In Texas, the very highest-income residents are getting richer: the top one percent of taxpayers—those whose income averaged $1.5 million in 2012—now get a quarter of all the state’s income. Though they make far more, they pay far less of their income in state and local taxes than everyone else—only one third the rate of the middle class. If these high-income earners paid taxes at the same rate as middle-class Texans, the state and its localities could solve many budget problems—raising $10.6 billion per year for education, infrastructure, health care, pensions and job creation.

The Rich Are Getting More Income than Ever

In the 1970s, the top one percent of taxpayers received about 12 percent of total income in Texas. By 2012, their share of Texas’ total income 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.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 Texas one of the “Terrible Ten” for its extremely regressive tax system. In fact, Texas has the third most regressive tax system among the states. The high-income one percent of Texans pay just 2.9 percent of their income in state and local taxes, while the middle fifth pay three times that rate: 8.7 percent. Texas’s lowest-income families pay even more: 12.5 percent.

There are a few basic reasons Texas’s tax system is so inequitable, and the solutions are simple.
- Texas has no personal income tax, much less a graduated income tax
- Texas imposes a modified gross receipts tax in lieu of a corporate profits tax
- Texas fails to provide tax credits to low-income taxpayers to offset sales, excise, and property taxes
Taxing upper-income groups at the same overall tax rate as middle-class Texans would relieve enormous pressure on the state’s budget. With the $10.3 billion raised from applying tax fairness to the top one percent of earners, Texas could double its $6.5 billion annual investment in higher education and pay down its pension debt – a cost of $1.06 billion per year – and still have about $2.75 billion left over.

Extending tax fairness to the top 20 percent would generate an estimated $20.3 billion in additional revenue each year.

**Tax Fairness is Not Rocket Science**

There are many ways that Texas could embrace tax fairness. It could emulate other states by establishing a graduated state income tax and/or shifting from a modified Gross Receipts Tax to a corporate income tax. Texas could also provide tax credits to low-income taxpayers to offset regressive sales, excise, and property taxes.

After 30 years of a middle-class squeeze, it’s time to restore balance. One percent of Texans get twice the share of income they got 30 years ago—taxing them at one third the middle-class rate is the wrong direction. Tax fairness can provide the funds needed to invest in education and infrastructure improvements to help maintain Texas’ economic strength.