

DON'T MOVE TO BANGALORE!

Corporate Tax: Practical regional in-sourcing strategies that can save you money and make your business more competitive

In response to the continuing economic downturn, states and cities throughout the country are facing tough choices regarding budget shortfalls. Some states and cities are focusing on measures that will help create jobs and stimulate their local economy. All too often, states have chosen to target business for new sources of revenue.

A Pattern of Tax Hikes

Legislatures in California, Texas, Arizona, Colorado, and Illinois have all passed tax hikes focused on obtaining more revenue from business. In perhaps the most well-known circumstance, Illinois raised its corporate tax rate by 46 percent in an attempt to tackle its overwhelming budget crisis. Tax increases are not exclusive to Illinois. According to *The Wall Street Journal*, California's State Assembly is urging a "five-year extension of what was supposed to be a temporary income tax surcharge, among other tax hikes."¹

Several states have passed bills that would increase taxes on online retailers. Notably, California, Texas, Arizona, and Colorado have passed bills that would seek to create new taxes on small businesses whose sales occur primarily online via companies like Amazon. According to Stella Louise of *Technorati*, "Unlike the internet sales tax proposal dubbed the 'Main Street Fairness Act' which would level the online vs. brick and mortar playing field by requiring sales tax to be collected on all internet purchases by residents of states with relevant sales tax, the California bill's extension of nexus would only result in retailers like Amazon dropping Californian affiliates just as they did with Arkansas and Connecticut after 'Amazon tax' legislation was passed by those states."²

A Different Approach

With so many states seeking to increase taxes on business, many businesses are struggling to stay afloat in an already difficult economic climate. Luckily, there are some states that are maintaining a business-friendly climate. One of these states is Utah, which is consistently recognized as one of the best managed, most business-friendly states in the country.³ Instead of trying to raise taxes on business, Utah has maintained a low 5 percent flat corporate tax. Further, many cities in Utah are working to help businesses take advantage of the superior business climate Utah can offer.

In particular, Ogden, Utah is using a unique approach to help companies in distressed markets save American jobs and improve margins by taking advantage of Utah's low cost structure. Ogden is actively seeking out companies in high-tech industries to help them move some of their operations to Ogden's business-friendly environment. This approach, called regional in-sourcing, is helping companies take advantage of Ogden's highly-skilled workforce, low cost of living, and favorable tax structure. According to Paul Bachman, a tax attorney at the law offices of Van Cott, Bagley, Cornwall & McCarthy in Ogden, Utah's tax structure is very business friendly. Mr. Bachman points out that besides statutes that are created to be business-friendly, corporate taxes are not collected on limited liability companies or S corporations. Mr. Bachman also states that a business operating in Utah is partially subject to Utah's tax structure under the Multi-State Tax Compact, whereby the income of the entire business will be apportioned to Utah based upon the ratio of income, fixed assets and payroll located in Utah to total income, fixed assets, and payroll of the business; which can help businesses in distressed markets increase margins by moving part of their fixed assets and payroll to Utah without moving all of their operations to Utah. For more information regarding regional in-sourcing, contact Terrence Bride at (801) 629-8984. For further questions regarding corporate tax issues please contact Paul Bachman at (801) 394-5783.

¹ Editorial. (2011, June 20). As sacramento turns. *Wall Street Journal*, pp. A14.

² Louise, S. (2011). *California small businesses rise up against proposed internet tax*. Retrieved June 20, 2011, from <http://technorati.com/business/small-business/article/california-small-businesses-rise-up-against/>

³ See *Governing Magazine* 2008; Pollina Corporate Top 10 Pro-Business States for 2009