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# Total State and Local Business Taxes

## A 50-State Study of the Taxes Paid by Business in FY2003

By Robert Cline, William Fox, Tom Neubig and Andrew Phillips



Prepared for The Council On State Taxation

## The Authors

**Robert Cline** is the Ernst & Young National Director of State and Local Tax Policy Economics. He is the former director of tax research for the States of Michigan and Minnesota. He has a Ph.D. in Economics from the University of Michigan.

**William Fox** is the William B. Stokely Distinguished Professor of Business at the University of Tennessee at Knoxville. Bill is the former President of the National Tax Association, and has been advisor to many state and foreign governments. He has a Ph.D. in Economics from Ohio State University.

**Thomas Neubig** is the Ernst & Young National Director of Quantitative Economics and Statistics. He is the former Director and Chief Economist of the U.S. Treasury Department's Office of Tax Analysis. Tom is the current president of the National Tax Association. He has a Ph.D. in Economics from the University of Michigan.

**Andrew Phillips** is a Manager in the Ernst & Young Quantitative Economics and Statistics group. He has extensive experience working on state and local tax issues for both public and private sector clients. He has a B.A. from Emory University.

*The views expressed are those of the individual authors, not their respective organizations*

*This study was prepared for the Council On State Taxation (COST). 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 550 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

Two recent studies published by the Council on State Taxation have documented the substantial state and local taxes paid by business nationally.<sup>1</sup> This study presents a more detailed state-by-state analysis of total state and local business taxes, and finds that businesses paid over \$400 billion in total state and local taxes in fiscal year 2003. This was 43 percent of total taxes collected by all state and local governments in the United States. An understanding of the actual state and local taxes paid by business is the first step in answering the tax policy question being debated in state legislatures: “Are businesses paying their fair share of our state’s taxes?”

This 50-state study extends the national analysis of state and local business taxes to include comprehensive estimates of the taxes paid by businesses in each state. Included in this study are property taxes, sales and excise taxes paid by business on their business purchases, gross receipts taxes, corporate income and franchise taxes, license taxes, and unemployment and workers compensation payroll taxes.

The state-by-state estimates show the significant variation across the states in the total state and local taxes paid by business. The share of taxes paid by business 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:

- ▶ Over the last three years, businesses have paid a major portion of the *additional* state and local taxes collected. Businesses paid 65 percent of the entire increase in state and local taxes from FY2000 to FY2003.
- ▶ Businesses paid over half of the total three-year increase in state and local taxes in 37 states.
- ▶ Property taxes on business property were \$156 billion in FY2003, accounting for 39% of total state and local business taxes. Sales tax on business inputs and capital equipment totaled \$100 billion, 25 percent of business taxes.
- ▶ Although the corporate income tax has been the focus of intense legislative debate in a number of state legislatures during the last two years, it represents a relatively small share of total state and local business taxes, averaging nine percent nationally.

State business taxation involves trade-offs between the financing of necessary public services and infrastructure and the desire to attract and retain businesses that will make investments and hire employees in the state. States must weigh the tax and regulatory burdens they place on businesses versus the jobs and income businesses create. The total state and local taxes paid by business in each state is an important measure for state policymakers to consider when comparing the business tax burden to the public services provided and when comparing their business taxes relative to those of neighboring and competitor states.

## Total State and Local Business Taxes

Businesses paid over \$400 billion in total state and local taxes in FY2003, as presented in Table 1 below.<sup>2</sup> The following taxes are included, to the extent the tax is considered the statutory liability of businesses:

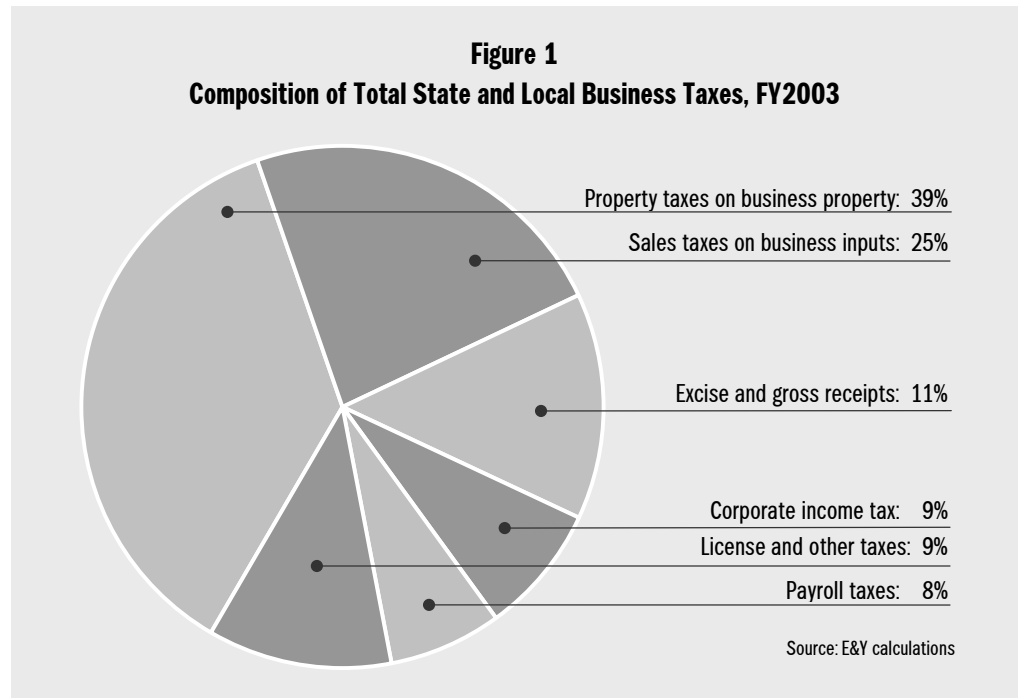
- ▶ Property tax on real, personal, and utility property owned by business accounts for the largest share, 39%, of total state and local business taxes, or \$156 billion.
- ▶ Sales and use taxes paid by businesses on purchases of inputs and capital equipment totaled over \$100 billion, representing 25% of all state and local business taxes. While businesses collect sales and use taxes on sales to both businesses and consumers, only the taxes on business input and equipment purchases are included in the total business tax estimates.
- ▶ Excise taxes imposed on business purchases were \$15 billion in FY2003. While excise taxes include a portion of motor fuel taxes, the analysis excludes all tobacco, alcohol, and amusement excise taxes.
- ▶ Gross receipts taxes, totaling \$30 billion in FY2003, are often in lieu of property or corporate income taxes and are allocated wholly to business.
- ▶ Corporate income taxes were nearly \$35 billion, representing 9% of total state and local business taxes.
- ▶ Employer payroll tax contributions were \$31 billion in FY2003, including unemployment insurance and workers' compensation and disability insurance taxes.
- ▶ License and other business taxes totaled \$38 billion in FY2003. Of this total, \$13.6 billion were corporation and general business license taxes.

**Table 1**  
**State and Local Business Taxes, FY2003**  
(Billions of Dollars)

<b>Business Tax</b>	<b>Business Taxes</b>	<b>% of Total Business Tax</b>
Property taxes on business property	\$156.1	38.6%
General sales taxes on business inputs	100.1	24.8%
Corporate income tax	34.6	8.6%
Payroll taxes	30.5	7.5%
Gross Receipts Taxes	29.8	7.4%
<i>Insurance premiums</i>	12.0	3.0%
<i>Public utility taxes</i>	17.7	4.4%
Excise taxes	14.7	3.6%
Business license	10.3	2.5%
Corporation license	6.0	1.5%
Other taxes	22.2	5.5%
<b>Total state and local business taxes</b>	<b>\$404.1</b>	<b>100.0%</b>

Source: E&Y calculations.

As shown in Figure 1, these estimates clearly indicate that the corporate income tax is only one component of total state and local taxes paid by business. From a tax policy perspective, this information highlights the need to consider the corporate income tax within the broader picture of total state and local business tax burdens.



## Recent Trends in State and Local Taxes

### Growth in Business Taxes, FY2000 to FY2003

Total state and local business taxes increased by \$30.8 billion (8.3%) between FY2000 to FY2003. As shown in Table 2, the growth of total business taxes over this period resulted from significant increases in most business taxes:

- ▶ Property taxes increased \$15.9 billion (11.4%) from FY2000 to FY2003, accounting for the largest dollar increase.
- ▶ Sales taxes on business purchases grew \$8.2 billion (9.0%).
- ▶ Combined excise and gross receipts taxes increased \$2.7 billion; excise taxes on business motor fuel purchases grew modestly to \$5.5 billion; insurance premiums taxes grew 28%, from \$9.8 to \$12.0 billion; and taxes on utility gross receipts were relatively flat.
- ▶ Corporate income taxes fell \$1.2 billion from their high in FY2000, during a period of declining corporate profits and some states' adoption of federal corporate tax reductions.
- ▶ Payroll taxes grew by \$2.0 billion.
- ▶ License and other taxes grew 9.1% to \$38.4 billion, led by a 43% increase in business license taxes.

**Table 2**  
**Change in State and Local Business Taxes, FY2000 to FY2003**

(billions of dollars)

Business Tax	FY2000	FY2003	Change	
			Amount	Percent
Property taxes on business property	\$140.2	\$156.1	\$15.9	11.4%
General sales taxes on business inputs	91.8	100.1	8.2	9.0%
Corporate income tax	35.8	34.6	-1.2	-3.4%
Payroll taxes	28.5	30.5	2.0	7.0%
Gross Receipts Taxes	27.4	29.8	2.4	8.6%
<i>Insurance premiums</i>	9.8	12.0	2.3	23.2%
<i>Public utility taxes</i>	17.6	17.7	0.1	0.6%
Excise taxes	14.3	14.7	0.4	2.5%
Business license	7.2	10.3	3.1	42.6%
Corporation license	6.5	6.0	-0.5	-7.3%
Other taxes	\$21.6	\$22.2	\$0.6	2.8%
<b>Total state and local business taxes</b>	<b>\$373.2</b>	<b>\$404.1</b>	<b>\$30.8</b>	<b>8.3%</b>
Non-Business Taxes	\$527.6	\$544.0	\$16.5	3.1%
Total State and Local Taxes	\$900.8	\$948.1	\$47.3	5.2%
Business Share	41.4%	42.6%	65.1%	

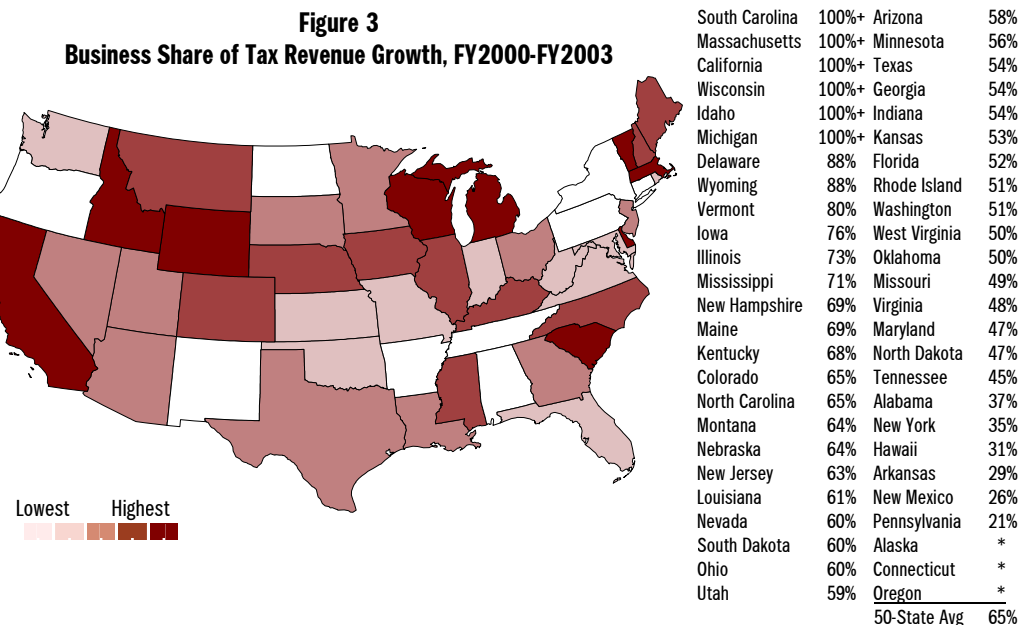
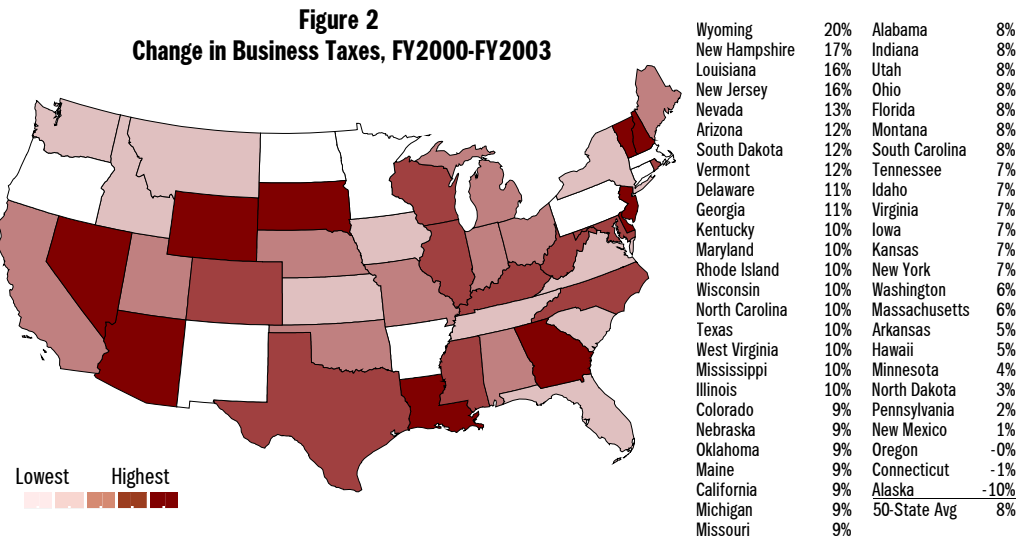
Source: E&Y tax calculations.

## The Business Tax Contribution to Total State and Local Revenue Growth

From FY2000 to FY2003, total state and local taxes grew \$47.3 billion, an increase of 5.2%. During the same period, business taxes grew 8.3%, despite a challenging economy and weak corporate profits. Business taxes grew 2.7 times faster than non-business taxes over the three-year period.<sup>3</sup> As a result, businesses paid two-thirds of the total growth in state and local tax revenue since FY2000.

Figure 2 illustrates the percentage change in total business taxes by state.<sup>4</sup> Figure 3 presents the business share of total state and local tax growth, illustrating the contribution of business tax increases to total state and local tax revenue growth.

Only three states had business tax revenue declines, two of which experienced total tax declines. Six states had business tax increases greater than the increase in total taxes. Thirty-seven states had business tax increases greater than 50% of total tax increases.



## State-by-State Business Tax Estimates

Nationwide, businesses paid almost 43% of total state and local tax revenue in FY2003.<sup>5</sup> This section presents interstate comparisons of business taxes to gain more insight into variations in business taxes across states. Because state tax policy reforms occur at the state level to address state-specific issues, state-specific estimates of business taxes provide information necessary to begin answering the question: “Are businesses paying their fair share of *our state’s* taxes?”<sup>6</sup>

Additionally, the level and composition of business taxes may indicate potential non-competitive tax policies when compared to the level and composition found in nearby or competitor states. Similarly, the level of tax on employment, capital income, and private-sector economic activity should be considered alongside economic development objectives. The share of total business taxes payable at the state and local levels also provides an indicator of the structure of the tax system and the nature of the business taxes levied.

### Interstate Business Tax Comparisons

As described above, total state and local business tax payments consist of state and local taxes on property, transactions, net income, gross receipts, and business entities. Interstate comparisons of a single tax commonly employ “effective tax rates.” For example, the corporate income tax burden is often expressed as an effective tax rate on corporate income. Mathematically, effective tax rates are simply the tax liability divided by the relevant tax base.

Deriving a single tax base measure to compare the total state and local business tax burden, however, is problematic due to the wide variation in the nature of business taxes and tax bases at the state and local level. We present four measures of the relative size of business taxes in each state. The measures compare total state and local business taxes to non-business taxes and levels of state economic activity. The measures are:

**Business Share of Total Taxes:** This measure is a function of the state and local tax structure, including both business and non-business taxes, and the economic profile of a state. For example, states that rely heavily on individual income taxes will tend to have lower business tax shares, and vice versa. (See Figure A-1.)

**Business Taxes per Employee:** The average tax cost per private-sector employee is often used by policymakers and businesses in evaluating the relative tax competitiveness of business taxes across states. (See Figure A-2.)

**Business Taxes as a Percent of Private Sector Economic Activity:** Comparing business taxes to private sector economic activity is another measure of a state’s tax competitiveness. Private sector economic activity includes the income earned by both labor and capital employed in the state.<sup>7</sup> (See Figure A-3.)

**Business Taxes as a Percent of Capital Income:** Capital income represents the returns to capital (plant, equipment, land, inventory, working capital, and other capital) used in a state. Measuring business taxes as a percent of capital income provides a comprehensive measure of taxes on capital invested in the state. (See Figure A-4.)

Ultimately all business taxes are paid by individuals, as workers, consumers or investors. Some states may choose to impose relatively low business tax burdens based upon their goals of economic development and growth. In addition, they may be concerned that the real burden of business taxes falls disproportionately on in-state employees and capital. Other states may choose to impose relatively high business tax burdens, often because they are less concerned about economic competitiveness or believe that those business taxes can be shifted to out-of-state investors and consumers.

Table 3 presents state-by-state rankings by the four comparative measures of state and local business taxes. For each measure, '1' indicates the highest relative business tax while '50' indicates the lowest measure.

**Table 3. State Rankings by Measures of Business Taxes, FY2003**

State	Business Share		Per \$ of Private Sector	
	of All Taxes	Per Employee	Economic Activity	Per \$ of Capital Income
Alabama	28	43	37	34
Alaska	1	1	1	9
Arizona	17	21	19	18
Arkansas	37	45	31	27
California	32	15	39	42
Colorado	31	33	42	31
Connecticut	43	12	40	40
Delaware	7	8	33	49
Florida	13	24	18	10
Georgia	38	39	45	45
Hawaii	40	19	20	29
Idaho	35	41	36	32
Illinois	14	14	17	12
Indiana	44	48	44	44
Iowa	25	37	26	30
Kansas	24	30	25	24
Kentucky	30	36	32	37
Louisiana	5	5	12	35
Maine	19	11	4	1
Maryland	50	35	41	43
Massachusetts	42	27	46	38
Michigan	27	22	22	6
Minnesota	41	31	35	19
Mississippi	21	25	11	11
Missouri	39	46	43	41
Montana	8	16	3	2
Nebraska	22	32	23	16
Nevada	16	26	29	33
New Hampshire	3	7	9	13
New Jersey	29	6	24	20
New Mexico	12	10	14	36
New York	34	3	15	14
North Carolina	47	47	49	48
North Dakota	9	18	6	7
Ohio	36	34	28	28
Oklahoma	23	28	16	8
Oregon	48	49	50	50
Pennsylvania	33	29	30	21
Rhode Island	20	9	10	25
South Carolina	26	44	38	39
South Dakota	4	23	13	26
Tennessee	11	38	34	23
Texas	6	13	21	15
Utah	49	50	48	47
Vermont	18	20	8	5
Virginia	46	42	47	46
Washington	10	4	7	4
West Virginia	15	17	5	3
Wisconsin	45	40	27	22
Wyoming	2	2	2	17

Note: 1 is highest, 50 is lowest - Source: E&amp;Y calculations

## Conclusions

State and local taxes paid by business in FY2003 totaled over \$400 billion, an increase of 8.3% from the level in FY2000. Total business taxes represent 43% of all state and local taxes collected in FY2003.

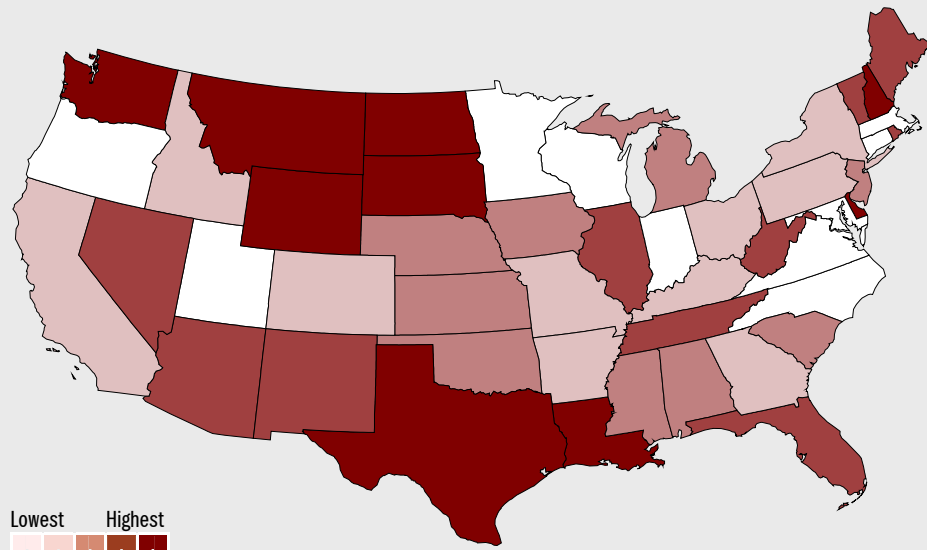
The study also finds that the rate of growth in business taxes is accelerating. State and local business taxes grew 1.6% in FY2001, 2.1% in FY2002, and 5.3% in FY2003. Because business taxes are growing significantly faster than non-business taxes, the share of total taxes paid by business has risen in recent years.

The results of this study of state and local business taxes have important implications for the public debate over the proper role of business taxation in 1) addressing the current short-run fiscal problems, and 2) achieving long-run economic growth objectives of state and local governments. The implications include:

- ▶ Any business tax proposals considered in response to the current state budget shortfalls should be evaluated in the context of the longer-run economic policy objectives of the state. It is the combined burden of all the state and local business taxes that should be the focus of business tax reform debates.
- ▶ The continued rebound in business profits and the accelerating upward pressure on the local property tax – the largest state and local business tax – due to state aid reductions can be expected to add to near-term business tax increases.
- ▶ Important differences in both the levels and rates of growth of state and local business taxes across states are shown in this study. These differentials can have either a detrimental or beneficial effect on a state's business tax competitiveness and its economic growth.
- ▶ States that focus on only one part of the total state and local business tax picture, such as the corporate income tax, are likely to exacerbate an already significant and rising level of state and local business taxation. Any proposed state or local business tax changes should be debated in the context of the state's total state and local business taxes and their effect on the state's long-run economic health and development needs.

## Appendix A. Supplemental Tables

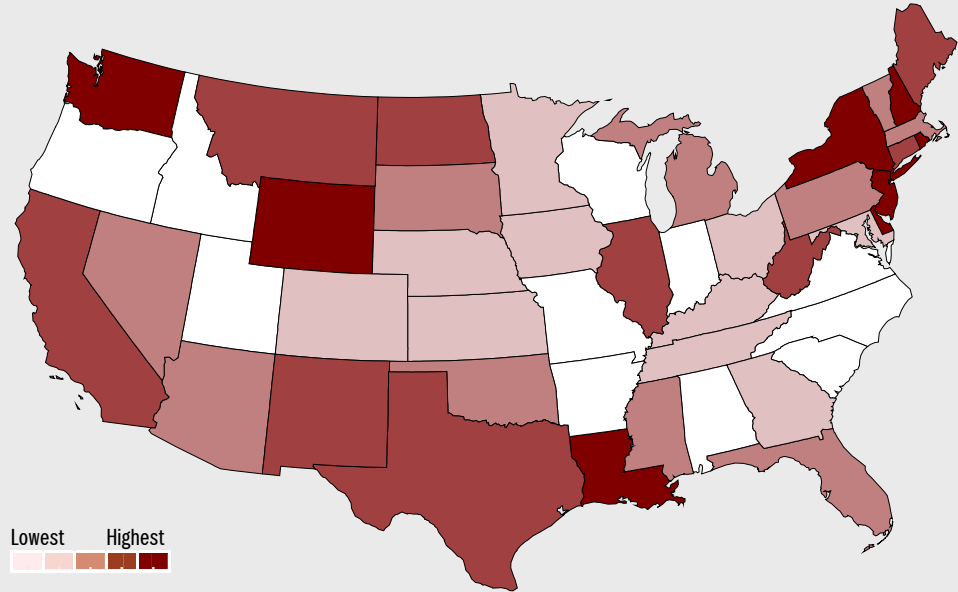
Figure A-1. Business Share of State & Local Taxes, FY2003



State	Business Taxes	Total Taxes	Business Share	State	Business Taxes	Total Taxes	Business Share
Alabama	\$4,360	\$10,596	41%	Montana	\$1,299	\$2,364	55%
Alaska	1,799	2,329	77%	Nebraska	2,388	5,330	45%
Arizona	7,080	14,989	47%	Nevada	3,171	6,703	47%
Arkansas	2,613	6,668	39%	New Hampshire	2,433	3,824	64%
California	50,312	124,514	40%	New Jersey	15,581	37,930	41%
Colorado	5,804	14,243	41%	New Mexico	2,511	5,053	50%
Connecticut	6,075	16,310	37%	New York	38,338	95,785	40%
Delaware	1,605	2,882	56%	North Carolina	8,410	23,079	36%
Florida	21,861	45,667	48%	North Dakota	1,017	1,870	54%
Georgia	9,939	25,454	39%	Ohio	14,627	37,053	39%
Hawaii	1,735	4,561	38%	Oklahoma	4,000	8,991	44%
Idaho	1,369	3,459	40%	Oregon	3,399	9,719	35%
Illinois	21,241	44,440	48%	Pennsylvania	16,217	40,345	40%
Indiana	6,476	17,615	37%	Rhode Island	1,851	4,015	46%
Iowa	3,727	8,614	43%	South Carolina	4,132	9,660	43%
Kansas	3,503	8,089	43%	South Dakota	1,130	1,960	58%
Kentucky	4,572	11,183	41%	Tennessee	6,980	13,903	50%
Louisiana	7,335	12,827	57%	Texas	33,195	59,219	56%
Maine	2,172	4,689	46%	Utah	2,134	6,260	34%
Maryland	6,353	19,986	32%	Vermont	966	2,075	47%
Massachusetts	9,540	25,437	38%	Virginia	8,198	22,423	37%
Michigan	14,027	34,019	41%	Washington	11,452	21,234	54%
Minnesota	7,212	19,183	38%	West Virginia	2,364	4,968	48%
Mississippi	3,108	6,833	45%	Wisconsin	7,139	19,455	37%
Missouri	\$6,104	\$15,773	39%	Wyoming	\$1,223	\$1,768	69%

(Billions of dollars)  
Source: E&Y calculations.

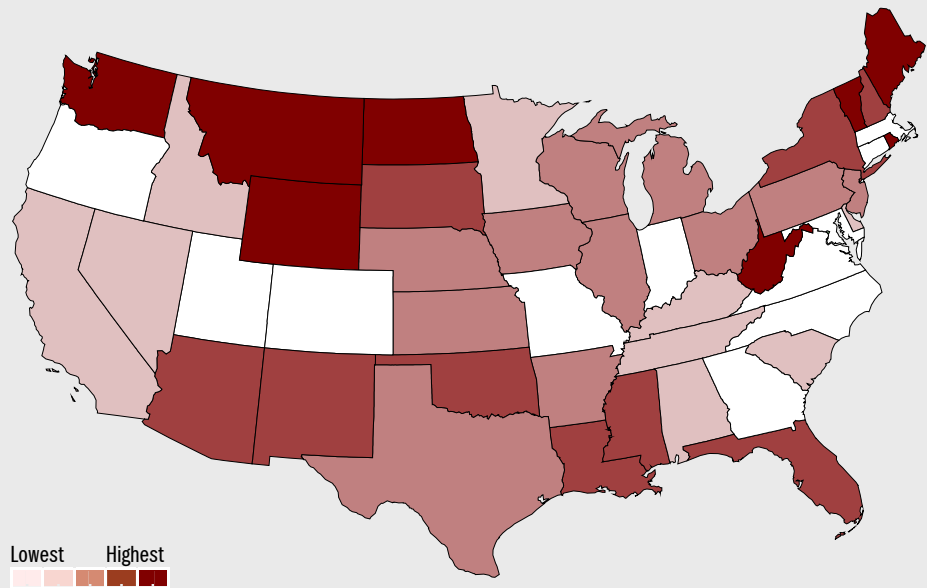
**Figure A-2. State and Local Business Taxes per Employee, FY2003**



State	Business Tax	Employees	Tax Per Employee	Rank	State	Business Tax	Employees	Tax Per Employee	Rank
Alabama	\$4,360	1,528	\$2,853	43	Montana	\$1,299	312	\$4,164	16
Alaska	\$1,799	216	\$8,342	1	Nebraska	\$2,388	746	\$3,203	32
Arizona	\$7,080	1,884	\$3,759	21	Nevada	\$3,171	925	\$3,427	26
Arkansas	\$2,613	954	\$2,740	45	New Hampshire	\$2,433	530	\$4,592	7
California	\$50,312	12,016	\$4,187	15	New Jersey	\$15,581	3,378	\$4,613	6
Colorado	\$5,804	1,815	\$3,198	33	New Mexico	\$2,511	580	\$4,327	10
Connecticut	\$6,075	1,413	\$4,300	12	New York	\$38,338	6,933	\$5,530	3
Delaware	\$1,605	356	\$4,508	8	North Carolina	\$8,410	3,181	\$2,644	47
Florida	\$21,861	6,190	\$3,531	24	North Dakota	\$1,017	256	\$3,977	18
Georgia	\$9,939	3,277	\$3,033	39	Ohio	\$14,627	4,628	\$3,161	34
Hawaii	\$1,735	443	\$3,914	19	Oklahoma	\$4,000	1,182	\$3,385	28
Idaho	\$1,369	456	\$3,001	41	Oregon	\$3,399	1,298	\$2,618	49
Illinois	\$21,241	5,025	\$4,227	14	Pennsylvania	\$16,217	4,897	\$3,312	29
Indiana	\$6,476	2,465	\$2,627	48	Rhode Island	\$1,851	414	\$4,475	9
Iowa	\$3,727	1,201	\$3,104	37	South Carolina	\$4,132	1,473	\$2,805	44
Kansas	\$3,503	1,085	\$3,230	30	South Dakota	\$1,130	304	\$3,713	23
Kentucky	\$4,572	1,470	\$3,110	36	Tennessee	\$6,980	2,257	\$3,092	38
Louisiana	\$7,335	1,523	\$4,817	5	Texas	\$33,195	7,792	\$4,260	13
Maine	\$2,172	502	\$4,326	11	Utah	\$2,134	875	\$2,438	50
Maryland	\$6,353	2,013	\$3,156	35	Vermont	\$966	250	\$3,869	20
Massachusetts	\$9,540	2,802	\$3,404	27	Virginia	\$8,198	2,857	\$2,869	42
Michigan	\$14,027	3,773	\$3,718	22	Washington	\$11,452	2,139	\$5,355	4
Minnesota	\$7,212	2,241	\$3,218	31	West Virginia	\$2,364	590	\$4,006	17
Mississippi	\$3,108	884	\$3,514	25	Wisconsin	\$7,139	2,366	\$3,017	40
Missouri	\$6,104	2,245	\$2,719	46	Wyoming	\$1,223	185	\$6,610	2

Source: E&Y calculated business taxes; fiscal year employment data calculated based on monthly data from the Bureau of Labor Statistics.

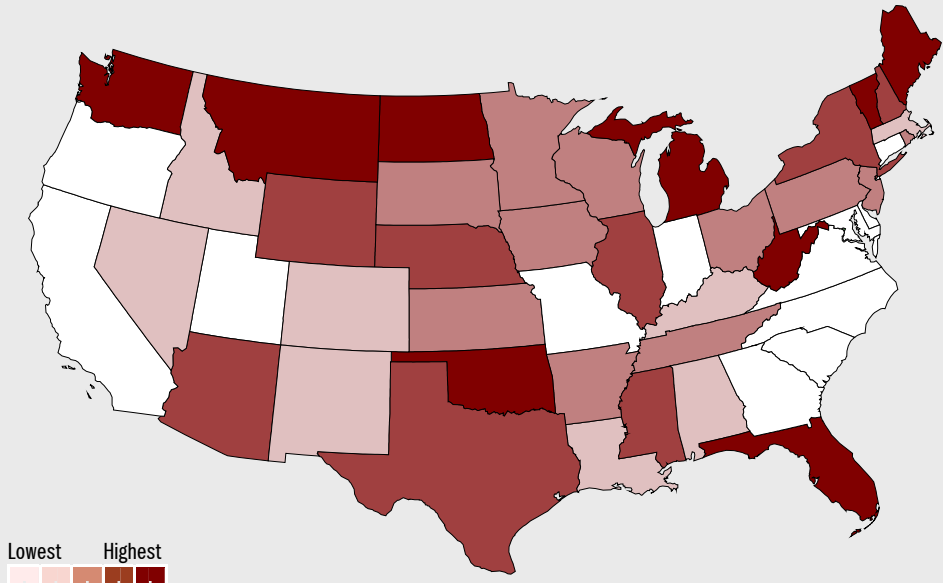
**Figure A-3.**  
**State and Local Business Taxes per Dollar of Private Sector Economic Activity, FY2003**



State	Business Tax	Private Economic Activity	Per \$ Economic Activity	Rank	State	Business Tax	Private Economic Activity	Per \$ Economic Activity	Rank
Alabama	\$4,360	\$95,962	4.5%	37	Montana	\$1,299	\$17,697	7.3%	3
Alaska	1,799	22,478	8.0%	1	Nebraska	2,388	45,824	5.2%	23
Arizona	7,080	132,487	5.3%	19	Nevada	3,171	67,406	4.7%	29
Arkansas	2,613	54,983	4.8%	31	New Hampshire	2,433	41,974	5.8%	9
California	50,312	1,132,887	4.4%	39	New Jersey	15,581	307,160	5.1%	24
Colorado	5,804	144,802	4.0%	42	New Mexico	2,511	42,878	5.9%	14
Connecticut	6,075	140,978	4.3%	40	New York	38,338	687,845	5.6%	15
Delaware	1,605	35,804	4.5%	33	North Carolina	8,410	225,077	3.7%	49
Florida	21,861	407,895	5.4%	18	North Dakota	1,017	15,187	6.7%	6
Georgia	9,939	247,179	4.0%	45	Ohio	14,627	308,496	4.7%	28
Hawaii	1,735	31,483	5.5%	20	Oklahoma	4,000	73,086	5.5%	16
Idaho	1,369	29,619	4.6%	36	Oregon	3,399	99,084	3.4%	50
Illinois	21,241	403,849	5.3%	17	Pennsylvania	16,217	342,819	4.7%	30
Indiana	6,476	158,690	4.1%	44	Rhode Island	1,851	30,423	6.1%	10
Iowa	3,727	74,743	5.0%	26	South Carolina	4,132	91,770	4.5%	38
Kansas	3,503	70,602	5.0%	25	South Dakota	1,130	20,142	5.6%	13
Kentucky	4,572	97,021	4.7%	32	Tennessee	6,980	153,958	4.5%	34
Louisiana	7,335	125,788	5.8%	12	Texas	33,195	652,419	5.1%	21
Maine	2,172	29,535	7.4%	4	Utah	2,134	55,968	3.8%	48
Maryland	6,353	147,093	4.3%	41	Vermont	966	15,497	6.2%	8
Massachusetts	9,540	245,909	3.9%	46	Virginia	8,198	210,569	3.9%	47
Michigan	14,027	265,322	5.3%	22	Washington	11,452	182,351	6.3%	7
Minnesota	7,212	155,844	4.6%	35	West Virginia	2,364	32,667	7.2%	5
Mississippi	3,108	51,886	6.0%	11	Wisconsin	7,139	144,652	4.9%	27
Missouri	\$6,104	150,256	4.1%	43	Wyoming	\$1,223	\$17,072	7.2%	2

(Billions of dollars) -- Source: E&Y calculations

**Figure A-4.**  
**State and Local Business Taxes per Dollar of Capital Income, FY2003**



State	Business Tax	Capital Income	% Cap. Inc.	Rank	State	Business Tax	Capital Income	% Cap. Inc.	Rank
Alabama	\$4,360	\$30,686	14.2%	34	Montana	\$1,299	\$5,372	24.2%	2
Alaska	1,799	9,771	18.4%	9	Nebraska	2,388	13,888	17.2%	16
Arizona	7,080	42,178	16.8%	18	Nevada	3,171	22,101	14.4%	33
Arkansas	2,613	17,216	15.2%	27	New Hampshire	2,433	13,357	18.2%	13
California	50,312	373,054	13.5%	42	New Jersey	15,581	94,918	16.4%	20
Colorado	5,804	38,759	15.0%	31	New Mexico	2,511	18,105	13.9%	36
Connecticut	6,075	44,462	13.7%	40	New York	38,338	212,713	18.0%	14
Delaware	1,605	16,526	9.7%	49	North Carolina	8,410	77,339	10.9%	48
Florida	21,861	119,093	18.4%	10	North Dakota	1,017	4,881	20.8%	7
Georgia	9,939	77,656	12.8%	45	Ohio	14,627	96,488	15.2%	28
Hawaii	1,735	11,451	15.2%	29	Oklahoma	4,000	21,509	18.6%	8
Idaho	1,369	9,451	14.5%	32	Oregon	3,399	38,881	8.7%	50
Illinois	21,241	116,546	18.2%	12	Pennsylvania	16,217	98,991	16.4%	21
Indiana	6,476	49,371	13.1%	44	Rhode Island	1,851	11,910	15.5%	25
Iowa	3,727	24,609	15.2%	30	South Carolina	4,132	30,177	13.7%	39
Kansas	3,503	22,214	15.8%	24	South Dakota	1,130	7,347	15.4%	26
Kentucky	4,572	33,101	13.8%	37	Tennessee	6,980	44,177	15.8%	23
Louisiana	7,335	52,820	13.9%	35	Texas	33,195	184,701	18.0%	15
Maine	2,172	8,886	24.4%	1	Utah	2,134	18,946	11.3%	47
Maryland	6,353	47,599	13.4%	43	Vermont	966	4,311	22.4%	5
Massachusetts	9,540	69,501	13.7%	38	Virginia	8,198	66,533	12.3%	46
Michigan	14,027	66,267	21.2%	6	Washington	11,452	50,746	22.6%	4
Minnesota	7,212	43,778	16.5%	19	West Virginia	2,364	10,094	23.4%	3
Mississippi	3,108	16,986	18.3%	11	Wisconsin	7,139	44,090	16.2%	22
Missouri	\$6,104	\$45,095	13.5%	41	Wyoming	\$1,223	\$7,167	17.1%	17

(Billions of dollars) -- Source: E&Y calculations.

**Figure A-5.**  
**FY2000-FY2003 Change in Total Taxes and Taxes Paid by Business**

State	Total State and Local Taxes			Business Taxes		
	FY2000	FY2003	\$Change	FY2000	FY2003	\$Change
Alabama	\$9,669	\$10,596	\$927	\$4,022	\$4,360	\$339
Alaska	2,471	2,329	-142	2,001	1,799	-202
Arizona	13,630	14,989	1,360	6,296	7,080	784
Arkansas	6,212	6,668	456	2,481	2,613	132
California	124,235	124,514	279	46,319	50,312	3,993
Colorado	13,482	14,243	761	5,309	5,804	495
Connecticut	16,519	16,310	-209	6,112	6,075	-37
Delaware	2,707	2,882	175	1,450	1,605	154
Florida	42,611	45,667	3,056	20,259	21,861	1,603
Georgia	23,677	25,454	1,777	8,985	9,939	954
Hawaii	4,303	4,561	259	1,654	1,735	81
Idaho	3,393	3,459	67	1,275	1,369	94
Illinois	41,913	44,440	2,527	19,387	21,241	1,854
Indiana	16,688	17,615	928	5,979	6,476	496
Iowa	8,295	8,614	319	3,484	3,727	243
Kansas	7,674	8,089	416	3,284	3,503	219
Kentucky	10,545	11,183	638	4,138	4,572	434
Louisiana	11,150	12,827	1,677	6,304	7,335	1,031
Maine	4,439	4,689	250	1,998	2,172	173
Maryland	18,704	19,986	1,283	5,751	6,353	602
Massachusetts	25,418	25,437	19	9,035	9,540	505
Michigan	32,941	34,019	1,078	12,918	14,027	1,109
Minnesota	18,693	19,183	490	6,938	7,212	274
Mississippi	6,449	6,833	383	2,836	3,108	271
Missouri	14,792	15,773	981	5,625	6,104	479
Montana	2,217	2,364	147	1,205	1,299	95
Nebraska	5,013	5,330	316	2,186	2,388	202
Nevada	6,098	6,703	605	2,805	3,171	366
New Hampshire	3,315	3,824	509	2,079	2,433	353
New Jersey	34,582	37,930	3,348	13,481	15,581	2,100
New Mexico	4,942	5,053	110	2,483	2,511	28
New York	88,976	95,785	6,809	35,971	38,338	2,367
North Carolina	21,876	23,079	1,203	7,634	8,410	776
North Dakota	1,810	1,870	59	989	1,017	28
Ohio	35,212	37,053	1,841	13,529	14,627	1,098
Oklahoma	8,333	8,991	658	3,673	4,000	327
Oregon	10,090	9,719	-371	3,411	3,399	-12
Pennsylvania	38,590	40,345	1,755	15,851	16,217	366
Rhode Island	3,677	4,015	338	1,679	1,851	172
South Carolina	9,778	9,660	-118	3,838	4,132	293
South Dakota	1,754	1,960	206	1,006	1,130	124
Tennessee	12,828	13,903	1,075	6,497	6,980	482
Texas	53,572	59,219	5,647	30,163	33,195	3,032
Utah	5,985	6,260	275	1,972	2,134	162
Vermont	1,944	2,075	131	862	966	104
Virginia	21,282	22,423	1,141	7,650	8,198	548
Washington	19,888	21,234	1,346	10,770	11,452	682
West Virginia	4,549	4,968	419	2,152	2,364	211
Wisconsin	19,147	19,455	308	6,480	7,139	659
Wyoming	\$1,539	\$1,768	\$229	\$1,022	\$1,223	\$201

(Billions of dollars) -- Source: E&Y calculations.

## Appendix B. Description of Methodology

The Ernst & Young 50-state business tax methodology uses detailed information from public sources to estimate the business share of each of 25 taxes at the state and local levels of government. Generally, business taxes include all taxes that are the legal liabilities of business, including taxes paid with respect to corporations; non-corporate businesses, including partnerships and sole-proprietorships; non-profit entities; and rental property held by individuals.

### Property Taxes

**Real and Tangible Property Taxes.** Tax data describing tax levies or taxable assessed value by class of property were obtained from state and local government agencies. Although each state differed in the data that was available, most states provided separate totals for residential and commercial taxable property values or tax levies, by real and personal property. In cases where statewide estimates were not available, we relied upon data for the largest counties or previous estimates of the business share.

Taxes on residential rental property are treated as business taxes, similar to the treatment by the U.S. Commerce Department. Many states included residential rental properties in the residential property tax base. These states' household property tax share was adjusted to remove the rental residential housing from the household share and allocate it to the business share. Educational, farm, and not-for-profit entity property was allocated to business to the extent that it was taxed.

**State Intangible Property Taxes.** State-level property taxes on intangible property held by corporations and partnerships are allocated entirely to business.

### Sales, Gross Receipts and Excise Taxes

**General Sales Tax.** Sales tax paid by businesses on purchases of goods and services used in operations and production and on business purchases of capital equipment was estimated using the E&Y 50-state sales tax model. The model estimates the total taxable business input purchases, business investment purchases, and personal consumption purchases that occur annually in each state to calculate the business share of total sales tax collections.

The sales tax model constructs state-specific industry-by-industry matrices of business input transactions, business investment transactions, and personal consumption transactions using economic and related data from government agencies.<sup>9</sup> Business input transactions were estimated using national input-output relationships and data describing value-added, total sales, and employment by industry for each state.<sup>9</sup> Business investments were estimated using national ratios of investment to output by industry and state specific estimates of output by industry. Based on the current level of economic activity in a state, investment due to expansion and the replacement of depreciating equipment and structures was estimated. Personal consumption expenditures were calculated based on Census data describing the sales to household con-

sumers by each industry. National trade data was used to estimate retail sales to consumers, while state-specific estimates were used for the services sectors. Additional data on utility and telecommunications sales were used to supplement the industry aggregate calculations and reflect the special tax treatment of these services.

To accurately reflect the sales tax due on business and household transactions, state and local tax laws were researched for each type of transaction. Each transaction type reflects a sales tax feature that can be generally applied across industries and commodities. For example, a computer manufacturer's purchase of electronic components may be exempt as manufacturing inputs that were directly used in the manufacturing process. The same purchase of electronic components by a business services firm, however, would be considered taxable or treated under a different exemption. These transaction categories reflect the state-specific sales tax treatment by purchaser for business investments,<sup>10</sup> business purchases of operating and production inputs,<sup>11</sup> and personal consumption expenditures.<sup>12</sup>

A few states impose additional gross receipts taxes on businesses, such as Washington State's business and occupation tax, that were reflected in the Census general sales tax data. Because these taxes were the legal liability of business, they were considered business taxes in this analysis.

The sum of sales taxes on business inputs, investment expenditures, and business gross receipts was divided by total estimated state and local sales taxes to derive the business share. The business share was then used to calculate the actual dollar amount of business sales taxes paid, based on aggregate sales taxes reported by the Census Bureau.

**Gross Receipts Taxes on Insurance Premiums and Utility Receipts.** Gross revenue taxes levied on insurance and utility companies were allocated to business because these taxes are often levied in lieu of generally applicable business taxes. Sales tax due on consumer purchases of these services, however, was not included in this category.

**Motor Fuel Excise Taxes.** Motor fuel taxes were allocated to the purchaser of the fuel, although many states require the wholesale distributor to remit such taxes. The percent of fuel consumed by business consumers was estimated using national input-output data describing the total value of petroleum refinery products used in commercial transportation activities and by household users. Purchases by other users of petroleum refinery products were excluded from the calculations under the assumption that these users were purchasing non-motor-fuel petroleum products.

**Other Selective Sales Taxes.** Excise taxes on alcohol, pari-mutuels, and tobacco were considered household taxes and excluded from the business tax estimates. The remaining selective sales taxes were allocated 50% to business and 50% to households.

### **Corporate Income Taxes**

Corporation net income taxes were allocated entirely to business. Individual income taxes were allocated entirely to households, although a portion of these taxes was due to income earned by pass-through entities. Individual income taxes paid on corporate dividends were allocated entirely to households.

## Asset Transfer Taxes

**Documentary and Stock Transfer Taxes.** These taxes on the transfer of ownership of an asset were allocated 80% to households and 20% to business. Only the 20% of these taxes that was estimated to arise from business acquisition of assets were considered paid by business.

**Estate and Gift Taxes.** All taxes on transfers of assets by gift or bequeath were assumed to be paid by individuals and were excluded from the business tax estimates.

## License Taxes

**Business License Taxes.** These taxes were allocated entirely to business. License taxes paid by businesses selling entirely to consumers were allocated to business because these taxes are the statutory liability of business.

**Motor Vehicle License Taxes.** Taxes on motor vehicle license and registration were allocated to business based on U.S. Department of Transportation data describing the revenue for each type of vehicle by state. Automobile taxes and a portion of truck taxes were allocated to households, while all fees by weight, motor carrier fees, and other truck fees were allocated to business.

**Driver's License and Hunting and Fishing License Taxes.** These fees and taxes were allocated to households because they were generally the liability of individuals, even if directly related to the operation of a business or profession.

## Other Taxes

This category contains all taxes not listed above. For many states, the largest share of this category comes from local gross receipts taxes on business or business earnings. Many local taxes levied per capita, on gross earnings of individuals, or on gross receipts of businesses or professions were included in this category. Based on the taxes levied by local governments, the percent of this category paid by business was estimated independently for each state. If local jurisdictions in a state do not levy taxes on individual gross earnings or population, then these taxes were allocated to business. In states that levy both business and individual gross earnings taxes, these taxes were allocated based on the rate of tax and applicable base.

## Economic Measures

Economic activity was measured using private-sector employment, capital income, or private sector economic activity. Employment for each state is private sector employment reported by the Bureau of Labor Statistics. Capital income is equivalent to the capital charges concept, as defined by the Bureau of Economic Analysis. Private sector economic activity is equivalent to the sum of labor income, capital income, and indirect business taxes paid by business.

## Endnotes

1. Cline, Fox, Neubig, and Phillips, "A Closer Examination of the Total State and Local Business Tax Burden", January 2003. This study presents trends in state and local business taxes nationally from 1980 through fiscal year 2002. The second study, "Total State and Local Business Taxes: Fiscal Year 2003 Update," September 2003, updated the national estimates to fiscal year 2003. This study revises the national fiscal year 2003 estimates based on a comprehensive, detailed state-by-state analysis of state and local business taxes.
2. This study revised the estimates of total state and local business taxes in fiscal year 2000 and 2003 based on a more detailed, state-by-state analysis. Sales tax on business taxes and license and other business taxes increased based on the detailed analysis, while excise and gross receipts taxes fell.
3. One reason why business paid a relatively high percentage of the growth in taxes was the decline in individual income tax collections over the three-year period.
4. A description of the methodology used for the state-by-state business taxes is described in Appendix A. A more detailed description is available from the authors.
5. An additional \$28.6 billion of individual income taxes paid on business income received from non-corporate business entities, including partnerships, S corporations and limited liability companies was estimated to add 3.1% of total state and local taxes in fiscal year 2003. See Cline, Fox, Neubig and Phillips, September 2003.
6. It should be noted that the share of state and local taxes paid by business is not a measure of effective business tax burden – the business share of total taxes reflects a state's tax structure and economic profile. Interstate comparisons of business tax burdens should employ additional measures of taxes as a percent of economic activity, income, or employment.
7. A state's private sector economic activity is equivalent to the sum of payments to labor and capital and indirect business taxes paid by business.
8. The model incorporates data from the Census Bureau (U.S. Department of Commerce), Bureau of Economic Analysis (Department of Commerce), Bureau of Labor Statistics (Department of Labor), Federal Communications Commission, Federal Energy Regulatory Commission (Department of Energy), and the Bureau of Transportation Statistics (Department of Transportation).
9. Business includes not-for-profit and non-taxable entities, such as partnerships and trusts, to the extent their purchases incur sales tax. Government purchases are excluded and assumed non-taxable.
10. The model categorizes purchases of 50 types of capital equipment and structures by 125 industries into 16 tax categories.
11. The model categorizes the purchases of 125 commodities and services by 125 industries into 53 types of transactions.
12. The model categorizes spending by consumers into 36 categories.