

ALEC

American
Legislative
Exchange
Council

LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM



About ALEC

- Founded in 1973
- The American Legislative Exchange Council is America's largest nonpartisan, voluntary membership organization of state legislators dedicated to the principles of limited government, free markets, and federalism.
- Comprised of nearly one-quarter of the country's state legislators and stakeholders from across the policy spectrum, ALEC members represent more than 60 million Americans and provide jobs to more than 30 million people in the United States



ALEC Principles of Taxation

- The proper function of taxation is to raise money for core functions of government, not to direct the behavior of citizens or close budget gaps created by overspending. This is true regardless of whether government is big or small, and this is true for lawmakers at all levels of government. Taxation will always impose some level of burden on an economy's performance, but that harm can be minimized if policymakers resist the temptation to use the tax code for social engineering, class warfare and other extraneous purposes. A principled tax system is an ideal way for advancing a state's economic interests and promoting prosperity for its residents. The goal of American tax policy should be to raise revenue for functions of government in a way that minimizes distortions, so as to grow the overall economy and facilitate commerce.



ALEC Principles of Taxation

- Simplicity
- Transparency
- Economic Neutrality
- Equity and Fairness
- Complementary
- Competitive
- Reliable



Benefits of a Principled Tax Burden

- Greater economic growth
- Greater wealth creation
- Minimization of micromanagement and political favoritism



The Most Important (and Forgotten) Lesson for Policymakers Regarding Business Taxes...



Businesses Don't Pay Taxes
People Pay Taxes



Businesses Don't Pay Taxes, People Pay Taxes

- High business taxes result in high prices in an effort to turn a profit
- High business taxes move businesses across state lines, too.
 - Tesla
 - Citadel
 - Caterpillar
- When businesses move, so do jobs and other forms of economic stimulus.
- Tax preferences can move businesses, but a better overall tax system is better incentive.

What are Tax Preferences?

- Tax preferences refers to the use of public policy to benefit a specific industry, firm, or individual, as opposed to setting broad and generally applicable rules and policies that apply to society as a whole.
- It is rooted in the belief that reliance on government planning to direct economic activity will result in greater economic prosperity than free markets can achieve on their own.

Types of Tax Preferences

1. Targeted tax breaks or cash subsidies for specific firms granted by so-called “economic development” agencies.
2. Preferential tax treatment for firms located in a given geographic area and meeting numerous other qualifications.
3. Punitively high or special taxes on some firms or industries that competitively disadvantage them relative to other firms or industries.
4. Tax carve-outs that benefit certain industries or groups relative to the rest of the tax base.

What Tax Preferences are *Not*

- The practice of businesses utilizing existing tax carve-outs to reduce their tax burden is not tax evasion or avoidance.
- General, across-the-board tax cuts done through corporate and personal income tax rate reductions do not qualify as cronyism.



What's Wrong with Preferences in the Tax Code?

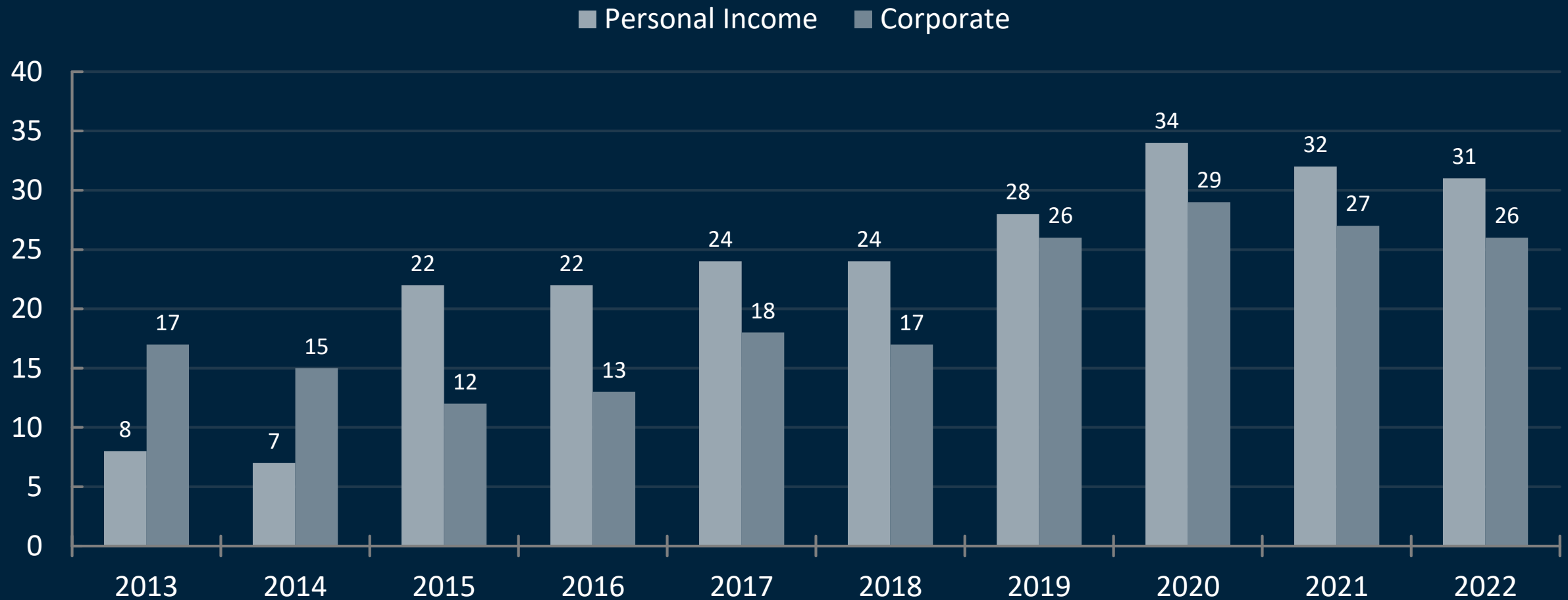
- Market distortions
- More carve-outs mean high taxes
 - Washington State and Boeing
- Failures in central economic planning
- Rent seeking
 - Amazon

Tax Preferences Gone Wrong

- Amazon, Arlington, and New York City
- Washington State and Boeing
- The St. Louis Rams
- Oregon Data Centers

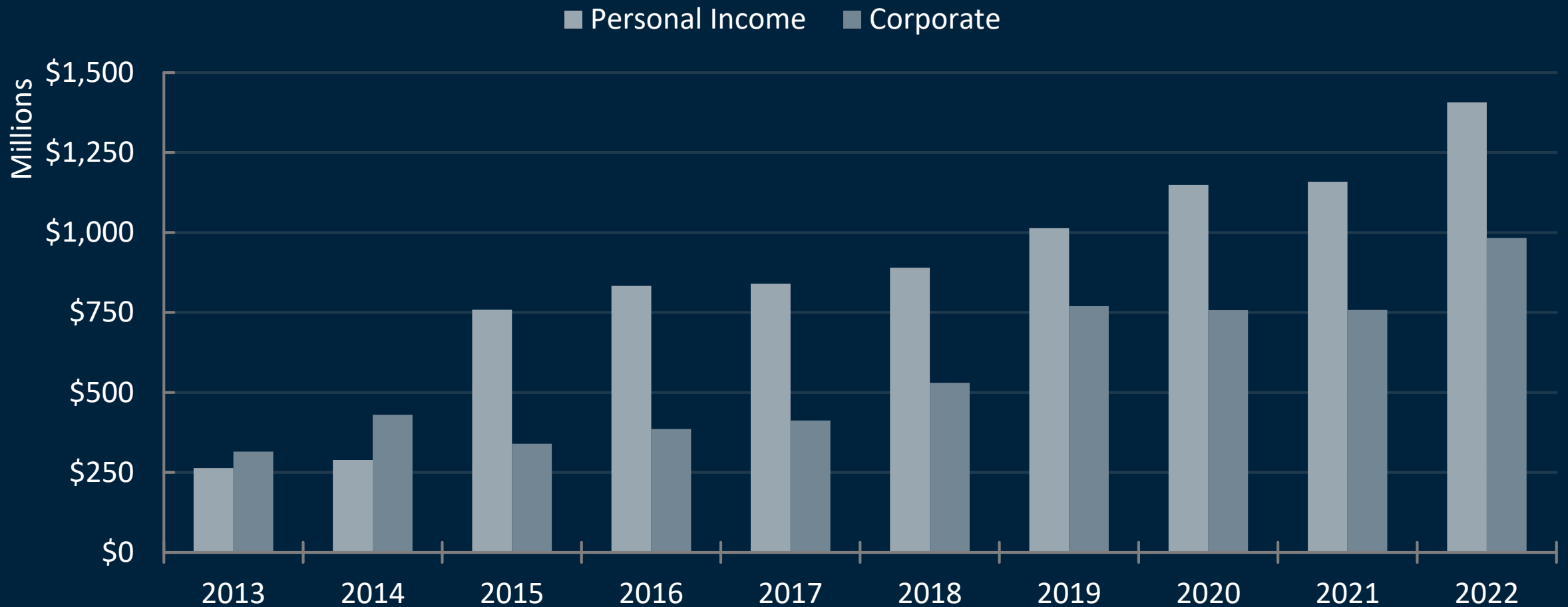


Number of Tax Credits with Expenditures Over \$1 Million



Source: Georgia Governor's Office of Planning and Budget

Cost of Tax Credits



Source: Georgia Governor's Office of Planning and Budget

Solutions for Fixing the Tax Code

- Tax carve-out transparency
 - Creating benchmarks review and evaluation of new tax carve-outs
- Cash subsidies, not tax carve-outs
- Eliminating tax carve-outs and reducing rates



Pro-Growth Reforms in the States

- Policymakers are increasingly realizing competitiveness is key to growth
- Major reforms swept across states in the past decade
- 2021, 2022, and 2023 have been historic years for tax cuts
 - 22 states have made cuts to the personal income tax (PIT)
- States can fall behind by standing still

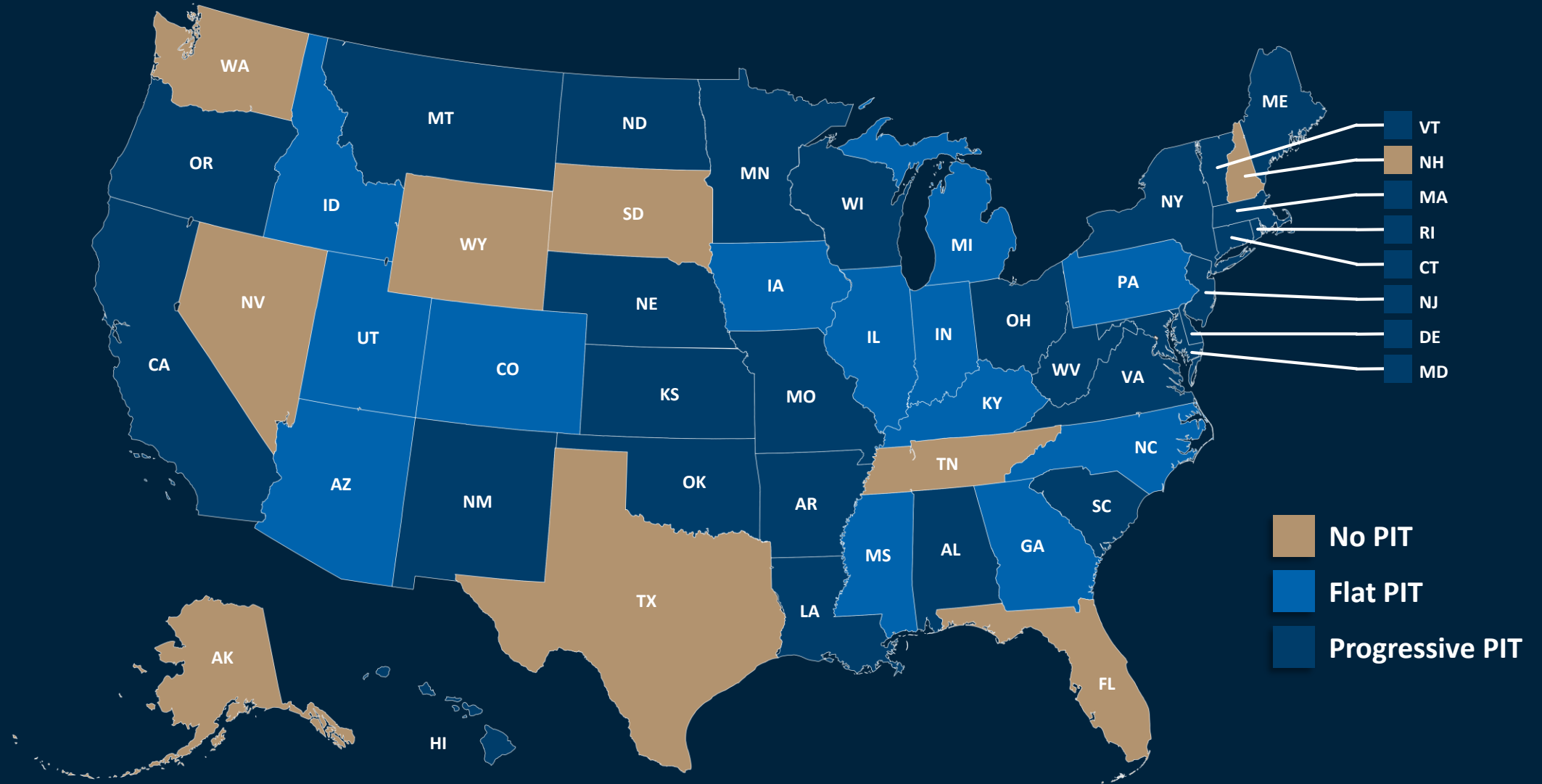


A History of the State Flat Tax Revolution

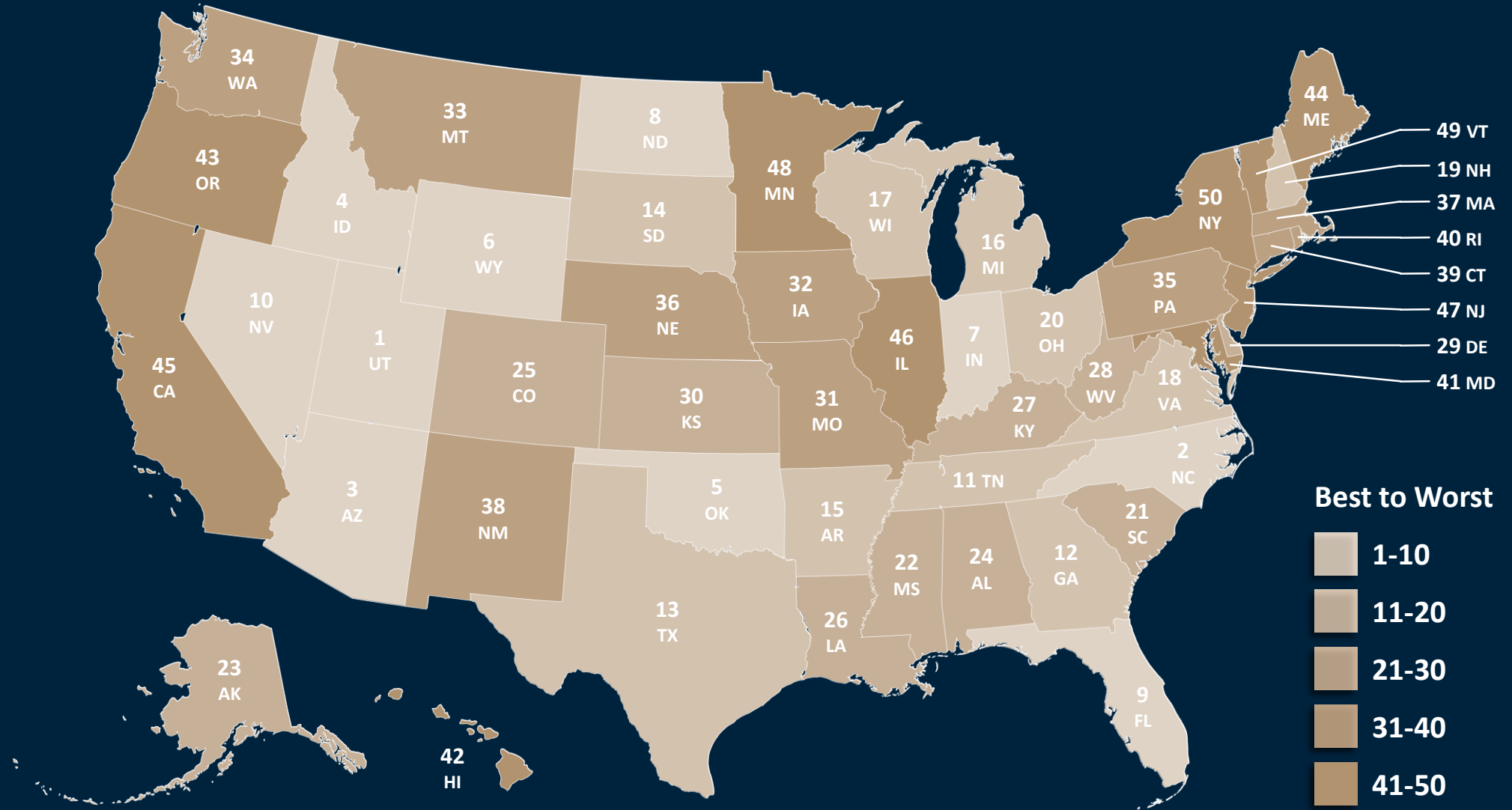
- 1987: Colorado enacts a flat tax
- 2008: Utah enacts a flat tax
- 2013: North Carolina enacts a flat tax
- 2022: A record 5 states enact a flat tax
 1. Iowa
 2. Arizona
 3. Mississippi
 4. Georgia
 5. Idaho
- 2023: Who will be next?



Personal Income Tax Progressivity



2023 Economic Outlook



The Best of the Best

1. Utah
2. North Carolina
3. Arizona
4. Idaho
5. Oklahoma
6. Wyoming
7. Indiana
8. North Dakota
9. Florida
10. Nevada



The Worst of the Worst

41. Maryland

42. Hawaii

43. Oregon

44. Maine

45. California

46. Illinois

47. New Jersey

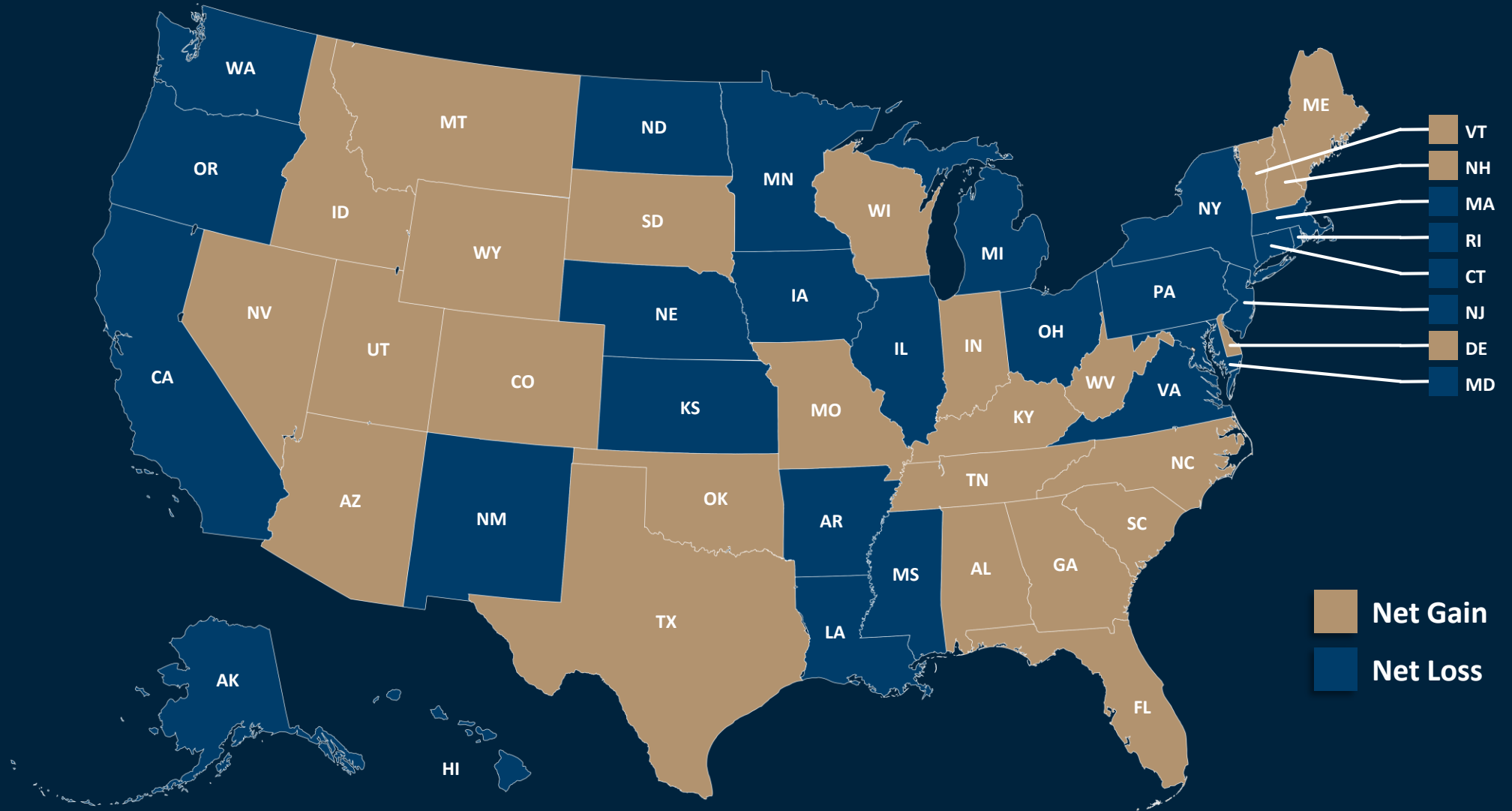
48. Minnesota

49. Vermont

50. New York



Taxpayers Vote With Their Feet (2022)



States With the Highest In-Migration

1. Florida (318,855)
2. Texas (230,961)
3. North Carolina (99,796)
4. South Carolina (84,030)
5. Tennessee (81,646)
6. Georgia (81,406)
7. Arizona (70,984)
8. Idaho (28,639)
9. Alabama (28,609)
10. Oklahoma (26,791)

States With the Highest Out-Migration

1. California (-343,230)
2. New York (-299,557)
3. Illinois (-141,656)
4. New Jersey (-64,231)
5. Massachusetts (-57,292)
6. Louisiana (-46,672)
7. Maryland (-45,101)
8. Pennsylvania (-39,957)
9. Virginia (-23,952)
10. Minnesota (-19,400)

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