



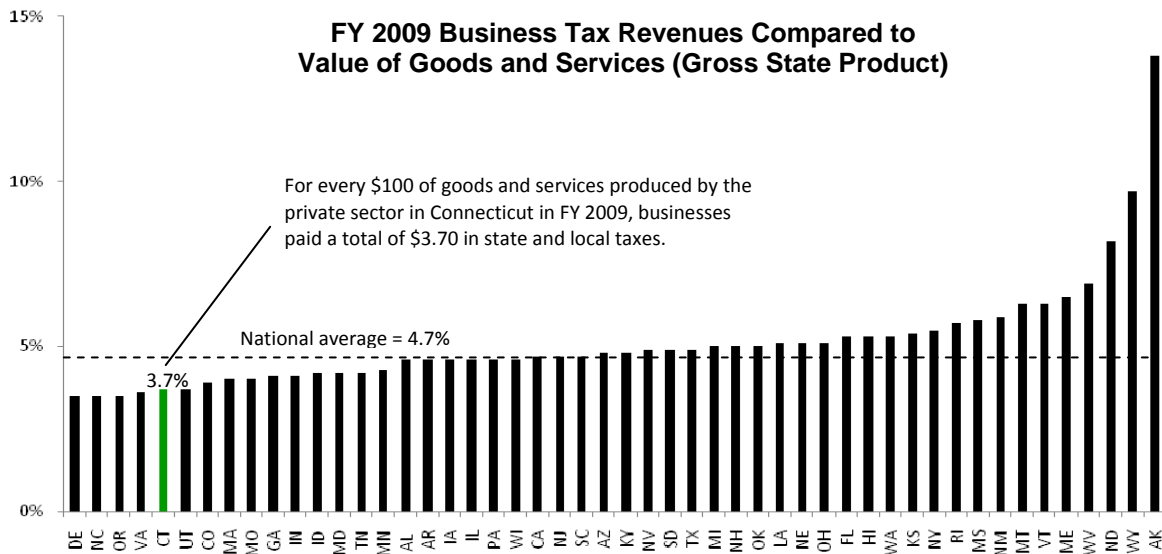
**Connecticut's Business Taxes in Context:
A Summary of Ernst & Young's National Survey
of State and Local Business Taxation**

May 2010

In 2010, the nonprofit Council on State Taxation (COST)¹ released its eighth annual study on state and local business tax revenues for FY 2009², which was conducted by the accounting firm of Ernst & Young³. COST has over 600 corporate members in the United States and Ernst & Young provides accounting services to private and public sector clients worldwide. COST was formed in 1969 with the objective "to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities." COST is associated with the Council of State Chambers of Commerce⁴.

Compared to other states, Connecticut's state and local business tax revenues are a relatively small share of the state's private sector economy

Ernst & Young compared taxes relative to the amount of economic activity in each state. Gross State Product (GSP) measures, "...the total value of a state's annual production of goods and services by the private sector." COST uses GSP as its metric for state economic activity when making cross-state comparisons, "Because state business tax bases include a diverse mixture of receipts, net income, input purchases, payroll, property and other tax bases, a broad measure of a state's overall economic activity should be used to determine the measure of aggregate business tax burden that can be compared across states." Connecticut ranked **5th lowest in total state and local business tax revenues among states** when compared to the level of private sector economic activity in each state.

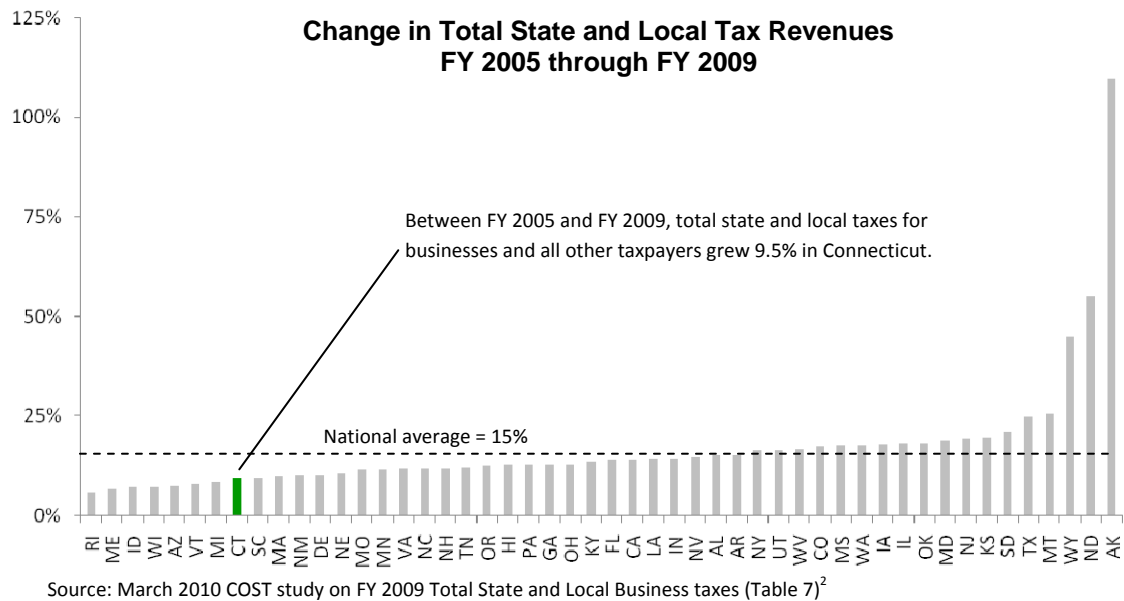


Source: Calculated from March 2010 COST study on FY 2009 Total State and Local Business Taxes (Table 6)²

Nationwide in FY 2009, the ratio of state and local taxes to GSP was 4.7%. This means that on average, businesses nationwide paid \$4.70 in combined state and local taxes for every \$100 of GSP. In Connecticut in FY 2009, businesses paid \$3.70 in combined state and local taxes for every \$100 of GSP. Of the \$3.70, businesses paid \$2.06 in state taxes and \$1.64 in local taxes. This ranked Connecticut **10th lowest in state business tax revenues** and **8th lowest in local business tax revenues** among states, relative to GSP.

In Connecticut, the growth in personal and business tax revenues has been low compared to other states

Ernst & Young calculated the change in state and local tax revenues from FY 2005 through FY 2009 for all states. In Connecticut during this four-year period, combined state and local tax revenues grew 9.5% - the **8th lowest rate of growth among states**. Connecticut ranked between Michigan (8.5%) and Massachusetts (9.7%), and tied with South Carolina. On average across the fifty states and Washington, D.C., total state and local tax revenues grew 15% over this period.



Notably, Connecticut's increase in state and local business tax revenues over this time period – just 2.4% – was the **lowest growth in business tax revenues among states**. Connecticut businesses paid for only one-tenth of increases in state and local taxes. From FY 2005 through FY 2009, for every \$100 increase in combined state and local tax revenues, businesses paid \$9.20 while all other taxpayers⁵ paid \$90.80.

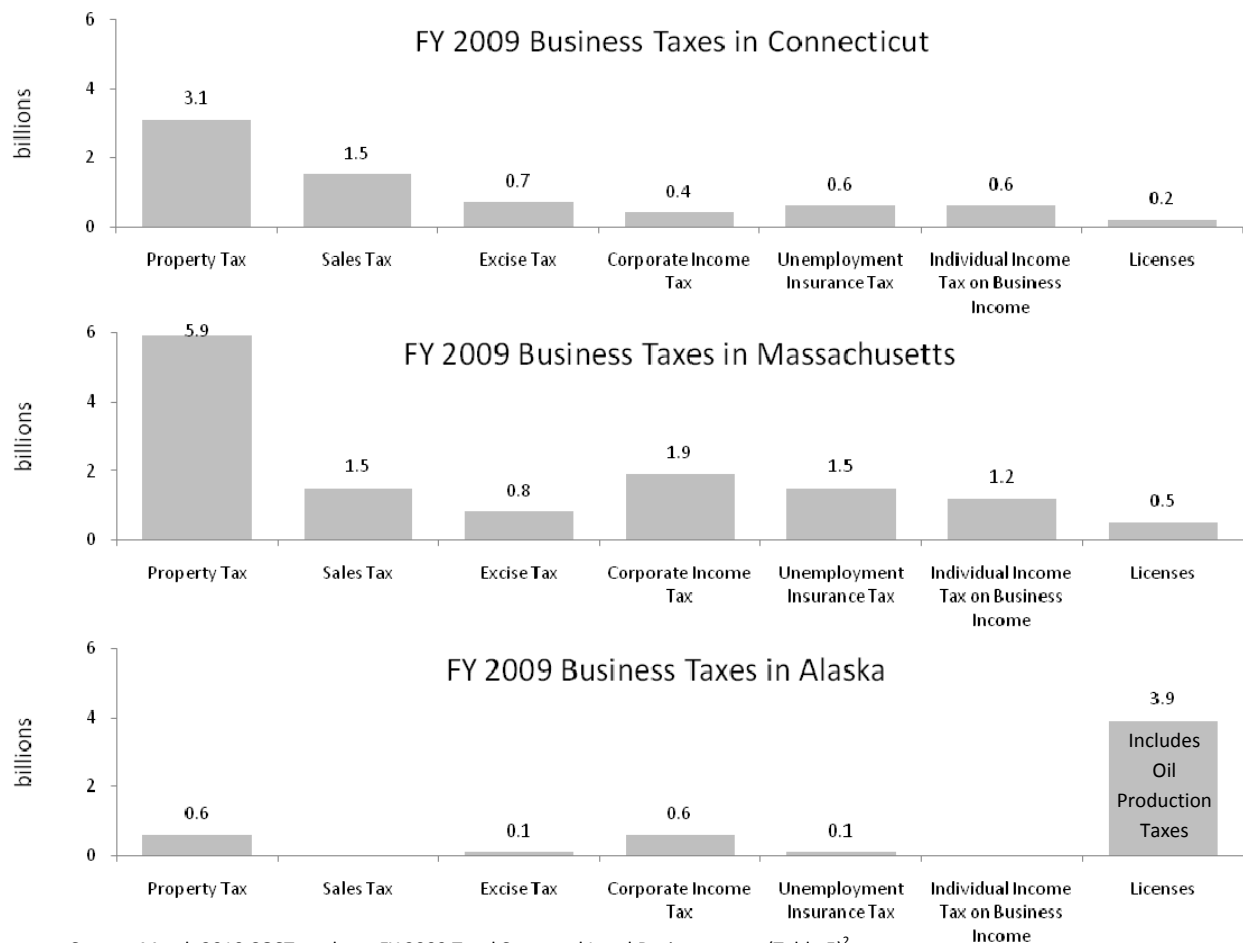
Connecticut businesses are subject to low corporate income taxes

According to the COST report, in FY 2009 businesses in Connecticut paid roughly \$3.1 billion in local property tax and about \$400 million in corporate income tax. This corresponds to **\$7.75 in property tax for every \$1 in corporate income tax**. Corporate income taxes accounted for only 6¢ of every dollar of combined state and local business taxes collected in Connecticut in FY 2009.

From FY 2005 to FY 2009, local property tax revenues accounted for an increasing share of business tax revenues while corporate income tax revenues were a decreasing share. In FY 2005, property taxes accounted for 36.4% of the total tax bill on businesses.⁶ By FY 2009, property taxes had increased to 43.1%

of the total tax bill on businesses. In contrast, in FY 2005 the state's corporate income tax accounted for 9.1% of the total tax bill on businesses. By FY 2009, the corporate income tax had dropped to 5.6% of the total tax bill on businesses.

Importantly, there is no "best" distribution of sources for business tax revenues. What is optimal for one state may differ for another depending on the existing, or desired, mix of industries, services, and agriculture. As illustrated below, the sources and share of business tax revenues vary by state depending on the economic activities in each state. Services such as finance and insurance are large economic drivers in both Connecticut and Massachusetts, so a relatively low corporate income tax and relatively high property tax may be preferable to businesses. In contrast, Alaska has significant natural resources in the form of oil, which provides the majority of Alaska's business tax revenues⁷.



Source: March 2010 COST study on FY 2009 Total State and Local Business taxes (Table 5)²

Connecticut was fourth lowest among all states in the percentage of business tax revenues obtained from licenses. In addition, more than half of all states derived a greater share of business tax revenues from both excise taxes and corporate income taxes than did Connecticut. Connecticut ranked 38th (1 is lowest) in the percentage that property tax revenues contributed to total state and local business tax revenues; nearly one of every four states derived a greater percentage of business tax revenues from property taxes than did Connecticut. Nearly half of states obtained a greater percentage of their business tax revenues from the sales tax than did Connecticut.

**FY 2009 Ranking of Connecticut Business Tax Revenues
as Percentage of Total State and Local Business Tax Revenues**

CT	Licenses	Excise Tax	Corporate Income Tax	Sales Tax	Property Tax	Unemployment Insurance Tax	Individual Income Tax on Business Income
Rank	4 th	21 st	22 nd	27 th	38 th	45 th	46 th

Source: March 2010 COST study on FY 2009 Total State and Local Business taxes (Table A-3)²

Rank: 1 is lowest percentage, 50 is highest percentage

However, Connecticut did rank high (45th) in the percentage of business tax revenues obtained from payments to unemployment insurance. Contributions from businesses to unemployment insurance funds and the level of unemployment benefits are determined individually by each state.⁸ Among other factors, the prevalence of both older workers and higher income workers will drive up the cost of unemployment insurance. Connecticut has an older workforce and residents earn among the highest incomes in the country.⁹

Historical data show employer contribution to unemployment insurance increasing after recessions as unemployment insurance funds become depleted because of extended periods of high unemployment. Typically, there is a three- or four-year lag between the beginning of a recession and increases in contributions to unemployment insurance pools. Ernst & Young forecasts, nationwide, that employer contribution to unemployment insurance will peak in FY 2011.

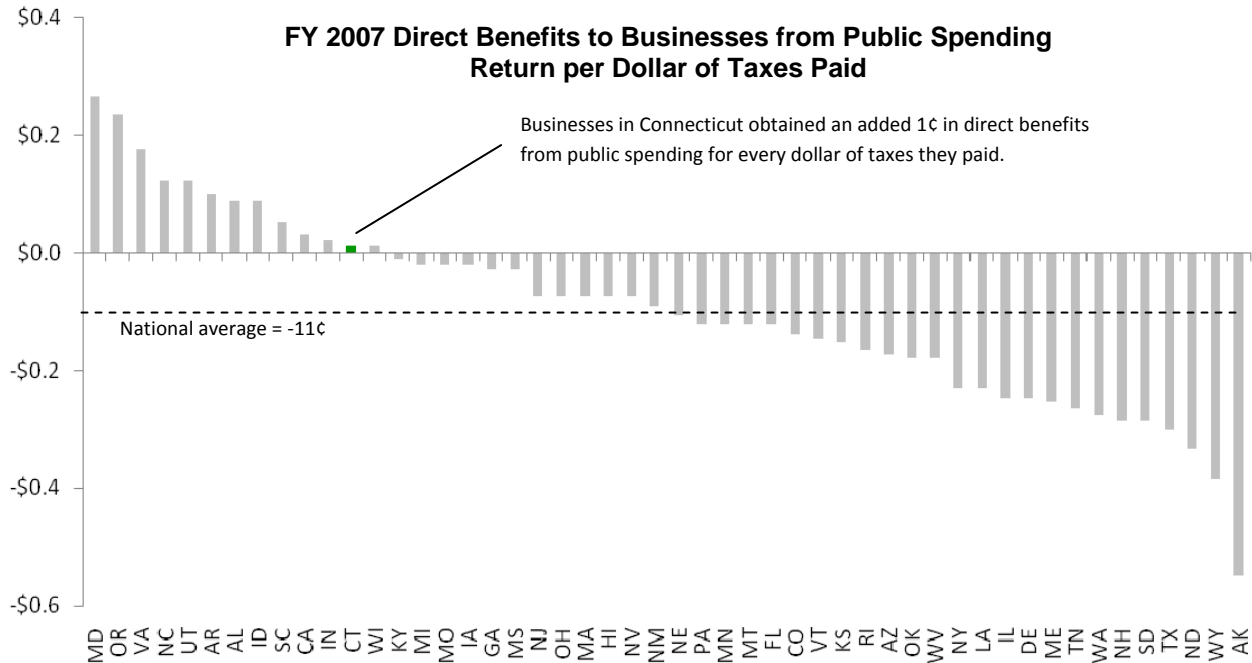
Similarly, Connecticut ranked high (46th) in the percentage of individual income tax revenues derived from business income. This is partially due to high-income professional services associated with Subchapter-S Corporations, Limited Liability Corporations, and other pass-through corporations, which are not subject to Connecticut's corporate business tax. Rather, the business income of such firms is subject to only Connecticut's personal income tax.

The appendix lists the different categories of state and local taxes, showing for each state, and the fifty-state average, the share of business tax revenues derived from each type of tax.

Connecticut businesses net a positive return on taxes paid

COST's eighth annual report compares the ratio of business taxes paid to estimates of state and local spending that "directly" benefit businesses. These estimates were developed by economists at the Federal Reserve Bank of Chicago and have been adjusted to present a range of estimates relative to the percentage of education spending (0%, 25%, 50%) estimated to benefit businesses.

In Connecticut in 2007, **businesses paid 99¢ for every \$1 of benefit** derived from public spending that directly benefited businesses. This assumes that half of all public spending on education benefits businesses. If the total amount of public spending on education, to create a trained labor force, were taken into account, the cost to Connecticut businesses would have been less than 99¢. The Federal Reserve calculations include, among the type of spending that benefits businesses, the following state and local government expenditures: transportation, water and sewer infrastructure, police and fire protection, legislative services, administrative services, judicial services, interest on capital debt, regulatory activities, and education.




Source: Calculated from March 2010 COST study on FY 2009 Total State and Local Business taxes (Figure 2)²

Connecticut is a high cost state for businesses but it is not a high tax state

Connecticut is considered a high “cost” state for businesses. However, there are numerous components of business cost including labor costs, healthcare costs, property taxes, corporate taxes, and energy costs among others. It will require a focus on items other than business taxes, which are among the lowest in the country in Connecticut, to obtain a tangible reduction in business costs in the state.

Appendix: FY 2009 Percentage of Business Tax Revenues by Category

In FY 2009, property taxes accounted for 43.4% of total local and state business tax revenues in CT.

 Highest rate among states

State	% Property Tax	% Sales Tax	% Excise Tax	% Corporate Income Tax	% Unemployment Insurance Tax	% Individual Income Tax on Business Income	% Licenses and Other
AK	11.5	0.0	2.3	11.7	2.3	0.0	72.3
AL	23.5	19.8	23.1	7.6	3.4	5.2	17.4
AR	39.7	34.3	9.3	5.8	2.6	2.1	6.2
AZ	25	30.1	14	8.9	6.8	8.4	6.8
CA	24.3	23.8	10.7	15.9	6.1	8.7	10.5
CO	40.4	28.1	7	3.8	4.4	8	8.4
CT	43.4	20.4	9.7	5.8	8.4	8.8	3.5
DE	14.4	0	11.5	10.5	4.6	5.2	53.9
FL	41.9	19.1	24.4	5.3	2.5	0	6.8
GA	40.4	28.5	10.1	5	3.6	7	5.4
HI	32.5	31.1	19.9	3	2.2	5.2	6.1
IA	50	18.2	6.9	4.3	6.5	7.9	6.2
ID	38.5	17.8	10.1	7.5	5.8	10.3	10
IL	40.5	14	16.6	10.4	6.3	4.1	8
IN	47.6	21.4	5.9	9	5.4	6	4.6
KS	44.9	23.8	8.3	6.6	3.9	6.9	5.7
KY	25.5	21	20.7	7.5	6.3	7.9	11.1
LA	23.9	41.6	8.1	5.8	1.6	5.2	13.7
MA	44.2	11.4	5.8	14.4	11.5	8.9	3.9
MD	26.1	16.7	18.2	8.7	4.4	9.9	16
ME	57.4	13.5	8.9	5.2	3.4	5.8	5.9
MI	52	18.7	7.1	4.2	8.6	4.4	5
MN	36.2	19.2	13.9	7.8	7.9	7.9	7.1
MO	33.2	25.4	13.9	3.3	6.9	7.6	9.7
MS	40.8	25.6	9.3	7.4	2.4	4.8	9.7
MT	42.8	0	10.9	8.7	4	6.3	27.4
NC	30.9	21.9	15.3	7.5	7.1	8	9.4
ND	24.8	13.9	8.3	5.9	2.3	3.7	41.1
NE	44.7	24.9	7.7	5.4	2.8	7.1	7.5
NH	58.2	0	11.9	18.1	2.6	0.4	8.8
NJ	41.3	15.9	9.4	12.1	9.5	5.6	6.1
NM	14.4	37.3	9.5	6.6	2.2	2	28
NV	30.9	21.2	15.4	0	5.7	0	26.8
NY	38.5	20.4	7.3	18.4	4.2	8.4	2.8
OH	39.9	18	12.8	5.6	5.1	6.6	12
OK	20.1	32.3	9.2	5.6	2.3	7.1	23.5
OR	41.3	0	10.4	5.9	11.6	12.4	18.5
PA	34.8	14.9	13.1	7.6	9.1	6.7	13.7
RI	51.2	16	12.6	4.6	7.9	4.3	3.4
SC	49.9	15.6	9.7	4	4.4	4.2	12.2
SD	42.4	34.2	9.4	3.1	1.7	0	9.3
TN	32.8	29.6	11.2	8.6	4.7	0.4	12.6
TX	42.9	26	11.9	0	2	0	17.1
UT	34	22.1	14.6	9.8	3.6	6.2	9.6
VA	41.3	13.5	17	5.4	2.8	7	13
VT	58.7	9.3	12.7	6.3	5	4.7	3.4
WA	21.7	45.2	17	0	7	0	6.1
WI	46.5	16.2	8.1	6.7	6.7	5.6	10.2
WV	29.6	9.2	20.2	12	4.1	5	19.9
WY	34.4	17.9	3	0	1.8	0	42.9
USA	36.5	21.5	12	8.6	5.2	5.5	10.8

Notes

¹ Council on State Taxation, <http://www.cost.org>

² Andrew Phillips, Robert Cline, Thomas Neubig, and Julia Thayne, *Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2009*, Council on State Taxation, March 2010, [http://www.ey.com/Publication/vwLUAssets/Total-state-and-local-business-taxes-March-2010/\\$FILE/Total-state-and-local-business-taxes-March-2010.pdf](http://www.ey.com/Publication/vwLUAssets/Total-state-and-local-business-taxes-March-2010/$FILE/Total-state-and-local-business-taxes-March-2010.pdf)

³ Ernst & Young, <http://www.ey.com/US/EN/Home>

⁴ Council of State Chambers, <http://www.statechamberconnect.org>

⁵ All other taxpayers include households and nonprofits.

⁶ Robert Cline, Thomas Neubig, and Andrew Phillips, *Total State and Local Business Taxes: Nationally 1980-2005, by State 2002-2005, and by Industry 2005*, Table 3, Council on State Taxation, March 2006, <http://www.cost.org/StateTaxLibrary.aspx?id=17768>

⁷ Alaska Dept. of Revenue, *2010 Spring Revenue Forecast*, <http://www.tax.alaska.gov/programs/documentviewer/viewer.aspx?1943f>

⁸ National Employment Law Project, State Reports and Statistics, http://www.nelp.org/index.php/site/issues/category/State_Reports_and_Statistics

⁹ U.S. Census Bureau, American Factfinder, <http://factfinder.census.gov/home/saff/main.html?lang=en>