

HOW STATE TAX POLICY CAN ADVANCE RACIAL JUSTICE



States can help undo racism's harmful legacy and ongoing damage by changing how they raise and spend money. Better state budget and tax policies can address these harms and create more opportunities for people of color.

ABOUT US

The State Priorities Partnership - a network of more than 40 independent, nonprofit research and policy organizations - shapes state policies that reduce poverty, advance equity, and promote inclusive economies that pave the way for widespread prosperity. It is coordinated by the Center on Budget and Policy Priorities.



OUR CHALLENGE

State Tax Policy Has Deepened Racial Inequities

State and local governments account for nearly half of all domestic public-sector spending and provide most of the funding for schools, colleges, prisons, and other public infrastructure, like drinking water.

How they raise revenue and fund public services has a big impact on racial and ethnic equity. While people of color have made progress in many areas in recent decades, state and local tax policies often help to sustain racial disparities in power and wealth or even exacerbate them.

For much of our nation's history, people of color had little or no power in state legislatures. White lawmakers often set policies that helped sustain white dominance, including in states where people of color were a significant share of the population. State tax policies often deepened the profound challenges that people of color face, even when those policies were not explicitly race-based.

Wealth in America is highly concentrated at the top of the income scale, mostly in white households. This reflects the long history and widespread impact of many types of racial disadvantage and discrimination. Racial disparities in income remain stark, making it harder for families of color to build wealth for themselves and their children.

On numerous occasions, government actions have reinforced and further widened racial divides – from policies that supported slavery and then Jim Crow, to the confiscation of Native Americans' tribal land and resources, to the forced internment of Japanese Americans during World War II. Other racist policies that ended more recently still have an impact today, including the segregation of African Americans in lower-value neighborhoods.



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SUPERMAJORITY REQUIREMENTS PROTECT THE MOST POWERFUL

Supermajority requirements to raise revenues undermine democracy and weaken a state's capacity to invest in all its communities. They protect outdated tax breaks, strengthen special interests, and limit states' options in responding to recessions.

Mississippi adopted its supermajority requirement, the oldest on the books, as part of a state constitution that was specifically designed to disempower Black residents following the Reconstruction period. Wealthy white landowners sought a requirement for a three-fifths vote in both houses of the legislature for all state tax increases, and delegates adopted it at the state's 1890 constitutional convention, which also disenfranchised nearly all the state's Black voters. Later in the Jim Crow era, Arkansas and Louisiana also adopted supermajority requirements to raise revenue that remain in place to this day. Today, 16 states have some form of supermajority requirement to raise revenue.



PROPERTY TAX LIMITS WEAKEN LOCAL GOVERNMENTS

Arbitrary limits on property taxes hamstringing local governments from delivering the services that their residents need and that boost opportunity, from schools to affordable housing to public safety.

Some of the oldest limits still on the books are in Alabama, which adopted them in state constitutional conventions in 1875 and 1901 to re-establish white dominance following Reconstruction. These measures protected white property owners from the possibility that Black residents and their allies would return to power and raise property tax rates to fund education and other public investments.

In place for over a century, these limits have had a harmful cumulative effect. Today, Alabama's property tax revenues are the lowest in the country as a share of the state economy, seriously hampering local governments' ability to provide adequate public schools and other public services.

Arkansas, Missouri, and Texas also adopted constitutional property tax limits after Reconstruction that remain in force. Today, 44 states and the District of Columbia impose some kind of limit on property taxes.



OUR CHALLENGE

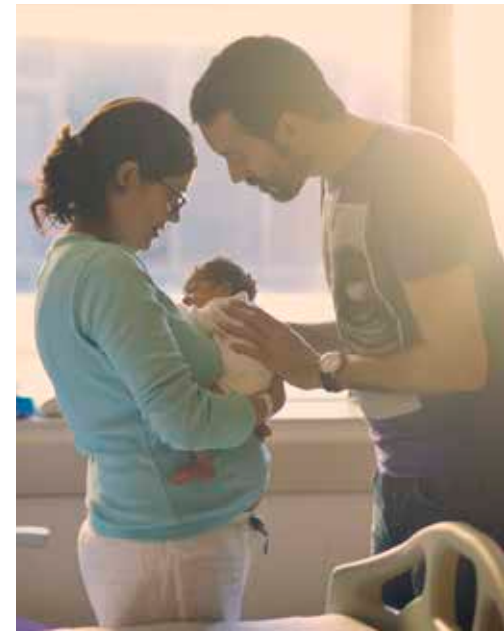
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OVER-RELIANCE ON SALES TAXES HURTS STRUGGLING COMMUNITIES

Sales taxes are a major source of revenue for state investments that can increase opportunity and advance racial equity, including in schools and health care. But they fall particularly hard on low-income people, including many people of color, who spend most or all of their limited incomes, so sales taxes take up a larger share of their income. Over-reliance on sales taxes thus adds to the barriers that people of color can face.

Mississippi adopted the nation's first modern retail sales tax in 1932, after the governor emphasized that the revenue would be used to reduce property taxes. As a result, it shifted state taxes away from property owners (who were mostly white) and onto consumers, raising taxes for Black households that owned little or no property and had little else to tax. Other states adopted sales taxes not long after Mississippi demonstrated the tax's feasibility and revenue-raising power.



HARMFUL TAX POLICIES ARE WIDESPREAD

Tax policies harmful to racial equity are found across the country. For example, in recent years, property tax assessments in Chicago, Detroit, and other cities were found to overvalue homes owned by Black residents, increasing their tax bills and making foreclosure more likely. In addition, about a third of school funding systems provide more money per student to low-poverty school districts than to high-poverty ones, an arrangement that typically benefits white students at the expense of Black and Latinx students.

Today, state and local tax liabilities are determined using mathematical calculations based not on one's race but on the amount and type of one's income, consumption, property value, and the like. Yet historical racism and contemporary racial discrimination can affect a taxpayer's income and consumption, and the value of the property that a taxpayer may own. Moreover, fiscal policies need not be explicitly race-based to maintain or worsen longstanding racial inequities. Policies can have those effects if they ignore the history of governmental and private actions that enforced racial segregation and held back people of color, as well as the continuing impact of racial bias and discrimination. With nearly all states operating tax systems that require lower-income residents to pay more in state and local taxes – as a share of income – than the most well-off, that's exactly what appears to be happening.

WE CAN DO BETTER

State Tax Policy Can Advance Equity



States can help overcome racial inequities by improving their tax policies and better funding public services like schools, health care, and infrastructure.



FIX UPSIDE-DOWN TAX CODES

States should ensure that households with high incomes pay a larger share of their income in state and local taxes than households with lower incomes, the opposite of the upside-down tax systems in nearly all states today. Most state tax codes worsen racial inequities, since people of color tend to have lower incomes and less wealth than whites. States can:

- Strengthen their income taxes and otherwise base their tax codes more on ability to pay
- Tax more of the wealth that currently escapes taxation
- Enact or expand tax credits for lower-income families
- Eliminate fees used to fund courts and other parts of the justice system



RAISE SUFFICIENT REVENUE FOR EQUITABLE, SUSTAINED PUBLIC INVESTMENTS

States need sufficient revenue for high-quality schools in all communities and for other investments in education, infrastructure, health, and the like. They also need sufficient revenue to help overcome racial and ethnic inequities and build an economy whose benefits are more widely shared. States can:

- Eliminate tax breaks that allow corporations to avoid paying taxes on their profits
- Raise income tax rates and close special tax breaks for the most affluent
- Modernize state sales taxes by expanding them to cover more services and Internet sales
- Crack down on corporate tax avoidance and consider raising tax rates on corporate profits
- Improve taxation of carbon pollution and natural resource extraction

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MAKE DECISION-MAKING OVER TAXES MORE DEMOCRATIC

States should open the policymaking process to ensure that all constituents - including people of color - have a voice. And states should get rid of artificial constraints that prevent them from raising revenue to finance public investments that can promote broadly shared prosperity. States can:

- Eliminate supermajority requirements for raising taxes or removing unproductive, inefficient tax breaks
- Reform or repeal constitutional limits on property taxes
- Overturn other formula-based restrictions on revenue raising
- Improve the rules governing “rainy day” reserve funds so they’re adequate and accessible when needed



MAKE TARGETED PUBLIC INVESTMENTS THAT BOOST OPPORTUNITY AND ADVANCE EQUITY

When adequately funded and administered with equity in mind, the public investments financed by taxes can help lower or eliminate barriers to opportunity for communities of color and help more Americans achieve their potential. States can invest in:


- Good schools in all districts, which can offer children a better chance at a successful future
- Colleges that are affordable to, and boost opportunities for, a broader group of students
- Economic supports that help struggling working families have stable housing, nutritious food, and affordable child care, and successfully balance work and family life
- Health coverage that protects against health-related financial hardship and enables workers to be healthier and more productive

States can also better target their current spending. For example, they can reform criminal justice policies and use the savings from reduced incarceration to finance investments in low-income communities, particularly communities of color. They can also reform school funding formulas to invest more in such communities. These investments are more effective when coupled with other policies that can improve equity, such as boosting minimum wages, adopting or strengthening state earned income tax credits, adopting paid leave policies, and protecting workers’ rights to form unions.





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