Community Legal Aid

A non-profit law firm serving the legal needs of low-income individuals and families in central northeast Ohio

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Taxes: The great equalizer... or not

by Dana Goldstein, staff attorney

There is a saying (attributed to Ben Franklin) that says, “nothing is certain except death and taxes.”

It is true that these two unwanted guests visit us all. But when it comes to taxes, do they visit us all in the same way?

The United States operates under a progressive income tax system, meaning that the percentage you pay increases as you make more money. At face value, it would seem that people with lower incomes have less of a tax burden than those with higher incomes, thus helping those who earn less get by easier.

But that overly simplistic view discounts the many complexities that exist within our tax system -- complexities that disproportionately advantage people with wealth.

Take something as simple as filing status. Say you have a couple who files “married filing jointly.” One spouse makes a lot of money and the other is a homemaker. Because they’re filing jointly, their tax burden is split between the two of them, placing them in a lower tax bracket than if the wage earner were filing on their own.

Now, look at a couple who both work, make minimum wage and are in the 12% tax bracket. Whether they file as a married couple or singly, they will remain in the same tax bracket of 12% and will receive no benefit from the married-filing-jointly status.

As another example, let’s talk about how taxes intersect with your home. When you have a house that’s in a low-income area, it frequently appreciates at a slower rate -- and in some circumstances, depending on the location, may actually depreciate in value. A 10% appreciation on a $60,000 home yields $6,000 of gain, which is much different than the same rate of appreciation on a $400,000 home, which yields $40,000. Yet the sales of those homes and the gains in value are not taxed.

We could talk about inheritances, which are actually taxes on a deceased person’s estate, where the first $12.06 million of assets aren't taxed when handed down. Or capital gains, which are dollars you earn on investments such as stocks and bonds. Those are taxed at 15%, a relatively low tax bracket. These both are examples of special tax categories that favor this type of income.

Also, consider the impact of additional taxes, like sales tax and gasoline tax on those with lower incomes, that don't follow the progressive system. While these may seem like just pennies on the dollar, those pennies add up more quickly when your dollars are fewer. (Here in Ohio, we've seen some success with solutions like removing sales tax on feminine hygiene products and having sales tax holidays before the start of the school year, which can reduce the impact of these taxes on low-income households.)

Now, I'm not suggesting that any of these policies are good or bad. But there is a truth to how they affect how people build and maintain wealth in our country, and they make it more difficult for those starting out on a lower rung.

They are all examples of class- and race-neutral policies, but they are designed to protect wealth accumulated by higher income folks. And while they may not be designed with the explicit intention of keeping poor people poor, they certainly make it hard for people in poverty to get ahead. In other words, the tax code, while neutral on its face, operates in many circumstances to protect wealth for those who have higher income and assets.

This article is part of Legal Aid's "Big Ideas" series.
