Analytics

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RE: State and local taxes impact Delaware's job growth

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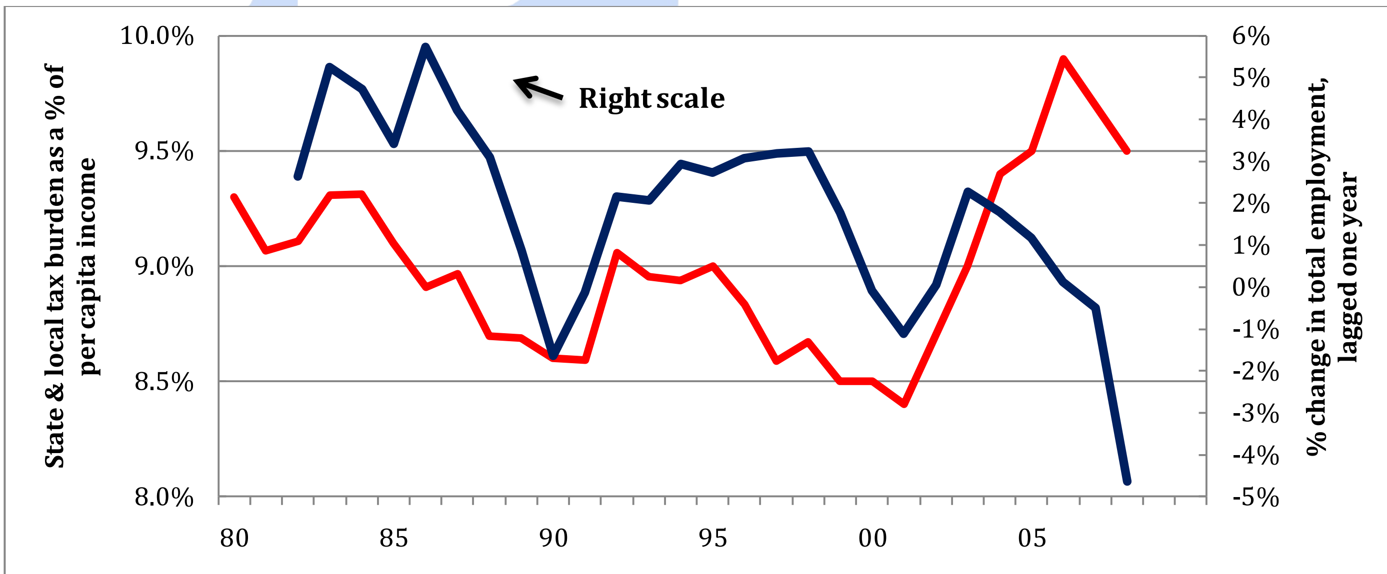
Data from the Tax Foundation shows that increases in Delaware's state and local tax burden undercut the growth rate of employment in Delaware, while decreases in the tax burden accelerate employment growth (see Chart). The tax burden is simply state and local taxes per capita as a percent of per capita income. The Tax Foundation has been analyzing state and local government spending for almost 75 years and is a respected and trusted source of information.



The explanation for this pattern is straight forward. As Delaware's economy slows and retards the flow of state and local tax revenue, legislators responds by raising tax rates rather than cutting spending. An example is the 25% increase in gross receipt tax rates as of January, 2009 and the subsequent 8% increase effective as of January, 2010. While retail trade was struggling with one of the most severe recessions of the past seven decades, the state of Delaware raised the tax rate on their gross receipts by 33%. Overall, the rapid increase in Delaware's tax burden beginning in 2002 exacerbated the eventual impacts of the current recession.

This simple analysis reinforces early work by CEPA that demonstrated that increases in the top personal income tax rate in Delaware have led to decreases in total personal income tax revenue to the state. People and businesses vote with their feet, and over the long run will move away from a state where the tax burden is becoming more onerous. Delaware’s tax burden ranked 42nd lowest among all the states in 2001 and rose to 24th by 2008. This does not bode well for accelerating the pace of job growth in the First State.

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