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New England Tax Wars.

With Massachusetts' unofficial nickname being "Taxachusetts," some may be wondering why General Electric (GE) announced this week that it's moving its corporate headquarters from Connecticut to Boston. The move follows a contentious fight in Connecticut over the state's corporate tax structure that would have eventually increased GE's tax burden.

The bulk of the fight was over Connecticut's move toward "combined reporting," which basically makes a corporation declare any tax havens it may have in other states that presumably have lower (or no) taxes on corporate and individual income. About half the states have implemented combined reporting as a way of discouraging companies from using havens to evade taxes. If GE stayed in Connecticut, its income earned elsewhere would have been subject to the state's 9 percent corporate tax rate, which is one of the highest in the country. Connecticut has also increased taxes several times in recent years, and a committee is currently studying broader tax reform.

When GE threatened to leave Connecticut over these changes last year, Gov. Dannel Malloy quickly backtracked and delayed the tax hikes until this year. But it turns out he was just buying time for GE to scout out its next move.

Oddly enough, Massachusetts already has combined reporting requirements and a similarly high corporate income tax rate. But it has a much lower individual income tax rate (a flat rate of 5.1 percent, versus Connecticut's highest tax bracket of 6.99 percent). Massachusetts and Boston also sweetened GE's deal by providing tax credits totaling $145 million.

After spending the past 40 years in Connecticut, GE's relocation sends a sobering message to states as they continue to see their revenue from corporate income taxes shrink. "[General Electric] becomes just another company that has chosen to relocate due to a state's decision to alter its tax code," said Nicole Kaeding of the Tax Foundation.

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