

Total State and Local Business Taxes

50-State Estimates for Fiscal Year 2006

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Prepared in conjunction with the Council On State Taxation



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

QUEST is a group of economists, statisticians, and tax policy researchers within Ernst & Young's National Tax practice, located in Washington, DC. QUEST provides quantitative advisory services 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, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of nearly 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 is the fifth annual report prepared by Ernst & Young in conjunction with the Council On State Taxation (COST) that provides detailed state-by-state estimates of state and local taxes paid by business. This study includes estimates for FY2006.¹

In FY 2006, businesses paid \$554 billion of state and local taxes, and business taxes accounted for 45% of total taxes collected by all state and local governments in the United States. Information presented in this study will help answer tax policy questions currently being debated in state legislatures: “How much tax do businesses pay?” and “Are our current state and local business taxes adversely affecting our state’s economic competitiveness?”

This study includes estimates of total state and local taxes paid by businesses in each state. The analysis examines 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 payroll taxes, the individual income taxes paid by owners of non-corporate (pass-through) businesses, and other state and local taxes that are the statutory liability of business taxpayers.

Are current state and local business taxes adversely affecting states’ economic competitiveness?

The state-by-state estimates indicate significant variation in the share of state and local taxes paid by businesses across the states. The share of state and local taxes paid by businesses is determined by a state’s overall tax system, the structure of its economy, the types of business taxes levied, as well as business tax features that may provide a competitive advantage or disadvantage in attracting and retaining business employment and investment in the state.

Key findings of the study include:

- State and local business taxes increased by 10.2% to \$554 billion in FY2006.
- Over the last four years, state and local taxes on business have risen faster than total state and local taxes. As a result, businesses paid 49% of the *additional* state and local taxes collected from FY2002 to FY2006.
- Businesses paid more than half of the total four-year increase in state and local taxes in 27 states. At the state level, business tax growth accounted for more than half of the tax increase in 22 states and averaged 45% for all states. At the local level, business tax growth was stronger, generating more than half of the four-year increase in 41 states and averaging 54% of total U.S. local tax growth.
- Property taxes on business property totaled \$205 billion in FY2006, equal to 37% of total state and local business taxes. Sales and use taxes on business inputs and capital equipment totaled \$125 billion, nearly 23% of business taxes. The property tax and a significant portion of sales taxes paid by businesses are taxes on capital invested within a state.
- The composition of total state and local business taxes paid varies by industry, with manufacturing and transportation continuing to pay significant property taxes and sales taxes on business purchases. Traditionally, regulated businesses have been subject to significant industry-specific excise and gross receipts taxes.

Total State and Local Business Taxes in FY2006

Businesses paid \$554 billion in total state and local taxes in FY2006, as presented in Table 1.² The following taxes are included in the 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: 37% or nearly \$205 billion. Taxes on real property and utilities account for \$184 billion (90%) of the total business property tax. Business personal property, which is exempt from tax in many states, generates the remaining \$21 billion of business property tax revenue.

Business Tax	Business Taxes	% of Total	One-Year Growth
Property taxes on business property	\$204.8	37.0%	9.0%
Sales and use tax on business inputs	124.7	22.5	11.6
Corporate income tax	51.8	9.4	23.1
Unemployment insurance	36.4	6.6	2.5
Excise taxes	25.7	4.6	4.7
Public utility taxes	24.5	4.4	-2.2
Business and corporate license	22.4	4.0	7.4
Individual income tax on business income	21.4	3.9	13.1
Insurance premiums tax	14.8	2.7	5.3
Other business taxes	27.0	4.9	25.2
Total State and Local Taxes	\$553.7	100.0%	10.2%

Source: EY Calculations

- Sales and use taxes paid by businesses on purchases of inputs, including capital equipment, totaled \$125 billion, representing 23% of all state and local business taxes and 44% of total state and local sales and use 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.³
- Corporate income taxes were \$52 billion and equaled 9% of total state and local business taxes.

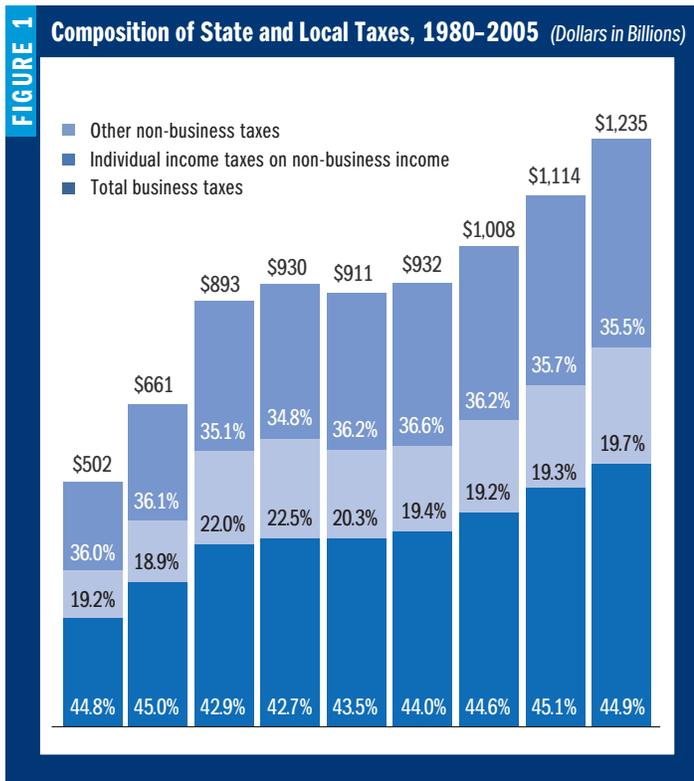
- Excise taxes imposed on business purchases accounted for more than \$26 billion of FY2006 revenue. Although businesses generally collect and remit excise taxes on all taxable sales, the estimates only include taxes paid on purchases by businesses. Excise taxes attributed to business include a portion 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 \$39 billion in FY2006. 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.

- Employer payroll taxes for unemployment insurance were more than \$36 billion in FY2006.
- License taxes and other business taxes totaled \$49 billion in FY2006. Of this total, nearly \$8 billion was corporation license taxes, such as the Texas franchise tax (\$2.7 billion); \$14 billion was general business and occupation taxes; \$18 billion was motor vehicle license fees and taxes.
- Individual income taxes paid by owners of pass-through entities (e.g., partnerships, sole proprietorships, S-corporations, etc.) are estimated to total \$21 billion in FY2006. Individual income taxes on pass-through business income were 41% as large as state corporate income taxes and represent 4% of total state and local business taxes.

Total State and Local Business Taxes from 1980 to 2006

Total state and local business taxes grew from \$230 billion in 1990 to \$283 billion in 2000 and to more than \$554 billion in FY2006. Figure 1 shows the composition of total state and local taxes, split between business taxes and non-business taxes.⁴ Businesses paid 44.9% of total state and local taxes in 2006, nearly the same share businesses paid in 1990. Over the last five years, the business share has averaged 44.4%.

Appendix Table A-1 presents the level and composition of state and local business and non-business taxes from 1980 through 2006. Appendix Table A-2 shows business taxes by tax type for the same period. Since 1980, the corporate income tax has declined as a share of total state and local business taxes, while the shares of business license taxes and individual income taxes on pass-through income have increased.

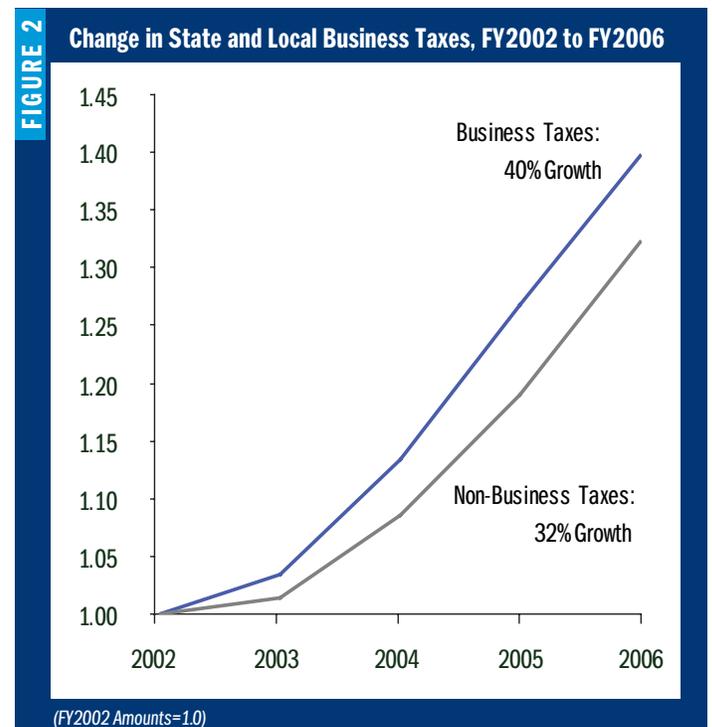


Recent Trends in State and Local Taxes

Business Taxes Are Growing Faster Than Non-Business Taxes

Total state and local business taxes increased by nearly 40%, or more than \$157 billion, between FY2002 and FY2006. As shown in Figure 2 and Table 2, the cumulative growth in business taxes during this period exceeded the cumulative growth of non-business taxes by more than 7 percentage points. The growth of total business taxes over this period resulted from increases in most business taxes, including rapidly growing corporate income (+76%) and unemployment insurance taxes (+74%) and above-average growth of property taxes (+37%), the largest component of state and local business taxes.

In addition to being the largest component of state and local business taxes, property tax accounted for 35% of the total business tax increase between FY2002 and FY2006. The growth rate of property taxes accelerated over the past three years. Since 2003, the property tax has increased at an average annual rate of 10%, after averaging less than 4% growth from 2001 through 2003. Tempering the growth of real property taxes are repeals or reductions in personal property taxes and reductions in business property tax rates in several states.



Business Tax	FY2002	FY2006	% Growth in Tax FY2002 - FY2006	% of Total Tax Increase
Property taxes on business property	\$149.7	\$204.8	36.8%	35.0%
Sales and use tax on business inputs	97.5	124.7	27.9	17.3
Corporate income tax	29.5	51.8	75.6	14.2
Unemployment insurance	21.0	36.4	73.3	9.8
Excise taxes	20.6	25.7	24.8	3.3
Public utility taxes	18.4	24.5	33.2	3.9
Business and corporate license	17.3	22.4	29.5	3.3
Individual income tax on business income	14.6	21.4	46.6	4.4
Insurance premiums tax	11.0	14.8	34.5	2.4
Other business taxes	16.8	27.0	60.7	6.5
Total Business Taxes	\$396.4	\$553.7	39.7%	100.0%
Total State and Local Taxes	\$911.1	\$1,234.5	35.5%	

Source: EY Calculations

While the corporate income tax continues to represent a relatively small share of total state and local business taxes, it remains an unstable source of revenue for funding government. The relative volatility in the corporate income tax has been particularly high since the beginning of the last recession. From June 2001 to June 2002, corporate income taxes fell almost five times faster than total state taxes. Since June 2002, corporate income taxes have increased almost three times faster than all state taxes. The short-run volatility of corporate income taxes makes it difficult to identify longer-run trends affecting the tax.

Over the past decade, many states have considered significant changes in their business tax systems. Two states, Ohio and Texas, replaced income and franchise tax systems with modified gross receipts taxes. Michigan repealed its single business tax (after 2007), classified by the Census Bureau as a corporate income tax, and has not yet adopted a replacement. Hawaii and Washington have existing business gross receipts taxes that are classified as sales taxes in our analysis. The substitution of these new taxes for current business income and franchise taxes will affect the composition of business taxes going forward.⁵

Local Business Taxes Are Growing Faster Than State Business Taxes

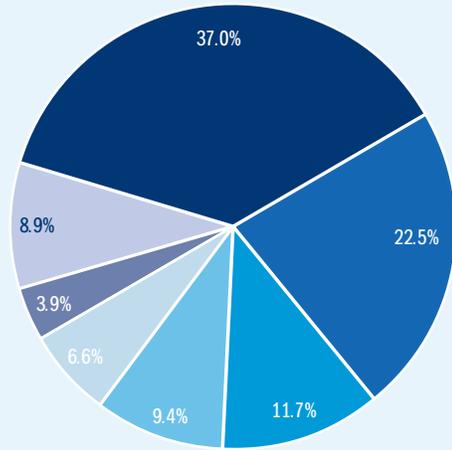
Local business taxes grew faster than state-level business taxes from FY2005 to FY2006. Local business taxes increased 10.4%, while state business taxes grew by 10.0%.

The relatively high business property tax growth rate, combined with the importance of the property tax in the local tax mix, is primarily responsible for the higher local growth rate.⁶ (See Appendix Table A-3 for details of the composition of business property taxes.)

Figure 3 illustrates the significant difference in the composition of state and local business taxes. The first pie shows the percentage distribution of total state and local taxes by tax type. The property tax share for total taxes is 37%. But the second and third pies show that the business property tax accounts for 3% of state taxes but 78% of local taxes.⁷

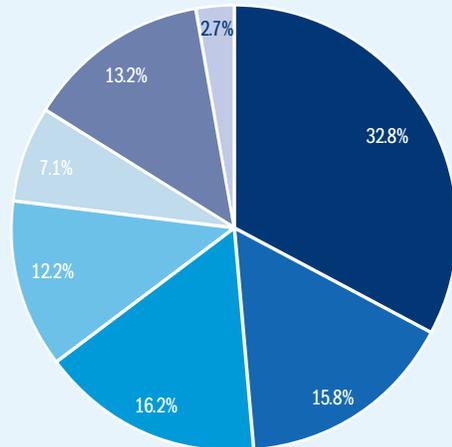
Table 3 provides the dollar amounts, percentage distribution, and growth rates in FY2006 for total state and local taxes, as well as state taxes and local taxes reported separately. As shown in Table 3-C, total local taxes increased by 10.4% primarily due to property tax growth of 9.9%. Other local taxes, including local business income and license taxes, grew 35.6%. Table 3-B shows that while local property taxes grew significantly, state-level property taxes decreased 9.8%. The decrease was largely due to legislated state property tax reductions, including a two-cent state property tax rate reduction in Maryland and the repeal of the Florida state intangible property tax.

FIGURE 3



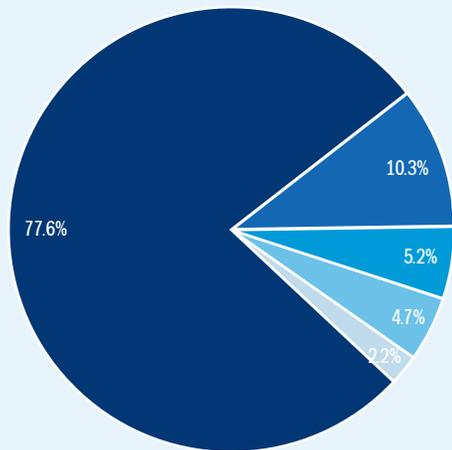
State and Local Business Taxes

- Property taxes on business property
- Sales and use tax on business inputs
- Excise and gross receipts taxes
- Corporate income tax
- Unemployment insurance tax
- Individual income tax on business income
- Business license and other business taxes



State Taxes

- Sales and use tax on business inputs
- Excise and gross receipts taxes
- Corporate income tax
- Unemployment insurance tax
- Individual income tax on business income
- Business license and other business taxes
- Property taxes on business property



Local Taxes (County, City, School, Special Districts)

- Property taxes on business property
- Sales and use tax on business inputs
- Other business taxes
- Public utility taxes
- Excise taxes

TOTAL STATE AND LOCAL BUSINESS TAXES

(Dollars in Billions)

TABLE 3-A	State and Local Business Taxes, FY2006			
		FY2006	% Total Taxes	One-Year Growth
	Property taxes on business property	\$204.8	37.0%	9.0%
	Sales and use tax on business inputs	124.7	22.5	11.6
	Corporate income tax	51.8	9.4	23.1
	Unemployment insurance	36.4	6.6	2.5
	Excise taxes	25.7	4.6	4.7
	Public utility taxes	24.5	4.4	-2.2
	Business and corporate license	22.4	4.0	7.4
	Individual income tax on business income	21.4	3.9	13.1
	Insurance premiums tax	14.8	2.7	5.3
	Other business taxes	27.0	4.9	25.2
	Total Business Taxes	\$553.7	100.0%	10.2%

TABLE 3-B	State Business Taxes, FY2006			
		FY2006	% Total Taxes	One-Year Growth
	Sales and use tax on business inputs	\$98.5	32.8%	12.4%
	Corporate income tax	48.5	16.2	23.2
	Unemployment insurance	36.4	12.1	2.5
	Business and corporate license	22.4	7.5	7.4
	Individual income tax on business income	21.4	7.1	13.1
	Excise taxes	20.0	6.7	3.7
	Insurance premiums tax	14.8	4.9	5.3
	Public utility taxes	12.6	4.2	-5.7
	Property taxes on business property	8.1	2.7	-9.8
	Other business taxes	17.3	5.8	17.6
	Total Business Taxes	\$300.0	100.0%	10.0%

TABLE 3-C	Local Business Taxes, FY2006			
		FY2006	% Total Taxes	One-Year Growth
	Property taxes on business property	\$196.7	77.6%	9.9%
	Sales and use tax on business inputs	26.2	10.3	8.8
	Public utility taxes	11.9	4.7	1.7
	Excise taxes	5.7	2.2	8.4
	Other business taxes*	13.1	5.2	35.6
	Total Business Taxes	\$253.6	100.0%	10.4%

*Includes local corporate income and business license taxes that are included in state and local tax totals.

Source: EY Calculations

State-by-State Business Tax Estimates



Origin-based taxes, such as the property tax and sales tax on business inputs, influence business location decisions and vary significantly from state to state.

This section presents state and local business taxes by type of tax for each of the 50 states plus the District of Columbia. Table 4 presents the different business taxes by state. 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. Indiana, Arizona, and Texas 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 5 presents business taxes as a 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 nearly 45% nationally but ranges from 34% in Connecticut to 82% 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 on 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 factors of production. 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 an aggregate business tax burden that can be compared across states.

The last column in Table 5 presents a state-by-state measure of the effective business state and local tax rate (ETR). The ETRs are 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, excluding the public sector. The average ETR across all states is 5.1%; ETRs range from 3.7% in D.C. to 10.9% in Wyoming.

While the business ETRs provide a starting point for comparing burdens across states, they do not provide sufficient information to fully evaluate a state's competitiveness. For example, Wyoming's ETR of 10.9% is due to severance taxes that are not taxes on mobile capital. More generally, a state with an average overall ETR may impose relatively high taxes on capital-intensive manufacturers while imposing relatively low taxes on labor-intensive service industries. As a result, this state's tax structure and composition may create disincentives for locating new plant and equipment in the state and hinder economic growth. State legislators and policymakers need to look more closely at the structure and composition of business taxes and the composition of economic activities in evaluating their state's business tax competitiveness.

TABLE 4

State and Local Business Taxes by Type, FY2006* (Dollars in Billions)

State	Property Tax	Sales Tax on Business Inputs	Excise and Gross Receipts	Corporate Income	Unemployment Insurance	Individual Income Tax (on Pass-Through Business Income)	Licenses and Other Taxes	Total Business Taxes
Alabama	\$1.3	\$1.2	\$1.3	\$0.5	\$0.3	\$0.2	\$0.6	\$5.4
Alaska	0.9	-	0.1	0.8	0.2	-	1.2	3.2
Arizona	3.8	3.4	0.9	0.9	0.3	0.2	0.3	9.8
Arkansas	0.9	1.1	0.5	0.4	0.3	0.2	0.2	3.6
California	19.7	20.5	7.8	10.4	5.4	4.9	6.5	75.2
Colorado	3.1	2.4	0.6	0.5	0.5	0.5	0.4	8.0
Connecticut	2.7	1.5	0.7	0.6	0.6	0.5	0.2	6.8
Delaware	0.3	-	0.2	0.3	0.1	0.1	1.1	2.1
Florida	11.6	7.7	7.6	2.4	1.2	-	1.5	32.0
Georgia	5.1	4.1	1.2	1.0	0.7	0.7	0.5	13.3
Hawaii	0.6	0.8	0.5	0.1	0.1	0.1	0.1	2.3
Idaho	0.8	0.3	0.2	0.2	0.1	0.1	0.1	1.8
Illinois	11.2	3.8	4.4	2.4	2.7	0.6	1.6	26.7
Indiana	6.0	1.7	0.6	1.0	0.6	0.3	0.2	10.4
Iowa	2.6	0.7	0.3	0.2	0.3	0.2	0.3	4.6
Kansas	2.4	1.2	0.5	0.4	0.3	0.2	0.3	5.3
Kentucky	1.5	1.3	0.8	1.0	0.4	0.3	0.7	6.0
Louisiana	2.2	4.2	0.8	0.3	0.2	0.1	1.1	8.9
Maine	1.4	0.4	0.2	0.2	0.1	0.1	0.1	2.5
Maryland	3.5	1.4	1.4	0.8	0.5	0.5	1.2	9.3
Massachusetts	5.9	1.6	0.9	1.8	1.7	0.8	0.4	13.1
Michigan	7.1	2.6	1.1	1.9	1.6	0.6	0.9	15.8
Minnesota	4.5	1.9	1.3	1.1	0.9	0.4	0.6	10.7
Mississippi	1.7	1.1	0.4	0.4	0.1	0.1	0.3	4.1
Missouri	2.6	2.2	1.0	0.3	0.6	0.3	0.7	7.7
Montana	0.7	-	0.2	0.2	0.1	0.1	0.4	1.6
Nebraska	1.5	0.9	0.3	0.3	0.2	0.1	0.2	3.5
Nevada	1.5	1.4	0.7	-	0.3	-	0.8	4.7
New Hampshire	1.4	-	0.3	0.6	0.1	0.0	0.1	2.5
New Jersey	7.5	2.7	2.0	2.9	1.6	0.8	1.2	18.7
New Mexico	0.6	1.1	0.3	0.3	0.1	0.1	1.0	3.5
New York	20.0	11.3	4.1	7.1	2.6	3.4	2.0	50.5
North Carolina	3.7	2.5	1.7	1.3	1.0	0.6	0.8	11.6
North Dakota	0.5	0.2	0.2	0.1	0.1	0.0	0.4	1.5
Ohio	7.5	4.0	1.5	1.6	1.1	0.8	1.8	18.3
Oklahoma	1.2	1.7	0.5	0.3	0.3	0.4	1.4	5.8
Oregon	2.0	-	0.4	0.4	0.7	0.4	0.8	4.7
Pennsylvania	7.2	3.4	2.8	2.1	2.5	0.9	3.2	22.1
Rhode Island	1.0	0.4	0.3	0.3	0.2	0.1	0.1	2.4
South Carolina	2.8	1.1	0.6	0.3	0.3	0.2	0.4	5.7
South Dakota	0.7	0.5	0.1	0.1	0.0	-	0.1	1.5
Tennessee	3.1	2.8	0.9	0.9	0.4	0.0	1.2	9.3
Texas	22.2	11.9	6.3	-	1.7	-	7.3	49.4
Utah	1.0	0.8	0.4	0.3	0.2	0.2	0.2	3.1
Vermont	0.8	0.1	0.2	0.1	0.1	0.0	0.0	1.3
Virginia	4.3	1.5	2.1	0.9	0.5	0.5	1.5	11.3
Washington	3.4	6.6	2.0	-	1.5	-	0.7	14.2
West Virginia	1.0	0.3	0.6	0.5	0.1	0.1	0.5	3.1
Wisconsin	4.3	1.8	0.8	1.0	0.7	0.3	0.6	9.5
Wyoming	0.8	0.4	0.1	-	0.0	-	1.3	2.6
Dist. of Columbia	0.8	0.3	0.2	0.2	0.1	0.1	0.2	1.9
United States	\$204.9	\$124.8	\$64.9	\$51.7	\$36.3	\$21.1	\$49.3	\$553.7

*Note: \$0.0 indicates a value less than \$50 million.

Amounts may appear not to sum due to rounding.

Source: EY Calculations

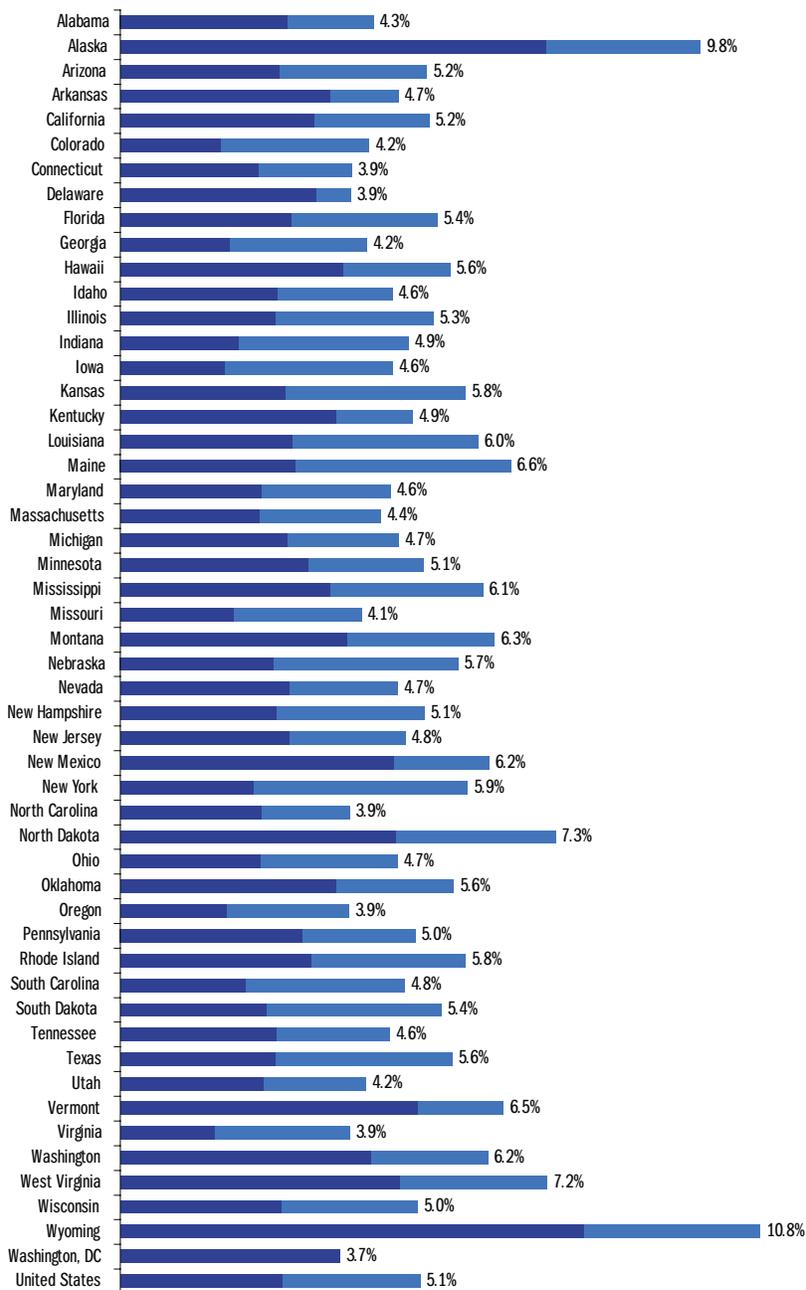
Business Taxes as a Share of State, Local, and Total Taxes and Private Sector GSP, FY2006 (Dollars in Billions)

State	STATE			LOCAL			STATE and LOCAL			
	Business	Total	Business Share	Business	Total	Business Share	Business	Total	Business Share	Percent of GSP
Alabama	\$3.6	\$8.6	42.2%	\$1.9	\$3.8	48.9%	\$5.5	\$12.4	44.2%	4.3%
Alaska	2.3	2.5	92.7	0.8	1.4	62.3	3.1	3.9	82.1	9.8
Arizona	5.1	11.9	43.1	4.7	8.1	58.6	9.8	20.0	49.4	5.2
Arkansas	2.7	7.1	37.3	0.9	1.5	58.2	3.6	8.6	40.9	4.7
California	47.4	118.4	40.0	27.9	59.5	46.9	75.3	177.9	42.3	5.2
Colorado	3.3	9.1	35.9	4.8	9.0	53.1	8.1	18.1	44.4	4.2
Connecticut	4.1	12.7	32.5	2.8	7.4	37.6	6.9	20.1	34.3	3.9
Delaware	1.7	3.1	55.7	0.3	0.7	43.4	2.0	3.8	53.5	3.9
Florida	17.3	41.0	42.3	14.7	26.0	56.5	32.0	67.0	47.8	5.4
Georgia	5.9	17.9	33.0	7.3	14.1	51.9	13.2	32.0	41.3	4.2
Hawaii	1.6	5.1	31.2	0.8	1.1	69.6	2.4	6.2	38.0	5.6
Idaho	1.1	3.3	32.9	0.8	1.3	62.6	1.9	4.6	41.2	4.6
Illinois	13.2	30.0	44.1	13.5	26.0	51.8	26.7	56.0	47.7	5.3
Indiana	4.3	14.2	30.3	6.2	8.7	70.4	10.5	22.9	45.6	4.9
Iowa	1.8	5.6	31.3	2.8	4.2	66.8	4.6	9.8	46.6	4.6
Kansas	2.5	6.6	38.4	2.8	4.3	64.2	5.3	10.9	48.6	5.8
Kentucky	4.4	9.8	44.8	1.5	3.5	44.4	5.9	13.3	44.7	4.9
Louisiana	4.3	8.4	51.0	4.6	6.3	73.4	8.9	14.7	60.6	6.0
Maine	1.1	3.6	31.8	1.4	2.0	70.7	2.5	5.6	45.6	6.6
Maryland	4.9	14.6	33.5	4.5	11.3	39.5	9.4	25.9	36.1	4.6
Massachusetts	7.0	21.2	33.0	6.1	12.6	48.3	13.1	33.8	38.7	4.4
Michigan	9.5	26.0	36.5	6.3	11.6	53.9	15.8	37.6	41.9	4.7
Minnesota	6.7	18.3	36.7	4.1	7.2	56.9	10.8	25.5	42.5	5.1
Mississippi	2.4	6.1	38.8	1.7	2.4	72.6	4.1	8.5	48.3	6.1
Missouri	3.7	10.8	34.0	4.1	8.0	51.1	7.8	18.8	41.3	4.1
Montana	1.0	2.2	44.2	0.6	0.9	66.2	1.6	3.1	50.9	6.3
Nebraska	1.6	4.1	37.9	1.9	3.1	59.8	3.5	7.2	47.4	5.7
Nevada	2.9	6.5	44.4	1.8	3.5	52.9	4.7	10.0	47.4	4.7
New Hampshire	1.3	2.2	60.7	1.2	2.3	53.3	2.5	4.5	56.9	5.1
New Jersey	11.0	28.6	38.6	7.6	19.9	38.1	18.6	48.5	38.4	4.8
New Mexico	2.6	4.5	57.2	0.9	1.6	54.5	3.5	6.1	56.5	6.2
New York	19.4	58.5	33.3	31.1	59.3	52.5	50.5	117.8	43.0	5.9
North Carolina	7.2	21.6	33.4	4.5	9.7	46.1	11.7	31.3	37.4	3.9
North Dakota	1.0	1.7	57.2	0.6	0.8	70.6	1.6	2.5	61.5	7.3
Ohio	9.3	25.9	35.9	9.1	19.6	46.2	18.4	45.5	40.3	4.7
Oklahoma	3.7	8.1	45.9	2.0	3.5	58.0	5.7	11.6	49.5	5.6
Oregon	2.2	8.3	27.1	2.6	5.1	50.6	4.8	13.4	36.1	3.9
Pennsylvania	13.6	31.7	42.8	8.4	20.0	42.0	22.0	51.7	42.5	5.0
Rhode Island	1.2	3.1	40.8	1.0	1.8	54.8	2.2	4.9	46.0	5.8
South Carolina	2.5	8.4	29.8	3.1	5.0	62.7	5.6	13.4	42.1	4.8
South Dakota	0.7	1.2	55.3	0.8	1.1	73.8	1.5	2.3	64.0	5.4
Tennessee	5.4	11.2	48.5	3.9	6.8	56.9	9.3	18.0	51.7	4.6
Texas	23.1	37.9	61.0	26.3	40.4	65.2	49.4	78.3	63.1	5.6
Utah	1.9	5.7	33.0	1.4	2.8	48.1	3.3	8.5	38.0	4.2
Vermont	1.0	2.3	43.1	0.3	0.5	58.7	1.3	2.8	45.8	6.5
Virginia	4.7	17.7	26.4	6.6	12.2	54.4	11.3	29.9	37.8	3.9
Washington	9.7	17.6	55.1	4.5	9.3	48.8	14.2	26.9	52.9	6.2
West Virginia	2.1	4.7	44.3	1.1	1.4	79.1	3.2	6.1	52.2	7.2
Wisconsin	5.2	15.1	34.6	4.4	9.4	46.9	9.6	24.5	39.3	5.0
Wyoming	1.9	2.3	79.3	0.7	1.0	71.7	2.6	3.3	77.0	10.8
Dist. of Columbia	2.0	4.5	43.9	0.0	0.0	0.0	2.0	4.5	43.9	3.7
United States	\$300.1	\$751.5	39.9%	\$253.6	\$483.0	52.5%	\$553.7	\$1,234.5	44.9%	5.1%

*Percent of 2005 private-sector GSP equivalent to an effective tax rate on economic activity occurring within the state. Amounts may appear not to sum due to rounding. Source: EY Calculations

FIGURE 4

State and Local Business Taxes as a Percent of Private-Sector Economic Activity, FY 2006



Source: EY Calculations

Figure 4 illustrates the variation in business ETRs (total state and local business taxes as a percentage of private-sector economic activity) for each of the 50 states and the District of Columbia. The share of state business taxes and local business taxes is shown separately.

On the following page, Table 6 shows the state-by-state increase in total state and local business taxes between FY2002 and FY2006 and the business share of total state and local tax increases during that period. For all states, businesses paid almost 49% of the increase in all state and local taxes over this four-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 4.5% to 5.1% over the same period.

Change in State and Local Business Taxes, FY2002 to FY2006 (Dollars in Billions)

State	Total State and Local Business Taxes				Total State and Local Taxes		Business Share of Tax Revenue Growth
	FY2002	FY2006	\$ Change	% Change	\$ Change	% Change	
Alabama	\$3.9	\$5.5	\$1.6	39.2%	\$3.1	32.6%	50.7%
Alaska	1.7	3.2	1.5	88.7	1.7	76.8	88.8
Arizona	7.1	9.9	2.8	39.9	5.5	37.6	51.6
Arkansas	2.6	3.5	0.9	36.0	2.3	36.6	40.3
California	52.0	75.3	23.3	44.8	54.8	44.5	42.5
Colorado	5.7	8.0	2.3	41.1	4.4	32.2	53.1
Connecticut	5.1	6.9	1.8	34.7	5.3	36.1	33.3
Delaware	1.5	2.0	0.5	34.1	1.0	37.3	50.1
Florida	20.6	32.0	11.4	55.0	22.6	50.9	50.3
Georgia	9.5	13.2	3.7	39.0	7.8	32.3	47.5
Hawaii	1.6	2.3	0.7	43.2	1.8	42.9	38.2
Idaho	1.4	1.9	0.5	32.1	0.8	22.0	55.4
Illinois	19.5	26.7	7.2	36.8	13.5	31.8	53.2
Indiana	7.5	10.5	3.0	39.7	6.1	36.2	48.8
Iowa	3.7	4.6	0.9	25.9	1.6	19.2	59.3
Kansas	3.7	5.3	1.6	42.4	2.8	34.2	56.8
Kentucky	4.4	5.9	1.5	34.4	2.4	21.7	64.3
Louisiana	7.1	8.9	1.8	24.5	2.5	20.7	69.6
Maine	1.9	2.5	0.6	37.0	1.4	33.0	49.7
Maryland	6.9	9.4	2.5	35.7	5.8	28.5	42.8
Massachusetts	8.9	13.1	4.2	46.8	9.1	36.7	46.0
Michigan	12.9	15.7	2.8	22.0	6.1	19.5	46.3
Minnesota	7.1	10.8	3.7	52.5	7.0	37.6	53.4
Mississippi	3.3	4.1	0.8	26.1	1.6	22.4	54.6
Missouri	5.9	7.8	1.9	31.1	3.8	25.6	48.0
Montana	1.1	1.6	0.5	47.7	0.9	42.8	54.8
Nebraska	2.5	3.4	0.9	39.8	1.9	35.8	51.1
Nevada	3.0	4.7	1.7	59.8	3.7	60.0	47.3
New Hampshire	2.0	2.6	0.6	29.6	0.9	25.6	63.8
New Jersey	12.8	18.6	5.8	46.0	14.6	42.8	40.3
New Mexico	2.9	3.5	0.6	20.8	0.9	16.1	70.0
New York	37.6	50.6	13.0	34.4	29.0	32.6	44.7
North Carolina	8.3	11.7	3.4	41.5	8.3	35.8	41.5
North Dakota	1.0	1.5	0.5	54.7	0.7	42.5	72.8
Ohio	13.9	18.3	4.4	31.7	9.8	27.4	45.1
Oklahoma	3.8	5.8	2.0	50.4	3.0	34.6	64.6
Oregon	3.3	4.8	1.5	45.6	4.0	43.0	37.5
Pennsylvania	15.6	22.0	6.4	41.0	12.9	33.3	49.4
Rhode Island	1.5	2.2	0.7	47.1	1.3	36.2	55.5
South Carolina	4.1	5.7	1.6	37.8	3.9	40.7	39.9
South Dakota	1.1	1.5	0.4	34.8	0.5	30.1	71.3
Tennessee	6.6	9.3	2.7	41.0	4.9	36.9	55.7
Texas	36.1	49.4	13.3	36.8	19.1	32.2	69.8
Utah	2.1	3.2	1.1	54.6	2.5	41.3	45.9
Vermont	0.8	1.3	0.5	60.2	1.0	53.6	49.4
Virginia	8.0	11.3	3.3	42.0	8.0	36.8	41.6
Washington	10.8	14.2	3.4	31.4	6.5	31.7	52.5
West Virginia	2.3	3.2	0.9	36.5	1.4	29.5	61.3
Wisconsin	6.9	9.7	2.8	40.3	6.5	35.9	42.8
Wyoming	1.3	2.6	1.3	102.5	1.5	80.5	87.4
Dist. of Columbia	1.6	2.0	0.4	26.5	1.2	37.1	34.0
United States	\$396.5	\$553.7	\$157.1	39.7%	\$323.5	35.5%	48.6%

*Note: \$0.0 indicates a value less than \$50 million.

Amounts may appear not to sum due to rounding.

Source: EY Calculation

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 7 adds another dimension to the total business tax results, presenting estimates of total state and local taxes paid by major industries in FY2006. The results indicate that the composition of total state and local business taxes varies significantly among industries.

Industry	Property Taxes	Sales Tax on Business Inputs	Excise and Gross Receipts	Corporate Income Tax	Business License and Other Taxes	Payroll Taxes	Individual Income Tax (on Pass-Through Business Income)	Total Business Taxes
Electric & gas	\$18.6	\$3.3	\$17.2	\$1.0	\$1.5	\$0.3	0.0*	\$41.8
Manufacturing	29.5	21.6	0.2	16.2	4.9	9.5	0.3	82.2
Non-Durable	14.1	9.5	0.2	6.0	2.6	3.1	0.1	35.6
Durable	15.4	12.1	0.0*	10.2	2.2	6.4	0.2	46.6
Wholesale trade	9.2	10.8	15.5	3.3	3.0	2.0	0.4	44.2
Retail trade**	11.9	17.2	5.4	6.0	3.2	6.3	1.1	51.1
Transportation	9.2	6.8	1.2	0.6	1.3	1.3	0.8	21.3
Communications	5.9	5.7	6.3	2.2	1.2	0.5	0.2	22.0
Finance and Insurance	15.9	12.0	14.8	9.6	4.9	1.7	1.4	60.4
Real Estate	63.2	1.4	0.0*	0.8	1.6	0.5	1.7	69.3
Management of Companies	0.7	0.5	0.0*	9.0	5.9	0.1	0.3	16.5
Services	19.5	22.9	4.4	2.5	8.6	11.3	12.2	81.4
Other	21.1	22.5	0.0*	0.6	13.4	2.9	3.0	63.6
Total Business Taxes	\$204.8	\$124.8	\$65.1	\$51.8	\$49.4	\$36.4	\$21.4	\$553.7

*Note: \$0.0 indicates a value less than \$50 million. ** Includes hospitality industries. Amounts may appear not to sum due to rounding. Source: EY Calculations

Table 8 presents a comparison of the composition of total state and local business taxes by major industry group. The figures show, for example, that excise and gross receipts taxes account for the largest share of the telecommunications industry's taxes while property taxes account for more than 40% of state and local taxes for utilities, nondurable manufacturing, transportation, and real estate. 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.

TABLE 8 **Composition of Total State and Local Business Tax by Industry, FY2006** *(Percentage of Total Business Taxes Paid by Industry)*

Industry	Property Taxes	General Sales Taxes on Business Inputs	Excise and Gross Receipts	Corporate Income Tax	Business License and Other Taxes	Payroll Taxes	Individual Income Tax (on Pass-Through Business Income)	Total Business Taxes
Utilities	44.5%	7.9%	41.0%	2.3%	3.5%	0.6%	0.0%	100%
Manufacturing	35.9	26.3	0.2	19.7	5.9	11.6	0.4	100
<i>Non-Durable</i>	39.7	26.7	0.5	16.7	7.3	8.8	0.4	100
<i>Durable</i>	33.1	26.0	0.0	21.9	4.8	13.7	0.4	100
Wholesale trade	20.8	24.3	35.1	7.5	6.8	4.6	0.9	100
Retail trade*	23.3	33.6	10.6	11.8	6.2	12.3	2.2	100
Transportation	43.2	32.1	5.5	2.9	6.3	6.2	3.8	100
Communications	26.6	26.0	28.8	10.2	5.5	2.2	0.8	100
Finance and Insurance	26.4	19.9	24.6	16.0	8.2	2.8	2.3	100
Real Estate	91.3	2.1	0.0	1.1	2.4	0.7	2.4	100
Management of Companies	3.9	3.1	0.0	54.6	35.8	0.4	2.1	100
Services	24.0	28.1	5.4	3.0	10.6	13.9	15.0	100
Other	33.2	35.4	0.0	0.9	21.1	4.6	4.8	100
Total Business Taxes	37.0%	22.5%	11.7%	9.4%	8.9%	6.6%	3.9%	100%

* Includes hospitality industries. Amounts may appear not to sum due to rounding. *Source: EY Calculations*

Conclusions

It is important for policymakers to understand the level and composition of their state's total state and local business taxes.

State and local taxes paid by businesses in FY2006 totaled \$554 billion, increasing more than 10% since FY2005 and nearly 40% from FY2002, the trough of the last recession. Total business taxes represent 44.9% of all state and local taxes collected in FY2006, up from 43.5% in FY2002.

The study's findings show that the increase in business taxes since FY2002 has accounted for nearly half of the increase in total state and local taxes. Annual increases in property taxes and sales tax on business inputs, the two largest state and local business taxes, accounted for most of the increase, but corporate income and employment taxes have shown typically strong, post-recession growth rates.

Relative to overall economic activity, state and local business taxes increased from 4.5% to 5.1% of private-sector GSP over the same period. In other words, the effective business tax rate increased from

FY2002 to FY2006 because business taxes are increasing faster than overall private-sector growth.

The composition of total state and local business taxes paid can vary dramatically by industry. As indicated by this study, legacy taxes on traditionally regulated businesses can represent nearly half of the entire state and local tax burden paid by companies in these industries. Other industries, including manufacturing and transportation, continue to face significant property and sales tax liabilities.

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 policymakers to understand the level and composition of their state's total state and local business taxes.⁸



Appendix: Supplemental Tables

TABLE A-1 Total State and Local Business Taxes, 1980 - 2006 (Dollars in Billions)

State and Local Taxes	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
Total business taxes*	\$105.0	\$164.2	\$230.0	\$304.3	\$383.2	\$396.9	\$396.4	\$410.0	\$449.8	\$502.4	\$553.7
Individual income taxes	40.3	68.1	98.9	128.1	196.2	209.4	184.8	180.8	193.7	214.9	242.7
Other non-business taxes	78.1	118.0	185.1	244.0	313.8	323.9	329.9	340.9	364.9	397.6	438.1
Total State and Local Taxes	\$223.4	\$350.3	\$514.0	\$676.4	\$893.2	\$930.2	\$911.1	\$931.7	\$1,008.4	\$1,114.9	\$1,234.5

Composition of State and Local Taxes	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
Total business taxes*	47.0%	46.9%	44.8%	45.0%	42.9%	42.7%	43.5%	44.0%	44.6%	45.1%	44.9%
Individual income taxes	18.1	19.4	19.2	18.9	22.0	22.5	20.3	19.4	19.2	19.3	19.7
Other non-business taxes	35.0	33.7	36.0	36.1	35.1	34.8	36.2	36.6	36.2	35.7	35.5
Total State and Local Taxes	100%										

*Includes individual income taxes on pass-through business income.

Source: EY Calculations

TABLE A-2 Composition of State and Local Business Taxes, 1980 - 2006 (Dollars in Billions)

Business Tax	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
Property taxes on business property	\$38.0	\$57.6	\$85.6	\$112.6	\$138.1	\$144.4	\$149.7	\$154.2	\$167.1	\$187.9	\$204.8
General sales taxes on business inputs	22.6	37.1	53.5	70.2	94.4	97.6	97.5	100.9	105.4	111.7	124.7
Corporate income tax	13.4	19.3	23.7	31.7	36.4	35.8	29.5	31.7	34.0	42.1	51.8
Unemployment insurance	5.5	9.1	12.4	15.8	20.9	20.8	21.0	23.9	31.9	35.5	36.4
Insurance premiums tax	3.1	4.5	7.4	8.6	9.8	10.3	11.0	12.0	13.3	14.1	14.8
Public utility taxes	5.9	10.0	11.4	15.0	17.8	18.0	18.4	18.1	21.1	25.1	24.5
Excise taxes	4.6	7.2	10.6	16.0	20.2	20.3	20.6	20.3	21.6	24.5	25.7
Business license	1.5	2.5	4.2	6.4	8.4	8.7	11.0	10.9	12.6	13.2	14.4
Corporation license	1.4	2.8	3.1	5.0	6.5	6.4	6.3	6.0	6.4	7.7	8.1
Individual income tax on business income	1.7	2.2	6.6	9.6	15.1	16.3	14.6	14.5	17.2	19.0	21.4
Other business taxes	7.2	11.8	11.5	13.3	15.8	18.5	16.8	17.5	19.3	21.6	27.0
Total Business Taxes	\$104.9	\$164.1	\$230.0	\$304.2	\$383.4	\$397.1	\$396.4	\$410.0	\$449.9	\$502.4	\$553.6

Source: EY Calculations

TABLE A-3 Composition of Property Taxes, FY2006 (Dollars in Billions)

Business/Non-Business Property Tax	FY2006 Property Tax	% of Total Property Tax
Business property taxes	\$204.8	56.4%
Commercial and industrial property	102.4	28.2
Rental residential property	69.5	19.1
Business personal property	21.2	5.8
Utility property	11.7	3.2
Non-business property taxes	\$158.2	43.6%
Owner-occupied residential	151.3	41.7
Non-business personal property	6.9	1.9
State and Local Property Taxes	\$363.0	100.0%

Source: EY Calculations

Endnotes

- ¹ Cline, Neubig, and Phillips, *Total State and Local Business Taxes: Nationally 1980 – 2005, by State 2002 – 2005, and by Industry 2005*, March 2006. Cline, Fox, Neubig, and Phillips, *Total State and Local Business Taxes: Nationally 1980 – 2004 and by State 2000 – 2004*, April 2005. Cline, Fox, Neubig, and Phillips, *Total State and Local Business Taxes: A 50-State Study of the Taxes Paid by Business in FY2003*, January 2004. (Also in *State Tax Notes*, February 26, 2004.) Cline, Fox, Neubig, and Phillips, *Total State and Local Business Taxes: Fiscal Year 2003 Update*, September 2003. (Also in *State Tax Notes*, October 14, 2003.) Cline, Fox, Neubig, and Phillips, *A Closer Examination of the Total State and Local Business Tax Burden*, January 2003. (Also in *State Tax Notes*, January 17, 2003.)
- ² The methodology used to estimate state and local business taxes is described in detail in the Appendix to the March 2006 report cited in Endnote 1.
- 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 Some of the historical numbers reported have been revised from the earlier business tax studies as a result of the use of more detailed information on business taxes by state and feedback from state tax agencies.
- ⁵ This study follows the classification of business taxes (as gross receipts, corporate income, franchise, or license taxes) established by the Census Bureau.
- ⁶ See Cline, Robert; Kim, Joomi; and Phillips, Andrew, *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.
- ⁷ In Figure 4 and Table 3, the excise and gross receipts taxes category includes excise, insurance premiums, and public utility taxes. The business license and other taxes category includes corporate license, business license, and other business taxes.
- ⁸ For a discussion of mobile capital investments and interstate investment trends, see *The 2006 U.S. Investment Monitor*, Ernst & Young LLP, August 7, 2006.

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SCORE No. YY1884