Trends in Corporate Income Taxes

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National Analysis:

State fiscal conditions continued to improve in 2012, although many state budgets have not recovered to prerecession levels. Revenues from corporate income taxes remain down nearly 25 percent over 2008 levels when adjusted for inflation. Between 2008 and 2012, three states—Illinois, Oregon and West Virginia—raised corporate income tax rates, while five states—Kentucky, New York, North Dakota, Massachusetts and Maryland—lowered rates. During this same time period, states had to rely less on corporate income taxes in their general fund budgets; revenue from those taxes are estimated to make up about 6.4 percent of general fund revenue in 2012, lower than the 7.6 percent they comprised in 2008.

How states tax corporate income

- Most states levy standard corporate income taxes\(^1\) on profit, while three states—Ohio, Texas and Washington—levy taxes on gross receipts instead of a corporate income tax with few or zero deductions for expenses.
- Three states—Nevada, South Dakota and Wyoming—levy neither a corporate income tax rate nor a gross receipts tax. New Hampshire charges a business profits tax, which is calculated differently than the standard corporate income tax.
- Delaware and Virginia have a gross receipts tax in addition to the corporate income tax.
- In 2012, Michigan moved from a modified gross receipts tax to a standard corporate income tax rate of 6 percent, while Ohio replaced its corporate income tax with a gross receipts tax.
- According to the National Association of State Budget Directors, across all states, 6.4 percent of general fund revenue comes from the corporate income tax.
- At the beginning of the 2012 calendar year, 28 of the 43 states\(^2\) charging a comparable form of corporate income tax assessed a flat rate income, while others have up to 10 brackets\(^3\) with varying tax rates in each.

Trends in corporate income taxes

- As of January 2011, the 43 comparable states assessed an average top tax rate of 7.36 percent on corporate income.
- The average top rate is down from 7.41 percent in 2008, primarily due to a decrease in the top rate in five states: Kentucky (-1 percentage point), Maryland (-0.05 percentage points), Massachusetts (-1.5 percentage points), New York (-0.4 percentage points), and North Dakota (-1.3 percentage points). Those decreases, however, are counterbalanced by an increase in the top rate in three states: Illinois (+2.2 percentage points), Oregon (+1 percentage point) and West Virginia (+1 percentage point).
Colorado’s top corporate income tax rate is 4.63 percent, the lowest in the country. At the other end of the spectrum, Iowa’s top rate of 12 percent makes it the highest in the country.

Projected 2012 corporate tax collections are down 13 percent, or about $6.4 billion, from 2008. When adjusted for inflation, the gap grows larger: collections are down 19 percent or about $9.8 billion. Corporate income tax collections are forecasted to increase by 2 percent in the 2013 fiscal year.

Corporate income taxes are estimated to make up about 6.4 percent of general fund revenue in 2012, lower than the 7.6 percent they comprised in 2008. Those percentages, however, range significantly—from a high of 14.8 percent in Tennessee to a low of 1.4 percent in Hawaii.

Regional Analysis:

As of January 2012, 10 of 11 states in CSG’s Eastern region\(^4\) charged an average top corporate income tax of 8.5 percent, down from 8.69 percent in 2008.

- New York (-0.4 percent), Massachusetts (-1.5 percent) and Maryland (-0.05 percent) each lowered rates from 2008 to 2012.
- After adjusting for inflation, projected 2012 corporate tax collections for the region are down 13.7 percent, or about $2.05 billion, from 2008. Collections in New Jersey (-$768 million) and Pennsylvania (-$695 million) are down the most over this period, while Massachusetts (+$221 million) was the only state in the region to see an increase in collections.
- On average, corporate income taxes make up 5.9 percent of general fund revenue for the 10 comparable states in the region, down from 6.5 percent in 2008. Corporate income tax revenue as a percentage of general fund revenue is the highest in New York, at 10.3 percent, and the lowest in Delaware, at 3 percent.
- At the onset of 2012, eight of the 10 Eastern states charging a corporate income tax assessed a flat rate.

As of January 2012, eight of 11\(^5\) of comparable states in the CSG Midwest region charged an average top corporate income tax rate of 8.09 percent, compared to 8.03 percent in 2008.

- Between 2008 and 2012, Illinois increased its flat rate (+2.2 percentage points), while North Dakota lowered its top rate (-1.3 percentage points).
- After adjusting for inflation, projected 2012 corporate tax collections for the eight comparable Midwest states are down 4.9 percent, or about $290.8 million, from 2008.
- On average, corporate income taxes make up 6.4 percent of general fund revenue for the eight comparable states in the region, down from 7.5 percent in 2008. Corporate income tax revenue as a percentage of general fund revenue is the highest in North Dakota, at 8.3 percent, and the lowest in Kansas, at 3.6 percent.
- At the beginning of 2012, six of the eight CSG Midwest states charging a corporate income tax assessed a flat rate.

As of January 2012, 14 of 15\(^6\) CSG South states charged an average top corporate income tax rate of 6.26 percent, compared to 6.4 percent in 2008.

- Between 2008 and 2012, Kentucky and West Virginia both lowered their flat rate (-1 percentage point).
- After adjusting for inflation, projected 2012 corporate tax collections in the Southern region are down 1.5 percent, or about $2.25 billion, from 2008.
- On average, corporate income taxes make up 6.1 percent of general fund revenue for the 14 comparable states in the region, down from 7.1 percent in 2008. Corporate income tax revenue as a percentage of general fund revenue is the highest in Tennessee, at 14.8 percent, and the lowest in Louisiana, at 3.2 percent.
- At the beginning of the 2012 calendar year, 10 of the 14 CSG South states charging a corporate income tax assessed a flat rate.

As of January 2012, 10 of 13\(^7\) states in CSG’s Western region charged an average top corporate income tax rate of 7.08 percent, up from 6.98 percent in 2008.

- Between 2008 and 2012, Oregon adopted a graduated corporate tax system and concurrently increased its top rate by 1 percentage point.
- After adjusting for inflation, projected 2012 corporate tax collections for the region are down 24.7 percent, or about $3.8 billion, from 2008. Collections in California (-$3.03 billion) and Arizona (-$230 million) are down the most over this period, while Alaska (+$940,000) was the only state in the region to see an increase in collections.
On average, corporate income taxes make up 6.6 percent of general fund revenue for the 10 comparable states in the region, down from 7.3 percent in 2008. Corporate income tax revenue as a percentage of general fund revenue is the highest in California, at 10.7 percent, and the lowest in Hawaii, at 1.4 percent. At the beginning of the 2012 calendar year, six of the 10 CSG Western states charging a corporate income tax assessed a flat rate.

NOTES:

1 Gross receipts minus expenses.

2 For the purposes of this report, 43 states are considered to have reasonably similar methods of assessing a corporate income tax. Three states – Nevada, South Dakota and Wyoming – do not levy any type of corporate income tax. Four other states–New Hampshire, Ohio, Texas and Washington–do levy taxes on corporate income in a manner that is not easily compared across states and are therefore not considered when calculating national or regional averages.

3 Fifteen of the 43 states charging a comparable form of corporate income tax assess varying tax rates across up to 10 income brackets. For the top rate calculation, the tax rate assessed on the highest income bracket or the flat tax rate is used to calculate an average across states.

4 New Hampshire’s method of calculating taxes on corporate income varies from other states in the region and is therefore excluded from comparisons here.

5 In 2012, Michigan moved from a modified gross receipts tax to a standard corporate income tax rate of 6 percent and is therefore not included in calculations that compare rates across states or time, unless otherwise noted. Ohio and North Dakota do not tax corporate income either at all or in a manner that is comparable and are therefore excluded from comparisons here.

6 Texas does not levy a traditional tax on corporate income and is therefore excluded from comparisons here.

7 Nevada, Washington and Wyoming do not levy a traditional tax on corporate income and are therefore excluded from comparisons here.