

REGIONAL JOBS MAGNETS

(September 2021) Arkansas policymakers have taken action to boost Arkansas' economic competitiveness by cutting the top income tax rate from 7.0% to 5.9%. Gov. Hutchinson and state legislators are poised to take the next step by reducing the rate again in a special legislative session this Fall.

Tax cut opponents maintain there is no economic advantage to reducing rates. Yet U.S. Bureau of Labor Statistics jobs data show states without an income tax enjoy an economic advantage over those with the highest tax rates. States without income taxes have emerged as regional jobs magnets.

The following chart shows the top third of states with the highest income tax rates (Source: Federation of Tax Administrators, www.taxadmin.org).

State	Top Individual Income Tax Rate
California	12.3% (13.3% over \$1 million taxable income)
Hawaii	11.0%
New Jersey	10.75%
Oregon	9.9%
Minnesota	9.85%
New York	8.82%
Vermont	8.75%
Iowa	8.53%
Arizona	8.0%
Wisconsin	7.65%
Maine	7.15%
South Carolina	7.0%
Connecticut	6.99%
Idaho	6.925%
Montana	6.9%
Nebraska	6.84%
Delaware	6.6%

Payroll employment is the broadest state level economic indicator. Tax cut opponents often make *annual* comparisons between states; a broader analysis examines performance across the entire *business cycle*. The longest U.S. economic expansion (128 months) began in June 2009 and ended in February 2020 (Source: National Bureau of Economic Research, www.nber.org). The following chart shows job creation rates in high income tax states in the last cycle (Source: Bureau of Labor Statistics, www.bls.gov).

State	Growth Rate
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Idaho	26.9%
Arizona	23.3%
Oregon	22.5%
California	22.4%
South Carolina	21.4%
United States	16.4%
New York	15.4%
Montana	13.7%
Minnesota	13.3%
Delaware	12.6%
Hawaii	11.4%
Wisconsin	9.6%
Nebraska	8.9%
New Jersey	8.8%
Iowa	7.8%
Maine	7.5%
Vermont	6.0%
Connecticut	3.9%

Employment growth in only five of 17 states with the highest income tax rates exceeded the U.S. average.

The next chart lists the nine states without an income tax (Source: Federation of Tax Administrators, www.taxadmin.org).

State	Individual Income Tax Rate
Alaska	0.0%
Florida	0.0%
Nevada	0.0%
New Hampshire	0.0% (Dividends and Interest are taxed)
South Dakota	0.0%
Tennessee	0.0%
Texas	0.0%
Washington	0.0%
Wyoming	0.0%

The following chart shows job creation rates in these states in the last cycle.

State	Growth Rate
Nevada	26.2%
Texas	25.7%

Florida	25.6%
Washington	22.9%
Tennessee	21.0%
United States	16.4%
New Hampshire	10.3%
South Dakota	10.0%
Alaska	3.0%
Wyoming	0.7%

Jobs creation in no income tax states exceeded growth in high tax states.

No Income Tax States	23.7%
High Tax States	16.6%

Regional Jobs Magnets

States without income taxes have emerged as regional jobs magnets.

Southeast Region

Florida was the only Southeast state without an income tax during the expansion. Arkansas is in the Southeast. Florida led the region in growth.

State	Growth Rate
Florida	25.6%
South Carolina	21.4%
Tennessee	21.0%
Georgia	19.7%
North Carolina	18.9%
Virginia	12.0%
Kentucky	11.6%
Arkansas	11.3%
Alabama	9.8%
Mississippi	6.1%
Louisiana	4.9%
West Virginia	0.2%

Plains Region

Texas borders Arkansas. Texas led Plains states in jobs creation.

Texas	25.7%
North Dakota	19.9%

South Dakota	10.0%
Nebraska	8.9%
Oklahoma	8.7%
Kansas	6.5%

Conclusion

Tax rates are a factor of economic development.

Payroll employment is the broadest state level economic indicator. States without income taxes, as a group, create jobs at higher percentage rates than those with the highest rates, according to U.S. Bureau of Labor Statistics data.

This analysis examined the record U.S. economic expansion from June 2009 to February 2020 (National Bureau of Economic Research).

States without income taxes have emerged as regional jobs magnets. These states are Florida in the Southeast and Texas in the Plains.

-- Greg Kaza