

How Do Massachusetts Business Taxes Compare to Other States?

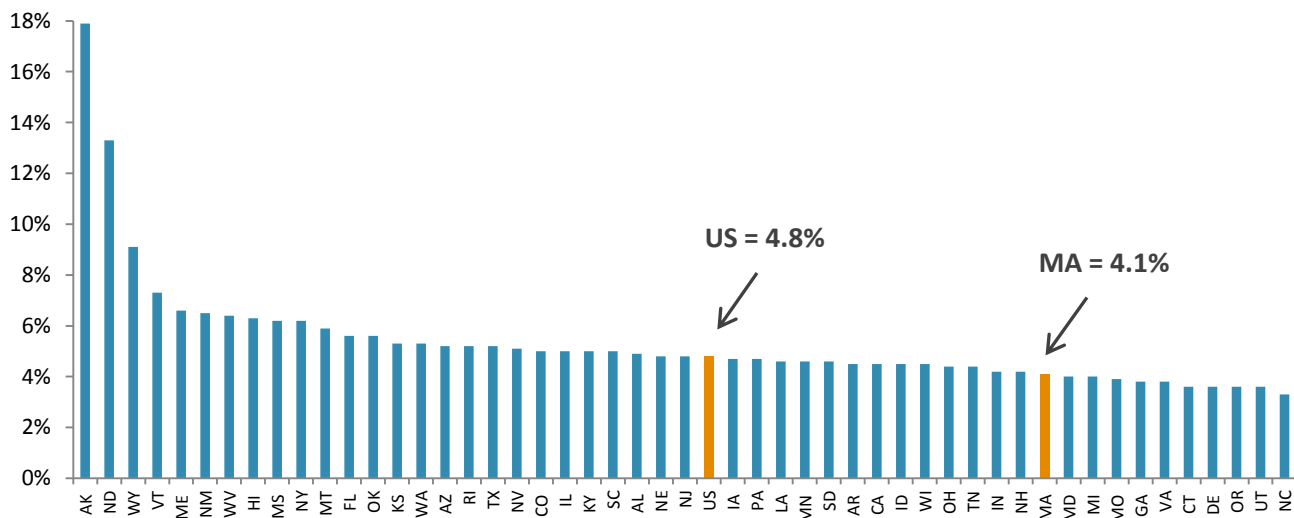
A wide variety of factors influence the decisions businesses make about whether to expand and where to locate their new or expanding operations. These factors include the quality of a state's infrastructure; the skills of its workforce; the proximity to materials and customers; and the overall quality of life available to employees.ⁱ A particular state's tax policy - including tax rates, rules for calculating taxable income, and the availability of tax breaks - also may play a role in some cases, though not a primary one.ⁱⁱ This is not surprising given that state and local taxes account for as little as two percent of total business costs for the average corporation operating in the US.ⁱⁱⁱ

If, however, one wishes to examine relative levels of business taxation among the 50 states, in general it makes most sense to look at the entire tax system in each state, including all state and local taxes paid by businesses. Some states collect more revenue from businesses using property taxes (typically, a local tax), while other states rely more heavily on corporate income taxes, gross receipts and excise taxes, or general sales taxes (typically, state-level taxes). A meaningful, apples-to-apples comparison of total business tax levels in different states therefore must account for all of the various ways that state and local governments collect taxes from businesses.

An update of one prominent study - produced regularly by the Council on State Taxation (COST) - ranks Massachusetts 40th for its combined state and local business tax level in Fiscal Year 2012, placing Massachusetts in the bottom quarter of all states in terms of overall business tax levels.

Business Taxes as a Share of Gross State Product Are Lower in Massachusetts Than in Most Other States

State and local taxes as a share of Gross State Product, FY 2012



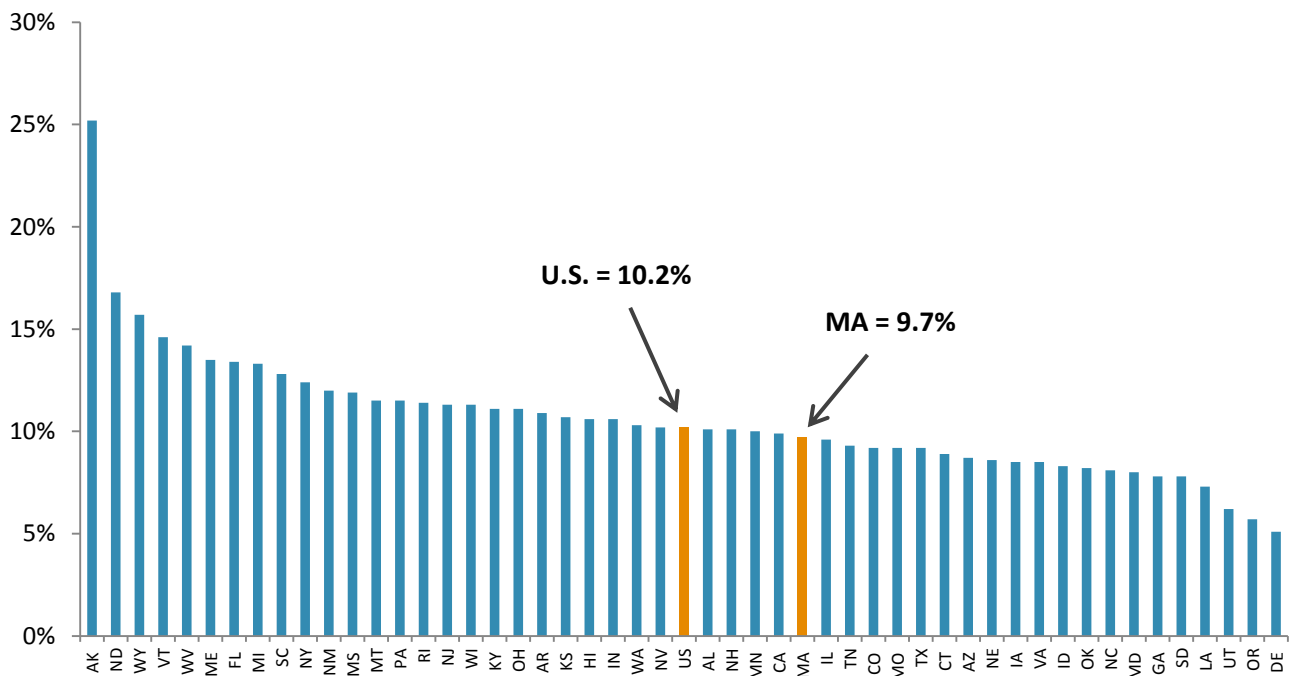
Source: Ernst & Young, FY 2012 COST Report on State and Local Business Taxes

The updated study was conducted by Ernst & Young for the Council on State Taxation (COST),^{iv} a Washington, DC based trade association that represents over 600 multistate and multinational corporations. The study determined that, in FY 2012, business taxes accounted for a larger percentage of private-sector Gross State Product (GSP) in 39 other states than they did in Massachusetts. Had business taxes in Massachusetts (at 4.1 percent of GSP) equaled the percentage of private-sector Gross State Product as the US average (4.8 percent of GSP), businesses would have contributed an additional \$2.5 billion in Massachusetts state and local revenues in FY 2012, using Ernst and Young’s methodology.^v

A separate analysis, performed by the Anderson Economic Group, uses a slightly different methodology, ranking states based on the amount of state and local business taxes paid as a share of pre-tax gross operating surplus, which is a measure of business profitability tracked and published by the US Bureau of Economic Analysis.^{vi} Using this approach, the Anderson analysis finds that, including all state and local taxes, Massachusetts businesses in 2011 collectively paid an amount equal to 9.7 percent of their pre-tax profits. By contrast, the lowest tax states collected from 5 to 7 percent of pre-tax profits, while the highest tax states generally collected between 13 and 14 percent.^{vii} Accordingly, Massachusetts ranks 30th from the top among the states by this measure and below the US average of 10.2 percent. Had Massachusetts businesses paid taxes at the US average, by this measure they would have contributed another 0.5 percentage points of their pre-tax profits, some \$720 million in 2011.^{viii}

Business Taxes as a Share of Pre-Tax Profits in Massachusetts Are Below U.S. Average

State and local business taxes as a share of pre-tax gross operating surplus, 2011



Source: Anderson Economic Group, 2013 State Business Tax Burden Rankings

Though the overall level of business taxation in Massachusetts is lower than the level in most other states, Massachusetts receives an unusually large share of the tax revenue it does collect from

businesses through the taxation of corporate income. Offsetting the relatively high corporate income tax levels, businesses in Massachusetts pay substantially less as a percentage of GSP in sales taxes, excise and gross receipts taxes, and licensing fees than do businesses in many other states (see table, below).

BUSINESS TAXES (Ernst & Young, FY 2012)		
	MA % of GSP	US % of GSP
Property Tax	1.6%	1.7%
Sales Tax	0.6%	1.0%
Excise and Gross Receipts Tax	0.3%	0.6%
Corporate Income Tax	0.6%	0.4%
Unemployment Insurance	0.5%	0.4%
Individual Income Tax (on pass-through business income)	0.3%	0.3%
Licenses and Other Taxes	0.2%	0.5%
Total Business Taxes (as % GSP)	4.1%	4.8%

ⁱ Peter Fischer, "Grading Places", 2013, page 11: <http://www.goodjobsfirst.org/gradingplaces>

ⁱⁱ Ibid

See also Political Economy Research Institute, Thompson, Jeffrey, "Prioritizing Approaches to Economic Development in New England: Skills, Infrastructure, and Tax Incentives", September 2010, pg. 10:

http://www.peri.umass.edu/fileadmin/pdf/published_study/priorities_September7_PERI.pdf

ⁱⁱⁱ See testimony to the New Hampshire Legislature from Robert Tannenwald, former Director of Research for the public policy division of the Federal Reserve Bank of Boston: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3314>

^{iv} Ernst & Young, "Total state and local business taxes FY 2012":

<http://www.cost.org/WorkArea/DownloadAsset.aspx?id=84767>

^v The US Bureau of Economic Analysis measures Massachusetts's private-sector GSP at \$352.4 billion in 2011 and \$365.7 billion in 2012. Averaging these two figures to arrive at an estimate of Fiscal Year 2012 private-sector GSP in Massachusetts produces a figure of \$359.1 billion. Business taxes as a share of GSP were 0.7 percentage points higher for the US as a whole than for Massachusetts in FY 2012, according to the E&Y study. Converting this percentage point gap into a dollar figure produces an estimate of approximately \$2.4 billion in reduced business taxes in Massachusetts relative to the US average in FY 2011 (\$359.1 billion x 0.007 = \$2.51 billion).

^{vi} Anderson Economic Group, 2013 State Business Tax Burden Rankings:

<http://www.andersoneconomicgroup.com/Portals/0/upload/aAEG%20Tax%20Burden%20Study%204th%20Edition%20-%202013.pdf>

^{vii} Alaska, the highest tax state by this measure, collects 25.2 percent of pre-tax corporate profits. This is due to an especially heavy reliance on severance taxes, though several other states also rely heavily on severance taxes, including North Dakota, Wyoming and West Virginia. Because of this unusual tax structure, the tax levels in these states do not provide a good comparison to tax levels in other states.

^{viii} MassBudget's calculation: A. Difference in percent of tax levels: 10.2% - 9.7% = 0.5 percentage points

B. Change in tax amount from MA businesses 0.5/9.7 = + 5.15% of actual tax level

C. Change in dollar amount: 0.0515 x \$13,981 million in taxes paid = \$720.6 million add'l tax