

Total state and local business taxes

State-by-state estimates for FY24

December 2025



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Executive summary

This study presents detailed state-by-state estimates of state and local taxes paid by businesses. It is the 23rd annual report prepared by Ernst & Young LLP (EY US) in conjunction with the Council On State Taxation (COST) and the State Tax Research Institute (STRI). The estimates presented in this study are for fiscal year 2024 (FY24), which ran from July 2023 through June 2024 for most states.¹

Businesses paid \$1.1 trillion in state and local taxes in FY24, which was 45.8% of all tax revenue at the state and local level. Businesses paid \$640.8 billion in state taxes in FY24, which was a 4.0% increase from the prior fiscal year, and \$507.3 billion in local taxes, which was 5.5% higher, for a combined year-over-year growth rate of 4.7% over FY23.

Business taxes include property taxes paid by businesses; sales and excise taxes on intermediate inputs and capital expenditures purchased by businesses; business entity taxes such as the corporate income tax, gross receipts tax, and franchise taxes; the share of individual income taxes paid by owners of noncorporate businesses (pass-through entities (PTEs)); unemployment insurance taxes; and all other state and local taxes that are the statutory liability of business taxpayers. The following are key findings of the study:

- Business property tax collections grew by 5.7% in FY24 to \$390.3 billion. Property taxes account for 34% of all state and local taxes paid by businesses, the most of any tax category. Businesses primarily pay property taxes at the local level, where they make up 74.0% of all local business tax collections and only 2.4% of taxes paid by businesses at the state level.
- Sales tax collections from business purchases of intermediate inputs and capital expenditures are the second largest source of business tax revenue for state and local governments, accounting for 21.4% of all taxes paid by businesses in FY24. The \$245.3 billion in sales tax collections was 1.7% higher than FY23.² The sales tax is the largest source of business tax revenue at the state level, accounting for 29.4% of all taxes paid by businesses. Although they are the second largest local business tax, business sales taxes only make up 11.2% of total local business tax collections.



- Corporate income and gross receipts tax collections decreased by 0.8% in FY24 to \$142.8 billion. Corporate income taxes are the third-largest business tax for state and local governments, making up 12.4% of tax collections. They are the second-largest business tax at the state level, accounting for 20.6% of taxes paid by businesses. Corporate income tax collections are included in the other business taxes category at the local level, which accounted for 5.3% of business tax revenue in FY24. Certain statewide gross receipts taxes levied in lieu of corporate income taxes are also included in this measure.
- Individual income taxes paid on pass-through income were the fourth-largest business tax at 8.1% of total state and local business tax collections. Revenues grew 20.3% in FY24 to \$92.7 billion. Individual income taxes on business income are the third-largest business tax at the state level, at 13.3% of taxes paid by businesses.
- Total state and local taxes paid by businesses in FY24 equaled 4.5% of US private-sector gross state product (GSP), which measures the value of the private-sector production of goods and services in a state. There was substantial variation across states, with business taxes making up as little as 3.2% of private-sector GSP and as high as 10.6%. States with high reliance on severance taxes, such as Alaska and North Dakota, tend to have much higher business tax as a share of GSP, while states that rely mainly on individual income tax and sales tax, such as Maryland and Connecticut, have lower business taxes as a share of GSP.

- An alternative measure of the tax burden on businesses is the “business tax-to-benefit” ratio, which is how much businesses pay in taxes to receive \$1.00 in benefits from government spending. The ratio is sensitive to estimates of the benefit received from spending on education, which is the largest category of expenditures by state and local governments. Businesses paid on average \$2.37 in taxes per dollar of government expenditures, assuming that in-state education spending does not benefit in-state businesses. Under an alternate assumption, businesses paid on average \$1.06 in taxes for every dollar of government spending, assuming that businesses benefit 50% from in-state educational expenditures.

Total state and local business taxes in FY24

This section summarizes state and local business tax collections in FY24.³ Table 1 compares tax collections in FY24 to FY23 by tax type. The table also reports the share of total state and local business tax collections by tax type. Figure 1 and Figure 2 report the share of state and local tax collections by tax type as well. Figure 1 reports shares of total state and local taxes paid by both businesses and households, while Figure 2 reports shares of total state and local taxes paid by businesses only. Figure 3 reports the amount and share of state and local taxes paid by either businesses or households for total tax collections, general sales tax collections and property tax collections.

- Table 1 reports that businesses paid \$1,148.1 billion in state and local taxes in FY24, which was 4.7% higher than the prior fiscal year. As shown in Figure 3, this is 45.8% of total state and local tax collections. Households paid \$1,358.7 billion, or 54.2%, of total state and local taxes.
- While corporate income tax collections declined in FY24, the growth in individual income taxes paid on pass-through income, general sales taxes on business inputs and property taxes offset

this decline, resulting in overall business tax growth of 4.7%.

- Businesses paid \$390.3 billion in state and local property taxes in FY24, which is 5.7% higher than FY23 (Table 1). Taxes on real and personal property are the largest source of state and local tax revenue from businesses and households together, and from businesses alone, as shown in Figure 1 and Figure 2. Property taxes were 28.8% of total state and local taxes paid by both businesses and households in FY24 (Figure 1) and 34.0% of business tax collections (Figure 2). Businesses paid 54.1% of state and local property taxes (Figure 3), while households paid the remaining \$331.2 billion, or 45.9%, of state and local property tax collections.⁴
- Businesses paid \$245.3 billion in general sales taxes to state and local governments in FY24 for a year-over-year growth rate of 1.7% (Table 1). Sales tax collections are 23.4% of all state and local taxes paid by businesses and households (Figure 1) and 21.4% of state and local taxes paid by businesses (Figure 2). The \$245.3 billion paid by businesses is 41.8% of total state and local sales tax collections. Households paid

Table 1. Total state and local business taxes, FY23-FY24 (\$ billions)

Business tax	2023*	2024	2024 % total taxes	One-year change
Property taxes on business property	\$369.2	\$390.3	34.0%	5.7%
General sales taxes on business inputs	241.3	245.3	21.4%	1.7%
Corporate income and gross receipts taxes	144.0	142.8	12.4%	-0.8%
Individual income tax on business income**	77.0	92.7	8.1%	20.3%
Excise taxes	62.3	65.7	5.7%	5.6%
Business and corporate license	48.6	51.4	4.5%	5.8%
Unemployment insurance	40.6	39.8	3.5%	-2.0%
Insurance premium taxes	33.9	36.1	3.1%	6.5%
Public utility taxes	30.4	31.8	2.8%	4.6%
Severance taxes	26.2	21.7	1.9%	-17.1%
Other business taxes	23.5	30.6	2.7%	30.2%
Total state and local business taxes	\$1,096.9	\$1,148.1	100.0%	4.7%

*FY23 business tax estimates are revised from the COST FY23 study because of newly released data from the U.S. Census Bureau. See Appendix for more details.

**The US Census State and Local Finance Survey data was updated to include PTE taxes for some states, which EY US reports in the individual income tax on business income category. EY US has removed PTE taxes from the corporate income tax category when we could find PTE tax collection amounts in state financial reports. The corporate income and gross receipts taxes category includes corporate income taxes and gross receipts taxes for states where that is the primary business entity tax.

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



\$342.2 billion in sales taxes, which was the remaining 58.2% of collections (Figure 3). The estimate of the business share of sales tax collections is based on prior research.⁵

- Businesses paid \$142.8 billion in state and local corporate income and gross receipts taxes in FY24, a decrease of 0.8% over FY23 (Table 1). Corporate income taxes, at 5.7%, were the sixth-largest source of total state and local tax revenue (Figure 1), but the third-largest source of state and local business tax revenue, at 12.4% (Figure 2). Corporate income tax collections include gross receipts or modified gross receipts taxes such as Nevada's Commerce Tax, Ohio's Commercial Activity Tax, Oregon's Corporate Activity Tax, Texas' Margin Tax, and Washington's Business & Occupation tax.
- Business owners paid an estimated \$92.7 billion in individual income taxes on their income from PTEs in FY24 (i.e., partnerships, sole proprietorships, limited liability companies and S corporations), which was 20.3% more than the prior fiscal year (Table 1). Individual income taxes on pass-through business income represented 8.1% of total state and local business tax collections. At the federal level, taxpayers reporting certain

types of pass-through income are entitled to a Qualified Business Income deduction equal to 20% of their pass-through income. A few states allow this deduction, but most do not conform to this provision. Individual income tax paid by business includes PTE taxes that were in effect in 36 states in tax year 2023. PTE taxes were enacted as a work-around to state and local tax deduction limitations as part of the Tax Cuts and Jobs Act (TCJA). See the "Pass-through entity tax" section of this report for more details.

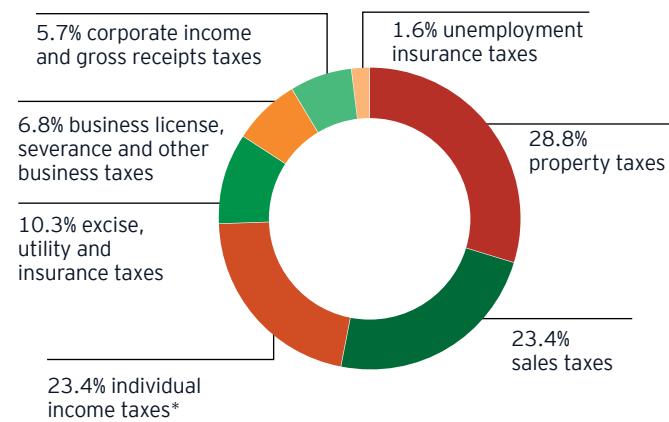
- Businesses paid \$65.7 billion in excise taxes to state and local governments in FY24, an increase of 5.6% over the prior fiscal year (Table 1). Only a portion of excise tax collections is attributed to businesses since both businesses and households consume these goods. Excise taxes attributed to businesses include a portion of motor fuel taxes, taxes on hotel and rental car expenditures by businesses, as well as health care provider taxes on the revenue of hospitals and other providers of health services. Table 1 reports that excise taxes were 5.7% of total state and local business tax collections. In Figure 2, excise taxes are combined with utility and insurance premium taxes,



which together made up 11.6% of state and local business tax collections.

- Business and corporate license taxes and fees grew 5.8% in FY24 to \$51.4 billion (Table 1), which was 4.5% of total state and local business tax collections. Figure 2 combines business and corporate license taxes with severance taxes and other business taxes, which were 9.0% of state and local business tax collections.
- Employer contributions to unemployment insurance decreased by 2.0% in FY24 to \$39.8 billion (Table 1), which was 3.5% of total state and local business tax collections (Figure 2).
- Insurance premium taxes grew 6.5% in FY24 to \$36.1 billion, which was 3.1% of state and local business tax collections (Table 1). They were combined with excise and utility taxes in Figure 2, which were 11.6% of state and local business tax collections.
- Public utility taxes were \$31.8 billion in FY24, an increase of 4.6% from the prior year (Table 1). Taxes on public utilities are generally based on gross receipts and are allocated solely to businesses because they are often levied in lieu of property or

Figure 1. Composition of total state and local taxes on business and households, FY24

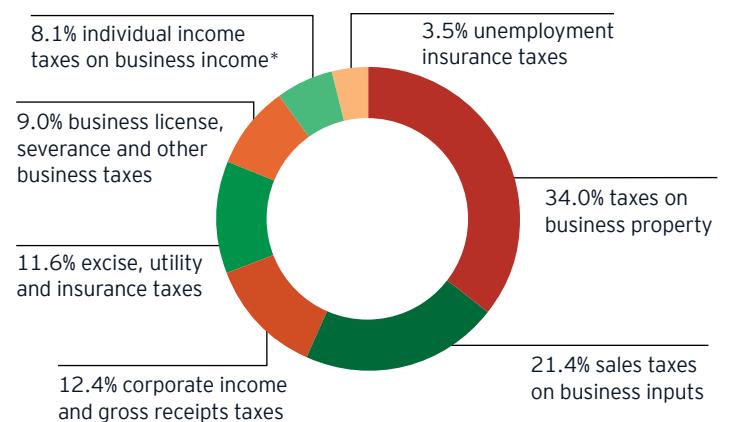


Note: Amounts may not sum because of rounding.

*Individual income tax includes pass-through entity taxes.

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

Figure 2. Composition of total state and local taxes on businesses, FY24

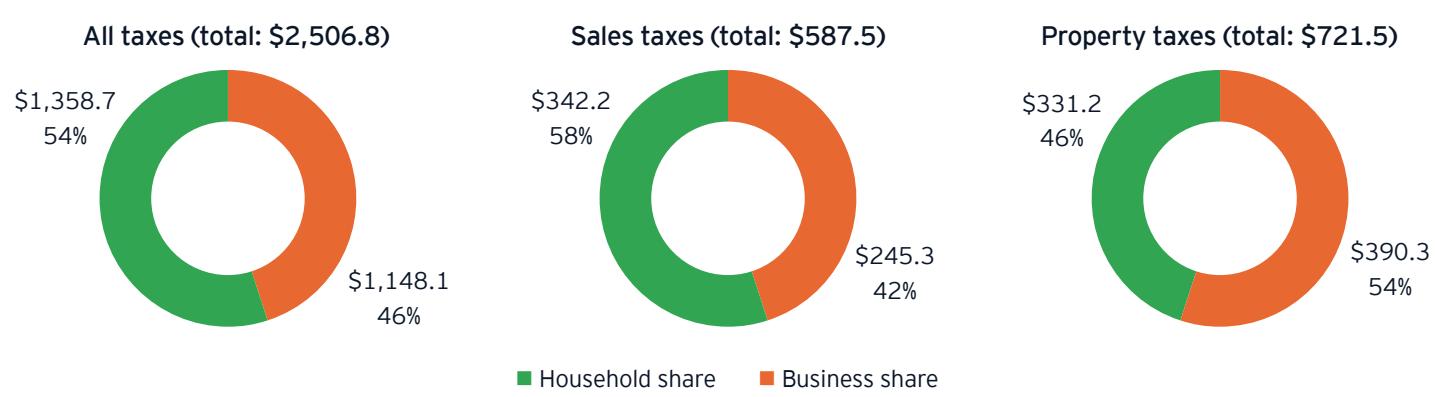


Note: Amounts may not sum because of rounding.

*The individual income tax on business income category contains pass-through entity tax, when known.

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

Figure 3. Total state and local taxes (\$ billions) and business and household taxes as a share of total tax collections, FY24



Note: Amounts may not sum because of rounding.

Source: Ernst & Young LLP 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, such as excise taxes on tobacco and alcohol, are not counted as business taxes because businesses are statutorily required to collect them on behalf of the individuals consuming them. Similarly, sales tax collections are separated into those that are levied on final goods purchased by individuals, which are not included, from those that are levied on intermediate inputs and capital equipment, which are included because they are purchased by businesses. The share of individual income taxes that arise from taxing pass-through business income is included as a business tax. The business taxes included in the analysis are as follows:

- Property taxes paid by businesses on real and personal property, including taxes paid on income-generating residential rental property
- General sales taxes paid by businesses on purchases of intermediate inputs and capital equipment that are used in the production of goods and services; sales taxes on final goods consumed by households are not included
- The business share of excise taxes on goods such as motor fuels and hotel and rental car expenditures
- Corporate income tax and gross receipts taxes in Nevada, Ohio, Texas and Washington, which levy a gross receipts tax in lieu of the traditional corporate income tax
- Individual income taxes on business income, including pass-through entity taxes; taxes withheld on employee earnings are not considered business taxes⁷
- Taxes on insurance premiums and the gross receipts of public utility companies, which are often levied in lieu of other business entity taxes
- Unemployment insurance taxes 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

As shown in Table 1 and Figures 1 and 2, businesses pay more in property taxes and sales taxes than they do in business income taxes.



State vs. local business taxes in FY24

Business taxes are separated into state tax collections (Table 2) and local tax collections (Table 3) and reported by major tax category. Each table reports business tax collections for FY23 and FY24 as well as the year-over-year growth rate and the share of total business tax collections in FY24.

State business tax collections were 4.0% higher than the prior fiscal year in FY24, reaching a total of \$640.8 billion, according to Table 2. At the state level, corporate net income tax collections were 1.2% lower, while individual income tax collections on pass-through business income were 21.2% higher, mostly due to a \$10.5 billion increase in California PTE tax collections between FY23 and FY24 attributed to increases in bonuses and stock-based bonuses from advances in artificial intelligence.

State business tax collections from sales and use taxes grew 1.6% in FY24 and business license tax revenue was 5.4% higher, while taxes in the other business taxes category were 35.4% higher. Insurance premiums tax collections grew 6.6% in FY24, while business property tax revenues were 0.1% lower. The year-over-year growth rates for the remaining taxes were in the -17.1% to 5.4% range in FY24.

Local business tax collections (Table 3) reached \$507.3 billion in FY24, which was 5.5% higher than the prior fiscal year. Property taxes, which were the largest source of business tax revenue at

the local level, were 6.0% higher than in FY23, while sales taxes on business purchases, the second-largest source of local business taxes, were 2.0% higher.

The composition of business taxes differs significantly between state and local levels. As shown in Table 1, the four largest sources of state and local tax collections from businesses were the property tax (34.0%), general sales tax (21.4%), corporate income and gross receipts taxes (12.4%) and the individual income tax (8.1%). However, according to Table 2, businesses paid very little in real and personal property taxes at the state level, with property taxes making up only 2.4% of total state business tax collections. The sales and use tax, at 29.4%, was the largest source of business tax collections at the state level, followed by the corporate net income tax, at 20.6%, and individual income taxes on business income, at 13.3%.

Property taxes were the largest source of business tax collections at the local level, at 74.0%. The shares of the remaining tax types were in the single digits, except for local sales taxes on intermediate input purchases by businesses, which was second highest at 11.2%. Local business income and gross receipts taxes accounted for 3.6% of local business tax collections.

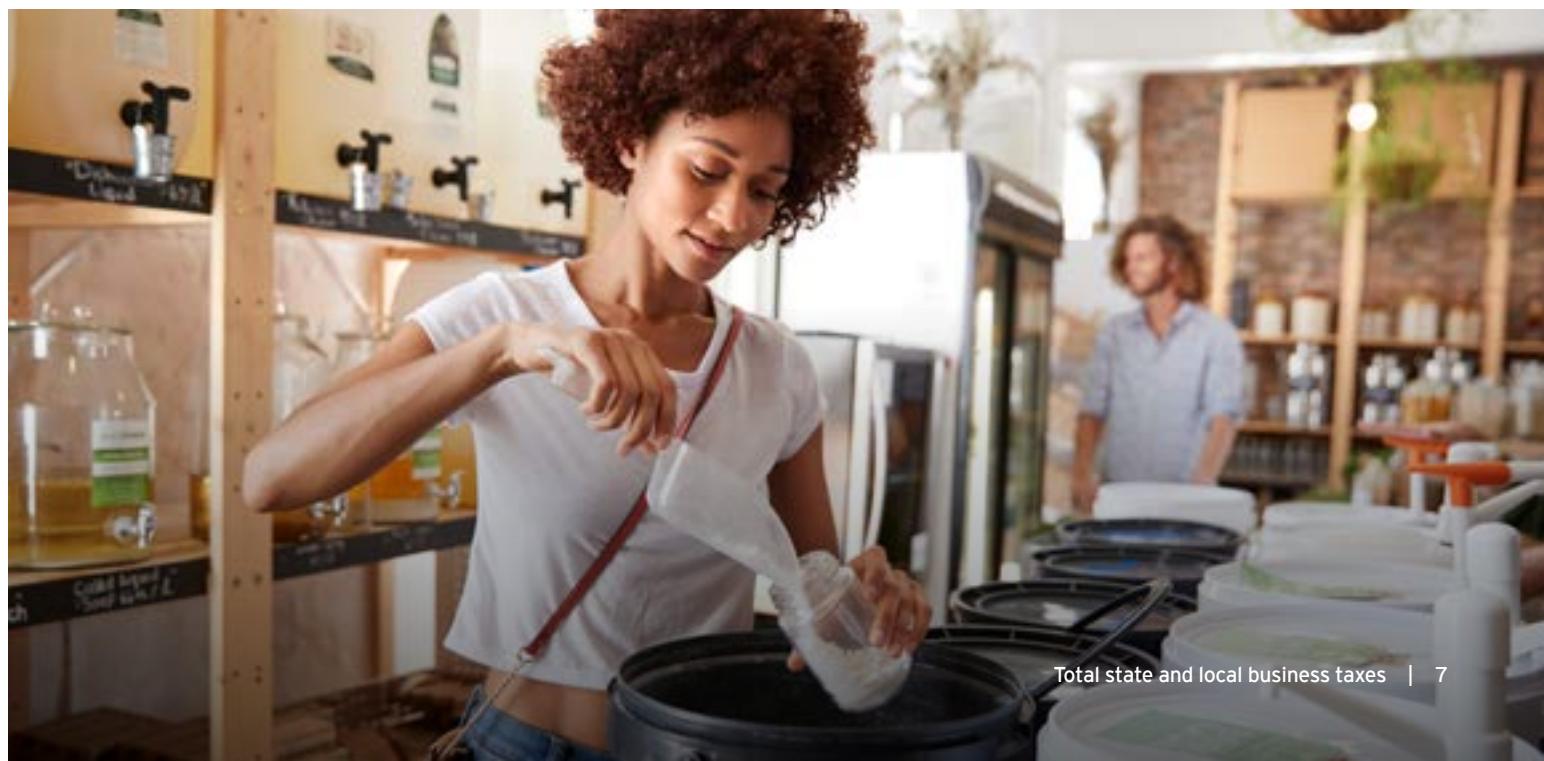




Table 2. State business taxes, FY23-FY24 (\$ billions)

Business taxes	State business taxes FY23	State business taxes FY24	% total state business taxes	One-year growth, state business taxes
General sales and use tax on inputs	\$185.7	\$188.6	29.4%	1.6%
Corporate income and gross receipts taxes	\$133.7	\$132.0	20.6%	-1.2%
Individual income tax on business income	\$70.3	\$85.2	13.3%	21.2%
Excise taxes on business inputs	\$50.3	\$53.0	8.3%	5.4%
Unemployment insurance	\$40.6	\$39.8	6.2%	-2.0%
Insurance premium tax	\$32.5	\$34.6	5.4%	6.6%
Business license tax	\$29.1	\$30.6	4.8%	5.4%
Severance taxes	\$26.1	\$21.7	3.4%	-17.1%
Property tax on business property	\$15.2	\$15.2	2.4%	-0.1%
Public utility tax	\$13.6	\$14.0	2.2%	2.9%
Other business taxes	\$19.3	\$26.2	4.1%	35.4%
Total state business taxes	\$616.2	\$640.8	100.0%	4.0%

Note: Amounts may not sum because of rounding.

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

Table 3. Local business taxes, FY23-FY24 (\$ billions)

Business tax	Local business taxes FY23*	Local business taxes FY24	% total local business taxes	One-year growth, local business taxes
Property taxes on business property	\$354.1	\$375.2	74.0%	6.0%
General sales taxes on business inputs	\$55.6	\$56.7	11.2%	2.0%
Business income and gross receipts tax**	\$17.0	\$18.2	3.6%	6.6%
Public utility taxes	\$16.8	\$17.8	3.5%	5.9%
Excise taxes on business inputs	\$12.0	\$12.7	2.5%	6.2%
Other business taxes	\$25.1	\$26.7	5.3%	6.2%
Total local business taxes	\$480.7	\$507.3	100.0%	5.5%

*FY23 business tax estimates are revised from the COST FY23 study because of newly released data from the U.S. Census Bureau.

** Includes local corporate income taxes.

Note: Amounts may not sum because of rounding.

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

State-by-state business tax collections

State and local business tax collections were 4.7% higher in FY24. Figure 4 shows the year-over-year growth rates in total state and local business tax collections by state in FY24. States with significant tax changes in FY24 are described below.

- California had the largest year-over-year change (15.9%) in total business taxes, largely due to a \$10.5 billion increase in pass-through entity tax collections in FY24. Kentucky (11.7%) and Wisconsin (10.5%) also experienced significant business tax collections growth due to high corporate income tax collections.
- Alaska experienced the largest business tax decline with a 20.6% reduction since FY23 due to a major decrease in severance taxes that make up 34% of its total business taxes.
- Corporate income and gross receipts tax collections declined by 0.8%, to \$142.8 billion in FY24. Seven states reduced their corporate income tax rates in 2024, as shown in Table 4. These rate reductions coupled with the more favorable tax treatment of businesses in some states, such as Ohio and Texas raising their thresholds before tax is due, reduced the overall corporate income and gross receipts tax collections.
- Individual income taxes on business income collections grew 20.3% in FY24, to \$92.7 billion. California had the largest dollar increase, at \$10.9 billion (73%), and accounted for over 70% of total growth in this category.
- Fifteen states implemented individual income tax rate changes in 2024, 14 of which were rate reductions, as shown in Table 4. Most states lowered their top tax rate, while Iowa, Kansas, Missouri, and Ohio eliminated a tax bracket completely, which reduced the effective tax rates on higher individual income earners, which likely includes many pass-through businesses. Michigan was the only state that implemented an income tax increase, returning to a 4.25% rate for tax year 2024 after a temporary rate reduction to 4.05% in FY23.

Table 5 presents state and local business tax collections by tax type and state. The results show that states vary widely in the composition of their business tax structures, which has implications for revenue growth and stability in each state.

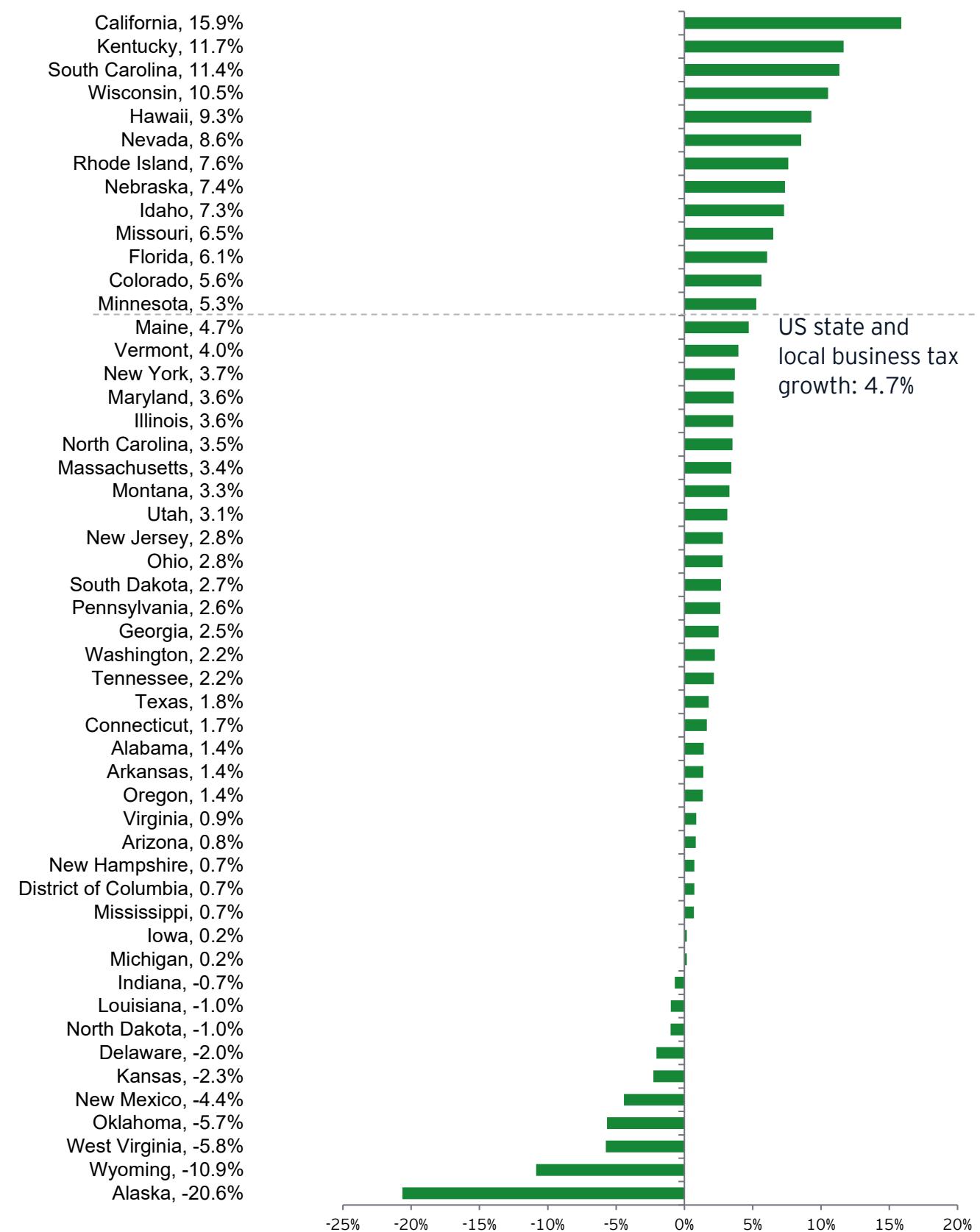
Appendix Table A3 presents the percentage composition by tax type for each of the 50 states and the District of Columbia.

Table 4. Individual and corporate income tax changes effective in FY24 by state

State	Tax change summary
Individual income tax changes	
Arkansas	Arkansas adjusted the income limits for all brackets and reduced the top marginal rate from 4.7% to 3.9% from 2023 to 2024.
Georgia	Georgia moved to a flat rate system and reduced the top rate from 5.75% to 5.39% from 2023 to 2024.
Indiana	Indiana has a flat rate system and reduced the rate from 3.05% to 3% from 2023 to 2024.
Iowa	Iowa moved from a four-bracket system with a top marginal rate of 6% on income of \$75,000 and above in 2023 to a three-bracket system with a top marginal rate of 5.7% on income of \$31,050 and above.
Kansas	Kansas moved from a three-bracket system with a top marginal rate of 5.7% on income of \$30,000 and above in 2023 to a two-bracket system with a top marginal rate of 5.58% on income of \$23,000 and above.
Kentucky	Kentucky has a flat rate system and reduced the rate from 4.5% to 4% from 2023 to 2024.
Michigan	Michigan experienced economic growth and robust state revenues resulting in a temporary rate reduction to 4.05% for 2023. The rate returned to 4.25% for tax year 2024.
Mississippi	Mississippi has a two-bracket system with no tax on the first \$10,000 and the top marginal rate of 5% on income above \$10,000 in 2023 was reduced to 4.7% in 2024.
Missouri	Missouri has an eight-bracket system, with a top marginal rate of 4.95% on income above \$8,449 in 2023 that moved to a larger untaxed bottom bracket and a top marginal rate of 4.8% on income above \$8,911 in 2024.
Nebraska	Nebraska reduced its top marginal rate from 6.64% to 5.84% from 2023 to 2024, along with inflation related bracket increases.
New Hampshire	New Hampshire has a flat rate that only applies to income from dividends and trusts that decreased from 4% in 2023 to 3% in 2024.
North Carolina	North Carolina has a flat rate system and reduced the rate from 4.75% to 4.5% from 2023 to 2024.
Ohio	Ohio moved from a four-bracket system with a top marginal rate of 3.75% on income of \$155,300 and above in 2023 to a three-bracket system with a top marginal rate of 3.50% on income of \$100,000 and above.
South Carolina	South Carolina reduced its top marginal rate from 6.4% to 6.2% from 2023 to 2024, along with inflation related bracket increases.
Utah	Utah has a flat rate system and reduced the rate from 4.65% to 4.55% from 2023 to 2024.
Corporate income tax changes	
Arkansas	In 2023, Arkansas had a five-bracket system, with a top marginal rate of 5.1% on income above \$25,000 and moved to a four-bracket system in 2024, with a top marginal rate of 4.3% on income above \$11,000.
Georgia	Georgia moved from a 5.75% flat rate in 2023 to a 5.39% flat rate in 2024.
Iowa	Iowa reduced its top marginal rate from 8.4% to 7.1% from 2023 to 2024.
Kansas	Kansas moved from a 7.0% flat rate in 2023 to a 6.5% flat rate in 2024.
Nebraska	Nebraska moved from a 7.25% flat rate in 2023 to a 5.84% flat rate in 2024.
Pennsylvania	Pennsylvania moved from an 8.99% flat rate in 2023 to an 8.49% flat rate in 2024.
Utah	Utah moved from a 4.65% flat rate in 2023 to a 4.55% flat rate in 2024.

Source: Commerce Clearing House (CCH) state tax rate and schedules data.

Figure 4. Change in state and local business taxes by state, FY23-FY24 (percentage change in total state and local business taxes)



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

Table 5. State and local business taxes, by type FY24 (\$ billions)

	Property tax	Sales tax	Excise tax public utilities and insurance	Corporate income and gross receipts	Individual income tax on business	Unemployment insurance tax	License and other taxes*	Total business taxes
Alabama	\$3.2	\$2.9	\$2.4	\$2.2	\$0.8	\$0.1	\$1.1	\$12.7
Alaska	1.1	-	0.2	0.4	-	0.2	1.1	3.0
Arizona	5.7	6.1	1.5	1.8	0.8	0.4	0.9	17.2
Arkansas	1.6	2.6	1.0	1.0	0.4	0.1	0.4	7.0
California	55.0	29.2	17.6	17.2	25.7	6.1	23.8	174.5
Colorado	8.6	5.0	2.0	2.5	1.4	0.9	0.8	21.3
Connecticut	3.4	2.4	1.5	1.2	2.1	0.6	0.3	11.5
Delaware	0.6	-	0.4	0.5	0.4	0.1	2.6	4.6
Florida	25.3	19.3	9.7	6.0	-	1.6	4.6	66.6
Georgia	10.7	6.7	3.0	3.6	1.8	0.5	1.1	27.3
Hawaii	1.5	1.9	1.2	0.5	0.4	0.5	0.3	6.3
Idaho	1.1	1.0	0.4	0.9	0.4	0.1	0.3	4.3
Illinois	20.8	7.2	7.6	11.9	4.2	2.1	2.5	56.3
Indiana	6.2	3.5	2.0	1.0	2.0	0.4	0.4	15.5
Iowa	3.9	2.4	0.9	0.6	1.0	0.4	0.6	9.8
Kansas	3.3	2.3	0.9	1.5	1.0	0.3	0.3	9.6
Kentucky	3.6	2.5	2.1	2.3	1.2	0.2	0.6	12.6
Louisiana	4.2	4.5	1.8	1.0	0.5	0.2	1.9	14.1
Maine	3.0	0.8	0.4	0.5	0.4	0.1	0.2	5.4
Maryland	4.3	2.8	2.9	4.8	1.9	0.7	1.3	18.9
Massachusetts	8.9	4.5	1.6	6.3	2.8	1.0	1.2	26.3
Michigan	7.9	4.6	2.2	1.7	1.4	1.2	1.4	20.5
Minnesota	5.1	4.2	2.7	3.2	1.6	0.8	1.0	18.6
Mississippi	3.3	1.8	0.9	0.7	0.3	0.1	0.5	7.8
Missouri	5.4	3.9	1.6	0.8	1.2	0.4	0.9	14.2
Montana	1.5	-	0.4	0.3	0.4	0.2	0.6	3.4
Nebraska	2.9	1.6	0.4	1.7	0.6	0.1	0.4	7.6
Nevada	3.1	4.5	2.1	0.3	-	0.8	2.0	12.8
New Hampshire	1.9	-	0.5	1.2	0.0	0.1	0.5	4.2
New Jersey	8.7	6.5	3.2	4.6	4.4	3.2	2.1	32.8
New Mexico	1.5	3.8	0.6	0.5	0.4	0.2	4.9	11.9
New York	42.9	18.1	9.7	18.3	18.4	3.4	5.0	115.9
North Carolina	6.9	7.0	3.2	1.6	2.0	0.7	2.0	23.4
North Dakota	0.9	0.8	0.3	0.3	0.1	0.1	3.3	5.8
Ohio	10.0	6.8	4.6	2.7	1.5	1.1	2.0	28.7
Oklahoma	2.7	3.2	1.0	0.7	1.4	0.3	1.6	10.9
Oregon	4.2	-	1.9	3.2	1.3	1.1	1.7	13.3
Pennsylvania	13.2	7.0	5.1	5.8	3.1	2.9	3.5	40.5
Rhode Island	1.4	0.6	0.5	0.4	0.2	0.2	0.2	3.5
South Carolina	6.6	3.1	1.7	1.4	0.7	0.2	1.4	15.0
South Dakota	1.0	1.3	0.3	0.1	-	0.0	0.3	2.9
Tennessee	4.5	6.7	2.7	3.0	0.0	0.2	2.6	19.8
Texas	43.2	31.4	13.2	6.9	-	2.2	11.2	108.1
Utah	3.1	2.4	1.2	1.4	0.6	0.3	0.4	9.5
Vermont	1.9	0.3	0.5	0.3	0.2	0.1	0.1	3.4
Virginia	12.3	3.7	4.6	2.5	1.6	0.3	2.3	27.2
Washington	7.3	8.6	4.6	6.4	0.0	2.0	2.6	31.5
West Virginia	1.5	0.9	0.9	0.5	0.3	0.1	0.7	4.9
Wisconsin	5.4	3.5	1.4	3.4	1.1	0.6	1.0	16.3
Wyoming	1.2	0.6	0.1	-	-	0.1	0.9	3.0
District of Columbia	2.5	0.8	0.4	1.1	0.7	0.1	0.3	5.9
United States	\$390.3	\$245.3	\$133.6	\$142.8	\$92.7	\$39.8	\$103.7	\$1,148.1

*The "License and other taxes" category includes death and gift taxes, documentary and stock transfer taxes, severance taxes and local gross receipts taxes. The small amount of corporate profits taxes at the local level in Michigan is reflected in the state's "License and other taxes" amount.

Note: “-” indicates zero collections; “0.0” indicates collections of less than \$50 million.

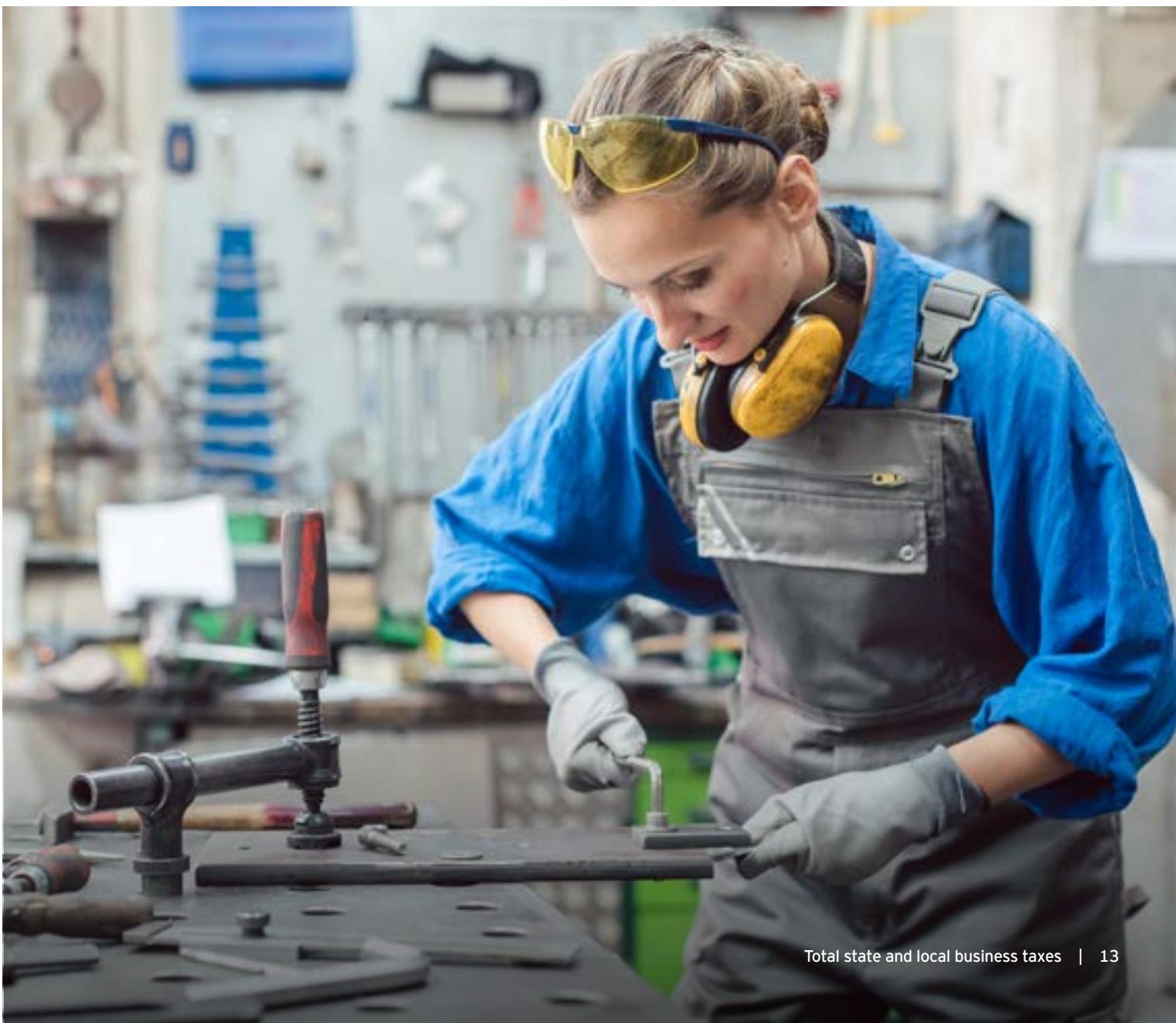
Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances

Pass-through entity tax

In the past few years, pass-through entity taxes have become ubiquitous, with most states allowing business owners the option of paying income tax at the entity level and receiving a credit on their individual income taxes. However, a standard method of reporting these taxes to the U.S. Census Bureau has not been established. In the FY24 U.S. Census State Tax Collections, some states reported PTE tax under corporate income tax, while others

continued to report it under individual income tax. Where possible, this analysis removes PTE from the corporate income tax and adds it to individual income tax on business income to allow for continued comparison across years.

The state and local tax deduction cap created by the 2017 TCJA has been extended to 2029 with states expected to continue use of PTE taxes for the foreseeable future.⁸



Comparing state business tax levels

The state and local taxes paid by businesses are imposed on a number of different tax bases such as property value, net income, gross receipts, value of goods or services purchased (ad valorem sales taxes), or the quantity of goods or services purchased (excise taxes). Therefore, it is possible to measure a state's business tax burden in many different ways. This analysis measures the aggregate business tax burden of a state by comparing the level of business taxes with the level of economic activity subject to taxation, or private-sector gross state product (GSP). Gross state product is the total value of a state's annual production of goods and services, with private-sector GSP representing the value created by the private sector. The resulting ratio of business taxes to private-sector GSP is a state's total effective business tax rate (TEBTR).

Table 6 reports state tax collections, local tax collections, and state and local tax collections paid by businesses, as well as businesses and households combined. In addition, Table 6 reports the TEBTR for each state. Figure 5 is a map of the United States with each state shaded according to its TEBTR range. The average TEBTR across all states was 4.5% in FY24.

The taxes imposed on businesses, as a share of economic activity, were lowest in 12 states with TEBTRs less than 4%. North Carolina had the lowest TEBTR at 3.2%, followed by Michigan and Indiana, each with a TEBTR of 3.3%. Arizona, Ohio and Georgia follow at a rate of 3.5%. Missouri, Utah and Connecticut each had a TEBTR of 3.6%, followed by Massachusetts, Idaho, and New Hampshire ranging from 3.8% to just under 4%.

New Mexico had the highest TEBTR at 10.6%, followed by Vermont (8.6%), and North Dakota (8.1%). Three states had a TEBTR in the 6.0%-8.0% range, including Hawaii, Wyoming and Maine.

There does not appear to be a strong relationship between geographic region and TEBTR. For instance, North Carolina had the lowest TEBTR at 3.2%, but South Carolina had a TEBTR of 5.0%. Similarly, New Mexico had the highest TEBTR at 10.6%, but Arizona had one of the lowest at 3.5%. Massachusetts had the tenth lowest TEBTR at 3.8%, but its northeast neighbors Pennsylvania (4.5%) and New York (5.7%) had higher effective tax rates.

TEBTRs provide a starting point for comparing business tax burdens across states,⁹ but there are additional factors that determine a state's tax competitiveness which are not captured by the metric. TEBTR does not capture economic incidence, which is the ability of businesses to shift the burden of taxes onto consumers. TEBTRs are also not able to measure the administrative burden companies face when filing their tax returns. States have different definitions of net income that may or may not conform to the federal definition. As a result, different states require companies to make different adjustments, such as addbacks or subtractions, when calculating their net income.

It is also important to note that the TEBTR measures the average tax burden on existing companies. Therefore, two states with similar TEBTRs may differ significantly in how they tax certain industries, which is not considered in this analysis. In addition,



Table 6. State and local business taxes and business taxes as a share of private-sector gross state product (GSP), FY24 (\$ billions)

State	State taxes		Local taxes		State and local taxes		Business taxes per employee (\$ thousands)**
	Business	Total	Business	Total	Business	Total	
Alabama	\$7.7	\$17.0	\$5.0	\$8.8	\$12.7	\$25.9	4.7%
Alaska	1.9	2.2	1.2	2.3	3.0	4.5	5.3%
Arizona	9.7	26.1	7.6	14.8	17.2	40.9	3.5%
Arkansas	5.3	12.8	1.7	3.6	7.0	16.4	4.3%
California	99.3	271.6	75.2	135.9	174.5	407.5	5.0%
Colorado	8.8	21.1	12.5	22.6	21.3	43.7	4.4%
Connecticut	8.0	23.8	3.5	12.9	11.5	36.6	3.6%
Delaware	3.9	6.6	0.7	1.5	4.6	8.1	4.7%
Florida	32.6	64.7	34.0	58.5	66.6	123.2	4.4%
Georgia	12.2	34.1	15.1	26.9	27.3	61.0	3.5%
Hawaii	4.2	11.0	2.1	4.1	6.3	15.1	6.8%
Idaho	3.0	7.5	1.2	2.6	4.3	10.1	3.8%
Illinois	31.2	69.1	25.1	44.5	56.3	113.5	5.5%
Indiana	8.4	26.5	7.1	14.4	15.5	40.9	3.3%
Iowa	5.2	13.1	4.6	8.1	9.8	21.3	4.2%
Kansas	6.0	13.3	3.6	6.5	9.6	19.8	4.8%
Kentucky	7.8	17.5	4.8	8.0	12.6	25.4	4.9%
Louisiana	7.2	16.2	6.9	11.7	14.1	27.9	4.9%
Maine	2.4	6.7	3.0	3.9	5.4	10.6	6.3%
Maryland	13.2	31.6	5.7	22.2	18.9	53.8	4.5%
Massachusetts	16.7	44.0	9.5	23.7	26.3	67.7	3.8%
Michigan	13.1	38.8	7.4	18.4	20.5	57.2	3.3%
Minnesota	13.2	33.8	5.4	11.2	18.6	45.0	4.1%
Mississippi	4.3	10.7	3.5	4.2	7.8	14.9	5.9%
Missouri	5.8	18.4	8.4	16.4	14.2	34.8	3.6%
Montana	2.1	4.9	1.2	2.1	3.4	7.0	5.0%
Nebraska	4.1	8.2	3.5	6.2	7.6	14.3	4.6%
Nevada	8.7	16.2	4.1	6.8	12.8	23.0	5.4%
New Hampshire	2.4	3.7	1.8	4.8	4.2	8.5	3.9%
New Jersey	23.8	55.0	9.0	36.1	32.8	91.1	4.4%
New Mexico	9.1	13.9	2.8	4.9	11.9	18.8	10.6%
New York	47.1	123.1	68.8	129.2	115.9	252.3	5.7%
North Carolina	13.9	39.8	9.5	20.3	23.4	60.2	3.2%
North Dakota	4.6	5.9	1.1	1.7	5.8	7.7	8.1%
Ohio	16.0	38.6	12.7	32.0	28.7	70.6	3.5%
Oklahoma	6.5	13.4	4.4	7.8	10.9	21.2	5.0%
Oregon	7.4	21.1	6.0	11.9	13.3	33.0	4.7%
Pennsylvania	23.5	58.1	17.0	36.0	40.5	94.1	4.5%
Rhode Island	2.0	5.5	1.5	3.0	3.5	8.5	5.1%
South Carolina	6.6	18.3	8.5	12.1	15.0	30.4	5.0%
South Dakota	1.6	2.7	1.3	2.3	2.9	5.0	4.3%
Tennessee	13.5	24.4	6.3	11.9	19.8	36.3	4.0%
Texas	55.2	89.5	52.8	92.2	108.1	181.7	4.4%
Utah	4.9	13.8	4.6	8.3	9.5	22.0	3.6%
Vermont	2.5	4.7	0.9	1.0	3.4	5.8	8.6%
Virginia	11.7	37.9	15.6	25.8	27.2	63.7	4.4%
Washington	21.1	39.3	10.4	23.6	31.5	62.9	4.3%
West Virginia	3.0	7.1	1.9	2.6	4.9	9.7	5.6%
Wisconsin	10.5	26.1	5.9	12.6	16.3	38.7	4.1%
Wyoming	1.9	2.7	1.0	1.4	3.0	4.1	6.8%
District of Columbia	5.9	10.6	0.0	0.0	5.9	10.6	4.8%
United States	\$640.8	\$1,522.6	\$507.3	\$984.2	\$1,148.1	\$2,506.8	4.5%
							\$8.6

*Average of calendar year 2023 and calendar year 2024 private-industry GSP. This is the TEBTR on economic activity occurring within the state.

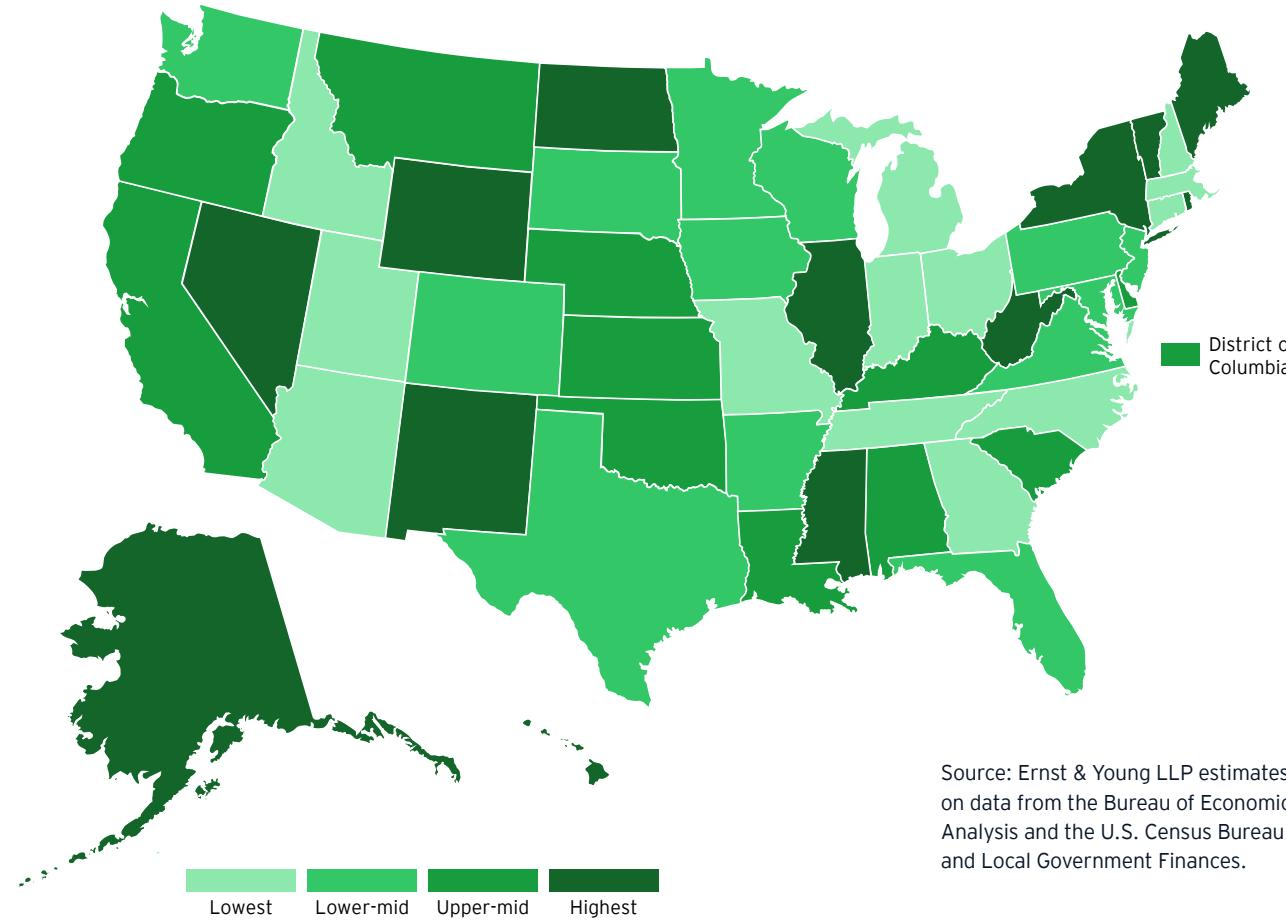
**"Business taxes per employee" calculated using 2024 private-sector employment from Bureau of Labor Statistics Quarterly Census of Employment and Wages and FY24 total state and local business tax collections.

Note: Amounts may not sum because of rounding. TEBTR equals taxes as a percentage of private-sector gross state product.

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



**Figure 5. Total effective business tax rate by state, FY24
(state and local business taxes divided by private-sector GSP in each state)**



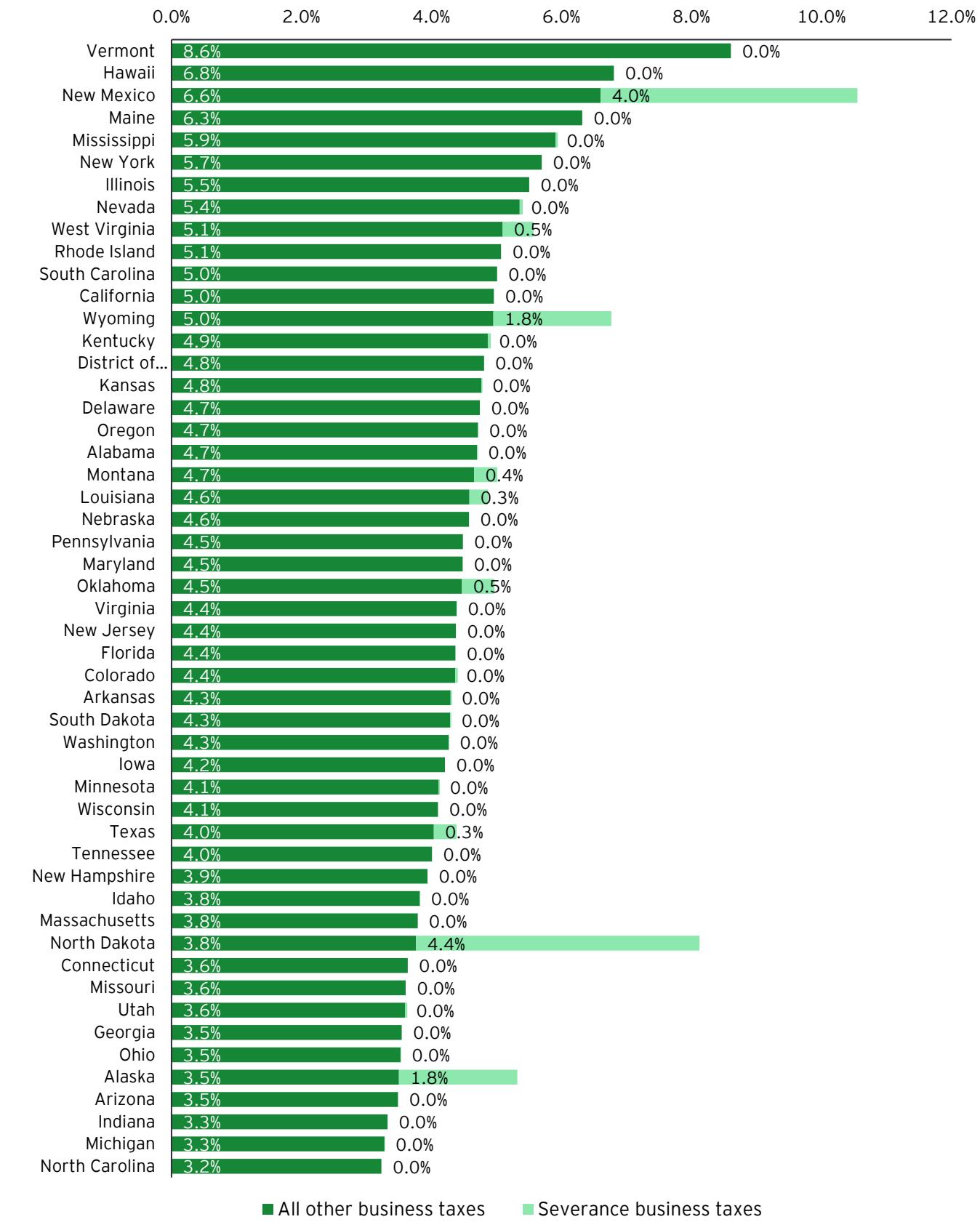
because the TEBTR is an average tax rate, it does not measure the marginal tax liability that a company bears when investing in a new or expanded facility. For this reason, the TEBTR is not a comprehensive measure of how competitive a state's business tax structure is in terms of attracting new investment.

There are many features to a state's corporate income tax structure that affect a business' tax liability beyond the statutory tax rate. Many states have adopted a single-sales factor apportionment formula, as well as market-based sourcing for services. Because these two rules allow a business to source income to their customer's location, businesses benefit when out-of-state customers reside in lower-tax jurisdictions. Although the TEBTR is a reasonable measure of the level of business taxation

in a state as a share of private-sector economic activity, it was not designed to evaluate how the structure of a state's corporate income tax affects the effective tax burden of a company.

In certain states, severance taxes contribute significantly to TEBTR. Estimating TEBTR without severance taxes provides a different view that excludes taxes on the natural resource endowments of states and the significant year-to-year variations related to commodity price changes. For instance, New Mexico, which currently has the highest TEBTR at 10.6%, has a TEBTR of 6.6% when severance tax is excluded (Figure 6). North Dakota (3.8%), Alaska (3.5%) and Wyoming (5.0%) also have significantly lower TEBTR without severance taxes.

Figure 6. Total effective business tax rate decomposition by severance taxes and other business taxes, FY24



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



Table 7 summarizes the share of state and local taxes paid by businesses in each state (including severance taxes), reporting the share of state tax collections, the share of local tax collections, and the share of combined state and local tax collections. While businesses paid 45.8% of state and local taxes in FY24, they paid different shares at the state and local levels, including 42.1% of state tax collections and 51.5% of local tax collections. The difference can be explained by the type of taxes levied at each level. According to Table 2, sales tax was the largest source of business tax collections at the state level, at 29.4%, while Figure 3 reports that businesses only paid 41.8% of state and local sales taxes, or less than half. Table 3 reports that property taxes, at 74.0%, were the largest source of business tax collections at the local level, and Figure 3 shows that businesses paid a majority of state and local property tax collections at 54.1%.

Appendix Table A1 shows historical state and local business tax collections between 2004 and 2024 in 5-year intervals. In general, the business share of state and local tax collections has been stable during this period averaging 44.7% and ranging between 43.4% in 2018 and 45.8% in 2024.

The business share of state and local tax collections varies significantly by state. North Dakota had the highest business share value at 75.3%, while Connecticut had the lowest at 31.5%. Businesses paid at least 60% of state and local tax collections in three other states besides North Dakota: Wyoming (72.5%), Alaska (67.2%) and New Mexico (63.4%). Texas was not far behind those states at 59.5%. In all, there are 18 states and the District of Columbia where businesses paid at least half of state and local tax collections.

Maryland, at 35.1%, and Michigan, at 35.8%, joined Connecticut as the three states where businesses paid the lowest share of total state and local tax collections. Four other states had business shares in the 30% to 40% range, topping out at North Carolina at 38.9%. An additional 23 states had business shares in the 40% range, from Oregon's 40.4% business share to Illinois' 49.6% business share.

The structure of the tax system within each state helps explain whether businesses pay the majority of state and local taxes or not. Alaska, New Mexico, North Dakota and Wyoming rely heavily on severance taxes at the state level, which are the responsibility of businesses. Alaska, North Dakota, Texas and Wyoming also rely more heavily on property taxes at the local level than the national average, and businesses typically pay the majority of property taxes. Lastly, Alaska, South Dakota, Texas and Wyoming do not have an individual income tax, which is predominantly borne by households, which means these states have to rely more heavily on business taxes.

On the other hand, Connecticut, Maryland and Michigan, which have the lowest share of business taxes, rely on the individual income tax and the sales tax for between 45% and 50% of their total state and local tax collections. Households pay most individual income tax collections and the majority of sales taxes.

Table 7. Business share of total state and local taxes, FY24

	Business share of state taxes	Business share of local taxes	Business share of total state and local taxes
Alabama	45.2%	56.8%	49.2%
Alaska	86.0%	49.7%	67.2%
Arizona	37.1%	51.0%	42.1%
Arkansas	41.5%	48.2%	43.0%
California	36.5%	55.3%	42.8%
Colorado	42.0%	55.2%	48.8%
Connecticut	33.7%	27.5%	31.5%
Delaware	59.5%	48.9%	57.5%
Florida	50.4%	58.1%	54.1%
Georgia	35.8%	56.1%	44.8%
Hawaii	37.9%	51.7%	41.6%
Idaho	40.0%	47.8%	42.0%
Illinois	45.2%	56.4%	49.6%
Indiana	31.7%	49.2%	37.8%
Iowa	39.9%	56.1%	46.1%
Kansas	45.2%	55.5%	48.6%
Kentucky	44.6%	59.7%	49.4%
Louisiana	44.3%	59.2%	50.6%
Maine	35.9%	77.2%	51.2%
Maryland	41.6%	25.9%	35.1%
Massachusetts	38.0%	40.2%	38.8%
Michigan	33.7%	40.1%	35.8%
Minnesota	38.9%	48.4%	41.3%
Mississippi	40.3%	82.1%	52.1%
Missouri	31.6%	51.1%	40.8%
Montana	43.6%	59.2%	48.2%
Nebraska	50.1%	57.4%	53.2%
Nevada	53.7%	60.0%	55.6%
New Hampshire	65.5%	37.0%	49.2%
New Jersey	43.2%	25.1%	36.0%
New Mexico	65.8%	56.6%	63.4%
New York	38.3%	53.3%	45.9%
North Carolina	34.9%	46.9%	38.9%
North Dakota	78.3%	65.0%	75.3%
Ohio	41.5%	39.7%	40.7%
Oklahoma	48.9%	55.9%	51.5%
Oregon	35.0%	49.9%	40.4%
Pennsylvania	40.5%	47.1%	43.0%
Rhode Island	36.5%	48.9%	40.8%
South Carolina	36.0%	69.8%	49.5%
South Dakota	58.4%	58.1%	58.3%
Tennessee	55.4%	53.2%	54.7%
Texas	61.7%	57.3%	59.5%
Utah	35.7%	55.2%	43.0%
Vermont	53.4%	81.8%	58.6%
Virginia	30.7%	60.3%	42.7%
Washington	53.6%	44.1%	50.0%
West Virginia	42.3%	74.8%	51.0%
Wisconsin	40.2%	46.5%	42.2%
Wyoming	72.0%	73.4%	72.5%
District of Columbia	56.1%	n/a	56.1%
United States	42.1%	51.5%	45.8%

Note: District of Columbia taxes are treated as state taxes in this analysis.
Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances.





The percentage of taxes paid by businesses in each category varies across states. Table 8 shows the minimum, maximum and average (mean) share those businesses paid in each state in FY24 across categories. Findings include:

- 100% of corporate income and gross receipts taxes and unemployment insurance taxes are paid by businesses in all states.
- For licenses taxes, which include alcoholic beverage license, amusement license taxes, corporate license taxes and other licenses, the average business share of taxes contributed across the states is 61%. Indiana has the lowest average license tax percentage paid by businesses at 33%, while Delaware has the highest at 97%, primarily due to high corporate license fees.
- The average business share of property taxes across the states is 54%, with the lowest business share in New Jersey (25%) and the highest in Mississippi (84%). Business share of property tax varies across each state due to different approaches to taxing property by class, such as different rates, valuation methods and assessment ratios for commercial and residential
- property; homestead exemptions; and differences in the taxation of business personal property. Mississippi specifically has historically had a high business share of property tax due to significant homestead exemptions.
- Excise taxes range from 36% contributed by businesses (Rhode Island) to 83% (District of Columbia), with an average of 52%, while sales tax business shares range from 32% (Indiana) to 60% (New Mexico), with an average of 42%.
- The average business share of individual income tax across all states is 16%, with the highest share in North Dakota at 41% and the lowest in Virginia at 8%.
- Other taxes include death and gift, documentary and stock transfer, and severance taxes. In states like Alaska, Montana, New Mexico, North Dakota and Texas the share of taxes paid by businesses in the other tax category is nearly 100%, primarily due to high severance tax collections. States like Rhode Island have a low share of business taxes for the Other Tax category (6%).

Table 8. Estimated range of business shares of tax collections, by tax
Value of business share in the state with the lowest and highest share of each tax category paid by business, and the overall US share

	Minimum state	Average (mean)	Maximum state
Corporate income and gross receipts taxes	100%	100%	100%
Unemployment tax	100%	100%	100%
Licenses tax	33%	61%	97%
Property tax	25%	54%	84%
Excise tax	36%	52%	83%
Sales tax	32%	42%	60%
Individual income tax on business income	8%	16%	41%
Other taxes	6%	60%	100%
Total business share	31%	46%	75%

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

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

Total state and local business tax collections over time

The growth trajectories of total state and local business tax collections has outpaced general economic expansion as measured by GDP (Figure 7). State business tax collections experienced a slower growth rate than local business tax collections, and at times, its rate of expansion falls behind the pace of the broader economic growth, namely between FY01 and FY03, FY08 and FY10, and FY15 and FY17. State business tax collections grew considerably faster than GDP in FY21 and FY22, then grew more slowly in FY23 and FY24. Local business tax collections have grown more slowly than GDP since 2021 after outpacing GDP growth in FY19 through FY21. State business tax collections vary more year to year than local business taxes, as they have a greater reliance on corporate and individual income taxes and severance taxes, which together made up 37.3% of state business taxes and only 3.6% of local business taxes in FY24. Property taxes, which are more stable year to year, are a substantially larger share of business taxes (74.0%) at the local level than the state level (2.4%) in FY24.

Of the major business tax collections, only general sales tax on business inputs has grown more slowly than GDP since 2001. Property tax on business has grown the same amount as GDP since 2001, as collections outpaced GDP growth from 2001 to 2021 then grew more slowly than GDP from 2021 to 2024. Growth in state and local corporate income tax and individual income tax on business income tends to vary more year-to-year than GDP growth, but both broadly followed GDP growth from 2001 to 2020, with individual income tax collections outpacing GDP somewhat and corporate income tax collections matching GDP growth over the period. Both corporate income tax and individual income tax collections grew much faster than GDP in 2021 and 2022. Corporate income tax collections continued this trend through 2023 before falling in 2024, while individual income tax collections fell in 2023 before growing faster than GDP again in 2024, largely due to big swings in California collections.

Figure 7. State, local business taxes vs. GDP, FY01-FY24 (indexed to FY01)

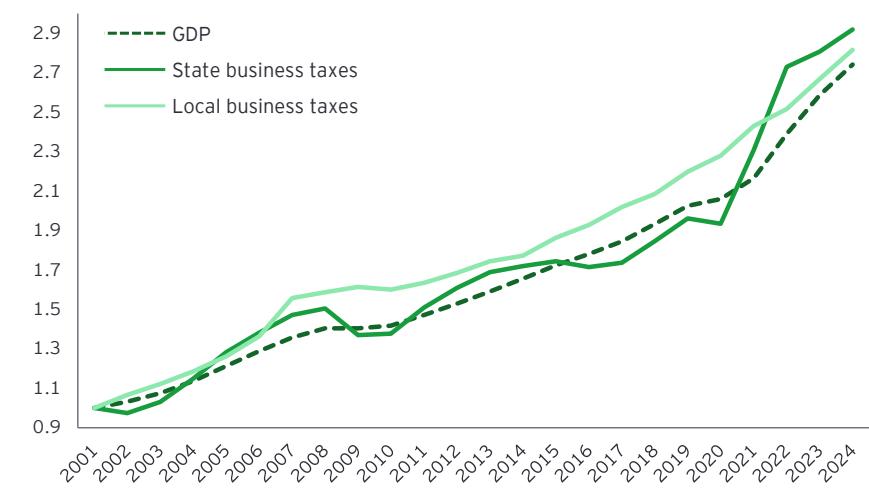
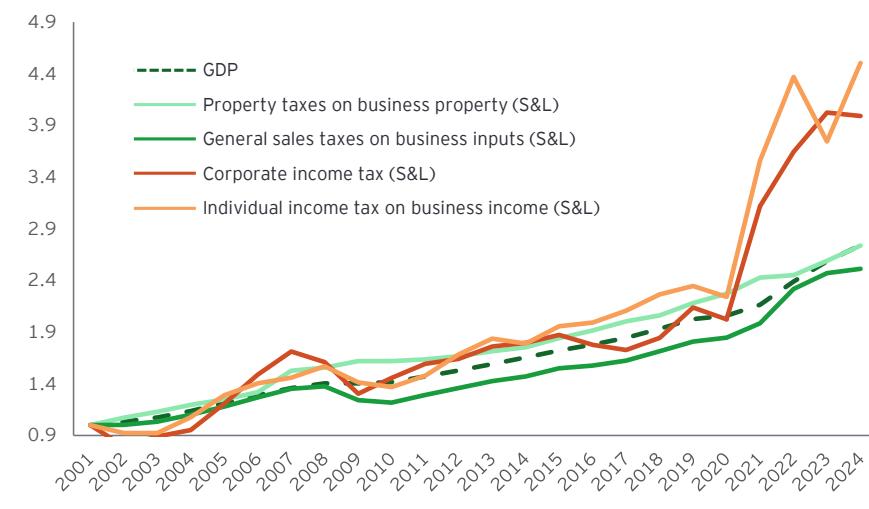


Figure 8. Major state and local business taxes vs. GDP, FY01-FY24 (indexed to FY01)



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

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

Nominal GDP data is from U.S. Bureau of Economic Analysis, Gross Domestic Product [GDP], retrieved from Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis.

Governmental benefits received by businesses vs. taxes paid

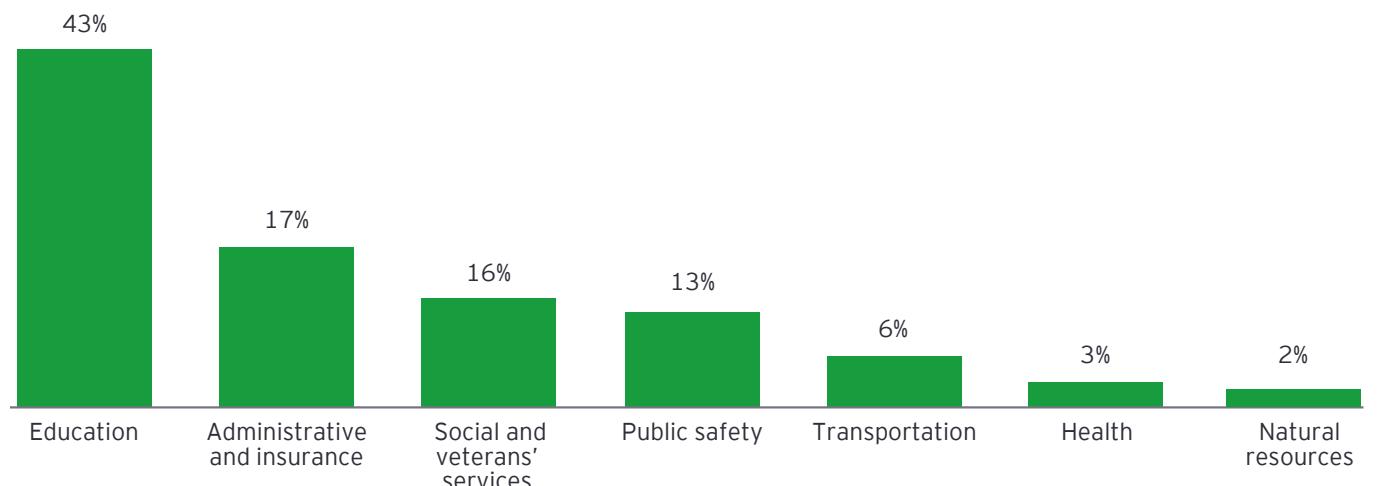
Another method to evaluate the business tax burden is to measure the benefit that businesses receive from government spending. Two identical businesses that pay the same amount of taxes do not face the same tax burden if one receives larger benefits from government spending than the other. Therefore, a "business tax-to-benefit" ratio is estimated as an alternative way of measuring the business tax burden.

Figure 9 shows the share of state and local government spending by major expenditure category in FY24. Education was the largest expenditure category for state and local governments at 43% of total spending. Administrative and insurance was the second largest expenditure category, accounting for 17% of spending by state and local governments. This category includes spending on standard government services such as public buildings, libraries and sanitation. It also includes spending on social insurance items such as unemployment insurance and workers' compensation. Spending on social welfare and veterans' services accounted for 16% of total expenditures, while spending on public safety made

up 13%. The former category includes functions such as veterans' services, housing and community development, and welfare, which includes Medicaid spending.

The analysis follows a methodology that was developed by researchers at the Federal Reserve Bank of Chicago to allocate expenditures between businesses and households, as well as estimate the extent to which each group benefits from the different types of expenditures.¹⁰ Certain expenditures, such as health and human services, were assigned entirely to households because that is where the benefit lay. The benefit of other categories, such as highway infrastructure (transportation) and public safety, were allocated evenly between businesses and households. The "business tax-to-benefit" ratio was calculated by dividing the amount of business taxes in each state by the estimated amount of government expenditures that benefits businesses.

Figure 9. Net state and local government expenditures by category, FY24 (for both households and businesses)



Sources: Ernst & Young LLP estimates of tax-funded revenue based on data from the U.S. Census Bureau State and Local Government Finances and the National Association of State Budget Officers.

Note: Estimated FY24 state and local government expenditures net of federal transfers. EY US estimated growth by category using the FY24 State Expenditure Report published by the National Association of State Budget Officers.



Because spending on education is by far the largest expenditure category, estimates of the "business tax-to-benefit" ratio are sensitive to how the benefits of education are allocated between businesses and households. Although economic theory suggests that individuals are the primary beneficiaries of education spending, business owners also benefit because an educated workforce generates higher returns to capital by improving the productivity of that capital. A review of the literature finds that a 1% increase in the share of workers with a college degree in a city increases output by 0.5 to 0.6 percentage points.¹¹ To the extent that businesses are able to capture some or all of the additional productivity from higher education levels, they are deriving benefits from governmental spending on education.

Higher levels of education can also indirectly impact a business' profitability. For example, a more educated populace may result in lower levels of property crime, which would then lower business costs and increase the return to capital. One study on the social returns of an educated workforce finds that the social benefits, in the form of lower spending on police services and incarceration costs, are equal to between 14% and 26% of the private return to education that accrues to individuals in the form of higher wages.¹²

Given the uncertainty in the degree to which businesses benefit from education spending, and the sensitivity of the "business tax-to-benefit" ratio to this assumption, the analysis presents a range of estimates for the share of educational expenditures that benefit local businesses. The "business tax-to-benefit" ratio is estimated assuming that the benefit of education spending to businesses is either 0%, 25% or 50%.¹³

The results are summarized in Table 9 and Figure 10. The national average "business tax-to-benefit" ratio was 2.37 under the assumption that businesses did not directly benefit from state and local spending on education, meaning businesses paid \$2.37 in

taxes to receive \$1.00 in benefits. Alabama and New Mexico, at 3.7, had the highest "business tax-to-benefit" ratios. Wyoming and Delaware, at 3.6; West Virginia, at 3.5; New Hampshire, at 3.4; Vermont, at 3.3; Indiana, at 3.2; North Dakota, Nevada, Illinois and Maine, at 3.1; and Mississippi, at 3.0 were the other states that had ratios above 3.0. Oregon had the lowest ratio, at 1.6, followed by the Utah at 1.8. Twenty-six states had a "business tax-to-benefit" ratio in the 2.0 range, while the remaining nine states and the District of Columbia had a ratio in the 1.0 range. For these 37 states and the capitol, businesses had to pay between \$1.00 and \$3.00 in taxes to receive \$1.00 in benefits from government spending.

The national average "business tax-to-benefit" ratio was 1.46 under the assumption that businesses received 25% of the benefit from state and local spending on education. New Mexico had the highest ratio at 2.3, while North Dakota was next at 2.2. Nevada at 2.1 and Wyoming 2.0 are the only other states that had ratios of 2.0 or higher. Oregon had the lowest ratio, with 1.1. Businesses in the remaining 46 states and regions had to pay at least \$1.10 in taxes in order to receive \$1.00.

North Dakota and New Mexico, at 1.7, had the highest "business tax-to-benefit" ratios under the assumption that businesses received 50% of the benefit from government spending on education. Nevada, at 1.6, had the second highest ratio. There were 16 states with a ratio less than 1, ranging from Michigan at 0.8 to Tennessee at 0.99. In these states, businesses paid less than \$1.00 in taxes to receive \$1.00 in benefits from government spending. On average across the 50 states and the District of Columbia, businesses paid \$1.06 in taxes to receive \$1.00 in benefits when half of education spending is assumed to benefit businesses.

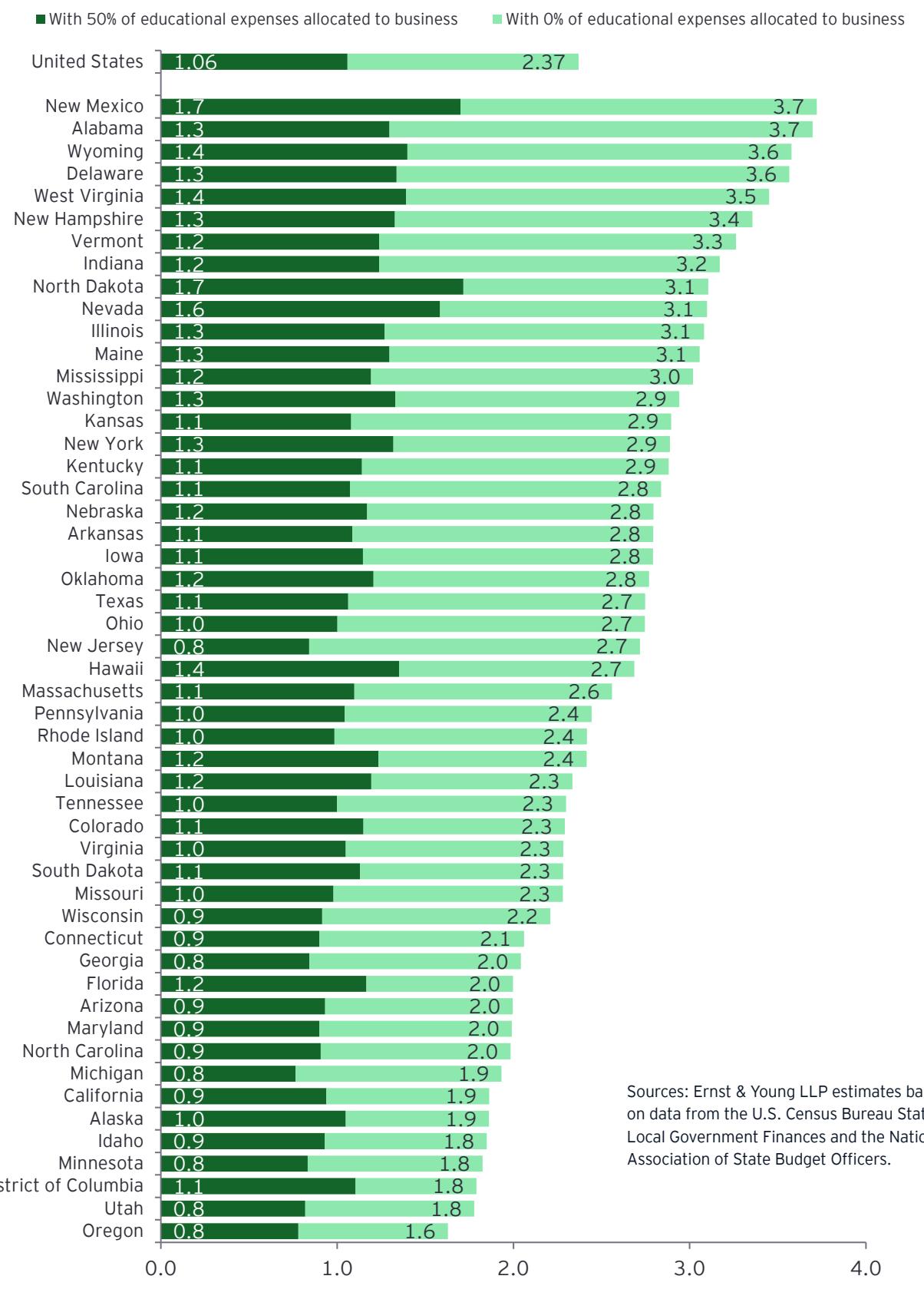
Table 9. Ratio of business taxes to government expenditures benefiting businesses, FY24 (\$ billions)

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	Tax-benefit ratio	Total state and local spending benefiting business	Tax-benefit ratio	Total state and local spending benefiting business	Tax-benefit ratio
Alabama	\$12.7	\$3.4	3.7	\$6.6	1.9	\$9.8	1.3
Alaska	3.0	1.6	1.9	2.3	1.3	2.9	1.0
Arizona	17.2	8.6	2.0	13.6	1.3	18.5	0.9
Arkansas	7.0	2.5	2.8	4.5	1.6	6.5	1.1
California	174.5	93.7	1.9	139.8	1.2	185.9	0.9
Colorado	21.3	9.3	2.3	13.9	1.5	18.6	1.1
Connecticut	11.5	5.6	2.1	9.2	1.3	12.8	0.9
Delaware	4.6	1.3	3.6	2.4	1.9	3.5	1.3
Florida	66.6	33.4	2.0	45.2	1.5	57.1	1.2
Georgia	27.3	13.4	2.0	22.9	1.2	32.4	0.8
Hawaii	6.3	2.3	2.7	3.5	1.8	4.7	1.4
Idaho	4.3	2.3	1.8	3.4	1.2	4.6	0.9
Illinois	56.3	18.3	3.1	31.3	1.8	44.4	1.3
Indiana	15.5	4.9	3.2	8.7	1.8	12.5	1.2
Iowa	9.8	3.5	2.8	6.0	1.6	8.6	1.1
Kansas	9.6	3.3	2.9	6.1	1.6	8.9	1.1
Kentucky	12.6	4.4	2.9	7.7	1.6	11.0	1.1
Louisiana	14.1	6.0	2.3	8.9	1.6	11.8	1.2
Maine	5.4	1.8	3.1	3.0	1.8	4.2	1.3
Maryland	18.9	9.5	2.0	15.2	1.2	21.0	0.9
Massachusetts	26.3	10.3	2.6	17.1	1.5	23.9	1.1
Michigan	20.5	10.6	1.9	18.7	1.1	26.7	0.8
Minnesota	18.6	10.2	1.8	16.2	1.1	22.3	0.8
Mississippi	7.8	2.6	3.0	4.5	1.7	6.5	1.2
Missouri	14.2	6.2	2.3	10.3	1.4	14.5	1.0
Montana	3.4	1.4	2.4	2.1	1.6	2.7	1.2
Nebraska	7.6	2.7	2.8	4.6	1.6	6.5	1.2
Nevada	12.8	4.1	3.1	6.1	2.1	8.1	1.6
New Hampshire	4.2	1.2	3.4	2.2	1.9	3.1	1.3
New Jersey	32.8	12.1	2.7	25.6	1.3	39.0	0.8
New Mexico	11.9	3.2	3.7	5.1	2.3	7.0	1.7
New York	115.9	40.1	2.9	64.0	1.8	87.9	1.3
North Carolina	23.4	11.8	2.0	18.8	1.2	25.8	0.9
North Dakota	5.8	1.9	3.1	2.6	2.2	3.4	1.7
Ohio	28.7	10.5	2.7	19.6	1.5	28.7	1.0
Oklahoma	10.9	3.9	2.8	6.5	1.7	9.0	1.2
Oregon	13.3	8.2	1.6	12.6	1.1	17.1	0.8
Pennsylvania	40.5	16.6	2.4	27.7	1.5	38.8	1.0
Rhode Island	3.5	1.4	2.4	2.5	1.4	3.5	1.0
South Carolina	15.0	5.3	2.8	9.7	1.6	14.0	1.1
South Dakota	2.9	1.3	2.3	1.9	1.5	2.6	1.1
Tennessee	19.8	8.6	2.3	14.2	1.4	19.9	1.0
Texas	108.1	39.3	2.7	70.5	1.5	101.7	1.1
Utah	9.5	5.3	1.8	8.4	1.1	11.6	0.8
Vermont	3.4	1.0	3.3	1.9	1.8	2.7	1.2
Virginia	27.2	11.9	2.3	18.9	1.4	25.9	1.0
Washington	31.5	10.7	2.9	17.2	1.8	23.6	1.3
West Virginia	4.9	1.4	3.5	2.5	2.0	3.6	1.4
Wisconsin	16.3	7.4	2.2	12.6	1.3	17.9	0.9
Wyoming	3.0	0.8	3.6	1.5	2.0	2.1	1.4
District of Columbia	5.9	3.3	1.8	4.3	1.4	5.4	1.1
United States	\$1,148.1	\$484.6	2.37	\$784.8	1.46	\$1,085.1	1.06

Note: Amounts may not sum because of rounding.

Sources: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances and the National Association of State Budget Officers.

Figure 10. Business taxes per dollar of net government spending that benefits businesses, FY24 (values shown are equal to business taxes divided by government spending that benefits businesses)



Sources: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances and the National Association of State Budget Officers.

Estimating 'excess tax' paid by business based on deviation from neutral tax design



The prior section examined the level of business taxes in relation to the level of services received by business as one way of considering whether businesses pay their fair share of taxes. This section presents another comparison intended to provide perspective on the level of taxes paid by business in excess of what they would pay under a neutral tax system. The section focuses on the largest two taxes paid by business – the sales tax on business inputs and the property tax on business property – that together make up about three-fifths of all taxes on business. The excess sales tax on business inputs is measured by the taxes paid on inputs used to produce taxable goods and services (the tax pyramided share). The excess property tax on business property is measured by the amounts business would have paid with the same effective tax rate and personal property tax base as homeowners. Table 10 presents estimated state and local business taxes paid for property and sales on business inputs as well as the excess amount based on deviations from optimal or neutral tax designs. An estimated \$261.8 billion of property tax and sales tax on business inputs paid by businesses is excess tax under this definition, accounting for 41% of these tax collections.

Property taxes paid by businesses

Property taxes are the largest state and local business tax and, in most states, business property is taxed with higher statutory rates and higher assessment ratios and without standard exemptions, resulting in a higher overall effective tax rate compared to

homeowner property. The average effective tax rates (ETRs) on real business property is 1.7%, and the average effective rate on homeowner property is 1.2% (Table 11). In other words, businesses pay 1.5 times what homeowners pay on real property.

Because of this difference in ETRs, businesses paid \$118.8 billion of real property tax in FY24 in excess of what they would have paid if taxed at the same ETR as homeowner property. Additionally, personal property tax is paid almost exclusively by businesses, with only 12 states taxing household motor vehicles as property. This results in an additional \$22.5 billion in excess business personal property tax due to differences in personal property tax base treatment between business and homeowners.¹⁴

In total, businesses paid \$141.4 billion more in property tax than they would have paid under a neutral tax design with the same ETR and personal property tax base as homeowners. This constitutes 36% of the total property tax paid by businesses in FY24.

Pyramided sales taxes on business inputs

Sales taxes on business inputs are the second largest state and local business tax paid by businesses. Most US state retail sales tax systems are designed as consumption taxes, making any tax on business inputs used to produce taxable output inconsistent with that objective from a policy perspective. There is widespread

Table 10. Estimated excess property and sales taxes for business in absence of neutral tax design, FY24 (\$ billions)

	Estimated business tax paid (EY)	Estimated tax if business property is taxed at homeowner ETR/tax base and SUT on non-pyramided business inputs	Excess tax based on neutral tax design
Property tax on business property	\$390.3	\$249.0	\$141.4
Sales tax on business inputs	\$245.3	\$124.8	\$120.5
Total selected taxes	\$635.6	\$373.8	\$261.8

Sources: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances and the Lincoln Institute of Land Policy/Minnesota Center for Fiscal Excellence 50-state property tax comparison study.

Table 11. Excess business property tax compared to current homeowner rate and personal property tax base, FY24 (\$ billions)

Real business property ETR to homeowner ETR ratio	
Homeowner ETR	1.2%
Business real property ETR	1.7%
Real business property classification ratio	1.5
Business real property tax if taxed at the homeowner ETR	
Total state and local property tax on business real property	\$366.9
Business real property tax if taxed at homeowner rate	\$248.1
Excess business real property tax	\$118.8
Business personal property tax if taxed based on the homeowner personal property tax base	
Business paid personal property tax	\$23.4
Business paid personal property tax on vehicles	\$0.9
Business paid personal property tax on all other property	\$22.5
Excess business personal property tax	\$22.5
Total excess business property tax	
Excess business property tax as a share of total business property tax	36.2%

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances and the Lincoln Institute of Land Policy/Minnesota Center for Fiscal Excellence 50-state property tax comparison study.¹⁵
Note: effective tax rates are based on 2023 tax rate and assessed value data.

agreement among sales tax experts that an optimally designed retail sales tax should exempt all or most business inputs to avoid sales tax pyramiding. At a minimum, a well-designed sales tax should exempt business inputs used to produce taxable goods or services.¹⁶ Table 12 below disaggregates the \$245.3 billion of sales tax paid on business inputs in FY24 into two amounts: (1) the amount paid in relation to inputs purchased by businesses which sell exempt goods or services and (2) amounts paid on inputs used to produce taxable goods and services and exports (the pyramided amount). An estimated \$120.5 billion of the sales tax on business inputs is related to purchases of inputs to produce taxable goods, which is likely paid twice (once on the value of inputs and again on the value of output or production for exports) which theoretically should not be levied. These taxes would be considered in excess of the tax that would have been levied by a neutral consumption tax.

Table 12. Estimated pyramided sales taxes paid by business in the production of taxable goods and services, FY24 (\$ billions)

Business sales tax on inputs	
Total state and local sales tax on business inputs	\$245.3
Amount paid to produce taxable output (pyramided amount)	\$120.5
Share of sales tax that results in pyramiding	49%

Sources: Ernst & Young LLP estimates based on data from the Bureau of Economic Analysis and the U.S. Census Bureau Annual Survey of State and Local Government Finances.

Conclusion

Businesses paid \$1.1 trillion in state and local taxes in FY24, representing a 4.7% increase over the previous year. The business share of state and local tax collections was 45.8%, which was in line with historical years. The overall total effective business tax rate was 4.5% in FY24.

Tax collections from taxing business property grew by 5.7% in FY24 to \$390.3 billion. Property taxes account for 34.0% of all state and local taxes paid by businesses, the most of any tax category. Sales tax collections from business purchases of intermediate inputs and capital expenditures are the second largest source of business tax revenue for state and local governments, accounting for 21.4% of all taxes paid by businesses in FY24. The \$245.3 billion in sales tax collections was 1.7% higher than FY23. Corporate income and gross receipts tax collections, which accounted for 12.4% of total business tax collections, decreased by 0.8% in FY24 to \$142.8 billion. Individual income tax on pass-through business income accounts for 8.1% of total business tax collections and grew 20.3% from FY23 to \$92.7 billion.





Table A1. Total state and local taxes, FY04-FY24 (\$ billions)

State and local taxes	2004	2009	2014	2019	2024
Total business taxes	\$465.7	\$591.4	\$696.5	\$826.3	\$1,148.1
Total household taxes	\$578.2	\$722.2	\$844.2	\$1,068.7	\$1,358.7
Total state and local taxes	\$1,043.9	\$1,313.6	\$1,540.8	\$1,895.0	\$2,506.8
Composition of state and local taxes	2004	2009	2014	2019	2024
Total business taxes	44.6%	45.0%	45.2%	43.6%	45.8%
Total household taxes	55.4%	55.0%	54.8%	56.4%	54.2%
Total state and local taxes	100%	100%	100%	100%	100%

Note: Amounts may not sum because of rounding.

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

Table A2. Composition of state and local business taxes, FY20-FY24 (\$ billions)

Business tax	2020	2021	2022	2023	2024
Property tax on business property	\$324.1	\$346.3	\$349.6	\$369.2	\$390.3
General sales and use tax on inputs	180.4	193.9	226.3	241.3	245.3
Corporate income and gross receipts taxes	72.4	111.6	130.4	144.0	142.8
Individual income tax on business income	46.1	73.2	89.9	77.0	92.7
Unemployment comp.	34.8	36.1	41.2	40.6	39.8
Business license tax	42.0	44.5	46.9	48.6	51.4
Excise taxes	52.8	52.5	58.9	62.3	65.7
Public utility tax	27.6	27.4	28.2	30.4	31.8
Severance taxes	11.6	11.8	25.9	26.2	21.7
Insurance premium tax	25.8	27.4	29.8	33.9	36.1
Other business taxes	17.9	19.8	25.3	23.5	30.6
Total business taxes	\$835.4	\$944.5	\$1,052.5	\$1,096.9	\$1,148.1

Note: Amounts may not sum because of rounding. FY23 tax estimates are revised from the COST FY23 study because of newly released data from the U.S. Census Bureau.

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

Table A3. Composition of state and local business taxes by type, FY24

State	Property tax	Sales tax	Excise tax	Individual income tax	Corporate income and gross receipts taxes	Unemployment insurance tax	License and other taxes*	Total business taxes
Alabama	25.4%	22.7%	19.0%	6.3%	17.2%	1.2%	8.4%	100.0%
Alaska	37.7%	—	7.1%	—	12.8%	6.2%	36.2%	100.0%
Arizona	33.0%	35.4%	8.6%	4.8%	10.4%	2.3%	5.4%	100.0%
Arkansas	22.8%	36.7%	14.8%	5.0%	13.8%	1.2%	5.7%	100.0%
California	31.5%	16.7%	10.1%	14.7%	9.9%	3.5%	13.6%	100.0%
Colorado	40.3%	23.5%	9.6%	6.5%	11.9%	4.3%	4.0%	100.0%
Connecticut	29.9%	21.0%	12.9%	18.1%	10.7%	4.9%	2.6%	100.0%
Delaware	13.6%	—	7.8%	8.8%	11.8%	1.4%	56.7%	100.0%
Florida	38.0%	28.9%	14.6%	—	9.1%	2.5%	6.9%	100.0%
Georgia	39.2%	24.4%	11.1%	6.4%	13.2%	1.8%	3.9%	100.0%
Hawaii	23.3%	30.6%	18.9%	6.8%	8.2%	7.3%	4.8%	100.0%
Idaho	26.2%	23.6%	9.4%	9.5%	20.4%	3.2%	7.7%	100.0%
Illinois	37.0%	12.7%	13.5%	7.4%	21.1%	3.8%	4.5%	100.0%
Indiana	40.0%	22.6%	13.1%	13.2%	6.2%	2.5%	2.5%	100.0%
Iowa	40.1%	24.8%	8.9%	9.8%	6.6%	4.1%	5.8%	100.0%
Kansas	34.5%	24.0%	9.7%	10.6%	15.2%	2.6%	3.3%	100.0%
Kentucky	28.7%	20.1%	16.5%	9.5%	18.7%	1.9%	4.6%	100.0%
Louisiana	29.6%	31.8%	12.7%	3.7%	7.2%	1.5%	13.5%	100.0%
Maine	55.6%	15.2%	6.8%	6.6%	8.5%	2.7%	4.5%	100.0%
Maryland	22.9%	15.1%	15.5%	10.3%	25.7%	3.7%	7.0%	100.0%
Massachusetts	33.9%	17.2%	6.0%	10.8%	24.0%	3.6%	4.6%	100.0%
Michigan	38.8%	22.6%	10.9%	6.7%	8.1%	5.9%	6.9%	100.0%
Minnesota	27.5%	22.5%	14.3%	8.5%	17.3%	4.5%	5.3%	100.0%
Mississippi	43.0%	23.4%	11.9%	4.1%	9.2%	1.2%	7.1%	100.0%
Missouri	37.9%	27.6%	11.1%	8.7%	5.6%	2.6%	6.5%	100.0%
Montana	44.1%	—	12.1%	13.3%	9.2%	4.7%	16.6%	100.0%
Nebraska	38.3%	20.3%	5.3%	7.5%	22.6%	1.1%	4.8%	100.0%
Nevada	24.1%	35.0%	16.3%	—	2.7%	6.6%	15.3%	100.0%
New Hampshire	45.2%	—	11.2%	0.6%	29.1%	1.5%	12.2%	100.0%
New Jersey	26.6%	19.7%	9.9%	13.5%	14.1%	9.8%	6.5%	100.0%
New Mexico	12.5%	32.0%	5.1%	3.3%	4.5%	1.4%	41.1%	100.0%
New York	37.0%	15.7%	8.4%	15.9%	15.8%	2.9%	4.3%	100.0%
North Carolina	29.5%	29.9%	13.6%	8.7%	6.7%	3.1%	8.7%	100.0%
North Dakota	15.6%	14.0%	5.4%	2.5%	4.5%	1.4%	56.5%	100.0%
Ohio	34.9%	23.6%	15.9%	5.2%	9.5%	4.0%	6.9%	100.0%
Oklahoma	24.7%	29.4%	9.3%	12.6%	6.3%	3.0%	14.6%	100.0%
Oregon	31.4%	—	14.1%	9.4%	23.9%	8.4%	12.9%	100.0%
Pennsylvania	32.6%	17.3%	12.5%	7.6%	14.2%	7.1%	8.7%	100.0%
Rhode Island	40.7%	17.0%	13.1%	6.1%	11.6%	7.1%	4.4%	100.0%
South Carolina	44.1%	20.7%	11.2%	4.3%	9.0%	1.6%	9.1%	100.0%
South Dakota	33.1%	43.4%	10.8%	—	2.1%	1.4%	9.2%	100.0%
Tennessee	22.9%	33.7%	13.7%	0.0%	15.4%	1.1%	13.2%	100.0%
Texas	40.0%	29.0%	12.2%	—	6.3%	2.0%	10.4%	100.0%
Utah	33.0%	25.5%	12.2%	6.6%	15.3%	3.4%	4.1%	100.0%
Vermont	56.7%	9.3%	13.8%	7.3%	7.6%	2.1%	3.3%	100.0%
Virginia	45.2%	13.6%	17.1%	5.7%	9.1%	0.9%	8.3%	100.0%
Washington	23.2%	27.2%	14.5%	0.1%	20.4%	6.2%	8.4%	100.0%
West Virginia	31.1%	17.3%	18.6%	5.5%	9.4%	2.9%	15.1%	100.0%
Wisconsin	33.0%	21.3%	8.8%	7.0%	20.6%	3.5%	5.8%	100.0%
Wyoming	40.7%	21.6%	4.5%	—	—	1.8%	31.4%	100.0%
District of Columbia	41.5%	14.0%	6.4%	11.1%	19.1%	2.5%	5.3%	100.0%
United States	34.0%	21.4%	11.6%	8.1%	12.4%	3.5%	9.0%	100.0%

*Business income and gross receipts taxes include gross receipts taxes levied in Nevada, Ohio, Texas and Washington and the business enterprise tax in New Hampshire. "Excise taxes" include insurance premiums and public utilities. "Other taxes" include death and gift taxes, documentary and stock transfer taxes, severance taxes and local gross receipts taxes. Certain Ohio localities impose a net profits tax, which is included in the "Corporate income" column. The small amount of corporate profits taxes at the local level in Michigan is included in "other taxes."

Note: Amounts may not sum because of rounding. "—" indicates 0; "0.0%" indicates less than 0.05%.

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

Table A4. Composition of total state and local taxes by type, FY24

State	Property tax	Sales tax	Excise tax	Individual income tax	Corporate income and gross receipts taxes			Total taxes
					Unemployment insurance tax	License and other taxes*		
Alabama	16.3%	31.7%	16.1%	21.0%	8.4%	0.6%	5.9%	100.0%
Alaska	40.7%	8.2%	11.9%	—	8.6%	4.2%	26.5%	100.0%
Arizona	22.7%	45.1%	6.2%	16.8%	4.4%	1.0%	3.8%	100.0%
Arkansas	17.9%	42.1%	12.6%	16.9%	5.9%	0.5%	4.1%	100.0%
California	23.9%	18.4%	7.3%	36.1%	4.2%	1.5%	8.5%	100.0%
Colorado	31.6%	27.4%	9.6%	19.6%	5.8%	2.1%	3.9%	100.0%
Connecticut	34.6%	17.0%	8.0%	32.7%	3.4%	1.5%	2.7%	100.0%
Delaware	14.8%	—	8.5%	31.4%	6.8%	0.8%	37.8%	100.0%
Florida	35.6%	37.0%	12.7%	—	4.9%	1.3%	8.5%	100.0%
Georgia	30.8%	24.9%	8.7%	26.3%	5.9%	0.8%	2.7%	100.0%
Hawaii	17.8%	35.2%	13.3%	21.7%	3.4%	3.1%	5.6%	100.0%
Idaho	23.7%	30.7%	7.5%	22.1%	8.6%	1.4%	6.0%	100.0%
Illinois	31.4%	17.0%	14.3%	19.9%	10.5%	1.9%	5.0%	100.0%
Indiana	23.4%	26.8%	13.1%	30.4%	2.4%	0.9%	3.0%	100.0%
Iowa	32.9%	24.3%	9.3%	22.5%	3.0%	1.9%	6.1%	100.0%
Kansas	28.9%	28.5%	8.0%	22.8%	7.4%	1.3%	3.2%	100.0%
Kentucky	20.5%	22.8%	14.9%	27.8%	9.2%	1.0%	3.8%	100.0%
Louisiana	18.7%	39.3%	12.7%	17.5%	3.6%	0.8%	7.4%	100.0%
Maine	36.7%	22.3%	8.1%	22.7%	4.4%	1.4%	4.5%	100.0%
Maryland	23.4%	12.7%	12.6%	35.5%	9.0%	1.3%	5.6%	100.0%
Massachusetts	33.1%	13.9%	5.2%	32.7%	9.3%	1.4%	4.4%	100.0%
Michigan	33.7%	22.2%	10.1%	23.4%	2.9%	2.1%	5.6%	100.0%
Minnesota	23.9%	20.0%	11.9%	29.5%	7.1%	1.9%	5.7%	100.0%
Mississippi	26.8%	34.0%	12.8%	15.6%	4.8%	0.6%	5.4%	100.0%
Missouri	27.8%	28.7%	8.9%	27.2%	2.3%	1.0%	4.2%	100.0%
Montana	35.7%	—	13.4%	32.2%	4.5%	2.3%	11.9%	100.0%
Nebraska	33.9%	24.7%	5.4%	17.3%	12.0%	0.6%	6.1%	100.0%
Nevada	21.9%	42.2%	20.1%	—	1.5%	3.7%	10.6%	100.0%
New Hampshire	60.9%	—	12.1%	2.2%	14.4%	0.8%	9.7%	100.0%
New Jersey	38.9%	16.4%	6.7%	25.0%	5.1%	3.5%	4.4%	100.0%
New Mexico	14.8%	33.6%	6.2%	14.1%	2.9%	0.9%	27.5%	100.0%
New York	28.6%	17.1%	7.1%	33.8%	7.3%	1.3%	4.8%	100.0%
North Carolina	23.2%	28.3%	11.2%	27.7%	2.6%	1.2%	5.8%	100.0%
North Dakota	16.9%	21.9%	7.9%	4.7%	3.4%	1.1%	44.2%	100.0%
Ohio	28.6%	23.7%	13.3%	25.0%	3.9%	1.6%	4.0%	100.0%
Oklahoma	21.3%	31.9%	9.8%	21.3%	3.3%	1.6%	10.8%	100.0%
Oregon	27.1%	--	11.6%	38.6%	9.6%	3.4%	9.7%	100.0%
Pennsylvania	25.5%	17.7%	13.5%	25.4%	6.1%	3.0%	8.7%	100.0%
Rhode Island	34.1%	19.2%	14.6%	21.1%	4.7%	2.9%	3.3%	100.0%
South Carolina	28.3%	27.7%	11.9%	20.2%	4.4%	0.8%	6.6%	100.0%
South Dakota	33.0%	43.3%	12.5%	—	1.2%	0.8%	9.2%	100.0%
Tennessee	21.5%	45.7%	14.1%	0.0%	8.4%	0.6%	9.7%	100.0%
Texas	41.3%	32.9%	13.1%	—	3.8%	1.2%	7.7%	100.0%
Utah	23.9%	29.5%	9.2%	26.0%	6.6%	1.5%	3.5%	100.0%
Vermont	40.0%	10.8%	16.6%	21.6%	4.4%	1.3%	5.3%	100.0%
Virginia	31.7%	14.5%	14.1%	29.8%	3.9%	0.4%	5.6%	100.0%
Washington	26.6%	37.2%	12.4%	0.6%	10.2%	3.1%	9.9%	100.0%
West Virginia	21.0%	19.9%	19.0%	23.4%	4.8%	1.5%	10.4%	100.0%
Wisconsin	30.0%	21.7%	7.9%	25.5%	8.7%	1.5%	4.8%	100.0%
Wyoming	39.2%	26.8%	6.4%	—	—	1.3%	26.3%	100.0%
District of Columbia	28.4%	18.9%	4.3%	29.7%	10.7%	1.4%	6.5%	100.0%
United States	28.8%	23.4%	10.3%	23.4%	5.7%	1.6%	6.8%	100.0%

*Taxes in the "License and other taxes" column include death and gift taxes, documentary and stock transfer taxes, severance taxes and local gross receipts taxes.

Note: Amounts may not sum because of rounding. "—" indicates 0; "0.0%" indicates less than 0.05%.

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



Endnotes

- 1 The fiscal year runs from July 1 to June 30 for 46 states. States that follow a different fiscal year are New York (ends March 31), Texas (ends August 31), Alabama (ends September 30) and Michigan (ends September 30). The data presented in this study is for each state's fiscal year.
- 2 The EY sales tax model used to estimate business shares was updated for all 50 states in FY17. As a result, prior-year estimates for sales taxes paid by businesses were updated and are shown in the historical appendix tables. See Andrew Phillips and Muath Ibaid, *The Impact of Imposing Sales Taxes on Business Inputs*, prepared for the State Tax Research Institute and Council On State Taxation, Ernst & Young LLP, May 2019.
- 3 The general methodology used to estimate state and local business taxes is described in detail in the appendix of the EY/COST 50-state business tax study for FY05 (published in March 2006 and available at cost.org). Note that business tax estimates for prior years have been revised from earlier editions of this study because of revisions to Census Bureau data. All references to prior fiscal year estimates of business taxes refer to the updated estimates in this study rather than previously published estimates.
- 4 The business share of property by state was last updated for FY22.
- 5 Andrew Phillips and Muath Ibaid, *The Impact of Imposing Sales Taxes on Business Inputs*, prepared for the State Tax Research Institute and Council On State Taxation, Ernst & Young LLP, May 2019.
- 6 The business share of documentary and stock transfer was updated in the FY24 report to reflect the updated average share of commercial transactions as a percent of total real estate transactions.
- 7 State-by-state reporting of corporate income and gross receipts taxes and individual income tax collections has changed over the last several years due to new pass-through entity taxes being enacted in most states. Many states now report PTE tax with corporate income tax for the Census State Tax Collection survey. In places where the amount of PTE tax being added to corporate income can be found in state government financial reports, it is removed from corporate income tax and added back to individual income tax and reported as a portion of individual income tax on business income tax. Otherwise, corporate income and gross receipts tax collections are from Census state and local collection surveys. Taxes paid by sole proprietors and other pass-through businesses that did not pay at the entity level, along with the business share of individual income tax in states without a PTE tax or that do not report PTE tax directly, are estimated using data from the Internal Revenue Service and the Bureau of Economic Analysis.



8 Prior to 2018, individual taxpayers were generally able to deduct 100% of property tax, sales and use tax, and income tax paid to state and local governments as an itemized deduction on their federal income taxes. The TCJA of 2017 limited this deduction to \$10,000; the OBBBA of 2025 increased the deduction limit to \$40,000. The cap does not apply to tax that is "paid or accrued in carrying on a trade or business." This means that taxes paid at the entity level (i.e., by the business rather than personally by the business owner) are not subject to the cap. State governments have enacted special PTE tax in which business owners pay state and local income tax at the entity level. This allows the business owners to show the portion of their income derived from trade or business, which excludes that deduction from the limit. Business owners paying the PTE tax then receive a credit on their state income tax for their share of taxable PTE income paid.

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

10 The methodology used to allocate state and local government expenditures between businesses and households 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, as well as Richard H. Mattoon and William A. Testa, "How Closely Do Business Taxes Conform to the Benefits Principle?" Future State Business Tax Reforms: Perspectives from the Business, Government and Academic Communities Conference, Federal Reserve Bank of Chicago, September 17, 2007. Businesses benefit from various government expenditures such as general government "overhead" (e.g., legislative, administrative and judicial services), police and fire protection, transportation, and water and sewer infrastructure.

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

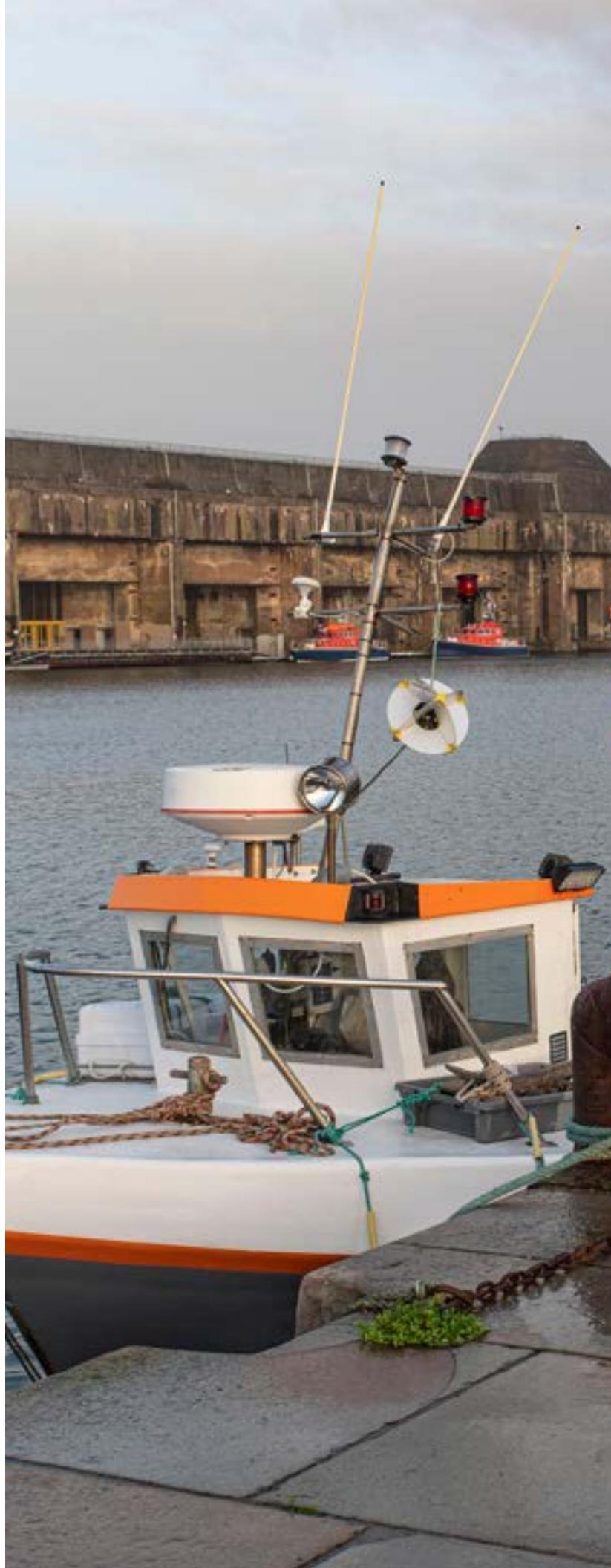
12 Lance Lochner and Enrico Moretti, "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports," *National Bureau of Economic Research Working Paper 8605*, November 2001.

13 The tax-benefit ratios constructed in this study follow the general methodology of Mattoon and Testa and Oakland and Testa to allocate expenditures between businesses and households. Expenditure data from the U.S. Census Bureau's State and Local Government Finances survey was used to estimate state and local spending for different major categories. Ernst & Young LLP added additional expenditure categories to the analysis. The general principles of Mattoon and Testa and Oakland and Testa were followed in allocating expenditures to these new categories.

14 Effective tax rates on real business property are estimated for each state using commercial, industrial, and apartment ETRs from Lincoln Institute of Land Policy/Minnesota Center for Fiscal Excellence study, along with EY US estimated ETRs for agriculture, utility and other property. These ETRs are then weighted by the state's respective distribution of property by value based on tax data from state government websites. Personal property tax is assumed to be 5% of total property tax in states that tax personal property based on EY analysis of property tax collections by state, with 1% of total property tax assumed to be personal property paid by households in the 12 states that tax household vehicles as personal property.

15 "50-State Property Tax Comparison Study for Taxes Paid in 2023," *Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence*, July 2024.

16 Karl A. Frieden and Fredrick J. Nicely, "Digital-Business Input Exemptions: Lessons from Sales Tax History," *Tax Notes State*, January 29, 2024.



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