A Guide to Tax Reform in Missouri

Report for the Governor's Committee for Simple, Fair, and Low Taxes

Aaron Hedlund

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Executive Summary

Missouri is at a crossroads and continues to lose economic ground to other states. To right the ship, Missouri must pursue a top-to-bottom, comprehensive tax reform agenda based on sound economic principles. *How* the government collects revenue is just as important as *how much* revenue is collected. This document provides an overview of some reforms that hold promise for bringing jobs and prosperity back to Missouri.

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1 Setting the Stage

Over the past two decades, Missouri's economy has gone from 1/50th of the U.S. economy to 1/60th, and Missouri has ranked between 40th and 50th among the states in economic growth for several years running. Fortunately, frontier academic research and best practices from other states point to a set of bold, proven tax reform ideas for increasing job creation, economic growth, take-home pay, and innovation. Furthermore, even in the face of potential institutional and political headwinds, several promising reforms exist for policymakers who are looking seriously to improve Missouri's economic performance.

2 Principles of a Sound Tax System

The debate over tax design is often overshadowed by larger disagreements over the optimal size and scope of government. Complicating matters, elected officials have increasingly come to view the tax code as a parallel vehicle for implementing social policy or engaging in spending by disguise. Instead, the tax code should be designed with one simple aim: to raise the revenue necessary to fund core government functions in the least economically damaging way. Contrary to prevailing wisdom, the greatest source of economic damage is not always the direct effect of siphoning private sector resources into the government. Just as much damage occurs when private individuals and businesses alter their hiring, investment, relocation, and consumption decisions in response to incentives embedded in the tax code instead of underlying economic realities. Five key principles should guide lawmakers as they pursue changes to Missouri's tax code: simplicity, efficiency, transparency, equity, and predictability.

2.1 Simplicity: Lower the Costs of Compliance

Compliance costs from unduly complicated taxes create what economists call a "dead weight loss" that sucks resources away from more productive uses. Increasingly, companies are forced to hire armies of tax accountants and lawyers to ensure adherence to the law without overpayment. In turn, these inordinate compliance and red tape expenditures reduce the funds available for productive investment. What's more, they act as a barrier to entry by driving out new entrants and depressing small business creation.

Some forms of tax complexity are easy to remedy. For instance, a simple income tax with few rates and minimal deductions is superior to one with a complicated rate schedule and a patchwork of carve-outs. However, occasionally tax complexity is an unavoidable byproduct of designing a tax system that satisfies other criteria of sound taxation. In these instances, it is incumbent on public officials to identify a *specific* and *compelling* rationale for the complexity based on the other principles listed in this document.

2.2 Efficiency: Avoid Social Engineering

Absent a clear market failure, the competitive market allocates resources according to their best uses by aligning private incentives with the social good—Adam Smith's invisible hand at its finest. By driving a wedge into this process, taxes frequently cause households and businesses to make decisions for reasons that have little to do with fundamental economic realities. For example, the existing corporate income tax encourages corporations to finance themselves with excessive debt; gross receipts taxes encourage

inefficient mergers and market concentration; and progressive income taxes with punishing rate schedules discourage risk-taking, entrepreneurship, and investment into human capital.

The efficiency costs of taxation increase more rapidly with rates than they do with the tax base. Therefore, as a general principle, lawmakers should pursue taxes that feature *low rates* and *broad bases*, subject to certain caveats (for example, business-to-business transactions should be omitted from the sales tax base). The number one source of deviations from this principle is the attempt by politicians to use the tax code to engage in social engineering. Such efforts, assuming they have any merit, would be better pursued from outside the design of the tax code.

2.3 Transparency: Prevent Insiders from Manipulating the System

Transparency of government policy has many upsides, but in a very concrete sense, a transparent tax code minimizes the incentive for rent-seeking behavior. Transparency goes hand-in-hand with simplicity by laying bare before voters where the tax revenue comes from and who is the recipient of any special favors. By contrast, the proliferation of hidden taxes that are invisible to voters conceals the cost of government and empowers connected lobbyists to tilt the tax code in their favor. For example, it is almost a political maxim that elected officials prefer taxes on businesses to taxes on individuals, despite the fact that economic theory rarely provides justification for such a preference.

The burden of taxation always falls ultimately on individuals, whether as workers, consumers, or shareholders/business owners. However, when companies are the ones who are required by statue to pay the bill, the average voter never directly sees the tax and can easily miss the fact that they are bearing its cost in the form of higher prices, lower wages, and diminished investment returns. The inevitable byproduct of hidden taxes is a reduced incentive for officials to budget judiciously and a stronger incentive for people with access to the halls of power to seek special exemptions.

2.4 Equity: Create a Level Playing Field Instead of Picking Favorites

Economists regularly classify equity into two forms: vertical and horizontal. Vertical equity deals with how to tax individuals with different abilities to pay. As such, views on vertical equity have more to do with values, ethics, and political philosophy than they do with economic science. Horizontal equity concerns itself with the similar taxation of entities in similar situations. Unfortunately, our tax system today falls short in many places on matters of horizontal equity.

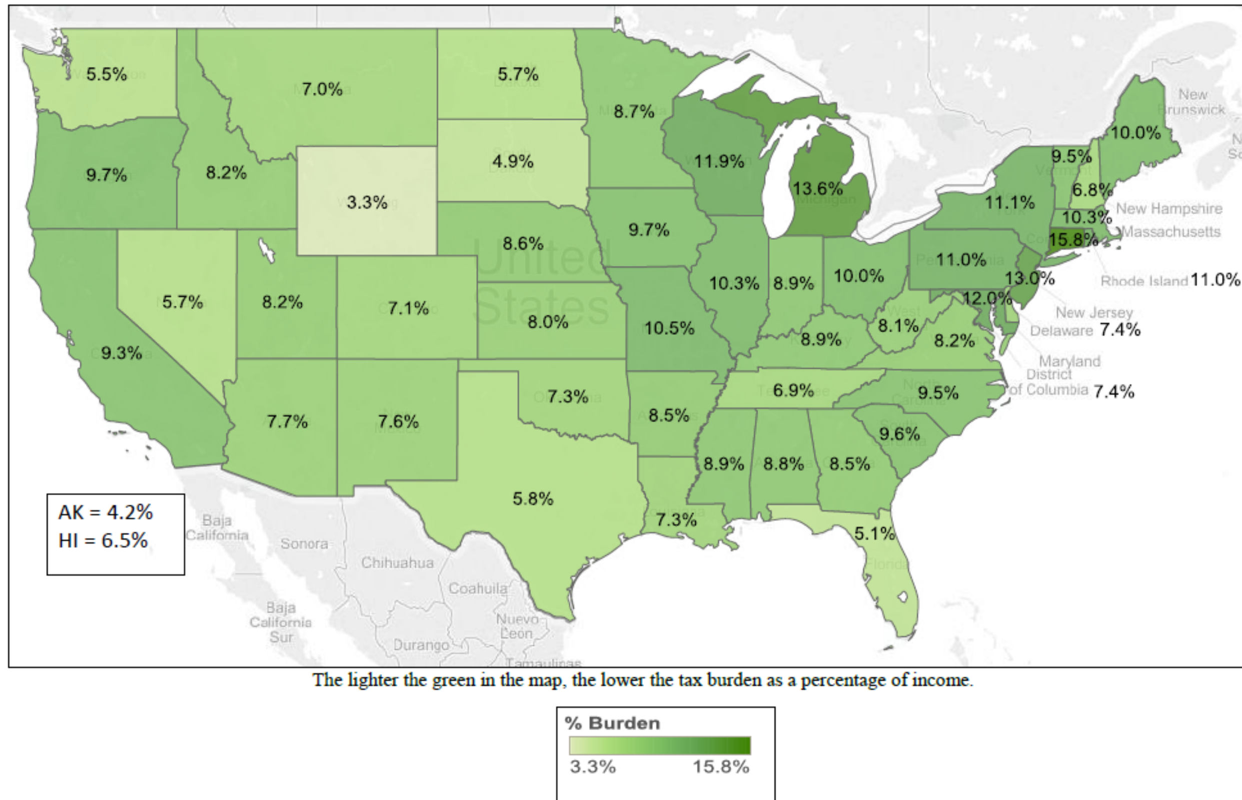
For example, second earners frequently face dramatically higher tax rates when married compared to if they are merely cohabiting. This "marriage penalty" is partly a feature of the current progressive income tax structure, but it is even more endemic to the design of many social safety net programs. On the business side, sales taxes that include business-to-business transactions favor industries with greater vertical integration, because firms that produce their own intermediate inputs to production avoid the sales taxes paid by other firms that choose to purchase their production inputs externally. Even beyond issues of fairness, violations of horizontal equity spill over into efficiency losses because of the tax avoidance behavior that they encourage, such as forgoing marriage or engaging in needless mergers.

2.5 Predictability: Facilitate Long-Term Planning

To the extent possible, a sound tax system is also one that is stable and predictable. Many large investment projects take place over long time horizons, and the ability to reliably forecast returns is critical to encouraging efficient risk-taking. However, putting in place a stable, predictable tax structure can also prove the most challenging, because it requires a holistic view of the state's entire tax portfolio. At the level of a specific tax, predictability means a stable rate structure and tax base. However, because states must also balance their budgets every year, the tax system as a whole should also deliver reliable streams of revenue that are not excessively volatile with respect to economic conditions. Otherwise, periodic budget shortfalls from declining revenues may force sudden and unpredictable changes in the tax code. For example, states that rely disproportionately on corporate taxes and the tax returns of a small number of high-income taxpayers tend to observe larger swings in their coffers than do states with broader and more stable tax bases.

3 Reforming Taxes in Missouri

Figure 1: Total 2014 Tax Burdens (Income + Sales + Property + Auto) as a % of Income for a Family Earning $75,000/year (Source: Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison)



As a percentage of income, a family earning $50,000 faces a total tax burden of 10.3% in Kansas City vs. only 8.7% in Indianapolis and 6.9% in Denver.[1] Taxes impose economic damage not simply by directly removing resources from the private sector, but also by reducing productive activity because of their complexity and impact on incentives. Provisions that place caps on tax revenues are useful for limiting the

growth of government, but they are imperfect substitutes for wise tax policy design. The overriding goal of tax reform should be to alter the structure of taxes to improve economic performance, not to drastically reduce revenue. Responsible budgeting matches any decrease in net revenues with clear spending cuts.

Strictly speaking, there is no "ideal" tax system that applies to all states and circumstances. However, economic theory, empirical evidence, and the experiences of other states deliver some key insights to guide bold reform efforts. From a general efficiency standpoint, states should tax consumption instead of income, and they should pay extra attention not to tax entities or factors of production that are highly mobile. However, as in all things, the devil is in the details, and to create any prospects for political viability, it is incumbent upon policymakers to communicate convincing arguments to voters for any such reforms.

3.1 Individual Income Taxes

The individual income tax represents the largest source of tax revenue for Missouri. Missouri's state income tax features a progressive rate schedule that peaks at 6% for taxable income earned over $9,000 (though this rate is set to fall gradually due to the passage of Senate Bill 509 in 2014).

Background and reform guidelines:

1. Income taxes discourage numerous types of productive activity: work, risk-taking, saving/investment, and the accumulation of human capital. Because investment and human capital are the lifeblood of economic growth, income taxes are particularly harmful.
2. The growth-depressing effects of the income tax increase rapidly with marginal tax rates.[2] For this reason, reform efforts should focus on finding fiscally responsible ways to reduce rates.
3. Recent research finds that labor market "stars" are particularly sensitive to state income tax rates.[3]
4. A game changer for Missouri would be to phase-out the income tax over time as part of a broader revenue-neutral reform package. Critics frequently jump on this type of suggestion as regressive, but consumption is a far better barometer of living standards than contemporaneous income.

Concrete steps forward for Missouri:

1. **Focus on cutting marginal rates.**
   The bulk of Missouri taxpayers fall into the top state tax bracket. Cutting this rate will yield the greatest economic growth dividends and should be prioritized over attempts to raise the income thresholds.
2. **Repeal federal deductibility and lower the income tax rate.**
   Instead of letting distortions in the federal tax code affect state taxation, Missouri should take the additional revenues raised from ending federal deductibility and buy down the top income tax rate.[4]

Lessons from other states:

1. North Carolina, Indiana, and several other states have recently enacted substantial tax cuts. By contrast, Missouri is still only in the middle of the pack when it comes to income tax competitiveness.
2. States like California that impose income tax surcharges on high incomes suffer from severe cyclical revenue volatility.

3.2 Corporate Income Taxes

At present, corporate income tax receipts account for under 5% of state tax revenues in Missouri. In fact, corporate tax revenues have been falling across the country as a share of state-level taxes for several years running.[5] The origin of the decline appears mostly to be the increased prevalence of state tax incentives and a redefinition of the corporate tax base from modified apportionment rules.

Background and reform guidelines:

1. Numerous studies point to the corporate income tax as the most damaging to a state's economic competitiveness. Higher corporate taxes reduce business formation, firm relocations, investment, employment growth, and wages.[6]
2. The corporate income tax encourages excessive leverage by introducing a bias for debt financing through the deductibility of interest payments but not dividend payments.
3. Such business income faces double taxation: first, at the corporate level, and subsequently, at the shareholder level through dividends and capital gains taxes. Thus, the corporate income tax introduces a bias against incorporation that favors pass-through businesses.
4. All taxes are ultimately borne by people: workers, consumers, and shareholders.
5. A game changer for Missouri would be to drastically cut or even eliminate the corporate tax entirely and instead simply tax dividends/capital gains at the individual level. Recent research indicates that eliminating the corporate income tax could generate significant positive economic effects.[7]

Concrete steps forward for Missouri:

1. **Roll back business tax credits and reduce or eliminate the corporate tax.**
   Cutting the corporate tax rate isn't a windfall for "business," just as raising the rate isn't tantamount to forcing "fat cat" CEOs to write personal checks to pay the tax.[8]
2. **Eliminate the throwback rule for sales of tangible personal property.**
   Throwback rules add substantial complexity to the corporate tax and can require costly coordination among states.

Lessons from other states:

1. Kansas mistakenly reduced the tax rate on pass-through income to zero, far below that of regular income. This change has little justification economically and has greatly encouraged tax avoidance behavior through income reclassification.
2. Indiana has moved up the ranks of business-friendly states partly by setting in motion a gradual reduction in the corporate tax rate from 8.5% down to 4.9% by 2022. Indiana has also recently eliminated its throwback rule.

3.3 Sales Taxes

Sales taxes represent the second largest source of tax revenue to state government in Missouri. Under a textbook sales tax, only final household consumption of goods and services is taxed, which removes the distortion from income taxes that discourages savings and investment.

Figure 2: Example of tax pyramiding (Source: "What's Wrong with Taxing Business Services?" by COST)

Components of total production and distribution costs	Appliance manuf.		Retailer		Final customer		Sales tax all stages	Effective tax rate
	Purchases	Sales tax	Purchases	Sales tax	Purchases	Sales tax		
Appliance Manufacturer								
Circuit boards	$200	$0	$200	$0	$200	$12.00	$12.00	6.0%
Labor and profits	1,000	0	1,000	0	1,000	60.00	60.00	6.0%
Office equipment	40	2.40	40	2.40	40	2.40	7.20	18.0%
Outsourced services	100	6.00	100	6.00	100	6.00	18.00	18.0%
Retailer								
Labor and profits			$100	$0	$100	$6.00	$6.00	6.0%
Office equipment			20	1.20	20	$1.20	$2.40	12.0%
Outsourced services		10	0.60		10	$0.60	$1.20	12.0%
Total appliance cost to consumer					$1,470	$88.20	$106.80	7.3%
Sales tax summary								
Ideal retail sales tax on final sales		$0.00		$0.00		$88.20	$88.20	6.0%
Actual taxes on intermediate & final sales								
Without taxes on service inputs		$2.40		$3.60		$88.20	$94.20	6.4%
With taxes on service inputs		$8.40		$10.20		$88.20	$106.80	7.3%

Background and reform guidelines:

1. In practice, sales taxes generally suffer from two huge flaws: they omit many goods/services from the tax base and they improperly include business-to-business sales.
2. The inclusion of business-to-business transactions in the tax base leads to tax pyramiding (taxing the same good multiple times) and substantial differences in effective tax rates across industries.
3. The push to include services in the sales tax base can actually *worsen* the problem of taxing business-to-business sales.

Concrete steps forward for Missouri:

1. **Exclude business inputs from the sales tax base.**
   Sales taxes are most efficient when applied only to final consumer sales.[9] Taxation of intermediate goods purchased by businesses leads to multiple layers of taxation, which increases costs and reduces economic output.[10]
   - Elimination of *tax pyramiding* would remove the need to enact narrow sales tax exemptions for particular goods, e.g. on certain types of equipment deemed important for investment.[1]
   - Exempting business inputs from the sales tax should be a prerequisite for expanding the tax base to include services.
   - To prevent fraud, the sales tax could be imposed on all products that consumers could readily use while allowing business purchasers to claim credit for the tax on separate tax returns.[11]

[1] See http://www.sjsu.edu/people/annette.nellen/website/TaxReform/Report2cSUTPyramiding.pdf

- The "sales for resale" exemption should also apply to out-of-state sales, to the conveyance of items to customers without a separately stated charge, and to materials consumed in the manufacturing process.[12]
- Courts should give exemptions a broad rather than narrow construction.
- Exempt any purchases that give rise to business deductions for income tax purposes.
- Could try an "advance payment" sales tax system as is used in some cases in Louisiana.[13]
- A more controversial change would replace the retail sales tax with a state-level VAT (as in the Canadian provinces).

2. **Broaden the sales tax base and use the revenues to reduce the rate.**
   Special interest provisions and carve-outs distort the allocation of resources and rarely further any legitimate public policy goal, such as providing relief to lower-income households.[14]

Lessons from other states:

1. Iowa has recently expanded the types of business purchases exempt from the sales tax.[15]
2. Ohio mistakenly introduced a gross receipts tax—the Commercial Activities Tax—in 2005. Nevada made a similar mistake recently by introducing the Commerce Tax. Such gross receipts taxes feature deceptively low rates but create substantial tax pyramiding.
3. Texas has taken steps recently to reduce the tax rate on its own gross receipts tax, the Margin Tax.
4. Almost half of sales tax revenues in Missouri come from improperly taxing business inputs. By contrast, in Indiana and Utah the share is between 30% and 35%.
5. Some states like Texas restrict localities to choosing rates for their sales and property taxes and prohibit them from making adjustments to the tax base.[16]

3.4 Property Taxes

Property taxes are unique in that they typically form the bulk of tax revenues for local governments. From an economic theory standpoint, they also *can be* one of the least inefficient taxes *when implemented properly*, although they are often the most hated.

Background and reform guidelines:

1. States and localities should restrict property taxes to land and structures.
2. Taxing tangible personal property (e.g. capital and machinery) discourages business investment.
3. Unfortunately, Missouri has the third highest personal property tax burden per capita.[17]
4. Split-rate taxation that taxes structures at a lower rate than land would reduce the property tax disincentive to engaging in development and improvements.
5. Henry George first proposed the idea of taxing land and not structures, and modern economists have affirmed the economic sense in this approach.[18]

Concrete steps forward for Missouri:

1. **Reduce or eliminate personal property taxes.**
   Personal property taxes greatly add to costs and cheapen the notion of private ownership by taxing goods in perpetuity.
2. **Pass a de minimis exclusion for property taxes.**
   Missourians would not need to file reports for personal property below the exclusion.
3. **Impose equal interest rates for tax underpayment and overpayment.**
   The interest accrued on a delinquent property tax payment should not exceed the interest paid by the government an overpayment.
4. **Eliminate business-to-business transactions from the definition of unclaimed property.**

Lessons from other states:

1. Several states have repealed their tangible personal property tax, including Iowa and Ohio.[19]
2. Indiana has recently passed reforms that allow localities to exempt new property or enact a filing threshold for businesses with small amounts of capital.[20]
3. Michigan enacted a partial business-to-business unclaimed property exemption in 2012.[21]
4. Several localities in Pennsylvania have implemented split-rate property taxation.

3.5 Business Tax Incentives

Background and reform guidelines:

1. Tax incentives are economically equivalent to spending and should not be viewed as tax cuts.
2. To the extent that they have any merit, such incentives should be converted to cash subsidies and placed explicitly on the spending side of the government ledger.
3. Big business captured 69% of Missouri Works deals and 89% of the dollars in 2013 and 2014.[22]
4. However, extensive research documents that *young SMEs* (small-and-medium-sized enterprises) create the vast bulk of net new jobs.[23]
5. Firm-specific subsidies are more likely to attract footloose companies that are less inclined to put down deep roots.[24]
6. Property tax abatement, TIF financing, and enterprise zones all show limited effectiveness.[25] In fact, many subsidies go to businesses that would have chosen the same location anyway.
7. Focusing on improving the environment for *existing businesses* is generally more effective than pursuing policies aimed at luring businesses from elsewhere.[26]

Concrete steps forward for Missouri:

1. **Stop "elephant hunting" by ending firm-specific subsidies.**
   "If they feel they have to pay you to move to their location, there's probably a reason. I consider that a danger sign."[27] Despite the appeal of ribbon cutting ceremonies, there exists little evidence that special interest deals to lure specific companies increase employment, wages, or growth.[28] Such efforts divert resources from more productive uses and put start-ups at a competitive disadvantage.

2. **Enact performance-based budgeting.**
   Scarce resources should be directed toward high-return projects, and programs that are not performing should either be reformed or discontinued.

   - Missouri should adopt a stance that focuses on deciding *what to keep*, not what to cut.
   - Require regular evaluation of tax credit programs by a nonpartisan professional staff. Since 2012, 17 states have followed this path.[29]
   - Employ evidence-based policy-making using comprehensive cost-benefit analysis similar to what Minnesota does in using the Pew-MacArthur Results First Initiative cost-benefit model.

3. **Enact provisions to reduce fiscal risk and budget volatility.**
   Increasing tax and expenditure stability will protect Missouri's credit rating and provide more funding certainty for high-priority areas.

   - Implement an aggregate cap on tax credits with a competitive application process.
   - Control the timing of incentive redemption.

4. **Improve transparency and accountability.**
   Budget reforms are only as good as the agencies undertaking their implementation. Transparency shines much needed light on the process.

   - Pay for remaining tax incentives (i.e. any that are not eliminated) through the budget appropriations process.
   - Procedures should be put in place to balance protecting recipients' investments from uncertainty and political interference against the need for monitoring and accountability.
   - Require open meetings between government unions and public officials.

5. **Reorient tax credits toward subsidizing job training and R&D**.
   Resources dedicated toward improving job training and R&D provide benefits even if a particular employer leaves the state.

   - Recent research has shown the potency of incentives for R&D and innovation.[30]
   - Missouri's tax burden for mature R&D operations currently ranks 49th among the states.[31]

Lessons from other states:

1. In 2013, Washington state reformed its tax credit system by requiring that the legislature must include explicit reasoning for deviating from the tax base whenever a new credit is proposed. Furthermore, policymakers must set benchmarks to evaluate each carve-out.
2. Governor Snyder in Michigan recently converted tax subsidies to cash payments under the Michigan Economic Development Corporation.[32]
3. Oklahoma has formal data sharing procedures to overcome bureaucratic barriers in its Quality Jobs Program.[33]
4. Iowa implemented an aggregate cap in 2009, and awards of the California Competes Tax Credit follow a competitive application process.[34]
5. Florida caps redemptions at $35 million a year.[35]
6. Minnesota recently phased out its Job Opportunity Building Zones tax incentive and replaced it with the Minnesota Job Creation Fund, which is a cash grant funded through appropriations.[36]

3.6 The Earned Income Tax Credit

Current safety net programs often trap people in lives of dependency and penalize work and marriage.[37] In fact, Eugene Steuerle points out that "avoiding marriage is *the* tax shelter for low and moderate income individuals." Furthermore, research points out that welfare receipt in one generation causes welfare participation in the next generation.[38] Missouri should pursue state reforms and lobby for national reforms to transform the safety net into a safety trampoline that increases economic resilience.

Background and reform guidelines:

1. The Earned Income Tax Credit, unlike the minimum wage or other poorly designed safety net programs, is the most effective anti-poverty policy in the U.S.[39] Missouri should build upon its success by creating a parallel state-level refundable EITC.
2. Unlike traditional cash assistance welfare, the Earned Income Tax Credit actually *increases* labor market participation.[40]

Concrete steps forward for Missouri:

1. **Create a state-level, refundable Earned Income Tax Credit (EITC).**
   To maximize effectiveness at increasing labor market participation, the EITC should be *refundable* and delivered in *periodic payments*. A nonrefundable EITC, by contrast, would provide no benefit to the lowest income households and would decline in value whenever income tax rates are cut.
2. **Separate child benefits from low-wage benefits.**
   The EITC should also cover childless adults, and to prevent creating unintended marriage penalties, credits for low-wage workers should be split from benefits for children and benefits should be based on personal rather than family income.[41]

Notes

[1]See table 1b in "Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison." Comprehensive state tax information can be found in the "2015 State Tax Handbook" by the CCH Group.

[2]See "Nonlinear Effects of Taxation on Growth" (Journal of Political Economy, 2017) by Jaimovich and Rebelo.

[3]For example, see "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists" by Enrico Moretti and Daniel Wilson.

[4]Further analysis of this concept can be found in "Iowa Tax Reform Options: Building a Tax System for the 21st Century" from the Tax Foundation.

[5]See "The Mystery of Falling State Corporate Income Taxes" by Daniel Wilson at the Federal Reserve Bank of San Francisco.

[6]For example, see "Small Business Start-Ups in the United States: Estimates of the Effects of Characteristics of States" (Southern Economic Journal, 1989) by Bartik; "The Incidence and Efficiency Costs of Corporate Taxation When Corporate and Noncorporate Firms Produce the Same Good" (Journal of Political Economy, 1989) by Gravelle and Kotlikoff; "Tax Effects on Investment Location: Evidence for Foreign Direct Investment in the United States" (Office of Tax Policy Research, University of Michigan, 2001) by Agostini and Tulayasathien; "The Influece of Taxes on Employment and Population Growth: Evidence from the Washington, DC Metropolitan Area" (National Tax Journal, 2000) by McGuire and Papke; "Do States Choose Their Mix of Taxes to Minimize Employment Losses?" (National Tax Journal, 2003) by Harden and Hoyt; "Entrepreneurship and State Policy" (Unpublished Manuscript, 2017) by Curtis and Decker; "The Impact of Tax Cuts on Economic Growth: Evidence from the Canadian Provinces" (National Tax Journal, 2012) by Ferede and Dahlby; "The Impact and Inefficiency of the Corporate Income Tax: Evidence from State Organizational Form Data (Journal of Public Economics, 2004) by Goolsbee; and "State Taxation and the Reallocation of Business Activity: Evidence from Establishment-Level Data" (NBER Working Paper, 2015) by Giroud and Rauh.

[7]For example, see "Simulating the Elimination of the U.S. Corporate Income Tax" (NBER Working Paper, 2014) by Fehr et al; "To Cut or Not to Cut? On the Impact of Corporate Taxes on Employment and Income" (Federal Reserve Finance and Economics Discussion Series, 2016) by Ljungqvist and Smolyansky; and "State Business Taxes and Investment: State-by-State Simulations" (FRBSF Economic Review, 2010) by Chirinko and Wilson.

[8]For research on the effects of corporate taxes, see "Tax Structure and Economic Growth" by Young Lee and Roger Gordon (Journal of Public Economics 2005).

[9]See "Sales Taxation of Business Purchases: A Tax Policy Distortion" by Alan Viard.

[10]See "What's Wrong with Taxing Business Services?" by the Council On State Taxation.

[11]George Zodrow makes this point in "The Sales Tax, the VAT, and Taxes in Between – or is the Only Good NRST a 'Vat in Drag'?", National Tax Journal, 52(3), Sept. 1999, pp. 429–442

[12]See "Sales Taxation of Business Purchases: A Tax Policy Distortion" by Alan Viard.

[13]See "Is a State VAT the Answer? What's the Question?" by Richard Bird.

[14]See "Retail Sales and Use Taxation" in *The Oxford Handbook of State and Local Government Finance* for more information on sales tax principles.

[15]See `http://www.forbes.com/sites/taxanalysts/2015/10/22/iowa-has-the-best-tax-policy-proposal-of-the-year/#5c8244934800` and `http://www.crestonnews.com/2016/03/16/iowa-passes-tax-legislation-that-could-cut-state-revenue/a4hysxp/`

[16]See "Lessons from Texas" by the Goldwater Institute.

[17]See "States Moving Away from Taxes on Tangible Personal Property" by the Tax Foundation.

[18]See chapter 15 of "Reviving Economic Growth: Policy Proposals from 51 Leading Experts" and "Prospects for Land Rent Taxes in State and Local Tax Reforms" by Thomas Nechyba (working paper). Furthermore, Richard Arnott discusses implementation in "Neutral Property Taxation" (Journal of Public Economic Theory 2005). See "50-State Property Tax Comparison Study For Taxes Paid in 2015" from the Lincoln Institute of Land Policy or "Residential Property Taxes in the United States" from the Brookings Institute for state property tax data and rankings.

[19]See "Using the Tax Structure for State Economic Development" by the Brookings Institute and "States Moving Away from Taxes on Tangible Personal Property" by the Tax Foundation.

[20]See "Indiana's 2014 Tax Package Continues State's Pattern of Year-Over-Year Improvements" by the Tax Foundation.

[21]See "The Best and Worst of State Unclaimed Property Laws" by COST.

[22]See "Shortchanging Small Business: How Big Businesses Dominate State Economic Development Incentives" by Good Jobs First.

[23]A plethora of academic research from Steve Davis, John Haltiwanger, and others exists on the subject. Karen Mills also discusses this fact in "A Playbook for Making America More Entrepreneurial" in the Harvard Business Review.

[24]See "Choosing the United States" by Michael Porter.

[25]See "Rethinking Business Property Tax Incentives" by the Lincoln Land Institute.

[26]See "Clusters and Comparative Advantage: Implications for Industrial Policy" by Rodriguez-Clare (Journal of Development Economics 2007).

[27]See "Choosing the United States" by Michael Porter.

[28]For example, see "Job Creation and Firm-Specific Location Incentives" by Nathan Jensen.

[29]See "Better Incentive Information" by Pew Charitable Trusts.

[30]Most recently, see "Do Tax Incentives for Research Increase Firm Innovation? An RD Design for R&D" by Dechezlepretre et al (NBER working paper 22405, July 2016). A nice summary can be found at http://www.nber.org/digest/sep16/w22405.html. Also, see "State Incentives for Innovation, Star Scientists and Jobs: Evidence from Biotech" by Enrico Moretti and Daniel Wilson (NBER working paper), "Beggar Thy Neighbor? The In-State, Out-of-State, and Aggregate Effects of R&D Tax Credits" by Daniel Wilson (Review of Economics and Statistics 2009), and "Tax Policy and Heterogeneous Investment Behavior" by Eric Zwick and James Mahon (2016 working paper).

[31]See "Location Matters: The State Tax Costs of Doing Business" by the Tax Foundation.

[32]See "The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth" (ALEC, 2014) by Freeland et al.

[33]See "Better Incentive Information" by Pew Charitable Trusts.

[34]See "Reducing Budget Risks" by Pew Charitable Trusts.

[35]See "Reducing Budget Risks" by Pew Charitable Trusts.

[36]See "Reducing Budget Risks" by Pew Charitable Trusts.

[37]See "Marginal Tax Rates and 21st Century Social Welfare Reform" by Eugene Steurle of the Urban Institute.

[38]See "Family Welfare Cultures" by Dahl et al (2014 working paper).

[39]See "The Earned Income Tax Credit" by Nichols and Rothstein

[40]See "Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income" by Hoynes and Patel (2015 working paper).

[41]Consider the following excerpt from "EITC Expansion Backed by Obama and Ryan Could Penalize Marriage For Many Low-Income Workers" by Eugene Steuerle: "A childless male making $11,000 qualifies for a credit of $1,011 under the Obama-Ryan model in 2016. If he marries a spouse with two children making about $20,000 and getting a credit of $5,172, they would get only one credit of $4,018, a loss of $2,165 from the combined credits of $6,273 they had before marriage."