



The Income Tax

By The Honorable Talmadge Heflin, Director, Center for Fiscal Policy
 & James Quintero, Fiscal Policy Analyst

THE ISSUE

Texas' pro-growth, low tax environment has been critical in making the state what it is today: an economic powerhouse. Here are just a few areas where Texas leads the nation:

- ★ **Overall Economic Growth.** Texas' economy—the 11th largest in the world—is expected to grow faster than the U.S. economy in 2010 (2.6 percent vs. 2 percent respectively);
- ★ **Job Creation.** Texas gained 166,100 new jobs between January and June 2010, making it one of the best states for job growth;
- ★ **Low Unemployment Rate.** Texas' unemployment rate (8.2 percent) was well below the national average (9.5 percent) for June 2010 and has been at or below the national average for 42 consecutive months; and
- ★ **Fortune 500 Companies.** Texas is tied for the most Fortune 500 companies headquartered in any state (57).

Despite these impressive milestones, some argue that a broad-based personal income tax would help create an even more prosperous economy. But is that really the case? Can Texas actually benefit from a new tax? Of course not.

People generally don't like paying taxes and will avoid them if at all possible—even if that means moving from a state with a personal income tax to one of the nine states without such a tax.* According to Americans for Tax Reform's *Cost of Government Day 2009* report, states without an income tax “gained a net total of over 235,000 new residents” from other states in 2007. In addition to the boost in population, states without an income tax also became wealthier as those new residents brought their income and savings along with them.

In fact, the nine states without an income tax saw an increase of nearly \$12 billion of net adjusted income in 2007 due to favorable interstate migration patterns.

Another major issue, pointed out in the Texas Public Policy Foundation's 2009 report, *Enhancing Texas' Economic Growth through Tax Reform*, was the rate of growth in personal income.

State Income Migration Changes 2006-07

Gain greater than 0.33%	AZ, CO, FL , GA, ID, MT, NV , NC, OR, TN , TX , UT, WA , WY
Gain between 0.01% and 0.33%	AL, AR, DE, KY, ME, MS, NH , NM, OK, SC, SD , VT, WV
Loss between 0.01% and 0.33%	AK , CA, HI, IL, IN, IA, KS, LA, MN, MO, NE, ND, PA, VA, WI
Loss greater than 0.33%	CT, DC, MD, MA, MI, NJ, NY, OH, RI

Note: States in bold have no income tax.

* Seven states in the U.S. do not have a state income tax. These include: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Additionally, Tennessee and New Hampshire do not tax personal income, but levy a limited tax on dividends and interest income.

According to this research, the nine states without an income tax had an average personal income growth rate of 79.2 percent over 10 years. By contrast, the nine states with the highest top marginal income tax rates had an average personal income growth rate of just 59.6 percent over the same 10-year period.

THE FACTS

- ★ Texas is one of nine states that do not impose a personal income tax.
- ★ Income taxes damage a state's economy more than any other tax because they disincentivize capital investment, productivity, job creation, wages, and economic expansion.
- ★ Short-term revenue gains from a new personal income tax are outweighed by the long-term economic damage the tax creates.
- ★ States without an income tax gained 235,000 new residents in 2007 at the expense of other states. The new residents brought with them \$11.8 billion in additional income.

- ★ States that do not impose an income tax enjoy faster economic growth, greater employment growth, and lower unemployment rates than states with the highest top marginal income tax rate.

RECOMMENDATIONS

- ★ Avoid creating a personal income tax in Texas.
- ★ Encourage economic growth by keeping taxes low and adopting pro-growth reforms.

RESOURCES

Enhancing Texas' Economic Growth Through Tax Reform by Arduin, Laffer, & Moore Econometrics, Texas Public Policy Foundation (Apr. 2009) <http://www.texaspolicy.com/pdf/2009-04-taxswap-laffer-posting.pdf>.

Cost of Government Day 2009 by the Center for Fiscal Accountability, Americans for Tax Reform (2009) <http://www.fiscalaccountability.org/index.php?content=cogd-teas>. ★

