

## COST STUDY ON BUSINESS TAX BURDEN

### BRIEFLY

An above average increase in state and local business taxation in FY 2011 reinforced Washington's position among states with high tax burden on businesses.

#### Business Taxes as a Share of GSP and of all State and Local Taxes (FY 2011)

State	Share of GSP		FY 2011 Amount (Billions)	Change From FY 2010 Percent	Share of All Taxes	
	Percent	Rank			Percent	Rank
Alaska	15.4%	1	\$6.1	19.6%	100%	1
North Dakota	10.4%	2	\$3.4	39.3%	91.9%	2
Wyoming	9.3%	3	\$2.9	12.4%	80.6%	3
Vermont	7.3%	4	\$1.6	5.0%	53.3%	16
West Virginia	6.9%	5	\$3.6	5.0%	54.5%	13
Maine	6.9%	5	\$3.0	2.4%	49.2%	23
New Mexico	6.6%	7	\$4.1	14.5%	61.2%	5
Florida	6.3%	8	\$41.2	1.5%	54.7%	12
New York	6.2%	9	\$63.5	3.4%	44.7%	36
Mississippi	6.2%	9	\$4.9	4.4%	53.3%	17
Montana	6.0%	11	\$1.9	6.5%	55.9%	11
Hawaii	5.9%	12	\$3.0	6.5%	44.8%	35
Rhode Island	5.6%	13	\$2.4	3.4%	46.2%	32
<b>Washington</b>	<b>5.5%</b>	<b>14</b>	<b>\$16.3</b>	<b>7.5%</b>	<b>56.8%</b>	<b>9</b>
Kansas	5.5%	14	\$5.9	3.7%	49.2%	24
California	5.3%	15	\$89.9	4.6%	47.8%	28
Nevada	5.3%	15	\$6.1	4.5%	54.5%	14
Texas	5.1%	17	\$56.8	5.8%	64.8%	4
New Jersey	5.1%	17	\$21.8	4.1%	39.7%	46
Kentucky	5.1%	17	\$6.9	5.3%	48.6%	25
Oklahoma	5.1%	17	\$6.4	9.1%	56.1%	10
Pennsylvania	5.0%	21	\$25.3	5.1%	45.0%	34
South Carolina	5.0%	21	\$6.7	3.0%	51.5%	18
Arizona	4.9%	23	\$10.8	2.6%	53.7%	15
Alabama	4.9%	23	\$6.9	2.5%	50.4%	22
Nebraska	4.9%	23	\$3.9	5.2%	51.3%	20
Illinois	4.8%	25	\$28.3	5.7%	46.5%	30
Ohio	4.8%	25	\$20.1	4.0%	42.8%	40
Wisconsin	4.7%	27	\$10.5	5.6%	40.7%	45
Iowa	4.7%	27	\$6.0	5.4%	48.4%	26
New Hampshire	4.6%	29	\$2.6	6.0%	48.1%	27
Idaho	4.6%	29	\$2.2	13.2%	47.8%	29
South Dakota	4.6%	29	\$1.6	3.9%	59.3%	8
Minnesota	4.5%	32	\$11.1	7.3%	43.7%	39
Colorado	4.5%	32	\$10.1	5.2%	51.5%	19
Louisiana	4.5%	32	\$9.7	1.1%	61.0%	6
Arkansas	4.5%	32	\$4.0	6.6%	42.6%	41
Michigan	4.4%	36	\$14.6	0.9%	37.6%	48
Tennessee	4.4%	36	\$10.0	2.4%	51.3%	21
Massachusetts	4.3%	37	\$14.9	3.9%	41.7%	44
Georgia	4.2%	38	\$14.8	3.7%	46.3%	31
Indiana	4.2%	38	\$10.3	3.4%	44.4%	37
Missouri	4.2%	38	\$9.1	2.2%	45.5%	33
Virginia	4.0%	41	\$13.8	1.9%	41.8%	43
Maryland	3.7%	42	\$9.3	5.7%	33.3%	49
Delaware	3.7%	42	\$2.2	6.5%	59.5%	7
Connecticut	3.6%	43	\$7.4	6.3%	32.3%	50
Utah	3.6%	43	\$3.9	3.1%	44.3%	38
North Carolina	3.5%	45	\$12.9	-0.2%	38.1%	47
Oregon	3.5%	45	\$5.9	5.3%	41.8%	42
District of Columbia	4.9%		\$3.3	1.4%	60.0%	
<b>United States</b>	<b>5.0%</b>		<b>\$643.9</b>	<b>4.5%</b>	<b>47.9%</b>	

Late last month Ernst & Young released its annual study for the Council on State Taxation (COST) comparing the level of business taxation in the 50 states in fiscal year 2011. Overall, state and local business taxes increased more in 2011 than they had in the previous two years and Washington state was no exception. Washington businesses paid an additional billion dollars in taxes bringing the total to \$16.3 billion or 5.5 percent of private sector GSP (Gross State Product).

#### The COST Rankings

As the table illustrates, Washington ranked 14<sup>th</sup> highest among the states in business taxes as a percent of GSP. The ratio of state and local business taxes to private sector GSP measures the total effective business tax rate (TEBTR) in a state. The national average TEBTR was 5.0 percent, with state rates ranging from a high of 15.4 percent in Alaska to 3.5 percent in Oregon and North Carolina.

The \$16.3 billion in business taxes paid in Washington in 2011 was 7.5 percent greater than the amount paid in 2010. This was the seventh largest increase nationally and the largest when the states that levy significant severance taxes (such as Wyoming and Alaska) are excluded.

Taxes paid by businesses represented 56.8 percent of all tax collections by state and local governments in Washington in 2011. This percent is also an increase from previous years and ranks ninth highest in the country, considerably higher than national average of 47.9 percent.

#### Breakdown of Taxes

Much of the increase in state and local business taxes across the nation came from increases in unemployment insurance (UI) tax rates. This was necessary for many states in order to pay back unemployment benefit debts lingering from the recession. Data from the U.S. Department of Labor, however, shows that Washington did not fall into debt but rather maintained the larg-

Figure 1: Washington State and Local Business Taxes

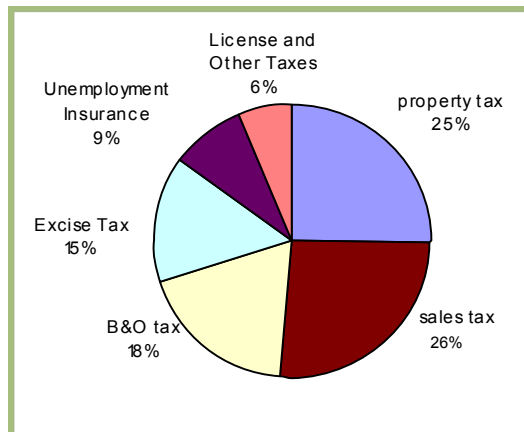
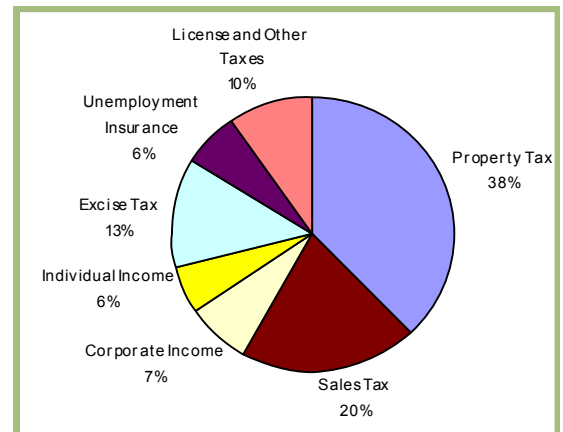


Figure 2: U.S. State and Local Business Taxes



est UI benefit trust fund in the nation, with \$2.5 billion on March 31, 2012. With this balance in mind, the state legislature voted to cap any UI rate increases in order to keep cost of businesses lower. Despite constant UI rates, a taxable wage base increase to \$37,000, the highest in the country, and increased employment contributed to more overall UI taxes collected in 2011.

Figure 1 shows the relative amount each type of tax contributes to the overall state and local business tax burden in Washington state. The UI tax burden in FY 2011 was up to 8.6 percent, a two percent increase from the previous year. This means that of the total estimated business taxes of \$16.3 billion, \$1.4 billion was UI taxes.

Ernst & Young attribute the remaining rise in Washington business taxes paid in 2011 to a higher sales tax (\$7.3 billion). This increase was due to higher overall sales and an increase in the business and occupation (B&O) tax rate. The B&O is a unique tax to Washington state that Ernst & Young, following Census Bureau convention, combines tax with the sales tax. Separating B&O from sales, B&O taxes made up 18.4 percent of the total tax burden, or \$3 billion in total. This was an increase of \$500 million from the previous year and accounts for the majority of Washington’s state and local business tax increase.

B&O taxes had fallen in previous years as the tax base had weakened due to the recession. On May 1, 2010, the state instituted a temporary B&O tax rate increase from 1.5 percent to 1.8 percent. The implementation of this tax increase accounted for much of the additional B&O taxes collected during FY 2011.

Of the remaining taxes paid in 2011, property tax accounted for 25.2 percent (\$4.1 billion); sales taxes on business purchases accounted for 26.4 percent (\$4.3 billion), excise taxes such as gas taxes accounted for 15.3 percent (\$2.5 billion); and licensing fees and other taxes accounted for 6.1 percent (\$1 billion).

Figure 2 shows the relative contribution of the individual state and local taxes to the business tax burden in the U.S. as a whole. Although Washington does not have income or corporate taxes, the B&O tax accounts for a larger percentage of the business taxes in the state than the combined income and corporate taxes levied in the rest of the nation.

Other differences include much larger property taxes in the rest of the nation than in Washington (38 percent vs. 25 percent). This makes property taxes the largest tax burden for most U.S. states’ businesses. In Washington the largest tax burden on businesses was the sales tax which made up 27 percent of all business taxes paid.

As we have noted before, rankings based on aggregates may not accurately capture the burdens state tax systems impose on specific businesses or industries (Davis 2012). Nevertheless, the COST rankings provide a good starting point for understanding the state’s business tax climate.

**Reference**

Davis, Richard S. 2012. [Taxes likely a hot topic in state elections](#). *The Herald*. Everett Washington. March 21.

Ernst & Young LLP (E&Y). 2012. [Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2011](#). Prepared for the Council On State Taxation. July.