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PAR ANALYSIS

PUBLIC AFFAIRS RESEARCH COUNCIL OF LA, INC.

Corporate Tax Burdens in the Southern States: A Comparison

EXECUTIVE SUMMARY

This analysis examines the corporate tax structure in Louisiana and 10 other southern states. PAR calculated the 1993 tax burdens for eight hypothetical firms. These firms were assumed to be ongoing concerns no longer eligible for temporary tax incentives. Also, each firm is assumed to be a publicly traded corporation operating entirely within the state.

Five hypothetical manufacturing firms were used. A balance sheet and income statement were developed for an "average" manufacturing firm and then altered to form capital-intensive, labor-intensive, no-profit and high-debt models. In addition, separate hypothetical firms were designed to represent "average" construction, wholesale and retail corporations.

The taxes examined included federal and state corporate income taxes, state franchise taxes and filing fees, and statewide average property and sales taxes for 1993. The 10-year industrial property tax exemption was assumed to no longer apply. And, the inventory property tax credit, which is being phased in over five years from 1992 to 1996, was applied at 40% for 1993.

PAR also examined the impact of major temporary tax incentives. The total tax burdens for the first 10 years of operation were calculated for a hypothetical capital-intensive manufacturing firm in each state.

1993 Tax Burden of Ongoing Firms: Major Findings

Louisiana's 1993 total corporate tax burden ranked number one, highest in the South, for three of the five hypothetical manufacturing firms—the "average," capital-intensive and high-debt manufacturers. (See Summary Table.) The Louisiana tax burdens on the no-profit and labor-intensive manufacturers ranked 2nd and 3rd highest in the South, respectively. The three non-manufacturing firms' tax burdens in Louisiana were slightly above the southern average and ranked 4th, 5th and 6th highest among the 11 states for construction, wholesale and retail.

Average Manufacturer

The firm's total Louisiana tax burden ranked highest in the South at 8% above the 11-state average and 17% above the lowest tax state, Alabama. This ranking was due to the higher-than-average property tax and to sales and franchise taxes more than double the southern average.

Capital-Intensive Manufacturer

This firm fared worse in Louisiana than the "average" manufacturer with a total tax burden 12% over the southern average and 22% above the lowest state.

SUMMARY TABLE
Louisiana Corporate Tax Burden as a Percent of 11-State Average and Rank in South

Hypothetical Firm	Total State & Local Taxes	Federal Income Tax	Total Taxes	
			Percent	Rank
Manufacturers:				
Average	126%	99%	108%	1
Capital-Intensive	133	99	112	1
Labor-Intensive	119	99	105	3
No-Profit	142	-	142	2
High-Debt	127	99	108	1
Non-manufacturers:				
Construction	106	100	101	4
Wholesale	107	99	101	5
Retail	106	99	101	6

* Includes 40% inventory property tax credit

again Alabama. Contributing to the number one ranking were Louisiana's sales taxes on manufacturing machinery and equipment (MM&E) which brought the firm's sales tax bill to almost two and one-half times the southern average.

Labor-Intensive Manufacturer

Louisiana's tax structure favors this type of firm over the other manufacturing models, but its total taxes were still 5% above the southern average. This firm buys less MM&E, hence pays lower sales taxes. The partial inventory tax credit had the greatest impact on this type of manufacturer due to its high share of assets in inventory.

No-Profit Manufacturer

If the "average" manufacturing firm had not earned a profit in 1993 it would have paid no federal tax, only state and local taxes. With no profit, the firm's Louisiana taxes were 42% higher than the southern state average and 146% higher than in Alabama. Louisiana's high franchise and sales taxes make its tax structure far less sympathetic to a firm having a bad year.

High-Debt Manufacturer

This firm's total taxes are the same as for the average manufacturer. A balance sheet shift from equity to debt does not change the franchise tax base in Louisiana as debt is included in the base. Most other southern states exclude debt from the tax base and a shift to debt results in lower franchise taxes. However, most states' franchise taxes are much lower than Louisiana's to begin with.

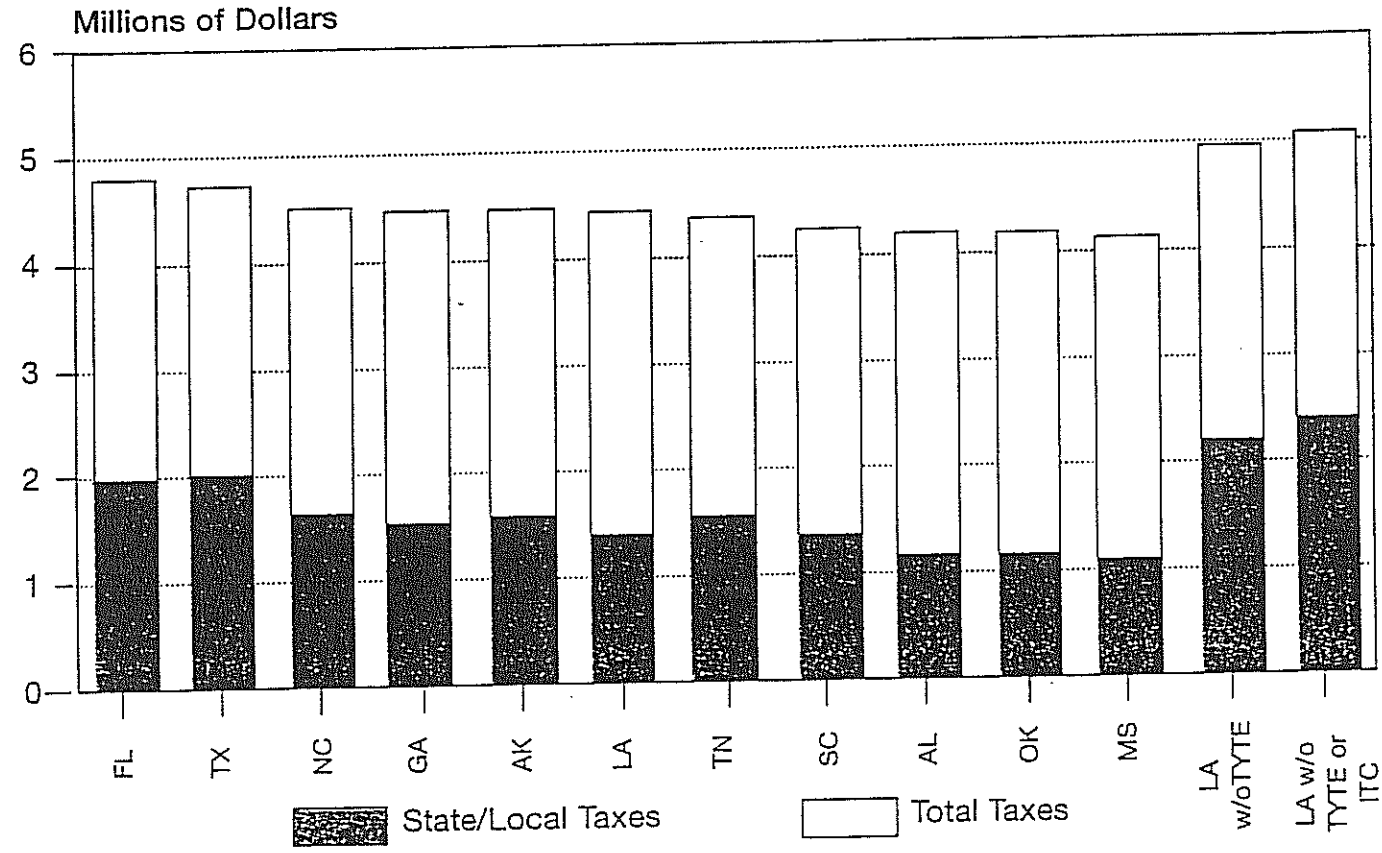
Construction, Wholesale and Retail Firms

The total Louisiana tax burdens for each of these three hypothetical firms were within one percentage point above the southern average and ranged from 8% to over 12% higher than those in Alabama, the lowest state. While these firms did relatively better than the manufacturing firms in Louisiana, they were still taxed more heavily than about half of the southern states examined.

New Manufacturer's 10-Year Total Tax Burden: Major Findings

The total taxes for the first 10 years of operation were calculated for the hypothetical new capital-intensive manufacturing firm in each of the 11 southern states. (See Figure 1.) The tax calculations include only those major tax abatements most likely to be granted to a new industrial firm. Tax incentives granted by local option or limited to designated areas were not applied. The comparison indicated that:

FIGURE 1
Tax Burden for First 10 Years of Operation
New Capital – Intensive Manufacturer



TYTE = Ten-Year Industrial Tax Exemption
ITC = Inventory Tax Credit

• Total taxes for the firm's first 10 years in Louisiana would be about average for the South, ranking sixth highest.

• Louisiana's 10-year industrial tax exemption and inventory tax credit partially offset other disadvantageous aspects of the state's tax structure.

• If the 10-year industrial exemption and inventory credit were removed, the Louisiana firm's 10-year total tax burden would rise from about the southern average to more than 6% above the current highest state (Florida).

• Louisiana's start-up sales taxes were by far the highest in the South. These taxes on construction materials and purchases of machinery and equipment are not immediately deductible for federal tax purposes.

• Only six of the 11 states, including Louisiana, had abatement programs available to most new industrial firms. However, all 11 states offered tax exemptions or credits by local option or for selected areas of the state such as enterprise zones. In some cases, these selective incentives offer tax breaks larger than the general incentives applied in this comparison.

Major Tax Policy Implications

Inventory Tax Credit

Louisiana's partial implementation of the inventory tax credit helped to lower the tax burdens of its hypothetical ongoing firms in 1993, although all remained above the southern average. A full (100%) credit in 1993 would have brought the labor-intensive and construction firms down to the southern average and the wholesale and retail firms a little below the average.

Failure to fully implement the inventory property tax credit would forfeit the benefits of increased tax burden equity for all firms in Louisiana and the potential for development in the wholesale industry, in particular.

Sales Tax on Machinery and Equipment

Louisiana is the only southern state which does not exempt or greatly reduce sales taxes on the initial purchase of manufacturing machinery and equipment. Six of the states, besides Louisiana, tax MM&E replacement purchases, but at far lower rates.

A Louisiana sales tax exemption for MM&E would:

1) help close the tax burden gap between Louisiana's capital-intensive firm and the southern average.

2) benefit the types of firm most disadvantaged by the current tax structure—capital-intensive and no-profit manufacturers, and

3) lower start-up costs and remove a disincentive to expand or modernize plants.

Corporate Income and Franchise Taxes

Louisiana's corporate income tax does not appear out of line with the South. Yet, its franchise tax is substantially higher than average.

A revenue-neutral shift to greater reliance on the corporate income tax (such as by removing deductibility for federal tax) and less reliance (even repealing) the franchise tax could:

1) more closely relate the tax burden to firm profitability,

2) assist start-up firms, and

3) help high-debt firms and firms which cannot easily raise capital by issuing stock.

Federal Tax Offset

Federal income taxes make up roughly two-thirds of the total tax burden of most of the hypothetical firms in this study. Because most state and local taxes are deductible for federal tax purposes, federal taxes partially offset the differences in state/local taxes. The higher the state/local taxes, the lower the federal taxes, and vice versa.

The offsetting effect of federal corporate income tax should be used, where possible, to improve the efficiency of state tax policy changes. For example, a $1 decrease in a state tax which is ***deductible*** for federal taxes would give the firm an extra dollar but it would pay 34 cents in federal tax and keep only 66 cents. A $1 reduction in the ***non-deductible*** state sales tax, would give the firm an immediate $1 benefit.

Industrial Property Tax Exemption

Louisiana's 10-year industrial tax exemption is one of the more significant tax incentives in the South. However, other states often grant firms similar or greater tax advantages as part of their normal tax structures. Examples are lower basic rates, built-in exemptions and even the absence of some taxes.

Under the state's current corporate tax structure, removing the 10-year industrial tax exemption would place an onerous burden on Louisiana manufacturing firms during their start-up years.

Conclusion

Compared to other southern states, Louisiana's tax structure places a heavy burden on ongoing corporations. The burden is particularly high for capital-intensive manufacturers and manufacturers which do not earn a profit.

New industries face very high start-up sales taxes in Louisiana. Even with the major tax incentives, the capital-intensive firm's tax burden for the first 10 years of operation in Louisiana is no better than average for the south. For purposes of economic development, being "average" is not very good. It means that about half of the southern states have more favorable tax structures for industry.

Louisiana's corporate tax policy should encourage existing firms to remain and expand operations in the state and should attract new business investment. It should avoid placing added burdens on firms just starting up or temporarily experiencing low earnings.

This comparative analysis of Louisiana's corporate tax structure strongly suggests the state should:

• Reduce or exempt sales taxes on manufacturing machinery and equipment,

• Shift reliance from the corporate franchise tax to the corporate income tax.

• Consider federal tax offsets when making tax policy.

• Implement the scheduled inventory tax credit phase-in, and

• Continue the industrial property tax exemption.

Introduction

This analysis examines the tax burden on corporations in Louisiana and 10 other southern states. Those states include: Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee and Texas.

The first part of the analysis compares the 1993 tax burden for each of eight hypothetical firms. These firms are designed to isolate specific tax policy issues and illustrate differences in the various state tax structures. The firms are assumed to be ongoing concerns which are no longer eligible for temporary tax incentives.

The second part of the analysis calculates the total tax burden on a hypothetical capital-intensive firm for the first 10 years of operation. The calculation includes the major temporary tax incentives offered in the states.

Methodology

This comparison of corporate tax structures employs hypothetical firms and statewide average tax rates. This approach borrows from the Wisconsin Revenue Department's, "Corporate Tax Climate: A Comparison of Nineteen States," and similar recent studies by the Pennsylvania Economy League, Texas Research League, Public Affairs Research Council of Alabama and West Virginia Research League.

The advantage of using a hypothetical firm is that it provides a consistent base to compare the impact of different state taxes and the net impact of tax structures as a whole. The major disadvantage is that there is no "typical" business firm and a hypothetical firm may not represent any actual firm in the state. If, instead, an actual Louisiana manufacturing firm were used for the comparison, such as a large chemical plant or refinery, it is unlikely that comparable firms could be found in many of the other states.

To facilitate interstate comparisons, the hypothetical firms used here are all assumed to be of the same size ($10 million in assets); balance sheets and income statements are simplified to meet only the basic tax calculation requirements; and differences in the firms are limited to those necessary to reflect major characteristics of the types of firm represented.

The $10 million manufacturing firm would be very small for Louisiana, however, the dollar amount is not important. Assuming the balance sheet ratios do not change, the hypothetical firm's assets could be multiplied by 10 or 100 and the relationship of the various state tax burdens would remain essentially the same.

The hypothetical firms are assumed to have all of their facilities and operations within one state. This simplifies the tax calculations but ignores some of the advantages or disadvantages that a multi-state or multi-national corporation might experience in each state. Such differences would affect many of Louisiana's larger taxpayers.

The hypothetical firms are also assumed to be corporations whose stock is publicly traded. The resulting tax comparisons would differ somewhat for the many Louisiana firms which are family-owned or closely held companies classified as Subchapter "S" corporations under federal tax law. Louisiana and most other southern states treat "S" corporation income differently to avoid double-taxation of owners.

Hypothetical Firms

The balance sheets and income statements for each of the eight hypothetical firms used in this study are shown in Table 1. The simplified balance sheet and income statement for Firm #1, the "average" manufacturing firm, was designed using asset ratios based on federal corporate tax return data for all manufacturers, having assets of $10 million to $25 million, and reporting net income in 1991. This data is published by the Internal Revenue Service (IRS) in its "1990 Corporation Source Book of Statistics of Income."

This basic balance sheet and income statement for Firm #1 was altered only to the extent necessary to produce capital-intensive, labor-intensive, no-profit, and high-debt-to-equity versions of a manufacturing firm. The IRS data for specific capital-intensive and labor-intensive industries was analyzed to adjust the ratios to create representative hypothetical firms.

In addition, hypothetical firms were developed to broadly represent the construction, wholesale and retail industry categories, again based on IRS data for those industry categories. All of the hypothetical firms, except the no-profit model, are assumed to have the same ratio of earnings-before-taxes to assets—10%.

For purposes of the first part of the analysis, the firms are assumed to be ongoing concerns. The second portion of the analysis assumes the hypothetical capital-intensive firm started up in 1993 and its balance sheet was adjusted slightly to reflect a first year of operation.

Corporate Taxes

The tax burdens calculated for each of the firms include the federal and state corporate income tax, corporate franchise tax, annual filing fee, property tax and sales tax paid on purchases. (See Appendix Tables A-D.) This comparison examines the statewide tax structures rather than specific location taxes. A statewide, average property tax millage and population-weighted statewide average sales tax is computed for each state.

Assumptions regarding the makeup of inventories, real and personal property and annual purchases of personal property are based in part on assumptions used in other comparative studies. While these assumptions are somewhat arbitrary, they provide a basis for comparing taxes. The following are the more significant assumptions and methods used in calculating taxes in this study.

Federal and State Income Taxes. Both federal and state income taxes are calculated using 1993 tax forms. The item "income before taxes," from the hypothetical income statements, is used as the starting point. It is assumed that all income is from sales and that there are no other business receipts.

Two of the states, Alabama and Louisiana, permit deduction of federal income taxes paid. For these states, iterative calculations were required to obtain tax liabilities for each.

Assuming the firms are entirely in-state operations avoids having to apportion income among states. However, most of the states examined employ a similar formula.

Louisiana gives firms a credit against their income or franchise tax for a portion of property taxes paid on inventory. The effect is to reduce the property tax burden; however, the tables in this analysis show the credit deducted from the

TABLE 1
Hypothetical Firms

BALANCE SHEET	FIRM #1 Average Manufacturer	FIRM #2 Capital-Intensive Manufacturer	FIRM #3 Labor-Intensive Manufacturer	FIRM #4 No-Profit Manufacturer	FIRM #5 High-Debt Manufacturer	FIRM #6 Construction Firm	FIRM #7 Wholesale Firm	FIRM #8 Retail Firm
Current Assets								
Cash	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 1,300,000	$ 500,000	$ 750,000
Receivables	2,400,000	1,200,000	3,200,000	2,400,000	2,400,000	3,500,000	3,300,000	1,650,000
Inventory	2,400,000	1,600,000	3,600,000	2,400,000	2,400,000	1,200,000	3,200,000	3,700,000
Short-Term Investments	0	0	0	0	0	0	0	0
Other Current Assets	700,000	600,000	800,000	700,000	700,000	1,300,000	600,000	400,000
Total Current Assets	$ 6,000,000	$ 3,900,000	$ 8,100,000	$ 6,000,000	$ 6,000,000	$ 7,300,000	$ 7,500,000	$ 6,500,000
Plant & Equipment								
Depreciable Assets	$ 5,600,000	$10,000,000	$ 2,800,000	$ 5,600,000	$ 5,600,000	$ 3,000,000	$ 2,800,000	$ 4,400,000
Depreciation	(2,800,000)	(5,000,000)	(1,400,000)	(2,800,000)	(2,800,000)	(1,500,000)	(1,300,000)	(2,200,000)
Net Depreciable Assets	$ 2,800,000	$ 5,000,000	$ 1,400,000	$ 2,800,000	$ 2,800,000	$ 1,500,000	$ 1,300,000	$ 2,200,000
Land	200,000	100,000	200,000	200,000	200,000	200,000	200,000	400,000
Net Depreciable Assets + Land	$ 3,000,000	$ 5,100,000	$ 1,600,000	$ 3,000,000	$ 3,000,000	$ 1,700,000	$ 1,500,000	$ 2,600,000
Other Assets	1,000,000	1,000,000	300,000	1,000,000	1,000,000	1,000,000	900,000	900,000
Total Fixed Assets	$ 4,000,000	$ 6,100,000	$ 1,900,000	$ 4,000,000	$ 4,000,000	$ 2,700,000	$ 2,400,000	$ 3,500,000
Total Assets	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000
Current Liabilities								
Accounts Payable	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 2,200,000	$ 2,500,000	$ 1,400,000
Short-Term Loans	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,100,000	1,800,000	2,200,000
Other Current Liabilities	900,000	900,000	900,000	900,000	900,000	1,700,000	700,000	700,000
Total Current Liabilities	$ 3,100,000	$ 3,100,000	$ 3,100,000	$ 3,100,000	$ 3,100,000	$ 5,000,000	$ 5,000,000	$ 4,300,000
Long-Term Debt	1,500,000	1,500,000	1,500,000	1,500,000	3,000,000	1,100,000	1,000,000	1,700,000
Other Non-Current Liabilities	400,000	400,000	400,000	400,000	400,000	500,000	300,000	700,000
Total Liabilities	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 6,500,000	$ 6,600,000	$ 6,300,000	$ 6,700,000
Equity								
Shares, Paid in Capital	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,000,000	$ 500,000	$ 800,000	$ 700,000
Retained Earnings	3,800,000	3,800,000	3,800,000	3,800,000	2,500,000	2,900,000	2,900,000	2,600,000
Total Equity	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 3,500,000	$ 3,400,000	$ 3,700,000	$ 3,300,000
Total Liabilities & Equity	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000
INCOME STATEMENT								
Sales	$15,000,000	$10,000,000	$30,000,000	$14,000,000	$15,000,000	$21,000,000	$30,000,000	$30,000,000
Cost of Goods	(10,500,000)	(6,000,000)	(22,500,000)	(10,500,000)	(10,500,000)	(18,000,000)	(24,600,000)	(23,000,000)
Gross Profit	$ 4,500,000	$ 4,000,000	$ 7,500,000	$ 3,500,000	$ 4,500,000	$ 3,000,000	$ 5,400,000	$ 7,000,000
Other Receipts	0	0	0	0	0	0	0	0
General Expenditures	($3,500,000)	($3,000,000)	($6,500,000)	($3,500,000)	($3,500,000)	($2,000,000)	($4,400,000)	($6,000,000)
Income Before All Taxes	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 0	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000
DETAIL								
Inventory								
Raw Materials	$ 360,000	$ 240,000	$ 540,000	$ 360,000	$ 360,000	$ 400,000	$ 0	$ 0
Goods In Process	240,000	160,000	360,000	240,000	240,000	0	0	0
Finished Goods & Resale	1,680,000	1,120,000	2,520,000	1,680,000	1,680,000	400,000	3,150,000	3,650,000
Supplies	120,000	80,000	180,000	120,000	120,000	400,000	50,000	50,000
Total Inventory	$ 2,400,000	$ 1,600,000	$ 3,600,000	$ 2,400,000	$ 2,400,000	$ 1,200,000	$ 3,200,000	$ 3,700,000
Depreciable Assets								
Buildings	$ 1,900,000	$ 4,000,000	$ 1,000,000	$ 1,900,000	$ 1,900,000	$ 1,000,000	$ 1,600,000	$ 2,800,000
Depreciation	(950,000)	(2,000,000)	(500,000)	(950,000)	(950,000)	(500,000)	(800,000)	(1,400,000)
Net Buildings	$ 950,000	$ 2,000,000	$ 500,000	$ 950,000	$ 950,000	$ 500,000	$ 800,000	$ 1,400,000
Personal Property	$ 3,700,000	$ 6,000,000	$ 1,800,000	$ 3,700,000	$ 3,700,000	$ 2,000,000	$ 1,000,000	$ 2,400,000
Depreciation	(1,850,000)	(3,000,000)	(900,000)	(1,850,000)	(1,850,000)	(1,000,000)	(500,000)	(1,200,000)
Net Personal Property	$ 1,850,000	$ 3,000,000	$ 900,000	$ 1,850,000	$ 1,850,000	$ 1,000,000	$ 500,000	$ 1,200,000
Total Net Depreciable Assets	$ 2,800,000	$ 5,000,000	$ 1,400,000	$ 2,800,000	$ 2,800,000	$ 1,500,000	$ 1,300,000	$ 2,600,000
Personal Property:								
Manufacturing Machinery & Equipment	$ 1,610,000	$ 2,760,000	$ 700,000	$ 1,610,000	$ 1,610,000	$ 0	$ 0	0
Non-Manufacturing Machinery & Equipment	120,000	120,000	100,000	120,000	120,000	800,000	0	0
Computer	50,000	50,000	50,000	50,000	50,000	0	20,000	10,000
Furniture & Fixtures	50,000	50,000	50,000	50,000	50,000	0	480,000	1,170,000
Transportation Equipment	20,000	20,000	0	20,000	20,000	200,000	20,000	20,000
Total Personal Property	$ 1,850,000	$ 3,000,000	$ 900,000	$ 1,850,000	$ 1,850,000	$ 1,000,000	$ 500,000	$ 1,200,000
Purchase Rate (% of Net Personal Property)	30%	30%	30%	30%	30%	20%	10%	10%
Purchased Electricity (% of Assets)	1.5%	1.5%	1%	1.5%	1.5%	0.1%	1%	1%

Louisiana corporate income tax for firms with income.

Franchise Taxes and Filing Fees. The franchise taxes are also calculated using the 1993 state tax forms. Filing fees are generally fixed amounts.

Property Taxes. Devising representative property tax estimates for each state is complicated by the lack of accurate data, the wide variation in rates and assessment practices, and the application of various exemptions and incentives within states. Temporary exemptions are not applied in the first part of this analysis. It is assumed the hypothetical firms have been in operation long enough for any such exemptions to have expired.

The statewide average property tax rate used in this study was generally determined by dividing total tax collections by the 1993 total taxable assessed valuation. In some cases, the state agency overseeing local property tax assessment provided an estimated average rate. Because the average rate spreads municipal taxes statewide, the rate will be lower than that typically found in a large urban area. Likewise, the average millage overstates the tax burden which would occur outside of municipalities.

The assessment/fair-market-value ratios used are those provided by law or, in some cases, as estimated by state agencies. The net depreciated book values for buildings and personal property, shown in the balance sheets, are assumed to represent fair market value. Book values for land and inventories are assumed to be fair market value.

Special assumptions are required to examine the impact of Louisiana's new business inventory property tax credit. The credit, applied against the corporate income tax, is being phased in over a five-year period. The initial credit equaled 20% of inventory taxes paid after June 1992 and increases to 100% of 1996 taxes. It is assumed that the hypothetical firms operate on a calendar year. PAR applied a 40% credit based on the 1993 taxes. In addition, PAR calculated alternative total tax burdens for 1993, assuming a 100% credit and no credit, to show the potential impacts of full implementation and repeal.

Sales Taxes. While the state sales tax rate typically makes up the major portion of the total sales tax, the variation in local rates hinders determination of an accurate statewide average total rate. A population-weighted average local sales tax rate is estimated for each state, where necessary. In some cases, due to the number of taxing jurisdictions, sampling was employed.

Averaging tax rates tends to obscure the all-or-nothing character of local sales taxes in some states. Florida, for example, permits a basic 1% local sales tax. Half of the state's counties levy the tax and the other half do not.

The rate of personal property replacement was set assuming a 6.7-year life for manufacturing property, 10-year life for construction and 20-year life for wholesale and retail. The same rate of purchases was applied to all categories of personal property. The various state and local special rates and exemptions were applied where appropriate to the categories of personal property purchases.

It is assumed that electricity is the only energy source purchased by the firms and that the manufacturing firms use 80% of their electricity directly in manufacturing.

Taxes and Costs Not Included. Unemployment insurance taxes and workers' compensation are significant corporate costs affected by state policy. However, these were not included in the scope of this analysis. Also excluded are a number of relatively minor taxes which vary greatly among the comparison states. These include special excise taxes such as Louisiana's communications tax.

Part I. Tax Burdens of Ongoing Firms

The following analysis compares the 1993 corporate tax burdens for the eight hypothetical firms in 11 southern states. The tax calculations do not include any temporary tax incentives offered by the states. The firms are assumed to be ongoing concerns which have exhausted any incentives they may have initially received.

Louisiana State/Local Tax Burden Ranking

State and local taxes alone comprise roughly one-third of the total taxes paid by most of the hypothetical firms. The state/local tax burdens (excluding federal taxes) are calculated for each of the hypothetical firms, by state, and presented in Table 2. Among the 11 southern states, Louisiana had the *highest* state/local tax burden for the average manufacturer (Firm #1) and for the capital-intensive and high-debt manufacturers as well. Louisiana's no-profit and labor-intensive firms did slightly better, ranking second and third.

The state/local tax burden for each of Louisiana's hypothetical manufacturers was well above the 11-state average in each case. The labor-intensive firm was closest to the average (19% above) while the no-profit firm was 42% higher than average.

Louisiana's three hypothetical non-manufacturing firms ranked in the mid-range among the 11 states, but were 6% or 7% above the southern average.

Analysis of Tax Burdens by Hypothetical Firm

The ranking comparison above looks only at state and local taxes. The following analysis considers the federal income tax as well. Because much of the state and local tax burden is deductible for federal tax purposes, federal taxes serve to partially offset differences in state/local taxes. When federal taxes are added in, the range in tax burdens a firm would face in the various states is substantially narrowed.

Firm #1 — Average Manufacturing Firm

Louisiana is the highest among the southern states both in the state/local tax and total tax burdens placed on the hypothetical average manufacturing firm. (See Table 3.) The Louisiana firm's tax burden is 26% above the southern average for state/local taxes, but drops to 8% above the average burden when federal income taxes are included. The lowest tax state's burden (Alabama) is about 85% of the Louisiana total tax for this firm.

The Louisiana firm's property tax is shown in Table 3 to be well above the average. However, this is only because the 40% inventory tax credit ($15,048) is shown deducted from the income tax, rather than from the property tax, to reflect how taxes are actually paid. If the credit were subtracted from the property

TABLE 2
Total State and Local Tax Liability
(Using 40% Inventory Tax Credit in Louisiana)

State	FIRM #1 Average Manufacturer	Rank	FIRM #2 Capital-Intensive Manufacturer	Rank	FIRM #3 Labor-Intensive Manufacturer	Rank	FIRM #4 Non-Profit Manufacturer	Rank	FIRM #5 High-Debt Manufacturer	Rank	FIRM #6 Construction Firm	Rank	FIRM #7 Wholesale Firm	Rank	FIRM #8 Retail Firm	Rank
Alabama	$ 88,400	11	$114,856	11	$ 67,305	11	$ 55,986	11	$ 87,726	11	$ 67,066	11	$ 61,204	11	$ 80,837	11
Arkansas	144,402	6	153,315	8	133,468	5	78,028	7	138,527	6	111,470	4	130,010	3	158,809	4
Florida	157,508	5	208,604	3	109,847	8	105,837	4	157,508	5	96,777	8	95,607	9	132,455	8
Georgia	158,050	4	191,700	5	137,383	4	105,201	5	157,814	4	102,418	7	122,148	6	147,843	7
LOUISIANA	182,327	1	234,951	1	147,038	3	137,881	2	182,327	1	110,551	5	123,150	4	154,751	5
Mississippi	168,060	3	194,900	4	158,397	1	123,501	3	164,497	3	122,735	2	160,782	1	188,723	1
North Carolina	137,222	7	156,141	7	126,016	7	82,215	10	136,703	7	124,189	1	110,043	7	130,466	9
Oklahoma	132,489	8	143,506	10	128,730	6	78,059	8	132,489	8	104,001	6	122,459	5	154,479	6
South Carolina	128,329	9	178,603	6	93,658	10	82,170	6	128,139	9	95,030	9	86,924	10	116,409	10
Tennessee	119,853	10	146,568	9	102,644	9	68,455	9	119,853	10	115,196	3	109,340	8	165,413	3
Texas	174,727	2	220,279	2	158,128	2	174,727	1	167,627	2	93,388	10	138,194	2	183,470	2
Average	$144,687		$178,684		$123,500		$97,285		$143,019		$103,803		$114,624		$148,332	
Louisiana as % of Average	126%		133%		119%		142%		127%		106%		107%		106%	

tax instead, it would bring the Louisiana firm's property tax to slightly above the southern average and its income tax to about the average. On the other hand, the firm's sales taxes and franchise taxes are each more than double the southern averages.

Firm #2 — Capital-Intensive Manufacturing Firm

Compared to the South as a whole, a relatively high share of Louisiana's manufacturing industry is capital intensive in nature. The capital-intensive industry differs from the average manufacturer in that plant and equipment comprise a larger percentage of its total assets while current assets (receivables and inventory) are a smaller share. Also the ratio of sales to assets is typically lower.

Louisiana's state/local tax structure places the ongoing, capital-intensive firm at a disadvantage compared to the average manufacturing firm with the same total assets and income. (See Table 4.) The hypothetical capital-intensive firm's state/local tax burden is 33% above the 1993 southern state average. (The average manufacturer was only 26% higher.) Even after the offsetting effect of applying federal income taxes, Firm #2's total taxes are 12% above the average. The Louisiana firm's total tax is 22% above that in Alabama, the lowest state.

The major factor accounting for the higher tax burden is the sales tax treatment of manufacturing machinery and equipment (MM&E). A heavy investment in equipment presumes that heavy replacement and repair costs will be required. In the case of the hypothetical firm, Louisiana's sales taxes are almost two and one-half times the southern average.

Louisiana is one of only three southern states which do not exempt or significantly reduce sales taxes on replacement purchases of MM&E. One of the three, Florida, gives a slight break on the local tax. Both Florida and the third state, Georgia, have average sales tax rates well below Louisiana's.

Firm #3 — Labor-Intensive Manufacturing Firm

Labor-intensive firms, such as apparel manufacturers, generally differ from the average manufacturing model in having a

TABLE 3
Tax Liability by State
Firm #1 -- Average Manufacturer

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$ 88,499	$ 26,707	$24,369	$32,513	$ 4,800	$110	$318,233	$406,732	11
Arkansas	144,492	70,963	11,921	60,303	1,305	0	294,926	439,418	6
Florida	157,508	60,530	45,107	51,671	0	200	301,852	459,360	3
Georgia	158,050	65,090	38,846	52,849	1,250	15	299,476	457,526	4
LOUISIANA	182,327	83,287 a	50,567	29,398 a	19,050	25	295,210	477,537	1
Mississippi	168,060	95,121	15,945	44,469	12,500	25	288,289	456,349	5
North Carolina	137,222	43,612	11,055	75,007	7,538	10	297,107	434,329	7
Oklahoma	132,489	50,728	16,697	56,439	8,625	0	300,631	433,120	8
South Carolina	128,329	75,600	5,355	46,159	1,215	0	298,189	426,518	9
Tennessee	119,853	49,373	5,562	51,398 b	13,500	20	301,148	421,001	10
Texas	174,727	121,480	30,647	0	22,600	0	291,013	465,740	2
Average	$144,687	$ 67,499	$23,279	$45,473	$8,398	$ 37	$298,734	$443,421	
Louisiana as % of Average	126%	123%	217%	65%	227%	68%	99%	108%	

a Inventory property tax credit of $15,048 subtracted from state corporate income tax, not from property tax.
b Reduced by amount of industrial machinery and equipment tax credit.

larger share of their total assets in current assets—inventory and accounts receivable. Plant and equipment are a correspondingly smaller share of total assets. The labor-intensive firm also has a much higher ratio of sales to assets.

Louisiana places a somewhat lower tax burden on the hypothetical labor-intensive firm than on the other manufacturing models, but the firm's total taxes still exceed the southern average by 5%. (See Table 5.) The lower taxes are due primarily to a lower level of purchases subject to sales taxes by this type of firm and to the effect of the inventory tax credit.

Property taxes are heavier on the labor-intensive model than on the other hypothetical manufacturers examined, largely because of the proportionately large share of assets in inventory. For this reason, the inventory tax credit is particularly important to the labor-intensive firm.

The labor-intensive firm would be sensitive to interstate differences in labor-related costs. However, this study does not address costs of unemployment insurance taxes or workers' compensation insurance.

Firm #4 — No-Profit Manufacturing Firm

The hypothetical "no-profit" firm is simply the average manufacturing firm (Firm #1) with no net income for the year (assumes that sales equal expenditures). Because there is no federal income tax on this firm, the state/local tax burden is of paramount importance. The break-even assumption would lower the Louisiana firm's state/local taxes to 76% of those paid when the firm's income equaled 10% of its assets. (See Table 6.) At the southern average, the firm's state/local taxes would drop to 67% of what they were for the profit-making firm.

Whereas total taxes for Louisiana's average manufacturer with profit (Firm #1) were 8% over the southern average, total taxes for the same firm without profit (Firm #4) were 42% higher than the southern average. Louisiana's tax structure clearly is less sympathetic to a firm having a bad year than is the average southern state tax structure. Louisiana's very high franchise tax and sales taxes are the reason for this difference. While the

TABLE 4
Tax Liability by State
Firm #2 — Capital-Intensive Manufacturer

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$114,856	$ 44,341	$33,684	$31,921	$ 4,800	$110	$312,439	$427,295	11
Arkansas	153,315	80,400	11,921	59,689	1,305	0	291,926	445,241	8
Florida	208,694	102,733	56,411	49,350	0	200	288,292	496,986	3
Georgia	191,700	80,610	57,855	51,970	1,250	15	294,498	486,198	4
LOUISIANA	234,951	104,186 a	78,270	33,420 a	19,050	25	286,737	521,688	1
Mississippi	194,909	117,936	21,120	43,328	12,500	25	280,920	475,829	5
North Carolina	156,141	60,332	12,780	73,531	9,488	10	291,261	447,402	7
Oklahoma	143,506	62,448	16,697	55,736	8,625	0	296,885	440,391	9
South Carolina	178,603	128,520	5,355	43,513	1,215	0	281,096	459,699	6
Tennessee	146,568	78,214	5,562	46,022 b	16,750	20	292,065	438,633	10
Texas	220,279	150,834	46,845	0	22,600	0	281,032	501,311	2
Average	$176,684	$ 91,869	$31,500	$44,407	$ 8,871	$ 37	$290,650	$467,334	
Louisiana as % of Average	133%	113%	248%	75%	215%	68%	99%	112%	

a Inventory property tax credit of $10,032 subtracted from state corporate income tax, not from property tax.
b Reduced by amount of industrial machinery and equipment tax credit.

troubled firm cannot avoid the franchise tax, it can avoid the impact of the sales tax to some extent by reducing its replacement purchases of MM&E. Thus the sales tax serves as a further disincentive for a troubled firm to remain competitive.

It should be noted that the inventory property tax credit is a refundable credit paid directly by the state to the firm if its corporate income tax and franchise tax liability is insufficient to cover the full amount. Table 6 shows the credit as a reduction from the franchise tax as the firm would not have an income tax liability.

Firm #5 — High-Debt Manufacturing Firm

The high-debt firm is the hypothetical average manufacturing firm with the balance sheet altered to increase long-term debt from 15% to 30% of total assets with a corresponding reduction in stockholders' equity from 50% to 35%. This shift primarily affects the franchise tax liability which is typically based on capital stock, net worth or some measure of equity.

Only Louisiana and Oklahoma add long-term debt to net worth to get the franchise tax base. A balance sheet shift from equity to debt does not change the franchise tax base in these states—it sums to the same amount. Thus the high-debt firm's tax burden is not different from that of Firm #1 in these states. (See Table 7.) The high debt structure also does not affect Tennessee's firm as the franchise tax is based on the higher of net worth or real and personal property. The property measure is the higher amount in this case and is unchanged by an increased debt position.

For the other southern states with franchise taxes, reducing the amount of capital stock or total net worth does reduce the franchise tax base. In the case of Texas, the only state with a higher franchise tax than Louisiana for Firm #1, the tax is reduced by more than 30% for the high-debt firm.

The average manufacturer's tax burden in Louisiana is 26% above the southern average state/local burden and 8% above the southern average total taxes. The tax burdens of Louisiana's high-debt firm (Firm #5) bear a similar relationship

TABLE 5
Tax Liability by State
Firm #3 — Labor-Intensive Manufacturer

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$ 67,395	$ 15,237	$14,350	$32,898	$ 4,800	$110	$322,002	$389,397	11
Arkansas	133,468	62,400	8,904	60,859	1,305	0	297,648	431,116	5
Florida	109,647	32,232	23,988	53,227	0	200	310,944	420,591	8
Georgia	137,383	62,750	20,387	52,981	1,250	15	300,226	437,609	4
LOUISIANA	147,038	80,465 a	25,681	21,817 a	19,050	25	298,747	445,785	3
Mississippi	158,397	91,260	9,950	44,662	12,500	25	289,537	447,934	2
North Carolina	126,016	35,180	7,650	75,676	7,500	10	299,759	425,775	7
Oklahoma	126,730	49,360	12,224	56,521	8,625	0	301,068	427,798	6
South Carolina	93,658	40,320	4,200	47,923	1,215	0	309,584	403,242	10
Tennessee	102,644	32,632	4,560	52,432 b	13,000	20	306,658	409,302	9
Texas	156,128	117,416	16,112	0	22,600	0	292,395	448,523	1
Average	$123,500	$ 56,296	$13,455	$45,363	$ 8,350	$37	$302,597	$426,098	
Louisiana as % of Average	119%	143%	191%	48%	228%	68%	99%	105%	

a Inventory property tax credit of $22,572 subtracted from state corporate income tax, not from property tax.
b Reduced by amount of industrial machinery and equipment tax credit.

to the south—27% and 8% above average, respectively. This slight change when debt is increased is due to the fact that the franchise tax is less than 4% of the Louisiana firm's total taxes and even a smaller percentage in most other southern states.

Some argue that including debt in Louisiana's franchise tax base places an undesirable added burden on top of the debt service a firm must pay for borrowed capital. High debt ratios are considered a sign of company weakness and for a troubled firm, forced to borrow, the argument may hold. A family-owned or closely held firm may prefer to borrow capital rather than sell stock.

For healthy, publicly traded firms, however, the argument is less compelling. Additional capital can be raised either by increasing equity or increasing debt, that is by issuing more stock or by issuing bonds. The decision is an economic one (depending largely on interest rates) designed to provide the greatest benefit to stockholders. Removing debt from the tax base in such cases would provide an added incentive for firms to choose debt over equity expansion.

Non-Manufacturing Firms

The three hypothetical non-manufacturing industry firms are designed to represent the basic characteristics of construction, wholesale and retail industries. Each of these broad industry groups comprises a vast range in size and types of firms, most of which are far smaller than the average manufacturing firm. For purposes of this comparison, the assets of each hypothetical firm are set at $10 million. This would be above average for a construction, wholesale or retail firm but relatively small for a manufacturer.

A major difference between the hypothetical non-manufacturing and manufacturing firms is the lower assumption of purchases by the non-manufacturers which substantially reduces their relative exposure to Louisiana's high sales taxes. As a result the Louisiana non-manufacturing firms are very close to the southern average state/local tax burdens. (See Tables 8-10.) When federal taxes are added, each of the three firms come within one percentage point of the southern average total tax burdens.

TABLE 6
Tax Liability by State
Firm #4 – No-Profit Manufacturer

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$ 55,986	$ 26,707	$24,369	$0	$ 4,800	$110	$0	$ 55,986	11
Arkansas	78,026	64,800	11,921	0	1,305	0	0	78,026	7
Florida	105,837	60,530	45,107	0	0	200	0	105,837	4
Georgia	105,201	65,090	38,846	0	1,250	15	0	105,201	5
LOUISIANA	137,881	83,287 a	50,567	0	4,002 a	25	0	137,881	2
Mississippi	123,591	95,121	15,945	0	12,500	25	0	123,591	3
North Carolina	62,215	43,612	11,055	0	7,538	10	0	62,215	10
Oklahoma	76,050	50,728	16,697	0	8,625	0	0	76,050	8
South Carolina	82,170	75,600	5,355	0	1,215	0	0	82,170	6
Tennessee	68,455	49,373	5,562	0	13,500	20	0	68,455	9
Texas	174,727	121,480	30,647	0	22,600	0	0	174,727	1
Average	$ 97,285	$ 66,939	$23,279	$0	$ 7,030	$ 37	$0	$ 97,285	
Louisiana as % of Average	142%	124%	217%	–	57%	68%	–	142%	

a Inventory property tax credit of $15,048 subtracted from franchise tax, not from property tax.

Tax Policy Issues

Table 11 summarizes the comparison of Louisiana's corporate taxes with the average for the southern states. The tax burdens imposed by Louisiana on the eight hypothetical firms differ substantially from the average in most regards. The foregoing analysis of the tax burdens on ongoing firms offers perspectives on several tax policy issues:

Inventory Tax Credit

The above tax burden comparisons assume a partial (40%) phase-in of the Louisiana inventory property tax credit. Table 12 shows alternative comparisons assuming no credit, a 40% credit and a 100%, fully implemented credit.

Without the credit, four of the five hypothetical Louisiana manufacturing firms would face the highest tax burdens in the South. The fifth would rank second. The three non-manufacturing firms would rank no better than third highest.

At 40% implementation, the credit closes some of the gap between Louisiana and the southern average for manufacturing firms but only one of these firms improves its ranking. The non-manufacturing firms, however, improve their rankings and pull within one percentage point of the southern average total tax burden.

Full (100%) implementation of the credit, on the other hand, would bring the total tax burdens for non-manufacturing firms in Louisiana down to, or slightly below, the southern averages. The full credit would also benefit the hypothetical manufacturing firms, depending on the importance of inventories in their assets. However, only the labor-intensive firm would come down to the southern average. Even fully phased in, the Louisiana tax burden would still be higher than that in a number of the southern states, for some types of firm.

The inventory credit particularly improves the relative position of firms heavily dependent on inventory—those in the wholesale and retail industries. The prospective improvement in the tax burden on wholesale firms and distributorships promises to make Louisiana far more competitive in attracting these types of facilities and the related jobs to serve the southern markets.

TABLE 7
Tax Liability by State
Firm #5 – High-Debt Manufacturer

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$ 87,726	$ 26,707	$24,369	$32,540	$ 4,000	$110	$318,496	$406,222	11
Arkansas	138,527	64,800	11,921	60,717	1,089	0	296,954	435,481	6
Florida	157,508	60,530	45,107	51,671	0	200	301,852	459,360	3
Georgia	157,814	65,090	38,846	52,863	1,000	15	299,556	457,370	4
LOUISIANA	182,327	83,287 a	50,567	29,398 a	19,050	25	295,210	477,537	1
Mississippi	164,497	95,121	15,945	44,656	8,750	25	289,501	453,998	5
North Carolina	136,703	43,612	11,055	75,051	6,975	10	297,283	433,986	7
Oklahoma	132,489	50,728	16,697	56,439	8,625	0	300,631	433,120	8
South Carolina	128,139	75,600	5,355	46,169	1,015	0	298,253	426,392	9
Tennessee	119,853	49,373	5,562	51,398 b	13,500	20	301,148	421,001	10
Texas	167,627	121,480	30,647	0	15,500	0	293,427	461,054	2
Average	$143,019	$ 66,939	$23,279	$45,537	$ 7,228	$ 37	$299,301	$442,320	
Louisiana as % of Average	127%	124%	217%	65%	264%	68%	99%	108%	

a Inventory property tax credit of $15,048 subtracted from state corporate income tax, not from property tax.
b Reduced by amount of industrial machinery and equipment tax credit.

While the improvement in tax burdens on retail firms does not promise the type of job development offered by wholesale firms, it does offer indirect benefits to Louisiana consumers. To the extent that lower taxes on retail firms result in lower consumer prices, some offset can be provided against the very high state/local sales tax consumers must pay in Louisiana.

Policy Implication: Failure to fully implement the inventory tax credit would forfeit the benefits of increased tax burden equity for all firms and the potential for development in the wholesale industry, in particular. Partial implementation would not close the tax burden gap with the South for the typical manufacturing firm.

Sales Tax on Machinery and Equipment

The large share of the sales tax borne by businesses generally goes unrecognized. In Louisiana, business carries a particularly large burden due to the taxes they pay on large ticket machinery and equipment items essential to their operation.

Louisiana is the only southern state which does not exempt or significantly reduce sales taxes on the initial purchase of MM&E. Florida and Georgia exempt initial MM&E purchases but tax replacement. Besides Louisiana, six other southern states taxed MM&E replacement purchases, but at much lower rates. Texas was in the process of phasing the tax out after 1994. Louisiana's high sales tax rates compound the problem which is most keenly felt by capital-intensive firms and manufacturers operating at a loss or break-even point.

Sales taxes made up one-third of the total state/local tax burden of the hypothetical capital-intensive firm in Louisiana. And 85% of that sales tax was paid on MM&E.

Those states which provide exemptions for MM&E do so to encourage location, expansion and modernization. Adding another 8% or 9% to the cost of equipment purchases is a definite disincentive.

TABLE 8
Tax Liability by State
Firm #6 – Construction

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$ 67,066	$17,976	$14,080	$32,900	$ 2,000	$110	$322,022	$389,088	11
Arkansas	111,470	34,800	13,419	62,702	549	0	306,663	418,133	5
Florida	96,777	30,076	13,155	53,346	0	200	311,637	408,414	8
Georgia	102,416	35,280	11,571	54,550	1,000	15	309,118	411,534	7
LOUISIANA	110,551	41,278 a	16,460	39,738 a	13,050	25	308,017	418,568	4
Mississippi	122,735	54,405	13,100	46,705	8,500	25	302,733	425,468	2
North Carolina	124,189	31,850	11,100	76,129	5,100	10	301,553	425,742	1
Oklahoma	104,001	25,360	14,288	58,103	6,250	0	309,497	413,498	6
South Carolina	95,030	35,280	11,025	48,210	515	0	311,438	406,468	10
Tennessee	115,196	34,932	14,350	57,394	8,500	20	305,719	420,915	3
Texas	93,386	60,966	16,420	0	16,000	0	313,832	407,218	9
Average	$103,893	$36,564	$13,543	$48,162	$ 5,588	$ 37	$309,294	$413,186	
Louisiana as % of Average	106%	113%	122%	83%	234%	68%	100%	101%	

a Inventory property tax credit of $7,524 subtracted from state corporate income tax, not from property tax.

An additional problem for Louisiana firms is that the sales tax on MM&E is not directly deductible for federal tax purposes. Thus, there is no immediate reduction in federal taxes to partially offset the sales tax. Instead, the sales tax is capitalized as part of the MM&E value and depreciated over time.

Policy Implication: A Louisiana sales tax exemption for MM&E would accomplish several things. It would help close the tax burden gap between Louisiana's capital-intensive firm and the southern average. An exemption would benefit the types of firm most disadvantaged by the current tax structure—capital-intensive and no-profit manufacturers. And, an MM&E exemption would provide additional incentive for location, expansion and modernization in Louisiana.

Corporate Income and Franchise Taxes

The corporate income tax and franchise tax must be considered together in comparing state tax burdens. Texas, for example, has no income tax but its franchise tax is similar to an income tax.

The hypothetical firm calculations show Louisiana firms paying franchise taxes at more than twice the southern state average. While much higher than average, Louisiana's franchise tax only makes up about one-tenth of the state/local taxes and less than half of one percent of the total taxes paid by the hypothetical average manufacturing firm.

Corporate income tax comparisons are complicated by the inventory tax credit. Table 11 shows how the income tax on Louisiana's hypothetical firms would compare with the southern average before and after the credit is deducted. In general, the firms would be at or just below the southern average without the credit. With the credit (at 40%) deducted, the hypothetical average manufacturer's income taxes would be about 65% of the average and the other firms would range from 83% to 46% of the average.

Louisiana differs from most states by including debt in its franchise tax base. Firms typically have a choice between

TABLE 9
Tax Liability by State
Firm #7 – Wholesale

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$ 61,204	$ 13,268	$11,608	$33,018	$ 3,200	$110	$323,175	$384,379	11
Arkansas	130,010	56,400	11,460	61,277	873	0	299,693	429,703	3
Florida	95,697	28,675	13,399	53,423	0	200	312,087	407,784	9
Georgia	122,148	56,780	11,020	53,333	1,000	15	302,222	424,370	6
LOUISIANA	123,150	72,314 a	12,030	25,131 a	13,650	25	302,228	425,378	5
Mississippi	160,792	92,936	13,840	44,741	9,250	25	290,045	450,837	1
North Carolina	110,943	18,302	8,880	77,076	6,675	10	305,302	416,245	7
Oklahoma	122,459	44,128	15,104	56,977	6,250	0	303,499	425,958	4
South Carolina	86,924	27,000	10,500	48,609	815	0	314,016	400,940	10
Tennessee	109,340 b	24,069	8,600	57,401	11,750	20	305,755	415,095	8
Texas	139,194	105,674	15,620	0	16,900	0	298,325	436,519	2
Average	$114,624	$ 49,050	$12,006	$46,453	$ 6,397	$ 37	$305,122	$419,746	
Louisiana as % of Average	107%	147%	100%	54%	213%	68%	99%	101%	

a Inventory property tax credit of $20,064 subtracted from state corporate income tax, not from property tax.
b Increased by tax on gross sales.

issuing debt and selling stock to raise capital. While other states provide a small incentive for using debt, Louisiana's tax does not favor either source of funds. Some have proposed eliminating debt from the base to aid family-owned and weaker firms for whom raising capital by selling stock is not a viable option.

Policy Implications: Louisiana's corporate income tax does not appear to be out of line compared to the South. While the state's franchise tax greatly exceeds the southern average, bringing it down to the average would not go far toward closing the overall tax burden gap.

Eliminating the franchise tax altogether, however, would address several problems. It has been suggested by some that this could be achieved in a revenue neutral manner by simultaneously increasing the reliance on the corporate income tax (i.e. by removing the deductibility of federal income taxes). This approach could:

1) more closely relate the tax burden to firm profitability,

2) provide assistance to start-up firms, and

3) help high-debt firms and firms which cannot easily issue stock.

Federal Corporate Income Tax Offset

Federal taxes make up roughly two-thirds of the total tax burden of most of the hypothetical firms in this study. Because most state and local taxes are deductible for federal tax purposes, federal taxes tend to offset much of the differences in state and local tax burdens. The higher the state/local taxes, the lower the federal taxes, and vice versa.

State/local tax burdens on the hypothetical average manufacturing firm, in the southern states, ranged widely with the lowest being only 49% of the highest. After federal taxes were figured in, the range in total tax burdens is substantially narrowed, with the lowest state total being 85% of the highest.

The federal income tax rate at the margin is 34% on corporate income of $1 million—the income assumption for all but one of the hypothetical firms. If the

TABLE 10
Tax Liability by State
Firm #8 – Retail

State	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax	Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes	Rank
Alabama	$ 80,837	$ 22,684	$22,528	$32,715	$ 2,800	$110	$320,212	$401,049	11
Arkansas	156,809	75,600	20,408	60,036	765	0	293,624	450,433	5
Florida	132,455	58,428	22,041	51,786	0	200	302,527	434,982	8
Georgia	147,843	75,840	18,734	52,254	1,000	15	296,108	443,951	7
LOUISIANA	154,751	96,349 a	23,272	20,555 a	14,550	25	295,306	450,057	6
Mississippi	186,723	110,916	23,640	43,892	8,250	25	284,560	471,283	1
North Carolina	130,466	28,242	17,280	76,121	8,813	10	301,520	431,986	9
Oklahoma	154,479	62,688	25,800	55,616	10,375	0	296,249	450,728	4
South Carolina	116,409	50,400	17,850	47,444	715	0	306,490	422,899	10
Tennessee	165,413 b	46,647	18,540	54,456	15,750	20	290,070	455,483	3
Texas	183,470	141,802	26,568	0	15,100	0	286,653	470,123	2
Average	$146,332	$ 69,963	$21,515	$44,989	$ 7,102	$ 37	$297,574	$443,907	
Louisiana as % of Average	106%	138%	108%	46%	205%	68%	99%	101%	

a Inventory property tax credit of $23,199 subtracted from state corporate income tax, not from property tax.
b Increased by tax on gross sales.

state increases by $1 a tax which is deductible for federal purposes, the firm's net tax liability only rises 66 cents because its federal tax is reduced by 34 cents. However, if a nondeductible state tax is increased $1, the firm pays a full $1 in net additional tax.

The same principle applies to state tax decreases. The firm would keep the full $1 of a $1 decrease in a nondeductible state tax, but would only keep 66 cents if a deductible tax were decreased $1 (the federal government would take the other 34 cents).

Policy Implications: The relationship of federal to state/local taxes has several implications for tax policy:

1. Efficiency should be one consideration in state policies regarding tax increases or decreases. The relationship between tax receipts gained or lost and the cost or gain to the firm should be considered. However, the more important factor is the economic impact on the firm. The fact that the state can gain $1 at a cost of 66 cents to the firm does not diminish the importance of the 66 cent cost to the firm. It may be the difference between remaining competitive and going out of business. Likewise, a targeted exemption which requires the state to forego a dollar in revenue to give the firm a 66 cent benefit may be justified by the effect that 66 cents might have on continuing or expanding the economic activity of the firm. That activity may be worth far more to the state in other tax receipts than the one dollar it gave up.

2. The efficiency of a business tax incentive can be improved by using taxes which are not directly deductible for federal tax purposes. For example, a sales tax exemption on manufacturer's M&E or an incentive for a firm operating at a loss, would give the firm an immediate $1 benefit for each $1 in revenue foregone by the state.

3. Any proposed state/local tax increase should avoid, if possible, taxes which do not involve a direct and immediate federal tax offset. A dollar increase in sales taxes, for

TABLE 11
Louisiana Taxes as a Percentage of Southern Average

Hypothetical Firm	Total State & Local Taxes	Property Tax	Sales Tax	State Corporate Income Tax		Franchise Tax	Filing Fee	Federal Income Tax	Total Taxes
				with credit a	without credit				
Average Manufacturer	126%	123%	217%	65%	97%	227%	68%	99%	108%
Capital–Intensive	133%	113%	248%	75%	98%	215%	68%	99%	112%
Labor–Intensive	119%	143%	191%	48%	97%	228%	68%	99%	105%
No–Profit	142%	124%	217%	–	–	57% b	68%	–	142%
High–Debt	127%	124%	217%	65%	97%	264%	68%	99%	108%
Construction	106%	113%	122%	83%	98%	234%	68%	100%	101%
Wholesale	107%	147%	100%	54%	102%	213%	68%	99%	101%
Retail	106%	138%	108%	46%	97%	205%	68%	99%	101%

a 40% inventory property tax credit subtracted from state corporate income tax, not from property tax.
b 40% inventory property tax credit subtracted from franchise tax, not from property tax..

TABLE 12
Louisiana Tax Burden as Percentage of Southern Average With Different Inventory Tax Credit Assumptions
(State and Local Taxes and Total Taxes)

Hypothetical Firm	NO INVENTORY TAX CREDIT				40% INVENTORY TAX CREDIT				100% INVENTORY TAX CREDIT			
	State & Local Taxes		Total Taxes		State & Local Taxes		Total Taxes		State & Local Taxes		Total Taxes	
	Average	Rank	Average	Rank	Average	Rank	Average	Rank	Average	Rank	Average	Rank
Average Manufacturer	135%	1	110%	1	126%	1	108%	1	112%	3	105%	2
Capital–Intensive	138%	1	113%	1	133%	1	112%	1	125%	2	110%	1
Labor–Intensive	136%	1	108%	1	119%	3	105%	3	94%	7	100%	7
No–Profit	155%	2	155%	2	142%	2	142%	2	121%	3	121%	3
High–Debt	137%	1	110%	1	127%	1	108%	1	113%	3	105%	1
Construction	113%	3	102%	3	106%	5	101%	4	96%	7	100%	7
Wholesale	123%	2	104%	2	107%	4	101%	5	83%	10	97%	9
Retail	120%	3	105%	3	106%	5	101%	6	84%	9	97%	9

example, would cost the firm nearly a full dollar in the year the purchase was made, due to the lack of a full write-off against federal taxes.

Part II. Impact of Tax Incentives

The foregoing analysis applies the existing tax structure in each state to established, ongoing hypothetical firms. It is assumed that any initial or temporary tax breaks offered as incentives to locate or expand would no longer be applicable to these firms. This assumption avoids the problem of comparing the potential impact of the myriad of tax incentives offered.

The difficulty in assessing the impact is compounded by the fact that incentives may be automatic or local option, statewide or limited to specific areas (e.g. enterprise zones), one-time or multi-year, variable according to the status of the local economy, and applicable to taxes of all or only some of the taxing entities. Some states' incentives give local governments the option to decide the amount and duration of the tax break.

Louisiana's 10-year industrial tax exemption (TYTE) is one of the South's most significant incentives both in amount and duration and is granted almost automatically to manufacturers. While this program receives much attention, other states often provide firms substantial tax advantages, compared to Louisiana, as part of their normal tax structures. Such advantages may include lower general tax rates, equal assessment ratios for industrial and residential property, major automatic exemptions or even the absence of certain taxes.

It is important to examine the impact of the TYTE on the total tax burden of a manufacturer over the first ten years of operation in Louisiana and compare the result with the tax burdens the firm would face in other states.

10-Year Tax Burden Comparison

The following analysis compares the total tax burdens of a hypothetical capital-intensive manufacturing firm in its first 10 years of operation in each of the 11 southern states. A capital-intensive firm is used for this comparison as it would show the greatest impact from the TYTE.

The firm's balance sheet and income statement are identical to those of the hypothetical capital-intensive firm (Firm #2) used in the single tax year analysis except that the cost of the new building and equipment is assumed to be the depreciated book value used for Firm #2.

To simplify the analysis, it is assumed

TABLE 13
Total Tax Burden First 10 Years of Operation
Capital-Intensive Manufacturer

TEN YEAR TAX TOTALS	Alabama	Arkansas	Florida	Georgia	Louisiana	Mississippi	North Carolina	Oklahoma	South Carolina	Tennessee	Texas
Property Tax w/o Abatements	$ 443,410	$ 804,000	$1,027,330	$806,100	$1,041,311	$1,179,300	$803,220	$824,460	$1,285,200	$782,140	$1,500,340
Less Property Tax Abatements	(0)	(0)	(0)	(192,000) b	(780,011)	(801,600)	(0)	(224,600)	(449,920)	(0)	(0)
Net Property Tax	$ 443,410	$ 804,000	$1,027,330	$ 614,100	$ 261,250	$ 377,700	$803,220	$599,800	$ 835,280	$782,140	$1,500,340
Sales Tax	$372,656	$187,833	$449,199	$385,167	$722,493	$180,500	$235,860	$247,309	$108,000	$145,584	$277,353
Less Sales Tax Rebates	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(109,138)	(0)	(0)	(0)
Net Sales Tax	$372,656	$187,833	$449,199	$385,167	$722,493	$180,500	$235,860	$138,171	$108,000	$145,584	$277,353
State Corporate Income Tax	$310,210	$500,800	$403,500	$530,570	$473,823	$473,380	$723,053	$570,850	$457,020	$543,020	$ 0
Less Tax Credits	(0)	(0)	(0)	(0)	(220,704) a	(0)	(0)	(0)	(30,000) d	(64,600) a	(0)
Net Corporate Income Tax	$310,210	$500,800	$403,500	$530,570	$252,819	$473,380	$723,053	$570,850	$427,020	$478,100	$ 0
Franchise Tax	$40,000	$13,050	$ 0	$12,500	$190,500	$125,000	$84,660	$88,250	$12,150	$107,500	$220,000
Filing Fee	1,100	0	2,000	150	250	250	100	0	0	200	0
Total State and Local Taxes	$1,184,376	$1,001,773	$1,972,029	$1,542,487	$1,427,312	$1,145,670	$1,057,113	$1,194,871	$1,363,159	$1,573,584	$2,011,693
Federal Corporate Income Tax	$3,124,390	$2,919,268	$2,882,920	$3,000,560	$3,160,442	$3,068,120	$2,916,775	$3,040,720	$2,966,450	$2,914,547	$2,810,320
10 Year Taxes Unadjusted	$4,308,766	$4,521,033	$4,854,949	$4,543,047	$4,587,754	$4,243,990	$4,573,886	$4,235,591	$4,340,609	$4,488,131	$4,822,013
Less Sales Tax Adjustment a	(63,199)	(31,937)	(21,000)	(20,977)	(114,008)	(18,023)	(33,004)	(0)	(25,704)	(49,147)	(74,978)
Adjusted 10 Year Total Taxes	$4,245,500	$4,489,096	$4,833,850	$4,522,070	$4,473,006	$4,195,967	$4,540,924	$4,235,591	$4,323,905	$4,447,984	$4,747,035
Rank--Adjusted 10 Year Total Taxes	9	5	1	4	6	11	3	10	8	7	2
START UP SALES TAXES	Alabama	Arkansas	Florida	Georgia	Louisiana	Mississippi	North Carolina	Oklahoma	South Carolina	Tennessee	Texas
Building Materials	$ 93,600	$76,800	$76,200	$68,120	$ 96,300	$42,000	$72,000	$ 0	$ 63,000	$ 96,480	$ 93,840
Manufacturing and Equipment	74,520	0	0	0	221,626	6,210	13,800	0	0	0	107,916
Other Equipment & Furniture	17,760	17,253	15,240	13,224	19,272	4,800	13,800	0	12,000	19,680	19,768
Total Start Up Sales Tax	$185,880	$94,053	$91,440	$79,344	$337,200	$53,010	$99,600	$ 0	$75,000	$116,080	$220,524

a Adjustment is made to account for effect of federal taxes expanding initial year of sales taxes.
b Georgia -- Inventory tax exemption.
c Louisiana -- Inventory tax credit phased in.
d South Carolina -- new jobs tax credit.
e Tennessee -- investment credit.

that the balance sheet and income statement values remain unchanged throughout the 10-year period. This procedure is partly justified by assuming that, for property values, depreciation would be offset by inflation.

In calculating the taxes for each state, only those incentives which have the greatest likelihood of being granted are applied. A local option incentive, limited to certain areas of the state or little used, would not be included.

The Louisiana firm's tax calculations include the TYTE and the inventory tax credit phased in according to law. Major property tax incentives were also included in figuring the taxes for Georgia, Mississippi, Oklahoma and South Carolina. Texas has a local option exemption which can cover up to the full property tax liability of the firm. However, it was not included because it is variable and no longer frequently granted.

How Louisiana Ranks with Incentives

Table 13 presents the 10-year total tax burdens calculated for a hypothetical capital-intensive manufacturing firm with each state's major tax incentives in place. Even with the 10-year industrial tax exemption, the total 10-year tax burden for the hypothetical firm in Louisiana ($4,473,086) would rank sixth highest in the South and just slightly exceed the 11-state average of $4,458,562.

Included in Table 13 is an adjustment for sales taxes. Sales taxes go on the books as part of the cost of goods purchased and are expensed as those goods are depreciated. Thus a more sophisticated 10-year trending procedure than employed by PAR would reflect a reduction in federal taxes due to expensing of sales taxes over time. Assuming that all of the start-up sales taxes are expensed over the 10-year period, a rough estimate of the resulting impact on the 10-year tax total for each state is obtained by subtracting 34% (the federal tax rate) of the amount of start-up sales taxes. The adjustment has the greatest impact on Louisiana's total 10-year taxes due to the state's high start-up sales tax burden.

Among the 11 states, the hypothetical firm's 10-year tax burden would be about 15% higher in the highest tax state (Florida) than in the lowest tax state (Mississippi). The range would represent about $600,000 or 11.6% of the Florida firm's 10-year total net income of $5.2 million, after taxes.

Impact of Louisiana Tax Abatements

In calculating the 10-year tax total of $4.5 million for the hypothetical manufacturer in Louisiana, only the two major tax abatement programs were applied—the TYTE and the inventory tax credit. Over the 10 years, the combined value of these two tax incentives would total $1 million, of which 78% would be attributed to the TYTE. Without these tax abatement programs, the firm's total tax burden would rise by $660,000 (after adjusting for the federal tax offset). This would make Louisiana the highest ranking tax state in the South with a total tax of $5.13 million—well ahead of the $4.82 million of the current leader.

This analysis indicates that, compared to other southern states, Louisiana's corporate tax structure does not place a light burden on industry. Even with the TYTE applied, the hypothetical Louisiana manufacturer's total tax burden is about average for the South. The TYTE obviously provided the firm an offset against aspects of Louisiana's tax structure which would otherwise be out of line with southern state norms.

Louisiana's 10-year industrial tax exemption has come under attack in recent years. Opponents have argued it has prevented industry from paying its fair share of taxes and its repeal would produce tremendous revenues.

Policy Implications: Repealing the 10-year industrial tax exemption would place an onerous burden on Louisiana manufacturing firms during their start-up years, under the current corporate tax structure. New capital-intensive firms in Louisiana would face the highest tax burden in the South.

Louisiana places the highest start-up sales tax burden on new firms of any southern state. The state's policy of taxing the initial purchases of MM&E more heavily than other southern states is a clear disincentive to new business investment and expansion.

Enterprise Zone Incentives

Each of the 11 southern states provides some type of special tax incentives for selected enterprise zones or other designated underdeveloped areas. Most offer a new job tax credit, typically, several thousand dollars per job created. Louisiana offers a basic credit of $2,500 per new job which can be claimed against the firm's income or franchise tax liability.

Louisiana is one of several states which also offer tax breaks on start-up sales taxes. However, as discussed above, most of the states already provide general sales tax exemptions or reductions for MM&E purchases. Thus, for most of these states an additional sales tax exemption or rebate is not a substantial incentive.

Louisiana has provided for a rebate for up to five years of state and certain local sales taxes on construction materials and MM&E. Considering Louisiana's high start-up sales tax burden, this can give an enterprise zone location a definite advantage. There are currently 1423 designated enterprise zones in the state.

PAR has not attempted to calculate or compare the potential impact of the various state enterprise zone exemption programs. Typically, other states have designated far fewer zones than has Louisiana and their use has been much more limited.

Taxes and Economic Development

The importance of state and local taxes in influencing location decisions of firms has been debated for years without any clear resolution. Academic studies typically point to factors other than taxes as the more important location criteria such as availability of resources, trained manpower, energy costs, access to markets, and hometown of the firm's owner.

Industrial development professionals, however, tend to assign taxes a significant

role. Taxes are, after all, one of the few factors which government has the ability to affect. And, as the old argument goes . . . "all else being equal, taxes can make a difference." Industrial developers stress that profitability is the key to location and feel that a 1% advantage can swing the decision.

This study has attempted to represent an average state/local tax structure for each state. A major drawback in this approach is that it can smooth over widely divergent tax situations offered at different locations within a state. Competition for new business is often as fierce among communities in a state as it is between states. A firm which has the ability to shop locations can easily improve on the tax packages represented in this study. And, the taxes, as actually levied, can differ greatly from the laws on the books—particularly in the case of property taxes.

Interstate competition for business also places tax laws in a continuous state of flux. Each year some states alter their tax structure, add new incentives or otherwise change their relative advantage. Several southern states have enacted significant tax law changes since the 1993 tax year used for this comparison.

Taxes are not the only incentives being offered. Often the more important governmental enticements are industrial development bond financing, loans and loan guarantees, buildings, industrial parks, training programs and infrastructure improvements, such as new roads, bridges and utility connections. Some states have given governors wide discretionary authority to put together inducement packages. The recent bidding wars among southern states for choice new automobile manufacturing plants illustrate the lengths to which some are willing to go.

Proving a direct relationship between tax policy and economic development is difficult. However, it is clear that taxes play a vital role in determining whether an existing business will survive and grow or close its doors, and can be the determining factor in location decisions.

Conclusion

No single point-in-time tax comparison can accurately relate the corporate tax advantages among the states. However, this type of study can indicate problem areas within a state's tax structure.

Business, as does any taxpayer, prefers a tax structure which is predictable, equitable and reasonable. Louisiana's fiscal situation in recent years has created a climate of unpredictability. This analysis demonstrates several aspects of Louisiana's corporate tax structure which challenge the notion of fairness and reasonableness.

Louisiana places a relatively high tax burden on the hypothetical firms tested in this study. The burden is particularly high for ongoing capital-intensive manufacturers and manufacturers which do not earn a profit. Even with the major tax incentives, start-up taxes are high in Louisiana and the tax burden in the early years of operation is no better than average for the South. For purposes of economic development, being "average" is not very good. It means that about half of the southern states have more favorable tax structures for industry.

Louisiana's corporate tax policy should encourage existing firms to remain and expand in the state and should attract new business investment. It should avoid placing added burdens on firms just starting up or temporarily experiencing low earnings.

This comparative analysis of Louisiana's corporate tax structure strongly suggests the state should:

- Reduce or exempt sales taxes on manufacturing machinery and equipment,
- Shift reliance from the corporate franchise tax to the corporate income tax,
- Consider federal tax offsets when making tax policy,
- Implement the scheduled inventory tax credit phase-in, and
- Continue the industrial property tax exemption.

APPENDIX

TABLE A
Property Tax Assessment Provisions

	Alabama	Arkansas	Florida	Georgia	Louisiana	Mississippi	North Carolina	Oklahoma	South Carolina (Mfg.)	South Carolina (Non-Mfg.)	Tennessee	Texas
ASSESSMENT RATIOS												
Real Property	20%	20%	100%	40%		15%	80%	11%	10.5%	6%	40%	100%
Land					10%							
Buildings					15%							
Inventory		20%	EX	40%	15%	15%		12%	EX	EX		100%
Raw Material	EX						100%				30%	
Work In Process	EX						100%				EX	
Finished Goods/Resale	EX						EX				EX	
Supplies	20%						100%				30%	
Other Personal Property	20%	20%	100%	40%	15%	15%	80%	12%	10.5%	10.5%	30%	100%
Manufacturing Machinery & Equipment												
Non-Manufacturing Machinery & Equipment												
Computer												
Furniture & Fixtures			EX		EX	30%	100%	EX				EX
Transportation Equipment												
Intangible Property	EX	EX	(a)	(b)	EX	EX	(a)	EX	EX	EX	EX	EX
MILLAGE RATE (1993 Data)												
Tangible Property	42.00	42.21	21.58	30.00	104.50	117.00	12.00	80.00	240.00	240.00	42.00	22.58
Intangible Property	0.00	0.00	2.00	(b)	0.00	0.00	(c)	0.00	0.00	0.00	0.00	0.00

a. Applies to stocks, bonds and notes, common stock
b. Debt and investments, tax is $.10/$100
c. Taxed at $.30/$100
EX=Exempt

TABLE B
Sales Tax Provisions

State	State Tax Rate	Average Local Tax Rate	Total Weighted Rate	Manufacturing Machinery & Equipment Exempt				Manufacturing Electricity Exempt	
				Initial		Replacement			
Alabama	0.0400	0.0380	0.0780	partial	(a)	partial	(a)	yes	(b)
Arkansas	0.0450	0.0189	0.0639	yes		yes		no	
Florida	0.0600	0.0035	0.0635	yes		partial	(c)	no	(d)
Georgia	0.0400	0.0151	0.0551	yes		no		no	
LOUISIANA	0.0400	0.0403	0.0803	no		no		partial	(e)
Mississippi	0.0700	0.0000	0.0700	partial	(f)	partial	(f)	partial	(g)
North Carolina	0.0400	0.0200	0.0600	partial	(h)	partial	(h)	partial	(i)
Oklahoma	0.0450	0.0314	0.0764	yes		yes		no	
South Carolina	0.0500	0.0025	0.0525	yes		yes		yes	
Tennessee	0.0600	0.0220	0.0822	yes		yes		yes	
Texas	0.0625	0.0157	0.0782	partial	(j)	partial	(j)	yes	

TABLE C
State Corporation Income Tax

State	Tax Rate	Federal Income Tax as Base	Federal Income Tax Deductible	Own State Income Taxes Deductible
Alabama	5%	Yes	Yes	No
Arkansas	1.0–6.5	No	No	No
Florida	5.5	Yes	No	No
Georgia	6.0	Yes	No	Yes
LOUISIANA	4.0–8.0	Yes	Yes	No
Mississippi	3.0–5.0	Yes	No	No
North Carolina	7.75	Yes	No	No
Oklahoma	6.0	Yes	No	No
South Carolina	5.0	Yes	No	No
Tennessee	6.0	Yes	No	No
Texas	No Tax	N/A	N/A	N/A

TABLE D
Franchise Tax and Filing Fees

State	Franchise Tax	Franchise Tax Base	Tax Rate Per $1,000	Filing Fee
Alabama	Yes	Capital Stock	10	$ 10
Arkansas	Yes	Capital Stock	2.7	3
Florida	No	N/A	–	200
Georgia	Yes	Net Worth	tax table	15
LOUISIANA	Yes	Net Worth + Debt or Real Property	1.5–3.0	25
Mississippi	Yes	Net Worth or Real Property	2.5	25
North Carolina	Yes	Varies	1.5	10
Oklahoma	Yes	Net Worth + Long-term Debt	1.25	0
South Carolina	Yes	Capital Stock + Paid-in Surplus	1	15
Tennessee	Yes	Net Worth or Real + Personal Property	2.5	20
Texas	Yes	Taxable Capital; Earned Surplus	2.5; 4.5	$ 0

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