

High Stakes: Why and How Nonprofits Must Engage on State Tax Policy

by Karen Kraut

Editors' Note: In the Spring 2005 NPQ, Chuck Collins discussed how nonprofit organizations need to respond to the federal and state “shrink, shift, and shaft” agenda of anti-tax organizations. In this issue, Karen Kraut highlights the crucial work nonprofits are beginning to do to raise revenue and to fight back against a growing threat to the very essence of state government.

REMEMBER THE DAY I REALIZED I needed to understand taxes,” said Beth McConnell, director of the Pennsylvania Public Interest Research Group (PennPIRG). “We and our allies were lobbying in the state capitol of Harrisburg to protect public services like funding for public transit and medical assistance. But all the elected officials we met with, even our allies, kept saying, ‘We sympathize, but there’s no money because of the budget deficit.’”

“It was a real wake up call,” said McConnell. “Talking only about spending programs is a luxury now. We’ve got to talk about where the revenue is going to come from.”

All across the country, nonprofit organizations are dealing with the long-term effects of three decades of effective organizing by anti-government, tax-cutting conservatives. Advocacy organizations have found themselves pitted against one another, fighting for pieces of a shrinking revenue pie. In state after state, activists are coming to the same conclusion: we must deal with the revenue part of the equation, and together fight for a bigger pie.

For most nonprofit organizations, tax policy isn’t a bread-and-butter issue. Complex and a little intimidating, taxes seem more the domain of economists and politicians than of human service or consumer advocates. But that is changing rapidly.

When PennPIRG sought out ways to get involved in efforts to raise revenue, it did not need to look far. In 2001, leaders from community, business, environmental, faith, labor, and advocacy organizations had formed a coalition called United Pennsylvanians (UP) to promote progressive policies in Pennsylvania. When the state’s budget went into the red and vital services were on the chopping block, UP prioritized tax reform as a way to raise adequate revenue to prevent cuts. PennPIRG joined the coalition in 2003 and soon became one of its leaders, with McConnell joining UP’s board.

As progressives, members of UP were interested in ensuring adequate revenue for public services while also promoting fairness. They proposed closing corporate tax loopholes as a way to raise revenue from those who could afford it the most.

Through educating and organizing their bases, delegation visits to legislators, and testifying before the Legislature, UP and PennPIRG convinced the governor to include a proposal to close major corporate tax loopholes in his FY 2006 budget. While more steps remain before the final budget is complete, UP’s work has already gone a long way in reframing the debate on taxes and engaging entirely new constituencies in tax fairness advocacy.

The story of United Pennsylvanians is being replicated in states throughout the nation. From Washington State to Maine, organizations that traditionally advocate for spending issues (like housing or childcare) have coalesced to successfully raise fair taxes and defeat tax cuts. The Washington Tax Fairness Coalition won passage of a state estate tax, which will raise \$100 million each year. In Maine, Taxpayers for a Fair Budget Coalition defeated a disastrous property tax cap ballot initiative, which would have drained \$700 million in revenue annually.

“It’s the Revenue, Stupid!”

Nonprofits that care about preserving public services ignore tax policy at their peril. At stake is more than funding for local programs, but the fundamental quality of life for people who are not wealthy in America.

The importance of getting involved

in revenue fights is more urgent than ever, mainly for three reasons: the need to 1) restore adequate funding for public services, 2) address structural deficits, and 3) beat back a new ominous threat from anti-tax, anti-government forces.

Adequate Public Services: From 2001 to 2004, states were confronted with the worst budget deficits since World War II. Together states had budget gaps exceeding \$250 billion during these four years, resulting in severe spending cuts. Although the economy is slowly recovering from the recent recession and many state budgets are squeaking by without additional cuts, few states have restored funding of public services back to pre-recession levels. This means that the current lower funding levels for public services could become the new “norm” unless additional revenue is raised.

Structural Deficits: Many states have what’s referred to as a “structural deficit,” which simply means that the state’s revenue system (taxes, fees, etc.) does not bring in enough money to pay for its expenses. Most states have antiquated revenue systems designed during the postwar industrial economy and that are highly dependent on sales taxes on goods. But this part of the economy is shrinking as services account for higher proportions of economic activity and as purchases increase over the tax-free Internet. As a result, states will face prolonged deficits even if the economy picks up. Making matters worse, many states cut taxes (mostly progressive taxes) during the temporary economic boom of the late 1990s. Not only did this increase unfairness in state tax codes, but it turned off vital revenue spigots, thereby worsening structural deficits.

Because legislatures are politically adverse to raising taxes, to get by in the face of a deficit, they most often cut services and resort to accounting tricks and one-time solutions (i.e., borrowing from the rainy day fund). Without a per-

manent solution to the structural deficit—mainly by reforming the tax system so that it brings in sufficient money—nonprofit organizations will continue to expend energy year after year to preserve funding for the programs they care about.

Threat from Anti-Tax, Anti-Government Forces: The third and most menacing reason nonprofits must engage in revenue advocacy is because the right wing has launched a powerful and coordinated strategy across the nation to undermine the very essence of state government. Their goal is to fundamentally roll back the social safety nets and programs built over the last century that contribute to equality of opportunity. (See “Responding to the ‘Shrink, Shift, and Shaft’ Tax Cut Agenda,” by Chuck Collins, www.nonprofitquarterly.org/section/669.html.)

New Policies Straitjacket State Government

Anti-government, anti-tax advocates have introduced proposals—most of them constitutional amendments—in 18 states to straitjacket state government’s ability to ensure public welfare by preventing it from raising and spending money. The policies they are advocating for are called “TELS”—tax and expenditure limits—and the effort originated in Colorado.

The TABOR Toothed Tiger. In 1992, voters in Colorado narrowly passed the Taxpayers’ Bill of Rights (TABOR) constitutional amendment, unleashing a destructive predator on the state’s ability to raise revenue. Colorado’s TABOR is the most restrictive state fiscal limit in the country. While extremely complex, boiled down to basics it requires the state to use strict formulas, rather than expertise and judgment, to determine how much revenue the state can raise and spend from one year to the next. It also requires voters to approve all tax increases (though, notably, not tax decreases), which allows politicians to

duck hard choices and undermines informed representative democracy.

Thirteen years later, TABOR’s results are in and the picture isn’t pretty. TABOR has prevented Colorado from responding to economic downturns and the critical needs of its residents. As an indication of how public services have declined, consider: Colorado ranks 47th in K–12 education funding as a share of state income; Colorado eliminated its affordable housing loans and grants program, and eliminated all state support to local and regional health agencies; and the state ranks dead last in on-time vaccination rates for kids. TABOR has also damaged Colorado’s credit rating, thus, counterproductively increasing the cost of government.

Meanwhile, in the perverse reality of anti-government, anti-tax activists, Colorado is the epitome of success. Government has shrunk, public services have been dismantled and eviscerated, and the Legislature’s hands are tied to respond. With bated breath, national anti-tax advocates, including Grover Norquist of Americans for Tax Reform, are funding and organizing TABOR initiatives across the nation. Ohio is on the front lines of this national battle, with a TABOR initiative expected on the ballot this November. Several other states are aiming to put such measures on the 2006 ballot when turnout is expected to be much higher. Those states include Missouri, Kansas, Oregon, Wisconsin, Arizona, and possibly others.

As seen in Colorado, TABOR’s consequences are severe and far-reaching. Particularly problematic is that once this policy is in place, it’s extremely difficult to reverse. If other states adopt TABOR, those who care about ensuring a basic safety net, quality infrastructure, and opportunities for all people will be set back significantly in their efforts.

Nonprofits Fighting Back. Fortunately, nonprofits in most of these states have come together to fight

TABOR initiatives. Last year, a diverse coalition of nonprofits and municipal associations came together in Wisconsin when faced with the possibility that the Legislature was going to introduce TABOR legislation—the first step toward a constitutional amendment. The legislation was never introduced, in part because coalition members voiced their concerns to Republicans and helped their allies in the State House prevent it from moving forward.

However, anti-government advocates in Wisconsin are not giving up. This year, a particularly bad version of TABOR has been introduced and is already dominating the political debate. According to Carolyn Castore, Program Director of Wisconsin Citizen Action, TABOR has given Republicans their backbone to call for cutting popular social programs—“everything from four-year-olds going to kindergarten to school breakfast to prescription drug programs for seniors.” But Castore sees a silver lining. “They’re using it as an organizing tool, so we can do the same thing. We’re seeing closer working relationships between groups that didn’t see themselves as having anything in common. We’re reaping some rewards now, and down the road we’ll reap even more.”

Wisconsin Citizen Action (WCA) and other nonprofits in the coalition are taking action because, as Castore says, “Anybody who has an interest in state money sees that whatever they are championing will be under the gun.” They’re actively educating their constituencies and the public on the basic messages of the positive role of government, the importance of a fair tax system, and the radical nature of TABOR. WCA developed an innovative training curriculum designed to help local activists connect their values to the essential roles of government and use those values to reframe the debate on taxes and government. WCA views this kind of education as an essential part of the long-term effort to win

policy advances around fair taxes and funding for critical public services.

The State as a Key Battleground

Joel Rogers, Professor of Law, Political Science and Sociology at the University of Wisconsin Law School, wrote in *The Nation*, “In American politics, who controls the states controls the nation.” The right wing understands this principle and, with TABOR as their most recent weapon, is on their way to imposing their worldview on the rest of the American people. Public relations around TABOR have surface appeal because it

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taps into the mindset the right wing has spent decades cultivating: that government is untrustworthy and wasteful, and taxes are the confiscation of one’s hard-earned money.

To fight back the TABOR assault and advance a progressive tax agenda, the progressive movement needs to match and exceed the power, organization, and resources going into anti-tax, anti-government advocacy. Fortunately, the organizational infrastructure is beginning to be put in place to respond to this assault.

As in Pennsylvania, coalitions of advocacy groups in many states have become fluent in revenue issues thanks to four consecutive years of state deficits. Some states have had great tax policy success, such as New Jersey’s one-hundred organization strong “Fairness Alliance,” which got a millionaires tax passed that raises \$800 million annually. This new law imposes gradually higher income tax rates on people

with incomes over \$300,000. As part of their organizing strategy, Fairness Alliance members canvassed door-to-door in targeted communities, educating people about the millionaires tax and getting supporters to sign postcards. Thousands of postcards were then delivered to leaders of the state Senate by constituents in their districts.

In Washington State, an unusual coalition of home care workers, progressive Microsoft millionaires, and children’s advocates worked to successfully pass a Washington state estate tax, raising about \$100 million a year by taxing estates over \$2 million. They organized a widely-reported press conference at which Bill Gates Sr. spoke; they testified at hearings, met with numerous legislators, phone-banked to encourage calls to key legislators, and wrote letters to editors. They worked with the spoof group Billionaires for Unlimited Taxbreaks (who dress up as extremely wealthy people and parody demands for more breaks for the super-rich) to organize a spirited April 15th Tax Day rally “against” the estate tax. The estate tax bill passed the Legislature by a narrow margin, showing how important the organized grassroots effort was for bucking the national anti-tax tide and successfully passing the new estate tax.

In Massachusetts, the “Stop the Cuts!” coalition won a revenue package that prevented \$1.1 billion in budget cuts. The most progressive element of that package, raising the capital gains tax, would not have been included were it not for the coalition’s advocacy. Neighbor to Neighbor, the Coalition for Social Justice, teachers and public employee unions, and many other nonprofits educated their bases about the capital gains tax at events and through workshops, presentations, and door-to-door discussions. People who never heard of capital gains, let alone earned a penny from such income, recognized the unfairness of paying higher tax

rates on their minimal working income versus what wealthy people paid on non-work capital gains. Imagine the surprise of legislators during delegation visits when low-income constituents in their districts articulated the case for increasing taxes on capital gains!

In each of these states, coalitions are tying tax fairness to a renewed vision of the positive role of government. This is vital work given the 30-year campaign by anti-government forces to make people distrust government and hate paying taxes. Educational workshops in many states start off with a warm-up exercise that gets people thinking about the numerous ways they benefit from public services in a typical day—dropping kids off at public school, drinking safe water, driving on roads, using parks and libraries. Nonprofits are helping people to see and appreciate what has unfortunately become invisible and taken for granted.

Much success is gained even when concrete policy victories are elusive. State-based organizations actively engaged in tax fairness campaigns are building and strengthening their knowledge, education, and mobilization capacity on revenue issues. And, as a result, public perception of taxes is starting to shift and grassroots constituencies are more informed and active than ever before in progressive tax campaigns.

Building the Infrastructure

Anti-tax forces have a very effective infrastructure of research, media, and grassroots organizations. Those defending effective government have top-notch research organizations including Center on Budget and Policy Priorities, Citizens for Tax Justice, the Economic Policy Institute, and the Tax Policy Center (see resource box below). But there are also some fairly major gaps, especially in the areas of media and state organizing.

It is promising that a growing

number of coalitions and tax organizing efforts are making progress in individual states on the tax and budget front. What was missing until recently, however, was a network that linked these organizations together across states. Last year, the Tax Fairness Organizing Collaborative was established to bring together statewide grassroots organizations that are educating and organizing for fair and adequate taxation at the state and federal levels. Together they share best practices on campaign lessons and strategies, communications, and organizing tactics. They pool the latest information and opinion research on messaging and polling, and develop and share tools to link diverse constituencies to tax issues. Importantly, the Collaborative expands the resources going to tax fairness organizing nationwide. Sixteen states currently participate in the Collaborative, and organizations in additional states are also doing great work on tax fairness.

What Should Nonprofits Be Doing?

The most important thing for nonprofits to know is that in virtually every state, organizations are already organized and fighting for fair and adequate taxes. You just need to find them! United for a Fair Economy (www.FairEconomy.org) can help direct you to a coalition in your state. Once connected, there are a number of important and easy ways to get more involved:

Grassroots Education. Incorporating an element of tax education and advocacy into your agenda is vital and not hard to do. Start by educating your constituency about the connection between your organization's specific issue (health care, housing, etc.) and the taxes that we all pay to fund it. You can do this through newsletters, conferences, town meetings, workshops, the media, and any other ways you educate your constituency.

In Washington State, for example, the Washington Tax Fairness Coalition

has developed a lively one-hour workshop making the link between the unfairness and inadequacy of the state's tax system and the deteriorating quality of life for Washingtonians. The workshop concludes with a clear revenue campaign message—establish a state income tax—and suggests ways for participants to take action. Educator Lois Canright trained key members of the coalition to lead the workshop, who in turn conducted it for their constituencies (unions, faith-based communities, environmentalists, seniors, children's advocates, anti-poverty groups, and others.) Over 4,000 diverse people throughout Washington have participated in workshops over the last two years alone. (Washington State's workshop can be found at www.wataxfairness.org. Similar workshops for other states can be found at www.FairEconomy.org.)

Beyond the simple educational message "we must raise revenue," it is important to build an understanding that revenue should be raised *fairly*, in accordance with the progressive principle that taxes be based on ability to pay. Some taxes, like graduated income taxes, are primarily paid by wealthy people and profitable corporations. Others, like sales taxes, fall hardest on low-income people. Nonprofits should be supporting progressive taxes to raise revenue.

In Washington's workshop, this point is made dramatically through a "human graph" exercise. Five volunteers stand next to each other on a line of masking tape. Each volunteer represents a fifth of Washington's population: the lowest-income 20 percent, the second 20 percent, the middle 20 percent, the fourth 20 percent, and the wealthiest 20 percent. Then each volunteer takes a certain number of steps forward to show what his or her tax burden is as a percentage of his or her income. When all volunteers are in their places, the lowest 20 percent has taken 17 steps forward (their tax burden is 17

percent) whereas the wealthiest 20 percent has taken only six steps (their tax burden is only 6 percent). Seeing this extreme unfairness spread out over the room shocks workshop participants into action.

Taking Action. Couple your education efforts with clear ways to take action. This can include writing letters to the editor, signing petitions, attending rallies, and turning out the vote on ballot initiatives.

When lobbying your legislators about your particular issue, make sure to include a revenue-raising message. Never let a legislator tell you there is no money—*always* have a comeback pointing to a specific tax policy that would raise needed revenue. Get help from one of the progressive tax research groups as to how much different proposals would raise in your state (see resource box). Further, if your organization rates or evaluates legislators based on how they vote on your key issues, consider including votes on fair tax increases in this rating system.

Creative Communications. In addition to traditional education methods, use graphics, posters, stickers, and street theater to get your message out. A great example is the Tax Cuts Hurt Kids project (www.TaxCutsHurtKids.org) which connects the dots between federal tax cuts and budget cuts to programs that benefit children. In one poster, a boy stands on

the street looking bored. The tag line says, “Who pays for tax cuts? We All Do. He just lost his after school program.”

Pilot projects of Tax Cuts Hurt Kids are underway in Boston and Seattle. Posters are up, kids are involved, and it’s been a great way to garner media attention to the dark side of tax cuts and the benefits we get from taxes.

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Getting the Message Right. The dismantling of progressive state and federal tax system depends on fanning the flames of discontent toward government. As long as people take for granted the existence of public services and infrastructure, they will vote for tax cuts they believe will have no impact on their quality of life.

The nonprofit sector needs to be part

of a fundamental reframing of how we think about the role of taxation and government. Nonprofit organizations live daily the stories about the human impact of effective public spending, from fire stations to schools. We need to strengthen our ability to communicate these stories and connect the dots between what people care about and the revenue that pays for them.

A number of national organizations like Demos (www.demos-usa.org) are involved in extensive message research that will assist our efforts to effectively talk about government, taxes, and the quality of life issues that connect to the broader public.

Nonprofit organizations have a long track record of effectively educating their constituents about their advocacy concerns. In the current climate, those who work for a more equitable society must broaden their educational efforts by jumping into the current tax debate—sitting out is a luxury none can afford. The political outcome of legislation related to how we pay for government services will shape the kind of society our children and grandchildren inherit.

KAREN KRAUT is the coordinator of the Tax Fairness Organizing Collaborative at United for a Fair Economy (www.FairEconomy.org). She co-authored the reports “Shifty Tax Cuts: How They Move the Tax Burden off the Rich” (2004) and “Choosing the High Road: Businesses that Pay a Living Wage and Prosper” (2000).

Resources

Citizens for Tax Justice	www.ctj.org
Center on Budget and Policy Priorities	www.cbpp.org
Economic Policy Institute	www.epinet.org
Fair Taxes for All	www.fairtaxes4all.org
Tax Policy Center	www.taxpolicycenter.org
Tax Cuts Hurt Kids	www.taxcutshurtkids.org
Tax Fairness Organizing Collaborative	www.faireconomy.org/TFOC
State EITC online resource center	www.stateEITC.org
United for a Fair Economy.org	www.faireconomy.org

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