



Business Tax Index 2013:

Best to Worst State Tax Systems for Entrepreneurship and Small Business

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Protecting small business, promoting entrepreneurship

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At the federal level, recent tax policy discussions and debates have been contradictory.

On the one hand, 2013 began with some big tax increases kicking in via ObamaCare, including higher tax rates on personal income, capital gains and dividends. Unfortunately, those increases were joined by additional tax hikes courtesy of the “fiscal cliff” deal, once again featuring higher rates on personal income, capital gains, and dividends, along with a higher death tax. All of that, of course, means diminished returns for the high-risk endeavors of starting up, building and investing in a business. That translates into slower economic and employment growth.

On the other hand, there is action afoot – particularly in the U.S. House - to reform the tax code. Discussion drafts and proposals include lowering tax rates, simplifying the system and making the tax code more entrepreneur-friendly. That would be a welcome development for our economy and U.S. competitiveness. The U.S. corporate tax rate, for example, ranks as the highest, and therefore is the least competitive, among developed economies.

However, the tax story for entrepreneurs, businesses, investors and the economy does not end at the federal level. In the end, all taxes matter, whether imposed at the federal, state or local level of government.

In the states, some are situated well from a competitive tax standpoint, with others moving in a productive direction. For example, Kansas has reduced its individual tax rate on personal income, capital gains, dividends and interest. Ohio has eliminated its death tax. In contrast, though, various states are positioned very poorly, and some are moving in a direction that hurts competitiveness. A state like California, for example, has made a very bad situation even worse with its recent increase in personal, capital gains, dividend and interest tax rates.

The Small Business & Entrepreneurship Council’s “Business Tax Index 2013” ranks the states from best to worst in terms of the costs of their tax systems on entrepreneurship and small business. This year’s edition of the Index pulls together 21 different tax measures, and combines those into one tax score that allows the 50 states to be compared and ranked.

The 21 measures are: 1) state’s top personal income tax rate, 2) state’s top individual capital gains tax rate, 3) state’s top tax rate on dividends and interest, 4) state’s top corporate income tax rate, 5) state’s top corporate capital gains tax rate, 6) any added income tax on S-Corporations, 7) whether or not the state imposes an alternative minimum tax on individuals, 8) whether or not the state imposes an alternative minimum tax on corporations, 9) whether or not the state’s personal income tax brackets are indexed for inflation, 10) the progressivity of the state’s personal income tax brackets, 11) the progressivity of the state’s corporate income tax brackets, 12) property taxes, 13) consumption-based taxes (i.e., sales, gross receipts and excise taxes), 14) whether or not the state imposes a death tax, 15) unemployment taxes, 16) whether or not the state has a tax limitation mechanism, 17) whether or not the state imposes an Internet access tax, 18) “Amazon” taxes, 19) gas tax, 20) diesel tax, and 21) wireless taxes.

Based on these measures, the 10 best state tax systems are: 1) Texas, 2) South Dakota, 3) Nevada, 4) Wyoming, 5) Washington, 6) Florida, 7) Alabama, 8) Colorado, 9) Ohio, and 10) Alaska.

The 10 worst state tax systems include: 40) Nebraska, 41) Connecticut, 42) Oregon, 43) Minnesota, 44) New York, 45) Maine, 46) Vermont, 47) Iowa, 48) New Jersey, 49) Hawaii, and 50) California.

Looking ahead, several states are worth keeping an eye on this year in terms of pro-entrepreneur, pro-growth tax proposals. Consider the following:

- **Louisiana:** On January 10, Louisiana Governor Bobby Jindal called for simplifying his state's tax system by eliminating personal and corporate income taxes. In a statement, Jindal said, "Eliminating personal income taxes will put more money back into the pockets of Louisiana families and will change a complex tax code into a more simple system that will make Louisiana more attractive to companies who want to invest here and create jobs."

- **Kansas:** In his state of the state address on January 15, Kansas Governor Sam Brownback made clear his desire to phase out the state's personal income tax. He said, "When I started as governor, we had the highest state income tax in the region, now we have the second lowest and I want us to take it to zero. Look out Texas, here comes Kansas!" Under Brownback's agenda, the top rate went from 6.45 percent to 4.9 percent at the start of this year, would decline 3.5 percent in 2017, and eventually go away altogether.

- **Nebraska:** On January 18, Nebraska Governor Dave Heineman announced legislation that would kill his state's personal and corporate income taxes. Heineman declared, "Taxes are too high in Nebraska. High taxes impede economic growth and high taxes aren't attractive for entrepreneurial growth and high paying jobs."

- **North Carolina:** Phil Berger, North Carolina state senate leader, and Bob Rucho, chairman of the state senate's finance committee, called for ending the state's personal and corporate income taxes, with lost revenues made up through higher sales taxes and a business excise tax.

- **Indiana:** Hoosier State Governor Mike Pence has called for an across-the-board personal income tax cut of 10 percent.

There are no mixed messages from these state-level elected officials as to the direction tax policy should be headed. If these measures are implemented, that will be good news for entrepreneurship, businesses, investment, economic growth and job creation in each state.

Here are SBE Council's "Business Tax Index 2013" rankings, followed by brief descriptions of why each factor is included in the Index, and how it is measured.

Business Tax Index 2013: State Rankings

Rank	State	Rank	State
1	Texas	26	Georgia
2	South Dakota	27	New Mexico
3	Nevada	28	West Virginia
4	Wyoming	29	Kentucky
5	Washington	30	Montana
6	Florida	31	Massachusetts
7	Alabama	32	Wisconsin
8	Colorado	33	Illinois
9	Ohio	34	Maryland
10	Alaska	35	Delaware
11	Michigan	36	Arkansas
12	Utah	37	Idaho
13	Arizona	38	North Carolina
14	Mississippi	39	Rhode Island
15	Tennessee	40	Nebraska
16	Louisiana	41	Connecticut
17	South Carolina	42	Oregon
18	Virginia	43	Minnesota
19	Indiana	44	New York
20	New Hampshire	45	Maine
21	Missouri	46	Vermont
22	Oklahoma	47	Iowa
23	Pennsylvania	48	New Jersey
24	North Dakota	49	Hawaii
25	Kansas	50	California

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 affecting crucial economic decisions and activities. In fact, the personal income tax influences business far more than generally assumed because more than 92 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 in the Business Tax Index: state's top personal income tax rate.*¹

State Rankings of Top Personal Income Tax Rates

Rank	State	PIT Rate	Rank	State	PIT Rate
1t	Alaska	0.000	26t	Maryland	5.750
1t	Florida	0.000	26t	Virginia	5.750
1t	Nevada	0.000	28	Ohio	5.925
1t	New Hampshire	0.000	29	Rhode Island	5.990
1t	South Dakota	0.000	30t	Georgia	6.000
1t	Tennessee	0.000	30t	Kentucky	6.000
1t	Texas	0.000	30t	Missouri	6.000
1t	Washington	0.000	33	West Virginia	6.500
1t	Wyoming	0.000	34	Connecticut	6.700
10	Alabama	3.020	35	Delaware	6.750
11	Pennsylvania	3.070	36	Nebraska	6.840
12	Indiana	3.400	37	Montana	6.900
13	Louisiana	3.624	38t	Arkansas	7.000
14	North Dakota	3.990	38t	South Carolina	7.000
15	Michigan	4.250	40	Idaho	7.400
16	Arizona	4.540	41t	North Carolina	7.750
17	Colorado	4.630	41t	Wisconsin	7.750
18t	Kansas	4.900	43	Minnesota	7.850
18t	New Mexico	4.900	44	Maine	7.950
20t	Illinois	5.000	45	New York	8.820
20t	Mississippi	5.000	46	Vermont	8.950
20t	Utah	5.000	47	New Jersey	8.970
23t	Massachusetts	5.250	48	Oregon	9.900
23t	Oklahoma	5.250	49	Hawaii	11.000
25	Iowa	5.424	50	California	13.300

¹ Data Source: CCH Incorporated, *2013 State Tax Handbook*, Federal of Tax Administrators at 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 affecting the rate of return on investment and entrepreneurship. Capital gains taxes are direct levies on risk taking, or the sources of growth in the economy. High capital gains taxes restrict access to capital, and help to restrain or redirect risk taking. *Measurement in the Business Tax Index: state's top capital gains tax rate on individuals.*²

State Rankings of Top Capital Gains Tax Rates

Rank	State	ICG Rate	Rank	State	ICG Rate
1t	Alaska	0.000	26t	Massachusetts	5.250
1t	Florida	0.000	26t	Oklahoma	5.250
1t	Nevada	0.000	28t	Maryland	5.750
1t	New Hampshire	0.000	28t	Virginia	5.750
1t	South Dakota	0.000	30	Ohio	5.925
1t	Tennessee	0.000	31	Rhode Island	5.990
1t	Texas	0.000	32t	Georgia	6.000
1t	Washington	0.000	32t	Kentucky	6.000
1t	Wyoming	0.000	32t	Missouri	6.000
10	New Mexico	2.450	35	West Virginia	6.500
11	Pennsylvania	3.070	36	Connecticut	6.700
12	Wisconsin	3.100	37	Delaware	6.750
13	Indiana	3.400	38	Nebraska	6.840
14	South Carolina	3.920	39	Montana	6.900
15	North Dakota	3.990	40	Hawaii	7.250
16	Alabama	4.000	41	Idaho	7.400
17	Michigan	4.250	42	Iowa	7.633
18	Arizona	4.540	43	North Carolina	7.750
19	Colorado	4.630	44	Minnesota	7.850
20	Louisiana	4.800	45	Maine	7.950
21t	Arkansas	4.900	46	New York	8.820
21t	Kansas	4.900	47	Vermont	8.950
23t	Illinois	5.000	48	New Jersey	8.970
23t	Mississippi	5.000	49	Oregon	9.900
23t	Utah	5.000	50	California	13.300

² Data Source: CCH Incorporated, *2013 State Tax Handbook*, Federal of Tax Administrators at www.taxadmin.org, and state specific sources. Note: Capital gains tax rates reflect deductibility of federal income taxes in certain states.

Individual Dividends and Interest Tax. Diminishing the returns on saving and investment is counterproductive to economic growth. Quite simply, higher tax rates on dividends and interest mean reduced resources and incentives for saving and investment, which in turn, works against entrepreneurship, economic growth and job creation. *Measurement in the Business Tax Index: state's top tax rate on dividends and interest earned.*³

State Rankings of Top Dividends and Interest Tax Rates

Rank	State	PIDivInt	Rank	State	PIDivInt
1t	Alaska	0.000	26	Ohio	5.925
1t	Florida	0.000	27	Rhode Island	5.990
1t	Nevada	0.000	28t	Georgia	6.000
1t	South Dakota	0.000	28t	Kentucky	6.000
1t	Texas	0.000	28t	Missouri	6.000
1t	Washington	0.000	28t	Tennessee	6.000
1t	Wyoming	0.000	32	West Virginia	6.500
8	Pennsylvania	3.070	33	Connecticut	6.700
9	Indiana	3.400	34	Delaware	6.750
10	North Dakota	3.990	35	Nebraska	6.840
11	Alabama	4.000	36	Montana	6.900
12	Michigan	4.250	37t	Arkansas	7.000
13	Arizona	4.540	37t	South Carolina	7.000
14	Colorado	4.630	39	Idaho	7.400
15	Louisiana	4.800	40	Iowa	7.633
16	Kansas	4.900	41t	North Carolina	7.750
17	New Mexico	4.900	41t	Wisconsin	7.750
18t	Illinois	5.000	43	Minnesota	7.850
18t	Mississippi	5.000	44	Maine	7.950
18t	New Hampshire	5.000	45	New York	8.820
18t	Utah	5.000	46	Vermont	8.950
22t	Massachusetts	5.250	47	New Jersey	8.970
22t	Oklahoma	5.250	48	Oregon	9.900
24t	Maryland	5.750	49	Hawaii	11.000
24t	Virginia	5.750	50	California	13.300

³ Data Source: CCH Incorporated, *2013 State Tax Handbook*, Federal of Tax Administrators at www.taxadmin.org, and state specific sources. Note: Personal income 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 make a difference in the bottom line returns of corporations. *Measurement in the Business Tax Index: state’s top corporate income tax rate.*⁴

State Rankings of Top Corporate Income Tax Rates

Rank	State	CIT Rate	Rank	State	CIT Rate
1t	Nevada	0.000	26	Arizona	6.968
1t	Ohio	0.000	27t	Kansas	7.000
1t	South Dakota	0.000	27t	West Virginia	7.000
1t	Texas	0.000	29	Idaho	7.400
1t	Washington	0.000	30t	New Mexico	7.600
1t	Wyoming	0.000	30t	Oregon	7.600
7	Alabama	4.225	32	Nebraska	7.810
8	Colorado	4.630	33	Wisconsin	7.900
9t	Mississippi	5.000	34t	Indiana	8.000
9t	South Carolina	5.000	34t	Massachusetts	8.000
9t	Utah	5.000	36	Maryland	8.250
12	North Dakota	5.150	37	New York	8.307
13	Missouri	5.156	38t	New Hampshire	8.500
14	Louisiana	5.200	38t	Vermont	8.500
15	Florida	5.500	40	Delaware	8.700
16t	Georgia	6.000	41	California	8.840
16t	Kentucky	6.000	42	Maine	8.930
16t	Michigan	6.000	43t	Connecticut	9.000
16t	Oklahoma	6.000	43t	New Jersey	9.000
16t	Virginia	6.000	43t	Rhode Island	9.000
21	Hawaii	6.400	46	Alaska	9.400
22t	Arkansas	6.500	47	Illinois	9.500
22t	Tennessee	6.500	48	Minnesota	9.800
24	Montana	6.750	49	Iowa	9.900
25	North Carolina	6.900	50	Pennsylvania	9.990

⁴ Data Source: CCH Incorporated, *2013 State Tax Handbook*, the Federation of Tax Administrators, 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 work to restrain or redirect risk taking. *Measurement in the Business Tax Index: state's top capital gains tax rate on corporations.*⁵

State Rankings of Top Corporate Capital Gains Tax Rates

Rank	State	CCG Rate	Rank	State	CCG Rate
1t	Nevada	0.000	26	North Carolina	6.900
1t	Ohio	0.000	27	Arizona	6.968
1t	South Dakota	0.000	28t	Kansas	7.000
1t	Texas	0.000	28t	West Virginia	7.000
1t	Washington	0.000	30	Idaho	7.400
1t	Wyoming	0.000	31t	New Mexico	7.600
7	Hawaii	4.000	31t	Oregon	7.600
8	Alabama	4.225	33	Nebraska	7.810
9	Alaska	4.500	34	Wisconsin	7.900
10	Colorado	4.630	35t	Indiana	8.000
11t	Mississippi	5.000	35t	Massachusetts	8.000
11t	South Carolina	5.000	37	Maryland	8.250
11t	Utah	5.000	38	New York	8.307
14	North Dakota	5.150		New	
15	Missouri	5.156	39t	Hampshire	8.500
16	Louisiana	5.200	39t	Vermont	8.500
17	Florida	5.500	41	Delaware	8.700
18t	Georgia	6.000	42	California	8.840
18t	Kentucky	6.000	43	Maine	8.930
18t	Michigan	6.000	44t	Connecticut	9.000
18t	Ohio	6.000	44t	New Jersey	9.000
18t	Oklahoma	6.000	44t	Rhode Island	9.000
18t	Virginia	6.000	47	Illinois	9.500
23t	Arkansas	6.500	48	Minnesota	9.800
23t	Tennessee	6.500	49	Iowa	9.900
25	Montana	6.750	50	Pennsylvania	9.990

⁵ Data Source: CCH Incorporated, *2013 State Tax Handbook*, Federal of Tax Administrators at 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 added tax. Such a tax raises costs, restrains investment, and hurts the state's competitiveness. *Measurement in the Business Tax Index: additional income tax imposed on S-Corporations beyond the top personal income tax rate.*⁶

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 in the Business Tax Index: 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").*⁷

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 in the Business Tax Index: 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").*⁸

Indexing Personal Income Tax Brackets. Indexing income tax brackets for inflation is a positive measure ensuring that inflation does not push individuals into higher tax brackets. Without indexation, one can be pushed into a higher tax bracket without any increases in real income. *Measurement in the Business Tax Index: state indexing of personal income tax rates (states indexing personal income tax rates receive a score of "0" and states that do not receive a score of "1").*⁹

Personal Income Tax Progressivity. Progressive taxation means that as one's income rises, so does the marginal tax rate paid on additional earnings. Progressivity punishes economic success, and therefore, also punishes and discourages the important and risky endeavors that create economic growth and jobs. *Measurement in the Business Tax Index: progressivity of personal income tax rates measured by the difference between the top tax rate and the bottom tax rate.*¹⁰

Corporate Income Tax Progressivity. As noted previously, progressive taxation means that as income rises, so does the marginal tax rate paid on additional earnings. Progressivity effectively punishes economic success, and therefore, also punishes and discourages the important and risky endeavors that create economic growth and jobs. *Measurement in the Business Tax Index: rogressivity of corporate income tax rates measured by the difference between the top tax rate and the bottom tax rate.*¹¹

⁶ Data Source: CCH Incorporated, *2013 State Tax Handbook*, and state specific sources.

⁷ Data Source: CCH Incorporated, *2013 State Tax Handbook*, and state specific sources.

⁸ Data Source: CCH Incorporated, *2013 State Tax Handbook*, and state specific sources.

⁹ Data Source: The Federation of Tax Administrators website at www.taxadmin.org.

¹⁰ Data Source: The Federation of Tax Administrators website at www.taxadmin.org, with some rates updated.

¹¹ Data Source: The Federation of Tax Administrators website at www.taxadmin.org, with some rates updated.

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 in the Business Tax Index: state and local property taxes (2009-10 property taxes as a share of personal income).*¹²

State Rankings of State and Local Property Taxes

(Property Taxes as a Share of Personal Income)

Rank	State	PropTax	Rank	State	PropTax
1	Alabama	1.586	26	Minnesota	3.290
2	Oklahoma	1.756	27	California	3.355
3	Arkansas	1.799	28	Indiana	3.378
4	Delaware	1.853	29	Kansas	3.466
5	New Mexico	1.864	30	Oregon	3.477
6	Louisiana	1.940	31	Nevada	3.498
7	Kentucky	2.048	32	Iowa	3.567
8	Tennessee	2.245	33	Montana	3.663
9	West Virginia	2.280	34	Colorado	3.726
10	Hawaii	2.497	35	Nebraska	3.750
11	North Dakota	2.520	36	Florida	3.826
12	North Carolina	2.522	37	Massachusetts	3.846
13	Utah	2.553	38	Texas	3.937
14	Idaho	2.588	39	Michigan	4.085
15	Missouri	2.590	40	Alaska	4.200
16	Mississippi	2.734	41	Illinois	4.230
17	Washington	2.876	42	Wisconsin	4.412
18	South Dakota	2.930	43	Connecticut	4.497
19	Maryland	2.984	44	New York	4.664
20	Pennsylvania	3.062	45	Maine	4.789
21	South Carolina	3.075	46	Rhode Island	4.894
22	Georgia	3.081	47	Vermont	5.373
23	Ohio	3.105	48	Wyoming	5.488
24	Virginia	3.139	49	New Jersey	5.542
25	Arizona	3.270	50	New Hampshire	5.588

¹² 2009-10 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 in the Business Tax Index: state and local sales, gross receipts and excise taxes (2009-10 sales, gross receipts and excise taxes [less revenues from motor fuel taxes, since gas and diesel tax rates are singled out in the Index] as a share of personal income).*¹³

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 Tax	Rank	State	SGRETax
1	Oregon	0.634	26	Iowa	3.057
2	Montana	0.959	27	Utah	3.072
3	Delaware	1.004	28	Kansas	3.092
4	New Hampshire	1.127	29	Kentucky	3.163
5	Massachusetts	1.881	30	Oklahoma	3.180
6	Virginia	2.057	31	Minnesota	3.222
7	Alaska	2.058	32	West Virginia	3.366
8	Maryland	2.160	33	North Dakota	3.394
9	Connecticut	2.434	34	Michigan	3.427
10	New Jersey	2.442	35	New York	3.476
11	Idaho	2.574	36	Indiana	3.479
12	South Carolina	2.621	37	Alabama	3.491
13	Pennsylvania	2.759	38	Arizona	3.536
14	Wisconsin	2.779	39	Texas	3.551
15	Illinois	2.802	40	Florida	3.765
16	Nebraska	2.844	41	Wyoming	3.933
17	Colorado	2.856	42	South Dakota	3.983
18	Maine	2.889	43	Mississippi	4.090
19	Rhode Island	2.891	44	Tennessee	4.255
20	Missouri	2.905	45	New Mexico	4.357
21	Georgia	2.948	46	Arkansas	4.479
22	Ohio	2.952	47	Louisiana	4.662
23	North Carolina	3.007	48	Nevada	4.750
24	Vermont	3.027	49	Washington	5.122
25	California	3.036	50	Hawaii	5.535

¹³ 2009-10 latest state and local numbers available from the U.S. Bureau of the Census, U.S. Department of Commerce.

Death Taxes. The federal government levies a death tax, but so do various states. 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 in the Business Tax Index: state death taxes (states levying estate or inheritance taxes receive a score of “5” and states that do not receive a score of “0”).¹⁴

¹⁴ Data Source: “State Death Tax Chart,” McGuireWoods LLP, January 3, 2013.

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 in the Business Tax Index: 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.*¹⁵

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	UETax	Rank	State	UETax
1	California	0.77	26	Maine	2.49
2	Arizona	0.98	27	South Carolina	2.63
3	Florida	0.99	28	West Virginia	2.65
4	Virginia	1.06	29	Massachusetts	2.93
5	Louisiana	1.11	30	Missouri	2.98
6	Colorado	1.23	31	New Mexico	3.02
7	New York	1.24	32	Nevada	3.27
8	Alabama	1.33	33	Wisconsin	3.30
9	Texas	1.41	34	North Carolina	3.32
10	Nebraska	1.47	35	Vermont	3.40
11	Georgia	1.67	36	New Jersey	3.49
12	Connecticut	1.70	37	South Dakota	3.53
13	Indiana	1.72	38	Alaska	3.92
14	Delaware	1.73	39	Oregon	4.24
15	Kansas	1.84	40	Oklahoma	4.54
16	Ohio	1.88	41	Washington	4.55
17	Pennsylvania	1.95	42	Montana	4.77
18	Mississippi	2.10	43	Rhode Island	4.82
19t	Maryland	2.11	44	Hawaii	4.85
19t	New Hampshire	2.11	45	Wyoming	5.41
21	Tennessee	2.15	46	Utah	5.45
22	Arkansas	2.25	47	Iowa	6.10
23	Michigan	2.32	48	Idaho	6.49
24	Kentucky	2.35	49	Minnesota	6.71
25	Illinois	2.36	50	North Dakota	7.66

¹⁵ Data Source: U.S. Bureau of Labor Statistics.

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 in the Business Tax Index: tax limitation status (states without some form of tax limitation check receive a score of “1,” and states with some kind of substantive tax limitation check receive a score of “0”).*¹⁶

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 in the Business Tax Index: Internet access tax (states without such a sales access tax score “0,” and states with such taxes score “1”).*¹⁷

“Amazon” Taxes. As defined by the Tax Foundation, “Amazon” taxes, “nicknamed after their most visible target, require retailers that have contracts with ‘affiliates’—independent persons within the state who post a link to an out-of-state business on their website and get a share of revenues from the out-of-state business—to collect the state’s sales tax.” This is an added cost and tax on a host of entrepreneurs and small businesses operating online, and has resulted in lost business as “affiliate” programs have been ended in certain states with such levies. *Measurement in the Business Tax Index: “Amazon” tax (states without such a sales tax score “0,” and states with such a tax score “1”).*¹⁸

¹⁶ Source: National Conference of State Legislatures at www.ncsl.org.

¹⁷ 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.

¹⁸ Data Source: Joseph Henchman, “‘Amazon Tax’ Laws Signal Business Unfriendliness And Will Worsen Short-Term Budget Problems,” The Tax Foundation, March 2010, and Stu Wood, “Amazon Battles States Over Sales Tax,” *The Wall Street Journal*, August 3, 2011.

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. Businesses also embed these costs into their prices, impacting business costs and competitiveness. State government directly impacts these costs through taxes on motor fuels. *Measurement in the Business Tax Index: state gas tax (dollars per gallon).*¹⁹

State Rankings of State Gas Taxes

(Dollars Per Gallon of Gasoline)

Rank	State	Gas Tax	Rank	State	Gas Tax
1	Alaska	0.080	25t	Kansas	0.250
2	Wyoming	0.140	27	Nebraska	0.255
3	New Jersey	0.145	28	Vermont	0.267
4	South Carolina	0.168	29	Montana	0.278
5	Oklahoma	0.170	30	Ohio	0.280
6	Missouri	0.173	31	Georgia	0.285
7	Mississippi	0.188	32	Minnesota	0.286
8	New Mexico	0.189	33	Kentucky	0.299
9	Arizona	0.190	34	Oregon	0.310
10	New Hampshire	0.196	35	Maine	0.315
11	Virginia	0.199	36	Pennsylvania	0.323
12t	Louisiana	0.200	37	Wisconsin	0.329
12t	Texas	0.200	38	Rhode Island	0.330
14	Alabama	0.209	39	Nevada	0.331
15	Tennessee	0.214	40	West Virginia	0.347
16	Arkansas	0.218	41	Florida	0.355
17t	Colorado	0.220	42	Washington	0.375
17t	Iowa	0.220	43	North Carolina	0.378
19t	Delaware	0.230	44	Indiana	0.380
19t	North Dakota	0.230	45	Michigan	0.387
21t	Maryland	0.235	46	Illinois	0.391
21t	Massachusetts	0.235	47	Connecticut	0.450
23	South Dakota	0.240	48	Hawaii	0.471
24	Utah	0.245	48	California	0.487
25t	Idaho	0.250	50	New York	0.506

¹⁹ Data Source: “Notes to State Motor Fuel Excise and Other Tax Rates,” January 1, 2013, American Petroleum Institute.

Diesel Tax. Again, every business is affected by the costs of operating motor vehicles, and state government directly impacts these costs through taxes on motor fuels. *Measurement in the Business Tax Index: state diesel tax (dollars per gallon).*²⁰

State Rankings of State Diesel Taxes

(Dollars Per Gallon of Diesel Fuel)

Rank	State	DieselTax	Rank	State	DieselTax
1	Alaska	0.080	26	Nebraska	0.265
2t	Oklahoma	0.140	27	Kentucky	0.269
2t	Wyoming	0.140	28	Kansas	0.270
4	South Carolina	0.168	29	Ohio	0.280
5	Missouri	0.173	30t	Minnesota	0.286
6	New Jersey	0.175	30t	Montana	0.286
7	Tennessee	0.184	30t	Nevada	0.286
8	Mississippi	0.188	33	Vermont	0.290
9	Arizona	0.190	34	Oregon	0.303
10	New Hampshire	0.196	35	Florida	0.305
11t	Louisiana	0.200	36	Georgia	0.320
11t	Texas	0.200	37	Maine	0.327
13	Virginia	0.202	38	Wisconsin	0.329
14	Colorado	0.205	39	Rhode Island	0.330
15	Alabama	0.219	40	West Virginia	0.347
16	Delaware	0.220	41	Washington	0.375
17t	Arkansas	0.228	42	North Carolina	0.378
17t	New Mexico	0.228	43	Michigan	0.388
19	North Dakota	0.230	44	Pennsylvania	0.392
20	Iowa	0.235	45	Illinois	0.447
21	Massachusetts	0.235	46	Hawaii	0.503
22	South Dakota	0.240	47	Indiana	0.503
23	Maryland	0.243	48	California	0.509
24	Utah	0.245	49	New York	0.510
25	Idaho	0.250	50	Connecticut	0.562

²⁰ Data Source: "Notes to State Motor Fuel Excise and Other Tax Rates," January 1, 2013, American Petroleum Institute.

Wireless Tax. Wireless users – entrepreneurs, small businesses, families and individuals – face high and discriminatory taxes across much of the nation. Such taxes impede investment in wireless infrastructure, hit low and middle-income earners hard, discourage deployment and adoption of broadband services, and are an additional cost on entrepreneurs. *Measurement in the Business Tax Index: wireless sales taxes (an index of wireless sales taxes, which is then adjusted to 10 percent of the index value).*²¹

State Rankings of Wireless Taxes

Rank	State	WireTax	Rank	State	WireTax
1	Oregon	0.019	26	Louisiana	0.105
2	Nevada	0.021	27	Kentucky	0.106
3	Idaho	0.023	28	Colorado	0.108
4	Montana	0.061	29	Indiana	0.109
5	Delaware	0.063	30t	California	0.110
6	West Virginia	0.064	30t	North Dakota	0.110
7	Virginia	0.066	32	New Mexico	0.111
8	Wisconsin	0.072	33t	Oklahoma	0.115
9	Maine	0.073	33t	Arkansas	0.115
10	Connecticut	0.074	35	Tennessee	0.116
11t	Alabama	0.075	36	Alaska	0.121
11t	Hawaii	0.075	37	Texas	0.122
13	Michigan	0.077	38	Utah	0.127
14	Wyoming	0.078	39	Maryland	0.128
15	Massachusetts	0.079	40	Arizona	0.130
16t	Iowa	0.080	41t	Kansas	0.131
16t	Ohio	0.080	41t	South Dakota	0.131
18	Vermont	0.081	43	Pennsylvania	0.141
19	New Hampshire	0.082	44	Missouri	0.143
20	North Carolina	0.085	45	Rhode Island	0.147
21	Georgia	0.088	46	Illinois	0.159
22	New Jersey	0.089	47	Florida	0.166
23	Mississippi	0.092	48	New York	0.179
24	Minnesota	0.095	49	Washington	0.186
25	South Carolina	0.101	50	Nebraska	0.187

²¹ Source: Scott Mackey, “Wireless Taxes and Fees Continue Growth Trend,” *State Tax Notes*, October 29, 2012.

Business Tax Index 2013: Details

State	Top PIT Rate	Top Ind CapGains Rate	PIDivInt	Top CIT Rate	Top Corp CapGains Rate	Added S- Corp. Rate
Alabama	3.020	4.000	4.000	4.225	4.225	0.000
Alaska	0.000	0.000	0.000	9.400	4.500	0.000
Arizona	4.540	4.540	4.540	6.968	6.968	0.000
Arkansas	7.000	4.900	7.000	6.500	6.500	0.000
California	13.300	13.300	13.300	8.840	8.840	1.500
Colorado	4.630	4.630	4.630	4.630	4.630	0.000
Connecticut	6.700	6.700	6.700	9.000	9.000	0.000
Delaware	6.750	6.750	6.750	8.700	8.700	0.000
Florida	0.000	0.000	0.000	5.500	5.500	0.000
Georgia	6.000	6.000	6.000	6.000	6.000	0.000
Hawaii	11.000	7.250	11.000	6.400	4.000	0.000
Idaho	7.400	7.400	7.400	7.400	7.400	0.000
Illinois	5.000	5.000	5.000	9.500	9.500	1.500
Indiana	3.400	3.400	3.400	8.000	8.000	0.000
Iowa	5.424	7.633	7.633	9.900	9.900	0.000
Kansas	4.900	4.900	4.900	7.000	7.000	0.000
Kentucky	6.000	6.000	6.000	6.000	6.000	0.750
Louisiana	3.624	4.800	4.800	5.200	5.200	5.200
Maine	7.950	7.950	7.950	8.930	8.930	0.000
Maryland	5.750	5.750	5.750	8.250	8.250	0.000
Massachusetts	5.250	5.250	5.250	8.000	8.000	4.500
Michigan	4.250	4.250	4.250	6.000	6.000	0.000
Minnesota	7.850	7.850	7.850	9.800	9.800	0.000
Mississippi	5.000	5.000	5.000	5.000	5.000	0.000
Missouri	6.000	6.000	6.000	5.156	5.156	0.000
Montana	6.900	6.900	6.900	6.750	6.750	0.000
Nebraska	6.840	6.840	6.840	7.810	7.810	0.000
Nevada	0.000	0.000	0.000	0.000	0.000	0.000
New Hampshire	0.000	0.000	5.000	8.500	8.500	8.500
New Jersey	8.970	8.970	8.970	9.000	9.000	0.000
New Mexico	4.900	2.450	4.900	7.600	7.600	0.000
New York	8.820	8.820	8.820	8.307	8.307	0.000
North Carolina	7.750	7.750	7.750	6.900	6.900	0.000
North Dakota	3.990	3.990	3.990	5.150	5.150	0.000
Ohio	5.925	5.925	5.925	0.000	0.000	0.000
Oklahoma	5.250	5.250	5.250	6.000	6.000	0.000
Oregon	9.900	9.900	9.900	7.600	7.600	0.000
Pennsylvania	3.070	3.070	3.070	9.990	9.990	0.000

Rhode Island	5.990	5.990	5.990	9.000	9.000	0.000
South Carolina	7.000	3.920	7.000	5.000	5.000	0.000
South Dakota	0.000	0.000	0.000	0.000	0.000	0.000
Tennessee	0.000	0.000	6.000	6.500	6.500	6.500
Texas	0.000	0.000	0.000	0.000	0.000	0.000
Utah	5.000	5.000	5.000	5.000	5.000	0.000
Vermont	8.950	8.950	8.950	8.500	8.500	0.000
Virginia	5.750	5.750	5.750	6.000	6.000	0.000
Washington	0.000	0.000	0.000	0.000	0.000	0.000
West Virginia	6.500	6.500	6.500	7.000	7.000	0.000
Wisconsin	7.750	3.100	7.750	7.900	7.900	0.000
Wyoming	0.000	0.000	0.000	0.000	0.000	0.000

State	Indiv. AMT	Corp. AMT	PIT Rate Index	PIT Progressivity	CIT Progressivity
Alabama	0	0	1	1.220	0.000
Alaska	0	1	0	0.000	8.400
Arizona	0	0	1	1.950	0.000
Arkansas	0	0	0	6.000	5.500
California	1	1	0	12.300	0.000
Colorado	1	0	0	0.000	0.000
Connecticut	1	0	1	3.700	0.000
Delaware	0	0	1	4.550	0.000
Florida	0	1	0	0.000	0.000
Georgia	0	0	1	5.000	0.000
Hawaii	0	0	1	9.600	2.000
Idaho	0	0	0	5.800	0.000
Illinois	0	0	0	0.000	0.000
Indiana	0	0	0	0.000	0.000
Iowa	1	1	0	5.100	4.800
Kansas	0	0	1	1.900	3.000
Kentucky	0	0	1	4.000	2.000
Louisiana	0	0	1	1.824	1.800
Maine	1	1	0	3.450	5.430
Maryland	0	0	1	3.750	0.000
Massachusetts	0	0	0	0.000	0.000
Michigan	0	0	0	0.000	0.000
Minnesota	1	1	0	2.500	0.000
Mississippi	0	0	1	2.000	2.000
Missouri	0	0	1	4.500	0.000
Montana	0	0	0	5.900	0.000
Nebraska	1	0	1	4.280	2.230
Nevada	0	0	0	0.000	0.000
New Hampshire	0	0	0	0.000	0.000
New Jersey	0	1	1	7.570	0.000
New Mexico	0	0	1	3.200	2.800
New York	1	1	1	4.820	0.000
North Carolina	0	0	1	1.750	0.000
North Dakota	0	0	0	2.480	3.470
Ohio	0	0	0	5.338	0.000
Oklahoma	0	0	1	4.750	0.000
Oregon	0	0	1	4.900	1.000
Pennsylvania	0	0	0	0.000	0.000
Rhode Island	0	0	0	2.240	0.000

South					
Carolina	0	0	0	4.000	0.000
South Dakota	0	0	0	0.000	0.000
Tennessee	0	0	0	0.000	0.000
Texas	0	0	0	0.000	0.000
Utah	0	0	0	0.000	0.000
Vermont	0	0	0	5.400	2.500
Virginia	0	0	1	3.750	0.000
Washington	0	0	0	0.000	0.000
West Virginia	0	0	1	3.500	0.000
Wisconsin	1	0	0	3.150	0.000
Wyoming	0	0	0	0.000	0.000

State	Property Taxes	Sales, Gross Rec & Excise	Death/Inheritance Taxes	Unemp. Tax	Tax Limit.
Alabama	1.586	3.491	0	1.33	1
Alaska	4.200	2.058	0	3.92	1
Arizona	3.270	3.536	0	0.98	0
Arkansas	1.799	4.479	0	2.25	0
California	3.355	3.036	0	0.77	0
Colorado	3.726	2.856	0	1.23	0
Connecticut	4.497	2.434	5	1.70	1
Delaware	1.853	1.004	5	1.73	0
Florida	3.826	3.765	0	0.99	1
Georgia	3.081	2.948	0	1.67	1
Hawaii	2.497	5.535	5	4.85	1
Idaho	2.588	2.574	0	6.49	1
Illinois	4.230	2.802	5	2.36	1
Indiana	3.378	3.479	5	1.72	1
Iowa	3.567	3.057	5	6.10	1
Kansas	3.466	3.092	0	1.84	1
Kentucky	2.048	3.163	5	2.35	0
Louisiana	1.940	4.662	0	1.11	0
Maine	4.789	2.889	5	2.49	1
Maryland	2.984	2.160	5	2.11	1
Massachusetts	3.846	1.881	5	2.93	1
Michigan	4.085	3.427	0	2.32	1
Minnesota	3.290	3.222	5	6.71	1
Mississippi	2.734	4.090	0	2.10	0
Missouri	2.590	2.905	0	2.98	0
Montana	3.663	0.959	0	4.77	1
Nebraska	3.750	2.844	5	1.47	1
Nevada	3.498	4.750	0	3.27	0
New Hampshire	5.588	1.127	0	2.11	1
New Jersey	5.542	2.442	5	3.49	1
New Mexico	1.864	4.357	0	3.02	1
New York	4.664	3.476	5	1.24	1
North Carolina	2.522	3.007	5	3.32	1
North Dakota	2.520	3.394	0	7.66	1
Ohio	3.105	2.952	0	1.88	1
Oklahoma	1.756	3.180	0	4.54	0
Oregon	3.477	0.634	5	4.24	0

Pennsylvania	3.062	2.759	5	1.95	1
Rhode Island	4.894	2.891	5	4.82	1
South Carolina	3.075	2.621	0	2.63	1
South Dakota	2.930	3.983	0	3.53	0
Tennessee	2.245	4.255	5	2.15	1
Texas	3.937	3.551	0	1.41	1
Utah	2.553	3.072	0	5.45	1
Vermont	5.373	3.027	5	3.40	1
Virginia	3.139	2.057	0	1.06	1
Washington	2.876	5.122	5	4.55	0
West Virginia	2.280	3.366	0	2.65	1
Wisconsin	4.412	2.779	0	3.30	1
Wyoming	5.488	3.933	0	5.41	1

State	Internet Access Tax	AmazonTax	Gas Tax	Diesel Tax	Wireless Tax
Alabama	0	0	0.209	0.219	0.075
Alaska	0	0	0.080	0.080	0.121
Arizona	0	0	0.190	0.190	0.130
Arkansas	0	1	0.218	0.228	0.115
California	0	1	0.487	0.509	0.110
Colorado	0	0	0.220	0.205	0.108
Connecticut	0	1	0.450	0.562	0.074
Delaware	0	0	0.230	0.220	0.063
Florida	0	0	0.355	0.305	0.166
Georgia	0	0	0.285	0.320	0.088
Hawaii	1	0	0.471	0.503	0.075
Idaho	0	0	0.250	0.250	0.023
Illinois	0	0	0.391	0.447	0.159
Indiana	0	0	0.380	0.503	0.109
Iowa	0	0	0.220	0.235	0.080
Kansas	0	0	0.250	0.270	0.131
Kentucky	0	0	0.299	0.269	0.106
Louisiana	0	0	0.200	0.200	0.105
Maine	0	0	0.315	0.327	0.073
Maryland	0	0	0.235	0.243	0.128
Massachusetts	0	0	0.235	0.235	0.079
Michigan	0	0	0.387	0.388	0.077
Minnesota	0	0	0.286	0.286	0.095
Mississippi	0	0	0.188	0.188	0.092
Missouri	0	0	0.173	0.173	0.143
Montana	0	0	0.278	0.286	0.061
Nebraska	0	0	0.255	0.265	0.187
Nevada	0	0	0.331	0.286	0.021
New Hampshire	1	0	0.196	0.196	0.082
New Jersey	0	0	0.145	0.175	0.089
New Mexico	1	0	0.189	0.228	0.111
New York	0	1	0.506	0.510	0.179
North Carolina	0	1	0.378	0.378	0.085
North Dakota	1	0	0.230	0.230	0.110
Ohio	1	0	0.280	0.280	0.080
Oklahoma	0	0	0.170	0.140	0.115
Oregon	0	0	0.310	0.303	0.019
Pennsylvania	0	0	0.323	0.392	0.141
Rhode Island	0	1	0.330	0.330	0.147

South					
Carolina	0	0	0.168	0.168	0.101
South Dakota	1	0	0.240	0.240	0.131
Tennessee	0	0	0.214	0.184	0.116
Texas	1	0	0.200	0.200	0.122
Utah	0	0	0.245	0.245	0.127
Vermont	0	0	0.267	0.290	0.081
Virginia	0	0	0.199	0.202	0.066
Washington	1	0	0.375	0.375	0.186
West Virginia	0	0	0.347	0.347	0.064
Wisconsin	1	0	0.329	0.329	0.072
Wyoming	0	0	0.140	0.140	0.078

State	BTI
Alabama	29.600
Alaska	34.760
Arizona	38.802
Arkansas	53.489
California	82.647
Colorado	32.495
Connecticut	60.518
Delaware	53.300
Florida	22.407
Georgia	45.392
Hawaii	73.181
Idaho	55.975
Illinois	51.890
Indiana	41.769
Iowa	71.649
Kansas	44.650
Kentucky	50.985
Louisiana	41.666
Maine	69.474
Maryland	52.360
Massachusetts	51.456
Michigan	36.433
Minnesota	67.539
Mississippi	39.393
Missouri	42.776
Montana	51.117
Nebraska	59.421
Nevada	12.157
New Hampshire	41.799
New Jersey	72.364
New Mexico	46.219
New York	68.468
North Carolina	56.491
North Dakota	44.363
Ohio	33.690
Oklahoma	43.402
Oregon	65.782
Pennsylvania	43.817
Rhode Island	58.622
South	41.683

Carolina	
South Dakota	12.054
Tennessee	40.664
Texas	11.419
Utah	37.692
Vermont	70.188
Virginia	41.723
Washington	19.485
West Virginia	48.054
Wisconsin	51.772
Wyoming	16.189

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