



Total State and Local Business Taxes

Nationally 1980-2004 and by State 2000-2004

By Ernst & Young LLP, specifically Robert Cline,
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April 12, 2005

About COST

The **Council On State Taxation (COST)** is the premier state tax organization representing taxpayers. COST is a nonprofit trade association consisting of approximately 575 multistate corporations engaged in interstate and international business. COST's objective is to promote and preserve equitable and nondiscriminatory taxation of multijurisdictional business entities.

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Executive Summary

This study updates previous studies published by Council on State Taxation which have documented the substantial state and local taxes paid by business nationally and state-by-state. This study updates the prior studies through fiscal year 2004, and also reflects the growing importance of individual income taxes paid by owners of non-corporate businesses.¹

This study finds that businesses paid \$447 billion in total state and local taxes in fiscal year 2004. 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 several tax policy questions being debated in state legislatures: “Are businesses paying their fair share of our state’s taxes?” and “Are our current state and local taxes adversely affecting our state’s economic competitiveness?”

This study includes 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, unemployment payroll taxes, and the individual income taxes paid by owners of non-corporate (pass-through) businesses.

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.

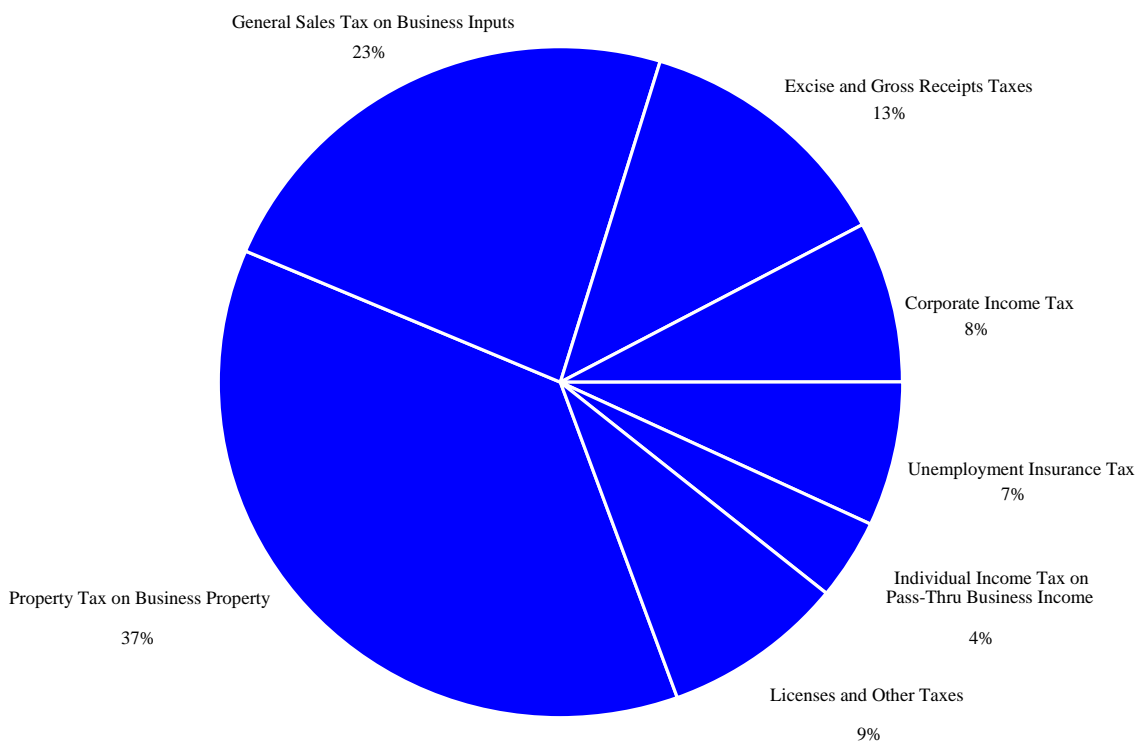
Key findings of the study include:

- Over the last four years, state and local taxes on business have risen faster than total state and local taxes. As a result, businesses have paid a major portion of the additional state and local taxes collected. Businesses paid 52 percent of the entire increase in state and local taxes from FY2000 to FY2004.
- Businesses paid over half of the total four-year increase in state and local taxes in 26 states.
- Property taxes on business property were \$165 billion in FY2004, accounting for 37% of total state and local business taxes. Sales tax on business inputs and capital equipment totaled \$105 billion, 23 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 few years, it represents only 8 percent of total state and local business taxes nationally.
- Individual income taxes paid by owners of non-corporate businesses totaled \$17 billion in FY2004, 4 percent of total state and local business taxes.

Total State and Local Business Taxes in FY2004

Businesses paid over \$447 billion in total state and local taxes in FY2004, as presented in Figure 1 and Table 1 below. The following taxes are included, to the extent the tax is considered the statutory liability of businesses and its owners:

Figure 1
Composition of Total State and Local Business Taxes, FY 2004



Source: E&Y calculations

- Property tax on real, personal, and utility property owned by business accounts for the largest share of total state and local business taxes, 37% or \$165 billion.
- Sales and use taxes paid by businesses on purchases of inputs and capital equipment totaled \$105 billion, representing 23% 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.²
- Excise taxes imposed on business purchases were \$22 billion in FY2004. Excise taxes include a portion of motor fuel taxes and selected excise taxes. The analysis treats all tobacco, alcohol, and amusement excise taxes as paid by households.

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- Gross receipts taxes, totaling \$34 billion in FY2004, are often in lieu of property or corporate income taxes and are allocated wholly to business.
- Corporate income taxes were nearly \$34 billion, representing 8% of total state and local business taxes.
- Employer payroll taxes for unemployment insurance were \$32 billion in FY2004.
- Licenses and other business taxes totaled \$38 billion in FY2004. Of this total, \$19 billion were corporation and general business license taxes.
- Individual income taxes paid by owners of pass-through entities (partnerships, sole proprietorships, S corporations) are estimated to total \$17 billion in FY2004. Individual income taxes on pass-thru business income were half of the state corporate income taxes, and represent 4% of total state and local business taxes.

Table 1
State and Local Business Taxes, FY 2004
(Dollars in Billions)

Business Tax	Business Taxes	% Total Business Tax
Property taxes on business property	\$165.1	36.9%
General sales taxes on business inputs	105.0	23.5%
Corporate income tax	34.0	7.6%
Payroll taxes	31.9	7.1%
Gross receipts taxes	34.5	7.7%
Insurance premiums	13.3	3.0%
Public utility taxes	21.1	4.7%
Excise taxes	21.6	4.8%
Business and corporation licenses	18.9	4.2%
Individual income tax on pass-thru business income	17.2	3.8%
Other business taxes	19.3	4.3%
Total Business Taxes	\$447.3	100.0%

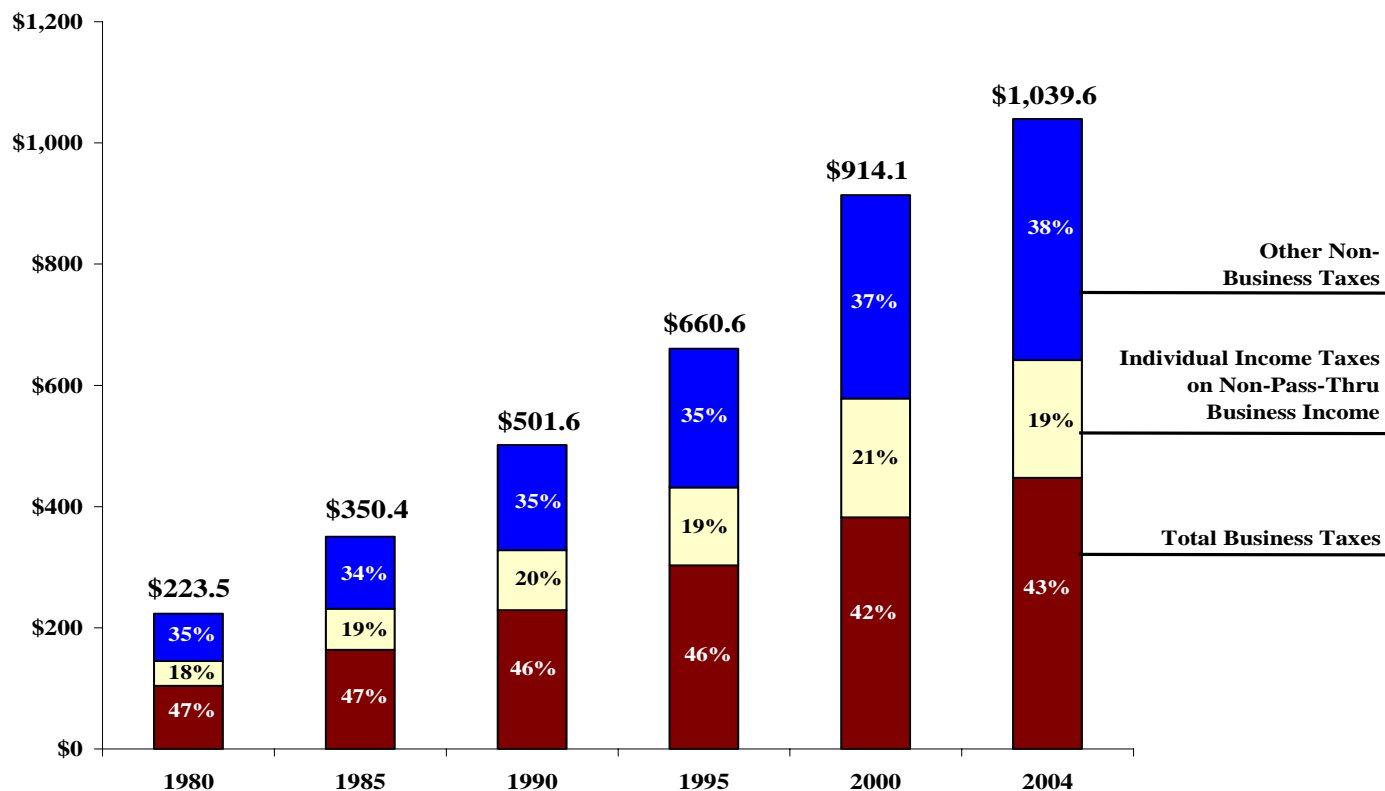
Source: E&Y calculations

Total State and Local Business Taxes from 1980 to 2004

Total state and local business taxes have grown from \$105 billion in 1980 to \$447 billion in FY2004. Figure 2 shows the composition of total state and local taxes, split between business taxes and non-business taxes.³ As a percent of total state and local taxes, business taxes fell from 46.8 percent in 1980 to 41.8 percent in 2000, but have increased to 43.0 percent in 2004.

Figure 2
Composition of State & Local Taxes, 1980-2004

(Dollars in Billions)



Recent Trends in State and Local Taxes

Total state and local business taxes increased by 17% or \$65 billion between FY2000 and FY2004. As shown in Table 2, the growth of total business taxes over this period resulted from increases in all of the business taxes, except corporate income tax. Business taxes grew three percentage points faster than total state and local taxes.

Table 2
Change in State and Local Business Taxes, FY2000 to FY2004
(Dollars in Billions)

Business Tax	FY2000	FY2004	% Change
Property taxes on business property	\$136.5	\$165.1	21%
General sales taxes on business inputs	94.4	105.0	11%
Corporate income tax	36.1	33.6	-7%
Payroll taxes	20.9	31.9	53%
Gross receipts taxes	27.6	34.5	25%
Insurance premiums	9.8	13.3	36%
Public utility taxes	17.8	21.1	19%
Excise taxes	20.2	21.6	7%
Business and corporation licenses	14.8	18.9	28%
Individual income tax on pass-thru business income	15.9	17.2	8%
Other business taxes	15.8	19.3	22%
Total Business Taxes	\$382.0	\$447.3	17%
Total State and Local Taxes	\$914.1	\$1,039.6	14%

Source: E&Y calculations

Employer payroll taxes, business and corporation licenses, and property taxes grew by over twenty percent during this four-year period. In addition to being the largest component of state and local business taxes, the property tax accounted for 44% of the total business tax increase between FY2000 and FY2004. In fact, the growth rate of property taxes is accelerating. While averaging 3.6% growth in the prior three years, business property taxes grew by 8.4% in FY2004.

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 3 presents the different business taxes by state.

Table 4 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 43 percent nationally, but ranges from 34 percent to 73 percent.

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 the level of business taxes compared to the level of economic activity that is being taxed. Because state business tax bases are a diverse mixture of sales, income, input purchases, payroll and 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 4 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 4.7%; ETRs range from 3.5 to 9.1 percent. Using Maryland as an example, it is clear that the ratio of business taxes to all state and local taxes cannot be used to measure a state's tax competitiveness. Businesses pay 34% of all taxes in Maryland, which is significantly below the U.S. average share. But Maryland's ratio of business taxes to private-sector GSP is 4.4%, only slightly below the average business ETR. Maryland's low business share of total state and local taxes is due to the state's heavy reliance on state and local individual income taxes and a relatively large public sector share of GSP, not from relatively low taxes on business activity.

Figure 3 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.

Table 5 shows the state-by-state increase in total state and local business taxes between FY2000 and FY2004, and the business share of total state and local tax increases during that period. For all states, businesses paid 52 percent 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 4.7 percent over the same period.

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Table 3
State and Local Business Taxes, By Type, FY2004
(Dollars in Billions)

State	Property Tax	Sales Tax on Business Inputs	Excise and Gross Receipts	Corporate Income	Payroll Tax	Individual Income Tax on Pass-Thru Business Income	Licenses and Other Taxes	Total Business Taxes
Alabama	\$1.1	\$1.0	\$1.2	\$0.3	\$0.3	\$0.1	\$0.4	\$4.4
Alaska	0.7	-	0.1	0.3	0.1	-	0.7	1.9
Arizona	3.0	2.7	0.7	0.5	0.2	0.2	0.2	7.4
Arkansas	0.9	0.9	0.4	0.2	0.2	0.2	0.1	2.8
California	15.4	14.8	6.6	7.5	4.4	3.5	4.8	57.1
Colorado	2.5	2.1	0.6	0.2	0.3	0.4	0.3	6.3
Connecticut	2.2	1.5	0.6	0.3	0.6	0.4	0.2	6.0
Delaware	0.2	-	0.2	0.1	0.1	0.1	0.9	1.6
Florida	9.5	6.1	5.3	1.3	0.9	-	1.2	24.3
Georgia	4.1	3.5	1.0	0.5	0.5	0.6	0.4	10.5
Hawaii	0.5	0.6	0.4	0.1	0.2	0.1	0.1	1.9
Idaho	0.6	0.3	0.1	0.1	0.1	0.1	0.1	1.4
Illinois	9.0	3.3	4.0	1.6	1.8	0.5	1.5	21.7
Indiana	4.8	1.5	0.5	0.6	0.4	0.3	0.2	8.4
Iowa	2.1	0.8	0.3	0.1	0.3	0.2	0.3	4.0
Kansas	1.9	1.1	0.4	0.2	0.3	0.2	0.2	4.2
Kentucky	1.2	1.1	0.8	0.3	0.3	0.3	0.5	4.6
Louisiana	1.8	3.2	0.8	0.2	0.2	0.2	0.8	7.2
Maine	1.1	0.3	0.2	0.1	0.1	0.1	0.1	2.0
Maryland	3.0	1.2	1.3	0.4	0.5	0.5	0.9	7.7
Massachusetts	4.7	1.5	0.8	1.3	1.3	0.6	0.4	10.5
Michigan	6.2	2.5	0.8	1.7	1.3	0.5	1.0	14.0
Minnesota	3.5	1.8	1.1	0.6	0.7	0.3	0.5	8.6
Mississippi	1.3	0.9	0.4	0.3	0.1	0.1	0.2	3.4
Missouri	2.1	2.0	0.9	0.2	0.4	0.3	0.6	6.5
Montana	0.6	-	0.2	0.1	0.1	0.1	0.1	1.1
Nebraska	1.2	0.9	0.2	0.2	0.1	0.1	0.2	2.9
Nevada	1.1	1.0	0.5	-	0.3	-	0.6	3.5
New Hampshire	1.3	-	0.3	0.4	0.1	0.0	0.2	2.3
New Jersey	6.1	2.4	1.6	2.6	1.3	0.5	0.9	15.4
New Mexico	0.4	1.0	0.3	0.1	0.1	0.1	0.7	2.7
New York	16.1	10.2	3.4	5.1	2.8	2.9	1.4	42.0
North Carolina	2.9	2.2	1.6	0.9	0.8	0.5	0.7	9.6
North Dakota	0.4	0.2	0.2	0.0	0.1	0.0	0.2	1.1
Ohio	6.1	3.7	1.8	0.9	0.9	0.7	1.9	16.0
Oklahoma	1.0	1.4	0.5	0.1	0.2	0.3	0.9	4.4
Oregon	1.6	-	0.4	0.3	0.7	0.3	0.5	3.9
Pennsylvania	5.7	3.1	2.5	1.4	2.3	0.7	2.5	18.2
Rhode Island	0.8	0.4	0.2	0.1	0.2	0.1	0.1	1.7
South Carolina	2.3	0.9	0.5	0.2	0.3	0.1	0.3	4.6
South Dakota	0.6	0.4	0.1	0.0	0.0	-	0.1	1.2
Tennessee	2.5	2.5	0.8	0.7	0.5	0.0	1.0	8.0
Texas	17.9	10.0	5.5	-	3.1	0.0	5.0	41.5
Utah	0.8	0.7	0.4	0.1	0.1	0.1	0.1	2.4
Vermont	0.5	0.1	0.2	0.1	0.0	0.0	0.0	0.9
Virginia	3.4	1.4	1.8	0.4	0.4	0.4	1.2	9.0
Washington	2.8	5.5	1.7	-	1.3	-	0.6	11.9
West Virginia	0.8	0.3	0.6	0.2	0.1	0.1	0.4	2.5
Wisconsin	3.4	1.6	0.9	0.7	0.6	0.3	0.5	8.0
Wyoming	0.6	0.3	0.1	-	0.0	-	0.7	1.7
Wash., DC	0.7	0.3	0.3	0.2	0.1	0.1	0.5	2.1
United States	\$165.1	\$105.0	\$56.0	\$34.0	\$31.9	\$17.2	\$38.2	\$447.3

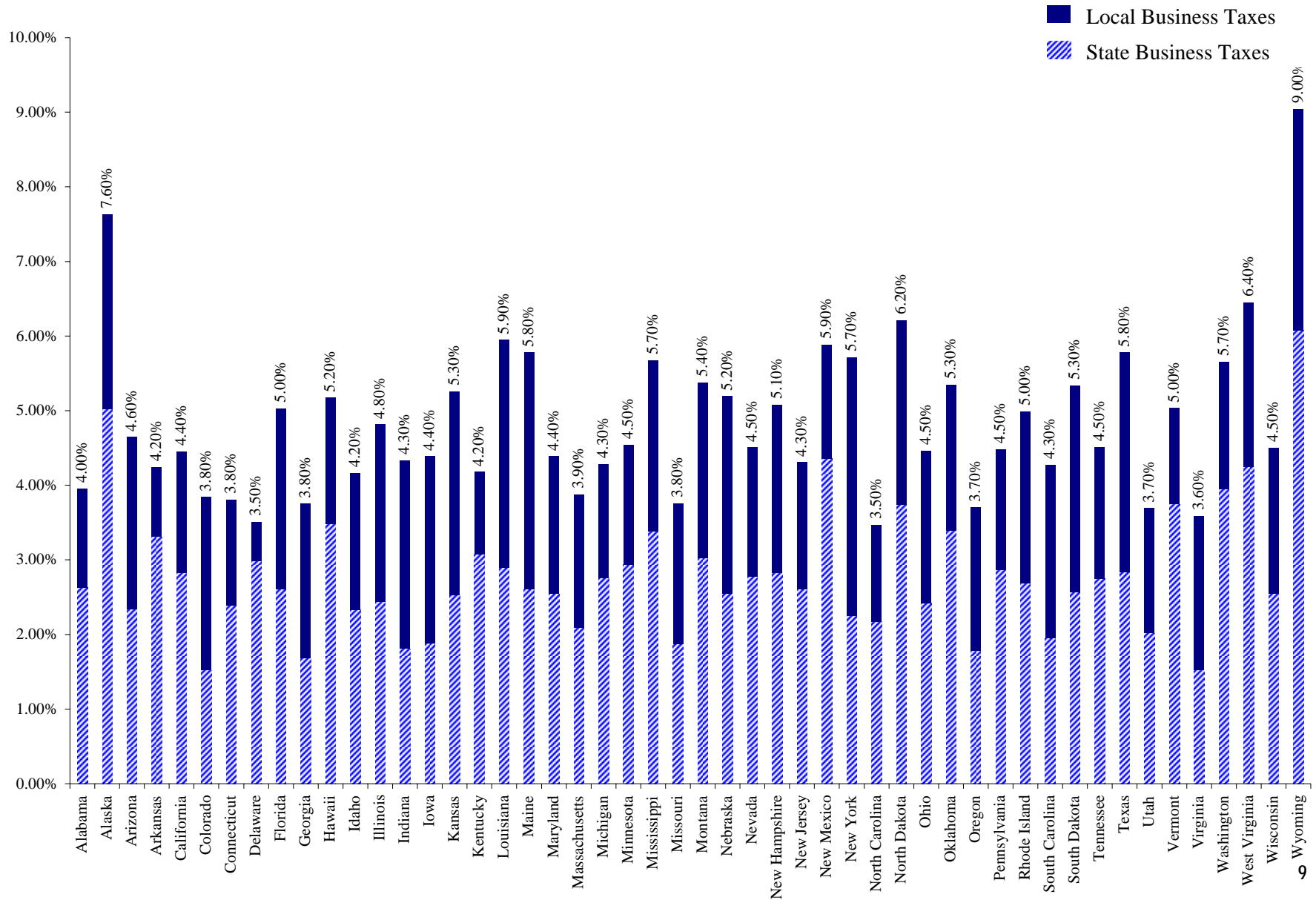
Source: E&Y calculations

Table 4
Business Taxes as a Share of Total State and Local Taxes and Private Sector GSP, FY2004
(Dollars in Billions)

State	State and Local Business Taxes	Total State and Local Taxes	Percent of Total Taxes	Eff. Tax Rate (% of Private Sector GSP)
Alabama	\$4.4	\$10.4	42.4%	4.0%
Alaska	1.9	2.6	72.9%	7.6%
Arizona	7.4	15.2	48.5%	4.7%
Arkansas	2.8	7.3	38.3%	4.2%
California	57.1	138.0	41.4%	4.5%
Colorado	6.3	14.9	42.7%	3.8%
Connecticut	6.0	17.4	34.3%	3.8%
Delaware	1.6	3.0	51.9%	3.5%
Florida	24.3	52.4	46.4%	5.0%
Georgia	10.5	26.6	39.4%	3.8%
Hawaii	1.9	5.0	37.3%	5.2%
Idaho	1.4	3.7	38.8%	4.2%
Illinois	21.7	48.4	44.9%	4.8%
Indiana	8.4	19.9	42.0%	4.3%
Iowa	4.0	9.2	43.2%	4.4%
Kansas	4.2	9.3	45.6%	5.3%
Kentucky	4.6	11.7	39.6%	4.2%
Louisiana	7.2	12.8	56.3%	6.0%
Maine	2.0	4.7	43.5%	5.8%
Maryland	7.7	22.8	33.7%	4.4%
Massachusetts	10.5	29.3	36.0%	3.9%
Michigan	14.0	35.6	39.4%	4.3%
Minnesota	8.6	21.8	39.3%	4.5%
Mississippi	3.4	7.3	46.4%	5.7%
Missouri	6.5	16.4	39.5%	3.8%
Montana	1.1	2.5	46.4%	5.4%
Nebraska	2.9	6.3	46.7%	5.2%
Nevada	3.5	7.8	45.3%	4.5%
New Hampshire	2.3	4.1	55.6%	5.1%
New Jersey	15.4	39.9	38.7%	4.3%
New Mexico	2.7	5.3	50.7%	5.9%
New York	42.0	101.0	41.6%	5.7%
North Carolina	9.6	26.1	36.6%	3.5%
North Dakota	1.1	2.0	56.9%	6.2%
Ohio	16.0	39.9	40.0%	4.5%
Oklahoma	4.4	9.6	46.1%	5.4%
Oregon	3.9	11.4	33.8%	3.7%
Pennsylvania	18.2	45.9	39.7%	4.5%
Rhode Island	1.7	4.2	41.6%	5.0%
South Carolina	4.6	10.8	42.6%	4.3%
South Dakota	1.2	2.0	62.5%	5.3%
Tennessee	8.0	16.1	49.7%	4.5%
Texas	41.5	68.9	60.2%	5.8%
Utah	2.4	6.7	35.7%	3.7%
Vermont	0.9	2.1	43.1%	5.0%
Virginia	9.0	24.7	36.6%	3.6%
Washington	11.9	23.7	50.1%	5.7%
West Virginia	2.5	5.2	48.8%	6.5%
Wisconsin	8.0	21.3	37.7%	4.5%
Wyoming	1.7	2.3	73.2%	9.1%
Washington.,DC	2.1	4.0	53.7%	5.3%
United States	\$447.3	\$1,039.6	43.0%	4.7%

Source: E&Y calculations

Figure 3
State and Local Business Taxes as a Percent of Private-Sector Economic Activity, FY2004



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Table 5
Change in State and Local Business Taxes, FY2000 to FY2004
(Dollars in Billions)

State	Total S&L Business Taxes				Total S&L Taxes		Business Share of Tax Revenue Growth
	FY2000	FY2004	\$Change	%Change	\$Change	%Change	
Alabama	\$4.0	\$4.4	\$0.4	9.6%	\$0.7	6.9%	58%
Alaska	1.9	1.9	(0.0)	-1.0%	0.1	3.9%	0%
Arizona	6.4	7.4	1.0	15.4%	1.6	11.4%	63%
Arkansas	2.6	2.8	0.2	8.9%	0.9	14.9%	24%
California	48.3	57.1	8.7	18.0%	12.0	9.5%	73%
Colorado	5.5	6.3	0.8	15.2%	1.2	9.1%	68%
Connecticut	5.7	6.0	0.3	5.2%	1.0	6.3%	29%
Delaware	1.5	1.6	0.1	8.3%	0.3	10.5%	42%
Florida	19.6	24.3	4.8	24.4%	9.5	22.1%	50%
Georgia	9.1	10.5	1.4	15.0%	3.0	12.9%	45%
Hawaii	1.7	1.9	0.2	12.4%	0.7	15.0%	32%
Idaho	1.3	1.4	0.1	7.7%	0.2	7.2%	41%
Illinois	18.9	21.7	2.8	15.0%	5.8	13.5%	49%
Indiana	7.4	8.4	1.0	13.0%	3.0	17.6%	32%
Iowa	3.6	4.0	0.4	10.3%	0.8	9.5%	47%
Kansas	3.5	4.2	0.8	22.9%	1.5	18.9%	53%
Kentucky	4.2	4.6	0.4	9.2%	1.0	9.5%	38%
Louisiana	6.5	7.2	0.8	11.9%	1.7	14.8%	46%
Maine	2.0	2.0	0.0	2.0%	0.1	3.2%	27%
Maryland	6.1	7.7	1.6	25.5%	3.9	20.9%	40%
Massachusetts	8.8	10.5	1.8	20.2%	3.5	13.6%	51%
Michigan	13.0	14.0	1.0	7.7%	2.0	5.9%	51%
Minnesota	7.0	8.6	1.6	23.1%	2.9	15.3%	56%
Mississippi	2.9	3.4	0.5	17.3%	0.8	11.9%	64%
Missouri	5.8	6.5	0.7	11.4%	1.5	10.2%	44%
Montana	1.1	1.1	0.0	3.3%	0.2	9.5%	17%
Nebraska	2.3	2.9	0.7	29.6%	1.2	24.3%	54%
Nevada	2.7	3.5	0.8	29.3%	1.5	24.7%	52%
New Hampshire	1.8	2.3	0.5	26.1%	0.7	21.9%	64%
New Jersey	12.8	15.4	2.7	20.9%	4.5	12.8%	59%
New Mexico	2.5	2.7	0.2	8.2%	0.3	5.7%	71%
New York	38.2	42.0	3.8	10.0%	10.3	11.4%	37%
North Carolina	7.8	9.6	1.7	22.0%	4.0	18.1%	43%
North Dakota	1.0	1.1	0.1	7.2%	0.1	7.2%	57%
Ohio	13.5	16.0	2.5	18.3%	4.4	12.2%	57%
Oklahoma	3.8	4.4	0.7	18.1%	1.3	15.2%	54%
Oregon	3.5	3.9	0.3	9.6%	1.0	9.2%	35%
Pennsylvania	15.9	18.2	2.3	14.7%	6.3	15.9%	37%
Rhode Island	1.6	1.7	0.2	10.9%	0.4	11.6%	40%
South Carolina	3.9	4.6	0.7	18.1%	0.9	9.2%	78%
South Dakota	1.1	1.2	0.1	12.9%	0.2	12.1%	66%
Tennessee	6.4	8.0	1.6	25.3%	3.1	23.5%	53%
Texas	32.4	41.5	9.1	28.0%	14.5	26.6%	63%
Utah	2.0	2.4	0.3	17.0%	0.6	10.6%	54%
Vermont	0.9	0.9	0.1	6.1%	0.1	5.9%	44%
Virginia	7.7	9.0	1.3	16.7%	3.3	15.6%	39%
Washington	10.4	11.9	1.5	14.0%	3.0	14.6%	48%
West Virginia	2.2	2.5	0.3	13.6%	0.6	12.5%	52%
Wisconsin	6.6	8.0	1.4	20.9%	1.8	9.1%	78%
Wyoming	1.0	1.7	0.7	71.3%	0.8	51.0%	90%
Wash., DC	1.6	2.1	0.5	33.5%	0.6	16.3%	96%
United States	\$382.0	\$447.3	\$65.4	17.1%	\$125.5	13.7%	52%

Source: E&Y calculations

Conclusions

State and local taxes paid by business in FY2004 totaled \$447 billion, an increase of 17% from the level in FY2000, despite an intervening recession. Total business taxes represent 43.0% of all state and local taxes collected in FY2004, up from 41.8% in FY2000.

The study finds that the increase in business taxes since FY2000 has accounted for over 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.

Relative to overall economic activity, state and local business taxes increased from 4.5 to 4.7% of private-sector GSP over the same period. In other words, the effective business tax rate increased from FY2000 to FY2004.

In the current economic environment of 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.

Appendix: 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 26 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 owned by individuals. Sales and excise taxes paid by households are not considered to be business taxes, even though the taxes may be the legal liability of retailers and wholesalers. The individual income taxes paid by owners of pass-through business entities are included.

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 were 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 in measuring national income. 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. Business input transactions were estimated using national input-output relationships and data describing value-added, total sales, and employment by industry for each state. 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 consumers 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, business purchases of operating and production inputs, and personal consumption expenditures.

A few states impose additional gross receipts taxes on businesses, such as Washington State's business and occupation tax, which 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. Additional information is available from the COST report, "Sales Taxation of Business Inputs."⁴

Gross Receipts Taxes on Insurance Premiums and Utility Receipts. Gross receipt 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.

Income Taxes

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

The individual income taxes paid on income earned by owners of pass-through entities (partnerships, sole proprietorships, and Subchapter S corporations) were estimated based on net income after losses as reported by the IRS Statistics of Income. Pass-through entity income was allocated across states based on the U.S. Bureau of Economic Analysis's state-by-state distribution of proprietorship income, which includes partnership and Subchapter S income. The SOI total pass-through entity net business income after losses was extrapolated to FY2004 based on the growth in national proprietorship income in the BEA personal income accounts. Individual income tax on pass-through business net income after losses

was assumed to be at the state's average tax rate on estimated adjusted gross income, which assumes that credits, deductions and exemptions apply to business income as well as to non-business income.

Asset Transfer Taxes

Documentary and Stock Transfer Taxes. These taxes on the transfer of ownership of an asset were allocated 94% to households and 6% to business. Only the 6% of these taxes that were 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 licenses and registrations 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 for purposes of calculating an effective tax rate measure applied to the disparate state and local business taxes was measured using private sector economic activity. Private sector economic activity is equivalent gross state product less public sector value added.

Appendix Table 1
Total State and Local Business Taxes, 1980-2004
(Dollars in Billions)

State and Local Taxes	1980	1985	1990	1995	2000	2001	2002	2003	2004
Total business taxes	\$104.5	\$163.5	\$229.1	\$303.1	\$382.4	\$395.9	\$395.3	\$409.4	\$447.3
Individual income taxes on non-pass-thru business income	40.3	68.1	98.9	128.1	195.8	209.0	184.4	179.8	194.0
Other taxes	78.6	118.8	173.6	229.3	335.9	325.3	352.4	366.4	398.2
Total State and Local Taxes	\$223.5	\$350.4	\$501.6	\$660.6	\$914.1	\$930.2	\$932.0	\$955.6	\$1,039.6
Composition of State and Local Taxes	1980	1985	1990	1995	2000	2001	2002	2003	2004
Total business taxes	46.8%	46.7%	45.7%	45.9%	41.8%	42.6%	42.4%	42.8%	43.0%
Individual income taxes on non-pass-thru business income	18.0%	19.4%	19.7%	19.4%	21.4%	22.5%	19.8%	18.8%	18.7%
Other taxes	35.2%	33.9%	34.6%	34.7%	36.8%	35.0%	37.8%	38.3%	38.3%
Total State and Local Taxes	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: E&Y calculations

Appendix Table 2
Composition of State and Local Business Taxes, By Type, FY2004

State	Property Tax	Sales Tax on Business Inputs	Excise and Gross Receipts	Corporate Income	Payroll Tax	Individual Income Tax on Pass-Thru Business Income	Licenses and Other Taxes	Total Business Taxes
Alabama	24.8%	22.9%	26.5%	6.6%	5.8%	3.2%	10.2%	100.0%
Alaska	35.0%	0.0%	4.7%	17.6%	7.3%	0.0%	35.4%	100.0%
Arizona	40.4%	36.6%	8.9%	6.8%	2.5%	2.1%	2.8%	100.0%
Arkansas	30.7%	31.9%	12.7%	6.5%	8.9%	5.6%	3.7%	100.0%
California	27.1%	25.9%	11.6%	13.1%	7.7%	6.2%	8.5%	100.0%
Colorado	39.0%	32.4%	8.9%	3.7%	5.1%	6.4%	4.6%	100.0%
Connecticut	36.9%	25.5%	10.7%	5.7%	10.4%	6.7%	4.1%	100.0%
Delaware	13.7%	0.0%	11.7%	7.3%	4.3%	3.6%	59.4%	100.0%
Florida	38.8%	24.9%	21.9%	5.5%	3.8%	0.0%	5.1%	100.0%
Georgia	39.1%	32.9%	9.4%	4.5%	4.9%	5.6%	3.5%	100.0%
Hawaii	27.0%	32.8%	20.5%	3.1%	8.2%	3.9%	4.4%	100.0%
Idaho	42.4%	20.3%	10.1%	5.2%	7.9%	6.4%	7.7%	100.0%
Illinois	41.5%	15.2%	18.3%	7.3%	8.4%	2.3%	6.9%	100.0%
Indiana	57.3%	18.3%	6.3%	7.7%	5.2%	3.2%	2.0%	100.0%
Iowa	52.7%	19.6%	8.0%	2.2%	6.8%	3.8%	6.8%	100.0%
Kansas	44.3%	26.0%	9.7%	3.9%	6.7%	3.7%	5.7%	100.0%
Kentucky	26.7%	24.4%	18.3%	6.5%	7.1%	5.4%	11.6%	100.0%
Louisiana	24.4%	44.6%	11.3%	3.2%	2.3%	2.8%	11.4%	100.0%
Maine	56.6%	16.7%	8.2%	5.5%	4.3%	4.2%	4.5%	100.0%
Maryland	38.7%	15.6%	16.6%	5.8%	5.9%	6.3%	11.2%	100.0%
Massachusetts	44.9%	13.9%	7.4%	12.3%	12.0%	5.9%	3.6%	100.0%
Michigan	44.5%	17.9%	5.9%	12.2%	9.3%	3.5%	6.8%	100.0%
Minnesota	40.6%	20.8%	13.1%	7.5%	7.6%	4.0%	6.4%	100.0%
Mississippi	39.6%	27.1%	11.3%	8.3%	4.3%	2.6%	6.9%	100.0%
Missouri	32.2%	30.5%	14.4%	3.5%	6.0%	4.5%	8.9%	100.0%
Montana	54.1%	0.0%	15.3%	5.9%	6.0%	5.7%	13.0%	100.0%
Nebraska	41.5%	29.7%	8.5%	5.7%	4.1%	4.4%	6.1%	100.0%
Nevada	31.7%	28.2%	14.9%	0.0%	7.3%	0.0%	17.8%	100.0%
New Hampshire	55.8%	0.0%	14.9%	18.0%	3.1%	0.2%	8.0%	100.0%
New Jersey	39.2%	15.9%	10.2%	16.7%	8.6%	3.3%	6.1%	100.0%
New Mexico	16.3%	36.9%	11.4%	4.4%	3.2%	2.9%	24.9%	100.0%
New York	38.4%	24.2%	8.2%	12.2%	6.7%	6.8%	3.4%	100.0%
North Carolina	30.8%	22.7%	16.3%	9.0%	8.8%	5.3%	7.1%	100.0%
North Dakota	36.6%	16.4%	13.5%	4.4%	5.1%	2.4%	21.5%	100.0%
Ohio	38.0%	23.0%	11.3%	5.8%	5.4%	4.3%	12.2%	100.0%
Oklahoma	21.6%	31.9%	10.1%	3.1%	5.2%	7.1%	21.0%	100.0%
Oregon	42.0%	0.0%	9.7%	8.3%	17.4%	9.0%	13.7%	100.0%
Pennsylvania	31.5%	17.2%	13.5%	7.7%	12.4%	4.1%	13.6%	100.0%
Rhode Island	45.7%	21.2%	13.4%	4.0%	9.0%	3.3%	3.4%	100.0%
South Carolina	49.7%	20.3%	10.9%	3.9%	5.7%	2.7%	6.8%	100.0%
South Dakota	44.6%	31.4%	10.5%	3.8%	1.4%	0.0%	8.3%	100.0%
Tennessee	31.5%	30.7%	10.2%	8.7%	6.4%	0.2%	12.3%	100.0%
Texas	43.1%	24.1%	13.4%	0.0%	7.4%	0.0%	12.0%	100.0%
Utah	33.4%	28.8%	15.0%	6.1%	5.1%	6.2%	5.4%	100.0%
Vermont	52.3%	11.2%	16.8%	6.9%	5.1%	3.7%	4.1%	100.0%
Virginia	38.1%	15.1%	20.3%	4.7%	4.2%	4.8%	12.8%	100.0%
Washington	23.5%	46.7%	14.2%	0.0%	10.8%	0.0%	4.8%	100.0%
West Virginia	31.9%	11.6%	23.7%	7.1%	5.2%	2.8%	17.6%	100.0%
Wisconsin	42.7%	20.5%	11.1%	8.5%	7.5%	3.9%	5.8%	100.0%
Wyoming	33.7%	18.9%	3.4%	0.0%	1.3%	0.0%	42.7%	100.0%
Wash., DC	31.6%	12.0%	13.0%	7.1%	4.9%	6.3%	25.3%	100.0%
United States	36.9%	23.5%	12.5%	7.6%	7.1%	3.8%	8.5%	100.0%

Source: E&Y calculations

Appendix Table 3
Composition of State and Local Business Taxes, 1980-2004
(Dollars in Billions)

Business Tax	1980	1985	1990	1995	2000	2004
Property taxes on business property	\$37.6	\$56.9	\$84.5	\$111.3	\$136.5	\$165.1
General sales taxes on business inputs	22.6	37.1	53.5	70.2	94.4	105.0
Corporate income tax	13.4	19.3	23.7	31.7	36.4	34.0
Payroll taxes	5.5	9.1	12.4	15.8	20.9	31.9
Gross receipts taxes	9.0	14.6	18.8	23.6	27.6	34.5
Excise taxes	4.6	7.2	10.6	16.0	20.2	21.6
Business and corporation licenses	2.9	5.3	7.3	11.4	14.8	18.9
Individual income tax on pass-thru business inc.	1.8	2.3	6.7	9.8	15.9	17.2
Other business taxes	7.2	11.8	11.5	13.3	15.8	19.3
Total State and Local Business Taxes	\$104.5	\$163.5	\$229.1	\$303.1	\$382.4	\$447.3

Source: E&Y calculations

Endnotes

¹ 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, presented detailed state-by-state analysis of total state and local business taxes. 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, updated the national estimates to fiscal year 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, presented trends in state and local business taxes nationally from 1980 through fiscal year 2002. Also in State Tax Notes, January 17, 2003.

² 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.

³ 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.

⁴ Cline, Mikesell, Neubig and Phillips, “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.