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High Income Tax States Have Strong Economies

Washington, D.C.-- The Institute on Taxation and Economic Policy today released an analysis showing that states with high income tax burdens have experienced more rapid economic growth than states with low income tax burdens during the past two decades. The ITEP report, released in response to a recent Cato Institute analysis of the impact of a Tennessee income tax on the state's economy, found several critical methodological flaws which affected the conclusions reached by the Cato analysis. The Cato Institute report claimed that an income tax would be very harmful to the state's economic health, and attempted to support this conclusion by comparing economic outcomes in ten "high tax states" to outcomes in ten "low tax states."

Correcting for the methodological shortcomings of the Cato analysis, ITEP found that the relationship between tax burdens and economic growth is exactly the opposite of the Cato Institute's claim: high-tax states have actually *outperformed* low tax states.

"If you pick and choose economic data, you can prove anything," said Michael Ettlinger, tax policy director for ITEP. "But an honest comparison of how states with high income tax burdens have performed and states with low income tax burdens have performed shows no adverse consequences of adopting an income tax."

In addition, ITEP's analysis found that high income tax burdens have not depressed economic growth in Tennessee's neighboring states. The two states with the highest economic growth in the region, Georgia and North Carolina, both had personal income tax burdens higher than the national average. These states out-performed all of their neighbors--including income-tax-free Tennessee.

The study also found that the tax increase recently proposed by Governor Sundquist would have very little impact on Tennessee's overall level of taxation relative to other states. The study shows that Tennessee would rise from 49th in taxes as a share of personal income to 48th.

"Tennessee has been a low-tax state for many years," said Ettlinger. "There's nothing being proposed that would stop that from continuing for many years to come."

Personal Income Taxes as a % of Personal Income: The 10 Highest and the 10 Lowest

	Personal Income Tax Burden, 1980-98	US RANK	Annual Per Capita Income Growth, 1980-98	US RANK
50 State Average	2.2%		+1.6%	
New York	4.2%	1	+2.1%	8
Maryland	3.9%	2	+1.8%	18
Oregon	3.9%	3	+1.3%	38
Delaware	3.8%	4	+2.0%	10
Minnesota	3.5%	5	+1.8%	21
Massachusetts	3.5%	6	+2.4%	2
Wisconsin	3.4%	7	+1.4%	33
Hawaii	3.2%	8	+1.1%	44
North Carolina	3.0%	9	+2.3%	3
Kentucky	2.9%	10	+1.6%	25
Highest 10 Average	3.5%		+1.9%	
1998 Weighted Per Capita Income			\$28,406	
North Dakota	1.1%	41	+1.9%	13

New Hampshire	0.1%	42	+2.2%	5
Tennessee	0.1%	43	+2.1%	6
Alaska	0.1%	44	-0.4%	50
South Dakota	—	45	+2.0%	9
Texas	—	45	+1.3%	35
Florida	—	45	+1.5%	30
Nevada	—	45	+0.9%	45
Washington	—	45	+1.5%	31
Wyoming	—	45	+0.1%	49
Lowest 10 Average	0.1%		+1.5%	
1998 Weighted Per Capita Income			\$25,484	
<p>NOTE: Although Alaska does not currently levy a personal income tax, personal income tax revenues were posted for a few years following the 1979 personal income tax repeal.</p> <p>SOURCE: Bureau of the Census, Bureau of Economic Analysis, ITEP Calculations.</p>				