

# A Closer Examination of the Total State and Local Business Tax Burden

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Prepared for the Council On State Taxation (COST)

January 3, 2003



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The views expressed are those of the individual authors, not their respective organizations.

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## **A CLOSER EXAMINATION OF THE TOTAL STATE AND LOCAL BUSINESS TAX BURDEN**

### **INTRODUCTION AND SUMMARY**

Corporate profits declined by 8 percent between 1999 and the middle of 2002, but state and local taxes on business rose by 6 percent over the same period. Business taxes have increased even during a time of falling corporate profitability because corporate income taxes are but one of the many taxes paid by businesses to state and local governments. These state and local taxes include:

- Property taxes on business property,
- Sales and excise taxes paid by business (not consumers) on business purchases,
- Corporate income taxes,
- Unemployment insurance and workers' compensation taxes, and
- Business license taxes.

In fiscal year 2002, businesses paid \$378.9 billion in state and local taxes, representing 41% of total state and local taxes.<sup>1</sup> Total state and local business taxes exceeded personal income taxes by 85 percent and all other state and local non-business taxes by 14 percent. (See Figure 1.)

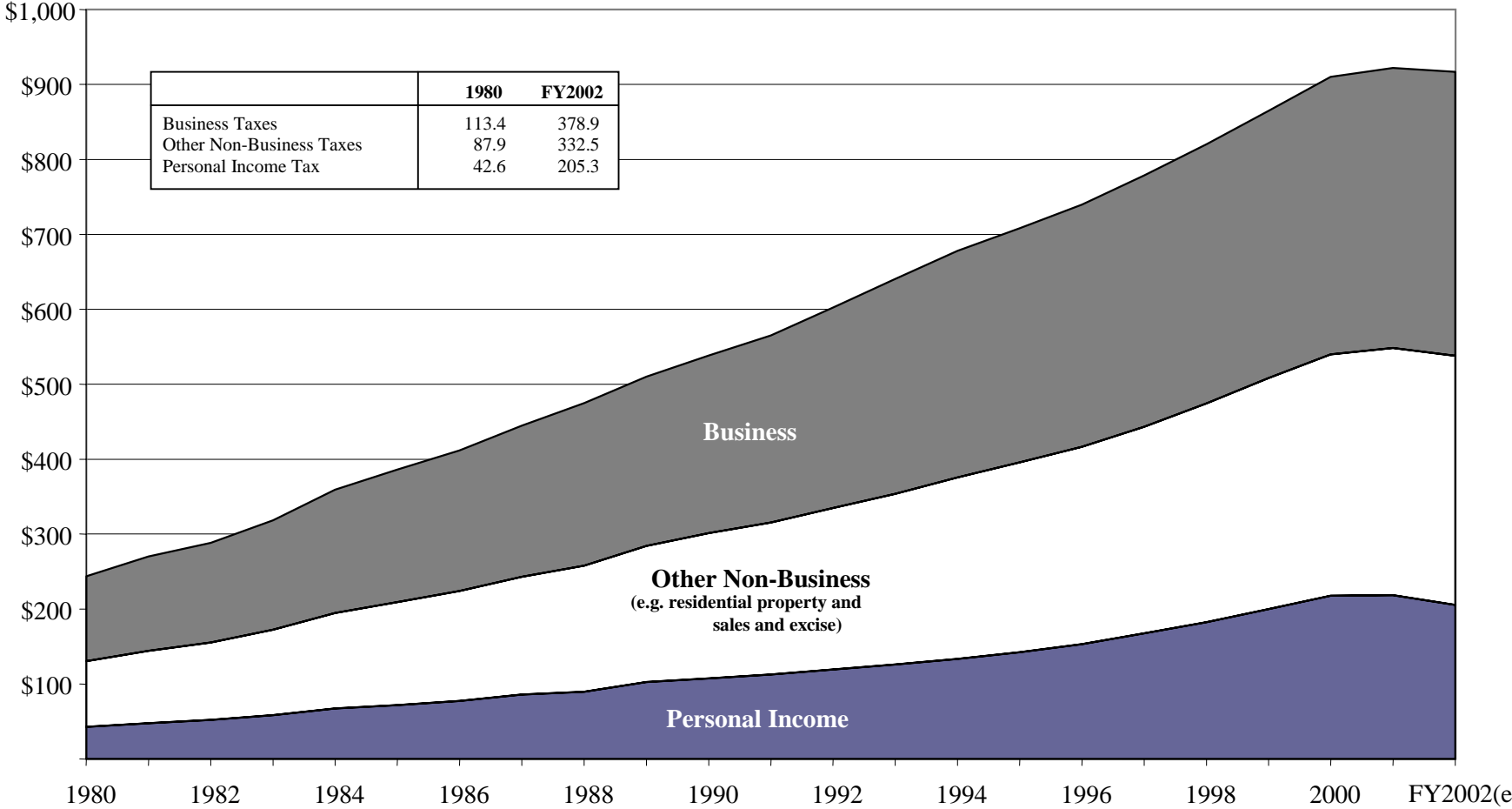
Large corporations (as represented by the Fortune 1000) provided 20 percent of private-sector jobs, yet paid 46.7% of total state and local business taxes. (See Figure 2). Combined state and local business taxes have grown significantly during the past two decades. Total business state and local taxes have increased from \$113 billion in 1980 to \$379 billion in FY2002, an average annual growth rate of 5.8 percent a year.

Although state and local business taxes as a whole have steadily risen, several recent studies have discussed the decline in the relative importance to state revenue systems of one of those taxes—the corporate income tax.<sup>2</sup> The corporate income tax has declined in relative importance during the past two decades for a number of reasons. These include the sharp increase in capital gains taxes paid by individuals in the 1990s, plus the growth of non-corporate business entities, including S corporations and limited liability partnerships, which are taxed only at the individual taxpayer level.

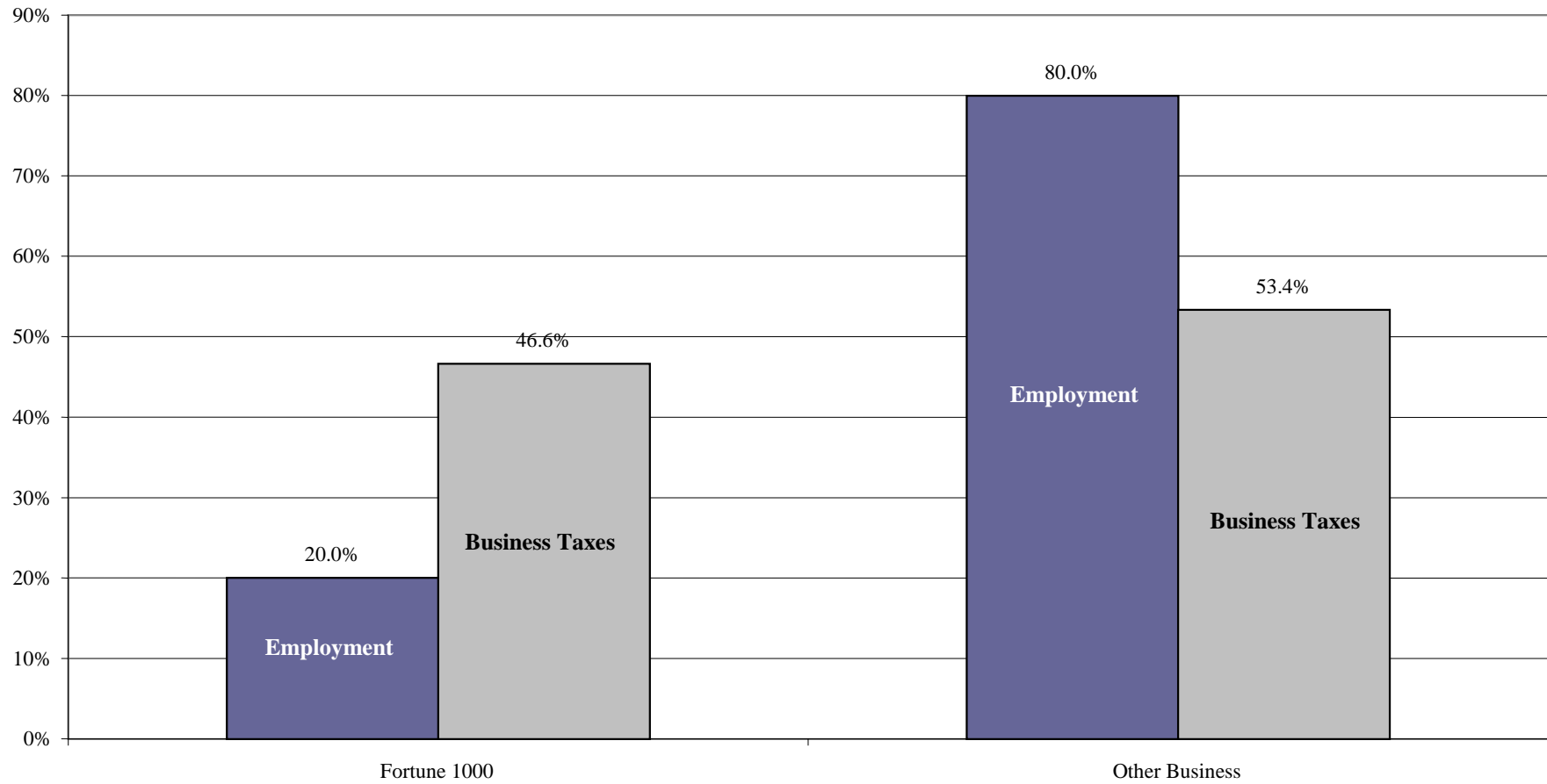
Due to the shift in income from C corporations to these “pass-through” business entities, a growing portion of business income tax collections are reported on individual income tax returns. Taxes paid at the individual level on pass-through business income have grown from \$6.2 billion in 1980 to \$41.8 billion in 1999 (the latest year data is available). The annual growth rate of business taxes, including pass-through business taxes, was 6.5 percent through 1999. Including these taxes on pass-through business income, business paid 46.1% of total state and local taxes.

The remainder of this study provides comprehensive estimates of the total state and local taxes paid by businesses.

**Figure 1**  
**Composition of State and Local Tax Collections, 1980-FY2002**  
(dollars in billions)



**Figure 2**  
**Fortune 1000 Companies' Shares of Employment and Total State and Local Business Taxes, FY2002**



## ESTIMATES OF TOTAL STATE AND LOCAL BUSINESS TAXES

The major state and local tax categories in this study are corporate income taxes, employer unemployment insurance and workers' compensation taxes, and non-income business taxes.<sup>3</sup> The specific state and local taxes included in the definition of state and local business taxes are:

- Real and personal business property taxes,
- Sales taxes on business purchases,
- Excise taxes on business purchases, e.g., fuel taxes,
- Corporate net income and franchise taxes based on income,
- Gross receipts taxes, including utility taxes and insurance premium taxes,
- State unemployment taxes and disability and workers' compensation taxes, and
- Other state and local taxes, including taxes based on net worth, motor vehicle and business license taxes, and severance taxes paid by business.

Table 1 provides a summary of the estimated state and local income and non-income taxes paid by businesses in FY2002. These are the taxes that are generally considered to be the liability of business taxpayers. Business taxes do not include retail sales taxes imposed on consumer purchases; only sales and use taxes on business input purchases are included. Also excluded are all tobacco, alcohol and amusement excise taxes.

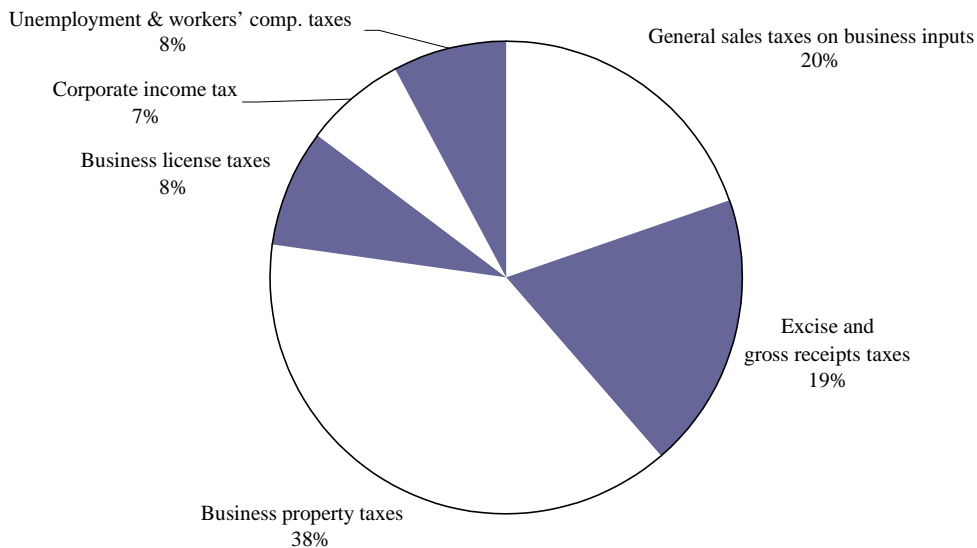
As shown in Table 1, businesses paid almost \$379 billion in total state and local taxes in FY2002. The single largest tax amount is real and personal property taxes, accounting for 38 percent of total state and local business taxes. General sales and excise taxes on business purchases each account for almost 20 percent of the total. Corporate incomes taxes (\$27.1 billion) account for a little more than 7 percent of total state and local business taxes, while unemployment and workers' compensation taxes are approximately 8 percent of the total. The composition of total state and local business taxes, by major tax type, is illustrated in Figure 3.

These estimates clearly demonstrate that corporate income tax burdens are only one component of the total state and local taxes paid by businesses. From a tax policy perspective, the information in Table 1 highlights the fact that the corporate income tax cannot be fully evaluated independently of overall state and local taxes imposed on businesses.<sup>4</sup>

**Table 1**  
**State and Local Taxes Paid by Businesses, FY2002**  
(dollars in billions)

<b>State and Local Tax Type</b>	<b>Taxes Paid by Businesses</b>	<b>Percentage of Total Business Taxes</b>
<b>General sales taxes on business inputs</b>	<b>\$74.3</b>	<b>19.6%</b>
<b>Excise and gross receipts taxes</b>	<b>\$72.2</b>	<b>19.1%</b>
Motor fuel sales	\$20.6	5.4%
Public utility sales	\$19.2	5.1%
Insurance sales	\$10.3	2.7%
Other sales and gross receipts	\$22.1	5.8%
<b>Property taxes on business property</b>	<b>\$145.6</b>	<b>38.4%</b>
<b>Business license taxes</b>	<b>\$30.6</b>	<b>8.1%</b>
Business franchise and business license	\$22.1	5.8%
Other license and business tax	\$9.0	2.4%
<b>Corporate income taxes</b>	<b>\$27.1</b>	<b>7.2%</b>
<b>Unemployment and workers' compensation taxes</b>	<b>\$29.0</b>	<b>7.7%</b>
<b>Total State and Local Business Taxes</b>	<b>\$378.9</b>	<b>100.0%</b>

**Figure 3**  
**Distribution of State and Local Business Taxes, FY2002**



## TOTAL STATE AND LOCAL TAXES PAID BY THE LARGEST CORPORATIONS

Table 2 compares state and local business taxes paid by the Fortune 1000 largest corporations, ranked by total sales. A comparison of the taxes paid by all businesses and the Fortune 1000 corporations, shows that the 1,000 largest businesses accounted for nearly 47 percent of total state and local business taxes in FY2002. Compared to state and local taxes paid by all businesses, the Fortune 1000 corporations paid 54 percent of state and local corporate income taxes, 51 percent of sales and excise taxes, 46 percent of property taxes, and 21 percent of unemployment and workers' compensation taxes. These figures document the important contribution of the largest businesses to the revenues needed to finance state and local government services.

**Table 2**  
**State and Local Taxes Paid By All Businesses and Fortune 1000 Corporations, FY2002**  
(dollars in billions)

State and Local Tax Type	Taxes Paid by All Businesses	Taxes Paid by Fortune 1000 Corporations	Fortune 1000 Corporations' Share of Total Business Taxes
<b>General sales taxes on business inputs</b>	<b>\$74.3</b>	<b>\$38.2</b>	<b>51.4%</b>
<b>Excise and gross receipts taxes</b>	<b>\$72.2</b>	<b>\$37.2</b>	<b>51.4%</b>
Motor fuel sales	\$20.6	\$7.4	35.7%
Public utility sales	\$19.2	\$17.3	90.0%
Insurance sales	\$10.3	\$6.1	59.2%
Other sales and gross receipts	\$22.1	\$6.6	29.8%
<b>Property</b>	<b>\$145.6</b>	<b>\$66.9</b>	<b>45.9%</b>
<b>License</b>	<b>\$30.6</b>	<b>\$13.5</b>	<b>44.1%</b>
Business franchise and business license	\$22.1	\$9.3	42.1%
Other license and business tax	\$9.0	\$4.4	49.0%
<b>Corporate income tax</b>	<b>\$27.1</b>	<b>\$14.6</b>	<b>53.8%</b>
<b>Unemployment and workers' comp. taxes</b>	<b>\$29.0</b>	<b>\$6.0</b>	<b>20.8%</b>
<b>Total State and Local Business Taxes</b>	<b>\$378.9</b>	<b>\$176.7</b>	<b>46.6%</b>

The percentage of total business taxes, by tax type, paid by the Fortune 1000 firms reflect the level of profits, the capital intensity and the inputs purchased by the 1,000 companies with the greatest U.S. sales.<sup>5</sup>

### TRENDS IN STATE AND LOCAL BUSINESS TAXES

#### *Taxes Imposed Directly on Businesses*

As seen in Table 3, total state and local business taxes increased by over 6 percent since 1999, despite a 22 percent reduction (-\$7.7 billion) in corporate income taxes. A 9 percent increase in unemployment and workers' compensation taxes and non-income taxes (+\$29.8 billion) completely offset the fall in corporate income taxes and added 6 percent more (+\$22.1 billion)

in total state and local business taxes between 1999 and FY2002. The limited role of the corporate income tax in the taxation of business helps to explain the simultaneous rise in total state and local business taxes and decline in corporate income taxes.

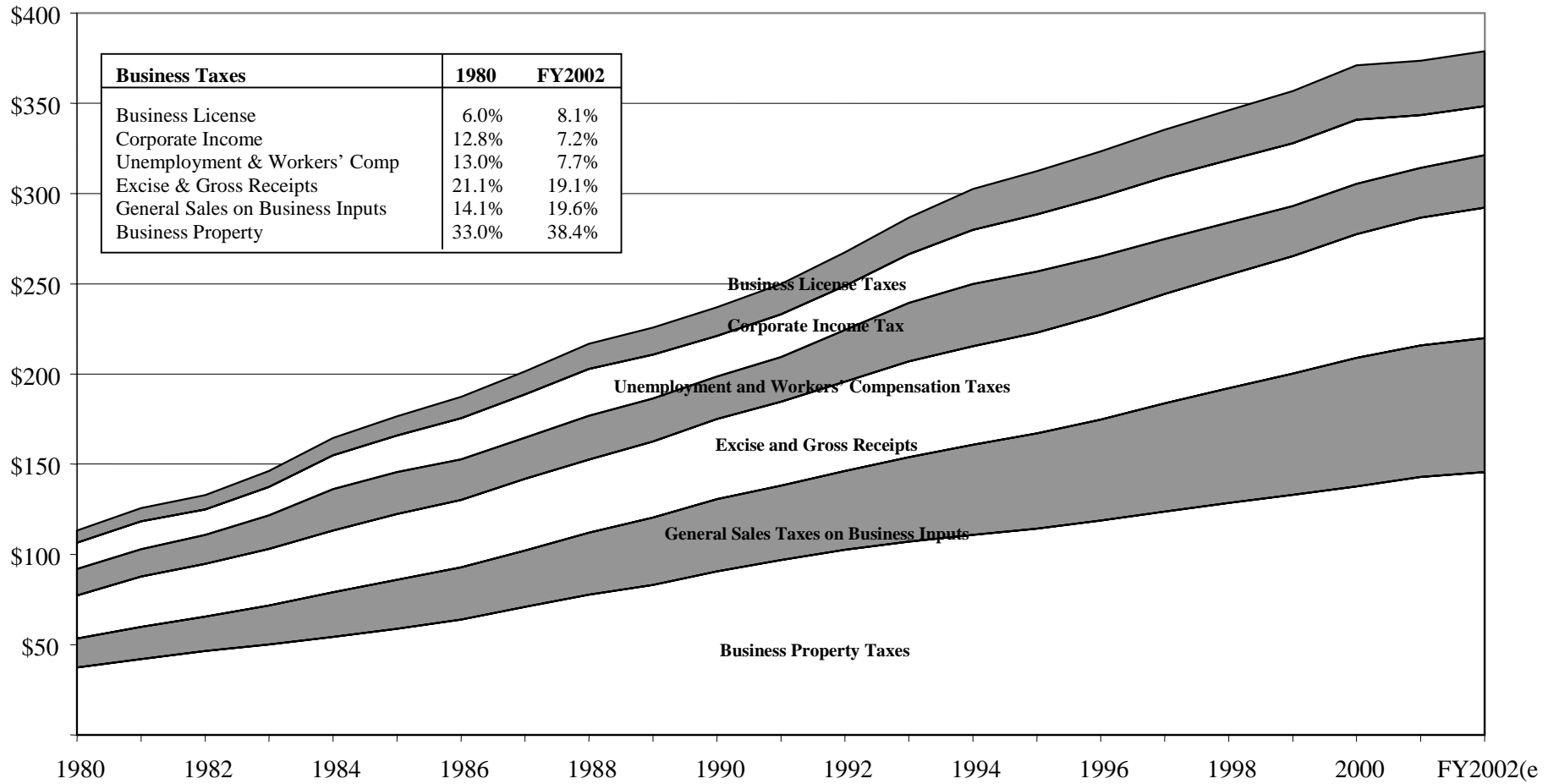
**Table 3**  
**State and Local Business Taxes, 1999 and FY2002**  
(dollars in billions)

<b>State and Local Tax Type</b>	<b>1999</b>	<b>FY2002</b>	<b>Percent Change, 1999-FY2002</b>
<b>General sales taxes on business inputs</b>	<b>\$67.2</b>	<b>\$74.3</b>	<b>10.6%</b>
<b>Excise and gross receipts taxes</b>	<b>\$65.2</b>	<b>\$72.2</b>	<b>10.8%</b>
Motor fuel sales	\$19.2	\$20.6	7.4%
Public utility sales	\$17.7	\$19.2	8.4%
Insurance sales	\$9.7	\$10.3	6.0%
Other sales and gross receipts	\$18.5	\$22.1	19.2%
<b>Property</b>	<b>\$133.0</b>	<b>\$145.6</b>	<b>9.5%</b>
<b>License</b>	<b>\$28.9</b>	<b>\$30.6</b>	<b>6.0%</b>
Corporate franchise and business license	\$20.8	\$22.1	6.3%
Other license and business tax	\$8.6	\$9.0	5.6%
<b>Corporate income tax</b>	<b>\$34.8</b>	<b>\$27.1</b>	<b>-22.1%</b>
<b>Unemployment and workers' compensation taxes</b>	<b>\$27.8</b>	<b>\$29.0</b>	<b>4.3%</b>
<b>Total State and Local Business Taxes</b>	<b>\$356.8</b>	<b>\$378.9</b>	<b>6.2%</b>

Figure 4 illustrates changes in the level and composition of state and local business taxes during the 1980-FY2002 period. Total state and local business taxes grew an average of 5.8 percent annually during the period, from \$113.4 billion to \$378.9 billion in FY2002. As shown in Figure 4 and Table A-2, property taxes and sales taxes have risen significantly as shares of business taxes. Together, their share has increased by almost 11 percentage points since 1980.

The share of business tax liability from excise and license taxes has held steady, while income and unemployment and workers' compensation tax shares have fallen.

**Figure 4**  
**Distribution of State and Local Business Taxes, 1980-FY2002**  
(dollars in billions)



### *Taxes on Business Income Paid by Individual Taxpayers*

The corporate income tax paid by C corporations is the only income-based business tax discussed up to this point. However, over the last two decades there has been a significant shift of business income from C corporations to other forms of businesses, including S corporations and limited liability partnerships. The income from these “pass-through” entities is often taxed under the individual income tax instead of the corporate income tax. As a result of this shift in the form of doing business, the decline in the corporate income tax, as a percentage of total state and local tax collections, since 1980 has coincided with an increase in the individual income tax paid by individuals on pass-through entity income.

During the 1980-FY2002 period, pass-through business income grew at an annual average rate of 9.1 percent, compared to C corporation net income, which grew at an annual average rate of 5.9 percent. The resulting shift of business profits from businesses paying corporate taxes to individuals receiving pass-through income suggests that the individual income taxes paid on business income are playing an increasingly significant role in the state and local taxation of businesses.

Table 4 presents estimates of the personal income taxes paid on pass-through entity net income.<sup>6</sup> The analysis shows that business pass-through income accounted for 5.2 percent of total business individual income liability in 1980. By 1999, that percentage had more than doubled to 10.5 percent. When state and local taxes on corporate net income, individual business income, and other business taxes are combined, they accounted for 46.1 percent of total state and local tax collections in 1999, down slightly from 49.0 percent in 1980 and 47.3 percent in 1990.<sup>7</sup>

**Table 4**  
**State and Local Business Taxes and Individual Income Taxes on Pass-Through Business Income**  
(billions of dollars)

	<b>1980</b>	<b>1990</b>	<b>1999</b>
S-corporations	\$0.4	\$3.5	\$12.1
Partnership	\$2.3	\$5.9	\$17.8
Sole proprietorship	\$3.5	\$8.2	\$11.9
Total business-related individual income taxes	\$6.2	\$17.7	\$41.8
Total business taxes plus pass-through business income taxes	\$119.6	\$254.7	\$398.6
Pass-thru business taxes as a share of total business taxes and taxes on business-related income	5.2%	7.0%	10.5%
<b>Taxes on businesses and taxes on pass-through income as a percent of total state and local taxes</b>	<b>49.0%</b>	<b>47.3%</b>	<b>46.1%</b>

## CONCLUSIONS

In an era of low corporate profitability and depressed state revenues, state and local taxes on business continue to rise. The results of this study highlight the fact that legislators should evaluate the overall system of state and local taxation of businesses and not focus solely on the corporate income tax in isolation.

State legislators, tax administrators and business taxpayers need to work cooperatively to design a fair, efficient, simple and administrable state and local business tax system that is flexible enough to adapt to the accelerating rate of change in the U.S. economy. The following points may help to guide this important business tax reform discussion:

- The corporate income tax is but one part of the total state and local tax burden imposed on businesses. It is the combined burden of all the business taxes that should be the focus of business tax reform efforts.
- The combined state and local business tax burden is significant. From an economic development perspective, states need to carefully evaluate the competitiveness of their state and local business tax structures, including all of the taxes identified in this study.
- A broad approach to business tax reform is needed. The first step in state and local business tax reform should be an evaluation of the economic effects of all the current state and local business taxes: their economic incidence, their economic development effects, and their complexity and administration.
- Any business tax proposals considered in response to the current state budget shortfalls should be evaluated in the context of the longer-run total business tax policy objectives of the state.

Total state and local business taxes have risen steadily over the past two decades to almost \$379 billion in FY2002. State and local business taxes have continued to rise despite the economic downturn and a sharp drop in corporate profits. States that focus on only one part of the total state and local business tax picture, such as the corporate income tax, are likely to exacerbate an already significant and rising level of state and local business taxation.

**APPENDIX A**  
**DETAILED HISTORICAL TABLES: TOTAL STATE AND LOCAL BUSINESS TAXES**

**Table A-1**  
**Total State and Local Business Taxes, 1980-FY2002**  
(dollars in billions)

	1980	1985	1990	1995	1999	2000	2001	FY2002(e)
General sales taxes on business inputs	\$16.0	\$27.0	\$40.1	\$52.9	\$67.2	\$71.2	\$72.9	\$74.3
Excise and gross receipts taxes	\$23.9	\$36.5	\$44.5	\$55.7	\$65.2	\$68.5	\$70.9	\$72.2
Motor fuel sales	\$6.1	\$9.0	\$13.0	\$16.7	\$19.2	\$19.6	\$20.0	\$20.6
Public utility sales	\$6.3	\$10.2	\$11.7	\$15.5	\$17.7	\$18.1	\$18.4	\$19.2
Insurance sales	\$3.3	\$4.8	\$7.4	\$8.9	\$9.7	\$10.1	\$10.5	\$10.3
Other sales and gross receipts	\$8.3	\$12.6	\$12.4	\$14.6	\$18.5	\$20.8	\$22.0	\$22.1
Property	\$37.4	\$58.9	\$90.5	\$114.3	\$133.0	\$137.7	\$142.9	\$145.6
License and other	\$6.9	\$10.8	\$16.0	\$24.0	\$28.9	\$30.0	\$30.2	\$30.6
Corporate franchise and business license	\$4.0	\$6.8	\$10.7	\$17.2	\$20.8	\$21.7	\$21.8	\$22.1
Other license and business taxes	\$2.9	\$4.1	\$5.5	\$7.3	\$8.6	\$8.8	\$8.9	\$9.0
Corporate income tax	\$14.5	\$20.2	\$22.5	\$31.7	\$34.8	\$35.6	\$29.1	\$27.1
Unemployment and workers' comp. taxes	\$14.7	\$23.2	\$23.5	\$33.9	\$27.8	\$27.9	\$27.5	\$29.0
<b>Total State and Local Business Taxes</b>	<b>\$113.4</b>	<b>\$176.6</b>	<b>\$237.0</b>	<b>\$312.5</b>	<b>\$356.8</b>	<b>\$370.9</b>	<b>\$373.6</b>	<b>\$378.9</b>

Note: The fiscal year 2002 estimates were calculated by multiplying the 2001 tax figures by the growth rates for taxes reported in the U.S. Census Bureau's *Quarterly State and Local Tax Revenue* through the 2nd quarter of 2002.

**Table A-2**  
**Composition of State and Local Business Taxes, 1980-FY2002**  
(dollars in billions)

	1980	1985	1990	1995	1999	2000	2001	FY2002(e)
<b>Share of Total Business Taxes</b>								
General sales taxes on business inputs	14.1%	15.3%	16.9%	16.9%	18.8%	19.2%	19.5%	19.6%
Excise and gross receipts taxes	21.1%	20.7%	18.8%	17.8%	18.3%	18.5%	19.0%	19.1%
Motor fuel sales	5.4%	5.1%	5.5%	5.3%	5.4%	5.3%	5.4%	5.4%
Public utility sales	5.6%	5.8%	4.9%	5.0%	5.0%	4.9%	4.9%	5.1%
Insurance sales	2.9%	2.7%	3.1%	2.8%	2.7%	2.7%	2.8%	2.7%
Other sales and gross receipts	7.3%	7.1%	5.2%	4.7%	5.2%	5.6%	5.9%	5.8%
Property	33.0%	33.3%	38.2%	36.6%	37.3%	37.1%	38.3%	38.4%
License and other	6.0%	6.1%	6.7%	7.7%	8.1%	8.1%	8.1%	8.1%
Corporate franchise and business license	3.5%	3.9%	4.5%	5.5%	5.8%	5.8%	5.8%	5.8%
Other license and business tax	2.6%	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	2.4%
Corporate income tax	12.8%	11.4%	9.5%	10.1%	9.8%	9.6%	7.8%	7.2%
Unemployment and workers' comp. taxes	13.0%	13.1%	9.9%	10.8%	7.8%	7.5%	7.4%	7.7%
<b>State and Local Tax Collections</b>								
Individual Income Taxes	\$42.6	\$72.1	\$107.7	\$142.5	\$199.7	\$218.1	\$218.7	\$205.3
Other Non-Business, Non-Income Taxes	\$87.9	\$137.2	\$193.4	\$253.1	\$308.4	\$321.4	\$329.7	\$332.5
Total State and Local Business Taxes	\$113.4	\$176.6	\$237.0	\$312.5	\$356.8	\$370.9	\$373.6	\$378.9
<b>Total State and Local Tax Collections</b>	<b>\$243.9</b>	<b>\$385.9</b>	<b>\$538.1</b>	<b>\$708.1</b>	<b>\$864.9</b>	<b>\$910.4</b>	<b>\$922.0</b>	<b>\$916.8</b>
<b>Business Share of Total S&amp;L Collections</b>	<b>46.5%</b>	<b>45.8%</b>	<b>44.0%</b>	<b>44.1%</b>	<b>41.3%</b>	<b>40.7%</b>	<b>40.5%</b>	<b>41.3%</b>

Note: The fiscal year 2002 estimates were calculated by multiplying the 2001 tax figures by the growth rates for taxes reported in the U.S. Census Bureau's *Quarterly State and Local Tax Revenue* through the 2nd quarter of 2002.

## **APPENDIX B TECHNICAL METHODOLOGY**

This appendix outlines the methodology used to determine the total state and local taxes paid by all businesses in the U.S. and by the Fortune 1000 corporations in the U.S. As described below, the results presented in this study incorporate unpublished data from the Bureau of Economic Analysis (BEA) and calculate total business and Fortune 1000 taxes at the industry level rather than employing simple ratios to total reported indirect business tax collections.

### **DETERMINING TOTAL BUSINESS TAXES BY INDUSTRY**

The beginning point for estimating state and local taxes paid by businesses is unpublished, sector-by-sector estimates of the major indirect business taxes (property, sales, excise, licenses) from the BEA's national income and product accounts (NIPA). This is the detailed information that the BEA uses to derive the aggregate U.S. figures for "Indirect business Tax and Nontax Accruals," reported in NIPA Table 3.5. The latest data available are quarterly for 2002 taxes.

The indirect tax category includes: state and local sales and use taxes, excise taxes (tobacco, gasoline, alcohol), insurance premiums, other gross receipts taxes, property taxes, license taxes, severance taxes and "other taxes." The business profits taxes are the reported state and local corporate income tax accruals from NIPA publication data.

In allocating tax liability to businesses, we determined which taxes are taxes "paid" by business. Business taxes were divided into three categories: 1) taxes that are the liability of businesses (e.g., net income, property taxes, unemployment and sales taxes on inputs), 2) taxes that are collected by businesses (e.g., consumer sales and excise taxes), and 3) taxes withheld by businesses (e.g., individual income tax withholding).

The total business state and local tax estimates presented in this study include only the taxes that are deemed to be the liability of the corporation. However, in determining which taxes were included, we did not perform an analysis of the final, economic incidence of taxes.

Gross receipts taxes are allocated to the industry that is legally liable for these taxes because they are often levied in place of net income or property taxes.

### **Determining the Sales, Excise and Gross Receipts Taxes that Are the Liabilities of Business**

Reported sales tax collected and remitted by industry provides the starting point for this calculation. Estimates of the share of sales and excise taxes that are imposed on business inputs are derived by subtracting personal consumption expenditures by major commodity group from total commodity output estimates from the BEA input-output tables. The result is industry-by-industry estimates of consumption taxes on business inputs that are added to the other taxes that are direct liabilities of business. Gross receipts taxes that are levied in lieu of income or other business taxes, on utilities and insurance companies, are included in the total business tax burden calculation.

## **Estimating Business Property Taxes**

The study includes property taxes paid by businesses after excluding property taxes on homeowners that are included in the real estate industry NIPA account totals. Taxes on residential real estate are calculated by excluding the portion of the taxes paid by the real estate industry on commercial and residential real estate property. Taxes on farm housing are retained in the estimate of business property taxes.

## **ESTIMATING BUSINESS TAXES PAID BY THE FORTUNE 1000**

Total taxes paid by the Fortune 1000 consist of the three primary categories used in the calculation of total business taxes: indirect business taxes, corporate income taxes, and payroll taxes. To calculate the indirect business taxes paid by businesses in the Fortune 1000, the ratio of indirect business taxes to value added, by industry, was calculated. Fortune 1000 industry categories were then matched to BEA industries, and indirect taxes for each Fortune 1000 industry category were calculated using that category's estimated value-added.<sup>8</sup>

The Fortune 1000's payroll taxes were estimated using the ratio of Fortune 1000 employment to total U.S. private employment.

Using 2001 Standard and Poor's Compustat state corporate income tax payable data, industry average state corporate income tax rates were calculated. These industry average income tax rates were applied to published Fortune 1000 profits on an industry-by-industry basis to calculate total Fortune 1000 state corporate income taxes.

## **ESTIMATING PERSONAL INCOME TAXES PAID ON PASS-THROUGH AND DIVIDEND INCOME**

Personal income tax liability created by pass-through business net income and dividend income was calculated using the 1980, 1990, and 1999 net income reported by the IRS, Statistics of Income, for S-corporations, sole-proprietorships, and partnerships combined with individuals' reported dividends received. Average state tax rates were calculated for business and dividend income using state individual income tax rates, weighted by state personal income, as reported by the BEA. The appropriate weighted average state tax rate was applied to pass-through business and dividend income to estimate the tax liability on the "business" portion of total personal income.

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## ENDNOTES

<sup>1</sup> The study focuses on taxes that are imposed on business operations. No attempt is made to estimate the final incidence of the taxes, which could result in lower business profits, lower payments for inputs such as labor, or higher prices for sales to final consumers.

<sup>2</sup> For example, William Fox and LeAnn Luna, “State Business Tax Revenue Trends: Causes and Possible Solutions,” *National Tax Journal*, September 2002.

<sup>3</sup> The non-income taxes and unemployment and workers’ compensation taxes are also referred to as “indirect” business taxes, in contrast to the corporate income tax that is a “direct” tax on a taxpayer’s net income. Additional details on the definitions and sources of business taxes included in the study are provided in Appendix B.

<sup>4</sup> For example, while the current recession is reducing the level of corporate income taxes collected by the states, business property taxes and sales taxes on business input purchases have increased. The property tax, at 38 percent of total business taxes, is clearly the largest state and local tax on business capital, over five times larger than the corporate income tax.

<sup>5</sup> It should be noted that the Fortune 1000 corporations’ unemployment and workers’ compensation tax share, 21 percent, does not measure the importance of these companies in providing high value-added jobs in the U.S. economy because the unemployment and workers’ taxes are capped at a maximum dollar amount per employee.

<sup>6</sup> To illustrate the structural shift in business taxes, personal income taxes on business pass-through income for 1980, 1990, and 1999 were calculated using an estimate of the weighted average of the highest state marginal individual income tax rates and IRS Statistics of Income data on business net income by organizational form. A detailed description of the methodology and data used in this calculation are provided in Appendix B.

<sup>7</sup> It should be noted that the individual income taxes paid on pass-through business income are a combination of taxes on the net profits of the pass-through business and the equivalent of labor compensation paid to the owners of the business. In comparison, corporate income taxes represent only taxes on the net income or profits of a corporation.

<sup>8</sup> The insurance gross premiums tax and utility gross receipts taxes paid by the Fortune 1000 were calculated using a revenue ratio rather than a value-added ratio.