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RICH STATES, POOR STATES™

ALEC–LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

ARTHUR B. LAFFER
STEPHEN MOORE
JONATHAN WILLIAMS

FOREWORD BY
GOV. PETE RICKETTS

45 YEARS ANNIVERSARY

ALEC American Legislative Exchange Council

LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

Rich States, Poor States

ALEC-Laffer State Economic Competitiveness Index

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Dr. Arthur B. Laffer is the founder and chairman of Laffer Associates and Laffer Investments, and many publications have named him "The Father of Supply-Side Economics." Dr. Laffer served as a member of President Reagan's Economic Policy Advisory Board for both terms and advised Prime Minister Margaret Thatcher on fiscal policy in the UK during the 1980s. He has been a faculty member at the University of Chicago and University of Southern California. One of his earliest successes in shaping public policy was his involvement in Proposition 13, the groundbreaking California initiative that drastically cut property taxes in the state in 1978. In March 1999, he was noted by *Time* magazine as one of "the Century's Greatest Minds" for his invention of the Laffer Curve, which has been called one of "a few of the advances that powered this extraordinary century." He has received many awards for his economic research, including two Graham and Dodd Awards from the Financial Analyst Federation and The Hayek Lifetime Achievement Award in 2016. He graduated from Yale with a Bachelor's degree in economics in 1963 and received both his MBA and Ph.D. in economics from Stanford University.

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Stephen Moore formerly served on *The Wall Street Journal*'s editorial board and frequently wrote on the economy and public policy for *The Wall Street Journal*. In January 2014, Moore returned to The Heritage Foundation—about 25 years after his tenure as the Grover M. Hermann Fellow in Budgetary Affairs from 1984 to 1987—and is now a Distinguished Visiting Fellow for the Project for Economic Growth at the leading conservative think tank. He was previously the founder and president of the Club for Growth, which raises money for political candidates who favor free market economic policies. Moore also founded the Free Enterprise Fund before joining *The Wall Street Journal*. Over the years, Moore has served as a senior economist at the Congressional Joint Economic Committee and as a senior economics fellow at the Cato Institute, where he published dozens of studies on federal and state fiscal policy. He was also a consultant to the National Economic Commission in 1987 and research director for President Reagan's Commission on Privatization. During the 2016 presidential campaign, Moore served as a senior economic adviser to Donald Trump, where he worked on tax reform, regulatory reform, and energy policy. Moore is a Senior Economic Analyst at CNN along with writing regularly for *National Review*, *Forbes*, *Investor's Business Daily*, *The Washington Times*, and *Orange County Register*. Moore holds a master's of arts in economics from George Mason University. He has authored numerous books, including *Who's the Fairest of them All*, *It's Getting Better All the Time*, *Still an Open Door?*, *An Inquiry into the Nature and Causes of the Wealth of States*, and the recently released *Fueling Freedom: Exposing the Mad War on Energy*.

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Jonathan Williams is chief economist at the American Legislative Exchange Council (ALEC), and vice president of its Center for State Fiscal Reform, where he works with state policymakers, congressional leaders and members of the private sector to develop economic policy solutions for the states. Prior to joining ALEC in 2007, Williams served as staff economist at the nonpartisan Tax Foundation, authoring numerous tax policy studies. Williams' work has appeared in many publications, including *The Wall Street Journal, Forbes, The Financial Times, Toronto Star, The Australian,* and *Investor's Business Daily.* He is a contributor for *The Hill* and a columnist at *Tax Analysts,* the leading provider of tax news and analysis for the global community. Williams also serves on the Advisory Board of the State Financial Officers Foundation (SFOF), and as an adjunct fellow at the Kansas Policy Institute. He has written for the Ash Center for Democratic Governance and Innovation at Harvard's Kennedy School of Government. In addition, Williams was a contributing author of *In Defense of Capitalism* (Northwood University Press). He has spoken to audiences across all 50 states and provided testimony for the U.S. Congress, as well as numerous state legislative bodies. His work has been featured at the federal level by The White House, the Congressional Joint Economic Committee and the U.S. House Committee on Ways and Means. He is a frequent guest on talk radio shows and has appeared on numerous television outlets, including the PBS NewsHour, Fox Business News and Bloomberg. Williams was also the recipient of the prestigious Ludwig von Mises Award in Economics.

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Foreword

Welcome to the 11th edition of the ALEC annual publication *Rich States, Poor States*. As a state that is recognized for its fiscal responsibility, we appreciate the opportunity to highlight policies that promote fiscally responsible government.

With one of the lowest unemployment rates in the country, Nebraskans are working hard and creating opportunity for the next generation. Many national organizations are recognizing our success in enhancing Nebraska's free market competitiveness. In the economic outlook ranking of *Rich States, Poor States*, Nebraska enjoys its best economic outlook ranking in the history of the publication, climbing four spots since last year alone. And we're just getting started.

I have had the great honor of serving as Governor of Nebraska over the past four years, and my administration will continue to advance fiscally responsible policies that are pro-taxpayer and pro-growth. I will stay focused on developing our people, providing tax relief, and cutting red tape, as well as balancing the state's budget while always keeping an eye on our priorities.

Right now, we have tens of thousands of open jobs, due to strong economic growth. My administration has been focused on creating awareness about these opportunities and helping young Nebraskans get skills to take advantage of them. Cutting red tape will allow existing businesses to grow even faster, while enabling entrepreneurs to more easily start their own businesses. As Governor, I have been working to make state government run more like a business and get government out of the way of our people who are growing opportunity in Nebraska.

Many state agencies have significantly reduced wait time for their services, which has resulted in the state saving millions of dollars. Similarly, unnecessary occupational licensing regulations create onerous barriers to work in certain professions. We must continue to eliminate these regulations to empower everyone from car sales people, barbers, cosmetologists, audiologists, and massage therapists. We are helping Nebraskans who want to work in these professions get to work more quickly.

Tax relief puts more money back into the pockets of hardworking Nebraskans and those who create job opportunities. Each year I have been Governor, I have made tax relief a priority in my budget recommendations to the Legislature. Over the past few years, the Legislature and I have delivered hundreds of millions in tax relief. With our regional competitors in Iowa and Missouri recently enacting comprehensive income tax reform and rate reductions for individuals and businesses, our work to reduce taxes in Nebraska is more important than ever before.

On behalf of the hardworking men and women across the Cornhusker State, I am grateful to the authors of *Rich States, Poor States*, Dr. Arthur Laffer, Stephen Moore, Jonathan Williams, and the American Legislative Exchange Council for their support and promotion of free market, pro-growth policies that benefit our state and our entire nation. By implementing more of the fiscally responsible, common-sense policies espoused in this resource, Nebraska will continue to prosper, and the hardworking taxpayers of Nebraska will be the big winners.

Sincerely,

Pete Ricketts
Governor of Nebraska

Executive Summary

The federal government finally enacted meaningful tax reform this past year in the Tax Cuts and Jobs Act of 2017 (TCJA). However, states have embraced sound tax and fiscal policy for some time. Every year, more states pass tax cuts, spending cuts, and streamline their state governments to be more effective. States that have adopted pro-growth policies have generally seen their economies grow and their citizens enjoy wage growth and more opportunities. While many states stand by a commitment to free markets and limited government, others continue their preoccupation with high taxes and bloated government.

In this 11th edition of *Rich States, Poor States*, authors Dr. Arthur Laffer, Stephen Moore, and Jonathan Williams review policy choices made by the 50 states and discuss whether those choices have improved economic competitiveness. The empirical evidence and analysis in this edition *of Rich States, Poor States* proves which policies encourage greater economic opportunity and which are obstacles to growth.

In chapter one, the authors discuss important developments since the last edition of this publication, including takeaways from the 2018 state legislative sessions. Examining the migration of citizens and businesses from economically uncompetitive states to low-tax, low-regulation locales highlights the robust relationship between tax policy and economic health of a state. The authors examine significant policy battles, including the first comprehensive federal tax reform since 1986, and the effects on pro-growth reform in the years ahead.

Chapter two explores the Northeast—the one region where significant tax reform remains elusive. Expectedly, these states have some of the worst performing economies and bleakest futures in the country. There is no better example of the toxicity of high taxes and government waste on long-term prosperity than the Northeast. Fortunately, in other regions, good policy tends to crowd out the bad. Many states have witnessed benefits like higher in-migration and economic growth after lowering corporate and personal income tax rates, reducing or eliminating death taxes, simplifying tax codes, and supporting worker freedom.

In chapter three, the authors examine how federal tax reform changed state politics. One of the most notable parts of the TCJA was the cap on the state and local tax (SALT) deduction. Much to the ire of high-tax state governors like New York's Andrew Cuomo, Connecticut's Dannel Malloy, and New Jersey's Phil Murphy, fiscally irresponsible states will no longer be able to pass the burden of funding the federal government onto thrifty, more conservative states. The success of low tax burdens speak for themselves when businesses leave high-tax states for locales that treat them more like partners than wallets to raid. To high-tax politicians challenging the more equitable tax code achieved in federal tax reform, the authors say "bring it on."

In chapter four, the authors outline the disorder that is Missouri's sales tax code. Within one state, overlapping jurisdictions and special tax districts saddle taxpayers with more than 2,300 unique tax jurisdictions. Worse, counting only unique jurisdictions still fails to capture the myriad tax codes existent within each jurisdiction that include their own exemptions, credits, deductions, and rates. Separate and uncoordinated tax-

ing authorities demanding remittance on millions of transactions and thousands of products are sucking air out of Missouri's economy. Local governments in Missouri must revisit their sales tax policies or face the consequences of businesses voting with their feet and moving out.

Finally, chapter five delivers the highly anticipated *2018 ALEC-Laffer State Economic Competitiveness Index*. The index is comprised of two separate economic rankings. The first ranking is the economic performance ranking, which is based on three important metrics over the past decade. Growth in gross state product (GSP), absolute domestic migration, and growth in non-farm payroll employment are calculated for each state using the most recent data available. The second ranking provides a forecast for state economic outlook. This forecast is based on a state's current standing in 15 equally-weighted policy areas that are influenced directly by state lawmakers. These 15 policy areas are among the most influential factors in determining a state's potential for future economic growth. Generally, states that spend less, especially on transfer payments, and states that tax less, particularly on productive activities such as work or investment, tend to experience higher rates of economic growth than states that tax and spend more.

The following 15 policy variables are measured in the *2018 ALEC-Laffer State Economic Competitiveness Index:*

- Highest Marginal Personal Income Tax Rate
- Highest Marginal Corporate Income Tax Rate
- Personal Income Tax Progressivity
- Property Tax Burden
- Sales Tax Burden
- Tax Burden from All Remaining Taxes
- Estate/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes (2016 & 2017, per $1,000 of Personal Income)
- Debt Service as a Share of Tax Revenue
- Public Employees per 10,000 Residents
- Quality of State Legal System
- Workers' Compensation Costs
- State Minimum Wage
- Right-to-Work State (Yes or No)
- Tax or Expenditure Limits

This 11th edition of *Rich States, Poor States* attempts to answer why some states prosper and grow, and why others fail to compete for economic opportunity. The evidence is clear that competitive tax rates, thoughtful regulations, and responsible spending lead to more opportunities for all Americans. State economies grow and flourish when lawmakers trust people, not government, to create long-term prosperity.

ALEC-Laffer State Economic Outlook Rankings, 2018

Based upon equal-weighting of each state's rank in 15 policy variables

Rank	State	Rank	State
1	Utah	26	Kansas
2	Idaho	27	Louisiana
3	Indiana	28	Nebraska
4	North Dakota	29	Iowa
5	Arizona	30	West Virginia
6	Florida	31	Kentucky
7	North Carolina	32	Maryland
8	Wyoming	33	South Carolina
9	South Dakota	34	Alaska
10	Virginia	35	New Mexico
11	Georgia	36	Delaware
12	Tennessee	37	Washington
13	Nevada	38	Pennsylvania
14	Texas	39	Rhode Island
15	Colorado	40	Connecticut
16	Oklahoma	41	Oregon
17	New Hampshire	42	Maine
18	Michigan	43	Montana
19	Wisconsin	44	Minnesota
20	Alabama	45	Hawaii
21	Ohio	46	New Jersey
22	Arkansas	47	California
23	Missouri	48	Illinois
24	Mississippi	49	Vermont
25	Massachusetts	50	New York

10 Golden Rules of Effective Taxation

1 ***When you tax something more you get less of it, and when you tax something less you get more of it.***

Tax policy is all about reward and punishment. Most politicians know instinctively that taxes reduce the activity being taxed—even if they do not care to admit it. Congress and state lawmakers routinely tax things that they consider "bad" to discourage the activity. We reduce, or in some cases entirely eliminate, taxes on behavior that we want to encourage, such as home buying, going to college, giving money to charity, and so on. By lowering the tax rate in some cases to zero, we lower the after tax cost, in the hopes that this will lead more people to engage in a desirable activity. It is wise to keep taxes on work, savings, and investment as low as possible in order not to deter people from participating in these activities.

2 ***Individuals work and produce goods and services to earn money for present or future consumption.***

Workers save, but they do so for the purpose of conserving resources so they or their children can consume in the future. A corollary to this is that people do not work to pay taxes—although some politicians seem to think they do.

3 ***Taxes create a wedge between the cost of working and the rewards from working.***

To state this in economic terms, the difference between the price paid by people who demand goods and services for consumption and the price received by people who provide these goods and services—the suppliers—is called the wedge. Income and other payroll taxes, as well as regulations, restrictions, and government requirements, separate the wages employers pay from the wages employees receive. If a worker pays 15 percent of his income in payroll taxes, 25 percent in federal income taxes, and 5 percent in state income taxes, his $50,000 wage is reduced to roughly $27,500 after taxes. The lost $22,500 of income is the tax wedge, or approximately 45 percent. As large as the wedge seems in this example, it is just part of the total wedge. The wedge also includes excise, sales, and property taxes, plus an assortment of costs, such as the market value of the accountants and lawyers hired to maintain compliance with government regulations. As the wedge grows, the total cost to a firm of employing a person goes up, but the net payment received by the person goes down. Thus, both the quantity of labor demanded and quantity supplied fall to a new, lower equilibrium level, and a lower level of economic activity ensues. This is why all taxes ultimately affect people's incentive to work and invest, though some taxes clearly have a more detrimental effect than others.

4 ***An increase in tax rates will not lead to a dollar-for-dollar increase in tax revenues, and a reduction in tax rates that encourages production will lead to less than a dollar-for-dollar reduction in tax revenues.***

Lower marginal tax rates reduce the tax wedge and lead to an expansion in the production base and improved resource allocation. Thus, while less tax revenue may be collected per unit of tax base, the tax base itself increases. This expansion

of the tax base will, therefore, offset some (and in some cases, all) of the loss in revenues because of the now lower rates.

Tax rate changes also affect the amount of tax avoidance. It is important to note that legal tax avoidance is differentiated throughout this report from illegal tax evasion. The higher the marginal tax rate, the greater the incentive to reduce taxable income. Tax avoidance takes many forms, from workers electing to take an improvement in nontaxable fringe benefits in lieu of higher gross wages to investment in tax shelter programs. Business decisions, too, are increasingly based on tax considerations as opposed to market efficiency. For example, the incentive to avoid a 40 percent tax, which takes $40 of every $100 earned, is twice as high as the incentive to avoid a 20 percent tax, for which a worker forfeits $20 of every $100 earned.

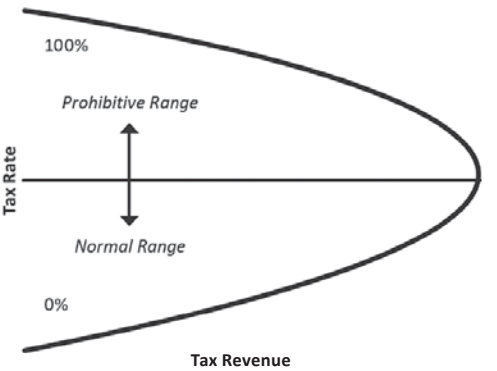
An obvious way to avoid paying a tax is to eliminate market transactions upon which the tax is applied. This can be accomplished through vertical integration: Manufacturers can establish wholesale outlets; retailers can purchase goods directly from manufacturers; companies can acquire suppliers or distributors. The number of steps remains the same, but fewer and fewer steps involve market transactions and thereby avoid the tax. If states refrain from applying their sales taxes on business-to-business transactions, they will avoid the numerous economic distortions caused by tax cascading. Michigan, for example, should not tax the sale of rubber to a tire company, then tax the tire when it is sold to the auto company, then tax the sale of the car from the auto company to the dealer, then tax the dealer's sale of the car to the final purchaser of the car, or the rubber and wheels are taxed multiple times. Additionally, the tax cost becomes embedded in the price of the product and remains hidden from the consumer.

5 ***If tax rates become too high, they may lead to a reduction in tax receipts. The relationship between tax rates and tax receipts has been described by the Laffer Curve.***

The Laffer Curve (illustrated below) summarizes this phenomenon. We start this curve with the undeniable fact that there are two tax rates that generate zero tax revenues: a zero tax rate and a 100 percent tax rate. (Remember Golden Rule #2: People don't work for the privilege of paying taxes, so if all their earnings are taken in taxes, they do not work, or at least they do not earn income the government knows about. And, thus, the government receives no revenues.)

Now, within what is referred to as the "normal range," an increase in tax rates will lead to an increase in tax revenues. At some point, however, higher tax rates become counterproductive. Above this point, called the "prohibitive range," an increase in tax rates leads to a reduction in tax revenues and vice versa. Over the entire range, with a tax rate reduction, the revenues collected per dollar of tax base falls. This is the arithmetic effect. But the number of units in the tax base expands. Lower tax rates lead to higher levels of personal income, employment, retail sales, investment, and general economic activity. This is the economic, or incentive, effect. Tax avoidance also declines. In the normal range, the arithmetic effect of a tax rate reduction dominates. In the prohibitive range, the economic effect is dominant.

The Laffer Curve



Source: Laffer Associates

Of course, where a state's tax rate lies along the Laffer Curve depends on many factors, including tax rates in neighboring jurisdictions. If a state with a high employment or payroll tax borders a state with large population centers along that border, businesses will have an incentive to shift their operations from inside the jurisdiction of the high tax state to the jurisdiction of the low tax state.

Economists have observed a clear Laffer Curve effect with respect to cigarette taxes. States with high tobacco taxes that are located next to states with low tobacco taxes have very low retail sales of cigarettes relative to the low tax states. Illinois smokers buy many cartons of cigarettes when in Indiana, and the retail sales of cigarettes in the two states show this.

6 ***The more mobile the factors being taxed, the larger the response to a change in tax rates. The less mobile the factor, the smaller the change in the tax base for a given change in tax rates.***

Taxes on capital are almost impossible to enforce in the 21st century because capital is instantly transportable. For example, imagine the behavior of an entrepreneur or corporation that builds a factory at a time when profit taxes are low. Once the factory is built, the low rate is raised substantially without warning. The owners of the factory may feel cheated by the tax bait and switch, but they probably do not shut the factory down because it still earns a positive after tax profit. The factory will remain in operation for a time even though the rate of return, after taxes, has fallen sharply. If the factory were to be shut down, the after tax return would be zero. After some time has passed, when equipment needs servicing, the lower rate of return will discourage further investment, and the plant will eventually move where tax rates are lower.

A study by the American Enterprise Institute has found that high corporate income taxes at the national level are associated with lower growth in wages. Again, it appears as though a chain reaction occurs when corporate taxes get too high. Capital moves out of the high tax area, but wages are a function of the ratio of capital to labor, so the reduction in capital decreases the wage rate.

The distinction between initial impact and burden was perhaps best explained by one of our favorite 20th century economists, Nobel winner Friedrich A. Hayek, who makes the point as follows in his classic, *The Constitution of Liberty*:

> *The illusion that by some means of progressive taxation the burden can be shifted substantially onto the shoulders of the wealthy has been the chief reason why taxation has increased as fast as it has done and that, under the influence of this illusion, the masses have come to accept a much heavier load than they would have done otherwise. The only major result of the policy has been the severe limitation of the incomes that could be earned by the most successful and thereby gratification of the envy of the less well off.*

7 ***Raising tax rates on one source of revenue may reduce the tax revenue from other sources, while reducing the tax rate on one activity may raise the taxes raised from other activities.***

For example, an increase in the tax rate on corporate profits would be expected to lead to a diminution in the amount of corporate activity, and hence profits, within the taxing district. That alone implies less than a proportionate increase in corporate tax revenues. Such a reduction in corporate activity also implies a reduction in employment and personal income. As a result, personal income tax revenues would fall. This decline, too, could offset the increase in corporate tax revenues. Conversely, a reduction in corporate tax rates may lead to a less than expected loss in revenues and an increase in tax receipts from other sources.

8 ***An economically efficient tax system has a sensible, broad tax base and a low tax rate.***

Ideally, the tax system of a state, city, or country will minimally distort economic activity. High tax rates alter economic behavior. President Ronald Reagan used to tell the story that he would stop making movies during his acting career once he was in the 90 percent tax bracket because the income he received was so low after taxes were taken away. If the tax base is broad, tax rates can be kept as low and non-confiscatory as possible. This is one reason we favor a flat tax with minimal deductions and loopholes. It is also why more than two dozen have now adopted a flat tax.

9 ***Income transfer (welfare) payments also create a de facto tax on work and, thus, have a high impact on the vitality of a state's economy.***

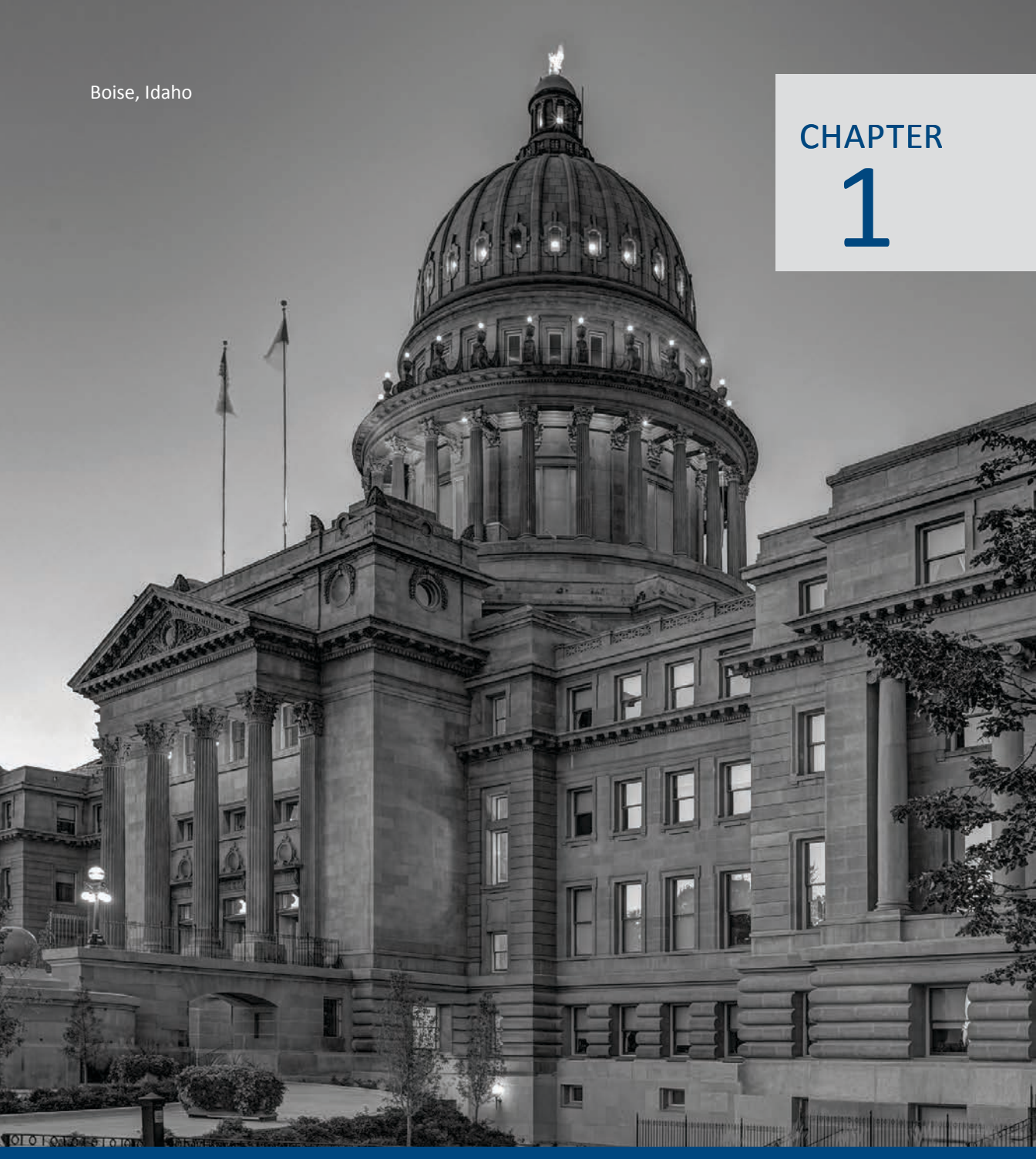
Unemployment benefits, welfare payments, and subsidies all represent a redistribution of income. For every transfer recipient, there is an equivalent tax payment or future tax liability. Thus, income effects cancel. In many instances, these payments are given to people only in the absence of work or output. Examples include food stamps (income tests), Social Security benefits (retirement test), agricultural subsidies, and, of course, unemployment compensation itself. Thus, the wedge on work effort is growing at the same time that subsidies for not working are increasing. Transfer payments represent a tax on production and a subsidy to leisure. Their automatic increase in the event of a fall in market income leads to an even sharper drop in output.

In some high benefit states, such as Hawaii, Massachusetts, and New York, the entire package of welfare payments can pay people in excess of the equivalent of a $20 per hour job (and let us not forget: Welfare benefits are not taxed, but wages and salaries are). Because these benefits shrink as income levels from work climb, welfare can impose very high marginal tax rates (60 percent or more) on low-income Americans. And those disincentives to work have a deleterious effect. We found a high, statistically significant, negative relationship between the level of benefits in a state and the percentage reduction in caseloads.

In sum, high welfare benefits magnify the tax wedge between effort and reward. As such, output is expected to fall as a consequence of making benefits from not working more generous. Thus, an increase in unemployment benefits is expected to lead to a rise in unemployment.

Finally, and most important of all for state legislators to remember:

10 ***If A and B are two locations, and if taxes are raised in B and lowered in A, producers and manufacturers will have a greater incentive to move from B to A.***



Boise, Idaho

CHAPTER

1

State of the States

State of the States

Introduction

After 10 years of assessing state-level tax policy with this publication, momentum at the state level finally translated into action from the federal government. Passed and signed in December of 2017, the Tax Cuts and Jobs Act (TCJA) returns more than $1 trillion of income back to hardworking American taxpayers. Better still, nine states carried the torch of pro-growth tax reform in 2017, and as we explain throughout this chapter, 2018 continues to be a historic year for tax reform in the states. The case studies in this chapter show the correlation between a healthy economy, job growth, greater take-home pay, and meaningful tax relief.

This 11th edition of *Rich States, Poor States* continues the ALEC yearly review of the 50 states and their economic outlook. These 50 "laboratories of democracy" prove, year-after-year, that pro-growth, free market policy is a win for hardworking taxpayers, and for the legislators they elect.

The Untold Story of Federal Tax Reform—A Historic Opportunity for States

Americans are beginning to enjoy the benefits from the first federal tax reform since Ronald Reagan, more than 31 long years ago. According to a recent survey from Americans for Tax Reform, more than 700 businesses have publicly announced bonuses, wage increases, 401(k) match increases, expansions, new employment, more charitable contributions, and utility rate reductions as a result of the TCJA.[1] In addition, the National Federation of Independent Business (NFIB) reports record small business optimism.[2] These are just a few early dividends of tax reform that benefit hardworking American taxpayers.

The untold story of federal tax reform's success is the myriad of opportunities provided to policymakers across America's 50 states. Unexpected tax receipts linked to changes in the federal tax code have been a game changer in many state capitals this year. Federal tax reform is empowering lawmakers to reduce tax rates on their own hardworking taxpayers, compounding the benefit from federal tax cuts.

Most states have released official reports on the budgetary impact of federal tax reform. An overwhelming majority predict enhanced state revenue, even in states like New York, where Gov. Andrew Cuomo vigorously opposed the federal reform. Gov. Cuomo's opposition stemmed from the $10,000 state and local tax (SALT) deduction cap, which could mean larger tax bills for high-income earners in extremely high-tax areas like New York. However, with the extra revenue in Albany, Gov. Cuomo now has the opportunity to cut *state level* tax rates and hold taxpayers harmless from any unintended effects of the federal change.

Why does federal tax reform benefit state budgets? Most states base their income taxes to some extent on the federal income tax code (36 states for individual income taxes and 45 states for corporate income taxation).[3] When federal changes to the tax code—particularly federal definitions of taxable income or adjusted gross income (AGI)—"broaden the tax base," it also expands taxable income at the state level. Congress lowered tax

rates across the board and roughly doubled the standard deduction, so a majority of taxpayers will enjoy a net tax cut at the federal level. But, in 2018, tax reform action has shifted to the state level.

After President Ronald Reagan signed the 1986 tax reform package into law, many states took advantage of the revenue windfall and used it to reform their tax systems and reduce rates. As the late Yankee great, and occasional philosopher, Yogi Berra would say, it's like "déjà vu all over again." Already in 2018, lawmakers in states like Georgia, Iowa, Idaho, Missouri, and even Bernie Sanders' Vermont, used federal tax reform's revenue windfall to enact reform and lower rates, enhancing their economic competitiveness.

This publication's economic outlook rankings already recognized some state tax reforms. As lawmakers in Georgia and Idaho used federal tax changes to implement significant rate reductions this year, Idaho's ranking skyrocketed from 10th to 2nd, and Georgia's jumped from 17 to 11. Iowa's recent tax reform package will deliver more than $2 billion in tax relief over six years but was not enacted in time to be included in this year's report.

These 2018 state tax reforms continue to build on a trend, as states look for ways to become more competitive. All told, in the past five years more than 30 states have significantly reduced their tax burdens. They exemplify how states can indeed be "laboratories of democracy" as described by United States Supreme Court Justice Louis Brandeis. No state has ever taxed, borrowed, or spent its way to prosperity. States that interfere with economic transactions through oppressive tax rates, burdensome regulations, and bloated spending have lost economic vitality and seen residents migrate to states with lower taxes and more competitive business climates.[4]

Americans Continue to "Vote with their Feet"

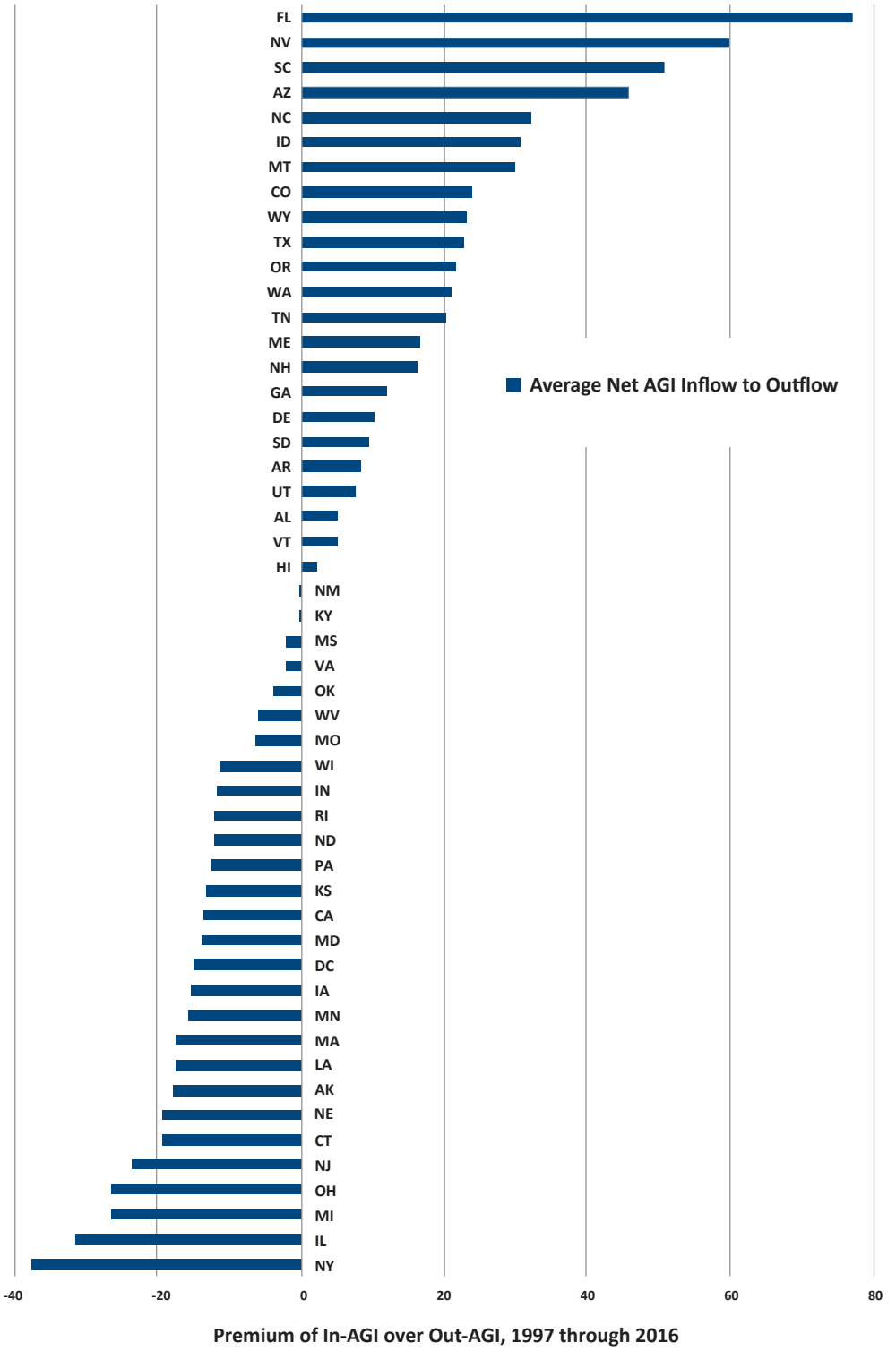
Americans are constantly "voting with their feet" in response to the effects policy decisions have on state competitiveness. Net domestic migration and non-farm payroll data reveal millions of people are moving their families, businesses, and incomes to more economically competitive states. Data from the Internal Revenue Service also show trillions of dollars of economic output shifting between states over the past few decades.

From 2002 to 2017, more than 20 million residents moved from one state to another.[5] That is nearly four times the number of people who live in the state of Colorado. A disproportionate share of migration occurred in just the last five years. Americans in search of better opportunities often turn to states that are economically attractive. This is a boon for states whose fiscal house is in order and outlook is bright, but a substantial growth deterrent to states whose outlook is already dire. According to the IRS, this annual shift in domestic population represented $3 trillion in AGI in aggregate from 1997 through 2016. Taxpayers moved from states with high personal and corporate income taxes to states with lower or—as is more often the case—no income taxes.[6] Net domestic migration differs from simple population growth by excluding deaths, births, and international migration. By eliminating the bias of happenstance, it is a reliable measure of the variables behind Americans' decisions to move from one state to another.

Americans move for many reasons, including job opportunities, higher incomes, more robust social mobility, and an improvement on quality of life. While states are unable to change things like the weather or sunlight, their policy decisions can help foster economic opportunity. Those with lower taxes, reasonable regulatory burdens, and sensible budgeting demonstrate a record of opportunity growth that continues to attract new residents.

The ratio of inflowing to outflowing AGI from domestic migration is a simple way to quantify the strength of the economic tide toward or away from a state. Figure 1 graphs this AGI "premium" for each state from 1997-2016. For instance, a premium of 0.25 indicates that for every $1 lost through outmigration, the state gained $1.25 from in-migration. A negative premium of -0.25 indicates that for every $1 lost through outmigration, the state gained only $0.75 from in-migration. The flow of adjusted gross income has a strong positive correlation with top personal income tax rates. It's

FIGURE 1 | **Wealth Flows to Low-Tax States and Away from High-Tax States**



Source: Internal Revenue Service

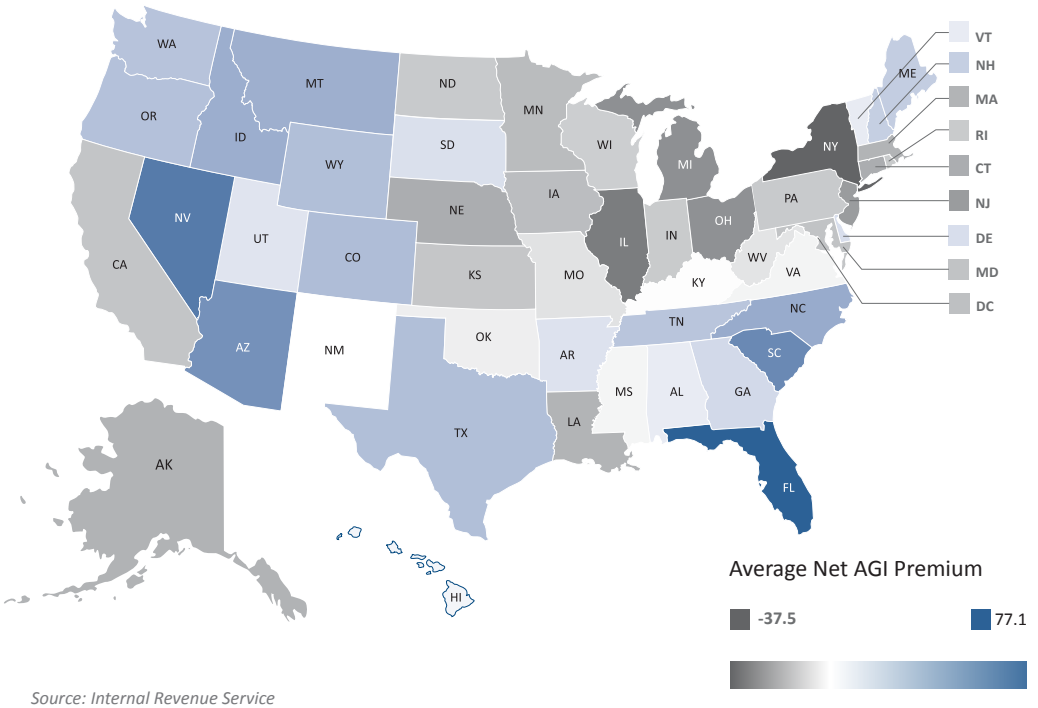
no surprise that all nine states with no personal income tax experienced a net increase in AGI from domestic migration during this period. Florida and Nevada (both with no personal income tax) experienced the highest AGI premiums; for every $1.00 of AGI flowing out, Nevada gained almost $1.60 while Florida gained more than $1.75. Meanwhile, New York and Illinois languished at the bottom, the former losing nearly $1.40 for every $1.00 in incoming AGI and the latter approximately $1.31 for every $1.00 brought in by new residents. Beautiful California lost $1.12 for every $1.00 in incoming AGI over this extended timeframe.

Skeptics may point to sunny weather in Florida, Texas, Arizona, and the Carolinas as a primary factor behind the flow of people and income away from places such as Illinois and New York. However, Figure 2 shows New Hampshire, Maine, South Dakota, Wyoming, Idaho, and other states with snowy winters gaining AGI from domestic migration, as picturesque California experienced steady losses.

Each and every year, the nine no-income-tax states as a group have attracted a net positive amount of AGI from migrating tax filers (i.e. income earners). Meanwhile, over the past decade, the states with personal income taxes greater than 5 percent experienced a net decline in AGI from outmigration each and every year. (See Figure 3).

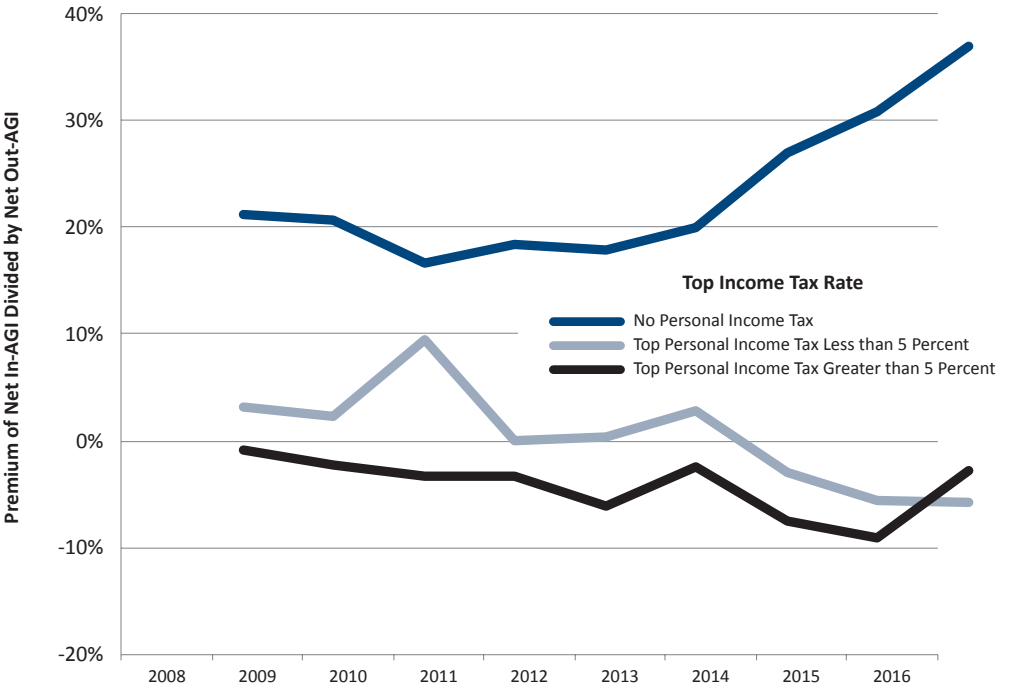
Demographic trends also affect state political power. Table 1 highlights projected gains and losses in 2020 reapportionment based on the long-term trend from 2010, according to Census data.[7] A strong, positive relationship exists between a state's *Rich States, Poor States* economic outlook ranking and its anticipated gain (or loss) in seats as a result of reapportionment.[8] This relationship demonstrates that states experiencing higher population growth relative to others are the same states that have lower tax and regulatory burdens, better labor policies, lower government debt, and greater transparency and accountability. New York, California, Illinois, Michigan, and New Jersey have suffered extensive out-migration over

FIGURE 2 | **States by Average AGI Ratio Between 1997 and 2016**



Source: Internal Revenue Service

FIGURE 3 | **Wealth is Fleeing High-Tax States**



Source: Internal Revenue Service

the past decade. In California, from 2007-2016, more than 928,000 people left on net in search of sunnier economic opportunities. At 13.3 percent, California levies the highest top marginal personal income tax rate in the nation.

On net, New York lost more than 1.3 million residents over the past decade to more economically competitive states. It is no surprise that taxpayers opt to move to greener pastures rather than endure a top combined state and local marginal personal income tax rate of 12.7 percent—the highest in the Northeast—and the worst economic outlook ranking in America. Contrastingly, the two states with the highest in-migration—Texas and Florida—levy no taxes on personal income. Furthermore, North Carolina has continued to phase in significantly reduced tax burdens through historic tax reform.

New estimates detail how states have grown since the last Census in 2010 and provide insight on what we can expect from the upcoming 2020 Census. The United States has grown to more than 327 million residents, with economically competitive economies in Idaho, Nevada, and Utah leading the way this past year in percentage growth.[9] Overall population growth takes into account birth rates and death rates, international immigration, and domestic migration.

Once a decade, the political class in Washington pays close attention to state population flows, as the numbers will alter the makeup of Congressional seats during the process of reapportionment and redistricting based on the total number of residents within a state.

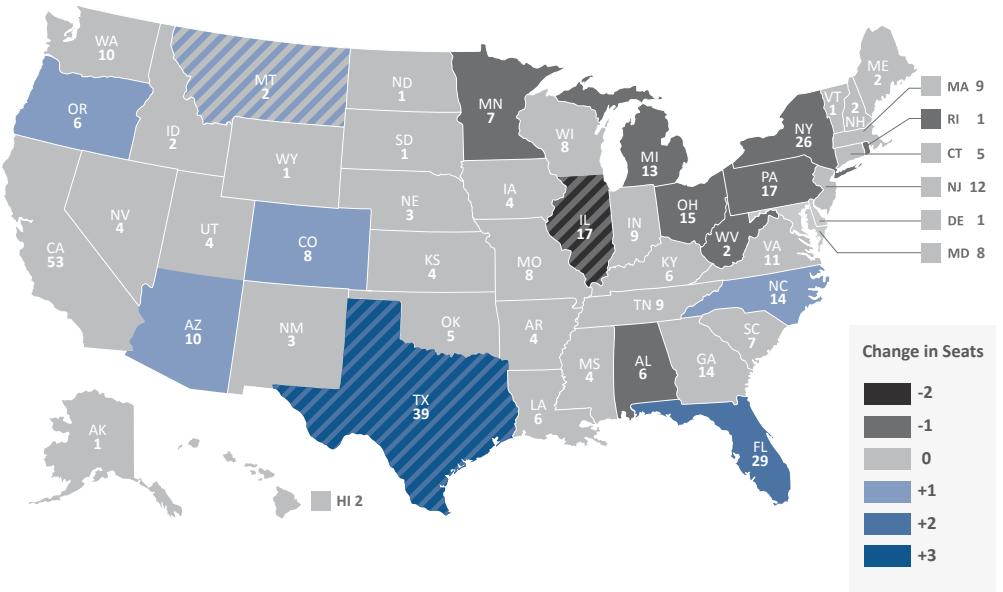
The state facing the largest decline in political power appears to be Illinois, set to lose one Congressional seat in 2020 and the only state in America in danger of losing two seats. The Land of Lincoln suffered the largest net population loss of any state in the past year. Illinois, which had previously been the fifth-largest state in the Union, was overtaken by Pennsylvania this past year. Major tax increases passed in 2017 are unlikely to help this downward economic and demographic spiral.

TABLE 1 | **Anticipated Gains/Losses 2020 in Reapportionment**

Top States Gaining	Number of Seats	RSPS Outlook	Top States Losing	Number of Seats	RSPS Outlook
Texas	+2 or +3	14	Illinois	-1 or -2	48
Florida	+2	6	Alabama	-1	20
North Carolina	+1	7	Michigan	-1	18
Arizona	+1	5	Minnesota	-1	44
Colorado	+1	15	New York	-1	50
Oregon	+1	41	Ohio	-1	21
Montana	0 or +1	43	Pennsylvania	-1	38
			Rhode Island	-1	39
			West Virginia	-1	30

Source: U.S. Census, Election Data Services

FIGURE 4 | **Anticipated Gains/Losses in 2020 Reapportionment**
(Numbers associated with each state represent their projected total of US House seats after 2020)



Source: U.S. Census, Election Data Services

The 2017 Census estimates also contain some troubling news for the nation's largest state, California. The 2010 Census was the first in history in which California did not gain any Congressional seats, and 2020 could be worse. Some projections show high-tax California is on the verge of losing a Congressional seat in 2020, an occurrence which hasn't happened in its more than 165 years of statehood. This is a shocking development for a state that gained seven seats between 1980 and 1990.[10]

Additionally, Rhode Island may lose one of its two Congressional seats in 2020. For history buffs, that will be the first time since 1789 that Rhode Island has only had one Congressional seat. New York, another state with extremely high tax burdens, is set to lose a seat in 2020, the eighth Census in

TABLE 2 | **State Migration Winners and Losers**

The Ten States with the Greatest Net Domestic In-Migration (Cumulative 2005-2016)			The Ten States with the Greatest Net Domestic Out-Migration (Cumulative 2005-2016)		
Rank	**State**	**Net Domestic Migration**	**Rank**	**State**	**Net Domestic Migration**
1	Texas	1,459,135	41	Connecticut	-184,522
2	Florida	1,127,416	42	Massachusetts	-230,305
3	North Carolina	793,431	43	Ohio	-236,617
4	Arizona	719,802	44	Louisiana	-257,292
5	Georgia	550,869	45	Alaska	-449,049
6	South Carolina	480,105	46	Michigan	-588,260
7	Colorado	423,387	47	New Jersey	-823,589
8	Washington	405,175	48	Illinois	-1,007,596
9	Oregon	306,352	49	California	-1,604,202
10	Tennessee	244,670	50	New York	-1,883,571

Source: U.S. Census Bureau

a row that the Empire State has forfeited seats. Since the Census of 1940, New York has lost 18 Congressional seats. The new count in 2020 would add to that alarming trend.

Conversely, Florida and Texas are likely big winners in 2020. Current projections have Florida gaining two new seats, with Texas set to gain two to three new seats. This is a continuation of long-term trends for both states. Texas has gained seats every Census since 1940, while Florida's uninterrupted streak extends back into the 19th century.

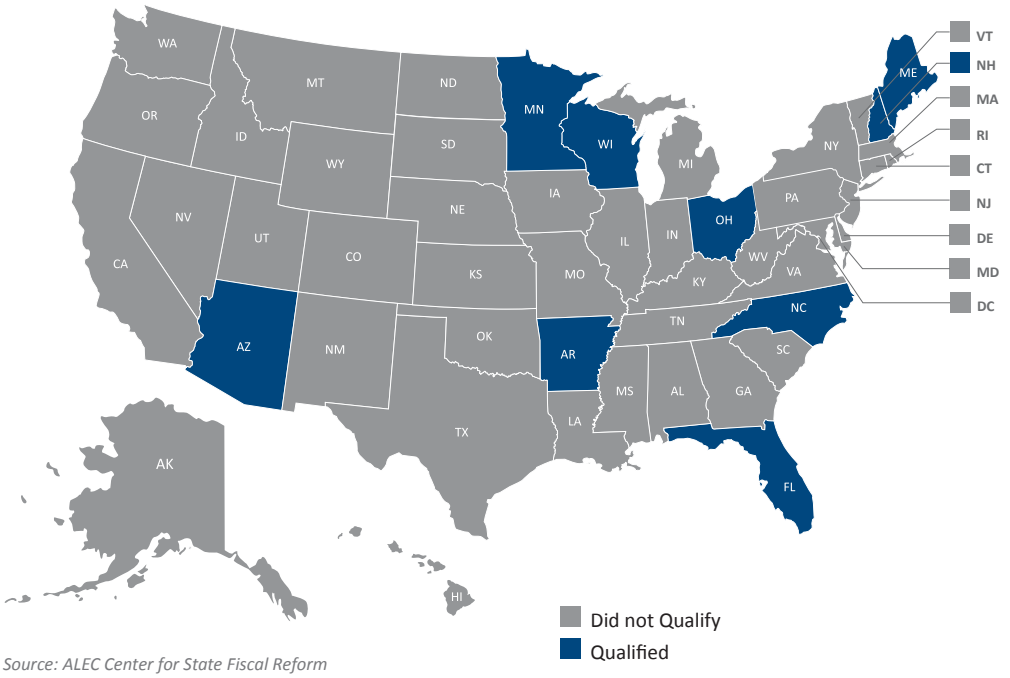
Americans are voting with their feet in response to policy decisions and state competitiveness. The Census migration data reveal that millions of people are moving their families, businesses, and incomes to more economically competitive states. This country has always been the land of opportunity, offering immigrants the chance to live the American Dream. It's easy to forget that migration within our own borders occurs for similar reasons. People have many motives when choosing which state to reside in, like proximity to family members and better weather, but migration to pursue economic opportunity is key.

When you tax something, you get less of it. Pro-growth policies, such as lighter tax and regulatory burdens, boost state economic activity and attract citizens looking to enhance their well-being. The Census estimates provide a clear manifestation of how states with competitive free market policies continue to win the day.

State Tax Cut Roundup 2017

In the annual *State Tax Cut Roundup,* the ALEC Center for State Fiscal Reform details state tax cuts during their respective legislative sessions.[11] Nine states qualified for coverage in the 2017 *State Tax Cut Roundup*. The momentum for pro-growth tax relief in recent years has been strong, as 17 states qualified for *State Tax Cut Roundup* in 2013, 14 states qualified in 2014, and 17 qualified in 2015.[12,13,14] Nine states qualified in 2016, partially a result of scheduled phase-ins from previous tax reforms. States also faced uncertainty about federal tax reform, falling revenues, and were unable to hold back spending increases. In total, 30 different states have substantially cut taxes since 2013. Of these groups of states, Florida deserves special credit for providing a near-constant stream of pro-growth

FIGURE 5 | **States that Qualified for *State Tax Cut Roundup* During the 2017 Legislative Sessions**



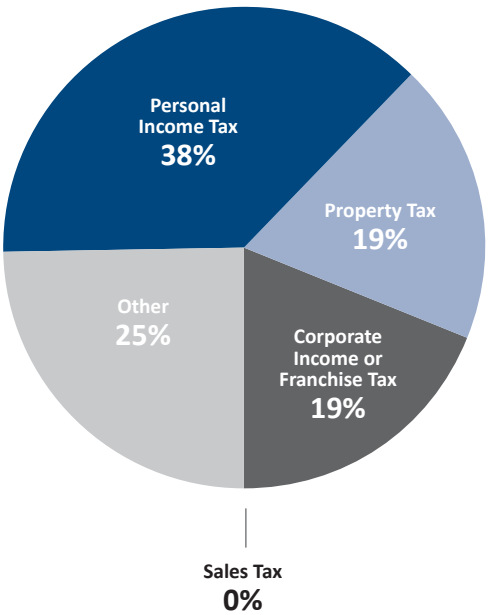
Source: ALEC Center for State Fiscal Reform

reforms, qualifying for all five editions of *State Tax Cut Roundup*.

The qualifying states made great strides to lessen the burden of both personal and corporate income taxes. Florida and North Carolina deserve special recognition for their return of over $100 million to taxpayers. By voting to lower their flat income tax rate from 5.499 percent to 5.25 percent and corporate rate from 3.0 percent to 2.5 percent, North Carolina doubled down on its commitment to pro-growth tax policy. Florida cut its tax rate on commercial rents by 0.2 percent, saving taxpayers $61 million annually. Figure 6 illustrates the types of tax burdens reduced by qualifying states. Note that some states cut multiple forms of taxes.

State Tax Cut Roundup also reports on previously enacted tax cuts that took effect in 2017. Indiana, New Mexico, Tennessee, Mississippi, and Rhode Island all qualified in previous editions of the report and planned phase-ins of tax cutting legislation from previous sessions. This allowed hardworking taxpayers to take home more of their money in 2017. During a booming economy spurred

FIGURE 6 | **Types of Taxes Cut During the 2017 Legislative Sessions**



Source: ALEC Center for State Fiscal Reform

along by federal tax reform, state governments can expect rising tax revenues, even among states that cut taxes last year. As business becomes more mobile and firms move to fiscally advantageous locales, the benefits of across-the-board tax cuts become increasingly distinct.

What America's Governors Said About Fiscal Policy in 2018

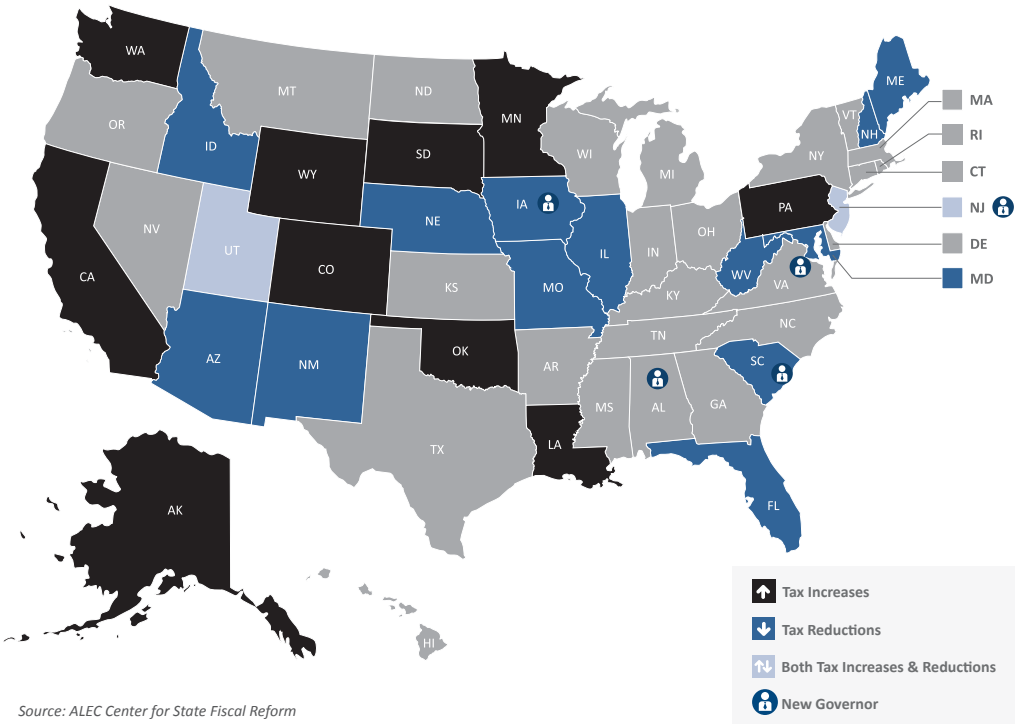
In 2018, nearly all governors delivered a State of the State or equivalent budget address. In the fourth edition of its annual *State of the States* report, the Center for State Fiscal Reform reviewed economic policy proposals discussed in each governor's address.[15]

Though it's ultimately the actions of state executives that are most important, much can also be gleaned from their words. This year, 25 governors made significant comments on tax policy. 13 governors proposed only tax reductions, while 10 exclusively pushed for tax increases. Governors in two states proposed a mixture of both. The following map shows which governors called for tax increases, tax reductions, or both.

Gov. Henry McMaster of South Carolina proposed possibly the largest tax and fiscal policy reforms of any governor this year. His budget included nearly $2.2 billion in cumulative tax relief by lowering each of the state's income tax brackets by 1 percentage point over five years. Also, he worked with a variety of state agencies to find efficiency savings, the most significant being the $338 million in education spending savings simply from consolidation and prioritization. Finally, his plan to substantially reform South Carolina's public pension system by creating 401(k)-style personal investment accounts for young workers was one of the most pro-taxpayer proposals of 2018.

While a desire to spend more and a refusal to live within a state's financial means induced some calls for tax hikes, many of the 2018 State of the State addresses were quite encouraging, with governors frequently endorsing market-oriented tax and fiscal policies. The fact so many governors are calling for lower taxes is a very positive trend, suggesting

FIGURE 7 | **2018 Governors' Tax Proposals**



Source: ALEC Center for State Fiscal Reform

that many governors understand how competitive tax rates and free market fiscal policies grow their economies and make their states more attractive places to live and work.

A Snapshot of Significant State Policy Battles in 2018

Iowa Passes Tax Reform, a First Step in Modernizing the State Tax Code

Gov. Kim Reynolds signed a tax reform package into law on May 30, 2018, stating "I signed this bill for every Iowan who works hard to earn a paycheck and deserves to keep more of it." While the fate of this package remained doubtful until relatively late in the state's legislative session, Iowa legislators came together to take important first steps toward comprehensive tax reform. ALEC members provided strong leadership in these efforts, including Speaker Linda Upmeyer and Senate President Charles Schneider.

The state's individual income tax will be simplified and lowered in a two-step process. Iowa currently has nine different tax brackets, one of the most in the country, adding needless complexity to the tax code. The top sticker rate of 8.98 percent kicked in for all taxpayers starting at $71,910 of income, with several brackets separated only by a few thousand dollars. Subject to revenue triggers, by 2023 the top individual income tax rate will be reduced to 6.5 percent, with four brackets instead of nine. Several other changes would also take effect in 2023, including both the elimination of the alternative minimum tax and the ability to deduct federal income taxes from taxable state income. The Iowa Department of Revenue estimated an average savings of $300 per person, per year.[16]

In addition to having one of the nation's highest individual income taxes, Iowa's top corporate income tax rate of 12 percent is *the very* highest state level rate. While federal deductibility lowers the effective rate, "sticker shock" results in companies choosing to locate their operations elsewhere, harming both the state's economic growth and job prospects for Iowans. Under the new tax law, in 2021 the top corporate tax rate will be reduced to 9.8 percent, and both federal deductibility and the corporate alternative minimum tax will be repealed.

TABLE 3 | **Best Policy Proposals of 2018**

Best Policy Proposals of 2018
Gov. Paul LePage (Maine)
Gov. Henry McMaster (South Carolina)
Gov. Kim Reynolds (Iowa)
Gov. Phil Scott (Vermont)
Gov. Rick Scott (Florida)

Simplicity, fairness, and reliability are all important factors when determining the most effective and efficient way to design a tax code. Though the revenue triggers may prove difficult to meet, assuming the secondary round of reforms are triggered, these changes will undoubtedly move Iowa in the right direction.

Missouri Tax Reform Marches On

Missouri's first income tax cut in state history was passed in 2014, as legislators successfully overrode the veto of then-Gov. Jay Nixon.[17] Based on this legislation, rates would be cut by 0.1 percentage point annually for up to five years, starting in 2017 and contingent on revenue triggers. Based on this legislation from 2014, the top personal income tax rate would have dropped from 5.9 in 2018 to 5.8 percent beginning in 2019. Thanks to the new tax reform package signed into law in July 2018 by the newly-minted Gov. Mike Parson, the rate will be even lower in 2019—5.4 percent.[18]

The governor said, "This is just the beginning for our plan to ensure that Missourians keep more of their hard-earned money by offering broad-based tax relief as we move Missouri forward." Missouri's 2018 tax reform represents the largest tax cut in a single year in the state's history. Contingent on revenue triggers, the rate will continue to gradually drop to 5.1 percent. With 10 different personal income tax brackets, and the top kicking in at a mere $9,072 of income, these are welcome changes.

Florida Takes Steps to Bolster Supermajority Requirement on Tax Hikes

Once again bringing Florida to the forefront of states pursuing pro-growth economic policy, Gov. Rick Scott presented one of the most significant policy changes of 2018 in his State of the State Address. Asking lawmakers to pass a constitutional amendment to require a two-thirds majority in the legislature to raise taxes, Gov. Scott argued a stronger limitation on the growth of government will "force leaders to contemplate living within their means rather than taking the easy way out and just sticking it to the public by raising taxes on families and job creators."[19]

Thanks to legislation passed following his address, Floridians will vote on a proposed constitutional amendment subjecting any increase in fees or taxes—whether state or local—to a two-thirds supermajority vote by the requisite legislative body.[20] Florida is already one of 17 states imposing at least some sort of supermajority requirement on tax increases.[21,22,23] The current limitation of a three-fifths supermajority only applies to increases in the corporate income tax rate above 5 percent.

Even in the most prudent states, there is a tendency for tax rates to increase, especially if lawmakers approve outsized government spending. A supermajority requirement for tax hikes keeps this tendency in check. Better still, by holding the line on taxes, it discourages reckless spending growth. While shifts in political power often threaten the hard-fought gains of past reforms, this bold decision would further cement the state's position as an economic powerhouse and safeguard the pro-growth reforms of the past seven years.

Transparency Advances in the Sunshine State

In the wake of the 2008 financial crisis, the Securities Exchange Commission (SEC) mandated corporations that issue public securities must report their financial statements using a data tagging system called eXtensible Business Reporting Language (XBRL). By preparing their financial disclosures using XBRL, the financial health of most large corporations became more transparent and could be read by software, allowing for rapid assessment. Over the past decade, the disclosure standards and analysis tools have been refined both in the United States and abroad. However, numerous states, counties, and municipal governments have not followed the private sector into the 21st century, many times continuing to use PDF formats for their financial disclosures, at best.

This year, Florida became the first state in the country to require its municipalities to prepare their comprehensive annual financial reports (CAFRs) using XBRL. The mandate will come into full effect in 2022.[24] By reporting using XBRL, municipalities will be able to meet their obligations under the federal Single Audit Act, state reporting mandates, and their obligations to the municipal bond market. This will reduce the amount of redundant work conducted by state employees, the cost to taxpayers of complying to multiple obligations, and will provide unparalleled financial transparency to watchdog groups and citizens.

Georgia Enacts Substantive Income Tax Cuts

Gov. Nathan Deal signed major tax relief into law, benefitting nearly all Georgia residents. H.B. 918 implements several pro-taxpayer reforms, gradually reducing the top individual and corporate income tax rate from 6 percent to 5.5 percent by 2020. On top of that, it doubles the standard deduction for all taxpayers with up to $4,600 for individuals, $3,000 for married couples filing separately, and $6,000 for married couples filing jointly.[25]

Many of Georgia's neighbors levy lower rates or no income tax at all. Florida has no individual income tax, while Tennessee maintains just a minor tax on interest and dividend income, which is being phased out. North Carolina levies a rate of 5.499 percent on individual income, but even that is set to drop to 5.25 percent next year. And with Alabama at 5 percent, the only state in the region with a higher income tax rate than Georgia is South Carolina at 7 percent. Providing some $5.7 billion in broad-based tax relief over five years (exceeding the TCJA windfall by more than $1 billion), the tax reforms in H.B. 918 will undoubtedly be a boon for the Peach State's economy and competitiveness.[26]

Vermont Reforms Their Tax Code in Wake of the TCJA

Vermont teetered on the brink of a surprise government shutdown, as Gov. Phil Scott vetoed two budgets that included tax increases. For a state that ranks 49th in economic outlook, the governor's stand against new and higher taxes is a bright ray of hope for the Green Mountain State. While the governor eventually allowed the budget and property tax increases to slip into law without his signature, the final product protected Vermonters from a $30 million tax increase by simplifying and reducing state income taxes.[27]

Vermont had the 8th highest personal income tax at 8.95 percent in 2017. However, the top marginal rate was reduced to 8.6 percent in the 2018 budget agreement. In addition to lowering the top marginal rate to 8.6 percent, all other rates were cut by 0.2 percent.

The budget agreement also created a state standard deduction, personal exemption, 5 percent charitable credit, and expanded the state earned income tax credit from 32 to 35 percent of the federal earned income tax credit.[28]

Spending Explosion and Tax Hikes Threaten Economic Growth in Oklahoma

Variations of a "Step Up Oklahoma" tax hike plan repeatedly failed to garner the requisite three-fourths supermajority vote for passage, but weeks later legislators acquiesced to a $460 million tax hike on cigarettes, gasoline, diesel, and oil and natural gas production.[29]

The Oklahoma teachers' union demand for a $10,000 per teacher pay hike under threat of a walkout fueled the drive for these massive tax hikes. As a result of the enacted package, pay is set to increase by $6,100 per teacher.[30] With this increase, Oklahoma is 31st highest in teacher pay, up from 2nd lowest.[31] However, an incomplete picture arises from focusing on teacher pay comparisons without taking into consideration cost of living adjustments. For instance, the cost of living is nearly 12 percent less in Oklahoma City compared to Phoenix and 24 percent less when compared to Miami.[32] Incidentally, statewide teacher pay prior to the $6,100 increase was 4.6 percent less in Oklahoma compared to Arizona and 8.4 percent less compared to Florida. Cost of living surely alters the analysis. Despite the giant pay raise, teachers still walked out days later demanding more.[33]

Failure to rein in spending over the long term has led Oklahoma's state expenditures (inclusive of general fund, other state funds, and bond revenue) to hit a seventh consecutive record of $16.13 billion in FY 2017. According to the Kaiser Family Foundation, the state of Oklahoma spent more per capita (including federal funds) in FY 2016 than 19 other states. In fact, for every $1 per capita spent by Texas, Oklahoma spent $1.31.[34] The spring protests and widespread demands by special interests to hike taxes completely ignored the true cause of the most recent budget impasse—a gusher of spending, which spanned decades.

Since 2000, total state funds spending would have increased just 56 percent rather than 108 percent if limited to the combined growth in inflation (42 percent) and population growth (14 percent). Failure to adhere to such basic constraints created a budget blowout of $16.1 billion in FY 2017, a whopping $3.6 billion higher than the $12.7 billion in spending with growth constrained to population plus inflation growth. In other words, total spending in FY 2017 was 27 percent higher than what would have occurred with basic spending growth limitations. Since 2000, this lack of spending restraint resulted in $27 billion of additional spending, or nearly $6,900 in excess spending for every current resident.[35]

These tax increases will potentially drop the state to 21st in this publication's economic outlook rankings, from 16th today. Cigarette taxes nearly doubled overnight from $1.03 to $2.03 per pack, soaring to the 14th highest in the nation, nearing the ranks of high-tax states such as Maryland, California, and New Jersey.[36] Each Oklahoma taxpayer who smokes half a pack per day could save $330 annually by purchasing cigarettes in Missouri, purchasing online, or on reservations managed by Native American tribes in Oklahoma. Diesel taxes jumped by 6 cents per gallon, and gasoline taxes by 3 cents per gallon. A family with two diesel vehicles filling up once each week could forfeit an additional $100 per year due to this tax increase.

In addition, legislators more than doubled the gross production tax on many oil and gas wells from 2 percent to 5 percent. This threatens to place Oklahoma energy producers at an economic disadvantage. Although several leading energy-producing states impose severance taxes, such as Texas and Wyoming, these competitors refrain from levying the egregious corporate tax rate anywhere close to Oklahoma's new tax rate (2.56 percent and 0 percent, respectively).[37] Making production artificially more expensive in Oklahoma creates an incentive to devote limited exploration and production capital—and the related jobs—elsewhere. This possible shift in production could mean revenue projections fall short of expected revenue increases.

Virginia Expands Medicaid After Opposing for Seven Years

In May, the Virginia General Assembly expanded Medicaid along guidelines established by the Affordable Care Act (ACA), also known as "Obamacare." After seven years of refusal, Republicans bowed to external pressure and joined Democrats in expanding Medicaid. While some hail the expansion as a victory for compromise and bipartisanship, Medicaid expansion has grave consequences for Virginia's financial future.

Many proponents argue that expanding Medicaid saves Virginia money since taxpayers from elsewhere across the country will foot most of the bill. However, this very well may change if Congress decides to decrease the federal share of Medicaid payments under pressure from mounting costs. Under the ACA, if a state expands Medicaid, the federal government covers a larger share of Medicaid expenses in exchange for expanding enrollments. Medicaid expansion moves eligibility from those at or below the federal poverty line (FPL) to 138 percent of the FPL. For Virginia, Medicaid expansion adds more than 400,000 new low-income enrollees to the program, but the federal government covers at least 90 percent of expanded Medicaid costs, compared to a minimum of 50 percent without expansion.[38,39]

Even with the massive federal subsidies, states choosing to expand will still spend more on Medicaid relative to the states refraining from expansion. The left-leaning Urban Institute estimates that additional costs incurred by the 23 states still refusing to expand would total more than $30 billion over 10 years even with the infusion of federal cash.[40] Of course, the federal government may also choose to scale back these current subsidies, resulting in either far higher expansion costs or painful rollbacks to enrollment once these funds dry up.

Work-requirement provisions and premiums for those over the FPL may be prudent restrictions on this expansion of government-provided healthcare, but bureaucracy must expand to enforce these provisions. The additional bureaucracy to manage Virginia's Medicaid expansion could cost upwards of $200 million a year.[41]

Every analysis that finds savings through Medicaid expansion assumes factors surrounding Medicaid stay the same; but federal changes to Medicaid expansion are possible. Congress is within their power to lower the 90 percent federal match, erasing any savings for states with expanded Medicaid. According to the Congressional Budget Office, Medicaid and CHIP expansion through the ACA will result in $842 billion in additional federal spending over the next decade.[42] As deficits grow, entitlement reform looms large. If Congress decides to reduce federal responsibility for Medicaid expenses, states that have expanded Medicaid will face a massive budget crisis.

It is unfortunate Virginia's General Assembly abandoned principle and fiscal sense in favor of political considerations. As Medicaid costs grow, entitlements will force Virginia to set aside other obligations, like their perpetually underfunded public pension system, and transportation upgrades.

Idaho Sends Working Families a Long-Awaited Tax Cut

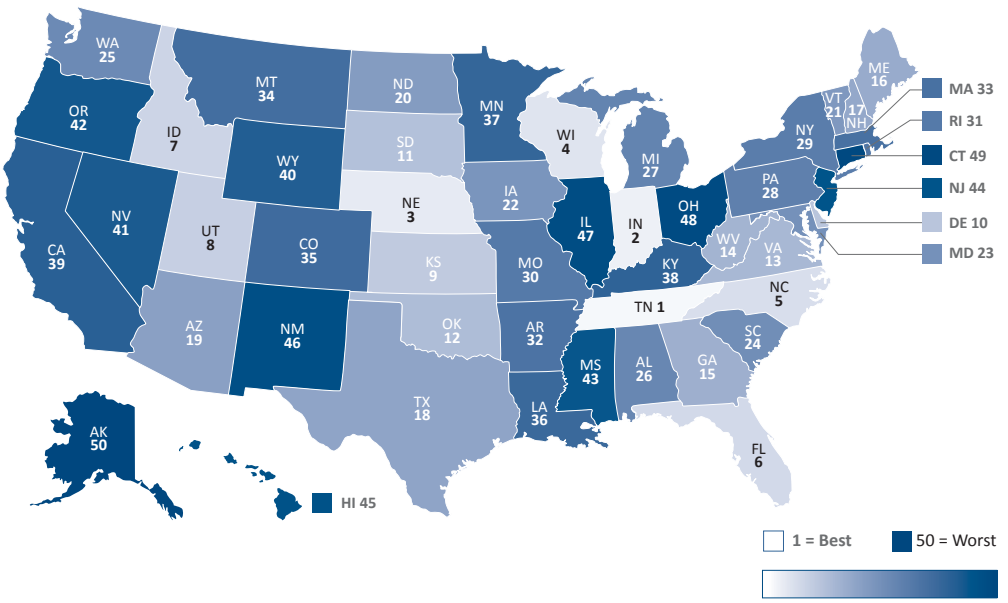
In March, Gov. Butch Otter signed HB 463 conforming Idaho's tax code to federal code following passage of TCJA. HB 463 also included income and corporate tax rate reductions hailed as the "largest tax cut in Idaho history," by House Majority Leader Mike Moyle. Altogether, Idahoans will see $200 million more in take-home pay.[43] The legislation lowers each personal income tax bracket, and the corporate income tax rate, by 0.475 percentage points.

Tax cut opponents in the Idaho House of Representatives claimed that relinquishing new tax revenue would cause the state to miss out on investment in education and transportation. However, despite tax cuts, Idaho was able to fund scheduled spending increases to education and the state reserve funds remain full.

Pension Reform Continues to Expand

Unfunded liabilities of public pension plans continue to loom over state governments nationwide. Worse, states continue to use actuarial assumptions that underestimate the future cost of their

FIGURE 8, TABLE 4 | **Unfunded Liabilities Per Capita of Public Pension Plans**



Rank		State	Unfunded Liabilities Per Capita	
2017	2016		2016 Report	2017 Report
1	1	Tennessee	$7,252	$7,601
2	2	Indiana	$8,582	$9,131
3	4	Nebraska	$9,171	$9,799
4	3	Wisconsin	$9,161	$10,314
5	5	North Carolina	$9,606	$10,944
6	7	Florida	$10,381	$10,990
7	6	Idaho	$10,027	$11,199
8	10	Utah	$12,702	$12,277
9	21	Kansas	$14,015	$13,257
10	8	Delaware	$11,930	$13,339
11	15	South Dakota	$13,156	$13,531
12	16	Oklahoma	$13,283	$13,549
13	12	Virginia	$12,865	$13,626
14	11	West Virginia	$12,840	$13,703
15	9	Georgia	$12,025	$13,877
16	17	Maine	$13,296	$13,930
17	13	New Hampshire	$13,022	$14,203
18	14	Texas	$13,139	$14,260
19	18	Arizona	$13,305	$14,774
20	19	North Dakota	$13,495	$15,214
21	20	Vermont	$13,909	$15,224
22	23	Iowa	$14,870	$16,081
23	27	Maryland	$15,570	$16,481
24	25	South Carolina	$15,137	$16,512
25	24	Washington	$15,047	$16,547

Rank		State	Unfunded Liabilities Per Capita	
2017	2016		2016 Report	2017 Report
26	26	Alabama	$15,443	$16,883
27	28	Michigan	$15,824	$16,935
28	30	Pennsylvania	$16,541	$17,457
29	31	New York	$17,600	$17,485
30	29	Missouri	$16,354	$17,642
31	32	Rhode Island	$17,655	$18,671
32	22	Arkansas	$14,768	$19,553
33	33	Massachusetts	$18,672	$19,804
34	34	Montana	$18,891	$20,131
35	35	Colorado	$19,524	$21,369
36	37	Louisiana	$20,202	$21,412
37	36	Minnesota	$20,151	$21,507
38	39	Kentucky	$21,685	$25,100
39	43	California	$24,519	$25,166
40	40	Wyoming	$23,259	$25,331
41	41	Nevada	$24,169	$25,886
42	42	Oregon	$24,296	$26,738
43	38	Mississippi	$21,509	$26,902
44	46	New Jersey	$26,355	$27,806
45	44	Hawaii	$24,655	$28,063
46	45	New Mexico	$26,176	$28,119
47	48	Illinois	$28,246	$30,336
48	49	Ohio	$28,558	$30,538
49	47	Connecticut	$27,701	$35,731
50	50	Alaska	$42,992	$45,689

Source: Unaccountable and Unaffordable 2017. ALEC Center for State Fiscal Reform

pension benefits. Using the most recently available actuarial valuations of state pension plans and a risk-free discount rate, which reflects the government's promise to make lifetime defined benefit pension payments to retirees, total unfunded pension liabilities are more than $6 trillion, which amounts to an average of $18,676 in unfunded liabilities for every man, woman, and child in the United States.

While the pension crisis is ravaging some states, such as Connecticut, Illinois, and New Jersey, other states are beginning the slow process of addressing their pension liabilities through policy reforms. Four states succeeded in achieving meaningful pension reform in 2017 and 2018: Arizona, Colorado, Michigan, and Pennsylvania.

Overturning the "Physical Presence" Standard with Wayfair

Article I, Section 8 of the U.S. Constitution provides that "Congress shall have the power…to regulate commerce…among the several states." Under a long line of U.S. Supreme Court rulings, states are prohibited from placing "undue burdens on interstate commerce." In the context of state taxation of interstate commerce, the Supreme Court held in *Quill Corp v. North Dakota* (1992) that businesses lacking a "substantial nexus," or link to a state through a physical presence, or an employee or agent, cannot be forced to collect and remit taxes to that state.

Quill built on the *National Bellas Hess v. Illinois* (1967) precedent that a state can only compel a business to collect and remit taxes if such business has a "nexus," or a physical presence, within that state. In 2017, several state legislatures chose once again to force retailers with no nexus in the state to remit sales taxes—in direct contravention of established constitutional law.

State-level rejection of the physical presence nexus standard was enough for the U.S. Supreme Court to grant certiorari in *South Dakota v. Wayfair, Inc*. ALEC explained the nuances of online sales tax collection, constitutional precedent, and the implications to interstate commerce in a publication this spring.[44] In addition, ALEC filed an amicus brief with the Supreme Court in defense of the physical presence standard.[45] Justice Anthony Kennedy, in his opinion joined by three conservatives and progressive Justice Ruth Bader Ginsberg, held that the standard in *Quill* was "unfair" to brick-and-mortar retailers. However, brick-and-mortar retailers who only must comply with one set of tax jurisdictions per location are now favored over interstate online retailers who must comply with many different tax jurisdictions depending on where their customers live. It also favors large online retailers who possess economies of scale in compliance technology and can bear tax incidence more so than smaller and startup firms. The compliance costs, both time and financial, along with the real potential of audit risk, will be substantial and will suppress economic growth and innovation.

These onerous compliance requirements still threaten to unduly burden interstate commerce. For this reason, states must exercise caution in determining whether and how to collect these sales taxes. Forcing remote sellers to comply with a complex network of taxes and reporting regulations stretching beyond the purview of residence stunts economic dynamism, unduly burdening interstate commerce. Myriad compliance costs may drive some retailers out of entire markets and deter entry by others.

When Patrick Byrne, the founder of online retailer Overstock.com, testified before Congress to oppose the threat of new online tax collection burdens, he put it this way: "In 1999, we had 18 employees, carried 100 products and had $1.8 million in revenue. If we had been required to administer and collect sales tax on behalf of remote state governments without meaningful simplification, indemnity and compensation, our chances of becoming an employer of 1,500 American workers that we are today would have been small."[46]

Despite conventional wisdom, states are not facing sales tax revenue shortfalls related to remote sellers. In fact, sales tax revenue continues to soar. State and local sales tax collections hit $574 billion in 2017, a record for the seventh consecutive year.[47] From 2011 through 2017, state and local sales tax revenue increased by 23 percent, eclipsing 13.9 percent combined growth in national population and inflation.[48,49,50] States continue

to derive approximately 30 percent of all revenue from sales taxes.[51] Justice Kennedy's opinion contains much hand-wringing over the fate of brick-and-mortar retail. He bemoans the loss of storefronts and retail jobs from online retailers outcompeting traditional firms; firms with no employees, no inventory, and no property within a state naturally lack overhead costs. Online retail saves consumers billions and grows the economy precisely because of circumvention from inefficient business practices. Perhaps it did not occur to the Court what innovation looks like.

During this congressional session, Congressman Jim Sensenbrenner of Wisconsin introduced the No Regulation Without Representation Act of 2017 (H.R. 2887), which would codify Constitutional protections and limit the ability of states to tax and regulate outside of their boundaries.[52] Importantly, this policy would protect taxpayers and the proper understanding of federalism.

A complex network of taxes and reporting regulations, stretching beyond the purview of residents and into other states, is inherently a violation of sound tax policy. In fact, there are more than 12,000 tax jurisdictions across the states—roughly twice as many as when the U.S. Supreme Court decided the landmark *Quill* case in 1992.[53,54]

State Taxes Affect State Growth

Year after year, the data presented in this publication demonstrably bear a relationship with states' economic condition. Dr. Randall Pozdena, formerly the research vice president at the Federal Reserve Bank of San Francisco and co-author of *Tax Myths Debunked*, compared *Rich States, Poor States* economic outlook rankings to the Federal Reserve Bank of Philadelphia's state economic health indices from 2008 to 2012. Findings reveal a positive relationship:

> *The formal correlation is not perfect (i.e., it is not equal to 100 percent) because there are other factors that affect a state's economic prospects. All economists would concede this obvious point. However, the ALEC-Laffer rankings alone have a 25 to 40 percent correlation with state performance rankings. This is a very high percentage for a single variable considering the multiplicity of idiosyncratic factors that affect growth in each state—resource endowments, access to transportation, ports and other marketplaces, etc.*[55]

This study annually contrasts the nine states with no income tax—Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming—with the nine highest income tax states. Two of these states with no income tax—Tennessee and New Hampshire—currently tax so-called "unearned income." As recently as 1960, 11 other states had no income tax but have since adopted one.

Whether, and how, a state taxes income can provide an important glimpse into its pursuit of economic growth and prosperity. This gives us a head-to-head comparison of states with no income tax and those with the highest income tax rates along with an observation of the effects experienced by the 11 states that chose to adopt an income tax over the past 57 years. For these comparisons, our research uses a 10-year rolling period to smooth out extraneous noise and one-off events to highlight the long-term systematic effects taxes have on state economic performance. The results are remarkable. The table below compares the nine states which currently have no income tax to the nine states that currently have the highest tax rates.

On average, the nine no-income-tax states over the past decade outperformed the nine highest income tax states and the nation as a whole in population, employment, and personal income growth. Gross state product growth slightly lagged in the nine no-income-tax states. However, it's important to note that Texas and Wyoming are amongst the leaders in energy production.[56] In addition, energy production and mining as a percentage of states' economies are highest in Wyoming (nearly 35 percent) and Alaska (25 percent).[57] Despite the plunge in energy prices—which has without a doubt hurt gross state product (GSP) in these states—employment, personal income, and population growth continues to outpace the nation as whole and the states with high income tax rates in particular. It would

TABLE 5 | The Nine States with the Lowest and Highest Marginal Personal Income Tax (PIT) Rates

	As of 1/1/2018	10-Year Growth				
		2007-2017				2005-2015
State	Top Marginal Earned PIT Rate†	Population	Employment	Personal Income	Gross State Product	State & Local Tax Revenue‡
Alaska	0.00%	8.7%	3.8%	39.4%	7.3%	-12.3%
Florida	0.00%	14.2%	7.5%	34.5%	25.7%	16.9%
Nevada	0.00%	15.3%	3.8%	28.2%	18.3%	31.0%
South Dakota	0.00%	9.9%	7.4%	37.0%	42.0%	55.4%
Texas	0.00%	18.8%	18.0%	52.2%	43.8%	63.7%
Washington	0.00%	14.6%	12.0%	49.3%	46.4%	48.8%
Wyoming	0.00%	8.3%	-4.1%	37.4%	10.9%	41.6%
New Hampshire§	0.00%	2.3%	4.9%	30.3%	31.2%	43.5%
Tennessee§	0.00%	8.7%	7.8%	41.1%	42.1%	34.9%
Avg. of 9 Zero Earned Income Tax Rate States*	0.00%	11.2%	6.8%	38.8%	29.7%	35.9%
50-State Avg.*	**5.60%**	**7.5%**	**5.3%**	**35.8%**	**32.0%**	**43.0%**
Avg. of 9 Highest Earned Income Tax Rate States*	10.31%	5.7%	5.2%	35.8%	33.6%	48.1%
Hawaii	8.25%	8.5%	4.8%	39.4%	35.2%	57.7%
Maryland	8.95%	7.1%	5.6%	34.5%	37.3%	47.8%
Vermont	8.95%	0.0%	2.5%	31.6%	29.6%	41.0%
Minnesota	9.85%	7.1%	6.3%	37.7%	35.6%	55.8%
New Jersey	9.97%	3.8%	1.1%	28.4%	23.0%	36.1%
Maine	10.15%	0.7%	0.6%	27.6%	24.2%	26.5%
Oregon	10.64%	11.3%	8.4%	43.9%	38.2%	58.2%
New York	12.70%	3.7%	9.2%	33.3%	38.8%	54.3%
California	13.30%	9.1%	8.5%	45.5%	40.4%	55.9%

**averages are equal-weighted*

† Top Marginal PIT Rate is the top marginal rate on personal earned income imposed as of 1/1/2018 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.

‡ State & Local Tax Revenue is the 10-year growth in state and local tax revenue from the Census Bureau's State & Local Government Finances survey. Because of data release lag, these data are 2005 to 2015.

§ New Hampshire and Tennessee tax interest and dividend income—so-called "unearned" income—but not ordinary wage income. Tennessee's unearned income tax, the Hall Tax, is being phased out.

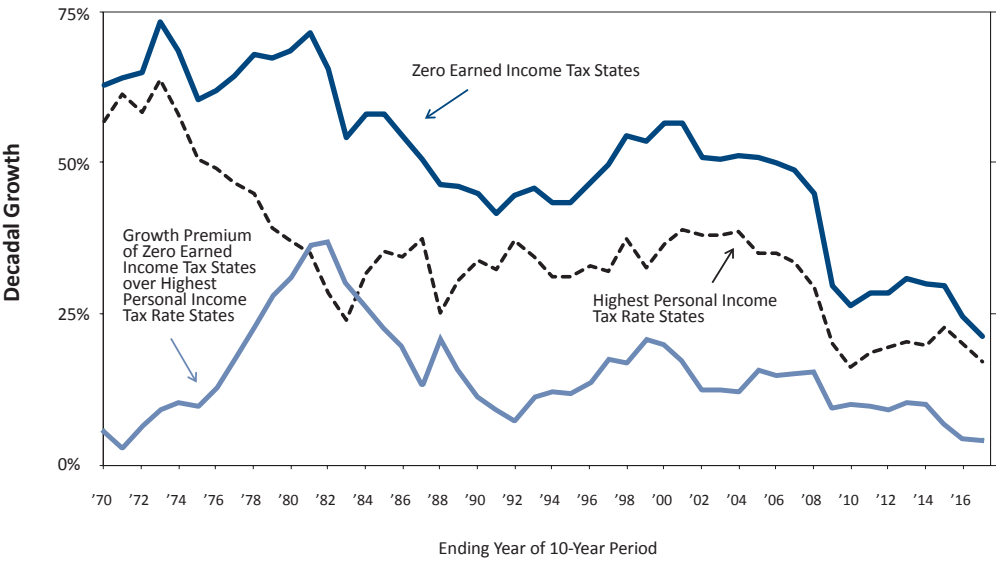
Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis

be difficult to find more reliable evidence than this that state income taxes really do matter for economic growth.

Using the same methodology—which for data reasons only permits comparisons back to 1970—Figure 9 plots the 10-year growth of personal income for no-income-tax states, the equivalent number for the highest income tax states and the growth premium for the states that avoid income taxes. Here, too, the results are astounding. In every single year, no-income-tax states outperformed states with the highest income tax rates.

Data from the 11 states that adopted a personal income tax between 1961 and 1991 are also illuminating. These include West Virginia (1961), Indiana (1963), Michigan (1967), Nebraska (1968), Illinois (1969), Maine (1969), Rhode Island (1971), Pennsylvania (1971), Ohio (1972), New Jersey (1976), and Connecticut (1991). We looked at each of the primary economic metrics (population, employment, personal income, gross state product, and state and local tax revenues) in each of the 11 states for the four years prior to adopting the income tax, plus the actual year the income tax was adopted relative to the subsequent years.

FIGURE 9 | **10-Year Real Personal Income Growth Rates: No-Income-Tax States and Highest-Income-Tax States** (Annual personal income deflated with GDP implicit price deflator, 1970 to 2016)



Source: Bureau of Economic Analysis, Laffer Associates

Each and every one of the 11 states declined relative to the rest of the nation in each and every economic metric used above, including state and local tax revenues.

New Jersey may serve as the most vivid case study. In 1965, New Jersey had neither an income tax nor a sales tax, and it enjoyed some of the fastest growth in the nation. New Jersey also had a balanced budget. Contrast that with the Garden State today: excessive sales, property, and income taxes, combined with one of the most sluggish economies in the nation and massive out-migration. These conditions and the gargantuan structural deficit prove that a ballooning budget and its associated tax burden can cripple economic prosperity. State taxes indeed matter for economic competitiveness.

Conclusion

This year was a very good one for the hardworking taxpayers of America. The first real federal tax reform in a generation is enabling American businesses to more ably compete with their competitors around the globe. Most importantly for states, it has provided an unexpected chance to improve economic competitiveness—that is the untold story of federal tax reform. Some state lawmakers will choose to pocket the extra revenue and hope taxpayers don't pay attention, but many states will use this opportunity to grow their economies and become more competitive. The beauty of the American experiment is that it allows states to choose which path they will follow. We will be watching closely for this movement that will be reflected in our economic outlook rankings in the years ahead.

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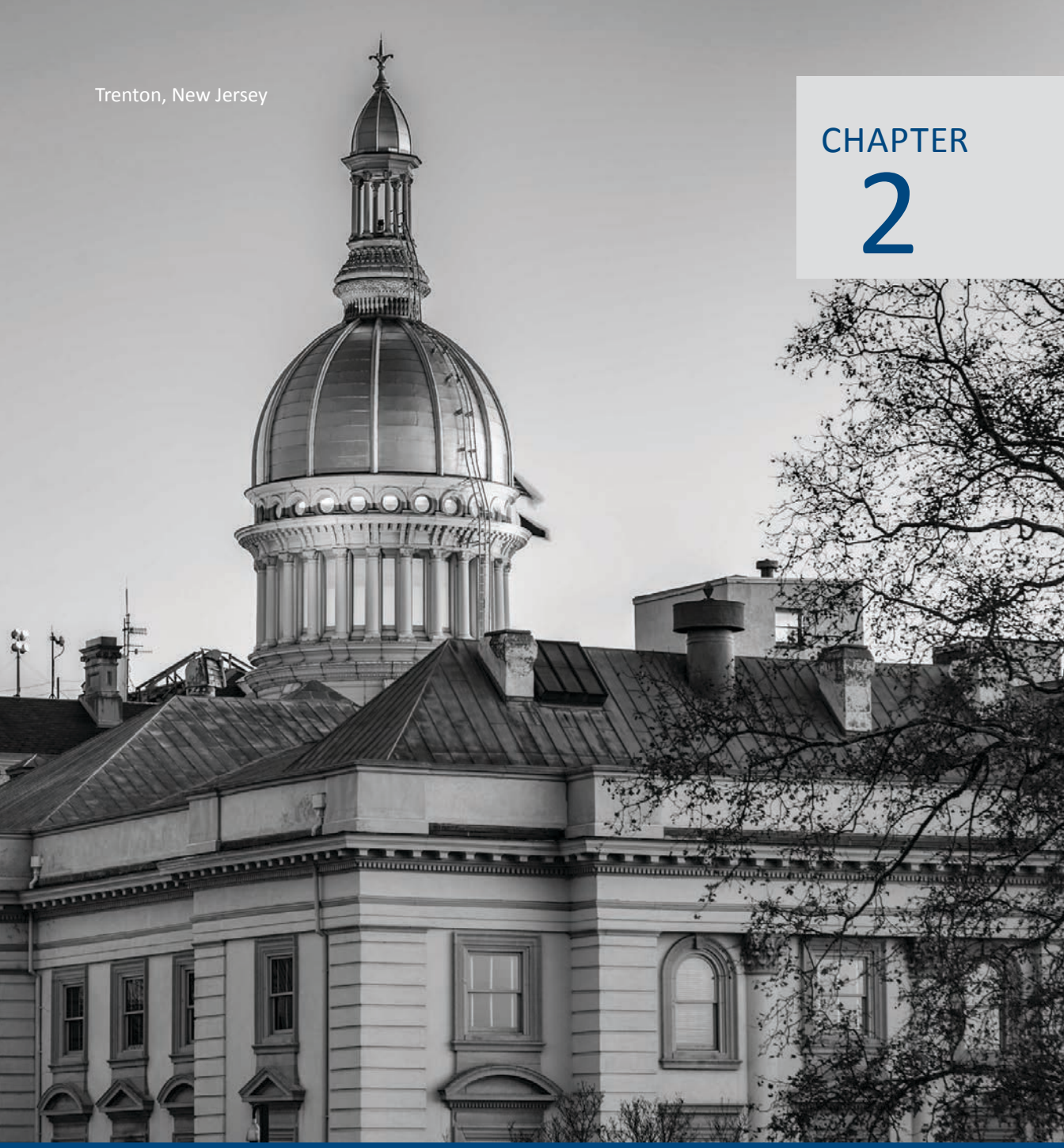


Trenton, New Jersey

CHAPTER

2

The Northeast: Residents Leaving as Economy Lags Nation

The Northeast: Residents Leaving as Economy Lags Nation

Introduction: State "Winners" and "Losers"

In late 2014, the U.S. Census Bureau made it official: Florida surpassed New York as the nation's third most populous state, behind California and Texas. It is hard to believe that just over 50 years ago, New York was the most populous state in the U.S. Sadly, their slide continues. In 2017, the Empire State again experienced the greatest net negative domestic migration.[1]

We have argued in this report for the last 11 years that public policies popular in the Northeast have caused the region to lag the nation in economic opportunity. For the purposes of this report, "Northeast" includes the following 11 states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. We warned that an entire region that once nearly defined the nation's economic, financial, and industrial strength ran the risk of becoming far less economically significant in the 21st century. The alarms should have been going off in places like Albany, Trenton, Boston, and Hartford. Alas, the warning signs were ignored.

New York, for example, has been spending millions on nationally-televised ads touting the Empire State as a low tax region for business. But this claim only holds true for certain businesses located in "opportunity zones."[2] For businesses not favored by such preferential treatment, taxes in New York are among the highest in the nation. As measured by this publication, the top marginal state and local combined corporate income tax rate of 17.21 percent is the worst in the nation. Largely thanks to excessive taxation, New York has lost more people through domestic outmigration in the past decade than any other state.

Meanwhile, New Jersey competes with New York and California for the honor of being the least hospitable state to businesses—both large and small. Earlier this year, Democrat Gov. Phil Murphy signed a tax hike raising the top rate on personal income from 8.97 percent to 10.75 percent, while also boosting the corporate tax rate from 9 percent to 11.5 percent for companies with earnings exceeding $1 million.[3] This will be the second-highest top corporate rate in the country. Steven Malanga of the Manhattan Institute notes the economic illiteracy doesn't end there.

> *"The state passed one of the nation's toughest 'equal pay' laws, which will force employers to justify pay differences among employees, increase fines on businesses, and make it easier for employees to bring lawsuits for wage discrimination against firms operating in the Garden State. Murphy has also signed a law making New Jersey one of only a dozen states forcing firms to offer paid sick leave. Now he wants to hike the minimum wage to $15 an hour…Murphy has ignored proposals by a bipartisan commission to reduce government-employee pension and health costs, though the state already has one of the worst-funded government-pension systems in the U.S., and the burden of employee benefits alone could consume as much as a quarter of the state budget by the end of Murphy's first term."*[4]

New Jersey recently adopted a state-based individual mandate tax penalty on mostly low-income residents who choose not to buy Affordable Care Act (ACA) health insurance policies. Some Vermont legislators want to adopt a multi-billion dollar single payer health care system that would mean much higher payroll and income taxes.

Other states in the region have made similar mistakes. One state stands out for its disastrous tax policies: Connecticut. The state passed two of the largest tax increases in state history over the last seven years, and yet its budget crisis is still one of the most dire in the nation. Connecticut has the highest per capita income in the country but has lost population through domestic outmigration each year for more than a decade. Even worse, three of its largest companies—General Electric, UBS, and Aetna—have left.[5] Polls show 43 percent of Nutmeg State residents say moving out of Connecticut is likely within five years.[6] *The Wall Street Journal* reported last summer how the exodus of residents and businesses has "depressed economic growth…as well as home values and sales-tax revenues."[7]

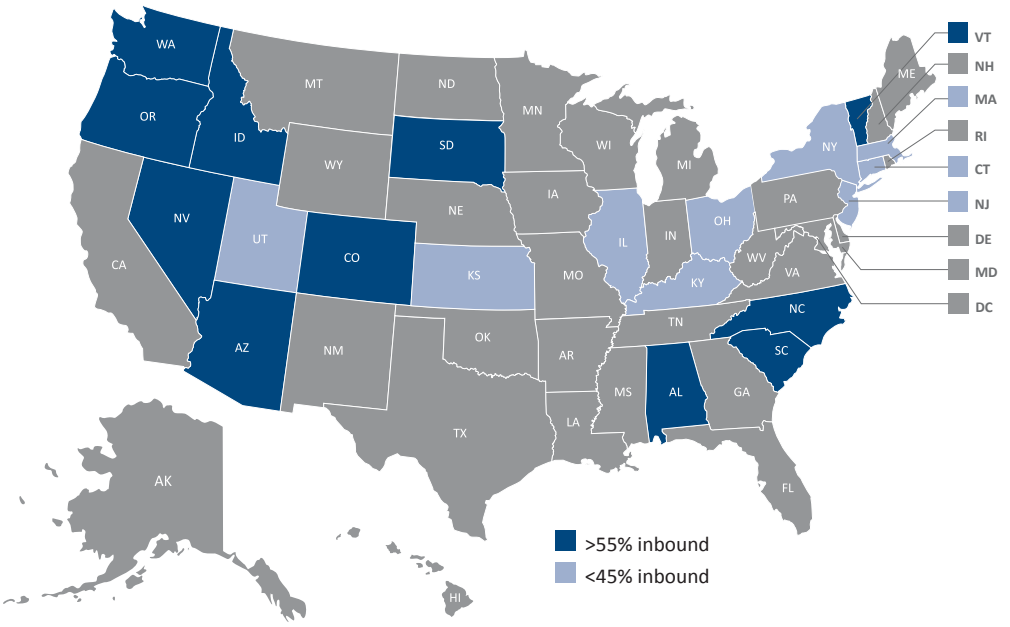
Regrettably, after a decade of serious economic erosion in the Northeast, conditions in many of these states have hardly improved. The region is still characterized by high taxes, high debt levels, high energy costs, forced-union work rules, oppressive and expensive welfare states, and outmigration of the most important resource: people.

Go West—and South

Thanks to the anti-growth policies rampant in the Northeast, the geographic center of economic and political power in America is shifting before our very eyes. Americans are uprooting themselves and moving to places where there is economic vitality, opportunity, and a high quality of life. Over the past three decades, tens of millions of Americans (and immigrants) voted with their feet against anti-growth, debilitating policies that reduce economic freedom and opportunity.

Big winners in this interstate competition for jobs and growth have generally been Western states as well as a few in the South. Most of the big losers

FIGURE 1 | **2017 Migration Trends Based on United Van Lines Data[8]**



Source: United Van Lines

TABLE 1 | **State Domestic Migration Winners and Losers**

Top 10 "Winners"		Top 10 "Losers"	
State	**Per 1,000 residents**	**State**	**Per 1,000 residents**
Idaho	14.6	Wyoming	-14.7
Nevada	13.0	Alaska	-13.4
South Carolina	9.9	New York	-9.6
Oregon	9.3	Hawaii	-9.5
Arizona	9.1	Illinois	-8.9
Washington	8.9	North Dakota	-8.8
Montana	8.3	New Jersey	-6.4
Florida	7.8	Connecticut	-6.2
Colorado	6.6	Louisiana	-5.9
North Carolina	6.5	West Virginia	-5.7

Source: Business Insider, based on Census Bureau data

are from the Rust Belt region and states notorious for high taxes. Symptoms of economic lethargy in declining states like Illinois, Connecticut, and New Jersey often include low population growth rates (including domestic out-migration), and slowly growing (or even shrinking) tax bases. Illinois is a case in point, with a shrinking tax base.[9] Likewise, total state government tax collections in Connecticut actually declined from 2012 through 2016 in the midst of the national economic recovery.[10]

Each year, the U.S. Census Bureau estimates population changes for each state. Population changes are derived from three components: (1) changes due to births and deaths, (2) international migration, and (3) domestic migration. The net domestic migration patterns of current U.S. residents are quite revealing. According to the U.S. Census Bureau, interstate migration for July 2016 – July 2017 yielded the winners and losers in Table 1.[11]

Similar to the Northeast, Illinois has been hemorrhaging people. Illinois' total population decreased for five straight years, according to the U.S. Census Bureau.[12] Illinois has historically been in a very advantageous location, serving as a transportation hub for many road, rail, and water routes. It is also blessed with many natural resources, including large coal deposits. Despite these advantages, high taxes, corruption, budget mismanagement, and skyrocketing unfunded pension liabilities continue to decimate this once prosperous state. In fact, Chicago was the only city of the 20 most populous in the country to lose population in 2017, and Illinois fell from its long-held position as the fifth most populous state (replaced by Pennsylvania).[13] More so than California, Illinois exemplifies negative impacts of tax-and-spend policies on the economic health of a state. Since data for a single year doesn't tell the whole story, it is worth exploring how state populations have changed over the last several years. Since 2010, Illinois is one of only three states to have lost population in absolute terms. In 2017 alone, the Land of Lincoln lost almost 34,000 residents.[14]

Defenders of high-tax, high-spending policies that precipitate this fall into the economic cellar argue that big government policies and high taxes on the wealthy are necessary to protect the poor and disadvantaged. Yet when people choose to leave a certain area, it is often the highest achievers—and those with the most wealth, capital, and entrepreneurial drive—who tend to "get out of Dodge" first, leaving the middle class and poor behind. Inevitably, that means fewer taxpayers and heavier tax burdens for those remaining. For instance, in Illinois, the average income of those

FIGURE 2 | **Population Change by State 2010–2017**

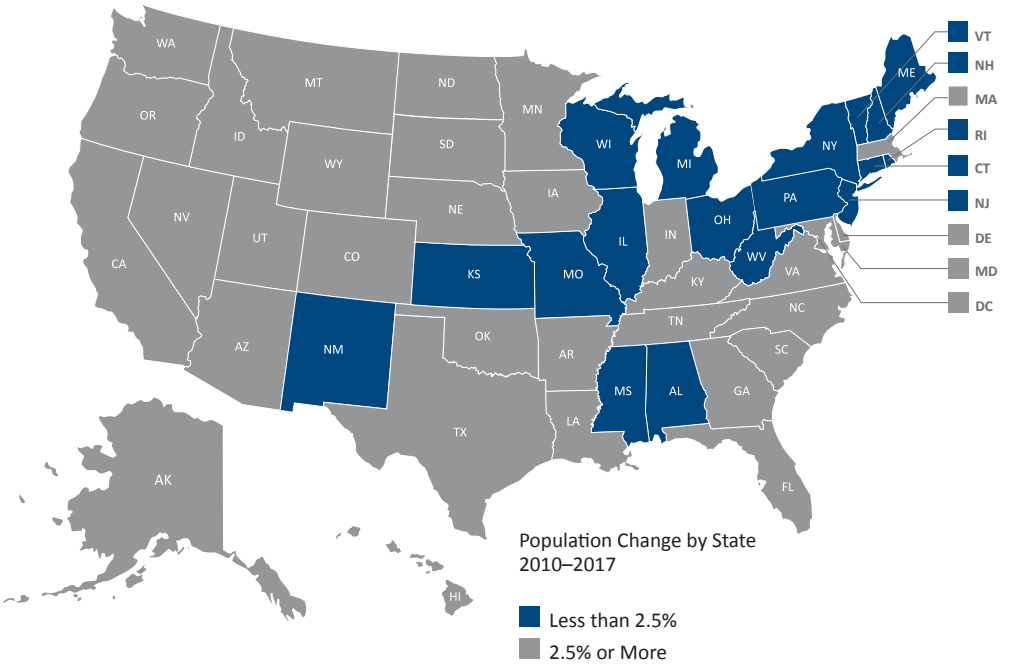


TABLE 2 | **Percentage Change in Population from 2010 through 2017**

Highest % Gain		Lowest % Gain	
State	**Change**	**State**	**Change**
Texas	12.56%	West Virginia	-2.00%
North Dakota	12.31%	Vermont	-0.33%
Utah	12.23%	Illinois	-0.22%
Florida	11.61%	Connecticut	0.39%
Colorado	11.49%	Mississippi	0.57%
Nevada	11.02%	Maine	0.57%
Washington	10.13%	Rhode Island	0.67%
Arizona	9.77%	Michigan	0.80%
Idaho	9.53%	Pennsylvania	0.81%
South Carolina	8.63%	Ohio	1.06%

Source: Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2017. United States Census Bureau.

leaving the state was nearly $20,000 more than those entering in 2015.[15] High taxes indeed redistribute both income and people.

The poor—the very people who are supposed to benefit from redistributionist policies—end up saddled with the burden of bad governance. This creates a crushing vicious cycle of economic and fiscal decline. Consider Camden, Buffalo, Gary, St. Louis, Erie, Baltimore, Youngstown, or Detroit today versus 50-60 years ago when they were prosperous, middle income cities.

The Northeast's Economic Malaise

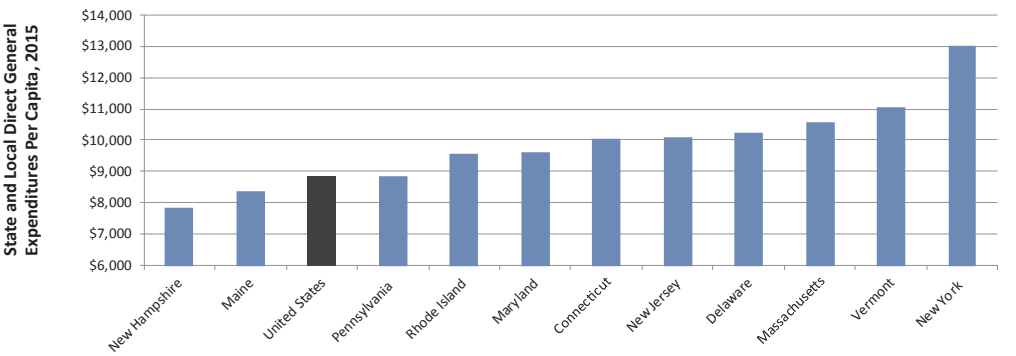
At a time when many states have grown more fiscally conservative, more dismissive of big government command and control policy prescriptions, and more economically prosperous, the Northeast has edged ever further to the left. Liberalism has given way to "progressivism" and even outright socialism (don't forget that socialist Bernie Sanders is from Vermont). In the 2016 presidential primary elections, Sen. Sanders did very well with voters in the Northeast, winning the primaries in Maine, New Hampshire, Vermont, and Rhode Island. In June of this year, Alexandria Ocasio-Cortez—a member of the Democratic Socialists of America—upset 10-term incumbent Joe Crowley in the New York Democratic congressional primary.[16]

The shared experience of these states has been oppressive tax rates, mindless and meddlesome regulation, bloated social welfare states, and a steady stampede of outward migration. Only with the more recent shale oil and gas revolution has Pennsylvania managed to stem the tide, but many of the preceding issues remain. As Doug Kellogg said of New York, "When 48 states have better tax climates than yours, it's not just a policy failure, it's a systemic crisis for a government mired in corruption scandals and beholden to narrow special interests."[17]

The Northeast region—made up of 11 states—spends an equally-weighted average of nearly $1,100 more per capita each year on state and local direct general expenditures compared to the nation as a whole.[18]

Yet, there is a quintessential "free lunch" quality to the sentiments of contemporary Northeastern voters when considering tax policy. Voters gripe continuously about over-taxation, but when modest budget restraint is suggested, the media and the public sector unions begin invoking dark visions of the apocalypse. When governors like Andrew Cuomo of New York or Dannel Malloy of

FIGURE 3 | **2015 State and Local Direct General Expenditures in the Northeast**



Source: State & Local Government Finance Data Query System. The Urban Institute-Brookings Institution Tax Policy Center. Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances

Connecticut propose expansive state-run health care systems, "free" childcare centers, pay raises for teachers, government-subsidized sports stadiums, or gold-plated government schemes, many Northeasterners salivate.

Meanwhile, the Northeast is becoming increasingly inhospitable to employers. Labor costs are about 20 percent above the national average and about 30 percent higher than the South or Midwest.[19] Of the 27 right-to-work states, none of them are in the Northeast. Other than taxes, this may be the single greatest factor impeding economic competitiveness in the region. The recent Supreme Court decision, *Janus v. American Federation of State, County, and Municipal Employees*, which ended forced-union collections in public sector unions, may offer some relief in the Northeast by limiting public union power.

A 2014 study by *Fortune* examined 20 years of shifts in corporate headquarters for America's business titans: the Fortune 500. It found businesses are fleeing the Northeast, just as families are. The study ranked nine high-performing states: California (though it is having problems keeping small businesses in the state), Texas, Minnesota, North Carolina, Tennessee, Washington, Arkansas, Wisconsin, and Nebraska. The seven states that were the biggest losers include: New York, New Jersey, Connecticut, Pennsylvania, Ohio, Illinois, and Michigan. Incredibly, the study found that collective market capitalization of companies in the nine leading states rose an average of 12 percent annually since 1995, while gains were only half that (6.6 percent) for the laggard states.[20]

The seven low-performing states lost 42 Fortune 500 firms over the two-decade period. These states that once accounted for 55 percent of Fortune 500 revenue were down to 37 percent by 2014. The study also found "the embattled, smokestack-heavy seven have dropped 645,000 employees, and their share of the Fortune 500 workforce has shrunk from well over half the total to 38 percent."[21] Similar signs of economic despair are found in major cities across the Northeast. Philadelphia, New York, and Baltimore all penalize residents with substantial wage or income taxes (in addition to state income taxes) for the "privilege" of living or working in the city. Current Philadelphia Mayor Jim Kenney imposed a soda tax that drove soda sales elsewhere as people simply stepped out of Philadelphia to get their beverages.[22] Whatever revenue was generated from the new tax was partially countered by lower revenue from lost sales.[23] Soda manufacturers were forced to lay off city employees and raise prices due to lower demand and higher costs. Matt Wolfe, a Republican Ward Leader in Philadelphia, observed in July of 2018 that Philadelphia is the poorest big city in America, and the reason is obvious. "What happens when you tax wages and businesses? You get fewer of them."[24]

While taxes and regulations have caused private employees to lose jobs and benefits, public employees have thrived in the big government environment. But many are beginning to realize that state and local governments face severe financial crises as a result of promises of huge pensions to public employees. Many young public employees are now learning that the financial crises in pension systems are harming their own wage growth and upward mobility as well. According to Pew Research, more than half of Northeastern states' pensions are less than 60 percent funded. Only two states in the region have funded their obligations at least at 80 percent.[25]

Sadly, even these numbers may prove optimistic. The Pew study utilizes the actuarial reports and investment return assumptions provided by hundreds of state public pension plans. ALEC analyzes these same financial reports, applying a uniform "risk-free" rate of return to pension assets. Often, public pension funds assume they will earn rates of return far higher than the "risk-free" rate. This allows politicians to underestimate the value of the liabilities. Using this assumption, not a single state in the Northeast is more than 50 percent funded. Connecticut (20 percent), New Jersey (26 percent), Massachusetts (27 percent), and Pennsylvania (28 percent) rank in the bottom 10 for funding ratios.[26] Other than recent reforms in Pennsylvania, legislators in the Northeast have refused to enact significant reforms needed to safeguard the retirement of public sector workers and the interests of taxpayers.

Energy costs are also higher in the Northeast, partially due to renewable energy mandates that

force utilities to use sources of power often far more expensive than natural gas, coal, or nuclear. Meanwhile, the shale oil and gas revolution has spread to some parts of the Northeast thanks to the Marcellus Formation running from Ohio to West Virginia, and from Pennsylvania to upstate New York. Foolishly, the New York State Legislature banned shale drilling in the state. Thousands of high-paying energy production jobs, more tax revenue, and better economic opportunity, were destroyed before they could even be created.[27]

Bad Ideas Have Consequences

Over the past 40 years, domestic flight from the Northeast to the Sunbelt, Southeastern, and Mountain states has grown to resemble a stampede. Vermont has experienced virtually no population growth within the past decade.[28] The same holds true with Maine and Rhode Island.[29,30] Pennsylvania has had negligible growth in population—just 8 percent over four decades.[31] Without an influx of foreign immigrants, each state in the region (with the exception of Delaware) would have lost residents over the decade ending in 2016.

From 1970 to 2017, the 10 largest cities of the Northeast, once the centers of America's industrial muscle, lost well over half a million residents combined.[32] During the same period, the 11 Northeastern states plus Washington, D.C., experienced a paltry population gain of less than 10 million, or just 18.2 percent, while the rest of the nation grew more than 4 times faster.[33]

As workers flee the state searching for jobs, only 16 of the 62 counties in New York have grown in population since 2010.[34] According to U.S. Census data, on net, more than a million New Yorkers left the state between just 2010 and 2017. For about 30 years, non-Northeastern states have gained new jobs at more than two times the pace of the 11 Northeastern states.[35] As New York businesses continued to suffer in 2012, the Tax Foundation pointed out that New York had the highest state and local tax burden in the country, an embarrassing designation which New York claimed again in 2018.[36,37] The largest share of these emigrating New Yorkers went to Florida, a state which boasts significantly lower taxes.[38]

A family of four with an average income saves roughly $4,000 annually by moving to a state with average tax rates. The same family saves $6,000 a year by moving to low-tax states like Florida. Since the Northeastern states tend to have highly progressive tax systems, the incentive to flee for rich people is orders of magnitude higher.

Northeasterners complain disdainfully of the "war between the states" for jobs and businesses, and for good reason: This is a war they cannot win using their current economic policy framework. Southern and Western states are amassing companies fleeing the Northeast. One southern governor told us his state had closed its economic development offices in Europe. "Why search for factories overseas when we can plunder high tax areas like Connecticut and New York?" he reasoned.[39]

Other statistics only add to the depressing tale of regional economic decline. Total personal income in each state across the Northeast (with the exception of Maryland, which grew at the national average) has lagged overall national growth from 2000 to the present.[40] Four states ranked in the bottom 10. All but Vermont, Massachusetts, and Maryland ranked in the bottom 20.[41] As of 2017, the Northeast has fallen to just 17.3 percent of the total U.S. population—the smallest region by more than three and a half points.

In the mid-1990s, it appeared that the Northeast might have awakened to the error of its ways, ready to heal itself. New York Gov. George Pataki and New York City Mayor Rudy Giuliani took bold steps to stop the bleeding. The crime rate dropped by nearly half during Rudy Giuliani's tenure as mayor, and taxes were cut more than 20 times.[42,43] Manhattan was visibly cleaner, safer, and more vibrant than just a few years prior. In New Jersey, Gov. Christine Todd Whitman slashed income tax rates, helping the state economy rally modestly. Gov. Tom Ridge did the same in Pennsylvania during that same time period.

Unfortunately, these steps in the right direction were temporary. Governors Phil Murphy of New Jersey, Tom Wolf of Pennsylvania, Andrew Cuomo of New York, and Dannel Malloy of Connecticut all proposed or enacted giant tax increases. Outside of New Hampshire, which avoids a personal

TABLE 3 | **Income Taxes in the Northeast Far Higher than Nation's Median**

State	Top Marginal Personal Income Tax Rate*	Top Marginal Corporate Income Tax Rate*
Connecticut	6.99%	8.25%
Delaware	7.85%	11.75%
Maine	7.15%	8.93%
Maryland	8.95%	8.25%
Massachusetts	5.10%	8.00%
New Hampshire	0.00%	8.20%
New Jersey	9.97%	9.00%
New York	12.70%	17.21%
Pennsylvania	6.96%	16.98%
Rhode Island	5.99%	7.00%
Vermont	8.95%	8.50%
U.S. Median	5.75%	6.77%

**Figures include state and local combined tax rates*
Source: Rich States, Poor States

income tax altogether, all but one of the Northeastern states has personal income and corporate income tax rates well above the national average. The lowest corporate income tax rate in the region is 7 percent, with the highest rate climbing all the way to 17.21 percent in New York—also the highest in the nation. Pennsylvania, at 16.98 percent, has the second highest, while Delaware is third. In fact, Northeastern states make up half of the 10 states with the highest corporate income taxes, and all of them fall within the top 23.

Under normal circumstances, domestic migration would be expected to mitigate the economic and ideological distinctions among different regions. But the culturally-based migration of the past decade is making the Northeast more rock solid liberal and the rest of the nation more conservative. The Northeast's political culture is driving many college graduates, young families, entrepreneurs, conservative-oriented families with children, and the wealthy away. Maine, for example, now ranks second among the states in proportion of the population over the age of 65. Not, alas, because seniors are moving there to retire (as in the case of number one Florida), but because young people are leaving.[44] In fact, all 11 states (with the exception of Maryland and New Jersey) are in the top 25 states based on proportion of the population above the age of 65.[45]

The political clout of the Northeast long ago hit its high-water mark—and with every year it recedes more. The very demographic trends that are draining the region of economic energy are working against the states in terms of their political clout as well. In 1970, the 11 Northeastern states had 113 seats in the U.S. House of Representatives. Now that number is down to 87, with further losses likely after the next reapportionment.[46] Between 1970 and 2020 the Northeast will have lost one-quarter of its political power and relevance. New York will have lost one-third of its congressional seats, with Massachusetts, New Jersey, and Pennsylvania each losing about one-fourth of theirs. Rhode Island's representation in the U.S. House will be half of what it was, and Connecticut will have lost one-sixth of its seats.

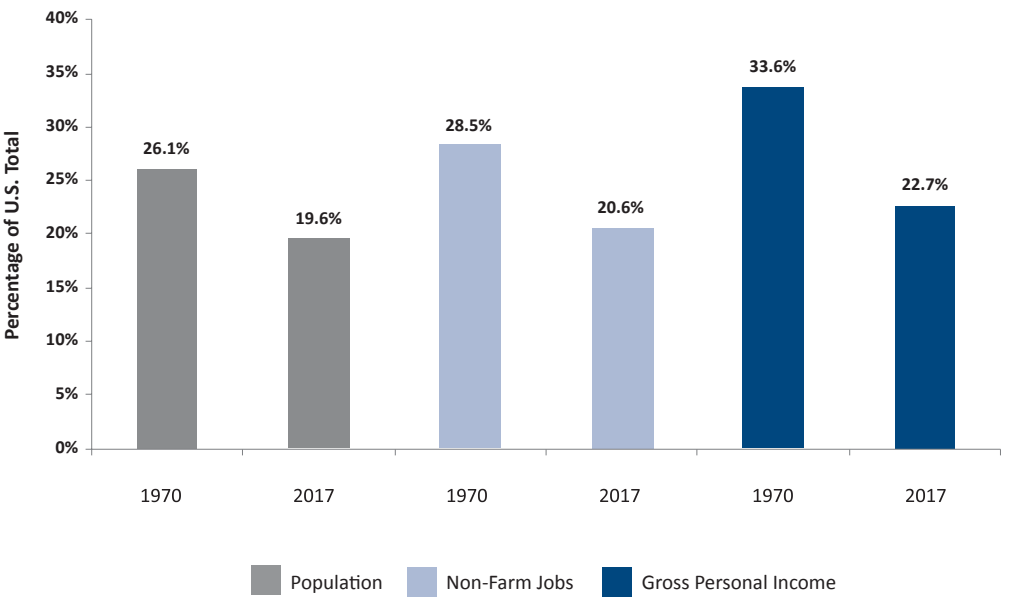
How the mighty have fallen. The 11-state greater Northeast region once commanded more than a quarter of the nation's population in 1970 (26.3 percent).[47] By 2017, it had fallen to 19.5 percent.[48] The jobs numbers are even starker. In 1970, the greater Northeast had 28.5 percent of the nation's non-farm jobs, but that plunged to 20.6 percent by 2017, according to the Bureau of Labor Statistics.[49] The Bureau of Economic Analysis estimates that between 1970 and 2017, the region's share of national gross personal income declined from 33.6 percent to 22.7 percent.[50] People are leaving, opportunities are leaving, and incentives are leaving. Where are they going? They are mostly going to the South and West. In 1970, the South had 28.7 percent of the population,[51] but that grew to 35.8 percent by 2017. Florida had nearly 300 percent more jobs in 2017 than 1970, and similarly exploded in population to replace New York as the third largest state. [52,53] Utah has seen a 311 percent increase in jobs over the same time period and Idaho has grown almost 245 percent.[54] Jobs in Texas increased in number by 237 percent.[55] One thing all these prosperous states have in common is their general rejection of big government policies.

TABLE 4 | **Change in Apportionment of U.S. House Seats in the Northeast, 1970-2020**

State	Apportioned Reps. Based on 1970 Census	Apportioned Reps. Based on 2020 Census Forecast	Gain/loss from 1970-2020	Percentage change 1970-2020
Connecticut	6	5	-1	-17%
Delaware	1	1	0	0%
Maine	2	2	0	0%
Maryland	8	8	0	0%
Massachusetts	12	9	-3	-25%
New Hampshire	2	2	0	0%
New Jersey	15	12	-3	-20%
New York	39	26	-13	-33%
Pennsylvania	25	17	-8	-32%
Rhode Island	2	1	-1	-50%
Vermont	1	1	0	0%
Total Northeast	113	84	-29	

Source: U.S. Census Bureau, Election Data Services

FIGURE 4 | **Decline of Greater Northeast's Share of Total U.S. Population, Jobs and Gross Personal Income, 1970-2017**



Source: Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics, U.S. Census Bureau, Bureau of Economic Analysis

Conclusion

Nine of the 11 states in the Northeast region are in the top 14 for most expensive electricity prices.[56] Eight of the 11 are in the bottom 15 for economic outlook. All 11 are in the top 21 for heaviest per capita state and local tax burden.[57] Of the 10 states with the highest overall tax burden, five are in the 11-state region. Finally, to add insult to injury, nine of the 11 states (only Delaware and New Hampshire excepted) have an estate tax and/or an inheritance tax. Only eight other states in the remainder of the country have either.[58]

It does not appear significant change is on the horizon. New York has the worst economic outlook and Vermont is close behind. Illinois and California take the next two spots, followed by New Jersey. In fact, none of the 11 states in the Northeast region place in the top 10. Only two make it into the top half—New Hampshire at 17, and Massachusetts at 25. The rankings for positive economic outlook are likewise dominated by Southern and Western states like Utah, Idaho, Florida, and North Carolina. What about these regions is so different? That answer includes everything from tax burdens, to regulation, and the tort litigation climate.

Without a doubt, the ideological forces behind anti-growth economic policies have largely had free reign in driving policy in the Northeast, with conclusive and devastating results. Most states, with a few notable exceptions like California and Illinois, have chosen policies in opposition to those in the Northeast—lower taxes, less government, fewer burdensome regulations—and their prudent decisions will continue to pay dividends.

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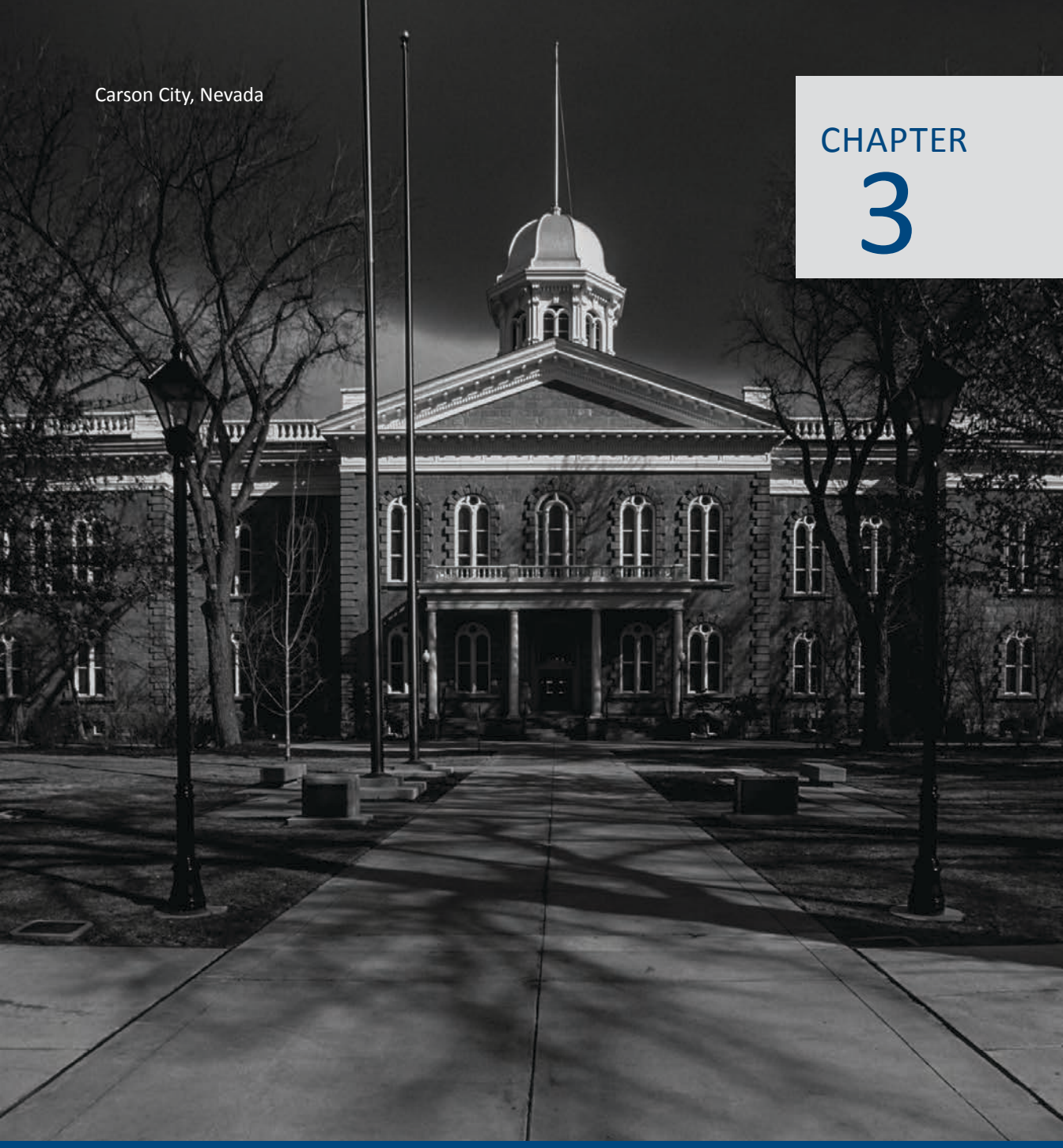


Carson City, Nevada

CHAPTER

3

Bring it On: The Federal Tax Cuts and Jobs Act of 2017

Bring it On: The Federal Tax Cuts and Jobs Act of 2017

Recently passed provisions of the federal TCJA limiting the state and local tax (SALT) deduction on federal tax returns will substantially change the contours of state politics and economics for years to come.[1]

With partial elimination of the SALT deduction, states are back in the spotlight more than ever. New York Gov. Andrew Cuomo declared war against attempts to stop this subsidization of the tax-and-spend states, but he is unlikely to undo the work of two architects of this important reform—Rep. Kevin Brady, Chairman of House Ways and Means, and Sen. Orrin Hatch, Chairman of Senate Finance and President *pro tempore* of the U.S. Senate. Rep. Brady and Sen. Hatch arguably were the two most important legislators deciding what was and was not in the final tax bill, notably the partial elimination of the SALT deduction.

The dramatic uproar surrounding the potential elimination of the SALT deduction is quite simply because of the favorable impact the deduction had on high-tax states. The impact of this legislation is two-fold. First, there is the incentive effect on marginal income tax rates in states—alternatively called the substitution effect. The second impact concerns the transfer of wealth across states—the income effect. These two consequences of eliminating the SALT deduction already demonstrate huge policy implications for tax-and-spend states.

Several detractors dismiss our research on how state and local taxes materially impact state migration patterns, state economic growth, and state fiscal soundness. A 2013 *New York Times* headline proclaimed: "High Taxes Are Not a Prime Reason for Relocation, Study Says."[2] Clearly, high taxes do matter. Why else would there be a unanimous protest from high-tax states with the introduction of a $10,000 cap on the SALT deduction?

The Incentive, or Substitution Effect, of Limiting the SALT Deduction

Limiting the SALT tax deduction to $10,000 affects state tax incentives on the margin. In 2017, prior to the TCJA, no cap existed on the total amount of state and local taxes deductible on federal tax returns. Taxpayers could choose between deducting sales taxes plus property taxes or income taxes plus property taxes. With the highest federal income tax rate being approximately 40 percent, the effect of the SALT deduction on federal returns meant for every dollar of state and local taxes paid, filers could reduce their federal taxable income by one dollar, thereby saving roughly 40 cents in federal taxes for every dollar of state taxes paid for those in the highest federal income tax bracket. The SALT deduction amounts to a federal subsidy of state income taxes. High-tax states could essentially force residents in low or zero-income-tax states to subsidize up to 40 percent of their excessive tax rates. Capping this subsidy understandably has politicians in high-spending states troubled. No longer will they be able to partially mask the true impact of their largesse and have taxpayers from the other 49 states pick up the tab.

Prior to 2018, the highest combined state and local marginal income tax rate was an inaccurate assessment of the real income tax liability,

because it failed to consider federal tax offset effects. Consequently, this rate must be adjusted to account for the state and local income tax deduction (other state and local tax deductions are irrelevant for this purpose) to arrive at the true, or effective, top state and local marginal income tax rate.

Without digging too deeply into the weeds, imagine three states: The first has a 12 percent top marginal income tax rate, the second has a top income tax rate of 6 percent, while the third has no income tax at all. Under pre-2018 tax law, a 40 percent maximum federal tax rate with a 12 percent state maximum income tax rate effectively cost the taxpayer a net 7.2 percent at the state level—but it should be noted that the state still received tax revenue at the full 12 percent tax rate because the federal government subsidized the difference between the 12 percent statutory rate imposed and the 7.2 percent effective rate realized by the taxpayer. Likewise, for a maximum state income tax rate of 6 percent, the net cost to the taxpayer was 3.6 percent, with the federal government making up the difference between the 6 percent statutory rate and the 3.6 percent effective rate. For zero-tax states, zero remains zero.

Subsidization by the federal government of state and local income taxes allowed high-tax states to operate without realizing the full extent of their anti-growth policies. However, in 2018, all of this changed with the SALT deduction capped at $10,000 annually.

Pieces of the Puzzle: How the Alternative Minimum Tax, Share of Income Reported by High Earners, and State and Local Tax Rates Come Together for Impact Analysis

One additional calculation is needed to provide a more accurate estimate of each state's effective top income tax rate in 2017. Part of the SALT deduction on 2017 federal income tax returns was itself offset by the federal alternative minimum tax (AMT). In short, the AMT is calculated by adding back, or disallowing, a variety of deductions to a taxpayer's adjusted gross income (AGI). The AGI is a person's gross income, minus allowable tax deductions. The AMT tax rate is then multiplied by this alternative minimum taxable income (AMTI). The taxpayer must pay the greater of the tax owed based off his AMTI or off of the initial AGI. The TCJA repealed a number of AGI deductions, raised the AMT threshold, and indexed the AMT threshold to inflation.

An analysis of each state's list of tax filers, their SALT deductions, and their AMT tax liabilities reveals a telling pattern.[3] The AMT claws back an average of approximately 20 percent of federal tax savings related to state and local income tax deductibility. Therefore, to better estimate the effective marginal tax rate for each state in 2017 and earlier, we reduce the benefit of deductibility by 20 percent to account for the AMT claw-back.

Using our three-state example, the SALT income tax deduction reduces a 12 percent statutory income tax to 7.2 percent, but the AMT claw-back on average brings that effective top tax rate back up to 8.16 percent. Likewise, for a maximum statutory tax rate of 6 percent, the new effective tax rate changes from 3.6 percent to a fully loaded 4.08 percent, again assuming an allowance for an AMT claw-back, and for those nine states with no income tax, zero would remain zero.

The bulk of SALT deductions on federal tax returns are reported by people whose AGI exceeds $500,000 per year. These are the same people subject to the highest state and federal tax rates. Many of these federal tax returns are subject to the AMT as well—about 37 percent.[4]

For residents of high state and local tax states making more than $500,000, the new $10,000 SALT deductibility cap may increase their tax burden. Additionally, the majority of SALT deductions (62 percent) are for state and local income taxes—property taxes (35 percent) and sales taxes (3 percent) comprise far less of SALT deductions claimed.[5]

Thanks to federal tax reform, once the $10,000 SALT limitation is met, state income taxpayers will actually pay, on the margin, the full amount of the state statutory tax rate with no federal offsets. Therefore, for these high-income earners, the

effective top income tax rates in the three hypothetical states increases respectively from 8.16 percent to 12 percent, 4.08 percent to 6 percent, and zero, of course, stays zero.

The cap on SALT deductions represents an enormous increase in the highest effective state and local income tax rates. This will help spur more efficient governance as taxpayers demand relief from tax burdens and will reduce the disadvantages unsubsidized low-tax states have, relative to high-tax states (see Table 1).

An article in *The Wall Street Journal* on January 29, 2018, highlights divisions within Gov. Andrew Cuomo's New York:

> *"I'm getting a mixed message, because on one hand the Democrats say, 'Tax the rich,'" said Ric Lucia, 66 years old,*

TABLE 1 | **State Income Tax Impact from Capping the SALT Deduction**

State	Effective Top State and Local Tax Rate		% of AGI Filed in State for Earners Making Over $500,000	Weighted State and Local Income Tax Impact (Percentage of total state AGI paid in taxes by those earning over $500,000)		State	Effective Top State and Local Tax Rate		% of AGI Filed in State for Earners Making Over $500,000	Weighted State and Local Income Tax Impact (Percentage of total state AGI paid in taxes by those earning over $500,000)	
	2017	2018	2015	2017	2018		2017	2018	2015	2017	2018
NY	8.6%	12.7%	32.1%	2.8%	4.1%	CO	3.1%	4.6%	17.4%	0.5%	0.8%
CA	9.0%	13.3%	25.3%	2.3%	3.4%	RI	4.1%	6.0%	13.2%	0.5%	0.8%
DC	6.1%	9.0%	27.7%	1.7%	2.5%	NC	3.7%	5.5%	14.2%	0.5%	0.8%
CT	4.8%	7.0%	32.4%	1.5%	2.3%	IL	2.6%	3.8%	20.7%	0.5%	0.8%
NJ	6.8%	10.0%	22.3%	1.5%	2.2%	OK	3.4%	5.0%	15.1%	0.5%	0.8%
MN	6.7%	9.9%	16.1%	1.1%	1.6%	UT	3.4%	5.0%	14.9%	0.5%	0.7%
OR	7.2%	10.6%	13.1%	0.9%	1.4%	KS	3.1%	4.6%	14.9%	0.5%	0.7%
MD	6.1%	9.0%	14.9%	0.9%	1.3%	AZ	3.1%	4.5%	14.1%	0.4%	0.6%
MA	3.5%	5.1%	25.8%	0.9%	1.3%	IN	3.4%	5.0%	11.6%	0.4%	0.6%
PA	4.7%	7.0%	16.2%	0.8%	1.1%	IA	3.7%	5.4%	10.5%	0.4%	0.6%
WI	5.2%	7.7%	13.5%	0.7%	1.0%	LA	2.5%	3.6%	13.4%	0.3%	0.5%
AR	4.7%	6.9%	14.8%	0.7%	1.0%	WV	4.4%	6.5%	7.4%	0.3%	0.5%
MO	4.8%	7.0%	14.5%	0.7%	1.0%	AL	2.7%	4.0%	11.7%	0.3%	0.5%
VT	6.1%	9.0%	11.0%	0.7%	1.0%	MS	3.4%	5.0%	9.0%	0.3%	0.4%
GA	4.1%	6.0%	16.2%	0.7%	1.0%	NM	3.3%	4.9%	8.9%	0.3%	0.4%
DE	5.3%	7.9%	11.9%	0.6%	0.9%	ND	2.0%	2.9%	15.0%	0.3%	0.4%
OH	5.1%	7.5%	12.4%	0.6%	0.9%	TX	0.0%	0.0%	20.8%	0.0%	0.0%
ID	5.0%	7.4%	12.5%	0.6%	0.9%	FL	0.0%	0.0%	26.1%	0.0%	0.0%
MI	4.5%	6.7%	13.8%	0.6%	0.9%	WA	0.0%	0.0%	18.4%	0.0%	0.0%
KY	5.6%	8.2%	11.0%	0.6%	0.9%	TN	0.0%	0.0%	15.4%	0.0%	0.0%
NE	4.7%	6.8%	13.2%	0.6%	0.9%	NV	0.0%	0.0%	22.4%	0.0%	0.0%
ME	6.9%	10.2%	8.8%	0.6%	0.9%	NH	0.0%	0.0%	14.4%	0.0%	0.0%
MT	4.7%	6.9%	12.5%	0.6%	0.9%	SD	0.0%	0.0%	16.7%	0.0%	0.0%
VA	3.9%	5.8%	14.8%	0.6%	0.9%	AK	0.0%	0.0%	10.9%	0.0%	0.0%
HI	5.6%	8.3%	10.2%	0.6%	0.8%	WY	0.0%	0.0%	25.3%	0.0%	0.0%
SC	4.8%	7.0%	11.9%	0.6%	0.8%						

Source: IRS Statistics of Income, Laffer Associates

> *who runs a trucking business in Delanson, an upstate town, and supports the new federal law. "If you're deducting above $10,000, you're wealthier. Who would be complaining about losing the SALT deduction? People with $2 million Long Island homes."*[6]

Benefits of the SALT deduction depend on geography. Of the 1.7 million New Yorkers who itemized in 2017, approximately 500,000 were located outside New York City, Westchester, and Long Island. According to the article, the State of New York's tax base depends heavily on revenues from these people.[7] The SALT deduction subsidized high-tax states at the expense of low-tax states. No longer!

Table 1 shows weighted state and local income tax impacts expected for 2018 for all 50 states plus Washington, D.C. The effective top tax rate is the combined state and local effective top marginal income tax rate after exhaustion of the SALT deduction for the 2017 and 2018 federal tax returns. The table also shows the percentage of the state's total AGI earned by tax filers reporting AGI in excess of $500,000 in 2015, the most recent year that data is available. We estimate our state impact by multiplying the effective top tax rates each year by the share of AGI reported by wealthy earners. The weighted state and local income tax impact indicates the tax liability for high earners in a fashion that is comparable across state lines—the share of state AGI that the wealthy would pay in income taxes.

Table 1 illustrates how exposed select states are to the state income tax rate impact of the new federal tax law. New York, for example, has the highest state impact of 4.1 percent. In other words, New York's top marginal income tax rate is very high, *and* there are a lot of people who are exposed to it relative to other states. New York's weighted state and local income tax impact in 2018 of 4.1 percent is almost 20 percent greater than the next highest impact state, California with 3.4 percent, and more than four times greater than the 11th highest impact states tied at 1 percent. The tax liability for the wealthy just increased substantially in high-tax states.

New York's skewed tax subsidy is the reason why there is such severe opposition to the SALT deduction cap. The relative weight of top marginal income tax rates is substantially increasing in a handful of high-tax states while barely budging—if at all—in dozens of others. Ironically, low-tax states are far more justified to be outraged against the likes of New York, California, Connecticut, New Jersey, and others for forcing taxpayers across the country to subsidize those few high-tax states through the federal income tax code. These subsidies totaled hundreds of billions of dollars over decades.

Why State Tax Rates Matter

One of the most extreme examples of why tax rates matter happened more than two years ago when billionaire David Tepper fled high-tax New Jersey and relocated to no-income-tax Florida. According to *The New York Times*, Mr. Tepper's earnings were so high that, at the time, the state of New Jersey was "facing an unusual degree of income tax forecast risk," and his move could mean "hundreds of millions of dollars" in lost tax revenue.[8] All of that from just one taxpayer's decision to leave the state!

In 2018, moving from a state with a 12 percent top income tax rate to a zero-tax state such as Florida, Texas, or Tennessee saves taxpayers the full 12 percent on the margin, whereas in 2017, it saved taxpayers only 8.16 percent on the margin. That's a 49 percent increase in state effective tax rates for people who previously used the SALT deduction over the $10,000 cap.

Economic theory suggests that people move to locations where they can improve their standard of living. The phenomena we analyzed are patterns of migration among the 50 states over five decades, and how interstate movements relate to such factors as state tax rates, state tax burdens, right-to-work protections, etc.[9, 10]

We find the evidence that people and AGI move in response to state incentives both compelling and fascinating. The evidence supports the notion that, when it comes to states, free market policy incentives matter a great deal.

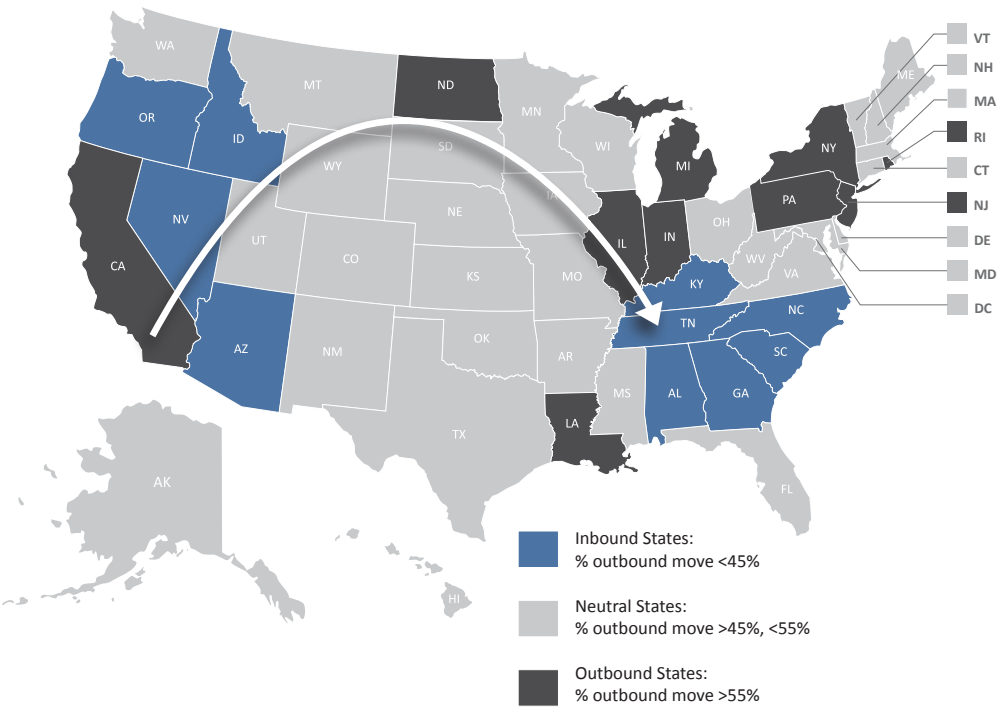
Any number of general and specific forces push and pull at a given state's demographic and economic performance. Whatever the specifics may be for any one state, the condition of the overall U.S. economy is generally the most important influence on that state's performance.

However, when it comes to a state's relative performance, quite a number of state-specific policy factors are relevant. These include state tax policy, the education level of state residents, state right-to-work protections, debt levels, the state's tort system, and many other factors. Sometimes elements of just plain luck, such as deposits of coal and oil, or sunny beaches in the winter, impact performance. Other factors affecting a state's performance include policies pursued by neighboring states. Relationships between state-specific policy differences and a state's economic performance are particularly interesting and carry broader implications for economic achievement and distribution of political power by state. Every decade, the U.S. Census allocates Congressional seats according to population, a criteria heavily influenced by state policies.[11]

In our open economy, where factors of production and people are free to move across state boundaries, state governments compete with each other through economic policy.[12] State economic competition results from the mobility of production. Both people and income "vote with their feet" by relocating to political jurisdictions in pursuit of more favorable economic policies.[13] Chapter One discusses this in depth.

Differences in state economic policies largely explain the observed persistent differential in state income growth across the United States.[14] Within their own separate jurisdictions, state governments monopolize their taxing power. State taxation is most effective over fixed, or relatively fixed, factors of production. If factors of production are able to escape state taxes, high-tax states are at risk of losing income, jobs, and taxpayers to policy competitors.[15]

FIGURE 1 | **United Van Lines Moving Statistics: Laffer's Move in 2006**



Source: United Van Lines

TABLE 2 | **The Top 10 Beneficiaries of California's Economic Decline** (2015-2016)

State	Percent of Domestic In-Migration that Comes from CA	Percent of Inbound AGI that Comes from CA
Nevada	38.4%	39.6%
Oregon	31.4%	32.8%
Arizona	23.6%	20.2%
Hawaii	22.8%	33.8%
Idaho	23.8%	25.8%
Utah	21.5%	22.4%
Washington	19.9%	25.5%
Montana	13.7%	16.3%
Texas	12.9%	13.9%
Colorado	12.0%	13.3%

Source: U.S. Census Bureau

California, for example, acts like a dying supernova spinning off economic solar systems thanks to its massive tax increases and excessive tax burdens.[16] Neighboring states such as Oregon, Washington, Idaho, Colorado, Arizona, and Nevada, all saw economic prosperity as an unintended consequence of California's oppressive economic policies.

United Van Lines closely tracks where customers move and ship belongings. Figure 1 uses United Van Lines inbound and outbound statistics to starkly show the 2006 California effect on Oregon, Idaho, Nevada, and Arizona. Dark-gray shaded states indicate where outbound shipments account for 55 percent or more of all shipments in 2005, while light blue-shaded states indicate where inbound shipments account for 55 percent or more of all shipments. Many of those fleeing California's extreme economic policies take shelter in neighboring states.

This California effect is as true today as when Arthur Laffer relocated in 2006 from California to Nashville, Tennessee. At that time, most of California's out-migrants ended up in neighboring states. The story hasn't changed a bit—just look at Table 2 with the most recent data.

When competing for residents, relative tax burdens among states matter most. States with lower relative tax burdens can expect higher growth, while states with higher relative tax burdens experience slower economic expansion.[17] Contrasting state-specific economic metrics of the states with the lowest and highest tax burdens highlight the importance of tax policy (Table 3).

Data clearly shows that low tax burdens enhance a state's chances of performing well economically (Table 3). On the other hand, a high tax burden reduces a state's chances of performing well. Of course, other policy variables impact economic performance, but tax burden is most consequential. In addition to comparing a state's economic performance to its tax burden, we also examine the 11 states that adopted an income tax since 1960 to show how their economies fared afterwards (Table 4).

Every one of the 11 states that introduced a state income tax since 1960 declined relative to the rest of the nation in population growth, gross state product (GSP) growth, and state and local tax revenue growth. That state and local tax revenue growth in New Jersey and Connecticut underperformed by relatively smaller amounts than the other nine states is partially attributable to their adoption of an income tax most recently and their proximity to high-tax New York City.

The new cap on federal deductibility of state and local taxes will materially change the competitive outlook for states. States with a combination of exceptionally high personal income tax rates and large percentages of high income earners tend to underperform on job growth, GSP growth, and income growth under the new tax law compared to previously. Unless high-tax states mend their ways, low-tax states with pro-growth policies will benefit from the resulting flow of capital and people.

Once migration trends begin, it can be difficult to stop them. Just look at population dynamics of Michigan, Connecticut, and West Virginia (see Figure 2). These are three of the 11 states that adopted an income tax since 1960. Once a downward spiral commences, reversal is nearly impossible due to political roadblocks to pragmatic economic policy changes.

TABLE 3 | States with the Lowest Tax Burden as of 2012 (excluding WY and AK) vs. States with the Highest Tax Burden[18]

		10-Year Growth					
	2012	2007-2017	2006-2016	2007-2017	2007-2017	2007-2017	2005-2015
State	Tax Burden as a Share of Personal Income*	Population	Net Domestic In-Migration (% of Gross Migration)	Non-farm Payroll Employment	Personal Income	Gross State Product*	State and Local Tax Revenue**
South Dakota	7.1%	9.9%	1.0%	7.4%	37.0%	42.0%	55.4%
Tennessee	7.4%	8.7%	5.4%	7.8%	41.1%	42.1%	34.9%
Louisiana	7.6%	7.1%	-6.7%	3.3%	30.1%	17.6%	29.0%
Texas	7.6%	18.8%	12.6%	18.0%	52.2%	43.8%	63.7%
New Hampshire	7.9%	2.3%	2.7%	4.9%	30.3%	31.2%	43.5%
Nevada	8.1%	15.3%	8.2%	3.8%	28.2%	18.3%	31.0%
South Carolina	8.4%	13.1%	14.4%	7.4%	43.0%	36.8%	42.1%
Equal Weighted Avg. of 9 Lowest Tax Burden States ex WY and AK	7.7%	10.7%	5.4%	7.5%	37.4%	33.1%	42.8%
50-State Equal-Weighted Average	9.5%	7.5%	0.6%	5.3%	35.8%	32.0%	43.0%
Equal Weighted Avg. of 9 Highest Tax Burden States	11.5%	4.1%	-10.1%	3.9%	31.8%	29.9%	43.9%
Rhode Island	10.8%	0.2%	-0.3%	0.9%	26.2%	23.8%	27.2%
Maryland	10.9%	7.1%	-3.6%	5.6%	34.5%	37.3%	47.8%
Minnesota	10.9%	7.1%	-6.1%	6.3%	37.7%	35.6%	55.8%
California	11.0%	9.1%	-11.0%	8.5%	45.5%	40.4%	55.9%
Illinois	11.0%	0.8%	-16.6%	1.1%	26.0%	26.9%	51.6%
Wisconsin	11.0%	3.3%	-2.2%	2.8%	31.5%	33.0%	25.7%
New Jersey	12.2%	3.8%	-20.4%	1.1%	28.4%	23.0%	36.1%
Connecticut	12.6%	1.7%	-8.9%	-0.8%	23.2%	10.2%	40.8%
New York	12.7%	3.7%	-21.4%	9.2%	33.3%	38.8%	54.3%

**Tax Burden as a Share of Personal Income is calculated by the Tax Foundation and is currently as of 2012*

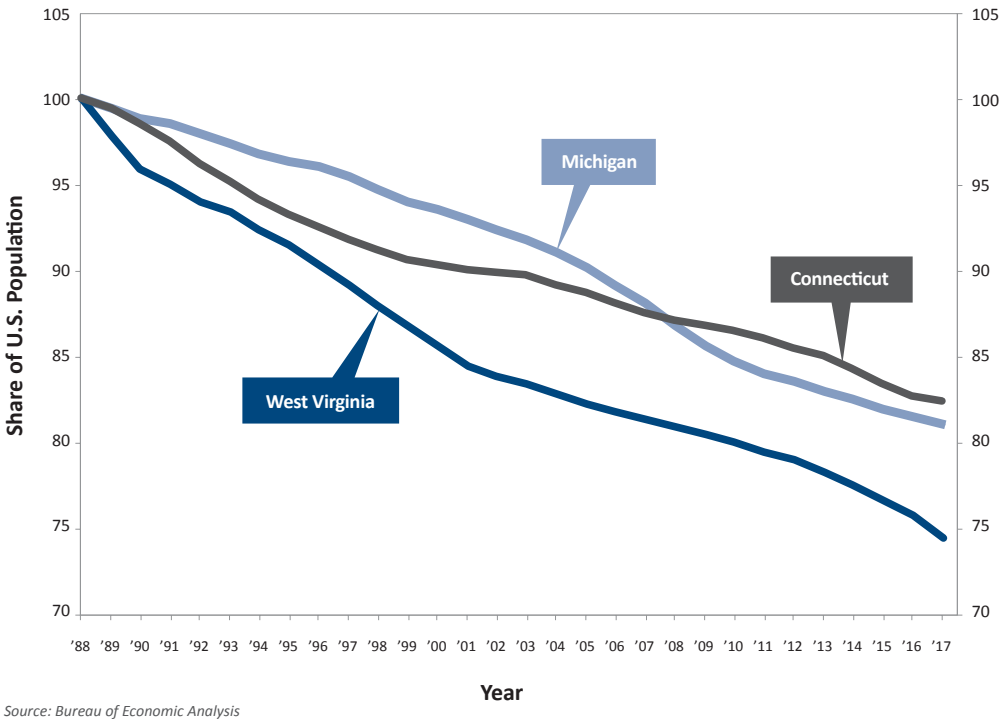
***State & Local Tax Revenue is the 10-year growth in state and local tax revenue from the Census Bureau's State & Local Government Finances survey. Because of data release lag, these data are 2005 to 2015.*

TABLE 4 | **Metrics of the 11 States that Adopted an Income Tax Post-1960 vs. the 39 Remaining States**[19]

States	First Year of State Income Tax	Maximum State Income Tax Rate*		% Change in Ratio from First Year of State Income Tax to Rest of Nation (39 Remaining States)		
		Initial	2017	2017 Population	2017 GSP*	2015 State & Local Tax Revenue
Connecticut	1991	1.50%	6.99%	-21%	-26%	-5%
New Jersey	1976	2.50%	9.97%	-28%	-26%	-7%
Ohio	1972	3.50%	7.50%	-39%	-45%	-29%
Rhode Island	1971	5.25%	5.99%	-38%	-38%	-26%
Pennsylvania	1971	2.30%	6.98%	-40%	-41%	-31%
Maine	1969	6.00%	10.15%	-28%	-29%	-5%
Illinois	1969	2.50%	3.75%	-37%	-44%	-20%
Nebraska	1968	2.60%	6.84%	-31%	-22%	-13%
Michigan	1967	2.00%	6.65%	-38%	-56%	-50%
Indiana	1963	2.00%	5.00%	-30%	-36%	-37%
West Virginia	1961	5.40%	6.50%	-52%	-56%	-42%

**Maximum tax rate is top combined state and local tax rate in each state*
Source: Bureau of Economic Analysis, U.S. Census Bureau, Rich States, Poor States, 10th edition

FIGURE 2 | **Populations of Michigan, Connecticut, and West Virginia as a Share of the United States** (1988-2016, indexed to 100 in 1988)



Source: Bureau of Economic Analysis

State and Local Tax Deduction Caps Including Property and Sales Taxes—The Income, or Transfer, Effect

While marginal income tax rate effects drive the state competitiveness model, the SALT deduction cap for property and sales taxes will have transfer effects related to income among the states as non-income tax deductions are of substantial importance in many states.

Total SALT deductions for 2015 are listed in Table 5, both in dollars and as a share of state AGI. This redistribution effect is significant in some instances, especially when a state has large total SALT deductions including income, property, and sales taxes. When all three deductions are large, the effects of the SALT deduction cap are especially potent.

In 2015, total U.S. AGI was slightly over $10 trillion, and total SALT deductions were roughly $536 billion—or 5.3 percent of AGI. With a tax rate of 40 percent, these total SALT deductions reduced federal tax liabilities by some $214 billion annually. Several estimates now are in the range of $50 billion of extra federal tax revenue in 2018 as a result of capping state and local tax deductibility.[20] In other words, the tax package eliminated approximately 23 percent of this subsidy for high-tax states. However, the effect will likely be greater than 23 percent given the dynamic relationship between tax rates and migration, which is not factored into static model estimates.

This SALT provision has been a significant fiscal drain for low-tax states nationwide to the benefit of a few high-tax states. Partially capping this spigot of funds will make low-tax states even more attractive than they were in 2017.

TABLE 5 | **States Ranked by SALT Deductions as Share of AGI** (Annual, 2015)

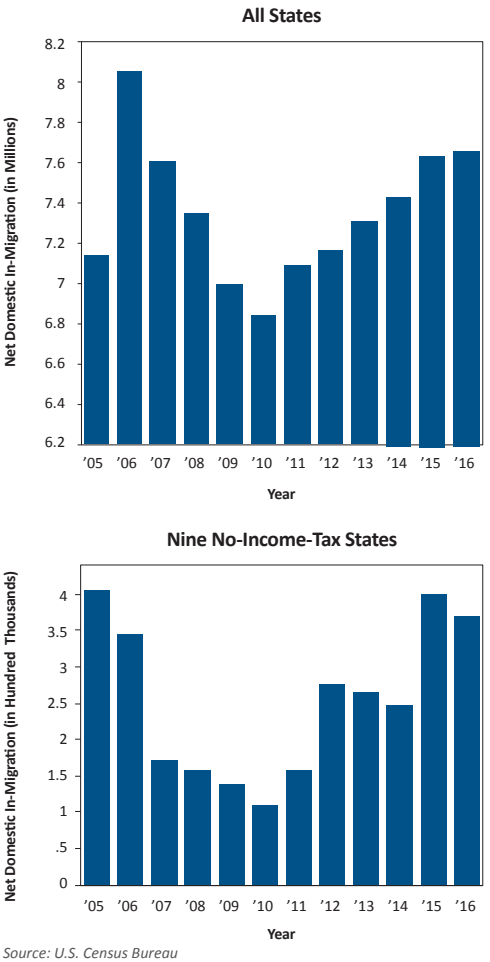
Rank	State	Total SALT Deductions (billions of USD)	Total SALT Deductions as a % of AGI (2015)	Rank	State	Total SALT Deductions (billions of USD)	Total SALT Deductions as a % of AGI (2015)	Rank	State	Total SALT Deductions (billions of USD)	Total SALT Deductions as a % of AGI (2015)
1	NY	73.04	9.3%	18	IA	4.17	4.7%	35	IN	5.93	3.4%
2	NJ	31.89	8.7%	19	NE	2.61	4.7%	36	AZ	5.72	3.3%
3	CT	13.83	8.3%	20	OH	15.04	4.7%	37	OK	3.16	3.3%
4	CA	109.72	7.9%	21	HI	1.94	4.6%	38	NM	1.43	3.1%
5	MD	17.30	7.8%	22	KY	4.73	4.6%	39	WV	1.19	3.0%
6	OR	8.43	7.1%	23	UT	3.62	4.6%	40	MS	1.68	2.8%
7	DC	2.23	6.9%	24	NC	11.97	4.6%	41	WA	7.41	2.8%
8	MA	19.02	6.4%	25	MT	1.27	4.6%	42	AL	2.97	2.7%
9	MN	11.94	6.2%	26	DE	1.30	4.5%	43	LA	2.96	2.6%
10	RI	2.03	6.1%	27	ID	1.75	4.5%	44	TX	21.05	2.6%
11	WI	10.06	5.8%	28	MI	11.64	4.2%	45	FL	15.51	2.5%
12	VT	1.09	5.7%	29	MO	6.80	4.2%	46	NV	1.80	2.2%
13	ME	1.95	5.5%	30	NH	2.06	4.1%	47	TN	3.14	1.9%
14	VA	15.70	5.4%	31	SC	4.85	4.1%	48	ND	0.46	1.8%
15	IL	23.60	5.3%	32	CO	7.33	3.9%	49	WY	0.34	1.6%
16	PA	19.70	4.9%	33	KS	3.05	3.6%	50	SD	0.41	1.6%
17	GA	12.72	4.8%	34	AR	2.39	3.6%	51	AK	0.37	1.5%

Source: Internal Revenue Service Statistics of Income

People Vote with Their Feet—TCJA Impact on Migration

The biggest takeaway from the most recent Census population data is that interstate migration numbers are back up to pre-Great Recession levels (Figure 3, top chart). The Great Recession precipitated an enormous decline in interstate migration. Populations in and around 2009 and 2010 became relatively less mobile. That is no longer the case—as shown in Figure 3, state populations are once again as mobile as ever. In addition to the rebound of gross migration numbers, net migration into zero-income-tax states rebounded dramatically as well.

FIGURE 3 | **Gross Domestic Migration among all the States (top) and Net Domestic In-Migration of the Nine No-Income-Tax States (bottom)**



Source: U.S. Census Bureau

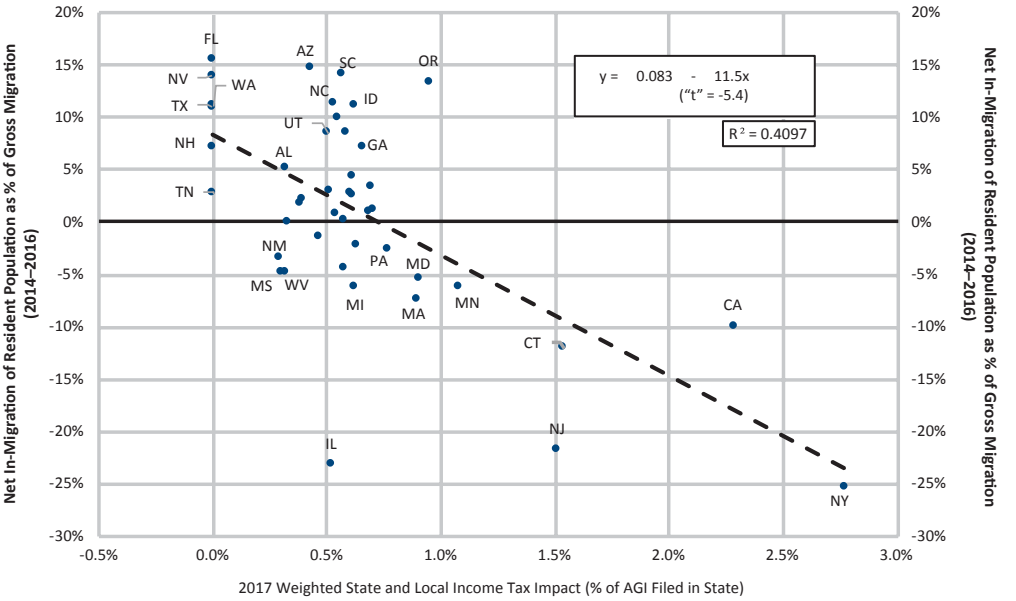
If high-tax state governments fail to quickly remedy their policies, a surge in the flow of people, money, and production to more pro-growth states will likely follow. Actual data for the past three years illustrates this point. Figure 4 plots net population migration by state as a share of that state's total migration (in + out) versus the product of that state's highest effective income tax rate and the percentage of that state's AGI earned by tax filers who reported incomes over $500,000. (See weighted effective income tax rate impact in Table 1 for all 50 states and D.C.). Only those states with a population larger than one million are included.

The scatterplot (Figure 4) suggests that interstate migration is highly sensitive to both the share of income of people who pay the highest income tax rate (earners over $500,000) and the highest effective income tax rate. Many other factors are in play, and affect net and gross migration patterns, but there is no question effective tax rates matter. To be clear, effective state tax rates rose dramatically at the start of 2018.

If the relationship over the past three years between the highest effective income tax rates by state and net migration as a share of total migration by state remains, and anti-growth states refuse to mend their ways, New York will lose an additional 860,000 people to other states. New Jersey, Connecticut, Illinois, and California will be devastated.

Table 6 calculates the potential effect of capping the SALT deduction on interstate migration patterns for the next three years in contrast to the previous three years for several of the most at-risk states (Michigan, Illinois, Maryland, Massachusetts, Minnesota, Connecticut, New Jersey, California, and New York). The actual number calculated is the estimated net domestic in-migration as a share of total migration. These numbers reflect the enormous absolute increase in the highest effective income tax rate resulting from the lost income tax deductions on federal tax returns, in conjunction with the percentage of the total AGI filed in the state for earners who make in excess of $500,000.

FIGURE 4 | **2014-2016 Net Domestic In-Migration of Resident Population vs. 2017 Weighted State and Local Income Tax Impact**[21]



(weighted for earners that report over $500,000 in AGI)

Source: U.S. Census Bureau, IRS Statistics of Income

TABLE 6 | **State Net Domestic Migration Projections** (actual: 2014-2016, projected: 2018-2020)

State	Net In-Migration as a share of Total Migration (2014-2016)	Estimated Net In-Migration as a share of Total Migration (2018-2020)*	Net Domestic Migration Flow (2014-2016)	Estimated Net Domestic Migration Flow (2018-2020)*
MI	-6.19%	-9.57%	-59,499	-92,030
IL	-23.23%	-26.08%	-379,904	-426,517
MD	-5.54%	-10.45%	-57,328	-108,036
MA	-7.48%	-12.33%	-71,523	-117,857
MN	-6.21%	-12.06%	-43,394	-84,220
CT	-11.99%	-20.32%	-67,103	-113,656
NJ	-21.83%	-30.02%	-239,058	-328,751
CA	-10.04%	-22.42%	-345,904	-772,567
NY	-25.34%	-40.34%	-539,512	-858,814

**Estimates are based on a function of the increase in highest effective state and local income tax rate, the share of each state's adjusted gross income (AGI) reported by filers earning more than $500,000 in Tax Year 2015, and the total amount of gross migration in and out of each state from 2014 through 2016.*

Source: U.S. Census Bureau, IRS Statistics of Income, Laffer Associates

These states listed in Table 6 are already in a tailspin. Capping the SALT deduction will have a deleterious effect on the above states if remedial action isn't taken immediately.

Conclusion

Tracking where people and businesses move is the best predictor of where the future will happen. This is called "voting with one's feet"—or a "revealed preference" in economics vernacular. As the Cold War neared its close, East Germans fled to West Germany, not the other way around. This rapid migration, more visible to the naked eye than any distorted statistic the Soviet Union could conjure up, was *prima facie* evidence of free market capitalism's superiority to socialism. Of course, even the most poorly managed of state governments are far preferable to the oppression of failed communist regimes. But the aggregate preference for economic opportunity still holds true when comparing pro-growth states with slow-growth states, and the excuses for diverging performance are nearly just as lame as the Kremlin's from that bygone era.[22]

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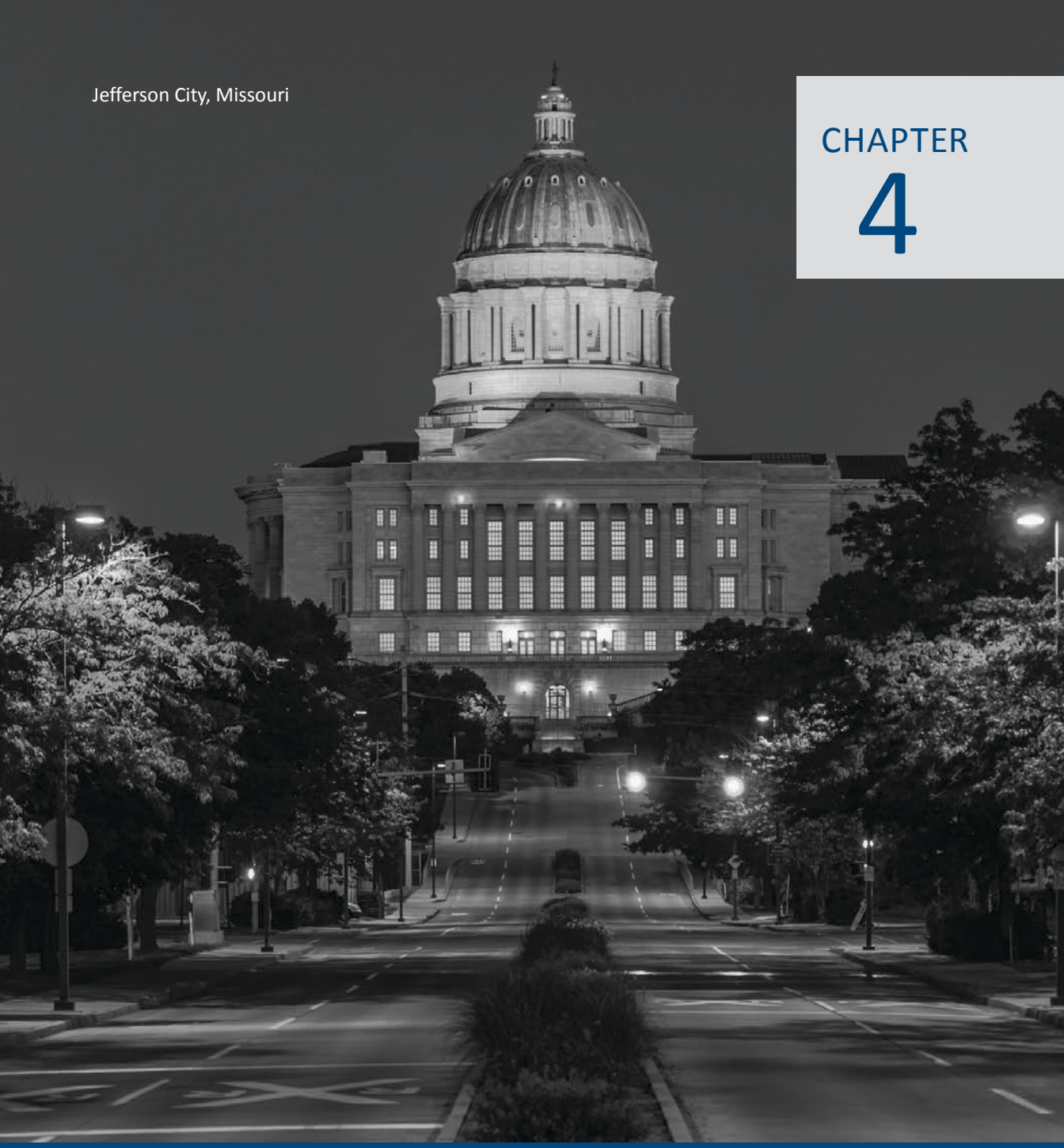


Jefferson City, Missouri

CHAPTER

4

Missouri's Complex Web of Sales Taxes Traps Commerce

Missouri's Complex Web of Sales Taxes Traps Commerce[1]

Perhaps the most shocking revelation about Missouri's economy is the rat's nest of counterproductive sales tax rates, sales tax jurisdictions, and taxing authorities.[2] As of January 2018, Missouri had 665 cities, 114 counties, and 624 districts with a sales tax imposed within their political subdivision. This is a total of 1,403 political sub-divisions that have a tax imposed. Of these, 2,331 sales tax jurisdiction codes are formed within the State of Missouri.[3] The Show-Me State's total of 2,331 sales tax jurisdictions is one of the most in the nation and growing rapidly.[4]

Missouri's sales tax structure is one of the most arcane, grotesque, and complicated tax structures in the United States. Its confusing framework is an open invitation to tax evaders and government corruption. The below paragraphs are quoted directly from a recent white paper written by Joel Walters, the current director of the Missouri Department of Revenue. Updates to his data appear in brackets. We quote Walters' paper directly because it could not have been written any better.

> "*While the sales tax is simple in concept, in practice it is one of the most complex state taxes. More than 200 exemptions or exclusions currently riddle Missouri's sales and use tax base. Most exemption costs are not tracked by the Department of Revenue. However, in Fiscal Year 2016, Missouri saw total state revenue losses of $4.5 million for the textbook sales and use tax exemption and $55.8 million for one of many manufacturing exemptions…"*[5]
>
> …
>
> *"Currently, Missouri does little to limit the nearly 2,300* [2,331 today] *local sales tax jurisdictions that complicate the state's overall sales tax environment…"*[6]
>
> …
>
> *"In October 2012, Missouri had 16 taxing jurisdictions with a combined state and local sales tax rate of more than 10 percent. In June 2017, Missouri had 53* [126 as of January 2018] *taxing jurisdictions with combined state and local sales tax rate of more than 10 percent..."*[7]
>
> …
>
> *"Missouri's average sales tax rate has risen from 7.1 percent to nearly 7.4 percent* [currently 7.6 percent] *over the past five years. Raising further concern, some of Missouri's special sales tax districts have been criticized for corruption, conflicts of interest, and poor accountability to taxpayers."*[8,9,10,11]

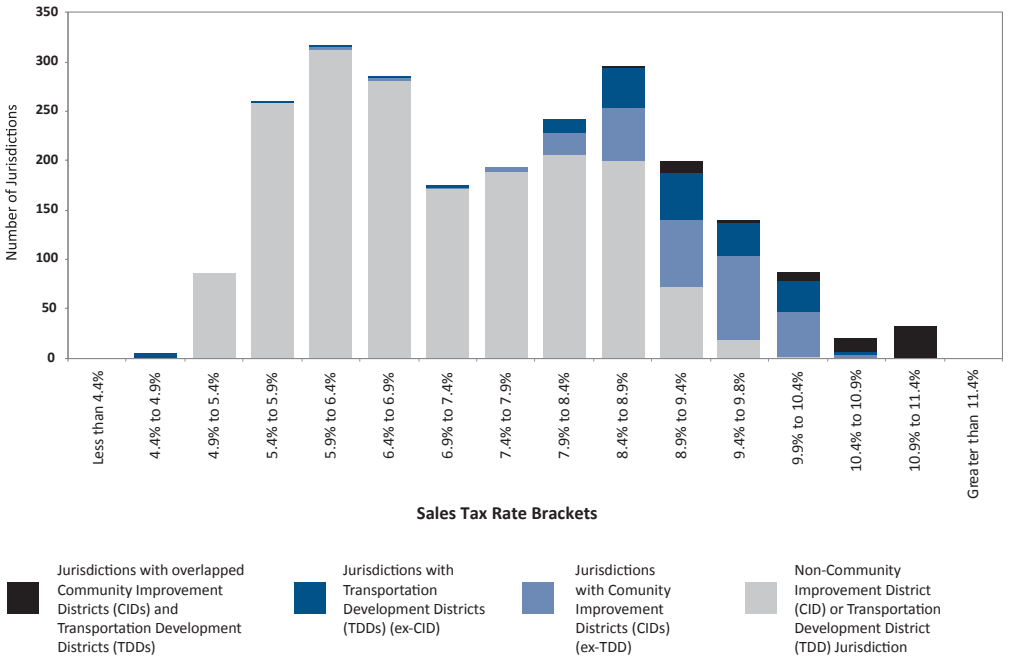
To give an idea of the range and complexity of the sales tax system in Missouri, we have plotted a frequency histogram of the number of jurisdictions corresponding to all of the different sales tax rates as of January 2018. We have specifically broken out "community improvement districts" (CIDs), "transportation development districts" (TDDs), and jurisdictions where the two overlap with other special districts. As explained by the Economic Development Corporation of Kansas City, "CIDs are designed to help improve the community by bettering conditions for existing businesses, and attracting new growth**.** Community safety, beautification, business retention, economic growth, and capital improvements are all domains in which CIDs can help improve business-minded communities."[12] Complicating matters even more are "neighborhood improvement

districts" (NIDs). Overlaps could include CIDs with TDDs; CIDs or TDDs overlapped with each other; and a few instances in which they overlap with "property improvement districts" (PIDs) or "tourism community enhancement districts" (TCEDs). CID and TDD overlapped jurisdictions tend to be where the highest sales tax rates are located.

The quantity of overlapped jurisdictions has also increased significantly in a very short amount of time. For example, there were only 25 districts with both CID and TDD sales tax rate add-ons in 2012, while there are now 58. Incredibly, 38 overlapping districts are exclusively in the City of St. Louis and St. Louis County. Other types of overlapping districts like ambulance and fire districts exist, but CIDs and TDDs are the most prevalent and have the highest tax rates. This story is almost as confusing as it is important. Sales tax complexity in Missouri is a large contributor to Missouri's economic decline relative to the rest of the nation.

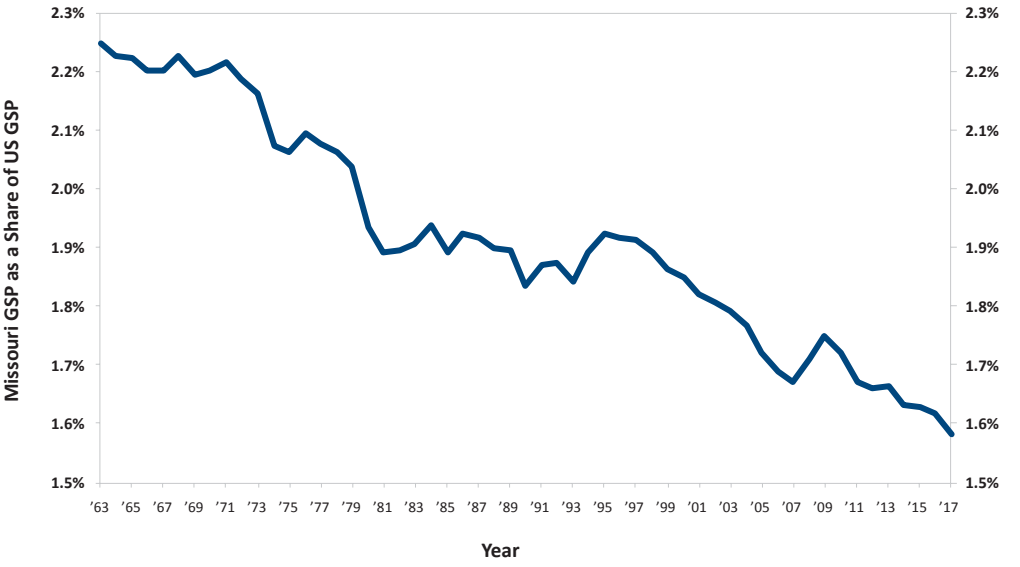
As stated earlier, Missouri has 2,331 separate sales tax jurisdictions. For any specific product, one of 2,331 separate sales tax rates may be levied in Missouri. Additionally, these sales tax rates are often composed of a number of sub-sales tax rates all combined into one rate in each of the 2,331 jurisdictions (see Table 2). In addition to any number of separate taxing authorities in each sales tax jurisdiction, an array of rates for different products in each of these jurisdictions exist. On a very broad level, differential tax rates include a general sales tax rate, a general use tax rate, a food sales tax rate, a food use tax rate, a domestic utility tax rate, and, of course, a manufacturing-exempt sales tax rate. Other rates can apply based on jurisdiction to categories such as school books, religious items, farm equipment, land sales, medicine, services, and business to business transactions. This list of examples is far from comprehensive.

FIGURE 1 | **Number of Jurisdictions in Each Sales Tax Rate Bracket in 2018**[13,14]



Source: Missouri DOR Sales and Use Tax Tables

FIGURE 2 | **Missouri Gross State Product as a Share of the U.S.** (annual, 1963-2017)



Bureau of Economic Analysis

Table 1 lists the number of jurisdictions with a specific number of stacked tax rates. Table 2 lists the main sales tax rate from one jurisdiction in Missouri with the most sales tax rates (jurisdiction 01972-099-004) as of January 2018. This jurisdiction has eight different rates, including the state-level rate.

Previous numbers listed in Table 1 and 2 only relate to combined sales tax rates on a specific transaction in a specific product for a specific transactor. Knowledge of separate taxing agencies possessing authority to levy a sales tax on products is also critical to the economics of this process. Those taxing authorities pyramid the taxes into what becomes "the sales tax rate" listed in column 2 of Table 2. A better example of the "Tragedy of the Commons" doesn't exist.

"Tragedy of the Commons" denotes a practice in old New England where the town would set aside a plot of land—called the Commons—open to anyone who wished to graze their sheep, cattle, or horses *gratis*. Of course, overgrazing of the land ensured that no grass remained, and everyone suffered, the Tragedy of the Commons. Taxing systems such as Missouri's sales tax exemplify

TABLE 1 | **Number of Jurisdictions Listed by Number of Stacked Sales Tax Rates, State of Missouri**

Number of Stacked Sales Tax Rates Within a Jurisdiction	Count of Jurisdictions Within the State of Missouri (as of Jan. 2018)
2	81
3	1093
4	842
5	249
6	59
7	6
8	1
Total	**2331**

Source: Missouri Department of Revenue

TABLE 2 | **Jurisdictions with the Most Sales Tax Rates in Missouri**

Jurisdiction with most stacked sales tax rates (found on page 11 of Missouri Sales Tax Tables)	Jurisdiction Code	Sales Tax Rate 0	Use Tax Rate 0	Food Sales Tax -1001	Food Use Tax -1001	Domestic Utility Rate -3200	MFG Exempt Rate -4001
1. ARNOLD - City Tax - **1.25%**	01972-099-004	10.35%	5.23%	7.35%	2.23%	2.50%	6.13%
2. JEFFERSON COUNTY - County Tax - **1.625%**							
3. ROCK TOWNSHIP AMBULANCE DISTRICT - District Tax - **0.25%**							
4. ROCK COMMUNITY FIRE PROTECTION DISTRICT - District Tax - **0.5%**							
5. JEFFERSON COUNTY EMERGENCY SERVICES DISTRICT - District Tax - **0.5%**							
6. RIDGECREST CID - District Tax - **1%**							
7. RIDGECREST TDD - District Tax - **1%**							
Plus Missouri State Sales Tax of **4.225% = 10.35%**							

Source: City of Arnold Missouri, Missouri Department of Revenue

this tragedy where everyone suffers from the decisions of a few.

A multitude of uncoordinated taxing authorities and taxing jurisdictions hounding millions of transactions on thousands of products are sucking the life's blood out of Missouri's economy.

In addition to this host of smaller taxing authorities, the state component of the sales tax is 4.225 percent and applies equally to all locations, but unequally to different forms of sales. The state's share of sales tax varies depending upon which goods are bought or sold. For instance, groceries are taxed at a lower rate, and many products are exempted from the state's sales tax altogether. Sales tax credits also exist.

These exemptions, exclusions, credits, and lower-taxed sales make an uneven playing field for businesses in Missouri. Such incongruity causes distortions and inefficiencies in the marketplace. According to current estimates, almost 53 percent of all personal consumption expenditures on goods and services are exempt.[15]

Missouri has more than 200 sales tax exemptions.[16] For example, most services in the state are exempt from the sales and use tax. After the passage of a state ballot measure, the Missouri Constitution prohibits the expansion of any state and local sales or use tax to services not taxed as of January 1, 2015.[17] Other interesting—and sometimes obscure—exemptions are featured below with their year of adoption in parentheses. Missouri's sales tax system invites evasion with such complexity.

- All sales of handicraft items made by the seller or seller's spouse if the seller or the seller's spouse is at least 65 years of age and if the total gross proceeds from such sales do not constitute a majority of the annual gross income of the seller. (1979)[18]

- All sales of bingo supplies, equipment, or cards, including pull-tab cards, to any organization

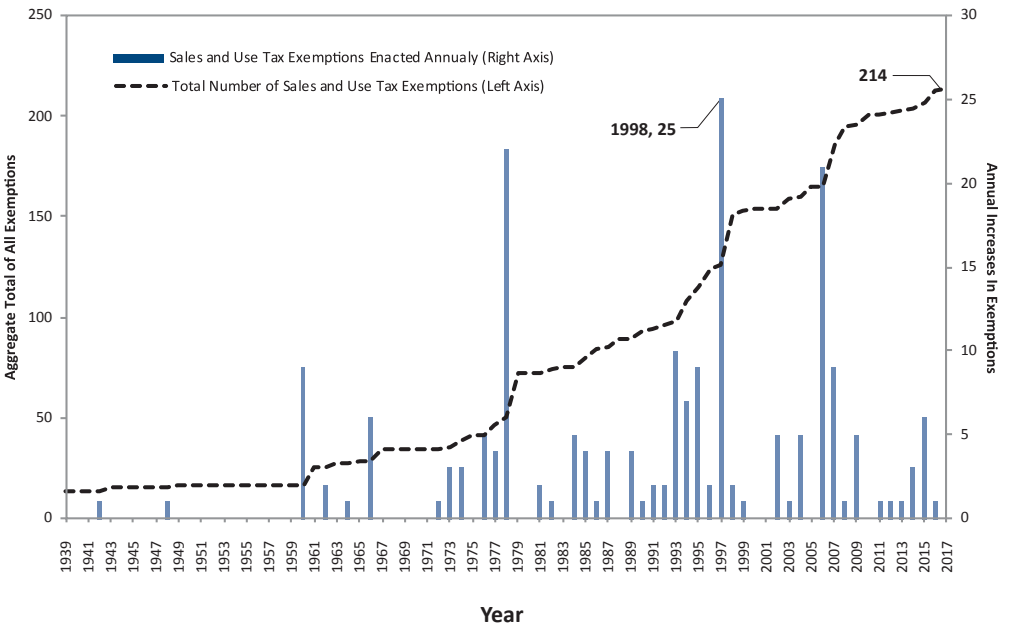
duly licensed to conduct bingo pursuant to sections 313.005 to 313.085. (1986)[19]

- Any amount paid for internet computer services. (1998)[20]
- All sales made by not-for-profit religious, charitable, and educational institutions.[21]
- A host of manufacturing exemptions nearly eliminate sales tax paid by manufacturing firms. Since 1961 Missouri created more than 40 separate manufacturing exemptions or exclusions. Here is the most recent one from 2015:

  "In addition to all other exemptions granted under this chapter, there is hereby specifically exempted from the provisions of sections 144.010 to 144.525 and 144.600 to 144.761, and section 238.235, and the local sales tax law as defined in section 32.085, and from the computation of the tax levied, assessed, or payable under sections 144.010 to 144.525 and 144.600 to 144.761, and section 238.235, and the local sales tax law as defined in section 32.085, all materials, manufactured goods, machinery and parts, electrical energy and gas, whether natural, artificial or propane, water, coal and other energy sources, chemicals, soaps, detergents, cleaning and sanitizing agents, and other ingredients and materials inserted by commercial or industrial laundries to treat, clean, and sanitize textiles in facilities which process at least five hundred pounds of textiles per hour and at least sixty thousand pounds per week."[22]

Taxing business-to-business transactions (non-final sales), otherwise known as a cascading tax system, can have serious deleterious effects on growth because of the way the taxation grows like a pyramid at each stage of production and is hidden from the final consumer. Taxing business to business inputs places a disproportional burden on the early stages of production and incentivizes vertical integration purely for tax reasons—even

FIGURE 3 | **Missouri Legislated Sales Tax Exemptions and Exclusions**
(Annual, 1 exemption = 1 entry on the Missouri DOR listing)



Source: Missouri Department of Revenue

when the most efficient option may be to outsource the early stages of production.

The problem in Missouri is that wholesale sales were not exempt when the sales tax was first adopted, and the state has instead slowly been adopting exemptions for individual industries. This adds yet further complexity to the system, but helpfully moves the system towards a more neutral tax base.

Since 1939, 214 exemptions and exclusions were added to the Department of Revenue's list. Figure 3 shows the growth of exemptions over time.

Exemptions, exclusions, deductions, and credits do more than cause distortions and inefficiencies; they imply lost revenue that induces the state to expand sales tax rates or other taxes on other products. And just so no one misses the point; Higher sales tax rates resulting from this complexity spawn less sales, more tax shifting, more tax evasion, more official corruption, more sales outmigration, less output, less prosperity, and less employment. High sales tax rates are a major concern for Missouri, and the state has little time to act.

The higher the sales tax rate, the more profitable cheating becomes. As government systems and regulations increase in complexity, opportunities for official corruption multiply as well. This dangerous brew produces ever-increasing deleterious consequences. Cheaters attempt more complicated and expensive ways to evade sales taxes, and tax collection efforts become more expansive and expensive.

Sadly, the sales tax structure in Missouri is pushing decent, honest, law-abiding businesses into criminal activity, such as intentionally underreporting sales or misreporting sales so that they fall under an exempt category.

In a different context, Nobel Laureate Gunnar Myrdal said this about Sweden's high taxes and highly progressive income tax system that existed in 1978:

> *"The Swedish honesty has been a matter of pride for me and my generation. I now believe that through a system of bad laws we are becoming hucksters. Of all the inadequacies of our income tax laws, the most serious aspect is that it directly invites us to commit tax evasion and tax fraud."*

People who pay their sales taxes fairly must spend time and effort collecting and remitting taxes to the appropriate authority. These same people are forced to compete against others who avoid or evade taxes or are taxed in a different jurisdiction. With the recent United States Supreme Court decision (*South Dakota v. Wayfair, Inc.*) that overturned *Quill v. North Dakota*'s physical presence requirement on remote retailers, the burden of navigating the complexity in Missouri's sales tax system will now also fall on out-of-state sellers. The recent decision will likely be used as a justification for some local jurisdictions to impose sales tax collection and remittance requirements on remote retailers as well.

Missouri sales tax policy also violates tax equity and fairness. Locations where taxable transactions actually occur do not always correspond with areas that need tax revenue. People living in one jurisdiction may shop in other jurisdictions, and some jurisdictions may have high volume shopping centers and few people, while other jurisdictions have the reverse. Thus, the use of sales tax jurisdictions to serve local communities is a flawed concept to begin with. A sales tax system is not a very efficient mechanism when it is controlled at the local government level.

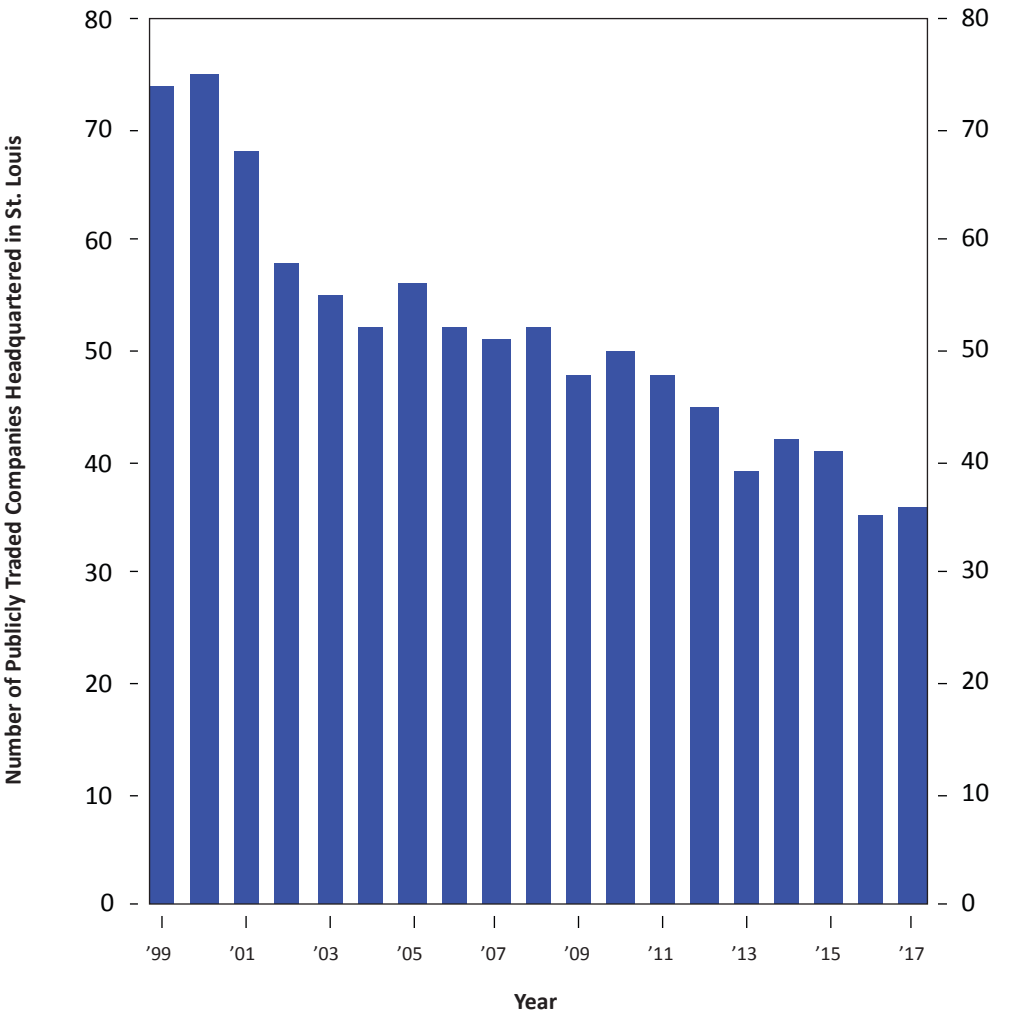
Now let's revisit local sales taxes in Missouri. More than 2,300 separate sales tax jurisdictions permeate Missouri, and many of these local sales tax jurisdictions have separate sales taxes that overlap with each other. Local sales taxes in each jurisdiction also overlap with the state rate.
According to St. Louis Public Radio:

> *"…it's difficult for consumers to know when they are in a special taxing district. Community improvement districts (CID), for instance, are allowed to charge an additional 1 percent sales tax, but are not required to post that information ahead of the sale. In St. Louis, the overall sales*

tax rate at some locations is more than 12 percent...The issue has also grabbed the attention of Missouri's state auditor Nicole Galloway. She has been critical of what she called a lack of transparency regarding special taxing districts. Her office's recent audit of the BaratHaven Community Improvement District (CID) in St. Charles County showed it was layered with a Transportation Development District (TDD). Auditors did not find documentation to make sure CID funding was not used for costs that should have been covered by the TDD."[23]

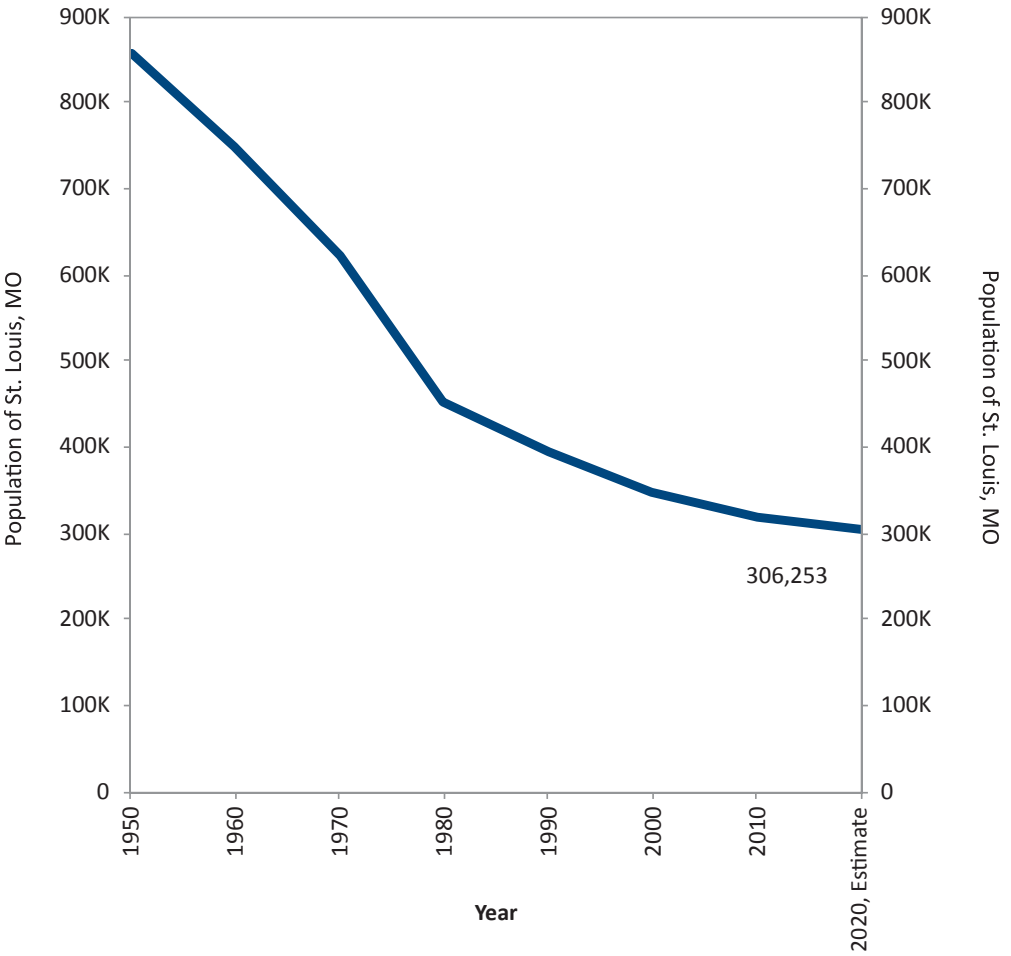
This hodge-podge sales tax structure only aids and abets the corruptive and criminal incentives on the part of buyers, sellers, and government employees. Sometimes evasion is small enough to fall below the threshold of government investigation, yet is well above the threshold of *de minimis* tax evasion.

FIGURE 4 | **Publicly Traded Companies Headquartered in St. Louis** (annual, 1999-2017)



Source: St. Louis Post-Dispatch Archives

FIGURE 5 | **Population of St. Louis Since 1950**



Source: U.S. Census Bureau

Missouri's sales tax regime emboldens small local jurisdictions to raid the pocketbooks of Missouri's commerce for unnecessary spending. The smaller the sales tax jurisdiction, the less visible the acts and the less accountable the perpetrators. Figures 4 and 5 illustrate that businesses and people are leaving Missouri's highest sales tax area, St. Louis County and City, in droves. It should be noted that we cannot credit the high and complex sales taxes as the *only* reason for the exodus from the area. The city of St. Louis is one of two cities in Missouri that implements an additional 1 percent tax on earnings, increasing the top income tax rate from 5.9 percent to 6.9 percent within the city limits. Figure 4 shows the number of public companies based in the metropolitan area of St. Louis from 1999 to present, (courtesy of the *St. Louis Post-Dispatch*); Figure 5 shows the population of the city of St. Louis, proper, from 1950 to present.[24,25]

The sales tax jurisdiction problem in Missouri follows a nationwide growth in the bureaucratic complexity of local governments. In many cases, consolidation of taxing jurisdictions would substantially improve government efficiency and decrease incentives for corruption. As of the 2012 Census of Governments, 90,056 units of local government populate the 50 states. More than one-quarter (28 percent) of these are in Missouri and its eight

neighboring states—an area that encompasses only about 14 percent of the U.S. population.

Illinois is the single largest contributor to this number, with 6,963 units of local government. Every local government needs money to operate its government services, and the taxes required from citizens can add up quickly. This local government glut is the primary reason that Illinois's property tax burden is so much higher than the national average. Property tax revenues as a share of Illinois personal income rank 8th highest out of 50 states.

While not always politically feasible, wrangling and sometimes consolidating local government taxing jurisdictions will be an important battle in the years to come—especially as more municipalities experience fiscal crises. Local governments can experience death spirals to a greater degree than states. People vote with their feet and move out of jurisdictions and into others in pursuit of a higher standard of living. Just last year, the capital city of Hartford, Connecticut, was days away from declaring bankruptcy. The city pushed property tax rates so high that many moved to West Hartford in search of lower property taxes.

After masses of people vote with their feet to leave a jurisdiction, failing local governments do not disappear. In fact, they fight tooth and nail to stay afloat, often to the detriment of residents who lack the economic means to leave. In St. Louis County, some municipalities are so abandoned that they rely on court fees and fines, such as speeding tickets, for more than 30 percent of their revenue.[26] Overlapping jurisdictions with their own sales tax authority is an unsustainable structure for local government.

ENDNOTES

1 We would like to thank Rex and Jeanne Sinquefield for their valuable additions to this chapter.

2 A jurisdiction is where a transactor faces one net sales tax for a specific item.

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7 *Ibid.*

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14 There are other special jurisdictions then TDDs and CIDs like ambulance districts or fire protection districts.

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19 *Ibid.*

20 *Ibid.*

21 *Ibid.*

22 *Ibid.*

23 Pratt, Wayne. "Legislation to map Missouri's special taxing districts moves through Capitol." St. Louis Public Radio. February 5, 2018. http://news.stlpublicradio.org/post/legislation-map-missouris-special-taxing-districts-moves-through-capitol#stream/0

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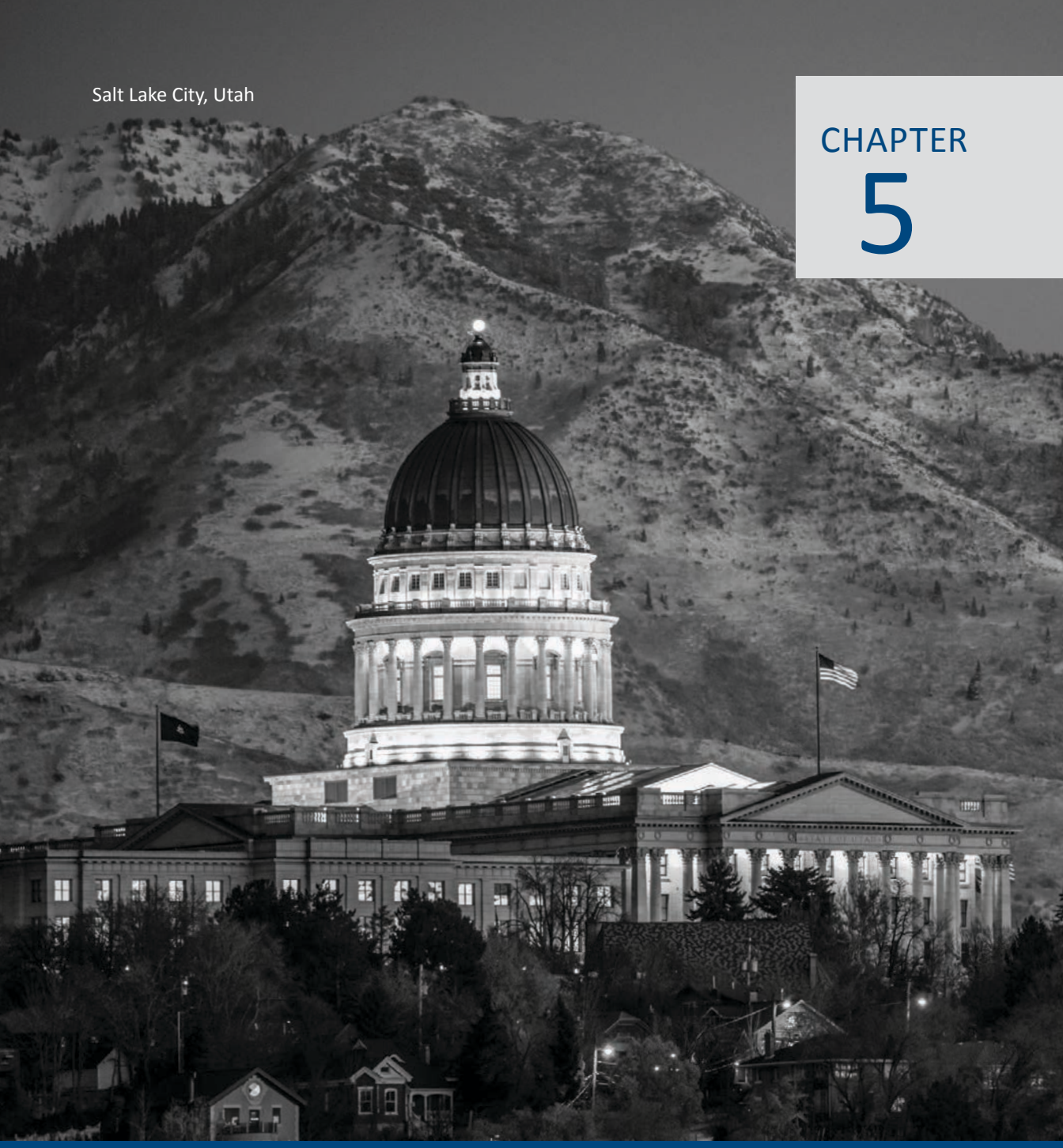


Salt Lake City, Utah

CHAPTER

5

State Rankings

State Rankings

The Economic Outlook Ranking is a forecast based on a state's current standing in 15 state policy variables. Each of these factors is influenced directly by state lawmakers through the legislative process. Generally speaking, states that spend less—especially on income transfer programs—and states that tax less—particularly on productive activities such as working or investing—experience higher growth rates than states that tax and spend more.

The Economic Performance Ranking is a backward-looking measure based on a state's performance on three important variables: State Gross Domestic Product, Absolute Domestic Migration and Non-Farm Payroll Employment—all of which are highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on this economic data.

ALEC-Laffer State Economic Outlook Rankings, 2018

Based upon equal-weighting of each state's rank in 15 policy variables

Rank	State
1	Utah
2	Idaho
3	Indiana
4	North Dakota
5	Arizona
6	Florida
7	North Carolina
8	Wyoming
9	South Dakota
10	Virginia
11	Georgia
12	Tennessee
13	Nevada
14	Texas
15	Colorado
16	Oklahoma
17	New Hampshire
18	Michigan
19	Wisconsin
20	Alabama
21	Ohio
22	Arkansas
23	Missouri
24	Mississippi
25	Massachusetts

Rank	State
26	Kansas
27	Louisiana
28	Nebraska
29	Iowa
30	West Virginia
31	Kentucky
32	Maryland
33	South Carolina
34	Alaska
35	New Mexico
36	Delaware
37	Washington
38	Pennsylvania
39	Rhode Island
40	Connecticut
41	Oregon
42	Maine
43	Montana
44	Minnesota
45	Hawaii
46	New Jersey
47	California
48	Illinois
49	Vermont
50	New York

ALEC-Laffer State Economic Performance Rankings, 2006-2016

Rank	State	State Gross Domestic Product	Absolute Domestic Migration	Non-Farm Payroll
1	Texas	6	1	2
2	Washington	3	7	5
3	North Dakota	1	16	1
4	Utah	5	13	3
5	Colorado	13	5	4
6	Oregon	10	10	12
7	South Carolina	14	6	15
8	South Dakota	4	22	9
9	Montana	8	18	11
10	Tennessee	15	9	14
11	North Carolina	21	3	17
12	Idaho	22	14	6
13	Nebraska	2	29	13
14	Georgia	26	8	16
15	Massachusetts	9	41	8
16	Oklahoma	25	12	22
17	Florida	39	2	19
18	Iowa	7	30	29
19	New York	12	50	7
20	California	11	49	10
21	Hawaii	18	33	21
22	Minnesota	19	37	18
23	Virginia	28	27	20
24	Kentucky	29	23	26
25	Arizona	42	4	34
26	Maryland	16	42	23
27	New Hampshire	30	26	27
28	Delaware	36	19	31
29	Arkansas	34	20	32
30	Indiana	20	39	28
31	Louisiana	48	15	25
32	Kansas	23	38	30
33	Nevada	49	11	35
34	Missouri	31	34	33
35	Pennsylvania	17	44	37
36	Alabama	38	17	44
37	Wisconsin	24	40	36
38	Vermont	35	28	39
39	Alaska	50	31	24
40	West Virginia	33	24	49
41	Maine	43	25	43
42	Ohio	27	45	40
43	Wyoming	47	21	50
44	Mississippi	37	36	46
45	New Mexico	44	32	45
46	Illinois	32	48	41
47	Michigan	40	47	38
48	Rhode Island	45	35	48
49	New Jersey	41	46	42
50	Connecticut	46	43	47

Alabama

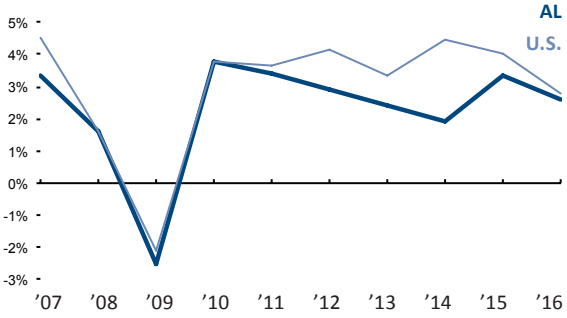
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

36 Economic Performance Rank

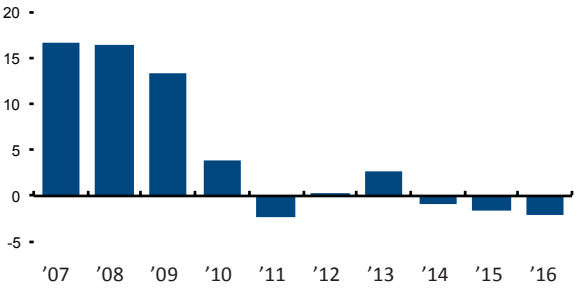
20 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

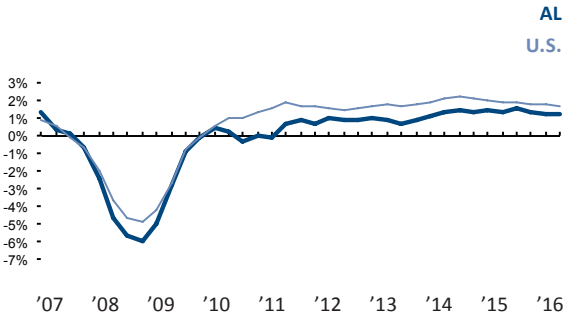
State Gross Domestic Product
Cumulative Growth 2006-2016 25.0% Rank: 38



Absolute Domestic Migration
Cumulative 2007-2016 46,183 Rank: 17
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 -0.1% Rank: 44



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**20**	**21**	**17**	**20**	**19**	**21**	**21**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.15%	12
Top Marginal Corporate Income Tax Rate	5.14%	13
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	-$1.57	1
Property Tax Burden (per $1,000 of personal income)	$14.37	1
Sales Tax Burden (per $1,000 of personal income)	$24.98	32
Remaining Tax Burden (per $1,000 of personal income)	$22.02	40
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.18	13
Debt Service as a Share of Tax Revenue	8.0%	33
Public Employees Per 10,000 of Population (full-time equivalent)	577.1	40
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.1	43
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.85	26
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Alaska

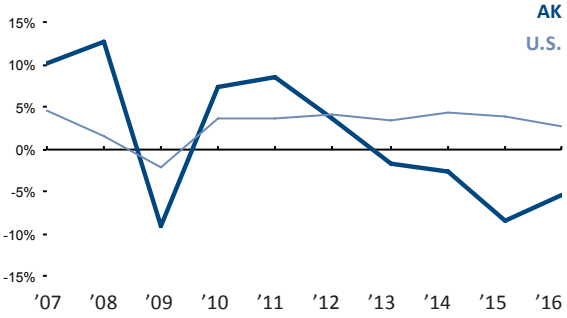
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

39 Economic Performance Rank

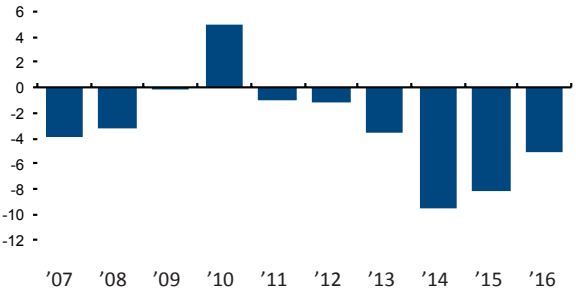
34 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

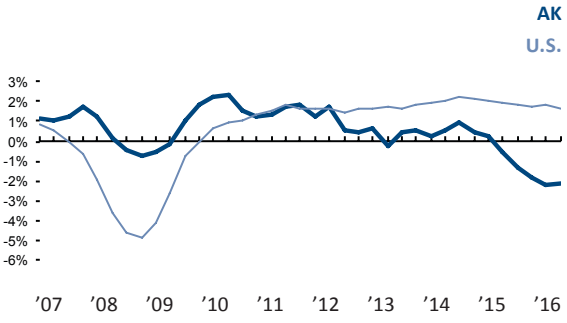
State Gross Domestic Product
Cumulative Growth 2006-2016 12.8% Rank: 50



Absolute Domestic Migration
Cumulative 2007-2016 -31,094 Rank: 31
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.7% Rank: 24



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	29	29	21	18	14	25	30

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	9.40%	43
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$35.91	37
Sales Tax Burden (per $1,000 of personal income)	$5.62	5
Remaining Tax Burden (per $1,000 of personal income)	$13.19	7
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$2.30	43
Debt Service as a Share of Tax Revenue	15.3%	50
Public Employees Per 10,000 of Population (full-time equivalent)	710.4	49
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	73.8	6
State Minimum Wage (federal floor is $7.25)	$9.84	38
Average Workers' Compensation Costs (per $100 of payroll)	$2.74	46
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Arizona

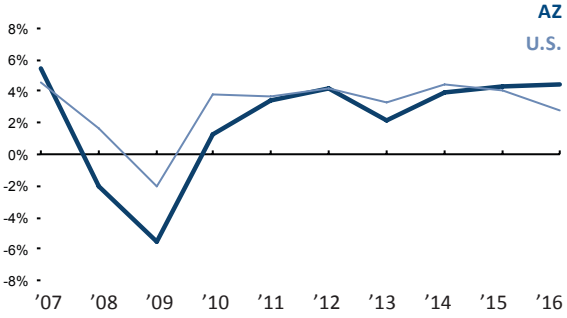
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

25 Economic Performance Rank

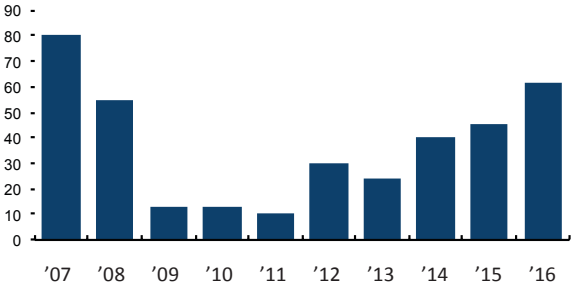
5 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

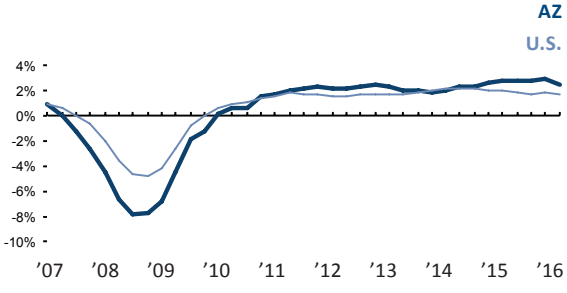
State Gross Domestic Product
Cumulative Growth 2006-2016 23.1% Rank: 42



Absolute Domestic Migration
Cumulative 2007-2016 372,318 Rank: 4
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 2.7% Rank: 34



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	12	9	6	7	5	5	8

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.54%	13
Top Marginal Corporate Income Tax Rate	4.90%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.68	28
Property Tax Burden (per $1,000 of personal income)	$26.88	18
Sales Tax Burden (per $1,000 of personal income)	$35.25	44
Remaining Tax Burden (per $1,000 of personal income)	$11.12	1
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.11	15
Debt Service as a Share of Tax Revenue	7.6%	31
Public Employees Per 10,000 of Population (full-time equivalent)	406.2	2
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.8	25
State Minimum Wage (federal floor is $7.25)	$10.50	46
Average Workers' Compensation Costs (per $100 of payroll)	$1.50	13
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Arkansas

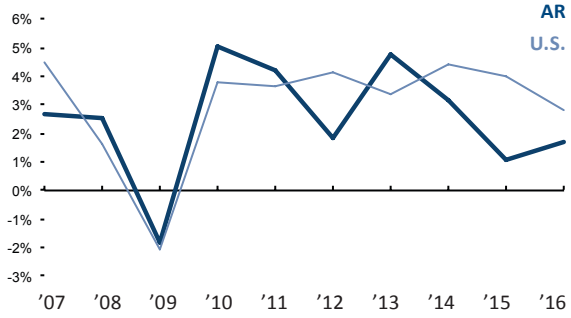
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

29 Economic Performance Rank

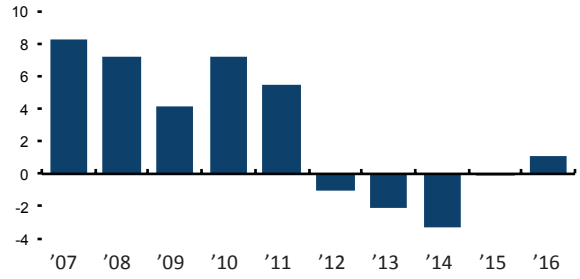
22 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

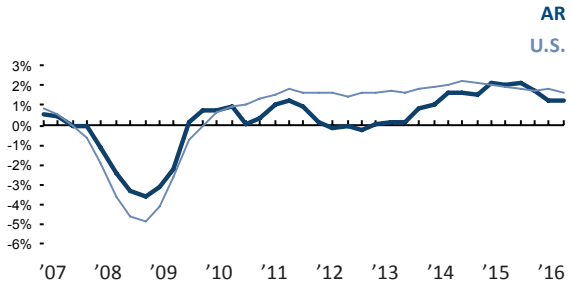
State Gross Domestic Product
Cumulative Growth 2006-2016 28.0% Rank: 34



Absolute Domestic Migration
Cumulative 2007-2016 26,842 Rank: 20
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 3.0% Rank: 32



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**13**	**11**	**24**	**26**	**22**	**20**	**23**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.90%	32
Top Marginal Corporate Income Tax Rate	6.50%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$16.69	43
Property Tax Burden (per $1,000 of personal income)	$18.13	3
Sales Tax Burden (per $1,000 of personal income)	$37.17	46
Remaining Tax Burden (per $1,000 of personal income)	$16.79	25
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.26	11
Debt Service as a Share of Tax Revenue	4.5%	8
Public Employees Per 10,000 of Population (full-time equivalent)	569.5	38
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.2	36
State Minimum Wage (federal floor is $7.25)	$8.50	30
Average Workers' Compensation Costs (per $100 of payroll)	$1.06	3
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

California

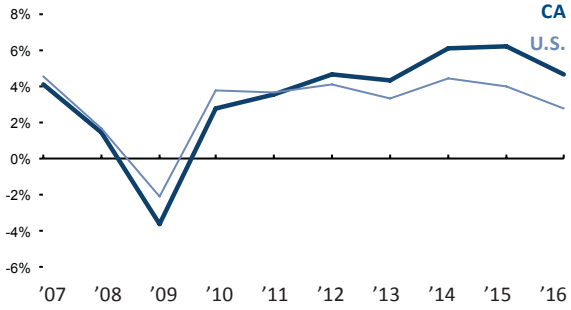
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

20 Economic Performance Rank

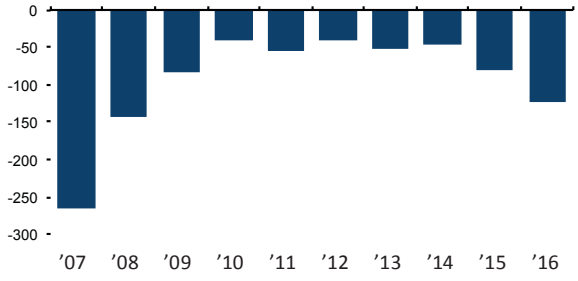
47 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

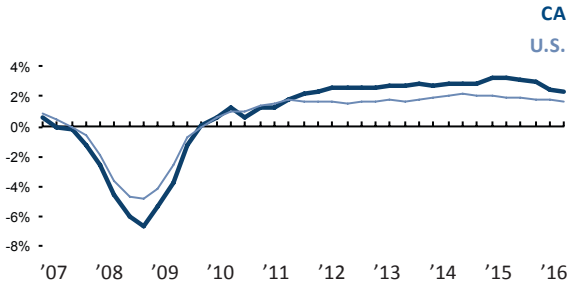
State Gross Domestic Product
Cumulative Growth 2006-2016 39.5% Rank: 11



Absolute Domestic Migration
Cumulative 2007-2016 -928,627 Rank: 49
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 8.1% Rank: 10



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	47	38	47	47	44	46	47

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	13.30%	50
Top Marginal Corporate Income Tax Rate	8.84%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$38.88	50
Property Tax Burden (per $1,000 of personal income)	$27.50	21
Sales Tax Burden (per $1,000 of personal income)	$24.19	30
Remaining Tax Burden (per $1,000 of personal income)	$16.91	26
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$1.57	40
Debt Service as a Share of Tax Revenue	8.4%	38
Public Employees Per 10,000 of Population (full-time equivalent)	462.4	7
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.0	47
State Minimum Wage (federal floor is $7.25)	$11.00	48
Average Workers' Compensation Costs (per $100 of payroll)	$3.24	50
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Colorado

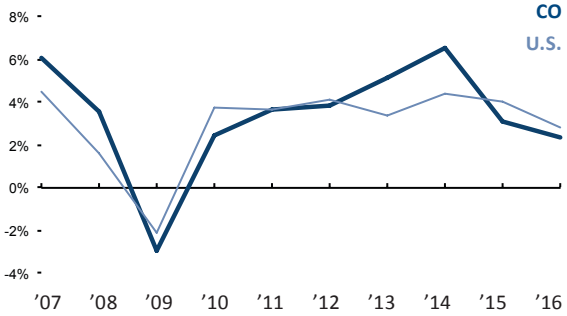
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

5 Economic Performance Rank

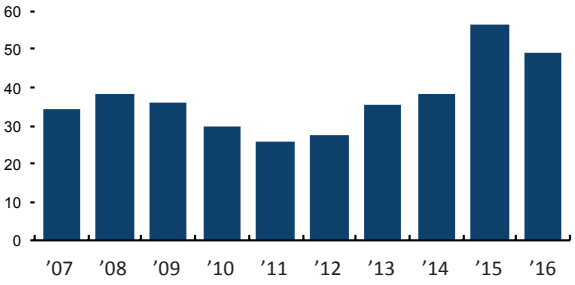
15 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

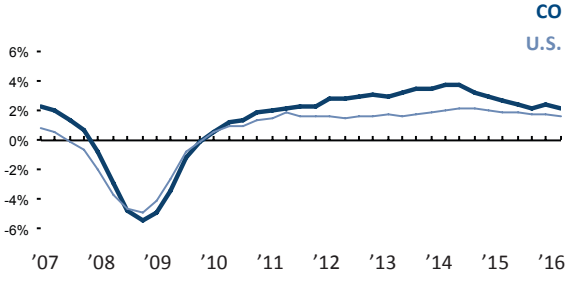
State Gross Domestic Product
Cumulative Growth 2006-2016 39.1% Rank: 13



Absolute Domestic Migration
Cumulative 2007-2016 371,511 Rank: 5
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 14.1% Rank: 4



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	6	8	16	22	21	16	15

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.63%	14
Top Marginal Corporate Income Tax Rate	4.63%	8
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.41	21
Property Tax Burden (per $1,000 of personal income)	$27.29	20
Sales Tax Burden (per $1,000 of personal income)	$23.85	28
Remaining Tax Burden (per $1,000 of personal income)	$12.91	5
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$1.45	4
Debt Service as a Share of Tax Revenue	10.4%	47
Public Employees Per 10,000 of Population (full-time equivalent)	529.8	26
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.6	35
State Minimum Wage (federal floor is $7.25)	$10.20	43
Average Workers' Compensation Costs (per $100 of payroll)	$1.56	16
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	3	1

Connecticut

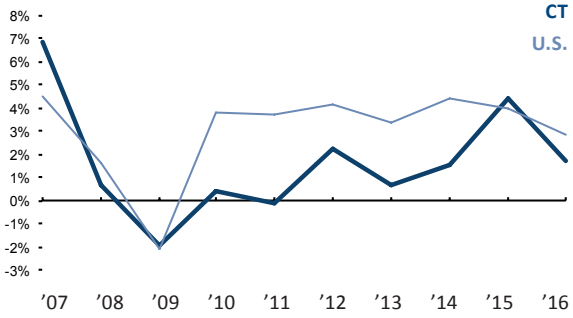
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

50 Economic Performance Rank

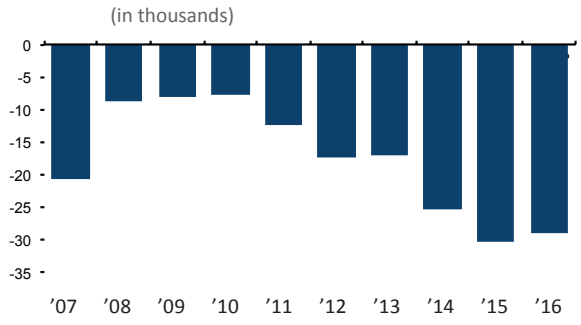
40 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

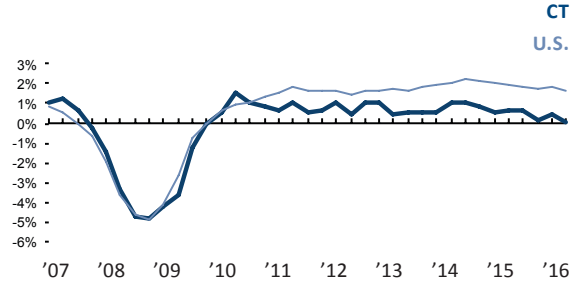
State Gross Domestic Product
Cumulative Growth 2006-2016 17.4% Rank: 46



Absolute Domestic Migration
Cumulative 2007-2016 -176,019 Rank: 43



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 -0.5% Rank: 47



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison 2011 2012 2013 2014 2015 2016 2017
ECONOMIC OUTLOOK RANK 35 44 43 44 47 47 46

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.99%	36
Top Marginal Corporate Income Tax Rate	8.25%	37
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.67	23
Property Tax Burden (per $1,000 of personal income)	$42.16	44
Sales Tax Burden (per $1,000 of personal income)	$16.84	10
Remaining Tax Burden (per $1,000 of personal income)	$14.15	11
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.06	25
Debt Service as a Share of Tax Revenue	6.9%	27
Public Employees Per 10,000 of Population (full-time equivalent)	540.1	32
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	$10.10	16
State Minimum Wage (federal floor is $7.25)	$10.1	40
Average Workers' Compensation Costs (per $100 of payroll)	$2.74	46
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Delaware

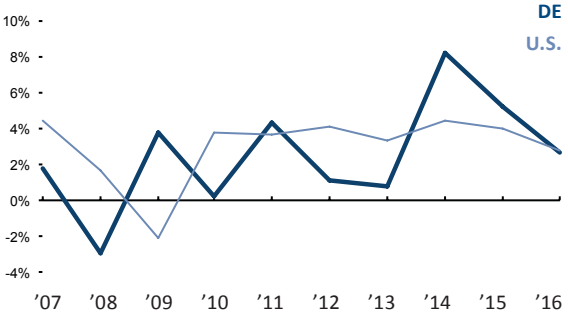
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

28 Economic Performance Rank

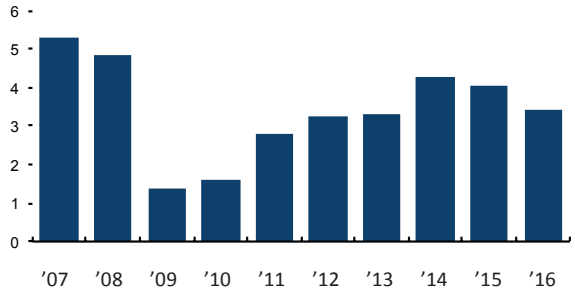
36 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

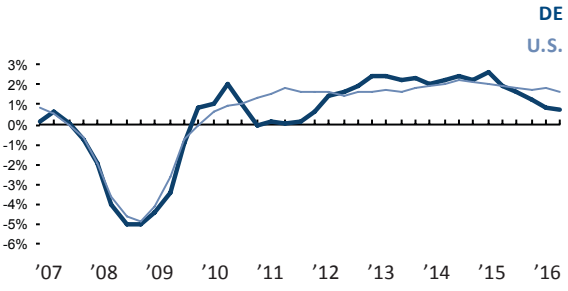
State Gross Domestic Product
Cumulative Growth 2006-2016 27.6% Rank: 36



Absolute Domestic Migration
Cumulative 2007-2016 34,185 Rank: 19
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 3.4% Rank: 31



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**34**	**34**	**30**	**27**	**38**	**44**	**37**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.85%	41
Top Marginal Corporate Income Tax Rate	11.75%	48
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.10	39
Property Tax Burden (per $1,000 of personal income)	$18.66	4
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$48.17	50
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$3.65	48
Debt Service as a Share of Tax Revenue	6.1%	17
Public Employees Per 10,000 of Population (full-time equivalent)	517.6	21
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	72.8	11
State Minimum Wage (federal floor is $7.25)	$8.25	24
Average Workers' Compensation Costs (per $100 of payroll)	$2.32	45
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Florida

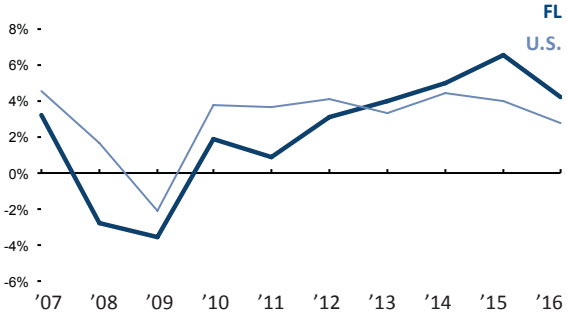
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

17 Economic Performance Rank

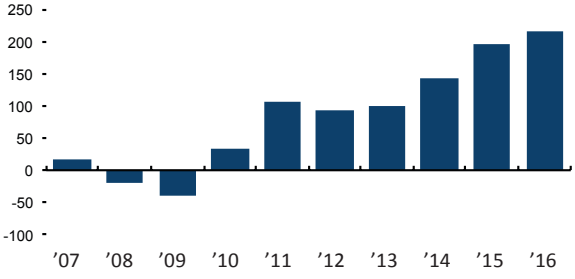
6 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

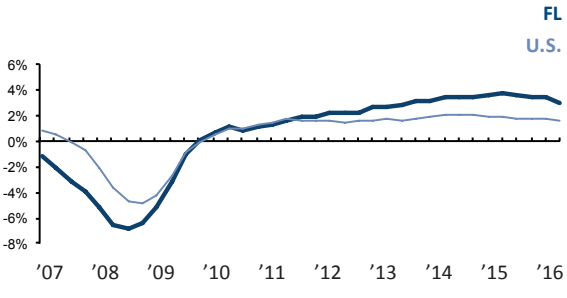
State Gross Domestic Product
Cumulative Growth 2006-2016 24.1% Rank: 39



Absolute Domestic Migration
Cumulative 2007-2016 845,239 Rank: 2
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 5.6% Rank: 19



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**10**	**13**	**9**	**16**	**15**	**8**	**6**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	5.50%	14
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$28.05	22
Sales Tax Burden (per $1,000 of personal income)	$26.83	35
Remaining Tax Burden (per $1,000 of personal income)	$21.06	36
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.14	14
Debt Service as a Share of Tax Revenue	8.0%	34
Public Employees Per 10,000 of Population (full-time equivalent)	429.7	3
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.5	46
State Minimum Wage (federal floor is $7.25)	$8.25	24
Average Workers' Compensation Costs (per $100 of payroll)	$1.66	18
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Georgia

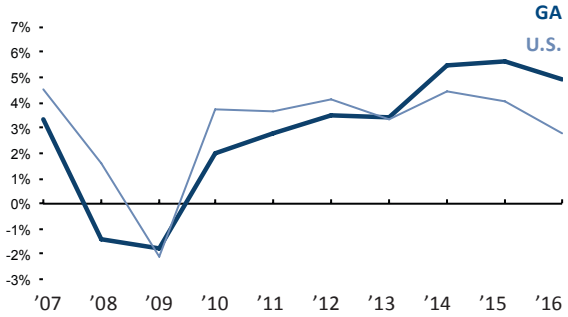
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

14 Economic Performance Rank

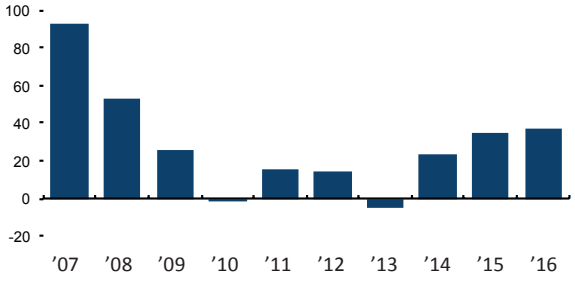
11 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

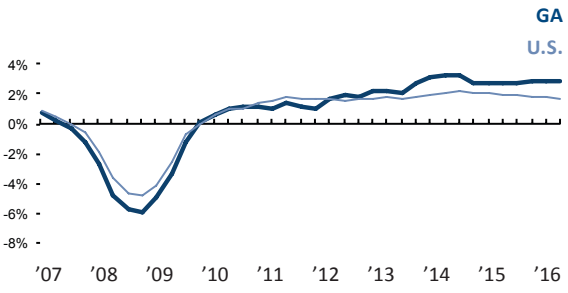
State Gross Domestic Product
Cumulative Growth 2006-2016 31.4% Rank: 26



Absolute Domestic Migration
Cumulative 2007-2016 291,022 Rank: 8
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 7.0% Rank: 16



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	11	10	8	9	7	19	17

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.75%	25
Top Marginal Corporate Income Tax Rate	6.38%	19
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.90	24
Property Tax Burden (per $1,000 of personal income)	$28.21	24
Sales Tax Burden (per $1,000 of personal income)	$22.56	21
Remaining Tax Burden (per $1,000 of personal income)	$11.16	2
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$1.47	3
Debt Service as a Share of Tax Revenue	6.8%	24
Public Employees Per 10,000 of Population (full-time equivalent)	498	17
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.4	39
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.80	24
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Hawaii

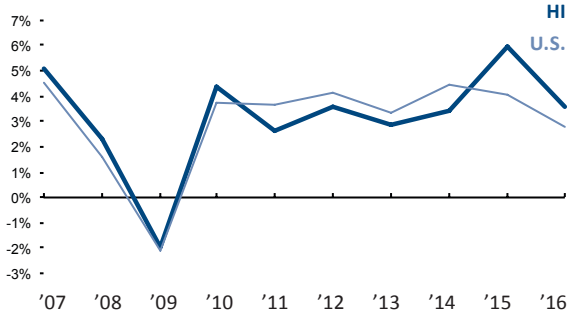
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

21 Economic Performance Rank

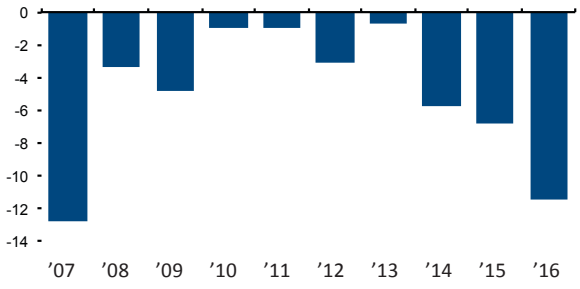
45 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

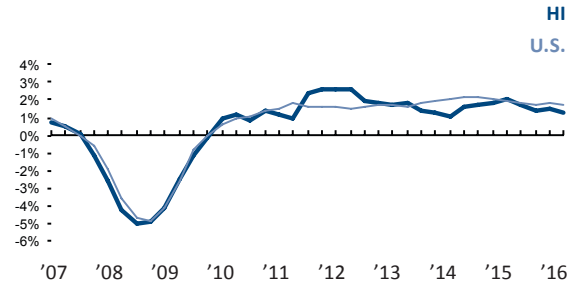
State Gross Domestic Product
Cumulative Growth 2006-2016 36.4% Rank: 18



Absolute Domestic Migration
Cumulative 2007-2016 -50,500 Rank: 33
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.8% Rank: 21



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**46**	**46**	**40**	**36**	**37**	**42**	**43**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	11.00%	48
Top Marginal Corporate Income Tax Rate	6.40%	20
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.54	36
Property Tax Burden (per $1,000 of personal income)	$22.54	10
Sales Tax Burden (per $1,000 of personal income)	$47.35	50
Remaining Tax Burden (per $1,000 of personal income)	$27.99	48
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.27	10
Debt Service as a Share of Tax Revenue	6.2%	19
Public Employees Per 10,000 of Population (full-time equivalent)	529.9	27
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.0	23
State Minimum Wage (federal floor is $7.25)	$10.10	40
Average Workers' Compensation Costs (per $100 of payroll)	$1.96	34
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Idaho

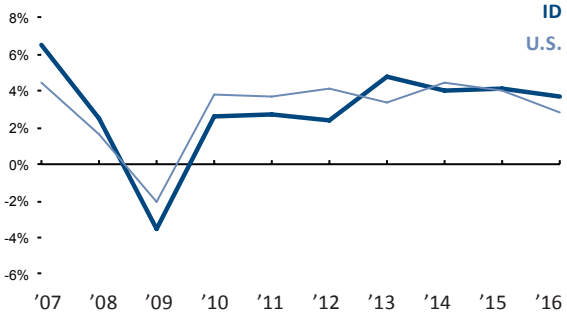
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

12 Economic Performance Rank

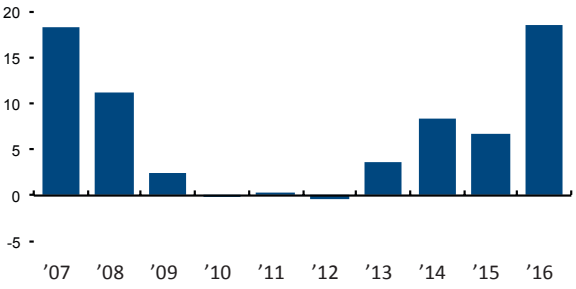
2 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

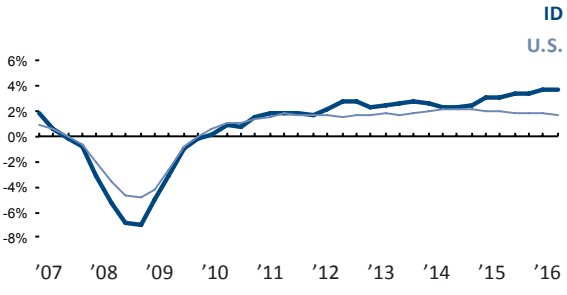
State Gross Domestic Product
Cumulative Growth 2006-2016 33.7% Rank: 22



Absolute Domestic Migration
Cumulative 2007-2016 68,774 Rank: 14
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 9.4% Rank: 6



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**5**	**6**	**7**	**5**	**6**	**15**	**10**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.93%	34
Top Marginal Corporate Income Tax Rate	6.93%	27
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.38	35
Property Tax Burden (per $1,000 of personal income)	$25.46	16
Sales Tax Burden (per $1,000 of personal income)	$23.38	27
Remaining Tax Burden (per $1,000 of personal income)	$14.67	13
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.34	8
Debt Service as a Share of Tax Revenue	4.3%	5
Public Employees Per 10,000 of Population (full-time equivalent)	488.0	12
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	75.0	3
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.79	23
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Illinois

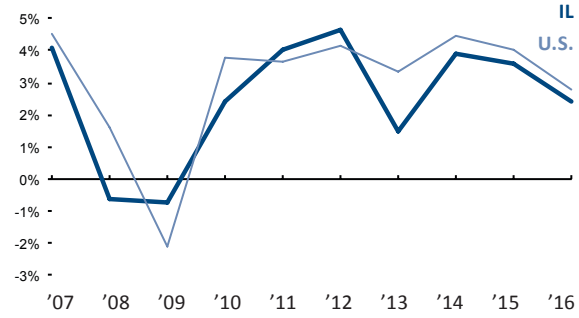
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

46 Economic Performance Rank

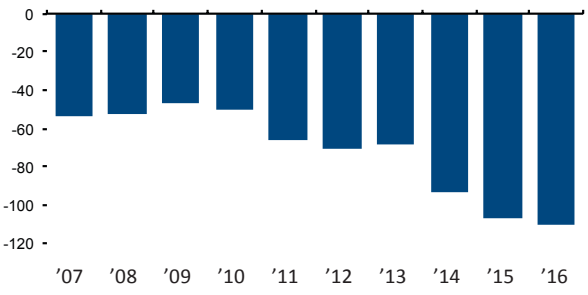
48 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

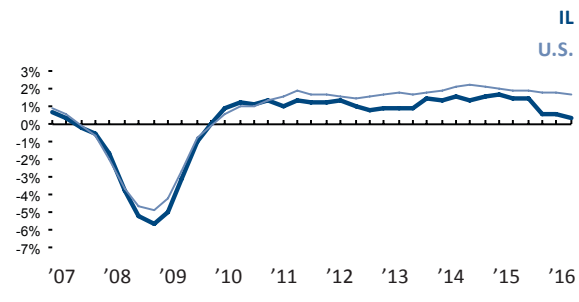
State Gross Domestic Product
Cumulative Growth 2006-2016 28.1% Rank: 32



Absolute Domestic Migration
Cumulative 2007-2016 -717,445 Rank: 48
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 1.3% Rank: 41



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**44**	**48**	**48**	**48**	**40**	**43**	**44**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.95%	16
Top Marginal Corporate Income Tax Rate	9.50%	44
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$1.32	14
Property Tax Burden (per $1,000 of personal income)	$41.88	43
Sales Tax Burden (per $1,000 of personal income)	$20.37	17
Remaining Tax Burden (per $1,000 of personal income)	$21.79	38
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$7.73	50
Debt Service as a Share of Tax Revenue	9.5%	44
Public Employees Per 10,000 of Population (full-time equivalent)	492.6	13
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.1	48
State Minimum Wage (federal floor is $7.25)	$8.25	24
Average Workers' Compensation Costs (per $100 of payroll)	$2.23	43
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Indiana

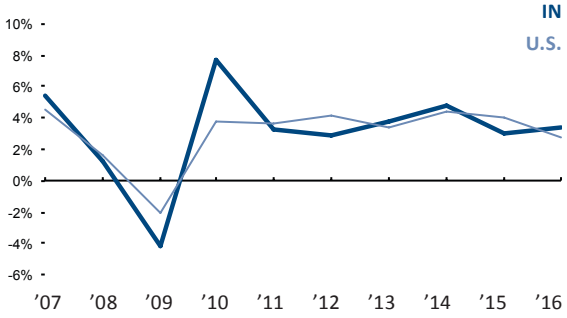
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

30 Economic Performance Rank

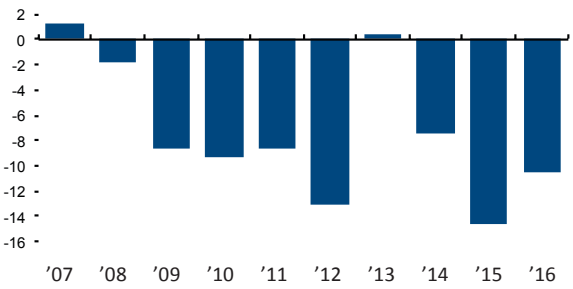
3 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

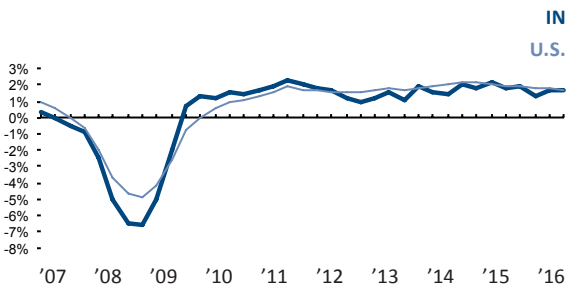
State Gross Domestic Product
Cumulative Growth 2006-2016 35.4% Rank: 20



Absolute Domestic Migration
Cumulative 2007-2016 -72,405 Rank: 39
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.1% Rank: 28



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**16**	**24**	**14**	**3**	**3**	**6**	**2**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.25%	21
Top Marginal Corporate Income Tax Rate	6.00%	16
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.70	13
Property Tax Burden (per $1,000 of personal income)	$23.72	13
Sales Tax Burden (per $1,000 of personal income)	$26.75	34
Remaining Tax Burden (per $1,000 of personal income)	$15.80	16
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.24	28
Debt Service as a Share of Tax Revenue	9.0%	41
Public Employees Per 10,000 of Population (full-time equivalent)	484.5	11
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	71.9	15
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.05	2
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Iowa

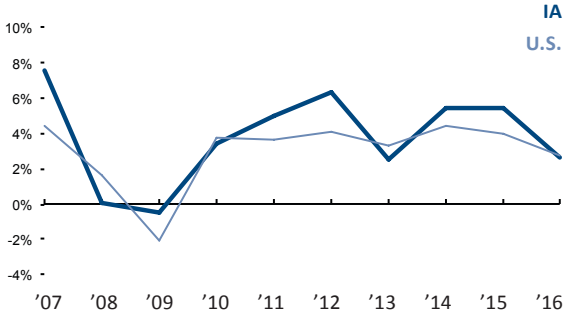
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

18 Economic Performance Rank

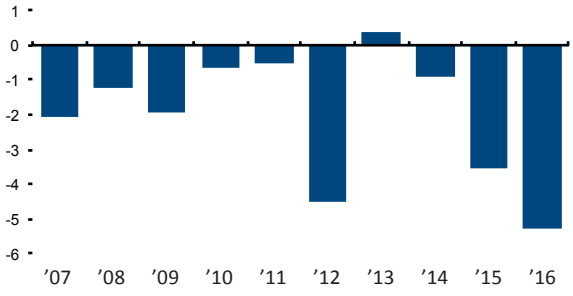
29 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

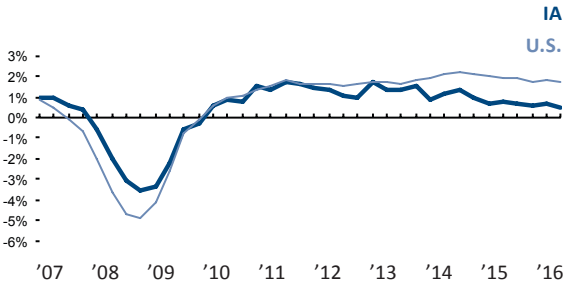
State Gross Domestic Product
Cumulative Growth 2006-2016 44.7% Rank: 7



Absolute Domestic Migration
Cumulative 2007-2016 -20,285 Rank: 30
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.1% Rank: 29



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**23**	**22**	**25**	**25**	**25**	**29**	**29**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.66%	23
Top Marginal Corporate Income Tax Rate	11.64%	47
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.94	34
Property Tax Burden (per $1,000 of personal income)	$34.94	35
Sales Tax Burden (per $1,000 of personal income)	$23.93	29
Remaining Tax Burden (per $1,000 of personal income)	$18.24	28
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.04	24
Debt Service as a Share of Tax Revenue	4.4%	6
Public Employees Per 10,000 of Population (full-time equivalent)	588.0	41
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	72.6	13
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.86	27
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Kansas

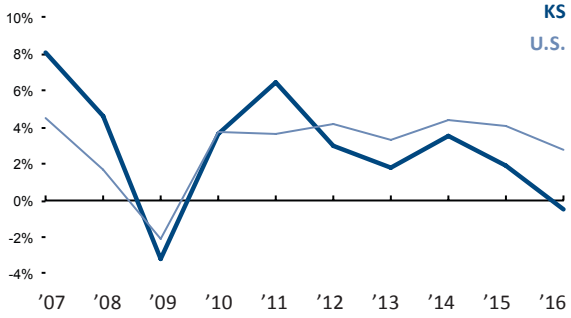
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

32 Economic Performance Rank

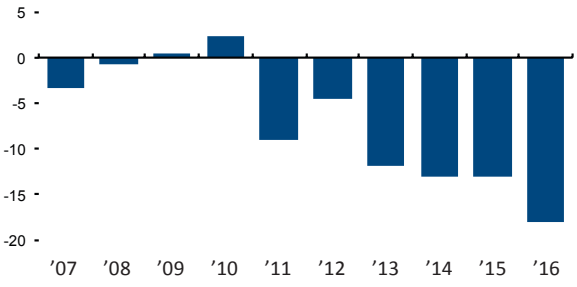
26 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

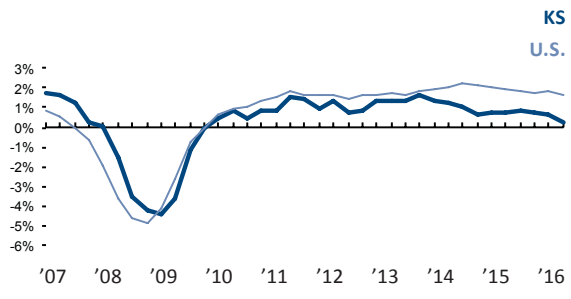
State Gross Domestic Product
Cumulative Growth 2006-2016 32.8% Rank: 23



Absolute Domestic Migration
Cumulative 2007-2016 -70,382 Rank: 38
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 3.4% Rank: 30



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**27**	**26**	**11**	**15**	**18**	**27**	**26**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.70%	24
Top Marginal Corporate Income Tax Rate	7.00%	28
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.09	27
Property Tax Burden (per $1,000 of personal income)	$30.76	32
Sales Tax Burden (per $1,000 of personal income)	$29.49	38
Remaining Tax Burden (per $1,000 of personal income)	$12.35	3
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$3.52	47
Debt Service as a Share of Tax Revenue	6.5%	22
Public Employees Per 10,000 of Population (full-time equivalent)	681.9	48
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	71.5	18
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.41	10
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Kentucky

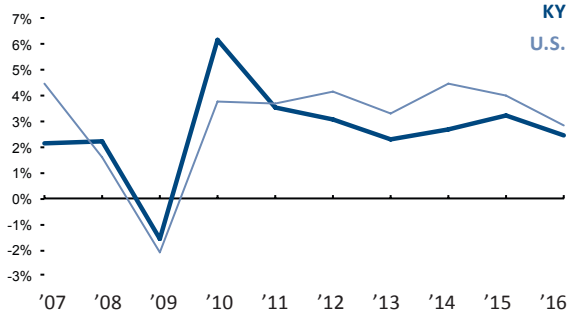
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

24 Economic Performance Rank

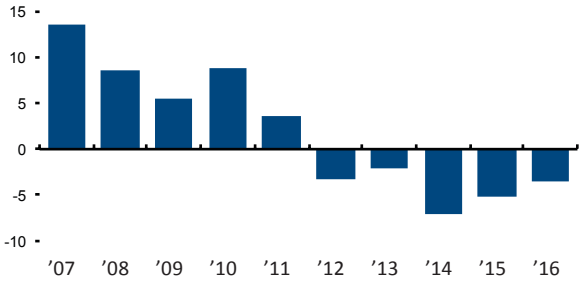
31 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

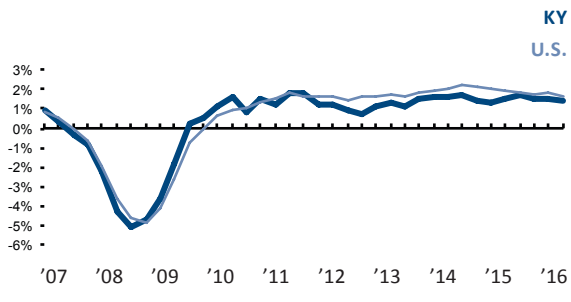
State Gross Domestic Product
Cumulative Growth 2006-2016 29.3% Rank: 29



Absolute Domestic Migration
Cumulative 2007-2016 18,402 Rank: 23
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.7% Rank: 26



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	40	39	38	39	30	33	33

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.20%	42
Top Marginal Corporate Income Tax Rate	8.20%	35
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.51	17
Property Tax Burden (per $1,000 of personal income)	$20.72	7
Sales Tax Burden (per $1,000 of personal income)	$19.58	15
Remaining Tax Burden (per $1,000 of personal income)	$21.01	35
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.01	20
Debt Service as a Share of Tax Revenue	10.7%	48
Public Employees Per 10,000 of Population (full-time equivalent)	551.9	36
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.7	42
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.52	15
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Louisiana

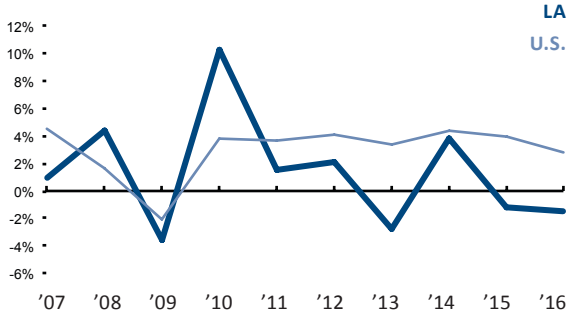
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

31 Economic Performance Rank

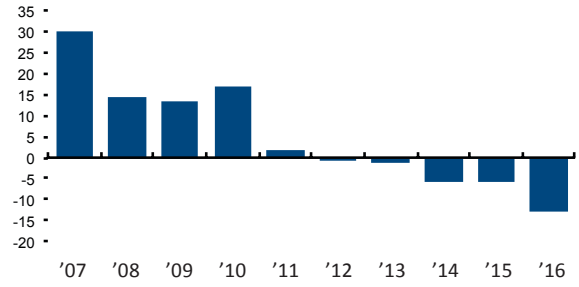
27 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

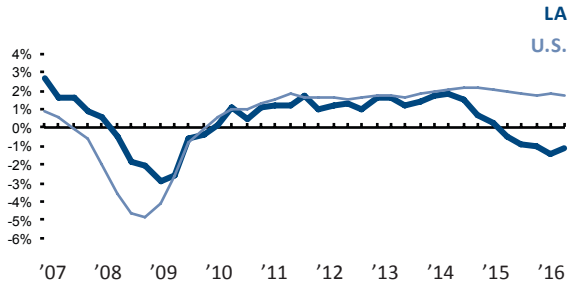
State Gross Domestic Product
Cumulative Growth 2006-2016 14.2% Rank: 48



Absolute Domestic Migration
Cumulative 2007-2016 50,441 Rank: 15
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.7% Rank: 25



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	15	19	28	29	26	28	28

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.78%	11
Top Marginal Corporate Income Tax Rate	6.32%	18
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.00	29
Property Tax Burden (per $1,000 of personal income)	$20.44	5
Sales Tax Burden (per $1,000 of personal income)	$35.78	45
Remaining Tax Burden (per $1,000 of personal income)	$16.71	23
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$7.64	49
Debt Service as a Share of Tax Revenue	8.7%	39
Public Employees Per 10,000 of Population (full-time equivalent)	551.7	35
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.6	50
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.11	41
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Maine

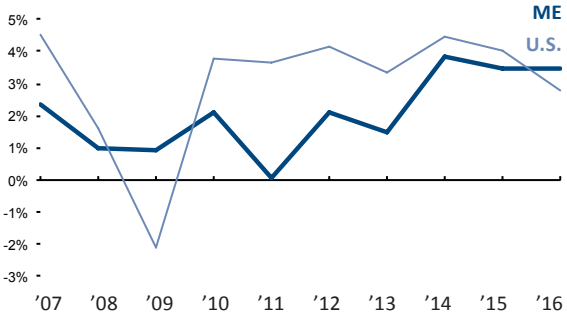
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

41 Economic Performance Rank

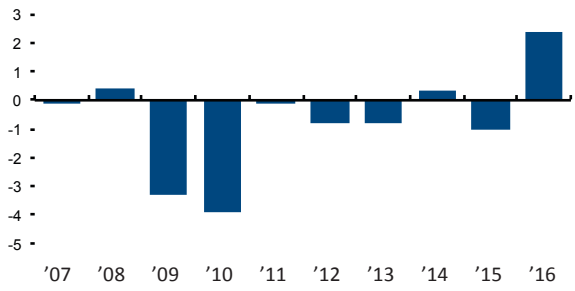
42 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

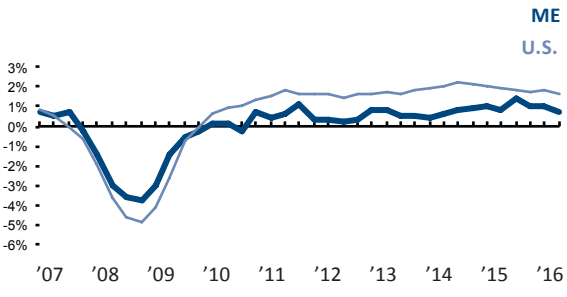
State Gross Domestic Product
Cumulative Growth 2006-2016 22.7% Rank: 43



Absolute Domestic Migration
Cumulative 2007-2016 -6,987 Rank: 25
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 0.2% Rank: 43



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**48**	**47**	**41**	**40**	**42**	**38**	**42**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.15%	38
Top Marginal Corporate Income Tax Rate	8.93%	41
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.67	42
Property Tax Burden (per $1,000 of personal income)	$48.89	47
Sales Tax Burden (per $1,000 of personal income)	$22.97	22
Remaining Tax Burden (per $1,000 of personal income)	$19.15	30
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.04	19
Debt Service as a Share of Tax Revenue	4.7%	10
Public Employees Per 10,000 of Population (full-time equivalent)	521.4	22
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	73.2	9
State Minimum Wage (federal floor is $7.25)	$10.00	39
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	37
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Maryland

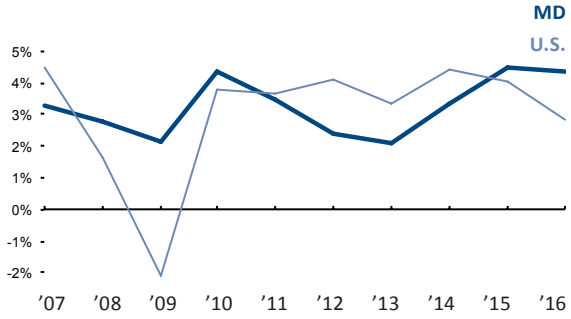
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

26 Economic Performance Rank

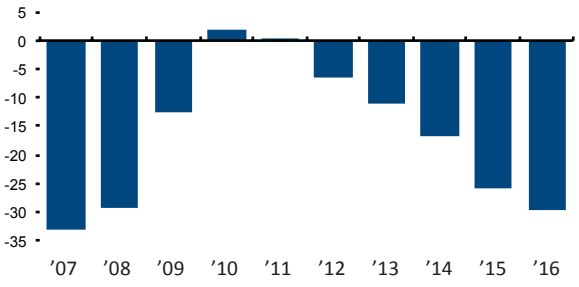
32 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

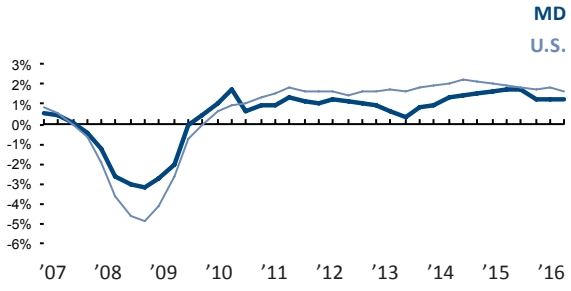
State Gross Domestic Product
Cumulative Growth 2006-2016 37.7% Rank: 16



Absolute Domestic Migration
Cumulative 2007-2016 -161,787 Rank: 42
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.7% Rank: 23



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	21	20	35	34	33	31	34

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.95%	43
Top Marginal Corporate Income Tax Rate	8.25%	37
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.44	19
Property Tax Burden (per $1,000 of personal income)	$28.29	25
Sales Tax Burden (per $1,000 of personal income)	$13.35	8
Remaining Tax Burden (per $1,000 of personal income)	$21.62	37
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.22	12
Debt Service as a Share of Tax Revenue	6.1%	15
Public Employees Per 10,000 of Population (full-time equivalent)	505.3	18
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.8	19
State Minimum Wage (federal floor is $7.25)	$9.25	35
Average Workers' Compensation Costs (per $100 of payroll)	$1.50	13
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Massachusetts

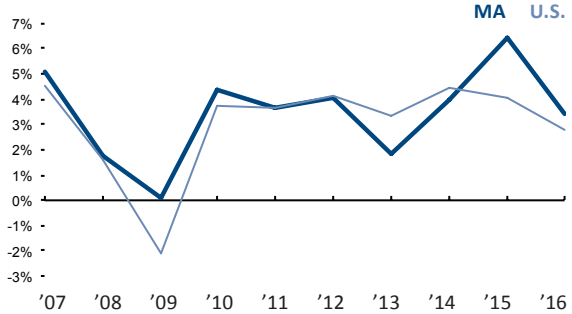
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

15 Economic Performance Rank

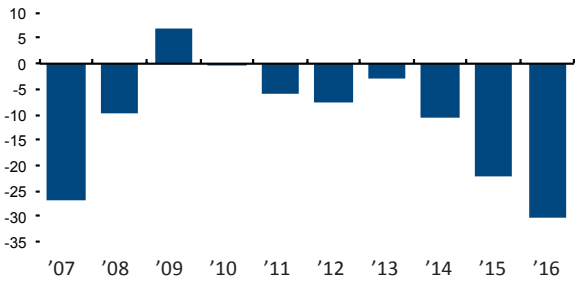
25 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

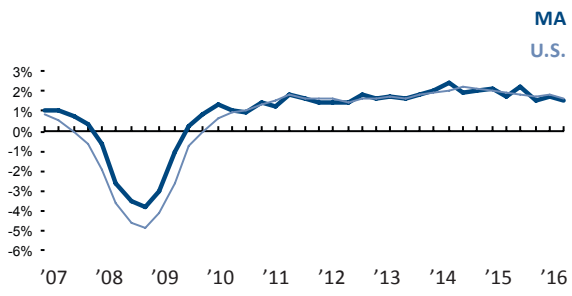
State Gross Domestic Product
Cumulative Growth 2006-2016 40.3% Rank: 9



Absolute Domestic Migration
Cumulative 2007-2016 -109.140 Rank: 41
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 9.1% Rank: 8



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**24**	**25**	**29**	**28**	**28**	**26**	**25**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.10%	20
Top Marginal Corporate Income Tax Rate	8.00%	33
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$2.99	16
Property Tax Burden (per $1,000 of personal income)	$37.02	39
Sales Tax Burden (per $1,000 of personal income)	$14.00	9
Remaining Tax Burden (per $1,000 of personal income)	$12.02	4
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.51	31
Debt Service as a Share of Tax Revenue	8.9%	40
Public Employees Per 10,000 of Population (full-time equivalent)	493.4	14
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	72.1	14
State Minimum Wage (federal floor is $7.25)	$11.00	48
Average Workers' Compensation Costs (per $100 of payroll)	$1.29	8
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Michigan

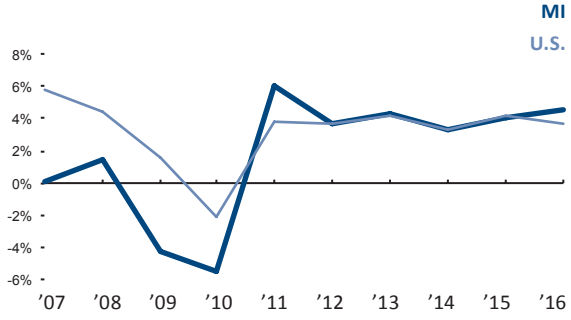
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

47 Economic Performance Rank

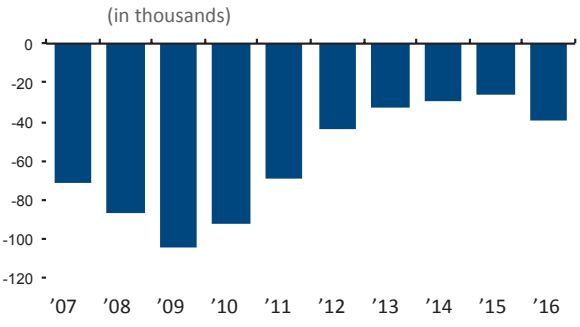
18 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

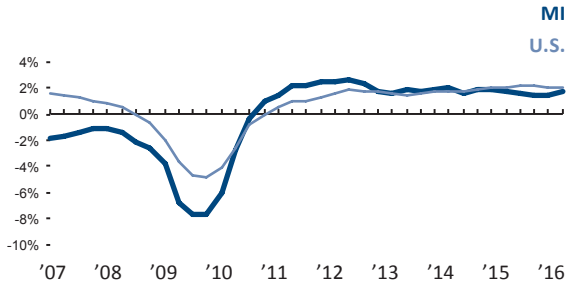
State Gross Domestic Product
Cumulative Growth 2006-2016 23.9% Rank: 40



Absolute Domestic Migration
Cumulative 2007-2016 -546,239 Rank: 47



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 1.7% Rank: 38



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	25	17	20	12	24	22	20

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.65%	29
Top Marginal Corporate Income Tax Rate	8.00%	33
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$2.27	15
Property Tax Burden (per $1,000 of personal income)	$32.96	34
Sales Tax Burden (per $1,000 of personal income)	$22.14	20
Remaining Tax Burden (per $1,000 of personal income)	$15.17	15
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.99	35
Debt Service as a Share of Tax Revenue	8.2	36
Public Employees Per 10,000 of Population (full-time equivalent)	442	5
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.4	22
State Minimum Wage (federal floor is $7.25)	$9.25	35
Average Workers' Compensation Costs (per $100 of payroll)	$1.57	17
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Minnesota

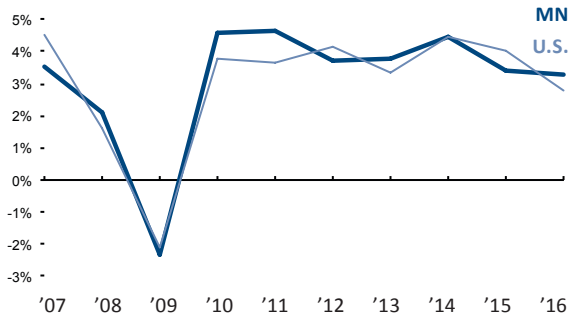
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

22 Economic Performance Rank

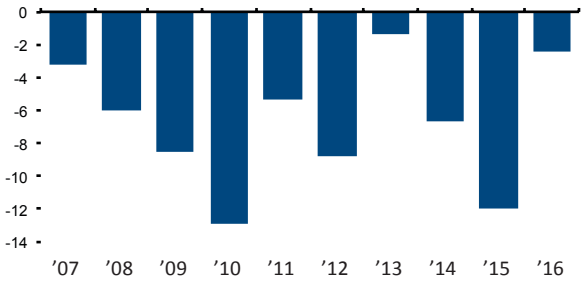
44 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

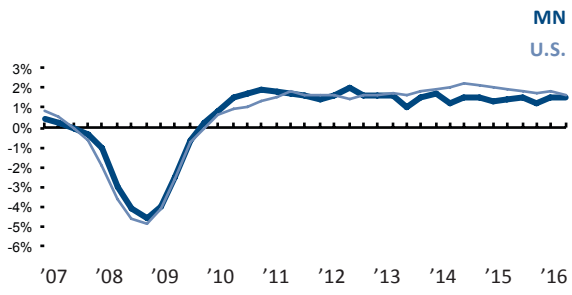
State Gross Domestic Product
Cumulative Growth 2006-2016 35.6% Rank: 19



Absolute Domestic Migration
Cumulative 2007-2016 -66,976 Rank: 37
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 5.8% Rank: 18



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**37**	**41**	**46**	**46**	**48**	**45**	**45**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.85%	45
Top Marginal Corporate Income Tax Rate	9.80%	45
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$19.97	47
Property Tax Burden (per $1,000 of personal income)	$30.57	31
Sales Tax Burden (per $1,000 of personal income)	$20.46	18
Remaining Tax Burden (per $1,000 of personal income)	$24.25	45
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$1.21	6
Debt Service as a Share of Tax Revenue	5.2%	11
Public Employees Per 10,000 of Population (full-time equivalent)	528.2	24
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	74.2	4
State Minimum Wage (federal floor is $7.25)	$9.65	37
Average Workers' Compensation Costs (per $100 of payroll)	$1.91	29
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Mississippi

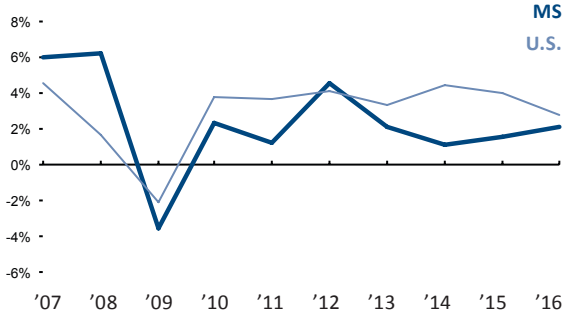
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

44 Economic Performance Rank

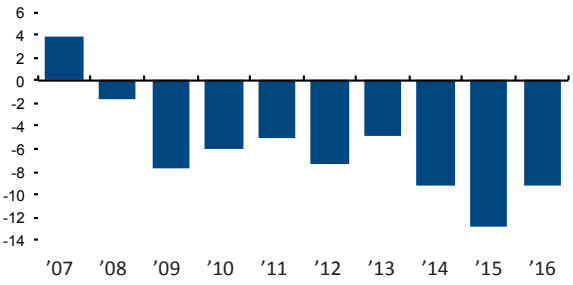
24 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

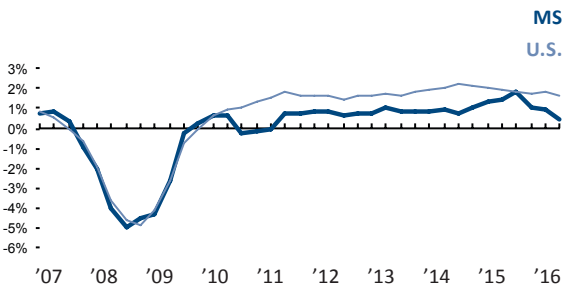
State Gross Domestic Product
Cumulative Growth 2006-2016 25.7% Rank: 37



Absolute Domestic Migration
Cumulative 2007-2016 -60,002 Rank: 36
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 -0.4% Rank: 46



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**19**	**15**	**10**	**14**	**20**	**17**	**22**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	17
Top Marginal Corporate Income Tax Rate	5.00%	10
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.93	25
Property Tax Burden (per $1,000 of personal income)	$28.19	23
Sales Tax Burden (per $1,000 of personal income)	$33.19	41
Remaining Tax Burden (per $1,000 of personal income)	$21.84	39
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.79	33
Debt Service as a Share of Tax Revenue	4.4%	7
Public Employees Per 10,000 of Population (full-time equivalent)	638.7	46
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.1	44
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.70	22
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Missouri

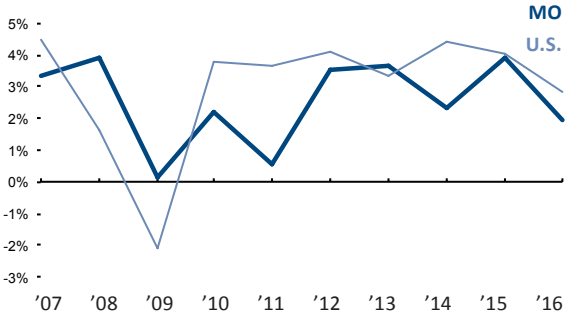
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

34 Economic Performance Rank

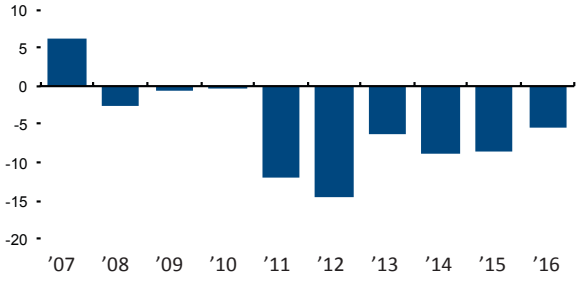
23 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

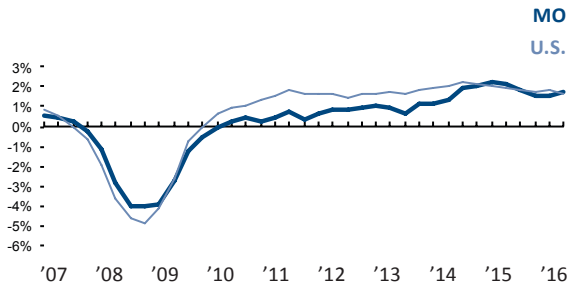
State Gross Domestic Product
Cumulative Growth 2006-2016 28.5% Rank: 31



Absolute Domestic Migration
Cumulative 2006-2015 -52,999 Rank: 34
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 2.8% Rank: 33



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**9**	**7**	**23**	**24**	**27**	**24**	**24**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.90%	31
Top Marginal Corporate Income Tax Rate	6.59%	24
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.59	41
Property Tax Burden (per $1,000 of personal income)	$23.72	14
Sales Tax Burden (per $1,000 of personal income)	$23.12	24
Remaining Tax Burden (per $1,000 of personal income)	$13.91	10
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.07	17
Debt Service as a Share of Tax Revenue	8.0%	35
Public Employees Per 10,000 of Population (full-time equivalent)	517.4	20
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	58.1	49
State Minimum Wage (federal floor is $7.25)	$7.85	23
Average Workers' Compensation Costs (per $100 of payroll)	$1.92	31
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	3	1

Montana

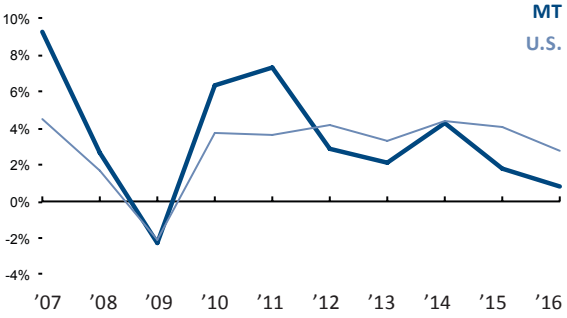
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

9 Economic Performance Rank

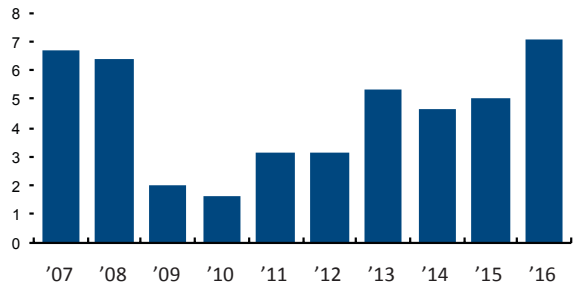
43 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

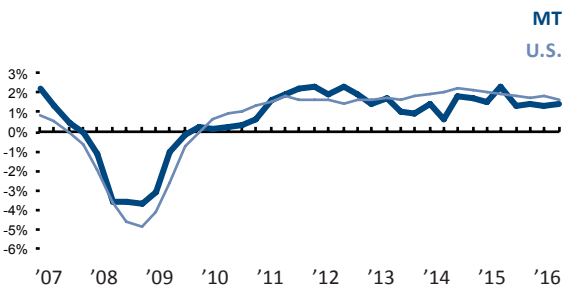
State Gross Domestic Product
Cumulative Growth 2006-2016 40.4% Rank: 8



Absolute Domestic Migration
Cumulative 2007-2016 45,036 Rank: 18
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 8% Rank: 11



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison

	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	36	36	42	43	43	40	39

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.90%	32
Top Marginal Corporate Income Tax Rate	6.75%	25
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$17.79	45
Property Tax Burden (per $1,000 of personal income)	$36.34	38
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$23.31	44
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$1.19	38
Debt Service as a Share of Tax Revenue	4.6%	9
Public Employees Per 10,000 of Population (full-time equivalent)	553.4	37
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.7	27
State Minimum Wage (federal floor is $7.25)	$8.30	28
Average Workers' Compensation Costs (per $100 of payroll)	$2.10	40
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Nebraska

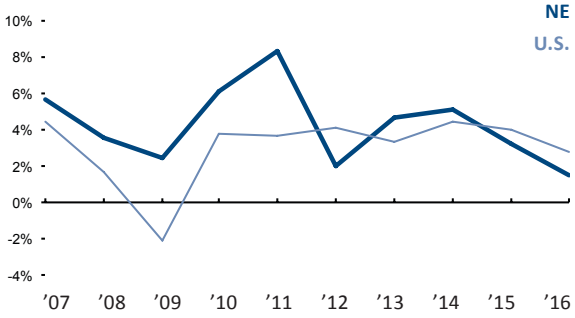
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

13 Economic Performance Rank

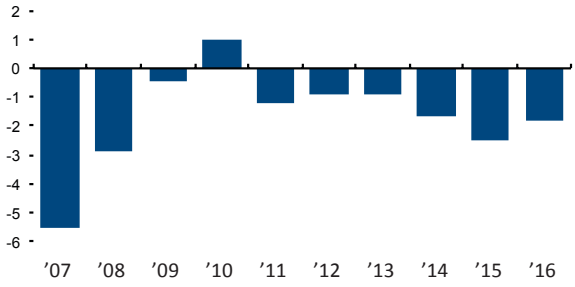
28 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

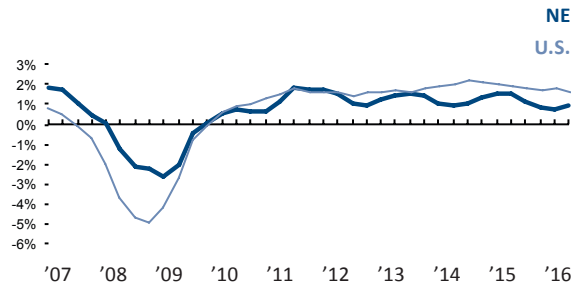
State Gross Domestic Product
Cumulative Growth 2006-2016 51.5% Rank: 2



Absolute Domestic Migration
Cumulative 2007-2016 -16,787 Rank: 29
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 7.4% Rank: 13



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**32**	**31**	**37**	**35**	**31**	**32**	**32**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.84%	30
Top Marginal Corporate Income Tax Rate	7.81%	31
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$17.69	44
Property Tax Burden (per $1,000 of personal income)	$38.80	41
Sales Tax Burden (per $1,000 of personal income)	$23.32	25
Remaining Tax Burden (per $1,000 of personal income)	$13.32	8
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$2.38	2
Debt Service as a Share of Tax Revenue	5.6%	13
Public Employees Per 10,000 of Population (full-time equivalent)	626.5	44
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	73.5	7
State Minimum Wage (federal floor is $7.25)	$9.00	34
Average Workers' Compensation Costs (per $100 of payroll)	$1.67	19
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Nevada

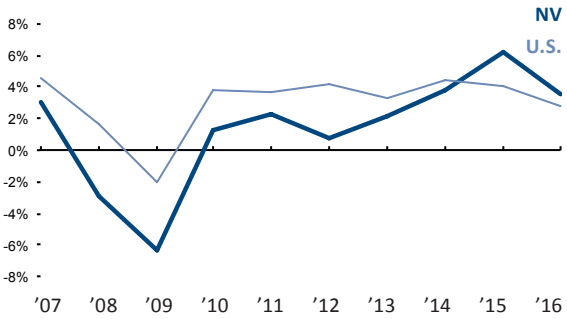
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

33 Economic Performance Rank

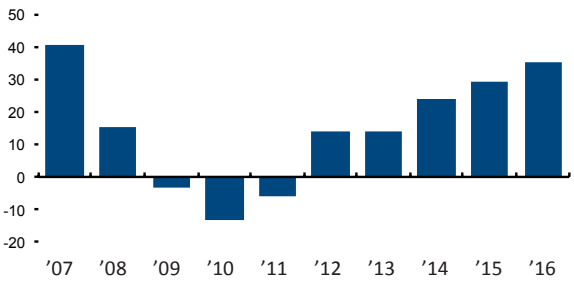
13 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

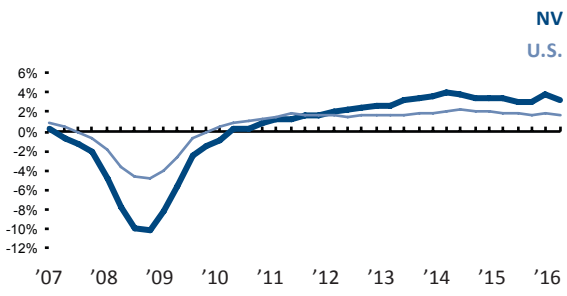
State Gross Domestic Product
Cumulative Growth 2006-2016 30.5% Rank: 41



Absolute Domestic Migration
Cumulative 2007-2016 189,804 Rank: 11
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 3.8% Rank: 29



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**17**	**18**	**13**	**8**	**10**	**14**	**13**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.64%	3
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$23.06	11
Sales Tax Burden (per $1,000 of personal income)	$39.15	48
Remaining Tax Burden (per $1,000 of personal income)	$35.32	49
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$2.86	45
Debt Service as a Share of Tax Revenue	9.00%	42
Public Employees Per 10,000 of Population (full-time equivalent)	385.6	1
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.6	37
State Minimum Wage (federal floor is $7.25)	$8.25	24
Average Workers' Compensation Costs (per $100 of payroll)	$1.31	9
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

New Hampshire

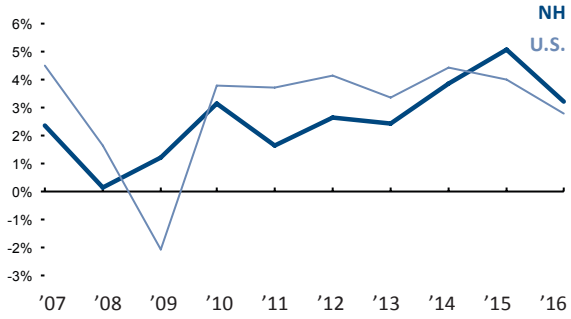
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

27 Economic Performance Rank

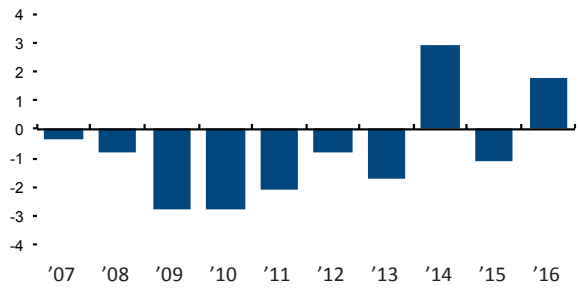
17 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

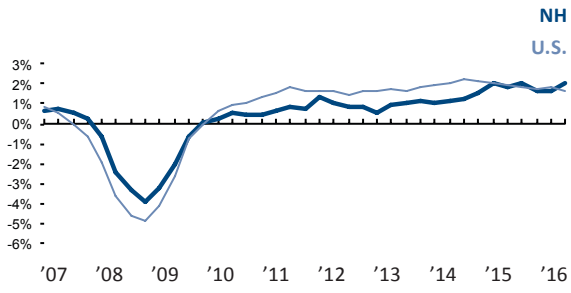
State Gross Domestic Product
CCumulative Growth 2006-2016 32.4% Rank: 36



Absolute Domestic Migration
Cumulative 2006-2015 -3,612 Rank: 26
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 3.3% Rank: 33



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**28**	**28**	**27**	**32**	**29**	**23**	**18**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	8.20%	36
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$57.18	50
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$20.36	34
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.61	7
Debt Service as a Share of Tax Revenue	7.3%	30
Public Employees Per 10,000 of Population (full-time equivalent)	528.0	23
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	73.9	5
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.96	34
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

New Jersey

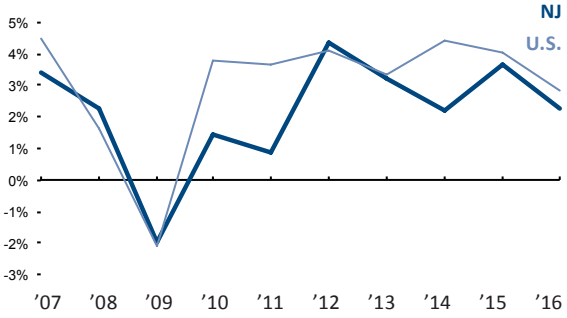
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

49 Economic Performance Rank

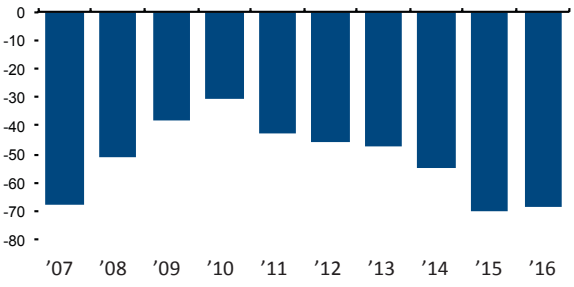
46 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

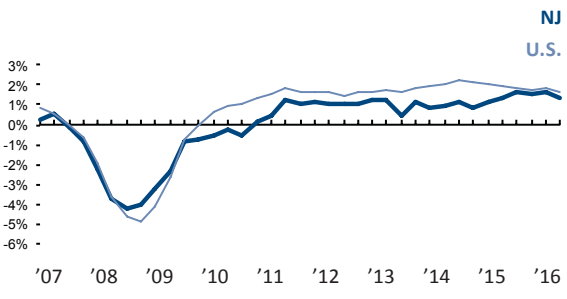
State Gross Domestic Product
Cumulative Growth 2006-2016 23.7% Rank: 41



Absolute Domestic Migration
Cumulative 2006-2015 -516,326 Rank: 46
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 0.5% Rank: 42



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison 2011 2012 2013 2014 2015 2016 2017
ECONOMIC OUTLOOK RANK **45 42 39 45 46 48 48**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.97%	46
Top Marginal Corporate Income Tax Rate	9.00%	42
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$24.81	48
Property Tax Burden (per $1,000 of personal income)	$52.25	48
Sales Tax Burden (per $1,000 of personal income)	$17.35	12
Remaining Tax Burden (per $1,000 of personal income)	$13.62	9
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.09	16
Debt Service as a Share of Tax Revenue	5.6%	14
Public Employees Per 10,000 of Population (full-time equivalent)	534.8	30
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.8	41
State Minimum Wage (federal floor is $7.25)	$8.60	31
Average Workers' Compensation Costs (per $100 of payroll)	$2.92	49
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

New Mexico

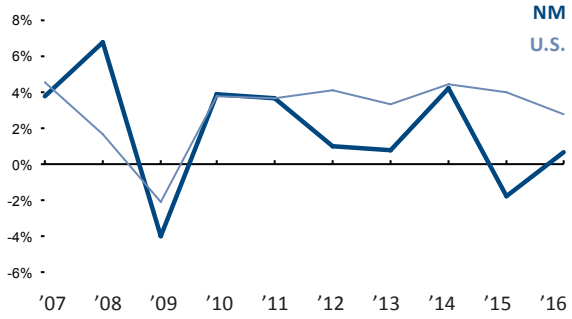
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

35 Economic Performance Rank

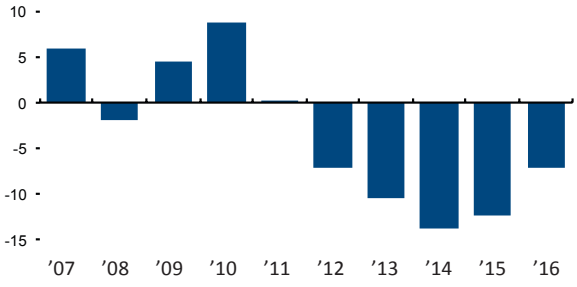
42 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

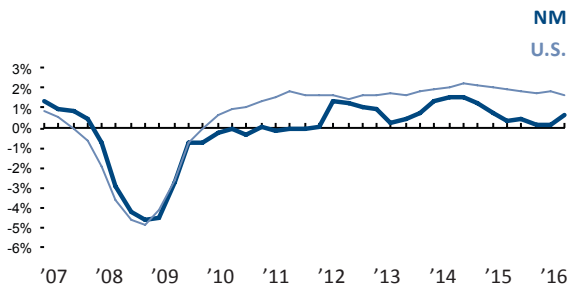
State Gross Domestic Product
Cumulative Growth 2006-2016 20.0% Rank: 44



Absolute Domestic Migration
Cumulative 2006-2015 -33,390 Rank: 32
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 -0.3% Rank: 45



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**39**	**35**	**33**	**37**	**34**	**34**	**35**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.90%	15
Top Marginal Corporate Income Tax Rate	5.90%	15
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.21	37
Property Tax Burden (per $1,000 of personal income)	$20.52	6
Sales Tax Burden (per $1,000 of personal income)	$41.37	49
Remaining Tax Burden (per $1,000 of personal income)	$15.03	14
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.02	23
Debt Service as a Share of Tax Revenue	6.6%	23
Public Employees Per 10,000 of Population (full-time equivalent)	605.4	43
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.2	32
State Minimum Wage (federal floor is $7.25)	$7.50	31
Average Workers' Compensation Costs (per $100 of payroll)	$1.92	31
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

New York

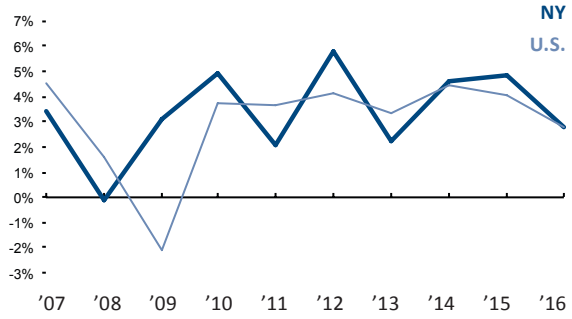
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

26 Economic Performance Rank

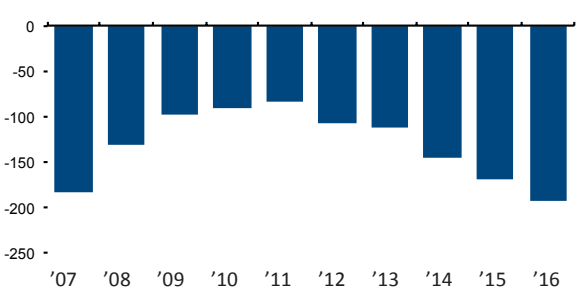
50 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

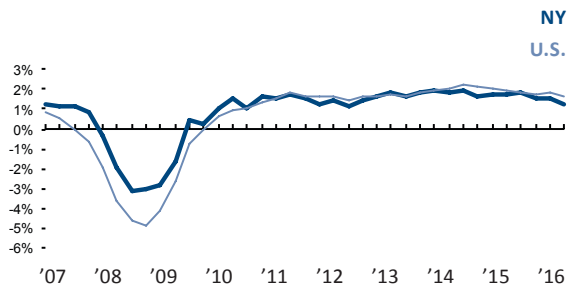
State Gross Domestic Product
Cumulative Growth 2006-2016 39.2% Rank: 12



Absolute Domestic Migration
Cumulative 2007-2016 -1,314,425 Rank: 50
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 9.1% Rank: 7



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	50	50	49	50	50	50	50

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	12.70%	49
Top Marginal Corporate Income Tax Rate	17.21%	50
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.47	33
Property Tax Burden (per $1,000 of personal income)	$47.06	45
Sales Tax Burden (per $1,000 of personal income)	$25.41	33
Remaining Tax Burden (per $1,000 of personal income)	$20.35	33
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.44	30
Debt Service as a Share of Tax Revenue	8.3%	37
Public Employees Per 10,000 of Population (full-time equivalent)	599.4	42
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.4	29
State Minimum Wage (federal floor is $7.25)	$10.40	45
Average Workers' Compensation Costs (per $100 of payroll)	$2.83	48
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

North Carolina

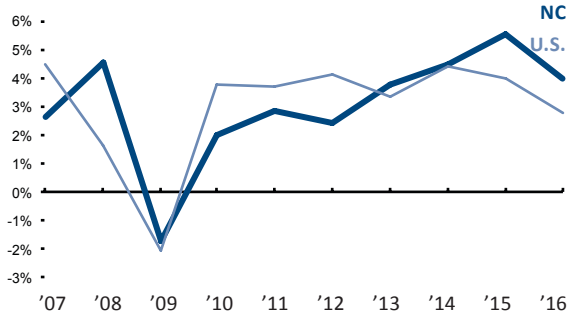
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

11 Economic Performance Rank

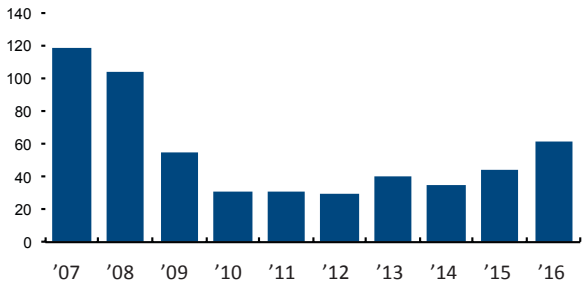
7 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

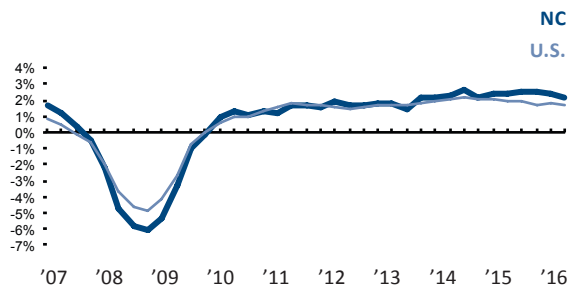
State Gross Domestic Product
Cumulative Growth 2006-2016 34.8% Rank: 21



Absolute Domestic Migration
Cumulative 2007-2016 549,148 Rank: 3
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 6.9% Rank: 17



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**26**	**23**	**22**	**6**	**4**	**2**	**7**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.50%	22
Top Marginal Corporate Income Tax Rate	3.00%	5
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.42	18
Property Tax Burden (per $1,000 of personal income)	$23.63	12
Sales Tax Burden (per $1,000 of personal income)	$23.36	26
Remaining Tax Burden (per $1,000 of personal income)	$16.04	18
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$1.38	5
Debt Service as a Share of Tax Revenue	6.3%	21
Public Employees Per 10,000 of Population (full-time equivalent)	540.9	33
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.2	33
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.91	29
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

North Dakota

2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

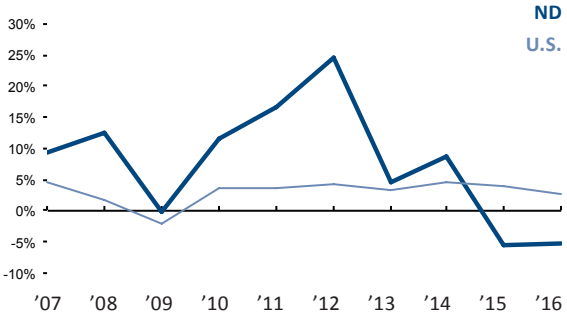
3 Economic Performance Rank

4 Economic Outlook Rank

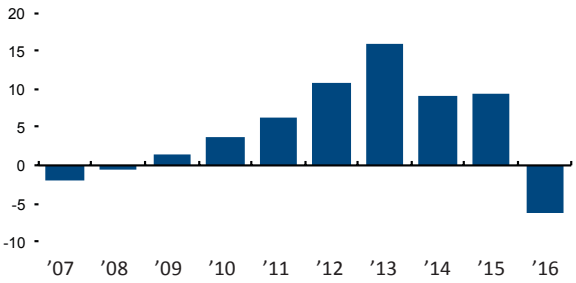
Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

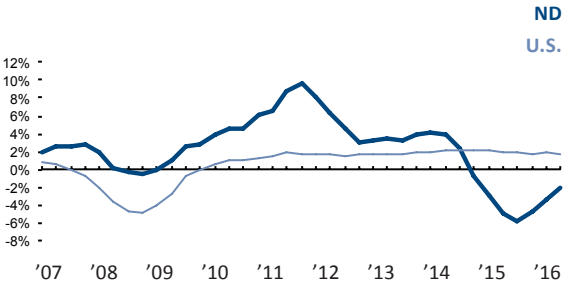
State Gross Domestic Product
Cumulative Growth 2006-2016 102.4% Rank: 1



Absolute Domestic Migration
Cumulative 2006-2015 47,621 Rank: 16
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 22.5% Rank: 1



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	7	5	2	4	2	3	4

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	2.90%	10
Top Marginal Corporate Income Tax Rate	4.31%	7
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$8.66	26
Property Tax Burden (per $1,000 of personal income)	$21.53	9
Sales Tax Burden (per $1,000 of personal income)	$37.53	47
Remaining Tax Burden (per $1,000 of personal income)	$19.58	31
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$4.24	1
Debt Service as a Share of Tax Revenue	2.9%	2
Public Employees Per 10,000 of Population (full-time equivalent)	633.6	45
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	71.5	17
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$0.89	1
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Ohio

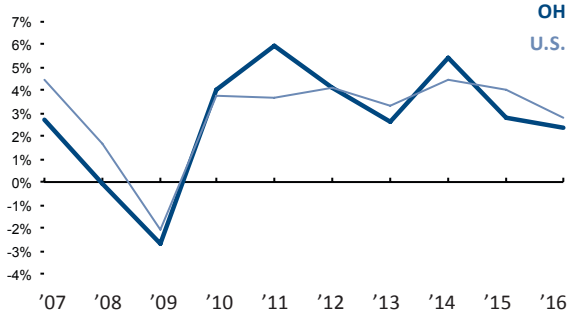
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

42 Economic Performance Rank

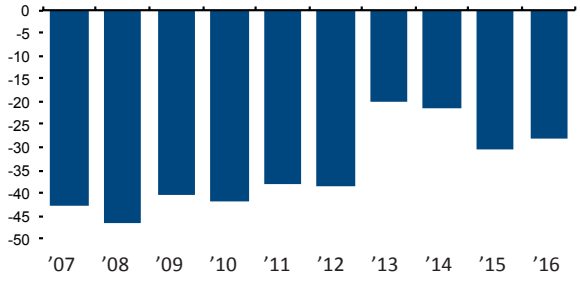
21 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

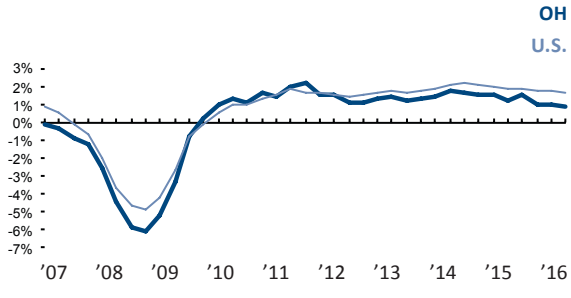
State Gross Domestic Product
Cumulative Growth 2006-2016 30.5% Rank: 27



Absolute Domestic Migration
Cumulative 2007-2016 -346,792 Rank: 45
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 1.4% Rank: 40



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**38**	**37**	**26**	**23**	**23**	**18**	**19**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.50%	39
Top Marginal Corporate Income Tax Rate	3.67%	6
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.79	31
Property Tax Burden (per $1,000 of personal income)	$29.55	26
Sales Tax Burden (per $1,000 of personal income)	$24.84	31
Remaining Tax Burden (per $1,000 of personal income)	$16.54	22
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.27	9
Debt Service as a Share of Tax Revenue	6.1%	16
Public Employees Per 10,000 of Population (full-time equivalent)	506.7	19
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.7	26
State Minimum Wage (federal floor is $7.25)	$8.30	28
Average Workers' Compensation Costs (per $100 of payroll)	$1.45	11
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Oklahoma

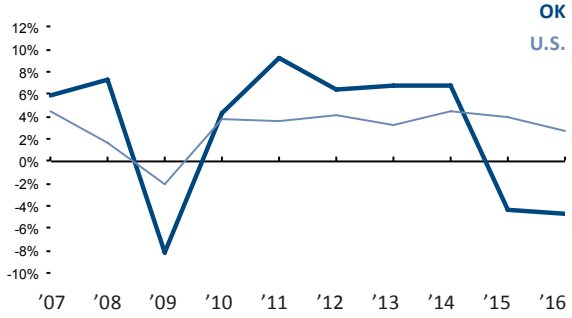
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

16 Economic Performance Rank

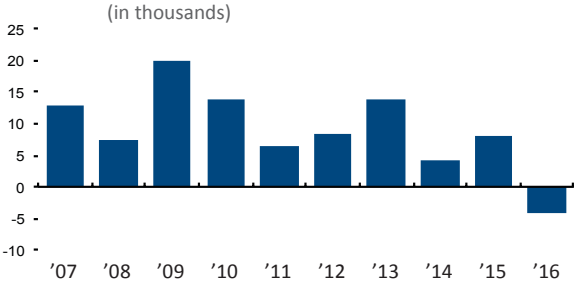
16 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

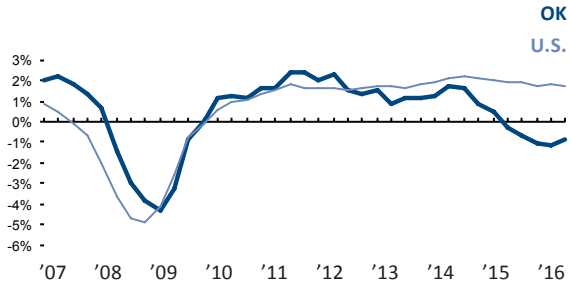
State Gross Domestic Product
Cumulative Growth 2006-2016 31.8% Rank: 25



Absolute Domestic Migration
Cumulative 2006-2015 91,214 Rank: 12
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 4.8% Rank: 22



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**14**	**14**	**19**	**21**	**16**	**10**	**16**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	17
Top Marginal Corporate Income Tax Rate	6.00%	16
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.41	22
Property Tax Burden (per $1,000 of personal income)	$15.18	2
Sales Tax Burden (per $1,000 of personal income)	$27.33	36
Remaining Tax Burden (per $1,000 of personal income)	$16.23	21
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$2.39	44
Debt Service as a Share of Tax Revenue	5.4%	12
Public Employees Per 10,000 of Population (full-time equivalent)	555.5	34
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.3	31
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.23	43
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Oregon

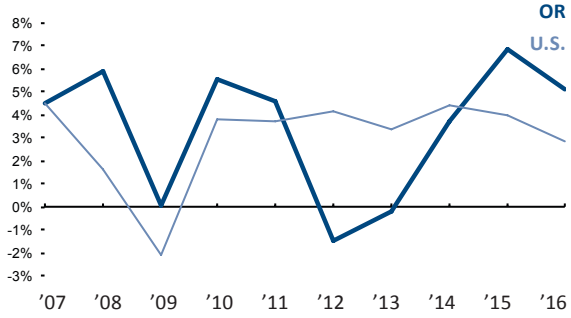
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

6 Economic Performance Rank

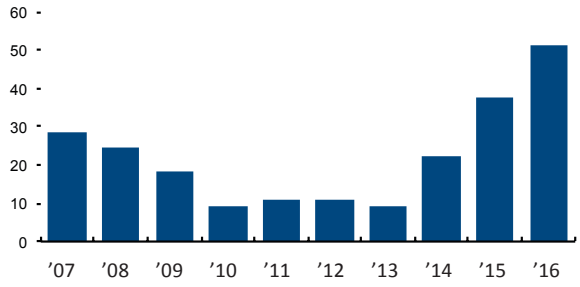
41 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

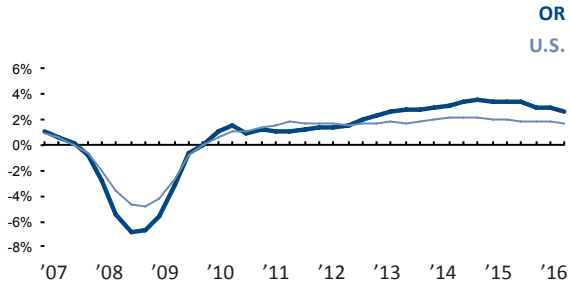
State Gross Domestic Product
Cumulative Growth 2006-2016 39.9% Rank: 10



Absolute Domestic Migration
Cumulative 2007-2016 222,902 Rank: 10
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 7.7% Rank: 12



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**43**	**45**	**44**	**42**	**45**	**41**	**41**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.65%	47
Top Marginal Corporate Income Tax Rate	11.25%	46
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.58	38
Property Tax Burden (per $1,000 of personal income)	$32.82	33
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$22.52	42
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$3.05	46
Debt Service as a Share of Tax Revenue	7.7%	32
Public Employees Per 10,000 of Population (full-time equivalent)	483.0	9
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.4	21
State Minimum Wage (federal floor is $7.25)	$10.25	44
Average Workers' Compensation Costs (per $100 of payroll)	$1.28	7
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Pennsylvania

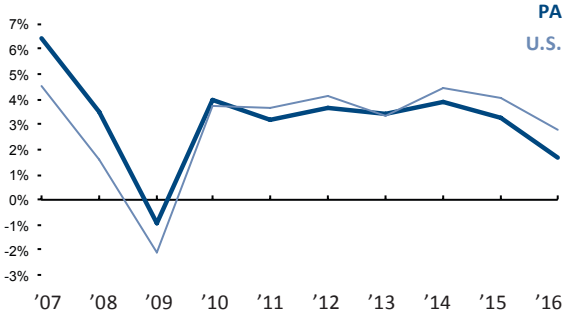
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

35 Economic Performance Rank

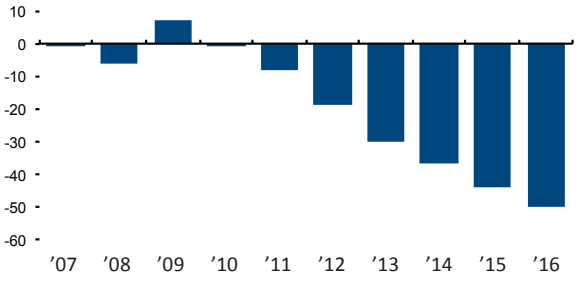
38 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

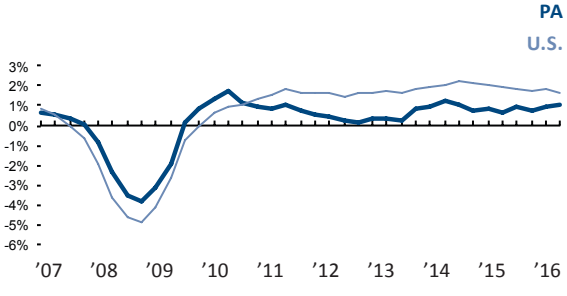
State Gross Domestic Product
Cumulative Growth 2006-2016 36.9% Rank: 17



Absolute Domestic Migration
Cumulative 2006-2015 -186,096 Rank: 44
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 2.4% Rank: 37



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison

	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	41	40	34	33	41	39	38

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.96%	35
Top Marginal Corporate Income Tax Rate	16.98%	49
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$30.26	30
Sales Tax Burden (per $1,000 of personal income)	$17.12	11
Remaining Tax Burden (per $1,000 of personal income)	$22.94	43
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.83	34
Debt Service as a Share of Tax Revenue	7.1%	28
Public Employees Per 10,000 of Population (full-time equivalent)	429.3	4
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.3	38
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.84	25
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Rhode Island

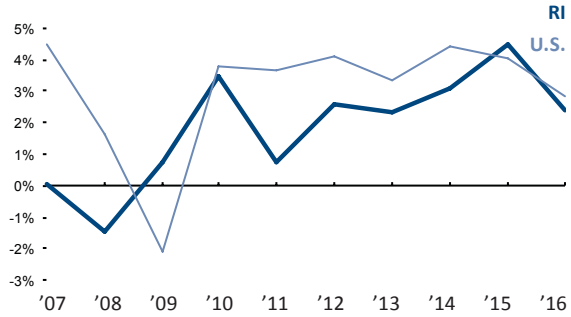
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

48 Economic Performance Rank

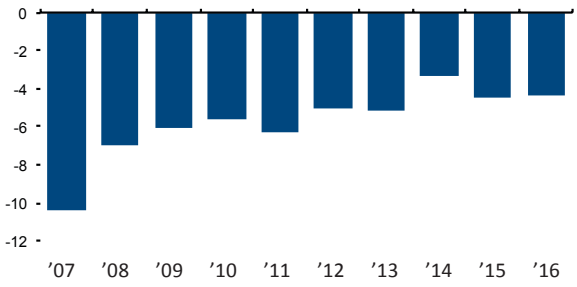
35 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

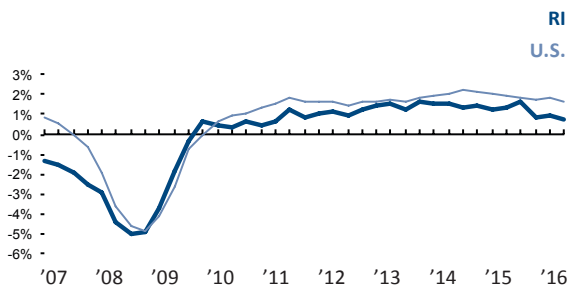
State Gross Domestic Product
Cumulative Growth 2006-2016 19.8% Rank: 45



Absolute Domestic Migration
Cumulative 2007-2016 -57,472 Rank: 35
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 -0.7% Rank: 48



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**42**	**43**	**45**	**41**	**39**	**35**	**36**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.99%	27
Top Marginal Corporate Income Tax Rate	7.00%	28
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.26	30
Property Tax Burden (per $1,000 of personal income)	$47.92	46
Sales Tax Burden (per $1,000 of personal income)	$18.61	13
Remaining Tax Burden (per $1,000 of personal income)	$17.47	27
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.17	27
Debt Service as a Share of Tax Revenue	11.2%	49
Public Employees Per 10,000 of Population (full-time equivalent)	456.3	6
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.9	24
State Minimum Wage (federal floor is $7.25)	$10.10	40
Average Workers' Compensation Costs (per $100 of payroll)	$2.20	42
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

South Carolina

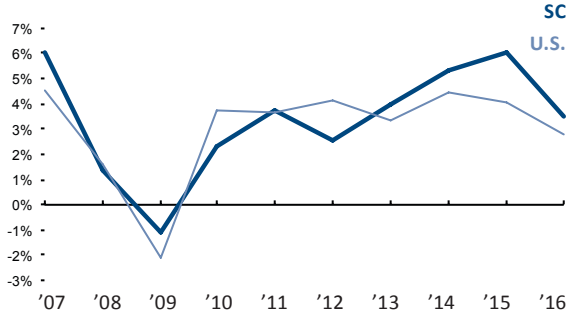
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

7 Economic Performance Rank

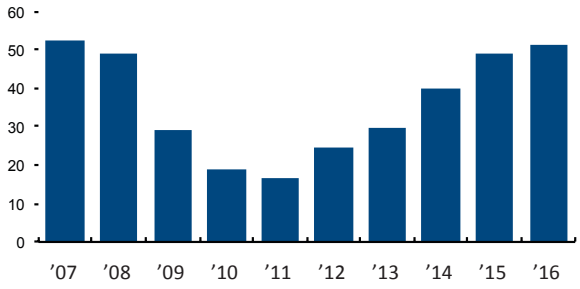
33 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

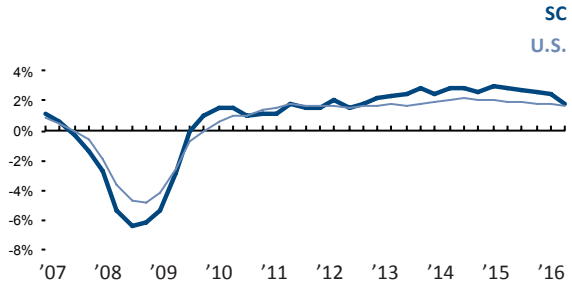
State Gross Domestic Product
Cumulative Growth 2006-2016 38.9% Rank: 14



Absolute Domestic Migration
Cumulative 2007-2016 361,117 Rank: 6
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 7.3% Rank: 15



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**22**	**27**	**31**	**31**	**32**	**30**	**27**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	37
Top Marginal Corporate Income Tax Rate	5.00%	10
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$17.93	46
Property Tax Burden (per $1,000 of personal income)	$29.99	29
Sales Tax Burden (per $1,000 of personal income)	$21.89	19
Remaining Tax Burden (per $1,000 of personal income)	$16.71	24
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$1.23	39
Debt Service as a Share of Tax Revenue	9.4%	43
Public Employees Per 10,000 of Population (full-time equivalent)	528.9	25
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.7	34
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.94	33
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

South Dakota

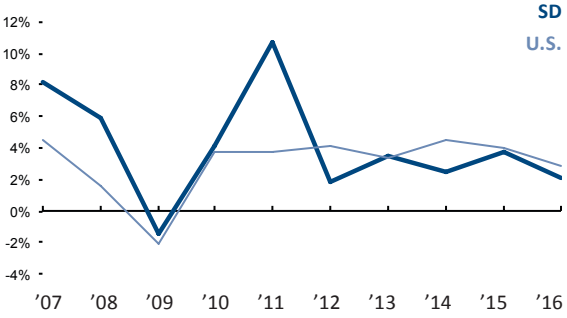
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

8 Economic Performance Rank

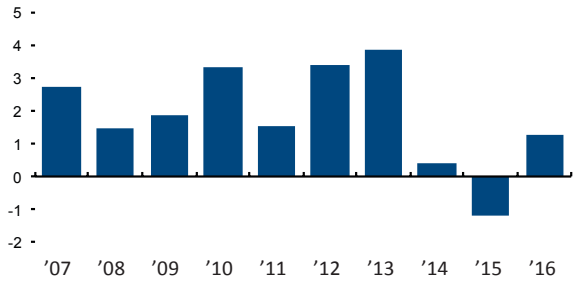
9 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

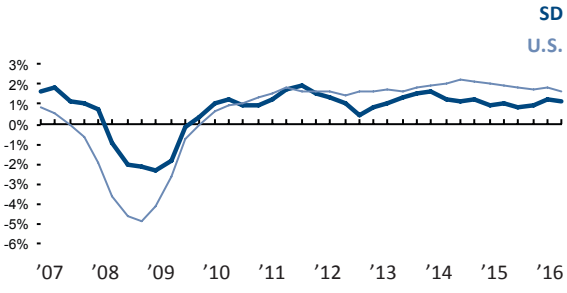
State Gross Domestic Product
Cumulative Growth 2006-2016 48.7% Rank: 4



Absolute Domestic Migration
Cumulative 2007-2016 18,597 Rank: 22
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 8.4% Rank: 9



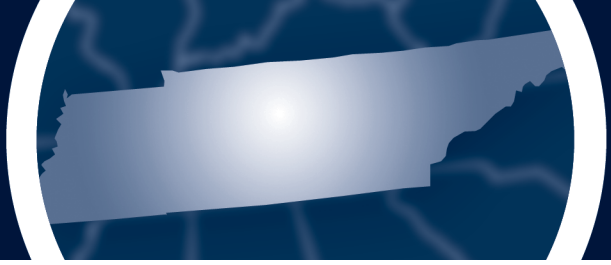
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	2	2	3	2	9	11	12

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$29.68	27
Sales Tax Burden (per $1,000 of personal income)	$33.39	43
Remaining Tax Burden (per $1,000 of personal income)	$19.05	29
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$1.62	41
Debt Service as a Share of Tax Revenue	6.2%	18
Public Employees Per 10,000 of Population (full-time equivalent)	535.4	31
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	75.3	1
State Minimum Wage (federal floor is $7.25)	$8.85	33
Average Workers' Compensation Costs (per $100 of payroll)	$1.67	19
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Tennessee

2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

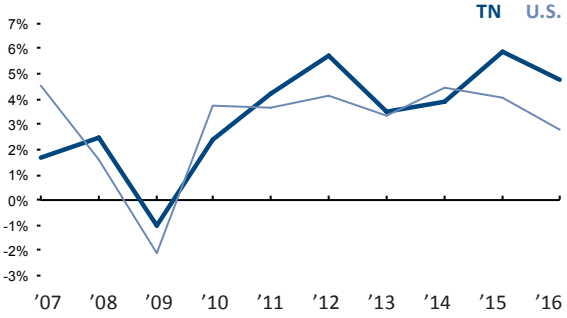


10 Economic Performance Rank

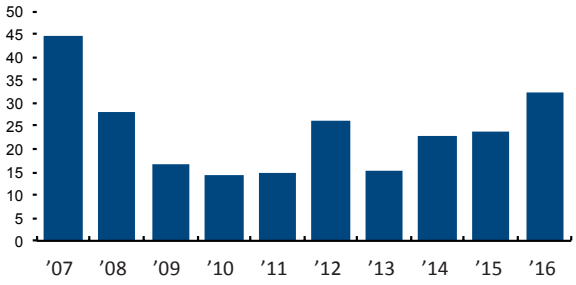
12 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

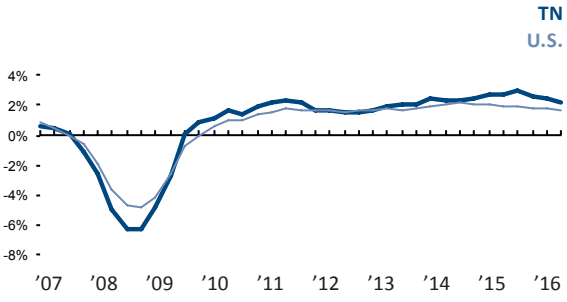
State Gross Domestic Product
Cumulative Growth 2006-2016 38.8% Rank: 15



Absolute Domestic Migration
Cumulative 2007-2016 238,762 Rank: 9
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 7.4% Rank: 14



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**8**	**12**	**18**	**19**	**17**	**7**	**5**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.50%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$21.10	8
Sales Tax Burden (per $1,000 of personal income)	$32.53	40
Remaining Tax Burden (per $1,000 of personal income)	$19.97	32
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$1.89	42
Debt Service as a Share of Tax Revenue	7.2%	29
Public Employees Per 10,000 of Population (full-time equivalent)	494.7	16
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.3	30
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.68	21
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Texas

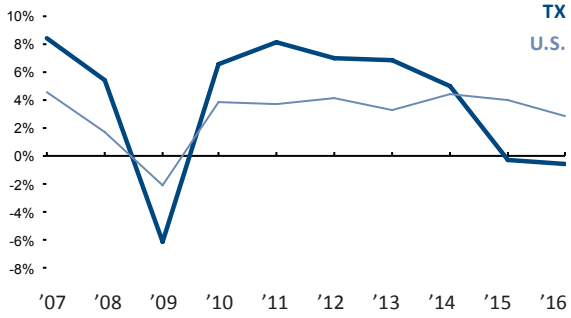
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

1 Economic Performance Rank

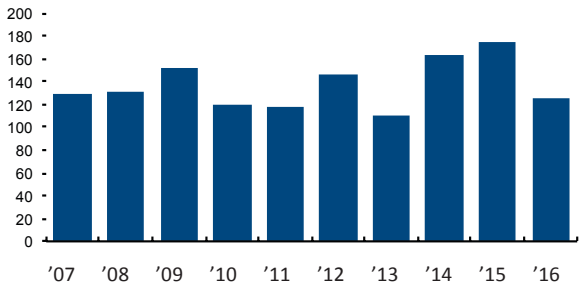
14 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

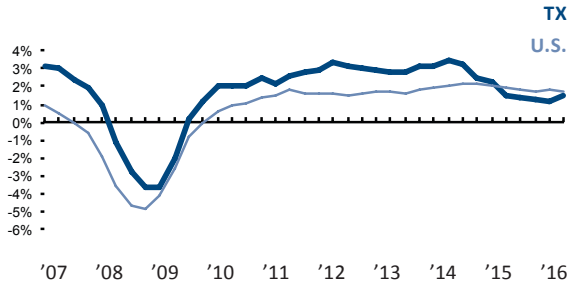
State Gross Domestic Product
Cumulative Growth 2006-2016 47.0% Rank: 6



Absolute Domestic Migration
Cumulative 2007-2016 1,368,025 Rank: 1
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 18.6% Rank: 2



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	18	16	12	13	11	12	9

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	2.63%	4
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$37.48	40
Sales Tax Burden (per $1,000 of personal income)	$28.70	37
Remaining Tax Burden (per $1,000 of personal income)	$16.20	20
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.00	22
Debt Service as a Share of Tax Revenue	10.3%	46
Public Employees Per 10,000 of Population (full-time equivalent)	533.4	29
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.3	40
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.45	11
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Utah

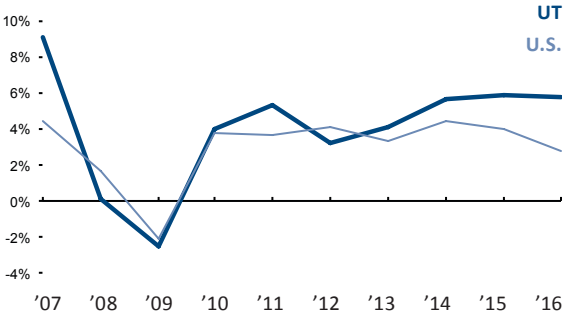
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

4 Economic Performance Rank

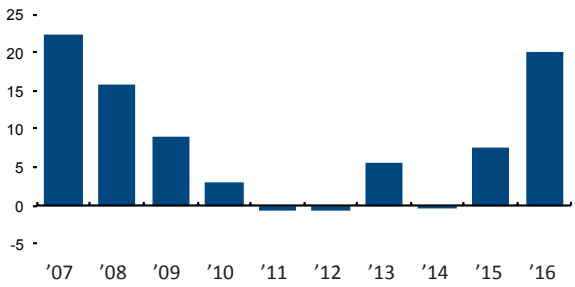
1 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

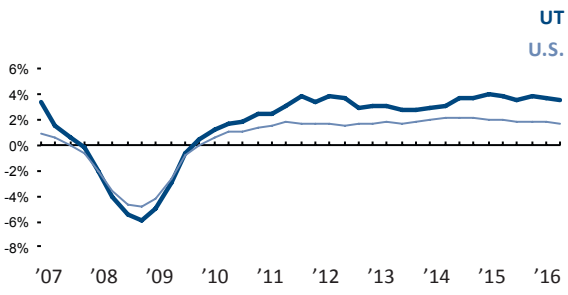
State Gross Domestic Product
Cumulative Growth 2006-2016 48.3% Rank: 5



Absolute Domestic Migration
Cumulative 2007-2016 81,950 Rank: 13
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 18.4% Rank: 3



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	1	1	1	1	1	1	1

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	17
Top Marginal Corporate Income Tax Rate	5.00%	10
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$25.47	17
Sales Tax Burden (per $1,000 of personal income)	$22.97	23
Remaining Tax Burden (per $1,000 of personal income)	$14.23	12
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.01	21
Debt Service as a Share of Tax Revenue	6.9%	26
Public Employees Per 10,000 of Population (full-time equivalent)	482.2	8
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	72.8	12
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.27	6
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Vermont

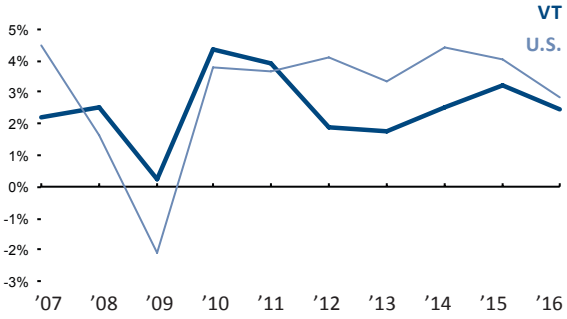
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

38 Economic Performance Rank

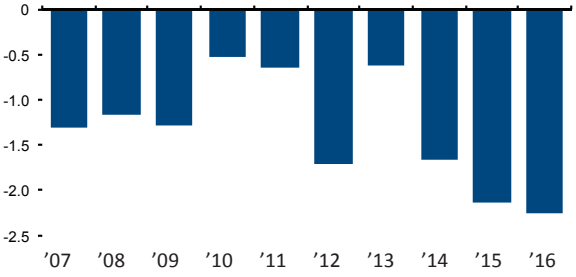
49 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

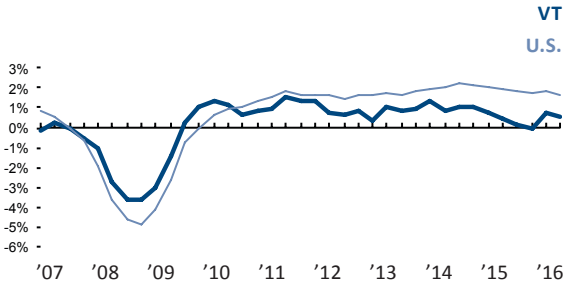
State Gross Domestic Product
Cumulative Growth 2006-2016 27.8% Rank: 35



Absolute Domestic Migration
Cumulative 2006-2015 -13,338 Rank: 28
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 1.6% Rank: 39



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	49	49	50	49	49	49	49

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.95%	43
Top Marginal Corporate Income Tax Rate	8.50%	39
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$30.38	49
Property Tax Burden (per $1,000 of personal income)	$52.75	49
Sales Tax Burden (per $1,000 of personal income)	$12.55	7
Remaining Tax Burden (per $1,000 of personal income)	$27.83	47
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.53	32
Debt Service as a Share of Tax Revenue	3.6%	3
Public Employees Per 10,000 of Population (full-time equivalent)	642.5	47
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	75.2	2
State Minimum Wage (federal floor is $7.25)	$10.50	46
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	37
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Virginia

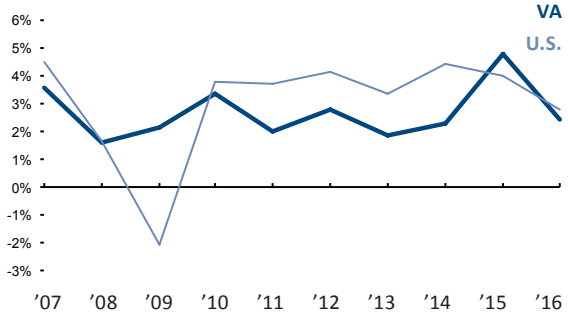
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

23 Economic Performance Rank

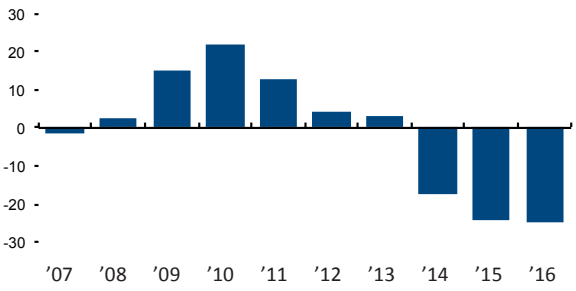
10 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

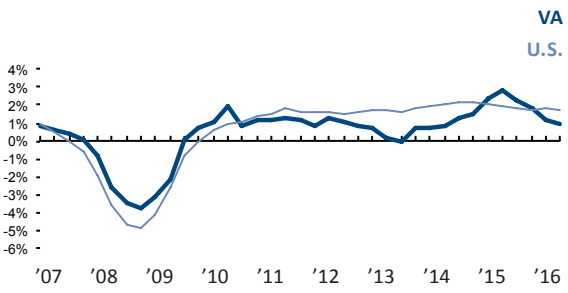
State Gross Domestic Product
Cumulative Growth 2006-2016 30.0% Rank: 28



Absolute Domestic Migration
Cumulative 2007-2016 -8,436 Rank: 27
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 5.2% Rank: 20



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**3**	**3**	**5**	**11**	**12**	**13**	**11**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.75%	25
Top Marginal Corporate Income Tax Rate	7.63%	30
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.45	20
Property Tax Burden (per $1,000 of personal income)	$29.82	28
Sales Tax Burden (per $1,000 of personal income)	$11.94	6
Remaining Tax Burden (per $1,000 of personal income)	$15.84	17
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.13	26
Debt Service as a Share of Tax Revenue	6.8%	25
Public Employees Per 10,000 of Population (full-time equivalent)	532.0	28
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	72.8	10
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.24	5
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Washington

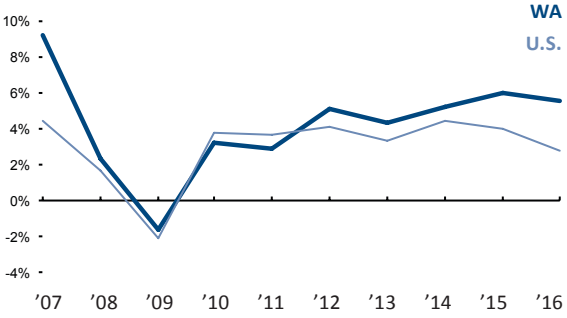
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

2 Economic Performance Rank

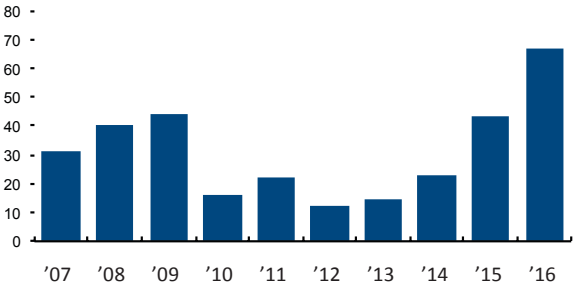
37 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

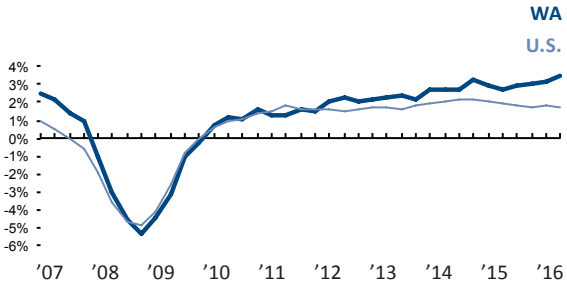
State Gross Domestic Product
Cumulative Growth 2006-2016 50.5% Rank: 3



Absolute Domestic Migration
Cumulative 2007-2016 313,722 Rank: 7
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 12.6% Rank: 5



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**33**	**33**	**36**	**38**	**35**	**36**	**40**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.78%	26
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$27.25	19
Sales Tax Burden (per $1,000 of personal income)	$33.23	42
Remaining Tax Burden (per $1,000 of personal income)	$22.46	41
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$0.28	29
Debt Service as a Share of Tax Revenue	9.8%	45
Public Employees Per 10,000 of Population (full-time equivalent)	483.9	10
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.4	28
State Minimum Wage (federal floor is $7.25)	$11.50	50
Average Workers' Compensation Costs (per $100 of payroll)	$1.97	36
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

West Virginia

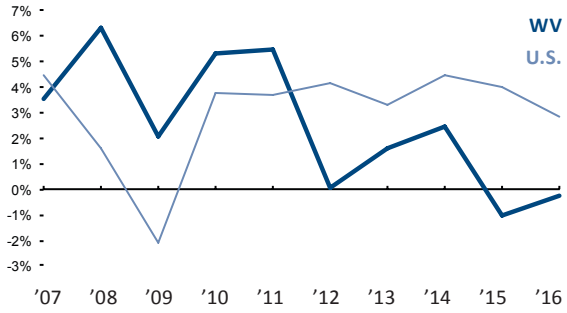
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

40 Economic Performance Rank

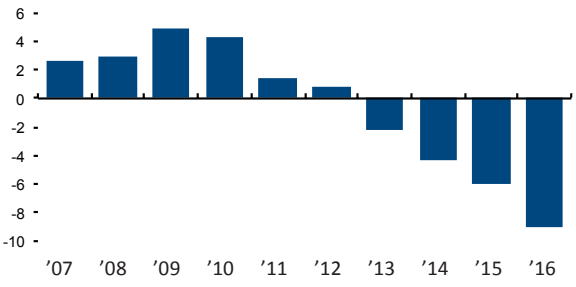
30 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

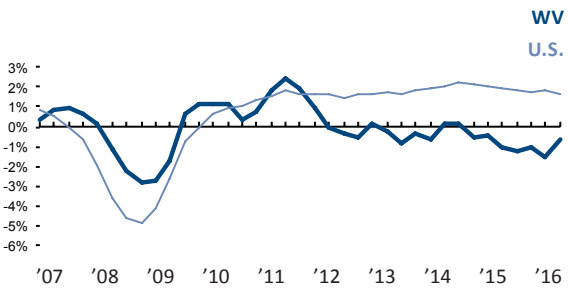
State Gross Domestic Product
Cumulative Growth 2006-2016 28.1% Rank: 33



Absolute Domestic Migration
Cumulative 2007-2016 -4,397 Rank: 24
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 -1.2% Rank: 49



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	31	30	32	30	36	37	31

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.50%	28
Top Marginal Corporate Income Tax Rate	6.50%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.53	40
Property Tax Burden (per $1,000 of personal income)	$24.47	15
Sales Tax Burden (per $1,000 of personal income)	$19.56	14
Remaining Tax Burden (per $1,000 of personal income)	$27.19	46
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$1.03	37
Debt Service as a Share of Tax Revenue	4.3%	4
Public Employees Per 10,000 of Population (full-time equivalent)	571.3	39
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.6	45
State Minimum Wage (federal floor is $7.25)	$8.75	32
Average Workers' Compensation Costs (per $100 of payroll)	$1.22	4
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Wisconsin

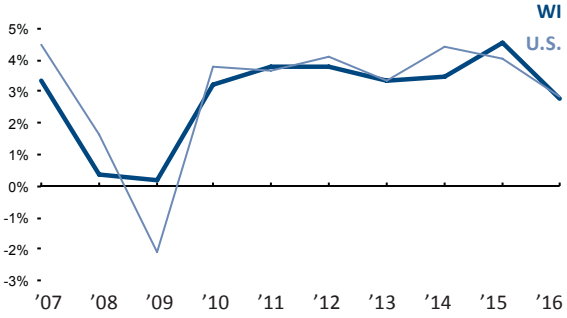
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

37 Economic Performance Rank

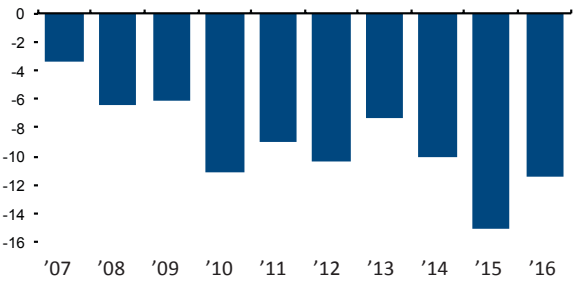
19 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

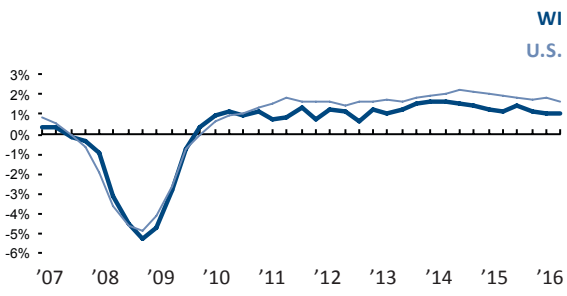
State Gross Domestic Product
Cumulative Growth 2006-2016 32.8% Rank: 24



Absolute Domestic Migration
Cumulative 2006-2015 -90,315 Rank: 40
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 2.4% Rank: 36



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**30**	**32**	**15**	**17**	**13**	**9**	**14**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.65%	40
Top Marginal Corporate Income Tax Rate	7.90%	32
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.33	32
Property Tax Burden (per $1,000 of personal income)	$35.81	36
Sales Tax Burden (per $1,000 of personal income)	$20.29	16
Remaining Tax Burden (per $1,000 of personal income)	$16.06	19
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	-$0.06	18
Debt Service as a Share of Tax Revenue	6.2%	20
Public Employees Per 10,000 of Population (full-time equivalent)	493.7	15
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.7	20
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.06	39
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Wyoming

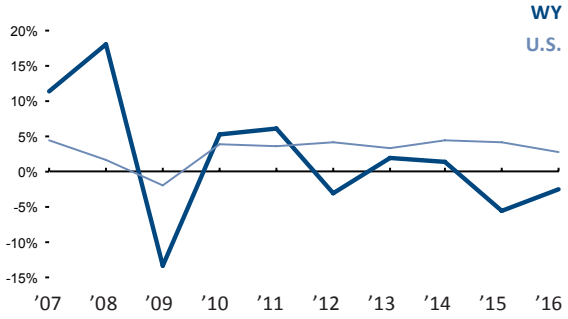
2018 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

43 Economic Performance Rank

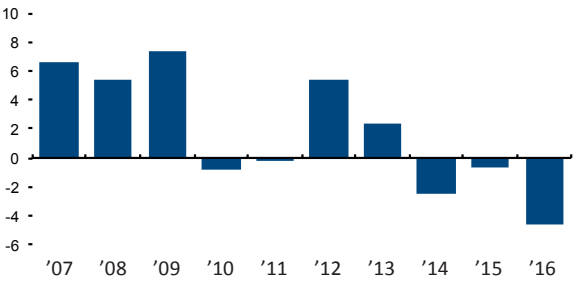
8 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

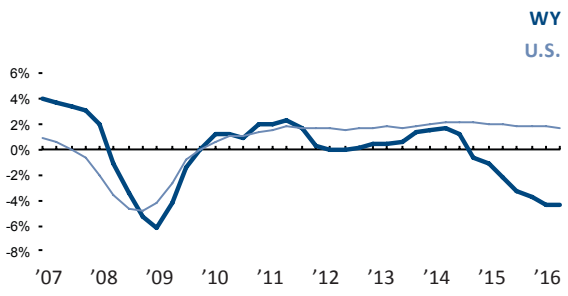
State Gross Domestic Product
Cumulative Growth 2006-2016 17.3% Rank: 47



Absolute Domestic Migration
Cumulative 2007-2016 18,681 Rank: 21
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2006-2016 -1.7% Rank: 50



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2011	2012	2013	2014	2015	2016	2017
ECONOMIC OUTLOOK RANK	**6**	**6**	**6**	**10**	**8**	**4**	**7**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$41.32	42
Sales Tax Burden (per $1,000 of personal income)	$31.53	39
Remaining Tax Burden (per $1,000 of personal income)	$13.17	6
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per $1,000 of personal income)	$1.01	36
Debt Service as a Share of Tax Revenue	2.0%	1
Public Employees Per 10,000 of Population (full-time equivalent)	870.6	50
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	73.3	8
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.87	28
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Appendix

2018 ALEC-Laffer State Economic Competitiveness Index: Economic Outlook Methodology

In previous editions of this report we introduced 15 policy variables that have a proven impact on the migration of capital—both investment and human—into and out of states. The end result of an equal-weighted combination of these variables is the 2018 ALEC-Laffer Economic Outlook rankings of the states. Each of these factors is influenced directly by state lawmakers through the legislative process. The 15 factors and a basic description of their purposes, sourcing and subsequent calculation methodologies are as follows:

HIGHEST MARGINAL PERSONAL INCOME TAX RATE

This ranking includes local taxes, if any, and any impact of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. Data were drawn from Tax Analysts, Federation of Tax Administrators and individual state tax return forms. Tax rates are as of March 25, 2018. The cut-off for the 11th Edition was pushed further into the year because of the widespread reaction by states to the federal Tax Cuts and Jobs Act, which was signed into law in December of 2017. In past years, the rankings included legislated rates as of January 1st.

HIGHEST MARGINAL CORPORATE INCOME TAX RATE

This variable includes local taxes, if any, and includes the effect of federal deductibility, if allowed. Because the Tax Cuts and Jobs Act reduced the federal corporate income tax rate from 35% to 21%, the highest marginal tax rates in states with federal deductibility are different in the 11th Edition even if there were no legislated changes to the statutory tax rates at the state level. A state's largest city was used as a proxy for local tax rates. In the case of gross receipts or business franchise taxes, an effective tax rate was approximated using NIPA profits, rental and proprietor's income and gross domestic product data. The Texas franchise tax is not a traditional gross receipts tax, but is instead a "margin" tax with more than one rate. A margin tax creates less distortion than does a gross receipts tax. Therefore, what we believe is the best measurement for an effective corporate tax rate for Texas is to average the 4.5176 percent measure we would use if the tax was a gross receipts tax and the 0.75 percent highest rate on its margin tax, leading to our measure of 2.63 percent. Data were drawn from Tax Analysts, Federation of Tax Administrators, individual state tax return forms and the Bureau of Economic Analysis. Tax rates are as of March 25, 2018.

PERSONAL INCOME TAX PROGRESSIVITY

This variable was measured as the difference between the average tax liability per $1,000 at incomes of $50,000 and $150,000. The tax liabilities were measured using a combination of effective tax rates, exemptions and deductions at both state and federal levels, which are calculations from Laffer Associates. Because of the Federal Tax Cuts and Jobs Act, there were some significant changes in progressivity due to the elimination of the personal exemption on federal tax returns.

PROPERTY TAX BURDEN

This variable was calculated by taking tax revenues from property taxes per $1,000 of personal income. We have used U.S. Census Bureau data, for which the most recent year available is 2015. These data were released in October 2017.

SALES TAX BURDEN

This variable was calculated by taking tax revenues from sales taxes per $1,000 of personal income. Sales taxes taken into consideration include the general sales tax and specific sales taxes. We have used U.S. Census Bureau Data, for which the most recent year available is 2015. Where appropriate, gross receipts or business franchise taxes, counted as sales taxes in the Census data, were subtracted from a state's total sales taxes in order to avoid

double-counting tax burden in a state. These data were released in October 2017.

REMAINING TAX BURDEN

This variable was calculated by taking tax revenues from all taxes—excluding personal income, corporate income (including corporate license), property, sales and severance per $1,000 of personal income. We used U.S. Census Bureau Data, for which the most recent year available is 2015. These data were released in October 2017.

ESTATE OR INHERITANCE TAX (YES OR NO)

This variable assesses if a state levies an estate or inheritance tax. We chose to score states based on either a "yes" for the presence of a state-level estate or inheritance tax, or a "no" for the lack thereof. Data were drawn from McGuire Woods LLP, "State Death Tax Chart" and indicate the presence of an estate or inheritance tax as of January 1, 2018.

RECENTLY LEGISLATED TAX CHANGES

This variable calculates each state's relative change in tax burden over a two-year period (in this case, the 2016 and 2017 legislative session) for the next fiscal year, using revenue estimates of legislated tax changes per $1,000 of personal income. This timeframe ensures that tax changes will still be reflected in a state's ranking despite the lags in the tax revenue data. ALEC and Laffer Associates calculations used raw data from state legislative fiscal notes, state budget offices, state revenue offices and other sources, including the National Conference of State Legislators.

DEBT SERVICE AS A SHARE OF TAX REVENUE

Interest paid on debt as a percentage of total tax revenue. This information comes from 2015 U.S. Census Bureau data. These data were released in October 2017.

PUBLIC EMPLOYEES PER 10,000 RESIDENTS

This variable shows the full-time equivalent public employees per 10,000 of population. This information comes from 2016 U.S. Census Bureau data. These data were released in October 2017.

QUALITY OF STATE LEGAL SYSTEM

This variable ranks tort systems by state. Information comes from the U.S. Chamber of Commerce Institute for Legal Reform 2017 Lawsuit Climate Survey.

STATE MINIMUM WAGE

Minimum wage enforced on a state-by-state basis. If a state does not have a minimum wage, we use the federal minimum wage floor. This information comes from the U.S. Department of Labor, as of January 1, 2018.

WORKERS' COMPENSATION COSTS

This variable highlights the 2016 Workers' Compensation Index Rate (cost per $100 of payroll). This survey is conducted biennially by the Oregon Department of Consumer & Business Services, Information Management Division.

RIGHT-TO-WORK STATE (YES OR NO)

This variable assesses whether or not a state requires union membership for its employees. We have chosen to score states based on either a "yes" for the presence of a right-to-work law or a "no" for the lack thereof. This information comes from the National Right to Work Legal Defense and Education Foundation, Inc. Right-to-work status is as of January 1, 2018.

TAX OR EXPENDITURE LIMIT

States were ranked only by the number of state tax or expenditure limits in place. We measure this by i) a state expenditure limit, ii) mandatory voter approval of tax increases and iii) a supermajority requirement for tax increases. One point is awarded for each type of tax or expenditure limitation a state has. All tax or expenditure limitations measured apply directly to state government. This information comes from the Cato Institute and other sources.

"Rich States, Poor States provides a roadmap for economic prosperity to policymakers and the American people. I give many thanks to ALEC and the authors of this publication for this invaluable resource, which encourages states to adopt tax policies that protect hardworking taxpayers and encourage economic growth."

– Congressman Bob Goodlatte, Virginia
Chairman, U.S. House Judiciary Committee

"Rich States, Poor States is a great resource for state leaders on the importance of enacting market-friendly policies. Many states are facing difficult economic times and ALEC effectively highlights how market-friendly policies increase state prosperity and competitiveness."

– State Treasurer Allison Ball, Kentucky
National Chairwoman, State Financial Officers Foundation

"States are continually competing to offer the most pro-growth economic conditions. Over the years, *Rich States, Poor States* has become the premier source by which state lawmakers measure the economic competitiveness of their states. The research in *Rich States, Poor States* and the undeniable interstate competition for economic wellbeing led us down the path of successfully enacting the most significant tax reform in North Carolina state history. When states compete on the merits of good public policy, ultimately our hardworking taxpayers are the real winners."

– Representative Jason Saine, North Carolina
Senior Chairman, House Finance Committee

"Rich States, Poor States is the "go to" source for legislators and policymakers interested in the fiscal health of their state. The groundbreaking work on unfunded liabilities in state pension and health care plans is especially important."

– Barry Poulson, Ph.D.
Professor Emeritus, University of Colorado

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