Location Matters: A Comparative Analysis of State Tax Costs on Business

The Tax Foundation, in collaboration with KPMG
Presenters:

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- Hartley Powell, Principal, KPMG
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- Glenn Mair, Director, MMK Consulting

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Study Findings in Brief:

✓ Paying state corporate taxes is like buying a car – everyone pays a different price

✓ CarMax states tend to have the lowest tax costs for business
Location Matters...

...Represents the most extensive comparison of real-world corporate tax costs across the 50 states ever undertaken.
Measures **how much** a state taxes, i.e. the total tax burden

**Highest Burdens**
1. New Jersey – 12.2%
2. New York – 12.1%
3. Connecticut – 12.0%
4. Wisconsin – 11.0%
5. Rhode Island – 10.7%

**Lowest Burdens**
46. Wyoming – 7.8%
47. Tennessee – 7.6%
48. South Dakota – 7.6%
49. Nevada – 7.5%
50. Alaska – 6.3%
**Top Ranking States**

1. Wyoming
2. South Dakota
3. Nevada
4. Alaska
5. Florida

**Bottom Ranking States**

46. Rhode Island
47. Vermont
48. California
49. New York
50. New Jersey

Measures **how** a state taxes, i.e. effects on **all** types of businesses.
Location Matters Answers the Bottom-Line Question:

“How Much Will My Company Pay in Taxes?”
Seven Model Firms – Seven Industries:

- Corporate Headquarters
- R&D Facility
- Independent Retail Store
- Call Center
- Distribution Center
- Capital-Intensive Manufacturing (Steel Factory)
- Labor-Intensive Manufacturing (Truck Factory)

Two Variations of Each Firm:

- Mature firms – older than 10 years
- New firms – 3 years old, eligible for incentives
Mobile Corporations Selling Nationally:

- Mobile and competed for by states
- All C-corporations, not pass-throughs such as LLCs and S-corporations
- Firms have property & payroll in home state, while sales are in all other states in proportion to that state’s GDP (except retail)
Two Cities Within Every State

All 50 states & Washington, DC

99 Locations:

• **Tier 1 Cities** – the major city in each state (For Corporate HQ, R&D Facility, Retail Store*)

• **Tier 2 Cities** – a mid-size city (For Call Center, Distribution Center, Manufacturing*)

* Providence Rhode Island serves for both locations
Calculate the Taxes that matter to business:

✓ Corporate net income taxes
✓ Gross receipts and franchise taxes
✓ Property taxes
✓ Unemployment insurance (UI) taxes
✓ Sales taxes on business equipment
And, The Most Common Tax Incentives:

- New jobs credit
- Investment credit
- R&D tax credit
- Payroll withholding tax rebates
- Property tax abatements
Two Measurement Tools:

- **Total Effective Tax Rates (TETR)** – all state/local taxes divided by pre-tax business profits

- **Index Scores** – ranks state tax burdens against the national average

  e.g.: National Average = 100
  Score of 120 = 20% above avg.
  Score of 80 = 20% below avg.
3 Ways to Compare Corporate Tax Bills:

- Differences across 50 states – a “composite” ranking for all 7 firm types
- Differences across industries within each state
- Differences between new firms (eligible for incentives) and mature firms (no incentives) within each state
Caveats and Limitations

- Tax law through April 1, 2011
- Seven model firms may not represent all businesses
- Rankings and burdens don’t necessarily reflect the quality of a state’s tax system – we make no value judgment here
- States can achieve similar results in different ways
- Assumptions matter
# Mature Firm Composite Results

<table>
<thead>
<tr>
<th>Lowest Tax Cost States</th>
<th>Why Do They Rank Well?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wyoming</td>
<td>No corporate income tax – WY, SD, NV, (OH)</td>
</tr>
<tr>
<td>2. South Dakota</td>
<td>Low CIT rate – UT, GA</td>
</tr>
<tr>
<td>3. Georgia</td>
<td>Single sales factor</td>
</tr>
<tr>
<td>4. Nevada</td>
<td>No throwback rule</td>
</tr>
<tr>
<td>5. Ohio</td>
<td>Top ten index score in multiple firm types – but much variation</td>
</tr>
<tr>
<td>6. Utah</td>
<td></td>
</tr>
<tr>
<td>7. North Carolina</td>
<td></td>
</tr>
<tr>
<td>8. Maryland</td>
<td></td>
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<tr>
<td>9. Nebraska</td>
<td></td>
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<tr>
<td>10. Louisiana</td>
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</tr>
</tbody>
</table>
### Mature Firm Composite Results

<table>
<thead>
<tr>
<th>Highest Tax Cost States</th>
<th>Why Do They Rank Poorly</th>
</tr>
</thead>
<tbody>
<tr>
<td>41. New Jersey</td>
<td>High tax rates – not just CIT</td>
</tr>
<tr>
<td>42. New York</td>
<td>Top ten burden for at least one tax type – CIT, sales, UI, property</td>
</tr>
<tr>
<td>43. Indiana</td>
<td>Unfavorable apportionment, sourcing rules</td>
</tr>
<tr>
<td>44. Massachusetts</td>
<td>Subject high percentage of income to state CIT</td>
</tr>
<tr>
<td>45. Illinois</td>
<td>Bottom ten ranking in multiple firm types</td>
</tr>
<tr>
<td>46. Rhode Island</td>
<td></td>
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<tr>
<td>47. Kansas</td>
<td></td>
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<tr>
<td>48. West Virginia</td>
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<tr>
<td>49. Hawaii</td>
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<tr>
<td>50. Pennsylvania</td>
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</tbody>
</table>
# New Firm Composite Results

<table>
<thead>
<tr>
<th>Lowest Tax Cost States</th>
<th>Why Do They Rank Well?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nebraska</td>
<td>Six states also top-ranked for mature firms (NE, LA, GA, OH, WY, UT)</td>
</tr>
<tr>
<td>2. Louisiana</td>
<td>Aggressive with tax incentives (NE, LA, WI, not WY)</td>
</tr>
<tr>
<td>3. Ohio</td>
<td>Incentives moved AR, KY, OK to jump from middle to top</td>
</tr>
<tr>
<td>4. Wisconsin</td>
<td></td>
</tr>
<tr>
<td>5. Oklahoma</td>
<td></td>
</tr>
<tr>
<td>6. Georgia</td>
<td></td>
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<tr>
<td>7. Kentucky</td>
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<tr>
<td>8. Arkansas</td>
<td></td>
</tr>
<tr>
<td>9. Wyoming</td>
<td></td>
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<tr>
<td>10. Utah</td>
<td></td>
</tr>
</tbody>
</table>
## New Firm Composite Results

### Highest Tax Cost States

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>41.</td>
<td>Iowa</td>
</tr>
<tr>
<td>42.</td>
<td>Texas</td>
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<tr>
<td>43.</td>
<td>Massachusetts</td>
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<tr>
<td>44.</td>
<td>Rhode Island</td>
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<tr>
<td>45.</td>
<td>California</td>
</tr>
<tr>
<td>46.</td>
<td>Maryland</td>
</tr>
<tr>
<td>47.</td>
<td>Colorado</td>
</tr>
<tr>
<td>48.</td>
<td>Kansas</td>
</tr>
<tr>
<td>49.</td>
<td>Pennsylvania</td>
</tr>
<tr>
<td>50.</td>
<td>Hawaii</td>
</tr>
</tbody>
</table>

### Why Do They Rank Poorly

- Five states also worst for mature firms (HI, KS, MA, PA, RI)
- Maryland – top ten for mature firms, bottom ten for new
- High property taxes
- High sales taxes on equipment & inventory
- Few/lack of incentives (TX, CA)
### Industries Taxed Differently Within States

- Example: Minnesota (39\textsuperscript{th} for Mature firms)

<table>
<thead>
<tr>
<th>Industry</th>
<th>TETR</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital-Intensive MFG</td>
<td>6.2%</td>
<td>7</td>
</tr>
<tr>
<td>Labor-Intensive MFG</td>
<td>10.0%</td>
<td>22</td>
</tr>
<tr>
<td>Corporate HQ</td>
<td>22.4%</td>
<td>47</td>
</tr>
<tr>
<td>Distribution Center</td>
<td>45.9%</td>
<td>46</td>
</tr>
</tbody>
</table>
Wide Variations of Effective Tax Rates Between Mature and New Firms

Nebraska – Call Center
Mature: 20.1%  New: 1.1%

Louisiana – Capital-Intensive MFG
Mature: 10.9%  New: 1.0%

Arkansas – R&D Facility
Mature: 13.6%  New: 6.7%
Corporate Headquarters

Mature: Wyoming 1st  Pennsylvania 50th

New:  Nebraska 1st  Pennsylvania 50th
R&D Facility

Mature: Louisiana 1\textsuperscript{st} Pennsylvania 50\textsuperscript{th}

New: Louisiana 1\textsuperscript{st} Pennsylvania 50\textsuperscript{th}
Retail Store

Mature: Wyoming 1st  Pennsylvania 50th

New: South Dakota 1st  Iowa 50th
Call Center

Mature: South Dakota 1st  New Jersey 50th

New: Nebraska 1st  West Virginia 50th
Distribution Center

Mature: Wyoming 1\textsuperscript{st} Iowa 50\textsuperscript{th}

New: Ohio 1\textsuperscript{st} Kansas 50\textsuperscript{th}
Capital-Intensive Manufacturing

Mature: Wyoming 1\textsuperscript{st}  Hawaii 50\textsuperscript{th}

New:  Louisiana 1\textsuperscript{st}  Maryland 50\textsuperscript{th}
Labor-Intensive Manufacturing

Mature: Wyoming 1\textsuperscript{st} Hawai\textsuperscript{i}i 50\textsuperscript{th}

New: Louisiana 1\textsuperscript{st} Hawai\textsuperscript{i}i 50\textsuperscript{th}
Take Aways

✓ There are considerable variations in average corporate tax burdens across the 50 states
✓ There are considerable variations in the tax burdens faced by different firm types within each state
✓ There are often large differences in tax burdens between mature and new firms within each state
✓ CarMax usually has the lowest price
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State Comparisons are a Bit Like...