

State Competitiveness Indices & Rankings: What National Rankings Tell Us about Florida's Competitiveness

In these difficult fiscal times, policymakers across the country have made competitiveness a top policy priority to help lead their states to economic recovery. The first step in the process of improving competitiveness is to identify where the state business climate is well perceived and where reforms are needed. Several reputable organizations publish annual indices that rank states based on measures of competitiveness, which provide key insights that help shape the policy discussion. In this Florida TaxWatch *Briefing*, seven such indices are analyzed to identify recurring themes that reveal important information about Florida's competitiveness.¹

Among the seven indices, Florida is ranked among both the top ten states as well as the bottom half of states for its competitiveness nationally. The variability in these rankings is caused by the different factors of the business climate being considered by each index and the different weights assigned to those measures. For this reason, more detailed analysis is warranted.

State Competitiveness Rankings (2010)			
Organization	Competitiveness Ranking		
	Florida	Highest	Lowest
American Legislative Exchange Council	5	Utah	New York
Beacon Hill Institute	12	North Dakota	Mississippi
CNBC	28	Texas	Alaska
Forbes	26	Utah	Maine
Kauffman Foundation: New Economy	21	Massachusetts	Mississippi
Small Business & Entrepreneurship Council	6	South Dakota	New Jersey
Tax Foundation	5	South Dakota	New York

¹ The seven business ranking indices analyzed in this briefing are national studies of state business climates conducted by the American Legislative Exchange Council (ALEC); Beacon Hill; CNBC; Forbes; the Kauffman Foundation; Small Business & Entrepreneurship Council; and the Tax Foundation.

In this report, Florida's rankings are compared both nationally and regionally in several areas to generate a more accurate picture of Florida's competitiveness. A regional comparison is conducted because a state's stiffest competition may come from its neighboring states. Studies have shown that business and employment is more likely to migrate to states close in proximity if they offer a more competitive business environment.² Therefore, this analysis compares Florida with its "neighboring states" to further identify competitive advantages and disadvantages. For the purposes of this study, ***Florida's "neighboring states" will be referred to as the following seven states: Alabama, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Texas.***

Business Tax Burden

It is well documented that the relative tax burden levied on business directly affects the decisions of entrepreneurs, firms, and investors to start, relocate, or expand within a state. Several taxes and fees make up the total business tax burden including personal income tax, corporate income tax, property tax, sales and excise taxes, corporation fees, and an assortment of other assessments, fees, and taxes.

Florida ranked near the bottom for overall tax burden (37th and 41st nationally by Forbes and CNBC, respectively), which includes sales, property, corporate, income, and other taxes. Each of Florida's neighboring states was ranked significantly better (less costly to business).

In all indices, Florida's overall tax burden was found to be higher (more costly to business) than the rest of the nation and its neighboring states.

Personal Income Tax

A constitutionally guaranteed absence of state personal income tax generates a competitive advantage for Florida in attracting high profit margin industries that are less capital intensive and because it generally decreases the tax burden for all business.³ Unsurprisingly, Florida's income tax policy is ranked first in the nation by all indices that measured it (ALEC, the Tax Foundation, and the Small Business and Entrepreneurial Council).

Florida ranks best in the nation due to an absence of personal income tax – outperforming all of its neighboring states.

Corporate Income Tax

Florida ranks within the top third of all states for its corporate tax burden.⁴ Florida is ranked 14th by the Small Business and Entrepreneurial Council and 15th by the Tax Foundation.⁵

² National Conference of State Legislatures, Tax Policy Handbook for State Legislators, *Principles for Evaluating Tax Sources*, Third edition, February 2010. <http://www.ncsl.org/documents/fiscal/TaxPolicyHandbook3rdEdition.pdf>

³ In addition to Florida, Alaska, Nevada, South Dakota, Washington, and Wyoming do not impose an income tax. Tennessee imposes an excise tax on net business earnings done in the state.

⁴ Only five states have a corporate income tax rate lower than Florida including Colorado, Michigan, Ohio, South Carolina, and Utah.

A majority of Florida's neighboring states were ranked better for a more favorable corporate income tax policy: Alabama, Georgia, Louisiana, Mississippi, South Carolina, and Texas. However, when measuring taxable income brackets along with the top corporate income tax rate, only Georgia (8), Mississippi (13), and South Carolina (9) are ranked higher than Florida (15). Nationally, South Dakota and Nevada were ranked first in the nation due to their lack of a corporate income tax.

Florida's current corporate income tax stands at a flat rate of 5.5 percent on net business income based on a mixed apportionment of in-state sales revenue (50%), real estate holdings (25%), and payroll (25%). Allowing optional corporate income liability calculation based only on in-state sales (known as elective Single Sales Factor) would create a competitive advantage for Florida to attract multi-state and multi-national firms who conduct a majority of their business outside of the state because the largest portion of their taxable corporate income is comparatively reduced which benefits their bottom lines. Attracting these types of businesses would provide a larger boost to Florida's economy overall as they draw in a higher amount of national and global dollars, which generates a larger economic impact. For these reasons among others, Florida TaxWatch supports an elective single sales factor for Florida.

Florida ranks within the top 15 states for its corporate income tax policy. A majority of its neighboring states were ranked higher for a more favorable corporate income tax rate, but not significantly.

Property Tax

Florida has a relatively higher property tax burden than the rest of the nation. High property taxes negatively affect Florida's competitiveness predominantly in attracting and maintaining manufacturing – oriented firms as well as organizations that require large amounts of real estate to conduct their business.

Florida ranked 28th and 37th nationally due to a relatively higher property tax burden by the Tax Foundation and ALEC, respectively. The Tax Foundation ranks Florida higher because it includes capital stock taxes, such as franchise taxes (Florida does not have), in its measurement of property tax burden where the measurement used by ALEC looks only at the effective property tax rate and collection per capita.

When compared with neighboring states, Florida's high property tax burden is apparent. Every neighboring state except Texas was ranked better than Florida when looking at the effective property tax rate and collection per capita. Nationally, New Mexico and Alabama were ranked number one in the country for maintaining the lowest property tax burden on business. The primary reason for a higher property tax burden on Florida business is its ineligibility for homestead exemptions, which shifts the tax burden from Florida homeowners to business.

Florida's property tax burden on business ranked high – the upper half of the nation. Every neighboring state except Texas was ranked better for its more favorable property tax burden. High property tax rates may negatively affect Florida's competitiveness.

⁵ The SBE Council measures only the top corporate income tax while the Tax Foundation measures three factors: the top tax rate, the level of taxable income at which the top rate kicks in, and the number of brackets.

Sales Tax

Florida ranks almost in the middle for its high local and state sales tax burden. Florida ranked no better than 30th in the nation for its total sales tax burden (the Tax Foundation ranked Florida highest). When the sales tax burden is calculated as a portion of personal income, Florida's burden is ranked as low as 39th in the nation by ALEC. When excise taxes are added to the calculation, Florida ranks even lower – 42nd in the nation by the Small Business and Entrepreneurial Council.

Florida did not fare well compared with its neighboring states. Of them, Louisiana was the only neighboring state that was consistently ranked worse than Florida. Nationally, Delaware, New Hampshire, and Oregon were ranked number one in the nation for the lowest sales tax burden.

A high sales tax burden creates a competitive disadvantage for Florida in attracting certain industry. For instance, businesses that need to purchase a significant amount of goods and services from other businesses for production are more negatively impacted by a state's sales tax policy than other types of industry. Currently, Florida has a base sales tax rate of 6.0 percent with a 1.5 percent additional local sales tax option. Colorado has the lowest sales tax base rate at 2.9 percent and eight states have a state sales tax base rate of 4.0 percent: Alabama, Georgia, Hawaii, Louisiana, New York, South Dakota, Virginia, and Wyoming.

Florida is ranked poorly – in the lower half of the nation – for its total sales tax burden. Florida's sales tax burden on business was also ranked higher compared with every neighboring state except Louisiana. However, this higher burden ranking is offset by Florida's best ranking in personal income tax as most states use a combination of the two taxes to raise revenue while Florida relies only on the sales tax.

Remaining Tax Burden

Beyond the most immediate taxes facing businesses, there are additional taxes and fees that are factored into a business' calculation of its tax burden, which can significantly hinder a state's competitiveness. These factors include taxes on insurance, capital gains, utilities, and gas, as well as worker and unemployment compensations taxes. These taxes are known as the "remaining tax burden."

When ranked solely on remaining tax burden, Florida is ranked nearly worst by ALEC, which was the only index that measured and ranked this burden. ALEC ranks Florida 45th worst in the nation due to its high remaining tax burden on business after personal income, corporate, property, sales, and unemployment taxes are accounted for (measured as a share of personal income). Every one of Florida's neighboring states are ranked significantly better including Georgia, which ranked 2nd best in the nation for its low remaining tax burden.

The remaining tax burden on business in Florida is one of the worst in the nation. All of Florida's neighboring states were ranked considerably higher. The low ranking in this category reveals that the remaining tax burden is a significant threat to Florida's competitiveness.

Unemployment Compensation Tax

Florida is ranked consistently within the top ten states for its low unemployment compensation tax payments. Florida is ranked 3rd best in the nation by both the Tax Foundation and the Small Business and Entrepreneurial Council. Additionally, Florida is ranked higher than each of its neighboring states.

Low tax payments for unemployment compensation create a competitive advantage for Florida as it reduces the cost of labor for business – savings that can be spent on hiring more employees, increasing income, or investing in the economy. However, it is projected that these taxes will significantly increase when assessments and tax increases are imposed on Florida businesses in order to begin loan repayments to the federal government beginning in September 2011.⁶

While low unemployment compensation tax payments are a competitive advantage for Florida business, projected tax increases will undoubtedly remove Florida from its high national rankings.

Workers Compensation Assessments

Florida is ranked in the middle of all states for the cost of workers compensation assessments – Florida ranked 23rd and 27th in the nation by ALEC and the Small Business and Entrepreneurial Council, respectively. Among neighboring states, only Alabama (25); North Carolina (21); and Texas (2) were ranked better, according to ALEC. However, Florida ranked better than every neighboring state according to the Small Business and Entrepreneurial Council, which measured workers' compensation assessment costs as workers' compensation benefits per \$100 of covered wages (ALEC measured workers' compensation assessments per \$100 of payroll).

While not ranked most favorable in the nation, Florida's worker compensation assessments are average when compared nationally and with neighboring states.

Regulation

Two indices ranked states based on their overall “business friendliness”, which took into account the regulatory and legal environments among states. Florida is ranked the 22nd best business friendly state by Forbes and 23rd in the nation by CNBC for the most favorable regulatory and legal environment. Based on these similar rankings, Florida is approximately in the middle of all states for its hospitable regulatory and legal climate towards business.⁷ However, these rankings may not fully reflect the

⁶ It is projected that Unemployment Compensation tax payments will increase significantly for business in the near future as Florida begins to make payments on the interest owed to the federal government for loans made to Florida's Unemployment Compensation System in September 2011. On January 1, 2011, the minimum unemployment compensation tax increased from \$25.20 to \$72.10 per employee. An additional \$9.52 per employee will be due in June 2011. This assessment is for the first interest payment due to the federal government for loans to the state's UC trust fund. Florida employers are facing a total \$4 billion UC tax increase over three years. (Florida TaxWatch, *Mitigating Unemployment Comp Increases Facing Employers*, March 2011).

⁷ Forbes regulatory measurement took into account states' regulatory and tort climate, incentives, government integrity, transportation, and bond ratings. CNBC measured states on the perceived “friendliness” of their legal and regulatory frameworks to business.

current regulatory situation in Florida because they consider a vast array of factors that affect certain industries differently.

According to Forbes, Florida ranks significantly lower than its neighboring states including Alabama (10); Georgia (17); North Carolina (1); South Carolina (8); and Texas (17). Florida is ranked much higher compared with its neighboring states according to CNBC – only Georgia, North Carolina, and Texas were perceived as more friendly to business in this index. There is a discrepancy between neighboring states because the CNBC rankings do not include transportation and bond ratings as a part of its consideration as the Forbes index does. It may be concluded that these factors negatively impact Florida's competitiveness when compared with its neighboring states.

The regulatory and legal climate of Florida is ranked in the middle of all states by the two indexes that measured it. All but two of Florida's neighboring states are ranked significantly higher than Florida. This may be an area for reform in Florida to improve its competitiveness.

Quality of Life & Cost of Living

Beyond taxes, the decision to start, expand, or relocate a business depends on long-term considerations of the cost of living and quality of life offered in a state. Two indices ranked states based on a broad measure for the quality of life and cost of living. CNBC ranked Florida 31st in the nation for quality of life and 30th for its cost of living while Forbes ranked Florida more poorly as 39th in the nation for quality of life.⁸ Unlike CNBC, Forbes included the cost of living and quality of education in its measurement for quality of life, which may be the reason why quality of life in Florida is ranked lower than in the CNBC index.

In the two indices using broad measures, Florida is ranked in the bottom-half of states for its cost of living and quality of life.

Other indices look at more specific measurements for quality of life:

Crime & Security

Considerations of security are so significant that most business executives found it to be the most important factor in determining a state's quality of life when deciding where to open or expand business operations.⁹ When measured by crime per 100 residents, the Small Business and Entrepreneurial Council ranks Florida's crime as 48th worst in the nation, which indicates that Florida has a high crime rate. According to this index, Florida is considered to be safer than two of its neighboring states: South Carolina (50) and Texas (49).

However, Florida is ranked more favorable according to the Beacon Hill index, which ranks Florida 34th in the nation. In this index, crime per capita, the murder rate, and percent change in the crime rate over

⁸ Forbes included of quality of schools, health care, crime, cost of living, and poverty rates in its measurement of quality of life.

⁹ Area Development Magazine, *Area Development 25th Annual Corporate Survey*, 2010.

time is included to rank states, which is a more accurate measurement of security as it accounts for the size of a state relative to the amount and nature of crimes committed. In the Beacon Hill Index, Florida is ranked higher than every neighboring state except North Carolina (25).

Florida is ranked near the bottom of the nation for its high crime rate but is ranked similarly to all of its neighboring states. Given the importance of security to businesses, Florida's high crime rate may be a threat to competitiveness in the state.

Infrastructure and Transportation

A developed, accessible transportation system and modern infrastructure is an important aspect to state competitiveness because of the benefits it affords everyday business operations as well as the quality of life for employees. A survey conducted by Area Development Magazine of top business executives, predominantly owners, presidents, and chief executive officers, asked which factors were weighted most heavily when selecting locations for new or expanded business operations. It found that highway accessibility ranked first overall in business location decisions.¹⁰

CNBC ranked Florida 21st in the nation for transportation and infrastructure, which measured transportation by ranking state systems based on the value of goods shipped by air, land, and water; the availability of air travel; and quality of roads. A majority of neighboring states are ranked higher than Florida in this index: Georgia (2); North Carolina (10); South Carolina (8); and Texas (1). According to the Small Business and Entrepreneurial Council, Florida is ranked even lower at 39th in the nation for quality of transportation and infrastructure but this index focuses solely on the condition and performance of roads and highways as well as the cost effectiveness of highway projects.

Florida is ranked 24th in the nation when only state infrastructure is considered, according to the one index to measure this (Beacon Hill).¹¹ Of neighboring states, Florida is ranked higher on this selective measure than most except for Georgia (10); Louisiana (13); and North Carolina (9).

Florida ranks in the middle of all states for quality of transportation and infrastructure, which is a lower ranking than a majority of its neighboring states. One index reveals that Florida may be stronger in its overall infrastructure but these rankings were still average among all states. Of neighboring states, Georgia and North Carolina ranked higher than Florida in this category consistently.

Workforce Quality

The availability of quality skilled labor was recently ranked as the 6th most important decision for businesses when deciding where to locate.¹² Indices that used a broad measure of workforce quality

¹⁰ Ibid.

¹¹ The Beacon Hill included measurements of telephone penetration (as measured by cell phone use); High speed lines per 1000 residents; Air passengers per capita; Travel time to work; Electricity prices per million BTU; and Median monthly housing costs in the ranking of infrastructure.

ranked Florida first and fourteenth in the nation for over all workforce quality. However, these indices measured the quality of a state's workforce by the absolute availability of labor and not by the composition (education level, skill set, etc.) of the workforce.

When looking at the workforce composition, Florida ranks consistently low for the percentage of its workforce that is involved in innovation and high-tech industries. Florida ranked in the bottom half – 32nd in the nation – for engineers and scientists as a percentage of the population and 27th for the number of high technology jobs that exist in the state, according to the Kauffman Foundation. However, Florida is similarly ranked to its neighboring states with Georgia, North Carolina, and Texas consistently ranking higher than Florida but not significantly. This reflects a shortage of high technology and knowledge-based industry, which generates states' competitiveness because it accelerates wage growth and diversifies the economy.

Florida ranks low nationally for its shortage of high-technology and high-skilled labor. Florida was also ranked low for the amount of engineers and scientists as a percentage of the labor force. However, Florida was ranked similarly to its neighboring states for high-technology jobs and the number of scientists and engineers in the labor force.

Quality of Education

Quality of education directly impacts the quality of life and availability of a skilled workforce, all of which are intimately tied to a state's competitiveness. CNBC used a broad measure of education to rank states, measuring both the quality of K-12 public education institutions (based on test scores and graduation rates) and the number of higher education institutions (as a measurement of talent recruitment and partnership opportunities). In this index, Florida is ranked 35th in the nation with only Georgia, Louisiana, North Carolina, and Texas ranking slightly higher.

Looking only at higher education, Florida was ranked 43rd in the nation for the percentage of its population enrolled in degree granting institutions, according to the Beacon Hill Index. Four of Florida's neighboring states ranked slightly higher: Louisiana (39), Mississippi (36), South Carolina (40), and Texas (37). However, Florida fares much worse when ranked on the number of science and engineering degrees awarded – 46th in the nation, according to the Beacon Hill Index. Every neighboring state was ranked higher than Florida in this category.

Investment in Innovation

Florida is ranked in the bottom half of the nation for investment in innovation as measured by the amount of corporate and academic investment in research and development and number of patents. Florida ranked 31st for patents and 47st in the nation for its level of academic investment in research and development, according to Beacon Hill. Florida's investment in research and development ranks lower than every neighboring state, except for Louisiana and Mississippi.

¹² Area Development Magazine, *Area Development 25th Annual Corporate Survey*, 2010.

However, Florida is ranked higher when the scope is broadened to include corporate patents and corporate investment in research and development. The Kaufmann Foundation ranks Florida 26th in the nation for patents and 32nd for corporate investment in research in development. Yet, Florida still performs poorly when compared to neighboring states for investment in research and development with each one ranking higher than Florida, except for Louisiana and Mississippi.

Florida ranks in the lower bottom-half for overall higher education and K-12 education and likewise in the bottom half of the nation for its shortage of investment in innovation. Florida's neighboring states did not rank significantly higher in broad measures of educational quality or higher education. However, Florida was consistently ranked lower than neighboring states for technical degrees awarded and investment in research and development.

Conclusion

Policy makers and all who are interested in Florida should pay attention to enhancing the state's competitiveness factors; strengthening that state's foundation for growth; and addressing the areas that constrain it to help lead Florida to economic recovery and future prosperity.

Analysis of all the indices reveals some noteworthy trends of Florida's competitive advantages and disadvantages nationally:

Florida is ranked highly for its absence of a personal income tax, relatively low corporate income tax and unemployment compensation tax¹³, and low labor costs. Florida also scored highly for maintenance of a relatively stable tax and regulatory environment; favorable conditions for entrepreneurs and small business (4th in the nation by the Kauffman Foundation, the only survey to measure this); and statutory limits on government expenditures. Forbes found Florida to be a leader in growth prospects; ranking 3rd in the nation for anticipated growth in jobs, income, and gross state product growth as well as business openings in the only national survey measuring this variable. There were mixed results in some areas, including workers' compensation tax; overall quality of life; and quality of transportation and infrastructure.

The indices did reveal areas where reform may be needed. Florida ranks poorly for a high overall business tax burden (due to high sales, property, and excise tax burdens); high crime rates; shortages of highly skilled labor; and a lack of investment in research and development.

Analysis of all the indices reveals some noteworthy trends in Florida's competitive advantages and disadvantages regionally:

Regionally, Florida is ranked higher than neighboring states for its absence of personal income tax. Yet, in most areas, results were mixed when Florida is compared with its neighboring states. Areas where Florida did not clearly rank higher or lower include workers' compensation assessments; quality of life; crime; infrastructure; number of scientists and engineers in the labor force; and quality of education. However, the rankings did reveal some areas where reform may be needed when Florida is compared with its neighboring states. National indices clearly ranked our neighboring states more favorably for lower corporate income tax; property tax; sales tax; the remaining tax burden; government regulation; infrastructure and transportation; and investment in innovation.

¹³ Florida TaxWatch, *Mitigating Unemployment Comp Tax Increases Facing Employers*, Report, March 2011.

**Strengths and Weaknesses of Florida's Economic Competitiveness Rankings
(Numbers in parenthesis indicate Florida's ranking among the 50 states)**

ALEC	Organization:	American Exchange Legislative Council www.alec.org
	Report:	A.B. Laffer, S. Moore, J. Williams. "Rich States, Poor States". 2010.
	Scope:	State Economic Competitive Index
	Design:	15 state determined policy variables; equal weighting.
	Florida Rank:	5
	Strength(s):	No personal income tax(1); No inheritance tax(1); Right to work state(1).
	Weakness(s):	State liability system(42); Sales tax burden(39); Property tax burden(37).
Beacon Hill	Organization:	Beacon Hill Institute at Suffolk University. Www.beaconhill.org
	Report:	Tenth Annual State Competitiveness Report (2010).
	Scope:	State Competitive Index.
	Design:	8 broad sub indices, 43 variables measuring state policies and conditions.
	Florida Rank:	12
	Strength(s):	Government and fiscal policy(1); Business Incubator(7); Openness(12).
	Weakness(s):	Security(50); Human Resources(47); Technology(35).
CNBC	Organization:	CNBC www.cnbc.com
	Report:	America's Top States for Businesses 2010
	Scope:	State Business Competitive Index
	Design:	10 categories, 40 measures of state competitiveness; unequal weighting.
	Florida Rank:	28
	Strength(s):	Workforce(1); Access to Capital(17); Technology and innovation(13).
	Weakness(s):	Cost of doing business(41); Economy(48); Education(30).
Forbes	Organization:	Forbes Magazine www.Forbes.com
	Report:	K. Badenhausen. "The Best States for Business and Careers". Oct, 2010.
	Scope:	State Business Climate Index.
	Design:	6 categories; 33 measures of state business climate; unequal weighting.
	Florida Rank:	26
	Weakness(s):	Business costs(37); Economic climate(36); Quality of life(39).
Kauffman	Organization:	Ewing Marion Kauffman Foundation www.Kauffman.org
	Report:	R. Weitekamp, M. Pozel, S. Norton. "The 2010 State New Economy Index". Nov. 2010.
	Scope:	State New Economy Index
	Design:	5 categories; 26 indicators of state capacity for economic change
	Florida Rank:	21
	Weakness(s):	Technological Innovation(32); Knowledge Jobs(33).

SBE Council	Organization:	Small Business & Entrepreneurship Councils www.SBECouncil.org
	Report:	R. Keating. "15th Annual Small Business Survival Index 2010". December, 2010.
	Scope:	Small Business Survival Index
	Design:	38 major government-imposed costs impacting small business and entrepreneurship
	Florida Rank:	6
	Strength(s):	Personal income tax(1); Unemployment tax(3); Number of Gov't Employees(10).
	Weakness(s):	State and local property tax(43); Gross Receipts and Excise tax(42); Florida(48);
Tax Foundation	Organization:	The Tax Foundation www.TaxFoundation.org
	Report:	K. Padgitt. "2011 State Business Tax Climate Index". October, 2010.
	Scope:	State Business Tax Climate
	Design:	5 component indices; 112 variables; unequal weights
	Florida Rank:	5
	Strength(s):	Individual tax(1); Unemployment insurance tax(3); Corporate(15).
	Weakness(s):	Sales Tax(30); Property tax(28).

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Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

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