A wide-range of factors influences a state's business climate. These factors include the transportation and distribution infrastructure, availability of educated and skilled labor, proximity to major national and global markets, quality of K-12 education, regulatory and legal procedures, friendliness of the tax system, and the overall quality of life (e.g., culture, recreation, crime, air quality).

In particular, the business tax system induces mobility of labor and capital across state boundaries in search of profitability. States with business-friendly tax systems are competitive in attracting new businesses, thus creating jobs and accelerating growth. According to the Tax Foundation:

*The ideal tax system—whether at the local, state or federal level—is simple, transparent, stable, neutral to business activity, and pro-growth. In such an ideal system, individuals and businesses would spend a minimum amount of resources to comply with the tax system, understand the true cost of the tax system, base their economic decisions solely on the merits of the transactions, without regard to tax implications, and not have the tax system impede their growth and prosperity.¹*

American companies are already in a disadvantageous position in global competition because the top federal rate on corporate net income, currently at 35 percent, is the highest among developed countries. Hence, states with punitive tax systems make American companies even less competitive in international business.

Every year, the Tax Foundation collects and analyses data on five indices to access the tax climate of all 50 states in the nation. These indices are:

- Direct business tax
- Individual income tax
- Sales tax
- Unemployment insurance tax
- Property tax

¹ Kail, K. M., “2011 State Business Tax Climate Index,” Tax Foundation, No. 60, October 2010
Data on these indices are analyzed to construct a composite *State Business Tax Climate Index*. The index values vary from 1: worst tax climate to 10: best tax climate.

The information provided by the *State Business Tax Climate Index* is useful in various ways. It provides lawmakers, the media, and individuals to gauge how their state compares with others. It also assists companies to informed expansion or relocation decisions.

*State Business Tax Climate Index, Fiscal Year 2011*
The above map shows the ranking of states with regard to their *State Business Tax Climate Index* and the above table depicts the top and bottom 10 states. South Dakota, Alaska, and Wyoming are the most business tax-friendly states, whereas New York, California, and New Jersey are the most business tax-unfriendly states.

In particular, California has the second lowest *State Business Tax Climate Index* at 3.78, which places it at number 49 in 2011. California’s ranking has plummeted from number 42 in 2006 to 48 in 2009 and 49 in 2010. There is plenty of evidence that businesses are leaving California or avoid locating in California because of the high cost of doing business due to excessive state taxes and stringent regulations. For example, in 2005, the California-based Intel Corporation decided to build its multi-billion dollar chip-making facility in Arizona due to the California’s favorable corporate income tax system.²

The Tax Foundation advises state lawmakers on two important points: (1) taxes influence business profitability and competitiveness, job creation and retention, plant location, and long-term health of a state’s economy and (2) tax laws change a state’s competitive position at national and global levels. Ultimately it will affect the state’s national standing as a place to live and to do business.³

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² See Wayne Kress, “On Shifting Tax Burden and Businesses Leaving California,” *Premier Thought: The CSUB Business Blog*, November 8, 2010, [www.csub.edu/kei](http://www.csub.edu/kei) for a more recent and complete list of businesses leaving California