



# The Economic Consequences of Tennessee's Gift and Estate Tax

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March 2012



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### The Beacon Center of Tennessee

The mission of the Beacon Center of Tennessee is to change lives through public policy. The Beacon Center, founded as the Tennessee Center for Policy Research, is an independent, nonprofit and nonpartisan research organization dedicated to providing concerned citizens, the media and public leaders with expert empirical research and timely free market policy solutions to public policy issues in Tennessee.

The Beacon Center generates and encourages public policy remedies grounded in the capacity of private enterprise, the ingenuity of individuals and the abilities of active communities to achieve a freer, more prosperous Tennessee.

# The Economic Consequences of Tennessee's Gift and Estate Tax\*

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## SUMMARY & CONCLUSION

It used to be that the sole purpose of the tax code was to raise the necessary funds to run government. But in today's world the tax mandate has many more facets including income redistribution, rewarding favored industries, and punishing unfavored behavior. And even with the greatly expanded tax mandate, finding an appropriate tax code would be relatively straightforward if only people would stop changing what they do when the tax code changes. It's like dodgeball; if only the other guy wouldn't duck when you threw the ball at him it would be easy to win. But, the other guy does duck and he almost always ducks just when you're throwing the ball at him. Damn it!

High tax rates imposed on a narrow tax base are the worst. They produce disproportionately large distortions and thereby seriously damage the economy and yet yield little direct tax revenue. High tax rates are direct incentives for people to evade, avoid, or otherwise not report taxable income. A narrow tax base, in turn, allows those same people plenty of tax free alternatives where they can safeguard their income. High tax rates with a narrow tax base are a toxic combination. The damage they cause to the economy always reduces other tax revenues.

Tennessee's gift and estate tax is the poster boy for bad tax policy.<sup>1</sup> Tennessee is one of only 19 states with a separate estate tax and one of only two states with a gift tax.<sup>2</sup> Tennessee has the single lowest exemptions for both its estate tax and its gift tax.

Tennessee's economy has way underperformed other right-to-work states and other states with no earned income tax, low corporate taxes, and low overall tax burdens. And, for what has Tennessee made this sacrifice? Tennessee collects less than 1% of its tax revenue from its gift and estate tax according to the U.S. Census Bureau.<sup>3</sup>

To show how people really do respond to incentives a comparison between Florida and Tennessee is especially poignant. Both states have no earned income tax, are right-to-work states and have low tax burdens and are generally pro-growth and pro-business. Yet, Tennessee has the highest gift tax and an estate tax. Florida has neither a gift tax nor an estate tax.

In 2010 Florida had almost twice as many federal estates filed per 100,000 population than Tennessee and the average size of Florida's federal estate was \$7,403,172 while Tennessee's was \$4,441,685. What a disaster for Tennessee.

The cost Tennessee has paid for its gift and estate tax in lost economic growth and employment is staggering. Had Tennessee eliminated its gift and estate tax 10 years ago, Tennessee's economy would have been over 14% larger in 2010 and there would have been 200,000 to 220,000 more jobs in the state. And, the more robust economic growth would have benefited state and local government revenues adding between \$7 billion and \$7.3 billion to state and local coffers.

*\*Section I Summary and Conclusion revised 1/3/12*

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Potential gift and estate tax payers expend effort and money to avoid the tax. Many leave the state in anticipation of Tennessee's death tax taking with them jobs, spending, investments, and entrepreneurial skills. Once gone, they are loath to come back. Potential immigrants to Tennessee are also put off by Tennessee's extreme gift and estate tax.

The average taxable estate in Tennessee is consistently smaller than the U.S. average. In 2010 the average size of a federal estate filed in Tennessee was almost 25% smaller than the U.S. average federal estate, or \$1,350,000 less. And, in Tennessee there were over 20% less federal estates filed per 100,000 population than the U.S. average. People really do leave Tennessee because of Tennessee's gift and estate tax—and they leave in droves.

The economic damage created by Tennessee's gift and estate tax can also be estimated by examining the extent that Tennessee's asset base is reduced. It is important to note upfront that because estates reported to the IRS have declined over time due to changes in federal reporting requirements, and the total value of estates is less than the total value of assets lost, the economic damages calculated based on the lost estates significantly understate the true economic damage. Yet, the economic costs are still staggering. Tennessee's gift and estate tax has lowered the state's asset base by at least \$16.6 billion to \$48.3 billion reducing the size of Tennessee's economy, as measured by gross state product, by between \$6.1 billion to \$18.2 billion.

Quite simply, Tennessee's gift and estate tax is the single greatest reason why wealthy people don't want to live in Tennessee. Many leave the state and few move into Tennessee. They take all their jobs, entrepreneurship, spending, homes and wealth with them. This is the single greatest detriment to Tennessee's growth and Tennessee's ability to raise sufficient tax revenues. If Tennessee's gift and estate tax were repealed or greatly reduced Tennessee's state tax revenues would increase, not decrease.

Here I feel compelled to quote one of the greatest economists of the 20th century who is most closely associated with liberal economics—John Maynard Keynes.

*When, on the contrary, I show, a little elaborately, as in the ensuing chapter, that to create wealth will increase the national income and that a large proportion of any increase in the national income will accrue to an Exchequer, amongst whose largest outgoings is the payment of incomes to those who are unemployed and whose receipts are a proportion of the incomes of those who are occupied, I hope the reader will feel, whether or not he thinks himself competent to criticize the argument in detail, that the answer is just what he would expect—that it agrees with the instinctive promptings of his common sense.*

*Nor should the argument seem strange that taxation may be so high as to defeat its object, and that, given sufficient time to gather the fruits, a reduction of taxation will run a better chance than an increase of balancing the budget. For to take the opposite view today is to resemble a manufacturer who, running at a loss, decides to raise his price, and when his declining sales increase the loss, wrapping himself in the rectitude of plain arithmetic, decides that prudence requires him to raise the price still more—and who, when at last his account is balanced with nought on both sides, is still found righteously declaring that it would have been the act of a gambler to reduce the price when you were already making a loss.<sup>4</sup>*

High tax rates on narrow tax bases are also inherently unfair and capricious. Those who eschew the tricks and gimmicks of tax lawyers, accountants and political lobbyists bear the full damaging brunt of the tax law, while those who skirt the fringes of our tax codes never pay.

Tennessee's gift and estate tax discriminates against a very small group of citizens whose productivity greatly exceeds the state's average. These people are job creators, taxpayers, arts supporters, and capital formers. These people allow future generations to advance far beyond the accomplishments of their own generation. And yet for no benefit to the state, they are faced with a punitive gift and estate tax found nowhere else in America.

And do remember that these people like other Tennessee citizens have paid all their other taxes fair and square. They haven't caroused, or drunk, or gambled or squandered their wealth away. These people have lived their lives "by the book" and done what we teach our children should be done. They far more deserve to be honored rather than singled out for a specific tax on them and them alone.

## TENNESSEE'S GIFT AND ESTATE TAX IN CONTEXT

Economics is all about incentives. When a state's economic policies establish pro-growth economic incentives, strong economic growth follows. The reverse is true as well.

Tennessee's economic policies in general are very good. Tennessee does not levy a personal earned income tax—although it does levy a tax on dividends and interest (the Hall Tax). Tennessee also has a low maximum corporate income tax rate (6.5%), and does not over-regulate. Tennessee is a right-to-work state with one of the lowest percentages of the workforce represented by unions in the nation. Tennessee property tax rates are also quite reasonable.

Also, as will be shown, Tennessee's heavy reliance on the sales tax for tax revenues is a plus for the state. While all taxes by their very nature are punitive, the sales tax is a low rate flat tax and one of the least damaging taxes available to state and local governments. All combined, Tennessee has a combination of policies that has been shown time and again to promote healthy broad-based growth. But unfortunately, Tennessee has not achieved the prosperity it deserves.

Tennessee's Achilles' heel is the state's gift and estate tax. Tennessee is one of a minority of 20 states (which will soon be down to 19 as Ohio repealed its estate tax effective January 1, 2013) that levies some type of separate estate or inheritance tax in addition to the federal estate tax. And, Tennessee is one of only two states (Connecticut is the other state) that levies a separate gift tax. The current top gift and estate tax rate in Tennessee is 9.5% and Tennessee only allows a \$13,000 exemption per recipient per year as does federal law. There are, however, no lifetime gift exemptions under state law as there are under federal law.

For the 2011 and 2012 tax years, the lifetime federal gift tax exclusion was increased from \$1 million to \$5 million. The five-fold increase in the lifetime gift tax exclusion creates an important tax planning event for many taxpayers. For only two years, taxpayers can give away up to \$5 million to anyone they choose and avoid any federal gift or estate tax on this money. If they live in Tennessee however, people can give away only \$13,000 before the state's gift tax kicks in. There is no lifetime exclusion in Tennessee.

Tennesseans who want to take advantage of the higher lifetime federal gift tax exclusion create a \$4.987 million state taxable event for themselves that is unique to Tennessee. Applying the state gift tax rate, Tennesseans who want to take advantage of the beneficial federal policy must pay over \$462,000 to the state! **Table 1** shows the math. Moving out of Tennessee could save a Tennessean close to a half million dollars in taxes. Wouldn't you move to another state that does not have a gift and estate tax for a half million dollars?

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*On a personal level, people try to shift income from higher-taxed categories to lower-taxed categories. They purchase tax shelters, move to a lower tax region, and in some cases, they may even choose to earn less income or literally evade the tax at considerable personal risk.*

**Table 1: State Tax Payments for Tennessean Who Wants to Use the Temporarily Higher Lifetime Federal Gift Tax Exclusion**

	Total	First \$40,000	\$40,001 - \$240,000	\$240,001 - \$440,000	\$440,001 and over
Federal gift tax exemption (Lifetime)	\$ 5,000,000				
Tennessee gift tax exemption	- \$ 13,000				
Tennessee taxable gift	- \$ 4,987,000				
Tennessee taxable gift	\$ 4,987,000	\$ 40,000	\$ 199,999	\$ 199,999	\$ 4,546,999
Tennessee gift tax rate	*	5.5%	6.5%	7.5%	9.5%
Gift tax due to Tennessee	- \$ 462,165	\$ 2,200	\$ 13,000	\$ 15,000	\$ 431,965

Source: Laffer Associates calculations

## THE THEORY OF INCENTIVES

Incentives can be either positive or negative. They are alternatively described as carrots and sticks or pleasure and pain. Whatever their form, people seek positive and avoid negative incentives. If a dog is scolded, for example, the animal's whereabouts will not be known, but the dog is certain not to be where the scolding took place. If, however, a dog is fed, we know exactly where the dog will be.

The principle is simple enough: If an activity should be shunned, a negative incentive is appropriate. Positive incentives come into play in order to make activities attractive. When the dog is fed you can be fairly certain that the dog will be where the food is at feeding time. Positive incentives tell you what to do while negative incentives tell you what not to do.

In the realm of political economics, taxes are negative incentives and government subsidies are positive incentives. People attempt to avoid taxed activities—the higher the tax rate, the greater their attempt to avoid. As with all negative incentives, no one can be sure how the avoidance will be carried out. It's like a hot stove. You don't know where people's hands will be, but they won't be on the hot stove.

Many tax policies do illustrate a correct understanding of the theory of incentives. For example, government taxes cigarettes to stop people from smoking, not to get them to smoke. Government also fines speeders so they won't speed, not to encourage them to drive faster. And, while a sparkle-headed idea, government pays farmers not to grow food to raise food prices, not lower them.

But when it comes to taxation in general, contrary to common sense, to most people it seems perfectly natural that government would tax people who work or companies that are successful. The thought never crosses their minds that these policies are the very reason why our economy is in such bad shape.

On a personal level, people try to shift income from higher-taxed categories to lower-taxed categories. They purchase tax shelters, move to a lower tax region, and in some cases, they may even choose to earn less income or literally evade the tax at considerable personal risk. Because tax revenues are necessary to sustain government spending, one canon of taxation has always

been to have the largest possible tax base coupled with the lowest possible tax rate. By so doing, people are provided the least opportunity to avoid paying taxes and the lowest incentive to do so. When it comes to Tennessee's sales tax, this canon is followed to the T. Yet, Tennessee's gift and estate tax couldn't be more diametrically opposed to the concept of a broad-based low-rate tax.

Badly designed taxes are detrimental to labor and capital, poor and rich, men and women, and old and young. They are equal opportunity tormentors. High taxes on estates and gifts mobilize people to "vote with their feet" and leave the state. Without either the tax revenues or the productivity of the people who fled the state, low wage workers suffer the tax burden. Laffer Associates has produced decades of research demonstrating the enormous effects bad taxes have on states.

Competition among the many states is, in large part, played out by the behavior of mobile factors of production which can "vote with their feet" and relocate to political jurisdictions pursuing more favorable economic policies. Changes in tax rates are easily measured and have a great impact on the supplies of mobile factors of production. And there is probably no factor of production more mobile than wealthy highly productive people. They can live almost anywhere whether they are doctors, lawyers, venture capitalists, entrepreneurs, business professionals, athletes or performing artists. These are the people a state needs to attract not expel.

It is usually difficult to accurately predict the dynamic effects of supply-side policy changes, but in the case of the elimination of Tennessee's gift and estate tax the evidence is so overwhelming as to make the predictions easy. The issue is not whether the elimination of Tennessee's gift and estate tax will boost Tennessee's growth and increase total tax revenues—it will—but by how much will growth accelerate and will tax revenues rise.

The basic idea behind the relationship between tax rates and tax revenues is that changes in tax rates have two effects on revenues: the arithmetic effect and the economic effect.

- **The arithmetic effect** is simply that if tax rates are lowered, tax revenues per dollar of tax base will be lowered by the amount of the decrease in the rate. And, the reverse is true for an increase in tax rates.
- **The economic effect** recognizes the positive impact that lower tax rates have on work, output, and employment and thereby the tax base by providing incentives to increase these activities. Raising tax rates has the opposite economic effect by penalizing participation in the taxed activities.

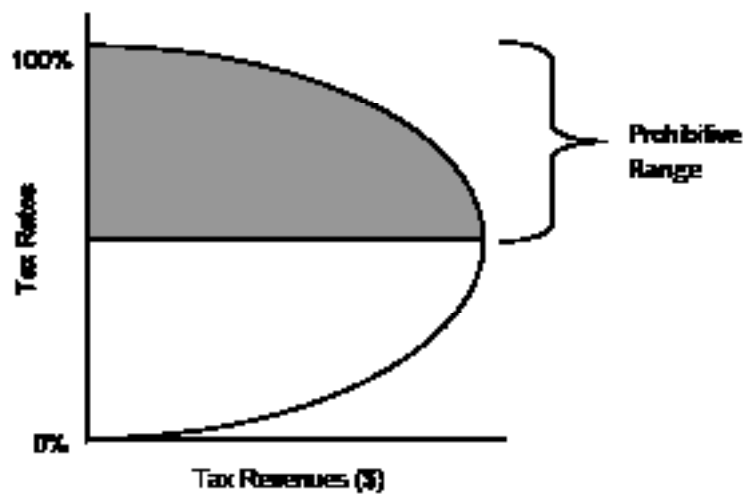
The arithmetic effect always works in the opposite direction from the economic effect. Therefore, when the economic and the arithmetic effects of tax rate changes are combined, the consequences of the change in tax rates on total tax revenues are no longer quite so obvious.

Figure 1 is a graphic illustration of this concept as illustrated by the Laffer Curve. At a tax rate of 0% the government would collect no tax revenues, no matter how large the tax base. Likewise, at a tax rate of 100%, the government would also collect no tax revenues because no one would be willing to work for an after-tax wage of zero—there would be no tax base. Between these two extremes there are two tax rates that will collect the same amount of revenue: A high tax rate on a small tax base and a low tax rate on a large tax base.

The Laffer Curve itself doesn't say whether a tax cut will raise or lower revenues. Revenue responses to a tax rate change will depend upon the tax system in place, the time period being considered, the ease of moving into untaxed activities, the level of tax rates already in place, the

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Figure 1: The Laffer Curve



Source: Laffer Associates calculations

*Between 2001 and 2010, states without gift or estate taxes saw overall economic growth 8 percentage points higher than states with an estate tax.*

prevalence of legal and accounting-driven tax loopholes, and the proclivities of the productive factors. If the existing tax rate is too high—in the “prohibitive range” shown above—then a tax-rate cut would result in increased tax revenues. The economic effect of the tax cut would outweigh the arithmetic effect of the tax cut.

And such is the case today for Tennessee’s gift and estate tax. The time period is long—literally an individual’s lifetime, wealthy productive people can move easily into no gift and estate tax states, the level of the gift and estate tax rate is high making avoidance highly attractive, accountants and lawyers who specialize in helping the wealthy get around Tennessee’s gift and estate tax are everywhere and eager to help and lastly wealthy productive people thrive on avoiding paying taxes. It’s a no brainer!

Just a cursory glance at Tennessee makes it perfectly clear that elimination of the gift and estate tax will spur Tennessee’s prosperity and pour tax revenues into state and local governments.

## THE ESTATE TAX’S IMPACT ON TENNESSEE MIGRATION PATTERNS

With this as backdrop, Tennessee’s problem is starkly apparent. Between 2001 and 2010, states without gift or estate taxes saw overall economic growth 8 percentage points higher than states with an estate tax. Similarly, employment in the non-estate tax states grew 2% over the 2001 through 2010 time period; whereas employment declined 2% in the estate tax states. The same patterns also held for population growth and migration patterns.

Taxes do not redistribute income, they redistribute people: the higher the tax rate, the narrower the tax base and the more mobile the people being taxed, the greater the redistribution of people and the less the redistribution of income—and the less are tax revenues for the government.

Gift and estate taxes, as opposed to Tennessee’s other taxes, are levied on a narrow tax base that represents a very small subset of a state’s population. This population is highly mobile as well. As a consequence, the people subject to Tennessee’s gift and estate tax have the ability to change the location of their income to avoid the gift and estate tax. And, the evidence couldn’t be clearer.



All of these features make gift and estate taxes the exact opposite of what an optimal tax base should be. Consequently, the expected economic outcome is a redistribution of people away from the states that levy estate and gift taxes toward states that do not. The incentive to move is strongest, obviously, for those people who must pay the estate and gift taxes. These are the successful entrepreneurs, and when they move, Tennessee loses not only their income, but the income and jobs their businesses create. Tennessee loses the houses they would have purchased. Tennessee loses the purchases they would have made and Tennessee loses a group of wonderful loyal Tennesseans who have been singled out as only being worth the money they pay in taxes when they give their money away and when they die.

Beyond these practical considerations, gift and estate taxes are immoral. A person living in Tennessee can pay all of his taxes fair and square. That person can then take his after-tax income and purchase a ticket to Las Vegas. In Las Vegas, he can drink, smoke, gamble and spend every last dime of his savings in “Sin City.” The state of Tennessee’s effective reaction is, enjoy! But, should that same person decide to leave this money to his children or grandchildren, the state of Tennessee punishes him by taxing his income once again. Gift and estate taxes are not only anti-growth, they are also anti-family.

As described above, Tennessee’s competitive economic landscape is a strong population draw, especially for people from high income tax states (see the bottom half of **Table 2**). But, while Tennessee’s strong competitive environment attracts people to the state, Tennessee’s estate tax encourages some of Tennessee’s most productive citizens to leave the state. Over the 1992 through 2008 period, Tennessee had a population/income deficit with five states—an income deficit being defined as the aggregate income of the people leaving Tennessee and going to one of these five states was greater than the aggregate income of the people coming from one of these five states to Tennessee. And, all five of these income deficit states do not levy an estate or gift tax.

**Table 2: The Top 5 States Where Tennessee Residents Moved Compared to the Top 5 States**

(Total between 1992 through 2008, Based on Aggregate Adjusted Gross Income)

	State	Households Sum 1992 - 2008			AAGI (000's \$) Sum 1992 - 2008			AAGI/HHD Sum 1992 - 2008	
		Net	Inflows	Outflows	Net	Inflows	Outflows	Inflows	Outflows
Largest Income Deficit States	Mississippi	-5,428	75,908	81,336	-533,795	2,270,351	2,804,146	29,909	34,476
	Georgia	-5,394	102,955	108,349	-57,005	4,004,487	4,061,492	38,895	37,485
	Colorado	-380	14,475	14,855	-31,012	599,606	630,618	41,423	42,451
	Wyoming	32	1,494	1,462	-13,209	58,448	71,657	39,121	49,013
	Montana	-14	1,997	2,011	-11,448	56,041	67,489	28,062	33,559
Largest Income Surplus States	Ohio	16,344	49,425	33,081	720,129	1,967,637	1,247,508	39,810	37,710
	Florida	28,552	125,296	96,744	753,014	4,779,916	4,026,902	38,148	41,824
	Michigan	20,815	46,465	25,650	910,215	1,803,521	893,306	38,814	34,826
	Illinois	18,133	50,556	32,423	951,738	2,135,441	1,183,703	42,239	36,508
	California	19,790	60,314	40,524	1,132,089	2,625,567	1,493,478	43,531	36,854

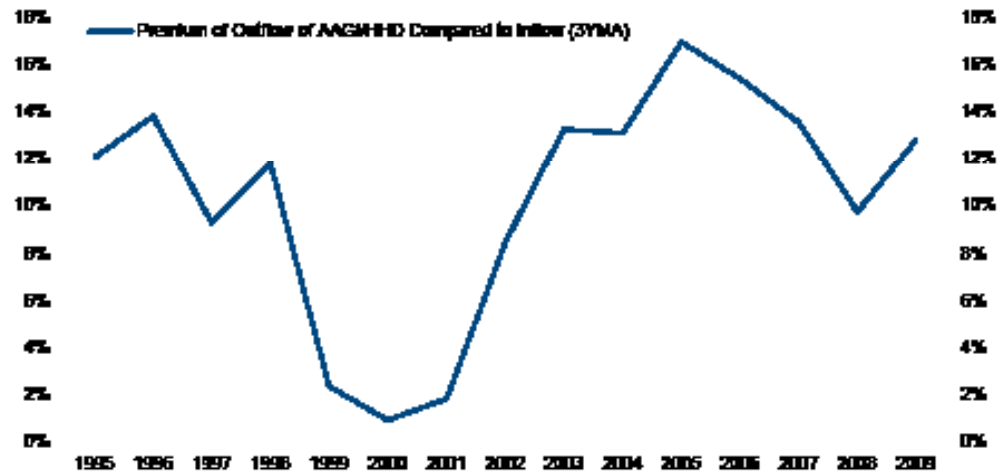
Source: IRS

Then there is Florida. Florida is a major source of population and income for Tennessee. This makes sense due to Tennessee's close proximity to Florida, similarly competitive economic environment and Florida's size.

Florida, like all other zero income tax states except Tennessee and Washington, does not impose a state estate tax. And as a result, the people Tennessee is losing to Florida tend to be much higher income people (people who are subject to the gift and estate tax), while the people coming to Tennessee from Florida tend to have lower incomes.

Figure 2 illustrates the three-year average income premium of those Tennesseans migrating to Florida compared to the Floridians migrating to Tennessee.

**Figure 2: Average Income Premium of Tennesseans Migrating to Florida Compared to Floridians Migrating to Tennessee\***  
(1992-93 through 2008-09, 3 Year Moving Average)



\*This chart displays the relationship between the average incomes of people leaving TN for FL and people leaving FL for TN. For example, a hypothetical value of 11% in 1996 would mean that, on average, the incomes of people leaving TN for FL in 1996 were 11% higher than those people leaving FL for TN in 1996.

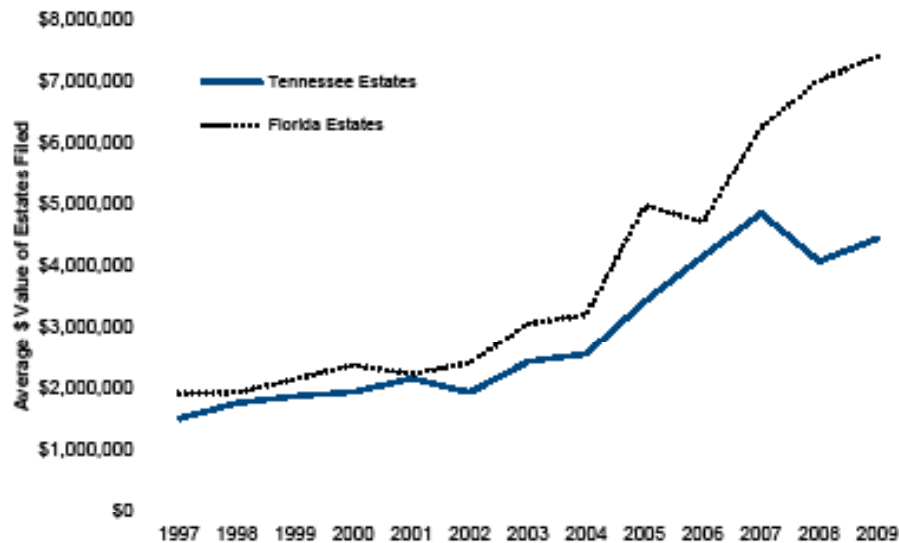
Source: IRS

But the Florida Tennessee story goes way beyond migration and income data. Using the IRS estate tax data the 30,000 foot picture is brought up close and personal. IRS data on federal estate taxes paid confirms that Tennessee's asset base is suffering. As part of its collection of tax data, the IRS tracks, by state, the number of estates subject to the federal estate tax as well as the aggregate value of all of the estates.

Using IRS data from 1997 through 2009 we focus on two sets of data. First, the average size of estates in Florida and in Tennessee. And secondly, the percentage of the population filing estates in Florida and Tennessee. And using these data you can quickly see the type of damage Tennessee's gift and estate tax has wreaked on the state of Tennessee. By the way, Florida has neither a state gift tax nor a state estate tax.

The data we use are based on federal estate tax data reported to the IRS. Due to changes in the federal estate tax law, the federal estate tax data vary over time. The number of estates reported declines significantly for certain tax years due to changes in the dollar exemption level. The

**Figure 3: Size of Average Federal Estate Filed in Tennessee and Florida†‡**  
(Annual 1997 through 2009)



† Average \$ Value of Estates Filed = Total \$ Value of Estates Filed / # of Estates Filed

‡ The above data are based on federal estate tax data reported to the IRS. Due to changes in the federal estate tax law, the federal estate tax data vary over time. The number of estates reported declines significantly for certain tax years due to changes in the dollar exemption level. The federal estate tax exemption level was \$600 thousand in 1997, rose in \$25,000 increments to \$850 thousand by 2000, increased to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, \$3.5 million in 2006, and \$5 million in 2011. There is also a temporary elimination of the estate tax completely in 2010 for those estates that chose this option. The applicable tax rate on federal estates also declined over this entire period from 55% in 1997 to 0% in 2010 (if that option is chosen) and then back up to 35% in 2011. These legislative changes alter the number of estates filed, the total aggregate value of estates filed, and the average value of estates filed. These discontinuities are strongest in 2010 when the estate tax was temporarily eliminated, which is why we do not include 2010 data in the analysis. Source: IRS

federal estate tax exemption level was \$600,000 in 1997 and rose progressively to \$5 million in 2011. There is also a temporary elimination of the estate tax completely in 2010 for those estates that chose this option. The applicable tax rate on federal estates also declined over this entire period from 55% in 1997 to 0% in 2010 (if that option is chosen) and then back up to 35% in 2011. These legislative changes alter the number of estates filed, the total aggregate value of estates filed, and the average value of estates filed. These discontinuities are strongest in 2010 when the estate tax was temporarily eliminated, which is why we do not include 2010 data in the analysis.

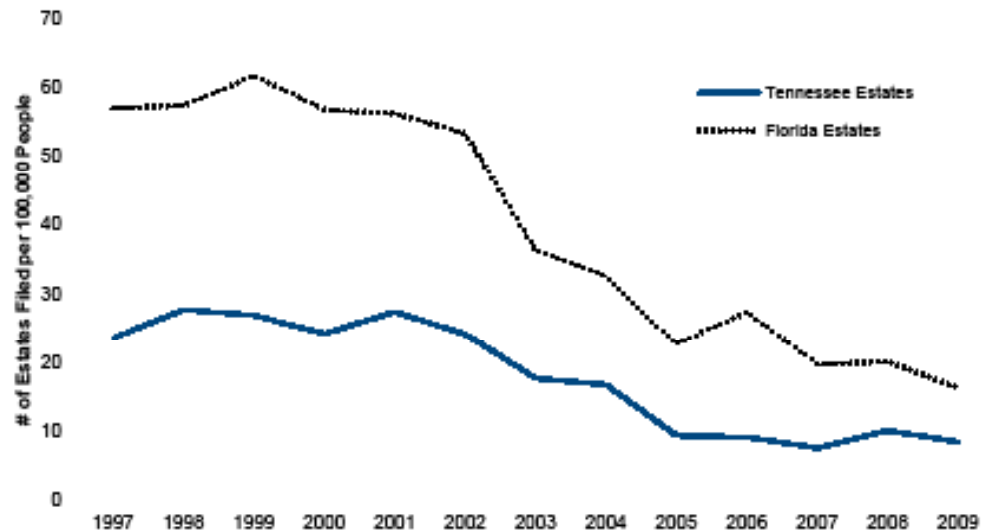
In 1997 the average size of an estate in Tennessee was \$1,514,000 and in Florida it was \$1,922,000. Florida's average estate was a full 25% higher than Tennessee's. In 2009 Florida's average estate was \$7,403,000 and in Tennessee it was \$4,442,000. In 2009 Florida's average estate was almost 75% larger than Tennessee's (Figure 3, above). The wealthiest most productive people in anticipation of an estate tax event move to Florida and leave Tennessee.

The second IRS data series, the number of estates filed as a share of the total state population, only drives the nail in deeper (Figure 4, next page).

In 1997 in Tennessee there were on average 24 estates filed for every 100,000 people. In that same year in Florida there were 57 estates filed per 100,000 people—well more than double the Tennessee rate. In 2009 the Tennessee estate filing rate had dropped to 8 estates filed per 100,000 of population (federal tax laws had changed on filing requirements) and in Florida there were 16 estates filed per 100,000 of population.

**Figure 4: Number of Federal Estates Tax Returns Filed per 100,000 People in Tennessee and Florida†**

(Annual 1997 through 2009)



† The above data are based on federal estate tax data reported to the IRS. Due to changes in the federal estate tax law, the federal estate tax data vary over time. The number of estates reported declines significantly for certain tax years due to changes in the dollar exemption level. The federal estate tax exemption level was \$600 thousand in 1997, rose in \$25,000 increments to \$650 thousand by 2000, increased to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, \$3.5 million in 2009, and \$5 million in 2011. There is also a temporary elimination of the estate tax completely in 2010 for those estates that chose this option. The applicable tax rate on federal estates also declined over this entire period from 55% in 1997 to 0% in 2010 (if that option is chosen) and then back up to 35% in 2011. These legislative changes alter the number of estates filed, the total aggregate value of estates filed, and the average value of estates filed. These discontinuities are strongest in 2010 when the estate tax was temporarily eliminated, which is why we do not include 2010 data in the analysis. Sources: IRS, U.S. Census

To reiterate, not only was the average federal estate size much larger in Florida than it was in Tennessee, but also the number of people filing in Florida was much larger as a share of the population than in Tennessee.

The shocking observation is that these differences are increasing sharply. In the two charts above, Figures 3 and 4, we have the average size of Florida and Tennessee’s estates from 1997 through 2009 and the number of filers per 100,000 of population in each state.

People really do move as a result of Tennessee’s gift and estate tax.

## THE EVIDENCE FROM ALL STATES AND TENNESSEE

### I.) The Overall Tax Burden

States that have high and/or increasing taxes relative to the nation experience relative declines in income, housing values, and population as well as rising relative unemployment rates. Consistently economic growth rates in the states that have the highest government tax and expenditure burdens lag the economic growth rates in the states with the lowest government tax and expenditure burdens.

**Table 3 (page 14)** presents the relationship between the Tax Foundation’s estimated state and local tax burden for 2009 (latest year available) and a series of economic metrics of the state’s health including the 10-year growth rate in gross state product (GSP) between 2001 and 2010.

Table 3 compares the nine states with the highest tax burden to the U.S. average of all states and the nine states with the lowest tax burden. Those states that imposed the smallest tax burden in 2009 experienced higher rates of economic growth than both the average state and those states that imposed the largest tax burden.

It is worth noting here that over the past 50 years 11 states have, at differing times, instituted a progressive state income tax including: Connecticut (1991), New Jersey (1976), Ohio (1972), Rhode Island (1971), Pennsylvania (1971), Maine (1969), Illinois (1969), Nebraska (1968), Michigan (1967), Indiana (1963) and West Virginia (1961).

The results have not been pretty. Compared to the time just prior to the introduction of the progressive income tax, each state's share of the U.S. economy is now smaller. And, some of the declines are quite large. In each case not only has the state's economy become a smaller portion of the overall U.S. economy, the state's citizens have seen their prosperity dramatically reduced, and the population of each of these states has given their state government a big raspberry by voting with their feet and leaving. The introduction of a progressive state personal income tax in each state that has implemented it over the past 50 years has been a total failure.

Two generalizations jump out of Table 3. The first is that on average low tax states way outperform the highest taxed states whether one focuses on gross state product growth, employment growth, population growth, in-migration, and, yes, even tax revenue growth. These types of differences are not achieved by chance. Taxes matter and matter a lot.

The second feature of Table 3 that is truly startling is how poorly Tennessee has performed relative to the other low tax states. In this 10-year period, Tennessee's gross state product growth is less than the national average, and is only marginally higher than the gross state product growth of the highest taxed states. Tennessee way underperforms when it comes to employment growth as well and in tax revenue growth. New Hampshire, which is a forced union state, is the only low-tax state that is challenging Tennessee for the worst performance.

## II.) The Personal Income Tax

It is not just the size of the tax burden that matters. The manner in which the tax burden is levied also matters. Economic growth is stronger in states with no personal income tax and weaker in states with the highest marginal personal income tax rates—in good times and bad (**Table 4**).

States without an income tax also exhibit less economic volatility. States without a personal income tax exhibit more tax revenue stability during bad economic times and stronger tax revenue growth during good economic times.

Just looking at the personal income tax rate alone, it is astounding how much better the zero tax states perform relative to the nation as a whole and especially relative to the highest tax states. To single out just one metric over the past decade, employment growth in the zero tax rate states was 5.36% versus 0.51% for the nation and -1.68% for the highest tax rates states.

Again, Tennessee's performance for a zero income tax state is abysmal. Tennessee's decadal growth is almost 20 percentage points less than the average for the zero income tax states and 8 percentage points below the national average. And in employment growth, Tennessee is even below the employment growth for the highest tax rate states.

*Tennessee's performance for a zero income tax state is abysmal. Tennessee's decadal growth is almost 20 percentage points less than the average for the zero income tax states and 8 percentage points below the national average.*

**Table 3: State and Local Tax Burden**  
 Nine States with the Highest and Lowest Tax Burden  
 (10-Year Economic Performance between 2001 and 2010)

State	State & Local Government Tax Burden as a % of Personal Income*	Gross State Product Growth	Nonfarm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population****	State & Local Tax Revenue Growth ***
Alaska	6.3%	77.0%	12.2%	12.1%	-2.0%	452.6%
Nevada	7.5%	58.9%	6.1%	28.9%	14.1%	100.1%
South Dakota	7.6%	58.5%	6.4%	7.3%	0.8%	51.2%
TENNESSEE	7.6%	38.6%	-2.8%	10.3%	4.2%	61.7%
Wyoming	7.8%	105.8%	15.2%	14.3%	4.3%	172.2%
Texas	7.9%	57.7%	8.7%	17.9%	3.4%	75.5%
New Hampshire	8.0%	35.2%	-0.7%	4.7%	2.5%	59.6%
South Carolina	8.1%	37.1%	-1.0%	13.8%	6.4%	45.2%
Louisiana	8.2%	58.7%	-1.8%	1.6%	-6.1%	70.4%
9 States with Lowest Tax Burden as a % of Personal Income**	7.67%	58.57%	4.72%	12.34%	3.05%	120.94%
9 States with Lowest Tax Burden as a % of Personal Income Excluding AK & WY**	7.84%	40.22%	2.17%	12.08%	3.60%	66.24%
U.S. Average**	9.38%	46.61%	0.51%	8.63%	0.86%	70.23%
U.S. Average Excluding AK & WY**	9.40%	44.75%	-0.04%	8.43%	0.85%	60.14%
9 States with Highest Tax Burden as a % of Personal Income**	11.02%	38.24%	-2.89%	3.78%	-2.48%	57.46%
Maine	10.1%	35.4%	-2.5%	3.4%	2.3%	45.3%
Vermont	10.2%	36.1%	-1.8%	2.2%	-0.1%	64.5%
Minnesota	10.3%	39.5%	-1.9%	6.4%	-0.9%	43.8%
California	10.6%	42.1%	-4.0%	8.0%	-3.9%	77.2%
Rhode Island	10.7%	38.1%	-4.1%	-0.5%	-3.8%	52.4%
Wisconsin	11.0%	35.3%	-2.0%	5.1%	-0.1%	39.9%
Connecticut	12.0%	40.9%	-4.3%	4.2%	-2.6%	55.3%
New York	12.1%	43.1%	-0.4%	1.5%	-0.3%	68.3%
New Jersey	12.2%	33.7%	-3.8%	3.6%	-4.8%	70.4%

\*State & Local Government Tax Burden as of 2009 from Tax Foundation (most recent available)

\*\*Equal-weighted averages.

\*\*\*1999-2008

\*\*\*\*2000-2009

Sources: U.S. Census, Bureau of Economic Analysis, Tax Foundation, and Laffer Associates calculations

### III.) The Corporate Income Tax

Tennessee does not have a personal earned income tax—a competitive advantage for the state—but it does levy a corporate income tax, albeit below the national average, which has a similarly negative impact on economic performance. The states with the lowest corporate income tax rates are also those states with above average rates of economic growth while the states with the highest corporate income tax rates are associated with below average rates of economic growth.

Table 5 presents the latest comparison over the past 10 years for the nine states with the lowest corporate income tax rates compared to the nine states with the highest corporate income tax rates. It is important to note that only three states have no corporate income tax (Nevada, South Dakota, and Wyoming).

**Table 4: Top Marginal Personal Income Tax Rate (State and Local)**  
 Nine States with the Lowest and Highest Personal Earned Income Tax (PIT) Rates  
 (10-Year Economic Performance between 2001 and 2010)

State	Top Personal Income Tax Rate*	Gross State Product Growth	Nonfarm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population****	State & Local Tax Revenue Growth ***
Alaska	0.00%	77.0%	12.2%	12.1%	-2.0%	452.6%
Florida	0.00%	47.7%	0.2%	15.0%	6.5%	82.3%
Nevada	0.00%	58.9%	6.7%	28.9%	14.1%	100.1%
New Hampshire	0.00%	35.2%	-0.7%	4.7%	2.5%	58.6%
South Dakota	0.00%	58.9%	6.4%	7.3%	0.0%	51.2%
TENNESSEE	8.00%	38.6%	-2.0%	10.3%	4.2%	61.7%
Texas	0.00%	57.7%	8.7%	17.9%	3.4%	75.5%
Washington	0.00%	47.6%	3.0%	12.3%	3.4%	57.8%
Wyoming	0.00%	105.6%	15.2%	14.3%	4.3%	172.2%
9 States with no PIT**	0.00%	58.54%	5.36%	13.65%	4.12%	123.66%
U.S. Average**	5.47%	46.61%	0.51%	8.63%	0.86%	70.23%
9 States with Highest Marginal PIT Rate**	9.92%	42.06%	-1.68%	5.49%	-1.91%	61.79%
Ohio	8.24%	24.6%	-9.3%	1.2%	-3.1%	44.5%
Maine	8.50%	35.4%	-2.5%	3.4%	2.3%	45.3%
Maryland	9.30%	50.9%	1.7%	7.4%	-1.5%	67.0%
Vermont	9.40%	36.7%	-1.6%	2.2%	-0.1%	64.5%
New York	10.50%	43.7%	-0.4%	1.5%	-8.3%	68.3%
California	10.55%	42.7%	-4.6%	6.0%	-3.9%	77.2%
New Jersey	10.75%	33.7%	-3.6%	3.6%	-4.0%	70.4%
Hawaii	11.00%	57.4%	5.7%	11.7%	-2.2%	72.1%
Oregon	11.00%	55.0%	-0.3%	10.4%	4.5%	46.8%

\*Highest marginal state and local personal income tax rate imposed as of 1/1/2011 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.  
 New Hampshire and Tennessee tax dividend interest income only.

\*\*Equal-weighted averages

\*\*\*1999-2008

\*\*\*\*2000-2009

Sources: U.S. Census, Bureau of Economic Analysis, Bureau of Labor Statistics, and Laffer Associates calculations

Those states with the lowest corporate income tax rates perform significantly better than those states with the highest corporate income tax rates.

On average, the nine states with the lowest marginal corporate income tax rates saw gross state product growth rates that were 15 percentage points higher than those states with the highest corporate income tax rates, employment growth that was nearly 7 percentage points higher, and population growth that was also 7 percentage points higher. Tax revenue growth exceeded the national average by nearly 8 percentage points for the nine lowest corporate income tax rate states and save for Alaska, which had huge amounts of oil severance tax revenues, exceeded the average for the states with the highest marginal corporate income tax rates. The lesson is clear: low corporate income tax rates encourage economic growth while high marginal corporate income tax rates discourage growth.

Here again, Tennessee is a disaster.

**Table 5: Top Marginal Corporate Income Tax Rate (State and Local)**  
 Nine States with the Lowest and Highest Marginal Corporate Income Tax (CIT) Rates  
 (10-Year Economic Performance between 2001 and 2010)

State	Top Corporate Income Tax Rate*	Gross State Product Growth	Nonfarm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population****	State & Local Tax Revenue Growth ***
Nevada	0.00%	58.9%	6.1%	28.9%	14.1%	100.1%
South Dakota	0.00%	58.5%	6.4%	7.3%	0.8%	51.2%
Wyoming	0.00%	105.6%	15.2%	14.3%	4.3%	172.2%
North Dakota	4.16%	81.5%	13.7%	5.7%	-3.4%	90.2%
Alabama	4.23%	43.7%	-2.1%	7.1%	1.9%	60.1%
Colorado	4.63%	42.4%	-0.3%	13.4%	3.7%	62.1%
Mississippi	5.00%	44.3%	-3.5%	4.0%	-1.1%	51.4%
South Carolina	5.00%	37.1%	-1.0%	13.8%	6.4%	45.2%
Utah	5.00%	58.2%	9.2%	20.6%	1.1%	71.4%
9 States with Lowest Marginal CIT Rate**	3.11%	58.91%	4.86%	12.80%	3.08%	78.20%
0 States with Lowest Marginal CIT Rate excluding WY**	3.50%	53.07%	3.57%	12.01%	2.03%	66.45%
<b>TENNESSEE</b>	6.50%	38.64%	-2.80%	10.26%	4.18%	61.72%
U.S. Average**	7.14%	46.61%	0.51%	8.63%	0.86%	70.23%
0 States with Highest Marginal CIT Rate excluding AK**	11.17%	39.88%	-3.30%	5.00%	-1.41%	48.04%
9 States with Highest Marginal CIT Rate**	10.37%	44.00%	-1.63%	5.79%	-1.48%	93.80%
Michigan	9.01%	14.0%	-15.4%	-1.2%	-5.2%	25.9%
Alaska	9.40%	77.0%	12.2%	12.1%	-2.0%	452.6%
Monte	9.50%	33.8%	-6.4%	2.6%	-4.8%	52.3%
Minnesota	9.80%	39.5%	-1.9%	6.4%	-0.9%	43.8%
Iowa	9.90%	51.7%	0.2%	4.0%	-1.4%	50.4%
Delaware	9.98%	41.9%	-1.6%	13.0%	5.2%	50.2%
Oregon	11.25%	55.0%	-0.3%	10.4%	4.5%	46.8%
Pennsylvania	13.97%	40.1%	-1.2%	3.3%	-0.3%	53.8%
New York	15.95%	43.1%	-0.4%	1.5%	-8.3%	60.3%

\*Highest marginal state and local corporate income tax rate imposed as of 1/1/08 using the tax rate of each state's largest city as a proxy for the local tax. The effect of the deductibility of federal taxes from state tax liability is included where applicable.

\*\*Equal-weighted averages.

\*\*\*1999-2008

\*\*\*\*2000-2009

Sources: U.S. Census, Bureau of Economic Analysis, Bureau of Labor Statistics, and Laffer Associates calculations

#### IV.) The Sales Tax

Based on our earlier discussion, the best tax system is one that has a broad tax base and a low tax rate, which sounds like a state-wide sales tax to me. In **Table 6** below we list those nine states with the lowest sales tax burdens, and those nine states with the highest sales tax burdens. The shock here is that those states that rely most on sales taxes outperform those states that rely least on sales taxes. Theory and data are once again in sync—except, of course, for Tennessee.



**Table 6: State and Local Sales Tax Burden**  
 Nine States with the Lowest and Highest Sales Tax Burden  
 (10-Year Economic Performance between 2001 and 2010)

State	Sales Tax Burden*	Gross State Product Growth	Nonfarm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population***
Delaware	\$0.00	41.9%	-1.8%	13.0%	5.2%
Montana	\$0.00	56.0%	9.4%	9.2%	4.0%
New Hampshire	\$0.00	35.2%	-0.7%	4.7%	2.5%
Oregon	\$0.00	55.0%	-0.3%	10.4%	4.5%
Alaska	\$7.31	77.0%	12.2%	12.1%	-2.0%
Massachusetts	\$12.41	34.2%	-4.6%	2.1%	-4.7%
Virginia	\$13.79	51.4%	3.2%	11.3%	1.7%
Maryland	\$13.89	50.9%	1.7%	7.4%	-1.5%
Vermont	\$14.31	36.1%	-1.8%	2.2%	-6.1%
9 States with Lowest Sales Tax Burden**	\$6.86	48.62%	1.97%	8.06%	1.06%
U.S. Average**	\$24.58	46.61%	0.51%	8.63%	0.86%
9 States with Highest Sales Tax Burden**	\$43.03	55.47%	3.07%	10.63%	1.90%
Mississippi	\$35.16	44.3%	-3.5%	4.0%	-1.1%
Arkansas	\$40.09	44.6%	0.8%	8.4%	2.5%
<b>TENNESSEE</b>	<b>\$40.59</b>	<b>38.6%</b>	<b>-2.4%</b>	<b>90.3%</b>	<b>4.2%</b>
Arizona	\$40.89	49.0%	5.0%	20.5%	10.7%
New Mexico	\$42.35	53.1%	5.9%	12.6%	1.5%
Louisiana	\$43.37	58.7%	-1.6%	1.6%	-6.1%
Wyoming	\$47.50	105.6%	15.2%	14.3%	4.3%
Hawaii	\$48.56	57.4%	5.7%	11.7%	-2.2%
Washington	\$48.73	47.8%	3.0%	12.3%	3.4%

\*State and local Sales tax imposed as of FY (using the tax rate of each state's largest city as a proxy for the local tax. Sales tax burden of \$1,000 of personal income.

\*\*Equal-weighted averages.

\*\*\*2000-2009

Sources: U.S. Census, Bureau of Economic Analysis, Bureau of Labor Statistics, and Laffer Associates calculations

The same economic benefits do not accrue to those states with low sales tax burdens (measured as sales tax revenues per \$1,000 of personal income) compared to those states with high sales tax burdens. **Table 6** illustrates that the states with the lowest sales tax burdens have lower gross state product growth, lower employment growth, and less population growth than the states with the highest sales tax burdens.

Sales taxes are, by definition, flat taxes on consumption. Consequently, these taxes should be less economically distorting than progressive income taxes. Additionally, several of the states with the highest sales tax burdens (including Tennessee) have no income tax. Because states need to raise money to provide needed public services, no income tax states rely on the sales tax to a greater extent—hence the higher sales tax burdens.

#### V.) Right-to-work states

States with no income tax generally outperform high income tax rate states. This result holds equally as true if not more so for the corporate income tax rate as well. We also find the overall tax burden an exceptionally important factor in determining whether a state is winning or losing

the race for prosperity. Of course, factors other than taxes matter as well. It is equally true that states that have right-to-work laws grow faster than states with forced unionism.

As of today there are 22 right-to-work states and 28 union-shop states (Tennessee is a right-to-work state). Over the past decade (2001-2010) the right-to-work states grew faster in nearly every respect than their union-shop counterparts: 52.83% versus 41.72% in gross state product, 49.99% versus 38.78% in personal income, 2.80% versus -1.29% in payroll employment growth, and 11.85% versus 6.09% in population growth.

**Table 7** lists all 22 right-to-work states in order of the strongest GSP growth over the 2001 and 2010 period. Tennessee has had the third worst economic performance of all of the right-to-work states with only much higher taxed South Carolina and Georgia putting in a worst economic performance.

Once again, Tennessee's economic performance lags behind the other pro-growth states despite Tennessee having implemented the correct economic policy.

**Table 7: The 22 Right-to-Work States**  
(10-Year Economic Performance between 2001 and 2010)

State	Gross State Product Growth	Nonfarm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population*	State & Local Tax Revenue Growth**
Wyoming	105.6%	15.2%	14.3%	4.3%	172.2%
North Dakota	81.5%	13.7%	5.7%	-3.4%	90.2%
Nevada	58.9%	6.1%	28.9%	14.1%	100.1%
Louisiana	58.7%	-1.6%	1.6%	-6.1%	70.4%
South Dakota	58.5%	6.4%	7.3%	0.8%	51.2%
Utah	58.2%	9.2%	20.6%	1.1%	71.4%
Texas	57.7%	8.7%	17.9%	3.4%	75.5%
Idaho	52.7%	6.2%	18.7%	7.4%	62.5%
Oklahoma	51.8%	1.3%	8.3%	1.0%	58.5%
Iowa	51.7%	0.2%	4.0%	-1.4%	50.4%
Virginia	51.4%	3.2%	11.3%	1.7%	67.2%
Nebraska	50.8%	2.2%	6.3%	-2.1%	62.4%
Arizona	49.0%	5.0%	20.5%	10.7%	87.9%
Florida	47.7%	0.2%	15.0%	6.5%	82.3%
North Carolina	45.4%	-0.8%	16.2%	6.2%	63.9%
Arkansas	44.6%	0.8%	8.4%	2.5%	66.7%
Mississippi	44.3%	-3.5%	4.0%	-1.1%	51.4%
Alabama	43.7%	-2.1%	7.1%	1.9%	60.1%
Kansas	42.3%	-1.9%	5.6%	-2.4%	62.9%
<b>TENNESSEE</b>	<b>38.6%</b>	<b>-2.8%</b>	<b>10.3%</b>	<b>4.2%</b>	<b>61.7%</b>
South Carolina	37.1%	-1.0%	13.8%	6.4%	45.2%
Georgia	32.2%	-3.0%	15.1%	5.4%	56.4%

\*2000-2009  
\*\*1999-2008

Sources: U.S. Census, Bureau of Economic Analysis, Bureau of Labor Statistics, and Laffer Associates calculations

#### VI.) ALEC/Laffer Competitive Environment Ranking

**Table 8** accounts for many of the other key factors that also impact economic growth. Table 8 presents the latest results from the Laffer-ALEC State Competitive Environment Rank that accounts for the following 15 policy factors are included in the Laffer-ALEC State Economic Outlook Index:

**Table 8: Relationship between Policies and Performance**  
**Laffer State Competitive Environment Rank vs. 10-Year Economic Performance**  
 (Performance between 2000 and 2009)

State	Rank	Gross State Product Growth	Personal Income Growth	Personal Income per Capita Growth	Net Domestic In-Migration as a % of Population	Nonfarm Payroll Employment Growth
Utah	1	62.2%	59.6%	35.2%	2.0%	11.8%
South Dakota	2	61.5%	56.1%	49.9%	0.8%	7.3%
Virginia	3	55.1%	54.5%	46.2%	2.2%	4.4%
Wyoming	4	119.8%	81.8%	70.7%	4.1%	19.4%
Iaho	5	48.2%	53.5%	33.4%	7.4%	10.7%
Colorado	6	45.9%	43.2%	30.8%	4.1%	2.6%
North Dakota	7	73.3%	60.6%	68.5%	-2.9%	12.5%
<b>TENNESSEE</b>	<b>8</b>	<b>36.2%</b>	<b>41.8%</b>	<b>32.7%</b>	<b>4.3%</b>	<b>-4.3%</b>
Missouri	9	30.8%	36.6%	34.2%	0.7%	-2.9%
Florida	10	51.6%	54.6%	40.1%	6.9%	3.9%
10 Highest Ranked States*		58.5%	54.5%	44.3%	3.0%	6.5%
U.S. Average*		48.8%	47.8%	41.4%	0.9%	1.5%
10 Lowest Ranked States*		41.6%	39.9%	41.2%	-2.4%	-0.9%
Pennsylvania	41	38.4%	36.9%	40.5%	-0.4%	-1.0%
Rhode Island	42	42.0%	40.7%	47.1%	-4.3%	-3.8%
Oregon	43	46.2%	40.5%	30.9%	4.6%	-0.6%
Illinois	44	30.9%	33.7%	34.8%	-5.1%	-7.0%
New Jersey	45	36.9%	33.5%	39.4%	-5.3%	-1.8%
California	46	43.0%	38.0%	34.7%	-4.0%	-2.3%
Hawaii	47	58.0%	55.0%	50.7%	-2.2%	8.6%
Maine	48	39.2%	41.3%	44.4%	2.0%	-0.7%
Vermont	49	39.3%	41.6%	46.8%	-0.5%	0.2%
New York	50	40.6%	38.2%	42.6%	-8.6%	-0.5%

\*equal weighted averages

Sources: U.S. Census, Bureau of Economic Analysis, Bureau of Labor Statistics

- Highest Marginal Personal Income Tax Rate
- Highest Marginal Corporate Income Tax Rate
- Personal Income Tax Progressivity
- Property Tax Burden
- Sales Tax Burden
- Tax Burden from All Remaining Taxes
- Estate Tax/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes
- Debt Service as a Share of Tax Revenue
- Public Employees per 1,000 Residents
- Quality of State Legal System
- State Minimum Wage
- Workers' Compensation Costs
- Right-to-Work State (Yes or No)
- Tax or Expenditure Limits

The Rank is based on the 15 state-policy variables. States that spend less—especially on income-transfer programs—and states that tax less—particularly on productive activities such as working or investing—and states that regulate less—experience higher growth rates than states which tax and spend more.

Even using this comprehensive measure of state economic policies, Tennessee ranks comfortably within the top 10 states for implementing the best economic policies. And yet Tennessee, for all of its excellent economic policies, ranks at the very bottom of the top 10 states for economic performance and is arguably below the average of the 10 worst states.

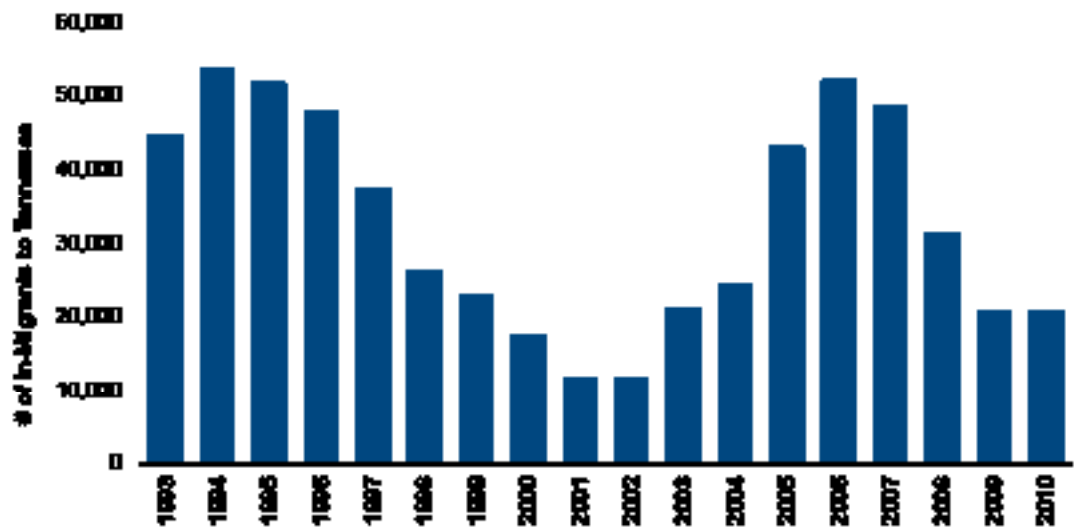
No matter how Tennessee is measured, its policies put the state in the very top of the nation. In spite of its excellent policies, Tennessee’s actual performance falls well below its potential. The reason is Tennessee’s toxic gift and estate tax. It is amazing how much damage such a seemingly small policy can do to an otherwise outstanding state.

### APPLYING THE PRO-GROWTH LESSONS TO TENNESSEE’S GIFT AND ESTATE TAX

Tennessee has a low overall tax burden, has no earned income tax, has a low corporate tax, property tax rates are low, Tennessee is a right-to-work state, and Tennessee ranks among the best states across the 15 key economic variables identified in the Laffer-ALEC state competitiveness index. In short, Tennessee’s low regulatory costs, right-to-work laws, low corporate taxes and zero personal income tax provide a strong foundation for state growth. The unanswered question is why hasn’t Tennessee performed up to its potential.

The clearest evidence of Tennessee’s pro-growth environment, consistent with the theory of incentives presented above, is that more Americans choose to move into Tennessee than move away from Tennessee—people are voting with their feet in favor of Tennessee, see Figure 5. But not all segments of the population choose to move into Tennessee.

**Figure 5: Annual Domestic In-Migration into Tennessee**  
(Annual 1993 through 2010)



Source: U.S. Census

**Table 9: Cumulative Net Domestic In-Migration into Tennessee and Net Domestic In-Migration as a Percentage of Tennessee's Population**

(Annual 1993 through 2010)

Year	Cumulative Change in Net Domestic In-Migration	Cumulative Change in Net Domestic In-Migration as a % Population
<b>1993</b>	<b>44,890</b>	<b>0.9%</b>
1994	98,167	1.9%
<b>1995</b>	<b>149,807</b>	<b>2.8%</b>
1996	197,711	3.7%
<b>1997</b>	<b>235,123</b>	<b>4.3%</b>
1998	281,327	4.7%
<b>1999</b>	<b>294,245</b>	<b>5.0%</b>
2000	301,568	5.3%
<b>2001</b>	<b>313,286</b>	<b>5.4%</b>
2002	325,057	5.6%
<b>2003</b>	<b>345,891</b>	<b>5.9%</b>
2004	370,192	6.3%
<b>2005</b>	<b>413,132</b>	<b>6.9%</b>
2006	485,156	7.6%
<b>2007</b>	<b>513,821</b>	<b>8.3%</b>
2008	545,019	8.7%
<b>2009</b>	<b>565,824</b>	<b>9.0%</b>

Source: U.S. Census

*Tennessee's gift and estate tax accounts for less than 1% of 2010 total state revenues and has not exceeded a still paltry 1.5% of revenues for more than a decade based on U.S. Census data.*

People coming to Tennessee has become an important source for Tennessee's population growth. Since 1993, over 565,000 Americans, including me, have chosen Tennessee as their home accounting for 9.0% of Tennessee's current population, see Table 9.

Positive net domestic in-migration for the pro-growth states is not unique to Tennessee. As illustrated in Tables 3 through 8, the states with lower tax burdens, no personal income tax, lower corporate income tax rates, right-to-work laws or having an overall pro-growth economic environment as measured by the Laffer-ALEC competitiveness index attract residents. Reciprocally, the anti-growth states are repelling residents. The problem is that Tennessee has a gift and estate tax that negates much of these benefits.

### TENNESSEE'S ESTATE TAX RAISES VERY LITTLE REVENUES

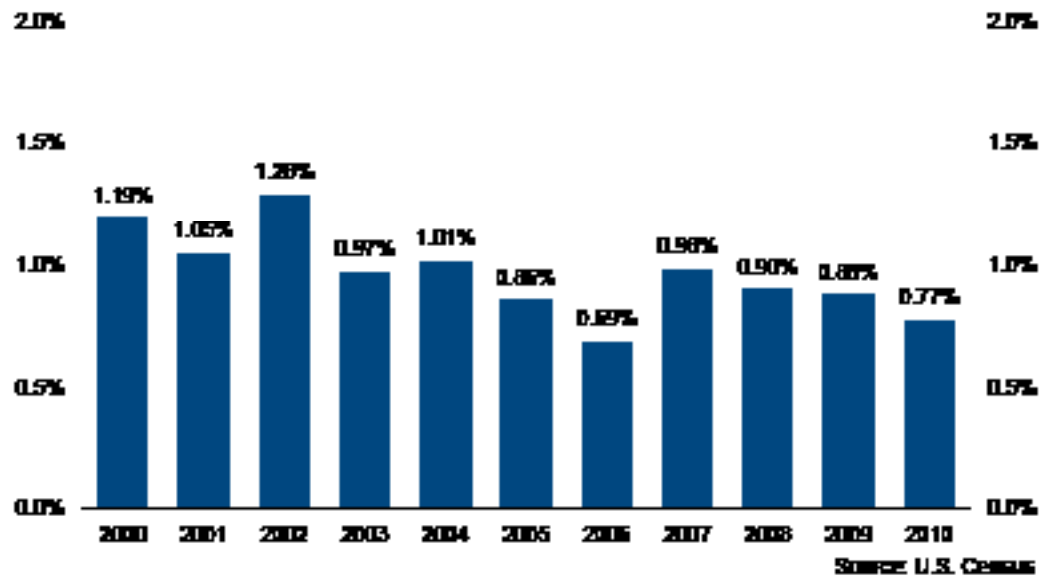
The evidence presented above illustrates that Tennessee pays a high price for imposing a state gift and estate tax in terms of lost people, lost economic growth and lost tax revenues. Even from an accounting perspective Tennessee's gift and estate tax contributes very little to overall state and local tax revenues. Tennessee's gift and estate tax accounts for less than 1% of 2010 total state revenues and has not exceeded a still paltry 1.5% of revenues for more than a decade based on U.S. Census data.<sup>5</sup>

Even in static dollar terms, eliminating Tennessee's estate tax comes with a very small revenue loss. According to the Tennessee Department of Revenue, Tennessee's gift and estate tax raised only \$81 million in fiscal year 2010 and \$113 million in fiscal year 2011.<sup>6</sup>

However, the world is not static. As the previous evidence illustrates, eliminating Tennessee's gift and estate tax will increase the rate of economic growth in Tennessee. Stronger economic growth benefits the government through higher tax revenues and will more than offset the small static revenue loss to the state and provides lots of extra revenues to the local governments.

**Figure 6: Tennessee's Gift and Estate Tax as a Percentage of Total Tax Revenues**

(Annual 2000 through 2010)



## THE ESTATE TAX'S IMPACT ON TENNESSEE'S ECONOMIC PERFORMANCE

Figures 7 through 10 illustrate Tennessee's underperformance and its consequences. **Figure 7** illustrates the deficiency of the number of estates in Tennessee per 100,000 of population relative to the number of estates per 100,000 of population in the U.S.

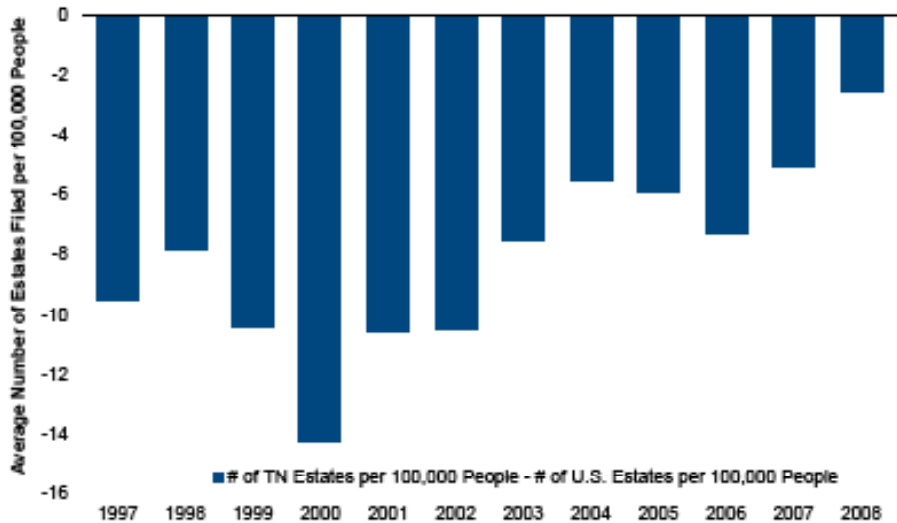
**Figure 9** compares the total dollar value of all estates in Tennessee to the dollar value of all estates in Tennessee under two different scenarios: (1) if U.S. metrics existed in Tennessee (or had Tennessee's estates grown at the U.S. national average); and, (2) the dollar value of all estates in Tennessee if Florida metrics existed in Tennessee (or had Tennessee's estates grown at the average growth rates that existed in Florida).

**Figure 10** presents the additional value of the estates in Tennessee had the U.S. metrics or the Florida metrics existed in Tennessee in 1997 through 2009.

Taken together, these charts illustrate a striking deficiency in Tennessee. Overall, the value of estates in Tennessee could have been between \$1 billion and \$6 billion larger each and every year. In total, between 1997 and 2009, Tennessee's estates could have been \$21.4 billion larger had the U.S. metrics existed in Tennessee and \$64.5 billion larger had Florida's metrics existed in Tennessee. Clearly, Tennessee's economy has lost enormous amounts of accumulated wealth and the reason is Tennessee's state gift and estate taxes. This wealth would have created many more Tennessee jobs, alleviated some of Tennessee's poverty and, yes, significantly increased Tennessee's state and local tax revenues.

**Figure 7: Deficiency of the Number of Estates in Tennessee per 100,000 of Population Relative to the Number of Estates per 100,000 in the U.S.**

(Annual 1997 through 2009)



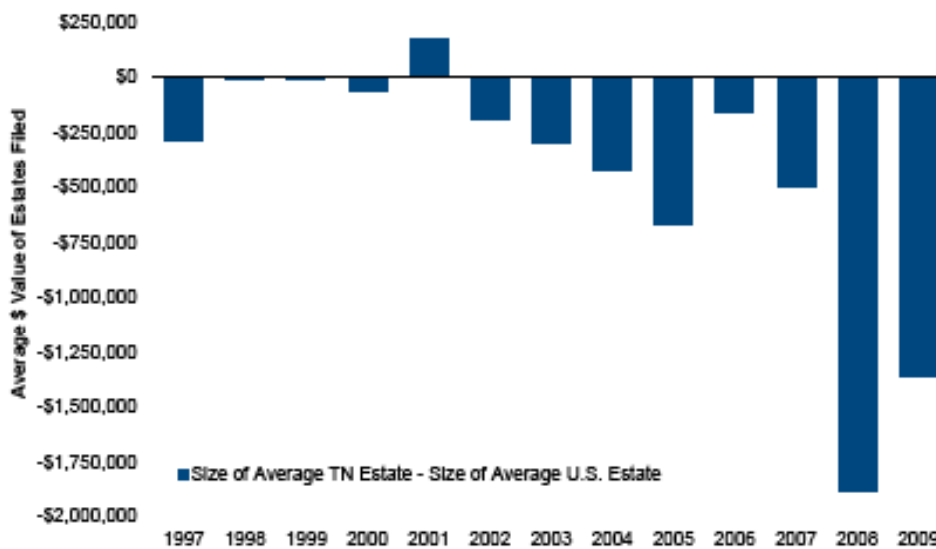
† Average \$ Value of Estates Filed = Total \$ Value of Estates Filed / # of Estates Filed

‡The above data are based on federal estate tax data reported to the IRS. Due to changes in the federal estate tax law, the federal estate tax data vary over time. The number of estates reported declines significantly for certain tax years due to changes in the dollar exemption level. The federal estate tax exemption level was \$600 thousand in 1997, rose in \$25,000 increments to \$650 thousand by 2000, increased to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, \$3.5 million in 2009, and \$5 million in 2011. There is also a temporary elimination of the estate tax completely in 2010 for those estates that chose this option. The applicable tax rate on federal estates also declined over this entire period from 55% in 1997 to 0% in 2010 (if that option is chosen) and then back up to 35% in 2011. These legislative changes alter the number of estates filed, the total aggregate value of estates filed, and the average value of estates filed. These discontinuities are strongest in 2010 when the estate tax was temporarily eliminated, which is why we do not include 2010 data in the analysis.

Source: IRS

**Figure 8: Tennessee's Deficiency in the Average Size of an Estate vs. the U.S.**

(Annual 1997 through 2009)



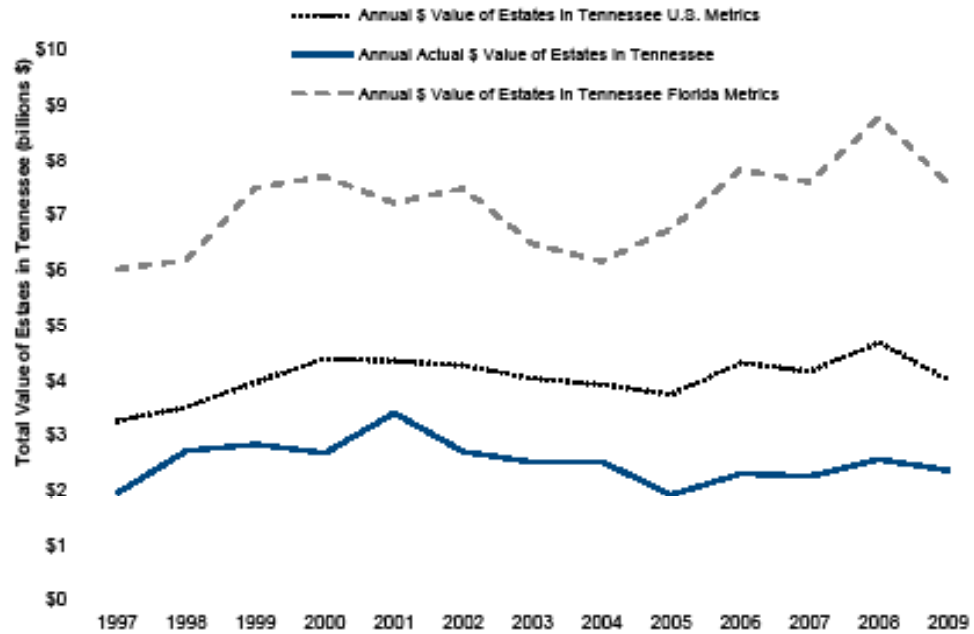
† Average \$ Value of Estates Filed = Total \$ Value of Estates Filed / # of Estates Filed

‡The above data are based on federal estate tax data reported to the IRS. Due to changes in the federal estate tax law, the federal estate tax data vary over time. The number of estates reported declines significantly for certain tax years due to changes in the dollar exemption level. The federal estate tax exemption level was \$600 thousand in 1997, rose in \$25,000 increments to \$650 thousand by 2000, increased to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, \$3.5 million in 2009, and \$5 million in 2011. There is also a temporary elimination of the estate tax completely in 2010 for those estates that chose this option. The applicable tax rate on federal estates also declined over this entire period from 55% in 1997 to 0% in 2010 (if that option is chosen) and then back up to 35% in 2011. These legislative changes alter the number of estates filed, the total aggregate value of estates filed, and the average value of estates filed. These discontinuities are strongest in 2010 when the estate tax was temporarily eliminated, which is why we do not include 2010 data in the analysis.

Source: IRS

**Figure 9: Total Dollar Value of all Estates in Tennessee and of all Estates in Tennessee if Florida Metrics Existed in Tennessee**

(Annual 1997 through 2009)



† The above data are based on federal estate tax data reported to the IRS. Due to changes in the federal estate tax law, the federal estate tax data vary over time. The number of estates reported declines significantly for certain tax years due to changes in the dollar exemption level. The federal estate tax exemption level was \$600 thousand in 1997, rose in \$25,000 increments to \$650 thousand by 2000, increased to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, \$3.5 million in 2009, and \$5 million in 2011. There is also a temporary elimination of the estate tax completely in 2010 for those estates that chose this option. The applicable tax rate on federal estates also declined over this entire period from 55% in 1997 to 0% in 2010 (if that option is chosen) and then back up to 35% in 2011. These legislative changes alter the number of estates filed, the total aggregate value of estates filed, and the average value of estates filed. These discontinuities are strongest in 2010 when the estate tax was temporarily eliminated, which is why we do not include 2010 data in the analysis. Sources: IRS, U.S. Census

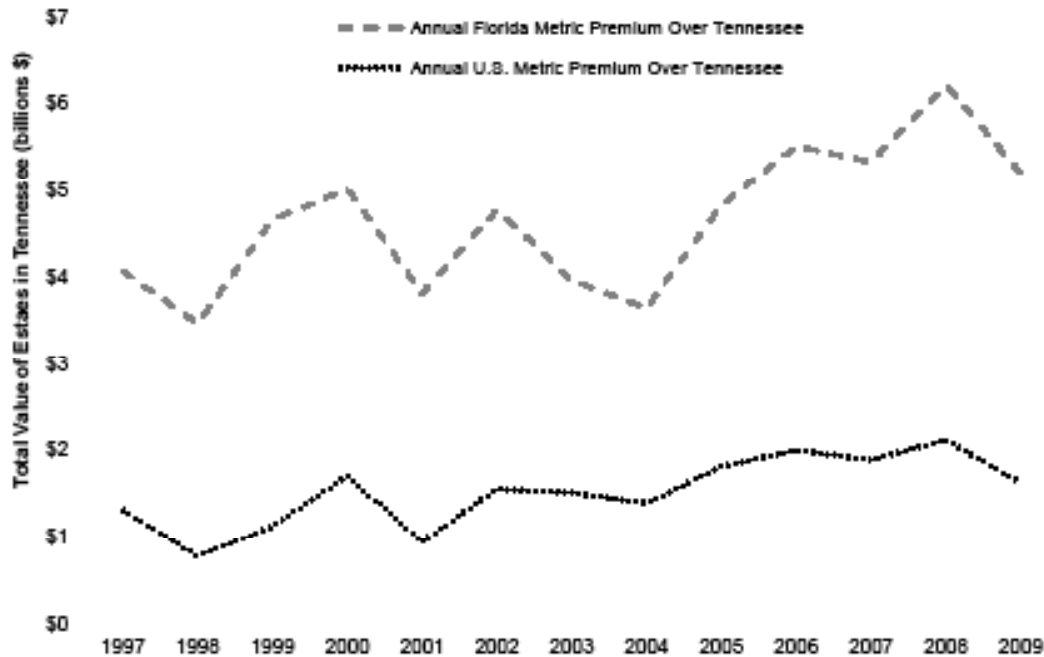
Tennessee’s economic performance compared to the other no personal income tax states is consistent with the earlier findings that the states that impose an estate tax experience slower economic growth compared to the states without an estate tax. Washington State, like Tennessee, has an estate tax and also has experienced much slower growth than the other zero income tax states. Compared to the other no personal income tax states, Tennessee’s economy has grown the second slowest, and its employment growth has been the absolute worst, see **Table 10**. Additionally, both Tennessee’s overall population growth and state and local tax revenue growth have been below the average of the no income tax states. Similarly, Washington State’s economic performance is below average in each and every category.

## THE DYNAMIC BENEFITS FROM ELIMINATING TENNESSEE’S GIFT AND ESTATE TAX

No matter which way you look at it, the potential dynamic benefits for Tennessee are impressive. All residents of Tennessee are truly paying an extremely high cost for the state’s gift and estate tax, whether they are subject to the gift and estate tax or not. And, it is not just the current residents of Tennessee who are impacted. The gift and estate tax also discourages people from migrating into Tennessee because if they did, they would be subject to the state’s gift and estate tax. Tennessee loses the income, spending, jobs, and wealth that these people could be bringing, but are not, because of the gift and estate tax.



**Figure 10: Potential Increase in the Dollar Value of all Estates in Tennessee if U.S. Metrics Existed in Tennessee and if Florida Metrics Existed in Tennessee**  
(Annual 1997 through 2009)



† The above data are based on federal estate tax data reported to the IRS. Due to changes in the federal estate tax law, the federal estate tax data vary over time. The number of estates reported declines significantly for certain tax years due to changes in the dollar exemption level. The federal estate tax exemption level was \$600 thousand in 1997, rose in \$25,000 increments to \$850 thousand by 2000, increased to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2008, \$3.5 million in 2009, and \$5 million in 2011. There is also a temporary elimination of the estate tax completely in 2010 for those estates that chose this option. The applicable tax rate on federal estates also declined over this entire period from 55% in 1997 to 0% in 2010 (if that option is chosen) and then back up to 35% in 2011. These legislative changes alter the number of estates filed, the total aggregate value of estates filed, and the average value of estates filed. These discontinuities are strongest in 2010 when the estate tax was temporarily eliminated, which is why we do not include 2010 data in the analysis. Sources: IRS, U.S. Census

**Table 10: Tennessee’s and Washington’s Economic Performance Compared to the Other No Personal Income Tax States**  
(10-Year Economic Performance between 2001 and 2010)

State	Gross State Product Growth	Nonfarm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population**	State & Local Tax Revenue Growth***
Tennessee Rank compared to 9 no income tax states*	8	9	7	4	8
Washington Rank compared to 9 no income tax states*	8	6	5	5	8

\*9 denotes worst performance amongst no income tax states  
\*\*2000-2009  
\*\*\*899-2008

Sources: U.S. Census, Bureau of Economic Analysis, Bureau of Labor Statistics

Eliminating the gift and estate tax will raise the total amount of investment and economic activity in Tennessee. Greater economic activity will lead to higher consumption, a stronger housing market, and a larger total amount of dividends and interest income reported in the state. Government revenues will benefit in turn because the stronger economic activity creates more taxable events.

*If we use the size of the lost estates between 2000 and 2009 as a guide, the total wealth of Tennessee is around \$16.6 billion to \$48.3 billion smaller than it would have been over this entire period.*

The types of government tax revenues Tennessee could be generating by eliminating the gift and estate tax include:

- Higher revenues from dividends and interest income;
- Higher consumption in the state, therefore higher state sales tax revenues, excise tax revenues, and local sales tax revenues;
- Higher property values, therefore higher local property tax revenues; and,
- Higher employment therefore higher payroll tax revenues.

Greater economic activity will also lead to greater employment in Tennessee. More people will have the pride of working and supporting their own families and, of course, the state economy will benefit from the value their employment creates. Tennessee's budget will also benefit because welfare and unemployment compensation expenditures will be lower as well.

More importantly, these revenues are generated by expanding the economic pie in Tennessee—not by encouraging some of the “pie” to move to another state—a clear win-win policy reform. Tennesseans win by having a stronger economy. Those Tennesseans who would have been subject to the gift and estate tax benefit by not being encouraged to leave their home in order to preserve their income for the children and grandchildren. And, the state wins due to the more vibrant economy that generates a stronger and more stable revenue source to fund important government expenditures.

The evidence presented above can be leveraged to gain a sense of the potential dynamic benefits Tennessee could gain if the state eliminated its gift and estate tax. There are many ways to apply this evidence. We take two perspectives: a wealth or asset perspective and a comparative economic performance perspective.

Wealth is a key economic input. Without wealth there is no capital accumulation. Without capital accumulation, there is no technological progress. Both capital and technology are key inputs for generating economic growth in Tennessee. A 2001 study by Jorgenson and Yip found that capital and technological progress account for nearly 2 percentage points of the annual growth in the U.S. between 1960 and 1995.<sup>7</sup> Because the gift and estate tax are causing wealth to accumulate at a lesser rate than it should, Tennessee's economic growth potential is less than it should be. And, it is not just production that a paucity of wealth impacts. Wealthier societies consume more as well—an effect economists call “the wealth effect.” A 2010 study estimated this wealth effect to be around 9-cents per \$1 of wealth in the long-term.<sup>8</sup>

In Tennessee the actual value of the wealth lost is greater than the value of the lost estates—people adjust their estates in response to both federal and state tax policy to minimize the ultimate tax burden. Nevertheless, if we use the size of the lost estates between 2000 and 2009 as a guide, the total wealth of Tennessee is around \$16.6 billion to \$48.3 billion smaller than it would have been over this entire period. This is wealth that could have been put to use in Tennessee investing in Tennessee businesses each and every year between 2000 and 2009. Instead, these assets have either migrated away from Tennessee or never came to Tennessee in the first place and have been subsequently put to work in other states.

Estates are built up over time. Those states that attract people with sizable estates receive the benefits for many years. And, those states—like Tennessee—that encourage people with sizable estates to leave pay the price for many years. This logic implies that the \$16.6 billion to \$48.3 billion in lost assets impacted Tennessee not just in the year they were reported to the IRS. The assets would have existed in Tennessee for many years prior to when it was reported to the IRS.

To account for this fact, our estimate examines the 10 years of potential estates that should have been reported to the IRS but was not, relative to the value of the assets in Tennessee at the beginning of the 10-year period. It is also important to note up front that because estates reported to the IRS have declined over time, and the total value of estates is less than the total value of assets lost, the actual economic damages calculated significantly understate the true economic damage. Yet, the economic costs are still staggering.

According to the Federal Reserve Board of Governors, the total assets of the U.S. back in 2000 were around \$50.1 trillion.<sup>9</sup> Based on Tennessee's share of the U.S. economy, this would equate to a total asset base in Tennessee somewhere in the neighborhood of \$901 billion. The \$16.6 billion to \$48.3 billion in lost assets, had they not been lost due to Tennessee's gift and estate tax, represents around a 1.8% to 5.4% increase in Tennessee's total asset base. A higher asset base directly translates into greater economic growth. Greater economic growth around the same range as the increase in Tennessee's asset base implies that Tennessee's economy, as measured by gross state product, could have been \$6.1 billion to \$18.2 billion larger than it currently is without the state gift and estate tax.

A larger economy would have led to more jobs in the economy and higher tax revenues for the state. Based on the size of Tennessee's 2010 total tax revenues relative to the size of its economy in 2010, the larger economy would have led to higher total tax revenues (excluding the gift and estate tax revenues) around \$247.8 million to \$746.9 million compared to what state tax revenues actually were in 2010. Such a boost in tax revenues is greater than the \$80 million to \$100 million in tax revenues that Tennessee's gift and estate tax raises on average. And who knows how much less welfare and poverty payments would have been; perhaps as much as \$100 million.

Instead of estimating the benefits by looking at the change in Tennessee's asset base, the data presented above (Section V. The Evidence from All States and Tennessee) illustrates that the annual rate of economic growth in Tennessee is not what it should be. Tennessee does not have a tax on earned income, has a low corporate income tax, has a low overall tax burden and is a right-to-work state. All four of these features are associated with a significant growth premium for these states. Tennessee's economy should be growing significantly faster than the U.S. average. And yet, Tennessee does not reap an economic growth premium, see **Table 11**.

*Based on the size of Tennessee's 2010 total tax revenues relative to the size of its economy in 2010, the larger economy would have led to higher total tax revenues (excluding the gift and estate tax revenues) around \$247.8 million to \$746.9 million compared to what state tax revenues actually were in 2010.*

**Table 11: Tennessee's Economic Performance Compared to the Average of Pro-Growth States**  
(Performance between 2001 and 2010)

States	State & Local Government Tax Burden as a % of Personal Income*	Top Personal Income Tax Rate	Top Corporate Income Tax Rate	Gross State Product Growth	Nonfarm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population**	State & Local Tax Revenue Growth***
9 States with Lowest Tax Burden as a % of Personal Income	7.7%			58.6%	4.7%	12.3%	3.1%	120.9%
9 States with No PIT		0.0%		58.5%	5.4%	13.7%	4.1%	123.7%
9 States with Lowest Marginal CIT Rate			3.1%	58.9%	4.9%	12.8%	3.1%	78.2%
<b>Tennessee</b>	<b>7.8%</b>	<b>0.0%</b>	<b>6.5%</b>	<b>38.6%</b>	<b>-2.8%</b>	<b>10.3%</b>	<b>4.2%</b>	<b>61.7%</b>

\*State & Local Government Tax Burden as of 2009 from Tax Foundation (most recent available)

\*\*2000-2009

\*\*\*009 - 2008

Sources: U.S. Census, Bureau of Economic Analysis, Tax Foundation, and Laffer Associates calculations

*The cost to Tennessee's economy is so large that the dynamic benefits from eliminating the tax generates more tax revenues than the small static revenue loss from a tax source that raises less than 1% of total state revenues.*

Tennessee's economy would be larger and its tax revenues greater had Tennessee grown at the average rate of the other states with these pro-growth features. And, the main difference between Tennessee and the other pro-growth states whose economies significantly outperform the national average is Tennessee's gift and estate tax. For instance, all of the slower growing zero personal income tax rate states violate one of the key pro-growth policy recommendations (e.g., both New Hampshire and Washington State are slow growing zero personal income tax rate states; but, New Hampshire is not a right-to-work state and Washington State imposes a less burdensome estate tax (no gift tax) and is not a right-to-work state).

Removing Tennessee's gift and estate tax eliminates the most important policy obstacle that differentiates Tennessee from the other high growing pro-growth states. With this obstacle removed, there is no reason to believe that Tennessee's rate of economic growth would not resemble the average rate of economic growth for the pro-growth states illustrated in **Table 11**. Had Tennessee's economic performance matched the performance of the pro-growth tax states between 2001 and 2010, then by 2010 Tennessee's economy would have been significantly larger, see **Table 12**.

**Table 12: Potential Additional Economic Performance in Tennessee had they Grown at Average of Pro-Growth State to the Average of Pro-Growth States**  
(Annual Benefit as of 2010)

States	Additional Gross State Product (billions)	Additional Nonfarm Payroll Employment	Additional Population	Additional Net Domestic In-Migration	Additional State & Local Tax Revenue (billions)
9 States with Lowest Tax Burden as a % of Personal Income	\$36.6	203,252	103,539	4,887	\$7.0
9 States with No PIT	\$36.6	220,460	178,875	9,588	\$7.3

Source: Laffer Associates calculations

Tennessee is both one of the nine states with the lowest tax burden and one of the nine states that does not levy a personal income tax. Beginning in 2001, had Tennessee's economy grown at the average growth rates between 2001 and 2010 in the nine states with the lowest tax burdens, or the average growth rates in the nine states with no personal income tax, Tennessee's economic output, employment, population, and state and local tax revenues would all be significantly larger. The potential benefits also include significantly higher output growth, larger employment growth and higher tax revenue for Tennessee state and local governments. These benefits overwhelm the small revenues raised for the state by the gift and estate tax.

## CONCLUSION

Economics is the study of incentives. And, Tennessee's gift and estate tax is a case study in bad economic incentives. Prosperity for all Tennesseans will be enhanced by the elimination of the state gift and estate tax.

Tennessee's gift and estate tax is an immoral tax that hits homeowners, small business owners & farmers disproportionately hard. Furthermore, the state of Tennessee is encouraging its citizens to take their income, their jobs and their capital and move to another state that will not levy a confiscatory tax on their estates.

This policy is not only unjust—it also comes with a significant cost to Tennessee’s economy. In fact, the cost to Tennessee’s economy is so large that the dynamic benefits from eliminating the tax generates more tax revenues than the small static revenue loss from a tax source that raises less than 1% of total state revenues.

Tennessee’s economic policies are first rate. These include:

- No income tax,
- Low total tax burden,
- Right-to-work state,
- Low union activity,
- Low corporate tax and
- Low property taxes.

On top of these comparative advantages, both political parties are very pro-growth.

Tennessee’s overall economic record is, however, mediocre at best and, given its overall economic policies, its economic record is abysmal.

The problem is the state’s offensive gift and estate tax. Tennessee’s gift and estate tax is the proverbial scat floating in the punch bowl. No matter how good the punch, no ones going to drink out of that punch bowl! **LC**

## ENDNOTES

<sup>1</sup> For purposes of this paper, we will refer to the tax as the “estate tax.” Technically the applicable Tennessee provisions label it an “inheritance tax,” but it operates as an estate tax. The statutory Tennessee estate tax was based on the former federal state tax credit but is no longer in effect.

<sup>2</sup> The 19 states with a separate estate tax does not include Ohio, which has passed legislation to repeal its estate tax effective January 1, 2013. Connecticut and Tennessee are the only states with gift taxes.

<sup>3</sup> U.S. Census Bureau. State Government Tax Collections. <http://www.census.gov/govs/statetax/>.

<sup>4</sup> Keynes, John Maynard (1972) *The Collected Writings of John Maynard Keynes*. London: Macmillan Cambridge University Press.

<sup>5</sup> U.S. Census Bureau. State Government Tax Collections. <http://www.census.gov/govs/statetax/>.

<sup>6</sup> Tennessee Department of Revenue: <http://www.tn.gov/revenue/statistics/index.htm>.

<sup>7</sup> Jorgenson, Dale, and Eric Yip (2001). “Whatever Happened to Productivity Growth?” In E.R. Dean, M.J. Harper, and C. Hulten, eds., *New Developments in Productivity Analysis*, 205-246. Chicago: University of Chicago Press.

<sup>8</sup> Carroll, Christopher D., Misuzu Otsuka, and Jiri Slacalek, “How Large Are Housing and Financial Wealth Effects? A New Approach” *ECB Journal of Money, Credit, and Banking*, Vol. 43, No. 1 (Feb. 2011) 55–79.

<sup>9</sup> Federal Reserve Board of Governors. Flow of Funds Accounts of the United States. B.100 Balance Sheet of Households and Non-profit Organizations (16 Sept. 2011) <http://www.federalreserve.gov/releases/z1/Current/z1r-5.pdf>.

## About the Authors

### **Arthur B. Laffer, Ph.D.**

Dr. Arthur B. Laffer is the founder and chairman of Laffer Associates. Dr. Laffer's economic acumen and influence in triggering a world-wide tax-cutting movement in the 1980s have earned him the distinction in many publications as "The Father of Supply-Side Economics." One of his earliest successes in shaping public policy was his involvement in Proposition 13, the groundbreaking California initiative drastically cutting property taxes in the state.

Dr. Laffer was a member of President Reagan's Economic Policy Advisory Board for both of his two terms (1981-1989). He was formerly the Distinguished University Professor at Pepperdine University and a member of the Pepperdine Board of Directors. He also held the status as the Charles B. Thornton Professor of Business Economics at the University of Southern California from 1976 to 1984. He was an Associate Professor of Business Economics at the University of Chicago from 1970 to 1976 and a member of the Chicago faculty from 1967 through 1976. During the years 1972 to 1977, Dr. Laffer was a consultant to Secretary of the Treasury William Simon, Secretary of Defense Don Rumsfeld and Secretary of the Treasury George Shultz. He was the first to hold the title of Chief Economist at the Office of Management and Budget (OMB) under Mr. Shultz from October 1970 to July 1972. Dr. Laffer received a B.A. in economics from Yale University in 1963. He received a M.B.A and a Ph.D. in economics from Stanford University in 1965 and 1971 respectively.

### **Wayne H. Winegarden, Ph.D.**

Dr. Wayne Winegarden manages Arduin, Laffer & Moore's policy studies and analyses. Previously, he worked as an economist for Altria Companies Inc. in Hong Kong and New York City. In these roles he analyzed the impact of the economic environment in East- and Southeast-Asia on the company's operations, and integrated these insights into the company's strategic planning process. Additionally, Dr. Winegarden examined the impact of tax and regulatory policies on the company's operations and supported its government affairs objectives.

Dr. Winegarden also has experience analyzing federal and state budget, regulatory and financial sectors for policy and trade associations in Washington, D.C. Dr. Winegarden is economics faculty at Marymount University, is a columnist for Townhall.com, and has been interviewed and quoted in such media as Bloomberg Radio and CNN. Dr. Winegarden received his B.A., M.A., and Ph.D. in economics from George Mason University.





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