

# FIGHTING THE FIGHT

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Progressive tax reform may seem like a daunting task. After all, successful tax reform can take years—and progressives 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.

### Strategies for Progressive Tax Reform

The first step in achieving state 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. The resources described later in this chapter can help you to learn more about the specific flaws in your state’s tax structure.

In describing your proposals for tax reforms to fix these structural flaws, it’s important to **be specific about what your plan does and how it affects people**. If your 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 5 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 difficult for the other side to distort.

Unfortunately, even clearly-defined 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 Nine 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 tax burden 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’s also 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 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.

Successful tax reform campaigns should **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.

A winning tax reform agenda must also have an **educational component**—and these educational efforts must use simple, easily understandable language. State tax fairness and adequacy are important goals—but are also too complicated for most members of the media, state legislatures, and the public to understand intuitively. State tax advocates must make an effort to explain tax fairness issues to newspaper editorial boards, reporters, and lawmakers of all stripes. Equally important is presenting basic information on tax reform to the general public. Public workshops on tax reform can be a critical component in building public awareness of—and support for—progressive tax reform.

When these strategies are followed, successful tax reform efforts can be the result. For example, in recent years Alabama Arise and the Virginia Organizing Project each helped to build broad-based coalitions in their states. These groups developed plans for progressive 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 these groups understand the basic tax policy principles underlying their proposals. They also helped to lay the groundwork for public acceptance of tax reform by holding public workshops to explain basic tax fairness issues. This ongoing work helped to establish these groups as a credible source of accurate incidence, 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 (2003) 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. CTJ and ITEP also have published a series of analyses of corporate tax avoidance, most recently *Corporate Income Taxes in the Bush Years* (2004).

*Just Taxes*, our quarterly newsletter, keeps readers informed on the latest developments in tax policy and advocacy, and lists new publications of note by CTJ, ITEP and other organizations.

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. You can access the websites of these agencies on ITEP's website at [www.itepnet.org/linkileg.htm](http://www.itepnet.org/linkileg.htm).
- **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 at [www.itepnet.org/linkistg.htm](http://www.itepnet.org/linkistg.htm).
- The **U.S. Census Bureau** publishes *Government Finances*, a helpful source of data for comparing your state's tax system to other states. Census reports are available at [www.census.gov](http://www.census.gov).
- The **Center on Budget and Policy Priorities** publishes a wealth of information on tax and spending programs as they affect low-income taxpayers. Their website is [www.cbpp.org](http://www.cbpp.org).

- The **National Conference of State Legislatures** has a number of publications evaluating state taxes, including their annual *State Budget and Tax Actions*. Their website is [www.ncsl.org](http://www.ncsl.org).
- The **Rockefeller Institute** regularly analyzes trends in the health of state tax systems, and follows trends in state spending as well. Their website is [www.rockinst.org](http://www.rockinst.org).

## Final Thoughts

The need for progressive tax reform is now greater than ever. Even before the recent economic slowdown began, state and local taxes in almost every state were regressive. And most 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: in the last four years alone, the wealthiest taxpayers have seen their effective tax rate decline substantially, while lower- and middle-income taxpayers have failed to reap similar gains. And corporate income taxes are nearing an all-time low. These unaffordable federal tax cuts have had the predictable impact of forcing cuts in important federal services, and cutting aid to state and local governments.

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. We do have one important thing going for us: most people *want* fair and adequate taxation. The key is showing the public, elected officials and the media what fair tax policy is and how it can benefit the people of our nation. We hope this primer provides you with enough tax policy knowledge to start that process.