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EDITION



# RICH STATES, POOR STATES

ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX



ARTHUR B. **LAFFER**  
STEPHEN **MOORE**  
JONATHAN **WILLIAMS**

FOREWORD BY  
**GOV. DOUG DUCEY**

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



# Rich States, Poor States

ALEC-Laffer State Economic Competitiveness Index

Arthur B. Laffer

Stephen Moore

Jonathan Williams

*Rich States, Poor States*

*ALEC-Laffer State Economic Competitiveness Index*

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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 also advised Prime Minister Margaret Thatcher on fiscal policy in the U.K. during the 1980s. He has been a faculty member at the University of Chicago, University of Southern California and Pepperdine University. 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. 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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Jonathan Williams is the vice president for the Center for State Fiscal Reform at the American Legislative Exchange Council (ALEC), where he works with state policymakers, congressional leaders and members of the private sector to develop fiscal policy solutions for the states. Prior to joining ALEC, Williams served as staff economist at the nonpartisan Tax Foundation, authoring numerous tax policy studies. Williams’s work has appeared in many publications, including *The Wall Street Journal*, *Forbes* and *Investor’s Business Daily*. He is a columnist for *Tax Analysts*, the leading provider of tax news and analysis for the global community. 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). Williams has testified before numerous legislative bodies and spoken to audiences across America. He is a frequent guest on talk radio shows and has appeared on numerous television outlets, including the PBS NewsHour with Jim Lehrer, Fox Business News and Bloomberg. He serves on the board of directors for State Budget Solutions, a non-partisan good government group that pursues fiscal reform in the states. Williams was also the recipient of the prestigious Ludwig von Mises Award in Economics.

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# Foreword

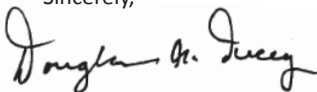
**T**he U.S. economy is burdened with a staggering national debt, ever increasing taxes and a growing number of stifling regulations on businesses. In Arizona, we refuse to allow our economy to be held back by lack of leadership in Washington, D.C. We're reducing government spending, lowering taxes and adopting pro-growth policies to unleash our state's economic potential and create opportunity for more Arizonans. *Forbes* magazine recently took note of our bright economic future, announcing Arizona as the number one state for future job growth.

This year, state lawmakers and I passed Arizona's first structurally balanced budget since 2007. Our historically lean budget protects Arizona's values and key government functions in addition to protecting the most vulnerable by ensuring a social safety net that is fiscally sustainable. We are now on a three-year path to eliminate the state's structural deficit. A truly balanced budget has already resulted in good news for Arizona. In May, both Moody's Investor Service and Standard & Poor's Rating Service upgraded Arizona's credit rating. It's no coincidence that two of the world's top credit rating services have improved their outlook of Arizona's financial condition. The upgraded ratings were attributed to Arizona's improving economy and steps taken to eliminate the structural budget imbalance. We started this fiscal year with \$312 million in cash carryforward and our rainy day fund sits at \$457 million. By every measure Arizona's fiscal health has vastly improved.

Our state will have to live within its means and save taxpayers' hard-earned money wherever possible. Through consolidations and a state government hiring freeze, we've reduced inefficiencies and redundancies by decreasing the size of government and realizing savings. Arizonans will start to notice these savings and budget decisions as taxes decrease. I was pleased to sign legislation reducing the insurance premium tax and indexing the income tax for inflation, thus eliminating a pernicious hidden tax increase every year. Along with tax reductions, I've called for a statewide evaluation on administrative rules, with the goal of eliminating burdensome and unnecessary regulations on businesses. We've passed laws that encourage innovation for companies like Uber and Lyft, spur entrepreneurship by increasing access to capital through crowdfunding mechanisms and eliminate arbitrary restrictions on the growing craft brew industry.

For Arizona, it came down to good decision-making, fiscal responsibility and a fulfilled promise to balance the state budget once and for all. That's what we've done in our state, and that's the playbook we're going to continue to follow. Governing on many of the economic policy principles advocated in *Rich States, Poor States* has led our state on a path to prosperity. The work done by Arthur Laffer, Stephen Moore and Jonathan Williams is second to none. There is always more work to be done, but I am confident that these priorities—to rein in government spending, reduce regulations on business, keep taxes low for Arizonans and right the state's fiscal ship—have combined to significantly improve Arizona's economic future.

Sincerely,

A handwritten signature in black ink, reading "Douglas A. Ducey". The signature is fluid and cursive, with the first name "Douglas" being the most prominent part.

Douglas A. Ducey  
Governor of Arizona

# Executive Summary

**F**or some time now the federal government has struggled to resolve its debt crisis. Similarly, state governments must also confront their own economic challenges, but each approaches this problem in a different manner. States that have adopted pro-growth policies have generally witnessed their economies grow, offering greater wage growth and more opportunities for citizens. Yet, despite years of empirical evidence supporting free market policies, some states choose a different path.

In this 8th edition of *Rich States, Poor States*, authors Dr. Arthur Laffer, Stephen Moore and Jonathan Williams analyze policy choices made throughout the 50 states, and whether or not those choices have been conducive to economic competitiveness. The authors provide the 2015 ALEC-Laffer State Economic Competitiveness Index, based on state economic variables. The empirical evidence and analysis contained in this edition of *Rich States, Poor States* makes clear which policies lead to greater levels of opportunity and which policies are obstacles to growth.

In chapter one, the authors discuss important state developments since the last edition of this publication, including the results of the 2014 elections. Laffer, Moore and Williams look at what states are doing to become more competitive for jobs and capital. Americans in states with poor economic policies are voting with their feet and moving to states that offer better economic environments.

Chapter two addresses the widespread problem of tax cronyism throughout the states. As the authors discuss, tax cronyism is a poor substitute for pro-growth tax reform. Not only does tax cronyism fail to create real economic opportunity, but it also gives rise to corruption and stifles innovation. The authors offer important strategies for

implementing fair and effective tax reform that reduces or eliminates cronyist tax policies. This chapter concludes that pro-growth tax policy, that avoids picking winners and losers, provides a fair and competitive environment for all hardworking taxpayers.

There are many policy obstacles that lawmakers face when trying to create a competitive economic environment. Chapter three discusses the policy tools that are necessary to overcome these obstacles. These tools include lowering or eliminating the corporate and personal income taxes, reducing overall tax burdens, reducing or eliminating state death taxes, simplifying tax codes and supporting worker freedom. Moreover, this chapter highlights the need for state policymakers to fix their budgets and address long-term pension liabilities.

Chapter four tells the real story of the highly discussed tax reforms in Kansas over the past several years. There is much that state policymakers can learn from the Kansas experience. It is worth examining just what happened in Kansas, how it happened, why it happened and what other states can learn from it. The Kansas experience demonstrates that states cannot significantly reduce taxes without also prioritizing spending reform. While there has been a nonstop drumbeat of criticism from Left-leaning pundits, this chapter separates myth from fact.

Finally, chapter five provides the highly anticipated 2015 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 2015 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 (Over the past two years)
- 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

With the latest data on state economic growth and well-founded empirical research, this 8th edition of *Rich States, Poor States* offers insightful perspectives into each state's economy. The evidence is clear that pro-growth state tax and fiscal policies lead to more opportunities for all Americans. Competitive tax rates, thoughtful regulations and responsible spending can help states spark economic growth and opportunity.

### ALEC-Laffer State Economic Outlook Rankings, 2015

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

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

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

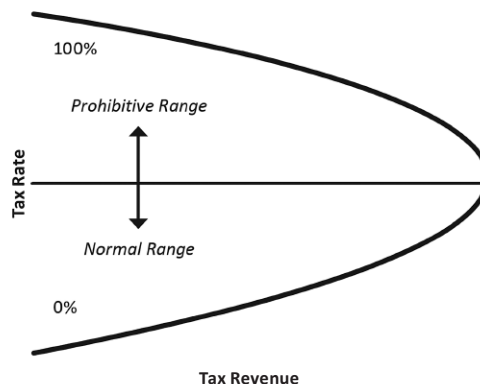
**5** *If tax rates become too high, they may lead to a reduction in tax receipts. The relationship between tax rates and tax receipts has been described by the Laffer Curve.*

The Laffer Curve (illustrated on this page) 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 factor 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 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 distort economic activity only minimally. 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 25 nations 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 tests), 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 the equivalent of a \$10 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. 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.*

Cheyenne, Wyoming

## CHAPTER

# 1



# State of the States

# State of the States

**T**he balance of economic and political power is shifting in America. As some states welcome thousands of new residents and businesses, others are seeing them flee at an alarming rate. The reason for this is simple: Americans continue to vote with their feet and go where they have the best economic opportunities. State economic policies vary considerably and the evidence is clear that these policies are having a huge effect on where Americans choose to live. In this chapter, we look at what these trends mean for the states and the country before reviewing what significant economic policy developments have occurred in the last year in the wake of the 2014 elections. For the most part, pro-growth economic reforms are gaining momentum throughout the states, and it is encouraging to see leaders from both sides of the aisle take research from this publication and call for reform.

## **On the Move: Analyzing American Mobility**

Population movements between state lines illustrate the importance of wise policy decisions. Specifically, this chapter examines net domestic migration and adjusted gross income (AGI) data. No matter what way you look at it, Americans are moving to economically competitive states and taking their incomes with them.

Net domestic migration measures the amount of people who file taxes in one state one year, and file taxes in another state the next year. The Internal Revenue Service (IRS) collects and publishes the data. Net domestic migration is different than general population growth because it does not include birth rates or immigrants from outside the United States. This measure captures

the decisions that Americans make to move from their home state to another.

From 1992 to 2011, approximately 62 million taxpayers moved from one state to another.<sup>1</sup> That is an estimated total greater than the populations of Illinois, New York and Florida combined.<sup>2</sup> In most cases, people are voting with their feet and moving to states that offer better economic opportunities.

American mobility has a huge price tag for the states. From 1992 to 2011, approximately \$2.2 trillion in AGI has migrated from one state to another.<sup>3</sup> AGI only measures tax filers, so the \$2.2 trillion figure does not include Americans who do not file tax returns. For local business and commerce, \$2.2 trillion is a lot of money flowing to the economically competitive states.

## **The Best and Worst Places for Economic Opportunity**

Generally, this publication's 2015 rankings show that Utah, Wyoming, North Carolina, Florida and Texas are economic hotspots for growth. Furthermore, many of the no income tax states such as Nevada and South Dakota are also economically promising.

On the other hand, most states in the Northeast and some states in the Rust Belt are facing economic decline. In the Rust Belt, Michigan, Indiana and Wisconsin deserve major credit for positive pro-growth reforms they have recently enacted after decades of poor policy choices. Additionally, Minnesota and Illinois both face significant fiscal challenges. While Governor Bruce Rauner is doing his best to protect taxpayers in Illinois, Minnesota policymakers continue to pass tax and spend policies. Economic opportunities in

the Northeast are even worse. However, Maine Governor Paul LePage and New Jersey Governor Chris Christie are heroically trying to turn things around.

Table 1 clearly illustrates this new demographic shift in economic power. New York, California, Illinois, Michigan and New Jersey have the largest amount of out-migration. Over the past decade, despite its sunny climate, 1,394,911 people on net left California in search of better opportunities. At 13.3 percent, California also levies the highest marginal personal income tax in the nation. During the same time period, 1,519,449 New Yorkers escaped the Empire State on net. New York's highest marginal personal income tax rate is the second highest in the nation.<sup>4</sup>

tax on personal income. Furthermore, North Carolina recently enacted historic tax reform.

### The South: Hotspot for Economic Growth

The most important demographic trend in America today is the shift of people and economic resources from the higher tax and regulation states of the Northeast to the lower tax states of the South.\* This is happening day after day and the cumulative effect of this migration from the high to the low tax states has increased the economic power and political clout of Southern states.

However, not all of the Southern states have pro-growth policies, and not all of the Northeastern states do the wrong things. New Hampshire

TABLE 1 | State Migration Winners and Losers

| The Ten States with the Greatest Net In-Migration<br>(Cumulative 2004-2013) |                |                        | The Ten States with the Greatest Net Out-Migration<br>(Cumulative 2004-2013) |               |                        |
|---|----------------|------------------------|--|---------------|------------------------|
| Rank  | State          | Net Domestic Migration | Rank   | State         | Net Domestic Migration |
| 1   | Texas          | 1,229,173              | 41   | Maryland      | -140,571               |
| 2   | Florida        | 960,492                | 42   | Connecticut   | -140,974               |
| 3   | North Carolina | 655,663                | 43   | Massachusetts | -200,230               |
| 4   | Arizona        | 584,103                | 44   | Louisiana     | -234,082               |
| 5   | Georgia        | 437,897                | 45   | Ohio          | -397,184               |
| 6   | South Carolina | 334,453                | 46   | New Jersey    | -524,205               |
| 7   | Tennessee      | 285,394                | 47   | Michigan      | -628,472               |
| 8   | Washington     | 275,864                | 48   | Illinois      | -646,867               |
| 9   | Colorado       | 272,722                | 49   | California    | -1,394,911             |
| 10  | Nevada         | 231,579                | 50   | New York      | -1,519,449             |

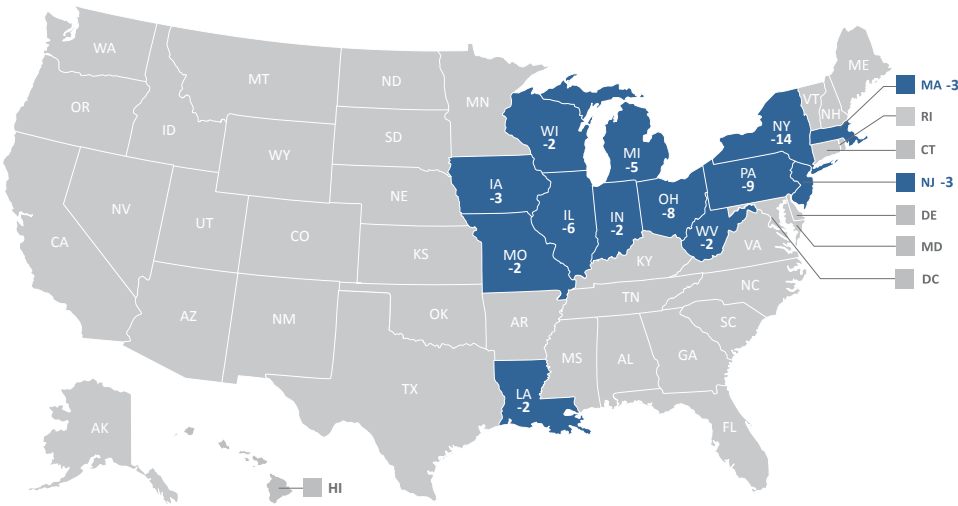
Source: U.S. Census Bureau

Meanwhile, Texas, Florida, North Carolina, Arizona and Georgia have the highest amount of in-migration. Texas and Florida, the two states with the highest amount of in-migration, do not levy a

has mostly pro-growth policies, especially with no income or sales tax, and so it is a Northeastern outlier. States like Kentucky and South Carolina are below average in this publication's 2015 eco-

\*This analysis generally follows regions outlined by the U.S. Census Bureau. States in the Northeast include Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, New Jersey, Maryland and Delaware. States in the South include Virginia, North Carolina, South Carolina, Georgia, Florida, West Virginia, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma and Texas.

FIGURE 1 | States with Largest Net Loss of Congressional Seats Since 1960



Source: U.S Census Bureau

nomic outlook rankings, while states like Alabama and Mississippi are only slightly above average.

Overall, the South and Southwest regions have long been and continue to be the big winners of this interstate competition. States such as Texas, Florida, Georgia and Arizona are among the states that have gained the most Congressional representation, while states in the Northeast and Midwest, including New York, Ohio, Pennsylvania and Illinois have lost the most seats. Incredibly, states in the Northeast have lost a large share of their total House seats in the past 50 years as their citizens have left in search of better economic opportunities.<sup>5</sup> Figure 1 shows the biggest losers in apportionment for the U.S. House of Representatives since the census of 1960.

**The Northeast: America’s New Rust Belt**

While the South is a hub for economic growth, the Northeast is quickly becoming America’s New Rust Belt. The Northeast continues to tax and spend its way to economic decline. Tax hikes, irresponsible spending and forced unionism are giving taxpayers and businesses plenty of reasons to move elsewhere.

However, New Hampshire is a beacon of hope in the Northeast’s sea of big-government economic policy. Many refer to the Granite State’s zero sales tax and zero income tax as the “New Hampshire Advantage.” This allows the state to

TABLE 2 | Top Marginal Income Tax Rates in the Northeast

| Income Tax Rates in the Northeast<br>(excluding New Hampshire) |                        |                         |
|--|------------------------|-------------------------|
| State  | Personal<br>Income Tax | Corporate<br>Income Tax |
| New England  |                        |                         |
| Connecticut  | 6.70%                  | 9.00%                   |
| Maine  | 7.95%                  | 8.93%                   |
| Massachusetts  | 5.15%                  | 8.00%                   |
| Rhode Island   | 5.99%                  | 7.00%                   |
| Vermont  | 8.95%                  | 8.50%                   |
| Extended Northeast   |                        |                         |
| Delaware   | 7.85%                  | 10.35%                  |
| Maryland   | 8.95%                  | 8.25%                   |
| New Jersey   | 9.97%                  | 9.00%                   |
| New York   | 12.70%                 | 17.16%                  |
| Pennsylvania   | 6.99%                  | 17.03%                  |
| Washington, D.C.   | 8.95%                  | 9.98%                   |
| United States<br>Median  |                        |                         |
|  | 5.99%                  | 6.90%                   |

\* Tax rates are combined local and state tax rates  
Source: Laffer Associates



compete more effectively for capital and talent. New Hampshire's economy is best in the Northeast in terms of job growth and other categories. Perhaps one day other states in the Northeast will follow New Hampshire's example.

Unfortunately, many states in the pro-tax Northeast have raised taxes in recent years. For example, Vermont just passed \$63 million in new taxes, providing plenty of headaches for taxpayers and business owners. The Green Mountain State's \$63 million tax binge includes property tax hikes, a transfer tax hike and a new soft drink tax, among others.<sup>6</sup> Not to be outdone by Vermont, Connecticut passed \$1.1 billion in new taxes, including about \$700 million in new taxes for businesses. This is not surprising since Connecticut has frequently raised taxes over the last 25 years.<sup>7</sup> Joe Scarborough, former Congressman and TV morning show host, made a recent remark which aptly explains the Northeast's anti-growth policies: "It's hard to imagine things could get any worse."<sup>8</sup> Although with the recent threats by General Electric and Aetna to leave Connecticut, perhaps things could get worse.

Furthermore, the Northeast also imposes high personal and corporate income tax rates. Most of the states in the Northeast levy personal and corporate income taxes high above the national average. As Table 2 shows, many states in the Northeast are out of step with the rest of the nation.

Not only does the Northeast tax heavily, but this region also has high per capita spending. Table 3 shows that the average state government in the Northeast (not including New Hampshire) already spends more than one-third more per capita than across the United States as a whole (\$7,271 versus \$5,344 of state spending per resident).<sup>9</sup> Since the Northeastern states tend to have highly uncompetitive tax systems, there is a significant incentive for business owners and entrepreneurs located in those states to flee to more competitive alternatives.

Meanwhile, the Northeast also is becoming increasingly inhospitable for employers. Of the 25 right-to-work states, zero reside in the Northeast—though New Hampshire tried to end forced unionism in 2012. In fact, the rate of job creation from 2002-2012 was three times faster in right-to-work states (6.9 percent versus 1.9 percent); but New York, New Jersey, Connecticut and all the others have refused to budge, thanks to the clout of the unions.<sup>10</sup> Other than taxes, this may

**TABLE 3 | Northeast State Spending per Capita, Fiscal Year 2013**

| <b>New England (excluding New Hampshire)</b> |         |
|--|---------|
| Connecticut                                  | \$7,745 |
| Maine  | \$5,781 |
| Massachusetts                                | \$8,597 |
| Rhode Island                                 | \$7,481 |
| Vermont                                      | \$7,923 |
| <b>Extended Northeast</b>                    |         |
| Delaware                                     | \$9,897 |
| Maryland                                     | \$6,115 |
| New Jersey                                   | \$5,710 |
| New York                                     | \$6,773 |
| Pennsylvania                                 | \$6,684 |
| <b>New England Average</b>                   | \$7,505 |
| <b>Extended Northeast Average</b>            | \$7,036 |
| <b>All Northeast Average</b>                 | \$7,271 |
| <b>Nationwide, per capita spending</b>       | \$5,344 |

*Source: U.S. Census, National Association of State Budget Officers, Kaiser Family Foundation*

be the single greatest factor impeding economic competitiveness in the region.

As a result of the Northeast's tax and spend policies, the region struggles to keep jobs and talent. As Connecticut State Senator Joe Markley explained, "We are the example of what you get with big government."<sup>11</sup> Table 4 compares internal migration trends and job creation by state in the decade ending in 2013. It is amazing that over an entire decade, Northeastern states, excluding New Hampshire, experienced just 2.1 percent job growth—less than half the 5.2 percent job growth nationwide. It is no wonder migration out of these states was more than 2.6 million on net over the past 10 years.

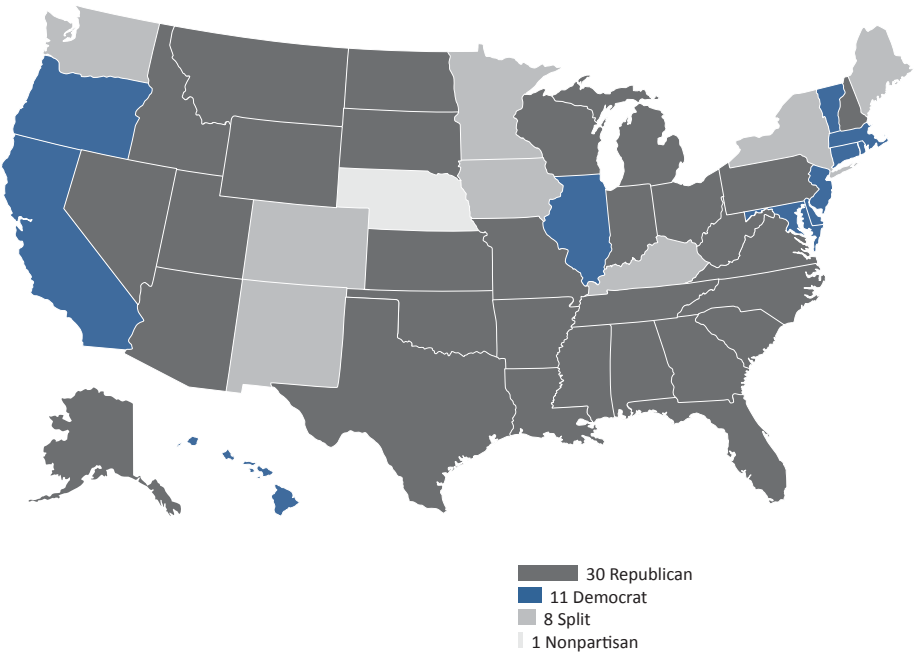
Can the few fiscally responsible governors like Chris Christie of New Jersey, Larry Hogan of Maryland, Charlie Baker of Massachusetts and Paul LePage of Maine turn things around? Possibly. They are promoting free market policies. If

TABLE 4 | Job Growth and Migration in the Northeast

| State                                     | Non-Farm Payrolls, Cumulative Growth, 2003-2013 | Rank | Absolute Domestic Migration, Cumulative, 2004-2013 | Rank |
|---|---|------|--|------|
| Connecticut                               | 1.1%  | 43   | -140,974   | 42   |
| Delaware                                  | 3.2%  | 33   | 42,811   | 20   |
| Maine                                     | -1.0%   | 46   | -1,063   | 27   |
| Maryland                                  | 4.5%  | 29   | -140,571   | 41   |
| Massachusetts                             | 5.8%  | 22   | -200,230   | 43   |
| New Jersey                                | -1.1%   | 47   | -524,205   | 46   |
| New York                                  | 6.6%  | 20   | -1,519,449   | 50   |
| Pennsylvania                              | 2.5%  | 37   | -55,565  | 36   |
| Rhode Island                              | -2.8%   | 49   | -69,187  | 40   |
| Vermont                                   | 2.0%  | 40   | -7,780   | 29   |
| <b>Total Net Domestic Migration</b>       |   |      | <b>-2,616,213</b>                                  |      |
| Regional Average, Excluding New Hampshire | 2.1%  |      |  |      |
| Average National Job Growth               | 5.1%  |      |  |      |

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

FIGURE 2 | Political Profiles of State Legislatures



Source: American Legislative Exchange Council



they fail to move their anti-growth legislatures, our prediction is the Northeast will continue to decline and the region will be bled of its economic resources by states that are pro-growth and pro-worker. This is the choice the Northeast faces: change or continue to decline.

#### **Decision 2014: Voters Choose Economic Opportunity**

The 2014 elections resulted in significant changes to the composition of statehouses across the country. Many voters chose to send more pro-growth legislators to their state capitals while electing several new governors who pledged to enact tax cuts, spending reductions and other policies designed to make their states more economically competitive. This set the stage for the coming legislative session to be highly productive for the sort of pro-growth economic reforms that have been discussed within these pages for years. Sure enough, the 2015 session saw many states enact tax relief for their citizens and make other significant improvements to their economic climates.

#### **State Tax Cut Roundup 2014: Both Blue and Red States Champion Tax Reform**

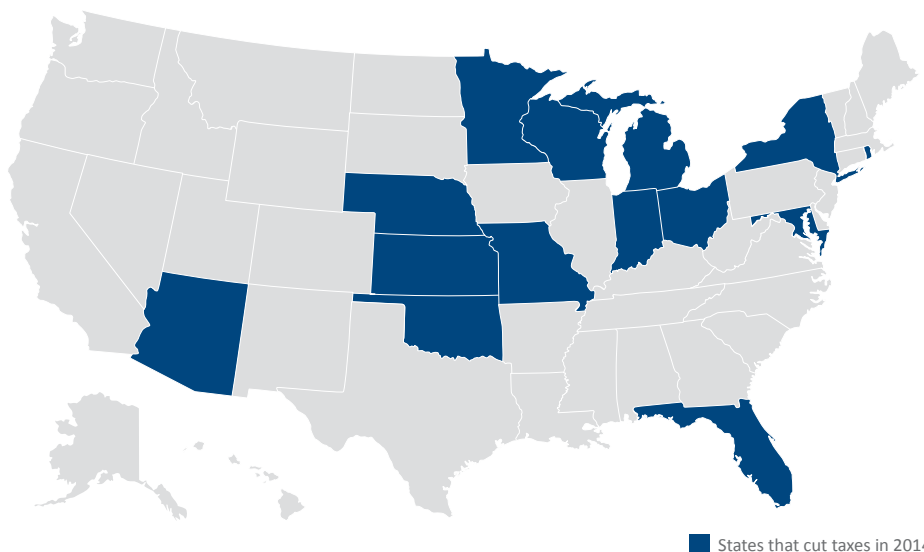
Before getting into the details of 2015, a review of the 2014 session's tax cuts is instructive. One

major state tax trend in 2014 was a mixture of both traditionally blue and red states cutting their taxes and improving their tax codes. The 2014 tax changes in the states were a particularly bipartisan effort. This is evident from a number of traditionally blue states cutting corporate income taxes and increasing exemptions for estate taxes.

New York and Rhode Island both made significant cuts to their corporate tax rates. As we have previously discussed, these states have some of the highest corporate taxes in the nation, which is one reason they have seen such poor economic growth in recent years. New York, Rhode Island, Maryland and New Jersey also raised the exemption for their estate taxes. While it is best for states to completely repeal estate taxes, increasing the exemption is a good step toward diminishing their economic harm on taxpayers. In other states, there were cuts to property taxes, income taxes, sales taxes and business taxes. Notably, there were no states that passed significant tax increases in 2014, indicating a distinct trend toward establishing a more competitive fiscal environment and less support for the idea that more taxes and spending will help states prosper.<sup>12</sup>

States are on the forefront of breaking down barriers to economic growth. The federal government suffers from constant political gridlock, while the 50 states, the laboratories of democ-

**FIGURE 3 | States that Cut Taxes in 2014**



Source: Center for State Fiscal Reform, American Legislative Exchange Council

racy, are actively pursuing real reforms. Increasingly, tax reform is becoming a bipartisan effort in the states and the result has been 14 more states reducing their tax burdens in the 2014 legislative session. This trend continued in 2015, with governors proposing many pro-growth tax and fiscal policy reforms in their state-of-the-state addresses and many states successfully acting on those proposals.

**Governors Outline Pro-Growth Agendas in 2015**

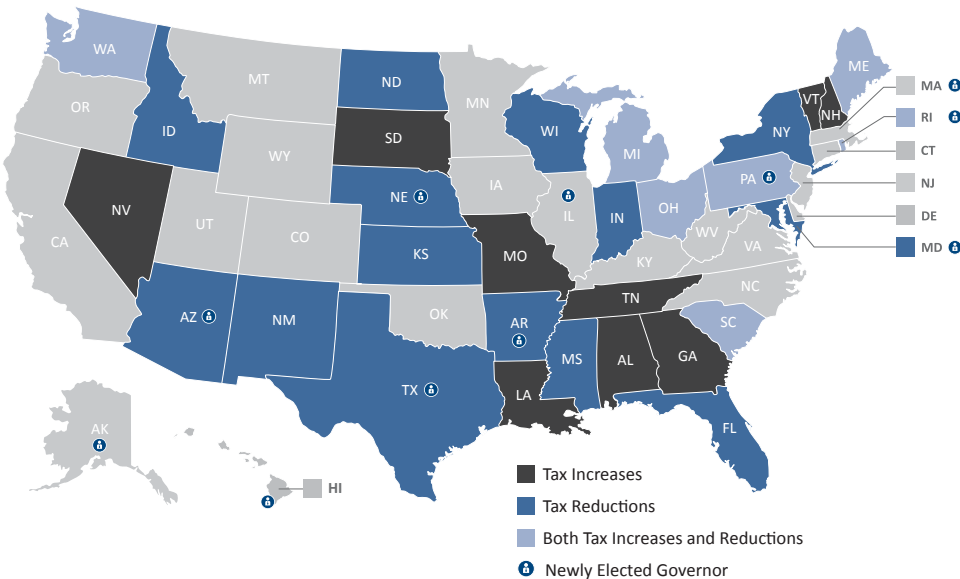
The beginning of 2015 saw many encouraging economic policy proposals in the governors' state-of-the-state addresses. One of the most common themes was the call for tax relief. More governors focused on reducing the tax burden of their citizens as a path to growth than those who claimed more taxes and spending would improve their state's economy. When looking at the specific number of proposals for tax increases and tax reductions, the numbers might not seem dramatically in favor of tax cuts. However, it is important to remember that not all tax proposals are of the same scale and most of the tax relief proposals were more significant in the amount of revenue they returned to taxpayers than the amount

that taxpayers would lose from the proposed tax increases. While some governors did support raising taxes and fees, many of these were small increases targeted at addressing a specific expense in the state.<sup>13</sup>

One way to look at the governor's tax proposals is to compare which governors called for tax reductions, tax increases or both in their state-of-the-state addresses. Figure 4 show how the governors compare to each other in this respect. Regarding the tax proposals that were counted, any proposals regarding changes to tax rates, eliminating or enacting new taxes and any significant, broad-based tax credit changes were included. As can be seen in Figure 4, many governors announced some type of tax proposal in their state-of-the-state address this year. Figure 5 shows that many of these proposals specifically dealt with state income taxes, and all but one of these was to eliminate or reduce income taxes.

The good news for taxpayers this year was that more governors proposed tax cuts in their state-of-the-state addresses than governors who proposed tax increases. This year, there were 14 governors who proposed cutting taxes of some kind without any tax increases, seven who proposed both tax cuts and tax increases and nine

**FIGURE 4 | 2015 Governors' Tax Proposals**



Source: Center for State Fiscal Reform, American Legislative Exchange Council

who proposed just tax increases. Overall, there were 21 governors who proposed tax cuts of some kind and 16 who proposed tax increases of some kind.

There was significant variation for those states with a combination of both tax cuts and tax increases. It should be noted that some of the governors who called for both tax reductions and tax increases had better overall tax plans than some of the governors who called for only tax reductions. One example was Maine Governor Paul LePage, whose bold plan to eliminate the personal income tax over the coming years also relied on increasing the state's sales tax. Although it raised some taxes, the net effect of the plan would be a net tax reduction.<sup>14</sup> Other governors called for lowering certain taxes, such as income or property taxes, but then proposed taxes on particular products or industries. These included proposals to raise gasoline and severance taxes. In some instances, these states saw net tax cuts that exceeded some of the more tepid tax cuts in the tax reduction only states. On the other hand, some states like Michigan, Pennsylvania and Washington saw proposals for massive new tax hikes and relatively small tax reductions.

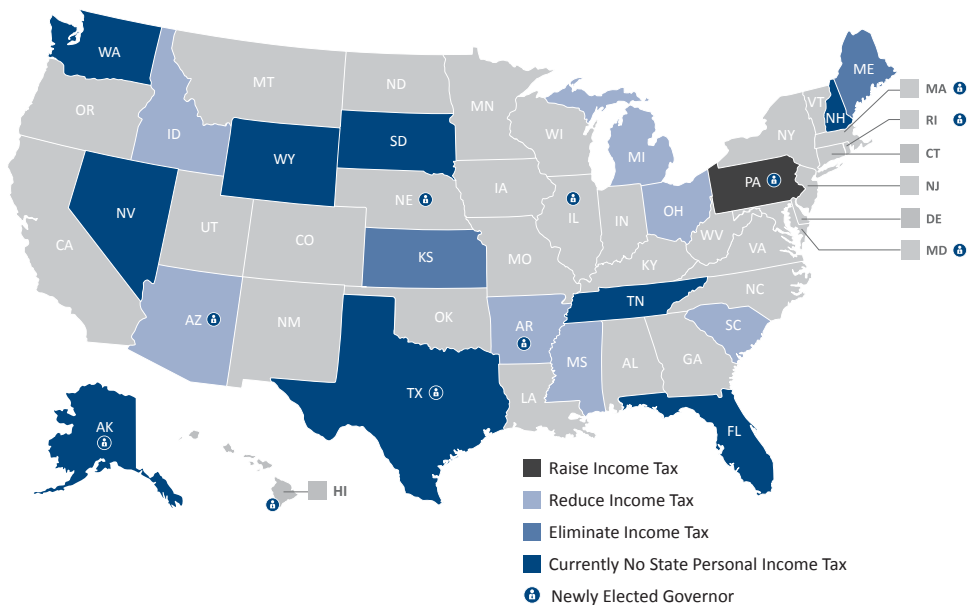
Another trend was the effort in many states

to reduce or eliminate the income tax, and instead rely on other forms of revenue to fund the state budget. Figure 5 shows which states currently have no income tax, those governors who discussed elimination of the income tax in their addresses and those governors who proposed cutting the income tax without eliminating it entirely.

The trend of reducing the income tax and moving toward other taxes for revenue is particularly encouraging. While all taxes are harmful, not all taxes are equally damaging to the economy. Taxes on capital and income are the most economically damaging, while taxes on consumption and property are less economically damaging.<sup>15</sup> Therefore, it is not surprising that states that rely primarily on income taxes routinely underperform their counterparts that choose not to levy taxes on personal income.

Tax policy was not the only common theme in this year's state-of-the-state addresses. Several governors addressed the issue of sound budget policy. Indiana Governor Mike Pence proposed a new state constitutional amendment that would require the state to pass a balanced budget every year.<sup>16</sup> Other governors pledged to balance their budgets for the coming year and others discussed the need to constrain budget growth. While 49

### FIGURE 5 | 2015 Governors' Income Tax Proposals



Source: Center for State Fiscal Reform, American Legislative Exchange Council

states now have some form of a balanced budget requirement, it does not always restrain states from getting into debt, facing serious budget deficits, failing to adequately fund their public pensions or refusing to set aside money in rainy day funds during the good times to provide funds during an economic downturn. It is encouraging to see so many governors take the time to discuss the value of not spending more than the state collects in revenue, properly funding pensions and setting aside money for future emergencies.

In order to improve their budget situation, many governors announced new proposals to reduce the cost of government. Several governors called for finding new ways to operate state government more efficiently through consolidating agencies, creating new agencies dedicated to finding cost-saving strategies in government or even asking the public for their suggestions on how the state government could save money. On a similar note, some governors recognized the value of simply letting taxpayers know how their money is being spent and called for improved budget transparency. Ever since Internet usage became widespread, states have built websites that make accessing detailed information about state budgets possible. However, the quality of these sites varies dramatically and many could use substantial improvement to better serve the taxpayer. Making information about the cost of government more easily available to citizens will hopefully lead to a reduction in waste, fraud and abuse in the coming years.<sup>17</sup>

Overall, the state-of-the-state addresses this year were very encouraging in regards to free market tax and fiscal policy proposals. Many governors outlined significant proposals to improve their state's economic competitiveness through lower taxes, responsible budgeting and other policies. It seems most governors understand that tax cuts mean greater economic growth and that providing a more business-friendly environment will result in more job creation and opportunity for their residents, as well as a broader tax base to fund state government.

### **The 2015 Legislative Session: Wins and Losses for Taxpayers**

The competition for jobs and capital has continued in the last year, as many states enacted new

and consequential policies regarding taxes and spending. While there were a few setbacks, overall, taxpayers have plenty of victories to celebrate. These include reductions to personal and business taxes, the rejection of new travel taxes and the continued expansion of right-to-work policies. While we cannot write about every tax and fiscal policy that states debated or enacted this year, the following are summaries of the most significant policy developments in the states.

## **Taxpayer Victories**

### **Travel Taxes Rejected in Several States**

There was a major effort to increase taxes on travel agents and online travel websites this year. It had been proposed in some states that hotel intermediaries—any person or company other than a hotel that brokers, coordinates or arranges the purchase of lodging at hotels—should have their sales and use taxes calculated based on the full price paid by customers to a hotel intermediary. This meant hotel intermediary service fees would be subject to sales and use taxes. While most services go untaxed across states, everyone who charged a service fee for arranging a hotel reservation, from local brick and mortar travel agents, to local online travel agencies, to large Internet companies, would face higher taxes.

Fortunately, most of these efforts were defeated. Early in the session, the Virginia General Assembly rejected a travel tax proposal in both the House and Senate. Virginia lawmakers understood that applying new taxes on travel services would create a disincentive to travel to states with such taxes. Governor Larry Hogan of Maryland also vetoed an effort to pass similar tax increases on hotel intermediaries in his state.<sup>18</sup> In July, legislators in Ohio worked to reconcile a Senate budget that had travel tax increases with a House budget that did not.<sup>19</sup> Ultimately, the final agreement removed travel tax increases from the budget. Wisconsin lawmakers considered these travel taxes during their budget negotiations but they were eventually rejected. Other states, including Maine, Louisiana, Texas and Minnesota also considered travel tax increases this legislative session, however none of them ultimately enacted the tax increases. Only one state, Rhode Island, raised travel taxes this year.

Additional taxes make travel more expensive, thereby harming a state's tourism industry and weakening the economy as a result. Hotel intermediaries connect potential tourists with a state's hotels, and by doing so, help generate tax revenue from these visitors through their in-state commerce. Visitors also add to a state's economy through purchases at local restaurants, stores, events and other in-state businesses. In a modern, digital economy, hotel intermediaries serve as a crucial facilitator to position a state to benefit from domestic and global travelers.

Imposing new taxes on a state's crucial travel industry is a discriminatory way to raise revenue and conflicts with the *ALEC Principles of Taxation*, which state that tax policies should be competitive, neutral and fair to all businesses, regardless of industry.

It is worth noting that what a state would lose in tax revenue from travelers who choose to stay elsewhere would likely cause the amount of revenue raised to fall below projections. As the principle from economics 101 suggests, when you tax something more, you get less of it; in this case, visitors to a state.

The defeat of these discriminatory travel taxes is great news for taxpayers. It means less expensive hotel rooms for travelers and more tourism for states.

### **New Hampshire Passes Business Tax Cuts**

New Hampshire has some of the highest business tax rates in the country, in what is otherwise a sound tax policy environment, with a Business Profit Tax (BPT) rate at 8.5 percent and Business Enterprise Tax (BET) rate at 0.75 percent. These high business tax rates burden businesses, resulting in stagnant economic growth. States such as Texas have set an excellent example of how to promote economic competition by implementing business tax cuts. In Governor Maggie Hassan's annual budget address, she proposed a plan that would increase taxes on tobacco products while leaving the harmful business tax rates untouched.

Unhappy with the governor's budget plan for 2015, legislators proposed HB 1 and 2, which would have reduced the BPT and BET from 8.5 percent to 7.9 percent and 0.75 percent to 0.675 percent respectively.<sup>20</sup> Governor Hassan vetoed both of these bills, arguing that the budget was

"unbalanced" and that the tax cuts would result in a revenue deficit.<sup>21</sup> The Governor then presented a budget which would cut business tax rates, but make up for the deficit by taxing tobacco products and increasing vehicle registration fees.<sup>22</sup> This proposal was not viewed favorably by House and Senate Republicans, who were not in favor of these tax hikes.

State legislators worked with Governor Hassan after months of disagreement, and concluded with a plan that would reduce business tax rates over several years. The implementation of this plan was contingent upon bipartisan support, which was made possible by Governor Hassan, who agreed to get Democrats on board after reaching the agreement.<sup>23</sup> In 2016, the BPT will be reduced from 8.5 percent to 8.2 percent, while the BET will be reduced from 0.75 percent to 0.72 percent. In 2018, these taxes will be reduced again to 7.9 percent and 0.675 percent, but with the stipulation that the general and education trust fund levels meet certain requirements. While this tax relief is relatively small, it is directionally correct and puts New Hampshire on a path toward a healthier tax climate.

### **North Carolina Makes Progress, Reduces Taxes**

North Carolina Governor Pat McCrory signed a \$21.73 billion compromise budget that will reduce personal income tax rates, and transition to single-sales-factor apportionment for corporate income taxes.<sup>24</sup> The bill will reduce the income tax rate from 5.75 percent to 5.499 percent in 2017. While spending will increase 3.1 percent overall, the budget will save residents \$400 million through tax cuts.<sup>25</sup> Also, the bill increases the standard deduction for individual income taxpayers. The reduction of personal income tax rates is a step in the right direction, as it will reduce the burden on taxpayers. North Carolina citizens should be pleased, as the state continues taking steps toward a healthier tax climate, resulting in a more stable and prosperous economy. North Carolina has gone from 21 in economic outlook in the first edition of this publication to 4 in this year's rankings. While the state used to have the highest income tax in the Southeast, with a top rate of 7.75 percent, after historic tax reform in 2013 that is no longer the case. The decision to reduce the Tar Heel State's personal income tax to a flat

5.75 percent has helped the state to improve dramatically in this publication's economic outlook rankings.

### **The Nation's Capital Cuts Taxes**

Perhaps the most surprising tax cut plan this year came from the liberal Washington D.C. City Council. Earlier this year, the D.C. City Council approved, by a vote of 12-1, the largest tax cut in more than a decade. Citizens earning between \$25,000 and \$100,000 will see their tax rates fall by as much as a full percentage point and there will also be a lower tax bracket for those earning between \$40,000 and \$60,000. The tax proposal will also expand the standard tax deduction, increase the personal exemption and boost the Earned Income Tax Credit. In addition, the city increased the estate tax exemption to match the federal level and reduced the business franchise tax from 9.975 percent to 8.25 percent. When even the D.C. City Council realizes that tax cuts are necessary to improve economic competitiveness, it is time for other states to take notice and enhance their economic competitiveness as well.<sup>26</sup>

### **Michigan Voters Reject Sales Tax Hike**

Taxpayers in Michigan this year voted against Proposal 1, a referendum that would have increased taxes across the state. Proposal 1 would have increased the fuel tax to 41.7 cents per gallon or 14.9 percent of a gallon of fuel's average wholesale price, whichever would be greater. The proposal would also have increased the general sales and use tax on non-fuel items from 6 percent to 7 percent statewide. The legislation was estimated to cost households, on average, between \$477 and \$545 in additional taxes per year.<sup>27</sup>

Despite the supporters of Proposal 1 spending 18 times more than the opposition, more than \$9 million in support of the tax increase, the referendum was defeated by an 80-20 margin, the largest ballot defeat in Michigan in the last 50 years. The citizens of Michigan could not have been clearer; they already pay enough in state taxes and expect lawmakers in Lansing to find savings in the budget so that the state can operate with existing revenue, or at least dedicate new funding to roads. The state is still fighting to recover after years of

economic decline and major tax increases are the last thing Michigan needs as it tries to bring new businesses into the state and keep more of its own residents from leaving.

While the measure was originally sold as a way to raise funds for critical road repairs and other important infrastructure maintenance, the measure lost public support when citizens learned that much of the money that would be raised would not go to transportation spending at all, but instead would be diverted to several other areas of the budget. Surveys showed that voters were willing to support a tax increase if it was certain that all of the revenue would go to transportation expenses. This underscores the importance of the benefit principle, in which revenue coming from gasoline taxes and other road related fees should be spent exclusively on road expenses. Those who use a particular state service, such as roads, should pay for it in proportion to their usage.

### **Wisconsin Enacts Right-to-Work**

Back in March, Governor Scott Walker signed a monumental right-to-work bill in Wisconsin that makes union dues and participation optional for employees. The law, SB 44, gave more rights to workers and will help create a healthy economic environment.<sup>28</sup>

Right-to-work is often misconstrued as being anti-worker, but this is not the case. Under a non-right-to-work state's system of forced unionism, unions are less accountable to members because employees have no choice but to pay dues. Optional entry will now create higher quality representation as unions must prove their worth to employees. The result will be better representation for those employees who do choose to be part of a union. Historically, right-to-work states have demonstrated significant economic benefits in comparison to non-right-to-work states. Right-to-work states have had more job growth, more personal income growth and a higher growth in GDP, in comparison to non-right-to-work states.

Wisconsin is the 25th state to protect an employee's freedom to choose whether or not to belong to and financially contribute to a union. The state's actions are part of a growing momentum of states protecting employees' freedom of association.

### Ohio Continues Tax Cut Strategy

Governor John Kasich signed a \$71.2 billion, two-year budget that will result in nearly \$1.9 billion in net tax cuts.<sup>29</sup> The governor approved a 6.3 percent state income tax cut that takes effect next year. This plan lowers the top personal income tax rate to about 5 percent. The budget mandates a tax policy commission to recommend how to move Ohio's personal income tax to a 3.5 or 3.75 percent flat rate by 2018. The governor's plan increases the existing tax exemption on the first \$250,000 of income for business owners of pass-through entities from 50 to 75 percent and eliminates the tax altogether in 2017.

While there are many positive tax reforms in Ohio's budget, not everything was pro-growth. The budget contained significant spending increases and some new taxes, including a 35 cent per pack tax increase on cigarettes.

### Texas-Sized Tax Cuts in the Lone Star State

This year, Texas legislators approved a massive tax reduction. This builds upon Texas' reputation as a state that is friendly to businesses and individuals. Overall, Texas will cut nearly \$3.8 billion in taxes over the next two years. The plan includes the following:

- Property tax break worth about \$125 a year for the average Texas homeowner in the form of an increase to the homestead exemption for school property taxes. However, the voters must approve an amendment to the Texas Constitution for this to take effect.
- 25 percent across-the-board cut in business franchise tax rates
- Elimination of certain occupational fees

These reforms, coupled with Texas' generally free-market, pro-growth economy, have kept the Lone Star State at number one in economic performance and boosted them to the number 11 spot in this publication's economic outlook. In 2014, Texas added more jobs than any other state and experienced a growth of more than 5 percent in GDP. According to Governor Greg Abbott, "[the tax cut] happens at a time when other states around the country are raising taxes and increasing the cost of doing business—whereas here in ...

Texas, we are focused on lowering taxes and making the state more affordable for everybody."<sup>30</sup> As these policies are implemented, in addition to the other sound policies that Texas has in place, the state will be primed to be one of the nation's top performers in the years to come. Commenting on these reforms, Texas State Representative and 2015 ALEC National Chairman Phil King said, "We are very proud that we were able to cut the tax burden for job creators across Texas this session while growing spending at a responsible rate and ensuring the rainy day fund is well maintained. We hope these changes will continue to move Texas up in future *Rich States, Poor States* rankings."

### Florida Cuts Communications Taxes

This session, Governor Rick Scott called for the elimination of the tax on manufacturing equipment and a cut to communications taxes. This is particularly notable in a state like Florida, which has had some of the highest communications services taxes in the country. After a special session in June, Florida's Legislature passed a \$400 million tax cut.<sup>31</sup> Florida legislators voted to reduce the Communications Services Tax by 1.73 percent, saving taxpayers roughly \$226.1 million. In addition, lawmakers voted to cut sales taxes on several products that are estimated to save citizens over \$130 million.

These cuts will make Florida more competitive and keep more money in the pockets of taxpayers. Most importantly, communications tax relief means better economic opportunities for families, business owners and entrepreneurs. While praising Governor Scott's original proposal, it was encouraging to hear Representative Matt Gaetz, chair of the Florida House Finance and Tax Committee, explain, "In my committee, no tax is safe. It is the goal of the House of Representatives to find even more ways to decrease the tax burden on Florida's families."

### Partial Victories for Taxpayers

#### Washington Increases Spending and Rejects Capital Gains Tax

After three special sessions, Washington passed budget increases for education, worker wages,



healthcare and other services. The education spending increase was mandated by a recent state Supreme Court order requiring the legislature to spend more on education or face a \$100,000 a day fine. While budget increases for state services sound good, the state risks these costs growing to an unsustainable level.

On the positive side, Washington lawmakers wisely decided not to adopt Governor Jay Inslee's proposed state capital gains tax. Washington is well below average in this publication's economic competitiveness rankings at 35. However, Washington has a competitive advantage because the state does not currently levy a tax on personal income. Even the state's own Department of Commerce agrees, stating, "We offer businesses some competitive advantages found in few other states. These include no taxes on capital gains or personal or corporate income."<sup>32</sup>

This session, however, the Department of Commerce removed the capital gains mention from their website.<sup>33</sup> Governor Inslee proposed a 7 percent tax on the capital gains from the sale of stocks and bonds of more than \$25,000 for individuals and more than \$50,000 for joint filers to fund an education legacy trust account. The legislature also considered multiple other capital gains tax proposals.<sup>34</sup> However, as this publication has argued for years, a capital gains tax is one of the most unstable sources of revenue and harms a state's economic competitiveness.

Capital gains volatility is well-documented in Washington state. For example, in 2012, the last time that the Evergreen State considered a capital gains tax, the state department of revenue warned about the extreme volatility of capital gains tax revenue.<sup>35</sup> Standard and Poor's recently noted that Governor Inslee's capital gains tax proposal could "cause the state's revenues to be more volatile. We have observed that capital gains-related tax revenues are among the most cyclical and difficult to forecast revenues in numerous other states."<sup>36</sup> Furthermore, the Washington Research Council, a non-partisan think tank based in Seattle, recently studied the relationship between sales tax revenue and capital gains tax revenue. They found that sales tax revenue remains more consistent over time, while capital gains revenue experiences large fluctuations.<sup>37</sup>

Washington has also gained both residents and capital over the years from other states. Part

of the reason for that is a competitive tax code, including no personal income tax. For example, data from the Oregon Department of Revenue show that hundreds of taxpayers move annually from Oregon to just across the Columbia River into Clark County, Washington.<sup>38</sup> Furthermore, the American Council for Capital Formation states that Oregon has lost \$1.3 billion in net income to Washington between 1992 and 2006.<sup>39</sup> Imposing a state tax on capital gains would negatively impact Washington's ability to compete with other states for jobs, investments and economic opportunities.

Thankfully, lawmakers realized that a capital gains tax would introduce economic headaches for taxpayers and businesses. The capital gains tax failed to gain traction in the legislature. Eventually, even Governor Inslee admitted that the capital gains tax was no longer on the table.<sup>40</sup> He did, however, end the legislative session by calling for new tax increases.

### **Governor LePage Proposes Phase-Out of Maine's Income Tax**

In Maine, Governor Paul LePage proposed a bold tax reform plan that would have turned the economic tide and made Maine one of the most economically competitive states in the Northeast.<sup>41</sup> The governor called for tax reform that would begin with a \$300 million reduction in state income taxes. In addition, the governor also called for eliminating the antiquated estate tax. Based on our hypothetical calculations, this tax reform would have catapulted Maine from 42 to 31 in this publication's economic competitiveness ratings. Governor LePage also proposed a constitutional amendment that would dedicate future revenue growth to eliminating the state's income tax. While the income tax was being phased-out, sales taxes would be increased to compensate.

However, the legislature was not convinced that this was the right plan for Maine this year. The legislature eventually passed a smaller, \$135 million tax cut plan over Governor LePage's veto, which included some modest income tax cuts, and the governor failed to get the two-thirds vote he needed in the state House to advance a constitutional amendment to end the state income tax.<sup>42</sup> However, Governor LePage has pledged to continue the fight by trying again next year for a



constitutional amendment, and, in the meantime, is rallying support for a citizens' initiative to lower the state income tax.

## Setbacks for Taxpayers

### Alabama Raises Taxes

Governor Robert Bentley proposed eight separate tax increases to address the state's debt problem and increase education spending. The proposed tax hikes were estimated to generate \$541 million in revenue. Among the proposed tax hikes were increasing the sales tax on vehicle sales from 2 percent to 4 percent, generating an estimated \$200 million in revenue, as well as increasing cigarette taxes 82.5 cents.<sup>43</sup>

The state Senate offered a budget that would have solved the state's deficit by cutting \$200 million in spending, but Governor Bentley promptly rejected the proposal. After several negotiation sessions, state lawmakers and the governor were finally able to come to a budget agreement. Lawmakers declined proposals for combined reporting. Programs such as Medicaid, mental health and human resources saw continued funding, but other agencies saw funding cuts of around 5.5 percent. Additionally, Alabama residents will pay higher taxes on cigarettes, raising the price 25 cents per pack, as well as a bed tax on nursing facilities of \$401 per bed.<sup>44</sup>

It is disappointing to see Alabama approve a budget that creates new tax burdens on its residents. However, many state lawmakers deserve credit for standing up to Governor Bentley and opposing his proposals for additional tax increases.

### Nevada Ignores Voters and Passes Major Tax Increases

Last year, Nevadans were asked to consider a ballot initiative to create a new gross receipts style tax to fund increased spending on education. A gross receipts tax is a tax that is levied on a business' gross revenue rather than its net profits (like the corporate income tax). The voters rejected the tax by an overwhelming margin of 79 percent to 21 percent. Ironically, after opposing the gross receipts style tax initiative, Governor Brian Sandoval supported a very similar tax this year. This tax increase included extensions to sales and pay-

roll taxes that were scheduled to sunset as well as a revised business license fee. This fee would change from a flat fee system to a graduated system based on industry and gross receipts. The fee, which was \$200, was scheduled to drop to \$100, but now would range anywhere from \$400 to \$4 million, depending on industry and the size of a business. A modified version of this plan was eventually brought to the legislature for consideration. It included a simpler increase to the business license fee that brought the fee to \$500 for corporations and a new Commerce Tax on gross revenue.

The legislature eventually passed this and other tax increases which amounted to the largest tax hikes in Nevada's history.<sup>45</sup> These totaled almost \$1.4 billion in new taxes and included increasing the business license fee, increasing payroll taxes, creating a Commerce Tax on gross revenue, extending certain sales and payroll taxes that were set to expire and increasing cigarette taxes by \$1 a pack.

While raising any taxes is harmful to a state's economy, some of the new taxes in Nevada are particularly damaging to economic growth. The Commerce Tax is a gross receipts style tax, which is one of the most complicated taxes a state can enact. As mentioned above, gross receipts style taxes are not collected on business's profits but instead on their total revenue. For many firms, this means owing a large tax bill in years when no profits have been made. This tax can serve as a knockout punch for struggling firms that fail to make a profit.

Perhaps the worst thing about gross receipts style taxes is that they pick winners and losers in the market by treating similar businesses differently. This occurs due to tax pyramiding, where the price of goods that consumers ultimately pay includes the economic cost from taxes that companies paid at various levels of production. This is built into the price of the good and is in addition to any general sales tax that a consumer might pay. This occurs because the tax is paid, not by the final consumer, but at every level of production. Since gross receipts style taxes do not exempt business inputs like most sales taxes do, this multiplies the tax burden that the final consumer must pay and handicaps businesses that produce complex goods that inherently require more stages of production than others. The end result is

a highly distorted tax system that artificially raises the effective tax rate on more complex goods in an extremely non-transparent fashion.

The cigarette tax increase should also be noted for being poor tax policy. An important component of good tax policy is fairness. The tax code should not be used to target specific products or industries for discriminatory taxation. A consumption tax should be broad-based and applied to the final sale of all products equally and impartially, without exemptions for some products and additional taxes on others. Also, the number of smokers has been declining for many years and relying on a diminishing revenue source means that there will be less stability in state finances.

Beyond this, as a practical matter, cigarette taxes rarely bring in the amount of revenue that is promised. This is because consumers avoid paying the taxes by buying cigarettes across state lines if they can pay a lower price. A study conducted after Minnesota increased their tobacco taxes proves just how dramatic the decline in sales can be. In 2013, the Minnesota Legislature passed a 130 percent increase in the cigarette excise tax and increased the tax on other tobacco products from 70 percent of the wholesale price to 95 percent. The state saw tobacco sales decline

by 50 percent in stores near neighboring states as consumers began buying tobacco products across state lines. The decrease in sale of tobacco products statewide resulted in \$38 million in lost sales of non-tobacco products.<sup>46</sup>

These tax increases are going to diminish Nevada's economic competitiveness and are a surprising departure from what has been a business friendly economic environment for many years.

## Conclusion

States can no longer afford to stand still and hope their existing economic policies will be good enough to bring in new residents, jobs and capital. The economic competition among states is fierce, with many governors proposing significant tax cuts and other pro-growth reforms and legislatures looking for any advantage they can gain over other states to provide a more favorable business climate. As the research shows, people and businesses are moving to states that are willing to let them keep more of their own money and provide them with more economic freedom. This trend is changing the distribution of population and wealth across the nation, leading some states to new prosperity and others to economic decline.

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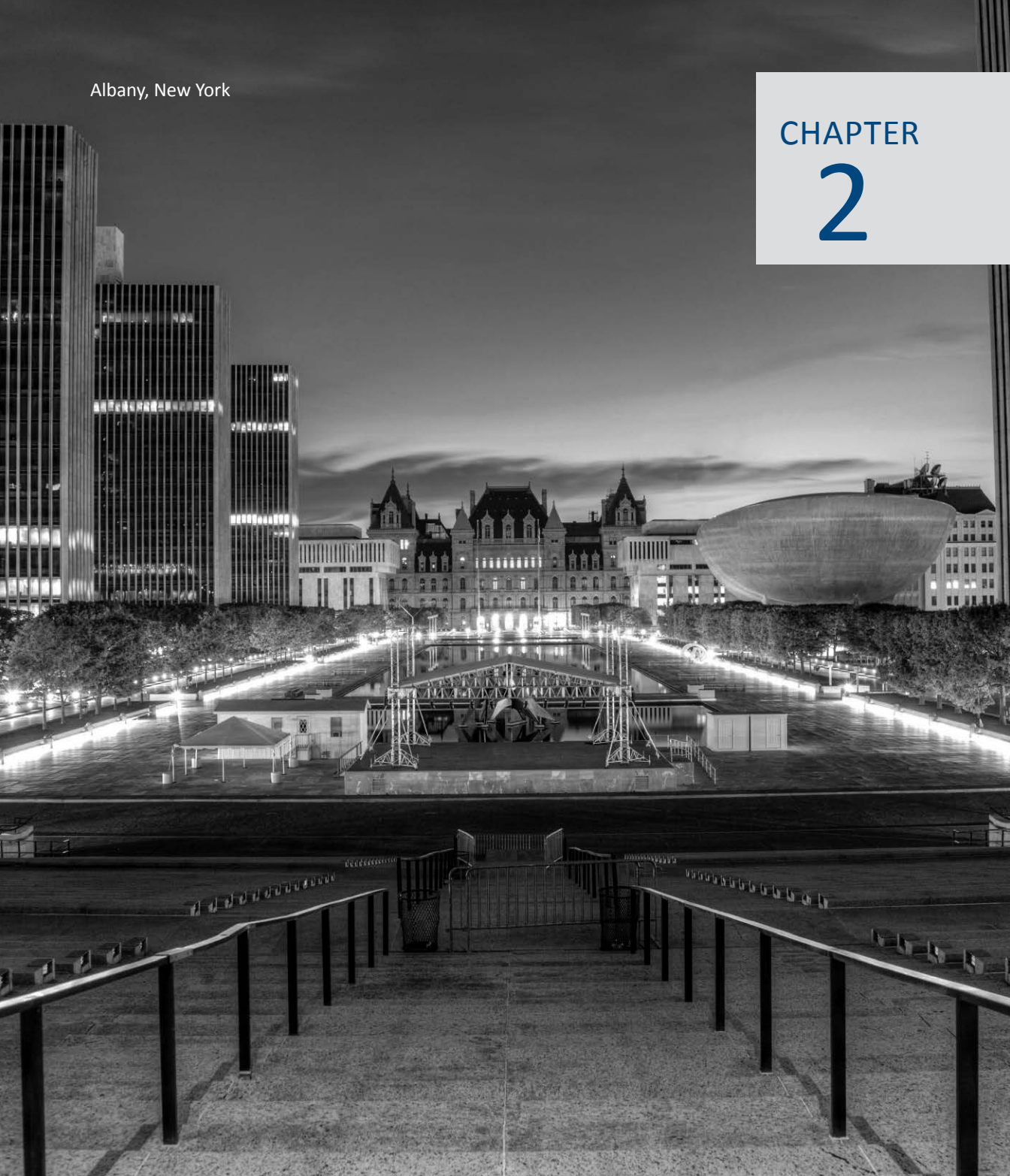
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Albany, New York

## CHAPTER 2



# Tax Cronyism is Not Tax Reform

# Tax Cronyism is Not Tax Reform

Cronyism—the perversion of sound economic policy to create a system that benefits one business at the expense of others—is a huge public policy problem in the states. Cronyism in tax policy stifles innovation, hinders competition and introduces a deep temptation for corruption. The recent ALEC Center for State Fiscal Reform study, *The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth*, found that tax carve-outs totaled \$228 billion for personal income and business earnings tax exemptions, and \$260.1 billion for sales tax exemptions.<sup>1</sup> Keep in mind that this figure largely ignores targeted tax breaks by states to individual businesses. The report estimates that states have given out 157,072 grants to specific firms over the past 20 years.<sup>2</sup>

When it comes to economic opportunity, policymakers are faced with two dramatically different strategies. The first option is to support broad-based competitive tax reform that levels the playing field for all businesses. This strategy, which can be referred to as growth through markets, focuses on improving a state's economic climate for everyone. Proponents of the growth through markets strategy believe that government has no business picking winners and losers in the tax code.

The alternative is for policymakers to engage in cronyism by providing certain businesses with special tax carve-outs. Proponents of this strategy, which can be referred to as growth through central planning, hope that tax carve-outs will somehow make up for their state's poor economic climate. States with high taxes often engage in cronyism, effectively acknowledging that lower taxes lead to more economic growth. As Table 5 shows, some of these high tax states have chosen to give

out thousands of tax preferences to make up for their hostile business environments.

In the year since the ALEC Center for State Fiscal Reform released *The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth*, many states have enacted positive reforms that have increased transparency or eliminated cronyist tax policies altogether. Other states have continued to use tax carve-outs in a misguided attempt to grow their economies. This chapter surveys the good, the bad and the ugly when it comes to confronting tax cronyism. Based on these case studies, lawmakers can identify policies that level the playing field by reducing taxes for all businesses and individuals. As this chapter clearly demonstrates, tax cronyism is a poor substitute for principled tax reform.

## The Good: States Take Steps Toward Ending Tax Cronyism

The most optimistic development over the last year has been the number of states that have done more than measure tax carve-out effectiveness, modified its format or ensured that it is more transparent. Many states have taken the important step of ending certain areas of tax cronyism entirely in the tax code. Those states are to be commended for removing economic distortion, political favoritism and needlessly high rates on the firms that do not receive special treatment in their state tax code.

### States End Cronyist Tax Measures

The year following the ALEC Center for State Fiscal Reform report began with a strong reform in the nation's capital. As part of fundamental tax



reform that lowered income taxes on individuals and businesses, Washington, D.C. added numerous areas of consumer activity to its sales and use tax. This included the so-called “yoga tax,” which far from being a new tax on fitness instruction and gym memberships, simply added this commercial activity back into its sales tax base.<sup>3</sup>

Michigan, a state highlighted in the initial report for enacting important reforms, took additional steps toward ending tax cronyism in the past year. The Michigan Economic Development Corporation saw funding seriously curtailed.<sup>4</sup> The state also began the process of phasing out the film tax credit. While film production companies often rely on film tax credits to make projects financially viable, a less burdensome but more neutral tax code would be a significant improvement for other industries in the state and almost certainly for film production companies as well.

A few states reviewed their tax preferences this year, though not always for the right reasons. As the ALEC report notes, ending cronyism is an opportunity to make the state tax code more competitive, not less competitive, post-reform. Numerous states took tax carve-out reform as an opportunity for new revenues, which is only half-positive, as it removes economic distortions but does not improve competitiveness. For example, this session Louisiana lawmakers considered removing numerous business tax carve-outs. However, their motivation was to close their budget deficit without increasing tax rates, as opposed to enacting revenue neutral reform that creates a level playing field for all businesses and industries. In Virginia and New York City, Governor Terry McAuliffe and Mayor Bill de Blasio both encouraged the end of numerous tax carve-outs with the desire to bring in new money to spend in both jurisdictions. However, state and local governments should recognize that they will only see economic benefits from eliminating tax expenditures if they use the savings to cut tax rates, not as a source of new money to grow government.

#### Alabama and Nevada Begin Issuing Tax Expenditure Reports

Most of the data collected for *The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth* came from individual state tax expenditure reports.<sup>5</sup> While these reports vary from state-to-

**TABLE 5 | *The New York Times* Analysis of Targeted Business Incentives**

| States         | Number of Grants to Companies |
|----------------|-------------------------------|
| Alabama        | 1,732                         |
| Alaska         | 50                            |
| Arizona        | 2,430                         |
| Arkansas       | 489                           |
| California     | 2,696                         |
| Colorado       | 324                           |
| Connecticut    | 293                           |
| Delaware       | 681                           |
| D.C.           | 44                            |
| Florida        | 1,804                         |
| Georgia        | 261                           |
| Hawaii         | 416                           |
| Idaho          | 253                           |
| Illinois       | 1,941                         |
| Indiana        | 1,339                         |
| Iowa           | 2,132                         |
| Kansas         | 808                           |
| Kentucky       | 3,196                         |
| Louisiana      | 2,930                         |
| Maine          | 4,840                         |
| Maryland       | 260                           |
| Massachusetts  | 1,479                         |
| Michigan       | 11,747                        |
| Minnesota      | 1,032                         |
| Mississippi    | 1,202                         |
| Missouri       | 2,552                         |
| Montana        | 60                            |
| Nebraska       | 590                           |
| Nevada         | 457                           |
| New Hampshire  | 400                           |
| New Jersey     | 7,335                         |
| New Mexico     | 183                           |
| New York       | 52,132                        |
| North Carolina | 1,760                         |
| North Dakota   | 619                           |
| Ohio           | 3,321                         |
| Oklahoma       | 6,933                         |
| Oregon         | 10,027                        |
| Pennsylvania   | 5,506                         |
| Rhode Island   | 597                           |
| South Carolina | 255                           |
| South Dakota   | 195                           |
| Tennessee      | 143                           |
| Texas          | 2,649                         |
| Utah           | 3,504                         |
| Vermont        | 601                           |
| Virginia       | 1,126                         |
| Washington     | 10,528                        |
| West Virginia  | 308                           |
| Wisconsin      | 903                           |
| Wyoming        | 9                             |

Source: *The New York Times*

state in terms of frequency and detail, there were several states that did not compile a tax expenditure report at all. Of the five states that did not require tax expenditure reports as of 2014, two states have recently passed legislation that requires state agencies to produce publicly available tax expenditure reports. Both Alabama and Nevada took the crucial first step toward addressing the issue of tax cronyism in their states by requiring these reports.

In Alabama, lawmakers in both houses of the legislature unanimously passed a bill that would require the Legislative Fiscal Office to provide an annual report on the state's tax expenditures. This bipartisan effort shines light on a part of Alabama's tax code that previously was unknown to many.<sup>6</sup> The report will list all tax preferences that Alabama gives out through its tax code and would provide a solid basis for an eventual measurement and evaluation process of these various tax expenditures. The bill also requires biannual public hearings on the state's tax expenditures.

In Nevada, just two months after lawmakers approved a \$1.3 billion tax incentive package to lure a major company to the state, the Nevada Department of Taxation released its first tax expenditure report.<sup>7</sup> The report outlined nearly \$4 billion worth of tax carve-outs in the current fiscal biennium and reported any exemption or deviation from a broad-based tax. While there is certainly more work to do to rein in tax cronyism in Nevada, the introduction of a comprehensive report detailing tax carve-outs is a major reform and a move in the right direction.

Though Alabama and Nevada have improved transparency by implementing tax expenditure reports, there is still more work to do in curtailing preferential tax treatment and lowering rates. As of August 2015, Alaska, South Dakota and Wyoming still lacked an official tax expenditure report. Requiring state agencies to create a public tax expenditure report is the first critical move to address and eliminate tax cronyism.

### **Letting the Sunshine In: States Implement Evaluation and Oversight of Tax Expenditures**

Some of the key conclusions of *The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth*, short of eliminating cronyism entirely, were that these programs should have rigorous

standards of oversight, performance metrics to determine their effectiveness and hard provisions to eliminate those ineffective tax incentives.

Additionally, the report noted that tax carve-outs should be "on budget," meaning that they should be explicit grant-based spending programs paying out directly, not reductions to tax burden. This correctly frames them as economic subsidies, allows for them to be handled through the annual appropriations process, instead of living on eternally in the code, and makes them highly predictable for the state budgeting process.

Over the past year, it was encouraging to see progress in many states, including the major step forward Nevada and Alabama have taken in releasing a tax expenditure report detailing tax carve-outs for the first time. Numerous states have instituted or recommended that committees be formed to study the effectiveness and prudence of various tax preferences.

Washington, D.C., Nebraska, Tennessee and Louisiana called on existing agencies such as state auditors or chief financial officers, or commissions outside the legislature, to review tax expenditures for effectiveness, strategic alternatives and in some cases, spillover impact on businesses not receiving preferences.

Maine, Nebraska, Alaska, Minnesota, North Dakota, Vermont and California called upon various non-partisan legislative fiscal offices or other analysts to conduct evaluations of tax expenditures on whether those provisions are achieving their stated goals in a cost-effective manner, and if not, how to improve those programs. Again, some of these states called for reviews of unintended consequences to businesses not receiving tax expenditures.

In Texas and Oklahoma, as well as New York City, new independent advisory boards were tasked with developing performance metrics for incentives, evaluating incentives based on those metrics, recommending programs for state audit and recommending to policymakers whether the provisions should be eliminated or how they might be made more effective.

Indiana, Maryland, Louisiana, New Hampshire, Florida, Mississippi, Rhode Island and Washington state put into place review systems of one of the forms mentioned above prior to the July 2014 publication of *The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth*.



## The Bad: New York's START-UP NY Spends \$45 Million, Only "Creates" 76 Jobs

While many states have eliminated cronyist tax measures in their tax codes, New York continues to rely on tax carve-outs. The Empire State, which ranks dead last in this publication's economic outlook rankings, has given out 52,132 tax carve-outs to select companies, more than any other state.<sup>8</sup> The track record of New York's latest tax carve-out program, START-UP NY, demonstrates that tax cronyism is not a viable economic development strategy.

In order to qualify for START-UP NY, applicants must be "located 100 percent in a tax free area" near State University of New York (SUNY) campuses. Furthermore, applicants must belong to specific industries in order to qualify.<sup>9</sup> Eligible companies are promised they will not have to pay business, corporate, sales or property taxes, as well as no franchise fees for the first 10 years. Additionally, qualifying employees of these eligible companies are promised that they will pay no state or local income taxes for the first five years. Finally, START-UP NY has a cap of 10,000 jobs that can qualify for the state and local income tax carve-outs each year.<sup>10</sup>

New York State Comptroller Thomas DiNapoli's audit of Empire State Development (ESD), which oversees START-UP NY, reveals that tax cronyism hinders growth. From October 2013 to October 2014, ESD spent \$45 million to advertise START-UP NY. During this time period, ESD received only 18,023 applications, a mere 10 percent of which actually met START-UP NY's confusing eligibility requirements.<sup>11</sup> Thirty companies began operating under START-UP NY in 2014, "creating" a grand total of 76 jobs in the state.<sup>12</sup> Out of this number, just four companies came from out of state. In fact, one of the participating companies, already in New York, moved their office just one mile to qualify for the program.<sup>13</sup> Thus far, for each job created, ESD has spent a staggering \$697,368.<sup>14</sup>

While ESD officials consider their advertising efforts a success, the audit notes that "they were unable to provide any analysis to support their conclusion."<sup>15</sup> As a result, the Office of the Comptroller is considering a separate audit into START-UP NY. Comptroller DiNapoli explained, "It is time

for us to look at the return for the tax dollars going in. We need be asking, 'What are your goals and how are you going to measure it?' 'If you fall short, do we continue to throw money into it?' Those are the type of questions we haven't asked enough."<sup>16</sup>

The American Legislative Exchange Council's Task Force on Tax and Fiscal Policy adopted model policy, the *Tax Expenditure Transparency Act*, which addresses Comptroller DiNapoli's valid concerns. This policy requires tax expenditures to have articulated legislative intent and measurable performance goals, which would have greatly helped New York to avoid fiscal headaches like START-UP NY.<sup>17</sup>

Instead of picking winners and losers through the tax code, New York should focus on what works. In the 2014 legislative session, New York lawmakers reduced and simplified the corporate tax, eliminated the individual add-on minimum tax and reformed the estate tax—all positive steps toward a more pro-growth economy.<sup>18</sup> Lowering tax rates gives all businesses a better opportunity to invest, grow and create jobs in New York.

## The Ugly: States Resist Transparency and Reform on Tax Expenditures

Despite the emerging consensus among economic experts that specifically targeted tax preferences are not an effective growth strategy, it can be difficult politically for some state policymakers not to offer special treatment to entice desirable firms to relocate or expand in their states.<sup>19</sup>

As mentioned previously, Nevada fell into this trap when state legislators passed a \$1.3 billion tax incentive package to lure one company to the state in September of 2014.<sup>20</sup> In April of 2015, lawmakers in Georgia also granted preferential tax treatment to entice Mercedes-Benz to relocate its headquarters to their state.<sup>21</sup> In exchange for relocating their headquarters from New Jersey to Atlanta, lawmakers exempted the company from having to pay a title fee for leasing cars to employees. While this \$1.3 million per year tax preference passed, it did meet some opposition in the legislature from those who argued it was not fair to grant one company special tax treatment.

A notorious example of this kind of tax cronyism occurred when the state of Washington

offered Boeing, a multinational company that reported almost \$87 billion worth of sales in 2013, about \$8.7 billion worth of tax and other specific benefits to build a new line of aircraft wings in the state.<sup>22</sup> These benefits took the form of an aeronautics industry tax credit that was designed specifically with Boeing in mind.

Additionally, in the hope Boeing might decide to move its production of aircraft wings out of Washington, other state policymakers met to pass targeted tax carve-outs to entice the firm to move to their states. One egregious example of this was in Missouri, when Governor Jay Nixon called a special session for lawmakers to pass a special tax carve-out agreement in an effort to lure the company to the state. Ironically, this special session was called shortly after Governor Nixon vetoed a small but broad-based income tax cut for Missourians.<sup>23</sup>

Besides creating an environment with higher tax rates on a shrinking number of people and industries, special tax carve-outs can also be somewhat of a hypocritical policy for some states. Often, some will claim that “taxes don’t matter” in creating economic growth or attracting businesses and people. But while doing so, these same states make every effort to extend special tax favors to companies and industries that relocate to their state.<sup>24</sup>

Going beyond expansion of preferential tax expenditures, New Jersey Governor Chris Christie vetoed legislation that would have required more transparency in the tax expenditures the state hands out in the name of economic development.<sup>25</sup> The bill would have required an annual evaluation of whether or not a tax expenditure was reaching its goal, automatically set tax expenditures to sunset after 10 years and enacted other transparency enhancing measures. Governor Christie actually agreed with the need to more closely evaluate tax expenditures, just not the way this legislation required. The move is a significant setback for tax expenditure transparency in New Jersey.

Connecticut is another state committed to an approach that relies on high taxes while adopting targeted tax preferences. This year, Connecticut’s commitment led to some interesting results that should be a cautionary tale for other states following the same strategy. Earlier this year, Connecticut policymakers proposed significant tax

increases to fill the state’s budget shortfall.<sup>26</sup> Despite warnings from some of the state’s largest businesses, including General Electric and Aetna, that they would consider relocation if the tax increases were adopted, a watered-down version of the tax increase package was eventually passed and signed by Governor Dan Malloy.

Now, in a bid to keep General Electric in Connecticut despite its unfriendly economic climate, Governor Malloy is working on a targeted tax incentive package specifically for General Electric.<sup>27</sup> Ironically, Governor Malloy is now in the position of claiming that increased taxes, especially on business, will not hurt the state’s economy while simultaneously passing tax preferences for favored businesses so that they will not relocate and hurt the state’s economy as a result of increased business taxes. Policymakers should strive for a competitive playing field for all businesses rather than becoming caught up in constant battles for special tax treatment for specific businesses.

These states’ responses to tax cronyism are puzzling, given that the economic research demonstrates that tax cronyism hinders growth. In fact, a late 2014 report from the Texas Public Policy Foundation found that corporate tax abatements are an ineffective strategy for promoting economic growth.<sup>28</sup> The report’s author argues that tax abatements allow government to pick winners and losers using the tax code. Furthermore, those costs are shifted to other taxpayers who did not win favorable government tax treatment. Ultimately, the practice is unfair and does not measurably improve economic growth.

The findings of the Texas Public Policy Foundation were similar to findings of another report criticizing the proliferation of tax expenditures by state governments. A Mercatus Center study, *Ranking Known State Subsidies to Private Businesses*, catalogs the amount and frequency of state tax expenditures for private businesses and industries.<sup>29</sup> Overall, the report notes that while this practice is widespread, “the empirical studies on state subsidies find that these programs have little to no effect in producing their intended goals.”

Tax cronyism is a poor substitute for a healthy economic climate. A prosperous and healthy economy should not require glitzy advertising campaigns and slick tax incentives to convince

businesses to invest. When policymakers resort to tax carve-outs to encourage growth, they are ignoring the bigger problem—an uncompetitive tax structure. Competitive tax rates with broad bases create a pathway to economic opportunity.

### Looking to the Future: Best Practices for Addressing Tax Cronyism

Policymakers can learn valuable lessons from the states on creating a principled tax code and thereby eliminating or reducing cronyism. The *ALEC Principles of Taxation* outline key guidelines for pro-growth tax codes. Pro-growth tax policy should be transparent, economically neutral, competitive, fair, equitable, simple, complementary to local government and reliable.<sup>30</sup>

When it comes to addressing tax cronyism, policymakers should consider eliminating current tax carve-outs that deviate from the tax base. They should also include lowering tax rates on productive behavior as part of a revenue neutral or revenue negative tax reform package.<sup>31</sup> If tax carve-outs are eliminated with no accompanying rate cuts, the tax code will be fairer but more burdensome and economically damaging. Eliminating tax carve-outs to raise revenue undermines the key goal of tax reform: improving state economic competitiveness.

Transparency is a positive first step toward ending tax cronyism. For example, in 2013, the American Legislative Exchange Council's *Tax Expenditure Transparency Act* established key guidelines for tax expenditure reporting. This model policy requires that tax expenditures must include legislative intent and measureable performance objectives. This allows the legislature to easily identify and eliminate tax carve-outs that are failing to meet performance objectives.<sup>32</sup> Washington state is a great example of these tax expenditure reporting guidelines in action.<sup>33</sup>

Furthermore, the Government Accounting Standards Board (GASB) recently published financial guidelines for state and local governments regarding various tax expenditure information that should be made available to the public.<sup>34</sup> The guidelines include disclosing tax abatements, procedures and costs of those tax abatements and commitments included in these types of agreements. The GASB guidelines are particularly useful since most state and local governments follow

GASB guidelines for financial reporting in most, if not all, other areas of government finance. Introducing these new rules will set the stage for increased transparency and accountability for tax expenditures and can help make the case for reform.

The National Conference of State Legislatures (NCSL) has also outlined helpful best practices regarding tax expenditure transparency. The organization adopted guidelines for tax expenditure reports in August of 2014. These guidelines prioritize clarity and detail in reporting state tax expenditures. Most importantly, the guidelines urge state lawmakers to adopt requirements that tax expenditure reports include the purpose for which the tax expenditures were enacted in the first place.<sup>35</sup>

Finally, policymakers should also consider putting tax carve-outs “on budget.” Tax carve-outs should be cash payments done through the standard state appropriations process, instead of elements of the tax code. Many lawmakers are unaware of the extent of tax carve-outs in state tax codes, which results in revenue volatility to tax collections and makes budgeting difficult. By putting tax carve-outs on budget, states can better forecast their revenue. In Michigan, for example, Governor Rick Snyder signed a law several years ago that converts many of the tax preferences administered by the Michigan Economic Development Corporation into cash payments, which increases transparency and reliability.<sup>36</sup>

## Conclusion

Tax cronyism is a significant obstacle to economic opportunity. Cronyism in the tax code stifles innovation, hinders true competition and impedes growth. Since the publication of the ALEC Center for State Fiscal Reform study, *The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth* in 2014, many states have taken steps to address cronyism, but there is much more work left to be done.

A survey of the states' responses to tax cronyism, the good, the bad and the ugly provides valuable lessons for state policymakers. States such as Alabama, Nevada and Michigan have taken some positive steps toward ending tax cronyism. However, there was also the bad and the ugly. New York's tax carve-out program, START-UP NY only

“created” 76 jobs, while states such as Kentucky and Connecticut tried to use tax carve-outs in a misguided attempt to create economic growth.

Sustainable economic growth is best achieved when all businesses and industries play by the same set of rules. Rather than orchestrating com-

plex tax agreements, consumers should decide which businesses succeed and which ones do not. By following a strategy of competitive tax rates with broad bases, which treats all businesses and industries equally, states can reap the rewards that come with sustainable economic growth.

**(ENDNOTES)**

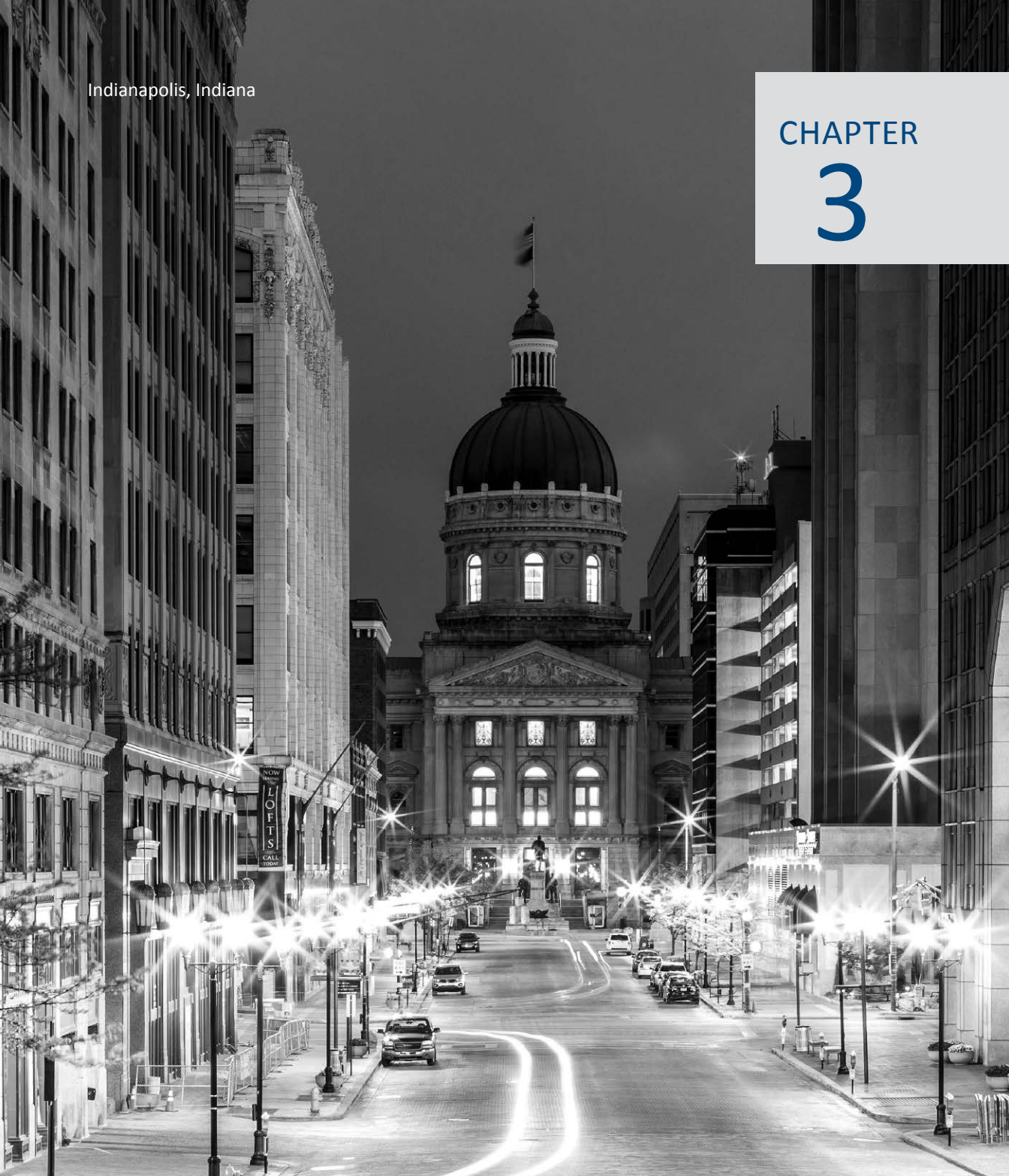
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Indianapolis, Indiana

## CHAPTER 3



# Policy Matters: How States Can Compete to Win

# Policy Matters: How States Can Compete to Win

**F**or eight years, this annual publication has provided an in-depth analysis of where growth is happening in America and why some states grow so much faster than others. Free market policy matters for economic growth. Though some on the Left deny this to be true, it is crucial to where prosperity in America thrives and where it is failing to advance. In fact, as people and capital become more mobile, policy matters more today than ever.

This publication measures the pro-growth policies that have a high likelihood of increasing a state's employment and its citizens' incomes, and thus improving the lives of its citizens. The relationship between policies and growth is not based on small samples or a few years' data. This relationship has been fairly stable for at least 50 years.<sup>1</sup>

Many of the key conclusions in terms of the optimal policy recipe for growth have proven to be quite predictive of which states will outcompete their neighbors. In fact, many states have taken the advice of this report to heart. Tax rates are generally lower than in 2008 and three additional states have passed right-to-work laws since then.

Americans can learn a lot about policy from our 50 states, or as Justice Louis Brandeis called them, the 50 laboratories of democracy. Policy choices can make states into huge destination points or population repellents. While Americans move for a wide variety of reasons, economic opportunity is an important factor. States cannot control their 10-day weather forecasts or their physical landscapes, but they can control their economic climates. The right policy choices can help a state become a destination for economic opportunity.

As chapter one discusses, regarding the Northeast and other states facing economic decline, states can enact policies that hinder economic opportunity. In fact, states can be their own worst enemies when it comes to fostering economic growth for their citizens. By taking a look at the states that are experiencing economic decline, policymakers can learn many valuable lessons about harmful fiscal policies. An examination of comparative state economic performance data, comparative international performance data and decades of academic research on the effect of public policy on economic performance tells a clear story about the crucial policies that most severely hamper economic opportunity.

The policies detailed in this chapter have a common thread: burdensome government intervention in economic affairs creates large costs to doing business and handcuffs entrepreneurs to inflexible rules that prevent innovation. This chapter highlights the contours of taxation policy problems faced by businesses and entrepreneurs, the labor policy rules that complicate and burden dynamic employment, the overreliance on public assistance instead of private charitable giving, the overspending by government toward inefficient public expenditures, the corruption of public policy into cronyism that benefits the well-connected and politically favored and the critically underfunded long-term liabilities, such as the pensions of public employees, that squeeze budgets and keep taxes high, due to public expenses accrued decades earlier. The stakes are high. Getting policy right can help increase jobs, incomes and economic opportunities, while the opposite is also true with respect to states that get policy wrong.



### Policy Obstacle to Growth: Taxation

Tax revenues are essential for providing core services of government, but, at their most fundamental level, taxes create a “wedge” or barrier between work and reward. The principle of the tax wedge is discussed annually in this publication as part of the “10 Golden Rules of Taxation” and is a standard part of nearly any university-level public finance course. Whether a citizen is a wage employee, a financial investor or an entrepreneur with a small business, what that citizen earns from their productive efforts is not the same as their take home pay to spend at their own discretion. Economists hold that this wedge between gross earnings and after-tax income affects the willingness of individuals to engage in productive behaviors, given that taxes lower the financial incentive to work, sacrifice leisure, engage in unpleasant tasks and take potentially damaging career risks in search of greater success. Economic output and economic growth both increase when individuals and businesses are free to save, spend and invest more of their own money. The concept of the tax wedge is detailed in a supply and demand graph in Figure 6.

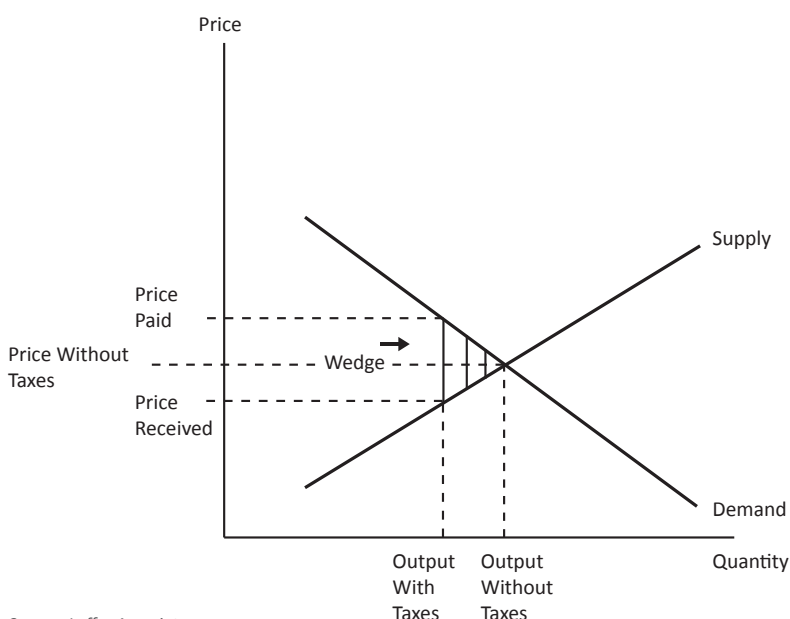
The majority of mainstream economists agree that the tax wedge negatively affects economic

output and growth. These findings are confirmed by the totality of economic literature. In late 2012, Dr. William McBride, then the chief economist at the Tax Foundation, conducted a literature review that sought to examine the consensus of economic research on the relationship between taxes and economic growth. His conclusions are succinctly stated as follows:

*“While there are a variety of methods and data sources, the results consistently point to significant negative effects of taxes on economic growth even after controlling for various other factors such as government spending, business cycle conditions and monetary policy. In this review of the literature, I find twenty-six such studies going back to 1983, and all but three of those studies, and every study in the last fifteen years, find a negative effect of taxes on growth. Of those studies that distinguish between types of taxes, corporate income taxes are found to be most harmful, followed by personal income taxes, consumption taxes and property taxes.”<sup>2</sup>*

A follow-up study by McBride concluded that more than 90 percent of studies examin-

FIGURE 6 | The Tax Wedge



Source: Laffer Associates

ing the relationship between taxes and growth concludes that taxes negatively affect economic growth.<sup>3</sup> These findings match what should be the expected outcome: work, production and investment are the keys to sustainable economic growth, and taxes reduce the incentive to engage in these behaviors.

The finding that taxes negatively affect economic growth can be found across the political spectrum. In the 2013 ALEC Center for State Fiscal Reform study, *Tax Myths Debunked*, authors Dr. Eric Fruits and Dr. Randall Pozdena referenced a study on the relationship between taxes and economic growth.<sup>4</sup> The study was conducted by Professor Christina Romer, formerly the chair of President Obama's Council of Economic Advisers, and her husband David Romer. The main findings of the study were as follows:<sup>5</sup>

- Each 1 percent increase in taxation lowers real Gross Domestic Product (GDP) by 2 to 3 percent.
- Investment falls sharply in response to tax increases. It is very likely that this strong retreat of investment is part of the reason the

declines in output are so large and persistent.

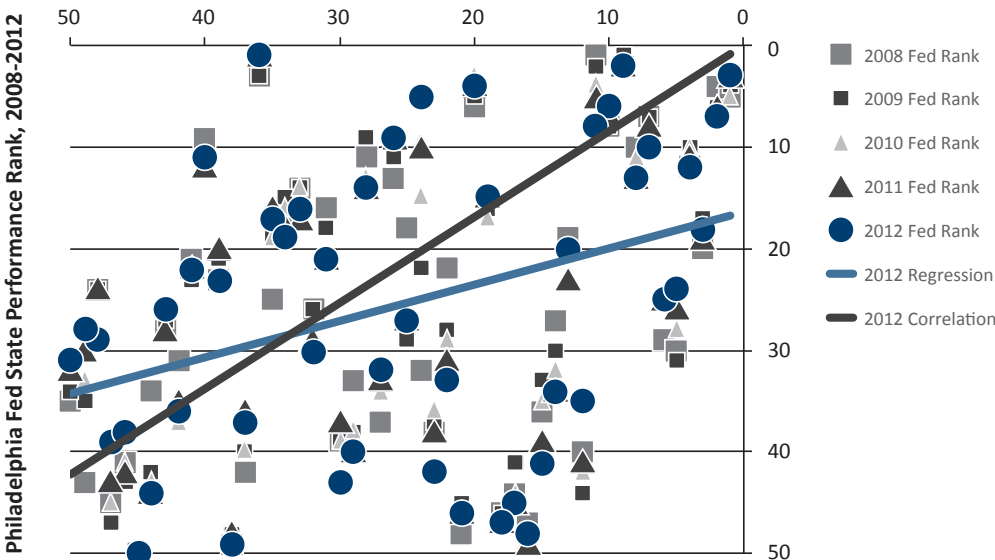
- These damaging effects on the economy are persistent and are not diminished by offsetting changes in prices.

Of course, mainstream economists will differ on whether trading off a decline in potential economic growth for increased taxes and government spending is acceptable in terms of public policy. However, the evidence is clear that such a trade-off exists and that a higher tax burden results in lower rates of economic growth.

While all taxes negatively affect economic growth, some taxes are more damaging to economic growth than others. A comprehensive 2011 study from the Organization for Economic Co-operation and Development (OECD) looked at economic growth and taxation in 21 OECD countries from 1971 to 2004. The report found that corporate income taxes are the most harmful taxes for economic growth, followed by personal income taxes and then consumption taxes. Property taxes were found to be the least harmful for economic growth.

Furthermore, these results are not specific

**FIGURE 7 | Higher ALEC-Laffer Ranks are Associated with Higher State Performance Ranks**



Source: Center for State Fiscal Reform, American Legislative Exchange Council

TABLE 6 | The Correlation of ALEC-Laffer State Policy Ranks and State Economic Performance

|   | 2008  | 2009  | 2010  | 2011  | 2012  |
|---|-------|-------|-------|-------|-------|
| <i>Spearman Rank Order Correlation: ALEC-Laffer Ranks vs. FRB State Performance Ranks</i> |       |       |       |       |       |
| <b>Contemporaneous</b>  | 38.9% | 40.7% | 28.7% | 26.4% | 27.1% |
| <b>1 Year Ahead</b>   | 39.6% | 38.6% | 27.5% | 27.4% |       |
| <b>2 Years Ahead</b>  | 37.2% | 37.0% | 27.0% |       |       |
| <b>3 Years Ahead</b>  | 35.8% | 36.7% |       |       |       |
| <b>4 Years Ahead</b>  | 35.7% |       |       |       |       |

Source: Center for State Fiscal Reform, American Legislative Exchange Council

to the international and national levels. Research findings from state-by-state comparisons of tax and fiscal policy climates and rates of economic growth show the same growth-hampering effects of taxation. This publication's annual economic competitiveness index tracks state tax and fiscal policy climates and how these affect state economic growth. Technical statistical research shows that economic freedom, as measured by previous editions of this study, is responsible for between 25 percent and 40 percent of the variation in state economic health, as measured by the index of the Philadelphia Federal Reserve Bank.<sup>6</sup> Given the tremendous number of factors that affect differences in state economic health, this is a strong and significant result demonstrating clearly that public policy does matter to economic performance. The analysis comes from Dr. Randall Pozdena and Dr. Eric Fruits in the ALEC Center for State Fiscal Reform publication, *Tax Myths Debunked*. Figure 7 and Table 6 show the plot of their results, as well as a table detailing their statistical conclusions.<sup>7</sup>

Due to the level of complication in most state tax codes, there are multiple core features that must be analyzed when comparing the competitiveness of state taxes. The total amount a state taxes its citizens, also known as the burden of taxation, is crucial to understanding how much of citizens' earnings government is consuming. Additionally, beyond the total extent of taxes, the

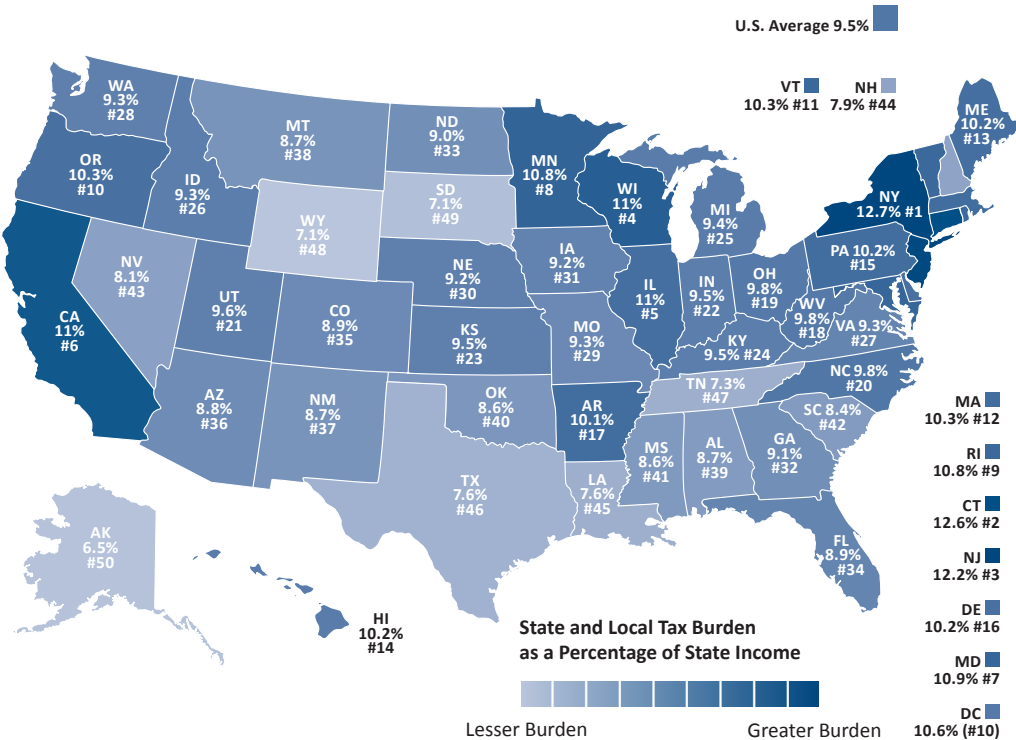
form of taxation matters greatly. Two states can have identical levels of taxation as a percent of their citizens' income, but the form and structure of taxation create big differences in the competitiveness of these two hypothetical states. Among these issues of form and structure, this section will highlight personal income taxes, corporate income taxes, estate taxes and tax cronyism.

#### Policy Obstacle to Growth: Overall Tax Burden

Across the 50 states, there are big differences in how much government captures from citizens through taxation and subsequently spends. For some states, such as those states that do not utilize a personal income tax, corporate income tax or death tax, this taxation may minimize the negative incentives created for citizens to be productive, which may mute the effect on economic competitiveness. But it is still the case that the larger the burden of taxation, the less citizens have to direct toward their own aims. Moreover, all taxes cause economic harm.

Money that government taxes does not go directly toward the financial ends of citizens. Individuals, not government bureaucrats, are in the best position to know their needs and to direct their spending toward ends that satisfy those needs. To the extent that government taxes at a high level or spends funds on projects that do not satisfy the needs and desires of citizens, those tax-

FIGURE 8 | State and Local Tax Burden Rank, Fiscal Year 2012



Note: As a unique state-local entity, Washington, D.C. is not included in rankings. The figure in parentheses shows where it would rank.

Source: Tax Foundation

payers are left worse off by the burden of taxation.

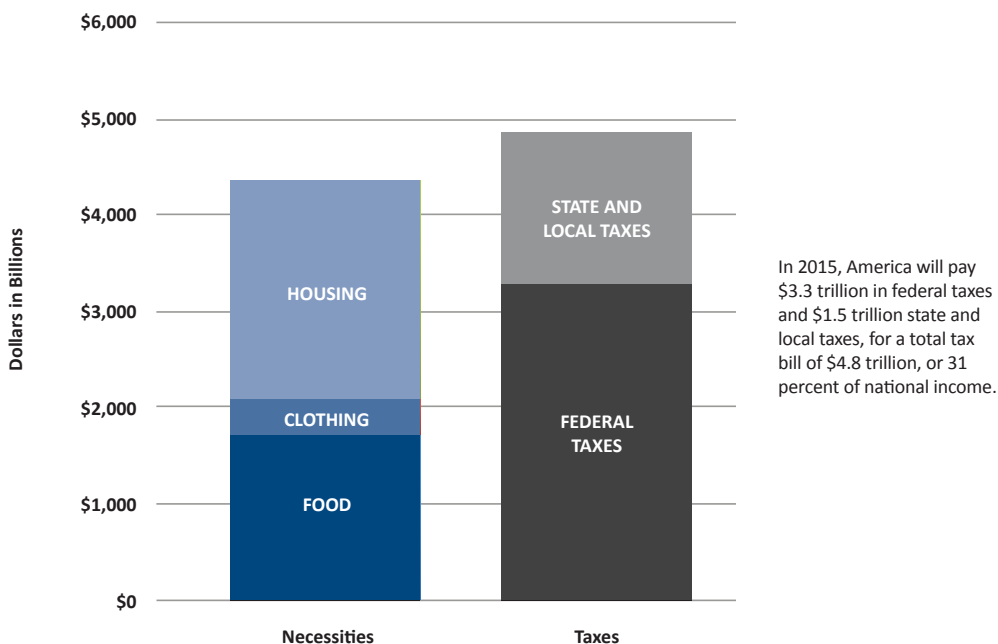
The Tax Foundation annually runs the numbers on total state and local taxation and compares those figures to a broad measure of total state income in order to compare what percentage of income government is collecting from citizens and spending toward social assistance transfers and government services. The data come with a time lag due to the underlying data collection by relevant government agencies. Thus, a map comparing the most recent burden of state and local taxation is displayed in Figure 8.<sup>8</sup>

These figures show the wide gap that exists in state taxation. Given that the lowest tax state, Alaska, only collects 6.5 percent of state income, while the highest tax state, New York, collects 12.7 percent of state income, a citizen's state of residence has a big impact on what a taxpayer can expect to contribute through all taxes.<sup>9</sup> These

figures represent the state average, and therefore taxpayers can expect very different treatment in the various states given a state's tax structure and the individual taxpayer's financial situation.

It is worth taking a step back and considering context for these state tax burden figures, particularly when compared alongside federal taxation. Taxes on all levels will consume nearly a third of national income in 2015. This totals \$4.8 trillion dollars. It is not a modest or trivial amount, as most taxpayers know all too well. According to the Tax Foundation, the average American will work until April 24 to pay their share of taxes in 2015, a day the Tax Foundation rightly titles "Tax Freedom Day."<sup>10</sup> That means the average American will work 114 days—just short of a third of a year—to pay their tax burden on all levels. Put differently, the average American spends more on taxes at all levels than food, clothing and hous-

**FIGURE 9 | Americans Will Spend More on Taxes in 2015 than on Food, Clothing and Housing Combined**



Source: Tax Foundation

ing combined, as Figure 9 shows.<sup>11</sup> Moreover, this ignores federal borrowing; if all \$580 billion of federal borrowing was paid with taxes, Tax Freedom Day would occur 14 days later on May 8.<sup>12</sup>

#### Policy Obstacle to Growth: Personal Income Taxes

State personal income taxes provide one of the most problematic areas where the tax wedge affects the incentives of individuals in harmful ways. Personal income taxes are collected on the wages of employees, the investment income of those savers directing capital toward productive ends and all business earnings from those firms not organized as C-corporations, known as “pass-through” income. In all three cases, these items represent the fruit of productive labor. When these elements are taxed, the incentive to engage in these productive activities is diminished, leading to less work, less investment and less business activity.

As noted previously, numerous studies conclude that taxing the various forms of personal

income and corporate taxes are the most damaging taxes for economic growth and economic performance. But the simple comparison of those nine states refraining from taxing personal income against those nine states taxing income at the highest level is telling of this economic connection. Table 7 details this comparison for the most recent available decade’s worth of data on population growth, net domestic migration, non-farm payroll employment growth, personal income growth, gross state product growth and even the growth of government revenue. It should be noted that though Tennessee and New Hampshire decline to collect taxes on personal wage income, they do tax investment income.

The contrast between these two groupings of nine states is quite telling on the dangers of personal income taxation as a means for collecting government revenue. On every metric, the states without a personal income tax are outperforming their high tax counterparts, and are doing so in a significant way.

These numbers in a table fail to tell the full

**TABLE 7 | The Nine States with the Lowest and Highest Marginal Personal Income Tax (PIT) Rates (10-Year Economic Performance)**

|   | 1/1/15                  | 2004-2014   | 2005-2014               | 2004-2014                   | 2004-2014       | 2004-2014           | 2002-2012                  |
|---|-------------------------|-------------|-------------------------|-----------------------------|-----------------|---------------------|----------------------------|
| State                                   | Top Marginal PIT Rate** | Population  | Net Domestic Migration† | Non-Farm Payroll Employment | Personal Income | Gross State Product | State & Local Tax Revenue‡ |
| Alaska                                  | 0.0%                    | 11.7%       | -2.9%                   | 11.2%                       | 65.5%           | 60.7%               | 318.8%                     |
| Florida                                 | 0.0%                    | 14.2%       | 4.4%                    | 4.6%                        | 43.1%           | 31.8%               | 44.0%                      |
| Nevada                                  | 0.0%                    | 21.0%       | 7.0%                    | 5.4%                        | 35.9%           | 27.7%               | 65.1%                      |
| South Dakota                            | 0.0%                    | 10.7%       | 2.8%                    | 10.3%                       | 57.4%           | 49.0%               | 57.2%                      |
| Texas                                   | 0.0%                    | 20.4%       | 5.4%                    | 21.7%                       | 75.9%           | 78.6%               | 65.7%                      |
| Washington                              | 0.0%                    | 14.3%       | 4.3%                    | 12.3%                       | 54.5%           | 57.2%               | 50.8%                      |
| Wyoming                                 | 0.0%                    | 14.7%       | 4.9%                    | 14.6%                       | 76.4%           | 86.4%               | 111.5%                     |
| New Hampshire^                          | 0.0%                    | 2.8%        | -0.3%                   | 3.3%                        | 43.0%           | 34.6%               | 46.5%                      |
| Tennessee^                              | 0.0%                    | 10.8%       | 4.5%                    | 4.0%                        | 45.6%           | 36.3%               | 54.0%                      |
| Average of 9 No Income Tax States*      | 0.0%                    | 13.4%       | 3.3%                    | 9.7%                        | 55.3%           | 51.4%               | 90.4%                      |
| <b>50-State Average*</b>                | <b>5.6%</b>             | <b>8.8%</b> | <b>0.7%</b>             | <b>6.1%</b>                 | <b>48.4%</b>    | <b>43.6%</b>        | <b>63.0%</b>               |
| Average of 9 Highest Income Tax States* | 10.4%                   | 6.8%        | -2.1%                   | 4.7%                        | 44.3%           | 40.1%               | 58.4%                      |
| Kentucky                                | 8.2%                    | 6.4%        | 1.3%                    | 3.9%                        | 42.7%           | 38.7%               | 39.4%                      |
| Maryland                                | 9.0%                    | 7.7%        | -2.5%                   | 4.0%                        | 42.1%           | 40.9%               | 52.0%                      |
| Vermont                                 | 9.0%                    | 1.1%        | -1.5%                   | 2.3%                        | 41.8%           | 31.4%               | 63.6%                      |
| Minnesota                               | 9.9%                    | 7.3%        | -1.3%                   | 4.9%                        | 41.7%           | 36.4%               | 52.3%                      |
| New Jersey                              | 10.0%                   | 3.5%        | -6.0%                   | -0.9%                       | 36.5%           | 29.5%               | 55.5%                      |
| Oregon                                  | 10.6%                   | 11.2%       | 5.1%                    | 7.2%                        | 46.7%           | 51.3%               | 64.3%                      |
| Hawaii                                  | 11.0%                   | 11.5%       | -2.6%                   | 7.2%                        | 52.9%           | 45.2%               | 74.8%                      |
| New York                                | 12.7%                   | 3.0%        | -7.5%                   | 7.4%                        | 47.3%           | 47.2%               | 70.7%                      |
| California                              | 13.3%                   | 9.1%        | -3.4%                   | 6.3%                        | 47.1%           | 40.6%               | 52.5%                      |

\* Equal-weighted averages.

\*\* Top marginal PIT rate is the top marginal tax rate on personal earned income imposed as of 1/1/2015 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.

† Net domestic migration is calculated as the ten-year (2005-2014) sum of net domestic in-migrants divided by the mid-year (2010) population.

‡ 2002-2012 due to Census Bureau data release lag.

^ Tennessee and New Hampshire tax interest and dividend income but not ordinary wage income.

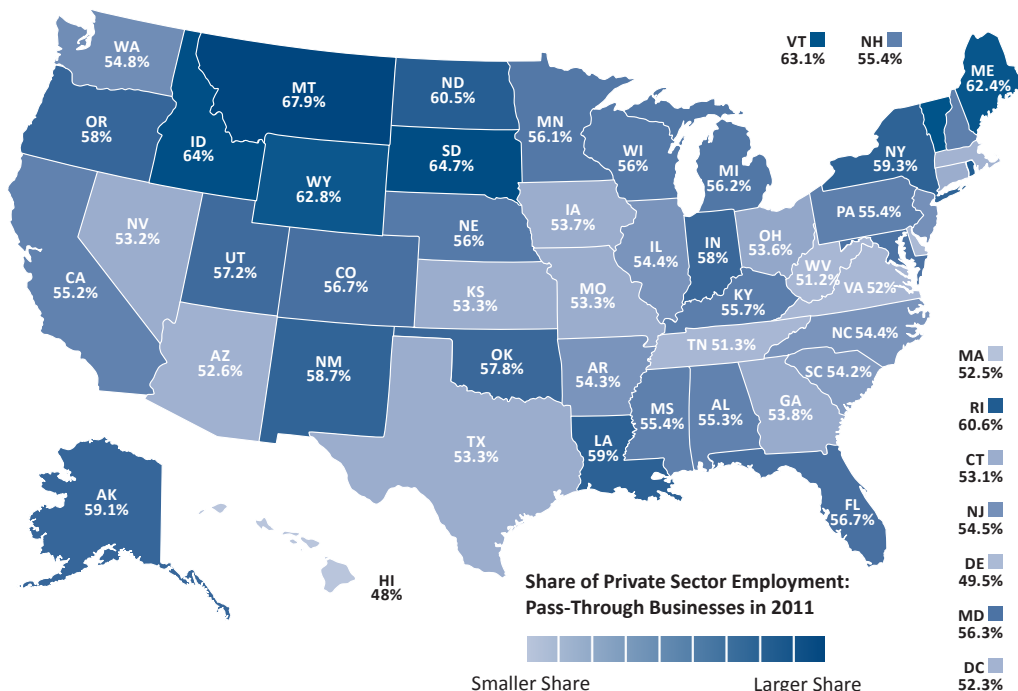
Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics and Bureau of Economic Analysis

story of this comparison in sufficient detail with respect to quality of life. The boost to economic performance, unlocked by avoiding taxation of personal income, provides citizens faster income growth, more opportunity to find a job or climb the career ladder and even faster government revenue growth, which allows for greater public

capacity to meet social needs through greater economic growth, not higher tax rates.

This reality is also true for those states choosing to tax personal income at lower levels and to tax income with one flat rate, instead of graduated rates that see highly productive workers facing increased rates of taxation as they earn

FIGURE 10 | Share of Private Sector Workers Employed by Pass-Through Businesses



Source: Tax Foundation

greater levels of income. Though many taxpayers avoid paying top marginal rates of state income taxes due to various carve-out provisions and graduated rates, there are many taxpayers that do face those rates, or must fear the possibility of facing those top marginal rates, and make economic decisions based on that possibility. The expectations and uncertainties of taxpayers have a major impact on their decisions to produce, invest or grow their businesses.

This effect of top marginal rates is particularly true for investors and pass-through businesses subject to the personal income tax code. Many advocates of high income taxes like to portray high earners as gilded millionaires undeserving of their large incomes. These advocates of “soak the rich” taxation ignore that investors directing capital or businesses reinvesting profits toward hiring expansion or wage enhancing capital investments, grow opportunity for all citizens of a given state. Figure 10 shows the share of employment in each state coming from pass-

through firms. In fact, 54.8 percent of all workers employed by a private business work for a firm that files in the personal income tax code, which amounts to 66.6 million workers.<sup>13</sup>

The map and overall figures should make clear that personal income taxation is often, in fact, better thought of as business taxation, and as businesses have increasingly high levels of their profits taken by government taxation, they have less funds to increase their employees’ wages, hire additional employees or engage in innovation that creates new products for customers or reduces the cost of their current products.

### Policy Obstacle to Growth: Corporate Income Taxes

The corporate income tax collects profits from businesses that are organized as “C-corporations” under federal income tax law. As with the personal income tax on pass-through income detailed in Figure 10, reduced levels of business profits mean

less cash to reinvest in the company. This means fewer funds to grant raises, less hiring of new employees and less investment into innovation efforts that may create new products for customers or reduce the cost of current products.

As previously noted, the economic research on taxes and economic performance concludes that corporate taxation is one of the most harmful forms of taxation to a state or national economy. As with the personal income tax, the simple

comparison of the seven states with the lowest corporate income tax rates, including three states levying no corporate income tax whatsoever, against the seven states with the highest corporate income tax rates, provides a stark contrast in economic outcomes. These results can be viewed in Table 8. It should be noted that a comparison of seven versus seven states was chosen given that a large number of states have the exact same marginal rate outside of the top and bottom

**TABLE 8 | The Seven States with the Lowest and Highest Marginal Corporate Income Tax (CIT) Rates (10-Year Economic Performance)**

|  | 1/1/15                  | 2004-2014  | 2005-2014               | 2004-2014                   | 2004-2014       | 2004-2014           | 2002-2012                  |
|--|-------------------------|------------|-------------------------|-----------------------------|-----------------|---------------------|----------------------------|
| State  | Top Marginal CIT Rate** | Population | Net Domestic Migration† | Non-Farm Payroll Employment | Personal Income | Gross State Product | State & Local Tax Revenue‡ |
| Nevada   | 0.0%                    | 21.0%      | 7.0%                    | 5.4%                        | 35.9%           | 27.7%               | 65.1%                      |
| South Dakota   | 0.0%                    | 10.7%      | 2.8%                    | 10.3%                       | 57.4%           | 49.0%               | 57.2%                      |
| Wyoming  | 0.0%                    | 14.7%      | 4.9%                    | 14.6%                       | 76.4%           | 86.4%               | 111.5%                     |
| Texas  | 2.6%                    | 20.4%      | 5.4%                    | 21.7%                       | 75.9%           | 78.6%               | 65.7%                      |
| Ohio   | 3.6%                    | 1.2%       | -3.3%                   | -1.4%                       | 35.6%           | 29.4%               | 29.5%                      |
| Alabama  | 4.2%                    | 7.0%       | 2.1%                    | 1.1%                        | 39.0%           | 34.1%               | 46.3%                      |
| North Dakota   | 4.5%                    | 14.7%      | 5.9%                    | 36.6%                       | 111.2%          | 135.7%              | 283.3%                     |
| Average of 7 Lowest Corporate Income Tax Rate States*  | 2.1%                    | 12.8%      | 3.5%                    | 12.6%                       | 61.6%           | 63.0%               | 94.1%                      |
| 50-State Average*                                      | 6.9%                    | 8.8%       | 0.7%                    | 6.1%                        | 48.4%           | 43.6%               | 63.0%                      |
| Average of 7 Highest Corporate Income Tax Rate States* | 12.1%                   | 7.7%       | -0.4%                   | 6.1%                        | 47.0%           | 43.0%               | 96.7%                      |
| Alaska   | 9.4%                    | 11.7%      | -2.9%                   | 11.2%                       | 65.5%           | 60.7%               | 318.8%                     |
| Minnesota  | 9.8%                    | 7.3%       | -1.3%                   | 4.9%                        | 41.7%           | 36.4%               | 52.3%                      |
| Iowa   | 9.9%                    | 5.2%       | -0.5%                   | 6.2%                        | 47.1%           | 43.7%               | 62.8%                      |
| Delaware   | 10.4%                   | 12.6%      | 4.6%                    | 3.0%                        | 39.2%           | 24.0%               | 56.1%                      |
| Oregon   | 11.3%                   | 11.2%      | 5.1%                    | 7.2%                        | 46.7%           | 51.3%               | 64.3%                      |
| Pennsylvania   | 17.0%                   | 3.0%       | -0.6%                   | 2.5%                        | 41.8%           | 37.6%               | 51.6%                      |
| New York   | 17.2%                   | 3.0%       | -7.5%                   | 7.4%                        | 47.3%           | 47.2%               | 70.7%                      |

\* Equal-weighted averages.

\*\* Top marginal CIT rate is the top marginal tax rate imposed as of 1/1/2015 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.

† Net domestic migration is calculated as the ten-year (2005-2014) sum of net domestic in-migrants divided by the mid-year (2010) population.

‡ 2002-2012 due to Census Bureau data release lag.

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



seven states, making the comparison otherwise unwieldy.

States with the lowest corporate income tax substantially outperform their high tax counterparts in population growth, net domestic immigration, non-farm payroll employment growth, personal income growth and gross state product growth. Only in the growth of state government revenue do the high corporate income tax states outperform their low tax counterparts, and by only a small amount, meaning that in the high and low corporate income tax states, government revenue grew at approximately the same rate.

Moreover, these state corporate tax rates should be considered under the broader context of the federal corporate tax rate. The United States has the highest top marginal corporate tax rate in the OECD, in addition to being one of the few countries with a “worldwide tax system,” which taxes the foreign profits of firms incorporated in the United States, in addition to the taxes paid to foreign governments for foreign profits.<sup>14</sup> This is opposed to a “territorial tax system,” which only taxes domestic corporate profits earned in the home country in which the firm is incorporated, and letting those firms pay only taxes to foreign governments on foreign profits. Thus, before even accounting for high state corporate tax rates, the United States is extremely uncompetitive in the global marketplace as businesses look to incorporate, produce and grow.

It is also worth recognizing that businesses do not actually bear the burden of taxation. “Tax incidence” is the study of what groups are actually affected by the cost of taxation and how significantly. For the corporate income tax, studies suggest that the incidence of the tax is split between labor and equity owners at a rate somewhere between 40-60 and 60-40 percent, respectively.<sup>15</sup>

This means workers are paying a substantial portion of the incidence of the corporate income tax in the form of lower wages. Moreover, these are likely low-skill workers, as more skilled labor can demand a firm and inflexible price in labor markets, thereby pushing tax incidence onto workers with weaker bargaining power.

Turning to stock equity holders, consider that for a corporation, not only do equity holders face the incidence of corporate taxation, reducing their investment earnings, but shareholders of those corporations are also taxed on those

profits through personal income taxes, either realized through capital gains or dividends. Thus, shareholders, the legal owners of corporations, face double taxation of their share of corporate profits, first through the corporate income tax, and then through investment income taxes in the personal income tax code.

These critiques of the corporate income tax also hold true for states employing gross receipts style taxes. This form of tax, which is levied against “topline,” gross revenue, and only allows for some minimal deductions of expenses, which come nowhere near the extent of the normal corporate profits tax base, are discussed extensively in chapter one of this publication in regards to Nevada’s recent adoption of this type of tax. As that chapter and a previous American Legislator analysis have noted, firms can face a tax liability under this form of tax even when they are in the red.<sup>16</sup> Moreover, gross receipts style taxes lead to “tax pyramiding” by taxing business inputs not deducted from the tax base. Tax pyramiding means that the price of goods that consumers ultimately pay includes the economic cost from taxes that companies paid at various levels of production; this is built into the price of the good and is in addition to any general sales tax that a consumer might pay.<sup>17</sup> This occurs because the tax is paid, not by the final consumer, but at every level of production. Given this, gross receipts style taxes have all the problems of corporate income taxes and still more. They are a substantial growth killer and should be avoided by states that aim for economic growth.

There is a large body of technical research demonstrating the numerous problems with the corporate income tax, but even setting it all aside, the argument against the corporate income tax is fairly intuitive and simple. The more businesses pay in taxes, the less they have to reinvest back into their businesses in the form of higher wages, more hiring, expanding production facilities and research and development funding. States that value those four outcomes should look to reduce, or even better, eliminate their corporate income tax.

### **Policy Obstacle to Growth: State Death Taxes**

Estate and inheritance taxes, commonly referred to as death taxes, exist at the federal level and in 19 states, and tax the wealth of the deceased.

This wealth, already facing a lifetime of taxation at every level of government when originally earned, often comes in the form of non-liquid assets, such as a family residence or family business. Upon the death of that home or business owner, the family that has enjoyed and contributed to that home or business must pay out cash to the federal and state government simply due to the legal transfer of ownership within the family, unless that transfer is to the spouse of the deceased. For those families without cash on hand, this can mean having to sell their cherished home or business in a desperate attempt to pay the taxman.

Over recent years, a handful of states, including Ohio, Kansas, North Carolina, Oklahoma, Indiana and Tennessee, have repealed their state death taxes. Even blue states, such as Maryland and New York, have enacted legislation which will gradually raise the state estate tax exemption to the federal level by 2019, thereby reflecting the new federal tax regime.

Prior to 2001, states could impose an estate tax of up to 16 percent with no extra burden on their residents because a federal tax credit offset state estate taxes. In other words, regardless of whether or not a state imposed an estate tax, a federal tax on estates above a certain level would be paid. The only question was whether these tax proceeds would flow to the federal or to the state government. In the absence of a state estate tax, up to 16 percent of the estate valuation would flow to the federal government instead.

However, that policy has ended and now state death tax levies are paid out of the assets of the deceased rather than diverted from the amount due to the federal government. The only federal estate tax break related to state estate taxes is a tax deduction in the amount of the state estate tax imposed. This tax deduction lowers the valuation of the estate for federal estate tax purposes for the amount of the state estate tax paid. However, for estates incurring state estate tax liability but falling beneath the federal threshold, this tax deduction does not save an estate a single dime. As a result of the elimination of the state estate tax credit, the estate tax is no longer “free” to states. Other than the savings resulting from state estate deduction discussed above, every dime collected is in addition to any federal estate tax owed.

Furthermore, the amount of an estate “exempted” from taxation at the federal level has risen drastically during the last 10 years from \$1,500,000 in 2005, to \$5,430,000 in 2015.<sup>18</sup> However, not all states have followed suit. For instance, in Nebraska, an inheritance tax of up to 18 percent must be paid on estates with as little as \$10,000 of value.<sup>19</sup> Simply put, dying in certain states is far more expensive than in others.

Unfortunately, the estate tax rules are often badly misunderstood by some state legislators—which might explain why the majority of the states with death taxes still apply a 16 percent rate—as if federal rules have not changed. These 13 states (plus D.C.), out of the 19 total states that impose the death tax, still impose huge costs onto their own citizens at death and thus chase out capital, jobs and citizens by failing to modernize their state estate tax laws. Table 9 shows the current rates and exemption levels for the states still imposing the death tax.<sup>20</sup>

The estate tax is an unfair double tax on income that was already taxed when it was earned by individuals who leave an estate for their family. But the estate tax is not just unfair—it is a killer of jobs and incomes in states. Many studies indicate that the death tax is so inefficient, complicated and adverse to saving and capital investment, that the states and the federal government would actually recoup much, if not all, of the revenues lost from repealing this tax with higher tax receipts resulting from long term economic growth.

A 1993 study by George Mason University economist Richard Wagner suggests that the economically destructive impact of the death tax on capital formation is so substantial that states and the federal government would, over the long term, enhance their revenue collections without the tax.<sup>21</sup> A 2001 study for the American Council for Capital Formation, co-authored by Douglas Holtz-Eakin, former head of the Congressional Budget Office, and Donald Marples, former senior economist for the U.S. Government Accountability Office, highlights the negative impact of the estate tax:

*“Entrepreneurs are particularly hard hit by the estate tax as they face higher average estate tax rates and higher capital costs for new investment than do other indi-*

Table 9 | State Death Tax Rates and Exemption Levels

|                      | ESTATE TAX RATES | ESTATE TAX EXEMPTION | INHERITANCE TAX RATES |
|----------------------|------------------|----------------------|-----------------------|
| Connecticut          | 7.2% — 12%       | \$2,000,000          |                       |
| Delaware             | 0.8% — 16%       | \$5,430,000          |                       |
| District of Columbia | 0.8% — 16%       | \$1,000,000          |                       |
| Hawaii               | 0.8% — 16%       | \$5,430,000          |                       |
| Illinois             | 0.8% — 16%       | \$4,000,000          |                       |
| Iowa                 | 0% — 15%         | -                    |                       |
| Kentucky             |                  | -                    | 0% — 16%              |
| Maine                | 8% — 12%         | \$2,000,000          |                       |
| Maryland             | — 16%            | \$1,500,000          | 0% — 10%              |
| Massachusetts        | 0.8% — 16%       | \$1,000,000          |                       |
| Minnesota            | 9% — 16%         | \$1,400,000          |                       |
| Nebraska             |                  | -                    | 1% — 18%              |
| New Jersey           | 0.8% — 16%       | \$675,000            | 0% — 16%              |
| New York             | 3.06% — 16%      | \$3,125,000          |                       |
| Oregon               | 0.8% — 16%       | \$1,000,000          |                       |
| Pennsylvania         | 0% — 15%         | -                    |                       |
| Rhode Island         | 0.8% — 16%       | \$1,500,000          |                       |
| Tennessee            | 5.5% — 9.5%      | \$5,000,000          |                       |
| Vermont              | 0.8% — 16%       | \$2,750,000          |                       |
| Washington           | 10% — 20%        | \$2,054,000          |                       |

Note: States with no figure for the estate tax exemption level have an exemption threshold that is less than \$100,000, both for the estate tax and inheritance tax, respectively and where applicable.

Source: Tax Foundation and The Heritage Foundation

viduals...The estate tax causes distortions in household decision-making about work effort, saving and investment (and the loss of economic efficiency) that are even greater in size than those from other taxes on income from capital.”<sup>22</sup>

A 2004 National Bureau of Economic Research study, “Do the Rich Flee from High State Taxes? Evidence from Federal Estate Tax Returns,” finds that states lose as many as one out of three dollars from their estate taxes because “wealthy elderly people change their state of residence to avoid high state taxes.”<sup>23</sup> That was when states imposed effective estate tax rates that were only one-third as high as they are now. Under these new soak the rich schemes, some states could lose so many wealthy seniors that they may actually lose revenue over time.

Numerous studies—including one by President Bill Clinton’s Secretary of the Treasury, Larry Summers—suggest that the desire to leave a legacy for one’s heirs, rather than just enjoy a comfortable retirement, incentivizes many to continue to invest in their enterprises and save money throughout their entire lifetime.<sup>24</sup> According to Summers, et al.:

“The evidence presented in this paper rules out life cycle hump saving as the major determinant of capital accumulation in the U.S. economy. Longitudinal age earnings and age consumption profiles do not exhibit the kinds of shapes needed to generate large amounts of life cycle wealth accumulation. The view of U.S. capital formation as arising, in the main, from essentially homogenous individuals or married spouses saving when young for their retirement is factually incorrect. Intergenerational transfers appear to be the major element determining wealth accumulation in the U.S.”

In other words, this desire to leave a legacy accounts for much of the trillions of dollars of wealth passed from one generation to the next. All of society benefits when this wealth remains invested in the productive economy rather than being siphoned into the coffers of inefficient government agencies. But the higher the death tax rate, the more this incentive for wealth creation—and legacy creation—is reduced. The combined federal and state death tax rate now approaches 50 percent in many states, after accounting for

deductions. This explains why estate tax planning and tax avoidance is a booming industry.

State death taxes are especially futile because residents subject to the tax can avoid it by fleeing before they die. No less an ardent liberal than the late Senator Howard Metzenbaum—one of the wealthiest members of Congress—moved to Florida from Ohio after he retired from politics, thereby avoiding millions in estate taxes.<sup>25</sup> A successful New York business owner with \$50 million of lifetime savings can move his family and company to Florida, Georgia, Texas or 28 other states and cut his death tax liability by more than \$7 million.<sup>26</sup>

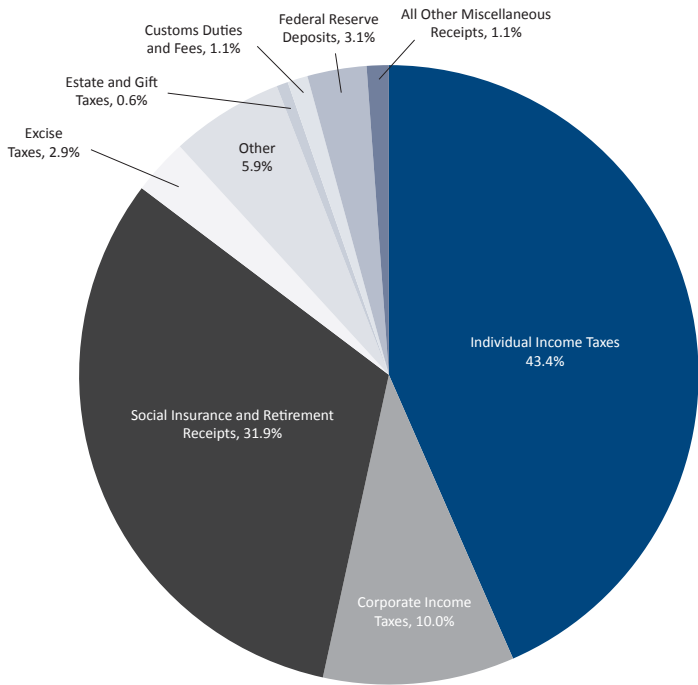
The estate tax is not just immoral, due to double taxation of family assets, and it is not just economically harmful, it does not even raise substantial revenue for the government. The latest tax collection data from the Internal Revenue Service (IRS) make an overwhelmingly persuasive case for death tax elimination at the federal level. Here is what the latest IRS data shows: in 2014, the estate tax raised less than \$20 billion. This is out of \$3.2

trillion in total federal tax collections that year. In other words, a trivial amount, less than 1 percent of federal tax receipts, came from this tax—less than \$1 of every \$100. Its impact on the federal deficit is miniscule. Eliminate this tax altogether and the federal government at worst would still collect 99.4 percent of all federal revenues. Figure 11 details this data.

The same is true at the state level. Death tax collections are an extremely small part of state budgets. Table 10 shows the percent of total revenue that gift and death taxes combined make up for the 19 states that collect this harmful tax. Since the data available sum the death tax and gift tax, these figures actually overstate the amount of revenue brought in by death taxes.<sup>27</sup>

Moreover, the tax is incredibly inefficient with respect to compliance. Many estates have to waste time and money working with accountants and lawyers to avoid the tax. The joke in legal circles today is that we have an estate tax not to raise money, but to put thousands of accoun-

**Figure 11 | Federal Tax Receipts by Source in Fiscal Year 2014**



Source: Internal Revenue Service and White House Office of Management and Budget

Table 10 | State Death and Gift Taxes Provide Minimal Funding to State Governments

| State         | Total Death and Gift Tax Revenue | Percent of Total State Tax Revenue | Number of Days Death and Gift Taxes Fund State Government |
|---------------|----------------------------------|------------------------------------|---|
| Connecticut   | \$421,065,000                    | 1.3%                               | 5.2 Days  |
| Delaware      | \$20,161,000                     | 0.2%                               | 0.9 Days  |
| Hawaii        | \$14,886,000                     | 0.1%                               | 0.5 Days  |
| Illinois      | \$309,376,000                    | 0.4%                               | 1.5 Days  |
| Iowa          | \$86,785,000                     | 0.4%                               | 1.5 Days  |
| Kentucky      | \$41,326,000                     | 0.1%                               | 0.5 Days  |
| Maine         | \$79,083,000                     | 0.8%                               | 3.2 Days  |
| Maryland      | \$234,552,000                    | 0.6%                               | 2.2 Days  |
| Massachusetts | \$313,395,000                    | 0.6%                               | 2.0 Days  |
| Minnesota     | \$159,115,000                    | 0.3%                               | 1.5 Days  |
| Nebraska**    | \$0                              | 0.0%                               | 0.0 Days  |
| New Jersey    | \$623,840,000                    | 0.9%                               | 3.4 Days  |
| New York      | \$1,014,862,000                  | 0.5%                               | 2.0 Days  |
| Oregon        | \$101,831,000                    | 0.3%                               | 1.4 Days  |
| Pennsylvania  | \$812,350,000                    | 0.9%                               | 3.4 Days  |
| Rhode Island  | \$31,156,000                     | 0.4%                               | 1.4 Days  |
| Tennessee     | \$114,191,000                    | 0.4%                               | 1.4 Days  |
| Vermont       | \$15,387,000                     | 0.2%                               | 0.9 Days  |
| Washington    | \$104,258,000                    | 0.2%                               | 0.8 Days  |

\*All data reflect 2013 tax collections and expenditures.

\*\*Nebraska's figures show no revenue because the tax is categorized as a local tax.

Source: Center for State Fiscal Reform, American Legislative Exchange Council

tants and lawyers in jobs. Numerous studies have found that far more is spent complying with the death tax than the tax collects in government revenue, which is the hallmark of poor tax policy.<sup>28</sup>

Estate taxes are economically self-defeating. Nobel laureate economist Joseph Stiglitz, who served as Chair on President Bill Clinton's Council of Economic Advisors, once found that the estate tax may increase inequality by reducing savings and driving up returns on capital.<sup>29</sup> Former Clinton Treasury Secretary and Obama economic adviser Larry Summers co-authored a 1981 study finding that the estate tax reduces capital formation.<sup>30</sup> Additionally, a 2012 study by the Joint Economic Committee Republicans showed that the estate tax has reduced the capital stock by approximately \$1.1 trillion since its introduction nearly a century ago.<sup>31</sup> This explains why more socialist-leaning nations like Sweden and Russia have recently abolished their death taxes. They

concluded the tax was economically counterproductive.

In summary, death taxes are self-defeating because they drive out businesses and high income residents. Even for those choosing to remain in death tax states, the elderly are incentivized to spend down their assets while alive or find tax shelters, which results in massive disinvestment in family owned businesses—the backbone of local economies. Avoiding a 10 to 20 percent tax of a lifetime estate from being confiscated by the state government is easy to do and financially prudent—citizens can simply move to another state. The wonder is not that so many people of wealth leave a state to avoid the estate tax, but that there are still a few who do not. It is no accident that the high performing state economies in America are almost all death tax free. The evidence on the death tax forces us to continue to conclude that, “the death tax is a bad tax, associ-

ated with huge costs and bad incentives, taking in almost no revenue and without rational justification.”<sup>32</sup>

**Policy Obstacle to Growth: Tax Cronyism and Complexity**

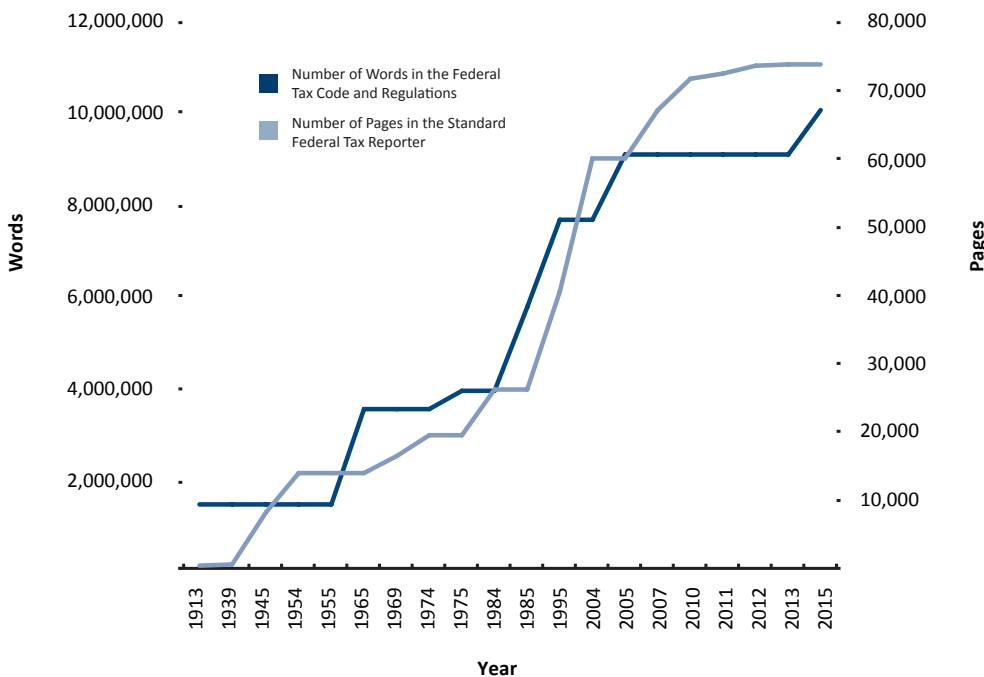
In addition to concerns with the overall tax burden and the format of taxation, the extent of cronyism and complexity in the tax code are also a barrier to economic competitiveness. Tax cronyism is discussed at length in chapter two of this publication and makes it clear that tax cronyism presents a major impediment to sound, pro-growth tax policy. The endless litany of tax preferences, coupled with other complex rules, standards and rate structures, not only create substantial economic distortion, but a massive cost of tax compliance.

As ALEC research has noted previously, tax cronyism and poor tax structure alter decisions by consumers, firms and investors to shift their rel-

evant economic choices toward some firms and products, and away from others, due to tax treatment.<sup>33</sup> Moreover, these provisions complicate the tax code, creating additional need for costly tax preparers and government affairs operations directed toward protecting a firm’s tax status from being damaged further by new legislation. Worse still, all of these tax code complexities require enforcement. Enforcement necessitates audits, which create large compliance and litigation costs for businesses, and the possibility of abusive and unfair audits.<sup>34</sup>

Just on the federal level, the cost of federal tax compliance is massive. As former House Ways and Means Committee Chairman Dave Camp has pointed out in *The Wall Street Journal*, “According to Nina Olsen, the National Taxpayer Advocate at the IRS, Americans overall spend over six billion hours and \$168 billion every year to file their returns.”<sup>35</sup> He follows this revelation up by noting that the federal tax code “is now 10 times the size

Figure 12 | The Growth of Tax Complexity



Source: Tax Foundation

of the Bible, but with none of the Good News.” This is before even considering the cost of compliance with all state taxes, as well as the totality of federal taxes other than the income tax. The growth in the length of the federal tax code tells the story, as shown in Figure 12.<sup>36</sup>

Tax Foundation’s study, *Location Matters*, recently updated and republished, provides an example of the complexity and favoritism of the tax code in many states. The study looks at seven different types of hypothetical firms: corporate headquarters, research and development facilities, retail stores, capital intensive manufacturers, labor intensive manufacturers, call centers and distribution centers. Moreover, the report creates a hypothetical profile for each of those seven types of businesses as both a new and mature business. Using these 14 business profiles, it calculates the tax treatment in each state, given all taxes faced, as well as the details of all tax provisions and tax carve-outs. The results do not lend themselves to a single graphic display, but the overarching conclusion is that in nearly all states, the details of the tax code, beyond rates, make a big difference to the tax burden an individual business can expect.<sup>37</sup> The Tax Foundation enlisted accounting firm KPMG to help compile the details, which is telling—serious expertise is needed to determine a business’s tax burden in most states due to the massive extent of state tax complexity.

Tax cronyism is counterproductive to a healthy economic climate. Firms and capital investors require a favorable policy climate for all, not gimmicks and targeted favors. When policymakers resort to tax carve-outs to encourage growth, they are ignoring the bigger problem—an uncompetitive tax structure.

### **Policy Obstacle to Growth: Business as Usual Budgeting**

Moving from tax policy to the other side of the proverbial fiscal coin—spending—conventional budgeting is also an obstacle to growth. While 49 states have some sort of a balanced budget requirement, with the exception of Vermont, budget challenges are a stark reality for many states.<sup>38</sup> States face structural budget problems due to overspending. In fact, a recent Government Accountability Office (GAO) report estimates that state and local governments will continue to face

a gap between revenue and spending during the next 50 years.<sup>39</sup>

Conventional budgeting often leads to budget problems, since this approach focuses entirely on inputs—the amount spent—instead of outputs, which should consist of quality public services that broadly improve well-being, and are provided in a timely and efficient manner. State governments that ignore outcomes and instead focus on perpetual, poorly targeted increases to funding tend to face perpetual structural budget shortfalls, poor and inefficient provision of services and chronic underfunding of core services that are properly within the role of government. The combination of underfunded core services, waste of taxpayer dollars on imprudent spending and the perpetual call for higher taxes to fund endless budget deficits have an adverse effect on economic performance. Thus, the payoff for critical and constructive budgeting processes is improved state economic competitiveness and elevated well-being of the citizens of that state.

As Table 11 demonstrates, conventional budgeting leads to overspending because there is little emphasis on outcomes, effectiveness or efficiency.

With the conventional budgeting approach, the current budget is adjusted annually for an automatic, across the board, “base-line” increase in funding. In addition, select programs are targeted for an additional increase or decrease based on the outcome of budget negotiations. A change relative to the base-line budget increase may be due to caseload changes, new programs or responsibilities, lobbying efforts by fund recipients or the various priorities of policymakers. When the revenue forecast is lower than the base-line budget predicted, policymakers are left to scramble for emergency restructuring. This may include a combination of tax hikes, program cuts or budget gimmicks to make the general fund resources match forecasted revenue. Conventional budgeting resembles an iceberg, with decades-worth of spending unexamined under the water, while the debate rages on over the small part that sticks up out of the water. The longer that state lawmakers continue to use conventional budgeting, the more difficult their budget problems will become.

States can address their fiscal challenges by changing their budgetary system from the conventional model focused on inputs, which is clearly flawed, to a system focused on outcomes.

TABLE 11 | Comparing Conventional Budgeting to Priority-Based Budgeting

| Conventional Budget System:<br>Input-Focused   | Priority-Based Budget System:<br>Output-Focused   |
|--|---|
| Baseline Budget<br>+<br>Inflation<br>+<br>Caseloads<br>+<br>Initiative Requirements<br>+<br>Additional Policy Changes<br>=<br>Business-as-Usual Budget | Core Functions of Government<br>+<br>Performance Measurement<br>+<br>Prioritized Spending Adjustments<br>=<br>Priority-Based Budget |

Source: Center for State Fiscal Reform, American Legislative Exchange Council

Priority-based budgeting means that taxpayers and state officials work together to outline the core functions of state government. This might seem like an obvious step, but it is rarely considered. In order to develop a well-structured budget, the following questions must be answered, which can be seen below, and come from the ALEC Center for State Fiscal Reform study, *State Budget Reform Toolkit*.

Key Questions to Ask in State Budgeting Process

- What is the role of government?
- What are the essential services government must provide to fulfill its purpose?
- How will taxpayers know if government is doing a good job?
- What should all of this cost?
- When cuts must be made, how will they be properly prioritized?

Once the core functions of government are determined, state officials can focus on delivering efficient services to taxpayers with excellence.

Priority-based budgeting ensures that what government is supposed to do, it does well. States can save money if officials do not spend time debating how a function can be performed better if it is not a core function of government. This new approach to budgeting keeps a taxpayer-focused perspective on the budget.

In fact, Washington state implemented priority-based budgeting in 2003 to close a \$2.4 billion deficit without increasing taxes.<sup>40</sup> Leaders from both parties recognized that Washington’s economy was too weak to withstand a tax hike. Instead of resorting to economically damaging tax increases, lawmakers focused on the most important services that were consistent with the core role of government.

States should implement priority-based budgeting to address their budget challenges. With this new budgeting system, lawmakers can focus on delivering excellent and efficient services to taxpayers. Sound budgeting ensures taxpayer dollars create the maximum value for constituents while keeping the overall level of taxation low. This proverbial “one-two punch” of quality, efficient provision of core government services coupled with a focus on maintaining a low tax environment provides a state with a major leg-up in economic competitiveness and ensures the state



tax and budget regime is fine-tuned for rapid economic growth. Sound budgeting practices ensure that government functions efficiently and that its operations minimally impact economic growth.

### **Policy Obstacle to Growth: Underfunded Public Employee Pensions and Other Long-Term Obligations**

Across the 50 states, state governments have not paid their bills as they have come due over recent decades. State and local governments have relied on defined-benefit pension plans for their workers, where the state promises a certain pension to workers once those workers retire. To fulfill that promise, government pledges to annually save the necessary amount of funds to ensure that sufficient money is available to pay employee pensions once workers enter retirement. At least that is how public pensions are supposed to work. In contrast to this, actual practice has consisted of states creating huge unfunded financial liability or debt by underfunding these pensions. This underfunding has occurred due to unreasonable financial assumptions, overly generous benefits and simply short-changing pension obligations in order to spend state funds elsewhere, thereby kicking the proverbial fiscal can down the road.

This pension debt represents the cost of government services provided in the past. Poor pension practices rob from employee pensions and force future generations to pay for the spending of today. This means one of three things for state and local budgets: states must spend less on current and future services to make budgetary room for pension payments, states must tax increasingly more now and in the future to cover present expenditures and pay for public pensions or states must choose a mixture of spending less and taxing more to pay for the obligations from the past. Moreover, the fiscal vice posed by unfunded pension debt harms economic competitiveness and compromises economic growth, as lawmakers are pressured to cut core government services and raise taxes.

The fiscal hole that has been created in state budgets by decades of underfunding is so large it is difficult to comprehend its scope. According to a report by State Budget Solutions, which calculates pension liabilities using “fair market valuation,” the extent of state and local unfunded

pension liabilities in 2014 was \$4.7 trillion.<sup>41</sup> This gaping hole represents what was promised to workers in the past, but was not paid for by locking necessary funds away at the time those promises were made. Table 12 from State Budget Solutions breaks down this \$4.7 trillion across the 50 states.<sup>42</sup>

This \$4.7 trillion hole does not include explicit debt issued through bonds and owed to bond investors, unemployment insurance fund debt owed to the federal government or other retirement benefits promised to public employees, such as health care, known as other post-employment benefits (OPEB). State Budget Solutions last tallied these line items in 2013. They found that on average, 23 percent of total state debt was comprised by these three non-pension elements, though this figure varied widely across states.<sup>43</sup> Nebraska had the lowest composition of non-pension debt at less than 1 percent, whereas in New Jersey these three elements accounted for more than 49 percent of the debt burden, despite New Jersey having the fifth-highest per capita unfunded pension liability.<sup>44</sup>

The Mercatus Center recently published a ranking of the 50 states on their fiscal health, which includes long-term unfunded obligations. For their overall rankings, they combine five rankings of state fiscal health, which they define as follows:

- *“Cash solvency: Does a state have enough cash on hand to cover its short-term bills?”*
- *Budget solvency: Can a state cover its fiscal year spending with current revenues? Or does it have a budget shortfall?”*
- *Long-run solvency: Can a state meet its long-term spending commitments? Will there be enough money to cushion it from economic shocks or other long-term fiscal risks?”*
- *Service-level solvency: How much fiscal “slack” does a state have to increase spending should citizens demand more services?”*
- *Trust fund solvency: How much debt does a state have? How large are its unfunded pension and healthcare liabilities?”*<sup>45</sup>

The overall indexed results of this Mercatus Center study can be viewed in Figure 13, which ranks overall fiscal solvency.

The severity of these numbers should signal a warning for many states. Though some states

TABLE 12 | Total State Pension Liabilities, 2014

| State          | Funding Ratio | Unfunded Liability*    | Unfunded Liability per Citizen | Unfunded Liability as Percent of GSP |
|----------------|---------------|------------------------|--------------------------------|--------------------------------------|
| Alabama        | 31%           | \$65,016,984           | \$13,450                       | 34%                                  |
| Alaska         | 25%           | \$29,870,006           | \$40,639                       | 50%                                  |
| Arizona        | 35%           | \$58,785,112           | \$8,871                        | 21%                                  |
| Arkansas       | 35%           | \$39,981,107           | \$13,512                       | 32%                                  |
| California     | 39%           | \$754,049,342          | \$19,671                       | 34%                                  |
| Colorado       | 32%           | \$93,097,129           | \$17,672                       | 32%                                  |
| Connecticut    | 23%           | \$86,592,133           | \$24,080                       | 35%                                  |
| Delaware       | 45%           | \$10,115,246           | \$10,924                       | 16%                                  |
| Florida        | 42%           | \$183,400,221          | \$9,380                        | 23%                                  |
| Georgia        | 41%           | \$102,309,417          | \$10,239                       | 23%                                  |
| Hawaii         | 29%           | \$30,679,916           | \$21,852                       | 41%                                  |
| Idaho          | 43%           | \$16,337,125           | \$10,135                       | 26%                                  |
| Illinois       | 22%           | \$331,579,500          | \$25,740                       | 46%                                  |
| Indiana        | 36%           | \$47,994,637           | \$7,304                        | 15%                                  |
| Iowa           | 41%           | \$39,573,833           | \$12,807                       | 24%                                  |
| Kansas         | 28%           | \$36,931,840           | \$12,762                       | 26%                                  |
| Kentucky       | 24%           | \$83,400,125           | \$18,976                       | 45%                                  |
| Louisiana      | 30%           | \$84,469,334           | \$18,264                       | 33%                                  |
| Maine          | 42%           | \$15,991,348           | \$12,042                       | 29%                                  |
| Maryland       | 32%           | \$83,372,848           | \$14,062                       | 24%                                  |
| Massachusetts  | 29%           | \$104,045,210          | \$15,545                       | 23%                                  |
| Michigan       | 30%           | \$136,352,801          | \$13,779                       | 32%                                  |
| Minnesota      | 35%           | \$91,882,093           | \$16,952                       | 29%                                  |
| Mississippi    | 27%           | \$55,998,050           | \$18,722                       | 53%                                  |
| Missouri       | 37%           | \$85,775,967           | \$14,192                       | 31%                                  |
| Montana        | 36%           | \$14,829,838           | \$14,611                       | 34%                                  |
| Nebraska       | 38%           | \$15,676,018           | \$8,387                        | 14%                                  |
| Nevada         | 33%           | \$59,907,102           | \$21,472                       | 45%                                  |
| New Hampshire  | 28%           | \$15,911,056           | \$12,026                       | 23%                                  |
| New Jersey     | 30%           | \$200,150,052          | \$22,491                       | 37%                                  |
| New Mexico     | 33%           | \$46,394,266           | \$22,251                       | 50%                                  |
| New York       | 44%           | \$307,932,488          | \$15,670                       | 23%                                  |
| North Carolina | 50%           | \$81,001,018           | \$8,225                        | 17%                                  |
| North Dakota   | 29%           | \$8,814,876            | \$12,192                       | 16%                                  |
| Ohio           | 34%           | \$289,603,831          | \$25,028                       | 51%                                  |
| Oklahoma       | 32%           | \$47,188,892           | \$12,254                       | 26%                                  |
| Oregon         | 40%           | \$74,220,901           | \$18,886                       | 34%                                  |
| Pennsylvania   | 32%           | \$181,834,408          | \$14,235                       | 28%                                  |
| Rhode Island   | 31%           | \$16,884,807           | \$16,050                       | 32%                                  |
| South Carolina | 32%           | \$63,410,798           | \$13,280                       | 35%                                  |
| South Dakota   | 52%           | \$8,036,599            | \$9,511                        | 17%                                  |
| Tennessee      | 46%           | \$42,428,255           | \$6,531                        | 15%                                  |
| Texas          | 39%           | \$296,099,832          | \$11,196                       | 19%                                  |
| Utah           | 41%           | \$34,188,135           | \$16,350                       | 24%                                  |
| Vermont        | 33%           | \$7,132,322            | \$11,375                       | 24%                                  |
| Virginia       | 35%           | \$96,429,613           | \$11,674                       | 21%                                  |
| Washington     | 43%           | \$88,588,884           | \$12,708                       | 22%                                  |
| West Virginia  | 32%           | \$22,144,882           | \$11,944                       | 30%                                  |
| Wisconsin      | 67%           | \$38,593,900           | \$6,720                        | 14%                                  |
| Wyoming        | 38%           | \$11,483,730           | \$19,698                       | 25%                                  |
| <b>TOTAL</b>   | <b>36%</b>    | <b>\$4,736,487,827</b> | <b>\$15,052</b>                | <b>29%</b>                           |

\*Unfunded liability is the fair market valuation of the combined state plans' liability. The fair market valuation discount rate for 2013 is 2.734%.

Note: Unfunded liability is in thousands of dollars.

Source: State Budget Solutions

and localities may be able to adjust the terms of public employee pensions, thereby lowering their liability, particularly in local governments that are forced to enter bankruptcy proceedings, most states are statutorily or constitutionally banned from making such adjustments to pensions. Moreover, employees were promised these benefits and likely made numerous financial decisions based on their reliance on the fulfillment of these promises.

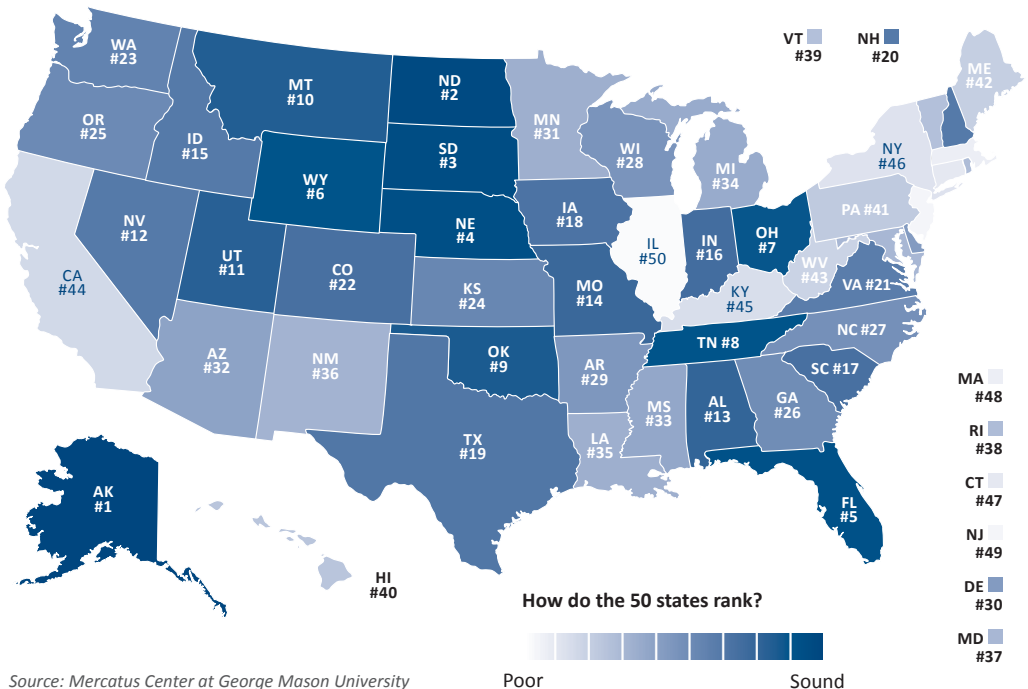
Thus, governments with big pension debts find themselves in a tough situation. Take Illinois and New Jersey, two states that have already been warned by the United States Securities and Exchange Commission that their pension underfunding is so severe that the states are guilty of civil securities fraud.<sup>46</sup> Already in these states, both well-known for high levels of taxation, the pressure to increase taxes—thereby further harming economic competitiveness which harms economic performance—continues to mount, while current levels of government services must be curtailed to pay for the promises of the past. This budgetary squeeze puts states between the proverbial rock and a hard place, with growing pension debt prohibiting necessary tax cuts to

spur economic growth, while still curtailing public services.

The key reason this debt was accrued also provides a pathway to a pension solution. States that move to defined-contribution plans—much like 82 percent of their private sector counterparts, versus only 16 percent in the public sector—eliminate the temptation to underfund pensions or lean on unrealistic financial assumptions.<sup>47</sup> Defined-contribution plans put retirement funds in an employee's own retirement account, hosted by a financial institution, on an annual basis. As *Keeping the Promise: State Solutions for Government Pension Reform*, published by the ALEC Center for State Fiscal Reform and authored by former Utah Senator Dan Liljenquist, notes in detail, defined-contribution plans must be fully funded annually and offer no possibility of pension underfunding.<sup>48</sup> Employees then own and possess those assets on a running basis, with no need to wonder whether their benefits will someday be paid.

Moreover, defined-contribution plans allow government to attract a higher quality and more dynamic workforce. As ALEC research associate, William Freeland, noted in a recent article titled

FIGURE 13 | Overall State Fiscal Solvency



“Think Millennials Aren’t Affected by Pension Reform? Think Again.”

*“After college, I began as a researcher at George Mason University, a public university in Fairfax, Virginia. When I started, I was offered two choices: I could enter into a state defined-benefit pension plan, which would require me to compile at least five years of service to the state of Virginia in order to ever collect a single payment, or I could enter the state defined-contribution plan, which works much like a 401k. From day one, all of the retirement contributions made by my employer on my behalf would go into my own personal account. Whenever I chose to leave public service in Virginia, I would take 100 percent of the retirement contributions I made and those made on my behalf by the state with me to my next job.*

*This arrangement is in stark contrast to what some states offer their young employees. Had I started in a state where my only option was a defined-benefit plan, I may have been forced to accumulate 10-20 years of service to even qualify for a dollar of retirement benefits to be paid to me. If I ever considered leaving public service before that threshold, I would have been faced with leaving a significant amount of money on the table that, in theory, I was supposed to have earned as an element of my total compensation plan.*

*This is a huge problem for millennials interested in public service. They are faced with a “lock-in” effect that creates a sharp disincentive to ever leave public service once they begin. Or similarly, young people who first entered the workforce in the private sector are disincentivized from entering government later in their careers because of the service years requirement necessary to receive a retirement benefit payment; call this a “lock-out” effect. Though defined-benefit plans and their accompanying service year requirements may create some degree of incentivized loyalty among government workers, it likely does more to discourage talented workers—young and old—from entering*

*public service due to the “lock-in” and “lock-out” effects.”<sup>49</sup>*

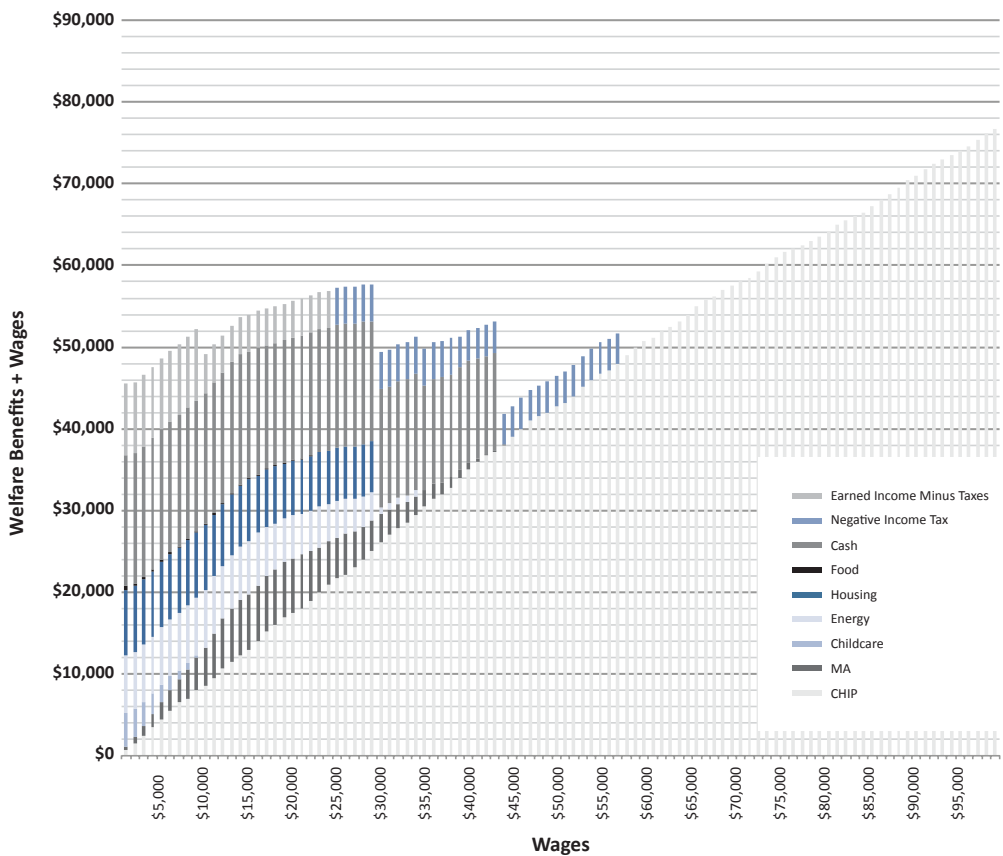
State and local governments looking to attract the very best workers with the most dynamic skill sets can ensure that potential employees see retirement benefits as actual compensation, rather than benefits they may well never earn, by embracing defined-contribution plans.

Luckily, states can take steps to reform public pensions, most notably by moving their state public pension systems to defined-contribution plans going forward. The ALEC Center for State Fiscal Reform pension study, *Keeping the Promise: State Solutions for Government Pension Reform*, provides a guidebook for states looking to make this crucial and necessary policy change, including case studies from Michigan, Utah, Alaska and Rhode Island.<sup>50</sup> Such reforms ensure the current government spending on employee compensation is paid for by current funds, and avoid unfunded state liabilities that keep taxes high and squeeze spending on public services.

### **Policy Obstacle to Growth: Welfare Dependence Instead of a Safety Net**

Though advocates of pro-growth, limited government tax and fiscal policies are often viewed by left-wing apologists for big government as anti-egalitarian, unconcerned with the plight of the poor and draconian with respect to their views on social policy, this is a fundamental misunderstanding of views held by fiscal reformers. House Speaker Paul Ryan may have put it best when contrasting the notion of a social safety net that catches those who fall upon tough times, with the hammock of the welfare state which reduces opportunity and perpetuates dependence.<sup>51</sup> In short, the point of social assistance is to get people who become unemployed back to work and avoid destitution during this intermediate period.

The support for a minimum social safety net traces back to influential thinkers such as Milton Friedman and Friedrich Hayek, both of whom supported an efficient, goal-oriented minimum social safety net.<sup>52</sup> The goal of such provisions was not at odds with the notion of a capitalist economy, nor some sort of embrace of a “third-way” economic system, consisting of a mix between capitalism and socialism, but instead a social insur-

**Figure 14 | Low Income Welfare Cliffs: Household Income and Benefits in Pennsylvania**

Source: Former Pennsylvania Secretary of Public Welfare Gary Alexander's Presentation at the American Enterprise Institute

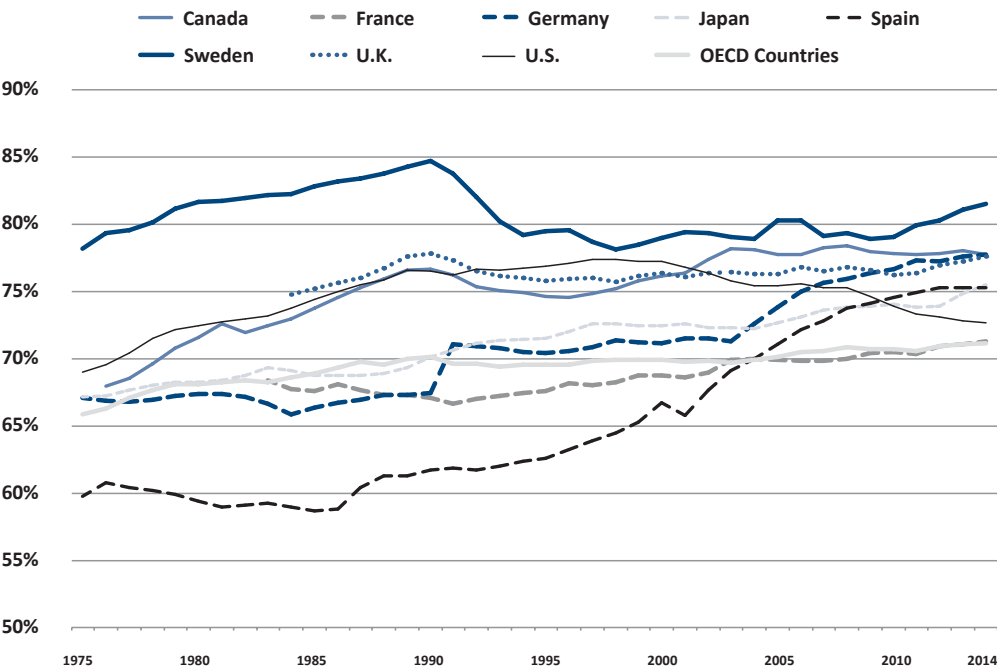
ance system to maximize economic productivity and growth while tempering the downside of risks posed by a high-risk and high-reward capitalist system. This support for social assistance generally was accompanied with a concern for the inefficient, socialist direct provision of goods better provided by the market—as opposed to direct income support—as well as concerns with overly generous and dependence-fostering welfare systems that encourage able-bodied adults to refrain from productive work.

Across the 50 states, there is ample evidence to suggest that the states are granting a large amount of social assistance, for too long of a duration and in an inefficient manner. Consider an anecdote from Pennsylvania, presented by Gary Alexander, former Secretary of Public Welfare for the Commonwealth of Pennsylvania, and presented at the American Enterprise Institute. As Figure 14 displays and Gary Alexander's remarks noted, when social assistance benefits and taxes

are considered, a single mother in Pennsylvania is better off earning a market income of \$29,000 from a job, while receiving a net income and social assistance benefits package of \$57,327, rather than taking a job with a market income of \$69,000, yielding the hypothetical mother with \$57,045 in net income after benefits and taxes.<sup>53</sup>

In Secretary Alexander's same presentation, he noted that at the time, the nation had an estimated 66.1 million welfare recipients, 21.2 million government employed persons and only 109.3 million privately employed persons. Given that, he concluded there are only 1.65 privately employed individuals for every person receiving public assistance, and only 1.25 privately employed individuals for every person either receiving public assistance or employed by the government.<sup>54</sup> The U.S. labor force participation rate, the measure of the number of individuals actively working or looking for work, now stands below most of our nation's developed global competitors, after decades as a

Figure 15 | Labor Force Participation Rates in Advanced Economies from 1975 to 2014



Source: *The Wall Street Journal*

leader of the measure, as Figure 15 from *The Wall Street Journal* notes. Though the reasons for this fall in the labor force participation rate are numerous and complex, it is unavoidable that social assistance policy has played a role.<sup>55</sup>

For those individuals who are capable of productive work but refrain from participating in the labor force, it is important to not view them as acting immorally or having status as some sort of social parasite leeching off the productive class. Instead, these individuals are responding to incentives—in this case, perverse incentives which disincentivize work. As discussed previously in this chapter regarding tax policy, individuals respond to public policy, such as marginal tax rates, in rational ways and make decisions on the nature and detail of their productive efforts based on the incentives public policy establishes. In the Pennsylvania example from above, the single mother would be financially harming herself by taking a job paying more than \$29,000. Indeed, the decision would be irrational and in contradiction to basic human nature to take a higher paying job that pays less than \$69,000. So the issue with respect to social assistance is one of poorly

structured policy failing to embrace a pro-growth agenda, not the moral failings of American citizens.

Cato Institute scholars Michael Tanner and Charles Hughes took on the task of comparing the welfare versus work trade-off in 2013, which updated a previous 1995 study on the topic. The study compares the social assistance benefits available to the typical recipient of assistance to the income one can expect to earn in a typical entry level job. They offer the following conclusions to their study, relative to their 1995 analysis of the topic:

*“Welfare benefits continue to outpace the income that most recipients can expect to earn from an entry-level job, and the balance between welfare and work may actually have grown worse in recent years. The current welfare system provides such a high level of benefits that it acts as a disincentive for work. Welfare currently pays more than a minimum-wage job in 35 states, even after accounting for the Earned Income Tax Credit, and in 13 states*

TABLE 13 | Welfare Benefits in the 50 States

| State                | Total Welfare Benefits Package | Pre-Tax Wage Equivalent of Welfare Benefits | Wage Equivalent as a Percent of Median Wages |
|----------------------|--------------------------------|---|--|
| Alabama              | \$26,638                       | \$23,310                                    | 78.1%  |
| Alaska               | \$29,275                       | \$26,400                                    | 61.5%  |
| Arizona              | \$21,364                       | \$15,320                                    | 44.9%  |
| Arkansas             | \$17,423                       | \$12,230                                    | 43.0%  |
| California           | \$35,287                       | \$37,160                                    | 96.5%  |
| Colorado             | \$20,750                       | \$14,750                                    | 39.8%  |
| Connecticut          | \$38,761                       | \$44,370                                    | 107.4%                                       |
| Delaware             | \$30,375                       | \$29,220                                    | 80.7%  |
| District of Columbia | \$43,099                       | \$50,820                                    | 83.1%  |
| Florida              | \$18,121                       | \$12,600                                    | 41.1%  |
| Georgia              | \$19,797                       | \$14,060                                    | 44.3%  |
| Hawaii               | \$49,175                       | \$60,590                                    | 167.0%                                       |
| Idaho                | \$17,766                       | \$11,150                                    | 36.9%  |
| Illinois             | \$19,442                       | \$13,580                                    | 38.5%  |
| Indiana              | \$26,891                       | \$22,900                                    | 73.2%  |
| Iowa                 | \$20,101                       | \$14,200                                    | 45.5%  |
| Kansas               | \$29,396                       | \$26,490                                    | 85.9%  |
| Kentucky             | \$18,763                       | \$13,350                                    | 43.9%  |
| Louisiana            | \$26,538                       | \$22,250                                    | 72.4%  |
| Maine                | \$19,871                       | \$13,920                                    | 42.8%  |
| Maryland             | \$35,672                       | \$38,160                                    | 94.3%  |
| Massachusetts        | \$42,515                       | \$50,540                                    | 118.3%                                       |
| Michigan             | \$28,872                       | \$26,430                                    | 77.2%  |
| Minnesota            | \$31,603                       | \$29,350                                    | 80.4%  |
| Mississippi          | \$16,984                       | \$11,830                                    | 43.4%  |
| Missouri             | \$26,837                       | \$22,800                                    | 73.1%  |
| Montana              | \$29,123                       | \$26,930                                    | 91.6%  |
| Nebraska             | \$20,798                       | \$14,420                                    | 46.8%  |
| Nevada               | \$31,409                       | \$29,820                                    | 91.3%  |
| New Hampshire        | \$37,160                       | \$39,750                                    | 112.5%                                       |
| New Jersey           | \$38,728                       | \$43,450                                    | 109.9%                                       |
| New Mexico           | \$30,435                       | \$27,900                                    | 92.9%  |
| New York             | \$38,004                       | \$43,700                                    | 110.5%                                       |
| North Carolina       | \$28,142                       | \$25,760                                    | 81.7%  |
| North Dakota         | \$30,681                       | \$28,830                                    | 90.0%  |
| Ohio                 | \$28,723                       | \$26,200                                    | 80.4%  |
| Oklahoma             | \$26,784                       | \$22,480                                    | 75.8%  |
| Oregon               | \$31,674                       | \$34,300                                    | 97.6%  |
| Pennsylvania         | \$29,817                       | \$28,670                                    | 82.5%  |
| Rhode Island         | \$38,632                       | \$43,330                                    | 117.6%                                       |
| South Carolina       | \$26,536                       | \$21,910                                    | 72.9%  |
| South Dakota         | \$29,439                       | \$26,610                                    | 92.8%  |
| Tennessee            | \$17,413                       | \$12,120                                    | 40.0%  |
| Texas                | \$18,037                       | \$12,550                                    | 39.1%  |
| Utah                 | \$19,612                       | \$13,950                                    | 43.5%  |
| Vermont              | \$37,705                       | \$42,350                                    | 124.5%                                       |
| Virginia             | \$20,884                       | \$14,870                                    | 41.0%  |
| Washington           | \$30,816                       | \$28,840                                    | 71.8%  |
| West Virginia        | \$27,727                       | \$24,900                                    | 88.9%  |
| Wisconsin            | \$21,483                       | \$14,890                                    | 44.6%  |
| Wyoming              | \$33,119                       | \$32,620                                    | 90.3%  |
| <b>US Average</b>    | <b>\$28,122</b>                | <b>\$26,254</b>                             | <b>75.4%</b>                                 |

Source: Cato Institute



*it pays more than \$15 per hour.*

*If Congress and state legislatures are serious about reducing welfare dependence and rewarding work, they should consider strengthening welfare work requirements, removing exemptions, and narrowing the definition of work. Moreover, states should consider ways to shrink the gap between the value of welfare and work by reducing current benefit levels and tightening eligibility requirements.”<sup>56</sup>*

Table 13 uses data from the Cato study and ranks the states by the total size of their benefits, the equivalent wage of those benefits and the equivalent wage of welfare benefits as a percentage of the median wage in that given state.<sup>57</sup>

In a follow-up study by Cato’s Tanner and Hughes, they compared the work versus welfare trade-off in the United States to European nations, and came to the following conclusion:

*“Benefits in the United States fit comfortably into the mainstream of welfare states. Excluding Medicaid, the United States would rank 10th among the EU nations analyzed, more generous than France and slightly less generous than Sweden. Thirty-five states offer a package more generous than the mean benefit package offered in the European countries analyzed.”<sup>58</sup>*

The Heartland Institute recently ranked the welfare systems and welfare reform efforts in the 50 states in a study titled *Welfare Reform Report Card*. The study, published in 2015, ranks both the success of anti-poverty measures, as well the extent to which states have embraced welfare reform focused on getting individuals back to work and reconnected to labor markets.<sup>59</sup> The results from the study can be viewed in Table 14.

Additionally, it’s worth dispelling the myth that since transfer payments to individuals allow for increased spending, those transfer payments therefore advance economic growth, rather than hinder it. In 2011, former Tax Foundation Chief Economist Will McBride summarized the results of an OECD study looking at the impact of government spending on economic growth. The study found, consistent with economic theory, that spending on transfer payments is generally not growth enhanc-

ing.<sup>60</sup> This should be unsurprising to those mindful of incentives and economic theory, given that this spending takes from those individuals engaging in productive behavior, reducing the incentive for productive activities by these working individuals, and gives to those individuals largely not producing while receiving transfer payments, thereby reducing their incentive and necessity to engage in productive activity.<sup>61</sup> Therefore, society tends to produce less as government transfers increasingly more income. In sum, while social assistance can aid individuals in reattaching to the labor force, it is not a strategy for economic growth.

State policymakers should recognize the importance of incentivizing work and ensuring that their social assistance systems are geared toward fostering economic growth. The problem is not the citizens receiving benefits, who are simply responding to economic incentives. Incentives matter with social assistance policy, just as with taxes. Social assistance policy must be focused on balancing the needs of those struggling against the objective of producing rapid economic growth to provide those citizens with economic opportunity. States must soberly and critically analyze their social assistance policy in order to ensure they are providing a social safety net geared toward growth, and not a welfare state hammock which harms the well-being of those it sets out to help.

### **Policy Obstacle to Growth: Ignoring the Role of Charitable Giving and Civil Society**

Policy debates around the levels of state taxation and state spending generally focus on the negative economic impact of taxes, the relative effectiveness and social utility of current government spending, the proper role of government and whether high spending and the taxes that fund that spending make the least fortunate worse off, offering them financial assistance but no job. What is often excluded from these debates is the role of charitable giving in filling social needs, and how government taxes and spending affect that charitable giving by citizens.

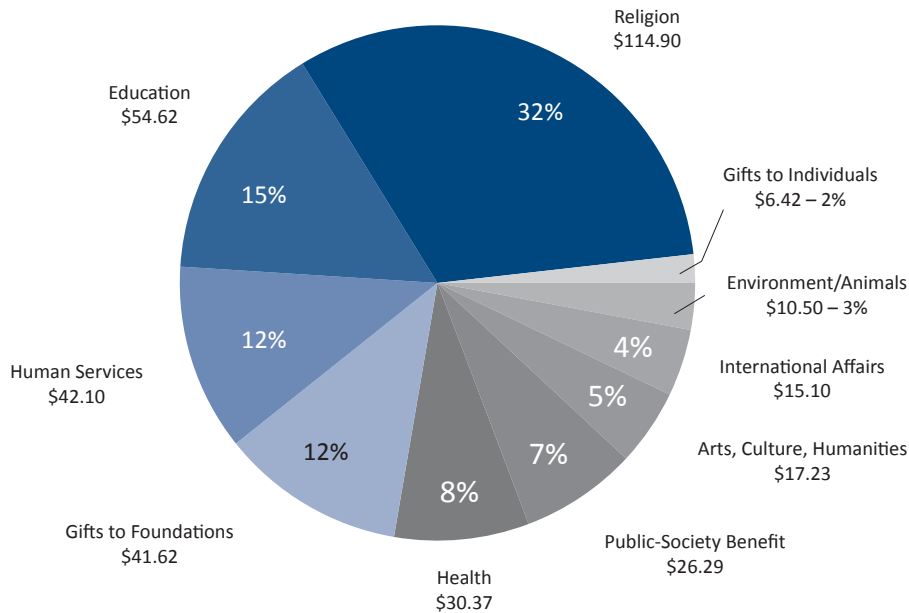
In 2014, total charitable giving was \$358.4 billion according to estimates by Giving USA, or about 2.1 percent of total GDP. In addition to giving funds toward charitable endeavors, Americans give substantially of their time and labor in volunteer work. The National Center for Charitable Sta-

TABLE 14 | 2015 Welfare Reform Report Card

| State          | Welfare Reform Policies |         |       | Anti-Poverty Performance |         |
|----------------|-------------------------|---------|-------|--------------------------|---------|
|                | Points                  | Ranking | Grade | Points                   | Ranking |
| South Dakota   | 87.0                    | 1       | A     | 51.8                     | 25      |
| Idaho          | 86.0                    | 2       | A     | 68.4                     | 7       |
| Nevada         | 85.7                    | 3       | A     | 30.6                     | 47      |
| Utah           | 85.7                    | 3       | A     | 43.4                     | 34      |
| Wisconsin      | 85.7                    | 3       | A     | 26.8                     | 50      |
| Michigan       | 85.0                    | 6       | A     | 38.4                     | 40      |
| Louisiana      | 83.0                    | 7       | A-    | 58.2                     | 17      |
| Delaware       | 82.3                    | 8       | A-    | 41.0                     | 36      |
| North Carolina | 81.0                    | 9       | A-    | 52.8                     | 24      |
| Texas          | 80.3                    | 10      | B+    | 72.6                     | 3       |
| North Dakota   | 77.0                    | 11      | B+    | 65.8                     | 9       |
| Florida        | 75.7                    | 12      | B     | 68.8                     | 6       |
| Virginia       | 75.3                    | 13      | B     | 56.0                     | 20      |
| Alaska         | 74.3                    | 14      | B     | 58.4                     | 16      |
| New Jersey     | 74.3                    | 14      | B     | 50.0                     | 29      |
| Pennsylvania   | 74.3                    | 14      | B     | 50.2                     | 28      |
| Colorado       | 73.0                    | 17      | B     | 42.6                     | 35      |
| West Virginia  | 73.0                    | 17      | B     | 59.4                     | 13      |
| Maryland       | 72.3                    | 19      | B     | 66.0                     | 8       |
| Illinois       | 72.0                    | 20      | C+    | 62.6                     | 10      |
| Arkansas       | 71.3                    | 21      | C+    | 49.0                     | 30      |
| Arizona        | 71.0                    | 22      | C     | 51.2                     | 27      |
| Tennessee      | 70.3                    | 23      | C     | 31.8                     | 45      |
| California     | 69.3                    | 24      | C     | 57.8                     | 18      |
| New Mexico     | 69.0                    | 25      | C     | 51.6                     | 26      |
| Indiana        | 68.0                    | 26      | C     | 29.8                     | 49      |
| Minnesota      | 67.7                    | 27      | C-    | 55.4                     | 21      |
| Connecticut    | 63.3                    | 28      | C-    | 70.0                     | 5       |
| Mississippi    | 63.0                    | 29      | C-    | 58.6                     | 15      |
| Kentucky       | 62.3                    | 30      | C-    | 56.4                     | 19      |
| Montana        | 62.3                    | 30      | C-    | 61.6                     | 12      |
| Kansas         | 60.3                    | 32      | D+    | 38.4                     | 40      |
| Ohio           | 59.0                    | 33      | D     | 45.8                     | 32      |
| Maine          | 56.0                    | 34      | D     | 48.8                     | 31      |
| Washington     | 56.0                    | 34      | D     | 39.4                     | 38      |
| Hawaii         | 55.7                    | 36      | D     | 70.8                     | 4       |
| Nebraska       | 55.7                    | 36      | D     | 39.4                     | 38      |
| South Carolina | 55.7                    | 36      | D     | 38.2                     | 43      |
| New York       | 54.7                    | 39      | D-    | 73.0                     | 2       |
| New Hampshire  | 54.3                    | 40      | D-    | 53.4                     | 23      |
| Iowa           | 52.3                    | 41      | D-    | 31.0                     | 46      |
| Oklahoma       | 52.3                    | 41      | D-    | 54.4                     | 22      |
| Wyoming        | 52.3                    | 41      | D-    | 75.6                     | 1       |
| Georgia        | 52.0                    | 44      | F     | 59.4                     | 13      |
| Alabama        | 51.0                    | 45      | F     | 43.6                     | 33      |
| Oregon         | 51.0                    | 45      | F     | 33.2                     | 44      |
| Rhode Island   | 51.0                    | 45      | F     | 38.4                     | 40      |
| Vermont        | 46.0                    | 48      | F     | 62.6                     | 10      |
| Massachusetts  | 24.7                    | 49      | F     | 40.0                     | 37      |
| Missouri       | 24.3                    | 50      | F     | 30.4                     | 48      |

Source: Heartland Institute

Figure 16 | 2014 Charitable Contributions by Type of Recipient Organization



Note: Amounts in billions of dollars.

Source: Giving USA

tistics estimates that in 2012, 64.5 million people, about 26.5 percent of the U.S. population, volunteered at least once. Overall in 2012, the Center estimates 12.7 billion hours were spent volunteering, with an estimated valuation of \$259.6 billion. According to the National Center for Charitable Statistics, there are currently 1,507,231 tax-exempt organizations operating in the United States and serving many of the same social needs as government. Figure 16 segments these organizations by the nature of their charitable work and displays the extent of donations directed to the given area of charity.

The combined size of charitable giving and volunteer work should suggest that the impact of non-governmental efforts to solve social problems is not trivial. Moreover, analyzing the types of causes that giving is directed toward demonstrates that private citizens are attempting to tackle social problems or areas of social shortfall in private, market-based spending with their money and time, not just with higher taxes, expansion to government programs or new government programs. Still, these efforts, while large

in magnitude nationally, differ greatly across the 50 states in terms of their size.

A recent ALEC Center for State Fiscal Reform study, *The Effect of State Taxes on Charitable Giving*, analyzed the differences in state charitable giving by individuals using IRS data, which was available from 1997 to 2012. The study examined and published the top and bottom 10 states in terms of charitable giving per dollar of income, as well as the top and bottom 10 states in terms of growth of giving per dollar of income. Those results are displayed in Table 15.<sup>62</sup>

Notably, many of the states with the lowest total tax burden, lowest total personal income tax burden and best ALEC-Laffer economic outlook ranking are among the most generous states and are where giving is growing most quickly. The opposite is also true: states with the highest total tax burden, highest personal income tax burden and lowest economic outlook experienced the lowest levels of charitable giving and giving growth. The study's researchers examined the correlation and found the statistical connection to be substantial. First, by comparing the level of giv-

Table 15 | Comparing Levels of Charitable Giving and Growth of Charitable Giving

| Most Generous States per Dollar of Income in Descending Order, 1997-2012 |                | Least Generous States per Dollar of Income in Descending Order, 1997-2012 |               | Fastest Growth in Total Charitable Giving in Descending Order, 1997-2012 |              | Slowest Growth in Total Charitable Giving in Descending Order, 1997-2012 |               |
|--|----------------|---|---------------|--|--------------|--|---------------|
| Rank   | State          | Rank  | State         | Rank   | State        | Rank   | State         |
| 1  | Utah           | 41  | Ohio          | 1  | Wyoming      | 41   | Pennsylvania  |
| 2  | Wyoming        | 42  | Wisconsin     | 2  | Texas        | 42   | Indiana       |
| 3  | Georgia        | 43  | New Mexico    | 3  | South Dakota | 43   | Wisconsin     |
| 4  | Alabama        | 44  | Rhode Island  | 4  | Montana      | 44   | New Hampshire |
| 5  | Oklahoma       | 45  | Vermont       | 5  | North Dakota | 45   | Rhode Island  |
| 6  | South Carolina | 46  | Alaska        | 6  | Nevada       | 46   | New Jersey    |
| 7  | Maryland       | 47  | Maine         | 7  | Oklahoma     | 47   | Delaware      |
| 8  | Idaho          | 48  | New Hampshire | 8  | Georgia      | 48   | Ohio          |
| 9  | North Carolina | 49  | North Dakota  | 9  | Kansas       | 49   | Maine         |
| 10   | Mississippi    | 50  | West Virginia | 10   | Washington   | 50   | Michigan      |

Source: Center for State Fiscal Reform, American Legislative Exchange Council

ing in low tax states and high tax states in a simple top 10 versus bottom 10 comparison, the authors concluded that by nearly every metric, low tax states did indeed give more and grew giving more quickly than their high tax counterparts.

Moreover, the study went on to use the tools of econometric statistical analysis to attempt to rigorously determine the strength and nature of the relationship between state taxes and charitable giving. The data show that the link between lower taxes and both lower levels of charitable giving and lower growth of charitable giving is statistically strong in correlation and notable in size of the relationship. Those results are summarized and quoted below. Note that total state charitable giving as a percentage of income ranges from roughly 5.20 percent down to 1.15 percent across states and years.

*"State Personal Income Tax Burden*

- *Growth: Considering the growth rate of charitable giving and growth rate of the state personal income tax burden, a 1 percent increase in a state's personal income tax burden is associated with a 0.35 percent decrease in the state's rate of charitable giving as a percent of total state income.*
- *Level: Considering the level of charitable*

*giving and the level of the state personal income tax burden, this research found that an increase in a state's personal income tax burden of roughly 1 percentage point of total state income results in a roughly 0.10 percentage point decrease in measured charitable donations as a percent of income.*

*Total State Tax Burden*

- *Growth: Considering the growth rate of charitable giving and growth rate of the total state tax burden, a 1 percent increase in a state's total tax burden is associated with a 1.16 percent decrease in the state's rate of charitable giving.*
- *Level: Considering the level of charitable giving and the level of the total state tax burden, this research found that an increase in a state's total tax burden of roughly 1 percentage point of total state income results in a roughly 0.09 percentage point decrease in measured charitable donations."*<sup>63</sup>

It is clear a state's tax and fiscal policy climate has a significant effect on rates of charitable donations, with higher taxes generally correlating with less philanthropy. Therefore, it is important that discussions about tax and fiscal policy also take

into account these effects. Charity is uniquely equipped to address a wide variety of social concerns and challenges. States that have voted for lower taxes tend to give more of their income to charity, filling gaps in social assistance and social endeavors where those gaps exist. Moreover, taxes directly affect the level and growth of charitable giving by lowering current income, lowering future income and otherwise “crowding out” charitable giving as citizens decide that the more they pay in taxes, the less they need to give to private charity. Through a better understanding of these effects and tradeoffs, state policymakers can more effectively make decisions to respect the hardworking taxpayers in their states.

### **Policy Obstacle to Growth: Forced-Unionization**

In previous editions of this study, we have argued that although the economic outlook index’s 15 crucial policy variables are not weighted, taxation on state income—personal, investment and business—along with right-to-work laws, are by far the most important elements of state economic performance. This is still true. Right-to-work laws are provisions that ensure workers are not forced as a condition of employment to join a labor union. Workers are free to join a labor union, and their membership is in no way inhibited by these laws, but if a labor union does not serve their interests, they are free to decline union membership while keeping their current job.

Far from being “anti-worker,” as many opponents of right-to-work have argued, right-to-work is emphatically pro-worker. Workers are empowered with the right of free association and the right to freely determine whether a labor union, or more importantly, the specific labor union they would otherwise be forced to join, serves their interest. This includes their specific interests at their job, as well as their outside private political interests, as they are able to refrain from contributing to a labor union with political goals not aligned with their own.

Moreover, unions are forced to respond to their workers by serving their interests and ensuring that union dues are spent in a manner that benefits their members.<sup>64</sup> This consists of spending time and capital on collective bargaining, and ensuring that fees that are optional for political activities are indeed the only funds

being used for such political activities.<sup>65</sup>

The repercussions of labor unions not being efficient and accountable will be that members who no longer agree with the union’s spending and efforts will refuse to join, leaving the coffers empty. If unions are as effective and accountable as they claim to be, they will have no problem retaining members that truly feel they are being well represented. Union leaders must work hard toward the goal of aligning members and labor representatives to a common interest that serves the members better. The unions have noticed these shortfalls, with AFSCME President Lee Saunders stating:

*“I think we took things for granted, we stopped communicating with people, because we didn’t feel like we needed to. That was the wrong approach, and we don’t want to fall back into that trap.”<sup>66</sup>*

Union representatives have been far too removed from the workplace for some time now in forced-union states, with little focus on membership recruitment, partially because all workers are compelled by law to fund a large share of the union’s operations. Too many labor unions spend too much of their funds on political activities, leadership conferences, salaries and benefits for the union staff and overhead. This spending includes dollars from workers who have no interest in being union members, as well as members that support the union but feel the representation is lacking.

Time and time again union members feel either underrepresented, or worse, not represented at all by the union to which they pay full union dues or so-called “fair share fees.” The fees are, in theory, for the collective bargaining rights that members should benefit from; however, workers often feel their bargaining interests are underserved by labor unions. These mounting frustrations call into question the benefits of these fees and on what they are being spent.

Right-to-work provides workers the opportunity to exert real influence in their relationship with their union. Far from ineffectual complaining and weak influence in labor union elections, workers can simply walk away from a union not serving their interests. The right of true free choice in labor relations, much as it exists among

consumers in the marketplace for goods and services, provides workers meaningful control over the union claiming to serve them.

Moreover, states that have embraced right-to-work perform better economically, while better serving the interests of workers in an arrangement that is truly pro-worker. Economists studying right-to-work have largely concluded that states that embrace labor freedom see major economic benefits. Dr. Eric Fruits and Dr. Randall Pozdena note in their recent analysis of right-to-work laws, published by the Cascade Policy Institute, that 8 out of 11 credible studies find those laws to have a positive economic impact in states, once implemented.<sup>67</sup> Dr. Pozdena and Dr. Fruits raise that figure to 9 of 12 credible studies in their publication, as they demonstrate with their own analysis the virtues of right-to-work, focusing on the economic effect in Oregon. These results can also be generalized to the other 24 forced-union states, after adjusting findings to specific economic conditions in each of those states. Looking backward, the analysis finds if the state of Oregon had enacted right-to-work legislation in 1985, relative to their publication year of 2012:

- *“Oregon’s employment in 2010 would have been approximately 14 percent higher (233,000 more jobs).*
- *Oregon’s 2010 personal income would have been 10 percent higher (\$14.6 billion).*
- *Oregon’s wage and salary income would have been 13 percent higher (\$9.7 billion). Looking forward, if Oregon enacts right-to-work legislation in 2012, the empirical results indicate that the state would see a permanent boost in employment and income growth.*
- *After five years, in 2016, Oregon would have 50,000 more people working as a right-to-work state. By 2021, 110,000 more people would be working in Oregon.*
- *By 2016, the state’s personal income would be \$4.1 billion higher and wage and salary income would be \$2.7 billion higher.*
- *By 2021, the state’s personal income would be \$10.8 billion higher and wage and salary income would be \$7 billion higher.*

*A right-to-work law can be viewed as part of a pro-business package that encourages firms*

*to locate and expand in the state. In turn, the improved opportunities would have the effect of increasing migration into the state and slowing migration out of the state. This study’s statistical analysis of IRS data on taxpayer mobility finds that:*

- *Having a right-to-work policy in Oregon would increase household net in-migration from non-right-to-work states by 14 percent from what it otherwise would be, everything else being equal.*
- *Having a right-to-work policy in Oregon would increase net in-migration of household incomes from non-right-to-work states by 17.9 percent from what it otherwise would be, everything else being equal.”<sup>68</sup>*

Not only does rigorous academic study suggest that states embracing right-to-work perform better economically, a simple comparison of the last decade’s worth of performance for the right-to-work states, as compared to their forced-union counterparts, provides a telling comparison. Table 16 compares 10 years’ worth of available economic performance data for those states that have had right-to-work through the majority of the decade, and thus excludes Indiana, Michigan and Wisconsin.

Comparing the 22 states that had right-to-work through the majority of the 10-year period to the 28 forced-union states, a contrast in performance is clearly decipherable. In right-to-work states, population grew faster, net domestic migration was larger, non-farm-payroll grew faster, personal income grew faster, gross state product grew faster and even state and local tax revenue grew faster. Far from the mantra of “right-to-work for less” that apologists for forced-unionism attempt to advance, workers are better off in right-to-work states.

Right-to-work is not anti-worker, as this section makes clear. Instead, right-to-work is emphatically pro-worker and advances the interests of workers over their union when those interests are in conflict. Voluntary union membership maximizes the freedom of association, forces unions to be responsive to the needs and interests of their affiliated workers and advances more robust economic performance.

TABLE 16 | Right-to-Work States Perform Better Economically

|                                     | 2004-2014  | 2005-2014               | 2004-2014                   | 2004-2014       | 2004-2014           | 2002-2012                  |
|-------------------------------------|------------|-------------------------|-----------------------------|-----------------|---------------------|----------------------------|
| State                               | Population | Net Domestic Migration† | Non-Farm Payroll Employment | Personal Income | Gross State Product | State & Local Tax Revenue‡ |
| Average of 22 Right-to-Work States* | 12.4%      | 3.1%                    | 9.1%                        | 54.7%           | 50.6%               | 65.6%                      |
| 50-State Average*                   | 8.8%       | 0.7%                    | 6.1%                        | 48.4%           | 43.6%               | 63.0%                      |
| Average of 28 Forced-Union States*  | 6.0%       | -1.1%                   | 3.9%                        | 43.5%           | 38.0%               | 60.9%                      |

\* Equal-weighted averages.

\*\* RTW status is as of 1/1/2012. Since that date, Indiana, Michigan and Wisconsin have passed RTW laws. We have decided not to include these three states as RTW states because they have only been RTW for a very brief portion of the analysis period.

† Net domestic migration is calculated as the ten-year (2005-2014) sum of net domestic in-migrants divided by the mid-year (2010) population.

‡ 2002-2012 due to Census Bureau data release lag.

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

## Conclusion

This publication, now in its eighth edition, has always contained two separate rankings—a historic economic performance index based on 10 years of economic data and a forward-looking economic outlook index based on variables measuring a state's public policy climate. This symmetry of both historic and forward-looking data analysis is deliberate in its design. Public policy has real consequences. The economic outlook of today impacts the economic performance of the future.

The determinants of economic performance are numerous and stretch beyond policy, but contrary to those with little or no concern for the size and scope of government, we continue to hold that policy matters to economic performance and economic opportunity. The evidence, economic theory and intuitive arguments in this chapter demonstrate this is true. Policymakers cannot control factors like state weather patterns or geography, but they directly control the details of policy.

As this chapter and previous editions of this study have detailed, spending above the modest

level needed to provide the core level of government services is not a solution to attract capital, migrating firms, business expansion and talented labor.<sup>69</sup> The public needs and demands core government services to facilitate a free economy, but beyond that level, the costs of taxation and regulation outweigh the benefits of additional spending.

Moreover, this chapter demonstrates the problems that arise with poor social assistance policy, poorly designed and funded employee retirement compensation and imprudent budgeting practices. States are faced with a fiscal vice, where current tax revenues are squeezed by waste, inefficient spending and mounting debt. Poor spending practices too often cut into the efficient provision of government services while forcing taxes to inefficiently high levels, thereby harming state economic competitiveness and hampering state economic opportunity. States would do better to lean more heavily on charitable giving, particularly given that high taxes diminish those philanthropic efforts.<sup>70</sup>

The 15 policy variables composing this study's economic outlook index provide a guide for state



policymakers looking to improve their economic performance. In the current edition of this study and previous editions, the case is laid out in detail that these 15 variables matter crucially to economic performance and economic opportunity. State policymakers attempting to super-charge economic growth should look to reduce their overall tax burden, reduce or eliminate their personal income tax, reduce or eliminate their corporate income tax, reduce or eliminate their state death tax and simplify their tax code. Moreover, they should embrace worker freedom through right-to-work.

Though state policy is trending in a pro-growth direction, far too many states are still ignoring the low-hanging fruits of reform by refusing to cast off the chains of poor policy. As chapter one of this publication notes, many states are embracing economic growth and economic opportunity by embracing free markets and limited government. The evidence is clear: sound public policy makes a difference. This study continues to provide a guide to policymakers interested in pursuing evidence-based policy and enacting economic reforms that will bring about a more prosperous state economy for all citizens.

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Topeka, Kansas

# CHAPTER 4

**Lessons from Kansas: A Behind the Scenes Look at  
America's Most Discussed Tax Reform Effort**

# Lessons from Kansas: A Behind the Scenes Look at America's Most Discussed Tax Reform Effort

Positioned in the center of the United States, Kansas has often served as a stand-in for the preferences of non-coastal America. Perhaps this unique position is why a 2012 tax reform has garnered more media attention, both positive and negative, than just about any other recent state level tax reform effort. From a pure public finance perspective, the tax overhaul in North Carolina in 2013<sup>1</sup> or Nevada's imposition of a gross receipts style tax in early 2015<sup>2</sup> would likely warrant more attention than the 2012 Kansas tax reforms. While the exact causes behind the media flurry around the Kansas tax reform effort might not be clear, it is clear to most observers of state policy at this point that Kansas was, and continues to be, a flashpoint in debates about state tax policy.

That flashpoint has served as something of a proxy war between big government advocates and those who would prefer to shrink the size and scope of state government. Both sides have continuously piled on with headlines that can sometimes miss important details, but it was not until the tax cuts were partially altered that Kansas became the poster child of the pro-tax Left. *New York Times* columnist, and former Enron adviser, Paul Krugman devoted a column to Kansas, claiming that those in favor of the 2012 tax reform efforts were charlatans and cranks.<sup>3</sup> The *Los Angeles Times* published an editorial titled, "How Tea Party tax cuts are turning Kansas into a smoking ruin," which argues that the tax cuts have been severely detrimental to the Kansas economy.<sup>4</sup>

Notwithstanding the far-Left commentators, the situation in Kansas is far less dire than it might appear on first glance. State spending, including education spending, continues to set records, and revenues look far better in context—these are

often the opposite of now popularly held beliefs. This is not to say that there have not been some discouraging economic statistics, but the reality of the situation is more complex.

Perhaps the most important complexity to keep in mind is that the Kansas tax reform plan—neither as initially proposed nor enacted in 2012—was never fully implemented. Spending reductions necessary to implement the plan were eschewed in favor of other tax increases, making any honest judgement of the original plan's success or failure impossible.

Hyperbolic ad hominem attacks aside, there is much that can be learned from the Kansas experience. With so much misinformation, or more often, selectively reported information, being promoted, it is well worth examining just what happened, how it happened, why it happened and what other states can learn from it.

## The 2012 Tax Reforms

Nearly the entirety of this debate centers on the tax reforms that were enacted in 2012. At the start of 2012, the top marginal personal income tax rate in Kansas was 6.45 percent and its top marginal corporate income tax rate was 7 percent. Both of these top rates were higher than neighboring Colorado (with a top marginal personal and corporate income tax rate of 4.63 percent) and Oklahoma (with a top marginal personal income tax rate of 5.25 percent and a top marginal corporate income tax rate of 6 percent).<sup>5</sup> Still recovering from the great recession like most other states, Kansas was still facing an unemployment rate of 6.1 percent, roughly the national average at the time.<sup>6</sup>

Additionally, Kansas ranked 26 out of 50 in economic outlook in this publication's 2012 index,

beating out only Nebraska (31) in the region. The rest of the region, Colorado (8), Oklahoma (14), Missouri (7), Iowa (22), Arkansas (11), Wyoming (4), South Dakota (2) and Texas (16) all ranked more economically competitive.<sup>7</sup>

Politically, 2012 was the second year that Governor Sam Brownback was in office and after campaigning on tax reform, Governor Brownback found his efforts held up in the Kansas state Senate, which was dominated by left-of-center Republicans at the time. Although tax reduction proposals were being passed by the Kansas House of Representatives, the liberal Republicans in the Kansas Senate were blocking many of these reform efforts.<sup>8</sup> It was in this economic and political climate the now widely discussed tax reductions were first adopted.

Early in the 2012 legislative session, Governor Brownback did not get involved in the primaries of Republican state lawmakers. However, after encountering substantial opposition to tax reform proposals, he eventually decided to support primary opponents of some state lawmakers. “Because of the alliance in the State Senate between Democrats and some Republicans that join together to promote a Democrat agenda, the primary has effectively become the general,” Brownback said in July of 2012. “Therefore, I am going to be involved in a limited number of primaries.”<sup>9</sup>

Perhaps facing opposition from the Governor, the Kansas Senate eventually passed a tax reduction bill that had already passed out of the Kansas House. However, before the Senate passed the bill, lawmakers amended the reform package to strip out the revenue raising offsets, such as the extension of a temporary sales tax increase and the removal of the mortgage interest deduction. By taking out the revenue offsetting measures from the tax reform proposal, the Senate passed a much more expensive tax reform package, likely thinking that Governor Brownback would then be forced to veto the plan. But, calling their bluff, Governor Brownback signed the package into law with the expectation of adding back in the revenue offsetting measures in a future session with a more amenable Senate.<sup>10</sup>

The final tax reduction package that passed included several key points:

- Simplified personal income taxes from a three-tiered system to two
- Reduced the top tax rate on income over \$30,000 (single) / \$60,000 (joint) from 6.45 percent to 4.9 percent
- Income between \$15,000 and \$30,000 (single) / \$30,000 and \$60,000 (joint) that had been taxed at 6.25 percent in a middle bracket was reduced to the new maximum rate of 4.9 percent
- Reduced the tax rate on income below \$15,000 (single) / \$30,000 (joint) from 3.5 percent to 3.0 percent
- Exempted non-wage personal income from taxation entirely; effectively eliminating income taxes for pass-through business profits, estimated to be worth \$160 million per year
- Enacted an estimated \$4.5 billion in tax relief over five years, about 80 percent of which was for individuals and 20 percent for business pass-through income

These major changes were intended to get the ball rolling toward a goal of eventually eliminating the state’s income tax. In a 2013 article, Representative Richard Carlson, the Chairman of the Taxation Committee, touted the state’s reforms but also noted that, “Legislators never get everything they want in a bill. The governor and I both made some compromises, but we believe we have accomplished our policy goals of dramatic tax reform in Kansas that will advance the agenda of limited government for years to come.”<sup>11</sup>

Governor Brownback had repeated his overall goal of increasing the economic competitiveness of Kansas and the well-being of its citizens by eliminating this tax, one of the most damaging taxes for economic growth. With that goal in mind, the 2012 tax reform’s key provision was the exemption from taxation of all non-wage income generated by pass-through business—businesses filing through the personal income tax code, such as sole proprietorships, partnerships and limited liability companies.

The exemption of non-wage pass-through income, termed the “Small Business Accelerator,” quickly became one of the more controversial parts of the plan. Some groups praised the change as a way to spur small business creation and make it easier for Kansans to start and grow businesses<sup>12</sup> while others argued that the measure inappropriately tipped the scales in favor of pass-



through business classifications over traditional C-Corporations, which are subject to the corporate income tax rather than the personal income tax.<sup>13</sup> The pass-through exemption was also criticized as being unfair to individuals who had to pay income taxes, but those businesses were not the first group to be exempt from state income taxes; state and local government retirees' pensions have been largely exempt from the state income tax for decades.<sup>14</sup> That fairness issue was oddly not raised as a concern by tax reform opponents.

But while this largely technical debate was raging among traditional allies of pro-growth tax reform, proponents of more government programs and higher taxes began attacking the reforms as radical and the ultimate embodiment of so-called "voodoo economics." Objections raised by the proponents of higher taxes were distinct from the objections raised by those concerned with the possible misaligned structural incentives, but both objections were unfortunately many times lumped together to give the impression that a wide variety of experts opposed decreasing income taxes generally.<sup>15</sup>

As media attention around the Kansas tax reform effort grew, starting what is now a well-known back and forth, these nuanced differences began to give way to larger narratives about whether or not states should reduce taxes more generally, especially taxes on income. Every new data point on the Kansas economy and revenue situation became another skirmish between proponents of pro-growth tax reform and advocates for high taxes and big government programs.

## Kansas in the Spotlight

With Kansas tax reform in the spotlight, commentators and policy experts began to analyze the preliminary results of the plan. The initial results were very positive. In 2012, Kansas had more than 15,000 new small business filings; more than in any other year.<sup>16</sup> Furthermore, Kansas began 2013 with an unemployment rate of 5.5 percent and finished the year with the rate dropping to 4.9 percent. This was a full percentage point lower than the 5.9 percent unemployment in Missouri at the end of 2013.<sup>17</sup> Additionally, the Kauffman Foundation, an organization that rates the small business climates of states, gave Kansas an "A" in 2013. Neighboring Missouri received a "C" in the same year.

With these early signs of a healthier Kansas economy and the 2012 elections providing a more free market oriented legislature, Governor Brownback and Kansas lawmakers moved ahead with the "March to Zero" plan to phase out the income tax by passing more tax reductions, the greatest impact of which occurred in later years, along with some revenue offsets that went into effect immediately. Additional cuts to the personal income tax were set to phase in over five years to lower the rate to 2.3 percent on the first \$30,000 of income and 3.9 percent on income over that. In terms of revenue offsets, the legislature allowed a sales tax increase to only partially expire rather than fully expire, setting the overall rate at 6.15 percent, down from 6.3 percent, but not the scheduled drop to 5.7 percent. The 2013 tax plan also repealed a portion of the increased standard deduction that was included in the original 2012 tax plan.<sup>18</sup>

The final piece of the 2013 tax package was a nod to the goal of eliminating the state's personal income tax by setting up revenue triggers. After 2018, when the statutory personal income tax rate reductions would have been completely phased in, if general fund revenue exceeded what it had been in the previous year by at least 2 percent, that would trigger an additional personal income tax rate reduction. It is important to note at this point that the revenue increasing offsets included in the 2013 tax plan were nowhere near as comprehensive as the revenue raising offsets in Governor Brownback's original 2012 tax reform proposal. It was this discrepancy in revenue raising offsets and the failure to rein in state spending that would ultimately lead to revenue problems for Kansas down the road.

By mid-2013, things had taken a turn for the worse in Kansas. State revenues were down, partially because of the tax reductions without sufficient revenue raising offsets or spending restraint, but also because of changes in federal tax law at the time. The end of 2012 brought the "fiscal cliff" negotiations that resulted in the Budget Control Act and the Sequester, among other things. One notable compromise from the fiscal cliff negotiations was an increase in the capital gains tax rate, scheduled to take effect in 2013.

In May of 2013 the Congressional Budget Office noted that, "The large increase in payments accompanying people's income tax returns probably reflects the fact that higher-income taxpayers

ers, anticipating changes in tax law, realized more income in 2012.”<sup>19</sup> In fact, this was noted as a likely outcome of the fiscal cliff negotiations by several experts before the disappointing revenue figures came in.<sup>20</sup> As far as revenue shortfalls go, Kansas was hardly alone in this time period. Oklahoma, Connecticut and Kentucky also had revenues come in that were far below projections, even without significant tax reductions.<sup>21</sup>

Unfortunately, it was also during this time that Kansas received a credit downgrade from *Moody's*. With disappointing revenue figures and a debt downgrade, commentators pounced, promoting a narrative that tax reductions are detrimental to the economy. Contrary to this popularly reported narrative, *Moody's* cited much more than just recent tax cuts as the rationale for a downgrade, specifically failure to reduce spending to offset tax cuts, pension liabilities and state debt.

Notwithstanding, the misleading narratives about the Kansas fiscal situation progressed and grew beyond expectation, perhaps due to the impending 2014 re-election campaign of Governor Brownback. By mid to late 2014, there were rumors that Kansas was experiencing massive budget shortfalls, slashing education spending and ballooning deficits. In the lead up to the 2014 elections, the election that would essentially serve as a referendum on Governor Brownback and the 2012 tax reforms, the media focused on Kansas with doomsday headlines. This coverage was no doubt in part an attempt to oust Governor Brownback, to scare other governors away from proposing bold tax reduction plans and to discourage other state candidates from campaigning on tax reform. With the benefit of hindsight, and the economic evidence, these myths deserve to be addressed each in turn.

### Revenue Shortfalls and Budget Deficits

One of the most enduring myths about the Kansas 2012 tax reform saga has been the often comically hyperbolic claims regarding Kansas' budget deficits. It is certainly true that in the years following the tax reductions, Kansas did experience lower revenue collections, even lower than what had been projected. But, part of the goal of the Kansas tax reform was to reduce the amount of money taken in by state government and enhance the resources available to the private sector. Import-

tantly, however, was the resistance to any meaningful spending reductions. Even as the 2012 tax reductions were projected to let Kansans keep \$4.5 billion more of their own money, the state *increased* spending in 2012 by \$432 million.<sup>22</sup>

A budget deficit occurs when a state's proposed budget expenditures surpass the state's total anticipated revenue collections and available cash reserves in a given year. Kansas, like 48 other states, has a state law mandating that the state end the year with a balanced budget. However, the cautionary tale from the Kansas reform package comes from the fact that the state coupled a reduction in state revenues with a significant increase in overall state spending. Spending and taxes are two sides of the same fiscal coin, and ultimately, if taxes are going to be dramatically reduced, spending must also be prioritized. A state simply cannot have a conservative tax plan while maintaining a liberal spending plan.

Of course, there are dynamic economic growth effects associated with lowering taxes, but these can too often be overestimated in the short term. The vast majority of economic literature confirms that taxes negatively impact economic growth and that reducing taxes will very likely increase economic growth in the long term; but that does not mean that every tax cut will “pay for itself.” In a late 2012 literature review on this topic, William McBride, former Chief Economist for the Tax Foundation, found that of 26 peer-reviewed academic studies since 1983, only three fail to find a negative effect on economic growth from taxes.<sup>23</sup>

Furthermore, not all taxes affect economic growth equally. A comprehensive 2011 study from the Organization for Economic Cooperation and Development (OECD) found that taxes on capital are the most damaging to economic growth, such as taxes on capital gains, corporate income or personal income. Researchers also found that taxes on property and on consumption were far less damaging to economic growth overall.<sup>24</sup> From an economic growth-maximizing perspective, capital-based taxes provide the most “bang for your buck” in terms of expected increases in economic growth. There is no magic formula, however. Some proponents of the Kansas tax reform were far too eager to overpromise immediate substantial economic growth as a result of the tax changes. This overselling was certainly a contributing factor to the narrative that the tax reforms had “failed”

despite some encouraging economic trends.

Even with the positive impact of increased economic growth from the tax changes, Kansas still failed to reduce spending to a point where there would not be a projected budget deficit. An August 2012 dynamic analysis from the Kansas Policy Institute projected that a one-time adjustment to state spending of just 8.5 percent would put the state on a viable path toward balanced budgets and sustainable revenue growth.<sup>25</sup> These spending adjustments, however, were never enacted and the state continued to spend more than it had and was projected to collect in taxes; bolstering the narrative that the tax reductions alone “caused” the budget deficits. This was not new behavior either, as Figure 17 shows, Kansas has increased actual annual spending by more than \$2.94 billion since 1995, much more than the rate of inflation.<sup>26</sup>

If Kansas had kept state spending more in line with the rate of inflation, state revenue would have been able to cover that level of increased spending. As Figure 18 demonstrates, even with the effect of the 2012 tax reforms, state revenue collections have been above the rate of inflation overall. Tax revenue grew 28.4 percent between 2004 and 2014 while inflation was only 24.3 percent; official revenue estimates from April 2015 (based on then-existent law) had tax revenue continuing to outpace inflation.

It is an often overlooked but crucial point that both state spending and general fund tax revenues in Kansas had been growing consistently more than inflation; spending just grew much faster. Perhaps the most significant lesson states can learn from the Kansas experience is that taxes cannot be dramatically reduced while spending continues to dramatically increase. However, lawmakers’ reluctance to reduce state spending is certainly understandable. Even small reductions in spending, or in some cases just reductions in the rate of spending growth, can lead to cries of “draconian” slashes to state spending. Nowhere was this more prevalent in the Kansas context than in the area of state education spending.

### Education Spending

To those following state fiscal policy, and especially the Kansas tax reform saga, claims like these will be commonplace: “Education is the newest

target of Kansas Budget Cuts,”<sup>27</sup> or even, “Slashing Income Taxes and Slashing Education Funding.”<sup>28</sup> Headlines like these give the impression that Governor Brownback and the legislature took a sledgehammer to education funding. Here again, however, baseline budgeting and rhetorical tricks help to obscure the reality of education funding.

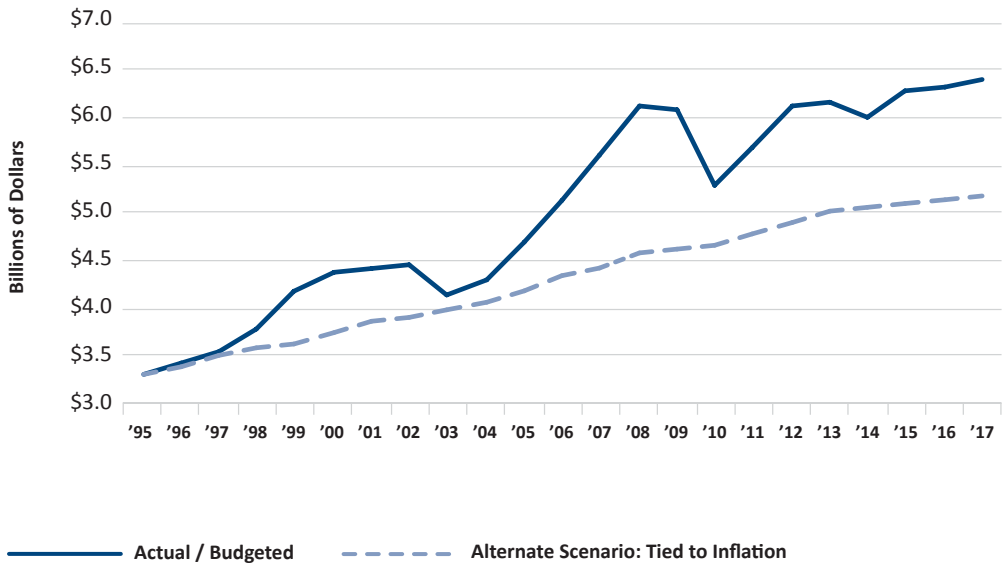
As in most other states, education funding in Kansas did slightly decline as a result of the recession; average per-pupil funding dipped 3 percent over two years, to \$12,283 for the 2011 school year. However, contrary to claims of “dramatic cuts,” per-pupil funding increased each year since.

Furthermore, per-pupil education spending in Kansas, which was \$13,124 in 2015, set a new record for per-pupil funding—for the third year in a row.<sup>29</sup> In fact, *total* state education spending in 2015 was \$6.08 billion in 2015, setting a new record for education spending for the fourth consecutive year. Figure 19 shows these record levels of spending are far above what spending simply tied to inflation would reach.

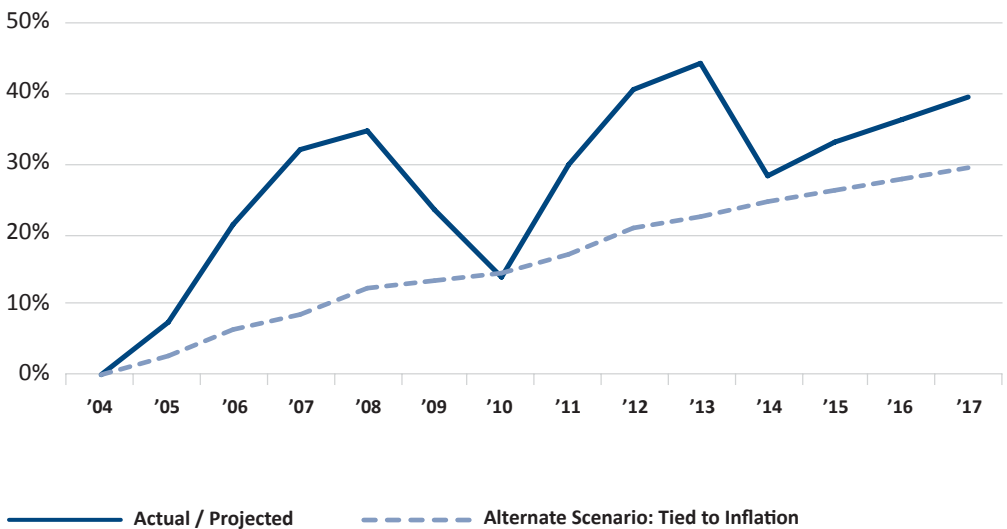
Some of the claims regarding “reductions” in education funding have centered on reductions in previously scheduled increases to one aspect of funding, without regard to increases elsewhere in the funding system. Government often portrays getting a smaller than desired increase as a “cut” but state funding of education increased every year since 2011. It is also worth noting that most research on the topic shows no actual link between greater education funding and student performance beyond a minimum baseline. Even if Kansas had reduced education spending as it did during the recession, there is no evidence the reduction would lead to worse outcomes in terms of student achievement.<sup>30</sup>

### Credit Downgrades

Another aspect to the Kansas tax reform controversy has been the downgrading of the state’s debt. In late April of 2014, *Moody’s Investors Service* downgraded the rating on Kansas bond debt, reflecting a perceived increased risk to investors in the state’s bonds. Opponents of the 2012 tax reforms immediately jumped on the news as a time to reflect on the state’s “mistake” and make plans to move away from the reforms by increasing taxes. Despite these immediate calls for tax increases, there is absolutely no evidence from

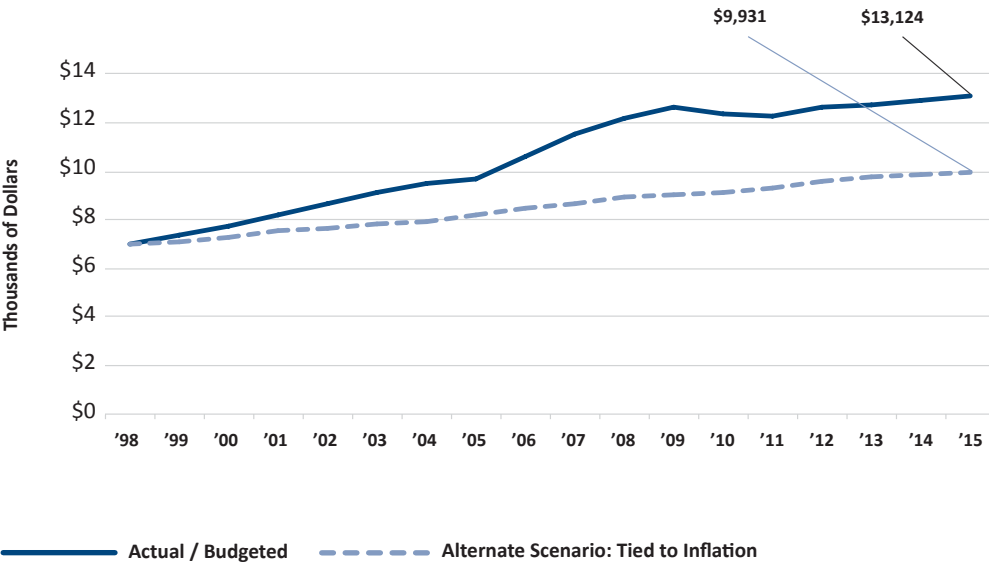
FIGURE 17 | **Kansas State Spending**

Source: Kansas Policy Institute

FIGURE 18 | **Kansas General Fund Tax Revenue Growth**

Source: Kansas Policy Institute

FIGURE 19 | Total Kansas Education Aid per Pupil



Source: Kansas Policy Institute

the *Moody's* report that the tax reductions alone are to blame for the state's credit downgrade; rather, the issue is with pension costs and the state's spending being far above projected revenue collections.

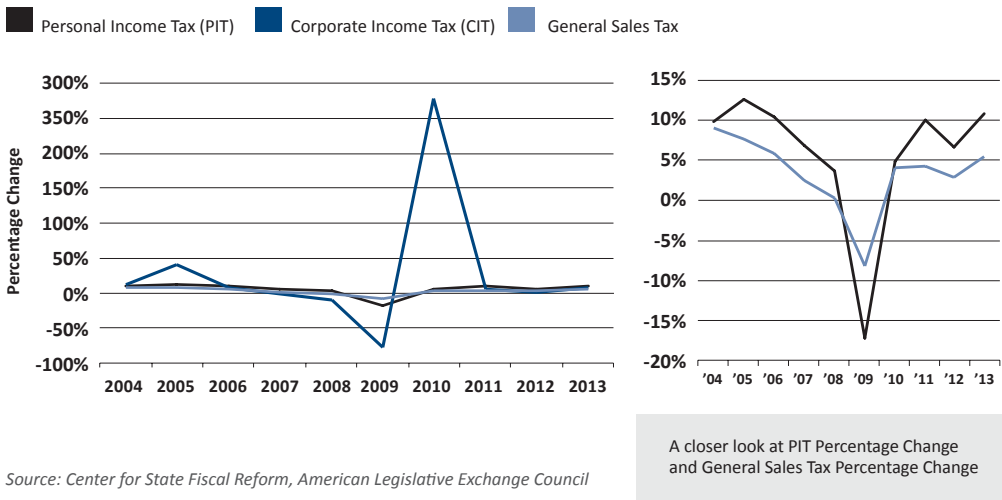
Reliance on revenues that would only be collected in a single year or only a few years, a lack of spending cuts matching outlays to expected revenues, depletion of the rainy day fund, slow economic growth and the underfunded state pension system were all noted as budget problems facing the state. It is clear from their analysis that Kansas can improve their bond rating by addressing spending issues and boosting economic growth, not just raising taxes.<sup>31</sup> *Moody's* even makes clear in their analysis of Kansas that they do not view the lack of a state income tax as a source of credit risk.<sup>32</sup> *Standard & Poor's* has gone as far as to call low reliance on income taxes a boon to strong credit ratings, stating, "Sales tax-based revenue structure that exhibits sensitivity to economic cycles, but to a lesser degree than those of states that rely primarily on personal and corporate income taxes."<sup>33</sup>

States with lower taxes in general, and

lower income taxes in particular, generally see higher economic growth.<sup>34</sup> As we have consistently pointed out, the nine states with no income tax perform better on job growth, economic growth, migration and even tax revenue growth than their high-tax counterparts. But, spending must still be kept in line with revenue collections. Relying less on highly volatile revenue sources, such as corporate income and personal income taxes, makes revenue collections more stable and the budgeting process far more predictable. As Figure 20 demonstrates, broad-based consumption taxes, such as retail sales taxes, are among the least volatile sources of revenue, as sales generating the revenue generally do not fluctuate as much as capital-based taxes. In Kansas, for example, personal and corporate income taxes collectively declined 21 percent between 2008 and 2010, but retail sales tax only dipped by 3 percent.<sup>35</sup>

The combination of adopting a tax structure that relies less on capital-based taxes, such as taxes on income, capital gains or estates, in favor of more stable and less economically damaging consumption taxes would put states on a sustainable revenue path and make it easier to pay debt.

FIGURE 20 | State Tax and Revenue Volatility



The “ability to pay” metric is key when it comes to maintaining good bond ratings. Had Kansas lawmakers reformed their tax code and not continued to increase unsustainable spending, the state would almost certainly have maintained better bond ratings.

As was pointed out at the time of the Kansas debt downgrade, states with lower taxes tend to have better credit ratings overall. Table 17 compares the states with the highest and lowest tax burdens and their credit ratings with Moody’s and Standard and Poor’s, as of 2014. The pattern that emerges is clear; states that have lower taxes are generally outperforming their high tax counterparts.<sup>36</sup>

### The 2014 Election

Amidst all the commentary and analysis of the 2014 mid-term elections at the federal level, which gave Republicans the majority in the United States Senate, economists and public finance experts were watching the Kansas gubernatorial race closely. The race in Kansas was seen not just as a referendum on the 2012 tax reforms, but also a referendum on state-level tax relief more generally.

Governor Brownback’s opponent was Democratic State Representative Paul Davis, who made the centerpiece of his campaign freezing the yet-to-be-implemented parts of the 2012 tax reduc-

tions and restoring the state’s “decimated” funding for education and social programs.<sup>37</sup> The left-of-center Republicans that Governor Brownback targeted in the 2012 elections, after they failed to work seriously on tax relief proposals, were now coming back into the spotlight to support the Democratic candidate, Paul Davis. Even Steve Morris, the president of the Senate during the 2012 tax reform debate who lost in that year’s election, campaigned with Davis in an effort to help him defeat incumbent Governor Brownback.<sup>38</sup>

Facing revenue shortfalls, hyperbolic media claims about the state of Kansas education funding levels, and attacks from prominent Kansas Republicans, Governor Brownback was considered a long shot to win re-election. Statistician and pollster Nate Silver of FiveThirtyEight.com projected that Davis would win by 2.5 points and had more than an 80 percent chance of winning the election and unseating Governor Brownback.<sup>39</sup>

Despite the odds, Governor Brownback was re-elected to a second term, beating Davis by nearly 4 percentage points.<sup>40</sup> Indeed the gubernatorial race in Kansas was a referendum on the 2012 tax reforms, and voters made their support of lower taxes known. This trend carried through to gubernatorial races nationwide. As Figure 21 shows, other governors that pursued significant tax reductions were also re-elected. Governor Paul LePage of Maine, Governor Rick Snyder of Michi-

**TABLE 17 | 2014 Credit Ratings: Highest Tax Burden States vs. Lowest Tax Burden States**

| State          | Tax Burden Rank | Tax Burden as Percentage of Income | S&P Credit Rating | Moody's Credit Rating |
|----------------|-----------------|------------------------------------|-------------------|-----------------------|
| New York       | 1               | 12.6%                              | AA                | Aa1                   |
| New Jersey     | 2               | 12.3%                              | A+                | A1                    |
| Connecticut    | 3               | 11.9%                              | AA                | Aa3                   |
| California     | 4               | 11.4%                              | A                 | Aa3                   |
| Wisconsin      | 5               | 11.0%                              | AA                | Aa2                   |
| Minnesota      | 6               | 10.7%                              | AA+               | Aa1                   |
| Maryland       | 7               | 10.6%                              | AAA               | Aaa                   |
| Rhode Island   | 8               | 10.5%                              | AA                | Aa2                   |
| Vermont        | 9               | 10.5%                              | AA+               | Aaa                   |
| Pennsylvania   | 10              | 10.3%                              | AA                | Aa2                   |
| Alabama        | 41              | 8.3%                               | AA                | Aa1                   |
| South Carolina | 42              | 8.3%                               | AA+               | Aaa                   |
| Nevada         | 43              | 8.1%                               | AA                | Aaa                   |
| New Hampshire  | 44              | 8.0%                               | AA                | Aa1                   |
| Tennessee      | 45              | 7.6%                               | AA+               | Aaa                   |
| Louisiana      | 46              | 7.6%                               | AA                | Aa2                   |
| Texas          | 47              | 7.5%                               | AAA               | Aaa                   |
| South Dakota   | 48              | 7.1%                               | AA+               | Aa2                   |
| Alaska         | 49              | 7.0%                               | AAA               | Aaa                   |
| Wyoming        | 50              | 6.9%                               | NR                | NR                    |

Source: Center for State Fiscal Reform, American Legislative Exchange Council

gan and Governor John Kasich of Ohio all won their bids for re-election. Governor Scott Walker of Wisconsin cut taxes several years in a row and won his third statewide election.<sup>41</sup> Significantly, these purple states tend to alternate between Democrats and Republicans for their statewide elected offices. Victories of governors reducing taxes in these purple states are particularly significant. The message of lower taxes resonates even in states that are not by any means bastions of conservatism.

Arizona voters sent state treasurer and businessman Doug Ducey to the governor's mansion by a margin of more than 12 percentage points. Ducey had campaigned on reducing the state's personal and corporate income taxes and even saying that he wanted to get the state's 4.54 percent income tax rate "as close to zero as possible." The Arizona economy was a central part of his campaign and voters decisively approved of his pro-growth message.

In deep blue Illinois, Bruce Rauner defeated Governor Pat Quinn by almost five points. Governor Quinn had pushed for "millionaires" taxes, a move from a flat income tax to a tiered income tax

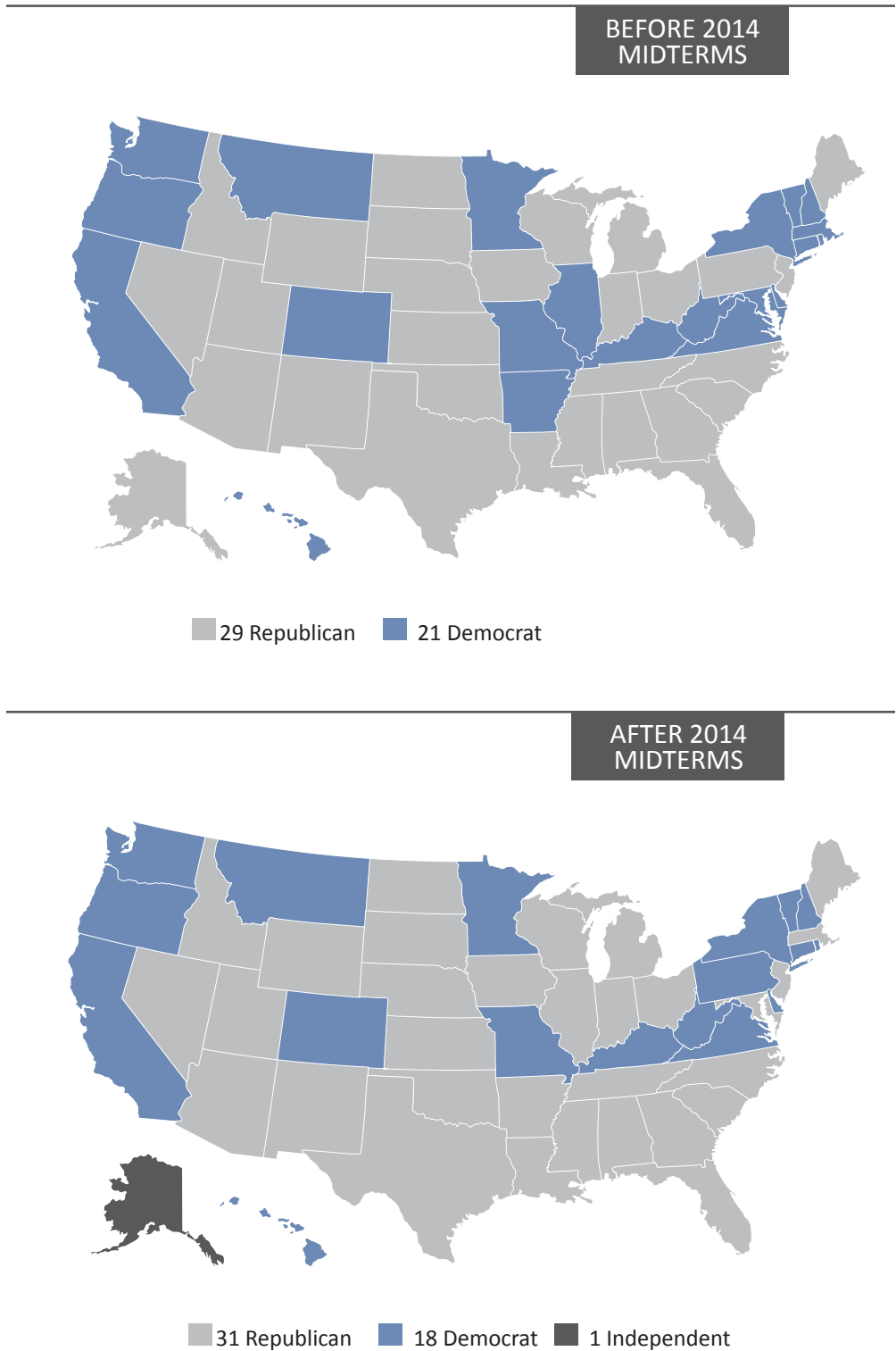
and making temporary income tax hikes permanent. Rauner openly opposed Governor Quinn's tax hike proposals and made it clear that he favored returning tax rates to pre-hike levels.<sup>42</sup> The message sent by voters was clear: no more taxes.

In one of the biggest upsets of the year, Larry Hogan beat Lieutenant Governor Anthony Brown in the Maryland gubernatorial race. Lieutenant Governor Brown had served under Governor Martin O'Malley, who had raised taxes more than 40 times since he took office, totaling \$9.5 billion in new or higher taxes for Maryland residents through fiscal year 2014.<sup>43</sup> Hogan campaigned on lowering taxes and making it easier to start and grow businesses in the state.

Although taxes were certainly not the only issue that brought voters to the polls in 2014, the results show a clear message. Just days before the 2014 election, *The Economist* released a story with the headline, "Brownbackonomics on the Ballot: Voters in Kansas Will Pass Judgement on a Bold Experiment in Tax Cutting."<sup>44</sup> Ultimately, the voters supported Governor Brownback in a year when nearly every debate and soundbite focused around the controversial 2012 tax reforms. Indeed,



FIGURE 21 | Political Profiles of America's Governors



Source: American Legislative Exchange Council

the results of this referendum prove that people are tired of paying an ever increasing amount of taxes and sacrificing higher economic growth.<sup>45</sup>

## Where is Kansas Now?

After the surprising election results, lawmakers in Kansas still had work to do. The revenue projections that the state was producing were higher than the previous year but not enough to keep up with spending increases and a new budget gap began to be discussed. The recently re-elected governor and pro-growth lawmakers entered the 2015 session with a mixture of elation and disappointment as they began discussing how to move the state forward.

### The 2015 Kansas Budget Debate

The 2015 legislative session centered on a projected \$400 million budget deficit that lawmakers would have to fill. Factions quickly formed with lawmakers taking sides on how to solve the issue. A popular proposal floated early on was to roll back the 2012 tax reductions, especially the exemption of non-wage income of pass-through businesses, from the personal income tax. Other ideas included cutting state spending or increasing various “sin taxes” across the state.

Kansas, like many states, is a part-time legislature. However, the 2015 legislative session was uniquely contentious and went for 113 days in total, the longest session in the state’s history. A block of legislators held out for reductions in the cost of government rather than tax increases but they were unable to get a majority. The session concluded with a close vote in the Kansas House of Representatives, where the final vote to pass a compromise package took place at about 4:00 A.M.<sup>46</sup> Some reports even claim that several lawmakers were moved to tears as they cast votes for one of the largest tax increases in state history.<sup>47</sup>

The final plan that passed both houses and was signed by Governor Brownback included two main tax increases. The state raised the cigarette tax by 50 cents per pack and increased the sales tax rate from 6.15 percent to 6.5 percent. The two tax increase proposals added up to \$384 million in new state revenue and were bolstered by \$50 million in spending cuts, although there was still a net increase in spending.<sup>48</sup> While several ideas

were discussed during the record-length session, the final plan was largely considered a tough but workable compromise that preserved the exemption of non-wage income of pass-through entities from the personal income tax. Another provision of the final tax package was to freeze, rather than unwind, the scheduled reductions to the personal income tax. The lower income bracket would remain at 2.7 percent, while the upper income bracket would remain at 4.6 percent.

### What Does the Kansas Economy Look Like Now?

With a relatively close re-election bid, a record-length legislative session and a large tax increase, it would not be unreasonable for an outside observer to assume the worst about the 2012 Kansas tax reforms. These facts miss the larger picture, however, as the 2012 tax reforms were never intended to simply supply larger revenues to a growing government. Rather, the intent from the start was always to boost the Kansas economy and provide greater opportunity for the citizens of Kansas. It is certainly relevant and helpful to examine the effects of the Kansas tax reforms through this lens.

When evaluating such a large change to a state’s tax code, there are various economic indicators that can provide insight into how the plan is working, or not working. One of the most controversial parts of the tax reform plan from 2012 was the exemption of non-wage business income of pass-through entities from taxation. It is noteworthy that 2012—the year this plan was discussed and eventually passed—was also when Kansas set a new record for most new business filings in a year with more than 15,000 new businesses registering.<sup>49</sup> The 2012 record was broken in 2013, and again in 2014, with 15,780 new filings.<sup>50</sup>

Furthermore, in 2013, when the tax cuts were beginning to take effect, the Kauffman Foundation rated the Kansas climate for small business as an “A.” Meanwhile, neighboring Missouri received a “C” rating in the same year.<sup>51</sup> Similarly, since the 2012 tax reforms, Kansas has jumped up in *Rich States, Poor States*, from 26 in economic outlook, to 18 in the most recent edition. Although, before recent tax increases, Kansas ranked as high as 11 for economic outlook in the 2013 edition of this publication.

In October of 2014, Creighton University

TABLE 18 | Private Sector Job Change

| State Grouping           | Pre-Tax Reform |   | Post-Tax Reform |   |
|--------------------------|----------------|---|-----------------|---|
|                          | 1998-2012      | Kansas as a Percentage of State Groupings | 2013-2015*      | Kansas as a Percentage of State Groupings |
| No Income Tax States     | 15.03%         | 14.78%                                    | 9.00%           | 48.29%                                    |
| States with Income Taxes | 3.64%          | 61.01%                                    | 5.87%           | 74.09%                                    |
| Kansas                   | 2.22%          |   | 4.35%           |   |

\*Average through August of 2015

Source: Kansas Policy Institute

TABLE 19 | Private Sector Job Growth and Rankings

| State    | 1998-2012 Rank | 1998-2012 Growth | 2013 Rank | 2013 Growth | 2014 Rank | 2014 Growth |
|----------|----------------|------------------|-----------|-------------|-----------|-------------|
| Kansas   | 38             | 2.2%             | 27        | 1.6%        | 21        | 1.9%        |
| Missouri | 44             | -1.0%            | 35        | 1.3%        | 39        | 1.2%        |
| Nebraska | 17             | 9.8%             | 31        | 1.4%        | 33        | 1.4%        |
| Oklahoma | 19             | 8.5%             | 26        | 1.6%        | 26        | 1.5%        |
| Colorado | 15             | 10.6%            | 5         | 3.1%        | 3         | 3.8%        |

Source: Kansas Policy Institute

released an edition of *The Mainstreet Economy Report* that detailed some positive results of the 2012 Kansas tax reductions, especially in terms of personal income growth.<sup>52</sup> Since the fourth quarter of 2012, Kansas has experienced a growth rate of 2.92 percent in personal income, beating out the U.S. average of 2.85 percent and outperforming all of its neighbors except Colorado. Tellingly, Colorado is the only neighbor of Kansas that maintained a lower personal income tax rate, a flat 4.63 percent, at the time. *The Mainstreet Economy Report* also discusses average weekly earnings:

*“Addition-ally [sic] in terms of average weekly earnings, Kansas experienced an increase of 4.82% which was almost four times that of the U.S., more than four times that of Missouri, approximately seven times that of Nebraska, and nearly four times*

*that of Oklahoma. Of Kansas’ neighbors, only Colorado with 4.82% average weekly wage growth outperformed Kansas.”<sup>53</sup>*

The report concludes with a bold prediction about Kansas’ neighboring states, saying that “Kansas job and income data since the tax cut show that, except for Colorado, the state economy has outperformed, by a wide margin, that of each of its neighbors and the U.S. To remain competitive, expect Kansas’ neighbors to reduce state and local taxes in the years ahead.”<sup>54</sup>

Critics of the Kansas tax reform efforts are quick to note that the numbers cited by the Creighton report have since been revised downward. While this is true, and Kansas only experienced a growth in private gross state product (GSP) of 1.9 percent in 2013, the disappointing figure can be traced to other economic factors unre-

**TABLE 20 | State Unemployment Rates**

| State    | 2012 | 2015 |
|----------|------|------|
| Kansas   | 6.1% | 4.3% |
| Nebraska | 4.0% | 2.5% |
| Missouri | 7.5% | 5.7% |
| Colorado | 7.8% | 4.2% |
| Oklahoma | 6.1% | 4.1% |

Source: U.S. Census Bureau

lated to the tax changes. Like many other states, Kansas was hit hard by the 2013 drop in oil prices and had some of its aviation sector continue to perform poorly. When these sectors are not taken into account, the rest of the Kansas economy grew by 5.5 percent, beating the national average of 4.3 percent. Rather than having a struggling economy with most sectors shrinking or performing poorly, Kansas has a growing economy with two unique sectors that are doing poorly for reasons unrelated to the 2012 tax reforms.<sup>55</sup>

The Kansas City metropolitan area also provides an excellent case study in what the 2012 tax reforms have accomplished. On the Kansas side of the metropolitan area, the top personal income tax rate is 4.9 percent, compared to a top rate of 7 percent on the Missouri side of the line. In May 2015, *The Wall Street Journal* noted that “Over the past two calendar years, private-sector jobs increased by 5.6 percent on the Kansas side and only 2.2 percent on the Missouri [side]. In the same period hourly wages grew \$1.22 on the Kansas side, compared with \$0.61 on the Missouri side.”<sup>56</sup>

Another crucial metric to examine when measuring economic health and vitality is private sector employment. If more jobs are being added and more citizens are finding work, the result is a truly sustainable and growing economy. Critics will sometimes argue that Kansas’ economic performance is lagging behind other states, but what these critics miss is that Kansas *was already lagging behind other states* before the 2012 tax reform and that this lag was the *reason* for such dramatic and bold reforms.

The Kansas Policy Institute has looked at

employment growth in Kansas and reached some interesting conclusions. Since the 2012 tax reforms were enacted, Kansas has improved its standing among fellow states that tax personal income, as Table 18 shows.

According to Table 19, employment statistics show that Kansas has increased private sector employment from 2013 to 2015 by 4.39 percent and is improving its rate of private sector job growth.

From 1998 to 2012, Kansas lagged behind all of its neighbors except Missouri in private sector job growth. Since the 2012 tax reforms were enacted, however, Colorado is the only neighboring state that can boast a higher level of private sector job growth. As an important side note, Colorado’s top personal income tax rate is, and has been for some time, set at a flat 4.63 percent. Only recently has the Kansas top marginal personal income tax rate dropped to a slightly lower rate of 4.6 percent.

Unemployment rates tell a story similar to the narrative from private sector job growth.<sup>57</sup> The unemployment rate for the U.S. as a whole was 5.5 percent as of May 2015. As Table 20 demonstrates, Kansas’ unemployment rate is 2 percentage points lower than the U.S. average.

Though the full effects of Kansas’ bold tax reform will take years to materialize, the early signs are vastly more encouraging than critics would have the public believe. Assuming that Governor Brownback and Kansas lawmakers are able to preserve the key elements of the 2012 tax reforms, the potential for strong economic growth in the long term is very likely.

## Conclusion—Lessons for State Lawmakers

Ultimately, the story of the 2012 Kansas tax reforms provides some important lessons for state lawmakers across the country. In 2012, Governor Brownback and legislative allies set out to improve their state’s economy, which had been trailing the national average. As time goes on with the new lower tax rates, economic evidence will continue to accumulate and give ever-increasing clarity to the question of to what degree the reforms succeeded. Economic theory and the experience of low-tax states suggest that they will, as long as anti-growth tax changes are not implemented in their place.

The first lesson to glean from the Kansas experience is that politics affects policy. The final reforms that passed in 2012 were not the reforms that anybody wanted. Specific tax reform ideas are easily diluted and changed, and without the political will to fix imperfect reforms, unintended consequences can be difficult to avoid.

The second important lesson that can be learned from the Kansas experience is that the economic growth resulting from bold tax reductions takes time. Governor Brownback's previous comments about the Kansas tax reforms being "a shot of adrenaline" to the state's economy continued to hound him throughout the ups and downs of revenue and economic reports. Setting expectations too high or too early can make pushing forward with future reforms nearly impossible, while setting unrealistic expectations can lead to the unwinding of sound economic reforms.

With these lessons in mind, it is certainly worth reiterating that if the desired result was to improve the Kansas economy and give the citizens of Kansas more opportunity and income, the case can certainly be made that the reforms are having a positive effect. However, that does not mean they were perfect. Even though the tax reductions improved economic growth, the lack of commensurate spending reductions led to trouble for the state's budget. Budget shortfalls and tough negotiations about possible tax increases mean uncertainty for businesses and families, which can hamper some of the positive economic effects of decreasing taxes.

Contrast the experience of Kansas with the experience of North Carolina. In 2013, North Carolina lawmakers undertook substantial, even historic tax reform of their own. The specifics of the bill are far ranging and have a significant effect on most areas of North Carolina's tax system, but some of the bill's highlights include:

- Moving the progressive income tax to one flat rate of 5.8 percent in 2014 and 5.75 percent in 2015
- Lowering the corporate tax rate to 6 percent in 2014 and 5 percent in 2015. Additional revenue triggers will lower the rate to 4 percent in 2016 and 3 percent in 2017, if revenue growth targets are met
- Eliminating the estate tax

- Expanding the sales tax to include some service contracts in an effort to move the state toward a consumption tax model
- Eliminating multiple gross receipts franchise taxes, privilege taxes and preferential sales tax rates

In all, the reform bill cut taxes more than \$500 million in the first two years alone and more than \$650 million a year by the 2017-2018 fiscal year.<sup>58</sup> The results for North Carolina's economy so far have been striking.

One of this report's authors, Stephen Moore, discussed some of the results of North Carolina's reforms in an editorial for *The Wall Street Journal* earlier this year:

*"After a few months, the unemployment rate started to decline rapidly and job growth climbed. Not just a little. Nearly 200,000 jobs have been added since 2013 and the unemployment rate has fallen to 5.5% from 7.9%. There is a debate about how many of North Carolina's unemployed got jobs and how many dropped out of the workforce or moved to another state. But the job market is vastly improved and people didn't go hungry in the streets. On the Tax Foundation index of business conditions, North Carolina has been catapulted to 16th from a dismal 44th since 2013..."*

*An even bigger surprise—even to supporters—is the tax cut's impact on revenue. Even with lower rates, tax revenues are up about 6% this year according to the state budget office. On May 6, Gov. McCrory announced that the state has a budget surplus of \$400 million while many other states are scrambling to fill gaps.*

*This is the opposite of what has happened in Kansas, where jobs have been created but revenues have fallen since the top personal income-tax rate was cut from 6.45% in 2012 to 4.6% today and the income tax for small business owners who file as individuals has been eliminated. North Carolina's former budget director, Art Pope, says one difference between the two states is that 'we cut spending too. Kansas didn't.'"<sup>59</sup>*

The comment from Art Pope aptly demonstrates the most important lesson that state lawmakers can learn from the Kansas experience: states cannot significantly reduce taxes without also reducing spending. This lesson is evidenced by North Carolina maintaining a AAA bond rating, even while undertaking historic tax reductions and reforms.

As state lawmakers across the country continue to look for ways to improve their state's business climate and encourage more economic

growth, Kansas provides examples of both reforms to strive for and pitfalls to avoid. As more economic evidence becomes available, there will certainly be much more written about Kansas and the effects of bold tax reforms. But, with the lesson of matching tax reductions with spending reductions firmly demonstrated, state lawmakers now have an opportunity to learn from both the successes and mistakes of others when proposing their own plans to provide better lives for their citizens through fundamental tax reform.

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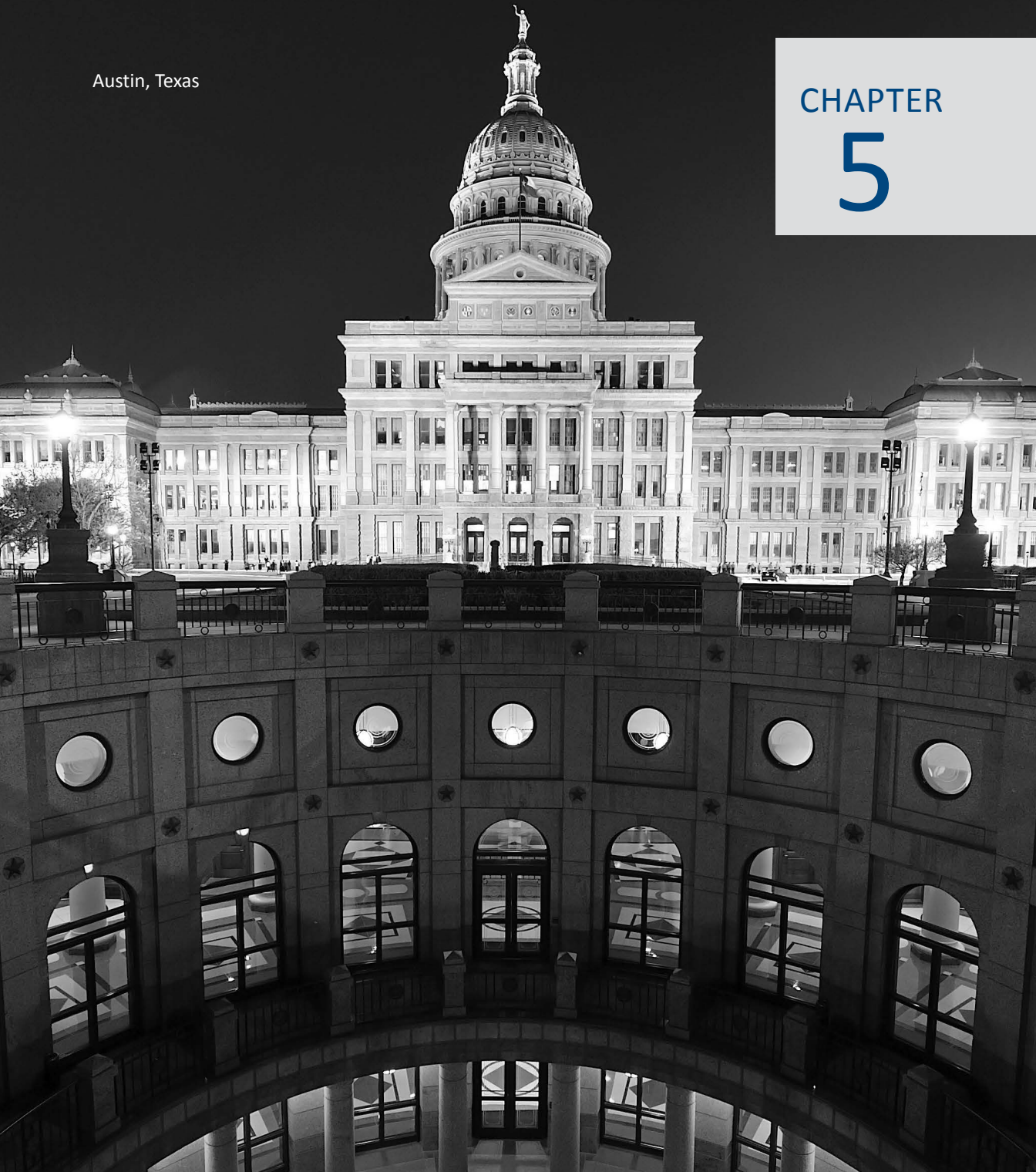


## CHAPTER FOUR

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Austin, Texas

CHAPTER  
5



# State Rankings

# State Rankings

**T**he 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.

**Table 21 | ALEC-Laffer State Economic Outlook Rankings, 2015**

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

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

Table 22 | **ALEC-Laffer State Economic Performance Rankings, 2003-2013**

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

# Alabama

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 29

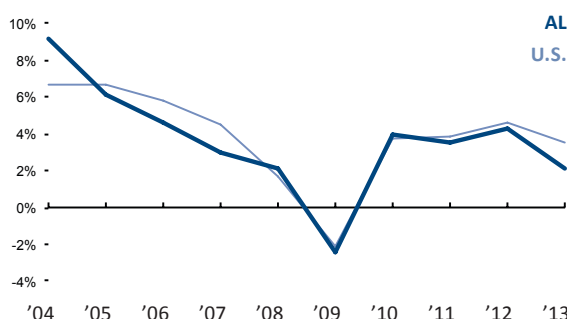
Economic  
Performance Rank

### 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.

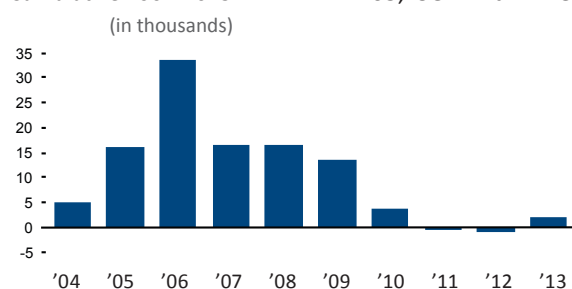
#### State Gross Domestic Product

Cumulative Growth 2003-2013 42.4% Rank: 29



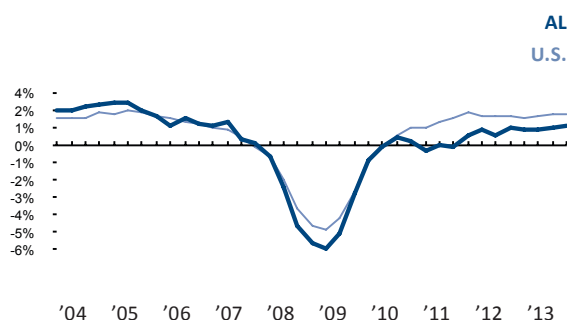
#### Absolute Domestic Migration

Cumulative 2004-2013 105,798 Rank: 13



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 1.8% Rank: 41



## 19

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 15 16 17 20 21 17 20**

| Variable   | Data    | Rank |
|--|---------|------|
| Top Marginal Personal Income Tax Rate  | 4.02%   | 13   |
| Top Marginal Corporate Income Tax Rate   | 4.23%   | 6    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)         | -\$1.81 | 1    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                      | \$14.97 | 1    |
| Sales Tax Burden<br>(per \$1,000 of personal income)   | \$24.34 | 32   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                     | \$22.63 | 41   |
| Estate/Inheritance Tax Levied?   | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)             | -\$0.04 | 27   |
| Debt Service as a Share of Tax Revenue   | 7.6%    | 24   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                          | 583.4   | 41   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality,<br>etc.) | 52.8    | 43   |
| State Minimum Wage<br>(federal floor is \$7.25)  | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                                | \$1.81  | 22   |
| Right-to-Work State?<br>(option to join or support a union)                                  | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                              | 0       | 34   |

# Alaska

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 11

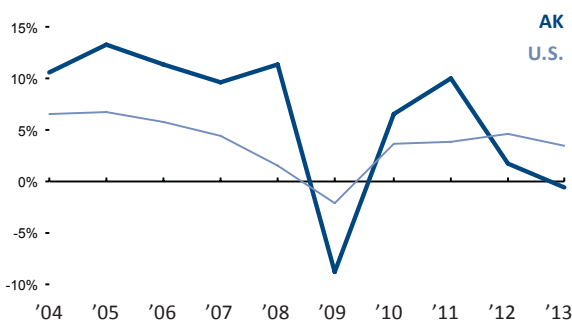
Economic  
Performance Rank

### 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.

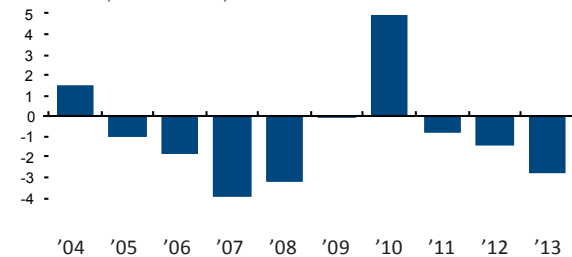
#### State Gross Domestic Product

Cumulative Growth 2003-2013 84.7% Rank: 3



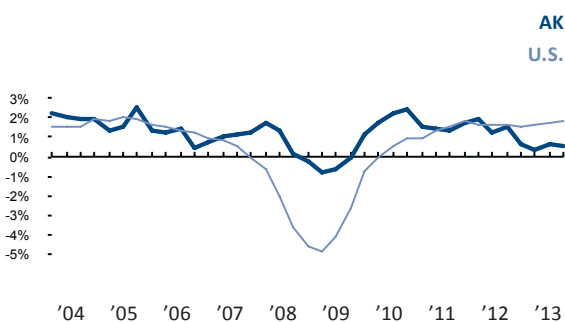
#### Absolute Domestic Migration

Cumulative 2004-2013 (in thousands) -8,750 Rank: 30



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 13.0% Rank: 5



## 14

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 37 38 22 29 29 21 18**

| Variable   | Data     | Rank |
|--|----------|------|
| Top Marginal Personal Income Tax Rate  | 0.00%    | 1    |
| Top Marginal Corporate Income Tax Rate   | 9.40%    | 44   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)         | \$0.00   | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                      | \$42.08  | 40   |
| Sales Tax Burden<br>(per \$1,000 of personal income)   | \$5.81   | 5    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                     | \$14.00  | 8    |
| Estate/Inheritance Tax Levied?   | No       | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)             | -\$18.85 | 1    |
| Debt Service as a Share of Tax Revenue   | 5.1%     | 4    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                          | 753.9    | 49   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality,<br>etc.) | 69.1     | 13   |
| State Minimum Wage<br>(federal floor is \$7.25)  | \$7.75   | 26   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                                | \$2.68   | 46   |
| Right-to-Work State?<br>(option to join or support a union)                                  | No       | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                              | 1        | 14   |

# Arizona

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 12

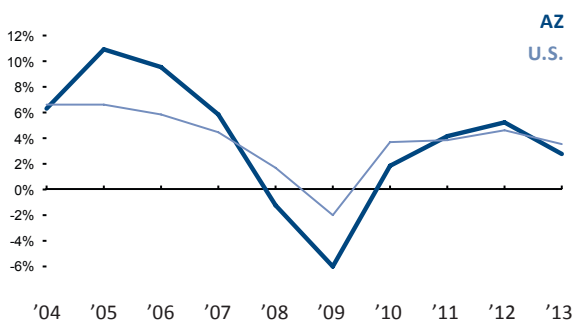
Economic  
Performance Rank

### 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.

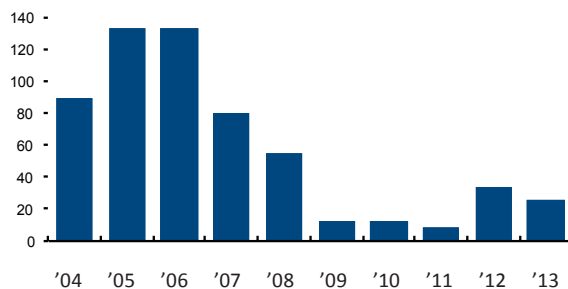
#### State Gross Domestic Product

Cumulative Growth 2003-2013 45.2% Rank: 24



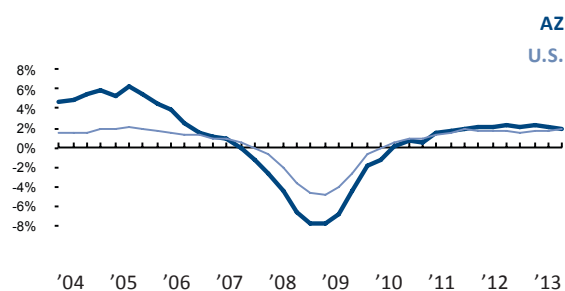
#### Absolute Domestic Migration

Cumulative 2004-2013 584,103 Rank: 4  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 9.1% Rank: 12



## 5

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 6 3 3 12 9 6 7**

| Variable   | Data    | Rank |
|--|---------|------|
| Top Marginal Personal Income Tax Rate  | 4.54%   | 14   |
| Top Marginal Corporate Income Tax Rate   | 6.00%   | 15   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)         | \$10.62 | 32   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                      | \$29.21 | 23   |
| Sales Tax Burden<br>(per \$1,000 of personal income)   | \$36.74 | 46   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                     | \$12.58 | 5    |
| Estate/Inheritance Tax Levied?   | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)             | -\$0.24 | 20   |
| Debt Service as a Share of Tax Revenue   | 9.8%    | 39   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                          | 427.8   | 2    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality,<br>etc.) | 66.8    | 17   |
| State Minimum Wage<br>(federal floor is \$7.25)  | \$8.05  | 33   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                                | \$1.60  | 14   |
| Right-to-Work State?<br>(option to join or support a union)                                  | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                              | 2       | 3    |



# Arkansas

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 22

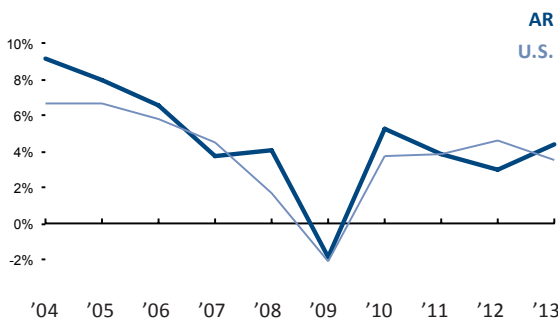
Economic  
Performance Rank

### 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.

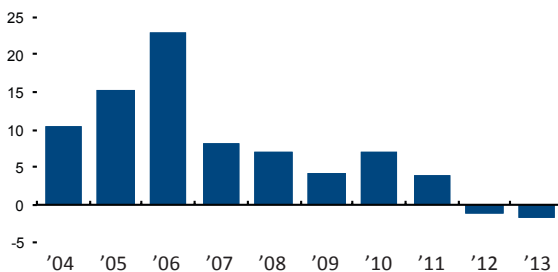
#### State Gross Domestic Product

Cumulative Growth 2003-2013 56.1% Rank: 14



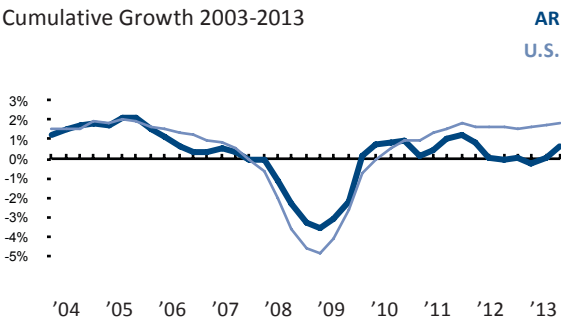
#### Absolute Domestic Migration

Cumulative 2004-2013 76,520 Rank: 17  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 2.8% Rank: 35



## 22

Economic  
Outlook Rank

### 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

2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 11 12 13 13 11 24 26**

| Variable   | Data    | Rank |
|--|---------|------|
| Top Marginal Personal Income Tax Rate  | 6.90%   | 32   |
| Top Marginal Corporate Income Tax Rate   | 6.50%   | 22   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)         | \$14.91 | 40   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                      | \$18.81 | 4    |
| Sales Tax Burden<br>(per \$1,000 of personal income)   | \$36.11 | 45   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                     | \$17.48 | 23   |
| Estate/Inheritance Tax Levied?   | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)             | -\$0.31 | 18   |
| Debt Service as a Share of Tax Revenue   | 5.3%    | 6    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                          | 570.3   | 40   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality,<br>etc.) | 57.2    | 35   |
| State Minimum Wage<br>(federal floor is \$7.25)  | \$7.50  | 22   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                                | \$1.08  | 3    |
| Right-to-Work State?<br>(option to join or support a union)                                  | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                              | 1       | 14   |

# California

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 37

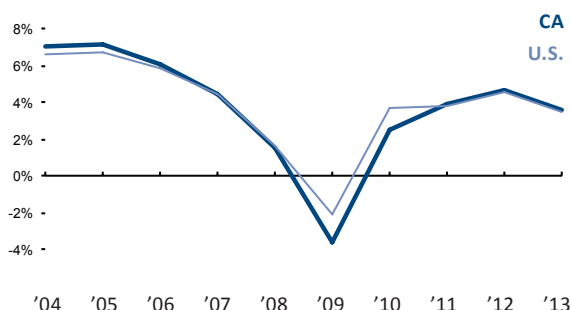
Economic  
Performance Rank

### 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.

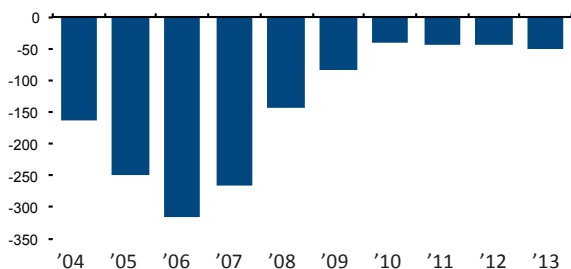
#### State Gross Domestic Product

Cumulative Growth 2003-2013 43.5% Rank: 27



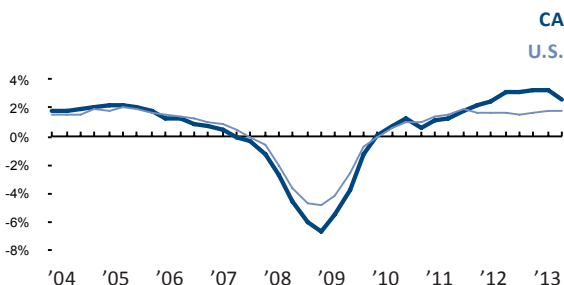
#### Absolute Domestic Migration

Cumulative 2004-2013 -1,394,911 Rank: 49  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 4.9% Rank: 27



## 44

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 42 43 46 47 38 47 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<br>(change in tax liability per \$1,000 of income)         | \$38.34 | 50   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                      | \$29.72 | 25   |
| Sales Tax Burden<br>(per \$1,000 of personal income)   | \$23.60 | 27   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                     | \$16.21 | 16   |
| Estate/Inheritance Tax Levied?   | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)             | -\$0.47 | 10   |
| Debt Service as a Share of Tax Revenue   | 10.5%   | 42   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                          | 446.3   | 6    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality,<br>etc.) | 50.6    | 47   |
| State Minimum Wage<br>(federal floor is \$7.25)  | \$9.00  | 44   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                                | \$3.48  | 50   |
| Right-to-Work State?<br>(option to join or support a union)                                  | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                              | 2       | 3    |

# Colorado

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 9

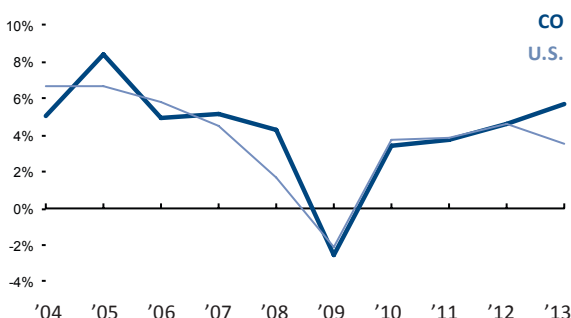
Economic  
Performance Rank

### 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.

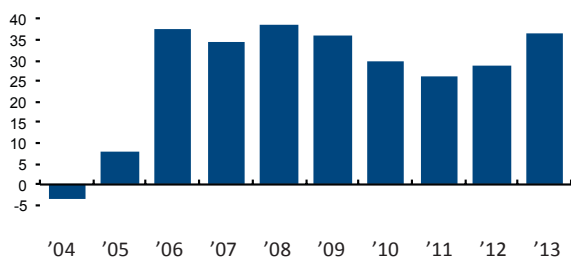
#### State Gross Domestic Product

Cumulative Growth 2003-2013 51.3% Rank: 18



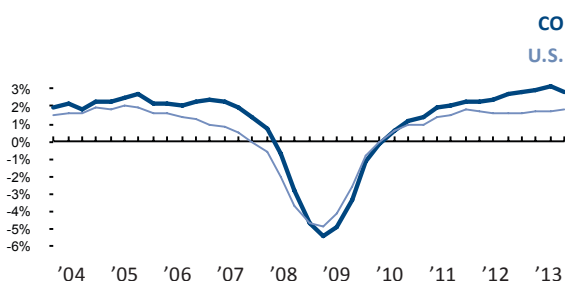
#### Absolute Domestic Migration

Cumulative 2004-2013 272,722 Rank: 9  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 11.6% Rank: 8



## 21

Economic  
Outlook Rank

### 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 | 2008     | 2009     | 2010     | 2011     | 2012     | 2013      | 2014      |
|-------------------------------|----------|----------|----------|----------|----------|-----------|-----------|
| <b>ECONOMIC OUTLOOK RANK</b>  | <b>9</b> | <b>2</b> | <b>2</b> | <b>6</b> | <b>8</b> | <b>16</b> | <b>22</b> |

| Variable   | Data    | Rank |
|--|---------|------|
| Top Marginal Personal Income Tax Rate  | 4.63%   | 16   |
| Top Marginal Corporate Income Tax Rate   | 4.63%   | 8    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)         | \$6.36  | 21   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                      | \$29.87 | 27   |
| Sales Tax Burden<br>(per \$1,000 of personal income)   | \$23.35 | 26   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                     | \$13.94 | 7    |
| Estate/Inheritance Tax Levied?   | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)             | \$0.25  | 37   |
| Debt Service as a Share of Tax Revenue   | 11.8%   | 47   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                          | 524.4   | 24   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality,<br>etc.) | 64.2    | 23   |
| State Minimum Wage<br>(federal floor is \$7.25)  | \$8.23  | 38   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                                | \$1.50  | 10   |
| Right-to-Work State?<br>(option to join or support a union)                                  | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                              | 3       | 1    |

# Connecticut

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## 45

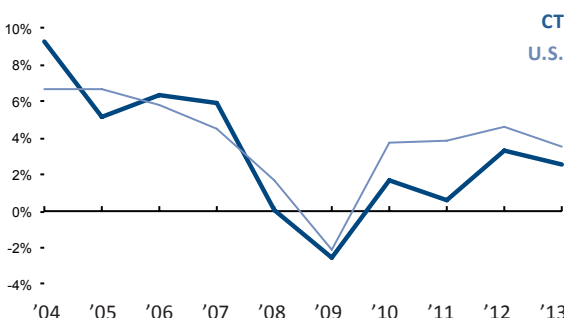
Economic  
Performance Rank

### 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.

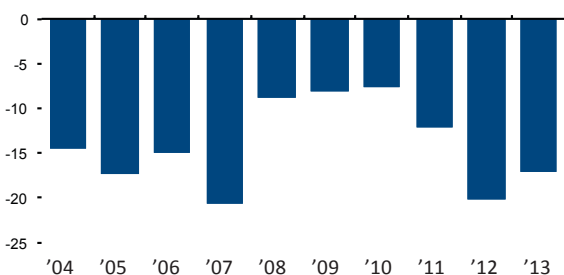
#### State Gross Domestic Product

Cumulative Growth 2003-2013 36.6% Rank: 41



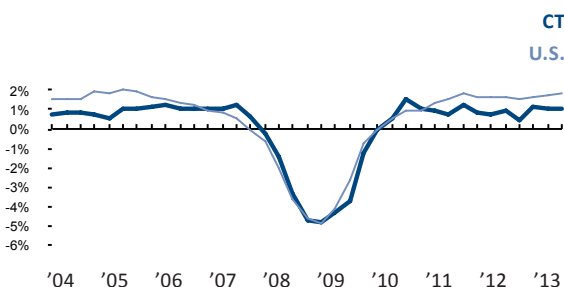
#### Absolute Domestic Migration

Cumulative 2004-2013 -140,974 Rank: 42  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 1.1% Rank: 43



## 47

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 40 32 36 35 44 43 44**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 6.70%   | 30   |
| Top Marginal Corporate Income Tax Rate  | 9.00%   | 42   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$7.67  | 27   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$44.80 | 43   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$17.98 | 14   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$17.83 | 26   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$1.66  | 46   |
| Debt Service as a Share of Tax Revenue  | 7.8%    | 26   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 516.9   | 22   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 63.8    | 25   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$9.15  | 47   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.87  | 49   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Delaware

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## 32

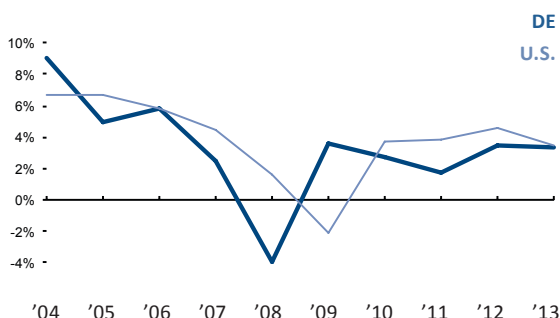
Economic  
Performance Rank

### 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.

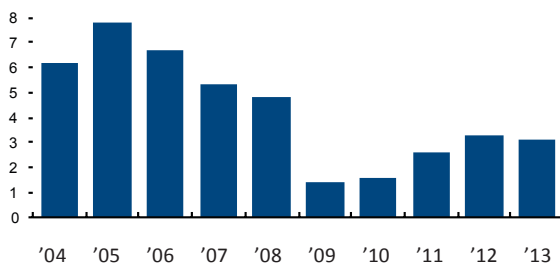
#### State Gross Domestic Product

Cumulative Growth 2003-2013 38.1% Rank: 38



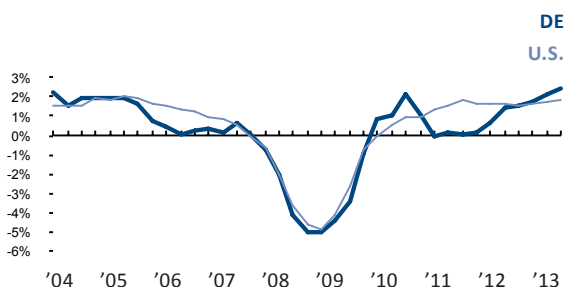
#### Absolute Domestic Migration

Cumulative 2004-2013 42,811 Rank: 20  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 3.2% Rank: 33



## 38

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 31 31 37 34 34 30 27**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 7.85%   | 40   |
| Top Marginal Corporate Income Tax Rate  | 10.35%  | 47   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$13.70 | 38   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$17.59 | 3    |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$0.00  | 1    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$50.16 | 50   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$1.24  | 45   |
| Debt Service as a Share of Tax Revenue  | 8.1%    | 29   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 542.7   | 32   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 75.8    | 1    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.75  | 26   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.31  | 42   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |

# Florida

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 23

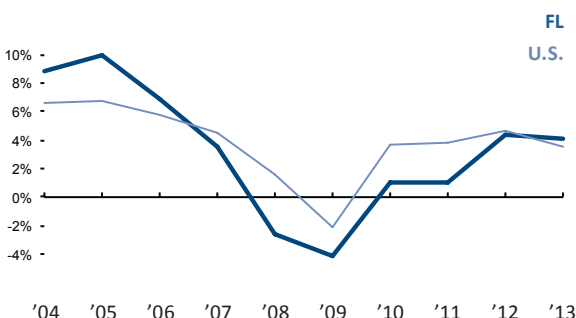
Economic  
Performance Rank

### 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.

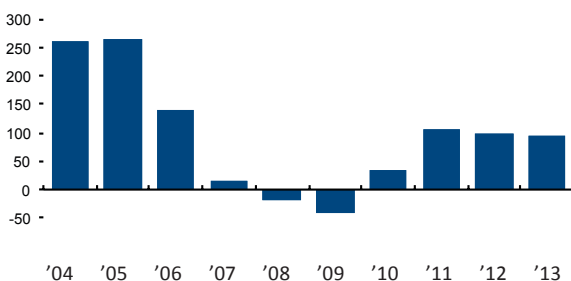
#### State Gross Domestic Product

Cumulative Growth 2003-2013 37.0% Rank: 40



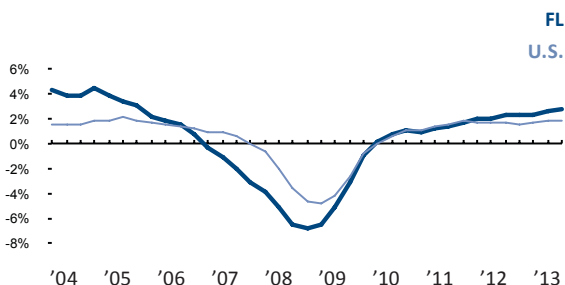
#### Absolute Domestic Migration

Cumulative 2004-2013 960,492 Rank: 2  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 5.3% Rank: 25



## 15

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 16 11 5 10 13 9 16**

| 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<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$31.65 | 30   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$27.32 | 36   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$21.53 | 39   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.15 | 22   |
| Debt Service as a Share of Tax Revenue  | 9.4%    | 36   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 441.0   | 4    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 55.3    | 41   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.05  | 33   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.82  | 23   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |

# Georgia

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 25

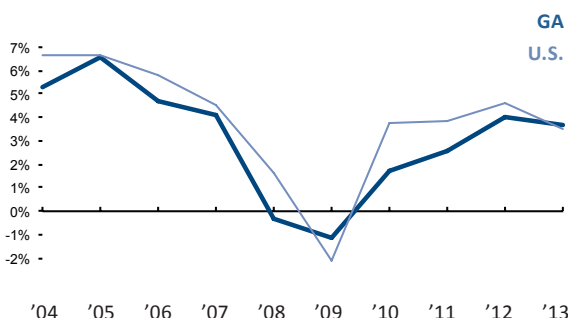
Economic  
Performance Rank

### 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.

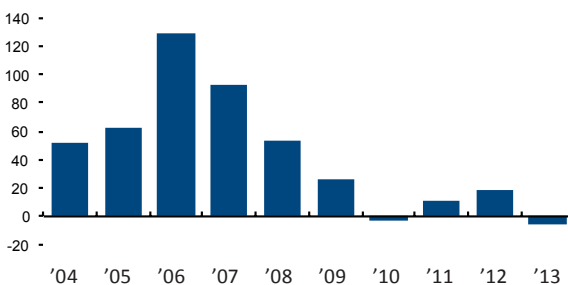
#### State Gross Domestic Product

Cumulative Growth 2003-2013 35.6% Rank: 42



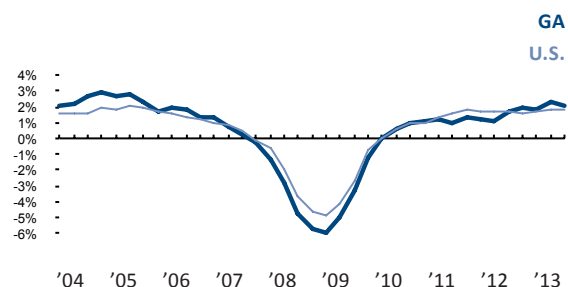
#### Absolute Domestic Migration

Cumulative 2004-2013 437,897 Rank: 5  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 4.8% Rank: 28



## 7

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 8 8 9 11 10 8 9**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 6.00%   | 27   |
| Top Marginal Corporate Income Tax Rate  | 6.00%   | 15   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$6.53  | 23   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$28.56 | 21   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$25.25 | 34   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$11.18 | 1    |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.30 | 19   |
| Debt Service as a Share of Tax Revenue  | 7.5%    | 18   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 512.6   | 20   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 64.0    | 24   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.75  | 19   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |



# Hawaii

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 18

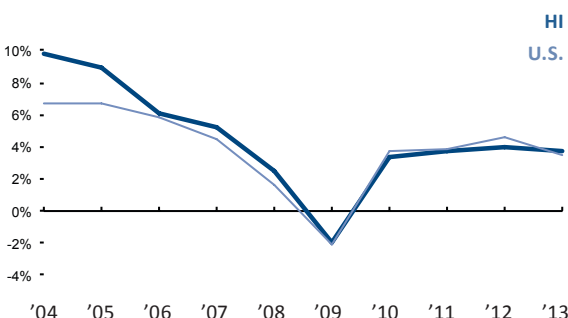
Economic  
Performance Rank

**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.

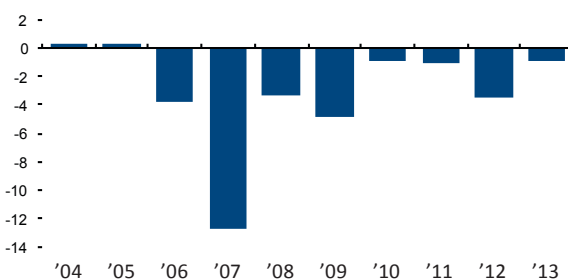
State Gross Domestic Product

Cumulative Growth 2003-2013 54.9% Rank: 15



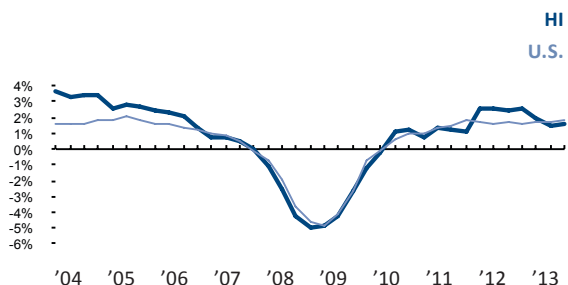
Absolute Domestic Migration

Cumulative 2004-2013 -30,719 Rank: 33  
(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2003-2013 8.9% Rank: 13



## 37

Economic  
Outlook Rank

**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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 41 41 39 46 46 40 36**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 11.00%  | 48   |
| Top Marginal Corporate Income Tax Rate  | 6.40%   | 21   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$13.54 | 37   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$21.66 | 9    |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$47.74 | 50   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$26.29 | 46   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.57 | 8    |
| Debt Service as a Share of Tax Revenue  | 7.4%    | 17   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 515.7   | 21   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 62.5    | 29   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.75  | 26   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.85  | 24   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Idaho

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 13

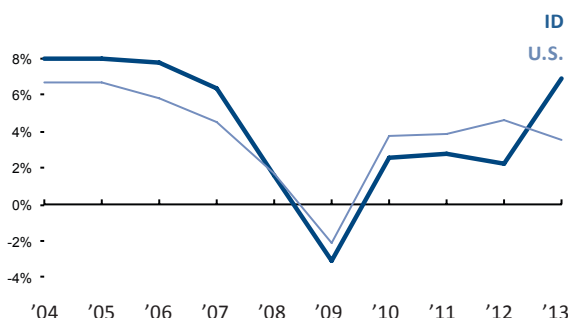
Economic  
Performance Rank

### 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.

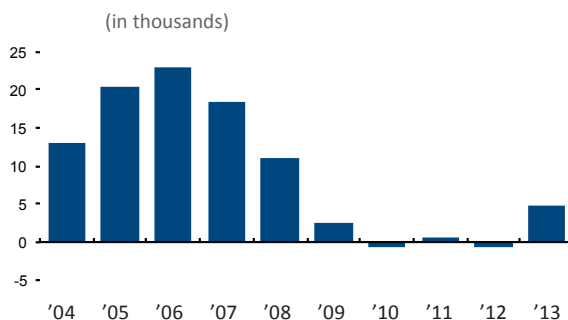
#### State Gross Domestic Product

Cumulative Growth 2003-2013 51.4% Rank: 17



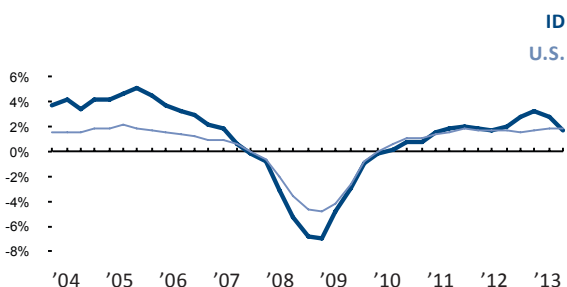
#### Absolute Domestic Migration

Cumulative 2004-2013 92,462 Rank: 15



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 11.1% Rank: 9



## 6

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 10 14 7 5 6 7 5**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 7.40%   | 37   |
| Top Marginal Corporate Income Tax Rate  | 7.40%   | 30   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$13.40 | 36   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$25.57 | 14   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$22.48 | 24   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$15.18 | 11   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.34 | 17   |
| Debt Service as a Share of Tax Revenue  | 5.4%    | 7    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 496.0   | 14   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 70.5    | 6    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.01  | 37   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Illinois

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 46

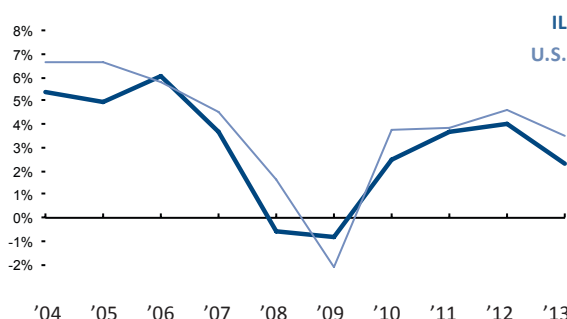
Economic  
Performance Rank

### 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.

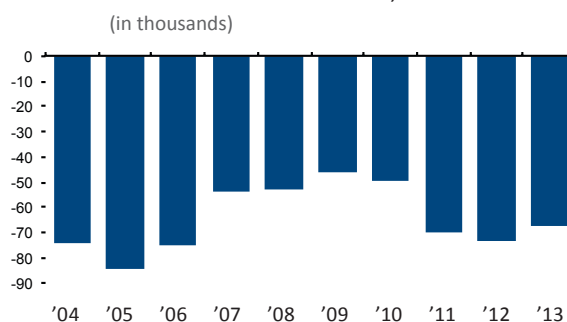
#### State Gross Domestic Product

Cumulative Growth 2003-2013 35.6% Rank: 43



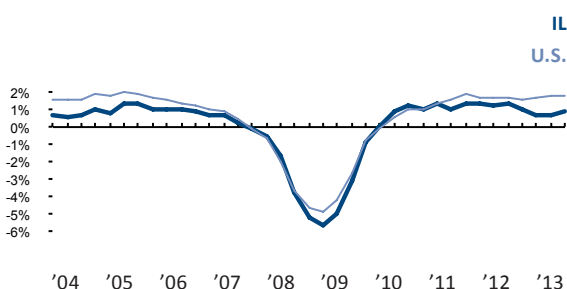
#### Absolute Domestic Migration

Cumulative 2004-2013 -646,867 Rank: 48



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 0.5% Rank: 44



## 40

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 43 44 47 44 48 48 48**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 3.75%   | 12   |
| Top Marginal Corporate Income Tax Rate  | 7.75%   | 32   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$1.08  | 14   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$44.14 | 42   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$16.66 | 10   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$21.26 | 37   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$2.99 | 3    |
| Debt Service as a Share of Tax Revenue  | 10.2%   | 40   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 501.0   | 15   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 51.3    | 46   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.25  | 39   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.35  | 44   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Indiana

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 40

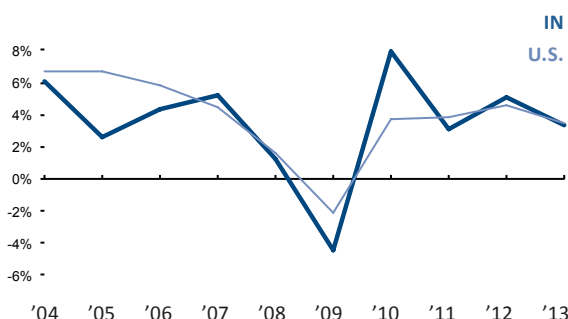
Economic  
Performance Rank

### 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.

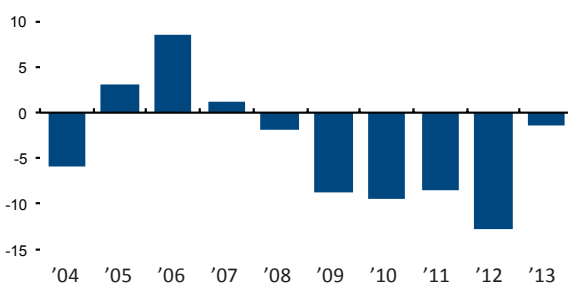
#### State Gross Domestic Product

Cumulative Growth 2003-2013 39.9% Rank: 34



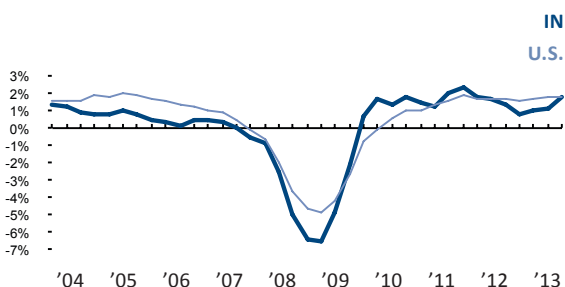
#### Absolute Domestic Migration

Cumulative 2004-2013 -35,692 Rank: 34  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 1.8% Rank: 42



## 3

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 12 17 20 16 24 14 3**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.07%   | 20   |
| Top Marginal Corporate Income Tax Rate  | 7.00%   | 27   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$0.68  | 13   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$26.68 | 17   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$27.23 | 35   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$18.54 | 28   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.37 | 15   |
| Debt Service as a Share of Tax Revenue  | 8.6%    | 31   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 486.3   | 12   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 69.0    | 14   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.06  | 2    |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Iowa

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 21

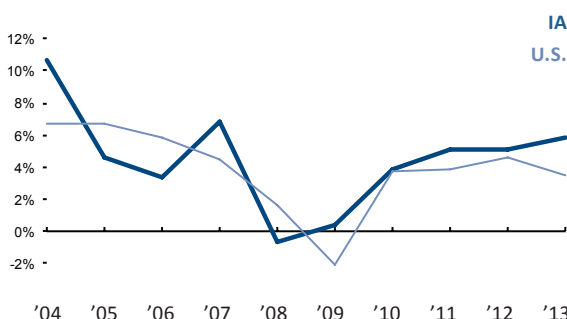
Economic  
Performance Rank

### 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.

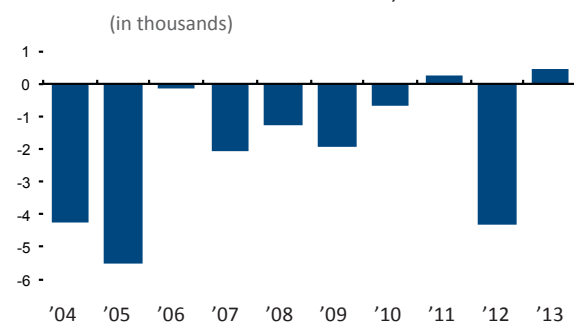
#### State Gross Domestic Product

Cumulative Growth 2003-2013 54.8% Rank: 16



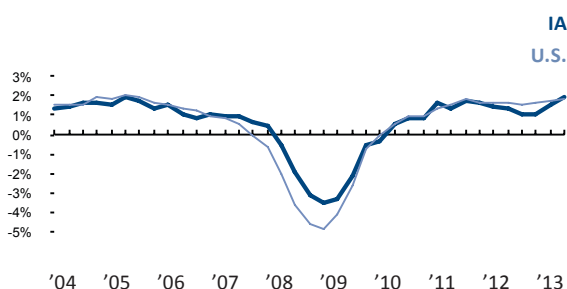
#### Absolute Domestic Migration

Cumulative 2004-2013 -19,319 Rank: 31



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 6.7% Rank: 19



## 25

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 25 35 28 23 22 25 25**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.42%   | 23   |
| Top Marginal Corporate Income Tax Rate  | 9.90%   | 46   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$11.87 | 33   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$34.02 | 34   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$24.09 | 30   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$16.92 | 20   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.35 | 16   |
| Debt Service as a Share of Tax Revenue  | 5.1%    | 3    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 552.4   | 35   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 69.5    | 10   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.88  | 27   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Kansas

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 28

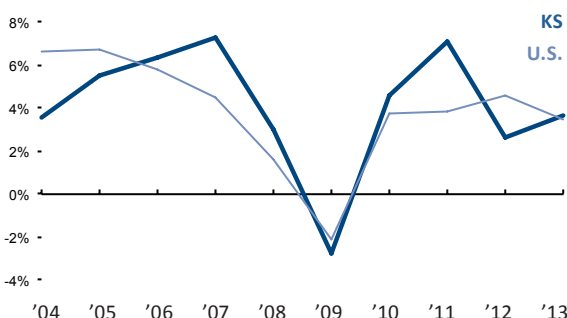
Economic  
Performance Rank

### 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.

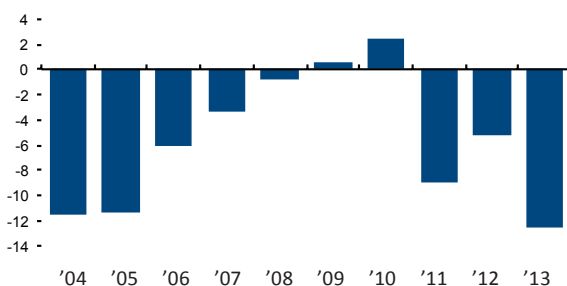
#### State Gross Domestic Product

Cumulative Growth 2003-2013 48.8% Rank: 21



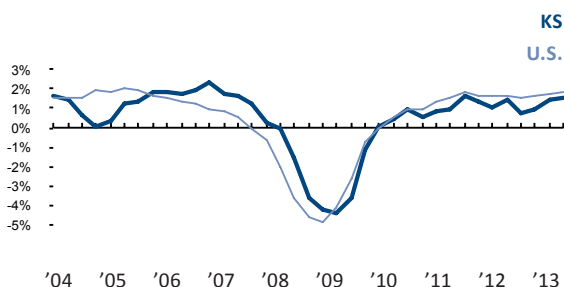
#### Absolute Domestic Migration

Cumulative 2004-2013 -57,018 Rank: 38  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 5.5% Rank: 24



## 18

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 29 24 25 27 26 11 15**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 4.60%   | 15   |
| Top Marginal Corporate Income Tax Rate  | 7.00%   | 27   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$7.02  | 25   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$31.82 | 32   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$30.11 | 38   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$12.34 | 4    |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.57 | 7    |
| Debt Service as a Share of Tax Revenue  | 9.0%    | 35   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 695.4   | 48   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 70.6    | 5    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.55  | 12   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Kentucky

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 27

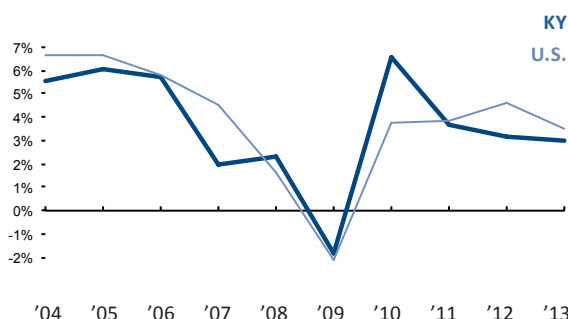
Economic  
Performance Rank

### 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.

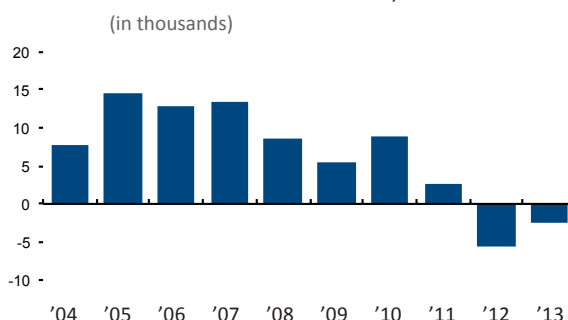
#### State Gross Domestic Product

Cumulative Growth 2003-2013 42.4% Rank: 30



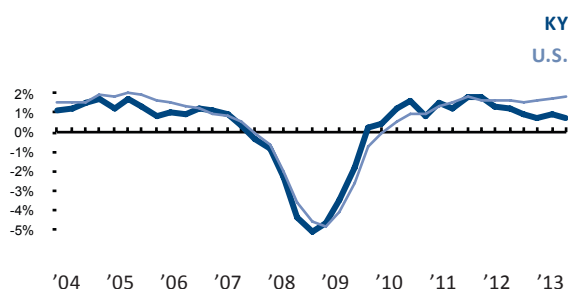
#### Absolute Domestic Migration

Cumulative 2004-2013 65,970 Rank: 18



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 2.9% Rank: 34



## 30

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 44 36 40 40 39 38 39**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 8.20%   | 42   |
| Top Marginal Corporate Income Tax Rate  | 6.00%   | 15   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$5.44  | 19   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$20.29 | 7    |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$19.78 | 17   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$20.57 | 33   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.12 | 25   |
| Debt Service as a Share of Tax Revenue  | 13.6%   | 50   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 537.4   | 28   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 56.8    | 38   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.51  | 11   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |



# Louisiana

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 33

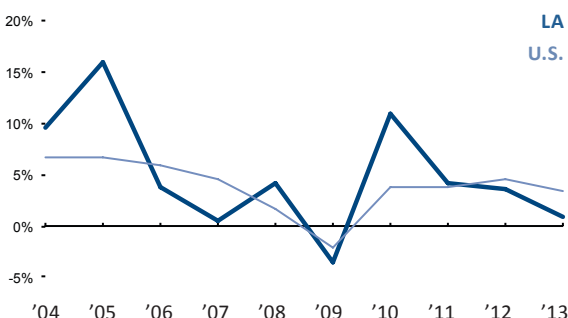
Economic  
Performance Rank

### 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.

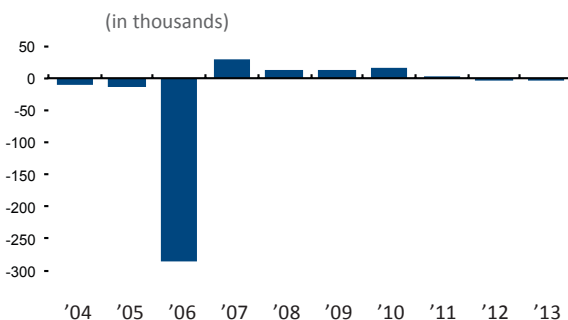
#### State Gross Domestic Product

Cumulative Growth 2003-2013 60.8% Rank: 11



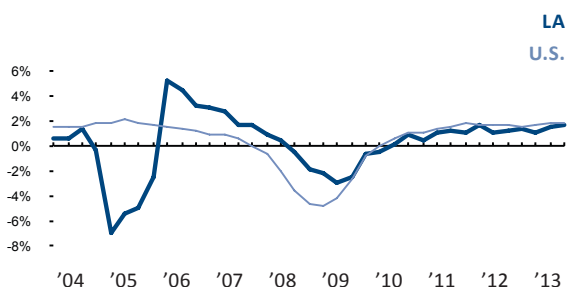
#### Absolute Domestic Migration

Cumulative 2004-2013 -234,082 Rank: 44



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 2.7% Rank: 36



## 26

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 24 18 16 15 19 28 29**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 3.62%   | 11   |
| Top Marginal Corporate Income Tax Rate  | 5.20%   | 13   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$10.17 | 30   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$20.10 | 6    |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$36.78 | 47   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$16.61 | 17   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.02 | 28   |
| Debt Service as a Share of Tax Revenue  | 10.3%   | 41   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 555.5   | 36   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 46.5    | 49   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.23  | 41   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |

# Maine

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 44

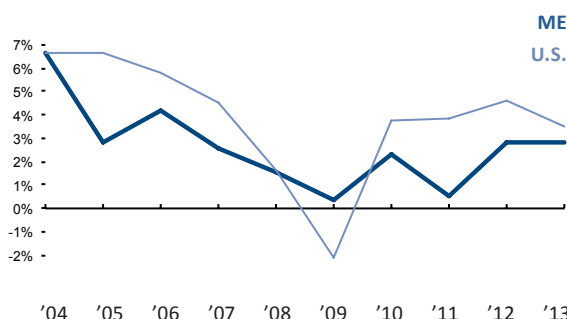
Economic  
Performance Rank

### 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.

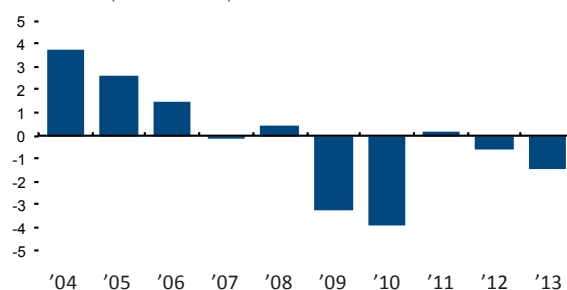
#### State Gross Domestic Product

Cumulative Growth 2003-2013 30.0% Rank: 49



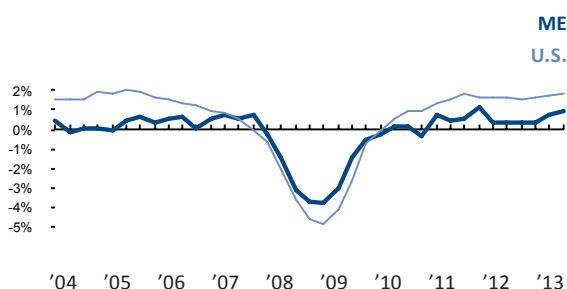
#### Absolute Domestic Migration

Cumulative 2004-2013 (in thousands) -1,063 Rank: 27



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 -1.0% Rank: 46



## 42

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 46 47 44 48 47 41 40**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 7.95%   | 41   |
| Top Marginal Corporate Income Tax Rate  | 8.93%   | 41   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$19.47 | 47   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$45.50 | 45   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$20.38 | 20   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$19.59 | 30   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.17 | 21   |
| Debt Service as a Share of Tax Revenue  | 6.0%    | 10   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 548.0   | 33   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 69.2    | 12   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.50  | 22   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.15  | 38   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Maryland

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 31

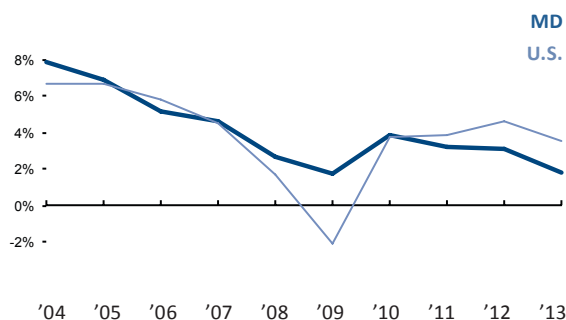
Economic  
Performance Rank

### 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.

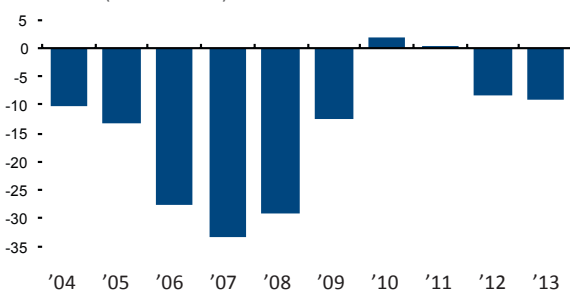
#### State Gross Domestic Product

Cumulative Growth 2003-2013 48.9% Rank: 20



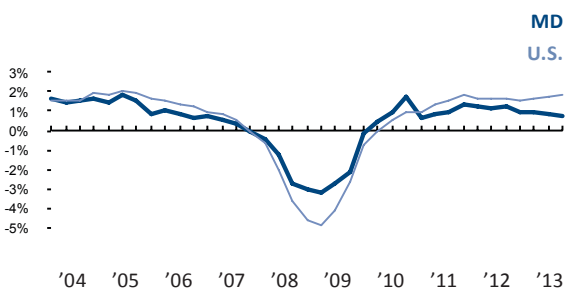
#### Absolute Domestic Migration

Cumulative 2004-2013 -140,571 Rank: 41  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 4.5% Rank: 29



## 33

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 28 28 29 21 20 35 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<br>(change in tax liability per \$1,000 of income)      | \$5.03  | 18   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$25.95 | 15   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$13.13 | 8    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$18.40 | 27   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.20  | 35   |
| Debt Service as a Share of Tax Revenue  | 6.3%    | 13   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 503.2   | 17   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 58.3    | 33   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.00  | 29   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.64  | 16   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Massachusetts

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 35

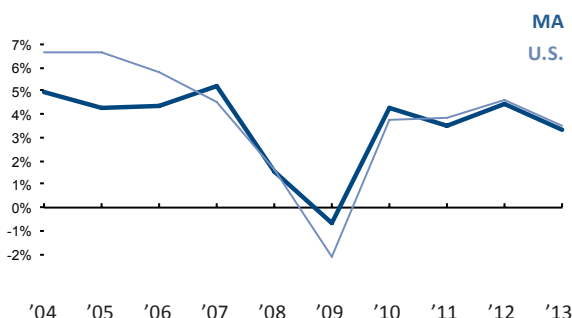
Economic  
Performance Rank

### 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.

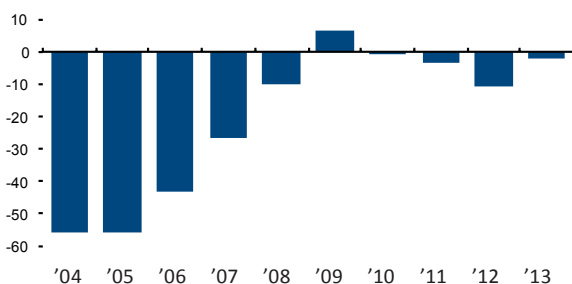
#### State Gross Domestic Product

Cumulative Growth 2003-2013 41.1% Rank: 32



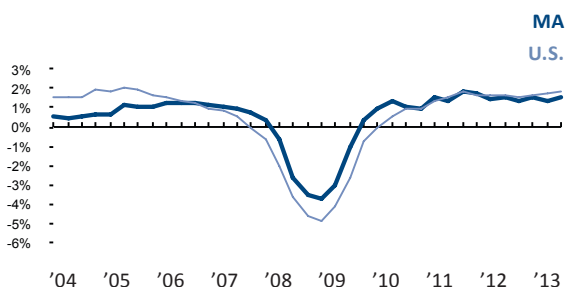
#### Absolute Domestic Migration

Cumulative 2004-2013 -200,230 Rank: 43  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 5.8% Rank: 22



## 28

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 22 26 32 24 25 29 28**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.15%   | 21   |
| Top Marginal Corporate Income Tax Rate  | 8.00%   | 35   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$3.02  | 16   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$37.28 | 39   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$13.86 | 9    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$11.87 | 2    |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.62  | 41   |
| Debt Service as a Share of Tax Revenue  | 10.9%   | 44   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 482.8   | 11   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 66.3    | 19   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$9.00  | 44   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.17  | 4    |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Michigan

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## 50

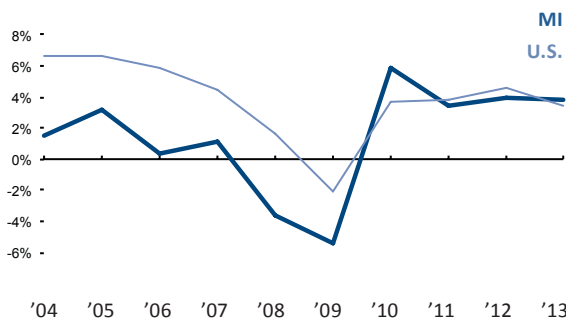
Economic  
Performance Rank

### 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.

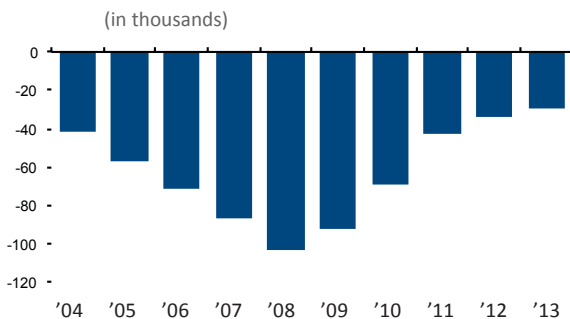
#### State Gross Domestic Product

Cumulative Growth 2003-2013 14.4% Rank: 50



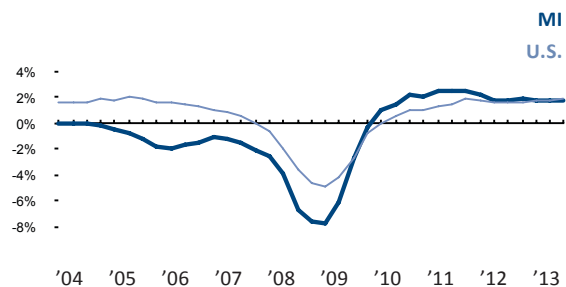
#### Absolute Domestic Migration

Cumulative 2004-2013 -628,472 Rank: 47



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 -6.4% Rank: 50



## 24

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 17 34 26 25 17 20 12**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 6.65%   | 29   |
| Top Marginal Corporate Income Tax Rate  | 8.00%   | 35   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$2.27  | 15   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$35.50 | 35   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$23.88 | 29   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$15.51 | 13   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.66  | 42   |
| Debt Service as a Share of Tax Revenue  | 8.3%    | 30   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 438.5   | 3    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 63.0    | 27   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.15  | 37   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.68  | 17   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |

# Minnesota

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## 30

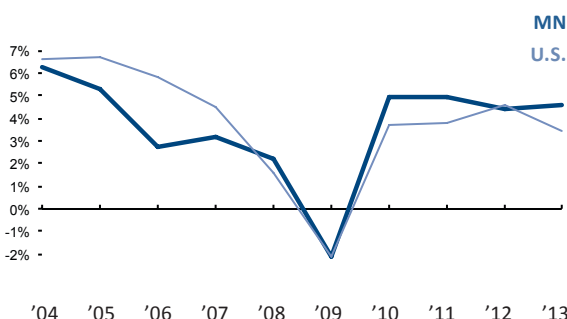
Economic  
Performance Rank

### 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.

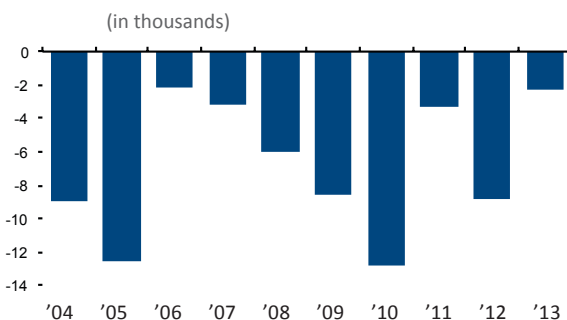
#### State Gross Domestic Product

Cumulative Growth 2003-2013 42.8% Rank: 28



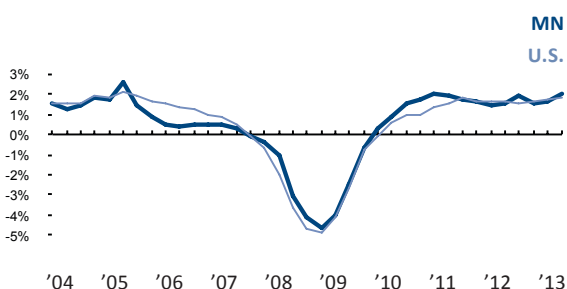
#### Absolute Domestic Migration

Cumulative 2004-2013 -68,644 Rank: 39



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 5.5% Rank: 23



## 48

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 39 40 38 37 41 46 46**

| 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<br>(change in tax liability per \$1,000 of income)      | \$18.42 | 45   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$31.75 | 31   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$20.44 | 21   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$24.58 | 45   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$2.36  | 49   |
| Debt Service as a Share of Tax Revenue  | 7.5%    | 20   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 509.7   | 19   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 71.4    | 4    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.00  | 29   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.99  | 31   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Mississippi

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## 41

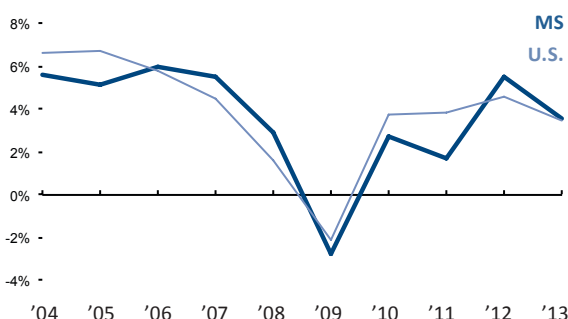
Economic  
Performance Rank

### 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.

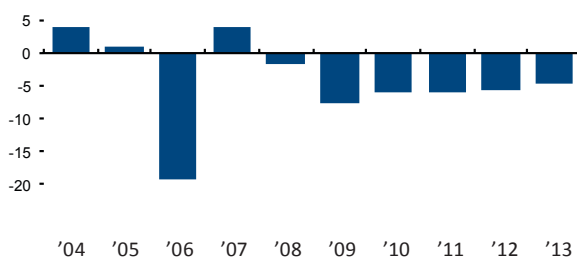
#### State Gross Domestic Product

Cumulative Growth 2003-2013 41.8% Rank: 31



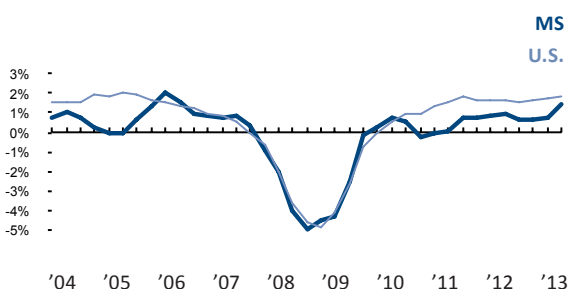
#### Absolute Domestic Migration

Cumulative 2004-2013 -41,744 Rank: 35  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 0.0% Rank: 45



## 20

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 19 19 18 19 15 10 14**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.00%   | 18   |
| Top Marginal Corporate Income Tax Rate  | 5.00%   | 9    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$7.53  | 26   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$26.51 | 16   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$31.41 | 40   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$20.79 | 36   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.05 | 26   |
| Debt Service as a Share of Tax Revenue  | 6.2%    | 11   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 644.9   | 47   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 46.6    | 48   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.59  | 13   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |



# Missouri

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 42

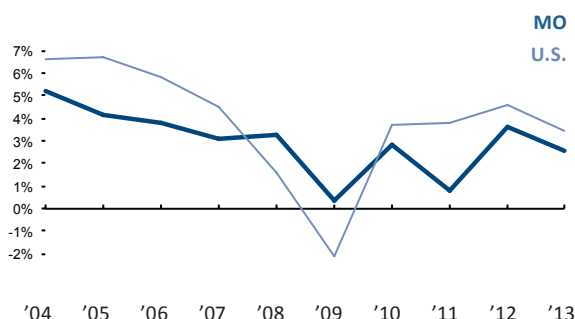
Economic  
Performance Rank

### 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.

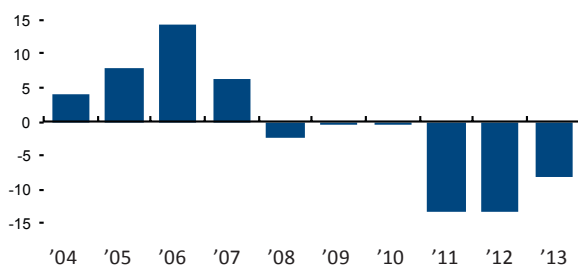
#### State Gross Domestic Product

Cumulative Growth 2003-2013 34.0% Rank: 46



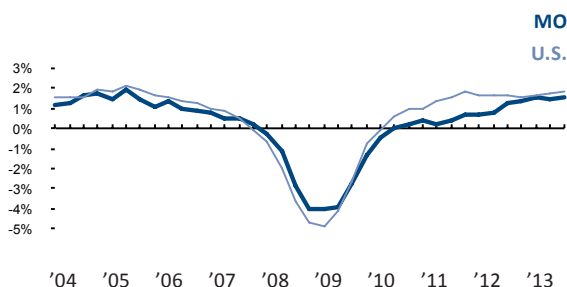
#### Absolute Domestic Migration

Cumulative 2004-2013 (in thousands) -6,229 Rank: 28



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 2.5% Rank: 38



## 27

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 25 23 15 9 7 23 24**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 7.00%   | 35   |
| Top Marginal Corporate Income Tax Rate  | 6.16%   | 19   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$14.00 | 39   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$24.59 | 13   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$22.30 | 23   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$15.37 | 12   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.00  | 29   |
| Debt Service as a Share of Tax Revenue  | 9.0%    | 34   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 525.0   | 25   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 57.8    | 34   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.65  | 25   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.98  | 30   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 3       | 1    |

# Montana

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 8

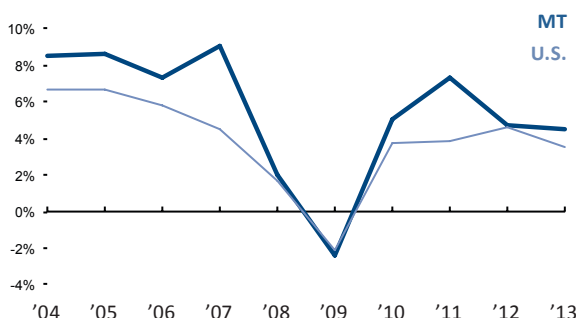
Economic  
Performance Rank

### 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.

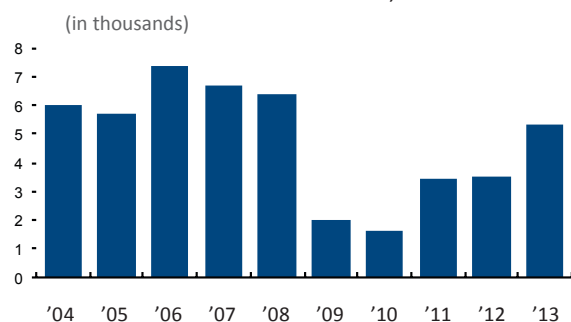
#### State Gross Domestic Product

Cumulative Growth 2003-2013 69.4% Rank: 8



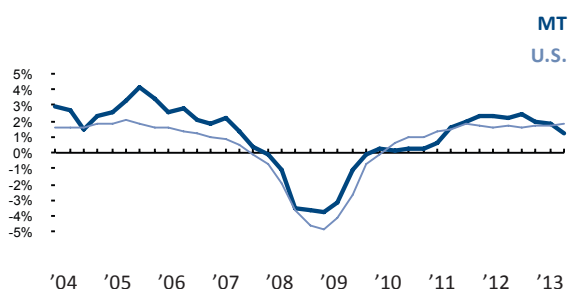
#### Absolute Domestic Migration

Cumulative 2004-2013 48,162 Rank: 19



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 11.7% Rank: 7



## 43

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 32 30 33 36 36 42 43**

| 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<br>(change in tax liability per \$1,000 of income)      | \$18.02 | 44   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$36.26 | 37   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$0.00  | 1    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$23.77 | 43   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.13 | 24   |
| Debt Service as a Share of Tax Revenue  | 5.8%    | 9    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 562.0   | 38   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 52.2    | 45   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.05  | 33   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.21  | 40   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Nebraska

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 17

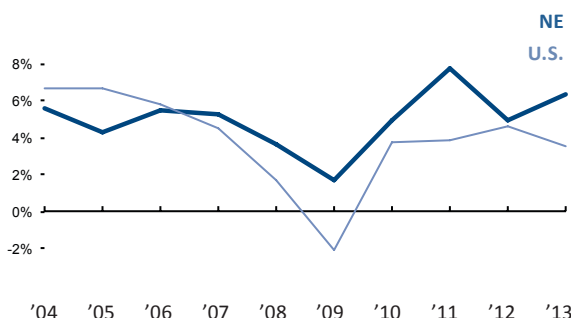
Economic  
Performance Rank

### 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.

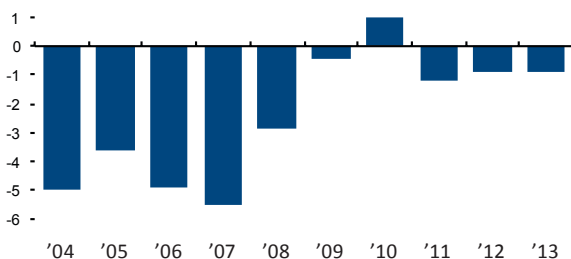
#### State Gross Domestic Product

Cumulative Growth 2003-2013 62.5% Rank: 10



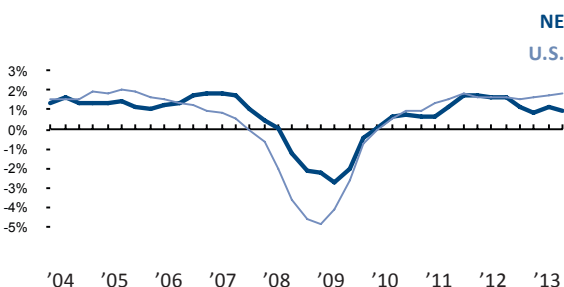
#### Absolute Domestic Migration

Cumulative 2004-2013 -24,274 Rank: 32  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 7.5% Rank: 15



## 31

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 34 29 34 32 31 37 35**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 6.84%   | 31   |
| Top Marginal Corporate Income Tax Rate  | 7.81%   | 33   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$18.52 | 46   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$35.68 | 36   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$22.80 | 25   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$14.57 | 10   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.49 | 9    |
| Debt Service as a Share of Tax Revenue  | 7.5%    | 19   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 639.9   | 46   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 74.1    | 2    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.00  | 29   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.78  | 21   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Nevada

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 15

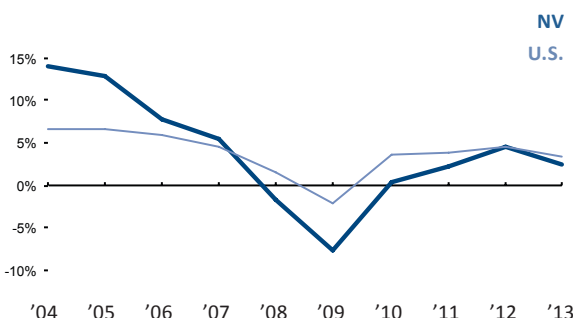
Economic  
Performance Rank

### 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.

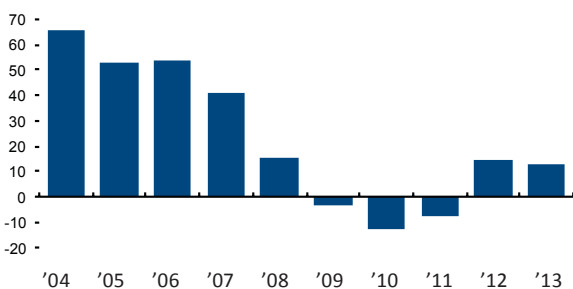
#### State Gross Domestic Product

Cumulative Growth 2003-2013 46.2% Rank: 23



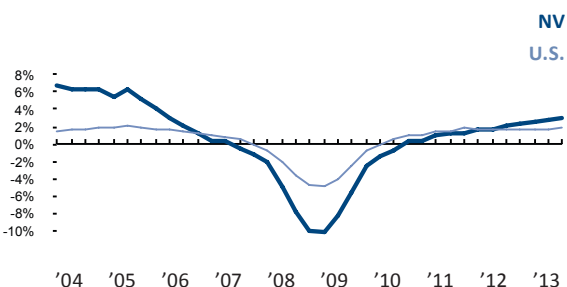
#### Absolute Domestic Migration

Cumulative 2004-2013 231,579 Rank: 10  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 7.2 Rank: 16



## 10

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 7 7 11 17 18 13 8**

| 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<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$27.20 | 20   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$35.96 | 44   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$35.54 | 49   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.00  | 30   |
| Debt Service as a Share of Tax Revenue  | 10.7%   | 43   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 367.6   | 1    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 57.0    | 37   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.25  | 39   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.26  | 6    |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |

# New Hampshire

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 36

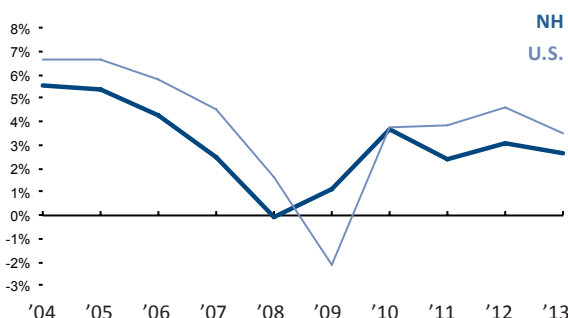
Economic  
Performance Rank

### 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.

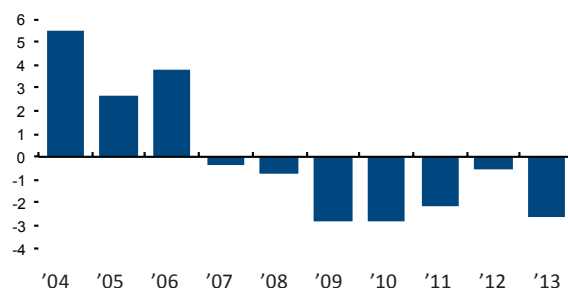
#### State Gross Domestic Product

Cumulative Growth 2003-2013 35.0% Rank: 44



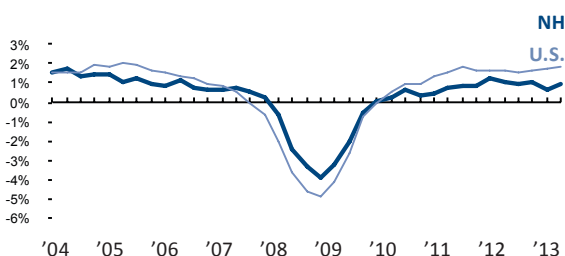
#### Absolute Domestic Migration

Cumulative 2004-2013 (in thousands) -19 Rank: 26



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 3.6% Rank: 32



## 29

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 26 37 30 28 28 27 32**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 0.00%   | 1    |
| Top Marginal Corporate Income Tax Rate  | 8.50%   | 38   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$53.07 | 49   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$0.00  | 1    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$19.54 | 29   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.48  | 40   |
| Debt Service as a Share of Tax Revenue  | 9.7%    | 38   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 520.6   | 23   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 65.7    | 21   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.18  | 39   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# New Jersey

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 48

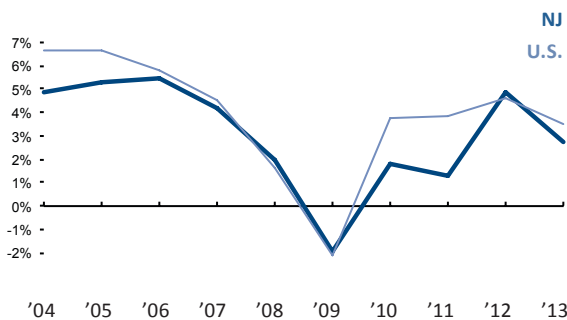
Economic  
Performance Rank

### 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.

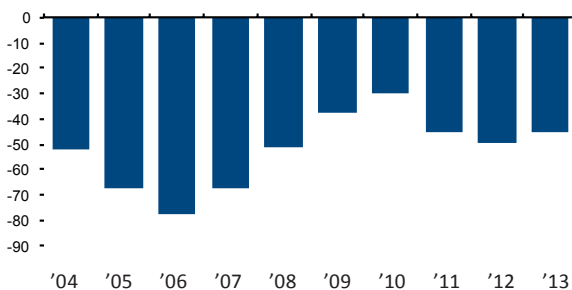
#### State Gross Domestic Product

Cumulative Growth 2003-2013 34.6% Rank: 45



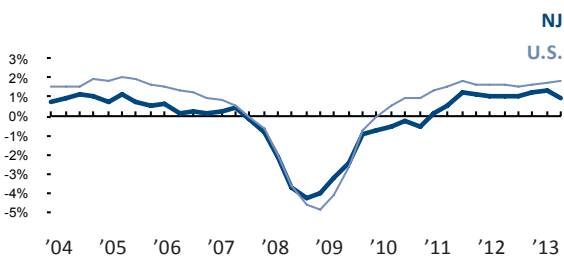
#### Absolute Domestic Migration

Cumulative 2004-2013 -524,205 Rank: 46  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 -1.1% Rank: 47



## 46

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 48 46 48 45 42 39 45**

| 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<br>(change in tax liability per \$1,000 of income)      | \$24.81 | 48   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$54.07 | 50   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$16.92 | 11   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$14.22 | 9    |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.39 | 13   |
| Debt Service as a Share of Tax Revenue  | 6.6%    | 15   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 531.2   | 26   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 60.1    | 32   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.38  | 41   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.82  | 48   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# New Mexico

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 26

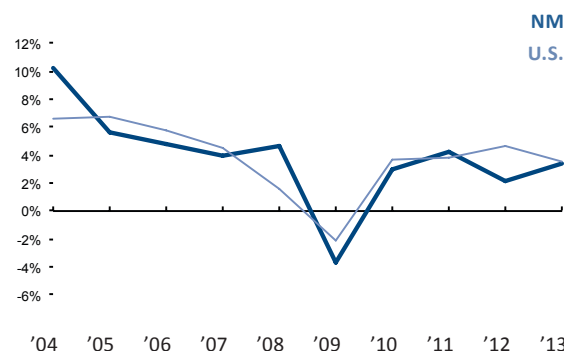
Economic  
Performance Rank

### 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.

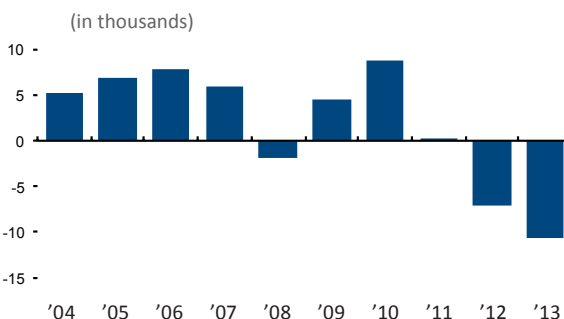
#### State Gross Domestic Product

Cumulative Growth 2003-2013 44.7% Rank: 26



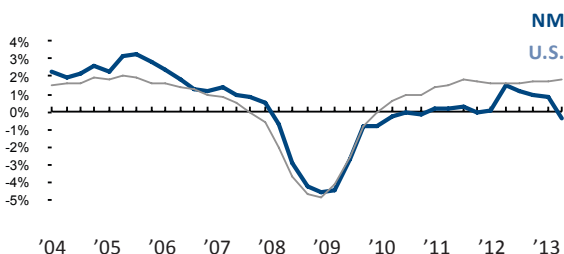
#### Absolute Domestic Migration

Cumulative 2004-2013 19,783 Rank: 25



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 3.9% Rank: 30



## 34

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 27 25 35 39 35 33 37**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 4.90%   | 17   |
| Top Marginal Corporate Income Tax Rate  | 6.90%   | 26   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$10.46 | 31   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$19.36 | 5    |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$39.78 | 48   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$13.59 | 6    |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.05  | 32   |
| Debt Service as a Share of Tax Revenue  | 7.6%    | 23   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 595.5   | 42   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 52.7    | 44   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.50  | 22   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.99  | 31   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0 least/worst 3=most/best)                           | 0       | 34   |



# New York

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 34

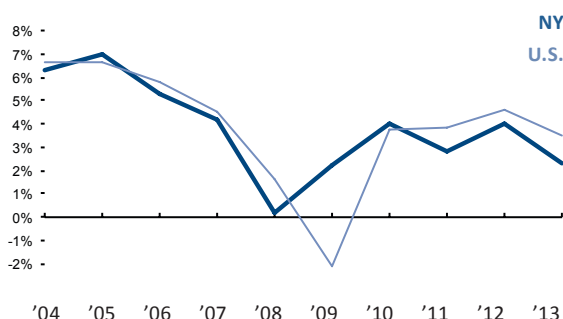
Economic  
Performance Rank

### 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.

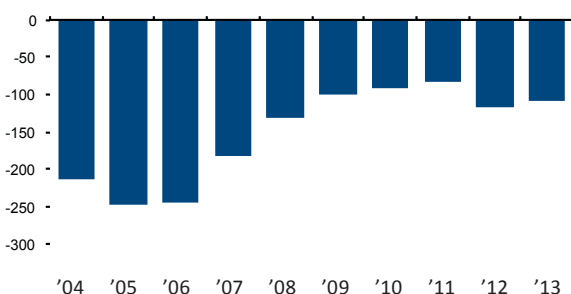
#### State Gross Domestic Product

Cumulative Growth 2003-2013 45.2% Rank: 25



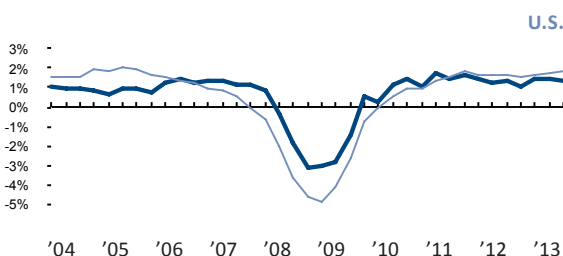
#### Absolute Domestic Migration

Cumulative 2004-2013 -1,519,449 Rank: 50  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 6.6% Rank: 20



## 50

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 49 50 50 50 50 49 50**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 12.70%  | 49   |
| Top Marginal Corporate Income Tax Rate  | 17.16%  | 50   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$12.66 | 34   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$46.19 | 46   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$24.21 | 31   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$20.59 | 35   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$1.48 | 6    |
| Debt Service as a Share of Tax Revenue  | 9.4%    | 37   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 596.4   | 43   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 66.4    | 18   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.75  | 43   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.75  | 47   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# North Carolina

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 10

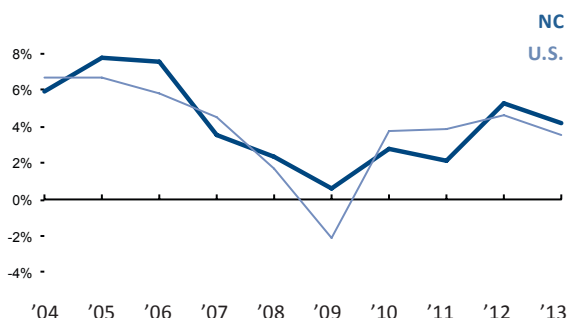
Economic  
Performance Rank

### 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.

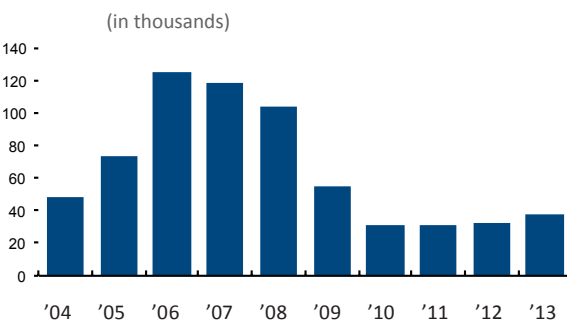
#### State Gross Domestic Product

Cumulative Growth 2003-2013 50.5% Rank: 19



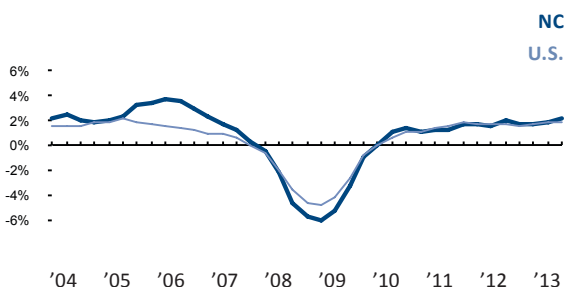
#### Absolute Domestic Migration

Cumulative 2004-2013 655,663 Rank: 3



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 8.3% Rank: 14



## 4

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 21 21 21 26 23 22 6**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.75%   | 24   |
| Top Marginal Corporate Income Tax Rate  | 5.00%   | 9    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$5.75  | 20   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$24.49 | 12   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$21.54 | 22   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$16.89 | 19   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.43 | 11   |
| Debt Service as a Share of Tax Revenue  | 7.5%    | 21   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 558.0   | 37   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 65.8    | 20   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.85  | 24   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# North Dakota

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 2

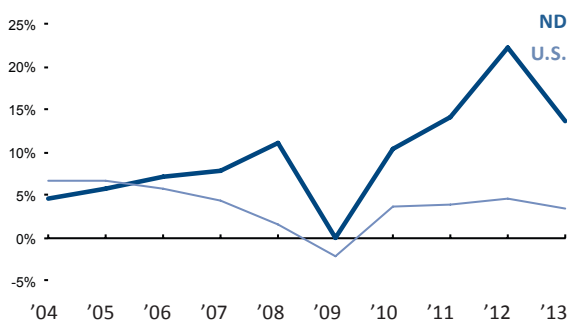
Economic  
Performance Rank

### 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.

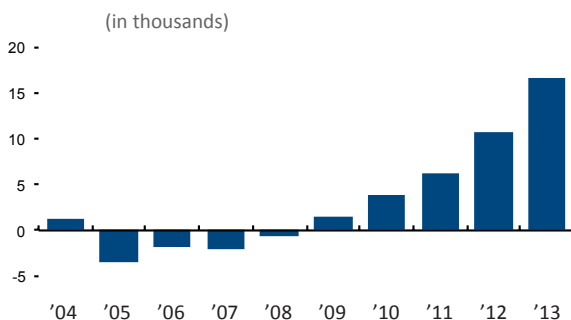
#### State Gross Domestic Product

Cumulative Growth 2003-2013 149.4% Rank: 1



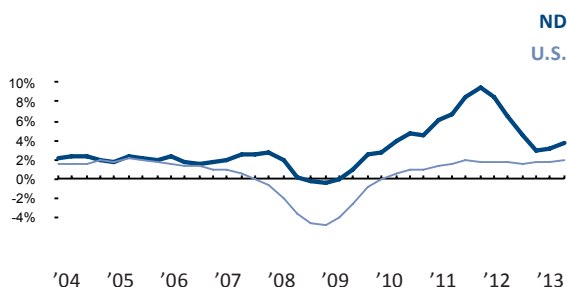
#### Absolute Domestic Migration

Cumulative 2004-2013 32,185 Rank: 21



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 35.0% Rank: 1



## 2

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 18 13 12 7 5 2 4**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 3.22%   | 10   |
| Top Marginal Corporate Income Tax Rate  | 4.53%   | 7    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$9.12  | 29   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$22.01 | 10   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$35.62 | 43   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$19.68 | 31   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$3.78 | 2    |
| Debt Service as a Share of Tax Revenue  | 2.7%    | 2    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 625.1   | 44   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 69.8    | 8    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$0.88  | 1    |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Ohio

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 49

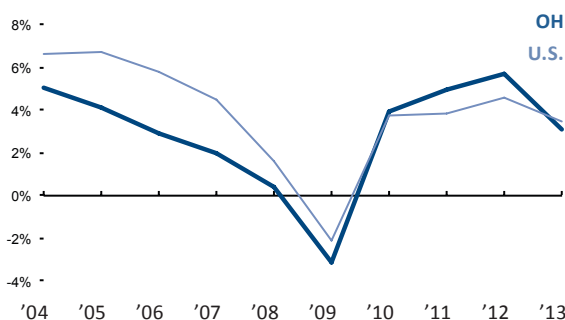
Economic  
Performance Rank

### 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.

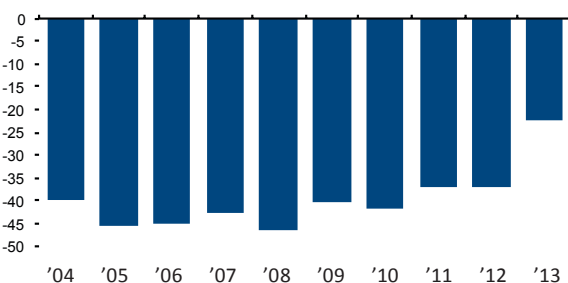
#### State Gross Domestic Product

Cumulative Growth 2003-2013 32.6% Rank: 47



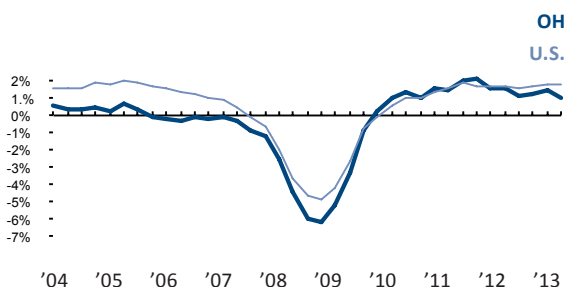
#### Absolute Domestic Migration

Cumulative 2004-2013 -397,184 Rank: 45  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 -2.3% Rank: 48



## 23

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 47 45 42 38 37 26 23**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 7.83%   | 39   |
| Top Marginal Corporate Income Tax Rate  | 3.58%   | 5    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$12.73 | 35   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$29.76 | 26   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$18.66 | 15   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$20.58 | 34   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$2.53 | 4    |
| Debt Service as a Share of Tax Revenue  | 6.2%    | 12   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 501.6   | 16   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 62.1    | 30   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.10  | 36   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.74  | 18   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Oklahoma

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 4

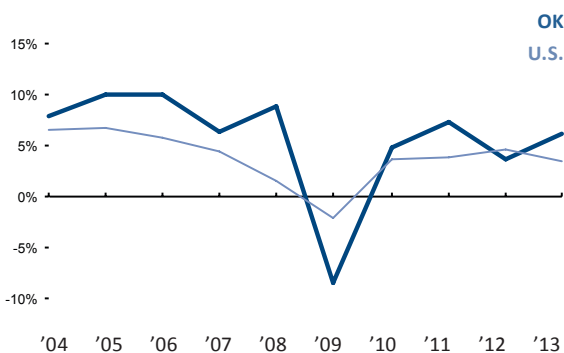
Economic  
Performance Rank

### 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.

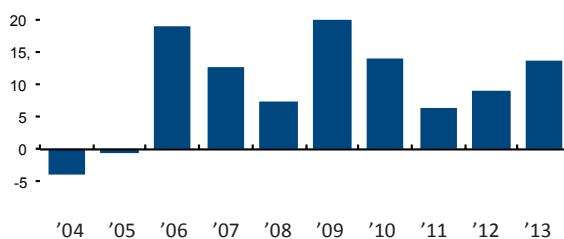
#### State Gross Domestic Product

Cumulative Growth 2003-2013 71.0% Rank: 7



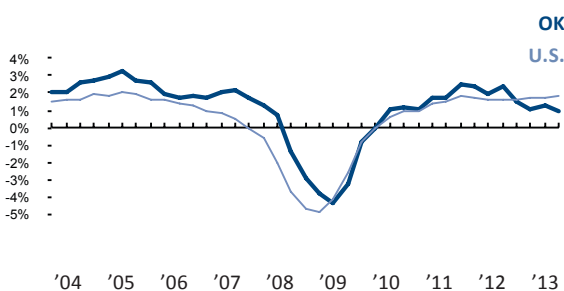
#### Absolute Domestic Migration

Cumulative 2004-2013 97,612 Rank: 14  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 11.7% Rank: 6



## 16

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 14 15 14 14 14 19 21**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.25%   | 22   |
| Top Marginal Corporate Income Tax Rate  | 6.00%   | 15   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$7.91  | 28   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$14.99 | 2    |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$28.14 | 37   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$17.08 | 21   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.38 | 14   |
| Debt Service as a Share of Tax Revenue  | 6.4%    | 14   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 541.3   | 31   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 55.0    | 42   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.55  | 45   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |

# Oregon

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 7

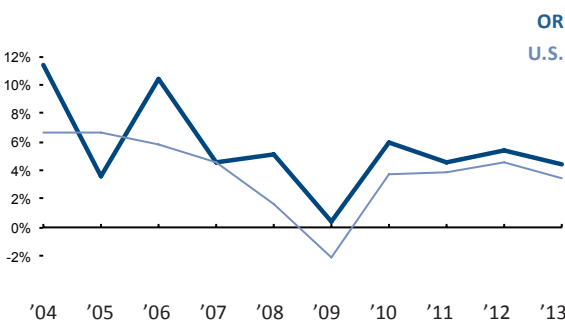
Economic  
Performance Rank

### 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.

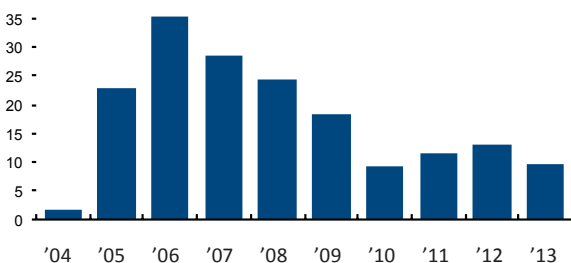
#### State Gross Domestic Product

Cumulative Growth 2003-2013 71.4% Rank: 6



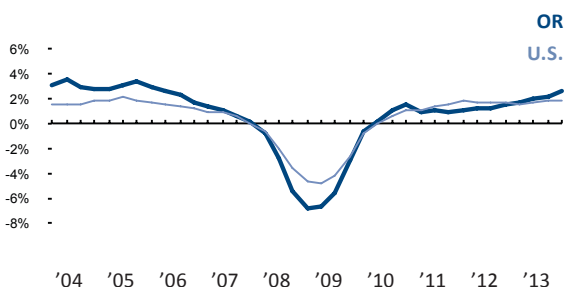
#### Absolute Domestic Migration

Cumulative 2004-2013 174,782 Rank: 11  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 7.1% Rank: 17



## 45

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 35 39 41 43 45 44 42**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 10.62%  | 47   |
| Top Marginal Corporate Income Tax Rate  | 11.25%  | 48   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$15.54 | 42   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$33.69 | 33   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$0.00  | 1    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$22.87 | 42   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.88  | 43   |
| Debt Service as a Share of Tax Revenue  | 8.9%    | 33   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 482.8   | 10   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 62.6    | 28   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$9.25  | 49   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.37  | 8    |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0= east/worst 3=most/best)                           | 2       | 3    |

# Pennsylvania

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 39

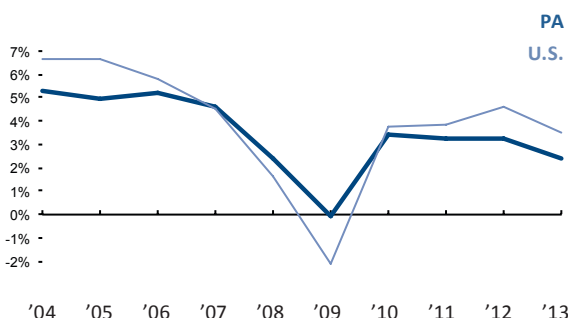
Economic  
Performance Rank

### 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.

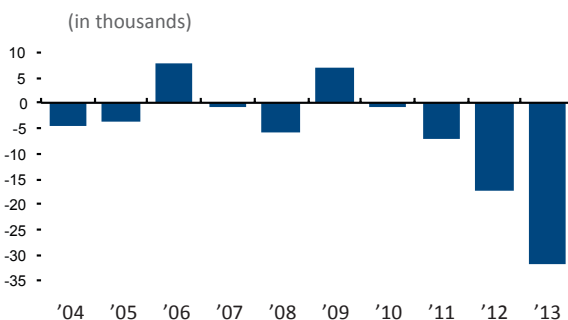
#### State Gross Domestic Product

Cumulative Growth 2003-2013 40.3% Rank: 33



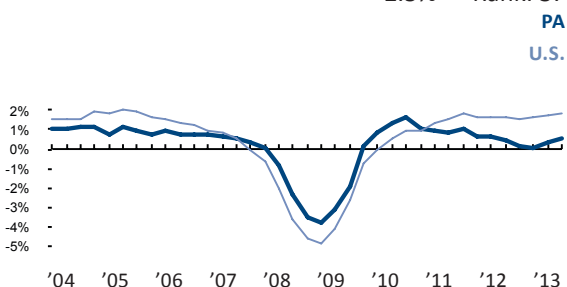
#### Absolute Domestic Migration

Cumulative 2004-2013 -55,565 Rank: 36



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 2.5% Rank: 37



## 41

Economic  
Outlook Rank

### 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

2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 36 42 43 41 40 34 33**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 6.99%   | 34   |
| Top Marginal Corporate Income Tax Rate  | 17.03%  | 49   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$29.98 | 29   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$17.25 | 12   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$24.04 | 44   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$1.82  | 47   |
| Debt Service as a Share of Tax Revenue  | 8.6%    | 32   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 444.9   | 5    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 56.3    | 39   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.00  | 34   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |



# Rhode Island

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 47

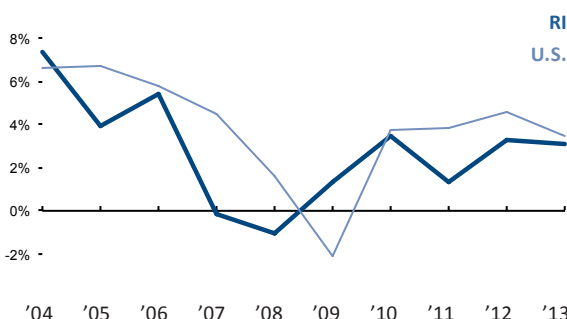
Economic  
Performance Rank

### 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.

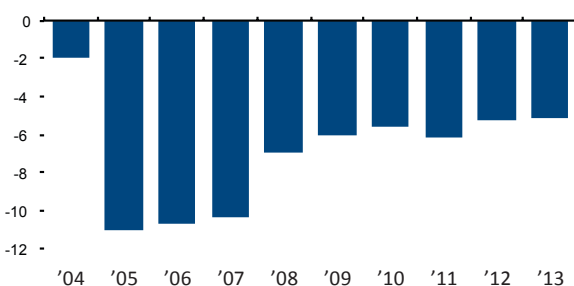
#### State Gross Domestic Product

Cumulative Growth 2003-2013 31.6% Rank: 48



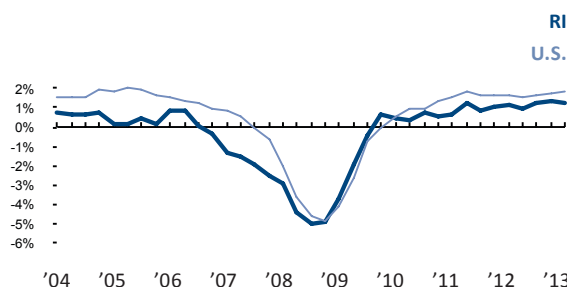
#### Absolute Domestic Migration

Cumulative 2004-2013 -69,187 Rank: 40  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 -2.8% Rank: 49



## 39

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 45 48 45 42 43 45 41**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.99%   | 26   |
| Top Marginal Corporate Income Tax Rate  | 7.00%   | 27   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$6.98  | 24   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$49.27 | 47   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$17.68 | 13   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$17.56 | 24   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014 per \$1,000 of personal income)           | -\$0.14 | 23   |
| Debt Service as a Share of Tax Revenue  | 12.2%   | 48   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 458.1   | 7    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 60.9    | 31   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$9.00  | 44   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.99  | 31   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# South Carolina

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 20

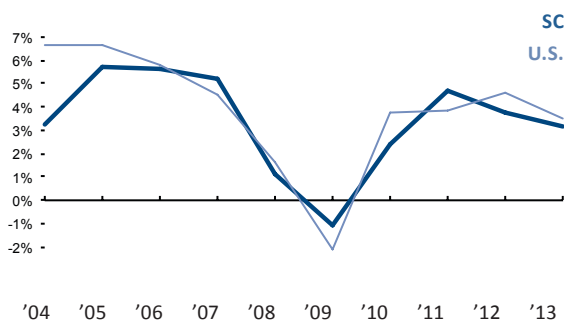
Economic  
Performance Rank

### 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.

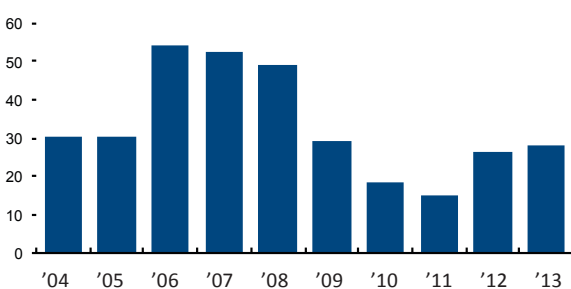
#### State Gross Domestic Product

Cumulative Growth 2003-2013 39.2% Rank: 36



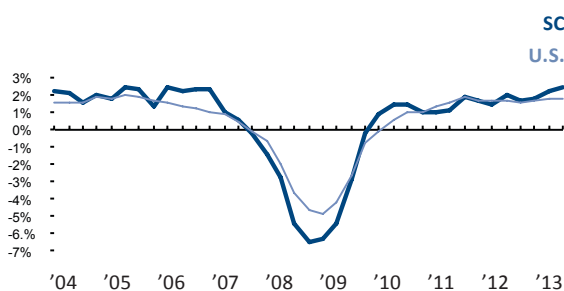
#### Absolute Domestic Migration

Cumulative 2004-2013 334,453 Rank: 6  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 6.2% Rank: 21



## 32

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 20 20 31 22 27 31 31**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 7.00%   | 36   |
| Top Marginal Corporate Income Tax Rate  | 5.00%   | 9    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$16.14 | 43   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$29.96 | 28   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$20.25 | 19   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$16.77 | 18   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.21  | 36   |
| Debt Service as a Share of Tax Revenue  | 12.8%   | 49   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 539.4   | 30   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 56.3    | 39   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.00  | 34   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# South Dakota

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 14

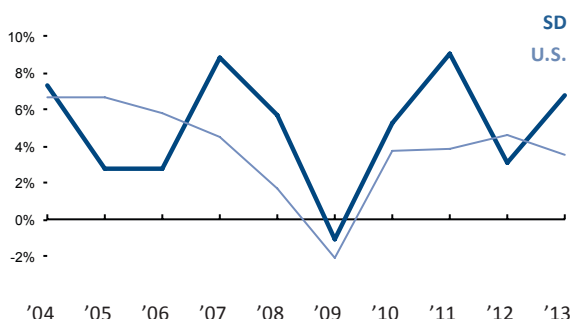
Economic  
Performance Rank

### 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.

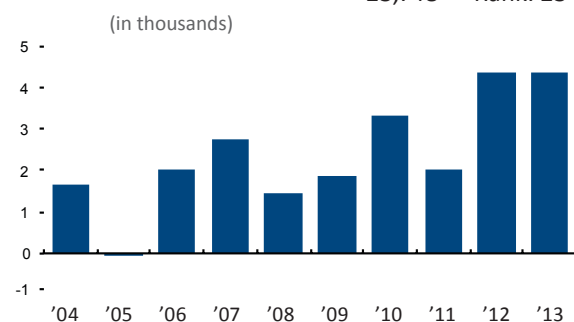
#### State Gross Domestic Product

Cumulative Growth 2003-2013 63.0% Rank: 9



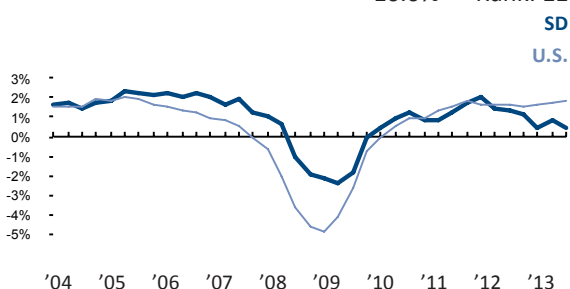
#### Absolute Domestic Migration

Cumulative 2004-2013 23,748 Rank: 23



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 10.0% Rank: 11



## 9

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 2 5 4 2 2 3 2**

| 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<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$26.81 | 18   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$30.46 | 39   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$17.76 | 25   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.00  | 31   |
| Debt Service as a Share of Tax Revenue  | 7.7%    | 25   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 548.3   | 34   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 69.5    | 10   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.50  | 42   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.86  | 26   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Tennessee

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 24

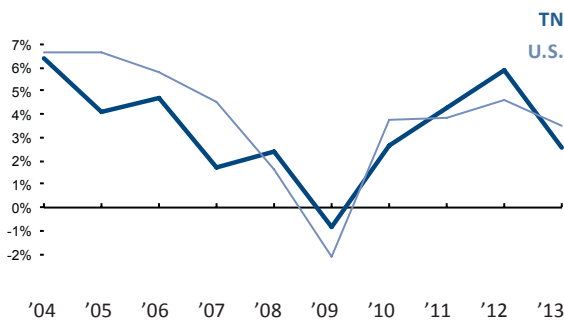
Economic  
Performance Rank

### 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.

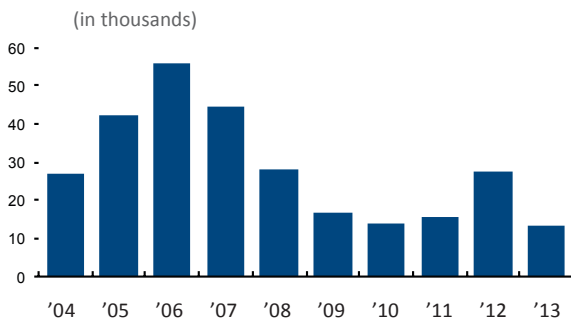
#### State Gross Domestic Product

Cumulative Growth 2003-2013 39.2% Rank: 35



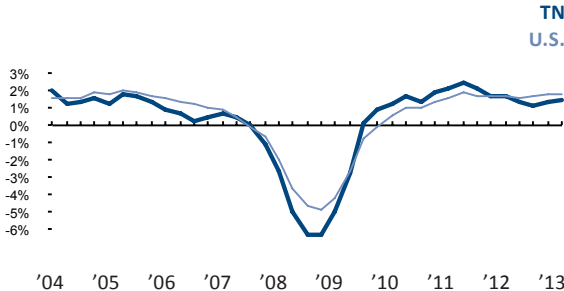
#### Absolute Domestic Migration

Cumulative 2004-2013 285,394 Rank: 7



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 3.8% Rank: 31



## 17

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 3 9 10 8 12 18 19**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 0.00%   | 1    |
| Top Marginal Corporate Income Tax Rate  | 6.50%   | 22   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$21.00 | 8    |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$34.85 | 42   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$20.08 | 32   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.12  | 33   |
| Debt Service as a Share of Tax Revenue  | 7.6%    | 22   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 504.7   | 18   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 63.7    | 26   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.95  | 29   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Texas

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

# 1

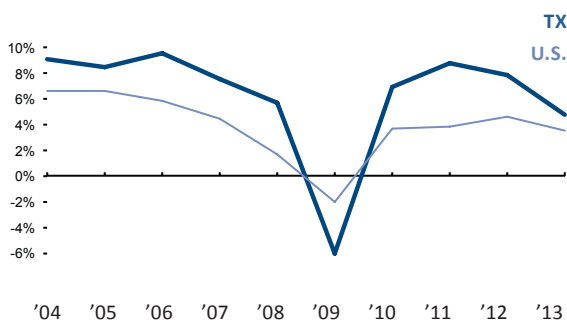
Economic  
Performance Rank

## 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.

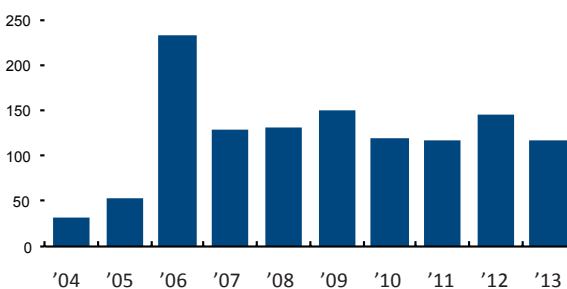
### State Gross Domestic Product

Cumulative Growth 2003-2013 81.7% Rank: 4



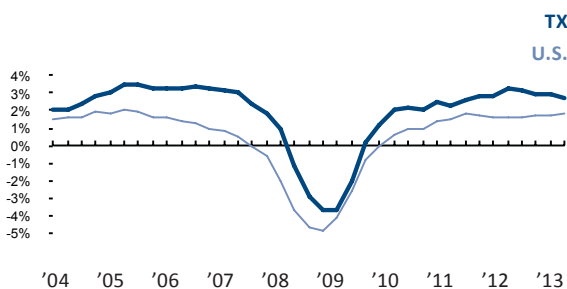
### Absolute Domestic Migration

Cumulative 2004-2013 1,229,173 Rank: 1  
(in thousands)



### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 20.5% Rank: 2



# 11

Economic  
Outlook Rank

## 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 13 10 19 18 16 12 13**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 0.00%   | 1    |
| Top Marginal Corporate Income Tax Rate  | 2.55%   | 4    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$37.04 | 38   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$23.87 | 28   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$21.34 | 38   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$0.39 | 12   |
| Debt Service as a Share of Tax Revenue  | 11.7%   | 45   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 537.9   | 29   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 57.2    | 35   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.61  | 15   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Utah

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 3

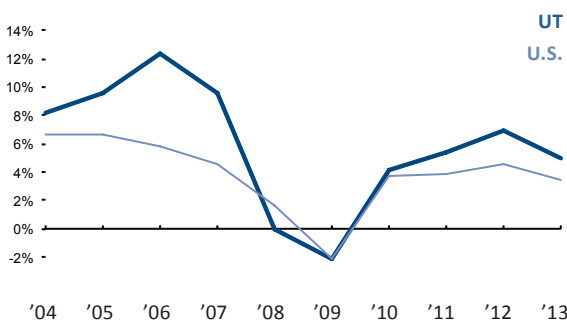
Economic  
Performance Rank

### 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.

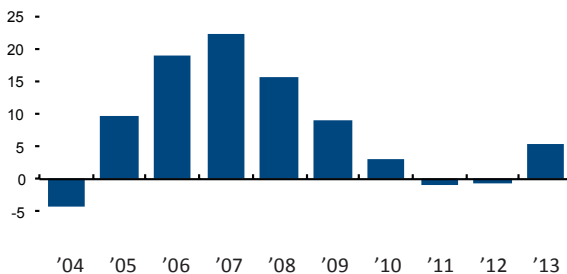
#### State Gross Domestic Product

Cumulative Growth 2003-2013 76.1% Rank: 5



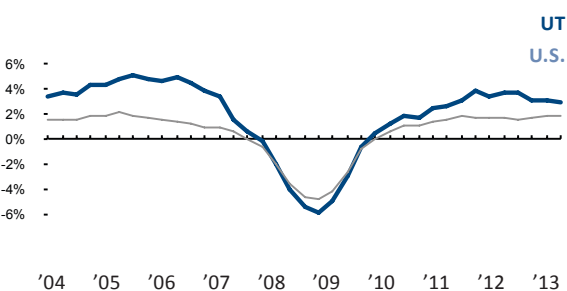
#### Absolute Domestic Migration

Cumulative 2004-2013 78,474 Rank: 16  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 20.4% Rank: 3



## 1

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014

**ECONOMIC OUTLOOK RANK 1 1 1 1 1 1 1**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.00%   | 18   |
| Top Marginal Corporate Income Tax Rate  | 5.00%   | 9    |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$26.98 | 19   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$25.17 | 33   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$15.59 | 14   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.17  | 34   |
| Debt Service as a Share of Tax Revenue  | 7.8%    | 27   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 488.8   | 13   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 69.7    | 9    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.31  | 7    |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# Vermont

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 38

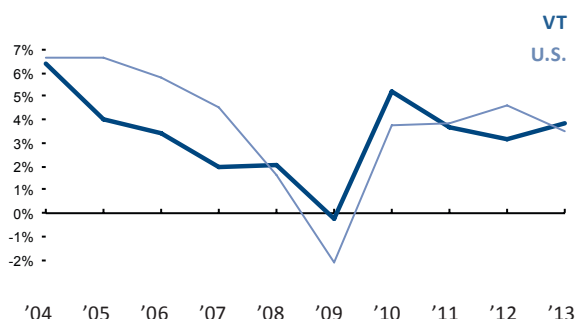
Economic  
Performance Rank

### 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.

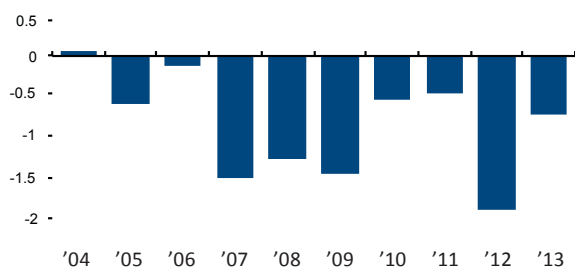
#### State Gross Domestic Product

Cumulative Growth 2003-2013 38.8% Rank: 37



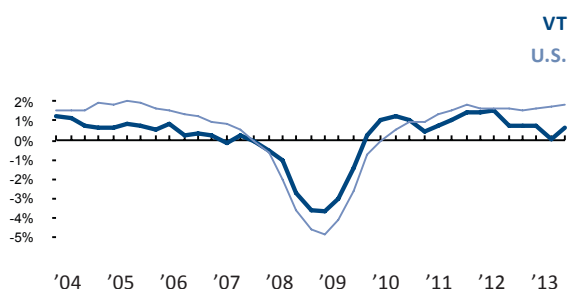
#### Absolute Domestic Migration

Cumulative 2004-2013 (in thousands) -7,780 Rank: 29



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 2.0% Rank: 40



## 49

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 50 49 49 49 49 50 49**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 8.95%   | 43   |
| Top Marginal Corporate Income Tax Rate  | 8.50%   | 38   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$28.69 | 49   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$50.32 | 48   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$12.83 | 7    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$28.85 | 48   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$2.60  | 50   |
| Debt Service as a Share of Tax Revenue  | 5.3%    | 5    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 632.2   | 45   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 67.1    | 16   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$9.15  | 47   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.33  | 43   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |



# Virginia

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 16

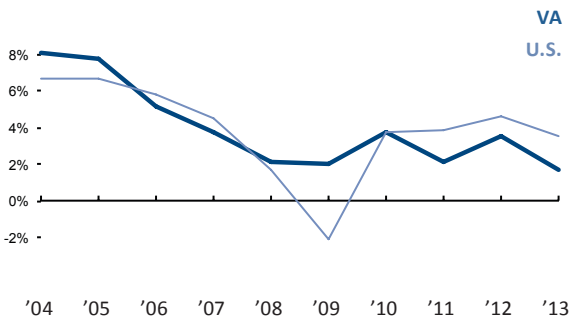
Economic  
Performance Rank

### 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.

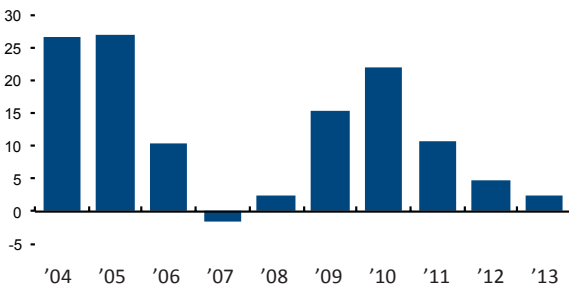
#### State Gross Domestic Product

Cumulative Growth 2003-2013 47.3% Rank: 22



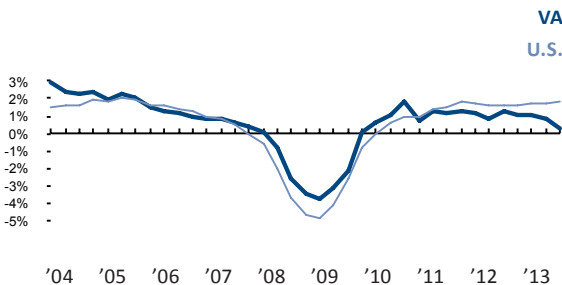
#### Absolute Domestic Migration

Cumulative 2004-2013 120,136 Rank: 12  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 6.9% Rank: 18



## 12

Economic  
Outlook Rank

### 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

2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 5 4 8 3 3 5 11**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 5.75%   | 24   |
| Top Marginal Corporate Income Tax Rate  | 7.49%   | 31   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$6.45  | 22   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$29.09 | 22   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$11.69 | 6    |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$15.84 | 15   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$1.02  | 44   |
| Debt Service as a Share of Tax Revenue  | 7.9%    | 28   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 532.2   | 27   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 70.2    | 7    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.17  | 4    |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Washington

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

6

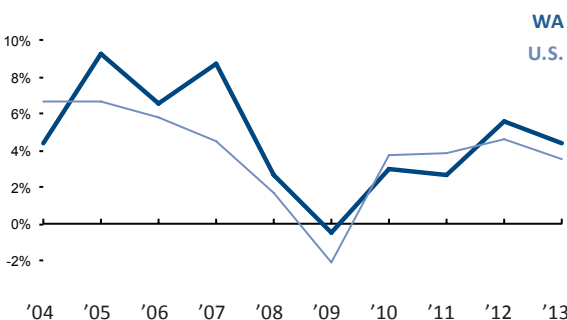
Economic  
Performance Rank

## 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.

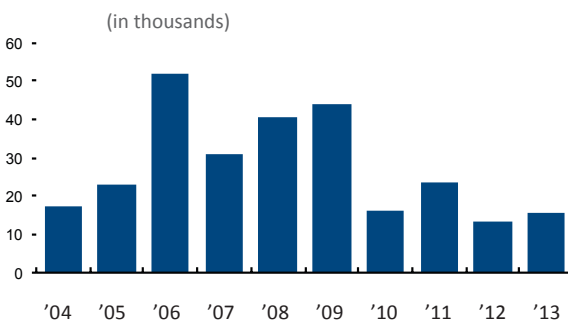
### State Gross Domestic Product

Cumulative Growth 2003-2013 57.3% Rank: 13



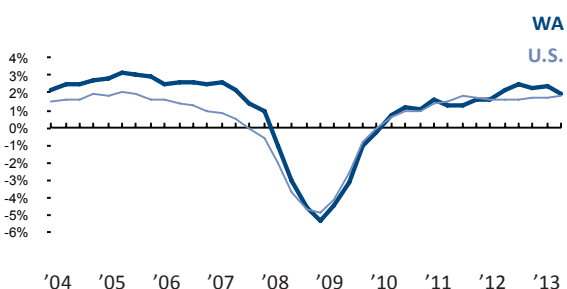
### Absolute Domestic Migration

Cumulative 2004-2013 275,864 Rank: 8



### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 11.0% Rank: 10



35

Economic  
Outlook Rank

## 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 30 22 24 33 33 36 38**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 0.00%   | 1    |
| Top Marginal Corporate Income Tax Rate  | 6.23%   | 20   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$29.41 | 24   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$31.73 | 41   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$22.58 | 40   |
| Estate/Inheritance Tax Levied?  | Yes     | 50   |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.36  | 39   |
| Debt Service as a Share of Tax Revenue  | 11.7%   | 46   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 460.2   | 8    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 65.4    | 22   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$9.47  | 50   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$2.00  | 34   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 1       | 14   |

# West Virginia

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 19

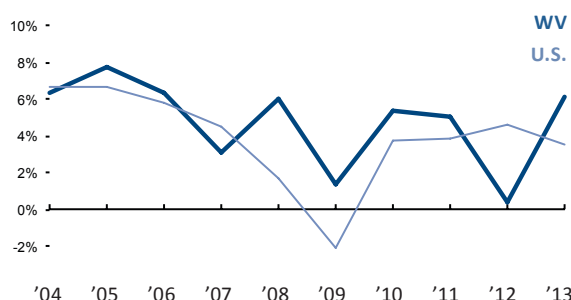
Economic  
Performance Rank

### 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.

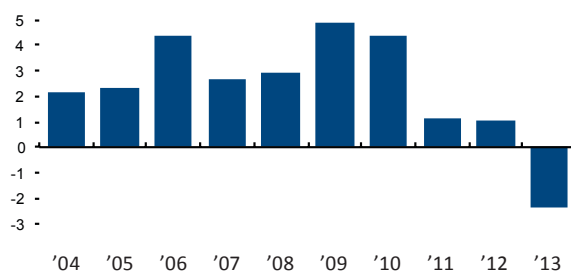
#### State Gross Domestic Product

Cumulative Growth 2003-2013 59.1% Rank: 12



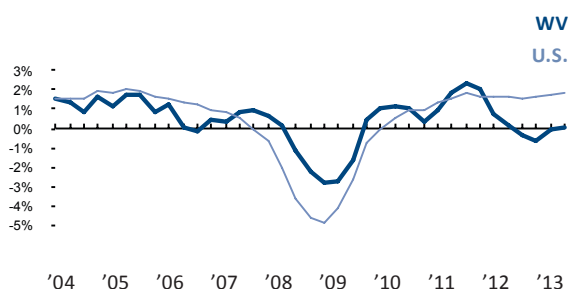
#### Absolute Domestic Migration

Cumulative 2004-2013 23,390 Rank: 24  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 5.0% Rank: 26



## 36

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 38 33 27 31 30 32 30**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 6.50%   | 28   |
| Top Marginal Corporate Income Tax Rate  | 6.50%   | 22   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$15.53 | 41   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$22.31 | 11   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$19.85 | 18   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$27.58 | 47   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$0.26  | 38   |
| Debt Service as a Share of Tax Revenue  | 5.4%    | 8    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 564.2   | 39   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 44.8    | 50   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$8.00  | 29   |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.37  | 8    |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Wisconsin

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

## 43

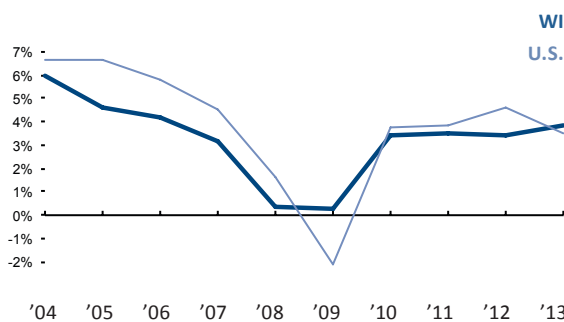
Economic  
Performance Rank

### 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.

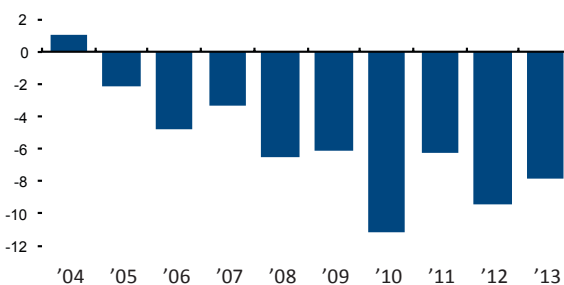
#### State Gross Domestic Product

Cumulative Growth 2003-2013 37.7% Rank: 39



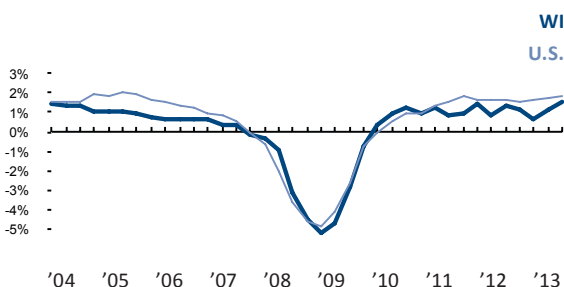
#### Absolute Domestic Migration

Cumulative 2004-2013 -56,632 Rank: 37  
(in thousands)



#### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 2.3% Rank: 39



## 13

Economic  
Outlook Rank

### 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 33 27 23 30 32 15 17**

| Variable  | Data    | Rank |
|---|---------|------|
| Top Marginal Personal Income Tax Rate   | 7.65%   | 38   |
| Top Marginal Corporate Income Tax Rate  | 7.90%   | 34   |
| Personal Income Tax Progressivity<br>(change in tax liability per \$1,000 of income)      | \$4.51  | 17   |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$42.29 | 41   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$19.46 | 16   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$17.33 | 22   |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | -\$1.84 | 5    |
| Debt Service as a Share of Tax Revenue  | 7.1%    | 16   |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 477.8   | 9    |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 68.4    | 15   |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.92  | 28   |
| Right-to-Work State?<br>(option to join or support a union)                               | No      | 50   |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 2       | 3    |

# Wyoming

2015 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

5

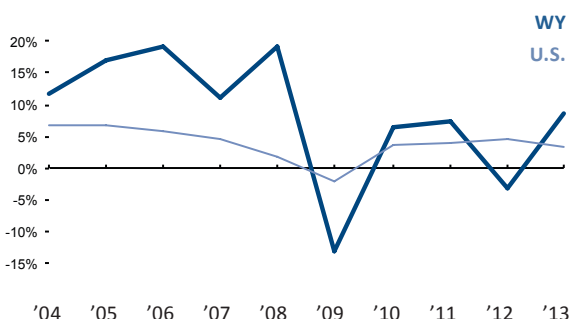
Economic  
Performance Rank

## 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.

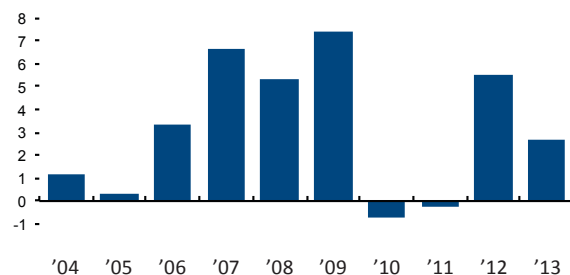
### State Gross Domestic Product

Cumulative Growth 2003-2013 113.5% Rank: 2



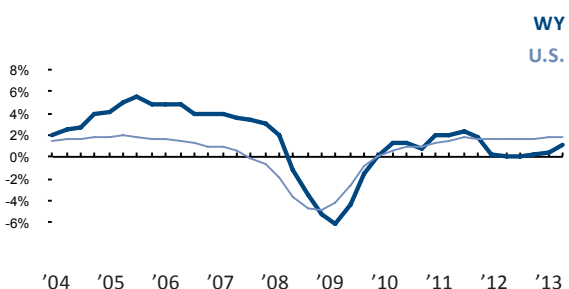
### Absolute Domestic Migration

Cumulative 2004-2013 31,416 Rank: 22  
(in thousands)



### Non-Farm Payroll Employment

Cumulative Growth 2003-2013 15.8% Rank: 4



8

Economic  
Outlook Rank

## 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 2008 2009 2010 2011 2012 2013 2014  
**ECONOMIC OUTLOOK RANK 4 6 6 6 6 6 10**

| 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<br>(change in tax liability per \$1,000 of income)      | \$0.00  | 2    |
| Property Tax Burden<br>(per \$1,000 of personal income)                                   | \$45.43 | 44   |
| Sales Tax Burden<br>(per \$1,000 of personal income)                                      | \$41.38 | 49   |
| Remaining Tax Burden<br>(per \$1,000 of personal income)                                  | \$12.20 | 3    |
| Estate/Inheritance Tax Levied?  | No      | 1    |
| Recently Legislated Tax Changes<br>(2013 & 2014, per \$1,000 of personal income)          | \$2.34  | 48   |
| Debt Service as a Share of Tax Revenue  | 2.5%    | 1    |
| Public Employees Per 10,000<br>of Population (full-time equivalent)                       | 865.5   | 50   |
| State Liability System Survey<br>(tort litigation treatment, judicial impartiality, etc.) | 72.6    | 3    |
| State Minimum Wage<br>(federal floor is \$7.25)   | \$7.25  | 1    |
| Average Workers' Compensation Costs<br>(per \$100 of payroll)                             | \$1.76  | 20   |
| Right-to-Work State?<br>(option to join or support a union)                               | Yes     | 1    |
| Number of Tax Expenditure Limits<br>(0=least/worst 3=most/best)                           | 0       | 34   |

# Appendix

## 2015 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 2015 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 January 1, 2015.

### HIGHEST MARGINAL CORPORATE INCOME TAX RATE

This variable includes local taxes, if any, and includes the effect of federal deductibility, if allowed. 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 4.15 percent measure we would use if the tax was a gross receipts tax and the 0.95 percent highest rate on its margin tax, leading to our measure of 2.55 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 January 1, 2015.

### 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 liability

ties were measured using a combination of effective tax rates, exemptions, and deductions at both state and federal levels, which are calculations from Laffer Associates.

### 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 2012. These data were released in December 2014.

### 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 2012. 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 December 2014.

### 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 2012. These data were released in December 2014.

### ESTATE OR INHERITANCE TAX (YES OR NO)

This variable assesses if a state levies an estate or an 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. 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: Revised January 26, 2015,” and indicate the presence of an estate or inheritance tax as of January 1, 2015.

#### **RECENTLY LEGISLATED TAX CHANGES**

This variable calculates each state’s relative change in tax burden over a two-year period (in this case, the 2013 and 2014 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 impact a state’s ranking immediately enough to overcome any lags in the tax revenue data. 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 2012 U.S. Census Bureau data. These data were released in December 2014.

#### **PUBLIC EMPLOYEES PER 10,000 RESIDENTS**

This variable shows the full-time equivalent public employees per 10,000 of population. This information comes from 2013 U.S. Census Bureau data. These data were released in December 2014.

#### **QUALITY OF STATE LEGAL SYSTEM**

This variable ranks tort systems by state. Information comes from the 2012 U.S. Chamber of Commerce State Liability Systems Ranking.

#### **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, 2015.

#### **WORKERS’ COMPENSATION COSTS**

This variable highlights the 2014 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, 2015.

#### **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.



# About the American Legislative Exchange Council

**T**he American Legislative Exchange Council is America's largest nonpartisan, voluntary membership organization of state legislators. Made up of nearly one-third of America's state elected officials, the Council provides a unique opportunity for state lawmakers, business leaders and citizen organizations from around the country to share experiences and develop state-based, pro-growth models based on academic research, existing state policy and proven business practices. The ultimate goal of the Exchange Council is to help state lawmakers make government work more efficiently and move government closer to the communities they serve, thereby creating opportunity for all Americans.

In state legislatures around the country, citizen groups foster ideas, participate in discussions and provide their points of view to lawmakers. This process is an important part of American Democracy.

The Exchange Council and its nine task forces closely imitate the state legislative process: resolutions are introduced and assigned to an appropriate task force based on subject and scope; meetings are conducted where experts present facts and opinion for discussion, just as they would in committee hearings; these discussions are followed by a vote.

Council task forces serve as testing grounds to judge whether resolutions can achieve consensus and enough support to survive the legislative process in a state capitol. All adopted model policies are published at [www.alec.org](http://www.alec.org) to promote increased education and the open exchange of ideas across America.

## **The Exchange Council's Nine Task Forces and Issue Areas Include:**

### **TASK FORCE ON CIVIL JUSTICE**

- Civil Liability Predictability
- Fairness in Damages
- Discouraging Lawsuit Abuse

### **TASK FORCE ON COMMERCE, INSURANCE AND ECONOMIC DEVELOPMENT**

- Limiting Government Mandates on Business
- Transportation and Infrastructure
- Employee Rights and Freedoms

### **TASK FORCE ON ENERGY, ENVIRONMENT AND AGRICULTURE**

- Energy Affordability and Reliability
- Regulatory Reform
- Agriculture and Land Use

### **TASK FORCE ON EDUCATION**

- Education Reform
- Parental Choice
- Efficiency, Accountability and Transparency

### **TASK FORCE ON HEALTH AND HUMAN SERVICES**

- Pro-Patient, Free Market Health Policy
- Private and Public Health Insurance
- Federal Health Reform

### **TASK FORCE ON INTERNATIONAL RELATIONS**

- International Trade
- Intellectual Property Rights Protection
- Federalism

### **TASK FORCE ON TAX AND FISCAL POLICY**

- Pro-Growth Tax Reform
- Priority-Based Budgeting
- Pension Reform

### **TASK FORCE ON COMMUNICATIONS AND TECHNOLOGY**

- Broadband Deployment
- Consumer Privacy
- E-Commerce

### **JUSTICE PERFORMANCE PROJECT**

- Recidivism Reduction
- Overcriminalization
- Data-Driven Criminal Justice Reform



"State policymakers across America depend on *Rich States, Poor States* to provide an annual report on their current standing in economic competitiveness. Hardworking taxpayers want their states to follow the best policy solutions that will lead to greater economic opportunity for all. This publication provides exactly that roadmap for economic success in the states."

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**2016 ALEC National Chairman**

"We have made modest progress by lowering the income tax, streamlining agencies and bringing fiscal responsibility to state government, but Maine still ranks near the bottom of the ALEC-Laffer State Economic Competitiveness Index. *Rich States, Poor States* shows policymakers just how much work we have to do to make Maine truly competitive nationally. We need only look at the states now enjoying economic success to see that lower taxes, less regulation and more free-market policies lead the way to prosperity."

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**Lee Ohanian, Professor of Economics, University of California, Los Angeles**

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