



# STRUCTURAL RACISM AND STATE TAX POLICY: A WALK THROUGH HISTORY

Discriminatory public policies and racially prejudiced public and private actions of the past contributed to a historical context in which people of color were systematically held back. For much of our nation's history, people of color had little to no power in state legislatures and white lawmakers could set policies that sustained white dominance, even in states where people of color were a significant share or even most of the population. In that sort of environment, state and local budget and tax policies often deepened the profound challenges that people faced even when those tax policies were not explicitly race-based. This session, **“Structural Racism and Tax Policy: A Walk Through History”** explores the legacy of state policy and racism and connects it to present day inequality.

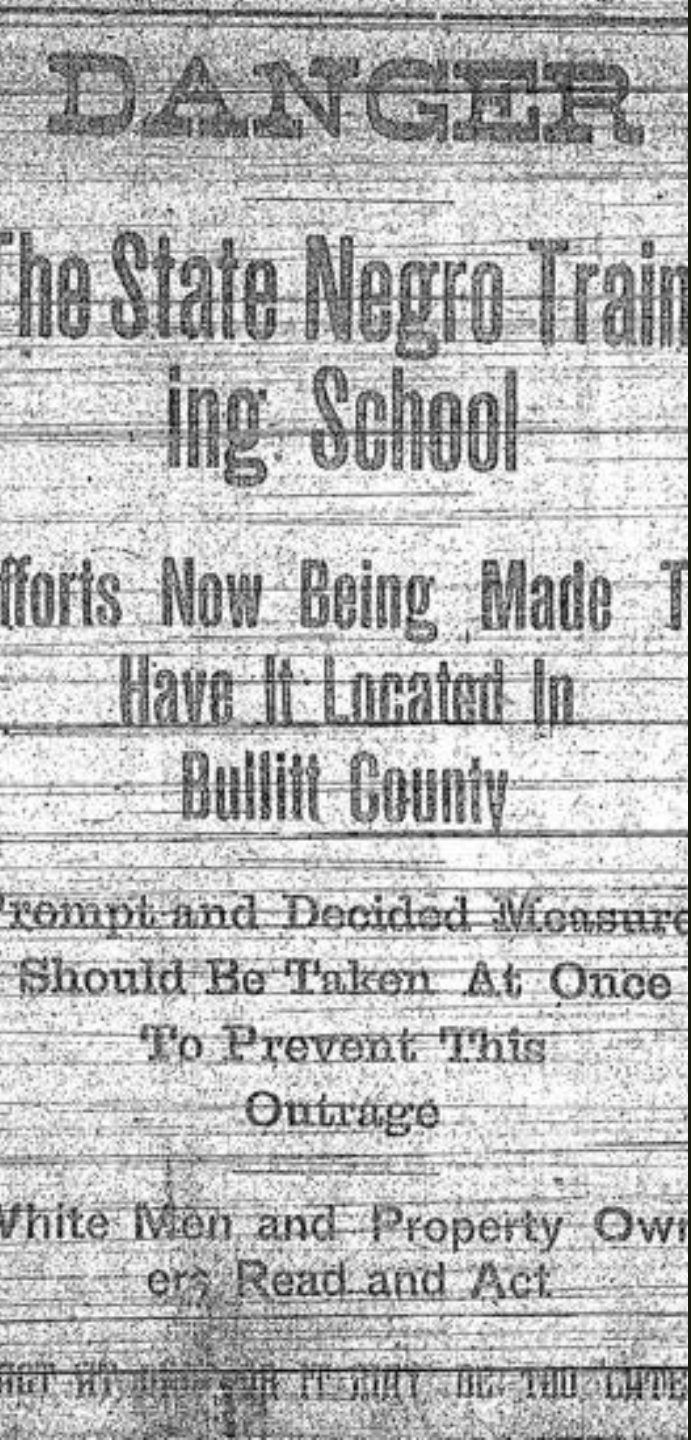
# Mississippi Home of the Oldest Supermajority Requirement

During the 1890 Mississippi constitutional convention, in response to changes during reconstruction, delegates adopted a constitutional requirement for a three-fifths vote in both houses of the legislature for all state tax increases – as opposed to a simple majority vote typical of most other legislation -- the oldest such requirement still on the books in any state. The delegate who introduced the supermajority requirement stated, “All understood and desired that some scheme would be evolved which would effectually remove from the sphere of politics in the State the ignorant and unpatriotic negro.” Supermajority requirements are harmful to states as they make it difficult for lawmakers to raise needed revenue and give a small handful of lawmakers and special interests outsized power.



MISSISSIPPI LEGISLATURE, THE YEAR OF  
CONSTITUTIONAL CONVENTION ( ). W.W. HEIDELBERG,  
BOGELBERG) SEATED SECOND FROM THE LEFT.





# Education Funding in Kentucky

At the turn of the 20th century, Kentucky allocated property taxes to its racially segregated schools based on taxpayers' race: schools attended by white children received all of the property taxes paid by white residents, while schools attended by Black children received only the taxes paid by Black families. Since Black families in Kentucky had far less property wealth than white families — at that time many Black people were only a generation or so removed from slavery — this ensured that Black children would attend separate and very unequally funded schools. Other Southern states produced a similar result by distributing funds to districts regardless of race but allowing local officials to direct most of the funding to segregated schools for white children.



# California's Tax on Immigrant Miners

During the gold rush years of the 1850s, California imposed a special tax on immigrant miners. (U.S.-born whites were not subject to the tax.) The tax fell on immigrant miners of European descent as well as those from China and Latin America, but for a period in 1855 and 1856, the state imposed an additional tax solely on immigrant miners ineligible for citizenship, mainly Chinese and Latinx miners who were legally barred from becoming U.S. citizens because they were not “free white persons.” The tax was a major revenue source for California at the time; it raised over a quarter of the state’s revenue in 1856.

# The Racist Roots of Sales Taxes

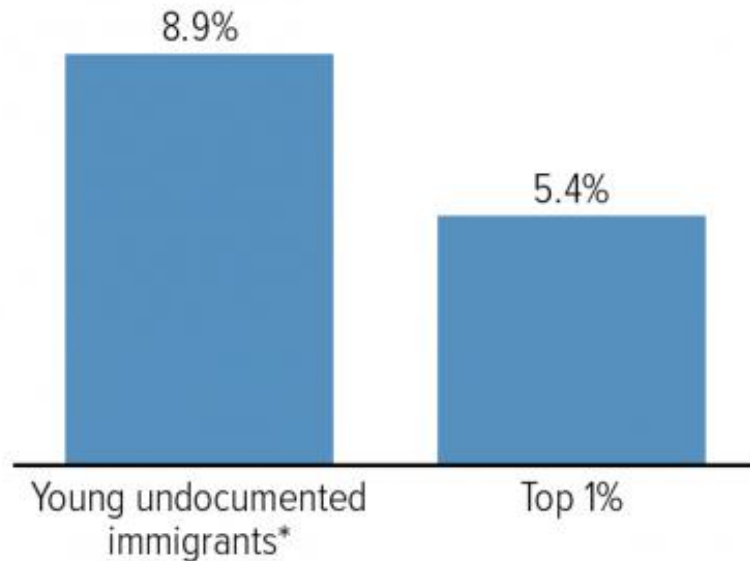
In 1932, Mississippi adopted the nation's first modern retail sales tax, a tax that generally falls hardest on those with the least income (because sales taxes consume a larger share of their income). The state's governor, Mike Conner (pictured here), urged adopting the new tax in part by emphasizing that the revenue would be used to reduce property taxes, and that as a result it would shift the state tax base away from property owners and more heavily onto consumers. What that meant in practice was a reduction in taxes owed by mostly white property owners and an increase in those owed by Black households that owned little or no property and had little else to tax. Other states across the country adopted sales taxes not long after Mississippi demonstrated the tax's feasibility and its significant revenue-raising power.<sup>1</sup>



# Undocumented Immigrants Contribute Greatly to State and Local Taxes Today

## Young Undocumented Immigrants Pay More of Their Income in State & Local Taxes Than Top 1 Percent

Average effective state and local tax rate, nationally



\*Immigrants brought to U.S. as children who benefit from 2012 Deferred Action for Childhood Arrivals program.

Source: Institute on Taxation and Economic Policy

The Trump administration's immigration policies have broken apart families and removed established members of communities. Many of those young immigrants qualify for deferred deportation action and legal work authorization under Deferred Action for Childhood Arrivals (DACA), a 2012 executive order. Like all other state residents, DACA participants pay state and local sales taxes on their purchases and property taxes on homes they own or as part of the rent they pay. With the temporary legal status, they receive through DACA, they're also eligible for work permits and pay \$2 billion a year in state and local taxes that support schools, health care, and other essential services. In fact, undocumented immigrants pay a larger share of their incomes in state and local taxes than the top 1 percent of taxpayers do.

# ET

NEGRO BUYING  
BOYCOTT  
SHUTS DOWN A  
MISSISSIPPI TOWN



ALLENE CALLENDER:  
Pretty model shows off  
Colorballoo creations  
as Ebony Fashion Fair  
premieres in New York

Fair

# Property Tax Assessments in Edwards, Mississippi

Racial discrimination in state and local tax policies historically has occurred not only through the policies themselves but also through how tax authorities administered those policies. States and local governments could also use tax assessments as a political tool to sustain the status quo by punishing Black people who protested Jim Crow laws or other discriminatory systems. For example, in 1966 the white-dominated government of a Mississippi town selectively raised the property assessments of Black people participating in a boycott of white-owned businesses (which was prompted by the town's refusal to integrate a local swimming pool). In one year, Black property owners in the town saw their assessments increase by more than 50 percent overall.

# Property Taxes and Segregation in Chicago

In Chicago during the 1970s, the county tax assessor's office tended to over-assess properties owned by African Americans. One reason was that when neighborhoods transitioned from white to Black, property values declined (because white people, a large share of the housing market, no longer wanted those homes), yet tax assessments did not account for this decline in value. There may not have been an intention to overtax Black homeowners, but that is what occurred. And a number of these African American homeowners could not pay their taxes and lost these homes to predatory lien-buyers, who took advantage of laws making it relatively easy for them to seize people's homes when a property tax bill was overdue. Similar issues arose in other Northern cities such as Baltimore and Philadelphia.



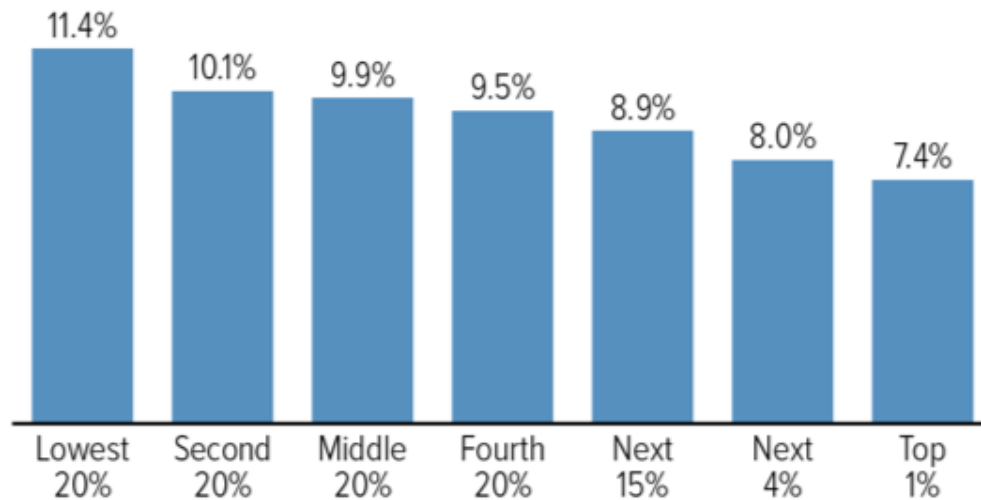
# Criminal Fees and Fines in Ferguson, Missouri

State and local governments increasingly charge criminal defendants for services ranging from a public defender to room and board in a prison or jail. This growing dependence on fees, along with burdensome criminal fines, encourages poor policing practices — such as those a U.S. Justice Department investigation uncovered in Ferguson, Missouri after the murder of Mike Brown — and disproportionately harms low-income residents and communities of color. Localities rely more on criminal justice user fees largely because they need to raise new revenue. In recent years, local governments have seen resources dwindle as states have cut their support and have prevented local governments from increasing property taxes. Local governments have only made the problem worse by giving costly tax breaks to private corporations.

# State Tax Systems Worsen Inequality

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

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



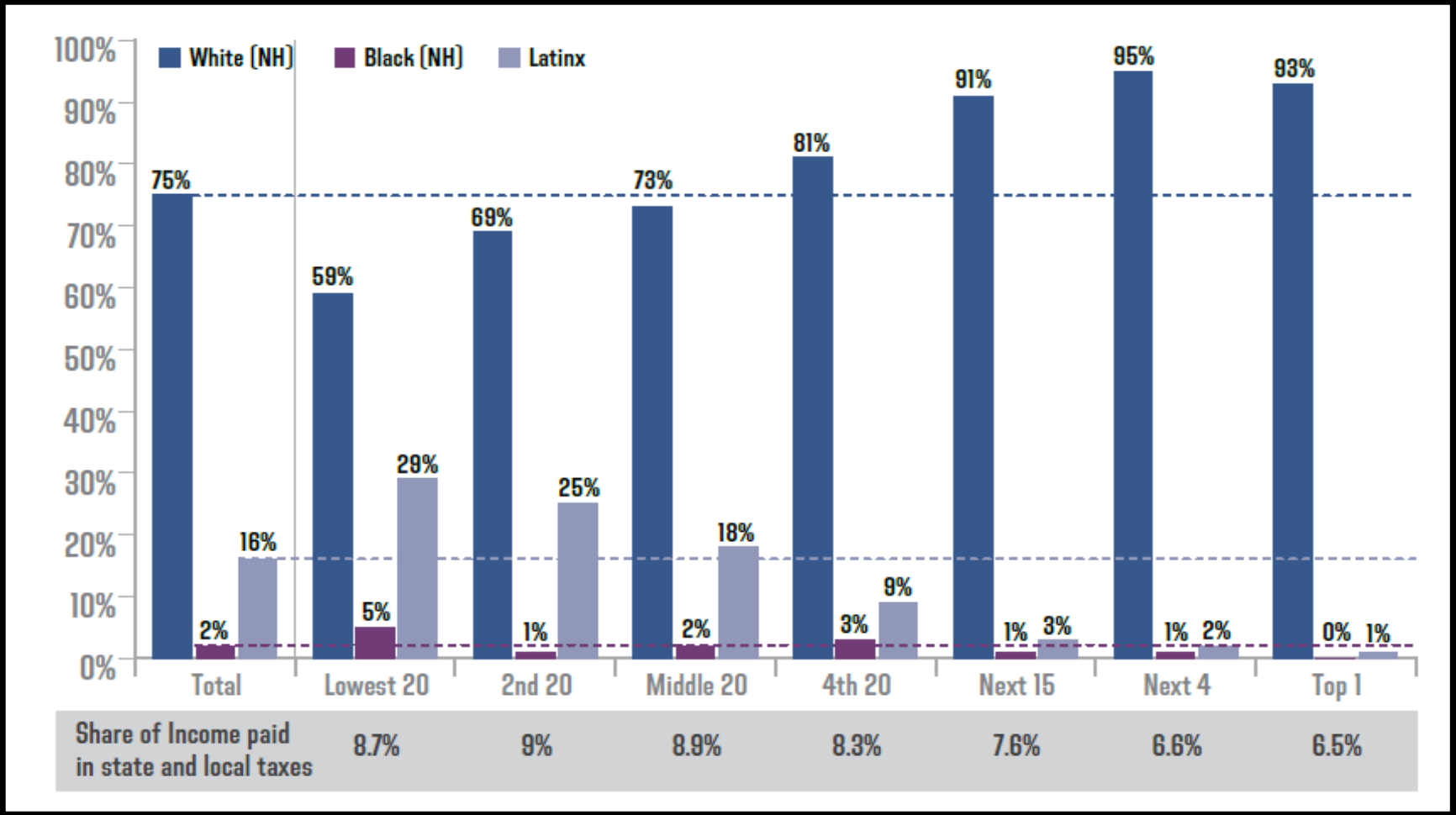
Income ceilings: \$21,000 for bottom 20%; \$37,000 for second 20%; \$60,000 for middle 20%; \$104,000 for fourth 20%; \$227,000 for next 15%; \$553,000 for next 4%.

Source: Institute on Taxation and Economic Policy

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Today, state and local tax systems typically worsen racial and ethnic inequities. In 45 of 50 states, state and local tax systems effectively require lower-income households to pay a larger share of their income in taxes than high-income households. And since households of color are more likely to have low incomes, they tend to pay larger shares of their incomes in state and local taxes than white households do. Nationally, the poorest fifth of households pay a much larger share of their income in state and local taxes than the top 1 percent, on average. In some states, this disparity is especially stark.

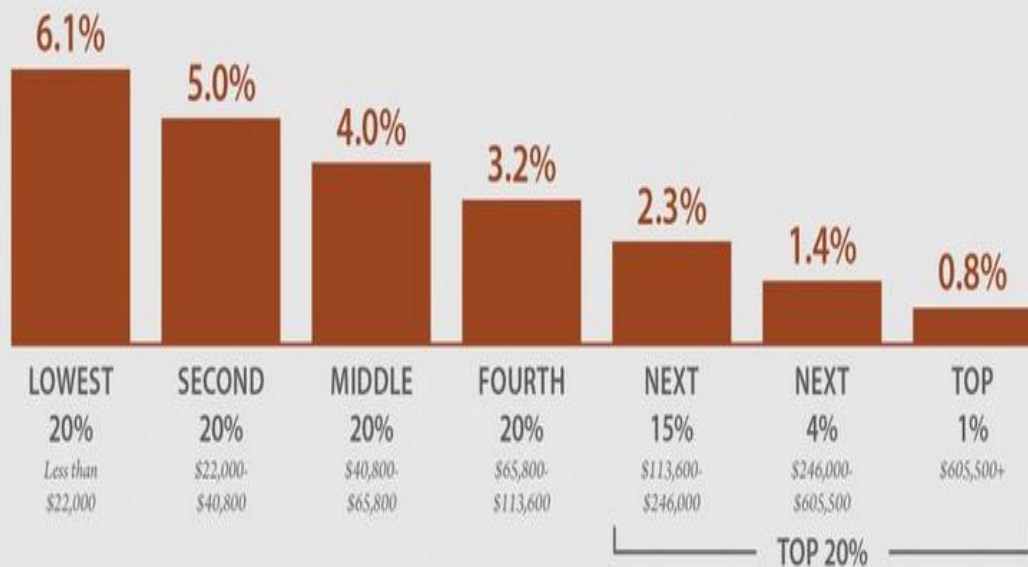
# People of Color in Colorado are Overrepresented in Quintiles that Pay Higher Share of Income in State and Local Taxes



# Sales Tax contributes to Colorado's Upside-Down Tax System

## SALES & EXCISE TAXES IN COLORADO

Share of Family Income



Sales taxes are naturally regressive. Families who earn lower incomes spend a larger chunk of their money on things that are subject to it, and those at the top tend to spend money on services and other things that aren't subject to it. So how do we fix this? Usually, it's through a graduated income tax. You might pay less in sales taxes, but it evens out because you end up paying a higher income tax rate. Unfortunately, this is specifically prohibited under the Colorado constitution, so we're stuck with this upside-down, inequitable tax code unless we amend the constitution.

# Tax Cuts in North Carolina

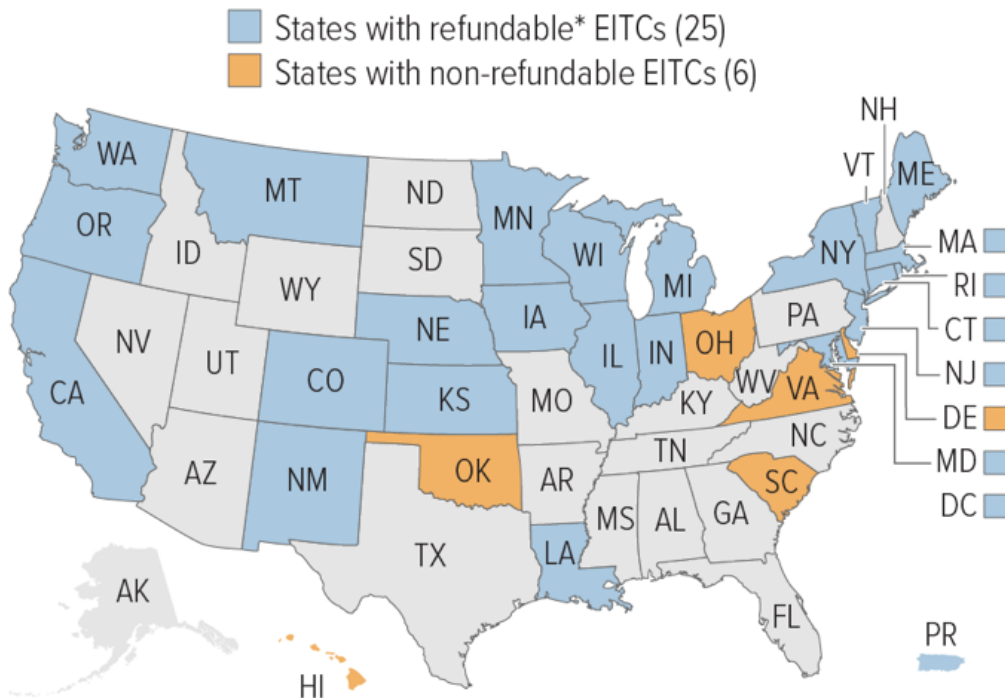
A group of men in suits are shown in a formal setting. One man in the foreground is laughing heartily, while others behind him are smiling. The background features ornate wall decorations.

The 2013 tax cuts in North Carolina, for example, reduced the taxes of the highest-income state residents by 1.5 percent of their income on average, but by just 0.1 percent of income for the lowest-income North Carolinians, according to the Institute on Taxation and Economic Policy. White North Carolinians comprise two-thirds of state taxpayers but received 81 percent of the tax cuts. In contrast, Black North Carolinians comprise 22 percent of state taxpayers but received 10 percent of the tax cuts. Black residents now pay a larger share of state taxes than before, while white residents pay a smaller share. People of Hispanic or Latinx heritage also pay a larger share than before.



# Adopt or Expand State Earned Income Tax Credits

## Twenty-Nine States, D.C., and Puerto Rico Have Enacted EITCs as of 2018



\*Refundable EITCs give working households the full value of the credit they earn even if it exceeds their income tax liability.

Source: CBPP analysis

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Due largely to various structural barriers to opportunity, African American and Latinx workers are far more likely than white workers to earn poverty-level wages. One step that states can take to lessen this inequity is to adopt or expand state Earned Income Tax Credits (EITCs), which can help address the disparate racial impact of regressive taxes like sales taxes by boosting the after-tax incomes of low-wage households struggling to make ends meet. While state and federal EITCs serve a larger number of white households than of households in any other racial or ethnic group (because there are more white households in the United States), they serve a larger proportion of people of color.