

Personal & Corporate Income Taxes

Collecting more taxes than is absolutely necessary is legalized robbery.

– Calvin Coolidge

Economic and individual freedom rests upon low taxes. Every dollar a taxpayer provides to the public treasury is a dollar less that he can spend on his family and on charity. Income taxes limit economic freedom more than any other tax because the government takes its share first, despite whatever economic hardships it may cause the family. Income taxes cannot be avoided by consuming less or saving more.

- How does it compare to the rest of the country?
- What would be the overall economic impact of eliminating the state income tax?

The case for eliminating income taxes has never been more profound.

Recommendation: Eliminate personal and corporate income taxes.

Personal income tax

Personal income tax collections and general fund revenue are at record levels. Since 1996, North

Dakota personal income tax collections have nearly doubled. Graph 3.1 charts personal income tax revenue from 1996 through 2007.

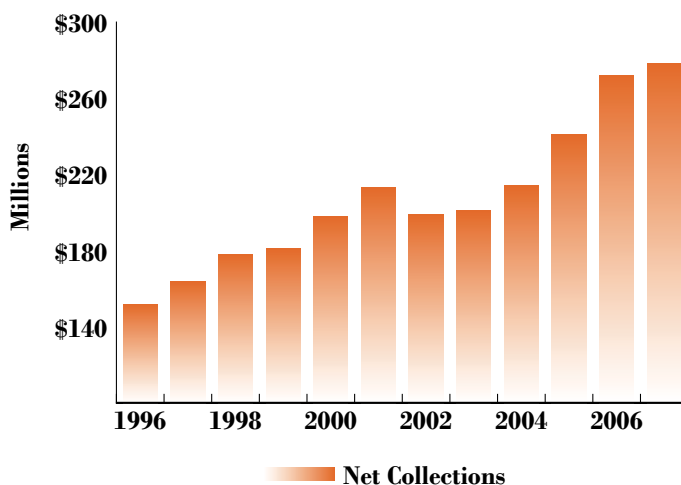
Several important questions need to be considered:

- Is it moral for government to tax more than is absolutely needed?
- Can government “afford” to eliminate the income tax?
- How does North Dakota’s income tax compare to South Dakota?

When the legislature went to work in 2007, it had an estimated \$560 million surplus. What did it do? Increased state spending by 24 percent. When the legislature goes to work in 2009, it will have an estimated \$1.2 billion surplus. By what percent will spending increase next year?

Graph 3.1

Personal Income Tax Collections

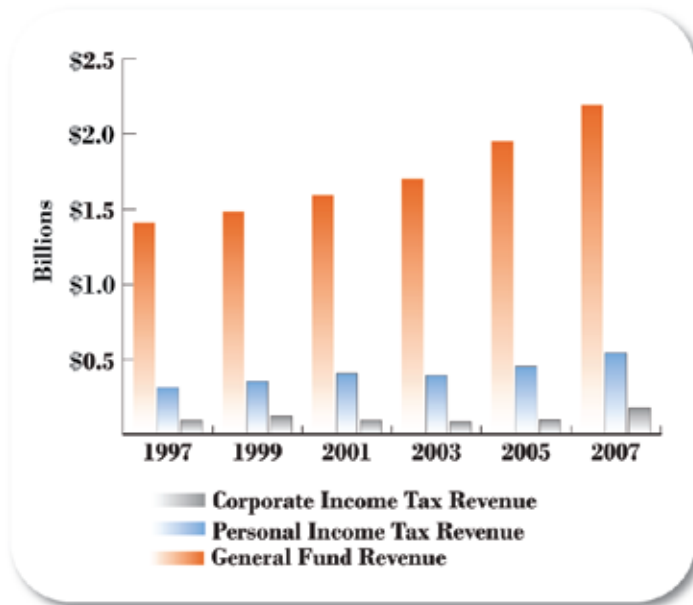


North Dakota Tax Department

If the economy slows down, how much will taxes have to be raised to sustain this level of spending? In addition, the budget stabilization fund (commonly known as the “rainy day” fund) was projected to be at \$200 million.⁴ When government has too much money, it spends more than it should.

Not only is the state collecting record amounts of personal income tax, but overall state revenue is at a record level. Graph 3.2 shows total state general fund revenue from 1997 to 2007.

Graph 3.2
General Fund, Personal & Corporate
Income Tax Revenue



North Dakota Tax Department

The total amount collected in personal and corporate income tax for the two years prior to the 2007 legislative session was more than \$700 million. In other words, the state would have functioned within its budget and still had money left over if it hadn't collected a penny of income tax. Why would a state looking for economically competitive advantages continue to collect \$700 million more than it needs? The point is simple. The state does not need the income tax revenue.

DID YOU KNOW?

The state would have functioned within its budget if it hadn't collected a penny of income tax.



As Chapter 1 showed, the size of state government is getting too big. The easiest way to stop the growth of government and return money to the taxpayers is to eliminate income taxes.

Out-migration is a problem in North Dakota, and the *Wall Street Journal* attributes North Dakota's tax burden as one of the main causes. A study conducted by United Van Lines concluded that people are fleeing North Dakota at the second highest rate in the country, behind Michigan. The article states,

Without interviewing the departed, it's impossible to know the reasons for this outward migration. No doubt overall economic prospects, climate, quality of life and housing prices play a role. But one reason to conclude that taxes are also a motivator is because the eight states without an income tax are stealing talent from other states.

[...]

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.⁵

The North Dakota House of Representatives has shown a willingness to cut the personal income tax. During the 2007 legislative session, HB 1170 which would have cut personal income tax rates failed in a close vote, 45-47.⁶ With a projected \$1 billion surplus heading into the 2009

legislative session, eliminating the personal income tax should be one of the first orders of business. After all, why should citizens' money be earning interest for the government instead of for them?

Corporate income taxes

While personal income tax levels determine how much money each person or family will be able to save or spend, corporate income tax levels determine whether or not that person or family has any money at all. Corporate income taxes directly relate to the growth of businesses and the overall growth of the economy.

America was and still is built on small businesses. One of the biggest obstacles to business expansion is access to capital. Does it make sense for the government to block access to capital by forcing businesses to pay more to the state treasury than is necessary? Every dollar a business spends on taxes and associated compliance costs is a dollar that business is not able to freely use to expand its operation, hire more people, or raise wages.

When it comes to recruiting businesses, North Dakota is at a disadvantage because of its tax structure.

Again, because of competitiveness issues, the rates need to be compared to North Dakota's neighbors and the rest of the country. South Dakota is substantially more competitive by not having a corporate income tax. According to the Tax Foundation, North Dakota's top rate was 24th highest nationally. The Tax Foundation ranks North Dakota's overall business tax climate 30th nationally, while Montana ranked 6th and South Dakota 2nd. Both the personal and corporate income taxes

figure into their business climate rankings.⁷ To increase North Dakota's competitiveness and business climate, corporate taxes should be eliminated. Looking at overall corporate income tax collections over the past several years shows that North Dakota can "afford" to eliminate the tax.

The three top reasons to cut corporate income tax rates are fairly simple.

- North Dakota's business climate is not competitive with South Dakota or the rest of the country.
- Net collections the past three years have exceeded the collections from the entire previous decade.
- A surplus of \$560 million in 2007 and projections that there will be a much larger surplus in 2009 demonstrate that the state does not need the money.

DID YOU KNOW?

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The conditions are right to eliminate the corporate income tax.

Corporations create jobs and provide economic growth. When the business sector thrives, wages increase, prosperity follows, and other tax revenues will naturally increase. After all, a corporation's tax burden and other regulatory burdens, for that matter, are not taken out of a CEO's salary; rather, the corporation passes those costs along to consumers, making the price of goods and services higher than they need to be.

The best way to create a strong economic foundation for North Dakota is to make North Dakota's business climate one of the top in the nation. Rather than corporations paying high taxes to the state and then creating a government bureaucracy to buy economic development, why not create sustained economic development in an environment of low taxes and less regulation? It is much simpler, more effective, and rewards success.

The effect of eliminating corporate taxes will be direct and widespread. It will almost immediately bring a diverse group of corporations into the state. The current way of generating economic development, where local governments use sales tax dollars and property tax breaks to entice (or bribe) companies to relocate in their communities, would be unnecessary.

Besides, the current system robs local communities of the companies' property taxes. When the breaks are over, the companies often leave. If the corporate income tax were

eliminated, companies would not have to rely on local government tax breaks, which would help alleviate property tax pains in those communities. Furthermore, companies not reliant on government would relocate to the state or start here, using their own capital, not tax dollars. That's *real* economic development.

In 2002, then North Dakota State Senator Randy Schobinger wrote a letter to the *Fargo Forum* detailing an e-mail exchange he had with Nobel Prize-winning economist Milton Friedman. Friedman wrote, "An individual state which terminates a tax on corporate income will be an attractive place for corporations to make their home. By eliminating a tax on corporate income, the state of North Dakota could attract an inflow of capital from the rest of the country."⁸

Small businesses are the backbone of America's economy. Lowering their tax burden will ensure that a strong economy thrives in North Dakota. More money in the pockets of North Dakotans increases economic and individual liberty for all.

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- Milton Friedman