



Tax hike stunts business growth

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In defending his proposed business tax hikes, Gov. Patrick argues that businesses generally don't base location or expansion decisions on the tax code. He's right. That's why his proposed "loophole closings" need to be viewed in the context of the Commonwealth's overall business costs.

Patrick has been fond of quoting an Ernst & Young report that found that 46 states have higher business taxes than Massachusetts. But closer scrutiny reveals that the study looked at the proportion of overall tax revenue derived from corporate taxes, rather than comparing the Commonwealth's business taxes to those in other states. Using this methodology, cutting personal income taxes by \$900 million would have the same effect on the state's ranking as the \$500 million business tax increase the Governor proposes.

Few would dispute that Massachusetts is an expensive state in which to do business. A 2006 Pioneer Institute/Global Insight study pointed to high land, energy and health care costs as being among the culprits.

Nationally, employers pay about \$315 per employee in annual unemployment insurance costs. But thanks to the richest benefit package in the country, Massachusetts employers pay \$637. If a business moves across the border to New Hampshire, the tab drops to \$118.

But overall cost of living, fueled by high housing costs, is the biggest cost driver. It requires Massachusetts employers to pay higher wages than those in other places. And as Federal Reserve Bank of Boston Economist Robert Tannenwald pointed out in a 2004 paper, industries that are heavily concentrated in Massachusetts, like health care, information technology, education, and financial and other professional services are both high paying and labor intensive, which only magnifies the impact of high wage rates.

The latest tax hikes come on the heels of three consecutive years of Romney administration "loophole closings" that raised \$400 million. All told, annual business taxes have increased by about \$900 million in recent years.

These increases have not gone unnoticed by the business community. In a survey conducted by Chief Executive magazine, CEOs ranked Massachusetts the second-worst state in which to do business. In a similar study conducted this year by CFO magazine, Massachusetts ranked 47th for having a fair and predictable state tax environment and 46th based on the negative influence of revenue department policies on location and expansion decisions.

While we can debate the fairness of the Commonwealth's business tax policies, it is clear that Massachusetts has a perception problem among business community decision makers. Adding another \$500 million to the tax burden will only exacerbate the problem.

Even in a good year, balancing the Commonwealth's nearly \$27 billion budget is not easy. In the face of a \$1 billion deficit, it becomes a monumental task. But the only sustainable path to increasing revenues enough to consistently cover state needs is by growing the economic pie. Adding to the already high cost of business in Massachusetts only makes it harder to achieve that goal.