Avoiding a 2nd Decade of Neglect

COVID-19 has triggered a nationwide economic crisis. As a result of this, states are facing significant revenue losses while the demand for healthcare, educational supports, housing, and unemployment assistance is increasing. At least 10 states have already responded to declining revenues by cutting K-12 spending, while 16 have made cuts to higher education. These spending cuts threaten to launch us into a second decade of neglect, as most of the states that have cut their education budgets this year were spending less on education than they were before the last recession, based on the most recently available spending data.

We are heading into a recession that is shaping up to be the worst this country has ever seen, while states are still digging out from the last recession. While the Great Recession wreaked havoc on state budgets, Republican governors and state legislators prolonged the crisis by pushing tax cuts for the wealthy in most of the states where spending has not yet caught up to pre-recession levels. These tax cuts for the very rich deprived state budgets of the resources needed to support our schools and other public services. In contrast, in states where education spending has surpassed pre-recession levels, like California, Minnesota, and Oregon, lawmakers took strong action over the last decade to protect public investment by raising taxes on the rich.

Progressive taxation is even more important now, as the current economic downturn threatens to drain state and local budgets of needed tax revenue, leaving millions of workers unemployed. States can avoid mass layoffs, steep cuts in education, healthcare, and other public services, and a downward spiral in the economy, by levying taxes on households, businesses, and sectors of the economy that continue to have high incomes and generate healthy profits even during an economic crisis. COVID's economic pain is not universal. Firms that provide what have become essential services during the pandemic - cloud-based technologies, online retail, drug research, telemedicine, and video-conferencing - are thriving. According to an analysis by Americans for Tax Fairness and the Institute for Policy Studies, our nation's 651 billionaires have seen their total wealth grow by $1 trillion since March 18th—when businesses across the country began to close due to the pandemic.[1] We will not escape this current economic crisis unless we demand that these billionaires pay more in taxes to support public services and guide states through economic recovery.

[1] Americans for Tax Fairness and Institute for Policy Studies, "Net Worth of U.S. Billionaires Has Soared by $1 Trillion - to Total of $4 Trillion - Since Pandemic Began," December 8, 2020, https://americansfortaxfairness.org/wp-content/uploads/12-9-20-National-Billionaires-Report-Press-Release-1T-4T-FINAL-1.pdf.

Funding our Future

After a decade of neglect and austerity, AFT launched its Fund Our Future campaign in 2018 to demand that those in power make sustainable investments in our nation's public schools and colleges. As the COVID-induced economic crisis depresses state revenues, we call on state lawmakers to protect education, healthcare, and state and local government public services, by pursuing progressive revenue reform that demands the most from the few who've seen their incomes and their wealth grow, as others have fallen behind. We also encourage states to demand more from America's corporations that have escaped taxation through corporate tax loopholes, and the use of complicated tax avoidance schemes that shift U.S. earnings to subsidiaries in low-tax states or offshore tax havens. We recommend that states reform the way they grant economic development subsidies, demanding more transparency and accountability, to ensure that abatements and other tax breaks don't drain schools of the funding they need. We call on states to tax Big Tech and Wall Street, and we encourage states to update their tax codes by extending the sales tax to cover digital products and professional services.

States Should Tax the Rich

Tax High Earners

As the Institute on Taxation and Economic Policy has documented, most state and local tax systems are inequitable, requiring a much greater share of income from low and middle-income families than from the rich. In the 10 states with the most regressive tax structures—Washington, Texas, Florida, South Dakota, Nevada, Tennessee, Pennsylvania, Illinois, Oklahoma, and Wyoming—the lowest-income 20 percent pay up to six times as much of their income in taxes as the wealthy.[2] And of the 10 states with the most regressive tax systems, six rank among the 14 states with the lowest per-pupil funding. Higher tax rates on high incomes can raise significant revenue to fund schools, while also fixing upside-down tax codes.

States can tax high earners by raising income tax rates for those making $250,000 or more; imposing additional surtaxes on incomes over a million; adding a new top bracket to their current graduated income tax; changing existing flat rate structures to a graduated income tax; phasing down personal exemptions or standard deductions based on income; and reforming or repealing itemized deductions.

[2] Institute on Taxation and Economic Policy, "Who Pays? 6th Edition", October 2018, https://itep.org/whopays/.

Give Municipalities Greater Taxing Authority

The Tax Policy Center analyzed 2017 Census data and found that state and local governments raised $14.9 billion from fines and forfeitures in 2017.[3] In a separate study, researchers at University of Memphis found that cities with larger Black populations relied the most on fines and court fees to raise revenue.[4] These fines and fees trap Black households in significant debt. Some, though certainly not all, of the municipalities that rely on fees and fines are constrained by state-imposed limits on their taxing authority. States should grant municipal governments "presumptive taxing authority" so they have the power to impose their own personal and corporate income taxes, and rely less on property taxes, fines, and fees.[5]

States Should Tax Wealth

Wealth inequality has grown dramatically in the past several decades. For example, between 1978 and 2012, the net worth of very wealthiest 0.1 percent —a group of just 160,700 families - tripled from 7 percent in 1978 to 22 percent in 2012. By 2012, this group held nearly as much wealth as the bottom 90 percent.[6] A significant amount of this wealth has grown without ever being taxed. That's because the assets held in the stock market, real estate and elsewhere increase in value, and this accelerating wealth accumulation may only be taxed when assets are sold. Even then, there are loopholes that allow the wealthy to reduce or eliminate their tax bills.

Tax Inherited Wealth

Before 2001, every state taxed the estates of their richest residents. A hallmark of the Bush tax cuts that year was the elimination of a provision of federal tax law that encouraged states to do this. Now, only 17 states and the District of Columbia levy an estate or inheritance tax.[7] Restoring taxes on very large estates in the states with no estate tax, with a $1 million exemption, would generate more than $6.1 billion in revenue annually to fund our schools.[8] States could also opt to impose an inheritance tax on the heirs of an estate, instead of the estate itself. A state inheritance tax could be structured as income tax in states with a

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[3]Tax Policy Center, "Fines and Forfeitures and Racial Disparities," August 14, 2020, https://www.taxpolicycenter.org/taxvox/fines-and-forfeitures-and-racial-disparities

[4] M. W Sances and H.Y, You, "Who pays for government? descriptive representation and exploitative revenue sources," Journal of Politics, 2017, 79(3), 1090-1094. https://doi.org/10.1086/691354

[5] Erin Adele Scharff, "Powerful Cities?: Limits on Municipal Taxing Authority and What to Do About Them," 2016, https://www.nyulawreview.org/wp-content/uploads/2018/08/NYULawReview-91-2-Scharff.pdf

[6] Institute on Taxation and Economic Policy, "The U.S. Needs a Federal Wealth Tax", January 23, 2019, https://itep.org/the-u-s-needs-a-federal-wealth-tax/.

[7] Elizabeth McNichol, "State Taxes on Inherited Wealth," Center on Budget and Policy Priorities, December 12, 2018, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-inheritedwealth.

[8] McNichol, ibid.

progressive income tax structure, ensuring that wealthy heirs pay a higher tax rate on their inheritances than those of lesser means.[9]

Reform or Strengthen Capital Gains Taxes

Unlike the federal government, most states apply the same tax rate to income from investments and income from work. However, nine states tax capital gains at rates lower than ordinary income.[10] These states should eliminate tax preferences for capital gains; moreover, every state should consider taxing capital gains at higher rates. States should also reform capital gains rules that allow investment gains to go untaxed. Under these rules — referred to as stepped up basis — heirs who inherit assets such as stocks, bonds, or real estate, pay no taxes on the gains in the value of inherited assets that occurred before they were inherited. Eliminating the stepped-up basis rules and taxing capital gains each year as they are earned, as opposed to waiting until the assets are sold or left to heirs, would ensure that the wealthy pay taxes as their wealth grows.[11]

Impose Taxes on High Value Properties

Property taxes are typically levied as a flat percentage of a property's value, regardless of the value of the property. Some states and local governments have begun to consider a progressive property tax to make property taxes fairer, and to make the wealthy pay more. A state-level real estate transfer tax is one approach. For example, New York levies a flat tax on the sale of properties, with an additional tax of 1 percent of the property's sale value for residences valued at $1 million or more. The District of Columbia levies a transfer tax that is based on a property's sale value, with a higher rate for properties worth more than $400,000.[12]

16 states have a state property tax. More states should adopt a state property tax and levy an annual property tax on high-value homes and use the revenue to fund education. Rhode Island's Governor proposed such a tax in 2015 in the form of a surcharge on second homes worth more than $1 million. Connecticut lawmakers in 2017 proposed a state property tax on second and vacation homes.[13] While no state has a state property tax for high value residential

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[9] Elizabeth McNichol, "State Taxes on Inherited Wealth", September 18, 2019, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-inherited-wealth.

[10] Arizona, Arkansas, Hawaii, Montana, New Mexico, North Dakota, South Carolina, Vermont, and Wisconsin tax long-term capital gains at a lower rate than ordinary income, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-capital-gains.

[11] Elizabeth McNichol, "State Taxes on Capital Gains", December 11, 2018, https://www.cbpp.org/research/state-budget-and-tax/issue-brief-state-taxes-on-capital-gains.

[12] Michael Leachman and Samantha Waxman, "State "Mansion Taxes" on Very Expensive Homes", https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes.

[13] Michael Leachman and Samantha Waxman, "State "Mansion Taxes" on Very Expensive Homes", https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes.

property, the District of Columbia levies a higher marginal rate for commercial and industrial property valued at over $3 million.[14]

States Should Update their Corporate Income Tax

Raise the Corporate Tax Rate

In a 2017 report, the Institute on Taxation and Economic Policy found that effective tax rates paid by profitable corporations have been declining for more than a decade. Of the Fortune 500 corporations included in their study, 92 of the 240 companies examined paid no state income tax at all in at least one year from 2008 through 2015, despite reporting $348 billion in pretax U.S. profits. 49 of these companies enjoyed multiple no-tax years. According to ITEP:

> A number of factors are driving this decline, including: a race to the bottom by states providing significant "incentives" for specific companies to relocate or stay put; blatant manipulation of loopholes in state tax systems by corporate accountants; significant cuts in state corporate tax rates; and the erosion of state corporate tax bases, largely due to ill-advised state-level linkages to the federal system.[15]

States should raise corporate tax rates for all corporations, or for corporations above a certain profit threshold. They should also consider imposing flat dollar minimum tax to ensure that corporations pay at least some state income tax.

Close Corporate Tax Loopholes

Every year, corporations use complicated tax avoidance schemes to shift U.S. earnings to subsidiaries in other states or offshore tax havens — places with minimal or no taxes — in order to reduce their state income tax liability, costing states millions in lost tax revenue that could be used to fund schools.

Twenty-eight states and the District of Columbia have attempted to address this corporate tax avoidance by enacting combined reporting laws. Under this method, corporate parents and subsidiaries are treated as a single corporation for tax purposes, and the corporate group's income is apportioned among the states in which it does business using a formula. This prevents the abusive shifting of income to subsidiaries located in low-tax states. While an important step in preventing domestic corporate tax avoidance would be for every state to adopt a combined reporting law, there is more that every state could do to address offshore tax haven abuse. For example, states can require worldwide combined reporting, and they can

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[14] Michael Leachman and Samantha Waxman, "State "Mansion Taxes" on Very Expensive Homes", https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes.

[15] Institute on Taxation and Economic Policy, "3 Percent and Dropping: State Corporate Tax Avoidance in the Fortune 500, 2008 to 2015," April 27, 2017, https://itep.org/3-percent-and-dropping-state-corporate-tax-avoidance-in-the-fortune-500-2008-to-2015/

implement the Tax Haven List approach, a reform that requires companies to include their U.S. profits held in offshore tax havens when calculating taxes.[16]

Decouple from Federal Tax Giveaways to the Rich

States incorporate parts of the federal tax codes into their own tax codes to varying degrees, which means that actions Congress takes on taxes have implications for state revenue. 18 states and the District Columbia have "rolling" conformity with the Internal Revenue Code, which means that they will conform to provisions of new federal law automatically. 19 states require lawmakers to adopt new provisions in order conform to federal law. The remaining states conform on a selective basis.[17] States should examine their tax codes and decouple state corporate and personal income taxes from federal tax breaks that would lower state revenue.

One such example is the tax break for investment in so-called opportunity zones, that was included in the 2017 Trump tax cut bill. Billed as a job creation strategy for low-income urban areas, the zones require no community benefits such as jobs created, good wages and benefits, or affordable housing. Not long after it was enacted, wealthy, well-connected investors began exploiting the tax break, using it to build high-end hotels and apartment buildings, or warehouses and storage facilities that employ only a small number of people.[18] Following enactment of the Trump tax cuts, the Center on Budget and Policy Priorities recommended that states take action to decouple state corporate and personal income taxes from the federal opportunity zone tax breaks.[19] Otherwise, states would end up subsidizing opportunity zone investments, shifting revenues to wealthy investors and away from schools and other essential public services.

More recently, Senate Republicans included several business loss tax breaks in the CARES Act. Among these tax breaks are provisions that would: Allow for an unlimited amount of losses from ownership of "passthrough" businesses to offset non-business income; allow corporate and passthrough business losses to be used to offset profits in past years; and lift the cap on the use of corporate and passthrough business losses to offset profits in future years.[20] These changes could be particularly harmful because they were made retroactive to the 2018 and 2019 tax years. In their analysis of the CARES Act provisions, Maryland estimated that the

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[16] Phillips and Proctor, ibid.

[17] Jared Walczak, "Tax Reform Moves to the States: State Revenue Implications and Reform Opportunities Following Federal Tax Reform", January 31, 2018, https://taxfoundation.org/state-conformity-federal-tax-reform/.

[18] Jesse Drucker and Eric Lipton, "How a Trump Tax Break to Help Poor Communities Became a Windfall for the Rich", September 27, 2020, https://www.nytimes.com/2019/08/31/business/tax-opportunity-zones.html?action=click&module=inline&pgtype=Homepage§ion=Business.

[19] Michael Mazerov, "States Should Decouple Their Income Taxes From Federal "Opportunity Zone" Tax Breaks ASAP", April 29, 2019, https://www.cbpp.org/blog/states-should-decouple-their-income-taxes-from-federal-opportunity-zone-tax-breaks-asap.

[20] Adam Thimmesch, "State Tax Conformity: The CARES Act and Beyond", May 21, 2020, https://www.taxnotes.com/featured-analysis/state-tax-conformity-cares-act-and-beyond/2020/05/21/2cjvb.

provisions could reduce state revenue by $51 million in 2020, and a whopping $257 million in 2021.[21] State lawmakers should act quickly to decouple from these business tax breaks.

States Should Enact Accountability Measures for Economic Development Tax Credits, Tax Abatements and Nonprofit Tax Exemptions

Take Action to Ensure that School Districts Comply with GASB 77 Rules

A government accounting (GAAP) rule – which AFT helped get installed – requires school districts and other government entities to disclose in their annual financial statements the amount of tax revenues lost to economic development tax breaks. Good Jobs First reviewed the first round of financial reports since the rule was put in place and found that more than half of the school districts they examined failed to comply and report such losses. In the 28 states where some districts have reported, $1.8 billion was lost in one year to corporate tax breaks.[22] While most states already require districts to comply with GASB accounting rules, schools in Alabama, Alaska, Idaho, Illinois, Indiana, Kansas, Michigan, Missouri, New York, North Dakota, Oklahoma, Vermont, Washington State, or West Virginia are not required by the state to use GAAP accounting. These states could take action to require GAAP compliance to require reporting on revenue losses.

For those states already requiring GAAP compliance, legislators could strengthen their state laws to force schools to report on revenues lost to tax abatements. States should also close loopholes in Statement 77 that may allow school districts to omit school tax revenue lost to tax increment financing (TIF) Districts. Finally, short of taking legislative action, AFT affiliates could push for GASB reporting compliance during contract negotiations with school districts or bring the issue of compliance up before their local school boards.

Exclude School District Revenue from Tax Abatements or Condition Tax Abatements on Districts Meeting Per Pupil Funding Benchmarks

While school districts lost more than $1.8 billion to tax abatements last year, only a handful of states give school districts a say when these tax breaks are being awarded. In most cases, cities, counties, and states can grant tax breaks that rob districts of revenue and there may be no accountability when a taxpayer-subsidized economic development project fails to produce economic benefits or boost tax revenues. States could protect school revenues by enacting legislation that prohibits local property and sales tax abatements altogether or they could exclude the school share from such abatements.[23] States could also condition tax abatements

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[21] Andrew Schaufele, "report on the impact of recent changes to the Internal Revenue Code on Maryland tax revenues", June 12, 2020, https://marylandtaxes.gov/reports/static-files/revenue/federalimpact/CARES_Act_60_Day_Report_Final_2020.pdf

[22] Good Jobs First, "The New Math on School Finance", December 2018, https://www.goodjobsfirst.org/sites/default/files/docs/pdfs/newmath.pdf.

[23] Good Jobs First, "The New Math on School Finance", December 2018, https://www.goodjobsfirst.org/sites/default/files/docs/pdfs/newmath.pdf.

on districts meeting per-pupil spending benchmarks before any tax breaks are handed out. For example, states could prevent cities and counties from granting tax abatements that reduce school revenues if per pupil spending levels in an impacted district is less than average per-pupil spending for all of a state's school districts.

Examine Non-Profit Property Tax Exemptions

Large non-profit private universities and hospital systems are sitting on billions of dollars in net assets, often awarding their executive officers millions of dollars in compensation, but because of their non-profit status, they are exempt from paying property taxes even though they rely heavily on local public schools, transportation, and public safety services. Some municipalities have asked non-profit entities to enter into voluntary agreements to make payments in lieu of taxes (PILOTs) in order to contribute to community costs.[24] However, because these payments are voluntary, non-profits often fail to make promised payments. In Boston, for example, nonprofit institutions have failed to pay over $77 million in promised payments under the PILOT program.[25] In New Jersey, some municipalities have begun to challenge the tax-exempt status of hospitals that they say are failing to meet the legal definition of tax exempt. Under the terms of one settlement, a health system was required to pay an annual "community service contribution" to support public health initiatives. States should review nonprofit tax exemptions to determine whether these entities are living up to their missions, and whether they can do more to support public services.

Tie Tax Breaks to Economic Development and Enact Clawback Provisions

A 2012 Good Jobs First report found that every state engages in at least some minimal enforcement of subsidy agreements in which corporations promise economic benefits to communities in exchange for tax breaks. However, there are too many loopholes or insufficient penalty provisions in economic development programs to ensure that corporations live up to economic performance requirements. GJF recommends that states require all recipients to report on job creation, wages, benefits and other performance benchmarks, and that reporting data be made available online. It also recommends that when companies fall short on their obligations, states should impose clawbacks (money-back payments) or a recalibration of future benefits.[26] Tim Bartik, at the Upjohn Institute, recently published a useful guide for states on

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[24] Daphne Kenyon and Adam Langley, "Policy Brief: Nonprofit PILOTs (Payments in Lieu of Taxes)", November 2016, https://www.lincolninst.edu/publications/policy-briefs/nonprofit-pilots-payments-lieu-taxes.
[25] Christy Pardew, "In New Report and Hearing, BTU Pushes for PILOT Payments from City Nonprofits", August 8, 2018, https://btu.org/in-hearing-and-new-report-btu-pushes-for-pilot-payments/.
[26] Good Jobs First, "Money-Back Guarantees for Taxpayers", January 2012, http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneyback_0.pdf.

how to structure incentives in a way that maximizes their economic benefits and decreases their costs.[27]

States Should Take Action to Make Wall Street Pay Its Fair Share

The financial sector – which includes banks, hedge funds, and private equity funds - has more than doubled in size since the 1980s. The growth of the financial sector, with its focus on short-term profits and cost cutting to maximize investment returns, has come at the expense of long-term investment in America's economy. In their insatiable search for investment returns, Wall Street's investment managers have forced the shuttering of factories and retail outlets, destroying jobs, and leaving communities in economic despair. The financial sector takes a quarter of all U.S. corporate profits while creating only 4% of U.S. jobs.[28] The outsized role of finance robs the rest of the economy of resources, skilled workers, tax revenue and the capacity to grow, and it drives inequality. A recent study by the International Monetary Fund confirms this - the growth of the financial sector has reduced GDP growth by 2% every year, or an estimated $320 billion per year.[29] States should levy taxes on Wall Street to rein in the excesses of the financial sector and reverse some of the damage it has done to state and local economies.

Create a Financial Transaction Tax

A Financial Transaction Tax (FTT) is a small tax on Wall Street trades of financial instruments like stocks, bonds, derivatives, futures, options, and credit default swaps. The cost of an FTT would fall overwhelmingly on large Wall Street firms and high-frequency traders who flip stocks and derivatives every few minutes, or even milliseconds, rather than making long-term, sustainable investments. The impact on retirement savings would be negligible and would likely benefit retirees and middle-class investors by reducing fees associated with high portfolio turnover rates. An FTT can boost market stability by reducing reckless Wall Street gambling.[30] It has been estimated that a tiny tax of 0.1% on each trade of stocks, bonds, and derivatives would generate $777 billion over ten years at the federal level.[31] Lawmakers in states with stock exchanges – Illinois, Massachusetts, Florida, New York, and Pennsylvania - should consider creating a state-level FTT.

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[27] Timothy J. Bartik, "Making sense of incentives: Taming business incentives to promote prosperity," Upjohn Institute, WE Series, October 2019, https://research.upjohn.org/up_press/258/

[28] Rana Foroohar, "The financial system is still blinking red. We need reform more than ever", September 14, 2017, https://www.theguardian.com/commentisfree/2017/sep/14/the-financial-system-is-still-blinking-red.

[29] [Various Authors], "Rethinking Financial Deepening: Stability and Growth in Emerging Markets", May 4, 2015, https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Rethinking-Financial-Deepening-Stability-and-Growth-in-Emerging-Markets-42868.

[30] Center for Economic and Policy Research, "Facts and Myths about a Financial Transaction Tax," May 2013, http://cepr.net/documents/ftt-facts-myths.pdf.

[31] Congressional Budget Office (CBO), "Options for Reducing the Deficit: 2019 to 2028: Impose a Tax on Financial Transactions," December 13, 2018, https://www.cbo.gov/budget-options/2018/54823.

Make Wall Street Pay for the Economic Destruction Caused by Leveraged Buyouts

Private equity managers make billions of dollars by buying a company and then borrowing against the company's assets to pay themselves fees and dividends. To maximize those fees and dividends, private equity firms also slash wages and benefits and cut back on research and development, while making no new investment to grow the business. The leveraged buyout model has been destructive for businesses and communities, especially those in America's rust belt. States can make Wall Street pay for this damage by assessing a tax on leverage that exceeds 6 times a company's earnings.[32] A state tax on excessive debt would raise money while counteracting some of the incentives to load a company with an unsustainable debt burden. The tax could be charged to the portfolio company upon the issuance of bonds or collateralized loan obligations or could be part of the closing costs that go along with finalizing a bank loan. States should also hold general partners accountable when their excessive risk-taking destroys viable companies or leads to job losses. States could fine the general partners of private equity firms when a highly leveraged company they control closes facilities and lays off workers.

Impose a Vacant and Neglected Properties Community-Impact Fee

When a private equity-owned company discontinues operations in a community to increase its bottom line and leaves property vacant, the community suffers. In some instances, these shuttered plants, storefronts, and homes remain vacant for years. If a private equity-owned company shuts down facilities and leaves property vacant the state and local governments should assess a penalty on the general partners of the private equity firm equal to the nominal state and local property tax rate for the prior two years.

Limit Fees Paid to Alternative Asset Managers by Pension Funds

As detailed in AFT's report, *The Big Squeeze: How Money Managers' Fees Crush State Budgets and Workers' Retirement Hopes*, U.S. public pension funds have undergone a dramatic shift in investment strategy, with traditional stocks and bonds increasingly displaced by "alternative" investments, mainly hedge funds, private equity and co-mingled "real assets."[33] The typical public pension fund now has nearly a quarter of its portfolio invested in alternatives. These funds are managed by some of Wall Street's wealthiest players who typically use a "2 and 20" fee model, charging pension funds an annual management fee equal to 2% of assets under management, regardless of performance, as well as a performance fee (also called carried interest) based on the profit from the investment. By AFT's estimate, the average pension fund

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[32] In 2013 guidance, the federal banking regulators stated, "Generally, a leverage level after planned asset sales (that is, the amount of debt that must be serviced from operating cash flow) in excess of 6X Total Debt/EBITDA raises concerns for most industries." Board of Governors of the Federal Reserve, et. al., *Interagency Guidance on Leveraged Lending* at 7*,* Mar. 21, 2013, *available at* https://www.federalreserve.gov/supervisionreg/srletters/sr1303a1.pdf.

[33] American Federation of Teachers, "The Big Squeeze", 2017, https://www.aft.org/sites/default/files/bigsqueeze_may2017.pdf.

would have saved an estimated $317 million per year by cutting alternatives fees in half. States can stop this enormous transfer of wealth away from workers to Wall Street billionaires by taking action to cap fees charged to public pensions by alternative asset managers.

States Should Update Their Sales Tax Codes

Tax Digital Downloads

While for years consumers have been shifting away from purchasing movies, music, and books in physical form, opting instead to download these products digitally, almost half of the states with a sales tax haven't updated their tax code to cover digital downloads. For states that do tax digital products, the tax rate varies from 1% to 7%, depending upon the state and the type of digital good. Digital goods subject to taxation may include: Downloaded software, downloaded books, downloaded music, digital audio files, and downloaded or streaming movies or digital video, such as Netflix and Amazon Prime. States should extend their sales tax to cover digital goods.[34]

Expand the Sales Tax Base to Include Services

Almost two-thirds of consumer spending is on services, yet most states tax less than half of the services that are potentially taxable.[35] As ITEP explains, broadening the sales tax base to include services can make sales tax revenues more stable in the long run since declines in one area of consumption might be offset by gains in another area.[36] It can also make the sales tax more progressive because it would extend the sales tax to the things people with higher incomes spend their money on. Some examples of taxable services include: services to improve or repair property, including carpentry, plumbing services and car repair; personal services like massages and animal grooming, and services provided by tanning salons, barber shops and hair salons; services provided by licensed professions, including accountants, financial planners, attorneys, and insurance brokers; and, entertainment services, like admission to the theater, movies, recreational events, and amusement parks.[37] States should expand their sales tax base to include services.

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[34] Victoria Venn, "Sales Tax for Digital Goods in the U.S.", August 13, 2020, https://quaderno.io/blog/sales-tax-digital-products-us/.

[35] Federation of Tax Administration, "Sales Taxation of Services", 2017, https://www.taxadmin.org/sales-taxation-of-services.

[36] Institute on Taxation and Economic Policy, "Why Sales Taxes Should Apply to Services", July 27, 2016, https://itep.org/why-sales-taxes-should-apply-to-services/#:~:text=Broadening%20sales%20tax%20bases%20to,also%20pay%20long%2Dterm%20dividends.

[37] Avalara, "A state-by-state analysis of charging sales tax on services", September 4, 2015, https://www.avalara.com/us/en/learn/whitepapers/service-taxability-by-state.html