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State Corporate Income Tax Rates and Brackets for 2018

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Key Findings

- Forty-four states levy a corporate income tax. Rates range from 3 percent in North Carolina to 12 percent in Iowa.
- Six states — Alaska, Illinois, Iowa, Minnesota, New Jersey, and Pennsylvania — levy top marginal corporate income tax rates of 9 percent or higher.
- Seven states — Arizona, Colorado, Mississippi, North Carolina, North Dakota, South Carolina, and Utah — have top rates at or below 5 percent.
- Nevada, Ohio, Texas, and Washington impose gross receipts taxes instead of corporate income taxes. Gross receipts taxes are generally thought to be more economically harmful than corporate income taxes.
- South Dakota and Wyoming are the only states that do not levy a corporate income or gross receipts tax.

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Corporate income taxes are levied in 44 states. Though often thought of as a major tax type, corporate income taxes account for an average of just 5 percent of state tax collections and 2.6 percent of state general revenue.¹

Iowa levies the highest top statutory corporate tax rate at 12 percent, closely followed by Pennsylvania (9.99 percent) and Minnesota (9.8 percent). Three other states (Alaska, Illinois, and New Jersey) levy rates of 9 percent or higher.

Conversely, North Carolina's flat rate of 3 percent is the lowest rate in the country, followed by rates in North Dakota (4.31 percent) and Colorado (4.63 percent). Four other states impose rates at or below 5 percent: Arizona at 4.9 percent, and Mississippi, South Carolina, and Utah at 5 percent.

Nevada, Ohio, Texas, and Washington forgo corporate income taxes but instead impose gross receipts taxes on businesses, generally thought to be more economically harmful due to tax pyramiding and nontransparency.² Delaware and Virginia impose gross receipts taxes in addition to corporate income taxes. South Dakota and Wyoming levy neither corporate income nor gross receipts taxes.

Twenty-seven states and the District of Columbia have single-rate corporate tax systems. The greater propensity toward single-rate systems for corporate tax than individual income tax is likely because there is no meaningful "ability to pay" concept in corporate taxation. Jeffrey Kwall, professor of law at Loyola University Chicago School of Law, 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.³

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

1 "State & Local Government Finance, Fiscal Year 2015," U.S. Census Bureau. <https://www.census.gov/govs/local/>.

2 Justin Ross, "Gross Receipts Taxes: Theory and Recent Evidence," Tax Foundation, Oct. 6, 2016. <https://taxfoundation.org/gross-receipts-taxes-theory-and-recent-evidence/>.

3 Jeffrey L. Kwall, "The Repeal of Graduated Corporate Tax Rates," Tax Notes, June 27, 2011, 1395.

Notable Corporate Income Tax Changes in 2018

Several states passed corporate income tax rate reductions and other reforms, taking effect in 2017 or 2018. Notable corporate income tax changes for 2018 include:

- In Connecticut, businesses have long faced a 20 percent surtax on top of the state's 7.5 percent corporate income tax rate, bringing the top marginal rate to 9 percent. Effective 2018, the surtax dropped to 10 percent, bringing the top marginal rate to 8.25 percent.⁴
- The District of Columbia reduced its corporate income tax rate from 8.75 to 8.25 percent as the final part of a 2014 tax reform package.⁵
- Mississippi began phasing out the 3 percent corporate income tax bracket by exempting the first \$1,000 of income this year. The 4 and 5 percent brackets will remain.⁶
- The tax rate in Indiana will decrease to 5.75 percent on July 1, 2018.⁷

4 "Sweeping Connecticut Tax Reforms Passed by the General Assembly," Deloitte, June 5, 2015. <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-mts-alert-sweeping-Connecticut-tax-reforms-passed-by-the-general-assembly.pdf>.

5 Joseph Bishop-Henchman, "D.C. to Enact Remaining Tax Cuts After Projection of Large Recurring Surplus," Tax Foundation, Feb. 28, 2017. <https://taxfoundation.org/dc-enact-tax-cuts-large-surplus/>.

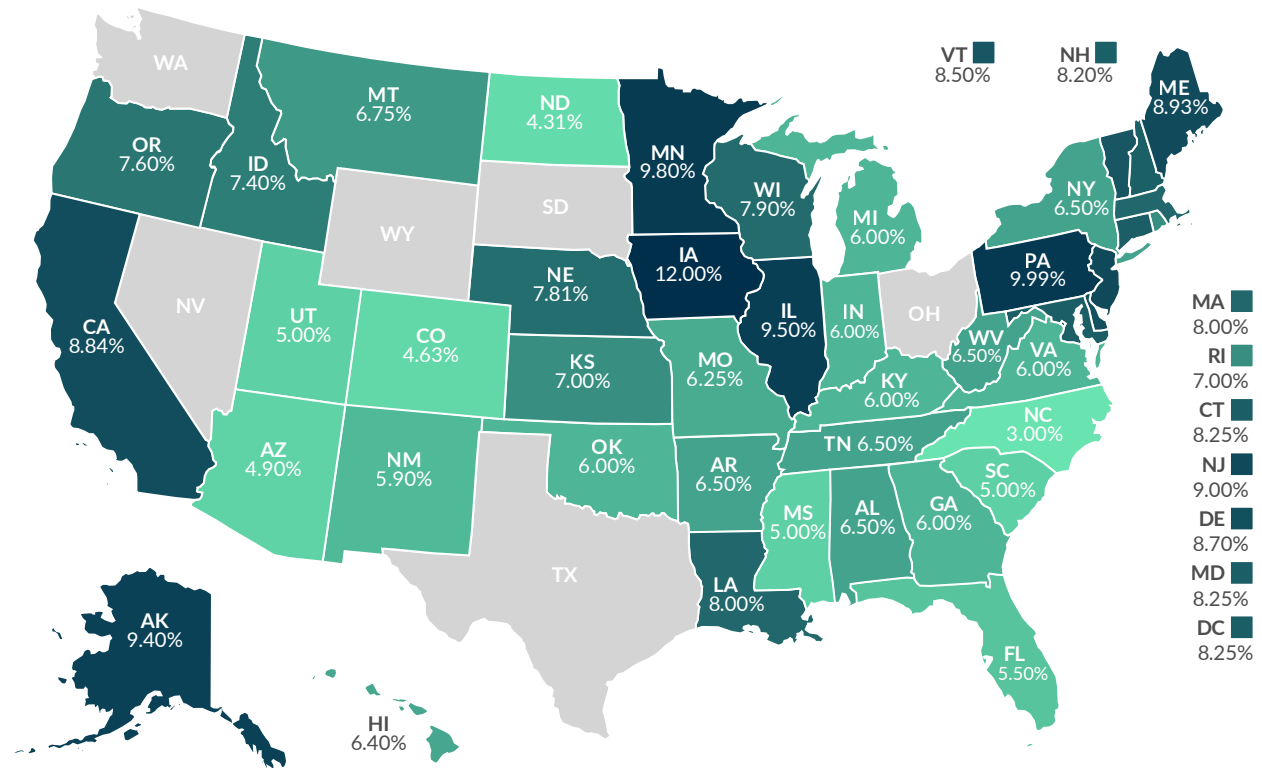
6 Joseph Bishop-Henchman, "Mississippi Approves Franchise Tax Phasedown, Income Tax Cut," Tax Foundation, May 16, 2016. <https://taxfoundation.org/mississippi-approves-franchise-tax-phasedown-income-tax-cut/>.

7 Scott Drenkard, "Indiana's 2014 Tax Package Continues State's Pattern of Year-Over-Year Improvements," Tax Foundation, April 7, 2014. <https://taxfoundation.org/indiana-s-2014-tax-package-continues-state-s-pattern-year-over-year-improvements/>.

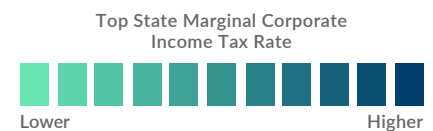
FIGURE 1.

How High Are Corporate Income Tax Rates in Your State?

Top State Marginal Corporate Income Tax Rates in 2018



Note: (*) Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Arkansas has a "benefit recapture," by which corporations with more than \$100,000 of taxable income pay a flat tax of 6.5% on all income, not just on amounts above the benefit threshold. Connecticut's rate includes a 10% surtax, which effectively increases the rate from 7.5% to 8.25%. Surtax is required by businesses with at least \$100 million annual gross income. Illinois' rate includes two separate corporate income taxes, one at a 7.0% rate and one at a 2.5% rate.



Source: State tax statutes, forms, and instructions; Bloomberg BNA

State Corporate Income Tax Rates and Brackets for 2018

State	Rates	Brackets	State	Rates	Brackets	State	Rates	Brackets
Ala.	6.50%	> \$0	Iowa	6.00%	> \$0	Nev.	(c)	
Alaska	0.00%	> \$0		8.00%	> \$25,000	N.H.	8.20%	> \$0
	2.00%	> \$25,000		10.00%	> \$100,000	N.J. (f)	9.00%	> \$100,000
	3.00%	> \$49,000		12.00%	> \$250,000	N.M. (g)	4.80%	> \$0
	4.00%	> \$74,000	Kans.	4.00%	> \$0		5.90%	> \$500,000
	5.00%	> \$99,000		7.00%	> \$50,000	N.Y.	6.50%	> \$0
	6.00%	> \$124,000	Ky.	4.00%	> \$0	N.C.	3.00%	> \$0
	7.00%	> \$148,000		5.00%	> \$50,000	N.D.	1.41%	> \$0
	8.00%	> \$173,000		6.00%	> \$100,000		3.55%	> \$25,000
	9.00%	> \$198,000	La.	4.00%	> \$0		4.31%	> \$50,000
	9.40%	> \$222,000		5.00%	> \$25,000	Ohio	(c)	
Ariz.	4.90%	> \$0		6.00%	> \$50,000	Okla.	6.00%	> \$0
Ark. (a)	1.00%	> \$0		7.00%	> \$100,000	Ore.	6.60%	> \$0
	2.00%	> \$3,000		8.00%	> \$200,000		7.60%	> \$1,000,000
	3.00%	> \$6,000	Maine	3.50%	> \$0	Pa.	9.99%	> \$0
	5.00%	> \$11,000		7.93%	> \$25,000	R.I.	7.00%	> \$0
	6.00%	> \$25,000		8.33%	> \$75,000	S.C.	5.00%	> \$0
	6.50%	> \$100,000		8.93%	> \$250,000	S.D.	None	
Calif.	8.84%	> \$0	Md.	8.25%	> \$0	Tenn.	6.50%	> \$0
Colo.	4.63%	> \$0	Mass.	8.00%	> \$0	Tex.	(c)	
Conn. (b)	8.25%	> \$0	Mich.	6.00%	> \$0	Utah	5.00%	> 0
Del. (c)	8.70%	> \$0	Minn.	9.80%	> \$0	Vt.	6.00%	> \$0
Fla.	5.50%	> \$0	Miss.	0.00%	> \$0		7.00%	> \$10,000
Ga.	6.00%	> \$0		3.00%	> \$1,000		8.50%	> \$25,000
Hawaii	4.40%	> \$0		4.00%	> \$5,000	Va. (c)	6.00%	> \$0
	5.40%	> \$25,000		5.00%	> \$10,000	Wash.	(c)	
	6.40%	> \$100,000	Mo.	6.25%	> \$0	W.Va.	6.50%	> \$0
Idaho	7.40%	> \$0	Mont.	6.75%	> \$0	Wis.	7.90%	> \$0
Ill. (d)	9.50%	> \$0	Nebr.	5.58%	> \$0	Wyo.	None	
Ind. (e)	6.25%	> \$0		7.81%	> \$100,000	D.C.	9.00%	> \$0

- (a.) In Arkansas, corporations with net income over \$100,000 pay 5.4 percent on the first \$100,000 plus 6.5 percent on the excess over \$100,000.
- (b.) Rate includes a 10% surtax, which effectively increases the rate from 7.5% to 8.25%. Surtax is required by businesses with at least \$100 million annual gross income.
- (c.) Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. See Table 18 for more information. Delaware and Virginia have gross receipts taxes in addition to corporate income taxes.
- (d.) Illinois' rate includes two separate corporate income taxes, one at a 7.0% rate and one at a 2.5% rate.
- (e.) The tax rate in Indiana will decrease to 5.75% on July 1, 2018.
- (f.) Corporations with entire net income greater than \$100,000 pay 9% on all taxable income, companies with entire net income greater than \$50,000 and less than or equal to \$100,000 pay 7.5% on all taxable income, and companies with entire net income less than or equal to \$50,000 pay 6.5% on all taxable income.

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 and special rates on financial institutions
 Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA