

REFORMING WASHINGTON'S TAX CODE TO ADVANCE RACIAL AND ECONOMIC JUSTICE

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 – including making the wealthy pay their fair share, reducing taxes for those struggling to make ends meet, and building equitable budget and tax rules – that unleash the potential of our state tax code as a tool for racial justice would improve community well-being across the state.

The barriers to economic opportunity that exist for communities of color are the result of racist economic policies enacted and perpetuated over many generations. Washington state and the territorial government before statehood violated Native American and indigenous peoples' fishing rights, denying them access to a key natural resource and source of wealth. In 1858, the Washington territorial government endorsed the U.S. Supreme Court's *Dred Scott* decision that maintained second-class citizenship for Black people. And, during World War II, the state participated in an abusive guest worker program that cheated Mexican immigrants out of their wages and subjected them to unsafe living and working conditions. These notable examples are a few of the many institutional barriers enacted by Washington state that have led to the harmful impacts that we see in many communities of color today. (More detailed explanations of historical and persistent discrimination in public policies and the private sector are in our full report, "Washington's Tax Code is an Untapped Resource to Advance Racial Justice.")

History of oppression still harms Washingtonians of color

Communities of color continue to be stripped of the opportunity to meet their basic needs. Pervasive patterns of discrimination in housing, education, and employment still have a devastating impact on the economic security of many people of color. This not only impacts a family's day-to-day well-being, but it also impacts their ability to access long-term wealth-building investments like savings, property, and capital assets.

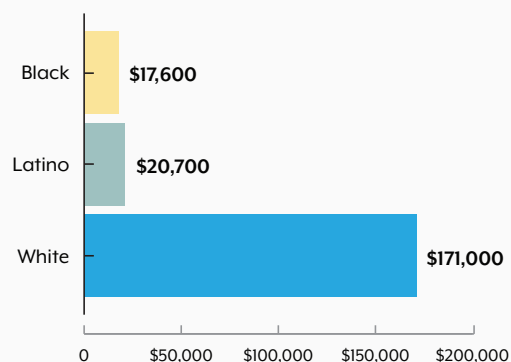
As such, the racial wealth gap is perhaps the starkest economic illustration of the effects of decades of racial discrimination in America. The median net worth of white households is almost 10 times that of Black households and more than 8 times that of Latinx households (see Figure 1).

This information summarizes findings from our October 2019 brief, "Washington's Tax Code is an Untapped Resource to Advance Racial Justice." The full report contains more information on why and how lawmakers must take steps to create a brighter future for Washingtonians who continue to face significant barriers to economic opportunity. Find the full brief at budgetandpolicy.org.

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

Our state tax code worsens racial and economic injustices

Washington's tax code is outdated and unable to meet the needs of our communities. It also greatly favors households with large amounts of wealth and property, who, due to generations of racist policies, are mostly white. But the tax code's preferential treatment of wealthy, white households comes at the expense of residents of color who are much more likely to have lower or moderate incomes and face high overall tax rates. To elaborate:

The upside-down tax code takes a heavy toll on low- to middle-income families. Washington relies far too heavily on regressive sales and excise taxes to fund investments. These taxes, which apply to the purchase of everyday items, like toiletries and clothing, take a larger chunk out of the paychecks of people with low incomes than the wealthy. The result is the most upside-down state and local tax code in the nation in which the wealthiest 1% of households pay just 3% of their incomes to state and local taxes while lower-income families pay 18% or more (see Figure 2).

Washington's tax code exacerbates racial inequities. Because people of color are more likely to be in low-income, higher-taxed portions of the population compared to white residents, they are more likely to pay an unfair share of their incomes in taxes.

Washington's tax code does not equitably invest in Washington's residents. The tax code doesn't generate sufficient resources to maintain schools, health care, infrastructure, and other community priorities from one year to the next. And the results are clear.

Despite Washington's progressive reputation, our state is the second worst in the country behind Arizona when it comes to inequitable funding for poor school districts, where the difference between non-white and white districts is 42% less funding per student.

Let's make the tax code a tool for racial justice

There are proactive steps lawmakers can and must take to undo some of the harm that our tax code perpetuates, namely:

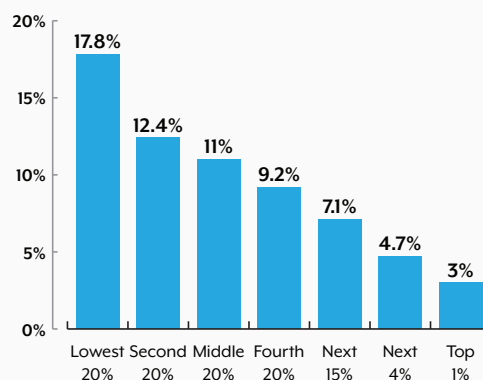
Invest in thriving communities by making the wealthy pay their fair share. Raise additional resources for community investments by taxing things like capital gains, excessive wages and salaries, and mansions and high-value real estate. These forms of wealth are heavily concentrated among a small number of extremely wealthy, and almost exclusively white, households.

Reduce taxes for those struggling to make ends meet. Enacting the Working Families Tax Credit, Washington's state version of the successful federal Earned Income Tax Credit, would put cash back into the pockets of hundreds of thousands of Washington households who are working hard for low pay. The current proposal would ensure immigrants, college students from families with lower incomes, and people caring for young children or a family member with a disability are eligible for the tax credit.

Build and maintain equitable budget and tax rules. Keeping racist "supermajority" laws permanently off the books in Washington would help ensure that the interests of communities of color are justly represented in the legislature. Some of these laws were recently struck down by the state Supreme Court, yet they remain a tool that anti-tax lawmakers will keep trying to enact to ensure they can have veto-power over all state tax policy decisions. Lawmakers should also build a more robust rainy day fund to preserve community investments during the next recession.

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

Learn about how you can get involved in the movement to clean up our state tax code at budgetandpolicy.org/advocate.