

## State Capital Base Taxes

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March 6, 2018 | 2018-R-0093

### Issue

Which states incorporate a capital base tax as part of their corporation business tax? What capital base tax rates do such states impose?

### Summary

We identified 16 states that impose a capital base tax, but only three states, Connecticut, Massachusetts, and New York, which do so as part of an overall corporation business tax. (The other states impose a capital base tax in addition to, or in lieu of, a corporation income tax.) Connecticut and New York require corporations to pay the greater of their net income base tax, capital base tax, or a minimum tax amount. (New York, however, is scheduled to phase out its capital base tax by 2021.) Massachusetts requires corporations, as part of its corporation excise tax, to pay a tax on their taxable tangible property or capital base, in addition to a tax on their net income.

#### *What is a capital base tax?*

*A capital base tax is a tax on a business's net worth or capital holdings. It is also referred to as a capital stock or franchise tax. It is typically levied as a percentage of a business's net assets.*

*According to a 2017 Tax Foundation [report](#), a total of 16 states impose a capital base tax, with rates ranging from 0.31% in Connecticut to 0.02% in Wyoming.*

Connecticut imposes a capital base tax rate of 0.31%, while New York, for the 2018 tax year, imposes a rate of 0.075% on general business taxpayers (lower rates apply for certain types of corporations, including qualified manufacturers). Massachusetts imposes a 0.26% tax on tangible property or net worth, in addition to its 8% net income tax. Connecticut caps its capital base tax at \$1 million, compared to New York's \$5 million cap for most taxpayers. Massachusetts does not cap the capital base component of its corporation excise tax.

## Capital Base Taxes in CT, NY, and MA

We identified three states that impose a capital base tax as part of an overall corporation tax. Connecticut and New York require corporations to calculate their corporation tax liability according to a net income base and a capital base and pay the greater of the two calculations (or a minimum tax amount). New York, however, is scheduled to phase out its capital base tax by the 2021 income year. Massachusetts requires corporations to pay a net income tax plus an additional tax on their capital base or tangible personal property, depending on whether the corporations are classified as tangible or intangible property corporations (determined according to the ratio of their tangible property in Massachusetts to their total assets). Table 1 compares these three states' corporation tax rates.

**Table 1: Corporation Tax Rates in Connecticut, New York, and Massachusetts for the 2018 Tax Year**

Connecticut	New York	Massachusetts
<p>Greater of:</p> <ul style="list-style-type: none"> <li>• 7.5% of net income,</li> <li>• 0.31% of capital base (up to \$1 million), or</li> <li>• \$250 minimum tax</li> </ul> <p>Additional 10% surcharge applies for the 2018 income year for companies whose gross income exceeds \$1 million and tax liability exceeds the minimum tax</p> <p>Financial services companies are excluded from the capital base method</p>	<p>Greater of:</p> <ul style="list-style-type: none"> <li>• 6.5% of net income,</li> <li>• 0.075% of business,</li> <li>• capital base (up to \$350,000 for qualified manufacturers and technology companies and \$5 million for all other taxpayers), or</li> <li>• minimum tax (between \$25 and \$200,000, depending on amount of New York receipts)</li> </ul> <p>Capital base rate is scheduled to decrease to 0.05% in 2019, 0.025% in 2020, and 0% in 2021 and later years</p> <p>Businesses with activity or property attributable to the Metropolitan Commuter Transportation District pay a surcharge of 28.6% of the portion of the tax liability attributable to the district</p> <p>Other rates, bases, and minimums apply to specific types of companies, including certain small businesses, manufacturers, and technology companies</p>	<p>Greater of:</p> <ul style="list-style-type: none"> <li>• 8% of net income and 0.26% of tangible property or net worth or</li> <li>• \$456 minimum tax</li> </ul> <p>Other rates and bases apply to specific types of companies, including financial institutions</p>

Source: CCH AnswerConnect

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