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The CORPORATE COLLABORATIVE @ UD

Corporate Franchise Impact Study

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EXECUTIVE SUMMARY

The corporate franchise is one of the most critical pieces of Delaware's economy. While much attention is rightly focused on the government revenue the franchise generates, which funds services ranging from education and health care to public safety, less attention is paid to the franchise's broader economic impact, including the jobs and related economic activity it creates. Today, the corporate franchise directly and indirectly supports almost **65,000 jobs**, or about 13% of Delaware's employment, making it one of the largest and most important sectors of the Delaware economy. It also directly contributes approximately $7.8 billion to the state's gross domestic product (GDP).

Having evolved over many decades, Delaware corporate franchise has carved out a unique niche in business law, serving as the legal home to about two-thirds of Fortune 500 companies and over 2.2 million active business entities as of 2025. The state's dominance rests on a well-established legal and institutional foundation composed of the Delaware General Corporation Law (DGCL), the Court of Chancery's specialized expertise, and the Division of Corporations' administrative efficiency. Together, these pillars have made Delaware a predictable, stable home for corporate governance, and that reputation translates directly into economic strength for the state (Casarino & Nelson, 2025).

In 2025, the franchise generated over $2 billion in annual revenue for Delaware's General Fund, and over $400 million coming from abandoned property, together accounting for more than 35% of total state revenue in fiscal year (FY) 2025. This revenue flows from several sources: the franchise tax paid by corporations, limited liability company and limited partnership (LLC)/(LP) taxes, business-entity and Uniform Commercial Code (UCC) fees, and unclaimed property escheated to Delaware. This revenue has helped the state maintain no sales tax and low property taxes for residents (Fritts, 2026). The corporate franchise continues to grow, with the number of entities increasing by roughly 44% from 2020 to 2025, while revenues from all sources grew by about 30% over the same period (Delaware Economic and Financial Advisory Council, 2020 and 2026).

Franchise taxes pay for government services that have a significant economic impact in the state. Equally important, the franchise supports a substantial and diverse economic ecosystem. Registered agents, law firms, and the courts and administrative bodies that service corporate franchise activity together employ thousands of Delawareans and generate billions of dollars in economic activity statewide.

FINDINGS

To understand what this fiscal engine means in real economic terms, the University of Delaware's Institute for Public Administration (IPA) employed economic modeling techniques to estimate two distinct impacts. First, the direct revenue generated by the franchise, modeled as roughly $2.4 billion in state spending based on data from the Delaware Economic and Financial Advisory Council (DEFAC), is estimated to support **49,650 jobs**, while generating **$6.0 billion in GDP**, **$9.7 billion in economic output**, and **$3.4 billion in personal income** statewide. Second, looking specifically at the law firms and registered agents that support the corporate franchise activity, the model estimates that this sector of Delaware's economy supports **14,912 jobs**, **$1.8 billion in GDP**, **$2.9 billion in output**, and **$2.1 billion in personal income**.

Given its impact on state revenue and the Delaware economy, replacing the corporate franchise would not be easy. For many years, the franchise's growth has helped fund budget growth to maintain existing services and support new programs. Few alternatives exist. IPA explored the economic impacts of increasing the personal income tax or introducing a sales tax to offset losses in corporate franchise revenue. While both could theoretically replace revenues in the event of a decelerating corporate franchise, each lowers economic activity by reducing household purchasing power and undermining Delaware's attractiveness to current and future residents.

The model measures the impact of raising personal income taxes to account for a modest 10% loss in corporate franchise revenue. It is estimated that such a change would result in Delaware losing **1,928 jobs** and **$213 million in GDP.** Replacing a 20% decline in franchise revenue with personal income taxes was expected to result in Delaware losing **3,852 jobs** and **$426 million in GDP.**

Introducing a sales tax in Delaware has more frequently been discussed as an alternative to declining corporate franchise revenues. Replacing all franchise revenues with a sales tax similar to those in neighboring states would require a tax of over 5%. Importantly, the economic impact of imposing a sales tax is even greater than increasing personal income taxes. Replacing a 10% decline in corporate franchise revenue with a sales tax is estimated to result in **2,150 fewer jobs** and a **$239 million loss in GDP**, whereas a 20% decline is estimated to result in **4,261 fewer jobs** and a **$474 million loss in GDP**. Both personal income tax and sales tax scenarios would reduce total output and personal income by hundreds of millions of dollars.

The findings of this report demonstrate how critical the corporate franchise is to the state of Delaware. The franchise generates revenue for the state government, provides significant employment, and benefits Delaware's overall economy in ways that cannot be easily replaced. Alternative revenue sources, such as increasing personal income tax or introducing a sales tax,

may offset a loss in state revenue but would negatively affect employment, GDP, total output, and personal income, creating significant economic disruption.

Finally, the report represents what is essentially a “snapshot” of the existing economic environment and, as such, does not anticipate any increased revenue requirements for state government or the broader employment needs of the Delaware economy in the years to come. This is important given the outsized role the franchise now plays for Delaware’s state government and economy.

INTRODUCTION

Delaware's corporate franchise is a significant economic asset, serving as the legal home to more than half of all publicly traded companies and to the majority of Fortune 500 corporations. The franchise makes significant contributions to Delaware's economy, spanning employment, income, tax revenue, and gross domestic product (GDP). However, these contributions have not been comprehensively measured in a way that facilitates policy discussion and informed decision-making about the franchise.

This report, prepared by the University of Delaware's Institute for Public Administration (IPA) on behalf of the Delaware Department of State (DOS), presents the findings of a systematic effort to address that gap. Drawing on data collected from the Delaware DOS, courts, law firms, registered agents, and other key stakeholders, and employing industry-standard economic modeling tools, this study develops a comprehensive economic profile of Delaware's corporate franchise and models its direct, indirect, and induced contributions to the state economy. The findings are intended to equip policymakers, state leaders, and other industry stakeholders with the evidence base needed to make informed decisions about the future of one of Delaware's most distinctive and important economic engines.

THE DELAWARE CORPORATE FRANCHISE

In Delaware, the "corporate franchise" denotes both a legal framework and an economic system that together sustain the state's dominance as the nation's hub for business incorporation. The franchise is built on several key pillars. The first is an advanced and enabling statute known as the **Delaware General Corporation Law (DGCL)**, which governs the internal affairs of business entities and defines the relationships among stockholders, directors, and officers (Delaware General Corporation Law, 2026). The DGCL functions as a specialized body of contract law, enabling Delaware to build a consistent and predictable legal environment for corporate governance. The second pillar is the **Delaware Court of Chancery**, the nation's preeminent business court, where expert judges decide complex corporate disputes without juries, offering the specialized expertise and speed that the modern business environment requires. This cornerstone of the corporate franchise provides a century of reasoned written opinions, creating a predictable and stable body of case law. The final pillar is the **Division of Corporations** within the Department of State, which serves as a highly efficient, service-oriented business that provides administrative support for the corporate franchise's activities. Together, these laws and institutions form an integrated system that provides legal certainty and administrative efficiency for corporations (Casarino & Nelson, 2025).

For the state of Delaware, the corporate franchise is a vital economic lifeline that generated over $2 billion in annual revenue in 2025 through taxes and fees. In 2025, revenue from business registrations and related sources, such as unclaimed property, accounted for over 35% of the state's General Fund. This income helps Delaware maintain a very low tax burden for its residents, including no state sales tax and a low property tax rate (Fritts, 2026). Additionally, the industry supports an extensive ecosystem of attorneys, registered agents, and ancillary service providers[1] that underpin the state's economy.

CORPORATE FRANCHISE COMPOSITION

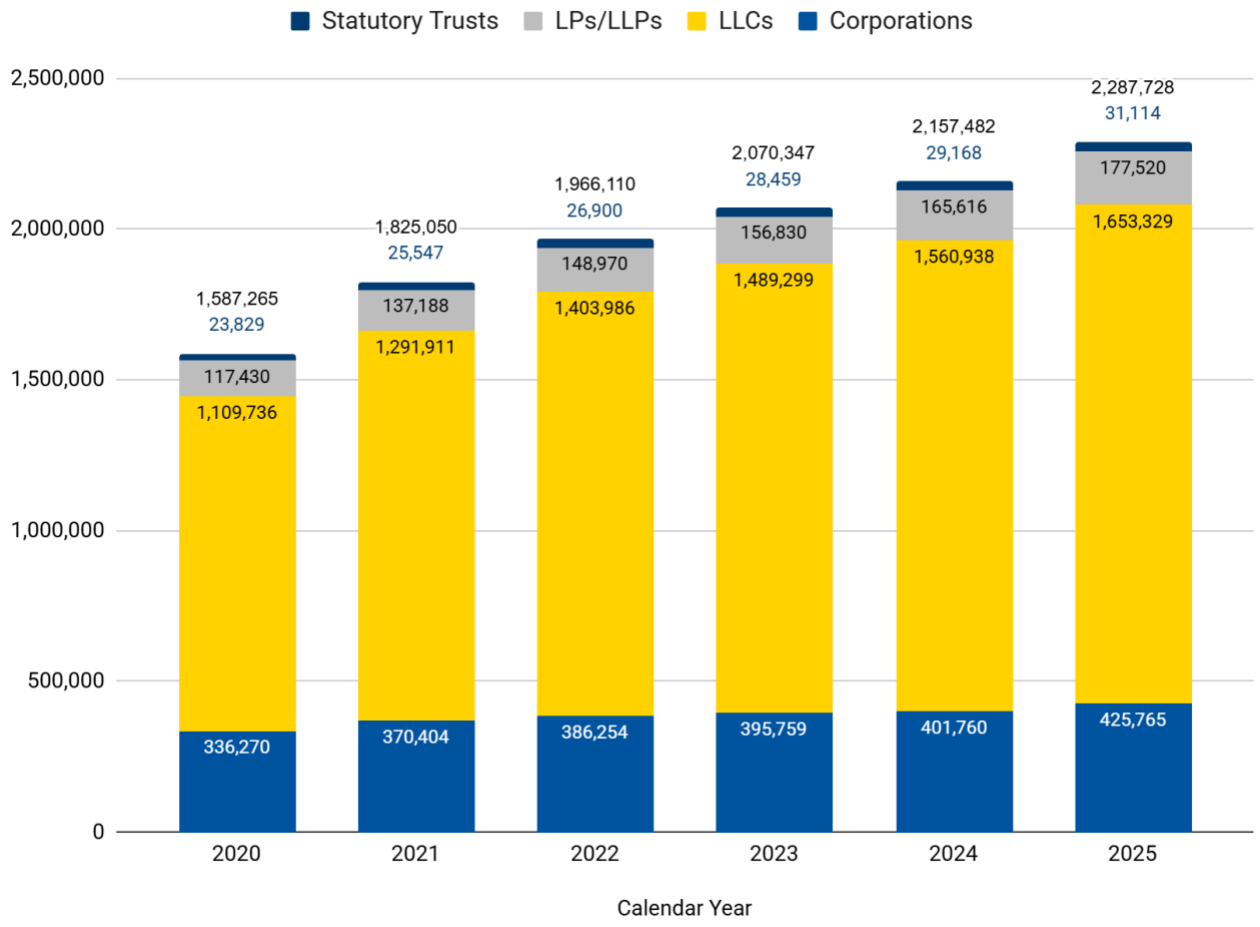
Beyond its legal foundation, the corporate franchise represents the broader ecosystem of business entities that choose Delaware as their legal home. More than 2.2 million active entities, including over 67% of Fortune 500 companies, are incorporated within the state as of 2025, thereby contributing to its economy. These entities are broadly categorized into two groups:

- **Corporations:** Both C-corporations and S-corporations
- **Alternative Entities:** Includes limited liability companies (LLCs), limited partnerships (LPs), limited liability partnerships (LLPs), and statutory trusts

The total of Delaware's active incorporated entities has continued to grow over time, signaling that the state continues to attract not only strong new business formation activity but also high entity retention. The cumulative stock of incorporated businesses continues to expand year after year. Figure 1 presents the number and types of entities incorporated in Delaware between 2020 and 2025. During this period, the total number of entities grew steadily and substantially, rising from 1,587,265 to 2,287,728—an increase of approximately 44%. LLCs are by far the largest category and the primary driver of growth, expanding roughly 49%, from 1,109,736 in 2020 to 1,653,329 in 2025. Corporations represent the second-largest segment and grew consistently, climbing 26% over the same period, though their share of the total mix is gradually being diluted as LLC adoption accelerates. LPs and LLPs grew modestly, and statutory trusts remained the smallest category. The steepest single-year jump in total entities occurred between 2020 and 2021, likely reflecting the post-pandemic entrepreneurial surge seen in Figure 1.

[1] Ancillary service providers are businesses and professionals that support the corporate franchise industry indirectly, such as printing services, title and escrow services, notaries, tax and accounting services, courier services, etc.

Figure 1. Total Incorporations by Type (2020–2025)



Source: Delaware Division of Corporations, 2025 Annual Report

CORPORATE FRANCHISE REVENUE

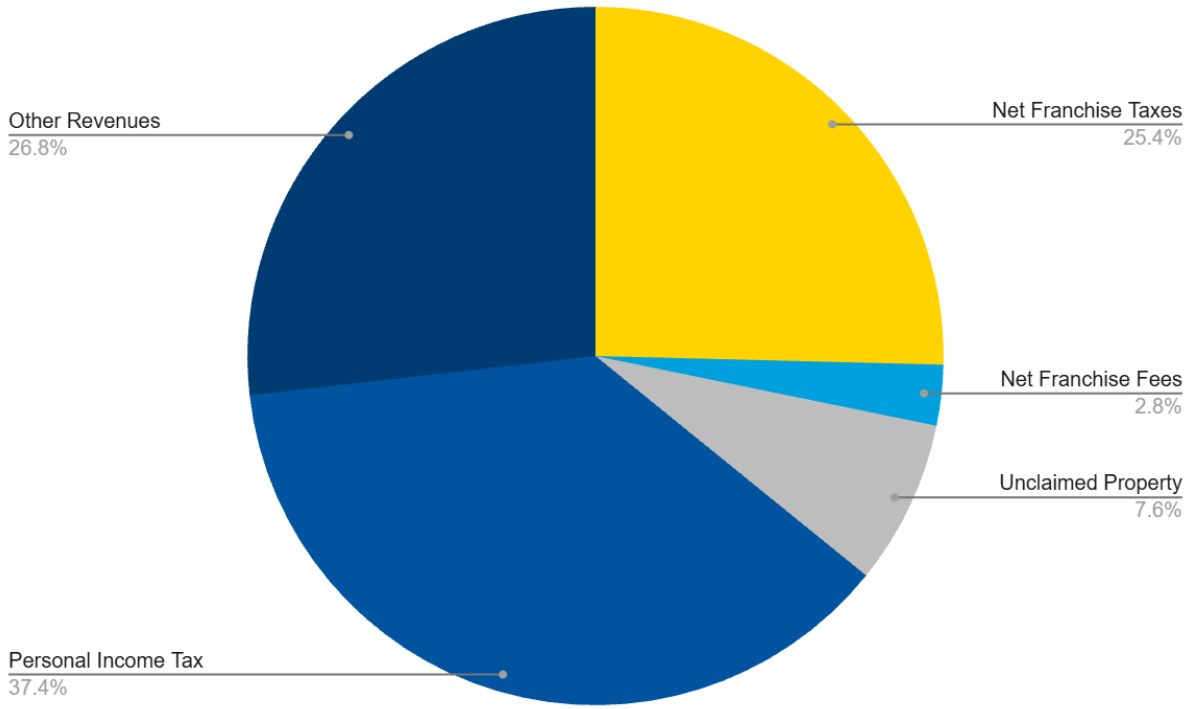
Delaware's corporate franchise is a critical pillar of the state's fiscal health, contributing over $2 billion in annual revenue to the General Fund (Smith & State of Delaware Department of Finance, 2025). This significant financial contribution allows Delaware to fund all ordinary operating expenses, including K–12 public and collegiate education, law enforcement, healthcare, and housing programs (Worley, 2026).

The revenue is generated from several different taxes and fees:

- **Corporations** pay the **franchise tax**, a long-standing revenue source established in 1899.
- **Alternative entities** pay **LLC/LP taxes**, a revenue stream introduced in 1988 that has since grown rapidly.

Beyond direct taxes, the state collects significant revenue through administrative fees (business entity fees and Uniform Commercial Code [UCC] fees) for services provided by the Delaware Secretary of State's Division of Corporations. Additionally, abandoned property, or unclaimed property, is a substantial revenue stream for the state. Under a U.S. Supreme Court rule, when the owner of such property is missing or cannot be found, the property is escheated, or legally transferred, to the state where the holder of the property is incorporated (*Texas v. New Jersey*, 1965). Because Delaware is the legal home to more than 2.1 million entities, it receives a significant amount of these abandoned assets from companies across the country. Together, these direct and indirect franchise-related revenues account for **over 35%** of Delaware's total General Fund, as shown in Figure 2.

Figure 2. Fiscal Year (FY) 2025 General Fund Revenue Composition



Source: FY 2026 Governor's Recommended Operating Budget, Financial Summary.

THE LEGAL INDUSTRY

Delaware's corporate franchise and its legal services industry depend on each other equally; neither could thrive without the other. While the state's reputation for corporate law draws firms and registered agents to Delaware, the franchise itself also thrives because of Delaware's sophisticated legal ecosystem. Delaware is home to both boutique and Am Law 100 firms based in Wilmington, mainly due to the corporate franchise. The pillars of Delaware corporate governance

have created demand for legal professionals with a deep understanding of Delaware General Corporate Law.

As of July 2026, 26 Am Law 100 firms, the highest-grossing law firms in the United States, have Wilmington, Delaware, office locations (Counsel Contacts, n.d.). For context, Philadelphia has 28 Am Law 100 firms and a population of over 1.5 million. Wilmington's firm count is comparable, with a population of only 73,000.

Further, of these 26 firms located in Wilmington, 14 explicitly stated Delaware's supremacy or importance in corporate law as a reason for the office location. Wilson Sonsini Goodrich & Rosati's Wilmington office webpage emphasized Delaware's "solid pro-business environment, proximity to highly respected courts, including the Court of Chancery, and one of the most advanced and flexible corporate statutes in the nation" (n.d.). Duane Morris attributed the state's dominance in business law to "the work of the Delaware Court of Chancery" (n.d.).

The majority of the remaining firms cite their staff's unique experience with corporate litigation and Delaware courts, suggesting these firms are located in Wilmington because of Delaware corporate governance and business demand for trial before the Delaware courts. This concentration of legal talent is what sustains Delaware's advantage. As these firms handle a high volume of sophisticated corporate work, they deepen the state's expertise and reputation, which in turn draws even more entities to incorporate in Delaware.

Registered agents also occupy an equally symbiotic position within this ecosystem. Firms such as CSC and CT Corporation exist in large part to serve Delaware's legal community. CSC works with nearly 10,000 law firms and serves 90% of the Fortune 500, while CT Corporation derives roughly 70% of its Delaware business directly from the legal community. As CT Corporation's Senior Manager, Alan Stachura, stated, "Were it not for the Delaware legal industry, we would not exist either" (Larson et al., 2019). In this sense, Delaware's law firms and registered agents are not merely beneficiaries of the corporate franchise. They are integral to sustaining it with the quality and scale of their legal services ecosystem, which is precisely what makes the franchise difficult for other states to replicate.

METHODOLOGY

DATA SOURCES

To develop the inputs for the economic impact model, multiple data sources were compiled and integrated. Primary data were collected through surveys of Delaware law firms and registered agents. The survey instrument was designed to closely align with the data collection approach used in the 2019 Delaware Legal Industry Analysis, allowing for consistency and comparability with

prior research (Larson et al., 2019). Survey responses provided information on employment, expenditures, business activity, and the role of Delaware's corporate franchise within participating organizations.

These primary data were supplemented with employment and wage data obtained from the Delaware Department of Labor to establish industry employment benchmarks and support model calibration. Additional contextual and administrative data were drawn from publicly available reports and statistical publications produced by the Delaware Division of Corporations and the Delaware Judiciary. These sources include annual reports, filing statistics, revenue data, and court activity metrics. Together, these sources provided the foundation for estimating the direct economic activity associated with Delaware's legal and corporate services ecosystem and for developing inputs to the economic impact model.

ECONOMIC MODELING

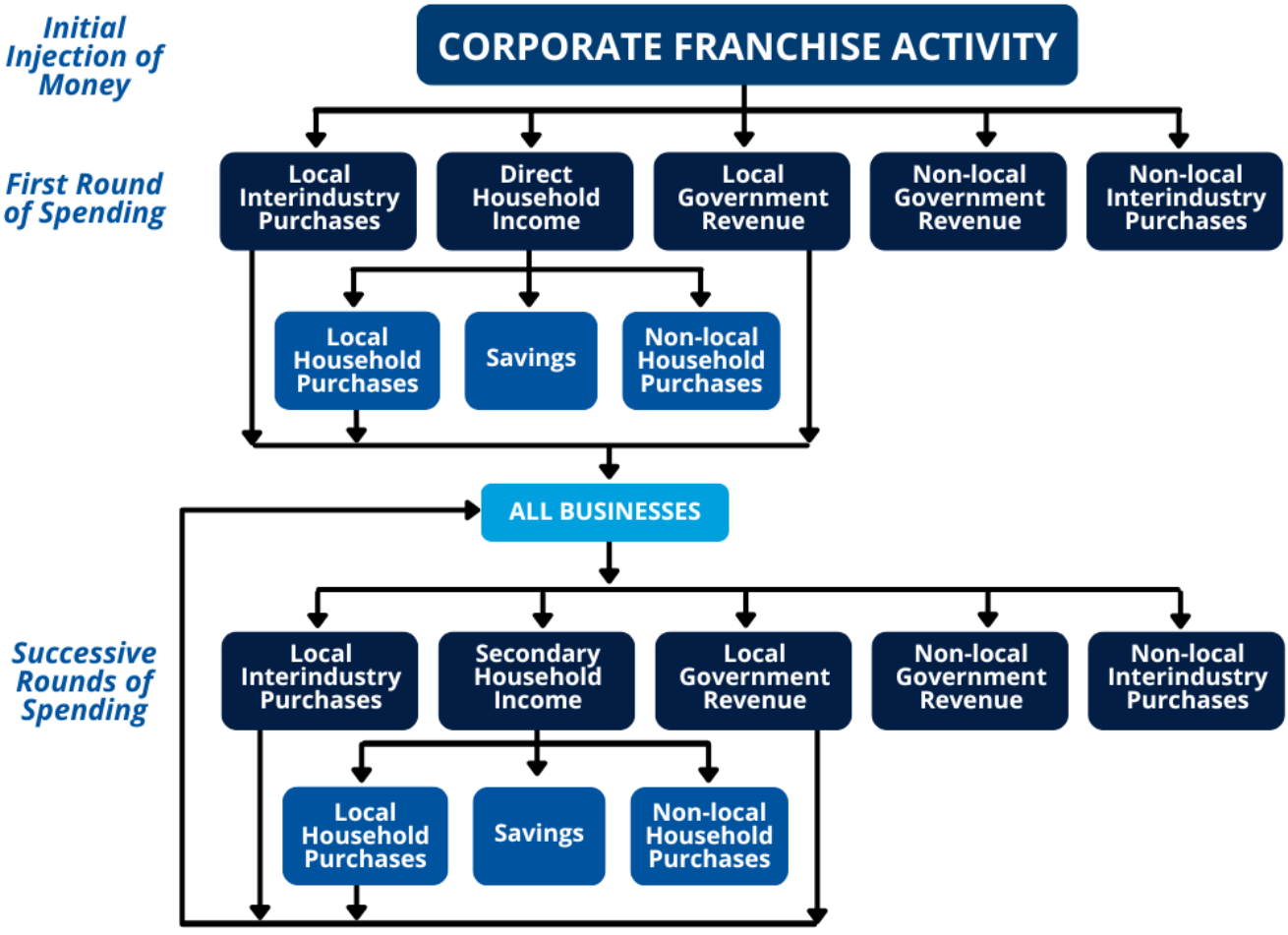
The IPA team used the industry-standard economic modeling software REMI to analyze economic contributions, impacts, and revenue-replacement scenarios. This analysis was done in consultation with Dr. Simon Condliffe, an economist specializing in regional input–output modeling. REMI's input–output (I–O) analysis identifies economic effects as direct, indirect, and induced. Direct effects refer to the employment, wages, or output whose impacts are being measured. For this report, direct effects include state fiscal inflows such as the corporate franchise tax; LLC, LP, LLP, and statutory trust annual entity taxes; business entity fees; and unclaimed property deposits into the General Fund. Indirect effects capture the business-to-business purchases that occur as firms interact through supply chains. Induced effects reflect the economic impact of household spending within the local economy (see Figure 3). The model also captures direct GDP and employment associated with franchise-affiliated sectors, including registered-agent firms and the legal industry.

The impact of corporate franchise activity may be thought of in two ways: (a) the system that supports the activity and (b) the revenue generated.

The system that supports the activity includes registered agents, law firms participating in corporate franchise activity, the associated courts (the Court of Chancery and the Delaware Supreme Court), and the Division of Corporations within the Department of State. Collectively, these entities provide the system for the corporate franchise to flourish. Using employment and wages from these entities as inputs, the system's economic impact is modeled.

Corporate franchise revenue generates over $2 billion for the General Fund and is available to support state spending. Using the FY 2026 estimate of this revenue as an input, we model the impact of corporate franchise activity.

Figure 3. Economic Impact Model of the Delaware Corporate Franchise



At present, corporate franchise revenues are defined as the sum of franchise tax, LLC/LP Tax, unclaimed property, and business entity fees. This definition may be refined over time. For example, UCC filing fees could be considered for inclusion.

The registered agents included in this study were provided by the Division of Corporations and identified as those conducting online transactions with the division and accounting for the majority of transaction volume.

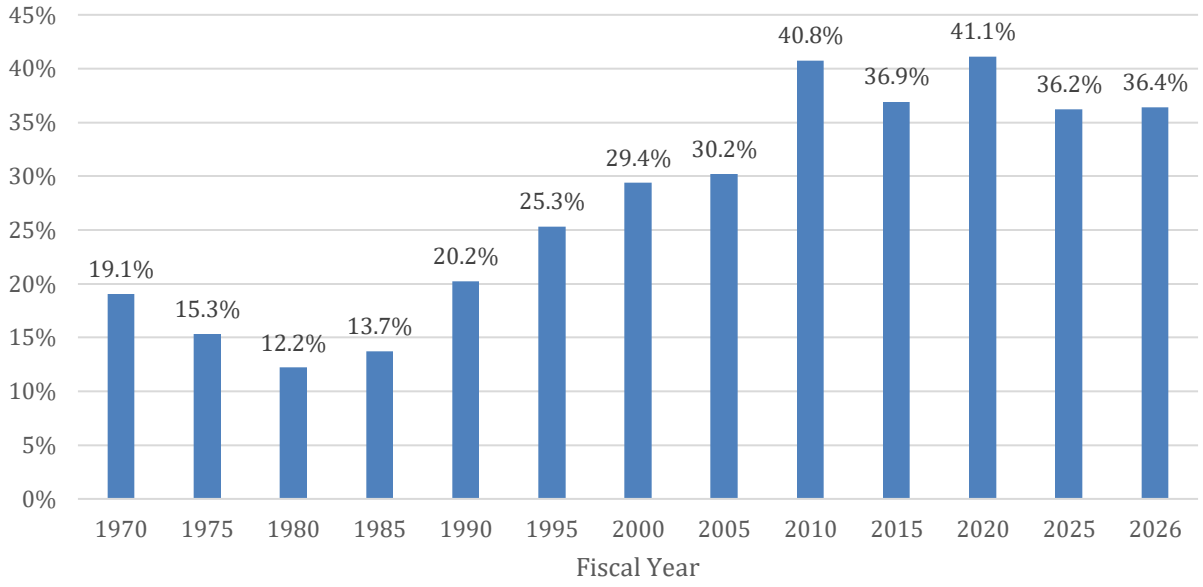
For modeling purposes, we include law firms and registered agents. Survey responses from registered agents indicate that the majority of their business activity and revenue is derived from corporate-franchise-related services. Accordingly, the current approach attributes all their employment and wages to the corporate franchise system. This assumption can be revisited and refined as additional data from registered agent firms become available.

Survey and interview responses from law firms reveal the significance of corporate-franchise-related work to their business activities. The current approach assigns the reported portion of law firms' activity to franchise-related activities.

RESULTS

As a share of the General Fund, corporate-franchise-related revenues reached a recent peak in FY 2020—the second-highest level after FY 2010 (see Figure 4 below). This increase was driven in part by declines in other revenue sources resulting from COVID-19; for example, individual income tax revenue, the General Fund's largest revenue source, fell by 3.6% from 2019 to 2020.

Figure 4. Franchise-Related Revenue as a Share of the General Fund

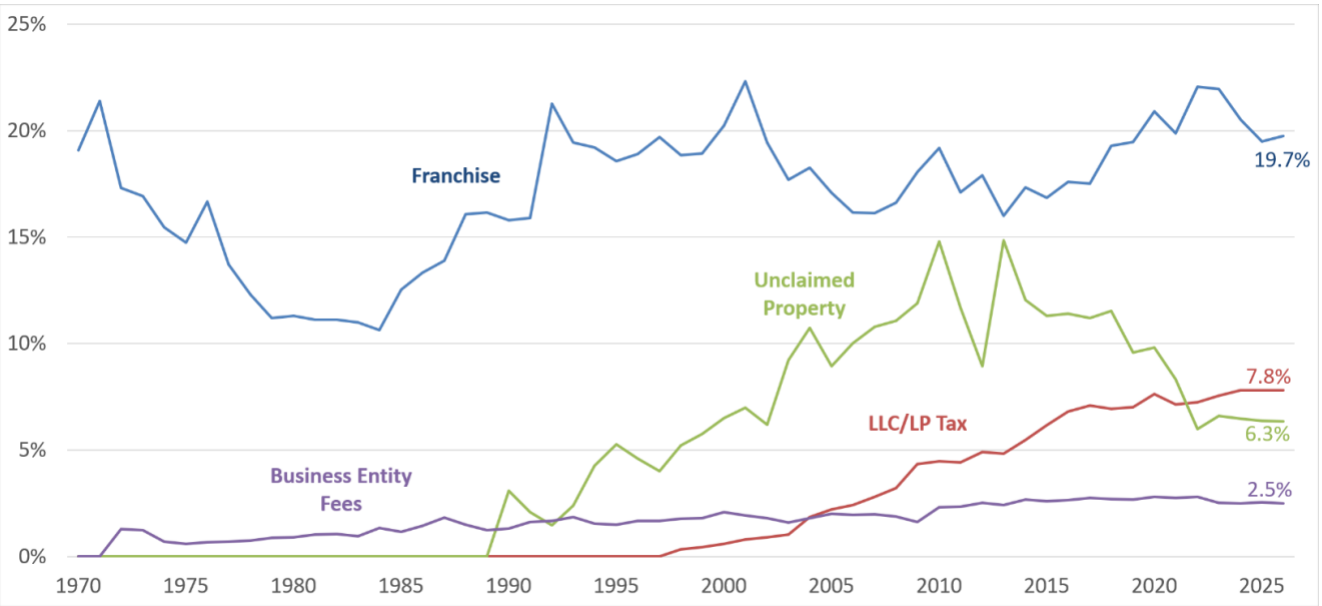


Source: Delaware Fiscal Notebook

Deconstructing corporate-franchise-related revenues as a share of the General Fund reveals several notable trends. Business entity fees have remained stable, contributing approximately 2.5% of General Fund revenues. Unclaimed property reached a peak contribution of 14.8% in 2010, and again in 2013, but has accounted for approximately 6.3% of General Fund revenues since 2022.

LLC/LP revenues have grown to 7.8% of the General Fund and have remained at that level for the past three years. Franchise Tax revenues account for approximately 20% of the General Fund, on par with their ten-year average of 20.1%.

Figure 5. Franchise-Related Revenue by Source as a Share of General Fund



Source: Delaware Fiscal Notebook

IMPACT ASSESSMENT MODELING

Table 1 presents the estimated economic impact of corporate franchise revenue. As one of the largest sources of Delaware's General Fund revenue, corporate franchise revenue has a substantial economic impact. Corporate franchise revenue is estimated to support 49,650 jobs while generating $6.0 billion in GDP, $9.7 billion in economic output, and $3.4 billion in personal income. The jobs supported by the General Fund revenue are in industries including state and local government, construction, retail trade, real estate, food services and drinking places, and outpatient health services.

Table 1. Estimated Economic Impact of Corporate Franchise Revenue

Category	Value
Total employment (jobs)	49,650
Gross Domestic Product	$6.017 billion
Output	$9.749 billion
Personal income	$3.378 billion

Note: Modeled as $2.433 billion in state spending based upon DEFAC FY 2026 forecast using REMI.

Table 2 presents the estimated economic impact of the system supporting corporate franchise activity. The system supporting corporate franchise activity is estimated to support 14,912 jobs in law firms, registered agent firms, and ancillary services, while generating $1.8 billion in GDP, $2.9 billion in economic output, and $2.1 billion in personal income.

Table 2. Estimated Economic Impact of the System Supporting Corporate Franchise Activity

Category	Value
Total employment (jobs)	14,912
Gross Domestic Product	$1.811 billion
Output	$2.929 billion
Personal Income	$2.073 billion

Note: Modeled as employment and wages of registered agents and law firms using REMI.

TAX SCENARIO MODELING

The estimated economic impacts of raising revenue from alternative sources to offset declining corporate franchise revenues are evaluated under two policy scenarios: (1) an increase in the personal income tax and (2) the introduction of a sales tax. Although both policy options are expected to reduce economic activity, they do so through different transmission mechanisms and therefore produce similar, but not identical, economic impacts.

Increasing the personal income tax reduces disposable personal income, which, in turn, dampens household consumption. Higher personal income taxes may also influence interstate migration by reducing Delaware's attractiveness to prospective residents while increasing the likelihood that some current residents relocate to other states. The combined effects of lower consumer spending and changes in migration are expected to reduce overall economic activity, thereby shrinking the state's economy and tax base.

Introducing a sales tax increases the after-tax prices consumers pay, reducing household purchasing power and, consequently, household consumption. Higher consumer prices may also influence interstate migration by increasing Delaware's relative cost of living, making the state less attractive to prospective residents while encouraging some current residents to relocate elsewhere. The combined effects of reduced consumer spending and changes in migration patterns are likewise expected to reduce overall economic activity, thereby shrinking the state's economy and tax base.

Table 3 presents the estimated economic impacts of offsetting a 10% decline in corporate franchise revenue by either increasing the personal income tax or introducing a sales tax. Under these scenarios, total employment is estimated to decline by 1,928 to 2,150 jobs, GDP by $213 million to $239 million, total output by $358 million to $405 million, and personal income by $184 million to $201 million.

Table 3. Estimated Impact of Increasing Tax Revenue by Personal Income Tax or Sales Tax to Counterbalance a 10% decrease in Corporate Franchise Revenue

Category	Personal Income Tax	Sales Tax
Total employment	-1,928	-2,150
Gross Domestic Product (fixed 2025 dollars)	-$213 million	-$239 million
Output (fixed 2025 dollars)	-$358 million	-$405 million
Personal income (current dollars)	-$184 million	-$201 million

Source: REMI.

Table 4 presents the estimated economic impacts of offsetting a 20% decline in corporate franchise revenue by either increasing the personal income tax or introducing a sales tax. Under these scenarios, total employment is estimated to decline by 3,852 to 4,261 jobs, GDP by $426 million to $474 million, total output by $715 million to $803 million, and personal income by $367 million to $397 million.

Table 4. Estimated Impact of Increasing Tax Revenue by Personal Income Tax or Sales Tax to Counterbalance a 20% decrease in Corporate Franchise Revenue

Category	Personal Income Tax	Sales Tax
Total employment (jobs)	-3,852	-4,261
Gross Domestic Product (fixed 2025 dollars)	-426 million	-474 million
Output (fixed 2025 dollars)	-715 million	-803 million
Personal income (current dollars)	-367 million	-397 million

Source: REMI.

The current effective personal income tax rate in Delaware is approximately 3.1% (Bureau of Economic Analysis, 2025). Offsetting a 10% decline in corporate franchise revenue through higher personal income tax (PIT) is estimated to increase the effective personal income tax rate by 0.3

percentage points, to approximately 3.4%. Offsetting a 20% decline is estimated to increase the effective rate by 0.6 percentage points, to approximately 3.7%. Offsetting a 100% decline in corporate franchise revenue through higher PIT is estimated to increase the effective personal income tax rate by 3.1 percentage points, to approximately 6.2%. This is equivalent to doubling Delaware's current effective personal income tax rate.

An increase in the statewide effective personal income tax rate from 3.1% to 3.4% is equivalent to an average increase of approximately $300 in state personal income tax for every $100,000 of personal income. However, the actual increase would vary among taxpayers, as the personal income tax is progressive. An increase from 3.1% to 3.7% equates to an average increase of approximately $600 in state personal income tax for every $100,000 of personal income, with the same caveat that the actual increase would vary across taxpayers.

The effective sales tax rate is calculated by dividing estimated sales tax revenue by personal consumption expenditures. It represents the average sales tax burden on taxable consumption. The sales tax model assumes exemptions similar to those in Pennsylvania, including clothing, groceries, and medical supplies.

Offsetting a 10% decline in corporate franchise revenue through a sales tax is estimated to require an effective sales tax rate of 0.5%. Offsetting a 20% decline is estimated to require an effective sales tax rate of 1.1%. Offsetting a 100% decline in corporate franchise revenue is estimated to require an effective sales tax rate of 5.3%.

DISCUSSION

The results presented above tell a clear story: Delaware's corporate franchise is one of the load-bearing pillars of the state's fiscal and economic structure, and its footprint is large enough that changes to it ripple through nearly every part of the state economy.

IMPORTANCE FOR DELAWARE'S ECONOMY

As shown in Table 1, at a GDP of $6 billion, the corporate franchise's economic footprint is roughly 5% of Delaware's nominal state GDP (Delaware's all-industry GDP was $117.2 billion in 2025). For comparison, Delaware's Professional and Business Services sector, the state's third-largest industry by GDP, contributed $12.3 billion in 2025, accounting for about 10.5% of the state's total GDP (U.S. Bureau of Economic Analysis, 2026). While the franchise's contributions to GDP include direct, indirect, and induced impacts, and GDP for professional and business services accounts only for the direct impacts of this sector, this comparison speaks to the scale of the impacts involved.

The employment figures paint a similar picture. With Delaware's total statewide employment at roughly 498,000 workers in June 2026, the 49,650 jobs attributable to corporate franchise revenue represent nearly 1 in every 10 jobs in the state (U.S. Bureau of Labor Statistics, 2026). When the "system" that supports the franchise (i.e., registered agents, law firms, and ancillary service providers) is added in, the combined footprint climbs to roughly 65,000 jobs and nearly $8 billion in GDP, or the equivalent of 1 in every 8 Delaware workers owing their livelihood, directly or indirectly, to the state's corporate law franchise.

The results in Figures 4 and 5 show that this is not a temporary state but a structural feature of Delaware's public finances: franchise tax alone has held steady at roughly 20% of the General Fund for a decade, and LLC/LP revenue has climbed to a stable 7.8%. Combined, franchise-related revenues regularly account for well over a third of General Fund revenue—a concentration few, if any, other states have in a single revenue category tied to one legal-economic ecosystem. However, that concentration is a double-edged sword: it has proven remarkably stable through recessions, but it also means Delaware's fiscal health is unusually tied to the continued competitiveness of its corporate law product.

THE COST OF REPLACEMENT

The tax scenario modeling in Tables 3 and 4 quantifies how expensive it would be to unwind that dependence. Offsetting even a modest 10% decline in corporate franchise revenue through a personal income tax increase or a new sales tax would cost the state 1,928–2,150 jobs and $213–$239 million in GDP. A 20% decline would roughly double those losses, cutting 3,852–4,261 jobs and reducing GDP by up to $474 million. Critically, these figures capture only the tax-substitution effect—the drag from raising alternative revenue—and do not include the larger, first-order loss of the jobs and output of the system supporting corporate franchise activity (see Table 2) that would accompany such a decline (e.g., losses in law and registered agent firms). In other words, Tables 3 and 4 likely understate the true cost of an eroding corporate franchise, since they model only how challenging it is to replace the lost dollars, not the underlying system that supports the economic activity itself.

It should be noted that counterbalancing shortfalls in corporate franchise revenue with a sales tax would be a significant shift in tax policy, affecting consumer behavior and spending. Introducing a sales tax in a state that currently has none could shift some consumer behavior, particularly at the higher end of the modeled rates. Shoppers may become more price-sensitive, adjust the timing of larger purchases, or look to cross-border or untaxed options where available. A sales tax also tends to weigh more heavily on lower-income households, since they typically spend a larger share of their income on taxable goods (Institute on Taxation and Economic Policy, 2016). In contrast, raising personal income tax rates would likely have a different effect. Since it is less

visible at the time of purchase, it may draw more attention at tax-filing time, rather than shaping everyday spending decisions. Higher earners, in particular, may respond by changing how or when income is realized.

This analysis did not model a scenario in which corporate franchise revenue growth remains stagnant rather than declining outright. State budget growth has historically been supported by growth in corporate franchise revenue. If corporate franchise revenue were to hold flat rather than decline, the state would still face a shortfall relative to its budget growth trajectory, since other revenue sources would need to make up the difference to keep pace with annual budget increases. This warrants further investigation in future research.

Taken together, these results suggest that the corporate franchise functions less like an ordinary tax category and more like an economic base industry for Delaware, comparable in scale to the state's largest private sectors, deeply embedded in the state's legal labor market, and expensive, in both fiscal and real economic terms, to replace. Policymakers weighing changes to franchise-related revenue policy should treat the estimates in Tables 1–4 not as independent scenarios, but as a floor: the true economic exposure includes both the direct loss of franchise-supported activity, and the additional drag of whatever replacement revenue measure is ultimately chosen.

DIVERSE AND LOCALIZED INDUSTRY IMPACTS

Delaware's corporate franchise revenue and the ecosystem supporting the franchise create job opportunities across numerous sectors of the state's economy. Revenue provides the resources needed to employ personnel, procure materials and supplies, and engage contractors to carry out state government work. Law firms and registered agents affect employment in downstream industries by renting or buying office space, contracting for services, and incurring expenses ranging from catering to paper. Individuals employed in jobs that directly or indirectly support the franchise then spend their salaries on a variety of household purposes, creating further downstream impacts. Apart from the legal industry, the greatest employment impacts occur in state and local government, construction, retail trade, real estate, food services and drinking places, and outpatient health care services.

While this study focused on modeling the broad, macroeconomic impacts of the corporate franchise statewide, the firms directly engaged in franchise activities have, over time, clustered in particular areas across the state. These employment concentrations create more pronounced, localized impacts across the diverse industries that indirectly support the franchise. Extensions of this study could employ narrower case study approaches to detail the localized linkages and impacts associated with the places (e.g., Georgetown and Wilmington) and industries (e.g., restaurants, hotels, and courier services) most closely tied to the franchise. Earlier work by Larson, Latham, and Lewis (2019) sheds significant light on the tremendous local impacts of the franchise

and broader legal industry. Among the noted impacts in Wilmington, Johnson Commercial Real Estate attributed 85% of its business to the legal industry, Sheraton Suites estimated that law firms accounted for 2,500 to 3,000 room nights each year, and restaurant owners cited the critical role of the legal community's patronage for their businesses.

CONCLUSION

The data paint a clear picture of the importance of the corporate franchise to the Delaware economy. Corporate franchise activity is a key economic driver in Delaware, generating revenue, creating and maintaining jobs, and supporting diverse industries. While corporate franchise activity contributes more than $2 billion annually to the General Fund, it extends far beyond a revenue source for Delaware; it is a cornerstone of employment and spending within the state. The corporate franchise directly and indirectly supports almost **65,000 jobs**, or about 13% of Delaware's employment, making it one of the largest and most important sectors of the Delaware economy. In other words, the franchise is directly or indirectly responsible for 1 in every 8 Delawareans' livelihood.

Because of the franchise's far-reaching impact, revenue alternatives are expected to dampen economic activity and encourage interstate migration. Raising personal income taxes to account for a modest 10% loss in corporate franchise revenue is estimated to cost Delaware **1,928 jobs** and **$213 million in GDP.** The economic impact of imposing a sales tax is even greater than increasing personal income taxes. Replacing a 10% decline in corporate franchise revenue with a sales tax is estimated to result in **2,150 fewer jobs** and a **$239 million loss in GDP**. Both personal income tax and sales tax scenarios would decrease total output and personal income by hundreds of millions of dollars. Replacing all franchise revenues with a sales tax similar to those in neighboring states would require a tax of over **5%**. Whereas corporate franchise revenue supports employment and local industry, raising taxes would decrease household consumption.

The findings of this report demonstrate how critical the corporate franchise is to the state of Delaware. The franchise generates revenue for the state government, significant employment, and cannot be easily replaced. Alternative revenue sources, such as increasing personal income tax or introducing a sales tax, may offset a loss of state revenue, but they would create significant economic disruption.

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APPENDIX

LAW FIRM SURVEY QUESTIONS

1. Rank the top 3 areas or fields of law practiced in this firm and indicate what percentage of your firm's activity is spent on this area. (0-100%)
    - Corporate Transactional (e.g., UCC Services) (list percentage %)
    - Litigation (list percentage %)
    - Bankruptcy / Restructuring (list percentage %)
    - Real Estate (list percentage %)
    - Trusts and Estates (list percentage %)
    - Other (please specify and list percentage %)
2. (Optional) Explain your rankings and activity percentages indicated above, if needed.
3. Out of all your company's employees, what percentage of employees work in a Delaware-based office? (0-100%)
4. Provide the following information about your employees by occupation type:
    - Number of Full-Time Equivalent (FTE) Employees in DE-based office (40hrs/week for the whole year = 1 FTE; 20hrs/week for 1 year = 0.5FTE)
    - Average Total Compensation (Wages and Salaries, Bonuses, Profit Shares)
5. Of those employees who work in a Delaware-based office, how many also live in Delaware?
6. How has total employment at your firm changed in the past 12 months?
7. How do you forecast total employment at your firm will change in the next 12 months?
8. Approximately what percentage of your total annual Delaware-based offices' revenue is attributable to Corporate Franchise activity? (0-100%)
9. How has your firm's franchise-related revenue changed in the past 12 months?
10. How do you forecast your firm's franchise-related revenue will change in the next 12 months?
11. How much did your firm donate to charities and/or nonprofits in 2025? (in dollars)

REGISTERED AGENT SURVEY QUESTIONS

1. Rank the top area(s) your company supports and indicate what percentage of your company's activity is spent on this area. (You may leave the remainder of the list blank.)
    - Corporate Transactional (e.g., UCC Services) (list percentage %)
    - Litigation (list percentage %)
    - Bankruptcy / Restructuring (list percentage %)
    - Real Estate (list percentage %)
    - Trusts and Estates (list percentage %)

    - Other (please specify and list percentage %)
2. (Optional) Explain your rankings and activity percentages indicated above, if needed.
3. Out of all your company's employees, what percentage of employees work in a Delaware-based office? (0-100%)
4. Provide the following information about your employees by occupation type:
    - Number of Full-Time Equivalent (FTE) Employees in DE-based office (40hrs/week for the whole year = 1 FTE; 20hrs/week for 1 year = 0.5FTE)
    - Average Total Compensation (Wages and Salaries, Bonuses, Profit Shares)
5. Of those employees who work in a Delaware-based office, how many also live in Delaware?
6. How has total employment at your firm changed in the past 12 months?
7. How do you forecast total employment at your firm will change in the next 12 months?
8. Approximately what percentage of your total annual Delaware-based offices' revenue is attributable to Corporate Franchise activity? (0-100%)
9. How has your firm's franchise-related revenue changed in the past 12 months?
10. How do you forecast your firm's franchise-related revenue will change in the next 12 months?
11. How much did your firm donate to charities and/or nonprofits in 2025? (in dollars)

ECONOMIC MODELING NOTES

Inputs to Model

For the system that supports corporate franchise activities, the Division of Corporations provided a list of registered agent firms that were significantly involved in corporate franchise activities, while the Delaware Bar Association provided a list of relevant law firms. IPA distributed survey instruments to firms and additionally conducted several interviews. The survey results were used to refine estimates of employment and wages for these firms to reflect the share of their business attributable to corporate-franchise-related activities. The survey results may be subject to potential biases, including sampling bias, non-response bias, leading-question bias, and acquiescence bias.

For the corporate franchise revenue, data from the Delaware Fiscal Notebook was used. The revenue items included were corporate franchise tax, LLC/LP tax, business entity fees, and unclaimed property.

Modeling Approach

The modeling approach uses widely accepted, industry-standard software. The software connects industries through an input-output framework adapted to the economy being modeled—in this case, Delaware. For an industry to produce a given level of output, it must purchase intermediate

inputs from a variety of suppliers. The portion of these interindustry purchases that is supplied by firms within Delaware contributes to the indirect economic effects associated with that industry.

These interindustry purchases are estimated using available economic data and econometric models. For an individual firm, the model's estimated interindustry purchases may closely approximate its actual purchases. However, where estimated purchases differ substantially from actual purchasing patterns, the resulting economic impacts could also differ. Detailed surveys of firms' purchasing patterns could be used to assess the model's accuracy; however, collecting such information would be costly, and firms may be reluctant to provide detailed purchasing data.

The personal income tax (PIT) analysis models the use of PIT revenue to offset declines in corporate franchise tax revenue. The analysis considers scenarios in which PIT revenue replaces 10%, 20%, and 100% of the decline in corporate franchise tax revenue. Raising PIT revenue reduces households' real disposable income, which in turn affects personal consumption expenditures. Lower disposable income can also affect Delaware's attractiveness as a place to live, potentially influencing both decisions to move into the state and decisions to remain in the state.

Personal consumption expenditures are based on data from the Bureau of Economic Analysis (BEA) and adapted to reflect the Delaware economy. As disposable income changes in response to PIT, household consumption changes according to estimated spending patterns. These changes are not necessarily uniform across categories of consumption. For example, spending on necessities such as food would generally be expected to respond less to changes in disposable income than spending on more discretionary categories such as recreation.

Consequently, using PIT to offset a decline in corporate franchise tax revenue can have broader economic effects. The increase in PIT reduces disposable income and consumption, while potentially making Delaware less attractive to prospective and existing residents. These effects can reduce overall economic activity and, in turn, reduce the PIT revenue generated by the economy. As a result, the amount of PIT revenue ultimately generated may fall short of the initial amount needed to fully offset the decline in corporate franchise tax revenue.

The effective income tax rate, defined as personal taxes divided by personal income, is used to express the estimated change in taxation resulting from an increase in the personal income tax (PIT).

Offsetting a decline in corporate franchise tax revenue with a sales tax would increase consumer prices, which in turn would affect personal consumption expenditures and the state's attractiveness. The sales tax is modeled to approximately follow Pennsylvania's tax treatment of consumer purchases; for example, clothing, footwear, and groceries are not subject to the tax. Alternative sales tax structures could be modeled to assess how different approaches affect the economy.

The effective sales tax rate is defined as sales tax revenue divided by personal consumption expenditures on taxable items. Again, the sales tax is estimated to reduce economic activity, and as a result, the sales tax revenue generated may fall short of the initial amount needed to fully offset the decline in corporate franchise tax revenue.

Additional tax scenarios can be modeled. One recommended scenario would examine the impact of increasing the personal income tax (PIT) or introducing a sales tax to offset rising state expenditures in a period of flat corporate franchise revenue growth. This scenario could be modeled over multiple years.

Comparability with the 2019 Study

Larson et al. (2019) sought to measure the economic impact of Delaware's entire legal industry. This report takes a deliberately narrower approach, focusing on the economic impact of the corporate franchise system and the revenue it generates. Although the two studies are related in theme, they do not attempt to measure identical impacts.

A further challenge to comparability is inflation. Between June 2019, when the prior study was published, and July 2026, cumulative inflation was approximately 30%, according to the Bureau of Labor Statistics' Consumer Price Index.

ABOUT THE CORPORATE COLLABORATIVE @ UD

The Corporate Collaborative at UD provides research and policy analysis to better understand Delaware's corporate franchise. The Collaborative is housed within the University of Delaware's Institute for Public Administration and coordinated in partnership with the Weinberg Center for Corporate Governance and the Delaware Department of State. We aim to support informed policy discussions and strategic planning for Delaware's corporate and legal services communities, state government officials, and business stakeholders interested in the competitiveness of Delaware's corporate business environment.

