

# Study: Nevada good for businesses, California bad

By Sean Whaley, Nevada News Bureau

CARSON CITY – Nevada is one of the 10 best states for its business tax climate, while companies in states like New York, New Jersey, and California have a far less pleasant environment to deal with, according to a report by the Tax Foundation.

“Even in our global economy, a state’s strongest and most immediate competition often comes from other states,” said Tax Foundation economist Scott Drenkard. “State lawmakers need to be aware of how their states’ business climates match up to their immediate neighbors and to other states in their region.”

Nevada ranked third in the Tax Foundation report released Tuesday, unchanged from last year. Nevada scored less well in two of the five categories that make up the ranking, coming in 42nd for its sales tax index rate, which is considered high at a statewide 6.85 percent rate; and 41st for its unemployment insurance tax, which does not provide for many benefit exclusions like many states do.

The survey is a snapshot in time as of July 1, 2012, and so does not include any evaluation of a Texas-style margins tax being proposed by Nevada by the Nevada State Education Association. The association is now collecting signatures to take the measure to the Legislature in 2013, but it still faces a court challenge.

In a press briefing to announce the results of the new edition, speakers made it clear that Nevada’s high score would be substantially worse with a margins, or gross receipts, tax.

Texas scored in the top 10 in the survey in spite of the margins tax, not because of it, Drenkard said.

“We penalize states heavily for having gross receipts taxes because they are very distortionary,” he said. “It’s similar to having a very poorly structured sales tax.”

The top 10 states in the 2013 Index are Wyoming, South Dakota, Nevada, Alaska, Florida, Washington, New Hampshire, Montana, Texas, and Utah.

Many of the top ranking states do not have one or more of the major statewide taxes, such as a personal or corporate income tax or a sales tax. Wyoming, South Dakota and Nevada, for example, have no corporate or individual income tax; Alaska has no individual income or state-level sales tax; Florida has no individual income tax; and New Hampshire and Montana have no sales tax.

The 10 lowest ranked states in the 2013 Index are Maryland, Iowa, Wisconsin, North Carolina, Minnesota, Rhode Island, Vermont, California, New Jersey, and New York.

The State Business Tax Climate Index, now in its ninth edition, collects data on over a hundred tax provisions for each state and synthesizes them into a single score. The states are then compared against each other, so that each state’s ranking is relative to actual policies in place in other states around the country. A state’s ranking can rise or fall significantly based not just on its own actions, but on the changes or reforms made by other states.

The index enables business leaders, government policymakers, and taxpayers to make an apples-to-apples comparison of their state’s tax system. While some similar studies focus on the total amount residents pay in taxes each year, the index focuses on whether the state’s tax code itself enhances or harms the competitiveness of its business environment.

Despite moderate corporate taxes, New York scores at the bottom this year by having the worst individual income tax, the sixth-worst unemployment insurance taxes, and the sixth-worst property taxes. The states in the bottom 10 suffer from the same afflictions: complex, non-neutral taxes with comparatively high rates.

Maine saw the greatest improvement this year, vaulting them from 37th to 30th best overall, in part due to a repeal of their alternative minimum tax. Michigan also made a sizable leap of six places by replacing their cumbersome and distortionary gross receipts tax (the Michigan Business Tax) with a flat 6 percent corporate income tax. This improved their overall rank from 18th to 12th best, and their corporate sub-rank from 49th to seventh best.

The Tax Foundation is a nonpartisan research organization that has monitored fiscal policy at the federal, state and local levels since 1937.