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S.D. best for business

Report: State's tax system makes it No. 1 for entrepreneurs



Gov. Mike Rounds wants to capitalize on the state's business-friendly status.

BY JOSH VERGES

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South Dakota has the nation's most attractive tax system for small businesses and entrepreneurs, according to a new ranking – and that could help the state lure struggling businesses looking for greener economic pastures.

The Small Business and Entrepreneurship Council's Business Tax Index 2009 combines 16 tax measures

into a score that allows the 50 states and the District of Columbia to be ranked. South Dakota is at the top of the list, and Gov. Mike Rounds says the state is trying to attract businesses that might be having problems in other states during the recession.

"We've just simply indicated that rather than leaving the country and rather than outsourcing the jobs to other countries, to take a look at South Dakota," Rounds said. "In order to be

successful and to bring jobs and businesses to the state, you have to be seen as recognizing that profit is not a dirty word."

Adding to the state's business-friendly climate is a work force that accepts relatively low wages: Only Mississippi and West Virginia workers are paid a lower median hourly wage than South Dakota's \$12.82.

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RANKINGS

TOP FIVE states in the 2009 Business Tax Index:

1. South Dakota
2. Nevada
3. Wyoming
4. Washington
5. Texas

BOTTOM FIVE in the Business Tax Index:

47. California
48. Maine
49. Minnesota
50. New Jersey
51. Washington, D.C.

Business: Goal is to lure out-of-state companies to S.D.

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Mark Anderson, president of the Sioux Falls-based South Dakota State Federation of Labor AFL-CIO, says businesses that pay low wages aren't much help.

"Your taxes don't make any difference, the business climate doesn't make any difference," Anderson said. "If you're not putting enough money in your paycheck to take home, you end up somewhere below a living wage."

Rounds said it doesn't matter how much people make if their government takes it away from them.

"The most important factor is how much you have in your pocket after you figure in local and state taxes, and once you factor in the cost of living," the governor said.

Once that's done, "we're actually rated 10th in the nation in terms of disposable income adjusted for cost of living," he said.

After living and working in New York, which ranks 46th on the business tax index, Mitch Jackson and his wife returned to his native Sioux Falls and started a business just over a year ago. The couple's Queen City Bakery now employs one full-time and four part-time workers in downtown Sioux Falls.

"We continue to grow steadily," Jackson said.

He said he has no complaints about the tax structure and is fortunate to have started a business in a city that has escaped the worst of the economic recession. Sioux Falls seems to be surrounded in a "bizarre economic bubble," Jackson said.

Taxes are important but probably aren't the top priority for people looking to do business in the state, said Mark Slade, regional director of the Small Business Development Center in Sioux Falls.

Businesses are drawn by the state's cheap labor, strong work ethic and state economic development officials who are accessible and responsive, he said. But low taxes do encourage people to start their own businesses.

"You like to be in a situation where the fruits of your labor ... increases your income," Slade said. "Taxes is a pretty solid driver of that."

South Dakota has been trying to use its tax climate to woo out-of-state businesses for years. In the early 1980s, Minnesota's governor at the time, Rudy Perpich, said that South Dakota was "50th in everything" as he argued against the state's efforts to land Minnesota businesses.

The business tax index ranks Minnesota 49th.

The Associated Press contributed to this story.