# THE IMPACT OF MAINE'S TAX STRUCTURE

# ON THE BUSINESS CLIMATE

Report of the
Joint Standing Committee on Taxation

to the Second Regular Session
of the 111th Maine Legislature

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## SUMMARY

The Joint Standing Committee on Taxation requested permission from the Legislative Council to study the impact of Maine's tax structure on the business climate because it frequently receives testimony that legislation under consideration will be either good or bad for the business climate. The Committee saw this study as an opportunity to investigate the subject of taxes and business climate in order to provide a better framework to evaluate testimony and to judge the effect of legislation under consideration.

The Committee met four times to discuss the subject matter of this study. They received information provided by staff as well as executive branch agencies and representatives of business and academic communities. A public hearing was held to provide an opportunity for public comment. The Committee makes the following findings and recommendations.

The Committee recommends government and business make an attempt to present the State's business climate in the most optimistic possible light. Maine has many positive attributes which serve to attrach development and these should be promoted such as a productive labor force, quality life style and clean environment, as well as a decent educational environment and manageable governmental systems all contributing to the quality of the business environment in Maine.

The Committee finds that State taxes are a portion of overall business operating expenses, and, therefore may have an effect upon the ultimate profitability of business but they are not a very heavily weighted factor in business location decisions.

The Committee finds that businesses vary greatly, both among various types of business and even within types in their individual ability to stand taxation.

The Committee recommends that State tax policy be developed for the purpose of providing state revenue by the most equitable and easily administerable means. The state should use tax policy on only a limited basis as an economic development incentive for existing and new business.

The Committee recommends that the state pursue a course which recognizes the importance of simplicity, stability and predictability of state taxation while recognizing that tax increases may occasionally be necessary to fund needed services.

The Committee finds that when many different types of comparisons of state tax rates are considered, Maine's overall tax on business falls somewhere in the middle when compared nationally and is on the low end of scale when compared with other states in the northeast region, yet taxes must be judged along with other business costs.

## I. INTRODUCTION

During the First Regular Session of the 111th Legislature, the Legislative Council approved the request of the Joint Standing Committee on Taxation to study the effect of Maine's tax structure on the business climate.

The Committee desired to study this issue because it is frequently the recipient of testimony to the effect that this or that tax or tax break will harm or help the business climate. Frequently both proponents and opponents of a bill will use business climate to support their differing positions on a particular bill. The Committee has had little analytical background from which to evaluate such claims. This study was seen primarily as an opportunity for the Committee to review the literature regarding the effect of taxes on business climate, to evaluate the opinions of experts unrelated to any particular legislation and to determine the role that taxes play in business location decisions.

The Committee met four times to discuss this study. The Committee received and discussed information from staff relating to the role of taxes in business location decisions. The Committee considered several different methods of ranking Maine's tax structure compared to other states. One meeting was a public hearing at which various members of business and government organizations were provided an opportunity to present testimony to the Committee. At that hearing representatives of business and industry testified that the business climate in Maine was not as desirable as it could be. Property tax and sales tax on fuel were frequently identified as burdensome. Uncertainty regarding the unitary treatment of income taxes, full conformity with the IRC and the forest fire suppression tax were identified as negative factors as were non-tax factors such as regulatory costs, worker's compensation and transportation. Persons testifying were primarily representatives of wood products industries. Written testimony was presented by the State Development Office and by State Economist, Lloyd Irland. No one testifying was able to identify any instance of a firm deciding not to invest in Maine solely because of taxes.

In addition, Legislative staff attended a workshop on "Maine's Business Environment" at the annual meeting of the Maine State Chamber of Commerce on October 23, 1983. This workshop consisted of a panel discussion led by Professor Arthur Johnson of the University of Maine at Orono. The trend of the discussion was that the business environment in Maine was better than generally believed and that Maine businesses should maintain a more positive attitude when attempting to attract investment in Maine. Taxes were not explicitly mentioned until near the end of the workshop and then only after a comment from a member of the audience mentioning that Legislative staff were present.

## II. COMPARATIVE STATE BUSINESS TAXES

A survey of recent economic literature indicates that most authorities agree that the rate of business taxes has a low priority among reasons for business development decisions; however, tax rates cannot be ignored entirely in any study of business climate.

In order to evaluate the burden that the Maine tax structure imposes upon business it is necessary to look at the position of Maine business taxes in relation to the taxes imposed in other states. Appendix A contains a list of major state business taxes in the United States. It is based upon information obtained from the most recent edition of The State Tax Handbook published by Commerce Clearing House and updated to September 7, 1983 with information contained in State Budget Actions in 1983, Legislative Finance Paper #38, National Conference of State Legislatures. The chart contained in Appendix A can be useful for gross comparison; however, it should be remembered that any tax system is very complex and ordinarily contains peculiarities that make cross-state comparisons difficult. For example, a corporate income tax rate of 5% in one state may actually impose a greater burden than a 6% rate in another state because the base to which the rate is applied will vary depending upon the number and level of deductions from gross income. In addition, effective tax rates will vary from industry to industry and from taxpayer to taxpayer depending upon their ability to take advantage of allowable deductions and credits.

A review of Appendix A shows that states vary greatly in their corporate tax structure. Nevada, Texas, Wyoming and Washington impose no major tax on business operations. All other states and the District of Columbia impose some form of corporate tax. The most common form of corporate tax is a flat rate imposed upon all levels of taxable income. Most states define taxable income based upon federal tax provisions with minor state variations, however, wide differences in taxable income are possible. The average of all the flat rates is 6.5% with 6% being the most common. 10.5% (Pennsylvania) is the highest, 2.35% (Michigan) is the lowest. Most states with variable rate schedules are restricted to two or three brackets. In general, most states tax low levels of corporate income at a rate higher than Maine's lowest bracket (3.5%); most states tax high levels of corporate income at rates lower than Maine's highest bracket (8.93%).

In another study, William Wheaton of the Massachusetts Institute of Technology used aggregate state and local effective tax rates to compare minimum taxes in the 48 continental states with regard to their share of business income. Wheaton, W.C., Interstate Differences in the Level of Business Taxation; XXXVI National Tax Journal 83, (1983). Wheaton found that business taxes account for a wide range (4-12%) of shares of business income, with the northeastern region having the highest percentage of business income paid in taxes. However, among the six New England States, New York and New Jersey, Maine taxes consistently accounted for a lower percentage of business income than the other states.

A different form of tax comparisons is provided by the Council of State Government report State Revenues: Eastern Region (Appendix B). Table 3 (page 9) of that report compares the 10 northeast regional states with regard to percent of various forms of revenue to total state revenue. This table shows that Maine collects the lowest percentage (4.94%) of its total revenue from the corporate income tax. New Hampshire (24.52%) collects the highest percentage. Table 8 (page 20) shows that in a comparison of per capita relationships of various taxes, Maine corporate tax amounts to 5% of per capita payments for all forms of taxes. Only Delaware is lower with 4%; Vermont is equal to Maine with 5%. New Hampshire with 13% is again the highest. These comparisons would appear to indicate that in the northeastern region, Maine compares favorable with other states when evaluating the burden of state corporate taxes.

Another method of comparison is to develop a model business and attempt to determine its level of taxation in various states. The Joint Standing Committee on Taxation, as a means to measure the differences in the corporate income tax burden among the several states, particularly in the Northeast, proposed to develop several models of different types of business firms and apply the tax laws of the various states to each model. The first step of this proposal involved a survey of current literature and various professional and governmental organizations which might have developed the information the committee requested.

From the survey, it became apparent that the Committee proposal is of great interest to a great many people and organizations throughout the nation, but the information is not readily available or easy to develop. Committee staff contacted the National Tax Foundation, the Hoover Institute of Stanford University, the National Conference of State Legislatures, the Council of State Planning Agencies in Washington, D.C., the Federal Reserve Bank of Boston, the University of Maine at Orono as well as a number of other sources. None were unable to provide the desired information. Furthermore, most sources suggested that the information requested concerning the effective corporate income tax burden of each state on specified businesses models is either impossible to develop or would be meaningless.

## III. THE ROLE OF TAXES IN BUSINESS LOCATION DECISIONS

The committee recognizes that many factors affect business location decisions. This report attempts to evaluate the role of taxes among those factors, but does not attempt to evaluate the relative importance of the other factors that may be involved.

Traditional economic theory maintains that rational business decision makers will choose investments in order of the rate of return on the investment. Costs will be evaluated, income determined, and resources directed toward the most profitable choice. Any business location decision would depend upon a careful examination of the comparative costs of any locations under consideration. Under traditional theory, taxes would play a relatively small role in the comparison because, under most circumstances, taxes form a very small portion of total business costs. Labor, raw materials, equipment, transportation, energy, regulatory compliance, etc., all account for much larger portions of overall business costs. Even large increases or decreases in taxes make quite small differences in the ultimate profitability of a business. In addition, interstate competition through tax incentives has largely had the effect of equalizing states' attractiveness as one state after another tries to match the moves of its competitors. However, for some businesses, property taxes can be very burdensome and, in addition, they are unrelated to profitability of the business.

Some experts indicate that tax factors other than the rate of a tax have a more important impact on business location decisions. The complexity of a state's tax structure can act as a deterrent to business development. If a state's business tax structure varies significantly from the federal Internal Revenue Code, requires extensive additional accounting paperwork or generates expensive litigation, some businesses will avoid location in that state even though the effective tax rate may be lower than in a competitor state.

Stability of a state's tax structure is also important to business. It provides businesses with an opportunity to plan for the future with some security that business tax burdens will not change dramatically. While no Legislature can ever guarantee that taxes will not be increased or modified at some future date, there can be some comfort to business from a State which is not constantly making far reaching tax policy shifts, necessitating increased accounting and paperwork adjustments.

Another tax factor which may be taken into consideration by businesses considering locations is whether a state uses the combined reporting or unitary form of taxation. As long as states vary in the treatment of interstate gains and losses some businesses may fear double taxation or prefer to locate in states where it is possible to shelter a portion of business income from taxation. In addition, the uncertainty of the initial implementation of unitary provisions may cause some reluctance to initiate investment in Maine. On the other hand, it is possible to envision situations where a business could benefit from unitary taxation, and some corporations have expressed a preference for such treatment. Therefore, the effect of this factor is not entirely clear.

In practice, not all businesses can afford the kind of in-depth analysis that is necessary to obtain an accurate picture of the costs associated with a wide variety of potential locations. Even if resources permitted such an examination, there are other limiting factors which lessen the usefulness of such information.

One limiting factor is that the amount of taxes that an individual business pays depends upon its individual circumstances. The numbers and complexities of state and local taxes make comparisons difficult. For some types of business, property tax may amount to more than income or excise taxes, however, property taxes are usually subject to wide local variations, making comparisons based upon state averages inappropriate. The ability of a business to shelter its income from taxation may make state income tax rates completely irrelevant. Likewise, a business with the ability to pass along tax costs to labor, through lower wages, or to consumers, through higher prices, may have little concern for a state's tax structure.

Another factor which limits the usefulness of state tax comparisons is that, in the real world, business location decisions are not always made on the basis of pure economic theory. Business decision makers may prefer expansions of present "safe" locations rather than the risk of placing new facilities in unproved locations. Several studies indicate that the level of personal income tax can have an important place among determining factors in business location decisions as well as other factors such as receptivity of state and local officials, weather, cultural opportunities and other factors which are difficult to measure.

In fact, studies have shown that the level of services available to a business in a particular location may be one of the more important factors in determining where to locate. Yet, it would be expected that the level of services available would be directly related to the level of state taxation. The ability of the state to attract federal funds would also have an affect on this aspect.

In September of 1976, Casco Bank & Trust Company of Portland commissioned the Economic Research Institute to study what the state could do to attract new industry from outside of Maine. That study analyzes the business location decision from many perspectives and recognizes the difficulty of generalization. Business leaders, as well as community leaders and economic development officials, were surveyed. When firms were asked to list the advantages and disadvantages of a Maine location, one method resulted in the identification of a "reasonable tax structure" as a Maine advantage. Another method listed the State inventory tax (since repealed) as a disadvantage. Other factors listed as advantages or disadvantages did not relate to taxes. The study concluded that Maine's disadvantages were actually not as pronounced as frequently perceived and recommended that an effort be made to provide businesses with more accurate information about Maine's position relative to other states to improve the perception of Maine as a business location.

In 1979, the Joint Standing Committee on Taxation of the 109th Legislature reviewed the importance of tax incentives for the business climate in Maine. That review, Report of the Joint Standing Committee on

Taxation to the Legislative Council on a Uniform State Policy on Employment and Investment Tax Credits, concluded that taxes were a small percentage of total business costs, that recent changes in state tax policy had improved the perception of the State's attitude toward business and that new incentives should be addressed to specific opportunities to attract business. The report indicated that general incentives have little effect on changing business decisions and only result in unnecessarily foregone revenues. There would appear to be no evidence that this conclusion should be altered.

In summary, although the level of state taxation cannot be ruled out entirely as a factor in business location decisions, it is a factor that is difficult to evaluate, and available research would indicate that its effect is generally overstated.

Appendix C lists whether the states base their business tax on the federal Internal Revenue Code and whether they use combined reporting.

## IV. BUSINESS CLIMATE

Perhaps the most famous study of comparative state business climates in recent years is that done by Alexander Grant and Co., a Chicago based accounting firm, in cooperation with the Conference of State Manufacturers. Much attention has been given to the fact that Maine is ranked 40th out of 48 states. The ranking is based upon 22 weighted factors ranging from energy costs to welfare expenditures.

The Alexander Grant study has been criticized from many sectors for several reasons. It ranks factors only according to their importance to manufacturers. Other types of business may rank factors differently. Academic critics claim that the factors are arbitrary and that many types of factors are excluded from the rankings. The usefulness of the study to evaluate the tax burden in Maine is quite limited. Only 2 out of 22 factors ranked by the Grant study relate to taxes. Those 2 factors account for 8.33% of the total ranking.

Other business climate rankings differ in the factors ranked and result in a State's appearing at quite different levels depending upon which ranking is consulted.

V. PERCEPTIONS V. REALITY

It seems to be a common perception that the business climate in the State of Maine is horrendous. Frequently cited causes for this terrible condition include high taxes, cold weather, transportation costs, strict environmental regulations, insularity and a long list of generalized complaints. A systematic review of these complaints would indicate that most are ungrounded or symptoms of a larger economic malaise which effects not only Maine but the entire national economic decline. Maine's tax structure does not make it one of the most burdensome states in the nation, the weather in Maine is not worse than many northern industrial areas, and Maine is no further from many large market areas than southern or western states. To the extent that environmental standards are high in Maine, they can be balanced against the quality of life that is provided by clean air and water. Maine has many positive attributes which could serve to attract business opportunities. A productive labor force, quality life style and clean environment as well as a decent educational environment and manageable governmental systems all contribute to the quality of the business environment in Maine. When it is considered that taxes on business in Maine are not out of the mainstream and that distance and weather are mostly psychological rather than real barriers, an effort can be made to present the business opportunities offered by Maine in a brighter light.

The Taxation Committee believes that negative attitudes regarding Maine's business climate on the part of business leaders and some state and local government officials can only serve to reinforce negative perceptions. In fact, prior to this study, members of this Committee had unrealistic perceptions of the State's economic advantages and disadvantages because we have heard so often "how bad things are out there." The Committee believes that it is in the interest of business leaders as well as government officials to present Maine in a more realistic light not only when promoting the State to others but also to ourselves. Before we can make others believe in our attractiveness, we must make ourselves believe.

## VI. FINDINGS AND RECOMMENDATIONS

The Committee recommends government and business make an attempt to present the State's business climate in the most optimistic possible light. Maine has many positive attributes which serve to attrach development and these should be promoted such as a productive labor force, quality life style and clean environment, as well as a decent educational environment and manageable governmental systems all contributing to the quality of the business environment in Maine.

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COMPARATIVE STATES TAX RATES
FOR BANKS AND CORPORATIONS
(includes changes through 9/7/83)

| STATE | Corporation, Bank Rates |
|---|---|
| Alabama | 5% of Alabama net income. Financial institutions, 6% of net income. |
| Alaska | 1st $10,000.........1% Next $10,000...........6%<br>Next 10,000.........2% Next 10,000............7%<br>Next 10,000.........3% Next 10,000............8%<br>Next 10,000.........4% Next 10,000............9%<br>Next 10,000.........5% $90,000 or over......9.4%<br>Financial institutions, 7% of federal net income with modifications. |
| Arizona | 1st $1,000.....2.5%<br>2nd 1,000.....4<br>3rd 1,000.....5<br>4th 1,000.....6.5<br>5th 1,000.....8<br>6th 1,000.....9<br>Over 6,000....10.5<br>Financial institutions are subject to the corporate income tax. |
| Arkansas | 1st $ 3,000....1%<br>2nd 3,000....2<br>Next 5,000....3<br>Next 14,000....5<br>Over 25,000....6<br>Financial institutions are subject to the tax. |
| California | 9.6% of California net income; minimum, $200. Financial Institutions Rate is corporate rate plus ratio of personal property taxes and business license taxes paid by corporate taxpayers to sum of net income, personal property taxes and business license taxes (11.6% for 1982). Maximum, 12%; minimum, $200. |
| Colorado | 5% of federal taxable income with adjustments. For 1982, the tax is reduced by 1% of Colorado net income not over $25,000, by $250 plus 0.5% of the excess over $25,000 and by $500 if over $75,000. Financial institutions are subject to the corporate income tax. |
| Connecticut | 11.5% of net income plus, to the extent it exceeds the tax on net income, either (1) 3.1 mills per dollar of asset value (minimum, $250, maximum, $100,000; or (2) 4% of 50% of Connecticut net income and salaries (minimum, $250). Certain financial institutions pay, to the extent it exceeds the tax on net income, 4% of interested credited to savings deposits. |

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| Delaware | 8.7% of federal taxable income with modifications. Building and loan associations, 8.7% of annual net earnings (after federal income taxes). Banks and trust companies:<br>1st $20,000,000....8.7%<br>Next 5,000,000....6.7%<br>Next 5,000,000....4.7%<br>Over 30,000,000....2.7% |
| District of Columbia | 9% of federal gross income with adjustments, plus 10% surtax. Minimum tax, $25. Banks and trust companies, 6% and building and loan associations, 2% of gross earnings (phased out over 3 years beginning July 1, 1981). |
| Florida | 5% of federal taxable income, with adjustments, of corporations and financial institutions. |
| Georgia | Corporations, 6% of federal taxable income with adjustments. Banks and trust companies are exempt. |
| Hawaii | First $25,000....5.85%<br>Over 25,000....6.435<br>Capital gains........3.08<br>Financial institutions.............11.7 |
| Idaho | 7.7% of taxable income. |
| Illinois | Corporations and financial institutions: 4.8% of federal taxable income with adjustments plus additional tax of 2.5% of such income. |
| Indiana | 3% of corporation's federal taxable income with adjustments. A 4% supplemental net income tax is imposed on corporations and financial institutions. (Or applicable rate of gross income tax if gross income tax liability is greater.) |
| Iowa | First $25,000..........6%<br>$25,000-$100,000.......8<br>$100,000-$250,000.....10<br>$250,000 or over......12<br>Financial institutions: 5% of adjusted federal taxable income. |
| Kansas | Corporations, 4.5% of federal taxable income with adjustments, plus a 2.25% surtax on taxable income over $25,000. Banks, 4 1/4% of net income plus 2 1/8% surtax on net income over $25,000. |
| Kentucky | 1st $25,000....3%<br>Next 25,000....4<br>Next 50,000....5<br>Over 100,000....6 |

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|---|---|
| Lousiana | 1st $25,000....4%<br>Next 25,000....5<br>Next 50,000....6<br>Next 100,000....7<br>Over 200,000....8 |
| Maine | Corporations and financial institutions<br>1st $25,000......3.5%<br>Next 50,000......7.93%<br>Next 175,000......8.33%<br>$250,000 or more......8.93% |
| Maryland | 7% of federal taxable income with adjustments. Savings banks and associations, 3/4 of 1% of net earnings over $100,000. Other financial institutions, 7% of net earnings. |
| Massachusetts | $2.60 (including the 14% surtax) per $1,000 of tangible property not subject to local tax or of net worth plus 9.5% of net income (including the 14% surtax), or $228 (including the 14% surtax), whichever is greater. Commercial banks and trust companies, 12.54%. |
| Michigan | Individuals, firms, financial institutions, partnerships, joint ventures, associations, corporations, estates, trusts, etc., having business activity in Michigan are subject to a single business tax of 2.35% of their adjusted tax base (federal taxable income with adjustments). The first $40,000 of the tax base is exempt. |
| Minnesota | Corporations, Banks: first $25,000 of Minnesota net income, 9% (6% after 1982); remainder, 12%. |
| Mississippi | Corporations: 3% of first $5,000 of Mississippi net income, 4% of remainder. |
| Missouri | 5% of federal taxable income with adjustments. Banks, trust companies and credit institutions, 7% of Missouri net income. (The tax is in addition to the corporate income tax but a credit is allowed for any corporate income tax paid). |
| Montana | 6.75% of federal gross income with state deductions and adjustments; minimum, $50. Banks and savings and loan associations are subject to the tax. |
| Nebraska | 5% on first $50,000 taxable income. 7% in excess of $50,000. |
| Nevada | No general business income tax. |
| New Hampshire | 8% of taxable business profits (federal taxable income before net operating loss deduction and special deductions) of organizations having business income over $12,000. Through June 30, 1985, a 19.5% surtax is imposed. |

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| New Jersey | 9% of allocated net income plus additional mill levy on allocated net worth. A 7 1/4% direct net income tax is imposed on entire net income of corporations not subject to the business (income) tax. Savings banks, savings and loan, and building and loan associations, 3% of federal taxable income with adjustments. |
| New Mexico | 1st $1,000,000.....4.8%<br>2nd 1,000,000.....6%<br>Over 2,000,000.....7.2%<br>The tax applies to federal taxable income with adjustments of corporations, financial corporations and banks and other business associations. |
| New York | Greatest of 10% of federal net income with adjustments, or 10% of 30% of net income and salaries, or 1-78/100 mills per dollar of allocated capital, or $250, plus 9/10 mill per dollar of subsidiary capital. Banks and financial institutions, 12% of federal taxable income with adjustment. |
| North Carolina | 6% of federal taxable income with adjustments (banks and savings associations are subject to this tax). Bank privilege tax, $30 per $1,000,000 or fraction of taxable assets. Business development corporations, 4 1/2% of net income (minimum tax, $10). |
| North Dakota | 1st $ 3,000....3%<br>Next 5,000....4.5%<br>Next 12,000....6%<br>Next 10,000....7.5%<br>Next 20,000....9%<br>Over 50,000...10.5%<br>Banks, trust companies and building or savings and loan associations, 5% of North Dakota net income. Minimum, $50. Additional 2% privilege tax on such financial institutions. |
| Ohio | Corporations, greater of 5% plus 0.11% of first $25,000 of value of income, and 8.7% plus 0.22% of value over $25,000 or 5.5 mills plus 0.14 mills times value of stock determined by total value of capital, surplus, undivided profits and reserves; minimum, $150. A 5.75% surtax is imposed on the basic 5%, 8.7% and 5.5 mill corporate tax rates. Financial institutions, 6 1/2 mills times value of stock. |
| Oklahoma | Corporations, 4% of federal taxable income with adjustments. Banks and credit unions, 4% of federal taxable income with adjustments. |
| Oregon | Corporation and bank excise tax 7 1/2% of Oregon net income. Minimum, $10. |
| Pennsylvania | Corporations, 10 1/2% of adjusted, apportioned federal taxable income plus Pennsylvania tax. |

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| Rhode Island | Corporations, greater of 9% of adjusted federal gross income or 40¢ per $100 of net worth. State banking and financial institutions, greater of 8% of net income or $2.50 per $10,000 of authorized capital stock. National banks, 8% of net income. Minimum bank tax, $100. |
| South Carolina | Corporations, 6% of S.C. net income. Banks, 4.5% of S.C. net income. Savings and loan ass'ns, 8% of S.C. net income. |
| South Dakota | Banks and financial institutions, 6% of South Dakota net income, minimum, $200 per authorized business location. |
| Tennessee | Corporate excise (net earnings) tax-6% of adjusted federal taxable income. Bank excise (net earnings) tax-3% of adjusted federal taxable income less 10% of ad valoren taxes paid. Building and savings and loan association privilege (net earnings) tax-3% of adjusted federal taxable income less 10% of ad valoren taxes paid. |
| Texas | No general business income tax. |
| Utah | 4.65% of Utah net income of corporations and banks. Minimum, $25. Corporations, other than eleemosynary, religious or charitable institutions, not otherwise required to pay Utah income or franchise taxes are subject to a gross receipts tax as follows:<br>1st $10,000,000...No tax<br>Next 990,000,000....2%<br>Next 4,000,000,000..4%<br>Over 5,000,000,000..6% |
| Vermont | Corporations and financial institutions, 5% on first $10,000 of adjusted federal taxable income, 6% on the next $15,000, 7% on the next $225,000 and 7.5% on adjusted federal taxable income over $250,000. Minimum tax, $50. |
| Virginia | 6% of federal taxable income with adjustments for corporations and savings and loan associations. |
| Washington | No general business income tax. |
| West Virginia | 7% of federal taxable income with adjustments for corporations. 15% surcharge. |

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| Wisconsin | Corporations, Banks and Trust Companies<br>7.9% of Wisconsin taxable income plus, for corporations, a surtax equal to 10% of the tax due before payment or credit reductions. |
| Wyoming | No general business income tax. |

APPENDIX B

COMPARATIVE DATA REPORT SERIES

# STATE REVENUES

## Eastern Region

[illegible]

TABLE 2. STATE GOVERNMENT TAX REVENUE BY TYPE OF TAX IN 1982
EASTERN STATES
(Thousands of Dollars)

| States | Total | Sales and Gross Receipts | Licenses | Individual Income | Corporation Net Income | Property | Death and Gift | Severance | Documentary and Stock Transfer | Other |
|---|---|---|---|---|---|---|---|---|---|---|
| Connecticut | 2,339,524 | 1,647,425 | 125,348 | 137,726 | 349,283 | 12 | 79,206 | NA | NA | 524 |
| Delaware | 594,817 | 86,910 | 166,882 | 286,069 | 36,138 | NA | 8,234 | NA | 10,583 | 1 |
| Maine | 730,979 | 394,640 | 58,118 | 209,585 | 36,090 | 14,483 | 17,074 | NA | 989 | NA |
| Massachusetts | 4,803,664 | 1,606,587 | 162,476 | 2,324,052 | 598,283 | 419 | 99,355 | NA | 12,492 | NA |
| New Hampshire | 325,515 | 152,676 | 55,852 | 15,076 | 79,808 | 7,415 | 9,479 | 45 | 5,164 | NA |
| New Jersey | 5,577,236 | 2,864,703 | 479,955 | 1,305,567 | 724,869 | 58,643 | 126,763 | NA | 16,736 | NA |
| New York | 15,438,003 | 5,232,121 | 533,706 | 8,034,066 | 1,342,051 | NA | 145,976 | NA | 150,083 | NA |
| Pennsylvania | 8,185,625 | 4,063,385 | 870,115 | 1,985,270 | 869,714 | 110,306 | 218,419 | NA | 68,416 | NA |
| Rhode Island | 674,792 | 365,753 | 23,825 | 215,156 | 52,524 | 7,262 | 9,069 | NA | 1,203 | NA |
| Vermont | 332,308 | 150,973 | 38,601 | 112,520 | 24,954 | 426 | 1,441 | NA | 2,893 | 500 |

NA - Not applicable.

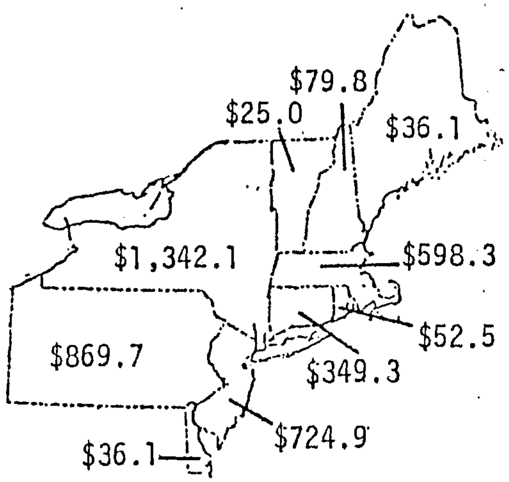
TABLE 3. PERCENT OF STATE GOVERNMENT TAX REVENUE BY TYPE OF TAX IN 1982
EASTERN STATES

| States | Sales and Gross Receipts | Licenses | Individual Income | Corporation Net Income | Property | Death and Gift | Severance | Documentary and Stock Transfer | Other |
|---|---|---|---|---|---|---|---|---|---|
| Connecticut | 70.42% | 5.36% | 5.89% | 14.93% | * | 3.39% | NA | NA | .02% |
| Delaware | 14.61% | 28.06% | 48.09% | 6.08% | NA | 1.38% | NA | 1.78% | * |
| Maine | 53.99% | 7.95% | 28.67% | 4.94% | 1.98% | 2.34% | NA | .14% | NA |
| Massachusetts | 33.45% | 3.38% | 48.38% | 12.45% | .01% | 2.07% | NA | .26% | NA |
| New Hampshire | 46.90% | 17.16% | 4.63% | 24.52% | 2.28% | 2.91% | .01% | 1.59% | NA |
| New Jersey | 51.36% | 8.61% | 23.41% | 13.00% | 1.05% | 2.27% | NA | .30% | NA |
| New York | 33.89% | 3.46% | 52.04% | 8.69% | NA | .95% | NA | .97% | NA |
| Pennsylvania | 49.64% | 10.63% | 24.25% | 10.62% | 1.35% | 2.67% | NA | .84% | NA |
| Rhode Island | 54.20% | 3.53% | 31.88% | 7.78% | 1.08% | 1.34% | NA | .18% | NA |
| Vermont | 45.43% | 11.62% | 33.86% | 7.51% | .13% | .43% | NA | .87% | .15% |

NA - Not applicable.
* - Less than .01 percent.

STATE GOVERNMENT CORPORATION NET INCOME TAX REVENUE IN 1982
EASTERN STATES

(Millions of Dollars)




CORPORATION NET TAX
AS A PERCENT OF
STATE TAX REVENUE

24.52% - NEW HAMPSHIRE
14.93% - CONNECTICUT
13.00% - NEW JERSEY
12.45% - MASSACHUSETTS
10.62% - PENNSYLVANIA
8.69% - NEW YORK
7.78% - RHODE ISLAND
7.51% - VERMONT
6.08% - DELAWARE
4.94% - MAINE

TABLE 8. PER CAPITA AMOUNTS OF FINANCIAL ITEMS FOR STATE GOVERNMENTS IN 1981
EASTERN STATES

| States | General Revenue Own Source | Sales and Gross Receipts | | Individual Income | | Corporation Net Income | | Motor Vehicle Taxes | | Property | | Death and Gift | | Charges and Misc. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % |
| Connecticut | 842 | 486 | 58% | 37 | 4% | 80 | 10% | 26 | 3% | * | ** | 21 | 2% | 175 | 21% |
| Delaware | 1,280 | 133 | 10% | 440 | 34% | 55 | 4% | 39 | 3% | ... | ... | 14 | 1% | 353 | 28% |
| Maine | 748 | 330 | 44% | 156 | 21% | 34 | 5% | 28 | 4% | 12 | 2% | 12 | 2% | 149 | 20% |
| Massachusetts | 897 | 262 | 29% | 358 | 40% | 93 | 10% | 14 | 2% | * | ** | 14 | 2% | 142 | 16% |
| New Hampshire | 480 | 145 | 30% | 13 | 3% | 62 | 13% | 24 | 5% | 8 | 2% | 11 | 2% | 188 | 39% |
| New Jersey | 848 | 348 | 41% | 155 | 18% | 78 | 9% | 34 | 4% | 9 | 1% | 16 | 2% | 165 | 19% |
| New York | 912 | 274 | 30% | 376 | 41% | 86 | 9% | 17 | 2% | ... | ... | 8 | 1% | 120 | 13% |
| Pennsylvania | 746 | 309 | 41% | 158 | 21% | 69 | 9% | 26 | 3% | 8 | 1% | 16 | 2% | 106 | 14% |
| Rhode Island | 961 | 331 | 34% | 203 | 21% | 53 | 6% | 19 | 2% | 6 | 1% | 17 | 2% | 319 | 33% |
| Vermont | 831 | 268 | 32% | 192 | 23% | 44 | 5% | 41 | 5% | * | ** | 3 | ** | 256 | 31% |
| United States | 829 | 322 | 39% | 181 | 22% | 62 | 7% | 23 | 3% | 13 | 2% | 9 | 1% | 166 | 20% |

Note: Total includes items not listed separately.
* - Less than one dollar.
** - Less than one percent.

TABLE 11. PERCENT CHANGE IN FINANCIAL ITEMS FOR STATE GOVERNMENTS FROM 1980 TO 1981
EASTERN STATES

| States | Total General Revenue | Federal Funds | Own Source General Revenue | Sales and Gross Receipts | Individual Income | Corporation Net Income | Motor Vehicle Licenses | Charges and Misc. |
|---|---|---|---|---|---|---|---|---|
| Connecticut | 10.9% | 2.8% | 14.1% | 13.9% | 16.7% | 1.0% | 17.6% | 20.1% |
| Delaware | 11.8% | 13.9% | 11.0% | 7.1% | 11.1% | -18.8% | 1.4% | 23.5% |
| Maine | 10.6% | 10.0% | 9.8% | 7.0% | 23.8% | -13.1% | -6.3% | 13.5% |
| Massachusetts | 7.5% | -0.9% | 10.7% | 11.8% | 10.6% | 0.7% | 46.5% | 12.6% |
| New Hampshire | 5.7% | 4.7% | 6.2% | 0.6% | 20.5% | -8.7% | 3.6% | 16.4% |
| New Jersey | 14.2% | 2.5% | 18.1% | 22.6% | 14.2% | 15.6% | -0.3% | 18.8% |
| New York | 6.7% | 1.4% | 9.2% | 4.5% | 14.4% | 23.4% | -0.9% | 7.6% |
| Pennsylvania | 6.4% | 10.4% | 5.2% | 4.4% | 12.7% | -4.6% | 14.0% | 7.0% |
| Rhode Island | 9.7% | 8.8% | 10.0% | 5.5% | 25.4% | -6.1% | 1.3% | 9.3% |
| Vermont | 9.1% | 7.0% | 10.5% | 7.4% | 18.5% | 2.2% | 5.6% | 10.4% |
| United States | 10.5% | 9.7% | 10.7% | 7.2% | 10.3% | 6.2% | 6.7% | 16.9% |

APPENDIX C

STATE TAX COMPARISONS
CONFORMITY AND UNITARY TAXATION

| STATE | FEDERAL INCOME USED AS STATE TAX BASE | USES UNITARY TAX METHOD |
|---|---|---|
| Alabama | No | No |
| Alaska | Yes | No |
| Arizona | Yes | limited |
| Arkansas | No | No |
| California | No | Yes |
| Colorado | Yes | No |
| Connecticut | Yes | No |
| Delaware | Yes | No |
| District of Columbia | Yes | No |
| Florida | Yes | Yes |
| Georgia | Yes | No |
| Hawaii | Yes | No |
| Idaho | Yes | Yes |
| Illinois | Yes | limited |
| Indiana | Yes | Yes |
| Iowa | Yes | No |
| Kansas | Yes | No |
| Kentucky | Yes | No |
| Lousiana | No | No |
| Maine | Yes | Yes |
| Maryland | Yes | No |
| Massachusetts | Yes | No |
| Michigan | Yes (27) | Yes |
| Minnesota | No | Yes |
| Mississippi | No | Yes |
| Missouri | Yes | No |

| STATE | FEDERAL INCOME USED AS STATE TAX BASE | USES UNITARY TAX METHOD |
|---|---|---|
| Montana | Yes | Yes |
| Nebraska | Yes | Yes |
| New Hampshire | Yes | Yes |
| New Jersey | Yes | No |
| New Mexico | Yes | Yes |
| New York | Yes | limited |
| North Carolina | Yes | No |
| North Dakota | Yes | Yes |
| Ohio | Yes | No |
| Oklahoma | Yes | limited |
| Oregon | No | Yes |
| Pennsylvania | Yes | No |
| Rhode Island | Yes | No |
| South Carolina | No | No |
| Tennessee | Yes | No |
| Utah | No | Yes |
| Vermont | Yes | No |
| Virginia | Yes | No |
| West Virginia | Yes | No |
| Wisconsin | No | No |