

Literature Review of the State Corporate Income Tax Single-Sales-Factor Apportionment Formula (Post 2009)

Article	Summary	Findings		
		Effect on Revenue	Effect on Employment	Effect on Business Investment
<p>Journal</p> <p>Bruce, Donald, and Deskins John. Can State Tax Policies Be Used to Promote Entrepreneurial Activity? <i>Small Business Economics</i> 38 (2012): 375-97.</p>	<p>"Using data spanning the years 1989 through 2002, the analysis reveals that state tax policies generally do not appear to have quantitatively important effects on entrepreneurial activity. Higher individual income tax rates . . . and a higher weight on the sales factor in the state corporate income tax apportionment formula all slightly reduce a state's share of the national entrepreneurial stock."</p>			<p>"Higher weights on the sales factor income tax apportionment formula of a state-level . . . tax is associated with lower state shares of the national entrepreneurial stock. All these effects are quite small in magnitude, however. We find no evidence of an economically significant effect of state tax portfolios on entrepreneurial activity. These results are important in the design of state tax policy, as they suggest that tax policy changes will probably not have the effects on small business activity that policy makers might believe."</p>
<p>Government Report</p> <p>Bernthal, Jamie, et. al. Single Sales-Factor Corporate Income Tax Apportionment: Evaluating the Impact in Wisconsin. Robert M. La Follette School of Public Affairs. May 2012. (link to report)</p>	<p>This report replicates and extends Goolsbee and Maydew's model as well as looks at the impact of the adoption of a single sales factor by Wisconsin.</p>	<p>"While the adoption of a greater sales factor weight is considered an economic development incentive, no consensus exists thus far for the precise magnitude or direction of revenue effects that any given state could expect, especially in the longer term."</p>	<p>There is no statistically significant relationship between the weight on sales and manufacturing unless the Goolsbee and Maydew model is extended to 2010. "Wisconsin's adoption of a single sales-factor apportionment in 2006 led to the creation of an additional 7,533 manufacturing jobs by 2010. This job growth resulted in a level of manufacturing employment that was 1.7 percent higher than it would have been without the policy change."</p>	
<p>Think Tank</p> <p>Institute on Taxation and Economic Policy. Corporate Income Tax Apportionment and the "Single Sales Factor." Aug 2012. (link to report)</p>	<p>"This policy brief explains how apportionment rules work and assesses the effectiveness of special apportionment rules such as "single sales factor" as economic development tools."</p>	<p>"Manufacturing companies that have more of their property and payroll in-state (and sell more of their products to customers in other states) will benefit from SSF, but companies with little in-state employment and property that sell proportionately more of their products in-state will be hurt by SSF. Whether SSF will reduce, or increase, a state's corporate income tax revenue depends on the importance of the state for the purposes of producing goods and services relative to its importance as a market for those goods and services. A company that sells products in an SSF state, but does so only by shipping products into the state (and therefore has no nexus) will not have to pay any income tax to the state. But if such a company makes even a small investment of employees or property in the state, it will immediately have much of its income apportioned to the state because the sales factor counts so heavily. Thus, SSF gives these companies a clear incentive not to invest in the state. Even worse, SSF gives companies with in-state employees an incentive to move all of their employees out of state to eliminate their nexus with the state—thus zeroing out their tax."</p>		

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<p>News Article</p> <p>Griffith, Cara. Single Sales Factor Apportionment May Be Inevitable, But Is It Fair? <i>Forbes</i>, Sep 18, 2014. (link to article)</p>	<p>Once one state adopted single-sales-factor apportionment seeking to create jobs and increase investments, other states followed suit not to miss out. They did so . . . because it was perceived as making a state's tax laws more competitive or business friendly. While single sales factor apportionment may benefit some businesses, it is far from being universally beneficial for taxpayers."</p>		<p>". . . single sales factor apportionment can provide a more favorable taxing environment for in-state businesses than for out-of-state businesses. Whether taxpayers are in favor of or against a move to single sales factor will depend on individual taxpayer circumstances. Because the effect of single sales factor apportionment depends largely on the nature of a taxpayer's business, there will always be companies on both sides of the equation."</p>	
<p>Journal</p> <p>Merriman, David. Coveting Thy Neighbor's Manufacturing: The Dilemma of State Income Apportionment (2000). <i>Public Finance Review</i> 43 (March 2015): 185-205.</p>	<p>Further econometric evidence shows that the effects on manufacturing employment of changing the weight of the payroll factor between 1978 and 1994 is less strong than Goolsbee and Maydew (2000) asserted. Extending the data set to 2010 also provide only weak evidence to support their conclusion.</p>		<p>The payroll factor is a small factor in the distribution of manufacturing employment among US states.</p>	
<p>Journal</p> <p>Swenson C. The Cash Flow and Behavioral Effects of Switching to a Single Sales Factor on State Taxation. <i>Journal Of The American Taxation Association</i> 37 (Fall2015): 75-107.</p>	<p>"Both Merriman (2015) and Goolsbee and Maydew (2000) used aggregate state data, which could not identify multistate from single-state firms, only the former of which are subject to apportionment. To resolve the conflict, this study . . . specifically identifies those [firms] that were affected by factor apportionment"</p>	<p>Revenue decreased for the five states studied (Georgia, Louisiana, New York, Oregon, and Wisconsin).</p>	<p>"Examining five states switching from double-weighted sales factors to SSF in 2006 . . . I find that sales and employment of multistate firms had very small increases after the adoption of SSF. Further analysis reveals that this small increase was driven by a shifting of jobs away from out-of-state-based to locally based firms and, to a lesser extent, by whether the state used combined reporting and sales "throwback" rules."</p>	

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<p>Journal</p> <p>Clausing, Kimberly A. The U.S. State Experience Under Formulary Apportionment: Are There Lessons for International Reform? <i>National Tax Journal</i> 69 (Jun2016): 353-385.</p>	<p>"This work undertakes a comprehensive analysis of the U.S. state experience under formulary apportionment of corporate income over the period 1986 to 2012."</p> <p>". . . results indicate that economic activity is not sensitive to U.S. state corporate tax policy choices."</p>	<p>". . . a higher sales weight will reduce corporate revenues for states where their asset and employment activity shares are higher than their sales shares."</p> <p>"In theory, if states consume roughly in line with their production, and if all states moved to a sales-only formula, the overall tax burden would be unchanged for firms, and state revenues would also be unchanged. But since firms often lack nexus in a particular state, not all sales generate associated corporate tax revenues under the present system."</p>		
<p>Journal</p> <p>Fox, William F., Zhou Yang. Destination Taxation: Road to Economic Success. <i>National Tax Journal</i> 69 (Jun2016): 285-314.</p>	<p>"We find limited evidence that . . . greater weight on the sales factor . . . positively affects GDP but sometimes with marginal statistical significance, and the effect of sales weighting seems confined to the manufacturing sector. The impact of increasing sales weighting also depends on state size with more benefits for small states." (Data: 1994 to 2010)</p>	<p>"On the revenue side, greater weight on the sales factor is associated with less revenue, suggesting that destination taxation is not fully enforced in some cases."</p>	<p>"Results for destination taxation through sales weighting do not hold up for employment."</p>	