Tax Fairness: An Answer to Florida’s Budget Problems

In Florida, the very highest-income residents are getting richer: the top one percent of taxpayers—those who earned average income of $1.49 million in 2012—now get nearly a third of all the state’s income. They also pay less of their income in taxes than everyone else—less than a quarter of the rate of the middle class. If these high income earners paid taxes at the same rate as middle-class Floridians, the state could solve many of its budget problems—raising an eye-popping $10.2 billion per year for education, infrastructure, health care and other essential services, pensions and environmental protection.

The Rich Are Getting More Income than Ever

![Pie chart showing income distribution]

In the 1970s, the top one percent of taxpayers received just over 12 percent of total income in Florida. By 2012, their share of Florida’s total income had increased two-and-a-half times, to over 30 percent—the fourth-highest one percent share in any of the 50 states. The shift in income to the one percent means that, every year, more than $154 billion in income now goes to just one percent of Floridians. For
context: $154 billion is twice the Florida state budget and 210 times the annual cost of paying down the state’s pension debt.¹

High-Income People Pay Far Less of Their Income in Taxes than the Rest of Us

The Institute on Taxation and Economic Policy ranks Florida as having the second most unfair (or “regressive”) tax system in the nation. High-income residents pay a far smaller share of their income in state and local taxes than middle class residents. The high-income one percent of Floridians pay just 1.9 percent of their income in taxes, while the middle fifth pay more than four times that rate: 8.5 percent. Florida’s lowest income families pay even more: 12.9 percent, nearly seven times the rate of the top one percent.

![Chart showing tax rates by income level in Florida](chart.png)

There are a few basic reasons Florida’s tax system is so inequitable, and solutions are available.

- Florida has no personal income tax.
- Florida’s tax code is riddled with loopholes that allow corporations to pay low or no taxes, an inequity that mainly benefits rich families who own stock and receive dividends, capital gains, and corporate profits.
- Florida relies heavily on sales taxes.
Taxing the Rich at Middle-Class Rates Would Do Wonders for the Budget

Taxing upper income groups at the same overall tax rate as middle-class Floridians would relieve enormous pressure on the state’s budget. Taxing just the highest one percent at the rate that the middle fifth pays would raise $10.2 billion in new revenue, second most behind only Texas. That $10.2 billion would increase the state budget by 13 percent, counting federal as well as state funds. It could make it possible to reduce the sales tax from 6 percent state to 5 percent, a cost of $3.8 billion, pay down pension debt (at a cost of less than a tenth of revenue from tax fairness on the one percent), and still leave available over half the funds for investment in education from cradle to grave, services for the elderly, infrastructure, culture and environmental protection. These revenues could help lift Florida up from the bottom of the rankings for per capita investment in services and in the future, with dramatic improvements in quality of life.

Extending tax fairness to the top 20 percent would generate an estimated $19.2 billion in additional revenue each year.

**Tax Fairness is Not Rocket Science**

There are many ways that Florida could embrace tax fairness. It could restore a state wealth tax (or “intangible assets tax”) that was eliminated in 2007. It could emulate other states by establishing a progressive personal income tax. Lawmakers could also close corporate tax loopholes. For example, the state could close the “Delaware Loophole,” which allows companies to avoid taxes on profits made off
Florida consumers. It could also include S corporations and LLC’s in the corporate income tax and remove outdated exemptions and exclusions to the sales tax that benefit mostly higher income individuals and businesses.

After 30 years of a middle-class squeeze, it’s time to restore balance. One percent of Floridians get more than twice the share of income they got 30 years ago—taxing them at less than one quarter the middle-class rate is the wrong direction. Creating a more fair tax system will allow Florida to advance beyond low-ranking states on investment in education and the well-being of its residents.

END NOTES

1 The latest Florida Retirement System actuarial valuation, as of July 1, 2014, estimates Florida’s unfunded pension liability at $22 billion. See Matt Larrabee and Robert Dezube, Florida Retirement System Actuarial Valuation as of July 1, 2014, Milliman, November 26, 2014; online at http://www.edr.state.fl.us/content/conferences/actuarial/2014ExperienceStudy.pdf. This $22 billion is down from $29 billion as reported in the source used for all 50 states in the companion national report; for this $29 billion figure, see Pew Charitable Trusts, The Fiscal Health of State Pension Plans, March 2014, online at http://www.pewtrusts.org/~/media/Assets/2014/03/31/PewStatesWideningGapFactsheet2.pdf

2 See Florida Center for Fiscal and Economic Policy, Unbalancing Florida’s Tax System: Eliminating Taxes on Wealth Has Shifted the Burden to Other Floridians, November 2010; online at http://www.fcfep.org/attachments/20101108--Eliminating%20Taxes%20on%20Wealth.pdf