When it comes to taxes, it’s important that everyone pays their fair share — including businesses. As it stands, corporate taxes have declined markedly over the last several decades as a share of total state revenues, even as corporations have increased their profits. In 1979, corporations in the US paid 10.2 percent of all tax revenues collected by states. By 2011, it had fallen to 5.3 percent.

With a few small changes to their tax codes, states could increase the taxes they collect from large, profitable corporations by tens of millions or even hundreds of millions of dollars each year. These tax dollars then could be reinvested in the basic public services and programs that are the bedrock of a strong and prosperous state economy. Businesses, of course, are among the primary beneficiaries of strong public services, relying on things like roads, bridges and public transit improvements; police and fire protection; courts and other legal structures; and the presence of an educated and healthy workforce.

Reducing or eliminating special business tax breaks — which overwhelmingly benefit large, profitable, multi-state corporations — is a simple approach that states can use to reverse the decline in their corporate tax collections, while also leveling the playing field for smaller, in-state businesses.

WAYS TO DO IT

ELIMINATE THE FILM TAX CREDIT
As of 2014, 39 states are offering some kind of film tax credit. In most cases, these tax credit programs are very expensive on a per-job basis; do not “pay for themselves” through enhanced income tax collections from the jobs they create; funnel much of the benefit to non-state residents (including movie stars and investors); and produce little in the way of lasting state economic development. Nationwide, film tax credits cost states around $1.5 billion per year.

ELIMINATE THE SINGLE SALES FACTOR (SSF) APPORTIONMENT FORMULA
States use an “apportionment formula” to calculate how much of a corporation's nationwide profits a state can tax based on how much of a corporation's business takes place in a particular state. But many states use a formula that does not account equally for property, payroll, and sales and instead weights the sales factor more heavily. Use of an SSF formula typically results in an annual revenue loss of between 1-17 percent of a state's total corporate tax collections. In some cases states are losing upwards of $100 million to $200 million per year.

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Revenue Options to Give Every Child the Opportunity to Learn

TALKING POINTS: STATE REVENUE STRATEGIES

Taxes are the way we pay for the many important things we do together through our governments. The common goal of the tax reform proposals presented on the Investing in the Future website is to generate revenue sufficient to pay for schools and universities, roads and bridges, subways and buses, police and fire departments, libraries and parks, and so much more.

Any proposal to generate new tax revenue, however, necessarily raises a number of important questions: How will these tax changes affect the state’s economy? How will the changes affect family budgets? How can proponents facilitate a thoughtful and constructive public discussion of the proposals at hand? Below is an overview of responses to each of these questions – greater detail can be found on the Background Basics page of the Investing in the Future website.

TAXES & THE ECONOMY

The evidence strongly indicates that when appropriate investments are paid for with well-structured tax increases they result in significant positive net impacts to a state’s economy, particularly over the long term.

• Raising taxes on high-income households = substantial net tax revenue gains
• Raising taxes on high-income households does not lead to substantial migration out-of-state
• States with higher tax levels do NOT have weaker economies than low-tax states
• Better educated workforce = higher wage economy

FAIRNESS

In every state in the U.S., low and middle-income households pay more of their income in combined state-and-local taxes than high-income households do. It is reasonable, therefore, that efforts to raise more revenue for education and other public investments would seek to collect that new revenue from high-income households. This would bring the tax levels of high-income households closer to the levels paid by other households.

The goal of tax reform is to generate adequate revenue to pay for essential government functions, and to raise that revenue in a fair way.

TALKING ABOUT TAXES AND GOVERNMENT

Thirty years of determined anti-tax/anti-government messaging has undermined the general public's belief in the essential, positive role that government plays in our daily lives. The fact is, we do many great things – large and small - for our communities, working together through our federal, state and local governments. Telling this positive story is essential, just as it is essential to offer a positive, aspirational vision of the future:

• Help people imagine how their communities can benefit from increased investment in schools, roads, libraries, public safety and more.
• Remind people of the direct connection between these public goods and the taxes we all pay.
• Focus discussion on overall public benefit and revenue gains of a particular tax proposal rather than an extensive debate on the minor details of a given plan.
• Remember to stay positive and inclusive and to focus on the big picture: Tax reform is a tool that will help people realize the aspirational visions they have for their communities.

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