Indiana's taxes penalize small firms, manufacturers, in-state corporations, study says

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(Phys.org)—Indiana's tax code unfairly penalizes small business, manufacturing and homegrown corporations in favor of out-of-state firms, sapping the state of millions of dollars annually in potential income, says a new study by Ball State University.

The Relative Tax Burden on Indiana's Businesses, an analysis by Ball State's Center for Business and Economic Research (CBER), also found widespread and significant differences in the effective tax rate paid by businesses across industry and size that potentially distort the behavior, size and location decision of firms.

"Hoosiers would be astounded if they knew our current tax structure inadvertently favors out-of-state firms like Walmart that set up LLCs (limited liability company) over Indiana firms like Eli Lilly that are corporations created in Indiana," said Michael Hicks, CBER director and an economics professor in the Miller College of Business, who co-authored the paper with Hilary Fichter, CBER research assistant.

With headquarters in Arkansas, Walmart is subject to the LLC tax rate of 3.4 percent, Hicks said, while Indianapolis-based Eli Lilly and Company must pay taxes at the corporate rate of 8.4 percent.

"At the same time, we have different tax rates for farmers, retailers and manufacturers —something that makes no sense at all," Hicks said. "We tax revenues on an individual farming operation with few employees far less than manufacturing companies with the same revenues.

"Virtually every large interstate company that has a presence in Indiana is set up as an LLC, which saves them tens of million of dollars in taxes annually. If we had a single low tax rate for LLCs and in-state corporations, it would still attract out-of-state firms while providing Hoosier firms with an incentive to invest in facilities and employees."

Ball State's research also examined tax rates on Indiana and found rates vary by industry and company size, and tax rates decrease as firm's revenues increase.

A farming operation is taxed at a 2.16 percent rate for every $1 million of income while the rate for the same sized retail firms is 2.47 percent and manufacturing is 3.81 percent.

"It is clear that we don't have a balanced playing field here in Indiana," Hicks said. "Why do we treat a dollar from a manufacturer differently than we do other operations like farming and retailing?"

Indiana's state legislature will be forced to review the situation in the coming years in order to make Indiana friendlier to existing Hoosier businesses, Hicks said.

Provided by Ball State University