TAX FOUNDATION

2027 State Tax Competitiveness Index

Janelle Fritts, Jared Walczak, Nicole Fox, 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, was rebranded as the *State Tax Competitiveness Index* for the 2025 edition to better reflect what it assesses: states' overall tax competitiveness, not just the business tax climate. This wasn't just an exercise in slapping a new title on the cover and calling it a day. Rather, we 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, which has since been changed to net CFC tested income, or the design of remote seller taxes following the Supreme Court's *Wayfair* decision. But the pace of change has accelerated 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 the One Big Beautiful Bill Act, the adoption of the nation's first digital advertising taxes, 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.

With the 2025 refresh, we did more than update the methodology and adopt a new name. 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, was reimagined for a digital environment.

Now, 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, in addition to some new visuals and historical rate tools. 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.

This is the third year under the new methodology, but if you're comparing our rankings this year to old editions from 2024 or before, you might notice that some ranks have shifted a bit more than we usually see from year to year. Some of that, of course, is simply because states have been incredibly busy recently, adopting significant changes to their tax codes. But some of it is due 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 seven 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 in the new edition 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 the *2027 State Tax Competitiveness Index* will serve as a useful guide for navigating state tax policy. It ranks, both overall and across five subindices—corporate taxes, individual income 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.



Katherine Loughead
Vice President of State Policy, 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.[14]

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

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

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

41. Minnesota
42. Vermont
43. Hawaii
44. Maryland
45. Massachusetts
46. Connecticut
47. Washington
48. New Jersey
49. California
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 and New Hampshire have no individual income or state-level sales tax; Florida, Tennessee, and Texas have no individual income tax; and Montana has no sales tax.

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

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 levies an inheritance tax and maintains some of the nation's worst-structured individual income taxes.

14 The authors would like to thank Cole Kellison and Violet Lamptey for their valuable research contributions to this year's edition.

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 Missouri, Utah, and North Carolina models are. These states all rank in the top 11 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 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.

Table 1. 2027 *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	35	13	31	48	24	18
Alaska	3	33	1	5	27	50
Arizona	17	20	14	40	8	1
Arkansas	32	19	32	42	17	10
California	49	39	49	47	28	24
Colorado	33	12	20	38	33	40
Connecticut	46	30	45	20	49	38
Delaware	22	50	37	2	3	2
Florida	4	25	1	16	21	9
Georgia	24	16	16	21	37	20
Hawaii	43	29	46	37	19	39
Idaho	13	22	25	8	1	37
Illinois	38	43	11	43	45	42
Indiana	14	11	28	15	4	14
Iowa	18	17	18	10	35	30
Kansas	19	15	22	23	31	5
Kentucky	26	27	17	19	26	34
Louisiana	23	10	9	49	14	8
Maine	40	42	42	11	46	21
Maryland	44	34	47	36	36	22
Massachusetts	45	32	43	24	48	46
Michigan	25	26	30	9	29	27
Minnesota	41	41	41	32	25	44
Mississippi	27	6	29	25	38	11
Missouri	9	3	12	26	13	7
Montana	7	18	21	3	20	28
Nebraska	16	9	13	14	42	4
Nevada	21	36	7	41	10	47
New Hampshire	6	38	8	1	44	25
New Jersey	48	44	48	27	41	45
New Mexico	28	14	35	46	2	17
New York	50	31	50	39	47	41
North Carolina	11	4	19	12	16	6
North Dakota	12	7	23	17	7	13
Ohio	36	45	33	44	5	15
Oklahoma	15	5	15	34	9	3
Oregon	37	49	44	4	32	43
Pennsylvania	30	35	34	18	11	35
Rhode Island	39	37	26	30	43	48
South Carolina	34	21	27	28	40	26
South Dakota	2	1	1	31	15	19
Tennessee	8	48	1	45	23	16
Texas	5	46	1	35	34	31
Utah	10	8	10	22	12	29
Vermont	42	40	40	29	50	12
Virginia	31	24	38	13	30	36
Washington	47	47	36	50	18	49
West Virginia	29	23	24	33	22	23
Wisconsin	20	28	39	7	6	32
Wyoming	1	1	1	6	39	33
District of Columbia	47	39	45	44	46	24

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, 2026 (the beginning of Fiscal Year 2027).

Source: Tax Foundation.

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 Changes in This Year's *Index*

Arizona

Arizona fell three places overall, from 14th to 17th. Arizona passed conformity legislation with several retroactive provisions, but since the legislation contained no emergency clause, the retroactivity was not legally in effect as of the *Index's* snapshot date of July 1, 2026. This timing, in addition to not conforming to full expensing under Section 168(k), resulted in its corporate income tax ranking falling from 16th to 20th. Arizona's fiscal year 2027 budget, which took effect on July 1, 2026, included a three-year moratorium on tax incentives on new data center tax projects, with a resulting drop in the state's sales and use tax ranking from 35th to 40th due to the suspension of sales tax exemptions for the qualifying equipment purchases of new data centers. The state's tangible personal property (TPP) tax exemption increased from $269,905 to $500,000, slightly improving its property and wealth tax ranking.

Arkansas

Despite reductions to its top individual income tax rate (from 3.9 percent to 3.7 percent), Arkansas fell 3 spots overall to 32nd. This was driven largely by other states' improvements in combination with Arkansas's continued nonconformity with the federal full expensing allowance under Section 168(k), causing its corporate income tax ranking to fall nine places to 19th.

Georgia

Georgia dropped from 18th to 24th in its overall ranking, driven largely by a reduction in its corporate income tax score. Georgia did not conform to the competitive corporate expensing provisions in the OBBBA, including Section 168(n), leading the state to be passed by competitors like Kansas and Oklahoma, which conformed to expensing provisions or reduced their individual income tax rates. Georgia also partially exempted tips and overtime pay from its individual income tax, narrowing the base.

Idaho

Idaho's ranking fell four places overall (from 9th to 13th), including falling eight places on the individual income tax component, primarily due to the state's decision to conform to the OBBBA's temporary individual deductions for tips and overtime. Conforming to these provisions costs the state a substantial amount of revenue without generating much economic growth.

Indiana

Indiana fell three spots, to 14th overall. Despite a low, flat state individual income tax rate of 2.95 percent, Indiana authorizes counties to impose local income taxes at rates that nearly double the combined rate in some jurisdictions. Additionally, Indiana narrows its tax base by offering income tax deductions for qualified tips and overtime pay. As a result, Indiana's individual income tax ranking fell from 21st to 28th. Indiana does not conform to key expensing provisions, including Section 168(k) and Section 174A, while several competing states do. As a result, its corporate income tax ranking fell

Table 2. *State Tax Competitiveness Index* (2020–2027)

							2026		2027		2026-2027	
State	2020	2021	2022	2023	2024	2025	Rank	Score	Rank	Score	Rank	Score
Alabama	36	37	37	37	37	36	37	4.83	35	4.87	2	0.04
Alaska	3	3	3	3	3	3	3	6.81	3	6.89	0	0.08
Arizona	19	18	18	16	14	15	14	5.48	17	5.37	-3	-0.11
Arkansas	42	42	38	39	36	34	29	5.03	32	5.01	-3	-0.02
California	48	48	48	48	48	48	48	3.87	49	3.90	-1	0.04
Colorado	22	23	21	26	32	33	34	4.99	33	5.00	1	0.01
Connecticut	47	47	47	47	47	47	47	4.23	46	4.28	1	0.06
Delaware	15	15	16	17	17	17	21	5.26	22	5.30	-1	0.04
Florida	4	4	4	4	4	4	4	6.77	4	6.71	0	-0.06
Georgia	27	26	29	29	26	22	18	5.34	24	5.26	-6	-0.08
Hawaii	38	44	44	43	43	43	42	4.48	43	4.39	-1	-0.09
Idaho	16	16	15	11	10	11	9	5.66	13	5.57	-4	-0.08
Illinois	32	32	33	33	35	38	39	4.74	38	4.68	1	-0.06
Indiana	10	11	11	12	11	9	11	5.58	14	5.51	-3	-0.07
Iowa	43	38	35	35	21	20	17	5.37	18	5.35	-1	-0.01
Kansas	26	27	22	22	23	24	23	5.25	19	5.34	4	0.08
Kentucky	18	20	20	20	24	25	25	5.15	26	5.20	-1	0.05
Louisiana	41	41	43	38	40	37	32	5.01	23	5.26	9	0.25
Maine	30	31	30	32	34	35	33	5.01	40	4.59	-7	-0.42
Maryland	40	39	46	45	42	42	45	4.30	44	4.35	1	0.04
Massachusetts	39	40	39	40	45	45	44	4.37	45	4.34	-1	-0.03
Michigan	14	12	13	14	15	14	16	5.40	25	5.21	-9	-0.19
Minnesota	46	46	45	44	41	41	43	4.41	41	4.49	2	0.08
Mississippi	28	28	27	31	29	26	26	5.12	27	5.19	-1	0.07
Missouri	12	8	9	9	12	13	12	5.56	9	5.66	3	0.10
Montana	5	5	5	5	5	5	5	6.12	7	6.05	-2	-0.07
Nebraska	25	24	23	23	28	23	24	5.25	16	5.39	8	0.14
Nevada	17	17	17	18	18	21	22	5.26	21	5.31	1	0.06
New Hampshire	6	6	6	6	6	6	6	6.10	6	6.11	0	0.01
New Jersey	50	50	49	49	49	49	49	3.86	48	3.92	1	0.06
New Mexico	20	21	31	25	27	29	31	5.02	28	5.12	3	0.09
New York	49	49	50	50	50	50	50	3.79	50	3.66	0	-0.13
North Carolina	11	10	12	13	13	12	13	5.55	11	5.60	2	0.06
North Dakota	9	13	10	10	9	10	10	5.63	12	5.57	-2	-0.06
Ohio	37	36	36	36	38	39	38	4.77	36	4.85	2	0.09
Oklahoma	23	19	26	21	19	18	19	5.33	15	5.48	4	0.15
Oregon	8	9	25	30	25	31	36	4.91	37	4.79	-1	-0.12
Pennsylvania	33	33	34	34	33	28	30	5.03	30	5.04	0	0.02
Rhode Island	44	43	41	41	39	40	40	4.65	39	4.62	1	-0.03
South Carolina	31	29	32	28	31	30	28	5.05	34	4.99	-6	-0.05
South Dakota	2	2	2	2	2	2	2	7.61	2	7.56	0	-0.05
Tennessee	35	34	8	8	8	8	8	6.01	8	5.99	0	-0.01
Texas	7	7	7	7	7	7	7	6.06	5	6.12	2	0.06
Utah	13	14	14	15	16	16	15	5.47	10	5.61	5	0.13
Vermont	45	45	42	42	44	44	41	4.50	42	4.44	-1	-0.05
Virginia	24	25	28	27	22	27	27	5.06	31	5.02	-4	-0.04
Washington	34	35	40	46	46	46	46	4.26	47	4.10	-1	-0.16
West Virginia	29	30	24	24	30	32	35	4.99	29	5.09	6	0.10
Wisconsin	21	22	19	19	20	19	20	5.31	20	5.33	0	0.02
Wyoming	1	1	1	1	1	1	1	7.73	1	7.70	0	-0.02
District of Columbia	47	47	48	48	48	48	48	4.15	47	4.17	1	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.

from 7th to 11th. Indiana maintains a property and wealth tax ranking of 4th, due in part to the increase to its tangible personal property (TPP) tax exemption from $80,000 to $2 million.

Iowa

Iowa fell just slightly on this year's *Index*, from 17th to 18th overall. One major variable change was its individual income tax ranking, falling eight places to 18th. Because Iowa uses federal taxable income as the starting point for state income tax liability, newer federal provisions such as no tax on tips, overtime, and auto loans narrow the state's individual income tax base. Additionally, five states that climbed ahead of Iowa on this component further reduced their flat and top marginal income tax rates (Georgia, Kentucky, Nebraska, Oklahoma, and Utah). While Iowa's individual ranking fell several spots on the *Index*, this was offset as its corporate income tax ranking rose eight places to 17th due to conforming to full bonus depreciation and decoupling from the taxation of net CFC tested income. Prior-year unemployment insurance tax reforms have continued to improve Iowa's ranking on this portion of the *Index*, moving it from 35th to 30th.

Kansas

Kansas' ranking improved four places overall (from 23th to 19th), including seven places on the corporate tax component and five places on the individual income tax component. These improvements were primarily attributable to Kansas' rolling conformity to the OBBBA's pro-growth business expensing provisions. Kansas did fall seven places, however, on the property tax component, due in part to a substantial increase in the state's property tax collections per capita.

Louisiana

As part of the final phase-in of the 2024 tax reform package, Louisiana saw a 17-place improvement in its property tax rank due to the elimination of the state's capital stock tax, a damaging tax that taxes businesses regardless of profit. This, along with newly allowing S corporations to file through the individual income tax, helped boost Louisiana from 32nd to 23rd overall.

Maine

Maine slid seven places, from 33rd to 40th, with the adoption of a 2 percent "high-income surcharge" that brings the state's top individual income tax rate to 9.15 percent on incomes over $1 million. The new rate also includes a large marriage penalty and gives Maine the eighth-highest top rate in the country.

Michigan

Michigan's score was very close to several other states in 2026 but fell behind them in 2027 when it did not conform to the improved expensing provisions in the OBBBA. Combined with a new exemption for tipped and overtime income and a comparatively low Section 179 limit, the Great Lake State dropped 9 places overall, from 16th to 25th, and from 18th all the way to 30th on the individual income tax component.

Mississippi

Mississippi saw its individual income tax score improve from 34th to 29th, due to an income tax rate reduction from 4.4 to 4 percent. Mississippi also decreased its capital stock tax rate from 0.075 percent to 0.5 percent. However, due to other states also improving, Mississippi's overall rank fell one place, from 26th to 27th.

Missouri

Missouri saw its overall rank improve from 12th to 9th this year, breaking into the *Index's* top 10. Part of this score increase came from conforming to the new and increased expensing provisions included in the OBBBA. Unlike Idaho, Indiana, and North Dakota, which fell behind, the Show-Me State resisted conforming to the exemptions for tipped and overtime pay, which would have narrowed its income tax base.

Montana

Montana's overall ranking fell two spots, from 5th to 7th. Although a lower top income tax rate of 5.65 percent and the elimination of the state's marriage penalty took effect this year, Montana's individual income tax ranking fell from 13th to 21st. Because Montana uses federal taxable income as the starting point for state income tax liability, newer federal provisions such as no tax on tips, overtime, and auto loans narrow the state's individual income tax base. Additionally, five states that climbed ahead of Montana on this component further reduced their flat and top marginal income tax rates (Georgia, Kentucky, Nebraska, North Carolina, and Oklahoma). Montana's conformity to full bonus depreciation under Section 168(k) and Section 174A contributed to its corporate income tax ranking improving from 26th to 18th. The continued phase-in of Montana's tiered-structure property tax reforms contributed to it falling from 16th to 20th on the property and wealth tax variable.

Nebraska

Nebraska improved eight places overall, from 24th to 16th, due to the continued phase-down of its income tax rates. The state's top individual income tax rate decreased from 5.2 percent to 4.55 percent, with a resulting elimination of its fourth bracket, moving Nebraska from 22nd to 13th on the individual income tax component. The state's flat corporate rate also decreased to 4.55 percent, and its conformity to full bonus depreciation has allowed the Cornhusker State's corporate tax rank to climb four spots to 9th.

New Mexico

New Mexico improved three places, from 31st to 28th overall, because the state automatically conformed to the restoration of first-year expensing for research and experimentation expenses, and to the higher cap for small business expensing under Section 179, while some of its peer states did not.

North Carolina

North Carolina rose two spots overall from 13th to 11th. An individual income tax rate reduction from 4.25 percent to 3.99 percent improved its individual income tax ranking, with the state moving up four spots to 19th. The state's corporate ranking remained relatively stable. Although North Carolina does not conform to federal bonus depreciation provisions, it continues to levy the nation's lowest corporate income tax rate among states that impose one. That rate declined further this year from 2.25 to 2.0 percent.

Ohio

Ohio moved from a graduated-rate individual income tax to a flat individual income tax at a lower rate of 2.75 percent, improving its individual income tax ranking five places, from 38th to 33rd, while helping improve the state's overall ranking from 38th to 36th.

Oklahoma

As a result of tax bills passed in 2025, Oklahoma moved from six individual income tax brackets to three, and from a top rate of 4.75 to 4.5 percent, improving the state's individual income tax rank by 13 places. The state also conformed to the improved expensing treatment enacted by the OBBBA, while resisting the option to exempt tips and overtime pay from the income tax. All these improvements brought Oklahoma's rank from 19th to 15th overall.

South Carolina

South Carolina passed rate reductions this year, bringing its top individual income tax rate from 6 percent to 5.21 percent. However, the scoring benefit of the rate reduction was outweighed by its lagged general conformity, low Section 179 limitation, and lack of Section 168(n) expensing. In the end, South Carolina's overall ranking dropped six spots, from 28th to 34th.

Utah

Utah improved five places, to 10th overall, as the state conformed to pro-growth provisions of the OBBBA from which some of its peers decoupled. Utah trimmed its individual and corporate income tax rates to 4.45 percent, building on years of modest rate reductions. More substantially, however, it conformed to the restoration of first-year expensing for both manufacturing machinery and equipment and for research and experimentation expenses. Utah also conformed to the new higher small business expensing cap under Section 179, and its inflation-adjusted tangible personal property (TPP) tax *de minimis* exemption improved relative to states with unindexed exemptions. Utah's greatest improvement was in its corporate tax component, where its rank improved 7 places, from 15th to 8th.

Virginia

Virginia fell four places overall to 31st, a decline mostly attributable to other states adopting competitive reforms while the Commonwealth stood still. Virginia's corporate tax ranking dropped the most compared with its other *Index* rankings, sliding from 17th to 24th. While many states conform to full bonus depreciation under Section 168(k) and Section 174A, Virginia remains decoupled from these provisions. Additionally, the Commonwealth allows municipalities to establish local gross receipts taxes, further reducing its competitiveness.

Washington

Although Washington's overall rank fell one place, from 46th to 47th, the state improved five places on the property and wealth tax component after reverting the top estate tax rate from 35 percent to 20 percent. The inclusion of digital advertising in the sales tax base, part of a broader expansion of business-to-business taxation of digital products, dropped Washington's sales and excise tax component rank from 49th to 50th. A recently adopted 9.9 percent tax on income above $1 million goes into effect in 2028 and does not affect current rankings.

West Virginia

West Virginia's ranking improved six places overall (from 35th to 29th), including seven places on the corporate component and five places on the individual component, due to the state's conformity to the OBBBA's business expensing provisions. However, West Virginia fell five places on the property tax component due to changes that exacerbated the state's property tax split roll ratio, shifting more of the property tax burden onto commercial properties, and due to an increase in the state's property tax collections per capita.

Forthcoming Changes and Changes Not Yet Reflected

Arkansas

Arkansas already saw an individual income tax rate reduction in 2026, but in 2027, the state's corporate income tax rate is scheduled to fall to 4.1 percent. As such, that change falls outside of the snapshot date for this edition but will affect future years' scores.

Georgia

As part of a tax reform package passed this year, Georgia's top individual income tax rate will fall by 0.125 percentage points annually if revenue thresholds are met, with the standard deduction increased on a triggered basis as well. If those tax changes are triggered, Georgia will see *Index* score improvements in coming years.

Hawaii

In May 2026, Hawaii lawmakers adopted a new, additional tax bracket with a rate of 13 percent on residents with incomes over $500,000 ($1 million for married filers). While this change does not take effect until 2027, Hawaii can expect to see a drop in both its individual income tax rank and overall rank in coming years, much like Maine has seen in the current *Index*.

Illinois

In June 2026, Illinois adopted a budget that included several new and increased taxes. Several of these new taxes, including a targeted advertising services tax, a digital asset tax, and a social media platform fee, are scheduled to take effect on January 1, 2027, affecting Illinois' performance on the 2028 *Index*.

Iowa

In May 2026, Iowa lawmakers enacted legislation establishing a property tax levy limit for counties and municipalities. Because the new levy limit does not take effect until 2027, the change falls outside of this year's snapshot of the Index.

New Mexico

In early 2026, New Mexico lawmakers enacted a law decoupling the state from the expensing provisions in Sections 168(k) and 168(n) of the IRC. The same act newly expands the corporate tax base to include NCTI, an aggressive change that can create double taxation of foreign income. As these changes do not take effect until January 1, 2027, they will negatively impact New Mexico's score in future *Index* editions.

North Carolina

Since the state adopted a tax reform package in 2021, North Carolina's individual and corporate income tax rates have seen repeated reductions. If revenues follow projections, the individual income tax rate will drop to 3.49 percent in 2027 and 2.99 percent in 2028. Also in 2028, the corporate rate is scheduled to drop to 1 percent, with total elimination of the corporate income tax planned for 2030.

Rhode Island

In June 2026, H 7127 was adopted, creating a new three percentage-point surtax on individual income over $1 million. This policy change will phase in over three years, raising the state's top marginal individual income tax rate from 5.99 in 2026 to 6.99 percent in 2027, 7.99 percent in 2028, and 8.99 percent in 2029. This change will hurt Rhode Island's performance on future editions of the Index.

Utah

Utah enacted a tax on "targeted advertising" in 2026, which, while ostensibly broad, practically includes digital advertising alone. This change takes effect in January 2027, so it does not affect Utah's score for this edition but will be reflected in next year's *Index*.

Washington

Despite the state's judicial history of ruling against income taxes, Washington lawmakers adopted a new 9.9 percent tax in 2026 on income above $1 million. This tax will go into effect in 2028, likely facing legal questions before then, and significantly affecting the state's future *Index* scores.

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 US state to another rather than to a foreign location.[15] Certainly, job creation is rapid overseas, as previously underdeveloped nations enter the world economy, though in the aftermath of federal tax reform, US businesses no longer face the third-highest corporate tax rate in the world, but rather one in line with averages for industrialized nations.[16] 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.[17] 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.[18] In 2010, Northrup Grumman chose to move its headquarters to Virginia over Maryland, citing the better business tax climate.[19] 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.[20] 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.

15 See US Department of Labor, "Extended Mass Layoffs, First Quarter 2013," Table 10, May 13, 2013.
16 Cristina Enache, "Corporate Income Tax Rates Around the World, 2024," Tax Foundation, Dec. 17, 2024, https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2024/.
17 Editorial, "Scale it back, Governor," *Chicago Tribune*, March 23, 2007.
18 Ryan Randazzo, Edythe Jenson, and Mary Jo Pitzl, "Cathy Carter Blog: Chandler getting new $5 billion Intel facility," AZCentral.com, Mar. 6, 2013.
19 Dana Hedgpeth and Rosalind Helderman, "Northrop Grumman decides to move headquarters to Northern Virginia," *The Washington Post*, April 27, 2010.
20 Susan Haigh, "Connecticut House Speaker: Tax 'mistakes' made in budget," Associated Press, Nov. 5, 2015.

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.[21] A 2007 USA TODAY article chronicled similar problems other states have had with companies that receive generous tax incentives.[22]

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 business.** 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.

21 Austin Mondine, "Dell cuts North-Carolina plant despite $280m sweetener," TheRegister.co.uk, Oct. 8, 2009.
22 Dennis Cauchon, "Business Incentives Lose Luster for States," *USA TODAY*, Aug. 22, 2007.

Ranking the competitiveness of 50 very different tax systems presents many challenges, especially when a state dispenses with a major tax entirely. Should Utah'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 and 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 Utah 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. In a recent study, De Paula et al. (2025) found that the nature of tax competition among US states changes over time and that "economic" neighbors may play an even more important role in tax-setting behavior than geographic neighbors.

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 US 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. More recently, Agostini (2007) presented further evidence that foreign direct investment in manufacturing is sensitive to changes in state corporate tax rates, and also showed that the apportionment formula plays a key role in determining the effective tax rate faced by corporations and significantly influences the location of foreign direct investment.

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.

Recent research focuses on the relationship between tax policy and entrepreneurship. Curtis and Decker (2018) study the effects of different tax structures on new firm activity and find that new firm employment is significantly and negatively affected by state corporate income tax rates, but not by individual income or sales tax rates. The authors conclude that young firms are more responsive to changes in state corporate taxes than more mature firms. This finding is in line with the results from a large cross-national study (Djankov et al., 2010), which concludes that a 10 percentage point increase in the effective corporate tax rate reduces entry of new firms by 17.5 percent.

Another strand of research focuses on the tax treatment of capital investment. Chirinko and Wilson (2008) document a growing significance of investment tax credits in state corporate tax codes. They find that capital formation in a state is increased by tax-induced reductions in the price of capital and is reduced by similar reductions in competitor states. Specifically, the authors demonstrate that the number of manufacturing establishments around state borders is higher on the side of the border with the lower price of capital.

In a later paper, Chirinko and Wilson (2023) find that the effects of job creation tax credits are smaller in the short run (meaning these credits are less effective as a countercyclical tool) and more meaningful in the long run (implying they can be effective as an economic development tool). However, Jolley et al. (2015), in their survey of business executives in North Carolina, find that these executives generally prefer tax reductions to selective tax incentives, regardless of whether their firm actually received any incentives from the state. The *Index* favors broad-based relief over targeted jobs incentives.

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.[23]

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.

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

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.[24] 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.[25]

Funderburg et al. (2013) study the effects of state and local business taxes on value added in 15 manufacturing sectors across a subset of states and find that a 10 percent reduction in tax liability on new investment corresponds to a 3.5–5.3 percent increase in value added by the manufacturing sector. These estimates represent the higher end of the range found in prior research (Bartik 1991; Wasylenko 1997).

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. This means 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.

Chow et al. (2022) find that state corporate income taxes significantly affect corporations' decisions on where to locate their headquarters, an important consideration for both businesses and states. Specifically, they find that a 1 percentage point increase in the corporate income tax rate raises the likelihood of corporations relocating their headquarters out of the state by 16.8 percent, while a corresponding decrease lowers that likelihood by 9.1 percent. This result complements the broader literature (often conducted in a federal or international context) which shows that reducing the effective corporate income tax rate leads to higher capital investment, lower debt (Ohrn 2018), and increased entrepreneurial activity, including that financed by foreign direct investment (Djankov et al. 2010).

A new literature review, Kleven et al. (2020), summarizes recent evidence for tax-driven migration. While the empirical results reviewed in this article are context-specific and do not always show a significant relationship between taxes and migration, there is a general consensus that high-income individuals are particularly sensitive to tax increases, both internationally and within countries. Specifically, inventors, entrepreneurs, sport stars, and billionaires have been shown to be highly mobile within the United States and responsive to major income and estate tax changes (Moretti and Wilson 2017; Akcigit et al. 2022; Moretti and Wilson 2023; Agrawal and Tester 2024).

Rauh and Shyu (2024) analyze Proposition 30 in California, which increased the top marginal income tax rate by three percentage points in 2012, and demonstrate that high earners reported $321,000–$436,000 less in taxable income in the first three years following the reform—about 10 percent of their baseline income of $4.15 million—in response to this major tax increase. They also show that there was a meaning-

24 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.
25 Benjamin Yount, "Tax increase, impact, dominate Illinois Capitol in 2011," *Illinois Statehouse News*, Dec. 27, 2011.

ful outmigration effect, which increased with income and was concentrated among top earners. Together, these responses eroded approximately 61 percent of the potential windfall tax revenue from Proposition 30 within two years of the reform.

Measuring the Impact of Tax Differentials

Some recent contributions to the literature on state taxation criticize business and tax climate studies in general.[26] Authors of such studies contend that comparative reports like the *State Tax Competitiveness Index* do not take into account those factors that 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 the 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 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

26 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.

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, the *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. Neumark and Muz (2016) find that strong performance on tax-and-cost-related indices (including the predecessor of this *Index*) is indeed associated with higher economic growth, but it may also be linked to increased income inequality—highlighting potential trade-offs in tax policy.

Surfield and Reddy (2016) use ranks from this study's predecessor and another index to examine the effects of business climate on job losses in the manufacturing sector. They find that states with more competitive corporate tax codes experience fewer unemployment insurance claims, while states that underutilize their sales taxes tend to have more such claims. The authors attribute the latter effect to the possibility that lower sales tax revenue limits a state's ability to fund other public sector areas (such as education and infrastructure) that support a positive manufacturing climate. It could also be that a higher reliance on sales taxes frequently entails a lower reliance on less economically efficient, more capital-intensive taxes. 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 2027 *State Tax Competitiveness Index (STCI)* introduces additional variables to the corporate income, individual income, and sales tax subindices.

Most of the new variables more fully outline states' IRC conformity choices. The *Index* now has a variable for general conformity method with the IRC for both individual and corporate income taxes, giving full credit to states that use rolling conformity, partial credit to states with static conformity to the current IRC, and no credit to states with either selective or lagged static conformity. While not every federal tax change is the right choice for a state (and states should decouple from certain provisions), maintaining close conformity with the federal code, in general, simplifies the administration of state taxes by sharing common definitions, instructions, information, and rulings.

The 2027 edition also includes several more specific conformity issues. The One Big Beautiful Bill Act (OBBBA) altered or added several expensing provisions, so the *Index* now includes Section 168(n) and Section 174 as variables in the capital portion of the corporate tax category. The individual income tax category also newly tracks which states follow the federal deductions for tips and overtime pay, which are base-narrowing changes that reduce scores for states that conform.

Given the growing interest and debate around data centers, the sales tax base portion of the *Index* now includes a variable to highlight states' sales tax exemptions (or lack thereof) for data center machinery and equipment purchases, a business-to-business transaction that should rightly be exempted along with other business inputs.

To properly account for these additions, a number of the subindex weightings have changed. Previously, the corporate tax base score was calculated using a combination of the gross receipts tax score and four equally weighted subcategories (credits, net operating losses, capital, and "other"). This year, although the gross receipts tax weight remains the same, the base subcategories are weighted as follows: 15 percent credits, 20 percent NOLs, 45 percent capital—newly including Section 168(n) and Section 174 conformity—and 20 percent "other"—now including states' general conformity method.

Methodology

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

- Individual Income Taxes
- Sales 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 159 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:

30.2% — Individual Income Taxes
21.7% — Sales and Excise Taxes
21.3% — Corporate Taxes
15.2% — Property and Wealth Taxes
11.6% — 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 taxes 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, which does not have a tax on wage income but applies various rates to capital gains. We use an implied tax rate here, as we did for prior interest and dividend tax regimes (since repealed) in New Hampshire and Tennessee, accounting 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. (A few other states have similar taxes in addition to their individual income taxes, and these are accounted for as well.) 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 7.39, while the average score of the sales tax component is 5.68. 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 5.01 on corporate income taxes is better than its score of 3.82 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 2027 *Index* and represents the tax climate of each state as of July 1, 2026, the first day of fiscal year 2027 for most states.

District of Columbia

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

Past Rankings and Scores

This report includes 2020-2026 *Index* rankings that can be used for comparison with the 2027 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.[14] 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.[15]

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.

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 (Missouri, North Carolina, Oklahoma, Mississippi, Nebraska, and North Dakota). States with a high rate or a complex and multiple-rate system score poorly (Delaware, Oregon, Tennessee, New Jersey, Illinois, and Maine).

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

14 Robert J. Newman, "Industry Migration and Growth in the South," *The Review of Economics and Statistics* 65:1 (February 1983): 76-86.
15 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* (2020–2027)

							2026		2027		2026-2027	
State	2020	2021	2022	2023	2024	2025	Rank	Score	Rank	Score	Rank	Score
Alabama	18	18	13	13	15	17	14	5.53	13	5.62	1	0.08
Alaska	34	33	34	34	35	39	40	4.66	33	4.90	7	0.24
Arizona	13	14	14	12	13	14	16	5.47	20	5.45	-4	-0.02
Arkansas	29	27	25	23	19	11	10	5.65	19	5.48	-9	-0.17
California	31	31	39	36	38	38	38	4.78	39	4.63	-1	-0.15
Colorado	8	8	7	8	8	13	18	5.41	12	5.63	6	0.22
Connecticut	25	24	27	29	31	31	31	5.02	30	5.01	1	0.00
Delaware	50	50	50	50	50	50	50	1.37	50	1.33	0	-0.04
Florida	16	9	9	17	16	16	19	5.41	25	5.25	-6	-0.15
Georgia	12	13	15	14	9	8	8	5.71	16	5.57	-8	-0.14
Hawaii	23	23	22	24	24	26	28	5.21	29	5.05	-1	-0.16
Idaho	27	28	26	22	21	23	23	5.35	22	5.33	1	-0.02
Illinois	37	35	36	38	42	42	43	4.46	43	4.46	0	0.00
Indiana	7	6	5	6	7	7	7	5.79	11	5.64	-4	-0.15
Iowa	45	43	32	32	28	21	25	5.31	17	5.54	8	0.24
Kansas	28	25	23	26	26	19	22	5.35	15	5.58	7	0.23
Kentucky	17	17	18	18	17	18	20	5.39	27	5.23	-7	-0.17
Louisiana	33	30	30	28	29	30	9	5.69	10	5.68	-1	-0.01
Maine	40	39	40	41	41	41	41	4.63	42	4.47	-1	-0.15
Maryland	38	36	35	35	34	36	37	4.79	34	4.87	3	0.08
Massachusetts	32	32	31	31	32	32	33	4.94	32	4.93	1	0.00
Michigan	11	12	11	11	12	12	24	5.33	26	5.25	-2	-0.08
Minnesota	41	41	41	42	43	43	42	4.47	41	4.49	1	0.02
Mississippi	9	10	10	10	5	5	6	5.86	6	5.84	0	-0.02
Missouri	4	4	3	3	4	4	4	5.95	3	6.17	1	0.22
Montana	21	21	19	20	22	22	26	5.27	18	5.50	8	0.23
Nebraska	30	29	29	30	30	24	13	5.54	9	5.72	4	0.18
Nevada	43	42	43	40	40	40	36	4.82	36	4.83	0	0.01
New Hampshire	36	37	37	37	35	34	35	4.87	38	4.79	-3	-0.07
New Jersey	44	44	44	44	44	44	44	4.43	44	4.44	0	0.01
New Mexico	15	16	17	16	18	20	21	5.37	14	5.60	7	0.23
New York	19	19	24	27	27	27	29	5.15	31	4.99	-2	-0.16
North Carolina	3	3	4	4	3	3	3	6.09	4	5.97	-1	-0.13
North Dakota	5	5	6	7	10	10	12	5.55	7	5.77	5	0.22
Ohio	46	45	45	45	45	45	45	4.21	45	4.22	0	0.01
Oklahoma	10	11	12	5	6	6	5	5.90	5	5.95	0	0.05
Oregon	24	46	49	49	49	49	49	2.28	49	2.36	0	0.08
Pennsylvania	42	40	42	43	39	35	34	4.90	35	4.84	-1	-0.06
Rhode Island	35	34	33	33	33	33	32	4.96	37	4.80	-5	-0.16
South Carolina	6	7	8	9	11	9	11	5.59	21	5.40	-10	-0.19
South Dakota	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	49	49	48	48	48	48	48	3.64	48	3.44	0	-0.20
Texas	47	47	46	46	46	46	46	4.07	46	4.13	0	0.05
Utah	14	15	16	15	14	15	15	5.49	8	5.72	7	0.23
Vermont	39	38	38	39	37	37	39	4.71	40	4.55	-1	-0.16
Virginia	20	20	20	19	20	28	17	5.44	24	5.28	-7	-0.16
Washington	48	48	47	47	47	47	47	3.89	47	3.90	0	0.01
West Virginia	22	22	21	21	23	29	30	5.10	23	5.33	7	0.23
Wisconsin	26	26	28	25	25	25	27	5.21	28	5.06	-1	-0.16
Wyoming	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	33	33	33	33	33	33	34	4.92	39	4.76	-5	-0.16

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.

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 top marginal corporate income tax 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.[16]

A state's corporate tax is levied in addition to the federal corporate income tax rate of 21 percent, substantially reduced by the Tax Cuts and Jobs Act of 2017 (TCJA) 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 2.0 percent is the lowest nationally, followed by Missouri's and Oklahoma's (both at 4 percent), Arkansas's at 4.3 percent, North Dakota's at 4.31 percent, and Colorado's at 4.4 percent. Other states with comparatively low top corporate tax rates are Utah (4.45 percent), Arizona and Indiana (both at 4.9 percent), Georgia (4.99 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.

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. Thirty-seven 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.[17]

16 Robert J. Newman, "Industry Migration and Growth in the South," *The Review of Economics and Statistics* 65:1 (February 1983): 76-86.
17 Jeffrey L. Kwall, "The Repeal of Graduated Corporate Tax Rates," *Tax Notes*, Jun. 27, 2011.

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.

Four criteria measure the competitiveness of each state's corporate tax base, and each is given a different weight: the availability of certain tax credits (15 percent), the ability of taxpayers to deduct net operating losses (20 percent), the availability of deductions for capital investment and foreign income (45 percent), and a host of smaller tax base issues that combine to make up the rest of the corporate tax base subindex (20 percent).

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. Since the enactment of the Tax Cuts and Jobs Act in 2017, the federal government allows losses to be carried forward indefinitely, though they may only reduce taxable income by 80 percent in any given year. 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 2027 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 Connecticut, Illinois, Louisiana, Minnesota, New Hampshire, and Pennsylvania limit carryforwards more strictly than federal treatment. Illinois' cap will be loosened and phased up beginning in 2027. The lower a state's cap, the worse it scores on this variable.

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. Eleven states are penalized because they do not fully conform to the federal system: Alaska, California, Delaware, Louisiana, Maryland, Minnesota, Mississippi, New Hampshire, North Carolina, 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.[18] As such, states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity. Five states have an AMT on corporations and thus score poorly: Alaska, 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 13 states with graduated corporate income taxes fail to index their tax brackets: Alaska, Arkansas, Connecticut, Hawaii, Iowa, Kansas, Maine, Mississippi, New Jersey, New York, North Dakota, Oregon, and Vermont.

Throwback and Throwout. 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 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.

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

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. Thirty states avoid imposing throwback or throwout rules, while 20 states and the District of Columbia do.

General Conformity. While no state adopts all of the IRC's provisions outright, up-to-date conformity allows state administrators and taxpayers alike to rely on federal statutes, rulings, and interpretations, which are generally more detailed and extensive than what any individual state could produce. This provides consistency of definitions for those filing in multiple states and reduces duplication of effort in filing federal and state taxes. This also permits substantial reliance on federal audits and enforcement, along with federal taxpayer data.

As such, the 28 states that have rolling conformity with the IRC for corporate income taxes receive full credit on this variable; the 13 states with static conformity to the current IRC receive partial credit; and the seven states with lagged static conformity receive no credit on this variable.

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." Over the past few years, this provision began phasing out, reducing the amount that businesses could deduct. The One Big Beautiful Bill Act (OBBBA) restored full expensing under Section 168(k) and made it permanent, so conforming states saw a score increase in this year's *Index*. Fifteen states follow the federal government in offering an immediate deduction for eligible property, while five offer "bonus depreciation" short of the federal amount. Oklahoma, Louisiana, and Mississippi are the only three states that transitioned to permanent full expensing separately from the federal provisions.

Section 168(n) Expensing. For the first time, the federal tax code now provides first-year expensing for certain structures under Section 168(n), which was created by the OBBBA. However, the new provision is both temporary (expiring after 2028) and largely limited to manufacturing plants. Neutral cost recovery for structures is good policy, and this temporary provision might ultimately become a permanent one. As a temporary policy, though, its economic benefits are not as large as they could be, and the temporary provision will move up the timeline for construction projects in addition to inducing greater construction overall. Still, particularly given the possibility that this provision will be extended or made permanent, it represents an improvement to the tax code, and one with relatively low costs. Eighteen states conform to Section 168(n) expensing, and thus receive full credit on this variable.

Section 174 Expensing. Since 1954, corporations were allowed to deduct R&E expenditures at the federal level in the year in which those expenses were incurred, and every state with a corporate income tax followed suit. However, the federal government shifted to five-year amortization beginning in 2022 as part of a "cost savings" measure in the TCJA, and all but 11 states conformed to the change. The OBBBA restored immediate cost recovery for research and development costs. Thirtystates now allow full expensing under Section 174, while 15 states and DC do not.

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-one states and the District of Columbia conform to the net interest limitation.

Inclusion of NCTI. Historically, states have largely avoided taxing international income. Following the TCJA, however, some states have latched onto the federal provision for the taxation of global intangible low-taxed income (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. Under the OBBBA, GILTI was replaced with a tax on net CFC tested income NTCI, with states largely shifting from GILTI to NCTI in line with the federal change.

States conforming to NCTI bring in the international income of US parent corporations, but without the foreign tax credits that turn the provision into a minimum tax at the global level. Whereas the federal government only taxes income that experiences low tax burdens abroad, states with NCTI in their base tax an apportioned share of *all* income of these foreign subsidiaries and related corporations. States that tax NCTI or GILTI are penalized in the *Index*, while states receive partial credit for moderate taxation of NCTI and are rewarded for decoupling or almost fully decoupling from GILTI (for instance, by 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.[19]

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.

19 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.

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*.

Individual Income Taxes

The individual income tax component, which accounts for 30.2 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."[20] 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,[21] 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.

20 William M. Gentry and R. Glenn Hubbard, "'Success Taxes,' Entrepreneurial Entry, and Innovation," *Innovation Policy and the Economy* 5 (2005): 87-108.
21 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.

Table 4. Individual Income Tax Component of the *State Tax Competitiveness Index* (2020–2027)

							2026		2027		2026-2027	
State	2020	2021	2022	2023	2024	2025	Rank	Score	Rank	Score	Rank	Score
Alabama	29	28	27	29	31	32	32	5.02	31	5.10	1	0.09
Alaska	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Arizona	20	16	16	8	8	8	9	5.91	14	5.56	-5	-0.35
Arkansas	43	43	43	41	37	33	33	4.97	32	5.01	1	0.04
California	50	50	50	50	49	50	50	2.33	49	2.56	1	0.23
Colorado	13	13	13	13	14	15	20	5.59	20	5.49	0	-0.10
Connecticut	47	46	46	47	47	47	46	3.72	45	3.82	1	0.10
Delaware	38	39	40	40	39	39	39	4.68	37	4.82	2	0.15
Florida	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Georgia	33	32	35	35	38	22	19	5.62	16	5.55	3	-0.07
Hawaii	46	47	47	46	46	46	45	3.82	46	3.65	-1	-0.17
Idaho	23	26	22	14	15	16	17	5.64	25	5.28	-8	-0.36
Illinois	11	11	11	11	12	12	14	5.77	11	5.95	3	0.18
Indiana	17	20	17	17	20	18	21	5.39	28	5.16	-7	-0.23
Iowa	41	38	38	37	17	17	10	5.88	18	5.53	-8	-0.36
Kansas	22	21	21	24	25	24	27	5.27	22	5.44	5	0.16
Kentucky	25	27	26	28	24	21	25	5.30	17	5.54	8	0.24
Louisiana	36	31	33	25	27	29	12	5.82	9	6.35	3	0.52
Maine	21	23	19	20	22	25	26	5.29	42	4.34	-16	-0.95
Maryland	45	44	45	45	45	45	47	3.50	47	3.64	0	0.14
Massachusetts	15	14	14	15	42	42	43	4.30	43	4.29	0	-0.01
Michigan	12	12	12	12	13	14	18	5.63	30	5.14	-12	-0.50
Minnesota	44	45	44	44	44	44	44	4.17	41	4.41	3	0.24
Mississippi	34	33	34	34	36	37	34	4.95	29	5.14	5	0.19
Missouri	18	17	18	19	16	19	16	5.69	12	5.86	4	0.18
Montana	16	15	15	16	18	11	13	5.80	21	5.47	-8	-0.34
Nebraska	27	25	25	27	29	27	22	5.37	13	5.67	9	0.30
Nevada	6	6	7	7	7	7	7	6.68	7	6.88	0	0.20
New Hampshire	9	9	9	9	10	10	8	6.58	8	6.73	0	0.14
New Jersey	49	49	48	48	48	48	48	2.78	48	2.85	0	0.07
New Mexico	24	22	29	32	34	36	36	4.80	35	4.93	1	0.13
New York	48	48	49	49	50	49	49	2.53	50	2.31	-1	-0.21
North Carolina	19	18	23	18	19	20	23	5.32	19	5.52	4	0.19
North Dakota	14	19	20	21	11	13	15	5.77	23	5.43	-8	-0.35
Ohio	40	41	32	33	35	40	38	4.71	33	5.00	5	0.30
Oklahoma	30	29	28	30	21	26	28	5.26	15	5.56	13	0.30
Oregon	37	35	41	42	41	41	41	4.60	44	4.20	-3	-0.39
Pennsylvania	39	40	39	39	33	35	35	4.92	34	4.94	1	0.02
Rhode Island	26	24	24	26	30	31	30	5.15	26	5.27	4	0.12
South Carolina	28	30	30	23	23	23	24	5.31	27	5.26	-3	-0.06
South Dakota	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Tennessee	8	8	1	1	1	1	1	10.00	1	10.00	0	0.00
Texas	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
Utah	10	10	10	10	9	9	11	5.88	10	6.07	1	0.19
Vermont	42	42	42	43	43	43	42	4.49	40	4.51	2	0.02
Virginia	35	37	37	36	32	34	37	4.80	38	4.81	-1	0.01
Washington	7	7	8	22	26	28	31	5.13	36	4.85	-5	-0.27
West Virginia	31	34	31	31	28	30	29	5.18	24	5.38	5	0.20
Wisconsin	32	36	36	38	40	38	40	4.67	39	4.72	1	0.05
Wyoming	1	1	1	1	1	1	1	10.00	1	10.00	0	0.00
District of Columbia	46	45	46	48	48	47	47	3.72	45	3.87	2	0.15

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.

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 and Maryland with 10 brackets, New York with 9 brackets, and Connecticut, Missouri, and New Jersey 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 (2.61), California (2.22), and New York (2.02). 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 $215,000 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.

Individual Income Tax Base

States define taxable income differently, with some creating greater impediments to economic activity than others. The base subindex examines 13 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. Among the remaining states, Louisiana, Illinois, Missouri, Utah, Rhode Island, and Nebraska 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, New York, California, Hawaii, Ohio, Pennsylvania, Virginia, Mississippi, Connecticut, and Maryland.

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. In tax year 2023, almost 70 percent of those reporting partnership or S corporation income were joint married filers, and over 80 percent of filers with incomes above $200,000 were married couples filing jointly.[26] Because of these concentrations, marriage penalties have the potential to affect a significant share of pass-through businesses. Eighteen states and the District of Columbia

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.
26 Internal Revenue Service, *SOI Tax Stats- Individual Statistical Tables by Filing Status,* Tables 1.2 and 2.2. (2023).

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,[22] 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.[23]

The individual income tax rate subindex measures the impact of tax rates on the marginal dollar of individual income using several criteria: the top tax rate, the number of brackets and top bracket threshold, 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 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, and Wyoming. New Hampshire also scores well, as it phased out its interest and dividends tax in 2025, but still retains a low Section 179 limit. 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*. Louisiana, Utah, Illinois, and Arizona score highly because they have a single, comparatively low tax rate. Washington does not tax wage or salary income, but because the state imposes a high-rate, progressive tax on the capital gains income of high earners, it scores below average on this component despite its lack of a broad-based individual income tax.

22 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.
23 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.

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 seven states that do not and therefore receive perfect scores: Alaska, Florida, New Hampshire, South Dakota, Tennessee, Texas, 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, which is reflected in their corporate tax scores. Washington also taxes capital gains income. Nevada has a low-rate payroll tax on wage 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), Washington (9.9 percent on capital gains), Minnesota (9.85 percent), Massachusetts (9 percent with an additional 0.88 percent payroll tax), and Maine (9.15 percent).

States with the lowest top statutory rates are Arizona and North Dakota (both at 2.5 percent), Ohio (2.75 percent), Indiana (2.95 percent), Louisiana (3.0 percent), Pennsylvania (3.07 percent), Kentucky (3.5 percent), Arkansas (3.7 percent), Iowa (3.8 percent), North Carolina (3.99 percent), Mississippi (4.0 percent), Michigan (4.25 percent), Colorado (4.4 percent), Utah (4.45 percent), and Oklahoma (4.5 percent).

In addition to statewide income tax rates, some states allow local-level income taxes.[24] We represent these as the average between the effective 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, Colorado and Iowa allow local income add-ons, but are still among the states with the lowest overall rates. However, where local income tax rates have gone up considerably, they can offset 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, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Mississippi, North Carolina, Ohio, Pennsylvania, and Utah. States with high kick-in levels score the worst. These include New York ($25 million); California, Maine, Maryland, Massachusetts, New Jersey, and the District of Columbia (all near $1 million, with Massachusetts' kick-in adjusted for inflation); and Connecticut ($500,000).

24 See Andrey Yushkov, "Local Income vs. Sales Taxes: Which Is the Better Source of Local Revenue?," Tax Foundation, Jun. 13, 2024.

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 day-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 Illinois, Indiana, Louisiana, and Montana, which 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 and Hawaii receive perfect scores for withholding, but their lack of a meaningful filing threshold yields a total score of 5.00.

Alabama, 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," which is vaguely defined. Since much of the US population lives in states without meaningful filing and/or withholding thresholds, states with a mutuality requirement receive a 50 percent penalty.

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.

27 Equity-related capital gains are not created directly by a corporation. Rather, they are the result of stock appreciation 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.

All states that tax all types of income score poorly by this criterion. Missouri recently exempted capital gains income from taxation, giving the state an advantage in this category. Nevada's payroll tax does not apply to capital income, so Nevada 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.

General Conformity. As is the case with corporate taxes, up-to-date conformity with the individual portion of the federal code provides guidance, consistency, and simplicity for taxpayers and administrators alike. Twenty states and the District of Columbia have rolling conformity with the IRC and receive full credit on this variable. Ten states receive partial credit for having static conformity to the current IRC, and the 11 states with either selective or lagged static conformity receive no credit on this variable. States without individual income taxes receive full credit.

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.

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 the District of Columbia 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-six states fully index all three or do not impose an individual income tax; 16 states and the District of Columbia index one or two of the three; and eight states do not index at all.

Section 179 Expensing. Section 179 comes with a dollar limit, unlike Section 168(k), but it is available to pass-through businesses as well as C corporations, and some assets (including used machinery and equipment and HVAC systems) are eligible under Section 179 but not Section 168(k). This provision is only available to small businesses, with benefits beginning to phase out above an investment threshold. The OBBBA raised the limitation from $1.25 million to $2.5 million ($2.56 million in 2026), and states that comply with the higher cap score well on this variable. Most states share the federal limit, but several states retain the pre-OBBBA limitation, and 10 states and the District of Columbia adopt their own lower caps, ranging from $25,000 to $512,000.

Sales, Use, and Excise Taxes

Sales tax makes up 21.7 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 a state's business 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]

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.

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.

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.

Table 5. Sales and Excise Tax Component of the *State Tax Competitiveness Index* (2020–2027)

							2026		2027		2026-2027	
State	2020	2021	2022	2023	2024	2025	Rank	Score	Rank	Score	Rank	Score
Alabama	49	49	50	49	48	49	48	3.39	48	3.41	0	0.02
Alaska	5	5	5	5	5	5	5	7.53	5	7.56	0	0.03
Arizona	41	41	40	40	40	40	35	4.27	40	4.13	-5	-0.14
Arkansas	45	45	44	44	44	44	43	4.00	42	4.03	1	0.02
California	44	44	46	47	47	47	47	3.64	47	3.64	0	0.01
Colorado	36	36	41	42	41	41	40	4.13	38	4.14	2	0.01
Connecticut	26	24	21	19	19	19	21	4.99	20	5.02	1	0.03
Delaware	2	2	2	2	2	2	2	8.56	2	8.60	0	0.04
Florida	17	18	17	17	16	17	17	5.15	16	5.19	1	0.04
Georgia	20	20	20	21	18	18	20	5.04	21	5.02	-1	-0.02
Hawaii	35	35	35	35	36	37	39	4.15	37	4.16	2	0.01
Idaho	8	7	10	8	8	8	8	5.96	8	6.00	0	0.03
Illinois	33	33	33	33	33	36	37	4.20	43	3.97	-6	-0.23
Indiana	16	16	19	16	14	14	15	5.24	15	5.27	0	0.03
Iowa	14	14	15	14	13	10	11	5.48	10	5.51	1	0.03
Kansas	34	34	31	27	26	26	23	4.88	23	4.93	0	0.06
Kentucky	13	13	12	13	21	21	19	5.04	19	5.07	0	0.03
Louisiana	48	48	49	48	49	48	50	2.90	49	2.82	1	-0.08
Maine	10	12	11	9	10	9	9	5.55	11	5.46	-2	-0.10
Maryland	19	15	34	34	35	33	38	4.15	36	4.17	2	0.02
Massachusetts	23	28	27	28	25	24	24	4.87	24	4.90	0	0.03
Michigan	11	10	8	11	11	11	10	5.55	9	5.51	1	-0.04
Minnesota	30	30	28	31	28	34	32	4.35	32	4.38	0	0.02
Mississippi	27	23	24	25	22	22	25	4.87	25	4.88	0	0.01
Missouri	21	22	23	24	23	23	26	4.79	26	4.81	0	0.02
Montana	3	3	3	3	3	3	3	8.49	3	8.53	0	0.04
Nebraska	12	11	13	10	12	12	14	5.24	14	5.27	0	0.03
Nevada	37	38	37	37	42	42	42	4.02	41	4.05	1	0.02
New Hampshire	1	1	1	1	1	1	1	8.57	1	8.60	0	0.04
New Jersey	31	31	30	30	34	28	27	4.79	27	4.77	0	-0.02
New Mexico	47	47	47	46	45	46	46	3.73	46	3.75	0	0.02
New York	42	42	42	41	39	39	41	4.10	39	4.13	2	0.03
North Carolina	18	19	18	18	17	15	12	5.43	12	5.41	0	-0.01
North Dakota	15	17	14	15	15	16	16	5.16	17	5.18	-1	0.02
Ohio	43	43	43	43	43	43	44	3.96	44	3.89	0	-0.07
Oklahoma	40	37	36	36	37	35	34	4.29	34	4.31	0	0.02
Oregon	4	4	4	4	4	4	4	8.23	4	8.26	0	0.04
Pennsylvania	28	26	25	22	20	20	18	5.04	18	5.08	0	0.04
Rhode Island	32	32	29	32	29	29	30	4.49	30	4.52	0	0.03
South Carolina	29	29	32	29	27	27	28	4.66	28	4.68	0	0.02
South Dakota	39	40	39	39	32	32	31	4.44	31	4.47	0	0.03
Tennessee	46	46	45	45	46	45	45	3.77	45	3.80	0	0.03
Texas	38	39	38	38	38	38	36	4.23	35	4.25	1	0.02
Utah	24	27	26	26	24	25	22	4.98	22	5.01	0	0.03
Vermont	22	21	22	23	31	31	29	4.64	29	4.64	0	0.00
Virginia	9	9	9	12	9	13	13	5.35	13	5.38	0	0.03
Washington	50	50	48	50	50	50	49	3.13	50	2.72	-1	-0.41
West Virginia	25	25	16	20	30	30	33	4.33	33	4.35	0	0.02
Wisconsin	7	8	7	7	6	7	7	6.10	7	6.14	0	0.03
Wyoming	6	6	6	6	7	6	6	6.14	6	6.23	0	0.10
District of Columbia	43	43	44	44	44	45	45	3.90	44	3.94	1	0.04

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.

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—New Hampshire, Delaware, Montana, Oregon, and Alaska—achieve the best sales tax component scores.[32] Among states with a sales tax, those with low general rates and broad bases, and which avoid tax pyramiding, do best. Wyoming, Wisconsin, Idaho, Michigan, Iowa, Maine, North Carolina, and Virginia all do well, with well-structured sales taxes and modest excise tax rates.

At the other end of the spectrum, Washington, Louisiana, Alabama, California, New Mexico, and Tennessee 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 has the highest combined state and average local rate at 10.13 percent, followed by Tennessee at 9.61 percent. In general, these states levy high sales tax rates that apply to a wide range of business input items.

Sales and Excise Tax 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 average 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 population-weighted average of the county and municipal rates. This subindex includes state and local sales tax rates, along with excise tax rates for major excise taxes.

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 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 (6.875 percent) and Nevada (6.85 percent).

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

Local Option Sales Tax Rates. Thirty-seven 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 4.99 percent in local sales taxes to the state's 2.9 percent state-level rate, bringing the total average sales tax rate to 7.89 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 (5.46 and 5.13 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 (4.99 percent), Oklahoma (4.56 percent), and New York (4.54 percent).

States with the highest combined state and average local sales tax rates are Louisiana (10.13 percent), Tennessee (9.61 percent), Washington (9.57 percent), Arkansas (9.48 percent), and Alabama (9.46 percent). At the low end are Alaska (1.82 percent), Hawaii (4.50 percent), Wyoming (5.39 percent), Maine (5.50 percent), and Wisconsin (5.72 percent).

Excise Tax Rates. Excise taxes are largely 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 73.6 cents per gallon (cpg) in California to 9.0 cpg in Alaska. The *Index* captures states' base excise taxes in addition to other gallonage-based fees and ad valorem taxes placed upon gasoline, while not including locality-specific taxes. 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]

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.

33 The average local option sales tax rate is calculated as an average of local statutory rates, weighted by population. See Abir Mandal, "State and Local Sales Tax Rates, Midyear 2026," Tax Foundation, Jul. 6, 2026.
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, 2022," Tax Foundation, Nov. 26, 2024.

States with the highest tobacco taxes per pack of 20 cigarettes are New York ($5.35), Maryland ($5.00), Rhode Island ($4.50), Connecticut ($4.35), Minnesota ($3.83), 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 Idaho and South Carolina ($0.57).

States with the highest vaping taxes on a per mL basis, estimated using a sample product to allow for cross-state comparison, are Minnesota and Washington ($2.49), Vermont ($2.41), Maryland ($2.14), California ($2.01), and Massachusetts and Maine ($1.96). Fifteen 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, Nebraska, North Carolina, South 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), Hawaii ($0.93), Kentucky ($0.89), 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 ($36.68), Oregon ($23.74), and Virginia ($23.47), 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. While Maryland and Washington are the only states with specific taxes on digital advertising in 2026 (with Illinois to join the ranks in 2027), Hawaii and New Mexico have extremely broad sales tax bases that include digital advertising as well. A digital advertising tax is a harmful and nonneutral tax applied to gross revenue from digital advertising services. Definitions and sourcing rules for these taxes are ambiguous and nontransparent, resulting in double taxation of digital advertising profits.[36] The new *Index* 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, data center purchases, 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
- Whether the state embraces unity and uniformity in its sales tax base and collections, and whether it provides robust safe harbor provisions for remote sellers

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

The top states on this subindex—Delaware, New Hampshire, Oregon, and Montana—are states without a general state sales tax. States like Wisconsin, Idaho, North Carolina, Kansas, and Indiana achieve high scores on their tax base by applying their sales taxes to a broad range of consumer goods and services while avoiding taxes on many business inputs.

States with the worst scores on the base subindex are Hawaii, Louisiana, Ohio, South Dakota, West Virginia, New Mexico, Washington, and Alabama. 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 *Index* also accounts for data center purchases and 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 four states (not including the no-sales-tax 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 three states that fully include gasoline in their sales tax base (Hawaii, Illinois, and New York) get a better score. California receives partial credit for applying an ad valorem tax to gasoline sales, but at a different rate than the general sales tax.

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 programs

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/.

such as the Women, Infants, and Children (WIC) program or the Supplemental 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 state and/or local 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 15.2 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 $1.1 trillion in state and local taxes in fiscal year 2024, of which $390 billion (34.0 percent) were property taxes. The property taxes included taxes 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 that 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 2024," Council on State Taxation (COST) with Ernst and Young LLP and the State Tax Research Institute, December 2025.
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* (2020–2027)

							2026		2027		2026-2027	
State	2020	2021	2022	2023	2024	2025	Rank	Score	Rank	Score	Rank	Score
Alabama	16	22	17	16	16	17	22	5.17	24	5.11	-2	-0.05
Alaska	28	29	30	30	30	31	32	4.85	27	5.06	5	0.20
Arizona	12	11	11	10	10	13	9	5.82	8	6.04	1	0.22
Arkansas	18	18	28	25	23	21	18	5.24	17	5.23	1	-0.01
California	13	13	13	15	18	23	25	5.08	28	4.99	-3	-0.09
Colorado	31	33	27	34	34	35	30	4.94	33	4.86	-3	-0.07
Connecticut	50	50	50	50	50	50	50	2.78	49	2.97	1	0.19
Delaware	2	2	2	2	2	1	2	6.57	3	6.46	-1	-0.11
Florida	23	20	18	23	21	15	19	5.24	21	5.13	-2	-0.11
Georgia	32	31	32	32	31	34	35	4.74	37	4.57	-2	-0.17
Hawaii	9	12	12	20	17	19	15	5.49	19	5.21	-4	-0.28
Idaho	6	5	5	5	3	9	3	6.53	1	6.71	2	0.18
Illinois	40	41	41	40	42	42	41	4.18	45	3.79	-4	-0.39
Indiana	3	4	3	4	4	4	4	6.28	4	6.39	0	0.11
Iowa	36	36	36	35	35	25	34	4.83	35	4.84	-1	0.01
Kansas	24	23	22	24	24	28	24	5.08	31	4.94	-7	-0.14
Kentucky	20	21	21	18	22	26	29	5.01	26	5.06	3	0.06
Louisiana	33	32	33	31	32	30	31	4.88	14	5.61	17	0.74
Maine	43	43	43	48	46	47	44	3.94	46	3.50	-2	-0.44
Maryland	35	35	35	36	36	36	36	4.62	36	4.60	0	-0.02
Massachusetts	47	48	48	46	47	46	48	3.36	48	3.22	0	-0.14
Michigan	30	25	31	27	27	27	27	5.02	29	4.98	-2	-0.05
Minnesota	29	30	29	28	29	16	21	5.22	25	5.11	-4	-0.11
Mississippi	38	39	40	39	39	37	39	4.38	38	4.48	1	0.10
Missouri	8	7	8	8	11	11	11	5.76	13	5.69	-2	-0.07
Montana	19	19	24	19	19	18	16	5.35	20	5.17	-4	-0.18
Nebraska	44	45	45	44	45	40	45	3.93	42	4.04	3	0.11
Nevada	7	6	6	7	7	8	8	5.92	10	5.87	-2	-0.06
New Hampshire	42	44	44	41	40	38	43	3.99	44	3.90	-1	-0.10
New Jersey	41	40	42	43	44	45	46	3.89	41	4.13	5	0.24
New Mexico	1	1	1	1	1	2	1	6.59	2	6.57	-1	-0.01
New York	45	46	47	47	48	48	47	3.40	47	3.30	0	-0.10
North Carolina	21	16	15	14	15	22	20	5.23	16	5.40	4	0.17
North Dakota	5	8	7	6	6	3	6	6.17	7	6.14	-1	-0.02
Ohio	4	3	4	3	5	5	5	6.18	5	6.32	0	0.15
Oklahoma	15	15	16	21	9	7	10	5.80	9	5.90	1	0.10
Oregon	27	24	25	26	26	32	26	5.06	32	4.89	-6	-0.17
Pennsylvania	10	9	9	9	8	6	12	5.73	11	5.82	1	0.09
Rhode Island	48	47	46	45	43	44	42	4.13	43	3.92	-1	-0.22
South Carolina	39	38	37	37	38	41	40	4.21	40	4.25	0	0.03
South Dakota	14	28	19	13	14	14	14	5.63	15	5.44	-1	-0.19
Tennessee	34	34	34	33	33	33	33	4.85	23	5.12	10	0.27
Texas	37	37	39	42	41	39	38	4.40	34	4.84	4	0.44
Utah	11	10	10	11	12	12	13	5.68	12	5.79	1	0.11
Vermont	49	49	49	49	49	49	49	3.04	50	2.94	-1	-0.10
Virginia	25	26	26	29	28	29	28	5.01	30	4.94	-2	-0.07
Washington	22	17	23	22	25	24	23	5.09	18	5.23	5	0.14
West Virginia	26	27	20	17	20	20	17	5.25	22	5.13	-5	-0.13
Wisconsin	17	14	14	12	13	10	7	6.02	6	6.15	1	0.13
Wyoming	46	42	38	38	37	43	37	4.45	39	4.25	-2	-0.20
District of Columbia	43	46	47	50	50	49	47	3.45	46	3.53	1	0.08

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, inheritances, and gifts are also included in the property tax component of the *Index*. The states that score the best on property tax are Idaho, New Mexico, Delaware, Indiana, Ohio, Wisconsin, and North Dakota. 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, Massachusetts, New York, Maine, Illinois, New Hampshire, and Rhode Island. 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. Variables in the base portion detail additional property tax features like split roll and limitation regimes, along with state taxes on wealth, such as inheritance, estate, gift, inventory, tangible, or intangible property.[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, 2024, 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 New Hampshire (4.89 percent), Vermont (4.85 percent), Maine (4.46 percent), New Jersey (4.32 percent), and New York (4.16 percent). States that score well with low effective tax rates are Tennessee (1.39 percent), Alabama (1.48 percent), Oklahoma (1.56 percent), Delaware (1.59 percent), and Arkansas (1.62 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 14 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. Mississippi began phasing out its capital stock tax in 2019 and is scheduled to fully eliminate the tax in 2028. 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. Most recently, Louisiana phased out its capital stock tax as of January 1, 2026. States with the highest capital stock tax rates include Arkansas (0.30 percent), Massachusetts (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 scores 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 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 variables addressing the different types of property taxes each state levies and what limitation regimes a state has in place. Seven elements are included. Wisconsin, Ohio, New Mexico, Indiana, Delaware, Idaho, and New Hampshire, and score the best because they have fewer taxes on property, wealth, or property transfers beyond the real property tax (i.e., estate and inheritance taxes, real estate transfer taxes, tangible personal property taxes, intangible property taxes, and inventory taxes). Connecticut, Kentucky, Maryland, and Alabama receive the worst scores because they impose many of these taxes without effectively limiting their impact.

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 Mexico, New York, Ohio, Pennsylvania, and Wisconsin) exempt all tangible personal property from taxation, while another five states (Minnesota, New Hampshire, New Jersey, North Dakota, and South Dakota) exempt most such property from taxation except for select industries that are centrally assessed.

Tangible Personal Property De Minimis Exemption. Another 15 states (plus DC) 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] Alabama, Arizona, Colorado, Idaho, Indiana, Michigan, Montana, Rhode Island, Texas, Wyoming, and the District of Columbia have TPP de minimis exemptions of $50,000 or more, while Florida, Georgia, Kentucky, Maryland, 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.

46 See Joseph Johns, "Tangible Personal Property De Minimis Exemptions by State, 2025," Tax Foundation, Apr. 29, 2025, https://taxfoundation.org/data/all/state/tangible-personal-property-taxes/.

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. Seven states levy this tax in various degrees: Alabama, Iowa, Kentucky, Louisiana, Mississippi, South Dakota, and Tennessee.[47]

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 (Real Estate Transfer, 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 tax competitiveness. 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.

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.
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.

Consequently, since 2010, some states have enacted their own estate taxes while others have repealed theirs. 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 state estate taxes. The tax reform law of 2017 raised the federal exemption still further, as did the OBBBA in 2025. 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. 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 Washington and Hawaii (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. Five 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). The lowest rate is in Maryland (10 percent), which has both an estate tax and an inheritance tax and is 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]

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* (2020–2027)

							2026		2027		2026-2027	
State	2020	2021	2022	2023	2024	2025	Rank	Score	Rank	Score	Rank	Score
Alabama	25	18	26	25	16	21	19	5.32	18	5.33	1	0.01
Alaska	50	50	50	50	44	45	50	3.54	50	3.54	0	0.00
Arizona	3	3	3	2	3	1	1	6.19	1	6.19	0	0.00
Arkansas	16	14	8	10	20	11	10	5.71	10	5.70	0	-0.01
California	28	29	24	21	23	26	26	5.13	24	5.14	2	0.01
Colorado	24	23	28	32	32	38	40	4.31	40	4.34	0	0.03
Connecticut	38	39	33	35	30	39	39	4.50	38	4.48	1	-0.02
Delaware	7	11	11	4	1	2	2	6.17	2	6.14	0	-0.03
Florida	5	5	10	8	9	9	7	5.73	9	5.73	-2	0.00
Georgia	20	20	22	27	27	23	22	5.24	20	5.25	2	0.02
Hawaii	30	32	41	40	50	46	43	4.16	39	4.43	4	0.26
Idaho	36	38	27	34	37	36	36	4.59	37	4.51	-1	-0.09
Illinois	42	43	39	42	43	43	42	4.25	42	4.24	0	0.00
Indiana	18	19	23	18	15	15	15	5.48	14	5.51	1	0.03
Iowa	39	41	36	37	36	34	35	4.61	30	4.94	5	0.33
Kansas	11	10	15	11	5	5	4	5.91	5	5.89	-1	-0.02
Kentucky	40	37	34	38	38	33	32	4.72	34	4.70	-2	-0.02
Louisiana	4	4	12	14	11	10	9	5.71	8	5.75	1	0.03
Maine	27	28	16	22	13	19	21	5.29	21	5.25	0	-0.04
Maryland	26	24	37	28	24	20	18	5.38	22	5.22	-4	-0.16
Massachusetts	49	49	49	47	49	48	45	3.86	46	3.78	-1	-0.08
Michigan	22	27	25	26	28	25	28	5.12	27	5.10	1	-0.01
Minnesota	43	42	45	45	42	42	44	4.06	44	4.11	0	0.06
Mississippi	6	6	5	7	12	14	13	5.64	11	5.64	2	0.00
Missouri	10	7	2	3	4	4	8	5.72	7	5.75	1	0.02
Montana	23	26	18	20	19	18	25	5.13	28	5.09	-3	-0.04
Nebraska	2	2	1	1	2	3	3	6.06	4	6.03	-1	-0.04
Nevada	48	47	48	48	47	44	47	3.77	47	3.77	0	0.00
New Hampshire	21	25	32	31	29	27	23	5.19	25	5.12	-2	-0.07
New Jersey	44	45	42	44	48	50	46	3.84	45	3.87	1	0.02
New Mexico	12	12	17	12	14	17	17	5.38	17	5.35	0	-0.03
New York	34	36	38	41	39	37	38	4.52	41	4.31	-3	-0.21
North Carolina	9	9	7	9	8	7	6	5.74	6	5.76	0	0.02
North Dakota	15	15	4	6	18	13	14	5.60	13	5.59	1	-0.01
Ohio	8	8	13	13	10	12	11	5.67	15	5.49	-4	-0.17
Oklahoma	1	1	9	5	6	6	5	5.79	3	6.07	2	0.28
Oregon	45	40	43	43	34	40	41	4.28	43	4.17	-2	-0.11
Pennsylvania	46	46	35	36	40	35	34	4.61	35	4.63	-1	0.01
Rhode Island	47	48	47	46	45	47	48	3.74	48	3.72	0	-0.03
South Carolina	29	22	21	24	26	28	27	5.12	26	5.12	1	0.00
South Dakota	19	21	19	19	21	22	20	5.32	19	5.32	1	0.00
Tennessee	17	16	14	17	22	16	16	5.46	16	5.47	0	0.01
Texas	32	33	31	30	31	31	30	4.83	31	4.83	-1	0.00
Utah	14	17	20	23	25	29	29	5.02	29	5.06	0	0.04
Vermont	13	13	6	15	7	8	12	5.66	12	5.63	0	-0.03
Virginia	35	35	40	39	41	41	37	4.57	36	4.56	1	-0.01
Washington	41	44	46	49	46	49	49	3.68	49	3.59	0	-0.09
West Virginia	31	30	29	16	17	24	24	5.19	23	5.19	1	0.00
Wisconsin	33	31	30	29	33	30	31	4.78	32	4.81	-1	0.03
Wyoming	37	34	44	33	35	32	33	4.67	33	4.77	0	0.09
District of Columbia	22	22	27	28	23	25	24	5.19	24	5.17	0	-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.

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.

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 11.6 percent of a state's final *Index* score.

Overall, the states with the least damaging UI taxes are Arizona, Delaware, Oklahoma, Nebraska, Kansas, North Carolina, and Missouri. 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 Alaska, Washington, Rhode Island, Nevada, Massachusetts, and New Jersey. 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 scores on this rate subindex are Nebraska, Alabama, Mississippi, Florida, South Carolina, and Maine. 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 Rhode Island, New Jersey, Washington, Massachusetts, 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 (Hawaii, Iowa, Kansas, Missouri, Nebraska, South Dakota, and Wisconsin) to 2.025 percent in New York and

2.10 percent in the District of Columbia. The maximum rates in effect in the most recent year range from 5.4 percent (Alabama, Alaska, Delaware, Florida, Idaho, Iowa, Nebraska, Nevada, Oregon, and Vermont) to 17.14 percent (Massachusetts). The taxable wage base ranges from $7,000 (Arkansas, California, Florida, Louisiana, and Tennessee), in line with the federal taxable wage base, to $78,200 (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 0.33 percent (South Dakota) to 3.40 percent (Pennsylvania), while the second variable ranges from 0.08 percent (Virginia) to 1.19 percent (Oregon).

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"). Both maximum and minimum rates of these schedules are collected in the *Index*, although only maximum rates are scored, as the variation in minimum rates is very low. On states' most favorable schedules, 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 on the most favorable schedule, is Wisconsin (10.7 percent). On states' least favorable schedules, 12 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 on the least favorable schedule 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 has the lowest solvency level at 0, which means that its UI trust fund is essentially insolvent. The states with the highest solvency level (all above 2) are Alaska, Oregon, and Wyoming.

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, Vermont, and New Mexico. 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, Alabama, 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.

50 According to the US Department of Labor, "Average High Cost Multiple (AHCM) value uses actual trust fund balances as of 12/31/2025 and estimated wages for CY2025. 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/trustFundSolvReport2026.pdf.

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 experience 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" method 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 an intermediate score.

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.

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

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 combined category are Connecticut, Delaware, Louisiana, Ohio, and Vermont. On the other hand, the states that receive the worst scores are Virginia, Nevada, Georgia, Maine, and Massachusetts. Most states that score poorly charge the most recent or principal employer, and several forbid many benefit exclusions.

Solvency Tax. These taxes are levied on employers when a state's unemployment fund falls below some defined level. Twenty-five 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. Ten 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. Thirty-one 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, New York, and Rhode Island—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

#35

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
35 ▲ 2	13 ▲ 1	31 ▲ 1	48 –	24 ▼ 2	18 ▲ 1

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) and conforming to Section 174A, allowing full first-year expensing of research and experimentation investments.

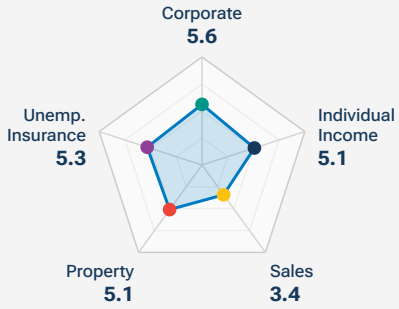
Alabama has a low 4 percent state sales tax rate, but its combined state and average local rate is among the nation's highest, at 9.46 percent. It is one of only four states, along with Alaska, Colorado, and Louisiana, that allows local governments to administer their own local sales taxes, creating significant additional complexity and imposing high compliance costs for businesses, particularly out-of-state retailers. Although Louisiana substantially streamlined state and local sales tax administration in 2026, local jurisdictions continue to retain significant administrative authority. Like Louisiana, 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 33 of the 37 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.

In 2025, Alabama enacted a safe harbor threshold for non-residents, increasing its competitiveness.

Component scores

out of 10



Alabama and its neighbors

Overall rank, 2027 Index, with change from 2026

Florida	#4	–
Tennessee	#8	–
Georgia	#24	▼ 6
Mississippi	#27	▼ 1
Alabama	**#35**	▲ 2



Alaska

#3

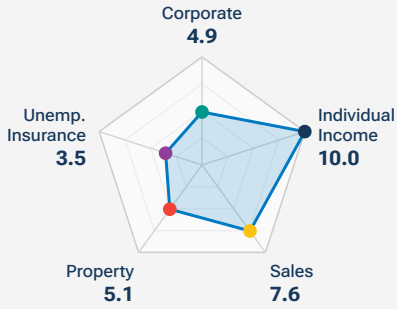
Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
3 –	33 ▲ 7	1 –	5 –	27 ▲ 5	50 –

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 net CFC-tested income (NCTI) 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).

Component scores

out of 10



Alaska and its neighbors

Alaska shares no land border with another state.

Arizona

#17

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
17 ▼ 3	20 ▼ 4	14 ▼ 5	40 ▼ 5	8 ▲ 1	1 –

IN THE 2027 *Index*

Arizona fell three places overall, from 14th to 17th. Arizona passed conformity legislation with several retroactive provisions, but since the legislation contained no emergency clause, the retroactivity was not legally in effect as of the *Index's* snapshot date of July 1, 2026. This timing, in addition to not conforming to full expensing under Section 168(k), resulted in its corporate income tax ranking falling from 16th to 20th. Arizona's fiscal year 2027 budget, which took effect on July 1, 2026, included a three-year moratorium on tax incentives on new data center tax projects, with a resulting drop in the state's sales and use tax ranking from 35th to 40th due to the suspension of sales tax exemptions for the qualifying equipment purchases of new data centers. The state's tangible personal property (TPP) tax exemption increased from $269,905 to $500,000, slightly improving its property and wealth tax ranking.

Arizona's tax code features all major tax types, but because of tax reforms adopted in recent years, the state ranks well 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 flat rate in the country, making Arizona among the most competitive of the states that impose individual income taxes. Such a low rate makes the state very attractive to taxpayers who have decided to leave high-tax states, particularly California. The state could further improve its income tax competitiveness by increasing the filing threshold for nonresident workers to match its 60-day withholding threshold. A reform like this would not only reduce compliance burdens for individuals working in the state for just a short period of time, but it would also make the state the least burdensome in the country for nonresident workers.

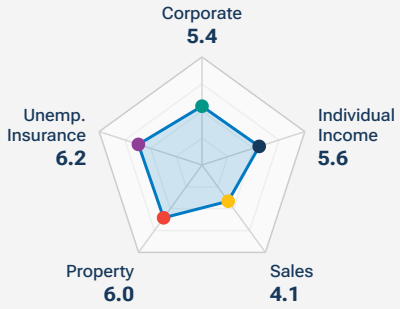
Arizona also has a flat corporate income tax rate of 4.9 percent and avoids imposing harmful gross receipts taxes and capital stock taxes. However, the state does not conform to the federal treatment of bonus depreciation under Section 168(k) and requires that businesses add back to the corporate income tax base any bonus depreciation taken at the federal level. Conforming to these provisions would encourage further in-state investment and make a reasonably competitive 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 $500,000 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.

Component scores

out of 10



Arizona and its neighbors

Overall rank, 2027 Index, with change from 2026

Utah	#10	▲ 5
Arizona	**#17**	▼ 3
Nevada	#21	▲ 1
New Mexico	#28	▲ 3
Colorado	#33	▲ 1
California	#49	▼ 1

Arkansas

#32

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
32 ▼ 3	19 ▼ 9	32 ▲ 1	42 ▲ 1	17 ▲ 1	10 –

IN THE 2027 *Index*

Despite reductions to its top individual income tax rate (from 3.9 percent to 3.7 percent), Arkansas fell 3 spots overall to 32nd. This was driven largely by other states' improvements in combination with Arkansas's continued nonconformity with the federal full expensing allowance under Section 168(k), causing its corporate income tax ranking to fall nine places to 19th.

FORTHCOMING, NOT YET REFLECTED

Arkansas already saw an individual income tax rate reduction in 2026, but in 2027, the state's corporate income tax rate is scheduled to fall to 4.1 percent. As such, that change falls outside of the snapshot date for this edition but will affect future years' scores.

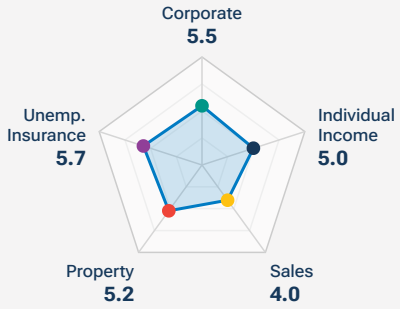
Despite multiple rounds of income tax rate reductions since 2015 with resulting low top marginal corporate and individual income tax rates, Arkansas ranks relatively poorly on the *Index* due to a range of structural shortcomings in the state's tax code. For instance, Arkansas only allows corporations' net operating losses (NOLs) to be carried forward for 10 years, while most states either allow 20-year or uncapped carryforward periods. Arkansas also imposes a throwback rule, exposing some out-of-state activity of Arkansas-based corporations to the state's corporate income tax, which increases their tax liability. Throwback rules penalize firms' investments and instead incentivize them to relocate to states without these rules.

The state stands alone in having two different individual income tax rate schedules depending on taxpayer income, adding complexity to its tax code. Arkansas also has one of the highest combined state and local sales tax rates in the nation.

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. Finally, Arkansas offers no de minimis exemption for its tax on tangible personal property, making this tax exceptionally burdensome to small businesses.

Component scores

out of 10



Arkansas and its neighbors

Overall rank, 2027 Index, with change from 2026

Texas	#5	▲ 2
Tennessee	#8	–
Missouri	#9	▲ 3
Oklahoma	#15	▲ 4
Louisiana	#23	▲ 9
Mississippi	#27	▼ 1
Arkansas	**#32**	▼ 3



California

#49

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
49 ▼ 1	39 ▼ 1	49 ▲ 1	47 –	28 ▼ 3	24 ▲ 2

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 (which is seeing a resurgence with the rise of generative AI), but a tax code that is uncompetitive and threatens to get worse is increasingly driving jobs to other states.

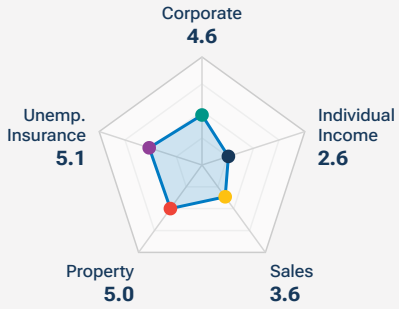
The state's top marginal individual income tax rate of 13.3 percent is compounded by a 1.3 percent uncapped payroll tax, bringing the all-in top rate to 14.6 percent. Additionally, nonresidents must file income taxes if they work even a single day in the state, and California is one of only four states 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, most recently through the end of 2026, 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. After years of conforming to the 2015 version of the federal tax code, California updated its conformity to the code as it existed on January 1, 2025 (with significant modifications). Even this conformity update was outdated from the start, predating changes adopted as part of 2025's One Big Beautiful Bill Act (OBBBA). Delayed conformity adds to tax complexity. Favorably, however, the state does not incorporate the tax on net CFC tested income under the OBBBA, 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.

Component scores

out of 10



California and its neighbors

Overall rank, 2027 Index, with change from 2026

Arizona	#17	▼ 3
Nevada	#21	▲ 1
Oregon	#37	▼ 1
California	**#49**	▼ 1

Colorado

#33

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
33 ▲ 1	12 ▲ 6	20 –	38 ▲ 2	33 ▼ 3	40 –

Colorado's individual and corporate income is taxed at a flat rate of 4.4 percent, with the possibility of a reduction to a rate as low as 4.25 percent retroactively, subject to revenues hitting certain targets that are not expected to be hit in 2026. 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.

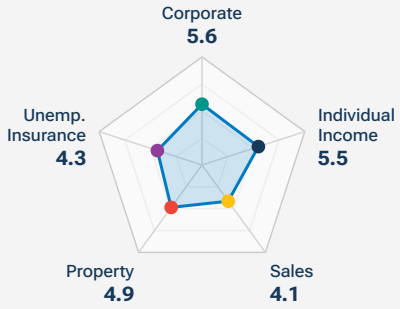
While the corporate tax code features a single rate, it also contains some inefficiencies. Colorado imposes a throwback rule and taxes "nowhere income" in the state from which sales are made because the seller lacks sufficient nexus to be taxed in the destination state, leading to taxation in the wrong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

Of the 45 states that levy a sales tax, Colorado's statewide rate is the lowest (2.9 percent). Local jurisdictions add an average of 4.99 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, shifting ever larger burdens to commercial and industrial property. In 2020, voters repealed the Gallagher Amendment, eliminating further distortions but reducing future relief for homeowners. Since then, the state has seen several legislative attempts and citizen-led initiatives to provide additional relief. The state's Taxpayer Bill of Rights (TABOR), though significantly amended over the years, also influences the overall shape of the state's tax environment.

Component scores

out of 10



Colorado and its neighbors

Overall rank, 2027 Index, with change from 2026

Wyoming	#1	–
Utah	#10	▲ 5
Oklahoma	#15	▲ 4
Nebraska	#16	▲ 8
Arizona	#17	▼ 3
Kansas	#19	▲ 4
New Mexico	#28	▲ 3
Colorado	**#33**	▲ 1

Connecticut #46

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
46 ▲ 1	30 ▲ 1	45 ▲ 1	20 ▲ 1	49 ▲ 1	38 ▲ 1

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.

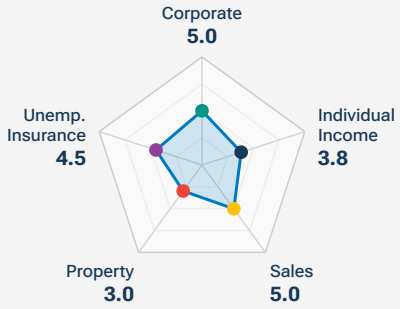
Connecticut's baseline corporate income tax rate is high at 7.5 percent, though still lower than in other New England states, such as Massachusetts and Vermont. However, the state imposes a 10 percent surtax on businesses with gross proceeds of $100 million or more, or those filing as part of a combined 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 once slated for expiration, but the phaseout now extends until 2028, with the current rate at 0.16 percent. Connecticut does, however, forgo a harmful throwback rule and offers a 30-year net operating loss carryforward, although it caps NOLs at 50 percent in a given year.

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.

Component scores

out of 10



Connecticut and its neighbors

Overall rank, 2027 Index, with change from 2026

Rhode Island	#39	▲ 1
Massachusetts	#45	▼ 1
Connecticut	**#46**	▲ 1
New York	#50	–

Delaware

#22

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
22 ▼ 1	50 –	37 ▲ 2	2 –	3 ▼ 1	2 –

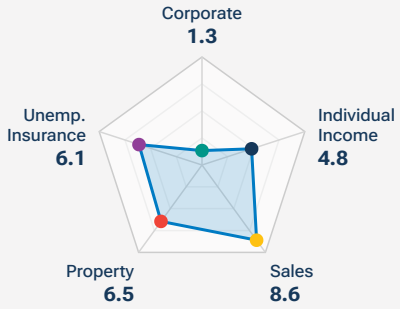
Delaware, despite maintaining several distinctly uncompetitive provisions, ranks slightly above average on the *Index* due to its lack of a sales tax. Delaware has a graduated individual income tax with a top rate of 6.6 percent kicking in at $60,000. In addition, the city of Wilmington collects its 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 three 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. While the state does conform to Section 174A, allowing for full expensing of research and experimentation investments, it does not conform to bonus depreciation under Section 168(k), allowing only a 20 percent deduction. 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 0.54 percent effective property tax rate on owner-occupied housing value.

Delaware does not levy an estate 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*.

Component scores

out of 10



Delaware and its neighbors

Overall rank, 2027 Index, with change from 2026

Delaware	#22	▼ 1
Pennsylvania	#30	–
Maryland	#44	▲ 1
New Jersey	#48	▲ 1

District of Columbia #47*

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
47*	39*	45*	44*	46*	24*

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.

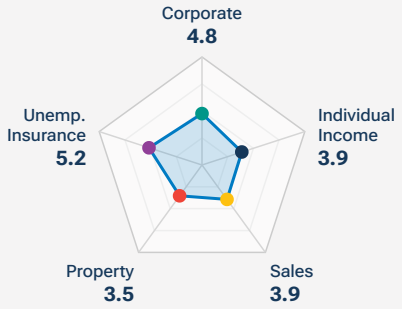
The District of Columbia's corporate income tax has a relatively high rate of 8.25 percent, comparable to Maryland but considerably higher than Virginia. The District does not impose gross receipts or capital stock taxes, but has a throwback rule and includes net CFC tested income (NCTI), which replaced global intangible low-taxed income (GILTI), in its corporate tax base, potentially increasing tax liability for companies with foreign operations. Additionally, the District does not allow Section 168(k) expensing for C corporations, and the District caps small business expensing under Section 179 at $25,000.

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 $5 million, well below the current federal threshold.

*DC's rank does not affect the states' ranks.

Component scores

out of 10



District of Columbia and its neighbors

Overall rank, 2027 Index, with change from 2026

Virginia	#31	▼ 4
Maryland	#44	▲ 1
District of Columbia	**#47***	

Florida

#4

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
4 –	25 ▼ 6	1 –	16 ▲ 1	21 ▼ 2	9 ▼ 2

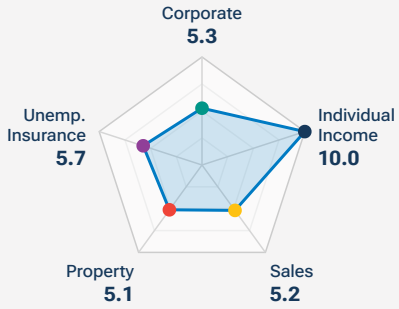
Florida boasts no individual income tax and a competitive 5.5 percent corporate income tax rate. Unlike many of its regional competitors, Florida does not tax capital stock, and its corporate income tax largely adheres to national norms, yielding a highly competitive overall tax code. However, the state falls short on its treatment of capital investment, allowing corporate taxpayers to claim just 14 percent of the federal first-year bonus depreciation allowance for qualified machinery and equipment investments. With full expensing under Section 168(k) now permanent at the federal level, Florida should consider conforming to this provision of the federal tax code.

Despite having no individual income tax and a sales tax base that contains a fair amount of exemptions and sales tax holidays, Florida's current combined state and local sales tax rate of 6.98 percent is lower than those levied in many other southern states.

Florida offers a de minimis exemption for tangible personal property, but at $25,000, it is relatively low, offering a possible avenue for improvement. Despite a few outlier provisions, in most regards, the state's current tax code is among the more competitive in the country.

Component scores

out of 10



Florida and its neighbors

Overall rank, 2027 Index, with change from 2026

Florida	#4	–
Georgia	#24	▼ 6
Alabama	#35	▲ 2

Georgia

#24

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
24 ▼ 6	16 ▼ 8	16 ▲ 3	21 ▼ 1	37 ▼ 2	20 ▲ 2

IN THE 2027 *Index*

Georgia dropped from 18th to 24th in its overall ranking, driven largely by a reduction in its corporate income tax score. Georgia did not conform to the competitive corporate expensing provisions in the OBBBA, including Section 168(n), leading the state to be passed by competitors like Kansas and Oklahoma, which conformed to expensing provisions or reduced their individual income tax rates. Georgia also partially exempted tips and overtime pay from its individual income tax, narrowing the base.

FORTHCOMING, NOT YET REFLECTED

As part of a tax reform package passed this year, Georgia's top individual income tax rate will fall by 0.125 percentage points annually if revenue thresholds are met, with the standard deduction increased on a triggered basis as well. If those tax changes are triggered, Georgia will see *Index* score improvements in coming years.

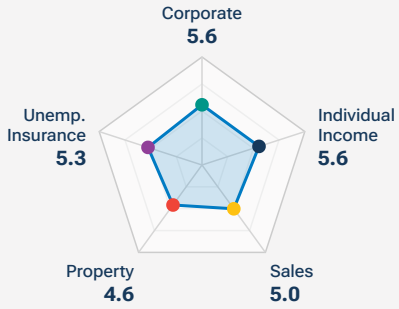
Georgia's tax code includes all major tax types. The state transitioned to a flat individual income tax in 2024 and is gradually reducing the tax rate (currently 4.99 percent), two positive developments in terms of tax competitiveness. However, the state still faces strong regional competition, as both Florida and Tennessee do not impose individual income taxes, while North Carolina has lower rates.

Since 2024, Georgia's corporate income tax rate has been aligned with the individual income tax rate, also currently sitting at 4.99 percent. 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 3.56 percent, bringing the combined rate to 7.56 percent, which is above the national average. Georgia does not impose inheritance, estate, or gift taxes.

Component scores

out of 10



Georgia and its neighbors

Overall rank, 2027 Index, with change from 2026

Florida	#4	–
Tennessee	#8	–
North Carolina	#11	▲ 2
Georgia	**#24**	▼ 6
South Carolina	#34	▼ 6
Alabama	#35	▲ 2



Hawaii

#43

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
43 ▼ 1	29 ▼ 1	46 ▼ 1	37 ▲ 2	19 ▼ 4	39 ▲ 4

FORTHCOMING, NOT YET REFLECTED

In May 2026, Hawaii lawmakers adopted a new, additional tax bracket with a rate of 13 percent on residents with incomes over $500,000 ($1 million for married filers). While this change does not take effect until 2027, Hawaii can expect to see a drop in both its individual income tax rank and overall rank in coming years, much like Maine has seen in the current *Index*.

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 only a few manual bracket threshold adjustments for inflation in recent years. Additionally, in January of 2027, Hawaii will gain a new 13 percent top income tax bracket. The state does, however, provide favorable treatment of capital gains income. Conversely, Hawaii caps small business expensing under Section 179 at $25,000, whereas the 2026 federal limit is $2.56 million.

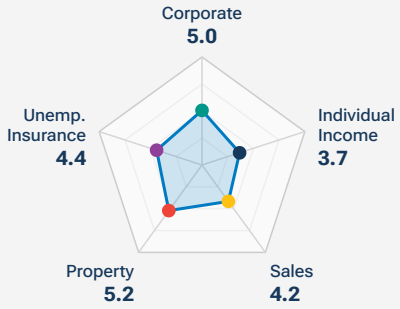
Hawaii's corporate income tax is also progressive (which is unusual), with a top rate of 6.4 percent. The state does not index tax brackets for inflation, does not allow full expensing, and has a throwback rule, which exposes Hawaii-based businesses to tax on certain income earned in other states.

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 (including digital advertising), leading to significant tax pyramiding. Hawaii also allows counties to impose local option sales taxes, generally capped at 0.5 percent.

Hawaii has one of the highest estate tax rates 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 have split roll property taxes, where commercial properties are taxed more heavily than residential ones. Some counties also impose assessment caps on homestead properties, which are less efficient than levy limits.

Component scores

out of 10



Hawaii and its neighbors

Hawaii shares no land border with another state.

Idaho

#13

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
13 ▼ 4	22 ▲ 1	25 ▼ 8	8 –	1 ▲ 2	37 ▼ 1

IN THE 2027 *Index*

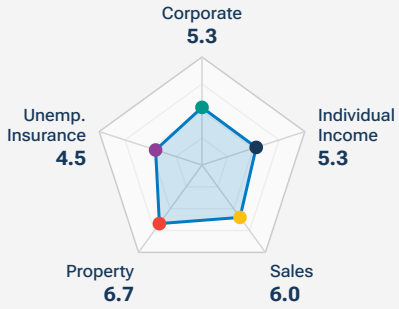
Idaho's ranking fell four places overall (from 9th to 13th), including falling eight places on the individual income tax component, primarily due to the state's decision to conform to the OBBBA's temporary individual deductions for tips and overtime. Conforming to these provisions costs the state a substantial amount of revenue without generating much economic growth.

Idaho's relatively well-structured individual income tax, sales tax, and property tax contribute to the state's high overall ranking. Idaho's individual and corporate income taxes are imposed at a single rate of 5.3 percent, and the state does not impose an estate or inheritance tax or a capital stock tax. Idaho has a generous de minimis exemption for tangible personal property, eliminating compliance costs for many smaller and mid-sized businesses.

However, within the corporate income tax, the state's throwback rule taxes "nowhere income" in the state from which sales are made when the seller lacks sufficient nexus to be taxed in the destination state, leading to taxation in the wrong state at the wrong rate. This makes the corporate income tax more of a disincentive to in-state activity. Idaho also fails to conform to federal provisions that allow permanent full expensing for business machinery and equipment purchases. Additionally, Idaho is among the minority of states that tax a portion of net CFC tested income (NCTI), with Idaho requiring a 15 percent inclusion.

Component scores

out of 10



Idaho and its neighbors

Overall rank, 2027 Index, with change from 2026

Wyoming	#1	–
Montana	#7	▼ 2
Utah	#10	▲ 5
Idaho	**#13**	▼ 4
Nevada	#21	▲ 1
Oregon	#37	▼ 1
Washington	#47	▼ 1

Illinois

#38

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
38 ▲ 1	43 –	11 ▲ 3	43 ▼ 6	45 ▼ 4	42 –

FORTHCOMING, NOT YET REFLECTED

In June 2026, Illinois adopted a budget that included several new and increased taxes. Several of these new taxes, including a targeted advertising services tax, a digital asset tax, and a social media platform fee, are scheduled to take effect on January 1, 2027, affecting Illinois' performance on the 2028 *Index*.

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 ten due to high rates and relatively nonneutral tax structures.

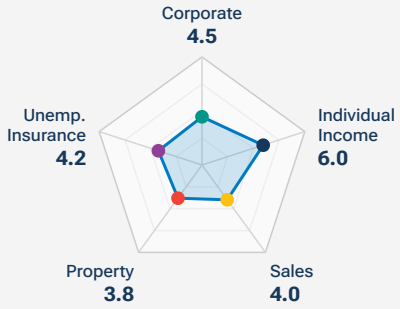
Notably, Illinois levies high income tax rates on businesses, in large part due to its personal property replacement tax (PPRT), which imposes an additional rate of 2.5 percent on corporations and 1.5 percent on certain pass-through businesses above the base corporate and individual income tax rates, 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 hurt by the state's recently adopted taxation of international income and its lack of a 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 cap 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 more than double the federal wage base, a solvency tax, and a long experience rating qualifying period, among other shortcomings.

Component scores

out of 10



Illinois and its neighbors

Overall rank, 2027 Index, with change from 2026

Missouri	#9	▲ 3
Indiana	#14	▼ 3
Iowa	#18	▼ 1
Wisconsin	#20	–
Kentucky	#26	▼ 1
Illinois	**#38**	▲ 1

Indiana

#14

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
14 ▼ 3	11 ▼ 4	28 ▼ 7	15 –	4 –	14 ▲ 1

IN THE 2027 *Index*

Indiana fell three spots, to 14th overall. Despite a low, flat state individual income tax rate of 2.95 percent, Indiana authorizes counties to impose local income taxes at rates that nearly double the combined rate in some jurisdictions. Additionally, Indiana narrows its tax base by offering income tax deductions for qualified tips and overtime pay. As a result, Indiana's individual income tax ranking fell from 21st to 28th. Indiana does not conform to key expensing provisions, including Section 168(k) and Section 174A, while several competing states do. As a result, its corporate income tax ranking fell from 7th to 11th. Indiana maintains a property and wealth tax ranking of 4th, due in part to the increase to its tangible personal property (TPP) tax exemption from $80,000 to $2 million.

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. However, despite the state's low, flat 2.95 percent individual income tax (down from 3.00 percent last year), 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.

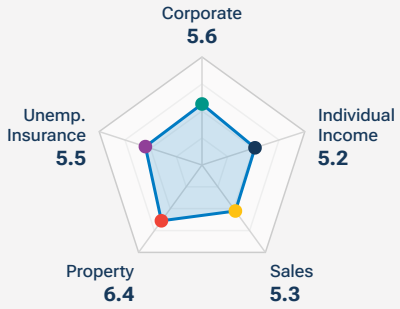
Indiana's flat corporate tax rate of 4.9 percent is one of the lowest in the Midwest. Unlike nearby Ohio, Indiana does not impose a harmful gross receipts tax. The state also does not have a throwback rule, offers generous carryforwards for net operating losses, and does not impose a capital stock tax. Indiana is decoupled from federal bonus depreciation—Section 168(k)—which permanently allows immediate full expensing of qualified machinery and equipment investments. Conformity to these provisions could strengthen Indiana's attractiveness as a location for investment and innovation. 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 to consider.

In 2025, Indiana passed legislation tripling the state's tobacco tax of $0.995 per pack of cigarettes to $2.995 per pack of cigarettes, surpassing Illinois in imposing the highest tobacco tax in the region.

Although the state taxes tangible personal property, its newly increased de minimis exemption of $2 million will significantly reduce compliance costs for both small and many medium-sized businesses. Additionally, Indiana does not impose inheritance, estate, or gift taxes.

Component scores

out of 10



Indiana and its neighbors

Overall rank, 2027 Index, with change from 2026

Indiana	**#14**	▼ 3
Michigan	#25	▼ 9
Kentucky	#26	▼ 1
Ohio	#36	▲ 2
Illinois	#38	▲ 1



Iowa

#18

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
18 ▼ 1	17 ▲ 8	18 ▼ 8	10 ▲ 1	35 ▼ 1	30 ▲ 5

IN THE 2027 *Index*

Iowa fell just slightly on this year's *Index*, from 17th to 18th overall. One major variable change was its individual income tax ranking, falling eight places to 18th. Because Iowa uses federal taxable income as the starting point for state income tax liability, newer federal provisions such as no tax on tips, overtime, and auto loans narrow the state's individual income tax base. Additionally, five states that climbed ahead of Iowa on this component further reduced their flat and top marginal income tax rates (Georgia, Kentucky, Nebraska, Oklahoma, and Utah). While Iowa's individual ranking fell several spots on the *Index*, this was offset as its corporate income tax ranking rose eight places to 17th due to conforming to full bonus depreciation and decoupling from the taxation of net CFC tested income. Prior-year unemployment insurance tax reforms have continued to improve Iowa's ranking on this portion of the *Index*, moving it from 35th to 30th.

FORTHCOMING, NOT YET REFLECTED

In May 2026, Iowa lawmakers enacted legislation establishing a property tax levy limit for counties and municipalities. Because the new levy limit does not take effect until 2027, the change falls outside of this year's snapshot of the *Index*.

Iowa's *Index* ranking has improved substantially in recent years due to several rounds of pro-growth and structurally sound reforms 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 phased out the inheritance tax.

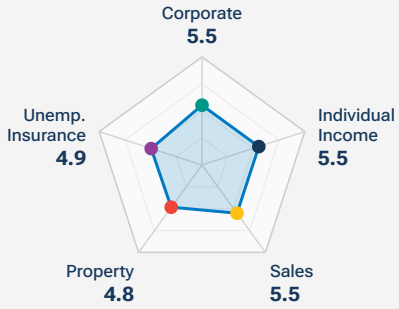
In 2025, Iowa moved to a flat 3.8 percent individual income tax, which improved the state's overall score, but it is worth noting that Iowa allows the imposition of local income taxes.

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 does not include net CFC tested income (NCTI) in its corporate tax base. Iowa does conform to federal bonus depreciation under Section 168(k) and the federal treatment of research expenditures under Section 174A. Together, these provisions make the state particularly attractive to multinational corporations, capital-intensive manufacturers, and research-focused businesses.

Iowa's combined state and average local sales tax rate is slightly above average, and the state's property tax burden is also somewhat high. The state has split roll property taxes, with higher ratios applied to businesses and renters than to homeowners.

Component scores

out of 10



Iowa and its neighbors

Overall rank, 2027 Index, with change from 2026

South Dakota	#2	–
Missouri	#9	▲ 3
Nebraska	#16	▲ 8
Iowa	**#18**	▼ 1
Wisconsin	#20	–
Illinois	#38	▲ 1
Minnesota	#41	▲ 2

Kansas

#19

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
19 ▲ 4	15 ▲ 7	22 ▲ 5	23 –	31 ▼ 7	5 ▼ 1

IN THE 2027 *Index*

Kansas' ranking improved four places overall (from 23rd to 19th), including seven places on the corporate tax component and five places on the individual income tax component. These improvements were primarily attributable to Kansas' rolling conformity to the OBBBA's pro-growth business expensing provisions. Kansas did fall seven places, however, on the property tax component, due in part to a substantial increase in the state's property tax collections per capita.

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.

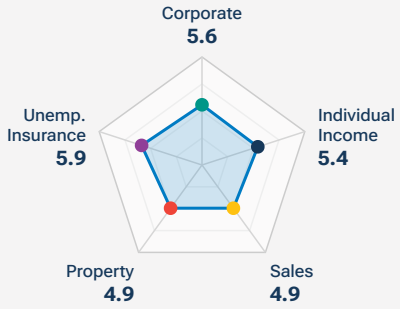
Kansas exposes an outsized share of business income to its corporate income tax under its economically harmful throwback rule, but the state does, helpfully, conform to federal expensing and provides generous net operating loss (NOL) provisions. The Sunflower State maintains a single point of sales tax administration for its state and local sales taxes, and its state and local sales tax bases largely match, with a couple of exceptions. 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 it forgoes a capital stock tax and estate or inheritance tax, ranking slightly behind the middle of the pack on this component.

In 2025, lawmakers enacted legislation using tax triggers to provide individual and corporate income tax relief and, in time, to move to single-rate income taxes. These reforms will improve the state's performance on the *Index.*

Component scores

out of 10



Kansas and its neighbors

Overall rank, 2027 Index, with change from 2026

Missouri	#9	▲ 3
Oklahoma	#15	▲ 4
Nebraska	#16	▲ 8
Kansas	**#19**	▲ 4
Colorado	#33	▲ 1

Kentucky

#26

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
26 ▼ 1	27 ▼ 7	17 ▲ 8	19 –	26 ▲ 3	34 ▼ 2

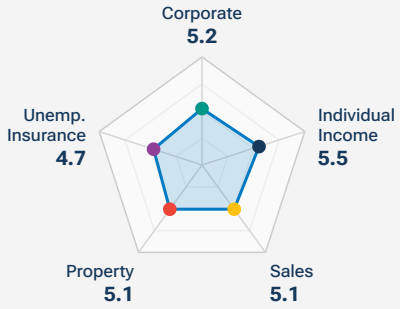
Kentucky's tax competitiveness has improved substantially in recent years due to several rounds of reforms that broadened the sales tax base to additional categories of mostly final personal consumption while moving to a single-rate individual income tax at a substantially lower rate. However, many other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

Specifically, Kentucky is one of the 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 $2.56 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, a surtax, and a three-year experience rating waiting period.

Component scores

out of 10



Kentucky and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	#8	–
Missouri	#9	▲ 3
Indiana	#14	▼ 3
Kentucky	**#26**	▼ 1
West Virginia	#29	▲ 6
Virginia	#31	▼ 4
Ohio	#36	▲ 2
Illinois	#38	▲ 1

Louisiana

#23

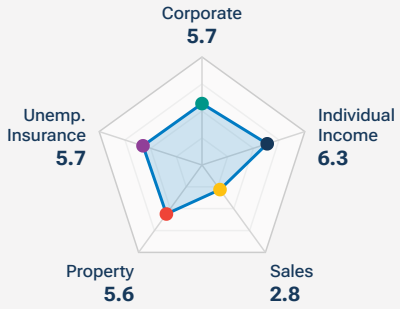
Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
23 ▲ 9	**10** ▼ 1	**9** ▲ 3	**49** ▲ 1	**14** ▲ 17	**8** ▲ 1

IN THE 2027 *Index*

As part of the final phase-in of the 2024 tax reform package, Louisiana saw a 17-place improvement in its property tax rank due to the elimination of the state's capital stock tax, a damaging tax that taxes businesses regardless of profit. This, along with newly allowing S corporations to file through the individual income tax, helped boost Louisiana from 32nd to 23rd overall.

Component scores

out of 10



Louisiana and its neighbors

Overall rank, 2027 Index, with change from 2026

Texas	#5	▲ 2
Louisiana	**#23**	▲ 9
Mississippi	#27	▼ 1
Arkansas	#32	▼ 3

Louisiana's tax code was a national outlier until the state conducted major tax reform through a special session in November 2024. Previously, the state had multiple individual and corporate income tax brackets that were not indexed for inflation. Now, individual and corporate income is taxed at flat rates of 3 percent and 5.5 percent, respectively. Additionally, the individual standard deduction has been raised to $12,875.

This is a positive development for the state's competitiveness. The 2024 reforms also ushered in permanent full expensing, making Louisiana the third state to fully decouple from federal phasedowns that existed prior to the One Big Beautiful Bill Act (OBBBA). While the federal provision has been made permanent, only those states that permanently decoupled can guarantee corporate taxpayers stability should full expensing be restructured or eliminated in the future. In 2026, the state completed the elimination of its franchise tax, which was imposed on business net worth (or accumulated wealth), penalizing investment regardless of profitability.

As part of the 2024 reform effort, Louisiana now recognizes S corporation status, allowing these entities to file taxes under the pass-through status accorded to them in other states with individual income taxes. Louisiana also repealed its inefficient throwout rule, which taxed "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.

While the reforms of 2024 were a step in the right direction, there is still work to be done. Louisiana maintains one of the most complicated sales tax regimes with the highest combined statewide and average local sales tax rate (10.13 percent) and a lack of centralized sales tax administration, although it provides a centralized system for remote sellers only. The sales tax code also continues to exempt several services, leaving the base unnecessarily narrow, hindering efforts to lower the rate. The state currently taxes business inventory under its tangible personal property tax. Like capital stock taxes, tangible personal property taxes are 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. Voters have the opportunity to repeal this uncompetitive policy in 2026.

Perhaps most notably, Louisiana is highly unusual in lacking central collection 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 their taxes separately from the state creates high compliance costs.

Maine

#40

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
40 ▼ 7	42 ▼ 1	42 ▼ 16	11 ▼ 2	46 ▼ 2	21 –

IN THE 2027 *Index*

Maine slid seven places, from 33rd to 40th, with the adoption of a 2 percent "high-income surcharge" that brings the state's top individual income tax rate to 9.15 percent on incomes over $1 million. The new rate also includes a large marriage penalty and gives Maine the eighth-highest top rate in the country.

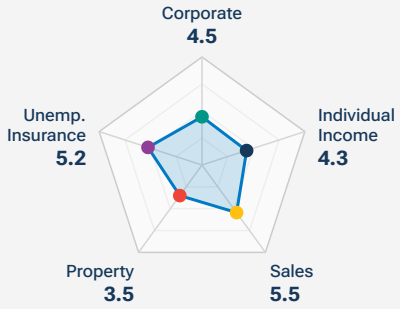
Maine outperforms many of its Northeastern peers but nevertheless performs poorly on the *Index*, with the property tax and corporate income tax being its least competitive tax types, and its individual income tax rank similarly lagging. In 2026, a new top rate of 9.15 percent was added for income above $1 million (or $1.5 million for joint filers, introducing a marriage penalty). This represents a 2 percentage point increase over the prior top rate and gives Maine the highest top rate in New England.

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.

Maine includes net CFC tested income (NCTI) in its corporate tax base. Maine's throwout 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.

Component scores

out of 10



Maine and its neighbors

Overall rank, 2027 Index, with change from 2026

New Hampshire	#6	–
Maine	**#40**	▼ 7

Maryland

#44

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
44 ▲ 1	34 ▲ 3	47 –	36 ▲ 2	36 –	22 ▼ 4

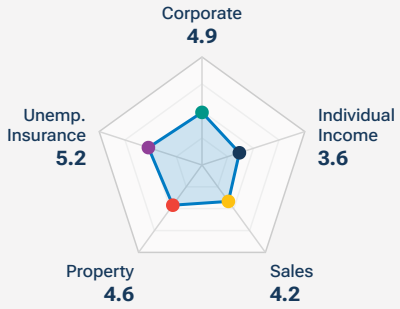
Maryland's tax code is complex and includes all the major tax types. The state has historically ranked among the bottom 10 states on the *Index*. Maryland has a progressive individual income tax system. Legislation enacted in 2025 increased the state's individual tax progressivity by expanding to 10 tax brackets, creating a new top marginal tax rate of 6.5 percent, and establishing a 2 percentage point capital gains surcharge for individuals with federal AGI exceeding $350,000. High-rate county income taxes, with rates as high as 3.3 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 regional competitors Virginia and West Virginia. Maryland conforms to Section 951A under the One Big Beautiful Bill Act (OBBBA) and therefore includes net CFC tested income (NCTI) in its corporate tax base, increasing Maryland corporate income tax liability for companies with operations abroad. As a result of legislation adopted in 2026, Maryland now limits its partial conformity to the federal bonus depreciation by allowing only a 20 percent deduction for qualified machinery and equipment expenses for manufacturers. Maryland limits Section 179 expensing for pass-through businesses to $25,000 in annual expenses, whereas most states offer $2.56 million. However, Maryland does not impose harmful gross receipts or capital stock taxes and has a sales tax system with a general statewide rate of 6 percent.

In addition to complexities with traditional taxes, Maryland was the first state in the country to adopt a targeted digital advertising tax, which is nonneutral, difficult to comply with, and subject to numerous legal disputes. In 2025, Maryland adopted a 3 percent tax on a range of business digital products. 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.

Component scores

out of 10



Maryland and its neighbors

Overall rank, 2027 Index, with change from 2026

Delaware	#22	▼ 1
West Virginia	#29	▲ 6
Pennsylvania	#30	–
Virginia	#31	▼ 4
Maryland	**#44**	▲ 1
District of Columbia	#47*	

Massachusetts #45

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
45 ▼ 1	32 ▲ 1	43 –	24 –	48 –	46 ▼ 1

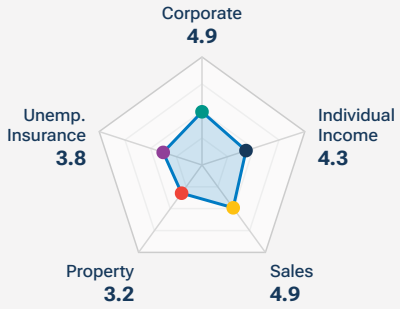
Massachusetts ranks among the bottom 10 states on the *Index* due to its overly burdensome individual income taxes, property taxes, and UI taxes. In 2022, Massachusetts voters amended the state constitution to impose an additional 4 percent surtax on income greater than $1 million (adjusted for inflation), 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. The state taxes commercial property more heavily than residential property, adding to businesses' tax burdens. Additionally, Massachusetts levies both an estate tax and a real estate transfer tax.

Component scores

out of 10



Massachusetts and its neighbors

Overall rank, 2027 Index, with change from 2026

New Hampshire	#6	–
Rhode Island	#39	▲ 1
Vermont	#42	▼ 1
Massachusetts	**#45**	▼ 1
Connecticut	#46	▲ 1
New York	#50	–

Michigan

#25

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
25 ▼ 9	26 ▼ 2	30 ▼ 12	9 ▲ 1	29 ▼ 2	27 ▲ 1

IN THE 2027 *Index*

Michigan's score was very close to several other states in 2026 but fell behind them in 2027 when it did not conform to the improved expensing provisions in the OBBBA. Combined with a new exemption for tipped and overtime income and a comparatively low Section 179 limit, the Great Lake State dropped 9 places overall, from 16th to 25th, and from 18th all the way to 30th on the individual income tax component.

Michigan's tax code includes all major tax types and has traditionally ranked well on the *Index,* although it finds itself closer to the middle of the pack in 2027. The state's individual income tax is flat with a relatively low rate of 4.25 percent, along with a relatively high 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.

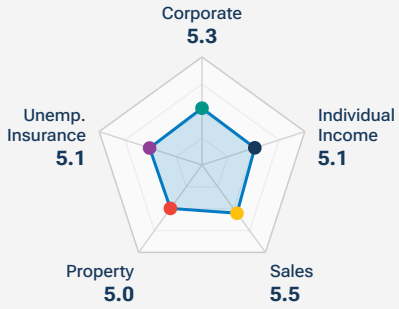
Michigan has a flat 6 percent corporate income tax, which is close to the national average. The state has no throwback rule or capital stock tax, and, unlike Ohio, it does not impose a gross receipts tax. However, the state does not offer full expensing, which could be an important element of future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

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

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.

Component scores

out of 10



Michigan and its neighbors

Overall rank, 2027 Index, with change from 2026

Indiana	#14	▼ 3
Wisconsin	#20	–
Michigan	**#25**	▼ 9
Ohio	#36	▲ 2

Minnesota #41

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
41 ▲ 2	41 ▲ 1	41 ▲ 3	32 –	25 ▼ 4	44 –

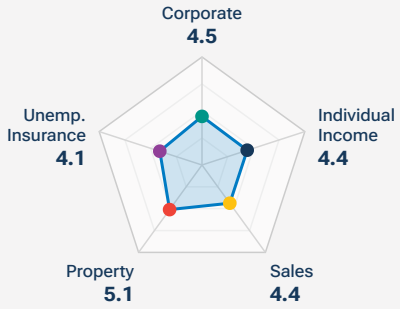
Minnesota ranks uncompetitively on the *Index* and is held back by its graduated state individual income tax with a top rate of 9.85 percent, among the highest in the country. Its taxpayers are also subject to alternative minimum taxes under both the individual and corporate income tax codes, adding complexity to the code. The state imposes a 1 percent high earner net investment income surtax, which applies to long-term capital gains, interest, dividends, and other investment income. As a result, taxpayers subject to the tax face a higher effective marginal rate on long-term capital gains income than 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 8.14 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 does not conform to the federal deductions for bonus depreciation under Section 168(k), nor does it conform to full expensing for research and experimentation expenses under Section 174A, making the state less attractive for businesses that make significant investments in machinery, equipment, and research and development.

Minnesota recently implemented a tax on global intangible low-taxed income (GILTI), which transitioned to a tax on net CFC tested income (NCTI) under the One Big Beautiful Bill Act (OBBBA). This tax on the international income of the subsidiaries of US-based multinational corporations is highly uncompetitive and has 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, imposing the tax 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.

Component scores

out of 10



Minnesota and its neighbors

Overall rank, 2027 Index, with change from 2026

South Dakota	#2	–
North Dakota	#12	▼ 2
Iowa	#18	▼ 1
Wisconsin	#20	–
Minnesota	**#41**	▲ 2

Mississippi #27

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
27 ▼ 1	6 –	29 ▲ 5	25 –	38 ▲ 1	11 ▲ 2

IN THE 2027 *Index*

Mississippi saw its individual income tax score improve from 34th to 29th, due to an income tax rate reduction from 4.4 to 4 percent. Mississippi also decreased its capital stock tax rate from 0.075 percent to 0.05 percent. However, due to other states also improving, Mississippi's overall rank fell one place, from 26th to 27th.

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, a rate that has been reduced to 4 percent as of 2026.

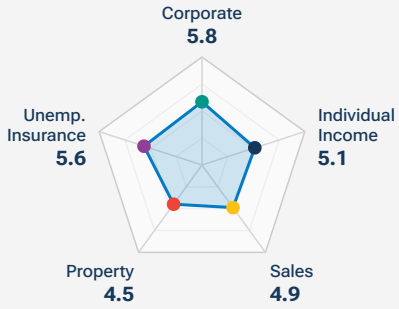
While Mississippi's statewide sales tax rate is among the highest in the country at 7 percent, low reliance on local sales taxes yields a combined state and average local rate that sits near the middle of the pack.

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 at a time when this provision of the Tax Cuts and Jobs Act was scheduled to phase out. Mississippi also conforms to Section 174A, allowing full first-year expensing of research and experimentation investments. Combined, these provisions increase Mississippi's attractiveness for firms that are investment-intensive. 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.

Component scores

out of 10



Mississippi and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	#8	–
Louisiana	#23	▲ 9
Mississippi	**#27**	▼ 1
Arkansas	#32	▼ 3
Alabama	#35	▲ 2

Missouri

#9

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
9 ▲ 3	3 ▲ 1	12 ▲ 4	26 –	13 ▼ 2	7 ▲ 1

IN THE 2027 *Index*

Missouri saw its overall rank improve from 12th to 9th this year, breaking into the *Index's* top 10. Part of this score increase came from conforming to the new and increased expensing provisions included in the OBBBA. Unlike Idaho, Indiana, and North Dakota, which fell behind, the Show-Me State resisted conforming to the exemptions for tipped and overtime pay, which would have narrowed its income tax base.

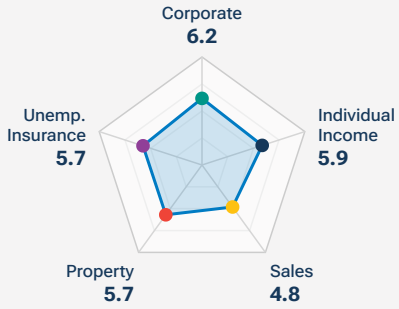
Missouri performs well overall on the *Index*, with an overall top 10 ranking, top 10 rankings on the corporate tax and UI tax components, and a competitive ranking on the property tax component. The Show Me State achieves this by applying low rates to broad bases in its individual and corporate income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

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.

Component scores

out of 10



Missouri and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	#8	–
Missouri	**#9**	▲ 3
Oklahoma	#15	▲ 4
Nebraska	#16	▲ 8
Iowa	#18	▼ 1
Kansas	#19	▲ 4
Kentucky	#26	▼ 1
Arkansas	#32	▼ 3
Illinois	#38	▲ 1

Montana

#7

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
7 ▼ 2	18 ▲ 8	21 ▼ 8	3 –	20 ▼ 4	28 ▼ 3

IN THE 2027 *Index*

Montana's overall ranking fell two spots, from 5th to 7th. Although a lower top income tax rate of 5.65 percent and the elimination of the state's marriage penalty took effect this year, Montana's individual income tax ranking fell from 13th to 21st. Because Montana uses federal taxable income as the starting point for state income tax liability, newer federal provisions such as no tax on tips, overtime, and auto loans narrow the state's individual income tax base. Additionally, five states that climbed ahead of Montana on this component further reduced their flat and top marginal income tax rates (Georgia, Kentucky, Nebraska, North Carolina, and Oklahoma). Montana's conformity to full bonus depreciation under Section 168(k) and Section 174A contributed to its corporate income tax ranking improving from 26th to 18th. The continued phase-in of Montana's tiered-structure property tax reforms contributed to it falling from 16th to 20th on the property and wealth tax variable.

Since 2021, Montana has enacted multiple reforms aimed at reducing individual income tax burdens. Key reforms include the consolidation of the state's seven individual income tax brackets into two, the elimination of the marriage penalty, and the adoption of the federal standard deduction. The top marginal rate is 5.65 percent for 2026 and will decrease to 5.4 percent in 2027.

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 years. Montana is also among the minority of states that tax net CFC tested income (NCTI), which replaced global intangible low-taxed income (GILTI), with a 20 percent inclusion.

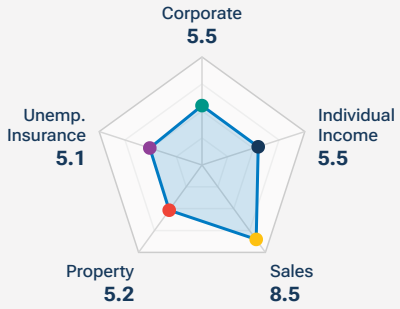
Montana has a generous $1 million de minimis exemption for tangible personal property, eliminating compliance costs for many smaller and mid-sized businesses.

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 property owners have faced surging property valuations in recent years. In 2025, Montana lawmakers enacted changes to the property tax code. Property owners now face a tiered tax structure with different rates applying depending on the value and class of the property. The reforms were designed to provide relief to owner-occupied homes and long-term rentals, but as a result, a greater share of the property tax burden will be borne by higher-value homes, second homes, short-term rentals, and certain commercial properties.

Component scores

out of 10



Montana and its neighbors

Overall rank, 2027 Index, with change from 2026

Wyoming	#1	–
South Dakota	#2	–
Montana	#7	▼ 2
North Dakota	#12	▼ 2
Idaho	#13	▼ 4

Nebraska

#16

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
16 ▲ 8	9 ▲ 4	13 ▲ 9	14 –	42 ▲ 3	4 ▼ 1

IN THE 2027 *Index*

Nebraska improved eight places overall, from 24th to 16th, due to the continued phase-down of its income tax rates. The state's top individual income tax rate decreased from 5.2 percent to 4.55 percent, with a resulting elimination of its fourth bracket, moving Nebraska from 22nd to 13th on the individual income tax component. The state's flat corporate rate also decreased to 4.55 percent, and its conformity to full bonus depreciation has allowed the Cornhusker State's corporate tax rank to climb four spots to 9th.

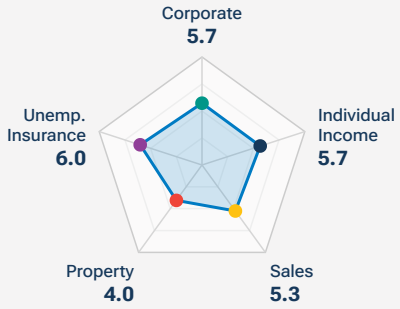
Nebraska has taken strides to improve its income tax competitiveness in recent years by reducing its individual and corporate income tax rates. Currently, the state's graduated individual income tax rates range from 2.46 percent to 4.55 percent, and its corporate income tax rate is now a flat 4.55 percent.

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 in the state for even a single day. Additionally, Nebraska conforms to Section 951A of the federal tax code and therefore includes net CFC tested income (NCTI) in its corporate tax base. This inclusion results in higher corporate income tax liability for Nebraska companies with operations in other countries.

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 and is the only state to have adopted but later abandoned a tangible personal property tax de minimis exemption.

Component scores

out of 10



Nebraska and its neighbors

Overall rank, 2027 Index, with change from 2026

Wyoming	#1	–
South Dakota	#2	–
Missouri	#9	▲ 3
Nebraska	**#16**	▲ 8
Iowa	#18	▼ 1
Kansas	#19	▲ 4
Colorado	#33	▲ 1

Nevada

#21

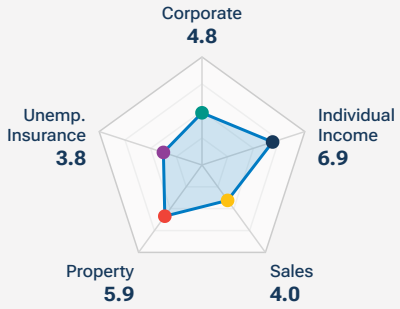
Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
21 ▲ 1	36 –	7 –	41 ▲ 1	10 ▼ 2	47 –

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.

Component scores

out of 10



Nevada and its neighbors

Overall rank, 2027 Index, with change from 2026

Utah	#10	▲ 5
Idaho	#13	▼ 4
Arizona	#17	▼ 3
Nevada	**#21**	▲ 1
Oregon	#37	▼ 1
California	#49	▼ 1

New Hampshire #6

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
6 –	38 ▼ 3	8 –	1 –	44 ▼ 1	25 ▼ 2

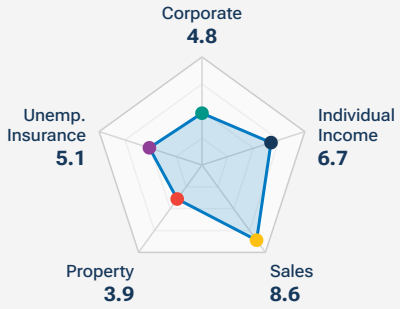
Like other states that forgo one or more major taxes, New Hampshire's lack of an individual income tax or sales tax yields an extremely competitive overall ranking despite relatively lower rankings on the corporate income tax and property tax components. New Hampshire joined the ranks of the individual income tax-free states when its interest and dividends (I&D) tax was phased out in January 2025, further solidifying the state's competitive standing.

The Granite State has 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. 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 an individual income tax or sales tax, 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 all the major taxes. Moving forward, New Hampshire could improve its competitiveness by adopting permanent full expensing and improving its treatment of NOLs.

Component scores

out of 10



New Hampshire and its neighbors

Overall rank, 2027 Index, with change from 2026

New Hampshire	#6	–
Maine	#40	▼ 7
Vermont	#42	▼ 1
Massachusetts	#45	▼ 1

New Jersey

#48

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
48 ▲ 1	44 –	48 –	27 –	41 ▲ 5	45 ▲ 1

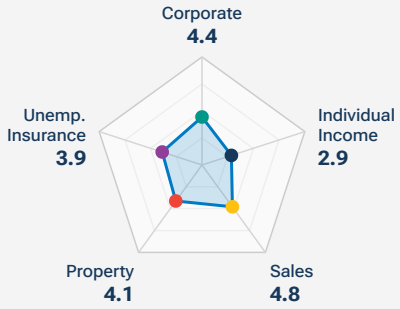
New Jersey levies all major categories of tax, typically at high rates and significant levels of complexity.

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 seven individual income tax brackets, a top marginal rate of 10.75 percent, and among 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 fourth highest effective rate in the country. The state repealed its estate tax but continues to levy an 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), now net CFC tested income (NCTI), from its tax base, and tangible personal property is largely exempt from property taxation. Additionally, the state allows up to 20 years of net operating loss carryforwards with an 80 percent cap.

Component scores

out of 10



New Jersey and its neighbors

Overall rank, 2027 Index, with change from 2026

Delaware	#22	▼ 1
Pennsylvania	#30	–
New Jersey	**#48**	▲ 1
New York	#50	–

New Mexico

#28

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
28 ▲ 3	14 ▲ 7	35 ▲ 1	46 –	2 ▼ 1	17 –

IN THE 2027 *Index*

New Mexico improved three places, from 31st to 28th overall, because the state automatically conformed to the restoration of first-year expensing for research and experimentation expenses, and to the higher cap for small business expensing under Section 179, while some of its peer states did not.

FORTHCOMING, NOT YET REFLECTED

In early 2026, New Mexico lawmakers enacted a law decoupling the state from the expensing provisions in Sections 168(k) and 168(n) of the IRC. The same act newly expands the corporate tax base to include NCTI, an aggressive change that can create double taxation of foreign income. As these changes do not take effect until January 1, 2027, they will negatively impact New Mexico's score in future *Index* editions.

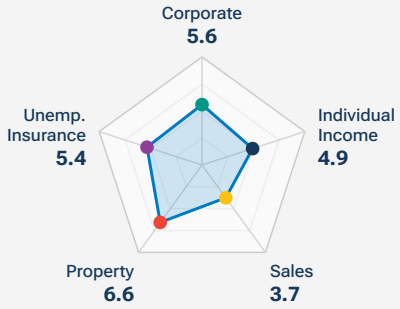
New Mexico has a graduated state individual income tax with a top rate of 5.9 percent. In 2025, New Mexico replaced its graduated-rate corporate income tax with a top rate of 5.9 percent with a single-rate tax of 5.9 percent on all income, a relatively rare case of a corporate income tax rate increase in recent years.

New Mexico also has a 4.875 percent tax on sales, with an average combined state and local rate of 7.68 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's corporate income tax currently conforms to the federal treatment of capital investment under Section 168(k) and Section 174A, but 2026 legislation will decouple the state from these provisions beginning with the 2027 tax year. New Mexico also currently does not include net CFC tested income in its corporate income tax base, but beginning with the 2027 tax year, this income will be added back.

Component scores

out of 10



New Mexico and its neighbors

Overall rank, 2027 Index, with change from 2026

Texas	#5	▲ 2
Utah	#10	▲ 5
Oklahoma	#15	▲ 4
Arizona	#17	▼ 3
New Mexico	**#28**	▲ 3
Colorado	#33	▲ 1

New York

#50

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
50 –	31 ▼ 2	50 ▼ 1	39 ▲ 2	47 –	41 ▼ 3

New York ranks last on the *Index*, with high rates and a burdensome and highly 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.

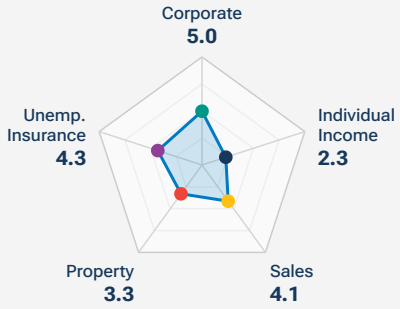
New York has a high top individual income tax rate of 10.9 percent and is one of only two states with a "tax benefit recapture" provision, where the benefit of lower rates is phased out and a taxpayer's top rate is ultimately applied to all income, not just marginal income above a certain level. In addition, 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 8.54 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), nor does it conform to Section 174A allowing full first-year cost recovery of research and experimentation expenses, therefore 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. In 2026, the state enacted a New York City pied-à-terre tax, but both the implementation and the underlying tax are subject to ongoing litigation. 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 net CFC tested income (NCTI) from its corporate tax base.

Component scores

out of 10



New York and its neighbors

Overall rank, 2027 Index, with change from 2026

Pennsylvania	#30	–
Vermont	#42	▼ 1
Massachusetts	#45	▼ 1
Connecticut	#46	▲ 1
New Jersey	#48	▲ 1
New York	**#50**	–

North Carolina #11

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
11 ▲ 2	4 ▼ 1	19 ▲ 4	12 –	16 ▲ 4	6 –

IN THE 2027 *Index*

North Carolina rose two spots overall from 13th to 11th. An individual income tax rate reduction from 4.25 percent to 3.99 percent improved its individual income tax ranking, with the state moving up four spots to 19th. The state's corporate ranking remained relatively stable. Although North Carolina does not conform to federal bonus depreciation provisions, it continues to levy the nation's lowest corporate income tax rate among states that impose one. That rate declined further this year from 2.25 to 2.0 percent.

FORTHCOMING, NOT YET REFLECTED

Since the state adopted a tax reform package in 2021, North Carolina's individual and corporate income tax rates have seen repeated reductions. If revenues follow projections, the individual income tax rate will drop to 3.49 percent in 2027 and 2.99 percent in 2028. Also in 2028, the corporate rate is scheduled to drop to 1 percent, with total elimination of the corporate income tax planned for 2030.

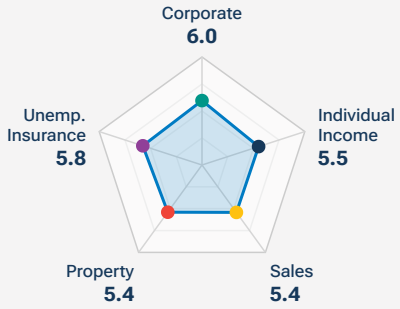
Of the states that levy all the major taxes, North Carolina is among the highest performers on the *Index*, with its flat 3.99 percent individual income tax rate, low 2 percent corporate income tax rate (slated for eventual repeal), and relatively competitive property and sales tax systems. These low 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, although North Carolina passed conformity legislation during its 2026 legislative session, it decoupled from most of the business expensing provisions in the One Big Beautiful Bill Act (OBBBA) while maintaining its previous bonus depreciation allowance under Section 168(k) at 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 $2.56 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.

Component scores

out of 10



North Carolina and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	#8	–
North Carolina	**#11**	▲ 2
Georgia	#24	▼ 6
Virginia	#31	▼ 4
South Carolina	#34	▼ 6

North Dakota #12

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
12 ▼ 2	7 ▲ 5	23 ▼ 8	17 ▼ 1	7 ▼ 1	13 ▲ 1

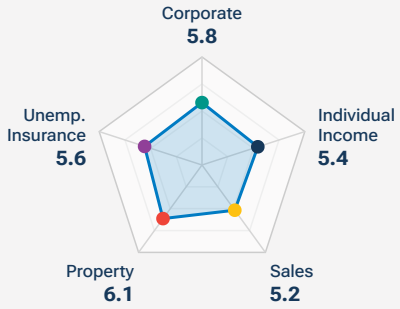
North Dakota performs above average across all tax categories, ranking just outside of the top 10 states overall, as well as within the top 10 on the property tax and corporate tax components. While North Dakota's corporate and individual income taxes have a graduated-rate structure, both rates are low, with North Dakota's top marginal individual income tax rate tied with Arizona's as the lowest in the country (2.5 percent). In May 2025, North Dakota lawmakers limited the growth in local property tax collections by placing a 3 percent cap on annual property tax revenue increases. The same law also raised the homestead property tax credit from $500 to $1,600 and increased the property tax credit for disabled veterans and surviving spouses from $8,100 to $9,000.

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 Section 179, provides generous carryforward treatment for NOLs, and does not levy a capital stock tax, real estate transfer tax, or estate or inheritance tax.

Component scores

out of 10



North Dakota and its neighbors

Overall rank, 2027 Index, with change from 2026

South Dakota	#2	–
Montana	#7	▼ 2
North Dakota	**#12**	▼ 2
Minnesota	#41	▲ 2



Ohio

#36

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
36 ▲ 2	45 –	33 ▲ 5	44 –	5 –	15 ▼ 4

IN THE 2027 *Index*

Ohio moved from a graduated-rate individual income tax to a flat individual income tax at a lower rate of 2.75 percent, improving its individual income tax ranking five places, from 38th to 33rd, while helping improve the state's overall ranking from 38th to 36th.

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, because this results in the same final good or service being taxed at multiple points during the course of production.

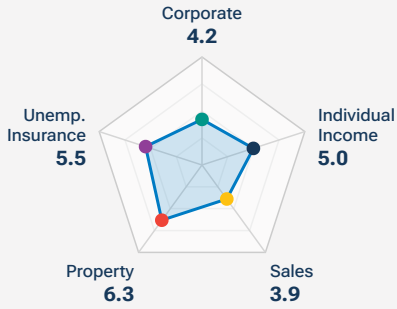
Notably, however, Ohio's CAT was adopted as a replacement for a corporate income tax, a capital stock tax, and the tangible personal property tax and is imposed at a relatively low 0.26 percent rate with a $6 million exclusion. Despite its structural shortcomings, its adoption represented a meaningful tax cut for many businesses.

Ohio ranks well 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. In late 2025, Ohio adopted inflation-based property tax revenue limits to constrain school and county property tax collections in response to rising property valuations. These limits took effect in 2026.

In recent years, Ohio has adopted significant individual income tax relief, lowering the top rate to 2.75 percent as of 2026. This has helped the state's individual tax component score, but high-rate income taxes levied at the local level increase tax costs 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.

Component scores

out of 10



Ohio and its neighbors

Overall rank, 2027 Index, with change from 2026

Indiana	#14	▼ 3
Michigan	#25	▼ 9
Kentucky	#26	▼ 1
West Virginia	#29	▲ 6
Pennsylvania	#30	–
Ohio	**#36**	▲ 2

Oklahoma

#15

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
15 ▲ 4	5 –	15 ▲ 13	34 –	9 ▲ 1	3 ▲ 2

IN THE 2027 *Index*

As a result of tax bills passed in 2025, Oklahoma moved from six individual income tax brackets to three, and from a top rate of 4.75 to 4.5 percent, improving the state's individual income tax rank by 13 places. The state also conformed to the improved expensing treatment enacted by the OBBBA, while resisting the option to exempt tips and overtime pay from the income tax. All these improvements brought Oklahoma's rank from 19th to 15th overall.

In recent years, Oklahoma lawmakers have adopted several structural reforms, including eliminating the income tax's marriage penalty and repealing a capital stock tax. In 2025, lawmakers again reformed the individual income tax by reducing the top marginal rate to 4.5 percent, consolidating six brackets into three, and providing fiscal safeguards for future triggered rate reductions. These changes take effect in 2026. However, lawmakers have yet to index the code 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.

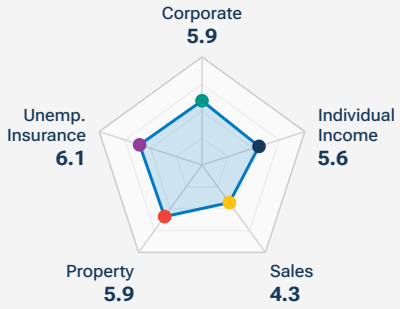
Oklahoma's property taxes are relatively low, and the state has benefited from the repeal of the capital stock tax. Capital stock taxes are imposed on a business's net worth (or accumulated wealth) and tend to penalize investment. Moreover, businesses were required to pay the capital stock tax regardless 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 bonus depreciation for qualifying investments in machinery and equipment. This boosted the state's competitiveness, particularly because, at the time, the federal One Big Beautiful Bill Act (OBBBA) had not yet been introduced. This pro-growth reform makes the state attractive to capital-intensive industries.

Oklahoma has a single corporate tax rate at 4 percent; however, the state does not conform to federal depletion rules for oil and gas—rules similar to depreciation that apply to natural resources—but it does have its own state-specific deduction. 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.

Component scores

out of 10



Oklahoma and its neighbors

Overall rank, 2027 Index, with change from 2026

Texas	#5	▲ 2
Missouri	#9	▲ 3
Oklahoma	**#15**	▲ 4
Kansas	#19	▲ 4
New Mexico	#28	▲ 3
Arkansas	#32	▼ 3
Colorado	#33	▲ 1



Oregon

#37

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
37 ▼ 1	49 –	44 ▼ 3	4 –	32 ▼ 6	43 ▼ 2

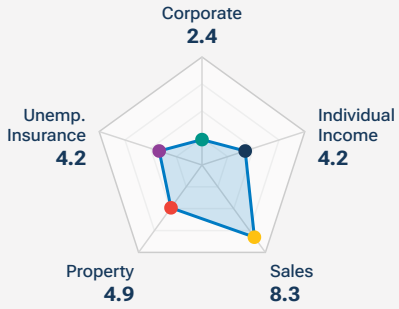
Oregon forgoes a sales tax but doubles down on other forms of taxation. The state has a complex and progressive individual income tax system with four tax brackets, a top marginal rate of 9.9 percent, and a personal exemption structured as a tax credit. Additionally, the tax brackets are not fully adjusted 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, one of the only other states 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.

Component scores

out of 10



Oregon and its neighbors

Overall rank, 2027 Index, with change from 2026

Idaho	#13	▼ 4
Nevada	#21	▲ 1
Oregon	**#37**	▼ 1
Washington	#47	▼ 1
California	#49	▼ 1

Pennsylvania #30

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
30 –	35 ▼ 1	34 ▲ 1	18 –	11 ▲ 1	35 ▼ 1

Pennsylvania has a low, flat state-level individual income tax rate of 3.07 percent, but many residents are subject to local earned income taxes imposed by municipalities and school districts. Although these taxes apply mainly to wages and other earned income rather than the broader state income tax base, they can significantly increase tax liability in certain jurisdictions within the Commonwealth. Additionally, Pennsylvania maintains an uncompetitive "convenience of the employer rule," which can lead to double taxation for remote employees working for businesses located in the Commonwealth—ultimately a disincentive for businesses to locate in the state if they want to be able to hire across the country. Pennsylvania also requires individual income tax filing and withholding for nonresidents working even a single day in the state.

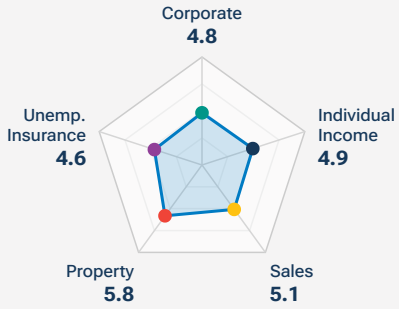
Pennsylvania's corporate income tax rate is unusually high at 7.49 percent, but it is slowly phasing down to a competitive 4.99 percent. Pennsylvania is among the very few states to significantly cap net operating loss carryforwards, limiting them to 50 percent of taxable income in tax year 2026. Legislation enacted in 2025 will phase this cap up to 80 percent by 2029. The Commonwealth is decoupled from federal bonus depreciation —Section 168(k)—which permanently allows immediate full expensing of qualified machinery and equipment investments. The state is also decoupled from Section 174A, which permanently restores full expensing for domestic research and development costs. Additionally, it limits Section 179 expensing for pass-through businesses to $1.25 million in annual expenses, whereas most states offer $2.56 million. Conformity to these provisions could improve the Commonwealth's tax competitiveness.

Pennsylvania's local taxes are among the most complex and burdensome in the country. Localities with existing gross receipts taxes are allowed 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.

Pennsylvania is one of only five states that still impose an inheritance tax, making the state less attractive to high-net-worth individuals.

Component scores

out of 10



Pennsylvania and its neighbors

Overall rank, 2027 Index, with change from 2026

Delaware	#22	▼ 1
West Virginia	#29	▲ 6
Pennsylvania	**#30**	–
Ohio	#36	▲ 2
Maryland	#44	▲ 1
New Jersey	#48	▲ 1
New York	#50	–

Rhode Island #39

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
39 ▲ 1	37 ▼ 5	26 ▲ 4	30 –	43 ▼ 1	48 –

FORTHCOMING, NOT YET REFLECTED

In June 2026, H 7127 was adopted, creating a new three percentage-point surtax on individual income over $1 million. This policy change will phase in over three years, raising the state's top marginal individual income tax rate from 5.99 in 2026 to 6.99 percent in 2027, 7.99 percent in 2028, and 8.99 percent in 2029. This change will hurt Rhode Island's performance on future editions of the *Index*.

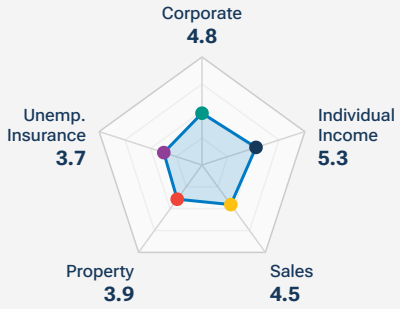
Rhode Island ranks poorly overall due to below-average rankings on all five components. Hurting Rhode Island's individual income tax component ranking is the sizeable marriage penalty in its individual income tax brackets, with bracket thresholds that are not adjusted for married couples. While it will only affect future *Index* rankings, Rhode Island also adopted a new top marginal rate of 8.99 percent, which is three percentage points higher than its current top rate of 5.99 percent, beginning to phase in in 2027. On the corporate component, Rhode Island taxes net CFC tested income (NCTI), 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. However, Rhode Island recently made strides to improve its treatment of business net operating losses (NOLs) by increasing the NOL carryforward period from 5 to 20 years, bringing it more in line with other states.

On the property tax component, Rhode Island benefits from forgoing a capital stock tax and provides a tangible personal property de minimis exemption, but the state continues to levy an estate tax, taxes commercial property more heavily than residential property, 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.

Component scores

out of 10



Rhode Island and its neighbors

Overall rank, 2027 Index, with change from 2026

Rhode Island	#39	▲ 1
Massachusetts	#45	▼ 1
Connecticut	#46	▲ 1

South Carolina #34

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
34 ▼ 6	21 ▼ 10	27 ▼ 3	28 –	40 –	26 ▲ 1

IN THE 2027 *Index*

South Carolina passed rate reductions this year, bringing its top individual income tax rate from 6 percent to 5.21 percent. However, the scoring benefit of the rate reduction was outweighed by its lagged general conformity, low Section 179 limitation, and lack of Section 168(n) expensing. In the end, South Carolina's overall ranking dropped six spots, from 28th to 34th.

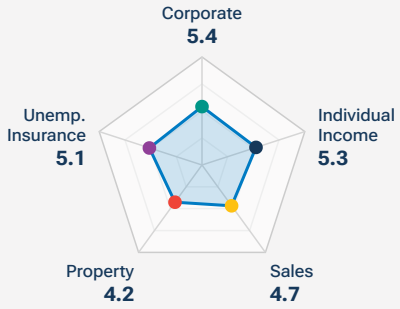
South Carolina levies an individual income tax with two brackets, a top marginal rate of 5.21 percent, and a marriage penalty. By contrast, neighboring North Carolina levies a flat 3.99 percent individual income tax and does not impose a marriage penalty, making South Carolina's levy particularly uncompetitive regionally. 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 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.

Component scores

out of 10



South Carolina and its neighbors

Overall rank, 2027 Index, with change from 2026

North Carolina	#11	▲ 2
Georgia	#24	▼ 6
South Carolina	**#34**	▼ 6

South Dakota #2

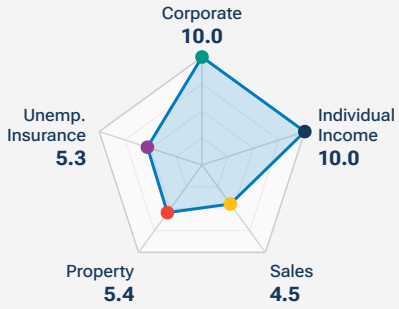
Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
2 –	1 –	1 –	31 –	15 ▼ 1	19 ▲ 1

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 also relies on relatively high property taxes to fund local government. While the state does impose a tax on the tangible property of centrally assessed utility and transportation property, the property tax base is competitive in that the state generally exempts business tangible personal property and business inventory from taxation. South Dakota does not have an estate or inheritance tax. The state does, however, utilize split roll property taxation, as school districts may levy separate rates on different classes of property. By favoring some classes of property over others, the tax burden is imposed in a nonneutral manner, which distorts economic decision-making.

Component scores

out of 10



South Dakota and its neighbors

Overall rank, 2027 Index, with change from 2026

Wyoming	#1	–
South Dakota	**#2**	–
Montana	#7	▼ 2
North Dakota	#12	▼ 2
Nebraska	#16	▲ 8
Iowa	#18	▼ 1
Minnesota	#41	▲ 2

Tennessee

#8

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
8 –	48 –	1 –	45 –	23 ▲ 10	16 –

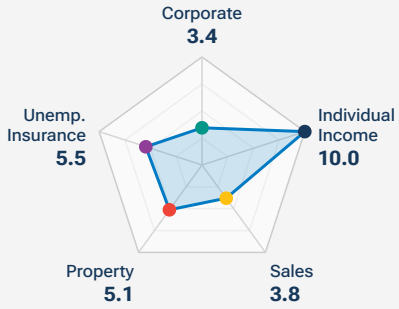
Tennessee forgoes an individual income tax, having phased out a narrow tax on interest and dividend income, known as the Hall Tax, in 2021. However, Tennessee is among the minority of states that still have a capital stock tax on the books, despite making structural improvements to it during the 2024 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, net CFC tested income (NCTI) 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 Tax Cuts and Jobs Act's treatment of first-year expensing under Section 168(k), but did so in such a way that maintains the phasedown that was reversed under the One Big Beautiful Bill Act (OBBBA). As such, Tennessee offers a bonus depreciation allowance of only 20 percent in 2026 and is on track to see its bonus depreciation allowance zeroed out as of 2027.

Tennessee has among the highest combined state and average local sales tax rates in the nation. The largest portion of the sales tax burden comes from the 7 percent state-level sales tax rate, which is second only to California's 7.25 percent rate (and tied with the state sales tax rates in Indiana, Mississippi, and Rhode Island). 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.

Component scores

out of 10



Tennessee and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	**#8**	–
Missouri	#9	▲ 3
North Carolina	#11	▲ 2
Georgia	#24	▼ 6
Kentucky	#26	▼ 1
Mississippi	#27	▼ 1
Virginia	#31	▼ 4
Arkansas	#32	▼ 3
Alabama	#35	▲ 2



Texas

#5

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
5 ▲ 2	46 –	1 –	35 ▲ 1	34 ▲ 4	31 ▼ 1

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

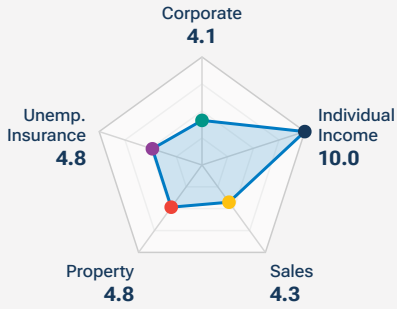
The margin tax is complex and burdensome. As a modified gross receipts tax, it applies to a firm's total sales with limited deductions, rather than being imposed on profits.

In 2025, Texas voted to increase the homestead exemption on residential property from $100,000 to $140,000 ($200,000 for the elderly, disabled, and disabled veterans). This exemption is limited to school district property taxes alone, and the state replaces lost education funding with general fund revenue. Instead of shifting the tax burden directly to commercial property and renters like most homestead exemptions, this policy redirects the burden to the state's general revenue sources, and thus to all taxpayers regardless of home ownership.

Texas treats remote sellers and marketplace facilitators competitively, using a gross sales threshold to require collection and remittance. Additionally, the dollar threshold is $500,000, greater than in most other states, which better aligns the threshold with the size of the state's economy.

Component scores

out of 10



Texas and its neighbors

Overall rank, 2027 Index, with change from 2026

Texas	#5	▲ 2
Oklahoma	#15	▲ 4
Louisiana	#23	▲ 9
New Mexico	#28	▲ 3
Arkansas	#32	▼ 3

Utah

#10

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
10 ▲ 5	8 ▲ 7	10 ▲ 1	22 –	12 ▲ 1	29 –

IN THE 2027 *Index*

Utah improved five places, to 10th overall, as the state conformed to pro-growth provisions of the OBBBA from which some of its peers decoupled. Utah trimmed its individual and corporate income tax rates to 4.45 percent, building on years of modest rate reductions. More substantially, however, it conformed to the restoration of first-year expensing for both manufacturing machinery and equipment and for research and experimentation expenses. Utah also conformed to the new higher small business expensing cap under Section 179, and its inflation-adjusted tangible personal property (TPP) tax *de minimis* exemption improved relative to states with unindexed exemptions. Utah's greatest improvement was in its corporate tax component, where its rank improved 7 places, from 15th to 8th.

FORTHCOMING, NOT YET REFLECTED

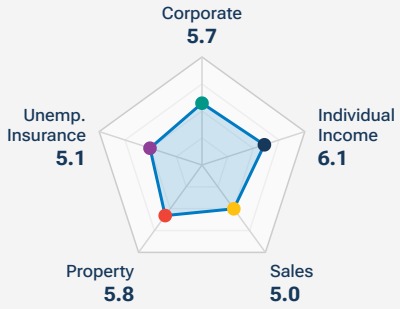
Utah enacted a tax on "targeted advertising" in 2026, which, while ostensibly broad, practically includes digital advertising alone. This change takes effect in January 2027, so it does not affect Utah's score for this edition but will be reflected in next year's *Index*.

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 4.45 percent (with no local income taxes), imposed on reasonably broad bases, combine with 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. Lawmakers have consistently trimmed state income tax rates as the state continues to experience strong revenue collections.

Utah largely avoids excessive taxation of in-state capital investment. It forgoes capital stock and gross receipts taxes 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 net CFC tested income (NCTI), formerly global intangible low-taxed income (GILTI), in its corporate tax base, making it an outlier nationwide and particularly among lower-tax states. The state also imposes a throwback rule.

Component scores

out of 10



Utah and its neighbors

Overall rank, 2027 Index, with change from 2026

Wyoming	#1	–
Utah	**#10**	▲ 5
Idaho	#13	▼ 4
Arizona	#17	▼ 3
Nevada	#21	▲ 1
New Mexico	#28	▲ 3
Colorado	#33	▲ 1

Vermont

#42

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
42 ▼ 1	40 ▼ 1	40 ▲ 2	29 –	50 ▼ 1	12 –

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.

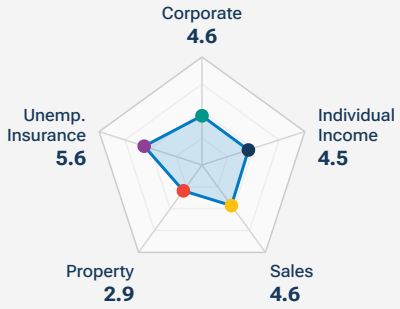
Vermont levies an individual income tax with multiple brackets, including a top marginal rate of 8.75 percent; the tax also includes a marriage penalty for joint filers. The Green Mountain State levies a tax at a flat rate of 16 percent on estates worth more than $5 million.

Property taxpayers in the state are subject to some of the highest effective rates of taxation as a percentage of personal income. Further, property tax collections per capita in the state are among the highest in the country ($3,465). The state's sales tax base is unnecessarily narrow and exempts many personal goods and services while also subjecting several business inputs to the tax, which causes tax pyramiding and ultimately increases the costs borne by consumers.

Vermont's corporate income tax features three brackets, with thresholds that are not indexed for inflation, and a top marginal rate of 8.5 percent. Net operating loss carryforwards are limited to 10 years, with no corresponding carryback allowance, and Vermont is among the minority of states that tax net CFC tested income (NCTI).

Component scores

out of 10



Vermont and its neighbors

Overall rank, 2027 Index, with change from 2026

New Hampshire	#6	–
Vermont	**#42**	▼ 1
Massachusetts	#45	▼ 1
New York	#50	–

Virginia

#31

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
31 ▼ 4	24 ▼ 7	38 ▼ 1	13 –	30 ▼ 2	36 ▲ 1

IN THE 2027 *Index*

Virginia fell four places overall to 31st, a decline mostly attributable to other states adopting competitive reforms while the Commonwealth stood still. Virginia's corporate tax ranking dropped the most compared with its other *Index* rankings, sliding from 17th to 24th. While many states conform to full bonus depreciation under Section 168(k) and Section 174A, Virginia remains decoupled from these provisions. Additionally, the Commonwealth allows municipalities to establish local gross receipts taxes, further reducing its competitiveness.

Virginia's tax code includes all major tax types. The state's individual income tax has remained stable over four 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. The Commonwealth's four tax brackets were established in 1987 and are not adjusted for inflation. The progressive income tax structure has a top marginal rate higher than most of its neighbors, including Kentucky, North Carolina, Tennessee, and West Virginia. Additionally, Virginia requires individual income tax filing and withholding for nonresidents working even a single day in the state.

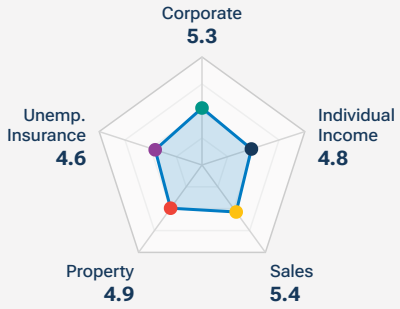
Virginia's elective pass-through entity tax (PTET) was scheduled to sunset after tax year 2026, but this sunset was eliminated during the 2026 legislative session, making this election permanent.

While Virginia's flat corporate income tax rate of 6 percent is around the national average, it is lower than most of Virginia's neighbors (except North Carolina and Kentucky). The state conforms to the federal treatment of net operating losses, does not tax net CFC tested income (NCTI), 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 federal bonus depreciation under Section 168(k) and Section 174A, which negatively impacts the state's tax competitiveness. Implementing both provisions allowing permanent full expensing could improve Virginia's business tax climate. Virginia's sales tax rate is relatively competitive, though the state could improve its sales tax structure by broadening its base to include more consumer services (but not business inputs). In recent years, local and regional sales tax authority has been expanded.

Virginia does not impose estate or inheritance taxes, making it more appealing to wealthy households and retirees. Most of Virginia's shortcomings are at the local level, with a trio of taxes on business personal property (with no de minimis exemption), business inventory, and business gross receipts. Counties and independent cities are entitled to impose their choice of two of these three taxes.

Component scores

out of 10



Virginia and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	#8	–
North Carolina	#11	▲ 2
Kentucky	#26	▼ 1
West Virginia	#29	▲ 6
Virginia	**#31**	▼ 4
Maryland	#44	▲ 1
District of Columbia	#47*	

Washington

#47

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
47 ▼ 1	47 –	36 ▼ 5	50 ▼ 1	18 ▲ 5	49 –

IN THE 2027 *Index*

Although Washington's overall rank fell one place, from 46th to 47th, the state improved five places on the property and wealth tax component after reverting the top estate tax rate from 35 percent to 20 percent. The inclusion of digital advertising in the sales tax base, part of a broader expansion of business-to-business taxation of digital products, dropped Washington's sales and excise tax component rank from 49th to 50th. A recently adopted 9.9 percent tax on income above $1 million goes into effect in 2028 and does not affect current rankings.

FORTHCOMING, NOT YET REFLECTED

Despite the state's judicial history of ruling against income taxes, Washington lawmakers adopted a new 9.9 percent tax in 2026 on income above $1 million. This tax will go into effect in 2028, likely facing legal questions before then, and significantly affecting the state's future *Index* scores.

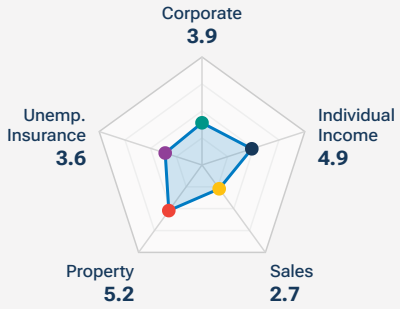
Washington has historically forgone an individual income tax on wage income, which courts and many lawmakers have concluded violates the state constitution, but this is changing. The state recently imposed a tax on high earners' capital gains income, a policy that raised constitutional questions but ultimately secured the assent of the state supreme court. It became a graduated rate tax in 2025, with a top rate of 9.9 percent for gains above $1 million. In 2026, lawmakers adopted a new tax of 9.9 percent on income above $1 million, which will likewise draw legal challenges. The new tax does not go into effect until 2028 and is not included in the current *Index*.

The state 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. In 2025, lawmakers adopted legislation further expanding digital products taxation and notably including digital advertising in the base, which raises legal concerns along with economic ones. Washington also levies a progressive real estate transfer tax and an estate tax. The estate tax's top rate was briefly raised to 35 percent in 2025, rivaling the 40 percent top federal rate, but lawmakers, acknowledging that the high rate was counterproductive, rolled it back to 20 percent in 2026. 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.

Component scores

out of 10



Washington and its neighbors

Overall rank, 2027 Index, with change from 2026

Idaho	#13	▼ 4
Oregon	#37	▼ 1
Washington	**#47**	▼ 1

West Virginia

#29

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
29 ▲ 6	**23** ▲ 7	**24** ▲ 5	**33** –	**22** ▼ 5	**23** ▲ 1

IN THE 2027 *Index*

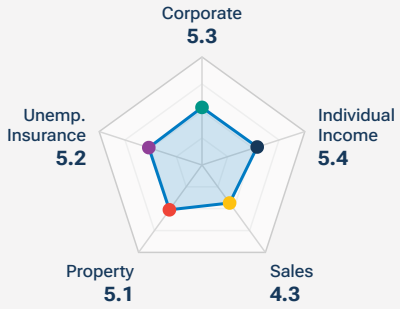
West Virginia's ranking improved six places overall (from 35th to 29th), including seven places on the corporate component and five places on the individual component, due to the state's conformity to the OBBBA's business expensing provisions. However, West Virginia fell five places on the property tax component due to changes that exacerbated the state's property tax split roll ratio, shifting more of the property tax burden onto commercial properties, and due to an increase in the state's property tax collections per capita.

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 recently reduced its individual income tax rates, with a current top rate of 4.58 percent. The legislature has adopted revenue triggers that will continue to phase in rate reductions subject to revenue availability. West Virginia has a 6.5 percent corporate income tax rate, which is lower than those of neighboring Maryland and Pennsylvania but higher than those of Kentucky and Virginia. Some West Virginia localities also impose gross receipts taxes, called business & occupation taxes. 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 maintains a split roll treatment of property, under which commercial and industrial property are taxed at higher rates than owner-occupied residential property. This non-neutral tax treatment distorts investment decisions and allows policymakers to increase taxes on certain types of property without being seen as raising taxes on homeowners.

Component scores

out of 10



West Virginia and its neighbors

Overall rank, 2027 Index, with change from 2026

Kentucky	#26	▼ 1
West Virginia	**#29**	▲ 6
Pennsylvania	#30	–
Virginia	#31	▼ 4
Ohio	#36	▲ 2
Maryland	#44	▲ 1

Wisconsin

#20

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
20 –	28 ▼ 1	39 ▲ 1	7 –	6 ▲ 1	32 ▼ 1

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.

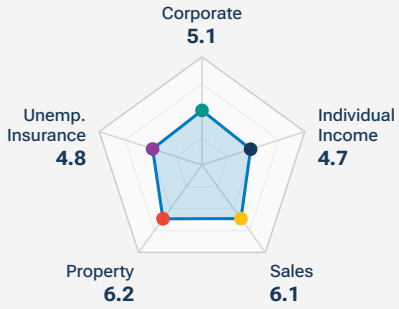
Wisconsin does not offer first-year expensing for machinery and equipment investments, and its imposition of a throwback rule exposes an outsized share of in-state businesses' income to the state's high 7.9 percent corporate income tax rate. While lawmakers have reduced the state's lower marginal individual income tax rates in recent years, Wisconsin is one of only a few 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 sales 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.

Component scores

out of 10



Wisconsin and its neighbors

Overall rank, 2027 Index, with change from 2026

Iowa	#18	▼ 1
Wisconsin	**#20**	–
Michigan	#25	▼ 9
Illinois	#38	▲ 1
Minnesota	#41	▲ 2

Wyoming

#1

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
1 –	1 –	1 –	6 –	39 ▼ 2	33 –

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.

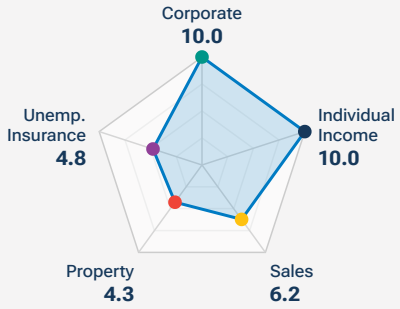
The four percent statewide sales tax rate is nationally competitive, even after accounting for local sales taxes. The tax base is broad, but includes a disproportionate share of business inputs, which can lead to tax pyramiding and make it more expensive to produce or conduct business in the state. While 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.

Wyoming property owners have faced surging property valuations in recent years. In 2024, voters authorized the legislature to create a specific residential property tax class, further splitting the roll. In 2025, the legislature enacted a 25 percent exemption on the first $1 million of the value of a single-family residential home and its improved land. This only applies to primary residences inhabited for at least eight months of the year, with exceptions for active-duty military personnel. Similarly, seniors have separate property tax exemptions.

Component scores

out of 10



Wyoming and its neighbors

Overall rank, 2027 Index, with change from 2026

Wyoming	**#1**	–
South Dakota	#2	–
Montana	#7	▼ 2
Utah	#10	▲ 5
Idaho	#13	▼ 4
Nebraska	#16	▲ 8
Colorado	#33	▲ 1

Table 8. State Corporate Income Tax Rates (as of July 1, 2026)

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	4.4%	>	$0	
Connecticut (b)	7.5%	>	$0	
	8.25%	>	$100,000,000	
Delaware	8.7%	>	$0	0.0945% - 0.7468% (c)
Florida	5.5%	>	$50,000	
Georgia	4.99%	>	$0	
Hawaii	4.4%	>	$0	
	5.4%	>	$25,000	
	6.4%	>	$100,000	
Idaho	5.3%	>	$0	
Illinois (d)	9.5%	>	$0	
Indiana	4.9%	>	$0	
Iowa	5.5%	>	$0	
	7.1%	>	$100,000	
Kansas	3.5%	>	$0	
	6.5%	>	$50,000	
Kentucky	5.0%	>	$0	
Louisiana	5.5%	>	$0	
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	4.55%	>	$0	
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	5.9%	>	$0	
New York (f)	6.5%	>	$0	
	7.25%	>	$5,000,000	
North Carolina	2.0%	>	$0	
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	7.49%	>	$0	
Rhode Island	7.0%	>	$0	
South Carolina	5.0%	>	$0	
South Dakota	None			
Tennessee	6.5%	>	$0	0.02% - 0.1875% (c)
Texas	(a)			0.331% - 0.75% (c)
Utah	4.45%	>	$0	
Vermont	6.0%	>	$0	
	7.0%	>	$10,000	
	8.5%	>	$25,000	
Virginia	6.0%	>	$0	0.02% - 0.58% (c)
Washington	(a)			0.138% - 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 Oregon Corporate Activity Tax, the Tennessee Business Tax, the Texas Margin Tax, the Virginia locally levied Business/Professional/Occupational License Tax, and the Washington Business & Occupation Tax. Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax, while Delaware, Oregon, 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 for businesses with at least $100 million in 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, 2026)

State	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	No		
Massachusetts	Yes	Yes	Yes		
Michigan	No	Yes	No		
Minnesota	No	Yes	Yes		
Mississippi	Yes	No	Yes		
Missouri	Yes	Yes	Yes		
Montana	Yes	No	No		
Nebraska	Yes	Yes	Yes		
Nevada	No	No	No	No	No
New Hampshire	No	Yes	No		
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	Yes	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	No	Yes	Yes		
Vermont	Yes	Yes	No		
Virginia	No	Yes	No		
Washington	Yes	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, 2026)

State	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	10	Unlimited
California	0	$0	0	$0
Colorado	0	$0	20	80%
Connecticut	0	$0	30	50%
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		Conforms to federal treatment		
Kansas	0	$0	Unlimited	Unlimited
Kentucky		Conforms to federal treatment		
Louisiana	0	$0	Unlimited	72%
Maine		Conforms to federal treatment		
Maryland		Conforms to federal treatment		
Massachusetts	0	$0	20	Unlimited
Michigan	0	$0	10	Unlimited
Minnesota	0	$0	15	70%
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	80%
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	50% of Liability (a)
Rhode Island	0	$0	20	80%
South Carolina		Conforms to federal treatment		
South Dakota	n.a.	n.a.	n.a.	n.a.
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 20-year carryforwards but caps claims at 50% 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, 2026)

State	Section 168(k) Expensing	Conforms to Section 163(j) Limitation	GILTI Inclusion	Section 174 Expensing	Section 168(n) Expensing
Alabama	100%	Yes	Decouples	Yes	Yes
Alaska	100%	Yes	20% Inclusion	Yes	Yes
Arizona	0%	Yes	Decouples	Yes	No
Arkansas	0%	No	Decouples	Yes	No
California	0%	No	Decouples	Yes	No
Colorado	100%	Yes	50% Inclusion	Yes	Yes
Connecticut	0%	No	5% Inclusion	Yes	No
Delaware	20%	Yes	60% Inclusion	Yes	No
Florida	14.29%	Yes	Decouples	No	No
Georgia	0%	No	Decouples	Yes	No
Hawaii	0%	Yes	Decouples	No	No
Idaho	0%	Yes	15% Inclusion	Yes	No
Illinois	0%	Yes	50% Inclusion	Yes	No
Indiana	0%	No	Decouples	Yes	No
Iowa	100%	No	Decouples	Yes	Yes
Kansas	100%	No	Decouples	Yes	Yes
Kentucky	0%	Yes	Decouples	No	No
Louisiana	100%	Yes	Decouples	Yes	Yes
Maine	0%	Yes	50% Inclusion	No	No
Maryland	0%	Yes	50% Inclusion	Yes	No
Massachusetts	0%	Yes	5% Inclusion	Yes	No
Michigan	0%	Yes	Decouples	No	No
Minnesota	20%	Yes	50% Inclusion	No	Yes
Mississippi	100%	No	Decouples	Yes	Yes
Missouri	100%	No	Decouples	Yes	Yes
Montana	100%	Yes	20% Inclusion	Yes	Yes
Nebraska	100%	Yes	60% Inclusion	Yes	Yes
Nevada	100%	No	n.a.	Yes	Yes
New Hampshire	0%	No	50% Inclusion	No	No
New Jersey	0%	Yes	5% Inclusion	Yes	Yes
New Mexico	100%	Yes	Decouples	Yes	Yes
New York	0%	Yes	5% Inclusion	No	No
North Carolina	15%	Yes	Decouples	No	No
North Dakota	100%	Yes	30% Inclusion	Yes	Yes
Ohio	100%	No	n.a.	Yes	Yes
Oklahoma	100%	Yes	Decouples	Yes	Yes
Oregon	0%	Yes	20% Inclusion	Yes	Yes
Pennsylvania	0%	Yes	Decouples	No	No
Rhode Island	0%	Yes	50% Inclusion	No	No
South Carolina	0%	No	Decouples	No	No
South Dakota	100%	No	n.a.	Yes	Yes
Tennessee	20%	No	5% Inclusion	Yes	No
Texas	100%	No	n.a.	Yes	Yes
Utah	100%	Yes	50% Inclusion	Yes	Yes
Vermont	0%	Yes	50% Inclusion	No	No
Virginia	0%	Yes	Decouples	No	No
Washington	100%	No	n.a.	Yes	Yes
West Virginia	100%	Yes	50% Inclusion	Yes	Yes
Wisconsin	0%	No	Decouples	Yes	No
Wyoming	100%	No	n.a.	Yes	Yes
District of Columbia	0%	Yes	50% Inclusion	No	No

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 12. State Corporate Income Tax and Business Tax Bases: Other Variables (as of July 1, 2026)

State	Federal Income Used as State Tax Base	Conformity Status	Allows Federal ACRS or MACRS Depreciation	Allows Federal Depletion	Throwback Rule	Foreign Tax Deductibility	Corporate AMT	Brackets Indexed for Inflation
Alabama	Yes	Rolling	Yes	Yes	No	Yes	No	Flat CIT
Alaska	Yes	Rolling	Yes	Partial	Yes	No	Yes	No
Arizona	Yes	Static (current)	Yes	Yes	No	No	No	Flat CIT
Arkansas	No	Static (not current)	Yes	Yes	Yes	Yes	No	No
California	Yes	Static (not current)	No	Partial	Yes	No	Yes	Flat CIT
Colorado	Yes	Rolling	Yes	Yes	Yes	No	No	Flat CIT
Connecticut	Yes	Rolling	Yes	Yes	No	Yes	No	No
Delaware	Yes	Rolling	Yes	Partial	No	No	No	Flat CIT
Florida	Yes	Static (current)	Yes	Yes	No	Yes	No	Flat CIT
Georgia	Yes	Static (current)	Yes	Yes	No	No	No	Flat CIT
Hawaii	Yes	Static (current)	Yes	Yes	Yes	Yes	No	No
Idaho	Yes	Static (current)	Yes	Yes	Yes	Yes	No	Flat CIT
Illinois	Yes	Rolling	Yes	Yes	Yes	Yes	No	Flat CIT
Indiana	Yes	Static (current)	Yes	Yes	No	Yes	No	Flat CIT
Iowa	Yes	Rolling	Yes	Yes	No	Yes	No	No
Kansas	Yes	Rolling	Yes	Yes	Yes	No	No	No
Kentucky	Yes	Static (current)	Yes	Yes	No	No	Yes	Flat CIT
Louisiana	Yes	Rolling	Yes	Partial	No	Yes	No	Flat CIT
Maine	Yes	Static (current)	Yes	Yes	Yes	Yes	No	No
Maryland	Yes	Rolling	Yes	Partial	No	Yes	No	Flat CIT
Massachusetts	Yes	Rolling	Yes	Yes	Yes	No	No	Flat CIT
Michigan	Yes	Rolling	Yes	Yes	No	No	No	Flat CIT
Minnesota	Yes	Static (current)	Yes	Partial	No	No	Yes	Flat CIT
Mississippi	No	Static (not current)	Yes	Partial	Yes	No	No	No
Missouri	Yes	Rolling	Yes	Yes	No	Yes	No	Flat CIT
Montana	Yes	Rolling	Yes	Yes	Yes	No	No	Flat CIT
Nebraska	Yes	Rolling	Yes	Yes	No	Yes	No	Flat CIT
Nevada	Yes	Rolling	Yes	Yes	No	Yes	No	GRT
New Hampshire	Yes	Static (not current)	Yes	Partial	Yes	No	Yes	Flat CIT
New Jersey	Yes	Rolling	Yes	Yes	No	No	No	No
New Mexico	Yes	Rolling	Yes	Yes	Yes	Yes	No	Flat CIT
New York	Yes	Rolling	Yes	Yes	No	Yes	No	No
North Carolina	Yes	Static (not current)	Yes	Partial	No	No	No	Flat CIT
North Dakota	Yes	Rolling	Yes	Yes	Yes	No	No	No
Ohio	Yes	Static (current)	Yes	Yes	No	Yes	No	GRT
Oklahoma	Yes	Rolling	Yes	Yes	Yes	No	No	Flat CIT
Oregon	Yes	Rolling	Yes	Partial	Yes	No	No	No
Pennsylvania	Yes	Rolling	Yes	Yes	No	No	No	Flat CIT
Rhode Island	Yes	Rolling	Yes	Yes	Yes	Yes	No	Flat CIT
South Carolina	Yes	Static (not current)	Yes	Yes	No	No	No	Flat CIT
South Dakota	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	Yes	Rolling	Yes	Partial	No	Yes	No	Flat CIT
Texas	Partial	Rolling	Yes	Yes	No	Yes	No	GRT
Utah	Yes	Rolling	Yes	Yes	Yes	No	No	Flat CIT
Vermont	Yes	Static (current)	Yes	Yes	No	Yes	No	No
Virginia	Yes	Static (current)	Yes	Yes	No	No	No	Flat CIT
Washington	Yes	Rolling	Yes	Yes	No	Yes	No	GRT
West Virginia	Yes	Static (current)	Yes	Yes	No	No	No	Flat CIT
Wisconsin	Yes	Static (not current)	Yes	Yes	Yes	No	No	Flat CIT
Wyoming	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
District of Columbia	Yes	Rolling	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, 2026)

State	Rates	Brackets (a)	Standard Deduction	Personal Exemption		Average Local Income Tax Rates (c)	Surtaxes
			Single	Per Filer (b)	Per Dependent		
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	2.5% >	$0	$8,350	n.a.	$125 (g)	None	n.a.
Arkansas (i)	2.0% >	$0	$2,470	$29 (g)	$29 (g)	None	n.a.
	3.7% >	$4,700					
California (k, m)	1.0% >	$0	$5,706	$153 (g)	$476 (g)	None	1.3%
	2.0% >	$11,079					
	4.0% >	$26,264					
	6.0% >	$41,452					
	8.0% >	$57,542					
	9.3% >	$72,724					
	10.3% >	$371,479					
	11.3% >	$445,771					
	12.3% >	$742,953					
	13.3% >	$1,000,000					
Colorado	4.4% >	$0	$16,100 (j)	n.a.	n.a.	0.06%	n.a.
Connecticut (f)	2.0% >	$0	n.a.	$15,000 (d)	$0	None	n.a.
	4.5% >	$10,000					
	5.5% >	$50,000					
	6.0% >	$100,000					
	6.5% >	$200,000					
	6.9% >	$250,000					
	6.99% >	$500,000					
Delaware	2.2% >	$2,000	$3,250	$110 (g)	$110 (g)	0.62%	n.a.
	3.9% >	$5,000					
	4.8% >	$10,000					
	5.2% >	$20,000					
	5.55% >	$25,000					
	6.6% >	$60,000					
Florida	No Income Tax					None	n.a.
Georgia	4.99% >	$0	$12,000	n.a.	$5,000	None	n.a.
Hawaii	1.4% >	$0	$4,400	$1,144 (d)	$1,144	None	n.a.
	3.2% >	$9,600					
	5.5% >	$14,400					
	6.4% >	$19,200					
	6.8% >	$24,000					
	7.2% >	$36,000					
	7.6% >	$48,000					
	7.9% >	$125,000					
	8.25% >	$175,000					
	9.0% >	$225,000					
	10.0% >	$275,000					
	11.0% >	$325,000					
Idaho (e, m)	5.3% >	$4,811	$16,100 (j)	n.a.	n.a.	None	n.a.
Illinois (h)	4.95% >	$0	$0	$2,925	$2,925	None	1.5%
Indiana	2.95% >	$0	$0	$1,000	$1,000	1.76%	n.a.
Iowa	3.8% >	$0	$16,100 (j)	$40 (g)	$40 (g)	0.10%	n.a.
Kansas	5.2% >	$0	$3,605	$9,160	$2,320	None	n.a.
	5.58% >	$23,000					
Kentucky	3.5% >	$0	$3,360	n.a.	n.a.	2.25%	n.a.
Louisiana	3.0% >	$0	$12,875	n.a.	n.a.	None	n.a.
Maine (e)	5.8% >	$0	$15,700	$5,300	$305 (g)	None	n.a.
	6.75% >	$27,399					
	7.15% >	$64,849					
	9.15% >	$1,000,001					
Maryland	2.0% >	$0	$3,350	$3,200 (d)	$3,200	3.20%	n.a.
	3.0% >	$1,000					
	4.0% >	$2,000					
	4.75% >	$3,000					
	5.0% >	$100,000					
	5.25% >	$125,000					
	5.5% >	$150,000					
	5.75% >	$250,000					
	6.25% >	$500,000					
	6.5% >	$1,000,000					
Massachusetts (e, k)	5.0% >	$0	n.a.	$4,400	$1,000	None	0.88%
	9.0% >	$1,107,750					
Michigan	4.25% >	$0	n.a.	$5,900	$5,900	1.95%	n.a.

Table 13, *Continued*. State Individual Income Tax Rates (as of July 1, 2026)

State	Rates	Brackets (a)	Standard Deduction	Personal Exemption		Average Local Income Tax Rates (c)	Surtaxes
			Single	Per Filer (b)	Per Dependent		
Minnesota (e)	5.35% >	$0	$15,300	n.a.	$5,300	None	n.a.
	6.8% >	$33,310					
	7.85% >	$109,430					
	9.85% >	$203,150					
Mississippi	4.0% >	$10,000	$2,300	$6,000	$1,500	None	n.a.
Missouri (e)	2.0% >	$1,348	$16,100 (j)	n.a.	n.a.	1.00%	n.a.
	2.5% >	$2,696					
	3.0% >	$4,044					
	3.5% >	$5,392					
	4.0% >	$6,740					
	4.5% >	$8,088					
	4.7% >	$9,436					
Montana	4.7% >	$0	$16,100 (j)	n.a.	n.a.	None	n.a.
	5.65% >	$47,500					
Nebraska	2.46% >	$0	$8,850	$176 (d, g)	$176 (d, g)	None	n.a.
	3.51% >	$4,130					
	4.55% >	$24,760					
Nevada	No Income Tax					None	n.a.
New Hampshire	No Income Tax					None	n.a.
New Jersey	1.4% >	$0	n.a.	$1,000	$1,500	None	n.a.
	1.75% >	$20,000					
	3.5% >	$35,000					
	5.525% >	$40,000					
	6.37% >	$75,000					
	8.97% >	$500,000					
	10.75% >	$1,000,000					
New Mexico	1.5% >	$0	$16,100 (j)	n.a.	$4,000	None	n.a.
	3.2% >	$5,500					
	4.3% >	$16,500					
	4.7% >	$33,500					
	4.9% >	$66,500					
	5.9% >	$210,000					
New York (f)	3.9% >	$0	$8,000	n.a.	$1,000	1.94%	n.a.
	4.4% >	$8,500					
	5.15% >	$11,700					
	5.4% >	$13,900					
	5.9% >	$80,650					
	6.85% >	$215,400					
	9.65% >	$1,077,550					
	10.3% >	$5,000,000					
	10.9% >	$25,000,000					
North Carolina	3.99% >	$0	$12,750	n.a.	n.a.	None	n.a.
North Dakota (e)	1.95% >	$49,575	$16,100 (j)	n.a.	n.a.	None	n.a.
	2.5% >	$250,400					
Ohio	2.75% >	$26,050	n.a.	$2,400	$2,400	2.50%	n.a.
Oklahoma	2.5% >	$3,750	$6,350	$1,000	$1,000	None	n.a.
	3.5% >	$4,900					
	4.5% >	$7,200					
Oregon (e, k)	4.75% >	$0	$2,910	$256 (g)	$256 (g)	2.64%	0.1%
	6.75% >	$4,550					
	8.75% >	$11,400					
	9.9% >	$125,000					
Pennsylvania	3.07% >	$0	n.a.	n.a.	n.a.	3.37%	n.a.
Rhode Island (e)	3.75% >	$0	$11,200	$5,250	$5,250	None	n.a.
	4.75% >	$82,050					
	5.99% >	$186,450					
South Carolina (e)	1.99% >	$0	$8,350	n.a.	$4,930	None	n.a.
	5.21% >	$30,000					
South Dakota	No Income Tax					None	n.a.
Tennessee	No Income Tax					None	n.a.
Texas	No Income Tax					None	n.a.
Utah	4.45% >	$0	$21,708	(l)	$2,111	None	n.a.
Vermont (e, m)	3.35% >	$0	$7,650	$5,300	$5,300	None	n.a.
	6.6% >	$49,400					
	7.6% >	$119,700					
	8.75% >	$249,700					
Virginia	2.0% >	$0	$8,750	$930	$930	None	n.a.
	3.0% >	$3,000					
	5.0% >	$5,000					
	5.75% >	$17,000					

Table 13, *Continued*. State Individual Income Tax Rates (as of July 1, 2026)

State	Rates		Brackets (a)	Standard Deduction	Personal Exemption		Average Local Income Tax Rates (c)	Surtaxes
				Single	Per Filer (b)	Per Dependent		
Washington (k, n)	7.0%	>	$278,000	n.a.	n.a.	n.a.	None	0.58%
	9.9%	>	$1,000,001					
West Virginia	2.11%	>	$0	n.a.	$2,000	$2,000	0.42%	n.a.
	2.81%	>	$10,000					
	3.16%	>	$25,000					
	4.22%	>	$40,000					
	4.58%	>	$60,000					
Wisconsin (e, m)	3.5%	>	$0	$13,960	$700	$700	None	n.a.
	4.4%	>	$14,680					
	5.3%	>	$50,480					
	7.65%	>	$323,290					
Wyoming	No Income Tax		$0				None	n.a.
District of Columbia	4.0%	>	$0	$16,100 (j)	n.a.	n.a.	None	n.a.
	6.0%	>	$10,000					
	6.5%	>	$40,000					
	8.5%	>	$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, CT, HI, KS, ME, MT, OK, OR). California doubles all except the top two brackets. Some states increase but do not double brackets for joint filers (MN, NM, ND, NY, VT, WI). Maryland increases only its top four brackets. 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 effective income tax rate in the 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) Rates apply to individuals earning more than $92,300. A separate tax tables exist for individuals earning $92,300 or less, with rates of 2% on income greater than or equal to $5,500; 3% on income greater than or equal to $10,900; 3.4% on income greater than or equal to $15,600; and 3.9% on income greater than $25,700 but less than or equal to $92,300.
(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) Rates exclude California's 1.3% payroll tax to fund the state's disability insurance program. There is no wage ceiling for this payroll tax, which means the state's top marginal rate on wage income becomes 14.6%. Oregon, Massachusetts, and Washington also impose payroll taxes which are included in Index calculations.
(l) 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), excluding the deduction for state or local income tax. This credit is phased out for higher-income taxpayers.
(m) Bracket levels are adjusted for inflation each year; 2026 inflation adjustments were not available as of publication, so inflation-adjusted amounts for tax year 2025 are shown.
(n) 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, 2026)

State	Marriage Penalty	Convenience Rule	Capital Income Taxed			Indexed for Inflation			Progressivity Ratio
			Interest	Dividends	Capital Gains	Tax Brackets	Standard Deduction	Personal Exemption	
Alabama	No	No	Yes	Yes	Yes	No	No	No	1.00
Alaska	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Arkansas	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
California	Yes	No	Yes	Yes	Yes	Partial	Yes	Yes	2.22
Colorado	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Connecticut	No	Partial	Yes	Yes	Yes	No	Yes	No	1.55
Delaware	Yes	Yes	Yes	Yes	Yes	No	No	No	1.00
Florida	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Georgia	No	No	Yes	Yes	Yes	Yes	No	No	1.00
Hawaii	No	No	Yes	Yes	Yes	No	No	No	1.53
Idaho	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Illinois	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Indiana	No	No	Yes	Yes	Yes	Yes	Yes	No	1.00
Iowa	No	No	Yes	Yes	Yes	Yes	Yes	No	1.00
Kansas	No	No	Yes	Yes	Yes	No	No	No	1.00
Kentucky	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Louisiana	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Maine	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	1.58
Maryland	Yes	No	Yes	Yes	Yes	No	Yes	No	1.37
Massachusetts	No	No	Yes	Yes	Yes	Yes	Yes	No	1.80
Michigan	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Minnesota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	1.45
Mississippi	No	No	Yes	Yes	Yes	No	No	No	1.00
Missouri	No	No	Yes	Yes	No	Yes	Yes	Yes	1.00
Montana	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Nebraska	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Nevada	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Hampshire	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Yes	Partial	Yes	Yes	Yes	No	Yes	No	1.95
New Mexico	Yes	No	Yes	Yes	Yes	No	Yes	Yes	1.37
New York	Yes	Yes	Yes	Yes	Yes	No	No	No	2.02
North Carolina	No	No	Yes	Yes	Yes	Yes	No	Yes	1.00
North Dakota	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Ohio	Yes	No	Yes	Yes	Yes	No	Yes	No	1.00
Oklahoma	No	No	Yes	Yes	Yes	No	No	No	1.00
Oregon	No	No	Yes	Yes	Yes	Partial	Yes	Yes	1.13
Pennsylvania	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Rhode Island	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	1.60
South Carolina	Yes	No	Yes	Yes	Yes	Yes	No	Yes	1.00
South Dakota	n.a.	No	n.a.	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.	n.a.
Texas	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Utah	No	No	Yes	Yes	Yes	Yes	Yes	Yes	1.00
Vermont	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	2.61
Virginia	Yes	No	Yes	Yes	Yes	No	No	No	1.00
Washington	Yes	No	n.a.	n.a.	Yes	No	Yes	n.a.	1.41
West Virginia	Yes	No	Yes	Yes	Yes	No	Yes	No	1.00
Wisconsin	Yes	No	Yes	Yes	Yes	Yes	Yes	No	1.74
Wyoming	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
District of Columbia	Yes	No	Yes	Yes	Yes	No	Yes	Yes	1.26

Source: Tax Foundation; Bloomberg Tax; state statutes.

Table 15. State Individual Income Tax Bases: Other Variables (as of July 1, 2026)

State	Federal Income Used as State Tax Base	Conformity Status	Credits for Taxes Paid to Other States	AMT Levied	Recognition of S-Corp Status
Alabama	No	Rolling	Yes	No	Yes
Alaska	n.a.	n.a.	n.a.	n.a.	Yes
Arizona	Yes	Static (not current)	Yes	No	Yes
Arkansas	No	Static (not current)	Yes	No	Yes
California	Yes	Static (not current)	Yes	Yes	Yes
Colorado	Yes	Rolling	Yes	Yes	Yes
Connecticut	Yes	Rolling	Yes	Yes	Yes
Delaware	Yes	Rolling	Yes	No	Yes
Florida	n.a.	n.a.	n.a.	n.a.	Yes
Georgia	Yes	Static (current)	Yes	No	Yes
Hawaii	Yes	Static (current)	Yes	No	Yes
Idaho	Yes	Static (current)	Yes	No	Yes
Illinois	Yes	Rolling	Yes	No	Yes
Indiana	Yes	Static (current)	Yes	No	Yes
Iowa	Yes	Rolling	Yes	No	Yes
Kansas	Yes	Rolling	Yes	No	Yes
Kentucky	Yes	Static (current)	Yes	No	Yes
Louisiana	Yes	Rolling	Yes	No	Yes
Maine	Yes	Static (not current)	Yes	No	Yes
Maryland	Yes	Rolling	Yes	No	Yes
Massachusetts	Yes	Static (not current)	Yes	No	Yes
Michigan	Yes	Rolling	Yes	No	Yes
Minnesota	Yes	Static (current)	Yes	Yes	Yes
Mississippi	No	Static (not current)	Yes	No	Yes
Missouri	Yes	Rolling	Yes	No	Yes
Montana	Yes	Rolling	Yes	No	Yes
Nebraska	Yes	Rolling	Yes	No	Yes
Nevada	n.a.	n.a.	n.a.	n.a.	Yes
New Hampshire	n.a.	n.a.	n.a.	n.a.	Yes
New Jersey	No	Static (not current)	Yes	No	Yes
New Mexico	Yes	Rolling	Yes	No	Yes
New York	Yes	Rolling	Yes	No	Partial
North Carolina	Yes	Static (not current)	Yes	No	Yes
North Dakota	Yes	Rolling	Yes	No	Yes
Ohio	Yes	Static (current)	Yes	No	Yes
Oklahoma	Yes	Rolling	Yes	No	Yes
Oregon	Yes	Rolling	Yes	No	Yes
Pennsylvania	No	Static (not current)	Yes	No	Yes
Rhode Island	Yes	Rolling	Yes	No	Yes
South Carolina	Yes	Static (not current)	Yes	No	Yes
South Dakota	n.a.	n.a.	n.a.	n.a.	Yes
Tennessee	n.a.	n.a.	n.a.	n.a.	Yes
Texas	n.a.	n.a.	n.a.	n.a.	Yes
Utah	Yes	Rolling	Yes	No	Yes
Vermont	Yes	Static (current)	Yes	No	Yes
Virginia	Yes	Static (current)	Yes	No	Yes
Washington	n.a.	n.a.	n.a.	n.a.	Yes
West Virginia	Yes	Static (current)	Yes	No	Yes
Wisconsin	Yes	Static (not current)	Yes	No	Yes
Wyoming	n.a.	n.a.	n.a.	n.a.	Yes
District of Columbia	Yes	Rolling	Yes	No	No

(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 15, *Continued*. State Individual Income Tax Bases: Other Variables (as of July 1, 2026)

State	Section 179 Expensing Limit	Tips	Overtime	Filing Threshold	Withholding Threshold
Alabama	$2,560,000	Taxable	Partial	> 30 days (a)	> 30 days (a)
Alaska	$2,560,000	n.a.	n.a.	n.a.	n.a.
Arizona	$2,560,000	Exempt	Exempt	1 day	> 59 days
Arkansas	$1,250,000	Taxable	Taxable	1 day	1 day
California	$25,000	Taxable	Taxable	1 day	> $1,500
Colorado	$2,560,000	Exempt	Taxable	1 day	1 day
Connecticut	$512,000	Taxable	Taxable	> 15 days	> 15 days
Delaware	$2,560,000	Taxable	Taxable	1 day	1 day
Florida	$2,560,000	n.a.	n.a.	n.a.	n.a.
Georgia	$2,560,000	Partial	Partial	$5,000 or 5% of wages	> 23 days or > $5,000 or > 5% of wages
Hawaii	$25,000	Exempt	Taxable	1 day	> 60 days
Idaho	$2,560,000	Exempt	Exempt	> $2,500	$1,000
Illinois	$2,560,000	Taxable	Taxable	> 30 days	> 30 days
Indiana	$25,000	Exempt	Exempt	> 30 days	> 30 days
Iowa	$2,560,000	Exempt	Exempt	$1,000	1 day
Kansas	$2,560,000	Taxable	Taxable	1 day	1 day
Kentucky	$100,000	Taxable	Taxable	1 day	1 day
Louisiana	$2,560,000	Taxable	Taxable	> 30 days	> 30 days
Maine	$2,560,000	Taxable	Taxable	> 12 days and > $3,000	> 12 days and > $3,000
Maryland	$25,000	Taxable	Taxable	1 day	1 day
Massachusetts	$1,250,000	Taxable	Taxable	1 day	1 day
Michigan	$1,250,000	Exempt	Exempt	1 day	1 day
Minnesota	$2,560,000	Taxable	Taxable	$15,300	$15,300 (all sources)
Mississippi	$2,560,000	Taxable	Taxable	1 day	1 day
Missouri	$2,560,000	Taxable	Taxable	$600	1 day
Montana	$2,560,000	Exempt	Exempt	> 30 days	> 30 days
Nebraska	$2,560,000	Taxable	Taxable	1 day	1 day
Nevada	$2,560,000	n.a.	n.a.	n.a.	n.a.
New Hampshire	$500,000	n.a.	n.a.	n.a.	n.a.
New Jersey	$25,000	Taxable	Taxable	1 day	1 day
New Mexico	$2,560,000	Taxable	Taxable	1 day	> 15 days
New York	$2,560,000	Exempt	Taxable	1 day	> 14 days
North Carolina	$25,000	Taxable	Taxable	1 day	1 day
North Dakota	$2,560,000	Exempt	Exempt	> 20 days (a)	> 20 days
Ohio	$446,667	Taxable	Taxable	1 day	$300 or more quarterly
Oklahoma	$2,560,000	Taxable	Taxable	$1,000	> $300 quarterly
Oregon	$2,560,000	Exempt	Exempt	> $2,910	1 day
Pennsylvania	$1,250,000	Taxable	Taxable	1 day	1 day
Rhode Island	$2,560,000	Taxable	Taxable	1 day	1 day
South Carolina	$1,250,000	Taxable	Taxable	1 day	> $2,000
South Dakota	$2,560,000	n.a.	n.a.	n.a.	n.a.
Tennessee	$2,560,000	n.a.	n.a.	n.a.	n.a.
Texas	$2,560,000	n.a.	n.a.	n.a.	n.a.
Utah	$2,560,000	Taxable	Taxable	> 20 days (a)	> 20 days (a)
Vermont	$2,560,000	Taxable	Taxable	> $100	30 days
Virginia	$1,250,000	Taxable	Taxable	1 day	1 day
Washington	$2,560,000	n.a.	n.a.	n.a.	n.a.
West Virginia	$2,560,000	Taxable	Taxable	> 30 days (a)	> 30 days (a)
Wisconsin	$2,560,000	Taxable	Taxable	$2,000	$2,000
Wyoming	$2,560,000	n.a.	n.a.	n.a.	n.a.
District of Columbia	$25,000	Taxable	Taxable	n.a.	n.a.

Table 16. State Sales and Excise Tax Rates (as of July 1, 2026)

	Sales Taxes		Excise Taxes					
State	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%	5.46%	31.00	32.75	$0.675	$0.5333 (f)	$22.87 (h)	n.a.
Alaska	n.a.	1.82%	8.95	8.95	$2.00	$1.07	$12.80	n.a.
Arizona	5.60%	2.94%	19.00	19.00	$2.00	$0.16	$3.00	n.a.
Arkansas	6.50%	2.98%	25.00	28.80	$1.15	$0.3722	$9.76	n.a.
California (a)	7.25%	1.78%	73.64	92.94	$2.87	$0.20	$3.30	201.1118%
Colorado	2.90%	4.99%	30.18	35.67	$2.24	$0.08	$2.28	146.5333%
Connecticut	6.35%	0.00%	25.00	49.90	$4.35	$0.1935	$5.94	40.00%
Delaware	n.a.	0.00%	23.00	22.00	$2.10	$0.2630	$4.50	5.00%
Florida	6.00%	0.98%	40.10	40.97	$1.339	$0.48	$6.50	n.a.
Georgia	4.00%	3.56%	34.05	38.05	$0.37	$0.48 (f)	$3.79	5.00%
Hawaii (b)	4.00%	0.50%	18.50	18.50	$3.60	$0.93	$5.98	183.1667%
Idaho	6.00%	0.03%	33.00	33.00	$0.57	$0.15	$12.94 (h)	n.a.
Illinois	6.25%	2.73%	70.40	77.90	$2.98	$0.231	$8.55	117.75%
Indiana	7.00%	0.00%	63.10	64.00	$2.995	$0.1150	$2.68	78.50%
Iowa	6.00%	0.94%	30.00	32.50	$1.36	$0.19	$15.14 (h)	n.a.
Kansas	6.50%	2.21%	25.03	27.03	$1.29	$0.18	$2.50	5.00%
Kentucky	6.00%	0.00%	26.40	23.40	$1.10	$0.8906	$9.56	83.33%
Louisiana	5.00%	5.13%	20.93	20.93	$1.08	$0.4032	$3.03	15.00%
Maine	5.50%	0.00%	31.45	31.96	$3.50	$0.35	$11.93 (h)	196.25%
Maryland	6.00%	0.00%	46.81	47.66	$5.00	$0.60	$5.46	214.305%
Massachusetts	6.25%	0.00%	27.56	27.56	$3.51	$0.1065	$4.05	196.25%
Michigan	6.00%	0.00%	53.40	53.40	$2.00	$0.2032	$14.61 (h)	n.a.
Minnesota	6.88%	1.26%	32.70	32.70	$3.880	$0.4700	$8.74	248.5833%
Mississippi	7.00%	0.06%	24.40	24.40	$0.68	$0.4268	$9.38 (h)	n.a.
Missouri	4.23%	4.22%	29.99	29.99	$0.17	$0.06	$2.00	n.a.
Montana (c)	n.a.	0.00%	33.75	30.50	$1.70	$0.1387	$10.55 (h)	n.a.
Nebraska	5.50%	1.48%	32.70	32.10	$0.64	$0.31	$3.75	5.00%
Nevada	6.85%	1.39%	24.81	27.75	$1.80	$0.16	$3.60	78.50%
New Hampshire	n.a.	0.00%	23.75	23.75	$1.78	$0.30	$0.00 (h)	30.00%
New Jersey (d)	6.62%	-0.02%	49.15	56.15	$3.00	$0.12	$5.50	30.00%
New Mexico (b)	4.875%	2.80%	18.88	22.88	$2.00	$0.41	$6.06	27.78%
New York	4.00%	4.54%	24.18	22.38	$5.35	$0.14	$6.44	71.435%
North Carolina	4.75%	2.35%	41.25	41.25	$0.45	$0.6171	$18.23 (h)	5.00%
North Dakota (b)	5.00%	2.09%	23.03	23.03	$0.44	$0.43	$4.93	n.a.
Ohio	5.75%	1.54%	38.50	47.00	$1.60	$0.1800	$12.33 (h)	10.00%
Oklahoma	4.50%	4.56%	20.00	20.00	$2.03	$0.4032	$5.56	n.a.
Oregon	n.a.	0.00%	40.00	40.00	$3.33	$0.0839	$23.74 (h)	170.0833%
Pennsylvania	6.00%	0.34%	58.70	74.10	$2.60	$0.08	$7.48 (h)	104.6667%
Rhode Island	7.00%	0.00%	41.12	41.12	$4.50	$0.1242	$5.40	50.00%
South Carolina	6.00%	1.49%	28.75	28.75	$0.57	$0.768	$5.42	5.00%
South Dakota (b)	4.20%	1.91%	30.00	30.00	$1.53	$0.2742	$4.93	n.a.
Tennessee	7.00%	2.61%	27.40	28.40	$0.62	$1.2868	$4.46	26.17%
Texas	6.25%	1.95%	20.00	20.00	$1.41	$0.1935	$2.40	n.a.
Utah (a)	6.10%	1.32%	32.55	38.55	$2.20	$0.4387	$16.07 (h)	185.7833%
Vermont	6.00%	0.43%	34.88	33.00	$3.08	$0.265	$9.06 (h)	240.73%
Virginia (a)	5.30%	0.47%	42.40	43.50	$0.60	$0.2565	$23.47 (h)	11.00%
Washington	6.50%	3.07%	60.17	63.17	$3.025	$0.2606	$36.68	248.62%
West Virginia	6.00%	0.60%	35.70	35.70	$1.20	$0.1774	$8.98 (h)	7.50%
Wisconsin	5.00%	0.72%	32.90	32.90	$2.52	$0.0645	$3.25	5.00%
Wyoming	4.00%	1.39%	24.00	24.00	$0.60	$0.0189	$0.00 (h)	39.25%
District of Columbia	6.00%	0.00%	35.70	35.70	$5.07	$0.79	$6.68	167.4667%

(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) Statewide local rates exist in Alabama ($0.52) and Georgia ($0.53).
(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 US 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, 2026)

State	Farm Equip.	Office Equip.	Mfg. Machinery	Mfg. Raw Materials	Business Fuel & Utilities	Business Lease & Rentals	Info. Services
Alabama	Partial	Taxable	Partial	Exempt	Exempt	Taxable	Taxable
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Arkansas	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt
California	Partial	Taxable	Partial	Exempt	Taxable	Taxable	Exempt
Colorado	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Connecticut	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Florida	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Georgia	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt
Hawaii	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable	Taxable
Idaho	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Illinois	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Indiana	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Iowa	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Kansas	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Kentucky	Exempt	Taxable	Partial	Exempt	Exempt	Taxable	Exempt
Louisiana	Taxable	Taxable	Exempt	Exempt	Partial	Taxable	Taxable
Maine	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Maryland	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Massachusetts	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Michigan	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Minnesota	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Mississippi	Partial	Taxable	Partial	Exempt	Exempt	Taxable	Exempt
Missouri	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nebraska	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Nevada	Exempt	Taxable	Taxable	Exempt	Taxable	Taxable	Exempt
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable
New Mexico	Partial	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
New York	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
North Carolina	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
North Dakota	Partial	Taxable	Taxable	Exempt	Exempt	Taxable	Exempt
Ohio	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Oklahoma	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pennsylvania	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Rhode Island	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
South Carolina	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
South Dakota	Taxable	Taxable	Taxable	Exempt	Taxable	Taxable	Taxable
Tennessee	Exempt	Taxable	Exempt	Exempt	Partial	Taxable	Exempt
Texas	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Taxable
Utah	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Vermont	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Virginia	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Washington	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable
West Virginia	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Taxable
Wisconsin	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
Wyoming	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable	Exempt
District of Columbia	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable

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 17, *Continued*. State Sales Tax Bases: Exemptions for Business-to-Business Transactions (as of July 1, 2026)

State	SaaS	PaaS	Digital B2B	Payroll Services	Data Center Purchases	Digital Ad Tax
Alabama	Taxable	Exempt	Exempt	Exempt	Partial	No
Alaska	n.a.	n.a.	n.a.	n.a.	n.a.	No
Arizona	Taxable	Taxable	Exempt	Exempt	Taxable	No
Arkansas	Exempt	Exempt	Taxable	Exempt	Exempt	No
California	Exempt	Exempt	Exempt	Exempt	Taxable	No
Colorado	Exempt	Exempt	Exempt	Exempt	Taxable	No
Connecticut	Partial	Exempt	Taxable	Exempt	Exempt	No
Delaware	n.a.	n.a.	n.a.	n.a.	n.a.	No
Florida	Exempt	Exempt	Exempt	Exempt	Exempt	No
Georgia	Exempt	Exempt	Exempt	Exempt	Exempt	No
Hawaii	Taxable	Taxable	Taxable	Taxable	Taxable	Yes
Idaho	Exempt	Exempt	Exempt	Exempt	Exempt	No
Illinois	Exempt	Exempt	Exempt	Exempt	Taxable	No
Indiana	Exempt	Exempt	Exempt	Exempt	Exempt	No
Iowa	Exempt	Exempt	Exempt	Exempt	Exempt	No
Kansas	Exempt	Exempt	Exempt	Exempt	Exempt	No
Kentucky	Taxable	Taxable	Taxable	Exempt	Exempt	No
Louisiana	Taxable	Exempt	Taxable	Exempt	Exempt	No
Maine	Exempt	Exempt	Taxable	Exempt	Taxable	No
Maryland	Partial	Partial	Taxable	Exempt	Exempt	Yes
Massachusetts	Taxable	Taxable	Exempt	Exempt	Exempt	No
Michigan	Exempt	Exempt	Exempt	Exempt	Exempt	No
Minnesota	Exempt	Exempt	Taxable	Exempt	Exempt	No
Mississippi	Taxable	Exempt	Taxable	Exempt	Exempt	No
Missouri	Exempt	Exempt	Exempt	Exempt	Exempt	No
Montana	n.a.	n.a.	n.a.	n.a.	n.a.	No
Nebraska	Exempt	Exempt	Taxable	Exempt	Exempt	No
Nevada	Exempt	Exempt	Exempt	Exempt	Partial	No
New Hampshire	n.a.	n.a.	n.a.	n.a.	n.a.	No
New Jersey	Exempt	Exempt	Exempt	Exempt	Taxable	No
New Mexico	Taxable	Taxable	Taxable	Taxable	Partial	Yes
New York	Taxable	Taxable	Exempt	Exempt	Exempt	No
North Carolina	Exempt	Exempt	Exempt	Exempt	Exempt	No
North Dakota	Exempt	Exempt	Exempt	Exempt	Exempt	No
Ohio	Taxable	Taxable	Taxable	Taxable	Taxable	No
Oklahoma	Exempt	Exempt	Exempt	Exempt	Taxable	No
Oregon	n.a.	n.a.	n.a.	n.a.	n.a.	No
Pennsylvania	Taxable	Taxable	Exempt	Exempt	Exempt	No
Rhode Island	Taxable	Taxable	Exempt	Exempt	Taxable	No
South Carolina	Exempt	Taxable	Exempt	Exempt	Exempt	No
South Dakota	Taxable	Taxable	Taxable	Taxable	Taxable	No
Tennessee	Taxable	Exempt	Taxable	Exempt	Exempt	No
Texas	Partial	Partial	Taxable	Partial	Partial	No
Utah	Taxable	Exempt	Exempt	Exempt	Exempt	No
Vermont	Taxable	Taxable	Exempt	Exempt	Taxable	No
Virginia	Exempt	Exempt	Exempt	Exempt	Exempt	No
Washington	Taxable	Taxable	Taxable	Exempt	Partial	Yes
West Virginia	Taxable	Taxable	Taxable	Exempt	Exempt	No
Wisconsin	Exempt	Exempt	Exempt	Exempt	Exempt	No
Wyoming	Exempt	Exempt	Exempt	Exempt	Partial	No
District of Columbia	Taxable	Taxable	Taxable	Taxable	Taxable	No

Table 18. State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2026)

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

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 18, *Continued*. State Sales Tax Bases: Consumer Goods and Services (as of July 1, 2026)

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

Table 19. Sales Tax Structure (as of July 1, 2026)

State	Uniform Base Definitions	Unified Tax Administration	Safe Harbor for Remote Sellers
Alabama	Yes	Partial	Gross Sales Threshold
Alaska	No	No	Gross Sales Threshold
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	Yes	Yes	Gross Sales Threshold
Illinois	Yes	Yes	Gross Sales Threshold
Indiana	Yes	Yes	Gross Sales Threshold
Iowa	Yes	Yes	Gross Sales Threshold
Kansas	Yes	Yes	Gross Sales Threshold
Kentucky	Yes	Yes	Sales or Transactions Threshold
Louisiana	No	Partial	Gross Sales 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	Gross Sales Threshold
North Dakota	Yes	Yes	Gross Sales Threshold
Ohio	Yes	Yes	Sales or Transactions Threshold
Oklahoma	Yes	Yes	Gross Sales Threshold
Oregon	n.a.	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	Gross Sales 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	Gross Sales Threshold
District of Columbia	Yes	Yes	Sales or Transactions Threshold

Note: States that do not require remote sales tax collection 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, 2026)

State	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	$849	1.48%	Yes	No	0.175%	$15,000	Pay both
Alaska	$2,456	3.21%	No	No	None	n.a.	n.a.
Arizona	$1,269	1.92%	Yes	Yes	None	n.a.	n.a.
Arkansas	$961	1.62%	Yes	Yes	0.3%	Unlimited	Pay both
California	$2,492	2.88%	Yes	No	None	n.a.	n.a.
Colorado	$2,379	2.88%	No	Yes	None	n.a.	n.a.
Connecticut	$3,422	3.60%	Yes	No	0.16%	$1,000,000	Pay highest
Delaware	$1,086	1.59%	No	Yes	0.04%	$200,000	Pay both
Florida	$2,003	2.73%	Yes	No	None	n.a.	n.a.
Georgia	$1,735	2.76%	Yes	No	(a)	$5,000	Pay both
Hawaii	$1,928	2.69%	No	No	None	n.a.	n.a.
Idaho	$1,059	1.70%	No	Yes	None	n.a.	n.a.
Illinois	$3,016	4.04%	No	Yes	0.1%	$2,000,000	Pay both
Indiana	$1,487	2.32%	No	Yes	None	n.a.	n.a.
Iowa	$2,104	3.22%	Yes	No	None	n.a.	n.a.
Kansas	$2,017	3.06%	No	No	None	n.a.	n.a.
Kentucky	$1,118	1.92%	No	No	None	n.a.	n.a.
Louisiana	$1,191	1.93%	No	Yes	None	n.a.	n.a.
Maine	$3,069	4.46%	No	No	None	n.a.	n.a.
Maryland	$1,982	2.49%	Yes	No	None	n.a.	n.a.
Massachusetts	$3,215	3.44%	No	Yes	0.26%	Unlimited	Pay both
Michigan	$1,894	2.96%	Yes	Yes	None	n.a.	n.a.
Minnesota	$2,041	2.70%	No	No	None	n.a.	n.a.
Mississippi	$1,310	2.52%	No	Yes	0.050%	Unlimited	Pay both
Missouri	$1,567	2.41%	No	Yes	None	n.a.	n.a.
Montana	$2,173	3.14%	No	Yes	None	n.a.	n.a.
Nebraska	$2,354	3.24%	No	No	(a)	$11,995	Pay both
Nevada	$1,582	2.26%	No	Yes	None	n.a.	n.a.
New Hampshire	$4,066	4.89%	No	No	None	n.a.	n.a.
New Jersey	$3,665	4.32%	No	Yes	None	n.a.	n.a.
New Mexico	$1,251	2.14%	Yes	Yes	None	n.a.	n.a.
New York	$3,538	4.16%	Yes	Yes	0.1875%	$5,000,000	Pay highest
North Carolina	$1,203	1.83%	No	No	0.15%	Unlimited	Pay both
North Dakota	$1,684	2.34%	Yes	Yes	None	n.a.	n.a.
Ohio	$1,688	2.61%	No	Yes	None	n.a.	n.a.
Oklahoma	$996	1.56%	Yes	No	None	n.a.	n.a.
Oregon	$2,108	2.97%	Yes	No	None	n.a.	n.a.
Pennsylvania	$1,806	2.55%	No	No	None	n.a.	n.a.
Rhode Island	$2,530	3.58%	No	Yes	None	n.a.	n.a.
South Carolina	$1,579	2.60%	Yes	No	0.1%	Unlimited	Pay both
South Dakota	$1,864	2.47%	Yes	Yes	None	n.a.	n.a.
Tennessee	$921	1.39%	No	No	0.25%	Unlimited	Pay both
Texas	$2,320	3.33%	Yes	Yes	None	n.a.	n.a.
Utah	$1,428	2.12%	No	No	None	n.a.	n.a.
Vermont	$3,465	4.85%	No	No	None	n.a.	n.a.
Virginia	$2,296	2.97%	No	No	None	n.a.	n.a.
Washington	$2,134	2.50%	No	Yes	None	n.a.	n.a.
West Virginia	$1,258	2.27%	No	Yes	None	n.a.	n.a.
Wisconsin	$1,905	2.81%	No	Yes	None	n.a.	n.a.
Wyoming	$2,635	3.04%	Yes	No	0.02%	Unlimited	Pay both
District of Columbia	$4,458	3.95%	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 US Census Bureau data; Bloomberg Tax; state statutes.

Table 21. State Property Tax Bases (as of July 1, 2026)

State	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	$100,000	Yes	No	Yes	2.00	No	No	No
Alaska	Yes	None	No	Partial	No	1.00	No	No	No
Arizona	Yes	$500,000	No	No	No	1.55	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	$56,000	No	No	Yes	3.82	No	No	No
Connecticut	Yes	None	No	No	Yes	1.90	12%	No	Yes
Delaware	No	n.a.	No	No	Yes	1.51	No	No	No
Florida	Yes	$25,000	No	No	Yes	1.00	No	No	No
Georgia	Yes	$20,000	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	2.50	16%	No	No
Indiana	Yes	$2,000,000	No	No	No	1.00	No	No	No
Iowa	No	n.a.	Yes	No	Yes	2.02	No	No	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	1.50	No	No	No
Maine	Yes	None	No	No	Yes	1.00	12%	No	No
Maryland	Yes	$20,000	No	Partial	Yes	1.00	16%	10%	No
Massachusetts	Yes	None	No	Partial	Yes	2.17	16%	No	No
Michigan	Yes	$180,000	No	Partial	Yes	1.00	No	No	No
Minnesota	Partial	n.a.	No	No	Yes	2.00	16%	No	No
Mississippi	Yes	None	Yes	Yes	No	1.50	No	No	No
Missouri	Yes	None	No	No	No	1.68	No	No	No
Montana	Yes	$1,000,000	No	No	No	1.97	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	n.a.	No	No	Yes	1.00	No	No	No
New Jersey	Partial	n.a.	No	No	Yes	1.00	No	16%	No
New Mexico	No	n.a.	No	No	No	1.11	No	No	No
New York	No	n.a.	No	No	Yes	7.50	16%	No	No
North Carolina	Yes	None	No	No	Yes	1.00	No	No	No
North Dakota	Partial	n.a.	No	No	No	1.11	No	No	No
Ohio	No	n.a.	No	No	Yes	1.00	No	No	No
Oklahoma	Yes	None	No	Yes	Yes	1.00	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	Yes	$50,000	No	No	Yes	3.48	16%	No	No
South Carolina	Yes	None	No	No	Yes	1.50	No	No	No
South Dakota	Partial	n.a.	Yes	No	Yes	1.23	No	No	No
Tennessee	Yes	None	Yes	No	Yes	1.60	No	No	No
Texas	Yes	$125,000	No	Yes	No	1.00	No	No	No
Utah	Yes	$30,100	No	No	No	1.82	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	4.00	No	No	No
Wisconsin	No	n.a.	No	No	Yes	1.00	No	No	No
Wyoming	Yes	$75,000	No	No	No	1.33	No	No	No
District of Columbia	Yes	$225,000	No	No	Yes	1.94	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, 2026)

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	New Employer UI Rate
				Minimum Rate	Maximum Rate	Minimum Rate	Maximum Rate				
Alabama	0.20%	5.40%	$8,000	0.14%	5.40%	0.65%	6.80%	0.09%	0.51%	1.15	2.70%
Alaska	1.00%	5.40%	$54,200	1.00%	6.50%	1.00%	6.50%	0.97%	1.56%	2.45	1.00%
Arizona	0.03%	8.36%	$8,000	0.02%	5.40%	0.02%	5.40%	0.20%	1.25%	0.90	2.00%
Arkansas	0.20%	10.10%	$7,000	0.10%	6.00%	0.08%	6.00%	0.14%	0.88%	1.06	2.00%
California	1.60%	6.20%	$7,000	0.10%	5.40%	1.50%	6.20%	0.33%	3.22%	0.00	3.40%
Colorado	0.72%	10.85%	$30,600	0.51%	6.28%	0.75%	10.39%	0.62%	1.86%	0.40	1.70%
Connecticut	1.10%	9.90%	$27,000	0.50%	5.40%	0.50%	5.40%	0.53%	1.91%	0.08	1.90%
Delaware	0.40%	5.40%	$14,500	0.10%	8.00%	0.10%	8.00%	0.11%	0.60%	0.79	1.20%
Florida	0.10%	5.40%	$7,000	0.10%	5.40%	0.10%	5.40%	0.12%	0.83%	0.81	2.70%
Georgia	0.04%	8.10%	$9,500	0.01%	5.40%	0.04%	8.10%	0.19%	1.07%	0.54	2.64%
Hawaii	0.00%	5.60%	$64,500	0.00%	5.40%	2.40%	6.60%	0.98%	1.40%	0.65	2.40%
Idaho	0.21%	5.40%	$58,300	0.18%	5.40%	0.96%	6.80%	0.53%	0.79%	1.47	3.34%
Illinois	0.75%	7.05%	$14,250	0.20%	6.40%	0.20%	6.40%	0.57%	2.80%	0.23	2.70%
Indiana	0.50%	7.40%	$9,500	0.00%	5.40%	0.75%	10.20%	0.25%	1.32%	0.77	2.50%
Iowa	0.00%	5.40%	$20,400	0.00%	7.00%	0.00%	9.00%	0.53%	0.97%	1.54	3.00%
Kansas	0.00%	6.95%	$15,100	0.20%	7.60%	0.20%	7.60%	0.28%	0.83%	1.67	1.75%
Kentucky	0.30%	9.00%	$12,000	0.00%	9.00%	1.00%	10.00%	0.37%	1.62%	0.70	2.70%
Louisiana	0.09%	6.20%	$7,000	0.09%	6.00%	0.09%	6.00%	0.22%	1.31%	0.82	3.00%
Maine	0.31%	6.60%	$12,000	0.00%	5.40%	0.00%	5.40%	0.47%	1.99%	1.87	2.23%
Maryland	0.31%	7.50%	$8,500	0.30%	7.50%	2.20%	13.50%	0.18%	1.33%	1.04	1.00%
Massachusetts	1.17%	17.14%	$15,000	0.56%	8.62%	1.21%	18.55%	0.43%	2.06%	0.25	2.13%
Michigan	0.06%	12.20%	$9,500	0.00%	6.30%	0.00%	6.30%	0.47%	2.75%	0.50	2.70%
Minnesota	0.40%	9.30%	$44,000	0.10%	9.00%	0.40%	9.40%	0.44%	0.90%	0.30	3.00%
Mississippi	0.20%	5.60%	$14,000	0.00%	5.40%	0.00%	5.40%	0.13%	0.41%	1.24	1.00%
Missouri	0.00%	6.00%	$9,000	0.00%	5.40%	0.00%	7.80%	0.21%	1.08%	0.70	2.70%
Montana	0.13%	6.30%	$47,300	0.00%	6.12%	1.62%	6.12%	0.73%	1.15%	1.59	3.00%
Nebraska	0.00%	5.40%	$9,000	0.00%	5.40%	0.00%	5.40%	0.17%	0.87%	1.31	2.50%
Nevada	0.30%	5.40%	$43,700	0.25%	5.40%	0.25%	5.40%	0.97%	1.70%	0.83	2.95%
New Hampshire	0.10%	7.50%	$14,000	0.10%	7.00%	0.10%	8.50%	0.19%	0.91%	0.91	2.70%
New Jersey	0.50%	5.80%	$44,800	0.30%	5.40%	1.30%	7.70%	1.00%	2.24%	0.40	3.40%
New Mexico	0.33%	6.40%	$34,800	0.33%	5.40%	0.33%	5.40%	0.45%	0.86%	0.56	1.00%
New York	2.02%	9.83%	$17,600	0.00%	5.90%	1.50%	8.90%	0.48%	3.08%	0.06	3.40%
North Carolina	0.06%	5.76%	$34,200	0.06%	5.76%	0.06%	5.76%	0.28%	0.64%	1.29	1.00%
North Dakota	0.07%	9.67%	$46,600	0.01%	5.40%	0.01%	5.40%	0.41%	0.71%	1.03	1.00%
Ohio	0.55%	10.25%	$9,000	0.00%	6.30%	0.30%	6.70%	0.42%	2.44%	0.43	2.70%
Oklahoma	0.20%	5.80%	$25,000	0.01%	5.50%	0.30%	9.20%	0.38%	0.84%	0.84	1.50%
Oregon	0.90%	5.40%	$56,700	0.50%	5.40%	2.20%	5.40%	1.19%	1.95%	2.46	2.40%
Pennsylvania	1.42%	10.37%	$10,000	0.00%	8.95%	0.00%	8.95%	0.58%	3.40%	0.22	3.82%
Rhode Island	1.10%	9.70%	$30,800	0.21%	7.40%	1.20%	10.00%	0.97%	2.22%	0.90	1.21%
South Carolina	0.06%	5.46%	$14,000	0.00%	5.40%	0.00%	5.40%	0.20%	0.73%	1.10	1.00%
South Dakota	0.00%	9.13%	$15,000	0.00%	9.30%	0.00%	9.45%	0.10%	0.33%	1.70	1.20%
Tennessee	0.01%	10.00%	$7,000	0.01%	10.00%	0.50%	10.00%	0.15%	0.96%	0.77	2.70%
Texas	0.25%	6.25%	$9,000	0.00%	6.00%	0.00%	6.00%	0.22%	1.45%	0.04	2.70%
Utah	0.10%	7.10%	$50,700	0.00%	7.00%	0.00%	7.00%	0.35%	0.61%	1.15	3.00%
Vermont	0.40%	5.40%	$15,400	0.40%	5.40%	1.30%	8.40%	0.50%	1.92%	0.95	1.00%
Virginia	0.10%	6.20%	$8,000	0.00%	5.40%	0.10%	6.20%	0.08%	0.56%	0.71	2.73%
Washington	0.27%	6.15%	$78,200	0.00%	5.40%	0.00%	5.40%	0.68%	1.25%	0.60	2.70%
West Virginia	1.50%	8.50%	$9,500	0.00%	7.50%	1.50%	7.50%	0.51%	2.40%	0.81	2.70%
Wisconsin	0.00%	12.00%	$14,000	0.00%	10.70%	0.07%	10.70%	0.37%	1.50%	0.79	3.25%
Wyoming	0.10%	8.60%	$33,800	0.00%	8.50%	0.00%	8.50%	0.43%	0.89%	2.36	3.00%
District of Columbia	2.10%	7.60%	$9,000	0.10%	5.40%	1.90%	7.40%	0.22%	2.21%	0.68	2.70%

Source: National Foundation for Unemployment Compensation & Workers' Compensation, Highlights of State Unemployment Compensation Laws (2026); US 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, 2026)

State	Experience Formula Based On	Benefits Are Charged to Employers in Proportion to Base Period Wages	Company Charged for Benefits If					
			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	No	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)	No	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	No	Yes	No
Massachusetts	Reserve Ratio	No (a)	No	Yes	Yes	Yes	Yes	No
Michigan	Benefits Ratio	Yes	Yes	No	No	No	No	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	Yes	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	No	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	Yes	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 (b)	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	Yes	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 (2026).

Table 24. State Unemployment Insurance Tax Bases: Other Variables (as of July 1, 2026)

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	3
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	3
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	No	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	No	No	Yes	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	Yes	No	Yes	2
Maine	No	No	Yes	No	Yes	No	No	2
Maryland	No	No	No	No	Yes	No	No	2
Massachusetts	Yes	No	No	No	Yes	No	Yes	3
Michigan	Yes	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	Yes	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	1.5
North Carolina	No	No	No	Yes	No	No	Yes	2
North Dakota	No	No	No	No	No	No	Yes	1
Ohio	Yes	Yes	No	No	Yes	No	Yes	1.5
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	Yes	Yes	3
South Carolina	No	No	Yes	No	Yes	No	No	1
South Dakota	Yes	No	No	No	Yes	No	Yes	2
Tennessee	No	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	Yes	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

Source: National Foundation for Unemployment Compensation & Workers' Compensation, Highlights of State Unemployment Compensation Laws (2025); US Department of Labor, Comparison of State Unemployment Laws.

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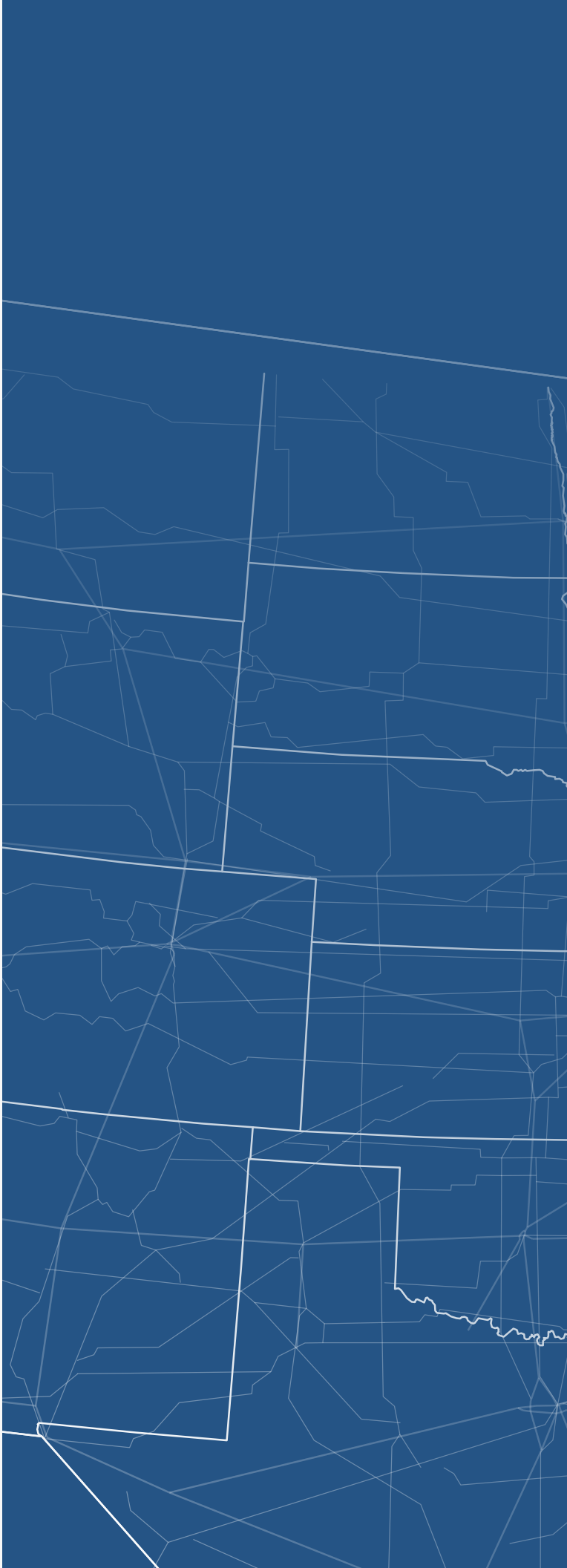
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