For many states that are looking to raise additional, progressive revenue to support public education and other essential services, the most direct approach is probably to adopt an across-the-board tax increase on personal income. Of the 41 states that have an income tax, 34 of them apply a higher tax rate to higher incomes (“progressive taxation”). In these states, low income households pay a smaller share of their income toward income taxes than high income households do.

Raising new revenue from an existing, progressive tax source — like a progressive income tax — means the new revenue will be raised both fairly and automatically. The progressivity of across-the-board rate increases can be enhanced substantially when combined with increases in a state’s standard deduction, personal exemption and/or state-level Earned Income Tax Credit. As an added benefit, revenue from income taxes keeps pace with inflation and economic growth, allowing for long-term, sustainable funding streams for public investments. Research also shows that higher income tax rates do not negatively impact a state’s economic growth.

WAYS TO DO IT
To find if your state can benefit from this change and others, visit the Investing in the Future website.

INCREASE THE STANDARD DEDUCTION AND/OR PERSONAL EXEMPTION
This method reduces the amount a filer owes in taxes and generates a larger benefit for low- and moderate-income filers, which can shield them from the costs of a straight, across-the-board increase in income tax rates. For states with a graduated income tax system, not raising rates for individuals in the lowest income brackets can generate the same effect.

INCREASE THE STATE EARNED INCOME TAX CREDIT (EITC)
Increasing the EITC reduces taxes for low and moderate income working households, available only to tax filers with earned income and provides benefits primarily to workers with children.

A NOTE ON THE “FEDERAL OFFSET”
A federal tax rule allows taxpayers to deduct their state income taxes when calculating their federal taxable income, meaning the federal government absorbs a portion of the costs related to an increase in state-level income taxes. However, typically only high-income filers pay enough in state taxes to benefit from this rule.

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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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