Analytics

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RE: Kicking Delaware businesses when they are down

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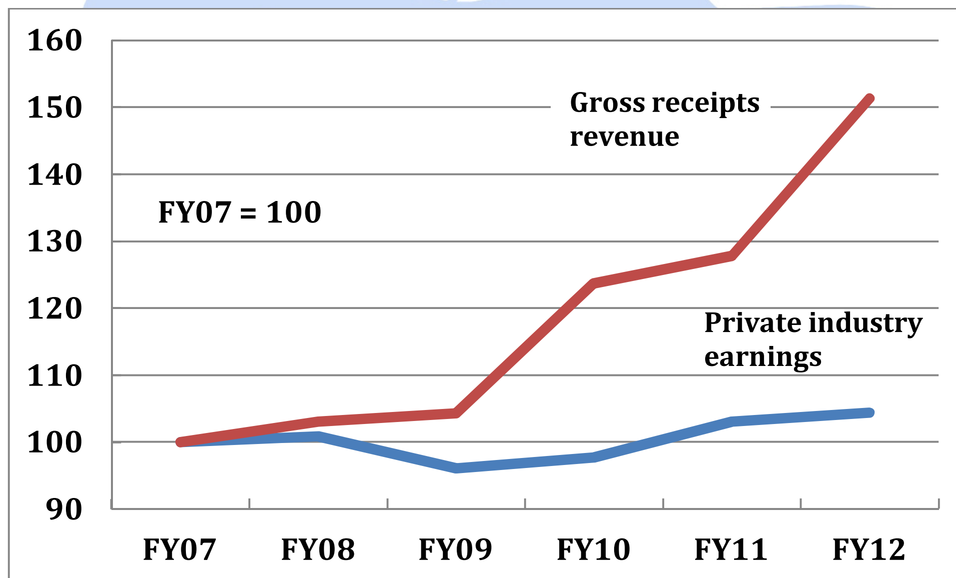
The state of Delaware's gross receipt tax is levied against total business income, regardless of whether a firm makes a profit or not. Following the onset of the recent recession, one of the state's answers to falling revenues was to twice raise the gross receipt tax; first, an increase of 25% in January of 2009 and then another jump of 8% in January of 2010.

As shown in the chart below, state gross receipts tax revenue then soared almost 50% during a time when earnings by Delaware private industry were flat. This is counter intuitive to economic theory that argues for tax breaks during a recession to encourage businesses to hire and invest. If the effective gross receipts tax rate from FY 2008 had remained unchanged, Delaware businesses would have had $153 million of additional earnings to plough back into their operations.



The state compounded this hit by raising the tax rate on personal income greater than $60,000 to almost 7%. The vast majority of Delaware's higher income paying households report business income. It is no wonder that employment in Delaware still lags behind where it was five years ago.

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