



THE UTAH TAXPAYER

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Why Income Tax Rates Taxes Matter – The Numbers Behind The 2020 Census

If one were to look for a prime illustration of why income tax rates matter, there would be no need to look any further than the 2020 Census and the resulting changes to the states congressional seats.

The U.S. Census Bureau just announced its much anticipated list of state winners and losers from the official 2020 apportionment count. With good reason, this is a huge news item for policymakers in Washington and the 50 state capitals, as the news brings with it major implications for not only the long term, but also the 2022 congressional midterms, state political clout and future presidential elections. Based on changes in population, various states will either gain additional congressional seats, lose them or keep the same amount.

Additional seats bring additional representation in Congress, the excitement of adding new blood to the legislative body and open seat elections and represent growth of population in a state due to economic growth and immigration. On the other hand, losses of seats indicate a decline in population and residents voting with their feet – by pulling up their stakes and moving elsewhere possibly in search of jobs, better living conditions or more favorable tax treatment.

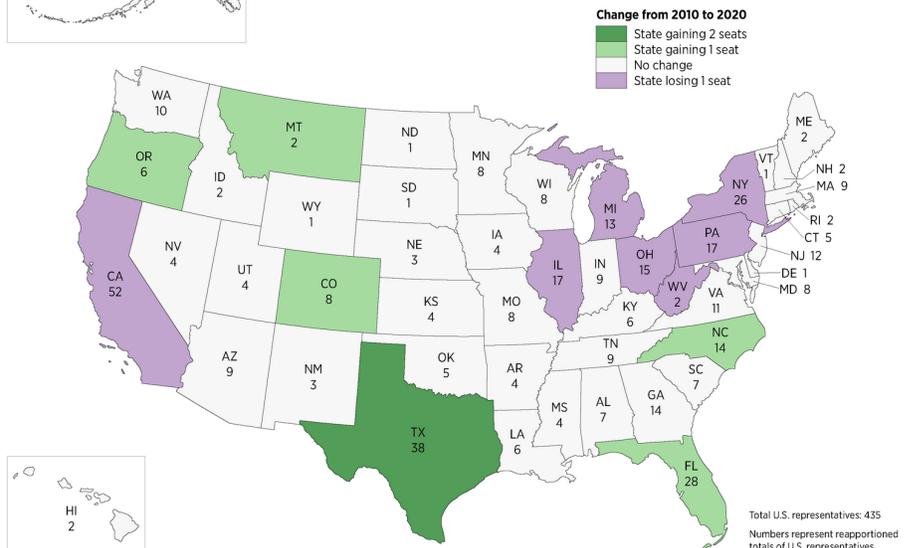
In fact, it means that an elected official will be “out of a job”. No more office, staff or anything that goes along with it.

Beyond the media attention that will focus on the political ramifications of these changes is the real story that the 2020 census tells: Americans continue to “vote with their feet” and move towards states that have lower income tax rates and lower overall tax burdens.

Texas is the big winner as the only state to gain 2 additional seats. Texas boasts an income tax rate of 0% with an income tax



Apportionment of the U.S. House of Representatives Based on the 2020 Census



being prohibited by its state constitution and offers a robust free market policy environment that encourages and rewards growth. Headlines that announce large corporations and wealth relocating to the Lonestar state are plentiful. The other states that gained congressional seats this round including Florida, North Carolina and Colorado have been aggressively lowering their income tax rates and cultivating a business friendly environment. Florida has no income tax and North Carolina has cut their individual income tax rate from 7.75% in 2010 to a flat 5.25% in 2021 and their corporate income tax rate from 6.9% in 2010 to 2.5% in 2021. Even Colorado got in on the action by recently cutting their income tax rate down to 4.55% with a ballot initiative that passed last November.

Just as obvious as the trend towards states with low tax rates is the exodus from states with high tax rates. For example, some of the states losing congressional seats including Illinois, Michigan, Pennsylvania, New York and California are already going in the opposite direction or already have very high tax rates. In 2017, Illinois raised their income tax rate from 3.75% to 4.95% (that is a 32% tax hike for those counting at home). While Michigan has a flat 4.25% individual tax rate, they single out corporations with a higher 6% rate. Pennsylvania has one of the highest corporate income tax rates in the country, hitting corporations with a hefty 9.99% tax. New York just hiked their corporate income tax rate from 6.25% to 7.5% and their highest marginal individual income tax rate to 10.9% for its top income earners, right during the pandemic. California wins the prize for the highest individual income tax rate that tops out at 13.3% in 2021 and a high corporate tax rate of 8.84%.

One of the most significant stories from the Census report is that of California. For the first time in state history, the Golden State will lose a congressional seat. California continues suffering a mass exodus due to taxpayers voting with their feet across state lines. Net domestic outmigration, the hundreds of thousands of former California residents who have departed for one of the 49 other states, is the driving factor for the loss of their congressional seat. Californians are leaving behind high taxes, unaffordable living and draconian government lockdowns. Texas is the largest recipient, with an estimated 86,000 former Californians moving to the Lone Star State in 2018 alone.

Finally, perhaps the most sobering fact that comes out of this report in 2020 is related to New York. Back in 1940, New York had 45 congressional seats. After losing yet another seat this time around they will begin this decade with only 26 seats. That is a loss of almost half of its representation in Congress over the last 70 years, once again proving that income tax rates and tax burden on residents and businesses truly matter.

Cannon's Canon: Call the Claim "The Rich Don't Pay Their Fair Share of Taxes" What It Is – A Big Fat Lie

In today's hyperbolic, Twitter-headline political environment, many "one-liners" get repeated endlessly to attempt to bludgeon a statement that is false into a morphed belief that is somehow seen as truth. None is seen or heard more than the oft uttered phrase currently coming out of the White House and others claiming "the wealthy and corporations don't pay their fair share of taxes". We would like to demonstrate what that statement is: a big fat lie.



In this article I will focus on federal income taxes, saving the discussion on state taxes and corporate taxes for later. First, let's discuss the tax rates that individuals in different income tax brackets pay each year. As everyone knows, the tax structure in the United States is progressive – meaning the more income you earn the

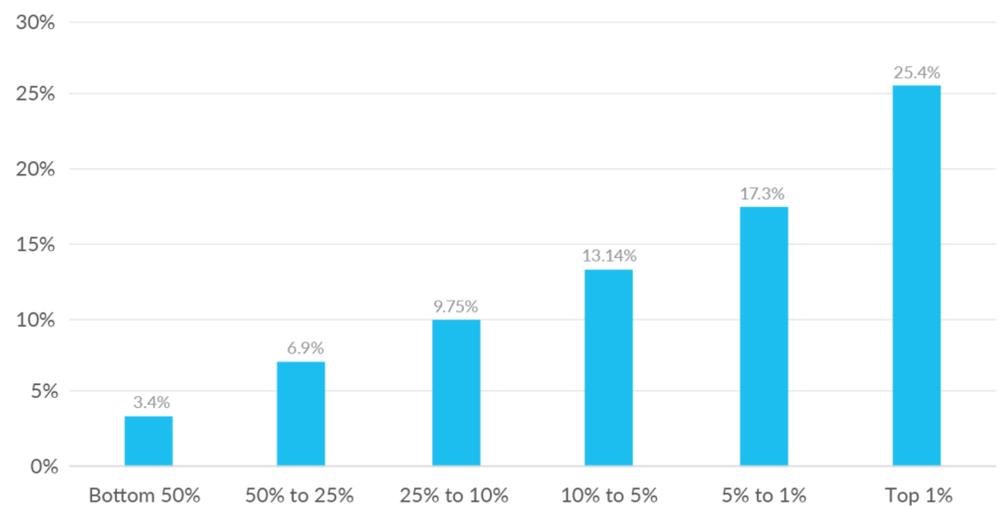
higher your tax rate becomes. In addition, once one's income gets high enough, virtually every credit or exemption is phased out and taken away, further raising the effective tax rate.

The usual diatribe that some roll out in this discussion conflates capital gains tax rates with income tax rates. Warren Buffett and some other billionaires talk about how they pay a lower tax rate than their janitor, which conveniently ignores the fact that those who live off capital gains from their accumulated wealth make up a microscopic needle in the haystack of taxpayers overall. All of those folks combined could fit into a pretty small space. Capital gains taxes are an entirely different discussion. It is comparing apples and oranges and leverages the public's misunderstanding of the difference. In addition, talk of raising those rates completely ignores the very heart of innovation, growth, investment and the foundation of free enterprise and free market principles that now provide us all with the modern day benefits and economic abundance we enjoy. Raising those rates could destroy what got us to this point.

The following graph from the national Tax Foundation, using IRS data shows how the top 5% of income earners pay an average income tax rate of 17.3% and the top 1% pay an average rate of 25.4%. It should be noted that this only accounts for federal income taxes. Once you pile state income tax on top of that the average rates jump much higher, especially in high tax states like California and New York, driving the wealthy to low or no income tax states like Texas and Florida.

High Income Taxpayers Pay the Highest Average Income Tax Rates

Average federal income tax rate by income group in 2018



Source: IRS, Statistics of Income, Individual Income Rates and Tax Shares.

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Compare that 25.4% average tax rate to the bottom 50% of earners rate of just 3.4%. That is a massive difference. When it comes to the tax rates the wealthy pay, it is a fact that they pay far more than middle and lower income individuals. Their average rate is SEVEN TIMES higher than those in the bottom 50% of income. It might be a shock to most that are not wealthy to take a look at their "effective tax rate" for federal income tax on their last tax return. Once all the deductions, exemptions, and child tax credits are taken into account, most filers pay a minimal amount of actual federal income tax. As the IRS data show, the actual tax rate paid is likely in the very low single digits similar to the national average of 3.4%.

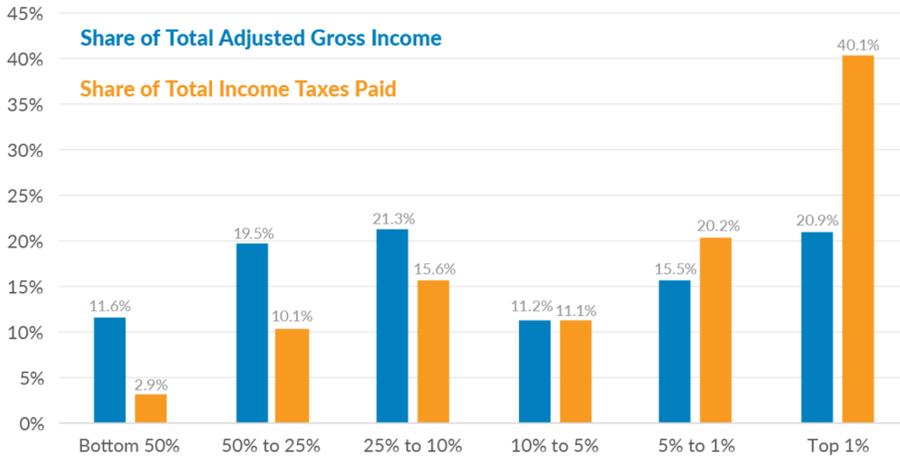
By the way, if you are curious what the income levels are for these categories, the bottom 50% are those with AGI (adjusted gross income) less than \$43,614 (single) and the bottom 50% to 25% are those with AGI of \$87,044 (single) or less. Even once one approaches what would be considered good income approaching \$100,000 per year, the average effective tax rate is still very low at 6.9%.

Now let's shift the discussion from the rates that high income earners pay to the dollar amount, or total amount of taxes they pay.

In the most recent year that complete data is available, 2018, the bottom 50% of income earners, those with AGI less than \$43,614 (single), contributed just under 3% of the total taxes paid, or \$45.1 billion dollars to be exact. The other 97% of the total taxes collected was paid by the top 50% of income earners.

Half of Taxpayers Pay 97 Percent of Federal Income Taxes

Share of Adjusted Gross Income and federal income taxes paid by income group in 2018



Source: IRS, Statistics of Income, Individual Income Rates and Tax Shares.

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In fact, those making more than \$150,000 per year paid a whopping \$3.9 trillion in federal income tax (yes, you read that right – TRILLION). Think about that for a minute. Without the zeroes, that is \$3,900 compared to \$45. Those that value various programs provided by the government should realize that the very people that are funding those programs are the very same ones that are often demonized and maligned. They are the proverbial goose that is laying the golden egg.

As tax policy experts have always said – if you want more of something, tax it less. States that have moved toward very low income tax rates or no state income tax at all are reaping the benefits of immigration of wealth and business activity and the ballooning tax revenue that comes along with it.

Whether one is comparing federal income tax rates or total taxes paid, the data and facts show that the statement that “the rich don’t pay their fair share of taxes” is plain and simple – one big fat lie.

Preeminent Conference on Taxes to be Held May 13, 2021

On Thursday, May 13, 2021, the Utah Taxpayers Association will host the 2021 Taxes Now Conference at the Grand America Hotel in downtown Salt Lake City. The event will be held in-person, but attendees can also choose to view the conference online.

As always, this conference is the preeminent meeting on state, local, and national taxes in Utah, and this year will not disappoint.

This year, our keynote speaker will be Utah Congressman Blake Moore. Rep. Moore. He will be speaking on federal policymaking as a new representative, and will talk about tax issues on a national level.

We will also be pleased to hear from Utah State Auditor John Dougall about education funding accountability. Auditor Dougall and his office have been working to create an easy-to-use online tool to drill down on where your tax dollars go in public education, down to the classroom. This revolutionary approach looks at funding from the bottom up, rather than from the top down. It’s a great new tool and he will be walking attendees through its features.

In addition, Utah State Tax Commission Chair John Valentine will be speaking on state tax issues, including PPP loan forgiveness, which has been a controversial topic in recent months. Chair Valentine will help attendees understand the process and the determination of the state's decision. Additional speakers will include Senate President Stuart Adams, House Speaker Brad Wilson, representatives from the new Cox – Henderson administration, and many legislators.

Legislators such as Sens. Lincoln Fillmore and Gene Davis will be helping attendees understand tax laws that have gone into effect and how they will benefit Utahns.

Jared Walczak, Vice President of State Projects from the national Tax Foundation will also be presenting on tax issues on a national level.

Attendees must register for the event. CLE and CPE credit is available. To learn more, email taxwatch@utahtaxpayers.org.

Association Accomplishments in April

- Welcomed Rusty Cannon as the new president of the Utah Taxpayers Association, following the retirement of Howard Stephenson
- Met with Legislators and Law Enforcement Officials to Discuss State Retirement Plans
- Attended Utah League of Cities and Towns Conference in St George
- Met with Grover Norquist and Americans for Tax Reform to discuss taxation in Utah
- Finalized logistics for the 2021 Taxes Now Conference
- Began planning the "Teed Off on Taxes" Golf Tournament

In The News

- Legislative Report Card Issued from the Utah Taxpayers Association: [St. George News](#)
- Truth-in-Taxation Could Provide Effective Property Tax Relief: [Des Moines Register](#)
- Utah's Truth-in-Taxation Law Highlighted in Major Property Tax Reform: [Utah Policy](#)
- Basing Future Policy on a Guess can be Dangerous: [KJZZ](#)