

Total state and local business taxes

State-by-state estimates for fiscal year 2010

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This study was prepared by the Quantitative Economics and Statistics Practice (QUEST) of Ernst & Young LLP in conjunction with the Council On State Taxation (COST).

QUEST is a group of economists, statisticians and tax policy researchers within Ernst & Young LLP's National Tax Practice, located in Washington, DC. QUEST provides quantitative advisory services and products to private and public sector clients that enhance business processes, support regulatory compliance, analyze proposed policy issues and provide litigation support.

COST is a nonprofit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of nearly 600 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multi jurisdictional business entities.

Executive summary

This study presents detailed, state-by-state estimates of the state and local taxes paid by businesses for fiscal year 2010, and it is the ninth annual report prepared by Ernst & Young LLP in conjunction with COST. In addition to presenting tax estimates for the most recent fiscal year, the study examines business taxes over the past business cycle, describing the impact of the recession and recovery on state and local business tax collections.

The level of tax collections in FY2010 reflects both the positive impact of the economic recovery on businesses and the lingering effects of the recent recession on state and local government budgets. Businesses paid \$619 billion in state and local taxes in FY2010, a decrease of 0.3% compared to FY2009. The relatively stable level of business tax collections is the result of a number of factors, including increases in selected tax bases as the economy strengthened, continued decreases in income-related taxes and discretionary tax rate changes, both permanent and temporary, enacted by legislatures to deal with on-going state and local budget shortfalls.

This study presents estimates of the FY2010 level of total taxes paid by businesses to state and local governments, reflecting collections from July 2009 through June 2010 in most states. These include business property taxes, sales and excise taxes paid by businesses on their input purchases, gross receipts taxes, corporate income and franchise taxes, business and corporate license taxes, unemployment insurance taxes, individual income taxes paid by owners of non-corporate (pass-through) businesses, and other state and local taxes that are the statutory liability of business taxpayers.

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

Key findings of the study include:

- ▶ After falling by 0.9% in from FY2008 to FY2009, total state and local business taxes decreased by just 0.3% in FY2010. Total state taxes (business and household taxes) declined by 1.2% and total local taxes increased by 2.3%.
- ▶ Property taxes on business property increased an estimated 1.0% this year, totaling \$249.5 billion in FY2010, or 40.3% of total state and local business taxes. Sales tax on business inputs and capital equipment totaled \$124.4 billion, or 20.1% of business taxes, which is a decrease of 2.5% from FY2009. The property tax and a significant portion of sales taxes paid by business are taxes on capital invested within a state.
- ▶ Although the corporate income tax has been the focus of significant debate in a number of state legislatures during recent years, FY2010 collections were \$44.1 billion, only 7.1% of total state and local business taxes, the lowest share reported in the nine years that these 50-state studies have been published. Individual income taxes on pass-through business income account for 5.3% of total state and local business taxes.
- ▶ Due to the decline in income taxes, indirect taxes (taxes not based on income) represent a larger share (88%) of the total state and local tax burden than in recent years.

Total state and local business taxes in FY2010

Businesses paid \$619 billion in total state and local taxes in FY2010, as presented in Table 1¹. This section describes the business taxes in more detail and highlights the key results.

The following taxes are included in business tax estimates to the extent each tax is determined to be the statutory liability of businesses and their owners:

- ▶ As shown in Table 1 and Figure 1, property taxes on real, personal and utility property owned by business account for the largest share of total state and local business taxes, 40.3% or \$249.5 billion. Property taxes increased 1.0% in FY2010, after growing 10.2% in FY2009 and 1.6% in FY2008. Typically, the local property tax is a stable source of revenue for local governments. With the continuing decline in residential real estate values in most states, local governments are increasing property tax rates to meet close budget gaps; the result is a likely increase of the share of property taxes paid by business.²
- ▶ Sales and use taxes paid by businesses on purchases of inputs, including capital equipment, totaled \$124.4 billion. The business sales tax represents 20.1% of all state and local business taxes.³ Sales and use taxes collected on sales to final consumers are excluded; only the taxes paid on businesses' operating inputs and capital equipment purchases are included in the total business tax estimates.⁴
- ▶ Corporate income tax collections were \$44.1 billion in FY2010, a decline of 5.8% from FY2009. This decline in corporate income tax receipts in FY2010 follows a decrease of 20.9% in FY2009, reflecting the on-going effects of the recession on business profits and the large stocks of unused operating losses from prior years that businesses can use to offset current-year taxable profits. Corporate income taxes equal only 7.1% of total state and local business taxes, down from 8.6% in FY2009. While corporate tax collections declined in FY2010, they have been on the rise in 2011, growing 8% through the first three quarters of the fiscal year compared to the same quarters in FY2010.
- ▶ Employer contributions to unemployment insurance (unemployment taxes) were \$32.4 billion in FY2010, an increase of 3.1%. This is a large swing from the decreases of 9.2% in FY2008 and 3.3% in FY2009. As discussed later in this study, state unemployment trust funds have been depleted by the recession and states are facing large debts to the federal government for loans used to pay unemployment benefits. These large debts are due to the combination of underfunding during the last economic expansion and the severity of unemployment during the latest recession. Unemployment taxes are likely to continue to rise for the next several years to cover the loan repayments.
- ▶ Excise taxes imposed on business purchases accounted for an estimated \$30.4 billion in FY2010. Although businesses are generally responsible for collecting and remitting all excise taxes, the estimates only include taxes paid on purchases by businesses. Excise taxes attributed to business include a portion of motor fuel taxes and other selected excise taxes, such as hotel and rental car taxes. Motor fuel taxes increased 0.4% in FY2010, and other selective sales taxes (including special taxes on meals, rental cars and hotels) increased 10.0%. Excise taxes on tobacco, alcoholic beverages, amusements and pari-mutuels are allocated entirely to households.
- ▶ Taxes on insurance premiums and public utility gross receipts totaled \$45.3 billion in FY2010, an increase of 4.9% due to increased insurance premium tax collections. These taxes are generally based on business gross receipts, and because they are generally levied in lieu of property or corporate income taxes, they are allocated solely to business.
- ▶ Business and corporate license taxes totaled \$37.0 billion, including \$27.0 billion of general business and occupation license taxes and \$6.9 billion of motor vehicle taxes.
- ▶ Other business taxes totaled \$23.0 billion, declining 1.8% from the prior year. This category includes state severance taxes, which fell by 12.4% in Alaska and 24.3% in Texas, contributing to the decline in this category in FY2010.
- ▶ Individual income taxes paid by owners of pass-through entities (e.g., partnerships, sole proprietorships, LLCs and S-corporations) totaled an estimated \$33.0 billion in FY2010. Individual income taxes on pass-through business income were almost 75% as large as corporate income taxes and represent 5.3% of total state and local business taxes.



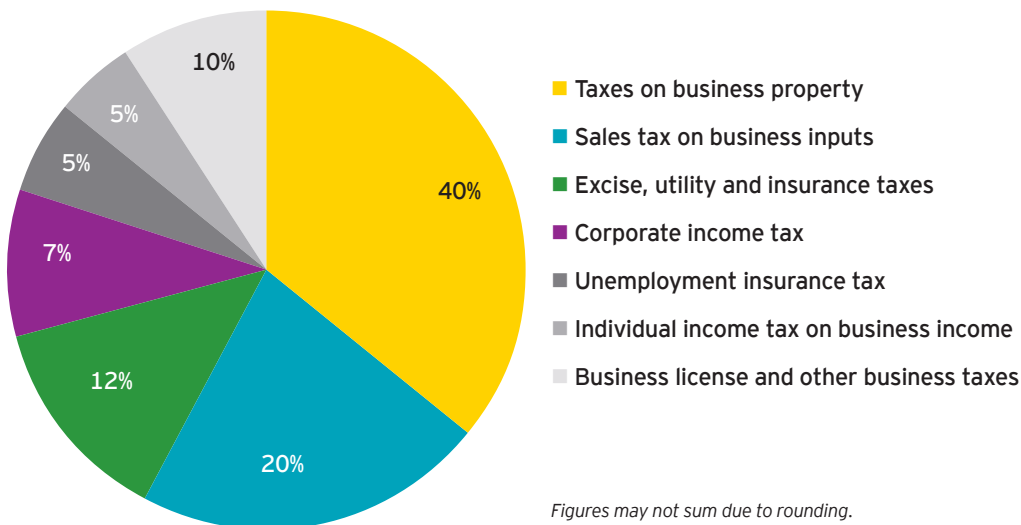
Table 1. Total state and local business taxes, FY2009-FY2010, (US\$billion)

Business tax	2009	2010	% Total taxes	One-year change
Property taxes on business property	\$247.0	\$249.5	40.3%	1.0%
General sales taxes on business inputs	127.7	124.4	20.1%	-2.5%
Corporate income and other license taxes	46.9	44.1	7.1%	-5.8%
Business and corporate licenses	37.1	37.0	6.0%	-0.3%
Individual income tax on business income	34.4	33.0	5.3%	-4.1%
Unemployment insurance	31.4	32.4	5.2%	3.1%
Excise taxes	28.8	30.4	4.9%	5.7%
Public utility taxes	28.7	28.7	4.6%	0.0%
Insurance premiums taxes	15.8	16.5	2.7%	4.9%
Other business taxes	23.4	23.0	3.7%	-1.8%
Total Business Taxes	\$621.0	\$619.0	100.0%	-0.3%

Figures may not sum due to rounding.

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

Figure 1. Composition of total state and local business taxes, FY2010



Figures may not sum due to rounding.

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

Classifying business taxes

Business entity taxes based on a “pure” or modified gross receipts tax base have been adopted by three states, Ohio, Michigan, and Texas, since 2004. Two other states, Washington and New Hampshire, have levied gross receipts or value-added taxes for many years and an increasing number of states levy minimum taxes based on gross receipts. As shown in Table 2, these taxes are classified as either corporate income or corporate license taxes in this study consistent with the U.S. Census Bureau classification. If each of these taxes were combined into a single gross-receipts-based business tax category, the collections would total \$9.9 billion, equal to 22% of reported corporate income taxes reported

in Table 1. Not shown in the table are minimum taxes based on gross receipts levied in several states as part of their corporate income tax system. For taxpayers subject to these taxes, the minimum taxes function as gross receipts taxes but are generally included in the corporate income tax statistics.

Notably, the Michigan legislature recently repealed the Michigan Business Tax (MBT) that included a modified gross receipts tax as one of two business-entity taxes. To replace the MBT, Michigan adopted a corporate income tax effective beginning in 2012. Compared to the MBT, the new system will reduce ongoing, annual Michigan business taxes by 60%.^{5, 6}

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

Business tax	Census Bureau tax classification	FY2010
Michigan – Michigan Business Tax	Corporate income tax	\$1.9
New Hampshire – Business Enterprise Tax	Corporate income tax	0.3
Ohio – Commercial Activity Tax	Corporate license tax	1.3
Texas – Margin Tax	Corporate license tax	3.9
Washington – Business & Occupation Tax	Sales tax	2.6
Total Gross Receipts and Value-Added Taxes		\$9.9

Figures may not sum due to rounding.

Source: U.S. Census Bureau and Ernst & Young LLP calculations.

State vs. local business taxes in FY2010

Most states experienced declining state tax revenue and positive local revenue growth in FY2010, which is the result of significantly different tax structures at the state and local levels of government. Tables 3A and 3B provide dollar amounts, percentage distributions and growth rates in FY2010 for total business taxes at the state and local levels of government.

Total state and local business taxes decreased by almost \$2.0 billion in FY2010 after falling in FY2009 for the first time in the last decade. However, as shown in Table 3A, the impact of the recession on state government taxes in FY2010 was much more significant than the impact on local governments: overall, state business taxes decreased by 1.2%, or \$3.8 billion, while local business taxes increased by 0.6% or \$1.9 billion (Table 3B).

At the state level, corporate income taxes, general sales taxes on business inputs, public utility taxes and individual income taxes on business income continued to decline from FY2009. Unemployment insurance (UI) taxes rose by 3.1% and excise taxes also increased, but these revenue gains were not enough to offset the decline

in corporate income, sales and utility taxes. To put this decline in revenue in perspective, state business taxes grew by an average of \$20 billion or 9% per year during the economic expansion from FY2002 to FY2007.

At the local level, the increase in the local business property tax accounted for nearly 100% of the overall growth in local business taxes in FY2010. The 0.8% growth rate of the local business property tax in FY2010 was much lower than the 10.4% growth in business property taxes during FY2009.

Table 3A and 3B illustrate the significant difference in the composition of state and local business taxes. Table 3A shows the percentage distribution of state taxes by tax type; Table 3B shows the distribution for local business taxes. While sales taxes on business inputs compose a large share of total business taxes at the state level (31.1%), they account for a relatively small share of local taxes (9.4%). Property taxes are the largest local business tax (77.7% of the total), but a very minor share of state taxes (3.0%).



Table 3A. State business taxes, FY2010 (US\$billion)

State business taxes	State business taxes 2009	State business taxes 2010	% total state business taxes	One-year growth, state business taxes
General sales taxes on business inputs	\$98.8	\$96.6	31.1%	-2.2%
Corporate income tax	\$41.3	\$38.5	12.4%	-6.6%
Individual income tax on business income	\$34.4	\$33.0	10.6%	-4.1%
Unemployment insurance	\$31.4	\$32.4	10.4%	3.1%
Corporate and business license	\$25.7	\$25.3	8.1%	-1.7%
Excise taxes	\$23.4	\$24.9	8.0%	6.4%
Insurance premiums taxes	\$15.1	\$15.8	5.1%	5.0%
Public utility taxes	\$15.2	\$14.8	4.8%	-2.5%
Property taxes on business property	\$8.7	\$9.3	3.0%	6.9%
Other business taxes	\$20.4	\$19.8	6.4%	-2.5%
Total State Business Taxes	\$314.3	\$310.5	100.0%	-1.2%

Figures may not sum due to rounding.

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

Table 3B. Local business taxes, FY2010 (US\$billion)

Local business taxes	Local business taxes 2009	Local business taxes 2010	% total local business taxes	One-year growth, local business taxes
Property taxes on business property	\$238.2	\$240.2	77.7%	0.8%
General sales taxes on business inputs	\$28.9	\$27.8		-3.9%
Public utility taxes	\$13.5	\$13.9	4.4%	2.9%
Excise taxes	\$5.4	\$5.5	1.7%	2.9%
Other business taxes	\$20.7	\$21.2	6.8%	2.2%
Total Local Business Taxes	\$306.7	\$308.6	100.0%	0.6%

Figures may not sum due to rounding.

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

State-by-state business tax estimates

This section presents state and local business taxes by type of tax for each of the 50 states and the District of Columbia. Table 4 presents the different business taxes by state. Appendix Table A3 presents the composition by tax type for each of the 50 states.

Table 4. State and local business taxes, by major tax type, by state FY2010 (US\$billion)

State	Property tax	Sales tax	Excise and gross receipts	Corporate income	UI tax	Individual income tax on business income	License and other	Total Business Tax
Alabama	\$1.8	\$1.3	\$1.5	\$0.4	\$0.3	\$0.3	\$1.0	\$6.6
Alaska	0.8	--	0.1	0.6	0.1	--	3.4	5.1
Arizona	5.0	3.3	1.0	0.4	0.3	0.3	0.5	10.8
Arkansas	0.9	1.0	0.5	0.4	0.3	0.3	0.3	3.7
California	30.3	17.9	8.0	9.1	4.8	7.2	8.0	85.4
Colorado	4.5	2.4	0.8	0.4	0.4	0.7	0.6	9.7
Connecticut	2.3	1.5	0.9	0.5	0.6	0.7	0.3	6.9
Delaware	0.3	--	0.2	0.1	0.1	0.1	1.2	2.0
Florida	20.8	6.8	7.9	1.8	0.9	--	2.3	40.6
Georgia	6.4	3.7	1.5	0.7	0.6	1.0	0.6	14.4
Hawaii	1.0	0.8	0.5	0.1	0.1	0.2	0.1	2.8
Idaho	0.8	0.3	0.2	0.1	0.2	0.2	0.2	2.0
Illinois	12.9	4.2	4.8	2.7	1.6	1.2	1.6	29.1
Indiana	5.4	1.9	0.7	0.6	0.5	0.5	0.3	10.0
Iowa	2.8	1.0	0.4	0.2	0.4	0.4	0.4	5.7
Kansas	2.7	1.4	0.5	0.4	0.2	0.4	0.3	5.8
Kentucky	2.0	1.3	1.3	0.5	0.4	0.4	0.6	6.6
Louisiana	2.5	4.2	1.1	0.4	0.2	0.3	1.2	9.9
Maine	1.7	0.4	0.3	0.2	0.1	0.2	0.2	3.0
Maryland	2.3	1.5	1.7	0.9	0.5	0.8	1.1	8.8
Massachusetts	6.3	1.8	0.9	1.8	1.6	1.3	0.7	14.3
Michigan	7.6	3.0	1.2	0.7	1.4	0.7	0.8	15.4
Minnesota	3.8	2.0	1.6	0.7	0.8	0.7	0.7	10.3
Mississippi	2.1	1.1	0.5	0.3	0.1	0.2	0.4	4.7
Missouri	3.5	2.2	1.1	0.2	0.6	0.5	0.8	8.9
Montana	0.8	--	0.2	0.1	0.1	0.1	0.4	1.7
Nebraska	1.7	0.9	0.4	0.2	0.1	0.3	0.3	3.7
Nevada	2.1	1.2	0.9	--	0.3	--	1.3	5.8
New Hampshire	1.2	--	0.3	0.5	0.1	0.0	0.2	2.4
New Jersey	9.7	3.1	1.8	2.0	2.0	1.1	1.1	20.9
New Mexico	0.8	1.4	0.4	0.1	0.1	0.1	0.9	3.7
New York	23.2	11.1	6.8	8.9	2.5	5.6	2.8	60.9
North Carolina	3.9	3.0	1.8	1.3	0.8	1.0	1.2	13.0
North Dakota	0.6	0.3	0.2	0.1	0.1	0.1	1.2	2.5
Ohio	7.1	3.9	2.7	0.6	1.1	1.1	2.8	19.3
Oklahoma	1.6	1.8	0.5	0.2	0.1	0.4	1.3	5.9
Oregon	2.3	--	0.7	0.4	0.6	0.6	1.0	5.6
Pennsylvania	9.0	3.3	3.3	1.7	2.1	1.6	3.3	24.1
Rhode Island	1.1	0.4	0.3	0.1	0.2	0.1	0.1	2.3
South Carolina	3.5	1.0	0.6	0.1	0.3	0.2	0.7	6.4
South Dakota	0.6	0.5	0.2	0.0	0.0	--	0.1	1.5
Tennessee	3.0	2.8	1.1	0.9	0.7	0.0	1.2	9.8
Texas	25.3	12.8	6.7	--	1.4	--	7.5	53.7
Utah	1.6	0.7	0.5	0.2	0.1	0.2	0.3	3.7
Vermont	0.9	0.1	0.2	0.1	0.1	0.1	0.1	1.5
Virginia	6.3	1.6	2.2	0.8	0.4	0.8	1.5	13.5
Washington	4.1	6.8	2.4	--	1.0	--	1.0	15.3
West Virginia	1.1	0.3	0.7	0.4	0.2	0.2	0.7	3.5
Wisconsin	4.5	1.7	1.1	0.9	0.7	0.5	0.5	10.0
Wyoming	1.2	0.5	0.1	--	0.1	--	0.8	2.6
District of Columbia	1.7	0.3	0.4	0.3	0.1	0.3	0.1	3.3
United States	\$249.5	\$124.4	\$75.7	\$44.1	\$32.4	\$33.0	\$60.0	\$619.0

Figures may not sum due to rounding.

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

A state's competitiveness depends upon many factors, including the level of business taxes compared to the level of economic activity that is being taxed and the final incidence of business taxes, after they have been shifted to consumers or owners of factors of production, including workers.⁷ Because state business tax bases include a diverse mixture of receipts – net income, input purchases, payroll, property and other tax bases – a broad measure of a state's overall economic activity should be used to determine the measure of aggregate business tax burden that can be compared across states.

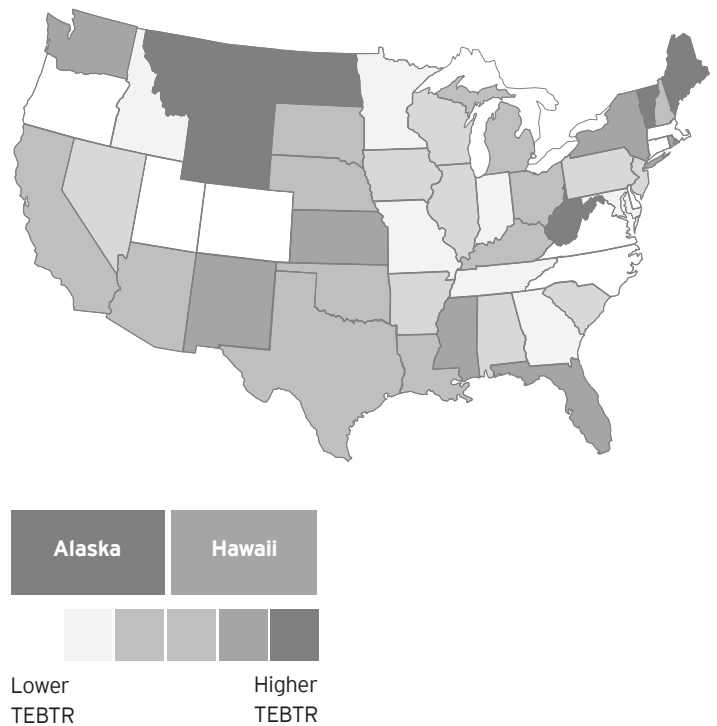
The last column in Table 5 presents state-by-state estimates of the total effective business tax rate (TEBTR) imposed on business activity by state and local governments, which is mapped in Figure 2. The TEBTR is measured as the ratio of state and local business taxes to private-sector gross state product (GSP), the total value of a state's annual production of goods and services by the private sector. The average TEBTR across all states is 5.0%; TEBTRs range from 3.3% in Connecticut to 13.3% in Alaska. States with the highest TEBTRs tend to be the states with significant severance taxes on natural resources, which is included in the "other taxes" category in this analysis. To the extent that severance taxes are shifted forward in higher prices to consumers, they would not be a "burden" on domestic production and in-state residents.

While the business TEBTRs provide a starting point for comparing burdens across states, they do not provide sufficient information to evaluate a state's competitiveness. For example, Indiana has a TEBTR slightly below the national average, but derives nearly 70% of its business tax revenue from sales and property taxes, which are origin-based taxes on business capital that may negatively impact competitiveness. More generally, a state with an average overall TEBTR may impose relatively high taxes on capital-intensive manufacturers, while imposing relatively low taxes on labor-intensive service industries. As a result, a state with such a tax structure and composition may create disincentives for locating new plant and equipment in the state.

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

For an analysis of the competitiveness of state and local taxes on new business investment, see the recent Ernst & Young LLP/COST study, "Competitiveness of state and local business taxes on new investment," released in April 2011. That study presents a measure of business tax competitiveness in each state by examining the incremental state and local tax burden on a representative investment in selected industries.

Figure 2. Total effective business tax rate (TEBTR) by state, FY2010 (state and local business taxes divided by private sector gross state product in each state)



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

Table 5. State vs. local business taxes and business taxes as a share of private sector GSP, by state, FY2010 (US\$billion)

State	State taxes		Local taxes		State and local taxes		
	Business	Total	Business	Total	Business	Total	% of GSP*
Alabama	\$3.7	\$8.4	\$2.9	\$5.2	\$6.6	\$13.6	4.6%
Alaska	4.3	4.6	0.8	1.5	5.1	6.1	13.3%
Arizona	4.6	10.5	6.2	10.2	10.8	20.6	5.0%
Arkansas	2.9	7.6	0.8	1.7	3.7	9.3	4.3%
California	46.5	109.7	38.9	77.0	85.4	186.7	5.2%
Colorado	3.3	9.0	6.4	10.9	9.7	19.9	4.4%
Connecticut	4.5	12.9	2.4	9.9	6.9	22.9	3.3%
Delaware	1.7	2.9	0.4	0.9	2.0	3.7	3.7%
Florida	15.0	32.4	25.6	42.9	40.6	75.4	6.3%
Georgia	5.3	15.3	9.1	16.8	14.4	32.1	4.2%
Hawaii	1.5	4.9	1.2	1.8	2.8	6.7	5.5%
Idaho	1.1	3.1	0.9	1.5	2.0	4.6	4.3%
Illinois	13.8	31.4	15.3	29.5	29.1	60.9	5.0%
Indiana	4.4	14.3	5.6	8.9	10.0	23.2	4.1%
Iowa	2.4	7.2	3.3	5.3	5.7	12.4	4.6%
Kansas	2.5	6.7	3.3	5.5	5.8	12.2	5.5%
Kentucky	4.2	9.9	2.4	4.3	6.6	14.2	4.9%
Louisiana	4.6	8.9	5.4	7.4	9.9	16.4	5.3%
Maine	1.3	3.6	1.7	2.5	3.0	6.1	6.8%
Maryland	5.8	15.7	3.0	12.2	8.8	27.9	3.7%
Massachusetts	7.9	21.6	6.5	14.1	14.3	35.7	4.3%
Michigan	8.5	24.1	6.9	14.8	15.4	38.8	4.6%
Minnesota	6.7	18.0	3.7	7.4	10.3	25.4	4.4%
Mississippi	2.5	6.4	2.2	2.8	4.7	9.2	6.0%
Missouri	3.6	10.3	5.3	9.8	8.9	20.1	4.2%
Montana	1.0	2.2	0.7	1.2	1.7	3.4	5.9%
Nebraska	1.6	3.9	2.1	3.7	3.7	7.6	4.9%
Nevada	3.0	6.1	2.8	5.0	5.8	11.1	5.2%
New Hampshire	1.2	2.2	1.1	3.2	2.4	5.4	4.4%
New Jersey	11.0	27.9	9.9	27.0	20.9	54.9	4.9%
New Mexico	2.4	4.5	1.3	2.3	3.7	6.8	6.0%
New York	25.1	66.1	35.9	75.1	60.9	141.2	6.2%
North Carolina	8.1	22.3	4.9	11.7	13.0	34.0	3.7%
North Dakota	1.9	2.7	0.6	1.0	2.5	3.7	8.6%
Ohio	10.5	24.7	8.8	22.2	19.3	47.0	4.6%
Oklahoma	3.4	7.2	2.6	4.2	5.9	11.5	5.0%
Oregon	2.6	8.1	3.0	6.0	5.6	14.1	3.8%
Pennsylvania	13.5	32.3	10.6	23.9	24.1	56.2	4.8%
Rhode Island	1.1	2.8	1.2	2.5	2.3	5.2	5.5%
South Carolina	2.3	7.1	4.1	5.9	6.4	13.0	4.8%
South Dakota	0.7	1.3	0.8	1.3	1.5	2.6	4.3%
Tennessee	5.6	11.2	4.2	8.3	9.8	19.5	4.5%
Texas	23.8	40.8	29.9	46.9	53.7	87.7	5.1%
Utah	1.7	5.2	2.1	3.6	3.7	8.8	3.9%
Vermont	1.2	2.6	0.3	0.5	1.5	3.0	7.1%
Virginia	4.8	16.8	8.7	16.1	13.5	32.9	4.0%
Washington	9.3	17.1	5.9	11.8	15.3	28.9	5.4%
West Virginia	2.1	4.8	1.3	1.8	3.5	6.6	6.7%
Wisconsin	5.2	15.1	4.8	10.8	10.0	25.8	4.6%
Wyoming	1.6	2.2	1.0	1.4	2.6	3.6	8.1%
District of Columbia	3.3	5.5	0.0	0.0	3.3	5.5	5.0%
United States	\$310.5	\$742.3	\$308.6	\$602.1	\$619.0	\$1,344.4	5.0%

*Percent of CY2009 private-industry GSP. This is the TEBTR on economic activity occurring within the state.

Figures may not sum due to rounding.

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



Table 6 shows the state-by-state increase in total state and local business taxes between FY2007, the peak of tax collections before the recession, and FY2010. Total state and local business taxes in Table 6 are divided into three categories: corporate income tax, property tax and all other taxes.

- ▶ Over the past three years, corporate income taxes have fallen by 28%, reflecting lower profits due to the recession. Even as corporate profitability has returned over the past year, companies are still deducting significant operating losses (NOLs) from prior years which reduce their current taxable income. In fact, only seven states reported increased corporate tax collections in FY2010.
- ▶ In contrast, property taxes increased by \$28.9 billion, or 13%, with 41 states reporting increases in FY2010. This largely reflects the lag in local assessments of the taxable value of business property. Although the market value of property has fallen significantly over the past four years, the change in the assessed value of property has been less severe since the assessment cycle in many in many jurisdictions can extend over several years and in a number of states growth rates in assessments are capped below actual growth rates in market value. Local property tax collections are expected to decline from FY2010 to FY2011 once residential and business property is reassessed at lower values.⁸
- ▶ Other state and local taxes decreased overall in FY2010 by 2%, with only 22 states reporting increases.
- ▶ Table 6 provides a clear reminder of the volatility in corporate income taxes. For the states with decreases in corporate income taxes between FY2007 and FY2008, the average decrease was -34%. This experience may lead additional states to consider tax policy changes to reduce reliance on corporate income taxes in state and local tax systems.

Table 6. Change in state and local business taxes by type and by state, FY2007 to FY2010 (US\$billion)

State	Corporate income tax				Property tax				Other taxes			
	FY2007	FY2010	Change	Change	FY2007	FY2010	Change	Change	FY2007	FY2010	Change	Change
Alabama	\$0.5	\$0.4	-\$0.1	-15%	\$1.5	1.8	\$ 0.4	26%	\$4.4	\$4.3	-\$0.1	-2%
Alaska	0.8	0.6	-0.2	-21%	0.7	0.8	0.1	7%	2.8	3.7	0.9	32%
Arizona	1.0	0.4	-0.6	-58%	4.2	5.0	0.7	18%	6.7	5.4	-1.3	-19%
Arkansas	0.4	0.4	0.0	6%	1.0	0.9	-0.1	-14%	2.6	2.4	-0.1	-5%
California	11.2	9.1	-2.0	-18%	23.8	30.3	6.5	27%	47.6	46.0	-1.6	-3%
Colorado	0.5	0.4	-0.1	-25%	3.8	4.5	0.7	19%	4.9	4.8	-0.1	-2%
Connecticut	0.9	0.5	-0.4	-43%	3.8	2.3	-1.4	-38%	4.0	4.1	0.1	2%
Delaware	0.3	0.1	-0.2	-53%	0.3	0.3	0.1	23%	1.4	1.6	0.2	12%
Florida	2.4	1.8	-0.6	-27%	15.6	20.8	5.2	34%	19.6	18.0	-1.6	-8%
Georgia	1.0	0.7	-0.3	-33%	5.8	6.4	0.6	10%	8.2	7.3	-1.0	-12%
Hawaii	0.1	0.1	0.0	-21%	0.8	1.0	0.2	25%	1.8	1.7	-0.1	-6%
Idaho	0.2	0.1	-0.1	-48%	0.7	0.8	0.2	22%	1.1	1.0	-0.1	-7%
Illinois	2.9	2.7	-0.2	-9%	9.9	12.9	3.0	30%	14.3	13.5	-0.8	-5%
Indiana	1.0	0.6	-0.4	-39%	4.2	5.4	1.2	29%	3.9	3.9	0.0	1%
Iowa	0.3	0.2	-0.1	-41%	2.6	2.8	0.2	9%	2.3	2.6	0.3	13%
Kansas	0.5	0.4	-0.2	-33%	2.4	2.7	0.2	10%	2.8	2.8	-0.1	-2%
Kentucky	1.1	0.5	-0.6	-57%	1.6	2.0	0.4	23%	3.9	4.1	0.1	3%
Louisiana	0.8	0.4	-0.4	-48%	2.2	2.5	0.4	18%	7.8	7.0	-0.8	-10%
Maine	0.2	0.2	0.0	-5%	1.4	1.7	0.3	20%	1.1	1.1	0.0	0%
Maryland	0.8	0.9	0.1	14%	2.5	2.3	-0.2	-8%	5.8	5.6	-0.2	-4%
Massachusetts	2.1	1.8	-0.3	-13%	5.5	6.3	0.7	14%	6.0	6.3	0.3	4%
Michigan	1.8	0.7	-1.1	-61%	8.6	7.6	-1.0	-12%	6.9	7.0	0.2	3%
Minnesota	1.2	0.7	-0.5	-39%	3.2	3.8	0.6	20%	5.6	5.8	0.2	3%
Mississippi	0.4	0.3	-0.1	-14%	1.9	2.1	0.2	12%	2.3	2.3	-0.1	-3%
Missouri	0.4	0.2	-0.2	-47%	3.2	3.5	0.3	8%	5.3	5.2	-0.1	-2%
Montana	0.2	0.1	-0.1	-48%	0.8	0.8	0.0	2%	0.8	0.8	0.0	-1%
Nebraska	0.2	0.2	-0.1	-28%	1.6	1.7	0.2	10%	1.9	1.9	0.0	1%
Nevada	0.0	0.0	0.0	n.a.	1.7	2.1	0.4	22%	3.7	3.7	0.0	1%
New Hampshire	0.6	0.5	-0.1	-16%	1.5	1.2	-0.3	-19%	0.6	0.6	0.0	5%
New Jersey	2.9	2.0	-0.8	-29%	8.5	9.7	1.2	14%	9.4	9.2	-0.2	-2%
New Mexico	0.5	0.1	-0.3	-73%	0.6	0.8	0.1	23%	3.2	2.9	-0.3	-11%
New York	12.4	8.9	-3.5	-28%	21.2	23.2	2.0	9%	26.8	28.9	2.0	8%
North Carolina	1.6	1.3	-0.3	-17%	4.3	3.9	-0.4	-9%	7.7	7.8	0.1	1%
North Dakota	0.1	0.1	0.0	-35%	0.5	0.6	0.1	10%	1.0	1.8	0.8	81%
Ohio	1.6	0.6	-1.0	-64%	8.0	7.1	-0.9	-12%	10.8	11.6	0.8	8%
Oklahoma	0.6	0.2	-0.3	-61%	1.2	1.6	0.3	27%	4.5	4.2	-0.3	-7%
Oregon	0.5	0.4	-0.1	-12%	2.0	2.3	0.3	16%	2.7	2.9	0.2	7%
Pennsylvania	2.3	1.7	-0.6	-27%	7.5	9.0	1.4	19%	13.9	13.5	-0.4	-3%
Rhode Island	0.2	0.1	-0.1	-32%	1.2	1.1	0.0	-3%	1.0	1.0	0.0	2%
South Carolina	0.3	0.1	-0.2	-58%	3.3	3.5	0.2	5%	3.1	2.8	-0.3	-9%
South Dakota	0.1	0.0	0.0	-59%	0.6	0.6	0.0	-2%	0.8	0.9	0.1	8%
Tennessee	1.1	0.9	-0.2	-20%	3.1	3.0	0.0	-1%	5.7	5.9	0.1	2%
Texas	0.0	0.0	0.0	n.a.	23.1	25.3	2.2	10%	29.3	28.4	-1.0	-3%
Utah	0.4	0.2	-0.2	-38%	1.2	1.6	0.4	29%	2.2	1.9	-0.3	-13%
Vermont	0.1	0.1	0.0	2%	0.8	0.9	0.1	8%	0.6	0.6	0.0	0%
Virginia	0.9	0.8	-0.1	-10%	5.4	6.3	1.0	18%	6.6	6.4	-0.2	-3%
Washington	0.0	0.0	0.0	n.a.	3.4	4.1	0.7	21%	11.9	11.1	-0.8	-6%
West Virginia	0.5	0.4	-0.2	-32%	1.0	1.1	0.1	14%	1.9	2.0	0.1	8%
Wisconsin	0.9	0.9	-0.1	-8%	4.4	4.5	0.1	2%	4.7	4.6	-0.1	-2%
Wyoming	0.0	0.0	0.0	n.a.	1.1	1.2	0.1	8%	1.5	1.5	0.0	-1%
District of Columbia	0.4	0.3	-0.1	-20%		1.7	0.5	40%	1.2	1.2	0.1	5%
United States	\$61.0	\$44.1	-\$16.9	-28%	\$220.6	\$249.5	\$28.9	13%	\$330.6	\$325.4	-\$5.2	-2%

Figures may not sum due to rounding.

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

Impact of the recession on FY2010 and beyond

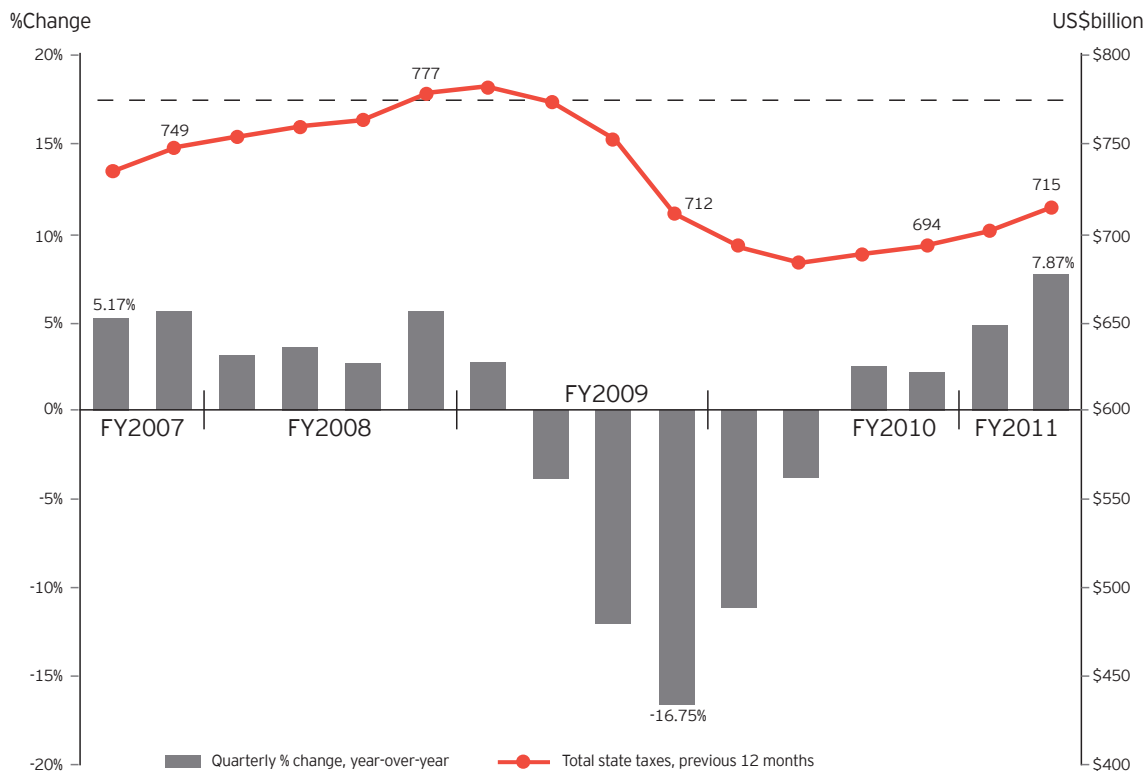
Figure 3 provides an overview of the severe impact of the 2007-2009 recession on total state tax collections (all taxes paid by business and households). The solid red line in Figure 3 shows total state taxes for the four quarters ending in each quarter of fiscal years 2007 through 2011. For example, state taxes totaled \$694 billion in FY2010 (taxes over four quarters ending in the last quarter of FY2010). The bars show the quarter-over-quarter growth rates.

As shown in Figure 3, the recession that began in December 2007 had a relatively small effect on state and local business tax collections in FY2008 since the fiscal year ended in June of 2008 for most states. Figure 3 shows that the recession impacted FY2009 total state tax collections significantly, with negative growth beginning in the second quarter of FY2009 and bottoming out at

-17% by the final quarter of FY2009. To put these recent changes in context, the maximum quarterly decline during the 2001 recession was 9%, while in 1991 total state taxes increased each quarter during the recession.

Negative growth in total state tax collections continued through the second quarter of FY2010. State tax collections rebounded in the third quarter of FY2010, with positive growth of 2.6%. Growth accelerated through the second quarter of FY2011, the latest data available, reaching a growth rate of 7.9%. Despite this strong recent growth, total state tax collections for the 12-months ending December 2011 (second quarter of FY2011) are still 8% below the level of tax collections in FY2008 (\$777 billion). State business taxes are expected to follow this trend in total state taxes in FY2011.

Figure 3. State tax collections since FY2007



Source: Ernst & Young LLP and U.S. Census Bureau calculations.



States face large unemployment insurance debts

State unemployment taxes deserve separate attention in discussing current and expected changes in state and local business taxes. Most states have faced general fund budget shortfalls over the past two fiscal years as a result of declining tax collections, but UI trust fund debts owed by states to the federal government represent a unique, and fairly certain, source of business tax increases over the coming year.

At the height of the recession, states borrowed from the federal government to fund UI benefit payments. As shown in Table 7, these debts totaled \$41 billion as of June 2011, with a significant majority of that amount owed by just 10 states. States must repay these amounts or the federal government will reduce federal credits for

UI taxes paid to qualified state plans. The federal tax credit has already been reduced in Michigan, Indiana and South Carolina; if loans are not repaid by November 2011, an additional 21 states will see federal tax credit reductions.

If states with outstanding debts were to increase UI contributions paid by employers in a single year to repay the debt, it would equate to a 130% increase in UI taxes. Even without direct state UI tax increases, the reduction in the federal tax credit for contributions to a state UI system means that employers will be repaying these debts over the next several years unless the debt is paid for out of general state taxes or through longer-run state borrowing in the market.

Table 7. State UI trust fund debts

State	UI debt amount (US\$billions)	Ratio of UI debt to annual UI taxes
California	\$11.0	2.3
Pennsylvania	3.8	1.8
Michigan	3.2	2.2
New York	2.7	1.1
Ohio	2.6	2.3
North Carolina	2.5	3.1
Illinois	2.0	1.3
Indiana	1.8	3.6
Florida	1.5	1.6
New Jersey	1.5	0.7
Top 10 states total	32.6	1.8
All states total	\$41.0	1.3

Figures may not sum due to rounding.

Source: Ernst & Young LLP and Department of Labor calculations.

A nighttime photograph of a city street with light trails from cars. The scene includes a multi-story brick building on the left, a parking garage in the background, and a curved road with a concrete barrier. The light trails are long and bright, indicating a long exposure. The overall atmosphere is urban and illuminated.

Conclusion

State and local taxes paid by business in FY2010 totaled \$619 billion, a decrease of 0.3% from FY2009. Given historical trends and current loans to state UI trust funds, there will be significant upward pressure on UI taxes over the next fiscal year. States experienced significant revenue shortfalls in FY2009 and FY2010 and continue to face budget pressure in FY2011 and FY2012. When faced with deficits in the past, many states saw business tax reforms only in the context of their short-term objectives to raise revenue. In an economic environment affected significantly by increased global competition and increasingly mobile labor and capital, it is important for policymakers to understand the level and composition of their state's total state and local business taxes and the potential long-term impacts of business tax reforms designed to meet short-term objectives.

Appendix: Supplemental tables

Appendix Table A1. Total state and local business taxes, FY1990-FY2010 (US\$billion)

State and local taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total business taxes*	\$229.4	\$303.2	\$382.4	\$395.3	\$401.8	\$424.2	\$459.9	\$510.9	\$553.3	\$612.1	\$626.8	\$621.0	\$619.0
Individual income taxes on non-business income	99.1	128.3	196.5	209.7	188.0	185.5	197.7	210.5	234.0	254.4	267.9	234.6	224.5
Other non-business taxes	185.5	244.9	313.7	324.3	336.2	356.5	383.6	408.5	454.8	452.6	471.2	488.7	500.8
Total state and local taxes	\$514.0	\$676.4	\$892.6	\$929.4	\$926.1	\$966.2	\$1,041.2	\$1,130.0	\$1,242.1	\$1,319.1	\$1,366.0	\$1,344.3	\$1,344.4
Composition of state and local taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total business taxes*	44.5%	45.1%	42.8%	43.5%	44.1%	44.8%	44.7%	45.2%	44.5%	46.4%	45.9%	46.2%	46.0%
Individual income taxes on non-business income	19.4%	18.7%	22.1%	21.6%	19.5%	18.3%	18.4%	18.6%	18.8%	19.3%	19.6%	17.5%	16.7%
Other non-business taxes	36.1%	36.2%	35.1%	34.9%	36.3%	36.9%	36.8%	36.2%	36.6%	34.3%	34.5%	36.4%	37.3%
Total state and local taxes	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

Figures may not sum due to rounding.

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

Appendix Table A2. Composition of state and local business taxes, FY1990-FY2010 (US\$billion)

Business taxes	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Property tax on business property	\$84.7	\$110.7	\$136.8	\$142.6	\$152.9	\$160.9	\$169.7	\$176.6	\$187.9	\$220.6	\$224.2	\$247.0	\$249.5
General sales and use tax on inputs	\$53.4	\$70.2	\$94.4	\$97.6	\$97.9	\$100.9	\$107.3	\$115.2	\$123.8	\$131.7	\$134.6	\$127.7	\$124.4
Corporate net income	\$23.7	\$31.7	\$36.4	\$35.8	\$28.5	\$31.9	\$34.1	\$43.5	\$53.3	\$61.0	\$59.2	\$46.9	\$44.1
Unemployment insurance tax	\$12.4	\$15.8	\$20.9	\$20.8	\$21.0	\$23.9	\$31.9	\$35.5	\$36.4	\$35.8	\$32.5	\$31.4	\$32.4
Business license tax	\$7.3	\$11.4	\$14.8	\$15.0	\$17.0	\$16.8	\$18.9	\$29.5	\$32.9	\$34.0	\$36.6	\$37.1	\$37.0
Public utility tax	\$11.4	\$15.0	\$17.7	\$17.9	\$20.3	\$21.2	\$21.3	\$22.6	\$23.6	\$27.1	\$28.2	\$28.7	\$28.7
Individual income tax on business income	\$6.6	\$9.6	\$15.1	\$16.3	\$14.8	\$14.8	\$17.5	\$30.4	\$33.1	\$35.5	\$37.4	\$34.4	\$33.0
Excise taxes	\$10.6	\$16.0	\$20.1	\$20.2	\$20.8	\$21.9	\$23.4	\$23.9	\$25.1	\$28.5	\$29.8	\$28.8	\$30.4
Insurance premium tax	\$7.4	\$8.6	\$9.8	\$10.3	\$11.2	\$12.6	\$14.0	\$14.9	\$15.6	\$16.1	\$16.5	\$15.8	\$16.5
Other business taxes	\$11.8	\$14.1	\$16.5	\$18.9	\$17.4	\$19.5	\$21.8	\$18.8	\$21.6	\$21.9	\$27.9	\$23.4	\$23.0
Total business taxes	\$229.4	\$303.2	\$382.4	\$395.3	\$401.8	\$424.2	\$459.9	\$510.9	\$553.3	\$612.1	\$626.8	\$621.0	\$619.0

Figures may not sum due to rounding.

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

Appendix Table A3. Distribution of state and local business taxes, by type and state, FY2010

State	Property tax	Sales tax	Excise and gross receipts tax	Corporate income tax	UI tax	Individual income tax on passthru income	License and other tax	Total business taxes
Alabama	27.9%	19.8%	22.6%	6.5%	3.9%	4.8%	14.6%	100.0%
Alaska	15.4%	0.0%	2.3%	12.6%	2.3%	0.0%	67.4%	100.0%
Arizona	45.9%	30.3%	9.6%	3.8%	2.6%	2.6%	5.1%	100.0%
Arkansas	23.6%	28.3%	14.5%	10.4%	7.5%	7.2%	8.4%	100.0%
California	35.5%	21.0%	9.4%	10.7%	5.7%	8.5%	9.4%	100.0%
Colorado	46.7%	24.5%	8.1%	3.7%	3.9%	7.3%	5.7%	100.0%
Connecticut	33.5%	22.3%	12.3%	7.3%	9.3%	10.8%	4.4%	100.0%
Delaware	16.4%	0.0%	10.3%	7.0%	4.4%	4.8%	57.2%	100.0%
Florida	51.2%	16.7%	19.6%	4.4%	2.3%	0.0%	5.7%	100.0%
Georgia	44.6%	25.6%	10.2%	4.8%	3.9%	7.0%	4.0%	100.0%
Hawaii	37.1%	27.2%	19.3%	2.9%	2.4%	5.8%	5.2%	100.0%
Idaho	42.7%	16.0%	9.7%	5.0%	7.8%	9.4%	9.5%	100.0%
Illinois	44.3%	14.6%	16.6%	9.2%	5.6%	4.1%	5.6%	100.0%
Indiana	54.3%	19.2%	7.1%	6.0%	5.1%	5.2%	3.0%	100.0%
Iowa	50.2%	18.5%	7.2%	3.4%	6.5%	7.9%	6.4%	100.0%
Kansas	45.9%	23.7%	8.7%	6.1%	4.1%	6.8%	4.8%	100.0%
Kentucky	30.7%	19.7%	19.6%	7.3%	6.2%	6.8%	9.7%	100.0%
Louisiana	25.5%	42.4%	11.2%	4.0%	1.7%	2.8%	12.5%	100.0%
Maine	57.9%	12.3%	9.3%	5.9%	3.5%	5.5%	5.6%	100.0%
Maryland	26.1%	17.4%	18.8%	10.1%	5.7%	9.7%	12.1%	100.0%
Massachusetts	43.6%	12.7%	6.3%	12.8%	11.0%	9.0%	4.6%	100.0%
Michigan	49.7%	19.4%	7.7%	4.5%	9.3%	4.4%	5.1%	100.0%
Minnesota	37.0%	19.1%	15.8%	7.0%	7.9%	6.6%	6.7%	100.0%
Mississippi	44.2%	22.7%	11.6%	6.8%	2.2%	3.8%	8.7%	100.0%
Missouri	39.1%	24.6%	12.5%	2.3%	6.4%	6.1%	9.1%	100.0%
Montana	47.5%	0.0%	12.0%	5.3%	4.5%	6.3%	24.4%	100.0%
Nebraska	45.9%	22.8%	9.5%	4.1%	3.2%	7.2%	7.3%	100.0%
Nevada	35.7%	20.2%	15.8%	0.0%	5.3%	0.0%	23.1%	100.0%
New Hampshire	52.4%	0.0%	14.1%	21.2%	4.3%	0.4%	7.6%	100.0%
New Jersey	46.4%	14.7%	8.8%	9.8%	9.5%	5.5%	5.3%	100.0%
New Mexico	20.1%	37.7%	9.6%	3.3%	2.7%	2.9%	23.7%	100.0%
New York	38.0%	18.2%	11.2%	14.6%	4.2%	9.2%	4.6%	100.0%
North Carolina	29.9%	23.0%	14.1%	10.0%	6.2%	7.5%	9.3%	100.0%
North Dakota	22.7%	11.9%	7.2%	3.6%	2.3%	2.4%	50.0%	100.0%
Ohio	36.7%	20.1%	13.8%	3.0%	5.9%	5.8%	14.7%	100.0%
Oklahoma	26.2%	30.1%	8.5%	3.7%	2.4%	7.0%	22.2%	100.0%
Oregon	41.6%	0.0%	12.0%	7.2%	10.6%	10.8%	17.8%	100.0%
Pennsylvania	37.2%	13.5%	13.6%	6.9%	8.9%	6.5%	13.5%	100.0%
Rhode Island	49.1%	16.0%	12.8%	5.3%	9.0%	4.5%	3.3%	100.0%
South Carolina	54.4%	15.2%	9.4%	2.0%	4.2%	3.4%	11.4%	100.0%
South Dakota	40.6%	35.1%	10.3%	2.1%	2.6%	0.0%	9.3%	100.0%
Tennessee	31.0%	29.0%	11.3%	9.2%	6.9%	0.3%	12.3%	100.0%
Texas	47.2%	23.9%	12.4%	0.0%	2.6%	0.0%	13.9%	100.0%
Utah	42.4%	20.1%	13.4%	6.6%	3.5%	6.2%	8.0%	100.0%
Vermont	57.9%	8.2%	16.1%	5.6%	4.9%	3.8%	3.5%	100.0%
Virginia	46.8%	12.1%	16.0%	5.8%	2.7%	5.7%	10.9%	100.0%
Washington	27.1%	44.4%	15.4%	0.0%	6.7%	0.0%	6.4%	100.0%
West Virginia	31.5%	9.1%	18.9%	10.5%	5.2%	4.6%	20.2%	100.0%
Wisconsin	45.6%	17.0%	11.4%	8.6%	7.2%	4.9%	5.3%	100.0%
Wyoming	44.4%	20.5%	2.4%	0.0%	2.2%	0.0%	30.5%	100.0%
District of Columbia	52.9%	9.0%	11.8%	10.2%	3.9%	8.8%	3.4%	100.0%
United States	40.3%	20.1%	12.2%	7.1%	5.2%	5.3%	9.7%	100.0%

Figures may not sum due to rounding.

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



Endnotes

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

² Ernst & Young LLP's methodology for calculating the business share of property taxes was revised for this study. For FY2006-FY2008, the business share is calculated using data describing federal itemized individual income tax deductions for property taxes paid from the IRS Statistics of Income and U.S. Census, State & Local Government Finances data for total property tax collections. For FY2010, the business share of property taxes in each state is estimated using a slightly different approach: in states where statewide state and local property tax and assessment data were available by class of property, business shares are calculated by allocating those data to residential and business property using classes of property determined in each state; in states where property tax data were not available by class of property, the approach to the business share from FY2006-FY2008 is used. FY2009 is treated as a hybrid, phase-in year for the new methodology, in which a combination of the two approaches is used to estimate the business share of property taxes. (Please note that the U.S. Census Bureau, Quarterly State & Local Finances division recently made significant revisions in local property tax data from CY2009 Q1 through CY2010 Q4, as local data providers had been underreporting property tax amounts. Ernst & Young uses these revised data for the FY2009-FY2010 local property tax estimates. However, data prior to CY2009 Q1 have not been revised by the Census.)

³ The business share of sales taxes in each state for FY2009-FY2010 was adjusted based on state sales tax rate changes enacted during FY2008 or FY2009 and applicable to FY2009 and FY2010.

⁴ A more detailed analysis of state and local sales taxation of business inputs is presented in a report prepared by Robert Cline, John Mikesell, Tom Neubig and Andrew Phillips, "Sales Taxation of Business Inputs: Existing Tax Distortions and the Consequences of Extending the Sales Tax to Business Services," January 25, 2005. (Also in *State Tax Notes*, January 28, 2005.)

⁵ Effective January 1, 2011, the Michigan corporate income tax (CIT) will replace the Michigan Business Tax (MBT). Under the CIT system, the modified gross receipts tax will be eliminated; flow-through entities will not be subject to the CIT; and most tax credits valid under the MBT will be eliminated.

⁶ Michigan Senate Fiscal Agency, Committee Summary, HB 4361, 4362, 4479, May 9, 2011.

⁷ For an analysis of the incidence of state and local taxes on business, see a report prepared by Robert Cline, Andrew Phillips, Joo Mi Kim and Tom Neubig, "The Economic Incidence of Additional State Business Taxes," *State Tax Notes*, Tax Analysts, January 11, 2010.

⁸ Frank Shafroth, "Double Trouble for Property Taxes," *State Tax Today*, Tax Analysts, May 2, 2011.

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