March | 2017

# State Tax Cut Roundup

## 2016 Legislative Session

ALEC American Legislative Exchange Council
LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

**State Tax Cut Roundup**
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## Acknowledgements and Disclaimers

The authors wish to thank Lisa B. Nelson, Bill Meierling, Ashley Pratte, Christine Phipps, Ashley Varner, Ben Wilterdink, Sarah Wood, Kensey Johnson, Taylor McCarty and the professional staff at ALEC for their valuable assistance with this project.



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# I. Executive Summary – Tax Reform in the States

The 2016 legislative session ended with nine states enacting changes to their tax codes sufficient to qualify for the Tax Cut Roundup. Each provided substantial tax relief for their citizens. Pro-growth tax reform was a key theme, as states took steps to both mend budgetary woes and improve their economic competitiveness. *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* illustrates how certain tax and fiscal policies lead states to prosper and others to fall behind. Fortunately, state legislators appear to be heeding this message.

The number of states enacting new tax relief legislation during the 2016 session is lower than in years prior, partly due to the ongoing successes of prior reforms. Tax rates in numerous states declined in 2016 thanks to phased-in tax cuts from previous sessions. Arkansas taxpayers experienced lower income tax burdens due to further phase-in of cuts enacted in the 2015 legislative session (SB 6).[1] Additionally, two perennially tax-cutting states not in session this past year, Texas and North Dakota, previously passed tax relief packages with deeper cuts occurring in 2016. Property tax relief passed during the 2014 session could save North Dakota taxpayers up to $21 million. Married filers in Wisconsin will enjoy a higher standard deduction this year, thus keeping more in their pockets. While this is not a comprehensive list of previously enacted tax cuts, it illustrates that far more than just this year's qualifying states enjoyed substantial tax cuts. The phase-in of New Mexico's corporate income tax reductions continued, as the top rate dropped to 6.6 percent in 2016 from 6.9 percent. Rates are on track to bottom out at 5.9 percent in 2018.[2]

Likewise, Indiana took a pause from its tax-cutting blitz this past year, but tax cuts from prior legislation continued to phase-in. The corporate income tax rate sank another quarter percentage point to 6.25 percent this summer, down from 7 percent in 2015 and 8.5 percent in 2012. The corporate income tax cuts are scheduled to bottom out at 4.9 percent in 2021. Due to these and other tax reforms, in addition to the passage of right-to-work, Indiana's *Rich States, Poor States* economic outlook ranking has risen from 24th in 2012 to 6th in 2016.

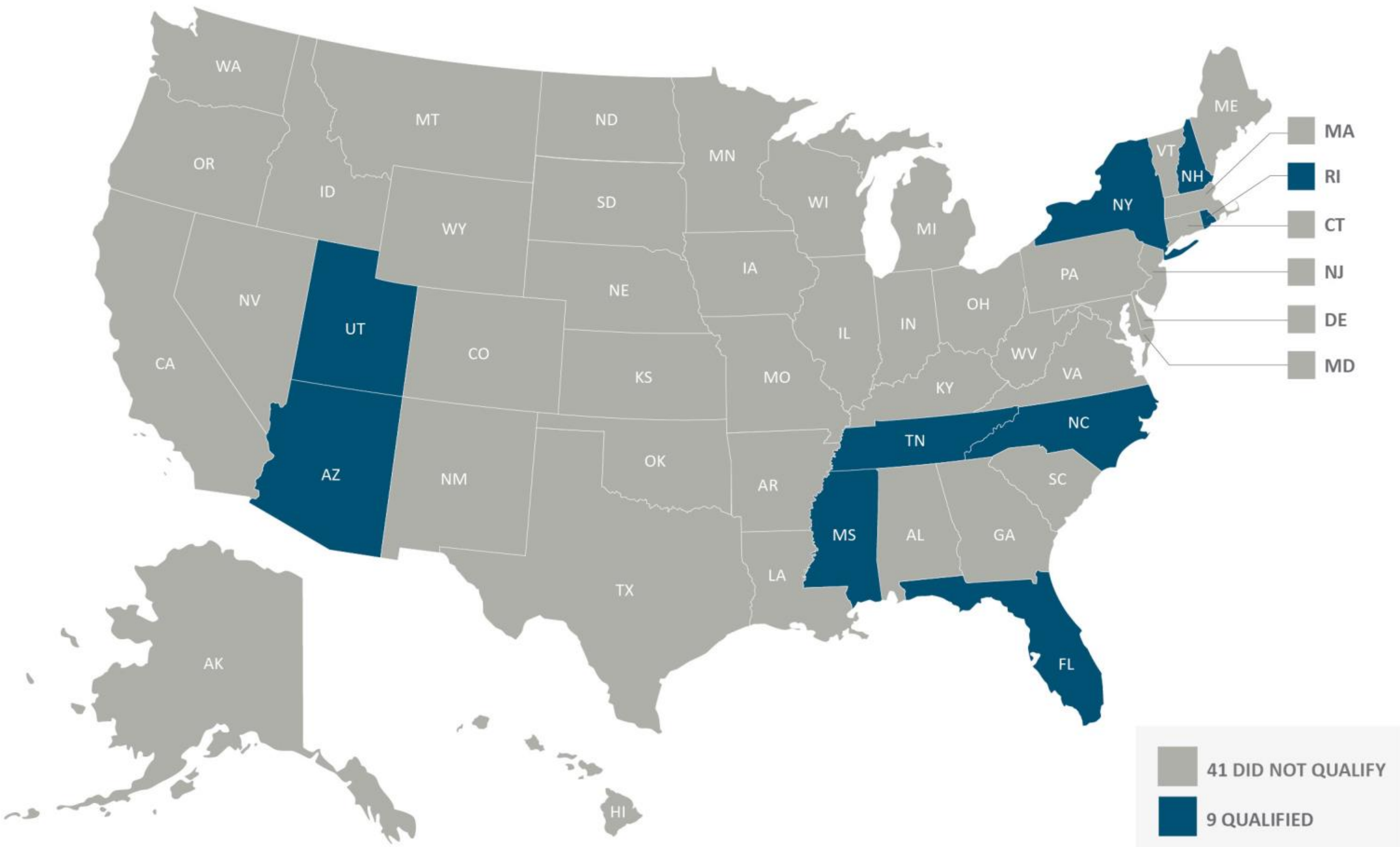
Overall, the economic evidence strongly suggests states with lower tax burdens and more economic freedom regularly outperform their higher tax and more restrictive counterparts. Creating a tax and fiscal policy climate conducive to economic growth should be a top priority for every state. Hopefully, the example set by these reforms and their economic results over time will persuade other states to pursue pro-growth tax reform in the coming legislative session.

To be listed in the *State Tax Cut Roundup*, a state must meet all of the following criteria:

- Substantially cut taxes at the state level
- Vote(s) and/or policy change occurred during the 2016 legislative session
- Tax cuts resulted in a net decrease in taxes over the legislative session
- Tax cuts applied broadly and neutrally, or otherwise moved the state closer to the ALEC *Principles of Taxation*

These criteria have remained consistent throughout each of the four editions of this report.

FIGURE 1 | STATES THAT QUALIFIED FOR STATE TAX CUT ROUNDUP DURING THE 2016 LEGISLATIVE SESSION




## Best of the Best

A few states qualifying for the *State Tax Cut Roundup* this year deserve special mention for enacting exemplary pro-growth tax reforms. Mississippi, Florida, Tennessee and surprisingly New York all achieved landmark tax relief during their respective 2016 legislative sessions. Lawmakers in Mississippi enacted the largest tax cut in state history, in terms of both the scope of the tax code reformed and the total dollar amount of relief provided. The Taxpayer Pay Raise Act of 2016 phases out the 3 percent personal income tax bracket and the business franchise tax, along with phasing in increases to the federal self-employment tax deduction. Once fully implemented, this monumental tax cut package will save taxpayers nearly $415 million annually.

Tennessee accomplished a huge feat in the 2016 legislative session, joining the ranks of the no-income-tax states thanks to enacting legislation to phase out the Hall income tax. The six percent tax–originally imposed in 1929 on interest from savings, notes, stocks and bonds–will be phased-out by one percent every year, contingent on meeting revenue requirements. Regardless of revenue targets, complete elimination is ensured in 2022. This promises to be a boon to prosperity in the Volunteer State based on evidence from other no-income-tax states.

Florida Governor Rick Scott quarterbacked the state's fourth consecutive year of tax relief, making permanent the sales tax exemption for machinery and equipment used in manufacturing, metal recycling or in agricultural post-harvest activities, equaling nearly $76 million in tax relief. Not stopping there, lawmakers also substantially cut property taxes and eliminated sales taxes on the inputs to government infrastructure projects, bringing this year's total tax relief to nearly $550 million.

In a shocking turn from years of tax hikes, New York passed a budget during the 2016 legislative session including the broadest and largest personal income tax cut in the state since the mid-1990s. Taxpayers across all income brackets will enjoy keeping more of their hard-earned dollars beginning in 2018. Although the tax on income above $300,000 was not reduced, even these taxpayers will pay lower taxes on their first $300,000 of income. According to Governor Andrew Cuomo, "These new lower tax rates will save middle class New Yorkers nearly $6.6 billion in just the first four years, with annual savings reaching $4.2 billion by 2025… As the new rates phase in, they will be the state's lowest middle class tax rates in more than 70 years."[3] Lawmakers in The Empire State would do well to note the positive developments and continue with further pro-growth reform in future sessions.

## II. ALEC Principles of Taxation

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.

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

## III. Tax Cuts by State

**Arizona**
*2016 Rich States, Poor States Economic Outlook Rank:* 5

Arizona enacted several tax reductions which will positively impact the business climate of the state. Electricity and natural gas purchased by an increased number of manufacturers will no longer be subject to sales tax (HB 2676).[4] Legislation also reduced taxes related to insurance premiums (HB 2002). For most policies, the 1.99 percent tax will be reduced to 1.7 percent in 2021—a faster reduction than under previously passed legislation.

The most significant tax change, however, is the bonus depreciation schedule approved under HB 2697.[5] When new equipment is purchased by a business, a certain percentage of the cost basis can be deducted from federal income tax liability as a "bonus" depreciation expense in the first year of ownership. The state of Arizona allows a percentage of this "bonus" to be applied against income subject to the state income tax as well. Prior to this legislation, only 10 percent of this federal allowance could be deducted from state taxable income. This will rise to 55 percent for tax year 2016 and 100 percent in tax year 2017. Permitting a greater portion of the cost of equipment to be deducted from income during the year of purchase, rather than more gradually depreciated over an extended period, encourages business investment in the capital equipment which can immediately lead to increased production. Such a tax policy change is a boon to Arizona's business climate.

**Florida**
*2016 Rich States, Poor States Economic Outlook Rank:* 8

Lawmakers in the Sunshine State continued their pro-growth reforms this past legislative session, qualifying them for *State Tax Cut Roundup* for the fourth consecutive year.[6]

The most significant tax cut in the package made permanent the sales tax exemption for machinery and equipment used in manufacturing, as well as machinery used by metal recyclers or in agricultural post-harvest activities. This is expected to save taxpayers more than $76 million annually.[7] As the Council on State Taxation and others have noted, levying the sales tax on business-to-business transactions at every link in the chain of production compounds the effective rate of taxation (known as "tax pyramiding") and increases the end-price of the consumer good. Exempting these transactions from the sales tax will benefit both businesses and consumers.

Additionally, Florida started a phase-out of the sales tax on asphalt used in government projects, which will save taxpayers another $2 million annually. Through the budget, Florida also reduced the "required local effort" property taxes for schools, saving taxpayers more than $400 million annually. All told, these and a myriad of smaller cuts will save taxpayers a total of $550 million annually.

**Mississippi**
*2016 Rich States, Poor States Economic Outlook Rank:* 17

Under the guidance of Governor Phil Bryant, Mississippi passed what may be the largest tax cut in state history during the 2016 legislative session.[8] The momentum from the previous session for significant tax reform carried through to this year as lawmakers passed the Taxpayer Pay Raise Act of 2016.[9] This commenced the process of completely overhauling the state's tax code.

The Act phases out the 3 percent personal income tax bracket by exempting the first $5,000 of income. Additionally, Mississippi created an income tax deduction for a portion of the federal self-employment tax. The deduction will grow from 17 percent in 2017, to 34 percent in 2018 and 50 percent in 2019 and all years thereafter.

Among the most significant in pro-growth reforms this session is the phase-out of the Mississippi business franchise tax on investments in business property and capital. The tax of $2.50 for every $1,000 of the greater of the value of business capital or the assessed property values is uncapped and is levied on all businesses simply for locating in the state. This large disincentive for Mississippi businesses to expand, increase capital stock or invest in better facilities is levied on top of the state's corporate income tax of 5 percent. Elimination of this archaic tax puts Mississippi in a good place for both business growth and future reform. As the phase-in is complete, the Act will save taxpayers $415 million over the next decade.[10] Lawmakers also provided significant tax relief to individuals through reductions in the personal income tax and an increase in the deductibility of federal self-employment taxes. These cuts, in addition to substantial budget reforms in recent years, have all been achieved while maintaining the state's AAA bond rating. As a result, the Hospitality State jumped from 20th to 17th in economic outlook in *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* in just one year.[11]

**New Hampshire**
*2016 Rich States, Poor States Economic Outlook Rank:* 23

Lawmakers in the Live Free or Die State continued their pro-taxpayer reform momentum this session by removing obstacles to growth.[12] Senate Bill 342 eliminates the taxation of a sale of a share of a business, known as the "Phantom Tax," while Senate Bill 239 increases the depreciation deduction on the Business Profits Tax from $25,000 to $100,000.[13]

Senate Bill 342 essentially eliminates the anti-growth "Phantom Tax."[14] Generally, a business partner pays a tax on the gain recognized on the sale of their interest in a partnership. The partnership can "step-up" the assets of the partnership itself by a corresponding amount, with the new partner receiving the depreciation or amortization deductions stemming from the increased cost basis of their partnership share. In New Hampshire this increased cost basis is subject to the Business Profits Tax even though the gains were already taxable on the selling partner level; thus this a tax on "phantom" profits on the entity level.[15]

Senate Bill 239 also advances pro-growth reforms by raising the business investments annual depreciation deduction for the Business Profits Tax from $25,000 to $100,000. Although an improvement, this is still far less than the $500,000 depreciation deduction of most New England states.[16] Both 2016 tax reforms will help New Hampshire employers grow, expand and create more jobs in the state.

**New York**
*2016 Rich States, Poor States Economic Outlook Rank:* 50

New York's fiscal 2017 budget includes the broadest and largest personal income tax cut in the state since the mid-1990s, according to the Empire Center for Public Policy. [17] Income tax rates for the middle class will decrease each year from 2018 to 2025. For example, the rate for the $27,750–$42,750 tax bracket will decrease from 5.90 percent in 2018 to 5.50 percent in 2025. The rate for the $42,750–$160,500 tax bracket will decrease from 6.33 percent in 2018 to 5.50 percent in 2025. Finally, the rate for the $160,500–$321,050 tax bracket will decrease from 6.57 percent in 2018 to 6.00 percent to 2025.[18]

Unfortunately, beginning in 2018, the tax brackets will no longer be increased for inflation. Thus, some taxpayers will eventually find themselves in higher brackets even if their income in real terms did not increase. Despite the possibility of "bracket creep," this tax reform offers the potential of saving millions of taxpayers hundreds of dollars (in some cases more than $1,000) annually. Fortunately, attempts to "pay for" this real cut by increasing taxes on other individuals failed.

**North Carolina**
*2016 Rich States, Poor States Economic Outlook Rank:* 2

Without question, 2016 was another year of substantial tax relief for North Carolinians. Not only did the personal income tax and corporate income tax rates drop because of previously enacted legislation, lawmakers found even more ways to give back to taxpayers. Legislation passed in 2016 provided broad-based income tax relief by increasing the standard deduction for personal income tax filings, $2000 for married taxpayers filing jointly and proportionately for all other filers. In total, lawmakers used the 2016 legislative session to provide more than $132 million in tax relief for North Carolinians.

This follows a series of tax reforms beginning with legislation passed in 2013, which moved North Carolina from a graduated personal income tax system to a flat income tax of 5.8 percent for 2014 and 5.75 percent in 2015. At the same time, the state raised the standard deduction for couples filing jointly from $6,000 to $15,000. The package also cut the corporate income tax rate from 6.9 percent to 6 percent in 2014, with a cut to 5 percent in 2015 contingent on meeting revenue targets.

Further tax reform in 2015 increased the standard deduction for married jointly filing couples from $15,000 to $15,500 and cut the flat personal income tax to 5.499 percent starting in 2017. The reforms also removed a sunset on triggers for further corporate income tax rate reductions, triggering a rate reduction to 4 percent in 2016 and 3 percent in 2017.

Exceptionally high tax revenues triggered all of the previously legislated reductions in the corporate income tax rate for years 2015, 2016 and now 2017. All told, lawmakers have provided nearly $4.7 billion in tax relief since 2013.[19] It should be no surprise why North Carolina led the nation from 2013-2015, with 13.4 percent GDP growth and has rocketed from a *Rich States, Poor States* economic outlook ranking of 22nd in 2013 to 2nd in 2016.

**Rhode Island**
*2016 Rich States, Poor States Economic Outlook Rank:* 35

Rhode Island's budget contained tax relief for individuals and employers alike. The fiscal 2017 budget enacted last summer reduces the Unemployment Insurance Tax, the Annual Corporate Minimum Tax and the Annual Filing Charge.[20]

The reserve level in the Unemployment Insurance Trust Fund is a key factor in determining the portion of the Unemployment Insurance Tax paid by employers. The fiscal year 2017 budget decreases the level of reserves requisite to lowering that tax schedule. As a result, the Unemployment Insurance Tax, which ranged from 1.69 percent to 9.79 percent, decreased to a range of 0.99 percent to 9.59 percent starting on January 1, 2017. Employers are estimated to save an estimated $30 million in 2017.[21]

The Annual Corporate Minimum Tax and the Annual Filing Charge will also continue to decrease. The Annual Corporate Minimum Tax will decrease 11 percent from $450 to $400 for tax years beginning on or after

January 1, 2017. Furthermore, the Annual Filing Charge, which applies to pass-through entities, will also decrease 11 percent from $450 to $400 for tax years beginning on or after January 1, 2017.[22]

**Tennessee**
*2016 Rich States, Poor States Economic Outlook Rank:* 7

While Tennessee does not tax personal wage income, it does levy the "Hall Tax" on dividend and interest income. However, lawmakers in Tennessee took steps in 2016 to join the seven other fully no-income-tax states in the nation. The enactment of Senate Bill 1480 phases out the 6 percent Hall Tax by one percentage point every year if certain revenue targets are met, beginning with a drop to 5 percent in tax year 2016. Going further, the act eliminates the Hall Tax altogether in 2022, regardless of revenues.

The phase-out of Tennessee's death tax completed this year based on 2012 legislation brought even more tax relief to residents of the Volunteer State. With tax revenues continuing to outperform expectations and a $2 billion surplus amassed, lawmakers are already considering ways to provide more tax relief in the 2017 legislative session.[23]

**Utah**
*2016 Rich States, Poor States Economic Outlook Rank:* 1

Ranked 1st yet again for economic outlook, Utah built on this record of success by ensuring a continuation of an energy-friendly tax policy. The exemption from the severance tax of oil and gas production related to shale and oil sands was set to expire on June 30, 2016. SB 159 extends this exemption through June 20, 2026.[24] This additional decade should spur development of these fossil fuel resources in Utah, further diversifying the state's economy and making manufacturing costs yet more competitive.

# IV. Trends in State Tax Reform

The combination of weakening state revenues and spending increases influenced by an election year helps explain part of why only nine states enacted broad-based tax relief during the 2016 legislative session; as noted earlier, multiple states continued to experience the positive effects from the phasing in of lower tax rates enacted in legislation from prior years. Even so, nine states this year cut taxes by a substantial magnitude and scope, and nearly all did so by reducing tax burdens on productivity and capital.

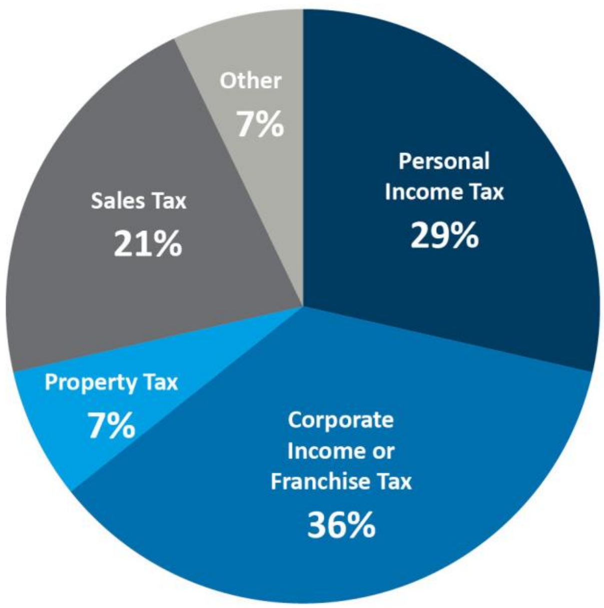
As will be discussed in greater depth later in this paper, taxes on productivity and capital, most notably corporate and personal income taxes, are among the most harmful to economic growth. With five of nine states electing to reduce or eliminate business franchise or corporate income taxes, a clear trend emerges—if continued, these cuts will prove a significant benefit to the economies of all states involved. Four of nine states also took steps to reduce or eliminate personal income taxes. Most notably, Tennessee, by eliminating its Hall Tax, joins the seven other fully no-income-tax-states.

Three states made reforms to sales taxes. Florida deserves special recognition for inching closer to eliminating harmful business-to-business taxes by permanently exempting manufacturing machinery and equipment from the sales tax.

Nationally, many lawmakers in both the 2014 and 2015 sessions made progress on reducing tax burdens on productivity and capital, with a strong focus on corporate income tax reform.

The figure below details tax cuts by the type of tax reduced in the 2016 legislative session. Note the total exceeds the number of qualifying states (nine), due to the fact several of those states reduced more than one specific tax during the 2016 legislative session.

**FIGURE 2 | 2016 STATE TAX CUTS BY FORM OF TAXATION**

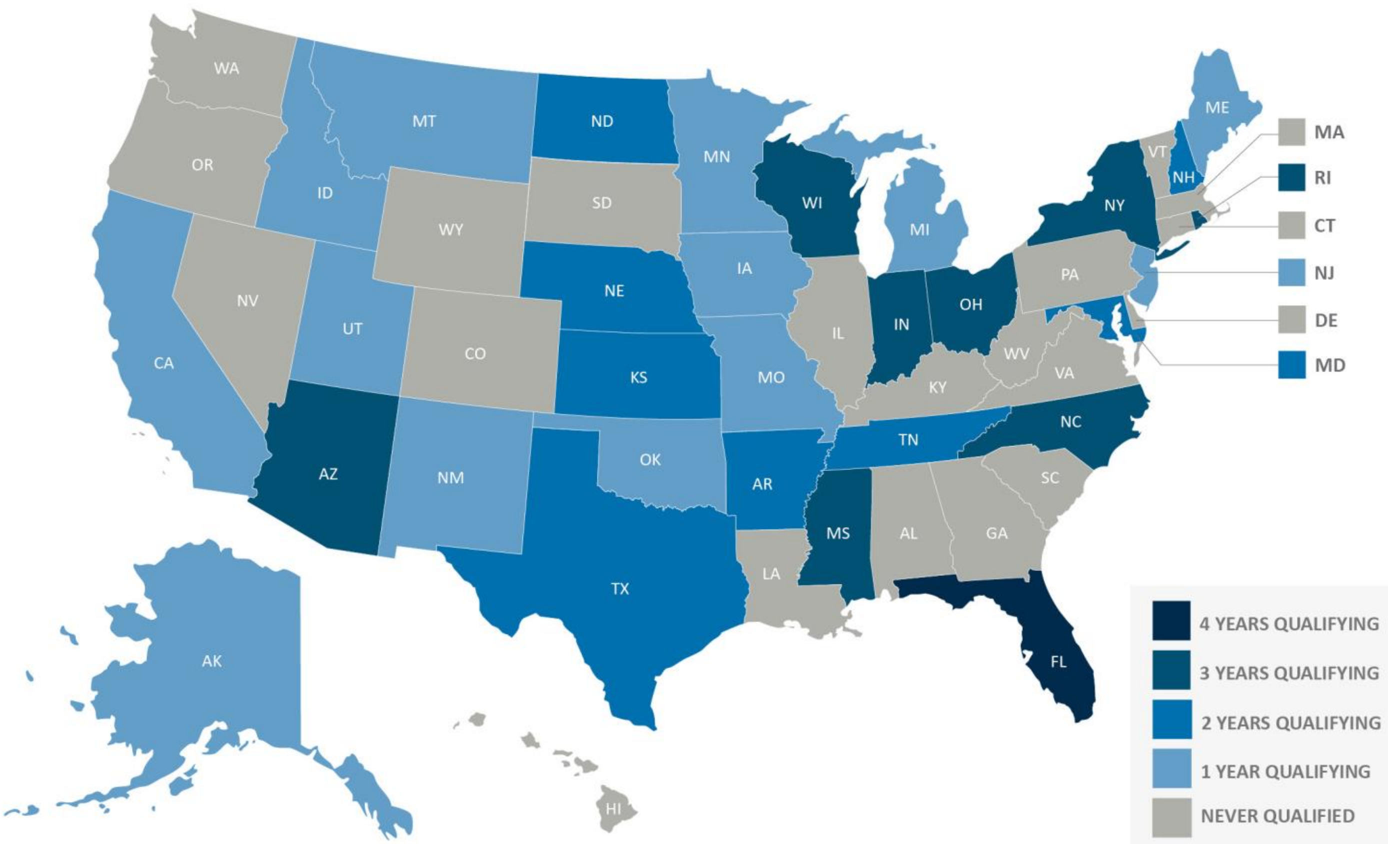



## States Qualifying for State Tax Cut Roundup During the 2013-2016 Legislative Sessions

For many of the states in this years' *State Tax Cut Roundup*, making the cut was almost "business as usual." Five of the nine states were qualifying for their third year and two for their second. Utah, which has maintained the best economic outlook ranking in *Rich States, Poor States* for nine years running, deserves special recognition both for its work in the 2016 legislative session providing substantial tax relief to its residents, and for qualifying for this publication for the very first time. The Sunshine State also achieved something remarkable —Florida lawmakers successfully enacted significant pro-growth tax reform for the fourth consecutive year, earning them the honor of being the only state to make it into every edition of the

*State Tax Cut Roundup* thus far. The map below details the cumulative number of times each states has qualified for this publication over the 2013–2016 legislative sessions.

**FIGURE 3 | STATES THAT MADE TAX CUTS DURING THE 2013 – 2016 LEGISLATIVE SESSIONS**



# V. State Taxes on Business – Implications for Economic Growth

Amid financial strain from the Civil War, Congress enacted the first federal income tax in 1861, a tax that expired in 1872 following multiple constitutional challenges. Not until 1894 did Congress enact the first federal corporate income tax, but this too perished after the Supreme Court found it unconstitutional. Congress passed an excise tax on corporations based on income in 1909.[25] This tax evolved into the corporate provisions of the federal income tax following ratification of the 16th Amendment. Though changed slightly over the last century, the tax has never been repealed since. Congress last significantly altered the rate and structure of the federal corporate income tax through the Tax Reform Act of 1986.[26]

Most states, and some municipalities, also impose taxes on the income of corporations and businesses that have sufficient "nexus" in the state. While states have taxed business activity in one way or another since as early as the late eighteenth century, not until 1911 did Wisconsin become the first state to adopt a tax on net corporate income.[27] Seven states followed by the end of the decade, and by 1950, 34 states taxed corporate income. Florida and Ohio were the last states to join the pack in 1971; Ohio repealed its tax soon after, choosing to replace it with another form of business taxation. With few exceptions, states adopted corporate income taxes around the same time as taxes on personal income.[28]

By the beginning of World War II, many states sought new forms of taxation to adjust to the evolving economic landscape. Although states often claimed ensuring the integrity of the tax base required these moves, swiftly rising state spending and the need to pay for it surely played a role. Business activity, franchise, gross receipts or margins taxes are some of the most prevalent alternatives to corporate income taxes assessed by states; in some cases, states impose both.[29]

Gross receipts taxes (GRT) are assessed on the total sales of goods and services by a business and do not allow for deductions for business-to-business sales or costs. They came into popularity during the Great Depression, when desperate state governments needed to raise large sums of money and taxing profits alone yielded insufficient revenue. Business activity and margins taxes are modified forms of gross receipts taxation, with both generally applying to a narrower group than a broad GRT. Margins taxes often have graduated rates, rather than the flat GRT rate. Franchise taxes are usually assessed on the net worth or capital held by a business entity in the given state. Franchise taxes penalize business growth by incentivizing profit realization over investment in capital or expansion, as states often levy these on top of corporate income taxes.

*Where We Stand*:

Forty-four states now levy a tax on corporate income, with rates ranging from 3 percent in North Carolina to as high as 12 percent in Iowa. Of these states, Minnesota, Pennsylvania, Alaska, Iowa, Connecticut and New Jersey, as well as the District of Columbia, maintain rates of 9 percent or higher. Rates are 5 percent or lower in North Carolina, North Dakota, Colorado, Mississippi, South Carolina and Utah. While Nevada, Ohio, Texas and Washington do not assess traditional corporate income taxes, they each levy some form of gross receipts tax. Further, Delaware and Virginia impose some type of gross receipts tax in addition to their corporate income tax. South Dakota and Wyoming are the only states that impose neither corporate income nor gross receipts taxes on businesses.

*The Growth Implications of Business Taxes*

Lawmakers possess an imperative to create a tax and fiscal policy environment conducive to economic growth. Individuals, businesses and even government revenues benefit from the increased savings and investment spurred by a growth in total economic output. Improperly designed tax policy creates a fundamental disconnect between work and reward, driving out the key ingredients to earned success. Although the core functions of government certainly require tax revenue, the tax system should strive to impose a minimal burden on the people and limit market distortions.

A large volume of academic literature finds taxes negatively affect economic growth,[30] but some forms of taxation stunt economic growth more than others. All taxes are not created equal. Before wealth can be consumed or invested, it must first be produced. Naturally, any expropriation interfering with factors of production will have a severe effect on wealth creation. Organization for Economic Development (OECD) scholars found taxes on income and capital are far more distortionary and harmful[31] to economic growth than consumption taxes such as sales and property taxes.[32] Comparing economic growth within the states, it is no surprise those relying primarily on income taxes substantially underperform their lower or no-tax counterparts.

**TABLE 1 | NINE ZERO EARNED INCOME TAX STATES VS. NINE HIGHEST EARNED INCOME TAX (PIT) RATE STATES**

| | 1/1/16 | Growth in 2005–2015 | | | In 2004–2014 | In 2004–2013 |
|---|---|---|---|---|---|---|
| State | Top Marginal PIT Rate† | Population | Payroll Employment | Personal Income | Gross State Product‡ | State & Local Tax Revenue§ |
| Avg. of 9 Zero Earned Income Tax Rate States* | 0.00% | 12.90% | 8.70% | 50.10% | 50.80% | 57.30% |
| 50-State Avg.* | 5.74% | 8.80% | 5.60% | 44.40% | 41.20% | 44.00% |
| Avg. of 9 Highest Earned Income Tax Rate States* | 10.09% | 6.60% | 3.70% | 43.20% | 39.30% | 49.90% |

Similar to personal income taxes, individuals ultimately bear the burden of corporate income and other business taxes. Businesses collect and remit the taxes, but the taxes may be absorbed by consumers in the form of higher prices by workers in the form of lower wages or by shareholders in the form of lower realized earnings. Robust statistical analysis in a recent U.S. Treasury Department paper on incidence of the corporate income tax concluded labor bears a substantial portion and this incidence shifting occurs even in the short run.[33] Further, research by Brown University economist David Weil notes a highly significant and positive relationship between capital invested and worker wages. By taxing business income and capital, states reduce the free capital stock, reduce capital investment, hurt workers and fundamentally stunt economic growth.

Among taxes on capital, gross receipts taxes are especially egregious thanks to the taxes incurred at each layer of production until delivery to the end user, greatly increasing the final price of a given good or service (a process known as "tax pyramiding"). While corporate income or profits taxes are based on a firm's net

profits (the excess of revenue over costs), GRTs tax all sales by and to the firm. Tax pyramiding is especially harmful to industries with longer cycles like manufacturing and consumer retail.[34]
Corporate income, franchise and gross receipts taxes all fall primarily on the backs of workers, consumers, capital investment or shareholders; a less robust economic environment is the result.

## VI. Conclusion:

Even if the degree to which taxation affects economic growth is not always agreed upon, most economists agree taxes negatively affect economic growth. A Tax Foundation survey of peer-reviewed studies on the relationship between taxes and economic growth found of 26 peer-reviewed studies since 1983, 23 found a negative relationship between taxes and economic growth and the other three found no relationship at all.[35] Christina Romer, formerly head of President Obama's Council of Economic Advisors, and her husband David Romer, have found similar results. Their study concluded every 1 percent increase in taxation lowers real GDP by 2 to 3 percent.[36] They also found corporate income taxes are the most damaging to economic growth, followed by personal income taxes and finally consumption taxes.

While the academic and empirical results demonstrate lower taxes contribute to higher rates of economic growth, there are always some who remain unconvinced. Fortunately, economic reality factors into state tax policy and more than half the states have cut taxes over the last five years, which will likely lead to more tax reductions in the future. Though the federal government has failed to provide much in the way of substantial tax relief, in just the last four years, state policymakers have succeeded in giving billions in tax relief to hardworking taxpayers of their states.

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