

2011 HOUSE FINANCE AND TAXATION

HB 1247

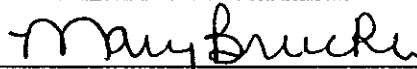
2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1247
January 24, 2011
#13263

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A bill relating to an individual income tax deduction for a portion of income from passthrough entities; relating to corporate and individual income tax rates; and to provide an effective date.

Minutes:

Please refer to attached testimony #1, #2

Representative Ruby: Sponsor. Support. We talk a lot about helping business and helping individuals whether it's income tax, property tax, or sales tax. You understand the benefits of keeping people's money in their own pockets as much as possible. One of the things that can be a burden not only for people but for businesses is income tax. This bill is an across the board 60% cut. That's somewhat of an arbitrary number and I'm not stuck on that number but I wanted to have a bill to bring up the issues with the taxes. We have personal and individual income tax and corporate income tax. What we talk a lot about in North Dakota is to ask the question what we are going to do for the small businesses and for business in general. Most North Dakota businesses are small businesses. If you talk about cutting a corporate income tax this does really nothing for small businesses because most small businesses are structured as a Sub S, LLC, and an LLP. Those types of structures don't pay the corporate income tax. So you'll see the language on page 5 where it talks about the passthrough income that is also the 60% reduction. When you are in a business a lot of times you will see what that profit was, whether you have it in the bank or not, and is generally put into equipment. A lot of times you can't deduct more than a certain amount of equipment and building costs.

Dustin Gawrylow, North Dakota Taxpayers Association: Support. See attached testimony #1.

Representative Lonny B. Winrich: The 67% growth in individual income tax and then growth in corporate income tax that you referenced, do those reflect higher tax rates?

Dustin Gawrylow: No, that's revenue. Revenue has increased 67%.

Representative Lonny B. Winrich: So that's due to the expansion in the economy?

Dustin Gawrylow: Right.

Representative Lonny B. Winrich: That's a good thing, right?

Dustin Gawrylow: Absolutely.

Representative Steven L. Zaiser: Based on Representative Winrich's question and your responses if we've had that kind of increase in business revenue why do you see such a need for a dramatic reduction in business taxes?

Dustin Gawrylow: I think we need to look at how we can constantly be reducing the burden of the state on businesses and individuals regardless of what the economy is doing. Right now there are a lot of states that would love to be in the position we're in with increasing revenues. Because of that fact we should take that as an opportunity to jump over all these other states who are still ranked ahead of us. We're the only state in the upward motion as far as revenue is concerned. We should take that and parlay that into higher rankings and making our state more competitive as far as businesses are concerned.

Representative Steven L. Zaiser: I would guess that you would not be a big supporter of government any more than most minimalist government but potentially if you reduced taxes that substantially are you starting to run the risk of providing some basic services and providing some of the infrastructure improvements that this state is badly in need of; roads, buildings, public buildings?

Dustin Gawrylow: I think that we need to look at the overall revenue package and come up with a more balanced approach. We've got a situation where the state is benefiting from the growth and oil industry and the best way to approach that is to let everybody in on the deal.

Sandy Clark, ND Farm Bureau: Support. This individual income tax reduction is good for state tax policy. We also support the provision for passthrough entities. You'll hear several bills this morning calling for reductions in corporate and individual income tax and Farm Bureau has supported a senate bill as well for income tax reduction. We don't have a position today on a specific amount. There are a lot of things you are going to have to consider as you weigh through these bills and other appropriation bills as well. So we don't have a position on the actual rates. When we have a surge of surplus funds now is the time to return money to the taxpayers. It's the taxpayer's money and if the state has collected more than they need the surplus should be returned to the taxpayers who paid it. When the money is returned to taxpayers they'll spend it and that generates additional sales tax and raises the standard of living for our families and for our folks here in this state. As a result, the economy grows. We also believe that a cut in income taxes should be coupled with corresponding cuts in government spending. So with the establishment of the legacy fund the state has established a good course for saving for the future. In conclusion, we believe that when we have a huge budget surplus tax policy should include saving some rainy day funds, returning money to the taxpayers, and corresponding cuts in government spending.

Mary Loftsgard, Associate Director of ND Tax Commission: Neutral testimony. See testimony #2. This bill would reduce by 60% the amount received by a taxpayer from a passthrough entity. Passthrough entities would be limited liability companies, limited liability partnerships, regular partnerships, and sub s corporations. We have a little bit of concern about the wordage because it talks about the amount received by the taxpayer as taxable income. When a passthrough entity divides up the income amongst its members or partners the entity itself doesn't really know how much of that is taxable, it just knows how much to attribute to a member or a partner. The word "taxable" is a bit problematic in that regards so you may want to consider taking "taxable" out and we could certainly help with some of the language that would be more reflective. The other concern we have is what the intent is. A passthrough entity has several different kinds of income that it will passthrough to its members. We're not sure if that is meant to only address ordinary income that comes through on a K1 or if it's also meant to be an exclusion of things like capital gains. For instance on a passthrough entity ordinary income would just come through as a lump sum to the individual. A capital gain would come through in their proportion but could be offset by capital losses of other types. It would help administratively if we had some answers to those kinds of concerns. I also wanted to offer a little clarification of what that 60% exclusion will do in terms of a ripple effect. Very few passthrough entities pay tax on the entity level. We have roughly 25,000 partnership and s corporations that file in the state. Partnerships do not pay tax on the entity level. Some Sub S corporations do. They can pay tax on what's called a built in gain. In 2009 of the 12,000 Sub S corporations that filed a return only 70 actually paid any tax on the return itself. If they pay tax on the return on that gain that gain does not then flow through to the members of the Sub S. So they're not being taxed twice. However, with the 60% exclusion that's in here what is going to happen then is that 60% of a partner's income is not going to be taxed at all under the bill. The remaining 40% would go through to the individual and then they would pay the reduced 60% rate. One of the things you may want to consider is that then that opens the door to whether people who operate under other forms of business activity might want to give some serious thought to passthrough entity. We have a lot of people who are sole proprietors. We have farmers who file schedule F. We did some quick numbers, unfortunately I'm having a little trouble matching years because we had some people out of the office. In 2008 we had just about 77,000 individuals who either have a schedule C or a schedule F. Those people will not get the 60% exclusion. They would get the 60% reduction in the rate. I think those people might want to consider whether they want to change their business to a different form. Referred to testimony #2.

Representative Glen Froseth: Presently we have a program that buys 75 mills of school property taxes and they return that money to the taxpayers. Do you think this program would return money to more of the taxpayers in a broader scope than the present plan of the mill buy down? The argument with the present plan of the mill buy down is that a lot of people don't pay property taxes they rent property and they feel they're not getting the return of the extra surplus state dollars. Do you think this would affect a broader range of the taxpayers in a more fair and equitable manner?

Mary Loftsgard: I really don't know. I can say that there are also a lot of people that don't pay income tax. For 2009 we had about 372,000 individual income tax returns. Some of those are married and filed joint so how much of the population it represents I don't know. I

don't know if your question can be answered. I can ask the people who do more of the statistical analysis than I do.

Vice Chairman Craig Headland: Representative Ruby referred to a K1 form and I think he referred to assets. Are there assets and appreciation taken on the S corp level? He talked about the ability not to pass that through and receive those deductions individually as a passthrough. Can you explain where the deduction is at?

Mary Loftsgard: Deductions are going to get passthrough to the owners. Representative Ruby talked about seeing a disconnect between what is taxable income and what is true cash income from his business operations. When you buy an asset such as a vehicle, you have to pay for it pretty much up front. Whether you have a loan or not but you're paying for it over a period of say five years. But because of federal depreciation rules you may not be able to take that expense all at once in a lot of cases. You have to divide up that expense over five years or his comment was almost 40 years. What he is saying that on taxable income I'm only getting a partial offset for what I had to pay for the vehicle in terms of what I had to pay for in cash out of my business I had to pay all of it. I believe that's what he was saying.

Vice Chairman Craig Headland: So it's just the nature of the entity he's chosen to set up his business in. As an individual the federal government has provisions that I believe allow you to deduct 100% of an asset. I believe that's part of the stimulus package. Corporations have been able to do that for some time isn't that correct?

Mary Loftsgard: Yes, you are correct. There are some categories of assets that are limited by how much they cost. Yes, there are more liberal expensing rules. The present administration passed that last year so that a number of things can be deducted at 100%.

Representative Dwight Wrangham: Where would a full corporation fit in to this?

Mary Loftsgard: The corporation does not get the 60% exclusion. It simply gets the reduced rate. So it would be similar to the example of the sole proprietorship.

Chairman Wesley R. Belter: No further testimony. Closed hearing on HB 1247.

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1247
February 7, 2011
#14098

☐ Conference Committee

Committee Clerk Signature

Mary Bruckner

Explanation or reason for introduction of bill/resolution:

A bill relating to an individual income tax deduction for a portion of income from passthrough entities; relating to corporate and individual income tax rates; and to provide an effective date.

Minutes:

No attachments.

Representative Glen Froseth: Made a motion for a DO NOT PASS.

Representative Steven L. Zaiser: Seconded.

Vice Chairman Craig Headland: Though I do agree with providing tax relief this bill gives double relief to passthrough entities and I don't think that is appropriate. We've got other bills out there that seem to work so I'm going to support the do not pass.

**A roll call vote was taken: YES 13 NO 1 ABSENT 0
MOTION CARRIED—DO NOT PASS.**

Representative Lonny B. Winrich will carry HB 1247.

FISCAL NOTE

Requested by Legislative Council
01/11/2011

Bill/Resolution No.: HB 1247

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$634,700,000)			
Expenditures						
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1247 provides corporation and individual income tax rate reductions and an individual income tax deduction for a portion of income from pass-through entities.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of HB 1247 reduces the corporate income tax rates by sixty percent. This section is expected to result in a reduction in state general fund revenues of an estimated \$109.6 million for the 2011-13 biennium.

Section 2 of HB 1247 reduces the individual income tax rates by sixty percent. This section is expected to result in a reduction in state general fund revenues of an estimated \$388.1 million for the 2011-13 biennium.

Section 3 of HB 1247 creates an individual income tax deduction equal to sixty percent of the income a taxpayer receives from a pass-through entity such as a partnership or a limited liability company. This income would be subject to the rate relief provided in Section 2 of this bill. Calculating this impact based on the lower rates in Section 2, this section (Section 3) is expected to reduce state general fund revenues by an additional \$137.0 million for the 2011-13 biennium.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency*

and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/19/2011

Date: 2-7-11
Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1247

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Froseth Seconded By Rep. Zaiser

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	✓		Scot Kelsh	✓	
Vice Chair. Craig Headland	✓		Shirley Meyer	✓	
Glen Froseth	✓		Lonny B. Winrich	✓	
Bette Grande	✓		Steven L. Zaiser	✓	
Patrick Hatlestad	✓				
Mark S. Owens	✓				
Roscoe Streyle	✓				
Wayne Trotter	✓				
Dave Weiler		✓			
Dwight Wrangham	✓				

Total (Yes) 13 No 1

Absent 0

Floor Assignment Rep. Winrich

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1247: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (13 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). HB 1247 was placed on the Eleventh order on the calendar.

2011 TESTIMONY

HB 1247

Testimony #1
p. 1



Subject: General Tax Reform

Bill: HB 1247, 1289, 1409, 1189

Testimony Provided By: Dustin Gawrylow

Lobbyist #160

Presented To: House Finance and Tax Committee

January 24th, 2011

Our state is in a prime position to make a major move when it come to tax policy. Currently the non-partisan Tax Foundation ranks us 20th for "Business Friendly Tax Policy". This is a huge improvement over the 33rd place ranking we held in 2006.

But we should not rest on this fact.

While nearly every other state in the country is in trouble, we have an opportunity to leapfrog over rest of the country.

Today, you will be hearing several income tax bills, and while we have taken the position of supporting all approaches to tax reform and reductions, I would like to ask you to be bold this session.

Instead of filtering these bills based on your own personal biases over what taxes are best and worse, I would challenge you to support a tax reform and relief package that puts North Dakota in the Top 10 nationally when it comes to Business Friendly Tax Policy.

With both South Dakota and Wyoming tied for 1st place in this category, let's make 2011 the year that we finally ensure that North Dakota is regionally competitive on tax policy.

Sure, 20th place may be a great improvement from where we were, but do we want to settle for slightly above average, or slightly above mediocre?

Let's make the leap.

Let's make North Dakota the first and only place a business looking to expand needs to look.

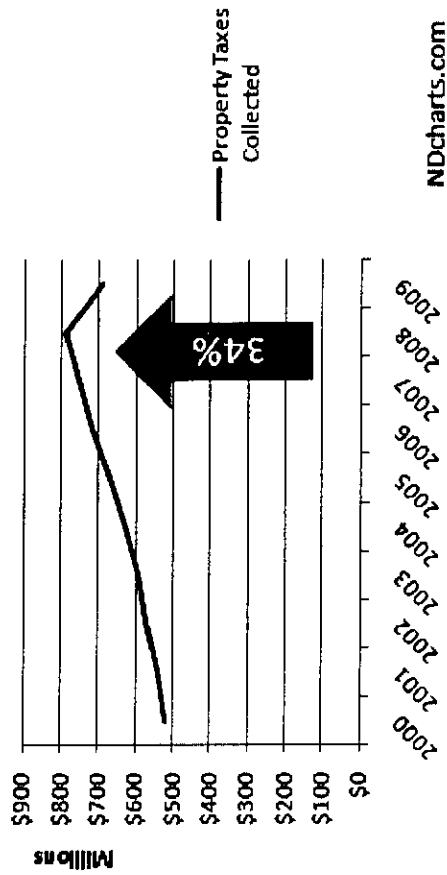
Thank you.

The North Dakota Taxpayers' Association is a membership-funded advocacy group designed to get taxpayers a voice in legislative matters. NDTA is 100% in-state funded, and counts over 500 North Dakotans as current members. NDTA is the only organization with a full time lobbyist dedicated to advocating on behalf of the taxpayer.

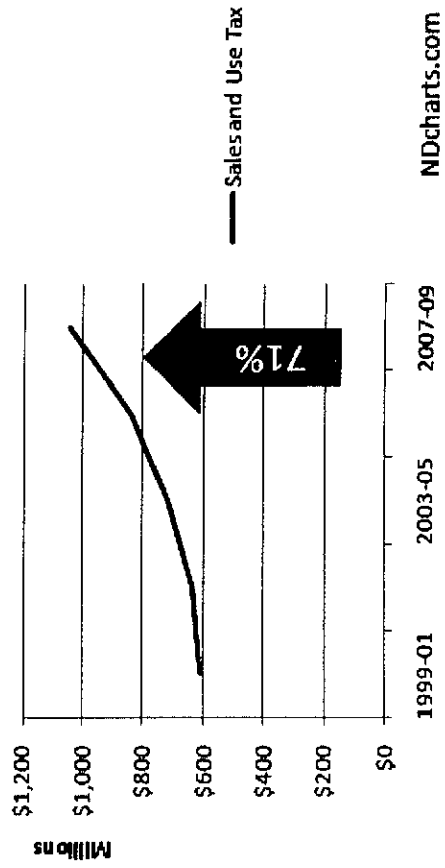
North Dakota Taxpayers' Association

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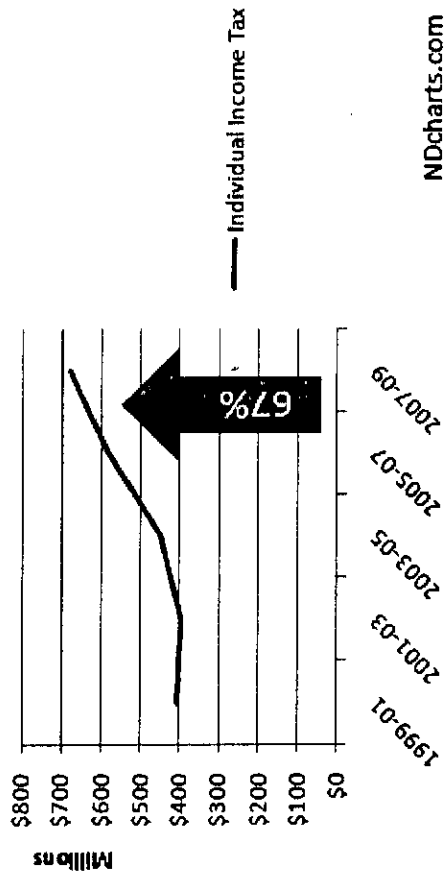
Property Taxes Collected



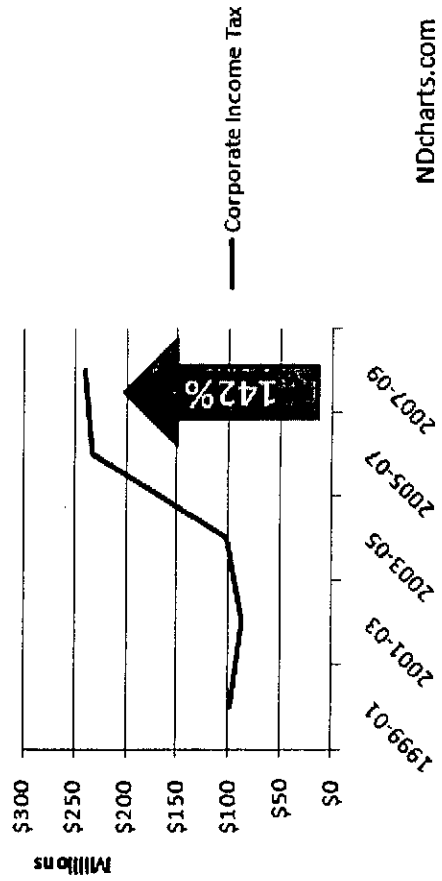
Sales and Use Tax

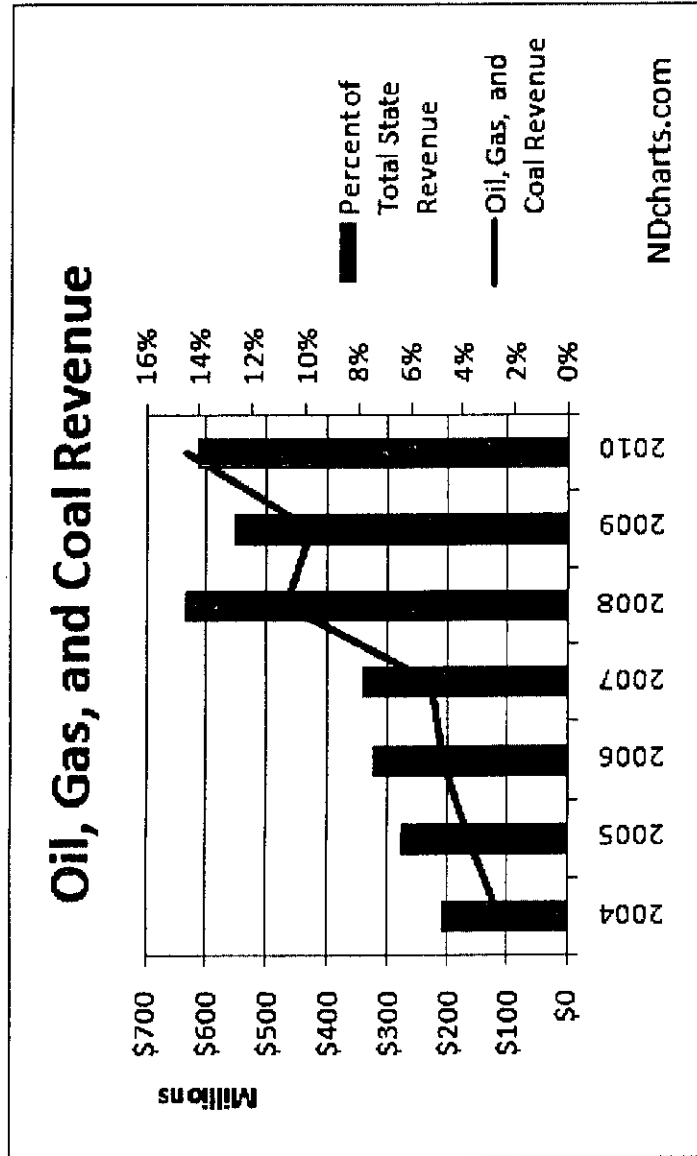


Individual Income Tax



Corporate Income Tax





corporate income tax system. Earlier this year, Northrup Grumman chose to move its headquarters to Virginia over Maryland, citing the better business tax climate. Anecdotes such as these reinforce what we know from economic theory: taxes matter to businesses, and those places with the most competitive tax systems will reap the benefits of business-friendly tax climates.

State lawmakers are always mindful of their states' business tax climates but they are often tempted to lure business with lucrative tax incentives and subsidies instead of broad-based tax reform. This can be a dangerous proposition, as a case in Dell Computers and North Carolina illustrates. North Carolina agreed to \$240 million worth of incentives to lure Dell to North Carolina. Many of the incentives came in form of tax credits from the state and local governments. Unfortunately Dell announced in 2009 that it would be closing the plant after only four years of

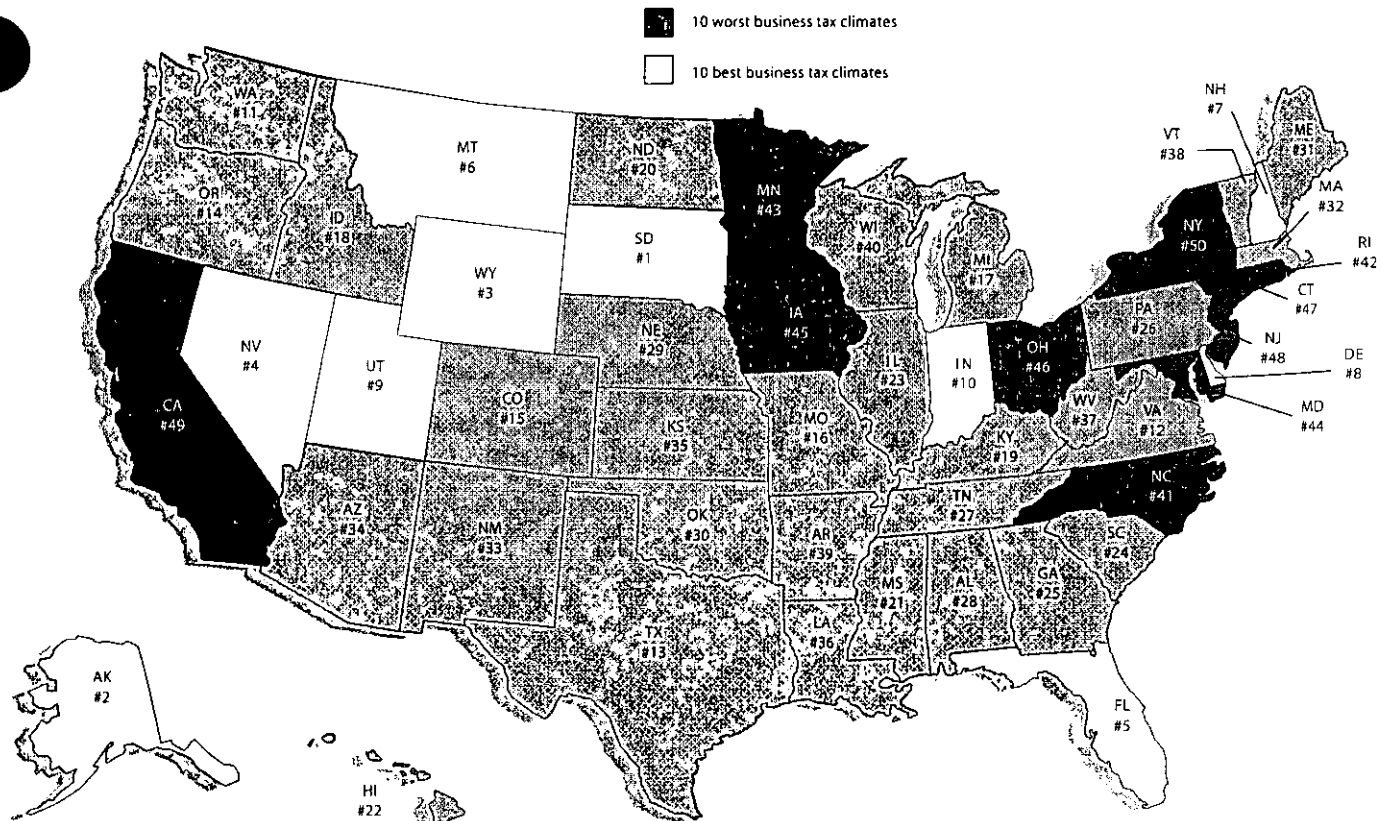
operations.² A recent *USA Today* article chronicled similar problems other states are having with companies who receive generous tax incentives.³

Lawmakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a woeful business tax climate. A far more effective approach is to systematically improve the business tax climate for the long term so as to improve the state's competitiveness. When assessing which changes to make, lawmakers need to remember these two rules:

1. Taxes matter to business. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to

Figure 1

State Business Tax Climate Index, Fiscal Year 2011



² Mondine, Austin, "Dell cuts North Carolina plant despite \$280m sweetener," *The Register*, October 8, 2009

³ Dennis Cauchon, "Business Incentives Lose Luster for States," *USA Today*, August 22, 2007

either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus a state with lower tax costs will be more attractive to business investment, and

- more likely to experience economic growth.
2. States do not enact tax changes (increases or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geo-

Table 1
State Business Tax Climate Index, 2006 – 2011

State	FY 2011		FY 2010		Change from 2010 to 2011		FY 2009		FY 2008		FY 2007		FY 2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	–	5.00	–	0	–	5.00	–	5.00	–	5.00	–	5.00	–
Alabama	4.99	28	5.19	19	–0.20	–9	5.30	20	5.08	23	5.16	22	5.60	16
Alaska	7.39	2	7.38	3	0.02	1	7.32	4	7.13	3	6.99	4	7.29	3
Arizona	4.81	34	5.01	28	–0.20	–6	5.25	24	5.01	25	4.95	29	5.13	29
Arkansas	4.55	39	4.61	40	–0.07	1	4.87	35	4.65	37	4.72	36	4.87	35
California	3.78	49	3.89	48	–0.11	–1	4.00	49	3.93	49	3.92	48	4.64	42
Colorado	5.57	15	5.63	13	–0.06	–2	5.89	13	5.89	10	5.90	11	5.70	13
Connecticut	4.01	47	4.72	38	–0.70	–9	4.81	37	4.60	38	4.69	39	4.66	41
Delaware	6.03	8	5.98	8	0.05	0	6.01	10	6.09	9	6.11	8	6.10	9
Florida	6.53	5	6.62	5	–0.08	0	6.92	5	6.67	5	6.79	5	6.85	5
Georgia	5.02	25	5.01	29	0.01	4	5.16	27	4.95	28	5.18	21	5.52	20
Hawaii	5.06	22	5.05	24	0.01	2	5.27	22	5.27	18	5.34	16	5.28	24
Idaho	5.27	18	5.21	18	0.06	0	5.10	29	5.09	21	5.05	26	5.08	30
Illinois	5.05	23	5.01	30	0.04	7	5.26	23	5.04	24	4.92	31	5.22	26
Indiana	5.79	10	5.67	12	0.11	2	5.88	14	5.65	13	5.72	12	5.86	12
Iowa	4.20	45	4.23	46	–0.02	1	4.35	44	4.16	46	4.36	45	4.62	44
Kansas	4.76	35	4.93	32	–0.17	–3	5.07	31	4.87	31	4.77	35	4.99	33
Kentucky	5.22	19	5.18	20	0.04	1	4.95	34	4.98	27	4.96	28	4.75	38
Louisiana	4.71	36	4.74	35	–0.03	–1	4.98	33	4.75	34	4.79	33	5.05	32
Maine	4.98	31	4.83	34	0.15	3	4.69	40	4.72	35	4.72	37	4.64	43
Maryland	4.25	44	4.26	45	–0.01	1	4.31	45	4.14	47	5.08	24	5.23	25
Massachusetts	4.89	32	4.73	36	0.16	4	4.99	32	4.80	33	4.79	34	4.87	36
Michigan	5.40	17	5.35	17	0.05	0	5.30	21	5.32	17	5.14	23	5.20	28
Minnesota	4.40	43	4.44	43	–0.04	0	4.61	41	4.40	42	4.39	43	4.71	39
Mississippi	5.09	21	5.16	21	–0.07	0	5.32	19	5.09	22	5.21	19	5.57	19
Missouri	5.48	16	5.37	16	0.11	0	5.57	16	5.35	16	5.37	15	5.68	14
Montana	6.39	6	6.32	6	0.07	0	6.27	6	6.35	6	6.42	6	6.16	8
Nebraska	4.98	29	4.88	33	0.11	4	4.55	42	4.55	40	4.55	41	4.59	45
Nevada	6.74	4	7.05	4	–0.31	0	7.37	3	7.07	4	7.07	3	7.07	4
New Hampshire	6.18	7	6.25	7	–0.07	0	6.21	7	6.29	7	6.32	7	6.45	6
New Jersey	3.96	48	3.60	50	0.36	2	3.90	50	3.71	50	3.68	50	3.63	48
New Mexico	4.89	33	5.06	23	–0.17	–10	5.17	26	4.93	29	5.05	25	5.30	23
New York	3.73	50	3.66	49	0.07	–1	4.13	47	4.19	45	4.29	46	3.60	49
North Carolina	4.47	41	4.66	39	–0.19	–2	4.74	39	4.52	41	4.52	42	4.70	40
North Dakota	5.14	20	5.04	25	0.10	5	5.08	30	4.86	32	4.87	32	5.06	31
Ohio	4.16	46	4.04	47	0.12	1	4.12	48	3.95	48	3.95	47	3.82	47
Oklahoma	4.98	30	4.97	31	0.01	1	5.40	18	5.18	19	5.20	20	5.41	21
Oregon	5.61	14	5.59	14	0.02	0	6.04	8	6.12	8	6.06	9	6.02	10
Pennsylvania	5.01	26	5.03	27	–0.03	1	5.14	28	4.92	30	4.95	30	5.31	22
Rhode Island	4.46	42	4.33	44	0.13	2	4.18	46	4.20	44	3.80	49	3.47	50
South Carolina	5.04	24	5.03	26	0.00	2	5.21	25	5.01	26	4.98	27	5.21	27
South Dakota	7.43	1	7.42	1	0.00	0	7.50	2	7.21	2	7.18	2	7.56	2
Tennessee	5.00	27	5.10	22	–0.11	–5	5.42	17	5.16	20	5.27	17	5.58	18
Texas	5.63	13	5.70	11	–0.07	–2	6.02	9	5.79	11	5.99	10	6.41	7
Utah	5.80	9	5.80	10	0.00	1	5.94	11	5.71	12	5.23	18	5.67	15
Vermont	4.66	38	4.56	41	0.11	3	4.52	43	4.34	43	4.37	44	4.57	46
Virginia	5.67	12	5.53	15	0.14	3	5.70	15	5.51	15	5.51	14	5.58	17
Washington	5.78	11	5.81	9	–0.03	–2	5.94	12	5.65	14	5.67	13	5.93	11
West Virginia	4.67	37	4.73	37	–0.06	0	4.86	36	4.66	36	4.71	38	4.93	34
Wisconsin	4.55	40	4.54	42	0.01	2	4.76	38	4.56	39	4.57	40	4.77	37
Wyoming	7.30	3	7.38	2	–0.08	–1	7.50	1	7.24	1	7.46	1	7.64	1
District of Columbia	4.57	–	4.72	–	–0.15	–	4.53	–	4.53	–	4.49	–	4.06	–

Note: The higher the score, the more favorable a state's tax system is for business. All scores are for fiscal years.

Source: Tax Foundation

Within each component index are two sub-indexes devoted to measuring the impact of the tax rates and the tax base. These are weighted equally, 50 percent each.

Table 2
Major Components of the State Business Tax Climate Index, FY 2011

State	Overall Rank	Individual		Unemployment		Property Tax Index Rank
		Corporate Tax Index Rank	Income Tax Index Rank	Sales Tax Index Rank	Insurance Tax Index Rank	
Alabama	28	24	18	40	10	9
Alaska	2	26	1	5	31	12
Arizona	34	22	23	48	2	6
Arkansas	39	40	33	41	18	21
California	49	33	48	49	14	16
Colorado	15	12	16	29	17	15
Connecticut	47	18	47	26	30	49
Delaware	8	49	34	2	8	8
Florida	5	15	1	30	3	28
Georgia	25	8	30	23	22	38
Hawaii	22	10	41	10	23	14
Idaho	18	17	29	12	48	2
Illinois	23	27	9	39	41	39
Indiana	10	21	11	20	12	4
Iowa	45	47	42	31	33	34
Kansas	35	35	21	32	7	41
Kentucky	19	42	32	7	34	20
Louisiana	36	19	26	46	5	22
Maine	31	43	37	6	44	26
Maryland	44	14	49	11	47	40
Massachusetts	32	36	15	24	49	43
Michigan	17	48	12	9	45	32
Minnesota	43	44	38	38	39	18
Mississippi	21	13	19	33	4	31
Missouri	16	5	25	15	9	11
Montana	6	16	22	3	19	10
Nebraska	29	34	31	17	13	24
Nevada	4	3	6	43	40	17
New Hampshire	7	50	10	1	38	35
New Jersey	48	41	45	36	27	48
New Mexico	33	31	20	45	16	1
New York	50	20	50	34	46	42
North Carolina	41	25	36	44	6	33
North Dakota	20	30	28	18	20	7
Ohio	46	39	44	35	11	45
Oklahoma	30	7	24	42	1	27
Oregon	14	45	46	4	37	5
Pennsylvania	26	38	14	28	42	44
Rhode Island	42	37	35	14	50	47
South Carolina	24	9	27	22	43	23
South Dakota	1	1	1	25	36	13
Tennessee	27	11	8	47	35	50
Texas	13	46	7	37	15	29
Utah	9	6	13	27	24	3
Vermont	38	28	40	16	21	36
Virginia	12	4	17	8	29	25
Washington	11	32	1	50	25	19
West Virginia	37	23	39	21	32	37
Wisconsin	40	29	43	19	26	30
Wyoming	3	1	1	13	28	46

Note: Rankings do not average across to total. States without a given tax rank equally as number 1.

Source: Tax Foundation

Each sub-index is composed of one or more variables. There are two types of variables: scalar variables and dummy variables. A scalar variable is one that can have any value between 0 and 10. If a sub-index is composed only of scalar variables, then they are weighted equally.

A dummy variable is one that has only a value of 0 or 1. For example, a state either indexes its brackets for inflation or does not. Mixing scalar and dummy variables within a sub-index is problematic because the extreme valuation of a dummy can overly influence the results of the sub-index. To counter this effect, the Index weights scalar variables 80 percent and dummy variables 20 percent.

Relative versus Absolute Indexing

The 2011 State Business Tax Climate Index is designed as a *relative* index rather than an *absolute* or *ideal* index. In other words, each variable is ranked relative to the variable's range in other states. The relative scoring scale is from 0 to 10, with zero meaning not "worst possible" but rather worst among the 50 states.

Many states' tax rates are so close to each other that an absolute index would not provide enough information about the differences between the states' tax systems, especially to pragmatic business owners who want to know what states have the best tax system in each region.

Comparing States without a Tax

One problem associated with a relative scale, however, is that it is mathematically impossible to compare states with a given tax to states that do not have the tax. Clearly a zero rate is the lowest possible rate and the most neutral base, since it creates the most favorable tax climate for economic growth. The states that have a zero rate on individual income, corporate income or sales gain an immense competitive advantage. Therefore, states without a given tax receive a 10, and the Index measures all the other states against each other.

Normalizing Final Scores

Another problem with using a relative scale within the component indexes is that the average scores across the five component indexes vary. This alters the value of not having a given tax across major indexes. For example, the unadjusted average score of the Corporate Tax Index is 7.21 while the average score of the Sales Tax Index is 6.04.

In order to solve this problem, scores on the five major component indexes are "normalized," which brings the average score for all of them to

generally applicable tax. The latter variable was included so the states that levy a gross receipts tax as an alternative to the corporate income tax are not unduly penalized.

States that do impose a corporate tax generally will score well if they have a low rate. States with a high rate or a complex, multiple-rate system score poorly.

Table 3
Corporate Tax Index, 2006 – 2011

State	FY 2011		FY 2010		Change from 2010 to 2011		FY 2009		FY 2008		FY 2007		FY 2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	–	5.00	–	0	–	5.00	–	5.00	–	5.00	–	5.00	–
Alabama	5.05	24	5.05	23	0.00	– 1	5.24	21	5.24	21	5.19	21	5.20	22
Alaska	5.02	26	5.02	26	0.00	0	5.02	27	5.02	27	4.98	27	4.98	28
Arizona	5.11	22	5.11	22	0.00	0	5.11	24	5.11	24	5.06	24	5.07	25
Arkansas	4.59	40	4.59	39	0.00	– 1	4.59	34	4.59	34	4.54	36	4.55	37
California	4.67	33	4.67	34	0.00	1	4.27	45	4.27	45	4.43	40	4.44	41
Colorado	5.77	12	5.77	12	0.00	0	5.57	15	5.57	15	5.61	15	5.62	15
Connecticut	5.26	18	5.26	18	0.00	0	5.26	18	5.26	18	4.97	28	5.31	18
Delaware	3.66	49	3.66	49	0.00	0	3.76	49	3.76	49	4.02	48	4.03	48
Florida	5.54	15	5.54	15	0.00	0	5.74	13	5.74	13	5.68	14	5.69	14
Georgia	5.92	8	5.92	8	0.00	0	5.92	8	5.92	8	5.96	6	5.97	6
Hawaii	5.79	10	5.79	10	0.00	0	5.79	11	5.79	11	5.84	9	5.85	9
Idaho	5.28	17	5.28	17	0.00	0	5.28	17	5.28	17	5.24	19	5.25	20
Illinois	4.97	27	4.97	27	0.00	0	4.97	28	4.97	28	4.93	30	4.93	30
Indiana	5.18	21	5.18	21	0.00	0	5.18	23	5.18	23	5.14	22	5.15	23
Iowa	4.07	47	4.27	45	– 0.20	– 2	4.27	46	4.27	46	4.24	46	4.25	44
Kansas	4.62	35	4.55	40	0.07	5	4.55	37	4.55	37	4.51	38	4.52	40
Kentucky	4.50	42	4.50	42	0.00	0	4.50	38	4.50	38	4.37	43	4.87	33
Louisiana	5.25	19	5.25	19	0.00	0	5.25	19	5.25	19	5.30	18	5.31	19
Maine	4.39	43	4.39	43	0.00	0	4.39	43	4.39	43	4.35	44	4.36	43
Maryland	5.58	14	5.58	14	0.00	0	5.58	14	5.58	14	5.91	7	5.92	7
Massachusetts	4.62	36	4.16	47	0.46	11	4.16	47	4.16	47	4.13	47	4.14	46
Michigan	3.83	48	4.03	48	– 0.20	0	4.03	48	4.03	48	3.45	50	3.46	49
Minnesota	4.32	44	4.32	44	0.00	0	4.32	44	4.32	44	4.29	45	4.21	45
Mississippi	5.62	13	5.62	13	0.00	0	5.82	10	5.82	10	5.85	8	5.86	8
Missouri	6.06	5	6.06	5	0.00	0	6.26	5	6.26	5	5.81	10	5.82	10
Montana	5.42	16	5.42	16	0.00	0	5.42	16	5.42	16	5.57	16	5.58	16
Nebraska	4.67	34	4.67	35	0.00	1	4.67	32	4.67	32	4.64	34	4.65	35
Nevada	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	10.00	1	10.00	1
New Hampshire	3.29	50	3.29	50	0.00	0	3.29	50	3.29	50	3.86	49	4.54	39
New Jersey	4.55	41	4.55	41	0.00	0	4.47	39	4.47	39	4.43	41	3.00	50
New Mexico	4.78	31	4.78	32	0.00	1	4.58	35	4.58	35	4.53	37	4.54	38
New York	5.21	20	5.21	20	0.00	0	5.21	22	5.21	22	5.07	23	5.08	24
North Carolina	5.04	25	5.04	25	0.00	0	5.04	26	5.04	26	4.99	25	5.00	26
North Dakota	4.92	30	4.92	30	0.00	0	4.92	30	4.92	30	4.96	29	4.97	29
Ohio	4.60	39	4.60	38	0.00	– 1	4.63	33	4.63	33	4.46	39	4.12	47
Oklahoma	5.95	7	5.95	7	0.00	0	5.95	7	5.95	7	5.70	13	5.70	13
Oregon	4.27	45	4.86	31	– 0.59	– 14	5.25	20	5.25	20	5.20	20	5.21	21
Pennsylvania	4.62	38	4.62	37	0.00	– 1	4.42	41	4.42	41	4.38	42	4.39	42
Rhode Island	4.62	37	4.62	36	0.00	– 1	4.45	40	4.45	40	4.58	35	4.58	36
South Carolina	5.85	9	5.85	9	0.00	0	5.85	9	5.85	9	5.79	11	5.80	11
South Dakota	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	10.00	1	10.00	1
Tennessee	5.78	11	5.78	11	0.00	0	5.78	12	5.78	12	5.72	12	5.73	12
Texas	4.19	46	4.19	46	0.00	0	4.41	42	4.41	42	5.33	17	5.34	17
Utah	6.03	6	6.03	6	0.00	0	6.03	6	6.03	6	6.21	4	6.22	4
Vermont	4.96	28	4.96	28	0.00	0	4.77	31	4.77	31	4.93	31	4.93	31
Virginia	6.32	4	6.32	4	0.00	0	6.32	4	6.32	4	6.16	5	6.17	5
Washington	4.75	32	4.75	33	0.00	1	4.56	36	4.56	36	4.82	33	4.83	34
West Virginia	5.10	23	5.04	24	0.06	1	5.04	25	5.04	25	4.99	26	5.00	27
Wisconsin	4.92	29	4.92	29	0.00	0	4.92	29	4.92	29	4.88	32	4.89	32
Wyoming	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	10.00	1	10.00	1
District of Columbia	4.58	–	4.58	–	0.00	–	4.58	–	4.58	–	2.18	–	2.19	–

Note: The higher the score, the more favorable a state's tax system is for business. All scores are for fiscal years.

Source: Tax Foundation

Colorado, Illinois, Indiana, Massachusetts, Michigan, New Hampshire and Tennessee. On the other end of the spectrum, Hawaii scores the

worst in this variable by having 13 tax brackets. Other states with many brackets include Iowa and Missouri (with eleven brackets), Ohio (ten

Table 4
Individual Income Tax Index, 2006 – 2011

State	FY 2011		FY 2010		Change from 2010 to 2011		FY 2009		FY 2008		FY 2007		FY 2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	–	5.00	–	0	–	5.00	–	5.00	–	5.00	–	5.00	–
Alabama	5.41	18	5.39	17	0.01	– 1	5.27	17	5.27	17	5.38	20	5.38	19
Alaska	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	9.76	6	9.76	6
Arizona	5.21	23	5.17	23	0.04	0	5.05	23	5.05	23	5.01	29	4.96	28
Arkansas	4.85	33	4.83	34	0.02	1	4.79	31	4.79	31	4.89	30	4.91	30
California	2.75	48	2.68	48	0.07	0	2.47	49	2.47	49	3.43	46	3.43	45
Colorado	6.41	16	6.40	16	0.01	0	6.31	14	6.31	14	6.47	14	6.47	14
Connecticut	2.83	47	5.10	24	– 2.27	– 23	4.99	25	4.99	25	5.40	19	5.40	18
Delaware	4.83	34	4.80	35	0.03	1	4.86	28	4.86	28	4.79	33	4.81	33
Florida	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	10.00	1	10.00	1
Georgia	5.01	30	4.99	30	0.03	0	4.83	30	4.83	30	5.19	22	5.19	23
Hawaii	3.94	41	3.67	44	0.28	3	4.31	38	4.31	38	4.39	40	4.39	41
Idaho	5.02	29	4.99	29	0.03	0	4.78	32	4.78	32	4.83	31	4.84	31
Illinois	6.96	9	6.91	10	0.05	1	6.85	10	6.85	10	6.55	13	6.55	13
Indiana	6.75	11	6.70	11	0.05	0	6.61	11	6.61	11	6.82	11	6.83	10
Iowa	3.87	42	3.89	42	– 0.01	0	3.63	46	3.63	46	3.84	45	4.11	44
Kansas	5.30	21	5.27	21	0.03	0	5.12	21	5.12	21	5.19	23	5.19	22
Kentucky	4.91	32	4.87	32	0.03	0	4.70	36	4.70	36	4.39	39	4.57	38
Louisiana	5.10	26	5.08	25	0.02	– 1	5.01	24	5.01	24	5.09	27	5.09	26
Maine	4.49	37	4.38	40	0.10	3	4.26	40	4.26	40	4.66	36	4.66	36
Maryland	2.64	49	2.52	49	0.11	0	2.02	50	2.02	50	4.75	35	4.75	35
Massachusetts	6.47	15	6.42	14	0.05	– 1	6.31	16	6.31	16	6.32	15	6.32	15
Michigan	6.71	12	6.41	15	0.30	3	6.31	15	6.31	15	6.66	12	6.66	12
Minnesota	4.46	38	4.45	37	0.01	– 1	4.26	39	4.26	39	4.62	37	4.64	37
Mississippi	5.39	19	5.38	18	0.02	– 1	5.26	18	5.26	18	5.67	16	5.67	16
Missouri	5.10	25	5.05	27	0.05	2	4.87	27	4.87	27	5.11	24	5.12	24
Montana	5.28	22	5.25	22	0.03	0	5.06	22	5.06	22	5.37	21	5.38	20
Nebraska	4.95	31	4.93	31	0.02	0	4.76	33	4.76	33	4.81	32	4.82	32
Nevada	9.38	6	10.00	1	– 0.63	– 5	10.00	1	10.00	1	10.00	1	10.00	1
New Hampshire	6.81	10	7.43	9	– 0.62	– 1	7.43	9	7.43	9	7.19	9	7.82	9
New Jersey	3.60	45	2.70	47	0.90	2	3.12	48	3.12	48	2.49	50	2.61	49
New Mexico	5.34	20	5.32	19	0.02	– 1	5.21	19	5.21	19	5.46	18	5.27	21
New York	2.26	50	2.18	50	0.08	0	4.15	43	4.15	43	4.51	38	2.70	48
North Carolina	4.59	36	4.57	36	0.02	0	4.39	37	4.39	37	4.17	43	4.19	43
North Dakota	5.04	28	4.84	33	0.20	5	4.70	35	4.70	35	4.17	44	4.31	42
Ohio	3.63	44	3.39	46	0.24	2	3.16	47	3.16	47	2.52	49	2.57	50
Oklahoma	5.10	24	5.07	26	0.03	2	4.92	26	4.92	26	5.10	25	4.93	29
Oregon	3.51	46	3.43	45	0.08	– 1	4.76	34	4.76	34	4.77	34	4.77	34
Pennsylvania	6.58	14	6.58	13	0.00	– 1	6.50	12	6.50	12	6.83	10	6.83	11
Rhode Island	4.81	35	4.43	38	0.38	3	4.25	42	4.25	42	2.76	48	2.87	47
South Carolina	5.04	27	5.02	28	0.02	1	4.85	29	4.85	29	5.09	26	5.10	25
South Dakota	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	10.00	1	10.00	1
Tennessee	7.52	8	7.52	8	0.00	0	7.51	8	7.51	8	7.79	8	8.11	8
Texas	8.59	7	8.59	7	0.00	0	8.59	7	8.59	7	9.52	7	9.52	7
Utah	6.59	13	6.58	12	0.01	– 1	6.48	13	6.48	13	5.03	28	5.03	27
Vermont	4.05	40	3.98	41	0.07	1	3.75	45	3.75	45	3.22	47	3.39	46
Virginia	5.44	17	5.29	20	0.15	3	5.15	20	5.15	20	5.52	17	5.52	17
Washington	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	10.00	1	10.00	1
West Virginia	4.45	39	4.42	39	0.03	0	4.26	41	4.26	41	4.39	41	4.41	39
Wisconsin	3.82	43	3.70	43	0.12	0	4.14	44	4.14	44	4.35	42	4.41	40
Wyoming	10.00	1	10.00	1	0.00	0	10.00	1	10.00	1	10.00	1	10.00	1
District of Columbia	4.56	–	4.53	–	0.03	–	4.33	–	4.33	–	4.57	–	4.51	–

Note: The higher the score, the more favorable a state's tax system is for business. All scores are for fiscal years.

Source: Tax Foundation

18 States receive a perfect score if their top rate kicks in at a level of income that is more than one standard deviation higher than the average kick-in of all the states.

option sales taxes at the county and/or municipal level, and in some states, the local option sales tax significantly increases the tax rate faced by consumers.²⁸ Local jurisdictions in Colorado, for

example, add an average of 4.07 percent in local sales taxes to the state's 2.9 percent state-level rate, bringing the total average sales tax rate to 6.97 percent. This may be an understatement in some

Table 5
Sales Tax Index, 2006 – 2011

State	FY 2011		FY 2010		Change from 2010 to 2011		FY 2009		FY 2008		FY 2007		FY 2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	–	5.00	–	0	–	5.00	–	5.00	–	5.00	–	5.00	–
Alabama	3.46	40	4.57	25	– 1.11	– 15	4.01	34	4.01	34	4.27	27	5.28	21
Alaska	8.13	5	8.12	5	0.00	0	8.29	5	8.29	5	7.93	5	9.63	1
Arizona	2.53	48	3.21	46	– 0.68	– 2	3.30	46	3.30	46	3.32	47	4.49	42
Arkansas	3.39	41	3.53	43	– 0.14	2	3.83	38	3.83	38	3.67	39	4.67	39
California	2.35	49	2.81	48	– 0.45	– 1	3.45	44	3.45	44	3.47	44	4.68	38
Colorado	4.38	29	4.27	31	0.11	2	5.67	10	5.67	10	6.00	7	5.12	24
Connecticut	4.48	26	4.51	27	– 0.03	1	4.29	29	4.29	29	4.04	34	4.83	34
Delaware	9.25	2	9.30	1	– 0.05	– 1	9.49	2	9.49	2	9.56	2	9.53	3
Florida	4.25	30	4.22	32	0.03	2	4.40	24	4.40	24	4.62	21	5.41	18
Georgia	4.59	23	4.61	23	– 0.02	0	4.59	19	4.59	19	4.70	19	6.33	6
Hawaii	5.29	10	5.27	11	0.03	1	5.28	11	5.28	11	5.52	12	5.11	25
Idaho	5.21	12	5.22	12	– 0.01	0	4.97	15	4.97	15	4.82	17	4.76	35
Illinois	3.54	39	3.60	41	– 0.06	2	3.94	36	3.94	36	4.00	36	5.09	26
Indiana	4.68	20	4.66	20	0.02	0	4.51	22	4.51	22	5.07	15	5.81	13
Iowa	4.16	31	4.16	33	0.00	2	4.24	30	4.24	30	4.52	22	5.38	19
Kansas	4.07	32	4.58	24	– 0.50	– 8	4.54	20	4.54	20	4.30	26	4.97	32
Kentucky	6.31	7	6.25	7	0.06	0	6.14	6	6.14	6	6.01	6	5.88	10
Louisiana	2.98	46	3.13	47	– 0.14	1	3.23	47	3.23	47	3.24	48	4.01	45
Maine	6.34	6	6.43	6	– 0.10	0	6.10	7	6.10	7	5.89	8	5.72	14
Maryland	5.28	11	5.27	10	0.01	– 1	5.06	13	5.06	13	5.58	11	6.08	8
Massachusetts	4.55	24	4.53	26	0.02	2	5.13	12	5.13	12	5.32	13	5.86	12
Michigan	5.97	9	6.13	9	– 0.16	0	5.90	9	5.90	9	5.70	10	5.68	15
Minnesota	3.56	38	3.62	40	– 0.06	2	3.70	42	3.70	42	3.61	42	4.60	40
Mississippi	4.06	33	4.05	35	0.01	2	3.94	35	3.94	35	3.83	37	4.68	37
Missouri	5.03	15	4.93	16	0.11	1	4.36	26	4.36	26	4.41	24	5.87	11
Montana	9.11	3	9.10	3	0.01	0	9.30	3	9.30	3	9.28	3	9.21	5
Nebraska	4.90	17	4.87	17	0.02	0	4.39	25	4.39	25	4.15	31	4.36	44
Nevada	3.19	43	3.43	44	– 0.24	1	3.32	45	3.32	45	3.36	45	3.36	49
New Hampshire	9.30	1	9.30	2	0.01	1	9.58	1	9.58	1	9.57	1	9.61	2
New Jersey	3.81	36	3.79	38	0.01	2	3.62	43	3.62	43	3.35	46	5.04	29
New Mexico	3.01	45	3.56	42	– 0.55	– 3	3.21	48	3.21	48	3.49	43	3.96	46
New York	4.01	34	4.02	36	– 0.01	2	3.86	37	3.86	37	4.09	32	3.48	48
North Carolina	3.08	44	4.14	34	– 1.06	– 10	3.75	41	3.75	41	3.63	41	4.51	41
North Dakota	4.71	18	4.64	21	0.07	3	4.22	31	4.22	31	4.07	33	5.28	22
Ohio	3.98	35	3.94	37	0.04	2	3.79	39	3.79	39	3.76	38	4.45	43
Oklahoma	3.34	42	3.27	45	0.08	3	4.14	33	4.14	33	4.03	35	5.01	30
Oregon	9.05	4	9.04	4	0.01	0	9.28	4	9.28	4	9.27	4	9.24	4
Pennsylvania	4.43	28	4.42	29	0.01	1	4.30	28	4.30	28	4.27	28	5.09	27
Rhode Island	5.13	14	5.14	13	– 0.01	– 1	5.03	14	5.03	14	4.86	16	4.74	36
South Carolina	4.62	22	4.76	18	– 0.14	– 4	4.73	16	4.73	16	4.63	20	5.91	9
South Dakota	4.51	25	4.33	30	0.17	5	3.77	40	3.77	40	3.64	40	4.97	31
Tennessee	2.70	47	2.60	49	0.09	2	2.67	49	2.67	49	2.59	49	3.49	47
Texas	3.73	37	3.74	39	– 0.01	2	4.17	32	4.17	32	4.17	30	4.92	33
Utah	4.48	27	4.47	28	0.01	1	4.32	27	4.32	27	4.18	29	5.20	23
Vermont	4.99	16	5.03	14	– 0.03	– 2	4.66	18	4.66	18	4.81	18	5.54	16
Virginia	6.15	8	6.14	8	0.01	0	5.96	8	5.96	8	5.76	9	6.30	7
Washington	2.17	50	2.11	50	0.06	0	2.02	50	2.02	50	2.05	50	3.25	50
West Virginia	4.64	21	4.63	22	0.02	1	4.45	23	4.45	23	4.50	23	5.31	20
Wisconsin	4.71	19	4.69	19	0.03	0	4.53	21	4.53	21	4.35	25	5.09	28
Wyoming	5.14	13	4.99	15	0.14	2	4.73	17	4.73	17	5.32	14	5.43	17
District of Columbia	4.53	–	4.76	–	– 0.23	–	4.63	–	4.63	–	4.45	–	4.22	–

Note: The higher the score the better, the more favorable a state's tax system is for business. All scores are for fiscal years.

Source: Tax Foundation

In addition to corporate income taxes, adding a duplicate layer of taxation and compliance for many corporations. Corporations that find themselves in financial trouble must use precious

cash flow to pay their capital stock tax. In assessing capital stock taxes, the sub-index accounts for three variables: the capital stock tax rate, maximum payment and capital stock tax versus

Table 6
Property Tax Index, 2006 – 2011

State	FY 2011		FY 2010		Change from 2010 to 2011		FY 2009		FY 2008		FY 2007		FY 2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	–	5.00	–	0	–	5.00	–	5.00	–	5.00	–	5.00	–
Alabama	6.13	9	5.72	17	0.41	8	5.83	13	5.83	13	5.77	12	6.34	7
Alaska	6.00	12	5.84	15	0.16	3	5.12	27	5.12	27	5.19	22	5.48	19
Arizona	6.39	6	6.45	4	–0.06	–2	6.41	4	6.41	4	5.90	10	5.68	15
Arkansas	5.34	21	5.38	20	–0.04	–1	5.45	18	5.45	18	5.62	16	6.09	10
California	5.79	16	5.86	13	–0.07	–3	5.83	15	5.83	15	6.23	5	6.24	8
Colorado	5.85	15	6.34	6	–0.49	–9	6.29	6	6.29	6	5.65	15	5.57	16
Connecticut	3.35	49	3.61	48	–0.26	–1	3.06	49	3.06	49	3.01	50	2.12	50
Delaware	6.17	8	6.26	7	–0.09	–1	6.17	8	6.17	8	6.13	7	6.48	5
Florida	5.01	28	5.31	22	–0.30	–6	5.44	19	5.44	19	5.52	18	4.76	29
Georgia	4.50	38	4.38	36	0.11	–2	4.32	36	4.32	36	4.88	33	5.26	22
Hawaii	5.92	14	6.13	8	–0.22	–6	6.14	9	6.14	9	6.47	4	6.42	6
Idaho	6.97	2	6.50	3	0.47	1	6.51	3	6.51	3	6.74	2	6.90	3
Illinois	4.39	39	4.10	39	0.29	0	4.02	41	4.02	41	3.87	40	4.13	39
Indiana	6.71	4	5.87	12	0.84	8	6.28	7	6.28	7	5.60	17	4.90	28
Iowa	4.71	34	4.59	31	0.12	–3	4.48	33	4.48	33	4.90	31	4.70	31
Kansas	4.22	41	4.56	32	–0.34	–9	4.55	32	4.55	32	4.28	38	4.60	33
Kentucky	5.34	20	5.39	19	–0.05	–1	5.44	20	5.44	20	5.32	20	4.65	32
Louisiana	5.27	22	5.21	24	0.06	2	5.21	22	5.21	22	5.21	21	5.22	23
Maine	5.04	26	3.97	41	1.07	15	4.07	40	4.07	40	3.81	41	4.07	40
Maryland	4.23	40	4.22	38	0.02	–2	4.38	34	4.38	34	4.07	39	3.87	41
Massachusetts	4.02	43	3.65	45	0.36	2	3.59	44	3.59	44	3.54	45	3.67	43
Michigan	4.81	32	4.54	33	0.27	1	5.17	25	5.17	25	5.09	25	4.94	26
Minnesota	5.77	18	5.82	16	–0.05	–2	5.79	17	5.79	17	5.37	19	5.70	14
Mississippi	4.88	31	5.31	23	–0.43	–8	4.90	29	4.90	29	4.90	32	5.36	21
Missouri	6.02	11	5.47	18	0.56	7	6.03	11	6.03	11	5.95	9	5.95	12
Montana	6.12	10	5.95	10	0.18	0	6.04	10	6.04	10	5.95	8	5.12	24
Nebraska	5.16	24	4.53	34	0.63	10	3.39	48	3.39	48	3.79	42	3.45	46
Nevada	5.78	17	5.86	14	–0.07	–3	5.80	16	5.80	16	5.77	13	5.71	13
New Hampshire	4.62	35	4.08	40	0.53	5	4.10	39	4.10	39	4.43	36	4.33	37
New Jersey	3.40	48	2.86	50	0.54	2	2.91	50	2.91	50	3.14	49	3.16	47
New Mexico	7.04	1	7.12	1	–0.08	0	7.17	1	7.17	1	7.06	1	7.69	1
New York	4.14	42	3.86	43	0.29	1	3.57	46	3.57	46	3.72	43	3.60	45
North Carolina	4.77	33	4.23	37	0.54	4	4.16	37	4.16	37	4.62	34	4.27	38
North Dakota	6.33	7	6.43	5	–0.10	–2	6.29	5	6.29	5	6.21	6	6.67	4
Ohio	3.84	45	3.57	49	0.28	4	3.58	45	3.58	45	3.58	44	3.12	48
Oklahoma	5.02	27	5.08	27	–0.06	0	5.20	23	5.20	23	5.11	24	5.56	18
Oregon	6.49	5	5.97	9	0.52	4	5.83	14	5.83	14	5.66	14	6.07	11
Pennsylvania	3.89	44	3.88	42	0.01	–2	3.42	47		47	3.41	47	3.66	44
Rhode Island	3.60	47	3.61	47	–0.01	0	3.72	43	3.72	43	3.31	48	2.54	49
South Carolina	5.26	23	5.10	26	0.16	3	5.13	26	5.13	26	5.04	29	4.93	27
South Dakota	5.95	13	5.94	11	0.01	–2	5.85	12	5.85	12	5.78	11	6.18	9
Tennessee	3.06	50	3.62	46	–0.56	–4	4.16	38	4.16	38	4.62	35	4.50	34
Texas	4.96	29	4.90	30	0.06	1	4.72	30	4.72	30	5.08	27	4.43	36
Utah	6.73	3	6.76	2	–0.03	–1	6.65	2	6.65	2	6.59	3	7.10	2
Vermont	4.53	36	3.78	44	0.75	8	3.73	42	3.73	42	3.45	46	3.76	42
Virginia	5.10	25	5.04	29	0.06	4	4.99	28	4.99	28	5.13	23	4.43	35
Washington	5.38	19	5.32	21	0.06	2	5.25	21	5.25	21	5.07	28	4.96	25
West Virginia	4.51	37	5.06	28	–0.56	–9	5.19	24	5.19	24	5.08	26	5.56	17
Wisconsin	4.90	30	5.14	25	–0.23	–5	4.58	31	4.58	31	4.42	37	4.73	30
Wyoming	3.82	46	4.45	35	–0.63	–11	4.36	35	4.36	35	4.94	30	5.37	20
District of Columbia	4.57	–	4.95	–	–0.38	–	4.30	–	4.30	–	4.05	–	4.53	–

Note: The higher the score, the more favorable a state's tax system is for business. All scores are for fiscal years.

Source: Tax Foundation

Other Significant Issues

Five of the eight variables in this catch-all category of the sub-index deal with taxes levied on top of

the UI tax. Not all were triggered during 2008, but states are penalized in this sub-index if they are on the books.

Table 7
Unemployment Insurance Tax Index, 2006 – 2011

State	FY 2011		FY 2010		Change from 2010 to 2011		FY 2009		FY 2008		FY 2007		FY 2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	–	5.00	–	0	–	5.00	–	5.00	–	5.00	–	5.00	–
Alabama	5.72	10	5.51	16	0.21	6	5.56	14	5.56	14	5.62	12	6.23	4
Alaska	4.80	31	4.79	29	0.00	–2	3.77	47	3.77	47	3.54	47	3.91	43
Arizona	6.34	2	6.41	2	–0.07	0	6.41	2	6.41	2	6.50	3	5.91	12
Arkansas	5.25	18	5.41	17	–0.16	–1	5.08	24	5.08	24	5.27	18	4.05	41
California	5.52	14	5.55	14	–0.03	0	5.47	16	5.47	16	5.51	15	5.50	20
Colorado	5.28	17	5.32	20	–0.04	3	5.32	19	5.32	19	5.22	20	5.27	21
Connecticut	4.82	30	4.66	34	0.15	4	5.19	21	5.19	21	5.27	19	5.01	26
Delaware	5.86	8	5.63	13	0.22	5	5.92	7	5.92	7	6.04	7	5.95	11
Florida	6.19	3	6.20	3	–0.01	0	6.20	3	6.20	3	6.68	2	6.62	1
Georgia	5.16	22	5.21	22	–0.04	0	5.20	20	5.20	20	5.21	22	4.64	32
Hawaii	5.13	23	5.66	12	–0.53	–11	5.65	11	5.65	11	5.18	23	5.24	22
Idaho	3.83	48	3.98	48	–0.15	0	4.01	45	4.01	45	3.94	44	3.68	46
Illinois	4.34	41	4.14	46	0.20	5	4.26	43	4.26	43	4.21	42	4.34	37
Indiana	5.58	12	5.67	11	–0.08	–1	5.62	13	5.62	13	5.66	10	6.05	7
Iowa	4.74	33	4.74	33	0.00	0	4.66	36	4.66	36	4.66	37	4.96	28
Kansas	5.86	7	5.91	6	–0.05	–1	5.84	8	5.84	8	5.77	9	5.72	15
Kentucky	4.69	34	4.63	36	0.06	2	3.52	48	3.52	48	3.47	48	3.35	48
Louisiana	5.89	5	5.79	8	0.09	3	5.77	10	5.77	10	5.82	8	6.01	9
Maine	4.15	44	4.44	40	–0.29	–4	4.43	40	4.43	40	4.40	40	3.98	42
Maryland	3.90	47	4.56	37	–0.66	–10	4.79	30	4.79	30	4.80	30	5.63	17
Massachusetts	3.10	49	3.02	49	0.07	0	3.04	49	3.04	49	3.01	49	2.76	49
Michigan	4.12	45	4.15	45	–0.04	0	4.00	46	4.00	46	3.92	45	4.18	40
Minnesota	4.49	39	4.56	38	–0.07	–1	4.52	39	4.52	39	4.52	39	4.55	35
Mississippi	5.98	4	5.99	4	–0.01	0	6.07	5	6.07	5	6.15	5	6.58	2
Missouri	5.75	9	5.87	7	–0.12	–2	6.15	4	6.15	4	6.19	4	6.02	8
Montana	5.23	19	5.29	21	–0.06	2	5.36	18	5.36	18	5.21	21	5.16	24
Nebraska	5.56	13	5.54	15	0.02	2	5.63	12	5.63	12	5.42	17	5.73	14
Nevada	4.36	40	4.38	42	–0.02	2	4.37	42	4.37	42	4.38	41	4.26	38
New Hampshire	4.58	38	4.47	39	0.11	1	4.52	38	4.52	38	4.60	38	3.91	44
New Jersey	4.98	27	4.95	25	0.03	–2	5.07	25	5.07	25	5.13	24	4.99	27
New Mexico	5.31	16	5.36	19	–0.05	3	5.46	17	5.46	17	5.62	13	5.60	18
New York	3.92	46	3.98	47	–0.06	1	4.03	44	4.03	44	3.74	46	3.62	47
North Carolina	5.89	6	5.92	5	–0.03	–1	6.00	6	6.00	6	6.09	6	6.13	5
North Dakota	5.20	20	4.80	28	0.40	8	4.66	35	4.66	35	5.06	26	4.46	36
Ohio	5.66	11	5.69	10	–0.03	–1	5.56	15	5.56	15	5.66	11	5.88	13
Oklahoma	6.58	1	6.52	1	0.06	0	6.61	1	6.61	1	6.69	1	6.43	3
Oregon	4.65	37	4.79	30	–0.15	–7	4.82	29	4.82	29	4.73	32	4.77	30
Pennsylvania	4.27	42	4.41	41	–0.13	–1	5.08	23	5.08	23	5.11	25	5.71	16
Rhode Island	2.86	50	2.80	50	0.06	0	2.58	50	2.58	50	2.41	50	2.33	50
South Carolina	4.25	43	4.18	43	0.07	0	4.40	41	4.40	41	4.05	43	3.87	45
South Dakota	4.66	36	4.66	35	0.00	–1	4.58	37	4.58	37	4.73	33	4.70	31
Tennessee	4.67	35	4.77	32	–0.10	–3	4.77	31	4.77	31	4.79	31	4.60	33
Texas	5.44	15	5.77	9	–0.32	–6	5.80	9	5.80	9	5.55	14	6.06	6
Utah	5.07	24	4.95	24	0.12	0	4.96	27	4.96	27	4.90	28	5.21	23
Vermont	5.18	21	5.40	18	–0.21	–3	5.18	22	5.18	22	5.49	16	5.99	10
Virginia	4.83	29	4.17	44	0.66	15	4.84	28	4.84	28	4.88	29	5.16	25
Washington	5.00	25	4.90	26	0.10	1	4.69	34	4.69	34	4.70	36	4.24	39
West Virginia	4.77	32	4.79	31	–0.02	–1	4.75	33	4.75	33	4.72	35	4.57	34
Wisconsin	4.98	26	5.02	23	–0.04	–3	5.06	26	5.06	26	5.05	27	4.95	29
Wyoming	4.93	28	4.86	27	0.07	–1	4.76	32	4.76	32	4.72	34	5.53	19
District of Columbia	5.11	–	5.11	–	0.00	–	5.02	–	5.02	–	5.02	–	4.96	–

Note: The higher the score, the more favorable a state's tax system is for business. All scores are for fiscal years.
Source: Tax Foundation

HB 1247 - Illustration for Section 3

Assumptions:

Filing status - single, North Dakota taxpayer.

Income is all derived from taxpayer's business - no wage income, or income from other sources.

Sole Proprietorship

Tax under existing statute:

Federal Taxable Income	\$ 100,000
ND Taxable Income	\$ 100,000
Tax at existing rates (2010)	\$ 2,950

Sub Chapter S Corporation - Single member ownership

Tax under existing statute:

Federal Taxable Income	\$ 100,000
ND Taxable Income	\$ 100,000
Tax at existing rates (2010)	\$ 2,960

Tax under HB 1247:

Federal taxable income	\$ 100,000
60% exclusion (not applicable)	0
ND taxable income under HB 1247	\$ 100,000
Tax under HB 1247	\$ 1,179

Tax under HB 1247:

Federal taxable income	\$ 100,000
60% exclusion for passthrough income	(60,000)
ND taxable income under HB 1247	\$ 40,000
Tax under HB 1247	\$ 1,330

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1/24/2011