starting point for these policy discussions, this study estimates the level of total taxes paid by businesses to state and local governments. These include business property taxes, sales and excise taxes paid by businesses on their input purchases, gross receipts taxes, corporate income and franchise taxes, business and corporate license taxes, unemployment insurance taxes, individual income taxes paid by owners of noncorporate (pass-through) businesses and other state and local taxes that are the statutory liability of business taxpayers.

The state-by-state business tax estimates reveal significant variation in the share of state and local taxes paid by business across the states. The business share is determined by a state's overall tax structure, the composition of its economy and the types of business taxes levied. The study also examines the level of state and local business taxes as a share of private-sector economic activity in each state.

Key findings of the study include:

- ▶ State and local business tax growth is slowing in line with state and local taxes in general. Business taxes increased by 2.7% in FY2008 compared to 5.7% in FY2007. The slowing in growth was due to slowing sales and property taxes, reductions in corporate income taxes (-7.1%) due to falling profits and lower unemployment taxes (-9.0%), a trend that will be reversed in the current recession.
- ▶ In FY2008, business taxes accounted for 44.1% of total state and local taxes, the same share reported for 2007. However, over the last five years, state and local taxes on business have risen faster than total state and local taxes. As a result, the share of state and local taxes paid by business increased from 43.4% in FY2002 to 44.1% in FY2008.
- ▶ The total state and local business tax burden is 83% higher than the estimated value of public services directly benefiting businesses.
- ▶ Property taxes on business property totaled \$209 billion in FY2008, equal to almost 36% of total state and local business taxes. Sales tax on business inputs and capital equipment totaled \$131 billion, 22% of business taxes. The property tax and a significant portion of sales taxes paid by business are taxes on capital invested within a state.

- ▶ Although the corporate income tax has been the focus of significant debate in a number of state legislatures during recent years, FY2008 collections were \$56.9 billion, less than 10% of total state and local business taxes or 16% of state taxes on business.
- ▶ The composition of total state and local business taxes paid varies by industry, with manufacturing and transportation continuing to face significant property taxes and sales taxes on business purchases. Traditionally regulated businesses are subject to significant industry-specific excise and gross receipts taxes.

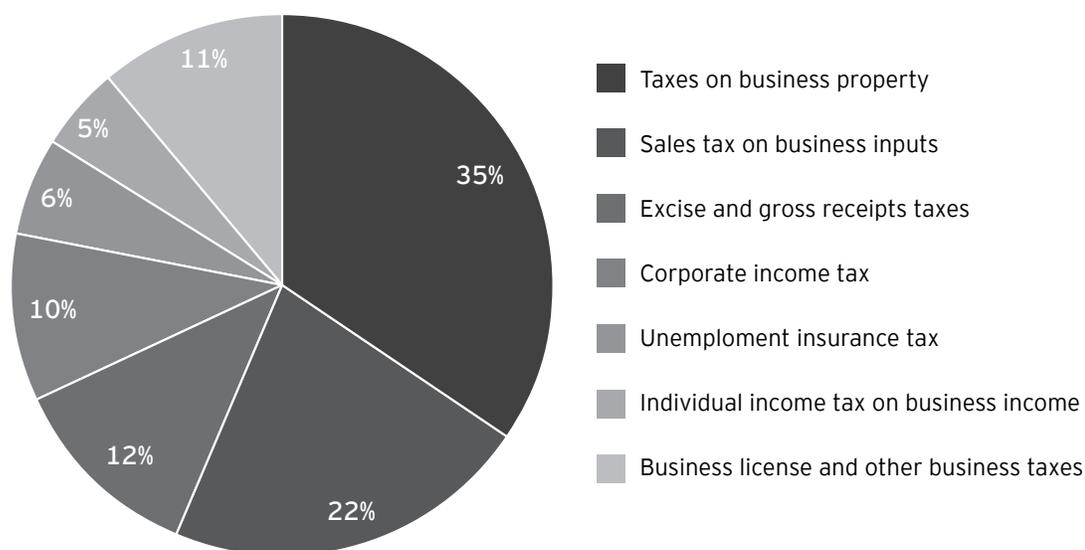
# Total state and local business taxes in FY2008

Businesses paid \$590 billion in total state and local taxes in FY2008, as presented in Table 1. This section describes the business taxes in more detail and highlights the results.

**Table 1. Total state and local business taxes, FY2007-FY2008 (\$billions)**

Business tax	2007	2008	% Total taxes	One-year growth
Property taxes on business property	\$199.5	\$209.3	35.5%	4.9%
General sales taxes on business inputs	\$129.0	\$130.8	22.2%	1.3%
Corporate income tax	\$61.2	\$56.9	9.6%	-7.1%
Unemployment insurance	\$35.8	\$32.5	5.5%	-9.2%
Business and corporate license	\$34.3	\$36.8	6.2%	7.1%
Public utility taxes	\$23.7	\$26.6	4.5%	12.1%
Individual income tax on business income	\$25.8	\$27.2	4.6%	5.4%
Excise taxes	\$27.7	\$26.0	4.4%	-6.0%
Insurance premiums taxes	\$15.5	\$15.6	2.6%	0.7%
Other business taxes	\$22.0	\$28.4	4.8%	28.8%
<b>Total business taxes</b>	<b>\$574.6</b>	<b>\$590.0</b>	<b>100.0%</b>	<b>2.7%</b>

**Figure 1. Composition of total state and local business taxes, FY2008**



Figures do not appear to sum due to rounding

The following taxes are included in business tax estimates to the extent each tax is determined to be the statutory liability of businesses and their owners:

- ▶ Property taxes on real, personal and utility property owned by business account for the largest share of total state and local business taxes, 35.5% or \$209.3 billion. Taxes on real property and utilities account for 90 % of total business property tax. Business personal property, which is exempt from tax in many states, generates the remaining 10% of business property tax revenue. Property taxes increased 4.9% from FY2007 to FY2008, slowing from 6.2% growth in FY2007. Property taxes' share of total state and local business taxes increased by 0.8% from FY2007 to FY2008.
- ▶ Sales and use taxes paid by businesses on purchases of inputs, including capital equipment, totaled \$130.8 billion. The business sales tax represents 22.2% of all state and local business taxes. Sales and use taxes collected on sales to final consumers are not included; only the taxes paid on businesses' operating inputs and capital equipment purchases are included in the total business tax estimates.
- ▶ Corporate income taxes were \$56.9 billion in FY2008, accounting for 9.6% of total state and local business taxes. Due to a decline in corporate profits, corporate income taxes decreased by 7.1% over the past fiscal year. This is the first decline in corporate income taxes since FY2002 when the effect of the 2001 recession was still impacting corporate income tax liabilities. Corporate income taxes' share of total state and local business taxes decreased by 1.0% from FY2007 to FY2008.
- ▶ Employer contributions to unemployment insurance (unemployment taxes) were \$32.5 billion in FY2008. However, this decrease is expected to be reversed as states increase unemployment taxes during and after the current recession. Unemployment taxes increased an average of 80% following the last four US recessions.
- ▶ Excise taxes imposed on business purchases accounted for \$26.0 billion in FY2008. Excise taxes include motor fuel taxes, which increased 2.9% between FY2007 and FY2008, and other selective sales taxes, which decreased 14.2%. Although businesses are generally responsible for collecting and remitting all excise taxes, the estimates only include taxes paid on purchases by businesses. Excise taxes attributed to business include a portion of motor fuel taxes and other selected excise taxes, such as hotels and rental car taxes. Taxes on tobacco, alcoholic beverages, amusements and pari-mutuels are allocated to households.
- ▶ Taxes on insurance premiums and public utility gross receipts totaled \$42.2 billion in FY2008. These taxes are generally based on business gross receipts, and because they are often levied in lieu of property or corporate income taxes, they are allocated solely to business.
- ▶ Business and corporate license taxes and the other business tax category totaled \$65.1 billion in FY2008. Of this total, \$18.8 billion were general business and occupation taxes, and \$6.5 billion were motor vehicle taxes. License taxes and other business taxes increased by 15.5% from FY2007 to FY2008, and their share of total state and local business taxes increased by 1.2%. State severance tax growth in Alaska and Texas accounted for 53% of the increase in license and other business taxes. Excluding the Alaska and Texas severance taxes, license and other business taxes grew by 7.3% in FY2008.

► Individual income taxes paid by owners of pass-through entities (e.g., partnerships, sole proprietorships, and S-corporations, example) are estimated to total \$27.2 billion in FY2008. Individual income taxes on pass-through business income were 47.8% as large as corporate income taxes and represent 4.6% of total state and local business taxes.

## Gross receipts taxes

Business entity taxes based on a “pure” or modified gross receipts tax base have been adopted recently by three states – Ohio, Michigan and Texas. Two other states, Washington and New Hampshire, have levied gross receipts or value-added taxes for many years. This section looks at the business tax collections associated with these five alternative-based general business taxes. Table 2 shows that these taxes generated \$10 billion in FY2008; the table also notes how these taxes are classified by the Census Bureau and in this report.

The collection data presented in Table 2 are reported collections, including a partial year of tax collections for the Texas margin tax and a commercial activity tax (CAT) rate that is still phasing-in in Ohio. If these two taxes had been fully phased in and collected over the entire fiscal year, they would have generated twice as much, approximately \$11.0 billion, in revenue in FY2008. When fully phased-in, these gross receipts taxes would equal 17% of total corporate income and general business entity taxes in FY2008 (if these taxes were classified as corporate income taxes).

Insurance premium and public utility taxes, which operate similarly to entity-level business-based gross receipts taxes, have had more stable revenues than traditional corporate income and license taxes since 2000. The annual growth rate of corporate income tax collections ranged from -21% to 28% since 2000, with three years of negative growth. By contrast, the combined annual growth rate of insurance premium and utility taxes ranged from 0% to 12%, with positive growth every year.

**Table 2. Gross receipts or value-added based business entity taxes (\$billions)**

Business tax	Census bureau tax classification	FY2008
Michigan – Michigan Business Tax	Corporate income tax	\$1.6
New Hampshire – Business Enterprise Tax	Corporate income tax	\$.2
Ohio – Commercial Activity Tax	Corporate income tax	\$1.0
Texas – Texas Margin Tax	Corporate license tax	\$4.5
Washington – Business & Operation Tax	Sales tax	\$2.9
<b>Total gross receipts taxes</b>		<b>\$10.2</b>

*Source: U.S. Census Bureau and EY calculations. Figures do not appear to sum due to rounding.*

# An alternative measure of business taxation

This study provides estimates of the taxes paid by businesses in each state, an important first step in any evaluation of business taxes or tax reform. To enable comparisons across states, the study also expresses business taxes as a share of total state and local taxes and as an effective tax rate on private sector economic activity (taxes as a share of gross state product).

These comparative measures were developed to answer questions from legislators asking, "Are businesses paying their fair share of taxes?" Increasing economic competition among states and around the globe has transformed the initial question into a more fundamental query: "What is the basis or rationale for business taxation at the state or local level?" The basic rationale for business taxes, recognizing that business taxes are ultimately borne by consumers or owners of factors of production (including workers), is to pay for government services that directly benefit businesses. This section provides a comparison of business taxes to these benefits in each state.

If state and local business taxes were equal to the value of the benefits business received from state and local public services, they could be considered a payment for services and taxes would not influence business location decisions or impact competitiveness. However, if state and local business taxes exceed the value of the benefits received from government services, the difference represents an excess cost to business that will reduce profitability in the absence of shifting the tax through higher prices or lower payments to labor. When such excess costs exist, they can affect a company's choice of locations.

To estimate these excess costs, the calculations begin with state-by-state estimates of state and local spending that directly benefits business developed by economists at the Federal Reserve Bank of Chicago with an adjustment to the education spending component described in the next paragraph.

The ratio of business taxes to government expenditures for services benefiting businesses is very sensitive to assumptions about who benefits from public spending for education, one of the largest state and local expenditure categories. The estimates presented in this study assume that 25% of education expenditures directly benefit business.

Table 3 illustrates the range of tax to benefit ratios, from 1.43 in Oregon to 4.21 in Wyoming. In other words, in every state the business tax burden exceeds the value of government services that directly benefit business. The average US ratio is 1.83 in FY2006, the most recent year for which detailed state and local expenditure data is available. Comparing the business share of total taxes, the effective tax rate on economic activity, and the ratio of business taxes to expenditures benefiting business can provide a different perspective on the measures of business tax burdens. Georgia, for example, has a high business tax as a share of total taxes and a below-average effective tax rate on economic activity, but a higher than average ratio of business taxes to benefits received by business. Maryland and Oregon are ranked low for business taxes as a share of total taxes, relative to economic activity, and compared to the value of public services benefiting businesses. Because of their significant severance taxes, Alaska and Wyoming rank among the five highest tax states for each metric. While most states rank relatively closely under each measure, these differences serve to illustrate the danger of using a single metric to evaluate complex business tax systems.

**Table 3. Ratio of business taxes to government expenditures benefiting businesses, FY2006**

<b>State</b>	<b>2006 state and local business tax (\$billions)</b>	<b>2006 state and local expenditures that benefit business (\$billions)</b>	<b>Ratio of business taxes to expenditures that benefit business</b>
Alabama	\$6.0	\$3.8	1.58
Alaska	2.9	1.2	2.53
Arizona	9.8	6.0	1.64
Arkansas	3.5	2.3	1.54
California	70.2	42.1	1.67
Colorado	8.0	4.1	1.95
Connecticut	7.0	4.0	1.74
Delaware	1.9	1.1	1.72
Florida	31.6	19.9	1.59
Georgia	13.3	6.8	1.95
Hawaii	2.4	1.4	1.77
Idaho	1.9	1.2	1.57
Illinois	25.6	11.9	2.15
Indiana	10.1	5.2	1.94
Iowa	4.8	3.0	1.61
Kansas	5.2	2.9	1.83
Kentucky	6.5	3.6	1.80
Louisiana	9.7	5.2	1.85
Maine	2.8	1.2	2.23
Maryland	8.6	5.9	1.47
Massachusetts	12.7	7.1	1.79
Michigan	16.3	10.0	1.63
Minnesota	9.3	4.5	2.08
Mississippi	4.0	2.4	1.70
Missouri	7.7	4.5	1.71
Montana	1.6	0.9	1.73
Nebraska	3.3	1.8	1.86
Nevada	4.9	3.5	1.42
New Hampshire	2.5	1.2	2.18
New Jersey	18.1	9.8	1.85
New Mexico	3.9	2.3	1.69
New York	52.2	25.6	2.04
North Carolina	11.6	7.3	1.58
North Dakota	1.5	0.7	2.06
Ohio	18.0	10.2	1.77
Oklahoma	5.8	2.8	2.09
Oregon	4.7	3.3	1.43
Pennsylvania	21.8	11.1	1.97
Rhode Island	2.2	1.3	1.78
South Carolina	5.6	3.3	1.70
South Dakota	1.4	0.7	1.98
Tennessee	9.0	4.2	2.15
Texas	47.6	21.5	2.22
Utah	3.4	2.2	1.49
Vermont	1.3	0.7	1.90
Virginia	11.1	7.7	1.43
Washington	13.7	6.4	2.14
West Virginia	3.2	1.6	2.05
Wisconsin	9.1	6.0	1.54
Wyoming	2.4	0.6	4.21
District of Columbia	2.1	1.0	2.04
<b>United States Total</b>	<b>\$543.9</b>	<b>\$297.5</b>	<b>1.83</b>

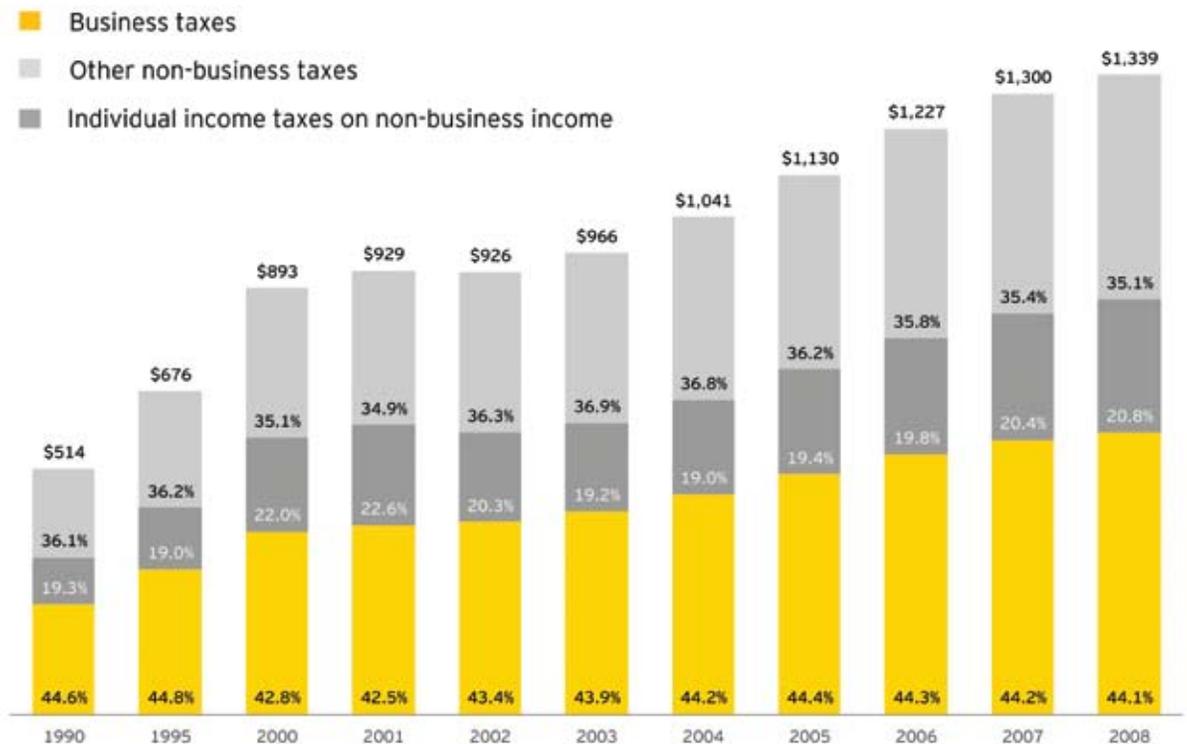
Source: EY calculations. Figures do not appear to sum due to rounding.

# Business share of state and local taxes, 1990–2008

This section provides a longer-run perspective on changes in state and local business taxes. Total state and local business taxes grew from \$229.4 billion in FY1990 to \$382.4 billion in FY2000 and to \$590 billion in FY2008. Over this 18-year period, business taxes grew at a compound average rate of 5.4% per year. Over this same period, the US economy (as measured by GDP) grew at a compound average rate of 4.9% per year. If this trend were to continue, business taxes as a percent of GDP would grow to even higher levels over the long-run.

Figure 2 shows the composition of total state and local taxes, split between business taxes and nonbusiness taxes. Businesses paid 44.1% of total state and local taxes in FY2008. Appendix Table A-1 presents the level and composition of state, local business and nonbusiness taxes from 1990 to 2008. Appendix Table A-2 shows business taxes by tax type over the same period.

Figure 2. Composition of total state and local tax collections, FY1990–FY2008



Figures do not appear to sum due to rounding

# Recent trends in state and local taxes

## Recent trends in business tax growth

Total state and local business taxes increased by 46.8%, or \$188.2 billion, between FY2002 and FY2008. This compares with 42.9% growth in nonbusiness taxes. Table 4 shows that business tax growth over this period was fuelled by rapidly growing corporate income taxes (+99.7%) and business license taxes (+116.9%) and by the sustained growth of business sales taxes (+33.5%) and business property taxes (+36.8%), the two largest components of the state and local business tax base. This section examines the growth of major state and local business taxes since FY2002 and the significance of growth rates over the past fiscal year.

**Table 4. Change in state and local business taxes, FY2002 to FY2008 (\$billions)**

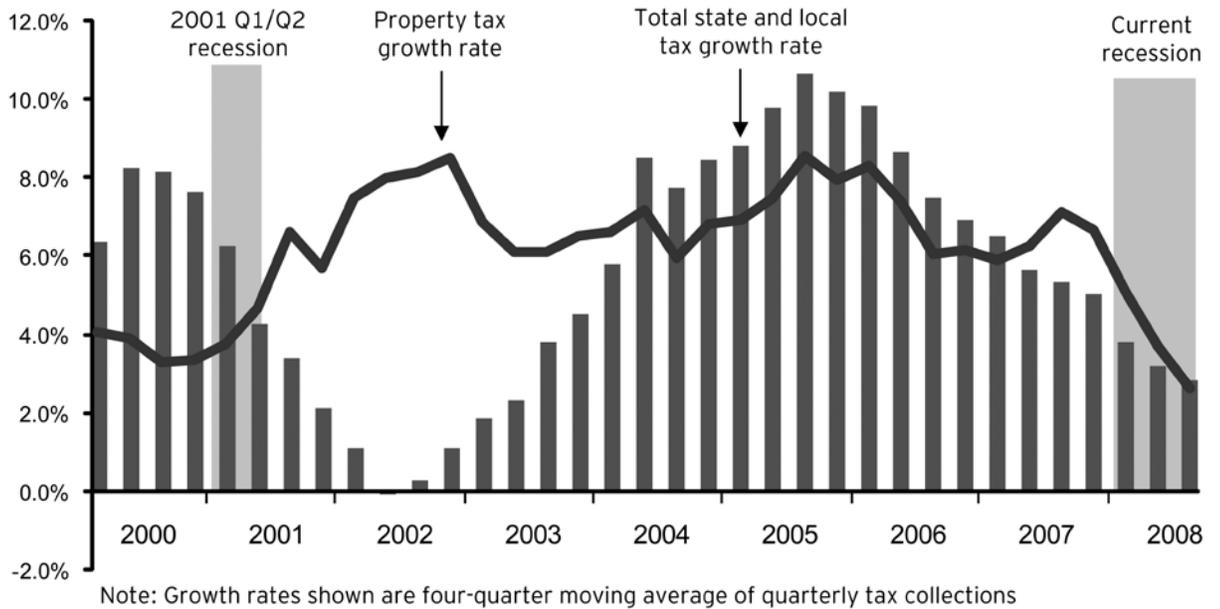
Business tax	FY2002	FY2008	% Growth FY02-FY08	% of total business tax growth
Property taxes on business property	\$152.9	\$209.3	36.8%	29.9%
General sales taxes on business inputs	\$97.9	\$130.8	33.5%	17.4%
Corporate income tax	\$28.5	\$56.9	99.7%	15.1%
Unemployment Insurance	\$21.0	\$32.5	55.1%	6.1%
Business and corporate licenses	\$17.0	\$36.8	116.9%	10.5%
Public utility taxes	\$20.3	\$26.6	31.0%	3.3%
Individual income tax on business income	\$14.8	\$27.2	83.7%	6.6%
Excise taxes	\$20.8	\$26.0	24.9%	2.8%
Insurance premiums	\$11.2	\$15.6	39.5%	2.4%
Other business taxes	\$17.4	\$28.4	62.8%	5.8%
<b>Total business taxes</b>	<b>\$401.8</b>	<b>\$590.0</b>	<b>46.8%</b>	<b>100.0%</b>
<b>Total state and local taxes</b>	<b>\$926.1</b>	<b>\$1339.0</b>	<b>44.6%</b>	
<b>Business share</b>	<b>43.4%</b>	<b>44.1%</b>	<b>+0.7%</b>	

Source: EY calculations. Figures do not appear to sum due to rounding.

## State and local tax collections during past recessions

Declining individual and corporate income tax collections during the last recession drove the growth in total state-level tax collections negative. However, as shown in Figure 3, stable and significant property tax growth (in the 6% to 7% range) during and following the 2001 recession helped offset the sharp declines in income taxes. The coincidence of sharp slowdowns in property taxes (due to declines in market values of home and commercial property) and income and sales taxes in this recession (falling toward 2% growth rates in the last four quarters) means that property taxes will not serve as a safety valve during the current recession. As local governments search for additional sources of revenue to close budget gaps and ask for more assistance from the state governments, taxpayers can expect increased pressure for tax rate increases at both the state and local level over the next several years.

Figure 3. Growth in total state and local tax collections vs. growth in property taxes



## Local business taxes increased faster than state business taxes during FY2008

Recent growth in state and local business taxes provides insight into the fiscal stress states are facing and will continue to face due to declines in corporate profits and taxable business purchases in combination with lower nonbusiness taxes. Tables 5-A and 5-B provide the dollar amounts, percentage distributions and growth rates in FY 2008 for total business taxes at the state and local levels of government.

Total state and local business taxes increased by \$15.4 billion between FY2007 and FY2008. Local business tax growth, primarily property taxes, accounted for 70.2% of this increase. As shown in Table 5-B, local business taxes increased by 4.2%, while state business taxes grew by 1.4% in FY2008 (Table 5-A). State business taxes grew at their lowest rate since FY2002, while local business taxes grew at a lower rate than in FY2002.

At the state level, business tax growth from rising public utility taxes, corporate licenses and individual income taxes on business income was partially offset by declines in corporate income taxes, excise taxes and unemployment insurance. State business taxes grew by \$110.5 billion from FY2002 to FY2008. 45.8% of this increase was attributable to growth in corporate income taxes and sales taxes on business inputs. These two taxes grew at a combined average yearly rate of 10.3% from FY2002 to FY2007. In contrast, corporate income taxes and sales taxes on business inputs declined by 1.4% from FY2007 to FY2008. 61.2% of the growth in other business taxes in FY2008 is attributable to Alaska severance tax. Excluding the Alaska severance tax, all other state taxes grew by 0.3%.

At the local level, the increase in the local business property tax accounted for 87.7% of the overall growth in local business taxes from FY2007 to FY2008. However, the growth rate of the local business property tax (4.9%) declined by 1.2% from the previous year.

Table 5-A and 5-B illustrate the significant difference in the composition of state and local business taxes. Table 5-A shows the percentage distribution of state taxes by tax type; Table 5-B shows the distribution for local business taxes. The major differences are at that while sales taxes on business inputs account for a large share of total business taxes at the state level (32%), they account for a relatively small share of local taxes (10%). Property taxes are the largest local business tax (75% of total local business taxes), but are a relatively minor share of state taxes (2%).

**Table 5-A. State business taxes, FY 2008 (\$Billions)**

<b>Business tax</b>	<b>State business taxes 2007</b>	<b>State business taxes 2008</b>	<b>% total state business taxes</b>	<b>One-year growth state taxes</b>
General sales taxes on business inputs	\$102.1	\$103.6	32.4%	1.5%
Corporate income tax	\$53.6	\$49.9	15.6%	-6.9%
Unemployment insurance	\$35.8	\$32.5	10.2%	-9.2%
Individual income tax on business income	\$25.8	\$27.2	8.5%	5.4%
Corporate and business license	\$23.7	\$25.5	8.0%	7.9%
Excise taxes	\$22.8	\$20.9	6.5%	-8.3%
Insurance premiums taxes	\$15.4	\$15.5	4.8%	0.7%
Public utility taxes	\$11.1	\$13.3	4.2%	19.8%
Property taxes on business property	\$7.6	\$7.9	2.5%	4.3%
Other business taxes	\$17.7	\$23.8	7.4%	34.5%
<b>Total business taxes</b>	<b>\$315.6</b>	<b>\$320.1</b>	<b>100.0%</b>	<b>1.4%</b>

Source: EY calculations. Figures do not appear to sum due to rounding.

**Table 5-B. Local business taxes, FY 2008 (\$Billions)**

<b>Business license</b>	<b>Local business taxes 2007</b>	<b>Local business taxes 2008</b>	<b>% total local business taxes</b>	<b>One-year growth local taxes</b>
Property taxes on business property	\$191.9	\$201.4	74.6%	4.9%
General sales taxes on business inputs	\$26.9	\$27.2	10.1%	0.9%
Public utility taxes	\$12.6	\$13.3	4.9%	5.2%
Excise taxes	\$4.8	\$5.1	1.9%	5.2%
Other business taxes	\$22.8	\$23.0	8.5%	0.8%
<b>Total business taxes</b>	<b>\$259.1</b>	<b>\$269.8</b>	<b>100.0%</b>	<b>4.2%</b>

Source: EY calculations. Figures do not appear to sum due to rounding.

# State-by-state business tax estimates

This section presents state and local business taxes by type of tax for each of the 50 states plus the District of Columbia. Table 6 presents the different business taxes by state. Appendix Table A-3 presents the percent composition by type for each of the 50 states. Origin-based taxes, such as the property tax and sales tax on business input purchases, which are more important in businesses' location decisions than destination-based taxes, vary significantly as a share of total business tax. Arizona, Indiana, Maine, Nebraska, South Dakota and Washington generate more than 70% of business taxes from the sales and property taxes, resulting in significant taxes on business capital located in the state.

Table 7 presents business taxes as percentage of total, state and local taxes by state. The business share of total state and local taxes will depend on many factors, including a state's reliance on individual income taxes and general sales taxes, and the level and type of business activity in the state. The business share of total taxes averages 44.1% nationally, but ranges from 30.7% in Maryland to 89.3% in Alaska.

The business share of total taxes indicates how heavily state and local tax systems rely on taxes that are liabilities of businesses instead of households. However, this measure provides limited information about the competitiveness of a state's business tax system compared to other states. A state's competitiveness depends upon many factors, including the level of business taxes compared to the level of economic activity that is being taxed and the final incidence of business taxes, after they have been shifted to consumers or owners of factors of production, including workers.

Because state business tax bases include a diverse mixture of receipts, net income, input purchases, payroll, property and other tax bases, a broad measure of a state's overall economic activity should be used to determine the measure of aggregate business tax burden that can be compared across states.

The last column in Table 7 presents a state-by-state measure of the total effective business tax rate (TEBTR) imposed on business activity by state and local governments. The TEBTR is measured as the ratio of state and local business taxes to private-sector gross state product (GSP), the total value of a state's annual production of goods and services by the private sector. The average TEBTR across all states is 4.9%; TEBTRs range from 3.6% in North Carolina to 22.3% in Alaska.

While the business TEBTRs provide a starting point for comparing burdens across states, they do not provide sufficient information to fully evaluate a state's competitiveness. For example, Indiana has a TEBTR slightly above the national average, but derives nearly 70% of its business tax revenue from sales and property taxes, which are origin-based taxes on business capital that may negatively impact competitiveness. More generally, a state with an average overall TEBTR may impose relatively high taxes on capital-intensive manufacturers, while imposing relatively low taxes on labor-intensive service industries. As a result, a state with such a tax structure and composition may create disincentives for locating new plant and equipment in the state and hinder economic growth. State legislators and policy-makers need to look closely at the structure and composition of business taxes and the composition of economic activities when evaluating their state's business tax competitiveness.

Table 8 shows the state-by-state increase in total state and local business taxes between FY2002 and FY2008 and the business share of total state and local tax increases during that period. Nationwide, businesses paid 45.6% of the increase in all state and local taxes over this six-year period. Although not shown in the table, the picture is the same for the aggregate ETR: the ratio of business taxes to private-sector economic activity increased from 4.4% to 4.9% over the same period.

Table 6. State and local business taxes, by major tax type, FY2008 (Dollars in billions)

State	Property tax	Sales tax	Excise and gross receipts	Corporate income	Unemployment insurance tax	Individual income tax on business income	License and other	Total business taxes
Alabama	\$1.5	\$1.3	\$1.5	\$0.5	\$0.2	\$0.3	\$0.9	\$6.3
Alaska	0.6	-	0.1	1.3	0.1	-	6.0	8.2
Arizona	3.8	3.5	1.0	0.8	0.3	0.2	0.6	10.2
Arkansas	1.0	1.2	0.5	0.3	0.3	0.2	0.2	3.7
California	17.4	19.7	7.7	10.1	4.9	5.8	8.2	73.7
Colorado	3.3	2.6	0.6	0.5	0.4	0.6	0.5	8.7
Connecticut	3.0	1.6	0.7	0.5	0.6	0.6	0.3	7.3
Delaware	0.3	-	0.2	0.3	0.1	0.1	1.1	2.1
Florida	12.7	7.6	8.4	2.2	0.9	-	2.2	33.9
Georgia	5.5	4.2	1.2	0.9	0.5	0.8	0.8	13.9
Hawaii	0.7	0.9	0.5	0.1	0.1	0.1	0.1	2.5
Idaho	0.8	0.4	0.2	0.2	0.1	0.2	0.2	2.1
Illinois	10.6	3.9	4.7	3.1	2.1	0.9	1.7	26.9
Indiana	6.3	1.8	0.6	0.9	0.6	0.4	0.5	11.1
Iowa	2.7	0.8	0.4	0.3	0.4	0.2	0.3	5.2
Kansas	2.5	1.3	0.5	0.5	0.2	0.3	0.4	5.7
Kentucky	1.5	1.3	1.1	0.5	0.4	0.4	0.7	6.0
Louisiana	2.3	4.2	0.8	0.8	0.2	0.3	1.5	10.1
Maine	1.7	0.4	0.2	0.2	0.1	0.1	0.2	3.0
Maryland	2.3	1.5	1.7	0.7	0.4	0.9	1.7	9.2
Massachusetts	5.9	1.6	0.8	2.2	1.5	1.0	0.5	13.6
Michigan	8.5	2.6	1.2	1.4	1.6	0.6	0.9	16.8
Minnesota	3.3	2.0	1.4	1.0	0.8	0.5	0.7	9.8
Mississippi	1.7	1.2	0.4	0.4	0.1	0.1	0.5	4.4
Missouri	2.7	2.4	1.0	0.4	0.6	0.5	0.7	8.3
Montana	0.8	-	0.2	0.2	0.1	0.1	0.5	1.9
Nebraska	1.6	0.9	0.2	0.2	0.1	0.2	0.2	3.5
Nevada	1.6	1.3	0.8	-	0.4	-	1.1	5.2
New Hampshire	1.6	-	0.4	0.6	0.1	0.0	0.2	2.8
New Jersey	8.2	3.4	1.8	3.0	1.9	1.0	1.3	20.7
New Mexico	0.5	1.2	0.3	0.3	0.1	0.1	1.3	3.8
New York	21.7	11.7	4.1	11.2	2.3	4.8	1.8	57.4
North Carolina	3.7	2.8	1.9	1.2	0.9	0.8	1.1	12.4
North Dakota	0.5	0.3	0.2	0.2	0.1	0.0	0.9	2.1
Ohio	8.2	3.8	1.3	1.7	1.1	0.9	1.8	18.9
Oklahoma	1.2	2.0	0.5	0.4	0.2	0.5	1.5	6.3
Oregon	1.9	-	0.5	0.5	0.8	0.4	0.9	5.1
Pennsylvania	7.6	3.6	3.0	2.2	2.3	1.3	3.4	23.3
Rhode Island	1.2	0.4	0.3	0.1	0.2	0.1	0.1	2.3
South Carolina	2.9	1.0	0.6	0.3	0.3	0.2	0.7	6.0
South Dakota	0.7	0.5	0.2	0.1	0.0	-	0.1	1.5
Tennessee	3.0	3.1	0.9	1.0	0.4	0.0	1.3	9.7
Texas	22.6	13.8	6.8	0.0	1.1	-	10.2	54.5
Utah	1.1	0.8	0.5	0.4	0.2	0.2	0.3	3.6
Vermont	0.7	0.1	0.2	0.1	0.1	0.1	0.0	1.3
Virginia	4.6	1.7	2.2	1.2	0.4	0.7	1.5	12.2
Washington	3.1	7.5	2.1	0.0	1.2	-	1.0	14.8
West Virginia	1.0	0.3	0.6	0.5	0.1	0.1	0.6	3.4
Wisconsin	4.5	1.6	0.8	0.8	0.7	0.4	0.6	9.4
Wyoming	0.9	0.5	0.1	-	0.1	-	1.0	2.5
Dist. of Columbia	1.2	0.4	0.3	0.3	0.1	0.1	0.3	2.6
<b>United States</b>	<b>\$209.3</b>	<b>\$130.8</b>	<b>\$68.2</b>	<b>\$56.9</b>	<b>\$32.5</b>	<b>\$27.2</b>	<b>\$65.1</b>	<b>\$590.0</b>

Source: EY calculations. Figures do not appear to sum due to rounding.

**Table 7. Business taxes as a share of state, local and total taxes and private sector GSP, FY2008(\$ billions)**

	State			Local			State and local			Percent of GSP*
	Business	Total	Business share	Business	Total	Business share	Business	Total	Business share	
Alabama	\$3.9	\$9.2	41.8%	\$2.4	\$4.5	53.1%	\$6.3	\$13.8	45.5%	4.5%
Alaska	7.6	7.8	96.8%	0.6	1.3	44.4%	8.2	9.2	89.3%	22.3%
Arizona	5.1	11.7	43.1%	5.2	8.8	59.1%	10.2	20.5	49.9%	4.7%
Arkansas	2.8	7.8	35.8%	1.0	1.8	52.1%	3.7	9.6	38.9%	4.5%
California	47.1	123.3	38.2%	26.7	58.0	46.0%	73.7	181.3	40.7%	4.6%
Colorado	3.4	10.0	34.0%	5.3	9.6	54.8%	8.7	19.6	44.2%	4.2%
Connecticut	4.2	13.9	30.0%	3.1	8.6	36.1%	7.3	22.5	32.3%	3.7%
Delaware	1.8	3.2	56.8%	0.3	0.8	37.4%	2.1	4.0	52.8%	3.8%
Florida	16.7	37.3	44.7%	17.3	32.6	52.9%	33.9	69.9	48.5%	5.2%
Georgia	5.9	18.5	31.6%	8.1	15.1	53.3%	13.9	33.6	41.4%	4.0%
Hawaii	1.6	5.2	30.7%	0.9	1.4	65.0%	2.5	6.7	38.1%	5.4%
Idaho	1.2	3.8	31.0%	0.9	1.5	60.6%	2.1	5.3	39.4%	4.7%
Illinois	13.8	31.9	43.1%	13.2	26.6	49.6%	26.9	58.5	46.0%	4.9%
Indiana	4.7	15.5	30.2%	6.4	10.4	61.7%	11.1	25.8	42.9%	5.0%
Iowa	2.2	6.9	31.5%	3.0	4.5	66.9%	5.2	11.4	45.5%	4.6%
Kansas	2.7	7.4	36.8%	3.0	4.6	64.6%	5.7	12.0	47.5%	5.7%
Kentucky	4.1	10.2	39.7%	1.9	4.1	46.4%	6.0	14.3	41.6%	4.5%
Louisiana	5.4	10.8	50.0%	4.7	6.2	75.8%	10.1	17.0	59.4%	5.2%
Maine	1.3	3.9	32.3%	1.8	2.5	71.3%	3.0	6.4	47.4%	7.3%
Maryland	5.4	17.0	32.0%	3.8	13.0	29.0%	9.2	29.9	30.7%	4.1%
Massachusetts	7.4	23.3	31.7%	6.2	12.5	49.4%	13.6	35.8	37.9%	4.2%
Michigan	9.4	25.8	36.3%	7.4	13.7	54.3%	16.8	39.5	42.5%	5.0%
Minnesota	6.6	19.2	34.6%	3.2	5.7	55.1%	9.8	24.9	39.3%	4.3%
Mississippi	2.6	6.7	38.5%	1.8	2.4	74.4%	4.4	9.2	48.1%	6.0%
Missouri	3.9	11.6	33.5%	4.4	8.9	49.3%	8.3	20.5	40.4%	4.1%
Montana	1.2	2.5	47.1%	0.7	1.0	66.4%	1.9	3.5	52.5%	6.4%
Nebraska	1.6	4.3	36.6%	1.9	3.2	59.6%	3.5	7.5	46.5%	5.1%
Nevada	2.9	6.5	45.0%	2.3	4.0	57.9%	5.2	10.5	49.9%	4.6%
New Hampshire	1.4	2.3	60.5%	1.4	2.7	51.0%	2.8	5.0	55.4%	5.4%
New Jersey	12.3	32.3	38.0%	8.4	23.4	36.0%	20.7	55.7	37.2%	5.0%
New Mexico	2.8	4.9	57.0%	1.0	1.9	53.6%	3.8	6.8	56.1%	6.0%
New York	21.2	65.9	32.2%	36.2	74.6	48.6%	57.4	140.5	40.9%	5.8%
North Carolina	7.6	23.7	32.1%	4.8	10.4	45.6%	12.4	34.2	36.2%	3.6%
North Dakota	1.5	2.4	64.1%	0.6	0.8	68.5%	2.1	3.2	65.3%	8.9%
Ohio	9.3	24.9	37.4%	9.6	19.9	48.2%	18.9	44.8	42.2%	4.6%
Oklahoma	4.0	8.6	46.6%	2.3	3.9	57.7%	6.3	12.5	50.1%	5.3%
Oregon	2.4	8.0	30.4%	2.7	5.3	50.0%	5.1	13.3	38.2%	3.7%
Pennsylvania	14.3	34.4	41.5%	9.0	22.4	40.4%	23.3	56.8	41.1%	4.9%
Rhode Island	1.1	2.9	38.0%	1.2	2.2	56.6%	2.3	5.1	45.8%	5.7%
South Carolina	2.6	8.8	29.9%	3.4	5.2	65.8%	6.0	13.9	43.3%	4.7%
South Dakota	0.7	1.3	54.6%	0.8	1.2	69.9%	1.5	2.5	61.7%	5.2%
Tennessee	5.6	11.9	47.4%	4.0	7.2	55.9%	9.7	19.2	50.6%	4.5%
Texas	27.4	45.3	60.6%	27.1	43.8	61.8%	54.5	89.1	61.2%	5.3%
Utah	2.0	6.3	31.7%	1.6	3.1	52.0%	3.6	9.4	38.5%	3.9%
Vermont	1.0	2.4	43.2%	0.2	0.4	61.9%	1.3	2.8	45.8%	6.0%
Virginia	5.2	19.1	27.3%	7.0	14.3	49.2%	12.2	33.4	36.7%	3.9%
Washington	10.3	19.2	53.6%	4.5	9.7	46.6%	14.8	28.9	51.3%	5.5%
West Virginia	2.2	5.0	43.1%	1.2	1.5	83.2%	3.4	6.5	52.2%	7.1%
Wisconsin	4.8	14.5	32.7%	4.7	9.4	49.7%	9.4	24.0	39.4%	4.6%
Wyoming	1.7	2.2	75.0%	0.8	1.1	73.0%	2.5	3.4	74.3%	9.2%
Dist. of Columbia	2.6	5.4	48.1%	0.0	0.0	0.0%	2.6	5.4	48.1%	4.1%
<b>United States</b>	<b>\$320.1</b>	<b>\$807.1</b>	<b>39.7%</b>	<b>\$269.8</b>	<b>\$531.9</b>	<b>50.7%</b>	<b>\$590.0</b>		<b>44.1%</b>	<b>4.9%</b>

\*Percent of calendar year 2007 private sector GSP equivalent to a total effective business tax rate on economic activity occurring within the state.

Source: EY calculations. Figures do not appear to sum due to rounding.

Table 8. Change in state and local business taxes, FY2002 to FY2008 (\$billions)

	Total S&L business taxes				Total S&L taxes		Business share of tax growth
	FY2002	FY2007	\$ Change	% Change	\$ Change	% Change	
Alabama	\$4.5	\$6.3	\$1.8	39.8%	\$3.9	38.9%	46.2%
Alaska	1.6	8.2	6.6	423.8%	7.0	318.2%	95.0%
Arizona	7.0	10.2	3.2	46.1%	5.9	40.7%	54.4%
Arkansas	2.5	3.7	1.2	49.5%	3.1	46.5%	40.6%
California	51.3	73.7	22.4	43.7%	58.1	47.1%	38.6%
Colorado	6.0	8.7	2.7	45.2%	5.6	39.5%	48.6%
Connecticut	5.4	7.3	1.9	34.2%	7.0	45.2%	26.5%
Delaware	1.5	2.1	0.6	40.6%	1.2	45.5%	48.7%
Florida	21.7	33.9	12.2	56.3%	24.4	53.7%	50.1%
Georgia	9.7	13.9	4.3	44.2%	9.4	39.0%	45.2%
Hawaii	1.6	2.5	0.9	54.4%	2.3	53.5%	38.5%
Idaho	1.4	2.1	0.7	50.7%	1.9	56.4%	36.8%
Illinois	19.1	26.9	7.8	41.0%	15.8	36.9%	49.7%
Indiana	7.7	11.1	3.4	44.6%	8.6	50.0%	39.6%
Iowa	3.8	5.2	1.4	36.0%	2.9	33.4%	48.1%
Kansas	3.7	5.7	2.0	52.8%	3.8	47.1%	51.2%
Kentucky	4.6	6.0	1.4	30.5%	3.3	29.5%	42.7%
Louisiana	7.3	10.1	2.8	38.7%	4.7	38.2%	60.0%
Maine	2.2	3.0	0.8	37.8%	1.7	36.1%	49.1%
Maryland	6.4	9.2	2.8	43.8%	9.8	48.6%	28.5%
Massachusetts	9.0	13.6	4.6	51.4%	11.0	44.5%	41.8%
Michigan	12.9	16.8	3.9	30.5%	7.8	24.7%	50.2%
Minnesota	7.3	9.8	2.5	33.9%	6.1	32.3%	40.8%
Mississippi	3.1	4.4	1.3	42.8%	2.5	38.2%	52.1%
Missouri	6.1	8.3	2.2	36.6%	5.1	33.0%	43.7%
Montana	1.1	1.9	0.8	70.7%	1.3	61.2%	57.3%
Nebraska	2.5	3.5	1.0	39.7%	2.1	39.6%	46.6%
Nevada	3.3	5.2	2.0	59.8%	3.8	57.5%	51.2%
New Hampshire	2.0	2.8	0.8	38.4%	1.4	38.9%	54.9%
New Jersey	13.5	20.7	7.2	53.1%	19.8	55.3%	36.2%
New Mexico	2.5	3.8	1.4	54.8%	1.9	37.6%	72.7%
New York	37.5	57.4	19.9	53.0%	49.4	54.3%	40.3%
North Carolina	8.2	12.4	4.2	50.9%	11.2	48.9%	37.2%
North Dakota	1.0	2.1	1.1	106.9%	1.4	80.9%	75.4%
Ohio	15.2	18.9	3.7	24.4%	8.0	21.7%	46.4%
Oklahoma	4.1	6.3	2.2	54.0%	3.6	40.7%	60.7%
Oregon	3.4	5.1	1.7	51.2%	3.9	40.8%	44.6%
Pennsylvania	15.5	23.3	7.8	50.4%	17.7	45.2%	44.2%
Rhode Island	1.6	2.3	0.7	43.4%	1.3	35.8%	52.7%
South Carolina	4.3	6.0	1.8	41.4%	4.0	40.1%	44.2%
South Dakota	1.2	1.5	0.4	32.4%	0.6	34.6%	58.8%
Tennessee	6.7	9.7	3.0	44.4%	5.9	44.2%	50.8%
Texas	36.9	54.5	17.6	47.6%	28.9	48.0%	60.9%
Utah	2.1	3.6	1.5	68.5%	3.3	53.7%	44.8%
Vermont	0.9	1.3	0.4	41.8%	0.8	38.2%	48.8%
Virginia	8.0	12.2	4.2	53.1%	11.1	49.8%	38.2%
Washington	10.9	14.8	3.9	35.9%	8.4	41.1%	46.5%
West Virginia	2.4	3.4	1.0	39.1%	1.7	35.8%	55.7%
Wisconsin	7.1	9.4	2.4	33.2%	4.9	25.7%	48.0%
Wyoming	1.3	2.5	1.2	97.6%	1.5	83.1%	80.9%
Dist. of Columbia	1.5	2.6	1.1	72.6%	2.1	62.1%	52.7%
<b>United States</b>	<b>\$401.8</b>	<b>\$590.0</b>	<b>\$188.2</b>	<b>46.8%</b>	<b>\$413.0</b>	<b>44.6%</b>	<b>45.6%</b>

Source: EY calculations. Figures do not appear to sum due to rounding.

# Business taxes by industry

The results of this study highlight the importance of evaluating the overall level of state and local business taxes in the tax policy debate. Table 9 adds another dimension to the total business tax results, presenting estimates of total state and local taxes paid by major industries in FY2008. The results indicate that the composition of total state and local business taxes varies significantly among industries.

**Table 9. Total taxes by industry, FY2008**

	Property	General sales taxes	Excise and gross receipts	Business license and other taxes	Corporate income	Payroll tax	Individual income tax on pass-thru income	Total business tax
Electric & gas	\$20.0	\$3.5	\$18.6	\$2.3	\$1.6	\$0.2	\$0.0	\$46.2
Manufacturing	31.7	22.7	0.2	5.7	18.1	8.5	0.9	87.7
non-durable	15.2	9.9	0.2	3.5	6.6	2.8	0.0	38.2
durable mfg.	16.6	12.7	0.0	2.1	11.5	5.7	0.9	49.6
Wholesale trade	9.9	11.3	15.9	3.9	4.0	1.8	0.6	47.3
Retail trade	12.8	18	5.4	4.0	5.6	5.6	0.7	52.1
Transportation	9.9	7.2	1.3	1.5	1.3	1.2	0.7	23.0
Communications	6.3	6.0	6.9	1.1	4.3	0.4	0.3	25.2
Finance and insurance	17.1	12.6	15.6	7.0	5.4	1.5	5.4	64.6
Real estate	57.2	1.5	0.0	2.2	0.9	0.5	3.3	65.6
Services	21.7	24.5	4.4	14.7	11.9	10.2	4.3	91.6
Mgmt of companies	0.7	0.5	0.0	7.4	8.4	0.1	0.3	17.5
Business services	5.7	13.6	0.0	1.1	1.6	2.8	2.0	26.6
Other services	15.3	10.4	4.4	6.2	1.9	7.3	2.0	47.5
Other	22.7	23.6	0.0	22.9	3.8	2.6	10.9	86.5
<b>Total business taxes</b>	<b>\$209.3</b>	<b>\$130.8</b>	<b>\$68.2</b>	<b>\$65.1</b>	<b>\$56.9</b>	<b>\$32.5</b>	<b>\$27.2</b>	<b>\$590.0</b>

*Figures do not appear to sum due to rounding*

**Table 10. Distribution of total taxes by industry, FY2008**

	Property	General sales taxes	Excise and gross receipts	Business license and other taxes	Corporate income	Payroll tax	Individual income tax on pass-thru income	Total business tax
Electric & gas	43.3%	7.6%	40.3%	5.0%	3.5%	0.4%	0.0%	100.0%
Manufacturing	36.1	25.9	0.2	6.5	20.6	9.7	1.0	100.0
non-durable	39.8	25.9	0.5	9.2	17.3	7.3	0.0	100.0
durable mfg.	33.5	25.6	0.0	4.2	23.2	11.5	1.8	100.0
Wholesale trade	20.9	23.9	33.6	8.2	8.5	3.8	1.3	100.0
Retail trade	24.6	34.5	10.4	7.7	10.7	10.7	1.3	100.0
Transportation	43.0	31.3	5.7	6.5	5.7	5.2	3.0	100.0
Communications	25.0	23.8	27.4	4.4	17.1	1.6	1.2	100.0
Finance and insurance	26.5	19.5	24.1	10.8	8.4	2.3	8.4	100.0
Real estate	87.2	2.3	0.0	3.4	1.4	0.8	5.0	100.0
Services	23.7	26.7	4.8	16.0	13.0	11.1	4.7	100.0
Mgmt of companies	4.0	2.9	0.0	42.3	48.0	0.6	1.7	100.0
Business services	21.4	51.1	0.0	4.1	6.0	10.5	7.5	100.0
Other services	32.2	21.9	9.3	13.1	4.0	15.4	4.2	100.0
Other	26.2	27.3	0.0	26.5	4.4	3.0	12.6	100.0
<b>Total business taxes</b>	<b>35.5%</b>	<b>22.2%</b>	<b>11.6%</b>	<b>11.0%</b>	<b>9.6%</b>	<b>5.5%</b>	<b>4.6%</b>	<b>100.0%</b>

Table 10 presents a comparison of the composition of total state and local business taxes by major industry group. The figures show, for example, that corporate income taxes account for the largest share of the taxes paid by firms in the “management of companies” industry. The industry known as “management of companies” is comprised of three primary types of companies and activities: bank holding companies; nonfinancial holding companies; and corporate, subsidiary, and regional managing offices. These activities (which include the profits of holding company entities that have no employees) generate significant corporate income and corporation license

tax liability relative to other state and local business taxes. This finding confirms that a state’s corporate income tax system will be a primary tax consideration for when corporate headquarters or regional management offices are considering new locations in different states.

The results also indicate that property taxes account for more than 40% of state and local taxes for utilities, transportation and real estate. Regulated industries, including the utility, telecommunications, and insurance industries pay taxes based on gross receipts or premiums in many states, often in lieu of corporate income taxes and other taxes. Table 10 shows that these gross receipts

taxes represent a substantial portion of the total taxes paid by those industries. In formulating tax policy, the composition of business taxes should also be examined, considering the impact of taxes on business capital and the effect those taxes may have on the ability to retain and attract jobs and new investments.

# Conclusion

State and local taxes paid by business in FY2008 totaled \$590 billion, increasing almost 3% since FY2006 and 47% from FY2002, the trough of the last economic slowdown. Total business taxes represented 44.1% of all state and local taxes collected in FY2008, up slightly from 43.4% in FY2002. Annual increases in property taxes and sales tax on business inputs, the two largest state and local business taxes, accounted for more than half of the total increase.

States experienced significant revenue shortfalls in FY2009 and are predicting shortfalls again in FY2010. When faced with significant shortfalls in the past, many states saw business tax reforms only in the context of their short-term objectives to raise revenue. In an economic environment affected significantly by increased global competition, continued deregulation, the growing importance of intangible assets and increasingly mobile labor and capital, it is important for policy-makers to understand the level and composition of their state's total state and local business taxes and the potential long-term impacts of business tax reforms designed to meet short-term objectives.

# Appendix: Supplemental tables

Appendix Table A-1. Total state and local business taxes, FY1990-FY2008 (\$ billions)

State and local taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total business taxes*	\$229.4	\$303.2	\$382.4	\$395.3	\$401.8	\$424.2	\$459.9	\$502.0	\$543.9	\$574.6	\$590.0
Individual income taxes on nonbusiness income	99.1	128.3	196.5	209.7	188.0	185.5	197.7	219.4	243.4	264.6	278.7
Other taxes	185.5	244.9	313.7	324.3	336.2	356.5	383.6	408.5	439.8	460.8	470.4
<b>Total state and local taxes</b>	<b>\$514.0</b>	<b>\$676.4</b>	<b>\$892.6</b>	<b>\$929.4</b>	<b>\$926.1</b>	<b>\$966.2</b>	<b>\$1,041.2</b>	<b>\$1,130.0</b>	<b>\$1,227.0</b>	<b>\$1,300.0</b>	<b>\$1,339.0</b>

Composition of state and local taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total business taxes*	44.6%	44.8%	42.8%	42.5%	43.4%	43.9%	44.2%	44.4%	44.3%	44.2%	44.1%
Individual income taxes on nonbusiness income	19.3%	19.0%	22.0%	22.6%	20.3%	19.2%	19.0%	19.4%	19.8%	20.4%	20.8%
Other taxes	36.1%	36.2%	35.1%	34.9%	36.3%	36.9%	36.8%	36.2%	35.8%	35.4%	35.1%
<b>Total state and local taxes</b>	<b>100.0%</b>										

\*Includes individual income taxes on pass-through business income.  
Source: EY calculations. Figures do not appear to sum due to rounding.

**Appendix Table A-2. Composition of state and local business taxes, FY1990-FY2008 (\$billions)**

<b>Business tax</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Property tax on business property	\$84.7	\$110.7	\$136.8	\$142.6	\$152.9	\$160.9	\$169.7	\$176.6	\$187.9	\$199.5	\$209.3
General sales and use tax on inputs	\$53.4	\$70.2	\$94.4	\$97.6	\$97.9	\$100.9	\$107.3	\$115.2	\$123.8	\$129.0	\$130.8
Corporation net income	\$23.7	\$31.7	\$36.4	\$35.8	\$28.5	\$31.9	\$34.1	\$43.5	\$53.3	\$61.2	\$56.9
Business license tax	\$12.4	\$15.8	\$20.9	\$20.8	\$21.0	\$23.9	\$31.9	\$35.5	\$36.4	\$35.8	\$32.5
Unemployment comp.	\$7.3	\$11.4	\$14.8	\$15.0	\$17.0	\$16.8	\$18.9	\$29.5	\$32.9	\$34.3	\$36.8
Excise taxes	\$11.4	\$15.0	\$17.7	\$17.9	\$20.3	\$21.2	\$21.3	\$22.6	\$23.6	\$23.7	\$26.6
Individual income tax	\$6.6	\$9.6	\$15.1	\$16.3	\$14.8	\$14.8	\$17.5	\$21.5	\$23.7	\$25.8	\$27.2
Public utility tax	\$10.6	\$16.0	\$20.1	\$20.2	\$20.8	\$21.9	\$23.4	\$23.9	\$25.1	\$27.7	\$26.0
Insurance premiums tax	\$7.4	\$8.6	\$9.8	\$10.3	\$11.2	\$12.6	\$14.0	\$14.9	\$15.6	\$15.5	\$15.6
Other business taxes	\$11.8	\$14.1	\$16.5	\$18.9	\$17.4	\$19.5	\$21.8	\$18.8	\$21.6	\$22.0	\$28.4
<b>Total business taxes</b>	<b>\$229.4</b>	<b>\$303.2</b>	<b>\$382.4</b>	<b>\$395.3</b>	<b>\$401.8</b>	<b>\$424.2</b>	<b>\$459.9</b>	<b>\$502.0</b>	<b>\$543.9</b>	<b>\$574.6</b>	<b>\$590.0</b>

Source: EY calculations. Figures do not appear to sum due to rounding.

Appendix Table A-3. Composition of state and local business taxes, by type, FY2008 (\$billions)

	Property tax	Sales tax	Excise and gross receipts	Corporate income	Unemployment insurance tax	Individual income tax	License and other	Total business taxes
Alabama	23.3%	21.3%	23.8%	8.5%	3.7%	4.4%	15.0%	100.0%
Alaska	7.2%	0.0%	1.2%	15.9%	1.7%	0.0%	73.9%	100.0%
Arizona	37.0%	34.6%	9.7%	7.7%	2.9%	2.0%	6.1%	100.0%
Arkansas	26.3%	31.7%	13.7%	9.1%	7.0%	5.6%	6.5%	100.0%
California	23.6%	26.7%	10.4%	13.7%	6.7%	7.8%	11.1%	100.0%
Colorado	38.6%	29.9%	7.4%	5.8%	4.9%	7.5%	5.9%	100.0%
Connecticut	41.5%	21.4%	9.7%	7.3%	7.7%	8.7%	3.5%	100.0%
Delaware	13.0%	0.0%	11.1%	14.6%	3.9%	4.0%	53.3%	100.0%
Florida	37.5%	22.3%	24.6%	6.5%	2.5%	0.0%	6.5%	100.0%
Georgia	39.2%	30.0%	8.9%	6.8%	3.8%	5.7%	5.7%	100.0%
Hawaii	29.5%	33.6%	19.3%	4.1%	4.0%	4.0%	5.5%	100.0%
Idaho	40.4%	18.2%	9.7%	9.1%	5.8%	7.5%	9.2%	100.0%
Illinois	39.2%	14.6%	17.3%	11.6%	7.6%	3.4%	6.4%	100.0%
Indiana	56.6%	16.7%	5.1%	8.2%	5.0%	3.8%	4.5%	100.0%
Iowa	51.9%	16.3%	7.3%	6.5%	6.9%	4.7%	6.3%	100.0%
Kansas	43.4%	23.7%	8.6%	9.3%	3.9%	5.1%	6.1%	100.0%
Kentucky	25.6%	22.4%	19.2%	9.1%	6.6%	6.1%	11.1%	100.0%
Louisiana	23.1%	41.3%	8.3%	7.6%	1.7%	3.3%	14.6%	100.0%
Maine	58.0%	13.5%	7.7%	6.1%	3.4%	4.4%	6.8%	100.0%
Maryland	25.3%	16.6%	18.0%	8.0%	4.3%	9.3%	18.5%	100.0%
Massachusetts	43.8%	11.8%	6.0%	15.9%	11.3%	7.5%	3.6%	100.0%
Michigan	50.3%	15.5%	7.1%	8.5%	9.6%	3.8%	5.3%	100.0%
Minnesota	33.7%	20.5%	14.0%	10.6%	8.6%	5.5%	7.1%	100.0%
Mississippi	39.6%	26.5%	9.3%	8.7%	2.4%	3.1%	10.4%	100.0%
Missouri	33.1%	28.6%	12.2%	4.9%	7.2%	5.5%	8.6%	100.0%
Montana	42.6%	0.0%	11.2%	8.7%	4.7%	5.1%	27.8%	100.0%
Nebraska	45.2%	26.5%	6.5%	6.7%	3.3%	4.8%	7.0%	100.0%
Nevada	30.7%	25.6%	15.6%	0.0%	7.0%	0.0%	21.1%	100.0%
New Hampshire	55.8%	0.0%	13.6%	22.0%	1.9%	0.4%	6.5%	100.0%
New Jersey	39.5%	16.6%	8.8%	14.3%	9.4%	5.0%	6.4%	100.0%
New Mexico	14.1%	30.7%	8.8%	8.3%	2.6%	2.0%	33.5%	100.0%
New York	37.7%	20.3%	7.1%	19.4%	4.0%	8.4%	3.1%	100.0%
North Carolina	29.7%	22.6%	15.1%	9.8%	7.5%	6.6%	8.8%	100.0%
North Dakota	24.5%	13.0%	8.5%	7.7%	2.4%	1.5%	42.3%	100.0%
Ohio	43.6%	20.3%	6.9%	9.0%	5.8%	4.8%	9.6%	100.0%
Oklahoma	19.2%	31.5%	8.6%	5.8%	2.9%	7.4%	24.7%	100.0%
Oregon	37.9%	0.0%	9.3%	10.3%	16.2%	8.4%	17.8%	100.0%
Pennsylvania	32.4%	15.2%	13.0%	9.4%	9.8%	5.5%	14.8%	100.0%
Rhode Island	50.9%	16.7%	11.3%	6.2%	8.0%	3.3%	3.6%	100.0%
South Carolina	47.6%	17.2%	10.7%	5.3%	4.8%	3.6%	10.9%	100.0%
South Dakota	42.2%	33.6%	9.8%	4.5%	1.7%	0.0%	8.1%	100.0%
Tennessee	31.2%	31.6%	9.3%	10.4%	4.2%	0.4%	12.9%	100.0%
Texas	41.5%	25.3%	12.5%	0.0%	2.0%	0.0%	18.7%	100.0%
Utah	31.6%	23.5%	14.1%	10.9%	4.6%	6.1%	9.1%	100.0%
Vermont	55.6%	10.7%	14.4%	6.7%	5.0%	3.9%	3.7%	100.0%
Virginia	37.5%	13.8%	18.2%	10.1%	2.9%	5.3%	12.2%	100.0%
Washington	21.2%	50.3%	14.3%	0.0%	7.8%	0.0%	6.4%	100.0%
West Virginia	29.4%	9.5%	18.8%	15.9%	4.2%	3.3%	19.0%	100.0%
Wisconsin	47.4%	17.3%	8.7%	8.9%	7.2%	4.0%	6.5%	100.0%
Wyoming	36.1%	20.4%	3.1%	0.0%	2.2%	0.0%	38.2%	100.0%
Dist. of Columbia	46.7%	13.6%	10.8%	10.0%	4.2%	4.7%	10.0%	100.0%
<b>United States</b>	<b>35.5%</b>	<b>22.2%</b>	<b>11.6%</b>	<b>9.6%</b>	<b>5.5%</b>	<b>4.6%</b>	<b>11.0%</b>	<b>100.0%</b>

Source: EY calculations. Figures do not appear to sum due to rounding.

# Endnotes

1. See Robert Cline, Tom Neubig and Andrew Phillips, "Total State and Local Business Taxes: 50-State Estimates for Fiscal Year 2007," State Tax Notes, May 12, 2008, for analysis of fiscal year 2007 state and local business taxes.
2. The general methodology used to estimate state and local business taxes is described in detail in the Appendix to the EY/COST FY2005 50-State Business Tax study published in March 2006. Note that business tax estimates for prior years have been revised from those published in earlier editions of this study due to feedback from state tax agencies, the use of updated and more detailed information on local business taxes and refinements to the property tax estimation methodology to reflect the rapid rise in the value of residential property since 2002. The most significant change was to general sales on business inputs, which we estimated to be \$132.3 million for FY2007 in the April 2008 study and have been revised in the current analysis to \$129.0 million for FY2007. All references to business taxes in prior fiscal years refer to the updated estimates rather than the previously published estimates.
3. A more detailed analysis of state and local sales taxation of business inputs was done by Robert Cline, John Mikesell, Tom Neubig and Andrew Phillips in the COST study, "Sales Taxation of Business Inputs: Existing Tax Distortions and the Consequences of Extending the Sales Tax to Business Services," January 25, 2005. (Also in State Tax Notes, January 28, 2005.)
4. Tax amounts for Michigan and Ohio are tax liability estimates, rather than actual tax collections.
5. Richard H. Mattoon and William A. Testa, "How Closely Do Business Taxes Conform to the Benefits Principle?" presentation at the Future State Business Tax Reforms: Perspectives from the Business, Government and Academic Communities conference, Federal Reserve Bank of Chicago (September 17, 2007). The authors distributed state and local government expenditures between businesses and households. Services benefiting business include shares of expenditures for transportation, water and sewer infrastructure, police and fire protection, general government "overhead" (e.g., legislative, administrative and judicial services), interest and regulatory activities. The methodology used is described in detail in William H. Oakland and William A. Testa, "State-Local Business Taxation and the Benefits Principle," Economic Perspectives (January/February 1996). The authors also note that selective excise taxes, such as the severance tax, impact a small portion of businesses and could be removed from the business tax numerator to provide a measure of the tax-to-benefit ratio, generally applicable to most firms.
6. The estimated ratios of business taxes to services benefiting businesses presented in this study are based on expenditure estimates derived by Mattoon and Testa for FY2005, adjusted to reflect state and local expenditure growth from FY2005 to FY2006. The general methodology used by Mattoon and Testa allocates expenditures net of user charges to businesses and households. The estimates assume that 25% of net education expenses benefit business. Prior analyses have incorporated a range of estimates, assuming that businesses receive between 0% and 50% of the benefit from education expenditures; the baseline estimates by Mattoon and Testa assumed a 0% share of education directly benefiting business. The ratio of business benefit to business tax is calculated as estimated FY2006 state and local business taxes divided by estimated FY2006 expenditures that benefit business.
7. See Robert Cline, Joo Mi Kim and Andrew Phillips, "Property Taxes on Business Capital: Large and Growing Share of State and Local Business Taxes," presented at the National Tax Association Annual Conference, November 2005.







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