

Racial Equity and Taxes in Southern States

Amy Hanauer and Meg Wiehe

Institute on Taxation and Economic Policy

PROBLEM

Good tax policy is essential to equity. By raising adequate tax revenue from those most able to pay, we can provide the public sector sufficient resources to advance equity. Taxes themselves can be levied in ways that increase racial and economic equity or worsen it. Most states currently do the latter. While the tax code as a whole raises slightly more from those who earn more, most state and local tax codes are upside-down, asking more as a share of income of low- and middle-income families than of wealthy ones, and more of Black and Hispanic families than of white ones. Raising taxes on those most able to pay will advance both racial and economic equity.

Southern states have a particularly egregious record on tax equity, rooted partly in racism. Lawmakers baked some of the most egregious and anti-democratic tax policies into southern state constitutions, such as supermajority requirements to raise taxes in Florida, Mississippi and Louisiana, income tax rate caps in North Carolina and Georgia, and the recent elimination of Tennessee's taxes on investment income. Most southern states raise less revenue overall than states in other regions, leading to underinvestment in people and places – such investments are essential to advance equity. This contributes to staggering levels of poverty, particularly for Black and Hispanic families. Southern states generally have lower corporate and personal income taxes for high-income households, which are disproportionately white. When they have a personal income tax, it tends to be flat or have few brackets, forcing low-, moderate- and middle-income people to pay the same or almost the same rate as millionaires. And Southern states frequently raise more from sales and other consumption taxes, hitting low- and middle-income families who have to spend most of what they earn to purchase the basics.

Southern lawmakers have been slow to adopt refundable tax credits, which are strong poverty-reducing tools. Only three Southern states have such credits, which provide tax refunds to low-income working families with children. One of those is very small – just 5 percent of the federal credit, much less than what most states with such credits provide. The other two are non-refundable, leaving out the poorest families who earn too little to pay income taxes but who pay a high share of their income in sales and excise taxes. **Of the 10 most equitable state tax systems as determined by ITEP's *Who Pays?* report, none are in the South.** In Florida and Tennessee, families in the lowest income fifth pay an effective tax rate that is three times higher as a share of their income as filers in the top 1 percent.

While most racial inequities in Southern tax codes have been embedded for decades, many state policymakers have exacerbated them in recent years. North Carolina and Kentucky lawmakers substantially slashed taxes on the wealthy and profitable corporations and shifted reliance to

regressive consumption taxes, essentially raising taxes on lower-income households and leaving those states with less to invest in education, health care and other essentials. Both states also made the tax code less equitable at the same time. This, by definition, hurts poor and middle-income families of all races and disproportionately harms Black and brown families. North Carolina collected almost \$4 billion less in revenue in 2019 than the state would have had available before making drastic and harmful changes to its tax code.

COVID-19 showed how raising too little in taxes left our communities and health systems deeply underfunded to address a crisis. As Black and brown people suffered disproportionate job loss and sickness during COVID-19, we also found the country enmeshed in a more vocal conversation about racism in policing. This too is worsened by bad tax policy: in many states, failure to raise adequate revenue from income taxes and restrictions on local tax levying authority propel localities to raise fines and fees that target poor people and lead to more police encounters for non-criminal activities, increasing tension and arrests.

SOLUTIONS

Adequate and equitable tax codes can create communities that work for all of us, providing funding for schools, healthcare, clean air, safe workplaces and more. To get to equity, Southern states must reverse their upside-down state tax codes and raise more revenue, dedicated to spending on schools, health care, and other equity-advancing priorities. A variety of policies can make taxes more equitable and reduce racial inequity:

- Tax profitable corporations.
- Tax the rich: Add brackets, raise rates and close loopholes to maximize a progressive personal income tax.
- Provide refundable, targeted tax credits for families, such as earned income and child tax credits.
- Reduce reliance on regressive sales and excise taxes. These fall disproportionately on poor and working-class families who have to spend most or all of what they earn.
- Reform property taxes.
- Restore Estate Taxes: Georgia, North Carolina, Tennessee and Virginia have all eliminated their Estate or Inheritance Taxes. These should be restored.
- Tax wealth: Wealth has become much more unequal than income as families pass it on and as wealth accumulates over time. Taxing it at the state level is complicated, but it makes sense.
- Give localities flexibility to raise progressive revenues; end reliance on fines and fees.
- End supermajority requirements and remove tax policy from state constitutions

In addition to recommending these policies and working with state partners to advance them, we can help assess the equity of state tax policy with a framework that ensures policies raise sufficient revenue; enable spending on priorities that advance equity; raise more from corporations and those most able to pay; and help relieve poverty directly with equity-enhancing tax credits.

In short: we don't do enough to fully fund a strong public sector. Consequently, our public sector can't solve daunting public problems from racism to public health. Accountable, equitable tax policy can spur deep investments in communities, help families thrive, and re-imagine public policy. In doing so, it can be a powerful tool for racial, economic, and climate justice.