

Small Business Tax Index 2014:

Best to Worst State Tax Systems for Entrepreneurship and Small Business



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In recent years, the tax story at the federal level has been uniformly negative for entrepreneurs, investors, workers, and the economy in general.

Consider that during the Obama years, most major taxes have been increased, including the personal income tax (which most businesses pay rather than the corporate income tax), the capital gains tax, the dividend tax, the death tax, and payroll taxes. With respect to corporate tax rates, they are now the highest in the world. In addition, stability is sorely lacking when it comes to our tax system. Small business owners and entrepreneurs face great uncertainty as to expiring provisions. Many measures remain temporary, or are renewed on an annual basis. Businesses cannot function efficiently or make sound investment decisions when the federal tax system is forever in flux.

For good measure, high levels of federal government spending as a share of GDP; unheard of and mounting levels of federal government debt; and runaway programs such as ObamaCare, Medicare, Medicaid and Social Security threaten further tax increases in the future, that is, absent a reining in and reform of federal spending.

However, as always noted in SBE Council's "Small Business Tax Index," 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 the right direction. For example, states like North Carolina, North Dakota, Kansas, Arizona, New Mexico and Indiana have improved their tax climates and/or are in the midst of doing so. The leaders in these states understand that a competitive and business-friendly tax system is important to attracting investment, startups and company relocation. Consider some key examples:

- **North Carolina.** On the 2013 Index, the state ranked 38th, or thirteenth worst. But on the 2014 "Small Business Tax Index," North Carolina ranks 22nd. Why the improvement? Under a major tax reform effort, first, the top personal income, capital gains, and dividend/interest tax rate dropped from 7.75 percent to 5.8 percent. Second, the corporate income and capital gains tax rate declined from 6.9 percent to 6.0 percent. Third, the state's death tax was fully repealed. That's a dramatic, positive shift in tax policy in North Carolina, and there is more to come, as the personal income, capital gains, and dividend/interest tax rate is scheduled to drop to 5.75 percent next year, with the corporate income and capital gains tax rate also declining to 5 percent. For good measure, if revenue targets are hit, the corporate tax rate would then decline to 4 percent in 2016 and to 3 percent in 2017.

- **Kansas.** The state is in the midst of a phase down in its personal income, capital gains and dividend/interest tax rates, with the top rate falling from its 2012 rate of 6.45 percent to 4.8 percent in 2014, and eventually to 3.9 percent in 2018.

- **Arizona.** The state's corporate income and capital gains tax rate declined from 6.968 percent in 2012 to 6.5 percent in 2014, and will be phased down to 4.9 by 2016.

- **Indiana.** The state's corporate income and capital gains tax rate fell from 8.0 percent in the first half of 2013 to 7.5 percent in the second half of last year, and is scheduled to fall to 7.0 percent in mid-2014, and to 6.5 percent in mid-2015.

- **New Mexico.** The state's corporate income and capital gains tax rate declined from 7.6 percent in 2013 to 7.3 percent in 2014, and is scheduled to be phased down to 5.9 percent in 2018.

When it comes to state and local taxes – as well as levies at the federal level – the direction that policy should be pointed is clear. Keep the overall tax burden low. Preferably, do no tax income at all. If a state ranks poorly on the “Small Business Tax Index,” then tiny changes will make little difference. While small steps are better than doing nothing and can stoke momentum for additional reform, substantial reforms and reductions will help poor-ranking states make huge leaps in their competitive standing. In the end, if the tax burden is light on economic risk taking, then that will be good news for entrepreneurship, businesses, investment, economic growth and job creation in each state.

The Small Business & Entrepreneurship Council's “Small Business Tax Index 2014” 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) remote seller taxes, 19) gas tax, 20) diesel tax, and 21) wireless taxes.

The 15 best state tax systems are: 1) Nevada, 2) South Dakota, 3) Texas, 4) Wyoming, 5) Washington, 6) Florida, 7) Alabama, 8) Ohio, 9) Colorado, 10) Alaska, 11) Indiana, 12) Michigan, 13) Arizona, 14) North Dakota, and 15) Utah.

The 15 worst state tax systems are: 36) Delaware, 37) Wisconsin, 38) Idaho, 39) Rhode Island, 40) Nebraska, 41) Connecticut, 42) Oregon, 43) Vermont, 44) Maine, 45) New York, 46) Iowa, 47) Hawaii, 48) New Jersey, 49) Minnesota, and 50) California.

Following are the full “Small Business Tax Index 2014” rankings, followed by brief descriptions of why each factor is included in the Index, and how it is measured.

Small Business Tax Index 2014: State Rankings

Rank	State	BTI	Rank	State	BTI
1	Nevada	9.677	26	Kansas	44.764
2	South Dakota	11.983	27	Georgia	45.764
3	Texas	12.482	28	New Mexico	45.802
4	Wyoming	15.981	29	West Virginia	46.939
5	Washington	19.645	30	Montana	49.145
6	Florida	22.195	31	Massachusetts	49.534
7	Alabama	29.682	32	Kentucky	51.131
8	Ohio	32.354	33	Maryland	51.928
9	Colorado	33.365	34	Illinois	51.930
10	Alaska	35.044	35	Arkansas	53.214
11	Indiana	35.306	36	Delaware	53.940
12	Michigan	35.900	37	Wisconsin	54.176
13	Arizona	37.438	38	Idaho	56.116
14	North Dakota	37.720	39	Rhode Island	58.608
15	Utah	38.124	40	Nebraska	60.670
16	Mississippi	39.297	41	Connecticut	60.693
17	Tennessee	40.633	42	Oregon	65.809
18	New Hampshire	40.804	43	Vermont	66.531
19	South Carolina	41.459	44	Maine	68.488
20	Virginia	41.536	45	New York	68.858
21	Louisiana	41.569	46	Iowa	69.810
22	North Carolina	42.199	47	Hawaii	74.185
23	Missouri	42.768	48	New Jersey	76.258
24	Oklahoma	42.997	49	Minnesota	76.382
25	Pennsylvania	44.282	50	California	82.695

• **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 Small 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	26	Iowa	5.424
1t	Florida	0.000	27t	Maryland	5.750
1t	Nevada	0.000	27t	Virginia	5.750
1t	New Hampshire	0.000	29	North Carolina	5.800
1t	South Dakota	0.000	30	Rhode Island	5.990
1t	Tennessee	0.000	31t	Georgia	6.000
1t	Texas	0.000	31t	Kentucky	6.000
1t	Washington	0.000	31t	Missouri	6.000
1t	Wyoming	0.000	34	West Virginia	6.500
10	Alabama	3.020	35	Delaware	6.600
11	Pennsylvania	3.070	36	Connecticut	6.700
12	North Dakota	3.220	37	Nebraska	6.840
13	Indiana	3.400	38	Montana	6.900
14	Louisiana	3.624	39t	Arkansas	7.000
15	Michigan	4.250	39t	South Carolina	7.000
16	Arizona	4.540	41	Idaho	7.400
17	Colorado	4.630	42	Wisconsin	7.650
18	Kansas	4.800	43	Maine	7.950
19	New Mexico	4.900	44	New York	8.820
20t	Illinois	5.000	45	Vermont	8.950
20t	Mississippi	5.000	46	New Jersey	8.970
20t	Utah	5.000	47	Minnesota	9.850
23	Massachusetts	5.200	48	Oregon	9.900
24	Oklahoma	5.250	49	Hawaii	11.000
25	Ohio	5.392	50	California	13.300

¹ Data Source: CCH Incorporated, *2014 State Tax Handbook*, Federal of Tax Administrators at www.taxadmin.org, Tax Foundation, 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, impact 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 Small 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	26	Massachusetts	5.200
1t	Florida	0.000	27	Oklahoma	5.250
1t	Nevada	0.000	28	Wisconsin	5.355
1t	New Hampshire	0.000	29	Vermont	5.370
1t	South Dakota	0.000	30	Ohio	5.392
1t	Tennessee	0.000	31t	Maryland	5.750
1t	Texas	0.000	31t	Virginia	5.750
1t	Washington	0.000	33	North Carolina	5.800
1t	Wyoming	0.000	34	Rhode Island	5.990
10	North Dakota	1.932	35t	Georgia	6.000
11	New Mexico	2.450	35t	Kentucky	6.000
12	Pennsylvania	3.070	35t	Missouri	6.000
13	Indiana	3.400	38	West Virginia	6.500
14	Arizona	3.632	39	Delaware	6.600
15	South Carolina	3.920	40	Connecticut	6.700
16	Alabama	4.000	41	Nebraska	6.840
17	Michigan	4.250	42	Iowa	7.184
18	Colorado	4.630	43	Hawaii	7.250
19t	Kansas	4.800	44	Idaho	7.400
19t	Louisiana	4.800	45	Maine	7.950
21t	Arkansas	4.900	46	New York	8.820
21t	Montana	4.900	47	New Jersey	8.970
23t	Illinois	5.000	48	Minnesota	9.850
23t	Mississippi	5.000	49	Oregon	9.900
23t	Utah	5.000	50	California	13.300

² Data Source: CCH Incorporated, *2014 State Tax Handbook*, Federal of Tax Administrators at www.taxadmin.org, Tax Foundation, 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 Small 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	27	North Carolina	5.800
1t	Florida	0.000	28	Rhode Island	5.990
1t	Nevada	0.000	29t	Georgia	6.000
1t	South Dakota	0.000	29t	Kentucky	6.000
1t	Texas	0.000	29t	Missouri	6.000
1t	Washington	0.000	29t	Tennessee	6.000
1t	Wyoming	0.000	33	West Virginia	6.500
8	Pennsylvania	3.070	34	Delaware	6.600
9	North Dakota	3.220	35	Connecticut	6.700
10	Indiana	3.400	36	Nebraska	6.840
11	Alabama	4.000	37	Montana	6.900
12	Michigan	4.250	38t	Arkansas	7.000
13	Arizona	4.540	38t	South Carolina	7.000
14	Colorado	4.630	40	Iowa	7.184
15t	Kansas	4.800	41	Idaho	7.400
15t	Louisiana	4.800	42	Wisconsin	7.650
17	New Mexico	4.900	43	Maine	7.950
18t	Illinois	5.000	44	New York	8.820
18t	Mississippi	5.000	45	Vermont	8.950
18t	New Hampshire	5.000	46	New Jersey	8.970
18t	Utah	5.000	47	Minnesota	9.850
22	Massachusetts	5.200	48	Oregon	9.900
23	Oklahoma	5.250	49	Hawaii	11.000
24	Ohio	5.392	50	California	13.300
25t	Maryland	5.750			
25t	Virginia	5.750			

³ Data Source: CCH Incorporated, *2014 State Tax Handbook*, Federal of Tax Administrators at www.taxadmin.org, Tax Foundation, 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 obviously make a difference in the bottom line returns of corporations. *Measurement in the Small 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	27	Montana	6.750
1t	Ohio	0.000	28	Kansas	7.000
1t	South Dakota	0.000	29	New Mexico	7.300
1t	Texas	0.000	30	Idaho	7.400
1t	Washington	0.000	31	Indiana	7.500
1t	Wyoming	0.000	32	Oregon	7.600
7	Alabama	4.225	33	Nebraska	7.810
8	North Dakota	4.530	34	Wisconsin	7.900
9	Colorado	4.630	35	Massachusetts	8.000
10t	Mississippi	5.000	36	Maryland	8.250
10t	South Carolina	5.000	37	New York	8.307
10t	Utah	5.000	38t	New Hampshire	8.500
13	Missouri	5.156	38t	Vermont	8.500
14	Louisiana	5.200	40	Delaware	8.700
15	Florida	5.500	41	California	8.840
16t	Georgia	6.000	42	Maine	8.930
16t	Kentucky	6.000	43t	Connecticut	9.000
16t	Michigan	6.000	43t	New Jersey	9.000
16t	North Carolina	6.000	43t	Rhode Island	9.000
16t	Oklahoma	6.000	46	Alaska	9.400
16t	Virginia	6.000	47	Illinois	9.500
22	Hawaii	6.400	48	Minnesota	9.800
23t	Arizona	6.500	49	Iowa	9.900
23t	Arkansas	6.500	50	Pennsylvania	9.990
23t	Tennessee	6.500			
23t	West Virginia	6.500			

⁴ Data Source: CCH Incorporated, *2014 State Tax Handbook*, the Federation of Tax Administrators, 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 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	24t	Tennessee	6.500
1t	Ohio	0.000	24t	West Virginia	6.500
1t	South Dakota	0.000	28	Montana	6.750
1t	Texas	0.000	29	Kansas	7.000
1t	Washington	0.000	30	New Mexico	7.300
1t	Wyoming	0.000	31	Idaho	7.400
7	Hawaii	4.000	32	Indiana	7.500
8	Alabama	4.225	33	Oregon	7.600
9	Alaska	4.500	34	Nebraska	7.810
10	North Dakota	4.530	35	Wisconsin	7.900
11	Colorado	4.630	36	Massachusetts	8.000
12t	Mississippi	5.000	37	Maryland	8.250
12t	South Carolina	5.000	38	New York	8.307
12t	Utah	5.000	39t	New Hampshire	8.500
15	Missouri	5.156	39t	Vermont	8.500
16	Louisiana	5.200	41	Delaware	8.700
17	Florida	5.500	42	California	8.840
18t	Georgia	6.000	43	Maine	8.930
18t	Kentucky	6.000	44t	Connecticut	9.000
18t	Michigan	6.000	44t	New Jersey	9.000
18t	North Carolina	6.000	44t	Rhode Island	9.000
18t	Oklahoma	6.000	47	Illinois	9.500
18t	Virginia	6.000	48	Minnesota	9.800
24t	Arizona	6.500	49	Iowa	9.900
24t	Arkansas	6.500	50	Pennsylvania	9.990

⁵ Data Source: CCH Incorporated, *2014 State Tax Handbook*, Federal of Tax Administrators at www.taxadmin.org, Tax Foundation, 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 allow 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 an added tax. Such a tax raises costs, restrains investment, and hurts state competitiveness. *Measurement in the Small Business Tax Index: additional income tax imposed on S-Corps 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 Small 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 Small 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 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 in the Small Business Tax Index: 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”).*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 effectively punishes economic success, and therefore, also punishes and discourages the important and risky endeavors that create economic growth and jobs. *Measurement in the Small 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 Small Business Tax Index: progressivity 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, *2014 State Tax Handbook*, and state specific sources.

⁷ Data Source: CCH Incorporated, *2014 State Tax Handbook*, and state specific sources.

⁸ Data Source: CCH Incorporated, *2014 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 Small 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	Prop Taxes	Rank	State	Prop Taxes
1	Alabama	1.555	26	Arizona	3.055
2	Oklahoma	1.573	27	Pennsylvania	3.069
3	Delaware	1.764	28	California	3.191
4	Arkansas	1.814	29	Kansas	3.369
5	New Mexico	1.897	30	Minnesota	3.426
6	Louisiana	2.004	31	Florida	3.440
7	Kentucky	2.042	32	Oregon	3.444
8	Tennessee	2.181	33	Iowa	3.526
9	Hawaii	2.238	34	Montana	3.669
10	West Virginia	2.298	35	Colorado	3.688
11	North Dakota	2.334	36	Nebraska	3.751
12	North Carolina	2.474	37	Michigan	3.761
13	Missouri	2.557	38	Massachusetts	3.762
14	Idaho	2.590	39	Texas	3.895
15	Mississippi	2.657	40	Illinois	4.255
16	Utah	2.680	41	Wisconsin	4.293
17	Indiana	2.725	42	Connecticut	4.531
18	Maryland	2.832	43	Alaska	4.536
19	South Dakota	2.862	44	Wyoming	4.579
20	Washington	2.867	45	New York	4.617
21	Nevada	2.896	46	Maine	4.760
22	Georgia	2.920	47	Rhode Island	4.915
23	Virginia	2.987	48	Vermont	5.250
24	Ohio	3.016	49	New Jersey	5.439
25	South Carolina	3.049	50	New Hampshire	5.496

¹² 2010-11 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 Small 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 Taxes	Rank	State	SGRE Taxes
1	Oregon	0.686	26	California	3.189
2	Montana	0.911	27	Minnesota	3.212
3	Delaware	1.039	28	Kentucky	3.218
4	New Hampshire	1.228	29	Utah	3.286
5	Massachusetts	1.892	30	Oklahoma	3.348
6	Alaska	1.913	31	Kansas	3.380
7	Virginia	1.975	32	Michigan	3.385
8	Maryland	2.222	33	Indiana	3.546
9	New Jersey	2.460	34	West Virginia	3.558
10	Connecticut	2.477	35	New York	3.586
11	South Carolina	2.641	36	Alabama	3.627
12	Idaho	2.655	37	North Dakota	3.653
13	Wisconsin	2.721	38	Texas	3.729
14	Nebraska	2.727	39	Florida	3.877
15	Illinois	2.858	40	South Dakota	3.907
16	Maine	2.875	41	Mississippi	4.067
17	Missouri	2.882	42	Arizona	4.087
18	Colorado	2.891	43	Wyoming	4.235
19	Ohio	2.927	44	Tennessee	4.325
20	Pennsylvania	2.936	45	Arkansas	4.524
21	Rhode Island	2.937	46	New Mexico	4.655
22	Georgia	3.013	47	Louisiana	4.870
23	Iowa	3.032	48	Nevada	5.025
24	North Carolina	3.039	49	Washington	5.399
25	Vermont	3.120	50	Hawaii	5.680

¹³ 2010-11 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 Small 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: “2014 State Death Tax Chart,” McGuireWoods LLP, March 23, 2014.

• **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 Small 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	UE Tax	Rank	State	UE Tax
1	California	0.790	26	Kentucky	2.429
2	Florida	1.028	27	Maine	2.578
3	Arizona	1.044	28	Massachusetts	2.921
4	Virginia	1.074	29	Delaware	3.024
5	Louisiana	1.110	30	Missouri	3.028
6	Nevada	1.118	31	New Mexico	3.172
7	Georgia	1.138	32	Vermont	3.280
8	Alabama	1.306	33	Wisconsin	3.327
9	Texas	1.336	34	North Carolina	3.445
10	New York	1.591	35	South Dakota	3.623
11	Maryland	1.698	36	Nebraska	3.715
12	Ohio	1.737	37	Alaska	3.923
13	Connecticut	1.769	38	New Jersey	3.970
14	Indiana	1.841	39	Oklahoma	4.151
15	Kansas	1.864	40	Oregon	4.246
16	Arkansas	1.915	41	Washington	4.443
17	Pennsylvania	2.007	42	Rhode Island	4.739
18	Colorado	2.103	43	Montana	4.841
19	New Hampshire	2.106	44	Utah	5.541
20t	Mississippi	2.113	45	Wyoming	5.609
20t	Tennessee	2.113	46	Iowa	5.675
22	Michigan	2.151	47	Hawaii	5.926
23	West Virginia	2.305	48	Minnesota	6.427
24	Illinois	2.326	49	Idaho	6.548
25	South Carolina	2.412	50	North Dakota	6.681

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

• **Remote Seller Taxes.** A remote seller tax (called “Amazon taxes” in previous reports) requires that out-of-state businesses collect sales taxes imposed by in-state governmental entities. This is an added cost and tax on a host of entrepreneurs and small businesses operating online. *Measurement in the Small Business Tax Index: Remote seller 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 Sources: Joseph Henchman, “‘Amazon Tax’ Laws Signal Business Unfriendliness And Will Worsen Short-Term Budget Problems,” The Tax Foundation, March 2010; Stu Wood, “Amazon Battles States Over Sales Tax,” *The Wall Street Journal*, August 3, 2011; and The Tax Foundation and National Taxpayers Union brief filed with the U.S. Supreme Court on September 23, 2013, in *Overstock.com, Inc., and Amazon.com LLC and Amazon Services LLC, v. New York State Division of Taxation and Finance, et al.*

• **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. *Measurement in the Small 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	0.124	26	Maryland	0.270
2	New Jersey	0.145	27	Nebraska	0.273
3	South Carolina	0.168	28	Montana	0.278
4	Oklahoma	0.170	29	Ohio	0.280
5t	Missouri	0.173	30	Georgia	0.285
5t	Virginia	0.173	31	Minnesota	0.286
7	Mississippi	0.184	32	Maine	0.300
8	New Mexico	0.189	33	Kentucky	0.308
9	Arizona	0.190	34	Oregon	0.311
10	New Hampshire	0.196	35	Vermont	0.320
11t	Louisiana	0.200	36	Wisconsin	0.329
11t	Texas	0.200	37	Rhode Island	0.330
13	Alabama	0.210	38	Nevada	0.331
14	Tennessee	0.214	39	West Virginia	0.357
15	Arkansas	0.218	40	Florida	0.360
16t	Colorado	0.220	41	Washington	0.375
16t	Iowa	0.220	42	North Carolina	0.378
16t	South Dakota	0.220	43	Indiana	0.387
19t	Delaware	0.230	44t	Illinois	0.391
19t	North Dakota	0.230	44t	Michigan	0.391
21	Wyoming	0.240	46	Pennsylvania	0.418
22	Utah	0.245	47	Hawaii	0.491
23t	Idaho	0.250	48	Connecticut	0.493
23t	Kansas	0.250	49	New York	0.496
25	Massachusetts	0.265	50	California	0.525

¹⁹ Data Source: “State Motor Fuel Taxes: Notes Summary,” January 1, 2014, 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 Small Business Tax Index: state diesel tax (dollars per gallon).*²⁰

State Rankings of State Diesel Taxes

(Dollars Per Gallon of Diesel Fuel)

Rank	State	Diesel Tax	Rank	State	Diesel Tax
1	Alaska	0.127	27t	Kentucky	0.278
2	Oklahoma	0.140	27t	Maryland	0.278
3	South Carolina	0.168	29	Ohio	0.280
4	Missouri	0.173	30	Montana	0.285
5	New Jersey	0.175	31t	Minnesota	0.286
6t	Mississippi	0.184	31t	Nevada	0.286
6t	Tennessee	0.184	33	Oregon	0.303
8	New Hampshire	0.196	34	Vermont	0.310
9t	Louisiana	0.200	35	Maine	0.312
9t	Texas	0.200	36	Georgia	0.320
11	Colorado	0.205	37	Florida	0.324
12	Alabama	0.219	38	Wisconsin	0.329
13	Delaware	0.220	39	Rhode Island	0.330
14t	Arkansas	0.228	40	West Virginia	0.357
14t	New Mexico	0.228	41	Washington	0.375
16	North Dakota	0.230	42	North Carolina	0.378
17	Iowa	0.235	43	Michigan	0.385
18t	South Dakota	0.240	44	Illinois	0.441
18t	Wyoming	0.240	45	New York	0.496
20	Utah	0.245	46	Indiana	0.498
21	Idaho	0.250	47	California	0.511
22	Virginia	0.261	48	Pennsylvania	0.521
23	Massachusetts	0.265	49	Hawaii	0.525
24	Nebraska	0.267	50	Connecticut	0.549
25t	Arizona	0.270			
25t	Kansas	0.270			

²⁰ Data Source: "State Motor Fuel Taxes: Notes Summary," January 1, 2014, 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 Small Business Tax Index: wireless sales taxes (an index of wireless sales taxes, which is then adjusted to 10 percent of the index value).*²¹

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

Small Business Tax Index 2014: Details

State	Top PIT Rate	Top Ind CapGains Rate	PIDivInt	Top CIT Rate	Top Corp CapGains Rate
Alabama	3.020	4.000	4.000	4.225	4.225
Alaska	0.000	0.000	0.000	9.400	4.500
Arizona	4.540	3.632	4.540	6.500	6.500
Arkansas	7.000	4.900	7.000	6.500	6.500
California	13.300	13.300	13.300	8.840	8.840
Colorado	4.630	4.630	4.630	4.630	4.630
Connecticut	6.700	6.700	6.700	9.000	9.000
Delaware	6.600	6.600	6.600	8.700	8.700
Florida	0.000	0.000	0.000	5.500	5.500
Georgia	6.000	6.000	6.000	6.000	6.000
Hawaii	11.000	7.250	11.000	6.400	4.000
Idaho	7.400	7.400	7.400	7.400	7.400
Illinois	5.000	5.000	5.000	9.500	9.500
Indiana	3.400	3.400	3.400	7.500	7.500
Iowa	5.424	7.184	7.184	9.900	9.900
Kansas	4.800	4.800	4.800	7.000	7.000
Kentucky	6.000	6.000	6.000	6.000	6.000
Louisiana	3.624	4.800	4.800	5.200	5.200
Maine	7.950	7.950	7.950	8.930	8.930
Maryland	5.750	5.750	5.750	8.250	8.250
Massachusetts	5.200	5.200	5.200	8.000	8.000
Michigan	4.250	4.250	4.250	6.000	6.000
Minnesota	9.850	9.850	9.850	9.800	9.800
Mississippi	5.000	5.000	5.000	5.000	5.000
Missouri	6.000	6.000	6.000	5.156	5.156
Montana	6.900	4.900	6.900	6.750	6.750
Nebraska	6.840	6.840	6.840	7.810	7.810
Nevada	0.000	0.000	0.000	0.000	0.000
New Hampshire	0.000	0.000	5.000	8.500	8.500
New Jersey	8.970	8.970	8.970	9.000	9.000
New Mexico	4.900	2.450	4.900	7.300	7.300
New York	8.820	8.820	8.820	8.307	8.307
North Carolina	5.800	5.800	5.800	6.000	6.000
North Dakota	3.220	1.932	3.220	4.530	4.530
Ohio	5.392	5.392	5.392	0.000	0.000
Oklahoma	5.250	5.250	5.250	6.000	6.000
Oregon	9.900	9.900	9.900	7.600	7.600
Pennsylvania	3.070	3.070	3.070	9.990	9.990
Rhode Island	5.990	5.990	5.990	9.000	9.000

South Carolina	7.000	3.920	7.000	5.000	5.000
South Dakota	0.000	0.000	0.000	0.000	0.000
Tennessee	0.000	0.000	6.000	6.500	6.500
Texas	0.000	0.000	0.000	0.000	0.000
Utah	5.000	5.000	5.000	5.000	5.000
Vermont	8.950	5.370	8.950	8.500	8.500
Virginia	5.750	5.750	5.750	6.000	6.000
Washington	0.000	0.000	0.000	0.000	0.000
West Virginia	6.500	6.500	6.500	6.500	6.500
Wisconsin	7.650	5.355	7.650	7.900	7.900
Wyoming	0.000	0.000	0.000	0.000	0.000

State	Added S-Corp. Rate	Indiv. AMT	Corp. AMT	PIT Rate Index	PIT Progressivity
Alabama	0.000	0	0	1	1.220
Alaska	0.000	0	1	0	0.000
Arizona	0.000	0	0	1	1.950
Arkansas	0.000	0	0	0	6.000
California	1.500	1	1	0	12.300
Colorado	0.000	1	0	0	0.000
Connecticut	0.000	1	0	1	3.700
Delaware	0.000	0	0	1	4.400
Florida	0.000	0	1	0	0.000
Georgia	0.000	0	0	1	5.000
Hawaii	0.000	0	0	1	9.600
Idaho	0.000	0	0	0	5.800
Illinois	1.500	0	0	0	0.000
Indiana	0.000	0	0	0	0.000
Iowa	0.000	1	1	0	5.100
Kansas	0.000	0	0	1	2.100
Kentucky	0.750	0	0	1	4.000
Louisiana	4.832	0	0	1	1.824
Maine	0.000	0	1	1	1.450
Maryland	0.000	0	0	1	3.750
Massachusetts	2.750	0	0	0	0.000
Michigan	0.000	0	0	0	0.000
Minnesota	0.000	1	1	0	4.500
Mississippi	0.000	0	0	1	2.000
Missouri	0.000	0	0	1	4.500
Montana	0.000	0	0	0	5.900
Nebraska	0.000	0	0	1	4.380
Nevada	0.000	0	0	0	0.000
New Hampshire	8.500	0	0	0	0.000
New Jersey	0.000	0	1	1	7.570
New Mexico	0.000	0	0	1	3.200
New York	0.000	1	1	1	4.820
North Carolina	0.000	0	0	1	0.000
North Dakota	0.000	0	0	0	2.000
Ohio	0.000	0	0	1	4.858
Oklahoma	0.000	0	0	1	4.750
Oregon	0.000	0	0	1	4.900
Pennsylvania	0.000	0	0	0	0.000
Rhode Island	0.000	0	0	0	2.240
South	0.000	0	0	0	4.000

Carolina					
South Dakota	0.000	0	0	0	0.000
Tennessee	6.500	0	0	0	0.000
Texas	0.000	0	0	0	0.000
Utah	0.000	0	0	0	0.000
Vermont	0.000	0	0	0	5.400
Virginia	0.000	0	0	1	3.750
Washington	0.000	0	0	0	0.000
West Virginia	0.000	0	0	1	3.500
Wisconsin	0.000	1	0	0	3.650
Wyoming	0.000	0	0	0	0.000

State	CIT Progressivity	Property Taxes	Sales, Gross Rec & Excise	Death/Inheritance Taxes	Unemp. Tax
Alabama	0.000	1.555	3.627	0	1.306
Alaska	8.400	4.536	1.913	0	3.923
Arizona	0.000	3.055	4.087	0	1.044
Arkansas	5.500	1.814	4.524	0	1.915
California	0.000	3.191	3.189	0	0.790
Colorado	0.000	3.688	2.891	0	2.103
Connecticut	0.000	4.531	2.477	5	1.769
Delaware	0.000	1.764	1.039	5	3.024
Florida	0.000	3.440	3.877	0	1.028
Georgia	0.000	2.920	3.013	0	1.138
Hawaii	2.000	2.238	5.680	5	5.926
Idaho	0.000	2.590	2.655	0	6.548
Illinois	0.000	4.255	2.858	5	2.326
Indiana	0.000	2.725	3.546	0	1.841
Iowa	4.350	3.526	3.032	5	5.675
Kansas	3.000	3.369	3.380	0	1.864
Kentucky	2.000	2.042	3.218	5	2.429
Louisiana	1.800	2.004	4.870	0	1.110
Maine	5.430	4.760	2.875	5	2.578
Maryland	0.000	2.832	2.222	5	1.698
Massachusetts	0.000	3.762	1.892	5	2.921
Michigan	0.000	3.761	3.385	0	2.151
Minnesota	0.000	3.426	3.212	5	6.427
Mississippi	2.000	2.657	4.067	0	2.113
Missouri	0.000	2.557	2.882	0	3.028
Montana	0.000	3.669	0.911	0	4.841
Nebraska	2.230	3.751	2.727	5	3.715
Nevada	0.000	2.896	5.025	0	1.118
New Hampshire	0.000	5.496	1.228	0	2.106
New Jersey	3.500	5.439	2.460	5	3.970
New Mexico	2.500	1.897	4.655	0	3.172
New York	0.000	4.617	3.586	5	1.591
North Carolina	0.000	2.474	3.039	0	3.445
North Dakota	3.050	2.334	3.653	0	6.681
Ohio	0.000	3.016	2.927	0	1.737
Oklahoma	0.000	1.573	3.348	0	4.151
Oregon	1.000	3.444	0.686	5	4.246
Pennsylvania	0.000	3.069	2.936	5	2.007
Rhode Island	0.000	4.915	2.937	5	4.739

South Carolina	0.000	3.049	2.641	0	2.412
South Dakota	0.000	2.862	3.907	0	3.623
Tennessee	0.000	2.181	4.325	5	2.113
Texas	0.000	3.895	3.729	0	1.336
Utah	0.000	2.680	3.286	0	5.541
Vermont	2.500	5.250	3.120	5	3.280
Virginia	0.000	2.987	1.975	0	1.074
Washington	0.000	2.867	5.399	5	4.443
West Virginia	0.000	2.298	3.558	0	2.305
Wisconsin	0.000	4.293	2.721	0	3.327
Wyoming	0.000	4.579	4.235	0	5.609

State	Tax Limit.	Internet Access Tax	RemoteSellerTax	Gas Tax	Diesel Tax
Alabama	1	0	0	0.210	0.219
Alaska	1	0	0	0.124	0.127
Arizona	0	0	0	0.190	0.270
Arkansas	0	0	1	0.218	0.228
California	0	0	1	0.525	0.511
Colorado	0	0	0	0.220	0.205
Connecticut	1	0	1	0.493	0.549
Delaware	0	0	0	0.230	0.220
Florida	1	0	0	0.360	0.324
Georgia	1	0	1	0.285	0.320
Hawaii	1	1	0	0.491	0.525
Idaho	1	0	0	0.250	0.250
Illinois	1	0	0	0.391	0.441
Indiana	1	0	0	0.387	0.498
Iowa	1	0	0	0.220	0.235
Kansas	1	0	0	0.250	0.270
Kentucky	0	0	0	0.308	0.278
Louisiana	0	0	0	0.200	0.200
Maine	1	0	1	0.300	0.312
Maryland	1	0	0	0.270	0.278
Massachusetts	1	0	0	0.265	0.265
Michigan	1	0	0	0.391	0.385
Minnesota	1	0	1	0.286	0.286
Mississippi	0	0	0	0.184	0.184
Missouri	0	0	0	0.173	0.173
Montana	1	0	0	0.278	0.285
Nebraska	1	0	0	0.273	0.267
Nevada	0	0	0	0.331	0.286
New Hampshire	1	0	0	0.196	0.196
New Jersey	1	0	0	0.145	0.175
New Mexico	1	1	0	0.189	0.228
New York	1	0	1	0.496	0.496
North Carolina	1	0	1	0.378	0.378
North Dakota	1	1	0	0.230	0.230
Ohio	1	1	0	0.280	0.280
Oklahoma	0	0	0	0.170	0.140
Oregon	0	0	0	0.311	0.303
Pennsylvania	1	0	0	0.418	0.521
Rhode Island	1	0	1	0.330	0.330
South	1	0	0	0.168	0.168

Carolina					
South Dakota	0	1	0	0.220	0.240
Tennessee	1	0	0	0.214	0.184
Texas	1	1	1	0.200	0.200
Utah	1	0	0	0.245	0.245
Vermont	1	0	0	0.320	0.310
Virginia	1	0	0	0.173	0.261
Washington	0	1	0	0.375	0.375
West Virginia	1	0	0	0.357	0.357
Wisconsin	1	1	0	0.329	0.329
Wyoming	1	0	0	0.240	0.240

State	Wireless Tax	BTI
Alabama	0.075	29.682
Alaska	0.121	35.044
Arizona	0.130	37.438
Arkansas	0.115	53.214
California	0.110	82.695
Colorado	0.108	33.365
Connecticut	0.074	60.693
Delaware	0.063	53.940
Florida	0.166	22.195
Georgia	0.088	45.764
Hawaii	0.075	74.185
Idaho	0.023	56.116
Illinois	0.159	51.930
Indiana	0.109	35.306
Iowa	0.080	69.810
Kansas	0.131	44.764
Kentucky	0.106	51.131
Louisiana	0.105	41.569
Maine	0.073	68.488
Maryland	0.128	51.928
Massachusetts	0.079	49.534
Michigan	0.077	35.900
Minnesota	0.095	76.382
Mississippi	0.092	39.297
Missouri	0.143	42.768
Montana	0.061	49.145
Nebraska	0.187	60.670
Nevada	0.021	9.677
New Hampshire	0.082	40.804
New Jersey	0.089	76.258
New Mexico	0.111	45.802
New York	0.179	68.858
North Carolina	0.085	42.199
North Dakota	0.110	37.720
Ohio	0.080	32.354
Oklahoma	0.115	42.997
Oregon	0.019	65.809
Pennsylvania	0.141	44.282
Rhode Island	0.147	58.608
South Carolina	0.101	41.459

South Dakota	0.131	11.983
Tennessee	0.116	40.633
Texas	0.122	12.482
Utah	0.127	38.124
Vermont	0.081	66.531
Virginia	0.066	41.536
Washington	0.186	19.645
West Virginia	0.064	46.939
Wisconsin	0.072	54.176
Wyoming	0.078	15.981

About the Author

Raymond J. Keating is chief economist for the Small Business & Entrepreneurship Council.

Keating is the author of several books, including *Unleashing Small Business Through IP: Protecting Intellectual Property*, *Driving Entrepreneurship*, *“Chuck” vs. the Business World: Business Tips on TV*, and a series of thrillers.

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