



Business Taxation in Florida: Still a Threat to Florida's Competitiveness

State and local tax burdens on Florida's businesses eased slightly in fiscal year (FY) 2007 as the economy weakened. The respite notwithstanding, the burden of state and local taxes on businesses in Florida continues to trend upwards and has risen to a level where it is a threat to the state's economic competitiveness. Moreover, the burden may be poised to increase in coming years.

These findings are derived from a report providing detailed state-by-state estimates of state and local taxes paid by business, which is published annually by Ernst & Young and the Council on State Taxation (COST). The 2008 report, like its 2007 counterpart, examined ten types of taxes state and local governments impose on businesses. The taxes examined in the report range from property taxes on business property, to sales and use taxes on business inputs, to excise and gross receipts taxes. Noteworthy points of the 2008 report for the aggregate of the 50 states include:

- Businesses paid \$577 billion in state and local taxes in FY 2007, an increase of \$23 billion or 5.70 percent from the prior fiscal year. By contrast, the rate of increase for FY 2006 was 10.00 percent. State taxes accounted for almost 55 percent of the total and increased 5.10 percent in FY 2007. Local taxes represented about 45 percent of the total and increased 6.30 percent in FY 2007.
- Since FY 2002, total state and local taxes have grown by approximately 41 percent; the business tax component has risen by roughly 44 percent while non-business taxes have expanded by about 40 percent. Business taxes now account for 44 percent of all taxes collected by state and local governments versus 43.4 percent in FY 2002.
- Property taxes on business assets (35.1 percent) and sales and use taxes on business inputs (22.9 percent) comprised 58 percent of all state and local taxes paid by businesses in FY 2007. These are approximately the same percentages as in FY 2006.
- At the state level, sales and use taxes on business inputs, corporate income taxes, and unemployment compensation taxes accounted for slightly more than 60 percent of all taxes paid by businesses in FY 2007.
- At local levels, property taxes on business assets represented 74 percent of all taxes paid by businesses.
- Businesses paid \$1.78 in state and local taxes for every \$1.00 of benefits received in FY 2005, the latest year for which data are available.
- As a share of private sector Gross State Product (GSP), state and local business taxes were 5.0 percent in FY 2007 versus 5.1 percent in FY 2006 and 4.5 percent in FY 2002.

In Florida, businesses paid \$30.8 billion in state and local taxes in FY 2007, down slightly from the \$32.0 billion paid in FY 2006. Local taxes were approximately 51 percent of the total tax burden while state taxes represented the remaining 49 percent of the total. Business taxes in Florida have increased \$9.1 billion, or 42 percent, since FY 2002 and have accounted for almost 43 percent of the total increase in taxes during this period.

TABLE 1

**The Distribution of State and Local Business Taxes:
Florida, the U.S., and East Coast Sunbelt States¹ (FY 2007)**

Type of Tax	Florida (% of \$30.8B total)	\$ Change from FY 2006	U.S (% of \$577.4B total)	East Coast Sunbelt (% of \$45B total)
Property Tax	37.40%	-\$0.08	35.10%	38%
Sales Tax on Business Inputs	25.60%	+\$0.19B	22.90%	21%
Excise & Gross Receipts	18.60%	-\$1.87B	11.20%	13%
Corporate Income	7.90%	+\$0.03B	10.20%	9%
Unemployment Insurance	3.90%	\$0.00	6.20%	4%
License & Other Taxes	6.50%	+\$0.50B	9.60%	9%
Individual Income Tax	0.00	NA	4.50%	5%
Total¹	100%	-\$1.23B	100.00%	100%

Source: Andrew Phillips, Robert Cline, and Thomas Neubig, Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 2007. Ernst & Young and Council on State Taxation, February, 2008; Adapted from Table A-3, "Composition of State and Local Business Taxes by Type, FY 2007."

¹ East Coast Sunbelt States are Georgia, North Carolina, South Carolina, and Virginia.

² Figures presented may not add to totals due to rounding

Table 1 illustrates the distribution of state and local business taxes in Florida, the United States, and the "East Coast Sunbelt States" of Georgia, North Carolina, South Carolina, and Virginia (these four states can be viewed as Florida's direct competitors, although they are certainly not the only ones). Several interesting features emerge from the table:

- For Florida, the 50 states as a whole, and the East Coast Sunbelt States, property taxes on business assets and sales taxes on business inputs represent a combined 60 percent of total state and local business taxes. Florida's distribution of property taxes closely matches the rest of the country; however, the sales tax on business inputs is noticeably higher in Florida. These are taxes on business capital investments and inputs to the provision of goods and services; as such, they may have adverse effects on Florida's competitiveness.
- Excise and gross receipts taxes account for a significantly higher share of business taxes in Florida compared to the rest of the country and the East Coast Sunbelt States. These are taxes paid on purchases by businesses, and include hotel and rental car taxes. Florida's large and robust commercial travel business may explain the substantial difference.
- In FY 2007, excise and gross receipts taxes fell sharply by \$1.87 billion from FY 2006. The reasons for the plunge are not entirely clear but may reflect more than the slowdown in the commercial travel. Nationally, these taxes are concentrated in the Utilities, Wholesale Trade, Communications, and Finance and Insurance industries.
- Florida's corporate income tax burden has been edging up and now stands at 7.90 percent of total state and local taxes.

Unemployment payroll taxes and licenses and other taxes, while relatively small, have also moderately climbed. License fees and taxes may serve as a barrier to entry and limit competition. Florida appears to not place as severe a burden on businesses in this respect as other states.

- Nationally, individual income taxes paid by sole proprietors, partnerships, S-corporations, and the like represented 4.50 percent of total state and local business taxes and 5 percent for the East Coast Sunbelt States. This category of taxes does not exist for Florida owing to the absence of individual state and local income taxes. The absence of such taxes may also encourage businesses to organize as partnerships and S-corporations instead of as C-corporations.

TABLE 2

**Measures of Business Tax Burdens FY 2007:
Florida, U.S., and East Coast Sunbelt States***

Tax Measure	Florida	U.S.	Sun Belt States East Coast
Business Taxes As Share of State Taxes	41.0%	39.9%	31.1%
Business Taxes As Share of Local Taxes	52.7%	50.5%	53.2%
Business Taxes As Share of State & Local Taxes	46.2%	44.9%	39.6%
Business Taxes As Percent of Private Sector GSP	4.9%	5.1%	4.3%
Business Taxes to Benefits Received (2005)	1.54	1.78	1.64

Source: Andrew Phillips, Robert Cline, and Thomas Neubig, Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 2007. Ernst & Young and Council on State Taxation, February, 2008; Adapted from Table 5, "Business Taxes as a Share of State, Local, and Total Taxes and Private Sector GSP, FY 2007."

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

Table 2 presents data pertaining to the effects of state and local taxes on the competitiveness of Florida businesses. Five measures of business tax burdens for Florida, the United States, and the East Coast Sunbelt States are presented: (1) business taxes as a share of state taxes; (2) business taxes as a share of local taxes; (3) business taxes as a share of combined state and local taxes; (4) business taxes as a percent of private sector Gross State Product (GSP); and (5) the ratio of business taxes paid to benefits received.

Florida does not exhibit any competitive advantage, especially compared to the East Coast Sunbelt States, in any of the first four measures of business tax burdens. Indeed, Florida appears to have a competitive disadvantage in terms of business taxes as a share of state taxes, business taxes as a share of combine state and local taxes, and business taxes as a percent of private sector GSP. This latter measure is the broadest one presented by the Ernst & Young and COST researchers. They label it a state's "effective tax rate."

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

Florida's robust economy helped to fill state and local tax coffers. With a noticeably slowing economy, business taxes have also slowed.

