TAX FOUNDATION

2025 State Tax Competitiveness Index

Andrey Yushkov, Jared Walczak, and Katherine Loughead

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Preface to the New Edition

The study before you, which has been published as the *State Business Tax Climate Index* since 2003, has been rebranded as the *State Tax Competitiveness Index* to better reflect what it assesses: states' overall tax competitiveness, not just the business tax climate. But this isn't just an exercise in slapping a new title on the cover and calling it a day. Rather, we have reworked the *Index* from the ground up to make it a better product.

For more than two decades, the *Index* has helped policymakers evaluate their tax codes, serving as a road map for reform. Each year, the study underwent methodological refinements—which we always outlined—to capture changing elements of the tax code, like the introduction of global intangible low-taxed income or the design of remote seller taxes following the Supreme Court's *Wayfair* decision. But the pace of change has been rapid in recent years, with the adoption of the federal Tax Cuts and Jobs Act, the Supreme Court's *Wayfair* decision, the rise of remote work and other outgrowths of the global pandemic (including a roiling of unemployment insurance tax regimes), the adoption of a nation's-first digital advertising tax, and an emerging interest in new or expanded taxes on wealth, unrealized gains, data, digital products, and more.

We saw a need to address these more comprehensively, and to provide additional granularity in our evaluation of tax provisions already encompassed by the *Index*. The old *Index* did its job well. Indeed, independent evaluations demonstrated a strong correlation between *Index* ranks and state economic outcomes. But we wanted to expand and refresh the publication *before* it got stale, to stay ahead of new developments in tax. A refresh also gave us a chance to better systematize and rebalance the treatment of a few outlier state tax provisions that had to be shoehorned into the methodology of prior editions.

But we didn't stop with a name change and a methodological update. We also rethought the presentation of the *Index*'s treasure trove of tax policy information. The *Index*'s 150+ variables are no longer hidden away in appendix tables, and the online publication, formerly just an interactive map accompanied by a lengthy PDF, has been reimagined for a digital environment.

For the first time, each state receives its own summary, highlighting several of the most notable features of its tax code and explaining why it ranks as it does on the *Index*—along with some state-specific reforms that would improve its tax competitiveness. And users now have access to interactive, sortable, filterable datasets. We invite you to explore. See your state's policy choices on every variable in the *Index*. Add another state or two and compare them. Or drill down to a single variable or set of variables and see how all states perform on them.

Because the new *State Tax Competitiveness Index* has a revised methodology, rankings have shifted a bit more than we usually see from year to year. Some of the change, of course, is simply because states have been incredibly busy recently, adopting significant changes to their tax code. And some of it owes to our methodological changes.

To ensure an apples-to-apples comparison, and in the interest of transparency, we have backcast states' rankings under the new methodology going back five years prior to this current edition. These are the controlling rankings, and are the ones that should be cited to show actual movement by states in recent years. This is nothing new: we've always backcast to account for methodological revisions. What's different this year is the scope of the change, as we've added more variables and made more adjustments than in prior years.

Readers interested in the details of what has changed are invited to read on to learn about our revised methodology, and for explanations of our variables. Most readers, however, will likely wish to jump ahead to the overall rankings, their state's page, or the newly interactive datasets.

For all readers, we hope that this refreshed publication, the *2025 State Tax Competitiveness Index*, will serve as a useful guide for navigating state tax policy. It ranks, both overall and across five subindices—individual income taxes, corporate taxes, sales and excise taxes, property and wealth taxes, and unemployment insurance taxes—how states compete, and where each has room to improve. And for would-be reformers, our datasets (now much more accessible!) are an invaluable guide to how states structure their tax codes, and where they diverge—for good and for ill—from their peers.

Even a good road map, however, is not always a sufficient substitute for a guide. That's why the Tax Foundation has a team of state tax experts whose primary purpose is to help educate policymakers and the public. As always, we invite you to reach out with your questions. That's why we're here.

Jared Walczak
Vice President of State Projects, Tax Foundation

Executive Summary

The Tax Foundation's *State Tax Competitiveness Index* enables policymakers, taxpayers, and business leaders to gauge how their states' tax systems compare. While there are many ways to show how much state governments collect in taxes, the *Index* evaluates how well states structure their tax systems and provides a road map for improvement.

The 10 best states in this year's *Index* are:

1. Wyoming
2. South Dakota
3. Alaska
4. Florida
5. Montana
6. New Hampshire
7. Texas
8. Tennessee
9. North Dakota
10. Indiana

The 10 lowest-ranked, or worst, states in this year's *Index* are:

41. Massachusetts
42. Hawaii
43. Vermont
44. Minnesota
45. Washington
46. Maryland
47. Connecticut
48. California
49. New Jersey
50. New York

The absence of a major tax is a common factor among many of the top 10 states. Property taxes and unemployment insurance taxes are levied in every state, but there are several states that do without one or more of the major taxes: the corporate income tax, the individual income tax, or the sales tax. South Dakota and Wyoming have no corporate or individual income tax; Alaska has no individual income or state-level sales tax; Florida and Texas have no individual income tax; and New Hampshire and Montana have no sales tax, with New Hampshire also only imposing a narrow tax on interest and dividend income.

This does not mean, however, that a state cannot rank well while still levying all the major taxes. Indiana, for example, levies all the major tax types, as do all the other states that rank 11th to 16th: Idaho, North Carolina, Missouri, Arizona, Michigan, and Utah.

The states in the bottom 10 tend to have a number of issues in common: complex, nonneutral taxes with comparatively high rates. New Jersey, for example, is hampered by some of the highest property tax burdens in the country, has the highest-rate corporate income tax in the country, and has one of the highest-rate individual income taxes. Additionally, the state has a particularly aggressive treatment of international income, levies an inheritance tax, and maintains some of the nation's worst-structured individual income taxes.

Table 1. 2025 *State Tax Competitiveness Index* Ranks and Component Tax Ranks

State	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
Alabama	38	14	34	49	14	18
Alaska	3	34	1	5	30	45
Arizona	15	13	8	45	13	2
Arkansas	36	15	39	44	19	11
California	48	41	49	46	23	25
Colorado	32	10	18	37	36	39
Connecticut	47	31	47	21	50	40
Delaware	18	50	42	2	1	1
Florida	4	16	1	14	21	10
Georgia	26	12	31	23	34	24
Hawaii	42	25	46	28	24	49
Idaho	11	21	11	9	3	35
Illinois	37	42	13	38	41	43
Indiana	10	8	16	17	5	13
Iowa	20	23	19	11	32	33
Kansas	25	27	27	30	29	4
Kentucky	22	18	23	18	27	34
Louisiana	40	29	33	48	16	9
Maine	29	40	22	8	48	19
Maryland	46	37	45	39	35	20
Massachusetts	41	33	41	20	46	47
Michigan	14	9	14	12	28	26
Minnesota	44	43	44	34	26	42
Mississippi	27	6	32	25	38	15
Missouri	13	4	20	24	11	5
Montana	5	19	10	3	18	21
Nebraska	24	20	26	13	45	3
Nevada	17	39	7	40	7	46
New Hampshire	6	32	12	1	39	27
New Jersey	49	44	48	35	43	50
New Mexico	31	22	37	41	2	16
New York	50	28	50	42	47	37
North Carolina	12	3	21	16	20	7
North Dakota	9	7	17	15	4	12
Ohio	35	45	25	43	6	14
Oklahoma	21	5	28	32	15	6
Oregon	30	49	40	4	31	41
Pennsylvania	34	38	38	22	9	36
Rhode Island	39	35	30	26	37	48
South Carolina	33	11	24	33	42	28
South Dakota	2	1	1	31	10	22
Tennessee	8	48	1	47	33	17
Texas	7	46	1	36	40	30
Utah	16	17	9	27	12	29
Vermont	43	36	43	29	49	8
Virginia	28	24	36	10	22	38
Washington	45	47	15	50	25	44
West Virginia	23	26	29	19	17	23
Wisconsin	19	30	35	6	8	32
Wyoming	1	1	1	7	44	31
District of Columbia	48	32	47	41	48	25

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states. The report shows tax systems as of July 1, 2024 (the beginning of Fiscal Year 2025).

Source: Tax Foundation.

Understanding the *Index* and Tax Competition

Tax competition is a little like WAR—not conflict, but Wins Above Replacement. The term comes from baseball, where it is intended as a sabermetric statistic to measure how many more wins a team can claim due to a specific player above the amount that would be generated by a replacement-level player. It's much the same way in public finance: a well-structured tax code won't make the Wyoming Basin a metropolis, nor will poor tax structure make Manhattan a ghost town. But tax structure does play a role in a state's economic successes or failures, and often a substantial one. Every state can benefit from a simple, neutral, transparent, pro-growth tax structure.

The *Index* scores states across five subindices, each representing a major component of state tax codes: corporate taxes, individual income taxes, sales and excise taxes, property and wealth taxes, and unemployment insurance taxes. Rather than weighting each subindex equally, their weight is determined according to the variance across states in each category, which has the effect of assigning more weight to areas where states have more opportunities in which to compete.

Of course, it is difficult to introduce any structural flaws to the design of a tax one does not impose, so some states, by forgoing a tax altogether (the individual income tax, the corporate income tax, or the sales tax) score perfectly on a subindex or some portion of one. This is why states like Wyoming and South Dakota, which both forgo income taxes, do so well on the *Index*. States that can avoid imposing one or more of the major taxes either have to lean very heavily on the other major tax types (which can mean lower rankings on those components), choose to operate on leaner budgets, take advantage of natural resources like oil and gas, or have demographics (like Florida) where other taxes can generate a surprising amount of revenue.

In other words, the Wyoming model may not be possible in some states—but the Indiana, Idaho, and North Carolina models are. These states all rank in the top 12 on the *Index* while imposing all of the major taxes, but at moderate rates with comparatively well-designed tax structures.

For taxpayers, the *Index* is a good starting point for understanding how their state compares to its peers. But for policymakers and others interested in how to improve the structure of their state's tax code, it's more than that: it's a valuable diagnostic tool, with tables that allow readers to compare their state to its peers on a wide range of factors—tax rates, yes, but also throwback rules, the treatment of net operating losses, recapture provisions, indexation, spit roll taxation, convenience rules, expensing, and much more.

If you saddled South Dakota with New York's tax code, the state would struggle. People are clearly willing to pay a premium to live in New York—on real estate, on consumer purchases, and yes, on taxes. But there are limits, to say nothing of the fact that a system that is bearable in Manhattan may be considerably more burdensome in Syracuse. And even in states like New York—in the post-pandemic recovery, perhaps especially in states like New York—tax burdens, and tax structures, matter.

Taxes are not everything, but they do matter, and they are within the control of policymakers. Even within a given revenue target, there are better and worse ways to raise revenue.

The *Index* measures tax structure, not all the other things businesses care about, like an educated workforce, quality of life, proximity to relevant markets, or even the weather—and some of these things involve trade-offs. Taxes, however, are an important part of the mix, and modernizing a state's tax structure helps position it for growth. States that rank better on the *Index* have better-structured tax codes, and states with better-structured tax codes get Wins Above Replacement.

Notable Ranking Changes in This Year's *Index*

Arkansas

Arkansas improved two places overall, from 38th to 36th, with the state reducing its top marginal corporate income tax rate from 5.1 percent to 4.3 percent and its top marginal individual income tax rate from 4.7 percent to 3.9 percent. Additionally, Arkansas consolidated its individual income tax brackets from three to two. This yielded a four-place improvement on the corporate component, from 19th to 15th, though the individual income tax rate reductions were not enough to secure an improvement in that component due to intense competition in other states.

California

California uncapped a 1.1 percent non-UI payroll tax, applying it to all income and functionally yielding a 14.4 percent top marginal rate on wage income. The state also re-suspended net operating loss carryforwards, making it once again the only state not to provide any ability to apply past losses to current or future year profits under the corporate income tax. These changes did not, however, budge the state's overall rank of 48th, after only New York and New Jersey.

Colorado

Despite a continued trimming of state income tax rates from 4.4 to 4.25 percent, Colorado slid slightly in *Index* rankings as other states not only cut rates more deeply but also implemented other reforms.

Connecticut

Connecticut's capital stock tax rate declined from 0.31 to 0.26 percent, not enough to change the state's rankings, though the eventual phaseout of the tax will have a positive effect on the state's *Index* ranks.

Georgia

In 2024, Georgia transitioned from a graduated individual income tax with a top rate of 5.75 percent to a flat tax structure with a rate of 5.39 percent. The corporate income tax rate, per H.B. 1023, is now aligned with the individual income tax rate. Both rates are also scheduled to decrease to 4.99 percent by 2028. As a result of these structural reforms, Georgia moved up six places overall on the *Index*, including three places on the individual income tax component and two places on the corporate tax component.

Idaho

Idaho's individual and corporate income tax rates declined from 5.8 to 5.695 percent, though due to rate relief and structural reforms in other states, these rate reductions did not improve the state's rankings.

Table 2. *State Tax Competitiveness Index* (2020-2025)

					2024		2025		2024-2025	
State	**2020**	**2021**	**2022**	**2023**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Alabama	39	40	40	41	39	4.73	38	4.77	-1	0.03
Alaska	3	3	3	3	3	7.17	3	7.05	0	-0.12
Arizona	19	19	18	16	16	5.48	15	5.46	-1	-0.02
Arkansas	45	46	42	38	38	4.74	36	4.85	-2	0.11
California	48	48	48	48	48	3.89	48	3.88	0	-0.01
Colorado	22	22	25	27	31	5.06	32	5.02	1	-0.04
Connecticut	47	47	47	47	47	4.15	47	4.13	0	-0.02
Delaware	18	18	19	18	18	5.37	18	5.35	0	-0.02
Florida	4	4	4	4	4	6.81	4	6.78	0	-0.03
Georgia	30	29	28	29	32	5.03	26	5.10	-6	0.07
Hawaii	38	41	43	43	44	4.49	42	4.52	-2	0.03
Idaho	17	17	14	13	10	5.61	11	5.60	1	-0.01
Illinois	33	34	35	34	36	4.82	37	4.77	1	-0.05
Indiana	13	13	13	11	12	5.57	10	5.63	-2	0.07
Iowa	44	39	38	37	22	5.19	20	5.30	-2	0.11
Kansas	31	31	26	23	25	5.13	25	5.13	0	0.00
Kentucky	20	20	21	21	23	5.19	22	5.18	-1	-0.01
Louisiana	42	44	45	39	40	4.69	40	4.74	0	0.04
Maine	27	26	23	28	27	5.13	29	5.06	2	-0.07
Maryland	41	43	46	46	46	4.33	46	4.35	0	0.02
Massachusetts	34	33	34	33	41	4.55	41	4.56	0	0.01
Michigan	12	11	12	12	14	5.55	14	5.49	0	-0.06
Minnesota	46	45	44	44	42	4.54	44	4.48	2	-0.06
Mississippi	29	30	30	31	29	5.09	27	5.09	-2	0.00
Missouri	15	9	10	9	13	5.56	13	5.54	0	-0.02
Montana	5	5	5	5	5	6.18	5	6.32	0	0.13
Nebraska	28	28	24	24	28	5.09	24	5.16	-4	0.07
Nevada	16	15	17	17	17	5.42	17	5.37	0	-0.05
New Hampshire	7	7	7	7	6	6.03	6	6.05	0	0.02
New Jersey	50	50	49	49	49	3.64	49	3.69	0	0.06
New Mexico	24	27	33	26	30	5.07	31	5.02	1	-0.04
New York	49	49	50	50	50	3.61	50	3.62	0	0.01
North Carolina	11	10	11	10	11	5.60	12	5.57	1	-0.03
North Dakota	10	16	15	14	9	5.63	9	5.67	0	0.04
Ohio	36	37	37	36	35	4.84	35	4.87	0	0.04
Oklahoma	26	23	31	22	19	5.30	21	5.27	2	-0.04
Oregon	9	12	29	30	26	5.13	30	5.05	4	-0.08
Pennsylvania	37	36	36	35	34	4.91	34	4.93	0	0.02
Rhode Island	40	38	39	40	37	4.80	39	4.75	2	-0.05
South Carolina	32	32	32	32	33	5.01	33	4.99	0	-0.03
South Dakota	2	2	2	2	2	7.58	2	7.65	0	0.06
Tennessee	35	35	8	8	8	5.86	8	5.94	0	0.08
Texas	6	6	6	6	7	6.00	7	6.00	0	-0.01
Utah	14	14	16	15	15	5.48	16	5.43	1	-0.05
Vermont	43	42	41	42	43	4.54	43	4.50	0	-0.03
Virginia	23	25	27	25	24	5.16	28	5.09	4	-0.07
Washington	8	8	9	45	45	4.47	45	4.44	0	-0.03
West Virginia	25	24	22	19	21	5.19	23	5.17	2	-0.02
Wisconsin	21	21	20	20	20	5.28	19	5.32	-1	0.04
Wyoming	1	1	1	1	1	7.73	1	7.65	0	-0.08
District of Columbia	47	47	47	48	48	4.01	48	4.07	0	0.06

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states.
Source: Tax Foundation.

Indiana

Indiana's individual income tax rate decreased from 3.15 percent in 2023 to 3.05 percent in 2024 due to H.B. 1001, enacted in May 2023. The rate is scheduled to drop to 2.9 percent by 2027. Indiana also implemented a filing and withholding threshold to protect nonresidents who spend up to 30 days in the state and removed the transactions threshold from its definition of economic nexus, providing additional protection for small remote retailers. As a result, the state now ranks 10th overall on the *Index*, an improvement of two places, and improved from 20th to 16th on the individual income tax component.

Iowa

Iowa improved two places overall, to 20th, as the state continues to implement meaningful reforms. The corporate income tax phased down from 8.3 to 7.1 percent, resulting in an improvement of five places on the corporate component of the *Index*. A reduction of the top individual income tax rate from 6.0 to 5.7 percent, combined with a reduction in brackets from four to three, did not yield an improvement in the individual component rank since other states made larger changes. However, Iowa can expect continued gains as reforms continue to phase in, particularly once the state reaches its target of a 3.8 percent single-rate individual income tax. The state has improved its overall rank from 44th to 20th, its individual rank from 42nd to 19th, and its corporate rank from 45th to 23rd since 2020 thanks to a multi-year comprehensive reform package that continues to phase in. Beginning in 2025, Iowa will fully repeal its inheritance tax and implement a 3.8 percent flat individual income tax, both of which will substantially improve the state's rankings.

Kansas

Kansas improved one place on the individual component due to the passage of S.B. 1 in June 2024, which retroactively reduced the top marginal rate from 5.7 to 5.58 percent, consolidated three brackets into two, and increased the standard deduction, personal exemption, and dependent exemption, among other tax changes. The corporate income tax rate also declined from 7 to 6.5 percent, though this did not improve the state's rank on the corporate component.

Kentucky

Kentucky's individual income tax rate declined from 4.5 to 4.0 percent as part of a continued revenue-contingent phasedown of income tax rates, with each phased reduction subject to an affirmative vote of the legislature. These changes helped Kentucky improve by one *Index* rank overall.

Louisiana

The Louisiana legislature eliminated the state's throwout rule, which taxes "nowhere income" in the state from which sales are made because the seller lacks sufficient nexus to be taxed in the destination state, leading to taxation in the wrong state at the wrong rate. This change improved the state's corporate component ranking by two places, from 31st to 29th.

Minnesota

Minnesota is now the only state to tax long-term capital gains at a higher rate than ordinary income (excepting Washington, which taxes high earners' capital gains income but not wage income), with the state sliding two places overall on the *Index*.

Mississippi

Mississippi improved two places on the *Index*, from 29th to 27th, as its capital stock (franchise) tax rate declined from 0.1 to 0.075 percent and its now-flat individual income tax rate phased down from 5 to 4.7 percent, on the way to an ultimate rate of 4 percent. The franchise tax is also scheduled for complete elimination.

Missouri

A slight trimming of Missouri's top individual income tax rate, from 4.95 to 4.8 percent, was enough to maintain the state's overall rank of 13th, but not to improve it in a highly competitive tax environment.

Montana

In 2021, Montana lawmakers enacted legislation compressing the state's seven individual income tax brackets into two and reducing the top marginal rate to 6.5 percent in 2024. Policymakers subsequently enhanced the rate reduction, bringing the top rate to 5.9 percent. Combined with high nonresident income tax filing and withholding thresholds and a well-structured income tax generally, these changes drove a dramatic improvement in the individual income tax component rank, from 22nd to 10th place.

Nebraska

Continued rate relief in Nebraska yielded a ranking improvement of four places overall, from 28th to 24th, as individual and corporate income tax rates both declined substantially to 5.84 percent. These rate reductions resulted in a seven-place improvement on the corporate component, from 27th to 20th, and an improvement of three places, from 29th to 26th, on the individual income tax component of the *Index*.

New Hampshire

With the enactment of S.B. 189 in July 2023, New Hampshire decoupled from the federal limitation on the deductibility of business net interest expenses under IRC Section 163(j). As a result, as of January 1, 2024, businesses may now fully deduct their interest expenses in the year those expenses are incurred. This change, following on the heels of rate reductions to New Hampshire's two business taxes, helped New Hampshire's corporate component ranking improve by eight places, from 40th to 32nd. New Hampshire also continued to phase down its interest and dividends (I&D) tax this year, but given New Hampshire's already highly competitive standing on this component, that change did not result in an improvement in rank on the individual tax component.

New Jersey

New Jersey largely removed GILTI from its tax base, a positive reform that was nonetheless not enough to budge the state from its unenviable position between New York and California, at 49th overall.

North Carolina

North Carolina's flat-rate individual income tax was reduced from 4.75 to 4.5 percent, but due to reforms in other states, this failed to improve the state's ranking, and the state actually slid from 11th to 12th overall as other states made meaningful structural reforms.

Ohio

A cut to Ohio's top individual income tax rate, from 3.75 to 3.5 percent, yielded a three-place improvement in the individual income tax component rank, from 28th to 25th. Ohio's state-level income tax rate is now highly competitive, but the state remains burdened by high-rate local income taxes.

Oregon

Oregon's rank dropped primarily due to relatively minor changes in its property and unemployment insurance tax components. However, competition among the states in the middle of the *Index*, with many states cutting rates and improving their tax structures, was such that the state lost ground by standing still.

Pennsylvania

Pennsylvania reduced its high-rate corporate income tax from 9 to 8.49 percent, a positive development but one that failed to leapfrog other states given how much of an outlier the state's corporate income tax rate remains. However, the rate is scheduled to continue declining to 4.99 percent in coming years, which will yield meaningful improvements on the *Index*. Similarly, legislation was recently adopted that will see the state's anomalously stingy net operating loss provisions begin improving next year, which should also result in ranking improvements.

Tennessee

Tennessee slashed its gross receipts tax rate from 0.3 to 0.15 percent and made reforms to its state capital stock (franchise) tax to reduce burdens on businesses. Until these taxes are eliminated, however, Tennessee is unlikely to improve on its ranking of 8th overall.

Utah

Utah implemented another round of modest individual and corporate income tax rate reductions, trimming rates from 4.65 to 4.55 percent. However, Utah still slid from 15th to 16th overall due to significant improvements elsewhere across the country, including the advent of much lower top (or single) rate income taxes in some states.

Wisconsin

Wisconsin's property tax rank improved by five places as a result of AB 245, enacted in June 2023, which eliminated Wisconsin's business personal property tax beginning with the January 1, 2024, property tax assessment. This caused Wisconsin to join the ranks of the states that no longer levy tangible personal property taxes and yielded a five-place improvement on the property tax component, from 13th to 8th, and an improvement of one place overall.

Introduction

Taxation is inevitable, but the specifics of a state's tax structure matter greatly. The measure of total taxes paid is relevant, but other elements of a state tax system can also enhance or harm the competitiveness of a state's business environment. The *State Tax Competitiveness Index* distills many complex considerations to an easy-to-understand ranking.

The modern market is characterized by mobile capital and labor, with all types of businesses, small and large, tending to locate where they have the greatest competitive advantage. The evidence shows that states with the best tax systems will be the most competitive at attracting new businesses and most effective at generating economic and employment growth. It is true that taxes are but one factor in business decision-making. Other concerns also matter—such as access to raw materials or infrastructure or a skilled labor pool–but a simple, sensible tax system can positively impact business operations with regard to these resources. Furthermore, unlike changes to a state's health-care, transportation, or education systems, which can take decades to implement, changes to the tax code can quickly improve a state's competitiveness.

It is important to remember that even in our global economy, states' stiffest competition often comes from other states. The Department of Labor reports that most mass job relocations are from one U.S. state to another rather than to a foreign location.[1] Certainly, job creation is rapid overseas, as previously underdeveloped nations enter the world economy, though in the aftermath of federal tax reform, U.S. businesses no longer face the third-highest corporate tax rate in the world, but rather one in line with averages for industrialized nations.[2] State lawmakers are right to be concerned about how their states rank in the global competition for jobs and capital, but they need to be more concerned with companies moving from Detroit, Michigan, to Dayton, Ohio, than from Detroit to New Delhi, India. This means that state lawmakers must be aware of how their states' business climates match up against their immediate neighbors and to other regional competitor states.

Anecdotes about the impact of state tax systems on business investment are plentiful. In Illinois in the early 2000s, hundreds of millions of dollars of capital investments were delayed when then-Governor Rod Blagojevich (D) proposed a hefty gross receipts tax.[3] Only when the legislature resoundingly defeated the bill did the investment resume. In 2005, California-based Intel decided to build a multibillion-dollar chip-making facility in Arizona due to its favorable corporate income tax system.[4] In 2010, Northrup Grumman chose to move its headquarters to Virginia over Maryland, citing the better business tax climate.[5] In 2015, General Electric and Aetna threatened to decamp from Connecticut if the governor signed a budget that would increase corporate tax burdens, and General Electric actually did so.[6] Anecdotes such as these reinforce what we know from economic theory: taxes matter to businesses, and those places with the most competitive tax systems will reap the benefits of business-friendly tax climates.

Tax competition is an unpleasant reality for state revenue and budget officials, but it is an effective restraint on state and local taxes. When a state imposes higher taxes than a neighboring state, businesses will cross the border to some extent. Therefore, states with more competitive tax systems score well in the *Index* because they are best suited to generate economic growth.

State lawmakers are mindful of their states' tax competitiveness, but they are sometimes tempted to lure businesses with lucrative tax incentives and subsidies instead of broad-based tax reform. This can be a dangerous proposition, as the example of Dell Computers and North Carolina illustrates. North Carolina agreed to $240 million worth of incentives to lure Dell to the state. Many of the incentives came in the form of tax credits from the state and local governments. Unfortunately, Dell announced in 2009 that it would be closing the plant after only four years of operations.[7] A 2007 *USA TODAY* article chronicled similar problems other states have had with companies that receive generous tax incentives.[8]

1 See U.S. Department of Labor, "Extended Mass Layoffs, First Quarter 2013," Table 10, May 13, 2013.
2 Daniel Bunn, "Corporate Income Tax Rates Around the World, 2018," Tax Foundation, Nov. 27, 2018, https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/.
3 Editorial, "Scale it back, Governor," *Chicago Tribune*, March 23, 2007.
4 Ryan Randazzo, Edythe Jenson, and Mary Jo Pitzl, "Cathy Carter Blog: Chandler getting new $5 billion Intel facility," AZCentral.com, Mar. 6, 2013.
5 Dana Hedgpeth and Rosalind Helderman, "Northrop Grumman decides to move headquarters to Northern Virginia," *The Washington Post*, April 27, 2010.
6 Susan Haigh, "Connecticut House Speaker: Tax 'mistakes' made in budget," Associated Press, Nov. 5, 2015.
7 Austin Mondine, "Dell cuts North-Carolina plant despite $280m sweetener," TheRegister.co.uk, Oct. 8, 2009.
8 Dennis Cauchon, "Business Incentives Lose Luster for States," *USA TODAY*, Aug. 22, 2007.

Lawmakers make these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for an undesirable business tax climate. A far more effective approach is the systematic improvement of the state's business tax climate for the long term to improve the state's competitiveness. When assessing which changes to make, lawmakers need to remember two rules:

1. **Taxes matter to corporations and individuals.** Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), employees (through lower wages or fewer jobs), shareholders (through lower dividends or share value), or some combination of the above. Thus, a state with lower tax costs will be more attractive to business investment and more likely to experience economic growth.

2. **States do not enact tax changes (increases or cuts) in a vacuum.** Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its region, and even globally. Ultimately, it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

To some extent, tax-induced economic distortions are a fact of life, but policymakers should strive to maximize the occasions when businesses and individuals are guided by business principles and minimize those cases where economic decisions are influenced, micromanaged, or even dictated by a tax system. The more riddled a tax system is with politically motivated preferences, the less likely it is that business decisions will be made in response to market forces. The *Index* rewards those states that minimize tax-induced economic distortions.

Ranking the competitiveness of 50 very different tax systems presents many challenges, especially when a state dispenses with a major tax entirely. Should Indiana's tax system, which includes three relatively neutral taxes on sales, individual income, and corporate income, be considered more or less competitive than Alaska's tax system, which includes a particularly burdensome corporate income tax but no statewide tax on individual income or sales?

The *Index* deals with such questions by comparing the states on more than 150 variables in the five major areas of taxation (corporate taxes, individual income taxes, sales use excise taxes, unemployment insurance taxes, and property and wealth taxes) and then adding the results to yield a final, overall ranking. This approach rewards states on particularly strong aspects of their tax systems (or penalizes them on particularly weak aspects), while measuring the general competitiveness of their overall tax systems. The result is a score that can be compared to other states' scores. Ultimately, both Alaska and Indiana score well.

Literature Review

Economists have not always agreed on how individuals and businesses react to taxes. As early as 1956, Charles Tiebout postulated that if citizens were faced with an array of communities that offered different types or levels of public goods and services at different costs or tax levels, then all citizens would choose the community that best satisfied their particular demands, revealing their preferences by "voting with their feet." Tiebout's article is the seminal work on the topic of how taxes affect the location decisions of taxpayers.

Tiebout suggested that citizens with high demands for public goods would concentrate in communities with high levels of public services and high taxes while those with low demands would choose communities with low levels of public services and low taxes. Competition among jurisdictions results in a variety of communities, each with residents who all value public services similarly.

However, businesses sort out the costs and benefits of taxes differently from individuals. For businesses, which can be more mobile and must earn profits to justify their existence, taxes reduce profitability. Theoretically, businesses could be expected to be more responsive than individuals to the lure of low-tax jurisdictions. Research suggests that corporations engage in "yardstick competition," comparing the costs of government services across jurisdictions. Shleifer (1985) first proposed comparing regulated franchises in order to determine efficiency. Salmon (1987) extended Shleifer's work to look at subnational governments. Besley and Case (1995) showed that "yardstick competition" affects voting behavior, and Bosch and Sole-Olle (2006) further confirmed the results found by Besley and Case. Tax changes that are out of sync with neighboring jurisdictions will impact voting behavior.

The economic literature over the past 60 years has slowly cohered around this hypothesis. Ladd (1998) summarizes the post-World War II empirical tax research literature in an excellent survey article, breaking it down into three distinct periods of differing ideas about taxation: (1) taxes do not change behavior; (2) taxes may or may not change business behavior depending on the circumstances; and (3) taxes definitely change behavior.

Period one, with the exception of Tiebout, included the 1950s, 1960s, and 1970s and is summarized succinctly in three survey articles: Due (1961), Oakland (1978), and Wasylenko (1981). Due's was a polemic against tax giveaways to businesses, and his analytical techniques consisted of basic correlations, interview studies, and the examination of taxes relative to other costs. He found no evidence to support the notion that taxes influence business location. Oakland was skeptical of the assertion that tax differentials at the local level had no influence at all. However, because econometric analysis was relatively unsophisticated at the time, he found no significant results to support his intuition. Wasylenko's survey of the literature found some of the first evidence indicating that taxes do influence business location decisions. However, the statistical significance was lower than that of other factors such as labor supply and agglomeration economies. Therefore, he dismissed taxes as a secondary factor at most.

Period two was a brief transition during the early- to mid-1980s. This was a time of great ferment in tax policy as Congress passed major tax bills, including the so-called Reagan tax cut in 1981 and a dramatic reform of the federal tax code in 1986. Articles revealing the economic significance of tax policy proliferated and became more sophisticated. For example, Wasylenko and McGuire (1985) extended the traditional business location literature to nonmanufacturing sectors and found, “Higher wages, utility prices, personal income tax rates, and an increase in the overall level of taxation discourage employment growth in several industries.” However, Newman and Sullivan (1988) still found a mixed bag in “their observation that significant tax effects [only] emerged when models were carefully specified.”

Ladd was writing in 1998, so her “period three” started in the late 1980s and continued up to 1998, when the quantity and quality of articles increased significantly. Articles that fit into period three begin to surface as early as 1985, as Helms (1985) and Bartik (1985) put forth forceful arguments based on empirical research that taxes guide business decisions. Helms concluded that a state’s ability to attract, retain, and encourage business activity is significantly affected by its pattern of taxation. Furthermore, tax increases significantly retard economic growth when the revenue is used to fund transfer payments. Bartik concluded that the conventional view that state and local taxes have little effect on business is false.

Papke and Papke (1986) found that tax differentials among locations may be an important business location factor, concluding that consistently high business taxes can represent a hindrance to the location of industry. Interestingly, they use the same type of after-tax model used by Tannenwald (1996), who reaches a different conclusion.

Bartik (1989) provides strong evidence that taxes have a negative impact on business start-ups. He finds specifically that property taxes, because they are paid regardless of profit, have the strongest negative effect on business. Bartik’s econometric model also predicts tax elasticities of -0.1 to -0.5 that imply a 10 percent cut in tax rates will increase business activity by 1 to 5 percent. Bartik’s findings, as well as those of Mark, McGuire, and Papke (2000), and ample anecdotal evidence of the importance of property taxes, buttress the argument for inclusion of a property index devoted to property-type taxes in the *Index*.

By the early 1990s, the literature had expanded sufficiently for Bartik (1991) to identify 57 studies on which to base his literature survey. Ladd succinctly summarizes Bartik’s findings:

> The large number of studies permitted Bartik to take a different approach from the other authors. Instead of dwelling on the results and limitations of each individual study, he looked at them in the aggregate and in groups. Although he acknowledged potential criticisms of individual studies, he convincingly argued that some systematic flaw would have to cut across all studies for the consensus results to be invalid. In striking contrast to previous reviewers, he concluded that taxes have quite large and significant effects on business activity.

Ladd’s “period three” surely continues to this day. Agostini and Tulayasathien (2001) examined the effects of corporate income taxes on the location of foreign direct investment in U.S. states. They determined that for “foreign investors, the corporate tax rate is the most relevant tax in their investment decision.” Therefore, they found that foreign direct investment was quite sensitive to states’ corporate tax rates.

Mark, McGuire, and Papke (2000) found that taxes are a statistically significant factor in private-sector job growth. Specifically, they found that personal property taxes and sales taxes have economically large negative effects on the annual growth of private employment.

Harden and Hoyt (2003) point to Phillips and Gross (1995) as another study contending that taxes impact state economic growth, and they assert that the consensus among recent literature is that state and local taxes negatively affect employment levels. Harden and Hoyt conclude that the corporate income tax has the most significant negative impact on the rate of growth in employment.

Gupta and Hofmann (2003) regressed capital expenditures on a variety of factors, including weights of apportionment formulas, the number of tax incentives, and burden figures. Their model covered 14 years of data and determined that firms tend to locate property in states where they are subject to lower income tax burdens. Furthermore, Gupta and Hofmann suggest that throwback requirements are the most influential on the location of capital investment, followed by apportionment weights and tax rates, and that investment-related incentives have the least impact.

Other economists have found that taxes on specific products can produce behavioral results similar to those that were found in these general studies. For example, Fleenor (1998) looked at the effect of excise tax differentials between states on cross-border shopping and the smuggling of cigarettes. Moody and Warcholik (2004) examined the cross-border effects of beer excises. Their results, supported by the literature in both cases, showed significant cross-border shopping and smuggling between low-tax states and high-tax states.

Fleenor found that shopping areas sprouted in counties of low-tax states that shared a border with a high-tax state, and that approximately 13.3 percent of the cigarettes consumed in the United States during FY 1997 were procured via some type of cross-border activity. Similarly, Moody and Warcholik found that in 2000, 19.9 million cases of beer, on net, moved from low- to high-tax states. This amounted to some $40 million in sales and excise tax revenue lost in high-tax states.

Although the literature has largely congealed around a general consensus that taxes are a substantial factor in the decision-making process for businesses, disputes remain, and some scholars are unconvinced.

Based on a substantial review of the literature on business climates and taxes, Wasylenko (1997) concludes that taxes do not appear to have a substantial effect on economic activity among states. However, his conclusion is premised on there being few significant differences in state tax systems. He concedes that high-tax states will lose economic activity to average or low-tax states "as long as the elasticity is negative and significantly different from zero." Indeed, he approvingly cites a *State Policy Reports* article that finds that the highest-tax states have acknowledged that high taxes may be responsible for the low rates of job creation in those states.[9]

9 *State Policy Reports*, Vol. 12, No. 11, Issue 1, p. 9, June 1994.

Wasylenko's rejoinder is that policymakers routinely overestimate the degree to which tax policy affects business location decisions and that as a result of this misperception, they respond readily to public pressure for jobs and economic growth by proposing lower taxes. According to Wasylenko, other legislative actions are likely to accomplish more positive economic results because in reality, taxes do not drive economic growth.

However, there is ample evidence that states compete for businesses using their tax systems. A notable example comes from Illinois, where in early 2011 lawmakers passed two major tax increases. The individual income tax rate increased from 3 percent to 5 percent, and the corporate income tax rate rose from 7.3 percent to 9.5 percent.[10] The result was that many businesses threatened to leave the state, including some very high-profile Illinois companies such as Sears and the Chicago Mercantile Exchange. By the end of the year, lawmakers had cut deals with both firms, totaling $235 million over the next decade, to keep them from leaving the state.[11]

A new literature review, Kleven et al. (2019), summarizes recent evidence for tax-driven migration. Meanwhile, Giroud and Rauh (2019) use microdata on multistate firms to estimate the impact of state taxes on business activity, and find that C corporation employment and establishments have short-run corporate tax elasticities of -0.4 to -0.5, while pass-through entities show elasticities of -0.2 to -0.4, meaning that, for each percentage-point increase in the rate, employment decreases by 0.4 to 0.5 percent for C corporations subject to the corporate income tax, and by 0.2 to 0.4 percent within pass-through businesses subject to the individual income tax.

Measuring the Impact of Tax Differentials

Some recent contributions to the literature on state taxation criticize business and tax climate studies in general.[12] Authors of such studies contend that comparative reports like the *State Tax Competitiveness Index* do not take into account those factors which directly impact a state's business climate. However, a careful examination of these criticisms reveals that the authors believe taxes are unimportant to businesses and therefore dismiss the studies as merely being designed to advocate low taxes.

Peter Fisher's *Grading Places: What Do the Business Climate Rankings Really Tell Us?* now published by Good Jobs First, criticizes four indices: The *U.S. Business Policy Index* published by the Small Business and Entrepreneurship Council, Beacon Hill's *Competitiveness Report*, the American Legislative Exchange Council's *Rich States, Poor States,* and the previous version of study. The first edition also critiqued the Cato Institute's *Fiscal Policy Report Card* and the *Economic Freedom Index* by the Pacific Research Institute. In the report's first edition, published before Fisher summarized his objections: "The underlying problem with the … indexes, of course, is twofold: none of them actually do a very good job of measuring what it is they claim to measure, and they do not, for the most part, set out to measure the right things

10 Both rate increases had a temporary component and were allowed to partially expire before legislators overrode a gubernatorial veto to increase rates above where they would have been should they have been allowed to sunset.

11 Benjamin Yount, "Tax increase, impact, dominate Illinois Capitol in 2011," *Illinois Statehouse News*, Dec. 27, 2011.

12 A trend in tax literature throughout the 1990s was the increasing use of indices to measure a state's general business climate. These include the Center for Policy and Legal Studies' *Economic Freedom in America's 50 States: A 1999 Analysis* and the Beacon Hill Institute's *State Competitiveness Report 2001*. Such indexes even exist on the international level, including the Heritage Foundation and *The Wall Street Journal*'s *2004 Index of Economic Freedom*. Plaut and Pluta (1983) examined the use of business climate indices as explanatory variables for business location movements. They found that such general indices do have a significant explanatory power, helping to explain, for example, why businesses have moved from the Northeast and Midwest toward the South and Southwest. In turn, they also found that high taxes have a negative effect on employment growth.

to begin with" (Fisher 2005). In the second edition, he identified three overarching questions: (1) whether the indices included relevant variables, and only relevant variables; (2) whether these variables measured what they purport to measure; and (3) how the index combines these measures into a single index number (Fisher 2013). Fisher's primary argument is that if the indexes did what they purported to do, then all five would rank the states similarly.

Fisher's conclusion holds little weight because the five indices serve such dissimilar purposes, and each group has a different area of expertise. There is no reason to believe that the Tax Foundation's *Index*, which depends entirely on state tax laws, would rank the states in the same or similar order as an index that includes crime rates, electricity costs, and health care (the Small Business and Entrepreneurship Council's *Small Business Survival Index*), or infant mortality rates and the percentage of adults in the workforce (Beacon Hill's *State Competitiveness Report*), or charter schools, tort reform, and minimum wage laws (the Pacific Research Institute's *Economic Freedom Index*).

The Tax Foundation's *State Tax Competitiveness Index* is an indicator of which states' tax systems are the most hospitable to economic growth. The *Index* does not purport to measure economic opportunity or freedom, or even the broad business climate, but rather tax competitiveness, and its variables reflect this focus. We do so not only because the Tax Foundation's expertise is in taxes, but because every component of the *Index* is subject to immediate change by state lawmakers. It is by no means clear what the best course of action is for state lawmakers who want to thwart crime, for example, either in the short or long term, but they can change their tax codes now. Contrary to Fisher's 1970s view that the effects of taxes are "small or non-existent," our study reflects strong evidence that business decisions are significantly impacted by tax considerations.

Although Fisher does not feel tax climates are important to states' economic growth, other authors contend the opposite. Bittlingmayer, Eathington, Hall, and Orazem (2005) find in their analysis of several business climate studies that a state's tax climate does affect its economic growth rate and that several indices are able to predict growth, and that this study's predecessor "explains growth consistently." This finding was confirmed by Anderson (2006) in a study for the Michigan House of Representatives, and more recently by Kolko, Neumark, and Mejia (2013), who, in an analysis of the ability of 10 business climate indices to predict economic growth, concluded that this study's predecessor, *State Business Tax Climate Index*, yielded "positive, sizable, and statistically significant estimates for every specification" they measured, and specifically cited the *Index* as one of two business climate indices (out of 10) with particularly strong and robust evidence of predictive power.

Bittlingmayer et al. also found that relative tax competitiveness matters, especially at the borders, and therefore, indices that place a high premium on tax policies do a better job of explaining growth. They also observed that studies focused on a single topic do better at explaining economic growth at borders. Lastly, the article concludes that the most important elements of the business climate are tax and regulatory burdens on business (Bittlingmayer et al. 2005). These findings support the argument that taxes impact business decisions and economic growth, and they support the validity of the *Index*.

Fisher and Bittlingmayer et al. hold opposing views about the impact of taxes on economic growth. Fisher finds support from Robert Tannenwald, formerly of the Boston Federal Reserve, who argues that taxes are not as important to businesses as public expenditures. Tannenwald compares 22 states by measuring the after-tax rate of return to cash flow of a new facility built by a representative firm in each state. This very different approach attempts to compute the marginal effective tax rate of a hypothetical firm and yields results that make taxes appear trivial.

The taxes paid by businesses should be a concern to everyone because they are ultimately borne by individuals through lower wages, increased prices, and decreased shareholder value. States do not institute tax policy in a vacuum. Every change to a state's tax system makes its business tax climate more or less competitive compared to other states and makes the state more or less attractive to business. Ultimately, anecdotal and empirical evidence, along with the cohesion of recent literature around the conclusion that taxes matter a great deal to business, show that the *Index* is an important and useful tool for policymakers who want to make their states' tax systems welcoming to business.

Methodological Changes

The *State Tax Competitiveness Index (STCI)* is the successor to the *State Business Tax Climate Index (SBTCI)*, which was published by the Tax Foundation from 2003 to 2023. Continuing in the tradition of its predecessor, the new *Index* assesses state tax competitiveness and the soundness of states' tax codes. While it maintains the same general structure as the old *Index*, it incorporates meaningful methodological changes aimed at creating a more transparent and modern approach to evaluating state tax competitiveness.

What Has Remained the Same

Similar to the *SBTCI*, the *State Tax Competitiveness Index* contains five major components:

- Corporate Taxes (includes corporate income taxes and gross receipts taxes)
- Individual Income Taxes
- Sales, Use, and Excise Taxes
- Property and Wealth Taxes
- Unemployment Insurance Taxes

Each component, as before, has two equally weighted subindices: the rate subindex and the base subindex. Where applicable, both state and average local tax rates are used to assess the state's tax competitiveness. However, components are not weighted equally. Instead, each component is weighted based on the variability (standard deviation) of the 50 states' scores from the mean. This results in a heavier weighting of components with greater variability. Traditionally, individual income taxes and sales taxes have had the highest weights, while unemployment insurance taxes have had the lowest weight. This remains true in the new *Index*.

Alternative weighting schemes, such as equal weights or weights based on the revenue-generating importance of a tax, are possible, but sensitivity tests show they produce relatively similar results. For example, the correlation between the actual *Index* ranks and those using equal weights is about 0.85, with most states in the top 10 and bottom 10 retaining their ranks. However, we believe the current weighting scheme better reflects the importance of tax competition and provides stronger rewards and penalties in areas where competition for human, physical, and financial capital is most intense.

What Has Changed

Corporate Taxes

Since corporate income taxes and gross receipts taxes are fundamentally different systems for taxing corporations, we assess them separately, with each now receiving a 50-percent weight in both the rate and base subindices. In the previous version of the *Index*, gross receipts taxes were underweighted compared to corporate income taxes, especially in the base subindex, with particular challenges arising in the two states (Delaware and Oregon) that impose both corporate income and gross receipts taxes at the state level.

Additionally, significant changes have been made to the treatment of net operating losses and their respective deductions. Since carryforward provisions are much more important than carryback provisions in the federal tax code, we now assign an 80-percent weight to carryforwards and a 20-percent weight to carrybacks when assessing net operating loss deductions. Both provisions help firms pay taxes based on their average, rather than annual, profitability. However, carrybacks are rarely used by states and function similarly to carryforwards. A generous carryforward period (of 20 years or above) with no statutory dollar cap now allows a state to score highly on the base subindex, even if it doesn't offer a carryback. This differs from the old *Index*, where carryback treatment was given greater weight, and where conformity to federal treatment was assessed on par with the most generous state-specific carryforward treatment rather than assessing the discrete elements (carryforward period and carryforward cap) separately.

Individual Income Taxes

In the rate subindex, the top rate variable now includes the state's top marginal income tax rate and the average local income tax rate in the two largest jurisdictions. Previously, we used the average local income tax rate in the largest jurisdiction and the state capital. Our new approach notably affects states like Pennsylvania and Kentucky, where the largest cities tend to have the highest local income tax rates. The rate subindex now includes a new variable that reflects the progressivity of the individual income tax rate structure. This variable is calculated by dividing the state's top marginal income tax rate by the marginal rate for joint filers with a median household income (which varies by state). The higher the ratio, the greater the progressivity of the rate structure and the stronger the incentive for high earners to consider relocating to other jurisdictions. The rate subindex gives equal weight to the top rate variable and the progressivity index, which accounts for the rate structure's progressivity, the number of brackets, the top tax bracket threshold, and income recapture.

The base subindex, in addition to previously used marriage penalty, indexation, double taxation, alternative minimum tax, Section 179 expensing, and other variables, now includes the filing and withholding threshold index. This variable assesses states' individual income tax filing and withholding requirements for nonresidents who perform a limited amount of work in the state. States that score well on this variable provide meaningful filing and withholding relief to most nonresidents who spend a limited amount of time working in the state.

Sales and Excise Taxes

The rate subindex now includes both the general state and local sales tax rate index and the excise tax index, weighted at 75 percent and 25 percent, respectively, to roughly reflect the revenue-generating potential of these taxes. The excise tax index, in addition to previously included taxes on gasoline, diesel, tobacco, beer, and distilled spirits, now incorporates the vape tax rate, reflecting the growing importance of this tax. Additionally, if the state imposes a digital advertising tax (currently only in Maryland), it is penalized by up to 15 percent of the score in this subindex, depending on the tax rate.

The base subindex now accounts for several additional business inputs, goods, and services, particularly in the digital space. The *Index* has traditionally penalized states for taxing manufacturing machinery, raw materials, farm equipment, office equipment, industrial utilities, and information services, among others. Now, the category of business inputs has been expanded to include software-as-a-service (SaaS), platform-as-a-service (PaaS), payroll services, and other business-to-business digital goods. Taxing these new business-to-business transactions leads to tax pyramiding and should be avoided. Final consumption goods and services, which could be used for modest base broadening (and for which states are rewarded in the *Index*), now include e-books and digital video.

Property and Wealth Taxes

The rate subindex, as before, consists of the effective property tax rate index and the capital stock tax index. We now use property taxes paid as a percentage of personal income as the sole measure of the effective property tax burden. We removed the per capita property tax collections variable for simplicity, as the two variables were highly collinear (with a correlation coefficient of 0.94), and there was limited justification for using both.

The base subindex now provides a more comprehensive treatment of tangible personal property (TPP) taxation. In addition to the dummy variable indicating whether the state taxes this type of property (as before, states are penalized for doing so), we now account for the prevalence and size of TPP de minimis exemptions, which minimize compliance costs for small and medium-sized businesses (states are rewarded for having higher de minimis exemptions). Additionally, instead of using dummy variables for estate and inheritance taxes (where states were penalized for having these taxes regardless of the rate), we now compare maximum estate and inheritance tax rates and penalize states with higher bequest tax rates.

Unemployment Insurance Taxes

The biggest changes have occurred in the rate subindex. When assessing actual UI tax rates, we are now factoring in the interaction between minimum and maximum UI tax rates and the taxable wage base in each state. These interactions provide a more precise estimate of the total tax burden on different types of firms. Essentially, we now penalize low-rate states if their taxable wage base is significantly higher than the federal level of $7,000. Similarly, we penalize high-rate states, but the size of the penalty increases with the taxable wage base. For example, a state with a maximum UI tax rate of 10 percent and a taxable wage base of $20,000 would perform as well as a state with a maximum UI tax rate of 5.4 percent and a taxable wage base of $37,000.

Additionally, the rate subindex now accounts for effective tax burdens as estimated by the US Department of Labor. We are using two variables—employer contribution rates as a percentage of taxable wages and total wages—as part of our actual UI tax rate assessment. States with relatively low values for these variables (e.g., Alabama or Virginia) do not overburden employers with high effective UI tax rates, unlike states with relatively high values (e.g., Hawaii and Pennsylvania).

The rate subindex now also accounts for the solvency of a state's UI trust fund. When these funds become insolvent (as in the cases of California and New York), states must borrow from the federal government and then find ways to repay these federal loans, either by issuing bonds or raising other taxes. There is a recommended level of solvency, and we now reward states with higher levels of UI trust fund solvency while penalizing those with insolvent UI trust funds. This helps ensure that states are rewarded for creating a stable UI tax environment, rather than imposing artificially low UI taxes during expansionary periods and relying on surcharges and rate increases during economic downturns.

The actual UI tax rate now plays a major role in the rate subindex (60 percent), followed by the potential UI tax rate (20 percent) and UI trust fund solvency (20 percent).

The base subindex still uses the same major variables as before, including the experience rating formula used in a state, several types of charging methods and benefits excluded from charging, and other smaller elements of the base, such as the solvency tax, taxes for socialized costs, reserve taxes, and voluntary contributions. We adjusted several weights within the base subindex to simplify the UI tax component of the *Index* and make it more transparent.

Methodology

The Tax Foundation's *State Tax Competitiveness Index* has a hierarchical structure built from five components:

- Individual Income Taxes
- Sales, Use, and Excise Taxes
- Corporate Taxes
- Property and Wealth Taxes
- Unemployment Insurance Taxes

Using the economic literature as our guide, we designed these five components to score each state's tax competitiveness on a scale of 0 (worst) to 10 (best). Each component is devoted to a major area of state taxation and includes numerous tax rate and tax base variables. Overall, there are 153 variables measured in this report.

The five components are not weighted equally, as they are in some indices. Rather, each component is weighted based on the variability of the 50 states' scores from the mean. The standard deviation of each component is calculated and a weight for each component is created from that measure. The result is a heavier weighting of those components with greater variability. The weighting of each of the five major components is:

- 30.5% — Individual Income Taxes
- 22.8% — Sales and Excise Taxes
- 21.3% — Corporate Taxes
- 14.9% — Property and Wealth Taxes
- 10.5% — Unemployment Insurance Taxes

This improves the explanatory power of the *State Tax Competitiveness Index* as a whole because components with higher standard deviations are those areas of tax law where some states have significant competitive advantages. Businesses that are comparing states for new or expanded locations must give greater emphasis to tax climates when the differences are large. On the other hand, components in which the 50 state scores are clustered together—closely distributed around the mean—are those areas of tax law where businesses are more likely to de-emphasize tax factors in their location decisions.

For example, Delaware is known to have a significant advantage in sales tax competition, because its tax rate of zero attracts businesses and shoppers from all over the Mid-Atlantic region. That advantage and its drawing power increase every time another state raises its sales tax. Texas, meanwhile, goes without individual or corporate income taxes, though it does impose an uncompetitive "margins" tax on gross receipts. When other states' income taxes rise, the Texas advantage becomes more alluring.

In contrast with this variability in state income and sales tax rates, unemployment insurance tax systems are relatively similar around the nation, so a small change in one state's law could change its component ranking dramatically—but, due to the *Index*'s weights, with only a modest impact on overall ranks.

Within each component are two equally weighted subindices devoted to measuring the impact of the tax rates and the tax bases. Each subindex is composed of one or more dummy or scalar variables. Dummy variables, which can take the values of 0 or 1, describe various binary tax provisions (e.g., whether a state indexes its individual income tax brackets for inflation or offers specific job or R&D credits to corporations), while scalar variables describe tax rates, tax progressivity, effective tax burdens (in the property and unemployment insurance tax components), and other categorical or discrete tax provisions.

Relative Versus Absolute Indexing

The *State Tax Competitiveness Index* is designed as a relative index rather than an absolute or ideal index. In other words, each variable is ranked relative to the variable's range in other states. The relative scoring scale is from 0 to 10, with zero meaning not "worst possible" but rather worst among the 50 states.

Many states' tax rates are so close to each other that an absolute index would not provide enough information about the differences among the states' tax systems, especially for pragmatic business owners and individuals who want to know which states have the best tax system in each region.

Comparing States Without a Tax. One problem associated with a relative scale is that it is mathematically impossible to compare states with a given tax to states that do not have the tax. As a zero rate is the lowest possible rate and the most neutral base, since it creates the most favorable tax climate for economic growth, those states with a zero rate on individual income, corporate income, or sales gain an immense competitive advantage. Therefore, states without a given tax generally receive a 10, and the *Index* measures all the other states against each other.

A few notable exceptions to this rule exist. The first is in Washington and New Hampshire, which do not have taxes on wage income but apply various rates to interest and dividends (in the case of New Hampshire) or capital gains (in the case of Washington). We use implied tax rates for those states, which account for the nationwide composition of the different components of individual income. The second exception is found in Nevada, where a payroll tax (for purposes other than unemployment insurance) is also included in the individual income tax component. The final exception is in zero sales tax states—Alaska, Montana, New Hampshire, Oregon, and Delaware—which do not have general sales taxes but still do not score a perfect 10 in that component section because of excise taxes on gasoline, beer, and other products, which are included in that section. Alaska, moreover, forgoes a state sales tax, but does permit local option sales taxes.

Normalizing Final Scores. Another challenge with using a relative scale within the components is that the average scores across the five components vary. This alters the value of not having a given tax across major indices. For example, the unadjusted average score of the corporate income tax component is 6.71 while the average score of the sales tax component is 5.39. To address this issue, scores on the five major components are "normalized," which brings the average score for all of them to 5.00, excluding states that do not have the given tax. This is accomplished by multiplying each state's score by a constant value.

Once the scores are normalized, it is possible to compare states across indices. For example, because of normalization, it is possible to say that Connecticut's score of 5.08 on corporate income taxes is better than its score of 3.58 on the individual income tax.

Time Frame Measured by the Index (Snapshot Date)

The *Index* measures each state's tax competitiveness as it stands at the beginning of the standard state fiscal year, July 1. Therefore, this edition is the 2025 *Index* and represents the tax climate of each state as of July 1, 2024, the first day of fiscal year 2025 for most states.

District of Columbia

The District of Columbia (DC) is only included as an exhibit and its scores and "phantom ranks" offered do not affect the scores or ranks of other states.

Past Rankings and Scores

This report includes 2020-2024 *Index* rankings that can be used for comparison with the 2025 rankings and scores. These differ from previously published *Index* rankings and scores (including all prior versions of the *State Business Tax Climate Index*) due to the enactment of retroactive statutes, backcasting of the methodological changes, and corrections to variables brought to our attention since the last report was published. The scores and rankings in this report are definitive.

Corporate Taxes

This component measures the impact of each state's principal tax on business activities and accounts for 21.3 percent of each state's total score. It is well established that the extent of business taxation can affect a business's level of economic activity within a state. For example, Newman found that differentials in state corporate income taxes were a major factor influencing the movement of industry to Southern states.[13] Two decades later, with global investment greatly expanded, Agostini and Tulayasathien determined that a state's corporate tax rate is the most relevant tax for foreign investors' investment decisions.[14]

Most states levy standard corporate income taxes on profits (gross receipts minus expenses). Some states, however, problematically impose taxes on the gross receipts of businesses with few or no deductions for expenses. Between 2005 and 2010, for example, Ohio phased in the Commercial Activities Tax (CAT), which has a rate of 0.26 percent. Washington has the Business and Occupation (B&O) Tax, which is a multi-rate tax (depending on industry) on the gross receipts of Washington businesses. Delaware has a similar Manufacturers' and Merchants' License Tax, as does Tennessee with its Business Tax, Virginia with its locally-levied Business/Professional/Occupational License (BPOL) Tax, and West Virginia with its local Business & Occupation (B&O) Tax. Texas also added the Margin Tax, a complicated gross receipts tax, in 2007; Nevada adopted the gross receipts-based multi-rate Commerce Tax in 2015; and Oregon implemented a new modified gross receipts tax in 2020. However, in 2011, Michigan passed a significant corporate tax reform that eliminated the state's modified gross receipts tax and replaced it with a 6 percent corporate income tax, effective January 1, 2012. The previous tax had been in place since 2007, and Michigan's repeal followed others in Kentucky (2006) and New Jersey (2006). Several states contemplated gross receipts taxes in 2017, but none were adopted.

Since gross receipts taxes and corporate income taxes are levied on different bases, we separately compare gross receipts taxes to each other, and corporate income taxes to each other. Gross receipts taxes and corporate income taxes each account for 50 percent of rate and base subindices.

13 Robert J. Newman, "Industry Migration and Growth in the South," *The Review of Economics and Statistics* 65:1 (February 1983): 76-86.
14 Claudio Agostini and Soraphol Tulayasathien, "Tax Effects on Investment Location: Evidence for Foreign Direct Investment in the United States," Office of Tax Policy Research, University of Michigan Business School, 2001.

Table 3. Corporate Tax Component of the *State Tax Competitiveness Index* (2020–2025)

					2024		2025		2024-2025	
State	2020	2021	2022	2023	Rank	Score	Rank	Score	Rank	Score
Alabama	17	17	12	12	12	5.57	14	5.51	2	-0.06
Alaska	31	30	30	31	32	4.99	34	4.93	2	-0.06
Arizona	11	12	13	13	13	5.56	13	5.53	0	-0.03
Arkansas	29	28	27	25	19	5.38	15	5.50	-4	0.12
California	30	31	41	41	41	4.63	41	4.61	0	-0.03
Colorado	10	11	8	9	9	5.68	10	5.65	1	-0.04
Connecticut	24	24	23	24	30	5.11	31	5.08	1	-0.03
Delaware	50	50	50	50	50	1.49	50	1.45	0	-0.04
Florida	14	8	9	15	15	5.52	16	5.48	1	-0.04
Georgia	13	14	15	14	14	5.54	12	5.57	-2	0.03
Hawaii	22	21	21	22	23	5.33	25	5.30	2	-0.03
Idaho	26	25	24	23	20	5.36	21	5.35	1	-0.01
Illinois	37	36	37	37	42	4.60	42	4.58	0	-0.03
Indiana	8	5	5	6	7	5.76	8	5.73	1	-0.03
Iowa	45	43	34	34	28	5.17	23	5.33	-5	0.16
Kansas	32	29	26	27	26	5.19	27	5.22	1	0.03
Kentucky	16	16	17	17	17	5.47	18	5.43	1	-0.03
Louisiana	34	32	31	30	31	5.10	29	5.10	-2	0.00
Maine	40	38	39	39	39	4.74	40	4.71	1	-0.03
Maryland	36	35	35	35	36	4.86	37	4.83	1	-0.03
Massachusetts	33	33	32	32	33	4.97	33	4.94	0	-0.03
Michigan	6	6	6	7	8	5.72	9	5.69	1	-0.03
Minnesota	42	41	42	42	43	4.48	43	4.42	0	-0.05
Mississippi	9	10	11	11	6	5.81	6	5.78	0	-0.03
Missouri	4	4	4	4	4	6.10	4	6.04	0	-0.06
Montana	21	22	19	19	22	5.33	19	5.42	-3	0.08
Nebraska	28	27	29	28	27	5.18	20	5.36	-7	0.18
Nevada	41	39	38	38	38	4.74	39	4.71	1	-0.03
New Hampshire	39	40	40	40	40	4.71	32	4.97	-8	0.26
New Jersey	44	44	44	44	44	4.17	44	4.29	0	0.12
New Mexico	18	18	18	18	18	5.41	22	5.35	4	-0.06
New York	19	19	25	26	25	5.23	28	5.20	3	-0.03
North Carolina	3	3	3	3	3	6.35	3	6.31	0	-0.05
North Dakota	5	7	7	8	10	5.67	7	5.75	-3	0.08
Ohio	46	46	45	45	45	3.97	45	3.95	0	-0.02
Oklahoma	12	13	14	5	5	5.89	5	5.86	0	-0.03
Oregon	25	45	49	49	49	2.50	49	2.32	0	-0.18
Pennsylvania	43	42	43	43	37	4.76	38	4.82	1	0.06
Rhode Island	35	34	33	33	34	4.94	35	4.91	1	-0.03
South Carolina	7	9	10	10	11	5.67	11	5.64	0	-0.03
South Dakota	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	49	49	48	48	48	3.28	48	3.57	0	0.29
Texas	47	47	46	46	46	3.96	46	3.94	0	-0.02
Utah	15	15	16	16	16	5.50	17	5.45	1	-0.04
Vermont	38	37	36	36	35	4.90	36	4.87	1	-0.03
Virginia	20	20	20	20	21	5.36	24	5.32	3	-0.03
Washington	48	48	47	47	47	3.89	47	3.87	0	-0.02
West Virginia	23	23	22	21	24	5.31	26	5.25	2	-0.06
Wisconsin	27	26	28	29	29	5.13	30	5.10	1	-0.03
Wyoming	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	29	28	30	31	32	5.08	32	5.05	0	-0.03

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states.

Source: Tax Foundation.

For states with corporate income taxes, the corporate tax rate subindex is calculated by assessing two key areas: the top tax rate and the number of brackets. States that levy neither a corporate income tax nor a gross receipts tax achieve a perfectly neutral system in regard to business income and thus receive a perfect score. For states with gross receipts taxes, the corporate tax subindex is calculated by assessing the applicable gross receipts rate.

States that do impose a corporate tax generally will score well if they have a low rate (North Carolina, Missouri, Oklahoma, Mississippi, North Dakota, and Indiana). States with a high rate or a complex and multiple-rate system score poorly (Delaware, Oregon, Tennessee, New Jersey, Minnesota, and Illinois).

To calculate the parallel subindex for the corporate tax base, four broad areas are assessed: tax credits, treatment of net operating losses, treatment of capital investment and foreign income, and an "other" category that includes variables such as conformity to the Internal Revenue Code, protections against double taxation, and the taxation of throwback income, among others. For states that impose gross receipts taxes, two types of deductions are assessed: for expenses on employee compensation and for cost of goods sold.

States that score well on the corporate tax base subindex generally will have few business tax credits, generous carryback and carryforward provisions, conformity to the Internal Revenue Code, and provisions that alleviate double taxation.

Corporate Tax Rate

The corporate tax rate subindex is designed to gauge how a state's corporate income tax top marginal rate, bracket structure, and gross receipts rate affect its competitiveness compared to other states, as the extent of taxation can affect a business's level of economic activity within a state.[15]

A state's corporate tax is levied in addition to the federal corporate income tax of 21 percent, substantially reduced by the Tax Cuts and Jobs Act of 2017 from a graduated-rate tax with a top rate of 35 percent, the highest rate among industrialized nations. Two states levy neither a corporate income tax nor a gross receipts tax: South Dakota and Wyoming. These states automatically score a perfect 10 on this subindex. Therefore, this section ranks the remaining 48 states relative to each other.

Top Corporate Income Tax Rate. New Jersey's 11.5 percent rate (including a temporary and retroactive surcharge) qualifies for the worst ranking among states that levy one, followed by Minnesota's 9.8 percent rate. Other states with comparatively high corporate income tax rates are Illinois (9.5 percent), Alaska (9.4 percent), Maine (8.93 percent), and California (8.84 percent). By contrast, North Carolina's rate of 2.5 percent is the lowest nationally, followed by Missouri's and Oklahoma's (both at 4 percent), Colorado's at 4.25 percent, Arkansas's at 4.3 percent, and North Dakota's at 4.31 percent. Other states with comparatively low top corporate tax rates are Utah (4.55 percent), Arizona and Indiana (both at 4.9 percent), and Kentucky, Mississippi, and South Carolina (all at 5 percent). Gross receipts taxes are assessed separately using the general rate (ignoring some specific sectors that may face higher rates), which ranges from 0.111 percent in Nevada to 0.75 percent in Texas.

15 Robert J. Newman, "Industry Migration and Growth in the South," *The Review of Economics and Statistics* 65:1 (February 1983): 76-86.

Graduated Rate Structure. A variable that is used to assess the economic drag created by multiple-rate corporate income tax systems is the number of tax brackets. Twenty-nine states and the District of Columbia have single-rate systems, and they score best. Single-rate systems are consistent with the sound tax principles of simplicity and neutrality. Alaska's 10-bracket system earns the worst score in this category. In contrast to the individual income tax, there is no meaningful "ability to pay" concept in corporate taxation. Jeffery Kwall notes that

> graduated corporate rates are inequitable—that is, the size of a corporation bears no necessary relation to the income levels of the owners. Indeed, low-income corporations may be owned by individuals with high incomes, and high-income corporations may be owned by individuals with low incomes.[16]

A single-rate system minimizes the incentive for firms to engage in expensive, counterproductive tax planning to mitigate the damage of higher marginal tax rates that some states levy as taxable income rises.

Corporate Tax Base

This subindex measures the economic impact of each state's definition of what should be subject to corporate taxation.

The four criteria used to measure the competitiveness of each state's corporate tax base are given equal weight: the availability of certain tax credits, the ability of taxpayers to deduct net operating losses, the availability of deductions for capital investment and foreign income, and a host of smaller tax base issues that combine to make up the other fourth of the corporate tax base subindex.

Under a gross receipts tax, some of these tax base criteria (net operating losses and some corporate income tax base variables) are replaced by the availability of deductions from gross receipts for employee compensation costs and cost of goods sold. States are rewarded for granting these deductions because they diminish the greatest disadvantage of using gross receipts as the base for corporate taxation: the uneven effective tax rates that various industries pay, depending on how many levels of production are hit by the tax.

Net Operating Losses. The corporate income tax is designed to tax only the profits of a corporation. However, a yearly profit snapshot may not fully capture a corporation's true profitability. For example, a corporation in a highly cyclical industry may look very profitable during boom years but lose substantial amounts during bust years. When examined over the entire business cycle, the corporation may actually have an average profit margin.

The deduction for net operating losses (NOLs) helps ensure that, over time, the corporate income tax is a tax on average profitability. Without the NOL deduction, corporations in cyclical industries pay much higher taxes than those in stable industries, even assuming identical average profits over time. Simply put, the NOL deduction helps level the playing field between cyclical and noncyclical industries. Under the Tax Cuts and Jobs Act, the federal government allows losses to be carried forward indefinitely, though they

16 Jeffrey L. Kwall, "The Repeal of Graduated Corporate Tax Rates," *Tax Notes*, Jun. 27, 2011.

may only reduce taxable income by 80 percent in any given year. Because gross receipts taxes inherently preclude the possibility of carrying net operating losses backward or forward, the *Index* treats states with statewide gross receipts taxes as having the equivalent of no NOL carryback or carryforward provisions. The carryforward provisions are more important in the federal tax code and thus weighted more heavily (80 percent) than the carryback provisions (20 percent) on the *Index*.

Number of Years Allowed for Carryback and Carryforward. This variable measures the number of years allowed on a carryback or carryforward of an NOL deduction. The longer the overall time span, the higher the probability that the corporate income tax is being levied on the corporation's average profitability. Following the federal treatment of NOLs, states entered FY 2025 with more favorable carryforward provisions (allowing carryforwards for up to an unlimited number of years) compared to carryback provisions (limited to a maximum of three years). States score well on the *Index* if they conform to federal guidelines or offer their own robust system for carryforwards and carrybacks.

Caps on the Amount of Carryback and Carryforward. When companies have a larger NOL than they can deduct in one year, most states permit them to carry deductions of any amount back to previous years' returns or forward to future returns. States that limit those amounts are ranked lower in the *Index*. Two states, Idaho and Montana, limit the amount of carrybacks (to $100,000 and $500,000, respectively), though they do better than many of their peers in offering any carryback provisions at all. Of states that allow a carryforward of losses, only Illinois, New Hampshire, and Pennsylvania limit carryforwards. Illinois' cap, originally intended to apply only to tax years 2021 through 2025, was recently increased from $100,000 to $500,000 and extended through 2027.

Gross Receipts Tax Deductions. Proponents of gross receipts taxation invariably praise the steadier flow of tax receipts into government coffers in comparison with the fluctuating revenue generated by corporate income taxes, but this stability comes at a great cost. The attractively low statutory rates associated with gross receipts taxes are an illusion. Since gross receipts taxes are levied many times in the production process, the effective tax rate on a product is much higher than the statutory rate would suggest. Effective tax rates under a gross receipts tax vary dramatically by industry or individual business, a stark departure from the principle of tax neutrality. Firms with few steps in their production chain are relatively lightly taxed under a gross receipts tax, and vertically integrated, high-margin firms prosper, while firms with longer production chains are exposed to a substantially higher tax burden. The pressure of this economic imbalance often leads lawmakers to enact separate rates for each industry, an inevitably unfair and inefficient process.

Two reforms that states can make to mitigate this damage are to permit deductions from gross receipts for employee compensation costs and cost of goods sold, effectively moving toward a regular corporate income tax.

Delaware, Nevada, Ohio, Oregon, Tennessee, and Washington score the worst, because their gross receipts taxes do not offer full deductions for either the cost of goods sold or employee compensation. Texas offers a deduction for either the cost of goods sold or employee compensation but not both. The Virginia BPOL tax, the West Virginia B&O tax, and the Pennsylvania business privilege tax are not included in this survey, because they are assessed at the local level and not levied uniformly across the state.

Federal Income Used as State Tax Base. States that use federal definitions of income reduce the tax compliance burden on their taxpayers. Two states (Arkansas and Mississippi) do not conform to federal definitions of corporate income, and they score poorly.

Allowance of Federal ACRS and MACRS Depreciation. The vast array of federal depreciation schedules is, by itself, a tax complexity nightmare for businesses. The specter of having 50 different schedules would be a disaster from a tax complexity standpoint. This variable measures the degree to which states have adopted the federal Accelerated Cost Recovery System (ACRS) and Modified Accelerated Cost Recovery System (MACRS) depreciation schedules. One state (California) adds complexity by failing to fully conform to the federal system.

Deductibility of Depletion. The deduction for depletion works similarly to depreciation, but it applies to natural resources. As with depreciation, tax complexity would be staggering if all 50 states imposed their own depletion schedules. This variable measures the degree to which states have adopted the federal depletion schedules. Thirteen states are penalized because they do not fully conform to the federal system: Alaska, California, Delaware, Iowa, Louisiana, Maryland, Minnesota, Mississippi, New Hampshire, North Carolina, Oklahoma, Oregon, and Tennessee.

Alternative Minimum Tax. The federal alternative minimum tax (AMT) was created to ensure that all taxpayers paid some minimum level of taxes every year. Unfortunately, it does so by creating a parallel tax system to the standard corporate income tax code. Evidence shows that the AMT does not increase efficiency or improve fairness in any meaningful way. It nets little money for the government, imposes compliance costs that in some years are actually larger than collections, and encourages firms to cut back or shift their investments.[17] As such, states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity. Four states have an AMT on corporations and thus score poorly: California, Kentucky, Minnesota, and New Hampshire.

Deductibility of Foreign Taxes Paid. This variable measures the extent of double taxation on income used to pay foreign taxes, i.e., paying a tax on money the taxpayer has already mailed to foreign taxing authorities. States can avoid this double taxation by allowing the deduction of taxes paid to foreign jurisdictions. Twenty-three states allow deductions for foreign taxes paid and score well. The remaining states with corporate income taxation do not allow deductions for foreign taxes paid and thus score poorly.

Indexation of the Tax Code. For states that have multiple-bracket corporate income taxes, it is important to index the brackets for inflation. That prevents de facto tax increases on the nominal increase in income due to inflation. Put simply, this “inflation tax” results in higher tax burdens on taxpayers, usually without their knowledge or consent. All 15 states with graduated corporate income taxes fail to index their tax brackets: Alaska, Arkansas, Hawaii, Iowa, Kansas, Louisiana, Maine, Mississippi, Nebraska, New Jersey, New Mexico, New York, North Dakota, Oregon, and Vermont.

Throwback. To reduce the double taxation of corporate income, states use apportionment formulas that seek to determine how much of a company’s income a state can properly tax. Generally, states require a

17 Terrence R. Chorvat and Michael S. Knoll, “The Economic and Policy Implications of Repealing the Corporate Alternative Tax,” Tax Foundation, Feb. 1, 2002.

company with nexus (that is, sufficient connection to the state to justify the state's power to tax its income) to apportion its income to the state based on some ratio of the company's in-state property, payroll, and sales compared to its total property, payroll, and sales.

Among the 50 states, there is little harmony in apportionment formulas. Many states weight the three factors equally while others weight the sales factor more heavily or have transitioned to a single sales factor formula (a recent trend in state tax policy). Since many businesses make sales into states where they do not have nexus, businesses can end up with "nowhere income," income that is not taxed by any state. To counter this phenomenon, many states have adopted what are called throwback rules because they identify nowhere income and throw it back into a state where it will be taxed, even though it was not earned in that state.

Throwback and throwout rules for sales of tangible property add yet another layer of tax complexity. Since two or more states can theoretically lay claim to "nowhere" income, rules have to be created and enforced to decide who gets to tax it. States with corporate income taxation are almost evenly divided between those with and without throwback rules. Twenty-four states avoid imposing them, while 21 states and the District of Columbia do.

Section 168(k) Expensing. Because corporate income taxes are intended to fall on net income, they should include deductions for business expenses—including investment in machinery and equipment. Historically, however, businesses have been required to depreciate the value of these purchases over time. In recent years, the federal government offered "bonus depreciation" to accelerate the deduction for these investments, and under the Tax Cuts and Jobs Act, investments in machinery and equipment are fully deductible in the first year, a policy known as "full expensing." This provision is set to expire in 2027 and has already started to phase out. Sixteen states follow the federal government in offering the 60 percent write-off of eligible property, while three offer "bonus depreciation" short of the federal amount. Oklahoma and Mississippi are the only two states that have transitioned to permanent full expensing.

Net Interest Limitation. Federal law now restricts the deduction of business interest, limiting the deduction to 30 percent of modified income, with the ability to carry the remainder forward to future tax years. This change was intended to eliminate the bias in favor of debt financing (over equity financing) in the federal code, but particularly when states adopt this limitation without incorporating its counterbalancing provision, full expensing, the result is higher investment costs. Thirty-three states and the District of Columbia conform to the net interest limitation.

Inclusion of GILTI. Historically, states have largely avoided taxing international income. Following federal tax reform, however, some states have latched onto the federal provision for the taxation of GILTI, intended as a guardrail for the new federal territorial system of taxation, as a means to broaden their tax bases to include foreign business activity. States that tax GILTI are penalized in the *Index*, while states receive partial credit for moderate taxation of GILTI (for instance, by adopting the Section 250 deduction) and are rewarded for decoupling or almost fully decoupling from GILTI (by, for instance, treating it as largely deductible foreign dividend income in addition to providing the Section 250 deduction).

Tax Credits

Many states provide tax credits that lower the effective tax rates for certain industries and investments, often for large firms from out of state that are considering a move. Policymakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a bad business tax climate. Economic development and job creation tax credits complicate the tax system, narrow the tax base, drive up tax rates for companies that do not qualify, distort the free market, and often fail to achieve economic growth.[18]

A more effective approach is to systematically improve the business tax climate for the long term. Thus, this component rewards those states that do not offer the following tax credits, with states that offer them scoring poorly.

Investment Tax Credits. Investment tax credits typically offer an offset against tax liability if the company invests in new property, plants, equipment, or machinery in the state offering the credit. Sometimes, the new investment will have to be "qualified" and approved by the state's economic development office. Investment tax credits distort the market by rewarding investment in new property as opposed to the renovation of old property.

Job Tax Credits. Job tax credits typically offer an offset against tax liability if the company creates a specified number of jobs over a specified period of time. Sometimes, the new jobs will have to be "qualified" and approved by the state's economic development office, allegedly to prevent firms from claiming that jobs shifted were jobs added. Even if administered efficiently, job tax credits can misfire in a number of ways. They induce businesses whose economic position would be best served by spending more on new equipment or marketing to hire new employees instead. They also favor businesses that are expanding anyway, punishing firms that are already struggling. Thus, states that offer such credits score poorly on the *Index*.

Research and Development (R&D) Tax Credits. Research and development tax credits reduce the amount of tax due by a company that invests in "qualified" research and development activities. The theoretical argument for R&D tax credits is that they encourage the kind of basic research that is not economically justifiable in the short run but that is better for society in the long run. In practice, their negative side effects—greatly complicating the tax system and establishing a government agency as the arbiter of what types of research meet a criterion so difficult to assess—far outweigh the potential benefits. Thus, states that offer such credits score poorly on the *Index*.

18 For example, see Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," *Journal of the American Planning Association* 70:1 (2004): 27; William F. Fox and Matthew N. Murray, "Do Economic Effects Justify the Use of Fiscal Incentives?," *Southern Economic Journal* 71:1 (July 2004): 78; and Bruce D. McDonald III, J.W. Decker, and Brad A.M. Johnson, "You Don't Always Get What You Want: The Effect of Financial Incentives on State Fiscal Health," *Public Administration Review* 81:3 (February 2020): 365-374.

Individual Income Taxes

The individual income tax component, which accounts for 30.5 percent of each state's total *Index* score, is important to both individuals and businesses because a significant number of businesses, including sole proprietorships, partnerships, and S corporations, report their income through the individual income tax code.

Taxes can have a significant impact on an individual's decision to become a self-employed entrepreneur. Gentry and Hubbard found, "While the level of the marginal tax rate has a negative effect on entrepreneurial entry, the progressivity of the tax also discourages entrepreneurship, and significantly so for some groups of households."[19] Using education as a measure of potential for innovation, Gentry and Hubbard found that a progressive tax system "discourages entry into self-employment for people of all educational backgrounds." Moreover, citing Carroll, Holtz-Eakin, Rider, and Rosen,[20] Gentry and Hubbard contend, "Higher tax rates reduce investment, hiring, and small business income growth." Less neutral individual income tax systems, therefore, hurt entrepreneurship and a state's tax competitiveness.

Another important reason individual income tax rates are critical for businesses is the cost of labor. Labor typically constitutes a major business expense, so anything that hurts the labor pool will also affect business decisions and the economy. Complex, poorly designed tax systems that extract an inordinate amount of tax revenue reduce both the quantity and quality of the labor pool. This is consistent with the findings of Wasylenko and McGuire,[21] who found that individual income taxes affect businesses indirectly by influencing the location decisions of individuals. A progressive, multi-rate income tax exacerbates this problem by increasing the marginal tax rate at higher levels of income, continually reducing the value of work vis-à-vis the value of leisure.

For example, suppose a worker has to choose between one hour of additional work worth $40 and one hour of leisure which to him is worth $38. A rational person would choose to work for another hour. But if a 10 percent income tax rate reduces the after-tax value of labor to $36, then a rational person would stop working and take the hour to pursue leisure. Additionally, workers earning higher wages who face progressively higher marginal tax rates are more likely to be discouraged from working additional hours. In the aggregate, the income tax reduces the available labor supply.[22]

The individual income tax rate subindex measures the impact of tax rates on the marginal dollar of individual income using three criteria: the top tax rate and the progressivity of the individual income tax code. The rates and brackets used are for a single taxpayer, not a couple filing a joint return.

The individual income tax base subindex takes into account measures enacted to prevent double taxation, whether the code is indexed for inflation, and how the tax code treats married couples compared to singles. States that score well protect married couples from being taxed more severely than if they had filed

19 William M. Gentry and R. Glenn Hubbard, "'Success Taxes,' Entrepreneurial Entry, and Innovation," *Innovation Policy and the Economy* 5 (2005): 87-108.
20 Robert Carroll, Douglas Holtz-Eakin, Mark Rider, and Harvey S. Rosen, "Income Taxes and Entrepreneurs' Use of Labor," *Journal of Labor Economics* 18 (April 2000): 324-351.
21 Michael Wasylenko and Therese McGuire, "Jobs and Taxes: The Effect of Business Climate on States' Employment Growth Rates," *National Tax Journal* 38:4 (1985): 497-511.
22 See Edward C. Prescott, "Why Do Americans Work So Much More than Europeans?," Federal Reserve Bank of Minneapolis Quarterly Review, July 2004. See also J. Scott Moody and Scott A. Hodge, "Wealthy Americans and Business Activity," Tax Foundation, Aug. 1, 2004.

Table 4. Individual Income Tax Component of the *State Tax Competitiveness Index* (2020-2025)

					2024		2025		2024-2025	
State	2020	2021	2022	2023	Rank	Score	Rank	Score	Rank	Score
Alabama	32	33	31	33	33	4.93	34	4.89	1	-0.04
Alaska	1	1	1	1	1	10.00	1	10.00	0	0.00
Arizona	14	14	14	8	8	6.41	8	6.31	0	-0.11
Arkansas	43	44	44	42	39	4.57	39	4.66	0	0.09
California	50	50	49	49	49	2.41	49	2.37	0	-0.04
Colorado	15	15	15	16	16	5.69	18	5.64	2	-0.05
Connecticut	47	47	47	47	47	3.49	47	3.44	0	-0.04
Delaware	40	42	42	41	41	4.55	42	4.54	1	-0.01
Florida	1	1	1	1	1	10.00	1	10.00	0	0.00
Georgia	35	35	34	35	34	4.89	31	5.08	-3	0.19
Hawaii	46	46	46	46	46	3.72	46	3.76	0	0.05
Idaho	19	19	16	15	11	5.89	11	5.85	0	-0.04
Illinois	10	11	11	12	14	5.80	13	5.81	-1	0.01
Indiana	17	17	18	18	20	5.59	16	5.71	-4	0.12
Iowa	42	39	38	39	17	5.62	19	5.62	2	0.00
Kansas	24	24	24	25	27	5.25	27	5.26	0	0.01
Kentucky	23	22	22	23	23	5.37	23	5.40	0	0.03
Louisiana	38	38	37	29	31	5.07	33	5.01	2	-0.06
Maine	16	16	17	17	21	5.57	22	5.53	1	-0.03
Maryland	45	45	45	45	45	3.81	45	3.81	0	0.00
Massachusetts	12	12	12	13	40	4.56	41	4.54	1	-0.01
Michigan	13	13	13	14	12	5.83	14	5.75	2	-0.08
Minnesota	44	43	43	44	44	4.33	44	4.35	0	0.02
Mississippi	30	30	30	31	32	5.07	32	5.06	0	-0.01
Missouri	21	20	20	21	18	5.61	20	5.58	2	-0.03
Montana	22	21	21	20	22	5.49	10	5.92	-12	0.43
Nebraska	27	27	27	28	29	5.16	26	5.28	-3	0.11
Nevada	7	7	8	7	7	7.09	7	6.96	0	-0.13
New Hampshire	11	10	10	11	10	5.93	12	5.84	2	-0.10
New Jersey	49	48	48	48	48	2.50	48	2.57	0	0.07
New Mexico	28	28	36	37	37	4.80	37	4.73	0	-0.07
New York	48	49	50	50	50	2.00	50	2.11	0	0.10
North Carolina	18	18	19	19	19	5.60	21	5.57	2	-0.03
North Dakota	20	23	23	24	15	5.79	17	5.69	2	-0.10
Ohio	33	31	26	26	28	5.21	25	5.28	-3	0.07
Oklahoma	34	34	33	32	25	5.29	28	5.24	3	-0.06
Oregon	37	37	41	43	43	4.50	40	4.56	-3	0.06
Pennsylvania	39	40	39	38	38	4.70	38	4.68	0	-0.03
Rhode Island	25	25	25	27	30	5.16	30	5.11	0	-0.05
South Carolina	26	26	28	22	24	5.37	24	5.35	0	-0.02
South Dakota	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	8	8	1	1	1	10.00	1	10.00	0	0.00
Texas	1	1	1	1	1	10.00	1	10.00	0	0.00
Utah	9	9	9	9	9	6.05	9	5.99	0	-0.06
Vermont	41	41	40	40	42	4.51	43	4.51	1	0.00
Virginia	36	36	35	36	35	4.85	36	4.81	1	-0.04
Washington	1	1	1	10	13	5.83	15	5.74	2	-0.08
West Virginia	29	29	29	30	26	5.28	29	5.23	3	-0.05
Wisconsin	31	32	32	34	36	4.85	35	4.84	-1	-0.01
Wyoming	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	46	46	46	48	48	3.45	47	3.50	-1	0.05

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states.

Source: Tax Foundation.

as two single individuals. They also protect taxpayers from double taxation by recognizing S corporations under the individual tax code and indexing their brackets, exemptions, and deductions for inflation. The base subindex also accounts for the filing and withholding thresholds for nonresidents.

States that do not impose an individual income tax generally receive a perfect score, and states that do impose an individual income tax will generally score well if they have a flat, low tax rate with few deductions and exemptions. States that score poorly have complex, multiple-rate systems.

The seven states without an individual income tax or non-UI payroll tax are, not surprisingly, the highest-scoring states on this component: Alaska, Florida, South Dakota, Tennessee, Texas, Washington, and Wyoming. Nevada, which taxes wage income (but not unearned income) at a low rate under a capped non-UI payroll tax, also does extremely well in this component of the *Index*. New Hampshire also scores well, because while the state levies a tax on individual income in the form of interest and dividends, it does not tax wages and salaries. Arizona, Montana, Utah, Indiana, Illinois, Idaho, Michigan, North Dakota, Iowa, and Colorado score highly because they have a single, comparatively low tax rate.

Scoring near the bottom of this component are states that have high tax rates and very progressive bracket structures. They generally fail to index their brackets, exemptions, and deductions for inflation, do not allow for deductions of foreign or other state taxes, penalize married couples filing jointly, and do not recognize S corporations.

Individual Income Tax Rate

The rate subindex compares the states that tax individual income after setting aside the four states that do not and therefore receive perfect scores: Alaska, Florida, South Dakota, and Wyoming. Tennessee, Texas, and Washington do not have an individual income tax, but they do tax S corporation income—and Texas and Washington tax LLC income—through their gross receipts taxes. Nevada has a low-rate payroll tax on wage income. New Hampshire, meanwhile, does not tax wage and salary income but does tax interest and dividend income.

Top Marginal Tax Rate. California has the highest top income tax rate of 13.3 percent. Other states with high top rates include Hawaii (11.0 percent), New York (10.9 percent), New Jersey (10.75 percent), Oregon (9.9 percent), Minnesota (9.85 percent), Massachusetts (9 percent with an additional 0.63 percent payroll tax), and Vermont (8.75 percent).

States with the lowest top statutory rates are Arizona and North Dakota (both at 2.5 percent); New Hampshire (3 percent); Indiana (3.05 percent); Pennsylvania (3.07 percent); Ohio (3.5 percent); Arkansas (3.9 percent); Kentucky (4 percent); Michigan, Louisiana, and Colorado (4.25 percent); North Carolina (4.5 percent); Utah (4.55 percent); Mississippi (4.7 percent); and Oklahoma (4.75 percent).[23]

23 New Hampshire taxes only interest and dividends. To account for this, the *Index* converts the statutory tax rate into an effective rate as measured against the typical state income tax base that includes wages. Under a typical income tax base with a flat rate and no tax preferences, this is the statutory rate that would be required to raise the same amount of revenue as the current system.

In addition to statewide income tax rates, some states allow local-level income taxes.[24] We represent these as the average between the rates in the two largest jurisdictions. In some cases, states authorizing local-level income taxes still keep the level of income taxation modest overall. For instance, Alabama, Indiana, Michigan, and Pennsylvania allow local income add-ons, but are still among the states with the lowest overall rates. However, in recent years, local income tax rates have gone up considerably, offsetting some of the benefits of recent state income tax reforms.

Top Tax Bracket Threshold. This variable assesses the degree to which pass-through businesses are subject to reduced after-tax return on investment as net income rises. States are rewarded for a top rate that kicks in at lower levels of income, because doing so approximates a less distortionary flat-rate system. For example, Alabama has a progressive income tax structure with three income tax rates. However, because Alabama's top rate of 5 percent applies to all taxable income over $3,000, the state's income tax rate structure is nearly flat.

States with flat-rate systems score the best on this variable because their top rate kicks in at the first dollar of income (after accounting for the standard deduction and personal exemption). They are Arizona, Colorado, Idaho, Illinois, Indiana, Kentucky, Michigan, New Hampshire, North Carolina, Pennsylvania, and Utah. States with high kick-in levels score the worst. These include New York ($25 million); California, Massachusetts, and New Jersey ($1 million); and Connecticut ($500,000).

Number of Brackets. States with flat income tax systems essentially have one bracket and score highly on this variable. On the other end of the spectrum, Hawaii scores worst with 12 brackets, followed by California with 10 brackets, New York with 9 brackets, Maryland with 8 brackets, and Connecticut, New Jersey, and Missouri with 7 brackets.

Progressivity of the Individual Income Tax Rate Structure. This variable assesses the ratio of the top marginal tax rate (faced by high earners and most pass-through entities) to the marginal tax rate that a household with median income faces in a given tax year. States with flat income taxes or where the top rate kicks in at relatively low income levels (e.g., Kansas, Missouri, or Virginia) score a 1 on this variable, meaning tax incentives for high earners are not distorted. States with highly progressive individual income tax codes include Vermont (with a ratio of 2.61, as the top marginal tax rate of 8.75 percent is much higher than the 3.35 percent rate faced by a median household), California (2.22), and New York (1.98). High earners in these states face significantly higher-than-average tax burdens and may be incentivized to make costly relocation decisions.[25]

Income Recapture. Connecticut and New York apply the rate of the top income tax bracket to previous taxable income after the taxpayer crosses the top bracket threshold, while Arkansas imposes different tax tables depending on the filer's level of income. New York's recapture provision is the most damaging and results in an approximately $22,000 penalty for reaching the top bracket. Income recapture provisions are poor policy, because they result in dramatically high marginal tax rates at the point of their kick-in, and they are nontransparent in that they raise tax burdens substantially without being reflected in the statutory rate.

24 See Andrey Yushkov, "Local Income vs. Sales Taxes: Which Is the Better Source of Local Revenue?," Tax Foundation, Jun. 13, 2024.
25 See a review of recent academic literature on the topic in Andrey Yushkov, "Taxes and Migration: New Evidence from Academic Research," Tax Foundation, Mar. 12, 2024.

Individual Income Tax Base

States define taxable income differently, with some creating greater impediments to economic activity than others. The base subindex gives equal weight to 10 variables, including double taxation, indexation of tax provisions, the marriage penalty, and filing and withholding thresholds, among other factors.

The states with no individual income tax achieve perfect neutrality. Nevada's payroll tax keeps the state from achieving a perfect store. Of the other 43 states, Montana, Arizona, Illinois, Maine, Idaho, Utah, Missouri, and Michigan have the best scores, avoiding many problems with the definition of taxable income that plague other states. Meanwhile, states where the tax base is found to cause an unnecessary drag on economic activity include New Jersey, California, New York, Pennsylvania, Maryland, Connecticut, Arkansas, and Delaware.

Marriage Penalty. A marriage penalty exists when a state's standard deduction and tax brackets for married taxpayers filing jointly are not double those for single filers. As a result, two singles (if combined) can have a lower tax bill than a married couple filing jointly with the same income. This is discriminatory and has serious business ramifications. The top-earning 20 percent of taxpayers are dominated (85 percent) by married couples. This same 20 percent also has the highest concentration of business owners of all income groups.[26] Because of these concentrations, marriage penalties have the potential to affect a significant share of pass-through businesses. Twenty states and the District of Columbia have marriage penalties built into their income tax brackets.

Some states attempt to get around the marriage penalty problem by allowing married couples to file as if they were singles or by offering an offsetting tax credit. While helpful in offsetting the dollar cost of the marriage penalty, these solutions come at the expense of added tax complexity. Still, states that allow married couples to file as singles do not receive a marriage penalty score reduction.

Filing and Withholding Thresholds. This variable assesses states' individual income tax filing and withholding requirements for nonresidents who conduct a limited amount of work in the state. States that score well on this variable provide meaningful filing and withholding relief to most nonresidents who spend a limited amount of time working in the state.

States that require filing and withholding only after nonresidents have worked in the state more than 30 days receive a perfect score. For states that have income-based thresholds, we converted those thresholds into their days-based equivalents based on a median daily household income. However, because income thresholds tend to be significantly more complex than day-based thresholds, states with income-based thresholds receive a 25 percent penalty.

States that have an individual income tax and receive a perfect score on this variable are Indiana and Montana, which both require filing and withholding only after a nonresident has worked in the state more than 30 days. The District of Columbia receives a perfect score because federal law prohibits DC from levying income taxes on nonresidents. Arizona receives a perfect score for withholding, but its lack of a meaningful filing threshold yields a total score of 5.00.

26 Scott A. Hodge, "Married Couples File Less Than Half of All Tax Returns, But Pay 74 Percent of all Income Taxes," Tax Foundation, Mar. 25, 2003; Scott A. Hodge, "Own a Business? You May be Rich: Two-Thirds of Taxpayers Hit by Highest Tax Rate Have Business Income," Tax Foundation, May 5, 2003.

Louisiana, North Dakota, Utah, and West Virginia have relatively generous day-based thresholds, but these thresholds are available only to individuals who live in states that forgo an individual income tax or have a "substantially similar exclusion." Since only 30 percent of the US population lives in states that forgo an individual income tax or have substantial day-based filing and withholding thresholds, these states receive a 70 percent penalty for the approximately 70 percent of the US population that does not qualify for relief under their thresholds.

Double Taxation of Capital Income. Since most states with an individual income tax system mimic the federal income tax code, they also possess its greatest flaw: the double taxation of capital income. Double taxation is brought about by the interaction between the corporate income tax and the individual income tax. The ultimate source of most capital income—interest, dividends, and capital gains—is corporate profits. The corporate income tax reduces the level of profits that can eventually be used to generate interest or dividend payments or capital gains.[27] This capital income must then be declared by the receiving individual and taxed. The result is the double taxation of this capital income—first at the corporate level and again at the individual level.

All states that tax all types of income score poorly by this criterion. New Hampshire, which taxes individuals on interest and dividends, scores somewhat better because it does not tax capital gains. Washington scores even better on this metric because it taxes certain capital gains income but does not tax wage and salary income. Nevada's payroll tax does not apply to capital income, and thus scores perfectly on this measure, along with states that forgo all income taxation.

Federal Income Used as State Tax Base. Despite the shortcomings of the federal government's definition of income, states that use it reduce the tax compliance burden on taxpayers. Five states score poorly because they do not conform to federal definitions of individual income: Alabama, Arkansas, Mississippi, New Jersey, and Pennsylvania.

Alternative Minimum Tax. At the federal level, the alternative minimum tax was created in 1969 to ensure that all taxpayers paid some minimum level of taxes every year. Unfortunately, it does so by creating a parallel tax system to the standard individual income tax code. AMTs are an inefficient way to prevent tax deductions and credits from totally eliminating tax liability. As such, states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity. Four states score poorly for imposing an AMT on individuals: California, Colorado, Connecticut, and Minnesota.

Credit for Taxes Paid. This variable measures the extent of double taxation on income used to pay foreign and state taxes, i.e., paying the same taxes twice. States can avoid double taxation by allowing a credit for state taxes paid to other jurisdictions.

27 Equity-related capital gains are not created directly by a corporation. Rather, they are the result of stock appreciations due to corporate activity such as increasing retained earnings, increasing capital investments, or issuing dividends. Stock appreciation becomes taxable realized capital gains when the stock is sold by the holder.

Recognition of S Corporation Status. One important development in the federal tax system was the creation of the LLC and the S corporation. LLCs and S corporations provide businesses with some of the benefits of incorporation, such as limited liability, without the overhead of becoming a traditional C corporation. The profits of these entities are taxed under the individual income tax code, which avoids the double taxation problems that plague the corporate income tax system. Every state with a full individual income tax recognizes LLCs to at least some degree, and all but Louisiana recognize S corporations.

Indexation of the Tax Code. Indexing the tax code for inflation is critical to prevent de facto tax increases on the nominal increase in income due to inflation. This "inflation tax" results in higher tax burdens on taxpayers, usually without their knowledge or consent. Three areas of the individual income tax are commonly indexed for inflation: the standard deduction, personal exemptions, and tax brackets. Twenty-five states index all three or do not impose an individual income tax; 15 states and the District of Columbia index one or two of the three; and 10 states do not index at all.

Sales, Use, and Excise Taxes

Sales tax makes up 22.8 percent of each state's *Index* score. The type of sales tax familiar to taxpayers is a tax levied on the purchase price of a good at the point of sale. Due to the inclusion of some business inputs in most states' sales tax bases, the rate and structure of the sales tax is an important consideration for many businesses. The sales tax can also hurt the business tax climate and tax competitiveness because as the sales tax rate climbs, customers make fewer purchases or seek low-tax alternatives. As a result, business is lost to lower-tax locations, causing lost profits, lost jobs, and lost tax revenue.[28] The effect of differential sales tax rates among states or localities is apparent when a traveler crosses from a high-tax state to a neighboring low-tax state. Typically, a vast expanse of shopping malls springs up along the border in the low-tax jurisdiction.

On the positive side, sales taxes levied on goods and services at the point of sale to the end-user have at least two virtues. First, they are transparent: the tax is never confused with the price of goods by customers. Second, since they are levied at the point of sale, they are less likely to cause economic distortions than taxes levied at some intermediate stage of production (such as a gross receipts tax or sales taxes on business-to-business transactions).

The negative impact of sales taxes is well documented in the economic literature and through anecdotal evidence. For example, Bartik found that high sales taxes, especially sales taxes levied on equipment, had a negative effect on small business start-ups.[29] Moreover, companies have been known to avoid locating factories or facilities in certain states because the factory's machinery would be subject to the state's sales tax.[30]

28 States have sought to limit this sales tax competition by levying a "use tax" on goods purchased out of state and brought into the state, typically at the same rate as the sales tax. Few consumers comply with use tax obligations.

29 Timothy J. Bartik, "Small Business Start-Ups in the United States: Estimates of the Effects of Characteristics of States," *Southern Economic Journal* (April 1989): 1004-1018.

30 For example, in early 1993, Intel Corporation was considering California, New Mexico, and four other states as the site of a new billion-dollar factory. California was the only one of the six states that levied its sales tax on machinery and equipment, a tax that would have cost Intel roughly $80 million. As Intel's Bob Perlman explained in testimony before a committee of the California state legislature, "There are two ways California's not going to get the $80 million: with the factory or without it." California would not repeal the tax on machinery and equipment; New Mexico got the plant.

Table 5. Sales and Excise Tax Component of the *State Tax Competitiveness Index* (2020-2025)

					2024		2025		2024-2025	
State	2020	2021	2022	2023	Rank	Score	Rank	Score	Rank	Score
Alabama	50	50	50	50	49	2.99	49	3.17	0	0.18
Alaska	5	5	5	5	5	8.08	5	7.86	0	-0.22
Arizona	45	45	45	45	45	3.83	45	3.84	0	0.01
Arkansas	43	44	43	44	44	3.88	44	3.89	0	0.01
California	44	43	44	46	46	3.78	46	3.81	0	0.03
Colorado	32	32	38	37	37	4.16	37	4.19	0	0.03
Connecticut	25	25	24	23	21	4.84	21	4.87	0	0.03
Delaware	2	1	2	2	2	8.92	2	8.93	0	0.01
Florida	18	16	14	15	13	5.19	14	5.22	1	0.02
Georgia	24	22	21	21	22	4.83	23	4.83	1	0.00
Hawaii	26	26	26	26	25	4.78	28	4.67	3	-0.11
Idaho	12	12	12	12	11	5.44	9	5.46	-2	0.02
Illinois	34	34	33	32	35	4.37	38	4.18	3	-0.19
Indiana	21	19	20	20	17	5.00	17	5.02	0	0.03
Iowa	16	17	16	17	14	5.18	11	5.41	-3	0.23
Kansas	37	37	30	30	29	4.66	30	4.65	1	-0.01
Kentucky	11	11	11	10	18	4.93	18	4.95	0	0.03
Louisiana	48	48	48	48	48	3.07	48	3.23	0	0.16
Maine	8	9	8	8	8	5.84	8	5.86	0	0.02
Maryland	13	13	37	40	39	4.11	39	4.10	0	-0.01
Massachusetts	22	24	22	22	19	4.90	20	4.92	1	0.02
Michigan	9	8	9	9	10	5.59	12	5.40	2	-0.19
Minnesota	31	31	31	31	31	4.62	34	4.38	3	-0.24
Mississippi	29	28	27	27	26	4.75	25	4.77	-1	0.01
Missouri	23	23	23	25	24	4.79	24	4.78	0	-0.01
Montana	3	3	3	3	3	8.87	3	8.85	0	-0.02
Nebraska	14	14	13	14	12	5.23	13	5.24	1	0.01
Nevada	35	38	36	36	41	4.01	40	4.03	-1	0.02
New Hampshire	1	2	1	1	1	8.92	1	8.93	0	0.01
New Jersey	36	36	35	35	38	4.12	35	4.37	-3	0.25
New Mexico	46	46	46	42	42	4.01	41	4.01	-1	0.00
New York	42	42	41	41	40	4.04	42	3.97	2	-0.07
North Carolina	19	20	19	19	16	5.04	16	5.07	0	0.02
North Dakota	15	15	15	16	15	5.16	15	5.17	0	0.01
Ohio	41	41	42	43	43	3.94	43	3.97	0	0.03
Oklahoma	38	33	32	33	33	4.45	32	4.45	-1	0.01
Oregon	4	4	4	4	4	8.61	4	8.62	0	0.01
Pennsylvania	28	27	25	24	23	4.82	22	4.84	-1	0.03
Rhode Island	30	29	29	29	28	4.69	26	4.71	-2	0.02
South Carolina	33	35	34	34	34	4.37	33	4.39	-1	0.02
South Dakota	40	40	40	39	32	4.51	31	4.53	-1	0.02
Tennessee	47	47	47	47	47	3.64	47	3.66	0	0.02
Texas	39	39	39	38	36	4.20	36	4.21	0	0.01
Utah	27	30	28	28	27	4.70	27	4.68	0	-0.02
Vermont	20	21	18	18	30	4.64	29	4.65	-1	0.01
Virginia	10	10	10	11	9	5.65	10	5.43	1	-0.22
Washington	49	49	49	49	50	2.94	50	2.94	0	0.00
West Virginia	17	18	17	13	20	4.89	19	4.92	-1	0.03
Wisconsin	7	7	6	6	6	6.10	6	6.00	0	-0.10
Wyoming	6	6	7	7	7	5.95	7	5.97	0	0.02
District of Columbia	41	41	41	41	43	4.00	41	4.01	-2	0.02

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states.

Source: Tax Foundation.

States that create the most tax pyramiding and economic distortion, and therefore score the worst, are states that levy a sales tax that generally allows no exclusions for business inputs.[31] Hawaii, New Mexico, South Dakota, and Washington are examples of states that tax many business inputs. The ideal base for sales taxation is all goods and services at the point of sale to the end-user.

Excise taxes are selective sales taxes levied on specific goods. Goods subject to excise taxation are typically (but not always) perceived to be luxuries or vices, the latter of which are less sensitive to drops in demand when the tax increases their price. Examples typically include tobacco, liquor, and gasoline. The sales tax component of the *Index* takes into account the excise tax rates each state levies.

The five states without a state sales tax—Alaska,[32] Delaware, Montana, New Hampshire, and Oregon—achieve the best sales tax component scores. Among states with a sales tax, those with low general rates and broad bases, and which avoid tax pyramiding, do best. Wisconsin, Wyoming, Maine, Idaho, Virginia, Iowa, Michigan, Nebraska, and Florida all do well, with well-structured sales taxes and modest excise tax rates.

At the other end of the spectrum, Washington, Alabama, Louisiana, Tennessee, and California fare the worst, imposing high rates and taxing a range of business inputs, such as utilities, services, manufacturing, and leases—and maintaining relatively high excise taxes. Louisiana and Tennessee have the highest combined state and local rates of nearly 9.6 percent. In general, these states levy high sales tax rates that apply to a wide range of business input items.

Sales Tax and Excise Rates

The tax rate itself is important, and a state with a high sales tax rate reduces demand for in-state retail sales. Consumers will turn more frequently to cross-border or certain online purchases, leaving less business activity in the state. This subindex measures the highest possible sales tax rate applicable to in-state retail shopping and taxable business-to-business transactions (with the weight of 75 percent) as well as a range of excise taxes (with the weight of 25 percent). Four states—Delaware, Montana, New Hampshire, and Oregon—do not have state or local sales taxes and thus are assigned a sales tax rate of zero. Alaska is sometimes counted among states with no sales tax since it does not levy a statewide sales tax. However, Alaska localities are allowed to levy sales taxes and the weighted statewide average of these taxes is 1.82 percent.

The *Index* measures the state and local sales tax rate in each state. A combined rate is computed by adding the general state rate to the weighted average of the county and municipal rates. This subindex includes state and local sales tax rates, excise tax rates for major excise taxes, and digital advertising tax rates (currently only imposed by Maryland).

State Sales Tax Rate. Of the 45 states (and the District of Columbia) with a statewide sales tax, Colorado's 2.9 percent rate is the lowest. Five states have a 4 percent state-level sales tax: Alabama, Georgia, Hawaii, New York, and Wyoming. At the other end is California with a 7.25 percent state sales tax, including a

31 Sales taxes, which are ideally levied only on sales to final users, are a form of consumption tax. Consumption taxes that are levied instead at each stage of production are known as value-added taxes (VAT) and are popular internationally. Theoretically, a VAT can avoid the economically damaging tax pyramiding effect. The VAT has never gained wide acceptance in the US, and only two states (Michigan and New Hampshire) have even attempted a VAT-like tax.

32 Alaska does authorize local governments to levy their own sales taxes, however, which is reflected in the state's sales tax component score.

mandatory statewide local add-on tax. Tied for second highest are Indiana, Mississippi, Rhode Island, and Tennessee (all at 7 percent). Other states with high statewide rates include Minnesota (6.88 percent) and Nevada (6.85 percent).

Local Option Sales Tax Rates. Thirty-eight states authorize the use of local option sales taxes at the county and/or municipal level, and in some states, the local option sales tax significantly increases the tax rate faced by consumers.[33] Local jurisdictions in Colorado, for example, add an average of 4.91 percent in local sales taxes to the state's 2.9 percent state-level rate, bringing the total average sales tax rate to 7.81 percent. This may be an understatement in some localities with much higher local add-ons, but by weighting each locality's rate, the *Index* computes a statewide average of local rates that is comparable to the average in other states.

Alabama and Louisiana have the highest average local option sales taxes (5.29 and 5.12 percent, respectively), and in both states the average local option sales tax is higher than the state sales tax rate. Other states with high local option sales taxes include Colorado (4.91 percent), New York (4.53 percent), and Oklahoma (4.50 percent).

States with the highest combined state and average local sales tax rates are Louisiana (9.56 percent), Tennessee (9.56 percent), Arkansas (9.47 percent), Washington (9.45 percent), and Alabama (9.29 percent). At the low end are Alaska (1.82 percent), Hawaii (4.50 percent), Wyoming (5.44 percent), Maine (5.50 percent), and Wisconsin (5.70 percent).

Excise Tax Rates. Excise taxes are single-product sales taxes. Many of them are intended to reduce consumption of the product bearing the tax. Others, like the gasoline tax, are often used to fund specific projects such as road construction.

Gasoline and diesel excise taxes (levied per gallon) are usually justified as a form of user tax paid by those who benefit from road construction and maintenance. Though gas taxes—along with tolls—are one of the best ways to raise revenue for transportation projects (roughly approximating a user fee for infrastructure use), gasoline represents a large input for most businesses, so states that levy higher rates have a less competitive tax climate. State excise taxes on gasoline range from 69.82 cents in California to 8.95 cents per gallon in Alaska. The *Index* captures states' base excise taxes in addition to other gallonage-based fees and ad valorem taxes placed upon gasoline. General sales tax rates that apply to gasoline are included in this calculated rate, but states that include, or partially include, gasoline in the sales tax base are rewarded in the sales tax breadth measure.

Tobacco, vaping, spirits, and beer excise taxes can discourage in-state consumption and encourage consumers to seek lower prices in neighboring jurisdictions.[34] This impacts a wide swath of retail outlets, such as convenience stores, that move large volumes of tobacco and beer products. The problem is exacerbated for those retailers located near the border of states with lower excise taxes as consumers move their shopping out of state—referred to as cross-border shopping.[35]

33 The average local option sales tax rate is calculated as an average of local statutory rates, weighted by population. See Jared Walczak, "State and Local Sales Tax Rates, Midyear 2024," Tax Foundation, Jul. 9, 2024.
34 J. Moody and Scott and Wendy P. Warcholik. "How Tax Competition Affects Cross-Border Sales of Beer in the United States," Tax Foundation, March 2004.
35 See Adam Hoffer, "Cigarette Taxes and Cigarette Smuggling by State, 2021," Tax Foundation, Dec. 5, 2023.

There is also the growing problem of cross-border smuggling of products from states and areas that levy low excise taxes on tobacco into states that levy high excise taxes on tobacco. This both increases criminal activity and reduces taxable sales by legitimate retailers.

States with the highest tobacco taxes per pack of 20 cigarettes are New York (at $5.35), Maryland ($5.00), Connecticut ($4.35), Rhode Island ($4.25), Minnesota ($3.77), and Massachusetts ($3.51), while states with the lowest tobacco taxes are Missouri ($0.17), Georgia ($0.37), North Dakota ($0.44), North Carolina ($0.45), and South Carolina and Idaho ($0.57).

States with the highest vaping taxes on a per mL basis are Maryland ($2.25), California ($1.47), Minnesota ($1.40), Vermont ($1.38), and Massachusetts ($1.24). Eighteen states have not levied any taxes on vaping products, maximizing the potential for harm reduction from vaping and state competitiveness, but the states that levy the lowest taxes on vapes are Delaware, Georgia, Kansas, North Carolina, and Wisconsin (each at $0.05).

States with the highest beer taxes on a per gallon basis are Tennessee ($1.29), Alaska ($1.07), Kentucky and Hawaii ($0.93), and South Carolina ($0.77), while states with the lowest beer taxes are Wyoming ($0.02), Missouri and Wisconsin ($0.06), and Colorado, Oregon, and Pennsylvania (each at $0.08). States with the highest spirits taxes per gallon are Washington ($36.55), Oregon ($22.86), and Virginia ($22.06), while states with the lowest spirits taxes are Wyoming and New Hampshire (these two states gain revenue directly from alcohol sales through government-run stores and have set prices low enough that they are comparable to buying spirits without taxes), Missouri ($2.00), and Colorado ($2.28).

Digital Advertising Tax. Currently imposed only in Maryland, the digital advertising tax is a harmful and nonneutral tax applied to gross revenue from digital advertising services. The definitions and sourcing rules for this tax are ambiguous and nontransparent, resulting in the double taxation of digital advertising profits.[36] Several other states are debating imposing this tax using Maryland as a model, and the new *Index* now penalizes states for imposing such a tax.

Sales Tax Base

The sales tax base subindex is computed according to five features of each state's sales tax:

- Whether the base includes a variety of business-to-business transactions such as machinery, raw materials, office equipment, farm equipment, business leases, and several digital goods and services (software-as-a-service, platform-as-a-service, payroll services, B2B digital goods)
- Whether the base includes goods and services typically purchased by consumers, such as groceries, clothing, gasoline, e-books, and digital video services
- Whether the base includes services, such as financial, fitness, landscaping, repair, parking, dry cleaning, barber, and veterinary
- Whether the state leans on sales tax holidays, which temporarily exempt select goods from the sales tax

36 See Ulrik Boesen, "Tax Foundation Comments on Maryland's Digital Advertising Tax Regulations," Tax Foundation, Nov. 10, 2021.

The top five states on this subindex—New Hampshire, Delaware, Montana, Oregon, and Alaska—are the five states without a general state sales tax. However, none receives a perfect score because each levies gasoline, diesel, tobacco, and beer excise taxes. States like Wisconsin, Iowa, Kansas, Maine, Illinois, Oklahoma, Florida, and Missouri achieve high scores on their tax base by avoiding the problems of tax pyramiding and adhering to low excise tax rates.

States with the worst scores on the base subindex are Hawaii, South Dakota, Ohio, Alabama, New Mexico, Louisiana, New Jersey, Arizona, and Washington. Their tax systems hamper economic growth by including too many business inputs, excluding too many consumer goods and services, and imposing excessive rates of excise taxation.

Sales Tax on Business-to-Business Transactions (Business Inputs). When a business must pay sales taxes on manufacturing equipment, raw materials, or digital services it uses in the production process, then that tax becomes part of the price of whatever the business makes with that equipment, materials, or digital services. The business must then collect sales tax on its own products, resulting in a tax charged on a price that already contains taxes. This tax pyramiding invariably results in some industries being taxed more heavily than others, which violates the principle of neutrality and causes economic distortions.

These variables are often inputs to other business operations. For example, a manufacturing firm will count the cost of transporting its final goods to retailers as a significant cost of doing business. Most firms, small and large alike, hire accountants, lawyers, and other professional service providers. If these services are taxed, then it is more expensive for every business to operate.

To understand how business-to-business sales taxes can distort the market, suppose a sales tax was levied on the sale of flour to a bakery. The bakery is not the end user because the flour will be baked into bread and sold to consumers. Economic theory is not clear as to which party will ultimately bear the burden of the tax. The tax could be "passed forward" onto the customer or "passed backward" onto the bakery.[37] Where the tax burden falls depends on how sensitive the demand for bread is to price changes. If customers tend not to change their bread-buying habits when the price rises, then the tax can be fully passed forward onto consumers. However, if the consumer reacts to higher prices by buying less, then the tax will have to be absorbed by the bakery as an added cost of doing business.

The hypothetical sales tax on all flour sales would distort the market, because different businesses that use flour have customers with varying price sensitivities. Suppose the bakery is able to pass the entire tax on flour forward to the consumer but the pizzeria down the street cannot. The owners of the pizzeria would face a higher cost structure and profits would drop. Since profits are the market signal for opportunity, the tax would tilt the market away from pizza-making. Fewer entrepreneurs would enter the pizza business, and existing businesses would hire fewer people. In both cases, the sales tax charged to purchasers of bread and pizza would be partly a tax on a tax because the tax on flour would be built into the price. Economists call this tax pyramiding, and public finance scholars overwhelmingly oppose applying the sales tax to business inputs due to the resulting pyramiding and lack of transparency.

37 See Timothy J. Besley and Harvey S. Rosen, "Sales Taxes and Prices: An Empirical Analysis," NBER Working Paper No. 6667, July 1998.

Besley and Rosen found that for many products, the after-tax price of the good increased by the same amount as the tax itself.[38] That means a sales tax increase was passed along to consumers on a one-for-one basis. For other goods, however, they found that the price of the good rose by twice the amount of the tax, meaning that the tax increase translates into an even larger burden for consumers than is typically thought. Note that these inputs should only be exempt from sales tax if they are truly inputs into the production process. If they are consumed by an end user, they are properly includable in the state's sales tax base.

In addition to traditional business inputs like raw materials and manufacturing equipment, the new version of the *Index* also accounts for digital business inputs, such as software-as-a-service, platform-as-a-service, payroll services, and other B2B digital goods. As digital services become a larger part of personal consumption and business transactions, digital taxation will increasingly shape state tax competitiveness in the years ahead.

States that create the most tax pyramiding and economic distortion, and therefore score the worst, are states that levy a sales tax that generally allows no exclusions for business inputs. Hawaii, South Dakota, New Mexico, and Washington are examples of states that tax many business inputs.

Sales Tax Breadth. An economically neutral sales tax base includes all final retail sales of goods and services purchased by the end users. In practice, however, states tend to include most goods, but relatively few services, in their sales tax bases, a growing issue in an increasingly service-oriented economy. Using John Mikesell's methodology, we estimate that, nationwide, sales taxes extended to about 35 percent of all final consumption.[39] Exempting any goods or services narrows the tax base, drives up the sales tax rate on those items still subject to tax, and introduces unnecessary distortions into the market. A well-structured sales tax, however, does not fall upon business inputs. Therefore, states that tax services that are business inputs score poorly on the *Index*, while states are rewarded for expanding their base to include more final retail sales of goods and services, including digital services (e-books and digital video).

Sales Tax on Gasoline. There is no economic reason to exempt gasoline from the sales tax, as it is a final retail purchase by consumers. However, all but seven states do so. While all states levy an excise tax on gasoline, these funds are often dedicated for transportation purposes, making them a form of user tax distinct from the general sales tax. The five states that fully include gasoline in their sales tax base (Florida, Hawaii, Illinois, Indiana, and Michigan) get a better score. Several other states receive partial credit for applying an ad valorem tax to gasoline sales, but at a different rate than the general sales tax. New York currently applies local sales taxes only.

Sales Tax on Groceries. A well-structured sales tax includes all end-user goods in the tax base, to keep the base broad and rates low, and prevent distortions in the marketplace. Many states exempt groceries to reduce the incidence of the sales tax on low-income residents. Such an exemption, however, also benefits grocers and higher-income residents, and creates additional compliance costs due to the necessity of maintaining complex, ever-changing lists of exempt and nonexempt products. Public assistance pro-

38 Ibid.
39 Jared Walczak, "State Sales Tax Breadth and Reliance, Fiscal Year 2022," Tax Foundation, Jul. 23, 2024, https://taxfoundation.org/data/all/state/sales-tax-revenue-reliance-breadth/.

grams such as the Women, Infants, and Children (WIC) program or the Supplement Nutrition Assistance Program (SNAP) provide more targeted assistance than excluding groceries from the sales tax base. Thirteen states include or partially include groceries in their sales tax base.

Remote Seller Protections. With the Supreme Court's elimination of the physical presence requirement for imposing sales tax collection obligations, all states with sales taxes are now requiring remote sellers to collect and remit sales tax. While most states have adopted safe harbors for small sellers and have a single point of administration for all state and local sales taxes, a few diverge from these practices, imposing substantial compliance costs on out-of-state retailers. Alabama, Alaska (which only has local sales taxes), Colorado, and Louisiana lack uniform administration.

Property Taxes

The property tax component, which includes taxes on real and personal property, net worth, and the transfer of assets, accounts for 14.9 percent of each state's *Index* score.

When properly structured, real property taxes exceed most other taxes in comporting with the benefit principle and can be fairly economically efficient. In the realm of public finance, they are often also prized for their comparative transparency among taxes, though that transparency may contribute to the public's generally low view of property taxes. The Tax Foundation's *Survey of Tax Attitudes* found that local property taxes are perceived as the second most unfair state or local tax.[40]

Property taxes matter to businesses, and the tax rate on commercial property is often higher than the tax on comparable residential property. Additionally, many localities and states levy taxes on the personal property or equipment owned by a business. They can be on assets ranging from cars to machinery and equipment to office furniture and fixtures, but are separate from real property taxes, which are taxes on land and buildings.

Businesses remitted over $1.07 trillion in state and local taxes in fiscal year 2022, of which $373 billion (34.7 percent) was for property taxes. The property taxes included tax on real, personal, and utility property owned by businesses.[41] Since property taxes can be a large burden on businesses, they can have a significant effect on location decisions.

Mark, McGuire, and Papke find taxes that vary from one location to another within a region could be uniquely important determinants of intraregional location decisions.[42] They find that higher rates of two business taxes—the sales tax and the personal property tax—are associated with lower employment growth. They estimate that a tax hike on personal property of one percentage point reduces annual employment growth by 2.44 percentage points.

40 See Matt Moon, "How Do Americans Feel about Taxes Today?," Tax Foundation, Apr. 8, 2009.
41 Andrew Phillips and Caroline Sallee, "Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2022," Council On State Taxation (COST) with Ernst and Young LLP and the State Tax Research Institute (December 2023).
42 Stephen T. Mark, Therese J. McGuire, and Leslie E. Papke, "The influence of taxes on employment and population growth: Evidence from the Washington, DC metropolitan area," *National Tax Journal* 53:1 (2000): 105-123.

Table 6. Property Tax Component of the *State Tax Competitiveness Index* (2020-2025)

					2024		2025		2024-2025	
State	**2020**	**2021**	**2022**	**2023**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Alabama	16	17	16	15	15	5.43	14	5.47	-1	0.04
Alaska	30	31	30	31	31	4.98	30	4.92	-1	-0.07
Arizona	14	12	12	12	10	5.65	13	5.68	3	0.04
Arkansas	28	29	29	25	25	5.16	19	5.23	-6	0.07
California	15	14	13	18	18	5.27	23	5.18	5	-0.10
Colorado	33	33	34	36	37	4.47	36	4.48	-1	0.01
Connecticut	50	50	50	50	50	2.57	50	2.76	0	0.19
Delaware	1	1	1	2	1	6.66	1	6.58	0	-0.08
Florida	17	15	14	16	17	5.36	21	5.22	4	-0.13
Georgia	32	32	32	32	32	4.94	34	4.82	2	-0.11
Hawaii	12	13	17	27	21	5.20	24	5.17	3	-0.04
Idaho	6	5	5	5	3	6.32	3	6.36	0	0.03
Illinois	41	42	42	39	44	4.08	43	4.14	-1	0.07
Indiana	3	4	3	4	4	6.26	5	6.32	1	0.06
Iowa	35	34	35	34	34	4.68	32	4.88	-2	0.20
Kansas	26	24	27	26	28	5.08	29	4.99	1	-0.09
Kentucky	20	23	22	20	22	5.20	27	5.07	5	-0.13
Louisiana	27	27	23	19	19	5.26	16	5.31	-3	0.05
Maine	45	43	46	48	47	3.39	48	3.16	1	-0.23
Maryland	36	36	36	35	36	4.50	35	4.52	-1	0.02
Massachusetts	42	44	45	45	46	3.92	46	3.93	0	0.01
Michigan	31	28	31	30	30	5.04	28	5.06	-2	0.02
Minnesota	25	21	20	24	27	5.11	26	5.10	-1	-0.01
Mississippi	38	39	41	40	41	4.29	38	4.33	-3	0.05
Missouri	9	8	10	9	11	5.64	11	5.69	0	0.05
Montana	23	22	26	22	20	5.23	18	5.29	-2	0.06
Nebraska	43	45	43	46	45	3.97	45	3.93	0	-0.04
Nevada	7	6	6	7	7	6.02	7	6.04	0	0.03
New Hampshire	44	47	47	42	40	4.29	39	4.31	-1	0.02
New Jersey	40	40	40	41	43	4.21	42	4.16	-1	-0.05
New Mexico	2	2	2	1	2	6.58	2	6.45	0	-0.13
New York	47	48	48	47	48	3.25	47	3.30	-1	0.04
North Carolina	21	18	18	17	16	5.36	20	5.23	4	-0.14
North Dakota	5	9	8	6	6	6.20	4	6.34	-2	0.13
Ohio	4	3	4	3	5	6.23	6	6.26	1	0.04
Oklahoma	24	26	28	29	12	5.55	15	5.41	3	-0.14
Oregon	29	25	25	28	29	5.06	31	4.92	2	-0.14
Pennsylvania	8	7	7	8	8	5.92	9	5.97	1	0.05
Rhode Island	48	46	44	44	38	4.44	37	4.40	-1	-0.05
South Carolina	39	38	38	38	39	4.31	41	4.19	2	-0.13
South Dakota	11	30	21	14	14	5.44	10	5.93	-4	0.48
Tennessee	34	35	33	33	33	4.81	33	4.83	0	0.02
Texas	37	37	39	43	42	4.25	40	4.29	-2	0.05
Utah	10	10	9	10	9	5.79	12	5.68	3	-0.11
Vermont	49	49	49	49	49	3.08	49	2.92	0	-0.16
Virginia	18	20	19	23	24	5.18	22	5.19	-2	0.01
Washington	22	19	24	21	26	5.13	25	5.16	-1	0.03
West Virginia	13	11	11	11	23	5.18	17	5.31	-6	0.12
Wisconsin	19	16	15	13	13	5.49	8	6.00	-5	0.51
Wyoming	46	41	37	37	35	4.53	44	4.09	9	-0.44
District of Columbia	46	48	49	50	50	2.81	48	3.20	-2	0.39

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states.

Source: Tax Foundation.

Bartik,[43] finding that property taxes are a significant factor in business location decisions, estimates that a 10 percent increase in business property taxes decreases the number of new plants opening in a state by between 1 and 2 percent. Bartik backs up his earlier findings by concluding that higher property taxes negatively affect the establishment of small businesses.[44] He elaborates that the particularly strong negative effect of property taxes occurs because they are paid regardless of profits, and many small businesses are not profitable in their first few years, so high property taxes would be more influential than profit-based taxes on the start-up decision.

States that keep statewide property taxes low better position themselves to attract business investment. Localities competing for business can put themselves at a greater competitive advantage by keeping personal property taxes low.

Taxes on capital stock, tangible and intangible property, inventory, real estate transfers, estates, inheritance, and gifts are also included in the property tax component of the *Index*. The states that score the best on property tax are Delaware, New Mexico, Idaho, North Dakota, Indiana, Ohio, Nevada, Wisconsin, and Pennsylvania. These states generally have low property tax rates, measured as a percentage of income. They also avoid distortionary taxes like estate, inheritance, gift, and other wealth taxes. States that score poorly on the property tax component are Vermont, Connecticut, Maine, New York, Massachusetts, Nebraska, Wyoming, and Illinois. These states generally have high property tax rates and levy one or several wealth-based taxes.

The property tax portion of the *Index* is composed of two equally weighted subindices devoted to measuring the economic impact of both rates and bases. The rate subindex consists of property tax collections (measured as a percentage of personal income) and capital stock taxes. The base portion consists of dummy variables detailing whether each state levies wealth taxes such as inheritance, estate, gift, inventory, tangible or intangible property, and other similar taxes.[45]

Property Tax Rate

The property tax rate subindex consists of property tax collections as a percent of personal income (80 percent of the subindex score) and capital stock taxes (20 percent of the subindex score). The heavy weighting of tax collections is due to their importance to businesses and individuals and their increasing size and visibility to all taxpayers. Tax collections as a percentage of personal income forms an effective rate that gives taxpayers a sense of how much of their income is devoted to property taxes.

While these measures are not ideal—having effective tax rates of personal and real property for both businesses and individuals would be preferable—they are the best measures available due to the significant data constraints regarding property tax collections. Since a high percentage of property taxes are levied at the local level, there are countless jurisdictions. The sheer number of different localities makes data

43 Timothy J. Bartik, "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes, and Other Characteristics of States," *Journal of Business and Economics Statistics* 3:1 (January 1985): 14-22.
44 Timothy J. Bartik, "Small Business Start-Ups in the United States: Estimates of the Effects of Characteristics of States," *Southern Economic Journal* (April 1989): 1004-1018.
45 Tangible personal property taxes can also affect business decisions and are now part of the new *Index*. For a comprehensive review of these taxes and reform recommendations, see Jared Walczak, "Tangible Personal Property De Minimis Exemptions by State, 2024," Tax Foundation, Mar. 5, 2025, and Joyce Errecart, Ed Gerrish, and Scott Drenkard, "States Moving Away from Taxes on Tangible Personal Property," Tax Foundation, Oct. 4, 2012.

collection virtually impossible. The few studies that tackle the subject use representative towns or cities instead of the entire state. Thus, the best source for data on property taxes is the Census Bureau, because it can compile the data and reconcile definitional problems.

States that maintain low effective rates are more likely to promote growth than states with high rates and collections.

Effective Property Tax Rate. Property tax collections as a percent of personal income are derived by dividing the Census Bureau's figure for total property tax collections by personal income in each state. This provides an effective property tax rate. States with the highest effective rates and therefore the worst scores are Vermont (5.13 percent), Maine (5.09 percent), New Jersey (4.81 percent), New Hampshire (4.64 percent), New York (4.44 percent), and Connecticut (4.07 percent). States that score well with low effective tax rates are Alabama (1.40 percent), Arkansas (1.67 percent), Tennessee (1.74 percent), Oklahoma (1.77 percent), and Louisiana (1.86 percent).

Capital Stock Tax Rate. Capital stock taxes (sometimes called franchise taxes) are levied on the wealth of a corporation, usually defined as net worth. They are often levied in addition to corporate income taxes, adding a duplicate layer of taxation and compliance for many corporations. Corporations that find themselves in financial trouble must use their limited cash flow to pay their capital stock tax. In assessing capital stock taxes, the subindex accounts for three variables: the capital stock tax rate; the maximum payment; and whether any capital stock tax is imposed in addition to a corporate income tax, or whether the business is liable for the higher of the two.

This variable measures the rate of taxation as levied by the 15 states with a capital stock tax. Legislators have come to realize the damaging effects of capital stock taxes, and a handful of states are reducing or repealing them. Kansas completed the phaseout of its tax in 2011. West Virginia and Rhode Island fully phased out their capital stock taxes as of January 1, 2015, and Pennsylvania phased out its capital stock tax in 2016. Oklahoma eliminated its capital stock tax in 2023.

New York finished a phaseout of the state's capital stock tax as of January 1, 2021, but the legislature decided to temporarily reinstate the tax due to coronavirus-related budget concerns. Similarly, Illinois had plans to begin a phaseout in 2020, completing the process in 2024. After two years, Illinois reversed its phaseout plan and opted instead to freeze the franchise tax exemption at $1,000. Connecticut plans to phase out its tax by January 1, 2028. States with the highest capital stock tax rates include Arkansas (0.30 percent), Louisiana (0.275 percent), Massachusetts and Connecticut (0.26 percent), Tennessee (0.25 percent), and New York (0.1875 percent).

Maximum Capital Stock Tax Payment. Seven states mitigate the negative economic impact of the capital stock tax by placing a cap on the maximum capital stock tax payment. These states are Alabama, Connecticut, Delaware, Georgia, Illinois, Nebraska, and New York, and among states with a capital stock tax, they receive the highest score on this variable.

Capital Stock Tax Versus Corporate Income Tax. Some states mitigate the negative economic impact of the capital stock tax by allowing corporations to pay the higher of their capital stock tax or their corporate tax. These states (Connecticut, Massachusetts, and New York) are given credit for this provision. States that do not have a capital stock tax get the best scores in this subindex while the states that force companies to pay both score the worst.

Property Tax Base

This subindex is composed of dummy variables listing the different types of property taxes each state levies. Seven taxes are included and each is equally weighted. Delaware, Ohio, Wisconsin, North Dakota, Idaho, and Pennsylvania score the best because they each only levy one of the seven taxes. Connecticut, Maryland, Kentucky, and Oklahoma receive the worst scores because they impose many of these taxes.

Business Tangible Property Tax. This variable rewards states that remove, or substantially remove, business tangible personal property from their tax bases. Taxes on tangible personal property (TPP), meaning property that can be touched or moved (as opposed to real estate), are a source of tax complexity and nonneutrality, incentivizing firms to change their investment decisions and relocate to avoid the tax. Nine states (Delaware, Hawaii, Illinois, Iowa, New Jersey, New York, Ohio, Pennsylvania, and Wisconsin) exempt all tangible personal property from taxation, while another five states (Minnesota, New Hampshire, North Dakota, Rhode Island, and South Dakota) exempt most such property from taxation except for select industries that are centrally assessed.

Tangible Personal Property De Minimis Exemption. Another 10 states that tax business tangible personal property offer de minimis exemptions to avoid unduly burdening businesses with only a small amount of potentially taxable property.[46] Arizona, Colorado, Idaho, Indiana, Michigan, Montana, and Rhode Island have TPP de minimis exemptions of $50,000 or more, while Florida, Georgia, Kentucky, and Utah have lower exemptions. States that offer TPP de minimis exemptions receive extra credit on this subindex compared to the states that fully tax business tangible personal property.

Inventory Tax. Levied on the value of a company's inventory, the inventory tax is especially harmful to large retail stores and other businesses that store large amounts of merchandise. Inventory taxes are highly distortionary, because they force companies to make decisions about production that are not entirely based on economic principles but rather on how to pay the least amount of tax on goods produced. Inventory taxes also create strong incentives for companies to locate inventory in states where they can avoid these harmful taxes. Fourteen states levy some form of inventory tax.

Intangible Property Tax. This dummy variable gives low scores to those states that impose taxes on intangible personal property. Intangible personal property includes stocks, bonds, and other intangibles such as trademarks. This tax can be highly detrimental to businesses that hold large amounts of their own or other companies' stock and that have valuable trademarks. Eight states levy this tax in various degrees: Alabama, Iowa, Kentucky, Louisiana, Mississippi, South Dakota, Tennessee, and Texas.[47]

46 See Jared Walczak, "Tangible Personal Property De Minimis Exemptions by State, 2024," Tax Foundation, Mar. 5, 2024, https://taxfoundation.org/data/all/state/state-tangible-personal-property-taxes-2024/.

47 Some states, like Kentucky, are often considered not to impose an intangible property tax but continue to levy a low millage on financial deposits.

Split Roll Taxation. In some states, different classes of property—like residential, commercial, industrial, and agricultural property—face distinct tax burdens, either because they are taxed at different rates or are exposed to different assessment ratios. When such distinctions exist, the state is said to have a split (rather than unified) property tax roll. The *Index* assesses whether states utilize split roll taxation, which tends to discriminate against business property, and what ratio exists between commercial and residential property taxation.

Property Tax Limitation Regimes. Most states limit the degree to which localities can raise property taxes, but these property tax limitation regimes vary dramatically. Broadly speaking, there are three types of property tax limitations. Assessment limits restrict the rate at which a given property's assessed value can increase each year. (It often, but not always, resets upon sale or change of use, and sometimes resets when substantial improvements are made.) Rate limits, as the name implies, either cap the allowable rate or restrict the amount by which the rate can be raised in a given year. Finally, levy limits impose a restriction on the growth of total collections (excluding those from new construction), implementing or necessitating rate reductions if revenues exceed the allowable growth rate. Most limitation regimes permit voter overrides. The *Index* penalizes states for imposing assessment limitations, which distort property taxation, leading to similar properties facing highly disparate effective rates of taxation and influencing decisions about property utilization. It also rewards states for adopting levy limits. The new edition of the *Index* neither rewards nor penalizes rate limitations, which often have very little effect.

Asset Transfer Taxes (Estate, Inheritance, and Gift Taxes). Four taxes levied on the transfer of assets are part of the property tax base. These taxes, levied in addition to the federal estate tax, all increase the cost and complexity of transferring wealth and hurt a state's business tax climate. These harmful effects can be particularly acute in the case of small, family-owned businesses if they do not have the liquid assets necessary to pay the estate's tax liability.[48] The four taxes are real estate transfer taxes, estate taxes, inheritance taxes, and gift taxes. Thirty-five states and the District of Columbia levy taxes on the transfer of real estate, adding to the cost of purchasing real property and increasing the complexity of real estate transactions. This tax is harmful to businesses that transfer real property often.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) lowered the federal estate tax rate through 2009 and eliminated it entirely in 2010. Prior to 2001, most states levied an estate tax that piggybacked on the federal system, because the federal tax code allowed individuals to take a dollar-for-dollar tax credit for state estate taxes paid. In other words, states essentially received free tax collections from the estate tax, and individuals did not object because their total tax liability was unchanged. EGTRRA eliminated this dollar-for-dollar credit system, replacing it with a tax deduction.

Consequently, over the past decade, some states enacted their own estate tax while others repealed their estate taxes. Some states have provisions reintroducing the estate tax if the federal dollar-for-dollar credit system is revived. This would have happened in 2011, as EGTRRA expired and the federal estate tax returned to pre-2001 levels. However, in late 2010, Congress reenacted the estate tax for 2011 and 2012, but with higher exemptions and a lower rate than pre-2001 law, and maintained the deduction for

48 For a summary of the effects of the estate tax on business, see Congressional Budget Office, "Effects of the Federal Estate Tax on Farms and Small Businesses," July 2005. For a summary of the estate tax in general, see David Block and Scott Drenkard, "The Estate Tax: Even Worse Than Republicans Say," Tax Foundation, Sep. 4, 2012.

state estate taxes. The tax reform law of 2017 raised the federal exemption still further. Thirty-eight states receive a high score for either (1) remaining coupled to the federal credit and allowing their state estate tax to expire or (2) not enacting their own estate tax, including two that repealed their estate tax this year. Twelve states and the District of Columbia have maintained an estate tax either by linking their tax to the pre-EGTRRA credit or by creating their own stand-alone system. These states are ranked according to the maximum estate tax rate they impose. The highest estate tax rates are in Hawaii and Washington (each at 20 percent), while the lowest rates are in Connecticut and Maine (each at 12 percent).

Each year, some businesses, especially those that have not spent a sufficient sum on estate tax planning and on large insurance policies, find themselves unable to pay their estate taxes, either federal or state. Usually, they are small to medium-sized family-owned businesses where the death of the owner occasions a surprisingly large tax liability.

Inheritance taxes are similar to estate taxes, but they are levied on the heir of an estate instead of on the estate itself. Therefore, a person could inherit a family-owned company from his or her parents and be forced to downsize it, or sell part or all of it, in order to pay the heir's inheritance tax. Six states have inheritance taxes and are punished in the *Index*, because the inheritance tax causes economic distortions. The highest maximum inheritance tax rates are in Kentucky and New Jersey (each at 16 percent), while the lowest rate is in Iowa (2 percent), where the tax is scheduled to be fully repealed next year. Maryland has both an estate tax and an inheritance tax, the only state to impose both after New Jersey completed the repeal of its estate tax.

Connecticut is the only state with a gift tax, and it scores poorly. Gift taxes are designed to stop individuals' attempts to avoid the estate tax by giving their estates away before they die. Gift taxes have a negative impact on a state's business tax climate because they also heavily impact individuals who have sole proprietorships, S corporations, and LLCs.

Unemployment Insurance Tax

Unemployment insurance (UI) is a social insurance program jointly operated by the federal and state governments. Taxes are paid by employers into the UI program to finance benefits for workers recently unemployed. Compared to the other major taxes assessed in the *State Tax Competitiveness Index*, UI taxes are much less well-known. Every state has one, and all 50 of them are complex, variable-rate systems that impose different rates on different industries and different bases depending upon such factors as the health of the state's UI trust fund.[49]

One of the worst aspects of the UI tax system is that financially troubled businesses, for which layoffs may be a matter of survival, actually pay higher marginal rates as they are forced into higher tax rate schedules. This can be considered the shutdown effect of UI taxes: failing businesses face climbing UI taxes, with the result that they fail sooner.

49 See Joseph Bishop-Henchman, "Unemployment Insurance Taxes: Options for Program Design and Insolvent Trust Funds," Tax Foundation, Oct. 17, 2011.

Table 7. Unemployment Insurance Tax Component of the *State Tax Competitiveness Index* (2020-2025)

					2024		2025		2024-2025	
State	**2020**	**2021**	**2022**	**2023**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Alabama	25	18	26	25	16	5.37	18	5.38	2	0.01
Alaska	50	50	50	50	44	4.17	45	4.00	1	-0.17
Arizona	3	3	3	2	3	5.96	2	6.04	-1	0.08
Arkansas	16	14	8	10	20	5.28	11	5.61	-9	0.33
California	28	29	24	21	23	5.11	25	5.08	2	-0.02
Colorado	24	23	28	32	32	4.72	39	4.51	7	-0.21
Connecticut	38	39	33	35	30	4.82	40	4.49	10	-0.33
Delaware	7	11	11	4	1	6.11	1	6.12	0	0.01
Florida	5	5	10	8	9	5.62	10	5.63	1	0.01
Georgia	20	20	22	27	27	4.99	24	5.16	-3	0.17
Hawaii	30	32	41	40	50	3.41	49	3.89	-1	0.47
Idaho	36	38	27	34	37	4.64	35	4.61	-2	-0.03
Illinois	42	43	39	42	43	4.29	43	4.20	0	-0.09
Indiana	18	19	23	18	15	5.42	13	5.58	-2	0.16
Iowa	39	41	35	37	36	4.67	33	4.67	-3	0.00
Kansas	11	10	15	11	5	5.79	4	5.82	-1	0.02
Kentucky	40	37	38	38	38	4.63	34	4.63	-4	0.00
Louisiana	4	4	12	14	11	5.57	9	5.64	-2	0.06
Maine	27	28	16	22	13	5.45	19	5.29	6	-0.16
Maryland	26	24	36	28	24	5.07	20	5.27	-4	0.20
Massachusetts	49	49	49	47	49	3.71	47	3.97	-2	0.26
Michigan	22	27	25	26	28	4.95	26	5.08	-2	0.12
Minnesota	43	42	45	45	42	4.34	42	4.31	0	-0.03
Mississippi	6	6	5	7	12	5.54	15	5.54	3	0.01
Missouri	10	7	2	3	4	5.91	5	5.81	1	-0.10
Montana	23	26	18	20	19	5.29	21	5.26	2	-0.03
Nebraska	2	2	1	1	2	6.00	3	6.01	1	0.01
Nevada	48	47	48	48	47	4.11	46	4.00	-1	-0.11
New Hampshire	21	25	32	31	29	4.94	27	5.08	-2	0.14
New Jersey	44	45	42	44	48	4.05	50	3.66	2	-0.39
New Mexico	12	12	17	12	14	5.43	16	5.40	2	-0.03
New York	34	36	37	41	39	4.62	37	4.55	-2	-0.07
North Carolina	9	9	7	9	8	5.64	7	5.69	-1	0.05
North Dakota	15	15	4	6	18	5.34	12	5.58	-6	0.24
Ohio	8	8	13	13	10	5.58	14	5.57	4	-0.02
Oklahoma	1	1	9	5	6	5.72	6	5.70	0	-0.02
Oregon	45	40	43	43	34	4.70	41	4.48	7	-0.23
Pennsylvania	46	46	34	36	40	4.61	36	4.59	-4	-0.02
Rhode Island	47	48	47	46	45	4.16	48	3.91	3	-0.25
South Carolina	29	22	21	24	26	5.01	28	5.03	2	0.01
South Dakota	19	21	19	19	21	5.22	22	5.26	1	0.03
Tennessee	17	16	14	17	22	5.22	17	5.39	-5	0.17
Texas	32	33	31	30	31	4.76	30	4.76	-1	0.00
Utah	14	17	20	23	25	5.02	29	4.97	4	-0.04
Vermont	13	13	6	15	7	5.67	8	5.66	1	-0.01
Virginia	35	35	40	39	41	4.50	38	4.51	-3	0.01
Washington	41	44	46	49	46	4.12	44	4.00	-2	-0.12
West Virginia	31	30	29	16	17	5.37	23	5.17	6	-0.20
Wisconsin	33	31	30	29	33	4.71	32	4.73	-1	0.02
Wyoming	37	34	44	33	35	4.67	31	4.74	-4	0.07
District of Columbia	22	22	27	28	23	5.18	25	5.11	2	-0.06

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states.

Source: Tax Foundation.

The unemployment insurance tax component of the *Index* consists of two equally weighted subindices, one that measures each state's rate structure and one that focuses on the tax base. Unemployment insurance taxes comprise 10.5 percent of a state's final *Index* score.

Overall, the states with the least damaging UI taxes are Delaware, Arizona, Nebraska, Kansas, Missouri, Oklahoma, and North Carolina. Comparatively speaking, these states have rate structures with lower minimum and maximum rates and a wage base approximately at the federal level. In addition, they have simpler experience formulas and charging methods, and they have not complicated their systems with benefit add-ons and surtaxes. Also, their UI trust fund's solvency is at or above the recommended level.

Conversely, the states with the worst UI taxes are New Jersey, Hawaii, Rhode Island, Massachusetts, Nevada, and Alaska. These states tend to have rate structures with high minimum and maximum rates and wage bases above the federal level. They also tend to feature more complicated experience formulas and charging methods, have added surtaxes to their systems, and charge employers in more situations. Their UI trust funds' solvency is typically below the recommended level.

Unemployment Insurance Tax Rate

UI tax rates in each state are based on a schedule of rates ranging from a minimum rate to a maximum rate. The rate for any particular business is dependent upon the business's experience rating: businesses with the best experience ratings will pay the lowest possible rate on the schedule while those with the worst ratings pay the highest. The rate is applied to a taxable wage base (a predetermined fraction of an employee's wage) to determine UI tax liability.

Multiple rates and rate schedules can affect neutrality as states attempt to balance the dual UI objectives of spreading the cost of unemployment to all employers and ensuring high-turnover employers pay more.

Overall, the states with the best score on this rate subindex are Nebraska, Maine, Mississippi, Alabama, Florida, and Virginia. Generally, these states have low minimum and maximum tax rates on each schedule and a wage base at or near the federal level. The states with the worst scores are Hawaii, New Jersey, Rhode Island, Massachusetts, Washington, and Minnesota.

The subindex includes three factors: the actual rate schedules in effect in the most recent year, the statutory rate schedules that can potentially be implemented at any time depending on the state of the economy and the UI fund, and the UI trust fund solvency level.

Actual Rate. Both minimum and maximum actual UI tax rates, in their interaction with the taxable wage base, are included here. The minimum rates in effect in the most recent year range from zero percent (Iowa, Missouri, Nebraska, South Dakota, Wisconsin, and Wyoming) to 2.10 percent (New York). The maximum rates in effect in the most recent year range from 5.4 percent (Alabama, Alaska, Delaware, Florida, Idaho, Nebraska, Nevada, Oregon, and Vermont) to 14.03 percent (Arizona). The taxable wage base ranges from $7,000 (in Florida, California, Tennessee, and Arkansas), in line with the federal taxable wage base, to $68,500 (Washington). In addition to these statutory variables, we use two variables published by the US Department of Labor that calculate effective UI tax rates: employer contribution rates as

(1) a percentage of taxable wages and (2) as a percentage of total wages. The first variable ranges from 0.49 percent (Alabama) to 3.5 percent (Pennsylvania), while the second variable ranges from 0.1 percent (Alabama, Virginia, and Florida) to 1.86 percent (Hawaii).

Potential Rate. Due to the effect of business and seasonal cycles on UI funds, states will sometimes change UI tax rate schedules. When UI trust funds are flush, states will trend toward their lower rate schedules ("most favorable schedules"); however, when UI trust funds are low, states will trend toward their higher rate schedules ("least favorable schedules"). Only maximum rates of these schedules are compared in the *Index*, as the variation in minimum rates is very low. The lowest maximum rate of 5.4 percent is imposed by 22 states and the District of Columbia. The state with the highest maximum tax rate and, thus, the worst maximum tax score, is Wisconsin (10.7 percent). Twelve states receive the best score in this variable with a comparatively low maximum tax rate of 5.4 percent. The state with the highest maximum tax rate and, thus, the worst maximum tax score, is Massachusetts (18.55 percent).

UI Trust Fund Solvency. Every year, the US Department of Labor publishes the "State UI Trust Fund Solvency Report," ranking all the states based on their UI trust fund solvency level measured using the Average High Cost Multiple.[50] The recommended solvency level is 1 or above. California and New York have the lowest solvency level at 0, which means that their UI trust funds are essentially insolvent. The states with the highest solvency level (all above 2) are Wyoming, Alaska, and Oregon.

Unemployment Insurance Tax Base

The UI base subindex scores states on how they determine which businesses should pay the UI tax and how much, as well as other UI-related taxes for which businesses may also be liable.

The states that receive the best scores on this subindex are Oklahoma, Delaware, North Dakota, Arizona, Ohio, and Vermont. In general, these states have relatively simple experience formulas, exclude more factors from the charging method, and enforce fewer surtaxes.

States that receive the worst scores are Virginia, Alaska, Nevada, Illinois, South Carolina, and Wyoming. In general, they have more complicated experience formulas, exclude fewer factors from the charging method, and have complicated their systems with add-ons and surtaxes. The three equally-weighted factors considered in this subindex are experience rating formulas, charging methods, and a host of smaller factors aggregated into one variable.

Experience Rating Formula. A business's experience rating formula determines the rate the firm must pay—whether it will lean toward the minimum rate or maximum rate of the particular rate schedule in effect in the state at that time.

There are four basic experience formulas: contribution, benefit, payroll, and state experience. The first three experience formulas—contribution, benefit, and payroll—are based solely on the business's experi-

50 According to the US Department of Labor, "Average High Cost Multiple (AHCM) uses actual trust fund balances as of the end of the calendar year and estimated wages for the same year. This measure compares the state trust fund balance to the average of the three highest years of benefit payments." The full report is available at https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2024.pdf.

ence and are therefore nonneutral by design.[51] However, the final variable—state experience—is a positive mitigating factor because it is based on statewide experience. In other words, the state experience is not tied to the experience of any one business; therefore, it is a more neutral factor. This subindex penalizes states that depend on the contribution (5 points), benefit (2.5 points), and payroll experience (0 points) variables while rewarding states with the state experience variable (10 points).

Charging Methods and Benefits Excluded from Charging. A business's experience rating will vary depending on which charging method the state government uses. When a former employee applies for unemployment benefits, the benefits paid to the employee must be charged to a previous employer. There are three basic charging methods:

- *Charging Most Recent or Principal Employer*: Ten states charge all the benefits to one employer, usually the most recent.
- *Charging Base-Period Employers in Inverse Chronological Order*: Six states charge all base-period employers in inverse chronological order. This means that all employers within a base period of time (usually the last year, sometimes longer) will have the benefits charged against them, with the most recent employer being charged the most.
- *Charging in Proportion to Base-Period Wages*: Thirty-four states and the District of Columbia charge in proportion to base-period wages. This means that all employers within a base period of time (usually the last year, sometimes longer) will have the benefits charged against them in proportion to the wages they paid.

None of these charging methods could be called neutral, but at the margin, charging the most recent or principal employer is the least neutral because the business faced with the necessity of laying off employees knows it will bear the full benefit charge. The most neutral of the three is the "charging in proportion to base-period wages" since there is a higher probability of sharing the benefit charges with previous employers.

As a result, the states that charge in proportion to base-period wages receive the best score. The states that charge the most recent or principal employer receive the worst score. The states that charge base-period employers in inverse chronological order receive a median score.

Many states also recognize that certain benefit costs should not be charged to employers, especially if the separation is beyond the employer's control. Therefore, this subindex also accounts for six types of exclusions from benefit charges:

- Benefit award reversed
- Reimbursements on combined wage claims
- Voluntary leaving
- Discharge for misconduct
- Refusal of suitable work
- Continues to work for employer on part-time basis

51 Alaska is the only state to use the payroll experience method. This method does not use benefit payments in the formula but instead the variation in an employer's payroll from quarter to quarter. This is a violation of tax neutrality since any decision by the employer or employee that would affect payroll may trigger higher UI tax rates.

States are rewarded for each of these exclusions because they nudge a UI system toward neutrality. For instance, if benefit charges were levied for employees who voluntarily quit, then industries with high turnover rates, such as retail, would be hit disproportionately harder. States that receive the best scores in this category are Connecticut, Delaware, Louisiana, Ohio, and Vermont. On the other hand, the states that receive the worst scores are Virginia, Nevada, Massachusetts, Maine, and Georgia. Most states charge the most recent or principal employer and forbid most benefit exclusions.

Solvency Tax. These taxes are levied on employers when a state's unemployment fund falls below some defined level. Twenty-nine states have a solvency tax on the books, though they fall under different names, such as solvency adjustment tax (Alaska), supplemental assessment tax (Delaware), subsidiary tax (New York), and fund balance factor (Virginia).

Taxes for Socialized Costs or Negative Balance Employer. These are levied on employers when the state desires to recover benefit costs above and beyond the UI tax collections based on the normal experience rating process. Nine states have these taxes on the books, though they fall under a variety of names.

Loan and Interest Repayment Surtaxes. Levied on employers when a loan is taken from the federal government or when bonds are sold to pay for benefit costs, these taxes are of two general types. The first is a tax to pay off the federal loan or bond issue. The second is a tax to pay the interest on the federal loan or bond issue. States are not allowed to pay interest costs directly from the state's unemployment trust fund. Twenty-eight states and the District of Columbia have these taxes on the books, though they fall under several names, such as advance interest tax and bond assessment tax (Colorado) and temporary emergency assessment tax (Delaware).

Reserve Taxes. Reserve taxes are levied on employers, to be deposited in a reserve fund separate from the unemployment trust fund. Since the fund is separate, the interest earned on it is often used to create other funds for purposes such as job training and paying the costs of the reserve tax's collection. Four states have these taxes on the books: Idaho and Iowa (reserve tax), Nebraska (state UI tax), and North Carolina (reserve fund tax).

Surtaxes for UI Administration or Non-UI Purposes. Twenty-eight states and the District of Columbia levy surtaxes on employers, usually to fund administration but sometimes for job training or special improvements in technology. They are often deposited in a fund outside of the state's unemployment fund. Some of the names they go by are the state training and employment program (Arkansas), reemployment service fund tax (New York), wage security tax (Oregon), and investment in South Dakota future fee (South Dakota).

Temporary Disability Insurance (TDI). A handful of states—California, Hawaii, New Jersey, and New York—have established a temporary disability insurance (TDI) program that augments the UI program by extending benefits to those unable to work because of sickness or injury. No separate tax funds these programs; the money comes right out of the states' unemployment funds. Because the balance of the funds triggers various taxes, the TDIs are included as a negative factor in the calculation of this subindex.

Voluntary Contributions. Twenty-seven states allow businesses to make voluntary contributions to the unemployment trust fund. In most cases, these contributions are rewarded with a lower rate schedule, often saving the business more money in taxes than was paid through the contribution. The *Index* rewards states that allow voluntary contributions because firms are able to pay when they can best afford to instead of when they are struggling. This provision helps to mitigate the nonneutralities of the UI tax.

Time Period to Qualify for Experience Rating. Newly formed businesses, naturally, do not qualify for an experience rating because they have no significant employment history on which to base the rating. Federal rules stipulate that states can levy a "new employer" rate for one to three years, but no less than one year. From a neutrality perspective, however, this new employer rate is nonneutral in almost all cases since the rate is higher than the lowest rate schedule. The longer this rate is in effect, the worse the nonneutrality. As such, the *Index* rewards states with the minimum one year required to earn an experience rating and penalizes states that require the full three years.

Alabama

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
38	14	34	49	14	18

Alabama's graduated-rate income tax is very nearly flat since its top rate kicks in at only $3,000 in taxable income for single filers and $6,000 for married couples, without an inflation adjustment. The standard deduction, which is similarly unadjusted for inflation, has also eroded in value over time. Notably, Alabama is among the states that permit local income taxes, which Alabama terms the Occupational Tax.

On the corporate tax front, Alabama levies a 6.5 percent corporate income tax with 15 years of net operating loss (NOL) carryforwards, which is less generous than the federal allowance. A longer carryforward period would allow the state to tax long-run profits without penalizing cyclical businesses. Alabama does benefit, however, by conforming to the federal bonus depreciation allowance under Section 168(k).

Alabama has a low 4 percent state sales tax rate, but its combined state and average local rate is among the nation's highest, at 9.29 percent. It is one of only three states, with Colorado and Louisiana, that allows local governments to administer their own local sales taxes, creating significant additional complexity and imposing high compliance costs for businesses, particularly out-of-state retailers. Alabama has created an alternative system for remote sellers, but it remains far inferior to the centralized collection and administration of local sales taxes found in 35 of the 38 states with such taxes.

Alabama has among the lowest effective property tax rates in the country on owner-occupied housing value, but it does impose a nonneutral split roll system, with commercial property treated less favorably than residential property. While the state does not have an estate or inheritance tax, it does impose a real estate transfer tax. The state also features a capital stock tax, which falls on business net worth without regard for profitability.

Alaska

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
3	34	1	5	30	45

Alaska, which forgoes an individual income tax and a state-level sales tax, ranks well on the *Index* due to the absence of major taxes, but has room to reform the taxes it does impose. Cities and boroughs can impose their own sales taxes, resulting in a lack of base uniformity, though local governments have agreed to adopt a uniform code with central administration for remote sellers, lessening compliance burdens.

The state's corporate income tax has a 20 percent global intangible low-taxed income (GILTI) inclusion, making it a national outlier. Alaska also imposes a throwback rule, exposing some out-of-state activity of Alaska-based corporations to the state's corporate taxes, and it only partially conforms to federal depletion allowances. Property taxes are somewhat high, and the state taxes some inventory, but with no individual income tax, state sales tax, capital stock tax, or inheritance or estate tax, Alaska keeps taxes low for most residents and for some businesses, particularly those not subject to production taxes (e.g., oil and natural gas).

Arizona

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
15	13	8	45	13	2

Arizona's tax code features all major tax types, but due to recently implemented sweeping tax reforms, the state ranks highly on the *Index*. Arizona performs well on income and property taxes and has one of the most efficient unemployment insurance tax systems in the nation. The state's individual income tax has a flat rate of 2.5 percent, the lowest in the country, making it more competitive than any other state that imposes these taxes. Such a low rate makes the state very attractive to taxpayers who have decided to leave high-tax states, particularly California.

Arizona also has a flat corporate income tax rate of 4.9 percent and avoids imposing harmful gross receipts taxes and capital stock taxes. However, the state does not conform to the federal treatment of bonus depreciation and requires that businesses add back to the corporate income tax base any bonus depreciation taken at the federal level. Adopting permanent full expensing would encourage further in-state investment and make a reasonably good tax code even better.

The combined state and local sales tax rate is relatively high, and localities can modify the sales tax base, making the system more complicated than in most states. The state sales tax base is also relatively narrow, below the median national level, because many personal services and some goods are tax-exempt. Expanding the base to include most personal services while keeping business inputs out represents another potentially beneficial tax reform for the state.

Arizona taxes tangible personal property but offers a generous de minimis exemption of $225,572 to minimize compliance costs for small and medium-sized businesses. Furthermore, the state does not impose inheritance, estate, or gift taxes, which makes it more attractive for wealthy households and retirees.

Arkansas

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
36	15	39	44	19	11

Arkansas ranks poorly on the *Index* despite multiple rounds of income tax rate reductions since 2015 and a resulting low top marginal individual income tax rate, due to a range of structural shortcomings in the state's tax code. For instance, Arkansas only allows corporations' net operating losses (NOLs) to be carried forward for 8 years, while most states either allow 20-year or uncapped carryforward periods. The state stands alone in having two different income tax rate schedules depending on taxpayer income.

Arkansas also has the third-highest combined state and local sales tax rate in the nation at 9.46 percent. The state also imposes a tax on capital stock, at 0.3 percent of the apportioned net worth of corporations. Such taxes are increasingly rare, and Arkansas's tax rate is the highest in the nation. The state also assesses property tax on businesses' inventory, making the state even more of an outlier. Both taxes are assessed whether the firm makes a profit or loss in a particular tax year, which is harmful to small businesses seeking to scale up their operations, capital-intensive firms, and all firms during an economic decline.

California

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
48	41	49	46	23	25

California combines high tax rates with an uncompetitive tax structure, yielding one of the worst rankings on the *Index*. The state has a great deal going for it, with its mild climate, excellent research universities, and the ongoing agglomeration effects of Silicon Valley, but a tax code that is uncompetitive and threatens to get worse is increasingly driving jobs to other states.

The state's top marginal individual income tax rate of 13.3 percent is compounded by a 1.1 percent newly uncapped payroll tax, bringing the all-in top rate to 14.4 percent. Additionally, nonresidents must file income taxes if they work even a single day in the state, and California is one of only four states to still impose an alternative minimum tax.

California is the only state to deny all net operating loss carryforwards; the state's NOL provisions have been suspended on multiple occasions and are not currently in effect. It is also the only state to use the outmoded ACRS depreciation system rather than MACRS, and does not allow any accelerated first-year expensing. California has a throwback rule, exposing in-state businesses to additional corporate tax liability for certain out-of-state income that would not be taxed elsewhere. The state is also dramatically out of conformity with the federal tax code, which adds to tax complexity, though it has certain benefits: the state does not, for instance, incorporate global intangible low-taxed income (GILTI), which does not belong in state tax codes but has been incorporated by some states.

Property taxes in California are constrained by Proposition 13 and subsequent enactments that cap growth in taxable assessed value. This keeps property taxes lower than they would be otherwise—especially for long-time incumbent owners—but at the cost of significant distortions to property markets.

Colorado

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
32	10	18	37	36	39

Colorado's individual and corporate income is taxed at a flat rate of 4.25 percent. Individual taxpayers are subject to an alternate minimum tax, requiring some to calculate their liability twice—first under ordinary income tax rules and then under the alternate minimum tax—and pay whichever amount is highest.

While the corporate tax code features a single rate, it also contains some inefficiencies. Colorado imposes a throwback rule and taxes "nowhere income" in the state from which sales are made because the seller lacks sufficient nexus to be taxed in the destination state, leading to taxation in the wrong state at the wrong rate. Colorado is also among the minority of states to tax global intangible low-taxed income (GILTI).

Of the 45 states that levy a sales tax, Colorado's statewide rate is the lowest (2.77 percent). Local jurisdictions add an average of 4.91 percent in local sales taxes. Highly unusually, the Centennial State also lacks uniform sales tax administration. While this affects sellers in the state, it particularly impacts remote sellers and marketplace facilitators who may be required to collect and remit sales taxes despite having no physical presence in Colorado. Colorado also lacks local base conformity, with bases varying across jurisdictions.

Effective property taxes are low, though state and local property tax collections per capita remain high. Like much of the country, property owners have seen valuations rise significantly, and lawmakers have worked to provide property tax relief. This, however, is nothing new for Colorado. In 1982, voters approved the Gallagher Amendment, which limited the amount of property tax revenue that could be collected from residential property to 45 percent of the state's total. The remaining 55 percent would come from other property types. In 2022, voters repealed the Gallagher Amendment, paving the way for significantly increased property tax liability for homeowners. Since then, the state has seen several legislative attempts and citizen-led initiatives to provide relief. The state's Taxpayer's Bill of Rights (TABOR), though significantly amended over the years, also influences the overall shape of the state's tax environment.

Connecticut

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
47	31	47	21	50	40

Connecticut's tax code includes all major tax types, and the state has historically ranked among the bottom 10 on the *Index*. Connecticut has one of the most complex and least neutral individual income tax systems in the nation, featuring seven tax brackets with a top marginal rate of 6.99 percent and a recapture provision that eliminates the benefit of lower brackets, effectively taxing all income at the taxpayer's highest marginal rate. Additionally, tax brackets and the personal exemption are not adjusted for inflation.

Connecticut's baseline corporate income tax rate is high at 7.5 percent, though still lower than in other New England states, such as Massachusetts and Delaware. However, the state imposes a 10 percent surtax on businesses with gross proceeds of $100 million or more, or those filing as part of a combined unitary group, which increases the total tax burden for large corporations. The state does not comply with federal bonus depreciation treatment, requiring businesses to add back any first-year expensing of capital investment taken at the federal level. A minimum tax is also imposed on corporations' capital stock. This provision was slated for expiration, but the phaseout has now been extended until 2028. Connecticut does, however, offer appropriate treatment of net operating loss carryforwards and forgoes a harmful throwback rule.

The state's sales tax rate of 6.35 percent is competitive both nationally and regionally, but the base includes some business inputs and excludes many final consumption goods and services, which limits the revenue-generating potential and reduces the neutrality of the sales tax system.

Connecticut also has one of the highest property tax burdens in the nation (relative to personal income) and imposes harmful estate and gift taxes, making the state less attractive to homeowners and high-net-worth individuals.

Delaware

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
18	50	42	2	1	1

Delaware, despite maintaining several distinctly uncompetitive provisions, ranks above average on the *Index* due to its lack of a sales tax. Delaware has a graduated individual income tax with a top rate of 6.6 percent kicking in at $60,000. In addition, the city of Wilmington collects its own individual income tax of 1.25 percent, the only jurisdiction to do so. Taxpayers in the state also face a marriage penalty, where a household's overall tax bill increases due to a couple marrying and filing taxes jointly.

Delaware has an 8.7 percent corporate income tax rate and is one of only two states with both a corporate income tax and a gross receipts tax (GRT), which applies to gross sales, without deductions for a firm's business expenses, like costs of goods sold and compensation, and without regard for ability to pay. This leads to tax pyramiding, favors high-profit-margin companies, and can cause low-profit-margin firms to cease operations. Most states have abandoned GRTs due to the economic harm and inefficiencies they cause. Delaware also imposes a capital stock tax. The state does benefit, however, from its lack of a state sales tax, as well as its reasonable 0.48 percent effective property tax rate on owner-occupied housing value.

Delaware does not levy an estate tax or inheritance tax, a notable competitive advantage compared to most of its regional competitors. However, the state does impose an uncompetitive convenience rule and requires nonresident individual income tax filing and withholding for nonresidents who work for even a single day in the state. Delaware is perhaps most notable for policies that make it more attractive as a place in which to incorporate than a state in which to actually conduct significant business operations.

Its Court of Chancery, which wins many plaudits, is well outside the scope of the *Index*, while its uniquely favorable treatment of royalty income does not benefit the state on the *Index*.

Florida

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
4	16	1	14	21	10

Florida boasts no individual income tax, a competitive 5.5 percent corporate income tax, and a sales tax rate which—despite the lack of an individual income tax—is lower than those levied in many other southern states. Unlike many of its regional competitors, Florida does not tax capital stock, and its corporate income tax largely adheres to national norms, yielding a highly competitive overall tax code. However, the state falls short on its treatment of capital investment, only allowing corporate taxpayers to claim 15 percent of the first-year expensing of machinery and equipment offered under the federal tax code. With full expensing currently phasing down at the federal level, states are increasingly exploring making 100 percent first-year expensing permanent, whereas Florida only offers a fraction of a declining federal allowance.

Florida offers a de minimis exemption for tangible personal property, but at $25,000, it is relatively low and offers a possible avenue for improvement. The state is also unusual in imposing a commercial lease tax. Nevertheless, in most regards, the state is among the more competitive in the country.

Georgia

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
26	12	31	23	34	24

Georgia's tax code includes all major tax types. The state has recently transitioned to a flat individual income tax and is gradually reducing the tax rate (currently 5.39 percent, scheduled to reach 4.99 percent by 2028), two positive developments in terms of tax competitiveness. However, the state still faces strong regional competition, as both Florida and Tennessee do not impose individual income taxes, while Alabama and North Carolina have lower rates.

Since 2024, Georgia's corporate income tax rate has been aligned with the individual income tax rate and is set to decrease from the current 5.39 percent to 4.99 percent by 2028. However, the state does not allow first-year expensing of capital investment and imposes a nuisance capital stock tax of up to $5,000 per year. Like many states, Georgia also taxes tangible personal property. The state offers a de minimis exemption, but it is quite low.

Georgia's state sales tax rate is relatively low at 4 percent, but localities are authorized to impose local sales taxes, with an average rate of 3.42 percent, bringing the combined rate to 7.42 percent, which is above the national average. Georgia does not impose inheritance, estate, or gift taxes.

Hawaii

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
42	25	46	28	24	49

Hawaii's tax code is complex and includes all major tax types, placing the state among the bottom 10 on the *Index*. Hawaii has one of the most complex, least neutral, and most progressive individual income tax systems in the nation, with 12 tax brackets, a top marginal rate of 11 percent, a very low standard deduction, and, until recently, no adjustment for inflation. It does, however, provide favorable treatment of capital gains income. Conversely, Hawaii caps small business expensing under Section 179 at $25,000, whereas most states allow $1 million.

Hawaii's corporate income tax is also progressive (which is unusual), with a top rate of 6.4 percent. The state does not index tax brackets for inflation, does not allow full expensing, and has a throwback rule, which exposes Hawaii-based businesses to tax on certain income earned in other states.

The state's sales tax, known as the general excise tax (GET), has a relatively low rate of 4 percent but an extremely broad base that includes virtually all business inputs, both goods and services, leading to significant tax pyramiding. Hawaii also allows counties to impose local option sales taxes, generally capped at 0.5 percent.

Hawaii has the highest estate tax rate in the nation at 20 percent, with an exemption of $5.49 million. The state's property tax system is generally competitive, and particularly features low rates on owner-occupied property, though some counties impose assessment caps on homestead properties, which are less efficient than levy limits.

Idaho

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
11	21	11	9	3	35

Idaho's individual and corporate income taxes are imposed at a single rate, which was reduced from 5.8 percent to 5.695 percent in 2024. However, the state's throwback rule is inefficient and taxes "nowhere income" in the state from which sales are made because the seller lacks sufficient nexus to be taxed in the destination state, leading to taxation in the wrong state at the wrong rate—making the corporate income tax more of a disincentive to in-state activity. Idaho also fails to conform to federal provisions to provide first-year expensing of business machinery and equipment purchases. Idaho is also among the minority of states that tax global intangible low-taxed income (GILTI), with a 15 percent inclusion.

Idaho has a generous de minimis exemption for tangible personal property, eliminating compliance costs for many smaller and mid-sized businesses. The state's income tax has a 30-day withholding threshold but a single-day filing threshold, meaning that an individual who works even one day in the state is expected to file and remit taxes, even though the income would not be withheld by their employer.

Illinois

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
37	42	13	38	41	43

Illinois performs well on the individual income tax component due to its single-rate individual income tax, which is prescribed by the state constitution, as well as its inflation indexing of its personal exemption. However, on each of the other components, Illinois ranks in the bottom third of states due to high rates and relatively nonneutral tax structures.

Notably, Illinois levies high income tax rates on businesses, in large part due to its personal property replacement tax (PPRT), which imposes an additional rate of 2.5 percent on corporations and 1.5 percent on certain pass-through businesses above the base corporate and individual income tax rates, respectively. As a result, Illinois' corporate income tax rate is among the highest in the country at 9.5 percent, and its 6.45 percent rate on partnerships, S corporations, and trusts is also on the high side regionally and nationally. While the PPRT hurts Illinois' income tax component scores, Illinois' decision to replace its tangible personal property (TPP) tax means Illinois scores better on the property tax component than it would if it continued to tax TPP. Illinois' corporate component score is also hurt by the state's lack of bonus depreciation allowance under IRC Section 168(k).

Illinois' sales and property tax rates are also high, and the estate tax and franchise tax hinder Illinois' property tax base score. Illinois is among the states that caps the maximum capital stock tax liability a business may owe in a given year, but in the wake of the pandemic, lawmakers paused—and have yet to resume—a phased elimination of the tax. Additionally, Illinois is an extreme outlier in its decision to impose a temporary cap on the amount of net operating loss (NOL) carryforwards a business can claim in a given year. Lawmakers could improve the state's tax climate by eliminating the cap on NOLs and completing the repeal of the capital stock tax.

Finally, Illinois' unemployment insurance (UI) tax structure also has substantial room for improvement. Currently, it is plagued by high rates, a wage base that is nearly double the federal wage base, a solvency tax, and a long experience rating qualifying period, among other shortcomings.

Indiana

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
10	8	16	17	5	13

Indiana's tax code includes all major tax types, but the state has ranked well on the *Index* since reforms inaugurated in the early 2010s. Indiana has low, single-rate state income taxes and has one of the most efficient property tax systems in the nation, using levy limits to constrain the unlegislated growth of property taxes. Despite the state's low, flat 3.05 percent individual income tax, however, Indiana allows its counties to impose nonuniform local income tax rates, which range from 0.5 to 3 percent, a factor that negatively impacts the state's competitiveness.

Indiana's flat corporate tax rate of 4.9 percent is one of the lowest in the Midwest. Unlike nearby Ohio, Indiana does not impose a harmful gross receipts tax. The state also does not have a throwback rule, offers generous carryforwards for net operating losses, and does not impose a capital stock tax. Implementing permanent full expensing is one element of the corporate income tax code that could further enhance Indiana's competitiveness.

Indiana is one of the few states that does not allow local governments to impose local option sales taxes. While the state's sales tax rate of 7 percent is one of the highest in the country, the overall consumption tax burden is only moderately above average given the absence of a local-level tax. The sales tax base in the state is relatively narrow, as most personal consumption services are excluded from the base, while some business inputs are included. Modernizing the sales tax base is a potentially valuable reform for Indiana.

The state taxes tangible personal property but offers a de minimis exemption of $80,000 to reduce compliance costs for small and medium-sized businesses. Additionally, Indiana does not impose inheritance, estate, or gift taxes.

Iowa

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
20	23	19	11	32	33

Iowa's *Index* ranking has improved substantially in recent years as the result of several rounds of pro-growth and structurally sound tax reform that have greatly improved the state's competitive standing. Under recent reforms, Iowa has lowered income tax rates, eliminated an unusual and counterproductive policy of federal deductibility, repealed the alternative minimum tax, and begun the phaseout of the state's inheritance tax.

While Iowa still has a graduated-rate individual income tax as of July 2024, the state will move to a single-rate structure in 2025, which will further improve the state's overall score. Unusually, Iowa has a graduated-rate corporate income tax structure but has enacted tax triggers to reduce and flatten the rate over time as revenue becomes available. Iowa is also among the states that allow local income taxes.

While Iowa's combined state and average local sales tax rate is slightly below average, the state's property tax burden is somewhat high, and unlike many of its regional competitors, Iowa not only taxes tangible personal property (machinery and equipment) but does so without providing a de minimis exemption for small businesses. The state also has split roll property taxes, with higher ratios applied to businesses and renters than to homeowners. The state's inheritance tax will be eliminated in January 2025, which will be reflected in next year's edition of the *Index*.

Kansas

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
25	27	27	30	29	4

Kansas has a fairly standard tax code—with few features that make it either distinctly competitive or uncompetitive—and this is reflected in the state's ranking near the middle of the pack. Kansas' individual and corporate income taxes both have graduated-rate structures, with brackets, a standard deduction, and a personal exemption that are not indexed for inflation. Kansas' top marginal individual and corporate income tax rates, as well as its combined state and average local sales tax rate, are all at or above the national median.

While Kansas exposes an outsized share of business income to its corporate income tax rate due to its throwback rule, the state does conform to the federal bonus depreciation allowance and federal net operating loss (NOL) provisions. Additionally, the Sunflower State maintains state and local sales tax base uniformity and uniform state-level administration of its state and local sales taxes. Additionally, most of Kansas' excise tax rates are relatively competitive compared to those in many other states.

Kansas' property tax split roll ratio is fairly high, with commercial properties bearing a higher share of the property tax burden compared to residential properties, but by forgoing a capital stock tax and estate or inheritance tax, Kansas outperforms many of its peers on this component.

Moving forward, Kansas could most improve its rankings by prioritizing reductions to the rates of its broad-based taxes—including its corporate income tax, individual income tax, and sales tax—and moving to single-rate individual and corporate income tax structures.

Kentucky

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
22	18	23	18	27	34

Kentucky's tax competitiveness has improved substantially in recent years due to several rounds of reforms that broadened the sales tax base to additional categories of mostly final personal consumption while moving to a single-rate individual income tax at a substantially lower rate. However, many other areas of the Commonwealth's tax code are riddled with antiquated and complex provisions that remain ripe for reform.

Specifically, Kentucky is one of few states that levy income-based taxes on individuals and businesses not just at the state level, but also at the county and municipal levels in the form of occupational license taxes and net profit taxes. In addition to individual and corporate income taxes, Kentucky levies a limited liability entity tax (LLET), which is a gross receipts-based alternative minimum tax on C corporations and limited liability pass-through businesses owed even when businesses do not turn a profit. Kentucky is further hindered by its lack of bonus depreciation allowance for corporate machinery and equipment investments. While Kentucky's Section 179 small business expensing allowance is broadly available because the Commonwealth does not conform to the federal phaseout threshold, Kentucky's expensing limit of $100,000 is much lower than the $1 million expensing limit offered in most states.

Kentucky is a notable outlier in applying its tangible personal property taxes to business inventory, a highly distortionary practice that has been abandoned in most states. Furthermore, Kentucky levies an inheritance tax that kicks in at a low level, affecting beneficiaries across the income spectrum, not just the affluent. Additionally, Kentucky's UI tax ranking is hindered by high maximum rates and a surtax, but recent action to shorten the experience rating waiting period brought needed improvement on this component.

Louisiana

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
40	29	33	48	16	9

Louisiana's tax code is a national outlier, with one of the most complicated sales tax regimes and a long list of unusual and uncompetitive taxes and tax provisions, like inventory taxes and a capital stock (franchise) tax. Individual taxpayers are subject to three tax brackets and a competitive top marginal rate of 4.25 percent. However, the individual income tax code is not indexed for inflation, which means Louisiana taxpayers are subject to bracket creep (i.e., when inflation pushes a taxpayer from a lower bracket to a higher one when nominal income rises, but due to inflation, real income does not, or may even decline). Moreover, unlike other states with an individual income tax, Louisiana does not currently recognize S corporation status, requiring these entities to file taxes as C corporations rather than enjoying the pass-through status accorded to them in other states.

Businesses are subject to a franchise tax on their net worth (or accumulated wealth), which penalizes investment and is imposed regardless of profitability. Louisiana does not cap maximum payments for these taxes, making an already uncompetitive tax even more detrimental. Louisiana also taxes business inventory, which, like the capital stock tax, is imposed regardless of business profitability. These taxes are nonneutral, disproportionately affecting those businesses with larger inventories and causing taxpayers to make inefficient timing and location decisions with their inventory.

Like the state's individual tax code, the corporate tax rates are not indexed for inflation. However, Louisiana repealed its inefficient throwout rule, which previously taxed "nowhere income" in the state from which sales were made when the seller lacked sufficient nexus to be taxed in the destination state. This previously led to taxation in the wrong state at the wrong rate.

Perhaps most notably, Louisiana is highly unusual in lacking central collections and administration of its sales tax. The state has made progress with an alternative remote sellers regime, but parishes' and other jurisdictions' ability to define their own tax bases and to administer the taxes separately from the state imposes high compliance costs.

Maine

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
29	40	22	8	48	19

Maine outperforms many of its Northeastern peers but nevertheless performs below average on the *Index*, with the property tax and corporate income tax being its least competitive tax types.

Maine's property tax structure is among the least competitive in the nation due to high rates, its levying of both an estate tax and a real estate transfer tax, and its taxation of tangible personal property without a de minimis exemption. However, Maine's high property taxes come as a trade-off for its lack of local sales taxes, which enables the state to maintain one of the lowest combined sales tax rates in the nation, helping it earn a top 10 spot for that component.

On the corporate tax side, Maine includes global intangible low-taxed income (GILTI) in its corporate tax base, and its throwback rule raises the tax burden Maine-based businesses face when they sell tangible property into states with which they do not have nexus. Additionally, Maine's lack of first-year expensing for C corporations discourages in-state investment, although its conformity to the Section 179 expensing allowance makes its treatment of small business investments more competitive than some of its peers.

Maryland

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
46	37	45	39	35	20

Maryland's tax code is complex and includes all major tax types. The state has traditionally ranked among the bottom 10 states on the *Index*. Maryland has a progressive individual income tax system, with eight tax brackets, a top marginal tax rate of 5.75 percent, a low standard deduction and personal exemption, and no adjustment of income tax provisions for inflation. High-rate county income taxes, at rates up to 3.2 percent, yield a substantially above-average income tax burden for Maryland residents.

The state's corporate income tax rate is 8.25 percent, considerably higher than in many regional competitors, including Virginia, West Virginia, and North Carolina. Like DC, Maryland includes global intangible low-taxed income (GILTI) in its corporate tax base, making it an outlier nationwide, and the state does not allow full expensing within its corporate income tax. Unusually, Maryland also limits first-year expensing for pass-through businesses to $25,000 in annual expenses, whereas most states offer $1 million. However, Maryland does not impose harmful gross receipts or capital stock taxes and has a competitive sales tax system with a general rate of 6 percent.

In addition to complexities with traditional taxes, Maryland is currently the only state to impose a digital advertising tax, which is non-neutral, difficult to comply with, and subject to numerous legal disputes. Maryland is also the only state that imposes both estate and inheritance taxes, with maximum rates of 16 and 10 percent, respectively, making the state less attractive for high-net-worth individuals. These factors further exacerbate Maryland's relatively poor tax competitiveness.

Massachusetts

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
41	33	41	20	46	47

Massachusetts ranks among the bottom 10 states on the *Index* due to its overly burdensome individual income taxes, property taxes, and UI taxes. In 2022, Massachusetts voters amended the state constitution to impose an additional 4 percent surtax on income greater than $1 million, dismantling the state's formerly competitive flat income tax and making Massachusetts less attractive for productive households and businesses. The Commonwealth is also an outlier in imposing a separate payroll tax for non-UI purposes.

Additionally, Massachusetts' so-called corporate excise tax, which has a capital stock base component, imposes high burdens on businesses with large amounts of capital in Massachusetts and includes a throwback rule that exposes Massachusetts' businesses to high tax burdens when they sell tangible property into states with which they do not have nexus. Furthermore, the state does not offer first-year expensing, discouraging in-state investment. Massachusetts also has an overly burdensome UI tax, with high rates, a solvency tax and surtax, and a lengthy experience rating qualifying period.

In addition to its hefty income tax burdens, especially for businesses, Massachusetts' property taxes are among the highest in the nation, and the base includes some business inventory, though a levy limit, conventionally called Proposition 2 ½, does help reduce the further growth of property taxes. Additionally, Massachusetts levies both an estate tax and a real estate transfer tax. One notable bright spot, however, is Massachusetts' neutral treatment of different classes of property, avoiding the split roll systems common in states that impose excessive burdens on commercial properties compared to residential properties.

Michigan

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
14	9	14	12	28	26

Michigan's tax code includes all major tax types and has traditionally ranked well on the *Index*. The state's individual income tax is flat with a relatively low rate of 4.25 percent (temporarily reduced to 4.05 percent in 2023), along with a modest personal exemption. However, Michigan faces significant regional competition, as Indiana, Ohio, and Pennsylvania all have lower state individual income tax rates, although all four states authorize localities to impose local income taxes.

Michigan has a flat 6 percent corporate income tax, which is higher than the national average. Unlike Ohio, the state does not impose a gross receipts tax and has no throwback rule or capital stock tax. However, the state does not offer full expensing, which could be an important element of future pro-growth reforms aimed at attracting capital-intensive businesses.

The state's sales tax rate is 6 percent, lower than in all other Midwestern states except Wisconsin. Michigan does not authorize cities and counties to impose local option sales taxes, simplifying the consumption tax system compared to most other states.

Michigan's property tax system is reasonably competitive with an average property tax burden. The state taxes tangible personal property but offers a generous de minimis exemption of $180,000, reducing compliance costs for small businesses. Michigan also does not impose estate, inheritance, or gift taxes, making it more attractive for high-net-worth individuals.

Minnesota

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
44	43	44	34	26	42

Minnesota ranks relatively uncompetitively on the *Index* and is held back by its graduated state individual income tax with a top rate of 9.85 percent, among the highest in the country. Its taxpayers are also subject to alternative minimum taxes under both the individual and corporate income tax codes, adding complexity to the code. The state also recently created a new surtax on long-term capital gains income, such that the top marginal rate on long-term capital gains income is now higher than the top rate on ordinary income.

Minnesota also has high sales tax rates, with a 6.875 percent state sales tax rate and an average combined state and local sales tax rate of 8.12 percent. Minnesota's effective property tax rate on owner-occupied housing value is on the high side, and its split roll system imposes higher taxes on businesses and renters. Minnesota also has a 9.8 percent corporate income tax rate, one of the highest in the country. The state only allows 15 years of net operating loss (NOL) carryforwards, less generous than most states' rules, which either offer 20-year or unlimited carryforwards. Additionally, Minnesota's 20 percent first-year expensing allowance is less generous than the federal bonus depreciation allowance under Section 168(k).

Minnesota recently implemented a tax on global intangible low-taxed income (GILTI), which now needs to be added as dividend income by corporations operating within the state. State GILTI taxes are highly uncompetitive, as they have nothing to do with a company's activities in the state (or even in the US). Minnesota is also in the minority of states to still impose an estate tax on bequeathed property, with a top rate of 16 percent. Among the bright spots in Minnesota's tax code are its conformity to Section 179 and the fact that the state only partially taxes tangible personal property.

Mississippi

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
27	6	32	25	38	15

Mississippi, which ranks near the middle of the pack on the *Index*, benefits from a low, flat individual income tax rate and a relatively low corporate income tax rate. However, Mississippi's throwback rule exposes in-state firms to higher Mississippi tax liability when they sell tangible property into states with which they do not have nexus. Additionally, Mississippi maintains a graduated-rate corporate income tax despite moving to a single-rate individual income tax in 2023.

While Mississippi's statewide sales tax rate is among the highest in the country, low reliance on local sales taxes yields a combined state and average local rate that sits near the middle of the pack.

Notably, as part of a series of recent pro-growth reforms, in 2023, Mississippi joined Oklahoma to become the second state in the country to enact permanent full expensing for machinery and equipment investments, thereby increasing the marginal attractiveness of Mississippi for firms that invest in large amounts of capital. Additionally, Mississippi's capital stock tax is scheduled to phase out by 2028, which will further improve the state's ability to attract business investment.

While Mississippi's property taxes are relatively low, its taxation of tangible personal property, including business inventory, as well as intangible property, penalizes in-state investment and hurts the state's property tax component score.

Missouri

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
13	4	20	24	11	5

Missouri performs well overall on the *Index*, with top 10 rankings on the corporate tax and UI tax components, as well as a competitive ranking on the property tax component. The Show Me State achieves this by applying low rates to broad bases in its individual and corporate income taxes, despite permitting local income taxes, which marginally increase the burden on workers in localities that impose such taxes.

The state also avoids other harmful structural provisions such as a throwback rule, capital stock tax, inventory tax, gross receipts taxes, and estate or inheritance taxes.

Missouri's weakest performance is on the sales tax component due to a high combined state and average local rate that is the result of Missouri's average local rate being nearly as high as the statewide rate. Missouri's sales tax score nevertheless ranks near the middle of the pack, helped by a uniform state and local sales tax base and Missouri's avoidance of taxing many business inputs. Missouri, however, may find it hard to adapt its sales tax to a changing economy due to a voter-approved constitutional amendment restricting the broadening of the sales tax base.

Montana

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
5	19	10	3	18	21

Montana enacted individual income tax cuts in 2021, reducing the top marginal rate from 6.9 percent to 6.75 percent in 2022 and scheduling further reductions, bracket consolidation, and structural reforms for 2024. Initially, the 2021 law compressed the state's seven individual income tax brackets into two, with rates of 4.7 and 6.5 percent, to be effective in 2024. However, in 2022, lawmakers further reduced the top marginal rate to 5.9 percent, effective in 2024. While the bottom bracket features an increased rate, conforming to the federal standard deduction in 2025 will help lower-income taxpayers. The individual income tax reforms also removed the marriage penalty by doubling the bracket widths for married filers.

Montana's corporate taxpayers are subject to a single rate of 6.75 percent. Montana does not conform to federal net operating loss deductions and allows carryforwards for 10 years and carrybacks for 3. Montana is also among the minority of states that taxes global intangible low-taxed income (GILTI), with a 15 percent inclusion. The state applies a different formula to assess distinct property types, known as split roll taxation. This leads to higher property tax costs for businesses and for renters, since rental properties with four or more units are classified as commercial property. Montana has a generous de minimis exemption for tangible personal property, eliminating compliance costs for many smaller and mid-sized businesses.

Nebraska

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
24	20	26	13	45	3

Nebraska has taken strides to improve its income tax competitiveness in recent years by reducing its individual and corporate income tax rates. Currently, the state's graduated individual income tax rates range from 2.46 percent to 5.84 percent, and its corporate income tax rates range from 5.58 to 5.84 percent. Despite these improvements, Nebraska maintains an uncompetitive "convenience of the employer rule," which can lead to double taxation (with no offsetting credit) for remote employees working for businesses located in Nebraska—ultimately a disincentive for businesses to locate in the state if they want to be able to hire across the country. Nebraska also requires individual income tax filing and withholding for nonresidents working even a single day in the state.

Notably, Nebraska's property taxes are on the high side regionally and nationally, and Nebraska is one of the few states that continues to impose an antiquated capital stock tax, which is assessed against the net worth of Nebraska corporations and imposed regardless of whether a firm makes a profit. The Nebraska Occupation Tax, as it is known in the state, is collected every other year, which complicates the filing process, since firms must track their net worths across two tax years. Nebraska also retains an inheritance tax, albeit on a declining share of beneficiaries, and is the only state to have adopted but then abandoned a tangible personal property tax de minimis exemption.

Nevada

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
17	39	7	40	7	46

Nevada forgoes both individual and corporate income taxes, though it levies a low-rate payroll tax (for purposes other than unemployment insurance) that exclusively taxes wage income, and places a low multi-rate gross receipts tax, the Commerce Tax, on businesses. The Commerce Tax is structurally unsound, as it taxes gross revenue rather than profits, but it is imposed at rates low enough to make the tax's distortions less damaging.

Nevada's sales tax is higher than average, as an offset for not levying broad-based income taxes. Its remote seller threshold takes the number of transactions into account, whereas best practice is to adopt a dollar-denominated threshold. The state does not impose a capital stock tax, and, absent income taxes, avoids many of the structural questions faced by other states. However, the state's unemployment insurance tax regime is relatively uncompetitive.

New Hampshire

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
6	32	12	1	39	27

Like other states that forgo one or more major taxes, New Hampshire's lack of a sales tax, and the fact that its individual income tax applies only to interest and dividends income, yields a top 10 overall ranking despite relatively lower rankings on the corporate tax and property tax components. New Hampshire will officially join the ranks of the individual income tax-free states once its low-rate interest and dividends (I&D) tax is eliminated in January 2025, further solidifying its competitive standing overall.

The Granite State has recently taken steps to improve its corporate income tax structure by decoupling from the federal limitation on the deductibility of business net interest expenses, but New Hampshire has a short net operating loss (NOL) carryforward period of only 10 years, with a $10 million cap. Furthermore, the state does not offer bonus depreciation under Section 168(k), and it limits Section 179 expensing to $500,000, while most other states' limit is $1 million. Additionally, New Hampshire has two different business taxes, the business profits tax and the business enterprise tax. The state is also penalized for its lack of conformity to federal schedules for the deductibility of natural resource depletion.

Without broad-based sales or individual income taxes, New Hampshire relies heavily on property taxes and corporate income taxes, with high rates that affect its scores on those components as a trade-off for its competitiveness compared to states that levy sales taxes and broad-based individual income taxes. Moving forward, in addition to eliminating the I&D tax, New Hampshire could improve its competitiveness by adopting permanent full expensing and improving its treatment of NOLs.

New Jersey

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
49	44	48	35	43	50

New Jersey levies all major categories of tax, typically at high rates and significant levels of complexity.

In 1976, the Garden State enacted an individual income tax, in part to provide relief from rising property taxes. Now, individual taxpayers are subject to eight individual income tax brackets, a top marginal rate of 10.75 percent, and the highest per capita property tax collections in the nation. Moreover, individual taxpayers are subject to a marriage penalty. New Jersey property taxpayers also pay the third-highest effective rate in the country. The state repealed the estate tax but continues to levy the inheritance tax.

Corporations face a top marginal tax rate of 11.5 percent, taking into account a surtax on large businesses known as the Corporate Transit Fee. Recently, however, New Jersey has largely removed global intangible low-taxed income (GILTI) from its tax base, and tangible personal property is exempt from property taxation. Additionally, the state conforms to the federal limitation of 80 percent net operating loss carryforwards but fails to conform to the unlimited recovery period included in the federal law.

New Mexico

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
31	22	37	41	2	16

New Mexico has a graduated state individual income tax with a top rate of 5.9 percent. Unusually, New Mexico's corporate tax rate is also graduated, with rates ranging from 4.8 percent to 5.9 percent, and not indexed for inflation.

New Mexico also has a 4.875 percent tax on sales, with an average combined state and local rate of 7.62 percent. As a hybrid between an ordinary sales tax and a gross receipts tax, this tax does not apply to all intermediate transactions like a pure gross receipts tax but does apply to many more business inputs than are included in a typical sales tax, including manufacturing machinery and research and development (R&D) equipment. When this gross receipts-like tax applies to business-to-business transactions, it causes tax pyramiding throughout the supply chain, hampers investment, and negatively affects low-margin businesses.

The state's corporate income tax also features a throwback rule, which exposes in-state businesses to additional tax when they sell into other states with which they do not have nexus, discouraging some businesses from locating operations in New Mexico. The state conforms to the federal treatment of capital investment under its corporate income tax, but with federal full expensing provisions currently phasing out, New Mexico has an opportunity to make its first-year expensing provisions permanent to avoid the erosion of this pro-investment provision.

New York

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
50	28	50	42	47	37

New York ranks last on the *Index*, with high rates and a burdensome and nonneutral tax structure. To a significant degree, the draw of New York, and particularly New York City, has been enough to attract and retain individuals despite a high-rate, poorly structured tax code, just as many people choose to live in the city despite its high cost of living generally. At the margin, however, taxes matter—and in an era of enhanced migration, they now matter more than ever.

New York has a high top individual income tax rate of 10.9 percent and is one of only two states with a “tax benefit recapture” provision, where the benefit of lower rates is phased out and a taxpayer’s top rate is ultimately applied to all income, not just marginal income above a certain level. In addition, some jurisdictions collect local income taxes, including New York City, which imposes a progressive income tax with a top rate of 3.876 percent. New York also has a graduated corporate income tax, with rates ranging from 6.5 percent to 7.25 percent. The state maintains a capital stock base within its corporate income tax, which was scheduled to phase out but has yet to be eliminated. While the state sales tax rate is reasonable at 4 percent, the average combined state and local sales tax rate is much higher, at 8.53 percent, and the base is especially narrow with both groceries and clothing exempt.

New York is an outlier in imposing a “convenience of the employer” rule on taxpayers, requiring nonresident individuals to pay New York income taxes if they are employed by a business located in the state, even if they have minimal contacts with New York otherwise. This creates double taxation for remote employees of firms headquartered in New York, unless an allowance is provided by the other state. This also adds to compliance costs for tax filers.

Additionally, New York does not conform to the federal government’s bonus depreciation allowance under Section 168(k), discouraging investment. While levy limits have constrained the continued growth of property taxes, effective rates remain high, and a disproportionate split roll system shifts property tax costs to businesses and renters. New York also has both an estate tax and a real estate transfer tax. New York does, however, do better than some of its regional rivals in largely exempting global intangible low-taxed income (GILTI) from its corporate tax base.

North Carolina

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
12	3	21	16	20	7

Of the states that levy all the major taxes, North Carolina is among the highest performers on the *Index*, with its flat 4.5 percent individual income tax rate, low 2.5 percent corporate income tax rate (slated for eventual repeal), and relatively competitive property and sales tax systems. These low rates are made possible in part by North Carolina's decision to forgo many nonneutral and distortive business tax credits, such as jobs, R&D, and investment tax credits, and for its commitment—secured through a series of reforms in the past decade—to broad bases and low rates.

North Carolina does, however, have room for improvement in its treatment of business net operating losses, as the state allows only 15 years of net operating loss (NOL) carryforwards, whereby past losses can be deducted from current or future profits to ensure the tax falls on average long-run profitability and to avoid subjecting cyclical businesses to a penalty. Additionally, North Carolina's bonus depreciation allowance is only 15 percent, substantially lower than the federal allowance. Moving forward, the state could rectify this adverse treatment of investment by adopting permanent full expensing separate from the federal Section 168(k) provision. Furthermore, North Carolina's Section 179 expensing limit is only $25,000, significantly lower than the $1 million federal allowance. Finally, the largest barrier to the state's tax competitiveness remains its capital stock tax, called the franchise tax, which is unusually aggressive and taxes businesses on their worth rather than their profits, harming investment and yielding a tax levied without regard to ability to pay.

North Dakota

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
9	7	17	15	4	12

North Dakota performs above average across all tax categories, ranking in the top 10 states overall, as well as on the property tax and corporate tax components. While North Dakota's corporate and individual income taxes have a graduated-rate structure, both rates are low, with North Dakota's top marginal individual income tax rate tied with Arizona's as the lowest in the country (2.5 percent).

One shortcoming in North Dakota's tax code is its throwback rule, which increases tax liability for in-state businesses making sales of tangible personal property in states with which they lack nexus.

However, North Dakota conforms to federal expensing provisions under Section 168(k) and 179, conforms to the federal treatment of NOLs, and does not levy a capital stock tax, real estate transfer tax, or estate or inheritance tax.

Ohio

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
35	45	25	43	6	14

Ohio is an outlier in its reliance on a gross receipts tax, the Commercial Activity Tax (CAT), as its primary business tax. Gross receipts taxes are generally more economically harmful than corporate income taxes because they apply to firms regardless of whether they earn a profit in a given year, and they cause harmful tax pyramiding, where the same final good or service is taxed at multiple points along the production process.

Notably, however, Ohio's CAT is imposed at a low 0.26 percent rate and was adopted as a replacement for a corporate income tax, a capital stock tax, and the tangible personal property tax, so despite its structural shortcomings, its adoption represented a meaningful tax cut for many businesses. Ohio ranks in the top 10 states on the property tax component, bolstered by its uniform assessment of different classes of property, its lack of tangible personal property taxes, and its lack of an estate or inheritance tax.

Ohio's low top marginal state individual income tax rate bolsters its individual tax component score, but income taxes levied at the local level increase tax and compliance burdens for residents and nonresidents, especially since nonresident filing and withholding are required for many individuals who work even a single day in the state.

Oklahoma

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
21	5	28	32	15	6

In recent years, Oklahoma lawmakers have adopted several structural reforms, including eliminating the income tax's marriage penalty and repealing a capital stock tax. However, the state's individual income tax code features six brackets and is not indexed for inflation. This leaves taxpayers vulnerable to bracket creep, which occurs when inflation pushes a taxpayer from a lower bracket to a higher one when nominal income rises, but due to inflation, real income does not, or may even decline.

Oklahoma's property taxes are relatively low, and the state has benefited from the repeal of the capital stock tax. Capital stock taxes are imposed on a business's net worth (or accumulated wealth) and tend to penalize investment. Moreover, businesses are required to pay the capital stock tax regardless of profitability. However, the state continues to tax business inventory, which is also levied regardless of profitability. Such taxes are nonneutral and disproportionately affect those businesses with larger inventories, causing taxpayers to make inefficient timing and location decisions with their inventory.

Oklahoma was the first state to adopt permanent first-year full expensing for qualifying investments in machinery and equipment. This boosted the state's competitiveness, particularly as the federal provision began to phase out. Those states that continue to conform to the federal provision are less competitive in this regard.

Oklahoma has a single corporate tax rate at 4 percent; however, the state does not conform to federal depletion rules, which is like depreciation but applies to natural resources. The corporate code also features some nonneutral incentive credits for jobs and investment. The state's throwback rule is inefficient and taxes "nowhere income" in the state from which sales are made because the seller lacks sufficient nexus to be taxed in the destination state, leading to taxation in the wrong state at the wrong rate.

Oregon

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
30	49	40	4	31	41

Oregon forgoes a sales tax, but doubles down on other forms of taxation. The state has a complex and progressive individual income tax system with four tax brackets, a top marginal rate of 9.9 percent, and a personal exemption structured as a tax credit. Additionally, the tax brackets are not adjusted for inflation. Portland has the highest combined local income tax rate in the nation (4 percent), adding an extra layer of tax burden for residents of the state's largest city.

The absence of a sales tax in Oregon is offset by an overly complex corporate tax system, which includes a 7.6 percent corporate income tax, a 0.57 percent gross receipts tax (the Corporate Activity Tax), and additional corporate taxes at the local level, particularly in the Portland area. Although gross receipts taxes typically do not allow any deductions from gross sales, the CAT provides a 35 percent deduction for either labor costs or the cost of goods sold. However, this does not significantly improve Oregon's competitiveness in attracting businesses, as the state's corporate tax system ranks among the worst in the nation, comparable to Delaware, the only other state to combine corporate income and gross receipts taxes.

Oregon's property tax system is moderately competitive, though the property tax burden relative to personal income is higher than in California and Washington. Additionally, the state imposes an estate tax with a maximum rate of 16 percent and the lowest estate tax exemption among states that levy the tax ($1 million), which further reduces the state's competitiveness for high-net-worth individuals.

Pennsylvania

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
34	38	38	22	9	36

Pennsylvania's corporate income tax rate is unusually high but is slowly phasing down to a competitive 4.99 percent. Pennsylvania also has a low, flat state-level individual income tax rate of 3.07 percent, but local earned income taxes (on a narrower base than the state income tax) dramatically increase overall levels of income taxation in the Commonwealth.

Pennsylvania is among the very few states to significantly cap net operating loss carryforwards, limiting them to 40 percent of taxable income, but recently enacted legislation will phase this cap up to 80 percent, in 10 percentage point increments, from 2025 through 2029. The Commonwealth does not conform to the Section 168(k) first-year expensing regime offered at the federal level. Pennsylvania also allows localities with existing gross receipts taxes to retain them, though new local gross receipts taxes cannot be created.

Local governments, meanwhile, operate under a patchwork of different state-imposed tax rules, with Philadelphia possessing unique authority given to no other jurisdiction. Consequently, Pennsylvania's local taxes are among the more complex and burdensome in the country.

Rhode Island

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
39	35	30	26	37	48

Rhode Island ranks relatively poorly overall due to below-average rankings on all five components. Hurting Rhode Island's individual income tax component ranking is the sizeable marriage penalty in its individual income tax brackets, with bracket thresholds that are not adjusted for married couples. On the corporate component, Rhode Island is an outlier in that it offers only five years of net operating loss (NOL) carryforwards, which is the shortest carryforward period in the country by several years. Additionally, Rhode Island taxes global intangible low-taxed income (GILTI), making it more expensive for corporations to do business in the Ocean State. Furthermore, Rhode Island does not offer bonus depreciation even though it conforms to the federal limitation on business net interest deductibility.

On the property tax component, Rhode Island benefits from forgoing a capital stock tax and only partially taxing tangible personal property, but the state continues to levy an estate tax and collects relatively high property taxes per capita and as a share of owner-occupied housing value.

While Rhode Island's state sales tax rate is among the highest in the country, its lack of local sales taxes places the combined state and average local sales tax rate near the middle of the pack. Notably, however, Rhode Island has one of the highest tobacco tax rates in the country. Furthermore, despite recent reforms, Rhode Island's UI tax continues to rank among the least competitive in the country due to high minimum and maximum rates, a wage base that exceeds the federal wage base, a long experience rating qualifying period, and a surtax.

South Carolina

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
33	11	24	33	42	28

South Carolina levies an individual income tax with three brackets, a top marginal rate of 6.3 percent, and a marriage penalty. By contrast, neighboring North Carolina levies a flat individual income tax and does not impose a marriage penalty, making South Carolina's levy particularly uncompetitive. Pass-through businesses enjoy a preferential rate on business income, which helps them but creates distortions and drives up the ordinary rate.

The Palmetto State maintains a reasonably competitive corporate tax code, featuring a flat rate of 5 percent. However, the state also relies unusually heavily on tax credits rather than focusing on broad-based rate relief. The state imposes a capital stock tax without capping maximum payments. Capital stock taxes are levied against a business's net worth (or accumulated wealth) and tend to penalize investment. Moreover, businesses are required to pay capital stock taxes regardless of profitability.

The state also applies a different formula to assess distinct property types, known as split roll taxation, and South Carolina is the only state to apply school property taxes to commercial and industrial property but *not* to residential property, raising costs for businesses and renters compared to homeowners.

South Dakota

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
2	1	1	31	10	22

South Dakota is one of only two states to forgo individual income, corporate income, and gross receipts taxes. Consequently, the state relies heavily on its sales tax, which nevertheless retains a highly competitive rate, though one imposed on an overbroad base. It applies to most final personal consumption—which is appropriate—but also to a wide range of business inputs, which causes harmful tax pyramiding.

South Dakota relies on relatively high property taxes to fund local government, but the property tax base is competitive in that the property tax does not apply to tangible personal property or business inventory. Furthermore, the property tax applies to all classes of property uniformly, which is important for maintaining neutrality and preventing distortions, and the state does not have an estate or inheritance tax.

Tennessee

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
8	48	1	47	33	17

Tennessee forgoes an individual income tax, having phased out a narrow tax on interest and dividend income, known as the Hall Tax. However, Tennessee is 1 of 15 states that still has a capital stock tax on the books, despite making structural improvements to it during the 2024 legislative session. Tennessee businesses also face an additional layer of tax on their gross receipts, and not just their net income (profits).

Tennessee excludes most, but not all, global intangible low-taxed income (GILTI) from its tax base, and caps net operating loss carryforwards at 15 years, whereas most states have 20-year or unlimited carryforwards. The state recently conformed to the federal treatment of first-year expensing under Section 168(k) but missed an opportunity to make the treatment permanent at 100 percent.

Tennessee is perpetually tied with Louisiana for the highest combined state and local sales taxes in the nation. The largest portion of the sales tax burden comes from the seven percent state-level sales tax rate, which is second only to California's 7.25 percent. Because income taxes have a greater impact on economic growth than sales taxes, however, Tennessee's decision to rely on high sales taxes in lieu of income taxes is an economically advantageous one.

Texas

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
7	46	1	36	40	30

Texas boasts a regionally and nationally competitive tax code. The state does not impose an individual income tax. However, unlike most others without an individual income tax, Texas (like Washington) applies the corporate gross receipts tax (also known as the "margin tax") to S corporation and LLC income when others accord them pass-through status.

The margin tax is complex and burdensome. As a modified gross receipts tax, it applies to a firm's total sales with limited deductions, rather than being imposed on profits.

In 2023, Texas voted to increase the homestead exemption on residential property from $40,000 to $100,000 ($110,000 for the elderly, disabled, and disabled veterans). While seemingly beneficial for taxpayers, homestead exemptions are nonneutral and tend to shift the tax burden to commercial property and renters. Moreover, a significantly increased homestead exemption could deny local governments the funding needed to properly resource public services, including education.

Texas treats remote sellers and marketplace facilitators competitively. Unlike most other states that require such sellers to collect and remit sales taxes if either a transaction or dollar threshold is surpassed, Texas only imposes a dollar threshold. Additionally, the dollar threshold is $500,000, greater than most other states, which better aligns the threshold with the size of the state's economy.

Utah

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
16	17	9	27	12	29

Utah's tax code features all major tax types, but the state ranks reasonably well on the *Index* because the taxes are imposed at competitive rates on relatively broad bases that introduce fewer economic distortions than rival states' tax systems. Flat state-level individual and corporate income tax rates of 4.55 percent (with no local income taxes), imposed on reasonably broad bases, combine with extremely low real property taxes and a regionally competitive sales tax to produce a favorable overall tax climate, which is reflected in the state's favorable *Index* rank.

Utah largely avoids excessive taxation of in-state capital investment. It forgoes capital stock and gross receipts taxes, does not impose a throwback rule, and conforms to federal provisions for the first-year expensing of capital investment. And while, unlike some of its rivals, Utah does tax tangible personal property (chiefly business machinery and equipment), it offers a de minimis exemption to eliminate compliance costs for smaller businesses. Lawmakers have also made great strides in reducing sales taxation of business inputs, which leads to tax pyramiding and discourages in-state production.

The state does, however, include global intangible low-taxed income (GILTI) in its corporate tax base, making it an outlier nationwide and particularly among lower-tax states. With federal full expensing provisions currently phasing out, moreover, Utah has an opportunity to make its first-year expensing provisions permanent to avoid the erosion of this pro-investment provision. And with continued high tax collections, there may be room for further reduction of income tax rates, particularly in light of the recent wave of income tax rate relief across the country.

Vermont

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
43	36	43	29	49	8

Vermont levies all major categories of taxation with comparatively high rates and an overall uncompetitive tax structure. As a result, the tax code makes the state both nationally and regionally uncompetitive, particularly compared to neighboring low-tax New Hampshire.

Vermont levies an individual income tax with multiple brackets, including a top marginal rate of 8.75 percent; the tax also includes a marriage penalty for joint filers. The Green Mountain State levies a tax at a flat rate of 16 percent on estates worth more than $5 million.

Property taxpayers in the state are subject to a high effective rate of taxation, second only to Maine. Further, property tax collections per capita in the state are among the highest in the country ($3,001). The state's sales tax base is unnecessarily narrow and exempts many personal goods and services while also subjecting many business inputs to the tax, which causes tax pyramiding and ultimately increases the costs borne by consumers.

The Vermont corporate tax features three brackets with a top marginal rate of 8.5 percent. Importantly, these brackets are not indexed for inflation, meaning taxpayers will be forced into a higher tax bracket when their nominal income increases, but due to inflation, their real income does not (or even declines). Net operating loss carryforwards are limited to 10 years, with no corresponding carryback allowance, and Vermont is among the minority of states that tax global intangible low-taxed income (GILTI). Vermont also has a throwback rule, which subjects a portion of businesses' out-of-state income to Vermont's corporate income tax.

Virginia

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
28	24	36	10	22	38

Virginia's tax code includes all major tax types. The state's individual income tax has remained stable over the past three decades. However, this stability is not necessarily a positive factor, as many states have implemented significant income tax reforms in recent years, leaving Virginia behind. With four tax brackets that are not adjusted for inflation, the state's progressive income tax has a top marginal rate higher than several of its neighbors, including West Virginia, North Carolina, and Tennessee.

While Virginia's flat corporate income tax rate of 6 percent is above the national average, it is lower than most of Virginia's neighbors (except North Carolina). The state conforms to the federal treatment of net operating losses, does not have a throwback rule, and does not impose statewide gross receipts or capital stock taxes. However, Virginia allows municipalities to establish local gross receipts taxes and does not permit businesses to claim bonus depreciation, which negatively impacts the state's tax competitiveness. Implementing permanent full expensing is thus one of the possible reforms that could improve Virginia's business tax climate.

Virginia's sales tax is relatively competitive, though the state could improve by broadening its base to include more consumer services (but not business inputs) and making local sales taxes more uniform. Additionally, Virginia is one of the few states that still imposes a car tax at the local level. However, the state does not impose estate or inheritance taxes, making it more appealing to wealthy households and retirees.

Washington

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
45	47	15	50	25	44

Washington forgoes an individual income tax on wage income due to constitutional constraints, though the state recently imposed a tax on high earners' capital gains income, a policy that raised constitutional questions but ultimately secured the assent of the state supreme court. The constitution has been similarly interpreted as blocking a corporate income tax, but Washington instead imposes a high multiple-rate gross receipts tax, called the Business & Occupation Tax. Because it is based on gross revenues rather than net income (profits), it yields very high rates of taxation on low-margin businesses and leads to tax pyramiding, where goods and services have the tax embedded several times over, imposed on each transaction within the production process.

The state's sales tax, imposed atop the gross receipts tax, is not just a high rate but is also imposed on a base that includes an unusual share of business inputs, particularly in the digital products space. Washington also levies a progressive real estate transfer tax and the nation's highest-rate estate tax. High UI taxes and an uncompetitive UI tax structure also contribute to the state's poor *Index* ranking despite the state forgoing an individual income tax, which might otherwise be expected to yield a much more competitive tax environment.

West Virginia

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
23	26	29	19	17	23

West Virginia ranks near the middle of the pack on the *Index*, with some competitive elements and others that could use improvement. The Mountain State has recently reduced its individual income tax rate, and further reductions are slated to take effect in 2025. Additionally, West Virginia has a 6.5 percent corporate income tax rate, which is higher than the national average. In the future, if the state chooses to forgo distortive tax credits for jobs, R&D, and investments, a lower tax rate on all corporate income could be achieved. West Virginia does benefit, however, by conforming to the federal bonus depreciation allowance under Section 168(k) and the federal treatment of net operating losses (NOLs).

West Virginia has a relatively competitive sales tax rate and a low effective property tax rate on owner-occupied housing. However, West Virginia's taxes on tangible personal property create distortions, especially its harmful taxes on business inventory. Furthermore, West Virginia recently implemented split roll treatment of property, introducing nonneutrality into the tax code by encouraging investment in certain classes of property over others. Under a split roll system, classes of property can be pitted against each other, changing incentives to own or invest in different kinds of property, and allowing local policymakers to ratchet up tax burdens without being seen as raising taxes on homeowners. Some West Virginia localities also impose gross receipts taxes, called Business & Occupation taxes.

Wisconsin

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
19	30	35	6	8	32

Wisconsin maintains competitive sales and property tax structures but ranks near the middle of the pack overall due to burdensome taxes on labor and investment.

Wisconsin does not offer first-year expensing for machinery and equipment investments, and its imposition of a throwback rule exposes an outsized share of in-state businesses' income to the state's high 7.9 percent corporate income tax rate. While lawmakers have reduced the state's lower marginal individual income tax rates in recent years, Wisconsin is one of the only income tax-cutting states that stopped short of reducing its top marginal rate. At 7.65 percent, Wisconsin's top marginal rate is high both regionally and nationally, putting the state's pass-through businesses at a competitive disadvantage compared to several regional competitors that levy low, flat rates. While the marriage penalty in Wisconsin's brackets is partially offset by a married couple credit, the credit is an imperfect solution, adding to the tax code's complexity and creating a marriage bonus in some situations while leaving taxpayers with a marriage penalty in others.

Despite these shortcomings, Wisconsin ranks in the top half of states due to its relatively well-structured sales and property taxes. Wisconsin's combined state and average local sales tax rate is among the lowest in the country, and its uniform state and local sale tax base, unified administration of sales taxes at the state level, and relatively low excise taxes put Wisconsin's sales tax system in the top 10.

Wisconsin also outperforms many of its peers in its uniform application of the property tax across various classes of property, which is constitutionally required under the state's Uniformity Clause, as well as in its recent decision to repeal the tangible personal property tax in its entirety. Moving forward, Wisconsin lawmakers could promote stronger economic growth in the Badger State by prioritizing reforms that improve individual and corporate income tax structure.

Wyoming

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
1	1	1	7	44	31

Wyoming does not tax individual or corporate income, one of only two states to forgo both taxes (with South Dakota) without imposing a gross receipts tax. However, the state does impose a low-rate capital stock tax on businesses without capping maximum payments. Capital stock taxes are levied on a business's net worth (or accumulated wealth) and tend to penalize investment. Moreover, businesses are required to pay the capital stock tax regardless of profitability. Wyoming's tax, notably, is imposed in part to capture revenue from businesses that incorporate in Wyoming for other benefits the state provides.

The four percent statewide sales tax rate is nationally competitive, even after accounting for local sales taxes. The tax base is broad, but includes a disproportionate share of business inputs, which can lead to tax pyramiding and make it more expensive to produce or conduct business in the state. The state's remote seller threshold takes the number of transactions into account, whereas best practice is to adopt a dollar-denominated threshold. While Wyoming's overall taxes are quite low, the structure of its tax code results in most taxes being imposed on businesses.

Wyoming is unusual in its ability—at least for now—to rely so heavily on severance taxes and pipeline property taxes, which enables it to forgo taxes imposed in most other states. A state without a corporate or individual income tax definitionally cannot have structural shortcomings in the design of those taxes, hence Wyoming's performance on the *Index*. Notably, however, states can also rank well by imposing a wider range of taxes provided they are imposed relatively neutrally, with broad bases and low rates.

District of Columbia

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
48	32	47	41	48	25

The District of Columbia's tax code includes all major tax types and has traditionally ranked among the bottom 10 on the *Index*, though it has a "phantom" rank and does not affect the ranks of the 50 states. Washington, DC, has a highly progressive individual income tax with seven tax brackets, a top marginal rate of 10.75 percent, and no adjustment of tax brackets for inflation—especially damaging in a jurisdiction that is prohibited from taxing nonresidents' income by federal law, meaning that DC workers can benefit from lower income taxes by moving to Virginia or Maryland even if they continue to work in DC.

The District of Columbia's corporate income tax has a relatively high rate of 8.25 percent, comparable to Maryland but considerably higher than Virginia. The district has no throwback rule and does not impose gross receipts or capital stock taxes, but it includes global intangible low-taxed income (GILTI) in its corporate tax base, making it an outlier nationwide, and does not allow full expensing. In addition to denying Section 168(k) expensing to C corporations, the District caps small business expensing under Section 179 at $25,000, whereas many states allow $1 million.

The District of Columbia also has one of the highest property tax burdens in the nation. In addition to real property, it taxes personal property but provides a generous de minimis exemption of $225,000 for small and medium-sized businesses. This exemption, however, is the only one in the nation that is exclusively a liability exemption and not a filing exemption, forcing small businesses to bear all the compliance costs even if they have no liability due to the exemption. Washington, DC, also imposes an estate tax with a maximum rate of 16 percent and an exemption of approximately $4.5 million, well below the current federal threshold.

Table 8. State Corporate Income Tax Rates (as of July 1, 2024)

State	Rates		Brackets	Gross Receipts Tax Rate (a)
Alabama	6.5%	>	$0	
Alaska	0.0%	>	$0	
	2.0%	>	$25,000	
	3.0%	>	$49,000	
	4.0%	>	$74,000	
	5.0%	>	$99,000	
	6.0%	>	$124,000	
	7.0%	>	$148,000	
	8.0%	>	$173,000	
	9.0%	>	$198,000	
	9.4%	>	$222,000	
Arizona	4.9%	>	$0	
Arkansas	1.0%	>	$0	
	2.0%	>	$3,000	
	3.0%	>	$6,000	
	4.3%	>	$11,000	
California	8.84%	>	$0	
Colorado	4.25%	>	$0	
Connecticut (b)	7.50%	>	$0	
	8.25%	>	$100,000,000	
Delaware	8.7%	>	$0	0.0945% - 0.7468% (c)
Florida	5.5%	>	$0	
Georgia	5.39%	>	$0	
Hawaii	4.4%	>	$0	
	5.4%	>	$25,000	
	6.4%	>	$100,000	
Idaho	5.695%	>	$0	
Illinois (d)	9.5%	>	$0	
Indiana	4.90%	>	$0	
Iowa	5.5%	>	$0	
	7.1%	>	$100,000	
Kansas	3.5%	>	$0	
	6.5%	>	$50,000	
Kentucky	5.0%	>	$0	
Louisiana	3.5%	>	$0	
	5.5%	>	$50,000	
	7.5%	>	$150,000	
Maine	3.5%	>	$0	
	7.93%	>	$350,000	
	8.33%	>	$1,050,000	
	8.93%	>	$3,500,000	
Maryland	8.25%	>	$0	
Massachusetts	8.0%	>	$0	
Michigan	6.0%	>	$0	
Minnesota	9.8%	>	$0	
Mississippi	4.0%	>	$5,000	
	5.0%	>	$10,000	
Missouri	4.0%	>	$0	
Montana	6.75%	>	$0	
Nebraska	5.58%	>	$0	
	5.84%	>	$100,000	
Nevada (e)		None		0.051% - 0.331% (c)
New Hampshire	7.5%	>	$0	
New Jersey (f, g)	6.5%	>	$0	
	7.5%	>	$50,000	
	9.0%	>	$100,000	
	11.5%	>	$10,000,000	
New Mexico	4.8%	>	$0	
	5.9%	>	$500,000	
New York (f)	6.50%	>	$0	
	7.25%	>	$5,000,000	
North Carolina	2.5%	>	$0	

Table 8, *Continued*. State Corporate Income Tax Rates (as of July 1, 2024)

State	Rates		Brackets	Gross Receipts Tax Rate (a)
North Dakota	1.41%	>	$0	
	3.55%	>	$25,000	
	4.31%	>	$50,000	
Ohio		(a)		0.26%
Oklahoma	4.0%	>	$0	
Oregon	6.6%	>	$0	0.57%
	7.6%	>	$1,000,000	
Pennsylvania	8.49%	>	$0	
Rhode Island	7.0%	>	$0	
South Carolina	5.0%	>	$0	
South Dakota		None		
Tennessee	6.5%	>	$0	0.02%-0.15% (c)
Texas		(a)		0.331% - 0.75% (c)
Utah	4.55%	>	$0	
Vermont	6.0%	>	$0	
	7.0%	>	$10,000	
	8.5%	>	$25,000	
Virginia	6.0%	>	$0	0.02% - 0.58% (c)
Washington		(a)		0.13% - 3.3% (c)
West Virginia	6.5%	>	$0	
Wisconsin	7.9%	>	$0	
Wyoming		None		
District of Columbia	8.25%	>	$0	

Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax (see Table 12). Some states impose special rates on financial institutions.

(a) While many states collect gross receipts taxes from public utilities and other sectors, and some states label their sales tax as a gross receipts tax, we show only those state gross receipts taxes that broadly tax all business as a percentage of gross receipts: the Delaware Manufacturers & Merchants' License Tax, the Nevada Commerce Tax, the Ohio Commercial Activities Tax, the Tennessee Business Tax, the Texas Margin Tax, the Virginia locally-levied Business/Professional/Occupational License Tax, and the Washington Business & Occupation Tax. Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax, while Delaware, Tennessee, and Virginia have a gross receipts tax in addition to the corporate income tax.

(b) Connecticut's rate includes a 10% surtax that effectively increases the rate from 7.5% to 8.25%. The surtax is required by businesses with at least $100 million annual gross income.

(c) Gross receipts tax rates vary by industry in these states. Texas has only two rates: 0.375% on retail and wholesale and 0.75% on all other industries. Virginia's tax is locally levied and rates vary by business and by jurisdiction. Washington has over 30 different industry classifications and rates, while Nevada has 26.

(d) Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate.

(e) Nevada also levies a payroll tax, the Modified Business Tax, which is reflected in the individual income tax component of the Index.

(f) The rates indicated apply to a corporation's entire net income rather than just income over the threshold.

(g) In New Jersey, the Corporate Transit Fee of 2.5% is levied on businesses with taxable net income greater than $10 million (effective for tax years 2024-2028).

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

Table 9. State Corporate Income Tax and Business Tax Bases: Tax Credits and Gross Receipts Tax Deductions (as of July 1, 2024)

	Job Credits	Research and Development Credits	Investment Credits	Gross Receipts Tax Deductions	
				Compensation Expenses Deductible	Cost of Goods Sold Deductible
Alabama	Yes	No	Yes		
Alaska	No	No	No		
Arizona	Yes	Yes	Yes		
Arkansas	Yes	Yes	Yes		
California	Yes	Yes	No		
Colorado	Yes	Yes	Yes		
Connecticut	Yes	Yes	Yes		
Delaware	Yes	Yes	Yes	No	No
Florida	Yes	Yes	Yes		
Georgia	Yes	Yes	Yes		
Hawaii	No	Yes	Yes		
Idaho	Yes	Yes	Yes		
Illinois	Yes	Yes	Yes		
Indiana	Yes	Yes	Yes		
Iowa	Yes	Yes	Yes		
Kansas	Yes	Yes	Yes		
Kentucky	Yes	Yes	Yes		
Louisiana	Yes	Yes	Yes		
Maine	No	Yes	Yes		
Maryland	Yes	Yes	Yes		
Massachusetts	Yes	Yes	Yes		
Michigan	No	No	No		
Minnesota	Yes	Yes	Yes		
Mississippi	Yes	No	Yes		
Missouri	Yes	Yes	Yes		
Montana	Yes	Yes	No		
Nebraska	Yes	Yes	Yes		
Nevada	No	No	No	No	No
New Hampshire	Yes	Yes	Yes		
New Jersey	Yes	Yes	Yes		
New Mexico	Yes	Yes	Yes		
New York	Yes	Yes	Yes		
North Carolina	No	No	No		
North Dakota	No	Yes	Yes		
Ohio	Yes	Yes	Yes	No	No
Oklahoma	Yes	No	Yes		
Oregon	No	Yes	No	No	No
Pennsylvania	Yes	Yes	Yes		
Rhode Island	Yes	Yes	Yes		
South Carolina	Yes	Yes	Yes		
South Dakota	No	No	No		
Tennessee	Yes	No	Yes	No	No
Texas	No	Yes	No	Partial (a)	Partial (a)
Utah	Yes	Yes	Yes		
Vermont	No	Yes	Yes		
Virginia	Yes	Yes	Yes		
Washington	No	No	No	No	No
West Virginia	Yes	Yes	Yes		
Wisconsin	Yes	Yes	Yes		
Wyoming	No	No	No		
District of Columbia	Yes	No	No		

(a) Businesses may deduct either compensation or cost of goods sold but not both.

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 10. State Corporate Income Tax and Business Tax Bases: Net Operating Losses (as of July 1, 2024)

	Carryback (Years)	Carryback Cap	Carryforward (Years)	Carryforward Cap
Alabama	0	$0	15	Unlimited
Alaska	Conforms to federal treatment			
Arizona	0	$0	20	Unlimited
Arkansas	0	$0	8	Unlimited
California	0	0	0	0
Colorado	Conforms to federal treatment			
Connecticut	0	$0	20	Unlimited
Delaware	Conforms to federal treatment			
Florida	Conforms to federal treatment			
Georgia	Conforms to federal treatment			
Hawaii	Conforms to federal treatment			
Idaho	2	$100,000	20	Unlimited
Illinois	0	$0	20	$500,000
Indiana	0	$0	20	Unlimited
Iowa	0	$0	20	Unlimited
Kansas	Conforms to federal treatment			
Kentucky	Conforms to federal treatment			
Louisiana	0	$0	20	Unlimited
Maine	Conforms to federal treatment			
Maryland	Conforms to federal treatment			
Massachusetts	0	$0	20	Unlimited
Michigan	0	$0	10	Unlimited
Minnesota	0	$0	15	Unlimited
Mississippi	2	Unlimited	20	Unlimited
Missouri	2	Unlimited	20	Unlimited
Montana	3	$500,000	10	Unlimited
Nebraska	0	$0	20	Unlimited
Nevada	n.a.	n.a.	n.a.	n.a.
New Hampshire	0	$0	10	$10,000,000
New Jersey	0	$0	20	Unlimited
New Mexico	Conforms to federal treatment			
New York	3	Unlimited	20	Unlimited
North Carolina	0	$0	15	Unlimited
North Dakota	Conforms to federal treatment			
Ohio	n.a.	n.a.	n.a.	n.a.
Oklahoma	Conforms to federal treatment			
Oregon	0	$0	15	Unlimited
Pennsylvania	0	$0	20	40% of Liability (a)
Rhode Island	0	$0	5	Unlimited
South Carolina	Conforms to federal treatment			
South Dakota	Conforms to federal treatment			
Tennessee	0	$0	15	Unlimited
Texas	n.a.	n.a.	n.a.	n.a.
Utah	Conforms to federal treatment			
Vermont	0	$0	10	Unlimited
Virginia	Conforms to federal treatment			
Washington	n.a.	n.a.	n.a.	n.a.
West Virginia	Conforms to federal treatment			
Wisconsin	0	$0	20	Unlimited
Wyoming	n.a.	n.a.	n.a.	n.a.
District of Columbia	Conforms to federal treatment			

(a) Pennsylvania allows unlimited carryforwards but caps claims at 40 percent of tax liability in any given year.

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 11. State Corporate Income Tax and Business Tax Bases: Treatment of Capital Investment (as of July 1, 2024)

	Section 168(k) Expensing	Conforms to Section 163(j) Limitation	GILTI Inclusion
Alabama	60%	Yes	Decouples
Alaska	60%	Yes	20% Inclusion
Arizona	0%	Yes	Decouples
Arkansas	0%	No	Decouples
California	0%	No	Decouples
Colorado	60%	Yes	50% Inclusion
Connecticut	0%	No	50% Inclusion
Delaware	60%	Yes	50% Inclusion
Florida	9%	Yes	Decouples
Georgia	0%	No	Decouples
Hawaii	0%	Yes	Decouples
Idaho	0%	Yes	15% Inclusion
Illinois	0%	Yes	Decouples
Indiana	0%	No	Decouples
Iowa	60%	No	Decouples
Kansas	60%	Yes	Decouples
Kentucky	0%	Yes	Decouples
Louisiana	60%	Yes	Decouples
Maine	0%	Yes	50% Inclusion
Maryland	0%	Yes	50% Inclusion
Massachusetts	0%	Yes	5% Inclusion
Michigan	0%	Yes	Decouples
Minnesota	20%	Yes	50% Inclusion
Mississippi	100%	No	Decouples
Missouri	60%	No	Decouples
Montana	60%	Yes	20% Inclusion
Nebraska	60%	Yes	50% Inclusion
Nevada	0%	No	n.a.
New Hampshire	0%	Yes	50% Inclusion
New Jersey	0%	Yes	5% Inclusion
New Mexico	60%	Yes	Decouples
New York	0%	Yes	5% Inclusion
North Carolina	9%	Yes	Decouples
North Dakota	60%	Yes	30% Inclusion
Ohio	0%	No	n.a.
Oklahoma	100%	Yes	Decouples
Oregon	60%	Yes	20% Inclusion
Pennsylvania	0%	Yes	Decouples
Rhode Island	0%	Yes	50% Inclusion
South Carolina	0%	No	Decouples
South Dakota	100%	No	n.a.
Tennessee	60%	No	5% Inclusion
Texas	0%	No	n.a.
Utah	60%	Yes	50% Inclusion
Vermont	0%	Yes	50% Inclusion
Virginia	0%	Yes	Decouples
Washington	0%	No	n.a.
West Virginia	60%	Yes	50% Inclusion
Wisconsin	0%	No	Decouples
Wyoming	100%	No	n.a.
District of Columbia	0%	Yes	50% Inclusion

Note: “Mostly Excluded” means GILTI may apply or that the deduction is less than 95%.

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 12. State Corporate Income Tax and Business Tax Bases: Other Variables (as of July 1, 2024)

	Federal Income Used as State Tax Base	Allows Federal ACRS or MACRS Depreciation	Allows Federal Depletion	Throwback Rule	Foreign Tax Deductibility	Corporate AMT	Brackets Indexed for Inflation
Alabama	Yes	Yes	Yes	No	Yes	No	Flat CIT
Alaska	Yes	Yes	Partial	Yes	No	No	No
Arizona	Yes	Yes	Yes	No	No	No	Flat CIT
Arkansas	No	Yes	Yes	Yes	Yes	No	No
California	Yes	No	Partial	Yes	No	Yes	Flat CIT
Colorado	Yes	Yes	Yes	Yes	No	No	Flat CIT
Connecticut	Yes	Yes	Yes	No	Yes	No	No
Delaware	Yes	Yes	Partial	No	No	No	Flat CIT
Florida	Yes	Yes	Yes	No	Yes	No	Flat CIT
Georgia	Yes	Yes	Yes	No	No	No	Flat CIT
Hawaii	Yes	Yes	Yes	Yes	Yes	No	No
Idaho	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
Illinois	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
Indiana	Yes	Yes	Yes	No	Yes	No	Flat CIT
Iowa	Yes	Yes	Partial	No	Yes	No	No
Kansas	Yes	Yes	Yes	Yes	No	No	No
Kentucky	Yes	Yes	Yes	No	No	Yes	Flat CIT
Louisiana	Yes	Yes	Partial	No	Yes	No	No
Maine	Yes	Yes	Yes	Yes	Yes	No	No
Maryland	Yes	Yes	Partial	No	Yes	No	Flat CIT
Massachusetts	Yes	Yes	Yes	Yes	No	No	Flat CIT
Michigan	Yes	Yes	Yes	No	No	No	Flat CIT
Minnesota	Yes	Yes	Partial	No	No	Yes	Flat CIT
Mississippi	No	Yes	Partial	Yes	No	No	No
Missouri	Yes	Yes	Yes	No	Yes	No	Flat CIT
Montana	Yes	Yes	Yes	Yes	No	No	Flat CIT
Nebraska	Yes	Yes	Yes	No	Yes	No	No
Nevada	Yes	Yes	Yes	No	Yes	No	GRT
New Hampshire	Yes	Yes	Partial	Yes	No	Yes	Flat CIT
New Jersey	Yes	Yes	Yes	No	No	No	No
New Mexico	Yes	Yes	Yes	Yes	Yes	No	No
New York	Yes	Yes	Yes	No	Yes	No	Flat CIT
North Carolina	Yes	Yes	Partial	No	No	No	Flat CIT
North Dakota	Yes	Yes	Yes	Yes	No	No	No
Ohio	Yes	Yes	Yes	No	Yes	No	GRT
Oklahoma	Yes	Yes	Partial	Yes	No	No	Flat CIT
Oregon	Yes	Yes	Partial	Yes	No	No	No
Pennsylvania	Yes	Yes	Yes	No	No	No	Flat CIT
Rhode Island	Yes	Yes	Yes	Yes	Yes	No	Flat CIT
South Carolina	Yes	Yes	Yes	No	No	No	Flat CIT
South Dakota	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	Yes	Yes	Partial	No	Yes	No	Flat CIT
Texas	Partial	Yes	Yes	No	Yes	No	GRT
Utah	Yes	Yes	Yes	Yes	No	No	Flat CIT
Vermont	Yes	Yes	Yes	No	Yes	No	No
Virginia	Yes	Yes	Yes	No	No	No	Flat CIT
Washington	Yes	Yes	Yes	No	Yes	No	GRT
West Virginia	Yes	Yes	Yes	No	No	No	Flat CIT
Wisconsin	Yes	Yes	Yes	Yes	No	No	Flat CIT
Wyoming	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
District of Columbia	Yes	Yes	Yes	Yes	Partial	No	Flat CIT

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 13. State Individual Income Tax Rates (as of July 1, 2024)

State	Rates		Brackets (a)	Standard Deduction: Single	Personal Exemption: Per Filer (b)	Personal Exemption: Per Dependent	Average Local Income Tax Rates (c)	Surtaxes
Alabama	2.0%	>	$0	$3,000	$1,500	$1,000	0.50%	n.a.
	4.0%	>	$500					
	5.0%	>	$3,000					
Alaska	No Income Tax						None	n.a.
Arizona	2.50%	>	$0	$14,600 (j)	n.a.	n.a.	None	n.a.
Arkansas (e, f)	2.0%	>	$0	$2,340	$29 (g)	$29 (g)	None	n.a.
	3.9%	>	$4,500					
California (e)	1.0%	>	$0	$5,363	$144 (g)	$446 (g)	None	1.1%
	2.0%	>	$10,412					
	4.0%	>	$24,684					
	6.0%	>	$38,959					
	8.0%	>	$54,081					
	9.3%	>	$68,350					
	10.3%	>	$349,137					
	11.3%	>	$418,961					
	12.3%	>	$698,271					
	13.3%	>	$1,000,000					
Colorado	4.25%	>	$0	$14,600 (j)	n.a.	n.a.	0.05%	n.a.
Connecticut (f)	2.0%	>	$0	n.a.	$15,000 (d)	$0	None	n.a.
	4.5%	>	$10,000					
	5.50%	>	$50,000					
	6.0%	>	$100,000					
	6.50%	>	$200,000					
	6.90%	>	$250,000					
	6.99%	>	$500,000					
Delaware	2.20%	>	$2,000	$3,250	$110 (g)	$110 (g)	0.625%	n.a.
	3.90%	>	$5,000					
	4.80%	>	$10,000					
	5.20%	>	$20,000					
	5.55%	>	$25,000					
	6.60%	>	$60,000					
Florida	No Income Tax						None	n.a.
Georgia	5.39%	>	$0	$12,000	n.a.	$3,000	None	n.a.
Hawaii	1.40%	>	$0	$2,200	$1,144 (d)	$1,144	None	n.a.
	3.20%	>	$2,400					
	5.50%	>	$4,800					
	6.40%	>	$9,600					
	6.80%	>	$14,400					
	7.20%	>	$19,200					
	7.60%	>	$24,000					
	7.90%	>	$36,000					
	8.25%	>	$48,000					
	9.00%	>	$150,000					
	10.00%	>	$175,000					
	11.00%	>	$200,000					
Idaho	5.695%	>	$4,489	$14,600 (j)	n.a.	n.a.	None	n.a.
Illinois (h)	4.95%	>	$0	$0	$2,775	$2,775	None	1.5%
Indiana	3.05%	>	$0	$0	$1,000	$1,000	1.805%	n.a.
Iowa	4.40%	>	$0	n.a.	$40 (g)	$40 (g)	0.143%	n.a.
	4.82%	>	$6,210					
	5.70%	>	$31,050					
Kansas	5.20%	>	$0	$3,605	$9,160	$2,320	None	n.a.
	5.58%	>	$23,000					
Kentucky	4.0%	>	$0	$3,160	n.a.	n.a.	2.475%	n.a.
Louisiana	1.85%	>	$0	n.a.	$4,500 (i)	$1,000	None	n.a.
	3.50%	>	$12,500					
	4.25%	>	$50,000					
Maine (e)	5.80%	>	$0	$14,600 (j)	$5,000	$300 (g)	None	n.a.
	6.75%	>	$26,050					

Table 13, *Continued*. State Individual Income Tax Rates (as of July 1, 2024)

			Standard Deduction	Personal Exemption			
State	Rates	Brackets (a)	Single	Per Filer (b)	Per Dependent	Average Local Income Tax Rates (c)	Surtaxes
	7.15% >	$61,600					
Maryland	2.0% >	$0	$2,550	$3,200 (d)	$3,200	3.200%	n.a.
	3.0% >	$1,000					
	4.0% >	$2,000					
	4.75% >	$3,000					
	5.0% >	$100,000					
	5.25% >	$125,000					
	5.50% >	$150,000					
	5.75% >	$250,000					
Massachusetts	5.00% >	$0	n.a.	$4,400	$1,000	None	0.88%
	9.00% >	$1,000,000					
Michigan	4.25% >	$0	n.a.	$5,600	$5,600	1.95%	n.a.
Minnesota (e)	5.35% >	$0	$14,575	n.a.	$5,050	None	n.a.
	6.80% >	$31,690					
	7.85% >	$104,090					
	9.85% >	$193,240					
Mississippi	0.0% >	$0	$2,300	$6,000	$1,500	None	n.a.
	4.7% >	$10,000					
Missouri	2.0% >	$1,273	$14,600 (j)	n.a.	n.a.	1.00%	n.a.
	2.50% >	$2,546					
	3.00% >	$3,819					
	3.50% >	$5,092					
	4.00% >	$6,365					
	4.50% >	$7,638					
	4.80% >	$8,911					
Montana (e)	4.7% >	$0	$14,600 (j)	n.a.	n.a.	None	n.a.
	5.9% >	$20,500					
Nebraska (e)(f)	2.46% >	$0	$7,900	$157 (d, g)	$157 (d, g)	None	n.a.
	3.51% >	$3,700					
	5.01% >	$22,170					
	5.84% >	$35,730					
Nevada (k)	No Income Tax					None	n.a.
New Hampshire (l)	3% >	$0	n.a.	$2,400	$0	None	n.a.
New Jersey	1.400% >	$0	n.a.	$1,000	$1,500	None	n.a.
	1.750% >	$20,000					
	3.500% >	$35,000					
	5.525% >	$40,000					
	6.370% >	$75,000					
	8.970% >	$500,000					
	10.750% >	$1,000,000					
New Mexico	1.7% >	$0	$14,600 (j)	n.a.	$4,000	None	n.a.
	3.2% >	$5,500					
	4.7% >	$11,000					
	4.9% >	$16,000					
	5.9% >	$210,000					
New York (e, f)	4.00% >	$0	$8,000	n.a.	$1,000	1.938%	n.a.
	4.50% >	$8,500					
	5.25% >	$11,700					
	5.50% >	$13,900					
	6.00% >	$80,650					
	6.85% >	$215,400					
	9.65% >	$1,077,550					
	10.30% >	$5,000,000					
	10.90%	$25,000,000					
North Carolina	4.50% >	$0	$12,750	n.a.	n.a.	None	n.a.
North Dakota (e)	1.95% >	$44,725	$14,600 (j)	n.a.	n.a.	None	n.a.
	2.50% >	$225,975					
Ohio (e)	2.750% >	$26,050	n.a.	$2,400	$2,400	2.50%	n.a.
	3.500% >	$92,150					
Oklahoma	0.25% >	$0	$6,350	$1,000	$1,000	None	n.a.
	0.75% >	$1,000					
	1.75% >	$2,500					
	2.75% >	$3,750					
	3.75% >	$4,900					
	4.75% >	$7,200					
Oregon (e, k)	4.75% >	$0	$2,745	$249 (g)	$249 (g)	2.62%	0.1%

Table 13, *Continued*. State Individual Income Tax Rates (as of July 1, 2024)

State	Rates		Brackets (a)	Standard Deduction Single	Personal Exemption Per Filer (b)	Personal Exemption Per Dependent	Average Local Income Tax Rates (c)	Surtaxes
	6.75%	>	$4,300					
	8.75%	>	$10,750					
	9.90%	>	$125,000					
Pennsylvania	3.07%	>	$0	n.a.	n.a.	n.a.	3.375%	n.a.
Rhode Island (e)	3.75%	>	$0	$10,550 (d)	n.a.	$4,950 (d)	None	n.a.
	4.75%	>	$77,450					
	5.99%	>	$176,050					
South Carolina (e)	3.0%	>	$3,460	$14,600 (j)	n.a.	$4,610	None	n.a.
	6.3%	>	$17,330					
South Dakota	No Income Tax					None	None	n.a.
Tennessee	No Income Tax					None	None	n.a.
Texas	No Income Tax					None	None	n.a.
Utah	4.55%	>	$0	(m)	(m)	(m)	None	n.a.
Vermont (n)	3.35%	>	$0	$7,000	$4,850	$4,850	None	n.a.
	6.60%	>	$42,150					
	7.60%	>	$102,200					
	8.75%	>	$229,550					
Virginia	2.0%	>	$0	$8,000	$930	$930	None	n.a.
	3.0%	>	$3,000					
	5.0%	>	$5,000					
	5.75%	>	$17,000					
Washington (o)	7.0%	>	$250,000	n.a.	n.a.	n.a.	None	0.58%
West Virginia	2.36%	>	$0	n.a.	$2,000	$2,000	0.346%	n.a.
	3.15%	>	$10,000					
	3.54%	>	$25,000					
	4.72%	>	$40,000					
	5.12%	>	$60,000					
Wisconsin (e)	3.50%	>	$0	$13,230 (d)	$700	$700	None	n.a.
	4.40%	>	$14,320					
	5.30%	>	$28,640					
	7.65%	>	$315,310					
Wyoming	No Income Tax						None	n.a.
District of Columbia	4.0%	>	$0	$14,600 (j)	n.a.	n.a.	None	n.a.
	6.0%	>	$10,000					
	6.50%	>	$40,000					
	8.50%	>	$60,000					
	9.25%	>	$250,000					
	9.75%	>	$500,000					
	10.75%	>	$1,000,000					

(a) Brackets are for single taxpayers. Some states double bracket widths for joint filers (AL, AZ, CT, HI, ID, KS, LA, ME, NE, OR). New York doubles all except the top two brackets. Some states increase but do not double brackets for joint filers (CA, GA, MN, NM, NC, ND, OK, RI, VT, WI). Maryland decreases some and increases others. New Jersey adds a 2.45% rate and doubles some bracket widths. Consult the Tax Foundation website for tables for joint filers.

(b) Married joint filers generally receive double the single exemption.

(c) The average local income tax rate is calculated by taking the mean of the income tax rate in two most populous cities.

(d) Subject to phaseout for higher-income taxpayers.

(e) Bracket levels are adjusted for inflation each year.

(f) Connecticut and New York have an income “recapture” provision whereby the benefit of lower tax brackets is removed for the top bracket. See the individual income tax section for details.

(g) Tax credit.

(h) Illinois imposes an additional 1.5% tax on pass-through businesses, bringing the combined rate to 6.45%.

(i) The standard deduction and personal exemptions are combined: $4,500 for single and married filing separately; $9,000 married filing jointly.

(j) These states adopt the same standard deductions or (now zeroed-out) personal exemptions as the federal government. In some cases, the link is implicit in the fact that the state tax calculations begin with federal taxable income.

(k) Nevada imposes a payroll tax of 1.45%, which is included in the Index as a tax on wage income only. Oregon imposes a payroll tax of 0.1% in addition to its income tax; this is also reflected in Index calculations.

(l) Tax applies to interest and dividend income only.

(m) Utah’s standard deduction and personal exemption are combined into a single credit equal to 6% of the taxpayer’s federal standard deduction (or itemized deductions) plus three-forths of the taxpayer’s federal exemptions. This credit is phased out for higher income taxpayers.

(n) Bracket levels are adjusted for inflation each year; 2024 inflation adjustments were not available as of publication, so amounts for tax year 2023 are shown.

(o) Tax applies to capital gains income only.

Source: Tax Foundation; state tax forms and instructions; state statutes.

Table 14. State Individual Income Tax Bases: Marriage Penalty, Capital Income, and Indexation (as of July 1, 2024)

			Capital Income Taxed			Indexed for Inflation		
	Marriage Penalty	Convenience Rule	Interest	Dividends	Capital Gains	Tax Brackets	Standard Deduction	Personal Exemption
Alabama	No	No	Yes	Yes	Yes	No	No	No
Alaska	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Arkansas	No	No	Yes	Yes	Yes	Yes	No	Yes
California	Yes	No	Yes	Yes	Yes	Partial	Yes	Yes
Colorado	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Connecticut	No	Partial	Yes	Yes	Yes	No	Yes	No
Delaware	No	Yes	Yes	Yes	Yes	No	No	No
Florida	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Georgia	Yes	No	Yes	Yes	Yes	Yes	No	Yes
Hawaii	No	No	Yes	Yes	Yes	No	No	No
Idaho	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Illinois	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Indiana	No	No	Yes	Yes	Yes	Yes	Yes	No
Iowa	No	No	Yes	Yes	Yes	Yes	Yes	No
Kansas	No	No	Yes	Yes	Yes	No	No	No
Kentucky	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Louisiana	No	No	Yes	Yes	Yes	No	No	No
Maine	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Maryland	Yes	No	Yes	Yes	Yes	No	Yes	No
Massachusetts	No	No	Yes	Yes	Yes	Yes	Yes	No
Michigan	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Minnesota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Mississippi	No	No	Yes	Yes	Yes	No	No	No
Missouri	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Montana	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Nebraska	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Nevada	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Hampshire	No	No	Yes	Yes	No	Yes	Yes	No
New Jersey	Yes	No	Yes	Yes	Yes	No	Yes	No
New Mexico	Yes	No	Yes	Yes	Yes	No	Yes	Yes
New York	Yes	Yes	Yes	Yes	Yes	No	No	No
North Carolina	No	No	Yes	Yes	Yes	Yes	No	Yes
North Dakota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Ohio	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Oklahoma	No	No	Yes	Yes	Yes	No	No	No
Oregon	No	No	Yes	Yes	Yes	Partial	Yes	Yes
Pennsylvania	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rhode Island	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
South Carolina	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
South Dakota	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Texas	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Utah	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Vermont	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Virginia	Yes	No	Yes	Yes	Yes	No	No	No
Washington	Yes	No	n.a.	n.a.	Yes	No	n.a.	n.a.
West Virginia	No	No	Yes	Yes	Yes	No	Yes	No
Wisconsin	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Wyoming	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
District of Columbia	No	No	Yes	Yes	Yes	No	Yes	Yes

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 15. State Individual Income Tax Bases: Other Variables (as of July 1, 2024)

	Federal Income Used as State Tax Base	Credits for Taxes Paid to Other States	AMT Levied	Recognition of LLC Status	Recognition of S-Corp Status	Section 179 Expensing Limit	Filing Threshold	Withholding Threshold
Alabama	No	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
Alaska	Yes	Yes	No	Yes	Yes	$1,000,000	n.a.	n.a.
Arizona	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	> 59 days
Arkansas	No	Yes	No	Yes	Partial	$25,000	1 day	1 day
California	Yes	Yes	Yes	Yes	Yes	$25,000	1 day	$1,500
Colorado	Yes	Yes	Yes	Yes	Yes	$1,000,000	1 day	1 day
Connecticut	Yes	Yes	Yes	Yes	Yes	$200,000	> 15 days and > $6,000	> 15 days
Delaware	Yes	Yes	No	No	No	$1,000,000	1 day	1 day
Florida	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000	n.a.	n.a.
Georgia	Yes	Yes	No	Yes	Yes	$1,000,000	$5,000	> 23 days or > $5,000
Hawaii	Yes	Yes	No	Yes	Yes	$25,000	1 day	> 60 days
Idaho	Yes	Yes	No	Yes	Yes	$1,000,000	$2,500	$999
Illinois	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	> 30 days
Indiana	Yes	Yes	No	Yes	Yes	$25,000	> 30 days	> 30 days
Iowa	Yes	Yes	No	Yes	Yes	$1,000,000	$1,000	1 day
Kansas	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
Kentucky	Yes	Yes	No	Yes	Yes	$100,000	1 day	1 day
Louisiana	Yes	Yes	No	Yes	No	$1,000,000	> 25 days (a)	> 25 days (a)
Maine	Yes	Yes	No	Yes	Yes	$1,000,000	> 12 days and $3,000	> 12 days and $3,000
Maryland	Yes	Yes	No	Yes	Yes	$25,000	1 day	1 day
Massachusetts	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
Michigan	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
Minnesota	Yes	Yes	Yes	Yes	Yes	$1,000,000	$14,574	1 day
Mississippi	No	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
Missouri	Yes	Yes	No	Yes	Yes	$1,000,000	$600	1 day
Montana	Yes	Yes	No	Yes	Yes	$1,000,000	> 30 days	> 30 days
Nebraska	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
Nevada	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000	n.a.	n.a.
New Hampshire	Yes	No	No	No	No	$500,000	n.a.	n.a.
New Jersey	No	Yes	No	Yes	Partial	$25,000	1 day	1 day
New Mexico	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	> 15 days
New York	Yes	Yes	No	Yes	Partial	$1,000,000	1 day	14 days
North Carolina	Yes	Yes	No	Yes	Yes	$25,000	1 day	1 day
North Dakota	Yes	Yes	No	Yes	Yes	$1,000,000	> 20 days (a)	> 20 days (a)
Ohio	Yes	Yes	No	No	No	$1,000,000	1 day	$300 quarterly
Oklahoma	Yes	Yes	No	Yes	Yes	$1,000,000	$1,000	> $300 quarterly
Oregon	Yes	Yes	No	Yes	Yes	$1,000,000	$2,745	1 day
Pennsylvania	No	Yes	No	Yes	Yes	$25,000	1 day	1 day
Rhode Island	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
South Carolina	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	$2,000
South Dakota	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000	n.a.	n.a.
Tennessee	Yes	Yes	No	Yes	No	$1,000,000	n.a.	n.a.
Texas	n.a.	n.a.	n.a.	No	No	$1,000,000	n.a.	n.a.
Utah	Yes	Yes	No	Yes	Yes	$1,000,000	> 20 days (a)	> 20 days (a)
Vermont	Yes	Yes	No	Yes	Yes	$1,000,000	$100	> 29 days
Virginia	Yes	Yes	No	Yes	Yes	$1,000,000	1 day	1 day
Washington	n.a.	n.a.	n.a.	No	No	$1,000,000	n.a.	n.a.
West Virginia	Yes	Yes	No	Yes	Yes	$1,000,000	> 30 days (a)	> 30 days (a)
Wisconsin	Yes	Yes	No	Yes	Yes	$1,000,000	$1,999	$1,999
Wyoming	n.a.	n.a.	n.a.	Yes	Yes	$1,000,000	n.a.	n.a.
District of Columbia	Yes	Yes	No	Yes	No	$25,000	n.a.	n.a.

(a) State has a mutuality requirement, whereby its filing/withholding threshold applies only to nonresidents from states that do not levy an individual income tax or that offer a "substantially similar exclusion."

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 16. State Sales and Excise Tax Rates (as of July 1, 2024)

	Sales Taxes		Excise Taxes					
	State Sales Tax Rate	Average Local Rate	Gasoline (cents per gallon) (e)	Diesel (cents per gallon) (e)	Cigarettes (dollars per pack of 20)	Beer (dollars per gallon)	Spirits (dollars per gallon) (g)	Vapor Tax Ratio (i)
Alabama	4.00%	5.29%	30.20	31.95	67.5	53	21.69	n.a.
Alaska	n.a.	1.82%	8.95	8.95	200	107	12.8	n.a.
Arizona	5.60%	2.78%	19.00	19	200	16	3	n.a.
Arkansas	6.50%	2.97%	25.00	28.8	115	35	8.01	n.a.
California (a)	7.25%	1.55%	69.82	92.12	287	20	3.3	147%
Colorado	2.77%	4.91%	28.18	30.68	224	8	2.28	90%
Connecticut	6.35%	0.00%	25.00	49.2	435	19.35	5.94	40%
Delaware	n.a.	0.00%	23.00	22	210	26	4.5	5%
Florida	6.00%	1.00%	38.60	39.47	133.9	48	6.5	n.a.
Georgia	4.00%	3.42%	33.05	36.95	37	48	3.79	5%
Hawaii (b)	4.00%	0.50%	18.50	18.5	320	93	5.98	119%
Idaho	6.00%	0.03%	33.00	33	57	15	12.15	n.a.
Illinois	6.25%	2.62%	67.10	74.6	298	23	8.55	38%
Indiana	7.00%	0.00%	56.10	60	99.5	12	2.68	38%
Iowa	6.00%	0.94%	30.00	32.5	136	19	14.1	n.a.
Kansas	6.50%	2.28%	25.04	27.03	129	18	2.5	5%
Kentucky	6.00%	0.00%	27.80	24.8	110	93	9.46	83%
Louisiana	4.45%	5.11%	20.93	20.93	108	40	3.03	15%
Maine	5.50%	0.00%	31.40	31.87	200	35	11.96	87%
Maryland	6.00%	0.00%	46.29	47.04	500	60	5.46	225%
Massachusetts	6.25%	0.00%	27.37	27.37	351	11	4.05	124%
Michigan	6.00%	0.00%	49.80	51.4	200	20	13.57	n.a.
Minnesota	6.88%	1.25%	28.80	28.8	377.9	47	8.7	140%
Mississippi	7.00%	0.06%	18.40	18.4	68	43	8.51	n.a.
Missouri	4.23%	4.16%	27.49	27.49	17	6	2	n.a.
Montana (c)	n.a	0.00%	33.75	30.5	170	14	10.57	n.a.
Nebraska	5.50%	1.47%	30.50	29.9	64	31	3.75	5%
Nevada	6.85%	1.39%	23.81	27.75	180	16	3.6	67%
New Hampshire	n.a	0.00%	23.83	23.83	178	30	0	30%
New Jersey (d)	6.63%	-0.02%	42.35	49.35	270	12	5.5	37%
New Mexico (b)	4.875%	2.75%	18.88	22.88	200	41	6.06	28%
New York	4.00%	4.53%	25.68	23.88	535	14	6.44	75%
North Carolina	4.75%	2.25%	40.65	40.65	45	62	16.62	5%
North Dakota (b)	5.00%	2.04%	23.03	23.03	44	40	4.68	n.a.
Ohio	5.75%	1.49%	38.50	47	160	18	11.38	10%
Oklahoma	4.50%	4.50%	20.00	20	203	40	5.56	n.a.
Oregon	n.a.	0.00%	40.00	40	333	8	22.86	114%
Pennsylvania	6.00%	0.34%	58.70	74.1	260	8	7.41	82%
Rhode Island	7.00%	0.00%	38.12	38.12	425	12	5.4	n.a.
South Carolina	6.00%	1.50%	28.75	28.75	57	77	5.42	n.a.
South Dakota (b)	4.20%	1.91%	30.00	30	153	27	4.87	n.a.
Tennessee	7.00%	2.56%	27.40	28.4	62	129	4.46	n.a.
Texas	6.25%	1.95%	20.00	20	141	19	2.4	n.a.
Utah (a)	6.10%	1.16%	37.15	37.15	170	43	15.92	90%
Vermont	6.00%	0.37%	32.61	33	308	27	8.39	138%
Virginia (a)	5.30%	0.47%	40.40	41.5	60	26	22.06	11%
Washington	6.50%	2.95%	52.82	52.82	302.5	26	36.55	27%
West Virginia	6.00%	0.57%	35.70	35.7	120	18	8.32	8%
Wisconsin	5.00%	0.70%	32.90	32.9	252	6	3.25	5%
Wyoming	4.00%	1.44%	24.00	24	60	2	0	38%
District of Columbia	6.00%	0.00%	34.90	34.9	503	79	6.68	127%

(a) Some state sales taxes include a local component collected uniformly across the state: California (1.25%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax rates.

(b) Sales tax rates in Hawaii, New Mexico, North Dakota, and South Dakota are not strictly comparable to other states due to broad bases that include many services.

(c) Special taxes in Montana's resort areas are not included in our analysis.

(d) Some counties in New Jersey are not subject to statewide sales tax rates and collect a local rate of 3.3125%. Their average local score is represented as a negative.

(e) Calculated rate including excise taxes, additional fees levied per gallon (such as storage tank and environmental fees), local excise taxes, and sales or gross receipts taxes.

(f) Includes a statewide local tax of 52 cents in Alabama and 53 cents in Georgia.

(g) May include taxes that are levied based on container size.

(h) These states outlaw private liquor sales and utilize state-run stores. These are called "control states," while "license states" are those that permit private wholesale and retail sales. All license states have an excise tax rate in law, expressed in dollars per gallon. Control states levy no statutory tax but usually raise comparable revenue by charging higher prices. The Distilled Spirits Council of the U.S. has computed approximate excise tax rates for control states by comparing prices of typical products sold in their state-run stores to the pre-tax prices of liquor in states where liquor is privately sold. In New Hampshire, average liquor prices charged in state-run stores are lower than pre-tax prices in license states. Washington privatized its liquor sales but enacted tax increases as a part of the package.

(i) Vapor Tax Ratio is a calculated ratio of effective rates on vapor compared to tax rates on cigarettes.

Source: Tax Foundation; Bloomberg Tax; American Petroleum Institute; Distilled Spirits Council of the United States; Federation of Tax Administrators.

Table 17. State Sales Tax Bases: Exemptions for Business-to-Business Transactions (as of July 1, 2024)

	Farm Equipment	Office Equipment	Mfg. Machinery	Mfg. Raw Materials	Busines Fuel & Utilities	Business Lease & Rentals	Information Services	SaaS	PaaS	Digital B2B	Payroll Services	Digital Advertising Tax
Alabama	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	No
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	No
Arizona	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	No
Arkansas	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
California	Partial	Taxable	Partial	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
Colorado	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Connecticut	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Taxable	Exempt	No
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	No
Florida	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
Georgia	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Hawaii	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	No
Idaho	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Illinois	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	No
Indiana	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Iowa	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Partial	Exempt	No
Kansas	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	No
Kentucky	Exempt	Taxable	Partial	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	No
Louisiana	Taxable	Taxable	Exempt	Exempt	Partial	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Maine	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Maryland	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Taxable	Exempt	Yes
Massachusetts	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	No
Michigan	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	No
Minnesota	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Mississippi	Partial	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	No
Missouri	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	No
Nebraska	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Nevada	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	No
New Jersey	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	No
New Mexico	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	No
New York	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Taxable	Exempt	Exempt	No
North Carolina	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
North Dakota	Partial	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
Ohio	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	No
Oklahoma	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	No
Pennsylvania	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	No
Rhode Island	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	No
South Carolina	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Taxable	Taxable	Exempt	Exempt	No
South Dakota	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	No
Tennessee	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	No
Texas	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Partial	Partial	Taxable	Partial	No
Utah	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	No
Vermont	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	No
Virginia	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
Washington	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Exempt	No
West Virginia	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	No
Wisconsin	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
Wyoming	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt	No
District of Columbia	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	No

Note: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 17, although Alaska has a local option sales tax.

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 18. State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2024)

	Goods				
	Groceries	Clothing	Prescription Medication	Non-Prescription Medication	Gasoline
Alabama	Taxable	Taxable	Exempt	Taxable	Exempt
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Exempt	Taxable	Exempt	Taxable	Exempt
Arkansas	Alternate Rate	Taxable	Exempt	Taxable	Exempt
California	Exempt	Taxable	Exempt	Taxable	Alternate Rate
Colorado	Exempt	Taxable	Exempt	Taxable	Exempt
Connecticut	Exempt	Taxable	Exempt	Exempt	Exempt
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	Exempt	Taxable	Exempt	Exempt	Taxable
Georgia	Exempt	Taxable	Exempt	Taxable	Exempt
Hawaii	Taxable	Taxable	Exempt	Taxable	Taxable
Idaho	Taxable	Taxable	Exempt	Taxable	Exempt
Illinois	Alternate Rate	Taxable	Alternate Rate	Alternate Rate	Taxable
Indiana	Exempt	Taxable	Exempt	Taxable	Taxable
Iowa	Exempt	Taxable	Exempt	Taxable	Exempt
Kansas	Taxable	Taxable	Exempt	Taxable	Exempt
Kentucky	Exempt	Taxable	Exempt	Taxable	Exempt
Louisiana	Exempt	Taxable	Exempt	Taxable	Exempt
Maine	Exempt	Taxable	Exempt	Taxable	Exempt
Maryland	Exempt	Taxable	Exempt	Exempt	Exempt
Massachusetts	Exempt	Exempt	Exempt	Taxable	Exempt
Michigan	Exempt	Taxable	Exempt	Taxable	Taxable
Minnesota	Exempt	Exempt	Exempt	Exempt	Exempt
Mississippi	Taxable	Taxable	Exempt	Taxable	Exempt
Missouri	Alternate Rate	Taxable	Exempt	Taxable	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	Exempt	Taxable	Exempt	Taxable	Exempt
Nevada	Exempt	Taxable	Exempt	Taxable	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Exempt	Exempt	Exempt	Exempt	Exempt
New Mexico	Exempt	Taxable	Exempt	Taxable	Exempt
New York	Exempt	Exempt	Exempt	Exempt	Taxable
North Carolina	Exempt	Taxable	Exempt	Taxable	Exempt
North Dakota	Exempt	Taxable	Exempt	Taxable	Exempt
Ohio	Exempt	Taxable	Exempt	Taxable	Exempt
Oklahoma	Taxable	Taxable	Exempt	Taxable	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	Exempt	Exempt	Exempt	Exempt	Exempt
Rhode Island	Exempt	Exempt	Exempt	Taxable	Exempt
South Carolina	Exempt	Taxable	Exempt	Taxable	Exempt
South Dakota	Taxable	Taxable	Exempt	Taxable	Exempt
Tennessee	Alternate Rate	Taxable	Exempt	Taxable	Exempt
Texas	Exempt	Taxable	Exempt	Exempt	Exempt
Utah	Alternate Rate	Taxable	Exempt	Taxable	Exempt
Vermont	Exempt	Exempt	Exempt	Exempt	Exempt
Virginia	Alternate Rate	Taxable	Exempt	Exempt	Exempt
Washington	Exempt	Taxable	Exempt	Taxable	Exempt
West Virginia	Exempt	Taxable	Exempt	Taxable	Exempt
Wisconsin	Exempt	Taxable	Exempt	Taxable	Exempt
Wyoming	Exempt	Taxable	Exempt	Taxable	Exempt
District of Columbia	Exempt	Taxable	Exempt	Exempt	Exempt

Notes: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 18, although Alaska has a local option sales tax. New York applies only local sales taxes to gasoline.

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 18, *Continued*. State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2024)

	Services											
	Landscaping	Repair	Real Estate Services	Parking	Dry Cleaning	Fitness	Barber	Veterinary	E-Books	Streaming	Financial	Sales Tax Holiday
Alabama	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Yes
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Taxable	Exempt	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	No
Arkansas	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
California	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	No
Colorado	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
Connecticut	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	Exempt	Taxable	Exempt	Partial	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Yes
Georgia	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
Hawaii	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	No
Idaho	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	No
Illinois	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	No
Indiana	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	No
Iowa	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Yes
Kansas	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	No
Kentucky	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	No
Louisiana	Exempt	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
Maine	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
Maryland	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
Massachusetts	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Yes
Michigan	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	No
Minnesota	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	No
Mississippi	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
Missouri	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Yes
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
Nevada	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Yes
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Taxable	Taxable	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	No
New Mexico	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Yes
New York	Taxable	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	No
North Carolina	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
North Dakota	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	No
Ohio	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
Oklahoma	Exempt	Exempt	Exempt	Taxable	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Exempt	Yes
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
Rhode Island	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
South Carolina	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Yes
South Dakota	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Exempt	No
Tennessee	Exempt	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
Texas	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Yes
Utah	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	No
Vermont	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
Virginia	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Yes
Washington	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	No
West Virginia	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Yes
Wisconsin	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable	Exempt	No
Wyoming	Exempt	Taxable	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Partial	Exempt	No
District of Columbia	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt	No

Notes: States with no state sales tax (AK, DE, MT, NH, and OR) are listed as "not applicable" (n.a.) within Table 18, although Alaska has a local option sales tax. New York applies only local sales taxes to gasoline.

Source: Tax Foundation; state statutes.

Table 19. Sales Tax Structure (as of July 1, 2024)

	Uniform Base Definitions	Unified Tax Administration	Safe Harbor for Remote Sellers
Alabama	Yes	No	Gross Sales Threshold
Alaska	No	No	n.a.
Arizona	No	Yes	Gross Sales Threshold
Arkansas	Yes	Yes	Sales or Transactions Threshold
California	Yes	Yes	Gross Sales Threshold
Colorado	No	No	Gross Sales Threshold
Connecticut	Yes	Yes	Gross Sales Threshold
Delaware	n.a.	n.a.	n.a.
Florida	Yes	Yes	Gross Sales Threshold
Georgia	Yes	Yes	Sales or Transactions Threshold
Hawaii	Yes	Yes	Sales or Transactions Threshold
Idaho	No	Yes	Gross Sales Threshold
Illinois	Yes	Yes	Sales or Transactions Threshold
Indiana	Yes	Yes	Sales or Transactions Threshold
Iowa	Yes	Yes	Gross Sales Threshold
Kansas	Yes	Yes	Gross Sales Threshold
Kentucky	Yes	Yes	Sales or Transactions Threshold
Louisiana	No	No	Sales or Transactions Threshold
Maine	Yes	Yes	Gross Sales Threshold
Maryland	Yes	Yes	Sales or Transactions Threshold
Massachusetts	Yes	Yes	Gross Sales Threshold
Michigan	Yes	Yes	Sales or Transactions Threshold
Minnesota	Yes	Yes	Sales or Transactions Threshold
Mississippi	Yes	Yes	Gross Sales Threshold
Missouri	Yes	Yes	Gross Sales Threshold
Montana	n.a.	n.a.	n.a.
Nebraska	Yes	Yes	Sales or Transactions Threshold
Nevada	Yes	Yes	Sales or Transactions Threshold
New Hampshire	n.a.	n.a.	n.a.
New Jersey	Yes	Yes	Sales or Transactions Threshold
New Mexico	Yes	Yes	Gross Sales Threshold
New York	Yes	Yes	Gross Sales Threshold
North Carolina	Yes	Yes	Sales or Transactions Threshold
North Dakota	Yes	Yes	Gross Sales Threshold
Ohio	Yes	Yes	Sales or Transactions Threshold
Oklahoma	Yes	Yes	Gross Sales Threshold
Oregon	Yes	n.a.	n.a.
Pennsylvania	Yes	Yes	Gross Sales Threshold
Rhode Island	Yes	Yes	Sales or Transactions Threshold
South Carolina	Yes	Yes	Gross Sales Threshold
South Dakota	Yes	Yes	Gross Sales Threshold
Tennessee	Yes	Yes	Gross Sales Threshold
Texas	Yes	Yes	Gross Sales Threshold
Utah	Yes	Yes	Sales or Transactions Threshold
Vermont	Yes	Yes	Sales or Transactions Threshold
Virginia	Yes	Yes	Sales or Transactions Threshold
Washington	Yes	Yes	Gross Sales Threshold
West Virginia	Yes	Yes	Sales or Transactions Threshold
Wisconsin	Yes	Yes	Gross Sales Threshold
Wyoming	Yes	Yes	Sales or Transactions Threshold
District of Columbia	Yes	Yes	Sales or Transactions Threshold

Note: States without a sales tax are listed as “not applicable” (n.a.) within Table 19.

Source: Tax Foundation; state statutes.

Table 20. State Property Tax Rates and Capital Stock Tax Rates (as of July 1, 2024)

	Property Tax Collections Per Capita	Property Tax as a Percentage of Personal Income	Assessment Limit	Levy Limit	Capital Stock Tax Rate	Capital Stock Max Payment	Payment Options for CST and CIT
Alabama	$659	1.40%	Yes	Yes	0.175%	$15,000	Pay both
Alaska	$2,325	3.53%	Yes	No	None	n.a.	n.a.
Arizona	$1,253	2.37%	No	Yes	None	n.a.	n.a.
Arkansas	$834	1.67%	No	Yes	0.3%	Unlimited	Pay both
California	$2,097	2.79%	No	No	None	n.a.	n.a.
Colorado	$2,071	3.06%	No	Yes	None	n.a.	n.a.
Connecticut	$3,276	4.07%	No	Yes	0.26%	$1,000,000	Pay highest
Delaware	$1,105	1.92%	Yes	Yes	0.04%	$200,000	Pay both
Florida	$1,624	2.74%	No	No	None	n.a.	n.a.
Georgia	$1,398	2.58%	No	No	(a)	$5,000	Pay both
Hawaii	$1,604	2.72%	Yes	No	None	n.a.	n.a.
Idaho	$1,107	2.22%	Yes	Yes	None	n.a.	n.a.
Illinois	$2,463	3.74%	Yes	Yes	0.1%	$2,000,000	Pay both
Indiana	$1,210	2.21%	Yes	Yes	None	n.a.	n.a.
Iowa	$1,937	3.43%	No	Yes	None	n.a.	n.a.
Kansas	$1,790	3.07%	Yes	No	None	n.a.	n.a.
Kentucky	$968	1.97%	Yes	No	None	n.a.	n.a.
Louisiana	$992	1.86%	Yes	Yes	0.275%	Unlimited	Pay both
Maine	$2,835	5.09%	Yes	No	None	n.a.	n.a.
Maryland	$1,814	2.68%	No	No	None	n.a.	n.a.
Massachusetts	$2,800	3.44%	Yes	Yes	0.26%	Unlimited	Pay highest
Michigan	$1,662	3.02%	No	Yes	None	n.a.	n.a.
Minnesota	$1,870	2.88%	Yes	Yes	None	n.a.	n.a.
Mississippi	$1,206	2.73%	Yes	Yes	0.15%	Unlimited	Pay both
Missouri	$1,333	2.46%	Yes	Yes	None	n.a.	n.a.
Montana	$1,840	3.30%	Yes	Yes	None	n.a.	n.a.
Nebraska	$2,172	3.52%	Yes	No	(a)	$11,995	Pay both
Nevada	$1,215	2.13%	Yes	Yes	None	n.a.	n.a.
New Hampshire	$3,307	4.64%	Yes	No	None	n.a.	n.a.
New Jersey	$3,538	4.81%	Yes	Yes	None	n.a.	n.a.
New Mexico	$936	1.95%	No	No	None	n.a.	n.a.
New York	$3,343	4.44%	No	Yes	0.1875%	$5,000,000	Pay highest
North Carolina	$1,123	2.10%	Yes	No	0.15%	Unlimited	Pay both
North Dakota	$1,568	2.39%	Yes	Yes	None	n.a.	n.a.
Ohio	$1,552	2.80%	Yes	Yes	None	n.a.	n.a.
Oklahoma	$918	1.77%	No	No	None	n.a.	n.a.
Oregon	$1,813	3.07%	No	No	None	n.a.	n.a.
Pennsylvania	$1,678	2.67%	Yes	Yes	None	n.a.	n.a.
Rhode Island	$2,462	4.03%	Yes	Yes	None	n.a.	n.a.
South Carolina	$1,380	2.72%	No	No	0.1%	Unlimited	Pay both
South Dakota	$1,661	2.58%	Yes	Yes	None	n.a.	n.a.
Tennessee	$926	1.74%	Yes	No	0.25%	Unlimited	Pay both
Texas	$2,218	3.81%	No	Yes	None	n.a.	n.a.
Utah	$1,229	2.28%	Yes	No	None	n.a.	n.a.
Vermont	$2,992	5.13%	Yes	No	None	n.a.	n.a.
Virginia	$1,914	3.00%	Yes	Yes	None	n.a.	n.a.
Washington	$1,901	2.68%	Yes	Yes	None	n.a.	n.a.
West Virginia	$1,076	2.32%	Yes	Yes	None	n.a.	n.a.
Wisconsin	$1,783	3.11%	Yes	Yes	None	n.a.	n.a.
Wyoming	$2,160	3.36%	No	No	0.02%	Unlimited	Pay both
District of Columbia	$4,489	4.68%	Yes	Yes	None	n.a.	n.a.

(a) Based on a fixed dollar payment schedule. Effective tax rates decrease as taxable capital increases.

Note: States without a capital stock tax are listed as "not applicable" (n.a.) within Table 20.

Source: Tax Foundation calculations from U.S. Census Bureau data; Bloomberg Tax; state statutes.

Table 21. State Property Tax Bases (as of July 1, 2024)

	Tangible Personal Property Tax	TPP De Minimis Exemption	Intangible Property Tax	Inventory Tax	Real Estate Transfer Tax	Split Roll Ratio	Estate Tax	Inheritance Tax	Gift Tax
Alabama	Yes	None	Yes	No	Yes	2.00	No	No	No
Alaska	Yes	None	No	Partial	No	1.00	No	No	No
Arizona	Yes	$225,572	No	No	No	1.65	No	No	No
Arkansas	Yes	None	No	Yes	Yes	1.00	No	No	No
California	Yes	None	No	No	Yes	1.00	No	No	No
Colorado	Yes	$52,000	No	No	Yes	4.33	No	No	No
Connecticut	Yes	None	No	No	Yes	2.00	12%	No	Yes
Delaware	No	n.a.	No	No	Yes	1.00	No	No	No
Florida	Yes	$25,000	No	No	Yes	1.00	No	No	No
Georgia	Yes	$7,500	No	Partial	Yes	1.00	No	No	No
Hawaii	No	n.a.	No	No	Yes	3.54	20%	No	No
Idaho	Yes	$250,000	No	No	No	1.00	No	No	No
Illinois	No	n.a.	No	No	Yes	1.60	16%	No	No
Indiana	Yes	$80,000	No	No	No	1.00	No	No	No
Iowa	No	n.a.	Yes	No	Yes	1.60	No	2%	No
Kansas	Yes	None	No	No	No	2.17	No	No	No
Kentucky	Yes	$1,000	Yes	Yes	Yes	1.00	No	16%	No
Louisiana	Yes	None	Yes	Yes	No	1.00	No	No	No
Maine	Yes	None	No	No	Yes	1.00	12%	No	No
Maryland	Yes	None	No	Partial	Yes	1.00	16%	10%	No
Massachusetts	Yes	None	No	Partial	Yes	1.00	16%	No	No
Michigan	Yes	$180,000	No	Partial	Yes	1.00	No	No	No
Minnesota	Partial	n.a.	No	No	Yes	2.75	16%	No	No
Mississippi	Yes	None	Yes	Yes	No	1.50	No	No	No
Missouri	Yes	None	No	No	No	1.75	No	No	No
Montana	Yes	$1,000,000	No	No	No	1.40	No	No	No
Nebraska	Yes	None	No	No	Yes	1.00	No	15%	No
Nevada	Yes	None	No	No	Yes	1.00	No	No	No
New Hampshire	Partial	None	No	No	Yes	1.00	No	No	No
New Jersey	No	n.a.	No	No	Yes	1.00	No	16%	No
New Mexico	Yes	None	No	No	No	1.00	No	No	No
New York	No	n.a.	No	No	Yes	3.75	16%	No	No
North Carolina	Yes	None	No	No	Yes	1.00	No	No	No
North Dakota	Partial	n.a.	No	No	No	1.10	No	No	No
Ohio	No	n.a.	No	No	Yes	1.00	No	No	No
Oklahoma	Yes	None	No	Yes	Yes	1.30	No	No	No
Oregon	Yes	None	No	No	No	1.00	16%	No	No
Pennsylvania	No	n.a.	No	No	Yes	1.00	No	15%	No
Rhode Island	Partial	n.a.	No	No	Yes	1.00	16%	No	No
South Carolina	Yes	None	No	No	Yes	1.75	No	No	No
South Dakota	Partial	n.a.	Yes	No	Yes	1.00	No	No	No
Tennessee	Yes	None	Yes	No	Yes	1.60	No	No	No
Texas	Yes	None	Yes	Yes	No	1.00	No	No	No
Utah	Yes	$25,000	No	No	No	1.81	No	No	No
Vermont	Yes	None	No	Partial	Yes	1.00	16%	No	No
Virginia	Yes	None	No	Partial	Yes	1.00	No	No	No
Washington	Yes	None	No	No	Yes	1.00	20%	No	No
West Virginia	Yes	None	No	Yes	Yes	1.00	No	No	No
Wisconsin	No	n.a.	No	No	Yes	1.00	No	No	No
Wyoming	Yes	None	No	No	No	1.20	No	No	No
District of Columbia	Yes	$225,000	No	No	Yes	2.22	16%	No	No

Note: Split roll ratio represents the ratio between commercial and residential property taxes.

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 22. State Unemployment Insurance Tax Rates (as of July 1, 2024)

State	Minimum Rate	Maximum Rate	Taxable Wage Base	Most Favorable Schedule		Least Favorable Schedule		UI employer contribution rate, % of total wages	UI employer contribution rate, % of taxable wages	UI trust fund solvency ratio
				Minimum Rate	Maximum Rate	Minimum Rate	Maximum Rate			
Alabama	0.20%	5.40%	$8,000	0.14%	5.40%	0.65%	6.80%	0.10%	0.49%	1.02
Alaska	1.00%	5.40%	$49,700	1.00%	6.50%	1.00%	6.50%	0.65%	1.04%	2.16
Arizona	0.05%	14.03%	$8,000	0.02%	5.40%	0.02%	5.40%	0.23%	1.10%	0.87
Arkansas	0.23%	10.13%	$7,000	0.10%	6.00%	0.08%	6.00%	0.24%	0.97%	1.09
California	1.60%	6.20%	$7,000	0.10%	5.40%	1.50%	6.20%	0.39%	3.30%	0.00
Colorado	0.81%	12.34%	$23,800	0.51%	6.28%	0.75%	10.39%	0.43%	1.56%	0.10
Connecticut	1.10%	7.80%	$25,000	0.50%	5.40%	0.50%	5.40%	0.62%	2.92%	0.01
Delaware	0.30%	5.40%	$10,500	0.10%	8.00%	0.10%	8.00%	0.28%	2.06%	1.13
Florida	0.10%	5.40%	$7,000	0.10%	5.40%	0.10%	5.40%	0.10%	0.70%	0.70
Georgia	0.04%	8.10%	$9,500	0.01%	5.40%	0.04%	8.10%	0.16%	1.28%	0.45
Hawaii	0.21%	5.80%	$59,100	0.00%	5.40%	2.40%	6.60%	1.86%	2.73%	0.44
Idaho	0.35%	5.40%	$53,500	0.18%	5.40%	0.96%	6.80%	0.41%	0.61%	1.42
Illinois	0.85%	8.65%	$15,590	0.20%	6.40%	0.20%	6.40%	0.60%	2.80%	0.23
Indiana	0.50%	7.40%	$9,500	0.00%	5.40%	0.75%	10.20%	0.29%	1.30%	0.68
Iowa	0.00%	7.00%	$38,200	0.00%	7.00%	0.00%	9.00%	0.50%	0.93%	1.40
Kansas	0.16%	6.00%	$14,000	0.20%	7.60%	0.20%	7.60%	0.37%	1.30%	1.63
Kentucky	0.30%	9.00%	$11,400	0.00%	9.00%	1.00%	10.00%	0.29%	2.15%	0.44
Louisiana	0.09%	6.20%	$7,700	0.09%	6.00%	0.09%	6.00%	0.25%	1.29%	0.72
Maine	0.28%	6.03%	$12,000	0.00%	5.40%	0.00%	5.40%	0.53%	1.98%	1.80
Maryland	0.30%	7.50%	$8,500	0.30%	7.50%	2.20%	13.50%	0.36%	2.35%	1.09
Massachusetts	0.73%	11.13%	$15,000	0.56%	8.62%	1.21%	18.55%	0.64%	2.84%	0.53
Michigan	0.06%	10.30%	$9,500	0.00%	6.30%	0.00%	6.30%	0.55%	2.86%	0.41
Minnesota	0.20%	9.10%	$42,000	0.10%	9.00%	0.40%	9.40%	0.44%	0.90%	0.51
Mississippi	0.20%	5.60%	$14,000	0.00%	5.40%	0.20%	5.40%	0.20%	0.58%	1.24
Missouri	0.00%	6.75%	$10,000	0.00%	5.40%	0.00%	7.80%	0.15%	1.00%	0.61
Montana	0.13%	6.30%	$43,000	0.00%	6.12%	1.62%	6.12%	0.60%	1.15%	1.44
Nebraska	0.00%	5.40%	$9,000	0.00%	5.40%	0.00%	5.40%	0.16%	0.70%	1.39
Nevada	0.30%	5.40%	$40,600	0.25%	5.40%	0.25%	5.40%	0.80%	1.65%	0.58
New Hampshire	0.10%	7.50%	$14,000	0.10%	7.00%	0.10%	8.50%	0.23%	1.08%	0.97
New Jersey	1.20%	7.00%	$42,300	0.30%	5.40%	1.30%	7.70%	1.03%	2.26%	0.21
New Mexico	0.33%	6.40%	$31,700	0.33%	5.40%	0.33%	5.40%	0.44%	0.86%	0.58
New York	2.10%	9.90%	$12,500	0.00%	5.90%	1.50%	8.90%	0.50%	2.90%	0.00
North Carolina	0.06%	5.76%	$31,400	0.06%	5.76%	0.06%	5.76%	0.28%	0.58%	1.06
North Dakota	0.08%	9.68%	$43,800	0.01%	5.40%	0.01%	5.40%	0.44%	0.80%	1.07
Ohio	0.90%	10.60%	$9,000	0.00%	6.30%	0.30%	6.70%	0.50%	2.40%	0.41
Oklahoma	0.30%	9.20%	$27,000	0.01%	5.50%	0.30%	9.20%	0.47%	1.04%	0.57
Oregon	0.90%	5.40%	$52,800	0.50%	5.40%	2.20%	5.40%	1.12%	2.07%	2.12
Pennsylvania	1.42%	10.37%	$10,000	0.00%	8.95%	0.00%	8.95%	0.70%	3.50%	0.13
Rhode Island	1.10%	9.70%	$29,200	0.21%	7.40%	1.20%	10.00%	0.90%	2.30%	0.77
South Carolina	0.06%	5.46%	$14,000	0.00%	5.40%	0.00%	5.40%	0.31%	0.99%	1.07
South Dakota	0.00%	9.35%	$15,000	0.00%	9.30%	0.00%	9.45%	0.23%	0.73%	1.86
Tennessee	0.01%	10.00%	$7,000	0.01%	10.00%	0.50%	10.00%	0.12%	0.94%	0.72
Texas	0.25%	6.25%	$9,000	0.00%	6.00%	0.00%	6.00%	0.35%	1.90%	0.19
Utah	0.30%	7.30%	$47,000	0.00%	7.00%	0.00%	7.00%	0.38%	0.59%	1.18
Vermont	0.40%	5.40%	$14,300	0.40%	5.40%	1.30%	8.40%	0.50%	1.60%	0.83
Virginia	0.10%	6.20%	$8,000	0.00%	5.40%	0.00%	6.20%	0.10%	0.64%	0.79
Washington	0.27%	6.03%	$68,500	0.00%	5.40%	0.00%	5.40%	0.71%	1.28%	0.64
West Virginia	1.50%	8.50%	$9,521	0.00%	7.50%	1.50%	7.50%	0.59%	2.83%	0.81
Wisconsin	0.00%	12.00%	$14,000	0.00%	10.70%	0.07%	10.70%	0.43%	1.53%	0.64
Wyoming	0.00%	8.50%	$30,900	0.00%	8.50%	0.00%	8.50%	0.52%	1.60%	2.17
District of Columbia	2.10%	7.20%	$9,000	0.10%	5.40%	1.90%	7.40%	0.30%	2.30%	0.72

Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2024); U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws*.

Table 23. State Unemployment Insurance Tax Bases: Experience Formulas and Charging Methods (as of July 1, 2024)

			Company Charged for Benefits If					
State	**Experience Formula Based On**	**Benefits Are Charged to Employers in Proportion to Base Period Wages**	**Employee's Benefit Award Reversed**	**Reimbursements on Combined Wage Claims**	**Employee Left Voluntarily**	**Employee Discharged for Misconduct**	**Employee Refused Suitable Work**	**Employee Continues to Work for Employer Part-Time**
Alabama	Benefits Ratio	Yes	No	Yes	No	No	Yes	No
Alaska	Payroll Decline	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	n.a.
Arizona	Reserve Ratio	Yes	No	No	No	No	Yes	No
Arkansas	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
California	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Colorado	Reserve Ratio	No (a)	No	No	No	No	Yes	No
Connecticut	Benefits Ratio	Yes	No	No	No	No	No	No
Delaware	Benefit Wage Ratio	Yes	No	No	No	No	No	No
Florida	Benefits Ratio	Yes	No	Yes	No	No	No	No
Georgia	Reserve Ratio	No (b)	No	No	No	No	No	Yes
Hawaii	Reserve Ratio	Yes	Yes	No	No	No	No	No
Idaho	Reserve Ratio	No (c)	No	No	No	No	Yes	No
Illinois	Benefits Ratio	No (b)	No	No	No	No	No	No
Indiana	Reserve Ratio	No (a)	No	No	No	No	Yes	No
Iowa	Benefits Ratio	No (a)	No	No	No	No	No	No
Kansas	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No
Kentucky	Reserve Ratio	No (b)	Yes	No	No	No	No	No
Louisiana	Reserve Ratio	Yes	No	No	No	No	No	No
Maine	Reserve Ratio	No (b)	No	Yes	No	No	No	No
Maryland	Benefits Ratio	Yes	No	Yes	No	Yes	Yes	No
Massachusetts	Reserve Ratio	No (a)	No	Yes	Yes	Yes	Yes	No
Michigan	Benefits Ratio	Yes	Yes	No	No	No	Yes	No
Minnesota	Benefits Ratio	Yes	No	No	No	No	Yes	No
Mississippi	Benefits Ratio	Yes	Yes	Yes	No	No	No	No
Missouri	Reserve Ratio	Yes	No	No	No	No	No	No
Montana	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Nebraska	Reserve Ratio	No (a)	No	Yes	No	No	Yes	No
Nevada	Reserve Ratio	No (c)	Yes	No	No	No	Yes	Yes
New Hampshire	Reserve Ratio	No (b)	No	No	No	No	Yes	No
New Jersey	Reserve Ratio	Yes	No	Yes	No	No	No	Yes
New Mexico	Benefits Ratio	Yes	No	Yes	No	No	No	No
New York	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
North Carolina	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
North Dakota	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Ohio	Reserve Ratio	Yes	No	No	No	No	No	No
Oklahoma	Benefit Wage Ratio	Yes	No	Yes	No	No	No	No
Oregon	Benefits Ratio	Yes	No	No	No	No	Yes	No
Pennsylvania	Benefits Ratio	Yes	No	No	No	No	Yes	No
Rhode Island	Reserve Ratio	No	No	No	No	No	No	No
South Carolina	Benefits Ratio	No (b)	No	No	No	No	No	No
South Dakota	Reserve Ratio	No (a)	No	Yes	No	No	Yes	Yes
Tennessee	Reserve Ratio	Yes	No	No	No	No	Yes	No
Texas	Benefits Ratio	Yes	No	Yes	No	No	Yes	Yes
Utah	Benefits Ratio	Yes	No	No	No	No	Yes	No
Vermont	Benefits Ratio	Yes	No	No	No	No	No	No
Virginia	Benefits Ratio	No (b)	Yes	No	Yes	Yes	Yes	Yes
Washington	Benefits Ratio	Yes	No	Yes	No	No	Yes	No
West Virginia	Reserve Ratio	Yes	No	Yes	No	No	Yes	No
Wisconsin	Reserve Ratio	Yes	Yes	No	No	No	No	Yes
Wyoming	Benefits Ratio	Yes	No	Yes	No	No	Yes	No
District of Columbia	Reserve Ratio	Yes	Yes	Yes	No	No	Yes	No

(a) Benefits charged to base-period employers, most recent first (inverse order).

(b) Benefits charged to most recent employer.

(c) Benefits charged to employer who paid largest amount of wages.

Note: Alaska uses a payroll decline experience formula, so other features are listed as not applicable (n.a.).

Source: National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2024)

Table 24. State Unemployment Insurance Tax Bases: Other Variables (as of July 1, 2024)

State	Solvency Tax	Taxes for Socialized Costs or Negative Balance Employer	Loan and Interest Repayment Surtaxes	Reserve Taxes	Surtaxes for UI Administration or Non-UI Purposes	Temporary Disability Insurance	Voluntary Contributions	Time Period to Qualify for Experience Rating (Years)
Alabama	No	Yes	Yes	No	Yes	No	No	1
Alaska	Yes	No	No	No	Yes	No	No	1
Arizona	No	No	Yes	No	No	No	Yes	2
Arkansas	Yes	No	Yes	No	Yes	No	Yes	3
California	Yes	No	No	No	Yes	Yes	Yes	1
Colorado	Yes	No	Yes	No	No	No	Yes	1
Connecticut	Yes	No	Yes	No	No	No	No	1
Delaware	Yes	No	Yes	No	Yes	No	No	2
Florida	No	No	Yes	No	No	No	No	2.5
Georgia	Yes	No	No	No	Yes	No	Yes	3
Hawaii	No	No	Yes	No	Yes	Yes	No	1
Idaho	No	No	Yes	Yes	Yes	No	No	1.5
Illinois	Yes	No	No	No	No	No	No	3
Indiana	Yes	No	No	No	No	No	Yes	3
Iowa	No	No	Yes	Yes	No	No	No	3
Kansas	Yes	No	No	No	No	No	Yes	2
Kentucky	No	No	Yes	No	Yes	No	Yes	3
Louisiana	Yes	Yes	Yes	No	No	No	Yes	2
Maine	No	No	Yes	No	Yes	No	No	2
Maryland	No	No	No	No	No	No	No	2
Massachusetts	Yes	No	No	No	Yes	No	Yes	3
Michigan	No	Yes	Yes	No	No	No	Yes	1
Minnesota	Yes	No	Yes	No	Yes	No	Yes	1
Mississippi	No	No	No	No	Yes	No	No	3
Missouri	Yes	No	Yes	No	No	No	Yes	2
Montana	No	No	No	No	Yes	No	No	3
Nebraska	No	No	No	Yes	No	No	Yes	1
Nevada	No	No	Yes	No	Yes	No	No	3
New Hampshire	Yes	No	No	No	Yes	No	No	1
New Jersey	Yes	No	Yes	No	Yes	Yes	Yes	3
New Mexico	No	No	No	No	No	No	Yes	2
New York	Yes	No	Yes	No	Yes	Yes	Yes	1.25
North Carolina	Yes	No	No	Yes	No	No	Yes	2
North Dakota	No	No	No	No	No	No	Yes	1
Ohio	Yes	No	No	No	No	No	Yes	1.25
Oklahoma	Yes	No	No	No	Yes	No	No	2
Oregon	No	No	Yes	No	Yes	No	No	1
Pennsylvania	Yes	No	Yes	No	No	No	Yes	1.5
Rhode Island	No	No	No	No	Yes	No	Yes	3
South Carolina	No	No	Yes	No	Yes	No	No	1
South Dakota	Yes	No	No	No	Yes	No	Yes	2
Tennessee	Yes	No	Yes	No	No	No	No	3
Texas	Yes	Yes	Yes	No	Yes	No	Yes	1.5
Utah	No	Yes	No	No	No	No	No	1
Vermont	No	No	No	No	No	No	No	1
Virginia	Yes	Yes	No	No	No	No	No	1
Washington	Yes	Yes	Yes	No	Yes	No	Yes	1.5
West Virginia	No	No	Yes	No	No	No	Yes	3
Wisconsin	Yes	No	Yes	No	Yes	No	Yes	3
Wyoming	Yes	Yes	No	No	Yes	No	No	3
District of Columbia	No	No	Yes	No	Yes	No	No	3

National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws* (2024); U.S. Department of Labor, *Comparison of State Unemployment Laws*.

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Jared Walczak
Vice President of State Projects

Katherine Loughead
Senior Policy Analyst & Research Manager

Andrey Yushkov
Senior Policy Analyst

Abir Mandal
Senior Policy Analyst

Adam Hoffer
Director of Excise Tax Policy

Jacob Macumber-Rosin
Excise Tax Policy Analyst

Joseph Johns
State Tax Policy Analyst

Manish Bhatt
Senior Policy Analyst

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Tax Foundation
1325 G Street, N.W. Suite 950
Washington, D.C. 20005
202.464.6200

taxfoundation.org