

MEMORANDUM



DATE: February 5, 2015
TO: House Appropriations Committee
FROM: Jim Stansell, Senior Economist
RE: Business Tax Burdens by State

At the January 28, 2015 Appropriations Committee meeting, several members including Representatives Irwin and Afendoulis raised questions about business taxes in Michigan and how the ratio of business taxes to total tax revenue in Michigan compared to that in other states. Although these are important questions with significant policy implications, it should be noted at the outset that consistent and reliable cross-state comparisons are difficult to accurately measure for a number of reasons.

First, it is important to not focus too much on any individual tax, but instead evaluate the entire tax structure since not all states levy the same types of taxes. Furthermore, even when similar taxes are imposed in a number of states, the rates and bases are rarely identical, which complicates cross-state comparisons. A low tax rate may seem advantageous, but if the base against which that rate is applied is substantially broader than in other states, the net tax burden might be larger.

Second, there are taxes imposed only on the business sector (for example, unemployment insurance and worker's compensation) for which there aren't similar burdens on individuals. In addition, there are also taxes that businesses pay that are more typically associated with individuals, such as sales taxes and property taxes. These are often ignored in lieu of more visible corporate income or franchise taxes.

Third, services provided to residents are provided at all levels of governments within a given state. Some states may provide services directly while others rely more on local governments for service provisions. As a result, local governments in such states often generate comparatively larger amounts of revenue than local governments in states where state governments provide of bulk of the services. Therefore, more accurate cross-state comparisons can be obtained by looking at combined state and local tax burdens as opposed to focusing on just state taxes.

Finally, how the relative tax burdens are constructed can have an impact on the comparisons. A state with a higher tax burden per capita than a neighboring state may have a lower tax burden when measured as a percent of personal income or state gross domestic product.

Although there are many studies that purport to measure tax burdens, one of the more reliable studies is the annual report published by the Council on State Taxation that measures state and local taxes paid by business in all 50 states. The study is prepared annually by Ernst & Young, and has a 10-year history using essentially the same methodology. While this allows for comparisons over time, it is important to account for individual tax changes before drawing specific conclusions. Since state and local tax systems are constantly changing, comparisons that are too narrow may not be valid from year to year.

I have attached four tables from the most current report for fiscal year 2013, released in August 2014. The tables illustrate the amounts of different taxes paid by businesses, the percent each tax comprises of total taxes paid by businesses, and various rankings of state and local tax burden as a percent of

state gross domestic product. It should be noted that since the study is based on FY2013, it does not capture the recent sharp increase in MEGA credits that have substantially reduced tax liabilities for many MBT filers. In addition, the personal property tax repeal is not reflected since the exemption for manufacturing personal property does not begin in earnest until 2016.

A brief inspection of the tables shows:

- Michigan businesses paid approximately \$14.4 billion in state and local taxes in FY2013. Total state and local taxes were higher in 10 other states than in Michigan. (Table 4)
- Of the \$14.4 billion, 39.2% was attributable to property taxes and 21.1% was from sales taxes, both of which are slightly above the U.S. average. Michigan's corporate income tax accounted for 6.2% of the total tax burden, below the 7.9% average for the U.S. as a whole. (Table A-3)
- Michigan's state and local business tax burden was approximately 3.8% of state gross domestic product, which was below the 4.7% average for the U.S. (Table 5)
- State and local taxes paid by Michigan business accounted for about 36.3% of all state and local taxes, which was less than the 44.9% average for the U.S. (Table 6)

The complete study is available at: <http://www.cost.org/WorkArea/DownloadAsset.aspx?id=87982>.

I hope this information is helpful, and would happy to address any questions you might have.

Attachment

Table 4. State and local business taxes, by type, FY2013 (\$billions)

Jurisdiction	Property tax	Sales tax	Excise tax including public utilities and insurance	Corporate income	Unemployment insurance tax	Individual income tax on business income	License and other taxes*	Total business taxes
Alabama	\$1.9	\$1.5	\$1.6	\$0.4	\$0.5	\$0.4	\$0.9	\$7.2
Alaska	0.8	–	0.1	0.6	0.2	–	4.1	5.9
Arizona	5.2	4.0	1.0	0.7	0.4	0.3	0.4	12.0
Arkansas	1.0	1.5	0.5	0.4	0.4	0.3	0.3	4.4
California	27.9	16.8	10.8	7.5	6.5	7.1	7.9	84.3
Colorado	5.7	2.4	1.0	0.7	1.0	0.7	0.6	12.0
Connecticut	2.3	1.4	1.3	0.6	0.9	0.9	0.3	7.6
Delaware	0.3	–	0.2	0.3	0.1	0.1	1.2	2.4
Florida	15.6	8.0	7.4	2.1	2.3	–	2.2	37.5
Georgia	5.8	4.1	1.3	0.8	0.9	0.9	0.6	14.3
Hawaii	0.9	1.1	0.7	0.1	0.3	0.2	0.2	3.6
Idaho	0.8	0.4	0.2	0.2	0.3	0.2	0.2	2.4
Illinois	12.8	3.8	4.7	4.5	3.3	1.5	1.6	32.3
Indiana	4.4	2.2	1.3	0.8	0.8	0.7	0.3	10.4
Iowa	2.7	1.6	0.3	0.4	0.6	0.7	0.4	6.8
Kansas	2.4	1.6	0.5	0.4	0.4	0.2	0.2	5.8
Kentucky	1.9	1.4	1.4	0.8	0.5	0.5	0.6	7.2
Louisiana	2.7	2.6	1.0	0.3	0.2	0.4	1.2	8.5
Maine	1.6	0.4	0.3	0.2	0.2	0.2	0.2	3.0
Maryland	2.3	1.7	2.1	1.0	1.1	1.2	0.9	10.2
Massachusetts	6.2	2.5	1.1	1.9	1.9	1.2	0.8	15.6
Michigan	5.7	3.0	1.4	0.9	1.9	0.7	0.8	14.4
Minnesota	4.1	2.4	1.6	1.4	1.4	1.0	0.7	12.6
Mississippi	2.1	1.2	0.8	0.4	0.3	0.3	0.5	5.5
Missouri	3.2	2.1	0.7	0.4	0.7	0.6	0.7	8.5
Montana	0.8	–	0.2	0.2	0.2	0.1	0.5	2.0
Nebraska	1.7	0.9	0.3	0.3	0.2	0.4	0.2	4.0
Nevada	1.6	1.9	0.9	–	0.5	–	1.3	6.2
New Hampshire	1.2	–	0.4	0.6	0.2	0.0	0.2	2.6
New Jersey	10.7	3.8	2.1	2.3	2.9	1.2	1.2	24.2
New Mexico	0.8	2.0	0.4	0.3	0.2	0.1	0.9	4.6
New York	25.3	10.5	7.2	11.5	3.2	5.9	2.9	66.4
North Carolina	3.8	3.1	2.0	1.3	1.2	1.1	1.2	13.7
North Dakota	0.7	0.7	0.3	0.2	0.1	0.1	2.6	4.7
Ohio	6.3	4.4	2.7	0.9	1.4	1.6	3.1	20.4
Oklahoma	1.4	2.1	0.7	0.6	0.6	0.5	1.1	7.0
Oregon	2.5	–	0.8	0.5	1.0	0.6	0.8	6.2
Pennsylvania	8.2	4.0	3.5	2.5	3.4	1.7	2.6	26.0
Rhode Island	1.1	0.3	0.3	0.1	0.3	0.1	0.1	2.4
South Carolina	3.3	1.4	0.7	0.4	0.4	0.3	0.7	7.2
South Dakota	0.6	0.8	0.2	0.0	0.0	–	0.2	1.8
Tennessee	3.0	3.5	1.4	1.3	0.7	0.0	1.4	11.4
Texas	28.0	18.5	7.6	–	2.8	–	11.2	68.0
Utah	1.7	1.0	0.6	0.3	0.4	0.3	0.3	4.5
Vermont	1.0	0.2	0.3	0.1	0.1	0.1	0.1	1.8
Virginia	6.0	1.9	2.0	0.8	0.8	0.8	1.4	13.8
Washington	4.2	7.8	2.5	–	1.3	–	1.2	17.0
West Virginia	1.0	0.5	0.7	0.2	0.2	0.2	0.8	3.6
Wisconsin	4.3	2.0	1.2	1.0	1.2	0.7	0.7	11.0
Wyoming	0.9	0.5	0.1	–	0.1	–	1.0	2.6
District of Columbia	1.7	0.4	0.4	0.5	0.2	0.3	0.1	3.6
United States	\$242.1	\$139.8	\$82.8	\$53.3	\$50.8	\$36.6	\$65.4	\$670.8

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

*License taxes include gross receipts taxes levied in Ohio and Texas plus general business licenses. “Other taxes” include death and gift taxes, documentary and stock transfer taxes, severance taxes and local gross receipts taxes. Certain Ohio localities impose a net profits tax, which is included in the “Corporate income” column.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, state and local government finances.

Table A-3 Composition of state and local business taxes, by type, FY2013

Jurisdiction	Property tax	Sales tax	Excise tax	Corporate income tax	Unemployment insurance tax	Individual income tax on pass-through income	License and other taxes*	Total business taxes
Alabama	27.0%	21.1%	22.4%	5.3%	6.4%	5.3%	12.6%	100.0%
Alaska	14.2%	–	2.0%	10.7%	3.6%	–	69.4%	100.0%
Arizona	43.2%	32.9%	8.4%	5.5%	3.6%	2.7%	3.7%	100.0%
Arkansas	22.8%	34.2%	10.5%	9.1%	9.0%	6.9%	7.6%	100.0%
California	33.0%	19.9%	12.8%	8.8%	7.6%	8.4%	9.3%	100.0%
Colorado	47.3%	20.1%	8.3%	5.4%	8.2%	5.4%	5.3%	100.0%
Connecticut	30.0%	19.0%	16.5%	7.5%	11.4%	11.5%	4.1%	100.0%
Delaware	13.7%	–	10.2%	13.2%	5.2%	5.8%	52.0%	100.0%
Florida	41.6%	21.3%	19.8%	5.5%	6.1%	–	5.7%	100.0%
Georgia	40.6%	28.5%	9.1%	5.6%	6.1%	6.0%	4.2%	100.0%
Hawaii	26.3%	29.7%	20.9%	3.5%	9.4%	4.5%	5.7%	100.0%
Idaho	34.0%	18.0%	9.0%	8.4%	13.5%	8.9%	8.2%	100.0%
Illinois	39.8%	11.8%	14.6%	13.8%	10.3%	4.8%	4.9%	100.0%
Indiana	41.8%	21.0%	12.7%	7.5%	7.5%	6.9%	2.5%	100.0%
Iowa	39.9%	23.9%	4.4%	6.3%	9.0%	10.4%	6.0%	100.0%
Kansas	42.4%	27.2%	8.7%	6.7%	7.2%	3.8%	4.0%	100.0%
Kentucky	27.2%	19.8%	19.3%	10.6%	7.3%	7.3%	8.5%	100.0%
Louisiana	32.0%	30.8%	11.6%	3.0%	2.9%	5.2%	14.5%	100.0%
Maine	55.3%	12.7%	9.6%	5.8%	5.9%	5.3%	5.5%	100.0%
Maryland	22.4%	16.9%	20.6%	9.3%	10.5%	11.5%	8.8%	100.0%
Massachusetts	39.7%	16.1%	6.8%	12.1%	12.3%	7.6%	5.2%	100.0%
Michigan	39.2%	21.1%	9.9%	6.2%	13.0%	4.9%	5.7%	100.0%
Minnesota	32.3%	19.1%	12.7%	10.8%	11.0%	8.2%	5.8%	100.0%
Mississippi	37.9%	21.6%	13.9%	7.6%	5.0%	5.0%	9.1%	100.0%
Missouri	37.9%	25.3%	7.9%	5.3%	7.9%	7.5%	8.2%	100.0%
Montana	42.0%	–	11.3%	8.6%	8.1%	7.2%	22.8%	100.0%
Nebraska	43.7%	21.8%	7.4%	6.9%	4.5%	10.6%	5.2%	100.0%
Nevada	25.2%	30.3%	14.5%	–	8.7%	–	21.4%	100.0%
New Hampshire	45.1%	–	16.3%	21.6%	8.3%	0.4%	8.3%	100.0%
New Jersey	44.2%	15.6%	8.7%	9.4%	12.2%	4.9%	4.9%	100.0%
New Mexico	16.9%	42.9%	7.9%	5.9%	4.8%	3.0%	18.7%	100.0%
New York	38.1%	15.7%	10.8%	17.3%	4.9%	8.9%	4.3%	100.0%
North Carolina	27.7%	22.5%	14.9%	9.4%	9.1%	7.8%	8.5%	100.0%
North Dakota	14.6%	15.5%	5.4%	4.8%	2.2%	3.1%	54.6%	100.0%
Ohio	31.1%	21.5%	13.1%	4.6%	6.9%	7.8%	15.0%	100.0%
Oklahoma	19.5%	29.8%	10.7%	8.4%	8.2%	7.9%	15.5%	100.0%
Oregon	39.6%	–	13.5%	8.2%	16.7%	9.4%	12.5%	100.0%
Pennsylvania	31.4%	15.5%	13.6%	9.7%	13.1%	6.7%	10.0%	100.0%
Rhode Island	46.1%	14.1%	14.3%	6.1%	11.3%	4.1%	4.2%	100.0%
South Carolina	46.5%	19.2%	9.9%	5.4%	5.9%	3.9%	9.2%	100.0%
South Dakota	32.2%	42.7%	9.9%	2.0%	2.5%	–	10.6%	100.0%
Tennessee	26.2%	30.8%	12.7%	11.0%	6.4%	0.4%	12.5%	100.0%
Texas	41.2%	27.3%	11.1%	–	4.0%	–	16.4%	100.0%
Utah	37.4%	21.3%	12.6%	7.4%	8.0%	6.5%	6.7%	100.0%
Vermont	53.2%	10.0%	16.4%	5.8%	7.8%	3.9%	3.0%	100.0%
Virginia	43.6%	14.0%	14.7%	5.6%	5.7%	6.1%	10.3%	100.0%
Washington	24.7%	46.0%	14.4%	–	7.8%	–	7.1%	100.0%
West Virginia	27.6%	13.6%	20.0%	6.7%	6.2%	4.5%	21.4%	100.0%
Wisconsin	39.2%	17.8%	10.5%	8.7%	11.2%	6.1%	6.5%	100.0%
Wyoming	34.1%	20.4%	3.0%	–	5.5%	–	37.0%	100.0%
District of Columbia	48.4%	11.2%	11.9%	12.7%	4.6%	7.8%	3.4%	100.0%
United States	36.1%	20.8%	12.3%	7.9%	7.6%	5.5%	9.7%	100.0%

Note: Figures may not sum due to rounding. "--" indicates 0; "0.0%" indicates less than 0.05%.

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

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, state and local government finances.

Table 5. Business taxes as a share of state, local, and total taxes and private sector GSP, FY2013 (\$billions)

Jurisdiction	State taxes		Local taxes		State and local taxes		% of GSP*
	Business	Total	Business	Total	Business	Total	
Alabama	\$4.2	\$9.7	\$3.0	\$5.4	\$7.2	\$15.1	4.5%
Alaska	5.1	5.3	0.8	1.7	5.9	7.1	12.0%
Arizona	5.8	13.9	6.2	9.8	12.0	23.7	5.1%
Arkansas	3.6	9.0	0.9	1.9	4.4	10.8	4.2%
California	48.4	139.6	36.0	69.0	84.3	208.6	4.5%
Colorado	4.4	12.2	7.6	12.8	12.0	25.0	4.8%
Connecticut	5.3	17.0	2.3	9.3	7.6	26.3	3.4%
Delaware	2.0	3.5	0.4	0.8	2.4	4.3	4.3%
Florida	17.6	36.9	19.9	33.4	37.5	70.3	5.5%
Georgia	6.2	18.7	8.1	14.9	14.3	33.6	3.7%
Hawaii	2.3	6.4	1.2	1.9	3.6	8.3	6.3%
Idaho	1.5	3.9	0.9	1.4	2.4	5.3	4.6%
Illinois	17.0	42.0	15.3	29.2	32.3	71.2	5.0%
Indiana	5.7	17.7	4.7	9.0	10.4	26.7	3.7%
Iowa	3.6	9.0	3.1	5.5	6.8	14.4	4.7%
Kansas	2.8	8.0	3.0	5.0	5.8	13.0	4.7%
Kentucky	4.7	11.3	2.5	4.7	7.2	16.0	4.7%
Louisiana	3.9	9.5	4.5	7.7	8.5	17.2	3.8%
Maine	1.3	4.1	1.6	2.3	3.0	6.4	6.4%
Maryland	6.8	19.2	3.4	13.9	10.2	33.1	3.8%
Massachusetts	9.1	25.8	6.4	13.9	15.6	39.7	4.0%
Michigan	9.3	27.0	5.1	12.8	14.4	39.7	3.8%
Minnesota	8.6	22.4	3.9	8.0	12.6	30.4	4.6%
Mississippi	3.2	7.7	2.3	3.0	5.5	10.6	6.4%
Missouri	3.8	11.8	4.6	9.2	8.5	21.0	3.5%
Montana	1.3	2.8	0.7	1.2	2.0	4.0	5.4%
Nebraska	1.9	4.9	2.1	3.8	4.0	8.7	4.3%
Nevada	4.0	7.6	2.2	4.0	6.2	11.6	5.4%
New Hampshire	1.5	2.6	1.0	2.9	2.6	5.5	4.4%
New Jersey	13.3	32.0	10.9	26.6	24.2	58.7	5.1%
New Mexico	3.1	5.4	1.5	2.4	4.6	7.8	6.6%
New York	25.8	76.9	40.6	80.6	66.4	157.5	5.8%
North Carolina	8.8	25.0	4.8	11.5	13.7	36.5	3.4%
North Dakota	3.9	5.4	0.8	1.3	4.7	6.7	9.9%
Ohio	11.7	28.7	8.7	22.3	20.4	51.1	4.1%
Oklahoma	4.4	9.5	2.5	4.5	7.0	14.0	4.7%
Oregon	3.1	10.2	3.1	6.1	6.2	16.3	3.3%
Pennsylvania	15.7	37.4	10.3	24.3	26.0	61.7	4.6%
Rhode Island	1.3	3.2	1.1	2.3	2.4	5.5	5.3%
South Carolina	3.1	9.1	4.0	6.1	7.2	15.2	4.8%
South Dakota	1.0	1.6	0.8	1.3	1.8	2.9	4.5%
Tennessee	7.1	13.1	4.3	8.4	11.4	21.5	4.6%
Texas	34.4	54.5	33.6	52.6	68.0	107.1	5.0%
Utah	2.3	6.7	2.2	3.8	4.5	10.5	3.7%
Vermont	1.5	3.0	0.3	0.4	1.8	3.5	7.4%
Virginia	5.6	20.0	8.2	14.7	13.8	34.7	3.8%
Washington	11.1	20.0	5.9	11.4	17.0	31.4	5.0%
West Virginia	2.4	5.6	1.2	1.6	3.6	7.2	6.0%
Wisconsin	6.5	17.8	4.5	10.2	11.0	28.0	4.5%
Wyoming	1.8	2.3	0.8	1.1	2.6	3.4	6.7%
District of Columbia	3.6	6.4	n/a	n/a	3.6	6.4	4.8%
United States	\$366.7	\$903.3	\$304.1	\$591.9	\$670.8	\$1,495.2	4.7%

Note: Amounts may not sum due to rounding.

*Average of calendar year 2012 and calendar 2013 private-industry GSP. This is the total effective business tax rate (TEBTR) on economic activity occurring within the state.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, state and local government finances.



Table 6. Business share of total state and local taxes, FY2013

Jurisdiction	Business share of state taxes	Business share of local taxes	Business share of total state and local taxes
Alabama	42.9%	55.8%	47.5%
Alaska	95.0%	47.9%	83.6%
Arizona	41.9%	63.3%	50.7%
Arkansas	39.6%	47.0%	40.9%
California	34.6%	52.2%	40.4%
Colorado	36.3%	59.1%	48.0%
Connecticut	31.1%	25.0%	28.9%
Delaware	58.2%	45.2%	55.7%
Florida	47.6%	59.7%	53.3%
Georgia	33.2%	54.1%	42.5%
Hawaii	36.5%	65.9%	43.1%
Idaho	39.4%	61.2%	45.1%
Illinois	40.4%	52.3%	45.3%
Indiana	32.1%	52.9%	39.1%
Iowa	40.3%	57.5%	46.8%
Kansas	34.8%	59.7%	44.3%
Kentucky	41.6%	52.7%	44.8%
Louisiana	41.7%	58.3%	49.2%
Maine	33.2%	69.9%	46.6%
Maryland	35.7%	24.2%	30.9%
Massachusetts	35.4%	46.1%	39.2%
Michigan	34.5%	40.0%	36.3%
Minnesota	38.5%	49.4%	41.4%
Mississippi	41.6%	77.5%	51.6%
Missouri	32.5%	50.3%	40.3%
Montana	46.2%	59.9%	50.2%
Nebraska	38.5%	56.2%	46.2%
Nevada	52.2%	55.8%	53.5%
New Hampshire	59.1%	35.4%	46.5%
New Jersey	41.4%	41.0%	41.2%
New Mexico	57.3%	61.8%	58.6%
New York	33.5%	50.4%	42.2%
North Carolina	35.3%	42.2%	37.5%
North Dakota	72.3%	62.7%	70.5%
Ohio	40.6%	39.2%	40.0%
Oklahoma	46.9%	55.8%	49.8%
Oregon	30.9%	50.0%	38.1%
Pennsylvania	42.1%	42.2%	42.1%
Rhode Island	39.1%	48.3%	43.0%
South Carolina	34.0%	66.7%	47.0%
South Dakota	63.0%	61.7%	62.4%
Tennessee	54.6%	50.8%	53.1%
Texas	63.1%	63.9%	63.5%
Utah	34.0%	57.7%	42.6%
Vermont	49.9%	68.4%	52.3%
Virginia	28.1%	56.0%	39.9%
Washington	55.7%	51.5%	54.2%
West Virginia	43.3%	75.1%	50.4%
Wisconsin	36.6%	44.5%	39.5%
Wyoming	76.9%	72.0%	75.3%
District of Columbia	56.0%	n/a	56.0%
United States	40.6%	51.4%	44.9%

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.