Advancing Racial Equity With State Tax Policy

By Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams

States and localities could do more to help undo the harmful legacies of past racism and the damage caused by continuing racial bias and discrimination. If state budget and tax policies were better designed to address these harms and create more opportunities for people of color, state economies would be more equitable and likely also would be stronger, which in turn could benefit many state residents of all backgrounds.

States and local governments account for nearly half of all domestic public-sector spending, and most of the funding for education and certain other investments important for economic growth. As such, how states and localities raise and spend revenue, including what services they finance, has major implications for racial and ethnic equity. Yet, while in recent decades people of color have made progress in many areas, state and local fiscal policies too often have not been part of this progress and instead have extended or cemented racial disparities in power and wealth.
State and local tax policy is a powerful structural force in our lives.
Explicitly racist tax policies of the past
The Racist Roots of Sales Taxes
Sales Taxes Fall Hardest on Those With the Least Income
Other tax policies with white supremacist roots that are still on the books
Wealthiest 10 Percent of White Households Own Two-Thirds of U.S. Wealth
87 percent of wealth owned by white households

- **65%** Share owned by top 10 percent of white households
- **22%** Share owned by other white households
- **13%** Share owned by all other households

Source: Federal Reserve’s Survey of Consumer Finances
Intention vs. Impact
This is what structural racism looks like

**Lowest-Income Households Pay Highest State and Local Taxes**

Total state and local taxes that non-elderly residents paid as a share of their income in 2018

- Lowest 20%: 11.4%
- Second 20%: 10.1%
- Middle 20%: 9.9%
- Fourth 20%: 9.5%
- Next 15%: 8.9%
- Next 4%: 8.0%
- Top 1%: 7.4%
The Attack on Income Taxes
Eighteen States Have Cut Personal Income Tax Rates Since the Last Recession
State and Local *Income* Taxes Based on Ability to Pay

Total state and local income taxes that non-elderly residents paid as a share of their income in 2018.

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax as Share of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest 20%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Second 20%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Middle 20%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Next 15%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Next 4%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Note: Income ceilings: $21,000 for bottom 20%; $37,000 for second 20%; $60,000 for middle 20%; $104,000 for fourth 20%; $227,000 for next 15%; $553,000 for next 4%.

Source: Institute on Taxation and Economic Policy
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Tax policy is not race neutral. But it’s a powerful tool for racial equity.
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