# PUBLICATION

## Spotlight on Louisiana: Low Tax Cost Ranks Louisiana in Top Ten for Business

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A 2012 report by KPMG and the Tax Foundation called "Location Matters: a Comparative Analysis of State Tax Costs on Business" shows Louisiana as having the tenth- lowest overall state and local tax cost for "mature businesses" (over ten years old) and the second-lowest overall tax cost for "new businesses" (less than three years old). The report, which can be found here, is a comprehensive analysis that attempts to give both mature and new businesses in each of seven industries a tool for comparing their state and local tax burdens among all 50 states or just the states that they are considering for their operations.

The chart below shows the report's ranking of Louisiana in each of the seven industries for both mature and new businesses. The last column of the chart shows Louisiana's overall ranking, which the report calculated by averaging Louisiana's state and local tax cost across all seven industries. In the report, a number one ranking indicates that the state had the lowest state and local tax cost among the 50 states. A number 50 ranking indicates that the state had the highest state and local tax cost.

**Louisiana's Tax Cost Ranking Among the 50 States**

| | Corporate HQ | R&D Facility | Retail Store | Call Center | Distri-bution Center | Capital Intensive Manu-facturing | Labor Intensive Manu-facturing | Overall Ranking |
|---|---|---|---|---|---|---|---|---|
| > 10-Year-Old Business | 26 | 1 | 19 | 29 | 40 | 20 | 16 | 10 |
| < 3-Year-Old Business | 2 | 1 | 32 | 42 | 43 | 1 | 1 | 2 |

Clearly, a comparison of the state and local tax costs across the 50 states is a complex analysis dependent upon a number of assumptions, consideration of multiple tax types, variables dependent on the industry and the unique tax and economic circumstances of the particular business performing the comparison. Given this inherent complexity, it may be that there is not just one comparative tool that can point to the lowest tax cost state for any business. However, despite its limitations, the report goes along way, perhaps farther than previous studies of this kind, toward giving businesses a sound methodology for comparing actual state and local tax costs among the states.

The report's methodology highlights critical misconceptions fostered by lesser tax comparison tools. One of these misconceptions is that the lack of an income tax in a state means that a business' tax cost in that state will be lower than in other states that impose an income tax. The report points out that six of the states with an overall ranking in the top ten – including Louisiana – have an income tax.

According to the report, the factors that put Louisiana in the top ten overall for both new and mature businesses and number one in four of the industry categories are the following:

- Mature firms are typically no longer eligible for any tax incentive programs while new firms would be eligible for most incentives. The study cites the fact that Louisiana offered the largest withholding tax rebate as the basis for its number two ranking for new firm corporate headquarters.
- With respect to mature R&D firms, Louisiana offered one of the most generous R&D credits and the second lowest unemployment insurance tax burden. With respect to new R&D firms, Louisiana offered one of the most generous R&D credits – when combined with the nation's most generous withholding tax rebate – exceeded income tax liability for new operations. Louisiana was one of only two states to have a negative effective tax rate with respect to R&D operations. These factors gave Louisiana a first-place ranking for both mature and new R&D firms.
- For firms engaged in capital intensive manufacturing and labor intensive manufacturing, Louisiana offered a property tax abatement nearly 3.5 times the national average, offsetting high property taxes on equipment and inventory. As a result, Louisiana ranked first for new firms in each of these manufacturing industries.

In contrast, in the other industry categories, the report shows Louisiana not fairing nearly as well and even performing quite poorly in some:

- Louisiana's high property taxes lowered its ranking for retail firms to 19th and 32nd for mature and new firms, respectively.
- Louisiana's high income taxes, unfavorable sales tax sourcing rules, high unemployment insurance tax burdens and high property taxes resulted in poor scores for call centers, ranking it 29th and 42nd for mature and new firms, respectively.
- Louisiana had the lowest corporate tax burden for new distribution operations because of its generous withholding tax credits, but ranked 45th for sales taxes and 44th for property taxes. Of the ten lowest ranked states, Louisiana was the only state that imposed a property tax on inventory. These factors put Louisiana in the bottom ten states for mature and new firms in this industry.

**Key Assumptions and Methodologies Relied on by the Report**

The report limited its analysis to entities that: (i) were taxed as corporations that did not pass their income through to their owners for tax purposes; (ii) were highly mobile; (iii) had all of their facilities, employees and property in one state; and (iv) had out-of-state customers (except retail).

With respect to incentives, the report considered new jobs tax credits, investment tax credits, research and development tax credits and property tax abatements.

The report calculated for each industry the corporation's total state and local tax burden compared to its pre-tax profits.

The taxes included in the report were those directly impacting the corporation's operating cost, not taxes simply collected by the corporation and passed through to the government. The taxes taken into account by the report were corporate income taxes, capital taxes, unemployment taxes, sales taxes, property taxes, gross receipts taxes and other general business taxes.

For each state, the report selected one major city and assumed any corporate headquarters, R&D center and retail outlets would be located in that city if that state were selected by the corporation. For Louisiana the report chose New Orleans. For each state, the report selected one mid-size city, generally with a population of less than 500,000, and assumed that any call center, distribution center and manufacturing facility would be located in that city if that state were chosen by the corporation. For Louisiana the report chose Shreveport as the mid-size city.

The report was based on applicable law and available data as of April 1, 2011.

**Conclusions**

The study provokes some interesting questions. Although it has had some recent gains in retail attraction, historically New Orleans has not had a strong retail industry compared to other major cities. What role has New Orleans' relatively high property tax burden played in its weak results for retail attraction, particularly its tax on inventory? Would the returns from attracting a stronger retail industry to New Orleans exceed the cost of reducing New Orleans' high property taxes?

According to a number of reports in recent years, Louisiana has become a hot bed for start-up companies, but how much will relatively high tax costs for mature manufacturing firms decrease the probability that successful mature firms in this industry will stay in Louisiana?

With respect to incentives – which the report cites as a major factor in Louisiana's best rankings – how can the Louisiana Legislature strike the proper balance so that incentives create not only intense short-term business growth among start-up firms but also build long-term sustainable industries populated with successful mature firms?

In terms of Louisiana's potential for long-term economic success, the state's tax cost is just one piece of the economic development puzzle, with a number of issues to be resolved. However, the state's good overall rankings for lowest tax cost among the 50 states, along with other favorable economic indicators since Katrina, show the state moving in a positive direction.

If you have any questions or would like to discuss the tax consequences of operating your business in Louisiana, please contact this alert's author, Rob Wollfarth, or any attorney in the Firm's Tax Group.