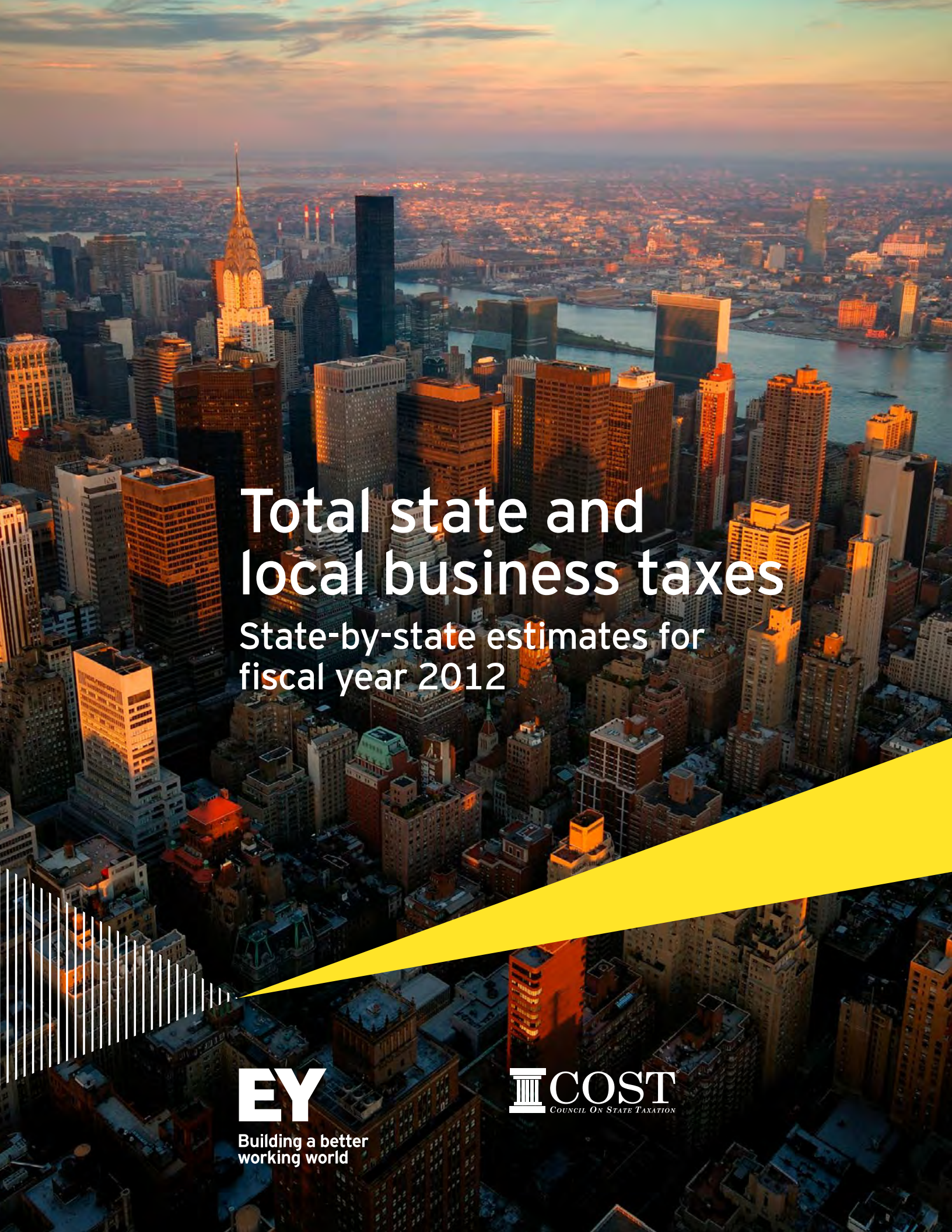


Total state and local business taxes

State-by-state estimates for fiscal year 2012

EY
Building a better working world

COST
Council On State Taxation

The authors

Andrew Phillips is a principal in the Quantitative Economics and Statistics group of Ernst & Young LLP and directs EY's Regional Economics practice. He has an MA in Economics from Johns Hopkins University and a BA in Economics from Emory University.

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

Caroline Sallee is a manager in the Quantitative Economics and Statistics group. She has a Master's degree in Public Policy from the University of Michigan.

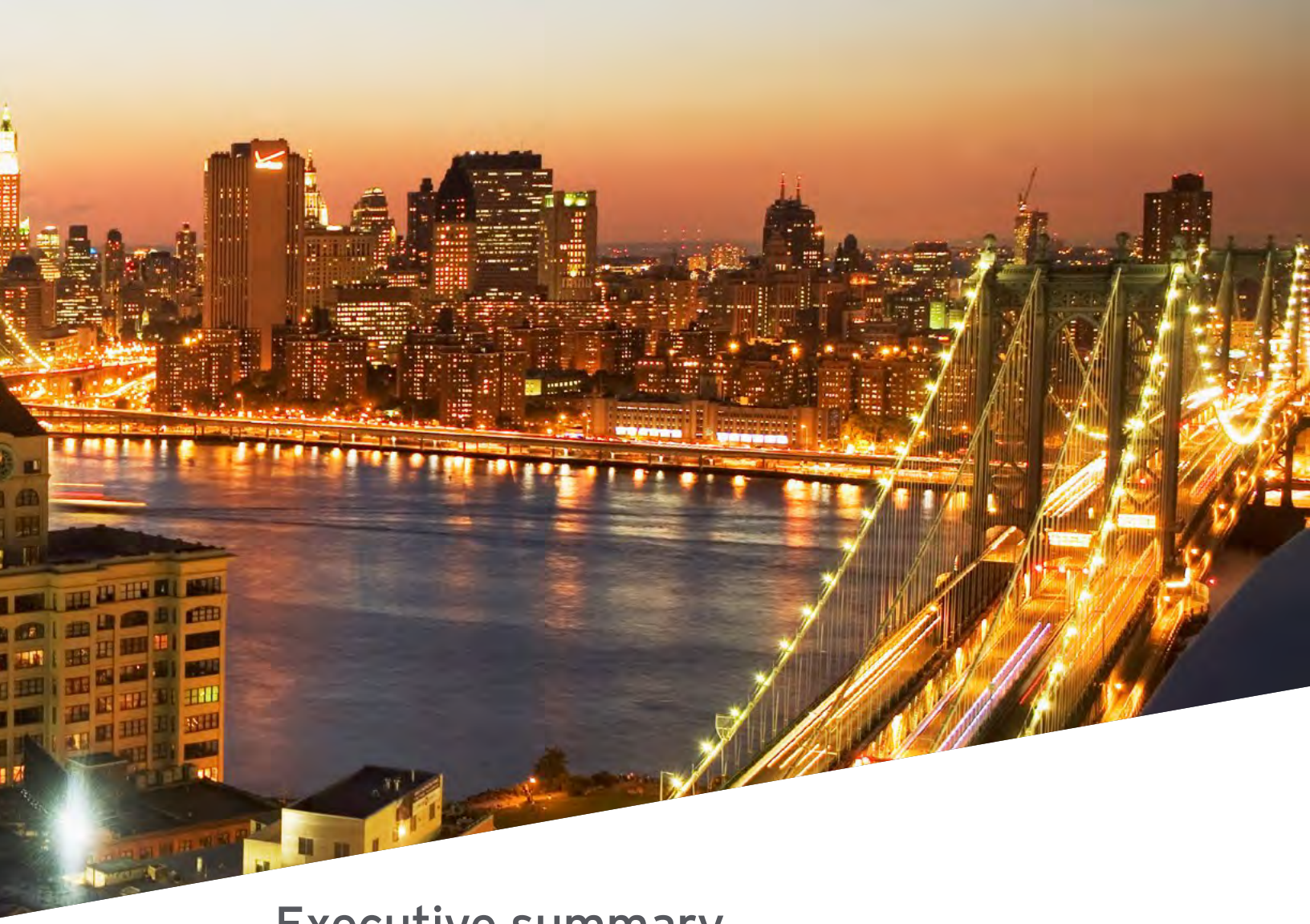
Michelle Klassen is an analyst in the Quantitative Economics and Statistics group. She has a BS in Economics from Virginia Tech.

Daniel Sufranski is an analyst in the Quantitative Economics and Statistics group. He has a BA in Economics and Political Science from Washington University.

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, survey professionals and tax policy researchers within EY'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 nondiscriminatory state and local taxation of multijurisdictional business entities.



Executive summary

This study presents detailed state-by-state estimates of the state and local taxes paid by businesses for FY2012. It is the 11th annual report prepared by EY in conjunction with the Council On State Taxation (COST).

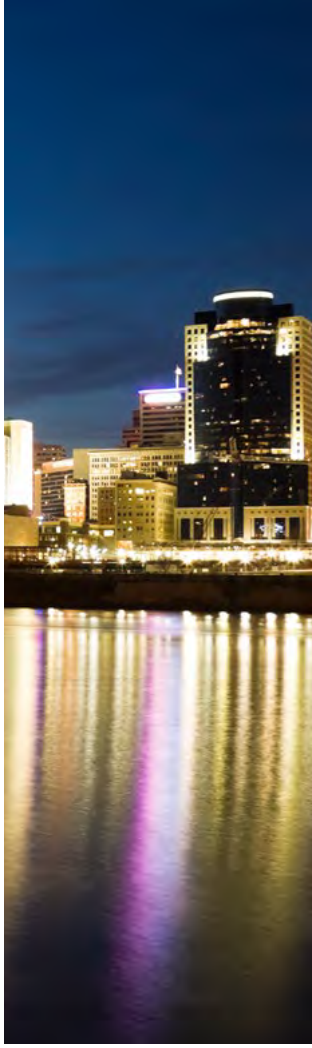
Businesses paid $649 billion in state and local taxes in FY2012, an increase of 3.9% from FY2011. Total state business taxes grew by 5.8% from FY2011, while local business taxes grew by 1.7%. In FY2012, business taxes accounted for 45.2% of all state and local taxes. The level of tax collections in FY2012 reflects the gradual impact of recovery from the recession on business productivity and property values, economic growth related to the natural resource boom and lingering effects of depleted unemployment insurance resources.

The state and local business tax estimates presented in this study reflect tax collections from July 2011 through June 2012 in most states.[1] 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.

Key findings of the study include:

- After falling by 3.4% in FY2009 and 1.1% in FY2010, state and local business taxes grew by 5.7% in FY2011 and 3.9% in FY2012. Total state business taxes increased 5.8% and total local business taxes increased 1.7%.
- Property tax collections on business property remained flat in FY2012, increasing by an estimated 0.1%. Property taxes paid by business totaled $228.7 billion in FY2012, accounting for 35.3% of total state and local business taxes.
- Sales tax on business inputs and capital equipment accounted for 21.2% of state and local taxes paid by businesses in FY2012 and totaled $137.4 billion — an increase of 3.1% from FY2011.
- In FY2012, corporate income tax collections were $49.2 billion, 7.6% of total state and local business taxes. Corporate income tax collections grew by 0.1% in FY2012. Two significant state legislative changes affecting FY2012 collections were the increase in the Illinois corporate income tax rate and Michigan's switch from a combination income and gross receipts tax on business to a new corporate income tax.
- Individual income taxes on pass-through business income account for 5.3% of total state and local business taxes, totaling $34.1 billion in FY2012 which represents growth of 13.7% from FY2011.
- On average, business taxes make up 4.8% of private-sector gross state product (GSP) in a state. Private-sector GSP measures the total value of a state's annual production of goods and services by the private sector. The ratio of business taxes to private-sector GSP ranges from 3.3% in North Carolina to 17.9% in Alaska.
- When comparing the taxes businesses pay to the estimated value of the benefits they receive from governments, businesses are taxed an average of $3.12 for each dollar of estimated government services they receive, if educational spending is assumed to not directly benefit local business. If one-quarter of educational spending is assumed to benefit business, the ratio drops to $1.70 of tax per dollar of government benefits received by business. When half of education spending is assumed to benefit local business, the ratio falls to $1.20 of tax for each dollar of benefits received.

Total state and local business taxes in FY2012



Businesses paid $649 billion in total state and local taxes in FY2012, as presented in Table 1.[2] This section describes the business taxes in more detail and highlights the key results.

- 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, 35.3% or $228.7 billion in FY2012. Property taxes increased 0.1% in FY2012, after declining by 0.9% in FY2011.
- Sales and use taxes paid by businesses on purchases of inputs, including capital equipment, totaled $137.4 billion, or 21.2% 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.[3]
- State and local corporate income tax collections were $49.2 billion in FY2012, an increase of 0.1% from FY2011. This increase in corporate income tax receipts in FY2012 follows an increase of 12.1% in FY2011 and a decrease of 8.4% in 2010. Corporate income taxes accounted for 7.6% of total state and local business taxes in FY2012. The results reflect two significant state legislative changes that affected FY2012: Illinois increased its corporate income tax rate from 7.3% to 9.5% and Connecticut extended a temporary corporate income surcharge and doubled the surtax rate from 10% to 20% for 2012.
- Employer contributions to unemployment insurance (unemployment taxes) were $48.4 billion in FY2012, an increase of 17.5% ($7.2 billion) from FY2011. This increase accounts for 30% of the overall increase in total state and local business taxes in FY2012 and follows a 27% increase in FY2011. States have increased unemployment insurance taxes to restore unemployment trust fund balances depleted during the recession and repay federal government loans used to fund benefit payments. As of June 2013, state outstanding loans from the Federal Unemployment Account totaled more than $21 billion, an $8 billion decrease since June 2012. These large debts are due to the combination of underfunding during the last economic expansion and the severity of unemployment during the latest recession.

Table 1. Total state and local business taxes, FY2011-FY2012, ($billions)

Business tax	FY2011*	FY2012	2012 % total taxes	One-year change
Property taxes on business property	$228.4	$228.7	35.3%	0.1%
General sales taxes on business inputs	133.2	137.4	21.2%	3.1%
Corporate income tax	49.2	49.2	7.6%	0.1%
Unemployment insurance	41.2	48.4	7.5%	17.5%
Business and corporate license	36.2	39.1	6.0%	8.0%
Excise taxes	34.8	35.1	5.4%	0.6%
Individual income tax on business income	30.0	34.1	5.3%	13.7%
Public utility taxes	27.4	27.0	4.2%	-1.3%
Severance taxes	14.6	18.9	2.9%	28.9%
Insurance premium taxes	17.2	17.6	2.7%	2.0%
Other business taxes	12.0	13.3	2.0%	10.7%
Total state and local business taxes	$624.4	$648.8	100.0%	3.9%

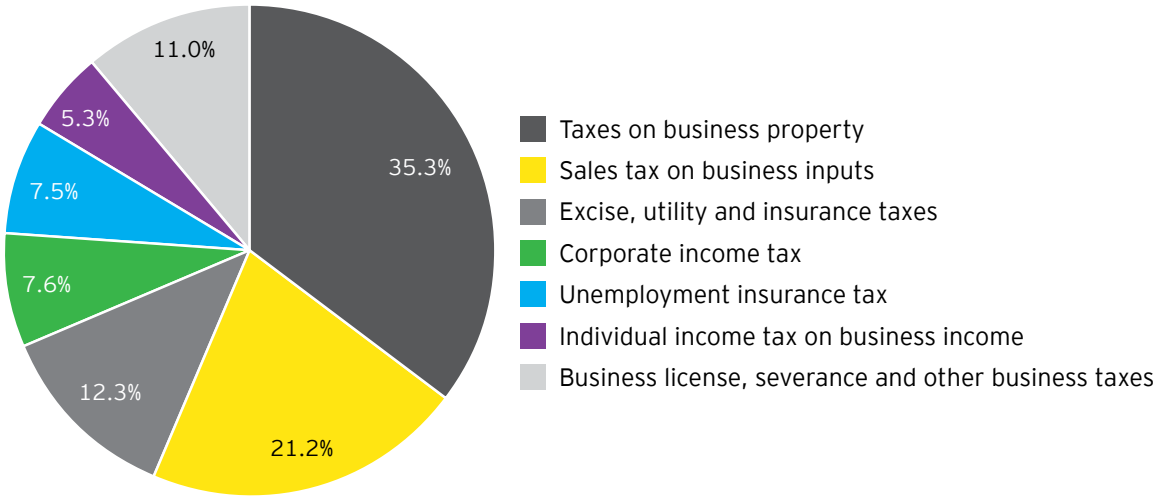
Note: Amounts may not sum due to rounding.

*FY2011 tax estimates are revised from the COST FY2011 study due to newly released data from the U.S. Census Bureau. See Appendix for more information.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

- Excise taxes paid by business were an estimated $35.1 billion in FY2012. 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.
- Taxes on insurance premiums paid by business totaled $17.6 billion in FY2012, an increase of 2.0%. Public utility taxes decreased by 1.3% to $27.0 billion in FY2012. These taxes are generally based on business gross receipts, and because they are often levied in lieu of property or corporate income taxes, they are allocated solely to business.
- Business and corporate license taxes totaled $39.1 billion, including $20.5 billion of general business and occupation license taxes and $8.1 billion of motor vehicle license taxes.
- State and local severance taxes grew by 28.9% in FY2012. The $4.2 billion increase in severance taxes was 17% of the overall increase in state and local business taxes. Four states (Alaska, Texas, North Dakota and Wyoming) account for 89% of the increase in severance 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 $34.1 billion in FY2012. Individual income taxes on pass-through business income represent 5.3% of total state and local business taxes, totaling 70% of the amount of corporate tax collections in FY2012. State and local collections of individual income taxes on pass-through business income grew by 13.7% in FY2012.
- Other business taxes totaled $13.3 billion in FY2012, a 10.7% increase from the previous year.

Figure 1. Composition of total state and local business taxes, FY2012



Note: Figures may not sum due to rounding.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Classifying business taxes

This study generally defines business taxes as those that are the legal liability of businesses. Certain taxes collected by business, such as excise taxes on tobacco and alcohol and sales taxes on household purchases, are not included. In addition, individual income tax on pass through business income is included as a legal tax liability of business owners. The business taxes included in this analysis are:

- Property taxes paid by business on real and personal property. Taxes on income-generating, residential rental property are treated as business taxes.
- General sales taxes paid by businesses on purchases of goods and services used in production. Sales taxes on final goods paid by consumers are not included.
- A portion of excise taxes, such as business' share of motor fuel taxes.
- Corporate income taxes.
- Taxes on insurance premiums and utility gross receipts, which are in some cases levied in lieu of other business entity taxes.
- Individual income taxes on pass-through business income. Taxes withheld on employee earnings are not considered business taxes.
- Unemployment insurance tax paid by employers.
- Business licenses, including general business licenses, specific industry and occupational licenses and commercial motor vehicle licenses.
- Severance taxes on mining, natural gas, oil and other natural resources.

While corporate income taxes remain the most common business entity tax levied by states, within the last decade two states, Ohio and Texas, have adopted non-income business entity taxes based on a "pure" or modified gross receipts tax base. Two other states, Washington and New Hampshire, have levied a gross receipts and value-added tax, respectively, for many years, and an increasing number of states levy minimum taxes based on gross receipts. Michigan's short-lived Michigan Business Tax had a gross receipts component, but this tax was eliminated in favor of a corporate income tax that went into effect midway through FY2012. Michigan lowered business taxes on non-C-corporate businesses with business tax collections declining by almost $1 billion.

As shown in Table 2, taxes levied on a gross receipts base are classified as either corporate income, corporate license or sales tax 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 $10.8 billion, equal to 22% of reported corporate income taxes reported in Table 1. Not shown in the table are minimum taxes based on gross receipts levied as part of state corporate income tax systems. For example, Oregon imposes a minimum tax ranging from $150 to $100,000 depending on the taxpayer's gross receipts. 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 FY2012 ($billions)

Business tax	U.S. Census bureau tax classification	FY2011	FY2012	One-year change
Michigan – Michigan Business Tax	Corporate income tax/ general sales and gross receipts tax*	$2.1	$1.3	-38.3%
New Hampshire – Business Enterprise Tax	Corporate income tax	0.2	0.2	6.0%
Ohio – Commercial Activity Tax	Corporate license tax	1.4	1.6	12.3%
Texas – Texas Margin Tax	Corporate license tax	3.9	4.6	16.1%
Washington – Business and Operation Tax	Sales tax	3.0	3.1	3.9%
Total gross receipts taxes		**$10.7**	**$10.8**	**1.2%**

Note: Figures may not sum due to rounding.

*Michigan eliminated the Michigan Business Tax on January 1, 2012.

Source: Individual state tax collection reports.

State versus local business taxes in FY2012

Between FY2011 and FY2012, both state and local tax revenues grew with state revenue outpacing local revenue in terms of growth. Tables 3-A and 3-B provide dollar amounts, percentage distributions and growth rates in FY2012 for total business taxes at the state and local levels of government.

Total state and local business taxes increased by $24.4 billion in FY2012, after growing by $33.6 billion in FY2011 and falling in FY2009 and FY2010. However, moderate growth in corporate income, general sales taxes on business inputs and business license taxes coupled with strong growth in other taxes such as severance, unemployment insurance and pass-through business income taxes generated strong revenue gains at the state level. Local business tax collections grew more slowly due to a 0.4% increase in the largest local revenue category, property taxes on business property. The modest gain in local taxes was due to strong growth in general sales taxes on business (an increase of 3.0%) and general excise taxes (4.0%), but was countered by the 1.7% decrease in public utility tax revenue. With general sales and property taxes comprising 84.9% of local tax revenue, the large fluctuations in other business taxes (a 13.6% increase) have little impact on the overall growth of local business taxes.

At the state level, all types of business taxes increased in FY2012 with the exceptions of public utility taxes and business property taxes, resulting in overall state business tax growth of 5.8%. The overall growth in state business taxes was driven by strong growth in three tax categories: unemployment insurance taxes, which rose by 17.5%; state severance taxes on natural resource industries that increased by 29.0%; and individual income taxes on business income, which grew by 11.6%. To put this increase in revenue in perspective, state business taxes grew by an average annual compounded growth rate of 8.3% per year during the economic expansion from FY2002 to FY2007.

Table 3-A and 3-B illustrate the significant difference in the composition of state and local business taxes. Table 3-A shows the percentage distribution of state taxes by tax type; Table 3-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 (10.9%). Property taxes are the largest local business tax (74.0% of the total), but a minor share of state taxes (2.5%).

Table 3-A. State business taxes, FY2012 ($billions)

Business tax	State business taxes FY2011	State business taxes FY2012	% total state business taxes	One-year growth, state business taxes
General sales and use tax on inputs	$101.9	$105.0	29.9%	3.1%
Unemployment insurance	41.2	48.4	13.8%	17.5%
Corporate net income	41.8	42.2	12.0%	0.8%
Individual income tax	27.6	30.8	8.8%	11.6%
Excise taxes on business inputs	29.6	29.6	8.4%	0.0%
Business license tax	25.6	26.8	7.6%	4.9%
Severance taxes	14.5	18.8	5.3%	29.0%
Insurance premium tax	16.5	16.7	4.8%	1.4%
Public utility tax	14.9	14.8	4.2%	-1.0%
Property tax on business property	9.2	8.7	2.5%	-5.7%
Other business taxes	9.3	9.7	2.8%	4.3%
Total state business taxes	**$332.1**	**$351.4**	**100.0%**	**5.8%**

Note: Figures may not sum due to rounding.

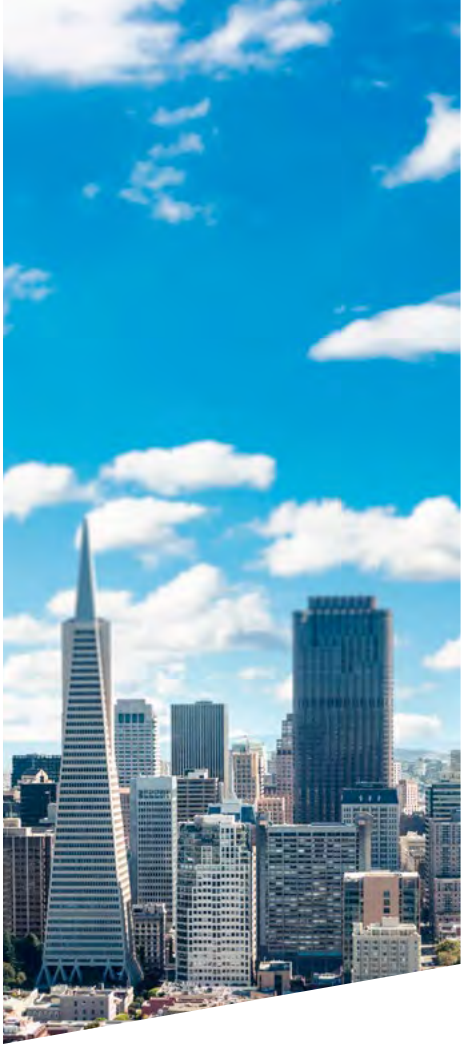
Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Table 3-B. Local business taxes, FY2012 ($billions)

Business tax	Local business taxes FY2011	Local business taxes FY2012	% total local business taxes	One-year growth, local business taxes
Property taxes on business property	$219.2	$220.1	74.0%	0.4%
General sales taxes on business inputs	31.4	32.3	10.9%	3.0%
Public utility taxes	12.5	12.3	4.1%	-1.7%
Excise taxes on business inputs	5.2	5.4	1.8%	4.0%
Other business taxes	24.0	27.3	9.2%	13.6%
Total local business taxes	$292.3	$297.3	100.0%	1.7%

Note: Figures may not sum due to rounding.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.



State-by-state business tax collections

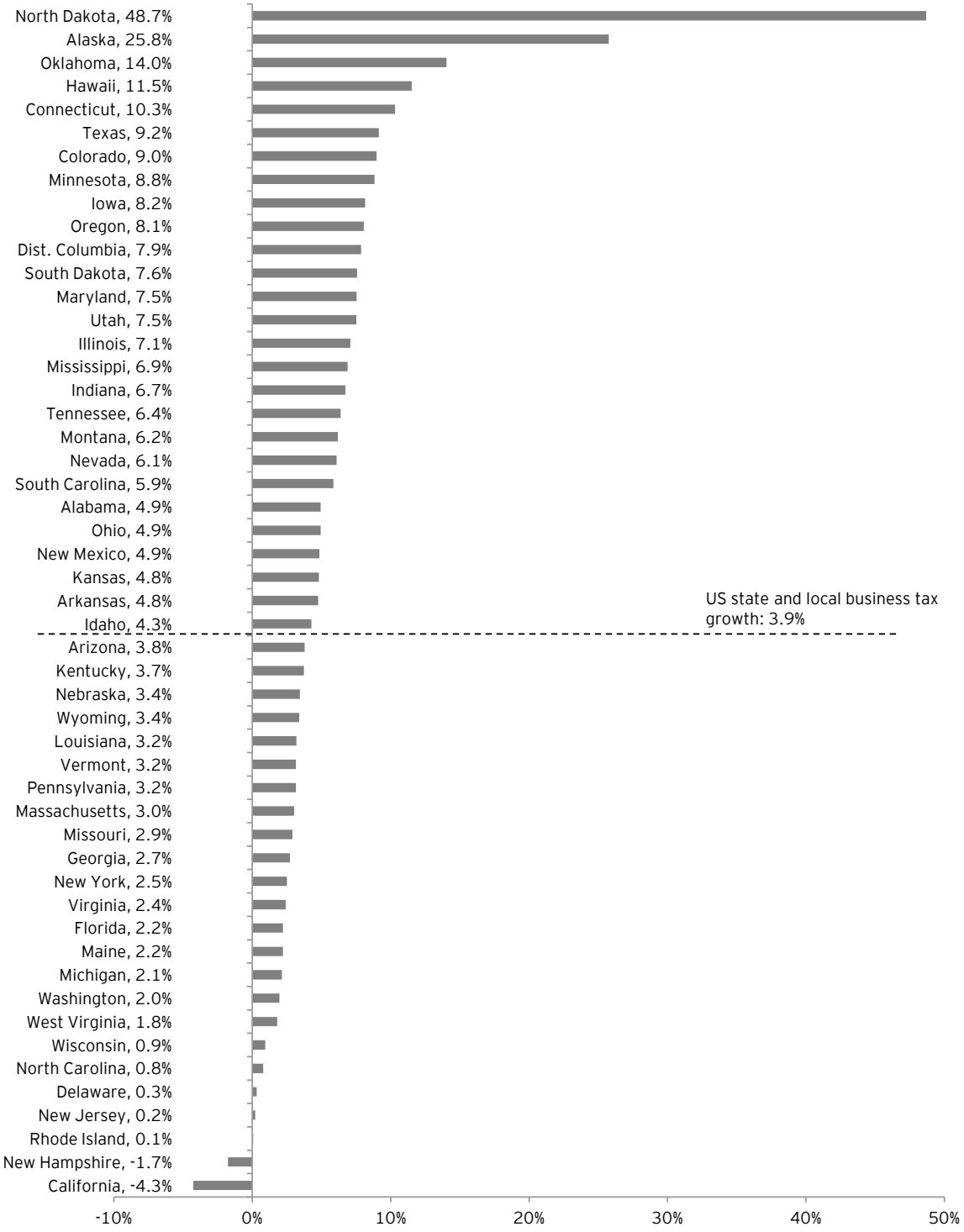
Figure 2 shows the state-by-state change in total state and local business taxes between FY2011 and FY2012. Several states had major tax reforms or benefited from natural resource booms that affected FY2012 tax collections. States with significant tax changes in FY2012 are described below; a number of other states enacted minor and technical changes.

- Several states reported severance taxes as the main source of growth in business tax revenue. North Dakota's revenue from severance taxes increased almost 70% between FY2011 and FY2012, from $1.9 billion to $3.2 billion. Alaska's collections from severance taxes increased 37% from $4.2 billion in FY2011 to $5.8 billion in FY2012.
- Corporate income tax collections remained flat between FY2011 and FY2012. Some states such as Illinois and Connecticut increased tax rates and expanded tax bases. Illinois increased its individual income tax rate from 3% to 5% and its total corporate tax rate from 7.3% to 9.5%. Connecticut extended a temporary corporate income tax surcharge on larger businesses (annual gross income over $100 million) until 2013 and doubled the surcharge from 10% to 20% for 2012 and 2013. Connecticut also increased marginal individual income tax rates and the number of brackets. The top marginal corporate tax rate in Connecticut increased from 6.5% to 6.7%. Other states reduced taxes on business income in FY2012. Michigan eliminated the Michigan Business Tax and replaced it with a 6% tax on C-corporation income, reducing business tax collections by $1 billion. Delaware reduced tax rates on gross receipts across all industries by 3 percentage points in 2012. New Jersey adopted single sales factor apportionment, which reduced its corporate income tax collections in FY2012 by an estimated $19 million.
- 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 grew 18% between FY2011 and FY2012. Unemployment taxes in Hawaii grew by 49% while in Oklahoma they more than doubled.
- Growth in business sales tax collections was tempered by the expiration of temporary tax increases enacted during the recession. California allowed its temporary sales tax rate increase to expire at the end of FY2011, lowering the rate from 8.25% to 7.25%. In North Carolina, a temporary 1 percentage point increase in the sales tax rate and a temporary income tax surcharge expired.

Table 4 presents business tax collections by tax type and state. The results show that states vary widely in the composition of their business tax structures, producing implications for revenue growth and stability in each state. Appendix Table A-3 presents the percentage composition by tax type for each of the 50 states and the District of Columbia.

Figure 2. Change in state and local business taxes by state, FY2011-FY2012

(Percentage change in total state and local business taxes)



Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Table 4. State and local business taxes, by major tax type and state, FY2012 ($billions)

	Property tax	Sales tax	Excise tax including public utilities and insurance	Corporate income	Unemployment insurance tax	Individual income tax on business income	License and other taxes*	Total business taxes
Alabama	$1.7	$1.4	$1.6	$0.4	$0.5	$0.3	$1.1	$7.0
Alaska	0.9	-	0.1	0.7	0.2	-	5.9	7.8
Arizona	4.7	4.2	1.1	0.6	0.4	0.3	0.5	12.0
Arkansas	1.1	1.2	0.5	0.4	0.4	0.3	0.3	4.2
California	25.7	16.4	9.2	7.9	6.2	6.4	8.6	80.5
Colorado	5.1	2.8	0.9	0.5	0.9	0.7	0.8	11.7
Connecticut	2.1	1.8	1.2	0.6	0.8	0.8	0.3	7.7
Delaware	0.3	-	0.2	0.3	0.1	0.1	1.1	2.2
Florida	16.0	7.1	7.6	2.0	1.9	-	2.5	37.2
Georgia	5.7	4.0	1.4	0.6	0.8	0.9	0.6	13.9
Hawaii	0.9	0.9	0.6	0.1	0.3	0.1	0.2	3.2
Idaho	0.8	0.3	0.2	0.2	0.3	0.2	0.2	2.3
Illinois	12.1	4.2	4.9	3.5	2.9	1.5	1.7	30.8
Indiana	5.1	2.1	0.8	1.0	0.8	0.7	0.3	10.7
Iowa	2.8	1.2	0.3	0.4	0.7	0.6	0.4	6.3
Kansas	2.4	1.7	0.5	0.3	0.4	0.4	0.3	6.1
Kentucky	1.9	1.4	1.4	0.7	0.5	0.5	0.7	7.0
Louisiana	2.7	4.5	1.0	0.3	0.2	0.3	1.4	10.5
Maine	1.5	0.4	0.3	0.2	0.2	0.2	0.2	3.0
Maryland	2.4	1.7	2.0	0.9	1.0	1.0	0.9	9.8
Massachusetts	5.9	2.0	1.0	2.0	1.9	1.1	0.8	14.6
Michigan	5.9	3.1	1.2	0.6	1.8	0.6	0.8	14.1
Minnesota	3.7	2.2	2.0	1.1	1.3	0.8	0.8	11.9
Mississippi	1.9	1.1	0.6	0.4	0.3	0.2	0.5	5.0
Missouri	3.0	2.4	0.7	0.4	0.7	0.6	0.9	8.6
Montana	0.8	-	0.2	0.1	0.2	0.1	0.5	1.9
Nebraska	1.6	0.9	0.4	0.2	0.2	0.3	0.3	4.0
Nevada	1.8	1.6	0.9	-	0.4	-	1.4	6.1
New Hampshire	1.1	-	0.4	0.5	0.2	0.0	0.2	2.4
New Jersey	8.5	3.2	2.1	1.9	2.8	1.1	1.1	20.8
New Mexico	0.7	1.6	0.4	0.3	0.2	0.1	0.9	4.3
New York	21.7	13.3	6.7	10.9	3.2	6.3	3.2	65.2
North Carolina	3.6	2.9	1.9	1.2	1.0	1.0	1.1	12.7
North Dakota	0.5	0.6	0.2	0.2	0.1	0.1	3.3	5.0
Ohio	5.8	4.3	2.6	0.3	1.5	1.4	3.3	19.2
Oklahoma	1.5	2.3	0.7	0.4	0.5	0.5	1.4	7.4
Oregon	2.4	-	0.9	0.5	1.0	0.6	0.9	6.3
Pennsylvania	7.8	3.8	3.5	2.2	3.0	1.6	3.0	24.9
Rhode Island	1.0	0.4	0.3	0.1	0.2	0.1	0.1	2.3
South Carolina	3.2	1.1	0.7	0.3	0.5	0.3	0.9	6.9
South Dakota	0.6	0.6	0.2	0.1	0.0	-	0.2	1.7
Tennessee	2.8	3.0	1.4	1.2	0.8	0.0	1.4	10.6
Texas	26.9	16.4	7.1	-	2.6	-	10.2	63.1
Utah	1.4	0.8	0.6	0.3	0.3	0.3	0.3	3.9
Vermont	0.9	0.1	0.3	0.1	0.1	0.1	0.1	1.6
Virginia	5.5	1.6	2.1	0.8	0.7	0.7	1.7	13.2
Washington	4.0	7.4	2.5	-	1.5	-	1.0	16.4
West Virginia	1.1	0.4	0.7	0.2	0.2	0.2	0.9	3.7
Wisconsin	4.2	1.7	1.1	0.9	1.2	0.6	0.7	10.4
Wyoming	1.1	0.7	0.1	-	0.1	-	1.1	3.0
District of Columbia	1.7	0.3	0.5	0.4	0.2	0.3	0.2	3.6
United States	$228.7	$137.4	$79.7	$49.2	$48.4	$34.1	$71.3	$648.8

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

*License taxes include gross receipts taxes levied in Ohio and Texas plus general business licenses. "Other taxes" include death and gift taxes, documentary and stock transfer taxes, severance taxes and local gross receipts taxes.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances

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 and local 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 5 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 4.8%; TEBTRs range from 3.3% in North Carolina to 17.9% 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 nearly 75% 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 this analysis. 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.[5]

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 2011 Ernst & Young LLP/COST study, *Competitiveness of State and Local Business Taxes on New Investment*. 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.

Table 5. State versus local business taxes and business taxes as a share of private sector gross state product, by state, FY2012 ($billions)

State	State		Local		State and local		Business taxes as a % of GSP*
	Business taxes	Total taxes	Business taxes	Total taxes	Business taxes	Total taxes	
Alabama	$4.2	$9.6	$2.9	$5.4	$7.0	$15.0	4.9%
Alaska	6.9	7.2	0.9	1.4	7.8	8.7	17.9%
Arizona	5.9	13.4	6.1	10.1	12.0	23.5	5.2%
Arkansas	3.4	8.7	0.8	1.9	4.2	10.6	4.5%
California	45.4	118.6	35.1	68.8	80.5	187.4	4.5%
Colorado	4.3	11.2	7.4	12.6	11.7	23.8	5.0%
Connecticut	5.5	16.2	2.2	9.1	7.7	25.3	3.6%
Delaware	1.8	3.5	0.4	0.8	2.2	4.3	3.6%
Florida	16.6	34.9	20.6	33.9	37.2	68.8	5.6%
Georgia	5.7	17.4	8.3	15.5	13.9	32.9	3.8%
Hawaii	2.0	5.8	1.2	1.9	3.2	7.7	6.3%
Idaho	1.4	3.7	0.9	1.4	2.3	5.1	4.5%
Illinois	15.9	39.3	14.8	28.6	30.8	67.9	5.0%
Indiana	5.2	16.5	5.6	10.3	10.7	26.8	4.2%
Iowa	3.2	8.5	3.2	5.3	6.3	13.8	4.7%
Kansas	3.0	7.8	3.0	5.1	6.1	13.0	5.3%
Kentucky	4.5	11.0	2.5	4.7	7.0	15.7	5.0%
Louisiana	4.7	9.2	5.8	8.1	10.5	17.3	4.6%
Maine	1.4	4.0	1.5	2.3	3.0	6.2	6.6%
Maryland	6.5	18.1	3.3	14.1	9.8	32.2	4.0%
Massachusetts	8.5	24.7	6.1	13.2	14.6	38.0	4.1%
Michigan	8.6	25.8	5.4	13.5	14.1	39.3	4.0%
Minnesota	8.3	21.8	3.6	7.2	11.9	29.1	4.6%
Mississippi	3.0	7.2	2.0	2.7	5.0	9.9	6.2%
Missouri	3.9	11.5	4.7	9.0	8.6	20.5	3.9%
Montana	1.2	2.6	0.7	1.1	1.9	3.7	5.9%
Nebraska	1.9	4.6	2.1	3.8	4.0	8.4	4.8%
Nevada	3.6	7.2	2.5	4.5	6.1	11.7	5.1%
New Hampshire	1.4	2.4	1.0	2.8	2.4	5.3	4.2%
New Jersey	12.0	30.3	8.8	23.8	20.8	54.1	4.8%
New Mexico	2.9	5.3	1.4	2.4	4.3	7.7	6.5%
New York	26.9	74.8	38.3	77.5	65.2	152.3	6.2%
North Carolina	8.1	23.7	4.6	11.1	12.7	34.8	3.3%
North Dakota	4.4	5.7	0.7	1.1	5.0	6.8	13.3%
Ohio	11.4	27.5	7.8	22.0	19.2	49.5	4.4%
Oklahoma	4.5	9.3	2.9	4.8	7.4	14.1	5.6%
Oregon	3.1	9.7	3.2	6.2	6.3	15.9	3.6%
Pennsylvania	14.6	35.9	10.2	24.5	24.9	60.4	4.7%
Rhode Island	1.2	3.1	1.0	2.2	2.3	5.2	5.2%
South Carolina	2.8	8.6	4.1	6.1	6.9	14.6	5.0%
South Dakota	0.9	1.6	0.8	1.3	1.7	2.9	4.6%
Tennessee	6.6	12.7	4.0	8.1	10.6	20.9	4.4%
Texas	30.8	51.2	32.3	51.4	63.1	102.6	5.2%
Utah	2.0	6.1	1.9	3.3	3.9	9.5	3.6%
Vermont	1.4	2.9	0.3	0.4	1.6	3.3	7.3%
Virginia	5.2	18.9	8.0	14.8	13.2	33.6	3.8%
Washington	10.6	19.1	5.8	11.3	16.4	30.4	5.3%
West Virginia	2.2	5.6	1.5	1.9	3.7	7.5	6.4%
Wisconsin	5.9	15.9	4.4	10.0	10.4	25.9	4.5%
Wyoming	2.0	2.7	1.0	1.5	3.0	4.1	9.1%
District of Columbia	3.6	6.4	0.0	0.0	3.6	6.4	5.0%
United States	$351.4	$849.2	$297.3	$585.0	$648.8	$1,434.2	4.8%

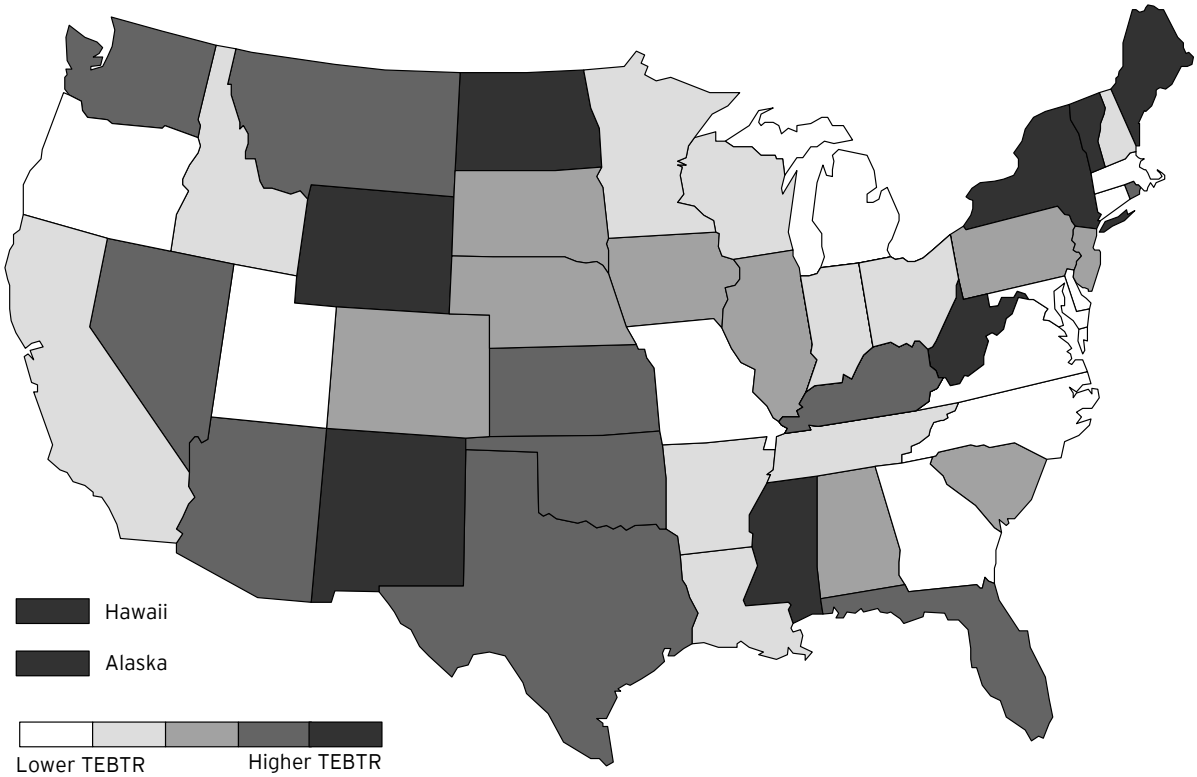
Note: Amounts may not sum due to rounding.

*Average of FY2011 and FY2012 private-industry GSP. This is the total effective business tax rate (TEBTR) on economic activity occurring within the state.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Figure 3. Total effective business tax rate (TEBTR) by state, FY2012

(State and local business taxes divided by private sector gross state product in each state)



Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Table 5 summarizes the share of taxes paid by business in each state. Business taxes accounted for 45.2% of total state and local taxes in FY2012. Business taxes accounted for a smaller share of state taxes (41.4%) than local taxes (50.8%). The share of local taxes paid by business is higher than the state share because the property tax, which accounts for more than 70% of total local tax collections, is paid 52% by business, while state governments rely heavily on the individual income tax, which is allocated primarily to households.

The business share of total state and local taxes has remained relatively stable over the past decade, as shown in Appendix Table A-1. Since 2007, the business share has decreased from 45.7% to 45.2%.

A high share of total state and local taxes paid by business does not necessarily translate into a high effective business tax rate on economic activity. States without individual income taxes generally derive a larger share of their total tax revenue from business taxes, even though business taxes in these states may not be significantly higher than average. For instance, 61.5% of Texas taxes are paid by business compared to 45.2% nationwide (36% higher than average), but the TEBTR in Texas is 5.2% compared to the US average of 4.8% (only 8% higher than average). This suggests that while Texas collects a larger-than-average share of its taxes from business, its overall level of taxes may be relatively low. In fact, Texas collects 11% less in total taxes per employee than the US average.

A similar situation occurs in Delaware, where 51% of taxes are paid by business (13% above average) but the TEBTR is 3.6%, (25% below average). In the case of Delaware, the high business share is due to the significance of the corporation license tax, which generates a significant share of total state and local tax revenue due to the significant number of businesses incorporated in Delaware.

Table 6. Business share of total state and local taxes, FY2012

State	Business share of state taxes	Business share of local taxes	Business share of total state and local taxes
Alabama	43.4%	53.6%	47.1%
Alaska	95.7%	59.6%	89.7%
Arizona	43.9%	60.7%	51.1%
Arkansas	39.2%	40.7%	39.5%
California	38.3%	51.0%	43.0%
Colorado	38.7%	58.2%	49.1%
Connecticut	33.8%	24.2%	30.4%
Delaware	53.1%	42.3%	51.0%
Florida	47.6%	60.6%	54.0%
Georgia	32.6%	53.3%	42.4%
Hawaii	34.3%	64.3%	41.6%
Idaho	38.6%	61.4%	44.9%
Illinois	40.5%	51.9%	45.3%
Indiana	31.4%	53.9%	40.1%
Iowa	37.3%	60.1%	46.1%
Kansas	38.7%	58.7%	46.7%
Kentucky	41.1%	51.9%	44.4%
Louisiana	50.7%	72.4%	60.8%
Maine	35.8%	68.2%	47.6%
Maryland	35.8%	23.6%	30.5%
Massachusetts	34.5%	46.1%	38.6%
Michigan	33.5%	40.1%	35.8%
Minnesota	38.1%	49.3%	40.9%
Mississippi	41.3%	76.1%	50.6%
Missouri	34.3%	51.8%	42.0%
Montana	47.6%	60.6%	51.5%
Nebraska	41.4%	55.5%	47.8%
Nevada	49.5%	55.7%	51.9%
New Hampshire	59.4%	35.5%	46.5%
New Jersey	39.7%	36.9%	38.5%
New Mexico	54.5%	57.2%	55.3%
New York	36.0%	49.5%	42.8%
North Carolina	34.1%	41.5%	36.5%
North Dakota	76.8%	60.3%	74.1%
Ohio	41.7%	35.4%	38.9%
Oklahoma	48.8%	59.8%	52.6%
Oregon	32.2%	51.1%	39.5%
Pennsylvania	40.7%	41.8%	41.2%
Rhode Island	40.5%	47.0%	43.2%
South Carolina	33.2%	67.3%	47.3%
South Dakota	56.0%	57.9%	56.9%
Tennessee	51.6%	49.4%	50.8%
Texas	60.2%	62.9%	61.5%
Utah	33.3%	56.7%	41.6%
Vermont	47.2%	63.1%	49.3%
Virginia	27.6%	54.5%	39.4%
Washington	55.5%	51.5%	54.0%
West Virginia	40.1%	75.7%	49.2%
Wisconsin	37.2%	44.3%	39.9%
Wyoming	74.1%	70.7%	72.9%
District of Columbia	55.8%	0.0%	55.8%
United States	41.4%	50.8%	45.2%

Note: District of Columbia taxes are treated as state taxes in this analysis.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

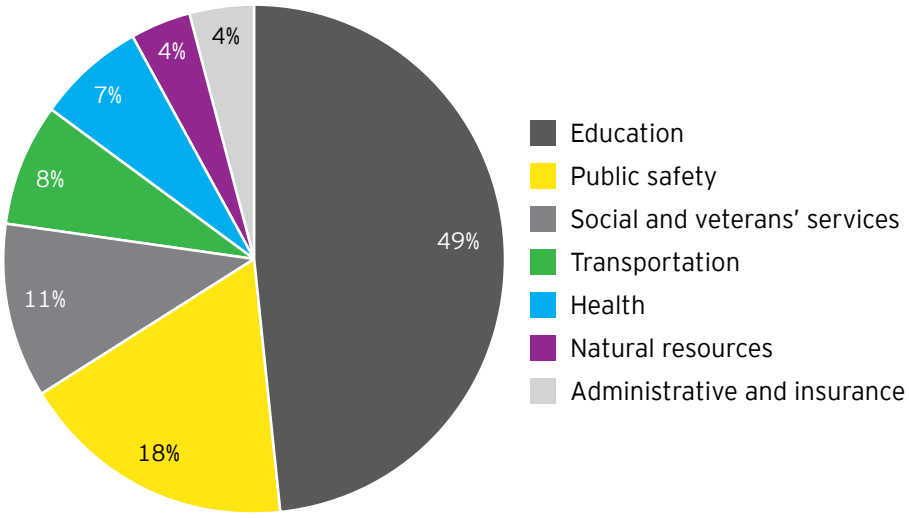
Governmental benefits received by businesses versus taxes paid

This study provides estimates of business taxes in each state and expresses business taxes as an effective tax rate on private sector economic activity (TEBTR). Another way to evaluate the level of business taxes compares the estimated value of the benefits businesses receive from government services to the amount of business taxes paid. If this condition holds true, businesses are "getting what they pay for" from government services funded by business taxes. This section presents a comparison of business taxes to the estimated benefits businesses receive from state and local government services.

Figure 4 shows total estimated state and local spending by category net of user charges and other non-tax revenue for FY 2012. Using a methodology developed by economists at the Federal Reserve Bank of Chicago, expenditures in the major categories shown in Figure 4 were allocated between households and businesses.[6] Certain expenditures, such as health and human services, were assigned entirely to households while other categories, such as police, fire and highway infrastructure costs, were split evenly between businesses and households. The tax-benefit ratio was calculated by dividing business taxes in each state by estimated government expenditures benefiting business.

An important determinant of the tax-benefit ratio for businesses is the allocation of educational expenditures between households and businesses since educational spending is 49% of total state and local expenditures. Economic theory suggests that educational benefits accrue principally to individuals since improved productivity of an educated workforce results in higher wages paid to workers. However, business owners can benefit from an educated workforce if the returns they receive as owners of capital increase with additional education. This could occur because workers do not completely capture productivity gains in higher wages or an educated workforce improves the productivity of capital (e.g., an educated or trained worker may know how to use machines in production more efficiently, resulting in fewer breakdowns or work stoppages). A review of the literature finds that a 1% increase in the share of workers with a college education in a city increases output by 0.5 to 0.6 percentage points.[7] If businesses are able to capture some or all of the additional productivity from increased education, they are deriving benefits from this type of government spending.

Figure 4. Net state and local spending by category, FY2012 ($billions)



Note: Figures may not sum due to rounding.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

An educated workforce also creates social benefits that increase business profits. For example, increasing education may reduce property crime, which in turn lowers business costs and increases the return to capital. One estimate of the social returns of an educated workforce is that social benefits, in the form of lower government spending for police services, incarceration costs and welfare payments, are equal to 14% to 26% of the private return of education (higher wages) that accrues to individuals.[8]

Since the benefit of education to households and businesses is unknown, and the tax-benefit ratio is sensitive to this assumption, this analysis presents a range of estimates for the share of educational expenditures that benefit local business: 0%, 25% and 50%.[9]

Table 7 and Figure 5 summarize the results using the three educational share assumptions for FY2012. The table and the figure refer to a "benefit ratio," which is calculated as the taxes paid by businesses per dollar of estimated benefits received by business. Assuming that education spending does not directly benefit local business, the ratio of business taxes paid to business services received by business is 3.1, indicating that businesses are taxed $3.12 for each dollar of government services they receive. The ratio of taxes to expenditures benefiting business drops to 1.7 when one-quarter of education spending is assumed to benefit business and 1.2 when half of education spending is assumed to benefit local business. Under these three educational assumptions, the business share of total state and local government expenditures is 16% with zero educational benefit, 29% with one-quarter of educational spending benefiting businesses and 42% if half of educational expenditures are assumed to benefit business.

Wyoming, Alaska and North Dakota have the highest tax-benefit ratios due to the states' severance taxes. In these states, the ratio of business taxes to expenditures benefiting local businesses averages 8.9 assuming education benefits households only. Ten additional states have tax-benefit ratios above 4.0, assuming educational expenditures do not benefit business, while the remaining states have tax-benefit ratios between 2.0 and 4.0 with this assumption.

If educational expenditures are split between households and businesses, the tax-benefit ratios are fairly similar across states, with all states except Wyoming, Alaska and North Dakota having tax-benefit ratios between 0.7 and 1.7. Educational expenditure as a share of total expenditure varies across states. In most states, educational expenditures make up one-third to one-half of total expenditures, but state educational expenditure shares range from a low of 27% of total expenditures in the District of Columbia to a high of 84% in Wyoming.

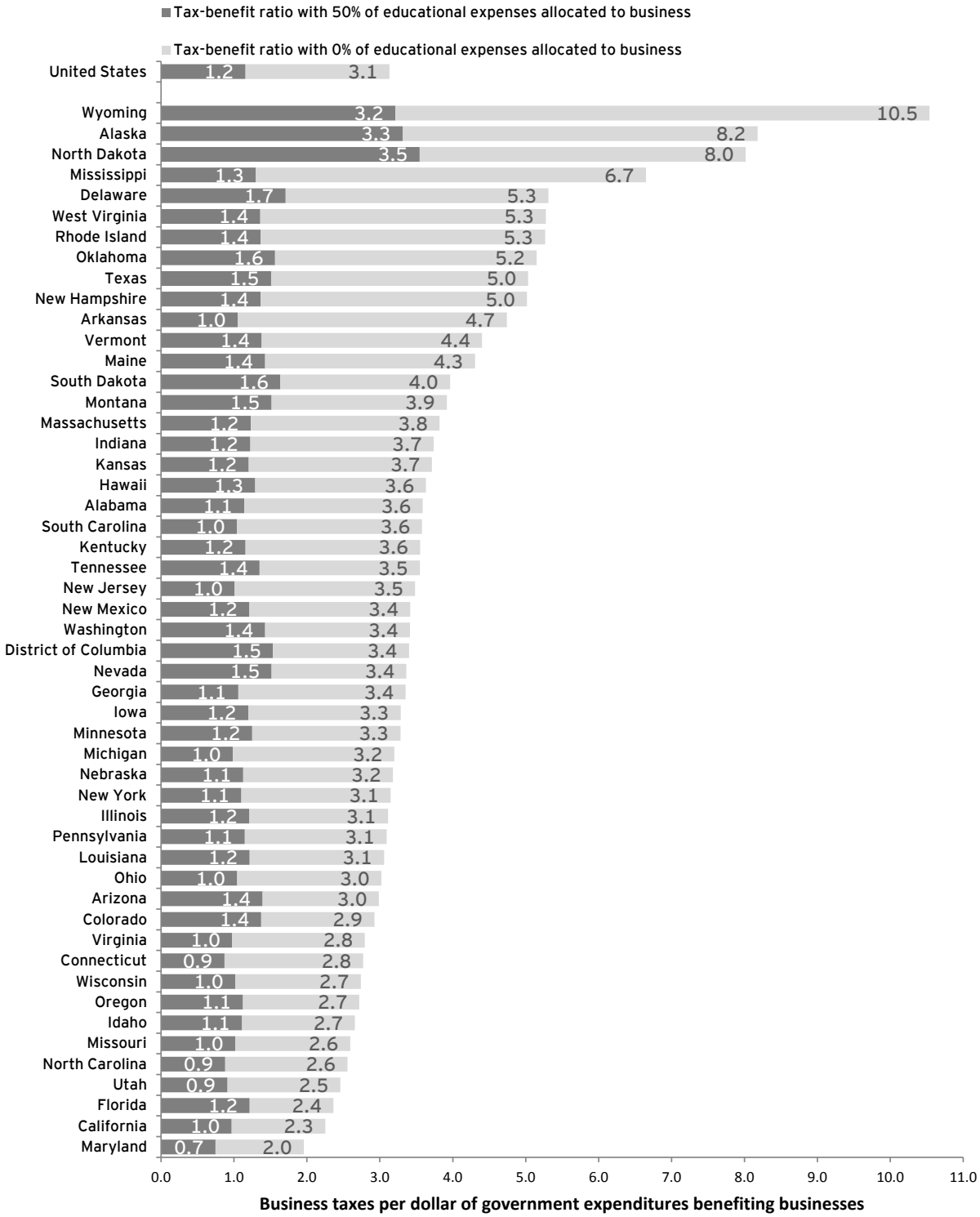
Table 7. Business taxes per dollar of government expenditures benefiting businesses, FY2012 ($billions)

State	State and local business taxes	0% of education spending benefiting business		25% of education spending benefiting business		50% of education spending benefiting business	
		Total state and local spending benefiting business	Business taxes per dollar of government spending benefiting business	Total state and local spending benefiting business	Business taxes per dollar of government spending benefiting business	Total state and local spending benefiting business	Business taxes per dollar of government spending benefiting business
Alabama	$7.0	$2.0	$3.6	$4.1	$1.7	$6.2	$1.1
Alaska	7.8	0.9	8.2	1.6	4.7	2.3	3.3
Arizona	12.0	4.0	3.0	6.3	1.9	8.6	1.4
Arkansas	4.2	0.9	4.7	2.4	1.7	4.0	1.0
California	80.5	35.7	2.3	59.4	1.4	83.2	1.0
Colorado	11.7	4.0	2.9	6.3	1.9	8.5	1.4
Connecticut	7.7	2.8	2.8	5.8	1.3	8.9	0.9
Delaware	2.2	0.4	5.3	0.9	2.6	1.3	1.7
Florida	37.2	15.7	2.4	23.2	1.6	30.6	1.2
Georgia	13.9	4.2	3.4	8.7	1.6	13.2	1.1
Hawaii	3.2	0.9	3.6	1.7	1.9	2.5	1.3
Idaho	2.3	0.9	2.7	1.5	1.6	2.1	1.1
Illinois	30.8	9.9	3.1	17.6	1.7	25.4	1.2
Indiana	10.7	2.9	3.7	5.8	1.8	8.8	1.2
Iowa	6.3	1.9	3.3	3.6	1.8	5.3	1.2
Kansas	6.1	1.6	3.7	3.3	1.8	5.0	1.2
Kentucky	7.0	2.0	3.6	4.0	1.7	6.0	1.2
Louisiana	10.5	3.4	3.1	6.1	1.7	8.7	1.2
Maine	3.0	0.7	4.3	1.4	2.1	2.1	1.4
Maryland	9.8	5.0	2.0	9.1	1.1	13.2	0.7
Massachusetts	14.6	3.8	3.8	7.9	1.9	11.9	1.2
Michigan	14.1	4.4	3.2	9.4	1.5	14.3	1.0
Minnesota	11.9	3.6	3.3	6.6	1.8	9.5	1.2
Mississippi	5.0	0.8	6.7	2.3	2.2	3.8	1.3
Missouri	8.6	3.3	2.6	5.9	1.5	8.5	1.0
Montana	1.9	0.5	3.9	0.9	2.2	1.3	1.5
Nebraska	4.0	1.3	3.2	2.4	1.7	3.6	1.1
Nevada	6.1	1.8	3.4	2.9	2.1	4.0	1.5
New Hampshire	2.4	0.5	5.0	1.1	2.1	1.8	1.4
New Jersey	20.8	6.0	3.5	13.3	1.6	20.6	1.0
New Mexico	4.3	1.2	3.4	2.4	1.8	3.5	1.2
New York	65.2	20.7	3.1	40.0	1.6	59.3	1.1
North Carolina	12.7	5.0	2.6	9.7	1.3	14.4	0.9
North Dakota	5.0	0.6	8.0	1.0	4.9	1.4	3.5
Ohio	19.2	6.4	3.0	12.4	1.6	18.4	1.0
Oklahoma	7.4	1.4	5.2	3.1	2.4	4.7	1.6
Oregon	6.3	2.3	2.7	4.0	1.6	5.6	1.1
Pennsylvania	24.9	8.0	3.1	14.9	1.7	21.7	1.1
Rhode Island	2.3	0.4	5.3	1.0	2.2	1.7	1.4
South Carolina	6.9	1.9	3.6	4.3	1.6	6.7	1.0
South Dakota	1.7	0.4	4.0	0.7	2.3	1.0	1.6
Tennessee	10.6	3.0	3.5	5.4	2.0	7.8	1.4
Texas	63.1	12.5	5.0	27.2	2.3	41.9	1.5
Utah	3.9	1.6	2.5	3.0	1.3	4.3	0.9
Vermont	1.6	0.4	4.4	0.8	2.1	1.2	1.4
Virginia	13.2	4.7	2.8	9.2	1.4	13.6	1.0
Washington	16.4	4.8	3.4	8.2	2.0	11.5	1.4
West Virginia	3.7	0.7	5.3	1.7	2.2	2.7	1.4
Wisconsin	10.4	3.8	2.7	7.0	1.5	10.2	1.0
Wyoming	3.0	0.3	10.5	0.6	4.9	0.9	3.2
District of Columbia	3.6	1.1	3.4	1.7	2.1	2.3	1.5
United States	648.8	207.1	3.1	383.6	1.7	560.0	1.2

Note: Figures may not sum due to rounding.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Figure 5. Business taxes per dollar of government expenditures benefiting businesses, FY2012



Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government finances.

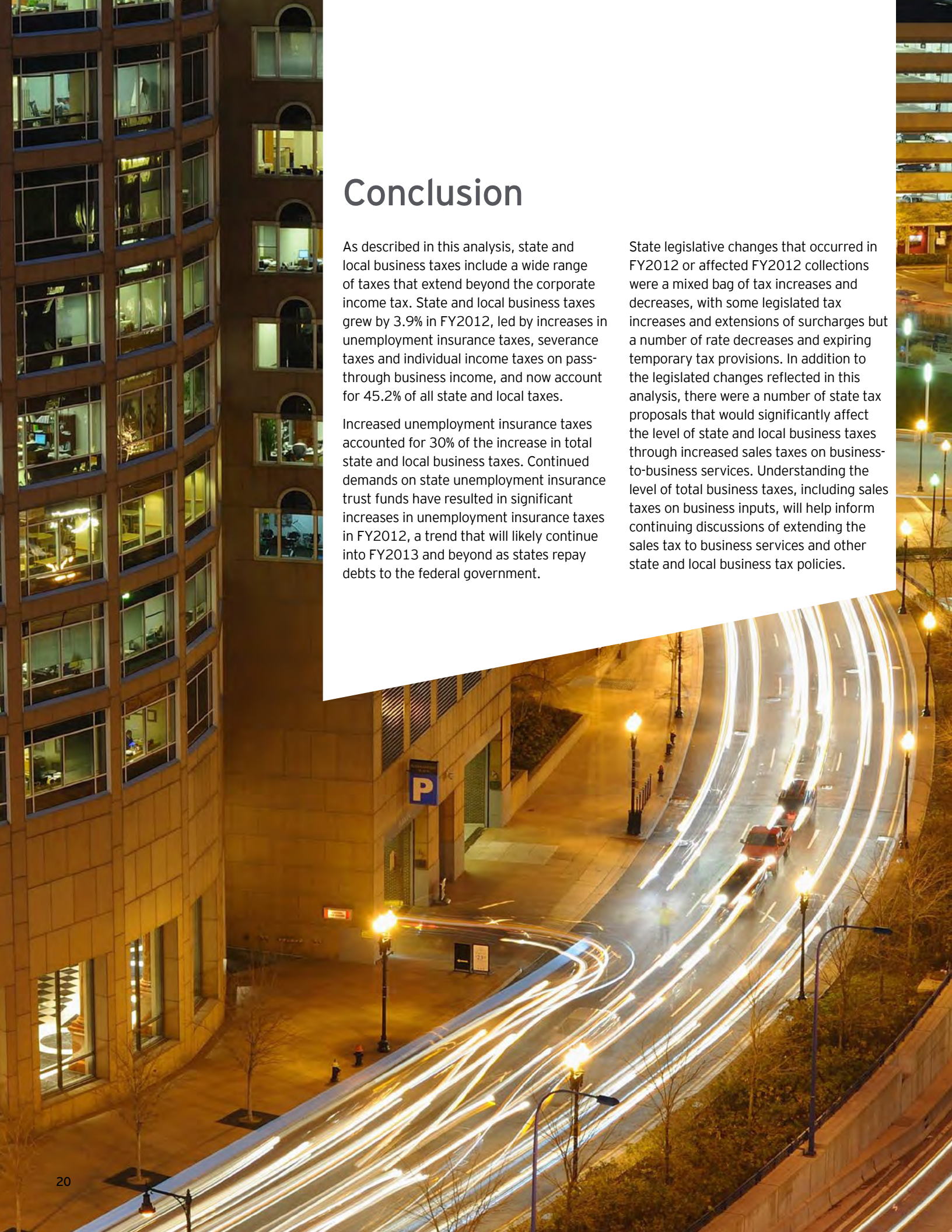
Informing the state tax policy debate

The state and local business tax estimates in this report provide information that should be of direct interest to state legislators as they consider major changes in business tax policy. For example, one of the most unexpected state tax policy developments in 2013 has been the number of proposals, introduced primarily by governors, to extend state sales and use taxes to a broad range of services and other items purchased primarily by businesses. These sales tax base-broadening proposals are key components of tax reform proposals that would significantly reduce, or eliminate, income taxes on individuals and businesses. Legislative bills to expand the sales tax base to include services or reduce exemptions have been debated in Louisiana, Minnesota, Nebraska and Ohio.[10]

These bills would fundamentally alter the structure of the retail sales tax. Analyses of these proposals show that expanding the sales tax base to services is fundamentally a proposal to extend the sales tax to business-to-business sales. Revenue estimates for the proposals find that the business share of the additional tax collections from sales tax base broadening may be as high as 80% to 85% of the total sales tax increases. The additional sales taxes on business input purchases range from $1 billion to $2 billion a year in each of the four states.

This study estimates that business paid 44% ($138 billion) of all state and local sales taxes collected in FY2012. Because businesses would pay a large percentage of the sales tax increase, the business share of total sales taxes would increase significantly under these proposals. It is this substantial increase in the business share of the retail sales tax that has generated strong opposition to the reform proposals from the business community. The result so far in the 2013 legislative sessions is that the proposals to extend the sales tax to services have not advanced in Nebraska, Louisiana and Minnesota, states where the governors have withdrawn support for the proposals. In Ohio, the legislature did not include the provision in the enacted bill.

The FY2012 business tax estimates also provide information relevant for evaluating recent or proposed state tax changes related to the taxation of pass-through business income on individual income tax returns. Kansas completely eliminated the state's individual income tax on business income beginning in 2013. The Missouri legislature recently adopted a 50% deduction for business income reported on individual income tax returns, but the bill was vetoed by the governor. A similar provision was recently enacted in Ohio. This study's estimates of individual income taxes on business income and corporate income taxes in Kansas indicate that the reduction in taxes from eliminating the tax on pass-through income exceeds total corporate income taxes collected. These changes will lower total business taxes and increase the share collected from C-corporations relative to pass-through entities.



Conclusion

As described in this analysis, state and local business taxes include a wide range of taxes that extend beyond the corporate income tax. State and local business taxes grew by 3.9% in FY2012, led by increases in unemployment insurance taxes, severance taxes and individual income taxes on pass-through business income, and now account for 45.2% of all state and local taxes.

Increased unemployment insurance taxes accounted for 30% of the increase in total state and local business taxes. Continued demands on state unemployment insurance trust funds have resulted in significant increases in unemployment insurance taxes in FY2012, a trend that will likely continue into FY2013 and beyond as states repay debts to the federal government.

State legislative changes that occurred in FY2012 or affected FY2012 collections were a mixed bag of tax increases and decreases, with some legislated tax increases and extensions of surcharges but a number of rate decreases and expiring temporary tax provisions. In addition to the legislated changes reflected in this analysis, there were a number of state tax proposals that would significantly affect the level of state and local business taxes through increased sales taxes on business-to-business services. Understanding the level of total business taxes, including sales taxes on business inputs, will help inform continuing discussions of extending the sales tax to business services and other state and local business tax policies.

Appendix: Supplemental tables

Appendix Table A-1. Total state and local business taxes, FY2000-FY2012 ($billions)

State and local taxes	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Total business taxes	$367.2	$379.1	$387.0	$409.4	$442.4	$480.5	$548.5	$603.0	$618.2	$597.2	$589.2	$624.4	$648.8
Individual income taxes on non-business income	192.9	205.7	184.3	181.8	193.8	215.0	239.9	260.6	273.9	244.5	233.7	254.1	279.9
Other taxes	332.4	344.6	354.7	375.0	405.0	434.5	453.6	455.5	473.8	474.3	480.4	495.6	505.6
Total state and local taxes	**$892.6**	**$929.4**	**$926.1**	**$966.2**	**$1,041.2**	**$1,130.0**	**$1,242.1**	**$1,319.1**	**$1,366.0**	**$1,316.1**	**$1,304.8**	**$1,375.2**	**$1,434.2**

Composition of state and local taxes	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Total business taxes	41.1%	40.8%	41.8%	42.4%	42.5%	42.5%	44.2%	45.7%	45.3%	45.4%	45.3%	45.4%	45.2%
Individual income taxes on non-business income	21.6%	22.1%	19.9%	18.8%	18.6%	19.0%	19.3%	19.8%	20.1%	18.6%	17.9%	18.5%	19.5%
Other taxes	37.2%	37.1%	38.3%	38.8%	38.9%	38.5%	36.5%	34.5%	34.7%	36.0%	36.8%	36.1%	35.3%
Total state and local taxes	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Figures may not sum due to rounding.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Appendix Table A-2. Composition of state and local business taxes, FY2000-FY2012 ($billions)

Business tax	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Property tax on business property	$136.8	$142.6	$152.9	$160.9	$169.7	$176.6	$187.9	$218.0	$222.0	$229.6	$230.2	$228.4	$228.7
General sales and use tax on inputs	94.4	97.6	97.9	100.9	107.3	115.2	123.8	131.7	134.6	128.6	125.3	132.4	137.4
Corporate net income	36.1	35.4	28.2	31.5	33.7	43.1	52.9	60.6	58.8	47.9	42.9	49.2	49.2
Unemployment insurance	20.9	20.8	21.0	23.9	31.9	35.5	36.4	35.8	32.5	31.4	32.4	41.2	48.4
Business license tax	14.8	15.0	17.0	16.8	18.9	29.5	32.9	34.0	36.6	35.8	34.7	36.2	39.1
Excise taxes	20.1	20.2	20.8	21.9	23.4	23.9	25.1	28.5	29.8	28.6	30.1	34.7	35.1
Public utility tax	17.7	17.9	20.3	21.2	21.3	22.6	23.6	27.1	28.2	28.7	28.5	27.4	27.0
Individual income tax	18.7	20.3	18.5	18.5	21.4	25.9	28.7	29.3	31.4	27.9	26.7	30.0	34.1
Severance taxes	4.4	6.4	4.2	5.3	6.4	8.2	10.7	11.1	17.9	13.5	11.3	14.8	18.9
Insurance premium tax	9.8	10.3	11.2	12.6	14.0	14.9	15.6	16.1	16.5	15.7	16.5	17.2	17.6
Other business taxes	12.1	12.5	13.2	14.2	15.5	10.7	10.9	10.8	10.0	9.3	11.1	12.0	13.3
Total business taxes	**$385.7**	**$399.0**	**$405.2**	**$427.6**	**$463.5**	**$506.1**	**$548.5**	**$603.0**	**$618.2**	**$597.2**	**$590.8**	**$624.4**	**$648.8**

Note: Figures may not sum due to rounding.

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Appendix Table A-3. Distribution of state and local business taxes, by type and state, FY2012

State	Property tax	Sales tax	Excise tax	Corporate income tax	Unemployment insurance tax	Individual income tax on pass-through income	License and other taxes*	Total business taxes
Alabama	24.1%	20.4%	22.4%	5.9%	7.7%	4.5%	15.0%	100.0%
Alaska	12.1%	0.0%	1.5%	8.5%	2.2%	0.0%	75.7%	100.0%
Arizona	39.6%	35.4%	9.0%	5.4%	3.4%	2.8%	4.4%	100.0%
Arkansas	25.3%	29.7%	10.8%	9.7%	9.6%	6.5%	8.3%	100.0%
California	31.9%	20.4%	11.4%	9.9%	7.7%	8.0%	10.7%	100.0%
Colorado	43.8%	23.7%	8.1%	4.2%	8.1%	5.6%	6.7%	100.0%
Connecticut	27.7%	24.0%	15.4%	8.1%	10.7%	9.9%	4.3%	100.0%
Delaware	14.0%	0.0%	11.1%	12.2%	5.2%	6.0%	51.5%	100.0%
Florida	43.1%	19.0%	20.6%	5.4%	5.1%	0.0%	6.7%	100.0%
Georgia	40.7%	28.9%	9.8%	4.2%	5.7%	6.3%	4.4%	100.0%
Hawaii	29.0%	27.5%	19.7%	2.5%	9.3%	4.5%	7.4%	100.0%
Idaho	34.9%	15.1%	9.9%	8.3%	12.9%	9.9%	9.0%	100.0%
Illinois	39.2%	13.8%	15.8%	11.4%	9.4%	4.9%	5.5%	100.0%
Indiana	47.8%	19.9%	7.5%	8.9%	7.2%	6.1%	2.6%	100.0%
Iowa	44.4%	19.1%	4.6%	6.7%	10.3%	8.7%	6.2%	100.0%
Kansas	39.9%	28.2%	8.4%	5.2%	6.8%	6.2%	5.2%	100.0%
Kentucky	26.6%	20.2%	19.8%	10.0%	7.0%	6.6%	9.7%	100.0%
Louisiana	26.0%	43.0%	9.5%	2.8%	2.4%	3.3%	13.1%	100.0%
Maine	52.4%	13.3%	9.7%	7.9%	5.9%	5.2%	5.6%	100.0%
Maryland	24.3%	16.9%	20.0%	9.0%	10.7%	10.3%	8.8%	100.0%
Massachusetts	40.1%	13.6%	6.7%	13.7%	13.0%	7.5%	5.4%	100.0%
Michigan	41.7%	21.9%	8.9%	4.3%	12.8%	4.4%	6.0%	100.0%
Minnesota	31.5%	18.5%	16.7%	9.0%	10.7%	6.9%	6.7%	100.0%
Mississippi	38.3%	22.8%	11.8%	7.9%	5.3%	3.7%	10.2%	100.0%
Missouri	35.1%	27.3%	7.7%	4.4%	7.9%	7.5%	10.1%	100.0%
Montana	42.0%	0.0%	11.4%	6.9%	7.9%	6.4%	25.4%	100.0%
Nebraska	40.1%	22.9%	10.5%	5.8%	5.5%	7.8%	7.3%	100.0%
Nevada	28.9%	26.0%	14.2%	0.0%	7.2%	0.0%	23.7%	100.0%
New Hampshire	45.5%	0.0%	15.6%	21.3%	8.6%	0.3%	8.7%	100.0%
New Jersey	40.9%	15.2%	10.2%	9.3%	13.6%	5.4%	5.5%	100.0%
New Mexico	17.3%	38.7%	8.3%	6.6%	5.5%	2.8%	20.9%	100.0%
New York	33.3%	20.4%	10.2%	16.7%	4.9%	9.6%	4.9%	100.0%
North Carolina	28.2%	23.1%	15.1%	9.6%	7.5%	7.7%	8.8%	100.0%
North Dakota	10.7%	11.3%	4.8%	4.3%	1.8%	1.7%	65.4%	100.0%
Ohio	30.0%	22.4%	13.4%	1.4%	7.9%	7.4%	17.4%	100.0%
Oklahoma	20.9%	31.5%	9.7%	6.0%	6.3%	6.3%	19.3%	100.0%
Oregon	37.6%	0.0%	14.9%	7.8%	15.9%	9.3%	14.4%	100.0%
Pennsylvania	31.4%	15.5%	14.0%	8.8%	11.9%	6.3%	12.2%	100.0%
Rhode Island	43.7%	17.2%	14.6%	5.4%	11.0%	4.1%	3.9%	100.0%
South Carolina	46.5%	15.5%	10.2%	3.6%	7.6%	3.7%	12.8%	100.0%
South Dakota	34.3%	36.7%	10.2%	3.6%	3.0%	0.0%	12.1%	100.0%
Tennessee	26.4%	28.2%	13.2%	11.6%	7.1%	0.3%	13.3%	100.0%
Texas	42.6%	25.9%	11.2%	0.0%	4.2%	0.0%	16.1%	100.0%
Utah	35.8%	21.4%	14.3%	6.6%	8.0%	7.0%	6.9%	100.0%
Vermont	53.1%	8.5%	17.6%	5.9%	7.5%	4.0%	3.4%	100.0%
Virginia	41.9%	12.2%	15.5%	6.3%	5.4%	5.5%	13.1%	100.0%
Washington	24.3%	45.2%	15.1%	0.0%	9.2%	0.0%	6.3%	100.0%
West Virginia	31.0%	10.0%	19.0%	5.2%	6.1%	4.3%	24.4%	100.0%
Wisconsin	40.7%	16.0%	10.8%	8.6%	11.6%	5.5%	6.9%	100.0%
Wyoming	36.5%	21.5%	2.8%	0.0%	4.2%	0.0%	35.1%	100.0%
District of Columbia	48.1%	8.5%	14.3%	11.5%	4.5%	8.7%	4.4%	100.0%
United States	35.3%	21.2%	12.3%	7.6%	7.5%	5.3%	11.0%	100.0%

Note: Figures may not sum due to rounding.

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

Source: EY estimates based on data from the U.S. Census Bureau, State and Local Government Finances.

Appendix: Methodology changes since FY2011 report

This report contains revised state and local tax estimates for years prior to FY2012. This is due to two reasons. First, recently released U.S. Census Bureau data was used to update state and local estimates. Second, EY modified the methodology used to estimate individual income taxes paid on pass-through business income and to estimate local tax collections for the most recent years since annual U.S. Census Bureau data on local taxes lags state data by two years.

Specifically, the following changes have been made:

- The 2009-2011 tax estimates in Tables 1, 2-A, 2-B, A-1 and A-2 have been revised due to new and revised releases of state and local U.S. Census Bureau data for those years.
- The individual income figures for 2000 to 2011 have been revised in Tables 1, 3A, 3B, A-1 and A-2. As in previous reports, the state and local personal income paid by businesses was calculated based on the total income taxes paid multiplied by the proportion of proprietorship, partnership, sole-proprietorship and S-corporation income to total gross adjusted income reported by the IRS Statistics of Income (SOI) for each year. This year's study changes the treatment of losses, resulting in a lower percentage of personal income tax paid by businesses.
- The 2011 local and total business tax figures have been revised in Tables 1, 3-B, A-1 and A-2. Actual local tax data is shown through 2010 (the most recent available from U.S. Census Bureau). For 2011 and 2012, local tax collections were estimated using each state's private gross state product growth rate between 2010 and 2011 for most categories and state growth rates for sales and public utility taxes. Tax collections by category (e.g., property, corporate income) were constrained to a national total derived using the U.S. Census Bureau quarterly tax growth rate estimates by category for the nation. In previous years, growth rates by category from the U.S. Census Bureau quarterly data were applied to historical local values (e.g., 2010 annual U.S. Census Bureau data) to calculate current local tax figures (e.g., 2012 estimates).

Endnotes

1. States that follow a different fiscal year are Alabama (ends September 30), Michigan (ends September 30), New York (ends March 31) and Texas (ends August 31). Data presented in this study are for each state's fiscal year.

2. The general methodology used to estimate state and local business taxes is described in detail in the Appendix to the Ernst & Young/COST *FY2005 50-State Business Tax* study published in March 2006 (available at www.cost.org). Note that business tax estimates for prior years have been revised from those published in earlier editions of this study due to the use of newly released U.S. Census Bureau data, refinements to the estimation of individual income taxes, and changes to the estimation of local business taxes for 2011 and 2012. All references to business taxes in prior fiscal years refer to the updated estimates included in this study, rather than the previously published estimates.

3. A more detailed analysis of state and local sales taxation of business inputs is presented in the EY study prepared for COST by 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. (Available at www.cost.org; also in *State Tax Notes,* January 28, 2005.)

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. Robert Cline, Andrew Phillips, Joo Mi Kim and Tom Neubig, "The Economic Incidence of Additional State Business Taxes," *State Tax Notes*, January 11, 2010.

6. Richard H. Mattoon and William A. Testa, "How Closely Do Business Taxes Conform to the Benefits Principle?" presentation at the Future State Business Tax Reforms: Perspectives from the Business, Government and Academic Communities conference, Federal Reserve Bank of Chicago (September 17, 2007). The authors distributed state and local government expenditures between businesses and households. Services benefiting business include shares of expenditures for transportation, water and sewer infrastructure, police and fire protection, general government "overhead" (e.g., legislative, administrative and judicial services), interest and regulatory activities. The methodology used is described in detail in William H. Oakland and William A. Testa, "State-Local Business Taxation and the Benefits Principle," *Economic Perspectives* (January/February 1996). The authors also note that selective excise taxes, such as the severance tax, impact a small portion of businesses and could be removed from the business tax numerator to provide a measure of the tax to benefit ratio generally applicable to most firms. EY added in expenditure categories to the analysis not included in the 2007 data.

7. Evidence is reviewed in Enrico Moretti, "Workers' Education, Spillovers, and Productivity: Evidence from Plant-Level Production Functions," *The American Economic Review*, June 2004.

8. An example of work related to the social benefits of education is Lance Lochner and Enrico Moretti, "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports," *NBER Working Paper 8605*, November 2001.

9. The tax-benefit ratios shown in this study were constructed in the following way. EY followed the general methodology used by Richard H. Mattoon and William A. Testa that allocates expenditures net of user charges and federal transfers to businesses and households. Like Mattoon and Testa, EY identified major categories of state and local spending. Using data from the U.S. Census Bureau's 2010 State and Local Government Finances, expenditures, charges, federal transfers and other category-specific non-tax revenue were assigned to each category. These items were used to calculate the net expenditures for each category. The net expenditures were then allocated to businesses and households in an identical manner to the Mattoon and Testa allocation for all categories included in their analysis. For new categories, EY followed Mattoon and Testa's general principles in allocating net expenditures. Using data from the National Association of State Budget Officers' *State Expenditure Report* (2012), the 2010 amounts were adjusted to 2012 using the All Funds growth rate. For the District of Columbia, EY used data from the Statistical Section of the District of Columbia's *2012 Comprehensive Annual Financial Report* to grow state and local net expenditures.

10. The proposals, as well as the tax policy issues related to imposing sales taxes on business input purchases, are discussed in detail in the EY study prepared for COST, *What's Wrong with Taxing Business Services? Adverse Effects from Existing and Proposed Sales Taxation of Business Investment and Services* (April 2013).

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

Quantitative Economics and Statistics (QUEST)
QUEST is a group of economists, statisticians, survey specialists and tax policy analysts within EY's National Tax Practice, located in Washington, DC. QUEST provides quantitative advisory services to private and public sector clients including tax policy economic studies, statistical sampling, and surveys.

SCORE No. YY2966
1307-1100884

ED None