--CORRECTION--

[Note: The original February 13th narrative of this report and press release mistakenly substituted the revenue that could be generated if the top 20 percent and one percent paid the same tax rate as the bottom 20 percent for the revenue that could be generated by the top income groups paying the same as the middle 20 percent. The resulting revenue figures of $40.6 and $17.6 billion have been corrected to $20.3 billion and $10.6 billion, respectively, in the release below and the revised report, found here.]

FOR IMMEDIATE RELEASE: February 19, 2015
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NATIONAL AND TEXAS REPORT ONLINE AT www.keystoneresearch.org/taxfairness

Report: Inequitable Tax Code Costs Texas Up to $20 Billion
Critical Priorities Such as Education and Infrastructure Would Benefit from Tax Code Revisions

As the Texas legislature grapples with difficult budget choices, a new report shows that the state and its localities could generate up to $20.3 billion in revenue by fixing inequities in their tax codes.

The top one percent of Texas earners pay only one third the share of their income (2.9 percent) in state and local taxes that those in the middle 20 percent pay (8.7 percent). The new report, Tax Fairness: An Answer to Texas Budget Problems released by the Keystone Research Center (KRC), finds that if Texas’ one percent paid taxes at the same rate as the middle 20 percent, $10.6 billion per year in revenue would be raised. Similarly, if the top 20 percent of income earners paid the middle class rate, Texas could raise $20.3 billion per year.

“Revenue lost because of rising inequality and regressive state tax codes has led states to impose years of underfunding schools, cutting investments in higher education, and deferring maintenance of our aging infrastructure,” said KRC economist Dr. Stephen Herzenberg. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

In the 1970s, the top one percent of Texas taxpayers received about 12 percent of total income. By 2012, that share had more than doubled, to almost 25 percent. This shift means that, every year, more than $187 billion in income now goes to just one percent of Texans.

For context: $187 billion is almost twice the Texas biennial General Revenue budget and 177 times the annual cost of paying down the state’s pension debt.
Taxing upper-income groups at the same overall tax rate as middle-class Texans would relieve enormous pressure on the state’s budget. The $10.3 billion raised from applying tax fairness to the top one percent of earners would allow Texas to double its investment in higher education ($6.6 billion), and pay down its pension debt (about $1 billion annually), with $2.5 billion left for investments in education from pre-kindergarten through community college and in infrastructure improvements to help maintain Texas’ economic strength.

The problem is not unique to Texas (though the Lone Star State’s tax system is more regressive than states on average). Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Applying tax fairness to the one percent would generate $68 billion nationally, while taxing the top 20 percent at the middle class rate would generate $128 billion.

“Restoring public goods that benefit all employers and all working families is critical to reversing the corrosive rise of inequality,” said Herzenberg. “The middle class won’t recover and states won’t get their finances in order until they fix their tax codes.”

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