



# Tax Foundation: 2014 State Business Climate Rankings

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- The Tax Foundations rankings are based on five categories (weights):
  - Corporate Taxes (20.0%)
  - Individual Taxes (32.0%)
  - Sales Taxes (31.5%)
  - Unemployment Insurance (11.5%)
  - Property Taxes (14.0%)
- While taxes are a part of overall business costs they are not one of the largest costs of doing business in a state. Using the Tax Foundation’s rankings as a major guide in state budget decision making will distort state policies and may reduce funding for policies that actually attract and keep businesses.
- The Tax Foundation Rankings do not take into account whether a state is using its tax revenues wisely to provide services like education, health care, transportation and other services which are important to businesses and where they locate. Under the tax Foundation ranking system, a zero tax rate in all categories is best, even if it means no roads, sanitation or police.
- The top five ranked states in the 2014 rankings: Wyoming, South Dakota, Nevada, Alaska and Florida raise revenue in ways that are not counted in the rankings, (Wyoming, South Dakota, and Alaska raise revenue mainly through natural resource extraction). Changing what taxes are counted or changing the weights will lead to different rankings.
- The Tax Foundation ranking system is biased against progressive taxation and gives a better score to flax tax systems. In particular, the rankings punish states which use progressive income taxation the most. This bias in the rankings promotes inequality, which has been shown in recent book by Professor Thomas Piketty, (2014) Capital in the 21<sup>st</sup> Century, to slow economic growth.
- The rankings are misleading. For example, Wyoming (Ranking 1) has a statewide average effective property tax rate as a percentage of income of 4.54%, while, on this same indicator, New York (Ranking 50) has a rate of 4.57%. Property tax rates, because of their low weight in this ranking system, do not have a major impact on the rankings, so lowering the reliance on local property taxes, even through an effective mechanism like a well-targeted circuit breaker, will not have the effect implied by supporters of the convoluted “freeze aid” proposal.