



Tax Policy and State Growth

2016

WORLD'S LARGEST LAFFER CURVE



Cross-State Time Series Comparison

The Nine States with the Lowest and the Highest Marginal Personal Income Tax (PIT) Rates Ten-Year Economic Performance (performance between 1997 and 2014)

	Top PIT Rate*^	Gross State Product Growth	Population Growth	Non-Farm Payroll Employment Growth	Total State Tax Receipts Growth
9 States with no PIT*	0.00%	51.12%	26.42%	23.65%	118.14%
U.S. Average		41.74%	16.95%	13.09%	94.90%
Missouri	6.00%	19.21%	10.63%	3.58%	43.82%
9 States with Highest Marginal PIT Rate*	9.75%	42.20%	11.59%	12.20%	116.12%

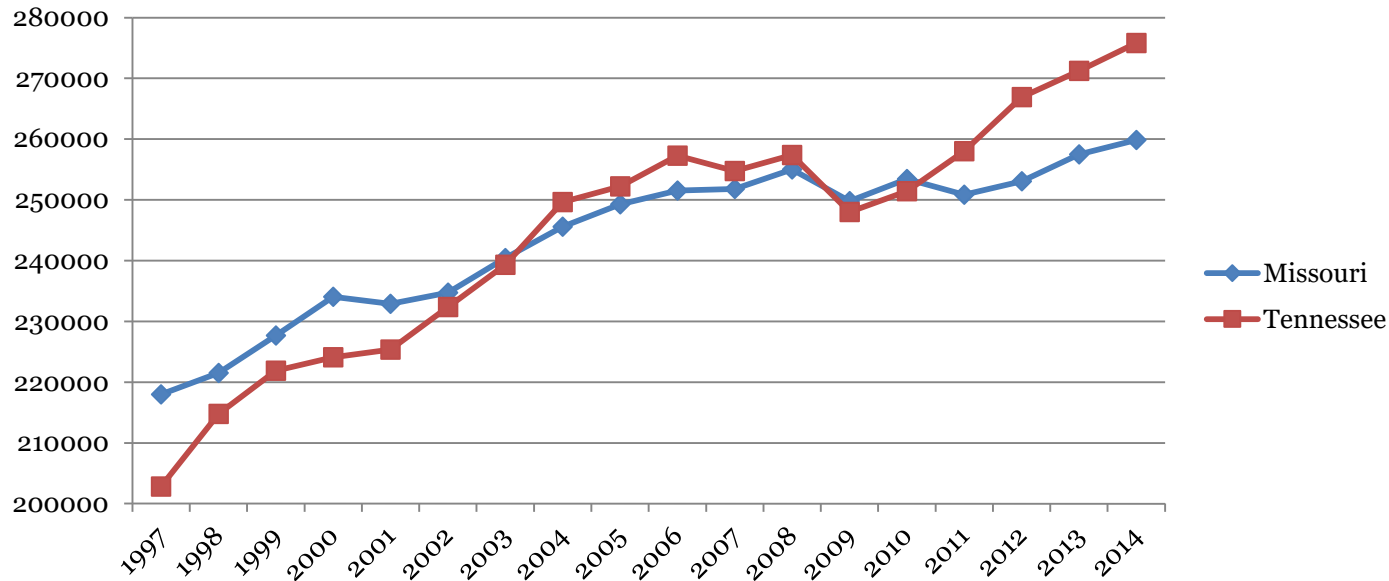
*Equal-weighted averages

^As of January 2015



Comparison: Missouri vs. Tennessee

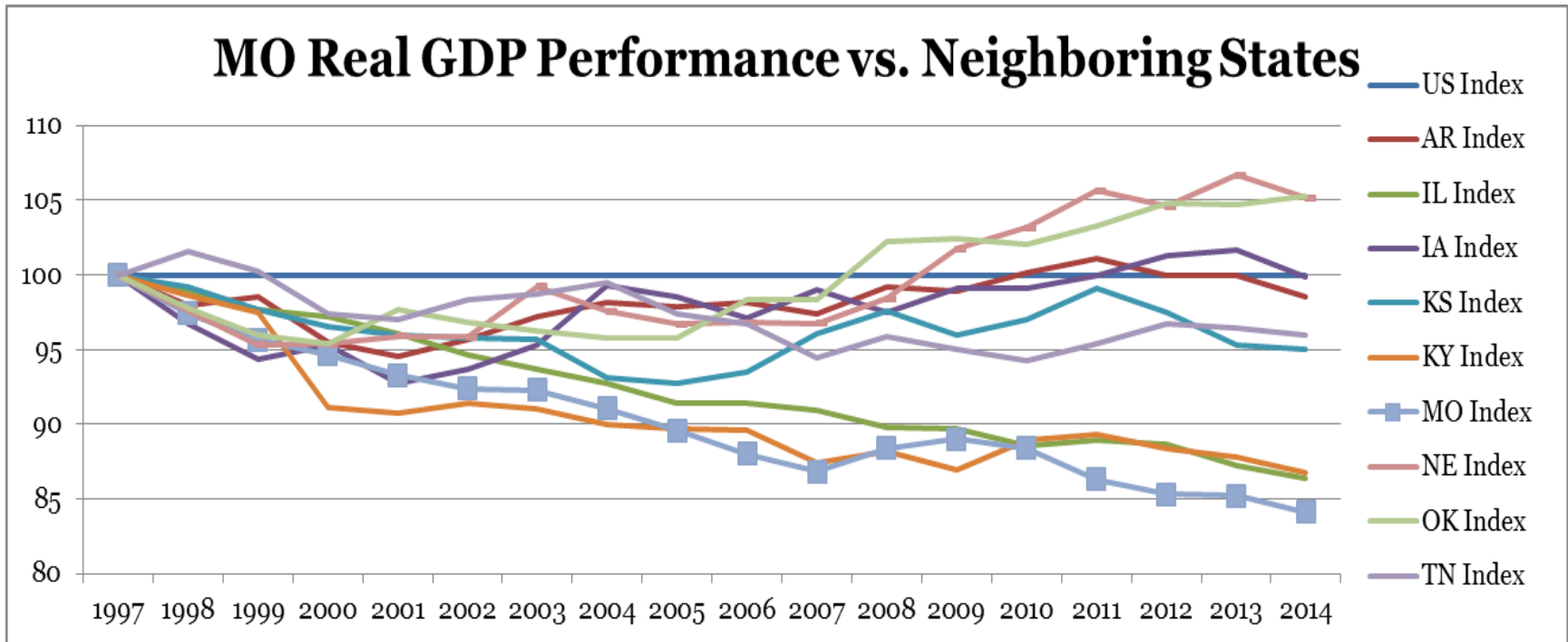
Missouri and Tennessee Real GDP (1997-2014)



- Tennessee and Missouri share similar basic economic profiles.
- Missouri taxes income, Tennessee does not.
- Tennessee's economy has been growing more rapidly than Missouri's economy.
- Since 1997, if Missouri grew at a rate equal to the average of the states with no income tax, **the average Missouri resident's income would be over \$3,600 higher.**
- If Missouri grew at the same rate as the nation as a whole, Missouri's economy would be **\$49 billion greater** than its current level.



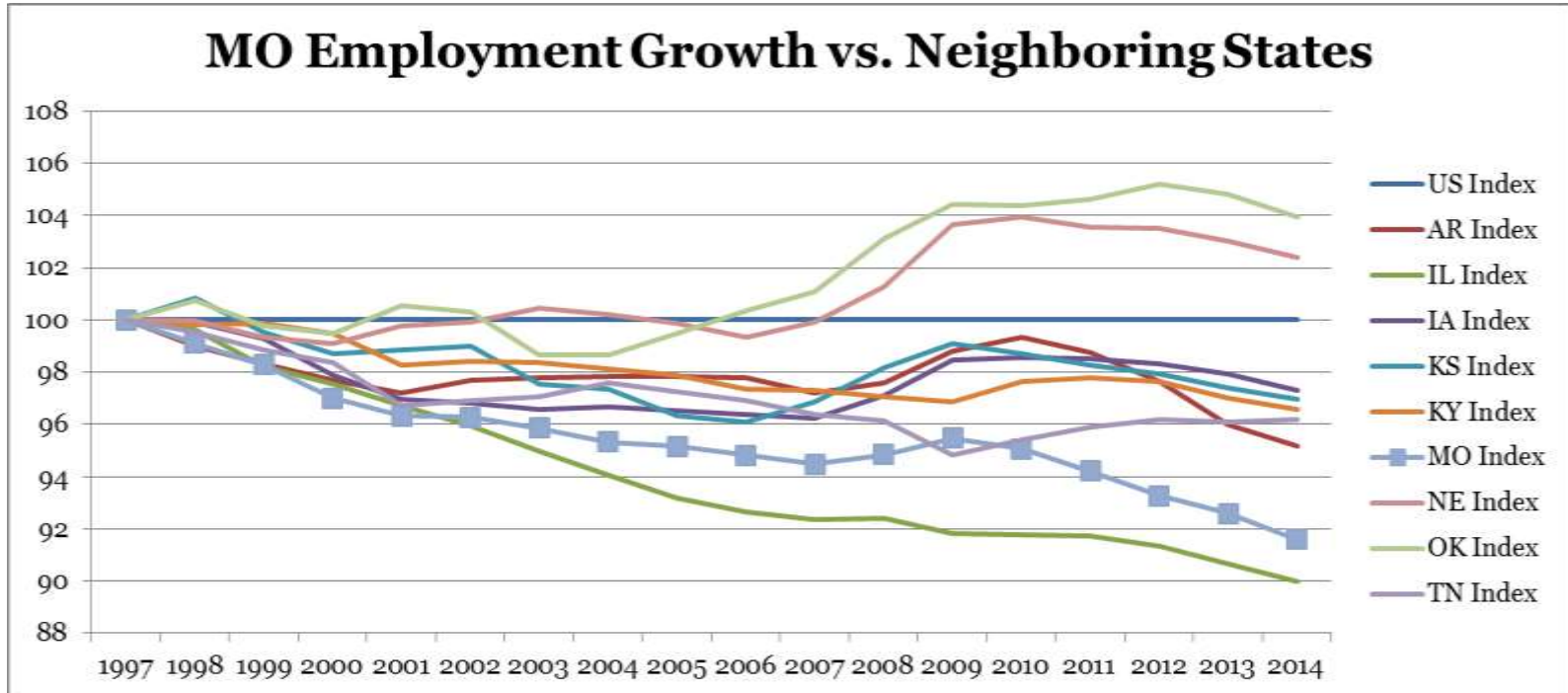
Real GDP Growth



Missouri performs worse than all of its neighbors in real GDP growth.



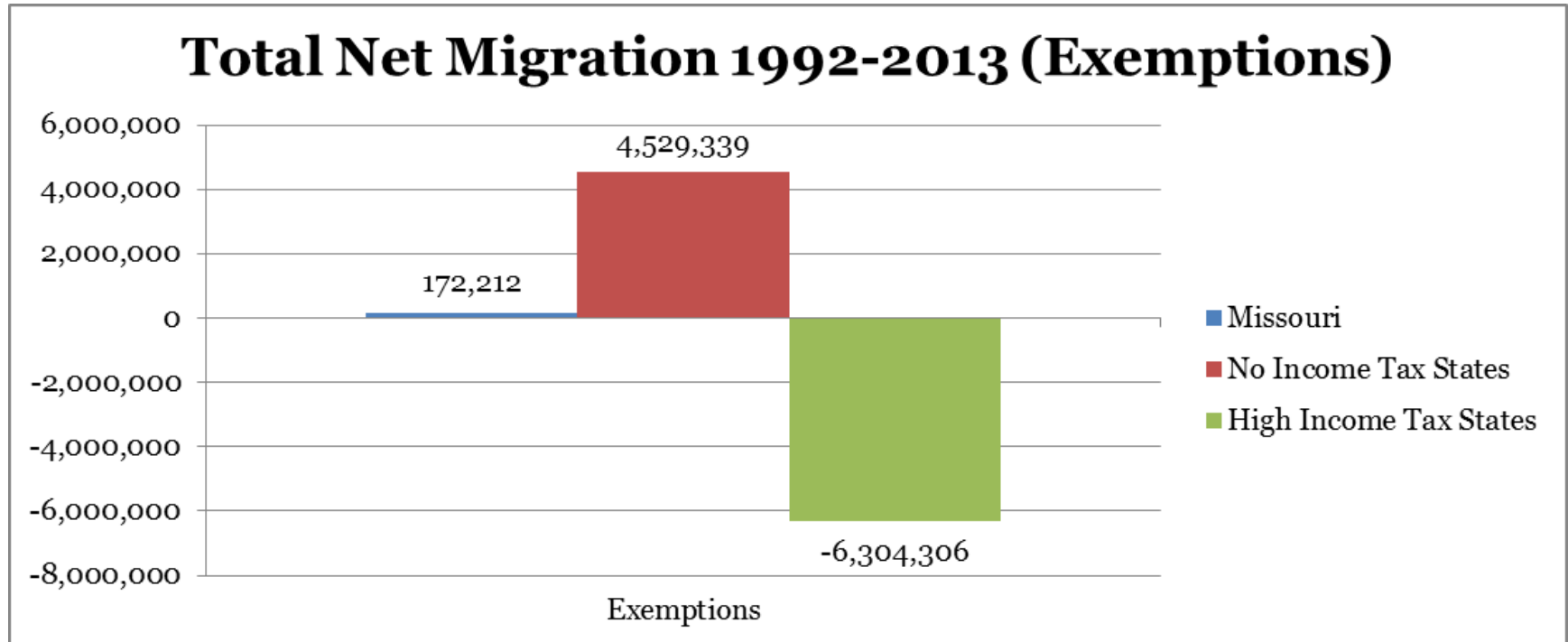
Employment Growth



Missouri has the second-worst employment growth compared to its neighbors since 1997.



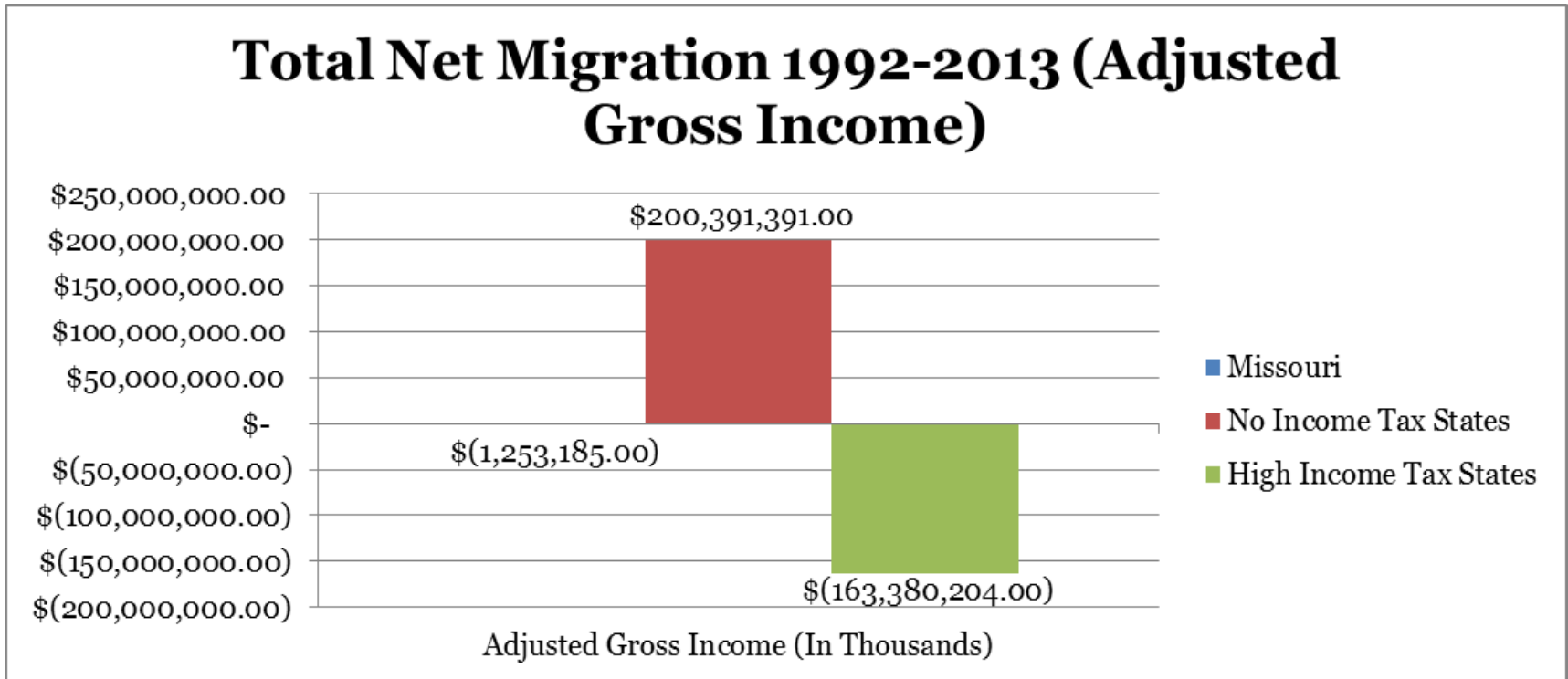
Net Migration



Between 1992-2013, 4.53 million people moved into states with no income tax, while 6.30 million people moved out of the states that have the highest income tax rates.



Net Migration (Part 2)

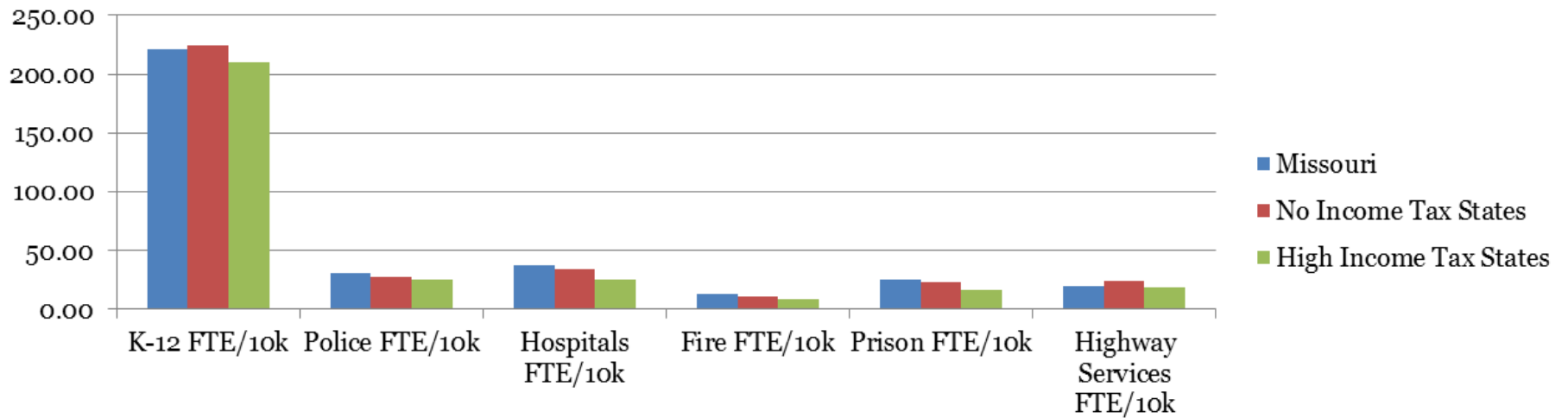


Between 1992-2013, \$200.39 billion in adjusted gross income moved into states without an income tax, while \$163.38 billion in adjusted gross income moved out of the states with the highest income tax rates.



Social Services

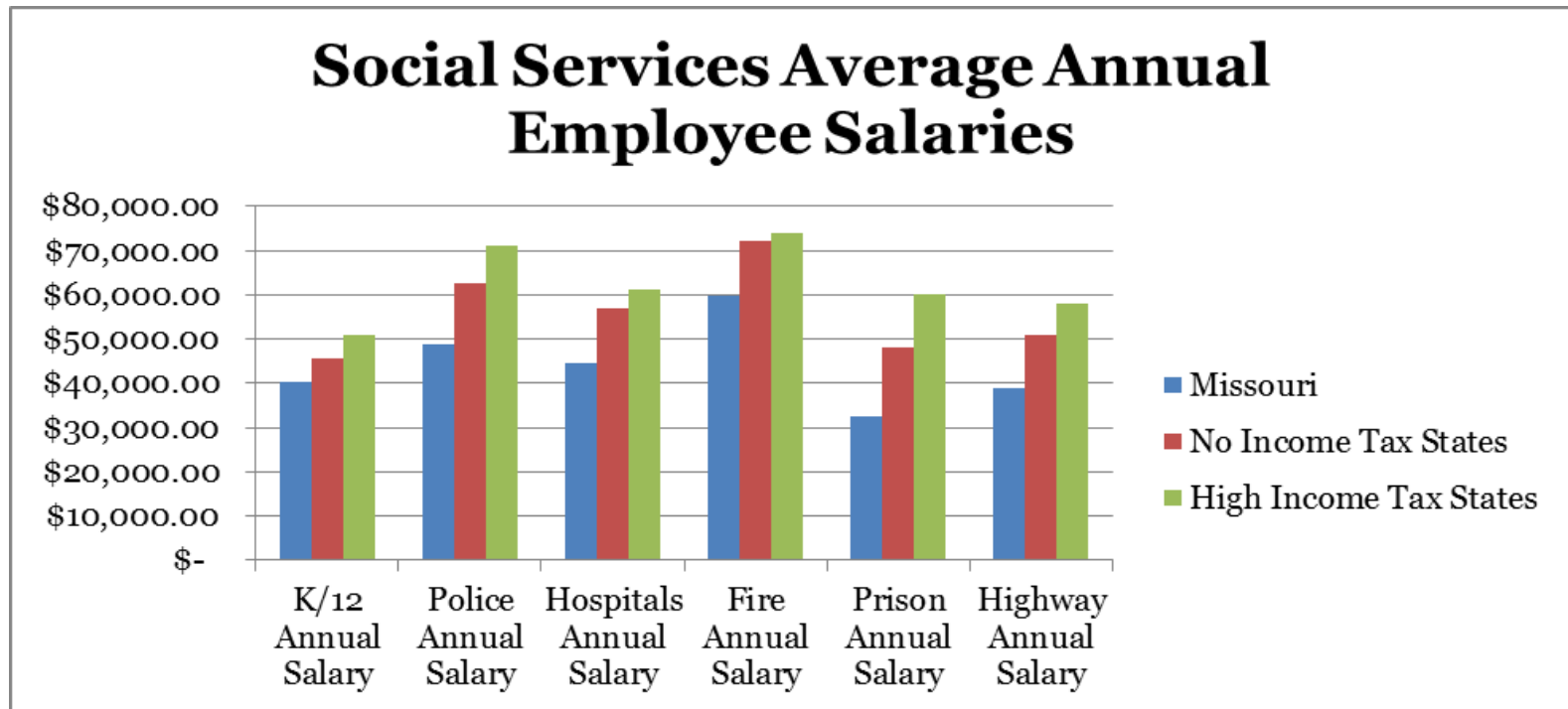
Social Services Full-time Equivalent Employees per 10,000 residents



States with no income tax have more full-time equivalent K-12, Police, Hospital, Fire, Corrections, and Highway employees per 10,000 in population than states with the highest income tax rates.



Social Services (Part 2)



States with the highest income tax rates, on average, have higher employee salaries than states with no income taxes.



Social Services (Part 3)

Area	Average Annual Cost per Inmate	Cost per Highway Mile	Percent of Rural Interstate Mileage in Poor Condition	Percent of Bridges in Deficient Condition
Missouri	\$22,350	\$35,197	0.72%	24.75%
No Income Tax States	\$28,715	\$122,761	2.47%	19.23%
High Income Tax States	\$47,508	\$197,605	3.14%	24.61%

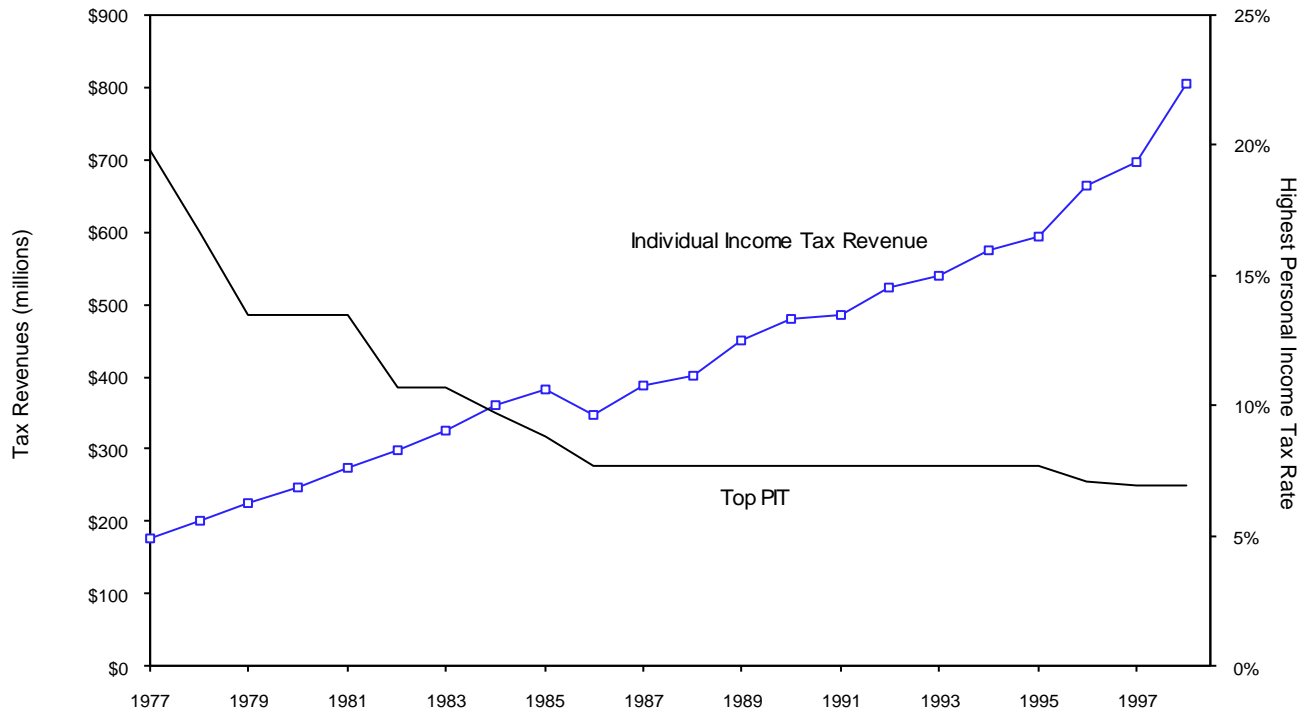
- States with no income tax have lower inmate and highway costs than states with high income tax rates.
- Highways and bridges in states without an income tax are, on average, in better condition than states with high income tax rates.



DELAWARE'S RATE CUTS

Enhanced State Revenues

Delaware Top Individual Income Tax Rates and Tax Revenues



Delaware reduced the top marginal income tax rate from 19.8 percent in 1978 to 6.9 percent in 1998. The rate currently stands at 6.60 percent.



The High Cost of State Income Taxes

- Over the last 50 years, 11 states instituted an income tax.
- Every state that has initiated a progressive income tax has reported a deterioration in that state's economic performance over the ensuing years.
- Each and every state that introduced an income tax saw its share of total U.S. output decline.



The High Cost of State Income Taxes (Part 2)

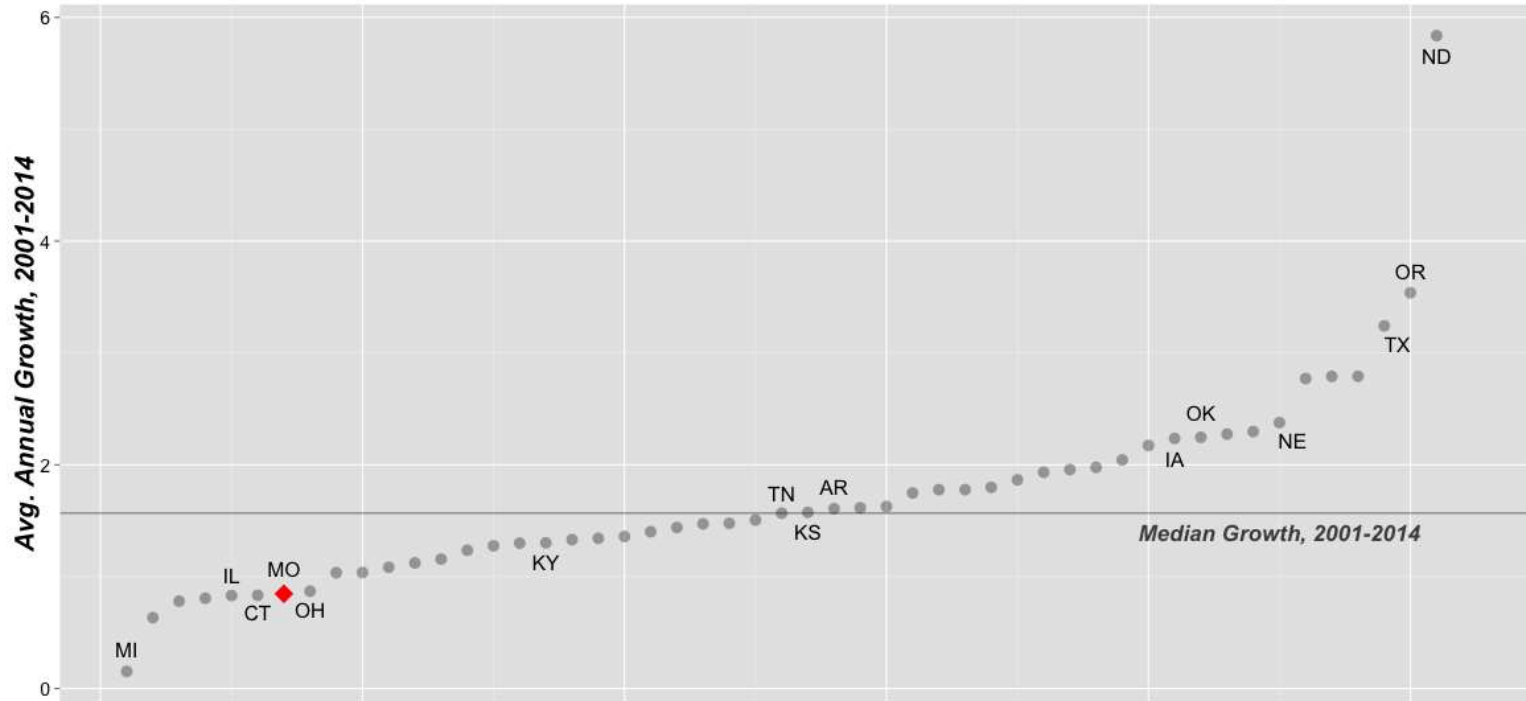
Relative economic performance of the 11 states before and after adopting an income tax:

Period	Share of Total U.S. GDP	Share of Total U.S. Population	Share of Total U.S. State Tax Revenue
11 States, Average of 5 Years Prior to Income Tax Introduction*	33.0%	31.0%	27.8%
11 States in 2014*	22.4%	22.7%	23.7%
Change	-10.6%	-8.3%	-4.1%

*The 11 states are CT, IL, IN, ME, MI, NE, NJ, OH, PA, RI, WV



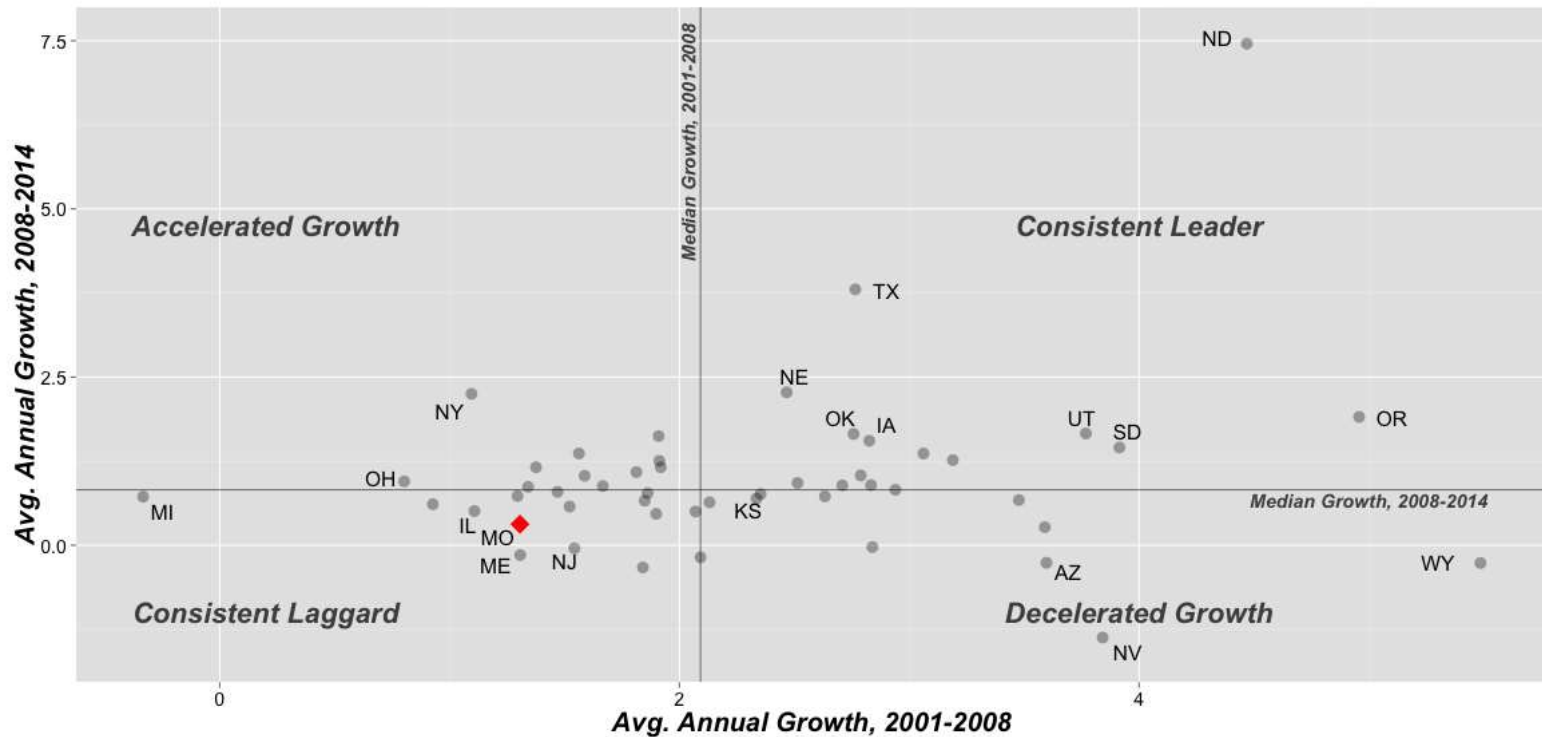
Average Annual Real GDP Growth, 2001-2014



Since 2001, Missouri ranks 45th in average annual real GDP growth among the 50 states and Washington, D.C.



Average Annual GDP Growth, 2008-2014



Missouri's growth has lagged behind that of most other states both before and after the 2008 recession.



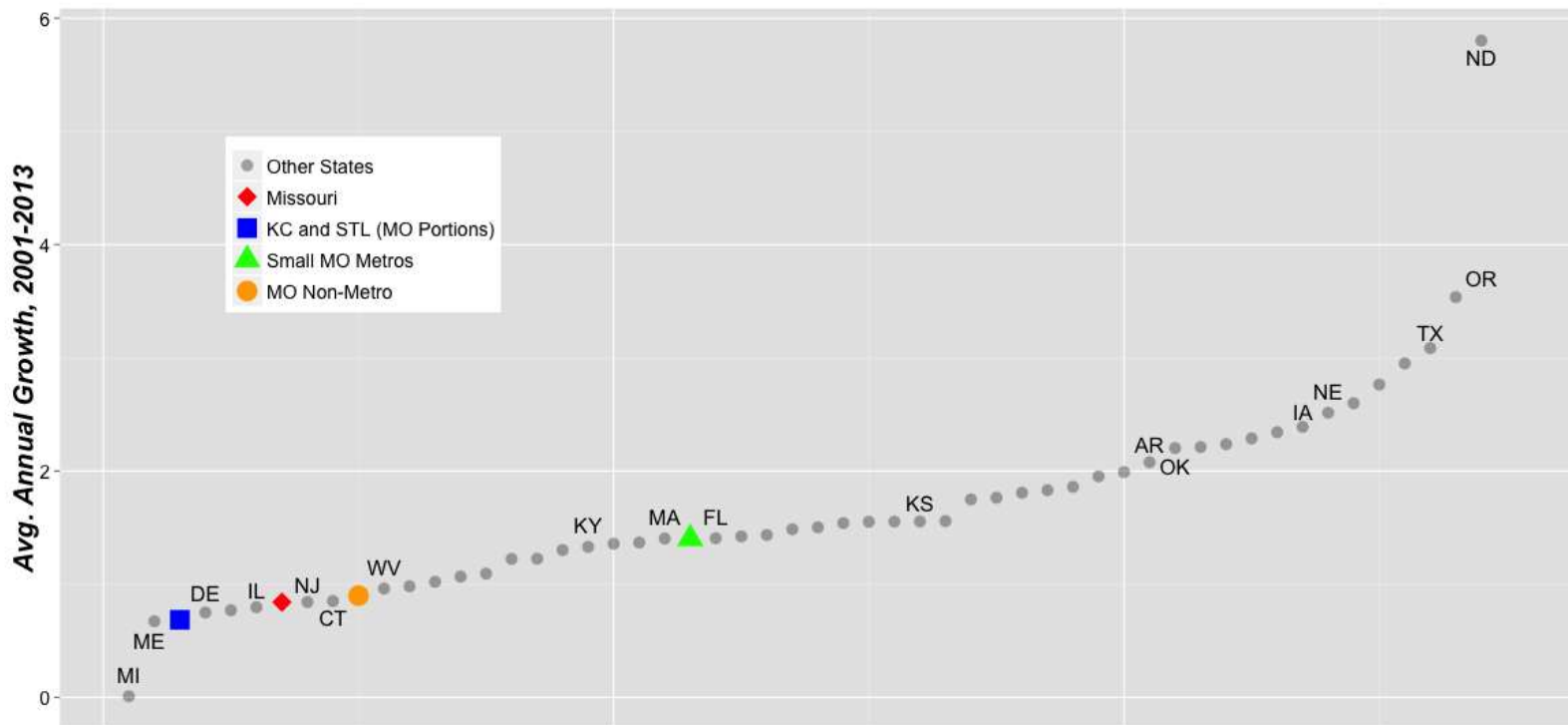
Missouri Real GDP Growth by Large Metro Areas (Kansas City and Saint Louis), Small Metro Areas (Cape Girardeau, Columbia, Jefferson City, Joplin, Saint Joseph, and Springfield), and Non-Metro Areas.

Area	Average Annual Growth, 2001–2013	Average Annual Growth, 2008–2013	Average Annual Growth, 2001–2008
Missouri (entire state)	0.85%	0.19%	1.31%
Large metro areas*	0.66%	0.19%	1.04%
Small metro areas	1.40%	0.87%	1.79%
Non-metro areas	0.90%	−0.36%	1.81%

*Missouri sides only



Average Annual Real GDP Growth, 2001-2013, 50 states and Washington, D.C., featuring Missouri Large metros, small metros, and non-metro areas



Growth rates for Missouri and her two largest cities since 2001 have been dismal.



Conclusions

- Taxes have a negative impact on economic activity.
- States that assess high income tax rates on income have revenue growth that is roughly equivalent to states with no income tax.
- States without an income tax outperform in every conceivable fashion (e.g., GSP, domestic migration).
- If the mere existence of an income tax provides no extra revenues, it does no good — either for individual wallets or government programs.

Source: “The Missouri Compromise,” Arthur Laffer, Show-Me Institute Essay, October 2010.





www.ShowMeInstitute.org