

# WASHINGTON'S TAX CODE IS AN UNTAPPED RESOURCE TO ADVANCE RACIAL JUSTICE

October 2019

Our state tax code, like so many other economic systems in our state and country, acts as a barrier to people of color accessing opportunity and wealth. Enacting solutions that unleash the potential of our state tax code as a tool for racial justice would improve the well-being of our communities.

## Overview

Through decades of laws and policy decisions, Washington's elected leaders have created a tax code that is the most upside-down, or regressive, in the nation, meaning that those with low incomes pay a much higher share of their income in taxes compared to the wealthiest. In other words, Washington's tax policies favor certain people based on their income and wealth, while continuing to hold low- and middle-income people back.

**This brief addresses the question: How and to what extent does a person's race and ethnicity determine how Washington's upside-down tax code impacts them?**

Washington's fiscal policies – like so many other state and federal public policies – are built on a history of institutional and systemic racism. So our state's tax code is both a product, as well as a perpetrator, of stark racial inequities. Some of these policies may not have been grounded in racial hostility, but the cumulative impact of these policy choices over time – for example, to create tax loopholes for the wealthy and not for those working hard to get by; to invest more in wealthy white neighborhoods and uphold policies that keep people of color out of those neighborhoods; and to restrict tax revenue at the expense of schools in the poorest areas – accounts for much of the racial injustice that exists today in Washington.

## About *Progress in Washington*

This is the fourth publication in the Budget & Policy Center's *Progress in Washington* series. This series examines ways our state can reach the goal of an inclusive Washington state economy with shared prosperity for everyone. Visit [budgetandpolicy.org/policy-priorities/#Progress-in-Washington](https://budgetandpolicy.org/policy-priorities/#Progress-in-Washington) for more details.

#### **NOTE ABOUT THE INTERSECTION OF RACE, INCOME, AND ASSETS:**

It's important to note that while not all low-income communities are communities of color, and not all people of color have low incomes or are asset-poor, there is an overlap that cannot be ignored. Some communities of color represent a disproportionate share of those living in households with low incomes, and in aggregate they have less wealth. As detailed throughout this brief, this is in large part because of policies and practices such as redlining, employment discrimination, and limited access to credit that have advanced structural and institutionalized racism.

Because of the role institutional racism has played in shaping our fiscal policies, the tax code is ultimately an incredibly powerful and essential tool to advance racial justice in our state. Obviously, Washington's modern tax laws do not mention race or ethnicity on their face. But their failure to adequately address historical racism and the resulting inequitable opportunities they have created between white people and people of color can actually increase and prolong racial inequities.

Indeed, the research shows that Washington's current state tax code exacerbates the impacts of historical patterns of racism in Washington by requiring the lowest-income groups – a disproportionate share of whom are Native American, Black, Latinx, and Pacific Islander – to pay nearly 18 cents of every dollar they make in taxes, compared to just 3 cents on the dollar for wealthy, mostly white, residents. Our tax code also perpetuates racism through a legacy of policies designed to benefit wealthy, mostly white residents, at the expense of low-income residents, too many of whom are people of color. These shortcomings include arbitrarily low – or nonexistent – wealth and real estate taxes and a heavy reliance on regressive sales and excise taxes.

To ensure that a person's race or ethnicity has no bearing on their ability to make gains in today's economy, and to begin to undo the decades of harm that racist policies and practices have caused, we should make our tax code more equitable and racially just. This will not only help undo income inequality, but it will also help ensure our state has the revenue it needs to equitably invest in the foundations of strong communities – like schools, health care, and infrastructure.

Lawmakers can make our tax code more racially just by replacing regressive and outdated policies with reasonable taxes on excessive wealth and property, and by providing tax breaks for those who are struggling to get by. They should also remove existing limits on revenue and refrain from adding new ones, so our state can invest in giving all Washingtonians the chance to get ahead. Drawing on Washington's history and on the observable impacts of our tax code, we recommend such forward-looking fiscal policies to create a tax code that allows everyone to have the opportunity for a healthy, prosperous life.

## **A history of racial discrimination and economic oppression**

In America, white people have benefited from substantial generational income and wealth gains through racist historical institutions and atrocities, such as the enslavement of Black people; confiscation of land and resources from American Indian and indigenous people; acquisition of Mexican land following the Mexican-American War; overtly discriminatory laws limiting access to voting, housing, education, commerce, and good jobs; and the subjugation of people of color and immigrants in countless other ways. One of the lasting effects of these practices is that our state tax code – indeed, many of our state policies – are inextricably tied to historical and ongoing discrimination and the resulting cumulative impacts.

## BOX 1: The Fish Wars

The confiscation of American Indian land is an early example of the far-reaching impacts of racist implementation of public policy by government officials in Washington. Indeed, in 1855, even before statehood, one of the first actions the territorial government took was to use coercive treaties to seize American Indian land for the benefit of white settlers. The following decades of commercial fishing and logging, increased pollution, and the state's increasingly restrictive and dubious enforcement of Native American fishing rights under the treaties resulted in extremely limited fishing resources for tribes by the early 20th century. When tribal fishermen began to go off-reservation to harvest fish – a right protected by their treaties – the state of Washington routinely and repeatedly interfered, sometimes arresting and jailing Native American fishermen and confiscating their boats, nets, and other fishing equipment. The struggle reached a head in the 1960s, when Native American fishermen engaged in a series of “fish-ins,” a civil rights campaign known as the Fish Wars, to protest the state's refusal to acknowledge their treaty rights. The successful campaign culminated in a landmark court case in 1974, known as the Boldt decision, when a federal court affirmed Native fishing rights under the treaty.

However, to this day, Native American fishermen struggle against the state to enforce their treaty-protected fishing rights. Even after the U.S. Supreme Court affirmed the tribes' fishing rights in a 1979 case, Washington state continued – and has continued – to limit tribes' rights through various restrictions and legal actions. The latest significant legal battle ended in victory for 21 Washington tribes at the U.S. Supreme Court in 2018.<sup>1</sup>

Because access to income and wealth-building opportunities today is shaped by a history of public and private racial discrimination, it should come as no surprise that Washington's current economic system and tax code disproportionately advantage white people and harm many people of color who have been held furthest from opportunity.

### Public-sector discrimination

Washington state shares and is affected by the history of institutional and systemic racism that shaped the nation, and it is also home to its own unique history of racial discrimination. Our state, through public institutions and elected representatives, has directly harmed the livelihood of many communities of color by stripping their rights, property, wealth, and earning power. This action has a significant effect on the population immediately impacted, and also has contributed to limited opportunities for people of color to accumulate wealth and resources over time.

These are some examples throughout our state's history of state-sanctioned activities designed to keep communities of color from having access to wealth and economic security, among other things:

**Native American fishing rights.** Starting even before statehood and throughout Washington's history, our state government has routinely ignored and steadily impeded on American Indian and indigenous people's treaty rights to harvest fish and other resources.<sup>2</sup> Read more about that history in Box 1 above.

**Poll taxes.** From its establishment in 1853, members of the Washington Territorial government<sup>3</sup> restricted voting to white male inhabitants age 21 and older.<sup>4</sup> In 1864, to discourage immigration by Chinese people, the territorial government enacted a hefty per-head-of-household tax on Chinese residents that was three times higher than the equivalent tax on white residents.<sup>5</sup> The act's intent was unequivocally stated in its title: “An act to protect free white labor against competition with

#### NOTE ABOUT DATA:

Wherever possible, data are disaggregated to provide a preliminary understanding of disparities by race, ethnicity, and nativity. Data are not always available for all races and ethnicities, which we recognize is problematic given our country's long history of cultural erasure. The terminology used by data sources to describe people's identities can also be limited and/or inconsistent. As a result of all of this, the statistics throughout this report tell a limited story. And in some cases, the numbers don't reflect people's lived experiences. The Budget & Policy Center is committed to continuing to engage with the communities represented in this data to better understand the stories, voices, and people behind the numbers. We are also committed to engaging with the communities left out of this data – as well as to advocating for better, more accurate, and inclusive data.

Chinese ... labor, and to discourage the immigration of the Chinese into this territory.”<sup>6</sup> Although the head tax (“poll tax”) was unpopular and was later repealed, this 1864 legislation reflected the hostility against Chinese Washingtonians that existed at the time. It also helped breed discrimination and violence against Chinese and other Washingtonians of Asian descent for decades after.<sup>7</sup>

**Endorsement of slavery.** Even though slavery had been abolished by the time Washington became a state, in 1858, the then-territorial government sanctioned the enslavement of Black people, passing a resolution<sup>8</sup> endorsing the United States Supreme Court's historic *Dred Scott* decision, which held that slaves were property, and Black people (whether enslaved or freed) were never intended to be American citizens under the Constitution and could therefore “claim none of the rights and privileges which that instrument provides.”<sup>9</sup>

**Internment.** During World War II, our state helped imprison nearly 7,400 people of Japanese descent, giving just days' notice to some families to upend their lives, stop work, shutter businesses, and gather whatever personal items they could carry. They were taken to the temporary detention facility at Puyallup Assembly Center, where they were incarcerated for nearly five months from April to September 1942.<sup>10</sup> After that, most were sent on to the Minidoka War Relocation Center in Idaho, where they were kept until the closure of the camp in 1945.<sup>11</sup> Many other Japanese Americans in Washington were taken to other detention centers, such as the Heart Mountain Relocation Center in Wyoming. A significant majority of the detainees never returned to their homes in Washington, forced to abandon thriving businesses and strong community ties.<sup>12</sup>

**Mexican guest worker program.** From 1942 to 1947, Washington state participated in a national guest worker program, known as the Emergency Farm Labor Supply program or the Bracero Program.<sup>13</sup> The U.S. government's intent was to fill anticipated labor shortages from World War II by paying Mexican nationals low wages to do the work. Under the agreement between the two governments, Mexican workers were brought to the U.S. under promises of good working conditions, humane treatment, fair pay, and provision of free and safe housing. In fact, American employers and officials often ignored these rules.<sup>14</sup> Many workers were cheated out of wages, worked under difficult and dangerous conditions, and were forced to live in substandard housing, where illness spread because of the close living conditions.<sup>15</sup> The workers were also brought in on some occasions to replace striking workers, which violated the agreement.<sup>16</sup>

**Court fines and fees.** Washington state allows judges to charge criminal defendants fines, fees, and costs both as restitution and to cover legal costs associated with their prosecution.<sup>17</sup> Though this practice has existed for decades, several



modern studies have found that these legal financial obligations (LFOs) are levied more harshly on some defendants of color, including significantly higher LFOs for Latinx defendants compared to whites.<sup>18</sup> In fact, based in part on these disparities, our state supreme court has taken small but important steps to reform the use of LFOs.<sup>19</sup> Yet much damage has been and continues to be done to the communities of color who are disproportionately ensnared in a criminal justice system contaminated with racism.<sup>20</sup>

### Private-sector discrimination

Another way communities of color have been stripped of the opportunity to meet their basic needs is through actions of private businesses and citizens, either sanctioned or left unchecked by the state. Pervasive patterns of discrimination in housing, education, and employment have a devastating impact on economic security and prosperity for many people of color, particularly in the Native American, Black, Latinx, and Pacific Islander communities in Washington.<sup>21</sup>

**Housing discrimination.** Everybody should have access to safe and affordable housing. However, research consistently shows that nationally people of color, especially Black people, are wrongfully and illegally discriminated against when it comes to renting or buying homes.<sup>22</sup> In a 2018 study conducted in Seattle, city officials used paired testing to detect differences in treatment between Black and white rental applicants who were equally qualified. In 39% of cases, treatment was equal between the testers; and in 23% of cases, it was better for the Black tester than the white tester. But in 38% of cases, treatment was better for the white tester than the Black tester.<sup>23</sup> Washington also has a long history of racially restrictive covenants in property deeds. These clauses were included in property deeds and restricted the sale of property to people based on their race or ethnicity – or simply required any buyer to be white. These covenants were common from the mid-1920s until

they were outlawed in 1968. However, research shows that, though unenforceable, the language still exists in hundreds of deeds in King County alone, and the impacts are still felt today.<sup>24</sup>

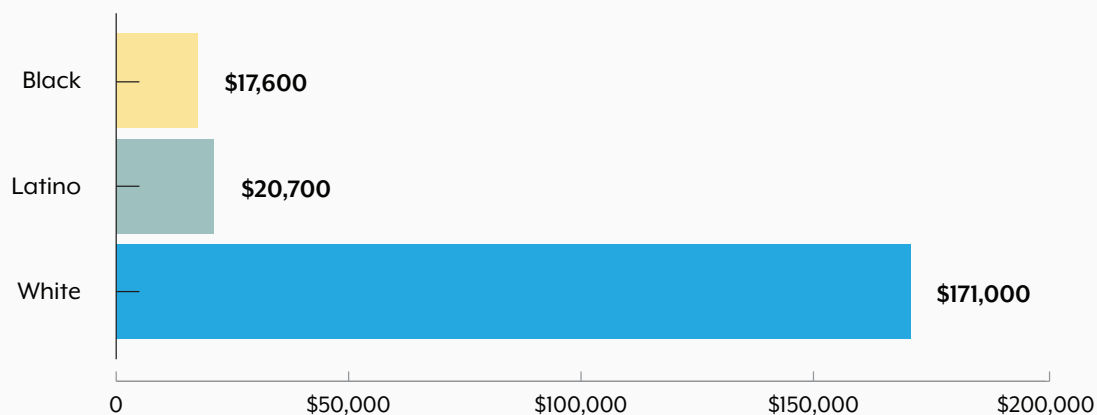
**Hiring and workplace discrimination.** Even though it is illegal, workplace discrimination is still prevalent in America, and many people of color experience discrimination when it comes to getting good jobs and receiving fair treatment regarding promotions and pay. A 2017 survey series explored Americans' experience with discrimination when applying for jobs or being paid or promoted equally. Nearly 60% of Black respondents; more than 30% of Latinx and Native American respondents; and 25% of Asian American respondents reported experiencing such discrimination.<sup>25</sup> Research has also shown that employers show significant preference for white candidates compared to equally qualified Black candidates. In one study, resumés with white-sounding names received 50% more responses than those with Black-sounding names, and researchers estimate that a white applicant's name alone gave them an advantage on par with *eight additional years* of experience.<sup>26</sup>

Racial discrimination, both by public laws and institutions and by private citizens, obviously has lasting ripple effects. Limited access to resources and opportunity because of racial discrimination impacts a family's ability to meet their needs. In the long run, it inhibits the ability of families of color to build generational wealth over time, compared to wealthy, mostly white families, who are more often able to leave property, money, and other assets to their children and grandchildren that can grow with each generation.<sup>27</sup> Racial discrimination also has measurable negative impacts on people's overall health and well-being. People who experience discrimination – and sometimes even the mere anticipation of discrimination – show higher levels of stress, anxiety, depression,<sup>28</sup> hypertension,<sup>29</sup> and even increased mortality in old age.<sup>30</sup> All of these combine to create a web of obstacles for many people of color.

Figure 1

### The racial wealth gap in America is staggering

Median wealth by race/ethnicity, United States, 2016



Source: Board of the Federal Reserve System, Survey of Consumer Finances, 2016

### Entrenched racial disparities in wealth and prosperity

The racial wealth gap is perhaps the starkest economic illustration of the compounded effects of decades of racial discrimination in America. Throughout our nation's history, white households have systematically limited the rights of Black, American Indian and indigenous, and other people of color – perhaps most starkly through the confiscation of American Indian and indigenous land and the enslavement of Black people to build America's wealth and power. Some scholars draw a direct line from enslavement to the gap that

exists today: “The racial wealth gap is rooted in the history of chattel slavery, when Black people themselves were considered capital assets that fueled the wealth of a white plantation owning class, which served as the impetus for modern financial capital markets.”<sup>31</sup> White people have enjoyed advantages in access to housing, real estate, lending, business ownership, and the financial market, allowing them to accumulate substantial financial resources, passed along over many generations. At the same time, past and present racist laws and policies have deliberately prevented many communities of color from doing the same. If wealth in the United States were distributed proportionally

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Darrick Hamilton & Michael Linden  
Roosevelt Institute

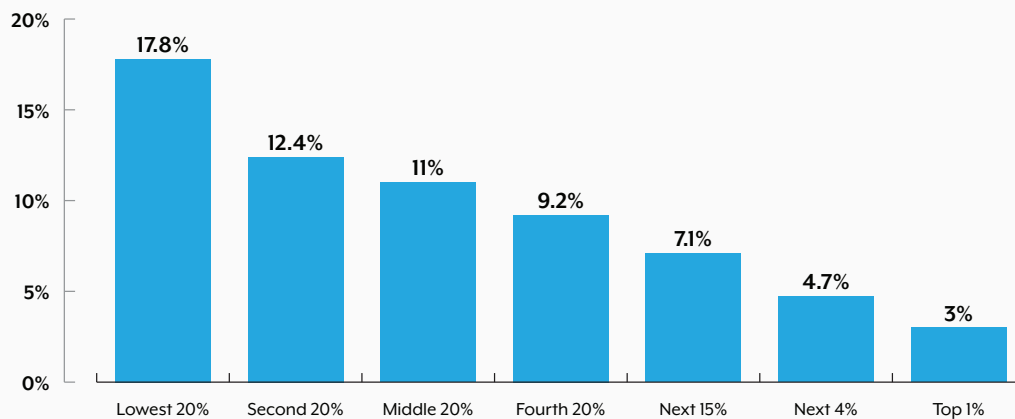
based on race, white people would own 65% of the nation's wealth. In reality, the top 10% of white households own that amount. All people of color, who comprise 35% of the population, own just 13%

of the nation's wealth.<sup>32</sup> The median net worth of white households is almost 10 times that of Black households and more than eight times that of Hispanic households.<sup>33</sup> (See Figure 1 on page 6.)

Figure 2

### Low-income households are taxed at the highest rate of all Washingtonians

Washington state and local taxes as a share of annual income by income group, 2018

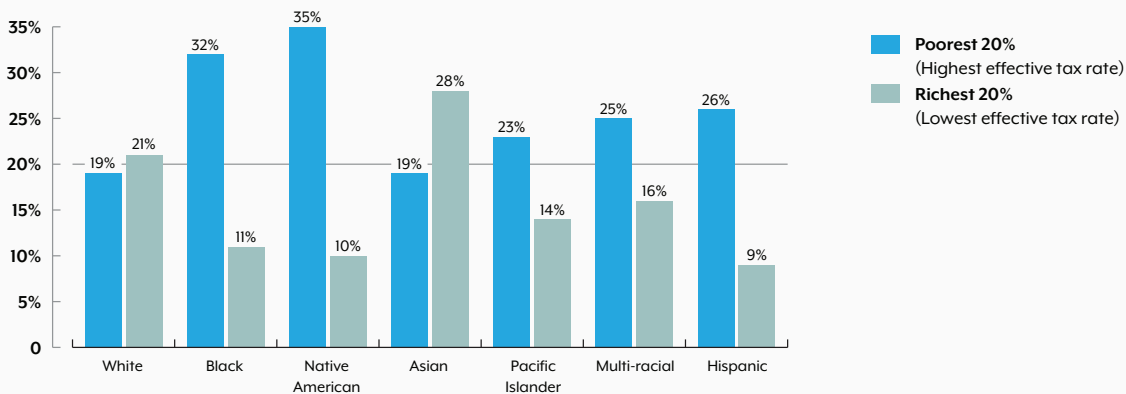


Source: Institute on Taxation and Economic Policy, 2018

Figure 3

### Inequitable policies make Native American, Black, and Hispanic households more likely to be in the lowest-income group

Distribution of income groups within each race/ethnicity category, 2015



Source: Institute on Taxation and Economic Policy, 2018. 'White' category includes non-Hispanic white people only; 'Hispanic' category includes all Hispanic people of any race.

## Today's tax code is a barrier to racial equity

Taxes are based on income, consumption, wealth, and property ownership, which are inextricably linked with race due to the decades of public and private racial discrimination described above. This has resulted in narrower economic opportunities for people of color compared to white people, stark differences in political representation and power, and a staggering racial wealth gap.

Washington's tax code is the most regressive, or upside-down, of all state tax codes in the country. Low- and middle-income households in our state pay up to six times more in state and local taxes as a share of their income than the top 1% do. As Figure 2 (on page 7) shows, people with the lowest incomes pay nearly 18 cents for

every dollar in income to state and local taxes, while the middle pay 11 cents, and the top 1% pay the least out of everybody – just 3 cents.

Because of the historical and contemporary racial discrimination already laid out, many families of color are more likely than white people to have low incomes today. As Figure 3 (on page 7) shows, households in most race and ethnicity categories are substantially more likely to be in the lowest-income, highest-taxed portions of the population than white households. Indeed, Native American, Black, and Latinx households are nearly three times as likely to be in the lowest-income group compared to the highest-income group. Compare that to white and Asian households,<sup>34</sup> who are more likely to be in the top income group than the bottom. Our tax code requires those in the lowest-income groups to pay a higher percentage

### BOX 2: A short history of Washington state's tax code

When Washington achieved statehood in 1889, the property tax was the principal mechanism for collecting revenue.<sup>36</sup> At the time, the tax worked well as a measure of both ability to pay and of the needs of people living in the state. Because the state economy was largely dependent on agriculture, land ownership was a good measure of wealth, and it was mostly landowners who benefited from state programs funded by the tax.<sup>37</sup>

But during the 1920s, it became clear that the property tax alone could no longer keep up with the growing needs of the state. The agricultural economy had turned increasingly toward manufacturing and services, so property ownership was no longer as strong an indicator of a person's ability to pay. By 1930, property values were plummeting because of the Great Depression, and fewer people could afford to pay their property taxes because of rising unemployment.<sup>38</sup>

Facing a financial crisis, in 1932, the voters approved two initiatives to reduce reliance on property taxes and balance the tax code. The first was to limit property taxes to 40 mills (or \$40 per \$1,000 of property value). The second was to enact a corporate income tax and a personal income tax. Both measures passed, but the state supreme court struck down both corporate and personal income taxes.<sup>39</sup>

In response, the legislature first enacted the business and occupation (B&O) tax in 1933, and two years later the Revenue Act of 1935. The 1935 law was a comprehensive tax plan that implemented many of the excise taxes that we rely on today – such as the retail sales tax, the B&O tax, and liquor and cigarette taxes, along with others that were either vetoed, subsequently repealed, or struck down by the state supreme court.<sup>40</sup> Since then, several attempts have been made at making our tax code more progressive by implementing a personal income tax, but all of them have failed. The outdated Revenue Act of 1935 continues to be the foundation of our current tax code, nearly 100 years later.<sup>41</sup>



of their incomes to state and local taxes, while the wealthiest (mostly white people) get a special deal.

Washington's tax code, which has not been significantly restructured since the Great Depression, is unsuited to keep up with the needs of a modern economy. But the shortcomings of our tax code are not just a matter of our budget's balance sheet. Our tax code's inability to raise enough revenue in a progressive way threatens the well-being of low-income people, particularly Native American, Black, Pacific Islander, and Latinx communities. Below are some of the features of our state tax code that do the most harm.

### **Harmful property tax limits exacerbate racial inequities**

When property taxes were originally limited by a mill cap (see Box 2 on the history of our tax code on page 9) back in the 1930s,<sup>41</sup> it was part of a larger strategy to reduce reliance on property tax revenue, and at the same time, to increase revenues from other sources to both make the tax code more balanced and meet the growing needs of the state. However, that plan was undone when the state supreme court struck down both the personal and corporate income taxes, stripping the plan of its progressive features and leaving Washingtonians with a deeply regressive system (See Box 2 on page 9).

Today, based largely on the efforts of conservative, anti-tax activists, Washington has both a limit on the total property tax rate and the annual growth of property tax collections. A 1% rate limit (also known as the \$10 limit) was enshrined in our state constitution by amendment in 1972 and caps state and local regular levy rates at \$10 per \$1,000 of assessed value.<sup>42</sup> Washington also has an annual revenue growth limit of 1% on regular state and local levy revenue, which restricts property tax collections from growing by more than 1% each year.<sup>43</sup> Both of these restrictions serve to

keep property taxes artificially low, particularly for wealthy landowners.

The data suggest that property tax caps like these benefit white people more than people of color. White people are more likely than any other race in Washington to be homeowners, with two-thirds of white households owning a home compared to one-third or less for Native Hawaiian, Pacific Islander, and Black households, and roughly one-half or less for Native American and Latino households.<sup>44</sup> White people also own an overwhelming share of real estate nationally, so they are most likely to benefit from limits on property taxes (See Figure 8 on page 14). Finally, a recent study of several states that had enacted similar property tax limitations found that, while these laws reduce the effective property tax rates for homeowners regardless of their race, white people receive the greatest reductions, which exacerbates racial inequities.<sup>45</sup>

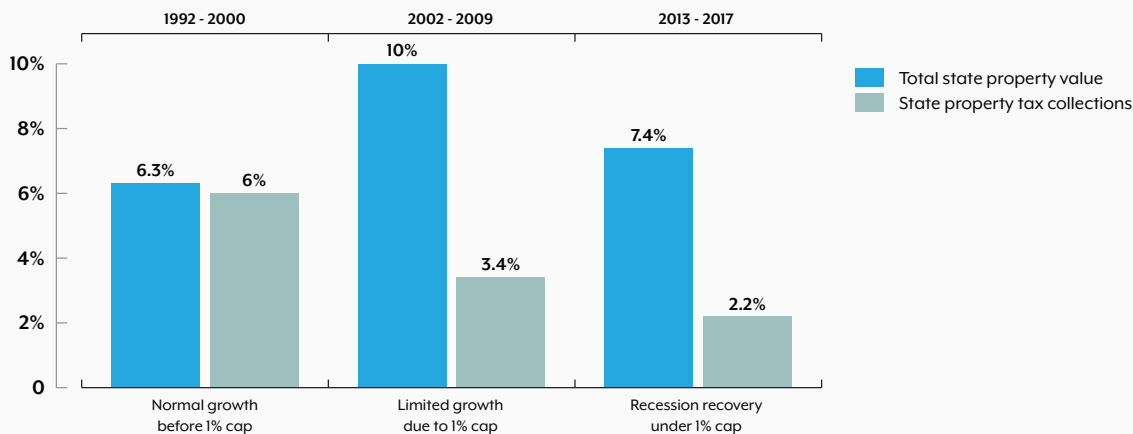
Property tax limits are not only inequitable, they weaken our tax code by intentionally reducing state revenues and starving communities of the foundations they need to thrive. A powerful tool of the conservative, anti-tax movement in Washington, our state's 1% levy growth cap keeps property taxes artificially low and has stripped billions of dollars in much-needed resources from our schools,<sup>46</sup> which is particularly harmful to kids of color.<sup>47</sup> The data show that even as property values have expanded significantly in our state over the last two decades, because of these restrictions, collections from our state property tax levy have not kept up with that growth (See Figure 4 on page 10).

### **Regressive sales and excise taxes take a heavy toll on people of color**

Lawmakers in our state have chosen not to tax concentrated wealth, which is held by a few ultra-wealthy households at the very top. As a result, they have created a tax code that relies heavily on the regressive sales tax to fund community investments. In fiscal year 2018, 46% of the state's

### Because of property tax cap, revenues now fall far behind growth in property values

Average annual growth in state property market value and state property tax collections during periods of economic expansion, 1992-2017



Source: Budget & Policy Center calculations; data from Washington State Department of Revenue

tax collections were from the retail sales and use tax.<sup>48</sup> As Figure 5 (on page 11) shows, the general sales tax and other excise taxes hit the lowest-income individuals the hardest in Washington. That's because the purchase of everyday items, like toiletries and clothing, take a larger chunk out of the paychecks of low-income people than the wealthy.

### Washington's inadequate tax code limits our ability to invest in communities

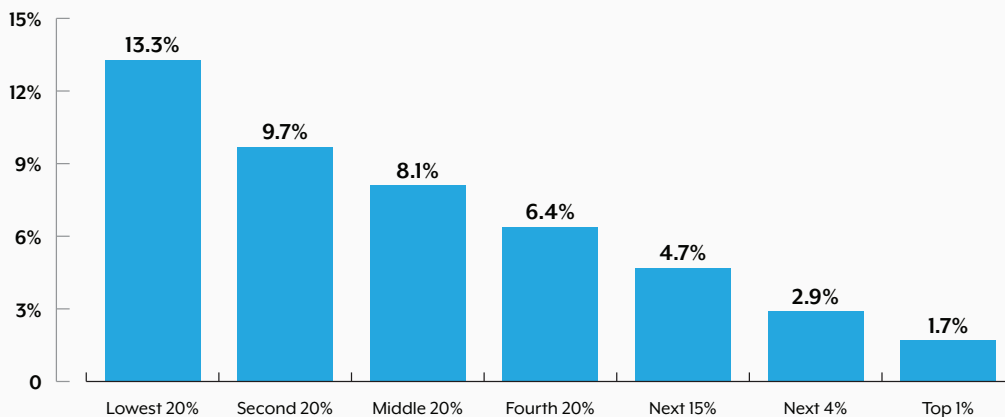
Because lawmakers have failed to make necessary substantial changes to our outdated tax code over the past eight decades, state revenue has steadily shrunk as a share of our state's total economy (See Figure 6 on page 12). A lack of revenue means less investment in progress in communities. In our state, this inadequacy is largely because of missed opportunities to tax economic activity that is routinely taxed in other states, like wealth accumulation.

These shortfalls are felt hardest by people who are struggling to make ends meet, who are too often Washingtonians of color battling against generations of discrimination. Failing to raise revenue, especially from the ultra-wealthy, helps maintain the status quo and keep the wealthy in power – at the expense of low-income people.

What's more, ample data show that people of color bear the brunt of insufficient funding for critical community programs.<sup>49</sup> For example, despite education being our state's "paramount duty," schools have struggled to meet the needs of their students, because state lawmakers have failed to provide adequate funding to schools for decades. Students of color experience a much greater impact from the statewide shortfall than white students. A 2019 report found that students in predominantly non-white<sup>50</sup> school districts in Washington receive 18% less funding per student, on average, than students in white school districts, making Washington the seventh worst state in this measure of racial inequity. Despite Washington's progressive reputation, our state is the second worst in the country behind Arizona when it

### Regressive sales and excise taxes are primary drivers of inequity in tax code

Washington state and local sales and excise taxes as a share of annual income by income group, 2018



Source: Institute on Taxation and Economic Policy, 2018

comes to inequitable funding for poor school districts, where the difference between non-white and white districts is 42% less funding per student.<sup>51</sup>

### Solutions to eliminate systemic racism in our tax code

Washington's tax code – both inadequate to fund community needs, and the most regressive in the nation – amounts to a one-two punch for the disproportionate number of people of color who are among the lower-income groups in our state. But there are proactive steps lawmakers can take to undo some of the harm that our tax code perpetuates, namely to raise more revenue

based on ability to pay and invest it in better access to opportunity for people of color who have been held back by generations of racism.

#### » *Invest in thriving communities by ensuring the wealthy pay their fair share*

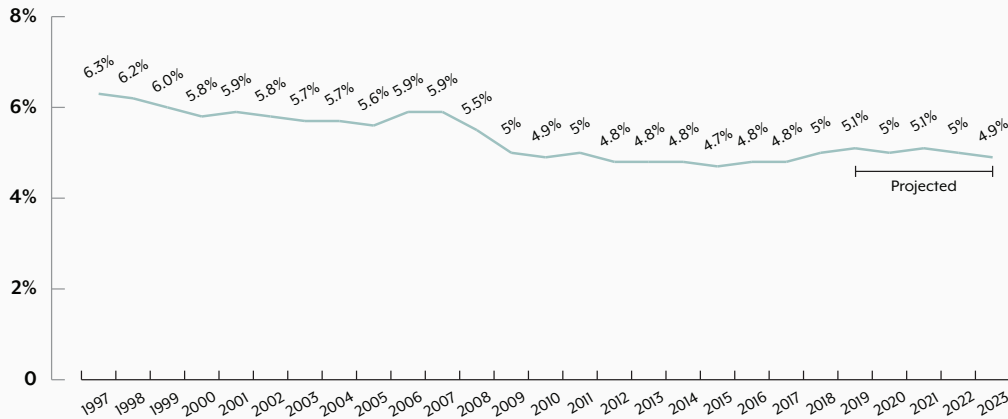
The data are clear that the very wealthiest households in Washington are getting a special deal when it comes to taxes that fund the foundations of our communities. The wealthiest 1% of households pay just 3% of their incomes to state and local taxes, and every other income group pays more – up to nearly 18% for the lowest-income

### Solutions to eliminate systemic racism in our tax code:

- Ensure the wealthy pay their fair share.
- Reduce taxes for those struggling to make ends meet.
- Build and maintain equitable budget and tax rules.

### Revenue for community investments continues to erode

Washington state tax revenue collections as a share of total state personal income by fiscal year, 1997-2023



Source: Budget & Policy Center calculations; data from Washington State Economic and Revenue Forecast Council and U.S. Bureau of Economic Analysis; state-only funds subject to outlook (NGF-O)

households. Raising existing taxes on, or applying new taxes to, the following sources of wealth, which are highly concentrated among a small number of very wealthy households, would go a long way toward creating a more just and equitable state and local tax code that helps all communities thrive:

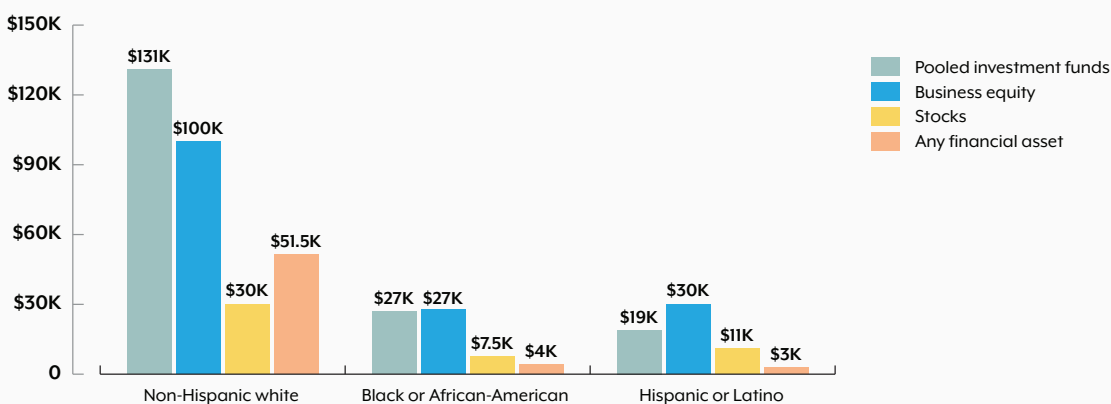
**Capital gains.** Capital gains are profits from the sales of corporate stocks, bonds, investment real estate, and other financial assets. They are more heavily concentrated among the richest households in our state and nation than any other form of wealth. This means that almost all capital gains are held by the very wealthiest, and almost none are held by low- and middle-income families.<sup>52</sup> Further, it is white households who hold the most wealth in these types of financial assets. As Figure 7 (on page 13) shows, the median value of all financial assets among white households in the U.S. (\$51,500) is more than 17 times that of Hispanic or Latino households (\$3,000), and nearly 13 times that of Black households (\$4,000). Recent proposals to impose a new state excise tax on large capital gains profits

in Washington state would impact less than 1% of the state's population,<sup>53</sup> but would raise more than \$1 billion per year in new resources for schools, early learning, or other investments that would create opportunities for people harmed by generations of institutional racism.<sup>54</sup>

**Pass-through business profits.** Pass-through business income is profit that private corporations or partnerships distribute to owners and shareholders. This type of income is nearly as concentrated among the very richest households as capital gains.<sup>55</sup> Nationwide, nearly 70% of pass-through profits are claimed by the top 1%.<sup>56</sup> And as with capital gains, due to systemic racism, white households are far more likely to have substantial amounts of wealth in business equity than households of color. Figure 7 shows that the typical white household has \$100,000 in business equity – nearly four times that of the typical Black household (\$27,000) or Hispanic or Latino household (\$30,000). Pass-through business profits receive enormous tax breaks at the federal level, especially after the recent round of tax cuts enacted by the Trump administration and Congress in 2017.<sup>57</sup> And wealthy investors

## Disparities in asset wealth show damaging legacy of racism in our economy

Median value of financial assets by race/ethnicity and asset type, United States, 2016



Source: Board of the Federal Reserve System, Survey of Consumer Finances, 2016

living in Washington state pay no state or local taxes on profits funneled to them from private corporations or partnerships located outside of the state.<sup>58</sup> Enacting a new Washington state tax on high-end pass-through business profits would help eliminate gaping holes in the state and federal tax code that mostly benefit wealthy, white investors. Doing so would also generate billions of dollars in additional tax resources that could be invested to help Washingtonians of color build a brighter future for themselves and future generations.

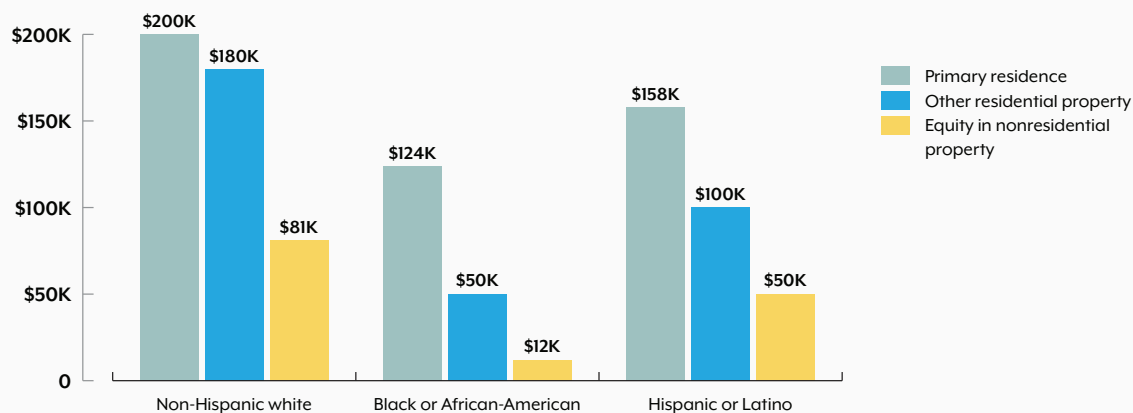
**Mansions and high-value real estate.** Like virtually all other forms of wealth, real estate assets are predominantly concentrated among wealthy, white households. As Figure 8 (on page 14) shows, the typical white household has considerably more real estate wealth, be it from a primary residence, a vacation home, or equity in investment properties. Lawmakers in Washington recently took action to apply higher Real Estate Excise Tax (REET) rates on the sales

of high-valued real estate. Going forward, real estate selling for between \$1.5 million and \$3 million will be taxed at 2.75% and properties selling for more than \$3 million will be taxed at 3%.<sup>59</sup> Notwithstanding, real estate in Washington state will remain highly concentrated among people who have been the beneficiaries of significant privilege and will continue to generate enormous sums of wealth for those at the top. Lawmakers should add additional rates to real estate selling for more than \$3 million in order to generate more resources for investments that benefit all residents. Lawmakers should also amend the state constitution to allow for higher annual property tax levies on mansions and other high-value real estate. While the REET only applies when a piece of property is sold, adding a higher property tax levy to homes valued at millions of dollars would generate an ongoing stream of resources for investment in the communities most harmed by racial discrimination.



### Real estate wealth shows how white people have benefitted from generations of privilege

Median value of real estate assets by race/ethnicity and type of real estate, United States, 2016



Source: Board of the Federal Reserve System, Survey of Consumer Finances, 2016

**Excessive wages and salaries.** Due to the lasting impact of discrimination in the workplace, corporate executives and other employees who receive extremely high wages and salaries in U.S. are almost exclusively white. White men comprised 72% of corporate leadership positions among 16 of the Fortune 500 companies in the United States that supplied demographic information to Fortune magazine in 2017.<sup>60</sup> Washington state lawmakers can help address this disparity by imposing a new excise tax on unreasonably high salaries. Recent legislation would have taxed the salaries of each employee in Washington state earning more than \$1 million per year at a rate of 5%. Employees receiving wages and salaries totaling between \$5 million and \$10 million per year would have been taxed at rate of 7.5%, and compensation over \$10 million would have been taxed at a rate of 10%. The tax would generate roughly \$360 million per year in new tax revenue<sup>61</sup> that could be directly invested in health care, child care, better schools, or other investments that would help create opportunities to thrive.

**Large estates and inheritances.** Washington administers an estate tax on the right to transfer property at the time of death. In fact, Washington has one of the strongest estate taxes in the nation, applying to estates valued at more than \$2.193 million, with rates ranging from 15% to 20%, depending on the size of the estate.<sup>62</sup> This tax is one of the few progressive features of our tax code, because it affects only the most well-off households passing on substantial wealth to their heirs. To generate additional resources for public investment, lawmakers should increase the top rate on the estate tax. They should also impose a new tax on wealthy Washingtonians who receive large inheritances from nonresident relatives who were never subject to the estate tax.

### » *Reduce taxes for those struggling to make ends meet*

While the property tax, the sales tax, and other direct and indirect taxes on consumer goods in Washington take a disproportionate toll on workers and families with low incomes, broad-based cuts to those taxes would drain billions of

dollars in resources needed for schools, health care, and other important investments. And too much of a total sales tax or property tax reduction would be wasted on high-income households who don't need a tax cut. A smarter, more effective, and more equitable approach to addressing the regressive nature of Washington's tax code is to enact targeted tax cuts for families and communities that would most benefit. Proven ways to reduce taxes for low-income workers and families and make the tax code more equitable include:

**A state version of the federal Earned Income Tax Credit (EITC).** Enacting the Working Families Tax Credit, a Washington state version of the EITC, would put cash back into the pockets of hundreds of thousands of Washington households who are working hard for low pay. It would help reduce poverty and increase economic security.<sup>63</sup> And importantly, it would expand the reach of the EITC to immigrant workers, family care providers, younger workers, and students who are largely or completely excluded from the federal program. Overall, the federal EITC and other state versions have outsized positive impacts in communities of color,<sup>64</sup> and most of the children whose families would benefit from the Working Families Tax Credit in Washington are children of color.<sup>65</sup>

**A targeted property tax rebate program for homeowners and renters with low incomes.** To ensure property tax bills remain affordable for Washingtonians with low and moderate incomes – especially those living in areas of the state with rapidly growing property values – lawmakers should amend the state constitution to allow for income-based property tax credits or rebates. Households earning less than \$75,000 per year would be eligible for a safeguard property tax rebate, which would limit property tax payments to 2% of a household's annual income, ensuring that property taxes don't take too large a bite out of a family's budget.<sup>66</sup> Higher rebates would be paid to households with lower incomes, and renters

would be eligible for rebates since landlords build property taxes into the rents they charge tenants.

### » ***Build and maintain equitable budget and tax rules***

To ensure that a person's well-being is not determined by their race, we must reform our tax code to provide ample resources for communities of color, who have faced barriers to opportunity for generations, to thrive. This means enacting policies and funding investments that will help communities of color have the same access to opportunity that white people have enjoyed throughout our state's history. Laws and practices that arbitrarily restrict revenue growth or place excessive power in the hands a small group of wealthy, anti-tax elites directly work against the interests and well-being of people with low incomes and communities of color. Lawmakers should:

**Keep racist supermajority requirements out of our state tax code.** These laws require the vote of a "supermajority" – usually 60% or more – of the state legislature to approve certain changes, such as tax increases. Supermajority requirements are rooted in anti-Black racism and concentrate power in the hands of a few powerful lawmakers.<sup>67</sup> They are also tools used by the conservative, anti-tax movement to starve communities of resources by making it much harder to raise revenue. Though several attempts have been made to enshrine this racist policy into Washington's tax code, our state supreme court has declared the policy unconstitutional.<sup>68</sup> Lawmakers should dispense with the harmful concept for good and reject future efforts to revive it.

**Repeal damaging limits on raising revenue.** Caps on revenue-raising, such as the property tax growth cap, hurt communities by starving them of much-needed resources, and underfunding hurts those furthest from opportunity the most. In our state, lawmakers should repeal the two property tax limits that do the most damage: the

1% levy growth cap that keeps property taxes from growing in concert with community needs; and the constitutional \$10 (per \$1,000 of assessed value) limit on all regular levies, which harms local governments' ability to maintain roads, emergency services, and other vital infrastructure.

**Strengthen the state rainy day fund.** The state Budget Stabilization Account, or rainy day fund, is an important tool to ensure that community essentials like schools, clean water, and fire protection stay strong when our state faces a financial crisis, such as extreme weather events or a recession. During these times of crisis, communities of color are some of the most harmed, and the rainy day fund is one of the only tools we have to ensure that state services are maintained when the state falls on hard times.<sup>69</sup> However, instead of building up adequate reserves, our state lawmakers routinely draw from the rainy day fund to balance the budget and fund basic annual expenditures. Enacting a state capital gains tax and dedicating a portion of the revenue to the rainy day fund would help build a robust backstop to help all Washingtonians better withstand recessions, wildfires, or other emergencies.

## Aiming for a better future

As this report shows, our tax code is and has been an integral part of the institutional racism that has plagued progress in communities throughout our state's history. But it can also be an incredibly powerful tool to dismantle the many obstacles that historical and contemporary racism has constructed for many communities of color. To provide the foundations for a prosperous economic future, including and especially for the thousands of families of color who struggle against generations of discrimination, lawmakers can and must enact policies that proactively undo the harms caused. Doing so will make the future brighter for all of Washington.

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