Eliminating its income tax will help Arkansas's economy

Getting tax policy right is important. Some taxes are necessary, but how a government raises tax revenue matters since taxes affect behavior. Income taxes are a common source of revenue, but taxing income causes people to work and save less, which reduces economic growth. Recognizing this, some people in Arkansas want to eliminate the state's income tax to make the state a better place to work and run a business. This is a laudable goal that will help the state's economy, but only if done well.

Eight U.S. states do not tax individual income. Florida and Texas are the most famous, but Nevada, South Dakota, Tennessee, and Washington are a few of the other states without an income tax. Other states have a flat income tax with only one rate, such as North Carolina and Illinois, while others have progressive income tax systems like the federal government's, including California, Ohio, and Arkansas.

Arkansas's income tax system is a little complicated. It has three rate schedules based on income, and its highest rate is 5.9%. While complicated, the income tax code is less distortionary compared to many other states: California has ten rates, the highest being 13.3% which is levied on every dollar earned above $1 million.

Arkansas recently finished its fiscal year with a $946 million dollar surplus, the highest on record. As a result, there are reports Governor Asa Hutchinson wants to build on his previous tax cut that cut the top rate from 6.9% to the current 5.9%. A potential cut to 5.5% is making the news, but some want to go further and join Texas and Florida by eliminating the income tax.

There is robust evidence that income taxes reduce economic growth by discouraging working and saving. One recent study found that workers and businesses move to states with lower personal income and corporate tax burdens. Another study found that top scientists and innovative companies are especially sensitive to higher taxes and often migrate in response to state tax increases.

More anecdotally, from 1992 to 2018 Arkansas gained $1.4 billion in income from taxpayers who moved in from higher-tax California and Illinois, while it lost almost $600 million in income from taxpayers who moved away to Florida and Tennessee, two of the states with no income tax. All else equal, eliminating its income tax would help Arkansas attract more businesses and entrepreneurs by making it more competitive with states like Tennessee and Florida.

But in the real world it is hard to hold all else equal when eliminating a source of revenue as big as Arkansas's income tax. Arkansans paid over $3.5 billion in personal and corporate income taxes in 2019 and 2020, as show in the first figure below. The bulk of this amount, around $3 billion or 85%, was from the personal income tax.

Bar graph showing Arkansas state revenue by source for 2019 and 2020.

As the next figure shows, personal and corporate income taxes combined are the largest source of tax revenue, making up 42% of all tax revenue in 2020. The state's consumer sales tax contributed 39% to total tax revenue.

Pie chart showing Arkansas tax revenue by source in 2020.

Arkansas tax revenue by source in 2020. Data from Arkansas's CAFR. Author's figure.

Arkansas's economy would grow faster without an income tax, but it would not grow fast enough to offset all the revenue it would lose. There is always room for governments to become more efficient and cut unnecessary spending but cutting around $3 billion in spending would be hard to do in the short run. This financial reality does not mean Arkansas cannot eliminate its income tax, but it does need to be careful.

One option is to slowly cut the income tax rates over time while raising the state's standard deduction. As economist Jeremy Horpedahl points out, North Carolina raised its standard deduction from $3,000 to $10,750 over an eight-year period. If Arkansas did something similar while also whittling down its tax rates by 0.2 to 0.5 percentage points per year it would be well on its way to fully eliminating the income tax.

Another option, though less attractive, is to increase revenue from another source. The sales tax base could be broadened to include currently exempted goods and services, such as newspapers, some software, and certain medical services. This would bring in some additional revenue and eliminate distortions that arise when some final goods and services are taxed while others are not.

Arkansas should avoid raising its sales tax rate, however, as it already has the third highest average state and local sales tax rate in the country. If revenue must be raised, broadening the base is a better first step.

For Arkansas to get the greatest economic impact from eliminating its income tax it must control spending. All taxes—sales, income, property—pull money out of the private economy. Governments that can do more with less leave more resources in the hands of taxpayers who can invest it or spend it.

Arkansas has a surprisingly high-spending state government. In fiscal year 2018 it spent $10,585 per capita. Tennessee's and Florida's state governments only spent $5,695 and $4,277, respectively, in their recent budgets. Some of this difference is due to differences in local government spending across states, but even when local spending is considered Arkansas's governments spend about 11% more per capita than Florida's and 16% more than Tennessee's. Florida and Tennessee do not need an income tax in part because they spend less money and thus need less revenue.

One easy way for Arkansas to cut spending is to quit funding its Quick Action Closing Fund (QACF). The stated purpose of the fund is to help attract businesses to Arkansas via special cash grants, but there is no evidence that the $223 million spent since 2007 has led to an increase in overall employment. Other studies also fail to find that targeted tax incentives generate economic growth. Eliminating the QACF as part of broader tax reform is a good idea.

Eliminating its income tax is a worthy goal for Arkansas, and other states show it is possible. To do it successfully and maximize the economic impact, Arkansas needs to control spending and be prudent about raising other taxes. If Arkansas's officials can pull it off, the Natural State will be a better place to live, work, and do business.

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Britain's economy grew for the fourth straight month, but more slowly than expected.

The British economy grew 0.8 percent in May as more pandemic restrictions were lifted, official data showed, but the pace of growth has slowed and economists warn that returning to prepandemic levels will be harder, especially if consumers react cautiously to rising coronavirus infections.

May was the fourth straight month of growth in Britain, the Office for National Statistics said on Friday, but the rate was nearly half of what economists were expecting. The monthly gross domestic product increased 2 percent in April and 2.4 percent in March.

The British economy was about 3 percent smaller in May than it was in February 2020, before the pandemic.

Other data published by the statistics agency this week that measures the economy in real time by examining retail foot traffic, restaurant reservations and credit card spending also showed signs of activity plateauing in June and early July. The main propeller of economic growth in May was the hospitality sector as indoor dining reopened across the country. But the sector is still nearly 10 percent smaller than it was before the pandemic. The manufacturing sector was a drag on the economy after a global shortage of chips disrupted the industry, particularly in car production. And the construction sector contracted for the second-consecutive month.

"Growth is moderate outside the sectors being unlocked," Rory MacQueen, an economist at the National Institute of Economic and Social Research, wrote in a note. It's still unclear whether the government's plans to lift all restrictions on July 19 will lead to "strong growth in the third quarter or — if cases of Covid-19 continue to rise — increased caution among consumers and even another national lockdown," he added.

As coronavirus case numbers have risen, Britain's National Health Service as warned hundreds of thousands of people through its track-and-trace app that they have come into contact with someone with the virus. There are concerns that millions of people could soon be asked to self-isolate.

That could explain why some of the economic data has leveled off, said James Smith, an economist at ING, adding that he expected the economy to return to its prepandemic size by the end of the year. "We'd still say the outlook beyond the summer looks reasonably good, assuming no significantly vaccine-evasive variants emerge in the near-term," he wrote in a note. Nytimes

Food prices sour due to insecurity in border ports

KABUL: Citizens of Kabul and other major cities expressed concern after prices skyrocketed due to growing security threat across the country, particularly the border ports.

They say if the situation in the country's trade and transit ports, through which food items and other essentials of the Afghan people are imported, worsens day by day, the price of food will increase, and it is even more likely that food will become in the Kabul market.

Fawad, a Kabul resident, told The Kabul Times that recent insecurity has led to the price rise in the country.

Afghanistan is a consumer country and heavily relies on foreign imports and that food items are imported from foreign countries, especially the neighbor countries, the man – the breadwinner of seven lives added.

"As you can see, the Torkham border route was also blocked due to the COVID-19 and the Islam Qala and Shirkhan ports were recently closed due to security threats," said Fawad 45 hoping the government to pressure the importers not to raise the prices.

Haroon, a food seller said that food prices have risen from 150 to 200 afghani, as commercial ports are facing heavy security threat.

According to Haroon, the price of Kazakh flour in each 50 kg bag has risen to 1750 afghanis from its earlier 1,600 and the same, a piece of cooking oil was 1750 Afghani and now it is 1950 Afghani and a barrel of rice was 2,400 afghanis, which is now sold in 2600 afghani in the Kabul markets.

If the situation was going the same, it is likely that there will be less food in the Kabul market and the price will go higher than it is now.

Meanwhile, the Afghan Interior Ministry said that the country's security forces were still deployed at all important border ports and that only the port of Shirkhan was under threat from the Taliban.

This is while, the Taliban militants claimed control of most of the country's major northern and western ports.

With the rapid advance of the Taliban in the northern and western regions of Afghanistan, the situation of important border ports has also worsened.

The Interior Ministry said security at all major border ports had been secured and only the port of Shirkhan in Kunduz province was under Taliban threat.

"Only the Shirkhan Port was under threat, our security forces are present in all areas and ports and the Taliban have created some threats, but these threats are not stable. Our security and defense forces are there," said the ministry's spokesman Tariq Arian.

The government's economy and revenue depend mostly on important ports such as Islam Qala and Turghandi in Herat, Hairatan in Balkh and Shirkhan in Kunduz provinces, while several small ports such as Aykhanum in Takhar, Aqina in Faryab, and Abu Nasr Farahi in Farah provinces also play an important role in the country's economic growth, as these ports connect Afghanistan with Central Asian countries and the neighboring Iran.

Economic experts and the people believe that the Taliban's seizure of important commercial ports in the country, including these ports, has a negative impact on the country's economic situation and could be to the detriment of the government and in favor of the Taliban.

Shukria Kohistani

How gleaning could reshape the farm economy

Each year, farmers like Joe Tisbert of Valley Dream Farm in Cambridge, Vermont, are challenged with finding an outlet for their surplus crop. Surplus crop is defined as the food remaining after a harvest that cannot be sold on the market, or which cannot be harvested. As a result, farmers make less revenue for the season, but it also poses a potential loss of food for people in their communities.

Farming is the genesis of our food supply, and it's an industry that is wracked with labor shortages, weather impacts from climate change, food waste, price volatility, and unequal distribution of land.

In response to some of the challenges that some Vermont farmers face, one Vermont nonprofit organization, Salvation Farms, which is not a farm, is devising ways to work with farmers to manage their crop surplus and get it to people who need fresh produce.

Salvation Farms co-founders, Theresa Snow and Jen O'Donnell, piloted their model in 2004, which centered the agrarian practice called gleaning. Since ancient times, poor people or travelers would visit local farmed fields, whose owners would leave small sections of their land to be harvested, or gleaned, by those with lesser means. Snow, who now sits as the executive director of Salvation Farms, learned about gleaning while she was serving in AmeriCorps in the early 2000s on a farm in rural Virginia. She grew up with parents who Snow described as "modest homesteaders" and with grandparents who owned a dairy farm, and she says her upbringing was very rooted in home and land-based economies and not "just a monetary commerce-based economy."

AmeriCorps later transferred Snow to New York City, where she was tasked with helping families and individuals who had lost their jobs, homes, and loved ones in and after the 9/11 attacks. There, Snow realized how far people were from meeting their basic subsistence needs.

"What I experienced providing service—essentially casework to individuals who are seeking support—was that these individuals had no ability to meet any of their essential needs because they had fully bought into a monetary economy," said Snow.

Snow maintains this was not just an issue for people in metropolitan areas, but also in her home state of Vermont, where people could be just as removed from their food sources. After her time in AmeriCorps, Snow moved back to Vermont and returned to working on a farm. She struggled with what to do with her life and when asked by a farmer where she really wanted to put her energy, she said that she wanted to teach people about farming.

On that farm, Pete's Greens, she devised and tested the plan for Salvation Farms.

"I want to teach people about farms, I want to teach people and communities that, through relationship and appreciation with farms, we can have more personal and community agency," Snow said. "We can have more control over meeting our needs."

Lebanon's cash-strapped army sells helicopter rides during economic crisis

HAMAT: AIR BASE, Lebanon, July 9 (Reuters) - Hit by the collapse of Lebanon's economy, the army has started selling rides on its helicopters to finance their maintenance, a measure of the depth of the financial troubles facing the country.

"The war we are in is economic and therefore requires unconventional means ... and the idea we had was to do helicopter tours," Colonel Hassan Barakat, an army spokesman, said.

"The cost of these trips secures the essential maintenance of the planes." A 15-minute rides on an army Robinson R44 training helicopter costs $150.

Lebanon is suffering from what the World Bank has described as one of deepest depressions in modern history. The currency has lost more than 90% of its value in less than two years and more than half the population has sunk into poverty.

An aerial view shows port of Batroun during a tour by the Lebanese air force in Batroun, Lebanon July 8, 2021. REUTERS/ Mohamed Azakir

Army commander General Joseph Aoun warned last month that the crisis, caused by decades of corruption and waste in government, would lead to the collapse of all state institutions including the army, noting that the value of a soldier's monthly salary was now $90.

A big recipient of U.S. military support, the army has underpinned Lebanon's stability since the end of the 1975-90 civil war. Qatar announced this week it would provide the army with 70 tonnes of food per month.

"It's a nice experience for my children to see Lebanon, and the beautiful Lebanese coast from the air," said Adib Dakkash, 43, visiting from Switzerland.

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