

# Total state and local business taxes

State-by-state estimates for FY23

December 2024



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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 22nd annual report prepared by Ernst & Young LLP 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 2023 (FY23), which ran from July 2022 through June 2023 for most states.<sup>1</sup>

Businesses paid \$1,096.2 billion in state and local taxes in FY23, which was 44.7% of all tax revenue at the state and local level. Businesses paid \$595.7 billion in state taxes in FY23, which was a 0.9% increase from the prior fiscal year, and \$500.4 billion in local taxes, which was 7.3% higher, for a combined year-over-year growth rate of 3.7% over FY22.

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 tax on businesses and corporations; 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 7.7% in FY23 to \$394.3 billion. Property taxes account for 36% 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 75.8% of all local business tax collections, whereas they comprise only 2.5% 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 21.9% of all taxes paid by businesses in FY23. The \$240.6 billion in sales tax collections was 6.4% higher than FY22.<sup>2</sup> The sales tax is the largest source of business tax revenue at the state level, accounting for 31.1% of all taxes paid by businesses. Although they are the second largest local business tax, business sales taxes only make up 11.0% of total local business tax collections.
- Taxes on business income include taxes on corporate income, gross receipts, and individual income from pass-through and other businesses including pass-through entity taxes. Corporate income and gross receipts taxes increased by 1.7% in FY23 to \$131.1 billion, and individual income taxes on business income, including pass-through entity taxes, decreased 22.9% to \$61.4 billion. Due to a lack of standard reporting of pass-through entity taxes by states, this study presents “business income taxes and gross receipts” as one category when discussing state-level results. Collectively, business income and gross receipts taxes decreased by 7.7% in FY23 to \$192.5 billion. Corporate income and gross receipts taxes made up 12.0% of business taxes in FY23 and individual income tax on business income made up 5.6%. Collectively, business income and gross receipts taxes make up 17.6% of all business taxes. This category is the second largest source of business tax revenue at the state level, accounting for 30.1% of taxes paid by businesses. Business income and gross receipts taxes accounted for 2.6% of total local business tax revenue in FY23.
- Total state and local taxes paid by businesses in FY23 equaled 4.7% 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 3.4% of private-sector GSP and as high as 12.1%. 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 the lowest business tax 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 \$2.96 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 \$1.23 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 FY23

This section summarizes state and local business tax collections in FY23.<sup>3</sup> Table 1 compares tax collections in FY23 to FY22 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 \$1,096.2 billion in state and local taxes in FY23, which was 3.7% higher than the prior fiscal year. As shown in Figure 3, this is 44.7% of total state and local tax collections. Households paid \$1,354.3 billion, or 55.3%, of total state and local taxes.
- While individual income tax on business income declined in FY23, the growth in corporate income and gross receipts taxes,

general sales taxes on business inputs and property taxes offsets this decline, resulting in modest business tax growth of 3.7%.

- Taxes on business income include taxes on corporate income, gross receipts, and individual income from pass-through and other businesses including pass-through entity taxes. Corporate income and gross receipts taxes increased by 1.7% in FY23 to \$131.1 billion, and individual income taxes on business income, including pass-through entity taxes, decreased 22.9% to \$61.4 billion. This decline is in part due to California's deferral of the April income tax filing deadline to November with revenue being shifted into the next fiscal year. California is responsible for 42% of the collective decline in business income taxes. Due to a lack of standard reporting of pass-through entity taxes in Census tax data sets, most of this study when discussing state-level results presents "business income and gross receipts taxes" as one category that includes corporate income taxes, gross receipts taxes, pass-through entity taxes and other estimates of individual income tax on business income.

**Table 1. Total state and local business taxes, FY22-FY23 (\$ billions)**

Business tax	2022*	2023	2023 % total taxes	One-year growth
Property taxes on business property	\$366.2	\$394.3	36.0%	7.7%
General sales taxes on business inputs	226.1	240.6	21.9%	6.4%
Business income and gross receipts taxes	208.6	192.5	17.6%	-7.7%
Corporate income and gross receipts taxes**	128.9	131.1	12.0%	1.7%
Individual income tax on business income***	79.7	61.4	5.6%	-22.9%
Excise taxes	57.0	60.6	5.5%	6.3%
Business and corporate license	47.5	49.5	4.5%	4.2%
Unemployment insurance	41.9	42.6	3.9%	1.7%
Insurance premium taxes	29.8	33.7	3.1%	12.9%
Public utility taxes	28.9	31.0	2.8%	7.4%
Severance taxes	25.9	26.7	2.4%	3.3%
Other business taxes	24.9	24.7	2.3%	-0.9%
<b>Total state and local business taxes</b>	<b>\$1056.7</b>	<b>\$1,096.2</b>	<b>100.0%</b>	<b>3.7%</b>

\*2022 business tax estimates are revised from the COST FY22 study because of newly released data from the U.S. Census Bureau. See Appendix for more information.

\*\*The US Census State and Local Finance Survey data was updated to include PTE taxes for some states, which EY reports in the individual income tax on business income category. EY has removed PTE taxes from the CIT 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.

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

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.





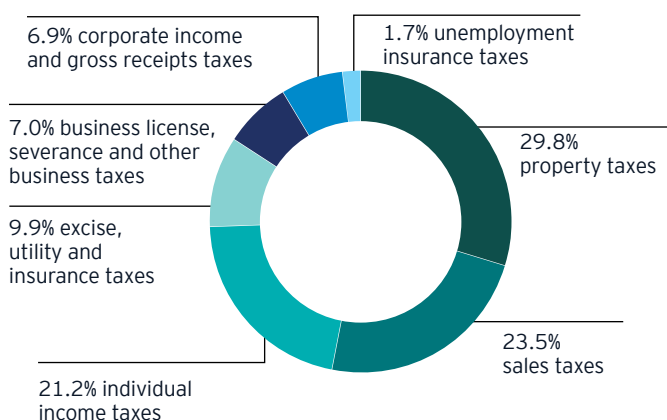
Collectively, business income and taxes decreased by 7.7% in FY23 to \$192.5 billion. Corporate income and gross receipts taxes made up 12% of business collections in FY23 and individual income tax on business income made up 5.6%, meaning business income and gross receipts taxes make up 17.6% of business collections. They are the second largest source of business tax revenue at the state level, accounting for 30.1% of taxes paid by businesses. At the local level, business income and gross receipts tax collections accounted for 2.6% of business tax revenue in FY23.

- Businesses paid \$394.3 billion in state and local property taxes in FY23, which is 7.7% higher than FY22 (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. They were 29.8% of total state and local taxes paid by both businesses and households in FY23 (Figure 1) and 35.9% of business tax collections (Figure 2). Businesses paid 54.1% of state and local property taxes (Figure 3), while households paid the remaining \$335.0 billion, or 45.9%, of state and local property tax collections.<sup>4</sup>

- Businesses paid \$240.6 billion in general sales taxes to state and local governments in FY23 for a year-over-year growth rate of 6.4% (Table 1). Sales tax collections are 23.5% of all state and local taxes paid by businesses and households (Figure 1) and 21.9% of state and local taxes paid by businesses (Figure 2). The \$240.6 billion paid by businesses is 41.8% of total state and local sales tax collections. Households paid \$335.3 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.<sup>5</sup>

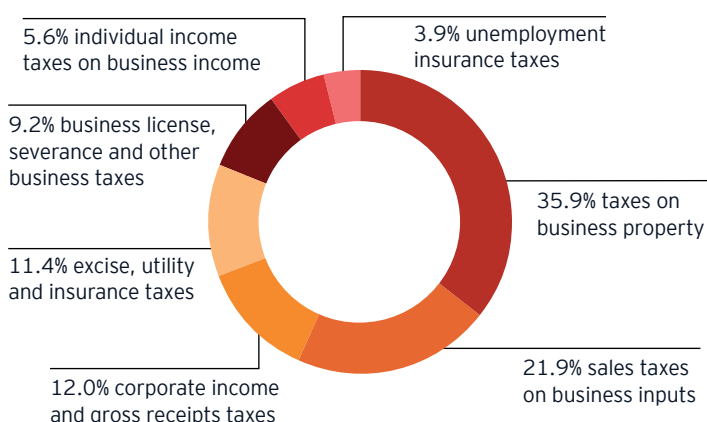
- Businesses paid \$60.6 billion in excise taxes to state and local governments in FY23, an increase of 6.3% over the prior fiscal year (Table 1). Only a portion of excise tax collections is attributed to businesses since both businesses and households consume these goods. Excise taxes attributed to 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 5.5% of total state and local business tax collections. In Figure 2, excise taxes are combined with utility and insurance premium taxes,

**Figure 1. Composition of total state and local taxes on business and households, FY23**



Note: Figures may not sum due to rounding.  
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, FY23**



Note: Figures may not sum due to rounding.  
Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances.

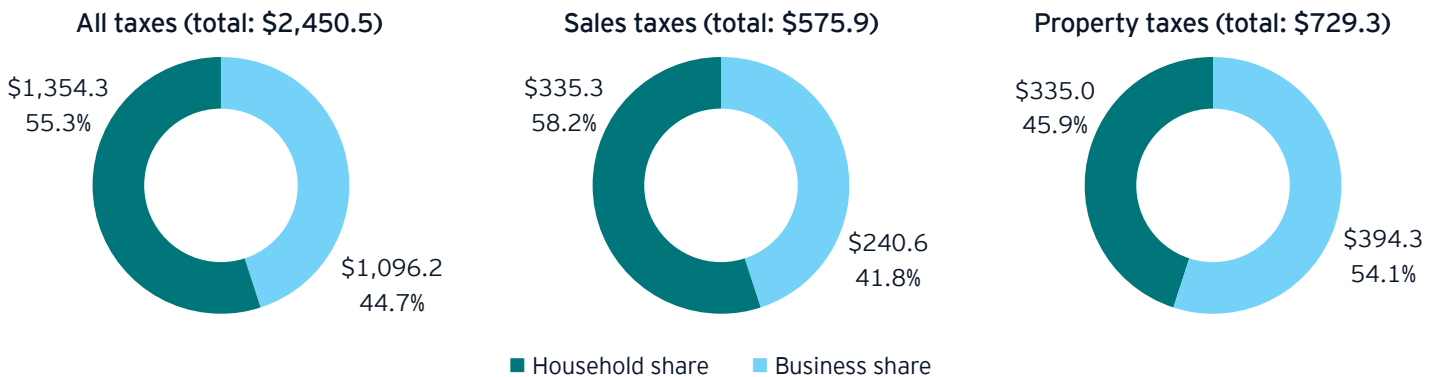




which together made up 11.4% of state and local business tax collections.

- Business and corporate license taxes and fees grew 4.2% in FY23 to \$49.5 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 9.2% of state and local business tax collections.
- Employer contributions to unemployment insurance grew 1.7% in FY23 to \$42.6 billion (Table 1), which was 3.9% of total state and local business tax collections (Figure 2).
- Insurance premium taxes grew 12.9% in FY23 to \$33.7 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 11.4% of state and local business tax collections.
- Public utility taxes were \$31.0 billion in FY23, an increase of 7.4% 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 corporate income taxes. Utility tax collections were combined with excise and insurance premium taxes in Figure 2, which were 11.4% of state and local business tax collections in FY23.
- Severance taxes grew 3.3% in FY23 to \$26.7 billion, which was 2.4% of state and local business tax collections (Table 1). Severance taxes are included with business and corporate license taxes and other business taxes in Figure 2, which were 9.2% of state and local business tax collections.
- Other state and local business taxes, which include items such as motor vehicle license taxes and documentary and stock transfer taxes, totaled \$24.7 billion in FY23, which was 0.9% lower than the prior year (Table 1).<sup>6</sup> Other state and local business taxes, which were combined with business and corporate license taxes and severance taxes in Figure 2, were 9.2% of total state and local tax collections.

**Figure 3. Total state and local taxes (\$ billions) and business and household taxes as a share of total tax collections, FY23**



Note: Figures may not sum due to 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
- Taxes on business income include taxes on corporate income, gross receipts, and individual income from pass-through and other businesses including pass-through entity taxes. Gross receipts are included in this category since several states such as Nevada, Ohio, Texas and Washington levy a gross receipts tax in lieu of the traditional corporate income tax.<sup>7</sup> Taxes withheld on employee earnings are not considered business taxes
- 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 FY23

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 FY22 and FY23 as well as the year-over-year growth rate and the share of total business tax collections in FY23.

State business tax collections were 0.9% higher than the prior fiscal year in FY23, reaching a total of \$595.7 billion, according to Table 2. An 8.1% decrease in state business income and gross receipts taxes limited the overall growth.

State business tax collections from sales and use taxes grew 6.4% in FY23 and business license tax revenue was 1.8% higher, while taxes in the other business taxes category were 2.8% lower. Insurance premiums tax collections grew 13.1% in FY23, while business property tax revenues were 6.6% higher. The year-over-year growth rates for the remaining taxes were in the 1.7% to 6.6% range in FY23.

Local business tax collections (Table 3) reached \$500.4 billion in FY23, which was 7.3% higher than the prior fiscal year. Property taxes, which were the largest source of business tax revenue at the local level, were 7.7% higher than in FY22, while sales taxes on business purchases, the second largest source of local business taxes, were 6.6% higher.

The composition of business taxes differs significantly between state and local levels. According to Table 1, the three largest sources of state and local tax collections from businesses were the property tax (36.0%), general sales tax (21.9%), and business income and gross receipts taxes (17.6%). 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 2.5% of total state business tax collections. The sales and use tax, at 31.1%, was the largest source of business tax collections at the state level, followed by business income and gross receipts taxes at 30.1%.

Property taxes were the largest source of business tax collections at the local level, at 75.8%. 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 11.0%. Local business income and gross receipts taxes accounted for 2.6% of local business tax collections.







**Table 2. State business taxes, FY22-FY23 (\$ billions)**

Business taxes	State business taxes FY22	State business taxes FY23	% total state business taxes	One-year growth, state business taxes
General sales and use taxes on inputs	\$174.4	\$185.5	31.1%	6.4%
Business income and gross receipts taxes	\$195.2	\$179.5	30.1%	-8.1%
Excise taxes on business inputs	\$48.9	\$51.8	8.7%	6.0%
Unemployment insurance taxes	\$41.9	\$42.6	7.1%	1.7%
Insurance premium taxes	\$28.6	\$32.3	5.4%	13.1%
Business license taxes	\$28.6	\$29.1	4.9%	1.8%
Severance taxes	\$25.8	\$26.7	4.5%	3.3%
Property taxes on business property	\$14.2	\$15.2	2.5%	6.6%
Public utility tax	\$12.6	\$13.4	2.3%	6.6%
Other business taxes	\$20.3	\$19.7	3.3%	-2.8%
<b>Total state business taxes</b>	<b>\$590.5</b>	<b>\$595.7</b>	<b>100.0%</b>	<b>0.9%</b>

Note: Amounts may not appear to 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, FY22-FY23 (\$ billions)**

Business tax	Local business taxes FY22*	Local business taxes FY23	% total local business taxes	One-year growth, local business taxes
Property taxes on business property	\$351.9	\$379.1	75.8%	7.7%
General sales taxes on business inputs	\$51.7	\$55.1	11.0%	6.6%
Public utility taxes	\$16.3	\$17.6	3.5%	8.0%
Business income and gross receipts taxes	\$13.4	\$13.1	2.6%	-2.1%
Excise taxes on business inputs	\$8.1	\$8.8	1.7%	8.2%
Other business taxes	\$24.8	\$26.8	5.3%	7.8%
<b>Total local business taxes</b>	<b>\$466.2</b>	<b>\$500.4</b>	<b>100.0%</b>	<b>7.3%</b>

\*FY22 business tax estimates are revised from the COST FY22 study because of newly released data from the U.S. Census Bureau.

Note: Amounts may not appear to 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 3.7% higher in FY23. Figure 4 shows the year-over-year growth rates in total state and local business tax collections by state in FY23. States with significant tax changes in FY23 are described below.

- Severance taxes had a major effect on total business collections for several states, including Wyoming, which had the greatest year-over-year increase at 25.3%, along with New Mexico, North Dakota and Alaska, which all had growth in collections between 11% and 14%. Severance taxes are volatile as collections often shift with the price of natural resources. High oil demand and energy prices in FY23 led to high severance tax collections in oil-producing states. Severance taxes made up more than 50% of total business tax collections in Alaska and North Dakota in FY23.
- Taxes on business income, including on pass-through entities, declined in FY23 after high collections in FY21 and FY22 driven by higher-than-typical corporate profits. Corporate income and gross receipts taxes experienced growth, but when combined with a significant decline in individual income tax on business income and PTE taxes, the business income and gross receipts tax collections declined 7.7% in FY23 from the prior year.
- Twelve states implemented individual income tax rate changes in 2023, 11 of which were rate reductions, as shown in Table 4. Most states lowered their top tax rate, while New York changed the rates for two of its middle brackets and Mississippi eliminated a middle tax bracket completely, both of which reduce the effective tax rates on higher individual income earners, which likely includes many pass-through businesses. Arizona and Idaho moved from a graduated rate structure to a flat rate. Massachusetts was the only state that implemented an income tax increase, moving from a flat rate to a graduated rate with a higher top marginal rate for income above \$1 million.
- Five states reduced their corporate income tax rates in 2023, as shown in Table 4. These rate reductions coupled with the more favorable tax treatment of businesses in some states, such as Vermont repealing its throwback rule and Oklahoma offering 100% bonus depreciation, reduced the overall business income tax collections.
- California experienced a significant reduction in corporate income tax and PTE collections, declining 35% from FY22 to FY23. This major decline in business income tax collections contributed to a 6.4% total decline in California state and local business taxes.
- States continue to implement optional pass-through entity taxes, with 15 additional states implementing PTE tax laws effective for tax year 2022 (FY23). Hawaii and Montana, the two most recent states to pass a PTE tax, implemented the tax beginning in 2023. Delaware, the District of Columbia, Maine, North Dakota, Pennsylvania and Vermont are the only remaining states and districts that levy an individual income tax but have not enacted a pass-through entity tax.
- State and local business sales tax collections range from \$0.3 billion in Vermont to \$30.9 billion in Texas. On average, business sales tax collections increased by 6.4% between FY22 and FY23, and every state increased business sales tax collections year-over-year. The highest percentage increases in business sales tax collections were in Wyoming (7.3%) and New Mexico (6.2%). New Mexico saw significant growth despite a reduction in its gross receipts tax (categorized for this study as a sales tax) from 5.125% to 5%. Five states have no statewide sales tax: Alaska, Delaware, Montana, New Hampshire and Oregon.
- The change in unemployment insurance collections between FY22 and FY23 exhibited large variation between states. Twenty-five states showed a decline in unemployment insurance tax collections.

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.



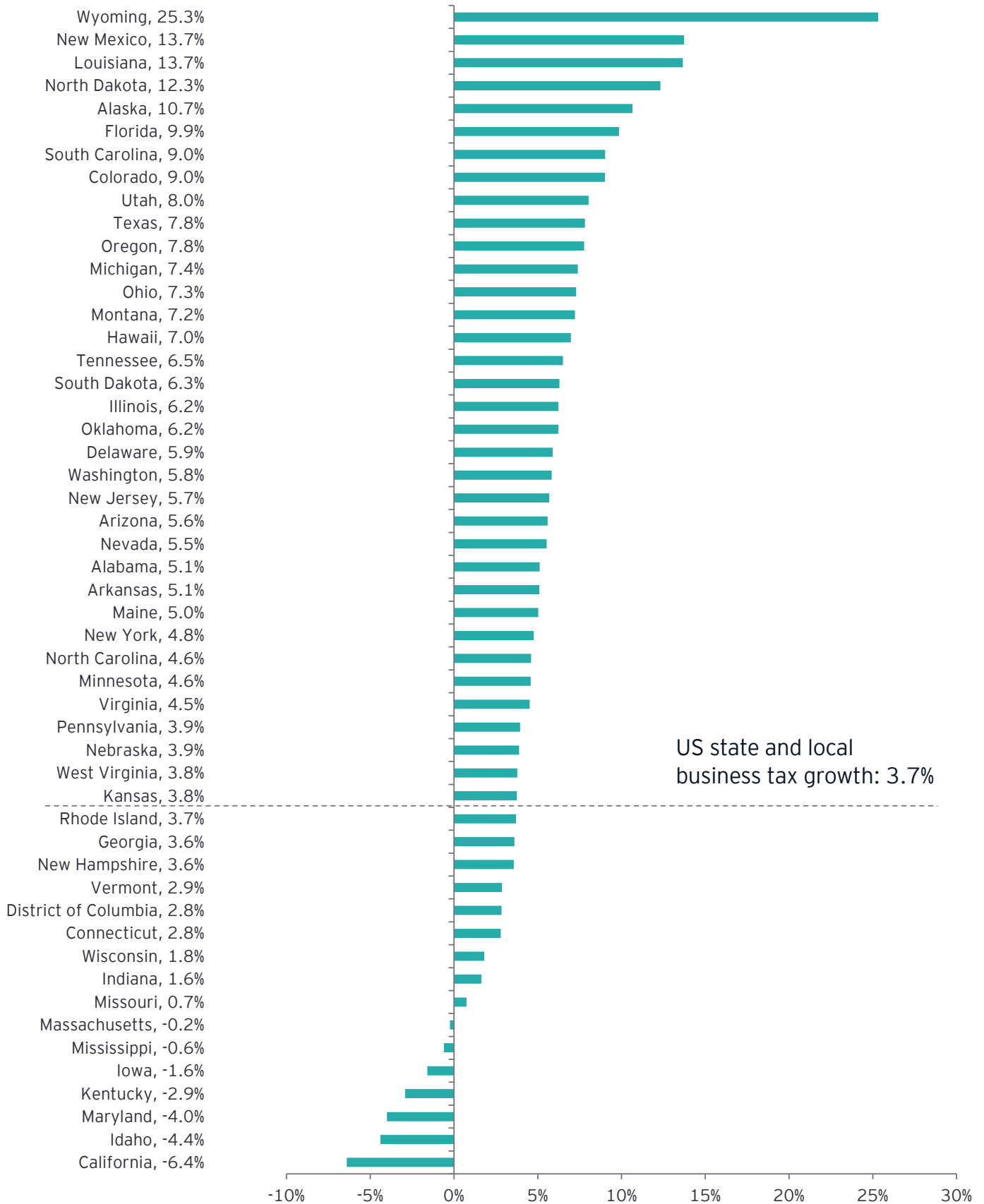
**Table 4. Individual and corporate income tax changes effective in FY23 by state**

State	Tax change summary
<b>Individual income tax changes</b>	
Arizona	Arizona moved from a two-bracket system, with the top bracket starting at \$28,654 with a rate of 2.98%, to a flat rate of 2.5%.
Idaho	Idaho moved from a four-bracket system, with a top marginal rate of 6% on income above \$8,310 in 2022, to two brackets with no tax on the first \$4,489 and a top marginal rate of 5.8% on income above \$4,489.
Indiana	Indiana has a flat-rate system and reduced the rate from 3.23% to 3.15%.
Iowa	Iowa moved from an eight-bracket system, with a top marginal rate of 8.53% on income of \$78,435 and above, to a four-bracket system with a top marginal rate of 6% on income of \$75,000 and above.
Kentucky	Kentucky has a flat-rate system and reduced the rate from 5% to 4.5%.
Massachusetts	Massachusetts had a flat rate of 5% in 2022 but added a 9% rate for income above \$1 million.
Mississippi	Mississippi had a three-bracket system, with no tax on the first \$5,000 and a top marginal rate of 5% on income above \$10,000, and moved to a two-bracket system, with no tax on the first \$10,000 and the top marginal rate remaining at 5% on income in excess of \$10,000.
Missouri	Missouri had a 10-bracket system, with a top marginal rate of 4.95% on income above \$8,968, and moved to an eight-bracket system, with a larger untaxed bottom bracket and a top marginal rate of 4.95% on income above \$8,449.
Nebraska	Nebraska reduced its top marginal rate from 6.84% to 6.64%, 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 5% to 4%.
New York	Two of New York's middle marginal tax rates decreased, with one decreasing from 5.85% to 5.5% on income from \$13,901 to \$80,650 and the other decreasing from 6.25% to 6% on income from \$215,401 to \$1,077,550.
North Carolina	North Carolina has a flat-rate system and reduced the rate from 4.99% to 4.75%.
<b>Corporate income tax changes</b>	
Arkansas	Arkansas's top marginal rate decreased from 5.9% to 5.1%.
Iowa	Iowa moved from a three-bracket system, with a top marginal rate of 9.8% on income above \$250,000, to a two-bracket system, with a top marginal rate of 8.4% on income over \$100,000.
Nebraska	Nebraska moved from a 7.5% flat rate to a 7.25% flat rate.
New Hampshire	New Hampshire moved from a 7.6% flat rate to a 7.5% flat rate.
Pennsylvania	Pennsylvania moved from a 9.99% flat rate to an 8.99% flat rate.

Source: CCH state tax rate and schedules data.



**Figure 4. Change in state and local business taxes by state, FY22-FY23**  
 (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, FY23 (\$ billions)**

	Property tax	Sales tax	Excise tax, including public utilities and insurance	Business income and gross receipts tax*	Unemployment insurance tax	License and other taxes**	Total business taxes
Alabama	\$3.0	\$2.9	\$2.3	\$2.4	\$0.3	\$1.1	\$11.9
Alaska	1.3	-	0.2	0.4	0.2	2.4	4.5
Arizona	6.6	6.0	1.6	1.6	0.4	0.9	17.1
Arkansas	1.6	2.5	1.0	1.1	0.1	0.5	6.8
California	52.3	29.6	16.7	30.9	6.5	16.5	152.5
Colorado	8.8	4.7	1.9	2.8	0.8	1.0	20.0
Connecticut	3.6	2.2	1.6	3.6	0.7	0.3	11.9
Delaware	0.7	-	0.3	0.8	0.2	2.7	4.7
Florida	24.9	19.2	9.2	5.5	1.3	4.5	64.6
Georgia	9.9	6.9	2.6	3.8	0.6	1.0	24.8
Hawaii	1.5	1.9	1.0	0.6	0.3	0.3	5.6
Idaho	1.2	1.0	0.4	1.1	0.1	0.3	4.1
Illinois	20.8	6.7	7.0	12.3	1.8	2.5	51.2
Indiana	6.3	3.5	2.1	2.4	0.4	0.4	15.1
Iowa	4.0	2.4	0.8	0.9	0.5	0.6	9.1
Kansas	3.5	2.3	0.9	1.6	0.3	0.4	9.0
Kentucky	3.5	2.5	1.8	1.7	0.5	0.6	10.6
Louisiana	4.3	4.5	1.8	1.3	0.7	1.7	14.2
Maine	3.5	0.8	0.3	0.7	0.2	0.2	5.6
Maryland	4.4	2.8	3.0	3.1	1.0	1.4	15.7
Massachusetts	8.7	4.5	1.5	6.6	1.1	1.1	23.6
Michigan	7.8	4.7	2.1	2.2	1.2	1.4	19.4
Minnesota	5.7	3.9	2.5	4.5	2.9	1.0	20.5
Mississippi	3.4	1.8	0.8	0.8	0.1	0.4	7.3
Missouri	5.2	3.6	1.4	1.1	0.4	0.9	12.7
Montana	1.4	-	0.4	0.5	0.1	0.6	3.1
Nebraska	3.0	1.5	0.4	1.1	0.1	0.4	6.5
Nevada	3.4	4.2	1.6	0.3	0.8	1.9	12.2
New Hampshire	1.8	-	0.5	1.3	0.1	0.5	4.2
New Jersey	9.3	6.4	3.4	8.9	2.8	2.2	32.9
New Mexico	1.3	3.8	0.7	0.5	0.1	5.6	12.0
New York	44.0	16.7	8.9	34.4	3.2	4.5	111.7
North Carolina	6.7	6.9	2.9	2.7	0.7	2.2	22.1
North Dakota	1.0	0.8	0.3	0.4	0.1	3.3	5.9
Ohio	10.4	6.8	4.4	5.9	1.2	2.1	30.8
Oklahoma	2.6	3.3	0.8	0.8	0.3	2.6	10.5
Oregon	4.1	-	1.7	4.4	1.2	1.6	13.0
Pennsylvania	13.6	6.9	4.8	8.0	2.3	3.4	39.0
Rhode Island	1.5	0.6	0.5	0.3	0.3	0.2	3.4
South Carolina	6.5	2.5	1.3	1.4	0.3	1.3	13.3
South Dakota	1.0	1.3	0.3	0.0	0.0	0.3	3.0
Tennessee	4.5	6.6	2.4	3.2	0.2	2.7	19.6
Texas	47.6	30.9	12.4	6.8	2.6	12.2	112.5
Utah	2.9	2.4	0.9	1.5	0.3	0.4	8.4
Vermont	1.7	0.3	0.4	0.4	0.1	0.1	3.0
Virginia	11.5	3.7	4.3	4.5	0.4	2.6	27.0
Washington	7.1	8.4	4.6	6.3	2.0	2.5	30.9
West Virginia	1.7	0.8	0.9	0.6	0.2	1.2	5.4
Wisconsin	5.4	3.3	1.3	2.8	0.4	0.9	14.2
Wyoming	1.3	0.9	0.1	-	0.1	1.3	3.6
District of Columbia	2.5	0.8	0.4	1.4	0.2	0.3	5.6
<b>United States</b>	<b>\$394.3</b>	<b>\$240.6</b>	<b>\$125.3</b>	<b>\$192.5</b>	<b>\$42.6</b>	<b>\$100.9</b>	<b>\$1,096.2</b>

\*"Business income and gross receipts tax" includes gross receipts taxes levied in Nevada, Ohio, Texas and Washington; the business enterprise tax in New Hampshire; local net profits taxes levied by certain jurisdictions in Ohio; and pass-through individual income tax from S corporations, partnerships and sole proprietorships, including PTE taxes.

\*\*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

Prior editions of this study reported corporate income (which includes gross receipts taxes) and individual income tax on pass-through business income separately. 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 FY23 U.S. Census State Tax Collections, some states now report PTE tax under corporate income tax, while other states continue to report it under individual income tax. As reported collections shift between categories, the year-over-year comparisons for corporate income and gross receipts taxes and individual income tax respectively are no longer apples-to-apples comparisons.

This report presents taxes on corporate income, gross receipts, PTE taxes and individual tax on pass-through business income not paid through the PTE tax as one category. This allows for a comparison with prior reports where we have combined corporate income, gross receipts taxes and individual income tax on pass-through business income. State PTE taxes will expire at the end of 2025 if the provisions of the 2017 Tax Cuts and Jobs Act are not extended or made permanent.<sup>8</sup>





# 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 4.7% in FY23.

Twelve states in FY23 had TEBTRs that were less than 4%. Michigan, North Carolina and Indiana had the lowest TEBTR at 3.4%, followed by Georgia and Missouri, each with a TEBTR of 3.5%. Utah and Massachusetts had TEBTRs of 3.6%, followed by Wisconsin, Arizona, Connecticut, Maryland and Idaho from 3.9% to just under 4%. The taxes imposed on businesses, as a share of economic activity, were lowest in these 12 states.

New Mexico had the highest TEBTR at 12.1%, followed by North Dakota (8.9%), Vermont and Wyoming (8.4%), and Alaska (8.2%). Four states had a TEBTR in the 6.0%-8.0% range: Maine, Hawaii, West Virginia and Mississippi.

There does not appear to be a strong relationship between geographic region and TEBTR. For instance, North Carolina had the second lowest TEBTR at 3.4%, but South Carolina had a TEBTR of 5.0%. Similarly, New Mexico had the highest TEBTR at 12.1%, but Arizona had one of the lowest at 3.9%. Massachusetts had the seventh lowest TEBTR at 3.6%, but its Northeast neighbors Pennsylvania (4.6%) and New York (5.9%) had higher effective tax rates.

TEBTRs provide a starting point for comparing business tax burdens across states,<sup>9</sup> 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.



**Table 6. State and local business taxes and business taxes as a share of private-sector gross state product, FY23 (\$ billions)**

State	State taxes		Local taxes		State and local taxes		TEBTR*	Business taxes per employee (\$ thousands)**
	Business	Total	Business	Total	Business	Total		
Alabama	\$7.2	\$17.0	\$4.7	\$8.4	\$11.9	\$25.3	4.8%	\$6.8
Alaska	3.2	3.5	1.3	2.5	4.5	5.9	8.2%	18.1
Arizona	9.0	26.8	8.1	15.9	17.1	42.7	3.9%	6.2
Arkansas	5.1	12.9	1.7	3.5	6.8	16.4	4.5%	6.2
California	80.4	227.0	72.2	131.1	152.5	358.1	4.5%	9.6
Colorado	7.7	19.0	12.3	22.1	20.0	41.0	4.5%	8.1
Connecticut	8.2	22.6	3.8	13.6	11.9	36.2	4.0%	8.0
Delaware	3.9	6.7	0.7	1.5	4.7	8.2	5.6%	11.5
Florida	31.3	63.2	33.3	56.9	64.6	120.1	4.7%	7.5
Georgia	10.5	34.3	14.2	25.5	24.8	59.9	3.5%	5.9
Hawaii	3.6	10.5	2.0	3.8	5.6	14.3	6.6%	10.9
Idaho	2.8	7.5	1.3	2.7	4.1	10.2	4.0%	5.7
Illinois	26.8	64.8	24.4	43.0	51.2	107.9	5.3%	9.6
Indiana	8.2	26.6	6.9	14.3	15.1	40.9	3.4%	5.3
Iowa	4.6	13.4	4.5	8.1	9.1	21.5	4.2%	6.8
Kansas	5.2	13.5	3.8	6.8	9.0	20.2	4.7%	7.5
Kentucky	6.4	17.7	4.2	7.5	10.6	25.2	4.5%	6.2
Louisiana	7.0	16.2	7.2	12.1	14.2	28.3	5.3%	8.6
Maine	2.2	6.6	3.5	4.5	5.6	11.1	7.2%	10.4
Maryland	10.1	30.7	5.6	22.3	15.7	52.9	4.0%	7.0
Massachusetts	14.4	42.7	9.2	22.9	23.6	65.6	3.6%	7.1
Michigan	12.3	38.4	7.1	17.6	19.4	56.0	3.4%	5.1
Minnesota	14.6	35.7	5.9	12.3	20.5	47.9	4.9%	8.0
Mississippi	3.8	10.4	3.5	4.3	7.3	14.7	6.1%	7.7
Missouri	4.6	17.7	8.1	15.7	12.7	33.4	3.5%	5.0
Montana	1.9	4.9	1.3	2.1	3.1	7.0	5.2%	7.4
Nebraska	2.7	7.4	3.7	6.6	6.5	14.0	4.2%	7.5
Nevada	8.1	15.3	4.1	7.0	12.2	22.3	5.9%	9.1
New Hampshire	2.5	3.7	1.8	4.8	4.2	8.5	4.3%	7.0
New Jersey	23.4	54.5	9.6	38.3	32.9	92.8	4.7%	8.9
New Mexico	9.4	14.4	2.6	4.5	12.0	18.9	12.1%	17.8
New York	46.7	128.4	65.0	127.1	111.7	255.5	5.9%	13.7
North Carolina	12.7	39.6	9.3	19.8	22.1	59.4	3.4%	5.3
North Dakota	4.7	6.1	1.3	1.9	5.9	8.0	8.9%	16.9
Ohio	17.9	39.9	12.9	32.2	30.8	72.1	4.0%	6.4
Oklahoma	6.1	14.2	4.4	7.9	10.5	22.1	5.0%	7.7
Oregon	7.3	22.4	5.7	11.5	13.0	34.0	4.9%	7.7
Pennsylvania	22.2	57.3	16.8	36.3	39.0	93.6	4.6%	7.2
Rhode Island	1.8	5.1	1.5	3.1	3.4	8.2	5.2%	7.7
South Carolina	5.2	16.0	8.1	11.4	13.3	27.4	5.0%	7.0
South Dakota	1.6	2.7	1.4	2.4	3.0	5.1	4.7%	7.8
Tennessee	13.4	24.1	6.2	11.7	19.6	35.7	4.3%	6.9
Texas	55.7	89.4	56.8	99.0	112.5	188.4	5.0%	9.6
Utah	4.3	13.8	4.1	7.5	8.4	21.3	3.6%	5.7
Vermont	2.3	4.6	0.7	0.9	3.0	5.4	8.4%	11.8
Virginia	12.4	37.5	14.7	24.2	27.0	61.7	4.7%	8.0
Washington	20.8	40.0	10.1	22.2	30.9	62.2	4.5%	10.1
West Virginia	3.3	7.8	2.1	2.8	5.4	10.6	6.4%	9.6
Wisconsin	8.4	24.2	5.8	12.5	14.2	36.7	3.9%	5.5
Wyoming	2.5	3.4	1.1	1.5	3.6	4.9	8.4%	16.8
District of Columbia	5.6	10.5	0.0	0.0	5.6	10.5	4.8%	10.6
<b>United States</b>	<b>\$595.7</b>	<b>\$1,472.3</b>	<b>\$500.4</b>	<b>\$978.2</b>	<b>\$1,096.2</b>	<b>\$2,450.5</b>	<b>4.7%</b>	<b>\$8.2</b>

\*Average of calendar year 2022 and calendar year 2023 private-industry GSP. This is the TEBTR on economic activity occurring within the state.

\*\*"Business taxes per employee" calculated using 2022 private-sector employment from the Bureau of Labor Statistics Quarterly Census of Employment and Wages and FY23 total state and local business tax collections.

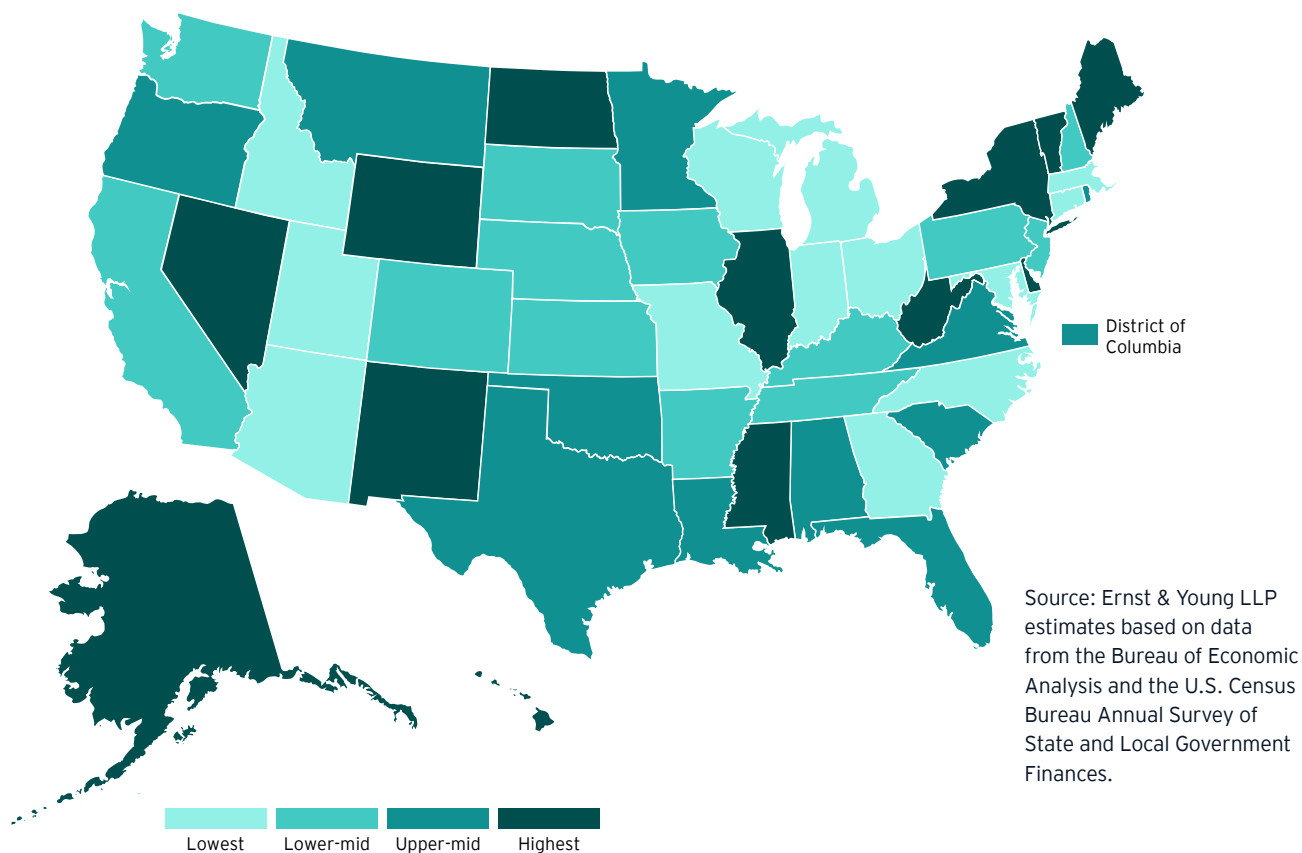
Note: Amounts may not sum because of rounding. TEBTR equals taxes as a percentage of private-sector gross state product.

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, FY23**  
 (state and local business taxes divided by private-sector gross state product in each state)



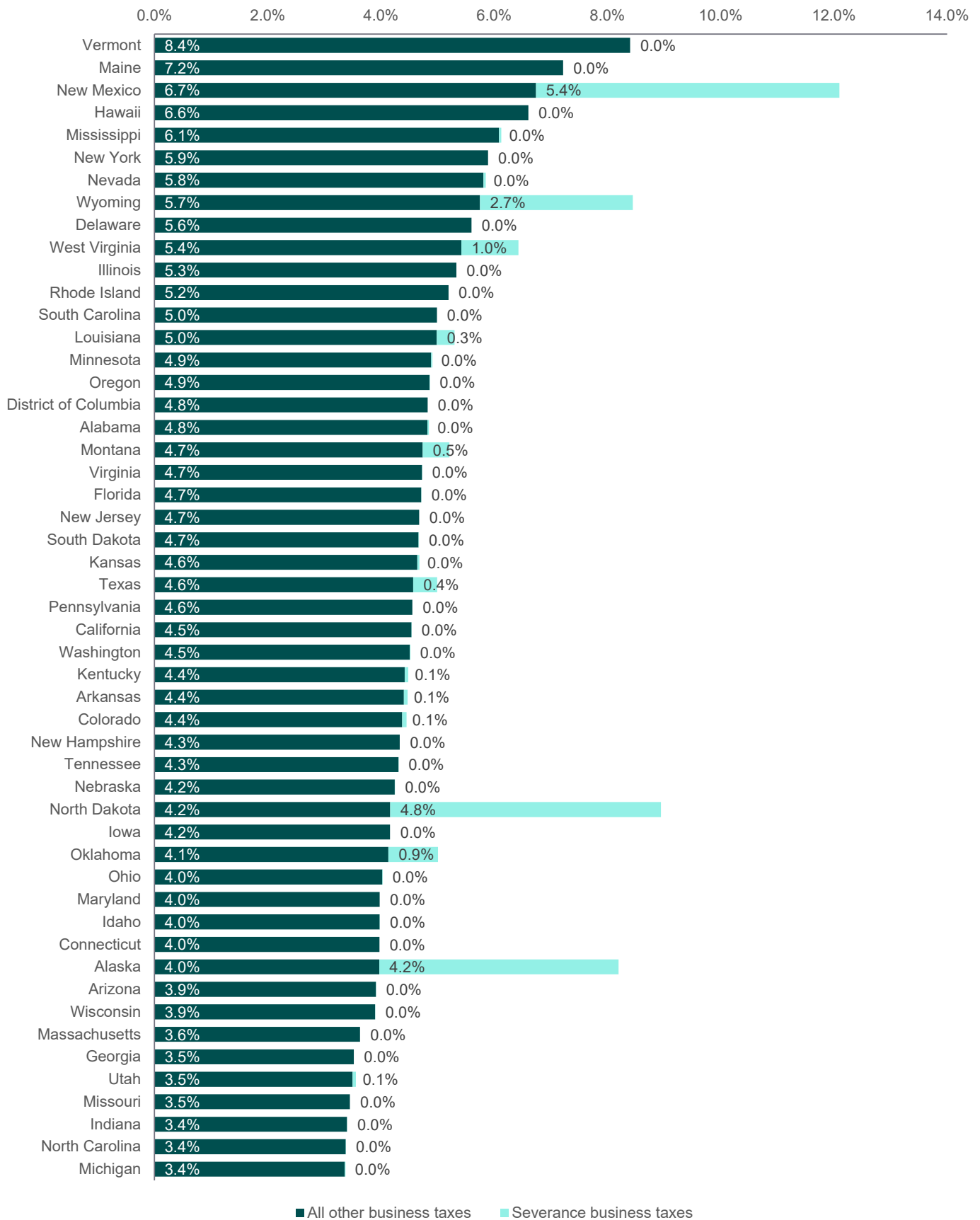
It is also important to note that the TEBTR measures the average tax burden on existing companies. Therefore, two states with similar TEBTRs may differ significantly in how they tax certain industries, which is not considered in this analysis. In addition, because the TEBTR is an average tax rate, it 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 12.1%, has a TEBTR of 6.7% when severance tax is excluded (Figure 6). North Dakota (4.2%), Alaska (4.0%) and Wyoming (5.7%) also have significantly lower TEBTR without severance taxes, decreasing by 4.8, 4.2 and 2.7 percentage points, respectively.

**Figure 6. Total effective business tax rate decomposition by severance taxes and other business taxes, FY23**



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 with severance taxes, reporting the share of state tax collections, the share of local tax collections, and the share of state and local tax collections. Although businesses paid 44.7% of state and local taxes in FY23, they only paid 40.5% of state tax collections while paying 51.2% of local tax collections. The disparity 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 31.1%, 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 75.8%, 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 reports historical state and local business tax collections for five-year intervals between 2003 and 2023. The business share of state and local tax collections has ranged between 43.4% and 45.7% between 2003 and 2023, averaging 44.6%.

The business share of state and local tax collections varies significantly by state. Alaska had the highest business share value at 75.1%, while Maryland had the lowest at 29.7%. Businesses paid at least 60% of state and local tax collections in three other states besides Alaska: North Dakota (73.6%), Wyoming (73.2%) and New Mexico (63.3%). Texas was not far behind those states at 59.7%. In all, there are 14 states and the District of Columbia where businesses paid at least half of state and local tax collections.

Connecticut, at 32.9%, and Michigan, at 34.6%, joined Maryland as the three states where businesses paid the lowest share of total state and local tax collections. Ten other states had business shares in the 30% to 40% range, topping out with Idaho at 39.7%. The remaining 24 states had business shares in the 40% range, from Arizona's 40.1% business share to New Hampshire's 49.9% 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, Maryland, Connecticut, Michigan, Massachusetts and North Carolina, which have the lowest share of business taxes, rely on the individual income tax and the sales tax for between 40% and 56% 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, FY23

	Business share of state taxes	Business share of local taxes	Business share of total state and local taxes
Alabama	42.1%	56.4%	46.8%
Alaska	91.6%	51.8%	75.1%
Arizona	33.7%	50.9%	40.1%
Arkansas	39.3%	48.5%	41.3%
California	35.4%	55.1%	42.6%
Colorado	40.6%	55.8%	48.8%
Connecticut	36.2%	27.5%	32.9%
Delaware	58.3%	49.2%	56.6%
Florida	49.5%	58.6%	53.8%
Georgia	30.7%	55.8%	41.4%
Hawaii	34.4%	51.5%	39.0%
Idaho	36.9%	47.5%	39.7%
Illinois	41.3%	56.8%	47.5%
Indiana	30.8%	47.9%	36.8%
Iowa	34.2%	55.8%	42.3%
Kansas	38.6%	56.2%	44.5%
Kentucky	36.0%	56.3%	42.0%
Louisiana	43.3%	59.8%	50.3%
Maine	33.0%	77.5%	50.9%
Maryland	33.1%	25.0%	29.7%
Massachusetts	33.7%	40.1%	35.9%
Michigan	32.1%	40.1%	34.6%
Minnesota	41.0%	48.2%	42.8%
Mississippi	36.5%	82.2%	49.9%
Missouri	26.0%	51.3%	37.9%
Montana	38.4%	59.2%	44.7%
Nebraska	37.1%	57.2%	46.5%
Nevada	52.9%	59.3%	54.9%
New Hampshire	66.9%	37.0%	49.9%
New Jersey	42.8%	25.0%	35.5%
New Mexico	65.2%	57.1%	63.3%
New York	36.4%	51.1%	43.7%
North Carolina	32.2%	46.9%	37.1%
North Dakota	76.3%	65.0%	73.6%
Ohio	44.9%	40.1%	42.8%
Oklahoma	43.1%	55.6%	47.5%
Oregon	32.4%	49.6%	38.3%
Pennsylvania	38.7%	46.2%	41.6%
Rhode Island	36.4%	48.9%	41.2%
South Carolina	32.8%	70.9%	48.7%
South Dakota	58.3%	58.3%	58.3%
Tennessee	55.8%	52.7%	54.8%
Texas	62.2%	57.4%	59.7%
Utah	31.1%	55.1%	39.5%
Vermont	51.1%	81.8%	56.0%
Virginia	32.9%	60.6%	43.8%
Washington	52.0%	45.3%	49.6%
West Virginia	41.8%	75.4%	50.6%
Wisconsin	34.6%	46.5%	38.6%
Wyoming	73.9%	71.7%	73.2%
District of Columbia	53.3%	N/A	53.3%
<b>United States</b>	<b>40.5%</b>	<b>51.2%</b>	<b>44.7%</b>



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 FY23 across categories. Findings include:

- 100% of business income and gross receipts taxes and unemployment insurance taxes are paid by businesses in all states.
- For licenses taxes, which include alcoholic beverage license taxes, 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 32%, 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 that reduce the residential tax base by 50%.

- Excise taxes range from 38% contributed by businesses (Indiana) to 83% (District of Columbia), with an average of 51%, while sales tax business shares range from 32% (Michigan) to 60% (New Mexico), with an average of 42%.
- Other taxes include death and gift, documentary and stock transfer, and severance taxes. In states like Alaska, 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 (5%).

**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
Business income and gross receipts taxes	100%	100%	100%
Unemployment tax	100%	100%	100%
Licenses tax	32%	61%	97%
Property tax	25%	54%	84%
Excise tax	38%	51%	83%
Sales tax	32%	42%	60%
Other taxes	5%	57%	100%
<b>Total business share</b>	<b>43%</b>	<b>56%</b>	<b>78%</b>

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

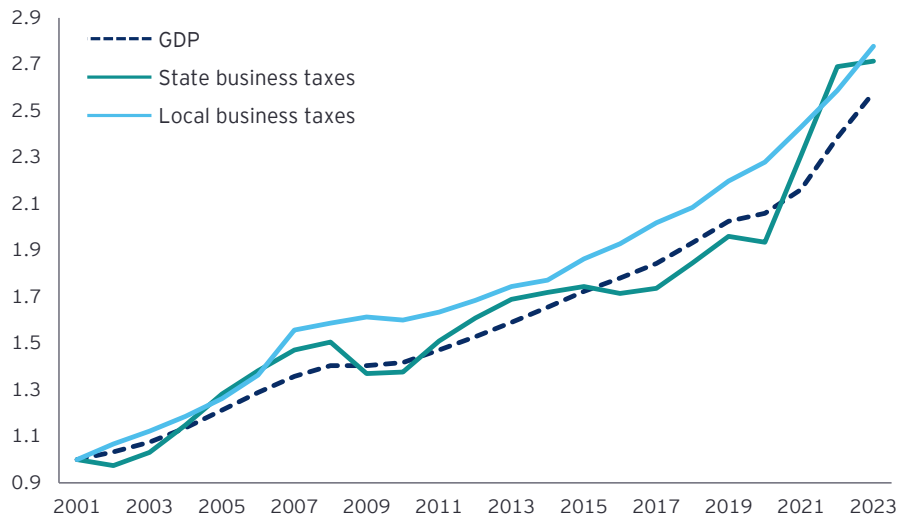
Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau State and Local Government Finances.

# Total state and local business tax collections over time

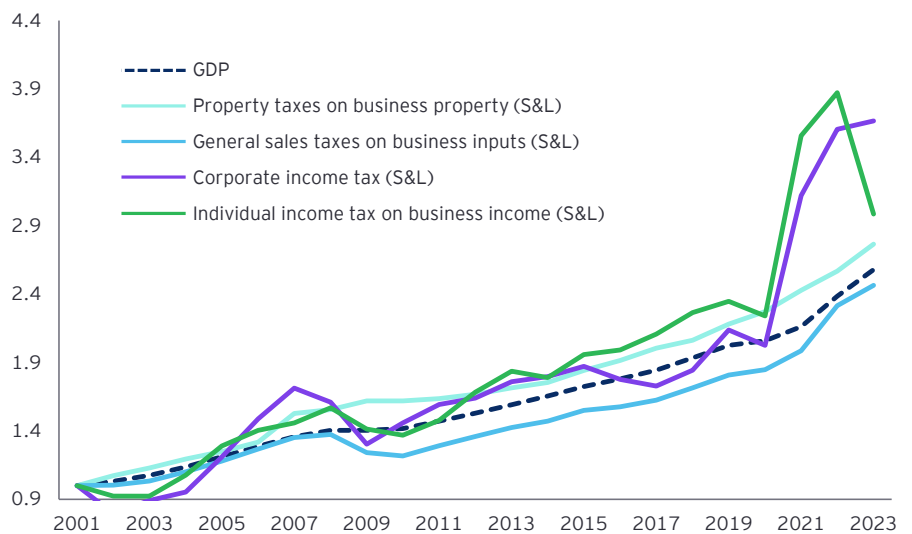
The growth trajectories of total state and local business tax collections has outpaced the general economic expansion as measured by GDP (Figure 7). State business tax collections experienced a slower growth rate than local business tax collections, and at times its rate of expansion falls behind the pace of the broader economic growth, namely between FY01 and FY03, FY08 and FY10, and FY15 and FY17. Both local and state tax collections grew considerably faster than GDP in FY21 and FY22 before state tax collections began to decline in FY23. 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 34.6% of state business taxes and only 2.6% of local business taxes in FY23. Property taxes, which are more stable year to year, are a substantially larger share of business taxes (75.8%) at the local level than the state level (2.6%) in FY23.

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 outpaced economic growth since 2001. Business income and gross receipts taxes saw a significant spike from 2005 to 2009, then broadly followed GDP growth to 2020. In 2021 and 2022, both corporate income and gross receipts taxes and individual income tax on business income collections grew significantly, before individual income tax on businesses declined sharply and corporate income and gross receipts taxes leveled off in 2023.<sup>10</sup> Property tax on business property grew slightly faster than GDP consistently across all years.

**Figure 7. State, local business taxes vs. GDP, FY01-FY23 (indexed to FY01)**



**Figure 8. Major state and local business taxes vs. GDP, FY01-FY23 (indexed to FY01)**



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.

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



# Governmental benefits received by businesses vs. taxes paid

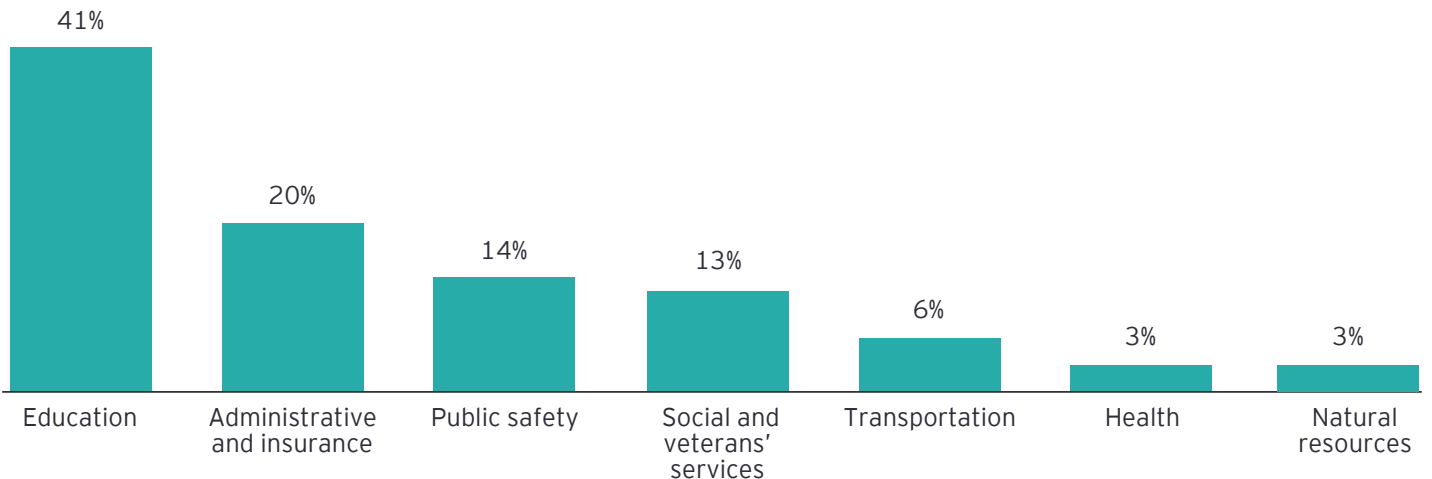
Another method to evaluate the business tax burden is to measure the benefit that businesses receive from government spending. Two identical businesses that pay the same amount of taxes do not face the same tax burden if one receives larger benefits from government spending than the other. Therefore, 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 FY23. Education was the largest expenditure category for state and local governments at 41% of total spending. Administrative and insurance was the second largest expenditure category, accounting for 20% 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 public safety accounted for 14% of total expenditures, while spending on social welfare and veterans’ services made up

13%. The latter 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.<sup>11</sup> 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, FY23 (for both households and businesses)**



Source: 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 FY23 state and local government expenditures net of federal transfers. EY estimated growth by category using the FY23 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.<sup>12</sup> 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.<sup>13</sup>

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%.<sup>14</sup>

The results are summarized in Table 9 and Figure 10. The national average “business tax-to-benefit” ratio was 2.96 under the assumption that businesses did not directly benefit from state and local spending on education, meaning businesses paid

\$2.96 in taxes to receive \$1.00 in benefits. Wyoming, at 10.1, and Delaware, at 8.2, had the highest “business tax-to-benefit” ratios. New Hampshire, at 6.0; New Mexico, at 5.7; North Dakota, at 5.4; Maine, at 5.0; Texas, at 4.8; and Louisiana and Georgia, at 4.1, were the other states that had ratios above 4.0. Utah had the lowest ratio, at 1.5, followed by Idaho at 1.6, Maryland at 1.7 and Alaska at 1.8. Eighteen states had a “business tax-to-benefit” ratio in the 2.0 range, including Pennsylvania (2.98), while an additional 18 states had a ratio in the 3.0 range. For these 36 states, businesses had to pay between \$2.00 and \$4.00 in taxes to receive \$1.00 in benefits from government spending.

The national average “business tax-to-benefit” ratio was 1.74 under the assumption that businesses received 25% of the benefit from state and local spending on education. Wyoming and North Dakota had the highest ratio at 3.8, while New Mexico was next at 3.3. Delaware at 2.9, Maine at 2.7, Texas at 2.6, New Hampshire and Hawaii at 2.4, South Dakota at 2.3, Georgia and Nevada at 2.2, Illinois and Vermont at 2.1, and Montana and Louisiana at 2.0 are the only other states that had ratios of 2.0 or higher. Utah had the lowest ratio, with 0.9. Businesses in the remaining 36 states and the District of Columbia had to pay at least \$1.00 in taxes in order to receive \$1.00 in benefits from government spending since they all had ratios of at least 1.0.

North Dakota, at 2.9, had the highest “business tax-to-benefit” ratio under the assumption that businesses received 50% of the benefit from government spending on education. New Mexico, at 2.4, had the second highest ratio. There were six states with a ratio less than 1, ranging from Utah at 0.6 to Connecticut at 0.93. 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 \$1.23 in taxes to receive \$1.00 in benefits when half of education spending is assumed to benefit businesses.



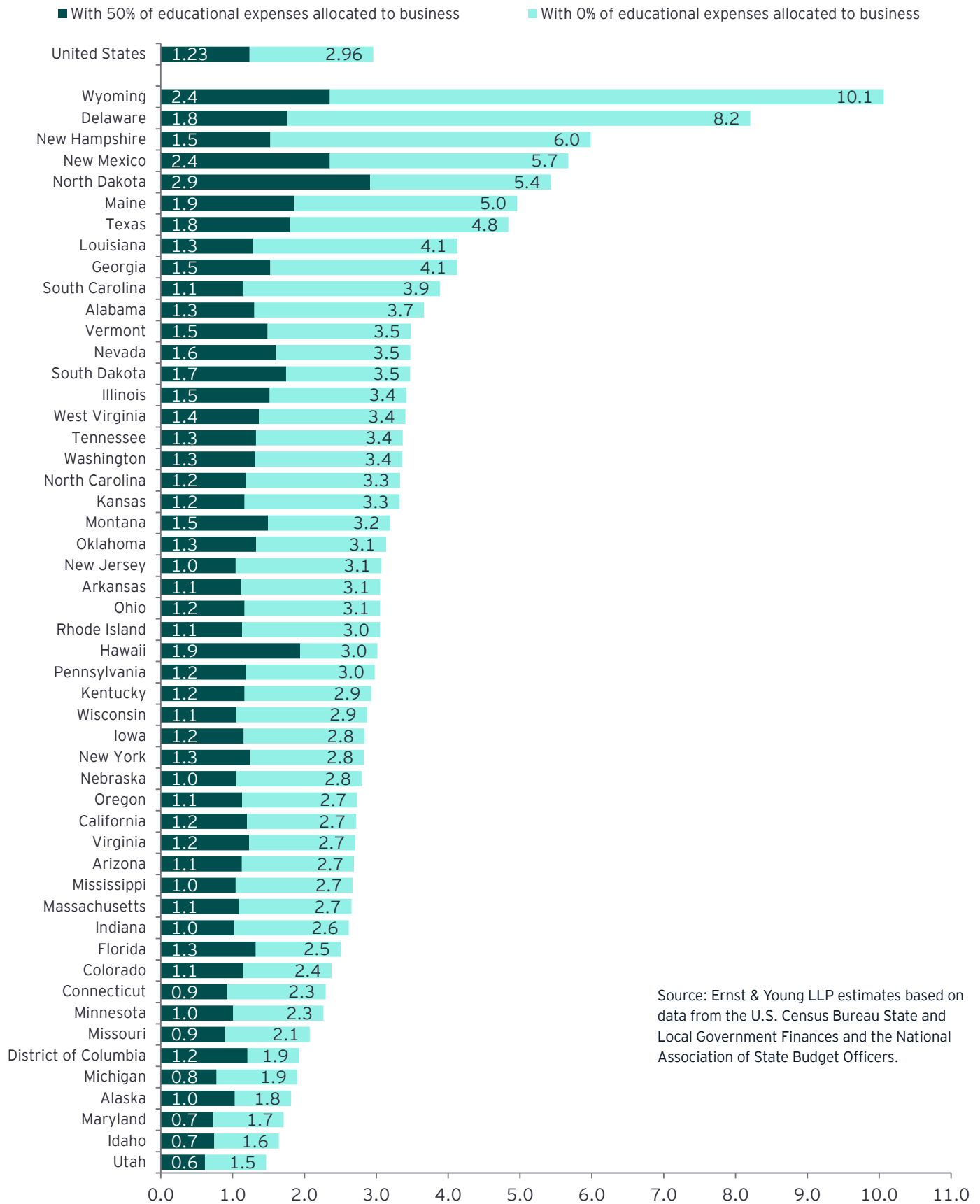
**Table 9. Ratio of business taxes to government expenditures benefiting businesses, FY23 (\$ billions)**

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	\$11.9	\$3.2	3.7	\$6.2	1.9	\$9.1	1.3
Alaska	4.5	2.5	1.8	3.4	1.3	4.3	1.0
Arizona	17.1	6.4	2.7	10.8	1.6	15.2	1.1
Arkansas	6.8	2.2	3.1	4.1	1.6	6.0	1.1
California	152.5	56.1	2.7	91.6	1.7	127.1	1.2
Colorado	20.0	8.4	2.4	12.9	1.5	17.5	1.1
Connecticut	11.9	5.2	2.3	9.0	1.3	12.9	0.9
Delaware	4.7	0.6	8.2	1.6	2.9	2.6	1.8
Florida	64.6	25.8	2.5	37.3	1.7	48.9	1.3
Georgia	24.8	6.0	4.1	11.1	2.2	16.2	1.5
Hawaii	5.6	1.8	3.0	2.4	2.4	2.9	1.9
Idaho	4.1	2.5	1.6	4.0	1.0	5.5	0.7
Illinois	51.2	15.0	3.4	24.4	2.1	33.8	1.5
Indiana	15.1	5.8	2.6	10.2	1.5	14.7	1.0
Iowa	9.1	3.2	2.8	5.5	1.6	7.9	1.2
Kansas	9.0	2.7	3.3	5.2	1.7	7.7	1.2
Kentucky	10.6	3.6	2.9	6.3	1.7	9.1	1.2
Louisiana	14.2	3.4	4.1	7.3	2.0	11.1	1.3
Maine	5.6	1.1	5.0	2.1	2.7	3.0	1.9
Maryland	15.7	9.2	1.7	15.3	1.0	21.4	0.7
Massachusetts	23.6	8.9	2.7	15.3	1.5	21.7	1.1
Michigan	19.4	10.2	1.9	17.6	1.1	24.9	0.8
Minnesota	20.5	9.1	2.3	14.7	1.4	20.4	1.0
Mississippi	7.3	2.8	2.7	4.9	1.5	7.0	1.0
Missouri	12.7	6.1	2.1	10.1	1.3	14.1	0.9
Montana	3.1	1.0	3.2	1.5	2.0	2.1	1.5
Nebraska	6.5	2.3	2.8	4.3	1.5	6.2	1.0
Nevada	12.2	3.5	3.5	5.6	2.2	7.6	1.6
New Hampshire	4.2	0.7	6.0	1.7	2.4	2.8	1.5
New Jersey	32.9	10.7	3.1	21.2	1.6	31.7	1.0
New Mexico	12.0	2.1	5.7	3.6	3.3	5.1	2.4
New York	111.7	39.5	2.8	64.4	1.7	89.3	1.3
North Carolina	22.1	6.6	3.3	12.7	1.7	18.7	1.2
North Dakota	5.9	1.1	5.4	1.6	3.8	2.0	2.9
Ohio	30.8	10.1	3.1	18.3	1.7	26.4	1.2
Oklahoma	10.5	3.3	3.1	5.6	1.9	7.9	1.3
Oregon	13.0	4.8	2.7	8.1	1.6	11.5	1.1
Pennsylvania	39.0	13.1	3.0	23.0	1.7	33.0	1.2
Rhode Island	3.4	1.1	3.0	2.1	1.7	3.0	1.1
South Carolina	13.3	3.4	3.9	7.5	1.8	11.7	1.1
South Dakota	3.0	0.9	3.5	1.3	2.3	1.7	1.7
Tennessee	19.6	5.8	3.4	10.3	1.9	14.8	1.3
Texas	112.5	23.3	4.8	43.0	2.6	62.7	1.8
Utah	8.4	5.7	1.5	9.7	0.9	13.7	0.6
Vermont	3.0	0.9	3.5	1.5	2.1	2.0	1.5
Virginia	27.0	10.0	2.7	16.0	1.7	22.0	1.2
Washington	30.9	9.2	3.4	16.3	1.9	23.5	1.3
West Virginia	5.4	1.6	3.4	2.7	1.9	3.9	1.4
Wisconsin	14.2	4.9	2.9	9.2	1.5	13.5	1.1
Wyoming	3.6	0.4	10.1	0.9	3.8	1.5	2.4
District of Columbia	5.6	2.9	1.9	3.8	1.5	4.6	1.2
<b>United States</b>	<b>\$1,096.2</b>	<b>\$370.7</b>	<b>2.96</b>	<b>\$629.4</b>	<b>1.74</b>	<b>\$888.0</b>	<b>1.23</b>

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 and the National Association of State Budget Officers.

**Figure 10. Business taxes per dollar of net government spending that benefits businesses, FY23**  
 (values shown are equal to business taxes divided by government spending that benefits businesses)



Source: 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 two largest 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 (ETR) and personal property tax base as homeowners. Table 10 presents estimated actual 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 \$260.9 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 ETR compared to homeowner property. The average ETR 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 \$120 billion of real property tax in FY23 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 \$22.8 billion in excess of what they would have paid if taxed with the same personal property tax base as homeowner property.<sup>15</sup>

In total, businesses paid \$142.8 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 FY23.

**Table 10. Calculated excess property and sales taxes for business in absence of neutral tax design, FY23 (\$ 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
Sales tax on business inputs	\$240.4	\$122.3	\$118.1
Property tax on business property	\$394.3	\$251.5	\$142.8
<b>Total selected taxes</b>	<b>\$634.7</b>	<b>\$373.8</b>	<b>\$260.9</b>

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.<sup>16</sup>



**Table 11. Excess business property tax compared to current homeowner rate and personal property tax base, FY23 (\$ billions)**

<b>Real business property ETR to homeowner ETR ratio</b>	
Homeowner ETR	1.17%
Business real property ETR	1.73%
Real business property classification ratio	1.48%
<b>Business real property tax if taxed at the homeowner ETR</b>	
Total state and local property tax on business real property	\$370.7
Business real property tax if taxed at homeowner rate	\$250.6
<b>Excess business real property tax</b>	<b>\$120.0</b>
<b>Business personal property tax if taxed based on the homeowner personal property tax base</b>	
Business paid personal property tax	\$23.7
Business paid personal property tax on vehicles	\$0.9
Business paid personal property tax on all other property	\$22.8
<b>Excess business personal property tax</b>	<b>\$22.8</b>
<b>Total excess business property tax</b>	<b>\$142.8</b>
<i>Excess business property tax as a share of total business property tax</i>	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.

## 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 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.<sup>17</sup> Table 12 disaggregates the \$240.4 billion of sales tax paid on business inputs in FY23 into two amounts: (1) the tax amount paid in relation to inputs purchased by businesses which sell exempt goods or services, and (2) the tax amount paid on inputs used to produce taxable goods and services and exports (the pyramided amount). An estimated \$118.1 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) and theoretically should not be levied. These taxes are 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, FY23 (\$ billions)**

	<b>Business sales tax on inputs</b>
Total state and local sales tax on business inputs	\$240.4
Amount paid to produce taxable output (pyramided amount)	\$118.1
Share of sales tax that results in pyramiding	49%

Source: 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 \$1,096.2 billion in state and local taxes in FY23, representing a 3.7% increase over the previous year. The business share of state and local tax collections was 44.7%, which was in line with historical years. The overall total effective business tax rate was 4.7% in FY23.

Revenue collections from taxing business property grew by 7.7% in FY23 to \$394.3 billion. Property taxes account for 36.0% 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 22.0% of all taxes paid by businesses in FY23. The \$240.6 billion in sales tax collections was 6.4% higher than FY22. Corporate income and gross receipts taxes grew to \$131.1 billion, a 1.7% increase, and account for 12% of business tax collections while income taxes on pass-through business income declined.







# Appendix





**Table A1. Total state and local taxes, FY03-FY23 (\$ billions)**

<b>State and local taxes</b>	<b>2003</b>	<b>2008</b>	<b>2013</b>	<b>2018</b>	<b>2023</b>
Total business taxes	\$428.4	\$616.4	\$685.0	\$780.8	\$1,095.8
Total household taxes	\$537.8	\$745.7	\$830.1	\$1,018.4	\$1,354.7
<b>Total state and local taxes</b>	<b>\$966.2</b>	<b>\$1,362.1</b>	<b>\$1,515.1</b>	<b>\$1,799.2</b>	<b>\$2,450.5</b>

<b>Composition of state and local taxes</b>	<b>2003</b>	<b>2008</b>	<b>2013</b>	<b>2018</b>	<b>2023</b>
Total business taxes	44.3%	45.3%	45.2%	43.4%	44.7%
Total household taxes	55.7%	54.7%	54.8%	56.6%	55.3%
<b>Total state and local taxes</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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, FY19-FY23 (\$ billions)**

<b>Business tax</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Property tax on business property	\$311.0	\$324.1	\$346.3	\$366.2	\$394.3
General sales and use tax on inputs	176.6	180.4	193.9	226.1	240.6
Business income and gross receipts tax	124.8	118.5	184.8	208.6	192.5
Unemployment comp.	36.2	34.8	36.1	41.9	42.6
Business license tax	41.1	42.0	44.5	47.5	49.5
Excise taxes	51.4	52.8	52.5	57.0	60.6
Public utility tax	27.4	27.6	27.4	28.9	31.0
Severance taxes	15.0	11.6	11.8	25.9	26.7
Insurance premium tax	24.6	25.8	27.4	29.8	33.7
Other business taxes	18.3	17.9	19.8	24.9	24.7
<b>Total business taxes</b>	<b>\$826.3</b>	<b>\$835.4</b>	<b>\$944.5</b>	<b>\$1,020.5</b>	<b>\$1,096.2</b>

Note: Amounts may not sum because of rounding. FY22 tax estimates are revised from the COST FY22 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, FY23**

State	Property tax	Sales tax	Excise tax	Business income and gross receipts tax	Unemployment insurance tax	License and other taxes*	Total business taxes
Alabama	24.9%	24.0%	19.1%	20.4%	2.4%	9.2%	100.0%
Alaska	28.7%	–	4.0%	10.0%	4.5%	52.9%	100.0%
Arizona	38.7%	35.1%	9.1%	9.5%	2.4%	5.2%	100.0%
Arkansas	23.0%	37.3%	14.5%	16.7%	1.5%	7.0%	100.0%
California	34.3%	19.4%	11.0%	20.3%	4.2%	10.8%	100.0%
Colorado	43.9%	23.7%	9.3%	14.1%	4.2%	4.9%	100.0%
Connecticut	30.6%	18.1%	13.2%	30.1%	5.6%	2.5%	100.0%
Delaware	14.0%	–	7.3%	17.0%	3.2%	58.4%	100.0%
Florida	38.6%	29.8%	14.2%	8.6%	2.0%	6.9%	100.0%
Georgia	39.8%	27.6%	10.6%	15.3%	2.5%	4.1%	100.0%
Hawaii	26.7%	33.9%	18.7%	10.4%	4.8%	5.6%	100.0%
Idaho	29.1%	24.5%	9.0%	27.0%	3.7%	6.7%	100.0%
Illinois	40.7%	13.1%	13.7%	24.1%	3.6%	4.8%	100.0%
Indiana	41.8%	23.3%	14.2%	15.6%	2.7%	2.4%	100.0%
Iowa	43.4%	26.9%	8.3%	9.9%	5.0%	6.5%	100.0%
Kansas	38.8%	25.3%	9.8%	17.9%	3.5%	4.6%	100.0%
Kentucky	32.7%	23.5%	17.4%	15.9%	4.8%	5.7%	100.0%
Louisiana	30.5%	31.3%	12.5%	8.9%	5.1%	11.7%	100.0%
Maine	61.4%	14.0%	5.9%	11.8%	2.8%	4.0%	100.0%
Maryland	27.8%	18.0%	19.2%	19.7%	6.1%	9.1%	100.0%
Massachusetts	37.1%	19.1%	6.3%	28.1%	4.7%	4.7%	100.0%
Michigan	40.1%	24.2%	10.8%	11.4%	6.4%	7.1%	100.0%
Minnesota	27.7%	19.2%	12.1%	21.9%	14.3%	4.7%	100.0%
Mississippi	46.6%	24.5%	11.3%	11.5%	1.3%	4.8%	100.0%
Missouri	41.4%	28.3%	11.1%	9.0%	2.9%	7.3%	100.0%
Montana	46.4%	–	13.0%	16.9%	4.8%	18.8%	100.0%
Nebraska	46.8%	22.4%	6.2%	16.4%	1.3%	6.9%	100.0%
Nevada	28.2%	34.8%	12.8%	2.5%	6.4%	15.5%	100.0%
New Hampshire	43.3%	–	10.7%	30.3%	2.8%	12.8%	100.0%
New Jersey	28.2%	19.4%	10.2%	27.0%	8.6%	6.6%	100.0%
New Mexico	10.6%	31.5%	6.1%	3.9%	1.2%	46.7%	100.0%
New York	39.4%	14.9%	7.9%	30.8%	2.8%	4.1%	100.0%
North Carolina	30.6%	31.1%	13.1%	12.4%	3.0%	9.8%	100.0%
North Dakota	17.5%	13.4%	5.0%	7.0%	1.3%	55.9%	100.0%
Ohio	33.7%	22.0%	14.4%	19.2%	3.8%	6.9%	100.0%
Oklahoma	24.9%	31.3%	7.6%	7.8%	3.3%	25.1%	100.0%
Oregon	31.3%	–	13.4%	34.1%	8.9%	12.3%	100.0%
Pennsylvania	34.8%	17.8%	12.3%	20.6%	5.8%	8.8%	100.0%
Rhode Island	44.1%	16.7%	16.0%	8.2%	10.1%	4.8%	100.0%
South Carolina	48.6%	18.5%	9.6%	10.6%	2.5%	10.1%	100.0%
South Dakota	34.2%	43.4%	10.2%	1.6%	1.5%	9.0%	100.0%
Tennessee	22.8%	33.9%	12.0%	16.1%	1.3%	13.8%	100.0%
Texas	42.3%	27.4%	11.0%	6.1%	2.4%	10.8%	100.0%
Utah	34.3%	28.2%	10.7%	17.9%	3.7%	5.3%	100.0%
Vermont	55.7%	10.0%	14.4%	14.2%	2.2%	3.6%	100.0%
Virginia	42.6%	13.8%	16.0%	16.8%	1.4%	9.5%	100.0%
Washington	23.1%	27.2%	14.9%	20.4%	6.4%	8.1%	100.0%
West Virginia	32.2%	15.7%	16.0%	11.4%	2.8%	21.9%	100.0%
Wisconsin	38.1%	23.5%	9.5%	19.5%	3.0%	6.4%	100.0%
Wyoming	35.2%	23.8%	2.9%	–	2.1%	36.0%	100.0%
District of Columbia	44.7%	14.3%	6.7%	25.9%	2.7%	5.7%	100.0%
<b>United States</b>	<b>36.0%</b>	<b>21.9%</b>	<b>11.4%</b>	<b>17.6%</b>	<b>3.9%</b>	<b>9.2%</b>	<b>100.0%</b>

\*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 "Business income and gross receipts tax" 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, FY23

State	Property tax	Sales tax	Excise tax	Business income and gross receipts tax	Unemployment insurance tax	License and other taxes*	Total taxes
Alabama	15.2%	32.0%	15.5%	30.1%	1.1%	6.1%	100.0%
Alaska	34.6%	5.6%	7.7%	7.5%	3.4%	41.2%	100.0%
Arizona	24.6%	42.5%	6.4%	21.9%	1.0%	3.6%	100.0%
Arkansas	17.4%	41.1%	12.1%	24.3%	0.6%	4.5%	100.0%
California	25.9%	21.2%	8.0%	35.3%	1.8%	7.8%	100.0%
Colorado	34.4%	27.6%	9.4%	22.2%	2.0%	4.3%	100.0%
Connecticut	37.0%	15.3%	8.8%	34.1%	1.9%	2.9%	100.0%
Delaware	15.1%	–	8.1%	36.5%	1.8%	38.5%	100.0%
Florida	35.9%	37.8%	12.1%	4.6%	1.1%	8.5%	100.0%
Georgia	28.9%	26.0%	7.3%	33.8%	1.0%	2.8%	100.0%
Hawaii	19.1%	36.5%	12.4%	24.1%	1.9%	6.1%	100.0%
Idaho	24.8%	30.1%	7.2%	31.0%	1.5%	5.4%	100.0%
Illinois	33.1%	16.8%	14.0%	29.4%	1.7%	5.1%	100.0%
Indiana	23.8%	26.9%	13.8%	31.6%	1.0%	2.9%	100.0%
Iowa	32.7%	24.2%	8.6%	26.0%	2.1%	6.3%	100.0%
Kansas	29.7%	27.5%	7.6%	30.0%	1.6%	3.6%	100.0%
Kentucky	19.9%	22.7%	13.8%	37.8%	2.0%	3.9%	100.0%
Louisiana	19.2%	38.5%	12.4%	20.9%	2.6%	6.4%	100.0%
Maine	40.3%	20.5%	7.3%	26.5%	1.4%	4.0%	100.0%
Maryland	24.0%	12.9%	12.7%	42.3%	1.8%	6.2%	100.0%
Massachusetts	33.6%	14.3%	5.2%	40.3%	1.7%	4.9%	100.0%
Michigan	33.7%	23.0%	9.8%	25.6%	2.2%	5.7%	100.0%
Minnesota	25.0%	17.7%	10.7%	35.3%	6.1%	5.2%	100.0%
Mississippi	27.8%	34.1%	11.5%	21.9%	0.7%	4.1%	100.0%
Missouri	28.2%	27.3%	8.2%	30.7%	1.1%	4.5%	100.0%
Montana	34.8%	–	13.6%	37.2%	2.1%	12.2%	100.0%
Nebraska	36.2%	23.7%	5.4%	26.5%	0.6%	7.5%	100.0%
Nevada	25.3%	41.4%	17.9%	1.4%	3.5%	10.6%	100.0%
New Hampshire	59.0%	–	12.3%	16.7%	1.4%	10.5%	100.0%
New Jersey	40.6%	15.9%	6.6%	29.3%	3.1%	4.5%	100.0%
New Mexico	12.6%	33.0%	6.5%	16.4%	0.8%	30.8%	100.0%
New York	29.0%	15.6%	6.3%	42.8%	1.2%	5.1%	100.0%
North Carolina	23.0%	28.1%	10.6%	31.1%	1.1%	6.0%	100.0%
North Dakota	18.5%	20.4%	7.2%	10.2%	1.0%	42.7%	100.0%
Ohio	29.0%	23.2%	12.6%	29.4%	1.6%	4.2%	100.0%
Oklahoma	19.9%	31.4%	8.5%	23.4%	1.6%	15.3%	100.0%
Oregon	25.7%	–	10.6%	50.5%	3.4%	9.8%	100.0%
Pennsylvania	26.4%	17.6%	13.0%	32.5%	2.4%	8.1%	100.0%
Rhode Island	37.2%	19.0%	12.8%	22.8%	4.2%	4.1%	100.0%
South Carolina	30.7%	24.4%	10.4%	26.1%	1.2%	7.2%	100.0%
South Dakota	34.0%	43.3%	11.9%	0.9%	0.9%	9.0%	100.0%
Tennessee	21.5%	46.0%	13.0%	8.8%	0.7%	10.0%	100.0%
Texas	43.8%	31.2%	12.0%	3.6%	1.4%	8.0%	100.0%
Utah	22.8%	30.0%	7.4%	34.6%	1.5%	3.8%	100.0%
Vermont	37.6%	11.1%	16.9%	27.8%	1.2%	5.5%	100.0%
Virginia	30.6%	15.0%	13.3%	34.0%	0.6%	6.4%	100.0%
Washington	26.3%	36.8%	12.2%	11.4%	3.2%	10.1%	100.0%
West Virginia	21.6%	17.9%	16.5%	29.4%	1.4%	13.1%	100.0%
Wisconsin	31.7%	21.9%	8.2%	32.3%	1.2%	4.8%	100.0%
Wyoming	34.3%	29.8%	4.6%	–	1.6%	29.8%	100.0%
District of Columbia	29.1%	18.3%	4.3%	39.8%	1.4%	7.0%	100.0%
<b>United States</b>	<b>29.8%</b>	<b>23.5%</b>	<b>9.9%</b>	<b>28.1%</b>	<b>1.7%</b>	<b>7.0%</b>	<b>100.0%</b>

\*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](http://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 has been 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 FY22 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. The corporate income and selected gross receipts tax collections category is not directly comparable from FY22 to FY23 as PTE taxes became effective in 15 additional states, which moves tax on pass-through businesses from the individual income tax category to corporate income and gross receipts taxes in many states. All business income taxes, including corporate income and gross receipts taxes, individual income tax on pass-through businesses, pass-through entity taxes and gross receipts taxes paid directly by business, such as the corporate activity taxes in Oregon and Ohio, have been combined into the business income and gross receipts tax category. Corporate income and gross receipts tax collections are from Census state and local collection surveys; gross receipts taxes and pass-through entity taxes are from state government financial reports. 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 for tax years 2018 through 2025. 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 \$10,000 limit. Business owners paying the PTE tax then receive a credit on their state income tax for their share of taxable PTE income paid. The TCJA cap that set all of this in motion is set to expire in 2025 and it is unclear if the cap will be extended or what will happen in individual states that have enacted a PTE tax if the cap does expire.
- 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 “How Inflation Affects the Census Bureau’s Income and Earnings Estimates,” U.S. Census Bureau website, <https://www.census.gov/newsroom/blogs/research-matters/2023/09/inflation-income-and-earnings-estimates.html>, September 6, 2023.
- 11 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.
- 12 Enrico Moretti, “Workers’ Education, Spillovers, and Productivity: Evidence from Plant-Level Production Functions,” *American Economic Review*, June 2004.
- 13 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.
- 14 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.
- 15 Effective tax rates on real business property are estimated for each state using commercial, industrial and apartment ETRs from the Lincoln Institute of Land Policy/Minnesota Center for Fiscal Excellence study, along with EY 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.
- 16 “50-State Property Tax Comparison Study for Taxes Paid in 2023,” *Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence*, July 2024
- 17 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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Special thanks to Alex Rosaen, Brett Syndergaard and Rachel Beason for their contributions to the analysis.

This study was prepared by the QUEST practice of Ernst & Young LLP in conjunction with COST and STRI.

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SCORE no. 25598-241US  
2409-10263-CS  
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