

should pay some share of the total costs of providing those services. Those payments by a business, whether taxes or charges, are a legitimate cost of doing business and a legitimate cost of producing a product.”

■ *Payment for External Costs.* A byproduct of many businesses is environmental damage, including air, water, and soil pollution. Business taxes can be justified as a way to recoup these ex-

ternal costs.⁹ This year, for example, hog farms are in the news in North Carolina for several accidents that polluted the Neuse River and other waterways.

■ *Shift Taxes to Nonresident Consumers.* Business taxes allow a jurisdiction to export some of the tax burden to nonresident consumers. Many corporations sell their products to out-of-state individuals or companies. Because taxing the end user is impractical for administrative and legal rea-

Business Tax Studies: The Findings in Brief

This article reviews several studies that have developed different methodologies for comparing the business tax burden among the states. Below is a summary of the studies discussed in this article. For an in-depth discussion of each study, please see the text.

U.S. Advisory Commission on Intergovernmental Relations— “Business’s Share”

In 1990, North Carolina ranked 36th in terms of the tax burden placed on business. Corporations paid 26 percent of total taxes in North Carolina. The U.S. average was 30 percent.

The Institute on Taxation & Economic Policy: The Business Share of State and Local Taxes

This study found that businesses in North Carolina paid 31.7 percent of the state and local taxes, ranking 48th among the states in the share of taxes paid by business. Households in North Carolina paid 64.1 percent of the state and local taxes, ranking seventh highest in the nation.

Corporate Income Tax Per Capita

In 1996, North Carolina collected \$128.26 in corporate income taxes per capita, ranking 16th among the states and first among southern states. *Congressional Quarterly’s State Fact Finder* uses corporate income tax per capita to compare the corporate income tax among the states.

KPMG Peat Marwick’s Business Tax Competitiveness

In terms of the average effective business tax rate, North Carolina ranked 18th, or fourth lowest, of the 21 states compared in this 1994 study of business tax competitiveness by the policy economics group of KPMG, a big-four accounting firm.

The Representative Firm Approach

The business tax burden on a hypothetical business at a site in Greenville, N.C., was higher compared to most of the 14 other sites reviewed in this 1993 study by an economist at the Federal Reserve Bank of Boston.

The N.C. Business Council of Management and Development Report

This 1994 study by accountants and tax experts found that the total tax bill for corporations in North Carolina was below the regional average. North Carolina’s corporate income tax was higher than average.

sons, the state taxes the corporation operating in the state instead. "Whether it be through taxing the profits of out-of-state shareholders, taxing out-of-state consumers of goods produced locally, or taxing the income of out-of-state landowners, business taxation may be viewed as a means of transferring some of the costs of . . . government to other jurisdictions."¹⁰

In reality, the opportunities for tax exporting

are limited. Raising prices usually is not feasible if a corporation is to remain competitive. Shareholders will sell their stock if they are expected to absorb the tax through reduced profits. And lowering wages does not export the burden. "In general, the ability to export taxes is restricted to situations where the state has some competitive advantage, owing to superior or unique natural resources."¹¹

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The Corporation for Enterprise Development's *Development Report Card for the States*

This annual study compiles economic benchmarks for all 50 states and issues grades for a variety of economic performance indicators. North Carolina's report card included the following grades in 1996:

Economic Performance	C
Business Vitality	A
Business Competitiveness	C
Entrepreneurial Energy	B
Structural Diversity	B
Development Capacity	C
Tax and Fiscal System	+

Citizens for Tax Justice and the Institute on Taxation & Economic Policy: *Who Pays?*

One part of this 1996 study evaluates the burden of the corporate income tax on families. For families earning \$113,000 or less, 0.1 percent of their income absorbs the costs of the corporate income tax. For families earning \$113,000–262,000, the figure is 0.2 percent, and for families earning more than \$262,000, it is 0.4 percent.

The Taxes Small Business Pay

Of the 44 locations compared in this 1996 report, taxes on a small business in Raleigh, N.C., ranked 39th, with only five locations in other states having a lower tax burden.

Regional Financial Associates, Inc.: *The Cost of Doing Business*

North Carolina's effective tax burden ranked 34th among the 50 states, with Kentucky and Mississippi the only Southern states with higher tax burdens for business. Florida and Georgia were the two Southern states with business costs higher than North Carolina, which ranked 27th. North Carolina's business costs were lower than the national average.

Taxes, Public Spending, and Economic Growth in North Carolina

This 1996 report predicts that increasing the personal income tax rate would retard economic growth much more than increasing the corporate income tax rate.

Corporate Income Tax Rate: General Information

The corporate income tax rate in North Carolina will be reduced from 7.5 percent in 1997 to 7.25 percent in 1998, 7 percent in 1999, and 6.9 percent in 2000. Only two Southern states—Louisiana and Kentucky—have corporate income tax rates higher than 6.9 percent, and they only impose those rates on net income over \$100,000.

—Mebane Rash Whitman