

# Imagining a Fair Tax System

Fair Budget Coalition, and the FBC Fair Taxes and Public Deals Issue Group

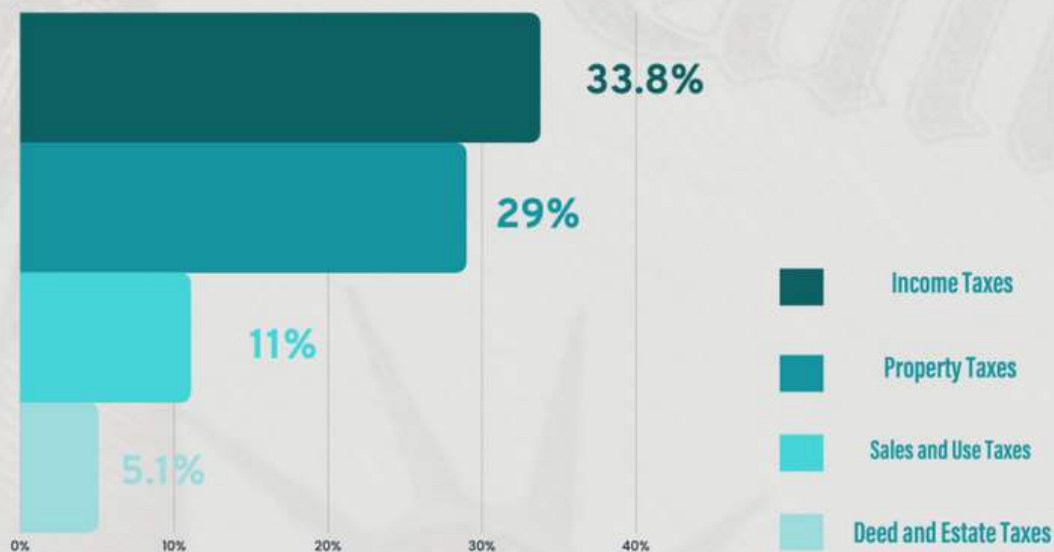
Tax policy can be a tool to fight poverty and build just and racially equitable communities. However, in order to leverage the tax system to create fair and sustainable revenue sources, it is essential to understand the tax system.

## What Is the Tax System?

The DC tax system, like the U.S. tax system, consists of three main categories. Most people are familiar with taxes on their income because they file income taxes each year before the April tax deadline. At face value, income taxes are progressive taxes because as your income increases, it is taxed at a higher rate. There are also taxes on goods and services which include sales taxes and excise taxes (i.e. taxes on alcohol, cigarettes, and cannabis). These taxes are often regressive because those who make less income pay a higher portion of their income than those who have more income. Lastly, there are taxes on things you own such as property taxes. Property taxes, like sales and excise taxes, are also regressive taxes.

Outside of funds provided by the federal government, the bulk of DC's revenue is provided through property taxes, income taxes, and sales taxes to fund critical projects and programs for residents.

## Total General Fund Revenue, FY 2022



Source: District of Columbia Office of the Chief Financial Officer, FY22 DC Revenue Chapter

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## The Racist Roots of the Tax System

At face value, the tax system is seemingly race-neutral but has deeper racial implications. Tax breaks through property taxes and capital gains taxes disproportionately benefit White households more than households of color.

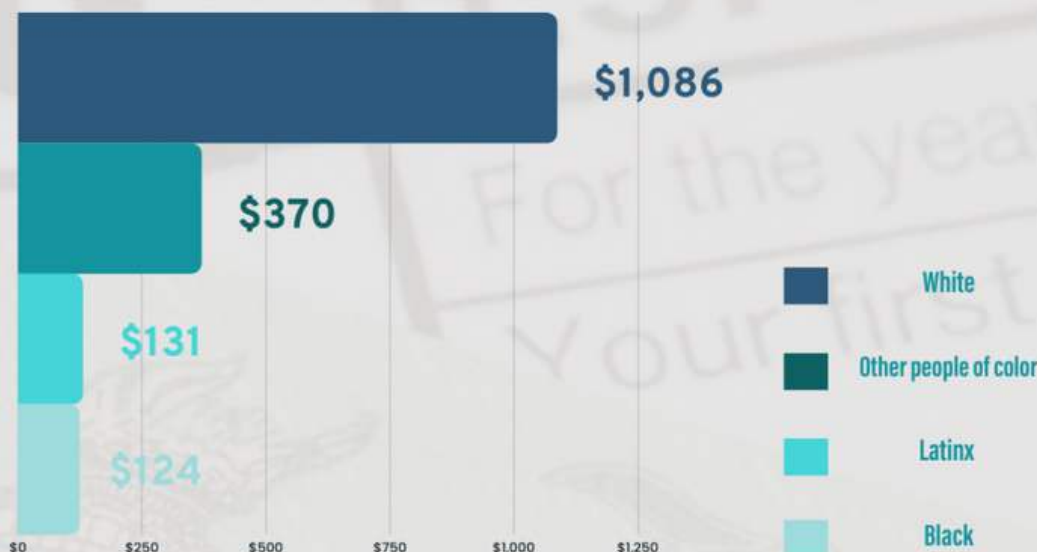
Homeownership is a way to build generational wealth and the tax code incentivizes homeownership. Historically, White people are more likely to be homeowners than people of color. Laws such as redlining, or refusing mortgages to potential homeowners in areas deemed “bad” because they were areas with larger populations of people of color created a barrier for people of color to own homes. Not only this but racially restrictive covenants legally allowed White homeowners to bar potential homebuyers of color from buying or renting their property. Also, tax assessments on homes, while a seemingly routine process, has been used as a tool to historically overburden Black homeowners. During the Jim Crow era, local property assessment officials would overvalue Black homes so that Black homeowners paid more of their share of income to property taxes than White homeowners resulting in Black homeowners being priced out of their neighborhoods or priced out of homeownership. Unfortunately, this process still occurs. Years later, people of color own homes at lower rates than White people. In DC, 49.5% of White residents are homeowners compared to only 37.1% Asian, 34.9% Black, and 35.5% Latinx residents. Simply based on homeownership rates, more White homeowners are able to benefit from property tax breaks more so than homeowners of color.

Additionally, capital gains are another path for people to accumulate wealth but tax policy has been largely shaped by wealthy men. Capital gains are taxes paid on sold investments and if a person waits one year to sell their investments, the investment income is taxed at a lower rate which incentivizes savings. In her book, *The Whiteness of Wealth: How the Tax System Impoverishes Black Americans--and How We Can Fix It*, Dorothy A. Brown notes that Frederick F. Brewster, a wealthy White man, successfully lobbied Congress to implement a lower tax rate for investments so that he could keep more of the proceeds from his investment property. The impacts of this action can be seen by how disproportionately white households have benefited from the capital gains tax advantages than households of color.

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## Average Capital Gains Benefit Per Family, FY 2023



Source: Treasury Office of Tax Analysis working paper, "Tax Expenditures by Race and Hispanic Ethnicity" by Julie-Anne Cronin, Portia DeFilippes and Robin Fisher; Bloomberg, "White Americans Collect 92% of Benefits from Investor Tax Breaks by Ben Steverman

In the chart above, the average capital gains benefit for White families in Fiscal Year 2023 is about 8 times the benefit of Latinx and Black families and almost 3 times the benefit of other people of color. As long as there are barriers for people of color saving and investing, the capital gains benefits will always yield racial disparities.

## Movements Toward a Fair Tax System



Due to American Rescue Plan Act funding, DC was able to make movements towards a more fair tax system by increasing the amount of income tax on DC residents making over \$250,000. This is a step towards a more equitable tax system but **DC can and should also implement the following measures:**

- **Permanently expand the criteria for the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC) to allow more people to benefit from these tax breaks.** The CTC and EITC are one tax break that overwhelmingly supports low-income households and has a positive multigenerational impact. Under the temporary expansion of these tax credits in the American Rescue Plan, the CTC helped families reduce food hardship and meet household needs and the EITC impacted approximately 5.8 million new participants that were previously ineligible because their incomes were too low.

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- **Increase the property tax rate on the highest-value homes.** Currently, DC taxes homeowners who have the most expensive homes at the exact same rate as those with homes with much lower values. This situation represents an unfair, disproportionate burden on the bottom 40 percent of homeowners, who pay a greater percentage of their overall wealth/income in property taxes than those with the greatest wealth and who are more likely to be people of color.
- **Decrease the value of the exemption for estate taxes.** Currently, DC allows \$4 million to be exempted from estate taxes which allows for excessive intergenerational wealth transfer which exacerbated the racial wealth gap. Decreasing the exemption would be a step towards racial equity.
- **Implement a progressive ticketing system for traffic and parking tickets.** Traffic and parking tickets are regressive taxes causing residents with low incomes and residents of color to pay a greater portion of their income than wealthier and White residents. A progressive ticketing system ensures accountability without creating a substantial financial burden.
- **Perform more audits of high-income tax filers and prosecute wealthy tax cheaters.** The tax system not only benefits the wealthy but coupled with tax avoidance, wealthier DC residents increase inequality by avoiding their tax responsibilities.
- **Improve accuracy in revenue forecasts to avoid large budget surpluses.** Over several years, the budget forecast has underestimated budget revenues leading to cuts in critical programs for residents with low and middle incomes. A more accurate forecast can ensure that funding is maintained for these programs.

For details on our tax code recommendations, please read our [FY24 Tax Platform](#) and join us as we engage with the newly created DC Tax Revision Commission which will make recommendations to improve the DC tax code.

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