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Subject: ED & SALT LSS: New COST Business Tax Study

SC ranks in the middle for Total effective business tax rate by state- but is above other southeastern states besides Fla (see figure 3)

SC is 13th from the bottom on business taxes per dollar of net government spending that benefits businesses (figure 5)

2014 State and Local Business Tax Burden Study

August 2014

The Council On State Taxation (COST) is pleased to announce the release of the twelfth annual study of state and local business taxes. The report, "Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2013," prepared by Ernst & Young LLP, shows all state and local business taxes paid in each of the 50 states and the District of Columbia. These taxes include business property taxes; sales and excise taxes paid by businesses on their input purchases and capital expenditures; gross receipts taxes; corporate income and franchise taxes; business and corporate license taxes; unemployment insurance taxes; individual income taxes paid by owners of non-corporate (pass-through) businesses; and other state and local taxes that are the statutory liability of business taxpayers. Businesses paid \$671 billion in state and local taxes in FY2013, an increase of 4.3% from FY2012.

In FY 2013, business taxes accounted for 44.9% of all state and local taxes. "The study is significant," says Douglas Lindholm, President and Executive Director of COST, "because it allows policymakers to evaluate state and local business tax burdens beyond corporate income taxes, and provides a truer picture of business tax burdens than commonly perceived."

Key findings of the study include:

- Following two years of decline in FY2009 and FY2010, state and local business taxes increased for a third consecutive year in FY2013. From FY2012 to FY2013, overall state and local business taxes increased 4.3%, with state business taxes growing by 4.7% and local business taxes growing 3.7%.
- After three straight years of growth rates below 1%, business property taxes increased 3.7% in FY2013, a gain of \$8.5 billion. Property taxes remain by far the largest state and local tax paid by businesses, accounting for 36.1% of the total.
- General sales taxes on business inputs and capital investment totaled \$139.8 billion, or 20.8% of state and local business taxes. While state sales taxes increased 3.8%, general sales taxes paid by businesses remained flat at the local level.
- In FY2013, state and local corporate income tax collections were \$53.3 billion, or 7.9% of all state and local business taxes. FY2013 marked the third consecutive year of corporate income tax growth. While overall state and local corporate income tax collections grew in FY2013 by 8.4%, the corporate income tax has been the slowest of the major types of business taxes to return to pre-recession levels. In FY2013, state and local corporate income tax collections were still nearly 13% below the prior peak that occurred in 2007.
- Individual income taxes on pass-through business income accounted for 5.5% of total state and local business taxes. Individual income taxes on business income grew 13.2%, the highest rate of any tax in FY2013.
- On average, business taxes are equal to 4.7% of private-sector gross state product (GSP), which measures the total value of a state's annual private-sector production of goods and services. There is substantial variation, with ratios ranging from 3.3% in Oregon to 12.0% in Alaska.
- Businesses continue to pay more in state and local taxes than they receive in benefits, on average. On average, businesses paid \$3.26 for every dollar of government spending benefiting businesses, assuming that education spending does not benefit local businesses. An alternate assumption, that half of education spending benefits local businesses, still results in businesses paying 20% more in taxes than the cost of state and local government spending benefiting business.
- Twelve states have still not returned to their prior highs for business tax collections reached near the start of the last recession. The corporate income tax has been the slowest to rebound, with 28 of the 47 states that levy some form of corporate income tax not yet returning to their prior peak level of collections.

[Click here](#) to view the full study. Questions regarding the study should be directed to [Doug Lindholm](#).

Study: <http://www.cost.org/WorkArea/DownloadAsset.aspx?id=87982>

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