# FUNDING OUR FUTURE:

## Generating State and Local Tax Revenue for Quality Early Care and Education

Build Initiative — Strong Foundations For Our Youngest Children
Center for American Progress
Children's Funding Project
ITEP — Institute on Taxation and Economic Policy
University of Maryland

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### About the BUILD Initiative

www.buildinitiative.org

The BUILD Initiative (BUILD), a fiscally sponsored project of TNSE MissionWorks, a 501(c)(3) public charity, is a national effort that helps advance state work on behalf of young children (prenatal–five), their families, and communities. For 17 years, BUILD has worked to ensure that every child, regardless of race, neighborhood, or family income, has equitable opportunities to achieve positive health and education outcomes. BUILD partners with early childhood leaders focused on family support and engagement, early learning, health, mental health, and nutrition to create the policies and infrastructure necessary for quality and equity. BUILD supports these leaders by providing consultation, learning opportunities, resources, cross-state peer-to-peer exchanges, and in-state planning and implementation assistance. These efforts help state leaders to increase quality, expand access, and promote equitable outcomes for our youngest children.

BUILD:

- Provides tailored and timely technical assistance to leaders in partner states.
- Facilitates learning communities that share the latest research and promising practices.
- Serves as a knowledge broker by shining a light on promising early childhood systems efforts and highlighting new ideas and successful innovations.
- Supports new and emerging leaders and works to ensure diversity and equity in all aspects of early childhood systems building.
- Informs and influences state and national conversations and policy decisions by highlighting emerging issues, innovative approaches, best practices, and results from the field.

### About the Center for American Progress

www.americanprogress.org

The Center for American Progress (CAP), a 501(c)(3) public charity, is an independent non-partisan policy institute that is dedicated to improving the lives of all Americans through bold, progressive ideas, as well as strong leadership and concerted action. The Early Childhood Policy team at CAP works on issues impacting children from birth to age five, with an emphasis on child care, preschool, home visiting, Head Start, and Early Head Start. The team produces research, policy, and data analysis to support and inform policymakers, advocates, and the public on a wide variety of early childhood issues at the local, state, and federal level.

### About the Children's Funding Project

www.childrensfundingproject.org

The Children's Funding Project, a 501(c)(3) public charity, is a non-profit organization that helps communities identify and obtain public funding for children's programs. The organization works closely with community leaders to close equity and opportunity gaps for children by leveraging existing funding, generating new revenue, and administering funds. The Children's Funding Project was founded in 2018 by Elizabeth Gaines, one of the country's leading experts on child and youth financing. It is based in Washington, DC.

### About the Institute on Taxation and Economic Policy

www.itep.org

ITEP, a 501(c)(3) public charity, is a non-profit, non-partisan tax policy organization. ITEP conducts rigorous analyses of tax and economic proposals and provides data-driven recommendations on how to shape equitable and sustainable tax systems. ITEP's expertise and data uniquely enhance federal, state, and local policy debates by revealing how taxes affect both public revenues and people of various levels of income and wealth.

### About the University of Maryland College Park, Schools of Public Health and Public Policy

www.umd.edu

The University of Maryland, College Park is the state's flagship university and one of the nation's preeminent public research universities. A global leader in research, entrepreneurship, and innovation, the university is home to more than 41,000 students, 14,000 faculty and staff, and 352,000 alumni all dedicated to the pursuit of Fearless Ideas. The Karabelle Pizzigati Initiative in Advocacy for Children, Youth and Families is a joint effort of the School of Public Health and the School of Public Policy.

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# Introduction

*Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* provides early childhood leaders with funding strategies for increasing the revenue from state and local sources that can be directed to high-quality early care and education.

The political and policy relevance of early care and education is on the rise. This was clear both during the 2018 gubernatorial races, when many successful candidates declared a commitment to early care and education, and in governors' budgets, which proposed investments of $2.9 billion in new state funding for early childhood.[i] While ongoing efforts to improve general appropriations at the federal and state continue to be critical, the scale of currently available resources, particularly to support high-quality child care for infants and toddlers, motivated us to form the Child Care Revenue Work Group. The Work Group is made up of tax experts and seasoned early childhood leaders who aim to identify promising opportunities to generate state and local tax revenue dedicated for early care and education that can help close the significant gap between what is currently available and what is needed.

State and local tax revenue dedicated for early care and education provides a largely untapped approach for early childhood leaders to consider. Noteworthy work has been done, both at the state and local levels, to support quality early care and education through dedicated taxes. These revenues can have a significant impact on long-term goals, as seen in the local children's taxing districts in Florida or the new approach to corporate and business taxation in Oregon. The pioneers who started this work in states and localities around the country demonstrate early successes in helping to close the extreme funding gap in early care and education. Local and state revenue generation contributes to national momentum. *Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* catalogues the "what" of some of these foundational efforts and goes beyond them by introducing potential "next generation" tax policy ideas for consideration.

> Definition of early care and education. We use the definition found in *Transforming the Financing of Early Care and Education*—nonparental care from birth to kindergarten entry that occurs outside a child's home, and includes a variety of settings encompassing programs operated by child care centers and family child care homes.[ii]

The recent study from the National Academies of Science, Engineering, and Medicine, *Transforming the Financing of Early Care and Education,*[iii] estimated the total cost of a high-quality, affordable early care and education for families with children from birth to kindergarten. With the national cost coming to at least $140 billion a year, significant new revenue must be identified and invested in early care and education for children from birth to kindergarten. Strides have been made at the federal, state, and local levels for early care and education (e.g., child care, Head Start, Early Head Start, prekindergarten); however, the gap is wide between today's investment of $29 billion and the $140 billion suggested by the National Academies report for a public-private system that would give all children–regardless of age, family income, race, ethnicity, and geography–access to vital early care and education services and would still be less than the 0.8 percent of Gross Domestic Product (GDP) invested in early care and education by the nations in the Organisation for Economic Co-operation and Development (OECD).[iv]

With this in mind, *Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* introduces seven state and local tax policy areas for consideration as part of the push for expanded public investment in early care and education.

This report is part of a long-term effort to ensure: 1) equitable access to high-quality early care and education for children 0-5 and their families; and 2) parity for the workforce for whom standards are rising but compensation falls woefully short of that of similar public school educators and other professionals.

These efforts focus on an equity imperative for all children, across age, racial, ethnic, geographic, and income groups, to reap the benefits of quality early care and education, given the known and well-documented short- and long-term child development and learning impacts. We note, in particular, that the level of underfunding is most extreme for infants and toddlers. The last two decades have seen a concerted push for mainstream acceptance of prekindergarten and to expand public and local investment overall. While these advances are critical (and not yet fully realized),[v] from an equity standpoint, a greater focus is needed on quality early care and education for infants and toddlers who don't have access to prekindergarten improvements.

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At the same time, the effort to improve the quality of the early care and education workforce has to advance simultaneously with efforts to improve parity; workforce conditions and compensation must be upgraded to be consistent with those of other educators and similar professionals. The projections from the National Academies report included both the equity and parity focus in order for more children to be reached and a middle-class professionalized workforce created. For too long, the early care and education field has internalized the scarcity belief that we must choose either to provide more families with access to early care and education or to increase quality. However, we must achieve sufficient funding to do both, a feat that will not be accomplished without funding expansions. This report provides ideas for generating state and local funding specifically dedicated to early care and education, an area that must be viewed as a crucial part of the comprehensive funding picture.

As they incorporate an equity and parity approach, states and localities are doing impressive work to understand funding needs. *Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* is an important complement to these locally- and state-focused efforts[vi] in the examples it provides of ways to generate the revenues that, together with other public and private funding, will help reach these goals.

*Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* was informed by an active advisory group–the Child Care Revenue Work Group–made up of 30 experts–including tax policy experts and early childhood leaders, many with experience spearheading dedicated state or local tax initiatives.

The report is intended as an introduction to funding possibilities for states and localities to explore; no recommendations are made and the report deliberately focuses on the "what" rather than the "how." Seven tax policy areas are presented. Each tax is defined, and examples are included showing current use of these taxes for early care and education, policy ideas that have been tried but have not yet passed, and new, next generation ideas. The taxes discussed (arranged alphabetically) are:

- Corporate and Business Taxes.
- Estate and Inheritance Taxes.
- Personal Income Taxes.
- Property Taxes.
- Sales Taxes.
- Sin Taxes.
- Special District Government Taxes.

To aid early childhood leaders who are new to exploring tax-based revenue generation to support their early care and education policy agenda, prior to the descriptions of the seven tax areas, we include a section on Guiding Questions, which identifies nine questions for leaders and their partners to consider in analyzing a taxing mechanism. We recommend working with partners to analyze these questions, and, in particular, consulting with legal, tax, and fiscal experts who are knowledgeable about your state and local tax laws and contexts.

The report also includes several appendices with expanded information intended to aid early childhood leaders. These include a state-by-state tax table (Appendix 1) that provides an overview of the areas within the state tax context. A section on tax resources (Appendix 2) highlights publications and identifies tax experts and coalitions that may be helpful as state and local leaders learn more about tax-based strategies for reaching their early care and education goals. Finally, a section on fiscal resources (Appendix 3) is included for state and local leaders who need to undertake fiscal mapping and cost modeling to determine their overall financial goals.

*Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* limits itself to looking at public revenue generation through direct state and local taxation that can support ongoing, system-level revenue. There are other ways to generate revenue for early care and education at the state and local levels; some of these are identified below. Many of the ideas below are discussed in *Innovative Financing to Expand Services so Children Can Thrive*, a 2019 brief by the Education Redesign Lab and the Children's Funding Project.

**Community Benefit Agreement (CBA)** - A CBA is a contract between a community group and a developer that details how the developer's new project will benefit the community with provisions such as constructing child care facilities or sharing a portion of the revenue with community organizations.

**Community Reinvestment Act** – The Community Reinvestment Act (CRA) is a banking regulation passed in 1977 to encourage commercial banks to invest in community development. CRA agreements with financial institutions pledge a multi-year program of lending, investing, and/or direct funding for services from the bank towards CRA-qualified community activities such as child care, social services, and lead-based paint abatement.

**Individual or Business Tax Credits** – State tax credits are being used as incentives for businesses and individuals to support child-serving funds and services. Credits can be given as a reward for donating money to a fund, or to a family for participating in the services as a way to help mitigate costs, or to supplement wages for educators.

**Pay for Success (PFS) or Social Impact Bond (SIB)** – A PFS/SIB is a type of public-private partnership where private dollars are used as capital to fund evidence-based programs, and public dollars are used to repay the investors once, and only if, the program has improved a predetermined outcome.

**Profits from publicly held assets** – Localities can revitalize and sell or rent publicly held property and assets, such as buildings and harbors or port of entry spaces, and use the profit generated to create a dedicated children's fund.

**Payments in Lieu of Taxes (PILOT) recapture** – PILOT (pay in lieu of taxes) is a voluntary agreement that reduces the amount of property tax that institutions or businesses pay as an incentive for creating jobs/building facilities. Once this agreement sunsets, localities can recapture the newly received property tax revenue into a children's fund.

**In-kind facilities usage** – Governments can support child-serving providers through in-kind use of facilities in exchange for locating child care or other family services.

# Guiding Questions to Assess State and Local Tax Revenue Options for High-Quality Early Care and Education

The Child Care Revenue Work Group developed Guiding Questions to assist in identifying state or locally feasible tax policies that could potentially support increased quality early care and education funding. Generating new tax revenue for high-quality early care and education from local and state taxes is both ambitious and essential. For too long, we have failed to include much needed early care and education funding at tax policy tables. As caring for and educating children from infancy through preschool becomes more widely recognized as essential to healthy communities and a thriving workforce, that must change. State and local early care and education stakeholders must gain a working understanding of the taxing policies that are legally, administratively, and politically feasible in the context of individual states and localities.

The Guiding Questions build on a foundation of research into successful strategies used by local and state leaders to generate public revenue to fund quality early care and education. They are intended to support the inception and analysis of new funding strategies while ensuring such strategies are intentional and consider a broad range of potential impacts.

These questions facilitate discussion of both technical and strategic facets of each tax. We start with technical considerations, which include the tax itself, the jurisdiction that is able to levy the tax, its feasibility, its ability to be dedicated, and where it falls on the spectrum of regressive to progressive. Next comes a series of questions relating to strategic considerations, which frequently overlap with technical considerations. These include communication power, the implications of particular tax mechanisms and how leaders approach the work to establish the tax for use in early care and education, who pays for the tax, who benefits from the tax, if the tax is timely, and how the tax proposal fits into a longer-term strategy to support quality early care and education.

Though stakeholders may initially focus on each question individually, selecting a revenue generation mechanism requires holistic consideration. Taken as a whole, these questions may expose tradeoffs that must be made to select an appropriate mechanism, or raise issues about state, regional, and local political contexts and economic climates. The questions, both individually and together, offer a way to frame a narrative around the revenue generation needed to increase funding for quality early care and education.

## GUIDING QUESTION 1: ***What jurisdiction will levy the tax?***

Funding for quality early care and education in the United States comes from taxes collected at the federal, state, and local level. For example, in a city like Portland, Oregon, the federal government improves child care access and quality through the Child Care and Development Fund, the state uses the Oregon Child Care Contribution Tax Credit to improve quality and affordability of child care, and the Portland Children's Levy uses local property tax to support a broad range of services including early childhood programs. Thus, it is possible to advance tax revenue for quality child care and education at each of these levels though the authority to levy taxes differs. Income taxes are collected and used by the federal, state, and some local governments. Sales taxes are applied most commonly at the state level, though many states allow local jurisdictions to establish them as well; taxes on residential, commercial, and industrial properties are routinely employed by local jurisdictions and, to varying degrees, by state government too.

This report focuses exclusively on tax revenue from state and local jurisdictions and recommends a careful exploration of the advantages and disadvantages of working at both levels when looking at specific taxes. For example, is there more political support for high-quality early care and education at the city council or in the state legislature? If the tax is approved by a local government, what is the feasibility of it being extended across the state in the future? Is it possible to form regional partnerships that increase the capacity of several localities to provide quality early care and education services?

## GUIDING QUESTION 2: *Is the tax legally feasible?*

It is crucial to assess whether current law permits the tax or if there needs to be a change in law or regulation to enable it to proceed. Authority to levy taxes is dictated by state constitutions as well as state and local legislation. At the local level, the legal authority to levy taxes may be enabled or restricted by state law or local legislation. Legislation can also restrict the rate at which taxes may be levied. Because of these complexities, which often require interpretation of state constitutions and local charters, it is critical for early childhood leaders to consult tax experts on the legal feasibility of a mechanism before pursuing it. Leaders may also choose to pursue the passage of legislation that enables additional taxing authority (for example, in a state whose cities do not have the authority to levy commercial real estate taxes, they may wish to pursue state legislation that enables such a city levy). In general, advancing new tax-enabling legislation is more time-intensive and costly than expanding a tax that does not require new legislation. Exceptions to this rule exist, however, particularly when a newly elected policymaker has run on a platform calling for expanded funding for early care and education services, as well as local control. In any case, addressing legal barriers will require time, resources, and strategy, and should be included earlier rather than later in the decision-making process.

## GUIDING QUESTION 3: *Can the tax be dedicated to early care and education?*

When considering the legal authority of a jurisdiction to levy a given tax, early childhood leaders should also determine whether the tax can be dedicated to early care and education. Depending on the jurisdiction and the tax type, it may be possible to dedicate revenue to a fund that is separate and distinct from the jurisdiction's general fund. This prevents revenue from being used for purposes other than those for which it was originally established and, since it is a new and separate budget item, it can also curtail redirection of existing funds with any new funds generated. Dedication of this funding both protects the funding from being used for an alternative purpose and often allows for separate governance for the funding. If kept outside of the general fund, it may be necessary to create an infrastructure for administering the funds, which would be overseen by a new non-profit, a separate governmental department or agency, or a special taxing district. This infrastructure can be composed of stakeholders and experts who understand community need and prioritize quality early care and education, allowing for more effective administration of funding. At the same time, achieving dedication can be difficult and early childhood leaders may ultimately determine that quality early care and education could be sufficiently prioritized to gain from non-dedicated revenue.

## GUIDING QUESTION 4: *Is the tax politically feasible?*

Tax proposals are almost guaranteed to face some form of opposition, necessitating careful consideration of the political environment of the state or locality. Opposition could come in multiple forms, so it is important to prepare for a variety of potential arguments against a proposal and to have the ability to negotiate or change course depending on competition from other efforts. Consider the following:

1. How hospitable has your state or community been to raising tax revenues in the past? Are there actors who have traditionally opposed new taxes but may be willing to compromise when it comes to issues regarding children and their early care and education? Take care not to make assumptions here based on party lines; new tax revenue has been generated and dedicated to children in red, blue, and purple areas alike.
2. What tax proposals are most likely to achieve success in the current political climate? Should the decision maker(s) be a legislative body or voters? Will an expensive and time-consuming ballot referendum be required?
3. What partners can you can count on as champions of the effort? Could this include labor organizations that represent child care staff, providers, and parents? What about businesses? How will they be involved in and educated about the effort?
4. What is the current appetite of policymakers for generating new revenue? Does a given elected official or policymaker have a desire to make a splash with a bold new initiative, or is he or she in defensive mode?
5. What other major interest groups are currently seeking to generate revenue? What mechanism might they pursue, and what is their timeline? Is there potential for a joint effort to pursue different tax strategies?

### GUIDING QUESTION 5: *Is the tax progressive or regressive?*

Tax policy experts differentiate between regressive and progressive taxes, terms that refer to the extent to which a tax falls more sharply on people lower on the income scale versus those who are higher up. Regressive taxes are those that lower-income families spend a higher share of their income on the tax, while progressive taxes collect a greater share from those at the top. For example, sales taxes are highly regressive, due to the fact that lower-income families generally spend more of their income on goods that are taxed. This is especially true for cigarette or soda taxes, given lower-income households are more likely to consume these products. In contrast, personal and corporate income taxes are progressive, especially when higher rates are applied to higher levels of income.

The harm of a regressive tax on low- and middle-income families can sometimes be mitigated. For instance, although sales taxes are regressive, exempting basic needs (such as groceries) can help blunt some of this effect. The regressivity of the tax may also be mitigated if lawmakers target the resulting revenue to programs and services that particularly benefit families with lower incomes, such as quality early care and education, or through targeted tax benefits like a state Earned Income Tax Credit (EITC). If advocates pursue a regressive tax on the promise of mitigating its burden on those with lower incomes, however, it is important to ensure that such mitigation is translated from the theoretical to the practical or the link to programs is maintained and highlighted. For example, exemptions from property taxes for families below a certain income can be automatically calculated rather than requiring these families to know about and submit a complex exemption application. Likewise, renters who might ultimately pay the tax could be included in a property tax abatement incorporated into the process of filing state income taxes.

### GUIDING QUESTION 6: *Does the tax have communication power related to early care and education?*

Early childhood leaders must be able to make the case that quality early care and education is a high priority for public investment. It is helpful if there is a clear connection between the tax mechanism and early care and education itself. For example, great success has resulted from connecting the dots between sin taxes (on alcohol, tobacco, and marijuana, for example) and mitigating the potential harm to children by using those taxes to fund services such as early care and education programs. There also can be communication power in framing quality early care and education as a means to sustaining a productive workforce and family economic success. In addition, the new arguments emerging about the connection between wealth and early childhood can be explored.

### GUIDING QUESTION 7: *Who pays for the tax? Who benefits from the tax?*

Whether a tax is regressive or progressive only partially determines whether a tax policy is equitable. An additional aspect to consider is whether the tax will have disproportionate racial, economic, or geographical impact. For example, tobacco use disproportionately affects many marginalized populations–including people in low-income communities, people of color, LGBT individuals, and those with mental illness. In addition, tobacco industries engage in targeted marketing aimed at predominantly black neighborhoods, lower-income consumers, and teenagers. Therefore, expanding tobacco taxes likely worsens some existing inequities, partially undercutting the purpose of the revenue generated.

Another issue is whether the tax can be easily avoided or evaded. People with the ability to evade a tax may do so by using tax experts to find loopholes, which effectively shifts the tax burden to those without the means to avoid the tax. A sales tax can be evaded by shopping in an adjacent community with a lower tax rate.

Tradeoffs must be considered. Early childhood leaders may choose to consider a tax proposal that is relatively regressive if the benefits of the revenue generated to a marginalized population outweigh the burden of the tax on that population, and if the population is in support of the tax.

## GUIDING QUESTION 8: ***Is the tax timely?***

Early childhood leaders should keep an eye on any changes to state law and their potential for unlocking new sources of revenue. Two such recent changes are the legalization of recreational marijuana and sports betting. Recreational marijuana is now legal in nine states and the District of Columbia, with New Jersey and Pennsylvania considering legalization as well. One of the reasons that state governments have changed laws on marijuana is the potential for public benefits from the sale of recreational marijuana, including job growth and the ability to generate new revenue through sales or business taxes, though the benefit also is often related to mitigating the costs of incarceration.

> No single tax is likely to raise sufficient funding for quality early care and education needs on its own.

As these policies change, leaders can consider requesting that a portion of the new tax revenue from marijuana sales or sports betting be dedicated to funding quality early care and education as a way to assure all communities benefit. State and local governments may face significant opposition to new taxes. Therefore, a state or local government looking to generate new revenue through a new tax may find it politically expedient to dedicate a portion or all of the revenue to quality early care and education, which polls demonstrate has the power to increase support for tax measures.

## GUIDING QUESTION 9: ***How does the projected generated revenue fit into the near- and long-term strategy for meeting the need for quality early care and education?***

No single tax is likely to raise sufficient funding for quality early care and education needs on its own. Achieving comprehensive financing for early care and education means having a near- and long-term plan to put those funding streams in place, including an overall strategic plan. It is important to estimate the capacity of a tax to tackle the gap between current funding and the need, highlighting the necessity for comprehensive cost modeling as part of the long-term strategy. Likewise, a strategic plan may include community surveys, needs assessments, and fiscal maps that can help identify a targeted area to invest in for maximum impact (e.g., addressing tuition costs for quality early care and education for a specific target population, quality improvement supports, or compensation increases for providers) that are connected to the funding available from new tax revenues.

Another important aspect to consider is how the level of funding could change over time or with economic conditions. For example, the tobacco tax that is the basis of California's First Five early childhood initiative has decreased by 50 percent in the past 20 years. If it is likely a revenue source will decline over time, it is important to pair it with alternative sources to help stabilize funding. In addition, leaders should consider the impact of economic downturns on tax revenues. Some possible taxes vary considerably over the business cycle; because the need for care and early education is more constant, tax instruments with more volatile revenues should be combined with other resources or put into a reserve fund from which only a portion are spent each year to help smooth out funding.

It is also important to take stock of whether the effort to increase the tax will build toward a long-term strategy to educate the public and policymakers about the importance of quality early care and education and to produce confidence in the industry. How does the effort build a constituency that supports efforts to fully fund early care and education needs?

Any efforts focused on generating new tax revenue for quality early care and education should document the impact of any funding increase on early care and education quality, availability, and affordability, and to communicate this impact back to the public. The work does not end with the passage of a tax, and is critical to sustaining the public tax investment.

# Tax Options

We explore seven areas of taxation that either have been used successfully to raise revenue for early care and education or provide innovative opportunities for consideration by early childhood leaders. These taxes may be familiar to leaders, but not all have been seriously considered as sources of new funding to expand quality early care and education. Each tax area includes an overview of the taxes that includes a definition and description, addresses the most pertinent of the guiding questions, and, in the "current generation" section, explains, when the information is available, whether they are being actively used to fund early care and education at the state and local level. We also provide possible new ideas for these tax areas in the "next generation" section. Appendix 1, State Tax Options by Policy Area, provides information to assist early childhood leaders on a state-by-state basis.

## Corporate and Business Taxes

### Overview

Most states tax the incomes or gross receipts of corporations. Business taxes also take on different forms–such as excise taxes, payroll taxes, fees–that tax a transaction or the permission to operate.

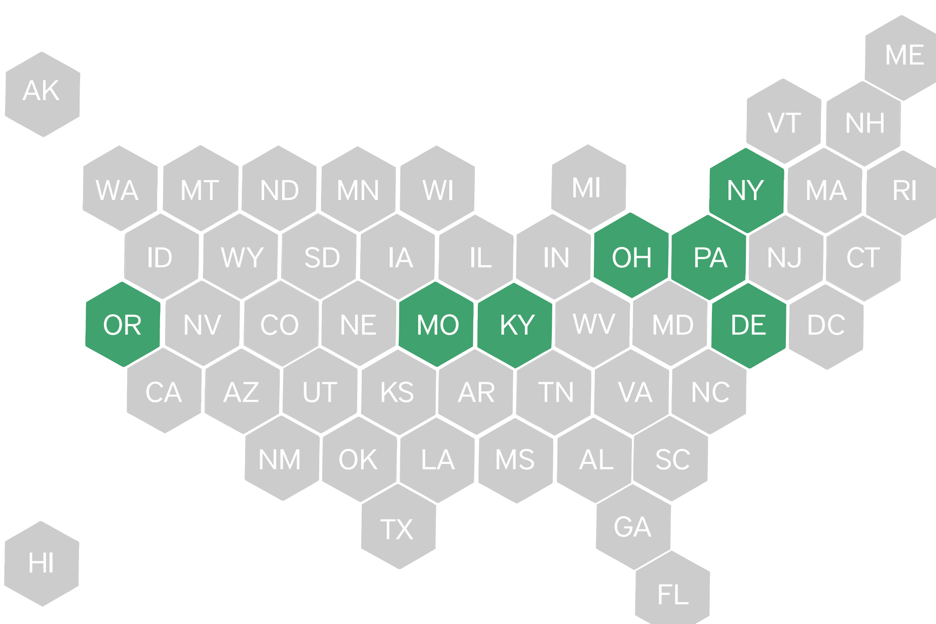
**Income versus Gross Receipts**

**Income** – Many states tax the *net* profits of a business (e.g., income less expenses). This taxable income may be further adjusted by various items such as deductions, credits, and deferrals.

**Gross Receipts** – Some states tax gross receipts instead of net income. The tax is on the total revenue. Some states call this a business and occupation (B&O) tax.

Every state imposes some form of tax on corporate and business earnings. Forty-four states plus the District of Columbia use a corporate income tax; in other states, the tax is on gross receipts.[vii] Seven states permit local governments to tax corporations on income: Delaware, Kentucky, Missouri, New York, Ohio, Oregon, and Pennsylvania.

**Figure 1. States Permitting Local Government to Levy a Corporate Income Tax**



Certain types of businesses, such as partnerships, sole proprietorships, and certain other forms of corporations, are not subject to the corporate income tax and their owners include an allocated share of the profits of the business in their individual income tax.[viii] As with personal income taxes, there are tax expenditures (credits, deductions, deferrals, exclusions, preferential rates) that reduce the amount of taxable income and the ultimate amount of the tax paid in a given year.

In addition to taxes on income, businesses are taxed at the time of certain transactions, not just on profits and gross receipts. Many of these are excise taxes, which are tied to specific goods and services (see the section of this report on sin taxes and property taxes). Businesses also pay licenses and fees at the state and/or local levels as a condition of operating.

## GUIDING QUESTIONS

### *Does the tax have communication power related to early care and education?*

Businesses benefit from a stable workforce. Access to affordable, high-quality early care and education factors into whether employees show up for work and are focused while there; lack of access can lead to significant career disruptions.[ix] Participating in high-quality early care and education also has been proven to lead to increased high school graduation and college completion rates, helping ensure a pipeline of future workers to support businesses. Thus, advocates can make a compelling argument for businesses to be tapped for additional resources to help families, particularly low-income families, access affordable, high-quality early care and education, contending that it is both an economic and social good. Additionally, the early childhood field has cultivated the business community's understanding of these issues, and a natural next step would be to secure its financial backing of these critical programs through taxation rather than donation. The Oregon and Washington State examples discussed below show the power of raising revenue for other parts of the education continuum; it is important that early care and education be included as complementary to, rather than competitive with, other education budget needs.

### *Is the tax timely?*

Economic arguments may assist in raising new or increasing corporate income or gross receipts and business taxes. As shown in Oregon and Washington, there may be an appetite for taxing extremely profitable large businesses. At the same time, it is important to recognize that there are states that are reducing corporate income tax rates. Indiana enacted a law requiring the reduction of the state's corporate income tax rate from 8.5 percent to 4.9 percent by 2022. According to the Tax Foundation, a growing number of states have reduced corporate income tax rates, including Connecticut, Georgia, Idaho, Mississippi, New Hampshire, New Jersey, North Carolina, and Utah.[x] The timeliness of a tax increase, or the restoration to a prior higher rate, is related to both economic timing and the political appetite for increasing corporate income taxes.

### *How does the projected generated revenue fit into the near- and long-term strategy for meeting the need for quality early care and education?*

The long-term benefit of increasing an existing corporate or business tax, or creating a new business tax, depends on economic factors and the mobility of particular businesses in your jurisdiction – whether they can move to another state or locality or stop operating in a state – which will reduce revenue. The mobility of businesses is a greater consideration at the local level than the state level. In addition, as shown by the Washington State and Oregon examples, the tax needs to generate substantial revenue if early care and education is to receive a significant dedicated share. In addition, corporate income taxes tend to be volatile or vary a lot over the business cycle. Taxes fall during downturns and corporations are also often able to revise prior tax returns to reflect business losses or to carry these losses forward, affecting future corporate income taxes.

## CURRENT GENERATION

Recently, strides have been made in generating early care and education revenue from dedicated corporate and business taxes.

In 2019, the Oregon legislature passed a corporate activity tax in a bill entitled, Fund for Student Success. This is a form of a gross receipts tax that applies to a variety of corporations, partnerships, and other entities. The tax consists of $250 plus 0.57 percent of the taxable commercial activity that exceeds $1 million in the calendar year. (It also reduces personal income taxes on the three lowest brackets.) The estimated new revenue from the tax will go to a new education fund. Twenty (20) percent will be allocated to programs serving infants, toddlers, and preschoolers. For 2020-2021, it is estimated this will yield $170 million for early care and education needs such as early intervention, an Early Learning Equity Fund for traditionally underserved populations, the state prekindergarten program, Early Head Start, parenting engagement, and workforce development.[xi] Eighty percent of the Fund for Student Success will be distributed primarily to local school districts, career-technical education, and K-12 quality improvement.

In 2019, Washington State also enacted a new set of tiered Business & Occupation taxes that apply broadly to selected businesses, with advanced computing businesses paying a higher surcharge. The revenue is dedicated to higher education affordability and career learning, with a portion ($4.241 million) going to the Department of Children, Youth, and Families to "eliminate the work requirement under the working connections child care program for single parents who are pursuing vocational education full-time at a community, technical, or tribal college as set forth under section 70 36 of this act."[xii] The new tax is estimated to create $370 million between 2019 and 2021.

In 2018, San Francisco voters supported adding a new tax to the city's existing tax on gross receipts: The Early Care and Education Commercial Rents Tax Ordinance. The tax rate ranges from 1 percent for leased warehouse space to 3.5 percent for other types of commercial rents or sublets. Businesses are subject to the tax if they have gross receipts exceeding $1 million. Businesses that lease commercial space to a qualifying child care facility can claim a credit based on the number of children (birth through preschool) served by the facility.[xiii] The City Comptroller estimates $146 million per year will be received in revenue as a result.

In many localities, real estate developers pay a fee in order to help defray the burden added to local infrastructure by new development. In San Mateo and San Francisco, California, a portion of the collected fees is dedicated to new and expanded child care facilities. In San Mateo, the Child Care Development Fee applies to new commercial development or the addition of square footage to an existing commercial development projects of more than 10,000 square feet at $1.08 per square foot. In South San Francisco, there are impact fees, designated for child care, on office and hotel projects (a net additional 25,000 gross square feet) and on residential new units and additions (more than 800 gross square feet).[xiv] The impact fee has been adjusted for inflation since its creation in 2001.

## NEXT GENERATION IDEAS

**Expanding Rates.** At the federal level, the 2017 tax law provided benefits to corporations as it reduced the tax rate from 35 percent to 21 percent. With a reduced federal tax burden, early childhood leaders can consider an expansion of state or local corporate income or gross receipts tax increases, especially when dedicated to early care and education in whole or in part.

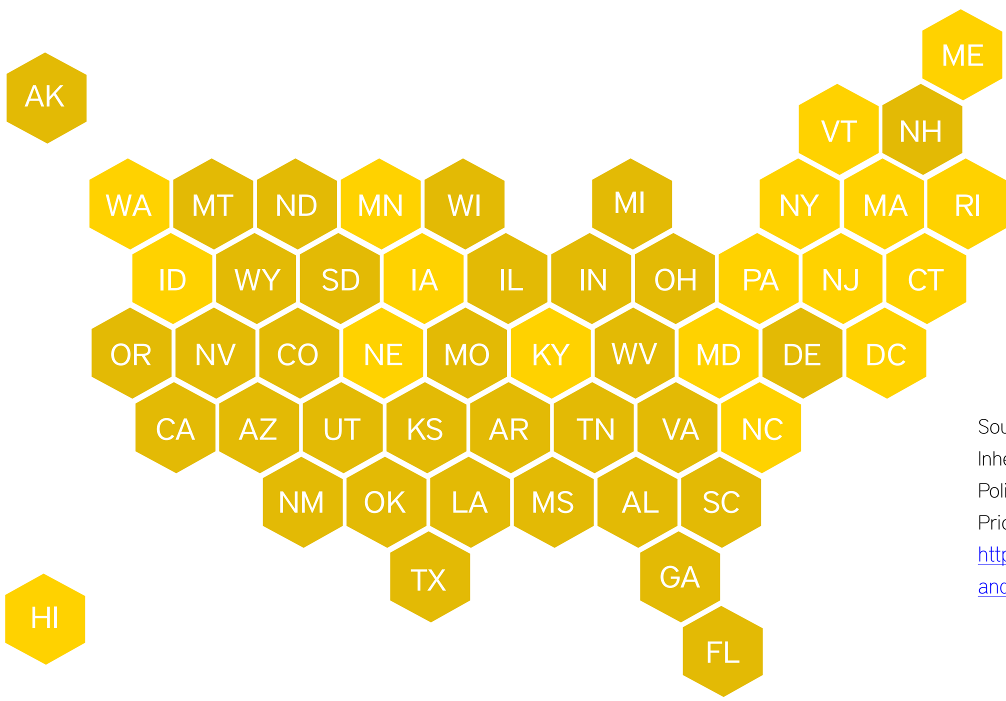
**Eliminating Tax Breaks.** Corporations and businesses benefit from many tax breaks, allowing them to reduce (avoid) their tax burden. States and localities can review these tax breaks to determine if they can be eliminated or reduced, with the new revenue dedicated to quality early care and education.

## Estate and Inheritance Taxes

### OVERVIEW

Estate and inheritance taxes are placed on property (cash, real estate, stock, and other assets) at the time of a person's death. The difference between "estate" and "inheritance" taxes relates to who is theoretically responsible for payment of these taxes. Estate taxes are levied on the estate of the deceased; inheritance taxes are levied on the heirs of the deceased. In practical terms, the estate is responsible for payment. Estate and inheritance taxes date back to 700 B.C.; in the United States, they were introduced in 1797 (at the federal level) and 1826 (at the state level).[xv] At present, 17 states and the District of Columbia have either inheritance or estate taxes.

**Figure 2: States Taxing Inherited Wealth**




No Tax

Has an estate/ inheritance tax

Source: Elizabeth McNichol, State Taxes on Inherited Wealth, Center on Budget and Policy Priorities (Center on Budget and Policy Priorities, December 2018), available at https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-inherited-wealth

This was not always the case. Prior to 2005, federal tax policy incentivized states to establish inheritance and estate taxes and, beginning in 2005, states had an estate tax. When this incentive was removed later that same year, most states' estate taxes were eliminated automatically. However, about a dozen states retained their taxes at that time and a handful of states did reinstate estate/inheritance taxes after initially discontinuing them in 2005.

In total, states collect $4.5 billion annually through estate and inheritance taxes. These taxes make up about 0.6 percent of state revenue.[xvi] Approximately $3 to $6 billion could be available if the remaining states were to tax inherited wealth.[xvii]

In this section, we explore ways to expand estate and inheritance taxes in the states that have them, as well as ways to develop these taxes in the ones that do not.

## GUIDING QUESTIONS

### *Does the tax have communication power related to early care and education?*

To date, we are not aware of any estate and inheritance taxes that have included dedication for early care and education. However, there are powerful arguments about the use of estate and inheritance taxes to consider in the context of both inequality and early care and education. First, family assets have a significant and positive impact on a child's lifetime economic opportunity. Family wealth from inheritance, in particular, accounts for more than 50 percent of the correlation between the wealth of parents and the wealth of their children, which is greater than the impact of IQ, personality, and schooling combined.[xviii] Further, the concentrated wealth gap between those at the top and others is exacerbated by a pronounced racial wealth gap.[xix] This helps to provide a rationale for initiating estate and inheritance taxes in the states that don't have them, as well as considering the dedication of some of these revenues to early care and education. Finally, the historical record shows that in the United States and elsewhere, proceeds from estate and inheritance taxes have always been considered as a way to address greater societal needs. Early care and education, with its focus on supporting the early and future success of very young children, provides a compelling case for the use of these proceeds.

### *Who pays for the tax? Who benefits from the tax?*

Estate and inheritance taxes can be structured, and often are, to require more from those with greater wealth. Typically, states with estate and inheritance taxes exempt $2 to $5 million per estate–which means that these taxes do not apply until the estate value is more than the exemption. States apply a range of tax rates to the portion of the estate that they tax, ranging from 1 to 16 percent of the rest of property. The rates can be complicated, and inheritance taxes may include different rates based on the relationship of the deceased to the person who receives the estate, e.g., different rates for heirs such as spouses. Washington State has the highest top marginal estate tax rate at 20 percent, while the 18 percent rate Nebraska imposes on bequests to nonrelated individuals is the nation's highest inheritance tax rate. On average, less than three percent of estates – very large ones owned by the wealthiest individuals – are charged state estate tax.[xx]

> "We should celebrate the estate tax as an economic opportunity recycling program, where previous generations made investments for us and now it's our turn to pass on the gift."
> *Bill Gates*

There is a debate about the impact of estate and inheritance taxes on decisions about where to live, or because people have more than one home to declare as their primary residence. One study showed that estate and inheritance tax policy is not a competitive factor in attracting residents, and suggests that the wealth of the residents themselves impacts state policy in this area.[xxi] The other study suggests the opposite and indicates that estate and inheritance tax policy and law have an impact, but only a small one, on decisions about residence.[xxii] Knowing about this debate may be important when considering whether to expand taxes in this area or initiate them.

### *Is the tax legally feasible?*

States that do not currently have an estate or inheritance tax may need to conduct a deeper dive into issues of legal feasibility. For example, California does not have estate or inheritance taxes and would require a referendum. In Alabama, Florida, and Nevada, there are state constitutional issues that would need to be considered.[xxiii]

### *How does the projected generated revenue fit into the near- and long-term strategy for meeting the need for quality early care and education?*

Because most states that still have an estate or inheritance tax have been limiting this tax to estates of higher values, the expected revenues from these taxes can vary from year to year. If estate tax revenues are used, they might need to be part of a broader plan, or the funds will need to be allocated over a period of years.

## NEXT GENERATION IDEAS

**States with Estate and Inheritance Taxes.** We are not aware of any states that dedicate any of their estate and inheritance taxes to early care and education. States with existing estate and inheritance taxes can explore these possibilities for dedicating resources to early care and education.

*Increase Rates at the Top.* For those states that have estate taxes, one idea to explore is to increase the rate that is charged for those with the largest estates. For estates with a value at $20 million (after deductions), the current rates range from 7.8 to 16.3 percent. For estates valued at $10 million (after deductions), the current rates range from 3.9 to 12.7 percent. (See Appendix 5.)

Similarly, for states with inheritance taxes, the rate could be increased as well. Typically, inheritance taxes not only place different rates relative to the size of the inheritance, but also have different rates based on the relationship of the individual to the deceased. For example, for nonrelated individuals' inheritances of $1 million and over, rates currently range from 10 to 17.8 percent. (See Appendix 5.)

*Decrease Exemptions.* Decreasing exemptions is another idea for states with inheritance and estate taxes to explore. How exemptions are set up varies by jurisdiction. It should be noted that decreasing exemptions generally goes against prevailing trends in estate and inheritance taxes.

**States Without Estate and Inheritance Taxes.** For states that currently do not have state or inheritance taxes, initiating them is likely a heavy lift. It will be critical for leaders who are interested in considering this approach to take the state constitution and state law into account to determine feasibility, as noted in the Guiding Questions discussion. There are many different ways to approach the design of an estate or inheritance tax so planners should explore available policy resources and consult with state tax experts. A table showing potential revenue estimates for states if they were to initiate these types of taxes is available in Appendix 5.

**Calculating Capital Gains in States with Inheritance or Estate Taxes.** States with inheritance taxes could consider how they determine the value of capital assets such as stocks and bonds. Currently, the value of these capital assets is determined at the date of death. This means that stocks and bonds that have increased in value since they were initially acquired are not taxed on the increase in value from the original date of acquisition. Changing how these capital gains are determined is a possible option. For a discussion of this option at the state level, see Elizabeth McNichol's paper, State Taxes on Capital Gains, available at https://www.cbpp.org/sites/default/files/atoms/files/12-12-18sfp.pdf.

**Local Probate Fees.** States may provide for inventory fees as part of the probate process. Probate inventory fees are usually collected at the county level but are generally set by state law. In some jurisdictions, they may be set by the courts themselves. Sometimes they are retained locally while other times they are split with the state tax system. The amount generated would need to be carefully considered when determining whether to seek additional fees for dedicated use in early care and education. Information on selected states and their approaches to local probate (or inventory) fees is provided in Appendix 5.

# Personal Income Taxes

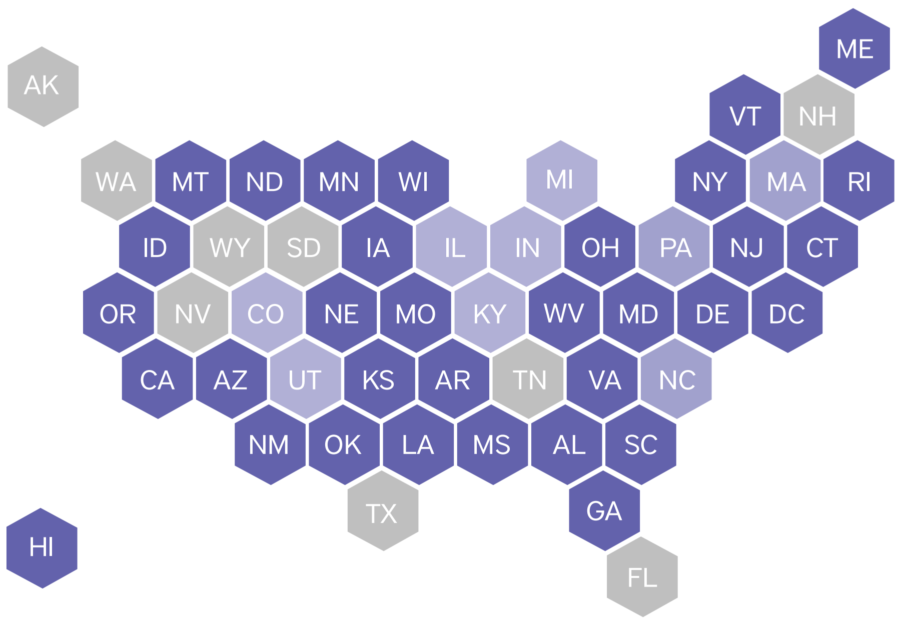
## OVERVIEW

The federal government, most states, and some local governments impose a tax on an individual's income – wages and investments derived by income.

Personal income tax revenue comprises $2.9 billion or about 38 percent of state tax revenue and 24 percent of combined state and local revenue.[xxiv] The amount that consumers pay in income taxes depends on the total taxable income of private individuals and the profits of businesses as well as the rate structure that is levied by state and local governments. Income taxes can be either a flat tax or a progressive or graduated tax system.

Since the early 20th century, the majority of states have levied income taxes.

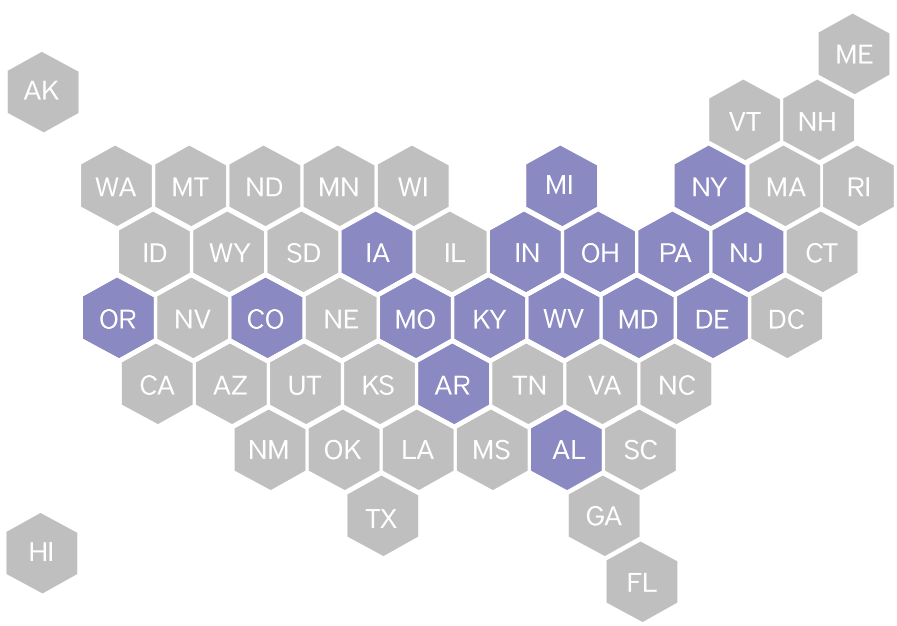
**Figure 3. States with Personal Income Taxes and States Allowing Local Personal Income Taxes**




NO State Income Tax

**Income Tax States** that use graduated-rate income taxes, which apply gradually increasing tax rates to increasing levels of income. The rates range from 0.33 percent in Iowa for the lowest earners to California's rate of 13.3 percent for the state's highest earners.[xxv]

**Income Tax States** with single-rate tax structures with one rate applying to all taxable income.




**Income Tax States** that allow their local governments to levy an income tax.

## GUIDING QUESTIONS

### *Is the tax legally feasible?*

As stated above, 41 states rely on revenue from a state income tax and 16 permit their local governments to collect income tax revenue. Further, although some states have a flat rate, which is in some cases is constitutionally mandated, most have a graduated rate that increases with increasing levels of income.[xxvi] As a result, there is significant legal precedent for a state income tax. However, it may be difficult to enact an income tax in states that do not permit this form of taxation.

> "Americans understand taxpaying as a responsibility to the community and the country. But they become angry about taxes when they see their taxes as benefiting outsiders, or when they do not believe the government is acting in the public interest."
>
> Vanessa Williamson, *Read My Lips: Why Americans are Proud to Pay Taxes"*

***Is the tax politically feasible?*** Raising personal income taxes on the state and local level is typically very challenging and requires a large and sustained public effort to succeed. Protests against the income tax have been a mainstay of U.S. politics for decades, and efforts to cut or even eliminate personal income taxes—let alone increase them—remain common in many states. Even in cases when new income tax revenue would be dedicated to worthwhile issues, it has proven challenging to get lawmakers and voters to go along. For example, voters in Colorado and Maine soundly rejected personal income tax hikes in 2018, even though the resulting revenue would have funded widely supported programs for health care and education.[xxvii] Meanwhile, lawmakers in six states chose to cut income tax rates that same year.[xviii] On the other hand, evidence suggests that boosting personal income taxes in order to support vital public services is possible, given the right mix of circumstances and sustained effort. Voters in California, for example, handily approved income hikes in both 2012 and 2016 to bolster funding in the state's K-12 schools, with emphasis on targeting new funds for at-risk children and historically marginalized communities. In Maine, voters in 2016 narrowly approved a measure to add a high-income "surtax" to raise new revenues for schools, though the plan was eventually overturned by the legislature.[xxix] And in Kansas, after years of work by leaders throughout the state, lawmakers in 2017 came together around a bipartisan plan to reverse the so-called "Brownback tax cuts," which had severely impacted that state's ability to meet basic needs and harmed children, seniors, and others who rely on state services.

Further explanation of how people see the issue of personal income taxes can be found in tax expert Vanessa Williamson's recent treatise, *Read My Lips: Why Americans are Proud to Pay Taxes*. She notes, "The percentage of Americans who deny that taxpaying is a civic duty is approximately equivalent to the percentage of Americans who report believing that there is a chance that Elvis Presley is still alive (7 percent).[xxx] Williamson adds, "Americans understand taxpaying as a responsibility to the community and the country. But they become angry about taxes when they see their taxes as benefiting outsiders, or when they do not believe the government is acting in the public interest." In general, early childhood leaders should be mindful of the difficulty of pursuing additional income tax revenues, but should not discount the opportunity they offer, given their potential for raising considerable amounts of new revenue, especially when focused on those with high earnings.

### *Does the tax have communication power related to early care and education?*

In general, it is hard to convince people to pay more of their income in taxes. However, as shown in the examples below from two cities in Ohio, when a case is made about the benefit of early care and education not just to the child but to the community, it may be possible to motivate support for dedicated taxation in this area.

### *How does the projected generated revenue fit into the near- and long-term strategy for meeting the need for quality early care and education?*

Personal income taxes generally are stable, unless the new or increased tax has a sunset clause, as illustrated by a 2012 personal income tax increase that had to be renewed at the ballot in 2016. In fact, state income taxes are an important part of the state revenue picture so consideration of how these fit into other revenue sources is critical.

## CURRENT GENERATION

In 2016, voters in Dayton, Ohio voted to approve increases in income taxes to support high-quality early care and education for low-income families, for preschool-age children in particular. Dayton increased its income tax revenue by $4.3 million a year, which is being used, in part, to provide universal early care and education for all of the city's 1,900 four-year-old children.[xxxi]

## NEXT GENERATION IDEAS

**Raising Income Tax Rates at the Top.** Research on the income gap has shown that the richest 1 percent of Americans own 35 percent of the nation's wealth while the bottom 80 percent own just 11 percent. Further, the largest contributor to increasing income inequality is not salaries but changes in investment income from capital gains and dividends.[xxxii] Yet, high-income Americans contribute a relatively small share of their earnings to state and local taxes. Nationwide, the average effective state and local tax rate is 11.4 percent for the lowest-income 20 percent of taxpayers, 9.9 percent for the middle 20 percent, and 7.5 percent for the top 1 percent.[xxxiii]

To raise needed revenue and help bring their tax codes into better balance, several states have enacted targeted rate increases on higher-income households in recent years. California, for example, has a top personal income rate of 12.3 percent for people making over $500,000 a year as well as an additional 1 percent surtax on incomes over $1 million. Minnesota, meanwhile, approved a plan in 2013 to boost its top rate to 9.85 percent for families making more than about a quarter-million dollars annually, in order to fund an ambitious expansion of full-day kindergarten and other goals.[xxxiv] These higher rates do not appear to harm state economies. In six of eight states that enacted "millionaires' taxes" since 2000, private-sector growth met or exceeded that in neighboring states. Seven of these eight states had per capita growth in personal income and five of these eight added jobs at least as quickly as their neighbors.[xxxv]

In 2018, Massachusetts voters approved a ballot initiative that would have approved a millionaire's tax to fund public education and transportation infrastructure. However, the Massachusetts Supreme Court held that the tax increase could not be implemented because citizen amendments are forbidden to address more than one objective—in this case, the tax itself and the stipulation on where money was to be spent. As a result, a tax increase was proposed legislatively in 2019, and will be on the ballot in 2022.[xxxvi]

Although none of the states and localities has dedicated revenues from higher rates at the top explicitly for early care and education, it is a potential source of funding. In addition, the legal and administrative challenges have been addressed in eight states, including California and Washington, DC. However, fiscal conservatives may strongly oppose a tax on wealthy residents. Increasing demands by policymakers and others to institute more progressive tax policies may reduce this opposition.

# Property Taxes

## OVERVIEW

Property taxes on the assessed value of residential, commercial, and industrial properties are a standard revenue-generating policy of local governments. The amount paid depends on the assessed value of the property and the rate of taxation. For example, if your home is worth $200,000 and assessed at market value and the county collects a 2 percent property tax, you owe $4,000 in property taxes. Some jurisdictions impose property taxes on the entire assessed value of the property (i.e., market value), while others tax only a fraction of the assessed value. For example, Georgia calculates the tax based on 40 percent of a property's assessed value.[xxxvii] Property taxes are often expressed in something called "mills," with one mill representing one-tenth of one cent. For $200,000 of assessed property value, one mill would equal $200. Property taxes are used by local governments to fund services such as police, fire, and trash removal, as well as education. Some states have limits on the assessment level or how frequently property can be reassessed or on what the property tax rate can be.

## GUIDING QUESTIONS

### *Who pays for the tax? Who benefits from the tax?*

In general, property taxes are a standard rate based on the value of the house. This can be more burdensome on people who have less income, such as the elderly, and might make housing less affordable. Although lower-income households are less likely to own their own home and renters do not directly pay property taxes, the cost of these taxes is typically passed on to renters through higher rents. In areas where property values are lower, a local government would have to assess a higher rate to raise the same amount of money. Further, property taxes are levied on the value of residential, commercial, and industrial real estate and thus do not take into account the ability of taxpayers to pay. In addition, increased property valuations often occur in gentrifying communities. Lower-income home owners may no longer be able to afford to pay property taxes due to increased assessed values of their homes. Lastly, assessed valuation of properties may create other inequities. In Cook County, Chicago, for example, an analysis showed unequal burden on owners of lower-valued properties. The county's appeal system and valuation process benefited more affluent homeowners while the homes in lower-income and minority communities were valued at more than their market value by county tax assessors.[xxxviii] Some jurisdictions recognize that some residents may have a hard time paying property taxes and offer breaks on the amount of property taxes due based on income and or age.

### *Is the tax politically feasible?*

Property taxes are known in some places as the taxes that everyone loves to hate. Disagreements about property taxes may arise for many reasons including concerns about the ability of property owners to afford them or valuation conflicts. However, the visible use of property taxes for early care and education may generate support in the broader community. But given that property values differ across communities, leaders may also want to consider if passing a property tax through which the funding is shared at a broader level would be preferred; this would offset inequities in the different property tax rates that might be needed to provide the same access to early care and education across places.

## CURRENT GENERATION

Voters in several municipalities have approved an increase in property tax revenue, with dedication for early care and education, in Cincinnati, Ohio; King County, Washington; San Miguel, Colorado; and Seattle, Washington, as shown in Table 1 on the next page.

**Table 1. Localities with Increased Property Tax Revenue for Early Care and Education**

| Locality | Date Approved | Name of Fund | Increase in Property Taxes? | Set-Aside | Annual Tax Revenue | Use of Tax Revenue |
|---|---|---|---|---|---|---|
| Cincinnati, OH | 2016 | Cincinnati Preschool Promise | Yes- $277 per $100,000 of assessed valuation for 5 years | 33% of increase | $15 million | Tuition assistance for early care and education slots for preschool-age children at public schools and community centers. |
| King County, WA | 2015 | Best Start for Kids | $14 per $100,000 assessed value until 2021 | 54% of increase | $35 million | Comprehensive child development services for pregnant women and children under age five. Includes home-based services, training of childcare staff, and developmental screenings. |
| San Miguel, CO | 2017 | Bright Futures for Early Childhood and Families | $5.40 for every $100,000 in assessed value until repealed | All of increase | $612,000 | Expansion or renovation of child care facilities, increased quality of programs and education of parents. |
| Seattle, WA | 2014 | Seattle Preschool Program | Yes | All of increase | $58 million | Free access to preschool for three-to-four-year-old children from lower-income families; sliding scale fees for others; resources also dedicated to non-early-care and education services. |
| Seattle, WA | 2018 | Seattle Promise Program | $360 per $100,000 in assessed value until 2026 | All of increase | $341 million | Expansion of Seattle Preschool Program (see row above) to include funding for older children and graduates of public schools. |

In 2016, Cincinnati voters approved a five-year increase in property taxes for early care and education that will be valid through 2021. The ballot victory was the result of the advocacy of the Strive Partnership, a group of organizations established in 2012 to improve the local education system. The Cincinnati Preschool Promise, a coalition of business, labor, the school system, and non-profit organizations, collected almost 10,000 signatures in support of the proposal. Funded by one-third of the tax increase, the revenue provides tuition assistance for early care and education slots for preschool-age children at public schools and community centers. The United Way administers the $15 million a year fund, in partnership with Cincinnati Public Schools.[xxxix]

An increase in property taxes was approved by voters in San Miguel, Colorado in 2017. The San Miguel County's Early Childhood Advisory Panel administers the funding through a request for proposal (RFP) process. Funds can be used to expand or renovate facilities, increasing quality programming and educational programs for parents. The tax revenue is $612,000 a year.

Seattle voters approved two ballot initiatives to increase property taxes for early care and education. In 2014, free access to early care and education programs for three-to-four-year-old children from lower-income families was provided by an increase in property taxes. The funding also provides for a sliding scale for families with higher incomes. The tax revenue is about $58 million per year. In its 2018 iteration of the ballot initiative, Seattle continued its early care and education services, but also added support for public educational programs for older children and adults.

The Best Starts for Kids program was created in King County, Washington by a property tax rate increase amounting to $35 million annually. Since 2015, the funding has provided comprehensive child development services for pregnant women and children up to age five. Home-based visits, referrals to health care, and trauma-care training for child care staff were funded. In addition, Best Starts for Kids provides developmental screenings to ensure that babies are born healthy.[xl]

In San Francisco, California, and Memphis, Tennessee, property taxes were not increased but the cities allocated a portion of their existing property tax revenue for early care and education.

Memphis, Tennessee established the $6.6 million per year Seeding Success fund with a set-aside of 1 percent of property taxes for early care and education in 2017. The overall goal of Seeding Success is to provide universal early care and education by 2022.[xli]

The San Francisco, California Children and Youth Fund is funded by a four percent set-aside of property tax revenue first approved by voters in 1991. Renewed in 2000 and 2014, the Children and Youth Fund is used for a variety of programs for children and youth, including child care for families with children under age five. The fund raises about $12 million per year.

## NEXT GENERATION IDEAS

**Real Estate Taxes on Second Residences or High-Value Homes.** A large percentage of these properties are owned by higher-income households. Adopting an additional tax on these types of homes rather than increasing property taxes across the board is a way to raise revenue to invest in early care and education while making state and local tax systems more equitable. This can be accomplished in two ways. First, a real estate transfer fee or tax paid at the time of a sale can be levied to be paid at the time of sale of a second or high-value home. Thirty-seven states (all states except Alaska, Idaho, Indiana, Louisiana, Mississippi, Missouri, Montana, New Mexico, North Dakota, Oregon, Texas, Utah and Wyoming) have real-estate transfer taxes (or something akin to them) and six of those states apply a surcharge or higher transfer tax rate to some higher-value properties. Second, localities can impose a higher property tax rate on high-value homes. Currently, no state has a higher tax rate for high-value residential properties, though many offer a decrease in assessed value if the property in question is a primary residence. Washington, DC does have a higher rate for commercial and industrial property valued at over $3 million.

A careful review of each state's taxing authority can provide information on whether an increase in property taxes for second homes or high-value properties is legally allowable. Leaders should prepare for significant political opposition to this proposal from higher-income households and realtor groups which will have the ability to fund opposition campaigns.

**Split Roll Property Taxes.** Property taxes are generally based on the assessed value of the property in question. The assessed value can be determined either by the property's most recent sales price or by an assessment process completed by the local tax authority. In about 20 states, including California, all types of property (residential, commercial, agricultural) must be taxed in the same way. In contrast, a split roll property tax allows property of different classes to be taxed at a different rate. California currently is constitutionally bound to tax all property at the same rate and, in the aftermath of Proposition 13, property is only reassessed when sold. California is considering a proposition to change the constitution and begin reassessing commercial property every three years rather than only when resold. This is in response to the fact that commercial property has turned over less frequently than residential property, shifting more of the burden onto homeowners. It is estimated that the proposed California change could increase property tax revenues in California by about $6 billion to $10 billion annually in the state.[xlii] However, commercial owners are arguing that this is unfair because it would increase uncertainty for property owners and tenants about property tax increases.

There are options other than the California approach to split role property tax and, for states where a single roll is not constitutionally specified, it might be easier to enact. For example, there could be a higher set value for commercial properties, as in Washington, DC, or assessed value could be used for all types of property with a lower rate for residential versus commercial property. In other words, one could advocate for a lower rate than the assessed value of residential properties and for the full rate on commercial properties. However, these policies will depend on what the rules are in a given state.[xliii]

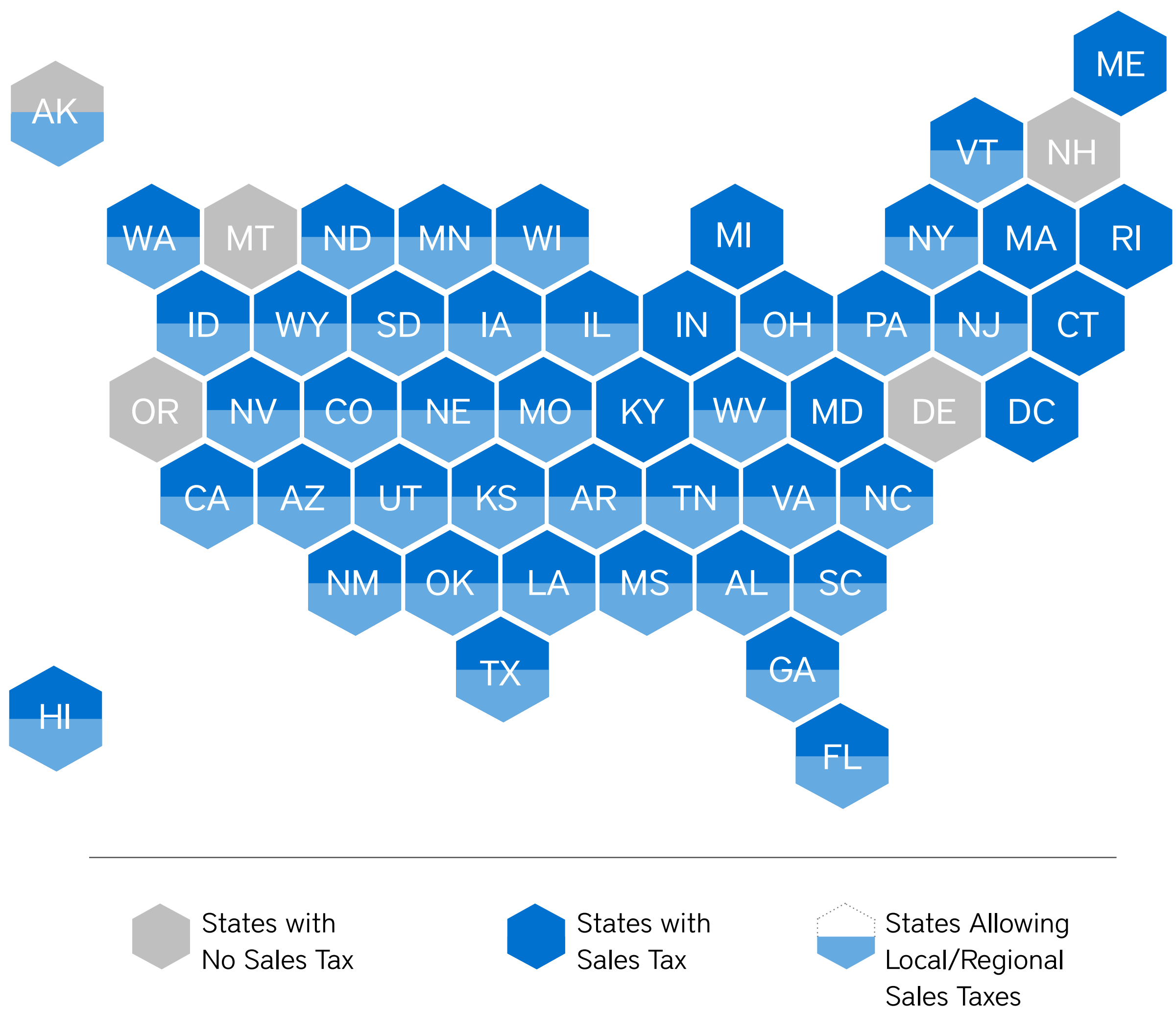
# Sales Taxes

## OVERVIEW

A sales tax is paid by consumers when they purchase specific goods and services. Taxes may be imposed on goods and services in general or on the sale of select goods, such as tobacco, alcohol, or, more recently, sugary beverages. The majority of states collect revenue from sales taxes for use by state government, and many states enable local or regional governments to impose sales taxes as well, sometimes to fund specific activities like education or transportation.[xliv]

Forty-five states and Washington, DC impose and collect revenue from general sales taxes. Alaska, Delaware, Montana, New Hampshire, and Oregon do not use sales taxes, although Alaska allows local governments to impose them. Additionally, there are 38 states that enable local or regional governments to levy sales taxes, with state legislation frequently requiring rate caps or certain exemptions (e.g., for basic necessities).

**Figure 4. States with Sales Taxes and States Allowing Local/Regional Sales Taxes**




Source: Janelle Cammenga, "State and Local Sales Tax Rates," Tax Foundation, January 30, 2019, available at https://taxfoundation.org/sales-tax-rates-2019/.

## GUIDING QUESTIONS

### *Is the tax legally feasible?*

If you are working in a state that has not approved sales taxes, new legislation will have to be established either at the state or local level. This will likely necessitate a broad range of groups and individuals committed to a multi-year effort. In states where local sales taxes are authorized, levies often have to be periodically renewed by voters and face a range of restrictions, such as limitations on rates and potential use of funds.

### *Is the tax politically feasible?*

While sales tax payments are routine and automatic for most consumers and businesses, an increase in the sales tax can be politically difficult, whether applied generally or as a selective tax. For example, the sales tax for sugary beverages in Philadelphia, discussed under the sin tax category, triggered significant opposition from the American Beverage Association in the form of paid media campaigns and lawsuits. Nonetheless, the tax was successful. Understanding the political feasibility of a specific tax expansion might also require looking at what nearby localities and states tax since lawmakers may be reticent to raise sales tax rates significantly above those of neighboring jurisdictions.

### *Is the tax progressive or regressive?*

Sales taxes are highly regressive because low-income populations typically spend more of their income on goods that are subject to these taxes, especially in states that include sales taxes on necessities such as groceries and clothing. On average, the lowest-income 20 percent of Americans pay 7.1 percent of their income in sales and excise taxes; the middle 20 percent pay 4.8 percent and the richest 1 percent pay 0.9 percent.[xlv] Because of the burden on low-income households, many states exempt groceries, medicine, and other essentials from sales taxes.

## CURRENT GENERATION

Several localities and one state have established policies that allow a portion of sales taxes to be used for early care and education, including Pitkin County, Colorado; San Antonio, Texas; Denver, Colorado; and South Carolina.

In 1990, Pitkin County, Colorado, which includes the City of Aspen, increased its sales tax by 0.45 percent and dedicated the revenue generated to affordable housing and early care and education. The funding is used for the professional development of child care providers and to finance improvements to centers. Subsidies are also provided to lower-income families to pay for early care and education. Currently, approximately 400 children benefit from the subsidy per year; there is strong support for the tax, which has been renewed three times and is now valid through 2038. Approximately $1.7 million is collected annually.

In 2012, voters in San Antonio, Texas approved a one-eighteenth cent increase in the local sales tax rate and dedicated the revenue to fund high-quality prekindergarten in a variety of settings.

Denver voters approved a 0.15 percent sale tax increase in 2006 to support the Denver Preschool Program. The $106 million in revenue generated annually is used primarily to subsidize tuition for lower-income families and provide quality improvement specifically for pre-K programs.

South Carolina is the only state that provides funding for early care and education from sales tax revenue. In 1984, the state began using a 1 percent sales tax to fund public education, including early care and education. The goal of the funding is to improve the school readiness of at-risk four-year-olds by providing free early care and education. About 25 percent of South Carolina's public-school districts provide classes for children from lower-income families. The total revenue for the program is $15 million annually.

## NEXT GENERATION IDEAS

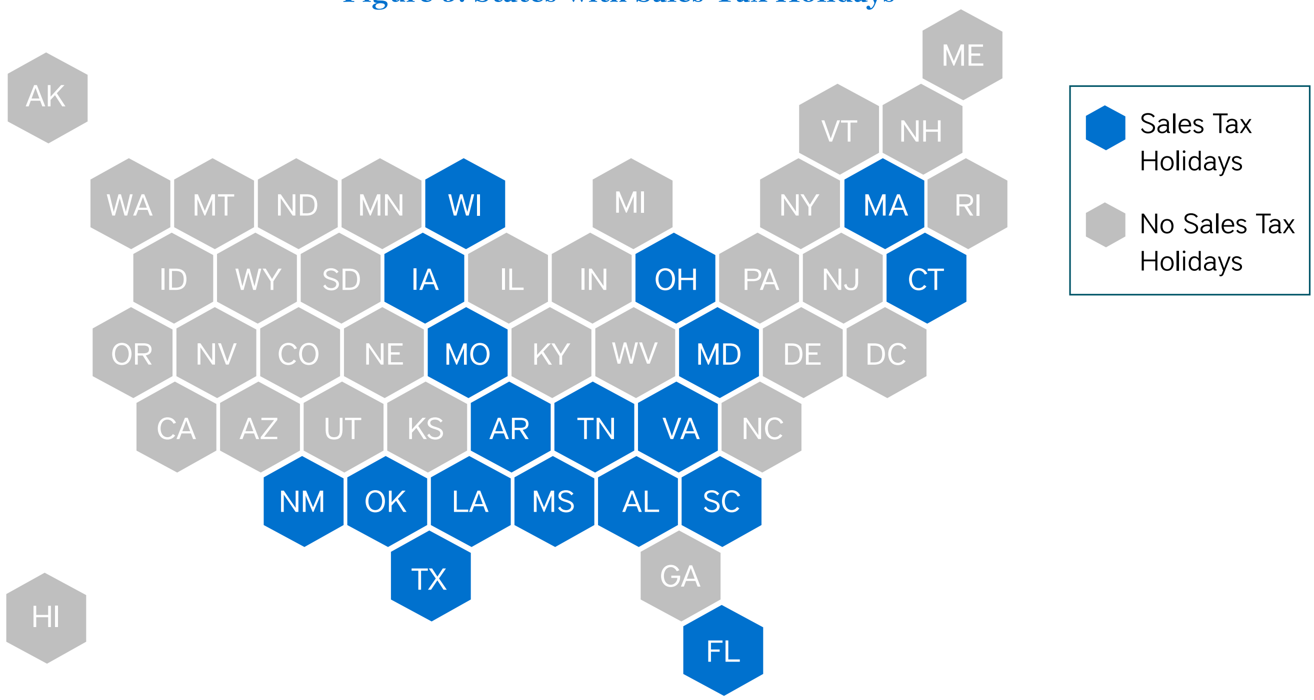
**Sales Tax Modernization.** In the 1920s, when the sales tax was first adopted, retail goods accounted for a very high proportion of personal and business consumption. In recent years, services such as accounting, financial services, and computer services have made up an increasing portion of consumption for families and businesses. Discussions regarding modernization of sales tax include the idea of expanding general sales taxes to apply to more services or taxing online or remote sales or digital activity. Rather than increasing tax rates, these alternatives increase the tax base, thereby increasing tax revenue. While sales tax modernization has taken place in some places, its dedicated use for early care and education has not been realized.

Most states have expanded sales tax collections to some but not all of the 167 service industries listed by the Federation of Tax Administrators.[xlvi] Currently, four states (South Dakota, Hawaii, West Virginia and New Mexico) tax the most services while other states have begun examining and expanding sales taxes to a broader set of activities. Washington, DC, as part of its tax revision process, expanded sales tax collection to include a broader set of services, many of which were used by higher-income households or were on services that would be hard to shift to other locations. These included health club memberships, bottled water delivery, car washing, and tanning services.[xlvii] In addition, there are proposals to establish sales tax on new economy service businesses such as Airbnb, Uber, and Lyft, though these payments often are negotiated on an ad hoc basis.[xlviii]

Online businesses present another new potential for sales tax, given the tremendous growth of online retail sales, which reached $453.5 billion in 2017. Before states were authorized to tax online sales, they were losing millions in potential revenue as shoppers moved from brick-and-mortar retail establishments to online companies. But in 2018, the U.S. Supreme Court upheld a South Dakota law that enabled the state to apply its sales tax to major online retailers, even if they had no physical presence in the state. A Government Accountability Office report estimated that if all states had imposed a two to four percent internet sales tax in 2017, between $8.5-$13.4 billion could have been collected.[xlix] However, this amount is likely an overestimate of likely revenue as some online providers (including Amazon) had begun collecting sales taxes.

**Eliminate Sales Tax Holidays.** The regressive nature of sales tax has led 18 states to enact temporary "tax holidays," such as during the late summer back-to-school months, to help families save on purchases. Although this measure provides limited, temporary relief to household and small-business budgets, it also disproportionately favors moderate-to-high-income households, which typically spend more than lower-income groups during the tax holidays. By some estimates, ending tax holidays could generate up to $300 million annually that state and local governments could use for early care and education.[l]

**Figure 5. States with Sales Tax Holidays[li]**



# Sin Taxes

## OVERVIEW

Sin taxes are imposed on products or behaviors which are considered unhealthy to individuals and public health. Generally, sin taxes refer to taxes on products such as tobacco and nicotine, alcohol, and sugary beverages, and on behaviors such as sports betting, lotteries, and gambling. A new area of sin tax is legal marijuana growth, distribution, and purchase.

The tax can be imposed on the manufacturer and distributer, a form of business tax on "sin" businesses, or as a consumption tax on the individual buyer, where it is a type of excise – that is, the tax is embedded in the retail price. Determining what level of the process is taxed is related to ease of collection and enforcement of the tax but, ultimately, individual consumers will be paying more for the product in question.

## GUIDING QUESTIONS

### *What jurisdiction will levy the tax?*

States tax cigarettes, alcohol, and an increasing number of "sin" goods and services. At the local level, it is important to determine if the state law allows localities to impose a tax, either at the business or individual-consumer level. States have the authority to decide whether local governments can tax specific products and, with the passage of some local sugary beverage taxes, some states have taken away the authority of local governments to pass these taxes. In these states, creating a new local sin tax or increasing the existing tax with a dedication to early care and education may not be an option. There is also some effort on the part of the sugary beverage industry to make changes in state laws that preclude local governments from taxing specific food or beverages.

Leaders should be prepared for the opposition to litigate whether the state has given a locality the authority to impose the sin tax, particularly as the producers of these products try to thwart the replication of successful sin taxes in other jurisdictions.

### *Is the tax legally feasible?*

The legal feasibility depends on state laws and constitutions. In some cases, a state already taxes a product or consumption, in which case the feasibility of increasing the tax is a fiscal and political question to consider.

These taxes can be collected by manufacturers or distributers, retailers, or from the consumer. Ultimately the consumer will face a higher price of consuming the good no matter what method of collection is imposed. In terms of sin taxes at the business level, the sin product manufacturers – alcohol, tobacco, sugary beverages – often work together to oppose new or increased sin taxes even when the tax is applied to only one type of product. These industries are well-supported by advocacy efforts and political contributions, although there are individuals and entities (e.g., Bloomberg Foundation) that have provided substantial funding to advocates.

### *Is the tax progressive or regressive?*

Generally, because lower-income individuals tend to consume more of these products both as a share of income and sometimes in actual amounts, sin taxes tend to be regressive. However, discouraging the behavior in question can be beneficial for the consumer. In addition, if the funds are used to provide a service used by the consumer, the regressivity of the tax can be mitigated. Taxing the manufacturer or distributer means that the tax is already collected but could lead to fewer purchases in the given community if consumers purchase the good elsewhere or on the black market, thereby evading the tax. If the tax is imposed at the local level, consumers may go to an adjacent locality to purchase these products. A manufacturer or distributer may have fewer options for relocating to another local jurisdiction, but these taxes are usually at the rate in place where the good will be purchased so there can be some shifting across jurisdictions.

### *Does the tax have communication power related to early care and education?*

The closer the nexus between what is taxed and the use of the tax, the easier it is to communicate the desirability of the tax. The more complicated the structure of the tax, the more difficult it will be for policymakers to support the proposal, even if they want to support additional investments in quality early care and education. On the other hand, an increase in an existing tax is less onerous on the policymaker than the creation of a new tax. High-quality early care and education is a social health determinant, so there is a nexus between sin taxes on unhealthy products and high-quality early care and education. If the revenue is being dedicated to education, the importance of the first five years to closing the educational outcomes gap is an argument for a portion of the funds to go to child care.

### *Who pays for the tax? Who benefits from the tax?*

Sin taxes may be levied through either the business or the consumer. Taxing the consumer is not necessarily a complete barrier to pursuing a sin tax for use in expanding high-quality early care and education. If the revenue is targeted to create equitable access to quality early care and education through tax legislation that specifies that the revenue must be used to improve quality, affordability, and supply, then the benefit may be more progressive than the tax is regressive.

The type of product is also important. High- and low-income households buy alcohol, smoke tobacco or vape, use recreational marijuana, gamble, and/or drink sugary beverages. Having the data on the types of individuals and households that use these products is important in determining who pays and who benefits.

Early childhood leaders may play a useful role when the implementation is designed. If the tax legislation is not very specific about where and for what purposes in the state or locality the revenue will be used, then the work with the state or local agency tasked with its implementation is critical to ensuring the new funds are used toward equity for underserved populations. In many cases, the agencies that administer taxes are not well-versed in what "high-quality" early care and education is and they need help ascertaining how the money is directed to both families and early care and education providers.

### *How does the projected generated revenue fit into the near- and long-term strategy for meeting the need for quality early care and education?*

No one tax is likely to raise sufficient funding for early care and education needs. Sin taxes are more likely to provide a decrease in revenue over the long term as the use of these products diminishes, either because of the disincentive of the tax or because of a successful public health campaign. Sin taxes can generate significant funds, even with a diminishing return over time, so should be considered as part of a long-term strategy. They could serve as a launch pad for creating public and political support for high-quality early care and education.

## CURRENT GENERATION

**Business Sin Taxes on Sugary Beverages.** With the rise in obesity, including childhood obesity, there is a focus on reducing consumption of sugary beverages. Several cities impose a tax on sugary beverages: Albany, CA; Berkeley, CA; Boulder, CO; Oakland, CA; Philadelphia, PA; San Francisco, CA; and Seattle, WA.[lii] Only Philadelphia explicitly dedicates a portion of the revenue to expansion of high-quality prekindergarten slots in the city.[liii] Philadelphia's tax is on the distributers of these beverages.

In 2016, the City Council of Philadelphia approved a new 1.5 cent per ounce tax on distributers of nonalcoholic sugary beverages (including artificial sweeteners and substitutes). The tax, typically referred to as the soda tax for prekindergarten, is targeted at expanding prekindergarten, rebuilding community recreation centers and libraries, implementing community schools, and closing budget gaps. In its first year, the tax generated $70 million, creating an additional 2,000 tuition-free, quality prekindergarten slots in the city for three- and four-year-olds.

**Individual Consumer Excise Tax on Alcohol.** For six years (three-year tax, renewed once), Arkansas taxed six-packs of beer at 3 percent and used 80 percent of the revenue to assist families with the costs of child care and to expand prekindergarten. In 2007, the legislature had a greater willingness to fund early care and education from the general fund ($100 million) and did not renew the tax.[liv]

In 1995, the City Council of Philadelphia levied a 10 percent tax on liquor and malt brewed beverages served in restaurants, bars, hotels, clubs, retail stores, and catered events, initially to expand full-day kindergarten. The revenue continues to be received by the Board of Education of the School District of Philadelphia and prekindergarten slots are among its uses. The liquor tax raises roughly $70 million each year. In 2013, the mayor of Philadelphia attempted to increase the tax from 10 percent to 15 percent, but the increase was defeated.

**Gambling/Lottery.** Georgia's lottery funds the Hope Scholarship for higher education and Georgia's Pre-K Program. Twenty-five percent of the lottery revenues go to these two purposes. The revenue from the lottery allocated to the prekindergarten program has exceeded $5 billion, supporting the attendance of 1.6 million four-year-olds across Georgia in state-funded prekindergarten.[lv]

Maryland taxes gambling and directs a portion of the taxes collected to the Maryland Education Trust Fund, created in 2007. Previously, the legislature allocated that portion of taxes to K-12 education, capital, and higher education; in 2012, it added early child education as an allowable use of the Education Trust Fund.[lvi]

The Missouri Preschool Project received funding from a gross tax on riverboat gaming revenue, plus a $2 admission fee for every two hours that each casino patron is on board, which was divided between the home dock community and the state. The revenue went to a variety of programs, early care and education among them. Since 2013, the state has substituted a portion of the tobacco MSA funds ($35 million a year) for the gaming revenue.[lvii]

**Marijuana.** Colorado has passed or modified taxes on marijuana four times: 1) Amendment 64 in 2012 legalized marijuana use and possession and an excise tax directed the first $40 million of revenue to school construction; 2) Proposition AA in 2013 allowed up to a 15 percent excise tax on unprocessed marijuana and up to a 15 percent retail tax on sales as well as a medical and retail state sales tax of 2.9 percent; 3) a legislative change to the formula in 2017 increased the state retail tax from 10 percent to 15 percent and changed the allocation of the revenue; and 4) a legislative formula change to the excise tax on retail marijuana took place in 2019 with a portion of the proceeds dedicated to a state public school fund.[lviii] In 2016-17, the marijuana revenue allocated to the Department of Education was $54.2 million. In addition to being used for school construction, revenue goes to grants for behavioral health issues in schools, reducing bullying, school drop-out prevention, and early literacy in the K-3 curriculum.

**Tobacco.** In 2006, voters passed Proposition 203, the Arizona Early Childhood Development and Health Initiative, which imposes a tax on tobacco products (80 cents per pack of cigarettes) and provides the collected revenue to the Arizona Early Childhood Development and Health Fund. These monies are spent on prekindergarten child care subsidies and quality improvement, preventive health care, early childhood system coordination, and family strengthening. Tobacco revenues have fallen, with roughly $40 million less per year available during the period of 2007 to 2015.[lix]

California voters passed Proposition 10, the California Children and Families Act of 1998, which increased taxes on cigarettes and tobacco products and dedicated the revenue to First 5 California. The revenue generated from a 50-cent tax per pack of cigarettes is used for a variety of early childhood development purposes, including early care and education. First 5 county-level commissions administer the funds.[lx]

### Tobacco Master Settlement Agreement

The 1998, the Tobacco Master Settlement Agreement (MSA) was settled after litigation was brought by 46 states, the District of Columbia, Puerto Rico, four territories, and four of the major and more than 40 of the smaller tobacco companies. The settlement provides damages to the states for the health care costs under state Medicaid programs associated with tobacco-related diseases. The MSA established amounts for each state and territory for every year starting in 2000, with the amount set in 2018 at $9 billion annually to go to the states and four territories in perpetuity.

Although the MSA is premised on reduction of cigarette smoking as a public health concern and cost, it does not mandate specific uses of the funds. State legislatures determine how the funds will be spent and, in some states, this has helped finance early care and education.

Under the MSA, the participating tobacco manufacturers have contributed $1.5 billion to the American Legacy Foundation, an entity whose mission is to conduct public education on cigarette smoking.

States are using the funds from the MSA for a variety of purposes. The following states are using a portion of the settlement funds for early care and education:

- **Connecticut** – MSA funds pay for the operations of Smart Start to grow the number of three- and four-year-olds in public school prekindergarten while state bonds finance capital improvements.
- **Kansas** – MSA funds are statutorily dedicated to programs that serve children and families and have included support for early care and education efforts.
- **Kentucky** – Half the MSA funds go to agricultural development and the other half to early childhood development and health care improvement.
- **Missouri** –The state substituted the MSA funds for the previous funding through riverboat gaming fees. The dollars are used for three- and four-year-old preschool, child care subsidies, First Steps, and the Parents As Teachers home visiting program.
- **Tennessee** previously used, in part, MSA funds for its pre-K program.

## NEXT GENERATION IDEAS

The ability to replicate certain sin taxes in other jurisdictions may become harder if efforts to change state laws barring local governments from taxing sugary beverages are successful. Early childhood leaders should be actively participating in coalitions that are working to keep taxing efforts for child-and-family programs constitutionally and statutorily permissible.

**Taxes on Cultivation, Distribution, or Sale of Legalized Medical or Recreational Cannabis.** As a growing number of states are legalizing cannabis products, there may be an opportunity to direct some of the revenues to child care and other early care and education programs. It is important to note that some states have legalized medical and/or recreational marijuana but have not yet placed a tax on cultivation, distribution, or sales. States that do have a tax at some point in the marijuana growth or sale chain include Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, and Washington State.

**Including Early Care and Education in Opioid Settlements.** Another potential revenue source on the horizon is the litigation by states, similar to the tobacco litigation that led to the Master Settlement Agreement, against the manufacturers of opioids. While it may not be possible to direct all the revenue from this litigation to early care and education, it could be one of its uses given the impact the opioid epidemic is having on young children. The litigation and settlements against opioid manufacturers may eclipse in size the tobacco Master Settlement Agreement. As early as 2000, Kentucky, West Virginia, and the federal government filed suits against opioid manufacturers. In the federal government's case, the manufacturer Purdue pled guilty in 2007 to false advertising of its product. Purdue agreed to pay $600 million to the federal government and another $20 million to 26 states and the District of Columbia. In addition to states, cities and some tribes are suing opioid manufacturers. The National Prescription Opiate Litigation in federal court in the Northern District of Ohio is a consolidation of lawsuits by more than 1,500 counties, municipalities, hospitals, and tribes filed against the manufacturers of opioids, alleging that the manufacturers misrepresented the long-term risks of their products, a fact that has had a significant impact on the opioid abuse epidemic.[lxi]

**Legalization of Sports Betting.** As of 2018, seven states – Delaware, Mississippi, New Jersey, Nevada, Pennsylvania, Rhode Island and West Virginia – and the District of Columbia[lxii] have legal sports betting and impose a gross sports betting tax. The District of Columbia's tax is anticipated to bring in $92 million over four years with $1 million dedicated each year to early care and education and violence prevention.[lxiii] However, in 2019, the mayor proposed a budget that would end the dedicated funding to those two areas, directing it instead to the general fund.

# Special District Government Taxes

## OVERVIEW

Across the country, local and regional units of government known as "special district governments" (also known as special taxing districts and special purpose districts) collect and administer funding for a wide range of services. These independent, governmental structures are given authority to levy taxes within a specific geographic area for a specific purpose. Special district governments (SDGs) can follow the boundaries of an existing municipality or can span multiple localities, as is often the case with Regional Transit Authorities, a common type of SDG. The governing bodies themselves, however, are independent of existing municipal governments, which allows them to levy taxes outside of state-imposed caps on municipal tax rates. While taxing authority for these structures comes from state legislation, SDGs are created when voters or policymakers at the local or regional level choose to opt into their creation, often through a public vote.

## GUIDING QUESTIONS

### *What jurisdiction will levy the tax?*

The most common questions in response to special taxing district proposals are: "Who will be in charge of administering the funding?"; "How will they decide where funding goes?"; and "How do we know funding will be administered fairly and in good faith?" SDGs require an administering infrastructure separate from an existing local government structure. In some localities, an appropriate administering infrastructure already exists in the form of a child-and-youth coordinating board or cross-systems collaborative team. In other places, the creation of an SDG may provide an opportunity to create an administrative structure that fosters greater alignment and contributes to the development of a more sophisticated early childhood system in a community. Florida's Children's Services Councils can be used as an example of this model in practice. Florida's special taxing districts operate under a board whose members are appointed by the governor, local school board, local county commissioners, and others. They are accountable to the public through the use of annual public budget reports, public audit reports, program monitoring, and Results Based Accountability.[lxiv]

### *Is the tax legally feasible? Can the tax be dedicated to early care and education?*

The purpose of special district governments is limited to what is written in state legislation; SDGs only have the authority to levy and administer funding for specific causes. Special district governments vary widely in name, purpose, and size; common purposes include fire protection, libraries, soil and water conservation, water supply, sewerage, parks, hospitals, public mass transit, port authority, housing and community development, road and highway maintenance, and others. Florida and Colorado are the only states that allow for the creation of special taxing districts that dedicate their revenue to funding child-and-youth services or early childhood supports. Therefore, attempts to replicate this model in other states will require state action. While it may be easiest to replicate the SDG model by adding "child-and-youth services" to the existing list of purposes in state-level enabling legislation, care should be taken in considering the possible benefits of other changes to legislation to expand the type of tax or allowable geography of the jurisdiction.

### *Is the tax politically feasible?*

While the US contains 38,000 special taxing districts, most people are not familiar with the term "special district governments." This lack of familiarity can lead to questions and concerns that, when left unanswered, may turn public will against the creation of an SDG. It may be helpful to explain SDGs in terms of those that property owners may be accustomed to seeing on their tax bill. For example, a sample residential property tax bill may show that the resident is already paying one SDG for regional transit, another for the regional airport, a third for water treatment, and a fourth for soil conservation. Additionally, people may better understand the governance of SDGs when compared to school districts – another type of taxing authority and (often) independent unit of government. These districts also often levy property tax and coordinate services for children and youth on a hyper-local (neighborhood), local (city or county-wide), or regional (in the case of more rural areas) level.

***How does the projected generated revenue fit into the near- and long-term strategy for meeting the need for quality early care and education?***

The nation's SDGs spend approximately \$200 billion annually[lxv] while the USA's 52,000[lxvi] counties, townships, municipalities, and school districts spend approximately \$1.4 trillion.[lxvii] Combined, this \$1.6 trillion in local government spending exceeds the \$1.4 trillion spent by state governments. The amount generated by individual special taxing districts ranges dramatically based on the type of tax levied, the tax rate, and the tax base of a given area (the SDGs that provide child-and-youth services in Florida, for example, annually generate between \$623,898 in Okeechobee County (FY 2016-17) and \$121.9 million in Miami-Dade (FY 2017-18)). But special taxing districts may be able to support a larger suite of early care and education services than other options and is therefore best suited for areas with high levels of need.

## CURRENT GENERATION

Florida has had a sustainable approach to this work for decades, starting its first Children's Service Council (CSC) in 1946 and its second 40 years later. Florida's Children's Services Councils have voter-approved taxing authority to ensure a dedicated funding source is available for children's programs and services. Voters in a county with an independent Children's Services Council pay a portion of their property taxes toward their CSC and the programs they fund. For an approximate average annual cost to the taxpayer of \$25 to \$80 (depending on the county), Children's Services Councils are able to fund programs that meet the specific needs of the people living in their communities.[lxviii]

Colorado, for example, recently passed legislation authorizing the creation of regional or local special taxing districts for early care and education (Early Childhood Development Special Districts) that may levy property or sales tax, or both.[lxix]

## NEXT GENERATION IDEAS

Future efforts to replicate Florida's use of SDGs to fund child and youth services should consider geographic equity, as Colorado did, and should also consider expanding the type of taxes the district is authorized to levy. Like those in Florida, most special taxing districts rely on property taxes, though some levy sales or excise taxes (taxes levied on goods when manufactured, not when sold). States that choose to authorize SDGs for early childhood may wish to improve the fairness of this revenue-generating mechanism by giving those districts the power to levy progressive income taxes or luxury real estate taxes rather than property or sales taxes. If this isn't politically expedient, localities may wish to reduce the regressivity of the tax by including exemptions from the tax for those below certain income levels.

Colorado's recent legislation also accounted for questions of geographic equity in the state: allowing multiple jurisdictions to form regional taxing authorities fosters alignment, increases inclusion of rural children in high-quality early childhood systems, and contributes to more equitable distribution of resources. States pursuing enabling legislation for special taxing districts may wish to consider the benefits of expanding the possible geographic jurisdictions of such districts in cases where doing so would promote greater access or equity.

# Conclusion

Quality early care and education, from infancy through preschool age, has become more widely recognized as part and parcel of healthy communities and a thriving citizenry. But the use of public revenue to support access to such essential services has not caught up to this acknowledgement. We must rethink our approach to revenue generation if we want to provide both equitable access to early care and education opportunities for young children and parity for the workforce. State and local tax policy can provide a springboard for early childhood leaders to do so. As we have described in this report, many states and localities throughout the United States already have leveraged a variety of tax policies to fund these services.

We encourage early care and education leaders to further examine the many technical and strategic facets of taxes and tax policy as they move beyond the introduction to the topics provided here. Working in cooperation with others who bring different perspectives and expertise to the work will make it possible to determine whether the tax areas discussed in this paper are relevant within particular state and local contexts. One thing we know for sure is that our children deserve nothing less than intentional funding strategies to secure their future.

# Appendix 1: State Tax Options by Policy Area

| TAX | CORPORATE & BUSINESS TAXES | |
|---|---|---|
| | Dedicate revenue from new or increased levies of corporate income tax | Dedicate development fees on new commercial real estate developments (jurisdictions where schools qualify to receive impact fees) |
| STATE | Is this strategy relevant to explore in state X? | |
| Alabama | Yes | |
| Alaska | Yes | |
| Arizona | Yes | |
| Arkansas | Yes | |
| California | Yes | Yes |
| Colorado | Yes | |
| Connecticut | Yes | |
| Delaware | Yes | |
| District of Columbia | Yes (corporate franchise tax) | |
| Florida | Yes | Yes |
| Georgia | Yes | |
| Hawaii | Yes | Yes |
| Idaho | Yes | |
| Illinois | Yes | |
| Indiana | Yes | |
| Iowa | Yes | |
| Kansas | Yes | |
| Kentucky | Yes | |
| Louisiana | Yes | |
| Maine | Yes | |
| Maryland | Yes | Yes |
| Massachusetts | Yes | |
| Michigan | Yes | |
| Minnesota | Yes | |
| Mississippi | Yes | |
| Missouri | Yes | |
| Montana | Yes | Yes |
| Nebraska | Yes | |
| Nevada | Yes (gross receipts tax) | Yes |
| New Hampshire | Yes | Yes |
| New Jersey | Yes | |
| New Mexico | Yes | |
| New York | Yes | |
| North Carolina | Yes | |
| North Dakota | Yes | |
| Ohio | Yes (gross receipts tax) | |
| Oklahoma | Yes | |
| Oregon | Yes | Yes |
| Pennsylvania | Yes | |
| Rhode Island | Yes | Yes |
| South Carolina | Yes | |
| South Dakota | | |
| Tennessee | Yes | |
| Texas | Yes (gross receipts tax) | |
| Utah | Yes | |
| Vermont | Yes | Yes |
| Virginia | Yes | |
| Washington | Yes (gross receipts tax) | Yes |
| West Virginia | Yes | Yes |
| Wisconsin | Yes | |
| Wyoming | | |

Source: Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," (Washington, D.C.: Institute on Taxation and Economic Policy, 2018), available at https://itep.org/about-who-pays/.

| | ESTATE & INHERITANCE TAXES | | |
|---|---|---|---|
| | Increase rate and/or reduce the exemption level | Change the treatment of capital gains for estates | Enact an estate/inheritance tax |
| STATE | Is this strategy relevant to explore in state X? | | |
| Alabama | | | Yes |
| Alaska | | | Yes |
| Arizona | | | Yes |
| Arkansas | | | Yes |
| California | | | Yes |
| Colorado | | | Yes |
| Connecticut | Yes (estate) | Yes (estate) | |
| Delaware | | | |
| District of Columbia | Yes (estate) | Yes (estate) | |
| Florida | | | Yes |
| Georgia | | | Yes |
| Hawaii | Yes (estate) | Yes (estate) | |
| Idaho | | | Yes |
| Illinois | Yes (estate) | Yes (estate) | |
| Indiana | | | Yes |
| Iowa | Yes (inheritance) | Yes (inheritance) | |
| Kansas | | | Yes |
| Kentucky | Yes (inheritance) | Yes (inheritance) | |
| Louisiana | | | Yes |
| Maine | Yes (estate) | Yes (estate) | |
| Maryland | Yes (estate, inheritance) | Yes (estate, inheritance) | |
| Massachusetts | Yes (estate) | Yes (estate) | |
| Michigan | | | Yes |
| Minnesota | Yes (estate) | Yes (Estate) | |
| Mississippi | | | Yes |
| Missouri | | | Yes |
| Montana | | | Yes |
| Nebraska | Yes (inheritance) | Yes (inheritance) | |
| Nevada | | | Yes |
| New Hampshire | | | Yes |
| New Jersey | Yes (estate, inheritance) | Yes (estate, inheritance) | |
| New Mexico | | | Yes |
| New York | Yes (estate) | Yes (estate) | |
| North Carolina | | | Yes |
| North Dakota | | | Yes |
| Ohio | | | Yes |
| Oklahoma | | | Yes |
| Oregon | Yes (estate) | Yes (estate) | |
| Pennsylvania | Yes (inheritance) | Yes (inheritance) | |
| Rhode Island | Yes (estate) | Yes (estate) | |
| South Carolina | | | Yes |
| South Dakota | | | Yes |
| Tennessee | | | Yes |
| Texas | | | Yes |
| Utah | | | Yes |
| Vermont | Yes (estate) | Yes (estate) | |
| Virginia | | | Yes |
| Washington | Yes (estate) | Yes (estate) | |
| West Virginia | | | Yes |
| Wisconsin | | | Yes |
| Wyoming | | | Yes |

Source: Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," (Washington, D.C.: Institute on Taxation and Economic Policy, 2018), available at https://itep.org/about-who-pays/.

## PERSONAL INCOME TAXES

| STATE | Increase income tax rates & dedicate funding to ECE | Enact/increase a tax on top earners | Limit/eliminate itemized deductions | Phase out personal exemption/credit or standard deduction for upper-income taxpayers | Eliminate deduction for federal/state income taxes paid | Eliminate special treatment of capital gains income |
|---|---|---|---|---|---|---|
| | Is this strategy relevant to explore in state X? | | | | | |
| Alabama | Yes (state & local) | Yes | Eliminate or limit | Yes (Dep exemption currently phases out) | Eliminate federal income tax deduction | |
| Alaska | No income tax | | | | | |
| Arizona | Yes (state) | Yes | Eliminate or limit | Yes | Eliminate state income tax deduction | Yes |
| Arkansas | Yes (state) | Yes | Eliminate or limit | | | Yes |
| California | Yes (state & some local) | Yes | Eliminate or limit (currently has steeper phase down) | Yes (PE credit currently phases out/start at lower income) | | |
| Colorado | Yes (state and local) | Constitution prohibits graduated rate; amendment required | Eliminate or limit | | | |
| Connecticut | Yes (state) | Yes | | | | |
| Delaware | Yes (state and local) | Yes | Eliminate or limit | Yes | | |
| District of Columbia | Yes (state) | Yes | Eliminate or limit (currently has steeper phase down) | Yes | | |
| Florida | No income tax | | | | | |
| Georgia | Yes (state) | Constitution prohibits top rate higher than 6% | Eliminate or limit | Yes | Eliminate state income tax deduction | |
| Hawaii | Yes (state) | Yes | Eliminate or limit (currently has steeper phase down) | Yes | Eliminate state income tax deduction | Yes |
| Idaho | Yes (state) | Yes | Eliminate or limit | | | |
| Illinois | Yes (state) | | | Yes | | |
| Indiana | Yes (state & local) | Yes | | Yes | | |
| Iowa | Yes (state & local) | Yes | Eliminate or limit | | Eliminate federal income tax deduction | |
| Kansas | Yes (state & some local) | Yes | Eliminate or limit | Yes | | |
| Kentucky | Yes (state & local) | Yes | Eliminate or limit | | | |
| Louisiana | Yes (state) | Yes | Eliminate or limit | | Eliminate federal income tax & state income tax deduction | |
| Maine | Yes (state) | Yes | Eliminate (ME already has strong limitations) | | | |
| Maryland | Yes (state & local) | Yes | Eliminate or limit | | | |
| Massachusetts | Yes (state) | Constitution prohibits graduated rate; amendment required | | Yes | | |
| Michigan | Yes (state & local) | Constitution prohibits graduated rate; amendment required | | Yes | | |
| Minnesota | Yes (state) | Yes | Eliminate or limit (currently has steeper phase down) | | | |
| Mississippi | Yes (state) | Yes | Eliminate or limit | Yes | | |
| Missouri | Yes (state & local) | Yes | Eliminate or limit | Yes (has small limit) | Eliminate federal income tax deduction | |
| Montana | Yes (state) | Yes | Eliminate or limit | Yes | Eliminate federal income tax deduction | Yes |
| Nebraska | Yes (state) | Yes | Eliminate or limit | Yes | | |
| Nevada | No income tax | | | | | |
| New Hampshire | Limited income tax | | | | | |
| New Jersey | Yes (state & some local) | Yes | | Yes | | |
| New Mexico | Yes (state) | Yes | Eliminate or limit | | | Yes |
| New York | Yes (state & local) | Yes | Eliminate or limit (currently has steeper phase down) | Yes (dependent exemption only) | | |
| North Carolina | Yes (state) | Yes | Eliminate or limit (currently caps some IDs) | Yes (standard deduction) | | |
| North Dakota | Yes (state) | Yes | Eliminate or limit | | Eliminate state income tax deduction | Yes |
| Ohio | Yes (state & local) | Yes | | Yes (has small limit) | | |
| Oklahoma | Yes (state) | Yes | Eliminate or limit | Yes | | |
| Oregon | Yes (state & some local) | Yes | Eliminate or limit | | Eliminate federal income tax deduction | |
| Pennsylvania | Yes (state & local) | Constitution prohibits graduated rate; amendment required | | | | |
| Rhode Island | Yes (state) | Yes | | | | |
| South Carolina | Yes (state) | Yes | Eliminate or limit | | | Yes |
| South Dakota | No income tax | | | | | |
| Tennessee | No broad income tax | | | | | |
| Texas | No income tax | | | | | |
| Utah | Yes (state) | Yes | Eliminate or limit | Combined credit phases out | | |
| Vermont | Yes (state) | Yes | Eliminate or limit (currently caps some IDs) | | | Yes |
| Virginia | Yes (state) | Yes | Eliminate or limit | Yes | | |
| Washington | No income tax | | | | | |
| West Virginia | Yes (state & some local) | Yes | | Yes | | |
| Wisconsin | Yes (state) | Yes | Eliminate or limit | SD credit currently phases out/ phase out personal exemption | | Yes |
| Wyoming | No income tax | | | | | |

Source: Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," (Washington, D.C.: Institute on Taxation and Economic Policy, 2018), available at https://itep.org/about-who-pays/.

Local Income Taxes: Jared Walczak, "Local Income Taxes in 2019," Tax Foundation, July 30, 2019, available at https://taxfoundation.org/local-income-taxes-2019/.

| | PROPERTY TAXES | | |
|---|---|---|---|
| | Increase real estate transfer tax; levy a higher rate on higher-valued homes | Increase state-level property tax levies | Adopt split roll property tax (different assessments for commercial and industrial properties and residential) |
| **STATE** | Is this strategy relevant to explore in state X? | | |
| Alabama | Yes | Yes | Yes |
| Alaska | | Yes | Yes |
| Arizona | Yes | Yes | Already utilizes split roll |
| Arkansas | Yes | Yes | Yes |
| California | Optional county transfer tax; city transfer tax | Yes | Yes |
| Colorado | Yes | | Already utilizes split roll |
| Connecticut | Recently enacted higher tax on high-worth homes | | Yes |
| Delaware | Yes | | Yes |
| District of Columbia | Yes | | Yes |
| Florida | Yes | | Yes |
| Georgia | Yes | Yes | Yes |
| Hawaii | Yes | | Yes |
| Idaho | | | Yes |
| Illinois | Yes | Yes | Already utilizes split roll |
| Indiana | | Yes | Yes |
| Iowa | Yes | | Already utilizes split roll |
| Kansas | Mortgage registration tax | Yes | Already utilizes split roll |
| Kentucky | Yes | Yes | Yes |
| Louisiana | | Yes | Yes |
| Maine | Yes | Yes | Yes |
| Maryland | Yes | Yes | Yes |
| Massachusetts | Yes | | Yes |
| Michigan | Yes | Yes | Yes |
| Minnesota | Yes | Yes | Yes |
| Mississippi | | Yes | Yes |
| Missouri | | Yes | Yes |
| Montana | | Yes | Already utilizes split roll |
| Nebraska | Yes | Yes | Yes |
| Nevada | Yes | Yes | Yes |
| New Hampshire | Yes | Yes | Yes |
| New Jersey | Yes | Yes | Yes |
| New Mexico | | Yes | Yes |
| New York | Yes | | Yes |
| North Carolina | Yes | | Yes |
| North Dakota | | Yes | Yes |
| Ohio | Yes | | Yes |
| Oklahoma | Yes | | Yes |
| Oregon | Only in Washington County | Yes | Yes |
| Pennsylvania | Yes | Yes | Yes |
| Rhode Island | Yes | Yes | Yes |
| South Carolina | Yes | Yes | Yes |
| South Dakota | Yes | | Already utilizes split roll |
| Tennessee | Yes | | Already utilizes split roll |
| Texas | | | Yes |
| Utah | | | Already utilizes split roll |
| Vermont | Yes | Yes | Yes |
| Virginia | Yes | Yes | Yes |
| Washington | Yes | Yes | Yes |
| West Virginia | Yes | Yes | Yes |
| Wisconsin | Yes | Yes | Yes |
| Wyoming | | Yes | Yes |

Source: Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," (Washington, D.C.: Institute on Taxation and Economic Policy, 2018), available at https://itep.org/about-who-pays/.

Development Fees: Clancy Mullen, "State Impact Fee Enabling Acts," (Austin, TX: 2018), available at http://growthandinfrastructure.org/resources/files/state_enabling_acts.pdf. See Table 3.

Real Estate Transfer Taxes: National Conference of State Legislatures, "NCSL TABLE: REAL ESTATE TRANSFER TAXES," (n.d.), available at http://midpointtitle.com/wp-content/uploads/2018/05/Copy-of-transfer-tax-by-state_rev.pdf

State Property Taxes: United States Census Bureau, "2016 State & Local Government Finance Historical Datasets and Tables," available at https://www.census.gov/data/datasets/2016/econ/local/public-use-datasets.html. See U.S. Summary file, go to "General revenue from own source," "State government Amount" of "property."

| | SALES TAXES | | |
|---|---|---|---|
| | Set aside sales tax revenue from new or existing sales tax levies for ECE | Expand sales tax base to include more services | Eliminate sales tax holidays |
| **STATE** | Is this strategy relevant to explore in state X? | | |
| Alabama | Yes | Yes | Yes |
| Alaska | No sales tax | | |
| Arizona | Yes | Yes | |
| Arkansas | Yes | Yes | Yes |
| California | Yes | Yes | |
| Colorado | Yes | Yes | |
| Connecticut | Yes | Yes | Yes |
| Delaware | No sales tax | | |
| District of Columbia | Yes | Yes | |
| Florida | Yes | Yes | |
| Georgia | Yes | Yes | |
| Hawaii | Yes | Yes | |
| Idaho | Yes | Yes | |
| Illinois | Yes | Yes | |
| Indiana | Yes | Yes | |
| Iowa | Yes | Yes | Yes |
| Kansas | Yes | Yes | |
| Kentucky | Yes | Yes | |
| Louisiana | Yes | Yes | |
| Maine | Yes | Yes | |
| Maryland | Yes | Yes | Yes |
| Massachusetts | Yes | Yes | Yes |
| Michigan | Yes | Yes | |
| Minnesota | Yes | Yes | |
| Mississippi | Yes | Yes | Yes |
| Missouri | Yes | Yes | Yes |
| Montana | No sales tax | | |
| Nebraska | Yes | Yes | |
| Nevada | Yes | Yes | |
| New Hampshire | No sales tax | | |
| New Jersey | Yes | Yes | |
| New Mexico | Yes | Yes | Yes |
| New York | Yes | Yes | |
| North Carolina | Yes | Yes | |
| North Dakota | Yes | Yes | |
| Ohio | Yes | Yes | Yes |
| Oklahoma | Yes | Yes | Yes |
| Oregon | No sales tax | | |
| Pennsylvania | Yes | Yes | |
| Rhode Island | Yes | Yes | |
| South Carolina | Yes | Yes | Yes |
| South Dakota | Yes | Yes | |
| Tennessee | Yes | Yes | Yes |
| Texas | Yes | Yes | Yes |
| Utah | Yes | Yes | |
| Vermont | Yes | Yes | |
| Virginia | Yes | Yes | Yes |
| Washington | Yes | Yes | |
| West Virginia | Yes | Yes | |
| Wisconsin | Yes | Yes | |
| Wyoming | Yes | Yes | |

Source: Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," (Washington, D.C.: Institute on Taxation and Economic Policy, 2018), available at https://itep.org/about-who-pays/.

| | SIN TAXES | | |
|---|---|---|---|
| | Increase taxes on alcohol (beer, wine, liqour) | Tax recreational cannabis | Legalize sports betting |
| **STATE** | Is this strategy relevant to explore in state X? | | |
| Alabama | Yes (beer, wine, liquor) | Yes | Yes |
| Alaska | | Already taxed | Yes |
| Arizona | Yes (beer, wine, liquor) | Yes | Yes |
| Arkansas | Yes (beer, wine, liquor) | Yes | Already legalized |
| California | Yes (beer, wine, liquor) | Already taxed | Yes |
| Colorado | Yes (beer & wine) | Already taxed | Yes |
| Connecticut | | Yes | Yes |
| Delaware | | Yes | Already legalized |
| District of Columbia | Yes (beer, wine, liquor) | Yes (legal but not taxed) | Yes |
| Florida | Yes (beer, wine, liquor) | Yes | Yes |
| Georgia | Yes (beer & wine) | Yes | Yes |
| Hawaii | Yes (beer, wine, liquor) | Yes | Yes |
| Idaho | Yes (beer, wine, liquor) | Yes | Yes |
| Illinois | | Yes | Yes |
| Indiana | Yes (beer & wine) | Yes | Yes |
| Iowa | Yes (beer, wine, liquor) | Yes | Yes |
| Kansas | Yes (beer, wine, liquor) | Yes | Yes |
| Kentucky | Yes (beer & wine) | Yes | Yes |
| Louisiana | Yes (liquor) | Yes | Yes |
| Maine | Yes (beer, wine, liquor) | Already taxed | Yes |
| Maryland | Yes (beer, wine, liquor) | Yes | Yes |
| Massachusetts | Yes (beer, wine, liquor) | Yes | Yes |
| Michigan | Yes (beer, wine, liquor) | Yes | Yes |
| Minnesota | Yes (beer, wine, liquor) | Yes | Yes |
| Mississippi | Yes (beer, wine, liquor) | Yes | Already legalized |
| Missouri | Yes (beer, wine, liquor) | Yes | Yes |
| Montana | Yes (beer, wine, liquor) | Yes | Yes |
| Nebraska | | Yes | Yes |
| Nevada | | Already taxed | Already legalized |
| New Hampshire | Yes (beer, wine, liquor) | Yes | Yes |
| New Jersey | Yes (beer) | Yes | Already legalized |
| New Mexico | Yes (beer, wine, liquor) | Yes | Yes |
| New York | Yes (beer & liquor) | Yes | Yes |
| North Carolina | | Yes | Yes |
| North Dakota | Yes (beer, wine, liquor) | Yes | Yes |
| Ohio | Yes (beer, wine, liquor) | Yes | Yes |
| Oklahoma | Yes (beer, wine, liquor) | Yes | Yes |
| Oregon | Yes (beer, wine, liquor) | Already taxed | Yes |
| Pennsylvania | Yes (beer) | Yes | Already legalized |
| Rhode Island | Yes (beer) | Yes | Already legalized |
| South Carolina | Yes (beer & wine) | Yes | Yes |
| South Dakota | Yes (beer, wine, liquor) | Yes | Yes |
| Tennessee | | Yes | Yes |
| Texas | Yes (beer, wine, liquor) | Yes | Yes |
| Utah | | Yes | Yes |
| Vermont | Yes (beer, wine, liquor) | Yes (legal but not taxed) | Yes |
| Virginia | Yes (beer, wine, liquor) | Yes | Yes |
| Washington | Yes (beer, wine, liquor) | Already taxed | Yes |
| West Virginia | Yes (beer, wine, liquor) | Yes | Already legalized |
| Wisconsin | Yes (beer, wine, liquor) | Yes | Yes |
| Wyoming | Yes (beer, wine, liquor) | Yes | Yes |

Source: Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," (Washington, D.C.: Institute on Taxation and Economic Policy, 2018), available at https://itep.org/about-who-pays/.

Alcohol Taxes: Indicates states that haven't raised their taxes on alcohol (beer/wine/liquor) from 2000 to 2019

Cannabis Taxes: Carl Davis, Misha E. Hill, and Richard Phillips, "Taxing Cannabis," (Washington, D.C.: Institute on Taxation and Economic Policy, 2019), available at https://itep.org/wp-content/uploads/012319-TaxingCannabis_ITEP_DavisHillPhillips.pdf.

Sports Betting: Jared Walczak, "States are Betting on Revenue from Sports Betting This Year," Tax Foundation, January 25, 2019, available at https://taxfoundation.org/sports-betting-tax-revenue/.

# Appendix 2: Additional Tax Resources

There is a wealth of information available about tax mechanisms and their uses at the state and local level. While *Funding Our Future: Generating State and Local Tax Revenue for Quality Early Care and Education* provides an overview of several options to generate revenue through the tax system, it is important for early childhood leaders to deepen their knowledge about the intricacies of all the various tax mechanisms and their suitability for and applicability to their community context. This appendix provides links to a variety of resources that you may wish to reference as you begin to examine revenue generation planning and implementation.

### General tax resources

*The ITEP Guide to Fair State and Local Taxes*

This 2011 guide from the Institute on Taxation and Economic Policy (ITEP) provides a comprehensive overview of state and local tax mechanisms.
https://itep.org/wp-content/uploads/guide.pdf

*State and Local Backgrounders*

The Urban Institute has compiled several 'backgrounders' with brief explanations to help readers better understand state and local expenditures and revenue.
https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders

*Fairness Matters: A Chart Book on Who Pays State and Local Taxes*

This Institute on Taxation and Economic Policy (ITEP) resource from 2019 provides an overview of where state and local tax burdens fall, highlighting the detrimental impact that regressive tax policies have on economic opportunity, income inequality, racial wealth disparities, revenue adequacy, and long-run revenue sustainability.
https://itep.org/fairness-matters-a-chart-book-on-who-pays-state-and-local-taxes-2019/

*Raising State Income Tax Rates at the Top a Sensible Way to Fund Key Investments Center on Budget and Policy Priorities*

This 2019 report from the Center on Budget and Policy Priorities (CBPP) making the case for increasing the top rates of income tax.
https://www.cbpp.org/research/state-budget-and-tax/raising-state-income-tax-rates-at-the-top-a-sensible-way-to-fund-key

### Tax rates and revenues

The Federation of Tax Administrators compiles data on state tax collections, including breakdowns by source and revenues per capita, as well as state income, sales, excise, and property tax rates.

https://www.taxadmin.org/revenues-burdens
https://www.taxadmin.org/tax-rates

### Racial equity

As discussed in the Guiding Questions section of this report, a consideration when contemplating revenue generation strategies is to fully understand who is impacted both positively and negatively by the proposed tax. Central to this is consideration of racial equity, including analysis to determine whether there is disproportionate impact on people of color. The tax system can be used to advance issues of racial equity.

*Advancing Racial Equity with State Tax Policy*

This 2018 report from the Center on Budget and Policy Priorities discusses how state and local governments can ensure that state budget and tax policies are better designed to address the harmful legacies of past racial bias and discrimination and create more opportunities for people of color.
https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy

*How the Federal Tax Code Can Better Advance Racial Equity*

While focused on the federal tax system, this report from the Center on Budget and Policy Priorities is a useful primer on ways that the federal tax code – and tax systems in general – have been influenced by historical racism

https://www.cbpp.org/research/federal-tax/how-the-federal-tax-code-can-better-advance-racial-equity

**Ballot measures**

*Statewide Ballot Measures Database*

This searchable database provides information on all statewide ballot measures, past and present, compiled by the National Conference of States Legislatures.

http://www.ncsl.org/research/elections-and-campaigns/ballot-measures-database.aspx

*Creating Local Dedicated Funding Streams for Kids*

This manual from Funding the Next Generation offers a guide to planning a local initiative to fund services for children, youth, and their families.

http://www.fundingthenextgeneration.org/nextgenwp/wp-content/uploads/2018/06/201805-FTNG-PlanningGuide-v25-web.pdf

**Capital gains**

*The Folly of State Capital Gains Tax Cuts*

2016 Policy brief from ITEP explaining state capital gains taxation and analyzing state capital gains tax cuts.

https://itep.org/wp-content/uploads/Capital-Gains-2016.pdf

*How States Can Tax Wealth: State Taxes on Capital Gains*

Issue brief about raising revenue through taxing wealth.

https://www.cbpp.org/research/state-budget-and-tax/issue-brief-state-taxes-on-capital-gains

**Inherited wealth**

*State Estate Taxes: A Key Tool for Broad Prosperity*

This 2016 Center on Budget and Policy Priorities issue brief discusses state estate taxes and makes the case that states that have eliminated their estate tax should reinstate it and those that have an existing one should keep and improve this tax paid only by the wealthiest.

https://www.cbpp.org/research/state-budget-and-tax/state-estate-taxes-a-key-tool-for-broad-prosperity

*State "Mansion Taxes" on Very Expensive Homes*

This 2019 Center on Budget and Policy Priorities issue brief looks at how states can adopt a tax on high-value housing, addressing the regressive nature of many state property taxes and helping to rebalance the burden of state and local tax systems.

https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes

*State Taxes on Inherited Wealth*

A 2018 Center on Budget and Policy Priorities issue brief on state estate and inheritance taxes and their role in building shared prosperity.

https://www.cbpp.org/research/state-budget-and-tax/issue-brief-state-taxes-on-inherited-wealth

**Local taxes**

*A Look at County Revenue Authority: A State-by-State Report*

This National Association of Counties report from 2008 provides state-by-state details about county authority to raise revenue.

http://www.naco.org/sites/default/files/documents/County%20Revenue%20Authority.updated.pdf

*Briefing Book on State and Local Taxes*

A resource from the Tax Policy Center that provides a guide to how state and local taxes work, including an overview of sources of revenue for state and local governments, and state and local taxes.
https://www.taxpolicycenter.org/briefing-book/how-do-state-and-local-sales-taxes-work

*City Fiscal Conditions*

This publication reports the results of the National League of Cities' 2018 City Fiscal Conditions survey of finance officers. It provides insights into the opportunities and challenges facing cities.
https://www.nlc.org/sites/default/files/2018-09/City%20Fiscal%20Conditions%202018_WEB.pdf

*Progressive Policies for Raising Municipal Revenue*

This 2015 strategy report from the National Municipal Policy Network lays out a set of policy and political interventions that cities, regions, and states can make to increase municipal revenue and to make tax collections more progressive.
https://localprogress.org/wp-content/uploads/2013/09/Municipal-Revenue_CPD_040815.pdf

*Property Tax Homestead Exemptions*

2011 Policy Brief from the Institute on Taxation and Economic Policy explaining the workings of the homestead exemption for local residential property tax relief.
https://itep.org/wp-content/uploads/pb12home.pdf

*Local Financing for Early Learning*

Featuring case studies from across the United States that use a variety of funding mechanisms, the North Carolina Early Childhood Foundation also offers resources on local revenue generation.
https://financingtools.buildthefoundation.org/

*Local Public Dedicated Children's Funds*

A resource from the Children's Funding Project compiling examples of dedicated local funds for children's programming and services across the U.S.
https://www.childrensfundingproject.org/s/CFP-Dedicated-Funding-Streams-LDF-Updates.pdf

## Sales tax

*Four Steps to Moving State Sales Taxes Into the 21st Century*

A 2018 Center on Budget and Policy Priorities report on how to modernize state sales taxes.
https://www.cbpp.org/research/state-budget-and-tax/four-steps-to-moving-state-sales-taxes-into-the-21st-century

*Expanding Sales Taxation of Services: Options and Issues enter on Budget and Policy Priorities (2009)*

Center on Budget and Policy Priorities report from 2009 making the case for improving the sales tax system by including a broad array of services such as payroll processing, television advertising, landscaping, and pest control.
https://www.cbpp.org/research/state-budget-and-tax/expanding-sales-taxation-of-services-options-and-issues

*Sales Tax Holidays: An Ineffective Alternative to Real Sales Tax Reform*

A 2018 brief from the Institute on Taxation and Economic Policy about how sales tax holidays are a device for tax reduction.
https://itep.org/wp-content/uploads/0712-2018-Sales-Tax-Holidays_rev1.pdf

## Sin taxes

*Cigarette Taxes: Issues and Options*

2016 brief from the Institute of Taxation and Economic Policy about the pros and cons of cigarette taxes as a source of state and local revenue.
https://itep.org/wp-content/uploads/cigpb2016.pdf

*Lottery, Casino and other Gambling Revenue: A Fiscal Game of Chance*

2018 brief from the Institute of Taxation and Economic Policy about considerations related to gambling revenue.
https://itep.org/wp-content/uploads/Gambling-Final.pdf

*Taxing Cannabis*

2019 brief from the Institute of Taxation and Economic Policy Report about potential approaches to taxing cannabis.
https://itep.org/wp-content/uploads/012319-TaxingCannabis_ITEP_DavisHillPhillips.pdf

*The Short and Sweet on Taxing Soda*

2016 brief from the Institute of Taxation and Economic Policy Brief about soda taxes.
https://itep.org/wp-content/uploads/sodatax111616.pdf

*Taxing Sugary Beverages to Expand Prekindergarten: The Advocacy Lessons of Philadelphia and Santa Fe*

2018 report from the University of Maryland at College Park focused on the advocacy work involved in the sugary beverage tax efforts in Philadelphia and Santa Fe. While those taxes were designated for prekindergarten, lessons can be learned for similar initiatives focused on younger children.
https://www.publicpolicy.umd.edu/sites/default/files/Taxing%20Sugary%20Beverages.pdf

*TPC's Sports Gambling Tip Sheet*

A 2019 blog post from a Tax Policy Center expert with an overview of sports gambling.
https://www.taxpolicycenter.org/taxvox/tpcs-sports-gambling-tip-sheet

*Six Reasons Why States Shouldn't Be Counting Their Sports Betting Tax Revenue Yet*

A 2018 blog post from a Tax Policy Center expert cautioning states about the potential obstacles of taxing sports betting
https://www.taxpolicycenter.org/taxvox/six-reasons-why-states-shouldnt-be-counting-their-sports-betting-tax-revenue-yet

**Subsidies and tax abatements**

*The New Math on School Finance: Adding Up the First-Ever Disclosure of Corporate Tax Abatements' Cost to Public Education*

This 2018 report from Good Jobs First uses new data on tax abatement disclosures to estimate the losses to public education due to such abatements.
https://www.goodjobsfirst.org/sites/default/files/docs/pdfs/newmath3.pdf

*Good Jobs First Subsidy Tracker Database*

This national search engine allows users to see the amount of economic development subsidies and other forms of government financial assistance that states have provided to corporations.
https://www.goodjobsfirst.org/subsidy-tracker

**State coalitions**

There are a number of networks of budget-focused organizations working at the state and local level that can be a useful resource as you look to learn more about state and local tax revenue for your early childhood initiatives. It is important that early childhood leaders understand the coalitions that exist and build relationships with budget experts in your state to ensure that the needs of young children and their families are prioritized.

*State Priorities Partnership*

Coordinated by the Center on Budget and Policy Priorities, the State Priorities Partnership (previously known as the State Fiscal Analysis Initiative) is a network of over 40 independent, nonprofit research and policy organizations focused on ensuring state budgetary policies give more people the opportunity to prosper. The website includes contact details of partners in each state.
http://statepriorities.org/

*EARN (Economic Analysis Research Network)*

EARN is a nationwide network of research, policy, and organizing and advocacy organizations focused on strengthening economies for working people. EARN has state and local partners in more than 40 states. Contact details available on their website.
https://earn.us/directory/

*SiX (State Innovative Exchange)*

The State Innovation Exchange is a progressive policy network that supports state legislators and bridges the work of legislators with grassroots organizing. While it doesn't have a portfolio focused on taxes, it could be a useful resource for understanding state context.
https://stateinnovation.org/

# Appendix 3: Fiscal Analysis Resources

While this report is focused on ways to generate revenue, it is also important to understand how much revenue you will need to meet your goals and the sufficiency of your proposed revenue generation mechanism to achieve those goals. Many resources are available both to help to understand the current f iscal landscape in your state or community and to estimate the resources needed to operate a high-quality early childhood program and support a robust early childhood system.

**Fiscal agenda setting and systems modeling**

*Children's Funding Project*

This organization has several resources focused on helping communities understand the investments it makes in children and youth and identifying opportunities to increase efficiency and effectiveness of funding streams.
https://www.childrensfundingproject.org/resources-start

*The Role of a Fiscal Agenda in Increasing and Targeting Investments for Infants and Toddlers*

2018 presentation from the National Collaborative for Infants and Toddlers meeting on developing a fiscal agenda to support infants and toddlers.
http://www.buildinitiative.org/OurWork/StateandLocal/NationalCollaborativeforInfantsandToddlers/TheRoleofaFiscalAgendaforInfantsToddlers.aspx

*Staffed Family Child Care Network Cost Estimation Tool*

Online tool from the U.S. Department of Health and Human Services, Office of Child Care that can be used to estimate the costs for state and communities for services offered by a staffed family child care network.
https://childcareta.acf.hhs.gov/resource/staffed-family-child-care-network-cost-estimation-tool

*Professional Development System Cost Analysis Tool*

Online tool from the U.S. Department of Health and Human Services, Office of Child Care designed to understand current investments and targeted resources for professional development systems and initiatives that result in a well-qualified early childhood and school-age workforce.
https://earlyeducatorcentral.acf.hhs.gov/pdtool/

*QRIS Resource Guide: Cost Projections and Financing*

This U.S. Department of Health and Human services, Office of Child Care guide, and its embedded resources, can help you estimate the costs of operating a Quality Rating and Improvement System to support quality improvement efforts in your state.
https://qrisguide.acf.hhs.gov/resource-guide/cost-projections-and-financing

*Finance and Quality Rating Improvement Systems*

A 2017 paper from the BUILD Initiative detailing the cost to operate a robust QRIS, including discussion of the factors that impact cost and ideas for revenue generation.
http://www.buildinitiative.org/Portals/0/Uploads/Documents/Resources/QRIS%203/FinanceQRIS.pdf

*San Francisco Comprehensive Fiscal Analysis*

Report from San Francisco, CA that provides an example of a community-level fiscal analysis.
http://sfoece.org/wp-content/uploads/2016/04/CFA-Report.pdf

*Local Initiatives Support Corporation (LISC) Resource Guide: The ABCs of Child Care*

This 2019 guide introduces community development organizations to the child care field and includes information about how to partner with child care organizations to build or improve their facilities.
https://riccelff.org/wp-content/uploads/2019/05/Child-Care-Facilities_-abc_updated-19-0530.pdf

### Modeling the cost of high-quality child care and preschool

*Where Does Your Child Care Dollar Go?*

Online tool, created in 2019 from the Center for American Progress, that estimates the per-child monthly cost of center-based child care for an infant, toddler, or preschooler, at minimum quality (licensing standards) and high-quality (kindergarten compensation parity). Allows some customization based on state, salaries, and staffing ratios.
www.costofchildcare.org

*Provider Cost of Quality Calculator*

U.S. Department of Health and Human Services, Office of Child Care online tool that estimates the provider-level expenses and revenues at different levels of quality, aligned with QRIS levels, for centers and family child care homes. Integrates revenue data to highlight gap between expenses and revenue. Can use data defaults or can customize to produce more tailored results for state or community.
www.ecequalitycalculator.com

*Cost-of-quality Spreadsheet Model*

Excel-based tool from the Alliance for Early Childhood Finance that can be customized to estimate the provider-level expenses and revenues at different levels of quality, aligned with quality standards, for centers and family-child-care homes and other types of providers, e.g., public schools. Can include revenue data. Can be completely customized and set to cost out specific ECE models used in a state/community.
http://www.earlychildhoodfinance.org/downloads/2012/2012GenericCostModel-center.xlsx

*Cost of Preschool Quality and Revenue Calculator*

Online tool from the Center on Enhancing Early Learning Outcomes that calculates the costs of expansion and quality enhancements to pre-K programs, aligned with National Institute for Early Education Research benchmarks. Includes many defaults but can be overridden with own sources.
http://ceelo.org/cost-of-preschool-quality-tool/

*Conducting a Child Care Cost-of-Quality Study: A Toolkit for States and Communities*

2019 toolkit from the Center on American Progress providing step-by-step instructions for completing a cost-of-quality study using the Provider Cost-of-Quality Calculator. Also includes links to several cost-of-quality studies completed by states and communities.
https://www.thencit.org/resources/conducting-a-child-care-cost-of-quality-study-a-toolkit-for-states-and-communities

# Appendix 4: Child Care Revenue Work Group Members

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# Appendix 5: Estate and Inheritance Tax Additional Information

### Effective State Tax Rates Across Estate Values by State (2017)

| State | $10,000,000 estate value after deductions | $20,000,000 estate value after deductions |
|---|---|---|
| Connecticut | 7.4% | 9.7% |
| District of Columbia | 9.8% | 12.9% |
| Hawaii | 5.3% | 10.5% |
| Illinois | 5.2% | 10.2% |
| Maine | 3.9% | 7.8% |
| Maryland | 6.5% | 11.0% |
| Massachusetts | 10.8% | 13.4% |
| Minnesota | 10.3% | 13.2% |
| New Jersey | 9.7% | 12.8% |
| New York | 10.7% | 13.3% |
| Oregon | 11.0% | 13.5% |
| Rhode Island | 10.1% | 13.1% |
| Vermont | 11.6% | 13.8% |
| Washington | 12.7% | 16.3% |

Source: Jared Walczak, State Inheritance and Estate Taxes (Tax Foundation Special Report No. 235, July 2017), available at https://files.taxfoundation.org/20171024103443/Tax-Foundation-SR2351.pdf.

### Effective State Inheritance Tax Rates by Size of Inheritance and Relationship to the Deceased

| State | Lineal Heir | | Other Related Individual | | Nonrelated Individual | |
|---|---|---|---|---|---|---|
| | $500,000 | $1 million | $500,000 | $1 million | $500,000 | $1 million |
| Iowa | 9.3% | 9.6% | 9.3% | 9.6% | 14.2% | 14.6% |
| Kentucky | 0% | 0% | 14.2% | 13.5% | 15.3% | 15.7% |
| Maryland | 0% | 0% | 10% | 10% | 10% | 10% |
| New Jersey | 0% | 0% | 12.6% | 12.8% | 15% | 15.3% |
| Nebraska | .6% | 1% | 10.5% | 10.5% | 17.6% | 17.8% |
| Pennsylvania | 4.5% | 4.5% | 15% | 15% | 15% | 15% |

### Revenue Estimates for Estate/Inheritance Taxes

| State | $1 million exemption | $3 million exemption | $5.43 million exemption |
|---|---|---|---|
| Alabama | $110 million | $60 million | $60 million |
| Alaska | $10 million | $0 million | $0 million |
| Arizona | $130 million | $80 million | $70 million |
| Arkansas | $70 million | $40 million | $40 million |
| California | $1,740 billion | $1,030 billion | $950 million |
| Colorado | $110 million | $70 million | $60 million |
| Florida | $1,050 billion | $620 | $580 |
| Georgia | $190 | $120 | $110 |
| Idaho | $20 | $10 | $10 |
| Indiana | $140 | $80 | $70 |
| Kansas | $60 | $30 | $30 |
| Louisiana | $60 | $30 | $30 |
| Michigan | $240 | $140 | $130 |
| Mississippi | $40 | $30 | $20 |
| Missouri | $180 | $110 | $100 |
| Montana | $20 | $10 | $10 |
| Nebraska | $40 | $20 | $20 |
| Nevada | $70 | $40 | $40 |
| New Hampshire | $40 | $30 | $20 |
| New Mexico | $40 | $30 | $20 |
| North Carolina | $170 | $100 | $100 |
| North Dakota | $10 | $10 | $0 |
| Ohio | $320 | $190 | $180 |
| Oklahoma | $90 | $50 | $50 |
| South Carolina | $90 | $60 | $50 |
| South Dakota | $10 | $10 | $10 |
| Tennessee | $130 | $80 | $70 |
| Texas | $490 | $290 | $270 |
| Utah | $40 | $20 | $20 |
| Virginia | $240 | $140 | $130 |
| West Virginia | $20 | $10 | $10 |
| Wisconsin | $120 | $70 | $60 |
| Wyoming | $20 | $10 | $10 |

Source: Elizabeth McNichol, States Taxes on Inherited Wealth (Center on Budget and Policies Priorities, December 2018), available at https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-inherited-wealth

**Selected State Inventory Fees**

| State | Inventory Fee Information | Notes |
|---|---|---|
| **Connecticut** | http://www.ctprobate.gov/Documents/Sec%2045a-107.pdf | |
| **Massachusetts** | https://www.mass.gov/info-details/probate-and-family-court-filing-fees | |
| **Michigan** | https://courts.michigan.gov/Administration/SCAO/Resources/Documents/other/pfee.pdf | |
| **Missouri** | https://www.courts.mo.gov/file.jsp?id=43304 | |
| **Pennsylvania** | https://www.alleghenycounty.us/court-records/wills/probate-fees.aspx<br>http://www.buckscounty.org/government/RowOfficers/RegisterofWills/FeeBill<br>https://www.lehighcounty.org/Portals/0/PDF/Judicial/Wills%20Fee%20Schedule%202017.pdf | Counties set the fees- showing variability by county |
| **Virginia** | http://www.courts.state.va.us/courts/circuit/resources/coa_fee_schedule.pdf | |
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Build Initiative
Strong Foundations For Our Youngest Children

Center for American Progress

Children's Funding Project

ITEP
Institute on Taxation and Economic Policy

University of Maryland