PERSONAL INCOME TAX CUTS

3 REASONS THEY'RE BAD FOR BUSINESS

ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

#1: TAX CUTS DON'T HELP SMALL BUSINESSES GROW. There is virtually no evidence that personal income tax cuts help small businesses grow or create jobs. Most major studies over the past 15 years have found that personal income tax cuts don't cause economic growth.[1] A 50-state study[2] of tax policies from 1989-2002 found that a lower personal income tax isn't a good predictor of how many people will want to start new businesses. Additionally, the relationship between top tax rates and a host of economic health indicators[3] is unsubstantiated; there is no correlation between top tax brackets and growth in employment, investment, productivity, or per-capita GDP. When it comes to job creation, business owners hire when there is increased demand, regardless of current tax rates. In Arkansas, the majority of firms are small businesses (96.6 percent)[4] who don't have enough income to justify big hiring decisions based on small tax rate changes.

#2: TAX CUTS DON'T ENTICE PEOPLE OR BUSINESSES TO MOVE BETWEEN STATES. Research shows that individuals (even very rich people) and businesses are unlikely to relocate based on tax laws. Less than 2 percent of residents in the U.S. relocate across state lines each year, and most of the time if one person leaves a state, they are replaced by another person moving in, making the net change from migration close to zero.[5] People are just as likely, if not more likely, to move to a state with higher income taxes. For example, just as many people moved to Arizona as Texas between 1993 and 2011, even though Texas doesn't have an income tax and nearby Arizona does.[6] Over half of the people who choose to change states do so because of job opportunities or to be closer to family; climate is also a major indicator.[7] The bottom line? People are more likely to move to states with better jobs, not states with lower taxes.

#3: TAX CUTS CHOKE ECONOMY-FRIENDLY PROGRAMS. If we want to attract and keep our best employees, our brightest graduates, and our most promising entrepreneurs, we need to have quality schools, affordable housing, and a healthy job market. Arkansas is required to have a balanced budget; this means that any tax cuts must be paid for by cutting state services. Businesses need the products of state services, like a well-educated workforce, an up-to-date infrastructure, and police and fire protection. Good schools, national economic trends, and natural resources are true drivers of state economic growth. Minor personal income tax changes between states are not.

We should grow our economy by investing in our communities, not by implementing dangerous tax cuts. Our state budget is already scraping by, and federal funding cuts are on the horizon. This is no time to gamble with funding for critical state services. Instead, we should boost our economic recovery by investing in state programs that increase growth now and down the road. This means permanently reducing the intolerable poverty in Arkansas with tried-and-true policies like a state Earned Income Tax Credit. It also means stepping up with better state schools; making sure we have a healthy workforce; and investing in pre-K so that parents can get to work and kids can get an early start on learning.

WANT TO LEARN MORE?

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NOTES:

[1] http://www.cbpp.org/research/state-budget-and-tax/state-personal-income-tax-cuts-still-a-poor-strategy-for-economic
[2] http://link.springer.com/article/10.1007%2Fs11187-010-9262-y
[3] https://www.washingtonpost.com/posteverything/wp/2016/04/20/a-graphical-assault-on-supply-side-tax-cuts/?tid=a_inl
[4] https://www.sba.gov/sites/default/files/advocacy/AR_1.pdf
[5-7] http://www.cbpp.org