

TABLE 1
The Distribution of State and Local Business Taxes in Florida and the U.S.

Type of Tax	Distribution in Florida (% of \$32 billion total)	Distribution in U.S. (% of \$553.7 billion total)
Property Tax	36.25%	37.00%
Sales Tax on Business Inputs	24.06%	22.54%
Excise & Gross Receipts	23.75%	11.72%
Corporate Income	7.50%	9.34%
Unemployment Insurance	3.75%	6.56%
License & Other Taxes	4.69%	8.90%
Individual Income Tax	0	3.81%
Total	100.00%	100.00%

Source: Adapted from Table 4, "State and Local Business Taxes by Type, FY 2006." Robert Cline, Tom Neubig, and Andrew Phillips, Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 2006. Council On State Taxation and Ernst & Young. February, 2006.

Business Taxation in Florida: A Growing Threat to Our Competitiveness

Public, media and even lawmakers' attentions often seem to be less focused on business taxation issues than those directly affecting individuals and households. Proposals for property tax relief targeted primarily at homeowners, one of the overarching themes of this year's legislative session and the upcoming special session, are just one of many examples in this regard. We would be remiss, however, to neglect business taxation policies as they are critical to the health, vitality and competitiveness of Florida's economy.

Recently, the Council On State Taxation (COST) - a nonprofit trade association that serves in an advisory capacity to the Council of State Chambers of Commerce, and the professional services and big four auditing firm of Ernst and Young (E&Y) released a study of state and local business taxes.¹ The research concentrated on state and local business taxes for the total of the 50 states and also presented business tax estimates on a state-by-state basis. The study's findings indicate the burden of state and local taxes on businesses are rising, and that the burden on Florida's businesses could be a growing threat to our state's competitiveness. This issue of Economic Commentary summarizes some of the key features of the study with an emphasis on how Florida compares to other states.

The COST and E&Y study examined ten types of taxes state and local governments impose on businesses, ranging from property

Table 2

Measures of Business Tax Burdens FY 2006:
Florida, U.S. and Selected Other States

Tax Measure	Florida	U.S.	Large States	Fast Growing States	East Coast Sun Belt States
Business Taxes As Share of State Taxes					
	42.30%	39.90%	44.60%	43.80%	30.60%
Business Taxes As Share of Local Taxes					
	56.50%	52.50%	54.90%	55.80%	53.80%
Business Taxes As Share of State & Local Taxes					
	47.80%	44.90%	49.50%	48.40%	39.70%
Business Taxes As Percent of Private Sector GSP					
	5.40%	5.10%	5.60%	4.95%	4.20%

Large States: Averages for California, New York, Texas.

Fast Growing States: Averages for Arizona and Nevada.

East Coast Sun Belt States: Averages for Georgia, South Carolina, North Carolina, Virginia.

Source: Adapted from Table 5, "Business Taxes as a Share of State, Local, and Total Taxes and Private Sector GSP, FY 2006." Robert Cline, Tom Neubig, and Andrew Phillips, Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 2006. Council On State Taxation and Ernst & Young. February, 2006.

Clearly, the above data indicates a rising burden of state and local taxes on businesses. Some of this heightened business tax payments may be a normal cyclical response associated with the expansion in the national economy since 2002. Businesses may also be able to shift some of the final incidence of taxes to their suppliers of resources or to consumers. However, shifting the incidence of taxes serves only to transfer the loss of wealth to others. At the margin, rising tax burdens could diminish productivity improving investments, expansions and innovations which, in turn, could contribute to slower growth in jobs and income. As incremental resources

taxes on business property, to sales and use taxes on business inputs, to insurance premium taxes. The study found, for the aggregate of the 50 states:

- \$554 billion of state and local taxes were paid by businesses in Fiscal Year (FY) 2006, an increase of more than 10% from the previous fiscal year and an almost 40% increase from FY 2002. Non-business taxes advanced 32% over the same period, or by 25% less than business taxes.
- Business taxes now account for almost 45% of all taxes collected by state and local governments compared to 43.5% in FY 2002.
- Property taxes on business assets, and sales and use taxes on business inputs comprise almost 60% of taxes paid by businesses to state and local governments. These two types of taxes also account for most of the increase in taxes paid by businesses. As taxes on productivity enhancing investments and on the production of goods and services, these two types of taxes are important when making location decisions for businesses.
- At the state level, sales and use taxes on business inputs and excise and gross receipts taxes account for approximately 49% of all taxes paid by businesses.
- At local levels, property taxes on business assets represent almost 78% of all taxes paid by businesses.
- Finally, as a share of private sector Gross State Product, state and local business taxes rose from 4.5% in FY 2002 to 5.1% in FY 2006.

flow from the business sector to state and local governments they must be spent to ensure, as best as possible they will more than compensate for any loss of incomes and jobs that would have come from business spending. Otherwise the economy and society will be worse off.

The burden of state and local taxes on business in Florida appears to have also increased compared to other sources of taxes in Florida as well as to the nation as a whole. State and local business taxes in Florida escalated from \$20.6 billion in FY 2002 to \$32.0 billion in FY 2006, a jump of 55 percent and an average of 11 percent per year. In contrast, total state and local taxes in Florida rose almost 51 percent during this period or an average of about 10 percent per year. In Florida business taxes have accounted for slightly more than 50 percent of all tax revenue growth over the last five fiscal years. For the rest of the nation the comparable figure is lower, 48.60 percent.

How do the different types of state and local business taxes in Florida compare to the rest of the nation? Table 1 presents the distribution of state and local business taxes, across seven categories of taxes, for Florida and the 50 states as a whole. Several interesting features emerge from the table:

- For Florida and the 50 states as a whole property taxes on business assets and sales taxes on business inputs represent a combined 60 percent of total state and local business taxes. Florida's distribution closely matches the rest of the country.
- Excise and gross receipts state and local taxes account for roughly twice the share of business taxes in Florida (24%) compared to the rest of the country (12%). These are taxes paid on purchases by businesses, and include hotels and rental car taxes. Florida's large and robust commercial travel, convention and visitor's business may explain the substantial difference.
- Florida's state corporate income tax burden is somewhat smaller than that nationally at 7.50% versus 9.34%.
- Unemployment payroll taxes and licenses and other taxes, while relatively small, account for lower percentages of the total in Florida than the rest of the country. License fees and taxes may serve as a barrier to entry and limit competition. Florida appears to not place as severe a burden on businesses in this respect as other states.
- Nationally, individual income taxes paid by sole proprietors, partnerships, S corporations and the like represented 3.80 percent of total state and local business taxes. This category of taxes does not exist for Florida, owing it to the absence of individual state and local income taxes. The absence of such taxes may also encourage businesses to organize as partnerships and S corporations instead of C corporate forms.

Concerns about the effects of state and local business taxes on the competitiveness of Florida's economy can be seen from the data in Table 2. This table presents data on four measures of business tax burdens: (1) business taxes as a share of state taxes; (2) business taxes as a share of local taxes; (3) business taxes as a share of combined state and local taxes; and (4) business taxes as a percent of private sector Gross State Product. FY 2006 data are shown for Florida, and for purposes of comparison: (a) the U.S.; (b) the average of other heavily populated states of California, New York and Texas; (c) the average of rapidly growing states of Arizona and Nevada; and (d) the average of East Coast Sun Belt states of Georgia, South Carolina, North Carolina and Virginia.

- By all four measures of tax burden Florida businesses compare poorly to the U.S. as a whole. The largest discrepancy is in Florida's business share of local taxes at 56.5% versus the rest of the country at 52.5%. Local tax burdens appear to be causing a greater threat to the competitiveness of Florida businesses than state taxes. The repeal of the state intangible property tax has undoubtedly reduced the state-level tax burden, though it remains above the national level.

- Business tax burdens in Florida compare somewhat more favorably to those in other large states. However, Florida does not appear to have any sizable advantage in terms of lower business tax burdens than the other large states.
- Florida's business tax burdens are roughly similar to other states with rapidly growing populations except in the all important measure relative to the size of private sector Gross State Product. The COST and E&Y researchers label this measure a state's "effective tax rate" as it is the broadest measure presented of state tax burdens. Florida's 5.40% business tax burden noticeably trails the 4.95% average of states with rapidly growing populations.
- Threats to Florida's competitiveness can be seen most starkly when comparing its tax burden to the average of the four East Coast Sun Belt states. Florida's tax burdens are substantially higher by every measure. The "effective tax rate" gap between Florida and these states is especially noticeable.

Revenues from state and local taxes on businesses help to finance a wide array of necessary public services. At the same time, as the burdens on businesses from state and local taxes increase the competitiveness, health and growth of a state's economy may be impaired. In an economic environment characterized by intense global competition and the increasingly free flow of capital and labor, state and local policymakers must be aware of how taxes influence competitiveness and growth.

Florida's robust economy has helped to fuel state and local tax coffers in recent years. At the same time the COST and E&Y research indicated that state and local business tax burdens in Florida have risen to levels where they may not be competitive with many other states. Lawmakers, perhaps especially at local levels, need to consider how to address this.

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The TaxWatch Center for Competitive Florida...Resolving issues vital to Florida's global economic competitiveness.

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Source:

¹Robert Cline, Tom Neubig, and Andrew Phillips, "Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 2006." Council on State Taxation and Ernst & Young, February, 2007.