# BUILDING POLITICAL WILL AND FINDING THE PUBLIC REVENUE FOR EARLY CARE AND LEARNING

Stephen Herzenberg, Keystone Research Center
John Burbank, Economic Opportunity Institute
January 2016

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**Exploring Financing and Organizing Strategies for local/state campaigns**

Context: Early childhood caregiving and education is plagued by underfunding. As a result, private "tuition" is often higher than that of higher education, while caregivers and teachers work themselves into poverty. For example, the average annual cost of child care in a child care center in 2014 in Washington State was $13,488.[1] The median wage of assistants was $20,796 and of teachers was $24,492.[2] (National data indicate a similar picture, see here, Figure 3.)[3] At the same time, access to high quality care is limited by the income of the parents and the number of available slots for children. In Washington State, the number of child care providers has dropped from 7,486 with capacity for 173,977 children in 2008, to 5,793 providers with capacity for 166,834 children in June of 2015.[4]

Public funding for high quality early learning is minimal and targeted, leaving out the vast majority of children, their parents, and their caregivers. **This dismal economic reality is a result of the failure of government to adequately fund this quasi-public good.**

It is a reflection of

- the powerlessness of the unorganized early learning workforce to negotiate appropriate wages
- the undervaluing of caregiver work, including infant and child care at home provided by an (unpaid) parent
- the transmission of the undervaluing of caregiver work into the market economy as child care has become a marketable commodity,
- a patriarchal culture that demeans women's work, and
- a culture that gives lip services to children and families while withholding the necessary investments to enable children to thrive.

None of these factors or conditions and consequent outcomes are inevitable. We have the potential to change public policy to appropriately value early childhood education. To do so, we have explored new, untapped, or undertapped funding sources. Our primary focus is on revenues that are generated from the wealthiest and most privileged. We also explore additional innovative taxes, which are based on personal consumption which is not necessary or foundational for the economic security of daily life. Both streams of revenue are targeted to developing, universalizing, and maintaining high quality early learning programs and practices in states across the country.

We discuss in this memo the following approaches for funding which can be pursued at the city, state, and federal levels:

[1] Washington State 2014 Child Care Survey, p. 53 http://www.del.wa.gov/publications/research/default.aspx. Note that this was an increase in of over $1,000 from the 2012 survey amount of $12,343. See Washington State 2012 Child Care Survey http://www.del.wa.gov/publications/research/docs/LicensedChildCareInWashingtonState_2012.pdf
[2] Ibid., p. 39;
[3] http://www.bigideasforjobs.org/wp-content/uploads/2011/09/Weiss-Herzenberg-Price-Full-Report-PDF1.pdf
[4] Child Care Aware of Washington, August 2015, "Child Care in Washington State", http://www.childcarenet.org/about-us/data/2015-data/statewide

1. Tax on personal incomes in excess of $1 million
2. State estate taxes
3. State inheritance taxes
4. Low-wage employer fees and closing corporate tax loopholes
5. State wealth taxes
6. Carbon taxes
7. Wage boards
8. Other ideas including: Privilege taxes, development taxes, employer provided child care, Professional Employer Organizations and others.

In this memo, we summarize each approach. For some options, separate briefs provide more detail. In addition, at the end of the memo, we list but do not analyze some other options. Our goal here is to open people's minds and encourage out-of-the-box thinking.

**1. Higher taxes on personal incomes in excess of $1 million [see page 9 for information]**

Discussion: We have modeled a marginal tax rate of 10% on income in excess of $1 million. This design leaves out those states that already have a marginal tax rate in excess of 10% (California and Hawaii). The revenue per state is dependent upon the progressivity or regressivity of the underlying tax structure.

Those states without income taxes - Wyoming, Nevada, Florida, Texas, Washington, South Dakota, New Hampshire, and Alaska - could garner the most revenues, but the political possibility of achieving this is close to non-existent.

The states which could generate significant revenues and may have a positive political climate to move such a proposal forward are, in particular, Connecticut, Massachusetts, Colorado, New York, and Maryland. Revenues would range from $0.5 billion to $1.5 billion dollars.

The states that could generate not insignificant revenues ($8 million to $s00 million) and have the political climate to do so include District of Columbia, New Jersey, Vermont, Delaware, New Mexico, and Minnesota.

**2. Increases in state estate taxes [see page 14]**

The federal estate tax was rolled back in 2001. It now is 40% of the value of estates in excess of $5.43 million (as opposed to 55% of the value of estates in excess of $675,000 in 2001). Before the 2001 changes, state estate taxes were a tax credit against federal estate taxes. Now state estate taxes are simply a deduction from federal estate taxes.

Fifteen states and the District of Columbia have state estate taxes. Exempted estate value ranges from $675,000 to $5.43 million. Rates of taxation range from eight-tenths of a percent to twenty percent.

Let's first focus, then, on those states that do not have state estate taxes. Of these states, California stands out for its political climate and the potential for estate taxation. A state estate tax at 10% of the federal estate tax would generate $321 million in California.[5] If California decided to put in place a state estate tax that, combined with the federal estate tax, would reflect pre-Bush estate tax rates (55%),

[5] This effectively decreases the federal estate tax, as the state estate taxes are taken as a deduction from the federal estate. With this policy innovation, public revenues are moved, very incrementally, from the federal government to the state.

then California would gain new revenues greater than $6 billion a year.[6] Other states which do not have much room for increasing their income taxes but which could realize significant state estate taxes, at 10% of the federal estate tax, include Iowa ($10 million) and Wisconsin ($20 million). Using the federal exemption of the first $5.43 million, only a few more than 1,000 estates would pay the state estate tax in California, and about 50 estates would pay the state estate tax in Iowa and Wisconsin. That is, there would be no tax impact on more than 99.99% of the citizens in these states.

For those states which have a state estate tax, the equivalent of a 10% increase in the federal estate tax (with an actual percentage point tax increase of between 1.6% and 2.3%, depending on the state) can generate significant revenues (New York would generate $148 million; Illinois $70 million, Massachusetts $44 million, Connecticut and New Jersey $26 million, Maryland and Washington $18 million). There is plenty of room for purposefully creeping up the rates. In Washington State, the top four rates were increased by 1% each in 2013 and were approved in an advisory ballot that year.[7] The new rates start at the $4 million level (gross value of the estate being $6 million, with a $2 million threshold before the state estate tax kicks in), and are forecast to generate approximately $40 million a year.[8]

In both states with state estate taxes and those without, there is more room for increasing revenues by simply dropping the threshold for estate taxes. The current threshold at the federal level of over $5 million simply enables the intergenerational transfer of wealth. Dropping the threshold to $2 million would increase taxable estate value and revenues by at least 50%.

### 3. State Inheritance Taxes

A handful of states have an inheritance tax. This is a tax on assets inherited by a person. In contrast to an estate tax, which is placed upon an estate before the net proceeds are transferred to the beneficiaries, the inheritance tax is paid by the people receiving the inheritance. Iowa, Kentucky, Maryland, Nebraska, New Jersey, and Pennsylvania have state inheritance taxes. In most of these states spouses and children are exempt. The threshold for taxation varies from no exemption to $100,000. The rates vary from 1% to 18%. Revenues range from $50 million to $500 million a year.

### 4. Low-Wage Employer Fees and Closing Corporate Tax Loopholes [see page 19]

Low-wage employers would be required to pay a fee based on the number of their employees who rely on means-tested public benefits (e.g., Medicaid and SNAP). Some or all of these revenues would be dedicated to increasing funding that expands access to childhood education and/or compensation. Another approach to raising revenue and reining in corporate irresponsibility is to close corporate tax loopholes and dedicate some or all of the increase in taxes to early childhood education or other priority needs.

**Revenue Potential**. This depends on the details of the proposal. In large states, reimbursement of the state share of Medicaid costs or fees set at the average cost of employer-only health care could raise hundreds of millions of dollars; so could closing corporate tax loopholes. In localities, low-wage employer fees would raise much less. (Closing corporate tax loopholes is ordinarily a state not a local policy option.)

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[6] Note that when the Washington state estate tax is combined with the federal estate tax, the total estate tax rate for estate values in excess of $11 million totals 60%.
[7] EHB 2075, 2013: http://apps.leg.wa.gov/documents/billdocs/2013-14/Pdf/Bills/Session%20Laws/House/2075.SL.pdf
[8] State of Washington Online Voters Guide, 2013: https://weiapplets.sos.wa.gov/MyVote/OnlineVotersGuide/Measures?countyCode=xx&electionId=50#ososTop

**Recent campaign/advocacy experience**. A California "Walmart loophole" bill (AB-880) would have required employers with 500 or more employees to pay an employer responsibility penalty if their employees who were working more than 12 hours per week and more than 45 days in a calendar year were enrolled in Medi-Cal (California's Medicaid) program. The penalty was to be set at 90% of the average cost of employee-only health care.

An approach now being pushed in several places combines a "per employee" fee with the allocation of the funds to purposes (including early childhood education) that create a natural constituency for the legislation. Many of the current proposals would establish an advisory group that advises how the money will be spent so that the proposal implements another form of bargaining. These current efforts include:

- A bill in Connecticut would earmark the money for child care and home care (although it does not specify an amount).
- A "responsible business tax" being pursued in Cook County, Illinois. Allowed uses of the money would be more far ranging (e.g., hospital, legal services) but would include early childhood education.
- Groups in Oregon are considering a ballot measure to fund child care through a corporate tax.
- Other places considering proposals to rein in corporate irresponsibility and decide the revenues to specific purposes are Colorado and Pittsburgh.

### 5. State wealth taxes [see page 21]

This tax is similar to an estate tax except that it is imposed on an annual basis, on the living, as opposed to once upon the estate of a deceased person. The net worth of households and non-profit organizations in the United States was $85.7 trillion in the second quarter of 2014. This is about five times GDP ($17.42 trillion in 2014) and about six times personal income ($14.8 trillion in the third quarter of 2014). Excluding residential property and, to the extent that our data source permits it, wealth held by nonprofit organizations, produces an estimate of U.S. household wealth (excluding residential property) of $71.7 trillion in the second quarter of 2014.

A flat wealth tax at one hundredth of 1 percent would generate $1.2 billion in California and $7 million in Alaska; a wealth tax of one tenth of one percent would generate $12 billion in California and $70 million in Alaska. Even at one quarter of one percent, this tax rate would be a small fraction of the rate at which wealth typically grows – thus easily paid without materially impacting the lives of the wealthy. The stand-alone memo accompanying this overview brief includes revenue estimates for each state at three tax rates (0.01%, 0.1%, and 0.25%), assuming low levels of tax avoidance.

States in which a wealth tax might be of interest include those with constitutionally mandated "flat" income taxes, such as Illinois, Pennsylvania, Massachusetts, and Michigan. In these states, because wealth is so concentrated, a small flat wealth tax might be a way to make the overall tax system much more progressive without having to change the constitution.

**Past use of this option**. Florida had an intangible assets tax until it was repealed in 2007. Revenue from this tax totaled $ 1 billion in 1997-1998. The tax was gradually phased out after this, with proceeds falling to $46 million in 2006-2007 just prior to repeal.[9] Pennsylvania localities relied on a very small intangible property tax (i.e., falling on wealth such as financial assets as opposed to

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[9] Florida Center for Fiscal and Economic Policy, November 2010, "Unbalancing Florida's Tax System: Eliminating Taxes on Wealth Has Shifted the Burden to Other Floridians", P. 3, http://www.fcfep.org/attachments/20101108--Eliminating%20Taxes%20on%20Wealth.pdf

residential property) until it, too, was phased out. Many European counties levy some type of wealth tax. The Economic Opportunity Institute proposed an intangible wealth tax in 2002 and estimated its revenue potential under various assumptions.

### 6. Carbon taxes

Affluent people account for significantly more carbon emissions than poor people across the United States. For that reason, carbon taxes might provide a way to raise revenue that is also progressive. That has not gone unnoticed by proponents of carbon taxes, who have positioned "carbon-neutral tax swaps" as a way to give working families a break. In Washington State, a carbon tax proposal that will be on the ballot in 2016 "would use the expected $1.7 billion in annual revenue to overhaul Washington State's notoriously regressive tax code", funding the Earned Income Tax Credit and reducing the sales tax.

The Carbon Tax Center summarizes three leading state-level carbon tax efforts in Washington, Oregon, and New York. The proposed carbon taxes in each state would raise significant revenue: in addition to $1.7 billion in Washington State, $2.1 to $2.2 billion in Oregon and $4.5 billion in New York would be raised through a tax on carbon fuel sales.

While some discussion is focused on carbon neutral proposals, a September 2015 New York bill would return 60% of revenues to low- and moderate-income households, and use remaining funds to prepare for climate change, invest in renewable energy, and build transportation infrastructure. Some environmentalists might resist expanding the uses of revenue generated beyond direct energy and environmental investments. Coalition politics, however, suggests that, in some contexts, alliances that use some money for education might have traction. For example, the coalition push for a severance tax in Pennsylvania – which is at the center of the state's ongoing budget debate – has supported a proposal that would use the money primarily to restore education funding, with smaller portions for renewable energy and the environment.

### 7. Wage boards

While not strictly a revenue option, another idea that might help generate the political will to raise funds for investment in early childhood education would be a wage board that sets minimum wage levels for early childhood occupations above the minimum wage. Wage boards have become visible recently because of the New York fast food wage board, which led the New York Commissioner of Labor to set two schedules for establishing a $15 per hour fast food minimum wage,[10] one schedule for New York City and a second for the rest of the state. This New York process capitalized on a feature of the state minimum wage system which gives the governor's labor commissioner the power to raise the minimum wage on his or her own through a "wage order" issued after convening a "wage board."[11] Governors in several other states, including California, Massachusetts, New Jersey, and Wisconsin, have similar authority to raise the minimum wage on their own without need for action by the legislature. Where authority does not currently exist, campaigns could seek to establish such authority at the state level or to delegate this authority to localities.

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[10] "Order of Acting Commissioner of Labor Mario J. Musolino on the Report and Recommendations of the 2015 Fast Food Wage Board;" online at: http://labor.ny.gov/workerprotection/laborstandards/pdfs/FastFood-Wage-Order.pdf. See also *Report of the Fast Food Wage to the NYS Commissioner of Labor*;" online at http://labor.ny.gov/workerprotection/laborstandards/pdfs/Fast-Food-Wage-Board-Report.pdf, Sept. 10, 2015.

[11] As pointed out in a recent National Employment Law Project (NELP) brief, the state law, New York Labor Law, Sections 653-655, notes "if the commissioner determines that "any substantial number of persons employed in any occupation or occupations are receiving wages insufficient to provide adequate maintenance and to protect their health, he [or she] shall appoint a wage board to inquire into and report and recommend adequate minimum wages . . . ."

Given the public benefits of raising early childhood education wages – for workers themselves, for retention and quality, and for society because of the high return on investment in early childhood education – wage boards in some situations might determine that wages need to be much higher than they currently are and also a non-trivial amount above even new higher minimum wages (so that early childhood educators are paid above fast-food workers etc.). With higher wages thus mandated, the political system would face added pressure to find the money necessary to pay these wage levels, while retaining sufficient slots at an affordable level.

**8. Other ideas:**

- **Privilege taxes**: Privilege taxes are levied at the state or local level. They are taxes for the privilege of conducting business activities, providing certain products, or consuming certain products. There is a lot of room for the determination of the tax. In Oregon, there is a state privilege tax levied on alcoholic beverages, and local privilege taxes on utilities. Alabama and Arizona also have business privilege taxes. In Seattle, the Economic Opportunity Institute developed a privilege tax on the provision of espresso drinks, at 10 cents a drink, to be dedicated to early learning. While this garnered over 80% support at the outset of the campaign, 18 months later, after significant undermining by the Seattle City Council, Starbucks, and the Chamber of Commerce, this tax was defeated on the September 2013 ballot. Regardless of this, there is a lot of room for innovation and creativity and revenue from such an approach. In 2002, we calculated that the 10 cent charge per drink would bring in $7 million a year. We estimate that it is more than double that now, given the propensity of Seattle consumers to drink espresso and the seeming absence of any level of saturation of demand!
- **Privilege tax on pet industry products**: Seattle has more dogs than kids. If we assume that owners spend $1,200 a year on these 153,000 dogs,[12] a 1% privilege tax on these expenditures generates $2 million. Now consider the economic impact of the entire pet industry, including cats and all other pets, veterinarians, dog sitters, pet food stores and pet products. We estimate that a 1% tax, for the benefit of children, levied on the purchases for the ownership, care, and comfort of pet animals would generate $5 million. It would create an interesting narrative…pets and kids.
- **Privilege taxes on guns and ammunition**: The City of Seattle recently passed a $25 tax per gun purchase and a 2 cent tax on every round of ammunition. Revenue estimates range from $300,000 to $500,000 annually.[13] Chicago has a similar tax that has been in place since 2012.[14]
- **Employer provided child care**: a growing number of companies, such as Netflix and Google, provide paid family leave and get positive publicity. Campaigns could push more companies to provide child care for their workers or contribute to a fund, as bargained for by some unions.
- **Shared responsibility fees:** Assess a penny or other small amount for every hour worked to invest in well-funded child care – everyone benefits. This has not yet been drafted anywhere but is under discussion. There could be a carve out for employers that already offer child care or pay for it for their employees.
- Raising corporate taxes at companies with highly paid executives and using the additional revenue generated partly for early childhood education. This would have the ancillary benefit of creating visibility and pressure to reduce executive pay (both public pressure based on the immorality of obscene pay, especially alongside children with access to quality ECE, and possibly pressure within executive compensation committees on corporate boards).

[12] Source: http://www.seattlemag.com/article/seattles-dog-obsession

[13] Source: http://www.seattletimes.com/seattle-news/politics/seattle-to-add-tax-on-gun-ammunition-sales/

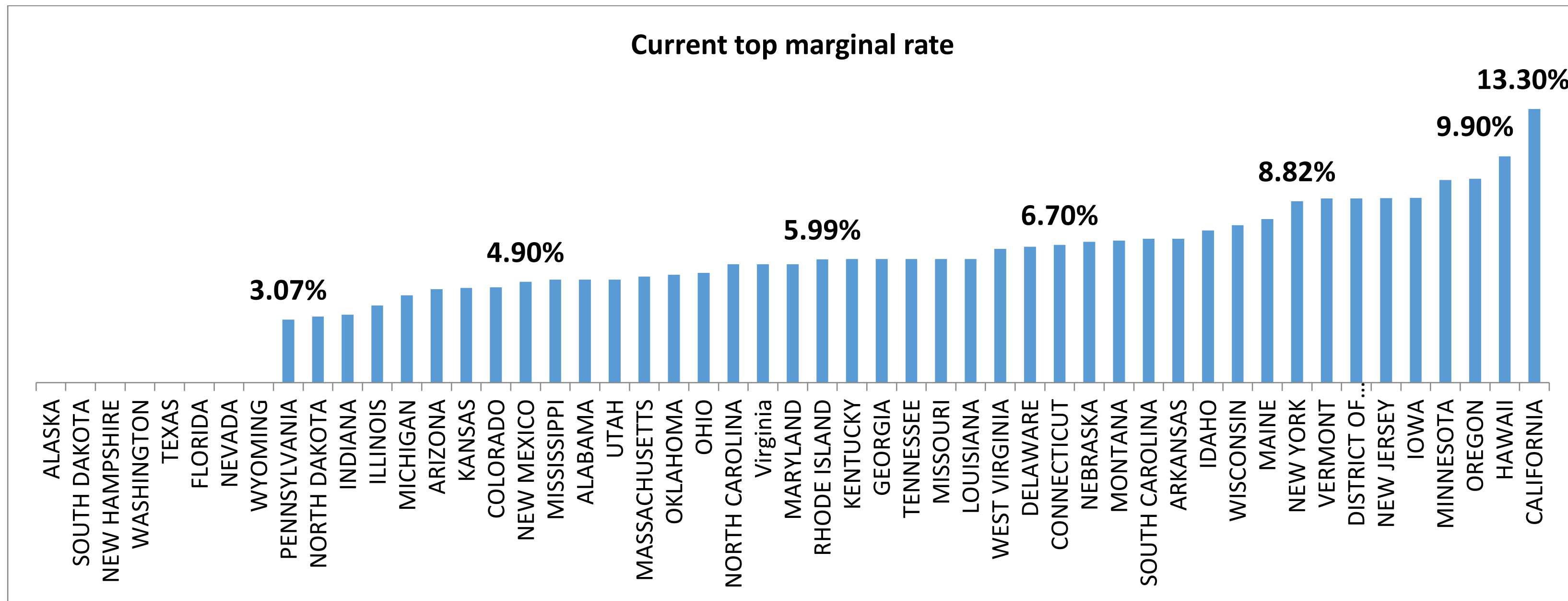
[14] Source: http://www.forbes.com/sites/kellyphillipserb/2015/08/11/gun-ammo-tax-aims-at-reducing-violence-in-seattle/

- **Fees related to development**: in California, taxes require voter approval but fees don't. Fees can be assessed as part of new development. In Long Beach and Oakland, the concept is to impose such fees on new development, particularly housing development because it generates new demand for child-care.
- **Professional Employer Organizations (PEO):** PEOs may provide a vehicle to organize child care teachers and providers in significant pools with shared needs and collective power, rather than utilizing center-by-center organizing. A policy nexus can be established between the state and childcare workers in state-certified homes and centers. The nexus could be the certification itself, or the provision of subsidies for the care of low-income children. The object should be for the state to be seen as a parallel employer for these workers, in some iteration. This parallel could deliver benefits, such as health coverage and wage increments based on education. To capture these benefits, workers would have to be part of a recognized union/association which, when it reaches a certain critical mass of members, could then be linked to a PEO of record for the workers in the union. The workers, through their union, could then bargain with the PEO for benefits and increments of a wage ladder. The state would be the PEO of record, or have an intermediary organization designated as such.

## Discussion Brief: Tax on personal incomes in excess of $1 million

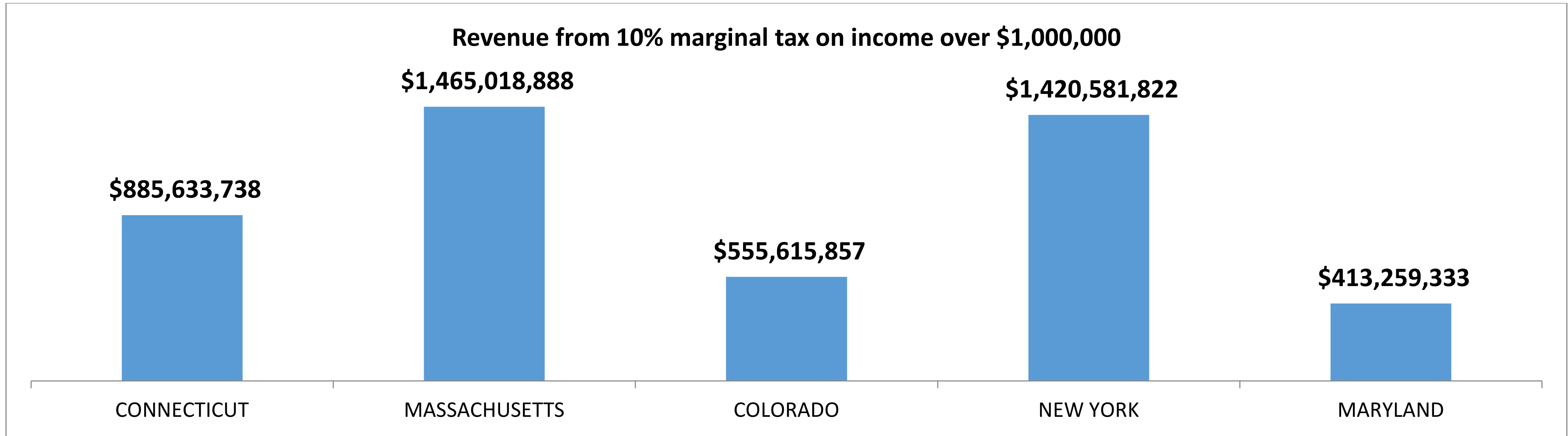
**John R. Burbank**

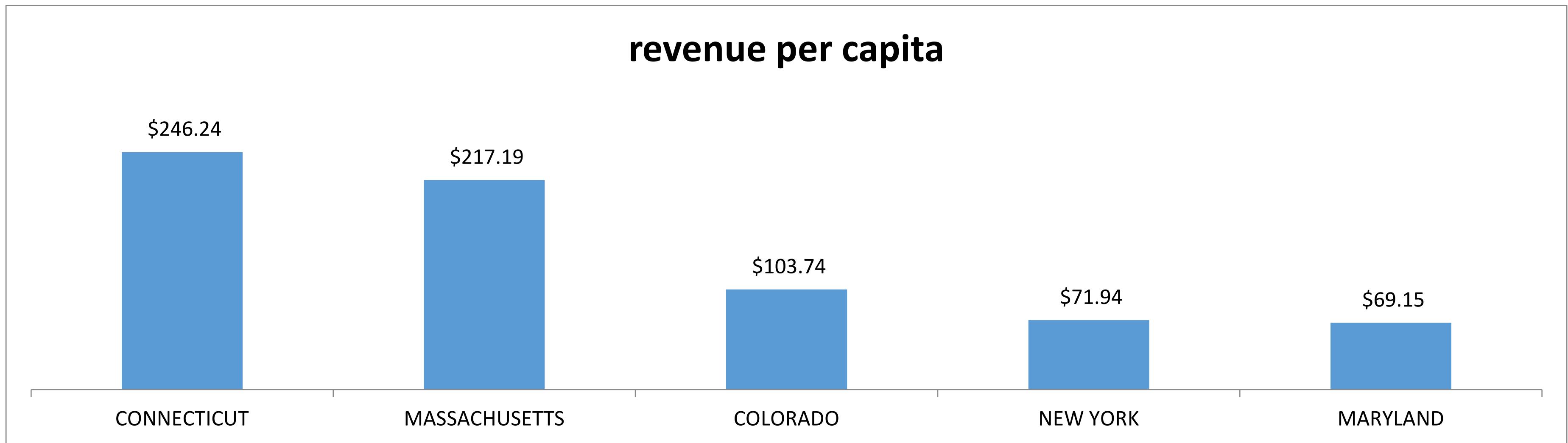
We have modeled a marginal tax rate of 10% on income in excess of $1 million. This design leaves out those states which already have a marginal tax rate in excess of 10% (California and Hawaii). The revenue per state is dependent upon the progressivity or regressivity of the underlying tax structure.



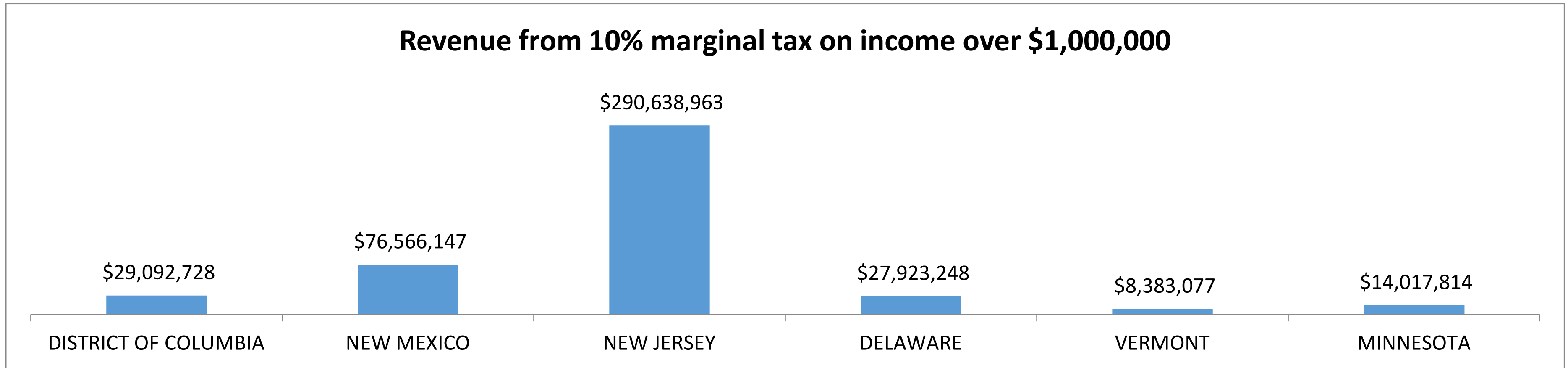

Those states without income taxes - Wyoming, Nevada, Florida, Texas, Washington, South Dakota, New Hampshire, and Alaska - could garner the most revenues, but the political possibility of achieving this is close to non-existent.

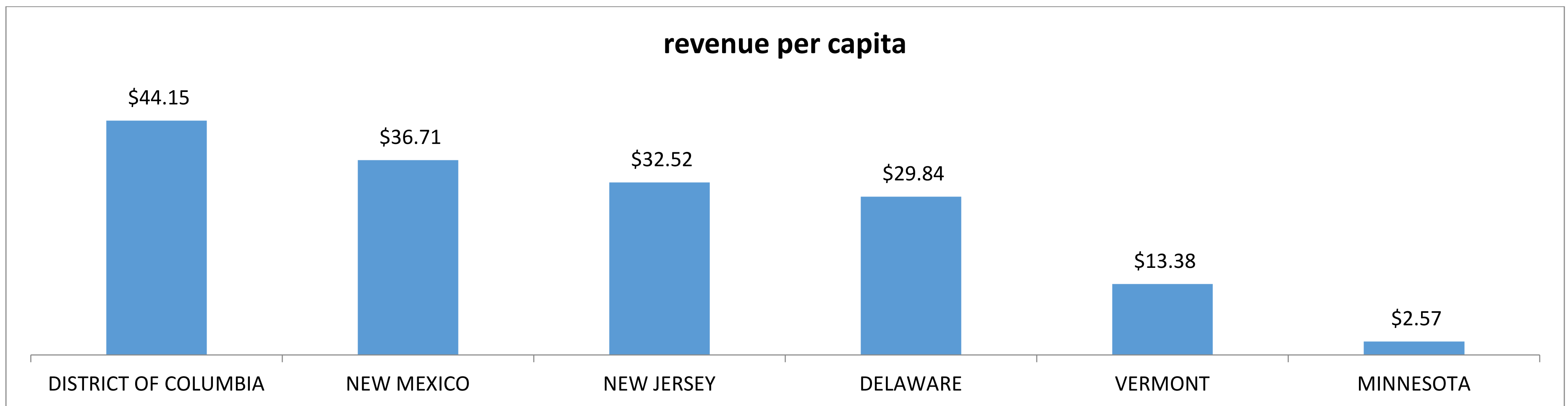
The states which could generate significant revenues and may have a positive political climate to move such a proposal forward are, in particular, **Connecticut, Massachusetts, Colorado, New York, and Maryland**. These may be the sweet spot states:


Revenue from 10% marginal tax on income over $1,000,000
$885,633,738
$1,465,018,888
$555,615,857
$1,420,581,822
$413,259,333
CONNECTICUT
MASSACHUSETTS
COLORADO
NEW YORK
MARYLAND


revenue per capita
$246.24
$217.19
$103.74
$71.94
$69.15
CONNECTICUT
MASSACHUSETTS
COLORADO
NEW YORK
MARYLAND

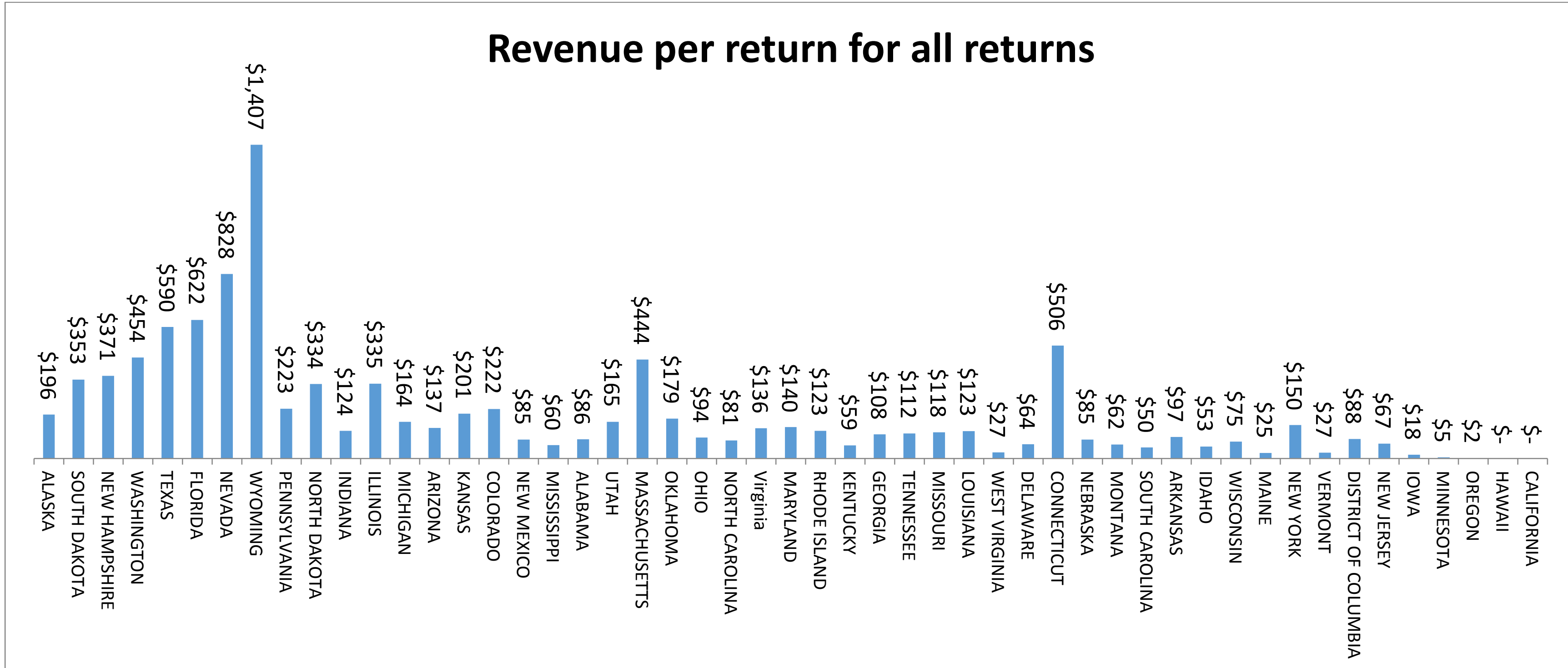
The states (and the District of Columbia) which could generate not insignificant revenues and have the political climate to do so include **District of Columbia, New Jersey, Vermont, Delaware, New Mexico, and Minnesota**.



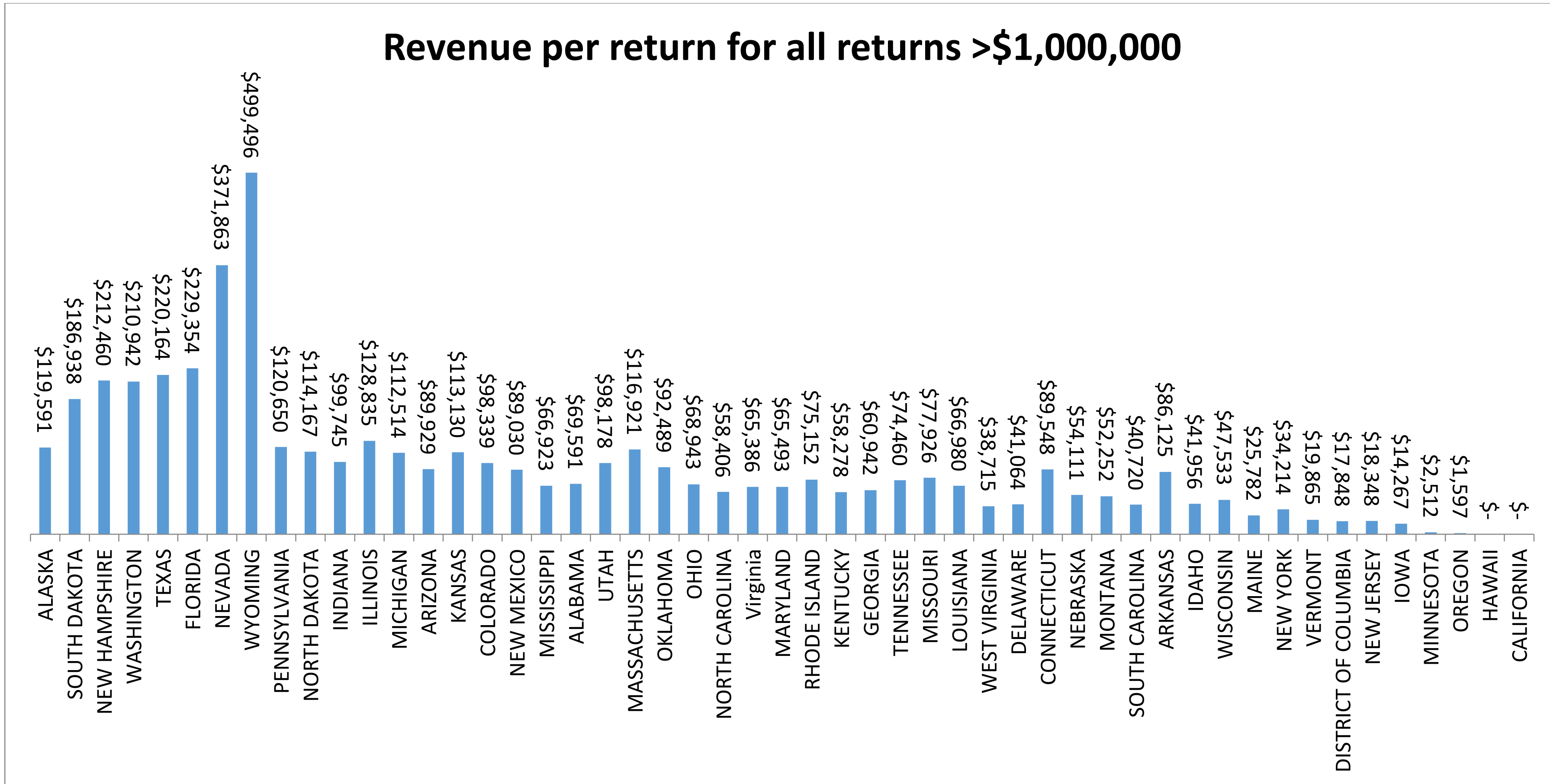



**Appendices**:

1. Revenue per return for a 10% marginal tax on income in excess of $1 million



2. Revenue per return for all returns with income in excess of $1,000,000 with a 10% marginal tax on income in excess of $1 million




Sources:

IRS: Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2013
https://www.irs.gov/uac/SOI-Tax-Stats-Historic-Table-2
Vermont Department of Taxes: 2013 Vermont Personal Income Tax Returns – Dollars
http://tax.vermont.gov/
Total Book of Tax Data for US by State 2013, IRS
https://www.irs.gov/uac/SOI-Tax-Stats-Historic-Table-2

## Discussion Brief: State Estate Taxes

**John R. Burbank**

The Federal Estate Tax was rolled back in 2001. It now is 40% of the value of estates in excess of $5.43 million (as opposed to 55% of the value of estates in excess of $675,000 in 2001). Before the 2001 changes, state estate taxes were a tax credit against federal estate taxes. Now state estate taxes are simply a deduction from federal estate taxes.

Fifteen states and the District of Columbia have state estate taxes. Exempted estate value ranges from $675,000 to $5.43 million. Rates of taxation range from eight-tenths of a percent to twenty percent.[15]

| State | Exemption | Rate (Min. to Max.) |
|---|---|---|
| Conn. | $2,000,000 | 7.2% - 12.0% |
| Del. | $5,340,000 | 0.8% - 16.0% |
| Hawaii | $5,340,000 | 10% - 15.7% |
| Ill. | $4,000,000 | 0.8% - 16.0% |
| Maine | $2,000,000 | 8.0% - 12.0% |
| Md. (a) | $1,000,000 | 0.8% - 16.0% |
| Mass. | $1,000,000 | 0.8% - 16.0% |
| Minn. | $1,000,000 | 0.8% - 16.0% |
| N.J. (a) | $675,000 | 0.8% - 16.0% |
| N.Y. | $1,000,000 | 0.8% - 16.0% |
| Ore. | $1,000,000 | 0.8% - 16.0% |
| R.I. | $921,655 | 0.8% - 16.0% |
| Tenn. (b) | $2,000,000 | 5.5% - 9.5% |
| Vt. | $2,750,000 | 0.8% - 16.0% |
| Wash. | $2,012,000 | 10.0% - 20.0% |
| D.C. | $1,000,000 | 0.8% - 16.0% |

Let's first focus, then, on those states that do not have state estate taxes. Of these states, California stands out as a state with the political climate and a robust potential state estate tax. A state estate tax at 10% of the federal estate tax would generate $321 million in California.[16] If California decided to put in place a state estate tax that, combined with the federal estate tax, would reflect pre-Bush estate tax rates (55%), then California would gain new revenues greater than $6 billion a year.[17]

Other states which do not have much room for increasing their income taxes but which could realize significant state estate taxes, at 10% of the federal estate tax, include Iowa ($10 million) and Wisconsin ($20 million). Using the federal exemption of the first $5.43 million, only a few more than 1,000 estates would pay the state estate tax in California, and about 50 estates would pay the state estate tax in Iowa and Wisconsin. That is, there would be no tax impact on more than 99.99% of the citizens in these states.[18]

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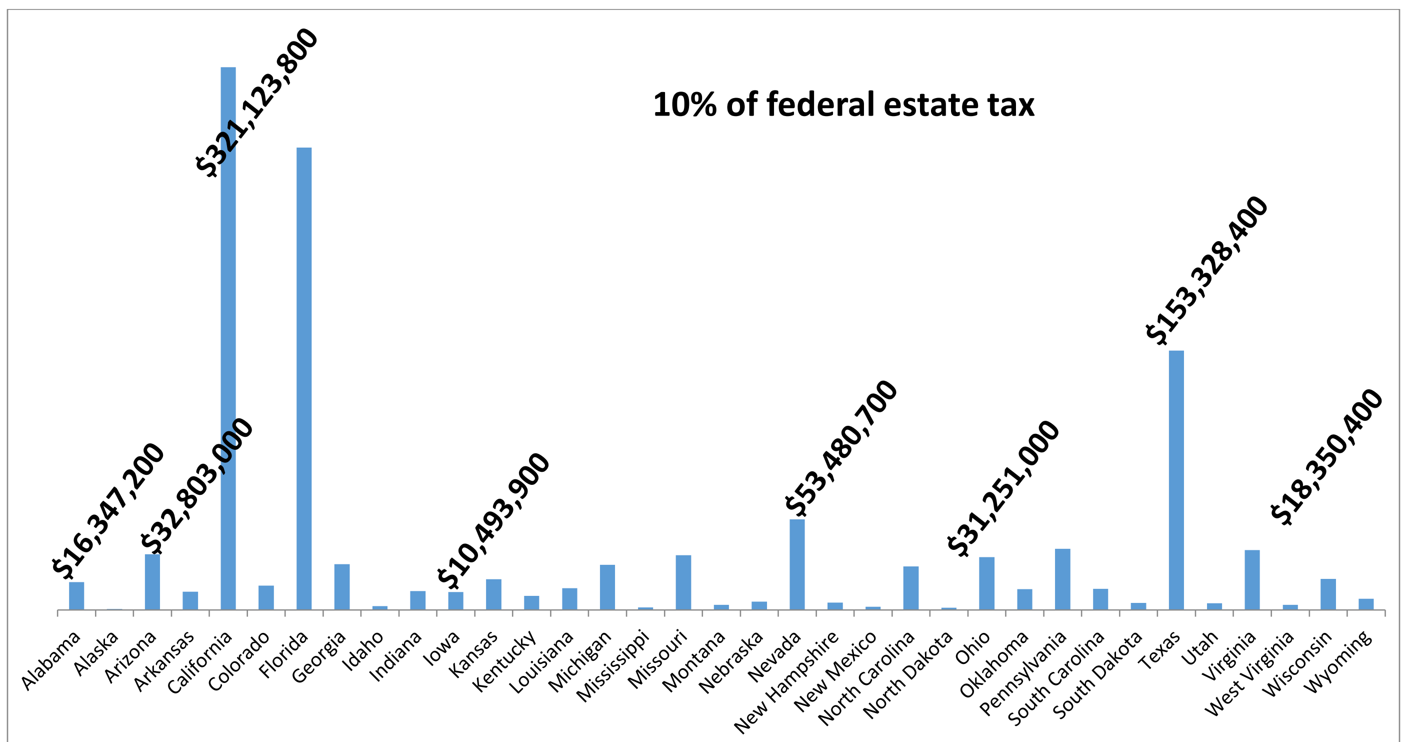
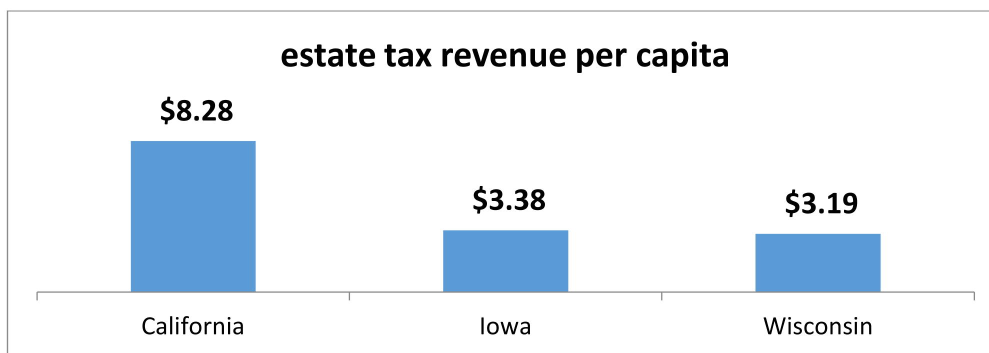
[15] http://taxfoundation.org/sites/taxfoundation.org/files/docs/Fact%26Figures_15_web_2.pdf Table 34

[16] This effectively decreases the federal estate tax, as the state estate taxes are taken as a deduction from the federal estate. With this policy innovation, public revenues are moved, very incrementally, from the federal government to the state.

[17] Note that when the Washington state estate tax is combined with the federal estate tax, the total estate tax rate for estate values in excess of $11 million totals 60%.

[18] IRS, Table 2. Estate Tax Returns Filed in 2014, by State of Residence

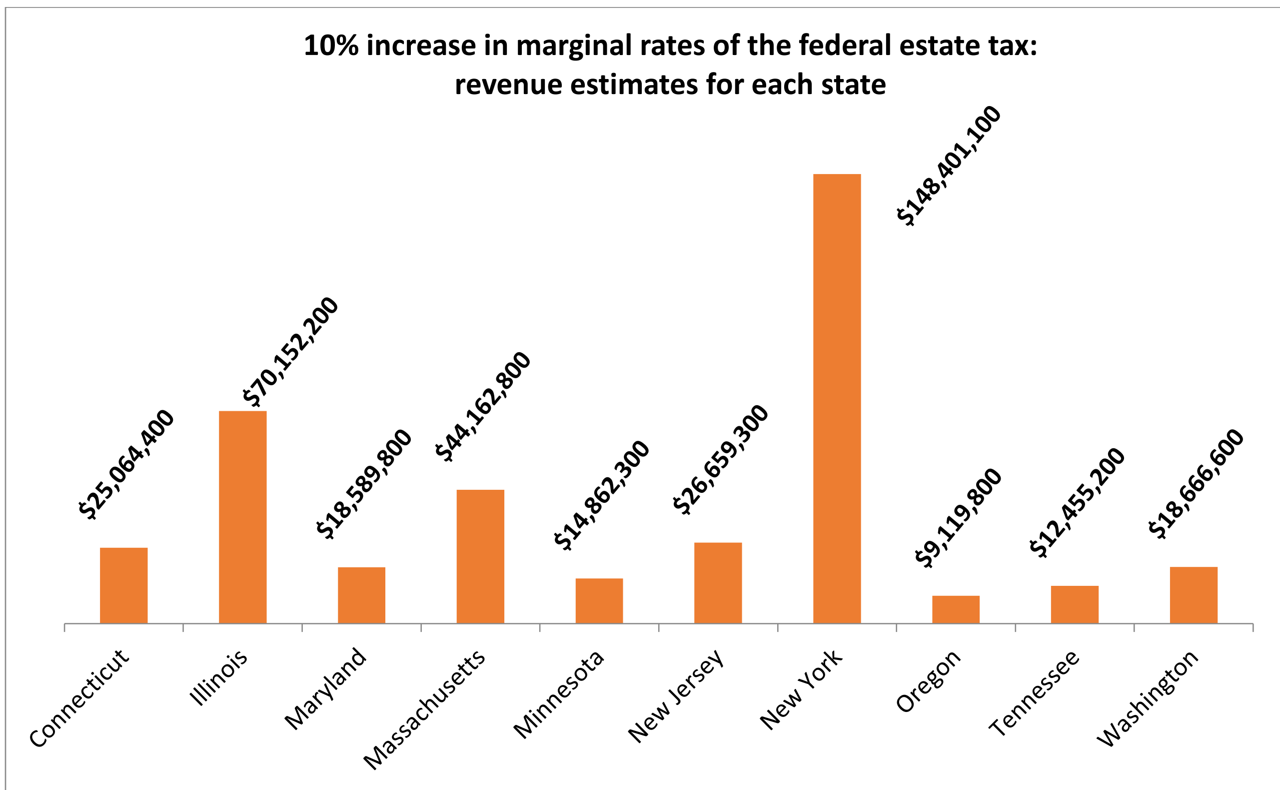



For those states which have a state estate tax, the equivalent of a 10% increase in the federal estate tax (with an actual percentage point tax increase of between .08% and 1% at the low end of the tax rates in individual states and between 1.6% and 2.3% at the high end) can generate significant revenues (New York would generate $148 million; Illinois $70 million, Massachusetts $44 million, Connecticut and New Jersey $26 million, Maryland and Washington $18 million.

There is plenty of room for purposefully creeping up the rates. In Washington State, the top four rates were increased by 1% each in 2013 and were approved in an advisory ballot that year.[19] The new rates start at the $4 million level (gross value of the estate being $6 million, with a $2 million threshold before the state estate tax kicks in), and are forecast to generate approximately $40 million a year.[20]

[19] EHB 2075, 2013: http://apps.leg.wa.gov/documents/billdocs/2013-14/Pdf/Bills/Session%20Laws/House/2075.SL.pdf
[20] State of Washington Online Voters Guide, 2013:
https://weiapplets.sos.wa.gov/MyVote/OnlineVotersGuide/Measures?countyCode=xx&electionId=50#ososTop




In both the states with state estate taxes and those without, there is more room for increasing revenues by simply dropping the threshold for estate taxes. The current threshold at the federal level of over $5 million simply enables the intergenerational transfer of wealth. **Dropping the threshold to $2 million would increase revenues by at least 50%** for those states putting in place a tax equivalent to 10% of the federal estate tax.[21]

[21] Note that this is a conservative estimate, as it does not include estates that are valued under $5.43 million and above $2 million, which, of course, would be captured if the threshold for taxation was dropped to $2 million.

**Appendices**:

1. States currently without state estate taxes and potential state estate tax revenue

| State | 10% of federal estate tax | 10% of federal estate tax plus 10% of effective federal estate tax rate on $3,430,000 on each estate (reducing threshold of state estate tax to $2 million) |
|---|---|---|
| Alabama | $ 16,347,200 | $ 24,526,740 |
| Alaska | $ 410,400 | $ 746,868 |
| Arizona | $ 32,803,000 | $ 47,810,066 |
| Arkansas | $ 10,762,800 | $ 14,606,722 |
| California | $ 321,123,800 | $ 467,803,972 |
| Colorado | $ 14,328,900 | $ 21,364,023 |
| Florida | $ 273,533,600 | $ 390,117,469 |
| Georgia | $ 27,008,500 | $ 40,376,296 |
| Idaho | $ 2,244,600 | $ 4,089,851 |
| Indiana | $ 11,186,000 | $ 17,704,344 |
| Iowa | $ 10,493,900 | $ 17,320,297 |
| Kansas | $ 18,020,500 | $ 24,918,511 |
| Kentucky | $ 8,188,800 | $ 13,151,539 |
| Louisiana | $ 12,815,200 | $ 20,352,764 |
| Michigan | $ 26,715,200 | $ 39,806,215 |
| Mississippi | $ 1,516,200 | $ 2,914,036 |
| Missouri | $ 32,382,800 | $ 45,725,042 |
| Montana | $ 2,993,300 | $ 5,544,687 |
| Nebraska | $ 4,808,400 | $ 8,264,685 |
| Nevada | $ 53,480,700 | $ 64,548,462 |
| New Hampshire | $ 4,314,700 | $ 6,219,063 |
| New Mexico | $ 1,902,500 | $ 3,336,136 |
| North Carolina | $ 25,700,100 | $ 40,990,762 |
| North Dakota | $ 1,265,200 | $ 2,404,196 |
| Ohio | $ 31,251,000 | $ 50,188,402 |
| Oklahoma | $ 12,253,400 | $ 17,818,224 |
| Pennsylvania | $ 36,137,200 | $ 60,977,529 |
| South Carolina | $ 12,373,400 | $ 19,258,606 |
| South Dakota | $ 4,028,000 | $ 6,515,029 |
| Texas | $ 53,328,400 | $ 216,600,042 |
| Utah | $ 3,906,800 | $ 7,338,342 |
| Virginia | $ 35,427,100 | $ 56,002,314 |
| West Virginia | $ 3,041,600 | $ 4,753,842 |
| Wisconsin | $ 18,350,400 | $ 28,683,510 |
| Wyoming | $ 6,630,600 | $ 9,253,980 |

2. States with state estate taxes and potential revenue from a 10% increase in the federal estate tax

| **Table 2. Estate Tax Returns Filed in 2014 [1], by State of Residence** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| [All figures are estimates based on a sample--money amounts are in thousands of dollars.] | | | | | | | | | |
| *Scroll over selected items below for brief definitions.* | | | | | | | | | |
| State of Residence | Gross estate for tax purposes | | Allowable deductions | | State estate tax deduction | | Net estate tax | | 10% of federal estate tax |
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | |
| Connecticut | 302 | 3,085,535 | 302 | 1,382,519 | 206 | 117,952 | 111 | 250,644 | **$ 25,064,400** |
| Illinois | 484 | 6,074,288 | 484 | 2,455,198 | 312 | 321,666 | 249 | 701,522 | **$ 70,152,200** |
| Maryland | 199 | 2,783,764 | 199 | 1,697,944 | 99 | 97,196 | 72 | 185,898 | **$ 18,589,800** |
| Massachusetts | 301 | 6,057,991 | 301 | 3,810,452 | 157 | 235,027 | 112 | 441,628 | **$ 44,162,800** |
| Minnesota | 208 | 2,466,015 | 208 | 1,450,207 | 142 | 93,208 | 84 | 148,623 | **$ 14,862,300** |
| New Jersey | 367 | 4,010,701 | 367 | 2,279,322 | 247 | 183,353 | 145 | 266,593 | **$ 26,659,300** |
| New York | 1,056 | 15,128,342 | 1,055 | 7,822,081 | 783 | 820,320 | 457 | 1,484,011 | **$148,401,100** |
| Oregon | 94 | 1,182,347 | 94 | 633,628 | 65 | 51,458 | 50 | 91,198 | **$ 9,119,800** |
| Tennessee | 125 | 1,269,114 | 125 | 472,906 | 53 | 48,325 | 35 | 124,552 | **$ 12,455,200** |
| Washington | 218 | 2,999,207 | 218 | 1,874,114 | 94 | 112,329 | 69 | 186,666 | **$ 18,666,600** |

## Discussion Brief: Low-Wage Employer or Fair Share Fees[22]

**Stephen Herzenberg**

**The Idea**. Corporations would be required to pay fees to compensate for costly and socially undesirable (or "low road") behavior. For low-wage employers, these fees might compensate for the public cost of providing their employees with public benefits (e.g., Medicaid and food assistance from the Supplemental Nutrition Assistance Program). For corporations that exploit tax loopholes, the loopholes might be closed. The fee could also be imposed on corporations that have high CEO/median pay ratios, violate the Fair Labor Standards Act (FLSA), or have a high share of part-time workers. Rather than just returning to the state or local government General Fund, some or all of the revenues could be dedicated to particular purposes, including expanding access to early childhood education (ECE) and/or ECE teacher compensation. In addition, a community or worker board could have a role in allocating the revenue and/or enforcing the law. Thus, the revenue option aims at building worker and/or community power and also driving home a message that has "bad actor" corporations at the center of the story. The fee also has the potential of reinforcing good corporate behavior, driving home a broader message that policy should support high-road responsible businesses – whose profit in ways that are compatible with worker, community and environmental wellbeing.

**Revenue Potential**. This depends on the details of the proposal. In large states it could be hundreds of millions of dollars if reimbursement includes the state share of costs for Medicaid or the average cost of employer-only health care. In localities it could be much less.

**Past use of this option**. As of the end of 2014, a low-wage employer fee had not yet been enacted anywhere but there were efforts and/or interest in several places (see below). Many states have closed corporate tax loopholes but none, to date, have earmarked revenues for particular purposes or given communities or workers a role in allocating funds or enforcing laws that close the loopholes.

**Recent campaign/advocacy experience**. A California "Walmart loophole" bill (AB-880 – Medi-Cal program costs: large employer responsibility) dealt exclusively with costs incurred providing Medicaid to employees of large employees. It died on February 13, 2014. The bill would have required employers with 500 or more employees to pay an employer responsibility penalty if their employees who work more than 12 hours per week and more than 45 days in a calendar year were enrolled in Medi-Cal (California's Medicaid) program. The penalty was to be set at 90% of the average cost of employee-only health care.

Some advocates observed that this bill didn't have any "organizing hooks." It is possible that the complexity of actual determining the number of employees using Medi-Cal at each employer was also an issue (although theoretically that problem should be solvable if a state's labor and health care agency databases can be linked.

An approach now being pushed in several places is a "per employee" fee with the revenue captured in a way that benefits low-income families (e.g., to cover the cost of high-quality, well-compensated early childhood education), thereby providing an "organizing hook" similar to a community benefits campaign and a natural constituency for the legislation. Many of the current proposals would establish an advisory group that advises how the money will be spent so that the proposal implements another form of bargaining.

- A bill in Connecticut would establish a 13-member board of experts and activists, earmark money raised for child care and home care (although it does not specify an amount), and give the board an advisory role regarding the wages and working conditions of workers delivering the funded services.

[22] This memo is based partly on the presentation by National People's Action, Jobs with Justice and SEIU at the October, 2015 meeting in Washington DC on revenue options for Early Childhood Education. We recommend that you also obtain a copy of that presentation. This memo is also based partly on prior personal communication with Erin Johansson of Jobs with Justice and Liz Ryan Murray, Policy Director of National People's Action

- A “responsible business act” is being pursued in Cook County, Illinois. Businesses including franchisees with more than 750 employees in the county would pay $750 per employee for each $1 below the county living wage level that they pay. It is estimated that this would raise $300 million during phase in and $500 million at full implementation. Money would be distributed by a board made up of Cook County Commissioners, workers and non-profit advocates. Allowed uses of the money could be far ranging (e.g., hospital, legal services) but would include early childhood education.
- Oregon may pursue a ballot measure to fund child care by closing a corporate tax loophole.

New Mexico and Michigan as well as Connecticut may launch versions of a fee in 2016-17.

Fees can be bundled with family leave or sick/safe time to create new coalitions and put the focus on businesses’ basic responsibility to their workers.

Another option is employer fees that exempt good employer behavior (e.g., employers that subsidize child-care for employees’ children as a benefit) but that otherwise require contributions because investment in childcare is a public good.

**Discussion Brief: A Wealth Tax**

**Stephen Herzenberg**

**The idea**. Thomas Piketty, in his book *Capital in the Twenty First Century,* has injected the idea of a "wealth tax" into global policy discussion. This type of tax is similar to an inheritance tax except that it is imposed on an annual basis. In the United States, the idea of a wealth tax has received support from conservative economist Ronald McKinnon and other economists.[23] McKinnon argues that a wealth tax distorts economic decision-making, and impairs efficiency, less than a higher top income tax rate. He also identifies as a positive feature that a wealth tax would fall more heavily on older Americans because they tend to be wealthier.

**The revenue potential.** The net worth of households and non-profit organizations in the United States was $85.7 trillion in the second quarter of 2014.[24] This is about five times GDP ($17.42 trillion in 2014[25]) and about six times personal income ($14.8 trillion in the third quarter of 2014[26]). We estimate that U.S. household nonresidential property wealth was $71.7 trillion in the second quarter of 2014. (This last estimate excludes residential property and, to the extent that our data source permits it, wealth held by nonprofit organizations.) We estimate the distribution of this wealth by state using 2007 IRS data[27] on the amount of wealth held by households with wealth of more than $2 million. This, in turn, allows us to estimate (as shown in Table 1) the revenue potential by state of a tax on wealth excluding residential property at three tax rates: one hundredth of 1 percent, one tenth of one percent, and one quarter of one percent. Even at the highest of these three levels, this tax rate would be a small fraction of the rate at which wealth typically grows and thus have on a small impact even on the wealthiest families.

**Table 1. Estimated Revenue by State from a Tax on Wealth Excluding Residential Property**

| Wealth Tax Rate | 0.01% | 0.10% | 0.25% |
|---|---|---|---|
| | Estimated Revenue ($millions) | | |
| **United States Total** | 7,173 | 71,732 | 179,330 |
| Alabama | 58 | 583 | 1,457 |
| Alaska | 7 | 71 | 179 |
| Arizona | 121 | 1,212 | 3,030 |
| Arkansas | 56 | 562 | 1,404 |
| California | 1,198 | 11,978 | 29,944 |
| Colorado | 150 | 1,500 | 3,751 |
| Connecticut | 177 | 1,765 | 4,413 |
| Delaware | 15 | 147 | 367 |
| District of Columbia | 19 | 186 | 465 |
| Florida | 682 | 6,821 | 17,052 |
| Georgia | 132 | 1,317 | 3,293 |

[23] See Ronald McKinnon, "The Conservative Case for a Wealth Tax,"; see also, Daniel Altman, "To Reduce Inequality, Tax Wealth Not Income," *The New York Times*, November 18, 2012; Anna Bernasek, "Look Beyond Income, to a Tax on Wealth," *The New York Times*, February 9, 2013.

[24] http://www.federalreserve.gov/releases/z1/Current/z1r-5.pdf
[25] http://data.worldbank.org/country/united-states
[26] http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm
[27] http://www.irs.gov/file_source/pub/irs-soi/07in06pw.xls

| Hawaii | 47 | 466 | 1,166 |
|---|---|---|---|
| **Table 1. Estimated Revenue by State from a Tax on Wealth Excluding Residential Property** | | | |
| Wealth Tax Rate | 0.01% | 0.10% | 0.25% |
| Estimated Revenue ($millions) | | | |
| Idaho | 33 | 326 | 816 |
| Illinois | 305 | 3,046 | 7,616 |
| Indiana | 71 | 710 | 1,775 |
| Iowa | 35 | 350 | 875 |
| Kansas | 36 | 358 | 895 |
| Kentucky | 47 | 474 | 1,184 |
| Louisiana | 80 | 799 | 1,999 |
| Maine | 24 | 245 | 612 |
| Maryland | 204 | 2,045 | 5,112 |
| Massachusetts | 244 | 2,435 | 6,088 |
| Michigan | 134 | 1,342 | 3,356 |
| Minnesota | 98 | 976 | 2,440 |
| Mississippi | 23 | 229 | 572 |
| Missouri | 90 | 896 | 2,240 |
| Montana | 21 | 215 | 537 |
| Nebraska | 23 | 226 | 565 |
| Nevada | 140 | 1,400 | 3,500 |
| New Hampshire | 42 | 423 | 1,056 |
| New Jersey | 205 | 2,051 | 5,127 |
| New Mexico | 25 | 250 | 624 |
| New York | 741 | 7,413 | 18,533 |
| North Carolina | 148 | 1,483 | 3,707 |
| North Dakota | 8 | 84 | 211 |
| Ohio | 147 | 1,467 | 3,668 |
| Oklahoma | 47 | 473 | 1,183 |
| Oregon | 56 | 557 | 1,393 |
| Pennsylvania | 200 | 1,997 | 4,992 |
| Rhode Island | 18 | 183 | 457 |
| South Carolina | 117 | 1,168 | 2,921 |
| South Dakota | 48 | 482 | 1,205 |
| Tennessee | 72 | 717 | 1,794 |
| Texas | 409 | 4,087 | 10,218 |
| Utah | 31 | 308 | 769 |
| Vermont | 14 | 143 | 358 |
| Virginia | 166 | 1,664 | 4,159 |
| Washington | 221 | 2,215 | 5,537 |
| West Virginia | 17 | 167 | 418 |
| Wisconsin | 102 | 1,023 | 2,557 |
| Wyoming | 28 | 279 | 698 |
| Other areas [3] | 42 | 417 | 1,042 |

Sources: estimate of U.S. household wealth except residential property based on B.101 Balance Sheet of Households and Nonprofit Organizations online at http://www.federalreserve.gov/releases/z1/Current/z1r-5.pdf
States' estimates are based on state shares of wealth among households with incomes over $2 million; IRS, Statistics of

Income Division, January 2012; online at http://www.irs.gov/file_source/pub/irs-soi/07in06pw.xls

Using national data from 2007, Table 2 shows the distributional impact of a flat wealth tax that *includes* household residential property.

- 84% of the wealth tax would be paid by the top income fifth and only 5% would be paid by the bottom three fifths of taxpayers;
- Only 28% would be paid by households ages 54 and lower; and
- Less than 10% would be paid by minorities (blacks, Hispanics any race, Asians, and other).

**Table 2. The Incidence of a Flat U.S. Wealth Tax**

| *By Income Fifth* | *Share of Flat Wealth Tax Paid by Each Fifth* | *By Age* | *Share of Flat Wealth Tax Paid by Each Age Group* | *By Race and Ethnicity* | *Share of Flat Wealth Tax Paid by Each Race/Ethnicity* |
|---|---|---|---|---|---|
| Top Fifth | 84% | *< 35 years* | 4% | *White alone* | 93% |
| Second Fifth | 13% | *35 to 44 years* | 8% | *White alone, not Hispanic* | 90% |
| Middle Fifth | 4% | *45 to 54 years* | 16% | *Black alone* | 3% |
| Second-Lowest Fifth | 1% | *55 to 64 years* | 23% | *Asian alone* | 3% |
| Lowest Fifth | -2% | *>= 65 years* | 50% | *Other (residual)* | 1% |
| | | | | *Hispanic origin (any race)* | 3% |

*Source*. Calculated based on U.S. distribution of Net Worth in 2011, online at http://www.census.gov/people/wealth/files/Distribution%202011.xlsx

We do not have a data source at hand that would allow us to estimate the distributional impact of a wealth tax on intangible property (i.e., on financial wealth, thereby excluding from taxation household residential property and other tangible property). We know, however, that the distributional impact of a wealth tax on intangible personal property would be significantly more progressive than incidence of the tax on all wealth shown in Table 2. While housing made up two-thirds of all middle class wealth in the mid-2000s, the wealthiest one percent had about 90 percent of their gross assets in stocks, securities, and other forms of business equity.[28]

Geographically, a small wealth tax would fall heavily on affluent suburbs and a few cities (e.g., New York and San Francisco). Many rural areas would, for practical purposes, not be taxed. In New York and other states where family child care unions are strong in rural regions, the child care unions would be the natural champions to carry a message of self-interest and morality to normally rural lawmakers. (Of course, in most states – i.e., all those without a constitutional uniformity clause – the first part of

[28] Benjamin Landy, "A Tale of Two Recoveries: Wealth Inequality After the Great Recession," August 28, 2013; online at http://www.tcf.org/work/workers_economic_inequality/detail/a-tale-of-two-recoveries

wealth could simply be exempted from the wealth tax, reinforcing the tendency for the tax to fall mostly on a few affluent places and families.)

**Past use of this option**. Florida had an intangible assets tax until it was repealed in 2007. Revenue from this tax totaled $ 1 billion in 1997-1998. The tax was gradually phased out after this, with proceeds falling to $46 million in 2006-2007 and then completely repealed.[29] Pennsylvania localities relied on a very small intangible property tax (i.e., falling on wealth such as financial assets as opposed to residential property) until it, too, was phased out. Many European counties levy some type of wealth tax. A number of European countries have taxes on wealth, although they are often "riddled with exemptions" (see Thomas Piketty, *Capital in the Twenty-First Century*, especially pages 517, 522, 528-529, and 533).

**Recent campaign/advocacy experience**. The Economic Opportunity Institute proposed an intangible wealth tax in 2002 and estimated its revenue potential under various assumptions. The most relevant historical U.S. experience is arguably the push for income taxation (1919-22) and then the inheritance tax on estates (1937-39). Piketty (pp. 505-508) has a useful summary of these episodes, entitled "Confiscatory Taxation of Excessive Incomes: Am American Invention." Among other points Piketty makes is that these increases in taxation were motivated in part by a concern that gilded age levels of inequality threatened the U.S. ideal of widespread mobility and to make the nation more feudal in its patterns of mobility. [30]

**Messaging Options**. A tiny wealth tax applied to early childhood education or other educational or social investments, could be messaged as a "Social Impact Tax," a deliberate contrast to Social Investment Bonds and an alternate, and far preferable, way to plough back a small portion of accumulated wealth to help ensure continued increases in wealth that benefit society as a whole including the wealthy themselves.

A wealth tax might also be messaged as critical to preserving democracy and mobility (the American Dream) and avoiding a further drift towards oligarchy and feudalism. The precise phrase that works best to communicate these messages could be researched in focus groups and surveys: e.g., "Preserving Liberty Investments" or "the Freedom from Feudalism Tax."

Other messages that work for any investments in ECE and in improving jobs for ECE teachers could also be used for this revenue option – and might be more effective because the revenue raised could be sufficient to boost "educational opportunity for all children," create "middle-class jobs for early childhood teachers," and "relieve stress on hard-working families with children."

A wealth tax might also be advanced if revenues were used for a combination of public investment in ECE and/or other education and reductions in the conventional property tax that is the primary source of local funding in many states. This would provide an opportunity to explain to the middle class that "your wealth is already taxed" but the wealth of the folks with the most wealth is not taxed – which is unfair. Therefore, we're going to start to rebalance wealth tax policy to make it less blatantly inequitable to the middle class, reducing rates on residential property, establishing a (much lower) rate on intangible personal property, and raising enough additional revenue to pay for quality universal ECE.

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[29] Florida Center for Fiscal and Economic Policy, November 2010, "Unbalancing Florida's Tax System: Eliminating Taxes on Wealth Has Shifted the Burden to Other Floridians", P. 3, http://www.fcfep.org/attachments/20101108--Eliminating%20Taxes%20on%20Wealth.pdf

[30] See, for example, Theodore Roosevelt's 1910 New Nationalism speech, the language of which, on its face, seems to call for an annual wealth tax. "No man should receive a dollar unless that dollar has been fairly earned. Every dollar received should represent a dollar's worth of service rendered — not gambling in stocks, but service rendered. The really big fortune, the swollen fortune, by the mere fact of its size acquires qualities which differentiate it in kind as well as in degree from what is possessed by men of relatively small means. Therefore, I believe in a graduated income tax on big fortunes, and in another tax which is far more easily collected and far more effective — a graduated inheritance tax on big fortunes, properly safeguarded against evasion, and increasing rapidly in amount with the size of the estate." The 1912 Progressive Party platform called for both an income tax and inheritance tax.