

May 2008

*No Income Tax:
The Key to
Economic Growth*

POLICY

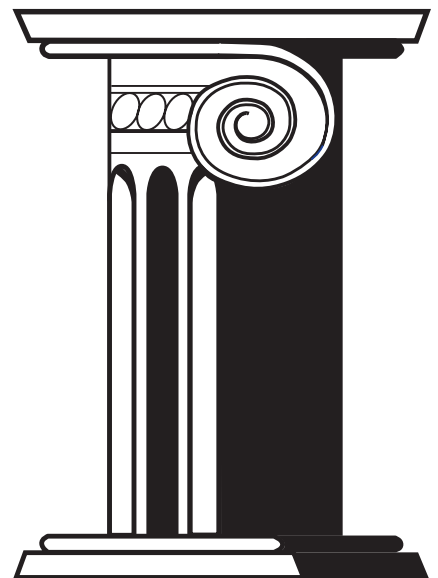
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by

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No Income Tax: The Key to Economic Growth

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Executive Summary

Seven states — Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming — do not impose a state income tax. Two additional states, New Hampshire and Tennessee, tax only dividend and interest income. Is there an economic advantage for states that do not collect an income tax from their citizens?

Studies show that no-income-tax states are more prosperous than states with an income tax. Dr. Richard Vedder published a study using 40 years worth of data to compare states with and without an income tax. Vedder concludes that states without an income tax have greater growth in total income and population, and that taxes do matter in economic growth.

Another study by Dr. Vedder looks at net domestic migration for the 50 states and the District of Columbia, or the number of native-born Americans moving into a state minus the number moving out of a state. Analysis shows that nearly 3 million persons moved from states with an income tax to a state without an income tax between 1990 and 1999.

Dr. Arthur Laffer and Stephen Moore created an index for the American Legislative Exchange Council that studied what factors make a state competitive in economic growth. The authors compared the nine states without an income tax to the nine states

with the highest marginal personal income tax rates over a ten-year period, from 1996 to 2006, and determined that states with no income tax have greater economic growth and higher rates of job creation.

Curtis Dubay and Chris Atkins authored the Tax Foundation's most recent "State Business Tax Climate Index," looking at tax policies and how they impact business decisions. Seven of the Index's top ten states for best business tax climate are states that do not have an income tax.

This study next looks at the state of Iowa, which has a personal income tax with nine tax brackets and a top income tax rate of 8.98%, and compares it with South Dakota, one of Iowa's neighboring states, and a state without an income tax. An examination of data for the forty-year period of 1967 to 2007 shows that South Dakota has experienced greater growth in both total personal income and per capita personal income, greater growth in population, and greater growth in non-farm employment. On quality of life issues, South Dakota ranks higher than Iowa in most areas, with education being the lone exception.

The evidence confirms that states without an income tax are more attractive to individuals looking for a place to live and businesses looking for a place to locate.

“Studies show that no-income-tax states are more prosperous than states with an income tax.”

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“Looking at economic statistics and quality of life markers for Iowa, which has an income tax, and South Dakota, which does not, reinforces the findings of those studies — that states without an income tax experience greater levels of economic success.”

Introduction

Seven states in our nation collect no state income tax from their citizens: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Two other states, New Hampshire and Tennessee, tax only dividend and interest income. Studies show that states without an income tax have greater economic growth rates than states with an income tax, including greater rates of income growth, population growth, job growth, and are more attractive to businesses looking for locations to build or expand. Looking at economic statistics and quality of life markers for Iowa, which has an income tax, and South Dakota, which does not, reinforces the findings of those studies — that states without an income tax experience greater levels of economic success.

Taxes and Economic Growth

In a study published by the Taxpayers Network, Dr. Richard Vedder looks at “taxation and its impact on the economy” to determine whether taxes matter.¹ Some taxation is necessary to ensure the basic framework of the economy, “to finance certain minimal infrastructure needs like roads necessary for trade.”² Government also may use its resources to “define and regulate the issuance of money” and “establish

and enforce laws protecting individual property rights.”³ However, if government grows too large and taxes increase to higher levels, “reduced work effort, capital formation, and innovation” will have a negative impact on the economy.⁴

Dr. Vedder calculated the average tax burden of each state for a 40-year period, from 1957 to 1997, using state and local taxes as a percentage of personal income. He then compared the top ten states with the highest tax burden and the bottom ten states with the lowest tax burden. For both the growth in total personal income, adjusted for inflation (which “is the better indicator of overall economic change”) and the growth in real per capita personal income, adjusting for population changes (which “is the better measure of income available for individuals for consumption and other uses”), the states with the lowest tax burden outperformed the states with the highest tax burden.⁵ Real income per capita grew 138% for the low-tax states, while growing 115% for the high-tax states over the 40-year period. The difference in the growth in real total income is even more dramatic, with the low tax states increasing real total income by 390% over the 40-year period, while the high tax states saw growth in real total income of only 177% for the same time period.⁶

One specific example of the difference in economic growth and the relationship to tax levels is to look at the neighboring states of Kentucky and Tennessee.

In 1957...per capita income was slightly higher in Kentucky. Both states had relatively low tax burdens (even by standards of that era), although Kentucky's was about five percent lower (as measured by total state and local taxes as a percent of personal income) than Tennessee's.

In the 40 years after 1957, the two states followed sharply different fiscal paths. Kentucky raised its tax burden dramatically, including massive hikes in its income tax. By 1997, the state and local governments were taking \$35.71 more out of each \$1000 of income than 40 years earlier. By contrast, Tennessee had only a modest increase in taxes, and did not adopt an income tax (except for a limited tax on property income). As a consequence, by 1997, the aggregate tax burden was over 25 percent higher in Kentucky than in Tennessee.

What happened to the two economies? By 1997, Tennessee had per capita income that was about 10 percent higher than in Kentucky — \$2,109 per person higher, or \$8,436 for a family of four. On average, a family of four in Tennessee earned \$703 more per month than its counterpart to the north in Kentucky. Yet that is not the whole story. Population growth was dramatically greater in Tennessee, as individuals and companies flocked to the Volunteer State to take advantage of the favorable tax climate. Looking at total real personal income growth (which takes account of population growth as well as growth in per capita income), it grew 333 percent in Tennessee, compared with 232 percent in Kentucky.⁷

Dr. Vedder then looks specifically at the state income tax to determine its impact on economic growth. He compared the ten states with the highest increase in income tax burden over the 40-year period to the ten states with the lowest increase in income tax burden (or no increase, in the case of states that did not have an income tax). Real total

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“Population growth was dramatically greater in Tennessee, as individuals and companies flocked to the Volunteer State to take advantage of the favorable tax climate.”

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“Real total income growth for the top ten income-tax-raising states was 191%, while real total income growth for the states with the lowest or no increases in the state income tax was 455% over the 40-year period.”

income growth for the top ten income-tax-raising states was 191%, while real total income growth for the states with the lowest or no increases in the state income tax was 455% over the 40-year period.⁸ Dr. Vedder concluded that “most of that reflected larger population growth in the low or no income tax states. However, real income *per person* also grew faster on average in the low tax states.”⁹

Migration and Economic Growth

Population growth in low-tax states is the subject of another study by Dr. Vedder. In “Taxation and Migration,” Vedder looks at net domestic migration for the 50 states and the District of Columbia for 1990-1999 and 2000-2002. Net domestic migration is the number of native-born Americans moving into a state minus the number of native-born Americans moving out of the state. A state can have a negative net domestic migration if more people move out of the state than into the state. Dr. Vedder then divides the 50 states into two groups — the 25 states with the greatest state and local tax burden as a percent of personal income are the “high tax” states, while the 25 with the lowest tax burden are the “low tax” states.

For the 1990s, the study shows that 2,611,000 Americans net moved from a high tax

state to a low tax state. That migration represents “about one thousand persons per day for each business day during this period of nearly a decade.”¹⁰ A similar pattern is found for the 2000-2002 period, striking evidence that “large numbers of Americans fled high tax jurisdictions for lower taxed ones.”¹¹

For a better picture of the differences in migration to high or low tax states, Dr. Vedder looked at the ten states with the highest tax burden and the ten states with the lowest tax burden. In the 1990s the ten highest-tax states had a negative net internal migration of 890,000, while the ten states with the lowest tax burden had a net internal migration of 2,052,000.¹² By 2000-2002, the top ten and bottom ten states had changed somewhat, but the migration patterns remain the same.

Dr. Vedder also classified the states by migration patterns to ask the question of whether states with greater in-migration have a lower tax burden. He found that the ten states with the highest domestic in-migration in the 1990s had an average tax burden of \$108.28 for each \$1,000 in personal income in fiscal year 1990. The ten states with the largest out-migration had a higher average tax burden, \$115.30 per \$1,000 in personal income — seven percent higher than the in-migration states. For the

2000-2002 period, the overall result is the same, but the tax burden for the ten states with the highest out-migration is almost eleven percent greater than for the ten states with the largest in-migration.¹³

While taxes are a factor in whether someone moves from one state to another, they are, of course, not the only factor. First, using a simple regression, “relating net domestic migration in the 1990s to the overall state and local tax burden in 1990, as well as to the change in that tax burden over the 1990s,” Dr. Vedder found that “the results are strongly consistent with the view that higher taxes means less migration into a state and more migration out of a state.”¹⁴ Dr. Vedder then introduced more variables into the analysis to control for the non-tax factors. Those variables are the population of a state in 1990, the percent of days per year that the sun is shining, the level of per capita income in 1990, the percent growth in real income per capita over the 1990s, and the percent of the labor force belonging to labor unions in 1994. The results of the later calculations confirm the earlier results. “The tax variables are still negative, implying higher taxes lead to negative (out) migration.”¹⁵

Additional analysis shows that the strongest negative relationship is between individual income taxation and

migration.¹⁶ “Comparing the nine states that have essentially no personal income tax with the other 41 states and the District of Columbia...some 2,849,310 persons moved into the no income tax states from the states that levied taxes on the productive activity of their citizens” during the period from 1990-1999.¹⁷ This is nearly as many people as currently live in the state of Iowa. “Excepting Sundays, some one thousand persons moved every day for nine years to the no-income-tax states!” said Vedder. “More persons fled to the no-income-tax havens than moved from East to West Germany during the Cold War.”¹⁸

Making States Competitive

The American Legislative Exchange Council (ALEC) has recently published a study by economists Dr. Arthur Laffer and Stephen Moore to help “state lawmakers and citizens to evaluate their state’s fiscal and economic policies, while analyzing their results and ramifications.”¹⁹ The ALEC Study looks at 16 factors — including tax burden, recent tax policy changes, public employees per 10,000 residents, and whether a state is a right-to-work state or has a tax/expenditure limit — to rank the states in terms of economic competitiveness. The sixteen factors are all policies that can be influenced by state lawmakers.

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“Additional analysis shows that the strongest negative relationship is between individual income taxation and migration.”

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Eight of the 16 policy factors deal specifically with tax rates or the tax burden on individuals and businesses. Taxes have an impact on economic behavior, and tax cutting is not the domain of a single political party, as the authors point out with several examples, including this one from New Mexico:

Our favorite story is what New Mexico's Democratic governor, Bill Richardson, has done in his state. He cut the state's highest income tax rate from 8.2 percent to 4.9 percent, and he cut the state's capital gains tax in half. "This was our way of declaring to the world that New Mexico is open for business," Richardson said. "After all, businesses move to states where taxes are falling, not rising," he continued....The state now has a half-billion-dollar surplus, and over the last year its tax revenues have grown faster than any other state's.²⁰

"After all, businesses move to states where taxes are falling, not rising."

The authors of the ALEC study compared the nine states without an income tax to the nine states with the highest marginal personal income tax rates over a ten-year period, from 1996 to 2006.²¹ The results show that "high income tax rates deter economic

growth and job creation in states."²² The nine states without an income tax show greater average growth in state Gross Domestic Product (86% vs. 62% for the high income tax states), greater average personal income growth (79% vs. 60%), greater average growth in personal income per capita (53% vs. 50%), greater average population growth (17% vs. 8%), higher average net domestic in-migration as a percent of population (4.1% vs. -1.8%), greater average growth in non-farm payroll employment (23% vs. 12%), and a lower average unemployment rate (4.3% vs. 4.6%).²³

Similar conclusions about the negative impact of high taxes on economic growth have been documented in numerous studies over the years, including one cited in the ALEC study, from the Joint Economic Committee (JEC) of Congress. A study published by the JEC in 1982 "compared the tax policies in the 16 fastest income-growing states and the slowest income-growing states from 1970 to 1979....The conclusion of the study was as follows:"²⁴

The evidence is strong that tax and expenditure policies of state and local governments are important in explaining variations in economic growth between states — far more important

than other factors frequently cited such as climate, energy costs, the impact of federal fiscal policies, etc. It is clear that high rates of taxation lower the rate of economic growth, and that states that lower their tax burdens are rewarded with an enhancement in their economic growth. Income taxes levied on individuals and corporations are particularly detrimental to growth, more so than consumption-based taxes or user charges that do not reduce incentives to work or form capital. Progressive taxation not only lowers the rate of economic growth compared with proportional or regressive taxation, but in the process hurts the very persons that progressive taxes are designed to help: the poor.²⁵

The JEC study also compared the top ten tax-hiking states with the top ten income tax-cutting states. The states that cut taxes gained 975,000 new jobs, while the tax-hiking states experienced a loss of 182,000 jobs.²⁶ The tax-cutting states also saw a real increase in personal income per family of four of \$148, while the states that increased taxes saw a real

decline of \$613 in personal income per family of four.²⁷

States Friendly to Small Business Development

What makes a business choose one state over another when looking for a location? Economist Curtis S. Dubay and Senior Tax Counsel Chris Atkins of The Tax Foundation look at tax policies and how they impact business decisions in the “2008 State Business Tax Climate Index.” This annual series was created to provide lawmakers with a tool to compare their tax systems with other states and to point the way toward reforms that could improve a state’s tax climate for all businesses.

Dubay and Atkins characterize the “ideal” tax system as one that “is simple, transparent, stable, neutral to business activity, and pro-growth.... Good state tax systems levy low, flat rates on the broadest base possible, and they treat all taxpayers the same.”²⁸ The Index takes a look at state tax systems and ranks them in five areas: corporate tax, individual income tax, sales tax, unemployment tax, and property tax. The “State Business Tax Climate Index” includes personal income taxes in the rankings because they impact the cost of labor, and “a significant number of businesses, including sole proprietorships, partnerships, and S-corporations, report their

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“From 1967 to 2007 total personal income, adjusted for inflation, grew 96.3% in Iowa, while growing 151.9% in South Dakota.”

income through the individual income tax code.”²⁹

Each state also receives an overall ranking, from best to worst tax climates for attracting and retaining businesses. The top ten best business climate states in the 2008 Index are Wyoming, South Dakota, Nevada, Alaska, Florida, Montana, New Hampshire, Texas, Delaware, and Oregon. The bottom ten worst business climate states are Maine, Minnesota, Nebraska, Vermont, **Iowa**, Ohio, California, New York, New Jersey, and Rhode Island.³⁰

In commenting on the Tax Foundation’s Index in The Cato Institute’s Liberty Blog, Cato’s Senior Fellow Daniel J. Mitchell had this to say about the state rankings: “[T]here are two things that jump off the page. First, the top five states (and seven of the top 10) have no state income tax. The flip side is that the worst-performing states all have income taxes, generally with steeply “progressive” rates.”³¹ All taxes, especially the income tax, have an impact on economic growth and the success of businesses in the states.

Iowa vs. South Dakota

Iowa’s personal income tax has nine tax brackets, with a top income tax rate of 8.98%. One of our neighboring

states, South Dakota, has no income tax. How do the two states compare? What is the impact of having or not having an income tax on economic indicators such as personal income, population, and employment? How do the states match up on quality of life issues such as housing, health care, crime, and education?

Economic Indicators

As Dr. Vedder noted in his study, “Taxes and Economic Growth,” growth in total personal income and growth in per capita personal income are two prime indicators of a state’s economic health. Growth in total personal income, adjusted for inflation, “is the better indicator of overall economic change” and growth in per capita personal income “is the better measure of income available for individuals for consumption and other uses.”³² Looking at the most recent forty-year period for which data is available, 1967 to 2007, a comparison of the two states shows that South Dakota has experienced greater growth in total personal income over each of the four decades, as well as over the entire forty-year period. As is shown in Table 1, from 1967 to 2007 total personal income, adjusted for inflation, grew 96.3% in Iowa, while growing 151.9% in South Dakota.

Table 1. Total Personal Income

Growth in Total Personal Income (in thousands of dollars)				
	Iowa	Growth in PCPI	South Dakota	Growth in PCPI
1967	\$8,588,933		\$1,726,407	
1977	\$21,144,656	146.2%	\$4,367,749	153.0%
1987	\$41,241,719	95.0%	\$9,223,368	111.2%
1997	\$68,297,439	65.6%	\$16,335,233	77.1%
2007	\$104,650,635	53.2%	\$26,995,920	65.3%
1967-2007		1118.4%		1463.7%
Growth in Total Personal Income, in constant (2007) dollars (in thousands of dollars)				
1967	\$53,318,759		\$10,717,266	
1977	\$72,346,126	35.7%	\$14,944,188	39.4%
1987	\$75,274,124	4.0%	\$16,834,433	12.6%
1997	\$88,230,078	17.2%	\$21,102,678	25.4%
2007	\$104,650,635	18.6%	\$26,995,920	27.9%
1967-2007		96.3%		151.9%

Source: U.S. Bureau of Economic Analysis

Table 2 indicates that the same trend holds for per capita personal income growth in the two states. From 1967 to 2007, per capita personal income, adjusted for inflation, grew only 83.5% in Iowa, but grew 112.3% in South Dakota.

A growing population is another measure of a state's economic success. As Dr. Vedder highlighted in his "Taxation and Migration" Policy Study, people tend to move into low tax states and away from high tax states. Table 3 shows that while South Dakota has a lower overall population than Iowa, the growth rate of South Dakota's population over the last forty

years, and in each of the last four decades, was greater than the growth rate of Iowa's population. Iowa's population grew only 7.0% from 1967 to 2007, while South Dakota's population grew 18.7% in that same time period.

The Wall Street Journal reported earlier this year on a survey by the moving company United Van Lines. The company looked at the migration patterns of the eight million Americans that relocated to a different state last year to determine which states were destination states and which had more departures than new arrivals.³³ The *Journal* article concludes that taxes

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are one of the motivators for moving because eight of the nine states without an income tax (all but Alaska) were destination states, gaining more

newcomers than departures. The article also holds up North and South Dakota as an example of the power of being a low tax state.

Table 2. Per Capita Personal Income

Growth in Per Capita Personal Income				
	Iowa	Growth in PCPI	South Dakota	Growth in PCPI
1967	\$3,075		\$2,573	
1977	\$7,255	135.9%	\$6,339	146.4%
1987	\$14,905	105.4%	\$13,251	109.0%
1997	\$23,623	58.5%	\$21,949	65.6%
2007	\$35,023	48.3%	\$33,905	54.5%
1967-2007		1039.0%		1217.7%
Growth in Per Capita Personal Income, in constant (2007) dollars				
1967	\$19,089		\$15,973	
1977	\$24,823	30.0%	\$21,689	35.8%
1987	\$27,205	9.6%	\$24,186	11.5%
1997	\$30,517	12.2%	\$28,355	17.2%
2007	\$35,023	14.8%	\$33,905	19.6%
1967-2007		83.5%		112.3%

Source: U.S. Bureau of Economic Analysis

Table 3. State Population

	Iowa	Growth in	South Dakota	Growth in
	Population	Population	Population	Population
1967	2,793,000		671,000	
1977	2,914,308	4.3%	688,992	2.7%
1987	2,767,006	-5.1%	696,034	1.0%
1997	2,891,119	4.5%	744,223	6.9%
2007	2,988,046	3.4%	796,214	7.0%
1967-2007		7.0%		18.7%

Source: U.S. Bureau of Economic Analysis and U.S. Census Bureau

Politicians who think taxes don't matter might want to explain the Dakotas. North Dakota ranked second worst in out-migration last year, while South Dakota ranked in the top 10 as a destination. The two are similar in most regards, with one large difference: North Dakota has an income tax and South Dakota doesn't.³⁴

Dr. Vedder's migration study shares the conclusion of *The Wall Street Journal* that taxes play a part in whether more people move into or out of a state. "Taxation in general, and income taxation in particular, has adverse effects on the attractiveness of a community," said Vedder.³⁵

Jobs are another important indicator of the economic health of a state. How do Iowa and South Dakota compare for

non-farm employment for the forty-year period, from 1967 to 2007? Table 4 shows that South Dakota has consistently experienced greater growth in total non-farm employment in each of the last four decades. The overall growth in non-farm employment from 1967 to 2007 was 148% in South Dakota, while non-farm job growth in Iowa was only 82.1% over the same time period.

Both states had lower unemployment rates than the national rate of 5% as reported by the U.S. Department of Labor's Bureau of Labor Statistics earlier this month. Iowa's unemployment rate for April 2008 was 3.5%, down from 3.7% the previous April. South Dakota's April 2008 unemployment rate was 2.6%, down from 3.1% one year earlier.³⁶

One way to increase the number of jobs available in a state is to make the state

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Table 4. Total Non-Farm Employment (not seasonally adjusted) in thousands

	Iowa	Growth	South Dakota	Growth
1967	832.9		163.9	
1977	1,079.2	29.6%	226.6	38.3%
1987	1,109.1	2.8%	256.9	13.4%
1997	1,407.0	26.9%	353.0	37.4%
2007	1,517.0	7.8%	406.4	15.1%
1967-2007		82.1%		148.0%

Source: U.S. Department of Labor, Bureau of Labor Statistics

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more attractive to businesses. The *2008 State Business Tax Climate Index* from Tax Foundation has ranked South Dakota the second best state in the nation in which to locate and operate a business, in large part because the state does not have a personal or corporate income tax. Iowa ranks 45 on the same index. Some of the reasons for Iowa's low ranking include having the highest corporate income tax rate in the nation and the large number of tax brackets for the personal income tax.³⁷

Tax Burden and Revenue

It is important to look at each state's overall state and local tax burden when comparing states. South Dakota has no income tax, but how does the complete tax burden picture compare with Iowa? A Tax Foundation report, "State and Local Tax Burdens Hit 25-Year High," calculates each state's tax burden as a percentage of income and per capita tax burden for calendar year 2007. In Iowa, the state and local tax burden amounts to 11% of the state's income, while in South Dakota, the tax burden is only 9% of income. Iowa's per capita tax burden is \$4,085; South Dakota's per capita tax burden is \$3,435.³⁸ Without an income tax, South Dakota simply has a lower overall tax burden than Iowa.

While the tax burden in South Dakota is lower than in Iowa,

South Dakota's tax revenue has experienced faster growth, according to calculations by The Cato Institute. From 1992 to 2000, Iowa's tax revenue grew by 44%, while South Dakota's tax revenue increased by 64.1% over the same time period.³⁹ Low taxes combined with more dynamic economic growth can lead to faster-growing tax revenues.

Quality of Life

Quality of life issues such as housing, health care, crime, and education go hand in hand with economic growth and low taxes in making states attractive places to live and work.

On the housing front, South Dakota has seen greater growth in the number of housing units than in Iowa. Table 5 demonstrates that from 2000 to 2006, the number of housing units in Iowa grew by 7.1%, while the number of housing units grew 9.0% in South Dakota.

Statistics show that South Dakota has more hospital beds per capita than does Iowa. South Dakota has 5.5 hospital beds per 1,000 inhabitants, while Iowa has 3.5 beds. The national average is 2.7 beds per 1,000 inhabitants.⁴⁰

Crime rates are lower in South Dakota than in Iowa. Federal Bureau of Investigation (FBI) reports indicate that in 2006 South Dakota experienced a

“In Iowa, the state and local tax burden amounts to 11% of the state's income, while in South Dakota, the tax burden is only 9% of income.”

Table 5. Housing Units

	Iowa	South Dakota
Housing Units 2000	1,232,511	323,208
Housing Units 2006	1,319,980	352,289
Growth in # of Units	7.1%	9.0%

Source: U.S. Census Bureau.

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violent crime incident rate of 171.4 per 100,000 inhabitants, while Iowa’s violent crime incident rate per 100,000 inhabitants was 283.5. For property crimes, the rate per 100,000 inhabitants was 1,619.6 in South Dakota and 2,802.7 in Iowa.⁴¹

Education is one area in which Iowa does manage to rank ahead of South Dakota. Iowa spent \$8,360 per pupil

for public elementary and secondary school systems for the 2005-06 school year, while South Dakota’s per pupil spending was \$7,651.⁴² As for results, Table 6 shows that Iowa’s ACT scores and college readiness results are somewhat higher than in South Dakota, although both states are above the national average. Also of note is that more of South Dakota’s students take the ACT test.⁴³

“Iowa’s ACT scores and college readiness results are somewhat higher than in South Dakota, although both states are above the national average.”

Table 6. ACT Testing and Results, Graduating Class of 2007

	Iowa	South Dakota	National
Percent of students tested	66	76	42
Average composite score	22.3	21.9	21.2
Percent of Students Meeting ACT College Readiness Benchmark Scores for:			
College English Composition	78	75	69
College Algebra	50	50	43
College Social Science	61	58	53
College Biology	36	34	28
All Four	28	27	23

Source: ACT, www.act.org.

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“States with low or no income tax are more attractive to individuals looking for a place to live and for businesses looking for a place to locate.”

Conclusion

States with low or no income tax are more attractive to individuals looking for a place to live and for businesses looking for a place to locate. Studies show that states with no income tax have higher rates of economic growth, have greater domestic in-migration, and are rated higher in the qualities that businesses look for when considering location.

Iowa has an income tax, while our neighbor to the northwest — South Dakota — does not. South Dakota ranks better than Iowa in growth in total and per capita personal income, growth in state population, and growth in employment. South Dakota also has greater growth in the number of housing units, more hospital beds per capita, and lower rates of crime.

“In Missouri, the legislature is reviewing a plan...that would...end that state’s income tax within 10 years.”⁷⁴⁴ If Missouri eliminates its income tax, Iowa will have two neighbors with no income tax. Can we afford to be left behind in the competition for economic growth?

Endnotes:

- ¹Dr. Richard K. Vedder, "Taxes and Economic Growth," The Taxpayers Network, September 2001, p. 1. Dr. Vedder is a distinguished Professor of Economics at Ohio University and a member of the Public Interest Institute Academic Advisory Board.
- ²Ibid.
- ³Ibid.
- ⁴Ibid.
- ⁵Ibid, p. 7.
- ⁶Ibid, p. 8.
- ⁷Ibid, p. 10.
- ⁸Ibid, p. 14.
- ⁹Ibid.
- ¹⁰Dr. Richard K. Vedder, "Taxation and Migration," The Taxpayers Network, March 2003, p. 6. The migration statistics for the 1990s are from April 1, 1990 to July 1, 1999.
- ¹¹Ibid.
- ¹²Ibid, pp. 7-8.
- ¹³Ibid, pp. 8-9.
- ¹⁴Ibid, p. 10.
- ¹⁵Ibid, p. 11.
- ¹⁶Ibid, p. 13.
- ¹⁷Taxes and Economic Growth, p. 14.
- ¹⁸Ibid.
- ¹⁹Dr. Arthur B. Laffer and Stephen Moore, "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index," American Legislative Exchange Council, 2007, p. 7.
- ²⁰Ibid, p. 23.
- ²¹The nine states with the highest marginal personal income tax rates are California, Hawaii, Kentucky, Maine, New Jersey, New York, Ohio, Oregon, and Vermont.
- ²²Ibid, pp. 37-38.
- ²³Ibid. In some cases, data is from 1995-2005, where 2006 data was not yet available.
- ²⁴Ibid, pp. 35-36.
- ²⁵Ibid, p. 36.
- ²⁶Ibid.
- ²⁷Ibid.
- ²⁸Curtis S. Dubay and Chris Atkins, "2008 State Business Tax Climate Index," Tax Foundation *Background Paper*, October 2007, Number 57, p. 4.
- ²⁹Ibid, p. 17.
- ³⁰Ibid, p. 5. Emphasis on Iowa added by Public Interest Institute author.
- ³¹Daniel J. Mitchell, "Absence of Income Tax is Key to State Competitiveness," The Cato Institute *Liberty Blog*, October 12, 2007, <<http://www.cato-at-liberty.org/2007/10/12/absence-of-income-tax-is-key-to-state-competitiveness/>> (May 5, 2008).
- ³²Taxes and Economic Growth, p. 7.
- ³³"States of Opportunity," *The Wall Street Journal*, February 12, 2008, p. A16.
- ³⁴Ibid.
- ³⁵Taxation and Migration, p. 14.
- ³⁶"Regional and State Employment and Unemployment Summary," U.S. Department of Labor, Bureau of Labor Statistics, May 16, 2008, <<http://www.bls.gov/news.release/laus.nr0.htm>> (May 21, 2008).
- ³⁷Dubay and Atkins.
- ³⁸Curtis S. Dubay, "State and Local Tax Burdens Hit 25-Year High," Tax Foundation *Special Report*, April 2007, Number 153, p. 3.
- ³⁹Laffer and Moore, p. 50.
- ⁴⁰"Hospital Beds per 1,000 Population, 2006," Statehealthfacts.org, The Henry J. Kaiser Family Foundation, <<http://www.statehealthfacts.org/comparemaptable.jsp?ind=384&cat=8&sort=a&rgnhl=17>> (May 21, 2008).
- ⁴¹"Crime in the United States, 2006," U.S. Department of Justice, Federal Bureau of Investigation, September 2007, <<http://www.fbi.gov/ucr/cius2006/index.html>> (May 21, 2008).
- ⁴²"Per Pupil Amounts for Current Spending of Public Elementary-Secondary School Systems by State: 2005-06," *Public Education Finances 2006*, U.S. Census Bureau, Annual Survey of Local Government Finances, April 2008, p. 8, <<http://ftp2.census.gov/govs/school/06f33pub.pdf>> (May 20, 2008).
- ⁴³"2007 ACT National and State Scores," ACT, <<http://www.act.org/news/data/07/index.html>> (May 21, 2008).
- ⁴⁴Laffer and Moore, p. 54.

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