

Total state and local business taxes

State-by-state estimates for fiscal year 2011
July 2012

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This study was prepared by the Quantitative Economics and Statistics (QUEST) practice 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 LLP's National Tax Practice, located in Washington, DC. QUEST provides quantitative advisory services and products to private and public sector clients that enhance business processes, support regulatory compliance, analyze proposed policy issues and provide litigation support.

COST is a nonprofit trade association based in Washington, 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 non-discriminatory state and local taxation of multijurisdictional business entities.

Executive summary

This study presents state-by-state estimates of the state and local taxes paid by businesses for fiscal year 2011. It is the 10th annual report prepared by Ernst & Young LLP in conjunction with the Council On State Taxation (COST).

Businesses paid \$644 billion in state and local taxes in FY2011. Total state and local business taxes grew by 4.5%, reflecting a 9.8% increase in state business taxes and a 0.8% decrease in local business taxes. In FY2011, business taxes accounted for 45.9% of all state and local taxes. The level of tax collections in FY2011 reflects the positive impact of the economic recovery on businesses and corporate profits, increased production and prices of natural resources subject to state severance taxes, new and expanded taxes levied on health care providers at the state level, and the effects of higher unemployment insurance taxes resulting from continued high unemployment.

The state and local business tax estimates presented in this study reflect tax collections from July 2010 through June 2011 in most states. These include business property taxes, sales and excise taxes paid by businesses on their input purchases, gross receipts taxes, corporate income and franchise taxes, business and corporate license taxes, unemployment insurance taxes, individual income taxes paid by owners of non-corporate (pass-through) businesses, and other state and local taxes that are the statutory liability of business taxpayers.

This year's results reveal both significant lingering effects of the recession on business tax collections and significant variation in the level of state and local taxes paid by businesses across the states relative to economic activity.

Key findings of the study include:

- ▶ After falling by 0.8% in FY2009 and 0.6% in FY2010, state and local business taxes grew \$27.9 billion (4.5%) in FY2011, with total state business taxes increasing by 9.8% and total local business taxes declining by 0.8%.
- ▶ Property taxes on business property decreased by an estimated 1.5% this year, totaling \$244.9 billion in FY2011, or 38.0% of total state and local business taxes. Sales tax on business inputs and capital equipment totaled \$129.7 billion, or 20.1% of business taxes, which is an increase of 5.2% from FY2010. The property tax and a significant portion of sales taxes paid by business are taxes on capital invested within a state.
- ▶ Although the corporate income tax has been the focus of significant debate in a number of state legislatures during recent years, FY2011 collections were \$46.3 billion, only 7.2% of total state and local business taxes. Corporate income tax collections grew by 8.5% in FY2011. Individual income taxes on pass-through business income account for 5.6% of total state and local business taxes and grew by 10.0% in FY2011.

Total state and local business taxes in FY2011

Businesses paid \$644 billion in total state and local taxes in FY2011, as presented in Table 1.¹ This section describes the business taxes in more detail and highlights the key results. The following taxes are included in business tax estimates to the extent each tax is determined to be the statutory liability of businesses and their owners:

- ▶ As shown in Table 1 and Figure 1, property taxes on real, personal and utility property owned by businesses account for the largest share of total state and local business taxes, 38.0% or \$244.9 billion. Note that the estimates do not include payments in lieu of taxes. Property taxes decreased 1.5% in FY2011, after growing 1.3% in FY2010 and 10.5% in FY2009. Typically, the local property tax is a stable source of tax revenue growth for local governments but decreased in FY2011 due to declining property values. Lags in property assessments and limitations on rate increases in some states may also result in low growth in FY2012 property taxes.
- ▶ Sales and use taxes paid by businesses on purchases of inputs, including capital equipment, totaled \$129.7 billion, or 20.1% of all state and local business taxes. Sales and use taxes collected on sales to final consumers are excluded; only the taxes paid on businesses' operating inputs and capital equipment purchases are included in the total business tax estimates.²
- ▶ Corporate income tax collections were \$46.3 billion in FY2011, an increase of 8.5% from FY2010. This increase in corporate income tax receipts in FY2011 follows a decrease of 8.5% in FY2010. Corporate income taxes accounted for 7.2% of total state and local business taxes in FY2011, up from 7.1% in FY2010. Through the first three quarters of FY2012, state corporate income taxes have declined approximately 2%. Note that FY2011 business taxes in Michigan, New Hampshire, Ohio, Texas and Washington that are not based on net income are not included in this category. These non-income business entity taxes totaled \$10.7 billion in FY2011.
- ▶ Employer contributions to unemployment insurance (unemployment taxes) were \$41.2 billion in FY2011, an increase of 27.1% (\$8.8 billion). This increase accounts for nearly one-third of the overall increase in total state and local business taxes in FY2011. As discussed later in this report, state unemployment trust funds have been depleted by the recession, and states are facing large debts to the federal government for loans used to pay unemployment benefits. These large debts are due to the combination of underfunding during the last economic expansion and the severity of unemployment during the latest recession. States have responded to this fiscal pressure by increasing taxable wage bases and contribution rates, resulting in increased effective UI tax rates in 43 states since 2010.
- ▶ Excise taxes paid by business were an estimated \$35.0 billion in FY2011. Excise taxes attributed to business include a portion of motor fuel taxes and other excise taxes, such as taxes on hotel and rental car expenditures by business, as well as health care provider taxes on the revenue of hospitals and other providers of health services. As described later in the report, health care provider taxes have grown rapidly over the past two years in response to increased state Medicaid funding pressures. Total estimated excise taxes, which include health care provider taxes, grew by 14.9% in FY2011. These estimates exclude excise taxes on tobacco, alcoholic beverages, amusements and pari-mutuels, which are allocated entirely to households.
- ▶ Business and corporate license taxes totaled \$37.3 billion, including \$27.2 billion of general business and occupation license taxes and \$10.1 billion of motor vehicle taxes.
- ▶ Individual income taxes paid by owners of pass-through entities (e.g., partnerships, sole proprietorships, limited liability companies and S-corporations) totaled an estimated \$36.3 billion in FY2011. Individual income taxes on pass-through business income were more than three quarters the size of corporate income taxes and represent 5.6% of total state and local business taxes.
- ▶ Taxes on insurance premiums and public utility gross receipts totaled \$46.0 billion in FY2011, an increase of 1.1% due to increased insurance premium tax collections. These taxes are generally based on business gross receipts, and because they are generally levied in lieu of property or corporate income taxes, they are allocated solely to business.
- ▶ State severance taxes grew by 30.9% to \$14.8 billion in FY2011. The increase in severance taxes was \$3.5 billion, or 13% of the overall increase in state and local business taxes. Four states (Alaska, Texas, North Dakota and Wyoming) account for 80% of the increase in severance taxes due to increased production levels and commodity prices.
- ▶ Other business taxes totaled \$12 billion, increasing 5.5% from the prior year.



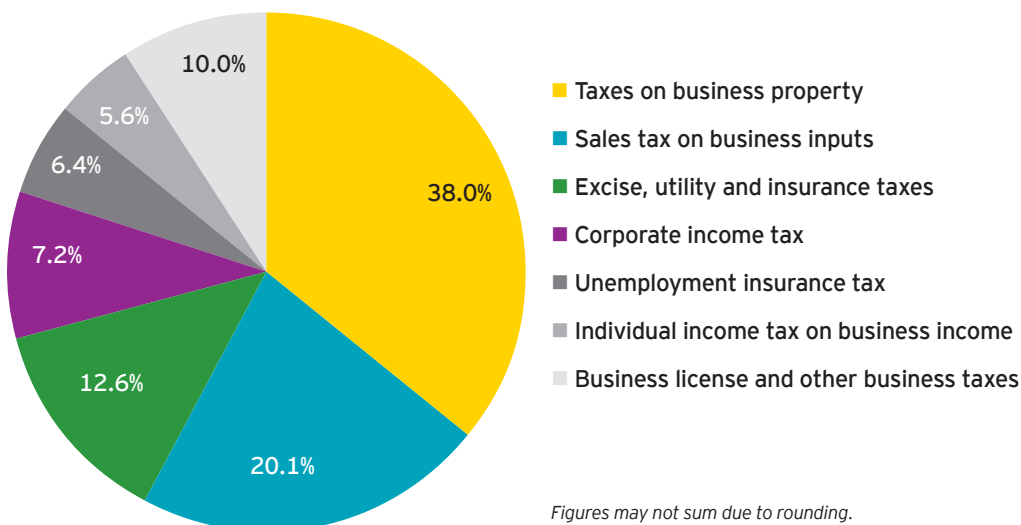
Table 1. Total state and local business taxes – FY2010-FY2011 (US\$billion)

Business tax	2011	2010	2011 % total taxes	One-year change
Property taxes on business property	\$244.9	\$248.6	38.0%	-1.5%
General sales taxes on business inputs	129.7	123.3	20.1%	5.2%
Corporate income tax	46.3	42.7	7.2%	8.5%
Unemployment insurance	41.2	32.4	6.4%	27.1%
Business and corporate license	37.3	37.0	5.8%	0.9%
Individual income tax on business income	36.3	33.0	5.6%	10.0%
Excise taxes	35.0	30.5	5.4%	14.9%
Public utility taxes	28.8	28.9	4.5%	-0.3%
Insurance premiums taxes	17.2	16.6	2.7%	3.6%
Severance taxes	14.8	11.3	2.3%	30.9%
Other business taxes	12.4	11.8	1.9%	5.5%
Total business taxes	\$643.9	\$616.0	100.0%	4.5%

Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

Figure 1. Composition of total state and local business taxes – FY2011



Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

Classifying business taxes

While corporate income taxes remain the most common business entity tax levied by states, many states have experimented with non-income business entity taxes based on a “pure” or modified gross receipts tax base. These taxes have been adopted by three states, Ohio, Michigan and Texas, since 2004, although Michigan repealed its Michigan Business Tax in 2011, effective January 2012. Two other states, Washington and New Hampshire, have levied gross receipts or value-added taxes for many years, and an increasing number of states levy minimum taxes based on gross receipts. As shown in Table 2, these taxes are classified as either

corporate income or corporate license taxes in this study consistent with the U.S. Census Bureau classification. If each of these taxes were combined into a single gross-receipts-based business tax category, the collections would total \$10.7 billion, equal to 23% of reported corporate income taxes reported in Table 1. Not shown in the table are minimum taxes based on gross receipts levied in several states as part of their corporate income tax system. For taxpayers subject to these taxes, the minimum taxes function as gross receipts taxes but are generally included in the corporate income tax statistics.

Table 2. Gross receipts and value-added based business entity taxes in FY2011 (US\$billions)

Business tax	Census Bureau Tax Classification	FY2011	FY2010	One-year change
Michigan – Michigan Business Tax	Corporate income tax/general sales and gross receipts tax*	\$2.1	\$1.9	13.2%
New Hampshire – Business Enterprise Tax	Corporate income tax	0.2	0.2	-0.1%
Ohio – Commercial Activity Tax	Corporate license tax	1.4	1.3	9.7%
Texas – Texas Margin Tax	Corporate license tax	3.9	3.9	2.0%
Washington – Business and Occupation Tax	Sales tax	3.0	2.6	16.9%
Total gross receipts taxes		\$10.7	\$9.8	9.0%

Figures may not sum due to rounding.

**Michigan reports a lower amount to the Census Bureau. Michigan also splits the Michigan Business Tax into two pieces that are reported separately. The corporate income tax component reported by Michigan to Census for FY2011 was \$0.7 billion and the remaining \$1.2 billion is reported as sales tax.*

Source: Individual state tax collection reports.



State versus local business taxes in FY2011

Over the past three economic cycles, state revenue has declined during recessions while local revenue has grown, buoyed by the stability of the local property tax. During FY2011, that trend reversed and local revenues declined by 0.8%, led by a decline in local property tax revenues. Tables 2-A and 2-B provide dollar amounts, percentage distributions and growth rates in FY2011 for total business taxes at the state and local levels of government.

Total state and local business taxes increased by almost \$28 billion in FY2011 after falling in FY2009 and FY2010. However, moderate growth in corporate income and sales taxes coupled with strong growth in other taxes such as severance, unemployment insurance, and health care provider taxes generated strong revenue gains at the state level while local tax collections declined.

At the state level, all types of business taxes increased in FY2011 with the exceptions of public utility taxes and business property taxes, resulting in overall state business tax growth of 9.8%. The overall growth in state business taxes was driven by strong growth in three tax categories: unemployment insurance taxes rose by 27.1%; state severance taxes on natural resource industries increased by 31%; and other selective sales taxes, which includes health care provider taxes, increased by 28%. To put this increase in revenue in perspective, state business taxes grew by an average of \$20 billion or 9% per year, during the economic expansion from FY2002 to FY2007.

The 1.5% decline in local property taxes that occurred during FY2011 is a very unusual event. Data on property tax collections are available back to the 1940s and during that period, annual property tax collections have never declined until FY2011.³ The decline in local property tax collections began in the third quarter of FY2010, but overall FY2010 property tax collections were still up overall compared with FY2009 due to growth in the first, second and fourth quarters of FY2010. Property tax revenue appears to be stable going in to FY2012, with reported collections that are on average less than 1% higher than during the same quarter in FY2011.

Tables 2-A and 2-B illustrate the significant difference in the composition of state and local business taxes. Table 2-A shows the percentage distribution of state taxes by tax type; Table 2-B shows the distribution for local business taxes. While sales taxes on business inputs account for a large share of total business taxes at the state level (29.9%), they account for a relatively small share of local taxes (8.9%). Property taxes are the largest local business tax (77.9% of the total), but a very minor share of state taxes (2.7%).

Table 2A. State business taxes – FY2011 (US\$billion)

State business taxes	State business taxes FY2011	State business taxes FY2010	% total state business taxes	One-year growth, state business taxes
General sales taxes on business inputs	\$101.2	\$95.8	29.9%	5.7%
Unemployment insurance	\$41.2	\$32.4	12.2%	27.1%
Corporate income tax	\$40.5	\$37.1	12.0%	9.3%
Individual income tax on business income	\$36.3	\$33.0	10.7%	10.0%
Excise taxes	\$29.4	\$24.9	8.7%	18.0%
Corporate and business license	\$25.5	\$25.2	7.5%	1.3%
Insurance premiums taxes	\$16.5	\$15.9	4.9%	3.7%
Public utility taxes	\$14.9	\$15.0	4.4%	-0.6%
Severance taxes	\$14.7	\$11.2	4.3%	31.2%
Property taxes on business property	\$9.0	\$9.2	2.7%	-2.1%
Other business taxes	\$9.4	\$8.7	2.8%	7.2%
Total business taxes	\$338.7	\$308.5	100.0%	9.8%

Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

Table 2B. Local business taxes – FY2011 (US\$billion)

Local business taxes	Local business taxes FY2011	Local business taxes FY2010	% total local business taxes	One-year growth, local business taxes
Property taxes on business property	\$235.8	\$239.4	77.9%	-1.5%
General sales taxes on business inputs	\$28.4	\$27.5	8.9%	3.4%
Public utility taxes	\$13.9	\$13.9	4.5%	0.0%
Excise taxes	\$5.6	\$5.5	1.8%	0.8%
Other business taxes	\$21.4	\$21.2	6.9%	0.9%
Total business taxes	\$305.1	\$307.5	100.0%	-0.8%

Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

State-by-state business tax estimates



State-by-state changes in business tax collections

Figure 2 shows the state-by-state change in total state and local business taxes between FY2010 and FY2011.

- ▶ Of the six states with the strongest business tax growth in FY2011, five (North Dakota, Alaska, Wyoming, New Mexico and Oklahoma) levy significant severance taxes. In each state, severance taxes account for more than 10% of total business taxes. In Wyoming, Alaska and North Dakota, severance taxes range from 35% (Wyoming) to 69% (Alaska) of total business taxes. In North Dakota, severance taxes increased from \$391 million in FY2007 to \$1.9 billion in FY2011. In 2006, Alaska adopted a severance tax on net profits, which generated strong growth in its severance tax in FY2011.
- ▶ In many states, unemployment insurance taxes generated a significant share of the overall growth in state and local business taxes over the past fiscal year. Unemployment insurance tax collections in Hawaii, New Mexico, Nebraska and Idaho grew more than 80%.
- ▶ Business tax growth in states hit hardest by the recession continues to be low. Arizona, Florida and Michigan are three of the four states with negative GDP growth since 2007 and are also among the 10 states with the lowest growth in business taxes in FY2011.
- ▶ North Carolina was the only state with negative growth in business taxes in FY2011. State and local business tax collections in North Carolina decreased by 0.2% in FY2011. The decline is largely attributable to a corporate tax collection initiative during FY2010 that generated one-time revenues during that fiscal year; FY2011 business taxes are lower than FY2010 collections due to the end of this initiative.

Table 3 presents business tax collections by tax type and state. Appendix Table A-3 presents the composition by tax type for each of the 50 states. The table shows that states vary widely in the composition of their business tax structures, which has implications for growth and revenue stability in each state.

Figure 2. Change in state and local business taxes by state – FY2010-FY2011

(Percentage change in total state and local business taxes)

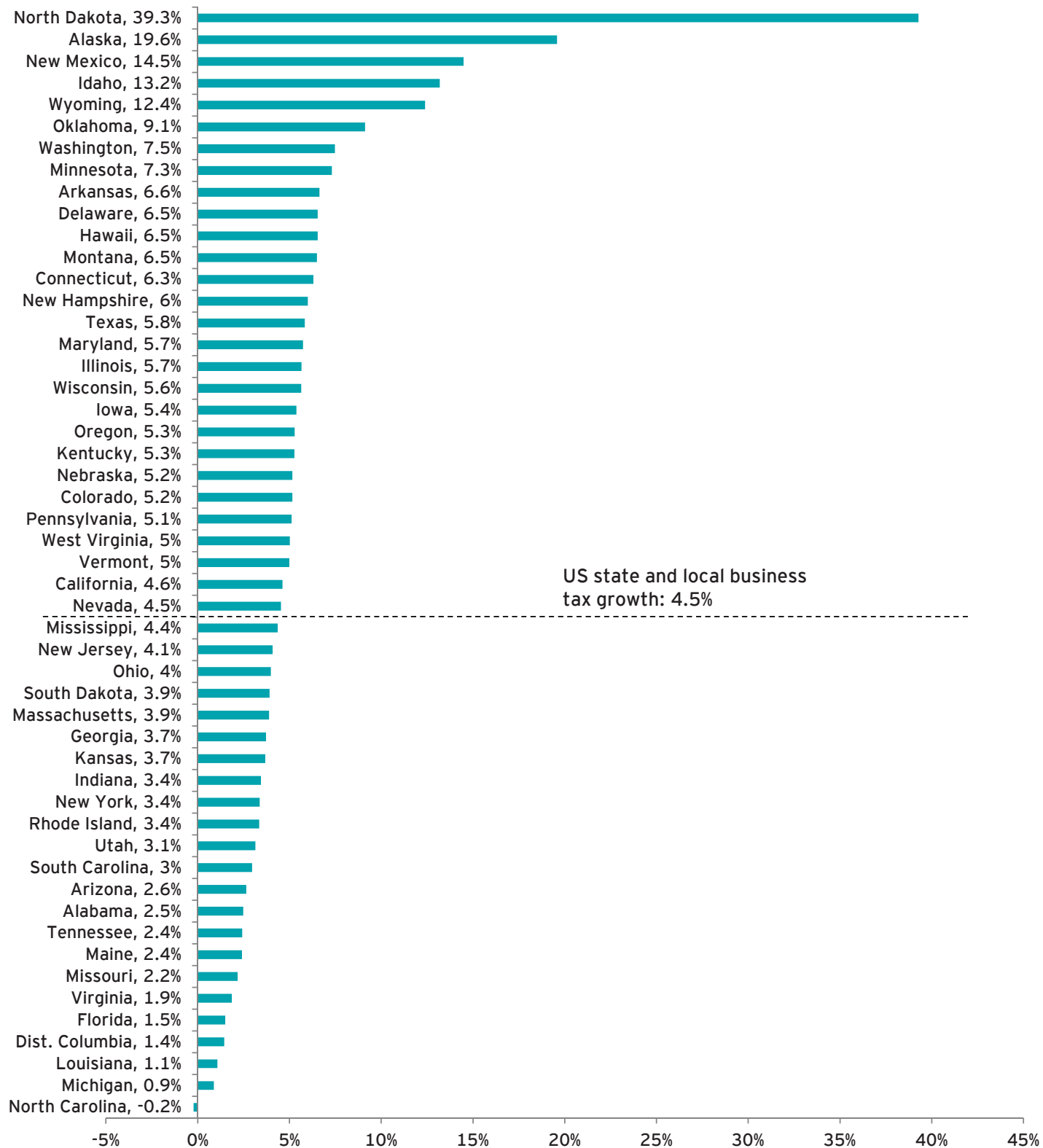


Table 3. State and local business taxes, by major tax type, by state – FY2011 (US\$billion)

State	Property tax	Sales tax	Excise tax	Corporate income	UI tax	Individual income tax on business income	License and other taxes*	Total business tax
Alabama	\$1.8	\$1.4	\$1.6	\$0.3	\$0.5	\$0.3	\$1.0	\$6.9
Alaska	0.8	–	0.1	0.7	0.1	–	4.3	6.1
Arizona	4.9	3.0	1.0	0.6	0.4	0.3	0.6	10.8
Arkansas	0.9	1.1	0.6	0.4	0.4	0.3	0.3	4.0
California	29.8	17.7	11.1	9.6	5.6	8.0	8.1	89.9
Colorado	4.5	2.4	0.9	0.4	0.5	0.8	0.6	10.1
Connecticut	2.3	1.6	0.9	0.7	0.7	0.8	0.4	7.4
Delaware	0.3	–	0.2	0.3	0.1	0.1	1.1	2.2
Florida	20.5	7.1	8.1	1.9	1.4	–	2.3	41.2
Georgia	6.3	3.8	1.7	0.7	0.7	1.1	0.6	14.8
Hawaii	1.0	0.8	0.6	0.1	0.2	0.1	0.1	3.0
Idaho	0.8	0.3	0.2	0.2	0.3	0.2	0.2	2.2
Illinois	12.7	3.7	4.9	1.9	2.1	1.4	1.6	28.3
Indiana	5.3	2.0	0.7	0.7	0.6	0.6	0.3	10.3
Iowa	2.8	1.1	0.4	0.3	0.5	0.5	0.4	6.0
Kansas	2.6	1.5	0.5	0.2	0.4	0.4	0.3	5.9
Kentucky	2.0	1.3	1.3	0.6	0.5	0.5	0.7	6.9
Louisiana	2.5	4.2	1.1	0.2	0.2	0.3	1.1	9.7
Maine	1.7	0.4	0.3	0.2	0.2	0.2	0.2	3.0
Maryland	2.3	1.6	1.8	0.8	0.9	0.9	1.1	9.3
Massachusetts	6.2	1.9	0.9	1.9	1.8	1.5	0.7	14.9
Michigan	6.4	3.1	1.2	0.7	1.6	0.8	0.8	14.6
Minnesota	3.8	2.1	1.7	1.0	1.0	0.8	0.7	11.1
Mississippi	2.0	1.1	0.6	0.4	0.1	0.2	0.5	4.9
Missouri	3.4	2.2	1.1	0.3	0.6	0.6	0.8	9.1
Montana	0.8	–	0.2	0.1	0.1	0.1	0.5	1.9
Nebraska	1.7	0.9	0.4	0.2	0.2	0.3	0.3	3.9
Nevada	2.0	1.3	0.9	–	0.3	–	1.5	6.1
New Hampshire	1.2	–	0.4	0.6	0.2	0.0	0.2	2.6
New Jersey	9.6	3.2	2.0	2.2	2.4	1.2	1.2	21.8
New Mexico	0.7	1.5	0.4	0.2	0.2	0.1	1.0	4.1
New York	22.8	12.5	6.7	9.2	3.0	6.0	3.3	63.5
North Carolina	3.8	3.1	1.9	1.1	0.9	1.1	1.1	12.9
North Dakota	0.6	0.4	0.2	0.2	0.1	0.1	2.0	3.4
Ohio	7.0	4.1	2.6	0.7	1.3	1.3	3.0	20.1
Oklahoma	1.5	1.9	0.5	0.4	0.2	0.4	1.4	6.4
Oregon	2.3	–	0.7	0.5	0.9	0.7	0.9	5.9
Pennsylvania	8.8	3.6	3.4	2.0	2.6	1.7	3.3	25.3
Rhode Island	1.1	0.4	0.3	0.1	0.2	0.1	0.1	2.4
South Carolina	3.4	1.0	0.7	0.2	0.3	0.3	0.8	6.7
South Dakota	0.6	0.6	0.2	0.0	0.1	–	0.1	1.6
Tennessee	3.0	2.9	1.2	1.1	0.7	0.0	1.1	10.0
Texas	25.0	14.1	6.8	–	2.4	–	8.4	56.8
Utah	1.6	0.8	0.5	0.2	0.2	0.3	0.3	3.9
Vermont	0.9	0.1	0.3	0.1	0.1	0.1	0.1	1.6
Virginia	6.3	1.6	2.2	0.8	0.6	0.9	1.5	13.8
Washington	4.1	7.3	2.5	–	1.4	–	1.0	16.3
West Virginia	1.1	0.4	0.7	0.3	0.2	0.2	0.8	3.6
Wisconsin	4.5	1.8	1.2	0.9	1.0	0.5	0.8	10.5
Wyoming	1.1	0.6	0.1	–	0.1	–	1.1	2.9
District of Columbia	1.7	0.3	0.4	0.3	0.1	0.3	0.1	3.3
United States	\$244.9	\$129.7	\$81.0	\$46.3	\$41.2	\$36.3	\$64.5	\$643.9

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances,

*Taxes categorized under 'other' include death and gift taxes, documentary and stock transfer taxes, severance taxes and local gross receipts taxes.

Note: "–" indicates zero collections; "0.0" indicates collections of less than \$50 million.

Comparing state business tax levels

A state's business tax burden can be measured in many ways, including the level of business taxes compared to the level of economic activity that is being taxed and the final incidence of business taxes, after they have been shifted to consumers or owners of factors of production, including workers.⁴ Because state business tax bases include a diverse mixture of receipts – net income, input purchases, payroll, property and other tax bases – a broad measure of a state's overall economic activity should be used to determine the measure of aggregate business tax burden that can be compared across states.

The last column in Table 4 presents state-by-state estimates of the total effective business tax rate (TEBTR) imposed on business activity by state and local governments, which is mapped in Figure 3. The TEBTR is measured as the ratio of state and local business taxes to private-sector gross state product (GSP), the total value of a state's annual production of goods and services by the private sector. The average TEBTR across all states is 5.0%; TEBTRs range from 3.5% in Oregon to 15.4% in Alaska.

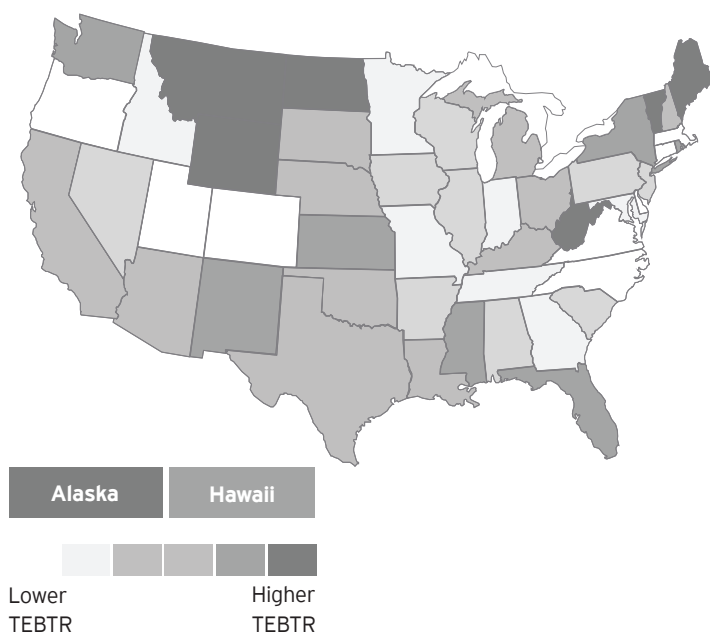
While the business TEBTRs provide a starting point for comparing burdens across states, they do not provide sufficient information to evaluate a state's competitiveness. For example, Indiana has a TEBTR below the national average, but derives 70% of its business tax revenue from sales and property taxes, which are origin-based taxes on business capital that may negatively impact competitiveness. States with the highest TEBTRs tend to be the states with significant severance taxes on natural resources, which is included in the "other taxes" category in Table 3. To the extent that severance taxes are shifted forward in higher prices to consumers, they would not be a "burden" on domestic production and in-state residents but would instead fall on consumers of the natural resource who are typically located outside the state. More generally, a state with an average overall TEBTR may impose relatively high taxes on capital-intensive manufacturers, while imposing relatively low taxes on labor-intensive service industries. As a result, a state with such a tax structure and composition may create disincentives for locating new plant and equipment in the state.

It is also important to note that the TEBTR is a measure of the average tax burden on existing businesses in a state rather than a measure of the marginal tax that would be borne by a company investing in a new facility. For this reason, the TEBTR provides one metric that can be used to evaluate a state's business tax structure, but is not a clear indicator of the competitiveness of a state's business tax system in terms of attracting new investment.

For an analysis of the competitiveness of state and local taxes

on new business investment, see the recent EY/COST study, "Competitiveness of State and Local Business Taxes on New Investment," released in April 2011. That study presents a measure of business tax competitiveness in each state by examining the incremental state and local tax burden on a representative investment in selected industries. North Carolina, for example, has the lowest TEBTR but in a recent analysis of marginal effective tax rates on new mobile capital investments by selected industries, the state's ETR on new investment is higher than the US average.

Figure 3. TEBTR by state, FY2011 (state and local business taxes divided by private sector gross state product in each state)



Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

Table 4. State versus local business taxes and business taxes as a share of private sector GSP, by state – FY2011 (US\$billion)

State	State taxes		Local taxes		State and local taxes		
	Business	Total	Business	Total	Business	Total	% of GSP*
Alabama	\$4.0	\$8.4	\$2.9	\$5.3	\$6.9	\$13.7	4.9%
Alaska	5.4	4.6	0.7	1.5	6.1	6.1	15.4%
Arizona	4.9	10.5	5.9	9.6	10.8	20.1	4.9%
Arkansas	3.1	7.6	0.9	1.8	4.0	9.4	4.5%
California	51.5	109.7	38.4	78.2	89.9	187.9	5.3%
Colorado	3.8	9.0	6.3	10.6	10.1	19.6	4.5%
Connecticut	5.0	12.9	2.4	9.9	7.4	22.9	3.6%
Delaware	1.8	2.9	0.4	0.9	2.2	3.7	3.7%
Florida	15.8	32.4	25.4	42.9	41.2	75.3	6.3%
Georgia	5.8	15.3	9.0	16.6	14.8	32.0	4.2%
Hawaii	1.7	4.9	1.2	1.8	3.0	6.7	5.9%
Idaho	1.3	3.1	0.9	1.5	2.2	4.6	4.6%
Illinois	13.1	31.4	15.2	29.5	28.3	60.9	4.8%
Indiana	4.8	14.3	5.5	8.9	10.3	23.2	4.2%
Iowa	2.7	7.2	3.2	5.2	6.0	12.4	4.7%
Kansas	2.8	6.7	3.1	5.3	5.9	12.0	5.5%
Kentucky	4.5	9.9	2.4	4.3	6.9	14.2	5.1%
Louisiana	4.5	8.9	5.2	7.0	9.7	15.9	4.5%
Maine	1.4	3.6	1.7	2.5	3.0	6.1	6.9%
Maryland	6.3	15.7	3.0	12.2	9.3	27.9	3.8%
Massachusetts	8.5	21.6	6.4	14.1	14.9	35.7	4.3%
Michigan	8.7	24.1	5.9	14.8	14.6	38.8	4.4%
Minnesota	7.5	18.0	3.6	7.4	11.1	25.4	4.5%
Mississippi	2.7	6.4	2.1	2.8	4.9	9.2	6.2%
Missouri	3.8	10.3	5.2	9.8	9.1	20.0	4.2%
Montana	1.2	2.2	0.7	1.2	1.9	3.4	6.0%
Nebraska	1.8	3.9	2.1	3.7	3.9	7.6	4.9%
Nevada	3.3	6.1	2.8	5.0	6.1	11.2	5.3%
New Hampshire	1.5	2.2	1.1	3.2	2.6	5.4	4.6%
New Jersey	12.0	27.9	9.8	27.0	21.8	54.9	5.1%
New Mexico	2.9	4.5	1.3	2.2	4.1	6.7	6.6%
New York	26.9	66.1	36.6	75.8	63.5	141.9	6.2%
North Carolina	8.1	22.3	4.8	11.6	12.9	33.9	3.5%
North Dakota	2.8	2.7	0.6	1.0	3.4	3.7	10.4%
Ohio	11.3	24.7	8.8	22.2	20.1	47.0	4.8%
Oklahoma	3.8	7.2	2.6	4.1	6.4	11.4	5.1%
Oregon	2.9	8.1	3.0	6.0	5.9	14.1	3.5%
Pennsylvania	14.9	32.3	10.4	23.9	25.3	56.2	5.0%
Rhode Island	1.2	2.8	1.1	2.5	2.4	5.2	5.6%
South Carolina	2.6	7.1	4.0	5.9	6.7	13.0	5.0%
South Dakota	0.8	1.3	0.8	1.3	1.6	2.7	4.6%
Tennessee	5.9	11.2	4.1	8.3	10.0	19.5	4.4%
Texas	27.1	40.8	29.7	46.8	56.8	87.6	5.1%
Utah	1.8	5.2	2.1	3.6	3.9	8.8	3.6%
Vermont	1.3	2.6	0.3	0.5	1.6	3.0	7.3%
Virginia	5.2	16.8	8.7	16.2	13.8	33.0	4.0%
Washington	10.4	17.1	5.9	11.5	16.3	28.7	5.5%
West Virginia	2.3	4.8	1.3	1.8	3.6	6.6	6.9%
Wisconsin	5.8	15.1	4.7	10.7	10.5	25.8	4.7%
Wyoming	1.9	2.2	1.0	1.4	2.9	3.6	9.3%
District of Columbia	3.3	5.5	0.0	0.0	3.3	5.5	4.9%
United States	\$338.7	\$742.3	\$305.1	\$601.8	\$643.9	\$1,344.0	5.0%

*Average of FY2010 and FY2011 private-industry GSP. This is the total effective business tax rate (TEBTR) on economic activity occurring within the state.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

State responses to a changing economy

Over the past four years, states have faced significant fiscal challenges. The recession that began in December 2007 resulted in significant declines in state and local tax revenues from which states have largely recovered in the past fiscal year. Although business property, corporate income and sales taxes on business inputs are still the largest business taxes, strong growth in other taxes drove overall growth in state and local business taxes in FY2011. Four taxes that have grown significantly over the past fiscal year are unemployment insurance taxes, health care provider taxes, natural resource severance taxes and individual income taxes on pass-through business income.

Unemployment insurance taxes

At the height of the recession, states borrowed from the federal government to fund unemployment insurance (UI) benefit payments. In 2009 and 2010, many states were reluctant to increase UI contribution rates and accumulated substantial debts owed to the federal government. In FY2010, these debts exceeded \$40 billion. In FY2011, states paid down their UI trust fund debts and began raising contribution rates significantly, either through increases in tax rates or increases in the state taxable wage base.

From 2010 to 2011, 17 states increased their taxable wage base. These tax base increases coupled with increased employer UI contribution rates resulted in increased overall effective tax rates in 43 states. The increase in taxable wage bases and contribution rates resulted in a significant increase in the average employer contribution rate on total wages. In 2010, the average contribution rate (contributions divided by total wages) was 0.80%. By 2011, this average rate increased to 0.97%. For the average business, this translates to a 21% increase in overall unemployment insurance contributions. In 14 states, FY2011 UI taxes increased more than 50% compared to FY2010.

Even with the significant increase in UI contributions and the associated reduction in outstanding state UI trust fund debts, the federal government has reduced federal UI credit rates for 27 states because of outstanding debts owed to the federal government. As shown in Table 5, 10 states account for more than 80% of the total debt.

Table 5. State unemployment insurance trust fund debt as of June 2012 (US\$billion)

State	UI trust fund debt
California	\$8.8
New York	\$2.8
Pennsylvania	\$2.5
North Carolina	\$2.5
Ohio	\$1.8
Indiana	\$1.7
Illinois	\$1.1
New Jersey	\$1.0
Kentucky	\$1.0
Wisconsin	\$0.9
Other states	\$5.1
Total	\$29.3

Figures may not sum due to rounding.

Source: Department of Labor, Employment and Training Administration.



Health care provider taxes

Already facing significant revenue shortfalls following the recession, states were confronted in 2011 with the additional fiscal challenge of rising Medicaid expenditures resulting from expanded coverage requirements and high unemployment, which increased the number of individuals with income low enough to meet Medicaid eligibility requirements. States have responded to increased Medicaid funding requirements by reducing payments to providers while adopting and expanding health care provider taxes on hospitals, nursing homes and certain other medical service providers. Federal matching funds for state funding of Medicaid mean that each dollar of health care provider tax generates more than one dollar of overall state revenue, increasing the incentive for states to adopt these taxes.

As of 2012, 48 states impose taxes on health care providers and the number of states with Medicaid health care provider taxes on hospitals increased from 23 states in 2009 to 39 in 2012.⁵ In FY2011, provider taxes are estimated to be approximately \$10 billion, although this tax category is not tracked separately in U.S. Census Bureau data and is an estimate based on amounts reported by individual states.⁶ These provider taxes, which are generally included in this study in the “excise tax” category, increased by an estimated \$3.7 billion due to states adopting and expanding the taxes in 2010 and 2011.⁷

Severance taxes

Severance taxes are imposed on natural resource industries in 35 states and include taxes on oil, natural gas, mining and other extractors of natural resources. Many states saw their severance tax collections increase significantly in FY2011 due to increases in the level of oil and natural gas production, higher crude oil prices, and increased profitability of the oil and gas industry.

Total state and local severance tax collections grew by 31% from FY2010 to FY2011, an increase of \$3.5 billion. Four states account for 80% of the severance tax increase: Texas, North Dakota and Wyoming each had FY2011 increases in severance tax collections that exceeded 50% while Alaska had a 26% increase in severance taxes that totaled nearly \$900 million.

Taxes on pass-through business income

Taxes on pass-through business income grew by an estimated 10.0% in FY2011. The growth in individual income taxes on business income resulted from higher overall profitability of businesses and an increased number of businesses operating as limited liability companies, partnerships and S-corporations. In several states, business entity taxes that are not based on income also generate taxes on these business entities. These non-income taxes on business entities are shown in Table 2.



Conclusion

Total state and local business taxes increased by 4.2% in FY2011, signaling a return to growth after two fiscal years of declining revenues. In contrast to previous economic cycles, which were marked by stable local property tax collections, the current recovery has been accompanied by declining property taxes. Local governments, which rely significantly on the property tax, are generally unable to diversify their revenue mix and will likely be forced to confront stagnant revenue growth in the near future. At the state level, many of the revenue sources tapped for growth during FY2011 are special purpose taxes on specific industries or used to fund specific activities and may not be sources of long-term revenue growth. As legislators and businesses confront rising Medicaid costs, high unemployment, and continued demands on state and local resources, businesses will need to be active participants in the policy discussion.

Appendix: Supplemental tables

Appendix Table A1. Total state and local business taxes – FY1990-FY2011 (US\$billion)

State and local taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total business taxes*	\$229.4	\$303.2	\$382.4	\$395.3	\$401.8	\$424.2	\$459.9	\$510.9	\$553.3	\$609.6	\$624.6	\$619.5	\$616.0	\$643.9
Individual income taxes on non-business income	99.1	128.3	196.5	209.7	188.0	185.5	197.7	210.5	234.0	254.4	267.9	234.5	224.1	246.5
Other non-business taxes	185.5	244.9	313.7	324.3	336.2	356.5	383.6	408.5	454.8	455.1	473.4	490.3	501.0	513.2
Total state and local taxes	\$514.0	\$676.4	\$892.6	\$929.4	\$926.1	\$966.2	\$1,041.2	\$1,130.0	\$1,242.1	\$1,319.1	\$1,366.0	\$1,344.3	\$1,341.1	\$1,403.5

Composition of state and local taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total business taxes*	44.5%	45.1%	42.8%	43.5%	44.1%	44.8%	44.7%	45.2%	44.5%	46.2%	45.7%	46.1%	45.9%	45.9%
Individual income taxes on non-business income	19.4%	18.7%	22.1%	21.6%	19.5%	18.3%	18.4%	18.6%	18.8%	19.3%	19.6%	17.4%	16.7%	17.6%
Other non-business taxes	36.1%	36.2%	35.1%	34.9%	36.3%	36.9%	36.8%	36.2%	36.6%	34.5%	34.7%	36.5%	37.4%	36.6%
Total state and local taxes	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

Appendix Table A2. Composition of state and local business taxes – FY1990-FY2011 (US\$billion)

Business taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Property tax on business property	\$84.7	\$110.7	\$136.8	\$142.6	\$152.9	\$160.9	\$169.7	\$176.6	\$187.9	\$218.0	\$222.0	\$245.3	\$248.6	\$244.9
General sales and use tax on inputs	\$53.4	\$70.2	\$94.4	\$97.6	\$97.9	\$100.9	\$107.3	\$115.2	\$123.8	\$131.7	\$134.6	\$127.7	\$123.3	\$129.7
Corporate net income	\$23.7	\$31.7	\$36.4	\$35.8	\$28.5	\$31.9	\$34.1	\$43.5	\$53.3	\$61.0	\$59.2	\$46.9	\$42.7	\$46.3
Unemployment insurance tax	\$12.4	\$15.8	\$20.9	\$20.8	\$21.0	\$23.9	\$31.9	\$35.5	\$36.4	\$35.8	\$32.5	\$31.4	\$32.4	\$41.2
Business license tax	\$7.3	\$11.4	\$14.8	\$15.0	\$17.0	\$16.8	\$18.9	\$29.5	\$32.9	\$34.0	\$36.6	\$37.1	\$37.0	\$37.3
Individual income tax	\$6.6	\$9.6	\$15.1	\$16.3	\$14.8	\$14.8	\$17.5	\$30.4	\$33.1	\$35.5	\$37.4	\$34.5	\$33.0	\$36.3
Excise taxes	\$10.6	\$16.0	\$20.1	\$20.2	\$20.8	\$21.9	\$23.4	\$23.9	\$25.1	\$28.5	\$29.8	\$28.8	\$30.5	\$35.0
Public utility tax	\$11.4	\$15.0	\$17.7	\$17.9	\$20.3	\$21.2	\$21.3	\$22.6	\$23.6	\$27.1	\$28.2	\$28.7	\$28.9	\$28.8
Insurance premium tax	\$7.4	\$8.6	\$9.8	\$10.3	\$11.2	\$12.6	\$14.0	\$14.9	\$15.6	\$16.1	\$16.5	\$15.8	\$16.6	\$17.2
Other business taxes	\$11.8	\$14.1	\$16.5	\$18.9	\$17.4	\$19.5	\$21.8	\$18.8	\$21.6	\$21.9	\$27.9	\$23.4	\$23.1	\$27.2
Total business taxes	\$229.4	\$303.2	\$382.4	\$395.3	\$401.8	\$424.2	\$459.9	\$510.9	\$553.3	\$609.6	\$624.6	\$619.5	\$616.0	\$643.9

Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

Appendix Table A3. Distribution of state and local business taxes, by type and state – FY2011

State	Property tax	Sales tax	Excise tax	Corporate income tax	UI tax	Individual income tax on pass-through income	License and other taxes*	Total business taxes
Alabama	26.4%	19.9%	23.4%	4.4%	6.7%	5.0%	14.3%	100.0%
Alaska	13.4%	0.0%	2.0%	11.8%	2.1%	0.0%	70.7%	100.0%
Arizona	45.2%	28.1%	9.6%	5.2%	3.4%	3.1%	5.4%	100.0%
Arkansas	23.0%	28.7%	14.1%	9.5%	9.2%	7.3%	8.4%	100.0%
California	33.1%	19.6%	12.4%	10.7%	6.2%	8.9%	9.0%	100.0%
Colorado	44.5%	23.7%	8.6%	3.8%	5.2%	7.8%	6.4%	100.0%
Connecticut	30.9%	21.7%	11.8%	9.1%	9.9%	11.4%	5.2%	100.0%
Delaware	15.2%	0.0%	10.8%	14.9%	4.4%	5.1%	49.6%	100.0%
Florida	49.8%	17.2%	19.6%	4.5%	3.3%	0.0%	5.6%	100.0%
Georgia	42.5%	25.4%	11.4%	4.5%	4.8%	7.4%	4.0%	100.0%
Hawaii	34.3%	27.5%	19.6%	2.3%	6.8%	4.5%	5.0%	100.0%
Idaho	37.2%	14.9%	9.4%	7.6%	12.5%	9.1%	9.4%	100.0%
Illinois	44.8%	13.0%	17.4%	6.5%	7.5%	5.0%	5.7%	100.0%
Indiana	51.8%	19.6%	7.1%	7.0%	6.0%	6.0%	2.6%	100.0%
Iowa	47.0%	18.3%	7.3%	4.2%	8.9%	8.1%	6.3%	100.0%
Kansas	44.1%	24.6%	8.9%	4.2%	6.3%	6.7%	5.3%	100.0%
Kentucky	28.8%	19.4%	19.2%	8.9%	6.7%	7.1%	9.9%	100.0%
Louisiana	25.7%	43.6%	11.7%	2.0%	2.2%	3.1%	11.7%	100.0%
Maine	55.7%	12.2%	8.8%	6.9%	5.0%	5.9%	5.4%	100.0%
Maryland	24.5%	17.1%	19.2%	8.3%	9.5%	10.0%	11.4%	100.0%
Massachusetts	41.3%	12.9%	6.2%	12.9%	11.9%	9.9%	4.8%	100.0%
Michigan	43.9%	20.9%	8.1%	4.9%	11.0%	5.3%	5.8%	100.0%
Minnesota	34.1%	18.7%	15.3%	9.1%	9.2%	7.1%	6.5%	100.0%
Mississippi	41.8%	22.4%	12.5%	7.2%	2.9%	3.9%	9.4%	100.0%
Missouri	37.8%	24.2%	12.6%	3.6%	6.8%	6.3%	8.7%	100.0%
Montana	44.3%	0.0%	11.7%	6.7%	6.4%	6.7%	24.3%	100.0%
Nebraska	43.3%	22.5%	10.0%	4.0%	5.5%	7.8%	7.0%	100.0%
Nevada	33.2%	22.2%	15.3%	0.0%	5.1%	0.0%	24.2%	100.0%
New Hampshire	47.6%	0.0%	15.0%	22.8%	6.6%	0.4%	7.6%	100.0%
New Jersey	43.9%	14.6%	9.2%	10.2%	11.1%	5.4%	5.6%	100.0%
New Mexico	18.0%	35.1%	9.2%	5.6%	5.9%	3.0%	23.2%	100.0%
New York	35.9%	19.7%	10.6%	14.4%	4.8%	9.4%	5.1%	100.0%
North Carolina	29.6%	23.9%	14.6%	8.4%	6.8%	8.1%	8.6%	100.0%
North Dakota	16.1%	11.1%	5.8%	4.7%	2.2%	2.5%	57.7%	100.0%
Ohio	34.8%	20.7%	13.2%	3.6%	6.5%	6.2%	15.0%	100.0%
Oklahoma	23.9%	29.8%	8.6%	5.5%	3.4%	6.9%	21.8%	100.0%
Oregon	38.9%	0.0%	12.0%	8.8%	14.5%	11.4%	14.4%	100.0%
Pennsylvania	34.8%	14.3%	13.4%	7.8%	10.1%	6.6%	12.9%	100.0%
Rhode Island	46.8%	16.0%	13.1%	6.2%	9.9%	4.8%	3.1%	100.0%
South Carolina	51.5%	14.4%	10.1%	3.2%	4.8%	4.4%	11.6%	100.0%
South Dakota	38.3%	36.6%	10.2%	1.0%	4.4%	0.0%	9.6%	100.0%
Tennessee	29.9%	28.5%	12.2%	10.7%	7.1%	0.4%	11.3%	100.0%
Texas	44.0%	24.9%	12.0%	0.0%	4.3%	0.0%	14.9%	100.0%
Utah	40.5%	21.9%	12.9%	6.4%	4.5%	6.6%	7.3%	100.0%
Vermont	55.4%	8.2%	16.6%	6.6%	5.7%	4.2%	3.3%	100.0%
Virginia	45.2%	11.8%	15.9%	5.8%	4.1%	6.2%	11.1%	100.0%
Washington	25.2%	45.0%	15.1%	0.0%	8.7%	0.0%	6.0%	100.0%
West Virginia	29.7%	9.6%	19.5%	8.4%	5.6%	5.1%	22.0%	100.0%
Wisconsin	42.6%	16.7%	11.0%	8.1%	9.1%	5.2%	7.3%	100.0%
Wyoming	36.7%	19.2%	2.5%	0.0%	3.3%	0.0%	38.2%	100.0%
District of Columbia	51.4%	9.2%	11.7%	10.3%	4.4%	9.7%	3.4%	100.0%
United States	38.0%	20.1%	12.6%	7.2%	6.4%	5.6%	10.0%	100.0%

Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.



Endnotes

¹ The general methodology used to estimate state and local business taxes is described in detail in the Appendix to the EY/COST FY2005 50-State Business Tax study published in March 2006. Note that business tax estimates for prior years have been revised from those published in earlier editions of this study due to feedback from state tax agencies, the use of updated and more detailed information on local business taxes, and refinements to the property tax estimation methodology to reflect the rapid rise in the value of residential property since 2002. All references to business taxes in prior fiscal years refer to the updated estimates included in this study, rather than the previously published estimates.

² A more detailed analysis of state and local sales taxation of business inputs is presented in Robert Cline, John Mikesell, Tom Neubig and Andrew 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.)

³ Based on Ernst & Young LLP Analysis of Bureau of Economic Analysis data from National Income and Product Accounts Table 3.3 State and Local Government Current Receipts and Expenditures.

⁴ For an analysis of the incidence of state and local taxes on business, see Robert Cline, Andrew Phillips, Joo Mi Kim and Tom Neubig, "The Economic Incidence of Additional State Business Taxes," State Tax Notes, Tax Analysts, January 11, 2010.

⁵ National Council of State Legislatures.

⁶ The estimated health care provider taxes are based on amounts reported for FY2011 by selected states rather than U.S. Census Bureau data used elsewhere in the analysis. In several states, health care provider taxes were enacted during FY2011 that will generate revenue in FY2012.

⁷ National Council of State Legislatures.

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