

# Tax Planning in the US - Best and Worst States for Business

Where will your company pay the least tax? Whether you're just starting a business, expanding, or thinking of relocating this is an important consideration.

The Tax Foundation, a non-partisan tax research group based in Washington, D.C., has released their State Business Tax Climate Index for 2010, a study that ranks the best and worst states for business taxes. These ratings take into account individual income taxes, major business taxes, sales taxes, unemployment insurance taxes, and taxes on wealth or assets such as property.

## Most Tax-Friendly States for Business

The states that top the Tax Foundation list as the most tax-friendly are:

- 1. South Dakota:** No corporate or individual income tax
- 2. Wyoming:** No corporate or individual income tax
- 3. Alaska:** No individual income tax or state-level sales tax; however, there are local jurisdictions that impose sales taxes
- 4. Nevada:** No corporate or individual income tax
- 5. Florida:** No individual income tax
- 6. Montana:** No sales tax
- 7. New Hampshire:** No sales tax
- 8. Delaware:** No sales tax, but second worst corporate income tax in the nation; however, does have a favorable business law environment
- 9. Washington:** No individual or corporate income tax
- 10. Utah:** Assesses all major tax types, but has low property tax rates and a favorable unemployment insurance tax system

The absence of a major state tax is a big part of determining the top ten. However, Texas, which lacks an individual income tax, came in just short of the top ten at number eleven.

According to the study, this is due to the fact that they impose a tax on intangible property (stocks, bonds, etc.) and do not recognize LLC's or S-Corporations.

## Worst States for Business

Rounding out the bottom five on the list, making them the least tax-friendly for business, are:

46. Iowa
47. Ohio
48. California
49. New York
50. New Jersey

## Why the Low Rankings?

**Iowa** was ranked among the worst for business because they impose a corporate and individual alternative minimum tax (AMT) and because they do not tie tax increases to inflation.

**Ohio** made the bottom of the list due to their inclusion of an intangible property tax and higher property taxes in general. They also got low scores for their gross receipts tax that offers no deduction for the cost of goods sold or employee compensation.

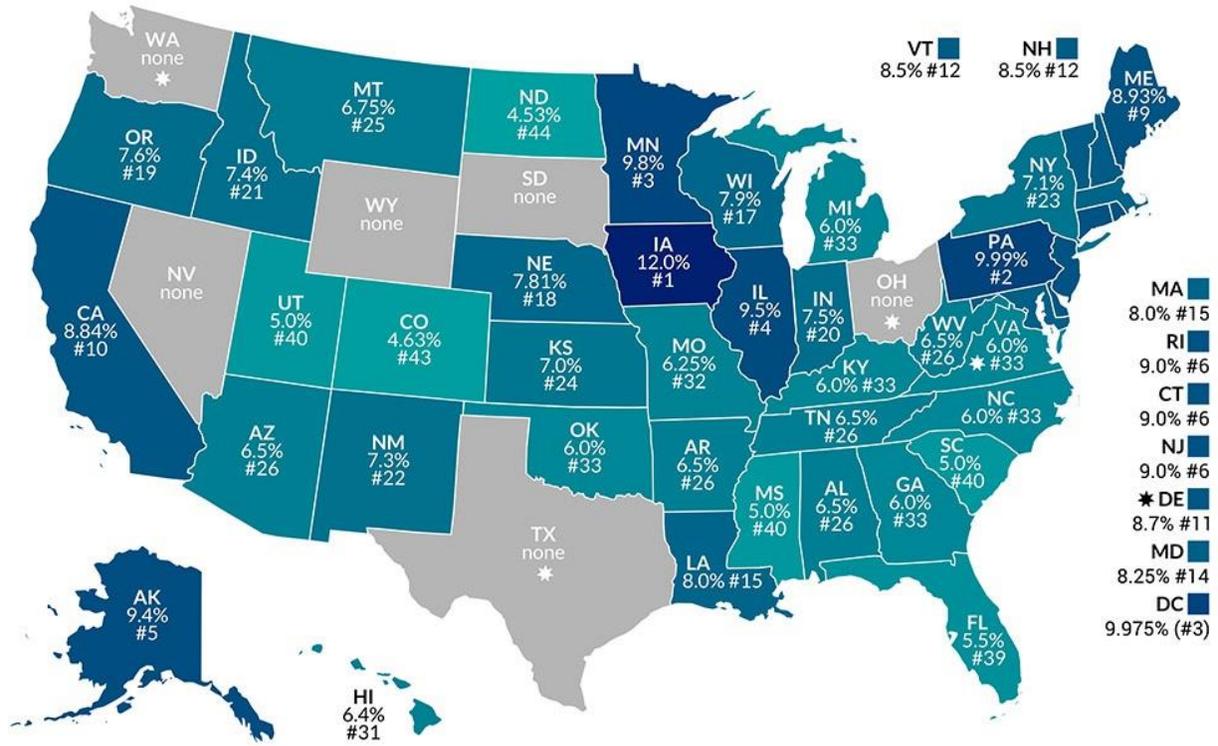
**California** owes its low ranking to an increase in state-wide sales tax to 8.25%, making it the highest state-level rate in the nation. Other factors included an increase of 0.25% in each personal income tax bracket, a relatively high corporate income tax rate of 8.84% and the inclusion of an individual and corporate Alternative Minimum Tax (AMT).

**New York** dropped down to be ranked 49th this year. New York can blame the fall on the enactment of two new personal income tax brackets this year, with a new top rate of 8.97 percent, an increase of 30 percent over the prior year.

If you live in New York City, which tacks on an extra 3.648 personal income tax, you have the honor of living in the city with the highest state-local combined income tax rate in the nation.

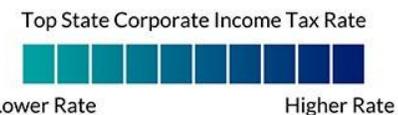
New York's neighbor, New Jersey is the only state that has a more penalizing tax system, coming in as the worst in the nation for business. New Jersey receives this title due to their uniformly high rates in most tax types. The state received poor ratings in corporate income tax, personal income tax, and sales tax.

# Top State Corporate Income Tax Rates in 2014



**Note:** Connecticut's rate includes a 20% surtax. Illinois's rate includes two separate corporate income taxes. Data as of Jan 1, 2014. Published Apr 15, 2014.

**Sources:** State tax statutes, forms, and instructions; Commerce Clearinghouse.



\* State has gross receipts taxes with rates not strictly comparable to corporate income tax rates.

### **Annual Report/Licence Fees**

Of the states recommended, there is either a minimum or a 'flat' annual report or licence fee.

\*\* The report is filed every two years. If an LLC is formed prior to June 16 in any given year, its first Two-Year Report is due June 16 that same year. Its next Two-Year Report will not be due for another 2 years. If an LLC is formed after June 16 in a given year, its first Two-Year Report will be due June 16 the following year. Again, its next Two-Year Report will not be due for another 2 years.

### **Federal tax rates**

For regular income tax purposes, a system of graduated marginal tax rates is applied to all taxable income, including capital gains. Through 2015, the marginal tax rates on a corporation's taxable income are as follows:

<b>Taxable income (\$)</b>	<b>Tax rate</b>
0 to 50,000	15%
50,000 to 75,000	\$7,500 + 25% Of the amount over 50,000
75,000 to 100,000	\$13,750 + 34% Of the amount over 75,000
100,000 to 335,000	\$22,250 + 39% Of the amount over 100,000
335,000 to 10,000,000	\$113,900 + 34% Of the amount over 335,000
10,000,000 to 15,000,000	\$3,400,000 + 35% Of the amount over 10,000,000
15,000,000 to 18,333,333	\$5,150,000 + 38% Of the amount over 15,000,000
18,333,333 and up	35%

This rate structure produces a flat 34% tax rate on incomes from \$335,000 to \$10,000,000, gradually increasing to a flat rate of 35% on incomes above \$18,333,333.