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2008 State Business Tax Burden Rankings

3rd Annual State Rankings

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Executive Summary

TAX BURDEN MEASURE: BUSINESS TAXES AS A SHARE OF PROFITS

This report contains Anderson Economic Group's third annual state business tax burden rankings. To understand the burden taxes place on businesses in each state, it is important to look beyond the amount of tax revenue governments collect. AEG's tax burden measure compares the amount of taxes businesses actually pay to income available to pay the tax. We consider the ratio of taxes paid to profits earned to be the best indicator of the burden of state and local taxes on employers.

The rankings and other information in this report allow employers, policymakers, investors, and other stakeholders to compare the tax burdens imposed on employers in different states using a published and consistent methodology and fully disclosed data sources.

TAXES PAID BY BUSINESS

Businesses pay many state and local taxes. As shown in Exhibit I on page 7, businesses pay property taxes, sales taxes, "corporate income" taxes, license fees, unemployment compensation taxes, and individual income taxes on pass-thru business income. Our methodology distinguishes taxes paid by businesses from those paid by individuals, such as sales tax on consumer items, property taxes on residences, and income taxes on wages and salary earnings. In FY 2006, we estimate businesses paid \$427 billion in state and local taxes, or 36% of total taxes.

2008 STATE BUSINESS TAX BURDEN RANKINGS

We rank all 50 states and the District of Columbia. A rank of "1" indicates the state with the lowest tax burden. In the average state, businesses pay 16.69% of profits in state and local taxes. Taxes as a share of profits fell significantly between the 2007 and 2008 rankings as profits rose faster than business taxes. Between FY 2005 and FY 2006, profits increased 58% compared to a 10% increase in business tax revenue. See Exhibit II on page 8 for a ranking of all states.

Ten States With Lowest Tax Burdens. The ten states with the lowest tax burdens are: North Carolina, Delaware, Tennessee, Ohio, Missouri, Louisiana, Alabama, Minnesota, South Dakota, and Connecticut. Taxes as a share of profits among the ten lowest states range between 12% and 13%, with the exception of North Carolina (10.88%) and Delaware (11.03%), which are lower than the rest.

Ten States With Highest Tax Burdens. The ten states with the highest tax burdens are: North Dakota, West Virginia, Florida, District of Columbia, New Hampshire, Hawaii, Alaska, Vermont, Maine, and Montana. Taxes as a share of profits among the ten highest states are between 20% and 30%.

OVERVIEW OF METHODOLOGY

This is the third annual study using the same methodology developed for the original state business tax benchmarking study that was commissioned by the Michigan House of Representatives in 2006. The 2006 report, *Benchmarking for Success: A Comparison of State Business Taxes* by Patrick L. Anderson and Caroline M. Sallee, is available at AEG's website: <http://www.AndersonEconomicGroup.com>.

The base data come from the U.S. Census of Governments State and Local Finance survey and the Internal Revenue Service's Statistics of Income. See "Methodology" on page 9. The annual rankings are published in the *State Economic Handbook*, edited by Patrick Anderson and Scott Watkins, and published annually by Palgrave MacMillan.

2008 State Business Tax Burden Rankings

STATE RANKINGS ON BUSINESS TAX BURDEN MEASURE

To understand the burden taxes place on businesses in each state, it is important to look beyond the amount of tax revenue governments collect. The actual taxes businesses pay should be compared to income available to pay the tax. The best measure of tax burden is taxes paid as a share of profits, as this measure directly compares taxes paid to business income available to pay the tax.

We constructed a measure that compares taxes businesses pay to business profits earned within each state. We rank all 50 states and the District of Columbia. A rank of “1” indicates the state with the lowest tax burden. Table 1 below shows the ten states with the lowest business tax burdens and the ten states with the highest burdens. In the average state, businesses pay taxes equivalent to 16.69% of profits. See Exhibit II on page 8 for the ranking of all states.

TABLE 1. States with Lowest and Highest Business Tax Burdens, 2008

Ten States with Lowest Tax Burdens			Ten States with Highest Tax Burdens		
	Business Taxes as a Share of Profits	Rank		Business Taxes as a Share of Profits	Rank
North Carolina	10.88%	1	North Dakota	20.32%	42
Delaware	11.03%	2	West Virginia	20.48%	43
Tennessee	12.01%	3	Florida	20.67%	44
Ohio	12.01%	4	District of Columbia	23.21%	45
Missouri	12.10%	5	New Hampshire	23.44%	46
Louisiana	12.22%	6	Hawaii	23.82%	47
Alabama	12.57%	7	Alaska	25.72%	48
Minnesota	12.58%	8	Vermont	26.45%	49
South Dakota	12.60%	9	Maine	27.40%	50
Connecticut	12.63%	10	Montana	30.61%	51
Memo:					
U.S. State Average			16.69%		

Note: Data is from FY 2006

Source: Anderson Economic Group LLC

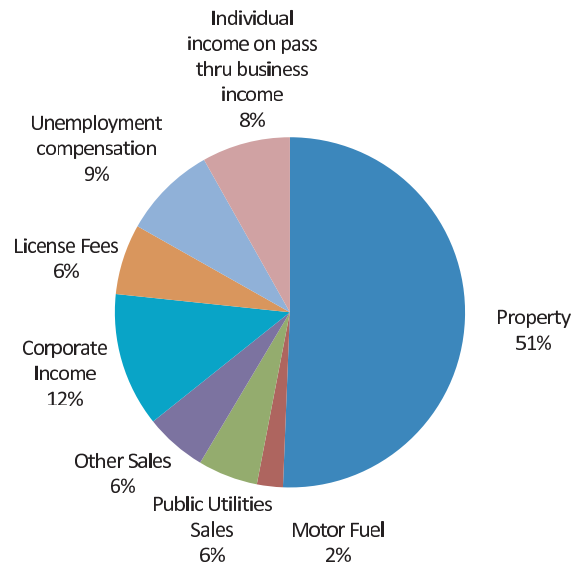
States With Lowest Business Tax Burdens. The ten states with the lowest tax burdens are: North Carolina, Delaware, Tennessee, Ohio, Missouri, Louisiana, Alabama, Minnesota, South Dakota, and Connecticut. No single geographical region dominates in our ranking; states with low tax burdens can be found in the Northeast, Midwest, South, and West. The tax burdens among the ten lowest states range between 12% and 13%, with the exception of North Carolina and Delaware, whose tax burdens are lower than the rest. North Carolina, the state with the lowest tax burden, is about 2 percentage points lower than the 10th lowest state (Connecticut).

States With Highest Business Tax Burdens. As shown in Table 1 on page 2, the ten states with the highest tax burdens are: North Dakota, West Virginia, Florida, District of Columbia, New Hampshire, Hawaii, Alaska, Vermont, Maine, and Montana. Tax burdens among the ten highest states are between 20% and 30%.

STATE AND LOCAL BUSINESS TAXES

In FY 2006, state and local governments reported total tax revenue of \$1.2 trillion. Businesses (as opposed to households) paid 36% of total state and local taxes. Most tax revenue from businesses came from property taxes. As shown in Figure 1, revenue from property taxes made up 51% of all tax revenue from businesses. Revenue from “corporate income” taxes made up 12%, while the remaining share came from sales, unemployment compensation, license fees, and individual taxes on pass-thru business income.¹

FIGURE 1. Share of Revenue by Type of State and Local Business Taxes, FY 2006



Source: Anderson Economic Group, LLC

In FY 2006, businesses paid \$427 billion in state and local taxes, as shown in Exhibit I on page 7. This is 10% more than they paid in FY 2005. Tax revenue in all categories increased between FY 2005 and FY 2006, as shown in Table 2 on page 4. The tax categories that experienced the largest increases include “corporate income” (22.7%), other selective sales tax (12.5%), and individual income taxes on pass-thru business income (25.2%).

1. The U.S. Census’s category “corporate income” includes revenue from taxes on net income of corporations and unincorporated businesses. This category includes value-added taxes but excludes gross receipts taxes. Michigan’s Single Business Tax (a modified value-added tax) is included in this category.

TABLE 2. Change in Business Taxes Paid in U.S., FY 2005-FY 2006

Business Tax Category	FY 2005	FY 2006	Change (%)
Property Tax	\$202,419,895	\$217,219,807	7.3%
Motor Fuel Sales Tax	\$9,387,218	\$10,044,958	7.0%
Public Utilities Sales Tax	\$22,551,373	\$23,669,004	5.0%
Other Selective Sales Tax	\$21,753,054	\$24,475,574	12.5%
Corporate Income	\$43,137,967	\$52,930,783	22.7%
License Fees	\$25,776,500	\$26,844,159	4.1%
Unemployment Compensation	\$35,374,494	\$36,988,942	4.6%
Individual Income Tax on Pass-thru Business Income	<u>\$27,895,826</u>	<u>\$34,916,417</u>	<u>25.2%</u>
Total Taxes Paid by Businesses	\$388,296,327	\$427,089,644	10.0%

Base Data Source: U.S. Census of Governments State and Local Finance Survey, FY 2006
Source: Anderson Economic Group, LLC

COMPARISON TO 2007 STATE RANKINGS

From 2005 to 2006 business tax revenue and profits increased. As shown in Table 2 above, between FY 2005 and FY 2006 taxes paid by businesses increased 10%. However, profits increased significantly more than business tax revenue—by 58%. While business taxes directly related to profits increased significantly (22.7%), most other tax revenue rose less dramatically—between 4 and 12%. Therefore, business tax burdens measured as a ratio to profits fell from the 2007 to 2008 rankings. The average state tax burden fell from 24.2% in 2007 to 16.69% in 2008.

States With Lowest Tax Burdens. Louisiana and Alabama are new to the list this year, replacing New Mexico and Georgia in the top ten. All states in the top 10 lowest tax burden states in 2008 were in the top 15 in 2007. See Table 3 below.

TABLE 3. Comparison of Top Ten Lowest Tax Burden States, 2007 and 2008 Rankings

	2008 Rankings (FY 2006 data)		2007 Rankings (FY 2005 data)	
	Business Taxes as a Share of Profits	Rank	Business Taxes as a Share of Profits	Rank
North Carolina	10.88%	1	18.15%	7
Delaware	11.03%	2	15.89%	1
Tennessee	12.01%	3	18.00%	3
Ohio	12.01%	4	18.58%	9
Missouri	12.10%	5	17.45%	2
Louisiana	12.22%	6	18.96%	11
Alabama	12.57%	7	19.33%	14
Minnesota	12.58%	8	18.07%	4
South Dakota	12.60%	9	18.42%	8
Connecticut	12.63%	10	18.08%	5
Memo: U.S. State Average	16.69%		24.2%	

Source: Anderson Economic Group LLC

States With Highest Tax Burdens. Florida replaced Mississippi in the top 10 states with the highest tax burdens, while the other states on the list remained the same from 2007 to 2008. Business taxes paid as a share of business profits declined between 2007 and 2008 for the group and the ordering of the states changed slightly, as shown in Table 4.

TABLE 4. Comparison of Top Ten Highest Tax Burden States, 2006-2007 Rankings

	2008 Rankings (FY 2006 data)		2007 Rankings (FY 2005 data)	
	Business Taxes as a Share of Profits	Rank	Business Taxes as a Share of Profits	Rank
North Dakota	20.32%	42	29.28%	42
West Virginia	20.48%	43	31.50%	46
Florida	20.67%	44	28.37%	41
District of Columbia	23.21%	45	30.48%	44
New Hampshire	23.44%	46	34.92%	48
Hawaii	23.82%	47	30.56%	45
Alaska	25.72%	48	33.78%	47
Vermont	26.45%	49	39.37%	50
Maine	27.40%	50	37.72%	49
Montana	30.61%	51	44.24%	51

Source: Anderson Economic Group LLC

ROBUSTNESS OF MEASURE

The measure we selected is the best measure as it directly compares taxes paid to income available to pay the tax. In order to assess the robustness of our measure, we calculated tax burdens using two additional indicators of ability to pay. In addition to ranking states by business taxes paid as a share of profits, we ranked states by two additional measures:

1. Business Taxes as a Share of Personal Income
2. Business Taxes as a Share of Private Gross State Product (GSP)

After comparing business taxes paid as a share of profits to the other two measures, we found that a state's performance on this measure is a good predictor of its performance on the other measures. Five of our top ten states—Alabama, Missouri, North Carolina, Ohio, and Tennessee—were in the top 15 on all three measures.

A handful of states scored very well on one measure, but performed poorly on one of the other measures. An example of this is Delaware, which ranked 2nd on the businesses taxes to profits measure, but ranked 47th on the business taxes to personal income measure. Since Delaware is the state of domicile for many publicly-traded companies, its rankings on one or more measures may be distorted. As

shown in Table 5, most states ranked similarly on the business taxes to profits and business taxes to private GSP measures.

TABLE 5. Comparison of Top Ten Lowest Tax Burden States on Two Measures

	Business Taxes / State Profits	Rank	Business Taxes / Private GSP	Rank
North Carolina	10.88%	1	2.81%	4
Delaware	11.03%	2	3.30%	19
Tennessee	12.01%	3	2.80%	3
Ohio	12.01%	4	3.30%	18
Missouri	12.10%	5	3.08%	14
Louisiana	12.22%	6	2.80%	2
Alabama	12.57%	7	3.04%	10
Minnesota	12.58%	8	3.43%	22
South Dakota	12.60%	9	2.95%	5
Connecticut	12.63%	10	3.74%	28
<i>Memo: U.S. State Average</i>	16.69%		3.79%	

Source: Anderson Economic Group LLC

Exhibit 1. State and Local Taxes Paid by Business, FY 2006

(amount in thousands)

State	Property Tax	Motor Fuel Sales Tax	Public Utilities Sales Tax	Other Selective Sales Tax	Corporate Income	License Fees	Unemployment compensation	Individual income tax on pass-thru business income	Total Taxes Paid by Businesses (in thousands)
United States	\$ 217,219,807	\$ 10,044,958	\$ 23,669,004	\$ 24,475,574	\$ 52,930,783	\$ 26,844,159	\$ 36,988,942	\$ 34,916,417	\$ 427,089,644
Alabama	1,377,456	174,841	742,865	283,362	558,768	300,144	287,561	351,126	4,075,924
Alaska	704,671	11,671	47,589	821,664	821,664	57,783	176,110	-	1,823,599
Arizona	3,857,449	209,078	183,726	284,159	890,004	167,367	327,750	438,098	6,357,630
Arkansas	876,285	179,763	99,468	145,353	368,529	173,798	275,810	283,513	2,402,519
California	21,199,971	739,826	3,167,423	1,852,031	10,316,468	5,192,518	5,096,936	8,558,340	56,123,513
Colorado	3,554,096	163,696	168,714	197,420	457,673	108,801	523,928	769,071	5,943,398
Connecticut	4,172,571	69,720	173,083	513,284	634,990	132,585	587,593	693,434	6,977,259
Delaware	292,141	21,667	45,144	86,277	295,577	855,842	87,804	117,828	1,802,280
District of Columbia	1,005,364	2,849	214,353	86,882	219,801	3,180	125,438	272,141	1,930,008
Florida	14,257,377	616,775	4,180,462	1,038,523	2,406,225	763,815	1,267,183	-	24,530,360
Georgia	5,984,854	254,080	247,505	435,430	890,732	285,019	711,989	1,021,140	9,830,749
Hawaii	710,975	60,188	200,520	156,958	148,084	166,744	166,744	160,508	1,705,537
Idaho	809,504	79,806	21,541	53,884	198,302	134,293	143,329	208,427	1,649,086
Illinois	10,779,290	403,054	2,860,451	1,651,364	2,400,323	1,278,966	2,618,109	987,974	22,979,531
Indiana	6,145,603	314,536	26,358	534,265	1,043,875	217,954	625,690	460,676	9,368,956
Iowa	2,300,257	169,802	99,651	207,502	284,976	304,796	306,459	398,694	4,072,137
Kansas	2,223,675	170,654	155,647	90,573	381,273	156,509	358,580	348,765	3,885,675
Kentucky	1,550,962	195,873	249,992	624,215	1,113,124	322,587	373,627	402,890	4,833,269
Louisiana	1,998,396	285,514	185,854	590,610	506,174	444,014	675,028	420,611	5,106,201
Maine	1,641,480	57,281	27,028	101,980	188,016	125,987	127,785	172,057	2,441,614
Maryland	3,021,777	142,038	467,611	648,174	846,863	293,149	530,186	766,095	6,715,892
Massachusetts	6,430,352	89,651	-	453,137	1,859,009	232,467	1,666,349	1,069,876	11,800,840
Michigan	7,827,071	196,197	91,223	656,057	1,886,168	345,906	1,553,877	777,459	13,333,958
Minnesota	3,201,623	170,183	80,228	842,869	1,071,953	477,542	898,170	710,100	7,432,668
Mississippi	1,654,525	139,434	45,440	174,440	316,994	232,663	162,824	166,772	2,893,093
Missouri	3,147,308	221,622	317,137	458,541	364,023	311,885	572,523	579,905	5,972,943
Montana	809,401	96,651	28,203	84,759	153,675	119,497	86,855	122,648	1,501,689
Nebraska	1,330,627	132,597	62,499	40,927	262,296	128,034	154,833	227,031	2,338,844
Nevada	1,639,614	116,827	182,981	823,083	-	529,679	370,777	-	3,662,960
New Hampshire	1,713,114	25,714	70,377	173,292	542,644	104,409	82,176	75,169	2,786,895
New Jersey	9,846,804	119,301	940,580	695,660	2,508,428	1,092,366	1,526,593	1,620,633	18,350,365
New Mexico	524,424	85,452	58,555	173,944	377,185	94,607	121,897	141,191	1,577,055
New York	22,880,530	80,229	1,509,614	3,223,714	9,046,281	389,645	2,460,486	4,917,599	44,508,097
North Carolina	4,420,432	342,614	353,066	623,838	1,308,022	317,240	945,973	1,033,321	9,344,505
North Dakota	428,673	71,181	42,478	59,789	120,115	88,515	61,699	53,097	925,547
Ohio	7,347,875	446,287	207,659	286,704	1,136,382	1,435,029	1,061,774	1,336,062	13,257,772
Oklahoma	1,132,455	163,071	142,477	97,467	304,381	514,457	305,006	648,873	3,308,188
Oregon	2,060,952	147,163	192,655	86,167	489,235	441,325	778,535	624,707	4,820,739
Pennsylvania	6,761,726	569,319	1,173,021	556,601	2,116,954	1,872,763	2,380,152	1,244,044	16,674,579
Rhode Island	1,123,985	26,360	95,949	92,317	169,865	49,367	199,941	137,724	1,895,508
South Carolina	3,148,523	126,731	115,836	200,900	296,753	243,274	296,151	306,153	4,734,322
South Dakota	521,462	51,427	63,077	61,865	928,349	96,274	20,043	416,074	823,824
Tennessee	2,549,328	241,793	57,522	316,631	928,349	961,268	416,467	416,074	5,887,433
Texas	20,737,899	962,817	1,980,755	2,677,952	1	3,925,059	2,105,582	-	32,390,065
Utah	1,188,817	132,812	134,579	153,679	348,129	86,926	259,313	294,399	2,598,654
Vermont	784,552	15,392	11,732	157,791	86,083	38,733	59,982	82,342	1,236,607
Virginia	5,902,269	231,091	793,915	838,365	863,320	335,329	564,986	823,698	10,352,973
Washington	3,797,463	309,039	919,254	467,609	5	405,274	1,540,412	-	7,439,056
West Virginia	833,010	103,516	183,665	244,582	533,027	97,229	149,217	143,684	2,287,940
Wisconsin	4,160,828	262,184	325,314	109,036	808,200	399,429	739,363	532,468	7,336,821
Wyoming	850,012	45,593	21,307	12,821	-	77,287	53,547	-	1,060,567

Base Data: U.S. Census of Governments State and Local Finance Survey; Internal Revenue Service's Statistics of Income
 Data: AEG Calculations
 Analysis: Anderson Economic Group, LLC

Exhibit II. AEG State Business Tax Burden Rankings, Business Taxes as a Share of Profits, 2008

Ranking	State	Total Taxes Paid by Businesses	Business Profits Earned Within State	Business Taxes / State Profits
1	North Carolina	\$ 9,344,505	\$ 85,880,551	10.88%
2	Delaware	1,802,280	16,335,144	11.03%
3	Tennessee	5,887,433	49,037,906	12.01%
4	Ohio	13,257,772	110,413,246	12.01%
5	Missouri	5,972,943	49,361,391	12.10%
6	Louisiana	5,106,201	41,785,017	12.22%
7	Alabama	4,075,924	32,435,573	12.57%
8	Minnesota	7,432,668	59,102,090	12.58%
9	South Dakota	823,824	6,538,757	12.60%
10	Connecticut	6,977,259	55,239,776	12.63%
11	Arkansas	2,402,519	18,559,424	12.95%
12	Oklahoma	3,308,188	25,410,560	13.02%
13	Georgia	9,830,749	74,343,718	13.22%
14	Utah	2,598,654	19,338,204	13.44%
15	New Mexico	1,577,055	11,686,892	13.49%
16	Wisconsin	7,336,821	54,169,006	13.54%
17	Colorado	5,943,398	43,725,453	13.59%
18	Washington	7,439,056	53,674,181	13.86%
19	Iowa	4,072,137	28,117,264	14.48%
20	Pennsylvania	16,674,579	113,971,708	14.63%
21	Massachusetts	11,800,840	79,542,050	14.84%
22	Michigan	13,333,958	89,257,088	14.94%
23	Maryland	6,715,892	44,001,280	15.26%
24	Texas	32,390,065	212,038,929	15.28%
25	Kentucky	4,833,269	31,577,824	15.31%
26	Nebraska	2,338,844	15,238,601	15.35%
27	Virginia	10,352,973	67,373,725	15.37%
28	Oregon	4,820,739	30,449,498	15.83%
29	South Carolina	4,734,322	29,545,636	16.02%
30	Indiana	9,368,956	58,281,640	16.08%
31	California	56,123,513	336,540,330	16.68%
32	New York	44,508,097	266,765,465	16.68%
	U.S. State Average			16.69%
33	Kansas	3,885,675	23,099,635	16.82%
34	Illinois	22,979,531	135,856,281	16.91%
35	Arizona	6,357,630	36,916,496	17.22%
36	Mississippi	2,893,093	15,884,211	18.21%
37	Nevada	3,662,960	20,072,276	18.25%
38	Wyoming	1,060,567	5,761,723	18.41%
39	New Jersey	18,350,365	94,265,810	19.47%
40	Rhode Island	1,895,508	9,610,907	19.72%
41	Idaho	1,649,086	8,348,235	19.75%
42	North Dakota	925,547	4,555,720	20.32%
43	West Virginia	2,287,940	11,169,820	20.48%
44	Florida	24,530,360	118,696,197	20.67%
45	District of Columbia	1,930,008	8,313,735	23.21%
46	New Hampshire	2,786,895	11,891,576	23.44%
47	Hawaii	1,705,537	7,160,362	23.82%
48	Alaska	1,823,599	7,091,244	25.72%
49	Vermont	1,236,607	4,675,944	26.45%
50	Maine	2,441,614	8,911,563	27.40%
51	Montana	1,501,689	4,905,492	30.61%

Note: Data is from FY 2006

Source: Anderson Economic Group, LLC

Methodology

TAXES PAID BY BUSINESS

Base data for AEG's estimate of taxes paid by businesses in each state come from the 2006 U.S. Census of Governments State and Local Finance survey and the Internal Revenue Service's Statistics of Income.

Base Data: U.S. Census of Governments

In order to construct our "total taxes paid by businesses" figure, we used tax data from five main tax categories in the U.S. Census of Governments survey:

1. Property
2. Sales and excise
3. License
4. Corporate income
5. Unemployment contributions

For each of the above categories, we allocated some portion of tax revenue as paid by businesses using the following methodology.

(1) Property taxes. The U.S. Census State and Local Government Finances survey reports state and local property taxes collected by state for fiscal year 1999-2000. The business share of property taxes paid in 2000 was calculated as the residual of total property taxes collected in 2000 less property taxes paid on owner-occupied units. We then applied the same fraction from the 2000 business share to property taxes collected in 2006. The Census of Housing (2000) provides an aggregate figure of taxes paid on owner-occupied units for each state. We treat taxes paid on rental housing as business taxes.

(2) Sales and Excise taxes. In addition to total sales and excise taxes, the U.S. Census State and Local Government Finances Survey provides detailed data for several categories of sales and excise taxes. We apportioned some selective sales tax categories entirely to business and allocated others between businesses and individuals using the methodology described below. We allocated all general sales taxes to individuals.

- **Motor Fuels Sales tax**
We allocated a portion of this tax as paid by businesses based each state's diesel fuel sales share of total diesel and gas sales. We assumed that companies, rather than households, purchase diesel and pay this tax. We obtained the diesel and motor gasoline fuel sales by state from the U.S. Energy Information Administration.
- **Public Utilities tax**
We allocated all of this category as paid by businesses.
- **Other Selective Sales tax**
We split remaining selective sales taxes 50-50 between households and businesses.

(3) License taxes. The U.S. Census State Government Finances survey provides license taxes by subcategory. We allocated amusement, corporation, public utility, and occupation and business license taxes to businesses. We allocated motor vehicle

license taxes based on the same ratio of diesel to total fuel sales used to apportion the motor fuel sales tax. We allocated to business the same portion of local license fees as used for state license fees.

(4) Corporate income tax. This category includes taxes on net income of corporations and unincorporated businesses. Gross receipts taxes are not included in this category. Michigan's Single Business Tax revenue is included in this category. We allocated all revenue in this category as paid by business.

(5) Unemployment compensation. We allocated all of the unemployment compensation revenue reported by the U.S. Census to businesses.

Base Data: Internal Revenue Service Statistics of Income

Individual Income Taxes on Pass-Through Business Income. In order to estimate individual taxes paid on pass-through business income, we turned to data provided by the Internal Revenue Service's Statistics of Income (SOI). We used returns data on net income less deficit reported in 2006 for partnerships, "S" Corporations, and sole proprietorships to determine the national profits for these types of firms. We allocated the national profits to states based on each state's share of proprietorship income, as reported by the Bureau of Economic Analysis (BEA). Proprietorship data reported by the BEA includes partnerships and "S" Corporation income, in addition to income from sole proprietorships.

After allocating profits from these types of firms to each state, we calculated the appropriate tax rate for these profits. We calculated the average individual income tax rate by dividing each state's individual income tax revenue in 2006 by the state's adjusted gross income (AGI) from the SOI. We then created a weighted personal income tax rate that consisted of 1/3 the top individual tax rate and 2/3 the average tax rate. Individual income taxes on pass-through business income was thus profits from these firms times each state's weighted tax rate.

**BUSINESS PROFITS
EARNED WITHIN EACH
STATE**

The denominator of our tax burden measure is state business profits. We apportioned company profits reported within the United States as a whole to individual states using a methodology that relied on gross state product and industry employment by state.

To estimate business profits in each state, we followed two steps. First, we obtained national profits by major industries using IRS tax return data in 2006 for "C" corporations, "S" Corporations, partnerships, and sole proprietorships. Second, we allocated national profits to each state using two methods: (1) allocation based on each state's share of total gross state product, and (2) allocation based on each state's share of employment by industry. For the first method, we calculated each state's share of employment by industry using the 2002 U.S. Economic Census. For the second method we allocated national profits to each state by each state industry's share of total GSP in 2006 using Bureau of Economic Analysis data. After allocating profits by both methods, we averaged them to obtain each state's total profits. See Exhibit II, "AEG State Business Tax Burden Rankings, 2008," on page 8 for business profits by state.

**DETAILED
METHODOLOGY IN
2006 REPORT**

Anderson Economic Group's 2006 report, *Benchmarking for Success: A Comparison of State Business Taxes*, provides a detailed methodology, survey of other tax burden studies, and a review of how taxes affect economic growth. This report is available at: <http://www.AndersonEconomicGroup.com>.

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ABOUT ANDERSON ECONOMIC GROUP

Anderson Economic Group LLC is a research and consulting firm with expertise in tax analysis, economics, public policy, financial valuation, and market research. AEG's past clients include:

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