Texas Public Policy Foundation

Keeping Texas Competitive

A Legislator's Guide to the Issues 2013-2014

Income Tax

The Issue

Texas boasts one of the best tax climates in the country. According to the latest Tax Foundation data, Texas' state and local tax burden ranks 45th nationally, placing it among the very best states for taxpayers.

As a result of the state's comparatively friendly tax environment, Texas' private sector economy is surging forward, outperforming the nation as a whole in a number of key areas. Consider that:

- Texas' economy is growing faster than the national average. In 2011, Texas' gross domestic product grew by 2.4%, much faster than the national economy which grew by just 1.6%;
- Texas' labor market is adding jobs at a faster rate than the rest of the nation. From August 2011 to August 2012, Texas nonfarm employment increased by 2.5%, whereas between August 2011 and August 2012, U.S. total nonfarm employment increased 1.4%.
- Texas replaced all of the jobs it lost during the recession by December 2011, putting it well ahead of the national recovery. At that same point, the nation had recovered just 30% of the jobs lost.
- Texas' unemployment rate is markedly lower than the national average. Texas' unemployment rate, 7.1% in August 2012, has been at or below the national average, 8.1% in August 2012, for 68 consecutive months or more than five years straight.

In spite of these impressive achievements, however, some argue that a broad-based personal income tax is needed to improve the state's overall outlook, raising the question: Is Texas better or worse off with an income tax?

To help answer that question, let's examine some recent data.

In *Competitive States 2010: Texas vs. California*, the Foundation compares the past economic performance of "the nine states without a personal income tax (including Texas) to the nine with the highest marginal income tax rates (including California)." The study's results show a clear difference between the two groups.

In every category analyzed—including Gross State Product Growth, Personal Income Growth, Population Growth, Net Domestic In-Migration as a Percentage of Population, and Non-Farm Payroll Employment Growth—the states without a personal income tax fared much better economically than the states with the highest marginal personal income tax rates. Not only that, but the nine states without an income tax also outperformed the national average in every category, often by a wide margin (*see chart on next page*).

Based on this empirical data, it is reasonable to conclude that creating an income tax in Texas would be a detriment for the state's economy. Texas' economic prospects as well as its citizens are best served by its current low tax, pro-growth approach rather than a new income tax.

The Facts

- Texas is one of nine states without an income tax.

continued on back

- 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.

- The nine states without an income tax outperformed the nine states with the highest marginal income tax rates in nearly every important economic area from 1999 to 2009 including in such measures as Gross State Product Growth, Personal Income Growth, Population Growth, Net Domestic In-Migration as a Percentage of Population, and Non-Farm Payroll Employment Growth.

- In addition, the nine states without an income tax also outperformed the national average in every metric above.

The Nine States with the Lowest and Highest Marginal Personal Income Tax Rates
10-Year Economic Performance, 1999 to 2009

	Top PIT Rate*	Gross State Product Growth**	Personal Income Growth***	Population Growth	Net Domestic In-Migration as a % of Population	Non-Farm Payroll Employment Growth****
Alaska	0.00%	106.8%	69.0%	11.8%	-2.0%	15.8%
Florida	0.00%	78.4%	65.5%	17.6%	6.5%	8.7%
Nevada	0.00%	106.2%	81.3%	36.6%	14.1%	21.4%
New Hampshire	0.00%	53.5%	52.6%	8.4%	2.5%	4.4%
South Dakota	0.00%	77.9%	63.9%	8.3%	0.8%	9.7%
Tennessee	0.00%	56.7%	55.1%	11.7%	4.2%	-0.7%
Texas	**0.00%**	**94.5%**	**67.6%**	**20.5%**	**3.4%**	**13.7%**
Washington	0.00%	64.9%	58.8%	14.1%	3.4%	8.2%
Wyoming	0.00%	137.6%	91.6%	10.7%	4.3%	24.8%
9 States with No PIT*****	0.00%	86.28%	67.26%	15.52%	4.12%	11.76%
U.S. Average*****		66.34%	65.54%	10.08%	0.80%	10.42%
9 States with Highest Marginal PIT Rate*****	9.92%	59.81%	53.36%	6.10%	-1.91%	2.48%
Ohio	8.24%	35.2%	34.4%	1.8%	-3.1%	-7.7%
Maine	8.50%	56.7%	55.3%	4.1%	2.3%	1.9%
Maryland	9.30%	68.8%	66.0%	8.5%	-1.5%	6.4%
Vermont	9.40%	59.7%	52.5%	2.8%	-0.1%	1.2%
New York	10.50%	66.6%	48.0%	3.5%	-8.3%	1.9%
California	**10.55%**	**70.1%**	**56.6%**	**10.3%**	**-3.9%**	**2.5%**
New Jersey	10.75%	51.2%	48.7%	4.2%	-4.8%	1.0%
Hawaii	11.00%	70.0%	66.6%	7.0%	-2.2%	12.0%
Oregon	11.00%	60.1%	52.3%	12.7%	4.5%	3.0%

Source: "Competitive States 2010: Texas vs. California"

Recommendations

- Do not create a personal income tax in Texas.
- Encourage economic growth by keeping taxes low and adopting pro-growth reforms.

Resources

Competitive States 2010: Texas vs. California by Arduin, Laffer, & Moore Econometrics, Texas Public Policy Foundation (Oct. 2010).

Texas Public Policy
FOUNDATION

900 Congress Ave., Ste. 400, Austin, Texas 78701 | 512.472.2700 phone 512.472.2728 fax | www.TexasPolicy.com