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Villarreal: Missouri, Texas tax burdens even out

By: Pamela Villarreal **September 11, 2013**

A recent spat between Texas Gov. Rick Perry and Missouri Gov. Jay Nixon over the tax and economic advantages in their respective states left many wondering who was right. Does Missouri have an advantage over Texas due to its lower property and sales taxes, or can Texas claim the advantage in the absence of a state income tax?

Thanks to the National Center for Policy Analysis State Tax Calculator (whynotmove.org), the issue can be put to rest. It is a first-of-its-kind tool to help people determine their tax burden by moving from one state to another. The State Tax Calculator is not a typical cost-of-living calculator. The software is based on a proprietary financial planning model developed by NCPA senior fellow Laurence Kotlikoff, an economics professor at Boston University.

In comparing two states, all you need to do is input a few variables: birthdate, annual income, marital status, the state that you currently live in and the state to which you would like to move. Additional "optional" variables are current savings account and retirement account values, home values for both states, current and anticipated monthly mortgage amounts and length of mortgage in your current state and an estimate for your destination state.

So who is right? Gov. Nixon or Gov. Perry? The answer is both are right. The tax advantage of one state over another depends on an individual's circumstances. Average and lower-income Missouri residents probably won't lower their tax burden by moving to Texas. The reason? Texas' higher property taxes and sales taxes offset any escape from the Missouri income tax. For instance, a 40-year-old married couple earning $50,000 a year, ($25,000 each) and with a 20-year mortgage balance of $100,000 on a $150,000 home will have about $600 less spendable income per year due to the property tax in Texas outweighing their state income tax liability in Missouri.

But Perry is correct in the significant benefits in moving from Missouri to Texas for singles and couples with above average incomes. They generally gain by moving to Texas. For example, a 40-year-old moving from Missouri to Texas has a lifetime gain equal to about two years income. A 30-year-old individual earning $100,000 a year moving from Missouri to Texas will gain an extra $3,000 in annual discretionary income. If this income is saved he will accumulate $317,000 in additional wealth over his lifetime. A 40-year-old individual earning $500,000 a year will gain an additional $14,353 each year and a lifetime wealth accumulation of more than $1 million. And finally, a 40-year-old married couple

earning $1 million will have additional discretionary income of more than $28,000 per year. If saved this amounts to $2.43 million over their lifetimes.

The State Tax Calculator produces results based on the economic theory that households manage their finances so as to smooth out their discretionary spending over their lifetime. Put simply, they save during working years in order to maintain a similar standard of living during retirement years. To make the calculator easy to use, there are also built-in assumptions about wages and investments: Wage/business income is the same in both states, earnings during working years will increase each year at the assumed rate of inflation of 3 percent, and money invested in retirement accounts or regular savings accounts will grow at 4 percent per year.

Additionally, annual and lifetime results are based on the assumption that the individual or couple live to be 100 years old. This may sound unrealistic but the centenarian population is growing exponentially each decade.

So now that the debate is settled and neither side has a clear advantage, is there a lesson to be learned here? While the Texas legislature has prided itself on not having to impose a state income tax on folks, the state, county and local municipalities are more than making up for it with some of the highest property taxes and sales taxes in the nation. Perhaps we need to consider the impact this is having on low- and middle-income earners.

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