

CHAPTER TEN

ACHIEVING TAX REFORM: NEXT STEPS

Tax reform may seem like a daunting task. After all, successful tax reform can take years—and tax justice advocates often are too busy fending off the unfair “tax deform” strategies of anti-tax organizations and lawmakers to embark on their own constructive agendas. But the good news is that the road to a fairer tax system is clearly marked. This chapter looks at important strategies and information sources for progressive tax advocates seeking to follow this road.

Why Tax Reform is Necessary

The need for tax reform is now greater than ever. State and local taxes in almost every state are regressive. And many of the states that have managed to push through revenue-raising measures to respond to recent budget deficits have done so in a way that makes their tax systems even less fair—hiking regressive sales and excise taxes much more frequently than progressive income taxes. Meanwhile, as this report has documented, the structural flaws that have reduced the yield of these taxes remain unresolved:

- State and local sales tax bases are too narrow: few states have expanded their tax base to include services, the fastest-growing area of consumption. And many states have a host of poorly-targeted exemptions for the sales of various goods that reduce the yield of each penny of tax. Collectively, these tax breaks put added pressure on lawmakers to increase the sales tax rate on the remaining items of consumer spending.
- Personal income taxes, ostensibly the most progressive tax levied by states, are being eroded away—and made less progressive—by a proliferation of poorly targeted tax breaks for capital gains, retirement income and other income sources. And many states use income tax brackets that require a large percentage of taxpayers to pay at the top rate, rather than subjecting only the wealthiest

taxpayers to the highest rates. These structural flaws mean that most state income taxes are not living up to their potential as a progressive offset for the regressive sales and property taxes that states rely on most.

- Corporate income taxes continue to decline, as federal and state tax breaks and clever accounting tricks by the corporations themselves make the tax base ever narrower.
- Property taxes remain an important, but unfair revenue source for state and local governments. Many states have enacted overly restrictive tax limits designed to reduce the use of these taxes, but relatively few have enacted well-targeted exemptions or credits designed to reduce the property tax on the low-income taxpayers for whom these taxes are most burdensome. And many states have not yet dealt with the inequities between low-wealth and higher-wealth taxing districts that the local property tax usually creates.

Events at the federal level have compounded these inequities. With the political paralysis and the knee-jerk fear of taxes so often found in Congress and state houses throughout the country, the task of igniting tax reform falls on tax activists. The key is showing the public, elected officials and the media what fair tax policy is and how it can benefit people. We hope this primer provides you with enough tax policy knowledge to start that process.

Strategies for Tax Reform

The first step in achieving tax reform is to **understand what's wrong with your state's tax system**. This report has described in general language the structural flaws that plague almost all states' taxes—such as narrow sales tax bases and corporate tax loopholes. But there is no substitute for a good understanding of exactly which provisions of your state's tax laws prevent the state from achieving a fair and adequate tax system. If your state doesn't have a tax expenditure report (see p. 62), a rainy day fund (see p. 64), or accountable economic development strategies in place, these are good first goals to put on a tax reform agenda because these tools will make the shortcomings of your tax system more obvious.

Successful tax reform campaigns usually **include organizations from many sectors of the community**. Unions, religious groups, public interest organizations, business groups and others should all be part of the campaign. Certainly, with more groups, there will be more conflict over the campaign's goals and tactics. But without broad participation, it is very difficult to overcome the power of those who oppose reform. Depending on the coalition's goals, economic climate and political realities it may be important for the coalition to come together and support one specific tax reform plan. On the other hand, simply agreeing that new revenues are necessary may be the best strategy.

If advocates decide to support a specific plan, they should **be specific about what their plan does and how it affects people**. If the plan includes a vaguely stated proposal to raise income taxes on the rich, tax reform opponents will claim that by "rich" you mean anyone with a job. But if you make it clear that (for example) your plan would raise the tax rate on those with incomes over \$200,000 by 1 percent in order to pay for a tax cut for those earning under \$50,000, and would result in a tax cut for 60 percent of your state's residents, you'll have the kind of clearly stated proposal that will be more difficult for the other side to distort.

Coalition strategies and tactics will vary depending on the politics in the states, but it is important to **remember the vital role the media can play**. Coalition members can work with the media in a variety of ways including: writing op-eds, encouraging letters to the editor, issuing press releases, holding press conferences, and participating in editorial board meetings. Coalition members may find it valuable to purchase space in newspapers or websites and potentially produce television or radio commercials. There is also value in utilizing

the Internet and building a website that utilizes social media like Facebook and Twitter.

Political strategies for advocates **should look for opportunities to engage policymakers and the general public**. If a Tax Commission is meeting or a relevant legislative hearing is taking place, coalition members may want to testify at these events. Coalition members will likely want to participate in individual meetings with legislators or key staff to understand their views on tax reform.

In order to engage the general public, most coalitions have an educational component too. Educational materials should be presented in a simple and straightforward way. Public workshops on tax reform can be a critical component in building public awareness of—and support for—tax reform.

Unfortunately, tax reform plans can be smeared by scare tactics. So it's important to **be prepared to respond to misleading arguments** against your plan. For example, opponents of tax reform frequently claim that raising taxes on the wealthy or corporations will drive businesses away from a state and cost jobs. Or they will falsely claim that tax reform would increase taxes on middle-income families. These arguments are usually based on conjecture rather than research, and when there is "research" to back these claims up, it is often poorly designed. (See Chapter Eight for more on how to evaluate these anti-tax claims.) The goal of these scare tactics is not to inform voters—it's to make tax issues seem harder to understand than they really are, and to create confusion about what a reform proposal really does. So it's important to recognize and debunk specious arguments against progressive tax reform.

For example, it's important to remember that tax fairness means asking people to pay according to their ability and that incidence tables are the best measure of what is fair. Of course, your opponents will try to undermine incidence analyses. They might claim, for instance, that the top fifth of the population pays some high percentage of the total taxes and that it wouldn't be "fair" to make them pay more. But this argument is nothing but a smoke screen. What really matters is the share of income paid in tax by taxpayers at different income levels—and by this basic measure of fairness, the wealthiest residents in most states pay substantially less than lower- and middle-income taxpayers.

It may also be important to **highlight the linkage between the taxes you want to reform and the public services that are provided by these taxes**. If you ask most

Taxing Services

Despite near-universal agreement among economists on the wisdom of taxing personal services, multiple states have recently lost hard-fought battles to expand their sales tax bases in this manner. These failures raise some obvious questions about the politics involved in bringing this huge share of the economy within the reach of the sales tax.

In Maryland, an effort to tax about half-a-dozen personal services was gradually whittled down to include only one (computer services) as a result of intense efforts by business industry lobbyists. By focusing on such a small group of services, Maryland left itself vulnerable to charges that it was unfairly singling out specific businesses for new taxes (despite the fact that the consumers, not businesses, would be paying the taxes), and that dozens of other services not being considered were equally worthy of being taxed. Simply put, Maryland's piecemeal approach to taxing services missed an opportunity to focus the debate on the principle of taxing all consumption equally. In doing so, this left the door open for the business lobby to claim (with no apparent sense of irony) that marginal improvements to Maryland's already discriminatory sales tax would somehow worsen its unfairness. Ultimately, these flaws with Maryland's approach proved to be fatal to the cause of services taxation, and even the tax on computer services was eventually repealed.

It appears that Maryland's "baby steps" approach to modernizing its sales tax base was too incremental, and too vulnerable to the efforts of well-organized business lobbies. The taxation of personal services is an issue that must be addressed comprehensively, so that meaningful, principled support can be rallied to the cause. Of course, this approach does not guarantee success, but by addressing the issue more broadly, it has the potential to draw in enough stakeholders that the ability of narrow business interests to monopolize the debate can be curtailed.

people whether they favor raising the state income tax, they'll probably say no. But if you ask people whether they favor raising the income tax to help fund education or health care, they will be much more supportive. Most people understand intuitively that the public services they value can only be provided if the tax system raises adequate revenues to pay for them—so it's important to remind people that the ultimate purpose of tax reform is to ensure the continued provision of these services.

When people work together, successful tax reform efforts can be the result. For example, in recent years Oregon Center for Public Policy and Kentuckians for the Commonwealth each helped to build broad-based coalitions in their states. These groups developed plans for tax reform, publicized which income groups would see increases or cuts in taxes as a result of their proposals, and worked with legislators and the media to help the general public understand the basic tax policy principles underlying their proposals. This ongoing work helped to establish these groups as a credible source of accurate information and made these coalitions a respected voice in state tax policy debates. The work of these coalitions also helped to increase the visibility of tax fairness issues in both states.

Resources for Further Investigation

There are many sources of information on state taxes. A good place to start is with the reports issued by **ITEP** and **Citizens for Tax Justice** (CTJ). ITEP analyzes the fairness of state and local taxes in dozens of states annually. ITEP's **Who Pays?** report (2009) provides a baseline for measuring the fairness of taxes in all fifty states. CTJ monitors the fairness of federal tax reform proposals; CTJ's analyses of the Bush tax cuts were the most widely cited measuring stick for evaluating the unfairness of these cuts. **Just Taxes**, our quarterly newsletter, and our weekly **Tax Justice Digest** keeps readers informed on the latest developments in tax policy and advocacy, and lists new publications of note by CTJ, ITEP and other organizations (you can sign up for the Tax Justice Digest at http://www.ctj.org/digest_signup.php).

Other good sources for information on state taxes include:

- **State revenue and tax departments.** Many states publish reports that provide valuable information about the state's tax structure. Usually, the best place to start is with your state tax agency's annual report—but be sure to check out a complete list of available publications. Tax departments also often have a great deal of unpublished information. If there's something you need but can't find in an agency's publications, give the agency a call and ask for it. ITEP's website features a state-by-state tax policy hub which includes links to resources published by state revenue and tax departments. Visit www.itepnet.org and click on a state to access the policy hubs.
- The **U.S. Census Bureau** (www.census.gov/govs/) publishes *Government Finances*, a helpful source of data for comparing your state's tax system to other states.
- The **Center on Budget and Policy Priorities** (www.cbpp.org) publishes a wealth of information on tax and spending programs as they affect low-income taxpayers.
- The **Demos Center for the Public Sector** (www.demos.org) is an organization dedicated to helping people understand the important role that government structures play.
- **Economic Policy Institute** (www.epi.org) publishes helpful reports that offer information on the relationship between economic policy and working families.
- **Good Jobs First** (www.goodjobsfirst.org) is an excellent resource for advocates interested in learning about accountable development in their state.
- The **Lincoln Institute of Land Policy** (www.lincolnst.edu) maintains a comprehensive online database of property tax features in all 50 states plus the District of Columbia.
- **The National Conference of State Legislatures** (www.ncsl.org) has a number of publications evaluating state taxes, including their annual report *State Budget and Tax Actions*.
- The **Rockefeller Institute** (www.rockinst.org) regularly analyzes trends in the health of state tax systems, and follows trends in state spending as well.
- State advocacy and research groups are an essential component to any successful movement for tax fairness. These groups can be found in most states. ITEP maintains a list of these groups, organized by state, on our website.
- **Networks of state groups.** Many state groups stay connected and function as part of a larger series of networks. These networks include: the **Economic Analysis and Research Network** (www.earncentral.org), the **State Fiscal Analysis Initiative** (www.statefiscal.org), the **Progressive States Network** (www.progressivestates.org), and the **Tax Fairness Organizing Collaborative** (www.faireconomy.org/tfoc). These networks partner with state and local advocates and policymakers across the country as well as national groups. 