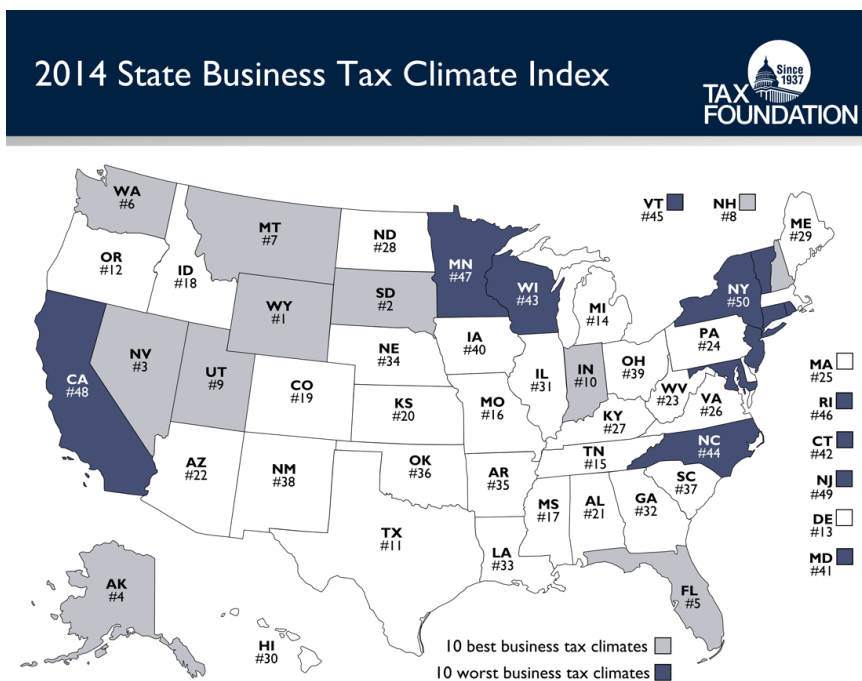


CALIFORNIA'S BUSINESS CLIMATE: REPORT RANKS CALIFORNIA'S BUSINESS TAX CLIMATE THIRD-WORST IN THE UNITED STATES

California has maintained its dubious distinction of having the third-worst business tax climate in the nation, according to the Tax Foundation's latest report on state tax burdens.



The Washington, D.C.-based research group's [2014 State Business Tax Climate Index](#) scores the tax systems for all 50 states and ranks them based on how they affect the competitiveness of employers. California was ranked 48th – a spot it has occupied for the past several years. The Tax Foundation used more than 100 variables in five different categories (major business taxes, individual income taxes, sales taxes, unemployment insurance taxes and property taxes) to evaluate the states.

California's rankings for the five tax categories: corporate Tax, 31st; individual income tax, 50th; sales tax, 41st; unemployment insurance tax, 16th; and property tax, 14th.

The Golden State's score improved slightly from last year, gaining in the corporate tax category due to the enactment of net operating loss carrybacks. The improvement did not alter the state's overall ranking, but did help keep California ahead of the only states that rank worse, New Jersey (49) and New York (50).

The Tax Foundation said California's competitiveness is hindered by various flaws in its tax system, including:

- Fails to fully conform to federal depreciation schedules.
- Increases tax complexity by failing to conform to federal depletion schedules.
- Is one of nine states to have an alternative minimum tax (AMT) on corporations, and one of nine states to have an AMT on individuals.
- Has the highest top income tax rate (13.3 percent) in the country.

- Has the highest top tax bracket threshold (\$1 million) of all 50 states. (A lower threshold is considered better, the Tax Foundation said, because it “approximates a less distortionary flat-rate system.”)
- Is one of seven states where the tax base is found to have an unnecessary drag on the economy.
- Has the highest sales tax rate in the country (7.25 percent), including the mandatory Bradley-Burns 1 percent statewide local add-on tax.
- Implements a problematic temporary disability insurance program that draws money from its unemployment insurance fund.

Wyoming, which does not have a corporate or individual income tax, ranked as the state with the best business tax climate. Eight of the top 10 states do not have at least one of the major taxes (corporate income, individual income or sales). The two states that have all three major tax but still made the top 10 are Utah and Indiana, which ousted Texas from the top 10 this year.

The Tax Foundation cited the “myth of the three-legged stool” to explain how states that do not have all the major taxes can make the top 10. The “myth” is a fallacy that claims that having all three major taxes produces more stable revenue. The states in the top 10 all have relatively stable tax revenue streams, the foundation noted. On the other hand, California rests its tax structure upon what one Tax Foundation representative called a “mutant stool” of extensive taxation, and has one of the most volatile revenue streams in the country.

Some states are making more than just incremental improvements to their tax systems, the Tax Foundation said. North Carolina recently made headlines when voters ushered in sweeping changes to the makeup of its Legislature, and when the state then enacted its first major tax reforms in 80 years. The reforms included moving to a modified flat income tax system, and elimination of the estate tax. When the changes go into effect next year, North Carolina will jump from 44th place to as high as 17th overall, the Tax Foundation forecasted, showing how quickly a state’s tax climate can improve when significant changes are made.

(Source: Tax Foundation’s [2014 State Business Tax Climate Index](#), October 9.)