Ensuring Corporations and the Ultra Wealthy Pay Their Fair Share

Key progressive revenue-generating policies for states

The COVID-19 pandemic has created an unprecedented social and economic emergency. Millions of families are facing eviction, homelessness, and food insecurity. Local economies and small businesses are struggling. Due to systemic and historical racism in our economy, healthcare system, and society generally, Black, Latinx, and Indigenous communities are bearing the brunt of this crisis. They are not only contracting and dying from COVID-19 at alarming numbers, but facing severe economic suffering.¹

Prior to the pandemic, the racial wealth gap—a glaring legacy of U.S. slavery and subsequent systems within racial capitalism that violently economically dispossessed Black people—meant the median Black and Latinx family had just $3,600 and $6,600 in wealth, respectively, compared to the $147,000 of a median white family.² Since the pandemic, the inequities in our economy have gotten worse, with COVID-related service cuts, job loss, wage decreases, and small business closures compounding the problem.³

The K shaped recovery has meant working families have suffered the brunt of the economic crisis while billionaire wealth has soared. While state budget shortfalls have not been as extreme as originally projected,⁴ states will need to raise significant revenue in future years to fund a robust recovery. American Rescue Plan (ARP) stimulus funds have also softened the blow of the COVID recession, however, this is a short-term solution and will not address the structural inequities in our tax systems. Meanwhile the stock market is booming—America’s 651 billionaires’ wealth rose a staggering combined $1 trillion since the beginning of the pandemic.⁵ At the other end of the spectrum, an estimated 86% of the jobs most vulnerable to COVID-19 disruptions were paying less than $40,000 per year.⁶

Unless states take immediate action, the economic crisis will become much worse and last much longer. Slashing public school budgets, health funding, and critical investments in communities could ignite a crisis far more devastating than our current one. States must step up—
conjunction with federal assistance—to provide relief and ensure that basic needs for the most deeply impacted are met and that economic stimulus is applied from the bottom up, not top down.

There is ample money to fund vital public investments but it will require the ultra-wealthy and corporations to pay more. Tax rates for corporations and the ultra-wealthy have plummeted at the federal and state level over the past several decades, culminating in the $2 trillion Tax Cuts and Jobs Act in 2017, which marked a monumental redistribution of resources to the wealthy. Enacting progressive taxes and generating new revenues will start to reverse this dangerous trend and support struggling families and fragile economies.

An added bonus: investing in public services, public benefits, and public goods with funds from progressive taxes is actually good for the economy. Results from our last recession showed that states that taxed the rich to prevent cuts recovered faster, with more job growth, than states that imposed the worst budget cuts.

This memo outlines several state-level revenue-generating policies for consideration. Some of these might already be in place in your state. Others might not be possible under your state constitution. CPD’s Taxes team will be happy to provide affiliates with state-specific policy guidance. A companion memo “Considerations for Equitable Budgeting in the Time of COVID” outlines how localities can demand an equitable state and local budget in order to advance racial justice.

Progressive vs. Regressive taxes:

A progressive tax ensures higher income people pay more than lower income people. Generally, taxes on the wealthy and corporations are more progressive.

A flat tax requires everyone to pay the same amount, regardless of their income.

A regressive tax takes a larger amount of income from low-income people compared to higher income people. Sales and excise taxes are commonly used but are regressive and burden low-income people.

This document prioritizes progressive tax solutions to generate high revenues and promote a more equitable distribution of wealth.
Menu of Revenue-Generating Policy Options at the State Level

1. Personal income tax

- **Creating targeted tax increases on people with high incomes**
  - States with income taxes can generate significant new revenues by increasing taxes paid by the state’s richest residents—sometimes called “millionaire taxes.” States can either 1) raise existing tax rates (for instance, on income above a certain amount, like those making $250K or more) or 2) add new top tax brackets with even higher rates for incomes of $5M, $10M, or $50M, for instance.\(^\text{10}\)
  - New Jersey and Arizona both adopted this type of policy in 2020 to address COVID-19 budget shortfalls. AZ’s tax is projected to raise $827 to $940 million a year for K-12 funding, while NJ’s tax will raise more than $400 million.\(^\text{11}\)

- **Replacing an existing flat rate structure for a graduated income tax rate, where applicable**
  - Nine states use a single flat rate for personal income taxes: CO, IL, IN, KY, MA, MI, NC, PA, and UT.\(^\text{12}\)
    - In this arrangement a billionaire and a low-wage worker effectively have the same tax rate. This is regressive and places a heavy burden on working families. Instead, states should adopt a “graduated income tax rate” which requires states’ richest residents (who are most able to pay) to pay a higher share of their income to taxes.
    - While five of these states’ constitutions prohibit replacing flat rates with graduated rates,\(^\text{13}\) some states are still making inroads to make their tax rate more progressive. For instance, Massachusetts is considering a 2022 ballot initiative to raise about $2 billion every year from a millionaire tax that would fund education and transportation.\(^\text{14}\)
    - Even if your state uses a “flat rate” (e.g. where everyone pays the same tax rate, regardless of their income), policies can still be put in place to insulate low income people and make taxes slightly more progressive. This can include eliminating deductions and other benefits that primarily go to high income households, or providing refundable tax credits in ways that reduce the tax burden faced by low and middle-income families. For more info see Institute on Taxation and Economic Policy’s [brief on revenue raising options during the pandemic](#).

- **Raising income tax rates**
  - In states that have a more progressive rate structure (where the rich generally contribute a bigger share of their income), you may consider raising income tax rates more broadly. Even in states with flat income taxes, raising the rate would raise substantial revenue for needed public services, and would be more based on ability to pay than most other revenue-raising options.
  - In addition, if your state doesn’t have an income tax, you can start a tax justice campaign by advocating to create one.
**New Jersey advocates win landmark “Millionaires Tax” in 2020—generating more than $400 million in new revenue each year.**

In September 2020, NJ advocates secured an enormous victory with the passage of a millionaires tax. The newly adopted tax increases state taxes by nearly 2% on any income earned over $1 million. Families making less than $150,000 are also newly eligible for an annual rebate of up to $500. The millionaires tax will generate an estimated $400 million in new revenue each year.\(^{16}\) This was the result of coordinated campaigning by many groups including For the Many, a statewide coalition of more than 30 organizations working to promote a fairer tax code. CPD affiliate Make the Road New Jersey is a coalition Steering Committee member and played a leadership role in the campaign.

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2. Corporate income tax and other business taxes

- **Increasing corporate tax rates and introducing a corporate surtax on large corporations**

  - States can increase corporate tax rates, and use a corporate surtax, to roll back Trump’s disastrous 2017 Tax Cuts and Jobs Act, which slashed the federal corporate tax rate from 35% to 21%. Raising state corporate tax rates would enable states to recoup some of that lost revenue and ensure corporations pay their fair share.\(^{16}\)

- **Establishing or increasing minimum tax on large “pass through” companies such as S Corporations and LLCs**

  - Certain “pass through” companies, like LLCs and S corporations, do not pay corporate income taxes. They pass any corporate income or losses onto their shareholders for federal tax purposes.\(^{17}\) They don’t pay taxes despite the fact that these companies receive almost all of the same legal benefits that taxable corporations receive.

  - Creating or raising a “minimum” tax on these pass through companies would ensure they at least pay some taxes. The minimum tax should match the tax rate paid by taxable corporations. It can also be limited to only those S Corporations and LLCs earning profits above a certain amount, to insulate small businesses.\(^{18}\)

- **Establishing a special tax on “windfall” or “excess” profits during the pandemic**

  - States could consider a one-time tax on corporations that received “excess” profits during 2020. The corporations that have seen their businesses soar during the pandemic could have those profits taxed at a rate determined by the state.\(^{19}\)
In 2020 New York formed a broad-based coalition to advance “The Invest in Our New York Act,” a package of six bills that will raise $50 billion in new revenue by ending tax breaks on the state’s wealthiest residents. These bills include:

- Progressive income tax requiring highest income New Yorkers to pay more money (would raise between $12-18 billion)
- Capital gains tax that taxes income from investments (like stocks) the same as wages (would raise $7 billion)
- Heirs’ tax, a tax on large amounts of inherited wealth (would raise $8 billion)
- Billionaires tax, and a constitutional amendment, which will allow an additional tax on wealth (would raise $23 billion in its first year and $1.3 billion after)
- Wall Street tax, small tax on financial transactions (would raise $12-29 billion)
- Corporate tax to repeal Trump’s tax cuts and restore taxes on the profit a corporation makes each year (would raise $9 billion)

This new revenue will help fill the state’s massive $60 billion projected budget shortfall over the next four years. The Steering Committee includes CPD affiliates VOCAL NY, Make the Road New York, and New York Communities for Change, along with groups like Working Families Party, Democratic Socialists of America, and Citizen Action.

For more information on what the New York budget coalition won in the 2021 budget cycle see: https://investinourny.org/2021-wins.

3) Taxes on wealth and the very wealthy

- **Taxing “capital gains” at a higher rate and treating it as ordinary income**
  - When wealthy individuals sell stocks, real estate, or other investments those profits are called “capital gains.” Given the top 10% control 87.2% of the equities in this country, only the wealthiest people tend to get capital gains. Over at the federal level, individuals receive between a 9-17% tax advantage on this income. States that have an income tax should immediately act to repatriate the lost tax revenues at the state level by levying surtaxes on capital gains between 9 -17%. The states with the largest capital gains tax breaks are Arizona, Arkansas, Hawai’i, Montana, New Mexico, North Dakota, South Carolina, Vermont, and Wisconsin. States can potentially raise billions of dollars by equalizing the treatment of paycheck income and investment income and eliminating tax breaks on capital gains.
• **Closing carried interest loopholes through an added state-level surtax**
  - Wealthy Wall Street investment managers often take advantage of a federal “carried interest” loophole which they use to reclassify some of their income as capital gains to pay less taxes. States should tax carried interest as regular income instead. The Obama administration estimated taxing carried interest, at the same rates as regular income, would raise $18 billion over 10 years.

• **Enacting an estate or inheritance tax**
  - After someone passes away, states can either tax what someone leaves to an heir, including cash, real estate, or other assets, called an “estate tax,” or opt for an “inheritance tax,” where the recipient of the inheritance is taxed instead of the estate. While all states had some form of this tax in the past, after federal changes in 2001 only 17 states and DC still had these taxes by 2019. Reinstating the estate tax across all states would generate $3.5 to $11 billion.

• **Enacting a “mansion tax” on high-value homes or sales**
  - Thirty-nine states and DC have real estate transfer taxes or statewide property taxes. States can create a “mansion tax” by 1) taxing high-value housing when they are sold using a “real estate transfer tax” or 2) using existing property taxes on an ongoing basis. Currently seven states—CT, DC, HI, NJ, NY, VT, and WA—either have a surcharge on mansions, or use a progressive bracket in a real estate transfer tax, to ensure the highest earning homeowners pay the most.

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**Progressive Ballot Measures for Education in California**

California successfully passed several progressive ballot measures to raise funds for public education in recent years. In 2016, voters approved Prop 55, which extended the state income tax on high-income earners to fund K-12 education (modified slightly from its original version as enacted by Prop 30 in 2012). The measure was projected to generate $4 billion to $9 billion per year between 2019 and 2030. Voters also approved Prop 51, which directed $9 billion in bonds to the construction and renovation of schools and other education facilities. About $7 billion was dedicated to K-12 schools, and $2 billion to community colleges.

In November 2020, California rejected Prop 15, the Tax on Commercial Industrial Properties for Education and Local Government Funding Initiative. The measure, which was narrowly defeated by 52% to 48%.

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• **Climate-related revenue generators**: CPD’s Climate Justice team is currently in consultation with affiliates on progressive revenue-generating policies that also advance Climate goals. For instance, polluters taxes on companies or taxes on utility companies. Once that policy agenda is developed, we can share more details on Climate-related tax policy reforms.
Arizona’s Successful Prop. 208 “The Invest in Education Act”

In November 2020, Arizona voters approved Prop. 208, the Invest in Education Act, which enacted a 3.5% tax surcharge on taxable income over $250,000 (for single filers) and $500,000 (for joint filers). Prop 208 emerged out of the #RedForEd movement of 2018, when educators participated in walk outs to protest Arizona’s severe budget cuts to public education. Since the Great Recession, Arizona has seen the deepest cuts to public education in the nation.

Prop 208 will raise an estimated $827 million for education, of which:

- 50% will support teacher, counselor, and nurse salaries (new hires and current staff)
- 25% will fund student support staff, including classroom aides and bus drivers (new hires and current staff)
- 12% will support career and technical education programs
- 10% will support programs for retaining and mentoring teachers.
- 3% will support scholarships for the Arizona Teachers Academy, “which waives college tuition for teachers-in-training who commit to work in Arizona schools after graduation.”

The measure is being challenged by two lawsuits (one brought by the right wing Goldwater Institute and GOP lawmakers, and the other brought by a group of taxpayers), alleging that it is unconstitutional because the authority to levy taxes belongs to the state legislature.

What are the revenue options cities, counties, and school districts can consider?

According to the Institute for Taxation and Economic Policy “State laws determine the revenue options that local governments like cities, counties, and school districts get to choose from. In most states those options are limited to slightly regressive property taxes, harshly regressive sales taxes, and similarly regressive fines and fees. States often also impose caps on how high local tax rates can be and how much they can grow. Localities suffering pandemic-related budget issues will therefore largely be forced to turn to regressive revenue sources unless states grant them flexibility to pursue more equitable options. These options include empowering localities to [emphasis added]: progressively tax income through graduated local income taxes or income surtaxes calculated as a percentage of state income taxes; tax mansions, second homes, or commercial property at higher property tax rates; and tax large corporations through various means.” CPD affiliates can reach out to our taxes team to explore local policy options available in your area.
Resources

This document draws heavily on these resources which you can review for more information:

- Center on Budget and Policy Priorities: “State Revenue Options for Investing in Families and Communities” https://www.cbpp.org/state-revenue-options-browser#/groups/1

Endnotes


13 Note: Graduated rates prohibited by the state constitution in Colorado, Illinois, Massachusetts, Michigan, and Pennsylvania.


20 For more information see: https://www.investinournomy.org/.


40 “How to Talk About Austerity,” Groundwork Collaborative, 1.

41 “How to Talk About Austerity,” Groundwork Collaborative, 1.