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2013 State Business Tax Burden Rankings

AEG Annual State Rankings, 4th Edition

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I.Executive Summary

PURPOSE

This report contains our state business tax burden rankings for all 50 states and the District of Columbia for 2011. We define the business tax burden as the total state and local taxes paid by business as a share of pre-tax operating margin, a measure of the money businesses have available to pay the tax.

The purposes of this report are to:

- Identify the major state and local taxes paid by businesses,
- Estimate the total amount of state and local taxes paid in 2011 by business in each state,
- Estimate each state's business tax burden in 2011 using state and local taxes paid as a share of business' pre-tax operating margin, and
- Rank all 50 states and the District of Columbia by 2011 business tax burden.

The rankings and other information in this report will allow employers, policy makers, and other stakeholders to compare the tax burdens imposed on employers in different states.

OUR APPROACH

We address the burden of state and local taxes on businesses by estimating the actual amount of tax paid directly by business compared to business's pre-tax operating margin (one measure of a business's "ability to pay" these taxes). This approach provides a comprehensive, objective measure of the state and local tax burden. We do not weight some taxes more than others, nor do we rely on any subjective judgement about which taxes are better than others.

We used over 60 state and national sources to collect this information on 11 different categories of taxes, including property, income, sales, excise, license, severance, and other taxes. See "Methodology" on page 6 for more information.

KEY FINDINGS

- US businesses paid over $623 billion in state and local taxes in 2011
- Nationally, property taxes, general sales taxes, and unemployment insurance taxes make up the largest share of state and local business tax burden, accounting for over 68% of total state and local taxes paid by business in 2011.
- Business tax burdens vary widely by state. The five lowest-burden states collected under 8% of operating margin from businesses, while the five highest-burden states collected over 14% of operating margin.
- Low tax burden states vary in their taxing behavior. Some, such as Georgia (ranked 5th lowest), are not in the top nor bottom 10 states in many major business tax categories. Others, such as Delaware (ranked lowest) have low taxes in some categories (such as property) but high taxes in others (license fees).
- High tax burden states include many states that place high severance taxes on resource extraction, including Alaska (ranked 51st lowest) and Wyoming (49th). Other high-tax states have high burdens in broader-based taxes, including Florida (ranked 45th, high property tax burden) and Michigan (ranked 44th, high unemployment compensation tax burden).

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TAXES PAID BY BUSINESS

Businesses pay many different taxes at the state and local level. We have identified 11 types of state and local taxes paid by business that totaled over $623 billion for all state and local governments combined in 2011, as shown in Table 1.

TABLE 1. Total State and Local Taxes Paid By US Businesses, 2011

Type of Tax	Total Taxes Paid ($ Thousands)	% of Total
Corporate Income Tax	$46,734,649	7.5%
General Sales Taxes	$115,979,996	18.6%
Gross Receipts Taxes	$7,421,908	1.2%
Individual income tax on pass-thru business income	$24,092,952	3.9%
License Fees	$48,110,092	7.7%
Motor Fuel Sales Tax	$8,547,173	1.4%
Other Selective Sales Tax	$20,412,371	3.3%
Public Utilities Sales Tax	$28,450,396	4.6%
Property Tax	$230,818,102	37.0%
Severance	$14,795,186	2.4%
Unemployment compensation	$78,208,719	12.5%
Total Taxes Paid by Businesses (in thousands)	**$623,571,542**	**100%**

Source: U.S. Census of Governments State and Local Finance Survey and other federal and state sources. See Methodology Appendix for complete source list.

Analysis: Anderson Economic Group LLC

Many casual observers of state and local taxes might think first of a state's corporate income tax as being the most important. However, as shown in Table 1, of the 11 categories of state and local business tax we identify for all states combined, corporate income tax accounts for the fifth largest share of the total business tax burden, after property taxes, general sales taxes, unemployment compensation taxes, and license fees.

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2011 STATE BUSINESS TAX BURDEN RANKINGS

We rank all 50 states and the District of Columbia on their business tax burdens. A rank of "1" indicates the state with the lowest tax burden as a share of business's pre-tax operating surplus. Nationally, businesses paid 10.2% of operating margin in state and local taxes in 2010.

TABLE 2. States with Lowest and Highest Business Tax Burdens, 2011

Ten States with Lowest Business Tax Burdens			Ten States with Highest Business Tax Burdens		
Rank		Business Tax Burden (Share of Operating Margin)	Rank		Business Tax Burden (Share of Operating Margin)
1	Delaware	5.1%	42	New York	12.4%
2	Oregon	5.7%	43	South Carolina	12.8%
3	Utah	6.2%	44	Michigan	13.3%
4	Louisiana	7.3%	45	Florida	13.4%
5	Georgia	7.8%	46	Maine	13.5%
6	South Dakota	7.8%	47	West Virginia	14.2%
7	Maryland	8.0%	48	Vermont	14.6%
8	North Carolina	8.1%	49	Wyoming	15.7%
9	Oklahoma	8.2%	50	North Dakota	16.8%
10	Idaho	8.3%	51	Alaska	25.2%
	Memo: *U.S. State Average*	*10.2%*			

Note: Rankings include Washington, D.C.

Source: U.S. Census of Governments State and Local Finance Survey and other federal and state sources. See Methodology Appendix for complete source list.

Analysis: Anderson Economic Group LLC

Ten States with Lowest Tax Burdens. The ten states with the lowest tax burdens are: Delaware, Oregon, Utah, Louisiana, Georgia, South Dakota, Maryland, North Carolina, Oklahoma, and Idaho.

These states vary in their characteristics and taxing behavior. Delaware is among the 10 states with the lowest tax burden on property, motor fuels and other excise taxes, unemployment compensation, and sales tax, but has the highest license fees as a proportion of pre-tax operating surplus. Oregon has no general sales tax, but is otherwise not among the ten highest- or ten lowest-burden states in any of the major categories. Louisiana is among the ten highest-burden states in sales taxes and severance taxes, but is among the ten lowest in other major taxes such as property and unemployment compensation taxes.

Ten States with Highest Tax Burdens. The ten states with the highest tax burdens are: Alaska, North Dakota, Wyoming, Vermont, West Virginia, Maine, Florida, Michigan, South Carolina, and New York.

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The ten highest-burden states also vary in their taxing strategies. Alaska has low taxes in several categories, including individual income and general sales taxes, but has by far the highest severance taxes as a proportion of operating margin. As a result, businesses in non-extractive industries (which do not directly pay severance taxes) do not face a high tax burden.

South Carolina is a relatively high-tax-burden state in several broader taxes, including property and unemployment compensation taxes. Similarly, Florida has a relatively high burden due to property, public utilities, and general sales taxes, while having no individual income tax on pass-thru business income.

ABOUT ANDERSON ECONOMIC GROUP

Anderson Economic Group LLC is a research and consulting firm with expertise in tax analysis, economics, public policy, financial valuation, and market research. We specialize in providing research and consulting in economics, finance, public policy, and market assessments. Our approach to work in these fields is based on our core principles of professionalism, integrity, and expertise.

We insist on a high level of integrity in our analyses, together with technical expertise in the field. For these reasons, work by Anderson Economic Group is commonly used in legislative hearings, legal proceedings, and executive strategy discussions.

Since our founding in 1996, our analysis has helped publicly-held corporations, private businesses, governments, and non-profit organizations. Our work has included markets throughout the United States, as well as in Canada, Mexico, and Barbados.

We have analyzed all 50 states in past tax burden studies and market analyses, as well as our book *The State Economic Handbook* (Palgrave Macmillan).

AEG's past clients include:

- Governments, such as the states of Michigan, North Carolina, and Wisconsin; the cities of Detroit, MI, Cincinnati, OH, Norfolk, VA, and Fort Wayne, IN; counties such as Oakland County, Michigan, and Collier County, Florida; and authorities such as the Detroit-Wayne County Port Authority.
- Corporations such as GM, Ford, Delphi, Honda, Metaldyne, Taubman Centers, The Detroit Lions, PG&E Generating, SBC, Gambrinus, Labatt USA, and InBev USA, automobile dealers and dealership groups representing Toyota, Honda, Chrysler, Mercedes-Benz, and other brands.
- Nonprofit organizations, such as Michigan State University, Wayne State University, Van Andel Institute, the Michigan Manufacturers Association, International Mass Retailers Association, American Automobile Manufacturers Association, Automation Alley, and the Michigan Chamber of Commerce.

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II. Methodology

Our approach to measuring the state and local tax burden is to estimate the total amount of state and local tax paid by businesses in each state and the District of Columbia, and divide it by a measure of business operating margin. This approach has the advantage of providing an objective measure which does not impose any external set of tax policy preferences. Our tax burden measure does not attempt to consider "fairness," business decisions at the margin, the effects of different taxes on different types of business operations, or the incidence of any individual tax. Nevertheless, businesses' hiring, expansion, and investment decisions are affected how much of their profits they have available after taxes to fund these actions.

Our approach is laid out in more detail in the remainder of this section.

MEASURE OF GROSS OPERATING SURPLUS

To compare the tax burdens across different states, we divide the total state and local taxes paid in each state by pre-tax gross operating surplus for businesses within that state. We use the same measure of gross operating surplus as the Bureau of Economic Analysis. This measure is very similar to net profits, including all business receipts minus the cost of inputs, compensation of employees, and taxes. What remains are corporate profits, proprietors' income, and consumption of fixed capital (depreciation).

Thus, the only difference between gross operating surplus and a comprehensive measure of after-tax profits is that gross operating surplus does not exclude depreciation of fixed assets. We add back in state and local taxes in order to measure the tax impact as a share of *pre-tax* gross operating surplus. Note that our measure does not attempt to take out *federal* taxes, which are difficult to apportion on a state-by-state basis. For further information on how we estimated gross operating surplus in each state for the year 2011, see "Business Profits Earned within Each State" on page 8.

TAXES PAID BY BUSINESSES

Unless otherwise specified, all state tax collections data is from the U.S. Census of Governments 2011 Annual Survey of State Tax Collections. This source gives comparable tax and revenue data for all 50 states and the District of Columbia. We estimated tax collections for local governments based on 2010 figures reported in the Census of Governments State and Local Government Finances Survey, which we scaled based on 2010-11 growth in state collections.[1]

1. Detailed local tax collections data is released less frequently than state data. In order to produce more timely rankings, we estimated local tax collections.

In order to estimate the total taxes paid by businesses, we used tax data from eight tax categories:

1. Property
2. License
3. Individual Income
4. Corporate Income
5. Unemployment Compensation
6. Severance
7. General Sales and Gross Receipts
8. Selective Sales (motor fuels, public utilities, and other)

For each of the above categories, we allocated some portion of tax collections to businesses (as opposed to households) using the following methodology.

Property taxes. We estimated 2011 local property tax collections based on 2010-11 growth in total state assessed property values (not state tax collections, as we have in other categories). When state-level data was not available, we applied a national growth rate. We allocated the total estimated 2011 state and local property tax collections to businesses based on figures from the 2011 American Community Survey. We calculated business share of property taxes paid as the residual of total property taxes collected in 2011 less property taxes paid on owner-occupied units. We treat rental housing as business property.

License taxes and fees. We allocated 100% of amusement, corporation, public utility, occupation and business, and alcoholic beverages[2] license taxes and fees to businesses. We allocated motor vehicle and motor vehicle operator license taxes based on the same ratio of diesel fuel tax to total fuel taxes used to apportion the motor fuel sales tax.

Individual income tax on pass-through business income. Using data from the IRS Statistics on Income (SOI), we found the total adjusted gross income (AGI), total adjusted gross income over $100,000, and the number of filers who have over $100,000 in income. We also found these values for filers who receive personal income directly from businesses (S corporations, partnerships, and sole proprietorships). Business owners pay taxes on this income like all taxpayers do on wages.

This information was only available for 2010. We used state-by-state changes in personal income, proprietorship income, and corporate income, separately, from 2010 to 2011 in order to estimate the 2011 values for each of the above categories. This income data was made available by the Bureau of Economic Analysis.

Once we had these estimates for 2011 for each state, we applied the state individual income tax rates in order to estimate the total income tax collected on business

2. Alcoholic beverages license taxes were not allocated to business in prior editions of this study

income. For the seven states that have a flat tax rate across all income brackets, we applied this flat rate to all business income for individuals (income from S corporations, proprietorships, and partnerships). For states that have a graduated income tax, we calculated an average effective rate on all income below $100,000, using Census estimates for total income tax collected. We then applied this rate to all business income up to $100,000, and applied the top marginal rate in each state to all business income above $100,000. For this calculation, we assumed that owners' business income was evenly distributed among all their income. (That is, if someone had $200,000 in income, half of their business income was taxed at the average effective rate calculated above and half of it was taxed at the top marginal rate.)

Corporate income tax. We allocated 100% of corporate income tax collections to businesses.

Unemployment compensation. We retrieved state and local unemployment compensation revenue data from the 2010 Census of Governments State & Local Government Finances Survey and estimated 2011 figures based on 2010-11 growth in salary and wage disbursements (Bureau of Economic Analysis). We allocated 100% of estimated state and local unemployment compensation tax collections to businesses.

Severance taxes. Severance taxes on the extraction of natural resources were not allocated to businesses in prior editions of this study. After revising our method for 2011, we now allocate 100% of severance tax collections to businesses.

General sales taxes. General sales taxes were not allocated to businesses in prior editions of this study. In the current edition, we allocate general sales taxes to businesses based on the estimated share of taxable consumption attributable to businesses in each state.

We estimated business consumption of several hundred commodities by state using Bureau of Economic Analysis (BEA) data on KLEMS Intermediate Use and on state gross domestic product by industry. Business consumption of each commodity were estimated by assuming that the share of consumption by each industry that occurred in a given state was equivalent to the share of that industry's national GDP produced in that state.

We estimated household consumption of thousands of commodities by state using the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey (CES) public use microdata and summary results. We used the 2011 CCH State Tax Handbook, data from the National Conference of State Legislators, and the web sites of tax and Treasury departments for various states to track which commodities were exempt or subject to special rates in each state.

Once we estimated the amount of taxable household consumption and business consumption, we could derive the share of total statewide taxable consumption that was attributable to businesses. We multiplied this share for each state by the U.S. Census Bureau's estimate for total state and local general sales tax collections in 2011.