

Big Cuts in State Income Taxes Not Yielding Promised Benefits

Five states — Kansas, Maine, North Carolina, Ohio, and Wisconsin — have cut personal income taxes by large amounts in recent years in hopes of boosting their economies. Here are the results so far:

Economic Growth Remains Weak

All five states have seen slower growth in private-sector gross domestic product than the United States as a whole since their tax cuts took effect. And four of the five states — all but North Carolina — have seen slower private-sector job growth than the United States over the same period.

Lackluster Performance Is Consistent with Past Experience

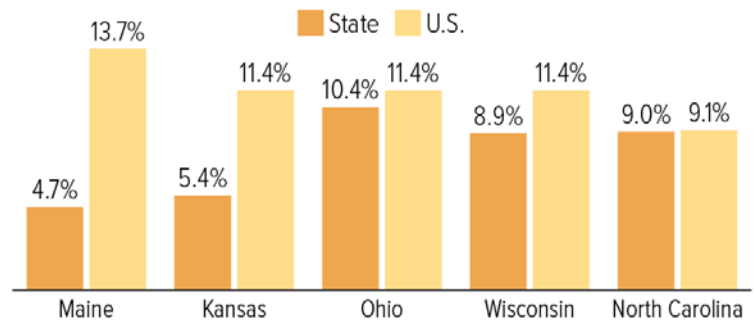
States that tried tax cuts in earlier decades didn't see their economies surge as a result either. For instance, states that cut taxes the most in the 1990s saw much slower average annual job growth during the next economic cycle than states that were more prudent.

Results Follow Academic Evidence

The lackluster results in states that have tried tax cuts to spur economic growth is consistent with most of the academic literature, which finds — after controlling for a variety of other factors — no correlation between lower state personal income taxes and economic growth.

Biggest Tax-Cutting States Not Seeing Economies Take Off

Growth in private state and national gross domestic product during period the tax cuts have been in effect



Note: Effective dates for tax cuts are Jan. 2012 for Maine, Jan. 2013 for Kansas, June 2013 for Ohio and Wisconsin (retroactive to Jan. 2013), and Jan. 2014 for North Carolina. In June 2017, Kansas restored some but not all of its tax cuts; the figures above for Kansas reflect the period between enactment and repeal of the majority of the January 2013 tax cuts.

Source: Chained, quarterly private GDP from Bureau of Economic Analysis, February 2018

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3 Reasons Why Personal Income Tax Cuts Are an Ineffective Strategy for Economic Growth



States have to balance their budgets so must pay for income tax cuts

by raising other taxes or cutting funding for schools and other services. These actions can slow the economy.



For the fastest-growing firms, the quality of local workers matters far

more than taxes. Cutting taxes at the expense of schools and colleges can make a state less attractive to firms.



The vast majority of people who get a tax cut are in no position to create a job.

Fewer than 3 percent of income taxpayers nationally own a business that hires other people.