# State of the States

## An Analysis of the 2015 Governors' Addresses

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American Legislative Exchange Council

LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

CENTER FOR STATE FISCAL REFORM

TAX AND BUDGET SOLUTIONS FOR ECONOMIC GROWTH

**State of the States**
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The 2015 State of the States Report was published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop, and disseminate model public policies that promote limited government, free markets and federalism. ALEC is the nation's largest non-partisan, voluntary membership organization of state legislators, with more than 2,000 members across the nation. ALEC is governed by a Board of Directors of state legislators. ALEC is classified by the Internal Revenue Service as a 501(c)(3) nonprofit, public policy and educational organization. Individuals, philanthropic foundations, businesses, and associations are eligible to support the work of ALEC through tax-deductible gifts.

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# Introduction

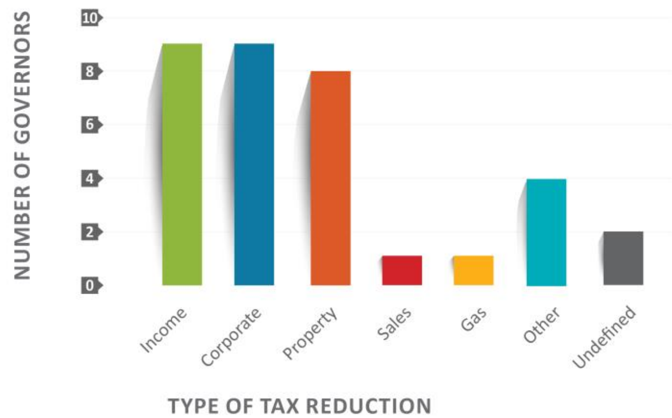
The 2015 governors' addresses included hundreds of tax and fiscal policy proposals that provide a sense of governors' priorities during their time in office. As leaders of their states, often with significant veto power, governors play a vital role in determining the policy direction their state will take and setting the agenda for the coming years. This report summarizes the tax and fiscal policy proposals that were discussed in the state-of-the-state addresses this year. In those states where no state-of-the-state address was given, the equivalent inaugural or budget address is discussed.

In reviewing each of these addresses, several common themes and trends became apparent about the governors' fiscal priorities and proposals across the states. One of the most common elements of this year's addresses was the call for tax relief. More governors focused on reducing the tax burden of their citizens as a path to growth than those who claimed more taxes and spending would improve their state's economy. While some governors did support raising taxes and fees, many of these were small increases targeted at addressing a specific expense in the state.

It appears most governors have learned the lesson that they are in constant competition with other states for jobs and capital. In order to keep their state economically competitive, they must make tax cuts a continuing priority, while keeping tax increases at a minimum. This is explored in greater detail in the annual report, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*[1], in which several years of economic data and empirical evidence from each state are examined, and policies that can lead a state to economic prosperity are identified. Generally, states with lower tax burdens, less regulations, and responsible levels of spending outperform other states.

The following graphics show a breakdown of the types of tax cuts and increases that governors called for in their addresses. They include proposals regarding tax rates, eliminating or enacting new taxes, and any significant, broad-based tax credit changes. Taxes that did not belong in any regular category are designated as "other" while tax proposals where the governor did not specify a particular type of tax are labeled "undefined."

## GOVERNORS PROPOSING TAX REDUCTIONS

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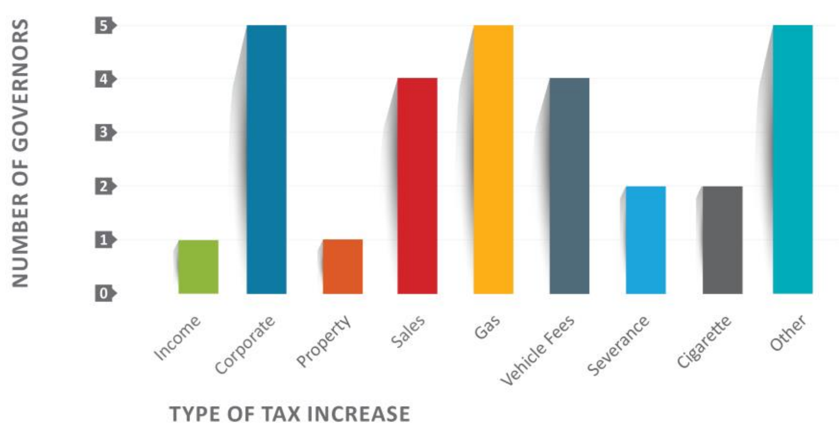
## GOVERNORS PROPOSING TAX INCREASES

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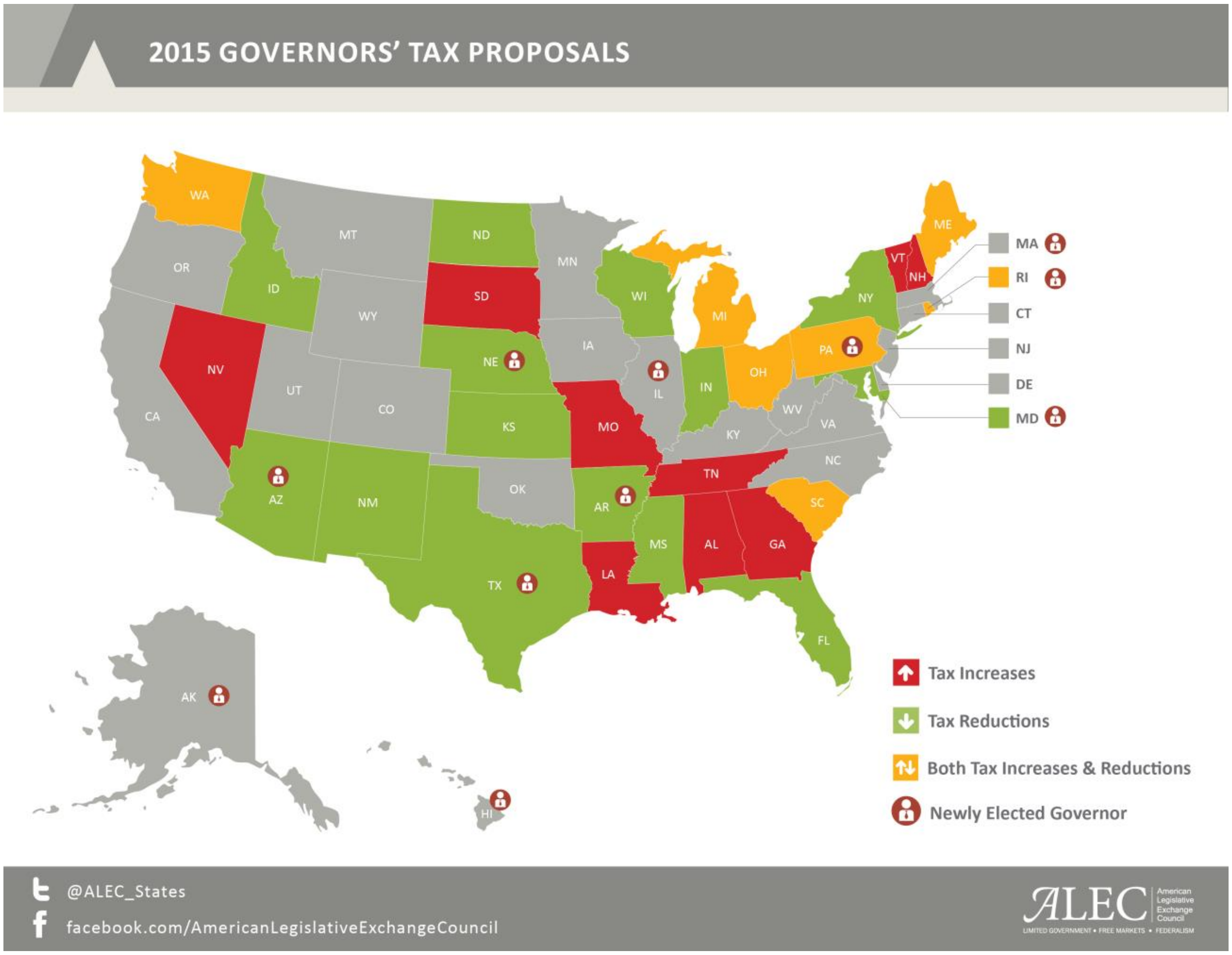
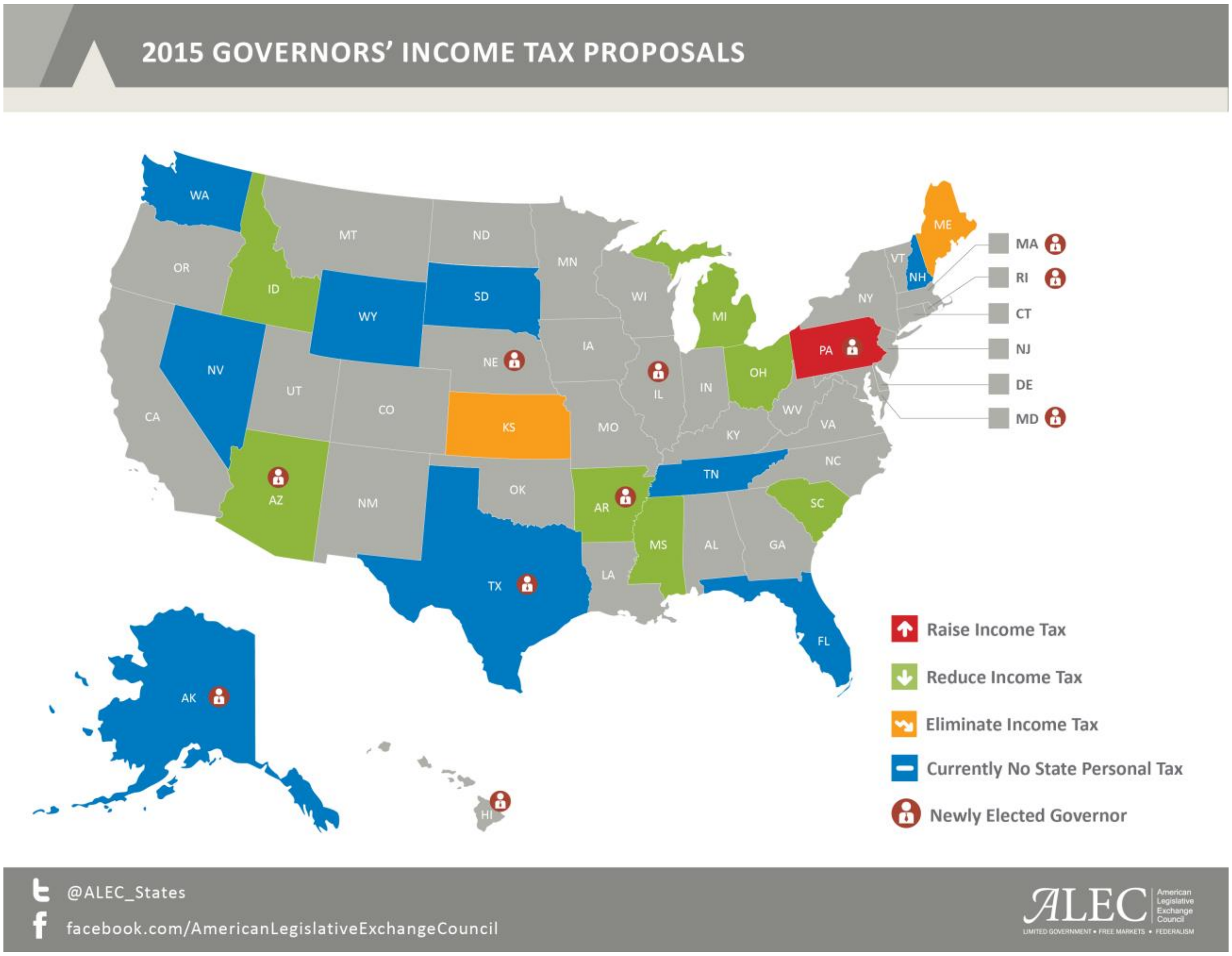
The map below shows the states in which the governor called for tax increases of some kind, tax reductions of some kind, or a mixture of both tax increases and tax reductions.




This map demonstrates that tax cuts were proposed by more governors in their state-of-the-state addresses this year than those who proposed tax increases. Regarding those states with some combination of both, there was significant variation. Many states called for lowering some taxes, such as income taxes, or property taxes, but then proposed taxes on particular products, most notably gasoline taxes and cigarette taxes. Other governors called for fundamental tax reform, such as Governor Paul LePage in Maine, whose bold plan to eliminate the personal income tax over the coming years also relied on increasing the state's sales tax, a plan that will be a significant benefit to the state.

Another trend was the effort in many states to reduce or eliminate the income tax, and instead rely on other forms of revenue to fund the state budget. Governors Paul LePage in Maine and Sam Brownback in Kansas spoke about the need to lower income taxes and work towards phasing them out entirely. Currently, nine states have no income tax, but these two could join them in the coming years if these governors are able to follow through on their plans.

The map below shows which states currently have no income tax, those governors who discussed getting rid of the income tax in their addresses, and those governors who proposed cutting the income tax without eliminating it entirely.




This trend in reducing the income tax and moving towards other taxes for revenue is particularly encouraging because while all taxes are harmful, not all taxes are equally damaging to the economy. According to the Organization for Economic Cooperation and Development (OECD), taxes on capital and income are the most economically damaging, while taxes on consumption and property are less economically damaging.[2] The economic history of tax systems in the states is a helpful guide for states striving to achieve a higher level of economic growth. States that rely primarily on income taxes routinely underperform their counterparts who choose not to levy taxes on personal income.

**TABLE 6 | The Nine States with the Lowest and Highest Marginal Personal Income Tax (PIT) Rates**

10-Year Economic Performance

| State | 2014 | 2003-2013 | | | | | 2001-2011 |
|---|---|---|---|---|---|---|---|
| | Top Marginal PIT Rate** | Population | Net Domestic Migration† | Non-Farm Payroll Employment | Personal Income | Gross State Product | State & Local Tax Revenue‡ |
| Alaska | 0.00% | 13.4% | -2.1% | 12.9% | 62.6% | 84.7% | 232.8% |
| Florida | 0.00% | 15.0% | 5.1% | 4.8% | 50.1% | 37.0% | 50.3% |
| Nevada | 0.00% | 24.1% | 9.1% | 8.0% | 44.9% | 46.2% | 66.7% |
| South Dakota | 0.00% | 10.6% | 2.6% | 10.2% | 62.3% | 63.0% | 50.9% |
| Texas | 0.00% | 20.1% | 4.5% | 19.5% | 74.1% | 81.7% | 63.3% |
| Washington | 0.00% | 14.2% | 3.8% | 10.6% | 55.2% | 57.3% | 48.6% |
| Wyoming | 0.00% | 15.7% | 5.6% | 16.2% | 76.8% | 113.5% | 121.1% |
| Tennessee^ | 0.00% | 11.1% | 4.4% | 3.3% | 48.0% | 39.2% | 50.2% |
| New Hampshire^ | 0.00% | 3.4% | 0.2% | 3.7% | 43.6% | 35.0% | 54.5% |
| Avg. of 9 No Income Tax States* | 0.00% | 14.2% | 3.7% | 9.9% | 57.5% | 61.9% | 82.0% |
| **50-State Avg.*** | **5.66%** | **9.1%** | **0.8%** | **5.9%** | **51.3%** | **51.0%** | **56.5%** |
| Avg. of 9 Highest Income Tax States* | 10.39% | 6.8% | -2.0% | 4.3% | 47.8% | 47.0% | 54.3% |
| Kentucky | 8.20% | 6.8% | 1.4% | 3.0% | 44.7% | 42.4% | 38.9% |
| Maryland | 8.95% | 7.9% | -2.4% | 4.4% | 48.9% | 48.9% | 52.2% |
| Vermont | 8.95% | 1.4% | -1.1% | 2.3% | 45.7% | 38.8% | 63.5% |
| Minnesota | 9.85% | 7.3% | -1.1% | 4.5% | 45.7% | 42.8% | 46.5% |
| New Jersey | 9.97% | 3.5% | -5.6% | -1.0% | 40.5% | 34.6% | 57.6% |
| Oregon | 10.62% | 10.8% | 4.3% | 6.4% | 47.9% | 71.4% | 53.3% |
| Hawaii | 11.00% | 12.2% | -2.4% | 8.8% | 61.0% | 54.9% | 57.6% |
| New York | 12.70% | 2.5% | -7.5% | 6.1% | 49.8% | 45.2% | 64.7% |
| California | 13.30% | 8.7% | -3.7% | 4.1% | 46.0% | 43.5% | 54.0% |

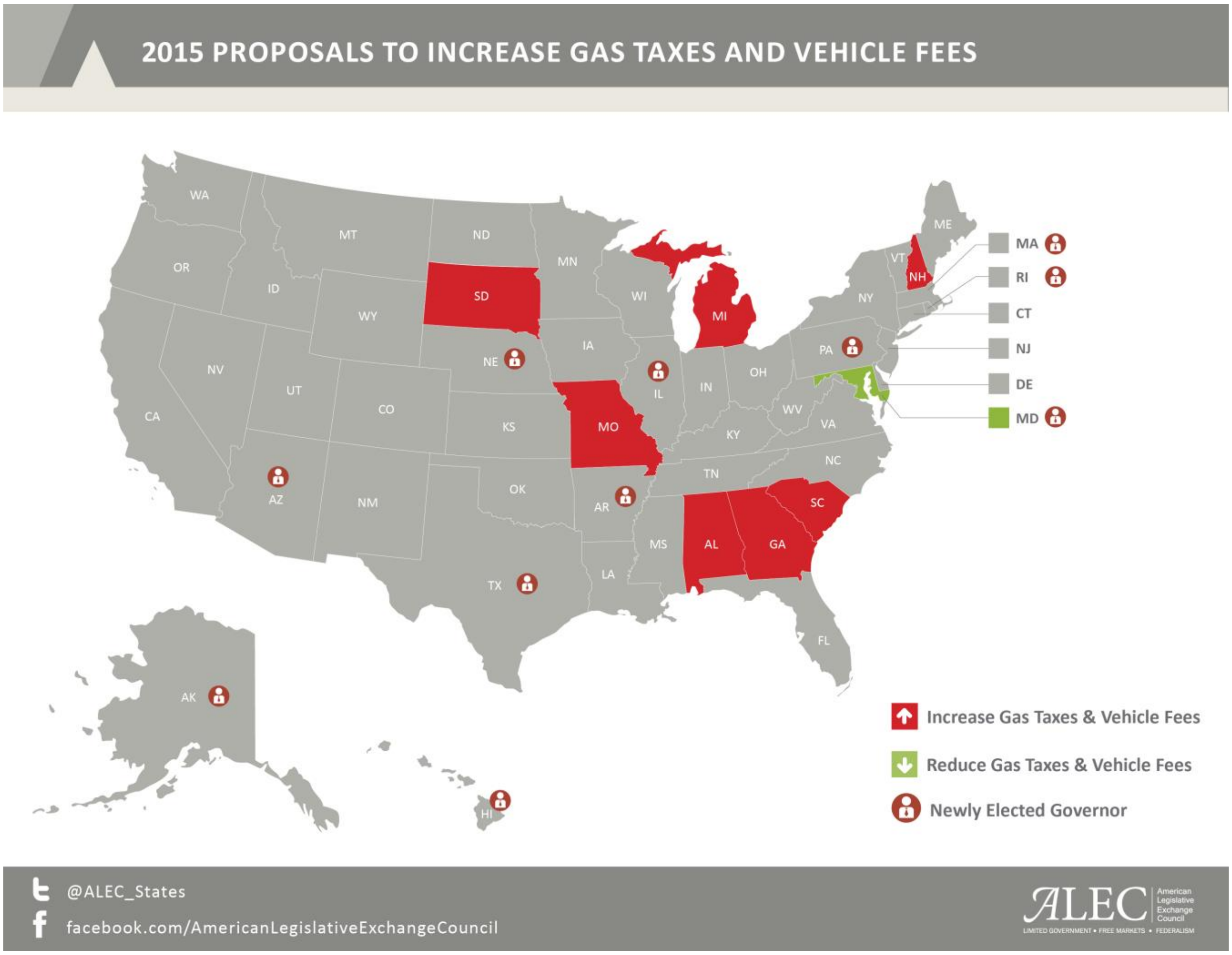
*Equal-weighted averages
**Top marginal PIT rate is the top marginal tax rate on personal earned income imposed as of 1/1/2014 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.
†Net domestic migration is calculated as the ten-year (2004-2013) sum of net domestic in-migrants divided by the mid-year (2009) population.

‡2001-2011 due to Census Bureau data release lag.
^Tennessee and New Hampshire tax interest and dividend income but not ordinary wage income.

*Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis*

As shown above, the nine states that do not levy a personal income tax experienced a cumulative job growth rate of 9.9 percent from 2003 to 2013 while the nine states with the highest personal income tax rates experienced less than half of that at just 4.3 percent over the same time period. The no income tax states also experienced much better rates of net domestic migration, personal income growth, and gross state product growth than their high tax counterparts.[3]

While there was a lot of good news for taxpayers in this year's state-of-the-state addresses, there were some proposals that would increase taxes and fees. The most common tax hike proposals were calls to raise transportation-related charges, including gas taxes and vehicle fees. These were typically sold as necessary to fund roads and infrastructure. The map below shows which governors proposed raising gas taxes and vehicle fees.




While it is necessary for states to maintain their roads, certain best practices can lead to sufficient funding without the need for higher taxes. In the ALEC *State Budget Reform Toolkit*[4], priority based budgeting is recommended as a tool for states to adequately fund core functions of government. States should also consider adopting the benefit principle, in which revenue coming from road taxes and fees should be spent exclusively on road expenses. To the extent that gas taxes and vehicle fees are necessary at all, see the background study on gas taxes, *Paying at the Pump: Gasoline Taxes in America*[5] on best practices for administering gas taxes and the importance of the benefit principle. Raising taxes should be a last resort for road and infrastructure expenses.

In addition to gas taxes, cigarette tax increases were also proposed be a few governors. Governor Maggie Hassan of New Hampshire and Bill Bentley of Alabama proposed raising cigarette taxes to increase revenue. This is poor tax policy for several reasons. First, as discussed in the *Principles of Sound Tax Policy*[6] in the appendix of this report, one aspect of good tax policy is fairness. The tax code should not be used to target specific products or industries for discriminatory taxation. A sales tax should be broad-based and applied to all products equally and impartially, without exemptions for some products and additional taxes on others. It should also be pointed out that cigarette taxes rarely bring in the amount of revenue that is promised.[7] This is because consumers avoid paying the taxes by buying cigarettes across state lines or over the internet if they can pay a lower price.[8] Finally, the number of smokers has been declining for many years[9] and relying on a diminishing revenue source means that there will be less stability in state finances.

Tax policy wasn't the only common theme in this year's state-of-the-state addresses. Several governors spoke about the importance of balancing the state budget. Indiana Governor Mike Pence went as far as to call for a new state constitutional amendment that would require the state to pass a balanced budget every year. Other governors pledged to balance their budgets for the coming year and others discussed the need to constrain budget growth. While 49 states already have some form of balanced budget requirement, it is encouraging to see so many governors take the time to discuss the value of not spending more than the state collects in revenue and avoiding large debt obligations.

In order to improve their budget situation, many governors announced new proposals to reduce the cost of government. Several governors called for finding new ways to operate state government more efficiently through consolidating agencies, creating new agencies dedicated to finding cost-saving strategies in government, or even asking the public for their suggestions on how the state government could save money. A few governors called for improved budget transparency by making information about the cost of government more easily available to citizens, a policy that will hopefully lead to a reduction in waste, fraud, and abuse in the coming years.

Finally, many governors discussed the need for pension reform. The public pension system is a significant unfunded liability for many states.[10] For some, years of failing to make necessary payments has left their pension fund dramatically underfunded and at risk of default in the near future. While some governors offered significant proposals that will help to reduce state liabilities and reduce costs over time, other governors simply called for making payments to the existing system to improve their financial situation and shore up the pension fund for a few more years. There is compelling evidence that workers and taxpayers alike benefit from states moving from defined-benefit pension models, which have all but disappeared from the private sector, to more modern and sustainable defined-benefit systems. The report, *Keeping the Promise: State Solutions for Government Pension Reform*, shows how states have moved towards the defined-contribution model over the past 20 years and recommends strategies states can use to improve their pension systems.[11]

# Summaries of Tax and Fiscal Remarks by State

Below are summaries of the tax and fiscal policy remarks the governors made during their 2015 state-of-the-state addresses. Included are the 2015 rankings from *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* for reference. The *Rich States, Poor States Economic Outlook Ranking* is a forward-looking measure based on a state's standing in the equally weighted average of 15 important state policy variables. These variables include tax policy, regulatory policy, and labor policy. Data reflects state and local rates and revenues and any effect of federal deductibility. (1=Best, 50=Worst)[12]

### Alabama – Governor Robert Bentley

*Rich States, Poor States* 2015 Economic Outlook Ranking: 19

Governor Bentley touted attempts to control spending in the state, in particular noting that low-income citizens in the state need opportunities provided by jobs during his state-of-the-state address. He noted success in cutting spending through consolidation and other measures to streamline government. The governor also noted that paying down state debt and maintaining a responsible budget is crucial, but proposed tax increases to address this debt and also an increase in education spending. As the governor noted in the address, he sent eight separate tax increase proposals to the legislature as part of his budget, in an attempt to raise an estimated $541 million in tax revenue. These included requiring combines reporting for businesses, increased vehicle registration fees, and raising cigarette taxes.

### Alaska – Governor Bill Walker

*Rich States, Poor States* 2015 Economic Outlook Ranking: 14

In the past six months leading up to Governor Walker's state-of-the-state address in January, the price of oil decreased by more than 50 percent. Furthermore, government spending has continued to grow. Due to lower oil prices and increased government spending, Governor Walker estimates that Alaska is now $3.5 billion in the red.

Governor Walker has recommended budget reductions to address Alaska's $3.5 billion shortfall, and has encouraged Alaska citizens to send in their suggestions to the state for smart spending. Governor Walker has also stopped discretionary spending on six major state projects.

### Arizona – Governor Doug Ducey

*Rich States, Poor States* 2015 Economic Outlook Ranking: 5
When discussing state finances in his state-of-the-state address, Governor Ducey promised discipline in state spending when balancing the state's budget, and reiterated his support for controlling government overspending by cutting back on state bureaucracy, specifically by proposing a temporary hiring freeze for some state agencies. Governor Ducey also put forth a proposal to end automatic tax increases by indexing the state's income tax brackets to inflation. The governor touted his moratorium on new regulations and mentioned that he instructed agencies to come up with a top-to-bottom review of regulations, including an instruction to identify ones that can be done away with. In boosting the state's education system the governor promised to spend more money on education while directing it to the classroom and empowering parents to exercise more choice in their child's education.

### Arkansas – Governor Asa Hutchison

*Rich States, Poor States* 2015 Economic Outlook Ranking: 22

Newly elected Governor Hutchinson highlighted the importance of work, job creation, and economic growth on the way to proposing significant tax cuts. As the governor noted, having a competitive tax code means fostering a more competitive economy that can serve as an engine of economic growth, benefiting all of Arkansas' citizens. Speaking on global competition, Governor Hutchinson stated, "We can compete and win in this global marketplace by lowering our tax rates, starting with the middle class." Additionally, the governor called for regulatory reform to enable Arkansas businesses to succeed.

### California – Governor Jerry Brown

*Rich States, Poor States* 2015 Economic Outlook Ranking: 44

In his state-of-the-state address, Governor Brown focused on detailing new areas for increasing state spending. Plans to increase state spending on education, environmental protection, and infrastructure were vague but prevalent. Governor Brown also spoke about addressing the state's unfunded retiree healthcare costs by making employees pre-pay some of the costs, while taking credit for previously addressing some of the unfunded pension liabilities the state had accrued. Despite these calls for more spending, Governor Brown did not put forward any new tax or fee plans that would pay for his additional spending plans.

### Colorado – Governor John Hickenlooper

*Rich States, Poor States* 2015 Economic Outlook Ranking: 21

In Governor Hickenlooper's state-of-the-state address, he urged the General Assembly to pass legislation that would provide Coloradans with a fiscal impact statement on proposed ballot initiatives so that citizens are able to make a more informed decision. Governor Hickenlooper emphasized the need to improve transportation by finding "new revenue or new partnerships" and to increase funding for education. His budget asks for $480 million in increased K-12 spending, with the state funding 70 percent of that, and for an additional $107 million in general fund revenue for higher education.

### Connecticut – Governor Dan Malloy

*Rich States, Poor States* 2015 Economic Outlook Ranking: 47

Judging from his state-of-the-state address, Governor Malloy's priorities for Connecticut can easily be summed up in one word: transportation. In discussing what the state has done in the past with transportation finances and current transportation projects, Governor Malloy laid the groundwork for updating Connecticut's transportation funding. Governor Malloy outlined a plan to ensure funding that is raised for transportation is actually spent on transportation, declaring that he and the legislature "start this conversation with a real, working lock box." Governor Malloy made clear that raising these transportation funds while balancing the budget was his top priority.

### Delaware – Governor Jack Markell

*Rich States, Poor States* 2015 Economic Outlook Ranking: 38

Governor Jack Markell offered his willingness to increase revenue in Delaware during his state-of-the-state address. The funds would largely be directed towards infrastructure in the state and higher teacher pay for the highest-performing teachers. Governor Markell is also interested in reforming Delaware's regulatory burden. Recently, the governor issued an executive order requiring state agencies to review regulations, which led to the elimination or modification of more than one hundred state regulations. Continuing with that success, the governor proposed making this review process part of Delaware law and requiring regulatory impact statements for new regulations.

### Florida – Governor Rick Scott

*Rich States, Poor States* 2015 Economic Outlook Ranking: 15

Governor Scott discussed spending restraint, long-term debt obligations, and tax reform extensively in his state-of-the-state address. The governor noted the state's progress paying down debt and tax reform, including 40 separate tax cuts during his time in office. Moreover, the governor called for the elimination of the tax on manufacturing equipment, and a cut to cell phone taxes. Also in the governor's remarks was a call for curbing the cost of higher education, while spending more on K-12 education and workforce training such as STEM education.

### Georgia – Governor Nathan Deal

*Rich States, Poor States* 2015 Economic Outlook Ranking: 7

Governor Deal touted the need for budgetary responsibility and increased funding for infrastructure during his state of state address. The governor didn't discuss prospects for fundamental tax reform in the state, instead suggesting an increase to the state's taxation of gasoline to enhance transportation funding. Additionally, the governor embraced continuing Georgia's conservative principles, including keeping government small, prioritizing and balancing the state budget, and emphasizing a strong business climate.

### Hawaii – Governor David Ige

*Rich States, Poor States* 2015 Economic Outlook Ranking: 37

Governor Ige announced that the Hawaii tax department will implement a tax modernization system to help the state collect taxes more efficiently. The governor predicts that tax collections should increase within the next two years as a result of this new tax modernization system. As another means of raising revenue, Governor Ige stated that he would be appointing a special advisor that will focus on obtaining more federal funds for the state. In regards to spending, Governor Ige has pledged strong support for rail in Hawaii. While he did not say how much he would commit to spend in his state of the state address, he asked for cost containment before getting additional funding for Hawaii's rail project.

### Idaho – Governor Butch Otter

*Rich States, Poor States* 2015 Economic Outlook Ranking: 6

Governor Otter spoke about the need to improve the efficiency and transparency of the state's tax system. For example, he wants to refine the rules of the Idaho Tax Commission and create a director position to oversee daily agency business. Furthermore, Governor Otter expressed some support for reducing both the personal and corporate income tax rates. Specifically, Governor Otter supports decreasing Idaho's top income and corporate tax brackets from 7.4 percent to 6.9 percent in five years. He claimed that this tax reform plan would provide tax relief to 51 percent of taxpayers by 2018. The governor also announced that he wants to eliminate the personal property tax but was less specific about the time frame for this more fundamental change to the state's tax system. Lastly, Governor Otter stated strong support for transportation improvements and more education funding.

### Illinois – Governor Bruce Rauner

*Rich States, Poor States* 2015 Economic Outlook Ranking: 40

Newly elected Governor Rauner's first state-of-the-state address included a few tax and fiscal policy proposals. The Governor spoke positively about the recent expiration of some of the temporary tax hikes that were passed during the previous administration and the need to retain the lower rates. In terms of new tax policy proposals, the governor proposed empowering local communities to be able to freeze property taxes. Governor Rauner also spoke about his plan to increase the minimum wage to $10 an hour over the next few years.

On government reform, Governor Rauner hopes to consolidate local government and merge the comptroller's office with the treasurer's office. He estimated that doing so would save taxpayers $12 million a year. Along with this, Governor Rauner plans to reform the education bureaucracy and roll back costly mandates. Finally, the governor made some calls for additional spending, including plans to increase funding for early childhood education, as well as technical and vocational training.

### Indiana – Governor Mike Pence

*Rich States, Poor States* 2015 Economic Outlook Ranking: 3

During his state-of-the-state address, Indiana Governor Pence stressed the importance of a balanced budget and noted that given that Indiana is one of the few states without a constitutional balanced budget amendment, it is time for the state to adopt one. He also spoke positively of prospects for a constitutional convention of the states in order to draft a federal balanced budget amendment. Additionally, the governor noted the state's progress in tax reform and called for greater tax reform progress, particularly in simplifying the state's tax code and lowering property taxes. Finally, the governor touted funding increases for schools and roads, while keeping taxes low.

### Iowa – Governor Terry Branstad

*Rich States, Poor States* 2015 Economic Outlook Ranking: 25

Governor Branstad outlined several proposals in his state-of-the-state address. He spoke about more spending to help Iowans attend higher education, provide internet access to rural areas, and build new infrastructure. The budget will remain balanced despite these new proposals. Transportation funding remains an issue in Iowa with the governor calling on the legislature to work with him to find a way to pay for maintenance on roads and bridges. The governor also announced his commitment to increase government transparency. He called for improving the recently launched "Iowa Public Information

Board" – a portal through which the public can access information about local and state government – to help achieve this goal.

### Kansas – Governor Sam Brownback

*Rich States, Poor States* 2015 Economic Outlook Ranking: 18

Governor Brownback reiterated his support for reducing and eliminating the state's income tax, saying, "We will continue our march to zero income taxes." He also noted that the states without an income tax consistently outperform the states with the highest income taxes. The governor also announced that he would propose a two-year balanced budget that would ensure that revenues exceed expenditures each year. In addition to discussing his continued support for reducing the state's income tax burden, Governor Brownback proposed that the legislature pass a constitutional amendment that ensures Kansas will pay its debts first and honor the obligations the state has made. The governor also called for lawmakers to put the state's pension system on sound footing.

### Kentucky – Governor Steve Beshear

*Rich States, Poor States* 2015 Economic Outlook Ranking: 30

Governor Beshear had few tax and fiscal policy proposals in his final state-of-the-state address. He reiterated his support for a constitutional amendment that will allow local communities to vote on a local sales tax for specific projects they may need. He also encouraged legislators to keep recent reforms to the Kentucky public pension system on track. In addition, he called for legislation to allow public-private partnerships to be used in the state for transportation projects.

### Louisiana – Governor Bobby Jindal

*Rich States, Poor States* 2015 Economic Outlook Ranking: 26

In his final opening legislative session remarks, Louisiana Governor Jindal stressed the importance of keeping taxes low in order to ensure economic competitiveness and keep money in the hands of taxpayers, not government coffers. Despite this sentiment, the governor suggested his willingness to end what he called "wasteful spending in the tax code" which he characterizes as corporate welfare. The governor identified $500 million in corporate welfare to eliminate. This would raise state revenue in an effort to close a reported $1.6 billion budget shortfall for the upcoming fiscal cycle. Governor Jindal also called for smart reductions to government spending in order to balance the budget without substantial additional revenue and the necessity to keep government spending small in Louisiana.

### Maine – Governor Paul LePage

*Rich States, Poor States* 2015 Economic Outlook Ranking: 42

Governor LePage unveiled a comprehensive tax reform plan in his state-of-the-state address. His broad tax reform plan would be a first "baby step" towards eliminating the state's income tax, which significantly hampers economic growth. The plan would reduce taxes on income for Mainers by $300 million by reducing the state's income tax while also broadening the base for the state's sales tax. The plan also features increases to property tax credits and changes the revenue-sharing program between the state and local governments by curtailing state aid to localities while giving them more flexibility over local taxes. The governor also called for eliminating the antiquated estate tax. Finally, Governor LePage proposed a constitutional amendment that would dedicate future revenue growth to eliminating the state's income tax.

### Maryland – Governor Larry Hogan

*Rich States, Poor States* 2015 Economic Outlook Ranking: 33

During his state-of-the-state address, newly elected Governor Hogan touted his efforts to reform chronic budget deficits and the underfunded pension system. Governor Hogan said the state's budget problems cannot be blamed on revenue, noting that Maryland has the seventh highest tax burden and under the previous administration passed "40 consecutive tax hikes taking an additional $10 billion out of the pockets of struggling Maryland families and small businesses." In addition to calling for responsible government spending and a more competitive Maryland policy environment, he called for numerous specific tax reform proposals. This included the repeal of the "rain tax," tax relief for retirees, tax relief for small businesses, and the repeal of automatic gas tax increases. The "rain tax" is a tax levied on property owners based on the amount of impermeable surface that exists on their property. The gas tax increases annually based on the consumer price index, which measures the rate of inflation. Additionally, the governor called for substantial regulatory reform and noted that Maryland must embrace a pro-business public policy climate in order to compete in a global economy.

### Massachusetts – Governor Charlie Baker

*Rich States, Poor States* 2015 Economic Outlook Ranking: 28

Rather than setting a broad tax reform agenda, Governor Baker's inaugural address promised to close the state's deficit and balance the budget while holding the line on not raising taxes. The governor also plans take a realistic look at what is holding back the Massachusetts economy. While proposing to cut red tape and make it easier for people to work, earn, and save, the governor was clear in his assertion that the problems faced by Massachusetts were a result of over-spending rather than under-taxing.

### Michigan – Governor Rick Snyder

*Rich States, Poor States* 2015 Economic Outlook Ranking: 24

Governor Snyder touted tax reform efforts in Michigan in his state-of-the-state address. He also called for Michigan's citizens to vote "yes" for a ballot proposal that would increase taxes in order to provide more revenue to transportation funding. The proposal was broad but in short, it would increase the state's general sales tax rate, raise the state gas tax, increase vehicle registration fees, and increase the states Earned Income Tax Credit. In all, the proposal would have raised $2 billion in 2016 alone, $1.3 billion of which would be dedicated to roads. Additionally, Governor Snyder touted his desire to obtain additional waivers from the federal government for federally funded, state administered social assistance programs. This would allow for consolidating these many separate programs into fewer and better state designed programs. He also called for accompanying legislation with better fiscal notes to rigorously assess cost and fix the state's issues with business tax carve-outs due to the state still allowing the use of tax credits issued decades ago, making cost estimation difficult. Finally, he called for efficient, effective, and accountable government that embraces a free enterprise climate.

## Minnesota – Governor Mark Dayton

*Rich States, Poor States* 2015 Economic Outlook Ranking: 48

Governor Dayton noted that the Minnesota budget went from a $6.2 billion deficit to $1.9 billion surplus over the last few years while denying that the surplus was generated from too much taxation. Minnesota passed significant tax hikes two years ago, but the governor argued that it was exceptional economic growth and the low unemployment rate that made the jump from deficit to surplus possible.

Governor Dayton wants to spend much of the surplus on education, offering proposals to spend $694.6 million more on K-12 education, along with $372 more on early childhood education and childcare. For higher education, he proposed extending the tuition freeze for state universities another two years, increasing funding for scholarships, additional spending on state university programs, and $70 million to each system for campus repairs. The second priority Governor Dayton proposed spending the state's surplus on was transportation expenses, citing years of what he considered underfunding. However, he did not provide details about specific projects.

## Mississippi – Governor Phil Bryant

*Rich States, Poor States* 2015 Economic Outlook Ranking: 20

Mississippi Governor Bryant was aggressive on tax reform during his state-of-the-state address. Although the governor proposed a specific tax credit for working families, he noted with deference to the legislature, "The good news is I am open to any number of tax cuts that put money in the pockets of working Mississippians. In short, put a tax cut on my desk, and I will sign it." The governor's own plan, which he called the "Working Families Tax Cut," would provide an income tax credit to working Mississippians earning up to $52,000 annually. The governor also called for higher education funding increases and touted recent teacher pay increases. Additionally, Governor Bryant stressed the importance of a balanced budget and low debt.

### Missouri – Governor Jay Nixon

*Rich States, Poor States* 2015 Economic Outlook Ranking: 27

After the previous legislative session ending with his veto being overridden by the legislature to enact broad based income tax cuts, Governor Nixon put forward a tax proposal to increase the state's gas tax and add a toll to Interstate 70 to increase funding for transportation. Governor Nixon also called for a consideration of Medicaid expansion and an increase in education funding for pre-school, higher education and K-12 schools.

### Montana – Governor Steve Bullock

*Rich States, Poor States* 2015 Economic Outlook Ranking: 43

Governor Steve Bullock has proposed more than $300 million for Building Montana, a program focused on infrastructure spending. The governor has said that he will not raise taxes to fund Building Montana, and said the initiative will create 4,000 jobs. Additionally, Governor Bullock wants to offer a $4,000 tax credit for each apprentice businesses hire. Finally, the governor wants to set aside $300 million in the state's rainy day fund by the end of session.

### Nebraska – Governor Pete Ricketts

*Rich States, Poor States* 2015 Economic Outlook Ranking: 31

Tax reform and relief was a major theme in Governor Ricketts' state-of-the-state address. The governor began by acknowledging that taxes in Nebraska were too high, urging that "we can do better." He also mentioned that high taxes were not only hurting Nebraska citizens, but also made the state less attractive to businesses. To that end, Governor Ricketts promoted his budget plan that would add an additional $60 million into the state's property tax relief fund each year for a total of $400 million in property tax relief this biennium. In addition to funding property tax relief, Governor Ricketts also discussed plans to eliminate income taxes on retirement benefits of military families. The governor also noted that overly burdensome regulations can be job killers and said that he would be instructing all agencies to come up with innovative ways to ease the state's regulatory burden. Finally, the governor announced that he would be working to expand vocational education opportunities while keeping the state's budget balanced and slowing the budget's rate of growth.

### Nevada – Governor Brian Sandoval

*Rich States, Poor States* 2015 Economic Outlook Ranking: 10

Governor Sandoval focused in on his plan to increase spending for all levels of education in Nevada. Rather than reprioritizing state spending to fund his call for increased spending on education, the governor called for extending sales and payroll taxes that are currently scheduled to sunset and for changes to the Business License Fee that would make it a graduated system and raise about $430 million over the next two years. This controversial new fee charges businesses a certain flat fee based on their industry and gross receipts. The plan is similar to a ballot initiative to implement a gross receipts tax, which failed last November by a wide margin. In addition to the focus on education and taxes, the governor also outlined some new transportation initiatives that would cost about $480 million.

**New Hampshire – Governor Maggie Hassan**

*Rich States, Poor States* 2015 Economic Outlook Ranking: 29

Governor Hassan explained that New Hampshire's lack of a sales tax or personal income tax gives the state a competitive edge. She pledged to veto any proposal to create a sales tax or income tax. However, the governor also wants to increase the cigarette tax by 21 cents per pack. Governor Hassan also wants to increase vehicle registration fees to fund transportation spending.

In terms of government efficiency, Governor Hassan has proposed enacting the recommendations of the Innovation Commission. These recommendations include consolidating some function areas, centralizing service areas, and creating a chief operating officer position to oversee efficiency. The governor also proposed reducing the number of required agency publications.

**New Jersey – Governor Chris Christie**

*Rich States, Poor States* 2015 Economic Outlook Ranking: 46

During his state-of-the-state address, Governor Christie focused on spending restraints and the importance of additional pension reform for the state's deeply underfunded public retiree system. Christie called for a $1.3 billion payment to the public pension system—which he cited as the largest contribution in the state's history. As the governor noted, the pension system in the state is woefully underfunded and the benefits the system pays out are extremely generous. This payment only begins to address the issue of New Jersey's broken system, a fact the governor notes, calling for future action and fundamental reform to the New Jersey pension system, as well as reform for other public employee benefits. Additionally, Governor Christie noted his past vetoes for tax increases and pledged to again veto any tax increases that come across his desk. He coupled this pledge to not raise taxes with a pledge to continue cutting spending and balancing the budget.

**New Mexico – Governor Susana Martinez**

*Rich States, Poor States* 2015 Economic Outlook Ranking: 34

Touting bipartisan reforms to New Mexico's business climate, such as reducing the state's corporate income tax rate, Governor Martinez focused on building on the success of previous years. The state-of-the-state address outlined plans for enacting tax relief for small businesses in the form of reducing the state's personal income tax, at least when these small businesses are in their early stages. While Governor Martinez also discussed some new transportation projects, proposing a plan of funding these initiates with at least $180 million over the next three years, and improving the state's education system, the thrust of reform efforts are clearly focused on ensuring that New Mexico has a competitive business climate.

### New York – Governor Andrew Cuomo

*Rich States, Poor States* 2015 Economic Outlook Ranking: 50

In regards to tax proposals, Governor Cuomo wants to reduce the small business tax from 6.5 percent to 2.5 percent. The governor also proposed a property tax relief program. To be eligible for property tax credits, homeowners and renters must earn less than $250,000 a year and also live in a community that stays under the property tax cap. If enacted, the governor's property tax relief program would be phased in over the next four years. Finally, Governor Cuomo wants to spend an additional $1.2 billion on the state thruway system for infrastructure improvements.

### North Carolina – Governor Pat McCrory

*Rich States, Poor States* 2015 Economic Outlook Ranking: 4

Governor McCrory touted North Carolina's massive 2013 tax reform which continues to phase-in. In 2014, the individual income tax condensed three brackets into one rate of 5.8 percent, which dropped again in 2015 to 5.75 percent. The corporate income tax rate dropped from 6.9 percent to 6 percent in 2014, and then dropped again to 5 percent in 2015. He also called for additional budget reform, consolidation of government departments, and addressing the state's underfunded public pension system. The governor went on to tout balanced budgets in the state, successful efforts to pay down debt, and cutting spending by improving government efficiency and removing waste. The governor also promised to prioritize education and infrastructure spending in the coming budget, while noting the state's large public pension expense.

### North Dakota – Governor Jack Dalrymple

*Rich States, Poor States* 2015 Economic Outlook Ranking: 2

Governor Dalrymple highlighted his commitment to a structurally balanced state budget, where ongoing spending never exceeds available, ongoing revenues, in spite of the fact that oil prices have declined recently and lowered North Dakota's revenue projections. He pointed out that 96 percent of oil and gas revenues go to special reserve funds that are not used for ongoing operations. Going forward, he committed to using independent projections to estimate how much revenue the state can expect from its oil industry and to working with the legislature to make prudent decisions about spending if oil and gas revenue shortages become a problem.

Despite this uncertainty, he remained confident that North Dakota could fund its priorities, maintain healthy reserves, and provide additional tax relief. Continuing his efforts to lower taxes, Governor Dalrymple said he intends to reduce state taxes by $408 million during the upcoming biennium. He also cited the opportunity for property tax reform in the coming session, which he said will provide more spending discipline and make it easier for taxpayers to understand how tax dollars are spent. Governor Darlymple plans to continue investing in oil-producing counties and proposed spending an additional $1 billion on oil infrastructure in the coming biennium, in addition to the $2.7 billion budgeted for the current biennium. The governor also proposed increased spending in a few other areas, including increasing the number of state grants to schools education, adding $300 million to the school construction revolving loan program, another $15 million for the state's affordable housing program, and $30 million to fund improvements throughout the state park system. He also indicated a general commitment to continuing spending on state infrastructure improvements.

### Ohio – Governor John Kasich

*Rich States, Poor States* 2015 Economic Outlook Ranking: 23

Governor Kasich emphasized the need for rapid economic growth. Even though Ohio expects to add another $400 million to its $1.5 billion surplus this year, the governor set the goal of keeping Ohio's budget growth under the historic inflation rate of 3 percent, with a budget that keeps spending increases at 2 percent for the next two years, and 2.5 percent the year after.

Continuing his efforts to reduce taxes, the governor proposed an additional $500 million in tax cuts paid for by recent savings in the budget. He noted his continuing efforts to lower the state income tax, with his current budget calling for a reduction in the state income tax from 5.33 percent to 4.1 percent over the next two years. The governor noted the economic benefits of moving away from taxes on production, like income taxes, and relying more on consumption taxes to fund state government.

The governor also reiterated his commitment to eliminating all income taxes on small businesses making less than $2 million a year and addressed the need to reform the commercial activities tax (CAT), a tax on gross receipts as opposed to profits, to be more fair to small businesses. In addition, he called for an increase to the severance tax on oil drilling in the state, while claiming that increasing the tax won't kill the oil industry. Finally, Kasich stated he will continue increasing personal exemptions, which he said will give the low-income individuals incentives to remain in the workforce.

### Oklahoma – Governor Mary Fallin

*Rich States, Poor States* 2015 Economic Outlook Ranking: 16
Increasing state government transparency was a key theme in the state-of-the-state address given by Governor Fallin. In an effort to ensure the responsible spending of Oklahomans' tax dollars, Governor Fallin proposed a major improvement to the state's budgeting process by requiring measurable goals be set for state agencies to better track state spending and state outcomes. Governor Fallin also proposed a new performance metric tracking system for state tax incentives. As Governor Fallin stated, "we need to ensure the money we are investing in economic incentives and business-related tax credits is paying off and helping to create good jobs."

### Oregon – Governor Kate Brown

*Rich States, Poor States* 2015 Economic Outlook Ranking: 45

Newly appointed Oregon Governor Kate Brown did not mention tax, budget, or pension reform in her state of the state address. Governor Brown did express strong support for increasing infrastructure funding, but did not specify how much she would like to spend or how to pay for increased funding.

### Pennsylvania – Governor Tom Wolf

*Rich States, Poor States* 2015 Economic Outlook Ranking: 41

Governor Wolf used his budget address to introduce what he claimed was a balanced budget that solved the state's $2.3 billion deficit. He began by speaking about spending proposals in his budget. He proposed restoring $1 billion in education cuts from the previous administration, increasing access to early childhood education, adding $15 million in funding for community colleges, and restoring 50 percent of cuts to the state's higher education system. In return, he called for higher education institutions in the state to freeze tuition. He also proposed that the state increase funding to the public education system from just over 35 percent to 50 percent and called for the state to adopt a funding formula for the distribution of education funds. The governor also stated that Pennsylvania would be expanding Medicaid by taking funds from the Affordable Care Act. In addition, he called for cash incentives of up to 5 percent of new taxable income for manufacturing companies that increase their annual taxable payroll by at least one million dollars creating middle-class jobs. He also called for raising the state minimum wage to $10.10 an hour.

The governor then spoke about tax reform, stating that the average middle-class homeowner would see their overall tax burden decrease by 13 percent. He proposed instituting a 5 percent severance tax on the extraction of natural gas and dedicating the revenue to education spending. He also called for property tax cuts, which he said would result in a 50 percent reduction for the average homeowner, saving them more than $1,000 annually. However, he also proposed raising the personal income tax rate to 3.7 percent and increasing the sales tax from 6 percent to 6.6 percent while expanding the sales tax base to include services that are not currently taxed. Along with this, he proposed reforming the state's high corporate net income tax of 9.99 percent by closing the Delaware "loophole" and reducing the rate 40 percent in the first year of his budget and 50 percent by 2018. He also endorsed this year's scheduled elimination of the Capital Stock and Franchise Tax.

Finally, the governor discussed administrative efficiency. He spoke about the establishment of the Governor's Office of Transformation, Innovation, Management, and Efficiency, which is meant to improve coordination between agencies, modernize government operations, and seek out partnerships with the private sector. He estimated that these efforts will generate up to $150 million in immediate savings and hundreds of millions over the long term. The governor's pension reform plan includes a halt to what he characterized as excessive Wall Street portfolio management fees and simply investing pension money in a safe, conservative account. Governor Wolf said these and other reforms will save taxpayers nearly $1.3 billion over the next five years and reduce unfunded liabilities by $10 billion.

### Rhode Island – Governor Gina Raimondo

*Rich States, Poor States* 2015 Economic Outlook Ranking: 39

Governor Raimondo outlined a diverse package of policy initiatives in her state budget address. The governor pledged to increase the minimum wage to $10.10 per hour. Governor Raimondo acknowledged that Rhode Island's tax and fiscal policy climate is out of step with other states and risks falling further behind. She congratulated the legislature on reducing corporate income tax rates and pledged to enact tax relief for Rhode Island businesses. Additionally, Governor Raimondo outlined plans for a tax credit program to attract new industries to the state and discussed the need to find new revenue sources without raising broad-based taxes. Some proposals the governor outlined to address the state's $200 million deficit without raising broad-based taxes is to focus on reducing spending, closing a "loophole" in certain real estate transactions and possibly increasing property taxes on the wealthy.

### South Carolina – Governor Nikki Haley

*Rich States, Poor States* 2015 Economic Outlook Ranking: 32

Governor Haley proposed a three-part package tax deal in order to reform the state's fiscal structure. Though she notes the state's roads are underfunded with the country's "third lowest gas tax," she also noted that, "if all we do is increase taxes, whether it's the gas tax, or some other tax, we will hurt our citizens, we will discourage job creators, and we will dampen our economy." Governor Haley followed this up with a threat to veto a stand-alone gas tax increase. Instead, she proposes cutting income tax rates from 7 percent to 5 percent over the coming decade, eliminating the state's transportation commission which she views as wasteful and inefficient, and raising the gas tax by 10 cents over the same coming decade. By doing so, Governor Haley argues that the state can work to more adequately fund roads while simultaneously improving economic competitiveness—not damaging it. Governor Haley went on to tout the importance of a pro-business economic policy climate including a business-friendly regulatory approach, right-to-work laws, and a pro-growth tax climate.

### South Dakota – Governor Dennis Daugaard

*Rich States, Poor States* 2015 Economic Outlook Ranking: 9

Governor Daugaard proposed to raise three different transportation taxes for the construction and maintenance of roads. Governor Daugaard wants to raise the vehicle excise tax from 3 percent to 4 percent, the current 22 cents per gallon motor fuel tax by 2 cents per gallon, with automatic annual increases thereafter of 2 cents per gallon, and the vehicle registration fee for most vehicles by 10 percent. Besides raising taxes to pay for infrastructure, Governor Daugaard also talked about his plan for cutting government red tape. This year, he planned to introduce 16 bills to eliminate 305 sections of obsolete laws and rules.

### Tennessee – Governor Bill Haslam

*Rich States, Poor States* 2015 Economic Outlook Ranking: 17

Governor Haslam proposed the Tax Revenue Modernization Act, which the governor claimed would largely raise revenue from out-of-state businesses, a move the governor characterizes as focused on a "…level the playing field in terms of sales tax and business taxes." The act would increase tax collections from out of state businesses by changing nexus rules changing sales tax remittance rules for online sellers, altering excise tax apportionment, and making other changes related to out-of-state businesses. The governor focused on matters related to budgetary spending through higher spending on various priorities. Additionally, the governor touted K-12 spending growth that doubled the national average over the previous four years.

### Texas – Governor Greg Abbott

*Rich States, Poor States* 2015 Economic Outlook Ranking: 11

Proclaiming that Texas is leading the nation in job growth and economic opportunity, Governor Abbott outlined a vision for Texas aimed at maintaining and improving the Texas economy. Governor Abbott also introduced key planks of his budget, saying he would reject any budget that did not enact tax relief for Texans. The governor called for $2 billion in tax relief for the state's business franchise tax and $2.2 billion in property tax relief, noting that the best way to create jobs is to lower the business franchise tax. The message that Texas will remain an economic powerhouse was made clear throughout the governor's speech.

### Utah – Governor Gary Herbert

*Rich States, Poor States* 2015 Economic Outlook Ranking: 1

Governor Herbert began his state-of-the-state address with a list of well-earned economic successes in Utah, including higher-than-projected job creation rates and a surplus of $166 million in revenue after fiscal year 2014. He then shifted the focus to improving the state's education system and making some improvements to the state's infrastructure.

### Vermont – Governor Peter Shumlin

*Rich States, Poor States* 2015 Economic Outlook Ranking: 49

Governor Shumlin discussed Vermont's fiscal challenges during his budget address. According to the governor, Vermont faces a $94 million budget gap. To address Vermont's budget shortfall, Governor Shumlin has proposed saving $15 million by consolidating and streamlining government services and programs. Furthermore, the governor also wants to eliminate some tax deductions from state tax returns. While Governor Shumlin pledged not to increase existing taxes, he proposed a new 0.7 percent payroll tax in order to fund the State Health Care Resource Fund.

### Virginia – Governor Terry McAuliffe

*Rich States, Poor States* 2015 Economic Outlook Ranking: 12

While avoiding calling for higher taxes, Governor McAuliffe's state-of-the-state speech failed to call for any substantive tax reform, spending restraint, or pension reform. In terms of state competitiveness, the governor focused on new spending programs and targeted "economic development" incentives consisting of tax abatement and subsidies for business.

### Washington – Governor Jay Inslee

*Rich States, Poor States* 2015 Economic Outlook Ranking: 35

Governor Inslee proposed a new capital gains tax from the sale of stocks, bonds, and assets but did not specify the rate in his state of the state address. He also proposed eliminating five small tax exemptions to raise additional revenue. However, the governor also expressed support for funding the Washington Working Families credit, which provides a tax credit for low income individuals of up to $500 in sales taxes. Governor Inslee went on to propose a new carbon pollution fee on businesses. Finally, he proposed spending an additional $2.3 billion for education.

### West Virginia – Governor Earl Ray Tomblin

*Rich States, Poor States* 2015 Economic Outlook Ranking: 36

Governor Tomblin celebrated the scheduled elimination of the state's business franchise tax, which will finally be phased out this year, while also stating that more reductions to West Virginia's business and consumer taxes are needed to improve economic competiveness. He also addressed the state's $5 billion post-employment benefits debt, stating that it will be paid off without any tax increases. In addition, Governor Tomblin discussed his legislation designed to reduce the number of DHHR residential placements and Division of Juvenile Services commitments by at least 40 percent over the next five years, which is estimated to save taxpayers $59 million.

Finally, Governor Tomblin highlighted his plan for building infrastructure, saying the state government is seeking innovative financing options to build roads and bridges in the state as it tries to be less dependent on federal funding.

### Wisconsin – Governor Scott Walker

*Rich States, Poor States* 2015 Economic Outlook Ranking: 13

After several years of significant tax cuts and reducing spending, Governor Walker discussed relatively few new economic proposals this year. Regarding taxes, he promised to lower taxes every year that he was in office. He went on to speak about how he had reduced property taxes during his time as governor with property taxes on a typical home in Wisconsin being $141 less this year than they were four years ago. The governor pledged to lower property taxes further, promising that four years from now, they will be lower than they were in 2014. He also proposed to reduce bureaucracy by consolidating several state agencies, including two different agencies that both work on economic development and several agencies which oversee financial institutions and professional services. Finally, he proposed additional consolidations within state agencies and regulatory reforms.

### Wyoming – Governor Matt Mead

*Rich States, Poor States* 2015 Economic Outlook Ranking: 8

Governor Mead discussed budget reform in his state of the state address. Since the price of oil has decreased, Wyoming's revenue estimates have also decreased. However, Governor Mead discussed the need to set sensible fiscal policy to help decide how much money Wyoming should put away in the state's saving accounts. The governor asked the legislature to discuss budget reform policies this session.

# Conclusion

Overall, the state-of-the-state addresses this year were very encouraging in regards to free market tax and fiscal policy proposals. Many governors outlined significant proposals to improve their state's economic competitiveness through lower taxes, responsible budgeting, pension reform, and other policies. It appears the nationwide move in the states toward lower taxes is continuing, with more governors understanding that tax cuts mean greater economic growth and that providing a more business-friendly environment will result in more job creation and opportunity for their residents, as well as a broader tax base to fund state government. The move away from the income tax and toward more consumption based taxes was particularly encouraging since there are substantial economic benefits to be gained not only by reducing taxes, but also by reforming a state's tax system to rely on the least damaging types of taxes.

Unlike the gridlock in Washington D.C., state governors have the opportunity to champion and enact sweeping fiscal reforms that can immediately improve the lives of their citizens. If governors understand the importance of pro-growth policy and are willing to fight for sound reforms, they can lead their state to greater job growth and wealth creation, leaving a lasting legacy of economic prosperity that can continue even after they have left office.

# Appendix

## Principles of Sound Tax Policy

The proper function of taxation is to raise money for core functions of government, not to direct the behavior of citizens or close budget gaps created by overspending. This is true regardless of whether government is big or small, and this is true for lawmakers at all levels of government.

Taxation will always impose some level of burden on an economy's performance, but that harm can be minimized if policymakers resist the temptation to use the tax code for social engineering, class warfare and other extraneous purposes. A principled tax system is an ideal way to advance a state's economic interests and promote prosperity for its residents.

The fundamental principles presented here provide guidance for a neutral and effective tax system; one that raises needed revenue for core functions of government, while minimizing the burden on citizens.

### Simplicity:

The tax code should be easy for the average citizen to understand, and it should minimize the cost of complying with tax laws. Tax complexity adds cost to the taxpayer, but does not increase public revenue. For governments, the tax system should be easy to administer, and should help promote efficient, low-cost administration.

### Transparency:

Tax systems should be accountable to citizens. Taxes and tax policy should be visible and not hidden from taxpayers. Changes in tax policy should be highly publicized and open to public debate.

### Economic Neutrality:

The purpose of the tax system is to raise needed revenue for core functions of government, not control the lives of citizens or micromanage the economy. The tax system should exert minimal impact on the spending and decisions of individuals and businesses. An effective tax system should be broad-based, utilize a low overall tax rate with few loopholes, and avoid multiple layers of taxation through tax pyramiding.

### Equity and Fairness:

The government should not use the tax system to pick winners and losers in society, or unfairly shift the tax burden onto one class of citizens. The tax system should not be used to punish success or to "soak the rich," engage in discriminatory or multiple taxation, nor should it be used to bestow special favors on any particular group of taxpayers.

### Complimentary:

The tax code should help maintain a healthy relationship between the state and local governments. The state should always be mindful of how its tax decisions affect local governments so they are not working against each other – with the taxpayer caught in the middle.

### Reliability:

A high-quality tax system should be stable, providing certainty in taxation and in revenue flows. It should provide certainty of financial planning for individuals and businesses.

### Pro-Growth:

A low tax burden can be a tool for a state's private sector economic development by retaining and attracting productive business activity. A high-quality revenue system will be responsive to competition from other states. Effective competitiveness is best achieved through economically neutral tax policies.

These *Principles of Sound Tax Policy* have been adopted by the ALEC Task Force on Tax and Fiscal Policy.

## Endnotes

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