

# Is There Such a Thing as a State Business Climate?

The rankings examined here each have their own shortcomings, but they share a common problem as well: What they set out to do does not make sense to begin with.

**The very concept of a “business climate” or “competitiveness index” is not meaningful or useful, particularly when applied to an entire state.** This is true even if the focus is narrowed to taxes. Within the same state, effective tax rates can vary dramatically depending on the industry, the size and age of the firm, whether one is considering an established firm or a new enterprise or a branch plant, whether the firm is multi-state or operates only within the state. Furthermore, local property tax rates can vary enormously within a state and are the costliest taxes paid by businesses.

The fact that the impact of a state’s tax system is unique to every business firm becomes clearer if one examines the tax rate estimates produced by the [representative firm models](#). These models examine how particular kinds of businesses are actually taxed in each state. For example, there are 14 business types modeled in Ernst &Young’s Location Matters; for each business, the states are ranked according to the rate at which they tax that business. A state could have the second lowest tax rate among the 50 states on a manufacturer, for example, but be among the states with the highest tax rate on corporate headquarters. **For 40 of the 50 states, they could brag about being among the 10 states with the lowest taxes if they picked the right firm, but for 27 of those same states the taxes on a different firm would put them among the 10 with the *highest* taxes.**