



## Tax Justice Can Lead to Racial and Economic Justice

Discussions about tax policy and reform are heating up at the Minnesota Capitol, and it is important for all of us to remember that tax policy has a lot to do with racial and economic justice. As income inequality continues to grow in Minnesota, our system of taxation can either contribute to or reduce that inequality. We know that raising revenue through taxes is necessary to fund investments that help build more equitable communities – if policy leaders pay attention to equity in budget priorities. The same holds true for tax policy. Raising revenue equitably can help reduce disparities and form the foundation for other equitable practices.

By connecting the dots between some key facts, it is clear that fair tax policy is also a matter of racial justice.

### **1. Poverty and race intersect.**

About 12% of Minnesotans live in poverty. Communities of color experience poverty at higher rates than white Minnesotans, with poverty at

- 41% for American Indians,
- 17% for Asian Americans,
- 37% for African Americans,
- 25% for Latinos,
- and 9% for whites.

[Susan Brower, State Demographer](#)

### **2. Income growth is concentrated among the wealthiest Minnesotans.**

*“Household income has declined over the past decade. Poverty has increased. The wage distribution has widened. Low-income workers’ wages have changed little in past decades; the highest-income wages have increased.”*

[Susan Brower, State Demographer](#)

Income inequality has grown in Minnesota, making the lack of equity in our tax code even worse. High-income Minnesotans pay a significant amount of all taxes paid in the state, but they pay below their proportionate share. For example, the 1% of Minnesotans with the highest incomes had 16% of all income in the state, but only paid 13.4% of all state and local taxes.

### **3. Minnesota’s tax system asks low- and middle-income Minnesotans to pay more than their fair share.**

All Minnesotans support public services through the taxes they pay. However, looking at all state and local taxes, Minnesota’s tax system is regressive, meaning that low- and middle-income Minnesotans pay a higher share of their incomes in taxes than high-income Minnesotans. And Minnesota’s tax

system has become more regressive over time, reflecting rising income inequality but also tax and budget choices, such as increased reliance on local property taxes.

*“Minnesota’s estate tax and individual income tax are the state’s only progressive taxes – meaning that the higher one’s income, the larger the share of income paid for the tax. All other taxes that Minnesotans pay are regressive, where low- and middle-income households pay a higher share of their income in those taxes.”*

[Minnesota Budget Project](#)

Considering state and local taxes, the Minnesotans with the lowest incomes contribute the highest share of their incomes to taxes. Households with incomes over \$446,961 a year pay 9.6% of their incomes in total state and local taxes, whereas middle-income households pay 12.1%, and low-income households pay 14%.

### **Tax Policies Can Hurt or Help**

Given the facts described above, it’s clear that economic and racial disparities are reflected in the tax code. Of course our system of taxation cannot on its own eliminate disparities by race and income. But attention to these disparities in our policy choices can ensure that our taxes do not exacerbate economic and racial disparities.

### **Key proposals to further tax fairness and thus racial justice include:**

#### **Raise the income tax rate on highest-income households.**

Doing so will make the system more fair, while also bringing in much needed revenue for investments in quality schools, affordable college and strong communities. Tax fairness has declined in Minnesota since 1990, as income inequality has grown.

#### **Improve the Renters’ Credit to offset the regressive impact of property taxes.**

People of color in Minnesota are more likely than white Minnesotans to rent their homes. While 81.4% of white Minnesotans own their homes, only 50.2% of Hispanic Minnesotans and 24.8% of Black Minnesotans are homeowners. Minnesotans pay property taxes whether they own or rent their homes, with renters contributing through their monthly rent payments. The Renters’ Credit helps ensure that low- and moderate-income renters don’t pay too much of their incomes in property taxes.

#### **Update the Working Family Credit.**

Last year the federal Earned Income Tax Credit [lifted 6.6 million people, including 3.3 million children](#), out of poverty. Policymakers should update the Minnesota Working Family Credit – our state’s version of the federal EITC – to reflect recent federal changes benefitting married couples as another important step to make our tax system less regressive.

*“When low-income families receive their refund check, they purchase groceries, child care, school supplies, and more, increasing demand for the goods and services of local businesses, which ultimately benefits the economy as a whole.”* [Center for American Progress](#)