



SMALL BUSINESS & ENTREPRENEURSHIP COUNCIL'S

**Business Tax Index 2009:
Best to Worst State Tax Systems for
Entrepreneurship and Small Business**

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Protecting small business, promoting entrepreneurship

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

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

Business Tax Index 2009: State Rankings

<i>Rank</i>	<i>State</i>	<i>Tax Index</i>	<i>Rank</i>	<i>State</i>	<i>Tax Index</i>
1	South Dakota	11.120	26	Louisiana	35.680
2	Nevada	11.877	27	New Mexico	35.736
3	Wyoming	14.140	28	Kentucky	35.890
4	Washington	15.790	29	Pennsylvania	36.255
5	Texas	15.806	30	Connecticut	37.747
6	Florida	22.423	31	Montana	38.014
7	Alaska	24.910	32	Wisconsin	38.208
8	Colorado	26.865	33	Kansas	39.050
9	Alabama	28.128	34	Oregon	39.233
10	Ohio	28.500	35	Maryland	39.378
11	South Carolina	29.416	36	North Dakota	39.480
12	Mississippi	29.696	37	Hawaii	39.878
13	Tennessee	30.519	38	North Carolina	41.034
14	Missouri	31.418	39	West Virginia	41.267
15	Oklahoma	31.670	40	Nebraska	42.086
16	Virginia	32.263	41	Idaho	43.080
17	Arizona	32.356	42	Massachusetts	44.600
18	Illinois	33.663	43	Vermont	44.860
19	Georgia	33.981	44	Rhode Island	45.640
20	Michigan	34.541	45	Iowa	49.145
21	Delaware	35.000	46	New York	49.361
22	Indiana	35.045	47	California	49.685
23	Arkansas	35.122	48	Maine	49.860
24	Utah	35.390	49	Minnesota	50.792
25	New Hampshire	35.502	50	New Jersey	51.090
			51	Dist. of Columbia	58.315

• **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 in the Small Business Survival Index: state’s top corporate income tax rate.*³

State Rankings of Top Corporate Income Tax Rates

<i>Rank</i>	<i>State</i>	<i>Top CIT Rate</i>	<i>Rank</i>	<i>State</i>	<i>Top CIT Rate</i>
1t	Nevada	0.000	26	North Carolina	6.900
1t	South Dakota	0.000	27	Arizona	6.968
1t	Texas	0.000	28	Kansas	7.050
1t	Washington	0.000	29	Illinois	7.300
1t	Wyoming	0.000	30	Connecticut	7.500
6	Ohio	1.900	31	Idaho	7.600
7	Alabama	4.225	32	New Mexico	7.600
8	Colorado	4.630	33	Nebraska	7.810
9	Michigan	4.950	34	Wisconsin	7.900
10t	Mississippi	5.000	35	Maryland	8.250
10t	South Carolina	5.000	36	New York	8.307
10t	Utah	5.000	37t	Indiana	8.500
13	Missouri	5.156	37t	New Hampshire	8.500
14	Louisiana	5.200	37t	Vermont	8.500
15	Florida	5.500	37t	West Virginia	8.500
16t	Georgia	6.000	41	Delaware	8.700
16t	Kentucky	6.000	42	California	8.840
16t	Oklahoma	6.000	43	Maine	8.930
16t	Virginia	6.000	44	Rhode Island	9.000
20	Hawaii	6.400	45	New Jersey	9.360
21t	Arkansas	6.500	46	Alaska	9.400
21t	North Dakota	6.500	47	Massachusetts	9.500
21t	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

³ Data Source: CCH Incorporated, *2009 State Tax Handbook*, the Tax Foundation, 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 in the Small Business Survival Index: state’s top capital gains tax rate on corporations.*⁴

State Rankings of Top Corporate Capital Gains Tax Rates

<i>Rank</i>	<i>State</i>	<i>Top CorpCG Rate</i>	<i>Rank</i>	<i>State</i>	<i>Top CorpCG Rate</i>
1t	Nevada	0.000	26	Montana	6.750
1t	South Dakota	0.000	27	North Carolina	6.900
1t	Texas	0.000	28	Arizona	6.968
1t	Washington	0.000	29	Kansas	7.050
1t	Wyoming	0.000	30	Illinois	7.300
6	Ohio	1.900	31	Connecticut	7.500
7	Hawaii	4.000	32	Idaho	7.600
8	Alabama	4.225	33	New Mexico	7.600
9	Alaska	4.500	34	Nebraska	7.810
10	Colorado	4.630	35	Wisconsin	7.900
11	Michigan	4.950	36	Maryland	8.250
12t	Mississippi	5.000	37	New York	8.307
12t	South Carolina	5.000	38t	Indiana	8.500
12t	Utah	5.000	38t	New Hampshire	8.500
15	Missouri	5.156	38t	Vermont	8.500
16	Louisiana	5.200	38t	West Virginia	8.500
17	Florida	5.500	42	Delaware	8.700
18t	Georgia	6.000	43	California	8.840
18t	Kentucky	6.000	44	Maine	8.930
18t	Oklahoma	6.000	45	Rhode Island	9.000
18t	Virginia	6.000	46	New Jersey	9.360
22t	Arkansas	6.500	47	Massachusetts	9.500
22t	North Dakota	6.500	48	Minnesota	9.800
22t	Tennessee	6.500	49	Iowa	9.900
25	Oregon	6.600	50	Dist. of Columbia	9.975
			51	Pennsylvania	9.990

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

• **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 Small Business Survival Index: state and local sales, gross receipts and excise taxes (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).*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)

<i>Rank</i>	<i>State</i>	<i>SGRE Tax</i>	<i>Rank</i>	<i>State</i>	<i>SGRE Tax</i>
1	Oregon	0.52	26	California	3.36
2	Delaware	0.97	27	Indiana	3.38
3	Montana	1.06	28	Minnesota	3.39
4	New Hampshire	1.11	29	Maine	3.40
5	Alaska	1.52	30	North Dakota	3.42
6	Massachusetts	1.82	31	Kansas	3.55
7	Maryland	2.21	32	Dist. of Columbia	3.64
8	Virginia	2.33	33t	Kentucky	3.67
9	New Jersey	2.49	33t	New York	3.67
10	Connecticut	2.52	35	Georgia	3.70
11	Pennsylvania	2.67	36	Texas	3.79
12	Idaho	2.72	37	West Virginia	3.82
13	Wisconsin	2.76	38	Alabama	3.88
14	Ohio	2.96	39	Utah	3.91
15t	Colorado	2.99	40	Wyoming	3.95
15t	Iowa	2.99	41	South Dakota	4.29
17	South Carolina	3.06	42	Arizona	4.30
18	North Carolina	3.09	43	Florida	4.39
19	Nebraska	3.15	44	Mississippi	4.52
20	Rhode Island	3.19	45	Tennessee	4.74
21	Michigan	3.25	46	New Mexico	5.21
22	Oklahoma	3.29	47	Arkansas	5.24
23	Illinois	3.31	48	Nevada	5.52
24	Vermont	3.32	49	Louisiana	5.82
25	Missouri	3.33	50	Washington	5.85
			51	Hawaii	6.35

¹⁰ 2005-06 latest state and local numbers available from the U.S. Bureau of the Census, U.S. Department of Commerce.

Business Tax Index 2009: Details

State	Top PIT	Top Ind CG	Top CT	Top Cor CG	S-Corp	Indiv. AMT	Corp. AMT	PIT Index	Prop Tax	SGRE Tax	Death	Unemp. Tax	Tax Limit	Internet Tax	Gas Tax	Diesel Tax	Tax Index
1 South Dakota	0.000	0.000	0.000	0.000	0.000	0	0	0	3.02	4.29	0	2.33	0	0	0.240	0.240	11.120
2 Nevada	0.000	0.000	0.000	0.000	0.000	0	0	0	2.60	5.52	0	3.14	0	0	0.331	0.286	11.877
3 Wyoming	0.000	0.000	0.000	0.000	0.000	0	0	0	4.43	3.95	0	4.48	1	0	0.140	0.140	14.140
4 Washington	0.000	0.000	0.000	0.000	0.000	0	0	0	2.81	5.85	1	4.38	0	0	0.375	0.375	15.790
5 Texas	0.000	0.000	0.000	0.000	4.500	0	0	0	3.95	3.79	0	1.17	1	1	0.200	0.200	15.806
6 Florida	0.000	0.000	5.500	5.500	0.000	0	1	0	3.45	4.59	0	0.94	0	0	0.345	0.298	22.423
7 Alaska	0.000	0.000	9.400	4.500	0.000	0	1	0	3.74	1.52	0	3.75	1	0	0.000	0.000	24.910
8 Colorado	4.630	4.630	4.630	4.630	0.000	1	0	0	2.80	2.99	0	1.13	0	0	0.220	0.205	26.865
9 Alabama	3.250	4.250	4.225	4.225	3.250	0	0	1	1.36	3.88	1	1.26	1	1	0.209	0.219	28.128
10 Ohio	5.925	5.925	1.900	1.900	0.000	0	0	1	3.33	2.86	1	2.00	1	1	0.280	0.280	28.500
11 South Carolina	7.000	3.920	5.000	5.000	0.000	0	0	0	3.05	3.06	0	1.05	0	0	0.168	0.168	29.416
12 Mississippi	5.000	5.000	5.000	5.000	0.000	0	0	0	2.65	4.52	0	1.15	0	0	0.188	0.188	29.696
13 Tennessee	0.000	0.000	6.500	6.500	6.500	0	0	1	2.11	4.74	1	1.77	1	0	0.214	0.184	30.519
14 Missouri	6.000	6.000	5.156	5.156	0.000	0	0	1	2.63	3.33	0	1.80	0	0	0.173	0.173	31.418
15 Oklahoma	5.250	5.250	6.000	6.000	0.000	0	0	1	1.54	3.29	1	2.03	0	0	0.170	0.140	31.670
16 Virginia	5.750	5.750	6.000	6.000	0.000	0	0	1	3.01	2.33	0	1.04	1	0	0.190	0.193	32.263
17 Arizona	4.540	4.540	6.968	6.968	0.000	0	0	1	2.77	4.30	0	0.89	0	0	0.190	0.190	32.356
18 Illinois	3.000	3.000	7.300	7.300	1.500	0	0	0	3.99	3.31	1	1.55	1	0	0.324	0.389	32.663
19 Georgia	6.000	6.000	6.000	6.000	0.000	0	0	1	2.97	3.70	0	1.04	1	0	0.124	0.147	33.981
20 Michigan	4.350	4.350	4.950	4.950	4.950	0	0	0	4.06	3.25	0	2.08	1	0	0.305	0.296	34.541
21 Delaware	5.950	5.950	8.700	8.700	0.000	0	0	1	1.60	0.97	0	1.68	0	0	0.230	0.220	35.000
22 Indiana	3.400	3.400	8.500	8.500	0.000	0	0	0	4.17	3.38	0	1.00	1	0	0.292	0.403	35.045
23 Arkansas	7.000	4.900	6.500	6.500	0.000	0	0	0	1.65	5.24	0	2.89	0	0	0.218	0.228	35.122
24 Utah	5.000	5.000	8.500	8.500	0.000	0	0	1	2.48	3.91	0	6.51	1	0	0.245	0.245	35.390
25 New Hampshire	0.000	0.000	8.500	8.500	8.500	0	0	0	5.34	1.11	0	1.16	1	1	0.196	0.196	35.502
26 Louisiana	3.900	2.450	7.600	7.600	5.200	0	0	1	1.77	5.82	1	1.09	0	0	0.200	0.200	35.680
27 New Mexico	4.900	2.450	7.600	7.600	0.000	0	0	1	1.68	5.21	0	2.88	1	1	0.188	0.228	35.736
28 Kentucky	6.000	6.000	6.000	6.000	0.750	0	0	1	1.95	3.67	1	2.10	1	0	0.225	0.195	35.890
29 Pennsylvania	3.070	3.070	9.990	9.990	0.000	0	0	0	3.12	2.67	0	1.63	1	0	0.323	0.392	36.255
30 Connecticut	5.000	5.000	7.500	7.500	0.000	1	0	1	4.21	2.52	1	1.24	1	0	0.343	0.434	37.747
31 Montana	6.900	6.900	6.750	6.750	0.000	0	0	0	3.61	1.06	0	4.48	1	0	0.278	0.286	38.014
32 Wisconsin	6.750	2.700	7.900	7.900	0.000	0	0	0	4.18	2.76	0	2.36	1	0	0.329	0.329	38.208
33 Kansas	6.450	6.450	7.050	7.050	0.000	1	0	1	3.44	3.55	1	1.54	1	0	0.250	0.270	39.050
34 Oregon	9.000	9.000	6.600	6.600	0.000	0	0	0	2.98	0.52	0	4.04	0	0	0.235	0.243	39.233
35 Maryland	6.250	6.250	8.250	8.250	0.000	1	0	1	2.42	2.21	0	1.27	1	1	0.235	0.243	39.378
36 North Dakota	5.540	5.540	6.500	6.500	0.000	0	0	0	3.09	3.42	0	6.43	1	1	0.230	0.230	39.480
37 Hawaii	8.250	7.250	6.400	4.000	0.000	0	0	1	2.08	6.35	0	1.75	1	0	0.336	0.362	39.878
38 North Carolina	7.750	7.750	6.900	6.900	0.000	0	0	1	2.45	3.09	1	2.59	1	0	0.302	0.302	41.034
39 West Virginia	6.500	6.500	8.500	8.500	0.000	1	0	0	2.10	3.82	0	1.70	1	1	0.322	0.321	41.267
40 Nebraska	6.840	6.840	7.810	7.810	0.000	0	0	1	3.73	3.15	1	1.36	1	0	0.273	0.273	42.086
41 Idaho	7.800	7.800	7.600	7.600	0.000	0	0	0	2.79	2.72	0	5.27	1	1	0.250	0.250	43.080
42 Massachusetts	5.300	5.300	9.500	9.500	4.500	0	0	0	3.63	1.82	1	2.58	0	0	0.235	0.235	44.600
43 Vermont	9.500	5.700	8.500	8.500	0.000	0	0	0	5.26	3.32	1	1.61	1	0	0.200	0.270	44.860
44 Rhode Island	6.500	6.500	9.000	9.000	0.000	1	0	0	4.73	3.19	1	3.10	0	0	0.310	0.310	45.640
45 Iowa	5.837	7.633	9.900	9.900	0.000	0	0	0	3.49	2.99	1	4.94	0	0	0.220	0.235	49.145
46 New York	8.970	8.970	8.307	8.307	0.000	1	1	1	4.30	3.67	0	0.99	1	0	0.413	0.434	49.361
47 California	10.550	10.550	8.840	8.840	1.500	1	1	0	2.58	3.56	0	0.72	0	0	0.353	0.392	49.685
48 Maine	8.500	8.500	9.830	9.830	0.000	1	1	0	5.21	3.40	1	1.78	1	0	0.299	0.311	49.860
49 Minnesota	7.850	7.850	9.800	9.800	0.000	0	0	1	2.67	2.49	1	4.92	1	1	0.256	0.256	50.792
50 New Jersey	8.970	8.970	9.360	9.360	0.000	0	0	0	5.08	2.99	1	2.54	1	0	0.145	0.175	51.090
51 Dist. of Columbia	8.500	8.500	9.975	9.975	9.975	0	0	1	3.58	3.64	1	0.77	1	0	0.200	0.200	58.315