PERSONAL INCOME TAX CUTS

OTHER STATES HAVE NOT SEEN SUCCESS

ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

States should think twice before enacting big personal income tax cuts. Despite the claims of tax-cut proponents, low tax rates aren't associated with economic prosperity, and are more likely to lead to budget problems. Most major studies over the past 15 years have shown that personal income tax cuts don't cause economic growth.[1] If someone asked you to guess a state's job growth rate, and all they told you was that state's top income tax rate, you might as well get a blindfold and throw a dart at a board. And yet, many Arkansas legislators continue to push for harmful income tax cuts in the name of economic growth.

Some states, like California and Minnesota, have increased taxes and have enjoyed great economic growth. Some high-tax states have seen modest economic growth. The trend is that there is no trend. The relationship between top tax rates and a host of economic health indicators[2] is unsubstantiated; there is no correlation between top tax brackets and growth in employment, investment, productivity, or per-capita GDP. The winners from large personal income tax cuts are almost always the highest income earners. The losers are inevitably low-income families and the services they rely on.

Arkansas passed $242 million in personal income tax cuts over the past two legislative sessions. The most recent cuts included the "middle income" tax cut, which left out the poorest 20 percent of Arkansans (those with incomes less than $21,000). That round of cuts also restored the 50 percent break on capital gains income as well as a shameful exemption on all capital gains income over $10 million. Because of these two bills alone, the state will lose $28.9 million in state general revenue in 2016 and $102 million in 2017.[3]

We are already seeing the evidence of these tax cuts to our budget. Although unemployment is down, state general revenue is up just half of 1 percent this year. That means less money to improve state employee salaries, less funding for libraries, and no hope for bailing out our severely underfunded child welfare system. Five states in addition to Arkansas have had major personal income tax cuts in recent years, and none of them have seen remarkable economic growth. Instead of growth[4], states that pass deep tax cuts see huge revenue losses, depleted state services, and unfair benefits bestowed upon the richest taxpayers. Here are some examples of what we have in store if we continue down this road:

FIVE FAILING EXAMPLES:

KANSAS: Governor Sam Brownback[5] expected his tax cuts to be "like a shot of adrenaline into the heart of the Kansas economy." What resulted was a sharp drop in revenue (over 10 percent less in the first year)[6] without any of the promised economic growth. Kansas's budget is a disaster, the governor has nearly bankrupted reserve funds to scrape by since the cuts, and schools are taking a big hit. All of this has been in exchange for mediocre job growth[7] (jobs grew by only 2.6 percent compared to 4.4 percent average national growth in 2013).

MAINE: Governor LePage of Maine passed the largest income tax cut in the state's history in 2011. To fill the budget gap, the legislature shifted costs to local communities, who were forced to increase property taxes to keep basic services afloat. The result was a tax shift[8] that increased the tax burden for low- and middle-income families who were just beginning to climb out of the recession. The price of reducing income taxes for the wealthiest in Maine has been cuts to K-12 education funding. They have also had very slow job growth[9] (1.4 percent compared to 7.3 percent for the nation in 2012).

NORTH CAROLINA: After enacting $383 million in tax cuts in 2014 (that will balloon to more than a billion dollars by 2019), North Carolina also failed to see stellar economic performance. The only people who benefited were those who were already wealthy; everyone else's taxes actually increased.[10] In addition to higher taxes, low- and middle-income families are also facing higher tuition rates and major cuts to schools and pre-K programs. In the year after the cuts, personal income grew slower than most other states (3.5 percent compared to the U.S. average of 3.9 percent), and job growth barely edged out the national average (3.1 percent compared to 2.7 percent for the nation). That's nothing to write home about, especially considering the state's investments as a share of the economy are lower now that at any time since 1971.[11]

OHIO: Like Maine, Ohio is paying for some of its "rich friendly" tax cuts by shifting the burden to lower income families through sales tax increases. The 10 percent[12] cut to income taxes across the board in 2013 was, not surprisingly, followed by desperately underfunded public transit, as well as lagging college aid and children's services. Supporters of the cuts claimed it would help economic growth, but Ohio has still had job growth lower than the national average since the first round of these major tax cuts began in 2005.[13]

WISCONSIN: Wisconsin has passed tax cuts year after year, mostly benefiting the wealthiest in the state. The total cost amounts to almost $5 billion[14] over six years. This has done nothing to budge the state's sluggish job growth, which has continued to grow at rates below the national average since those cuts began. Instead of creating jobs, these cuts made it impossible for lawmakers to invest in needed programs. Wisconsin faced severe cuts to public schools and their health care system.

THERE'S TOO MUCH AT STAKE:

Neighboring states like Louisiana and Oklahoma are facing similar economic and budget issues because of major income tax cuts. Louisiana started a series of big income tax cuts in 2007, and lawmakers are now dealing with a $1.6 billion revenue shortfall.[15] Oklahoma passed a tax cut for top income earners last year, and is also headed for a major budget shortfall (over half a billion dollars).[16] Oklahomans already suffered major cuts to state programs (down 7.5 percent)[17] last year. In both states, tax cuts for the wealthy will likely be paid for by even deeper cuts to public programs.

In Arkansas, any extra cuts would be especially irresponsible because we are already sacrificing public services due to a tight budget. A number of important programs serving children and families, such as juvenile justice programs administered through the DHS Division of Youth Services, received cuts this year. Personal income tax cuts are a dangerous and costly experiment. State services and revenues are still recovering from the recession; this is no time to gamble with the future of public services in Arkansas.

NOTES:

[1] http://www.cbpp.org/research/state-budget-and-tax/state-personal-income-tax-cuts-still-a-poor-strategy-for-economic
[2] https://www.washingtonpost.com/posteverything/wp/2016/04/20/a-graphical-assault-on-supply-side-tax-cuts/?tid=a_inl
[3] http://www.arkleg.state.ar.us/assembly/2015/2015R/Documents/2015SummaryOfFiscalLegislation.pdf
[4] http://www.cbpp.org/research/lessons-for-other-states-from-kansas-massive-tax-cuts
[5] http://www.kansas.com/opinion/opn-columns-blogs/article1096336.html
[6] http://realprosperityks.com/duane-goossen-revised-revenue-forecast-predicts-deeper-hole/
[7] http://www.cbpp.org/blog/5-pieces-of-context-for-the-new-kansas-budget
[8] http://www.mecep.org/the-great-tax-shift-income-tax-cut-burdens-many-mainers/
[9] http://www.cbpp.org/research/fact-sheet-big-cuts-in-state-income-taxes-not-yielding-promised-benefits
[10] http://www.cbpp.org/blog/north-carolinas-tax-cuts-far-from-praise-worthy
[11] http://www.ncjustice.org/?q=budget-and-tax/chartbook-four-charts-final-budget
[12] http://www.policymattersohio.org/itep-aug2015
[13] http://www.policymattersohio.org/itep-aug2015
[14] http://www.wisconsinbudgetproject.org/continued-focus-on-tax-cuts-does-little-to-improve-job-growth
[15] http://www.labudget.org/lbp/2015/02/louisianas-1-6-billion-problem-how-did-we-get-here/
[16] http://okpolicy.org/wp-content/uploads/2016_Budget_Highlights.pdf?94cc4d
[17] http://okpolicy.org/is-oklahoma-headed-for-a-revenue-shortfall/

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