A “Millionaire’s Tax” is a tax provision designed to collect additional revenue from upper-income households, often those with incomes in excess of $250,000 to $500,000. These high income households pay less tax as a share of income than do other households. The principal advantage of a Millionaire’s Tax is the ability to raise substantial additional revenue for public investments from those who can afford to pay something closer to their fair share.

If the states that have an income tax implemented even a 1 percent increase to tax rates on incomes exceeding $500,000, those states would collectively raise around $8 billion in additional annual revenue.

Some states do not levy broad-based income taxes, while several others have “flat tax” provisions in their state constitutions. Either of these situations will complicate — though does not necessarily preclude — efforts to create and levy a millionaire’s tax. For some three dozen states with graduated income tax structures, there are many options for raising new, progressive revenue with a “Millionaire’s Tax.”

WAYS TO DO IT

INCREASE THE TAX RATE FOR AN EXISTING TOP BRACKET
In states that already have a high-income tax bracket, it’s possible simply to increase the tax rate applied to income in this top bracket.

CHANGE OR ADD TAX BRACKETS
In states that use a graduated system of tax brackets but that set the top income bracket at a relatively low threshold, states can change the income levels included in the top bracket or add additional brackets that include only very high incomes. Once those high-income top brackets are created, states can levy a new, higher tax rate just on those brackets.

ENACT AN INCOME TAX SURCHARGE
A tax surcharge assesses an additional charge on the filer based on their level of income. These surcharges tend to be relatively small, percentage-wise, and typically only apply to high-income earners. A surcharge doesn’t require altering the core structure of a state’s tax system. This can make it more palatable to the public and more politically feasible than adding or changing tax brackets, while producing a nearly identical outcome.

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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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