By Administrator
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Policymakers should be expanding the taxation of assets of the very wealthy, since loopholes and other special benefits currently shield much of the value of these assets from federal, state, and local taxes, a new series of reports by the Center on Budget and Policy Priorities (CBPP) argues. Eliminating these tax advantages would shift some of the responsibility for funding critical public services and investments like schools, roads, and health care from low- and moderate-income taxpayers to those best able to pay while increasing opportunity for everyone.

How States Can Tax Wealth , which launches today with two short Issue Briefs (listed below), explores how states can better tax wealth and high incomes to make state tax codes fairer, raise adequate funding for public services, and expand opportunity.

* Issue Brief: State Taxes on Inherited Wealth: State taxes on inherited wealth apply only to the wealthiest individuals and are the primary state tax on wealth. But these taxes have gradually eroded, even as wealth and income have become more concentrated. States with these taxes should maintain them, and states without them should consider enacting them — or consider taxing inheritances as income. State taxes on inherited wealth are not affected by the federal estate tax. Reinstating an estate tax in North Carolina with a $5.43 million exemption, roughly what was in place before its elimination, would raise an estimated $100 million each year to fund education, health care, and other important public services.

* Issue Brief: State Taxes on Capital Gains: Capital gains, which go overwhelmingly to the wealthiest households, receive special tax preferences in a number of states, such as a partial exemption. States with such preferences should eliminate them. There are also several ways that states can boost capital gains revenue to support investments that increase prosperity for all.

"State policymakers across the country and across the political spectrum agree that inequality and the increasing concentration of wealth is a problem," said Elizabeth McNichol, Senior Fellow at the Center on Budget and Policy Priorities and project lead on this new series. "The good news is there are plenty of policy solutions that can improve state tax systems, raise new revenues for important public investments, and boost opportunities for workers and families striving to get ahead. Our new series can help lawmakers make smarter decisions in 2019 and beyond."

Nationwide, the top one percent of households own roughly 40 percent of the wealth, while the bottom 90 percent of households own just 21 percent. This top-heavy structure reduces opportunity for millions of American families - particularly Black families, Latinx families, and other families of color, who have faced additional barriers to building wealth due to the legacy of historical racism and the ongoing damage from racial bias and discrimination. In North Carolina, the median net worth of white households is nearly four times (3.76) greater than that of households of color. When the data is further disaggregated by race, this number grows. The median net worth of white households is 5 times that of Black households and nearly 10 times greater than that of Hispanic households; data does not exist for Asian households.

State and local governments largely exacerbate this disparity through the state and local tax code, which asks low- and middle-income taxpayers in most states to pay a larger share of their income in taxes than the wealthiest taxpayers.

In North Carolina, the lowest 20 percent of taxpayers face an average state and local tax rate that is 33 percent higher than the top 1 percent. The average effective state and local tax rate is 9.5 percent for the lowest-income 20 percent of individuals and families, 9.4 percent for the middle 20 percent, and 6.4 percent for the top 1 percent.

A recent change to the North Carolina Constitution decreased the allowable maximum income tax rate from 10 percent to 7. Given that income tax is the most progressive source of revenue available to policy makers compared to property, sales, and excise taxes, if revenues are not raised in an equitable way, this change has the potential to exacerbate existing disparities.

"Improving and expanding the taxation of wealth could help bring more balance and equity to our state's tax code by ensuring the wealthiest families are paying their fair share toward building a stronger North Carolina," said Alexandra Sirota, Director of Budget & Tax Center, a project of the NC Justice Center. "Better tax policies like these are an important tool for creating a state with more opportunity and more broadly shared prosperity."

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The Budget & Tax Center is a project of the NC Justice Center, a nonpartisan organization that works to eliminate poverty in North Carolina by ensuring that every household in the state has access to the resources, services and fair treatment it needs to achieve economic security.