Location Matters

A Comparative Analysis of State Tax Costs on Business

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Tax Foundation in collaboration with KPMG cutting through complexity

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A Comparative Analysis of State Tax Costs on Business

State and local taxes represent a significant business cost for corporations operating in the United States; in fact, they often have a material impact on net operating margins. Consequently, business location decisions for new manufacturing facilities, corporate headquarter relocations, and the like often are influenced by assessments of relative tax burdens across multiple states.

Widespread interest in corporate tax burdens has led to a number of studies from a variety of think tanks, media organizations, and research groups. None of these studies, however, provide comparisons of actual state business tax burdens.

Some studies compare total tax collections or business tax collections per capita or as a percent of total tax revenue. The shortcoming of this approach is that collections are not burdens: many business taxes are collected in one state but paid by companies in other states. Comparing state collections thus does not accurately portray the relative tax burden that real-world businesses would incur in each state.

Some studies assess the relative value of tax incentives available for different types of businesses, such as new job tax credits, new investment tax credits, sales tax exemptions, and property tax abatements. However, these studies can give the incorrect impression that all businesses in a state enjoy such incentives. They also do not typically account for increased tax rates for mature businesses that may be required to support such incentives.

Some studies, including the Tax Foundation's widely cited annual State Business Tax Climate Index, *define model tax structure principles and measure the state's tax code relative to that model*. The *State Business Tax Climate Index* is a useful tool for lawmakers to understand how neutral and efficient their state's tax system is compared to other states and to identify areas where their system can be improved. However, this does not address the bottom line question asked by many business executives: "How much will our company pay in taxes?"

Individual firms considering expansion frequently calculate their tax bill in various states, but these calculations are not often released publicly and are usually confined to a small number of states.

To fill the void left by these studies, the Tax Foundation, in collaboration with KPMG LLP, the U.S. audit, tax and advisory firm, set out to develop and publish a landmark, apples-to-apples comparison of corporate tax costs in the 50 states. Tax Foundation economists designed seven model firms, and KPMG modeling experts calculated each firm's tax bill in each state. The study accounts for all business taxes: corporate income taxes, property taxes, sales taxes, unemployment insurance taxes, capital stock taxes, inventory taxes, and gross receipts taxes. Additionally, each firm was modeled twice in each state: once as a new firm eligible for tax incentives, and once as a mature firm not eligible for such incentives.

Throughout the study, a ranking of first indicates the lowest tax burden while 50th indicates the highest tax burden.

Tax Foundation economists then used the raw model results to perform the ensuing industry and state comparisons.

The result is a comprehensive calculation of real-world tax burdens that we designed as a valuable resource for a variety of stakeholders:

- Governors, legislators, and state officials can better understand and address their competitive position with other states.
- CEOs, CFOs, and corporate America can better evaluate the relative competitiveness of states in which they operate or states they are considering for investment.
- Businesses and trade organizations can better identify policy improvements for each state.
- Site-selection experts can screen states more accurately and quickly for consideration by their clients.
- National, state, and local media organizations can more effectively report on the tax competitiveness of the 50 states.

The *Location Matters* study, together with our annual *State Business Tax Climate Index*, will provide the tools to fully understand each state's business tax system, the burdens it imposes, and a roadmap for improving it.

Study Overview and Key Findings

The study is comprised of four chapters and an appendix. **Chapter 1** outlines the objectives and scope of the study. The chapter describes the seven model firms that were analyzed, the specific taxes that were included in the study, the locations that were chosen in each state, and the other factors that could influence the results.

Chapter 2 presents two measures of a state's overall business tax competitiveness, first for mature firms and then for newly established firms. Each state is ranked based upon a composite score that is an average of the state's scores across the seven different firm types.

As Table 1 indicates, for mature firms, Wyoming ranks first overall with the lowest average tax burden across the seven firm types, while Pennsylvania ranks 50th overall with the highest average tax burden across the seven firm types.

For newly established firms, Nebraska ranks first overall with the lowest average tax burden across the seven model firms while Hawaii ranks 50th with the highest average tax burden across the seven firms.

Chapter 3 focuses on each of the seven firm types and compares the tax burden in each state for both mature and new firms. These results are summarized in Tables 2 through 5. The first- and 50th-ranked states for each firm type are as follows:

- **Corporate Headquarters:**
  Mature: Wyoming ranked first, Pennsylvania ranked 50th.
  New: Nebraska ranked first, Pennsylvania ranked 50th.
- **R&D Facility:**
  Mature: Louisiana ranked first, Pennsylvania ranked 50th.
  New: Louisiana ranked first, Pennsylvania ranked 50th.
- **Retail Store:**
  Mature: Wyoming ranked first, Pennsylvania ranked 50th.
  New: South Dakota ranked first, Iowa ranked 50th.
- **Call Center:**
  Mature: South Dakota ranked first, New Jersey ranked 50th.
  New: Nebraska ranked first, West Virginia ranked 50th.
- **Distribution Center:**
  Mature: Wyoming ranked first, Iowa ranked 50th.
  New: Ohio ranked first, Kansas ranked 50th.
- **Capital-Intensive Manufacturing:**
  Mature: Wyoming ranked first, Hawaii ranked 50th.
  New: Louisiana ranked first, Maryland ranked 50th.
- **Labor-Intensive Manufacturing:**
  Mature: Wyoming ranked first, Hawaii ranked 50th.
  New: Louisiana ranked first, Hawaii ranked 50th.

Chapter 4 summarizes the results for each state. The chapter is aimed at legislators and reporters who need the basic facts on the state's business tax system and brief talking points on why the state scored as it did for the key firm types.

The Appendix provides more detail on the study's methodology and assumptions. It is intended for the serious researcher who wants to understand how the modeling was done and where to find the source data for the tax information.

The Tax Foundation is indebted to Hartley Powell, Ulrich Schmidt and Ann Holley at KPMG for all of their expertise, research, and guidance on this project. Also, this project would not have been possible without the tremendous support of Glenn Mair of MMK Consulting.

Tax Foundation contributors include: Scott Drenkard, Alicia Hansen, Joseph Henchman, Scott Hodge, Nick Kasprak, Laura Lieberman, David Logan, Will McBride, and Kail Padgitt. The Tax Foundation is responsible for all of the analysis and data presented in this report and, of course, any errors.

About the Tax Foundation

Founded in 1937, the Tax Foundation is a nonpartisan, 501 (c)(3) not-for-profit organization dedicated to providing taxpayers and lawmakers reliable data and sound analysis on public finances at the federal, state, and local levels of government.

About KPMG LLP

KPMG LLP, the audit, tax and advisory firm (www.kpmg.com/us), is the U.S. member firm of KPMG International Cooperative ("KPMG International"). KPMG International's member firms have 138,000 professionals, including more than 7,900 partners, in 150 countries.

Table 1
Overall Results

	Mature Firms		New Firms	
	Index Score	Rank	Index Score	Rank
Alabama	86.0	13	86.4	19
Alaska	97.7	23	81.1	17
Arizona	86.2	14	114.9	31
Arkansas	102.8	30	69.6	8
California	105.8	34	133.8	45
Colorado	105.4	33	135.1	47
Connecticut	93.9	21	109.3	30
Delaware	98.1	24	80.5	16
Florida	90.6	19	122.8	36
Georgia	71.8	3	66.7	6
Hawaii	142.6	49	151.4	50
Idaho	111.7	38	116.0	32
Illinois	126.4	45	94.2	24
Indiana	122.7	43	80.1	15
Iowa	116.5	40	126.8	41
Kansas	133.5	47	141.6	48
Kentucky	88.4	18	69.4	7
Louisiana	84.1	10	52.8	2
Maine	100.4	27	87.3	20
Maryland	82.4	8	134.7	46
Massachusetts	123.6	44	128.2	43
Michigan	98.8	25	96.6	25
Minnesota	112.7	39	119.6	35
Mississippi	109.2	37	89.3	21
Missouri	108.8	36	97.0	26
Montana	93.1	20	93.8	23
Nebraska	82.5	9	31.7	1
Nevada	77.7	4	124.8	38
New Hampshire	99.7	26	91.0	22
New Jersey	121.1	41	104.9	27
New Mexico	97.4	22	80.0	14
New York	121.1	42	124.4	37
North Carolina	80.8	7	79.9	13
North Dakota	87.0	15	83.5	18
Ohio	78.1	5	58.7	3
Oklahoma	87.1	16	65.3	5
Oregon	100.5	28	106.3	28
Pennsylvania	145.1	50	145.9	49
Rhode Island	129.1	46	128.4	44
South Carolina	103.8	32	119.4	34
South Dakota	56.0	2	77.7	11
Tennessee	101.3	29	108.7	29
Texas	85.9	12	127.7	42
Utah	80.2	6	76.7	10
Vermont	103.7	31	79.2	12
Virginia	84.4	11	125.9	39
Washington	87.2	17	126.3	40
West Virginia	140.2	48	118.5	33
Wisconsin	107.7	35	59.8	4
Wyoming	48.3	1	73.3	9

Table 2
Results for Mature Tier 1 Firms

	Mature Corporate Headquarters		Mature R&D Facility		Mature Retail Store	
State	Total Effective Tax Rate (TETR)	Rank	Total Effective Tax Rate (TETR)	Rank	Total Effective Tax Rate (TETR)	Rank
Alabama	14.9%	22	15.5%	41	14.3%	13
Alaska	11.5%	4	15.7%	42	14.9%	17
Arizona	15.0%	25	10.3%	13	16.9%	30
Arkansas	14.0%	18	13.6%	30	14.8%	15
California	17.2%	38	9.5%	11	17.2%	31
Colorado	14.3%	20	14.7%	36	15.4%	19
Connecticut	17.8%	42	12.0%	21	17.6%	32
Delaware	14.0%	17	16.5%	44	21.4%	45
Florida	13.5%	15	13.0%	25	15.9%	24
Georgia	14.0%	19	8.6%	10	14.8%	15
Hawaii	14.3%	21	13.9%	32	20.9%	43
Idaho	16.4%	34	15.2%	39	18.1%	35
Illinois	19.9%	43	19.0%	48	19.9%	40
Indiana	15.7%	28	7.3%	5	15.4%	19
Iowa	23.8%	48	13.5%	28	25.9%	49
Kansas	16.2%	30	18.7%	46	19.6%	38
Kentucky	13.0%	12	14.3%	35	15.0%	17
Louisiana	15.4%	26	1.7%	1	15.4%	19
Maine	15.9%	29	8.4%	9	16.4%	26
Maryland	13.3%	14	8.0%	7	15.4%	19
Massachusetts	16.2%	31	14.1%	33	20.3%	41
Michigan	20.3%	44	12.7%	23	20.9%	43
Minnesota	22.4%	47	10.4%	14	24.9%	47
Mississippi	16.3%	32	15.5%	41	16.3%	25
Missouri	16.4%	36	18.8%	47	19.6%	38
Montana	9.6%	3	13.7%	31	13.9%	10
Nebraska	16.3%	33	6.3%	2	16.6%	27
Nevada	12.2%	8	11.2%	17	10.3%	3
New Hampshire	11.9%	6	13.1%	27	15.6%	23
New Jersey	17.6%	41	14.9%	37	18.6%	36
New Mexico	15.0%	23	11.3%	18	13.4%	8
New York	25.0%	49	24.0%	49	24.9%	47
North Carolina	13.5%	16	11.8%	20	14.1%	12
North Dakota	11.8%	5	7.7%	6	13.6%	9
Ohio	12.2%	7	10.1%	12	12.1%	4
Oklahoma	12.8%	10	11.7%	19	14.6%	14
Oregon	16.8%	37	12.3%	22	16.6%	27
Pennsylvania	28.0%	50	29.1%	50	31.2%	50
Rhode Island	17.6%	41	14.1%	33	22.7%	46
South Carolina	15.7%	27	14.9%	37	17.6%	32
South Dakota	8.6%	2	7.3%	4	8.1%	2
Tennessee	16.4%	35	15.8%	43	16.6%	27
Texas	13.3%	13	12.8%	24	14.0%	10
Utah	12.9%	11	8.0%	7	12.8%	6
Vermont	15.0%	24	13.0%	25	17.7%	34
Virginia	12.3%	9	13.5%	28	13.3%	7
Washington	22.3%	46	10.4%	14	12.1%	4
West Virginia	20.8%	45	17.5%	45	20.7%	42
Wisconsin	17.2%	38	10.7%	16	19.2%	37
Wyoming	8.3%	1	6.7%	3	7.3%	1
District of Columbia	16.1%		18.5%		19.3%	

Table 3
Results for Mature Tier 2 Firms

State	Mature Call Center Total Effective Tax Rate (TETR)	Mature Call Center Rank	Mature Distribution Center Total Effective Tax Rate (TETR)	Mature Distribution Center Rank	Mature Capital-Intensive Manufacturing Total Effective Tax Rate (TETR)	Mature Capital-Intensive Manufacturing Rank	Mature Labor-Intensive Manufacturing Total Effective Tax Rate (TETR)	Mature Labor-Intensive Manufacturing Rank
Alabama	14.5%	5	18.6%	2	10.4%	18	10.5%	25
Alaska	23.5%	34	26.8%	18	12.5%	25	12.0%	30
Arizona	17.9%	16	27.7%	21	9.5%	14	8.9%	13
Arkansas	20.8%	26	24.6%	14	17.3%	43	14.2%	40
California	20.4%	25	25.3%	15	18.1%	44	15.5%	43
Colorado	20.8%	26	35.6%	38	15.5%	39	12.2%	31
Connecticut	24.5%	38	30.7%	29	8.1%	9	7.6%	6
Delaware	21.1%	28	26.5%	17	9.5%	13	9.5%	19
Florida	16.0%	8	27.9%	22	12.9%	27	9.8%	20
Georgia	12.5%	2	25.9%	16	7.5%	8	6.5%	2
Hawaii	23.8%	36	21.9%	7	26.2%	50	33.1%	50
Idaho	26.1%	41	28.1%	23	15.2%	37	13.5%	37
Illinois	26.1%	41	35.4%	37	15.0%	36	15.8%	45
Indiana	26.6%	44	46.6%	48	23.2%	48	17.4%	48
Iowa	23.7%	35	50.1%	50	5.5%	4	10.0%	22
Kansas	26.4%	43	44.1%	43	20.3%	47	16.4%	47
Kentucky	17.4%	13	23.2%	13	12.4%	24	9.3%	17
Louisiana	21.4%	29	36.6%	40	10.9%	20	9.1%	16
Maine	14.9%	6	30.7%	28	18.2%	45	14.6%	41
Maryland	16.6%	11	29.6%	27	13.0%	30	7.0%	3
Massachusetts	28.3%	46	44.2%	44	15.3%	38	15.6%	44
Michigan	16.4%	9	37.8%	42	9.2%	12	7.7%	7
Minnesota	27.9%	45	45.9%	46	6.2%	7	10.0%	23
Mississippi	17.5%	14	28.3%	24	19.4%	46	13.4%	36
Missouri	22.3%	31	31.9%	33	12.7%	26	10.0%	21
Montana	23.1%	33	27.5%	20	14.5%	32	10.3%	24
Nebraska	20.1%	24	31.0%	31	8.5%	10	7.4%	5
Nevada	22.8%	32	20.9%	4	8.5%	11	8.6%	11
New Hampshire	24.6%	39	31.0%	31	12.9%	29	12.6%	33
New Jersey	33.1%	50	46.5%	47	10.6%	19	13.7%	38
New Mexico	19.7%	22	23.1%	12	15.6%	40	14.9%	42
New York	24.0%	37	37.5%	41	5.3%	3	8.9%	14
North Carolina	16.5%	10	20.6%	3	9.8%	15	9.4%	18
North Dakota	19.7%	23	29.3%	26	12.2%	23	12.6%	34
Ohio	18.0%	17	33.3%	35	6.2%	6	8.9%	12
Oklahoma	15.0%	7	22.2%	8	13.4%	31	11.8%	28
Oregon	25.0%	40	21.6%	6	14.8%	34	11.2%	27
Pennsylvania	30.2%	48	48.0%	49	6.1%	5	9.1%	15
Rhode Island	30.5%	49	45.3%	45	14.7%	33	16.2%	46
South Carolina	21.6%	30	35.6%	39	14.9%	35	8.2%	9
South Dakota	12.2%	1	22.4%	9	4.9%	2	7.3%	4
Tennessee	19.5%	21	27.5%	19	12.0%	22	12.4%	32
Texas	17.4%	12	30.9%	30	9.9%	17	8.5%	10
Utah	18.0%	18	22.7%	11	11.5%	21	10.6%	26
Vermont	18.4%	20	28.8%	25	16.4%	41	13.3%	35
Virginia	17.9%	15	22.6%	10	12.9%	28	7.9%	8
Washington	14.1%	4	21.0%	5	9.8%	16	11.9%	29
West Virginia	28.5%	47	34.2%	36	23.9%	49	17.9%	49
Wisconsin	18.3%	19	32.5%	34	16.8%	42	14.2%	39
Wyoming	13.7%	3	13.5%	1	4.6%	1	5.2%	1

Table 4
Results for New Tier 1 Firms

	New Corporate Headquarters		New R&D Facility		New Retail Store	
State	Total Effective Tax Rate (TETR)	Rank	Total Effective Tax Rate (TETR)	Rank	Total Effective Tax Rate (TETR)	Rank
Alabama	16.0%	24	16.9%	29	31.4%	23
Alaska	12.7%	15	17.3%	31	20.6%	4
Arizona	17.4%	31	18.9%	36	36.1%	37
Arkansas	8.9%	5	6.7%	6	30.5%	20
California	21.8%	45	16.4%	27	31.6%	25
Colorado	18.3%	34	20.7%	40	35.6%	34
Connecticut	20.0%	40	18.3%	35	34.1%	29
Delaware	13.3%	18	19.5%	37	31.3%	23
Florida	17.4%	32	19.6%	38	35.5%	34
Georgia	15.2%	23	7.5%	8	31.0%	21
Hawaii	16.3%	26	16.0%	26	32.2%	26
Idaho	20.4%	43	20.9%	41	33.5%	27
Illinois	16.0%	25	16.9%	29	34.9%	31
Indiana	11.9%	12	5.4%	5	19.4%	2
Iowa	27.0%	47	21.5%	45	49.7%	50
Kansas	20.2%	42	25.4%	49	42.7%	45
Kentucky	9.7%	6	9.6%	9	28.4%	16
Louisiana	7.0%	2	-10.5%	1	35.2%	32
Maine	17.1%	28	10.6%	12	25.1%	9
Maryland	17.7%	33	10.8%	13	33.5%	27
Massachusetts	19.8%	39	21.2%	42	41.9%	43
Michigan	19.3%	36	14.4%	21	42.2%	44
Minnesota	26.0%	46	15.3%	23	40.9%	42
Mississippi	13.8%	20	12.6%	18	36.7%	38
Missouri	12.4%	14	16.5%	28	43.4%	46
Montana	11.5%	10	14.4%	22	25.4%	10
Nebraska	1.4%	1	-5.0%	2	35.3%	32
Nevada	17.1%	30	18.2%	34	26.3%	11
New Hampshire	12.9%	16	14.2%	19	21.0%	5
New Jersey	16.4%	27	14.2%	19	29.9%	17
New Mexico	12.0%	13	2.3%	3	22.5%	6
New York	28.3%	48	25.0%	48	37.7%	39
North Carolina	9.9%	7	15.4%	24	27.8%	15
North Dakota	14.2%	21	11.6%	16	22.5%	6
Ohio	11.5%	9	9.9%	10	23.9%	8
Oklahoma	8.0%	4	7.3%	7	31.1%	21
Oregon	19.5%	38	15.7%	25	27.5%	14
Pennsylvania	30.7%	50	33.5%	50	45.5%	47
Rhode Island	19.3%	37	23.9%	47	45.4%	47
South Carolina	15.0%	22	17.7%	33	46.0%	49
South Dakota	11.1%	8	10.9%	14	17.4%	1
Tennessee	20.0%	41	21.3%	44	34.4%	30
Texas	19.1%	35	21.3%	43	35.6%	34
Utah	13.2%	17	10.0%	11	26.6%	12
Vermont	13.6%	19	10.9%	14	27.2%	13
Virginia	17.1%	28	20.4%	39	30.2%	19
Washington	29.2%	49	17.6%	32	29.9%	17
West Virginia	21.5%	44	21.6%	46	39.7%	41
Wisconsin	7.8%	3	3.9%	4	38.2%	40
Wyoming	11.8%	11	11.6%	16	19.4%	2
District of Columbia	22.3%		26.6%		40.1%	

Table 5
Results for New Tier 2 Firms

State	New Call Center: Total Effective Tax Rate (TETR)	New Call Center: Rank	New Distribution Center: Total Effective Tax Rate (TETR)	New Distribution Center: Rank	New Capital-Intensive Manufacturing: Total Effective Tax Rate (TETR)	New Capital-Intensive Manufacturing: Rank	New Labor-Intensive Manufacturing: Total Effective Tax Rate (TETR)	New Labor-Intensive Manufacturing: Rank
Alabama	18.7%	12	25.5%	10	8.2%	18	9.1%	13
Alaska	28.1%	28	20.2%	2	5.5%	5	10.6%	19
Arizona	23.5%	20	38.6%	33	16.3%	40	13.2%	39
Arkansas	11.4%	6	30.3%	21	9.6%	29	9.1%	14
California	28.6%	30	34.5%	26	23.9%	47	20.3%	49
Colorado	29.9%	34	46.6%	40	21.8%	45	16.7%	47
Connecticut	32.1%	37	40.2%	34	9.6%	25	10.3%	18
Delaware	21.9%	17	22.9%	7	4.4%	4	7.4%	8
Florida	26.1%	23	43.6%	35	20.1%	44	12.7%	34
Georgia	7.2%	5	22.3%	4	8.5%	20	7.1%	7
Hawaii	29.5%	32	25.5%	10	24.6%	48	40.6%	50
Idaho	34.8%	43	37.2%	32	9.6%	27	13.4%	40
Illinois	27.7%	27	25.2%	9	7.0%	13	11.2%	23
Indiana	21.7%	16	32.2%	23	13.8%	38	11.0%	20
Iowa	33.7%	39	48.6%	41	5.6%	7	12.1%	30
Kansas	38.9%	47	65.4%	50	13.6%	37	12.5%	33
Kentucky	3.4%	4	25.9%	12	13.3%	35	8.3%	11
Louisiana	34.6%	42	50.0%	43	1.0%	1	0.4%	1
Maine	19.2%	13	36.2%	31	8.3%	19	12.5%	32
Maryland	28.1%	28	46.1%	39	31.9%	50	16.1%	46
Massachusetts	38.5%	46	60.2%	49	7.9%	17	13.1%	37
Michigan	13.4%	8	49.8%	42	9.5%	24	6.4%	4
Minnesota	39.1%	49	50.3%	44	5.6%	6	12.0%	29
Mississippi	12.6%	7	22.8%	6	15.2%	39	11.1%	22
Missouri	33.9%	41	27.3%	16	9.8%	30	6.9%	5
Montana	30.1%	35	27.1%	14	13.4%	36	11.3%	24
Nebraska	1.1%	1	30.7%	22	2.4%	2	3.3%	2
Nevada	35.2%	44	34.4%	25	21.9%	46	15.8%	45
New Hampshire	29.7%	33	36.1%	30	7.7%	16	12.8%	36
New Jersey	33.5%	38	56.9%	47	5.9%	8	11.8%	28
New Mexico	24.6%	22	29.0%	19	13.0%	34	12.8%	35
New York	32.0%	36	45.5%	38	6.3%	10	11.8%	26
North Carolina	23.4%	19	25.9%	12	8.8%	21	7.5%	9
North Dakota	26.1%	23	27.2%	15	7.1%	15	12.4%	31
Ohio	16.8%	10	18.3%	1	3.3%	3	6.2%	3
Oklahoma	2.7%	3	29.8%	20	9.6%	27	9.9%	15
Oregon	33.7%	39	28.7%	18	11.3%	33	14.0%	42
Pennsylvania	36.3%	45	59.5%	48	6.1%	9	11.8%	26
Rhode Island	39.0%	48	54.6%	46	6.6%	12	13.2%	38
South Carolina	23.3%	18	53.7%	45	19.6%	43	7.9%	10
South Dakota	18.2%	11	32.3%	24	10.5%	31	11.0%	21
Tennessee	26.8%	26	28.0%	17	9.6%	26	13.7%	41
Texas	28.9%	31	45.0%	37	18.3%	42	14.2%	43
Utah	20.4%	14	21.1%	3	8.9%	22	10.3%	16
Vermont	13.8%	9	24.2%	8	10.7%	32	11.3%	25
Virginia	26.6%	25	35.8%	28	24.8%	49	14.2%	44
Washington	23.8%	21	34.7%	27	16.7%	41	18.1%	48
West Virginia	40.5%	50	43.7%	36	6.4%	11	10.3%	16
Wisconsin	1.7%	2	35.9%	29	7.0%	14	6.9%	6
Wyoming	21.4%	15	22.4%	5	9.2%	23	8.5%	12

Chapter 1

Objectives and Scope

Study Objectives

The overarching objective of the Tax Foundation/KPMG state tax cost model project was to develop an objective bottom-line measure of the tax cost of each of the 50 U.S. states for a select number of model corporations. One of the more unique results of this study is a measure of the total tax burden borne by both mature firms and new investments, which allows us to understand the effects of state tax incentives compared to a state's core tax system.

The study presents four different but equally important ways of looking at the tax competitiveness of each state:

The tax burden (i.e. total effective tax rates): The study answers the question most frequently asked by business owners and corporate executives: "How much am I going to pay in total state and local taxes in each state?" The model calculates the total state and local tax burden for each firm type in every state and compares it to the firm's pre-tax profits to determine the effective tax rate. Here the total effective tax rate (TETR) includes corporate net income taxes, capital taxes, unemployment taxes, sales taxes, property taxes, gross receipts taxes, and other general business taxes.

The impact of incentives: The study makes an important contribution to our understanding of tax neutrality by measuring how much each state's generally available incentive programs affect the tax burden on new investments. This measure allows us to do two things: (1) calculate an effective tax rate for new investments in each state, then rank the states' effective tax rates for each firm type; and, (2) compare the effective tax rates for mature firms against the effective tax rates for new investments to test the neutrality of each state's tax system to new and existing businesses.

While many state officials view tax incentives as a necessary tool in their state's ability to be competitive, others are beginning to question the cost-benefit of incentives and whether they are fair to mature firms that are paying full freight. Indeed, there is growing animosity among many business owners and executives to the generous tax incentives enjoyed by some of their direct competitors.

As will be seen in chapters 2 and 3, some states rank well for both mature and new firms, while others rank poorly for both. On the other hand, some states will rank well by one measure but poorly in the other because of the complex interaction of the myriad tax variables.

A summary measure of which states have the lowest average tax costs and which have the highest average tax costs: At the end of the day, lawmakers and taxpayers want to know how their state ranks on average compared to other states. In other words, how well does a state rank across a variety of firm types relative to other states?

Chapter 2 actually produces two measures of a state's overall business tax competitiveness. The first is of the tax burden faced by "mature" firms, those that have been established for more than 10 years. This could be referred to as a state's basic, or core, competitiveness. The second measure is for the tax burden faced by newly established operations, those that have been in operation less than three years. This represents a state's competitiveness after we have taken into account the various tax incentive programs it makes available to new investments.

To determine an overall ranking, the model first ranks the states from lowest to highest in terms of the effective tax rates paid by each of the seven different firm types for both mature and new firms. We then turn the effective tax rate into an index score by dividing it by the national average within that firm type. Since 100 is considered the average, a number greater than 100 – say, 120 – means the state's effective rate is 20 percent larger than the national average, while a number lower than 100 – say, 80 – means the state's effective rate is 20 percent lower than the national average.

Creating an index score for each of the firm types helps control for the differences in firm size and nature, creating an apples-to-apples comparison.

The index scores for the seven firm types are then averaged to create a summary score for each state. The states are then re-ranked from top to bottom, with 1 being the state with the lowest overall tax cost, while 50 is the state with the highest overall tax cost.

A measure of tax burdens faced by different industries and firms: In addition to measuring the different tax burdens faced by existing and new firms, another way of looking at the neutrality of a state's tax system is to measure the effective tax rates faced by firms in different industries. In an ideal world, the tax code should not favor one industry or firm type over another.

As a practical matter, of course, this is very difficult because firms in different industries have very different cost structures, income streams, and profitability. However, comparing the effective tax rates faced by different firm types can give us an indication of how a tax system favors one industry over another or how neutral the system is to firms of all types.

Chapter 3 looks at which states are most competitive for the seven different types of mature firms and which are most competitive for the seven different types of new firms. The results show that even among the most or least competitive states, there are wide variations in the tax burdens faced by the seven different firm types.

Chapter 4 summarizes the results for each state across all the firm types, for both mature and newly established firms.

The Appendix contains the methodology and assumptions used to perform the calculations.

Study Scope

This study represents one of the most extensive comparisons of state corporate tax burdens ever undertaken. The scope of the study includes:

- All 50 U.S. states, including 99 different cities: 50 major urban locations and 49 smaller metropolitan regions. (Due to its small size, for Rhode Island all analysis relates to the Providence metro area.)
- Seven different model firm types representing a range of sectors – corporate headquarters, research and development center, retail store, call center, distribution center, capital-intensive manufacturing, and labor-intensive manufacturing
- Both mature firms and new investment
- The most variable business tax costs in each state: corporate income taxes, gross receipts taxes, capital and other general business taxes, sales taxes, property taxes, and unemployment insurance taxes

Locations

The study recognizes that different industries have different location needs. Corporate offices, for example, tend to be located in the largest metropolitan areas with access to airports and financial centers. By contrast, manufacturing facilities tend to be located in or near smaller communities with lower land costs.

Thus, the study divides the locations into two tiers: Tier 1 is a major city in the state while Tier 2 is a mid-size city in the state, generally with a population of less than 500,000. We then locate the corporate headquarters, R&D center, and retail outlet in a Tier 1 city within each state. The call center, distribution center, and manufacturing facilities are all located in a Tier 2 city. The methodology chapter discusses the tax characteristics of these locations in greater detail.

Firm Types

The study includes seven firm types that represent a broad cross section of industries that are highly sought by states competing for jobs and investment dollars. These firms are all corporate entities, not S-corporations, LLCs, or partnerships that may be taxed under state individual income tax systems. We recognize that flow-through businesses are an important part of the business landscape but in order to keep the study as manageable as possible, we have limited the analysis to corporate entities.

Table 6
Locations

State	Tier 1	Tier 2
Alabama	Birmingham	Montgomery
Alaska	Anchorage	Fairbanks
Arizona	Phoenix	Prescott
Arkansas	Little Rock	Fort Smith
California	Los Angeles	Merced
Colorado	Denver	Fort Collins
Connecticut	Hartford	Norwich
Delaware	Wilmington	Dover
Florida	Miami	Gainesville
Georgia	Atlanta	Macon
Hawaii	Honolulu	Hilo
Idaho	Boise	Coeur D'Alene
Illinois	Chicago	Springfield
Indiana	Indianapolis	Elkhart
Iowa	Des Moines	Cedar Rapids
Kansas	Wichita	Topeka
Kentucky	Louisville	Lexington
Louisiana	New Orleans	Shreveport
Maine	Portland	Bangor
Maryland	Baltimore	Salisbury
Massachusetts	Boston	Worcester
Michigan	Detroit	Saginaw
Minnesota	Minneapolis	Rochester
Mississippi	Jackson	Gulfport
Missouri	St. Louis	Joplin
Montana	Billings	Missoula
Nebraska	Omaha	Lincoln
Nevada	Las Vegas	Reno
New Hampshire	Manchester	Concord
New Jersey	Newark	Trenton
New Mexico	Albuquerque	Santa Fe
New York	New York	Utica
North Carolina	Raleigh	Wilmington
North Dakota	Fargo	Grand Forks
Ohio	Cincinnati	Canton
Oklahoma	Oklahoma City	Lawton
Oregon	Portland	Salem
Pennsylvania	Philadelphia	Reading
Rhode Island*	Providence	Providence
South Carolina	Columbia	Spartanburg
South Dakota	Sioux Falls	Rapid City
Tennessee	Nashville	Clarksville
Texas	Dallas	Lubbock
Utah	Salt Lake	St. George
Vermont	Burlington	Rutland
Virginia	Richmond	Roanoke
Washington	Seattle	Spokane
West Virginia	Charleston	Parkersburg
Wisconsin	Milwaukee	Eau Claire
Wyoming	Cheyenne	Casper
District of Columbia	Washington	n/a

*Due to Rhode Island's small size, all analysis relates to the Providence metro area.

These seven firm types include[1]:

- **A corporate headquarters or regional managing office**: This regional corporate office has 200 high-wage employees including management, financial operations, IT, sales, and administrative employees. It has revenue of approximately $31 million with earnings before tax of 14 percent.
- **A scientific research and development facility**: This pharmaceutical research and development facility has 50 employees, including management, business and financial, computer and math, science, and office/administrative positions. It has revenue of $8 million with earnings before tax of 14 percent.
- **An independent clothing store**: This free-standing store in a big city shopping district has 25 employees, most of whom work in sales, and sales of $2.9 million with earnings before tax of 9 percent.
- **An independent telemarketing or call center**: This low-wage service business has 600 employees including management, sales, and administrative employees. It has revenue of $29 million with earnings before tax of 7 percent.
- **A distribution warehouse**: This independent third-party logistics provider for a large company has a 350,000 square foot warehouse with 95 employees in transportation and material handling, administrative, and management positions. It has revenue of $13 million with earnings before tax of 12 percent.
- **A capital-intensive manufacturer such as a steel company**: The company has initial capital investment of $300 million and 200 employees, including management, administrative, installation, maintenance, production, transportation, and materials. The average revenue is assumed to be approximately $200 million with earnings before tax of 10 percent.
- **A labor-intensive manufacturer such as a bus or truck manufacturer**: This firm has 300 employees, the majority of whom work in management, installation, maintenance, production, and assembly, and initial capital investment of $65 million. The average revenue is assumed to be approximately $173 million with earnings before tax of 7 percent.

These firm types are also very mobile, which means the owners and investors have considerable flexibility in where to locate them based on factors ranging from taxes to labor force. This makes them frequent targets for economic development subsidies and tax incentives.

For each of these firm types, the study assesses the tax costs borne by a mature firm – one that is at least 10 years old – versus those borne by a new facility, one that is less than three years old. Mature firms are typically no longer eligible for any tax incentive programs while the new facility would be eligible for most incentives.

Each of these firms except the retail outlet are assumed to have out-of-state customers or clients. Thus, how each state

1 Greater detail on the financial characteristics of these firm types will be found in Chapter 3 and in the methodology Appendix.

apportions a firm's income is a critical factor in determining a state's effective tax rate for that industry.

Tax Scope

Types of Taxes Included[2]

Businesses collect and remit all kinds of taxes, from employee payroll taxes and property taxes to excise taxes and income taxes. But the scope of this study is limited to taxes that directly impact a business's costs, not taxes that a business collects only to pass through to government. These are also the taxes that vary most across locations. They include:

- ***Corporate net income taxes***: Forty-four states levy a tax on the net income of corporations while Nevada, South Dakota, and Wyoming do not have a corporate income tax or other business-level tax, and Ohio, Texas, and Washington levy a gross receipts tax (or margin tax in Texas) rather than a corporate income tax. Of the states with a corporate income tax, 30 levy a single, flat rate on all corporate income. The remaining 14 states have graduated, or multi-bracket, rate structures. Generally speaking, a low "sticker price" of a state's top corporate income tax rate can often be a signal of how attractive a state is to business investment while a high rate can deter investment.
- ***Gross receipts and franchise taxes:*** Ohio, Texas, and Washington do not have a corporate income tax but do have a business tax that is levied on the gross receipts of the firm or, in the case of Texas, on the gross margins of the business. Delaware has a state-level gross receipts tax in addition to the corporate income tax, while Virginia's gross receipts tax is levied at the local level. New Hampshire has an alternative minimum tax in addition to the corporate income tax; a firm must pay the greater of the income tax or the business enterprise tax which is a variant of an addition-method value-added tax (VAT). Gross receipts taxes do have the advantage of a low rate on a broad base but also lead to increased complexity and economic distortions, such as firms in loss-making situations still being faced with a state corporate tax liability.
- ***Property taxes:*** Property taxes are especially important to businesses because commercial property is frequently taxed at a higher rate than residential property. Additionally, localities and states often levy taxes on the personal property or equipment owned by a business. Since property taxes can be a large burden to business, they can have a significant effect on location decisions.
- ***Unemployment insurance (UI) taxes:*** UI taxes are paid by employers into the UI program to finance benefits to workers recently unemployed. UI tax rates in each state are based on a schedule ranging from a minimum rate to a maximum rate. The schedule for any particular business is determined by the business's experience rating or history of claims. The rate is then applied to a taxable wage base (a predetermined portion of an employee's wages) to determine UI tax liability. Competitive states tend to have rate structures with lower minimum and maximum rates and a wage base at the federal level.

2 For more detail on the types of taxes included in this study, see the methodology appendix.

- ***Sales taxes on business equipment or inputs:*** In addition to levying sales taxes on consumer goods, many states extend their sales taxes to business equipment, machinery, and inputs. These taxes can add considerably to the cost of new investment and the final price of products as the sales tax cascades through the supply chain--what economists call "tax pyramiding." Highly competitive states tend to tax fewer business inputs, which greatly reduces the cost of doing business in the state – especially for capital- or equipment-intensive firms.

Who Bears the Burden of the Tax?

For the purposes of this study it is assumed that the business bears the entire burden of the tax, which is why the owners are so sensitive to the costs and why states compete to offer tax incentives. Economists, however, typically look at business taxes in terms of who bears the actual economic burden of the tax, not just the legal burden. That is because corporations are simply legal entities, not people per se. In economic terms, the real burden (or incidence) of business taxes is borne by customers through higher prices, workers through lower wages, or owners and shareholders through lower returns on their investment.

In this study, taxes are considered a cost of doing business, not just a factor to be passed on to consumers or shared with workers. A good example is the sales tax on business equipment which, theoretically, could be absorbed into the price of the product. However, this tax can substantially increase the cost of building a multi-million dollar manufacturing facility and, thus, make a state with no sales tax on equipment a far more attractive location.

The Tax Foundation's annual *State-Local Tax Burdens* report does attempt to account for the shifting of business tax burdens by allocating these costs to customers, workers, and shareholders based on various demographic and geographic factors. By contrast, this study, *Location Matters*, measures only the legal incidence of these direct business taxes. The effective tax rates calculated in this study are based on the firm's pre-tax income and the total amount of tax that impacts the firm's direct costs.

Other Tax Factors

Nexus and Apportionment

Nexus is the legal term for whether a state has the power to tax a business. The historical rule that remains mostly in force is that a state only has power to tax a business if the business has property or employees in the state, a concept known as "physical presence."[3] Some states, however, have adopted aggressive nexus standards in recent years seeking to expand state taxing power to businesses operating in other states.

Firms with nexus in more than one state must use state rules to *apportion* their profits, determining how much of their income each state may tax. Historically, profits were apportioned among states in the ratio of the company's property and payroll in each state. For example, if 50 percent of a firm's payroll was based in

3 *Ending the Nexus Guessing Game for Taxpayers: Lamtec Corp. v. Washington Department of Revenue,* by Joseph Henchman, Dirk Gisebert and Laura Lieberman, June 16, 2011. http://www.taxfoundation.org/news/show/27381.html

Colorado and 50 percent of a firm's property was in Colorado, Colorado would be able to tax 50 percent of the firm's profits if it used this formula. Long the historical standard, this property-and- payroll formula was unsuccessfully recommended by Congress's Willis Commission to be the uniform national standard in 1959.

States resisted this recommendation and instead as a whole adopted the Uniform Division of Income for Tax Purposes (UDITPA), also known as the "three-factor formula." This formula apportions profits based on each state's share of the firm's overall property, payroll, and sales (each of the three "factors" is averaged equally). For example, if 50 percent of a firm's payroll was based in Colorado and 50 percent of the firm's property was in Colorado, but only 1 percent of the firm's sales were in Colorado, Colorado would be able to tax approximately 34 percent of the firm's profits if it used a three-factor formula.

Over the past few years, many states have increased the weight of the sales factor with some relying on it completely. This change has had the effect of *reducing* tax burdens for businesses that have most of their property and payroll in the state but only a small proportion of their national sales in the state, while *increasing* tax burdens for out-of-state companies that have minimal property or payroll in the state but a large proportion of their national sales in the state. For example, if 50 percent of a firm's payroll was based in Colorado and 50 percent of the firm's property was in Colorado, but only 1 percent of the firm's sales were in Colorado, Colorado would be able to tax approximately 1 percent of the firm's profits if it used a single-sales factor formula.

Since many businesses make sales into states where they do not have nexus, businesses can end up with "nowhere income," income that is not taxed by any state. To counter this phenomenon, many states have adopted what are called "throwback" or "throwout" rules to identify and tax profits earned in other states but not taxed by those states.

Under "throwback," such profits are taxed by the state where the sale originated. Under "throwout," such profits are ignored in calculating the state's share of total profits, by subtracting them from the apportionment denominator. For example, if Colorado has a single-sales factor formula and a throwback rule, a firm with only 1 percent of its sales in Colorado and 75 percent of its sales in State Y, where it is not subject to an income tax, would see those sales "thrown back" to Colorado. Colorado would thus be able to tax 76 percent of the firm's profits.

Our study's model firms (with the exception of the corporate office) each have all their property and payroll located in one state, while sales in each state are in the ratio of each state's relative economic activity. In addition, we assume that each model firm has the right to apportion its income. While this may be a simplified approach for multistate firms, it still permits more detailed and accurate analysis than any previous study. However, readers should be cautioned that our assumptions can lead to extreme results that may be uncommon in the real world: for example, firms in states with a single-sales factor and no throwback face an extremely low tax burden.

Incentives: What Is Included and How Do They Affect Certain Firms?

Many states provide tax credits or tax incentives with the goal of attracting new investment or encouraging large out-of-state firms to relocate to their state. These credits vary widely in size and scope. Some are aimed a incentivizing the hiring of new workers while others are meant to offset the investment costs of new plant and equipment. While tax incentives may reduce these costs for some taxpayers, they can be a windfall to a firm that would have expanded anyway, can leave out existing firms, and can complicate the tax system.

The major tax incentives that are measured in this study include:

New Job Tax Credits: These credits offer specific dollar amounts for each new job a company creates over a specified period of time. To receive the credit, the job must generally be considered "qualified" by state officials and only be available to certain types of industries. Job tax credits could encourage some firms to hire new employees even if they would be better off spending more on new equipment.

As one example, Pennsylvania offers a Job Creation Tax Credit of $1,000 per net new job to approved businesses that create jobs within three years. To be eligible, businesses must demonstrate to state officials "[l]eadership in the application, development, or deployment of leading technologies in business operations."[4]

Forty-five states offer job creation tax credits of some type; 26 states' credits were considered applicable to one or more of the model firms in this study.

Investment Tax Credits: Investment tax credits offer an offset against tax liability if the company invests in new property, plants, equipment, or machinery in the state offering the credit. Sometimes, the new investment will have to be "qualified" and approved by the state's economic development office.

As one example, Indiana offers a 10 percent tax credit for eligible capital investment. Each of this study's model firms is eligible for that incentive. In most states, however, investment incentives are not as broadly available, often being targeted at manufacturing investment. Forty states offer investment tax credits of some type; 28 states' credits were considered applicable to one or more of the model firms in this study.

Research and Development (R&D) Tax Credits: R&D tax credits reduce the tax burden of companies that invest in "qualified" research and development activities. The theoretical argument for R&D tax credits is that they encourage basic research that may be good for society in the long run but not necessarily profitable in the short run. Opponents argue that much of the R&D work supported by the credit would have occurred anyway, and that state-level R&D credits are less effective because benefits of successful R&D are not limited to just that state.

As one example, Arizona offers a 24 percent tax credit for in-state R&D expenses. Thirty-nine states offer investment tax credits of some type; thirty-seven states'

4 Pennsylvania Department of Community & Economic Development, *Job Creation Tax Credit Program Guidelines* (Jan. 2009), http://www.newpa.com/sites/default/files/uploads/jobcreationtaxcredit_guidelines_09.pdf.

credits were considered applicable to one or more of the model firms in this study.

Payroll Withholding Tax Rebates: These rebates return to a company a portion of state income taxes withheld from employees' wages for new hires. These rebates must generally be pre-approved by state officials and are usually measured by job creation over a period of years. These rebate programs are often difficult to administer efficiently, creating a compliance burden to the taxpayer.

As one example, New Jersey rebates to companies up to 80 percent of new employees' state income tax withholdings, if the company creates at least 25 new jobs within a two-year period and demonstrates to state officials that the job expansion is economically viable and would not have occurred without the rebate. Nineteen states' payroll withholding tax rebates were considered applicable to one or more of the model firms in this study.

Property Tax Abatements: State and local abatements reduce property tax liability for certain types of industries or in certain areas by applying credits to the tax that would otherwise be due. While some abatements are broadly available, many are awarded to certain projects as economic development packages designed to increase investment or attract new employers. Critics argue that abatements merely shift the location of investment and jobs rather than inducing new investment and new jobs. Abatements can also strain local resources by growing the level of services while keeping new facilities off the property tax rolls.

As one example, Nebraska will waive 100 percent of property taxes for new manufacturing and shipping facilities for 10 years. Property tax abatements in 39 states were considered applicable to one or more of the model firms in this study.

Other: Other discretionary tax incentives such as financing programs, zone-based benefits (such as enterprise zones and economic development zones), "deal-closing funds," and others are not included in this analysis. Assumptions were made to compute benefits if incentive programs had discretionary components, such as a sliding scale of benefits based on project parameters.

Other Factors Affecting New Firms Differently from Mature Firms

While the availability of targeted tax incentives to new firms is a major reason some new firms in many states pay lower tax bills than otherwise equivalent mature firms, two other factors we identified can produce significant differences.

Sales Taxes on Equipment. Tax economists agree that a properly designed sales tax should only tax final retail sales and exempt so-called "business-to-business" transactions. When firms must pay sales tax on their purchases of raw materials, machinery, and other inputs, these taxes become part of the price of the final product sold to consumers. Different products will then have different hidden taxes on taxes, a concept known as "pyramiding" and a source of economic distortion.

Most states have sought to minimize this distortion by specifically exempting some (but not all) new manufacturing machinery and equipment from their sales tax. In these states, our study shows new firms purchasing equipment face lower sales tax obligations than in states without such a sales tax exemption.

Depreciation and Property Taxes on Machinery and Inventory. While virtually all local governments and many states levy property taxes on a company's land and building improvements, 39 states also impose property tax on the value of a company's machinery, and 11 states impose property tax on the value of a company's inventory. These taxes especially impact large manufacturing operations, retail stores, and other businesses with large amounts of machinery or merchandise.

Unlike land, buildings and machinery lose their value over time. This asset depreciation results in many mature firms in our study paying less in property taxes than new firms.

Caveats and Limitations

Information limitations. The study was based on the applicable tax law and available data as of April 1, 2011. We understand that a number of states have tax changes that are being phased in over a number of years, but because those future changes can be revoked at any time, they have not been considered in this study.

Model firm limitations. This study measures the tax burden faced by only seven model corporations and, thus, doesn't represent the universe of industries that states compete for. However, the seven firms included in this report are highly mobile – meaning, they can be located in almost any state – and, therefore, they are highly sought after by all 50 states. So while the summary score may not be representative of all industries, it does represent a good sample of competitive firm types.

It is important to note that the rankings for each state are not necessarily a reflection of the quality or efficiency of a state's tax system. The rankings are only a measure of how much or how little a state taxes different firms or industries relative to the national average.

Business tax burdens don't necessarily reflect the quality of state tax systems. Indeed, the study frequently shows that different states can impose the same tax burdens on the same firm type but achieve that result in very different ways. For example, according to the Tax Foundation/KMPG state tax cost model, Arkansas and Colorado each have a 20.8 percent effective tax rate for a mature call center operation. However, Arkansas achieves this result with a 6.5 percent corporate tax rate while Colorado's corporate rate is 4.63 percent. Arkansas' combined state-local general sales tax rate is 9.25 percent while Colorado's is 7.55 percent. However, Colorado's property tax burden for this type of firm is more than twice as much as the burden it would face in Arkansas.

Similarly, the tax systems in Nebraska and Ohio produce nearly identical effective tax rates for new labor-intensive manufacturing operations: Nebraska's is 6.0 percent while Ohio's is 6.1 percent. However, despite having a 7.81 percent corporate tax rate, Nebraska reduces its overall business tax burden through the use of generous property tax credits, investment credits, and job tax credits. Ohio also offers a generous property tax credit, but instead of levying a corporate income tax, Ohio has a broad-based 0.26 percent gross receipts tax (known as the Commercial Activities Tax) which reduces the income tax burden for an export-oriented firm.

This study makes no judgments on how a state reaches its ranking, even if the state's tax measures may cause distortions, unintended economic consequences, or high compliance costs for firms. These sorts of issues are addressed by the Tax Foundation's *State Business Tax Climate Index* and the *State Tax Burden* rankings.

Assumptions matter. Like any study of this magnitude, the assumptions can influence the results. For example, in order to keep the study as tractable as possible, we assumed that our model firms (with the exception of the retail establishment) do business in all 50 states, but only have significant (or material) nexus – employees, property, and facilities – in their home state. In other words, they make something in their home state and ship it to third parties in all other states. However, it is also assumed that the businesses have a nominal nexus in one or more other states, thus qualifying them as interstate corporations eligible to apportion their income between states.

This highly simplified assumption probably does not reflect the operations of most multistate businesses. Most multistate firms have sales personnel or subsidiaries in other states to market and distribute their products. This assumption greatly advantages states that have single-sales factor apportionment over those that have traditional three-factor formulas. Thus, it is possible that a state with a very high corporate tax rate and a single-sales factor – such as Iowa, which has a 12 percent corporate rate – can score well because only a fraction of the firm's total sales will be allocated to the home state based on each state's share of the national population.

Under different assumptions, that same state may not score as favorably. For example, if we compare the tax burdens of firms that have no out-of-state sales, as is the case in our model retail operation, the apportionment factor is not an issue because all of the income is taxed at the in-state rate. Thus, assuming that property and sales taxes are equal factors in the apportionment formula, the in-state firm facing Iowa's 12 percent corporate tax rate almost certainly ends up having a higher tax burden than a similar firm in neighboring Missouri, which has a 6.25 percent corporate tax rate.

District of Columbia. Because the District of Columbia is a highly dense urban city, the model only measured the tax burden for Tier 1 firms: a corporate headquarters, an R&D center, and a retail outlet. These TETRs are shown in the tables but DC is not ranked with the other states.

Chapter 2

The Composite Results: The Lowest and Highest Tax Cost States

This chapter provides lawmakers and economic development officials a broad measure of their state's business tax burden across the seven model firm types. While business leaders will likely focus on the specific firm rankings in Chapter 3, this broader ranking of "most" and "least" competitive states is critical to the ability of state officials to promote their state while enacting policies that improve their state's broader business climate.

This study actually produces two measures of a state's overall business tax competitiveness. The first is of the tax burden faced by "mature" firms, those that have been established for more than 10 years. This could be referred to as a state's basic, or core, competitiveness. The second measure is for the tax burden faced by newly established operations, those that have been in operation less than three years. This represents a state's competitiveness after we have taken into account the various tax incentive programs it makes available to new investments.

While Chapter 3 will compare the states' rankings for each firm type, in this chapter we present a broader composite metric that averages each state's model scores across the seven firm types. A model score is a ratio that is calculated by comparing a state's tax burden to the national average. For example, if a state's total tax burden for a corporate headquarters is $3.5 million, but the national average is $3 million, then the state will get a model score of 116. Since the average is fixed at 100, a score of 116 means the state's tax burden is 16 percent above the average. Similarly, if the state's tax burden is $2.5 million, then its model score will be 83, which means its tax burden is 17 percent below the average.

Averaging the individual scores for the seven firm types controls for differences in the size and nature of each firm type, which then allows us to compare them on an apples-to-apples basis.

After these scores are averaged, we then re-rank the states from the lowest average score – or lowest tax cost – to the highest average score – or highest tax cost.

One of the more interesting aspects of this study is the difference between how a state ranks for mature firms and how it ranks for new operations after we take the incentive programs into account. As we will see, some states rank well in both measures while others will rank poorly in both. On the other hand, some states will rank well by one measure but poorly in the other because of the complex interaction of the myriad tax variables.

Table 7
Overall Results

	Mature Firms		New Firms	
	Index Score	Rank	Index Score	Rank
Alabama	86.0	13	86.4	19
Alaska	97.7	23	81.1	17
Arizona	86.2	14	114.9	31
Arkansas	102.8	30	69.6	8
California	105.8	34	133.8	45
Colorado	105.4	33	135.1	47
Connecticut	93.9	21	109.3	30
Delaware	98.1	24	80.5	16
Florida	90.6	19	122.8	36
Georgia	71.8	3	66.7	6
Hawaii	142.6	49	151.4	50
Idaho	111.7	38	116.0	32
Illinois	126.4	45	94.2	24
Indiana	122.7	43	80.1	15
Iowa	116.5	40	126.8	41
Kansas	133.5	47	141.6	48
Kentucky	88.4	18	69.4	7
Louisiana	84.1	10	52.8	2
Maine	100.4	27	87.3	20
Maryland	82.4	8	134.7	46
Massachusetts	123.6	44	128.2	43
Michigan	98.8	25	96.6	25
Minnesota	112.7	39	119.6	35
Mississippi	109.2	37	89.3	21
Missouri	108.8	36	97.0	26
Montana	93.1	20	93.8	23
Nebraska	82.5	9	31.7	1
Nevada	77.7	4	124.8	38
New Hampshire	99.7	26	91.0	22
New Jersey	121.1	41	104.9	27
New Mexico	97.4	22	80.0	14
New York	121.1	42	124.4	37
North Carolina	80.8	7	79.9	13
North Dakota	87.0	15	83.5	18
Ohio	78.1	5	58.7	3
Oklahoma	87.1	16	65.3	5
Oregon	100.5	28	106.3	28
Pennsylvania	145.1	50	145.9	49
Rhode Island	129.1	46	128.4	44
South Carolina	103.8	32	119.4	34
South Dakota	56.0	2	77.7	11
Tennessee	101.3	29	108.7	29
Texas	85.9	12	127.7	42
Utah	80.2	6	76.7	10
Vermont	103.7	31	79.2	12
Virginia	84.4	11	125.9	39
Washington	87.2	17	126.3	40
West Virginia	140.2	48	118.5	33
Wisconsin	107.7	35	59.8	4
Wyoming	48.3	1	73.3	9

Results: Top-Ranked States for Mature Operations

10 States with Lowest Tax Cost States for Mature Firms

	Index Score	Rank
Wyoming	48.3	1
South Dakota	56.0	2
Georgia	71.8	3
Nevada	77.7	4
Ohio	78.1	5
Utah	80.2	6
North Carolina	80.8	7
Maryland	82.4	8
Nebraska	82.5	9
Louisiana	84.1	10

Based on the average model scores across the seven different firm types, Wyoming stands out as having the lowest overall tax cost for business of any state, followed closely by South Dakota. Wyoming's score is nearly 52 percent below the national average while South Dakota's is 44 percent below the average.

Throughout the study, a ranking of first indicates the lowest tax burden while 50th indicates the highest tax burden.

The remaining eight states in the top 10 are Georgia, Nevada, Ohio, Utah, North Carolina, Maryland, Nebraska, and Louisiana. In contrast to Wyoming and South Dakota, the scores for these states are between 16 percent and 28 percent below the national average.

Wyoming ranked first in five of the seven firm types and third in the other two categories. South Dakota ranked first in one category (call centers), second in three others, and no worse than ninth in the remaining categories. These were the only two states to score in the top 10 within every firm category.

Looking at the remaining states that round out the top ten, all of them have a top 10 score in at least one firm category but balance that with a much lower score in one or more other categories. Georgia may be the exception to this rule in that its best scores are second for call centers and labor-intensive manufacturing, while its worst score is 19th for corporate headquarters. Ohio scores in the top 10 in three categories but is pulled down by a 35th-place score for distribution centers. These mixed results are a reminder that the overall scores can be a guide, but each state should be viewed individually as to how it fares on each of the firm types.

Why do these states rank well overall for mature operations? The common trait of Wyoming and South Dakota is that they both lack a corporate income tax. Nevada, which ranks fourth overall, is the other state that does not levy a corporate income tax. The benefits that Nevada gets from not having a corporate income tax were diminished because of its high unemployment insurance taxes and high sales taxes on business inputs. For example, these two factors were the cause of Nevada's 33rd-place score for call center operations.

Ohio, which ranked fifth overall, also does not have a formal corporate income tax. Instead, it imposes a gross receipts tax called the Commercial Activity Tax (CAT). This low-rate, broad-base tax helped the state score well for corporate headquarters, retail operations, and for capital-intensive manufacturing.

All of the remaining six states in the top 10 impose a corporate income tax. Utah's is the lowest rate at 5 percent, while Maryland's is the highest at 8.25 percent. There are two common traits to these states. The first is that they have either a single-sales apportionment factor (Georgia, Nebraska, Louisiana, and Maryland)[1], or they have a double-weighted sales factor (Utah and North Carolina). Sales-weighted formulas disproportionately benefit our model firms because we assume that they sell their products to all other states but have no (or negligible) nexus in those states. As a result, only the firm's home-state sales will be taxed – in some cases cutting its potential corporate income tax bill by 99 percent. Similar results will be seen with service income sourcing rules that attribute income where the benefits are received or to the state's marketplace.

The other beneficial trait shared by many of these top-ranking states is that they don't have a throwback rule, which can effectively subject 100 percent of the firm's sales to home-state taxation. Utah is the only state among this group with a throwback rule. Utah remains competitive because its corporate tax rate is a flat 5 percent and it has low property taxes.

1 The single-sales factor in Maryland is limited to manufacturing. The formula for other industries is 50% sales, 25% payroll, and 25% property. Louisiana's standard apportionment factor for some service industries is 50% payroll, 50% sales. For manufacturing and retail the factor is 100% sales.

Results: Bottom-Ranked States for Mature Operations

10 States with Highest Tax Costs for Mature Firms

	Index Score	Rank
New Jersey	121.1	41
New York	121.1	42
Indiana	122.7	43
Massachusetts	123.6	44
Illinois	126.4	45
Rhode Island	129.1	46
Kansas	133.5	47
West Virginia	140.2	48
Hawaii	142.6	49
Pennsylvania	145.1	50

Based on the average model scores across the seven different firm types, Pennsylvania has the highest overall tax cost for business of any state, followed closely by Hawaii and West Virginia. Pennsylvania's final average score is 45 percent higher than the national average; Hawaii's average score is nearly 43 percent above average; and West Virginia's final score is 40 percent above average. By contrast, the final score for New Jersey, which ranked 41st, is 21 percent higher than the national average.

Although Pennsylvania ranked last overall, it has mixed rankings for the individual firm categories. For example, the state ranked 50th in three of the seven business categories (corporate headquarters, R&D center, and retail center), and 49th and 48th on two others (distribution center and call center), but ranked fifth for the capital-intensive manufacturing and 15th for the labor-intensive manufacturing.

Similarly, Hawaii ranked 50th for having the highest tax costs for both capital-intensive and labor-intensive manufacturing. However, Hawaii ranked seventh with one of the lowest tax costs for mature distribution centers.

Most of the other high tax cost states tended to rank consistently poorly on all of the categories. West Virginia, for example, ranked among the bottom 10 in six of the seven categories and 36th in the other. These rankings mean that every firm type in West Virginia had an above-average total tax burden. Similarly, every firm type in Kansas, Rhode Island, Illinois, and Massachusetts had an above-average total tax burden. In New Jersey, six of the seven firm types had above-average total tax burdens; only the capital-intensive manufacturing firm had a below-average total tax burden.

Like Pennsylvania, Indiana, and New York scored in the top 10 (with the lowest tax burden) in at least one individual category. Indiana had the fifth-lightest tax burden in the R&D Center category with a total effective tax rate (TETR) of 7.3 percent. New York had the third-lightest tax burden in the capital-intensive manufacturing category at 5.3 percent.

Why do these states rank low overall for mature firms? Generally speaking, all of these states levy high tax rates, have high burdens in the four major tax components (corporate income, unemployment insurance (UI), sales, and property taxes), or they have unfavorable apportionment and sourcing rules.

For instance, Illinois, New Jersey, New York[2], Rhode Island, and Pennsylvania levy corporate income tax rates of 9 percent or higher. Hawaii has the lowest corporate income tax rate of the group at 6.4 percent. Like the low-tax states, the majority of the 10 states with the highest tax burdens have either a single-sales factor apportionment or strongly weighted sales formulas. However, most of these states also have either a throwback or "throwout" rule that mitigates any benefits of a single-sales factor by effectively subjecting 100 percent of the firm's income to home-state taxation.

For service income, most of these states source the income where the service is performed or where the majority of the income-generating activity is performed. For all practical purposes, these rules subject 100 percent of the firm's income to home-state taxation.

Despite their high corporate tax rates, Iowa, New York and Pennsylvania have effectively combined a single – or heavily weighted – sales factor and no throwback rule to make themselves more competitive to manufacturers. Indeed, Pennsylvania ranked fifth in capital-intensive manufacturing and 15th in labor-intensive manufacturing even though it has the second-highest corporate tax rate at 9.99 percent. However, Pennsylvania's high corporate rate and high property taxes lead to higher tax burdens for every other firm type. The story is the same in New York and Iowa where any benefits the state achieves from a competitive apportionment formula are outweighed by high property taxes, unemployment taxes, and sales taxes.

Indiana is another state whose rankings are weighted down by the combination of a high corporate tax rate and high property taxes. Despite its single-sales factor apportionment formula, the state's 8.5 percent corporate tax rate produces a bottom-ten score for five of the seven firm types. The state's throwback rule, no doubt, plays some role in this too. Indiana's property

2 New York's state corporate rate is 7.00 percent and the New York City rate is 8.85 percent of "net income allocated to New York City" for a combined rate of 15.85 percent.

taxes are among the highest for all of the Tier 2 firms.[3]

Hawaii consistently ranked among the states with the lowest property taxes for most firms. However, it also consistently had one of the highest UI tax burdens of any state for most firm types and one of the higher sales tax burdens.

Some states rank poorly overall, not because they score badly in one or two areas, but because they are consistently mediocre in most categories. Illinois, Kansas, New Jersey, and Rhode Island generally fit in that mold with above-average taxes across the spectrum. West Virginia tends to have average scores for unemployment and sales taxes but is pulled down overall by poor corporate and property tax rankings.

Results: Top-Ranked States for New Operations

10 States with Lowest Tax Costs for New Firms

	Index Score	Rank
Nebraska	31.7	1
Louisiana	52.8	2
Ohio	58.7	3
Wisconsin	59.8	4
Oklahoma	65.3	5
Georgia	66.7	6
Kentucky	69.4	7
Arkansas	69.6	8
Wyoming	73.3	9
Utah	76.7	10

Six of the 10 states with the lowest tax burdens for mature firms are also among the 10 states with the lowest tax burdens for new firms. By and large, some of the same factors that lower the tax burdens for mature firms also benefit new firms. These include such things as the lack of an income tax in Wyoming, a low-rate gross receipts tax in Ohio that only taxes in-state sales, or a single-sales factor in Georgia, Louisiana[4], and Nebraska. Indeed, other states such as Wisconsin, Oklahoma,[5] Kentucky, and Arkansas – which were not in the top 10 for mature firms but do rank in the top 10 for new operations – also weight their apportionment factors toward sales.

Why do these states rank well overall for new operations? The other common trait that binds these states is that they tend to be very aggressive with tax incentives for new operations. Indeed, Nebraska and Louisiana, who rank first and second for new investment, have some of the most generous property tax abatements, withholding tax credits, job credits, and investment credits.

Wyoming stands out from the pack because it achieved a top 10 ranking without offering targeted tax incentives. Of course, it could be argued that Wyoming's greatest "incentive" policy is simply not levying an income tax.

Nebraska ranked first in two of the seven firm categories and second in two others, as did Louisiana. What depressed Louisiana's average ranking overall was a 42nd-place rank for call centers and a 43rd-place rank for distribution centers. These poor scores were caused by Louisiana's high sales tax on business inputs and its high property taxes on new equipment

3 These results do not account for the corporate tax rate reduction or the property tax cap scheduled for 2012 and behond.

4 Louisiana's standard apportionment factor for some service industries is 50% payroll, 50% sales. For manufacturing and retail the factor is 100% sales.

5 Oklahoma's standard apportionment factor is 33.3% for property, payroll, and sales. If the investment is over $200 million then the sales factor is increased to 50%.

and inventories. However, Louisiana and Nebraska are the only states in which new R&D operations had negative effective tax rates, meaning that the value of the tax incentives exceeded the operation's tax liability, giving the operation a substantial subsidy.

Ohio ranked among the top 10 states in six of the seven firm categories, due in large measure to the state's low rate gross receipts tax combined with incentives such as property tax abatements and withholding tax credits. Ohio's property taxes were among the nation's lowest for new manufacturing operations and distribution centers.

Arkansas, Kentucky, Oklahoma, and Wisconsin all went from ranking in the middle of the pack for mature firms to ranking in the top 10 states for new firms because of the extent of their tax incentive programs. In each of the seven firm types, Wisconsin and Arkansas in particular are consistently among the most generous states in offering a complete array of tax incentives, from property tax abatements to job credits. For Oklahoma and Kentucky withholding tax credits are the sole incentive of choice in most of the firm types, although Oklahoma also offers substantial property tax incentives for manufacturing operations.

Results: Bottom-Ranked States for New Operations

10 States with Highest Tax Costs for New Firms

	Index Score	Rank
Iowa	126.8	41
Texas	127.7	42
Massachusetts	128.2	43
Rhode Island	128.4	44
California	133.8	45
Maryland	134.7	46
Colorado	135.1	47
Kansas	141.6	48
Pennsylvania	145.9	49
Hawaii	151.4	50

Five of the 10 states that have the highest total tax burdens for mature firms are also among the 10 states with the highest tax burdens for new investment. These states include Hawaii, Kansas, Massachusetts, Pennsylvania, and Rhode Island.

Hawaii ranks 50th for new operations with an overall tax score more than 50 percent above the national average. The overall score for second-ranked Pennsylvania is nearly 46 percent above the national average while the score for third-ranked Kansas is nearly 52 percent above average. Fourth-ranked Maryland is the only state to rank among the top 10 states (with the lowest tax burden) for mature firms but among the bottom 10 states (with the highest tax burden) for new operations.

Hawaii ranked last for new labor-intensive manufacturing with a TETR of 40.6 percent, more than twice the national average. By contrast, Hawaii does rank 10th for new distribution centers.

Pennsylvania ranked last in two firm categories (corporate headquarters and R&D centers) and in the bottom ten in three others. Notably, Pennsylvania's tax burden for corporate headquarters was 90 percent higher than the national average. However, the state does have one of the lowest tax burdens for capital-intensive manufacturing (ranking ninth), which is another reminder that the overall rankings must be assessed carefully.

Kansas ranked 48th overall for new operations in large measure because all seven firm types have tax burdens higher than the national average. The state scored last for distribution centers, with a tax burden 80 percent higher than the national average, and 49th for R&D operations with a tax burden nearly 73 percent higher than the national average.

Maryland's 47th-place ranking overall owes much to its exceptionally high tax burden for capital intensive manufacturing, which was roughly 180 percent above the national average. This high burden is entirely attributable to the state's high property tax rates on manufacturing equipment. To put this in perspective, Maryland's property tax burden on equipment is 30 percent higher than Virginia which has the second-highest property tax burden for capital-intensive manufacturers.

Why do these states rank low overall for new operations? High property and sales taxes on equipment and inventory is the dominant theme for many of the 10 states with the highest total tax burdens. One reason for this is that the property tax base for new firms is higher than for mature firms because the buildings and equipment have yet to be depreciated. Another factor for many of these states is the lack of tax incentives. This is especially true for a state like Texas, which does not have a traditional income tax and offers few, if any, tax incentives. Texas's Margin Tax and its high sales tax can impose considerable costs on new firms.

Texas and Louisiana provide contrasting examples of states with property tax abatement programs and very high property taxes on equipment and inventories. Indeed, there are only nine states that tax inventories; Louisiana imposes the highest rate and Texas imposes the second-highest rate.[6] However, Louisiana offers the second-most generous property tax abatement for capital-intensive manufacturers which, when added to a withholding tax rebate and some sundry credits, helps the state rank first for these operations. Texas, meanwhile, ranks 42nd for capital-intensive manufacturing in part because its property tax rebate is about average in value and it offers no other tax incentives.

California's 46th-place ranking overall is due in large measure to its very high tax burden on new corporate headquarters and manufacturers of all types. Indeed, the tax burden on new corporate headquarters is nearly 35 percent higher than the national average. But for capital-intensive manufacturers, the burden is 110 percent above the national average, and for labor-intensive manufacturers it is about 73 percent above average.

While California's apportionment factor is weighted toward sales, its throwback rules effectively exposes 100 percent of the firm's sales to one of the highest corporate income taxes in the nation. In addition, California's disallowance of more generous federal accelerated depreciation rules particularly affect manufacturers making major investments in machinery and

6 The local inventory tax in Louisiana is credited back to companies on their state income tax return.

equipment. California has one of the highest sales taxes in the country which dramatically raises the costs of new manufacturing machinery. Finally, California offers very few incentives to help offset these high tax burdens.

Although Colorado has one of the lowest corporate tax rates in the nation at 4.65 percent, all seven of the new firm types have above-average total tax burdens. In large measure, this is due to Colorado's throwback and sourcing rules that subject 100 percent of each firm's income to state tax, as well as exceptionally high property taxes.

Massachusetts and Rhode Island have nearly similar results across the board; all of the firm types have above-average total tax burdens except for capital-intensive manufacturing. Both states have relatively high corporate tax rates (8.25 percent in Massachusetts and 9.0 percent in Rhode Island), throwback rules, high unemployment insurance (UI) taxes, and high property taxes.

Iowa ranks seventh with one of the lowest tax burdens for new capital-intensive manufacturing, in large measure because of the state's single-sales factor apportionment and no throwback rule. However, all other firm types in Iowa have above-average total tax burdens because of the state's 12 percent corporate tax rate (highest in the nation), high property taxes, and above-average sales and UI tax burdens.

Chapter 3

Industry-Specific Results: The Lowest and Highest Tax Cost States

This chapter presents lawmakers, development officials and business leaders with a measure of how competitive each state is for each of the seven model firm types: a corporate headquarters, an R&D center, an independent retail store, a call center, a distribution center, a capital-intensive manufacturer (such as a steel factory), and a labor-intensive manufacturer (such as a bus or truck factory).

These firm types are very mobile, which means the owners or investors have considerable discretion on where they locate the firm based on factors ranging from taxes to labor force. This makes them frequent targets for economic development subsidies and tax incentives.

Throughout the study, a ranking of first indicates the lowest tax burden while 50th indicates the highest tax burden.

For each firm type, the model assesses the tax costs borne by a mature firm – one that is at least 10 years old – versus those borne by a new facility, one that is less than three years old. Mature firms are typically no longer eligible for any tax incentive programs while new facilities would be eligible for most incentives.

Except for the retail store, these firms are assumed to have customers or clients out of state. Thus, how each state apportions a firm's income will become a critical factor in determining a state's effective tax rate for that industry.

Each state is ranked based on their total tax burden for a mature operation and for a new operation. The total tax burden includes corporate income taxes, unemployment insurance (UI) taxes, sales taxes, property taxes and any sundry business taxes such as capital and gross receipts taxes that exist in certain states and cities. For ease of comparison, we translate the tax burden into a total effective tax rate (TETR) so that business leaders can understand how much of their pre-tax income would go to pay all of their state and local tax costs.[1]

To rank the states, we translate each state's tax burden into a model score (or ratio) by comparing the state's tax burden to the national average. For example, if

1 See the methodology appendix for a full explanation.

a state's total tax burden for a corporate headquarters is $3.5 million, but the national average is $3 million, then the state will get a model score of 116. Since the average is fixed at 100, a score of 116 means the state's tax burden is 16 percent above the average. Similarly, if the state's tax burden is $2.5 million, then its model score will be 83, which means its tax burden is 17 percent below the average.

As illustrated in Chapter 2, one of the more interesting aspects of this study is the comparison of a state's ranking for mature firms with its ranking for new operations after we take incentive programs into account. Some states rank well in both measures while others rank poorly in both. On the other hand, some states will rank well by one measure but poorly in the other because of the complex interaction of the myriad tax variables.

Profile: A Corporate Headquarters

This model firm is a high-wage regional corporate office with 200 employees including management, financial operations, IT, sales, and administrative employees. Capital investment is estimated at $10 million and the business leases 60,000 sq. ft. of Class A downtown office space. The average revenue is assumed to be approximately $31 million with a gross profit ratio of 17 percent and earnings before tax of 14 percent. The equity ratio is assumed to be 100 percent. The apportionment methodology assumes 50 percent of property and payroll located in the state. The income-producing activities of the office are assumed to occur in state, provide all benefits in state, and relate exclusively to the marketplace of the state.

Results: Top-Ranked States for Mature Operations

Wyoming and South Dakota, two states without a corporate income tax, have the lowest total effective tax rate (TETR) for mature corporate headquarters at 8.3 percent and 8.6 percent respectively. Montana ranks third with a TETR of 9.6 percent while Alaska ranks fourth with a TETR of 11.5 percent.

The majority of the states with the lowest total tax costs for established corporate headquarters do without one or more of the major taxes, such as a corporate income or sales tax. In addition to Wyoming and South Dakota, eighth-ranked Nevada does not levy a corporate income tax. Nevada might have ranked higher if not for its very high unemployment insurance (UI) tax burden and relatively high sales tax rate. Seventh-ranked Ohio does not levy a traditional corporate income tax, but instead levies a low-rate gross receipts tax called the Commercial Activity Tax (CAT), which does not apply to out-of-state sales.

The 10 Lowest Tax Cost States for Mature Corporate Headquarters

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Wyoming	Cheyenne	52.9	8.3%	1
South Dakota	Sioux Falls	54.6	8.6%	2
Montana	Billings	61.3	9.6%	3
Alaska	Anchorage	73.1	11.5%	4
North Dakota	Fargo	75.2	11.8%	5
New Hampshire	Manchester	75.9	11.9%	6
Ohio	Cincinnati	77.5	12.2%	7
Nevada	Las Vegas	78.1	12.2%	8
Virginia	Richmond	78.4	12.3%	9
Oklahoma	Oklahoma City	81.8	12.8%	10

Table 8
Corporate Headquarters

		Mature Corporate Headquarters			New Corporate Headquarters		
State	Tier 1 City	Index Score	Total Effective Tax Rate (TETR)	Rank	Index Score	Total Effective Tax Rate (TETR)	Rank
Alabama	Birmingham	95.1	14.9%	22	98.7	16.0%	24
Alaska	Anchorage	73.1	11.5%	4	78.9	12.7%	15
Arizona	Phoenix	95.9	15.0%	25	107.8	17.4%	31
Arkansas	Little Rock	89.0	14.0%	18	55.2	8.9%	5
California	Los Angeles	109.5	17.2%	38	134.7	21.8%	45
Colorado	Denver	90.9	14.3%	20	112.9	18.3%	34
Connecticut	Hartford	113.2	17.8%	42	123.7	20.0%	40
Delaware	Wilmington	88.9	14.0%	17	82.1	13.3%	18
Florida	Miami	86.0	13.5%	15	107.9	17.4%	32
Georgia	Atlanta	89.4	14.0%	19	94.2	15.2%	23
Hawaii	Honolulu	91.2	14.3%	21	100.7	16.3%	26
Idaho	Boise	104.3	16.4%	34	126.1	20.4%	43
Illinois	Chicago	126.8	19.9%	43	99.2	16.0%	25
Indiana	Indianapolis	100.4	15.7%	28	73.5	11.9%	12
Iowa	Des Moines	151.8	23.8%	48	167.1	27.0%	47
Kansas	Wichita	103.1	16.2%	30	124.7	20.2%	42
Kentucky	Louisville	82.8	13.0%	12	60.0	9.7%	6
Louisiana	New Orleans	98.3	15.4%	26	43.2	7.0%	2
Maine	Portland	101.2	15.9%	29	105.7	17.1%	28
Maryland	Baltimore	84.6	13.3%	14	109.6	17.7%	33
Massachusetts	Boston	103.4	16.2%	31	122.7	19.8%	39
Michigan	Detroit	129.5	20.3%	44	119.2	19.3%	36
Minnesota	Minneapolis	142.7	22.4%	47	161.2	26.0%	46
Mississippi	Jackson	103.8	16.3%	32	85.4	13.8%	20
Missouri	St. Louis	104.7	16.4%	36	76.9	12.4%	14
Montana	Billings	61.3	9.6%	3	71.1	11.5%	10
Nebraska	Omaha	103.9	16.3%	33	8.4	1.4%	1
Nevada	Las Vegas	78.1	12.2%	8	106.1	17.1%	30
New Hampshire	Manchester	75.9	11.9%	6	80.0	12.9%	16
New Jersey	Newark	112.2	17.6%	41	101.5	16.4%	27
New Mexico	Albuquerque	95.3	15.0%	23	74.1	12.0%	13
New York	New York	159.2	25.0%	49	175.1	28.3%	48
North Carolina	Raleigh	86.3	13.5%	16	61.5	9.9%	7
North Dakota	Fargo	75.2	11.8%	5	88.0	14.2%	21
Ohio	Cincinnati	77.5	12.2%	7	70.9	11.5%	9
Oklahoma	Oklahoma City	81.8	12.8%	10	49.8	8.0%	4
Oregon	Portland	107.0	16.8%	37	120.6	19.5%	38
Pennsylvania	Philadelphia	178.4	28.0%	50	190.1	30.7%	50
Rhode Island	Providence	112.2	17.6%	41	119.5	19.3%	37
South Carolina	Columbia	99.8	15.7%	27	93.0	15.0%	22
South Dakota	Sioux Falls	54.6	8.6%	2	68.5	11.1%	8
Tennessee	Nashville	104.6	16.4%	35	124.0	20.0%	41
Texas	Dallas	84.5	13.3%	13	118.4	19.1%	35
Utah	Salt Lake	82.3	12.9%	11	81.7	13.2%	17
Vermont	Burlington	95.7	15.0%	24	84.4	13.6%	19
Virginia	Richmond	78.4	12.3%	9	105.7	17.1%	28
Washington	Seattle	142.1	22.3%	46	180.8	29.2%	49
West Virginia	Charleston	132.7	20.8%	45	132.9	21.5%	44
Wisconsin	Milwaukee	109.5	17.2%	38	48.3	7.8%	3
Wyoming	Cheyenne	52.9	8.3%	1	73.3	11.8%	11
District of Columbia	Washington, DC	102.9	16.1%		138.2	22.3%	

Three of the 10 states with the lowest tax costs – Montana, Alaska, and New Hampshire – don't levy state sales taxes, a factor that compensates for higher tax burdens elsewhere in their systems. Montana and Alaska, for example, have among the highest UI tax burdens in the nation. Moreover, New Hampshire levies an 8.5 percent corporate tax rate while Alaska's rate is 9.4 percent. New Hampshire's apportionment formula does double-weight sales, which reduces the impact on firms that sell out of state.

Virginia (ninth) and Oklahoma (10th) also levy traditional corporate income taxes but have modest 6 percent rates and double-weighted apportionment formulas.[2] Both of these states also benefit from low UI tax burdens and low property tax burdens on commercial buildings. Virginia also has one of the lower general sales taxes in the nation at 5 percent, which reduces the cost of inputs for mature operations.

2 Oklahoma is double weighted only for certain corporations making minimum investments.

Results: Bottom-Ranked States for Mature Operations

With a TETR of 28 percent, Pennsylvania ranks 50th with the highest total tax burden for mature corporate headquarters. Pennsylvania's tax burden for these operations is 78 percent above the national average. New York ranks 49th with a TETR of 25 percent and Iowa ranks 48th with a TETR of 24 percent. Each state's tax burden is more than 50 percent above the national average. The TETR for 41st-ranked New Jersey is 18 percent, which is more than twice the tax cost of top-ranked Wyoming.

High corporate tax rates are the dominant theme of these poor-ranking states. Eight of the states have top corporate tax rates of 8.5 percent or higher,[3] with Iowa's 12 percent rate being the highest, followed by Pennsylvania's 9.99 percent rate. Connecticut's corporate tax rate is 8.25

3 These include: Illinois, Iowa, Minnesota, New Jersey, New York, Pennsylvania, Rhode Island, and West Virginia. New York's state corporate rate is 7.1 percent and the New York City rate is 8.85 percent of "net income allocated to New York City" for a combined rate of 15.85 percent.

The 10 Highest Tax Cost States for Mature Corporate Headquarters

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
New Jersey	Newark	112.2	17.6%	41
Rhode Island	Providence	112.2	17.6%	41
Connecticut	Hartford	113.2	17.8%	42
Illinois	Chicago	126.8	19.9%	43
Michigan	Detroit	129.5	20.3%	44
West Virginia	Charleston	132.7	20.8%	45
Washington	Seattle	142.1	22.3%	46
Minnesota	Minneapolis	142.7	22.4%	47
Iowa	Des Moines	151.8	23.8%	48
New York	New York	159.2	25.0%	49
Pennsylvania	Philadelphia	178.4	28.0%	50

percent, while Michigan's is the lowest rate of the group at 6.04 percent.[4]

Washington levies a gross receipts tax called the Business and Occupations (B&O) tax rather than a traditional corporate income tax. However, the tax burden imposed by the B&O tax is greater than the burden imposed by the highest corporate income tax. Washington also has the highest sales tax burden of any state which more than negates the benefits it receives from having one of the lowest property tax burdens for established corporate headquarters.

Washington's low property tax burden is unique among this group. By contrast, Iowa has the highest property tax burden for corporate headquarters at nearly 240 percent above the national average. Pennsylvania's property tax burden is second-highest at twice the national average. Michigan, Minnesota, and Rhode Island also have property tax burdens well in excess of the national average.

4 Michigan's Business Tax (MBT) consists of a 4.95 percent Business Income Tax (BIT) on profits, a 0.8 percent Modified Gross Receipts Tax (MGRT) on revenue, and a 21.99 percent surcharge tax on both the BIT and MGRT tax paid. This system will be replaced by a 6.0 percent corporate income tax in 2012.

Results: Top-Ranked States for New Operations

Four of the 10 states with the lowest tax cost for new corporate headquarters – Montana, Ohio, Oklahoma, and South Dakota – also topped the list for mature corporate headquarters. However, Nebraska ranks first with the lowest tax costs for new corporate headquarters with a TETR of just 1.4 percent. Louisiana ranks second with a TETR of 7 percent, followed by third-ranked Wisconsin with a TETR of 7.8 percent.

Oklahoma (fourth), Arkansas (fifth), Kentucky (sixth), and North Carolina (seventh) have TETRs below 10 percent. The remaining low tax burden states – South Dakota, Ohio, and Montana – all have effective tax rates over 11 percent.

The majority of the lowest tax burden states for new corporate headquarters offer generous tax incentive programs to minimize their tax burdens. Nebraska, for example, provides among the most generous investment tax credits and job credits in the nation. Together, the value of these credits exceeds the headquarters' corporate income tax liability and provides it with a substantial subsidy. Similarly, Louisiana

The 10 Lowest Tax Cost States for New Corporate Headquarters

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Nebraska	Omaha	8.4	1.4%	1
Louisiana	New Orleans	43.2	7.0%	2
Wisconsin	Milwaukee	48.3	7.8%	3
Oklahoma	Oklahoma City	49.8	8.0%	4
Arkansas	Little Rock	55.2	8.9%	5
Kentucky	Louisville	60.0	9.7%	6
North Carolina	Raleigh	61.5	9.9%	7
South Dakota	Sioux Falls	68.5	11.1%	8
Ohio	Cincinnati	70.9	11.5%	9
Montana	Billings	71.1	11.5%	10

provides the largest withholding tax rebate of the 16 states that offer such incentives, which gives the state the second-lowest tax burden in the nation for new corporate headquarters.

Indeed, seven of these 10 states offer generous withholding tax credits that greatly reduce the corporate income tax burden for these operations. Wisconsin ranks third overall because of the combination of its withholding tax credit and one of the largest job tax credits of the 20 states that offer such incentives. Arkansas' large job credit is a contributing factor to its fifth-place ranking overall.

Ohio offers a withholding tax credit even though its corporate tax burden is relatively low because of its in-state gross receipts tax. South Dakota is the lone state among this group that offers none of the common tax incentives. Its biggest incentive is the lack of a corporate income tax.

Results: Bottom-Ranked States for New Operations

Six of the 10 states with the highest tax costs for mature corporate headquarters are also among the 10 states with the highest tax costs for new corporate headquarters. Pennsylvania ranks 50th with a TETR of 31 percent. Pennsylvania's tax costs for new corporate headquarters are 90 percent higher than the national average. Washington ranks 49th with a 29 percent TETR, about 80 percent higher than the national average. The next three states – New York (48th), Iowa (47th), and Minnesota (46th) – all have TETRs above 25 percent.

These high tax cost states don't tend to offer many tax incentives, and those that do don't see much competitive improvement as a result. Iowa, for example, is one of 19 states that offer property tax abatements for new corporate headquarters, but still has the highest property tax burden for corporate headquarters in the nation. Moreover, Iowa's investment credit and job credit do not prevent it from having one of the highest corporate income tax burdens in the nation.

Idaho, Kansas, Tennessee and West Virginia all offer investment tax credits or job credits – or both – yet still have above-average corporate income tax burdens. Each of these states ranks poorly in at least one other tax area as well. Idaho ranks 48th for its high UI taxes and Kansas ranks

The 10 Highest Tax Cost States for New Corporate Headquarters

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Tennessee	Nashville	124.0	20.0%	41
Kansas	Wichita	124.7	20.2%	42
Idaho	Boise	126.1	20.4%	43
West Virginia	Charleston	132.9	21.5%	44
California	Los Angeles	134.7	21.8%	45
Minnesota	Minneapolis	161.2	26.0%	46
Iowa	Des Moines	167.1	27.0%	47
New York	New York	175.1	28.3%	48
Washington	Seattle	180.8	29.2%	49
Pennsylvania	Philadelphia	190.1	30.7%	50

47th for its high property taxes, while Tennessee ranks 49th for its high sales tax.

California does not offer any of the common tax incentives and ranks 45th overall, largely because of its 8.84 percent corporate tax rate and a sales tax rate that averages over 9 percent in most municipalities.

Profile: A Pharmaceutical Research and Development Facility

This model operation is a pharmaceutical research and development (R&D) facility for product development. The facility is assumed to have 50 employees, including management, business and financial, computer and math, science, and office/administrative positions. Capital investment is estimated at $4 million and the business leases 30,000 sq. ft. of Class A suburban commercial space. The average revenue is assumed to be approximately $8 million with earnings before tax of 14 percent. The equity ratio is assumed to be 100 percent. The apportionment methodology assumes 100 percent of property and payroll in the state. While all income-producing activities are assumed to be performed in state, those activities are assumed to serve clients nationally, and therefore generate benefits and relate to the marketplaces of all 50 states in proportion to the relative population of each state

Results: Top-Ranked States for Mature Operations

Louisiana, which offers one of the more generous R&D tax credits, has the lowest total effective tax rate (TETR) for mature R&D operations at 1.7 percent. Indeed, the value of the credit exceeds the firm's income tax liability. Louisiana also offers this firm type the second-lowest UI tax burden in the nation. However, the state also has the second-highest sales tax burden of any state for this firm type.

Nebraska ranks second with a TETR of 6.3 percent, a tax burden roughly half the national average. In large measure this is due to the state's relatively large R&D tax credit (three times the national average) and its below-average costs for UI and sales taxes.

The third- and fourth-ranked states, Wyoming and South Dakota, stand out because they do not offer an R&D tax credit but they also do not levy a corporate income tax. Wyoming also has the lowest property tax burden for this firm type while South Dakota has the seventh-lowest UI tax burden.

The 10 Lowest Tax Cost States for Mature Research and Development (R&D) Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Louisiana	New Orleans	13.2	1.7%	1
Nebraska	Omaha	48.6	6.3%	2
Wyoming	Cheyenne	52.4	6.7%	3
South Dakota	Sioux Falls	56.6	7.3%	4
Indiana	Indianapolis	57.1	7.3%	5
North Dakota	Fargo	59.4	7.7%	6
Maryland	Baltimore	62.3	8.0%	7
Utah	Salt Lake	62.3	8.0%	7
Maine	Portland	65.1	8.4%	9
Georgia	Atlanta	67.0	8.6%	10

Table 9

Research and Development Facility

State	Tier 1 City	Mature R&D Facility Index Score	Mature R&D Facility Total Effective Tax Rate (TETR)	Mature R&D Facility Rank	New R&D Facility Index Score	New R&D Facility Total Effective Tax Rate (TETR)	New R&D Facility Rank
Alabama	Birmingham	120.8	15.5%	41	114.7	16.9%	29
Alaska	Anchorage	121.7	15.7%	42	117.4	17.3%	31
Arizona	Phoenix	80.2	10.3%	13	128.4	18.9%	36
Arkansas	Little Rock	105.7	13.6%	30	45.8	6.7%	6
California	Los Angeles	73.6	9.5%	11	111.6	16.4%	27
Colorado	Denver	114.2	14.7%	36	140.5	20.7%	40
Connecticut	Hartford	93.4	12.0%	21	124.2	18.3%	35
Delaware	Wilmington	128.3	16.5%	44	132.1	19.5%	37
Florida	Miami	100.9	13.0%	25	132.6	19.6%	38
Georgia	Atlanta	67.0	8.6%	10	51.1	7.5%	8
Hawaii	Honolulu	108.0	13.9%	32	108.9	16.0%	26
Idaho	Boise	118.4	15.2%	39	142.1	20.9%	41
Illinois	Chicago	147.6	19.0%	48	114.7	16.9%	29
Indiana	Indianapolis	57.1	7.3%	5	36.8	5.4%	5
Iowa	Des Moines	104.7	13.5%	28	145.8	21.5%	45
Kansas	Wichita	145.3	18.7%	46	172.6	25.4%	49
Kentucky	Louisville	110.8	14.3%	35	65.3	9.6%	9
Louisiana	New Orleans	13.2	1.7%	1	-71.6	-10.5%	1
Maine	Portland	65.1	8.4%	9	71.6	10.6%	12
Maryland	Baltimore	62.3	8.0%	7	73.2	10.8%	13
Massachusetts	Boston	109.4	14.1%	33	143.7	21.2%	42
Michigan	Detroit	98.6	12.7%	23	97.4	14.4%	21
Minnesota	Minneapolis	81.1	10.4%	14	103.7	15.3%	23
Mississippi	Jackson	120.8	15.5%	41	85.3	12.6%	18
Missouri	St. Louis	145.8	18.8%	47	112.1	16.5%	28
Montana	Billings	106.1	13.7%	31	97.9	14.4%	22
Nebraska	Omaha	48.6	6.3%	2	-33.7	-5.0%	2
Nevada	Las Vegas	86.8	11.2%	17	123.2	18.2%	34
New Hampshire	Manchester	101.9	13.1%	27	96.3	14.2%	19
New Jersey	Newark	115.6	14.9%	37	96.3	14.2%	19
New Mexico	Albuquerque	87.7	11.3%	18	15.8	2.3%	3
New York	New York	186.8	24.0%	49	169.5	25.0%	48
North Carolina	Raleigh	92.0	11.8%	20	104.7	15.4%	24
North Dakota	Fargo	59.4	7.7%	6	78.9	11.6%	16
Ohio	Cincinnati	78.3	10.1%	12	66.8	9.9%	10
Oklahoma	Oklahoma City	91.0	11.7%	19	49.5	7.3%	7
Oregon	Portland	95.8	12.3%	22	106.3	15.7%	25
Pennsylvania	Philadelphia	226.4	29.1%	50	227.4	33.5%	50
Rhode Island	Providence	109.4	14.1%	33	162.1	23.9%	47
South Carolina	Columbia	115.6	14.9%	37	120.0	17.7%	33
South Dakota	Sioux Falls	56.6	7.3%	4	73.7	10.9%	14
Tennessee	Nashville	123.1	15.8%	43	144.7	21.3%	44
Texas	Dallas	99.5	12.8%	24	144.2	21.3%	43
Utah	Salt Lake	62.3	8.0%	7	67.9	10.0%	11
Vermont	Burlington	100.9	13.0%	25	73.7	10.9%	14
Virginia	Richmond	104.7	13.5%	28	138.4	20.4%	39
Washington	Seattle	81.1	10.4%	14	119.5	17.6%	32
West Virginia	Charleston	136.3	17.5%	45	146.8	21.6%	46
Wisconsin	Milwaukee	83.5	10.7%	16	26.3	3.9%	4
Wyoming	Cheyenne	52.4	6.7%	3	78.9	11.6%	16
District of Columbia	Washington, DC	143.4	18.5%		180.5	26.6%	

Indiana has the highest corporate income tax of this group at 8.5 percent, but offsets that burden with an above-average R&D tax credit and below-average costs for UI and property taxes.

Despite sourcing rules that subject 100 percent of the operation's income to state taxes, North Dakota and Utah have modest income tax rates (6.32 percent and 5.0 percent respectively) and substantial enough R&D credits to erase the firm's income tax liability. Indeed, Utah's R&D tax credit is the second-most generous of any state. North Dakota also has one of the lowest sales tax burdens for this firm type while Utah offers one of the lowest property tax burdens.

Maine, Georgia, and Maryland have favorable sourcing rules for services such as an R&D facility. Income is taxed where the benefits are received, which is assumed to be mostly outside the home state. Thus, only a small portion of the operation's income is taxed by the home state, greatly reducing its income tax burden. For a state such as Maryland, which has an 8.5 percent corporate tax rate, this sourcing rule gives the R&D operation a below-average corporate tax burden. In Maryland, this operation also benefits from a local (Baltimore) tax abatement for R&D operations.

Results: Bottom-Ranked States for Mature Operations

Generally speaking, the states with the highest total tax burden for mature R&D operations are similar in that they all have sourcing rules that subject much, if not 100 percent, of the firm's income to in-state income taxes, and five of the states have corporate rates of 8.5 percent or higher.

Pennsylvania ranks 50th with the highest TETR for R&D operations at 29.1 percent. This burden is more than 126 percent above the national average. In addition to having the highest corporate income tax burden, Pennsylvania has the second-highest property tax burden.

New York has the second-highest TETR for mature R&D operations at 24 percent, 87 percent above the national average. The major causes of the high overall tax burden for this firm type are the second-highest

The 10 Highest Tax Cost States for Mature Research and Development Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Alabama	Birmingham	120.8	15.5%	41
Mississippi	Jackson	120.8	15.5%	41
Alaska	Anchorage	121.7	15.7%	42
Tennessee	Nashville	123.1	15.8%	43
Delaware	Wilmington	128.3	16.5%	44
West Virginia	Charleston	136.3	17.5%	45
Kansas	Wichita	145.3	18.7%	46
Missouri	St. Louis	145.8	18.8%	47
Illinois	Chicago	147.6	19.0%	48
New York	New York	186.8	24.0%	49
Pennsylvania	Philadelphia	226.4	29.1%	50

corporate income tax burden and third-highest sales tax burden.

Illinois, Missouri, and Kansas all have TETRs almost 50 percent above the national average. Illinois combines one of the highest income tax burdens with one of the highest sales tax burdens for this firm type. Missouri and Kansas also have among the most burdensome sales and UI taxes for R&D operations.

Alaska and Delaware do not levy state sales taxes and, thus, have the lightest costs and top ranking for this type of tax. Delaware also offers an above-average R&D credit, which lessens the burden of its 8.7 percent corporate income tax. However, Delaware has the third-highest property tax burden for this firm type, while Alaska has the third-highest income tax costs and fourth-highest UI tax costs for this firm type.

Alabama and Mississippi are tied overall at 41st. Both of these states have among the lowest UI costs for this firm type but offset those lower costs with higher tax costs elsewhere. Alabama has one of the highest sales taxes in the nation for this firm while Mississippi has above-average costs for income, sales, and property taxes.

West Virginia's TETR for R&D operations is 17.5 percent, more than 36 percent above the national average. The state does offer an average sized R&D credit, which moderates the impact of its 8.5 percent corporate tax rate.

Results: Top-Ranked States for New Operations

The same two states that have the lowest total tax costs for mature R&D operations – Louisiana and Nebraska – also have the lowest total tax costs for new R&D operations. The effective tax rates for the R&D operations in these states are negative: -10.5 percent in Louisiana and -5.0 percent in Nebraska. Two other states, Indiana and Georgia, are also among the top 10 for mature R&D operations.

All of these top 10 ranking states provide some form of tax incentive: eight states offer R&D credits; seven grant withholding tax rebates; five grant job tax credits; four grant investment tax credits; three grant property tax abatements; and three grant other types of incentives.

The 10 Lowest Tax Cost States for New Research and Development Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Louisiana	New Orleans	-71.6	-10.5%	1
Nebraska	Omaha	-33.7	-5.0%	2
New Mexico	Albuquerque	15.8	2.3%	3
Wisconsin	Milwaukee	26.3	3.9%	4
Indiana	Indianapolis	36.8	5.4%	5
Arkansas	Little Rock	45.8	6.7%	6
Oklahoma	Oklahoma City	49.5	7.3%	7
Georgia	Atlanta	51.1	7.5%	8
Kentucky	Louisville	65.3	9.6%	9
Ohio	Cincinnati	66.8	9.9%	10

Louisiana offers the third-most generous R&D credit of any state, which when combined with the nation's most generous withholding tax rebate, gives this operation a negative income tax liability (in effect, a subsidy). However, Louisiana also has the second-highest sales tax burden for an R&D operation.

Nebraska's R&D credit, investment credit, and job credit also combine to give this operation a negative effective tax rate. The state does have an above-average property tax burden.

New Mexico ranks third for new R&D operations, due mainly to its generous job tax credits and the second-lowest property tax burden for this type of operation in the country. Wisconsin makes up for its 7.9 percent corporate income tax and high property taxes with a large withholding tax rebate, a favorable "benefits-received" sourcing rule for services, and a low sales tax burden.

Indiana makes up for its 8.5 percent corporate tax rate with a large R&D credit, a low property tax burden, and a modest UI tax burden. Arkansas ranks sixth by combining a large R&D credit with an above-average withholding tax rebate, as well as a modest property tax burden.

Oklahoma offsets one of the higher sales tax burdens for this operation with a favorable "market-based" sourcing rule and a large withholding tax rebate. Georgia also has a favorable "benefits-received" sourcing rule in addition to multiple, but modest, tax incentives. Kentucky offers an above-average withholding tax rebate and has one of the lower UI tax burdens in the nation for this type of operation.

Ohio's tax credits are about average-sized; however, the state's Commercial Activities Tax (CAT) combined with its "benefits"-oriented sourcing rules give it a below-average income tax burden. The state also has below-average costs for UI, sales, and property taxes.

Results: Bottom-Ranked States for New Operations

The 10 states with the highest total tax costs for new R&D operations have similar traits in that they: (1) offer fewer incentives than states with lower tax costs, (2) tend to have sourcing rules that tax 100 percent of the firm's income in-state, and

The 10 Highest Tax Cost States for New Research and Development Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Idaho	Boise	142.1	20.9%	41
Massachusetts	Boston	143.7	21.2%	42
Texas	Dallas	144.2	21.3%	43
Tennessee	Nashville	144.7	21.3%	44
Iowa	Des Moines	145.8	21.5%	45
West Virginia	Charleston	146.8	21.6%	46
Rhode Island	Providence	162.1	23.9%	47
New York	New York	169.5	25.0%	48
Kansas	Wichita	172.6	25.4%	49
Pennsylvania	Philadelphia	227.4	33.5%	50

(3) have heavy UI, sales, or property tax burdens. Indeed, in all of these states, the property tax is the largest tax liability for the new R&D operation. Property tax is a more important factor for new firms than for mature firms, because new firms invest more. Consequently, the TETR is somewhat higher for new firms than for mature firms.

Pennsylvania ranks 50th, as it does for mature R&D operations, with a tax burden more than 127 percent higher than the national average. New R&D operations in Pennsylvania have the highest corporate income tax burden in the nation and one of the highest property tax burdens. Kansas ranks 49th with a total tax burden roughly 73 percent above the national average. The Kansas operation faces one of the highest property tax burdens in the nation, as well as above-average burdens for corporate income and sales taxes.

New R&D operations in New York have the third-highest corporate income tax burden in the nation and one of the highest sales tax burdens. Rhode Island ranks 47th overall in this category despite a generous R&D tax credit, largely because it has the third-highest property tax burden in the nation and one of the heaviest UI tax burdens. West Virginia ranks 46th, primarily due to its above-average property tax burden.

Despite sourcing rules that give it one of the lowest income tax burdens of any state for new R&D operations, Iowa ranks 45th overall in large measure because it has the highest property tax burden in the nation and above-average UI taxes. Tennessee ranks 44th, with the second-highest sales tax burden in the nation and one of the highest state corporate income tax burdens.

Even with a traditional corporate income tax, Texas ranks 43rd overall for this firm type, because the Margin Tax still gives the state an above-average income tax burden, in addition to above-average burdens for sales and property taxes. Although Massachusetts has a modest investment tax credit, the state still ranks 42nd overall for this firm type because it has one of the highest property tax burdens of any state. New R&D operations in Idaho have above-average burdens for corporate income and property taxes, in addition to the third-highest UI tax burden in the nation.

Profile: A Free-Standing Retail (Clothing) Store

This model operation is an independent retail store, which has 25 employees, most of whom are sales employees. Capital investment is estimated at $2 million and the business leases 10,000 sq. ft. of downtown commercial space. The average revenue is assumed to be approximately $2.9 million with a gross profit ratio of 45 percent and earnings before tax of 9 percent. The equity ratio is assumed to be 100 percent. The apportionment methodology assumes 100 percent of property, payroll, and sales are all in state.

Results: Top-Ranked States for Mature Operaions

Wyoming claims the number one ranking for mature retail establishments with a total effective tax rate (TETR) of 7.3 percent, followed by South Dakota with a TETR of 8.1 percent. Remarkably, Wyoming's tax burden for retail firms is about half that of 10th-ranked Montana, which has a TETR of about 14 percent.

The three states with the lowest tax costs for retail operations (Wyoming, South Dakota, and Nevada) all do without a corporate income tax. The states tied for fourth, Ohio and Washington, also don't have corporate income taxes but instead levy gross receipts taxes. Texas, tied for 10th, also levies a gross receipts tax called the Margin Tax. The remaining states in the top 10 do levy corporate income taxes but at a relatively low rate. Utah's 5.0 percent rate is the lowest of these states, while New Mexico's is the highest at 7.6 percent.

Few of these top-ranking states score consistently well across the board. Nevada and Washington, for example, have among the lowest corporate and property tax burdens for this type of business. However, Nevada ranks 45th for its unemployment insurance (UI) tax burden, while Washington ranks 49th for sales taxes. Similarly, Montana, which does not levy a general sales tax, ranks first in this category. However, the state also ranks 46th for UI taxes.

The 10 Lowest Tax Cost States For Mature Retail Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Wyoming	Cheyenne	43.1	7.3%	1
South Dakota	Sioux Falls	48.0	8.1%	2
Nevada	Las Vegas	60.8	10.3%	3
Ohio	Cincinnati	71.6	12.1%	4
Washington	Seattle	71.6	12.1%	4
Utah	Salt Lake	75.5	12.8%	6
Virginia	Richmond	78.4	13.3%	7
New Mexico	Albuquerque	79.4	13.4%	8
North Dakota	Fargo	80.4	13.6%	9
Montana	Billings	82.4	13.9%	10
Texas	Dallas	82.4	14.0%	10

Table 10
Retail Store

State	Tier 1 City	Mature Retail Store Index Score	Mature Retail Store Total Effective Tax Rate (TETR)	Mature Retail Store Rank	New Retail Store Index Score	New Retail Store Total Effective Tax Rate (TETR)	New Retail Store Rank
Alabama	Birmingham	84.3	14.3%	13	96.3	31.4%	23
Alaska	Anchorage	88.2	14.9%	17	63.3	20.6%	4
Arizona	Phoenix	100.0	16.9%	30	111.0	36.1%	37
Arkansas	Little Rock	87.3	14.8%	15	93.6	30.5%	20
California	Los Angeles	102.0	17.2%	31	97.2	31.6%	25
Colorado	Denver	91.2	15.4%	19	109.2	35.6%	34
Connecticut	Hartford	103.9	17.6%	32	104.6	34.1%	29
Delaware	Wilmington	126.5	21.4%	45	96.3	31.3%	23
Florida	Miami	94.1	15.9%	24	109.2	35.5%	34
Georgia	Atlanta	87.3	14.8%	15	95.4	31.0%	21
Hawaii	Honolulu	123.5	20.9%	43	99.1	32.2%	26
Idaho	Boise	106.9	18.1%	35	102.8	33.5%	27
Illinois	Chicago	117.6	19.9%	40	107.3	34.9%	31
Indiana	Indianapolis	91.2	15.4%	19	59.6	19.4%	2
Iowa	Des Moines	152.9	25.9%	49	152.3	49.7%	50
Kansas	Wichita	115.7	19.6%	38	131.2	42.7%	45
Kentucky	Louisville	88.2	15.0%	17	87.2	28.4%	16
Louisiana	New Orleans	91.2	15.4%	19	108.3	35.2%	32
Maine	Portland	97.1	16.4%	26	77.1	25.1%	9
Maryland	Baltimore	91.2	15.4%	19	102.8	33.5%	27
Massachusetts	Boston	119.6	20.3%	41	128.4	41.9%	43
Michigan	Detroit	123.5	20.9%	43	129.4	42.2%	44
Minnesota	Minneapolis	147.1	24.9%	47	125.7	40.9%	42
Mississippi	Jackson	96.1	16.3%	25	112.8	36.7%	38
Missouri	St. Louis	115.7	19.6%	38	133.0	43.4%	46
Montana	Billings	82.4	13.9%	10	78.0	25.4%	10
Nebraska	Omaha	98.0	16.6%	27	108.3	35.3%	32
Nevada	Las Vegas	60.8	10.3%	3	80.7	26.3%	11
New Hampshire	Manchester	92.2	15.6%	23	64.2	21.0%	5
New Jersey	Newark	109.8	18.6%	36	91.7	29.9%	17
New Mexico	Albuquerque	79.4	13.4%	8	68.8	22.5%	6
New York	New York	147.1	24.9%	47	115.6	37.7%	39
North Carolina	Raleigh	83.3	14.1%	12	85.3	27.8%	15
North Dakota	Fargo	80.4	13.6%	9	68.8	22.5%	6
Ohio	Cincinnati	71.6	12.1%	4	73.4	23.9%	8
Oklahoma	Oklahoma City	86.3	14.6%	14	95.4	31.1%	21
Oregon	Portland	98.0	16.6%	27	84.4	27.5%	14
Pennsylvania	Philadelphia	184.3	31.2%	50	139.4	45.5%	47
Rhode Island	Providence	134.3	22.7%	46	139.4	45.4%	47
South Carolina	Columbia	103.9	17.6%	32	141.3	46.0%	49
South Dakota	Sioux Falls	48.0	8.1%	2	53.2	17.4%	1
Tennessee	Nashville	98.0	16.6%	27	105.5	34.4%	30
Texas	Dallas	82.4	14.0%	10	109.2	35.6%	34
Utah	Salt Lake	75.5	12.8%	6	81.7	26.6%	12
Vermont	Burlington	104.9	17.7%	34	83.5	27.2%	13
Virginia	Richmond	78.4	13.3%	7	92.7	30.2%	19
Washington	Seattle	71.6	12.1%	4	91.7	29.9%	17
West Virginia	Charleston	122.5	20.7%	42	122.0	39.7%	41
Wisconsin	Milwaukee	113.7	19.2%	37	117.4	38.2%	40
Wyoming	Cheyenne	43.1	7.3%	1	59.6	19.4%	2
District of Columbia	Washington, DC	113.7	19.3%		122.9	40.1%	

The 10 Highest Tax Cost States for Mature Retail Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Massachusetts	Boston	119.6	20.3%	41
West Virginia	Charleston	122.5	20.7%	42
Hawaii	Honolulu	123.5	20.9%	43
Michigan	Detroit	123.5	20.9%	43
Delaware	Wilmington	126.5	21.4%	45
Rhode Island	Providence	134.3	22.7%	46
Minnesota	Minneapolis	147.1	24.9%	47
New York	New York	147.1	24.9%	47
Iowa	Des Moines	152.9	25.9%	49
Pennsylvania	Philadelphia	184.3	31.2%	50

Results: Bottom-Ranked States for Mature Operations

Pennsylvania earned the 50th ranking for having the highest tax costs for mature retail establishments with a TETR of 31.2 percent, 84 percent above the national average. Iowa ranks 49th for retail firms with a TETR of 26 percent. Minnesota and New York are tied at the 47th spot with effective rates of about 25 percent – a tax burden that is almost 50 percent above the national average.

Generally speaking, the least competitive states for retail operations levy among the highest corporate income taxes in the nation and some of the highest property taxes. Seven of the 10 have combined state and local corporate tax rates of at least 8.5 percent, while an equal number have among the 10 highest property tax burdens in the country. By contrast, Hawaii has the third-lowest property tax burden of the group but offsets that with the highest sales tax burden and the second-highest UI tax burden.

Delaware does not levy a sales tax and, not surprisingly, has the lowest sales tax burden of any state (along with Alaska, New Hampshire, and Montana). However, Delaware still has one of the highest tax burdens for retail establishments because of its 8.7 percent corporate income tax rate

The 10 Lowest Tax Cost States for New Retail Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
South Dakota	Sioux Falls	53.2	17.4%	1
Indiana	Indianapolis	59.6	19.4%	2
Wyoming	Cheyenne	59.6	19.4%	2
Alaska	Anchorage	63.3	20.6%	4
New Hampshire	Manchester	64.2	21.0%	5
New Mexico	Albuquerque	68.8	22.5%	6
North Dakota	Fargo	68.8	22.5%	6
Ohio	Cincinnati	73.4	23.9%	8
Maine	Portland	77.1	25.1%	9
Montana	Billings	78.0	25.4%	10

and its high (47th-ranked) property tax burden.

Rhode Island and Minnesota share the distinction of having three of their tax systems (income, UI, and property) rank among the 10 most burdensome in the nation.

New retail operations tend to have higher TETRs than mature operations, in part because their higher interest and depreciation costs lower their net income relative to their tax burdens. Moreover, only a handful of states offer tax incentives to new retail operations. For example, seven states offer property tax abatements for retail firms and four of them rank among the 10 most competitive for new retail operations.

Results: Top-Ranked States for New Operations

Six of the states that rank in the top 10 for mature operations (Montana, Ohio, New Mexico, North Dakota, South Dakota, and Wyoming) also rank in the top 10 for new retail operations. South Dakota ranks first overall for new retail operations with a TETR of 17 percent. This is about half of the national average tax burden for new retail firms. Indiana and Wyoming are tied for second with a TETR of 19 percent, 40 percent below the national average.

Indiana is one of the few states to offer both property tax abatements and investment tax credits for retail operations. The investment tax credit nearly eliminates the operation's income tax burden, which puts the state on par with South Dakota and Wyoming, while the property tax abatement helps the state rank fourth in this category.

Three states that don't levy a sales tax – Alaska, New Hampshire, and Montana – rank among the top 10 for new retail operations. Doing without a sales tax and having relatively modest property taxes helps each of these states overcome high tax burdens elsewhere in their systems. For example, North Dakota has one of the highest UI tax burdens in the nation, while Alaska and Maine have some of the highest corporate income tax burdens of any state.

New Mexico's second-place ranking for property taxes helps it compensate for above-average burdens for UI and sales taxes.

The 10 Highest Tax Cost States for New Retail Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
West Virginia	Charleston	122.0	39.7%	41
Minnesota	Minneapolis	125.7	40.9%	42
Massachusetts	Boston	128.4	41.9%	43
Michigan	Detroit	129.4	42.2%	44
Kansas	Wichita	131.2	42.7%	45
Missouri	St. Louis	133.0	43.4%	46
Pennsylvania	Philadelphia	139.4	45.5%	47
Rhode Island	Providence	139.4	45.4%	47
South Carolina	Columbia	141.3	46.0%	49
Iowa	Des Moines	152.3	49.7%	50

Results: Bottom-Ranked States for New Operations

Iowa's TETR of 50 percent earns it the last-place ranking (50th) with the heaviest total tax burden for new retail operations. South Carolina ranks 49th with a TETR of 46 percent. Indeed, all of the 10 states with the highest tax burdens for new retail operations have TETRs over 39 percent.

High property taxes are one of the key drivers undermining the competitiveness of these states. All of these states have above-average property tax burdens and eight of them have among the 10 heaviest burdens. Iowa's property taxes for new retail firms are four times higher than the property taxes in first-place South Dakota. South Carolina's 49th-place ranking on property taxes more than negates its 10th-place ranking for corporate income taxes.

Michigan is the only state to offer retailers both an investment tax credit and a job credit, which explains its 11th-lowest ranking for corporate income taxes. But, the benefits of Michigan's low corporate tax burden for this firm are negated by its 46th-place rank on property taxes.

Seven of the 10 highest tax cost states have above-average UI tax burdens. Indeed, Minnesota ranks 48th in that category. Interestingly, seven of these 10 states have below-average sales tax rates, which indicates that they could improve their overall rankings by reducing the burden of their other tax systems.

Profile: A Call Center

This model firm is an internal call center, which represents a relatively low-wage service business with 600 employees including management, sales, and administrative employees. Capital investment is estimated at $10 million and the business leases 100,000 sq. ft. of Class A suburban office space. The average revenue is assumed to be approximately $29 million with earnings before tax of 7 percent. The equity ratio is assumed to be 100 percent.

The apportionment methodology assumes 100 percent of property and payroll in the state. While all income-producing activities are assumed to be performed in state, those activities are assumed to serve customers and clients nationally, and therefore generate benefits and relate to the marketplaces of all 50 states in proportion to the relative population of each state.

Results: Top-Ranked States for Mature Operations

South Dakota has the lowest tax burden for mature call centers, with a total effective tax rate (TETR) of 12.2 percent, followed by Georgia with a TETR of 12.5 percent and Wyoming with a TETR of 13.7 percent. The national average for this firm type is 20.9 percent.

Generally speaking, the states that rank well for call centers have low to moderate taxes for the factors that matter most to service-oriented businesses: income, unemployment insurance (UI), and property. Of course, the states with the lowest corporate tax burden are those that do not levy a corporate income tax, such as South Dakota and Wyoming, or Washington, which also does not levy a corporate income tax, but instead levies a low-rate gross receipts tax called the Business and Occupations (B&O) tax.

Other states are able to offer service operations a lower corporate tax burden through this use of favorable rules that source service income where the benefits are received or to the state's marketplace.

The 10 Lowest Tax Cost States for Mature Call Center Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
South Dakota	Rapid City	58.2	12.2%	1
Georgia	Macon	59.6	12.5%	2
Wyoming	Casper	65.1	13.7%	3
Washington	Spokane	67.3	14.1%	4
Alabama	Montgomery	69.0	14.5%	5
Maine	Bangor	70.8	14.9%	6
Oklahoma	Lawton	71.4	15.0%	7
Florida	Gainesville	76.4	16.0%	8
Michigan	Saginaw	78.3	16.4%	9
North Carolina	Wilmington	78.8	16.5%	10

Table 11
Call Center

State	Tier 2 City	Mature Call Center: Index Score	Mature Call Center: Total Effective Tax Rate (TETR)	Mature Call Center: Rank	New Call Center: Index Score	New Call Center: Total Effective Tax Rate (TETR)	New Call Center: Rank
Alabama	Montgomery	69.0	14.5%	5	74.9	18.7%	12
Alaska	Fairbanks	112.0	23.5%	34	112.7	28.1%	28
Arizona	Prescott	85.4	17.9%	16	94.1	23.5%	20
Arkansas	Fort Smith	98.9	20.8%	26	45.9	11.4%	6
California	Merced	97.2	20.4%	25	115.0	28.6%	30
Colorado	Fort Collins	98.9	20.8%	26	120.0	29.9%	34
Connecticut	Norwich	116.8	24.5%	38	128.8	32.1%	37
Delaware	Dover	100.5	21.1%	28	87.9	21.9%	17
Florida	Gainesville	76.4	16.0%	8	104.9	26.1%	23
Georgia	Macon	59.6	12.5%	2	29.1	7.2%	5
Hawaii	Hilo	113.4	23.8%	36	118.6	29.5%	32
Idaho	Coeur D'Alene	124.2	26.1%	41	139.5	34.8%	43
Illinois	Springfield	124.2	26.1%	41	111.2	27.7%	27
Indiana	Elkhart	126.9	26.6%	44	87.3	21.7%	16
Iowa	Cedar Rapids	112.9	23.7%	35	135.1	33.7%	39
Kansas	Topeka	125.7	26.4%	43	156.2	38.9%	47
Kentucky	Lexington	83.1	17.4%	13	13.6	3.4%	4
Louisiana	Shreveport	102.2	21.4%	29	138.9	34.6%	42
Maine	Bangor	70.8	14.9%	6	76.9	19.2%	13
Maryland	Salisbury	79.3	16.6%	11	112.7	28.1%	28
Massachusetts	Worcester	134.7	28.3%	46	154.5	38.5%	46
Michigan	Saginaw	78.3	16.4%	9	53.9	13.4%	8
Minnesota	Rochester	132.9	27.9%	45	156.7	39.1%	49
Mississippi	Gulfport	83.5	17.5%	14	50.5	12.6%	7
Missouri	Joplin	106.2	22.3%	31	136.0	33.9%	41
Montana	Missoula	109.9	23.1%	33	120.8	30.1%	35
Nebraska	Lincoln	95.8	20.1%	24	4.5	1.1%	1
Nevada	Reno	108.9	22.8%	32	141.1	35.2%	44
New Hampshire	Concord	117.0	24.6%	39	119.4	29.7%	33
New Jersey	Trenton	157.7	33.1%	50	134.6	33.5%	38
New Mexico	Santa Fe	93.8	19.7%	22	98.5	24.6%	22
New York	Utica	114.1	24.0%	37	128.6	32.0%	36
North Carolina	Wilmington	78.8	16.5%	10	93.7	23.4%	19
North Dakota	Grand Forks	94.0	19.7%	23	104.9	26.1%	23
Ohio	Canton	85.9	18.0%	17	67.3	16.8%	10
Oklahoma	Lawton	71.4	15.0%	7	10.7	2.7%	3
Oregon	Salem	119.2	25.0%	40	135.1	33.7%	39
Pennsylvania	Reading	144.0	30.2%	48	145.9	36.3%	45
Rhode Island	Providence	145.4	30.5%	49	156.5	39.0%	48
South Carolina	Spartanburg	103.0	21.6%	30	93.3	23.3%	18
South Dakota	Rapid City	58.2	12.2%	1	72.9	18.2%	11
Tennessee	Clarksville	93.2	19.5%	21	107.7	26.8%	26
Texas	Lubbock	82.8	17.4%	12	116.0	28.9%	31
Utah	St. George	86.0	18.0%	18	82.0	20.4%	14
Vermont	Rutland	87.5	18.4%	20	55.3	13.8%	9
Virginia	Roanoke	85.3	17.9%	15	106.9	26.6%	25
Washington	Spokane	67.3	14.1%	4	95.3	23.8%	21
West Virginia	Parkersburg	135.9	28.5%	47	162.6	40.5%	50
Wisconsin	Eau Claire	87.4	18.3%	19	6.9	1.7%	2
Wyoming	Casper	65.1	13.7%	3	85.7	21.4%	15

The 10 Highest Tax Cost States for Mature Call Center Operations

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Idaho	Coeur D'Alene	124.2	26.1%	41
Illinois	Springfield	124.2	26.1%	41
Kansas	Topeka	125.7	26.4%	43
Indiana	Elkhart	126.9	26.6%	44
Minnesota	Rochester	132.9	27.9%	45
Massachusetts	Worcester	134.7	28.3%	46
West Virginia	Parkersburg	135.9	28.5%	47
Pennsylvania	Reading	144.0	30.2%	48
Rhode Island	Providence	145.4	30.5%	49
New Jersey	Trenton	157.7	33.1%	50

Georgia, Maine, Michigan and Washington use the benefits-received approach, while Florida and Oklahoma use the marketplace approach.

Alabama and North Carolina source service income where the greater proportion of the income-producing activity is achieved, which effectively means that 100 percent of the firm's income will be subject to home-state taxes. However, Alabama's 6.5 percent corporate tax rate gives it a slightly lower income tax burden than North Carolina, which levies a 6.9 percent rate.

UI taxes are another important factor in determining how a state ranks. Because call centers represent a labor-intensive business and UI taxes are paid on a per-employee basis, these rates can get quite high in a state that has an unfavorable tax structure. Nine of these top-ranking states have UI burdens below the national average. In particular, Alabama, Florida, Oklahoma, and South Dakota have among the 10 lowest UI tax burdens in the nation for call center operations.

Property taxes comprise a significant portion of a call center's tax burden. Alabama, for instance, has the lowest property tax in the nation for this type of firm, which compensates for the state having one of the highest sales tax burdens. Similarly, North Carolina's third-lowest ranking for property taxes helps the state compensate for above-average burdens on sales and income taxes. By contrast, Florida and Michigan have above-average property taxes, which are offset by lighter tax burdens on income, UI, and sales.

Results: Bottom-Ranked States for Mature Operations

New Jersey has the highest tax burden for mature call centers, with a TETR of 33.1 percent, nearly 58 percent above the national average. Rhode Island ranks 49th with a TETR of 30.5 percent, followed by Pennsylvania with a TETR of 30.2 percent. Idaho and Illinois, which are tied for 41st for this firm type, have total tax burdens 24 percent above the national average.

In general, the states with the highest total tax burdens for mature call centers have high corporate income tax rates and unfavorable sourcing rules that subject 100 percent of the firm's income to state taxes.

Kansas's 7 percent corporate tax rate is the lowest of the group, while Pennsylvania has the highest rate at 9.99 percent and, thus, the highest income tax burden for this type of firm. The other states with some of the highest income tax burdens in the nation for call centers are Illinois, New Jersey, Rhode Island and West Virginia.

Minnesota has one of the lower income tax burdens in the country for this operation despite the fact that it levies a 9.8 percent corporate rate. However, since the state sources service income where the benefits are received, it greatly reduces the in-state income tax burden for the call center.

These states also tend to have high UI taxes. Nine of the 10 states have UI tax burdens above the national average. Indeed, Idaho, Minnesota, and Rhode Island all have among the 10 highest UI tax burdens in the nation for this firm type.

High property taxes are also a common element for these states. Indiana has the nation's highest property tax burden for these operations, while Kansas, Massachusetts, Minnesota, New Jersey, Pennsylvania, and Rhode Island also rank among the 10 highest property tax burdens in the nation for mature call center operations.

Results: Top-Ranked States for New Operations

Nebraska has the lowest tax burden for new call center operations with a TETR of 1.1 percent, followed by Wisconsin with a TETR of 1.7 percent and Oklahoma with a TETR of 2.7 percent. Oklahoma, Georgia, and Michigan are the only states that rank among the top 10 for both new and mature call centers.

Tax incentives– especially those aimed at lowering employee costs– are a key factor in determining which states have the lowest tax burdens for labor-heavy call centers. For example, of the 13 states that offer withholding tax rebates for these types of firms, eight rank among the top 10. Wisconsin's rebate is the most generous, followed by Kentucky, Oklahoma, and Arkansas.

Nebraska offers the most consistently generous incentives of any state. For example, of the 13 states that offer property tax abatements, Nebraska's is the second-most generous. Similarly, of the 14 states that offer investment tax credits for

The 10 Lowest Tax Cost States for New Call Center Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Nebraska	Lincoln	4.5	1.1%	1
Wisconsin	Eau Claire	6.9	1.7%	2
Oklahoma	Lawton	10.7	2.7%	3
Kentucky	Lexington	13.6	3.4%	4
Georgia	Macon	29.1	7.2%	5
Arkansas	Fort Smith	45.9	11.4%	6
Mississippi	Gulfport	50.5	12.6%	7
Michigan	Saginaw	53.9	13.4%	8
Vermont	Rutland	55.3	13.8%	9
Ohio	Canton	67.3	16.8%	10

these firms, Nebraska's is the second-most generous. Nebraska's job credit is also the second-most generous of the 20 states that offer such credits.

Since these types of credits go directly toward reducing a firm's income tax liability, it is not surprising that these firms have some of the lowest income tax burdens in the country for call centers. Wisconsin has the lowest income tax burden overall, followed by Nebraska and Oklahoma. Vermont has the highest income tax rate of the group at 8.5 percent. However, because of its generous withholding tax credit, its income tax burden is well below average.

Because of the labor-intensive characteristics of a call center, UI taxes also play an important role in the ranking of states. Eight of the top 10 states have UI tax burdens that are lower than the national average, while Arkansas and Wisconsin–the two states with UI tax burdens above the national average–compensate for this with exceptionally low income tax burdens.

Results: Bottom-Ranked States for New Operations

Seven of the states that rank as having the highest tax costs for mature call center operations also rank among those with the highest tax burdens for new operations. Many of the same factors that make these seven states uncompetitive for mature operations are generally the same factors that make them uncompetitive for new operations: high income taxes, unfavorable sourcing rules, high UI tax burdens, and high property taxes.

West Virginia has the highest tax burden for new call centers, with a TETR of 40.5 percent, more than 60 percent above the national average. Next is Minnesota, with a TETR of 39.1 percent and Rhode Island at 39.0 percent. All of these 10 states have TETRs above 33 percent for new call center operations.

Interestingly, Massachusetts is the only state in the group to offer a property tax abatement, yet it ranks 50th for property

The 10 Highest Tax Cost States for New Call Center Operations

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Missouri	Joplin	136.0	33.9%	41
Louisiana	Shreveport	138.9	34.6%	42
Idaho	Coeur D'Alene	139.5	34.8%	43
Nevada	Reno	141.1	35.2%	44
Pennsylvania	Reading	145.9	36.3%	45
Massachusetts	Worcester	154.5	38.5%	46
Kansas	Topeka	156.2	38.9%	47
Rhode Island	Providence	156.5	39.0%	48
Minnesota	Rochester	156.7	39.1%	49
West Virginia	Parkersburg	162.6	40.5%	50

taxes for these operations because it not only has high property tax rates, but also taxes equipment at those high rates. The other states that rank among the 10 highest for property taxes are Kansas, Louisiana, Pennsylvania, and Rhode Island.

Incentives are not a factor for most of these states. Indeed, half of these 10 states don't offer incentives, while just three (Idaho, Kansas, and Pennsylvania) offer a job credit. Only four of these states offer an investment credit.

Nevada, which does not levy a corporate income tax and which has low property taxes, finds itself among this group of uncompetitive states because it ranks 44th for UI taxes and 35th for sales taxes.

Profile: A Distribution Center

This model firm is a distribution center, or warehouse facility, operated by an independent third-party logistics provider for a large company. This firm has 95 employees in transportation and material handling, administrative, and management occupations. Capital investment is estimated at $11 million and the business leases 350,000 sq. ft. of Class B suburban industrial space. The average revenue is assumed to be approximately $13 million with a gross profit ratio of 68 percent and earnings before tax of 12 percent. The equity ratio is assumed to be 50 percent. The apportionment methodology assumes 100 percent of property and payroll in state. The income-producing activities of the distribution center are assumed to occur in state, with the benefit of those activities also being received in state. However, the sole customer contracting for the operation of the distribution center is assumed to be located out of state.

Results: Top-Ranked States for Mature Operations

Wyoming has the lowest average total effective tax rate (TETR) for mature distribution centers at 13.5 percent. This tax burden is more than 55 percent below the national average. Alabama ranks second with a TETR of 18.6 percent, while North Carolina ranks third with a TETR of 20.6 percent. The states ranked fourth through 10th are clustered together with TETRs that range from 20.9 percent (Nevada) to 22.6 percent (Virginia).

The three states that do without a corporate income tax (Wyoming, Nevada, and South Dakota) rank first, fourth, and ninth respectively. Washington, which levies a gross receipts tax called the Business and Occupation (B&O) tax instead of a traditional corporate income tax, ranks fifth. Washington also sources services income where the benefits are received which greatly reduces the in-state income subject to tax. The remaining top-ranked states do levy a corporate income tax. Of these, Oklahoma and Virginia have the lowest corporate tax rate at 6.0 percent, while Oregon has the highest at

The 10 Lowest Tax Cost States for Mature Distribution Centers

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Wyoming	Casper	44.1	13.5%	1
Alabama	Montgomery	60.6	18.6%	2
North Carolina	Wilmington	67.1	20.6%	3
Nevada	Reno	68.1	20.9%	4
Washington	Spokane	68.5	21.0%	5
Oregon	Salem	70.6	21.6%	6
Hawaii	Hilo	71.4	21.9%	7
Oklahoma	Lawton	72.3	22.2%	8
South Dakota	Rapid City	73.1	22.4%	9
Virginia	Roanoke	73.8	22.6%	10

Table 12
Distribution Center

State	Tier 2 City	Mature Distribution Center			New Distribution Center		
		Index Score	Total Effective Tax Rate (TETR)	Rank	Index Score	Total Effective Tax Rate (TETR)	Rank
Alabama	Montgomery	60.6	18.6%	2	70.4	25.5%	10
Alaska	Fairbanks	87.4	26.8%	18	55.9	20.2%	2
Arizona	Prescott	90.4	27.7%	21	106.8	38.6%	33
Arkansas	Fort Smith	80.4	24.6%	14	83.8	30.3%	21
California	Merced	82.5	25.3%	15	95.3	34.5%	26
Colorado	Fort Collins	116.0	35.6%	38	128.8	46.6%	40
Connecticut	Norwich	100.3	30.7%	29	111.3	40.2%	34
Delaware	Dover	86.4	26.5%	17	63.5	22.9%	7
Florida	Gainesville	91.1	27.9%	22	120.6	43.6%	35
Georgia	Macon	84.5	25.9%	16	61.6	22.3%	4
Hawaii	Hilo	71.4	21.9%	7	70.4	25.5%	10
Idaho	Coeur D'Alene	91.7	28.1%	23	102.7	37.2%	32
Illinois	Springfield	115.5	35.4%	37	69.8	25.2%	9
Indiana	Elkhart	152.0	46.6%	48	89.0	32.2%	23
Iowa	Cedar Rapids	163.6	50.1%	50	134.3	48.6%	41
Kansas	Topeka	143.9	44.1%	43	180.7	65.4%	50
Kentucky	Lexington	75.6	23.2%	13	71.7	25.9%	12
Louisiana	Shreveport	119.3	36.6%	40	138.2	50.0%	43
Maine	Bangor	100.0	30.7%	28	100.0	36.2%	31
Maryland	Salisbury	96.6	29.6%	27	127.4	46.1%	39
Massachusetts	Worcester	144.2	44.2%	44	166.5	60.2%	49
Michigan	Saginaw	123.2	37.8%	42	137.6	49.8%	42
Minnesota	Rochester	149.7	45.9%	46	139.0	50.3%	44
Mississippi	Gulfport	92.2	28.3%	24	63.0	22.8%	6
Missouri	Joplin	103.9	31.9%	33	75.6	27.3%	16
Montana	Missoula	89.7	27.5%	20	75.0	27.1%	14
Nebraska	Lincoln	101.1	31.0%	31	84.8	30.7%	22
Nevada	Reno	68.1	20.9%	4	95.1	34.4%	25
New Hampshire	Concord	101.1	31.0%	31	99.8	36.1%	30
New Jersey	Trenton	151.6	46.5%	47	157.5	56.9%	47
New Mexico	Santa Fe	75.2	23.1%	12	80.1	29.0%	19
New York	Utica	122.3	37.5%	41	125.7	45.5%	38
North Carolina	Wilmington	67.1	20.6%	3	71.7	25.9%	12
North Dakota	Grand Forks	95.5	29.3%	26	75.2	27.2%	15
Ohio	Canton	108.6	33.3%	35	50.5	18.3%	1
Oklahoma	Lawton	72.3	22.2%	8	82.5	29.8%	20
Oregon	Salem	70.6	21.6%	6	79.4	28.7%	18
Pennsylvania	Reading	156.5	48.0%	49	164.5	59.5%	48
Rhode Island	Providence	147.9	45.3%	45	151.0	54.6%	46
South Carolina	Spartanburg	116.1	35.6%	39	148.5	53.7%	45
South Dakota	Rapid City	73.1	22.4%	9	89.2	32.3%	24
Tennessee	Clarksville	89.6	27.5%	19	77.6	28.0%	17
Texas	Lubbock	100.8	30.9%	30	124.4	45.0%	37
Utah	St. George	74.1	22.7%	11	58.3	21.1%	3
Vermont	Rutland	93.8	28.8%	25	66.9	24.2%	8
Virginia	Roanoke	73.8	22.6%	10	99.1	35.8%	28
Washington	Spokane	68.5	21.0%	5	96.0	34.7%	27
West Virginia	Parkersburg	111.7	34.2%	36	120.8	43.7%	36
Wisconsin	Eau Claire	106.1	32.5%	34	99.3	35.9%	29
Wyoming	Casper	44.1	13.5%	1	61.8	22.4%	5

7.6 percent. Oklahoma sources services income where the state's market is, while the other states source income where the income-producing activity is (which generally means 100 percent in-state).

The common factor for all of these top-ranking states for mature distribution centers is low property taxes. Of the group, Alabama has the lowest property tax burden (ranking first overall), while Oklahoma has the highest (ranking 21st overall). Only Oklahoma extends its property tax to inventories, although it does offer a Freeport exemption that eliminates the tax cost on inventory in temporary storage in-state.

Oregon, which does not levy a sales tax, offsets its top ranking for sales taxes with a last-place ranking for unemployment insurance (UI) taxes. Hawaii ranks 49th for UI taxes, which offsets its modest corporate income tax and very low property taxes.

Results: Bottom-Ranked States for Mature Operations

Iowa ranks last for mature distribution centers with a TETR of 50.1 percent–over three times the burden in top-ranked Wyoming and 64 percent above the national average. Pennsylvania ranks 49th with a TETR of 48 percent, followed by Indiana (TETR of 46.6 percent), and New Jersey (TETR of 46.5), Minnesota (TETR of 45.9), and Rhode Island (TETR of 45.3).

Seven of the 10 highest tax cost states for mature distribution operations have corporate tax rates of at least 8.5 percent.[5] Iowa has the highest statutory rate of 12 percent, followed by Pennsylvania with its 9.99 percent rate, and Minnesota with its 9.8 percent rate. Of this group, Michigan has the lowest corporate tax rate at 6.04 percent.[6]

Naturally, property taxes are also an important cost consideration for distribution operations since these facilities tend to be quite large. And a high property tax burden is a common trait of the high cost states for distribution operations. Once again, Iowa ranks 50th in this category

5 This includes New York; see footnote 3.

6 Michigan's Business Tax (MBT) consists of a 4.95 percent Business Income Tax (BIT) on profits, a 0.8 percent Modified Gross Receipts Tax (MGRT) on revenue, and a 21.99 percent surcharge tax on both the BIT and MGRT tax paid. This system will be replaced by a 6.0 percent corporate income tax in 2012.

The 10 Highest Tax Cost States for Mature Distribution Centers

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
New York	Utica	122.3	37.5%	41
Michigan	Saginaw	123.2	37.8%	42
Kansas	Topeka	143.9	44.1%	43
Massachusetts	Worcester	144.2	44.2%	44
Rhode Island	Providence	147.9	45.3%	45
Minnesota	Rochester	149.7	45.9%	46
New Jersey	Trenton	151.6	46.5%	47
Indiana	Elkhart	152.0	46.6%	48
Pennsylvania	Reading	156.5	48.0%	49
Iowa	Cedar Rapids	163.6	50.1%	50

with a property tax burden that is five times as great as Alabama's, which has the lowest property tax burden for distribution centers. In addition to having high tax rates on land and buildings, five of these high tax cost states (Indiana, Kansas, Massachusetts, Michigan, and Rhode Island) also tax business equipment– a key factor in distribution operations.

Results: Top-Ranked States for New Operations

The dominant themes for the lowest tax cost states for new distribution centers are low property taxes and tax incentives. Interestingly, only three of the states that rank in the top 10 for mature distribution operations–Alabama (second), Wyoming (first), and Hawaii (10th)–still rank in the top 10 for new operations. Most of the other low tax cost states for new distribution centers actually rank poorly for mature distribution centers.

A good example is Ohio, which ranks first for new distribution operations, with a TETR of 18 percent. This is a large jump in the rankings from its 35th-place rank for mature operations. Ohio's low total tax burden for new distribution operations is largely due to the state's property tax abatements and withholding tax credit.

Twenty-four states offer property tax abatements for distribution operations, and Ohio offers the second-most generous of the group. Indeed, eight of the top-ranking states for new distribution operations offer property tax abatements, and these states tend to offer some of the more generous packages. Illinois, for example, has the fourth-most generous property tax abatement. This helps the state springboard from 37th for mature operations to ninth for new operations. Mississippi and Vermont (24th and 25th respectively for mature operations) similarly rise in the rankings for new operations because of the size of their property tax abatements.

Ohio is one of 14 states that offer a withholding tax credit. While Ohio's credit is of average value compared to the others, it is significant enough to help lower the state's TETR relative to other states. Three other states in the top 10 (Mississippi, Utah, and Vermont) also offer withholding tax credits.

Only 13 states have investment tax credits available for distribution

The 10 Lowest Tax Cost States for New Distribution Centers

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Ohio	Canton	50.5	18.3%	1
Alaska	Fairbank	55.9	20.2%	2
Utah	St. George	58.3	21.1%	3
Georgia	Macon	61.6	22.3%	4
Wyoming	Casper	61.8	22.4%	5
Mississippi	Gulfport	63.0	22.8%	6
Delaware	Dover	63.5	22.9%	7
Vermont	Rutland	66.9	24.2%	8
Illinois	Springfield	69.8	25.2%	9
Alabama	Montgomery	70.4	25.5%	10
Hawaii	Hilo	70.4	25.5%	10

operations, and Alabama's is the second-most generous of them all. This credit, combined with a low property tax burden and low UI taxes, helps Alabama remain in the top 10 for new operations.

Alaska ranks second overall for new operations even though it has the highest corporate income tax burden and one of the highest UI tax burdens. The state makes up for these negatives by not levying a state-level general sales tax and offering a property tax abatement that gives the state the fifth-lowest ranking in this category.

Results: Bottom-Ranked States for New Operations

Eight of the 10 states with the highest tax costs for new distribution operations are also among the states with the highest tax costs for mature operations. All of these states have TETRs above 48 percent. Kansas ranks 50th overall for new distribution operations, with a 65 percent TETR. Massachusetts and Pennsylvania rank 49th and 48th respectively with TETRs of 60 percent.

While high corporate income taxes are one of the reasons many of these states rank among the highest total tax burdens for mature operations, that is not the case for new operations. While seven of these states have statutory corporate tax rates of at least 8.0 percent, they are able to lower their TETRs considerably through a combination of withholding tax rebates, investment tax credits, and job tax credits. For example, despite its 8.0 percent statutory corporate tax rate, Louisiana has the lowest corporate tax burden for new distribution operations because it offers one of the most generous withholding tax credits.

High property taxes are another reason these states rank poorly for mature operations, and they continue to be a factor for new operations. For example, while investment and job credits help give Kansas one of the lower corporate income tax burdens for new distribution operations, this is not sufficient to overcome the highest property tax burden in the nation and one of the highest (46th) sales tax burdens for such operations. Indeed, the property tax burden for distribution operations in Kansas is six times higher than comparable operations in Ohio, which has the lowest property taxes for new distribution operations.

The 10 Highest Tax Cost States for New Distribution Centers

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Iowa	Cedar Rapids	134.3	48.6%	41
Michigan	Saginaw	137.6	49.8%	42
Louisiana	Shreveport	138.2	50.0%	43
Minnesota	Rochester	139.0	50.3%	44
South Carolina	Spartanburg	148.5	53.7%	45
Rhode Island	Providence	151.0	54.6%	46
New Jersey	Trenton	157.5	56.9%	47
Pennsylvania	Reading	164.5	59.5%	48
Massachusetts	Worcester	166.5	60.2%	49
Kansas	Topeka	180.7	65.4%	50

Despite offering a modest property tax abatement, Massachusetts ranks 49th for property tax burdens, which more than compensates for its fifth-best ranking for having a low corporate income tax burden. Similarly, Louisiana's first-place ranking for corporate income taxes and second-place ranking for UI taxes are more than offset by the state's 45th-place ranking for sales taxes and 44th-place ranking for property taxes. Louisiana is the only state among this group of high-cost states with a property tax on inventories. (However, this local property tax cost also gives rise to a state tax credit for inventory tax paid, thus reducing corporate income tax costs.)

South Carolina offers the most generous job credit in the nation for these operations, which helps the state rank second for low corporate income taxes. However, the state ranks 48th for high property taxes, which overshadows any benefit it gets from its low corporate income tax burden.

Iowa offers a property tax abatement, an investment tax credit, and a job credit and still ranks 41st for new distribution centers, with an effective tax rate of 49 percent. Michigan offers a withholding tax credit, an investment tax credit, and a job credit yet still manages to have an effective tax rate of 50 percent for new distribution centers. This gives the state an overall ranking of 42nd.

Profile: Capital-Intensive Manufacturing Operation (a Steel Company)

This model firm is a capital-intensive manufacturing operation such as a steel company. The firm has 200 positions, including management, administrative, installation and maintenance, production, transportation, and materials employees. The scenario assumes $300 million in capital investment, including a 250,000 sq. ft. suburban industrial building owned by the firm. The average revenue is assumed to be approximately $200 million with a gross profit ratio of 25 percent and earnings before tax of 10 percent. The equity ratio is assumed to be 50 percent. The apportionment methodology assumes 100 percent of property and payroll is in the state in which the manufacturer is located, while sales are assumed to be distributed among all 50 states in proportion to the relative population of each state.

Results: Top-Ranked States for Mature Operations

Wyoming has the lowest total effective tax rate (TETR) for mature capital-intensive manufacturing operations, at 4.6 percent. This is 63 percent below the national average TETR of 12.7 percent. South Dakota ranks a close second with a TETR of 4.9 percent, followed by New York (TETR of 5.3 percent), Iowa (TETR of 5.5 percent) and Pennsylvania (TETR of 6.1 percent). All of the top-ranking states for these manufacturing operations have TETRs less than 8.5 percent.

Wyoming's and South Dakota's advantage is that neither state levies a corporate income tax. Wyoming also has the advantage of a very low sales tax burden and low property taxes. The state does, however, have one of the 10 highest UI tax burdens. South Dakota has the fourth-lowest property tax burden and a very low UI tax burden. However, it does have one of the highest sales tax burdens for manufacturing operations.

The 10 Lowest Tax Cost States for Mature Capital-Intensive Manufacturing Operations

State	City	Index Score	Total Effective Tax Rate (TETR)	Rank
Wyoming	Casper	36.5	4.6%	1
South Dakota	Rapid City	38.5	4.9%	2
New York	Utica	41.8	5.3%	3
Iowa	Cedar Rapids	43.7	5.5%	4
Pennsylvania	Reading	48.4	6.1%	5
Ohio	Canton	48.6	6.2%	6
Minnesota	Rochester	49.1	6.2%	7
Georgia	Macon	59.1	7.5%	8
Connecticut	Norwich	64.0	8.1%	9
Nebraska	Lincoln	66.8	8.5%	10

Table 13

Capital-Intensive Manufacturing Operation

State	Tier 2 City	Mature Capital-Intensive Manufacturing Index Score	Mature Capital-Intensive Manufacturing Total Effective Tax Rate (TETR)	Mature Capital-Intensive Manufacturing Rank	New Capital-Intensive Manufacturing Index Score	New Capital-Intensive Manufacturing Total Effective Tax Rate (TETR)	New Capital-Intensive Manufacturing Rank
Alabama	Montgomery	81.9	10.4%	18	72.3	8.2%	18
Alaska	Fairbanks	98.8	12.5%	25	48.7	5.5%	5
Arizona	Prescott	75.0	9.5%	14	143.1	16.3%	40
Arkansas	Fort Smith	136.4	17.3%	43	84.5	9.6%	29
California	Merced	142.6	18.1%	44	209.8	23.9%	47
Colorado	Fort Collins	121.9	15.5%	39	191.6	21.8%	45
Connecticut	Norwich	64.0	8.1%	9	84.0	9.6%	25
Delaware	Dover	74.6	9.5%	13	38.9	4.4%	4
Florida	Gainesville	101.5	12.9%	27	176.0	20.1%	44
Georgia	Macon	59.1	7.5%	8	74.6	8.5%	20
Hawaii	Hilo	206.7	26.2%	50	215.5	24.6%	48
Idaho	Coeur D'Alene	119.9	15.2%	37	84.2	9.6%	27
Illinois	Springfield	117.8	15.0%	36	61.3	7.0%	13
Indiana	Elkhart	182.5	23.2%	48	121.0	13.8%	38
Iowa	Cedar Rapids	43.7	5.5%	4	49.4	5.6%	7
Kansas	Topeka	160.2	20.3%	47	119.0	13.6%	37
Kentucky	Lexington	97.8	12.4%	24	116.5	13.3%	35
Louisiana	Shreveport	86.2	10.9%	20	9.1	1.0%	1
Maine	Bangor	143.5	18.2%	45	73.2	8.3%	19
Maryland	Salisbury	102.5	13.0%	30	279.7	31.9%	50
Massachusetts	Worcester	120.4	15.3%	38	69.5	7.9%	17
Michigan	Saginaw	72.6	9.2%	12	83.8	9.5%	24
Minnesota	Rochester	49.1	6.2%	7	49.0	5.6%	6
Mississippi	Gulfport	152.6	19.4%	46	133.2	15.2%	39
Missouri	Joplin	99.6	12.7%	26	86.4	9.8%	30
Montana	Missoula	113.8	14.5%	32	117.4	13.4%	36
Nebraska	Lincoln	66.8	8.5%	10	21.3	2.4%	2
Nevada	Reno	67.2	8.5%	11	192.3	21.9%	46
New Hampshire	Concord	101.9	12.9%	29	67.8	7.7%	16
New Jersey	Trenton	83.3	10.6%	19	51.4	5.9%	8
New Mexico	Santa Fe	122.9	15.6%	40	113.8	13.0%	34
New York	Utica	41.8	5.3%	3	55.7	6.3%	10
North Carolina	Wilmington	77.1	9.8%	15	77.6	8.8%	21
North Dakota	Grand Forks	96.1	12.2%	23	62.5	7.1%	15
Ohio	Canton	48.6	6.2%	6	29.4	3.3%	3
Oklahoma	Lawton	105.3	13.4%	31	84.2	9.6%	27
Oregon	Salem	116.7	14.8%	34	98.8	11.3%	33
Pennsylvania	Reading	48.4	6.1%	5	53.1	6.1%	9
Rhode Island	Providence	115.7	14.7%	33	57.6	6.6%	12
South Carolina	Spartanburg	117.6	14.9%	35	172.1	19.6%	43
South Dakota	Rapid City	38.5	4.9%	2	92.2	10.5%	31
Tennessee	Clarksville	94.1	12.0%	22	84.0	9.6%	26
Texas	Lubbock	78.1	9.9%	17	160.4	18.3%	42
Utah	St. George	90.6	11.5%	21	77.7	8.9%	22
Vermont	Rutland	128.9	16.4%	41	94.1	10.7%	32
Virginia	Roanoke	101.8	12.9%	28	217.5	24.8%	49
Washington	Spokane	77.6	9.8%	16	146.4	16.7%	41
West Virginia	Parkersburg	188.0	23.9%	49	56.3	6.4%	11
Wisconsin	Eau Claire	132.4	16.8%	42	61.7	7.0%	14
Wyoming	Casper	36.5	4.6%	1	80.5	9.2%	23

Remarkably, many of the other top-ranked states in this category have above-average corporate income tax rates. Indeed, Iowa has the highest corporate tax rate in the nation at 12 percent, followed by Pennsylvania's 9.99 percent rate and Minnesota's 9.8 percent rate. Of this group, Georgia has the lowest corporate income tax rate at 6.0 percent. Ohio levies a gross receipts tax called the Commercial Activities Tax (CAT) rather than a traditional corporate income tax.

The primary reason that these states with high corporate income tax rates can still rank so well is because of their very favorable apportionment factors and their lack of throwback rules. All of these states either have single-sales factor apportionments or heavily weight sales in their apportionment formulas. Pennsylvania and Minnesota, for example, have formulas that give a 90 percent weight to sales and 5 percent each to labor and property.

In states such as Iowa and Nebraska, these apportionment rules can reduce the amount of a firm's sales subject to home-state taxation to less than 1 percent. As a result, these states tend to have among the lightest corporate tax burdens in the nation.

These light income tax burdens often mask other deficiencies in a state's tax system. Minnesota, for example, has the fifth-heaviest UI tax burden in the nation. Georgia is the only top-ranking state to tax inventories in addition to equipment, land, and buildings, although a generous Freeport rule significantly reduces manufacturers' costs for tax on inventories.

Results: Bottom-Ranked States for Mature Operations

Hawaii ranks 50th for having the highest total tax costs for mature capital-intensive manufacturing operations, with a TETR of 26.2 percent. This tax burden is more than twice the national average of 12.7 percent. West Virginia ranks 49th with a TETR of 23.9 percent, followed by Indiana (TETR of 23.2 percent), Kansas (TETR of 20.3 percent), and Mississippi (19.4 percent). These tax burdens are all more than 50 percent above the national average.

The common elements of these 10 highest tax cost states are high corporate income tax burdens and high property

The 10 Highest Tax Cost States for Mature Capital-Intensive Manufacturing Operations

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Vermont	Rutland	128.9	16.4%	41
Wisconsin	Eau Claire	132.4	16.8%	42
Arkansas	Fort Smith	136.4	17.3%	43
California	Merced	142.6	18.1%	44
Maine	Bangor	143.5	18.2%	45
Mississippi	Gulfport	152.6	19.4%	46
Kansas	Topeka	160.2	20.3%	47
Indiana	Elkhart	182.5	23.2%	48
West Virginia	Parkersburg	188.0	23.9%	49
Hawaii	Hilo	206.7	26.2%	50

tax burdens. All of these states employ a throwback or throwout rule in their apportionment formula and most of them have relatively high corporate income tax rates. Maine has the highest rate of this group at 8.93 percent while California, Indiana, West Virginia, and Vermont all have corporate rates of at least 8.5 percent. Mississippi has the lowest rate at 5.0 percent. Naturally, the throwback rule subjects all of the firm's sales to home-state taxes.

Hawaii does have the lowest property tax burden of any state. However, it offsets this with a high corporate tax burden, the nation's highest sales tax burden, and the second-highest UI tax burden.

Many of these states have either high property tax rates on land, buildings, and equipment, or broader property tax bases that include inventories. Indiana, for example, has one of the highest property tax rates in the country (ranking 48th) which compounds its 49th-ranked income tax burden. There are nine states that tax inventories in addition to land, buildings, and equipment, four of which are represented in this group of uncompetitive states: Arkansas, Mississippi, West Virginia, and Wisconsin.

Results: Top-Ranked States for New Operations

Louisiana has the lowest tax burden for new capital-intensive manufacturing firms, with a TETR of 1.0 percent. The national average TETR for new firms is 11.4 percent. Nebraska ranks second with a TETR of 2.4 percent, followed by Ohio with a TETR of 3.3 percent. Nebraska and Ohio are among six states that rank in the top 10 for both new and mature operations.

While tax incentives are a factor in helping some of these states rank well – Louisiana and Nebraska in particular – incentives are not an overwhelming factor for most of these competitive states. Of the 38 states that offer property tax abatements, Louisiana offers the second-most generous abatement – nearly three and a half times the national average. Nebraska's is 10th-most generous – twice the national average.

While Pennsylvania is the only top-ranking state that does not offer a property tax abatement, the remaining states have

The 10 Lowest Tax Cost States for New Capital-Intensive Manufacturing Operations

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Louisiana	Shreveport	9.1	1.0%	1
Nebraska	Lincoln	21.3	2.4%	2
Ohio	Canton	29.4	3.3%	3
Delaware	Dover	38.9	4.4%	4
Alaska	Fairbank	48.7	5.5%	5
Minnesota	Rochester	49.0	5.6%	6
Iowa	Cedar Rapids	49.4	5.6%	7
New Jersey	Trenton	51.4	5.9%	8
Pennsylvania	Reading	53.1	6.1%	9
New York	Utica	55.7	6.3%	10

very modest programs. The factor that lowers their property tax burdens the most is that they do not tax equipment or inventories. Louisiana taxes both equipment and inventories (in addition to land and buildings) while Nebraska taxes equipment. Their abatement programs attempt to offset these high taxes.

Of the 14 states that offer withholding tax rebates, Louisiana's is the most generous at seven times the national average. Ohio and New Jersey also offer withholding rebates at roughly twice the national average.

Nebraska has some of the most generous investment credits and job credits. Of the 22 states with job credits, Nebraska's is the most generous (New Jersey's is second-most generous). And of the 23 states with investment credits, Nebraska has the fourth-most generous program at more than three times the national average.

Results: Bottom-Ranked States for New Operations.

Maryland has the highest TETR for new capital-intensive manufacturing firms, at 31.9 percent. This tax burden is nearly three times the national average of 11.4 percent. Virginia ranks 49th with a TETR of 24.8 percent, followed by Hawaii (TETR of 24.6 percent), and California (TETR of 23.9 percent). All of these states have tax burdens that are twice the national average.

Maryland's 50th-place ranking is almost entirely due to its extremely high property tax burden. In fact, Maryland has one of the lowest corporate income tax burdens for new manufacturing (largely because it is a single-sales factor state) and it has moderate tax burdens for UI and sales taxes. However, the state's tax burden for new manufacturing is the highest in the nation, four times higher than the national average. In particular, the state's taxes on equipment are among the nation's highest.

Virginia is similarly impacted by its 49th-place ranking for high property taxes. The state's property tax burden for new manufacturing is three times the national average and high enough to negate the benefits of the state's low tax burdens for UI and sales taxes.

Few of these high-cost states have tax incentive programs, and those that do offer

The 10 Highest Tax Cost States for New Capital Intensive Manufacturing Operations

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Washington	Spokane	146.4	16.7%	41
Texas	Lubbock	160.4	18.3%	42
South Carolina	Spartanburg	172.1	19.6%	43
Florida	Gainesville	176.0	20.1%	44
Colorado	Fort Collins	191.6	21.8%	45
Nevada	Reno	192.3	21.9%	46
California	Merced	209.8	23.9%	47
Hawaii	Hilo	215.5	24.6%	48
Virginia	Roanoke	217.5	24.8%	49
Maryland	Salisbury	279.7	31.9%	50

incentives are not helped by them. Three states (California, Nevada, and Washington) have no tax incentives, and four states (Hawaii, Maryland, Texas, and Virginia) offer only one type of incentive, such as a job credit.

Florida is an example of a state with a very generous tax incentive program, yet it still has a high overall tax burden for this type of firm. Florida's investment tax credit program is nearly 11 times the national average; however, the state ranks 44th overall because this firm pays very high sales and property tax burdens.

Similarly, South Carolina offers one of the more generous property tax abatements. However, because the state also imposes one of the highest tax rates on equipment, it still ranks 48th for property taxes. Texas also offers an above-average property tax abatement, yet it ranks 45th for property taxes in large measure because of its taxes on equipment and inventory.

Profile: A Labor-Intensive Manufacturing Business (a Bus or Truck Manufacturer)

This model operation is a labor-intensive manufacturing business that makes trucks or buses. The labor includes 300 employees, mainly comprised of managers, installation, maintenance, production, and assembly employees. The model assumes capital investment is $65 million, including a 250,000 sq. ft. suburban industrial building owned by the business. The average revenue is assumed to be approximately $173 million with a gross profit ratio of 20 percent and earnings before tax of 7 percent. The equity ratio is assumed to be 30 percent. The apportionment methodology assumes 100 percent of property and payroll is in the state in which the manufacturer is located, while sales are assumed to be distributed among all 50 states in proportion to the relative population of each state.

Results: Top-Ranked States for Mature Operations

Wyoming has the lowest tax burden for mature labor-intensive manufacturing operations, with a total effective tax rate (TETR) of 5.2 percent. Georgia ranks second with a TETR of 6.5 percent, followed by Maryland (TETR of 7.0 percent), South Dakota (TETR of 7.3 percent), and Nebraska (TETR of 7.4 percent). All these most competitive states have TETRs of 8.5 percent or below.

In general, these states have relatively light corporate income tax burdens. Wyoming and South Dakota do not levy a corporate income tax, while Texas levies a low-rate modified gross receipts tax called the Margin Tax. The remaining states do levy corporate income taxes at varying rates, but most tend to limit the amount of the firm's income subject to tax with generous income apportionment rules, such as a single-sales apportionment factor or no throwback rule.

As a result, only the income earned within the firm's home state is subject to

The 10 Lowest Tax Cost States for Mature Labor-Intensive Manufacturing

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Wyoming	Casper	44.3	5.2%	1
Georgia	Macon	55.6	6.5%	2
Maryland	Salisbury	60.2	7.0%	3
South Dakota	Rapid City	63.0	7.3%	4
Nebraska	Lincoln	63.2	7.4%	5
Connecticut	Norwich	65.6	7.6%	6
Michigan	Saginaw	65.9	7.7%	7
Virginia	Roanoke	68.1	7.9%	8
South Carolina	Spartanburg	70.5	8.2%	9
Texas	Lubbock	73.2	8.5%	10

Table 14

Labor-Intensive Manufacturing Operation

State	Tier 2 City	Mature Labor-Intensive Manufacturing Index Score	Mature Labor-Intensive Manufacturing Total Effective Tax Rate (TETR)	Mature Labor-Intensive Manufacturing Rank	New Labor-Intensive Manufacturing Index Score	New Labor-Intensive Manufacturing Total Effective Tax Rate (TETR)	New Labor-Intensive Manufacturing Rank
Alabama	Montgomery	90.1	10.5%	25	77.8	9.1%	13
Alaska	Fairbanks	102.9	12.0%	30	90.8	10.6%	19
Arizona	Prescott	76.2	8.9%	13	112.8	13.2%	39
Arkansas	Fort Smith	121.9	14.2%	40	78.1	9.1%	14
California	Merced	133.4	15.5%	43	173.3	20.3%	49
Colorado	Fort Collins	104.5	12.2%	31	142.9	16.7%	47
Connecticut	Norwich	65.6	7.6%	6	88.4	10.3%	18
Delaware	Dover	81.3	9.5%	19	63.0	7.4%	8
Florida	Gainesville	83.9	9.8%	20	108.3	12.7%	34
Georgia	Macon	55.6	6.5%	2	60.8	7.1%	7
Hawaii	Hilo	283.9	33.1%	50	346.8	40.6%	50
Idaho	Coeur D'Alene	116.2	13.5%	37	114.4	13.4%	40
Illinois	Springfield	135.4	15.8%	45	95.6	11.2%	23
Indiana	Elkhart	149.1	17.4%	48	93.6	11.0%	20
Iowa	Cedar Rapids	86.1	10.0%	22	103.6	12.1%	30
Kansas	Topeka	140.5	16.4%	47	107.1	12.5%	33
Kentucky	Lexington	80.3	9.3%	17	71.3	8.3%	11
Louisiana	Shreveport	78.5	9.1%	16	3.7	0.4%	1
Maine	Bangor	125.3	14.6%	41	106.4	12.5%	32
Maryland	Salisbury	60.2	7.0%	3	137.6	16.1%	46
Massachusetts	Worcester	133.6	15.6%	44	112.0	13.1%	37
Michigan	Saginaw	65.9	7.7%	7	54.8	6.4%	4
Minnesota	Rochester	86.3	10.0%	23	102.2	12.0%	29
Mississippi	Gulfport	115.3	13.4%	36	95.0	11.1%	22
Missouri	Joplin	85.8	10.0%	21	58.7	6.9%	5
Montana	Missoula	88.7	10.3%	24	96.2	11.3%	24
Nebraska	Lincoln	63.2	7.4%	5	28.5	3.3%	2
Nevada	Reno	73.8	8.6%	11	135.1	15.8%	45
New Hampshire	Concord	107.8	12.6%	33	109.8	12.8%	36
New Jersey	Trenton	117.4	13.7%	38	101.0	11.8%	28
New Mexico	Santa Fe	127.5	14.9%	42	109.1	12.8%	35
New York	Utica	76.7	8.9%	14	100.7	11.8%	26
North Carolina	Wilmington	80.8	9.4%	18	64.5	7.5%	9
North Dakota	Grand Forks	108.5	12.6%	34	106.1	12.4%	31
Ohio	Canton	76.1	8.9%	12	52.7	6.2%	3
Oklahoma	Lawton	101.7	11.8%	28	85.0	9.9%	15
Oregon	Salem	96.0	11.2%	27	119.3	14.0%	42
Pennsylvania	Reading	78.0	9.1%	15	100.7	11.8%	26
Rhode Island	Providence	138.9	16.2%	46	112.4	13.2%	38
South Carolina	Spartanburg	70.5	8.2%	9	67.9	7.9%	10
South Dakota	Rapid City	63.0	7.3%	4	94.0	11.0%	21
Tennessee	Clarksville	106.3	12.4%	32	117.3	13.7%	41
Texas	Lubbock	73.2	8.5%	10	121.0	14.2%	43
Utah	St. George	90.7	10.6%	26	87.9	10.3%	16
Vermont	Rutland	114.3	13.3%	35	96.8	11.3%	25
Virginia	Roanoke	68.1	7.9%	8	121.3	14.2%	44
Washington	Spokane	101.9	11.9%	29	154.7	18.1%	48
West Virginia	Parkersburg	154.0	17.9%	49	87.9	10.3%	16
Wisconsin	Eau Claire	121.6	14.2%	39	59.0	6.9%	6
Wyoming	Casper	44.3	5.2%	1	73.0	8.5%	12

tax, not the income earned out of state. This is how states such as Maryland and Connecticut – each of which have an 8.25 percent corporate tax rate – still rank very well in this category. Maryland gives preferential tax treatment to manufacturers with a single-sales factor while many other businesses must use a three-factor formula with double-weighted sales. Connecticut applies a single-sales factor.

These states also tend to have low sales tax rates and unemployment insurance (UI) tax burdens. For example, only two states in this group, Nebraska and Texas, have sales tax rates above 6 percent. Similarly, nine of the 10 states have effective UI tax rates (as a percentage of all wages) under 1 percent. However, the best state for this firm type overall (Wyoming) has a relatively high burden in this area, and ranks 41st when we consider only UI taxes.

Except for Wyoming, which has one of the lowest property tax burdens for labor-intensive manufacturing firms, most of the other top-ranking states tend to have average to above-average property tax burdens. South Carolina ranks 48th for property tax burden, in part because the Tier 2 city selected for this analysis, Spartanburg, levies the highest tax rate on business equipment among all 50 Tier 2 cities studied, at 4.49 percent. Georgia and Texas are two of just nine states that tax inventory in addition to equipment, buildings, and land.

Results: Bottom-Ranked States for Mature Operations

Hawaii has the highest tax burden for mature labor-intensive manufacturing operations with a TETR of 33.1 percent, which is nearly 184 percent above the national average. This tax burden is nearly twice that of 49th-ranked West Virginia, which has a TETR of 17.9 percent, and 48th-ranked Indiana, which has a TETR of 17.4 percent. Kansas and Rhode Island rank 47th and 46th respectively with TETRs just over 16 percent.

Despite having the nation's lowest property tax burden for this firm type, Hawaii has the nation's highest sales tax burden and second-highest UI tax burden. By contrast, Indiana has the nation's highest property tax burden for this firm and one of the highest corporate income tax burdens.

The 10 Highest Tax Cost States for Mature Labor-Intensive Manufacturing

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Maine	Bangor	125.3	14.6%	41
New Mexico	Santa Fe	127.5	14.9%	42
California	Merced	133.4	15.5%	43
Massachusetts	Worcester	133.6	15.6%	44
Illinois	Springfield	135.4	15.8%	45
Rhode Island	Providence	138.9	16.2%	46
Kansas	Topeka	140.5	16.4%	47
Indiana	Elkhart	149.1	17.4%	48
West Virginia	Parkersburg	154.0	17.9%	49
Hawaii	Hilo	283.9	33.1%	50

In general, these 10 high tax cost states are marked by high corporate income taxes and throwback rules which attribute any sales made to states where the firm has no nexus – and is thus not subject to that state's corporate income tax – back to the firm's home state for tax purposes. All 10 of these states have throwback or throwout rules.

Moreover, seven of the 10 states have corporate income tax rates above 8 percent. Among this group, Illinois' rate is the highest at 9.5 percent, followed by Rhode Island at 9.0 percent, Maine at 8.93 percent, and California at 8.84 percent. In fact, California ranks 50th with the highest corporate tax burden for manufacturing in the nation. Maine has the second-highest corporate tax burden.

High property taxes also contribute to the uncompetitive tax burdens for some of these states. Aside from Indiana, Kansas has the second-highest property tax burden while Rhode Island also ranks among the 10 highest for this tax.

Results: Top-Ranked States for New Operations

New labor-intensive manufacturing firms show a wider variance of effective tax rates than mature firms, in part because some states offer various tax incentives which can significantly lower a firm's taxes, especially on income and property. This is a common theme for the 10 states with the lowest tax burden for new labor-intensive manufacturing operations.

Louisiana has the lowest tax burden for these new manufacturing operations, with a TETR of just 0.4 percent, followed by Nebraska, which has a TETR of 3.3 percent. From there, the TETRs for the remaining top-ranked states jump to 6.2 percent for third-ranked Ohio, to 7.9 percent for 10th-ranked South Carolina.

Thirty-seven states offer property tax abatements, including all of the top-ranked states for this firm type. Louisiana's property tax abatement is by far the most generous at nearly four times the national average. As a result, Louisiana has the third-lowest property tax burden for these firms despite the fact that it is among a minority of states to tax both inventories and equipment.

South Carolina's property tax incentive is roughly three times the national average yet the state ranks 46th with one of the highest property tax burdens in the country for manufacturing operations. Georgia

The 10 Lowest Tax Cost States for New Labor-Intensive Manufacturing

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Louisiana	Shreveport	3.7	0.4%	1
Nebraska	Lincoln	28.5	3.3%	2
Ohio	Canton	52.7	6.2%	3
Michigan	Saginaw	54.8	6.4%	4
Missouri	Joplin	58.7	6.9%	5
Wisconsin	Eau Claire	59.0	6.9%	6
Georgia	Macon	60.8	7.1%	7
Delaware	Dover	63.0	7.4%	8
North Carolina	Wilmington	64.5	7.5%	9
South Carolina	Spartanburg	67.9	7.9%	10

and Wisconsin also are among the few states that tax both inventories and equipment (along with land and buildings), yet end up with moderate property tax burdens because of their generous property tax incentives.

Fifteen states offer withholding tax rebates and Louisiana's program is the most generous at nearly seven times the national average. Missouri, South Carolina, and Wisconsin also offer very generous rebates valued at more than four times the national average.

When it comes to investment tax credits and job credits, Nebraska is among the most generous. Of the 24 states that offer investment tax credits, Nebraska's is fourth-highest. Delaware, Michigan, and Wisconsin also offer investment tax credits but these are smaller than the national average. Of the 23 states that offer job credits, Nebraska's program is the most generous at 11 times the national average. South Carolina's is also generous at six times the national average.

Results: Bottom-Ranked States for New Operations

As it does for mature labor-intensive manufacturing operations, Hawaii ranks 50th for new operations, with the highest TETR of 40.6 percent. This is twice the tax burden of second-place California, which joins Hawaii as the only states to rank among the 10 highest tax cost states for both new and mature operations. The same factors that increase the tax costs for mature operations – high UI and sales taxes for Hawaii and high corporate income and sales taxes for California – increase the tax costs for new firms. Both states offer few if any tax incentives.

Interestingly, three of the lowest tax cost states for mature manufacturing firms (Maryland, Texas, and Virginia), find themselves among the states with the highest tax costs for new firms. In large measure, this is due to their relatively high property taxes and the lack of tax incentives. Texas offers a modest property tax abatement while Maryland and Virginia don't offer such incentives. Maryland ranks 50th for its high property tax burden while Virginia ranks 48th and Texas 45th.

The 10 Highest Tax Cost States for New Labor-Intensive Manufacturing

State	Tier 2 City	Index Score	Total Effective Tax Rate (TETR)	Rank
Tennessee	Clarksville	117.3	13.7%	41
Oregon	Salem	119.3	14.0%	42
Texas	Lubbock	121.0	14.2%	43
Virginia	Roanoke	121.3	14.2%	44
Nevada	Reno	135.1	15.8%	45
Maryland	Salisbury	137.6	16.1%	46
Colorado	Fort Collins	142.9	16.7%	47
Washington	Spokane	154.7	18.1%	48
California	Merced	173.3	20.3%	49
Hawaii	Hilo	346.8	40.6%	50

In general, these states do not have sizable tax incentive programs. Indeed, four states (Oregon, Nevada, Washington, and California) have none at all. Tennessee is the only state in this group that offers significant tax incentives, but its generosity here is countered by high UI and sales taxes, as well as a higher-than-average income tax burden driven by a non-single-sales income apportionment formula.

General levels of corporate income taxation continue to be important as well, with apportionment formulas being the main driving factor. Five of these states (Oregon, Colorado, Washington, California, and Hawaii) have throwback rules, which makes their income tax burdens significantly higher than states without them.

Interestingly, Nevada ranks 45th for new manufacturing operations even though it does not levy a corporate income tax. Its ranking was undermined by high sales, UI, and property taxes. Similarly, Washington and Texas levy gross receipts taxes instead of traditional corporate income taxes. Texas is weighed down by high sales and property taxes while Washington has above-average burdens for UI, sales, and property taxes.

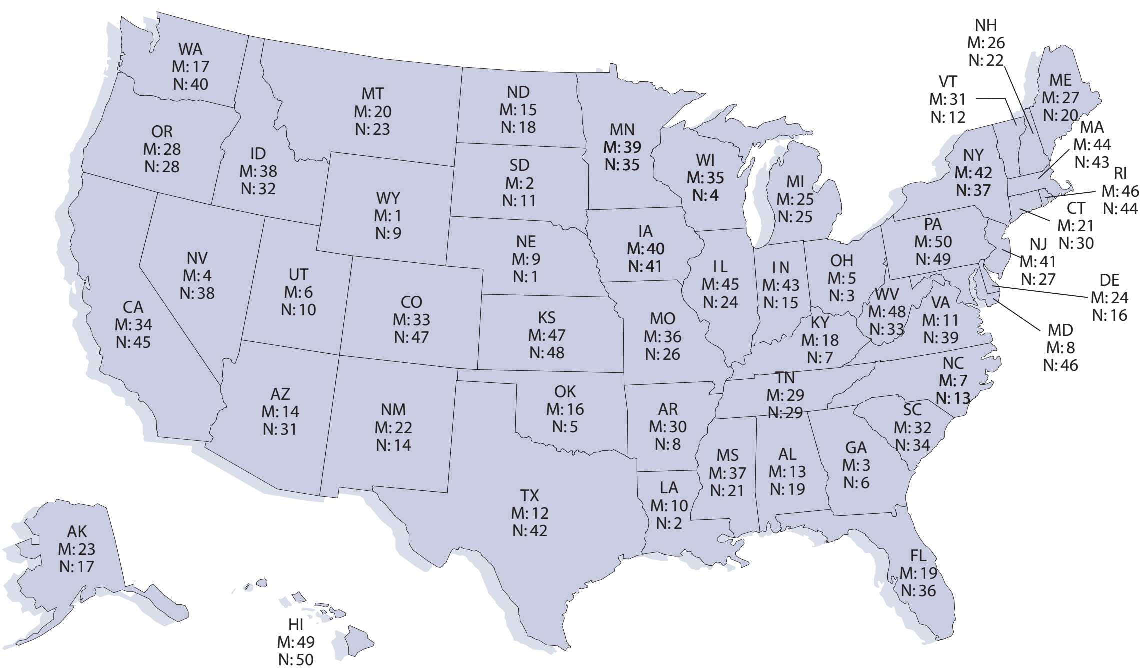
Chapter 4

State-Specific Details

For lawmakers and business leaders who want more detail on the business taxes in their state, this chapter contains two pages of information for each of the 50 states plus the District of Columbia.

Each section includes talking points that give a short explanation of why the state ranked as it did on key firm types. Typically, we identify the areas in which the state ranked best and worst and explain which factors in the state's tax system produced those results.

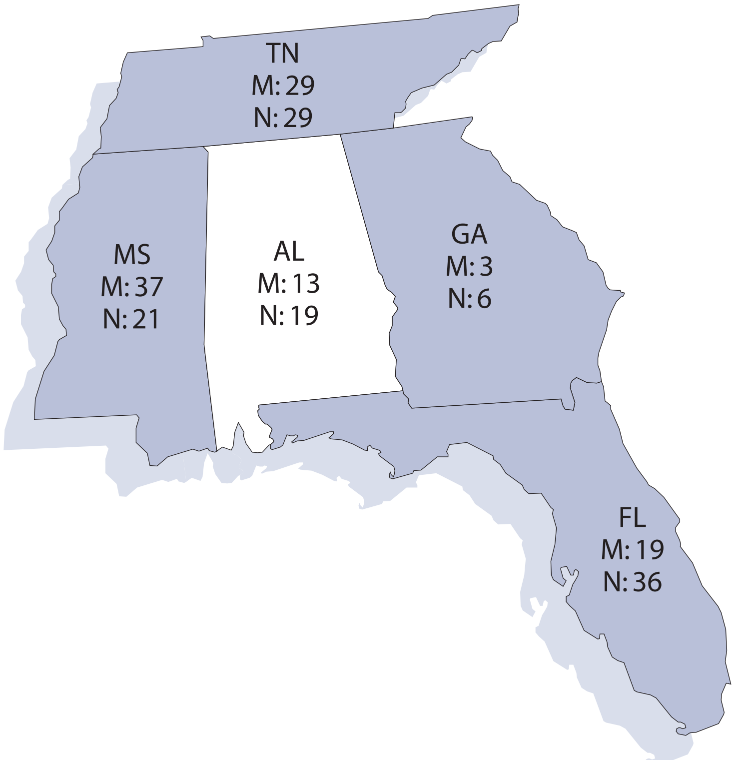
These talking points are followed by a fact sheet on all of the key components of the state's tax system that factored into the Tax Foundation/KMPG model. These factors include: corporate income tax rates and apportionment rules, sales and property taxes for both the Tier 1 and Tier 2 cities, unemployment insurance tax rates, gross receipts taxes, and the incentive programs offered by the state. The fact sheet also includes a summary table for each of the firm types, listing their total effective tax rates, index score, and national rank.



M = Rank for mature firms, N = Rank for new firms

Alabama

M = Rank for mature firms
N = Rank for new firms



Alabama ranks 13th overall for mature operations and 19th overall for newly established operations. Specifically:

- Alabama has the second-lowest tax bill for a mature distribution center with a total effective tax rate (TETR) of 18.6 percent. The state's lowest-in-the-country property taxes for this operation are a key driver, producing a property tax bill 62 percent below the national average.
- The state also ranks among the lowest tax burden states (fifth) for the mature call center operation with a TETR of 14.5 percent. Contributing to this high ranking is the fact that the state has one of the lowest property tax burdens for this operation in the nation, 62 percent below the national average.
- Alabama ties for 41st with Mississippi for the mature R&D operation, with a TETR of 15.5 percent. This operation has an above-average income tax burden and one of the highest sales tax burdens in the nation.
- For newly established operations, Alabama ranks above-average for distribution centers, call centers and both types of manufacturing operations. In large measure, this is due to the fact that Montgomery's property taxes are among the lowest of all the nearly100 cities in this study, greatly reducing the tax bills for new operations based there.
- Alabama is one of 21 states with an antiquated capital stock tax, which can greatly hinder capital formation.

Alabama

Corporate income tax

Main tax rate	6.500%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	
- 100% deduction for federal tax paid	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Birmingham	9.000%	1.358%	1.358%	1.358%	–
Tier 2	Montgomery	10.000%	0.730%	0.730%	0.730%	–
a.	Manufacturing machinery is taxed at a reduced rate of 3.583% in Montgomery and 4.25% in Birmingham					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$8,000	0.175%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	5% of eligible capital investment x 20 years	✓	✓	✓	✓	✓	✓	
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	73% abatement x 10 years	✓	✓			✓	✓	

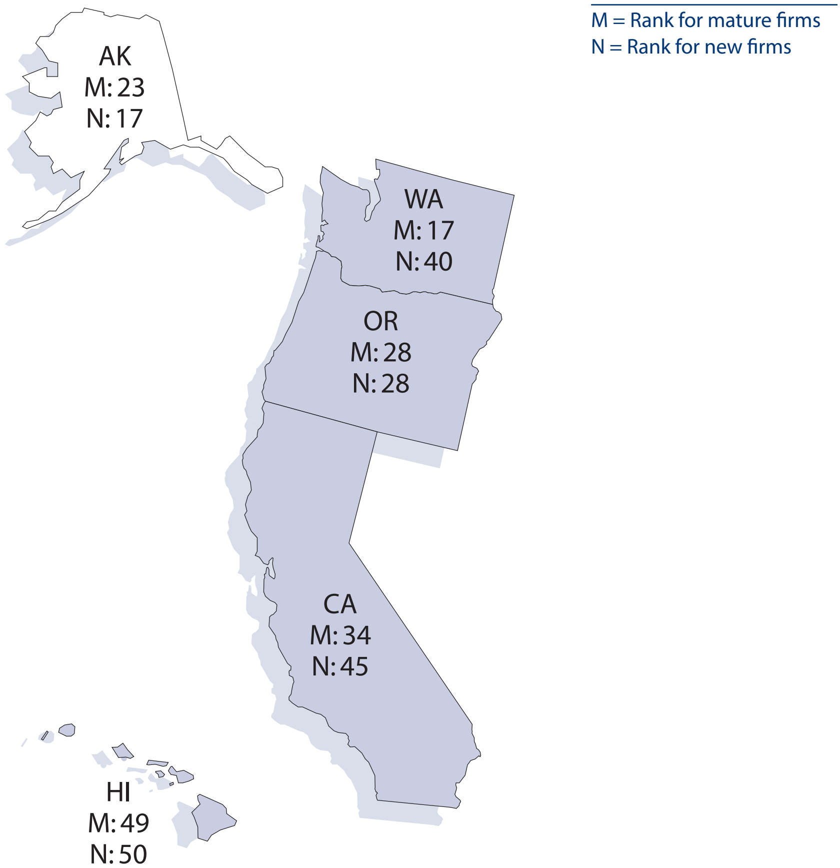
MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	8.2%	9.1%	18.7%	25.5%	16.0%	16.9%	31.4%		10.4%	10.5%	14.5%	18.6%	14.9%	15.5%	14.3%	
Index	72.3	77.8	74.9	70.4	98.7	114.7	96.3	**86.4**	81.9	90.1	69.0	60.6	95.1	120.8	84.3	**86.0**
Rank	18	13	12	10	24	29	23	**19**	18	25	5	2	22	41	13	**13**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Alaska



Alaska ranks 23rd overall for mature operations and 17th overall for newly established operations. Specifically:

- Alaska has the second-lowest total tax costs for the newly established distribution center with a TETR of 20.2 percent, roughly 44 percent below the national average. Alaska benefits from not levying a state-level sales tax and by offering a large property tax abatement. The state also ranks fourth for new retail establishments and fifth for new capital-intensive manufacturing.
- For mature firms, Alaska highest ranking is fourth for corporate offices, with a TETR of 11.5 percent, roughly 27 percent below the national average. Again, the lack of a state sales tax and relatively moderate property taxes contribute to the state's high ranking.
- Alaska has one of the higher tax costs (ranking 42nd) for the mature R&D firm, with a TETR of 15.7 percent. Alaska's high corporate income tax and high unemployment insurance tax burden are the main factor in this ranking.
- For similar reasons, Alaska also has above-average tax costs for the mature call center (ranking 34th) and the mature labor-intensive manufacturing plant (ranking 30th).
- Alaska's high income tax burden results from not only its high top rate of 9.4 percent, but also from its three-factor income apportionment formula (which weights property, payroll, and sales factors equally), and the fact that the state uses a throwback rule.

Alaska

Corporate income tax

Main tax rate	9.400%
Applies to income over	$90,000
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Anchorage	–	1.563%	1.563%	1.563%	0.896%
Tier 2	Fairbanks	–	1.724%	1.724%	–	–
a.	No sales tax exists in Alaska					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.82%	$34,600	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	100% abatement x 5 years	✓	✓		✓	✓	✓	✓

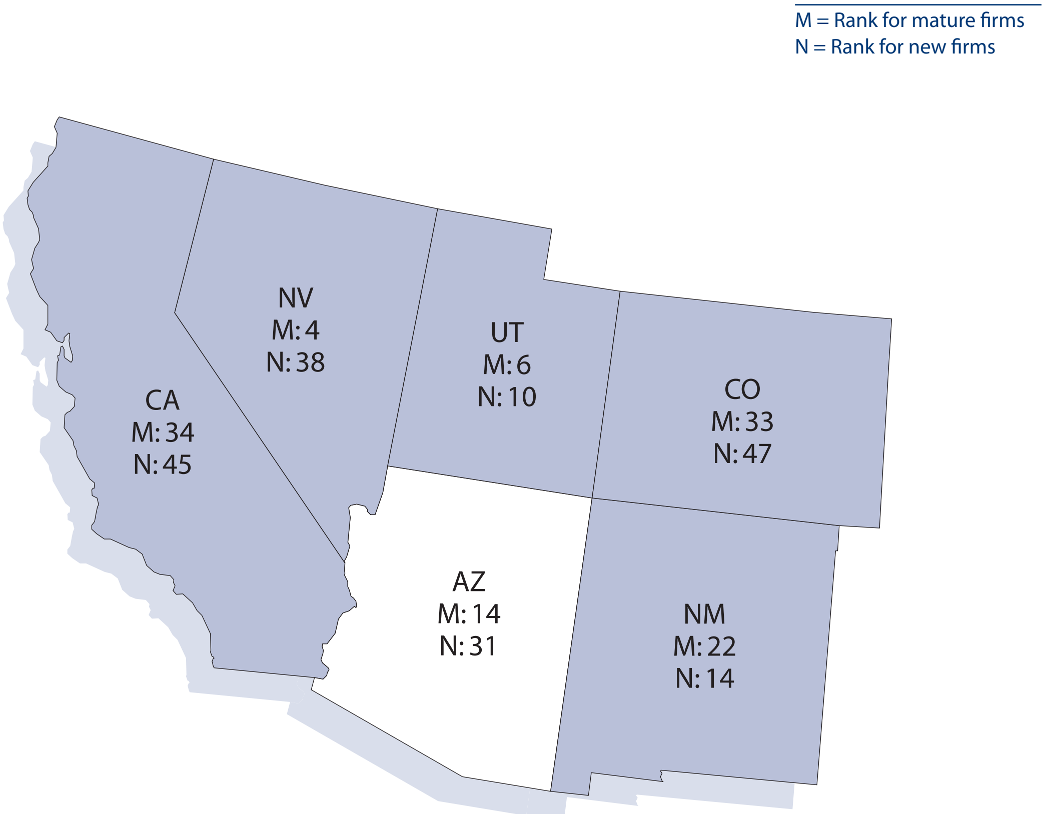
MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	5.5%	10.6%	28.1%	20.2%	12.7%	17.3%	20.6%		12.5%	12.0%	23.5%	26.8%	11.5%	15.7%	14.9%	
Index	48.7	90.8	112.7	55.9	78.9	117.4	63.3	**81.1**	98.8	102.9	112.0	87.4	73.1	121.7	88.2	**97.7**
Rank	5	19	28	2	15	31	4	**17**	25	30	34	18	4	42	17	**23**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Arizona



Arizona ranks 14th overall for mature operations but 31st overall for newly established operations. Specifically:

- Arizona ranks 13th for the mature labor-intensive manufacturing business, with a total effective tax rate (TETR) of 8.9 percent, and 14th for mature capital-intensive manufacturing, with a TETR of 9.5 percent. The state's lower-than-average income tax burden contributes most to this high ranking.
- Arizona ranks 13th for mature R&D operations because of the state's moderate income tax burden and low unemployment insurance (UI) tax burden. The state ranks 16th for mature call centers because of its very low UI tax burden.
- Arizona ranks 40th for the new capital-intensive manufacturing operations with a TETR of 16.3 percent. For labor-intensive manufacturing, Arizona ranks 39th with a TETR of 13.2 percent. Property taxes are, by far, the largest tax cost for these firms, a tax burden nearly twice the national average. Arizona is one of only a handful of states that don't offer property tax abatements.
- Arizona has above-average tax burdens for most new operations, except for the new call center. The state's lack of incentives (such as property tax abatements and investment credits) compared to other states is a factor in these operations' comparatively high tax burdens.
- One area where Arizona has low tax costs is UI, where the state ranks among the lowest in the nation for both mature and new operations.

Arizona

Corporate income tax

Main tax rate	6.968%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	10.0%	10.0%	80.0%
Optional alternative	25.0%	25.0%	50.0%
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Phoenix	8.500%	2.249%	2.249%	2.249%	–
Tier 2	Prescott	9.350%	1.580%	1.580%	1.580%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.00%	$7,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

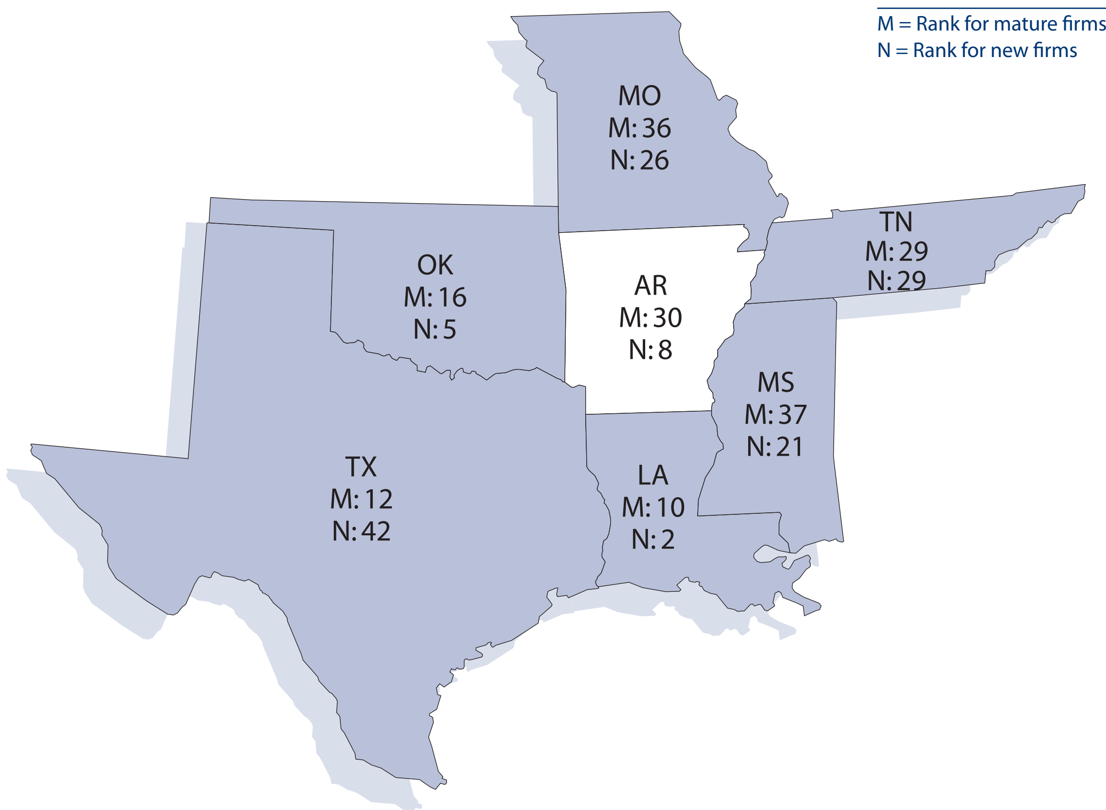
Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	$3,000 per new job (max. 400) x 3 years	✓	✓	✓	✓	✓	✓	
Withholdings	n/a							
R&D	24% of in-state R&D expenses, per federal concepts						✓	
Property tax	n/a							

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	16.3%	13.2%	23.5%	38.6%	17.4%	18.9%	36.1%		9.5%	8.9%	17.9%	27.7%	15.0%	10.3%	16.9%	
Index	143.1	112.8	94.1	106.8	107.8	128.4	111.0	**114.9**	75.0	76.2	85.4	90.4	95.9	80.2	100.0	**86.2**
Rank	40	39	20	33	31	36	37	**31**	14	13	16	21	25	13	30	**14**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store



Arkansas ranks 30th overall for mature operations, but eighth overall for newly established operations. Specifically:

- Arkansas ranks fifth for the newly-established corporate headquarters with a total effective tax rate (TETR) of 8.9 percent. For this type of new operation, the state offers a relatively low income and sales tax burden, helped by a sizeable withholding tax rebate, as well as generous investment and job tax credits.
- For similar reasons, Arkansas ranks among the top states (sixth) for the newly-established call center and for the new R&D operation (sixth). The R&D operation does not receive an investment tax credit, but instead gets a credit for 20 percent of in-state R&D expenses.
- For mature operations, the state achieves a 14th place ranking for distribution centers where the operation's tax burden is 20 percent below the national average. Low property taxes are the contributing factor even though Arkansas is one of the few states to tax inventories and equipment in addition to land and buildings.
- The state ranks 43rd for mature capital-intensive manufacturing (with a TETR of 17.3 percent) and 40th for labor-intensive manufacturing (with a TETR of 14.2 percent). These results are driven mainly by a higher-than-average income tax burden, an antiquated capital stock tax, and a very high combined state and local sales tax rate.

Arkansas

Corporate income tax

Main tax rate	6.500%
Applies to income over	$100,000
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Little Rock	7.000%	1.194%	1.194%	1.194%	1.194%
Tier 2	Fort Smith	9.250%	1.110%	1.110%	1.110%	1.110%
a.	Manufacturing machinery is exempt from sales tax for new/expanded facilities or replacement equipment					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.80%	$12,000	0.300%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	10% of eligible capital investment	✓	✓	✓	✓	✓		
Job creation	1% of new payroll x 5 years	✓	✓	✓	✓	✓	✓	
Withholdings	3.9% of new payroll x 7 years	✓	✓	✓	✓	✓	✓	
R&D	20% of incremental in-state R&D expenses						✓	
Property tax	65% abatement x 15 years	✓	✓					

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.6%	9.1%	11.4%	30.3%	8.9%	6.7%	30.5%		17.3%	14.2%	20.8%	24.6%	14.0%	13.6%	14.8%	
Index	84.5	78.1	45.9	83.8	55.2	45.8	93.6	**69.6**	136.4	121.9	98.9	80.4	89.0	105.7	87.3	**102.8**
Rank	29	14	6	21	5	6	20	**8**	43	40	26	14	18	30	15	**30**

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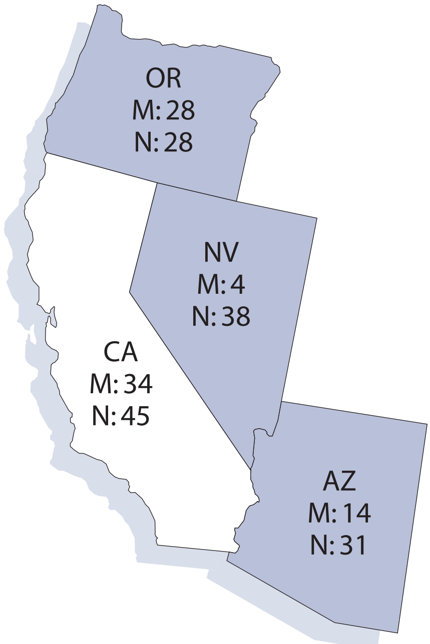
California



California ranks 34th overall for mature operations and 45th overall for newly established operations. Specifically:

- The operation for which California has the lowest tax burden is the mature R&D center (ranking 11th). This operation has a total effective tax rate (TETR) of 9.5 percent, roughly 26 percent below the national average. Comparatively, this firm benefits from low property taxes (fifth-lowest nationally) and low income taxes because of the state's R&D tax credit. The state also ranks well (15th) for the mature distribution center. Low property taxes are the primary driver of this result.
- The state's highest tax cost for mature operations is for the capital-intensive manufacturing operation, where the state ranks 44th. This operation has a TETR of 18.1 percent, nearly 43 percent above the national average. Similarly, the state ranks 43rd for the mature labor-intensive manufacturing firm. This firm has a TETR of 15.5 percent, more than 33 percent above the national average. This firm has the highest income tax burden of its type in the nation and one of the highest sales tax burdens.
- For new operations, California ranks 49th with the second-highest tax cost for labor-intensive operations. This firm has a TETR of 20.3 percent, more than 73 percent larger than the national average. The state also ranks 47th for new capital-intensive manufacturing with a tax burden twice the national average. These firms are hampered by California's 8.84 percent income tax rate and an apportionment formula that uses a throwback rule. The state also subjects manufacturing machinery to one of the highest sales tax rates in the nation.
- The state also has one of the highest tax burdens for new corporate headquarters, ranking 45th overall. The tax costs for this operation are nearly 35 percent above the national average.
- California is notable for having very few tax incentives for newly established operations, offering only a 15 percent R&D credit.

California

Corporate income tax

Main tax rate	8.840%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	–	–	100.0%
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Los Angeles	9.080%	1.100%	1.100%	1.100%	–
Tier 2	Merced	8.750%	1.100%	1.100%	1.100%	–
a.	Manufacturing machinery is subject to sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
4.70%	$7,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	0.101%	0.356%	0.127%	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	15% of in-state R&D expenses, per federal concepts						✓	
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	23.9%	20.3%	28.6%	34.5%	21.8%	16.4%	31.6%		18.1%	15.5%	20.4%	25.3%	17.2%	9.5%	17.2%	
Index	209.8	173.3	115.0	95.3	134.7	111.6	97.2	**133.8**	142.6	133.4	97.2	82.5	109.5	73.6	102.0	**105.8**
Rank	47	49	30	26	45	27	25	**45**	44	43	25	15	38	11	31	**34**

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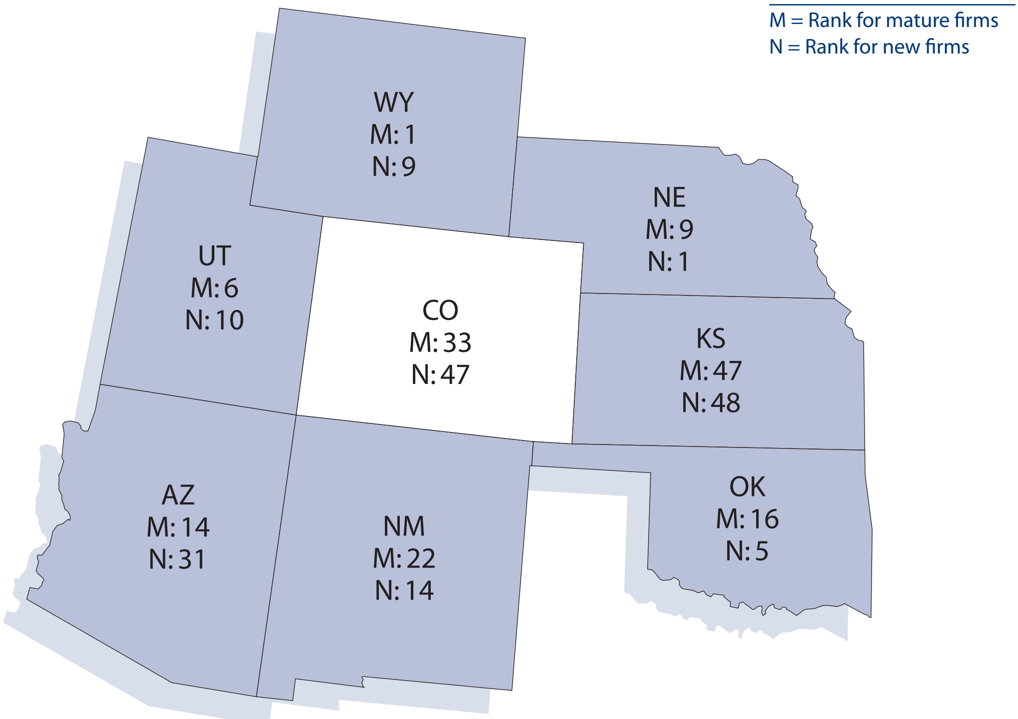
Colorado



Colorado ranks 33rd overall for mature operations and 47th overall for newly established operations. Specifically:

- Colorado ranks 19th for the mature retail firm, which has a total effective tax rate (TETR) of 15.4 percent, about 9 percent below the national average. This is the only firm type for which Colorado is in the top half of states. This firm type is helped by Colorado's low, flat corporate income tax rate and moderate unemployment insurance (UI) tax burden.
- The state also ranks above average (20th) for mature corporate offices, helped by the low corporate income and UI tax burdens.
- Colorado ranks 39th for mature capital-intensive manufacturing with a TETR of 15.5 percent, 22 percent above the national average. The biggest contributor to this ranking is the firm's high property tax burden, which is among the 10 highest in the nation for this type of operation.
- For newly established firms, Colorado ranks 47th for the labor-intensive manufacturing firm. This firm has a TETR of 16.7 percent, which is 43 percent above the national average. The property tax burden for this firm type is over twice the national average and represents over half the firm's state tax burden.
- For similar reasons, the state ranks 45th for new capital-intensive manufacturing. Colorado's property tax abatement for new firms is relatively small.
- Despite exempting manufacturing machinery from sales taxes, Colorado nevertheless ranks below average for all manufacturing firm types.

Colorado

Corporate income tax

Main tax rate	4.630%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Denver	7.270%	2.400%	2.400%	2.400%	–
Tier 2	Fort Collins	7.550%	2.666%	2.666%	2.666%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.52%	$10,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	1% of eligible capital investment to $1,000 max.	✓	✓	✓	✓	✓	✓	
Job creation	3.725% of new payroll x 1 year	✓	✓	✓	✓	✓	✓	
Withholdings	n/a							
R&D	n/a							
Property tax	17.5% abatement x 10 years	✓	✓	✓	✓	✓	✓	

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	21.8%	16.7%	29.9%	46.6%	18.3%	20.7%	35.6%		15.5%	12.2%	20.8%	35.6%	14.3%	14.7%	15.4%	
Index	191.6	142.9	120.0	128.8	112.9	140.5	109.2	**135.1**	121.9	104.5	98.9	116.0	90.9	114.2	91.2	**105.4**
Rank	45	47	34	40	34	40	34	**47**	39	31	26	38	20	36	19	**33**

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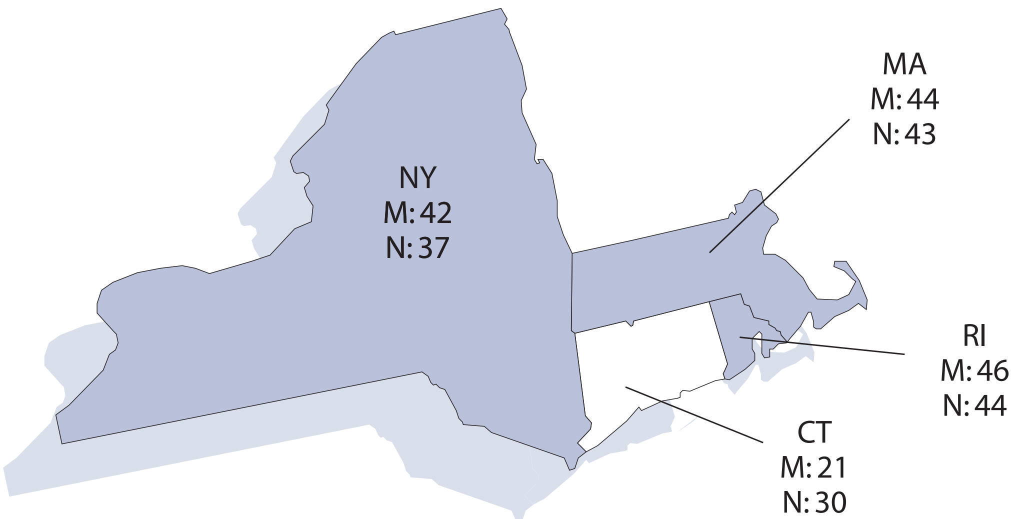
Connecticut

M = Rank for mature firms
N = Rank for new firms



Connecticut ranks 21st overall for mature operations and 30th overall for newly established operations. Specifically:

- Connecticut ranks sixth for the mature labor-intensive manufacturing firm, which has a total effective tax rate (TETR) of 7.6 percent, almost 35 percent below the national average. This light tax cost is driven by the firm's low income tax burden, which benefits from Connecticut's single-sales factor income apportionment formula, which has no throw-back rule.
- The state ranks ninth for mature capital-intensive manufacturing, with a TETR of 8.1 percent, 36 percent below the national average. Again, this light tax cost is due to the state's apportionment factor which minimizes the income tax burden for firms that sell out of state.
- Connecticut ranks 42nd for the mature corporate office, which has a TETR of 17.8 percent, or 13 percent above the national average. This type of operation is hurt by the state's high 8.25 percent income tax rate and a higher-than-average unemployment insurance (UI) tax burden.
- For similar reasons, the state ranks 40th for new corporate headquarters, with a TETR of 20 percent, nearly 24 percent above the national average.
- High income taxes and high UI taxes also contribute to the state's 35th-place ranking for the new R&D center the new call center and 37th-place for the new call center.
- Connecticut is one of 21 states with an antiquated capital stock tax, which can greatly hinder capital formation.

Connecticut

Corporate income tax

Main tax rate	8.250%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Mfg. and services	–	–	100.0%
Retail	25.0%	25.0%	50.0%
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Hartford	6.000%	1.708%	1.708%	1.708%	–
Tier 2	Norwich	6.000%	1.772%	1.772%	1.772%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.70%	$15,000	0.310%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	5% of eligible capital investment	✓	✓	✓	✓	✓	✓	
Job creation	n/a							
Withholdings	60% of withholdings as an income tax credit x 5 years	✓	✓	✓	✓	✓	✓	✓
R&D	20% of incremental + 6% of actual CT R&D expenses						✓	
Property tax	Abate 80% or 100% (mfg. machinery) x 5 years	✓	✓					

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.6%	10.3%	32.1%	40.2%	20.0%	18.3%	34.1%		8.1%	7.6%	24.5%	30.7%	17.8%	12.0%	17.6%	
Index	84.0	88.4	128.8	111.3	123.7	124.2	104.6	**109.3**	64.0	65.6	116.8	100.3	113.2	93.4	103.9	**93.9**
Rank	25	18	37	34	40	35	29	**30**	9	6	38	29	42	21	32	**21**

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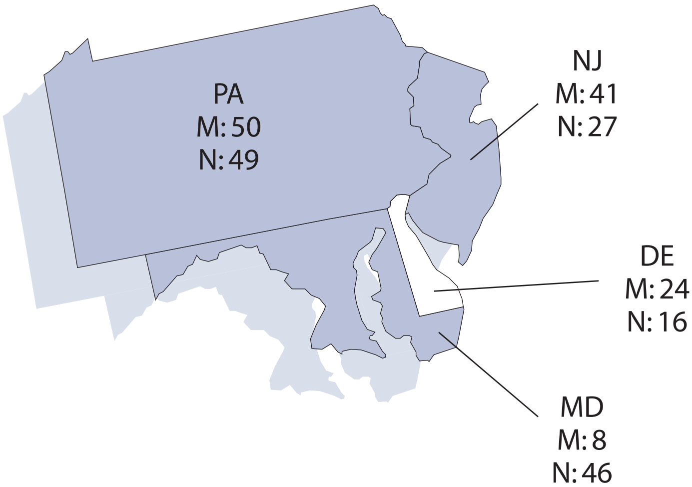
Delaware

M = Rank for mature firms
N = Rank for new firms



Delaware ranks 24th overall for mature operations and 16th overall for newly established operations. Specifically:

- Delaware ranks fourth as one of the lowest tax cost states for new capital-intensive manufacturing firms. This operation has a total effective tax rate (TETR) of 4.4 percent, more than 60 percent below the national average. This is driven by two factors: a low property tax burden and the lack of a state sales tax, which significantly reduces the cost of inputs. The property tax burden is low because Delaware does not tax equipment or inventory. The state also has a generous investment tax credit.
- For similar reasons, Delaware ranks eighth for the new labor-intensive manufacturing firm and seventh for the new distribution center. Each of these firm types have tax costs nearly 40 percent below the national average.
- Delaware ranks 45th as one of the highest tax cost states for mature retail operations – perhaps surprisingly, given the state's lack of a sales tax. Contributing to this ranking is the fact that Delaware is one state of only a handful with a gross receipts tax, whose rate for retail is higher than the comparable rates for manufacturing and services, and which more or less cancels out the benefit of the lack of sales tax. High income tax rates and Wilmington's very high property tax rate add to the tax burden.
- Similarly, Delaware is among the highest tax cost states (ranking 44th) for mature R&D operations. Delaware's gross receipts tax is less of a factor for this firm type, but the firm still suffers from a moderately high income tax burden and Wilmington's high property taxes.

Delaware

Corporate income tax

Main tax rate	8.700%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Wilmington	–	3.964%	3.964%	–	–
Tier 2	Dover	–	1.749%	1.749%	–	–
a.	No sales tax exists in Delaware					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.10%	$10,500	0.035%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	0.194%	0.415%	0.778%	n/a
Tier 2	0.194%	0.415%	0.778%	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	0.4% of eligible capital investment x 10 years	✓	✓	✓	✓	✓	✓	
Job creation	$400 per new job x 10 years	✓	✓	✓	✓	✓	✓	
Withholdings	n/a							
R&D	10% of in-state R&D expenses, per federal concepts						✓	
Property tax	50% abatement x 5 years	✓	✓		✓			

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	4.4%	7.4%	21.9%	22.9%	13.3%	19.5%	31.3%		9.5%	9.5%	21.1%	26.5%	14.0%	16.5%	21.4%	
Index	38.9	63.0	87.9	63.5	82.1	132.1	96.3	**80.5**	74.6	81.3	100.5	86.4	88.9	128.3	126.5	**98.1**
Rank	4	8	17	7	18	37	23	**16**	13	19	28	17	17	44	45	**24**

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District of Columbia

The District of Columbia is a unique state-local entity, which presents particular challenges. D.C. is not ranked against the other states but the model does calculate the city's total effective tax rates (TETRs) for Tier One firms – corporate headquarters, R&D facility, and retail operation. Tier Two firm types are not considered in this study for D.C.

- D.C. has above-average tax burdens for all mature firm types. For example, the corporate headquarters has a TETR of 16.1 percent, 3 percent above the national average. However, the R&D facility faces an 18.5 percent TETR, more than 43 percent above the national average. This operation bears one of the highest income tax burdens in the nation and above-average burdens for both sales and property taxes. These same factors affect the retail operation, which has a TETR of 19.3 percent.
- For new firms, the retail operation in D.C. has a TETR of 40.1 percent, 23 percent above the national average. The corporate headquarters has a total tax burden more than 38 percent above the national average, while the R&D operation's tax burden is more than 80 percent above the average. All of these firm types have similar factors affecting their tax situation: one of the highest corporate income tax rates in the nation and one of the highest property tax burdens (largely because of a heavy tax on equipment). Generally, they do have moderate unemployment insurance and sales tax burdens. D.C. does not offer any tax incentives, which gives it a disadvantage to some other states.

District of Columbia

Corporate income tax

Main tax rate	9.975%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

	Metro areas examined	Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Washington	6.500%	1.850%	1.850%	3.400%	–
Tier 2	n/a	–	–	–	–	–
a.	Manufacturing machinery is subject to sales tax					

Other taxes

Unemployment insurance		State capital tax
Rate	Max. pay	
2.70%	$9,000	n/a

	Gross receipts tax			Local income tax
	Mfg.	Services	Retail	
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	n/a							

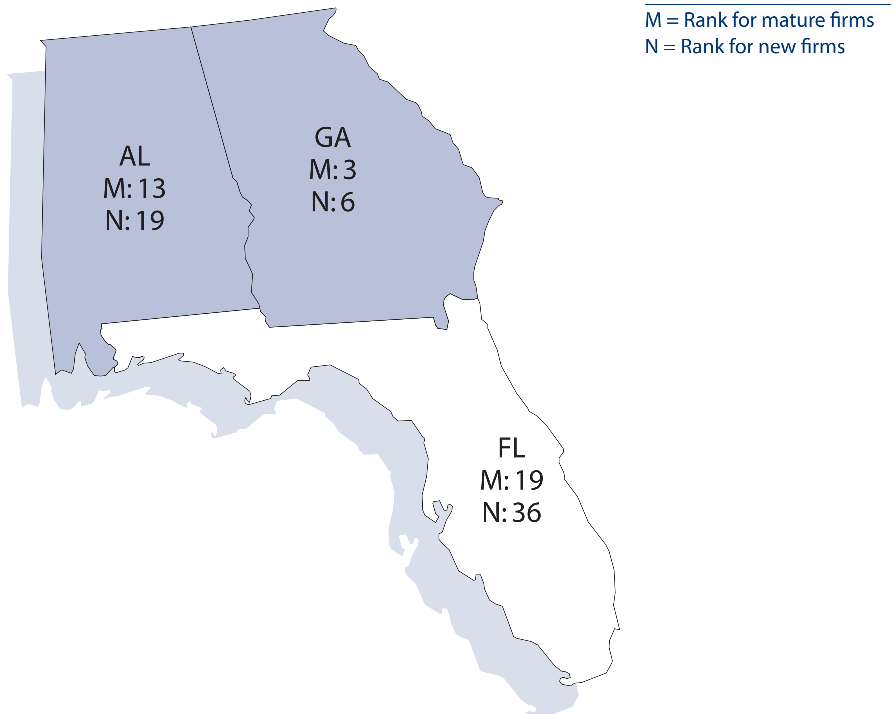
MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	n/a%	n/a%	n/a%	n/a%	22.3%	26.6%	40.1%		n/a%	n/a%	n/a%	n/a%	16.1%	18.5%	19.3%	
Index	n/a	n/a	n/a	n/a	138.2	180.5	122.9	**n/a**	n/a	n/a	n/a	n/a	102.9	143.4	113.7	**n/a**
Rank	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Florida



Florida ranks 19th overall for mature operations, but 36th overall for newly established operations. Specifically:

- Florida ranks eighth for mature call centers with a total effective tax rate (TETR) of 16 percent, roughly 24 percent below the national average. Contributing to the low tax costs for this operation is a low unemployment insurance (UI) tax burden. Also, the firm has a low income tax burden because of the state's sourcing rules for service income, which allow that income be sourced where the benefit of the service is received. This is a benefit to firms such as call centers, which sell much of their services outside of their home state.
- For similar reasons, Florida ranks 15th for the mature corporate headquarters, which has a TETR of 13.5 percent, some 14 percent below the national average.
- The state ranks 34th for the newly established labor-intensive manufacturing firm, despite the fact that Florida has the second-most generous investment tax credit in the nation. For this firm type, property tax levels are often the dominant factor, which nationally average about 60 percent of the operation's total tax burden. In Florida, this firm pays twice the national average in property taxes (the state does not offer property tax abatements for newly established firms).
- Similarly, Florida ranks 44th for the new capital-intensive manufacturing firm despite offering the most generous investment tax credit – roughly 10 times the average nationally. Negating the firm's low income tax burden is a property tax burden that is two and one-half times the national average for new manufacturing firms and a high sales tax burden.

Florida

Corporate income tax

Main tax rate	5.500%
Applies to income over	$5,000
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			Market

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Miami	7.000%	2.421%	2.421%	2.421%	–
Tier 2	Gainesville	6.630%	2.103%	2.103%	2.103%	–
a.	Manufacturing machinery is exempt from sales tax only for new/expanded facilities					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$7,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	5% of eligible capital investment x 20 years Sales tax exemption for mfg. machinery for new firms	✓	✓					
Job creation	Varies from $3,000-$4,000 per new job over 4 years	✓	✓			✓	✓	
Withholdings	n/a							
R&D	n/a							
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	20.1%	12.7%	26.1%	43.6%	17.4%	19.6%	35.5%		12.9%	9.8%	16.0%	27.9%	13.5%	13.0%	15.9%	
Index	176.0	108.3	104.9	120.6	107.9	132.6	109.2	**122.8**	101.5	83.9	76.4	91.1	86.0	100.9	94.1	**90.6**
Rank	44	34	23	35	32	38	34	**36**	27	20	8	22	15	25	24	**19**

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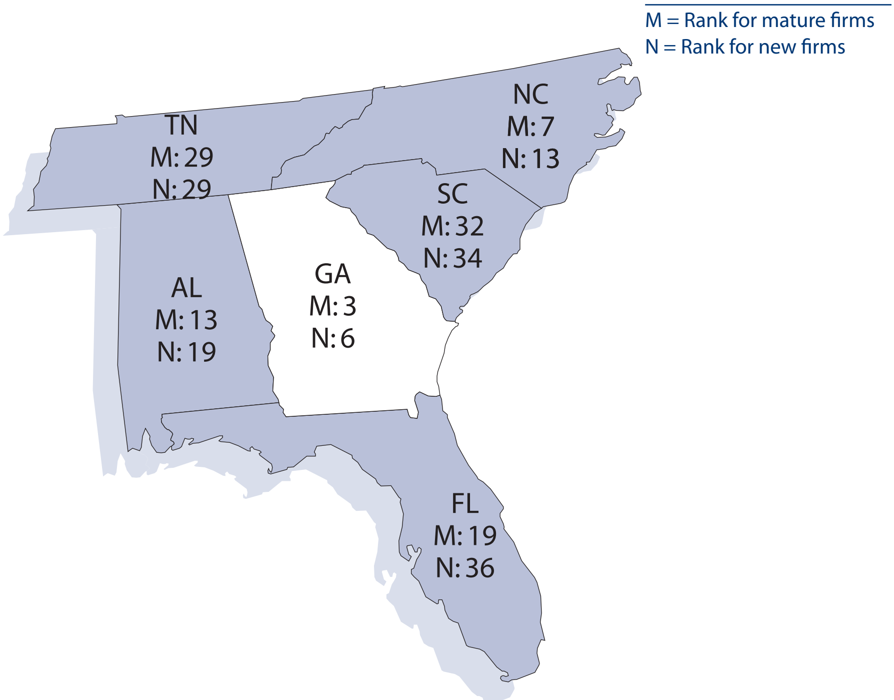
Georgia



Georgia ranks third overall for mature operations and sixth overall for newly established operations. Specifically:

- Georgia ranks second for both the mature call center and the mature labor-intensive manufacturing firm. The call center's total effective tax rate (TETR) is 12.5 percent, 40 percent below the national average, while the TETR for the manufacturing operation is 6.5 percent, or nearly 45 percent below the national average.
- For manufacturers, Georgia has a very friendly income apportionment formula – a single-sales factor and no throwback rule. Georgia's sourcing rules for services similarly advantage operations such as call centers that sell their services out of state. This contributes to the state's tenth-place ranking for mature R&D operations and eighth-place ranking for new R&D operations.
- Georgia has low tax costs (ranking eighth) for mature capital-intensive manufacturing. With a TETR of just 7.5 percent, this operation benefits from the state's low income tax burden and low unemployment insurance tax bill.
- The state has slightly higher tax costs (ranking 23rd) for new corporate headquarters, though this operation's tax costs are still below the national average. This operation does not benefit from the state's single-sales factor apportionment or sourcing rules. All of its income is subject to in-state taxation (albeit at a reasonably low 6 percent rate).
- Georgia also ranks toward the middle (21st) for newly established retail operations. This operation is particularly burdened by the state's relatively high 7.25 percent sales tax and property taxes – specifically the taxes on equipment and inventory.
- Georgia is one of only 10 states to levy a property tax on inventories – in addition to buildings, land, and equipment.

Georgia

Corporate income tax

Main tax rate	6.000%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	
- Deduction allowed for in-state tax paid	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Atlanta	7.250%	1.668%	1.668%	1.668%	1.658%
Tier 2	Macon	6.500%	1.609%	1.609%	1.609%	1.599%
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$8,500	≤$5,000

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	Varies from $1,250-$1,750 per new job x 5 years	✓	✓	✓	✓	✓	✓	
Withholdings	Partial refundability of above job tax credits	✓	✓	✓	✓	✓	✓	
R&D	10% of in-state R&D expenses, per federal concepts						✓	
Property tax	Abate 50% x 10 years + freeport for mfg. inventory	✓	✓	✓	✓	✓	✓	

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	8.5%	7.1%	7.2%	22.3%	15.2%	7.5%	31.0%		7.5%	6.5%	12.5%	25.9%	14.0%	8.6%	14.8%	
Index	74.6	60.8	29.1	61.6	94.2	51.1	95.4	**66.7**	59.1	55.6	59.6	84.5	89.4	67.0	87.3	**71.8**
Rank	20	7	5	4	23	8	21	**6**	8	2	2	16	19	10	15	**3**

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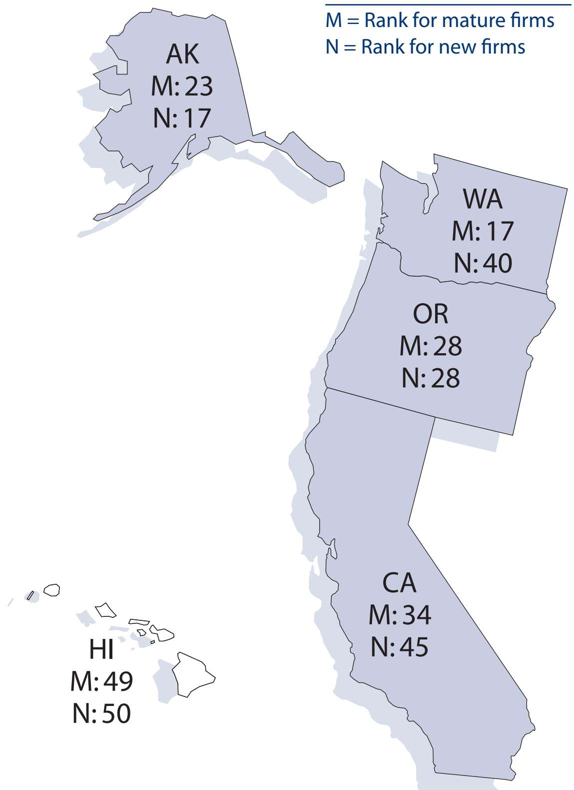
Hawaii

Hawaii ranks 49th overall for mature operations and 50th overall for newly established operations. Specifically:

- Hawaii ranks 50th for having the highest total tax costs for mature capital-intensive manufacturing operations, with a TETR of 26.2 percent. This tax burden is more than twice the national average of 12.7 percent. Hawaii does have the lowest property tax burden of any state for this type of operation. However, it offsets this with a high corporate tax burden, the nation's highest sales tax burden, and the second-highest unemployment (UI) tax burden.
- Hawaii also has the highest tax burden for mature labor-intensive manufacturing operations with a TETR of 33.1 percent, which is nearly 184 percent above the national average. Despite having the nation's lowest property tax burden for this firm type, Hawaii has the nation's highest sales tax burden and second-highest UI tax burden.
- As it does for mature labor-intensive manufacturing operations, Hawaii ranks 50th for new operations, with the highest TETR of 40.6 percent. This is twice the tax burden of second-place California, which joins Hawaii as the only states to rank among the 10 highest tax cost states for both new and mature manufacturing operations. The same factors that increase the tax costs for mature operations – high UI and sales taxes – increase the tax costs for new manufacturing operations.
- Also, the state ranks 48th for newly established capital-intensive manufacturing. The tax burden for these firm types is more than double the national average in Hawaii, which is largely attributable to the state's high UI taxes and its unique sales tax burden.



- Hawaii's modest corporate income tax and very low property taxes help it rank seventh for mature distribution centers. However, this operation has one of the highest UI taxes of its type in the nation.
- Hawaii's sales tax applies to sales between businesses, rather than just to the end consumer. As such, manufacturing machinery is taxed in Hawaii, so the cost of equipment and other inputs for manufacturing firms is significantly higher in Hawaii than in other states.

Hawaii

Corporate income tax

Main tax rate	6.400%
Applies to income over	$100,000
Specific adjustments:	
- s.199 deduction disallowed	
- Deduction allowed for in-state tax paid	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Honolulu	4.500%	1.240%	1.240%	–	–
Tier 2	Hilo	4.000%	0.910%	0.910%	–	–

a. Manufacturing machinery is subject to sales tax

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
4.02%	$34,200	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	4% of depreciable equipment excise tax refund	✓	✓	✓	✓	✓	✓	✓
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	24.6%	40.6%	29.5%	25.5%	16.3%	16.0%	32.2%		26.2%	33.1%	23.8%	21.9%	14.3%	13.9%	20.9%	
Index	215.5	346.8	118.6	70.4	100.7	108.9	99.1	**151.4**	206.7	283.9	113.4	71.4	91.2	108.0	123.5	**142.6**
Rank	48	50	32	10	26	26	26	**50**	50	50	36	7	21	32	43	**49**

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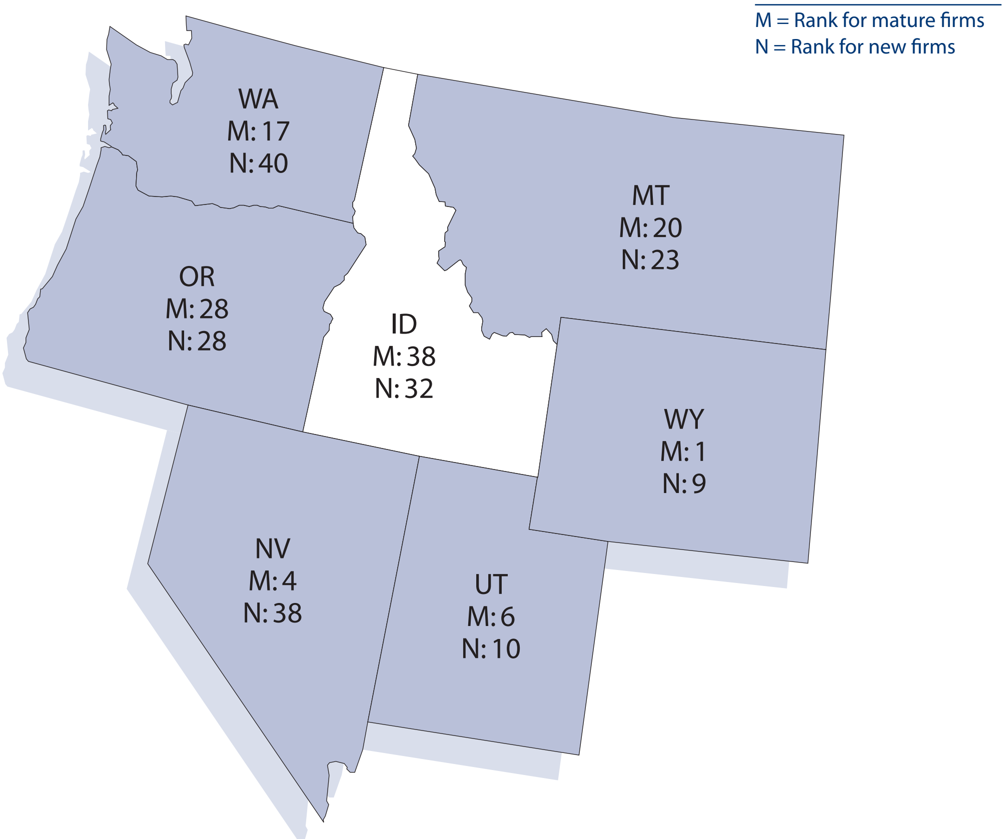
Idaho



Idaho ranks 38th overall for mature operations and 32nd overall for newly established operations. Specifically:

- Idaho ranks 23rd for mature distribution centers, with a total effective tax rate (TETR) of 28.1 percent, about 8 percent below the national average. Although this operation has one of the highest unemployment insurance (UI) tax burdens of this firm type in the nation, it benefits from a low sales tax burden and modest property tax burden.
- Idaho ranks 43rd with one of the highest tax costs for the newly established corporate office, which has a TETR of 20.4 percent, which is 26 percent above the national average. This operation is burdened with the second-highest UI tax burden in the nation in addition to high income and property taxes
- For similar reasons, the state also has high tax costs for other newly established firm types that tend to be labor intensive; it ranks 43rd for call centers, 40th for labor-intensive manufacturing operations, and 41st for new R&D operations.
- High UI and income taxes are the principle reason that the tax burden for mature call centers and mature R&D operations are above the national average. Idaho's high apportionment factor for each firm, combined with its throwback rule, drives these rankings.
- Idaho benefits from having a moderately low 6.00 percent sales tax and exempting machinery from the tax.

Idaho

Corporate income tax

Main tax rate	7.600%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Boise	6.000%	2.045%	2.045%	2.045%	–
Tier 2	Coeur D'Alene	6.000%	1.500%	1.500%	1.500%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.36%	$33,300	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	3% of eligible capital investment	✓	✓	✓	✓	✓	✓	✓
Job creation	$1,000 per new job to max. 3.25% of net income		✓	✓		✓	✓	
Withholdings	n/a							
R&D	5% of in-state R&D expenses, per federal concepts						✓	
Property tax	100% abatement x 5 years	✓	✓					

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.6%	13.4%	34.8%	37.2%	20.4%	20.9%	33.5%		15.2%	13.5%	26.1%	28.1%	16.4%	15.2%	18.1%	
Index	84.2	114.4	139.5	102.7	126.1	142.1	102.8	**116.0**	119.9	116.2	124.2	91.7	104.3	118.4	106.9	**111.7**
Rank	27	40	43	32	43	41	27	**32**	37	37	41	23	34	39	35	**38**

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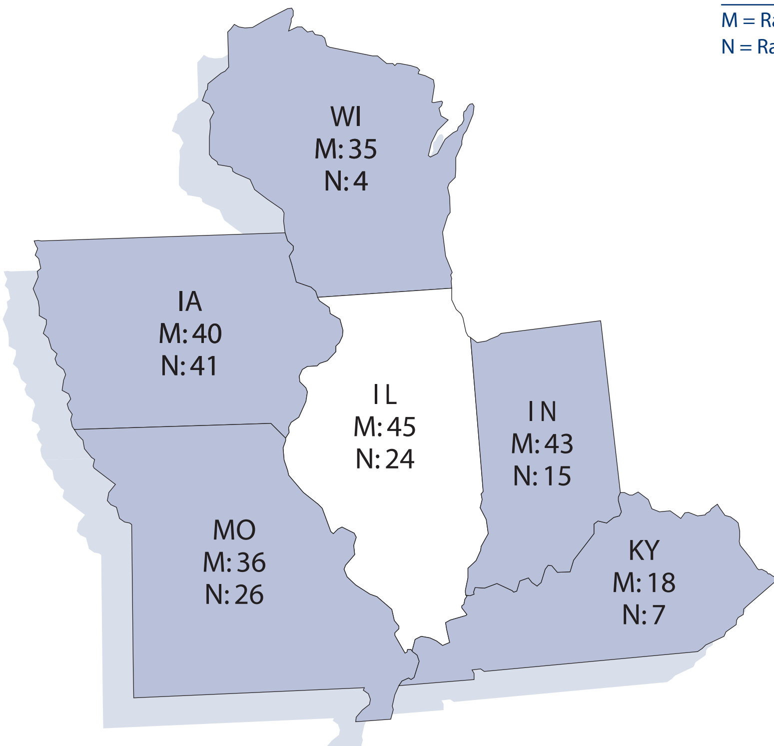

Illinois ranks 45th overall for mature operations and 24th overall for newly established operations. Specifically:

- Illinois ranks ninth for the newly established distribution center. This firm has a total effective tax rate (TETR) of 25.2 percent, which is 30 percent below the national average. The state's generous property tax abatement compensates for the high burden the firm faces for income, sales, and unemployment (UI) taxes.
- The state also has tax costs below the national average (ranks 13th) for new capital-intensive manufacturing. Again, the state's property tax abatement compensates for one of the highest income tax burdens in the nation for this type of operation in addition to an above-average UI and sales tax burden.
- For mature operations, Illinois' highest tax cost is 48th for R&D operations, which have a TETR of 19 percent, or 48 percent above the national average. Although the state sources service income to where the benefits are delivered, it does have a throwback rule which effectively exposes 100 percent of this firm's income to in-state taxes.
- The state also has burdens well above average for mature corporate office headquarters (43rd), mature call centers (41st) and mature retail operations (40th). The state's high income and sales tax burdens are largely responsible for the corporate headquarters having a TETR 27 percent above the national average and the retail operation having a TETR nearly 18 percent above the national average. The combined state and local sales tax rate of 8.88 percent is the fourth-highest rate in the country for these operations.
- Illinois consistently offers one of the more generous withholding tax credits for most types of firms.

Illinois

Corporate income tax

Main tax rate	9.500%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	
- Throw-out rule applies to services receipts	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Chicago	8.880%	2.392%	2.392%	–	–
Tier 2	Springfield	8.000%	2.319%	2.319%	–	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.80%	$12,740	0.100%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	1% of eligible capital investment	✓	✓					
Job creation	n/a							
Withholdings	3% of new payroll as an income tax credit x 10 years	✓	✓	✓	✓	✓	✓	
R&D	n/a (expired)							
Property tax	60% abatement x 10 years	✓	✓		✓			

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	7.0%	11.2%	27.7%	25.2%	16.0%	16.9%	34.9%		15.0%	15.8%	26.1%	35.4%	19.9%	19.0%	19.9%	
Index	61.3	95.6	111.2	69.8	99.2	114.7	107.3	**94.2**	117.8	135.4	124.2	115.5	126.8	147.6	117.6	**126.4**
Rank	13	23	27	9	25	29	31	**24**	36	45	41	37	43	48	40	**45**

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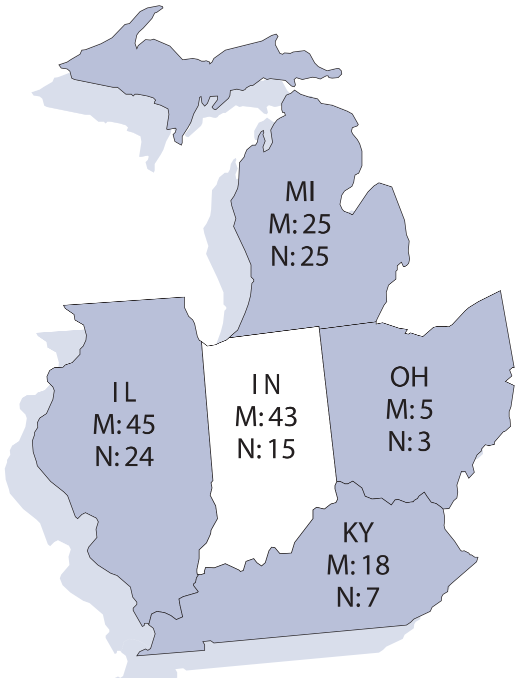
Indiana



Indiana ranks 43rd overall for mature operations but 15th overall for newly established operations. Specifically:

- Indiana ranks second for the new retail operation, which has a total effective tax rate (TETR) of 19.4 percent, 40 percent below the national average. Indiana is one of only seven states to offer retail operations a property tax abatement and one of only three states to offer retailers an investment tax credit.
- Indiana also ranks fifth for both new and mature R&D operations. The state's rank for both operations is mostly driven by research and development tax credits, which are among the most generous for both new and mature R&D firms.
- The state ranks 48th in three categories: mature capital-intensive manufacturing, mature labor-intensive manufacturing, and mature distribution center operations. Although Indiana uses a single-sales factor apportionment formula, these firms have one of the highest income tax burdens in the nation because of the state's 8.5 percent income tax and the throwback rule. Moreover, these firms face the third-highest property tax rate in the country because of the locality's high rate and the property tax on equipment.
- The state also ranks 44th for the mature call center. Like the firms mentioned above, this operation is hindered by a very high property tax burden – highest in the nation for this firm type – and a high income tax burden.
- Although Indiana has one of the most generous property tax abatements in the country for new manufacturers, the state still ranks 38th for new capital-intensive manufacturing operations.
- These results do not account for the corporate tax rate reduction or the property tax cap scheduled for 2012 and beyond.

Indiana

Corporate income tax

Main tax rate	8.500%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Indianapolis	7.000%	1.315%	1.315%	1.315%	–
Tier 2	Elkhart	7.000%	3.594%	3.594%	3.594%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.50%	$9,500	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	10% of eligible capital investment	✓	✓	✓	✓	✓	✓	✓
Job creation	n/a							
Withholdings	3% of new payroll x 7 years	✓	✓	✓	✓	✓	✓	
R&D	10-15% of in-state R&D expenses, per federal concepts						✓	
Property tax	100% abatement x 1 year + 10-year phase-in	✓	✓	✓	✓	✓	✓	✓

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	13.8%	11.0%	21.7%	32.2%	11.9%	5.4%	19.4%		23.2%	17.4%	26.6%	46.6%	15.7%	7.3%	15.4%	
Index	121.0	93.6	87.3	89.0	73.5	36.8	59.6	**80.1**	182.5	149.1	126.9	152.0	100.4	57.1	91.2	**122.7**
Rank	38	20	16	23	12	5	2	**15**	48	48	44	48	28	5	19	**43**

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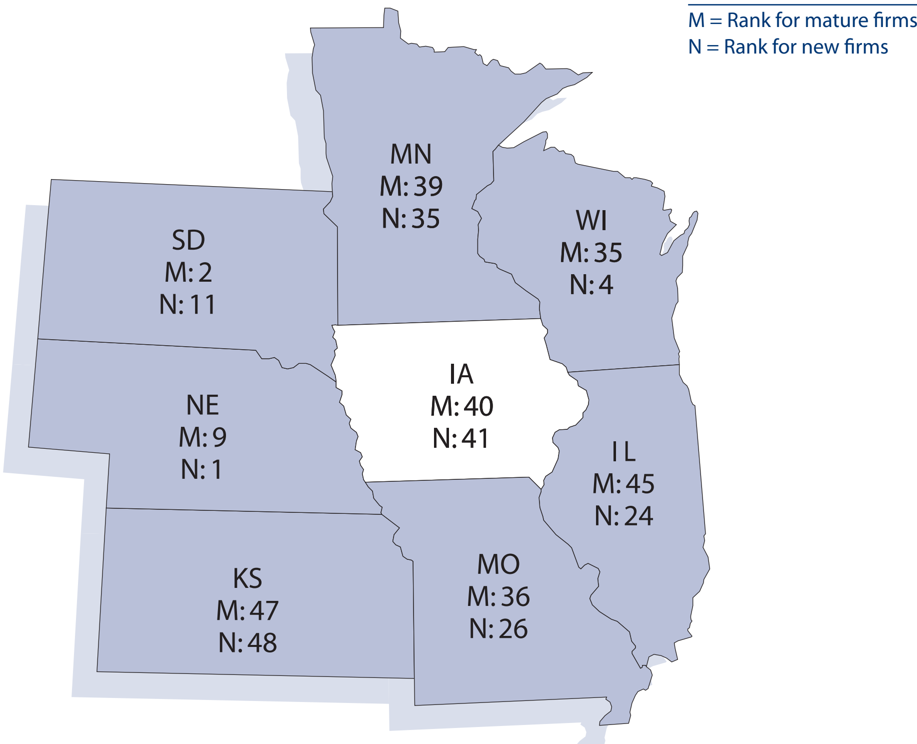
Iowa



Iowa ranks 40th overall for mature operations and 41st overall for newly established operations. Specifically:

- Despite having the highest corporate tax rate in the nation at 12 percent, Iowa's most notable results are for capital-intensive manufacturing operations, where the state ranks fourth for mature firms and seventh for new firms. One of the main contributors to the low tax costs for these firms is Iowa's single-sales factor apportionment formula – and no throwback rule – which has the effect of exempting nearly all this firm's income from in-state taxation. This operation also has a relatively low property tax burden due to the lack of property taxes on equipment and inventories.
- Iowa ranks 50th in two categories: the new retail establishment and the mature distribution center. Both operations face the highest property tax of their firm type in the nation. The mature distribution center also faces the highest income tax of its type in the country.
- Corporate headquarters in Iowa have high tax costs. The state ranks 48th for mature headquarters and 47th for new headquarters. The mature headquarters has a tax burden that is 52 percent above the national average while the new operation has a tax burden that is 67 percent above average. Again, these results are attributable to high property taxes and Iowa's high corporate income tax rate of 12 percent.
- It is interesting to note that the tax cost for labor-intensive manufacturing is higher than the costs faced by capital-intensive manufacturing. Both manufacturers have a low income tax cost due to the state's apportionment formula, but the labor-intensive operation faces one of the highest property tax burdens of its type in the nation.

Iowa

Corporate income tax

Main tax rate	12.000%
Applies to income over	$250,000
Specific adjustments:	
- s.199 deduction allowed	
- 50% deduction for federal tax paid	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Des Moines	6.000%	4.703%	4.703%	4.703%	–
Tier 2	Cedar Rapids	7.000%	3.975%	3.975%	–	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.90%	$24,700	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	Varies from 5-10% of eligible capital investment	✓	✓	✓	✓	✓	✓	
Job creation	6% of wages (to max. $24,500) for new jobs	✓	✓	✓	✓	✓	✓	
Withholdings	n/a							
R&D	6.5% of in-state R&D per federal concepts, refundable						✓	
Property tax	100% abatement x 3 years, except land	✓	✓		✓	✓	✓	✓

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	5.6%	12.1%	33.7%	48.6%	27.0%	21.5%	49.7%		5.5%	10.0%	23.7%	50.1%	23.8%	13.5%	25.9%	
Index	49.4	103.6	135.1	134.3	167.1	145.8	152.3	**126.8**	43.7	86.1	112.9	163.6	151.8	104.7	152.9	**116.5**
Rank	7	30	39	41	47	45	50	**41**	4	22	35	50	48	28	49	**40**

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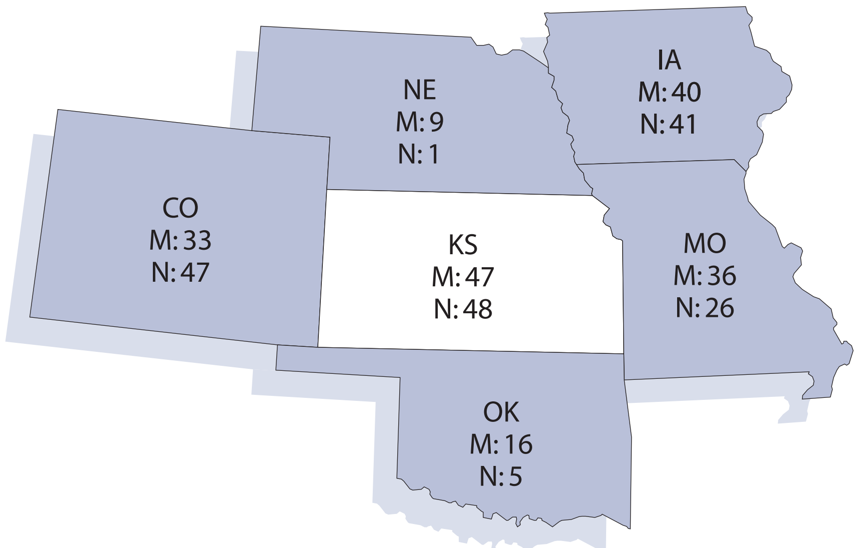
M = Rank for mature firms
N = Rank for new firms



Kansas ranks 47th overall for mature operations and 48th overall for newly established operations. Specifically:

- In Kansas, all 14 firm types have total tax costs above the national average.
- Kansas ranks 30th for the mature corporate office, which has a total effective tax rate (TETR) of 16.2 percent, just 3 percent larger than the national average. This firm has a fairly low income tax burden due to the state's apportionment formula; however, it faces an above-average sales tax burden and one of the highest property tax burdens in the nation.
- The state ranks 50th for the new distribution center, which has a TETR of 65.4 percent, more than 80 percent above the national average. While this operation has one of the lowest income tax burdens of its type nationally, it faces the highest property tax burden and fourth-highest sales tax burden.
- For mature operations, Kansas ranks 47th for both labor- and capital-intensive manufacturing and ranks 46th for the mature R&D center. Once again, these operations have one of the highest property tax burdens in the nation along with a top-10 sales tax burden. Although the firm's 7.0 percent corporate income tax rate is not unusually high, its throwback rule gives these operations an above-average income tax burden.
- Kansas offers among the most generous property tax abatements and investment tax credits across most firm types, yet these incentives seem to have little impact on the state's rankings for new operations.

Kansas

Corporate income tax

Main tax rate	7.000%
Applies to income over	$50,000
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Wichita	7.300%	3.009%	3.009%	3.009%	–
Tier 2	Topeka	8.950%	3.242%	3.242%	3.242%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
4.00%	$8,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	10% of eligible capital investment over $50,000	✓	✓	✓	✓	✓	✓	
Job creation	$1,500 per new job x 1 year	✓	✓	✓	✓	✓	✓	
Withholdings	n/a							
R&D	6.5% of in-state incremental R&D expenses						✓	
Property tax	60% abatement x 10 years	✓	✓					

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	13.6%	12.5%	38.9%	65.4%	20.2%	25.4%	42.7%		20.3%	16.4%	26.4%	44.1%	16.2%	18.7%	19.6%	
Index	119.0	107.1	156.2	180.7	124.7	172.6	131.2	**141.6**	160.2	140.5	125.7	143.9	103.1	145.3	115.7	**133.5**
Rank	37	33	47	50	42	49	45	**48**	47	47	43	43	30	46	38	**47**

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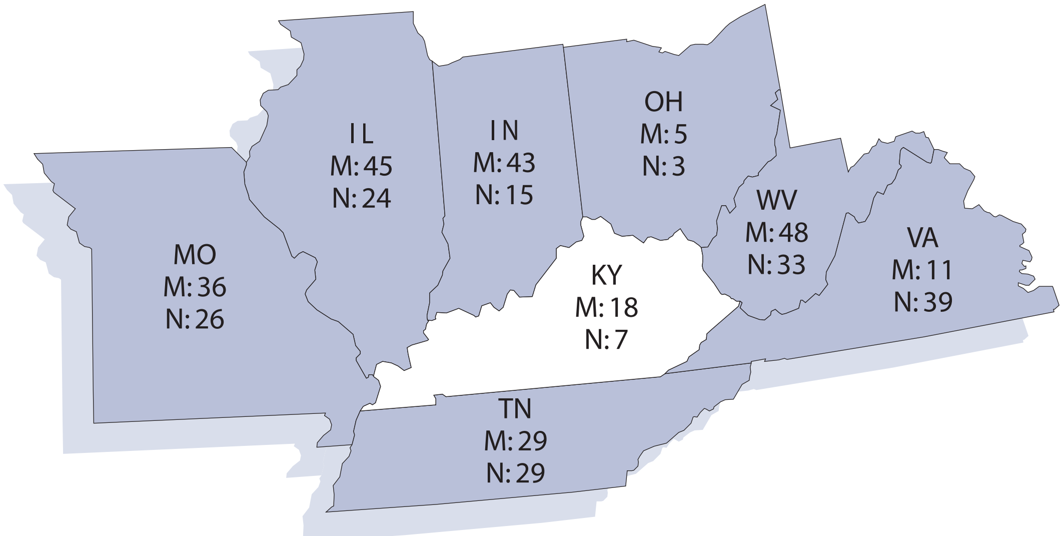
Kentucky

M = Rank for mature firms
N = Rank for new firms



Kentucky ranks 18th overall for mature operations and seventh overall for newly established operations. Specifically:

- Kentucky ranks between first and 20th in 11 of the 14 firm types. Its low sales tax (6 percent), low unemployment insurance (UI) taxes (capped at $8,000 of wages), and low property taxes account for its low tax bills.
- Kentucky ranks fourth for the new call center, with a burden 86 percent below the national average. This operation is helped by the second-most generous withholding tax rebate in the country, a low UI tax burden, and a low property tax burden despite the fact that the state levies property taxes on equipment and inventory in addition to land and buildings. For similar reasons, Kentucky ranks ninth for new R&D operations.
- The state ranks 35th in the mature R&D operation. Because the state does not offer an R&D tax credit as many other states do, the R&D operation has the fourth-highest income tax burden in this category.
- Kentucky also has an above-average burden (it ranks 35th) for new capital-intensive manufacturing operations. Although this firm enjoys a very low UI tax burden, its sales tax and property tax burdens are well above average. The state is one of nine states to tax inventories.

Kentucky

Corporate income tax

Main tax rate	6.000%
Applies to income over	$100,000
Specific adjustments:	
- s.199 partial deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Louisville	6.000%	1.339%	1.339%	1.522%	1.186%
Tier 2	Lexington	6.000%	1.095%	1.095%	1.034%	0.784%
a.	Manufacturing machinery is exempt from sales tax only for new/expanded facilities					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$8,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	2.200%
Tier 2	n/a	n/a	n/a	2.750%

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	Sales tax exemption for machinery for new firms	✓	✓					
Job creation	n/a							
Withholdings	4% of new wages or $2,000 per new job x 10 years	✓	✓	✓	✓	✓	✓	
R&D	5% of capital costs for research facilities						✓	
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	13.3%	8.3%	3.4%	25.9%	9.7%	9.6%	28.4%		12.4%	9.3%	17.4%	23.2%	13.0%	14.3%	15.0%	
Index	116.5	71.3	13.6	71.7	60.0	65.3	87.2	**69.4**	97.8	80.3	83.1	75.6	82.8	110.8	88.2	**88.4**
Rank	35	11	4	12	6	9	16	**7**	24	17	13	13	12	35	17	**18**

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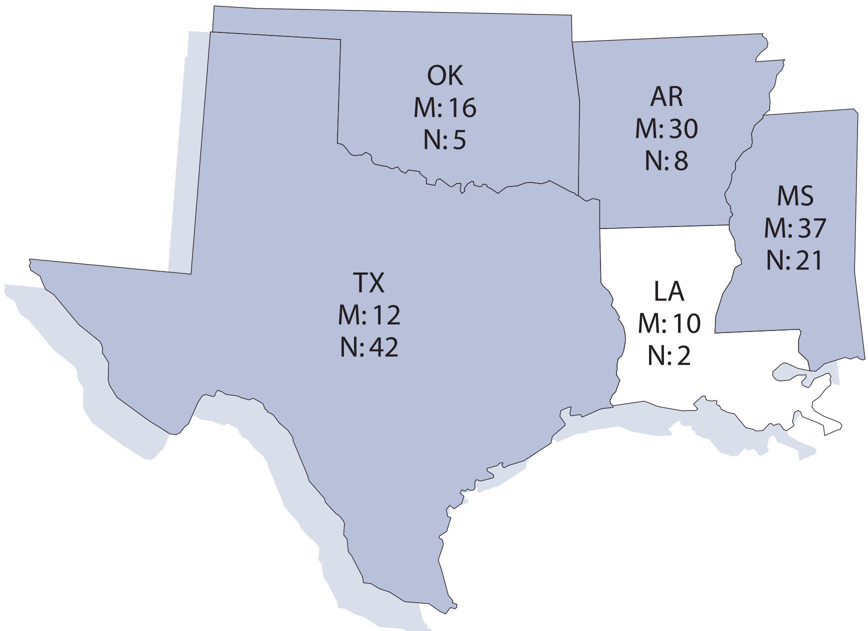
Louisiana

M = Rank for mature firms
N = Rank for new firms



Louisiana ranks 10th overall for mature operations and second overall for newly established operations. Specifically:

- Louisiana ranks first in four of the 14 categories.
- Two of the first-place rankings are for new capital-intensive manufacturing and new labor-intensive manufacturing firms. Each of these operations has a total effective tax rate (TETR) of 1 percent or below due to a combination of favorable apportionment rules and some of the most generous property tax incentives and withholding tax incentives in the nation.
- The state also ranks first in both new and mature R&D operations. Louisiana offers the third-most generous R&D tax credit, reducing the TETR for the R&D center to -10.5 percent. This means that it receives a substantial tax subsidy.
- For mature operations, Louisiana's first-place rank for mature R&D centers pulls the overall index score much lower than it would otherwise be. This operation has a TETR of 1.7 percent, 87 percent below the national average.
- Louisiana's rankings for mature manufacturing operations are a study in contrasts. Despite the state's 8 percent corporate tax rate, both types of mature manufacturing operations enjoy the lowest income tax burden in their category thanks to the state's favorable apportionment formula. And each enjoys one of the lowest UI tax burdens. However, each firm type also faces one of the highest sales tax burdens and the highest property tax burden, due in large measure to the state's high taxes on equipment.

Louisiana

Corporate income tax

Main tax rate	8.000%
Applies to income over	$200,000
Specific adjustments:	
- s.199 deduction allowed	
- 100% deduction for federal tax paid	

Apportionment	Property	Payroll	Sales
Standard factors*	–	50.0%	50.0%
Mfg. and retail	–	–	100.0%
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

*For service enterprises.

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	New Orleans	8.880%	1.171%	1.757%	1.757%	1.757%
Tier 2	Shreveport	8.930%	1.737%	2.606%	2.606%	2.606%
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.68%	$7,700	0.150%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	–	0.100%	0.100%	n/a
Tier 2	–	0.100%	0.100%	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	Varies from 5-6% of new payroll x 10 years	✓	✓		✓	✓	✓	
R&D	20% of in-state R&D per federal concepts, refundable						✓	
Property tax	Abate 100% x 10 years for mfg. building, machinery	✓	✓					
	Refundable tax credit for property tax on inventory	✓	✓		✓			✓

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	1.0%	0.4%	34.6%	50.0%	7.0%	-10.5%	35.2%		10.9%	9.1%	21.4%	36.6%	15.4%	1.7%	15.4%	
Index	9.1	3.7	138.9	138.2	43.2	-71.6	108.3	**52.8**	86.2	78.5	102.2	119.3	98.3	13.2	91.2	**84.1**
Rank	1	1	42	43	2	1	32	**2**	20	16	29	40	26	1	19	**10**

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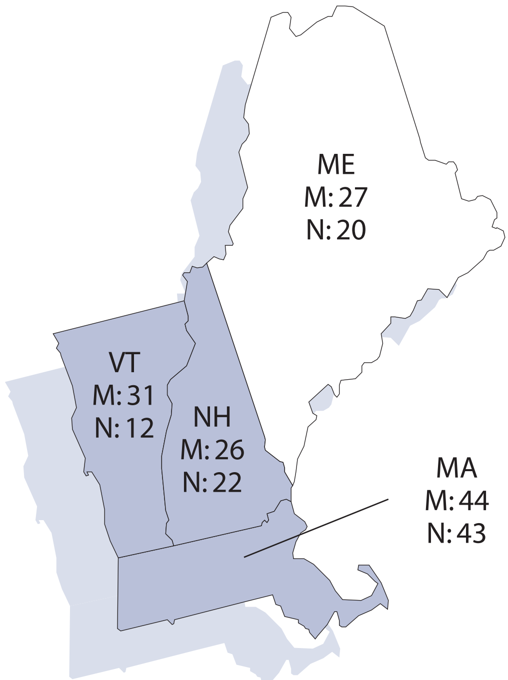

Maine ranks 27th overall for mature operations and 20th overall for newly established operations. Specifically:

- Maine ranks sixth for the mature call center operations. This firm benefits from the state's low 5 percent sales tax and apportionment formula that gives it the third-lowest income tax costs for this type of firm.
- The same factors help the state rank ninth for the mature R&D operation. This operation has a total effective tax rate (TETR) of 8.4 percent, which is 35 percent below the national average.
- Maine ranks ninth for the new retail store, which has a tax burden 23 percent below the national average. Despite facing a high corporate income tax rate, this establishment is helped by a property tax abatement that gives it one of the lower property tax burdens for this firm type. It also has one of the lower sales tax burdens for new retail establishments.
- The state ranks 45th for the mature capital-intensive manufacturing firm, which has a TETR of 18.2 percent, 44 percent above the national average. The main contributor to this ranking is its 8.93 percent income tax and throwback rule. This operation also has an above-average property tax burden.
- The same factors give the state a 41st-place ranking for mature labor-intensive manufacturing. This firm has the second-highest corporate income tax burden in this category.

Maine

Corporate income tax

Main tax rate	8.930%
Applies to income over	$250,000
Specific adjustments:	
- s.199 deduction disallowed	
- Throw-out rule applies to sales of goods	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Portland	5.000%	1.792%	1.792%	1.792%	–
Tier 2	Bangor	5.000%	1.920%	1.920%	1.920%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.02%	$12,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	10% of investment to $3.5M max. over 7 years	✓	✓					
	Up to 100% on computers for high tech firms						✓	
Job creation	n/a							
Withholdings	0.6% of new payroll x 5 years			✓	✓	✓	✓	✓
R&D	5% of in-state R&D expenses, per federal concepts						✓	
Property tax	90% abatement on all equipment x 12 years	✓	✓	✓	✓	✓	✓	✓

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	8.3%	12.5%	19.2%	36.2%	17.1%	10.6%	25.1%		18.2%	14.6%	14.9%	30.7%	15.9%	8.4%	16.4%	
Index	73.2	106.4	76.9	100.0	105.7	71.6	77.1	**87.3**	143.5	125.3	70.8	100.0	101.2	65.1	97.1	**100.4**
Rank	19	32	13	31	28	12	9	**20**	45	41	6	28	29	9	26	**27**

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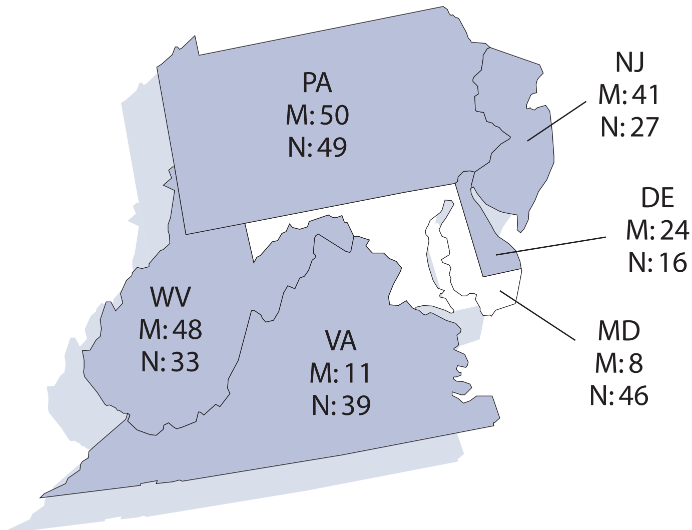
Maryland

M = Rank for mature firms
N = Rank for new firms



Maryland ranks eighth overall for mature operations but 46th overall for newly established operations. Specifically:

- Maryland ranks third for the mature labor-intensive manufacturing operation, which has a total effective tax rate (TETR) of 7.0 percent, 40 percent below the national average. This firm benefits from a favorable apportionment formula, which compensates for the state's high 8.25 percent corporate income tax rate. It also has a moderate unemployment insurance (UI) and sales tax burden.
- Mature call centers (11th) and R&D operations (seventh) also have relatively low tax burdens. Both of these firms are helped by a low sales tax rate of 6 percent, and a low UI tax rate and wage limit.
- Maryland ranks 50th for new capital-intensive manufacturing, which has a TETR of roughly 32 percent, 180 percent higher than the national average. In addition to imposing the country's second-highest tax rate on equipment property, Maryland also provides only one type of incentive (a small job credit) to new capital manufacturing operations.
- Maryland ranks 46th for new labor-intensive manufacturing firms. This operation has a TETR of 16.1 percent, which is 38 percent above the national average. This operation has the highest property tax burden of its type in the nation.
- The state's high property tax rate on equipment is more than twice the national average and disadvantages all of the newly established firms in the study.

Maryland

Corporate income tax

Main tax rate	8.250%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Manufacturing	–	–	100.0%
Throwback applies to tangible property sales			No
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Baltimore	6.000%	1.268%	1.268%	3.048%	–
Tier 2	Salisbury	6.000%	1.690%	1.690%	3.938%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.60%	$8,500	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	$1,000 per new job over 2 years	✓	✓	✓	✓	✓		
Withholdings	n/a							
R&D	3% of in-state incremental R&D expenses						✓	
Property tax	Local exemption of R&D machinery						✓	
	50% abatement x 1 year + 3-year phase-in					✓	✓	

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	31.9%	16.1%	28.1%	46.1%	17.7%	10.8%	33.5%		13.0%	7.0%	16.6%	29.6%	13.3%	8.0%	15.4%	
Index	279.7	137.6	112.7	127.4	109.6	73.2	102.8	**134.7**	102.5	60.2	79.3	96.6	84.6	62.3	91.2	**82.4**
Rank	50	46	28	39	33	13	27	**46**	30	3	11	27	14	7	19	**8**

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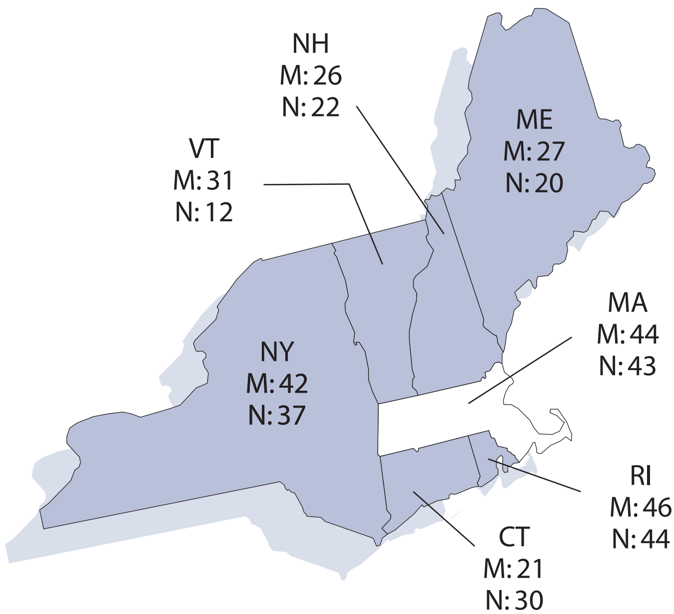


Massachusetts ranks 44th overall for mature operations and 43rd overall for newly established operations. Specifically:

- Massachusetts ranks 17th for new capital-intensive manufacturing firms. This operation has a total effective tax rate (TETR) of 7.9 percent, 30 percent below the national average. This firm benefits from the most generous property tax abatement incentive among all 50 states and a modest sales tax burden. However, this firm also has one of the 10 highest income tax burdens in the nation thanks to its throwback rule.
- The state ranks 49th for the new distribution center, which has a tax burden more than 66 percent higher than the national average. While this operation enjoys a low income tax burden thanks to the state's investment tax credit, it also bears the second-highest property tax burden in the nation, largely because of the high tax rate on equipment. It also has an above-average unemployment insurance (UI) tax burden.
- The state ranks 31st for the mature corporate headquarters, which has a tax burden just 3 percent above the national average. While this operation enjoys a below-average sales tax burden, it bears above-average burdens for income and UI taxes, and one of the highest property tax burdens.
- The story for most of the model firms in Massachusetts is the same: high income taxes and high property taxes. Even though the state has a single-sales factor apportionment for manufacturers, its throwback rule subjects all of the firm's sales to the state's 8.25 percent income tax. And the state's high property tax rates – especially on equipment – are a disadvantage to every firm type.

Massachusetts

Corporate income tax

Main tax rate	8.250%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Manufacturing	–	–	100.0%
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

	Metro areas examined	Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Boston	6.250%	2.842%	2.842%	2.842%	–
Tier 2	Worcester	6.250%	3.328%	3.328%	3.328%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.25%	$14,000	0.260%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	Varies from 3-40% of eligible capital investment	✓	✓	✓	✓	✓	✓	
Job creation	n/a							
Withholdings	n/a							
R&D	10% of in-state R&D expenses, per federal concepts						✓	
Property tax	10% abatement x 5 years	✓	✓	✓	✓	✓	✓	

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

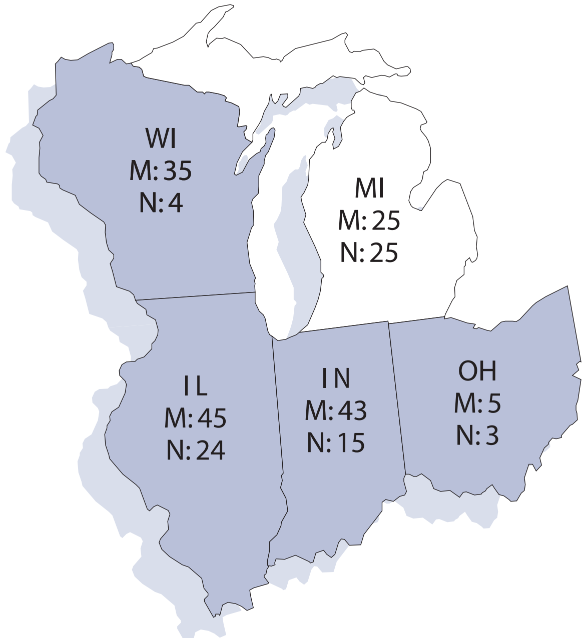
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	7.9%	13.1%	38.5%	60.2%	19.8%	21.2%	41.9%		15.3%	15.6%	28.3%	44.2%	16.2%	14.1%	20.3%	
Index	69.5	112.0	154.5	166.5	122.7	143.7	128.4	**128.2**	120.4	133.6	134.7	144.2	103.4	109.4	119.6	**123.6**
Rank	17	37	46	49	39	42	43	**43**	38	44	46	44	31	33	41	**44**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Michigan

M = Rank for mature firms
N = Rank for new firms



Michigan ranks 25th overall for both mature and newly established operations. Specifically:

- Michigan ranks fourth for new labor-intensive manufacturing, with a total effective tax rate (TETR) of 6.4 percent. This operation has one of the lowest income tax burdens of this firm type, largely because of the state's single-sales factor apportionment formula combined with a generous withholding tax rebate and investment tax credit. The state's low sales tax rate of 6 percent is also a contributing factor.
- Michigan ranks eighth for new call centers and ninth for mature call centers. While both firm types benefit from the generously low apportionment factor and sales taxes, the state's ranking for the new firm is further buoyed by generous incentives. The state's withholding tax rebate is the fifth-highest in the country, which makes it the ninth-most generous state in the "incentives" subcategory.
- The state ranks 44th for the mature corporate office operation, which has a TETR of 20.3 percent, or 30 percent higher than the national average. This firm is particularly burdened by high property taxes and sourcing rules that subject 100 percent of its profits to Michigan taxes.
- Michigan also ranks 42nd for both new and mature distribution centers. The new operation has a tax burden 38 percent above the national average. Though the state has above-average burdens for income taxes, unemployment insurance taxes, and sales taxes for both new and mature retail firms, these rankings are driven down by the fifth-highest property tax burden among the states. Property taxes play an even bigger role in the low ranking for distribution centers, which own more property.
- These results do not reflect the corporate income tax reforms scheduled to take effect in 2012 and beyond.

Michigan

Corporate income tax

Main tax rate	6.039%
Applies to income over	–
Specific adjustments:	
- Michigan Business Tax	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Detroit	6.000%	3.207%	3.207%	2.607%	–
Tier 2	Saginaw	6.000%	2.584%	2.584%	1.984%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$9,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	0.976%	0.976%	0.976%	0.330%
Tier 2	0.976%	0.976%	0.976%	0.500%

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	2.9% of eligible capital investment	✓	✓	✓	✓	✓	✓	✓
Job creation	0.37% of all in-state compensation	✓	✓	✓	✓	✓	✓	✓
Withholdings	3.48% of new payroll x 7 years	✓	✓	✓	✓	✓	✓	
R&D	1.9% of in-state actual R&D expenses						✓	
Property tax	50% abatement x 12 years	✓	✓					

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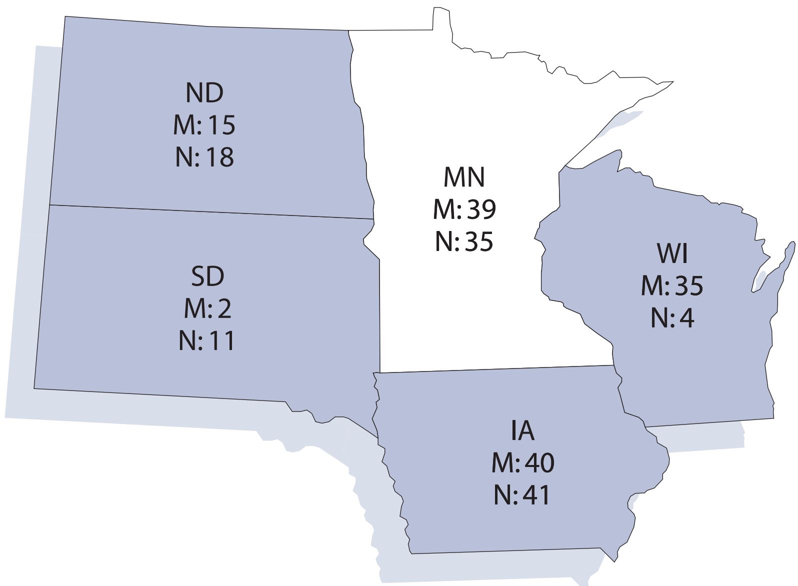
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.5%	6.4%	13.4%	49.8%	19.3%	14.4%	42.2%		9.2%	7.7%	16.4%	37.8%	20.3%	12.7%	20.9%	
Index	83.8	54.8	53.9	137.6	119.2	97.4	129.4	**96.6**	72.6	65.9	78.3	123.2	129.5	98.6	123.5	**98.8**
Rank	24	4	8	42	36	21	44	**25**	12	7	9	42	44	23	43	**25**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Minnesota

M = Rank for mature firms
N = Rank for new firms



Minnesota ranks 39th overall for mature operations and 35th overall for newly established operations. Specifically,

- Minnesota ranks sixth for new capital-intensive manufacturing, despite having one of the highest corporate income tax rates in the nation at 9.8 percent. The operation has a total tax burden 51 percent less than the national average, in large measure due to low property tax rates and a modest property tax abatement. The operation does, however, have an above-average income tax burden despite the state's sales-weighted apportionment factor and no throwback rule. The state ranks seventh for mature capital-intensive manufacturing for similar reasons.
- The state ranks 14th for the mature R&D operation, which has a tax burden 19 percent below the national average. This operation benefits greatly from the favorable apportionment rules, but faces high unemployment insurance (UI) taxes and the second-highest property tax burden of this firm type in the nation. The state offers a modest R&D tax credit.
- Minnesota ranks 49th for the new call center operation. This firm has a tax burden 57 percent above the national average, in large measure because of the state's high UI taxes. The state's UI taxes are among the highest in the nation for call centers. The property taxes for this firm are also well above average.
- The new retail establishment ranks 42nd, and the mature retail establishment ranks 47th. These operations are particularly impacted by the state's high corporate tax rate, the second-highest property tax burden in the country, and high UI taxes.

Minnesota

Corporate income tax

Main tax rate	9.800%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	5.0%	5.0%	90.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Minneapolis	7.342%	4.266%	4.266%	–	–
Tier 2	Rochester	7.375%	3.416%	3.416%	–	–
a.	Sales tax on manufacturing machinery is refundable					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.50%	$27,000	0.025%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	10% of in-state R&D expenses, per federal concepts						✓	
Property tax	50% abatement x 10 years to max. $200,000 per year	✓	✓		✓			

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	5.6%	12.0%	39.1%	50.3%	26.0%	15.3%	40.9%		6.2%	10.0%	27.9%	45.9%	22.4%	10.4%	24.9%	
Index	49.0	102.2	156.7	139.0	161.2	103.7	125.7	**119.6**	49.1	86.3	132.9	149.7	142.7	81.1	147.1	**112.7**
Rank	6	29	49	44	46	23	42	**35**	7	23	45	46	47	14	47	**39**

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M = Rank for mature firms
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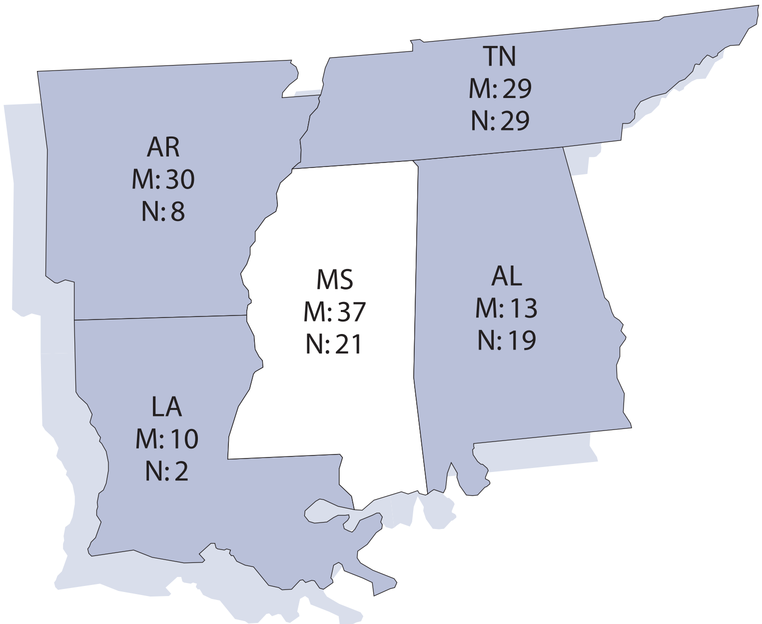

Mississippi ranks 37th overall for mature operations and 21st for newly established operations. Specifically:

- Mississippi's ranks sixth for the newly established distribution center, which enjoys a total tax burden 37 percent below the national average. In large measure, this is due to an above-average property tax abatement, which compensates for the fact that property taxes apply to inventory and equipment in addition to buildings and land. This operation also benefits from very low unemployment insurance (UI) taxes.
- The state ranks seventh for newly established call centers with a tax burden nearly 50 percent below the national average. This operation benefits from one of the lower corporate income tax rates in the nation at 5.0 percent, as well as a generous withholding tax rebate and an investment tax credit. Again, the firm's UI tax burden is among the lowest in the nation.
- Mississippi ranks 46th for mature capital-intensive manufacturing with a total tax burden 53 percent above the national average. While this operation enjoys low UI taxes, the property taxes on inventory and equipment give it one of the higher property tax burdens in the nation.
- The state tied with Alabama for 41st for mature R&D operations with a total tax burden 21 percent above the national average. Again, the high property tax burden for this firm is a big factor, especially the property taxes on inventory and equipment. Income taxes are also well above average for this operation.

Mississippi

Corporate income tax

Main tax rate	5.000%
Applies to income over	$10,000
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Manufacturing	33.3%	33.3%	33.3%
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Jackson	7.000%	2.311%	2.311%	2.311%	2.311%
Tier 2	Gulfport	7.000%	1.763%	1.763%	1.763%	1.763%
a.	Manufacturing machinery is taxed at a reduced rate of 1.5%					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.15%	$14,000	0.250%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	5% of capital investment if in business >2 years	✓	✓					
Job creation	2.5% of new payroll x 5 years	✓	✓	✓	✓	✓	✓	
Withholdings	4% of new payroll x 5 years, with 1 year lag	✓	✓	✓	✓	✓	✓	
R&D	$1,000 per new job requiring R&D skills x 5 years						✓	
Property tax	60% abatement x 10 years	✓	✓	✓	✓	✓	✓	
	$5,000 credit re tax paid on inventory	✓	✓		✓			✓

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	15.2%	11.1%	12.6%	22.8%	13.8%	12.6%	36.7%		19.4%	13.4%	17.5%	28.3%	16.3%	15.5%	16.3%	
Index	133.2	95.0	50.5	63.0	85.4	85.3	112.8	**89.3**	152.6	115.3	83.5	92.2	103.8	120.8	96.1	**109.2**
Rank	39	22	7	6	20	18	38	**21**	46	36	14	24	32	41	25	**37**

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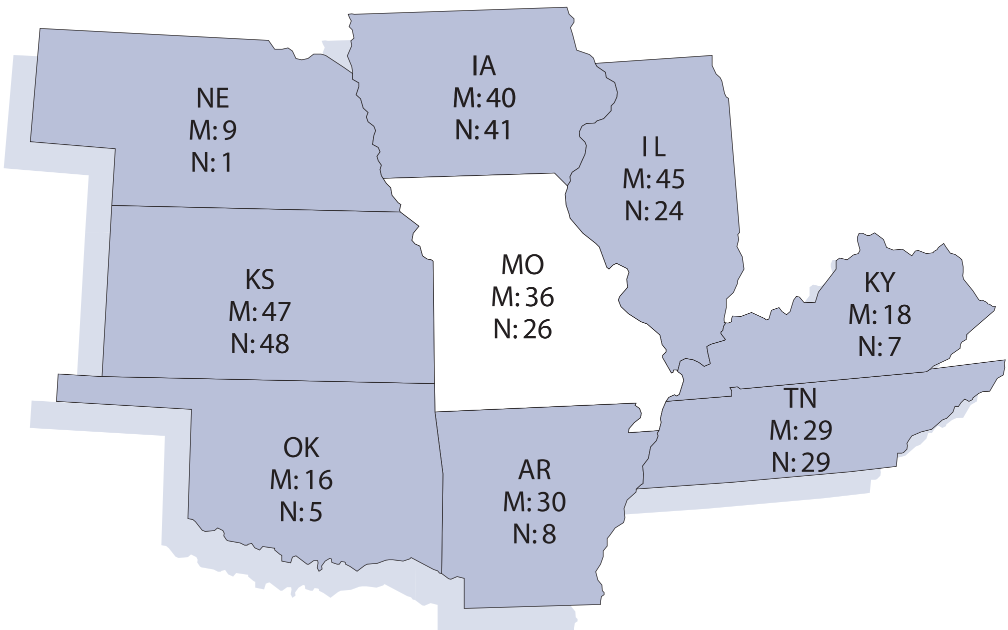
Missouri

M = Rank for mature firms
N = Rank for new firms



Missouri ranks 36th overall for mature operations and 26th overall for newly established operations. Specifically:

- Missouri ranks 21st for mature labor-intensive manufacturing, with a tax burden that is 14 percent below the national average. The main factor is extremely generous incentives, namely the property tax abatement and withholding tax rebate.
- Missouri ranks 47th for mature R&D operations, which have a tax burden 46 percent above the national average. For this firm type, the state has the 11th-highest income tax burden, ninth-highest sales tax burden, and eighth-highest property tax burden.
- Missouri ranks fifth for new labor-intensive manufacturing firms, with a tax burden more than 40 percent below the national average. This is due in part to the firm's low income tax burden because firms have the option of using an evenly factored apportionment formula or a single-factor formula on sales only. The firm also benefits from a fairly generous property tax abatement and a withholding tax credit.
- Missouri ranks 46th for new retail, with a tax burden that is 33 percent above the national average. The main factor is an extremely high property tax burden.
- The state does exempt manufacturing machinery from sales tax, which can lower the tax cost for capital and labor-intensive manufacturing companies.

Missouri

Corporate income tax

Main tax rate	6.250%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	
- 50% deduction for federal tax paid	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	–	–	100.0%
Throwback applies to tangible property sales			Partial
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	St. Louis	8.005%	2.926%	2.926%	2.870%	–
Tier 2	Joplin	6.465%	2.220%	2.220%	2.312%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.51%	$13,000	0.033%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	1.000%
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	6-7% of new payroll x 5 years, with 4 year lag	✓	✓			✓	✓	
R&D	n/a							
Property tax	60% abatement x 10 years	✓	✓		✓	✓	✓	

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.8%	6.9%	33.9%	27.3%	12.4%	16.5%	43.4%		12.7%	10.0%	22.3%	31.9%	16.4%	18.8%	19.6%	
Index	86.4	58.7	136.0	75.6	76.9	112.1	133.0	**97.0**	99.6	85.8	106.2	103.9	104.7	145.8	115.7	**108.8**
Rank	30	5	41	16	14	28	46	**26**	26	21	31	33	36	47	38	**36**

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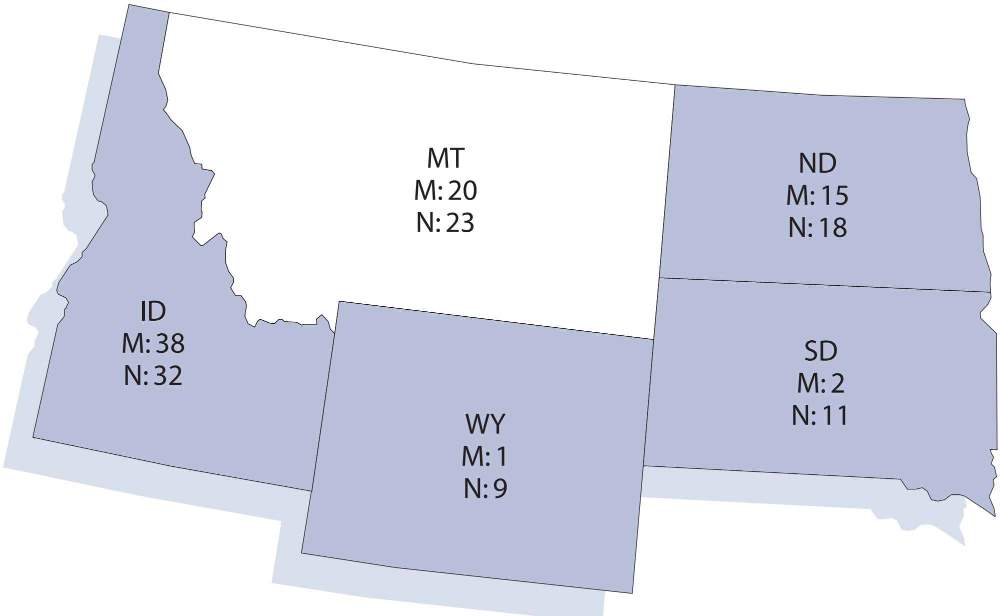
Montana

M = Rank for mature firms
N = Rank for new firms



Montana ranks 20th overall for mature operations and 23rd overall for newly established operations. Specifically:

- Montana ranks third for mature corporate headquarters, with a tax burden nearly 40 percent below the national average. The lack of a state sales tax is one of the contributing factors in this top ranking. The operation also has a modest income tax burden due to the state's relatively low 6.75 percent corporate tax rate and three-factor apportionment formula.
- Montana has no sales tax, which is an obvious benefit to retailers. Thus, the state ranks 10th for both mature and new retail establishments. The lack of a sales tax also reduces the tax cost of purchasing equipment and machinery.
- Montana ranks 33rd for mature call center operations. This operation has an above-average income tax burden in large part because of the state's sourcing rules for services. But the most significant factor for this firm type is its high unemployment insurance (UI) tax burden.
- The state ranks 10th for new corporate headquarters and for new retail operations. Again, the lack of a sales tax is significant enough to offset the operation's above-average income tax burden and high UI taxes.
- Montana ranks 36th for new capital-intensive manufacturing, with a tax burden 17 percent above the national average. Except for sales taxes, this firm type bears one of the 10 heaviest tax burdens in the nation for all the other major tax categories: income, UI, and property.

Montana

Corporate income tax

Main tax rate	6.750%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Billings	–	1.742%	1.742%	1.921%	–
Tier 2	Missoula	–	1.923%	1.923%	2.046%	–
a.	No sales tax exists in Montana					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.98%	$26,300	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	1% of new payroll x 3 years	✓	✓					
Withholdings	n/a							
R&D	Income re new R&D facilities is tax-exempt for 5 years						✓	
Property tax	50% abatement x 5 years + 5-year phase-in	✓	✓	✓	✓	✓	✓	

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	13.4%	11.3%	30.1%	27.1%	11.5%	14.4%	25.4%		14.5%	10.3%	23.1%	27.5%	9.6%	13.7%	13.9%	
Index	117.4	96.2	120.8	75.0	71.1	97.9	78.0	**93.8**	113.8	88.7	109.9	89.7	61.3	106.1	82.4	**93.1**
Rank	36	24	35	14	10	22	10	**23**	32	24	33	20	3	31	10	**20**

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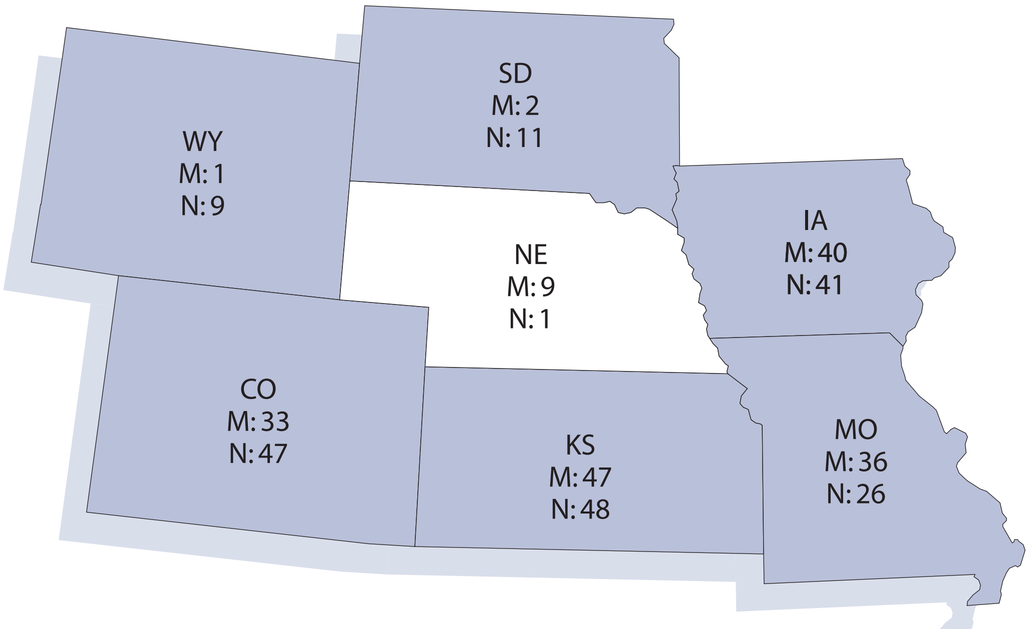


Nebraska ranks ninth overall for mature operations and first overall for newly established operations. Specifically:

- Nebraska ranks second for mature R&D operations, with a total tax burden nearly 50 percent less than the national average. Even though the state has a relatively high 7.81 percent corporate tax rate, this firm benefits from an R&D tax credit and favorable apportionment and sourcing rules.
- The state's apportionment system is also a reason for Nebraska's fifth-place ranking for mature labor-intensive manufacturing. This operation has a total tax burden 37 percent below the national average even though it has an above-average property tax liability due to the property taxes on inventory.
- Nebraska ranks 33rd for mature corporate headquarters. Because of the state's sourcing rules for services, 100 percent of the firm's profits is subject to the state's corporate income tax. Thus, this operation has the 10th-highest income tax burden of this firm type in the nation.
- Nebraska ranks first for both new corporate headquarters and for new call centers. The state also ranks second for both new capital-intensive and new labor-intensive manufacturing. Tax incentives are the major contributing factor to the strong showing for all of these firm types. For example, the corporate headquarters and the call center benefit from some of the most generous investment tax credits and job tax credits in the nation. Similarly, only three states offer a more generous investment tax credit for capital-intensive manufacturers. The property tax abatement for manufacturers is also very generous.
- The state ranks 32nd for new retail operations. In this case, the firm is burdened by the state's high income tax and the property taxes on inventories.

Nebraska

Corporate income tax

Main tax rate	7.810%
Applies to income over	$100,000
Specific adjustments:	
- s.199 deduction allowed	
- Deduction allowed for in-state tax paid	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Omaha	6.250%	2.224%	2.224%	2.224%	–
Tier 2	Lincoln	7.000%	1.967%	1.967%	1.967%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.50%	$9,000	0.150%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	Varies from 10-15% of eligible capital investment Plus partial refund of sales taxes paid	✓	✓	✓	✓	✓	✓	
Job creation	Varies from 4-6% of new payroll x 7 years	✓	✓	✓	✓	✓	✓	
Withholdings	n/a							
R&D	15% x federal credit re NE R&D x 5 years, refundable						✓	
Property tax	100% abatement x 10 years	✓	✓	✓	✓	✓		

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

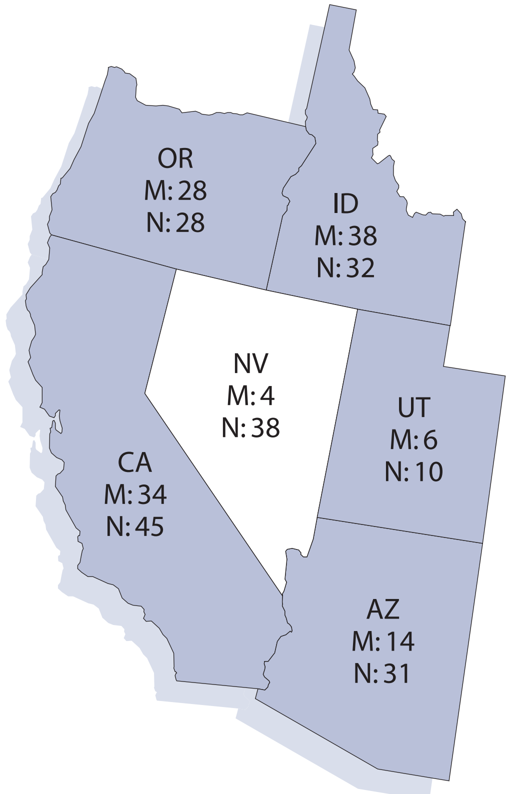
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	2.4%	3.3%	1.1%	30.7%	1.4%	-5.0%	35.3%		8.5%	7.4%	20.1%	31.0%	16.3%	6.3%	16.6%	
Index	21.3	28.5	4.5	84.8	8.4	-33.7	108.3	**31.7**	66.8	63.2	95.8	101.1	103.9	48.6	98.0	**82.5**
Rank	2	2	1	22	1	2	32	**1**	10	5	24	31	33	2	27	**9**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Nevada

M = Rank for mature firms
N = Rank for new firms



Nevada ranks fourth overall for mature operations but 38th overall for newly established operations. Specifically:

- Nevada ranks third for the mature retail operation, with a total tax burden nearly 40 percent below the national average. Nevada's lack of a corporate income tax and low property tax burden are the key factors in this top ranking. However, the state does have the sixth-highest unemployment insurance (UI) tax burden for this firm type.
- The same factors of no income taxes and low property taxes are also key in the state's fourth-place ranking for mature distribution centers and eighth-place rank for corporate headquarters. Once again, these operations are also burdened with very high UI taxes.
- Nevada ranks 11th for both mature capital-intensive and labor-intensive manufacturing. However, the state would have ranked higher for these operations if not for the fact that its high sales tax rate applies to manufacturing equipment.
- The state ranks 46th for new capital-intensive manufacturing with a tax burden 92 percent above the national average. Even without the incentives that most states provide new firms, this operation has a low income tax burden. However, this firm is burdened by some of the highest UI taxes, sales taxes and property taxes, especially the property tax on equipment.
- The same factors contribute to Nevada's 45th-place ranking for new labor-intensive manufacturing and 44th-place ranking for new call centers.

Nevada

Corporate income tax

Main tax rate	n/a
Applies to income over	–
Specific adjustments:	
- No income tax exists in Nevada	

Apportionment	Property	Payroll	Sales
Standard factors	n/a	n/a	n/a
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			n/a
Interstate services income apportionment			n/a

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Las Vegas	7.600%	1.149%	1.149%	1.149%	–
Tier 2	Reno	7.725%	1.276%	1.276%	1.276%	–
a.	Manufacturing machinery is subject to sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.95%	$26,600	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	21.9%	15.8%	35.2%	34.4%	17.1%	18.2%	26.3%		8.5%	8.6%	22.8%	20.9%	12.2%	11.2%	10.3%	
Index	192.3	135.1	141.1	95.1	106.1	123.2	80.7	**124.8**	67.2	73.8	108.9	68.1	78.1	86.8	60.8	**77.7**
Rank	46	45	44	25	30	34	11	**38**	11	11	32	4	8	17	3	**4**

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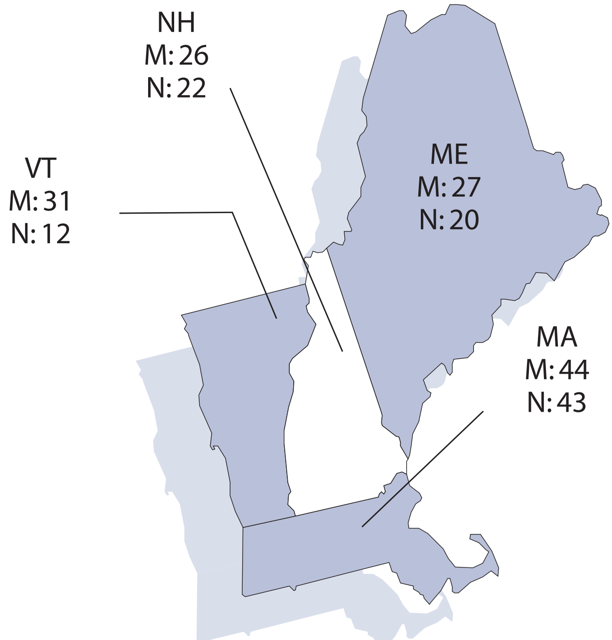
New Hampshire

M = Rank for mature firms
N = Rank for new firms



New Hampshire ranks 26th overall for mature operations and 22nd for newly established operations. Specifically:

- New Hampshire ranks sixth for mature corporate headquarters, with a total tax burden 24 percent below the national average. This top ranking is almost entirely due to the lack of a state sales tax. Indeed, the firm has an above-average income tax burden due to the state's 8.5 percent corporate tax rate and it bears an above-average unemployment insurance (UI) tax burden.
- The state ranks 39th for mature call centers. This firm has one of the highest income tax burdens of its type because of the state's high corporate tax rate and sourcing rules. The firm's burdens for UI taxes and property taxes are also above average. These same factors give the state sub-par rankings for most of the other mature firm types.
- New Hampshire ranks fifth for new retail operations, with a tax burden 36 percent below the national average. This result is due to the lack of a state sales tax and a moderate property tax burden. This firm does, however, have one of the highest income tax burdens and an above-average UI tax burden.
- The same factors are at work for the state's 16th-place rank for new capital-intensive manufacturing. However, this operation has the highest income tax burden of any firm of this type because of the state's high tax rate and throwback rule.
- The state's high income tax burden and the lack of tax incentives are the key reasons for the state's 36th-place ranking for new labor-intensive manufacturing.

New Hampshire

Corporate income tax

Main tax rate	8.500%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Manchester	–	2.125%	2.125%	–	–
Tier 2	Concord	–	2.337%	2.337%	–	–
a.	No sales tax exists in New Hampshire					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.70%	$12,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	10% of in-state R&D wages only, per federal concepts						✓	
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	7.7%	12.8%	29.7%	36.1%	12.9%	14.2%	21.0%		12.9%	12.6%	24.6%	31.0%	11.9%	13.1%	15.6%	
Index	67.8	109.8	119.4	99.8	80.0	96.3	64.2	**91.0**	101.9	107.8	117.0	101.1	75.9	101.9	92.2	**99.7**
Rank	16	36	33	30	16	19	5	**22**	29	33	39	31	6	27	23	**26**

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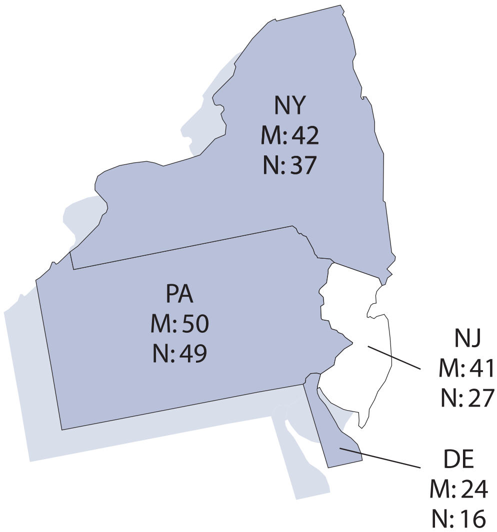
New Jersey

M = Rank for mature firms
N = Rank for new firms



New Jersey ranks 41st overall for mature operations and 27th overall for newly established operations. Specifically:

- New Jersey ranks 50th for mature call centers, with the highest tax burden in the nation. This firm has a total effective tax rate (TETR) of 33.1 percent, nearly 60 percent above the national average. The major factors contributing to this high tax burden are the state's 9.0 percent corporate tax rate, the high wage limit for unemployment insurance (UI) taxes, and very high tax rates on land and buildings.
- The state ranks 19th for mature capital-intensive manufacturing, which has a tax burden roughly 17 percent below the national average. This is the only mature firm that has a below-average tax burden. This firm has an average income tax burden thanks to the state's apportionment factor, which is weighted toward sales, and a modest property tax burden. However, the firm has one of the highest UI tax burdens for any firm of this type.
- New Jersey ranks eighth for new capital-intensive manufacturing, with a tax burden that is 48 percent below the national average. In large measure, this result is driven by the state's generous tax incentives. New Jersey offers a withholding rebate roughly twice the national average. And, of the 22 states with job credits, New Jersey's is second-most generous. Also, New Jersey is one of the few states that do not apply the property tax to equipment.
- For new operations, four of the seven firm types have above-average tax burdens. New Jersey ranks 47th for new distribution centers, with a tax burden nearly 58 percent above the national average. Although the state's apportionment formula and a modest withholding tax rebate give this firm one of the lowest income tax burdens of this firm type, it faces among the highest burdens for UI and property taxes.

New Jersey

Corporate income tax

Main tax rate	9.000%
Applies to income over	$100,000
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Newark	7.000%	1.953%	1.953%	–	–
Tier 2	Trenton	7.000%	3.519%	3.519%	–	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State capital tax
Rate	Max. pay	
3.30%	$29,600	n/a

	Gross receipts tax			Local income tax
	Mfg.	Services	Retail	
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	2% of eligible capital investment	✓	✓					
Job creation	0.3375% of investment per 50 jobs created	✓	✓	✓	✓	✓	✓	
Withholdings	50% of new withholdings x 8 years	✓	✓	✓	✓	✓	✓	
R&D	10% of in-state R&D expenses, per federal concepts						✓	
Property tax	66% abatement x 1 year + 5-year phase-in	✓	✓					

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	5.9%	11.8%	33.5%	56.9%	16.4%	14.2%	29.9%		10.6%	13.7%	33.1%	46.5%	17.6%	14.9%	18.6%	
Index	51.4	101.0	134.6	157.5	101.5	96.3	91.7	**104.9**	83.3	117.4	157.7	151.6	112.2	115.6	109.8	**121.1**
Rank	8	28	38	47	27	19	17	**27**	19	38	50	47	41	37	36	**41**

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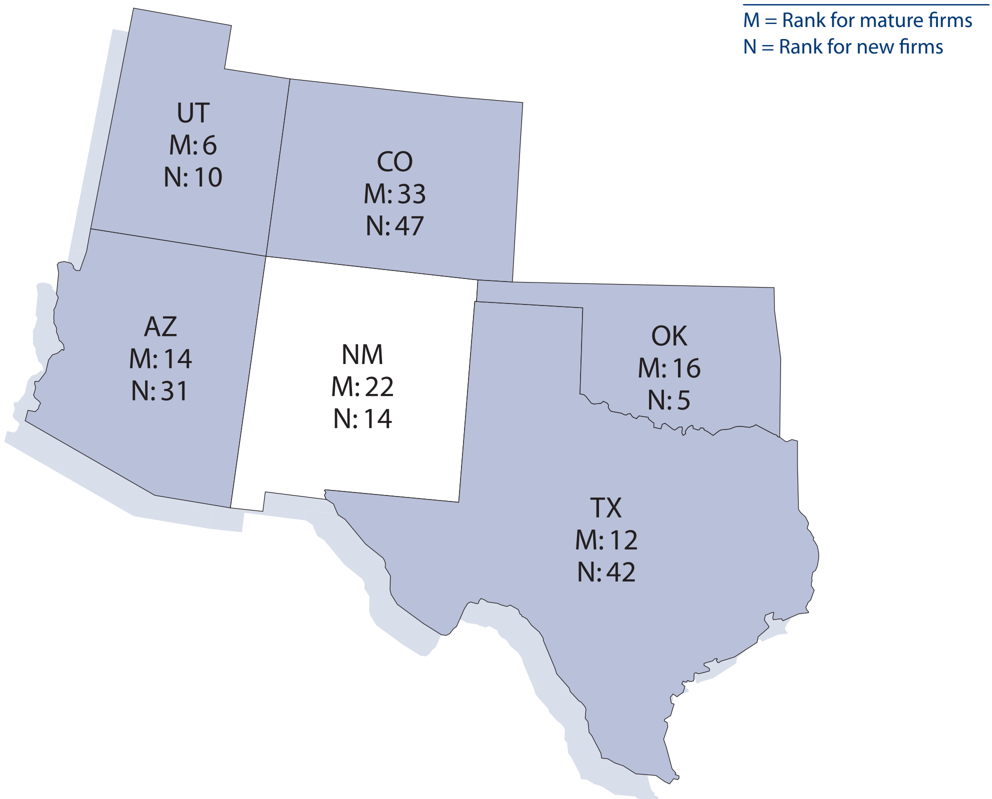
New Mexico



New Mexico ranks 22nd overall for mature operations and 14th overall for newly established operations. Specifically:

- New Mexico ranks eighth for the mature retail establishment, with a total tax burden nearly 21 percent below the national average. This firm has one of the lowest income tax burdens of its type, in large measure because its taxable profits fall below the state's top tax rate of 7.6 percent. It also has a very modest property tax burden.
- The state ranks 42nd for mature labor-intensive manufacturing, with a tax burden that is 28 percent above the national average. While this firm enjoys the fifth-lowest property tax burden of its type, it also bears the second-highest sales tax burden of its type. The firm's income tax burden is also well above average because of the state's throwback rule.
- New Mexico ranks third for new R&D operations with a tax burden roughly 85 percent below the national average. This operation enjoys the second-lowest property tax burden of this firm type and one of the lowest income tax burdens, thanks in large measure to the state's jobs credit and R&D credit.
- The state ranks 34th for new capital-intensive manufacturing and 35th for new labor-intensive manufacturing. Although these operations enjoy very low income and property tax burdens – thanks to generous tax incentives for property taxes, investments, and jobs – they have the second-highest sales tax burden in the nation and an above-average unemployment insurance tax burden.

New Mexico

Corporate income tax

Main tax rate	7.600%
Applies to income over	$1,000,000
Specific adjustments:	
- s.199 deduction allowed	
- Deduction allowed for in-state tax paid	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional for mfg.	25.0%	25.0%	50.0%
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Albuquerque	6.542%	1.339%	1.339%	1.339%	–
Tier 2	Santa Fe	8.188%	0.938%	0.938%	0.938%	–
a.	Manufacturing machinery is subject to sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.00%	$21,900	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	5% of capital investment to $500,000 max. per job	✓	✓					
Job creation	10% per new job with wages >$40,000 x 3 years	✓	✓	✓	✓	✓	✓	✓
Withholdings	n/a							
R&D	4-8% of in-state actual R&D expenses						✓	
Property tax	100% abatement x 20 years on equipment	✓	✓	✓	✓	✓	✓	✓

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	13.0%	12.8%	24.6%	29.0%	12.0%	2.3%	22.5%		15.6%	14.9%	19.7%	23.1%	15.0%	11.3%	13.4%	
Index	113.8	109.1	98.5	80.1	74.1	15.8	68.8	**80.0**	122.9	127.5	93.8	75.2	95.3	87.7	79.4	**97.4**
Rank	34	35	22	19	13	3	6	**14**	40	42	22	12	23	18	8	**22**

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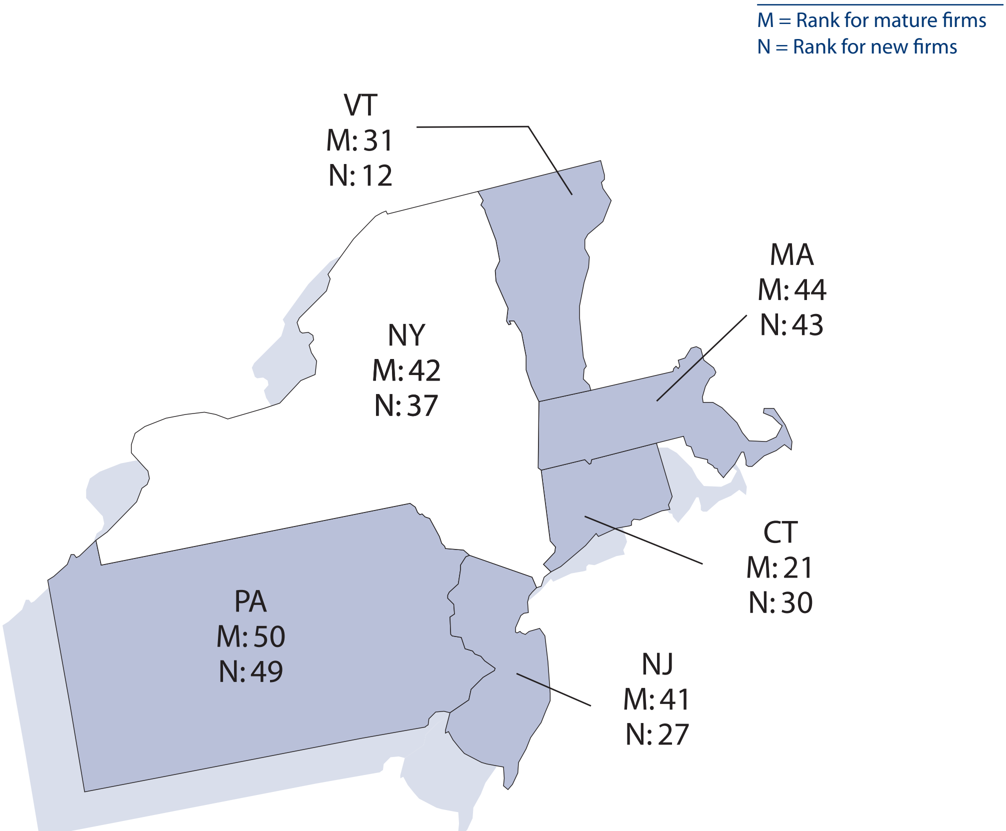
New York



New York ranks 42nd overall for mature operations and 37th overall for newly established operations. Specifically:

- New York ranks third for mature capital-intensive manufacturing operations, with a tax burden roughly 58 percent below the national average. This firm benefits from the state's single-sales factor apportionment, a special 6.5 percent income tax rate for manufacturing (the normal rate is 7.1 percent), and one of the lowest property tax burdens for this type of operation.
- The state ranks 49th in two mature categories: the corporate headquarters, with a tax burden 59 percent above the national average, and the R&D facility, with a total tax burden 87 percent above the national average. The operation's location in New York City gives it the highest income tax burden of its type and it has among the highest sales tax costs of its type.
- New York ranks 10th for new capital-intensive manufacturing, with a tax burden roughly 45 percent below the national average. This firm enjoys one of the lowest property tax burdens of its type (it receives a small property tax abatement), as well as no income tax burden due to a generous investment tax credit and preferential income tax rate for manufacturers.
- The state ranks 48th in two new categories: the corporate headquarters and the R&D facility. As with the mature operations, the same factors plague these new operations: extremely high income tax and sales tax burdens.

New York

Corporate income tax

Main tax rate	7.100%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	
- 6.5% tax rate applies to manufacturing	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	New York	8.710%	2.750%	2.750%	–	–
Tier 2	Utica	8.500%	2.730%	2.730%	–	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
4.10%	$8,500	0.150%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	8.850%
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	5% of eligible capital investment	✓	✓					
Job creation	1.5-2.5% of new investment based on job growth	✓	✓					
Withholdings	n/a							
R&D	9% of qualified R&D buildings and equipment						✓	
Property tax	20.5% abatement x 1 year + 10-year phase-in	✓	✓		✓			

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	6.3%	11.8%	32.0%	45.5%	28.3%	25.0%	37.7%		5.3%	8.9%	24.0%	37.5%	25.0%	24.0%	24.9%	
Index	55.7	100.7	128.6	125.7	175.1	169.5	115.6	**124.4**	41.8	76.7	114.1	122.3	159.2	186.8	147.1	**121.1**
Rank	10	26	36	38	48	48	39	**37**	3	14	37	41	49	49	47	**42**

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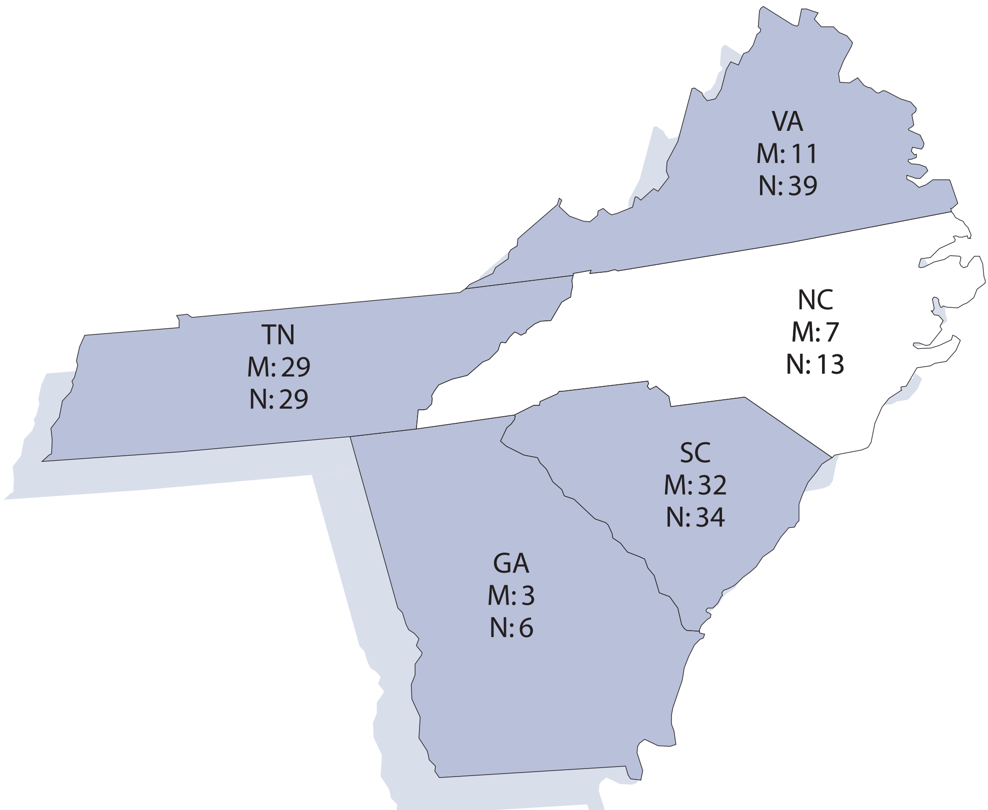
M = Rank for mature firms
N = Rank for new firms



North Carolina ranks seventh overall for mature operations and 13th overall for newly established operations. Specifically:

- North Carolina ranks third for the mature distribution center. This operation has a total effective tax rate (TETR) of 20.6 percent, which is 33 percent below the national average. This favorable ranking is due almost entirely to low property tax burdens.
- The state ranks 20th for the mature R&D firm with a TETR of 11.8 percent. Although this is the highest tax cost paid by any mature firm in North Carolina, it is still slightly below the national average. This firm has one of the lowest property tax burdens of its type but above-average income and sales tax costs.
- North Carolina ranks seventh for the new corporate headquarters. This operation has a TETR of 9.9 percent, mostly due to a generous incentive package, and with some help from low property tax burdens.
- The state ranks 24th for the new R&D facility. This operation has a TETR of 15.4 percent, which is 5 percent above the national average. Property taxes are again notably lower than in other states; states that have lighter tax costs than North Carolina for R&D operations often do so because of substantial subsidies for research and development operations. Also, this firm faces an above average sales tax.

North Carolina

Corporate income tax

Main tax rate	6.900%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Raleigh	7.750%	1.089%	1.089%	1.089%	–
Tier 2	Wilmington	8.000%	0.836%	0.836%	0.836%	–
a.	Manufacturing machinery is subject to a nominal privilege tax in lieu of sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.20%	$19,700	0.150%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

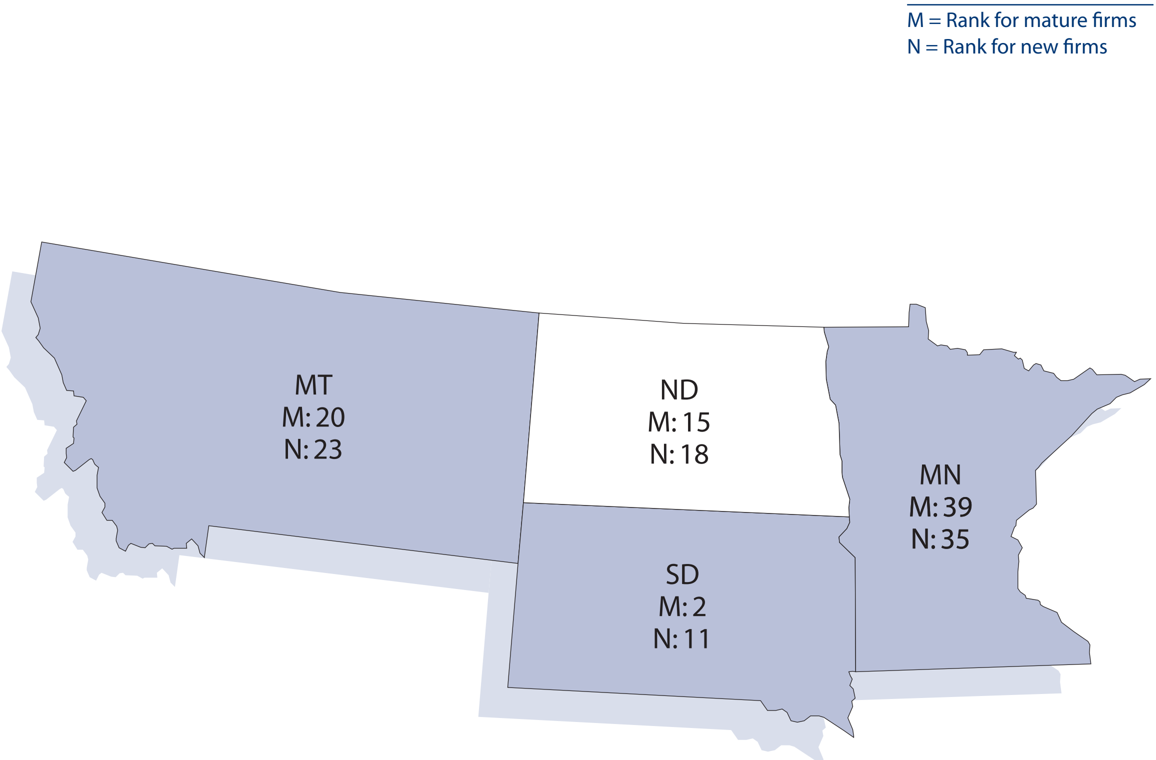
Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	3.5% of eligible capital investment over 4 years	✓	✓			✓	✓	
Job creation	$750 per new job over 4 years	✓	✓			✓	✓	
Withholdings	3.5% of new payroll x 8 years		✓			✓		
R&D	1.25% of in-state actual R&D expenses						✓	
Property tax	50% abatement x 5 years, except land	✓	✓	✓	✓	✓	✓	

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	8.8%	7.5%	23.4%	25.9%	9.9%	15.4%	27.8%		9.8%	9.4%	16.5%	20.6%	13.5%	11.8%	14.1%	
Index	77.6	64.5	93.7	71.7	61.5	104.7	85.3	**79.9**	77.1	80.8	78.8	67.1	86.3	92.0	83.3	**80.8**
Rank	21	9	19	12	7	24	15	**13**	15	18	10	3	16	20	12	**7**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store



North Dakota ranks 15th overall for mature operations and 18th overall for newly established operations. Specifically:

- North Dakota ranks fifth for the mature corporate office. This operation has a total effective tax rate (TETR) of 11.8 percent, which is 25 percent below the national average. This top ranking is due in part to relatively low sales taxes (the combined state and local rate in Fargo is 5.83 percent).
- The state ranks 34th for the mature labor-intensive manufacturing firm. This operation has a TETR of 12.6 percent, 9 percent above the national average. This firm has a high corporate income tax burden in large measure because of the state's three-factor apportionment formula and its throwback rule.
- North Dakota ranks sixth for the new retail category. This operation has a TETR of 22.5 percent, which is 31 percent below the national average for that firm type. Although this operation has an above-average income tax burden, it does benefit from some of the lowest sales and property tax costs in the nation for this firm type.
- By contrast, the state ranks 31st for new labor-intensive manufacturing with a TETR of 12.4 percent, 6 percent above the national average. This firm has one of the highest corporate income tax burdens in the nation due in large measure to its throwback rule. This firm also has above-average unemployment insurance costs.

North Dakota

Corporate income tax

Main tax rate	6.400%
Applies to income over	$50,000
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Fargo	5.830%	1.756%	1.756%	–	–
Tier 2	Grand Forks	6.750%	2.024%	2.024%	–	–
a.	Manufacturing machinery is exempt from sales tax only for new/expanded facilities					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.37%	$25,500	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	Sales tax exemption for machinery for new firms	✓	✓					
Job creation	1% of new payroll x 3 years, then 0.5% x 2 years	✓	✓					
Withholdings	n/a							
R&D	8-25% of in-state R&D expenses, per federal concepts						✓	
Property tax	100% abatement x 5 years	✓	✓		✓			

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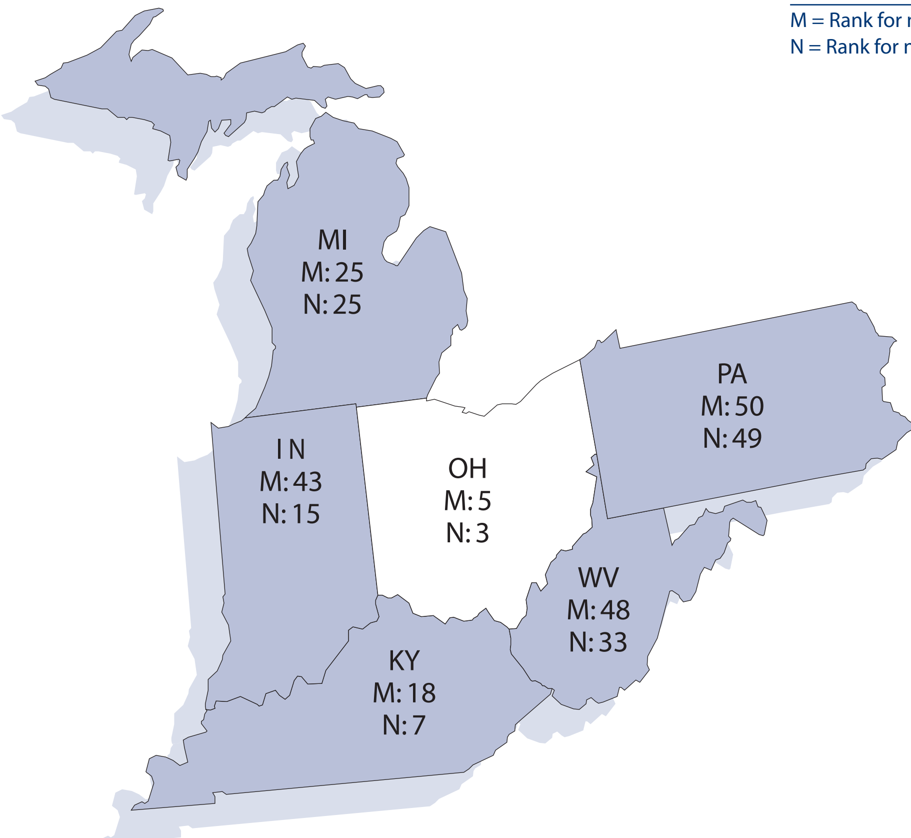
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	7.1%	12.4%	26.1%	27.2%	14.2%	11.6%	22.5%		12.2%	12.6%	19.7%	29.3%	11.8%	7.7%	13.6%	
Index	62.5	106.1	104.9	75.2	88.0	78.9	68.8	**83.5**	96.1	108.5	94.0	95.5	75.2	59.4	80.4	**87.0**
Rank	15	31	23	15	21	16	6	**18**	23	34	23	26	5	6	9	**15**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Ohio

M = Rank for mature firms
N = Rank for new firms



Ohio ranks fifth overall for mature operations and third overall for newly established operations. Specifically:

- Ohio ranks fourth for the mature retail firm. The total effective tax rate (TETR) for this operation is 12.1 percent, which is 28 percent below the national average. This firm has one of the lowest income tax burdens because of the Commercial Activities Tax (CAT). Its tax costs for unemployment insurance (UI), sales taxes, and property taxes are all about average.
- The state ranks 35th for the mature distribution center firm. This operation has a TETR of 33.3 percent, which is 9 percent above the national average. Although this firm has one of the lowest income tax costs, it does have one of the highest property tax burdens for a mature distribution center.
- Ohio ranks first for the new distribution center category. This operation has a TETR 18.3 percent, which is 49 percent below the national average. The main factor contributing to this low overall tax burden is the fact that Ohio offers the most generous property tax abatement in the nation for this firm type.
- The state ranks 10th for the new call center with a TETR of 16.8 percent, some 33 percent below the national average. The state also ranks 10th for the new R&D operation with a TETR of 9.9 percent, which is 33 percent below the national average. Both operations benefit from the state's sourcing rules for services which allocate much of the operation's income outside the state where the benefits are received.

Ohio

Corporate income tax

Main tax rate	n/a
Applies to income over	–
Specific adjustments:	
- No income tax exists in Ohio	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Cincinnati	6.440%	1.919%	1.919%	–	–
Tier 2	Canton	6.000%	2.764%	2.764%	–	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.10%	$9,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	0.260%	0.260%	0.260%	2.100%
Tier 2	0.260%	0.260%	0.260%	2.000%

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	1.925% of new payroll x 8 years	✓	✓	✓	✓	✓	✓	
R&D	7% of in-state R&D expenses, per federal concepts						✓	
Property tax	75% abatement x 10 years on real property	✓	✓		✓			

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	3.3%	6.2%	16.8%	18.3%	11.5%	9.9%	23.9%		6.2%	8.9%	18.0%	33.3%	12.2%	10.1%	12.1%	
Index	29.4	52.7	67.3	50.5	70.9	66.8	73.4	**58.7**	48.6	76.1	85.9	108.6	77.5	78.3	71.6	**78.1**
Rank	3	3	10	1	9	10	8	**3**	6	12	17	35	7	12	4	**5**

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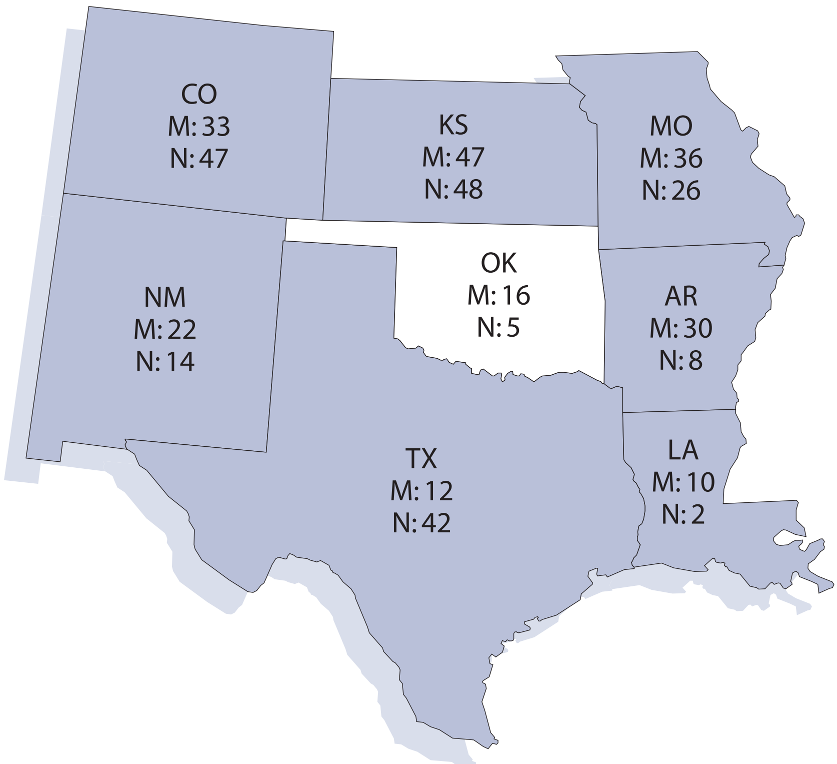
Oklahoma

M = Rank for mature firms
N = Rank for new firms



Oklahoma ranks 16th overall for mature operations and fifth overall for newly established operations. Specifically:

- Oklahoma ranks seventh for the mature call center category. The total effective tax rate (TETR) for this operation is 15 percent, which is 29 percent below the national average. This favorable ranking is partly due to low unemployment insurance (UI) tax burdens (the statutory rate is 1 percent) and partly due to low property tax burdens.
- The state ranks 31st for the mature capital-intensive manufacturing category. This operation has a TETR of 13.4 percent, which is 5 percent above the national average. High corporate income tax bills are the chief contributor to this ranking.
- Oklahoma ranks third for the new call center category. This operation has a TETR of 2.7 percent, which is roughly 89 percent below the national average. This ranking is due in large measure to Oklahoma's generous withholding tax rebate and favorable sourcing rules for service income which apportion the firm's income where the market is.
- The state ranks 27th for the new capital-intensive manufacturing category. This firm has a TETR of 9.6 percent, which is 16 percent below the national average. While this firm benefits from some of the more generous property tax abatements and withholding tax credits, its throwback rule gives it an above-average income tax burden.

Oklahoma

Corporate income tax

Main tax rate	6.000%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
If investmt >$200M	25.0%	25.0%	50.0%
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			Market

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Oklahoma City	8.375%	1.272%	1.272%	1.590%	1.590%
Tier 2	Lawton	8.875%	1.194%	1.194%	1.492%	1.492%
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.00%	$18,600	0.125%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a (credit is under a 2-year moratorium)							
Job creation	n/a (credit is under a 2-year moratorium)							
Withholdings	5% new payroll x 8 years	✓	✓	✓	✓	✓	✓	
R&D	n/a							
Property tax	100% x 5 years on machinery + freeport on inventory	✓	✓					

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.6%	9.9%	2.7%	29.8%	8.0%	7.3%	31.1%		13.4%	11.8%	15.0%	22.2%	12.8%	11.7%	14.6%	
Index	84.2	85.0	10.7	82.5	49.8	49.5	95.4	**65.3**	105.3	101.7	71.4	72.3	81.8	91.0	86.3	**87.1**
Rank	27	15	3	20	4	7	21	**5**	31	28	7	8	10	19	14	**16**

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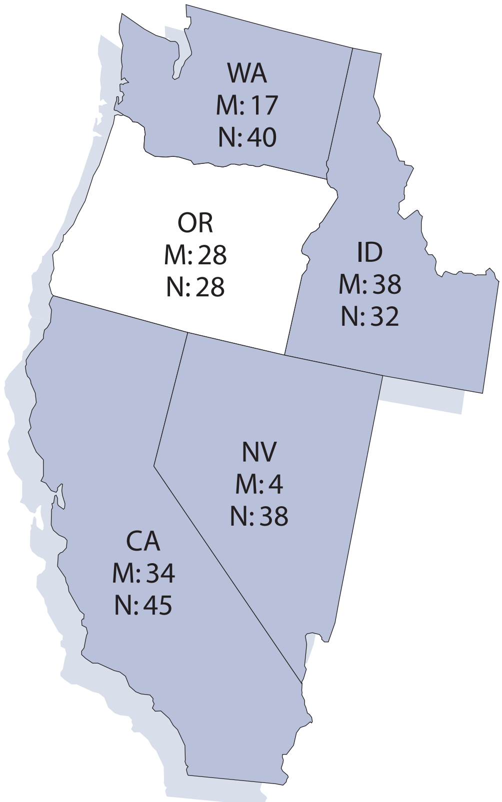
M = Rank for mature firms
N = Rank for new firms



Oregon ranks 28th overall for both mature and newly established operations. Specifically:

- Oregon ranks sixth for the mature distribution center firm. This operation has a total effective tax rate (TETR) of 21.6 percent, which is 29 percent below the national average. Since Oregon is one of five states without a state-level sales tax, this firm is tied for the lowest sales tax burden in the country. It also has one of the lowest property tax burdens. However, it has the highest unemployment insurance (UI) costs in the nation.
- By contrast, the state ranks 40th for the mature call center firm. The firm has a TETR of 25 percent, which is 19 percent above the national average. Again, this firm has the nation's highest UI tax costs and an above-average income tax burden because of its sourcing rules for services.
- Oregon ranks 14th for the new retail store with a TETR of 27.5 percent. This is about 16 percent below the national average. The state's lack of a sales tax is a major benefit to this firm. However, in addition to having the nation's highest UI tax costs, this operation has the second-highest income tax costs, due to the state's 7.6 percent corporate tax rate.
- The state ranks 42th for the new labor-intensive manufacturing firm with a TETR of 14 percent, 19 percent above the national average. Again, this firm has the nation's highest UI tax costs in addition to one of the highest income tax burdens due to the state's throwback rule. It also has one of the highest property tax burdens because of the above-average property tax rates on equipment.

Oregon

Corporate income tax

Main tax rate	7.600%
Applies to income over	$10,000,000
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Portland	–	1.154%	1.154%	1.832%	–
Tier 2	Salem	–	1.117%	1.117%	1.661%	–
a.	No sales tax exists in Oregon					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
4.30%	$32,300	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	3.650%
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	5% of in-state R&D expenses, per federal concepts						✓	
Property tax	15-year phase-out exemption for property >$100M	✓						

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	11.3%	14.0%	33.7%	28.7%	19.5%	15.7%	27.5%		14.8%	11.2%	25.0%	21.6%	16.8%	12.3%	16.6%	
Index	98.8	119.3	135.1	79.4	120.6	106.3	84.4	**106.3**	116.7	96.0	119.2	70.6	107.0	95.8	98.0	**100.5**
Rank	33	42	39	18	38	25	14	**28**	34	27	40	6	37	22	27	**28**

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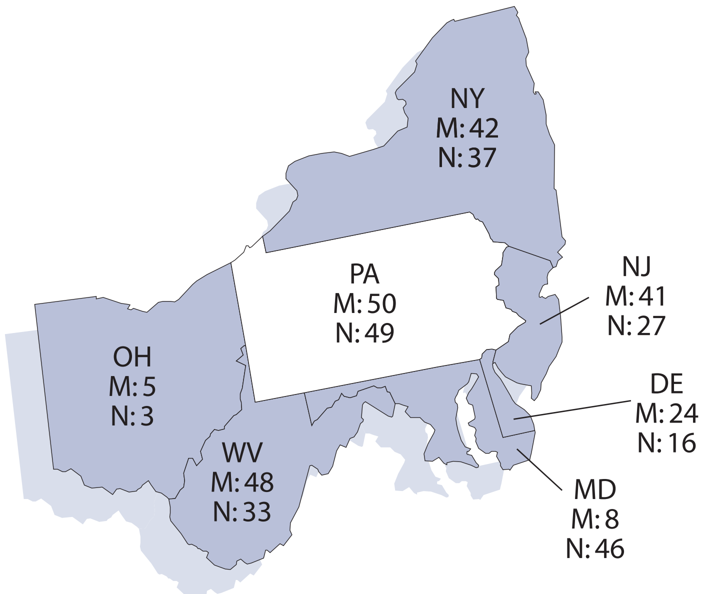
Pennsylvania

M = Rank for mature firms
N = Rank for new firms



Pennsylvania ranks 50th overall for mature operations and 49th overall for newly established operations. Specifically:

- Pennsylvania ranks fifth for the mature capital-intensive manufacturing firm, with a total effective tax rate (TETR) of 6.1 percent, which is 52 percent below the national average. Although Pennsylvania has one of the nation's highest statutory corporate income tax rates at 9.99 percent, this firm has a low corporate income tax burden because of the state's heavy weighting of the sales factor and the lack of a throwback rule.
- The state ranks 50th with the highest tax burden in the nation for three mature operations: corporate headquarters, R&D center, and retail store. The tax burden for the corporate headquarters is 78.4 percent above the national average. The tax burden for the R&D facility is 126.4 percent above average. And the tax burden for the retail store is 84.3 percent above the average. The biggest contributor to these firms' tax bill is often high state and local corporate income tax burdens, though property taxes often contribute substantially as well.
- For newly established firms, Pennsylvania ranks ninth for the capital-intensive manufacturing operation with a TETR of 6.1 percent, due largely to the low corporate income tax burden for this firm. A favorable apportionment method for this firm type and no throwback rule contribute to the low income tax burden, even with a high statutory corporate tax rate.
- The state's highest tax burdens for newly established firms are for the corporate office and R&D firms, which both rank 50th. The operations have TETRs of 30.7 percent and 33.5 percent, respectively. The R&D firm's tax bill is 127 percent above the national average. State and local income tax burdens are the largest contributor to these firm's tax bills, though property taxes are also high.

Pennsylvania

Corporate income tax

Main tax rate	9.990%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	5.0%	5.0%	90.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Philadelphia	6.400%	4.772%	4.772%	–	–
Tier 2	Reading	6.000%	3.758%	3.758%	–	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
3.70%	$8,000	0.289%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	0.142%	0.142%	0.142%	6.450%
Tier 2	–	0.225%	0.150%	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	$1,000 per new job	✓	✓	✓	✓	✓	✓	✓
Withholdings	n/a							
R&D	10% of in-state incremental R&D expenses						✓	
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	6.1%	11.8%	36.3%	59.5%	30.7%	33.5%	45.5%		6.1%	9.1%	30.2%	48.0%	28.0%	29.1%	31.2%	
Index	53.1	100.7	145.9	164.5	190.1	227.4	139.4	**145.9**	48.4	78.0	144.0	156.5	178.4	226.4	184.3	**145.1**
Rank	9	26	45	48	50	50	47	**49**	5	15	48	49	50	50	50	**50**

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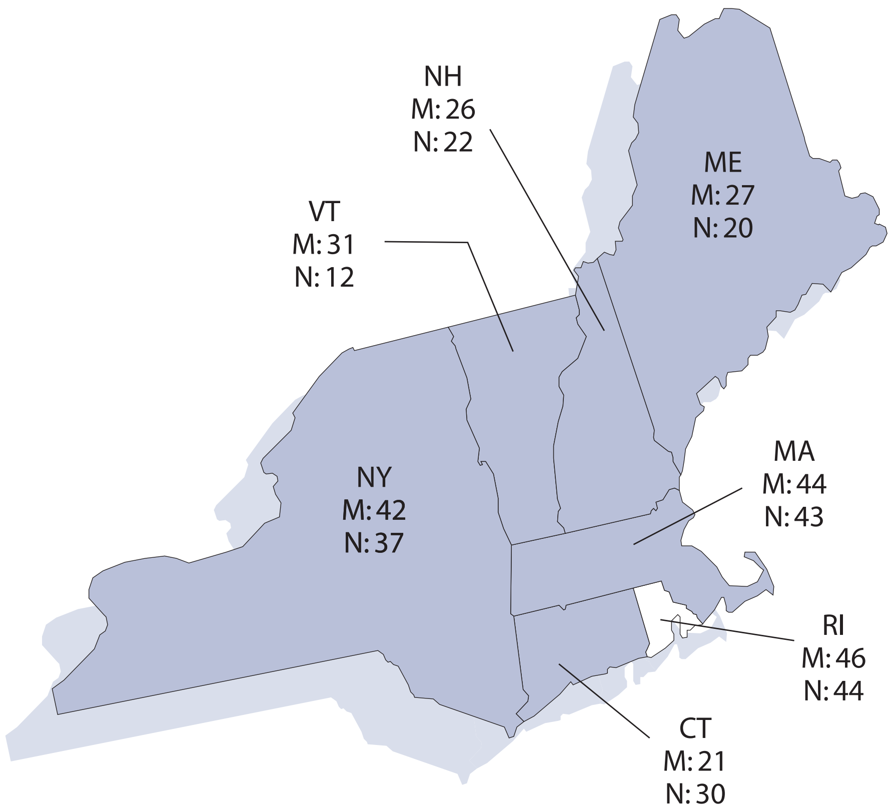
Rhode Island

M = Rank for mature firms
N = Rank for new firms



Rhode Island ranks 46th overall for mature operations and 44th for newly established operations. Specifically:

- Rhode Island ranks 12th for the newly established capital-intensive manufacturing firms with a total effective tax rate (TETR) of 6.6 percent, 42 percent below the national average. This type of firm benefits from Rhode Island's generous property tax abatement, which makes up for the firm's high income tax and unemployment insurance (UI) burdens.
- The state ranks 49th for mature call center operations, which have a TETR of 31 percent, a tax burden 45 percent above the national average for this type of firm. This ranking is driven by the state's 9 percent income tax and throwback rule, as well as property tax and UI rates among the highest in the nation.
- For new firms, the state's highest tax costs are on the call center operation, which ranks 48th in the country. This firm faces a 39.0 percent TETR even with above-average incentives for this type of firm. Rhode Island's taxation of equipment especially hurts this firm due to its reliance on such capital.
- Rhode Island has above-average tax costs for every firm type except the newly established capital-intensive manufacturing firm. All of these firms are hard hit by the state's corporate income tax of 9 percent, which is among the highest rates in the country.

Rhode Island

Corporate income tax

Main tax rate	9.000%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	33.3%	33.3%	33.3%
Optional for mfg.	25.0%	25.0%	50.0%
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Providence	7.000%	3.370%	3.370%	2.679%	–
Tier 2	Providence	7.000%	3.370%	3.370%	2.679%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.97%	$19,000	0.025%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	Varies from 4-10% of eligible capital investment	✓	✓	✓		✓	✓	
Job creation	Corporate income tax rate reduction of up to 6% based on number of new jobs created	✓	✓	✓		✓	✓	
Withholdings	n/a							
R&D	16.9-22.5% of in-state R&D, per federal concepts						✓	
Property tax	50% abatement x 1 year + 10-year phase-out	✓	✓		✓			

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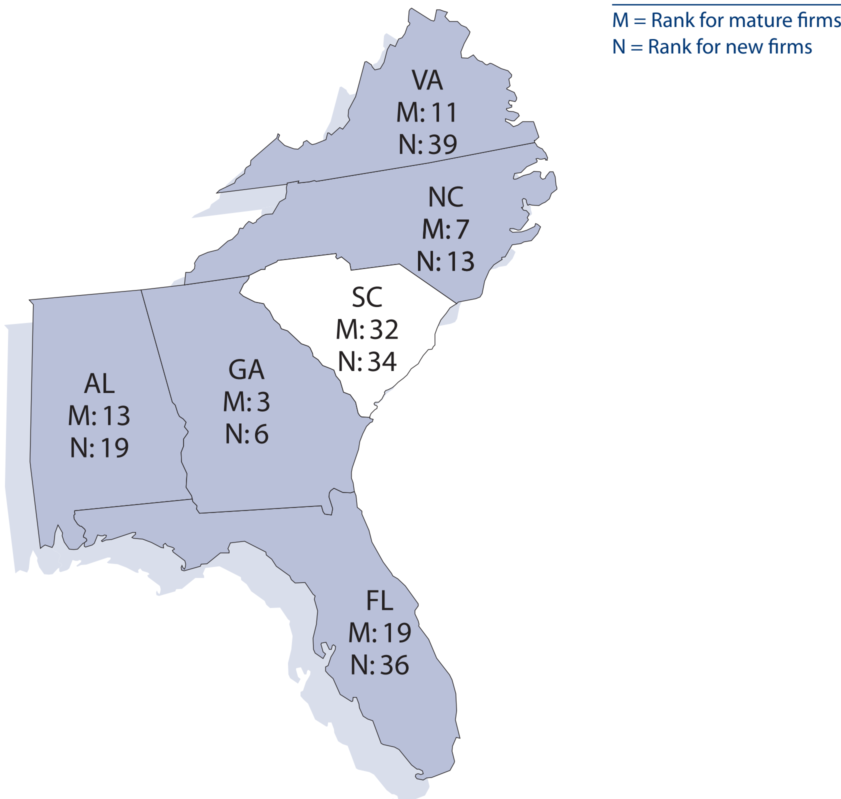
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	6.6%	13.2%	39.0%	54.6%	19.3%	23.9%	45.4%		14.7%	16.2%	30.5%	45.3%	17.6%	14.1%	22.7%	
Index	57.6	112.4	156.5	151.0	119.5	162.1	139.4	**128.4**	115.7	138.9	145.4	147.9	112.2	109.4	134.3	**129.1**
Rank	12	38	48	46	37	47	47	**44**	33	46	49	45	41	33	46	**46**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store



South Carolina ranks 32nd overall for mature operations and 34th overall for newly established operations. Specifically:

- South Carolina's lightest tax costs are on mature labor-intensive manufacturing firms, where the state ranks ninth nationally. The firm's total effective tax rate (TETR) is 8.2 percent – almost 30 percent less than the national average. The firm's income tax burden is especially low mainly because South Carolina does not have a throwback rule. However, the firm also faces the third-highest property tax burden in the country.
- The distribution center has the heaviest tax cost of any mature operation in the state with a TETR of 35.6 percent, 16 percent above the national average. The state's sourcing rules for service expose 100 percent of the firm's income to in-state taxation.
- South Carolina ranks 49th for having one of the highest tax costs for newly established retail operations with a TETR of 46 percent, which is 41 percent higher than the national average. Though the state has one of the lightest income tax burdens for this type of firm (ranking 10th), it has one of the highest property tax burdens (ranking 49th).
- South Carolina also ranks 43rd for newly established capital-intensive manufacturing firms, with the typical firm facing a tax burden 72 percent higher than the national average. The state imposes the highest tax rate (4.49 percent) on equipment in the country for this firm type, which greatly affects a business so reliant on equipment in production.

South Carolina

Corporate income tax

Main tax rate	5.000%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Columbia	7.000%	2.598%	2.598%	4.547%	–
Tier 2	Spartanburg	6.000%	2.566%	2.566%	4.490%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.87%	$10,000	0.100%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	Varies from $1,500-$2,750 per new job	✓	✓	✓	✓	✓	✓	
Withholdings	Varies from 2.20-3.75% of new payroll x 10 years	✓	✓	✓	✓	✓	✓	
R&D	5% of in-state R&D expenses, per federal concepts						✓	
Property tax	45% abatement x 20 years	✓	✓					

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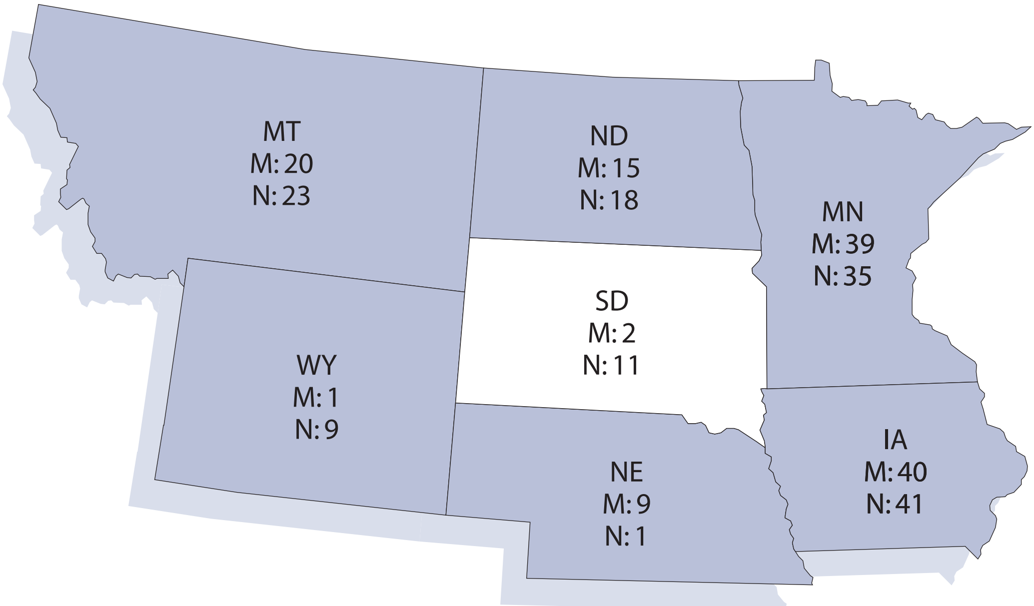
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	19.6%	7.9%	23.3%	53.7%	15.0%	17.7%	46.0%		14.9%	8.2%	21.6%	35.6%	15.7%	14.9%	17.6%	
Index	172.1	67.9	93.3	148.5	93.0	120.0	141.3	**119.4**	117.6	70.5	103.0	116.1	99.8	115.6	103.9	**103.8**
Rank	43	10	18	45	22	33	49	**34**	35	9	30	39	27	37	32	**32**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

South Dakota

M = Rank for mature firms
N = Rank for new firms



South Dakota ranks second overall for mature operations and 11th overall for newly established operations. Specifically:

- Every firm type in South Dakota has a lighter tax burden than the national average. The average firm in the state has a tax burden 33 percent lower than the national average.
- South Dakota ranks first with the lowest tax costs in the nation for mature call center operations with a total effective tax rate (TETR) of 12.2 percent. The state's lack of an income tax is one of the key factors in this top ranking along with the state's low unemployment insurance (UI) tax burden.
- For similar reasons, South Dakota ranks first for new retail stores with a TETR of 17.4 percent, 47 percent below the national average. In addition to having no income tax and a low UI tax burden, the state also offers retail stores a low sales tax rate and a low property tax rate.
- South Dakota also ranks second in three categories of mature operations – corporate headquarters, retail store, and capital-intensive manufacturing operations. In particular, the capital-intensive manufacturing firm benefits from low property tax rates and the lack of a property tax on either equipment or inventory. The lack of an inventory tax also benefits the retailer.
- South Dakota ranks 31st for newly established capital-intensive manufacturing firms, though the firm's TETR is 10.5 percent, just 8 percent below the national average.
- The reason that South Dakota ranks less favorably for newly established firms as compared to mature operations is that it offers only one incentive for newly established operations: a property tax abatement available solely to manufacturing firms.

South Dakota

Corporate income tax

Main tax rate	n/a
Applies to income over	–
Specific adjustments:	
- No income tax exists in South Dakota	

Apportionment	Property	Payroll	Sales
Standard factors	n/a	n/a	n/a
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			n/a
Interstate services income apportionment			n/a

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Sioux Falls	5.000%	1.753%	1.753%	–	–
Tier 2	Rapid City	6.000%	1.803%	1.803%	–	–
a.	Manufacturing machinery is subject to sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.75%	$11,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	80% abatement x 1 year + 4-year phase-in, except land	✓	✓					

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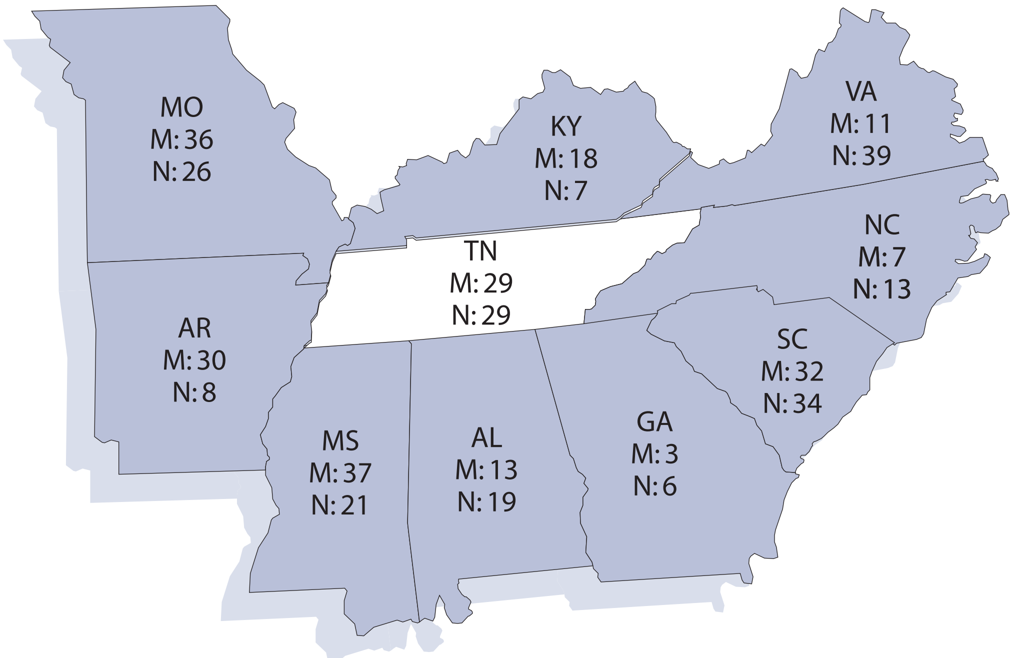
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	10.5%	11.0%	18.2%	32.3%	11.1%	10.9%	17.4%		4.9%	7.3%	12.2%	22.4%	8.6%	7.3%	8.1%	
Index	92.2	94.0	72.9	89.2	68.5	73.7	53.2	**77.7**	38.5	63.0	58.2	73.1	54.6	56.6	48.0	**56.0**
Rank	31	21	11	24	8	14	1	**11**	2	4	1	9	2	4	2	**2**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Tennessee

M = Rank for mature firms
N = Rank for new firms



Tennessee ranks 29th overall for both mature and newly established operations. Specifically:

- The firm with the lightest tax burden in Tennessee is the newly established distribution center, which has a total effective tax rate (TETR) of 28 percent, which is 22 percent below the national average. The state ranks 17th nationally for this operation. This operation benefits from the state's property tax abatement incentive and it job tax credit, the former being beneficial to this property-heavy firm while the latter benefits new firms in general.
- The state's highest tax cost for new operations is for the new R&D center, for which the state ranks 44th. The main cause for this ranking is the state's sourcing rules for services – which expose 100 percent of the operation's income to state taxes – and the nation's highest sales taxes for this type of firm.
- For similar reasons, the state ranks 43rd for mature R&D operations.
- Tennessee's lightest tax cost for mature operations is for the distribution center, which has a TETR of 27.5 percent. The state ranks 19th nationally for this type of operation. While this operation has the second-highest property tax burden in the nation, it does have a below-average burden for property taxes and unemployment insurance (UI).
- High UI taxes and high sales taxes combined with an above-average income tax burden are the primary cause of Tennessee's 41st-place ranking for new labor-intensive manufacturing.
- While the lack of a throwback rule certainly helps the state's ranking for each firm type, eight of the 14 firm types face tax burdens that are higher than the national average.

Tennessee

Corporate income tax

Main tax rate	6.500%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Nashville	9.250%	1.652%	1.652%	1.239%	–
Tier 2	Clarksville	9.500%	1.400%	1.400%	1.050%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$9,000	0.250%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	Varies from 1-3% of eligible capital investment	✓	✓					
Job creation	$4,500 per new job	✓	✓	✓	✓	✓	✓	
Withholdings	n/a							
R&D	n/a							
Property tax	50% abatement x 10 years	✓	✓		✓			

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.6%	13.7%	26.8%	28.0%	20.0%	21.3%	34.4%		12.0%	12.4%	19.5%	27.5%	16.4%	15.8%	16.6%	
Index	84.0	117.3	107.7	77.6	124.0	144.7	105.5	**108.7**	94.1	106.3	93.2	89.6	104.6	123.1	98.0	**101.3**
Rank	26	41	26	17	41	44	30	**29**	22	32	21	19	35	43	27	**29**

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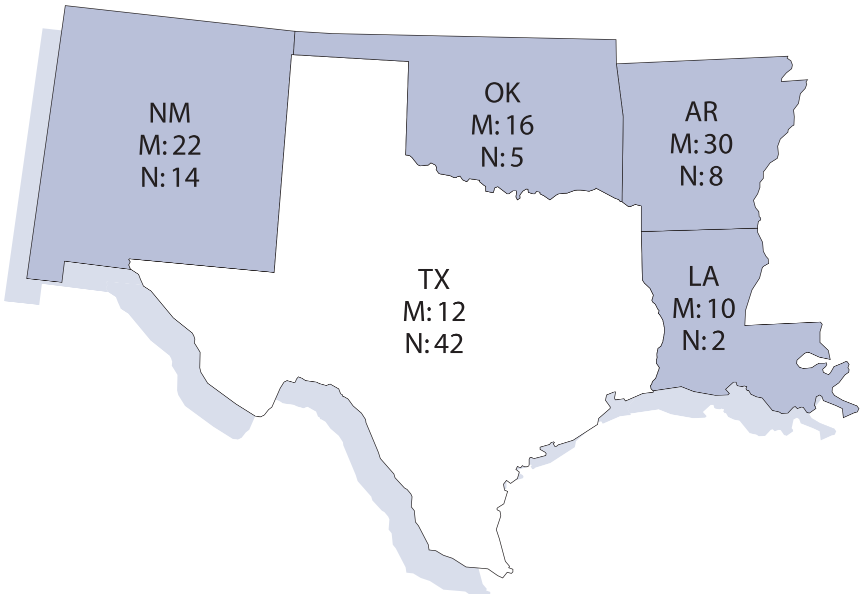
Texas

M = Rank for mature firms
N = Rank for new firms



Texas ranks 12th overall for mature operations and 42nd overall for newly established operations. Specifically:

- The mature firms with the lightest tax costs in Texas are the labor-intensive manufacturing operations, with a total effective tax rate (TETR) of 8.5 percent, and the retail store, with a TETR of 14 percent. The state ranks 10th nationally in both of categories. These firms have a light income tax burden due to the state's low-rate gross receipts tax (called the Margin Tax). However, this firm has one of the highest property tax burdens because Texas is one of just nine states that tax inventory in addition to equipment, buildings and land.
- The state ranks 30th for mature distribution centers with a TETR of nearly 31 percent. While this firm enjoys one of the lower income tax burdens in the country, it faces one of the highest sales tax rates in the country and an above-average property tax burden because of the property tax on inventories.
- Texas has above-average tax burdens for all new operations, in large measure because of the state's relatively high property taxes, sales taxes, and the lack of tax incentives.
- The state's lowest tax cost for new operations is for call centers, where the state ranks 31st nationally. In this case, the state's sourcing rules for services expose all of the firm's income to the Margin Tax. Moreover, this operation faces above-average costs for sales and property taxes.
- Texas ranks 43rd for two new firm types: labor-intensive manufacturing, which has a tax burden 21 percent above the average, and the R&D operation, which has a tax burden 44 percent above average. The high tax costs of these firms are driven by high property taxes, sales tax, and the lack of incentives.

Texas

Corporate income tax

Main tax rate	1.000%
Applies to income over	–
Specific adjustments:	
- Texas Franchise Tax on taxable margin	
- 0.5% tax rate for retail and wholesale	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Dallas	7.350%	2.460%	2.460%	2.460%	2.460%
Tier 2	Lubbock	8.250%	2.149%	2.149%	2.149%	2.149%
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$9,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	Abate 15% x 10 years + freeport on mfg. inventory	✓	✓	✓	✓	✓	✓	✓

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	18.3%	14.2%	28.9%	45.0%	19.1%	21.3%	35.6%		9.9%	8.5%	17.4%	30.9%	13.3%	12.8%	14.0%	
Index	160.4	121.0	116.0	124.4	118.4	144.2	109.2	**127.7**	78.1	73.2	82.8	100.8	84.5	99.5	82.4	**85.9**
Rank	42	43	31	37	35	43	34	**42**	17	10	12	30	13	24	10	**12**

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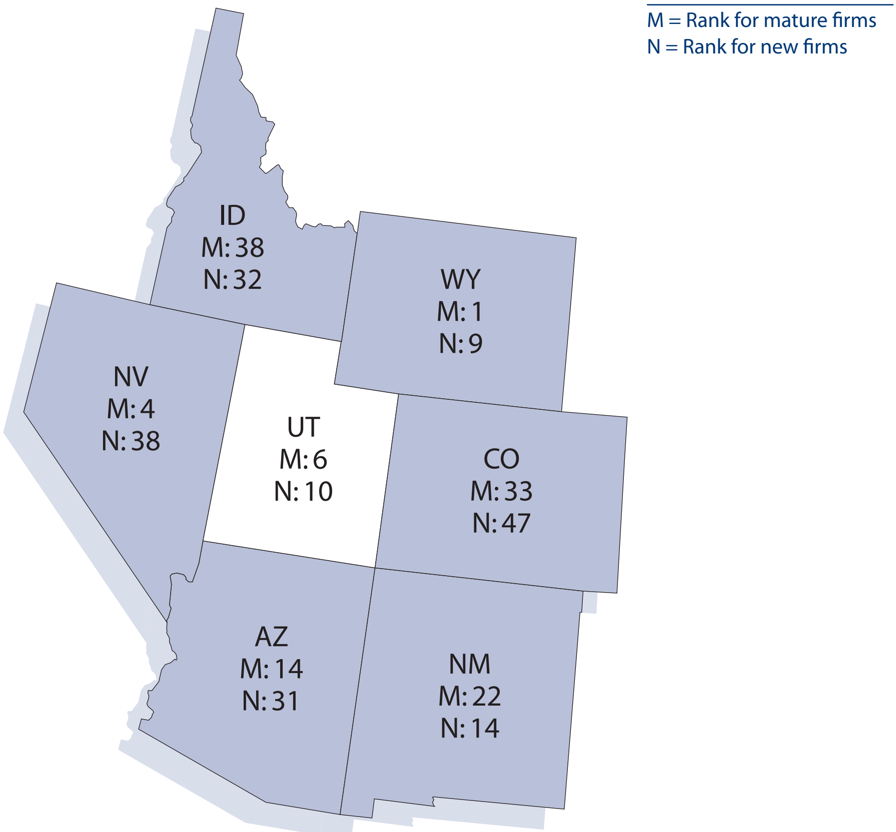

Utah ranks sixth overall for mature operations and 10th overall for newly established operations. Specifically:

- All 14 firm types, both mature and newly established, have tax burdens below the national average in Utah.
- Utah ranks third for newly established distribution center operations with a total effective tax rate (TETR) of 21.1 percent, which is 42 percent lower than the national average. This firm has the second-lowest property tax burden of its type in the nation, in large measure because of the lack of a property tax on inventory. This firm does, however, have above-average income tax and unemployment insurance (UI) tax burdens.
- The state ranks 22nd for new capital-intensive manufacturing. Although the state has one of the lowest corporate income tax rates in the country (at 5 percent), this firm has an above-average income tax burden due to the state's apportionment factor and throwback rule.
- For mature operations, the state ranks sixth for retail stores, with a TETR of 12.8 percent, nearly 25 percent below the national average. This operation benefits from the state's low 5 percent corporate income tax and also has one of the lowest property taxes in the nation for this firm type.
- Utah ranks 26th for mature labor-intensive manufacturing with a TETR of 10.6 percent, which is only 9 percent below the national average. The state's throwback rule gives the firm an above-average income tax burden and the high wage limit gives the firm a very high UI tax burden.

Utah

Corporate income tax

Main tax rate	5.000%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	16.7%	16.7%	66.6%
Mfg. and logistics	25.0%	25.0%	50.0%
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Salt Lake City	6.450%	1.290%	1.290%	1.290%	–
Tier 2	St. George	6.250%	1.256%	1.256%	1.256%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.80%	$28,600	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	6% of capital investment in research equipment						✓	
Job creation	Income and sales tax refunds of 25% x 5 years	✓	✓	✓	✓	✓	✓	
Withholdings	1.25% of new payroll x 5 years	✓	✓	✓	✓	✓	✓	
R&D	5% of incremental + 9.2% of actual Utah R&D expenses						✓	
Property tax	50% abatement x 10 years	✓	✓	✓	✓	✓	✓	

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	8.9%	10.3%	20.4%	21.1%	13.2%	10.0%	26.6%		11.5%	10.6%	18.0%	22.7%	12.9%	8.0%	12.8%	
Index	77.7	87.9	82.0	58.3	81.7	67.9	81.7	**76.7**	90.6	90.7	86.0	74.1	82.3	62.3	75.5	**80.2**
Rank	22	16	14	3	17	11	12	**10**	21	26	18	11	11	7	6	**6**

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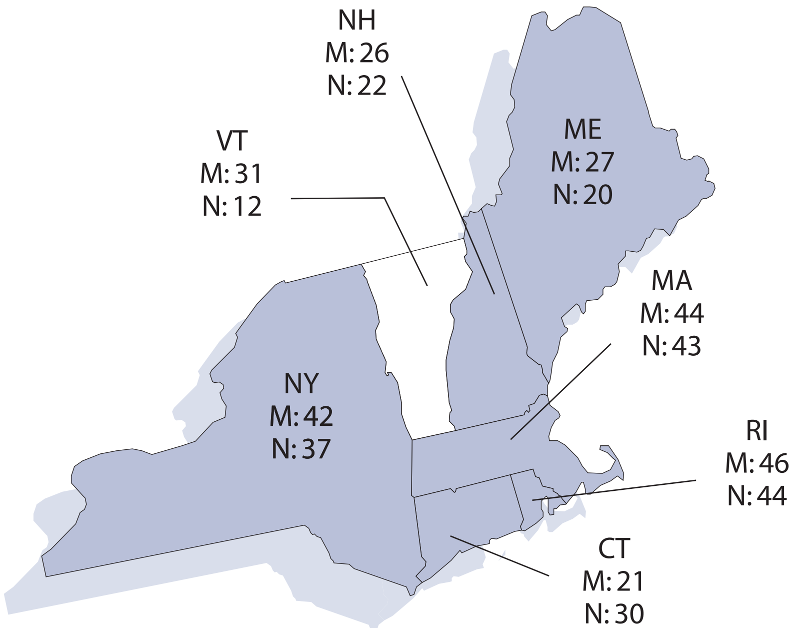
Vermont

M = Rank for mature firms
N = Rank for new firms



Vermont ranks 31st overall for mature operations and 12th overall for newly established operations. Specifically:

- The firm with the lowest tax costs in Vermont is the new distribution center, for which the state ranks eighth nationally. The firm's total tax costs are 33 percent below the national average, in large measure because of the state's low unemployment insurance (UI) tax burden. Additionally, the state has the 10th-lowest sales tax burden and the 13th-lowest property tax burden. For similar reasons, Vermont ranks ninth for new call centers.
- Vermont ranks 32nd for new capital-intensive manufacturing, which has a total tax cost that is 6 percent below the national average. The main factor is that the state has the fifth-highest income tax burden. The property tax burden is also slightly above average.
- Vermont ranks 20th for mature call center operations, which have a total tax burden that is 12 percent below the national average. The main driver is the state's UI tax burden, the second-lowest in the nation. Additionally, the state has a relatively low sales tax burden.
- Capital-intensive manufacturing firms in Vermont face the highest tax burden for mature operations, coming in at 41st. These firms have a total tax burden that is 29 percent above the national average. The main factor is that the state has the 11th-highest income tax burden.
- Vermont offers relatively generous incentives, particularly for new firms, which explains why new firms rank higher than mature firms.

Vermont

Corporate income tax

Main tax rate	8.500%
Applies to income over	$25,000
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Burlington	7.000%	2.259%	2.259%	2.259%	–
Tier 2	Rutland	6.000%	1.754%	1.754%	1.754%	–

a. Manufacturing machinery is exempt from sales tax

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.00%	$13,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	20% of new payroll over 5 years	✓	✓	✓	✓	✓	✓	✓
R&D	30% of the federal credit re Vermont R&D activities						✓	
Property tax	100% abatement x 5 years, except land	✓	✓	✓	✓	✓	✓	✓

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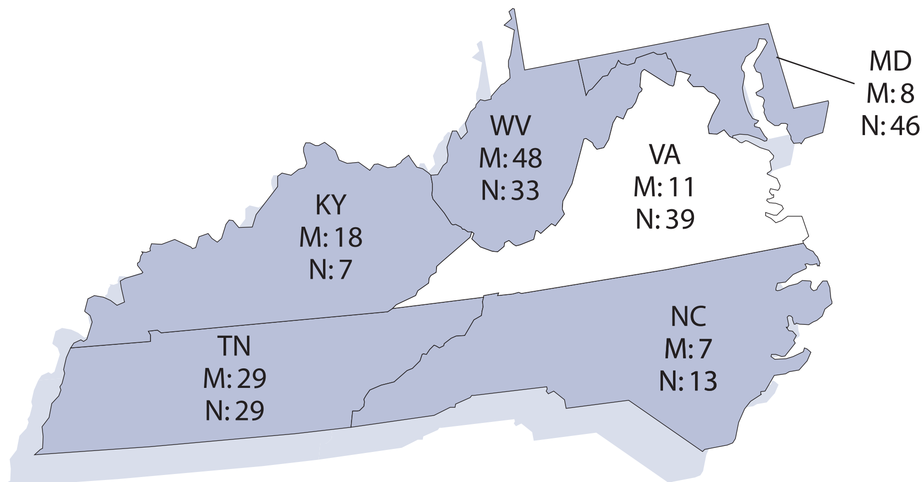
Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	10.7%	11.3%	13.8%	24.2%	13.6%	10.9%	27.2%		16.4%	13.3%	18.4%	28.8%	15.0%	13.0%	17.7%	
Index	94.1	96.8	55.3	66.9	84.4	73.7	83.5	**79.2**	128.9	114.3	87.5	93.8	95.7	100.9	104.9	**103.7**
Rank	32	25	9	8	19	14	13	**12**	41	35	20	25	24	25	34	**31**

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Virginia

M = Rank for mature firms
N = Rank for new firms



Virginia ranks 11th overall for mature operations and 39th overall for newly established operations. Specifically:

- Virginia ranks seventh for mature retail operations with a total effective tax rate (TETR) of 13.3 percent, 22 percent below the national average. The key factors are the state's low 5.0 percent sales tax and the nation's lowest costs for unemployment insurance (UI) taxes and property taxes for this firm type.
- These same factors help the state rank eighth for mature labor-intensive manufacturing and ninth for mature corporate headquarters.
- By contrast, Virginia ranks 28th for mature R&D operations and 28th for capital-intensive manufacturing operations. Each has total tax costs that are slightly above the national average. In this case, the manufacturing firm faces above-average income tax costs because of the state's apportionment factor (50 percent sales), while the R&D facility faces above-average income tax costs because of the state's sourcing rules for services, which expose 100 percent of the firm's income to state taxes. Moreover, Virginia is one of a minority of states that do not offer an R&D tax credit.
- Virginia ranks 19th for new retail operations with a total tax burden that is 7 percent below the national average. Again, this firm is helped by the state's low sales tax burden and low UI tax burden.
- By contrast, Virginia ranks 49th for new capital-intensive manufacturing, which has a total tax burden 118 percent above the national average. For this type of firm, the state has the second-highest property tax burden in the nation, partly because it is one of a minority of states that do not offer a property tax abatement. Also, the property tax rate on equipment is more than double the national average, whereas the rate on land and buildings is roughly half the national average.
- Virginia is one of only nine states with a gross receipts tax. This is a locally levied tax called the Business/Professional/Occupational License Tax (BPOL).

Virginia

Corporate income tax

Main tax rate	6.000%
Applies to income over	–
Specific adjustments:	
- s.199 deduction allowed	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			No
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Richmond	5.000%	1.007%	1.007%	2.767%	–
Tier 2	Roanoke	5.000%	1.090%	1.090%	3.000%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$8,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	–	0.360%	0.200%	n/a
Tier 2	–	0.360%	0.200%	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	$1,000 per new job over 2 years	✓	✓	✓	✓	✓		
Withholdings	n/a							
R&D	n/a							
Property tax	n/a							

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	24.8%	14.2%	26.6%	35.8%	17.1%	20.4%	30.2%		12.9%	7.9%	17.9%	22.6%	12.3%	13.5%	13.3%	
Index	217.5	121.3	106.9	99.1	105.7	138.4	92.7	**125.9**	101.8	68.1	85.3	73.8	78.4	104.7	78.4	**84.4**
Rank	49	44	25	28	28	39	19	**39**	28	8	15	10	9	28	7	**11**

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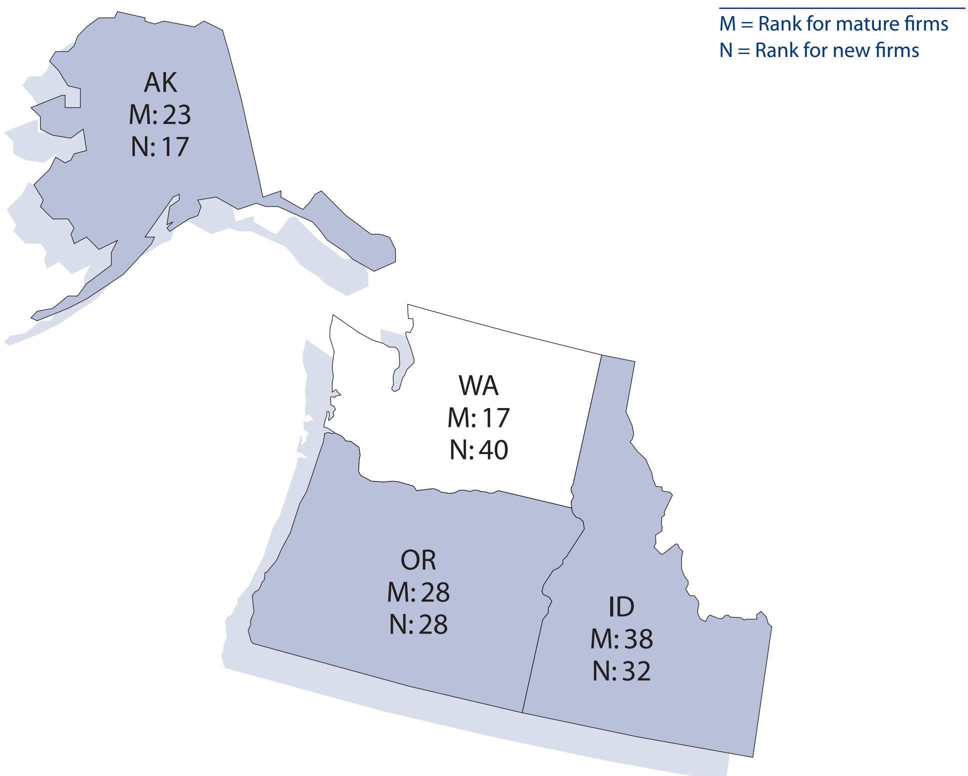
Washington



Washington ranks 17th overall for mature operations and 40th overall for newly established operations. Specifically:

- For mature operations, Washington ranks fourth for both retail stores and call centers. The total tax burden for retail is 28 percent below the national average, and the total tax burden for call centers is 33 percent below the national average. The main driver is that Washington is one of only four states without an income tax at either the state or local level. It does, however, have a gross receipts tax called the Business & Occupation Tax (B&O). Additionally, the state has one of the lowest property tax burdens for these operations.
- By contrast, Washington ranks 46th for the mature corporate headquarters, which has a total tax burden 42 percent above the national average. While this operation has the nation's lowest income tax costs and second-lowest property tax burden, it also has the highest sales tax costs and among the highest costs for unemployment insurance (UI).
- For new operations, Washington ranks 17th for retail stores, which have a total tax burden that is 8 percent below the national average. The state's low income tax and property tax costs are key factors.
- Washington ranks 49th for new corporate headquarters, which have a total tax burden 81 percent above the national average. Again, while this firm has one of the lowest property tax burdens in the nation, it has the highest sales tax burden in the nation combined with above-average UI costs and the gross receipts tax.
- The only incentive the state offers is an R&D credit for select industries.

Washington

Corporate income tax

Main tax rate	n/a
Applies to income over	–
Specific adjustments:	
- No income tax exists in Washington	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Seattle	9.500%	0.986%	0.986%	0.986%	–
Tier 2	Spokane	8.700%	1.187%	1.187%	1.187%	–
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
1.49%	$37,300	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	0.699%	2.215%	0.686%	n/a
Tier 2	0.484%	1.800%	0.471%	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	1.5% of actual in-state R&D costs for select industries						✓	
Property tax	n/a							

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	16.7%	18.1%	23.8%	34.7%	29.2%	17.6%	29.9%		9.8%	11.9%	14.1%	21.0%	22.3%	10.4%	12.1%	
Index	146.4	154.7	95.3	96.0	180.8	119.5	91.7	**126.3**	77.6	101.9	67.3	68.5	142.1	81.1	71.6	**87.2**
Rank	41	48	21	27	49	32	17	**40**	16	29	4	5	46	14	4	**17**

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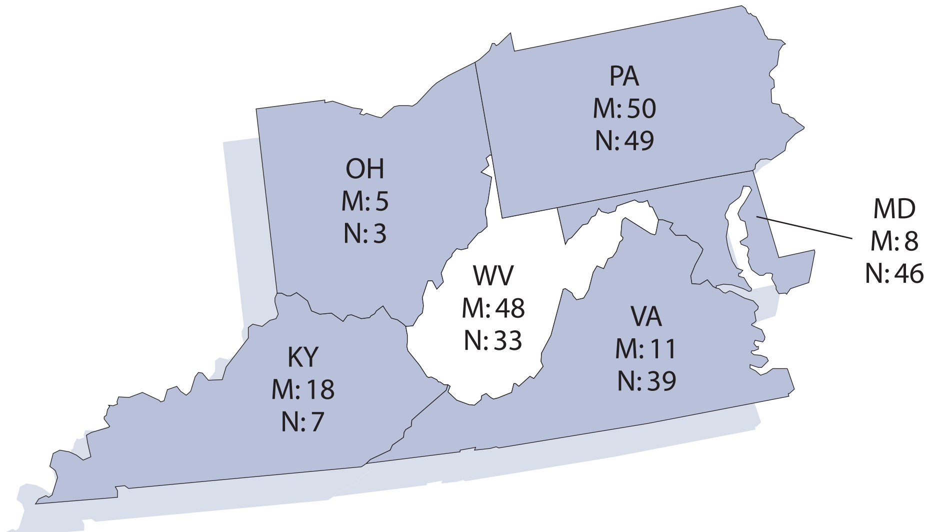
M = Rank for mature firms
N = Rank for new firms



West Virginia ranks 48th overall for mature operations and 33th overall for newly established operations. Specifically:

- Every mature firm type in West Virginia has an above-average total effective tax rate (TETR). The state ranks 36th for distribution centers with a tax burden that is 12 percent above the national average. This operation faces one of the highest income tax costs in the nation because of the state's 8.5 percent income tax rate and its throw-out rule on apportionment. However, the state's costs for property taxes and unemployment insurance (UI) taxes are about average.
- West Virginia ranks 49th for both labor-intensive and capital-intensive mature manufacturing, where the total tax costs are 54 and 88 percent above the national average, respectively. The main factor is that the state has one of the highest income tax burdens in the nation: sixth-highest for labor-intensive manufacturing and the highest for capital intensive manufacturing. This is partly because the state disallows the manufacturing deduction. Additionally, the state is one of only two states with both a gross receipts tax and capital tax on manufacturing.
- For new operations, West Virginia ranks 11th for capital-intensive manufacturing with a total tax cost that is 44 percent below the national average. The main driver is that the state has the sixth-lowest property tax burden, largely because of a generous property tax abatement. The state also has an above-average investment tax credit, that offsets an otherwise high income tax burden. For similar reasons, the state ranks 16th for labor-intensive manufacturing.
- By contrast, West Virginia ranks 50th for new call centers, which have a TETR of 40.5 percent, 63 percent above the national average. The main factor is that the state has the fourth-highest income tax burden, and unlike many states, offers no offsetting income tax credits. Additionally, the state is one of only four with both a gross receipts tax and capital tax on call centers.

West Virginia

Corporate income tax

Main tax rate	8.500%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	
- Throw-out rule applies to sales of goods	

Apportionment	Property	Payroll	Sales
Standard factors	25.0%	25.0%	50.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			IPA

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Charleston	6.000%	1.764%	1.764%	1.764%	1.764%
Tier 2	Parkersburg	6.000%	1.751%	1.751%	1.751%	1.751%
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.70%	$12,000	0.340%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	0.300%	1.000%	0.500%	n/a
Tier 2	0.200%	0.900%	0.400%	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	2% of eligible capital investment x 10 years	✓	✓		✓	✓	✓	
Job creation	n/a							
Withholdings	n/a							
R&D	10% of incremental or 3% of actual WV R&D expenses						✓	
Property tax	95% abatement x 10 years	✓	✓					

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Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	6.4%	10.3%	40.5%	43.7%	21.5%	21.6%	39.7%		23.9%	17.9%	28.5%	34.2%	20.8%	17.5%	20.7%	
Index	56.3	87.9	162.6	120.8	132.9	146.8	122.0	**118.5**	188.0	154.0	135.9	111.7	132.7	136.3	122.5	**140.2**
Rank	11	16	50	36	44	46	41	**33**	49	49	47	36	45	45	42	**48**

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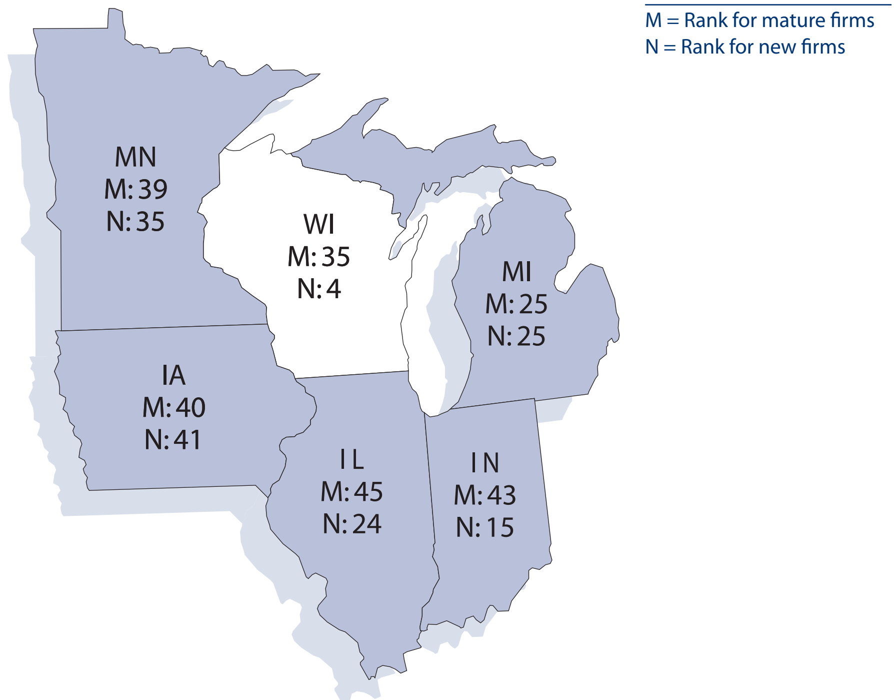
Wisconsin



Wisconsin ranks 35th overall for mature operations and fourth overall for newly established operations. Specifically:

- For mature operations, Wisconsin ranks 16th for R&D facilities, which has a total tax burden that is 16 percent below the national average. The main driver is that this operation has no income tax burden, due to the state's R&D tax credit and sourcing rules that place much of the operation's income out of state where the benefits are received. This operation also faces the ninth-lowest sales tax burden in the nation.
- By contrast, Wisconsin ranks 42nd for mature capital-intensive manufacturing, which has a total tax burden that is 32 percent above the national average. The main factor is that the income tax burden is seventh-highest in the nation, in part because the state disallows the manufacturing deduction and has a throwback rule on tangible property sales, which exposes all of the operation's income to in-state tax.
- For new operations, Wisconsin ranks second for call centers with a total tax burden that is 93 percent below the national average. This operation has the lowest income tax costs in the nation due to the state's generous job and investment tax credits and the sourcing rules that place the operation's income out of state where the benefits are received. Additionally, the state offers the highest withholding tax rebate in the nation.
- Wisconsin ranks 40th for new retail with a total tax burden that is 17 percent above the national average. The main factor is that this operation faces the ninth-highest property tax burden in the nation, as well as the tenth-highest unemployment insurance tax burden.
- Wisconsin offers relatively generous incentives, particularly for all new firms except retail, which explains why these new firms tend to rank higher than their mature counterparts.

Wisconsin

Corporate income tax

Main tax rate	7.900%
Applies to income over	–
Specific adjustments:	
- s.199 deduction disallowed	

Apportionment	Property	Payroll	Sales
Standard factors	–	–	100.0%
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			Yes
Interstate services income apportionment			Benefits

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Milwaukee	5.350%	2.340%	2.340%	2.340%	2.340%
Tier 2	Eau Claire	5.500%	2.032%	2.032%	2.032%	2.032%
a.	Manufacturing machinery is exempt from sales tax					

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
4.10%	$13,000	n/a

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	3% to 5% of eligible capital investment	✓	✓	✓	✓	✓	✓	
Job creation	$6,000 per new job	✓	✓	✓	✓	✓	✓	
Withholdings	5% of payroll x 10 years	✓	✓	✓	✓	✓	✓	
R&D	5% of in-state R&D expenses, per federal concepts						✓	
Property tax	State tax exemption for mfg. machinery	✓	✓					

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	7.0%	6.9%	1.7%	35.9%	7.8%	3.9%	38.2%		16.8%	14.2%	18.3%	32.5%	17.2%	10.7%	19.2%	
Index	61.7	59.0	6.9	99.3	48.3	26.3	117.4	**59.8**	132.4	121.6	87.4	106.1	109.5	83.5	113.7	**107.7**
Rank	14	6	2	29	3	4	40	**4**	42	39	19	34	38	16	37	**35**

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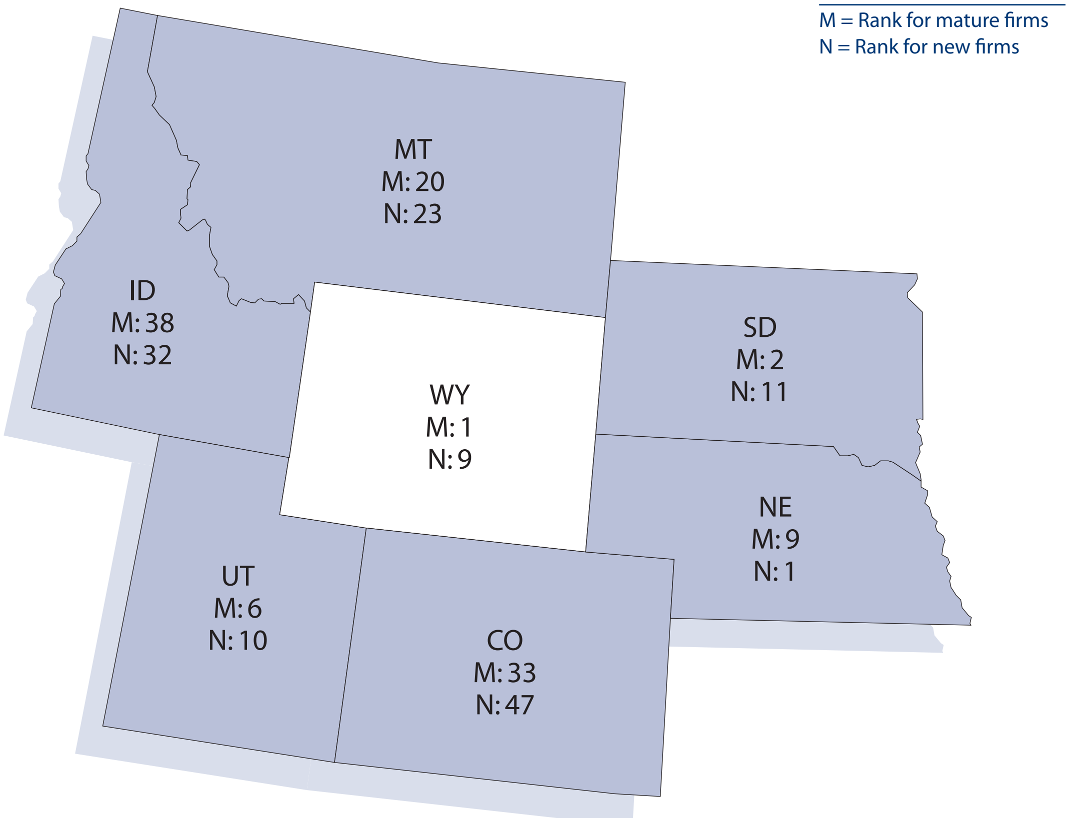

Wyoming ranks first overall for mature operations and ninth overall for newly established operations. Specifically:

- In five out of seven mature operations, Wyoming ranks first: capital- and labor-intensive manufacturing, distribution centers, corporate headquarters, and retail. The main driver is that the state is one of three states without an income tax. Additionally, the state's property tax and sales tax burdens are among the lowest in the nation.
- Wyoming ranks third for both the mature R&D facility and the call center operation, which have total tax costs that are 48 and 35 percent below the national average, respectively. These operations have among the lowest property tax costs of their firm type in the nation.
- For new operations, Wyoming ranks second for retail stores with a total tax cost 40 percent below the national average. Although this operation has above-average costs for unemployment insurance (UI), it has among the lowest costs for income taxes and property taxes.
- By contrast, Wyoming ranks 23rd for new capital-intensive manufacturing with a total tax burden that is 19 percent below the national average. The main factor is that this operation faces the 20th-highest property tax burden in the nation, mainly because Wyoming is one of the few states that do not offer a property tax abatement. Additionally, this operation faces the 10th-highest unemployment insurance tax burden.

Wyoming

Corporate income tax

Main tax rate	n/a
Applies to income over	–
Specific adjustments:	
- No income tax exists in Wyoming	

Apportionment	Property	Payroll	Sales
Standard factors	n/a	n/a	n/a
Optional alternative	n/a	n/a	n/a
Throwback applies to tangible property sales			n/a
Interstate services income apportionment			n/a

Sales and property tax

Metro areas examined		Sales tax	Property tax			
		Main rate[a]	Land	Buildings	Equipment	Inventory
Tier 1	Cheyenne	6.000%	0.837%	0.837%	0.837%	–
Tier 2	Casper	5.000%	0.838%	0.838%	0.838%	–

a. Manufacturing machinery is exempt from sales tax

Other taxes

Unemployment insurance		State
Rate	Max. pay	capital tax
2.50%	$22,300	0.020%

	Gross receipts tax			Local
	Mfg.	Services	Retail	income tax
Tier 1	n/a	n/a	n/a	n/a
Tier 2	n/a	n/a	n/a	n/a

Incentives for newly established operations

Type	Incentive value	MC	ML	CC	DC	CO	RD	RT
Investment	n/a							
Job creation	n/a							
Withholdings	n/a							
R&D	n/a							
Property tax	n/a							

MC= Capital-Intensive Manufacturing Operation, ML= Labor-Intensive Manufacturing Operation, CC= Call Center, DC= Distribution Center, CO= Corporate Headquarters, RD= Research and Development (R&D) Facility, RT= Retail Store

Results

	Newly established operations								Mature operations							
	Tier 2 operations				Tier 1 operations			AVG	Tier 2 operations				Tier 1 operations			AVG
	MC	ML	CC	DC	CO	RD	RT		MC	ML	CC	DC	CO	RD	RT	
TETR	9.2%	8.5%	21.4%	22.4%	11.8%	11.6%	19.4%		4.6%	5.2%	13.7%	13.5%	8.3%	6.7%	7.3%	
Index	80.5	73.0	85.7	61.8	73.3	78.9	59.6	**73.3**	36.5	44.3	65.1	44.1	52.9	52.4	43.1	**48.3**
Rank	23	12	15	5	11	16	2	**9**	1	1	3	1	1	3	1	**1**

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Methodology

Seven business scenarios were defined for use in the tax cost model. Each business scenario was reviewed under two fact patterns:

1) New business (under three years old)

2) Pre-existing operation (in operation 10 years or more)

In order to apply the facts for each business operation to the model, a sample company is identified. For example, the capital-intensive manufacturing company is assumed to be a steel company. For each scenario, assumptions are identified around the number of employees by function, salaries, capital investment, revenue, profit, and the amount of property, payroll, and sales in the state. These parameters are developed for each industry operation based on two sources of detailed industry-average financial and operating data:

- Anything Research data (www.anythingresearch.com), which compiles publicly available financial data for a wide range of specific industries
- The IRS Corporation Source Book, which presents balance sheet, income statement, tax, and other selected items for all taxpayer corporations by size of total assets and by NAICS sector. From this source, the statistics used are for all returns with net income.

The model assumes that all business scenarios are separate legal entities. Detailed financial statements are developed for each operation and modeled in each location, resulting in profit and loss statements as the basis for tax computation. The seven industry-specific business scenarios are as follows[1]:

1. **The first scenario is a capital-intensive manufacturing operation, e.g. a steel company.** The business scenario assumes the company has 200 positions, including management, administrative, installation and maintenance, production, transportation, and materials employees. The scenario assumes $300 million in capital investment, including owning a 250,000 sq. ft. suburban industrial building. The average revenue is assumed to be approximately $200 million with gross profit ratio of 25 percent and earnings before tax of 10 percent. The equity ratio is assumed to be 50 percent. The apportionment methodology assumes 100 percent of property and payroll is in the state in which the manufacturer is located, while sales are assumed to be distributed

1 Source: Average industry scenarios based on IRS data and Anything Research data

among all 50 U.S. states in proportion to the relative population of each state.

2. **The second business scenario is a labor-intensive manufacturing business, e.g. a heavy transportation equipment manufacturer.** The labor includes 300 employees, comprised of managers, installation, maintenance, production, and assembly employees (who are the majority of the employees). The model assumes capital investment is $65 million, including owning a 250,000 sq. ft. suburban industrial building. The average revenue is assumed to be approximately $173 million with a gross profit ratio of 20 percent and earnings before tax of 7 percent. The equity ratio is assumed to be 30 percent. The apportionment methodology assumes 100 percent of property and payroll is in the state in which the manufacturer is located, while sales are assumed to be distributed among all 50 U.S. states in proportion to the relative population of each state.

3. **The retail business scenario is an independent clothing store.** This store has 25 employees, most of whom are sales employees. Capital investment is estimated at $2 million and the business leases 10,000 sq. ft. of downtown commercial space. The average revenue is assumed to be approximately $2.9 million with a gross profit ratio of 45 percent and earnings before tax of 9 percent. The equity ratio is assumed to be 100 percent. The apportionment methodology assumes 100 percent of property, payroll and sales are all in-state.

4. **The fourth business scenario is a high-wage service business, e.g. a regional corporate headquarters.** This operation has 200 employees including management, financial operations, IT, sales and administrative employees. Capital investment is estimated at $10 million and the business leases 60,000 sq. ft. of Class A downtown office space. The average revenue is assumed to be approximately $31 million with a gross profit ratio of 17 percent and earnings before tax of 14 percent. The equity ratio is assumed to be 100 percent. The apportionment methodology assumes 50 percent of property and payroll located in the state. The income producing activities of the office are assumed to occur in state, provide all benefits in state, and relate exclusively to the marketplace of the state.

5. **The fifth business scenario is a low-wage service business, e.g. an internal call center/shared services center.** This operation has 600 employees, including management, sales, and administrative employees. Capital investment is estimated at $10 million and the business leases 100,000 sq. ft. of Class A suburban office space. The average revenue is assumed to be approximately $29 million with earnings before tax of 7 percent. The equity ratio is assumed to be 100 percent. The apportionment methodology assumes 100 percent of property and payroll in the state. While all income-producing activities are assumed to be performed in state, those activities are assumed to serve customers/clients nationally, and therefore generate benefits and relate to the marketplaces of all 50 states in proportion to the relative population of each state.

6. **The sixth business scenario is a distribution center (i.e. warehouse facility) operated by an independent third-party logistics provider for a large company.** This scenario has 95 employees in transportation and material handling, administrative, and management occupations. Capital investment is estimated at $11 million and the business leases 350,000 sq. ft. of Class B suburban industrial space. The average revenue is assumed to be approximately $13 million with a gross profit ratio of 68 percent and earnings before tax of 12 percent. The equity ratio is assumed to be 50 percent. The apportionment methodology assumes 100 percent of property and payroll in state. The income-producing activities of the distribution center are assumed to occur in state, with the benefit of those activities also received in state. However, the sole customer contracting for the operation of the distribution center is assumed to be located out of state.

7. **The seventh business scenario is a pharmaceutical research and development facility for product development.** The facility is assumed to have 50 employees, including management, business and financial, computer and math, science, and office/administrative positions. Capital investment is estimated at $4 million and the business leases 30,000 sq. ft. of Class A suburban commercial space. The average revenue is assumed to be approximately $8 million with earnings before tax of 14 percent. The equity ratio is assumed to be 100 percent. The apportionment methodology assumes 100 percent of property and payroll in the state. While all income-producing activities are assumed to be performed in state, those activities are assumed to serve clients nationally, and therefore generate benefits in and relate to the marketplaces of all 50 states in proportion to the relative population of each state.

State Income Tax

Income tax liability was reviewed at the state and local level. Following are assumptions and notes related to the calculation of state income tax liability, including topics such as how income is calculated, apportionment methodology, income sourcing, and rates.

Taxable Income

Following are assumptions utilized in identifying taxable income by state for inputs into the tax cost model:

- Federal taxable income is modified for (i) the add back of state taxes and (ii) state decoupling from IRC 199 deduction (both as required by state). No adjustments have been made for state decoupling from federal bonus depreciation since this adjustment is a timing item. Federal taxable income assumes there are no net operating losses available from prior years.
- Net income before tax varies between locations due to variations in other state/local taxes (property, sales, gross receipts, unemployment insurance, etc.). Therefore, variations in federal tax paid are wholly attributable to the impact on taxable income of these other taxes. Variations in federal tax do not impact the calculation of the state tax index, except to the extent that a handful of states allow a deduction at the state level for federal tax paid. Similarly,

variations in state net income (top line from the federal form, before allowing for different rules regarding deductibility of federal/state taxes paid, different rules regarding section 199 deductions, and different state depreciation in California) are attributable solely to variations in other state/local taxes paid.

State	Options Available	Option Selected
Arizona	10/10/80 or 25/25/50	Manufacturing – 10/10/80 (will have a lower sales percentage than property and payroll percentage) Corporate office – 25/25/50 (will have out-of-state property and payroll) R&D, call center, distribution – both options produce the same result (100% factor)
California	25/25/50 or SSF	HQ – 25/25/50 (will have out-of-state property and payroll) Manufacturing, distribution, R&D and call center -- both options produce the same result (100% factor)
Missouri	33.3/33.3/33.3 or SSF (note unique sales factor computation)	Manufacturing – SSF HQ – 33.3/33.3/33.3 R&D, call center, distribution – both options produce the same result (100% factor)
New Mexico	Manufacturer 25/25/50 or 33.3/33.3/33.3	Both options will produce same result since NM has throwback
Oklahoma	$200 million + investment 25/25/50 or 33.3/33.3/33.3	All 33.3/33.3/33.3 as $200 million+ investment requirement only met by capital-intensive manufacturer, for whom throwback results in same outcome using either formula
Rhode Island	NAICS 31, 32, 33 can opt for 25/25/50 or 33.3/33.3/33.3	Will produce same result since RI has throwback
Utah	Manufacturing & Logistics 33.3/33.3/33.3 or 25/25/50	Both will produce same result (throwback)

*Does not include states where there are mandatory specific/differing formulas for certain industries. These states include: Connecticut (manufacturing and services SSF), Louisiana (manufacturing and retail SSF, services 50 payroll, 50 sales), Maryland (manufacturing SSF, all others 25/25/50), Massachusetts (manufacturing SSF, all others 25/25/50), and Mississippi (manufacturers 33.3/33.3/33,3, services and retail SSF).

Apportionment[2]

- Assumes entity had the right to apportion. The tax review was conducted for the "home" state; tax liabilities in other states were not considered in this study.
- Where applicable, the calculations assume that the entity will elect the most advantageous apportionment formula (e.g., three-factor, single-factor sales, etc.). States where an alternative method has been assumed are as follows:
- In scenarios involving sales of tangible personal property and throwback, assumes goods are shipped from within the state and entity is *not* taxable in destination states. Therefore, sales factor equals 100 percent. In states with no throwback, sales factor equals the percentage of the U.S. population in state.
- For scenarios that involve services, the sales factor was computed as follows:

2 Source: RIA Checkpoint and CCH research, state Department of Revenue websites.

State Rule for Sourcing Services	**Sales Factor Percentage Used**	**Rationale**
Greater proportion of income-producing activity in the state -or- Location where services are performed	100% in-state sales for all four service operations	Since all property and payroll located in the state, greater proportion of income-producing activity deemed to occur in the state and all services performed in the state.
Where the benefits are received GA, IL, IA, ME, MD, MI, MN, OH, WA, WI	R&D, call center – in state percentage = percentage of U.S. population in state HQ, distribution center – 100% in state if sourcing rule is where benefits are received	Assumes customers spread between states in same percentage as U.S. population Benefit is the operation of the facility; therefore benefit is received at location of facility.
Attributable to the state's marketplace FL, OK	R&D, call center – in state percentage = percentage of U.S. population in state (same as location of benefit states) HQ – 100% in state if sourcing rule is where benefits are received (same as location of benefit states) Distribution center – 0% in-state percentage	Assume customers spread between states in same percentage as U.S. population Assumes all affiliates managed by the corporate office have their HQ in state, and thus services are received in this state's marketplace. Sole client for whom DC is operated is assumed to be located out of state.

- States that require that service receipts be sourced based on where the benefit of the service is received do not offer direct guidance on R&D activities, call centers or distribution companies. In states such as Iowa and Georgia, one can assume that call center business scenarios align with direct mail. In these states, the benefit is deemed received in the state to the extent the direct mail is sent to in-state addresses. Therefore, it appears reasonable to source receipts from call center services to the extent the calls were from or to in-state customers. For R&D companies, it is not as evident where the benefit of the service is received because the benefit comes from whatever is produced as a result of the R&D. However, a few state statutes provide that the benefit will not be deemed received in a state where the customer does not have a fixed place of business. Therefore, if the R&D is performed in state A and the customer is headquartered in state B and has no presence in state A, receipts have been sourced to the customer location to be consistent with the market concept.

State Unemployment Insurance (SUI)[3]

- The state unemployment insurance rate research identifies the rate and base amount for new businesses as of March 31, 2011.
- For rates that vary by industry, the rate that aligns with the business scenario under review is utilized based on NAICS code.
- To calculate the SUI liability, the new employer rate (including the add-ons) is multiplied by the lesser of unemployment insurance max pay or actual pay per employee which is then multiplied by the number of employees.
- Additions to state rates vary by state but may include items such as surcharges and fees.

State and Local Sales Tax[4]

- The sales tax rates researched are comprised of two metro areas per state: the first location (Tier 1) is a major city in the state. The second location (Tier 2) is a mid-size city in the state, generally with a population of less than 500,000. Sales tax rates are utilized from Vertex reports as of March 2011. These rates were checked against RIA Checkpoint's published rates as of March 2011.
- Sales tax rates for each metro area were calculated by establishing the sum of the following three components for each of the one to six counties forming part of each metro area, and then averaging the total rates determined for each county:
    - The state sales tax rate applicable to all locations in the state; plus
    - The county (and/or district) sales tax rate applicable to each county; plus
    - Initially, city sales tax rates were only considered for the central city of the metro area. However, if the total sales tax rate in the central city varied from the initial metro average rate by more than

3 Sources: RIA Checkpoint and CCH research, state Department of Revenue websites, and conversations with representatives of states' Departments of Revenue.

4 Sources: RIA Checkpoint, Vertex Software rate download

1.0 percent, then the municipal composition of the metro area was further reviewed to determine whether major cities also exist in the surrounding counties, and in such cases rates for these cities were also incorporated into the calculation of the final metro area average sales tax rate.

- Alaska, Delaware, Montana, New Hampshire and Oregon do not impose sales tax. Even though Alaska has no state-level sales tax, there is still local-level sales tax imposed in certain areas. For example Juneau and Kodiak both have city sales taxes (5 percent and 6 percent respectively) and some locations such as Ketchikan have both a county sales tax (2.5 percent) and a city sales tax (3.5 percent).
- The methodology that was used, averaging of rates, may not be as representative in Alabama because of the high local rates; thus, the differential between a location outside the city and a location inside the city is 5 percent. The rate review assumes greater metropolitan area covers both in-city and out-of-city locations.
- The difference between the Colorado City and non-city sales tax rate is about 3 percent. The average rate utilized is based on four locations: three non-city locations (outside Denver rates ranging from 4.0 percent to 4.85 percent) and one inner-city location (Denver rate of 7.72 percent) for a total average rate of 5.23 percent.
- Florida has a local rate cap for transactions over $5,000. For certain transactions, only the first $5,000 of a taxable sale or purchase is subject to the county discretionary sales surtax. The limitation does not apply to commercial rentals, transient rentals or services. Sales tax is also imposed on commercial real property leases in Florida.
- The methodology that was used, averaging of rates, may not be as representative in Missouri because of the high local rates; thus, the differential between a location outside the city and a location inside the city is about 4 percent. The rate review assumes greater metropolitan area covers both in-city and out-of-city locations.
- Sales tax on leases was not considered.

Manufacturing Exemptions[5]

Research was conducted to identify states that exempt machinery and equipment purchased for use in a manufacturing facility. In addition to research utilizing RIA Checkpoint, KPMG leveraged knowledge from professional experience to verify RIA's conclusions and review new legislation. Assumptions utilized in this research include:

- Assumed that all equipment purchased is directly used in the manufacturing process for 100 percent of its use.
- Only included sales tax exemptions for a manufacturer's purchase of machinery and equipment. The taxability of purchases of any other capital property was not reviewed.
- Sales tax exemptions that are only offered to new or expanding facilities were not included. However, for manufacturing machinery, we did include

5 Sources: RIA Checkpoint Quickchart, CCH State Tax Handbook 2011.

the statutory exemptions available in Florida, Kentucky and North Dakota for new/expanding manufacturers. Discretionary exemptions were not considered except for several states (such as Nebraska and Utah) that bundle sales tax exemption/rebate as part of their discretionary packages.

- The analysis also reflects the fact that all states other than Hawaii exempt from sales tax manufacturing raw materials used in the production process.
- Equipment purchased for use in research and development facilities is assumed to be non-taxable for the calculation of tax in the research and development model if the purchase of manufacturing equipment in the state is non-taxable. The analysis also reflects the fact that all states other than Hawaii exempt from sales tax manufacturing raw materials used in the production process.

Local Property Tax Review[6]

Local property tax research reviewed the property tax liability for real and personal property in Tier 1 and Tier 2 locations. The tax is calculated by multiplying the assessment ratio by the millage rates; for locations that involved multiple jurisdictions (e.g., cities, counties and/or school and other special districts) the millage rates were calculated as an average for various types of jurisdictions so as to reflect a representative for the location as a whole as opposed to the exact rate at a precise address. The tax calculation follows the same general approach for local sales tax rates as for sales tax. Additional notes to consider related to the property tax review are:

- Property tax is reviewed on a multi-jurisdictional basis for Tier 1 and Tier 2 locations. Accordingly, instead of using exact locations, a blended property tax rate was utilized for the city and counties under review for the location. The final assessment ratio and millage rates are therefore an average of the property tax rates for the various types of jurisdictions in the counties included in the review.
- In Tier 1 locations reviewed, a "major" city is identified and reviewed. The millage rates for surrounding counties are incorporated into the average. In order to review the property tax rates in the surrounding counties, the county, school district and other applicable rates are included. Often a city millage is not selected to be included in the millage since some of the scenarios would be located in more rural areas. There are exceptions to this assumption: e.g. in the case of Pennsylvania, a local jurisdiction was selected since counties in the state are divided into contiguous townships.
- The review of real property rates includes land and buildings.
- The review of personal property tax includes machinery and equipment and inventory. If the state under review has a Freeport exemption, the tax calculation assumes no personal property tax imposed on inventory except in the retail business scenario.

6 Sources: RIA Checkpoint and CCH research, state Department of Revenue and local government websites, and conversations with representatives of state and local property tax officials.

Local Business Income Tax/ Business Privilege Tax[7]

- If a locality under review imposes a local business income tax or business privilege tax, the rates were identified and included in the research.
- Often a Tier 1 city imposes a business income tax, but cities in the surrounding counties do not. If multiple counties were reviewed for a Tier 1 location, only the business income tax of the major city was identified.

Incentives[8]

- The following business incentive programs were included for the "new operation" scenarios, as relevant to each state: investment tax credits, job creation tax credits, employee withholding tax/payroll tax rebates, R&D tax credits and property tax abatements.
- Since the analysis does not pick specific sites or locations, any zone-based benefits (e.g. enterprise zones, economic development zones, benefit enhancements in distressed areas, etc.) have not been taken into consideration.
- Financing programs have been excluded from the analysis.
- Deal-closing funds and other discretionary programs outside of withholding tax/payroll refund programs have been excluded from the analysis.
- If programs have wage thresholds, wage assumptions made as part of each of the hypothetical business scenarios were applied to determine the applicability of incentives.
- If analyzed incentive programs have discretionary components such as providing a sliding scale of benefits based on certain project parameters, judgment calls needed to be made in order to compute benefits. For example, for programs such as property tax abatements that may offer abatements for "up to 10 years for up to 100 percent," estimated benefits were derived from conversations with local economic development professionals as well as KPMG's experience with implementing these programs.
- A similar rationale was applied to payroll withholding tax refunds that have a sliding scale of benefits.

7 Sources: RIA Checkpoint and CCH research, state Departments of Revenue, local government websites, and conversations with state and local officials.

8 Sources: CCH Research, Tax Foundation research, state and local economic development websites and discussions with state and local economic development agencies.

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