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The 7 Best States to Start a Business

Ranking the states based on how friendly they are to entrepreneurs

By *Matthew Bandyk*

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When it comes to starting a business, the question of "where" can be just as important as "what," "why," and "how." Some states offer better business climates for entrepreneurs than others. And in today's economy, entrepreneurs need all the help they can get when launching a new business.

The problem is that there's no one measure for evaluating a state's businesses environment. Do you look at the education of the workforce? The amount of regulations? The current level of economic growth?

The best method might be to combine as many factors as possible. *U.S. News* decided to look at two comprehensive studies that take completely different approaches to measuring the friendliness of the 50 states to entrepreneurs: the [2008 New State Economy Index](#), by the Kauffman Foundation and the Information Technology and Innovation Foundation, and the [Small Business Survival Index 2008](#), by the Small Business and Entrepreneurship Council.

We combined the rankings of these two studies to help come up with our list of the top seven states for starting a business. Here is what we found:

- 1. Washington.** The Evergreen State tops the list by coming in second on the New State Economy Index and fifth on the Small Business Survival Index. Washington is first among the states in steps toward energy efficiency and using more alternative-energy sources. It also has a highly productive manufacturing sector, signaling high wages and a tech-intensive economy. Washington leads the nation in value added per production hour as a percentage of the national average—the difference in value between inputs in the production process and the value of the units as finally sold. But in addition to these nonpolitical factors, Washington also has very low taxes, making the costs of growing a business quite low. It does not have its own income or capital-gains taxes, either personal

or corporate.

2. **Virginia.** This state is not just "purple" in terms of its voting patterns. It also mixes the highly educated workforce and technological sophistication of blue states like Massachusetts with the low taxes and spending of red states like Texas. Virginia is one of the leaders in the information technology revolution, with the highest number of IT occupations in non-IT industries as a share of total jobs. Virginia also lands in the top 10 of states with the lowest consumption taxes.

3. **Colorado.** It's probably not a coincidence that one of the fastest-growing states (the population is estimated to have grown 13 percent from 2000 to 2007) is also one of the best to start a business. What's attracting so many people to Colorado might be the third-most-educated workforce in the nation. That brainy workforce has pushed Colorado to fourth place in terms of the number of patents issued to companies or individuals per 1,000 workers. The state also finishes in the top half of all states in terms of the level of income, capital gains, consumption, and property taxes.

4. **Texas.** Globalization has made it possible for entrepreneurs to serve markets in not just their immediate community, region, or country but the whole world. If your ambition is that encompassing, Texas might be a good place to start. Texas has the most globe-focused manufacturing sector in the country, with export sales at \$69,268 per worker—the highest of any state. Another incentive for business owners is the cost of labor—Texas has the lowest workers' compensation costs of any state. The Lone Star State also lacks an income or capital-gains tax for individuals,

5. **Nevada.** Nevada has a reputation as a state where "anything goes." That is almost true when it comes to the state government's policies toward business. Nevada has no income or capital-gains tax for individuals or corporations, the 15th-lowest property taxes, and the second-lowest number of government employees. But that low level of government has not come at the cost of the state's economic infrastructure. Nevada ranks high for several factors important for future innovation, including the export focus of its manufacturing sector, the productivity of its manufacturing sector, number of patents issued, and the electronic sophistication of its healthcare system.

6. **Utah.** While Utah has a reputation for being one of the most culturally conservative

states, don't confuse that conservatism with a lack of dynamism or risk-taking. Utah has the third-fastest-growing firms in the country. It also ranks third in "job churning"—the number of new start-ups combined with business failures. It might seem strange to count failures as a good thing. But a large amount of job churning indicates that the state's economy is replacing old and inefficient businesses with new and more efficient ones. Utah's government lowers the cost of doing business by making few health insurance mandates—the fourth fewest in the nation of any state.

7. **Florida.** The Sunshine State's economy has been hit hard by the housing crisis, more than almost any other state. But Florida's economy has some fundamental advantages that are not going away simply because of a recession. Its low corporate and unemployment taxes and nonexistent individual taxes attract business people. Additionally, Florida has done a good job adjusting to new economic and technological trends: It ranks ninth in the nation in the export focus of its manufacturing sector and eighth in the number of Internet domain names created per firm.

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