

Illinois Corporate Tax Hike Inches U.S. Closer to #1 Ranking Globally

By
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The recent move by Illinois lawmakers to increase the state's corporate tax rate from 7.3 percent to 9.5 percent is further evidence that no tax change is made in a vacuum.¹ Not only did the rate hike move Illinois from having the 21st highest overall corporate tax rate among the 50 states to having the fourth-highest, it also raised the average corporate tax rate for the nation as a whole, thus inching the U.S. closer to Japan as having the highest corporate tax rate among the leading industrialized nations.

When state lawmakers think about how their state compares, they tend to think only about their standing relative to their direct neighbors or the other 49 states. However, they need to also recognize that they are competing in a global economy and that their state corporate taxes are being levied in addition to the federal corporate tax rate of 35 percent. Because the U.S. federal rate is the highest federally imposed corporate tax rate among the 31 nations comprising the Organization for Economic Cooperation and Development (OECD), most states are effectively imposing some of the highest corporate tax rates in the world.

In order to do an apples-to-apples comparison of corporate tax rates across countries, it is necessary to combine the national tax rate with the average of any state or provincial rates. These rates are then adjusted, for example, if the federal government allows businesses to deduct taxes paid to lower levels of government.

Before Illinois raised their corporate rate, the average overall corporate tax rate for the U.S. was 39.2 percent, the second-highest overall rate among the leading industrialized nations. In 2010, Japan had the highest combined national and sub-national corporate tax rate among the 31 OECD nations, at 39.54 percent.

When we account for Illinois' new corporate rate of 9.5 percent, the overall average for the U.S. increases by a tenth of a percent to 39.3 percent, inching the nation closer to Japan's number one ranking.

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¹ Some news reports have indicated that Illinois's corporate income tax is currently 4.8%. This does not include a 2.5% property replacement tax imposed on corporate income. Reference sources that cite Illinois's corporate income tax, including the Tax Foundation, the Federation of Tax Administrators, and the Illinois Department of Revenue, report it as 7.3%, including this tax.

However, these national averages do not tell the whole story. As the table below shows, when we rank the overall corporate tax rate for all 50 U.S. states against the rates imposed by the other OECD nations, we find that 24 states have a higher overall corporate tax rate than Japan and all 50 states have a higher overall corporate tax rate than third-place France.

While there are reports that lawmakers in a number of states – such as Georgia², Idaho³, Iowa⁴, Minnesota⁵, and Wisconsin⁶ – are considering cutting their corporate tax rates to be more competitive nationally, this may not help the nation’s global ranking in the end because Japan is preparing to cut their corporate tax rate by as much as 5 percentage points. Such a move would lower Japan’s overall corporate rate below the U.S. federal rate of 35 percent.

The implication of Japan’s action for U.S. states is troubling. As long as the U.S. federal corporate tax rate stands at 35 percent, even if every state abolished their state-level corporate tax to make themselves more competitive, they would still effectively be imposing the highest corporate tax rate in the industrialized world.

In other words, states are limited in how much they can do on their own to make themselves more competitive globally because the federal corporate tax rate is so out of step with the rates imposed by other industrialized nations. Thus, the only way for the states to be more competitive with lower-tax nations such as Canada, Korea, Mexico, and the UK is if the federal corporate tax rate is cut dramatically, perhaps as low as 20 to 25 percent.

Japan is not the only country seeking to cut its corporate tax rate. On January 1, Canada’s federal corporate tax rate dropped to 16.5 percent from 18 percent and Britain’s Chancellor of the Exchequer, George Osborne, has pledged to cut the UK’s corporate tax rate from the current level of 28 percent, to 24 percent by 2014.⁷

While Illinois may be bucking the global – and national – trend toward lower corporate tax rates, the competitiveness of all 50 U.S. states cannot improve until Washington acts to lower the federal rate.

Table 1
Comparing U.S. State Corporate Taxes to the OECD (2011)

OECD Overall Rank	Country/State	Federal Rate 2010	Top State/Provincial Corporate Tax Rate	Combined Federal and State Rate (Adjusted) ¹
	Iowa	35	12	41.6
	Pennsylvania	35	9.99	41.5
	Minnesota	35	9.8	41.4
	Illinois	35	9.5	41.2
	Alaska	35	9.4	41.1
	New Jersey	35	9.36	41.1

²http://www.google.com/url?sa=t&source=news&cd=1&ved=0CCsQqQIwAA&url=http%3A%2F%2Fwww.talkgwinnett.net%2Fmain%2Fsection%2F6-guests%2F2076-tax-reform-council-delivers-a-promising-package&ei=5o8wTfLbOYyt8AbU1bmSCQ&usq=AFQjCNHDJ4t4Ftlz0oKD_mrMinC8GpLtbw

³ <http://idahobusinessreview.com/2011/01/10/proposal-to-cut-income-tax-well-received-%E2%80%93-mostly/>

⁴ <http://www.chicagotribune.com/news/chi-ap-ia-branstad-inaugura,0,1126988.story>

⁵ http://lacrossetribune.com/news/local/article_70e3ab22-1f9b-11e0-84de-001cc4c002e0.html

⁶ <http://www.bloomberg.com/news/2011-01-13/walker-tax-cut-proposals-find-bipartisan-support.html>

⁷ Andrew Atkinson, “Osborne to Cut U.K. Company Tax Rate to 24% by 2014,” Bloomberg *Businessweek*, June 24, 2010.

	Rhode Island	35	9	40.9
	Maine	35	8.93	40.8
	California	35	8.84	40.7
	Delaware	35	8.7	40.7
	West Virginia	35	8.7	40.7
	Indiana	35	8.5	40.5
	New Hampshire	35	8.5	40.5
	Vermont	35	8.5	40.5
	Massachusetts	35	8.25	40.4
	Maryland	35	8.25	40.4
	Oregon	35	7.9	40.1
	Wisconsin	35	7.9	40.1
	Nebraska	35	7.81	40.1
	Idaho	35	7.6	39.9
	New Mexico	35	7.6	39.9
	Connecticut	35	7.5	39.9
	New York	35	7.1	39.6
	Kansas	35	7	39.6
1 (2)	Japan (2010 Rates)	30	11.51	39.54
	Arizona	35	6.97	39.5
	North Carolina	35	6.9	39.5
	Montana	35	6.75	39.4
2 (1)	United States	35	6.56	39.3
	Alabama	35	6.5	39.2
	Arkansas	35	6.5	39.2
	Tennessee	35	6.5	39.2
	Hawaii	35	6.4	39.2
	North Dakota	35	6.4	39.2
	Missouri	35	6.25	39.1
	Georgia	35	6	38.9
	Kentucky	35	6	38.9
	Oklahoma	35	6	38.9
	Virginia	35	6	38.9
	Florida	35	5.5	38.6
	Louisiana	35	8	38.5
	Mississippi	35	5	38.3
	South Carolina	35	5	38.3
	Utah	35	5	38.3
	*Michigan	35	4.95	38.2
	Colorado	35	4.63	38.0
	*Texas	35	0	35.0
	*Washington	35	0	35.0
	*Ohio	35	0	35.0
	Nevada	35	0	35.0
	South Dakota	35	0	35.0
	Wyoming	35	0	35.0
2	Japan (2011 Rates)	30	11.51	34.54
3	France	34.43		34.4
4	Belgium	33.99		33.99
5	Germany	15.83	14.4	30.18
6	New Zealand	30		30
7	Spain	30		30
8	Australia	30		30
9	Mexico	30		30
10	Luxembourg	21.84	6.75	28.59

11	Canada	16.5	11.5	28
12	United Kingdom	28		28
13	Norway	28		28
14	Italy	27.5		27.5
15	Portugal	25	1.5	26.5
16	Sweden	26.3		26.3
17	Finland	26		26
18	Netherlands	25.5		25.5
19	Austria	25		25
20	Denmark	25		25
21	Korea	22	2.2	24.2
22	Greece	24		24
23	Switzerland	8.50	14.47	21.17
24	Turkey	20		20
25	Czech Republic	19		19
26	Hungary	19		19
27	Poland	19		19
28	Slovak Republic	19		19
29	Chile	17		17
30	Iceland	15		15
31	Ireland	12.5		12.5

Source: <http://www.oecd.org/dataoecd/26/56/33717459.xls>, Tax Foundation

* Ohio, Texas, and Washington state have gross receipts-style business taxes, not traditional corporate income taxes. Michigan's gross receipts tax is not included

1. Combined rate adjusted for federal deduction of state tax. Iowa and Louisiana are also adjusted for federal deductibility

Note: This report was revised on January 18, 2011 to account for a correction to the method of calculating Iowa's effective corporate income tax rate. Iowa's statutory rate is 12%, but lower due to partial federal deductibility. After accounting for the correction, Iowa's effective rate is higher than Illinois's new rate, meaning that Illinois will have the fourth-highest corporate income tax, instead of third-highest as previously reported.

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