TAX FOUNDATION Since 1937

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September 17, 2015

Dear Friend:

I wanted to make sure you got a copy of our newest publication, *Location Matters: The State Tax Costs of Doing Business*. Produced in collaboration with KPMG LLP, U.S. audit, tax, and advisory firm, and produced thanks to the generous support of a grant from the John Templeton Foundation, *Location Matters* is the first calculation of actual total tax bills faced by example firms in each state.

Tax Foundation analysts designed seven model firms: a **corporate headquarters**, a **research and development facility**, a **retail store**, a **capital-intensive manufacturer**, a **labor-intensive manufacturer**, a **call center**, and a **distribution center**. Tax specialists from KPMG then calculated each firm's tax bill in each state. All business taxes were included: **corporate income taxes**, **property taxes**, **sales taxes, unemployment insurance taxes**, **capital stock taxes**, **inventory taxes**, and **gross receipts taxes**, as they stood in April 2014. Additionally, each firm was modeled twice: once as a new firm eligible for tax incentives and once as a mature firm not eligible.

Key findings:

- *Statutory tax rates only tell part of the story*. While top rates are important and may cause "sticker shock," they are just one component of tax burdens. Tax incentives, apportionment, throwback rules, and other factors can have a dramatic impact too.
- *Corporate income taxes are just one part of the corporate tax burden*. Sales, property, and unemployment taxes are highly significant components of a firm's overall tax burden.
- *Incentives chiefly benefit new firms, often to the disadvantage of established operations*. Businesses with longer time horizons have cause to be wary of states that prioritize attracting new industries over maintaining modest rates for established operations.
- *Incentive-heavy tax structures can reduce tax equity even among newly-established firms*. While incentives potentially make the state attractive to specific industries or firms, they can limit the state's broader economic appeal across diversified business types.
- *Different firm types experience dramatically different effective tax rates*. Different taxes impact businesses differently. Distribution centers will be more sensitive to property tax burdens, for instance, while retailers may be more significantly impacted by the sales tax.
- *The impact of gross receipts taxes depend on firm structure and type*. While gross receipts tax rates are usually lower than corporate tax rates, they are assessed on firms' total receipts (sometimes less certain subtractions). Some firm types benefit from this structure, while others do not.

For more *Location Matters* resources, including electronic versions of the book and our methodology paper, to use our *Location Matters* data lookup tool, to view results maps and explanatory videos, and to subscribe to more content about state taxes, visit us at www.taxfoundation.org.

Yours Very Truly,

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