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THE INCOME TAX

THE ISSUE

Even in the face of a national economic downturn, Texas continues to attract employers, create jobs, and stimulate economic activity with its pro-growth, low tax model. In fact, Texas' pro-business approach has been so successful that the state now leads the nation in:

- *Overall Economic Growth.* In fiscal year 2008, Texas' Gross State Product (GSP) increased by 4.2 percent while the nation's Gross Domestic Product (GDP) increased by only 1.9 percent;
- *Job creation.* Over 230,000 new jobs were added to the Texas economy from October 2007 to October 2008 while the national economy lost 1.07 million;
- *Lowest Unemployment Rate.* Texas' unemployment rate (5.6 percent) was well-below the national unemployment rate (6.5 percent) in October 2008 and has been at or below the national level for 22 consecutive months; and
- *Foreign Direct Investment.* In 2007, Texas ranked #1 nationally in foreign direct investment with over \$14.9 billion invested in the state.

In spite of all the prosperity Texas has achieved with its pro-growth, low tax model, advocates of big government still argue that the state needs a broad-based personal income tax to foster economic growth. Quite the contrary.

As the data shows, states without an income tax are expanding their population base at the expense of states with an income tax. According to Americans for Tax Reform, "Over the last three years for which data are available, the states with no income tax gained well over 1 million residents (1,082,525) from the other 41 states." But, not only are the nine states without an income tax adding to their population base; they're also benefiting from the income those residents bring with them.

In 2004, the nine states without an income tax added over 300,000 residents from the other 41 states with an income tax bringing with them \$10.6 billion in additional income. In 2005, these states added nearly 350,000 residents with \$12.9 billion in additional income. And in 2006, the no income tax states added over 410,000 new residents gaining an additional \$13.8 billion in additional income for a total of \$37.3 billion over the course of those three years.

Every one of the nine states without an income tax—except Alaska—benefited financially from interstate migration in 2005-06. The reason: People who have worked hard to earn a living for themselves and their families want to keep what they have made and are willing to move great distances to make sure that happens.

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Ronald Reagan was right: “The problem is not that people are taxed too little, the problem is that government spends too much.” A new income tax won’t create prosperity in Texas any more than it has in the other 41 states who are perpetually losing residents and income. Instead, the key to creating prosperity lies with government’s ability to control spending and limit taxes.

THE FACTS

- ★ Texas’ economic growth is a reflection of the state’s low tax, pro-growth policies.
- ★ Currently, Texas is one of nine states that does not levy a personal income tax. Two of these states—New Hampshire and Tennessee—do tax dividends and interest income, but not income from labor.
- ★ Income taxes damage a state’s economy more than any other tax because it creates disincentives for capital investment, productivity, job creation, wages, and economic expansion.
- ★ Short-term revenue gains from a new personal income tax are outweighed by the long-term economic damage the tax creates.
- ★ Over 1 million residents fled states with income taxes in favor of states without income taxes in 2004, 2005, and 2006 bringing with them \$37.3 billion in additional income.

RECOMMENDATIONS

- ★ Avoid any new personal income tax in Texas.
- ★ Lower the overall tax burden facing Texans to stimulate further economic growth.

RESOURCES

- *Cost of Government Day* by the Center for Fiscal Accountability, Americans for Tax Reform (2008) <http://www.fiscalaccountability.org/index.php?content=cogsub3>.
- *Taxes Do Matter* by Michael Sullivan, Texans for Fiscal Responsibility (Feb. 2008) <http://www.empowertexans.com/node/433>.
- *Taxing Texans Part 1: The Worst Tax for Texans?* by Richard Vedder, Texas Public Policy Foundation (Feb. 2002) <http://www.texaspolicy.com/pdf/2002-02-28-tax-taxingtexans1.pdf>.
- *Taxing Texans Part 2: The Effect of Taxes on Economic Growth* by Richard Vedder, Texas Public Policy Foundation (Mar. 2002) <http://www.texaspolicy.com/pdf/2002-03-29-tax-taxingtexans2.pdf>.
- *Texas Tax Reform May Lighten Your Wallet* by Richard Vedder, Texas Public Policy Foundation (Oct. 2001) <http://www.texaspolicy.com/pdf/2001-veritas-2-3-wallet.pdf>.

State Income Migration Changes 2005-06
percentage change in state personal income from domestic migration

