



SMALL BUSINESS & ENTREPRENEURSHIP COUNCIL'S

**Business Tax Index 2008:
Best to Worst State Tax Systems for
Entrepreneurship and Small Business**

by Raymond J. Keating
Chief Economist
Small Business & Entrepreneurship Council

April 2008

Small Business & Entrepreneurship Council
2944 Hunter Mill Road • Suite 204 • Oakton, VA 22124
Telephone: 703-242-5840 • Fax: 703-242-5841
www.sbecouncil.org

Business Tax Index 2008: Best to Worst State Tax Systems for Entrepreneurship and Small Business

Taxes are an endless problem that plagues entrepreneurs and small businesses. But April often is the time when the nation takes particular note of tax burdens. After all, April 15 is “Tax Day” – the deadline for filing income taxes.

Income taxes certainly warrant the most attention. At the federal level, income-based taxes – the personal income, corporate income, and payroll levies – exact an enormous amount of resources out of the private sector, in order to be spent by politicians and their appointees.

But the tax problems for entrepreneurs and small businesses do not stop at the federal level, and do not end with the income tax. State and localities pile on with their own tax systems. And taxes in the states come in many different forms, including income, property, sales, assorted excise, gross receipts, and death levies, along with a wide array of governmental fees. Indeed, the list of taxes to be paid is quite long.

Each and every tax, of course, eats away at the bottom line of a business. At the same time, though, different taxes affect economic decision-making in different ways. For example, income taxes impact incentives for working, investing and risk taking. Property taxes affect decisions regarding investments in buildings and housing. And consumption-based taxes can divert and reduce consumer purchases.

In the end, taxes matter. They matter at the federal, state and local levels of government. They matter to consumers, entrepreneurs, investors and businesses. They matter in terms of a state’s competitiveness. And they matter when it comes to economic growth and job creation.

The Small Business & Entrepreneurship Council’s “Business Tax Index 2008” ranks the states from best to worst in terms of the costs of their tax systems on entrepreneurship and small business. The Index pulls together 16 different tax measures, and combines those into one tax score that allows the 50 states and District of Columbia to be compared and ranked.

The 16 measures are: 1) state’s top personal income tax rate, 2) state’s top individual capital gains tax rate, 3) state’s top corporate income tax rate, 4) state’s top corporate capital gains tax rate, 5) any added income tax on S-Corporations, 6) whether or not the state imposes an alternative minimum tax on individuals, 7) whether or not the state imposes an alternative minimum tax on corporations, 8) whether or not the state’s personal income tax brackets are indexed for inflation, 9) property taxes, 10) consumption-based taxes (i.e., sales, gross receipts and excise taxes), 11) whether or not the state imposes a death tax, 12) unemployment tax, 13) whether or not the state has a tax limitation mechanism, 14) whether or not the state imposes an Internet access tax, 15) gas tax, and 16) diesel tax.

The 15 best state tax systems are: 1) South Dakota, 2) Nevada, 3) Wyoming, 4) Washington, 5) Florida, 6) Alaska, 7) Texas, 8) Colorado, 9) Alabama, 10) Mississippi, 11) South Carolina, 12) Tennessee, 13) Missouri, 14) Ohio, and 15) Virginia.

The 15 worst state tax systems are: 37) North Carolina, 38) Nebraska, 39) West Virginia, 40) Hawaii, 41) Idaho, 42) Vermont, 43) Massachusetts, 44) New York, 45) Rhode Island, 46) Maine, 47) Iowa, 48) California, 49) Minnesota, 50) New Jersey, and 51) District of Columbia.

Following are the “Business Tax Index” scores and rankings, followed by brief descriptions of why each factor is included in the Index, and how it is measured.

State Tax Scores 2008

Rank	State	Tax Score	Rank	State	Tax Score
1	South Dakota	10.290	26	New Hampshire	35.743
2	Nevada	12.656	27	Kentucky	35.785
3	Wyoming	14.665	28	Pennsylvania	36.591
4	Washington	15.949	29	Louisiana	36.868
5	Florida	22.530	30	Maryland	37.946
6	Alaska	25.081	31	Montana	38.249
7	Texas	25.643	32	Wisconsin	38.486
8	Colorado	26.990	33	Connecticut	38.688
9	Alabama	28.202	34	North Dakota	39.330
10	Mississippi	29.633	35	Kansas	39.590
11	South Carolina	29.767	36	Oregon	40.283
12	Tennessee	30.678	37	North Carolina	41.163
13	Missouri	31.578	38	Nebraska	41.294
14	Ohio	32.315	39	West Virginia	42.092
15	Virginia	32.421	40	Hawaii	42.711
16	Oklahoma	32.656	41	Idaho	43.017
17	Arizona	32.896	42	Vermont	44.721
18	Georgia	33.954	43	Massachusetts	45.380
19	Illinois	34.283	44	New York	45.687
20	Michigan	34.649	45	Rhode Island	47.104
21	Indiana	34.900	46	Maine	49.379
22	Delaware	34.911	47	Iowa	49.421
23	New Mexico	35.384	48	California	49.541
24	Arkansas	35.395	49	Minnesota	51.320
25	Utah	35.693	50	New Jersey	51.719
			51	Dist. of Columbia	59.050

• **Personal Income Tax.** State personal income tax rates affect individual economic decision-making in important ways. A high personal income tax rate raises the costs of working, saving, investing, and risk taking. Personal income tax rates vary among states, therefore impacting crucial economic decisions and activities. In fact, the personal income tax influences business far more than generally assumed because roughly 90 percent of businesses file taxes as individuals (e.g., sole proprietorship, partnerships and S-Corps.), and therefore pay personal income taxes rather than corporate income taxes. *Measurement: state's top personal income tax rate.*¹

State Rankings of Top Personal Income Tax Rates

Rank	State	Top PIT Rate	Rank	State	Top PIT Rate
1	Alaska	0.000	26	Virginia	5.750
1	Florida	0.000	27	Iowa	5.837
1	Nevada	0.000	28	Delaware	5.950
1	New Hampshire	0.000	29	Georgia	6.000
1	South Dakota	0.000	29	Kentucky	6.000
1	Tennessee	0.000	29	Missouri	6.000
1	Texas	0.000	32	Ohio	6.240
1	Washington	0.000	33	Kansas	6.450
1	Wyoming	0.000	34	West Virginia	6.500
10	Illinois	3.000	35	Wisconsin	6.750
11	Pennsylvania	3.070	36	Nebraska	6.840
12	Alabama	3.250	37	New York	6.850
13	Indiana	3.400	38	Montana	6.900
14	Louisiana	3.900	39	Arkansas	7.000
15	Michigan	4.350	39	Rhode Island	7.000
16	Arizona	4.540	39	South Carolina	7.000
17	Colorado	4.630	42	North Carolina	7.750
18	New Mexico	4.900	43	Idaho	7.800
19	Connecticut	5.000	44	Minnesota	7.850
19	Mississippi	5.000	45	Hawaii	8.250
19	Utah	5.000	46	Dist. of Columbia	8.500
22	Massachusetts	5.300	46	Maine	8.500
23	Maryland	5.500	48	New Jersey	8.970
24	North Dakota	5.540	49	Oregon	9.000
25	Oklahoma	5.550	50	Vermont	9.500
			51	California	10.300

¹ Data Source: CCH Incorporated, *2008 State Tax Handbook*, the Federation of Tax Administrators (www.taxadmin.org), and state specific sources. Note: Personal income tax rates reflect deductibility of federal income taxes in certain states.

• **Individual Capital Gains Tax.** One of the biggest obstacles that start-ups or expanding businesses face is access to capital. State capital gains taxes, therefore, affect the economy by directly impacting the rate of return on investment and entrepreneurship. Capital gains taxes are direct levies on risk taking, or the engine of growth in the economy. High capital gains taxes restrict access to capital, and help to restrain or redirect risk taking. *Measurement: state's top capital gains tax rate on individuals.*²

State Rankings of Top Capital Gains Tax Rates

Rank	State	Top CG Rate	Rank	State	Top CG Rate
1	Alaska	0.000	26	Maryland	5.500
1	Florida	0.000	27	North Dakota	5.540
1	Nevada	0.000	28	Oklahoma	5.550
1	New Hampshire	0.000	29	Vermont	5.700
1	South Dakota	0.000	30	Virginia	5.750
1	Tennessee	0.000	31	Delaware	5.950
1	Texas	0.000	32	Georgia	6.000
1	Washington	0.000	32	Kentucky	6.000
1	Wyoming	0.000	32	Missouri	6.000
10	New Mexico	2.450	35	Ohio	6.240
11	Wisconsin	2.700	36	Kansas	6.450
12	Illinois	3.000	37	West Virginia	6.500
13	Pennsylvania	3.070	38	Nebraska	6.840
14	Indiana	3.400	39	New York	6.850
15	South Carolina	3.920	40	Montana	6.900
16	Alabama	4.250	41	Rhode Island	7.000
17	Michigan	4.350	42	Hawaii	7.250
18	Arizona	4.540	43	Iowa	7.633
19	Colorado	4.630	44	North Carolina	7.750
20	Arkansas	4.900	45	Idaho	7.800
21	Connecticut	5.000	46	Minnesota	7.850
21	Mississippi	5.000	47	Dist. of Columbia	8.500
21	Utah	5.000	47	Maine	8.500
24	Louisiana	5.100	49	New Jersey	8.970
25	Massachusetts	5.300	50	Oregon	9.000
			51	California	10.300

² Data Source: CCH Incorporated, *2008 State Tax Handbook*, the Federation of Tax Administrators (www.taxadmin.org), and state specific sources. Note: Capital gains tax rates reflect deductibility of federal income taxes in certain states.

• **Corporate Income Tax.** State corporate income tax rates similarly affect a broad range of business decisions — most clearly decisions relating to investment and location – and obviously make a difference in the bottom line returns of corporations. *Measurement: state’s top corporate income tax rate.*³

State Rankings of Top Corporate Income Tax Rates

Rank	State	Top CIT Rate	Rank	State	Top CIT Rate
1	Nevada	0.000	26	Arizona	6.968
1	South Dakota	0.000	27	North Dakota	7.000
1	Washington	0.000	28	Illinois	7.300
1	Wyoming	0.000	29	Kansas	7.350
5	Ohio	3.400	30	Connecticut	7.500
6	Alabama	4.225	31	Idaho	7.600
7	Texas	4.500	31	New Mexico	7.600
8	Colorado	4.630	33	Nebraska	7.810
9	Michigan	4.950	34	Wisconsin	7.900
10	Mississippi	5.000	35	Maryland	8.250
10	South Carolina	5.000	36	New York	8.307
10	Utah	5.000	37	Indiana	8.500
13	Missouri	5.156	37	New Hampshire	8.500
14	Louisiana	5.200	37	Vermont	8.500
15	Florida	5.500	40	Delaware	8.700
16	Georgia	6.000	41	West Virginia	8.750
16	Kentucky	6.000	42	California	8.840
16	Oklahoma	6.000	43	Maine	8.930
16	Virginia	6.000	44	Rhode Island	9.000
20	Hawaii	6.400	45	New Jersey	9.360
21	Arkansas	6.500	46	Alaska	9.400
21	Tennessee	6.500	47	Massachusetts	9.500
23	Oregon	6.600	48	Minnesota	9.800
24	Montana	6.750	49	Iowa	9.900
25	North Carolina	6.900	50	Dist. of Columbia	9.975
			51	Pennsylvania	9.990

³ Data Source: CCH Incorporated, *2008 State Tax Handbook*, the Federation of Tax Administrators (www.taxadmin.org), and state specific sources. Note: Corporate income tax rates reflect deductibility of federal income taxes in certain states.

• **Corporate Capital Gains Tax.** Again, access to capital is an enormous obstacle for businesses, and state capital gains taxes affect the economy by directly reducing the rate of return on investment and entrepreneurship. High capital gains taxes – including on corporate capital gains – restrict access to capital, and help to restrain or redirect risk taking. *Measurement: state’s top capital gains tax rate on corporations.*⁴

State Rankings of Top Corporate Capital Gains Tax Rates

Rank	State	Top CCG Rate	Rank	State	Top CCG Rate
1	Nevada	0.000	26	North Carolina	6.900
1	South Dakota	0.000	27	Arizona	6.968
1	Washington	0.000	28	North Dakota	7.000
1	Wyoming	0.000	29	Illinois	7.300
5	Ohio	3.400	30	Kansas	7.350
6	Hawaii	4.000	31	Connecticut	7.500
7	Alabama	4.225	32	Idaho	7.600
8	Alaska	4.500	32	New Mexico	7.600
8	Texas	4.500	34	Nebraska	7.810
10	Colorado	4.630	35	Wisconsin	7.900
11	Michigan	4.950	36	Maryland	8.250
12	Mississippi	5.000	37	New York	8.307
12	South Carolina	5.000	38	Indiana	8.500
12	Utah	5.000	38	New Hampshire	8.500
15	Missouri	5.156	38	Vermont	8.500
16	Louisiana	5.200	41	Delaware	8.700
17	Florida	5.500	42	West Virginia	8.750
18	Georgia	6.000	43	California	8.840
18	Kentucky	6.000	44	Maine	8.930
18	Oklahoma	6.000	45	Rhode Island	9.000
18	Virginia	6.000	46	New Jersey	9.360
22	Arkansas	6.500	47	Massachusetts	9.500
22	Tennessee	6.500	48	Minnesota	9.800
24	Oregon	6.600	49	Iowa	9.900
25	Montana	6.750	50	Dist. of Columbia	9.975
			51	Pennsylvania	9.990

⁴ Data Source: CCH Incorporated, *2008 State Tax Handbook*, the Federation of Tax Administrators (www.taxadmin.org), and state specific sources. Note: Capital gains tax rates reflect deductibility of federal income taxes in certain states.

• **Additional Income Tax on S-Corporations.** Subchapter S-Corporations let certain businesses adopt the benefits of a corporation, while allowing income to pass through to be taxed at the individual level. Most states recognize S Corporations, but a few either tax such businesses like other corporations or impose some kind of added tax. Such an additional income tax, again, raises costs, restrains investment, and hurts the state's competitiveness. *Measurement: additional income tax imposed on S-Corporations beyond the top personal income tax rate.*⁵

• **Individual Alternative Minimum Tax.** The individual alternative minimum tax (AMT) imposes a minimum tax rate that must be paid by individuals, regardless the tax credits or deductions taken. The AMT diminishes the effectiveness of potentially positive, pro-growth tax relief measures, while also raising the costs of tax compliance. *Measurement: state individual alternative minimum tax (states imposing an individual AMT receive a score of "1" and states that do not receive a score of "0").*⁶

• **Corporate Alternative Minimum Tax.** The corporate alternative minimum tax (AMT) imposes a minimum tax rate that must be paid by corporations, regardless of the available tax credits or deductions taken. Again, the AMT diminishes the effectiveness of potentially positive, pro-growth tax relief measures, and hikes compliance costs, in particular by forcing firms to effectively calculate their taxes under two tax codes. *Measurement: state corporate alternative minimum tax (states imposing an individual AMT receive a score of "1" and states that do not receive a score of "0").*⁷

• **Indexing Personal Income Tax Rates.** Indexing income tax rates for inflation is a positive tax measure, which ensures that inflation does not push individuals into higher tax brackets. Without such indexation, one can be pushed into a higher tax bracket without any increases in real income. *Measurement: state indexing of personal income tax rates (states indexing their personal income tax rates receive a score of "0" and states that do not receive a score of "1").*⁸

⁵ Data Source: CCH Incorporated, *2008 State Tax Handbook*, and state specific sources.

⁶ Data Source: CCH Incorporated, *2008 State Tax Handbook*.

⁷ Data Source: CCH Incorporated, *2008 State Tax Handbook*.

⁸ Data Source: The Federation of Tax Administrators website at www.taxadmin.org.

• **Property Taxes.** Property taxes influence decisions as to where businesses, entrepreneurs and employees choose to locate, as well as decisions relating to investments in business facilities and homes. *Measurement: state and local property taxes (property taxes as a share of personal income).*⁹

State Rankings of State and Local Property Taxes
(Property Taxes as a Share of Personal Income)

Rank	State	Prop Taxes	Rank	State	Prop Taxes
1	Alabama	1.33	26	Oregon	3.03
2	Delaware	1.56	27	Pennsylvania	3.09
3	Arkansas	1.58	28	South Carolina	3.11
4	New Mexico	1.61	29	North Dakota	3.12
5	Oklahoma	1.62	30	Ohio	3.28
6	Hawaii	1.86	31	Florida	3.37
7	Kentucky	1.90	32	Kansas	3.42
8	West Virginia	2.10	33	Iowa	3.52
9	Tennessee	2.11	34	Nebraska	3.63
10	Louisiana	2.19	35	Montana	3.68
11	Maryland	2.38	36	Dist. of Columbia	3.69
12	North Carolina	2.40	37	Massachusetts	3.70
13	California	2.55	38	Alaska	3.78
14	Missouri	2.59	39	Michigan	3.90
15	Utah	2.63	40	Indiana	3.91
16	Nevada	2.69	41	Illinois	4.04
17	Mississippi	2.70	42	Texas	4.07
18	Minnesota	2.75	43	Wisconsin	4.24
19	Colorado	2.82	44	Connecticut	4.31
20	Idaho	2.83	45	New York	4.42
21	Arizona	2.87	46	Wyoming	4.69
22	South Dakota	2.90	47	Rhode Island	4.80
23	Georgia	2.91	48	New Jersey	5.03
24	Virginia	2.96	49	Vermont	5.19
25	Washington	2.97	50	Maine	5.30
			51	New Hampshire	5.37

⁹ 2004-05 latest state and local numbers available from the U.S. Bureau of the Census, U.S. Department of Commerce.

• **Sales, Gross Receipts and Excise Taxes.** State and local sales, gross receipts and excise (including tobacco, alcohol and insurance) taxes impact the economic decisions of individuals and families, as well as various businesses. High consumption-based taxes can re-direct consumer purchases, and, especially if combined with other levies like income and property taxes, can serve as real disincentives to productive economic activity. In addition, gross receipts taxes present problems because, unlike other consumption-based levies, they are largely hidden from the view of consumers, and therefore, are easier to increase. *Measurement: state and local sales, gross receipts and excise taxes (sales, gross receipts and excise taxes [less revenues from gas taxes, since gas tax rates are singled out in the Index] as a share of personal income).*¹⁰

State Rankings of State and Local Sales, Gross Receipts and Excise Taxes

(Sales, Gross Receipts and Excise Taxes as a Share of Personal Income)

Rank	State	SGRE Taxes	Rank	State	SGRE Taxes
1	Oregon	0.50	27	Kansas	3.36
2	Delaware	0.93	28	North Dakota	3.37
3	Montana	0.99	29	California	3.42
4	New Hampshire	1.16	30	Vermont	3.44
5	Alaska	1.53	31	Missouri	3.47
6	Massachusetts	1.87	31	Nebraska	3.47
7	Maryland	2.13	33	Kentucky	3.52
8	Virginia	2.37	34	New York	3.55
9	New Jersey	2.55	35	Texas	3.79
10	Pennsylvania	2.71	36	Alabama	3.80
11	Maine	2.79	37	Utah	3.92
12	Wisconsin	2.80	38	West Virginia	3.95
12	Connecticut	2.80	39	Wyoming	3.96
14	Iowa	2.89	39	South Dakota	3.96
15	Colorado	2.92	41	Dist. of Columbia	4.06
16	North Carolina	3.00	42	Mississippi	4.32
17	Ohio	3.03	43	Florida	4.47
18	South Carolina	3.12	44	Arizona	4.50
19	Idaho	3.20	45	Tennessee	4.63
20	Michigan	3.23	46	New Mexico	4.90
20	Minnesota	3.23	47	Arkansas	5.24
22	Illinois	3.26	48	Nevada	5.66
22	Georgia	3.26	49	Washington	5.78
24	Oklahoma	3.28	50	Hawaii	6.23
25	Rhode Island	3.31	51	Louisiana	6.36
25	Indiana	3.31			

¹⁰ 2004-05 latest state and local numbers available from the U.S. Bureau of the Census, U.S. Department of Commerce.

• **Unemployment Tax Rates.** The unemployment tax on wages is another burden on entrepreneurs and business. High state unemployment tax rates increase the relative cost of labor versus capital, and provide incentives for labor-intensive businesses to flee from high-tax states to low-tax states. *Measurement: unemployment tax rate is adjusted as follows: maximum state tax rate applied to state unemployment tax wage base, with that amount as a share of the state average wage.*¹¹

State Rankings of Adjusted Unemployment Taxes

(Maximum State Tax Rate Applied to State Wage Base and Then Taken as a Share of State Average Pay)

Rank	State	Unemp. Tax	Rank	State	Unemp. Tax
1	California	0.86	26	Pennsylvania	1.96
2	Dist. of Columbia	0.97	27	Tennessee	2.04
3	Arizona	1.04	28	Illinois	2.08
4	Florida	1.06	29	Ohio	2.17
5	Indiana	1.11	30	Michigan	2.25
6	Virginia	1.20	31	Kentucky	2.27
7	Georgia	1.24	32	Oklahoma	2.35
7	Mississippi	1.24	33	Wisconsin	2.54
9	South Carolina	1.28	34	North Carolina	2.86
10	Colorado	1.30	35	New Mexico	2.96
11	Louisiana	1.32	36	New Jersey	3.16
11	New Hampshire	1.32	37	Arkansas	3.23
13	Nebraska	1.42	38	Massachusetts	3.24
14	Vermont	1.43	39	Rhode Island	3.38
15	Alabama	1.44	40	Nevada	3.69
16	Maryland	1.45	41	Alaska	3.71
17	New York	1.58	42	Oregon	4.06
18	Delaware	1.67	43	Washington	4.48
19	Kansas	1.69	44	Idaho	4.68
20	Connecticut	1.76	45	Montana	4.72
21	Maine	1.84	46	Wyoming	4.73
22	Missouri	1.85	47	Hawaii	4.93
23	Texas	1.89	48	Iowa	5.29
24	West Virginia	1.91	49	North Dakota	5.31
25	South Dakota	1.95	50	Minnesota	5.60
			51	Utah	6.65

¹¹ Data Source: U.S. Bureau of Labor Statistics.

• **Death Taxes.** The federal government is phasing out the federal death tax. Some states are tied to the federal levy, and therefore are following the lead to end the estate tax (under current law, the federal estate tax will be eliminated in 2010, but it then reappears in 2011). However, other states have imposed additional estate, inheritance or gift taxes, or have de-linked from the federal levy. Death taxes have several problems. In terms of fairness, individuals pay a staggering array of taxes, including on business earnings, over a lifetime, but then are socked with another tax on the total assets at death. High state death taxes offer incentives to move investment and business ventures to less taxing climates; foster wasteful expenditures on tax avoidance, estate planning and insurance; and force many businesses to be sold, borrowed against or closed down. *Measurement: state death taxes (states levying estate or inheritance taxes receive a score of “1” and states that do not receive a score of “0”).*¹²

• **Tax Limitation States.** Requiring supermajority votes from elected officials and/or approval from voters in order to increase or impose taxes, serve as checks on the growth of taxes and government in general. According to Americans for Tax Reform, both taxes and spending do in fact grow more slowly in tax limitation states, and economies expand faster in such states as well. *Measurement: tax limitation status (states without some form of tax limitation check receive a score of “1,” and states with some kind of tax limitation check receive a score of “0”).*¹³

• **Internet Taxes.** The Internet serves as a tremendous boost to economic growth and a great expansion of economic opportunity. For small businesses, the Internet allows for greater access to information and markets. Indeed, the Internet gives smaller enterprises access to global markets that they might not have had in the past. Unfortunately, some states have chosen to impose sales taxes on Internet access. *Measurement: Internet access tax (states without such a sales access tax score “0,” and states with such taxes score “1”).*¹⁴

¹² Data Source: CCH Incorporated, *2008 State Tax Handbook*, and “Estate Tax Study,” Connecticut Department of Revenue Services, February 1, 2008.

¹³ Source: National Conference of State Legislatures at www.ncsl.org.

¹⁴ Steven Maguire and Nonna Noto, “Internet Taxation: Issues and Legislation in the 109th Congress,” CRS Report for Congress, February 2, 2006, and Daniel Castro, “The Case for Tax-Free Internet Access: A Primer on the Internet Tax Freedom Act,” The Information Technology & Innovation Foundation, June 2007.

• **Gas Tax.** Every business is affected by the costs of operating motor vehicles -- from trucking firms to the home-based business paying for delivery services. State government directly impacts these costs through taxes on motor fuels, including gasoline. *Measurement: state gas tax (dollars per gallon).*¹⁵

State Rankings of State Gas Taxes
(Dollars Per Gallon of Gasoline)

Rank	State	Gas Tax	Rank	State	Gas Tax
1	Alaska	0.080	27	Nebraska	0.239
2	Wyoming	0.140	28	South Dakota	0.240
3	New Jersey	0.145	29	Utah	0.245
4	South Carolina	0.168	30	Idaho	0.250
5	Oklahoma	0.170	30	Kansas	0.250
6	Missouri	0.176	30	Oregon	0.250
7	New Mexico	0.180	33	Georgia	0.260
8	Kentucky	0.185	34	Montana	0.278
9	Mississippi	0.188	35	Ohio	0.280
10	Arizona	0.190	36	Maine	0.291
11	New Hampshire	0.196	37	North Carolina	0.302
11	Virginia	0.196	38	Rhode Island	0.310
13	Dist. of Columbia	0.200	39	West Virginia	0.315
13	Louisiana	0.200	40	Indiana	0.317
13	Texas	0.200	41	Pennsylvania	0.323
13	Vermont	0.200	42	Nevada	0.325
17	Alabama	0.202	43	Hawaii	0.326
18	Tennessee	0.214	44	Wisconsin	0.329
19	Iowa	0.217	45	Florida	0.332
20	Arkansas	0.218	46	Michigan	0.360
21	Colorado	0.220	46	Washington	0.360
21	Minnesota	0.220	48	Illinois	0.395
23	Delaware	0.230	49	New York	0.412
23	North Dakota	0.230	50	Connecticut	0.441
25	Maryland	0.235	51	California	0.455
25	Massachusetts	0.235			

¹⁵ Data Source: "Notes to State Motor Fuel Excise and Other Tax Rates," January 9, 2008, American Petroleum Institute.

• **Diesel Tax.** Every business is affected by the costs of operating motor vehicles -- from trucking firms to the home-based business paying for delivery services. State government directly impacts these costs through taxes on motor fuels, including diesel fuels. *Measurement: state diesel tax (dollars per gallon).*¹⁶

State Rankings of State Diesel Taxes

(Dollars Per Gallon of Diesel Fuel)

Rank	State	Diesel Tax	Rank	State	Diesel Tax
1	Alaska	0.080	26	Maryland	0.243
2	Oklahoma	0.140	26	Oregon	0.243
2	Wyoming	0.140	28	Utah	0.245
4	Kentucky	0.155	29	Idaho	0.250
5	South Carolina	0.168	30	Vermont	0.260
6	New Jersey	0.175	31	Kansas	0.270
7	Missouri	0.176	32	Arizona	0.280
8	Tennessee	0.184	32	Ohio	0.280
9	Mississippi	0.188	34	Georgia	0.282
10	New Mexico	0.190	35	Montana	0.286
11	New Hampshire	0.196	35	Nevada	0.286
11	Virginia	0.196	37	Florida	0.290
13	Dist. of Columbia	0.200	38	Maine	0.295
13	Louisiana	0.200	39	North Carolina	0.302
13	Texas	0.200	40	Rhode Island	0.310
16	Colorado	0.205	41	West Virginia	0.315
17	Delaware	0.220	42	Wisconsin	0.329
17	Minnesota	0.220	43	Michigan	0.359
19	Arkansas	0.228	44	Washington	0.360
20	North Dakota	0.230	45	Connecticut	0.370
21	Alabama	0.232	46	Pennsylvania	0.392
22	Nebraska	0.233	47	New York	0.403
23	Iowa	0.235	48	Illinois	0.413
23	Massachusetts	0.235	49	Indiana	0.448
25	South Dakota	0.240	50	Hawaii	0.466
			51	California	0.476

¹⁶ Data Source: "Notes to State Motor Fuel Excise and Other Tax Rates," January 9, 2008, American Petroleum Institute.

Business Tax Index 2008: Details

Rank	State	Top PIT Rate	Top CG Rate	Top CIT Rate	Top CCG Rate	S-Corp Rate	Indiv. AMT	Corp. AMT	PIT Index	Prop Taxes	SGRE Taxes	Death/Inherit	Unemp. Tax	Tax Limit	Internet Tax	Gas Tax	Diesel Tax	Tax Score
1	South Dakota	0.000	0.000	0.000	0.000	0.000	0	0	0	2.90	3.96	0	1.95	0	0	0.240	0.240	10.290
2	Nevada	0.000	0.000	0.000	0.000	0.000	0	0	0	2.69	3.66	0	3.99	0	0	0.240	0.240	12.626
3	Wyoming	0.000	0.000	0.000	0.000	0.000	0	0	0	4.69	5.66	0	4.23	0	0	0.140	0.140	14.665
4	Washington	0.000	0.000	0.000	0.000	0.000	0	0	0	4.49	5.76	0	4.43	0	0	0.140	0.140	14.665
5	Florida	0.000	0.000	5.000	5.000	0.000	0	1	0	2.37	4.47	1	4.06	1	1	0.332	0.280	22.530
6	Alaska	0.000	0.000	9.000	4.500	4.500	0	1	0	3.78	1.57	0	3.71	0	0	0.080	0.080	25.081
7	Texas	0.000	0.000	4.500	4.500	4.500	0	0	0	4.07	3.79	0	1.69	0	0	0.200	0.200	25.643
8	Colorado	4.630	4.630	4.630	4.630	3.250	1	0	0	2.82	2.92	0	1.30	0	0	0.220	0.205	26.990
9	Alabama	3.250	4.225	4.225	4.225	3.250	0	0	1	1.33	3.80	0	1.44	0	0	0.202	0.232	28.202
10	Mississippi	5.000	5.000	5.000	5.000	0.000	0	0	1	2.70	4.32	0	1.24	0	0	0.188	0.188	29.633
11	South Carolina	7.000	3.920	5.000	5.000	0.000	0	0	0	3.11	3.12	0	1.28	0	0	0.168	0.168	29.767
12	Tennessee	0.000	6.000	5.156	5.156	6.500	0	0	0	2.11	4.63	0	2.04	0	0	0.214	0.184	30.678
13	Missouri	6.000	6.000	5.156	5.156	0.000	0	0	1	2.59	3.12	0	1.85	0	0	0.176	0.176	31.578
14	Ohio	6.240	3.400	3.400	6.000	0.000	0	0	1	3.28	3.03	0	2.17	0	0	0.280	0.280	32.315
15	Virginia	5.750	6.000	6.000	6.000	0.000	0	0	1	2.66	2.37	0	1.20	0	0	0.196	0.196	32.421
16	Oklahoma	5.550	5.550	6.000	6.000	0.000	0	0	1	1.62	3.28	0	1.04	0	0	0.190	0.280	32.896
17	Arizona	4.540	6.000	6.968	6.968	0.000	0	0	1	2.87	4.50	0	1.04	0	0	0.180	0.280	32.896
18	Georgia	6.000	6.000	6.968	6.968	0.000	0	0	1	2.91	3.26	0	2.08	0	0	0.260	0.282	33.954
19	Illinois	3.000	7.300	7.300	7.300	1.500	0	0	0	4.04	3.26	0	2.08	0	0	0.395	0.413	34.649
20	Indiana	4.350	4.350	8.500	8.500	4.950	0	0	0	3.90	3.23	0	2.25	0	0	0.360	0.359	34.911
21	New Mexico	3.400	5.950	8.700	8.700	0.000	0	0	0	3.91	3.31	0	1.11	0	0	0.317	0.448	34.900
22	Delaware	5.950	2.450	7.600	7.600	0.000	0	0	1	1.56	4.90	0	1.67	0	0	0.230	0.220	35.384
23	New Mexico	7.000	4.900	6.500	6.500	0.000	0	0	1	1.61	5.24	0	2.96	0	0	0.180	0.190	35.384
24	Arkansas	4.900	2.450	7.600	7.600	0.000	0	0	1	1.58	4.90	0	2.96	0	0	0.218	0.228	35.395
25	New Hampshire	5.000	5.000	8.500	8.500	0.000	0	0	1	2.63	3.92	0	1.62	0	0	0.245	0.245	35.693
26	Kentucky	6.000	6.000	8.500	8.500	0.750	0	0	0	5.37	1.16	0	1.32	0	0	0.196	0.196	35.743
27	Pennsylvania	3.070	6.000	9.990	9.990	0.000	0	0	1	1.90	3.52	0	1.96	0	0	0.323	0.392	35.785
28	Louisiana	3.900	5.100	5.200	5.200	5.200	0	0	1	3.09	2.71	0	1.32	0	0	0.200	0.200	36.868
29	Maryland	5.500	8.250	8.250	8.250	0.000	0	0	1	2.38	2.13	0	1.45	0	0	0.235	0.243	37.946
30	Montana	6.900	6.900	7.900	7.900	0.000	0	0	0	3.68	0.99	0	4.72	0	0	0.278	0.286	38.249
31	Wisconsin	6.750	2.700	7.900	7.900	0.000	0	0	0	4.24	2.80	0	2.54	0	0	0.329	0.329	38.486
32	Connecticut	5.000	5.000	7.500	7.500	0.000	0	0	1	4.31	2.80	0	1.76	0	0	0.441	0.370	38.688
33	North Dakota	5.540	6.450	7.350	7.350	0.000	0	0	1	3.42	3.37	0	1.69	0	0	0.230	0.270	38.688
34	Kansas	9.000	9.000	6.600	6.600	0.000	0	0	0	3.03	3.36	0	1.59	0	0	0.250	0.243	39.590
35	Oregon	7.750	6.840	7.810	7.810	0.000	0	0	0	2.40	3.00	0	4.06	0	0	0.302	0.302	40.283
36	North Carolina	6.840	6.500	8.750	8.750	0.000	0	0	1	3.63	3.47	0	1.42	0	0	0.239	0.302	41.163
37	Nebraska	8.250	7.250	8.250	8.250	0.000	0	0	1	1.95	3.95	0	1.93	0	0	0.315	0.315	41.294
38	West Virginia	8.250	7.250	8.250	8.250	0.000	0	0	1	1.86	6.23	0	1.93	0	0	0.326	0.315	42.092
39	Hawaii	7.800	7.800	7.800	7.800	0.000	0	0	0	5.19	3.20	0	4.68	0	0	0.250	0.250	42.711
40	Idaho	5.000	5.000	8.500	8.500	0.000	0	0	0	3.70	3.44	0	1.43	0	0	0.200	0.260	43.017
41	Vermont	5.300	5.300	8.500	8.500	4.500	0	0	1	4.42	1.87	0	1.24	0	0	0.235	0.260	44.721
42	Massachusetts	9.850	9.850	8.500	8.500	0.000	0	0	0	4.80	3.55	0	1.86	0	0	0.412	0.403	45.860
43	New York	8.870	7.000	9.000	9.000	0.000	0	0	0	3.89	2.21	0	1.36	0	0	0.310	0.245	45.860
44	Rhode Island	5.827	7.500	9.000	9.000	0.000	0	0	0	4.80	3.55	0	1.86	0	0	0.412	0.403	45.860
45	Maine	5.827	7.500	9.000	9.000	0.000	0	0	0	3.89	2.21	0	1.36	0	0	0.310	0.245	46.104
46	Minnesota	10.300	10.300	8.800	8.800	1.500	0	0	0	2.55	3.49	0	5.86	0	0	0.455	0.232	46.104
47	California	7.850	8.970	9.360	9.360	0.000	0	0	0	2.75	2.82	0	5.80	0	0	0.476	0.476	48.541
48	Mississippi	8.970	8.970	9.360	9.360	0.000	0	0	0	5.03	2.55	0	3.76	0	0	0.220	0.220	48.541
49	New Jersey	8.500	8.500	9.975	9.975	0.000	0	0	1	3.69	4.06	0	0.97	0	0	0.145	0.175	51.719
50	Dist. of Columbia	8.500	8.500	9.975	9.975	0.000	0	0	1	3.69	4.06	0	0.97	0	0	0.145	0.175	51.719
51	Dist. of Columbia	8.500	8.500	9.975	9.975	0.000	0	0	1	3.69	4.06	0	0.97	0	0	0.145	0.175	59.050