



LEGISLATOR'S GUIDE TO THE ISSUES 2021-2022

Personal Income Tax

The Issue

On November 5, 2019, Texans voted overwhelmingly to amend the [state constitution](#) to prohibit the future imposition of a state income tax on individuals. Texas should keep it that way. Now any attempt to impose a tax on personal income in Texas would require another constitutional amendment ratified by the citizens of Texas. To be clear, Texas is fortunate to not currently have, nor has it ever had, a personal income tax.

Prior to the COVID-19 outbreak and the resulting government-ordered shutdowns, Texas had among the strongest and fastest growing economies in the country, with high paying jobs in many industries. The U.S. Bureau of Economic Analysis' data show Texas ended 2019 with the [fastest growing economy](#) among all U.S. states, growing by 4.4% over 2018. Texas also led the nation in job growth, adding nearly 343,000 jobs in 2019, and ending the year with 115 consecutive months of [job growth](#). Even during the pandemic, Texas remains stronger economically than most states. Individuals and businesses, both large and small, were and are continuing to move to the Lone Star State in ever increasing numbers.

The reason for this economic growth is simple—an environment of reasonable regulations and low taxes. And nothing sends as loud a signal of low taxes as a constitutional amendment prohibiting the imposition of one—in this case the prohibition of a personal income tax. If we are to regain our economic growth that we experienced before the pandemic, it is imperative that we have an economically favorable tax structure.

Although no one likes to pay taxes, they are an inevitable part of funding government. A policymaker's challenge is to develop an efficient tax system providing necessary tax receipts while doing the least economic harm. A policymaker should note that not all methods of collecting taxes are created equal. While each tax affects behavior differently, a personal income tax is among the most pernicious because of the negative effects it has on earnings, productivity, and wage gains. Because of these adverse effects, people are generally unable to save and consume as much as they would otherwise.

What's more, a personal income tax requires a particularly large bureaucratic apparatus for tax collection purposes, much more so than for the collection of a sales tax. With more bureaucracy comes additional costs, resulting in higher taxes and fees. Texas's state and local tax burden ranks 19th lowest nationally, according to WalletHub's latest [report](#), placing it above average for taxpayers. Because of the state's comparatively friendly tax environment, Texas's private sector economy has surged forward.

Based on economic principles and empirical data, Texas's economic prospects for its residents are best served by the current low-tax, pro-growth approach rather than a new personal income tax.

The Facts

- Texas is 1 of 7 states without a personal income tax.
- Forty-three states levy individual income taxes. Of those, 41 tax wage and salary income, while 2 states—New Hampshire and Tennessee—exclusively tax dividend and interest income. Tennessee is phasing out its income tax in 2021.
- Income taxes substantially damage a state's economy because they disincentivize savings, investment, productivity, job creation, and economic expansion.

Recommendations

- Oppose any constitutional amendment to allow a state income tax.
- Encourage economic growth by keeping all taxes low.

Resources

“[GDP by State](#),” U.S. Bureau of Economic Analysis (Accessed March 2020).

“[State Employment and Unemployment Summary](#),” Bureau of Labor Statistics (Accessed Jan. 2020).

“[2020's Tax Burden by State](#)” by Adam McCann, *WalletHub* (June 24, 2020).