

## State Corporate Income Tax

This IPRO report examines state corporate income tax rates over time, the effect corporate income taxes have on businesses, and alternatives to the current corporate income tax system.

### Iowa Corporate Income Tax Rates

Iowa's current graduated corporate income tax system went into effect January 1, 1988. The rate is 6% on the first \$25,000 of taxable income, 8% on the next \$75,000, 10% on the next \$150,000 and 12% on everything over \$250,000.<sup>1 2</sup>

### Recent Trends of State Corporate Income Tax Rates

Iowa's corporate income tax rate is the highest in the United States. The rates in other states range from none in Nevada, South Dakota, and Wyoming to 9.99% in Pennsylvania. The average state rate is 6.6%.<sup>3</sup>

Table 1 compares state corporate income tax rates in 1991 with the rates in 2008. Since 1991, ten states have increased their corporate income tax. The average increase was 1.88%. Twenty seven states have kept their rates the same, including Iowa. Fourteen states have lowered their corporate income tax rates. The average decrease was 1.44%.<sup>4</sup>

**Table 1: State Corporate Income Tax Rates from 1991 and 2008<sup>5</sup>**

<b>State</b>	<b>1991 Rate<sup>3</sup></b>	<b>2008 Rate<sup>2</sup></b>	<b>Change<sup>6</sup></b>
Alabama	5%	6.5%	+1.5%
Alaska	1 to 9.4	1 to 9.4	No Change
Arizona	9.3	6.968	-2.332
Arkansas	1 to 6.5	1 to 6.5	No Change
California	9.3	8.84	-.46
Colorado	5 to 5.2	4.63	-.57
Connecticut	11.5	7.5	-4

<sup>1</sup> "Iowa Corporate Income Tax." Iowa Department of Revenue.

<http://www.iowa.gov/tax/taxlaw/taxtypes.html#corp>

<sup>2</sup> Taxable income is the total income for a business within the tax period. It generally includes gross sales receipts, rent received, royalties and dividend and interest income.

Hayes, Samuel and Luecke, Richard. Finance for Managers: Your Guide and Mentor to Doing Business Effectively. Harvard Business Press, 2002. pg. 71. [http://books.google.com/books?id=7HjpRUE2o-sC&pg=PA70&lpg=PA70&dq=constitutes+taxable+corporate+income&source=web&ots=0yR9A4geBi&sig=eH3vBmjWii9WngczpCDGu0Isb7g&hl=en&sa=X&oi=book\\_result&resnum=7&ct=result#PPA71,M1](http://books.google.com/books?id=7HjpRUE2o-sC&pg=PA70&lpg=PA70&dq=constitutes+taxable+corporate+income&source=web&ots=0yR9A4geBi&sig=eH3vBmjWii9WngczpCDGu0Isb7g&hl=en&sa=X&oi=book_result&resnum=7&ct=result#PPA71,M1)

<sup>3</sup> "State Corporate Income Tax Rates." The Tax Foundation. January 1, 2008.

<http://www.taxfoundation.org/files/statecorpincomerates-20080321.pdf>

<sup>4</sup> "Survey of State Tax Rates and Collection." The Tax Foundation. October 1991.

<http://www.taxfoundation.org/files/b71b69e2a0428a756a5ae6cf415a9296.pdf>

<sup>5</sup> Table 1 provides basic tax rates and does not include tax breaks or incentives.

<sup>6</sup> Change is calculated based on the rate of the top bracket.

<b>State</b>	<b>1991 Rate</b>	<b>2008 Rate</b>	<b>Change</b>
Delaware	8.7	8.7	No Change
DC	10	9.975	-.025
Florida	5.5	5.5	No Change
Georgia	6	6	No Change
Hawaii	4.4 to 6.4	4.4 to 6.4	No Change
Idaho	8	7.6	-.4
Illinois	4.8	7.3	+ 2.5
Indiana	3.4	8.5	+ 5.1
Iowa	6 to 12	6 to 12	No Change
Kansas	4.5	4 to 7.35	+ 2.85
Kentucky	4 to 8.25	4 to 6	- 2.25
Louisiana	4 to 8	4 to 8	No Change
Maine	3.5 to 8.93	3.5 to 8.93	No Change
Maryland	7	8.25	+ 1.25
Massachusetts	9.5	9.5	No Change
Michigan*	2.35	4.95	+ 2.6
Minnesota	9.8	9.8	No Change
Mississippi	3 to 5	3 to 5	No Change
Missouri	5 to 6.5	6.25	- .25
Montana	6.75	6.75	No Change
Nebraska	5.58 to 7.81	5.58 to 7.81	No Change
Nevada	None	None	No Change
New Hampshire	8	8.5 to 9.25	+ 1.25
New Jersey	9	6.5 to 9	No Change
New Mexico	4.8 to 7.6	4.8 to 7.6	No Change
New York	9	7.1	- 1.9
North Carolina	7.75	6.9	- .85
North Dakota	3 to 10.5	2.6 to 6.5	- 4
Ohio	5.1 to 8.9	5.1 to 8.5	- .4
Oklahoma	6	6	No Change
Oregon	6.6	6.6	No Change
Pennsylvania	12.25	9.99	- 2.26
Rhode Island	9	9	No Change
South Carolina	6	5	No Change
South Dakota	None	None	No Change
Tennessee	6	6.5	+ .5
Texas*	None	1	+ 1
Utah	5	5	No Change
Vermont	5.5 to 8.25	6 to 8.5	+ .25
Virginia	6	6	No Change
Washington	None	None	No Change
West Virginia	9.15	8.75	- .4

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\* Rate is based on gross receipt tax not corporate income tax.

Wisconsin	7.9	7.9	No Change
Wyoming	None	None	No Change

### **Importance of Tax Rates to Businesses**<sup>7</sup>

State corporate income tax rates have had a varying impact on determining where businesses locate or relocate. A survey done in 2005 by Area Development, an organization that covers corporate site selection and relocation, found that corporate income tax rate was the sixth most important factor impacting business relocation. In 2006 it was third most important. The only factors more important were labor costs and highway accessibility. In the 2007 survey corporate income tax ranked seventh. An overview of the rankings is provided in Table 2.

**Table 2: Importance Rank of Business Factor**

<b>Rank of Importance</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
1	Highway Accessibility	Labor Cost	Highway Accessibility
2	Labor Cost	Highway Accessibility	Labor Cost
3	Availability of Skilled Labor	<i>Corporate Tax Rates</i>	Energy Availability and Cost
4	State/Local Incentives	State/Local Incentives	Availability of Skilled Labor
5	Availability of High Speed Internet Access	Availability of Telecommunication Services	Occupancy/Construction Cost
6	<i>Corporate Tax Rates</i>	Tax Exemptions	Available Land
7	Occupancy/Construction Cost	Occupancy/Construction Cost	<i>Corporate Tax Rates</i>
8	Tax Exemptions	Availability of Skilled Labor	State/Local Incentives
9	Proximity to Major Markets	Energy Availability and Cost	Environmental Regulations
10	Energy Availability and Cost	Availability of High Speed Internet Access	Tax exemptions

### **Alternatives to the Corporate Income Tax**

Michigan, Texas, and Washington use a gross receipt tax for businesses instead of the corporate income tax.<sup>8</sup> Under this system all business transactions are taxed, including intermediate business-to-business purchases of supplies, raw materials, and equipment. The Chicago Tribune gives the following example of the gross receipt tax. “A lumber company pays the tax on its sales of wood products, the furniture manufacturer pays the tax on its sales of finished furniture,

<sup>7</sup> “Annual Corporate Survey.” Area Development. <http://www.areadevelopment.com/annualReports/>

<sup>8</sup> “US States Lead the World in High Corporate Taxes.” The Tax Foundation. March 18, 2008. <http://www.taxfoundation.org/publications/show/22917.html>

the wholesaler pays the tax on its sales to retailers, and the retailer pays the tax on its sales to final consumers.”<sup>9</sup> Proponents prefer this system to the corporate income tax because they claim that it is easier than an income tax for states to administer and for companies to comply with it. Also, the base for the tax is much broader so state revenue is generated at a lower tax level. Opponents of the gross receipt tax argue that it is a form of “pyramiding” because tax is levied on every receipt as raw materials are processed and moved from one company to another.<sup>10</sup>

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<sup>9</sup> “The Theoretical and Practical Problem of Pyramiding in the Gross Receipts Tax.” The Chicago Tribune. <http://www.chicagotribune.com/media/acrobat/2007-02/27811550.pdf>

<sup>10</sup> “Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes.” The Tax Foundation. December 4, 2006. <http://www.taxfoundation.org/research/show/2061.html>