THE PROBLEM

The 2017 partisan tax reform law significantly accelerated our country’s rising inequality by slashing taxes of wealthy individuals and corporations and massively expanded the federal deficit. This has sparked calls for cutbacks in vital public services that will, in turn, strain municipal budgets.

THE SOLUTION

Municipal governments should explore options for helping to restore fairness to the tax code and generate revenue for infrastructure and other urgent social needs. The feasibility of the ideas outlined in this brief vary by jurisdiction, since states grant municipalities different levels of taxation power.

For municipalities with the authority to apply local corporate income taxes, a straightforward approach would be to introduce or increase the rate on existing taxes or require firms to pay a certain percentage of their state/federal corporate income tax bill to the local government. Another well-established option is a local corporate minimum tax, which could be based on income, gross receipts, or the value of a firm’s local payroll or property. New York City adopted such a minimum tax in 2015. San Francisco is another example. After a 2018 ballot initiative, the city imposed an additional gross receipts tax on its biggest corporations in order to fund homelessness programs.

The following sections highlight new areas of taxation that target corporations contributing to inequality and wealthy property owners.

LOCAL EXAMPLES

CEO PAY GAP TAX: Americans across the political spectrum are outraged about the vast gaps between CEO and worker pay. In 2016, Portland became the first city to tackle this problem through its tax code. Companies that operate in the city face a 10 percent surtax on the standard 2.2 percent local profits tax if their CEO pay is more than 100 times their median worker pay. For firms with pay ratios larger than 250 to 1, the surtax is 25 percent. Many of the 500 corporations subject to the tax regularly appear on highest-paid CEO lists, such as General Electric and Wells Fargo.

In the first year, Portland’s tax generated approximately $3.5 million, the amount expected based on the surtax design. In 2019, the San Francisco Board of Supervisors approved a motion to place a tax on the ballot for a gross receipts tax on companies that pay their CEO more than 100 times the median pay of their workers in that city. The measure, which is not yet scheduled for a vote, is expected to generate $140 million to fund mental health services.

Lawmakers in seven U.S. states and in the U.S. Congress have introduced legislation similar to the Portland tax. These efforts build on the living wage movement by sending a message that everyone in a workplace contributes value (not just the CEO).

HIGH-END REAL ESTATE TAXES TO FUND AFFORDABLE HOUSING AND OTHER PRIORITIES: In many U.S. cities, gentrification trends are exacerbated by a surge in international capital as wealthy investors seek safe havens to park their money. Cities should consider taxes on luxury real estate transfers and annual taxes targeting luxury second homes and unoccupied, vacant properties. Ordinances can be designed to target residential, commercial, and corporate-owned properties. Such legislation raises revenue while discouraging the disruptive impact of luxury development on local housing markets.

Some municipalities may require state enabling legislation to allow such local taxes. Jurisdictions should also consider requiring disclosure of the true owners of real estate (which is not always the name on the legal title) so they better understand who is buying up their communities.

In 2016, San Francisco voters approved a tax on high-end (over $5 million) commercial and residential
real estate transactions, with funds used to make community college more affordable. In 2018, voters in Oakland and Berkeley, passed similar ordinances.

In 2019, the New York State Legislature strengthened an existing “mansion tax,” with rates ranging from one percent on sales over $1 million to 3.9 percent on transactions over $25 million. The new tax is expected to raise $365 million in FY2019-2020 to help finance mass transit.

Thirty-five states have luxury real estate transfer taxes, and seven states levy a surcharge on the highest-value homes or have a progressive bracket structure through their real estate transfer tax system. Some of these laws enable municipalities to piggyback on the state transfer tax.

This year, Washington State implemented a progressive real estate transfer tax that also enables cities and towns to create a local add-on tax for affordable housing and homeless services. The statewide transfer tax ranges from 1.1 percent on the first $500,000 in real estate value to 3 percent on sales over $3 million. Cities and counties have great flexibility to add-on to the state transfer tax to fund capital projects. Seattle’s municipal add-on tax will generate an estimated $15-20 million per year for affordable housing and homeless services.

In Massachusetts, state legislators are considering a bill to enable municipalities to implement luxury transfer taxes. Boston city councilors recently passed a “home rule petition” to the state legislature to enable them to levy a 2 percent real estate transfer tax on properties valued at over $2 million. The fees could raise over $160 million for Boston and would be dedicated to affordable housing programs.

Vacancy Taxes: A growing number of cities are also exploring “vacancy taxes” to discourage wealthy investors from treating properties as “wealth storage units,” not homes. In Vancouver, Canada, for example, a new Empty Homes Tax aims to combat a recent housing crisis caused by property owners’ refusal to enter into rental agreements. Vacant residential properties are taxed at 1 percent of their value.

Such taxes build on state “split roll property taxes” that apply different rates to different types of property. The District of Columbia, for example, taxes vacant commercial and residential properties at a much higher rate.

Reduce Corporate Tax Subsidies: In addition to fair tax increases, municipalities should eliminate wasteful tax subsidies that do little to ensure businesses create good, sustainable jobs. New accounting rules require all state and local budgets to report revenues lost to such tax breaks, generating useful information for eliminating subsidies that drain resources from vital public services.

For more information on this issue:

CEO pay gap taxes: the Institute for Policy Studies maintains an online portal with links to legislation and other resources at: https://inequality.org/action/corporate-pay-equity/

Luxury real estate taxes: see this IPS policy brief.

Local corporate tax subsidies: Good Jobs First.

Local corporate and income tax laws: see these reports from the Tax Foundation and the Tax Policy Center.

Land & Resources

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Co-authored by
ENDNOTES


6 Gretchen Morgenson, “Portland Adopts Surcharge on C.E.O. Pay in Move vs. Income Inequality.”


18 Michael Leachman and Samantha Waxman, “State ‘Mansion Taxes’ on Very Expensive Homes.”


21 As prescribed in the legislation: Certification of Enrollment, Engrossed House Bill 1219, “Real Estate Excise Taxes -- Affordable Housing and Homelessness Projects,” approved by the governor April 19th, 2019.


