Investing in the Future
Revenue Options to Give Every Child the Opportunity to Learn

Sales and excise taxes are levied in every state in the country and together represent close to half of all state tax revenues. While important for funding public investments, they tend to be very regressive, meaning that low- and moderate-income families pay a larger share of their income towards these taxes than high-income families do. If states seek to raise new revenue through sales and excise tax increases, it’s important to consider how these changes will impact low and moderate income households. Often, negative impacts can be reduced or eliminated if sales tax increases are included as part of a larger package of progressive tax reforms. Reforms that can offset the impact of sales tax increases on low and moderate income households include increases to a state’s Earned Income Tax Credit, its personal exemption or its personal deduction.

An important feature of sales and excise taxes is that they are relatively stable from year to year, making them a dependable revenue source. However, in recent decades, their dependability has been undermined by two trends: the rapid growth of online shopping and the shift in consumer spending away from tangible goods (many of which are taxed) and toward services (which typically aren’t subject to taxes), particularly health care services. Excise taxes present the added challenge of being levied on a “per unit” basis — for example, 20 cents on a gallon of gas or $2 on a pack of cigarettes. If these dollar amounts aren’t updated regularly to keep pace with inflation, excise tax collections will deliver less “purchasing power” to states over time.

WAYS TO DO IT

EXPAND SALES TAX BASE TO INCLUDE SERVICES
There are around 160 services identified by The Federation of Tax Administrators that could be taxed, but most states only tax about a third of these services. If all 45 states with a state-level sales tax were to apply the sales tax to all of those services, they would collectively raise another $80 billion annually in revenue.

COLLECT SALES TAX FROM ONLINE SALES
States lose large amounts of tax revenue each year due to online shopping. The most practical way of recapturing this lost revenue is for states to require large, online retailers (and their in-state affiliates) to collect the sales tax on behalf of the state at the time of sale. Though federal changes are required for broad-based and lasting change, collectively, states could generate more than $11 billion annually by collecting the sales taxes that are due — but which currently go uncollected — on online purchases.

APPLY AN EXCISE (OR SALES) TAX TO SOFT DRINK SALES
Many states levy special, per-unit sales taxes — called “excise taxes” — on individual products like gasoline, alcohol, tobacco and soft drinks. Excise taxes often are applied to products that are considered socially undesirable in an attempt to limit their consumption. The revenue that results from these “sin taxes” may be dedicated, in whole or in part, to mitigating the social harms created by use of the taxed products. Often times, however, revenue from excise taxes is used instead to fund more general public goods like education and transportation.

DOWNLOAD THE FULL TOOLKIT: www.otlcampaign.org/reports/raising-revenue
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.

DOWNLOAD THE FULL TOOLKIT: www.otlcampaign.org/reports/raising-revenue