Virginia Institute for Public Policy

A Pro-Growth Tax Reform Agenda for Virginia




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Virginia Institute for Public Policy

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A Pro-Growth Tax Reform Agenda for Virginia

by Dean Stansel, Ph.D.

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About the Author

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Dean Stansel is an associate professor of economics at Florida Gulf Coast University, an adjunct fellow at the Reason Foundation, and the primary author of the Fraser Institute's annual *Economic Freedom of North America* report, which ranks the states and provinces in the U.S., Canada, and Mexico. Prior to entering academia, Stansel worked for seven years at the Cato Institute, where he authored (or co-authored) more than 60 publications on fiscal policy issues. His academic research has focused on the impact of competition between local governments on fiscal and economic outcomes, the relationship between the size of government and economic growth, state fiscal crises, and a variety of other issues in the areas of public economics and urban economics. That research has been published in the *Journal of Urban Economics*, *Public Finance Review*, *Cato Journal*, *Review of Austrian Economics*, and the *Journal of Housing Research*, among others, and has been cited in numerous publications, including the *Wall Street Journal*, *New York Times*, *San Francisco Chronicle*, and *Atlanta Journal-Constitution*. Stansel's op-eds have appeared in many publications such as the *Wall Street Journal*, *Washington Post*, *Investor's Business Daily*, and the *Chicago Tribune*. Stansel earned a B.A. in economics and political science from Wake Forest University in 1991 and a Ph.D. in economics from George Mason University in 2002.

A Pro-Growth Tax Reform Agenda for Virginia

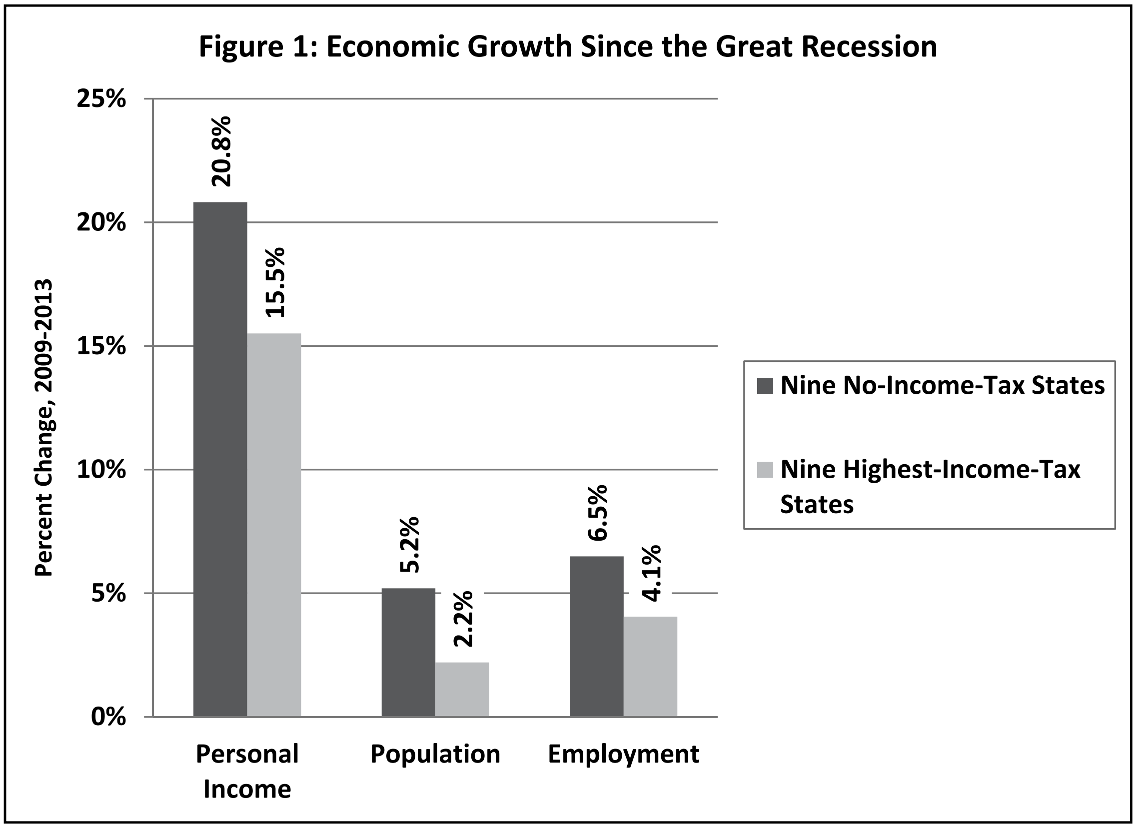
Dean Stansel, Ph.D.

I. Introduction

State tax systems are an important factor that affects economic prosperity. A recent review of over 100 articles in peer-reviewed academic journals revealed that 63 percent of those articles found a statistically significant negative relationship between state and local taxes and economic performance.[1] Only three percent found a positive relationship, the rest had mixed results or failed to find a statistically significant result.

States with high income taxes tend to have worse economic outcomes than states with low (or no) income tax. As Stephen Moore and Arthur Laffer found, no matter what time period they investigated, the nine no-income-tax states outperformed the nine highest-income-tax states.[2] More recently, since the recession ended in 2009, as Figure 1 shows, the nine states with no income tax saw personal income grow by 20.8 percent, one-third faster than the 15.5 percent growth in the nine states with the highest income tax burdens. Employment growth was more than 50 percent faster (6.5 percent vs. 4.1 percent). The population growth disparity was even larger, 5.2 percent growth in the no-income-tax states, more than twice as large as the 2.2 percent growth in the highest-income-tax states. No matter how you measure growth, the states without an income tax performed substantially better than the states with the highest income taxes.

The best tax recipe for economic growth involves a low overall burden of taxation, composed of a relatively low individual income tax combined with a relatively high sales tax. Virginia has that formula exactly backwards.



This disparity in economic performance is no coincidence. Income taxes levy a penalty on productive activity and discourage saving and investment. In contrast, sales taxes have a more benign effect. By discouraging consumption, sales taxes encourage saving, which increases the funds available for lending, thereby making it easier for businesses to borrow, invest and expand their operations. Such higher levels of business investment lead directly to higher job growth.[3]

Because of that distinct difference between income taxes and sales taxes, the worst possible policy would be to have a high income tax and a low sales tax. Unfortunately, that is exactly what Virginia has. Its income tax is well above average and its sales tax is well below average. Since 2009, economic growth in Virginia, which had the 17th highest income tax burden that year, has looked more like the highest-income-tax states than the no-income-tax states. Job growth (2.5 percent) was actually slower than in those high-tax states and personal income growth (15.5 percent) was about the same. Only population growth (4.2 percent) was higher.

The recipe for prosperity in Virginia requires that its growth-killing state income tax be reduced dramatically, if not eliminated entirely. There are plenty of areas in which the size and scope of state and local government can be reduced, however detailed analysis of that is beyond the scope of this study. If there are insufficient cuts in state spending to offset any lost revenue from an income tax cut, then any offsetting revenue increases should come from revenue sources that do less economic damage, such as user fees and consumption taxes, or from shifting to a more decentralized revenue system.

Even if some of the lost income tax revenue was recovered by increasing user fees and the tax burden on consumption, switching to a tax system that places a lighter burden on income-producing activity would create a stronger climate for economic growth. That would make Virginia more competitive with its neighbors and the other states with which it competes for residents and jobs.

No matter how you measure growth, the states without an income tax performed substantially better than the states with the highest income taxes.

II. The Tax Burden in Virginia

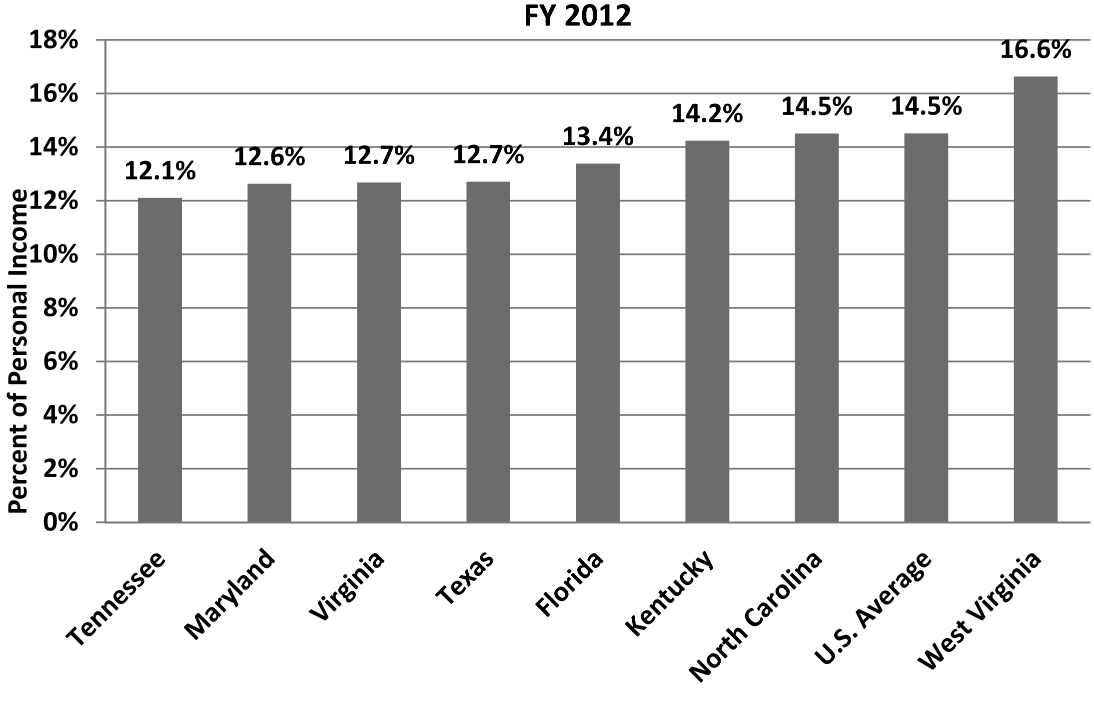
How a state's tax burden compares to its neighboring states and other states with which it competes for jobs and residents is a crucial determinant of its level of economic prosperity. In this paper, we compare taxes in Virginia to its five geographic neighbors (Kentucky, Maryland, North Carolina, Tennessee, and West Virginia). We also include Florida and Texas, two of the nation's leading states for job growth in recent years.

The most comprehensive source of state and local government finance data for all 50 states is from the U.S. Census Bureau. Their data accounts for various differences in the way state revenue and budgets are handled across the states, which facilitates comparisons across states. Therefore, we will rely on this data source for most of our analysis. Unfortunately, the most recent data is always a few years old. As of March 2015, the most recent available data was for Fiscal Year 2012. The National Association of State Budget Officers (NASBO) provides state government finance data for all 50 states. The advantage of that data source is that it is available for more recent years, through FY 2014 as of March 2015. However, it does not include local government finance data and it only includes data for the state "general fund." The percentage of state and local revenue that is collected by local governments varies widely across the states. (According to the Census Bureau data for FY 2012, it ranges from a high of 55 percent in Florida to a low of 18 percent in Vermont.) The percentage of overall revenue and spending that is accounted for by the general fund, rather than special funds, also varies widely across the states. So, the NASBO data is less appropriate for making comparisons across states. As a result, we will use it only as a supplementary source, to provide some insight into more recent conditions.

The Level of State and Local Taxes in Virginia, FY 2012

The Commonwealth has historically had a relatively small government. As Figure 2 shows, the overall burden of state and local government in Virginia, measured as a percentage of personal income, was 12.7 percent in FY 2012. The U.S. average was 14.5 percent. That ranks Virginia 46th among the 50 states. Only Maryland, Tennessee, New Hampshire, and South Dakota impose lower burdens. Unfortunately, two of those states are neighbors of Virginia.

Figure 2: State and Local General Revenue from Own Sources, FY 2012



While Virginia ranks as a low-tax state, the state government collects a larger share of revenues than in most states. The local revenue share in Virginia is 41 percent, ranking 29th among the 50 states. As Figure 3 shows, that means Virginia has a more centralized revenue system than all but two of the states in our comparison group. A decentralized system provides the advantage of keeping revenue at the local level, where elected officials are closer to the people, and thus likely to be more responsive to voter concerns.

Income taxes levy a penalty on productive activity and discourage saving and investment.

Figure 3: Local Share of State and Local Own-Source General Revenue

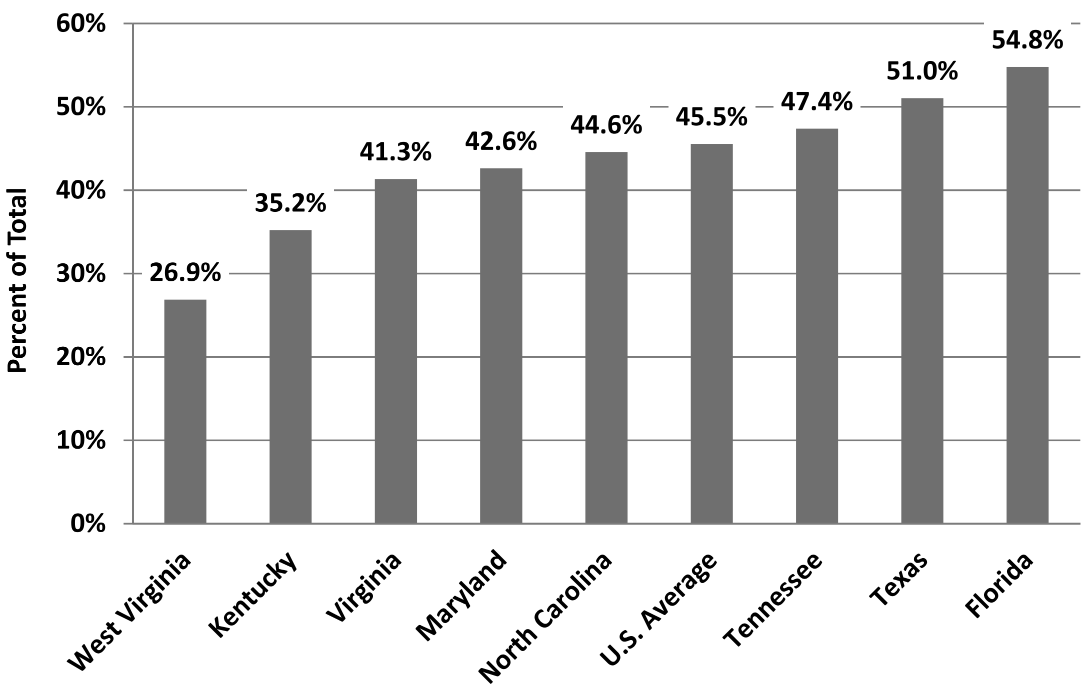


Figure 4 shows the overall tax burden for five main sources of state and local revenue. Virginia's tax burden is below the national average for four of the five sources. Only its individual income tax burden is above average.

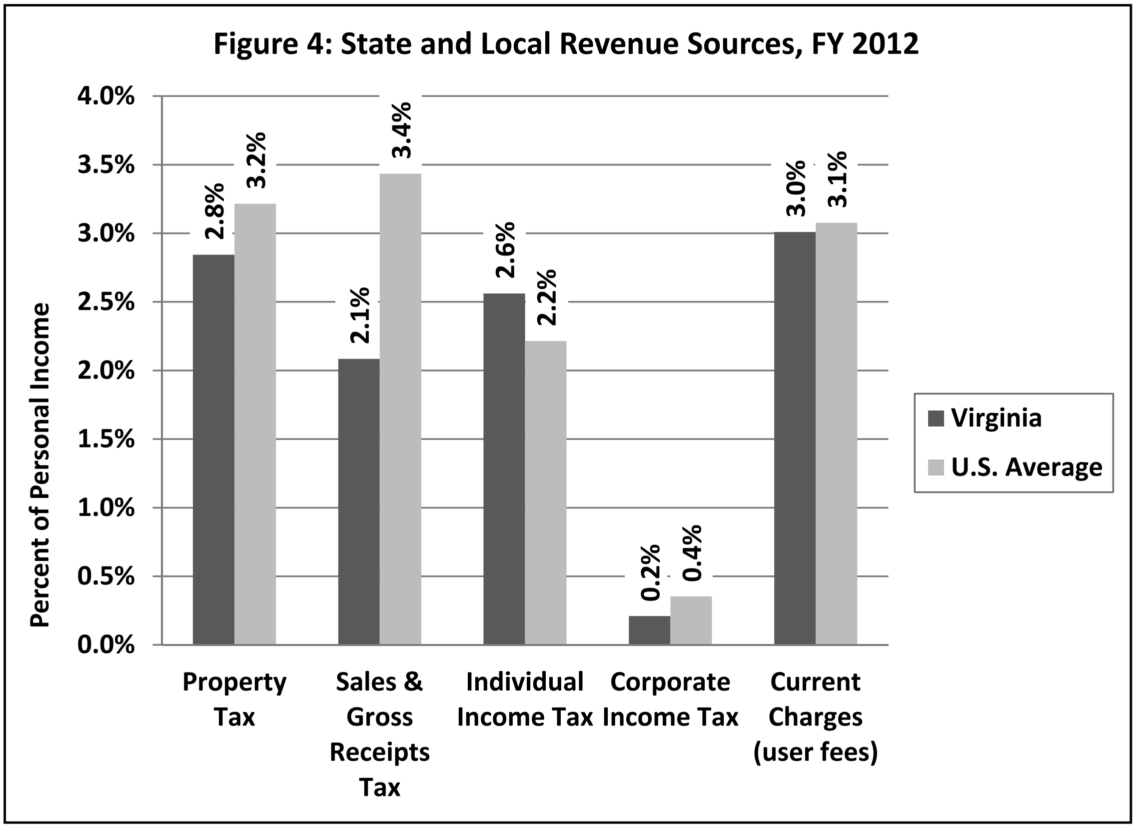


Table 1 (page 15) includes the data for our comparison group of states. Virginia's property tax burden is below the U.S. average but above all of its neighboring states. The burden of sales and gross receipts taxes in Virginia ranks 44th in the nation, the lowest among our comparison group. In contrast, the individual income tax burden ranks 16th highest in the country.

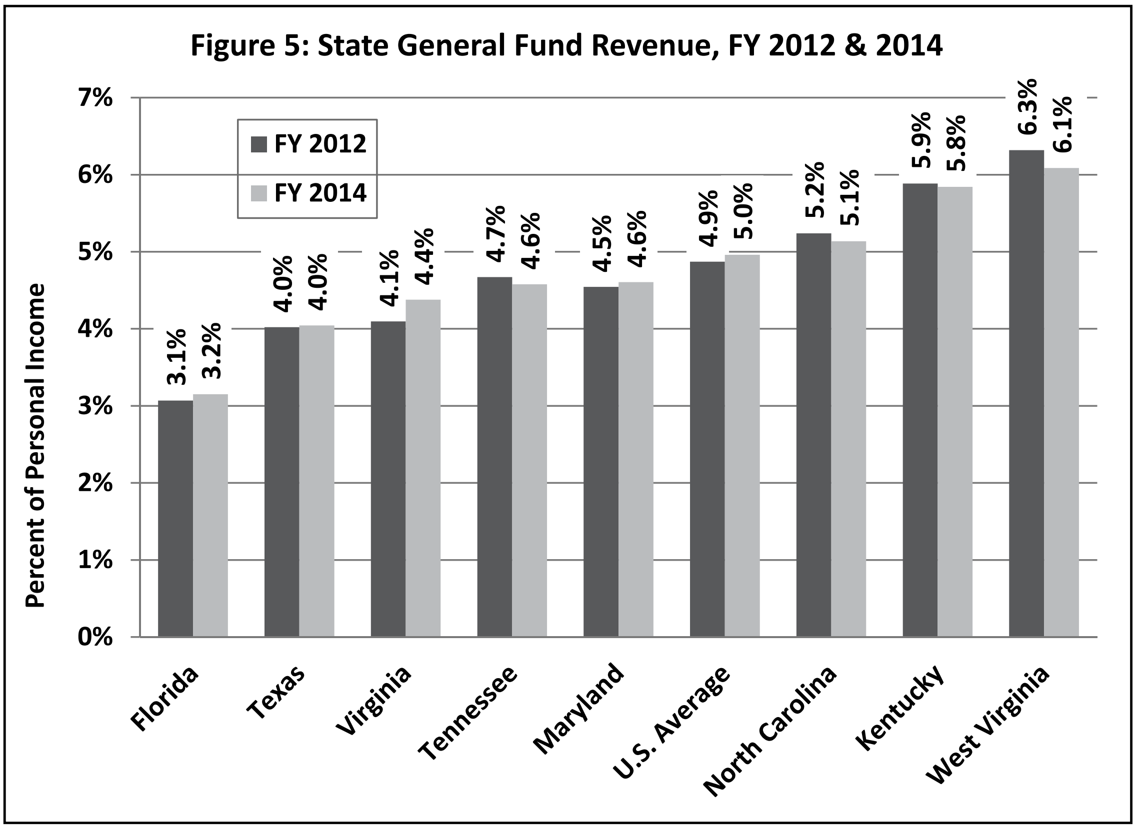
Making the beneficiaries of government services bear the cost of those services is the ideal way to finance most of what government currently does. It makes government function more like a business, in which its customers pay a fee for the services they choose to consume. An example of this is a city water bill or an admission fee at a park. In Virginia, current charges (or user fees) are below the U.S. average and lower than most of its neighbors.

The best tax recipe for economic growth involves a low overall burden of taxation, composed of a relatively low (or ideally no) individual income tax combined with a relatively high sales tax. Virginia has that formula exactly backwards. Its income tax burden is higher than all but 15 states, and its sales tax burden is lower than 43 states.

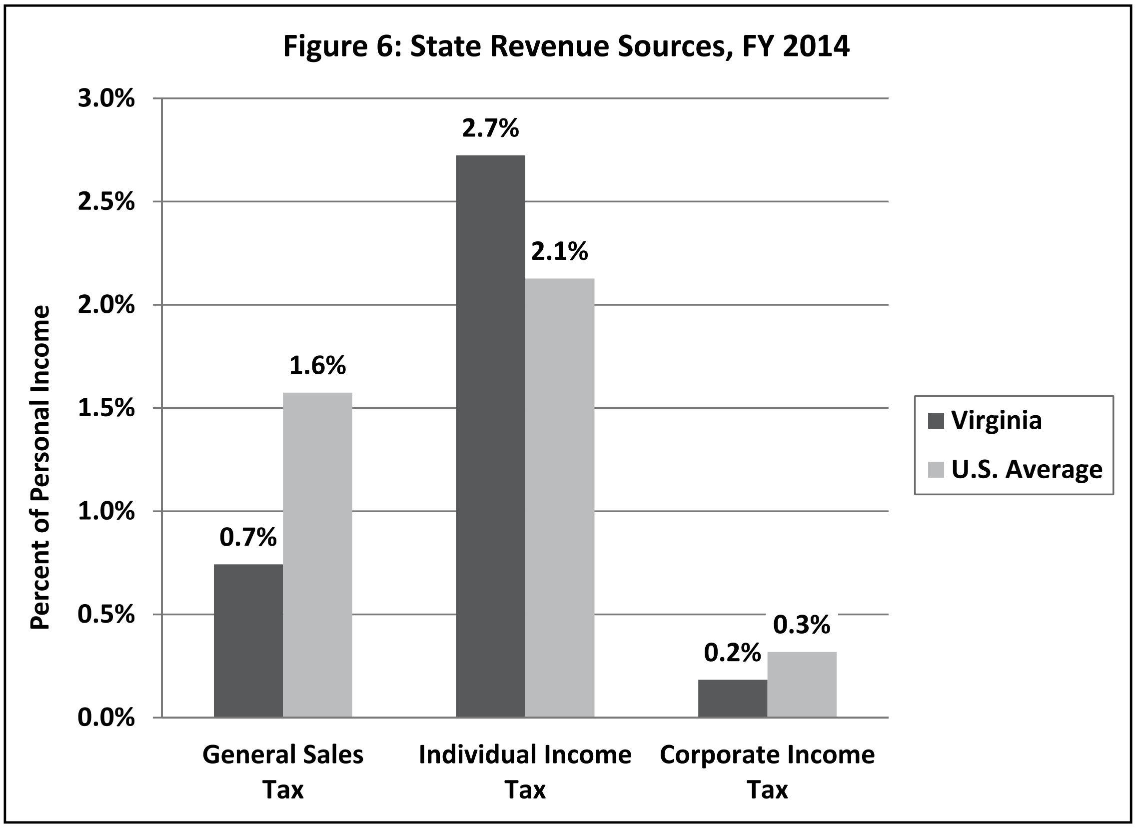
The Level of State Taxes in Virginia, FY 2014

The most recent data from the National Association of State Budget Officers shows in Figure 5 that state general fund revenue was 4.4 percent of personal income in Virginia in FY 2014, compared to the US average of 5.0 percent. That ranks 37th highest in the nation, compared to 39th highest in 2012. These state-only rankings show that Virginia has a higher tax burden than the rankings of combined state and local revenue showed in the previous section.

By discouraging consumption, sales taxes encourage saving, which increases the funds available for lending, thereby making it easier for businesses to borrow, invest and expand their operations.



The FY 2014 state data also shows a similar pattern for the individual revenue sources as Figure 4 did for the combined state and local data. As Figure 6 illustrates, the Commonwealth's sales tax burden is less than half of the U.S. average and its individual income tax burden is substantially higher than the U.S. average. Table 2 (page 15) includes the data for our comparison group of states. Virginia's sales tax burden ranks 45th, lower than all of its neighboring states (and lower than all but five states in the nation). The individual income tax burden is higher than all of its neighboring states, and the 11th highest in the nation.



Tax Rates in Virginia, 2014

Comparing marginal state income tax rates is complicated by the fact that the deductions, exemptions, and the number of brackets varies across states. The Tax Foundation publishes an annual list of state income tax rates. Their information for our eight state sample is found in Table 3 (page 16). Florida and Texas both have no individual income tax. Tennessee only taxes interest and dividend income. Compared to its other four neighboring states, Virginia's top marginal rate of 5.75 percent is actually the lowest. However, that rate kicks in at by far the lowest income level of those states: $17,000. Also, Virginia's personal exemption is substantially lower than its neighbors. Those factors are part of why its individual income tax revenue as a percent of income is highest amongst our comparison group. It should be noted that North Carolina recently switched from a multi-bracket system with a top rate of 7.75 percent in 2013, to its current flat tax of 5.8 percent.

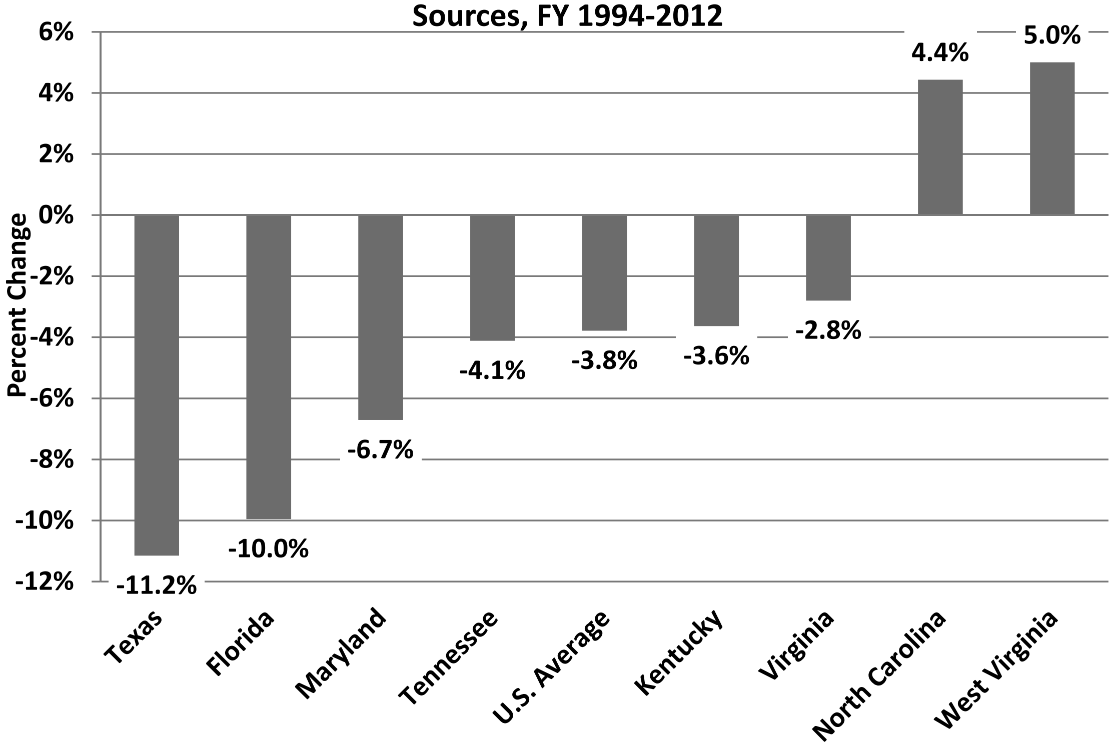
State sales tax rate comparisons are similarly complicated because what is defined as taxable varies from state to state. The Tax Foundation also publishes an annual list of state sales tax rates. Their information for our eight state sample is found in Table 4 (page 17). They count Virginia's mandatory local add-on sales tax of 1 percent as a state-level tax. When that is included, only North Carolina has a lower state sales tax rate. However, when the average local tax rate is included, Virginia has the lowest combined state/local sales tax rate, 5.63 percent, ranking 41st in the nation. Localities in North Carolina impose a much higher average local sales tax rate of 2.15 percent, compared to 0.33 percent in Virginia (not counting the mandatory 1 percent). Such a decentralized system has the advantage of keeping the revenue close to home where it can be used most wisely.

Virginia's sales tax burden ranks 45th, lower than all of its neighboring states (and lower than all but five states in the nation). The individual income tax burden is higher than all of its neighboring states, and the 11th highest in the nation.

III. The Growth of the Tax Burden in Virginia

While the tax burden in Virginia is still relatively low, the growth of that revenue has been above average. If that excessive growth continues, Virginia's status as a low-tax state is in jeopardy.

Figure 7: Change in State and Local General Revenue from Own Sources, FY 1994-2012

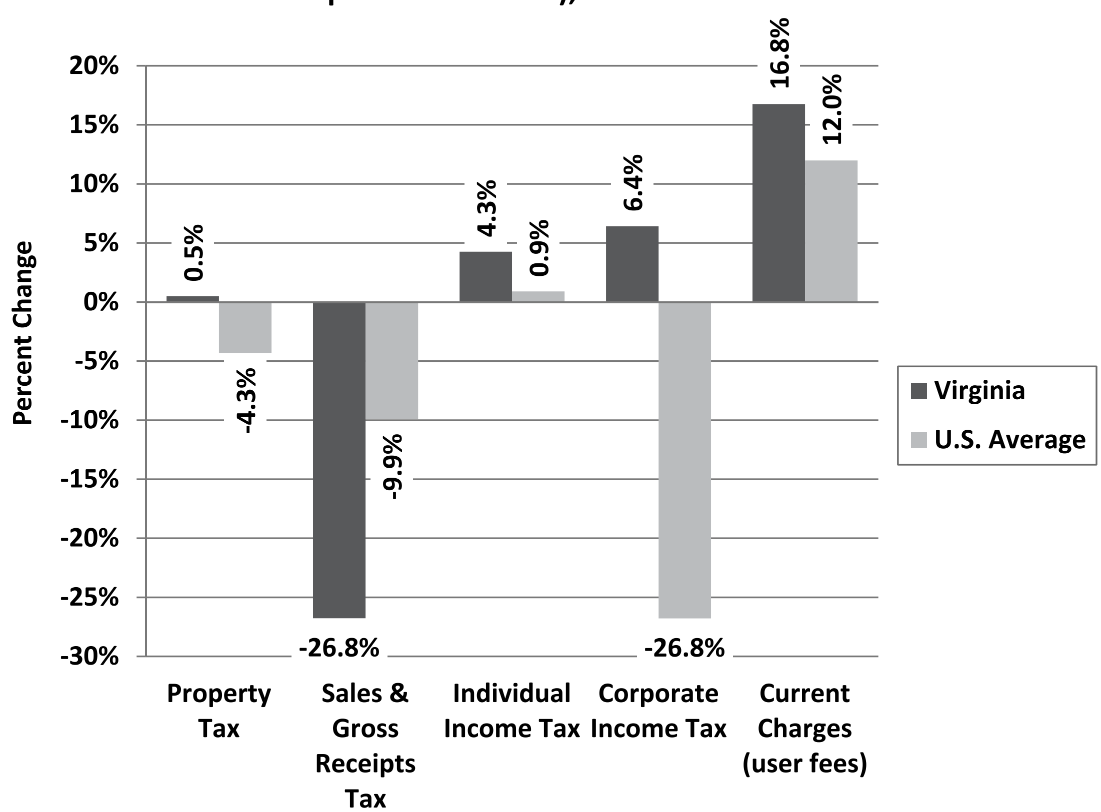


The Growth of State and Local Taxes in Virginia, FY 1994-2012

From 1994 to 2012, state and local general revenue from own sources as a percent of personal income declined by 2.8 percent in Virginia. As Figure 7 shows, the U.S. average declined even further (by 3.8 percent) as did revenue in most of Virginia's neighboring states. Despite that inferior performance, Virginia only moved up one place, from 47th highest revenue to 46th. (Table 5, page 17, shows further detail.)

Figure 8 shows how Virginia's growth in the five major sources of state and local revenue (as a percent of personal income) compared to the U.S. average. Revenue growth was substantially above average for both income taxes (the most anti-growth forms of taxation) and substantially below average for the sales tax (which is much less harmful to economic growth). Table 6 (page 18) includes the same data for the other states.

Figure 8: Change in State and Local Revenue (as a percent of personal income), FY 1994-2012



The individual income tax burden in Virginia increased by 4.3 percent, while the U.S. average went up by less than one percent. As Table 7 (page 18) shows, that excessive growth increased the income tax burden from 2.5 percent of personal income in 1994 to 2.6 percent in 2012, while the U.S. average stayed essentially the same at 2.2 percent. That growth was faster than all of the neighboring states except for West Virginia (and faster than all but 11 states in the country) and it moved Virginia from the 18th highest income tax burden in 1994 to the 16th highest in 2012.

The rapid growth of income tax revenue stands in marked contrast to the nation-leading decline in the burden of the sales tax. Virginia saw its sales tax burden fall by 26.8 percent, faster than every other state in the nation (see Table 8, page 19). That moved it from 41st highest in 1994 (2.8 percent of income) to 44th highest in 2012 (2.1 percent of income), behind all of its neighboring states.

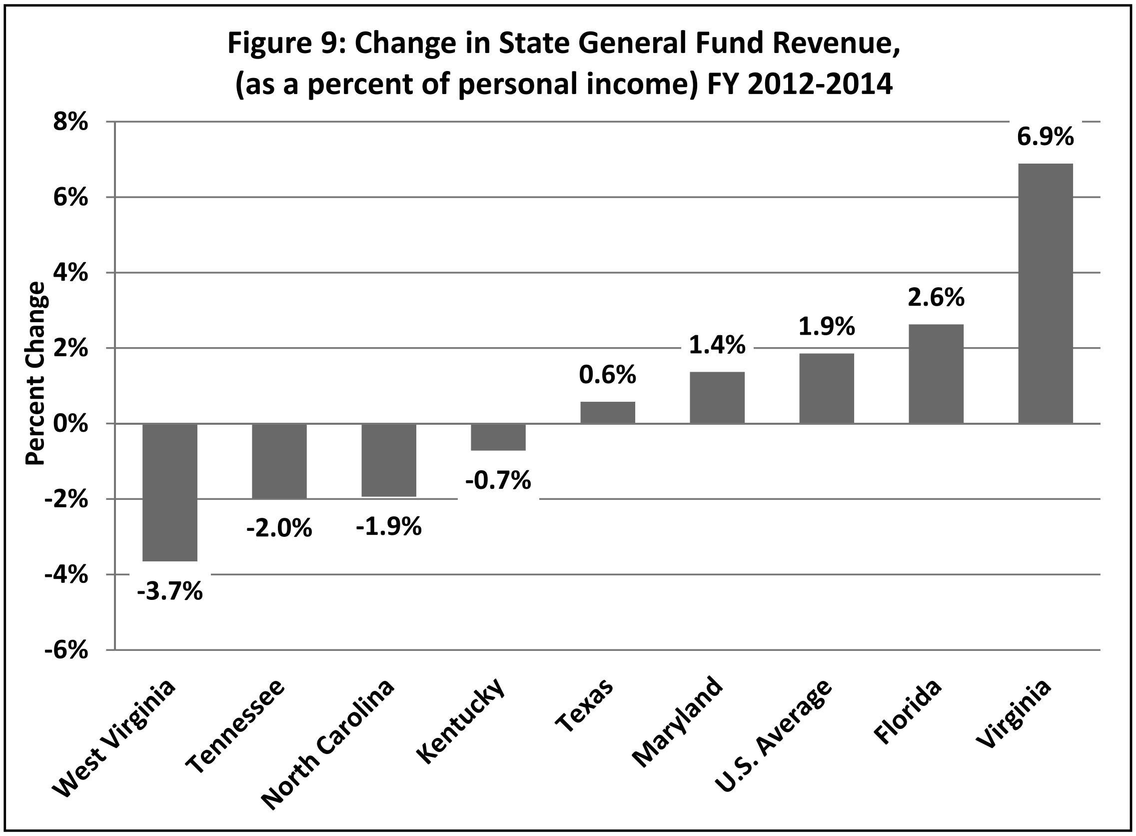
All else equal, such a large reduction in the sales tax burden would be good for consumers. However, all else is not equal. The reduced sales tax burden came with an increased income tax burden. The net effect for the economy of that restructuring of the tax burden is negative.

In 1994, Virginia had a relatively pro-growth tax system. It levied a heavier tax burden on consumption than it did on income (2.8 percent of income vs. 2.5 percent). By 2012, that situation had been reversed. Virginia collected 2.6 percent of income from individual income taxes vs. 2.1 percent from the sales tax.

In 1994, Virginia had a relatively pro-growth tax system. It levied a heavier tax burden on consumption than it did on income (2.8 percent of income vs. 2.5 percent). By 2012, that situation had been reversed.

The Growth of State General Fund Revenue in Virginia, FY 2012-2014

While the general fund data is less comprehensive and less comparable from state to state, it does allow us to look at more recent trends at the state level. (Note that local taxes are not included.) As Figure 9 shows, from FY 2012 to 2014, state general fund revenue as a percent of personal income increased by 6.9 percent in Virginia, faster than all of its neighboring states (and faster than all but six states in the nation). The U.S. average was 1.9 percent. In four neighboring states the tax burden actually declined.



...state general fund revenue as a percent of personal income increased by 6.9 percent in Virginia, faster than all of its neighboring states (and faster than all but six states in the nation).

IV. Recommendations

The overall burden of taxation in Virginia is quite low relative to other states, including most of its neighbors. However, the growth of that burden has been above average in recent years. Furthermore, the composition of that burden is the exact opposite of what the recipe for a pro-growth tax system requires. Virginia places a very heavy burden on productive activity by imposing a relatively high tax on income. In contrast, Virginia places a low burden on consumption by imposing a relatively low sales tax. Both the high income tax and the low sales tax discourage savings, which in turn makes it harder for businesses to invest, expand their operations, and hire new workers.

Reversing the current mix of income and sales taxes would create a more pro-growth business climate in Virginia. There are a variety of approaches that could achieve that goal. We offer three proposals.

1) Eliminate the income tax.

There are nine states that do not levy a tax on labor income. That includes New Hampshire and neighboring Tennessee that do, however, tax interest and dividend income. Those no-income-tax states tend to collect a larger proportion of state and local revenue from local sources. (Seven of the nine states have a local revenue share above the U.S. average of 45.5 percent. The other two, Alaska and Wyoming, collect a disproportionately large share of revenue from state severance taxes on natural resources such as oil.) Such decentralization wisely puts more authority at the local level, where politicians are closer to the people they serve.

Both the high income tax and the low sales tax discourage savings, which in turn makes it harder for businesses to invest, expand their operations, and hire new workers.

Eliminating the income tax would lead to an influx of residents and businesses into Virginia. That increased growth would help to offset some of the lost revenue from the income tax. There are numerous opportunities for spending reductions in every state and local government budget, including those in Virginia. Specifying such spending cuts is beyond the scope of this paper. However, if politicians in Virginia cannot find sufficient reductions in spending to offset the lost revenue from eliminating the income tax, closing that revenue gap with sources that are less harmful to growth would still offer a net improvement to the tax climate in Virginia. For example, Virginia could rely more on user fees that help government to run more like a business. It also could impose a modest increase in its sales tax, preferably through a local option.

While some argue that sales taxes disproportionately burden the poor, that claim is based on faulty analysis.[4] Consumption taxes are often said to be regressive because regressivity is usually measured by examining the portion of annual earnings which go toward the tax. Using annual earnings as the basis for defining who is poor is misleading because it includes individuals who would not typically be thought of as poor. In fact, by this definition, virtually everyone qualifies as poor at some time during their life, because annual earnings are low for most individuals–"rich" or "poor"–during two specific phases of their lives: early-career and retirement. A more useful way to measure the regressivity of a consumption tax is to examine the portion of *lifetime*–rather than annual–earnings which go towards such taxes. A National Bureau of Economic Research working paper by Gilbert Metcalf did just that. By looking at income over individuals' lifetimes rather than just during one year, Metcalf found that "rich people actually pay proportionally

1-1/2 times more of their income in sales tax than do the poor."[5] Metcalf is not the first nor the only one to note the serious flaw in using annual rather than lifetime earnings."[6]

2) Eliminate the progressive income tax and replace it with a lower rate flat tax.

Virginia currently has four income tax brackets. The top rate of 5.75% begins at $17,000 of income, lower than all of its neighboring states (and most other states with progressive income taxes). North Carolina recently moved from a multi-bracket system to a single-rate flat tax. Charging one flat rate at all levels of income broadens the tax base and would allow for a substantial reduction in that tax rate. If eliminating the income tax is not politically possible, switching to a flat tax would at least be a step in the right direction. It should be combined with a broader restructuring of taxes (and spending cuts) as discussed above. Depending on the details of that restructuring, that tax reform should enable the rate to be reduced to 4 percent or lower. Such a reform would produce a great improvement in the overall tax climate in Virginia.

3) Redefine "taxable income" to more closely match "consumption."

One of the biggest problems with income taxes is that they discourage savings. One way to reduce that problem is to change the way that "taxable income" is defined. For example, allowing taxpayers to deduct their savings from their taxable income would end that anti-savings bias in the current tax code. Exempting interest, dividends, and capital gains from taxation would have a similar effect.[7] This reform could be combined with the second recommendation. However, the narrowing of the tax base would reduce the amount by which the tax rate could be cut.

Table 1
State and Local Government Revenue, as a Percentage of Personal Income, FY 2012

	Property Tax	Rank	Sales & Gross Receipts Tax	Rank	Individual Income Tax	Rank	Corporate Income Tax	Rank	Current Charges (user fees)	Rank
Virginia	2.84%	28	2.09%	44	2.56%	16	0.21%	38	3.01%	28
U.S. Average	3.22%		3.43%		2.22%		0.35%		3.08%	
Kentucky	1.99%	44	3.57%	23	2.95%	9	0.44%	10	3.28%	23
Maryland	2.55%	36	2.51%	42	3.63%	3	0.28%	29	2.03%	47
North Carolina	2.37%	39	3.21%	30	2.76%	12	0.32%	22	4.18%	8
Tennessee	2.04%	42	4.54%	7	0.07%	43	0.49%	8	2.83%	33
West Virginia	2.20%	40	4.11%	13	2.69%	14	0.29%	26	3.51%	16
Florida	3.10%	20	4.13%	12	0.00%	44	0.25%	34	3.65%	12
Texas	3.57%	13	4.02%	15	0.00%	44	0.00%	47	2.66%	38

Note: Rank reflects the rank amongst the 50 states, where 1 = highest tax burden and 50 = lowest tax burden.
Source: Author's calculations based on government finance data from U.S. Census Bureau and personal income data from U.S. Bureau of Economic Analysis.

Table 2
State Tax Revenue, as a Percentage of Personal Income, FY 2014

	General Sales Tax	Rank	Individual Income Tax	Rank	Corporate Income Tax	Rank
Virginia	0.74%	45	2.72%	11	0.18%	39
U.S. Average	1.57%		2.13%		0.32%	
Kentucky	1.90%	14	2.28%	23	0.29%	27
Maryland	1.26%	35	2.37%	20	0.23%	34
North Carolina	1.42%	30	2.62%	15	0.35%	20
Tennessee	2.74%	4	0.09%	42	0.70%	2
West Virginia	1.81%	22	2.62%	14	0.30%	26
Florida	2.34%	7	0.00%	43	0.24%	31
Texas	2.25%	8	0.00%	43	0.00%	46

Note: Rank reflects the rank amongst the 50 states, where 1 = highest tax burden and 50 = lowest tax burden.
Source: Author's calculations based on government finance data from National Association of State Budget Officers and personal income data from U.S. Bureau of Economic Analysis.

Table 3
State Individual Income Tax Rates, As of January 1, 2014

State	Rates		Brackets	Standard Deduction	Personal Exemption
Virginia	2.00%	>	$0	$3,000	$930
	3.00%	>	$3,000		
	5.00%	>	$5,000		
	5.75%	>	$17,000		
Kentucky (a)	2.00%	>	$0	$2,360	$20 credit
	3.00%	>	$3,000		
	4.00%	>	$4,000		
	5.00%	>	$5,000		
	5.80%	>	$8,000		
	6.00%	>	$75,000		
Maryland (a)	2.00%	>	$0	$2,000	$3,200
	3.00%	>	$1,000		
	4.00%	>	$2,000		
	4.75%	>	$3,000		
	5.00%	>	$100,000		
	5.25%	>	$125,000		
	5.50%	>	$150,000		
	5.75%	>	$250,000		
North Carolina	5.80%	>	$0	$7,500	N/A
Tennessee (b)	6.00%	>	$0	N/A	$1,250
West Virginia	3.00%	>	$0	N/A	$2,000
	4.00%	>	$10,000		
	4.50%	>	$25,000		
	6.00%	>	$40,000		
	6.50%	>	$60,000		
Florida	No Income Tax				
Texas	No Income Tax				

Note: Brackets are for single taxpayers. Some states increase brackets for joint filers (including NC). MD decreases some and increases others. Consult Tax Foundation website for tables for joint filers and married filing separately.

(a) Local income taxes are excluded. Twelve states have county or city level income taxes; the average rate within each jurisdiction is: 2.08% in KY and 2.88% in MD. Weighted local rates are from Tax Foundation, 2014 State Business Tax Climate Index.

(b) Tax applies to interest and dividend income only.

Source: Tax Foundation; state statutes, state tax forms and instructions; Commerce Clearing House.

http://taxfoundation.org/article/state-personal-income-tax-rates-and-brackets-2014-update

Table 4

State and Local Sales Tax Rates as of January 1, 2014

State	State Tax Rate	Rank	Avg. Local Tax Rate (a)	Combined Tax Rate	Rank	Max Local
Virginia (b)	5.30%	31	0.33%	5.63%	41	0.70%
Kentucky	6.00%	16	None	6.00%	37	
Maryland	6.00%	16	None	6.00%	37	
North Carolina	4.75%	35	2.15%	6.90%	25	2.75%
Tennessee	7.00%	2	2.45%	9.45%	1	2.75%
West Virginia	6.00%	16	0.0007	6.07%	35	0.01
Florida	6.00%	16	0.62%	6.62%	29	1.50%
Texas	6.25%	12	1.90%	8.15%	11	2.00%

(a) City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate.

(b) Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%), Virginia (1%), we include these in their state sales tax.

Sources: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites

http://taxfoundation.org/article/state-and-local-sales-tax-rates-2014

Table 5

Change in State and Local Government Revenue, as a Percentage of Personal Income, FY 1994-2012

	1994-2012	Rank	2012	Rank	1994	Rank
Virginia	-2.8%	25	12.7%	46	13.0%	47
U.S. Average	-3.8%		14.5%		15.1%	
Kentucky	-3.6%	26	14.2%	28	14.8%	29
Maryland	-6.7%	34	12.6%	47	13.5%	44
North Carolina	4.4%	7	14.5%	24	13.9%	41
Tennessee	-4.1%	28	12.1%	48	12.6%	49
West Virginia	5.0%	5	16.6%	7	15.8%	17
Florida	-10.0%	39	13.4%	39	14.9%	27
Texas	-11.2%	42	12.7%	45	14.3%	35

Note: Rank reflects the rank amongst the 50 states, where 1 = highest growth or level and 50 = lowest growth or level.

Source: Author's calculations based on government finance data from U.S. Census Bureau and personal income data from U.S. Bureau of Economic Analysis.

Table 6
Change in State and Local Government Revenue, as a Percentage of Personal Income, FY 1994-2012

	Property Tax	Rank	Sales & Gross Receipts Tax	Rank	Individual Income Tax	Rank	Corporate Income Tax	Rank	Current Charges (user fees)	Rank
Virginia	0.50%	18	-26.77%	50	4.26%	12	6.42%	10	16.76%	19
U.S. Average	-4.31%		-9.90%		0.90%		-26.78%		11.98%	
Kentucky	15.20%	7	-11.99%	32	-3.28%	20	14.99%	8	30.04%	9
Maryland	-8.67%	35	-7.19%	21	-4.11%	23	12.79%	9	6.47%	30
North Carolina	7.32%	11	-16.44%	39	-4.43%	24	-34.68%	35	45.41%	1
Tennessee	4.44%	14	-14.36%	35	-22.50%	41	22.45%	4	-9.15%	45
West Virginia	5.58%	13	-8.88%	24	26.32%	4	-49.79%	40	10.53%	27
Florida	-11.98%	39	-17.13%	42	No tax		-17.01%	20	18.59%	18
Texas	-3.62%	27	-19.60%	46	No tax		No tax		4.90%	32

Note: Rank reflects the rank amongst the 50 states, where 1 = highest growth and 50 = lowest growth.
Source: Author's calculations based on government finance data from U.S. Census Bureau and personal income data from U.S. Bureau of Economic Analysis.

Table 7
Change in State and Local Individual Income Tax Revenue, as a Percentage of Personal Income, FY 1994-2012

	1994-2012	Rank	2012	Rank	1994	Rank
Virginia	4.3%	12	2.6%	16	2.5%	18
U.S. Average	0.9%		2.2%		2.2%	
Kentucky	-3.3%	20	3.0%	9	3.1%	9
Maryland	-4.1%	23	3.6%	3	3.8%	3
North Carolina	-4.4%	24	2.8%	12	2.9%	11
Tennessee	-22.5%	41	0.1%	43	0.1%	43
West Virginia	26.3%	4	2.7%	14	2.1%	31
Florida	No tax					
Texas	No tax					

Note: Rank reflects the rank amongst the 50 states, where 1 = highest growth or level and 50 = lowest growth or level.
Source: Author's calculations based on government finance data from U.S. Census Bureau and personal income data from U.S. Bureau of Economic Analysis.

Table 8
Change in State and Local Sales & Gross Receipts Tax Revenue, as a Percentage of Personal Income, FY 1994-2012

	1994-2012	Rank	2012	Rank	1994	Rank
Virginia	-26.8%	50	2.1%	44	2.8%	41
U.S. Average	-9.9%		3.4%		3.8%	
Kentucky	-12.0%	32	3.6%	23	4.1%	18
Maryland	-7.2%	21	2.5%	42	2.7%	44
North Carolina	-16.4%	39	3.2%	30	3.8%	21
Tennessee	-14.4%	35	4.5%	7	5.3%	5
West Virginia	-8.9%	24	4.1%	13	4.5%	12
Florida	-17.1%	42	4.1%	12	5.0%	8
Texas	-19.6%	46	4.0%	15	5.0%	7

Note: Rank reflects the rank amongst the 50 states, where 1 = highest growth or level and 50 = lowest growth or level.
Source: Author's calculations based on government finance data from U.S. Census Bureau and personal income data from U.S. Bureau of Economic Analysis.

Endnotes

[1] Hood, John. "Lower Taxes, Higher Growth: Scholarly Research Reveals Economic Benefits of Fiscal Restraint," *Spotlight*, No. 452, April 15, 2014 (Raleigh, NC: John Locke Foundation).

[2] Moore, Stephen. "Low-Tax States Create More Jobs Than High-Tax States," *Investor's Business Daily*, August 7, 2014.

[3] For a more detailed discussion of the distinction between income and consumption taxes, see Stansel, Dean. "Sales vs. Income Taxes: The Verdict of Economists," February 1994 (Midland, MI: Mackinac Center for Public Policy). http://www.mackinac.org/250.

[4] The discussion below is based heavily on Stansel (1994), cited above.

[5] As reported in *Washington Post*, February 6, 1994, p. C5.

[6] See also Schuyler, Michael A. Consumption Taxes: Promises and Problems, Institute for Research on the Economics of Taxation, Fiscal Issues series, No. 4, 1984, p. 18, and James Davies, Francis St. Hilaire, and John Whalley. "Some Calculations of Lifetime Tax Incidence," *American Economic Review*, September 1984, pp. 633-49.

[7]For a detailed study of such a reform, see Cordato, Roy. "The Consumed Income Tax: Efficient and Fair Tax Reform for North Carolina," *Spotlight*, No. 420, April 2, 2012 (Raleigh, NC: John Locke Foundation).

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