Fiscal Policy Report Card on America's Governors

2022

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Executive Summary

The nation's economy was damaged by the pandemic in 2020, but it bounced back strongly and grew until the end of 2021. The rebound generated a large tax revenue increase for state governments, which also received a flood of pandemic aid from the federal government. The states used soaring revenues to expand their budgets and provide individuals and businesses with temporary or permanent tax cuts.

That is the backdrop to this year's 16th biennial fiscal report card on the governors, which examines state budget actions since 2020. It uses statistical data to grade the governors on their tax and spending records: governors who restrained taxes and spending receive higher grades; those who substantially increased taxes and spending receive lower grades.

Five governors receive a grade of A: Kim Reynolds of Iowa, Chris Sununu of New Hampshire, Pete Ricketts of Nebraska, Brad Little of Idaho, and Doug Ducey of Arizona. Eight governors receive an F: Tim Walz of Minnesota, Tom Wolf of Pennsylvania, J. B. Pritzker of Illinois, Gretchen Whitmer of Michigan, Phil Murphy of New Jersey, Kate Brown of Oregon, Gavin Newsom of California, and Jay Inslee of Washington.

The report examines the tax and spending choices made by the governors and discusses recent policy trends. Twenty-one states have cut individual or corporate income tax rates since 2020, and about 20 states have provided one-time tax rebates. Meanwhile, many states have expanded tax revenues from marijuana, gaming, and online sales. Another important trend is the interstate migration of residents from high-tax states to low-tax states.

Current state budget surpluses may diminish if the U.S. economy continues to stagnate. Fortunately, most states have built large rainy day funds, which they can tap if tax revenues fall in the months ahead. Governors should focus on pruning low-value programs from budgets and pursuing growth-enhancing reforms such as income tax rate cuts.

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Governors play a key role in state fiscal policy. They propose budgets, recommend tax changes, and sign or veto tax and spending bills. When the economy is growing, governors can use rising revenues to expand programs or they can return extra revenues to the public through tax cuts. When the economy is stagnant and budget deficits appear, governors can respond by raising taxes or trimming spending.

This report grades governors on their fiscal policies from a limited-government perspective. Governors receiving an A are those who have cut taxes and spending the most, whereas governors receiving an F have increased taxes and spending the most. The grading mechanism is based on seven variables: two spending variables, one revenue variable, and four tax-rate variables. Cato has used the same methodology on its state fiscal reports since 2008.

The results are data driven. They account for tax and spending actions that affect short-term budgets in the states. But they do not account for longer-term or structural changes that governors may make, such as reforms to state pension plans. Thus, the results provide one measure of how fiscally conservative each governor is, but they do not reflect all the fiscal actions that governors take.

Tax and spending data for the report come from the National Association of State Budget Officers, the National Conference of State Legislatures, the Tax Foundation, the budget agencies of each state, and many news articles. The data cover the period January 2020 to August 2022, which was generally a period of strong budget expansion.[1] The report rates 46 governors. It excludes the governors of New York, Rhode Island, and Virginia because they have been in office only a brief time, and it excludes the governor of Alaska because of peculiarities in that state's budget.

The next section discusses the highest-scoring governors. Subsequent sections examine trends in spending and revenues, tax policy, and the interstate mobility of residents. Appendix A discusses the methodology used to grade the governors. Appendix B provides summaries of the fiscal records of the 46 governors included in the report.

MAIN RESULTS

Table 1 presents the overall grades for the governors. Scores ranging from 0 to 100 were calculated for each governor on the basis of seven tax and spending variables. Scores closer to 100 indicate governors who favor smaller-government policies. The numerical scores were converted to the letter grades A to F.

The following five governors received grades of A:

- **Kim Reynolds** of Iowa has been a lean budgeter and dedicated tax reformer since entering office in 2017. She receives the highest score on this report. Iowa general fund spending has risen at just a 2.3 percent annual average rate under Reynolds. In 2018, she signed into law corporate and individual income tax cuts. In 2021, she abolished Iowa's inheritance tax. In 2022, she approved a tax overhaul that simplifies and lowers Iowa's individual income tax structure. Under Reynolds, the income tax is being converted from a nine-bracket system with a top rate of 8.98 percent to a 3.9 percent flat tax. Recent reforms also phased in a corporate tax cut from 9.8 percent to 5.5 percent.
- **Chris Sununu** has led New Hampshire government since 2017. He has repeatedly cut taxes in his already

Table 1
Overall grades for the governors

State	Governor	Score	Grade
Iowa	Kim Reynolds (R)	78	A
New Hampshire	Chris Sununu (R)	74	A
Nebraska	Pete Ricketts (R)	73	A
Idaho	Brad Little (R)	69	A
Arizona	Doug Ducey (R)	66	A

Table 1 (continued)

State	Governor	Score	Grade
North Carolina	Roy Cooper (D)	64	B
South Carolina	Henry McMaster (R)	63	B
West Virginia	Jim Justice (R)	62	B
Arkansas	Asa Hutchinson (R)	61	B
Oklahoma	Kevin Stitt (R)	60	B
Mississippi	Tate Reeves (R)	60	B
Georgia	Brian Kemp (R)	60	B
Montana	Greg Gianforte (R)	59	B
Wyoming	Mark Gordon (R)	58	B
New Mexico	Michelle Lujan Grisham (D)	56	B
Louisiana	John Bel Edwards (D)	53	C
Ohio	Mike DeWine (R)	53	C
North Dakota	Doug Burgum (R)	52	C
Indiana	Eric Holcomb (R)	52	C
Florida	Ron DeSantis (R)	52	C
Wisconsin	Tony Evers (D)	51	C
Nevada	Steve Sisolak (D)	51	C
Maine	Janet Mills (D)	49	C
Utah	Spencer Cox (R)	49	C
South Dakota	Kristi Noem (R)	49	C
Colorado	Jared Polis (D)	48	C
Kansas	Laura Kelly (D)	48	C
Hawaii	David Ige (D)	48	C
Texas	Greg Abbott (R)	47	C
Maryland	Larry Hogan (R)	47	C
Massachusetts	Charlie Baker (R)	46	C
Missouri	Mike Parson (R)	44	D
Alabama	Kay Ivey (R)	44	D
Connecticut	Ned Lamont (D)	43	D
Vermont	Phil Scott (R)	40	D
Delaware	John Carney (D)	39	D
Kentucky	Andy Beshear (D)	37	D
Tennessee	Bill Lee (R)	35	D
Minnesota	Tim Walz (D)	34	F
Pennsylvania	Tom Wolf (D)	33	F
Illinois	J. B. Pritzker (D)	32	F
Michigan	Gretchen Whitmer (D)	32	F
New Jersey	Phil Murphy (D)	29	F
Oregon	Kate Brown (D)	29	F
California	Gavin Newsom (D)	29	F
Washington	Jay Inslee (D)	28	F

low-tax state, and he has limited annual average general fund spending growth to 1.1 percent since entering office. Sununu has cut the rates of New Hampshire's two major business taxes, and he signed legislation in 2021 ending the state's 5 percent tax on interest and dividends. He has also vetoed costly tax hikes, such as a new payroll tax for a paid leave scheme. Sununu received the highest score on the 2020 Cato fiscal report and the second-highest score on this 2022 report.

- **Pete Ricketts** is an entrepreneur and former corporate executive. Since taking office as Nebraska's governor in 2015, he has pursued income tax reforms, fended off tax hikes, and held general fund spending to a 2.6 percent annual average growth rate. In 2021, Ricketts cut the top corporate tax rate from 7.81 percent to 7.25 percent. In 2022, he cut the corporate rate further to 5.84 percent and the top individual income tax rate from 6.84 percent to 5.84 percent. Ricketts also has cut the state's inheritance tax.
- **Brad Little** had a career in ranching and served as Idaho's lieutenant governor before being elected governor in 2018. He approved major tax reforms in 2021, which cut the top individual income tax rate from 6.93 percent to 6.5 percent and reduced the number of tax brackets. The reforms also cut the corporate tax rate from 6.93 percent to 6.5 percent. Reforms in early 2022 cut the top individual and corporate tax rates to 6.0 percent, and then a special legislative session in September 2022 cut the rates further to 5.8 percent.
- **Doug Ducey** has been Arizona's governor since 2015. He has pursued a pro-market approach in many policy areas, including tax policy. In 2021, he approved major individual income tax reforms, which reduced the number of tax brackets and cut the top tax rate from 4.5 percent to 2.98 percent. If revenue targets are met, the rate will fall further over time, converting Arizona's tax system to a 2.5 percent flat tax.

All the governors receiving an A on this year's report are Republicans, and all the governors receiving an F are Democrats. Republican governors tend to focus more on tax cuts and spending restraint than do Democrats. In Table 1, the Republicans had an average score of 56 and the Democrats an average score of 42.

The pattern was the same on prior Cato reports, which used the same grading method. On prior reports, Republican and Democratic governors had average scores, respectively, of 55 and 46 (2008), 55 and 47 (2010), 57 and 43 (2012), 57 and 42 (2014), 54 and 43 (2016), 55 and 41 (2018), and 56 and 45 (2020).

During economic downturns, Democratic governors often pursue tax increases to balance their budgets, whereas Republicans put greater focus on spending restraint. When the economy is growing and state coffers are filling up, Democrats tend to increase spending, whereas Republicans tend to both increase spending and cut taxes. Recently, state budget surpluses have been so large that both Republicans and Democrats have cut taxes, although the Democratic cuts have been mainly one-time rebates, which are scored lower on this report than permanent tax cuts.

TRENDS IN SPENDING AND REVENUES

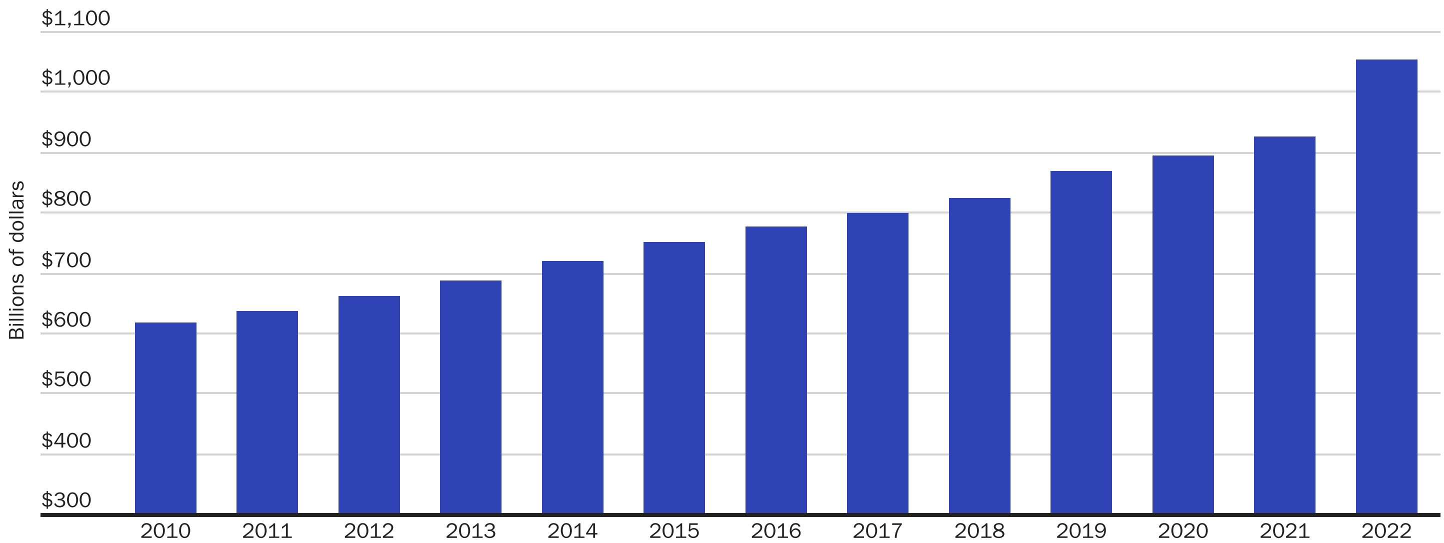
Figure 1 shows state general fund spending based on data from the National Association of State Budget Officers (NASBO).[2] Spending grew at an annual average rate of 4.6 percent between 2010 and 2022, including a 13.6 percent increase in 2022. The data are for fiscal years (FYs), which run from July to June in 46 of the 50 states.[3] The largest shares of general fund spending are for K–12 education (36 percent), Medicaid (18 percent), and higher education (9 percent).

During 2020, many analysts and reporters portrayed state governments as facing disaster from the pandemic because of falling revenues and slashed public services. That narrative provided crucial support for federal policymakers to pass multiple huge aid packages for the states during 2020 and 2021.

However, the doom-and-gloom projections turned out to be entirely incorrect. Calendar year data from the Bureau of Economic Analysis show that state and local government tax revenues dipped just 3 percent in the second quarter

Figure 1

State government general fund spending



Source: National Association of State Budget Officers, "The Fiscal Survey of States," Spring 2022. Fiscal years.

of 2020 and then rebounded quickly.[4] Tax revenues rose 1.9 percent in 2020 and 10.0 percent in 2021. On the basis of two quarters of data, tax revenues will likely be up another 9.9 percent in 2022.

Given the strong growth in tax revenues, the roughly $1 trillion that federal lawmakers gave to state and local governments in pandemic aid was greatly excessive.[5] The aid included $350 billion in flexible support from the March 2021 America Rescue Plan Act (ARPA) and $150 billion in flexible support from the March 2020 Coronavirus Aid, Relief, and Economic Security Act. It also included $201 billion for K–12 education, $121 billion for Medicaid, $70 billion for transit, and billions of dollars in other spending.

Figure 2 shows state and local tax revenues and federal aid to the states for calendar years 2019 to 2022; the figures for 2022 are estimates.[6] All sources of state and local tax revenues have grown steadily in recent years. Federal aid soared from $683 in 2019, to $963 in 2020, to $1.2 trillion in 2021, and an estimated $1.1 trillion in 2022. Nearly all the states are flush with budgetary resources.

The Cato governors report in 2020 argued that the states should use their rainy day funds to handle pandemic-related budget challenges. Instead, the federal government passed huge aid packages, obviating the need for states to tap the funds. The federal government showered too much cash on the states. One illustration of that statement is that as of May 2022, 93 percent of the $122 billion aid for K–12 education from the March 2021 ARPA still had not been spent.[7]

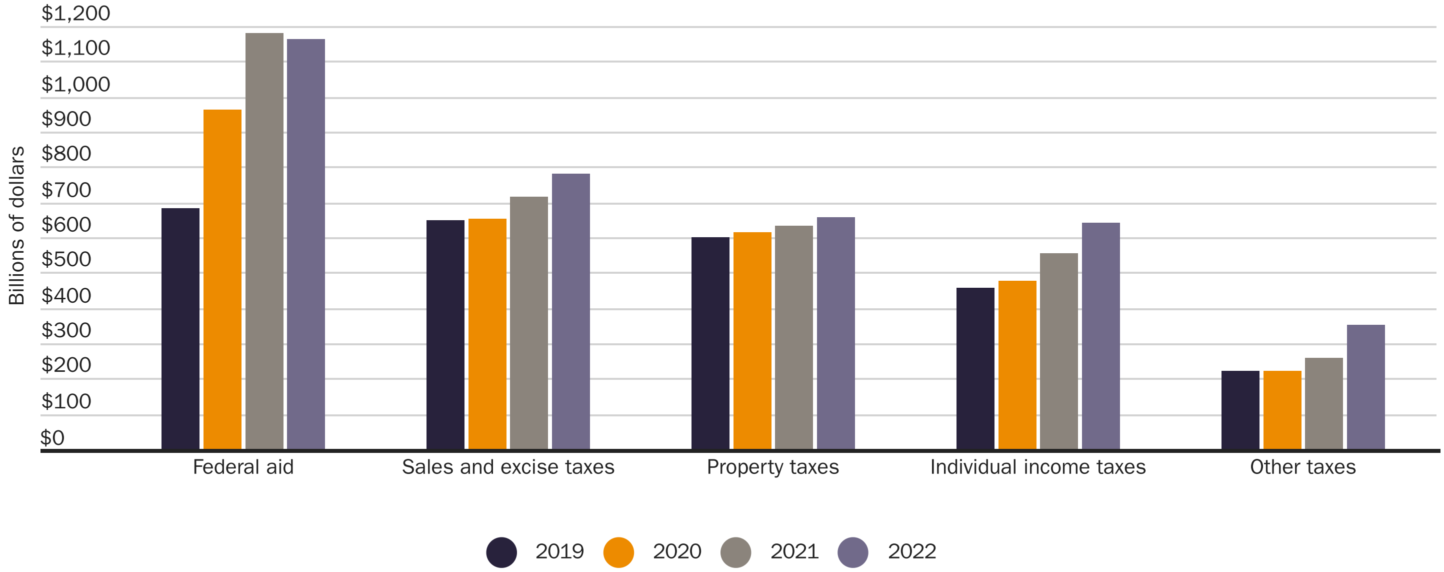
The federal borrowing needed to pay for the pandemic aid has added to dangerously high federal debt levels, and it has exacerbated the unhealthy reliance of the states on federal funding. When the federal government showers money on the states, the states have an incentive to overexpand programs, assuming that if they get into budget trouble later on, the federal government will bail them out.

The good news is that most state governments have accumulated large rainy day funds that they can tap if the U.S. economy remains sluggish. Going into the pandemic, rainy day fund balances for the states as a whole totaled 8.6 percent of general fund budgets, which was higher than the 4.8 percent going into the prior recession in 2008.[8] Rainy day fund balances rose to 13.5 percent in 2021 and an estimated 12.9 percent in 2022.

If the economy weakens, the federal government should not bail out the states. State governments have large and independent fiscal powers, and they can handle crises and downturns on their own. They can use their rainy day funds and adjust their spending levels to keep their budgets in balance.

Figure 2

State and local government revenues



Source: U.S. Bureau of Economic Analysis. Calendar years. Author estimates for 2022.

TRENDS IN TAX POLICY

State governments raised $1.3 trillion in tax revenues in calendar year 2021. Sales taxes were 43 percent of the total, individual income taxes were 40 percent, corporate income taxes were 7 percent, and other taxes were 10 percent.[9]

Each year, some states raise taxes, whereas others cut them. Tax raising had the upper hand until recently; the states enacted overall net tax increases every fiscal year from 2016 to 2021. But recent large budget surpluses turned the situation around. NASBO data suggest that state taxpayers will enjoy overall net tax cuts in FYs 2022 and 2023.[10]

The Biden administration tried to undermine the switch to tax cutting by restricting the states from using ARPA funds for that purpose. The act said that funds could not be used "either directly or indirectly" to cut taxes, and the U.S. Treasury was charged with policing the provision. In response to the mandate, attorneys general in 21 states penned a letter arguing that the restriction infringed on sovereign state taxing powers.[11] Lawsuits challenging the mandate have generally prevailed in federal courts and halted Treasury efforts to undermine state tax reforms.[12]

As it turned out, nearly all the states have enjoyed large surpluses in their general fund budgets, which have enabled them to pursue tax cuts aside from their receipt of federal funds. Idaho Governor Brad Little's spokesperson, for example, noted, regarding Idaho's 2021 tax cut, "The organic revenue growth will more than offset Idaho's historic tax cut."[13] Even with the many recent tax cuts, general fund state revenues are expected to rise in FYs 2022 and 2023.

For FY 2021, 15 governors proposed net tax cuts in their budgets and 14 proposed tax increases. For FY 2022, 19 governors proposed cuts and 15 proposed increases. For FY 2023, 30 governors proposed cuts and only 3 proposed increases.[14]

The switch from tax hikes to tax cuts is evident with fuel taxes. More than 30 states increased their fuel tax rates between 2013 and 2020.[15] But during the nationwide gas price spike in 2022, numerous states temporarily cut their gas taxes to provide motorists some relief.

The policy switch from tax hikes to tax cuts is clear with regard to income taxes. During 2021 and 2022, 16 governors signed into law cuts to top individual income tax rates: Doug Ducey of Arizona, Asa Hutchinson of Arkansas, Brian Kemp of Georgia, Brad Little of Idaho, Eric Holcomb of Indiana, Kim Reynolds of Iowa, John Bel Edwards of Louisiana, Tate Reeves of Mississippi, Mike Parson of Missouri, Greg Gianforte of Montana, Pete Ricketts of Nebraska, Roy Cooper of North Carolina, Mike DeWine of

Ohio, Kevin Stitt of Oklahoma, Henry McMaster of South Carolina, and Spencer Cox of Utah.

Chris Sununu signed into law a phaseout of New Hampshire's tax on interest and dividends, making the state the ninth with no taxes on personal income. In Colorado, voters approved a cut to the individual and corporate income tax rate at the ballot box in 2020, and Governor Jared Polis was supportive. In Wisconsin, Tony Evers signed into law a large income tax cut, although it did not reduce the top rate.

In Kentucky, the legislature overrode Andy Beshear's veto to enact a large individual income tax cut. In Michigan, Gretchen Whitmer vetoed an income tax rate cut passed by the legislature. And in Washington State, which does not have an individual income tax, Jay Inslee approved the imposition of a 7 percent capital gains tax. But the tax is being litigated as an illegal, nonuniform property tax under the state constitution.[16]

During 2021 and 2022, 10 governors signed into law cuts to the top corporate income tax rate: Asa Hutchinson of Arkansas, Brad Little of Idaho, Kim Reynolds of Iowa, John Bel Edwards of Louisiana, Pete Ricketts of Nebraska, Chris Sununu of New Hampshire, Roy Cooper of North Carolina, Kevin Stitt of Oklahoma, Tom Wolf of Pennsylvania, and Spencer Cox of Utah.

In recent years only a few governors signed into law individual or corporate income tax rate increases. Ned Lamont of Connecticut and Phil Murphy of New Jersey imposed corporate surtaxes, which are applied on top of regular corporate taxes. Michelle Lujan Grisham of New Mexico raised the top personal income tax rate effective in 2021, although she also cut the rate of the state's gross receipts tax. J. B. Pritzker of Illinois supported large individual and corporate income tax increases on the ballot in 2020, but the public rejected the hikes.

Surpluses in many states are so large that even governors who previously favored tax hikes have recently supported at least one-time tax rebates. We counted about 20 states that provided special one-time rebates or payments during 2021 and 2022. Governors are marketing the rebates as a response to today's high inflation. In New Mexico, Lujan Grisham hiked income taxes her first year in office but recently switched to tax cutting. The *Albuquerque Journal* noted that her recent rebates of $500 for singles and $1,000 for couples "could also be a political boon in an election year in which Lujan Grisham is seeking reelection to a second four-year term."[17]

Are such rebates tax cuts? In some states, the payments are sent only to households that pay income taxes, but in other states, payments are sent to all households under specified income levels. In North Dakota, Doug Burgum approved rebates of $350 (individuals) and $700 (married couples) against actual taxes paid. In California, Gavin Newsom approved one-time payments of up to $1,050 for all households under specified income limits, whether or not they had paid taxes. Scoring in this report used a liberal rule that included all such payments as tax cuts. However, as in previous Cato fiscal reports, the value of such breaks is divided by four for scoring purposes because the savings are only temporary.

One-time rebates create less economic benefit than permanent tax cuts, especially cuts to top income tax rates. However, one-time payments are a better use of large surpluses than expanding spending programs. When programs are expanded, it tends to lock in long-term commitments of taxpayer resources.

Another tax policy trend is for states to counter the "SALT cap" from the Tax Cuts and Jobs Act (TCJA) of 2017. The act capped the federal deduction for state and local taxes (SALT) at $10,000, which increased taxes on some households in high-tax states. The SALT cap reduced the incentive for states to raise taxes and thus was a beneficial reform. However, about half the states have rebelled against the SALT cap and enacted partial workarounds for some of their taxpayers.[18]

States have been adding new sources of revenue. Before 2018, businesses were generally not required to collect online sales taxes unless they had a physical presence in a customer's state. But a U.S. Supreme Court ruling that year, *South Dakota v. Wayfair*, eliminated the physical presence rule, paving the way for states to expand sales tax collections on out-of-state sellers. All the states now require such sellers to collect sales taxes, although most have created an exemption—often $100,000—for companies with limited sales in a state.

Numerous states are considering "digital advertising taxes" on the gross revenues of online advertisers. Such taxes would be complex and are of uncertain legality. Maryland's digital tax was enacted in 2021 over Governor Larry Hogan's veto and is currently subject to legal challenge. State tax expert Richard Pomp said the Maryland tax is "an illogical, poorly designed, and irrelevant response to a non-problem—and likely unconstitutional."[19] Lawmakers in Arkansas, Connecticut, Massachusetts, Montana, New York, and West Virginia are also considering such dubious taxes.[20]

Recreational marijuana is now legal in 19 states.[21] One incentive for lawmakers to legalize pot is to raise tax revenues. States have imposed numerous taxes on pot, including excise taxes, general sales taxes, and taxes on growers. In Colorado, marijuana tax revenues are now 2.3 percent of all state tax revenues.[22] Total tax revenues for the 50 states in 2021 were $1.3 trillion, so if all the states legalized recreational marijuana and raised relatively the same amount as Colorado, the total would be about $30 billion for the nation annually.

Unfortunately, many states that have legalized pot are taxing and regulating it excessively, which harms entrepreneurship and fosters a black market. Legal marijuana demand is responsive to taxation.[23] A Reason Foundation study found "California taxes on marijuana range from $42 to $92 per ounce, depending on the jurisdiction, compared to an estimated wholesale production cost of $35 per ounce."[24] Those high taxes have resulted in a black market that "still accounts for an estimated two-thirds of total sales."[25] California further strengthens the black market by limiting the number of retail pot outlets. However, the state repealed one of its cannabis taxes—a cultivation tax—in 2022.

For its part, the federal government should normalize marijuana markets by removing the product from the list of Schedule 1 drugs, legalizing interstate commerce, allowing for normal banking transactions, and allowing marijuana businesses to deduct normal business expenses on tax returns. By legalizing the industry, the federal government would help state governments convert black markets to normal markets and boost state tax revenues. The House passed legislation in April 2022 that would have decriminalized marijuana but, in a counterproductive move, would have also imposed federal taxes on the product.[26]

Gambling is another growing source of state tax revenue. In 2018, the Supreme Court in *Murphy v. National Collegiate Athletic Association* struck down a 1992 federal law that had banned sports betting except in a few states.[27] Today, more than 30 states have enacted laws legalizing sports betting and taxing it, with about 18 of those states legalizing online sports betting.[28] Unfortunately, some states are making the same mistake seen with marijuana—overtaxing it and limiting the number of licenses, thus encouraging black markets. New York legalized online gaming in 2021 but limited entry to two consortia of firms and imposed a huge 51 percent tax on gross gaming revenues.

Finally, 11 states have raised payroll taxes in recent years to fund new family leave programs: California, Colorado, Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island, and Washington.[29] The programs are funded through employee and employer payroll taxes, which ultimately reduce worker wages.

For this report, overall net tax revenue changes and tax rate changes were measured. If a governor broadens the tax base and uses the revenues to cut tax rates, that would be scored in a positive way. For example, if new marijuana tax revenues are used to cut income tax rates, that would boost a governor's score.

INTERSTATE MIGRATION

Every year, millions of Americans move to different states in search of jobs, retirement locations, lower living costs, and nicer climates. The pandemic prompted many people to reassess where they live, and new remote work options are adding flexibility to individual and business location choices.

State lawmakers should consider how their policies attract or repel workers, retirees, and businesses. Tax policy is an important driver of interstate migration, and its importance was enhanced by the SALT cap enacted in the Tax Cuts and Jobs Act of 2017. Many governors pursuing tax reforms in recent years have pointed to the need to stay competitive with other states.

According to the Internal Revenue Service, 3 percent of U.S. households move between states each year.[30] Table 2 shows the latest IRS data, for 2020. The table shows the net inflows (inflows less outflows) for each state and the ratios of inflows to outflows for all households, households

Table 2
Interstate migration of households, 2020

State	Inflow less outflow, number of households	Inflow to outflow ratio, all households	Inflow to outflow ratio, age 65 and older	Inflow to outflow ratio, income over $200,000
Alabama	7,049	1.16	1.32	1.24
Alaska	−2,742	0.84	0.66	0.59
Arizona	42,268	1.47	1.59	2.27
Arkansas	3,899	1.13	1.22	1.22
California	−114,652	0.69	0.52	0.48
Colorado	13,240	1.13	1.00	1.46
Connecticut	−2,987	0.94	0.74	1.02
Delaware	5,028	1.32	1.71	2.14
DC	−7,990	0.78	0.69	0.52
Florida	81,185	1.32	1.42	2.72
Georgia	17,317	1.14	1.24	1.09
Hawaii	−2,899	0.90	0.90	1.44
Idaho	15,120	1.61	1.98	3.76
Illinois	−50,315	0.67	0.52	0.41
Indiana	1,305	1.02	0.97	0.98
Iowa	−2,592	0.92	0.95	0.90
Kansas	−3,729	0.91	0.95	0.95
Kentucky	1,824	1.04	1.11	1.03
Louisiana	−9,637	0.79	0.85	0.87
Maine	6,320	1.45	1.38	2.50
Maryland	−9,838	0.90	0.77	0.73
Massachusetts	−20,209	0.78	0.74	0.75
Michigan	−6,682	0.91	0.80	0.98
Minnesota	−6,144	0.89	0.84	0.74
Mississippi	−2,811	0.91	1.14	1.01
Missouri	3,094	1.05	1.02	0.98
Montana	5,409	1.34	1.35	2.92
Nebraska	−2,300	0.90	0.85	0.81
Nevada	16,297	1.30	1.30	1.99
New Hampshire	5,369	1.24	1.21	1.79
New Jersey	−12,586	0.89	0.66	0.85
New Mexico	1,865	1.06	1.07	1.29
New York	−129,226	0.53	0.45	0.33
North Carolina	36,181	1.30	1.53	1.84
North Dakota	−2,673	0.83	0.73	0.65
Ohio	−7,068	0.93	0.88	0.83
Oklahoma	5,664	1.15	1.15	1.02
Oregon	9,463	1.16	1.13	1.34

Table 2 (continued)

State	Inflow less outflow, number of households	Inflow to outflow ratio, all households	Inflow to outflow ratio, age 65 and older	Inflow to outflow ratio, income over $200,000
Pennsylvania	−3,320	0.97	0.82	0.91
Rhode Island	371	1.02	1.03	1.42
South Carolina	24,777	1.39	1.78	2.54
South Dakota	972	1.07	1.08	1.43
Tennessee	21,621	1.27	1.45	1.83
Texas	63,141	1.29	1.34	1.41
Utah	6,773	1.19	1.37	1.94
Vermont	1,413	1.14	1.09	2.18
Virginia	−3,014	0.98	0.97	0.79
Washington	13,822	1.13	1.00	1.12
West Virginia	−460	0.98	0.86	0.85
Wisconsin	−357	0.99	1.03	1.12
Wyoming	406	1.03	1.09	1.64

Source: Internal Revenue Service.

age 65 and older, and households with incomes above $200,000. States losing residents have ratios of less than 1.0, and states gaining residents have ratios of more than 1.0.

New York had the largest net outflow in 2020. It lost 276,550 households while gaining 147,324, for a net loss of 129,226 households. Florida had the largest net inflow at 81,185 households. The 2020 migration flows in Table 2 generally reflect long-standing trends. States such as New York and Illinois have been losing residents to other states for many years, whereas Florida and Texas have been gaining residents for many years.

New York's overall migration ratio was 0.53 in 2020, meaning that for every 100 households that left only 53 moved in. New York's ratio was even lower for those age 65 and older, at 0.45, and lower still for those earning over $200,000, at 0.33. That ratio means that New York loses three high-earning households for every one it gains. California loses two high-earning households for every one it gains.

Americans are generally moving from higher-tax states, such as New York and California, to lower-tax states, such as Florida and Texas. Figure 3 plots the 50 states, with tax levels on the horizontal access and the migration ratio on the vertical axis. Tax levels are measured as state and local sales, property, and individual income taxes as a percentage of personal income. The figure includes a fitted regression line that indicates the correlation between migration ratios and tax levels. The fitted line is highly statistically significant.[31] Households are generally moving out of states in the bottom right to states in the top left.

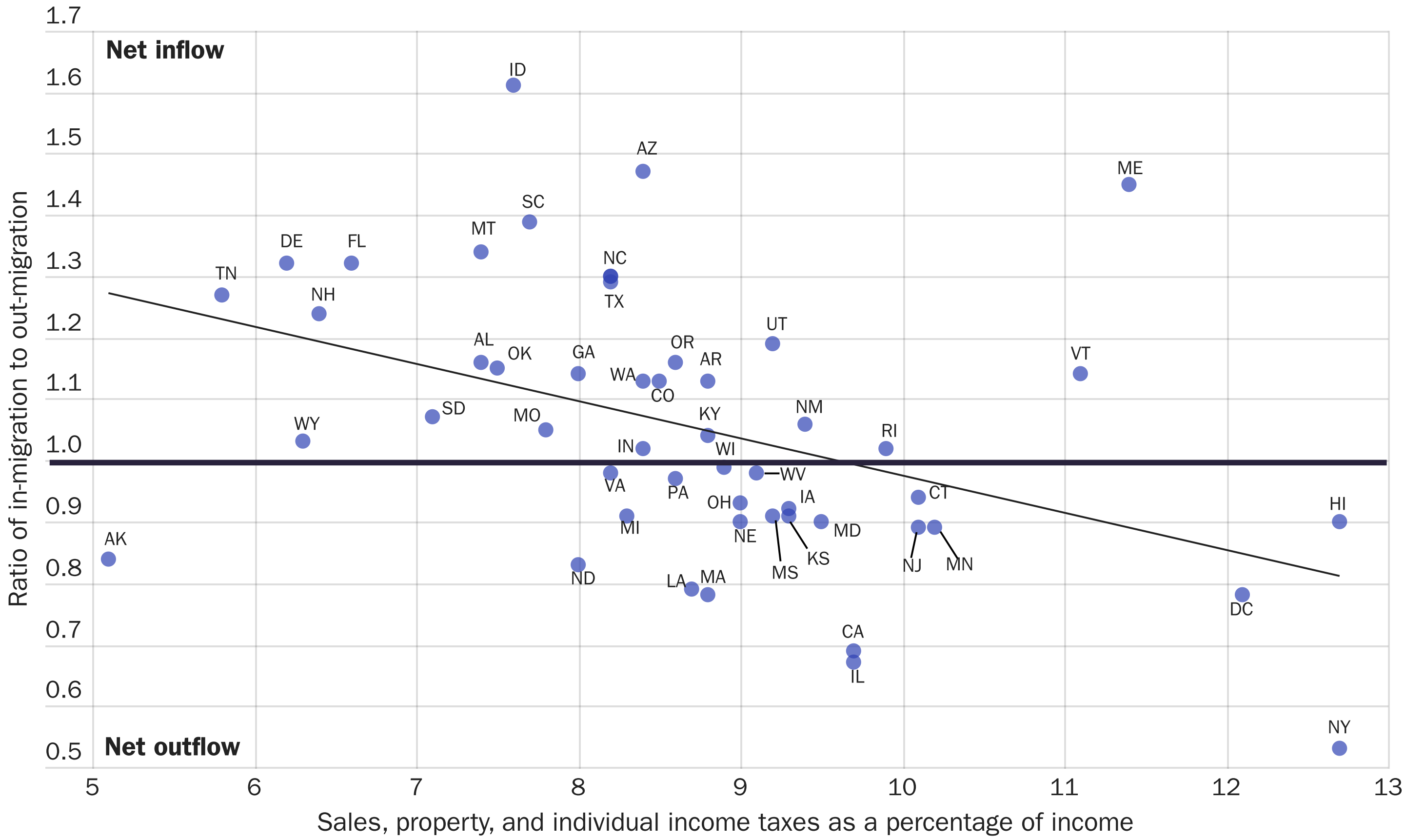
Of the 25 lowest-tax states, 20 had net in-migration in 2020. Eight of the nine states that do not have individual income taxes enjoy net in-migration. South Dakota has low taxes and no income tax and enjoys net inflows of residents, whereas its neighbors Nebraska, Iowa, Minnesota, and North Dakota have higher taxes and net outflows. Low-tax New Hampshire enjoys net inflows, whereas higher-tax Massachusetts suffers net outflows. However, a few states buck the general pattern, including Alaska, Maine, and Vermont.

Most state leaders know that taxes are important. Many states, for example, have pursued tax reforms to attract wealthy retirees. The vast majority of states used to impose either estate or inheritance taxes, but since the 1970s, competition for retirees has induced most states to cut or eliminate those taxes. Today, only 12 states have estate taxes and only 6 have inheritance taxes.[32]

States have also been cutting taxes on retirement income, including income from Social Security, defined-benefit (DB) plans, and defined-contribution (DC) plans. Currently,

Figure 3

Tax levels and net migration ratios, 2020



Source: Author, based on data from the Internal Revenue Service and U.S. Census Bureau.

about three-quarters of the states fully exempt Social Security from taxes. About a dozen states fully exempt DB and DC plan income from taxes, and about half the states at least partly exempt it.[33]

Personal finance publisher Kiplinger provides a "State-by-State Guide to Taxes on Retirees," which considers income taxes, sales taxes, property taxes, and taxes on retirement income.[34] The states are categorized as either "most tax-friendly," "tax-friendly," "mixed," "not tax-friendly," and "least tax-friendly." As it turns out, the degree of tax friendliness is correlated with the elderly migration ratios in Table 2. The average net inflow ratio for the "most tax-friendly" states is 1.28, whereas the average ratio for the "least tax-friendly" is 0.86.

Seniors are gravitating toward states with better retirement tax climates. Knowing this, at least 10 states cut taxes on retirement income just this year.[35] In his 2022 state of the state address, Governor Hogan of Maryland said, "Our state's sky-high retirement taxes remain the one area where we are still not effectively competing with other states." Indeed, Maryland is losing seniors, on net, to other states. At Hogan's urging, the legislature recently passed tax cuts on retirement income.

Connecticut is also losing retirees to other states. Governor Ned Lamont promised the following in his 2022 state of the state address: "We're also going to eliminate the income tax on pension and 401(k) income for most households. Stay in Connecticut and watch your grandkids grow up in your living room rather than waving to them from a Zoom room in Delray, Florida."[36] Lamont followed through and recently approved tax cuts on retirement income.

Taxes are one factor affecting migration. Another is the level of individual freedom. Cato's "Freedom in the 50 States" report uses dozens of variables to calculate a score for personal and economic freedom in each state. Those scores are correlated with interstate migration flows. For the 10 most free states, the average migration ratio (from Table 2) is 1.23, and for the 10 least free states, the average migration ratio is 0.96.

New York is the least free state, has the highest taxes, and has the largest out-migration. New York's entrepreneurs and finance industry are moving to Miami, Palm Beach, and other low-tax locations. This should be a wake-up call for New York lawmakers, but they appear to be in denial. In 2021, New York bucked national trends and increased tax rates on high earners.[37] Because the top 1 percent of earners in New York pay 42 percent of all state income taxes, state finances will suffer as high earners leave the state.[38]

New York has a bloated government, which is clear when it is compared to Florida. In 2019, the state of New York had 20 million residents and Florida had 21 million. Yet that year, state and local governments in New York spent $375 billion, or 88 percent more than the $199 billion spent by governments in Florida.[39] Total state and local government employment is 38 percent higher in New York than Florida.[40] The interstate migration data suggest that residents are rejecting New York's big-government approach.

With today's rising tax competition, state policymakers should rethink their tax codes to retain and attract residents and businesses. They should improve the efficiency of government services to give taxpayers more value for their money, and they should cut regulatory burdens to enhance personal freedoms. Lawmakers in states such as New York cannot do anything about Florida's sunny climate, but they can make policy improvements to stop the chronic outflows of people and businesses.

Appendix A: Report Card Methodology

This study computes a fiscal policy grade for each governor based on his or her success at restraining taxes and spending since 2020, or since 2021 for governors who entered office that year. The spending data used in this study come from NASBO and, in some cases, from the budget documents of individual states. The data on proposed, enacted, and vetoed tax changes come from NASBO, the National Conference of State Legislatures, state budgets, and news articles.[41] Tax rate data come from the Tax Foundation and other sources.

This year's report uses the same methodology as the 2008, 2010, 2012, 2014, 2016, 2018, and 2020 Cato fiscal reports. The report focuses on short-term taxing and spending actions to judge whether governors take a small-government or a big-government approach to fiscal policy. Each governor's performance is measured using seven variables: two for spending, one for revenue, and four for tax rates. Their overall score is calculated as the average of their scores in those three categories. Tables A.1 and A.2 summarize the governors' scores.

SPENDING VARIABLES

1. Average annual percentage change in per capita general fund spending proposed by the governor.
2. Average annual percentage change in per capita general fund spending enacted.

REVENUE VARIABLE

3. Average annual dollar value of proposed, enacted, and vetoed tax changes. This variable is measured by summing the reported estimates of the annual dollar effects of tax changes as a percentage of a state's total tax revenues. For example, vetoing a $50 million tax increase would boost a governor's score the same amount as approving a $50 million tax cut. This is an important variable, and it is compiled from many news articles, budget documents, and reports.[42] Temporary tax changes were valued at one-quarter the value as permanent tax changes.

TAX RATE VARIABLES

4. Change in the top personal income tax rate approved by the governor.
5. Change in the top corporate income tax rate approved by the governor.
6. Change in the general sales tax rate approved by the governor.
7. Change in the cigarette tax rate approved by the governor.

The two spending variables are measured on a per capita basis to adjust for state populations that are growing at different rates. Also, the spending variables measure only the changes in general fund budgets, which are funded by state taxes and over which governors have the most control. Variable 1 is measured through FY 2023, and variable 2 is measured through FY 2022. Variables 3 through 7 cover changes from January 2020 to August 2022, or from January 2021 to August 2022 for governors who entered office in 2021.

For each variable, the results are standardized so that the worst scores are near 0 and the best scores are near 100. The scores for each of the three categories—spending, revenue, and tax rates—are calculated as the average score of the variables within the category, with one exception: the cigarette tax rate variable is quarter-weighted because that tax is a smaller source of state revenue than the other taxes measured in its category. The average of the scores for the three categories produces the overall grade for each governor.

MEASUREMENT CAVEATS

This report uses publicly available data to measure the fiscal performance of the governors from a small-government perspective, but such grading may include numerous imprecisions. The report cannot fully isolate the policy effects of governors from state legislatures, but to help separate the effects, variables 1 and 3 measure each governor's proposed—although not necessarily enacted—policies.

Another factor to consider is that the states grant governors differing amounts of authority over budget processes. For example, most governors can use a line-item veto to trim spending, but some governors do not have that power. Another example is that the supermajority voting requirement to override a veto varies among the states. Such factors give governors various levels of budget control that are not accounted for in this study.

Nonetheless, the results presented here should roughly reflect each governor's fiscal approach. Governors who received high grades focused on reducing tax burdens and restraining spending, whereas governors who received low grades focused on government expansion.

Table A.1

Spending and revenue changes

State	Governor	Spending score	Proposed changes in per capita spending (%)	Actual changes in per capita spending (%)	Revenue score	Changes in revenues from proposed and enacted tax changes (%)
Alabama	Kay Ivey (R)	47	4.5	5.7	41	−0.2
Arizona	Doug Ducey (R)	39	6.4	6.4	96	−4.1
Arkansas	Asa Hutchinson (R)	60	4.5	0.4	59	−1.4
California	Gavin Newsom (D)	27	3.8	20.6	16	1.7
Colorado	Jared Polis (D)	49	5.8	3.2	54	−1.1
Connecticut	Ned Lamont (D)	51	5.4	3.0	40	−0.1
Delaware	John Carney (D)	30	10.6	5.0	43	−0.3
Florida	Ron DeSantis (R)	64	−1.3	5.8	49	−0.7
Georgia	Brian Kemp (R)	60	1.1	4.4	69	−2.2
Hawaii	David Ige (D)	60	5.2	−0.7	39	0.0
Idaho	Brad Little (R)	63	2.8	1.1	86	−3.4
Illinois	J. B. Pritzker (D)	52	4.3	3.9	0	2.8
Indiana	Eric Holcomb (R)	54	3.0	4.7	56	−1.3
Iowa	Kim Reynolds (R)	59	3.6	1.8	94	−4.0
Kansas	Laura Kelly (D)	44	0.6	11.4	56	−1.2
Kentucky	Andy Beshear (D)	36	8.1	5.5	31	0.6
Louisiana	John Bel Edwards (D)	57	5.5	0.2	40	−0.1
Maine	Janet Mills (D)	48	7.9	1.0	55	−1.2
Maryland	Larry Hogan (R)	36	9.4	4.3	62	−1.7
Massachusetts	Charlie Baker (R)	50	2.5	6.9	45	−0.5
Michigan	Gretchen Whitmer (D)	32	4.6	11.7	19	1.4
Minnesota	Tim Walz (D)	31	13.8	2.2	27	0.9
Mississippi	Tate Reeves (R)	61	3.7	1.0	66	−2.0
Missouri	Mike Parson (R)	22	11.9	7.0	63	−1.7
Montana	Greg Gianforte (R)	81	−0.4	−2.1	50	−0.8
Nebraska	Pete Ricketts (R)	60	1.8	3.3	96	−4.1
Nevada	Steve Sisolak (D)	75	−1.2	1.0	35	0.3

Table A.1 (continued)

State	Governor	Spending score	Proposed changes in per capita spending (%)	Actual changes in per capita spending (%)	Revenue score	Changes in revenues from proposed and enacted tax changes (%)
New Hampshire	Chris Sununu (R)	78	1.5	−3.5	100	−4.5
New Jersey	Phil Murphy (D)	32	3.9	12.6	27	0.9
New Mexico	Michelle Lujan Grisham (D)	45	7.8	2.6	71	−2.3
North Carolina	Roy Cooper (D)	53	4.6	3.1	71	−2.3
North Dakota	Doug Burgum (R)	65	0.6	2.9	48	−0.7
Ohio	Mike DeWine (R)	58	3.3	2.5	49	−0.7
Oklahoma	Kevin Stitt (R)	57	6.5	−0.9	65	−1.9
Oregon	Kate Brown (D)	48	3.3	6.7	0	4.1
Pennsylvania	Tom Wolf (D)	24	13.2	4.9	13	1.8
South Carolina	Henry McMaster (R)	55	5.0	1.8	80	−3.0
South Dakota	Kristi Noem (R)	62	−2.8	8.3	40	−0.1
Tennessee	Bill Lee (R)	24	9.6	8.8	38	0.0
Texas	Greg Abbott (R)	60	2.9	2.3	39	0.0
Utah	Spencer Cox (R)	38	−0.1	19.3	64	−1.8
Vermont	Phil Scott (R)	28	3.8	14.2	48	−0.7
Washington	Jay Inslee (D)	28	10.8	5.5	13	1.9
West Virginia	Jim Justice (R)	76	−2.0	1.9	66	−1.9
Wisconsin	Tony Evers (D)	53	5.3	2.2	58	−1.4
Wyoming	Mark Gordon (R)	93	−6.3	−2.9	37	0.1
Average of 46 states			**4.3**	**4.6**		**−0.8**

Table A.2
Tax rate changes

State	Governor	Tax rate score	Change in top individual income tax rate	Change in top corporate income tax rate	Change in general sales tax rate	Change in cigarette tax rate (cents per pack)
Alabama	Kay Ivey (R)	43	0.00	0.00	0.00	0
Arizona	Doug Ducey (R)	62	−2.00	0.00	0.00	0
Arkansas	Asa Hutchinson (R)	66	−1.70	−1.20	0.00	0
California	Gavin Newsom (D)	43	0.00	0.00	0.00	0
Colorado	Jared Polis (D)	41	−0.08	−0.08	0.00	110
Connecticut	Ned Lamont (D)	39	0.00	0.75	0.00	0
Delaware	John Carney (D)	43	0.00	0.00	0.00	0
Florida	Ron DeSantis (R)	43	0.00	0.00	0.00	0
Georgia	Brian Kemp (R)	50	−0.76	0.00	0.00	0
Hawaii	David Ige (D)	43	0.00	0.00	0.00	0
Idaho	Brad Little (R)	57	−0.93	−0.93	0.00	0

Table A.2 (continued)

State	Governor	Tax rate score	Change in top individual income tax rate	Change in top corporate income tax rate	Change in general sales tax rate	Change in cigarette tax rate (cents per pack)
Illinois	J. B. Pritzker (D)	43	0.00	0.00	0.00	0
Indiana	Eric Holcomb (R)	46	−0.33	0.00	0.00	0
Iowa	Kim Reynolds (R)	80	−4.63	−6.50	0.00	0
Kansas	Laura Kelly (D)	43	0.00	0.00	0.00	0
Kentucky	Andy Beshear (D)	43	0.00	0.00	0.00	0
Louisiana	John Bel Edwards (D)	62	−1.75	−0.50	0.00	0
Maine	Janet Mills (D)	43	0.00	0.00	0.00	0
Maryland	Larry Hogan (R)	43	0.00	0.00	0.00	0
Massachusetts	Charlie Baker (R)	43	0.00	0.00	0.00	0
Michigan	Gretchen Whitmer (D)	43	0.00	0.00	0.00	0
Minnesota	Tim Walz (D)	43	0.00	0.00	0.00	0
Mississippi	Tate Reeves (R)	52	−1.00	0.00	0.00	0
Missouri	Mike Parson (R)	49	−0.60	0.00	0.00	0
Montana	Greg Gianforte (R)	47	−0.40	0.00	0.00	0
Nebraska	Pete Ricketts (R)	64	−1.00	−1.97	0.00	0
Nevada	Steve Sisolak (D)	43	0.00	0.00	0.00	0
New Hampshire	Chris Sununu (R)	45	0.00	−0.20	0.00	0
New Jersey	Phil Murphy (D)	30	0.00	2.50	0.00	0
New Mexico	Michelle Lujan Grisham (D)	51	1.00	0.00	−0.25	0
North Carolina	Roy Cooper (D)	69	−1.26	−2.50	0.00	0
North Dakota	Doug Burgum (R)	43	0.00	0.00	0.00	0
Ohio	Mike DeWine (R)	51	−0.81	0.00	0.00	0
Oklahoma	Kevin Stitt (R)	57	−0.25	−2.00	0.00	0
Oregon	Kate Brown (D)	40	0.00	0.00	0.00	200
Pennsylvania	Tom Wolf (D)	61	0.00	−5.00	0.00	0
South Carolina	Henry McMaster (R)	52	−1.00	0.00	0.00	0
South Dakota	Kristi Noem (R)	43	0.00	0.00	0.00	0
Tennessee	Bill Lee (R)	43	0.00	0.00	0.00	0
Texas	Greg Abbott (R)	43	0.00	0.00	0.00	0
Utah	Spencer Cox (R)	45	−0.10	−0.10	0.00	0
Vermont	Phil Scott (R)	43	0.00	0.00	0.00	0
Washington	Jay Inslee (D)	43	0.00	0.00	0.00	0
West Virginia	Jim Justice (R)	43	0.00	0.00	0.00	0
Wisconsin	Tony Evers (D)	43	0.00	0.00	0.00	0
Wyoming	Mark Gordon (R)	43	0.00	0.00	0.00	0
Average of 46 states			**−0.38**	**−0.39**	**−0.01**	**7**

Note: These are the tax rate changes since 2020 that were approved by the governors. The table excludes the expiration of prior temporary changes. The changes are the actual changes in the rates. For example, Asa Hutchinson cut Arkansas's corporate tax rate from 6.5 percent to 5.3 percent, so the table shows −1.20. Includes changes up until August 2022. Idaho's income tax cut to 5.8 percent was enacted in September.

Appendix B: Fiscal Notes on the Governors

This section discusses the fiscal records of the 46 governors covered in the report. The profiles are based on the tax and spending data used to grade the governors and other information that sheds light on each governor's fiscal approach. Spending data refers to fiscal years, and the data are from NASBO unless otherwise cited.[43] The grades are calculated on the basis of each governor's record since 2020, or since 2021 if that was the governor's first year in office.

Alabama

Kay Ivey, Republican
Legislature: Republican
Grade: D
Took office: April 2017

Kay Ivey has served in Alabama government a long time. She was a reading clerk in the legislature, an assistant director of the Alabama Development Office, the state treasurer, and the lieutenant governor. She was sworn in as governor in 2017 after the resignation of her predecessor, Robert Bentley, in a scandal.

Running for a full term in 2018, Ivey said she opposed tax increases.[44] Nonetheless, she has raised some taxes, including the gas tax by 10 cents per gallon in 2019 and an assessment on nursing home facilities in 2020. However, Ivey switched direction recently and approved modest tax cuts, including raising the standard deduction, exempting $6,000 of retirement income from taxes, increasing an adoption credit, and exempting small businesses from the business privilege tax.

Arizona

Doug Ducey, Republican
Legislature: Republican
Grade: A
Took office: January 2015

Doug Ducey has a background in business and finance and was the head of Cold Stone Creamery. As governor, he has demonstrated pro-market instincts on many policy issues, such as pursuing occupational licensing reforms and opposing minimum wage increases.

In recent years, Arizonans have battled over income tax rates. In November 2020, voters approved Proposition 208, which imposed a 3.5 percent surtax on high earners to fund increased education spending. This raised the top income tax rate from 4.5 percent to 8.0 percent. Ducey opposed the increase and signed legislation in June 2021 (SB 1827) to set the maximum income tax rate at 4.5 percent, which effectively nullified the surtax.[45]

In August 2021, the Arizona Supreme Court blocked implementation of Proposition 208 and sent the case to a lower court to determine if the education spending violated constitutional caps. In March 2022, the Maricopa County Superior Court ruled that Proposition 208's spending was indeed out of line, and the tax increase was repealed.[46]

Ducey went on the tax-reform offensive in 2021, signing SB 1828, which reduced the number of income tax brackets from four to two and cut the top tax rate from 4.5 percent to 2.98 percent. If revenue targets are met, Arizona's income tax will transition into a 2.5 percent flat tax. The cuts will save taxpayers about $1.9 billion a year when fully phased in.

The tax cuts prompted a progressive effort to place a repeal measure on the November 2022 ballot. However, in April, the Arizona Supreme Court ruled the repeal measure, Proposition 307, cannot appear on the ballot.[47] Therefore, the scheduled tax rate cuts will proceed as planned.

In 2022, the legislature passed a bill putting a proposed constitutional amendment on the November ballot (Proposition 132) that would require a 60 percent supermajority vote of the public to approve tax measures. The "proposed amendment is partly a reaction to Proposition 208" under which 52 percent of voters approved a major tax increase.[48] Supporters of the November ballot measure argue the legislature requires a supermajority vote for tax increases and thus so should tax increases at the ballot box.

Ducey has also cut property taxes. With the state enjoying large budget surpluses, he approved repeal of the state equalization property tax, saving taxpayers more than $330 million a year.[49] Revenues from this state tax, which funds K–12 schools, will be replaced by funding from the overflowing general fund.

In his 2022 state of the state address, Ducey said his tax reform "approach has meant that people keep moving here. Less taxes means more taxpayers. During the pandemic, as other states grandstanded, Arizona protected lives, livelihoods, and individual liberty. People flocked here, and they've stayed."[50]

Ducey has been a champion tax reformer, but spending has risen substantially in recent years. General fund spending jumped 20 percent in 2021, although it dipped in 2022. For 2023, ongoing general fund spending is expected to rise 18 percent.[51]

Arkansas

Asa Hutchinson, Republican
Legislature: Republican
Grade: B
Took office: January 2015

Asa Hutchinson campaigned on tax cuts when running for the governor's office in 2015, and he has delivered big time. He said that "Arkansas has been an island of high taxation for too long," and he proceeded to chop tax rates and create a more tax-friendly environment for households and businesses.[52]

Hutchinson approved income tax cuts in 2015 and 2017, mainly for lower- and middle-income taxpayers. Then in 2019, Hutchinson approved a series of major tax reforms. The top individual income tax rate was cut from 6.9 percent to 6.6 percent and then to 5.9 percent, and six income tax brackets were consolidated into four. The corporate income tax rate was cut from 6.5 percent to 6.2 percent and then to 5.9 percent.

Hutchinson approved further tax reforms in 2021. The top individual income tax rate was cut to 5.3 percent by 2023, and the corporate tax rate was cut to 5.7 percent. If revenue targets are met, the top individual rate will fall further to 4.9 percent by 2025, and the corporate rate will fall to 5.3 percent.[53] The reform also included a $60 tax credit aimed at low-income households.

With large budget surpluses in 2022, Hutchinson called a special session of the legislature and signed into law a more rapid phase-in of the cuts. The top individual rate drops to 4.9 percent this year, and the corporate drops to 5.3 percent next year. He also approved one-time tax rebates of $150 for lower-income individuals.[54]

Hutchinson has been a lean budgeter. Arkansas general fund spending increased from $5.06 billion in 2015 when he came into office to $5.85 billion in 2022. That amounts to an annual average growth rate of just 2.1 percent.

California

Gavin Newsom, Democrat
Legislature: Democratic
Grade: F
Took office: January 2019

Gavin Newsom is a former lieutenant governor of California and mayor of San Francisco. He has overseen a rapidly expanding state budget. The technology boom has generated overflowing coffers from higher income and capital gains taxes. California's general fund budget expanded from $146 billion in 2020, to $163 billion in 2021, to $240 billion in 2022.[55]

However, California's good fortune may be ebbing. The state was long a magnet for entrepreneurs and capital, enjoying net in-migration from other states. But high taxes, high regulations, and high housing costs are making the state less attractive, and California now suffers from net out-migration. IRS data show the state lost a net 114,652 households to other states in 2020. The state is losing two households earning more than $200,000 for every one that it gains. For this high-income group, that migration ratio is the third worst after New York and Illinois.

California's budget is vulnerable if the economy enters recession or high earners leave the state because the top 1 percent pay almost 50 percent of all state income and capital gains taxes.[56] California should transition to a more stable tax structure relying on sales taxes and less on volatile income and capital gains taxes.

Governor Newsom has supported numerous tax hikes. In November 2020, voters decided on Proposition 15, which would have amended the state constitution to increase property taxes on commercial and industrial properties. Newsom endorsed the massive $12 billion-a-year tax hike, but it was defeated at the ballot box.[57]

In 2019, Newsom approved business tax hikes of more than $1 billion. In 2020, he approved more business tax increases, including limiting the use of business tax credits and loss deductions for three years. Imposing higher taxes on businesses during the pandemic was a blunder, and in 2022, Newsom reversed course and restored the business credits and deductions.[58]

However, Newsom is taking the taxpayer's side in a question on the November 2022 ballot. Proposition 30 would impose a 1.75 percent surtax on high earners to fund various climate-related programs, pushing up the state's top income tax rate to 15.05 percent.[59] Breaking with other leaders in his party, Newsom announced he opposes Proposition 30.[60] He argued, "California's tax revenues are famously volatile, and this measure would make our state's finances more unstable . . . all so that special interests can benefit."[61] If passed, the tax measure would raise at least $3 billion a year.[62]

With a huge budget surplus in 2022, Newsom approved legislation providing one-time rebates for individuals with incomes under $250,000 and married couples with incomes under $500,000. The rebates vary depending on income level and number of dependents. The rebates will total $9.5 billion, which is a fraction of the state's giant budget surplus.

Rebates are better than more spending, but California really needs permanent cuts to taxes and regulations to reduce costs. California ranks 48th in state business tax competitiveness, according to the Tax Foundation.[63] The state has the highest-priced gasoline in the nation not just because of high gas taxes but also because of state fuel regulations.[64] California is the 48th-freest state on the Cato Institute's ranking of economic and personal freedom.[65]

California has many natural advantages, but the state's anti-growth and anti-freedom policies are outweighing them, and people and businesses are leaving. California should be using its budget surpluses to permanently reform its tax code with lower and more competitive rates.

Colorado

Jared Polis, Democrat
Legislature: Democratic
Grade: C
Took office: January 2019

Jared Polis is a former member of the U.S. House of Representatives. He has a reputation as a moderate Democrat and even leans libertarian on some issues.[66] In this report, he scores in the middle of the pack on both taxes and spending. On taxes, he has supported both increases and cuts.

Tax policy in Colorado revolves around the ballot box and the state's Taxpayer Bill of Rights (TABOR). TABOR includes a mechanism that distributes surplus revenues back to taxpayers. In 2019, Polis supported retaining surplus revenues and using them to boost spending on education and highways. However, voters rejected that idea at the ballot box in Proposition CC that year. Polis has supported TABOR refunds in other years.

Polis supported Proposition 116 in November 2020, which reduced the individual and corporate income tax rates from 4.63 percent to 4.55 percent. Voters approved the tax cut 58 to 42 percent.[67] The cut saved taxpayers more than $150 million a year. Polis says he supports reforming the income tax code by eliminating loopholes and reducing income tax rates. Indeed, he has said the income tax rate "should be zero."[68]

On the other hand, Polis has supported tax hikes. In 2020, he approved HB 1420, which temporarily increased business taxes.[69] He also supported Proposition EE on the November 2020 ballot to increase taxes on tobacco, which was approved by voters.[70] The increase is already raising more than $170 million a year, and the tax rate is scheduled to rise from $1.10 per pack this year to $1.80 by 2027.

In 2021, Polis signed legislation expanding the sales tax base to cover digital goods.[71] And he signed HB 1311, which curtailed various tax breaks, including itemized deductions for high earners and the pass-through deduction for business owners.[72] Another bill, SB 21-260, hiked transportation fees and charges, which will raise more than $200 million a year. The bill provoked opposition for skirting voter-approval requirements for raising taxes under TABOR.[73]

With large budget surpluses in 2022, Polis switched direction and cut taxes. In June, he approved taxpayer rebates of $750 for individuals and $1,500 for married couples.[74] On the November ballot this year, Initiative 31 asks Colorado voters whether the individual and corporate tax rates should be cut from 4.55 percent to 4.40 percent. As of August 2022, Polis has not weighed in with his support or opposition.

Connecticut

Ned Lamont, Democrat
Legislature: Democratic
Grade: D
Took office: January 2019

Ned Lamont is a former cable television executive who had been active in politics for years, including a failed run against Joe Lieberman for U.S. Senate in 2006. Lamont received a D on the 2020 Cato report card, and he receives a D on this one. Nonetheless, he switched from tax hiking in the past to modest tax cutting in 2022.

In 2019, Lamont signed into law a paid leave program that imposed a wage tax on employers to raise more than $400 million a year. He approved other tax increases that year, including extending a corporate income tax surcharge and broadening the sales tax base. He also proposed a new tax on soda that would have raised $160 million a year. In 2021, Lamont approved an extension of the corporate tax surcharge and a delay of a phaseout of a corporate capital tax.[75]

However, budget surpluses in 2022 prompted Lamont to change course. He approved a one-time tax rebate for some families, a temporary suspension of the gas tax, an expansion of the earned-income tax credit, and the elimination of a tax on movie tickets.[76]

IRS data show that four seniors are leaving Connecticut for every three moving in. In his 2022 state of the state address, Lamont recognized that problem and promised, "We're also going to eliminate the income tax on pension and 401(k) income for most households. Stay in Connecticut and watch your grandkids grow up in your living room rather than waving to them from a Zoom room in Delray, Florida."[77] Lamont followed through and signed into law tax cuts on retirement income.

However, more reforms are needed to improve Connecticut's tax environment. The Tax Foundation ranks Connecticut 47th on state business tax competitiveness.[78] Lamont should focus on cutting the state's high corporate tax rate to encourage an inflow of investment to the state.

Lamont signed a bill in June 2021 legalizing and taxing recreational marijuana. Lamont noted, "We're not only effectively modernizing our laws and addressing inequities, we're keeping Connecticut economically competitive with our neighboring states."[79] That will be true if marijuana taxes and regulations are kept to a minimum so that the legal industry is allowed to prosper.

Delaware

John Carney, Democrat
Legislature: Democratic
Grade: D
Took office: January 2017

John Carney has had a long political career. Before entering office as governor, he was a member of the U.S. Congress, Delaware's lieutenant governor, and Delaware's secretary of finance. He also served on the staff of Joe Biden in the U.S. Senate.

On the 2018 Cato fiscal report, Carney earned a D because of his support for tax increases, including increases on corporations, alcohol, and cigarettes. Carney improved to a C on the 2020 Cato report, but he drops back down to a D on this report. Large spending increases pulled down his score. Delaware's general fund budget rose 12.8 percent in 2022, and Carney proposed a 19.6 percent increase for 2023, although the enacted increase was smaller.

In 2021, Carney opposed a bill being considered in the legislature that would have increased income tax rates on high earners. In 2022, he both increased and reduced taxes. In

April, he approved one-time rebate checks of $300 to eligible residents.[80] In May, he signed into law a family leave act that imposes an 0.8 percent payroll tax on employers and employees to fund paid parental and medical leave benefits.

Florida

Ron DeSantis, Republican
Legislature: Republican
Grade: C
Took office: January 2019

Ron DeSantis served in the U.S. House of Representatives from 2013 to 2018. As Florida governor, DeSantis has taken many fiscally conservative actions. His middling grade on this report reflects that his tax cuts have not been as large as the cuts in many other states recently.

DeSantis scores above average on spending. He has proposed lean budgets, although the legislature has passed higher spending levels. Between 2019 and 2023, general fund spending rose at an annual average rate of about 3.1 percent.[81] He does not shy away from vetoing spending of which he disapproves, including $3.1 billion from this year's budget.

Florida is a low-tax state with no individual income tax, and DeSantis has defended the state's tax advantages. He supported a temporary reduction in the corporate tax rate, and he approved a bill to avoid business tax increases related to changes in the federal Tax Cuts and Jobs Act.

In 2021, he signed legislation requiring large out-of-state online retailers to remit Florida sales taxes. The new bill is estimated to increase taxes by $1 billion annually, but the revenue will be used to reduce Florida's tax on commercial rent from 5.5 percent to 2 percent after it is used to refill an unemployment compensation fund.[82] Florida is the only state to impose such a commercial rent tax, so this is a good reform.

In 2022, DeSantis signed legislation giving budget surpluses back to residents through sales tax holidays, a suspension of the gas tax, and low-income rebates.[83] Diverting surpluses from being used to expand programs is good policy, but it would have been better to enact permanent tax reforms, such as cutting the corporate tax rate. DeSantis's tax cuts have been mainly temporary and thus count for less in the scoring of this report.

DeSantis has recently tangled with the Walt Disney Company and signed legislation scheduling the elimination of the Reedy Creek Improvement District, which houses Disney World. The controversy raises questions about the role of special districts. Florida contains 1,800 special districts, and the nation has about 38,000. They are mini-governments that can be less transparent than local governments headed by mayors and city councils. Florida and other states should ask whether their activities would be better managed by general governments or the private sector.

Georgia

Brian Kemp, Republican
Legislature: Republican
Grade: B
Took office: January 2019

Brian Kemp is an entrepreneur who has invested in companies in agriculture, banking, manufacturing, and real estate. He was a state senator from 2003 to 2007 and Georgia's secretary of state from 2010 to 2018. Kemp received a B on the 2020 Cato report card, and he has performed well once again on this year's report.

General fund spending growth averaged 4.3 percent annually between 2019 and 2022, which was less than for the average state. For 2023, spending is expected to increase just 1.1 percent.[84]

Kemp has approved major tax reforms. In 2022, he signed HB 1437, which transitions Georgia from a multirate individual income tax to a flat tax. The bill collapses six tax brackets with a top rate of 5.75 percent to a single-rate tax of 5.49 percent in 2024. If revenue targets are met, the tax rate will fall to 4.99 percent by 2029.[85] The bill also increases personal exemptions. The reforms will save taxpayers $450 million the first year and increasing amounts after that.

Kemp approved other tax cuts in 2022. He temporarily suspended the gas tax and approved one-time rebates of $250 for single filers and $500 for married couples.[86] He also approved a bill exempting a portion of military retirement income from taxes.

Hawaii

David Ige, Democrat
Legislature: Democratic
Grade: C
Took office: December 2014

David Ige is a long-serving governor. He was previously a state legislator and a manager in the telecommunications industry. Ige has scored poorly on past Cato fiscal reports but finishes in the middle of the pack this time around.

In his first few years in office, Ige proposed and signed into law increases in income taxes, sales taxes, and gas taxes. He also approved a bill creating a higher estate tax rate. However, in 2019, Ige vetoed two substantial tax-hike bills. One would have increased taxes on real estate investment trusts, which Ige argued would discourage investment. The other would have raised taxes on vacation rentals, such as Airbnb. In 2021, he proposed a new tax on soda, which did not pass.

In 2022, with the state running a budget surplus, Ige proposed one-time rebates for all households, and in June he signed Act 115, which provides rebates of $300 for lower-income residents and $100 for higher-income residents. The cuts will save residents about $250 million.[87]

Idaho

Brad Little, Republican
Legislature: Republican
Grade: A
Took office: January 2019

Brad Little had a career in ranching, and he served as a state senator and Idaho's lieutenant governor. In the 2020 Cato governors report, Little had a mixed record on taxes and spending and received a C. But this time around, Little received an A because of major tax reforms passed in 2021 and 2022.

In 2021, Little signed HB 380, which cut the top individual income tax rate from 6.93 percent to 6.5 percent and reduced the number of tax brackets from seven to five.[88] The bill also cut the corporate tax rate from 6.93 percent to 6.5 percent. That bill was followed by HB 436 in 2022, which cut the top individual tax rate to 6.0 percent and reduced the number of brackets to four. The bill also cut the corporate tax rate to 6.0 percent.[89] Those cuts will save taxpayers more than $400 million a year.

In August 2022, Little called for a special legislative session in September to cut income taxes further. In early September, the legislature passed and Little signed HB 1, which will convert the individual income tax into a 5.8 percent flat tax and cut the corporate tax rate to 5.8 percent. HB 1 also nullified the effect of a tax-increase initiative that was to have appeared on the November ballot.

In addition, Little approved $220 million in one-time rebates in 2021, $350 million in one-time rebates in early 2022, and then, under HB 1, further rebates later in 2022. Little also approved a temporary reduction in the unemployment tax and an increase in the state's grocery tax credit.

Idaho is doing a lot right on policy. Over the past two decades, the state has substantially improved its ranking on fiscal freedom on Cato's "Freedom in the 50 States" report.[90] Governor Little says Idaho is the "least regulated state in the nation" partly because of his reforms.[91] The Cato report ranks Idaho fourth best in the nation on regulatory freedom. Americans are recognizing those advantages, as Idaho has the highest ratio of in-migration to out-migration in the nation, according to the data in Table 2.

Illinois

J. B. Pritzker, Democrat
Legislature: Democratic
Grade: F
Took office: January 2019

Billionaire J. B. Pritzker is a member of the family that owns the Hyatt hotel chain, and he has long been involved in Democratic politics. Governor Pritzker received an F on the Cato fiscal report in 2020, and he receives another F on this report.

In 2019, Pritzker signed into law $2.7 billion in net annual tax increases. He increased the gas tax from 19 cents to 38 cents per gallon, hiked vehicle registration fees, and increased the cigarette tax from $1.98 to $2.98 per pack.

In 2020, Pritzker pushed for passage of a ballot question to amend the state constitution and convert the state's flat individual income tax to a multirate system. If the amendment had passed, legislation would have converted the 4.95 percent tax to one with a top rate of 7.99 percent. The plan would have also hiked the corporate income tax rate and would have raised taxes by $3.9 billion a year. The public rejected the hike at the ballot box. Despite that rebuke, Pritzker approved numerous tax increases in 2021, including broadening the corporate tax base and halting a corporate franchise tax phaseout.[92]

Pritzker seems oblivious that Illinois faces a crisis as workers, entrepreneurs, and retirees decamp to warmer and lower-tax states. IRS data show that Illinois has the worst ratio of in-migration to out-migration of any state except New York. Illinois loses more than two households earning more than $200,000 per year for each one moving in. Illinois needs lower taxes and more efficient government if it wants to reverse the migration outflow.

The pain of high inflation in 2022 finally prompted the governor to give taxpayers a break.[93] He approved a one-year suspension of the grocery sales tax, delayed an increase in the gas tax, and provided one-time rebates of $50 to lower-income residents. He also approved an expansion in the earned-income tax credit. For finally providing some tax relief, Illinois lawmakers are expecting public gratitude: the gas tax and grocery tax suspensions "are paired with a requirement that retailers post signage describing the temporary relief. Motor fuel retailers that don't follow the mandate risk a $500 fine."[94]

Indiana

Eric Holcomb, Republican
Legislature: Republican
Grade: C
Took office: January 2017

Eric Holcomb entered the governor's office in 2017 after a career in the U.S. Navy and other positions in public service, including being an adviser to former Indiana governor Mitch Daniels.

Early in Holcomb's tenure, he supported tax increases, including hikes to gas taxes and vehicle fees. More recently, Holcomb switched to tax cutting. In 2022, he signed legislation eliminating the state's tax on utility services, which will save residents about $220 million a year.

He also approved reforms cutting the individual income tax rate from 3.23 percent to 3.15 percent effective in 2023.[95] If revenue targets are met, the tax rate will decline to 2.9 percent by 2029. The tax cut will save Indiana residents $180 million the first year and increasing amounts after that.

In 2022, Indiana taxpayers received automatic refunds of $125 per person because surpluses topped a specified threshold in the general fund budget.[96] Holcomb pushed for a second round of rebates, and in August the legislature handed out another $200 per person.

In his 2022 state of the state address, Holcomb raised a business tax issue: "We must eliminate the 30 percent business personal property tax floor on new equipment to instantly ensure Indiana is more competitive with surrounding states, encouraging further capital investment here, and positioning us to become an even more dominant player in the advanced manufacturing age."[97] That would be a sensible reform because property taxes on business equipment undermine investment and growth.

Holcomb scored a bit above average on spending in this report. The state's general fund budget rose at a modest 3.3 percent annual average rate between 2017 and 2022.

Iowa

Kim Reynolds, Republican
Legislature: Republican
Grade: A
Took office: May 2017

Kim Reynolds started her career in public service as a county treasurer. She also served as a state senator and Iowa lieutenant governor. She became governor after Terry Branstad stepped down in 2017, and then she won election in 2018. Reynolds says that her politics are based on the ideas of limited government, personal responsibility, and individual initiative.[98] As governor, she has translated those beliefs into lean budgeting and major tax reforms, earning her the highest score on this report.

Reynolds signed tax reforms into law in 2018. The reforms cut the top individual income tax rate from

8.98 percent to 8.53 percent, with a further cut to 6.5 percent and tax bracket consolidation if revenue targets are met. The reforms also cut the top corporate tax rate from 12 percent to 9.8 percent. In 2020, Reynolds proposed further reforms that would have raised the retail sales tax and cut the income tax, but the pandemic led to the shelving of that plan.

In 2021, Reynolds resumed her tax-reform drive. She signed SF 619 to speed up the phase-in of prior income tax cuts and also signed legislation to eliminate Iowa's inheritance tax by 2025.[99] In 2022, she approved HF 2317 to consolidate individual income tax rates into a single-rate structure and phase down the rate to just 3.9 percent by 2026.[100] A 3.9 percent flat tax will be an impressive change from the nine-bracket system and top rate of 8.98 percent that Reynolds faced when she entered office.

The 2022 legislation also phases down the corporate tax rate from 9.8 percent to 5.5 percent if revenue targets are met. In her proposed budget this year, Reynolds noted, "Corporate tax levels directly affect economic activity in states, and those with more competitive structures and rates are in much better positions to grow existing businesses and attract new ones."[101]

In her 2022 state of the state address, Reynolds said, "All of these tax cuts have one thing in common—they reward work. . . . That's never been more important, as the country is facing an unprecedented worker shortage." She also discussed tax cuts on retirement income that she approved: "For the vast majority of retired Iowans—those who rely on their 401K, IRA, or pension—that's not just an income-tax cut; it's a full income-tax repeal."[102]

Reynolds has been not only a tax reformer but also a lean budgeter. Iowa general fund spending has grown at just a 2.3 percent annual average rate since she entered office in 2017.

Kansas

Laura Kelly, Democrat
Legislature: Republican
Grade: C
Took office: January 2019

Laura Kelly served as the executive director of the Kansas Recreation and Park Association and has worked in mental health services. She also served in the Kansas Senate and was the ranking member on the Ways and Means Committee.

Kelly came into the governor's office saying she would stabilize the budget after her predecessor, Sam Brownback, had wrecked it. But Kelly and Kansas have benefited from strong revenue growth, which fueled the general fund budget to expand 27 percent between 2019 and 2023.[103]

Kelly has a mixed record on taxes. The 2017 TCJA broadened the income tax base and boosted revenues because the state automatically conforms to changes in the federal code. Republicans in the legislature called for offsetting the higher state tax revenues with tax cuts. But Kelly vetoed bills to offset the tax increases, even though she had pledged not to raise taxes.[104]

Heading into 2022, Kelly proposed a one-time tax rebate of $250 for all residents, but the legislature rejected the plan.[105] The proposal was not included in the state budget that passed in April, but Kelly continued to press the legislature to pass the rebates later in the year.[106]

The governor called for eliminating the state's sales tax on groceries, and in 2022 she signed into law HB 2106, which phases down the 6.5 percent grocery tax to zero by 2025. Eliminating the grocery tax will save Kansas households hundreds of dollars annually.

Kentucky

Andy Beshear, Democrat
Legislature: Republican
Grade: D
Took office: December 2019

Andy Beshear served as Kentucky attorney general before being elected governor. He is the son of a former governor. Beshear scored poorly on spending, and he has opposed major tax reform legislation.

In 2022, Beshear proposed modest tax reductions, including freezing vehicle property tax rates and reducing the sales tax rate for a year. But he vetoed HB 8, which cut Kentucky's income taxes, and the legislature overrode him to enact the reforms.[107] The law cuts the income tax rate from 5 percent to 4.5 percent in 2023 and then trims it further in coming years if revenue targets are met. To partly offset the revenue loss from the cuts, the law expands sales taxes to additional services and industries and imposes fees on electric vehicle sales and ride-sharing services. Overall, the bill provides about $460 million in taxpayer savings the first year and rising amounts after that.

Louisiana

John Bel Edwards, Democrat
Legislature: Republican
Grade: C
Took office: January 2016

John Bel Edwards is a graduate of the U.S. Military Academy at West Point, and he served eight years with the U.S. Army as an airborne ranger. He also served in the state legislature before being elected governor in 2015.

Edwards scored fairly poorly on prior Cato fiscal reports because of his support for tax increases, including a higher sales tax rate and higher taxes on alcohol and cigarettes. In 2017, Edwards proposed a new gross receipts tax, but the legislature rejected it. He signed into law an extension of a higher sales tax rate in 2018.

However, Edwards has changed course. In 2021, he approved major tax reforms in HB 278, which were ratified by voters in November 2021 with passage of a constitutional amendment. The reforms created a legal cap of 4.75 percent for the top individual income tax rate, and they overhauled the income tax structure by cutting rates and eliminating the deduction for federal taxes paid. Louisiana's income tax rates were cut from 2 percent, 4 percent, and 6 percent to 1.85 percent, 3.5 percent, and 4.25 percent.[108] The reforms were roughly revenue neutral. Rates are scheduled to fall further if revenue growth targets are met.

Edwards also approved HB 292, which cut the corporate tax rate from 8.0 to 7.5 percent and disallowed the deduction for federal taxes on state corporate returns. Finally, Edwards signed SB 161, which increased the exemption level under the state's franchise tax.

Maine

Janet Mills, Democrat
Legislature: Democratic
Grade: C
Took office: January 2019

Janet Mills served as a criminal prosecutor, district attorney, a member of the state legislature, and state attorney general before running for governor in 2018. Her predecessor in office, Paul LePage, earned an A all four times he was graded on the Cato fiscal report.

Mills scored a bit lower than average on spending. Her proposed general fund budget increases have been substantial, including a proposed 13 percent increase for 2023, which was enacted.[109] Mills has sought large increases for education and health care. On her first day in office, she approved the expansion of Medicaid, which LePage had resisted.

Mills signed into law one-time tax rebates in 2022. The bill provided payments of $850 for singles and $1,700 for married couples with incomes below specified thresholds. Mills also has approved expansions of the elderly property tax credit, the earned-income tax credit, and retirement income deductions.

Maryland

Larry Hogan, Republican
Legislature: Democratic
Grade: C
Took office: January 2015

Larry Hogan has enjoyed high favorability in public polling. He has steered Democrats in the legislature toward modest tax relief, and he has vetoed numerous tax hikes. Hogan has scored reasonably well on taxes in Cato reports but less well on spending.

In 2018, Hogan approved tax cuts to offset automatic tax increases created by the federal TCJA. In 2020, Hogan vetoed several tax hikes passed by the legislature, including a new digital advertising tax and a $1.75 per pack increase in cigarette taxes. The legislature overrode Hogan's vetoes in both cases. Maryland is the first state to impose a digital advertising tax, which is expected to raise about $250 million a year. The tax is being challenged in court.[110] In 2022, Hogan vetoed an expensive paid leave bill that will impose a new payroll tax on employers and employees. The legislature overrode his veto to enact the program.

Hogan has pushed for tax cuts on retirement income. He noted in his 2022 state of the state address, "Our state's sky-high retirement taxes remain the one area where we are still not effectively competing with other states."[111] IRS data show about four people older than age 65 are moving out of Maryland for every three who are moving in. Hogan managed to get retiree tax relief through the legislature in 2022, which will save residents about $380 million a year.

Hogan has supported numerous narrow tax breaks, but he has not pursued major reforms to simplify the tax base and cut rates. The Tax Foundation ranks Maryland 46th in state business tax competitiveness, and Hogan has done little to improve the situation.[112] Hogan should be pushing for broad-based reforms such as reducing individual and corporate income tax rates rather than creating narrow breaks for particular groups.

Massachusetts

Charlie Baker, Republican
Legislature: Democratic
Grade: C
Took office: January 2015

Charlie Baker was elected governor in 2014 after a career in the health care industry and state government. He scored fairly poorly on past Cato reports partly because of his mixed record on taxes.

In originally running for office, Baker said he would not raise taxes, but he has broken that promise numerous times. His largest tax increase was in 2018, when he approved a 0.63 percent payroll tax on employers to fund a new paid leave benefit. The law increased taxes by $750 million a year. In 2020, Baker supported "real-time" sales tax remittance to boost state revenues $300 million while raising business compliance costs. Baker also approved increases in online sales taxes and a tax on short-term rentals, such as Airbnb.

In 2021, the legislature passed a 4 percentage point surtax on households earning more than $1 million annually, called the "fair share amendment." The state has a 5 percent flat income tax, and the state constitution bars a multirate income tax, so supporters have placed a constitutional amendment on the November 2022 ballot to impose the new surtax. If passed, it will cost taxpayers $1.3 billion annually.[113]

Baker opposes the surtax, cautioning it would prompt individuals and businesses to leave Massachusetts.[114] The governor's opposition to the hike is not particularly vigorous, but he is right about the effects. Massachusetts has long suffered from a drain of households to other states. IRS data show that Massachusetts has one of the worst ratios of in-migration to out-migration in the nation.

With a budget surplus in 2021, Baker proposed a temporary sales tax holiday. And with another budget surplus in 2022, Baker proposed cutting the short-term capital gains tax rate from 12 percent to 5 percent. He also proposed increasing the estate tax exemption from $1 million to $2 million, raising the income tax standard deduction, and increasing the dependent care tax credit.[115] A few of Baker's proposed tax cuts have passed the legislature, but not the capital gains tax cut.[116]

In recent months, the state's large budget surplus has prompted lawmakers to discuss one-time rebates. They also rediscovered a voter-approved 1986 law ("Chapter 62-F") that requires automatic tax credits if tax revenues grow faster than a specified rate, which occurred this year. As of August, policymakers were still debating how to return up to $3 billion to taxpayers under the law.[117]

Michigan

Gretchen Whitmer, Democrat
Legislature: Republican
Grade: F
Took office: January 2019

Gretchen Whitmer served in both the Michigan House and Senate before being elected governor in 2018. Whitmer scores poorly on this report because of her high spending, support for tax increases, and vetoing of tax reforms passed by the legislature.

In a televised debate in 2018, Whitmer "scoffed at the idea" that she supported a gas tax increase, calling the accusation "ridiculous."[118] But then Whitmer pushed hard for a gas tax increase her first year in office. Her plan would have increased gas taxes by $2 billion annually, but the public opposed the move, and it did not pass the legislature. Whitmer approved an increase in online sales taxes, and she has proposed increasing taxes on passthrough businesses.

However, Whitmer has supported cutting taxes on retirement income. In her 2022 state of the state address, she called for cutting taxes on retirement income.[119] She also called for an expansion in the earned-income tax credit and one-time rebates. Michigan has a large budget surplus, so compromising on reforms should have been easy for the governor and the legislature.

However, Whitmer vetoed a bill, SB 768, passed by the legislature that contained those and other tax cuts.[120] The bill would have reduced taxes on retirement income and provided a $500 child tax credit. The bill also would have cut the corporate tax rate from 6 percent to 3.9 percent and the individual income tax rate from 4.25 percent to 3.9 percent. The reforms would have provided annual savings of more than $2 billion.

In response to the veto, the legislature passed a compromise bill, HB 4568, but Whitmer vetoed that as well.[121] It would have cut the individual income tax rate from 4.25 percent to 4.0 percent, expanded the earned-income tax credit and personal exemption, and created a $500 child tax credit. Whitmer also vetoed a temporary suspension of the gas tax.

Whitmer scored poorly on spending in this report. The general fund budget increased 16 percent in 2021 and 7 percent in 2022. Whitmer proposed a 21 percent increase for 2023.[122]

Minnesota

Tim Walz, Democratic-Farmer-Labor
Legislature: Divided
Grade: F
Took office: January 2019

Tim Walz is a former member of the U.S. House of Representatives and served in the Army National Guard. He was elected governor in 2018. His big-government approach to fiscal policy has been frequently rejected by the legislature.

In Walz's first year in office, Minnesota was projected to have large budget surpluses. Walz planned to spend the money and increase taxes to fund even more spending. Walz's budget for 2020 "would add $2 billion more in new spending, and taxes would increase by $1.3 billion to pay for it, with the rest of the money coming from an existing surplus."[123] But Walz compromised with the legislature, and the final tax increase passed that year was about $330 million annually. Walz also pushed for higher gas taxes and vehicle fees to raise about $1 billion annually for transportation. Those increases were rejected.

Walz pushed for more tax hikes in 2021.[124] He proposed adding a new individual income tax rate of 10.85 percent for high earners above the current top rate of 9.85 percent. He proposed a surtax on capital gains and dividends and proposed hiking the corporate tax rate from 9.8 percent to 11.25 percent.[125] The proposals—which would have raised about $1.6 billion annually—were rejected by the legislature.[126]

In his 2022 state of the state address, Walz supported some tax reductions but wrapped his support in class warfare rhetoric: "We can cut taxes for the middle class without cutting taxes for massive corporations and the wealthiest people in Minnesota. They don't need a tax cut. . . . Cutting taxes for the wealthiest amongst us will not guarantee opportunities in Minnesota for the wider variety of folks, and it certainly won't grow our economy from the middle out."[127]

Walz's big-government approach will not help Minnesota's out-migration problem. IRS data show that the state loses four households earning more than $200,000 for every three that it gains. Minnesota ranks 45th on the Tax Foundation's state business tax competitiveness index.[128] Sadly, some policymakers such as Walz in colder-climate and higher-tax states are in denial about the modern realities of interstate competition.

With large budget surpluses in 2022, Walz and the legislature are again divided on priorities. Initially, the surplus was to be split between $4 billion in higher spending and $4 billion in tax rebates called "Walz checks," but the legislature rejected that plan.[129] Some Republicans are pushing for cuts to income tax rates and taxes on Social Security income. Walz has countered with a plan with less spending than he previously proposed, but there is no agreement as of this writing.[130]

Mississippi

Tate Reeves, Republican
Legislature: Republican
Grade: B
Took office: January 2020

Tate Reeves served two terms as state treasurer and two terms as lieutenant governor of Mississippi before being elected governor in 2019. A financial analyst by training, Reeves is a fiscal conservative in favor of debt reduction, spending transparency, and tax reform.

Reeves has approved major tax cuts. The governor signed HB 531 in 2022, which moves Mississippi from a two-rate individual income tax with a top rate of 5 percent to a system with a single rate of 4 percent by 2026. The tax cut will save residents more than $500 million a year when fully phased in.[131]

Reeves wants to go further and phase out Mississippi's individual income tax.[132] He noted in his 2022 state of the state address, "By eliminating the income tax, we can put ourselves in a position to stand out. We can win those projects. We can throw out the welcome mat for the dreamers and the visionaries. . . . If we can eliminate the income tax, we will achieve an historic victory for this state. We can become a place that money flows more freely, and all Mississippians will benefit."[133]

Missouri

Mike Parson, Republican
Legislature: Republican
Grade: D
Took office: June 2018

Mike Parson served 6 years in the U.S. Army and 22 years in law enforcement. He served in both the Missouri House and Senate. He had been the lieutenant governor and was sworn in as governor after his predecessor, Eric Greitens, resigned in scandal.

Before he resigned, Greitens signed a bill reducing Missouri's corporate tax rate from 6.25 percent to 4.0 percent. Then when Parson entered office, he approved a substantial individual income tax reform. The revenue-neutral reform broadened the income tax base and reduced the top tax rate from 5.9 percent to 5.4 percent.

Parson has favored higher gas taxes. In 2018, he supported a ballot initiative to increase the gas tax by 10 cents per gallon, but voters struck it down 54 to 46. Nonetheless, Parson signed legislation in 2021 increasing Missouri's gas tax from 17 cents per gallon to 29.5 cents per gallon by 2025.[134]

In 2021, Missouri enacted legislation requiring out-of-state online retailers to collect state sales taxes. The tax increase was offset by income tax reductions, which built on previous rate reductions being phased in. Subject to revenue targets, Missouri's top individual income tax rate will decline to 4.8 percent by 2028.[135]

In 2022, Parson vetoed a legislative plan to provide one-time rebates of $500 for individuals and $1,000 for married couples. The state is enjoying large budget surpluses that Parson argues will be long lasting, so he wants to pass permanent tax cuts, including reducing the top income tax rate to 4.8 percent right away and raising standard deductions.[136]

Parson scored poorly on spending in this report. This year's final budget package included a 23 percent general fund spending increase for 2023.[137]

Montana

Greg Gianforte, Republican
Legislature: Republican
Grade: B
Took office: January 2021

Greg Gianforte was elected governor in 2020 after serving as Montana's sole member of the U.S. House of Representatives. He has engineering and computer science degrees, and he is a successful technology entrepreneur.

As governor, Gianforte has focused on tax reform. In his 2021 state of the state address, he said, "To get our economy going again, to get Montana open for business, and to get Montanans back to work in good-paying jobs, we must make Montana more competitive. We must lower our top personal income tax rate."[138] He has pursued that goal and signed several tax reform bills into law.

In 2021, Gianforte approved SB 159, which cut the top individual income tax rate from 6.9 percent to 6.75 percent.[139] And he approved SB 399, which will collapse seven income tax brackets into two brackets of 4.7 percent and 6.5 percent starting in 2024. The bill also expanded the standard deduction and repealed numerous tax credits. In addition, Gianforte approved SB 376, which changed the apportionment formula for the corporate tax base.

Gianforte called for reducing property taxes on business equipment, and he signed into law an increase in the exemption level for the tax from $100,000 to $300,000.[140] Property taxes on business equipment create a disincentive for capital investment, so that is an important pro-growth reform.

Gianforte has been a lean budgeter. He signed into law a biennial budget in 2021 that kept state spending roughly flat.[141]

Nebraska

Pete Ricketts, Republican
Legislature: Nonpartisan
Grade: A
Took office: January 2015

Pete Ricketts is an entrepreneur and former executive with TD Ameritrade. He is a determined tax reformer and lean budgeter. Since he entered the governor's office in 2015, Nebraska's general fund spending has increased at a modest 2.6 percent annual average rate. He earned an A on the Cato fiscal report in 2020 and another A on this report.

Ricketts has been a taxpayer champion. In 2017, he supported a tax overhaul that would have cut the top individual and corporate income tax rates. In his state of the state address that year, he said, "If we want to outpace other Midwestern states, we have to be competitive on taxes."[142] The legislature did not pass that plan, but Ricketts succeeded with substantial tax cuts in 2018. He approved a bill that offset the tax-base broadening of the TCJA and provided $250 million in annual tax relief.

That success was followed by major tax reforms in 2021 and 2022. In 2021, Ricketts approved LB 432, which cut the top corporate tax rate from 7.81 percent to 7.25 percent.[143] In 2022, he approved LB 873, which cut both the individual and corporate income tax rates. Under the law, the top individual rate will fall from 6.84 percent to 5.84 percent by 2027, and the top corporate rate will also fall to 5.84 percent. Social Security income will become tax exempt by 2025 under the law. Once fully implemented, those tax cuts will save Nebraskans nearly $1 billion annually.[144]

In 2022, Ricketts signed legislation reducing the inheritance tax rate and increasing the exemption. Today, only 12 states impose estate taxes, and only 6 impose inheritance taxes.[145] Ricketts has also pursued property tax relief, supporting expansions in credits against property taxes for homeowners and businesses.

Nevada

Steve Sisolak, Democrat
Legislature: Democratic
Grade: C
Took office: January 2019

Steve Sisolak chaired the Clark County Commission before being elected Nevada's governor in 2018. Sisolak scores well in this report on spending but less well on taxes.

In his 2022 state of the state address, Sisolak said, "Since I've been governor, we haven't raised one penny of new taxes on the people of Nevada, not one penny." In discussing businesses, he said, "To make sure more money drops to the bottom line, I will keep Nevada a low tax state."[146] Those are laudable sentiments, but Sisolak has supported some tax increases.

In 2019, the governor approved a bill extending higher rates of Nevada's modified business tax (MBT) that were scheduled to expire. Republicans in the legislature argued that Sisolak's extension of the higher MBT rates violated Nevada's constitution because it did not garner the needed two-thirds supermajority vote. In 2021, the Nevada Supreme Court sided with Republicans and ruled that the rate extension was unconstitutional.[147]

In 2021, Sisolak signed AB 495, imposing a large tax increase on gold and silver mining companies to fund higher education spending. The tax on the gross revenues of mining firms is expected to raise more than $80 million annually.

New Hampshire

Chris Sununu, Republican
Legislature: Republican

Grade: A
Took office: January 2017

Chris Sununu is a former business owner and executive and a former member of the New Hampshire Executive Council. With his record of spending restraint and tax cuts, Sununu received the highest score on the 2020 Cato fiscal report and the second-highest score on this report.

Sununu has resisted pressure to increase taxes and spending, and he has defended New Hampshire's status as a low-tax state with no individual income tax. One battle has been over legislation for a paid leave program funded by a payroll tax, which Sununu has repeatedly vetoed. Instead, he signed a bill in 2021 allowing businesses to voluntarily opt into a paid leave fund and receive a tax credit to help cover costs.[148]

Although New Hampshire is free of an individual income tax, it imposes two major business taxes, the Business Profits Tax (BPT) and the Business Enterprise Tax (BET). In 2017, Sununu signed legislation to cut the rates of both. The BPT rate was phased down from 8.2 percent to 7.7 percent and the BET was phased down from 0.72 percent to 0.6 percent. In 2019, the legislature passed a bill to halt the phased-in tax cuts. Sununu vetoed it, arguing the move would "hurt our family-run small businesses, the lifeblood of our economy."[149]

In 2021, Sununu approved HB 2, which cut the BPT rate from 7.7 percent to 7.6 percent and the BET rate from 0.6 percent to 0.55 percent. In 2022, Sununu further reduced the BPT rate to 7.5 percent. He also cut the meals and room tax rate from 9 percent to 8.5 percent.

Perhaps the most important tax reform Sununu signed was a 2021 bill that will eliminate New Hampshire's 5 percent tax on interest and dividends. When the tax is phased out by 2027, the state will be fully free of individual income taxes. Another cut passed in 2021 was a $100 million reduction to the statewide property tax.

Sununu's 2022 state of the state address captured his tax reform views: "New Hampshire has one of the lowest tax burdens in the country, putting more money back into the pockets of families and small businesses—all while continuing robust services under a fair and balanced budget. The result is businesses pouring into New Hampshire, growing sustainably, and creating the biggest budget surplus in the state's history."[150]

Sununu has been a lean budgeter. General fund spending increased from $1.51 billion in 2017 to just $1.60 billion in 2022, which represents an annual average growth rate of only 1.1 percent. Sununu has done an excellent job in securing New Hampshire's place as the freest state in the nation, as ranked by Cato's "Freedom in the 50 States" report.[151]

New Jersey

Phil Murphy, Democrat
Legislature: Democratic
Grade: F
Took office: January 2018

Phil Murphy worked at Goldman Sachs for two decades and has been a major political donor. He served as finance chair of the Democratic National Committee and as U.S. ambassador to Germany. Unlike his predecessor in the governor's office, Chris Christie, who rejected tax hikes, Murphy embraces them and receives one of the lowest scores on this report.

Murphy's first budget, in 2018, proposed raising the sales tax rate to bring in more than $500 million a year, but the legislature rejected the plan. However, Murphy signed into law a surtax on corporations with incomes above $1 million. The 2.5 percentage point surtax was supposed to be temporary, but Murphy extended it through 2023.[152] The surtax drains more than $400 million a year from businesses, and it is part of the reason New Jersey scores last place on the Tax Foundation's state business tax competitiveness index.[153]

Murphy has aggressively raised individual income taxes. In 2018, he approved a "millionaire's tax" that raises about $280 million a year. The law raised the tax rate on incomes above $5 million from 8.97 percent to 10.75 percent. Then, in 2020, Murphy approved an expansion of the higher rate to cover households earning more than $1 million, raising an additional $450 million a year.[154]

In his 2022 state of the state address, Murphy said that he is for "true tax fairness and asking the wealthiest New Jerseyans—those with incomes in excess of $1 million—to pay a little more in income taxes."[155] But the top 1 percent of residents already pay 36 percent of New Jersey's income taxes, and that group includes many highly productive people crucial to the state's economic growth.[156]

The head of the New Jersey Society of Certified Public Accountants said Murphy's expansion of the millionaire's tax "will drive high-earning residents and their tax dollars out of the state and hurt small businesses that flow their income taxes through personal returns."[157] IRS data show that New Jersey loses more high earners to other states each year than it gains. With his finance background, Murphy should know that his high-tax policies are fueling the out-migration of skilled workers, entrepreneurs, and businesses.

Murphy's misguided approach is to raise overall income taxes and then carve out narrow breaks for favored groups. He expanded New Jersey's film and digital media tax credits from $10 million to $30 million a year and signed legislation providing tens of millions of dollars of tax breaks to New Jersey casinos. And he signed legislation in 2021 to boost economic development incentives—essentially corporate giveaways—by billions of dollars, even though similar schemes in the past have generated corruption.[158]

In 2020, Murphy proposed increasing cigarette taxes by $1.65 per pack and imposing a "corporate responsibility fee" of $180 million a year. However, in 2021 and 2022, Murphy approved tax relief, including $500 rebates to lower-income households, a new child tax credit, and a sales tax holiday.[159]

The general fund budget has soared under Murphy from $35.7 billion in 2018 to $48.2 billion in 2022, amounting to an annual average growth rate of 7.8 percent. In April 2022, the state's budget office warned that the rapid budget expansion cannot be sustained. Summarizing the report, NJ.com noted that the "surge in tax collections has fueled record levels of spending, with the governor's recently proposed budget coming in at more than $10 billion higher than the budget signed in 2019."[160]

New Mexico

Michelle Lujan Grisham, Democrat
Legislature: Democratic
Grade: B
Took office: January 2019

Michelle Lujan Grisham served as secretary of health for New Mexico and as a member of the U.S. House of Representatives from 2013 to 2018. Her predecessor, Susana Martinez, received the top score on the 2018 Cato fiscal report. Lujan Grisham received a C on the 2020 Cato report but improved her score on this report by embracing tax cutting.

Lujan Grisham hiked taxes her first year in office, including a cigarette tax increase from $1.66 to $2.00 per pack, higher motor vehicle charges, higher taxes on health care providers, and expanded taxation of online sales. She also raised the top individual income tax rate from 4.9 percent to 5.9 percent effective in 2021.[161]

New Mexico legalized recreational marijuana in 2021. Lujan Grisham approved a 12 percent excise tax on pot sales on top of the state's existing gross receipts tax. The excise tax will gradually rise to 18 percent by 2030.

Lujan Grisham then changed course and approved substantial tax cuts in 2022. In her 2022 state of the state address, she said, "Let's cut taxes for every single person in New Mexico. We haven't cut the sales tax in this state in 40 years. It's only gone up and up and up, for decades, burdening New Mexico households and making it harder for our small businesses to be competitive."[162] She was referring to the state's gross receipts tax. She approved HB 163 cutting the gross receipts tax rate from 5.125 percent to 4.875 percent by 2023, which will save taxpayers about $200 million a year. However, the rate will rise again if revenues fall below targeted levels.

In her address, the governor also noted, "New Mexico is one of only a few states that taxes Social Security. I am calling today for that taxation to end."[163] She followed up by signing into law an exemption for Social Security income for individuals with incomes under $100,000 and married couples with incomes under $150,000. She also signed into law a new child tax credit.

Additionally, Lujan Grisham approved two rounds of tax rebates. In March 2022, she approved rebates of $250 for individuals and $500 for married couples with moderate incomes. In April, she approved further rebates of $500 for individuals and $1,000 for individuals with dependents.[164]

North Carolina

Roy Cooper, Democrat
Legislature: Republican
Grade: B
Took office: January 2017

Roy Cooper entered office as governor after serving as North Carolina's attorney general for 16 years. He and the legislature have battled over many issues. He has vetoed dozens of bills, and the legislature has overridden many of them. The governor has pushed for Medicaid expansion, but the legislature has blocked that so far.[165] However, Cooper and the legislature have recently agreed on major tax reforms.

In 2018, Cooper vetoed the budget because it cut the individual income tax rate from 5.5 percent to 5.25 percent and the corporate tax rate from 3.0 percent to 2.5 percent. Cooper wanted to retain higher rates to fund more spending, but the legislature overrode him.

In 2021, Cooper changed direction and signed large tax cuts into law in SB 105, which will save residents an average of about $2.7 billion a year over the first five years.[166] The individual income tax rate will fall from 5.25 percent to 3.99 percent by 2027, and the corporate tax rate will fall from 2.5 percent to zero between 2025 and 2030. Doing so will make North Carolina one of just three states—along with Wyoming and South Dakota—without a corporate income tax or gross receipts tax.[167]

News service WRAL noted, "Gov. Roy Cooper signed off on the cuts despite opposing some of them in the past, saying the two-year budget they're backed into contains more good than bad."[168] Other reforms in the 2021 tax package included increasing the standard deduction, increasing the child deduction, simplifying the franchise tax, and eliminating income taxes on military pensions.

North Dakota

Doug Burgum, Republican
Legislature: Republican
Grade: C
Took office: December 2016

Doug Burgum is a former entrepreneur and software company executive. North Dakota state revenues can be volatile because of fluctuations in the state's energy industry, and Governor Burgum and the legislature have often needed to change direction on the budget.

When he first took office, Burgum restrained spending as the state economy slowed and the energy industry sank. He downsized state spending during the 2017–2019 biennium. Then, before the pandemic hit in 2020, revenues were growing again, and North Dakota enacted a substantial spending increase for the 2019–2021 biennium. During the pandemic, Burgum switched back to restraint and directed state agencies to make cuts. North Dakota's biennium budget for 2021–2023 is up just 2.3 percent over 2019–2021.[169]

Burgum signed into law modest tax cuts in 2021. He approved nonrefundable tax credits of $350 for singles and $700 for married couples. The credits are in place for 2021 and 2022 and will save taxpayers $211 million a year. Burgum also approved a measure to exempt Social Security from income taxes.

In late August, Burgum and legislative leaders announced a plan to replace the current multirate individual income tax—which has a top rate of 2.9 percent—with a 1.5 percent flat tax.[170] The plan will be introduced in the next legislative session in January 2023. If Burgum follows through with the plan, he will likely score highly on the next Cato governors report.

Ohio

Mike DeWine, Republican
Legislature: Republican
Grade: C
Took office: January 2019

Mike DeWine has been a prosecutor, a state senator, and a member of the U.S. House of Representatives and Senate. He scored higher on this Cato fiscal report than the last one because he recently approved major tax reforms.

When he entered office, DeWine called for a large tax increase on transportation. He approved a package that raised taxes by $865 million a year, including a gas tax hike from 28 cents per gallon to 38.5 cents. DeWine also approved tax increases for online sales and vape products.

However, DeWine also approved income tax cuts in 2019 to save Ohioans about $350 million annually. The reform reduced the number of individual income tax brackets, reduced tax rates slightly, and dropped the top tax rate from 4.997 percent to 4.797 percent.

DeWine approved further income tax cuts in 2021. The top individual rate was cut from 4.797 percent to 3.99 percent, and the number of tax brackets was reduced from five to four. The tax cuts will save Ohioans more than $750 million a year.[171]

In his 2022 state of the state address, DeWine said, "People are returning to the heartland! They are coming to Ohio because we have lower taxes, a strong business climate, and a good regulatory environment."[172] It is a good vision, but it is not reality quite yet for Ohio. IRS data for 2020 show that the state still experiences a modest net out-migration to other states.

Oklahoma

Kevin Stitt, Republican
Legislature: Republican
Grade: B
Took office: January 2019

Kevin Stitt is an accountant and entrepreneur who founded a mortgage lending business before running for governor in 2018. Stitt's predecessor in the governor's office, Mary Fallin, scored poorly on the 2018 Cato report because of her tax increases, and Stitt promised to move in a different direction.

In 2021, Stitt approved HB 2962, which cut all individual income tax rates by 0.25 percentage points, with the top rate falling from 5 percent to 4.75 percent. In addition, Stitt approved HB 2960, which reduced the corporate tax rate from 6 percent to 4 percent. The earned-income tax credit was made refundable.

Stitt did not stop there. In his 2022 state of the state address, he said he wants to make "Oklahoma the most business-friendly state in the nation by reforming our tax code."[173] One of his goals is to phase out the individual income tax through which most small business income flows: "Nine states don't charge a personal income tax. Many others are racing to join them, and we can't be left behind."[174]

Stitt called a special legislative session to consider tax reform in 2022, and bills trimming income tax rates and the sales tax on groceries were passed by the House but not the Senate.[175] Stitt vetoed bills handing out one-time rebates and cutting a tax on vehicle sales, apparently because they did not provide enough tax relief.[176]

However, Stitt and the legislature were able to agree to a bill allowing for full capital expensing, or the immediate write-off of business investments.[177] Previously, Oklahoma had followed federal tax rules on the matter, but this law ensures Oklahoma businesses will be able to expense investment even if federal laws on expensing change.

As in most states, the pandemic generated budget fluctuations. Expecting a large revenue shortfall in 2021, lawmakers trimmed general fund spending that year. As tax revenues rebounded, general fund spending rose strongly in 2022 and 2023.[178] Stitt opposed the costly expansion of Medicaid in his state, but the public narrowly approved expansion by a 50.5–49.5 margin on a June 2020 ballot measure (Question 802).

Oregon

Kate Brown, Democrat
Legislature: Democratic
Grade: F
Took office: February 2015

Kate Brown, an attorney and former legislator, became governor in 2015 after Governor John Kitzhaber resigned in a corruption scandal. Brown received grades of F on the 2016, 2018, and 2020 Cato governor reports, and she gets another F on this one. In early 2022, Brown had the lowest net approval in public polls of any governor in the nation.[179]

The strong Oregon economy has filled state coffers with rising revenues over the years, yet Brown has constantly pressed for tax increases. As tax revenues have grown, spending has soared. Under Brown, general fund spending has risen from $8.1 billion in 2015 to $12.6 billion in 2022, which represents an annual average growth rate of 6.4 percent.

Brown supported Measure 97 on the November 2016 ballot, which would have imposed a new gross receipts tax on businesses. Oregon voters defeated the measure by a 59–41 margin, yet Brown and the legislature went ahead and imposed the tax anyway in 2019. The new "corporate activity tax," or CAT, is imposed on both corporate and noncorporate businesses. The CAT raises about $1 billion a year.[180] Only five other states have gross receipts taxes, which are complex and harmful tax structures.[181]

In 2019, Brown approved a paid leave bill funded by a new payroll tax of 1 percent. The tax was supposed to go into effect in 2021, but the beginning of tax collections has been delayed until 2023. The program will cost workers about $1 billion a year.[182]

Brown has pressed for passing cap-and-trade legislation for greenhouse gases, which would act like a tax increase by raising the costs of energy and other products. Republicans in the legislature blocked the legislation, so Brown signed an executive order directing the state's Environmental Quality Commission to develop a plan.[183] The Climate Protection Program was unveiled in December 2021 and imposed in March 2022.[184] It may cost residents more than $600 million a year initially and rising amounts after that.[185]

In 2020, Brown spearheaded an effort to put a cigarette tax increase on the November ballot. Measure 108 was approved by voters and increased cigarette taxes from $1.33 to $3.33 per pack. The tax increase raises more than $100 million a year.

In 2021, Brown approved tax increases on small businesses. SB 139 changed small business deductions and rates to raise about $30 million a year—an aggressive tax hike given that the state had a large surplus at the time and many small businesses were hurting from the pandemic.[186] In 2022, she approved one-time payments of $600 to all recipients of the earned-income credit.

Pennsylvania

Tom Wolf, Democrat
Legislature: Republican
Grade: F
Took office: January 2015

Tom Wolf was elected governor after a career in business and service in state government. He performed middling or poorly on prior Cato governor reports, and he performs poorly on this one, although he did sign into law an important corporate tax reform in 2022.

Wolf has pushed to impose a natural gas severance tax to raise about $250 million a year, which would come on top of existing charges on the industry. But many state lawmakers worry about the economic damage from such a tax, and it has not passed the legislature.[187]

In 2019, Wolf issued an executive order to bring Pennsylvania into the Regional Greenhouse Gas Initiative, a cap-and-trade program in the Northeast. Joining the program would increase energy prices. Pennsylvania was set to join in July 2022, but litigation has resulted in a judge pausing implementation. If it goes forward, the program is expected to raise at least $200 million annually for the government.[188]

In 2021, Wolf proposed a plan to increase the individual income tax rate from 3.07 percent to 4.49 percent to raise about $6 billion a year.[189] The plan would have also increased tax breaks for low earners. The overall net tax increase would have been $3 billion.[190] The plan was rejected by the legislature.

The good news in tax policy is that Wolf succeeded in cutting Pennsylvania's high corporate tax rate of 9.99 percent. In 2020, he proposed a package to trim the rate while broadening the base, which would have resulted in an overall tax increase, but the legislature rejected it. With budget surpluses in 2022, Wolf and the legislature were able to agree to a plan. Wolf approved HB 1342, which reduces the corporate tax rate to 4.99 percent by 2031 while also broadening the corporate tax base. On net, the reforms will cut taxes by more than $200 million annually.[191] In August 2022, Wolf pressed the legislature to pass one-time payments of $2,000 each for low-income families.

Under Wolf, the Pennsylvania general fund budget rose 13.3 percent in 2022 and will increase another 8.7 percent in 2023.[192]

South Carolina

Henry McMaster, Republican
Legislature: Republican
Grade: B
Took office: January 2017

Before entering the governor's office, Henry McMaster served as lieutenant governor, attorney general, and U.S. attorney for the District of South Carolina. He earned an A on the 2018 Cato fiscal report, a B on the 2020 report, and a B on this report.

McMaster has vetoed tax increases and pushed for major income tax reforms. In 2017, he vetoed a transportation bill that phased in a 12 cent per gallon gas tax increase, but the legislature overrode him. In 2018, he proposed cutting individual income tax rates across the board. In his state of the state address that year, he said, "Taxes of all kinds at all levels add up—little by little—to smother growth. . . . We must respect the right of the people to their own money, for their own purposes, according to their own priorities."[193] The legislature rejected the proposal. McMaster pushed for tax cuts again in 2020. He proposed a 1 percentage point cut to all income tax rates, but again, the legislature failed to act.

Finally, McMaster was able to push through major reforms in 2022. S 1087 cut the number of individual income tax brackets from six to three and cut the top rate from 7.0 percent to 6.5 percent. If revenue targets are met, the top tax rate will decline to 6.0 percent by 2027.[194]

The governor approved other tax cuts this year, including cuts on veterans' retirement income and one-time nonrefundable rebates of up to $800. McMaster also approved reductions in property taxes on manufacturing companies, which should boost growth by increasing returns to capital investment.

South Dakota

Kristi Noem, Republican
Legislature: Republican
Grade: C
Took office: January 2019

Kristi Noem was a member of South Dakota's legislature and then served in the U.S. House of Representatives from 2011 to 2018. She is a conservative who supports South Dakota's low-tax and competitive business environment. The state has the second-best business tax climate in the nation, according to the Tax Foundation.[195] And it is the fifth-freest state, according to Cato's "Freedom in the 50 States" report.[196]

South Dakota has no individual or corporate income tax. It raises 83 percent of state tax revenues from sales taxes, which creates a stable revenue base and encourages inflows of people and investment. IRS data show that South Dakota enjoys net in-migration, whereas neighboring Iowa, Minnesota, Nebraska, and North Dakota all suffer out-migration.

Noem expressed her policy approach in her 2022 state of the state address:

> We are leading with freedom, limited government, fiscal responsibility, and a commitment to defending the values that have made our country great. I am proud to report that the state of our state is stronger than it has ever been in our 133-year history. This did not happen because of what government did. It happened because of what government did NOT do.[197]

Noem's middling grade on this report stems from a lack of tax cuts during a period when many other states passed large tax cuts. It is true that South Dakota already has low taxes, so fewer tax-code targets are available for a conservative governor to reform. That said, the state enjoyed a large budget surplus in 2022, but Noem leaned against a House-passed plan to cut the sales tax rate from 4.5 percent to 4.0 percent.[198] The Senate did not back the plan, so it did not reach the governor's desk.

Noem has looked for modest ways to reduce the tax burden, such as cutting fees for starting new businesses, cutting fees for getting concealed carry permits, and eliminating taxes on bingo. She also has restrained spending and not sought any tax increases, so the Cato grade may not fully capture her fiscally conservative stance.

Tennessee

Bill Lee, Republican
Legislature: Republican
Grade: D
Took office: January 2019

Bill Lee worked for and led the Lee Company from 1992 to 2016, which is a home services and construction company founded by his grandfather. He scored fairly poorly in this report because of large spending increases and a lackluster record on taxes. He proposed large general fund budget increases the past three years, and in 2022, the budget jumped 21 percent.

In 2019, Lee signed legislation removing 15 occupations from Tennessee's privilege tax, which is a $400 annual tax on people in certain occupations. In 2020, he signed legislation requiring online out-of-state retailers to collect state sales taxes. Unlike similar legislation in other states, the higher sales tax revenues from the Tennessee bill were not used to cut taxes elsewhere.

In 2022, Lee approved several small tax cuts, including temporary suspensions of the grocery tax, taxes on gun safes, and the license plate renewal fee. He also approved further reductions in the state's privilege tax.

Texas

Greg Abbott, Republican
Legislature: Republican
Grade: C
Took office: January 2015

Greg Abbott was the attorney general of Texas from 2002 to 2014 before assuming the governorship. He scores lower in this Cato report than in prior ones partly because many states have passed large state-level tax cuts in recent years and Texas has not.

Abbott has supported property tax cuts, but local taxes are not scored on the Cato report. In 2019, he signed a bill imposing a 3.5 percent cap on property tax revenue increases for cities and counties. The law creates a shield for homeowners and businesses against big-spending local governments.

Abbott also supported ballot measures in May 2022 that provided property tax relief. One measure cut property taxes for senior citizens and disabled individuals. Another measure increased the homestead exemption from $25,000 to $40,000. Both measures passed with staunch support.[199]

Texas does not have an individual income tax, but until recently, the legislature had been permitted to enact one. Abbott pushed for a state constitutional amendment to ban an income tax, and the legislature passed a bill in 2019 putting the question (Proposition 4) on the ballot that November. Texans supported the prohibition by a 74–26 margin. If future Texas legislatures want to impose an income tax, they would have to amend the state constitution, which requires a two-thirds majority in both the House and the Senate.

Abbott has been a restrained spender. General fund spending increased only modestly from $108.1 billion in the 2016–2017 biennium to $119.2 billion in the 2022–2023 biennium.[200] In the latter biennium, spending increased 6.1 percent, or about 3 percent annually.

Texas is a magnet for entrepreneurs and jobs. Abbott supports the "Texas model" of smaller government, which contrasts with the big-government approach in states such as California. In his 2021 state of the state address, Abbott said, "The Texas model inspires entrepreneurs and innovators and attracts job creators from across the country. Think about this—in the past year Fortune 500 companies like Hewlett Packard Enterprise, Oracle, and Charles Schwab all relocated their headquarters to Texas. . . . And transformational leaders like Tesla picked Texas for their next generation of innovation."[201]

Utah

Spencer Cox, Republican
Legislature: Republican
Grade: C
Took office: January 2021

Spencer Cox is a former local official and state legislator, and he served as Utah lieutenant governor. His middling grade on this report was mainly due to large spending increases. Utah's general fund budget ballooned 21 percent in 2022.

Cox scored better on taxes. In 2021, Cox proposed a grocery tax credit scheme, which did not pass the legislature. Instead, he signed legislation increasing dependent exemptions under the income tax and reducing taxes on Social Security and military retirement income. In 2022, he signed SB 59, which cut both the individual and corporate income tax rates from 4.95 percent to 4.85 percent. The bill also created an earned-income tax credit. Utah residents will save about $200 million a year from the legislation.

Vermont

Phil Scott, Republican
Legislature: Democratic
Grade: D
Took office: January 2017

Phil Scott entered the governor's office after serving as a state senator and Vermont's lieutenant governor. He also helped build a construction company, is a stock car racer, and is one of the nation's most popular governors, according to polls.

Scott has battled with the Vermont legislature in his efforts to restrain taxes and spending, and he has vetoed numerous bills. General fund spending hardly rose during his first few years in office, but it jumped 8 percent in 2021 and 21 percent in 2022, which reduced his score in this report.

In 2018, Scott clashed with the legislature over property taxes to fund schools. He vetoed two bills with property tax increases before letting a third pass without his signature. In Vermont, the state government, not local governments, imposes most of the property taxes. Instead of tax increases to fund schools, Scott proposed reducing school costs.

Scott ensured that Vermonters did not get hit by a state tax increase in 2018 as the federal TCJA broadened the income tax base. He signed a bill that cut individual income tax rates across the board, reduced the number of income tax brackets, and cut the top rate from 8.95 percent to 8.75 percent. The legislation saved taxpayers about $30 million a year.

Scott has vetoed multiple bills to impose a paid leave program funded by payroll taxes. In his 2020 veto message, he said, "Vermonters have made it clear they don't want, nor can they afford, new broad-based taxes. . . . We cannot continue to make the state less affordable for working Vermonters and more difficult for employers to employ them—even for well-intentioned programs like this one."[202] Scott has proposed an alternative plan that would be voluntary for private employers.

In 2022, Scott approved a package of modest tax cuts, including a new low-income child tax credit, a deduction for student loan interest, a partial exemption of retirement income, and an expansion in the earned-income credit.

Scott has defended Vermont against proposals that would raise energy costs. In 2022, he vetoed the Clean Heat Standard Act, which intended to reduce carbon emissions from home heating. The state's Public Utility Commission would have designed and run the program. Scott's veto stressed that too much power would be delegated to unelected officials and the plan would be too costly for families and businesses.[203]

Washington

Jay Inslee, Democrat
Legislature: Democratic
Grade: F
Took office: January 2013

Governor Inslee received an F in Cato fiscal reports in 2014, 2016, 2018, and 2020, and he receives an F in this report, with the lowest score in the nation. He has a large appetite for tax and spending increases. Under Inslee, general fund spending expanded at an annual average rate of 6.3 percent between 2013 and 2022.

When Inslee originally ran for the governor's office, he promised not to raise taxes, but in his first budget, he proposed more than $1 billion in hikes. Since then he has proposed or approved myriad new and increased taxes on energy, capital gains, tobacco, businesses, real estate transactions, and online sales.

A ballot initiative to impose a carbon tax in 2016 was rejected by the public 59–41, but that rejection did not stop Inslee. In 2018, he proposed a new carbon tax plan to raise about $780 million a year.[204] Washington voters defeated the tax at the ballot box in 2018 (Initiative 1631) by a 57–43 margin.

In 2019, Inslee approved legislation creating a new payroll tax. The 0.58 percent tax on wages is expected to raise about $1 billion a year and fund a long-term care program.[205] But the plan has been widely criticized, and in 2022, Inslee signed legislation delaying implementation of the tax until 2023.[206]

In 2019, Inslee approved a $170 million a year increase in the state's real estate excise tax. He also approved a surcharge on the state's gross receipts tax (the "business and occupation tax") to raise about $360 million a year. Higher rates were imposed on dozens of industries, including technology industries. In 2020, lawmakers increased those taxes by more than $100 million a year.

Inslee has long pushed to impose a capital gains tax, and in 2021, he signed into law a 7 percent tax on gains over $250,000 to raise more than $500 million annually.[207] However, Washington does not have a personal income tax, and in 2022, a state judge ruled that the capital gains tax is a nonuniform income tax and thus unconstitutional.[208] The case is being appealed to the state Supreme Court.[209]

Washington State residents have weighed in repeatedly against income taxation. Cato adjunct scholar Joe Bishop-Henchman notes, "Constitutional amendments to allow for an income tax have been rejected by voters in 1934, 1936, 1938, 1942, 1944, 1970, 1973, 1975, 1982, and 2010."[210] Voters weighed in again in November 2021. In Advisory Vote 37, they favored repealing the new capital gains tax 61 to 39 percent.

West Virginia

Jim Justice, Republican
Legislature: Republican
Grade: B
Took office: January 2017

Jim Justice was an entrepreneur who built businesses in coal mining, farming, and other industries, and he has a net worth of more than $400 million. Justice was elected governor as a Democrat in 2016 but became a Republican in 2017. He received an F in the 2018 Cato fiscal report, a C in the 2020 report, and a B in this report after performing well on both spending and taxes.

On the campaign trail, Justice implied that he would not raise taxes, but in his first budget, he proposed tax hikes of $400 million annually. However, Justice has reversed course in recent years and supported substantial tax cuts.

In 2018, Justice proposed cutting the state's high property taxes on machinery and equipment, which lawmakers are still working on. In 2019, he proposed exempting Social Security benefits and military retirement income from the income tax. The legislature followed through with the cut, which saved taxpayers $25 million a year. Justice also has approved numerous tax cuts for the energy industry.

In 2021, Justice proposed phasing out the individual income tax to increase economic growth and attract residents to the state.[211] The legislature rejected the proposal, but Justice says he will continue pushing for income tax elimination.[212]

In 2022, Justice proposed cutting all individual income tax rates by 10 percent to save residents about $250 million a year. At a press conference, he pointed to soaring budget surpluses and argued for tax cuts to help residents offset inflation: "I wish we could eliminate the personal income tax altogether, but we need to get the ball rolling—now more than ever. In the past year, gas prices have gotten out of control, and inflation is through the roof. West Virginians need help right now."[213]

Justice scores well on spending in this report. In his 2022 state of the state address, Justice said, "For the fourth year in a row, I am proposing an essentially flat budget."[214] That is true, and it is impressive. During his whole tenure, 2017 to 2022, the general fund budget has increased at an annual average rate of only 2.2 percent.

Wisconsin

Tony Evers, Democrat
Legislature: Republican
Grade: C
Took office: January 2019

Tony Evers has a background in education and served as the head of public schools in Wisconsin. As governor, Evers has often been at odds with the legislature. Upon entering office, he focused on boosting education spending, expanding Medicaid, hiking the gas tax, and increasing the minimum wage. The legislature opposed those policies. Evers has wanted to repeal Act 10, which reformed labor unionism in state and local government. The legislature opposed that proposal as well.

Nonetheless, Evers and the legislature have agreed to tax reforms. In 2019, the governor agreed to cut income tax rates for the middle class while increasing vehicle fees, for a net tax reduction of more than $100 million a year. In 2021, Evers signed into law a major reform that cut the second-highest individual income tax rate from 6.27 percent to 5.3 percent. The cut will save taxpayers about $1 billion a year. Evers has signed into law other modest tax cuts, including repealing a tax on internet access in 2020.

At other times, Evers and the legislature have been less in agreement. In 2020, Evers vetoed a bill that would have used a budget surplus to cut taxes and pay off state debt.[215] In 2021, Evers proposed a budget that included $500 million a year in tax hikes, including higher taxes on capital gains.[216] The hikes were rejected. In 2022, Wisconsin had a large budget surplus, and Evers proposed one-time rebates and other narrow breaks, but the legislature did not act on the plan. In late August, he proposed a new low-income family tax credit and expansions in numerous breaks, including the child and dependent care credit.

Wyoming

Mark Gordon, Republican
Legislature: Republican
Grade: B
Took office: January 2019

Mark Gordon served Wyoming as state treasurer before entering office as governor. He has overseen a declining state budget and has avoided substantial tax increases.

Severance tax revenues from oil, gas, and coal extraction account for a large share of Wyoming's budget. Those revenues have fallen since 2019, creating fiscal challenges for the state.[217] The budget is also reliant on income from the Permanent Wyoming Mineral Trust Fund, which was built from a portion of severance tax revenues over the years.

As revenues from those sources have waned, Gordon and the legislature have restrained spending. The general fund budget was cut from $3.25 billion in the 2019–2020 biennium, to $3.09 billion in the 2021–2022 biennium, to $2.78 billion in the 2023–2024 biennium.[218]

On taxes, Gordon has supported Wyoming's status as one of the few states without either an individual or corporate income tax. In 2019, a plan to impose a 7 percent corporate income tax on certain industries would have raised about $45 million annually. Gordon was not supportive of the plan, which passed in the House and died in the Senate.

Gordon has approved a smattering of tax increases and tax cuts. In 2020, he approved a state lodging tax to raise about $19 million a year, and in 2021 he approved a bill legalizing online sports betting and imposing a 10 percent tax. In 2022, he signed a bill cutting the severance tax on coal from 7 percent to 6.5 percent.

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