

Anatomy of the SBPI

Since 1996, the Small Business and Entrepreneurship Council (SBEC), based in Washington D.C., has produced the annual Small Business Survival Index (SBSI). The 19th annual report was released in December of 2014 and renamed the *Small Business Policy Index: Ranking the States on Policy Measures and Costs Impacting Small Business and Entrepreneurship*.¹

The Small Business Policy Index (SBPI) is not claiming to be an assessment of the overall business climate in a state, but rather a narrower measure of how well a state, through public policies, creates a nurturing environment for entrepreneurial activity and the development of small businesses.

The composition of the index is shown below (with the measures grouped by us, not the SBEC). On tax measures, the SBPI rates lower tax rates or no tax at all more highly, along with the structure of tax rates and having a statute that limits taxes. Being a right-to-work state, having no state minimum wage or a state minimum wage no higher than the federal, and the absence of paid family leave improve a state's ranking. Less regulation, fewer government employees, less government spending, school choice, and lax energy regulation all help improve a state's performance in this index. Many of their measures are "0-1" variables - the state either has such a tax or tax feature or it doesn't; in all cases a value of "1" is assigned to what they view as the bad alternative, because on their index a higher score is always worse. It is noteworthy that the SBEC gives estate or inheritance taxes far more weight with a score of "5" instead of "1" for states having either tax.

Progressive Taxation

1. Top personal income tax rate (after accounting for the effect of federal deductibility in the five states that allow it)
2. Top capital gains tax rate on individuals
3. Top tax rate on dividends and interest
4. Individual alternative minimum tax ("1" if state imposes AMT)²
5. Personal income tax rates indexed ("1" if state fails to index rates)
6. Progressivity of personal income tax: difference between top and bottom rate
7. Deduction for contributions to a health savings account ("1" if no deduction)
8. Average local income tax imposed by largest city and capital city
9. Top corporate income tax rate
10. Top capital gains tax rate on corporations
11. Additional income tax imposed on S-Corporations beyond the top personal income tax rate

12. Additional income tax imposed on LLCs beyond the top personal income tax rate
13. Corporate alternative minimum tax ("1" if state imposes AMT)
14. Progressivity of corporate income tax: difference between top and bottom rate
15. Estate or inheritance taxes ("5" if a state imposes either of these taxes)

Sales, Excise, Property and Other Taxes

1. State and local sales, gross receipts and excise taxes (excluding gas tax) as a share of personal income
2. Internet access tax ("1" if state has such a tax)
3. Remote seller tax: State mandates collection of sales tax on internet purchases ("1" if state has such a law)
4. Wireless service sales tax
5. Gas tax (dollars per gallon)
6. Diesel tax (dollars per gallon)
7. State and local property taxes as a share of personal income
8. Unemployment insurance tax (maximum rate applied to state wage base as a share of state average wage)
9. Workers' compensation costs per \$100 of covered wages

Labor Protections

1. Right-to-work status ("1" for non-right-to-work state)
2. Minimum wage (based on how much the state minimum wage exceeds the federal minimum)
3. Paid family leave ("1" for states that mandate any paid leave)

Government Services

1. State and local government full-time equivalent employees per 100 residents
2. Index of per capita state and local government expenditures
3. Index of the five-year growth rate in per capita state and local government expenditures
4. Index of per capita state and local government debt
5. Index of revenue from the federal government as a share of total state and local government revenue (higher is worse because it is "unreliable" and likely to be "spent in a more wasteful fashion")
6. Highway cost efficiency: Cost-effectiveness score ranging from 0.05 (best) to 2.50 (worst)

7. School choice and state standards: score from 0 to 3 based on reforms that raise standards and allow more “choice and competition” in the form of private school vouchers, charter schools, home schooling, and on-line learning.
8. Tax limitation status (“1” if a state has no forms of tax limitation)

Regulation and Other Measures

1. State version of federal Regulatory Flexibility Act (“1” for states with no regulatory flexibility statute, “0” for “full and active regulatory flexibility statutes,” “0.5” for partial flexibility)
2. Index of energy regulation
3. E-verify of workers’ immigration status (“1” if state mandates that employers use E-verify)
4. Protecting private property: Grade assigned for eminent domain reform legislation
5. State tort liability costs (based on the Pacific Research Institute’s Tort Liability Index)
6. Crowdfunding (1 if state does not allow intrastate equity crowdfunding)
7. Crime rate (FBI crime rate per 100 residents)

1. Raymond J. Keating. *Small Business Policy Index 2014: Ranking the States on Policy Measures and Costs Impacting Small Business and Entrepreneurship*. Washington, D.C.: The Small Business and Entrepreneurship Council, December, 2014, at: <http://www.sbecouncil.org/resources/publications/business-policy-index-2014/> The 17th edition (2012) was titled *The U.S. Business Policy Index*, while editions before that were named *The Small Business Survival Index*.

2. A “0” is assigned otherwise, as is the case with all binary variables in the index.