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State business taxes below U.S. average

New study contradicts Midwest reputation of uncompetitive climate

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Wisconsin's business taxes are lower than those in 35 other states, based on a new study by the Federal Reserve Bank of Boston that measures more than 15 taxes that can affect corporate profits.

The study determines what percentage of a state's total business profits is taxed. In Wisconsin, long saddled with a reputation for being a tax hell, taxes amount to just under 33% of business profits - below the national average of almost 36%, according to the study.

Alaska ranked highest, taxing more than 82% of all business profits, while North Carolina ranked lowest, taxing just under 27% of profits, the study concludes.

The study found that the 10 states with the highest business tax burden were mostly Western states such as Wyoming, ranked second, and New Mexico (third), and Southern states such as West Virginia (sixth) and Louisiana (eighth).

Wisconsin ranked slightly below surrounding states such as Illinois, at 35% of profits, Michigan (34%) and Iowa (33%), and slightly above Minnesota (32%), the study said.

The study contradicts reports that show Midwest states such as Wisconsin have an uncompetitive tax climate for businesses. Often, those studies look only at a few taxes or measure what percentage of a state's average personal income is taxed.

"Percent of personal income is a very crude measure of the impact on businesses," said Robert Tannenwald, the study's author. Tannenwald is an assistant vice president and economist in the research department of the Federal Reserve Bank of Boston, where he has specialized in state and local public finance for more than 20 years.

Tannenwald's approach instead measures tax impact on profits.

"Businesses are concerned about maximizing profits, so that's what they would be concerned about," he said.

Todd Berry, president of the Wisconsin Taxpayers Alliance, said he knows of no other study that measures taxes against business profits. But Berry said the study is flawed because it doesn't include the personal income tax, which is paid by businesses that organize as limited liability corporations or sole proprietorships.

Tannenwald said he would expect the personal income tax to have a minimal impact on Wisconsin's rating, based on his measurements in Massachusetts.

Even with the personal income tax included, Berry doesn't think Wisconsin ranks among the worst states for taxes on business. "We are somewhere near the middle of the pack," he said.

Wisconsin Business Taxes

BUSINESS TAXES RANKING STATES BY BUSINESS TAX PERCENTAGES PAID

Wisconsin has lower taxes on businesses than 35 other states, according to a new study. Here are the top five, bottom five and where Wisconsin stands.

RANK	STATE	% OF PROFITS CLAIMED BY TAXES
1	Alaska	82.3%
2	Wyoming	66.5
3	New Mexico	63.1
4	West Virginia	63.1
5	North Dakota	58.6
36	Wisconsin	32.9%
46	Missouri	28.6
47	Colorado	28.0
48	Delaware	27.9
49	Massachusetts	27.5
50	North Carolina	26.9

Source: Census Bureau and Bureau of Economic Analysis. Journal Sentinel

[State rankings: Business tax percentages](#)

State Rankings

TODD'S BUSINESS TAXES AS A PERCENTAGE OF BUSINESS PROFITS

Percent for each state is relative to 35 other states, according to a new study.

RANK	STATE	% OF PROFITS CLAIMED BY TAXES	RANK	STATE	% OF PROFITS CLAIMED BY TAXES
1	Alaska	82.3%	25	Oregon	29.2%
2	Wyoming	66.5	27	South Carolina	28.5
3	New Mexico	63.1	28	Mississippi	28.3
4	West Virginia	63.1	29	Texas	28.2
5	North Dakota	58.6	30	Virginia	28.1
6	Idaho	58.1	31	Illinois	28.0
7	Montana	56.9	32	Indiana	27.9
8	Louisiana	47.3	33	California	27.8
9	Utah	46.2	34	Alabama	27.6
10	Arkansas	43.2	35	Georgia	27.5
11	Nebraska	42.5	36	Wisconsin	32.9%
12	Minnesota	40.9	37	Michigan	34.8
13	Maine	40.5	38	Pennsylvania	33.5
14	Nevada	40.1	39	Ohio	33.3
15	New York	39.8	40	Connecticut	33.2
16	Massachusetts	39.7	41	Missouri	33.1
17	Ohio	38.6	42	Washington	33.0
18	Kentucky	38.5	43	Arizona	32.9
19	Alabama	38.4	44	North Carolina	32.8
20	Illinois	38.3	45	Virginia	32.7
21	Delaware	37.7	46	Massachusetts	32.6
22	Colorado	36.7	47	Connecticut	32.5
23	New Jersey	36.6	48	Delaware	32.4
24	Nevada	36.5	49	Massachusetts	32.3
25	New Hampshire	36.2	50	North Carolina	26.9

[State rankings: Business taxes as profit percentage](#)

But Mari Ann Larsen, vice president of Chem-Tech Inc., a Random Lake manufacturer of water treatment chemicals, found it hard to believe Wisconsin business taxes are below average.

"Wow. I'm shocked to hear that," she said. "We pay a ton of taxes. It's almost like they want to put the small-business owner out of business."

Wisconsin is still a high taxing and spending state, said Jim Pugh, a spokesman for the business lobbying group Wisconsin Manufacturers & Commerce. "We need to do a better job on macro tax policy, not just business tax policy."

In a June 2004 survey by the commerce association, 37% of top executives in the state made reducing taxes the "one thing state government could do to help" their business. But only 12% gave taxes as their top business concern.

Among smaller companies, "We have over the last decade seen a significant decline in the complaints from our members about business taxes," said Wayne Corey, executive director of Wisconsin Independent Businesses Inc., which represents many small businesses.

Melanie Fonder, a spokeswoman for Gov. Jim Doyle, noted that the Boston Fed study did not reflect the new law instituting a single sales form of the corporate income tax, which has reduced the tax burden. "This will further improve the business climate," she said.

Business, labor disconnect

Tannenwald said it is not easy to compute total business profits for a state, which is why researchers haven't attempted it in the past. Because of that difficulty, the rankings "might change a few places" depending on how the data was collected, he said.

"But the general picture, as far as high, low and middle rankings, I think is valid," he said.

Tannenwald decided to conduct the study after arguments erupted in Massachusetts between labor activists, who argued that business wasn't paying its fair share, and business representatives, who said that the state's tax climate wasn't competitive.

"Both labor and business were talking past each other," Tannenwald said. "I thought they both had it wrong."

Tannenwald also wanted to improve on the methodology of a January study by Ernst & Young for the Council on State Taxation. That study measured the burden of business taxes as a percentage of private sector economic activity, meaning the amount businesses spent on capital and labor.

Wisconsin ranked ahead of 26 states in the Ernst & Young study.

While tax levels vary from state to state, Tannenwald said, they are a cost that businesses usually pass on to customers. "Relative to other factors," he said, "taxes are only important at the margins for businesses."

A 2000 survey of 421 executives by University of Wisconsin-Madison emeritus professor Jon Udell found that corporate and personal income taxes were a small factor in how businesses rated the state's competitiveness, with other factors accounting for 89% of their rating.

A study by the Tax Foundation released last month ranked Wisconsin as having the ninth-worst business tax climate. The study did not include the property tax, however, and ranked the state between 20th and 32nd for corporate income, individual income, unemployment insurance and sales taxes.

Wisconsin's low grade was largely because the state lacks a constitutional amendment limiting spending, said Scott Moody, the foundation's senior economist. With all taxes included, it is possible that Wisconsin could have a lower-than-average business tax burden, he said.

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