

4-22-2021

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Repository Citation

Gilbertson, K. M., Grema, P., Salahi, S., Saladino, C. J., Brown, W. E. (2021). 2021 Business Tax Climate in the Mountain West. *Economic Development & Workforce Fact Sheet No. 32* 1-2.

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2021 Business Tax Climate in the Mountain West

Economic Development and Workforce Fact Sheet No. 32 | April 2021

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PURPOSE:

This Fact Sheet summarizes a report by Jared Walczak and Janelle Cammenga of *The Tax Foundation* titled “2021 State Business Tax Climate Index.”¹ The index compares how states structure tax systems to bolster state business activity and investments, and possible routes for future improvement. Scores and rankings are offered for the Mountain West states of Arizona, Colorado, Nevada, New Mexico, and Utah.

ABOUT THE DATA:

The Tax Foundation’s index builds upon five components: (1) Individual Income Tax; (2) Sales Tax, (3) Corporate Income Tax; (4) Property Tax; and (5) Unemployment Insurance Tax.² Some 124 variables are used in the final calculation of the index score, and each component does not have equal weight. For example, Individual Income Tax accounts for 30.5% of the index, while Sales, Corporate, Property, and Unemployment Insurance Tax comprise 24.4%, 20.8%, 14.8%, and 9.4%, respectively. Tax components with a greater variability among states have higher weights in the index because these differences are more likely to create comparative advantages for conducting business in one state over another.

Rankings and their subsequent index results are based on relative terms, not absolute, on a scale from one to ten. For example, a score of zero represents a state that performs below all other states on a certain criterion, rather than that it is the worst possible outcome. Moreover, there is an inverse relationship with tax rates and their rankings; the lower the tax rate, the higher rank that state earns. In terms of the Income Tax, states that have a zero tax rate generally score a ten. However, Nevada is one of the exceptions to this rule, as it includes a payroll tax for purposes outside of the unemployment insurance tax.

KEY FINDINGS:

1. All Mountain West states (Arizona, Colorado, Nevada, New Mexico & Utah) rank within the top 25 nationally in the 2021 report. Two states, Nevada (7th) and Utah (8th), fall within the top 10 best tax states in the nation.
2. Property Tax is the best category for all Mountain West states, with an average 2021 rank of 11.2. The Sales Tax category is the worst for the Mountain West states, with an average 2021 rank of 36.8.
3. From 2014 to 2021, Mountain West states either significantly increased, or decreased in rank for the Corporate Tax, Individual Income Tax, or Property Tax. For example, Nevada dropped from 1st in 2014 to 25th in 2021 for Corporate Tax, while New Mexico rose from 34th in 2014 to 9th in 2021 for the same category. Sales Tax and Unemployment Insurance Tax witnessed little change among the Mountain West states.

¹ The Tax Foundation, “2021 State Business Tax Climate Index,” 2020, (www.taxfoundation.org/2021-state-business-tax-climate-index/).

² Ibid

Table 1 shows the State Business Tax Climate Index ranks and scores for each of the Mountain West states. A rank of 1 is optimal, and a rank of 50 is the lowest possible rank. Scores are inclusive of results for the beginning of fiscal year 2021. The table includes five Mountain West States ordered by 2021 Overall Rank. Nevada is the highest ranked amongst Mountain West states, at 7th nationally. Arizona is the lowest ranked amongst Mountain West states, at 24th nationally.

Table 1: FY 2021 Overall Business Tax Rankings in the Mountain West

	2021 Overall Rank	Score
Nevada	7	5.90
Utah	8	5.60
Colorado	21	5.18
New Mexico	23	5.17
Arizona	24	5.13

*Adapted from “2021 State Business Tax Climate Index” by the Tax Foundation

Table 2 provides a comprehensive breakdown of Corporate Tax, Individual Income Tax, Sales Tax, Property Tax, and Unemployment Insurance Tax for each of the five Mountain West states. This includes the 2014 Rank, 2021 Rank, and 2021 Score for each type of tax. 2014 data is provided to illustrate change in ranking over time, as 2014 is the oldest data year provided in the original report.

Notable changes from 2014 Rank to 2021 Rank in the Corporate Tax category include a significant increase for Colorado and New Mexico, while rankings for Nevada and Utah decreased. For instance, Nevada fell from 1st in 2014 to 25th in 2021, while Colorado rose from 20th to 10th. For Individual Income Tax rankings, Nevada fell from 1st in 2014 to 5th in 2021, while New Mexico dropped from 24th to 31st. Arizona, Colorado, and Utah each fell in Property Tax rank from 2014 to 2021, while Nevada rose from 11th to 5th; New Mexico remained 1st among 50 states. There was little to no fluctuation for the Mountain West states in the Sales Tax and Unemployment Insurance Tax categories.

Table 2: Individual Business Tax Rankings and Scores in the Mountain West, 2014 and 2021

	Individual Income Tax			Sales Tax			Corporate Tax			Property Tax			Unemployment Insurance Tax		
	2014 Rank	2021 Rank	2021 Score	2014 Rank	2021 Rank	2021 Score	2014 Rank	2021 Rank	2021 Score	2014 Rank	2021 Rank	2021 Score	2014 Rank	2021 Rank	2021 Score
Arizona	19	17	5.49	43	40	4.05	23	22	5.27	6	11	5.69	2	8	5.60
Colorado	15	14	5.84	37	36	4.37	20	10	5.80	21	32	4.73	38	41	4.52
Nevada	1	5	8.40	41	44	3.89	1	25	5.13	11	5	6.17	43	47	4.28
New Mexico	24	31	4.80	42	41	4.05	34	9	5.85	1	1	6.53	11	9	5.60
Utah	12	10	6.08	16	23	4.92	6	14	5.59	4	7	5.98	19	17	5.20

*Adapted from “2021 State Business Tax Climate Index” by the Tax Foundation