

Business and Tax Climate in the New England States

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presented to

New England Fiscal Chairs Meeting

National Conference of State Legislatures

February 26, 2010



Perceptions of business climate during recession: Stability of finances and efficiency of government operations matter a lot.

“At the start of the year, with the national government in transition, confidence was low and falling, but once the new administration came in and began to act, confidence stabilized and began to improve. However, it must be backed up by well-designed, consistent, effective policies and programs if we are to return our economy to a path of growth.

We need to stabilize state and local government finances, and restore confidence in its integrity, efficiency, and effectiveness. At the same time, we must take steps to improve the business climate of the Commonwealth, and lay new foundations for a robust economic recovery.”

Richard C. Lord, president and CEO of Associated Industries of Massachusetts
September 8, 2009
(emphasis added)

Perceptions of business climate when light appears at the end of the economic tunnel: Priorities shift.

“The Business Confidence Index result showed positive signs that the economy has begun to improve, along with some cautionary indications relative to the rapidity and strength of the recovery, and the prospects for job creation. Massachusetts must be particularly concerned about how quickly our state, **burdened by its high cost structure**, will be able to participate in the nation’s growth.

Restoration of a positive climate for job creation must be an imperative for Massachusetts. Although **government leaders are understandably focused on immediate fiscal issues**, assuring favorable conditions for recovery should also be a concern. In the policy realm, there are things we in Massachusetts can do – and undo – that can make an important difference in when and how we return to a path of growth.”

Richard C. Lord, president and CEO of Associated Industries of Massachusetts
October 6, 2009
(emphasis added)

Perceptions of business climate as economic recovery takes hold:

Cost of doing business returns to the forefront.

“The Business Confidence Index results remind us that if 2009 was the year we averted a total economic meltdown, 2010 must be a time to rebuild the strength of our economy. Here in Massachusetts **we will rebuild, as we have done before, both by fostering new industries and by renewing the vitality of our existing industrial base.**

Massachusetts must address its cost of doing business – corporate taxes, unemployment insurance, workers compensation – to be competitive.

Business costs matter just as much in the ‘new economy’ as they do in the old, and addressing these costs remains a key to a successful and timely recovery. ”

Richard C. Lord, president and CEO of Associated Industries of Massachusetts
February 2, 2010
(emphasis added)

Business tax competitiveness returns to the forefront throughout the region.

“The competition, among states and countries for companies and jobs is intense. There are many factors that go into a company’s decision about site selection—available workforce, energy costs, site readiness, over-all business climate, and, yes, taxes. We have been working hard on the first four - but now we need to make significant changes in our tax competitiveness.

I’m tired of people writing stories about R.I. being “tax hell,” or ranked near the bottom in business tax competitiveness. We need to reverse the trend on that chart with bold, business friendly tax reforms.”

Rhode Island Governor Donald L. Carcieri
State of the State Address
February 10, 2009
(emphasis added)

Responsiveness to taxpayer concerns is important, but state fiscal policy should not shift course with the economic winds.

- States need to offer a consistent value proposition to businesses and workers.
- Fiscal woes last longer than the economic recession.
- Ratings agencies are comprehensive in their examination of state policies—regardless of current economic conditions.

Fitch Ratings: Tax-Supported Bond Rating Criteria

- “While a state may have a vibrant and wealthy economy, **weak fiscal management may offset positive credit factors**, resulting in a reduced ability to meet obligations.”
- “Fitch reviews tax rates in comparison to those of other states nationally and in the region. **The analysis of tax rate levels considers the state’s role in funding public services versus the role of local government and the relative breadth or narrowness of tax bases.**”
- “**A diverse revenue system with a foundation of broad-based taxes is more stable** and better able to capture the issuer’s economic wealth, resulting in a stronger financial profile.”
- “**To determine the stability of a state’s revenue structure, Fitch analyzes the historical performance of revenue throughout economic cycles**, focusing on base growth (e.g. growth in removing the impact of tax rate increases or cuts, or base broadening or narrowing) to fully capture baseline trends.”

Source: Fitch Ratings (emphasis added).

State General Obligation Bond Ratings

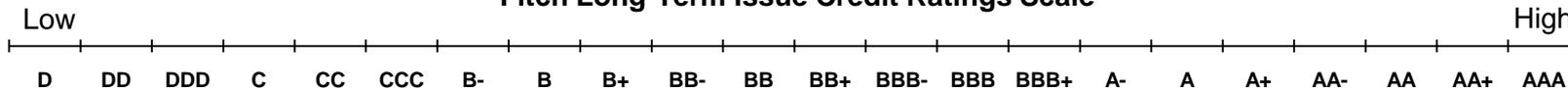
Connecticut	AA
Maine	AA
Massachusetts	AA
New Hampshire	AA
Rhode Island	AA-
Vermont	AA+
California	BBB
Illinois	A
Minnesota	AAA
New Jersey	AA-
New York	AA-
North Carolina	AAA
Pennsylvania	AA
Virginia	AAA

- All New England states have “very high credit quality,” indicating a very strong capacity for payment of financial commitments.

- Some other Leading Technology States – Minnesota, North Carolina, and Virginia – have higher ratings.

- California's BBB rating indicates the capacity for payment of financial commitments is adequate but adverse business and economic conditions are more likely to impair this capacity.

Fitch Long-Term Issue Credit Ratings Scale

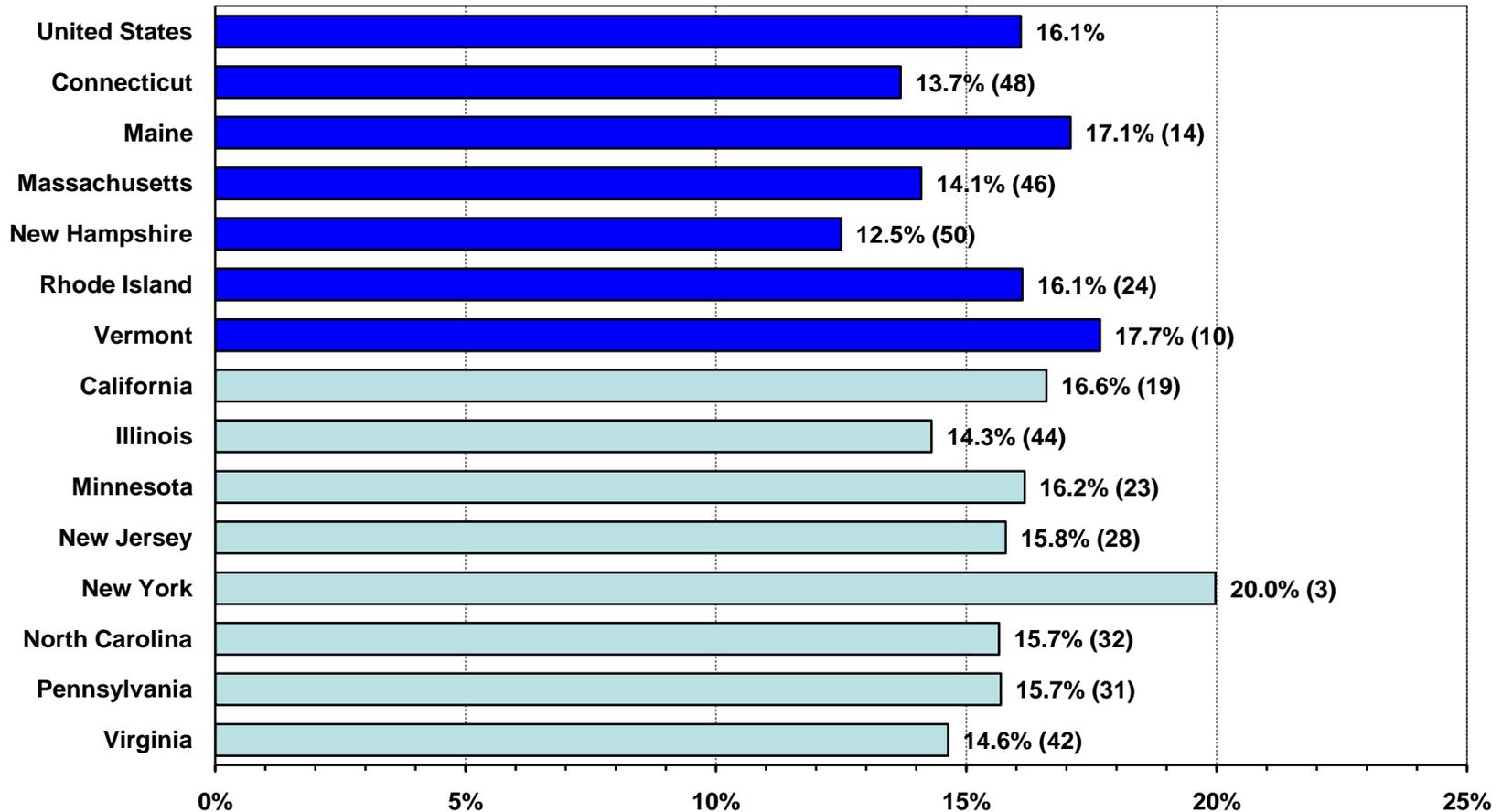


Source: Fitch Ratings, Massachusetts Technology Collaborative

General Revenue from Own Sources as a Percent of Personal Income

Fiscal Year 2007 (national ranking in parenthesis)

For New England's "high income" states (CT, MA, NH) general state and local revenue as a share of personal income is less burdensome compared to other states.

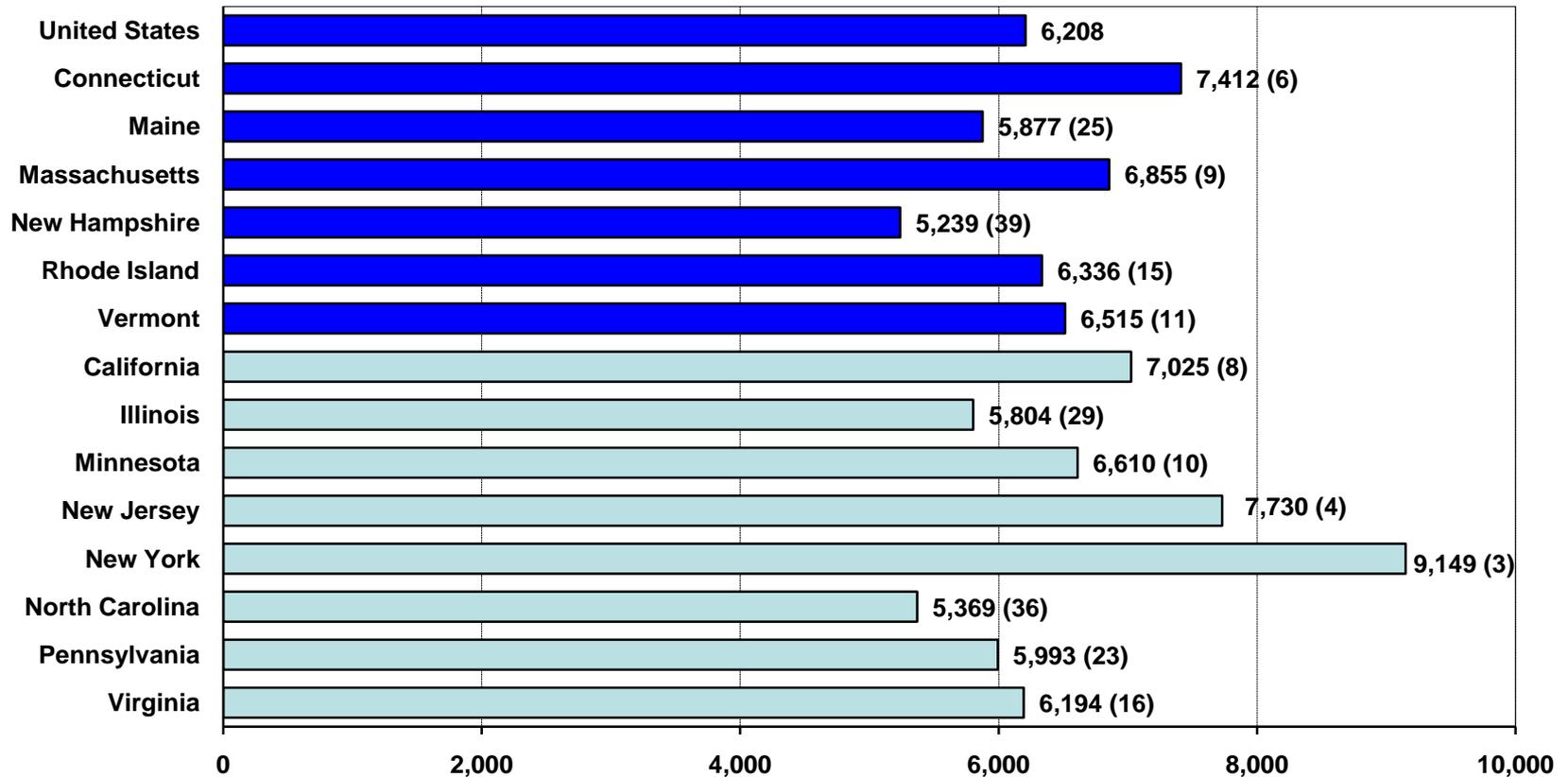


Sources: Bureau of Economic Analysis and U.S. Census Bureau.

General Revenue from Own Sources Per Capita

Fiscal Year 2007 (national ranking in parenthesis)

However, on a per-capita measure, five of the six New England states are in the upper half for general state and local revenue burdens.

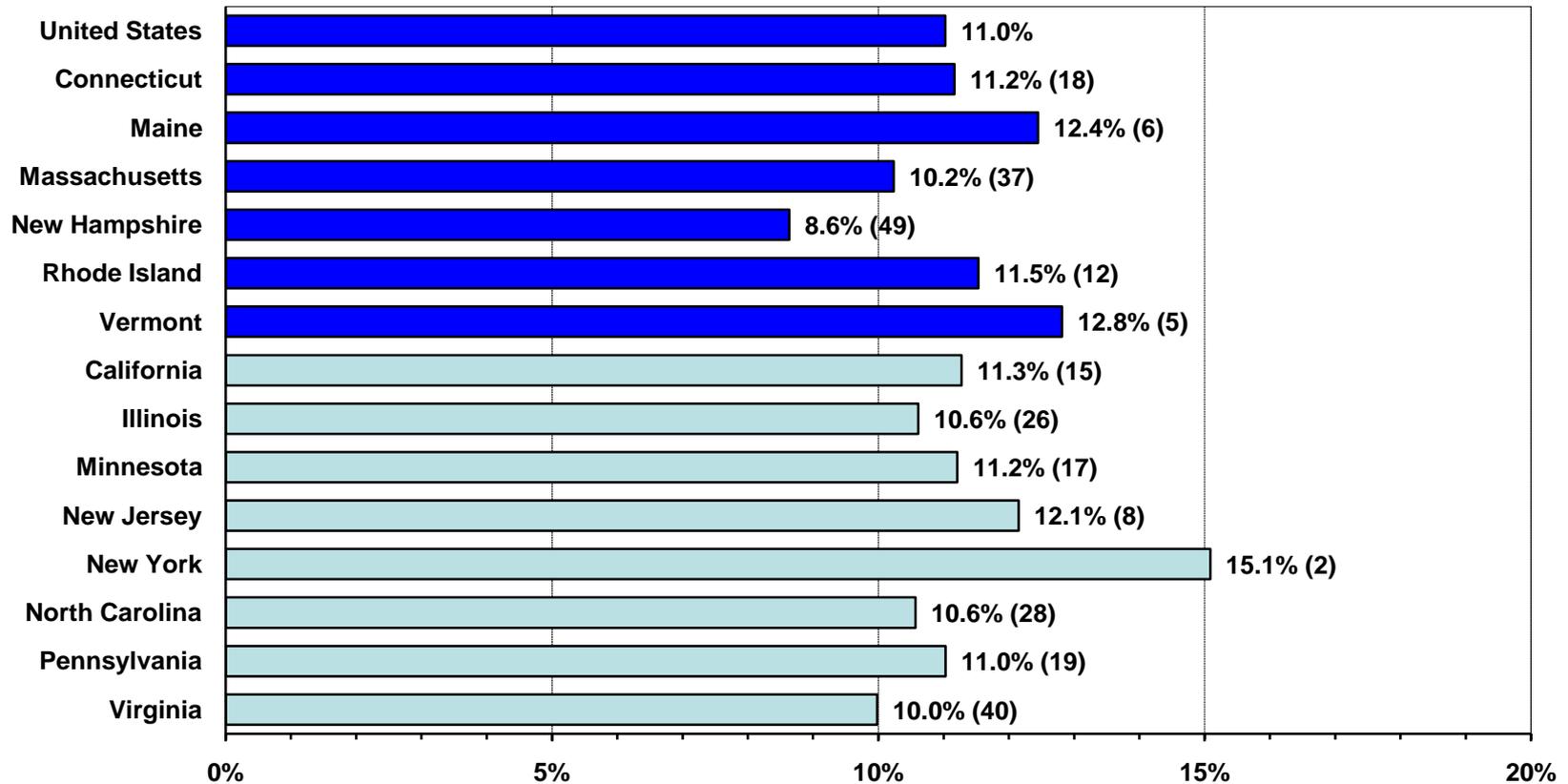


Sources: Bureau of Economic Analysis and U.S. Census Bureau.

State and Local Taxes as a Percent of Personal Income

Fiscal Year 2007 (national ranking in parenthesis)

The New England states are less competitive than the national average when looking at state and local taxes as share of personal income, but so are their Leading Technology State competitors.

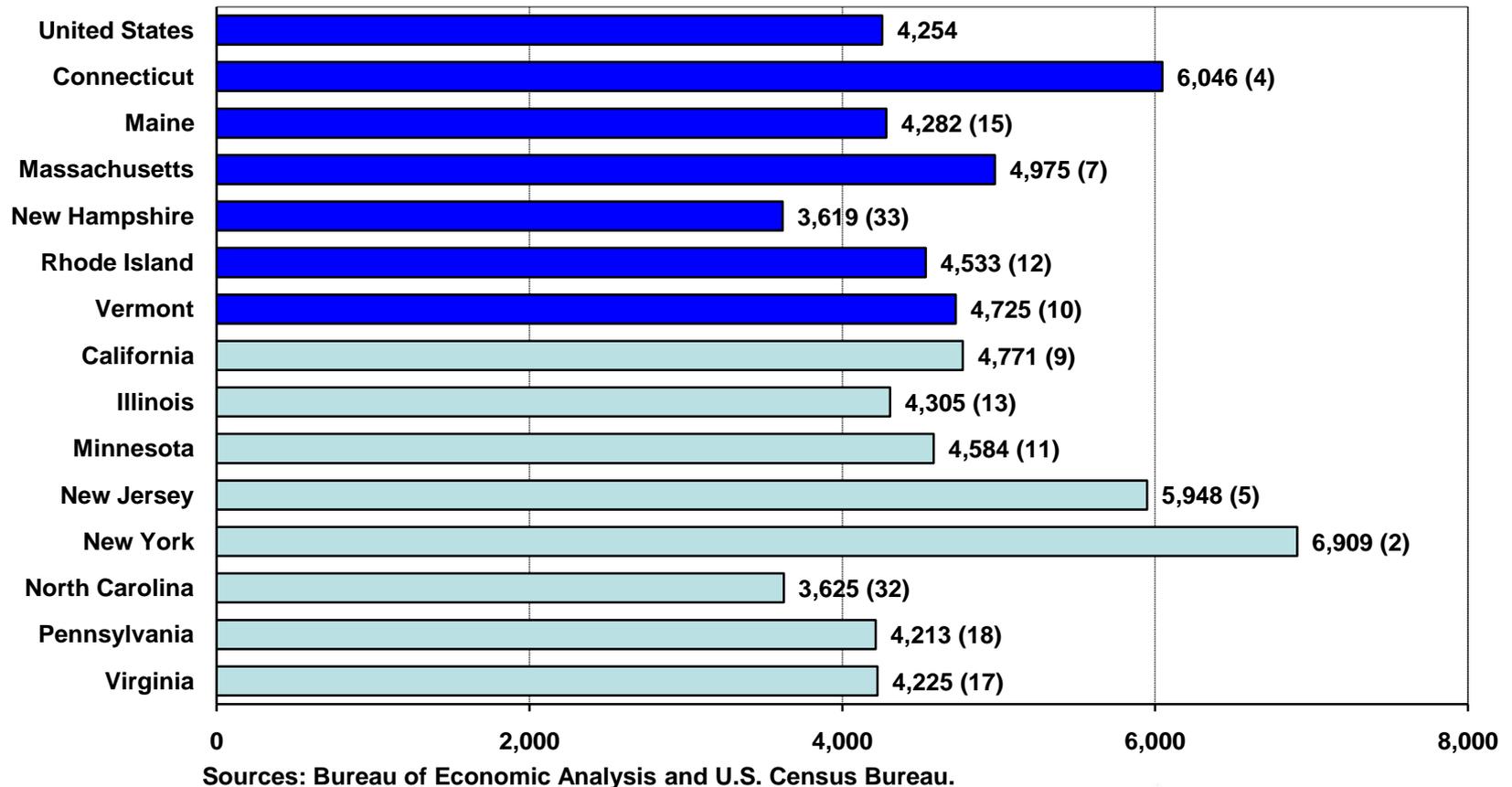


Sources: Bureau of Economic Analysis and U.S. Census Bureau.

State and Local Taxes Per Capita

Fiscal Year 2007 (national ranking in parenthesis)

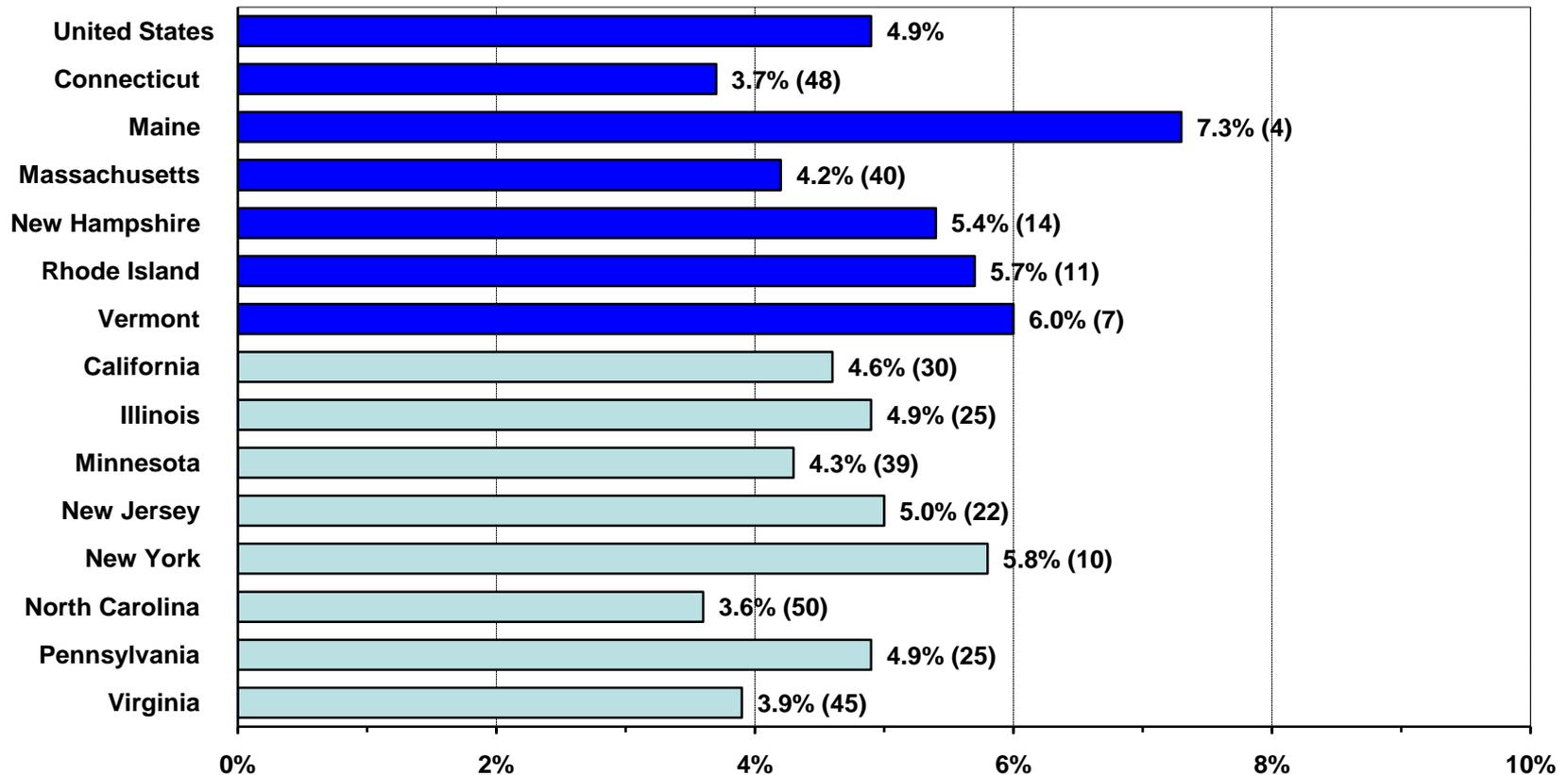
Five of the six New England states fall into the top 15 for the per capita measure.



Business Taxes as Percent of Private Gross State Product

Fiscal Year 2008 (national ranking in parenthesis)

Four of the six New England states rank among the top 15 states for this business tax burden measure. However, CT and MA are much lower than most of the other Leading Technology States.



Source: Ernst & Young.

New England's statutory income tax rates are no less competitive than other Leading Technology States.

Top Statutory Personal Income Tax Rates

Top Statutory Corporate Income Tax Rates

Connecticut	5.00
Maine	8.50
Massachusetts	5.30
New Hampshire	N/A
Rhode Island	9.90 ¹
Vermont	9.40
California	10.55
Illinois	3.00
Minnesota	7.85
New Jersey	8.97
New York	8.97
North Carolina	7.75
Pennsylvania	3.07
Virginia	5.75

Connecticut	7.50
Maine	8.93
Massachusetts	8.75 ²
New Hampshire	8.50
Rhode Island	9.00
Vermont	8.50
California	8.84
Illinois	7.30
Minnesota	9.80
New Jersey	9.36
New York	7.10
North Carolina	6.90
Pennsylvania	9.99
Virginia	6.00

Source: Tax Foundation

¹ Some high-income taxpayers have the option of choosing a 5.5 percent top rate with no deductions or credits.

² Massachusetts corporate income tax rate will be gradually reduced to 8% by January 1, 2012.

Conclusions on Competitiveness

- Perceptions of business climate are subject to change based on economic circumstances.
- Measures of state competitiveness are imperfect and vary greatly based on measurement criteria.
- Be clear on your state's long-term value proposition for business.
- Tough economic times warrant tough decisions from federal, state and local governments.