ABOUT THE TAX FOUNDATION

we’ve worked for 80 years
we’ve worked for 80 years on objective research, data, & analysis
we’ve worked for 80 years on objective research, data, & analysis at the federal, state, & local levels
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“[T]here is just no relationship between state personal income tax levels and the decisions of people in a state to start a business and of would-be entrepreneurs to move to the state.”
“[T]here is just no relationship between state personal income tax levels and the decisions of people in a state to start a business and of would-be entrepreneurs to move to the state.”

Michael Mazerov, CBPP
“Phasing out the state income tax will double the state’s GDP growth, create hundreds of thousands of new jobs, and recapture 50% of the revenue loss from increased economic growth.”

Summary of Art Laffer study of Oklahoma tax cut proposal, Nov. 2011
“[Taxes] may obstruct the industry of the people, and discourage them from applying to certain branches of business which might give maintenance and employment to great multitudes.”

Wealth of Nations, bk. 5
REALITY ON
TAXES & GROWTH

• Taxes
REality on Taxes & Growth

- Taxes
- Housing prices
- Location of family and friends
- Educational opportunities
- Infrastructure such as airports and ports
- Weather
- Cost of living
- Area restaurant quality
- Where the CEO’s family wants to live

(in no particular order)
In 2012, we reviewed 26 studies that examine the relationship
In 2012, we reviewed 26 studies that examine the relationship...
Higher taxes are associated with slower growth
All studies but three agree
Nearly all the studies in the last fifteen years agree
Authors include Christina Romer, Jens Arnold of the OECD, and William Easterly
Personal income taxes are seen as more harmful to growth than consumption taxes for three reasons. First, they are generally progressive, with marginal tax rates (which discourage growth) that are higher than their average rates (which generate government revenues). This means that they discourage growth more per unit of tax revenue than consumption taxes, which are generally flat rate and not (or not very) progressive. Second, they typically tax the return to savings (interest or dividends) in addition to taxing the income from which savings are made, thus discouraging savings. While this second effect may not harm the growth of publicly quoted companies that can raise funds overseas, it may reduce the growth financing for small and medium-sized companies (especially those that rely on the funds of family and friends). Third, high income tax and social security contributions on low-wage workers can lead to people choosing to stay on social benefits rather than work (Brewer et al., 2010).
• CBPP identified several more studies on both sides

• CBPP response says we do left out some reports’ emphasis on value of public spending and growth

• But see, e.g.: “[S]imulating a 1% of GDP tax increase simultaneously with a 1% productive expenditure increase suggests that this is mildly growth-retarding initially such that even after 20 years GDP remains around 0.5% lower than otherwise.” Gemmell, Kneller, and Sanz
Organizations advocating lower and less progressive taxes can find some studies by reputable economists that find that above-average state and local taxes have a measurable and consistently adverse impact on state economic performance.

However, many equally reputable studies reach the opposite conclusion, and the results of many more are mixed, ambivalent, or show that any adverse impacts are small. There is simply no consensus whatsoever that cutting taxes is a good strategy to boost state economic growth and create jobs.

• Michael Mazerov, 2013
### Predicted Economic and Revenue Effects of the Revenue Acts of 1962 and 1964

<table>
<thead>
<tr>
<th>Provision</th>
<th>Long-Run Change in GDP</th>
<th>Static Change in Annual Revenue (billions of 1962 dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create a business investment tax credit</td>
<td>1.35%</td>
<td>-$1.23</td>
</tr>
<tr>
<td>Create a minimum standard deduction</td>
<td>0.09%</td>
<td>-$0.30</td>
</tr>
<tr>
<td>Move from Bulletin F depreciation schedules to a new set of guidelines</td>
<td>1.15%</td>
<td>-$2.00</td>
</tr>
<tr>
<td>Lower individual income tax rates across the board</td>
<td>2.51%</td>
<td>-$8.44</td>
</tr>
<tr>
<td>Lower the corporate tax rate to 48% from 52%</td>
<td>1.09%</td>
<td>-$1.48</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6.18%</strong></td>
<td><strong>-$13.45</strong></td>
</tr>
</tbody>
</table>

Source: Tax Foundation *Taxes and Growth* Model
## Real Examples of Taxes & Growth

<table>
<thead>
<tr>
<th>Provision</th>
<th>Long-Run Change in GDP</th>
<th>Static Change in Annual Revenue (billions of 1981 dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce deduction for low-earning spouses</td>
<td>0.17%</td>
<td>-$0.46</td>
</tr>
<tr>
<td>Move from ADR to ACRS for depreciation schedules</td>
<td>2.69%</td>
<td>-$10.34</td>
</tr>
<tr>
<td>Increase the investment tax credit</td>
<td>0.52%</td>
<td>-$2.75</td>
</tr>
<tr>
<td>Reduce marginal individual income tax rates across the board</td>
<td>4.62%</td>
<td>-$69.50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>8.00%</strong></td>
<td><strong>-$83.06</strong></td>
</tr>
</tbody>
</table>

Source: Tax Foundation *Taxes and Growth Model*
### Real Examples of Taxes & Growth

**Predicted Economic and Revenue Effects of the Tax Reform Act of 1986**

<table>
<thead>
<tr>
<th>Provision</th>
<th>Long-Run Change in GDP</th>
<th>Static Change in Annual Revenue (Billions of 1986 Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax capital gains as ordinary income</td>
<td>-2.59%</td>
<td>$10.91</td>
</tr>
<tr>
<td>Move from ACRS to MACRS</td>
<td>-1.81%</td>
<td>$8.24</td>
</tr>
<tr>
<td>Repeal the investment tax credit for businesses</td>
<td>-2.67%</td>
<td>$23.73</td>
</tr>
<tr>
<td>Expand the personal exemption and standard deduction</td>
<td>0.56%</td>
<td>-$27.35</td>
</tr>
<tr>
<td>Collapse the 16-bracket structure to a 2-bracket structure</td>
<td>2.97%</td>
<td>$3.78</td>
</tr>
<tr>
<td>Lower the corporate tax rate from 46% to 34%</td>
<td>3.31%</td>
<td>-$24.25</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>-0.23%</strong></td>
<td><strong>-$4.93</strong></td>
</tr>
</tbody>
</table>

Source: Tax Foundation Taxes and Growth Model
## Predicted Economic and Revenue Effects of the Economic Growth and Tax Relief Reconciliation Act of 2001

<table>
<thead>
<tr>
<th>Provision</th>
<th>Long-Run Change in GDP</th>
<th>Static Change in Annual Revenue (billions of 2001 dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the AMT exempt amount</td>
<td>-0.01%</td>
<td>-$0.81</td>
</tr>
<tr>
<td>Expand the child tax credit and EITC</td>
<td>0.01%</td>
<td>-$20.70</td>
</tr>
<tr>
<td>Expand the standard deduction for joint filers</td>
<td>0.05%</td>
<td>-$6.02</td>
</tr>
<tr>
<td>Create 10% bracket and lower rates on top four brackets</td>
<td>1.70%</td>
<td>-$102.96</td>
</tr>
<tr>
<td>Eliminate phaseout of exemptions and deductions</td>
<td>0.52%</td>
<td>-$30.75</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2.27%</strong></td>
<td><strong>-$161.24</strong></td>
</tr>
</tbody>
</table>

Source: Tax Foundation *Taxes and Growth Model*
REAL EXAMPLES OF TAXES & GROWTH

- Phil Mickelson
- Tiger Woods
- Gerard Depardieu
- Tom Golisano
- Eduardo Saverin
REAL EXAMPLES OF TAXES & GROWTH

Private-Sector Employment as % of January 2008 Level

Source: Bureau of Labor Statistics
REAL EXAMPLES OF TAXES & GROWTH
REAL EXAMPLES OF TAXES & GROWTH
• Larger tax changes do not always lead to larger economic effects

• Although recent [federal] tax changes have had little economic effect, this does not imply that taxes do not affect the economy.

• The top individual tax rate isn’t everything.

• Changes to depreciation schedules are particularly significant.

• The tax plans under consideration would create historically unprecedented economic effects.