The Washington Post

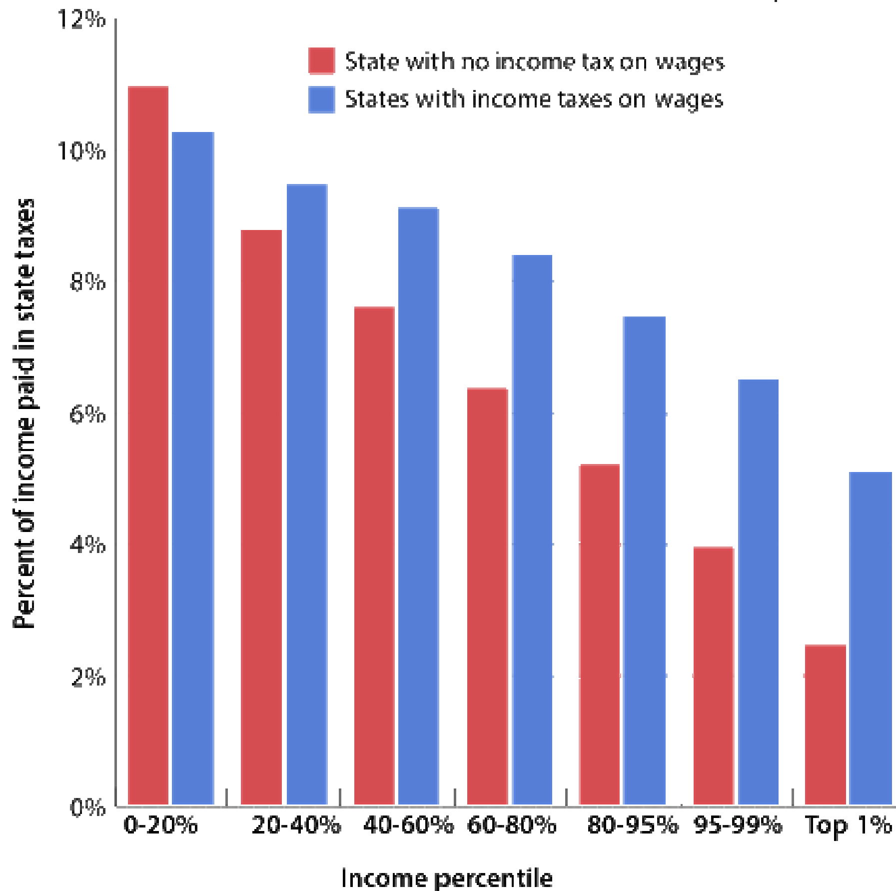
Paul Ryan wants to cut income taxes. Bobby Jindal wants to kill them dead.

By: Dylan Matthews – March 20, 2013

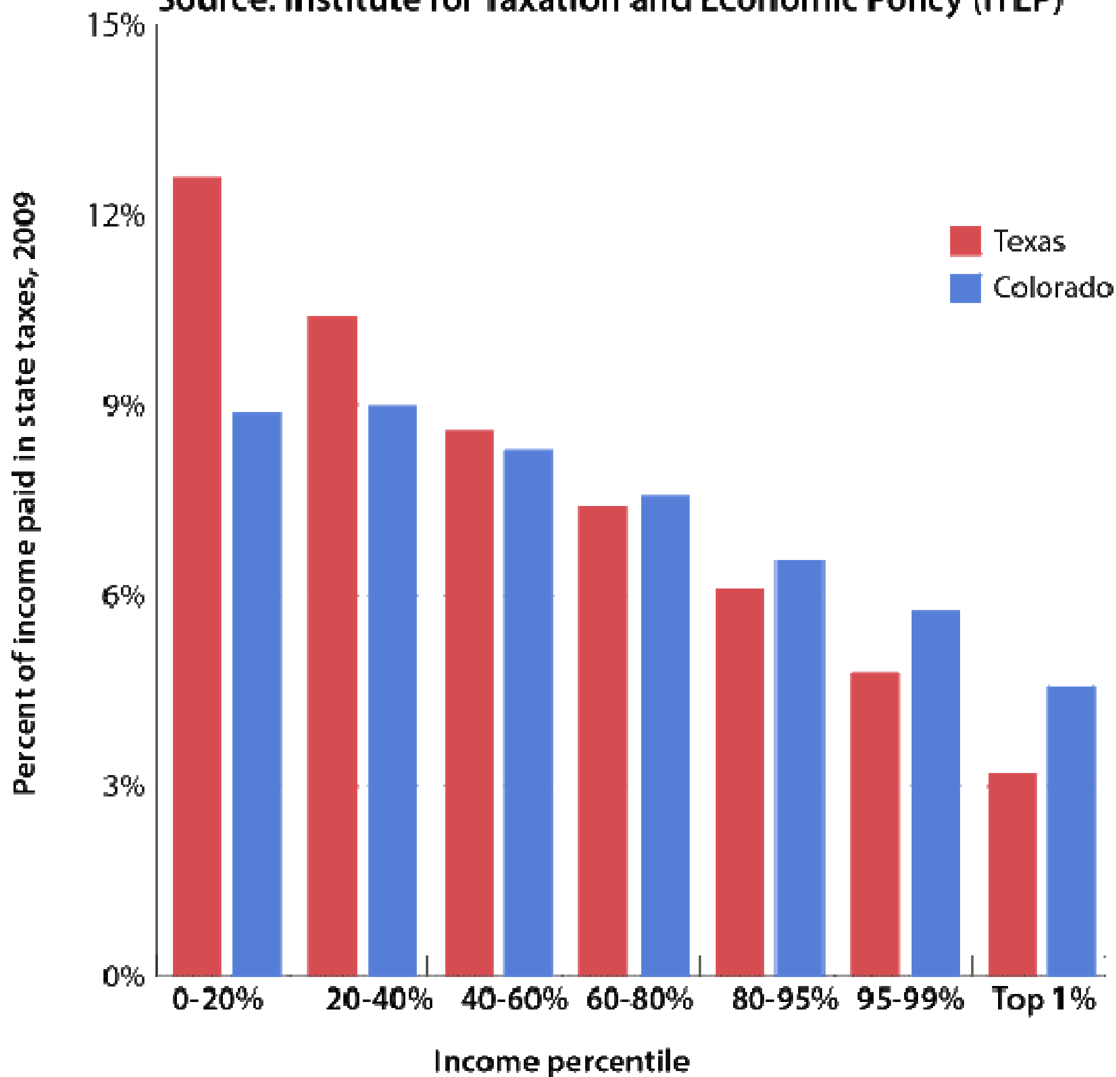
Most conservative policymakers at the federal level just want to sharply reduce the income tax, not eliminate it entirely. But more and more Republican-controlled states are deciding to go big or go home. So far, Govs. Bobby Jindal (R-LA), Dave Heineman (R-NE), andSam Brownback (R-KS) have announced plans to end their states' income taxes, while North Carolina's Republican state senate leader Phil Berger is calling for the same, with at least some backing from GOP governor Pat McCrory.

This isn't unheard of at the state level. Seven states — Alaska, Washington, Nevada, Wyoming, South Dakota, Texas, and Florida — lack any individual income tax, while Tennessee and New Hampshire only tax interest and dividends, leaving wage income untouched. That means we have a fair bit of information on what differs between states that tax income and those that only tax sales (including tobacco, alcohol, etc.) and property. So what do we know about abolishing income taxes?

The Institute for Taxation and Economic Policy, a left-leaning think tank, estimated in its "Who Pays?" report, which regularly tracks the distributional impact of state tax policies, that states without income taxes place a higher tax burden on the poor and a lower burden on the rich than states with income taxes. Here are the latest numbers, using tax laws as of January of this year:



This isn't a totally fair comparison, as, with the exception of resource-rich states like Wyoming and Alaska, income tax-less states tend to have less tax revenue than states with income taxes do. So of course rich people would pay less taxes there! But the comparison holds up if you try to compare apples-to-apples. For example, in 2009 Colorado (which had an income tax) had per-capita state revenue of $3,876, while Texas (which didn't have an income tax) had per-capita state revenue of $3,881, according to the right-leaning Tax Foundation. So a comparison between the two is pretty apples-to-apples. And unsurprisingly, Texas, with no income tax, has a much more regressive structure:

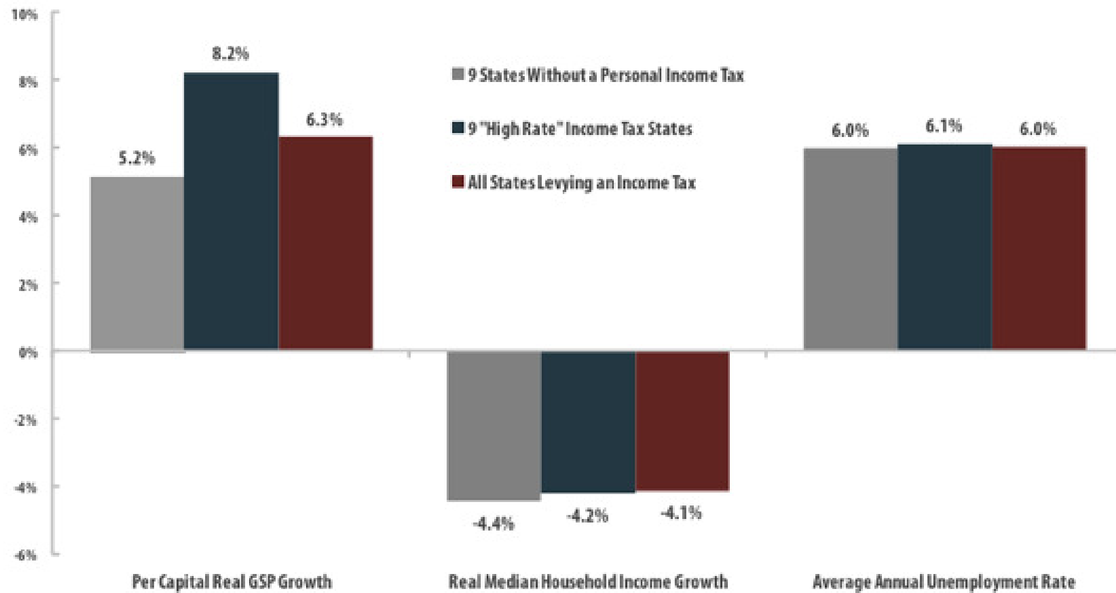


So it's pretty clear that getting rid of income taxes makes state tax codes more regressive. Does it help growth, at least? The evidence here is murky at best. Economists generally prefer consumption taxes to income taxes, which would seem to argue for a shift from taxing income to taxing sales. But as Nicholas Johnson, director of state policy at the Center for Budget and Policy Priorities, explained the first time Jindal floated this idea, state sales taxes aren't particularly good consumption taxes. Typically, many services are exempt, and business-to-business transactions are taxed more than optimal consumption taxes would have it. Jindal's specific plan focuses on limiting exemptions to the sales tax, which could blunt some of these concerns.

ITEP, understandably, is skeptical of claims that state tax changes make a meaningful change to growth. Comparing states on economic metrics is maddeningly difficult, as the number of potential factors influencing performance, from weather to migration patterns to federal subsidy levels, are so numerous. But on the most immediately evident

metrics, there doesn't appear to be much if any difference between states without income taxes and states with them:

Figure 1: Economic Performance Among the States, 2002-2011



Source: ITEP calculations based on 2002-2011 data from the BEA (per capita real GDP by state in chained 2011 dollars), Census Bureau (median household income by state), and BLS (local area unemployment statistics, annual averages).

The academic literature is divided on the question. Economists James Alms and Janet Rogers found the effects of individual income tax levels to be quite variable between states, and never significantly negative (that is, high rates never led to a significant decline in growth rates). The University of Oklahoma's Robert Reed and Cynthia Rogers found no evidence that income tax cuts in New Jersey in the 1990s improved economic conditions, while Hunter College's Howard Chernick and Paul Sturm found no evidence that rates on wealthy individuals affected growth, and some evidence that taxing the poor heavily through income taxes hurt growth. Drew University's Marc Tomljanovich found some effects of tax rates on state growth in the short-run, but none in the long-run.

But plenty of studies have found the opposite. Barry W. Poulson and Jules Gordon Kaplan, in a study published by the Cato Institute, found a significantly negative effect of state taxes on economic growth, including income taxes. Thomas Dye and Richard Feiock found that state income taxes reduce (pretax) state personal income, as do Randall Holcombe and Donald Lacombe.

Even those studies concede that there are many more important factors in determining state economic growth than are state tax levels. And most of them don't differentiate strongly between types of taxes, or find strong differences in the effects (if they exist or not) between types of tax. So the evidence that scrapping income taxes and replacing them dollar-for-dollar with sales or property taxes would help growth is thin at best. And the evidence that that change would increase taxes on poor people and decrease them on the rich are considerable. Depending on your political preferences, that could be a poor bet.